

The insurance market in Republic of North Macedonia

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Abstrakt

Insurance is a form of risk management, primarily aimed at reducing financial losses. Insurance is the transfer of the risk from the insured to an insurance company, by paying an insurance premium. The basic idea behind insurance is to link the risk of multiple insureds in one fund, so the law of probability ie. The law of large numbers ensures that only a relatively small number of adverse events actually occur in a year. Thus, the cost of that small number of events can be easily borne by a large number of policyholders. The insurance sector is made up of companies that offer risk management in the form of insurance contracts. The basic concept of insurance is that one party, the insurer, will guarantee payment for an uncertain future event. The other party, the insured or policyholder, pays a premium to the insurer in exchange for protection against a specified uncertain future occurrence. Insurance is a contract, represented by a policy, in which the policyholder receives financial protection or compensation against losses from an insurance company. The company pools customers' risks to make payments more affordable for policyholders. Insurance policies are used to protect against the risk of financial losses, both large and small, that may arise from damage to the insured or their property, or from liability for damage or injury caused to a third party.

Keywords: Contract, payment, companies, policyholder, risk, losses.

Introduction

Apart from protecting individuals and businesses from many kinds of potential risks, the insurance sector contributes significantly to the general economic growth of the nation by providing stability to the functioning of businesses and generating long-term financial resources for the industrial projects. Among other things, insurance sector also encourages the virtue of

savings among individuals and generates employments for millions. Insurance as a sector is key to development of any economy.

Generates Long-term Financial Resources: The Insurance sector generates funds by way of premiums from millions of policyholders. Due to the long-term nature of these funds, these are invested in building long-term infrastructure assets (such as roads, ports, power plants, dams, etc.) that are significant to nation-building. Employment opportunities are increased by big investments leading to capital formation in the economy.

The term of insurance

According to the Merriam-Webster dictionary, insurance is defined as:[¹⁹]

- Contractual coverage whereby one party undertakes to indemnify or guarantee another compensation against loss from a specified contingency or peril.
- Activity of insurance of persons or property.
- An amount for which something is insured.
- A means of guaranteeing protection or safety.
- An agreement whereby a person pays a company and the company promises to pay money if the person is injured or dies or to pay for the value of lost or damaged property.
- The act, process, or means of insuring or insuring the condition usually against loss or damage from an unforeseen event (such as death, fire, accident, or disease).

According to the dictionary Dictionary.com insurance is defined as:[¹⁹]

- The act, system, or business of insuring property, life, one's person, etc., against loss or harm arising in specified contingencies, as fire, accident, death, disablement, or the like, in consideration of a payment proportionate to the risk involved.
- Coverage by contract in which one party agrees to indemnify or reimburse another for loss that occurs under the terms of the contract.
- The contract itself, set forth in a written or printed agreement or policy.
- The amount for which anything is insured.
- An insurance premium.

An insurance is a legal agreement between an insurer (insurance company) and an insured (individual), in which an insured receives financial protection from an insurer for the losses he may suffer under specific circumstances:[¹⁹]

- Under an insurance policy, the insured needs to pay regular amount of premiums to the insurer. The insurer pays a predetermined sum assured to the insured if an unfortunate event occurs, such as death of the life insured, or damage to the insured or his property.
- Legally insurance has been defined as a contract where the insurer agrees to compensate the insured against the losses incurred due to any unforeseen contingency. The contract also involves a consideration which is called a premium. The maximum available benefit amount is called sum assured or sum insured.
- To understand how insurance works, it is necessary know following terms:
- Premium: Is the money paid to the insurance company to avail of insurance policy benefits.
- Sum Insured: Sum insured is applicable for insurance. It refers to the maximum cap on the costs that are covered for in a year against any unfortunate event.
- Sum Assured: Sum assured is the amount the life insurance company pays to the nominee if the insured event happens (death of insured).

Function of insurance

There are some insurance features that are applicable to every type of insurance policy including general insurance as well as life insurance which covers every type of insurance policy such as property insurance, home insurance, auto insurance, insurance of jewelry etc. The basic functions of insurance are:[¹⁹]

Providing Protections: The Primary functions of Insurance are just as we consider any other insurance policy. Primary function of Insurance company to give security against future dangers, mishaps, and vulnerability. No insurance can capture the hazard from occurring, no insurance can avert future happenings, however, can surely give some coverage to the misfortunes of hazard. In genuine terms Insurance is a defensive coverage against financial misfortune by offering the hazard to other people, (the pooling individuals).

Collective Risks: Insurance is a strategy by methods for which countless individuals share a couple of misfortunes. Every one of the general population who get protection contributes by paying a yearly premium towards a reserve. Out of which the people who are prone to dangers get the payment according to the terms and states of the insurance approach.

Assessment of Risks: Insurance organizations dictate what is the volume of hazard by surveying different components that offer ascent to chance. The settlement process of the rate of premium is additionally based on hazard include in the policy.

Certainty: As people get coverage from the insurance company, they stay secure about ability to meet future dangers with great coverage. In any case, when they get protection, it changes over vulnerability into an assurance of bearing future dangers.

Primary Function of insurance is focused on:[¹⁹]

Insurance Provides certainty: Insurance provides certainty of payment at the uncertainty of loss. The uncertainty of loss can be reduced by better planning and administration.

Insurance Provides protection: The main function of the insurance is to provide protection against the chances of loss. The time and amount of loss are uncertain and at the happening of risk, the person will suffer a loss in absence of insurance. The insurance guarantees the payment of loss and thus protects the assured from sufferings.

Risk Sharing: The risk is uncertain and therefore the loss arising from the risk is also uncertain. When risk takes place; the loss is shared by all persons who are exposed to the risk.

Insurance has both a financial and an emotional aspect for the policyholder. There are certain functions that an insurance company must promise to take care of while they are finalising the contract with the insured party:[¹⁹]

- **To provide safety and security to the insured** – One of the prime reasons for entering into an insurance contract is to seek financial security in the event of a loss from an unexpected occurrence. Insurance offers support to the policyholder and helps to reduce the uncertainties in the business or in human lives. With the help of a policy, the insured party is protected against future hazards, vulnerabilities and accidents. Although no insurer in the world can prevent the dangerous event from occurring, they can certainly help by providing some sort of financial protection to compensate the insured party.
- **Collective Risks** – Another function of an insurance contract is that it helps a number of individuals get an insurance policy to safeguard themselves from the losses that may occur due to an unfortunate event. This strategy works on the principle that not all of the policyholders for a particular risk will face it at the same time. For example, if a total of fifty thousand people are insured against damage to their cars due to accidents, the most likely scenario is that only a few of them would have accidents in a single year. So the amount that they can claim from the insurance company for the financial losses due to the accidents would be adequately covered by the insurance premiums from all fifty thousand policyholders.
- **Risk Assessment** – Insurance organisations play an important role in determining the actual amount of risk from the occurrence of a particular event by assessing the situation. They analyse all the aspects of a risk carefully to make an informed decision. It helps them to arrive at the final insurance amount as well as fix the premium to be paid by the insured.

- **Certainty** – One of the main benefits of taking a policy for the insured is that they can feel secure about meeting the future losses after taking coverage for a particular risk. It can be very reassuring for the insured party and can also help them to proceed with their daily activities in a much more assured manner without fear or hesitation.
- **It helps to forestall losses** – An insurance contract can help the insured to mitigate their losses by providing some sort of security in case of an unforeseen event. It helps businesses have a contingency plan in case things do not go as planned. Insurance is a very important tool for organisations as it allows them to cover their bases while operating in a very risky environment where the losses can be huge if they do not play their cards right. It also allows them to be able to cover these huge risks in their businesses by paying a relatively small amount as the premium.
- **Fulfil the legal requirements** – In some countries, any business is required to have certain insurance covers in order to engage in any economic activity. So the insurance company can help organisations fulfil these requirements.
- **It allows the development of big businesses** – Any large-sized organisation is exposed to a greater amount of risk. If the chances of loss are relatively higher, it may prevent the management in those organisations from taking calculated risks, which has the potential of bringing more profits. Insurance helps to mitigate that risk in a way and encourage businesses to take bold decisions. Insurance takes away some of the financial pressures and allows businesses to flourish in the long run.
- **It can help in boosting the economy** – When the businesses have sufficient insurance cover, they can increase their scope of economic activity that will bring commensurate rewards. This can provide an impetus to the overall economy of a country in the long run.

General characteristics of insurance institutions and intermediaries

Insurance activities are performed by insurance institutions and insurance intermediaries. Insurance institution means any corporation, association, partnership, reciprocal exchange, interinsurer, fraternal benefit society or other person engaged in the business of insurance. Insurance corporations are financial intermediaries that offer direct insurance or reinsurance services, providing financial protection against possible dangers in the future. Insurance institutions perform activities related to:^[19]

- Conclusion and execution of insurance contracts for those classes of insurance for which they are registered.

- Carrying out only life insurance or are registered for carrying out non-life insurance.
- Conclusion of contracts for co-insurance and reinsurance as well as works related to the recording of risks that threaten people's life and property.
- Undertaking activities for recording, assessment and payment of damages, mediate in the sale and sale of the remains of insured damaged items.
- Introducing measures to prevent, reduce and remove damages and risks that represent a danger in non-life insurance.
- Indication of other intellectual and technical services related to insurance and reinsurance matters.

An insurance company may be defined as a financial institution involved in the protection of persons and objects against risks. These companies as financial institutions collect large sums of money called premium from individuals and organisations in order to insure lives and properties. Functions or Roles of Insurance Companies:[¹⁹]

- **Pooling of risks:** The insured pay premiums which are pooled into a fund. Compensation is paid to those who suffer losses from the fund.
- **Boosting expansion of commercial and industrial banks:** Entrepreneurs are encouraged to expand their businesses being fully aware that they will receive compensation if they incur certain losses.
- **Direct investment:** They sometimes invest in the productive sectors-industry, agriculture, commerce etc, with their large reserves of premiums.
- **Provision of capital to investors:** They make long-term loans to entrepreneurs for investment in productive sectors.
- **Provision of investment advice:** They provide financial amount for investors.

The insurance market in the Republic of North Macedonia

During 2020, 16 insurance companies operated on the insurance market in the Republic of North Macedonia, of which 5 insurance companies work on life insurance, while the remaining 11 work on non-life insurance. Only one company, in addition to non-life insurance, is licensed to perform reinsurance:[¹⁹]

- Insurance companies employ 1,876 workers at the end of 2020, which represents a decrease of 3.70% in the number of hired labor compared to 2019.
- Insurance companies are predominantly owned by foreign legal entities from the financial sector (80.11%), which are partially or fully present in 14 out of a total of 16 insurance companies on the market (Table no. 2). In addition, 12 insurance

companies are part of insurance groups based in EU member states, while two insurance companies are fully owned by domestic investors.

Table 1 Insurance companies in North Macedonia

	Company name	Insurance group
1	AD for insurance and reinsurance MACEDONIA - Skopje Vienna Insurance Group	Non-life insurance and reinsurance
2	TRIGLAV INSURANCE AD Skopje	Non-life insurance
3	SAVA INSURANCE AD Skopje	
4	EUROINS Insurance AD Skopje	
5	WINER Insurance AD - Vienna Insurance Group Skopje	
6	AD for insurance EUROLINK Skopje	
7	GRAVE Non-life insurance AD Skopje	
8	Insurance company UNIKA AD Skopje	
9	National Insurance Group INSURANCE POLICY AD Skopje	
10	HULK INSURANCE AD Skopje	
11	CROATIA INSURANCE AD- Non-life insurance company	
12	CROATIA INSURANCE AD- Life insurance company	
13	GRAVE insurance AD Skopje	Life insurance
14	WINER Life Insurance AD - Vienna Insurance Group Skopje	
15	Insurance company UNIKA Life AD Skopje	
16	TRIGLAV Life Insurance AD Skopje	

Source: Агенција за супервизија на осигурување - ASO.MK, (2021), <https://aso.mk/wp-content/uploads/2021/08>

- The basic indicators that measure the degree of development of the insurance market are the degree of penetration and the degree of density. The data on the level of insurance penetration in 2020 show that the total BPP in the country contributes 1.52% to the gross domestic product, which is the same level as the previous year (2019: 1.52%). Meanwhile, the degree of density in 2020 is 4,848

denars per inhabitant, which is a decrease of 4.85% compared to the previous year.

- The insurance sector in the Republic of North Macedonia is characterized by low concentration, which is a prerequisite for functional market competition. The Herfindahl index, calculated through BPP, in 2020 is 769.56 (2019: 792.42). A similar result is shown by the measurement of the index through the assets of insurance companies at 838.02 in 2020 (2019: 821.71).
- Analyzed by insurance groups, a higher concentration is present in life insurance, due to the small number of companies in this domain. At Herfindahl life insurance companies - the index, measured according to BPP, is 2,788.97 (2019: 3,157.74), while, measured according to the assets of the companies, it is 3,077.21 (2018: 3,083.30).
- In non-life insurance, the indicators show a low concentration, with the measurement through the Herfindahl index according to BPP in 2020 is 1,003.06 (2019: 1,020.43) and shows a decrease compared to last year, while the same indicator measured through assets is 1,070.59 (2019: 1,058.79).
- The CR5 indicator, measured through participation in BPP, among non-life insurance companies, in 2020 recorded a decrease and amounted to 56.86 (2019: 57.99%).
- At the end of 2020, in the domain of market concentration in the non-life insurance sector, 4 insurance companies cross the participation threshold with over 10% in the total BPP. At the same time, on the insurance market in the Republic of North Macedonia, no company crosses the threshold of over 20% market share.
- The value of the assets of the insurance companies on 31.12.2020 is 25.97 billion denars and is higher by 7.34% compared to the total assets of the insurance companies in 2019. Investments have the largest share of 74.44% in the structure of assets of insurance companies (2019: 76.02%) and they have increased by 5.12% compared to the invested assets in 2019. Within investments, the most significant share of 92.46% is occupied by the category of other financial investments and it has a growth of 6.19% compared to the previous year. This category includes: financial investments available for sale (49.30%), bank deposits, loans and other placements (34.73%), financial investments held to maturity (12.02%) and financial investments for trading (3.95%). The next most significant category is investments in land, construction facilities and other tangible assets (6.22%), and they recorded a decrease of 7.53% compared to 2019. Also part of the investments are the financial investments in companies in the group - subsidiaries, associated companies and jointly controlled entities, which participate with 1.32% in the total investments and they show a decrease of 0.96%.

- Sources of funds of insurance companies in 2020 recorded an increase of 7.34% compared to 2019. The largest participation of 60.39% in the structure of sources of funds of insurance companies has gross technical reserves (2019: 59.74%) and they have an increase of 8.50% compared to the previous year. The next category with a share of 29.36% in the structure of sources of funds is capital and reserves, which increased by 5.85%. The liabilities of the insurance companies, which in the structure of sources participate with 6.27% (2019: 7.30%), recorded a decrease of 7.75% compared to the previous year. In the structure of liabilities, the largest share is held by other liabilities (49.34%), liabilities from reinsurance and co-insurance (43.76%) and liabilities from direct insurance operations (6.89%).
- During 2020, the insurance sector made a profit in the amount of 456.81 million denars, compared to the realized profit in the amount of 25.37 million denars in 2019. Non-life insurance companies made a profit of 273.81 million denars (2019: loss of 125.91 million denars), which results from the result of ten companies that made a profit in the amount of 341.83 million denars and one company that made a loss in the amount of 67.72 million denars. Life insurance companies made a profit of 177.86 million denars (2019: profit of 100.54 million denars), which results from the result of four companies that made a profit of 198.64 million denars and one company that made a loss in the amount of 20.79 million denars.

Representation in insurance represents the preparation and conclusion of insurance contracts, in the name and at the expense of one or more insurance companies, for insurance products that do not compete with each other. Representation on the insurance market in the Republic of North Macedonia is carried out through insurance representatives - natural persons, insurance representation companies and banks that have received permission to perform insurance representation. Through these channels, in 2020, 23.93% of GDP (2019: 23.18%), i.e. 2.41 billion denars (2019: 2.51 billion denars), was realized, which represents a decrease of 1.85% compared to of the previous year:^[19]

- Representation in insurance through natural persons is carried out on the basis of a license from ASO, which they received after previously passing an exam for performing work of representation in insurance. In the total BPP, representation in insurance through natural persons participates with 11.67%, while in 2020 the number of representatives who had a license from ASO is 1,341. The register of all active representatives in insurance is available on the website of ASO.
- The number of insurance representation companies in relation to 2019 remained unchanged, i.e. a total of 10 insurance representation companies and 7 banks operate on the insurance market. In the total BPP insurance representation companies in 2020.
- During 2020, 71,165 insurance contracts (policies) were concluded through insurance representation companies (2019: 84,432), which is 15.71% less than

the previous year. Through banks, 145,814 insurance contracts were concluded in 2020 (2019: 144,136), which represents an increase of 1.16% compared to the previous year.

Conclusion

Insurance is a risk transfer tool. In insurance, risk is transferred (a negative deviation from the future outcome) to an insurance company that will pay at the time the insured event occurs in relation to the contract signed by both parties.

The purpose of insurance is to reduce financial uncertainty and make accidental loss manageable. It does this by substituting the payment of a small, known fee - an insurance premium - to a professional insurer in exchange for assuming the risk of a large loss and a promise to pay in the event of such a loss.

Insurance provides financial support and reduces uncertainties in business and human life. It provides safety and security from a particular event. Insurance provides cover against any sudden loss.

Insurance turns accumulated capital into productive investments. Insurance also provides loss mitigation, financial stability and promotes trade and commercial activities that result in sustainable economic growth and development. Thus, insurance plays a key role in the sustainable growth of an economy.

Insurance is a financial product that reduces or eliminates the cost of loss or the effect of loss caused by various types of risks. Apart from protecting individuals and businesses from many types of potential risks, the insurance sector contributes significantly to the general economic growth of the nation by ensuring stability in the functioning of businesses and generating long-term financial resources for industrial projects.

There are several types of insurance companies depending on their legal constitution: limited liability companies, mutual insurance companies, cooperatives and mutual benefit companies. Insurance companies can operate in one or more lines of business (accident, automobile, fire, civil liability, etc.), but always with the necessary authorization from the regulatory body.

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