

## **The Role of Insurance Companies Through Providing Life Insurance Service and Improving Financial Performance (The case of Kosovo)**

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### **Abstract**

Insurance companies already have an increasingly more important in the economic sphere that are an integral part of cooperation between different enterprises. Although Kosovo development of insurance companies was too late, however, with a concerted effort by various experts and with the cooperation of international locations is achieved in Kosovo operate several insurance companies that offer different types of insurance on all life insurance. This research aims to show how awareness affects citizens in enhancing the performance of insurance companies. The survey includes 10 of the most important insurance companies in Kosovo where through a questionnaire will know the main methods that insurance companies will be use to raise public awareness and to find appropriate ways to increase service performance that they provide to their citizens.

**Keywords:** Insurance companies, performance of insurance services, citizen.

### **Introduction**

In the general sense the word assures belief in something or protection<sup>1</sup>. Insurance is the notion with certain segments. Each individual and his material goods are constantly exposed to different hazards, which often we can not prevent in advance. With preventive measures they can be partially relieved of their special reparations, but we can not achieve full and real protection.

Given the importance of insurance for human life, we have seen fit to identify the cause from a questionnaire to raise awareness.

From the point of view of the complexity of the insurance activity, the insurance must look at it from different perspectives. For this reason, different authors cite more or less similar definitions, from which they are selected the following:

According to, dr. E. Schutteu, Grawe / Lunz group of authors has a complete definition of insurance. According to them, "insurance means any kind of payment view of the first amount of a fund, which is formed by the first salary of all those clients who are in that type of insurance". All theories are at their core, which means that "insurance is the activity that supports the economy from those who risk their wealth."

Insurance is the union of an individual into a single community, through a contract between insurance and insurance. You pay a sum of money as a price in the name of a promise, and the defendant assumes the compensation of losses in case the guarantor is the loss of property.<sup>2</sup>

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<sup>1</sup> Qehaja, Rrustem. (2008), Insurer's responsibility to cover some risks related to life and personal accidents, pp.3

<sup>2</sup> Mr.Sc.Gashi Sherif (2011), Analysis of insurance stories, Institute of Statistics "Rahmil Nuhui" Prishtina

The methodology of the paper is related to the collection of data from the questionnaire as from these data it results that the analysis of civic awareness is a factor in the performance of companies in relation to life insurance, therefore from all this we formulate the hypotheses of the study:

*H0. Increasing the number of customers does not affect the performance of insurance companies*

*HA. The increase in the number of clients affects the increase of the performance of insurance companies*

### **Literature review**

All life insurance awareness enhances the performance of the companies that provide these services. The main goal is to increase the number of people to become clients of insurance companies and at the same time this brings positive effects in increasing the target for the company. Cooperation and mediation between the two parties will bring success to each of them.

*According to Kobylanski and Pawlowska (2012)* from the findings of their study they recommended that the government should take over the public education awareness of customer satisfaction for life insurance. Also the findings that life insurance companies have money of strategic leaders for adapting systems and methodological methods for creating life insurance awareness so that they can evaluate the life insurance function.

*According to Partha Sarathi Choudhuri (2014)* the circumstances that raise customer awareness for life insurance are primarily agents who are the leading manufacturers who have a role in life insurance, second is technology, then advertising, media and finally employees.

*According to Dr. N. Kathirvel, S. Radhamani (2014)* citizens' awareness according to respondents and analyzes made is achieved more by people over the age of 40, education is the basic element for citizens' awareness, those who have a high level of education possess more policies insurance compared to the illiterate. People who have businesses have a high level of awareness while professionals have a low level. Life insurance is important for life.

*Cummins, J.D., & Sommer, D.W. (1996)* Their paper is based on a model the price of theories of the theory of a positive correlation between insurance capital and risk. The incentives of managers to determine capital and risk in insurance markets play an important role. For this we can say that there is a kind of risk of solvency and these insurances.

*Ramin G,B., Reza, A., Saeid Sh,K. Sarfaraz H,Z., Romualdas B, and Abbas (2020).* The authors from their findings proposed an integrated AHP-PCA-DEA model to rank Iranian insurance companies. Fourteen insurance companies were evaluated using 13 sustainability performance indices as a practical way, real world problem. The proposed model made a rapid assessment of sustainability performance possible, which saved a large amount of computational costs by reducing the number of indices needed for an accurate assessment of sustainability performance. The PCA method was used for it reduce the number of dimensions of the original data. The main components obtained were then applied as variables in the DEA model.

*Fatma B, S., Arzu O, Ç., & Emel, E. (2020)* Crucial success factors are skills, knowledge and resources that provide a company with competitive advantage. In the insurance industry, critical factors include service quality and client satisfaction, However, the research also revealed that the population in BiH does not have sufficient knowledge of insurance, of its possibilities and significance, while financial literacy is insufficiently acknowledged and, therefore, a large number of the respondents do not feel more secure with the insurance policy, or do not have one.

*Timothy F, H., Aaron Y& Charles C (2021)* The authors found the impact of the pandemic on the provision of services by insurance companies. If the earliest predictions of increased mortality by COVID-19 had been realized, then the theory suggests that life insurance companies would have

been forced to significantly adjust premiums. or life insurance offers to calculate increased risk. Their findings - from an analysis starting with nearly 100 companies and over 800,000 policies - suggest observable minimum adjustments by February 2021. However, they have found evidence that lower price managers increased premiums in response to increased mortality risk. , premiums were increased for unhealthy older smokers, and policies offered to individuals aged 75 and over were variously removed from the market. Overall, these results are consistent with a combination of market competition in life insurance and the prediction of meaningful preventive behavior to curb the spread among vulnerable groups, leading to only modest short-term increases in mortality risk. Their expectation was that market-driven adjustments in the life insurance industry represent some of the most informed expectations on the pandemic path.

### **Insurance market objectives in Kosovo**

The Insurance Market in Kosovo is a new market, which requires a new organizational structure, which requires not only adaptation of supply and demand but also requires people to realize it in the market.

No matter how stable a market is, it always sets itself a goal for a certain period, or long term. The main objectives of the insurance market are:

- The main objective is for the insurance market in Kosovo to increase macroeconomic indicators that make a market developed and successful.
- Another objective is from a small market, to develop into a market with global conditions, which means that insurance companies operating the insurance market in Kosovo, to be located outside its territory. So far we have cooperation with three countries: Albania, Macedonia and Bulgaria and the agreement with Turkey is nearing completion.
- The Insurance Market in Kosovo offers a not so rich range of products, until 2010 we had only non-life insurance.<sup>3</sup>

### **Development of Life Insurance in Kosovo**

Life insurance continues to record solid growth, indicating that this market sector remains quite attractive to investors and the expansion of products by existing companies. The Insurance Market in Kosovo remains secure and stable in terms of financial stability requirements.

Life insurance is the combination of saving and insurance. This insurance offers long-term destination savings, which is why it is different from other types of insurance. Then the difference also appears in the fact that life insurance, in any case is placed on the insurance obligation to make the payment of the insurance amount and that after the expiration of the term of the insurance contract or after the death of the insured person, if the death presented during the duration of the insurance.

Life insurance covers: death insurance, survival insurance up to a certain age, or premature death and life insurance with the return of premiums. Life insurance is equivalent to other inherited assets such as home, financial accounts, businesses, etc. Basically, life insurance is a means of distributing financial risk among a large number of people, who pay into a fund, thus minimizing the cost to them. The purpose of insurance companies that offer life insurance is to inform and advise the best people about the benefits of insurance. Unfortunately, our citizens even today know a few things that have to do with insurance in general and life insurance in particular.

Life insurance helps you with many vital issues, such as:

- building a better future
- long-term investment planning

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<sup>3</sup>Mr.Sc.Gashi Sherif (2011), Analysis of insurance stories, Institute of Statistics "Rahmil Nuhiu" Prishtina pp.191

- creating funds for children / grandchildren to have advanced school
- pension insurance
- large investments
- repaying loans or debts if you need them.

### **Insurance sector in Kosovo**

- I. I. Size: The Insurance Sector in Kosovo is growing. The total assets of the sector increased by 13.0% in 2012 and by 1.8% in 2013. But this sector is still very small. Just like in the 2013 fund, the insurance sector ends with only 3.2% of the total assets of the financial system of Kosovo.
- II. II. Number of companies: Of course, there are 13 insurance companies in Kosovo. Ten of them are non-life insurance and 3 of them life insurance. This should be a sufficient number of companies to ensure that there is a good level of competition in the insurance market in Kosovo. The CBK has no restrictions on the number of security companies that may operate in Kosovo. The license criteria from the CBK relate to the quality of the applicants. Nine of the insurance companies currently operating in Kosovo are foreign owned which manage about 67% of the sector's total assets. The other four companies are locally owned which manage about 33% of the system assets.
- III. III. Profits: in 2012, the insurance industry reported a total net loss of 3.1 million euros. In 2013, the industry reported a net loss of 0.3 million. The CBK would be concerned if insurance companies in Kosovo would make excessive profits because then this would mean irregularities or insufficient competition in the market. But the CBK is also concerned when the industry as a whole is at a loss, as this will weaken the financial position of the companies.
- IV. IV. Number of insurance policies: by the end of 2013, the number of insurance policies sold in Kosovo was 814,186, which was an increase of 19.3% compared to last year. Gross written premiums in the Kosovo insurance market, in the fund of 2012 reached the value of 81.5 million euros with an increase of 4.4% compared to the previous year. The activity of insurance companies continued to focus on proper policing, which generated about 54% of all premiums, while the remainder of gross written premiums was secured by will insurance. According to the Central Bank of Kosovo, in 2012 it was initially written gross from the sale of TPL policy in the amount of 44.2 million euros, or 3.4% less than a year earlier. The rest of the first gross writing will be insurance (22.6 million euros or 28% of total premiums) and border insurance (14.7 million euros, or 52.6% more compared to last year). The increase in gross written premiums was accompanied by a high increase in paid claims, which in 2012 reached the value of euro 30.6 million with an annual increase of 14% compared to 2011. The ratio between gross written premiums and paid claims in 2012 it was 37.5%, while in 2011 it was 34.3%, which shows that the number of claims paid has increased faster than the volume received in insurance. The value of premiums received in 2013 was 79.1 million euros, with an increase of 11.8%. The value of claims paid by insurance companies in 2013 increased by 24.4% reaching 38,600,000 euros.

In 2016, the number of life and non-life companies reached 15, of which 9 were foreign companies, the number of units was 516, the concentration rate was 33.3% and the number of employees was 1,614.

In Kosovo, as in English, non-life insurance and life insurance companies are subject to the provisions of various regulations. The main reason for this is that the life insurance business tends to be long term, often covering several decades, while non-lives are usually shorter and shorter.

The main objectives of licensing and regulatory regulation for insurance companies in Kosovo are: firstly to promote and maintain a sound and reliable insurance industry in Kosovo and secondly, to protect the interests of policy holders. In this respect, the objectives of regulating and approving insurance are similar to the objectives of regulating and banks. The only difference is in the case of banks, it is the interests of depositors while in the case of insurance companies, it is the interests of policy holders.

### **Forms of life insurance**

#### **The basic forms of life insurance are:**

- Death insurance with a fixed term of extension (temporary or term insurance) - is the safest and oldest form of life insurance. the purpose of this form of insurance is the safe protection of those who are related to insurance.
- Lifetime insurance - is life insurance in which the amount is paid when the person dies, regardless of when this happens. This is insurance in the full sense of the word, as it is related to the benefit of any particular person.
- Insurance of the contracted amount for certification cases - this type of life insurance is also risk insurance and in this respect is equal to insurance in case of death. If the insured dies before the contracted term, then the obligation of free insurance of the insurance amount ceases.
- Joint insurance (donation insurance) - is the insurance for which the insurer pays the amount in case of death or in case of real billing of the insured. The contracted amount for the secure term to be paid, if the insured has left within that term or after the death of the insured, if the insured dies before the term.
- Lease insurance - is the type of insurance, in which she is safe with the payment of the lump sum premium with the payment of the premium with this desire to come either his future or the future of her family. The basic forms of life insurance are:
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Common features of life insurance:

- Life insurance provides protection and provides financial security to the individual, his family or his activity,

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<sup>4</sup> Dr.Sc.Bakraçi Xhevat (2007), Risk Management and Insurance Prishtina, pp.267-268

- Covers the risk of death, so the risk of death is covered if it occurs during the contracted term of the insurance,
- Fixed premium, in which case the pain of the premium for a long period of insurance is the same,
- Savings component because, in addition to some types of life insurance, savings are also included in these types of insurance. Funksionet e sigurimeve të jetës

Some of the main functions of life insurance are:

- Provide compensation to the heirs after the death of the insured,
- Provide compensation for heirs or for security at a certain age.<sup>5</sup>

<b>INSURANCE COMPANIES IN KOSOVO 2020</b>	
1. Number of insurance companies	13
Life	2
No- life	11
Of which foreign- owned	7
- Number of units	468
2. Concentration rate	33.8%
3. Foreign Ownership	51.3%
4. Activities	
5. Value of Assets	208.6
Life	18.5
No- life	190.1
Performance and stability	
Net income	40.2
Damages Occurred	16.5
Net profits	4.9
KMA( Average Return on Assetes)	4.9%
CMC( Average Return on Equity)	19.4%
Damages paid/ Premiums received	51.5%
<b>Capital/ Assets</b>	<b>27.1%</b>

Source: Insurance Companies Report, July 2020 |

Source: BQK [https://bqk-kos.org/wp-content/uploads/2020/08/Final\\_Sistemi-Financiar\\_Korrik-2020-1-1.pdf](https://bqk-kos.org/wp-content/uploads/2020/08/Final_Sistemi-Financiar_Korrik-2020-1-1.pdf)

During the first year, all insurance companies in the country have created a net profit of about 5 million euros. Compared to the same period of 2019, their profit increased over 7 million euros. In the last report of the Central Bank of Kosovo (CBK) on the financial system, it was seen that the revenues of these companies were 40.2 million euros. In terms of expenses, 16.5 million euros are damages incurred, where the percentage of their payment is 51.5 percent. The report shows that the value of written premiums is 45.4 million euros, of which third party insurance is 24.5 million euros.

### Research results

The research was conducted through an online questionnaire. The questionnaire contained a total of 12 questions. In all of them participated 10 insurance companies which are life insurance services, of which 7 companies received full answers to the questionnaire, while 3 other companies did not respond at all. for the purpose of research the answers received are elaborated in detail, while based on the results obtained are the conclusions and recommendations.

<sup>5</sup> Reliable Insurance Companies, *Life Insurance, functions, characteristic, types and goals*, <http://www.stdatarecovery.com/life-insurance-functions-characteristics-types-and-goals/>

Questions	Answers			
In what year did your company start operating?	2010	2011	2012	2013
	57.2%	28.6%	14.2%	0%
In the first year of work with how many clients did you operate?	5-10	11-15	16-20	over 20
	14.3%	0%	28.6%	57.1%
How much has the number of clients increased / decreased by making comparisons over the years since you started working as an insurance company?	over/under 10%	over/under 20%	over/under 50%	
	28.6%	28.6%	42.9%	
How much knowledge do your customers have about life insurance products and services?	Have't knowledge	slightly	Sufficiente	More
	0%	85.7%	14.3%	0%
How do you treat your clients as an insurance company?	Good	Very Good	Extremely Good	
	14.3%	14.3%	71.4%	
What is the degree of customer satisfaction with the quality of life insurance services?	High	Medium	Low	
	14.3%	85.7%	0%	
How will you make people aware of these services?	Through brochures.	Through media	Through social networks	Through sales agents
	0%	14.3%	0%	85.7%
What are the reasons for raising the awareness of our citizens about the life insurance service?	Lack of awareness	Profits are insufficient	To increase service performance	
	42.9%	42.9%	14.3%	
What will motivate citizens to buy insurance policies in your company?	Company image	High performance	Obedience by agents through the dissemination of information	Promotion and marketing
	14.3%	14.3%	42.9%	28.6%
How will you convince our citizens to be a client of your insurance company?	Through great customer care	Through additional investments to have high financing	Being able to understand customer requirements.	
	14.3%	42.9%	42.9%	

In addition to the questions presented in the table above, we have done research in terms of increasing and decreasing the number of clients compared to previous years, where from the results obtained by insurance companies we see that the number of clients has decreased significantly compared to past years due to the opening of new companies which provide life insurance services and as a result of the pandemic.

Since the purpose of the research was to raise public awareness about life insurance services, data analysis based on company responses shows that tailoring customer requirements is the basis for achieving the highest possible performance of the companies providing services. qualitative. About 85.5% of insurance companies have responded that they will make citizens aware of life insurance through sales agents.

**Hypothesis testing**

H0 Increasing the number of customers does not affect the performance of insurance companies

HA. Increasing the number of customers does affect the performance of insurance companies

**Descriptive Statistics**

	Mean	Std. Deviation	N
Number of clients	2.4286	.78680	7
Performance of companies	1.5714	.97590	7

**Correlations**

		Number of clients	Performance of companies
Number of clients	Pearson Correlation	1	.062
	Sig. (2-tailed)		.895
	N	7	7
Performance of companies	Pearson Correlation	.062	1
	Sig. (2-tailed)	.895	
	N	7	7

Therefore, there is a strong positive relationship between the number of clients and the performance of insurance companies. The correlation coefficient is calculated to be  $r = 0.062$ . from this we can say that the increase in the number of clients and the performance of insurance companies. So, 89.5% of the changes in the number of customers are justified by the increase or decrease of performance. Since sig (2-tailed) values of  $0.895 > 0.05$  indicate that there is a relationship between the number of clients and the performance of insurance companies, so the Ha hypothesis is accepted and rejected H0.



## Conclusions

Undoubtedly, one of the main components of the financial system of a country's economy is insurance. Insurance is a form of transferring risk of loss from one entity to another in exchange for payment or risk premium. Insurance can be said to play a very important role in promoting financial stability by enabling economic agents to undertake various transactions through the transfer and distribution of risks. In the absence of an insurance system, individuals and businesses invest less in innovation as a result of uncertainty about taking risks. Insurance and social development are characterized by social changes and in particular changes in the age structure of the population. The insurance sectors assist the institutions and individuals in risk management, and play an important and critical role in terms of the flow of funds provided to financial markets due to the size of the investments made.

From this we can conclude that insurance companies in Kosovo, which are related to the provision of life services, have started operating since 2010, with a satisfactory number of customers. But if we make the comparison after 2010 we see that the number of customers has decreased. This has come as a result of the opening of many new companies which offer these services. Even today citizens still do not have much knowledge about life insurance, which is a challenge for life insurance companies, which offer very few methods for raising awareness of their citizens, but at the same time it is a challenge for citizens who do not know the importance of life insurance. Also, the cost that may seem high for this insurance, makes them reluctant to insure their lives.

The research also provides important results on how life insurance companies will motivate. The companies responded that their motivation would be through reliable information to be provided by sales agents. This research is an important resource for life insurance companies, as well as for citizens because it provides information on how insurance companies can operate to be successful in the insurance market for a long-term sustainable period.

## Recommendations

Consistent with the results of the study, it is necessary to work on the following recommendations:

- Increasing life insurance services
- Increasing the number of qualified staff in life insurance companies
- Have as many companies providing these life connections
- Life insurance companies to make as much investment as possible with the aim of increasing the number of customers and also increasing profits for companies.
- Training of the staff of life insurance companies about the methods of communication with clients for the provision of these life services.
- The sales agents of these companies should be able to communicate as they are of great importance for both the company and their customers
- insurance companies to increase claims for insurance claims of clients
- to expand the social and life insurance network
- insurance companies to be seen as support in favor of the demands of the citizens of a country and those foreign.

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