

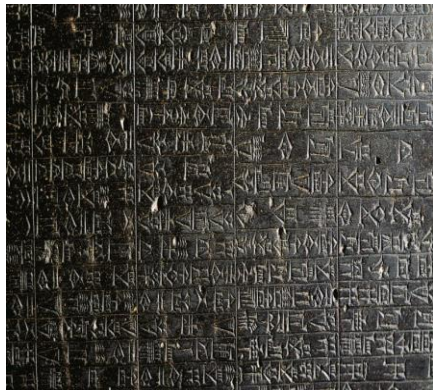
The Role and Importance of Insurance

History of Insurance

Insurance in some forms and ways dates since the ancient era.

Initial forms of INSURANCE are noted in early people communities within tribes and later in families. The first danger that mankind has faced was hunger, and as a measure of protection was the modest mandatory cereals contribution during the years when harvest had the highest yield.

The first methods of transferring or distributing risk in a monetary economy were practiced by Chinese and Babylonian traders in the 3rd and 2nd millennia BC, respectively. Chinese merchants traveling treacherous river rapids would redistribute their wares across many vessels to limit the



loss due to any single vessel's capsizing. The Babylonians developed a system that was recorded in the famous Code of Hammurabi, c. 1750 BC and practiced by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen or lost at sea.

Insurance is the oldest method of transferring risk, which was developed to mitigate trade/business risk.

The first known insurance contract dates from Genoa in 1347, and in the next century maritime insurance developed widely and premiums were intuitively varied with risks. Property insurance as we know it today can be traced to the Great Fire of London, which in 1666 devoured more than 13,000 houses. The devastating effects of the fire converted the development of insurance "from a matter of convenience into one of urgency". In 1681, economist Nicholas Barbon and eleven associates established the first fire insurance company, the "Insurance Office for Houses".

Initially, 5,000 homes were insured by his Insurance Office.

23 - Lloyd's Coffee House in 1798. Courtesy of Lloyd's of London.



Business insurance started in London in Lloyd's Coffee House owned by Edward Lloyd, in 1686, and it was the first marine insurance company.

The first life insurance policy, in the true sense of word, was issued by a group of marine insurers in London, in 1536 to a person named William Gybbons.

The insurance policy had one-year validity and was worth £ 400. Interestingly, Gybbons died during that year and the insurers paid the amount insured to his family.

How is the Insurance defined nowadays?

Insurance means the transfer of a potential risk of a material and/or non-material loss from the insured (policyholder) to the insurer under an insurance contract;



Insurance is a means or method that people, businesses and organizations use to transfer certain risks to the insurer. The concept of service is fundamental to insurance. The insurer sells to the insured a promise. The validity of the insurance contract will be verified in the future.

What is insurance premium (fee)?

Determination of premiums refers to the establishment of insurance prices. Insurance pricing varies considerably from pricing of other products. When other products are sold, insurers generally know in advance what the cost of the products is, so prices are established to cover all

costs and ensure profitability. However, insurers do not know in advance what the cost will be. The insurance premium may be inadequate to pay for all damages and expenses throughout the validity period of the insurance policy. Only after the end of the insurance cover period the insurer may determine its actual losses and expenses. Of course, the insurer hopes that the premiums paid in advance will be sufficient to pay for all the damages and expenses, as well as to earn a profit.

The person establishing the tariffs is known as actuary, who engages at all phases of operation of an insurer, including planning, pricing, stock valuation, and research. Its objective is to calculate premiums that will ensure a profitable business, enabling the insurer to compete effectively with other insurers and enabling the insurer to pay for the damages and expenses that will occur.

Insurers use the concept of “risk pool” in risk distribution.



This concept implies that insurers collect premiums from a large number of policyholders and from these premiums pay for losses or damages that occur within the specific period for a certain number of risks within the group.

Risks and Insurance



The concept of risk

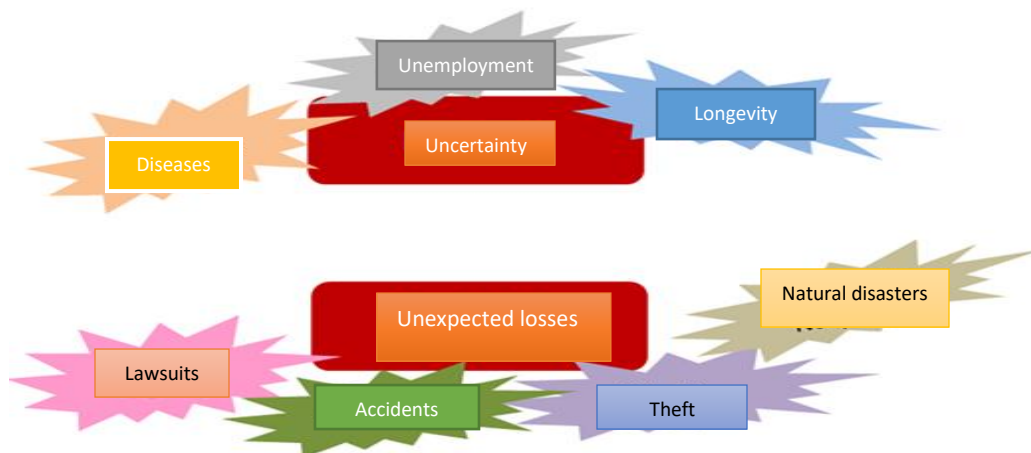
For many people, risk implies a kind of uncertainty about the outcome in a given situation. Leaving aside for a moment, what we mean by the word uncertainty, it is usually clear to us what we mean when we include the term “risk” in the conversation. An event can happen, and if it does, the outcome may not be

favourable to us, not having the outcome we hoped for. The word *risk* implies the doubt about the future, as well as the fact that the outcome may put us in a worse position than we are at the moment.

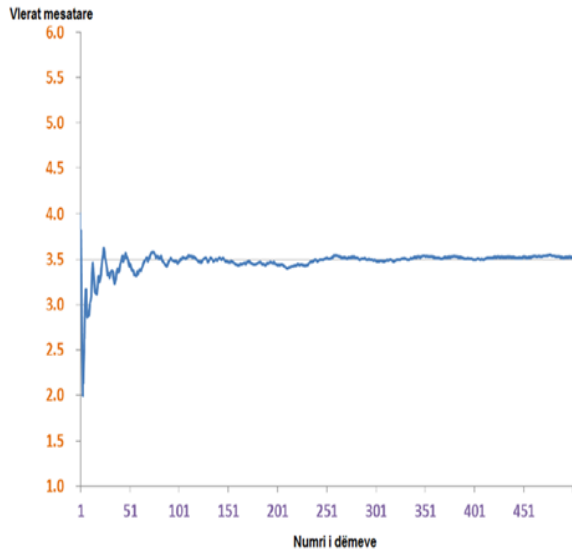
Traditionally, risk is defined as the uncertainty of the occurrence of a particular event that results in loss.

Two factors need to be considered when analysing the risk level: the **frequency** and **severity**.

In addition, two key concepts related to risk are of particular importance in insurance: uncertainty and unexpected losses.



How to perform insurance risks assessment?



Insurance risk assessment is defined as a comprehensive process of risk analysis and evolution.

Risk assessment may be quantitative, semi-quantitative or qualitative depending on the probability of occurrence and the possible consequences.

Risk assessment of insurers is mainly based on probability indicators and other mathematical-statistical indicators, calculated by the professionals of this field called **ACTUARIES**.

Insurers use the law of large numbers to estimate properly and reliably the amount of damages for a given number of policyholders within a given time.



What is insurance contract?



The insurance contract is the act whereby the insurer assumes certain risks, despite the payment of the premium, to pay the insured (policyholder), beneficiary or the third party indemnities in the case of an insured event. Insurance contracts shall meet the requirements provided for by the CBK's Law on Insurances and the Law on Obligational Relationships in force.

Elements of the insurance contract

- **Declaration:** Name of the insured (policyholder), address, insurance company, insured risk, insurance sum (limits), possible deductions, premium and duration.
- **Definitions:** Definition of terms and language used in an insurance policy.
- **Insuring agreement** – The agreement entered between the insurance company and policyholder regarding covered risks.
- **Exclusions** – Defines what is not covered by the insurance contract.
- **Terms** – defines conditions, obligations and rules that must be respected.
- **Annexes** – Additional forms attached to the insurance policy, which enable modification of the insurance policy/contract under different terms.

WHAT YOU NEED TO KNOW BEFORE BYING AN INSURANCE POLICY?



Insurance policy is a document that determines the rights and obligations between the insurer and insured (policyholder).

People can insure against almost any potential risk – at a price.

How to choose the insurance policy that suits me?

In order to make the right choice, you need to harmonize your current and future needs with the budget you have available, which means choosing the type of insurance that suits your needs and abilities;

Determine the insurance policy coverage period. Its duration depends on your will and abilities;

Make sure that your incomes are sufficient to pay the premium you have agreed upon with the insurer;

Be informed about the risks covered by the insurance policy and what are the risks excluded from your insurance policy;



Before signing an insurance contract, read each point of the contract carefully, consult with authorized persons about the terms provided for by the insurance policy, and make sure you understand it clearly.

What is non-life Insurance?

Non-life insurance means insurance against risk according to classes defined by Law no. 05 L-045 on Insurance: Accident Insurance, Health Insurance, Land vehicles insurance (other than those that move on rails); Insurance of transported goods, Fire insurance and forces of nature (fires, explosions, storms, various forces of nature by storm, nuclear energy, landslides and earthquakes); Insurance of other property damage covers all damage or loss of property, when the damage was caused by hail, flooding or frost and any event such as theft; Liability Insurance from the use of vehicles, covers all liability arising from the use of vehicles on the land; Liability Insurance from the use of vehicles, covers all liability arising from the use of vehicles on the land; Liability Insurance for ships, Aircraft Liability Insurance covers all liability arising from the use of aircraft, Loan insurance, Guarantee insurance, Insurance of financial losses, Legal protection insurance, Assistance insurance.

It is reasonable for people to be insured against some of the greatest risks they face in life, as insurance can help families and individuals prepare for and compensate the impact of adverse events on their financial situation. If a person is not insured, events such as illnesses, loss of property by fire or a major traffic accident can damage even destroy the financial situation of a person or family.

Following are presented the characteristics of some non-life insurance products, including compulsory motor liability insurance and some types of voluntary insurances, namely property insurance and health insurance.



Motor liability insurance is compulsory insurance of the owner and motor vehicle owner for damages caused to third parties, and is regulated by Law No. 04/L-018 on Compulsory Motor Liability Insurance.

The owner of motor vehicle, before using it, must contract insurance to cover liability for damages caused to third parties in the event of

death, bodily injury, damage to health or damage to property.

Insurance policy shall be contracted only by insurers licensed by the CBK. Insurance policy shall be unique all over the territory of the Republic of Kosovo. Insurers are obliged to maintain at all times: Solvency and liquidity indicators in accordance with applicable Laws and Regulations. Insurers are also obliged to maintain sufficient funds to settle any liability arising from insurance contracts.

The injured party shall have the right to file a compensation claim based on motor liability directly to the liable insurer.

The Procedures on handling complaints for motor liability insurance damage compensation can be found in the following CBK Regulation: https://bqk-kos.org/repository/docs/korniza_ligjore/shqip/Procedurat%20e%20Trajtimit%20te%20kerkesave%20per%20kompensimin%20e%20demeve%20-%20autopergjegjesia.pdf, which defines the procedures for receiving, registering, handling, paying and controlling claims for damages arising from compulsory motor liability insurance.

Pursuant to the Law on Compulsory Motor Liability Insurance, the CBK has issued the following regulation: https://bqk-kos.org/repository/docs/korniza_ligjore/english/PR-%20Implementimi%20i%20Sistemit%20BM.pdf for the implementation of the Bonus-Malus system, which is implemented to act as a corrector of the height of motor liability insurance premium according to the claim history of the insured. The importance of this system is that the Bonus will benefit good and disciplined drivers and those that are careful in the traffic and at the same time through the Malus irresponsible drivers who cause accidents will be disadvantaged.

Property insurance - is a voluntary insurance and is made voluntarily by the insured (policyholder). This includes personal and collective property, movable and immovable property. Through insurance is provided insurance protection against risks that the insured chooses, and which are recorded on the insurance policy: fire, lightning strike, explosion, hurricane, hail, landslide and collapsing, flood and torrent, earthquake, burglary and breaking windows, etc.



Why we need health insurance?



Health is the greatest asset in life, therefore health care should be the top priority of an individual. Health insurance covers a fixed income financial health disability, benefit of reimbursement nature as well as combined benefit. Under the health insurance policy, you will also have coverage for preventive and specialist check-ups, diagnostics, laboratory tests, surgery, hospital treatment in private clinics of your choice.

What is life insurance?

This insurance covers death insurance, survival insurance up to a certain age or premature death, life insurance with return of premiums.

There is also *life insurance linked to collective investment enterprises*.

Annuity means an insurance contract from which it is earned a periodic income, which can be for a certain number of years or for a lifetime;

Additional insurance which relates to the life insurance contract, including one or more of the following combinations: death as a result of the accident; permanent inability to work or disability at work, or a certain type of injury as a result of an accident; permanent inability to work or disability at work, or a certain type of injury as a result of illness; temporary disability as a result of an accident; temporary disability as a result of illness; inability to perform the profession or work as a result of bodily injury; hospital services; incurable diseases and medical services.

Why would it be good to have life insurance?

Since life is the most expensive thing we have, we must make every effort to take precautions to protect it. One of these precautions would be life insurance, through which we would contribute to the personal and family safety, and at the same time we would save.

During the life we all plan to reach our goals to make a better life for ourselves and our loved ones. But, not everything always goes the way we plan.

Illness, disability or death, are unplanned and unforeseen things that can strike our lives. These do not affect only the personal aspect, but bring financial problems for the whole family as well.

So in a way, it depends on us, not only the present but also the future of the family, and as a safeguard, it would be good to have a life insurance.



An individual should not see the purpose of insurance as an opportunity for profit, but as economic security in the event of an unforeseeable event that could affect our health, property and life.

WHAT ARE THE TECHNICAL PROVISIONS?

Technical provisions relate to the liabilities of the insurer under insurance contracts. Therefore, the reserves established by the insurers should be separated from the reserves of non-financial enterprises. Because reserves to non-financial enterprises represent unspent profit, whereas those of the insurer cannot be treated as profit, but as a source of funds dedicated to cover future liabilities of the insurer. Insurers are obliged by law to allocate and maintain technical provisions. According to the Law on Insurance, the purpose of technical provisions is to cover future insurance liabilities and eventual losses from risks arising from the insurance business because the insurance premium is paid in advance, and the insurer's protection continues in the next period defined by the contract. Therefore, it is important to determine in advance the necessary funds, as a reserve, which will serve to fulfil the insurer's liabilities under insurance contracts.

The main technical provisions of non-life insurers are:

- **Unearned premium reserves**, and
- **Loss reserves**

and life insurers have:

- **Mathematical reserves.**

The role of the CBK's is to:

- **ensure the protection of the interests of policyholders, the damaged, as well as to keep them informed about insurances;**
- **ensure the legality, efficiency, stability, liquidity and solvency of insurers, insurance intermediaries, as well as other entities defined by this Law;**
- **ensure a fair and regular competition, thereby encouraging development and extension of insurance products and services for the benefit of the public welfare, as well as creating an enabling environment for potential investors in the insurance industry in Kosovo.**

Insurance supervision consists of various activities; however, the primary objective is to protect the interests of policyholders.

With a sustainable regulatory framework, the CBK, namely insurance supervision is continuously concentrated on the on-going supervision as one of the key pillars of the supervision process, where this process is accomplished through supervision instruments respectively the reporting and analysis division, and the on-site supervision division. Based on the proactive approach of the ISD, as well as through supervisory instruments, it has been managed to identify potential problems in a timely manner and preventive/corrective measures have been taken as needed before the problems of the insurance sector become serious.

It should be noted that supervision of insurers is focusing more and more on a risk-based approach, through which the focus is made on insurers with a higher risk profile. In this regard, a risk-based supervision manual has been prepared, which will be implemented in the near future, where, in addition to setting out a supervisory strategy for insurers, it will also continuously increase the quality and implementation of supervision procedures.