

DEVELOPMENT OF THE INSURANCE MARKET IN NORTH MACEDONIA AND CROATIA

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The aim of this paper is to analyze the level of development of the insurance market in the two Western Balkan countries that have asymmetrical developmental, economic, social, security and insurance markets levels. This asymmetry of development and the insurance market is of interest to be analyzed as a result of the fact that these countries belong to the same region (Western Balkans), but Croatia is already the member of the EU and NATO for a decade while North Macedonia has a serious stagnation in Euro Atlantic integration that has had direct impacts on the risk and opportunity of developing the insurance market.

The paper aims through a comparative approach to measure the level of the development of insurance market as an integral part of financial market and focus on the risks and opportunities that has influenced in market security developments to analyzed countries.

Improved implementation of structural reform to analyzed countries and in particular reform in the life, property, business and public sector of requirements required the need for preparation of the security reform in the successful experience of developed countries in EU.

The analyzed period (2007-2017) integrates three important fazes, the period of beginning and ending of the global financial crisis and the period of recovering after the financial crises.

The crises had affected the economies of analyzed countries and in particular in the case of North Macedonia in terms of the development of the insurance market.

With a comparative approach we analyze the performance of participants in insurance markets in terms of ownership, profitability, risks and opportunities in North Macedonia based on the experiences of Croatia as a member of EU.

Specifically the paper analysis the insurance markets of the two countries of Western Balkan (North Macedonia and Croatia) and does not take into account other WB countries.

Key words: *Insurance market, financial market, life insurance, property insurance, North Macedonia, Croatia, UE.*

JEL classification: *G22, G19, G20, I13, L10, O52*

I. INTRODUCTION

Insurance is a continuous and important activity of socially organized life, which enables fulfillment of the basic needs to give our life and our future, safety and prosperity. Actually, insurance has become an important component in the economies of developed countries. The share that insurance has in the GDP of each country is ever higher, reaching over 12% in certain countries (such as Great Britain), while the higher the economic development of the respective country is, the higher this share becomes. (Cristiana, Marcum & Cârstina, 2013).

The Western Balkans region includes the countries of the former Yugoslav Federation that share the same political, economic and social background and have gone through the similar transition process.

North Macedonia and Croatia represent two countries characterized by different levels of development. Switching to a market economy imposed major changes in the insurance sector, as well as in terms of legal regulation, competition and insurance products.

In Croatia, insurance as an activity started with the establishment of the Croatian Insurance Cooperative in Zagreb in 1884, which has been the only one in the market.

After the 90s, with the transition to the market economy, the Croatian insurance market opened for foreign investors, thus increasing competition and innovations in the insurance market. Croatia has completed the transition process and now is a full member of the EU.

The similar process of economic and social transformation took place in North Macedonia. Because low economic development, the slow privatization process and the stagnation of reforms in the economy, the transformation of the North Macedonian insurance market went slowly and until 2000 the market functioned as a monopoly, where 90% of the market covered two companies.

Despite the common characteristics of these countries, the differences in economic development have led to a different level of development of the insurance market and the level of competition.

II. LITERATURE REVIEW

Because of its importance, the insurance market increasingly has been object of study and scientific researches in diversity way. It is been studied from different researchers considering its effect in different aspects of a certain country economy. A large group of researchers such as (Ward & Zurbrugg, 2000), (Arena, 2006), (Avram, Nguyn & Skully, 2010) and other completed studies by (Comity European des Assurances, 2006), (Association of British Insurers, 2009) and within the contribution of insurance in the economic growth, result that the industry of insurances urges in the growth and developmental economy through these ways:

1) Provide insurance to companies-families, increasing financial stability and liquidity of unpleasant incidents,
 2) Growth of financial intermediation and savings through vital insurance,
 3) It facilitates the pressure toward the country; a) assistance in large damages and b) accumulation of additional funds toward the future pensioners
 4) It facilitates in the development of market while increasing creditworthiness and decreasing the total risk, which helps entrepreneurs to open new businesses, also in developmental economies, the insurance market shows up as one of the largest employer with over a million employee. Some of the authors and papers that have been consulted during the preparation of this research are:

-Kozarevic, Kozarevic, & Siljegovic, 'Development of the insurance sector in the Western Balkan countries: the drive towards the European Union insurance system', (2011),

-Pervan, Popovski & Ćurak "How Well Insurance Companies in Macedonia Perform?" (2012),

R.Pukala "Insurance markets in selected CEU countries during economic slowdown" (2014),

-Njegomir & Stojić "Does Insurance promote economic growth: The evidence from EX-YU region", Dubrovnik (2010),

-Kostić, Maksimović & Stojanović "The limitations of competition in the insurance markets of Slovenia, Croatia and Serbia", Pula (2016)

-Pavić & Pervan, "Effects of corporate diversification on its performance: The case of Croatian non-life Insurance industry" Split (2010),

Kozarevic, Perresin & Valentinuz "Efficiency of the transition of insurance markets in the South-Eastern European Post-Communist countries" (2013),

-Jakovčević, Dumičić & Anđelinović "Measuring recent changes of insurance gross premiums distribution using ten inequality measures: case study of Croatia" (2017)

III. RESEARCH METHODOLOGY

To fulfill the purposes and objectives of the paper are used a lot of analytical methods and statistical as well. Our methodology is based on augmented information's for the insurance market in North Macedonia compared with Croatia for a period of 2007-2017. Through comparative analysis of statistical and financial information of insurance companies from the information office of Agency of Supervision of insurance of North Macedonia, Agency of Supervision of financial services of Croatia and institutions and regional publications from UE. By using descriptive methods has been measured the level of development of the market insurance while measuring the level of premium level of density, level of penetration, performance of companies and other important indicators that reflect the level of the markets insurance development in North Macedonia and Croatia as a country already integrated in EU and Nato.

IV. COMPARATIVE ANALYSIS OF INSURANCE MARKETS BETWEEN NORTH MACEDONIA AND CROATIA

The global economic crisis has had a negative impact on the economies of all EU member states and other European countries, leading to the decline of GDP, industrial production and exports, employment rates and the collapse of power for citizens' buyers.

North Macedonia's GDP in 2017 amounted to € 10,041 million, the real growth rate arrived average of 2.5% for period (2013-2017). Despite the positive GDP growth rate, there is a steady increase in public debt. The public debt of North Macedonia continue to be under 60% determined by Maastricht criteria, and the political crisis also led to stagnation in local businesses until the end of the internal political crises in the beginning of 2017.

Table 1. Comparison of GDP between North Macedonia and Croatia

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
North Macedonia											
GDP/ per capita (Euro)	2.982	3.308	3.300	3.459	3.665	3.680	3.948	4.865	4.300	4.593	4.841
GDP (mil. Euro)	6.095	6.772	6.767	7.109	7.544	7.585	8.150	10.109	8.955	9.495	10.041
Real Growth rate %	6.5	5.5	-0.4	3.4	2.3	-0.5	2.9	3.6	3.9	2.8	1.6
Croatia											
GDP per capita	9.781	10.722	10.111	10.059	10.043	10.241	10.093	10.254	10.616	11.180	11.820
GPD (mil. Euro)	43.390	47.543	44.781	44.441	44.220	43.707	43.078	43.456	44.630	46.664	49.013
Real growth rate%	5.1	2.1	-6.9	-2.3	-0.2	-1.9	-1.0	0.1	2.4	3.5	2.9

Source: www.stat.gov.mk and www.dzs.hr (author's calculation)

Croatia has a GDP of almost 5 times higher than Macedonia, reaching 49.013 million euros in 2017, compared to North Macedonia, the real growth rate of GDP is positive in the last three years of the analysis (2015-2017). The critical moment of the crisis in the case of Croatia was in 2009, where GDP reaches -6.9%.

4.1 Main characteristics of the North Macedonian and Croatian insurance market

Insurance companies are important participants in the financial market because by carrying out the basic function of selling different types of insurance-related products, they mobilize long-term financial assets that are placed on the capital market. The financial system in North Macedonia is characterized by an uncommon structure where the banking system is the most important segment that accounts 87% of the total financial assets. Insurance companies are still in the initial stage of development and total assets account for 3.3%. Insurance as an activity in North Macedonia until the early 1990s has functioned as an integral part of the Yugoslav Federation's insurance system. In 1993, the Law on Insuring Assets and Persons was adopted, which was the first step towards the liberalization of the insurance market in Macedonia, allowing for the creation of new joint venture companies (Ganchevski, 1995).

The insurance market in North Macedonia is characterized by an average market concentration with a low level of development. In 2013 there are 15 companies operating in the market, of which eleven exercise non-life insurance activity and 4 companies operate life insurance activities and only one company has permission to carry out reinsurance activities, besides the non-life insurance activities. Regulatory bodies of the insurance market in North Macedonia are the Supervision Agency and the National Insurance Bureau. The Croatian financial system is also banks oriented, which account for 73.9% of total financial assets, while insurance companies participate with 6.4%. Although insurance business in Croatia started much earlier, the development of the insurance market did not differ much from other Western Balkan countries. Until the early 1990s, the Croatian insurance market was characterized by a low level of development and a lack of competition, society Croatia Ltd held a monopoly position covering 80% of the market (Pervan & Pavić 2005).

In the insurance market in Croatia in 2017 there are 26 licensed insurance companies and a reinsurance company, of which 10 deal mainly with non-life insurance, 7 are life insurance companies, and 9 others are called composite companies that deal with both types of life insurance, life insurance. Insurance as an activity in Croatia has undergone many changes in recent years, such as competition, legal changes, financial crisis, EU membership, market liberalization.

Table 2. Gross written premium in North Macedonia and Croatia, period 2007-2017 (million euros)

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Average 2007-2017 (%)
NMK	Non-life	97	100	96.1	99.5	103	104.3	105	109	116	121	122	83.92%
	Life	3	4.5	4.9	6	8	9.7	12	13	18	20	24	16.08%
	Total	100	105	101	105.5	111	114	117	124	134	141	146	100%
HR	Non-life	898	971	948	919	891	870	857	799	781	788	825	67.60%
	Life	339	347	341	333	323	326	333	355	395	393	396	32.40%
	Total	1.237	1.317	1.289	1.252	1.213	1.196	1.190	1.154	1.176	1.182	1.222	100%

Source: Annual report of the AMS (2007-2013) and Annual report of the HANFA(author's calculation)

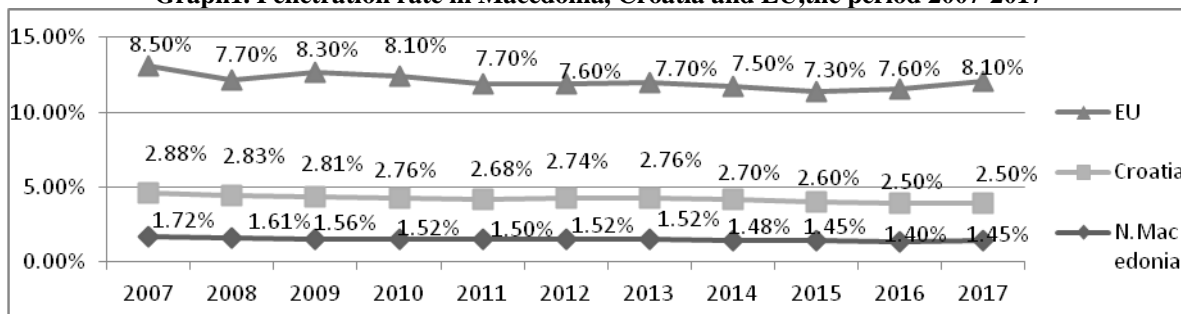
The total gross written insurance premium in North Macedonia for the 2007-2017 periods has had a steady upward trend in both insurance groups. In 2017, the gross premiums realized amounted to 122 million euros, which is 18,4% higher compared to 2007. Analyzed for insurance groups, the highest growth is observed in life insurance from 3 million euros in 2007 to 24 million in 2017, which is rise for 700%. In total the average premium realized for nonlife premium participate with 84% compared with 16% that belongs to life premium. Croatia's total gross written insurance premium accounts for 0.11% of the total EU insurance premium. Based on the total realized premium, Croatia is ranked 61th at world level, from the former Yugoslavia countries Slovenia is in the 55th place, Serbia at 81st, while North Macedonia along with Montenegro and Bosnia and Herzegovina are not separately listed. (SIGMA No 03/2014).

In Croatia it seems that the global crisis has directly affected the insurance market, if we see the data in Table 2. In 2017 the total premium is 122 million euro, which is a decrease of 1.2% compared to 2007. In Croatia for the period analyzed (2007-2017) the non-life insurance in the total premium structure participates with 67.6%, while life insurance participates with 32.40%. The comparative analysis between the two countries (NM.Cr) argues that in Croatia the life insurance premium is twice higher compared to North Macedonia, which argues that integration in NATO and the EU has provided the necessary market security and has been stimulating for serious participation of foreign insurance companies and increase of the culture of insurance of citizens of Croatia.

4.2 Indicators of the development of the insurance market

The main indicators through which the rate of development of the insurance market is measured are as follows: the rate of penetration, the rate of density, and the participation of the life insurance gross written premium in the total gross written premium. The penetration rate is an indicator that measures the gross premium income in the country's GDP, and is calculated as a ratio of the realized gross premium and the GDP (AMS report, 2013)

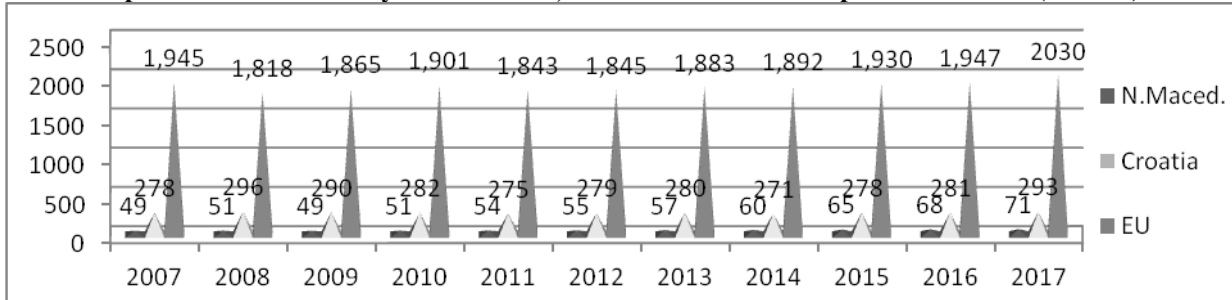
Graph1. Penetration rate in Macedonia, Croatia and EU, the period 2007-2017



Source: Report of the AMS (2007-2017) and SIGMA No 03/ 2017 (author's calculation)

In the analyzed period of 2007-2017, the penetration rate in North Macedonia has decreased from 1.72% to 1.45%, also in Croatia the penetration rate has had a negative trend from 2.88% to 2.50% compared to the European Union countries are at a low level of development. Another indicator that measures the level of market development is the rate of density, which represents the gross per capita income and is calculated as gross ratio of realized premium and the number of citizens in the country.

Graph 3. The rate of density in Macedonia, Croatia and EU for the period 2007-2017 (in Euro)

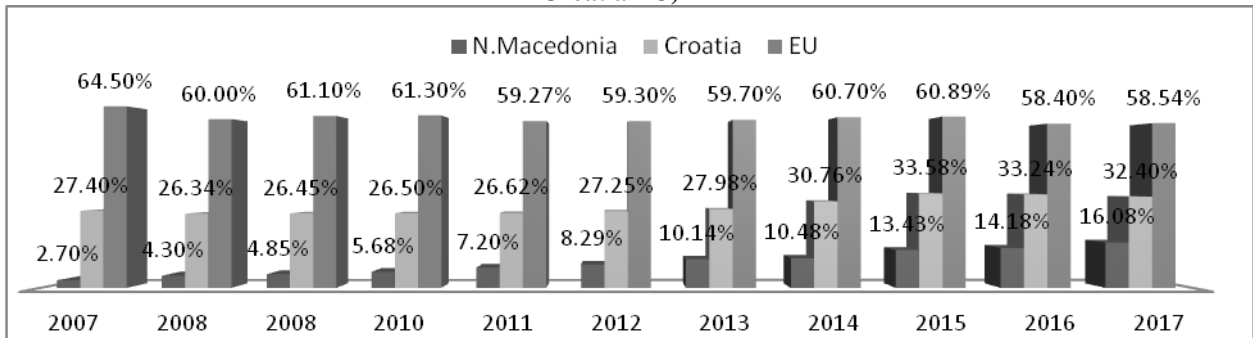


Source: Source: Report of the AMS (2007-2017) and SIGMA No 03/ 2017 (author’s calculation)

For the period 2007-2013, the rate of density in North Macedonia has recorded a minimal increase from 49 euros in 2007 to 71 euros in 2017, in Croatia this indicator is at 293 euros. The rate of density in North Macedonia compared to Croatia and European countries is extremely unfavorable and we are dealing with an highly underdeveloped market. The Macedonia-Croatia report shows that per capita premium is five times higher in Croatia, while in relation to European countries this indicator is 26 times higher.

It has already been mentioned that the share of the life gross written premium in the total premium in North Macedonia is 10.14% compared to Croatia where it is 27.96% or nearly 3 times higher. From these data we conclude that the insurance market in North Macedonia in relation to Croatia and the EU countries is a fairly developed market that leaves room for further development in particular of life insurance.

Graph 4. Participation of life gross written premium in total gross written premium (North Macedonia, Croatia EU)



Source: Source: Report of the AMS (2007-2017) and SIGMA No 03/ 2017 (author’s calculation)

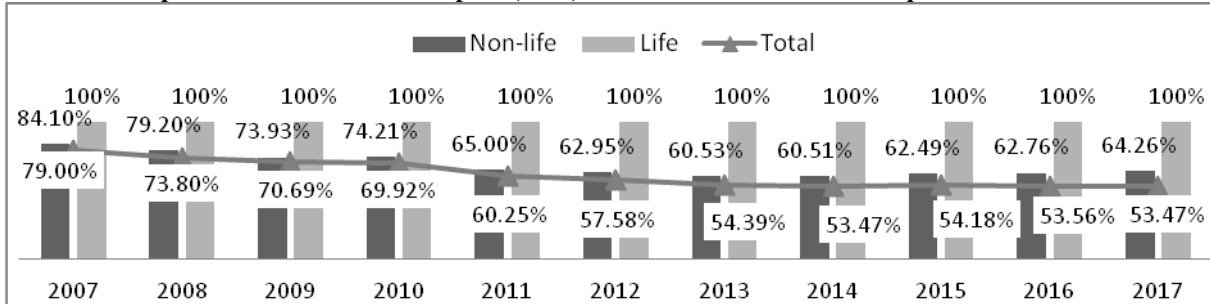
The analysis of the rate of density, penetration and life insurance premiums in North Macedonia compared to Croatia as a Western Balkan country – member of the EU, reflects a very low level as a result of low levels of GDP per capita, economic, political and security risks which the current and potential investors are facing because the perception of North Macedonia is negative due to the fact that the country is not a member of NATO and the EU (Osmani&Imeri, 2017).

4.3 The concentration level of the Macedonian and Croatian insurance market

The market is thought to be concentrated when a small number of companies have the control over of the market. The level of competition in the industry grows with the growth of the number of participating companies in the market. To measure the level of competition and market concentration are two main indicators: the Concentration Report (CR) and the Herfindahl-Hirschman Index (HHI). The Concentration Report (CR5) represents the market share of the *n* largest companies; the value of this indicator varies from zero (0) (in case of perfect competition) to 100 (in case of a monopoly) (Pervan,Ćurak, and Poposki, 2014).

$$CR_n = MS_1 + MS_2 + MS_3 \dots MS_n = \sum_{i=1}^n MS_i$$

Graph 5. The concentration report (CR5) in North Macedonia for the period 2007-2017



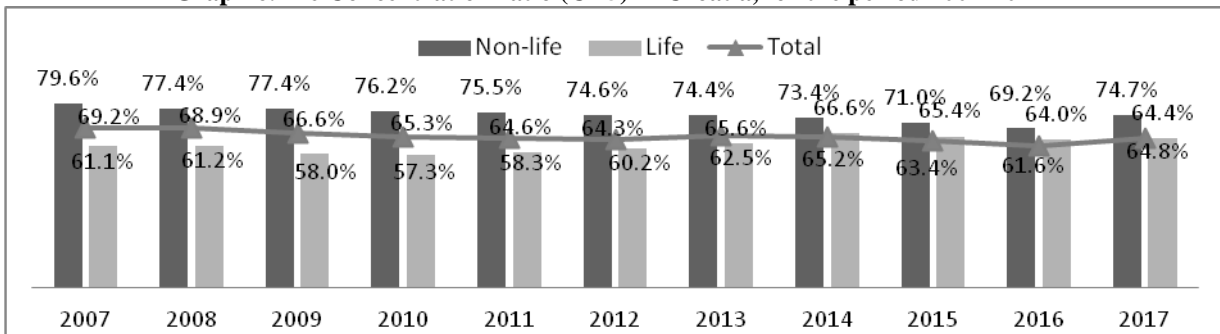
Source: Annual report of the AMS (2007-2017) (author's calculation)

This ratio is usually calculated as the sum of market shares of the five largest companies in the market. The calculated CR5 indicator for the period (2007-2017) in whole sector in North Macedonia fall from 79% to 53.47% as a result of increased competition.

Analyzed for insurance groups, non-life insurance also has a continuous decrease of market concentration from 84.10% to 64.26%, whereas in life insurance the concentration level is at 100% because of the small number of companies in market.

For the analyzed period 2007-2013 in Croatia, the concentration ratio (CR5) for the whole sector marks a slight decrease of 5%. In life insurance, the Concentration ratio (CR5) is higher and this is because 30% of the portfolio is focused on a single corporation.

Graph 6. The Concentration ratio (CR5) in Croatia, for the period 2007-2017



Source: Annual report of the HANFA (2007-2017) (author's calculation)

Another indicator for measuring market concentration is the Herfindahl -Hirschman Index (HHI) that includes the market share of all companies in the industry (Kostić, Maksimović, Stojanović, 2016) and is calculated with the formula below:

$$HI = \sum_{i=1}^n S_i^2$$

Where, S is the participation of each insurance company in the realized gross premium, and n is the total number of companies. The value of the index moves from 10,000 in case of monopoly, to 0 for infinite number of small societies. When the index ranges from 1,000 to 1,800 levels of concentration is considered acceptable.

Table3. The Herfindahl-Hirschman concentrated index of the insurance market (N.Macedonia,Croatia)

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
North Macedonia	1.556	1.322	1.238	1.238	998	951	892	824	888	868	892
Croatia	1.605	1.553	1.458	1.398	1.357	1.330	1.307	1.600	1.505	1.453	1.532

Source: Annual report of the AMS (2007-2017) and annual report of the HUO (author's calculation)

From the data in Table 3 in North Macedonia for the given period we have a decrease of the market concentration from 1,556 to 892 units, which is addressed to the increase of competition and the continuous decrease of the market share of the two dominant companies Triglav and QBE Macedonia. The constant decrease of the HHI index is also in Croatia from 1.605 in 2007 to 1.532 in 2017.

V. CONCLUSIONS AND RECOMMENDATIONS

- In the analyzed period (2007-2017), the insurance market in North Macedonia has shown inadequate development trends. This low level of the development of the insurance market were influenced by the global financial crisis and the political and economic uncertainty in the country.
- Unlike North Macedonia in Croatia after integration of the country in Nato and UE there is relevant correlation between increase of GDP and the total insurance premium.
- Based on data for the period (2007-2017) , the level of development of the insurance market of North Macedonia and Croatia result that both countries are behind EU countries, however, the Croatian market is in the most favorable position compared to North Macedonia,.
- Insurances in North Macedonia perceive more as an emergent and compulsory service, rather than an influential development industry across the country's economic sector. North Macedonia has the lowest scale of insurance penetration in economy (approx.1.5 % of GDP) and density degree with about 57euro.
- The greatest representation of life insurance would have a greater impact on the development of the insurance market and in the financial market as a prerequisite for impact on economic development. In North Macedonia, only 2% of inhabitants possess an insurance policy which is one of the lowest levels in Europe, whereas in Croatia this percentage reaches 22%.
- Activity of insurance companies in North Macedonia is largely geared towards prices for insurance products without providing a concrete competition without keeping one eye on a balance between profit and satisfaction of customer requirements.
- In the analyzed period (2007-2017), the interest of larger insurance companies at European level to invest in the North Macedonian market remains low as a result of dealing with political risks, insurance and economic risks; as a result that North Macedonia had serious stumble in the process of EU and NATO integration.
- The dispute settlement between Macedonia and Greece during 2018 and reconciliation for the country's new name as North Macedonia creates preconditions for the country's rapid integration in NATO and the advancement of the EU integration process.
- Integration in NATO and the EU similar to the case of Croatia will significantly eliminate political and security risk and will motivate serious foreign companies to invest in the insurance market and will stimulate active participation of commercial banks in this market.
- Insurance companies in assistance of government institutions of North Macedonia need to apply a good coordinated information marketing campaign to educate and recognize citizens and companies with the necessity of risk-reducing insurance and as an opportunity to invest in profitable futures.

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