THE FACTORS THAT IMPACT HUMAN BEHAVIOR TO ENSURE THEIR LIFE

AND HEALTH ON INSURANCE COMPANIES

Ina Shehu[1]
JonadaMamo[2]
Sivi Asllani[3]

ABSTRACT

The insurance market is an important part of the financial system. In 1992 Albania decided to apply, Insurance Law 8081 dated 03.07.1996 "On the activity in insurance and / or reinsurance", creating the necessary legal infrastructure for the creation and development of the insurance sector in Albania. The main products that offer insurance companies, are providing TPL, CASCO insurance, life and health insurance. In this paper will be treated, insurance companies in Albania and especially life insurance companies. The purpose of this paper is to study of factors that affect the behavior of individual life insurance and health. Through this work will be evaluated the factors that affect the choice of individuals to ensure their life/health or not. So if they would prefer to transfer the risk of their life to the insurance companies. The methodology of the paper is presented in two main parts. In the first part, they are presented data on life insurance product in Albania. The data are taken from annual reports of the Financial Supervisory Authority. In the second part, it has been organized a questionnaire with important questions, which assess factors that affect the choice of individuals to ensure their life at insurance companies. At the conclusions of the paper we will get the answer to the research problem that this paper raise.

Keywords: *life and health insurance, risk, human behavior*
JEL Classification: *G220*

1. Definition of risk and insurance

Risk is the potential of gaining or losing something of value. Values (such as physical health, social status, emotional well-being or financial wealth) can be gained or lost when taking risk resulting from a given action or inaction, foreseen or unforeseen. Risk can also be defined as the intentional interaction with uncertainty. Uncertainty is a potential, unpredictable, and uncontrollable outcome; risk is a consequence of action taken in spite of uncertainty. Risk perception is the subjective judgment people make about the severity and probability of a risk, and may vary person to person. Any human endeavor carries some risk, but some are much riskier than others. *Insurance* is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. An entity

---

[1] Lecturer, "AleksanderMoisiu" University, Durrës, Email: inashehu@hotmail.it
[2] Lecturer at " Aleksander Moisiu" University, Durrës, Email: Jonada.mamo@yahoo.com, Lecturer, part-time at Epoka University and Member of Council in Durrës Municipality.
[3] Administrative staff at " AleksanderMoisiu" University, Durrës , Email: Siviasllani@yahoo.it

which provides insurance is known as an insurer, insurance company, or insurance carrier. A person or entity who buys insurance is known as an insured or policyholder. The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss. The loss may or may not be financial, but it must be reducible to financial terms, and must involve something in which the insured has an insurable interest established by ownership, possession, or preexisting relationship. In insurance, the insurance policy is a contract (generally a standard form contract) between the insurer and the insured, known as the policyholder, which determines the claims which the insurer is legally required to pay. In exchange for an initial payment, known as the premium, the insurer promises to pay for loss caused by perils covered under the policy language. Insurance contracts are designed to meet specific needs and thus have many features not found in many other types of contracts. Since insurance policies are standard forms, they feature boilerplate language which is similar across a wide variety of different types of insurance policies.

2. Insurance Policy Components

When choosing a policy, it is important to understand how insurance works. Two of the most important components of all insurance policies are the premium and the deductible. A firm understanding of these two concepts goes a long way to helping you choose the policy that is best for you. A policy's premium is simply its price, typically expressed as a monthly cost. The premium is determined by the insurance company based on your, or your business', risk profile. For example, if you own several expensive automobiles and have a history of reckless driving, you pay more for an auto policy than someone with a single mid-range sedan and a perfect record. However, different insurers may charge different premiums for similar policies, so finding the price that is right for you requires some legwork. The second important policy component is the deductible. Whenever you make a claim, you are required to meet a minimum out-of-pocket expense, or deductible, before the insurance company pays for your losses. Deductibles can apply per-policy or per-claim depending on the insurer and the type of policy.
Policies with very high deductibles are typically cheaper because the high out-of-pocket cost means insureds are less likely to make small claims. When it comes to health insurance, for example, people who have chronic health issues or need regular medical attention should look for policies with lower deductibles. Though the annual premium is higher than a comparable policy with a higher deductible, cheaper access to medical care throughout the year may be worth the trade-off.

3. What is 'Life Insurance'

Life insurance is a protection against financial loss that would result from the premature death of an insured. The named beneficiary receives the proceeds and is thereby safeguarded from the financial impact of the death of the insured. The death benefit is paid by a life insurer in consideration for premium payments made by the insured. The goal of life insurance is to provide a measure of financial security for your family after you die. So, before purchasing a life insurance policy, consider your financial situation and the standard of living you want to

maintain for your dependents or survivors. For example, who will be responsible for your funeral costs and final medical bills? Would your family have to relocate? Will there be adequate funds for future or ongoing expenses such as daycare, mortgage payments and college? It is prudent to re-evaluate your life insurance policies annually or when you experience a major life event like marriage, divorce, the birth or adoption of a child, or purchase of a major item such as a house or business.

How Life Insurance works
Life insurance is a contract between an individual with an insurable interest and a life insurance company to transfer the financial risk of a premature death to the insurer in exchange for a specified amount of premium. The three main components of the life insurance contract are a death benefit, a premium payment and, in the case of permanent life insurance, a cash value account.
Death Benefit: The death benefit is the amount of money the insured's beneficiaries will receive from the insurer upon the death of the insured. Although the death benefit amount is determined by the insured, the insurer must determine whether there is an insurable interest and whether the insured can qualify for the coverage based on its underwriting requirements.
Premium Payment: Using actuarially based statistics, the insurer determines the amount of premium it needs to cover mortality costs. Factors such as the insured's age, personal and family medical history, and lifestyle are the main risk determinants. As long as the insured pays the premium as agreed, the insurer remains obligated to pay the death benefit. For term policies, the premium amount includes the cost of insurance. For permanent policies, the premium amount includes the cost of insurance plus an amount that is deposited to a cash value account.

Cash Value: Permanent life insurance includes a cash value component which serves two purposes. It is a savings account that allows the insured to accumulate capital that can become a living benefit. The capital accumulates on a tax-deferred basis and can be used for any purpose while the insured is alive. It is also used by the insurer to mitigate its risk. As the cash value accumulates, the amount the insurer is at risk for the entire death benefit decreases, which is how it is able to charge a fixed, level premium.

Life insurance for loans
Life insurance loan is a life insurance product that is offered to people who take credit in the bank and protect them from the risk of default on the loan due to the borrower's loss of life. This product guarantees the repayment of the amount of unconverted loan at the time of loss of life of the borrower liberating family insured or business partners from having banking, as Insurance Company takes over the repayment of the amount of unconverted loan, facilitating in this so financial obligation that will burden them.

4. The insurance market in Albania

Insurance in Albania have started quite late compared with other developed countries, and are developed with their own characteristics and history. This history dates back to 1944, when British companies, French and those Italian helped create a good tradition for insurance necessity, exercising their insurers concentrated in the main cities of the country, mainly in industry ,

construction, accident insurance, life and natural disasters. In post-World War II period from 1948 to 1965, they began to appear and new forms of insurance, such as compulsory insurance of public housing, voluntary insurance of property, buildings and real estates, voluntary insurance of agricultural crops and livestock, voluntary insurance of life from disasters, compulsory insurance of imported goods, etc. In 1991 Albania established the first insurance company, "INSIG" JSC The INSIG Insurance Institute was established with the approval of the law by the Albanian Parliament for the establishment of the Insurance Institute, dividing it by Caches Institute of Savings and Insurance. Currently in the insurance market there are nine insurance companies (JSC Sigal Uniqa Group Austria, Sigma, Interalbanian JSC Intersig JSC (Vienna Insurance Group) Atlantic JSC, JSC Albsig, Insig, Eurosig sh. and a Ansig JSC) which operate in the non-life insurance and three companies operating in the life insurance (Insig JSC, JSC Sicred, Sigal-life Uniqa Group Austria JSC). Also on the market are six brokerage companies (MAI JSC, P & C Albania JSC, Devon JSC, JSC ALL SIG, insurance Bindi, Broker JSC, A-COME Insurance Broker JSC). From the perspective of the value of written premiums, the Albanian insurance market amounted to EUR 47 million on September 30, 2012, of which EUR 42 million (90%) related to the activity of non-life and the rest of it to life. 55% of the market relates to motor insurance, which means that the level of sophistication and penetration of this sector is still in its early levels. Based on official data published for the 9th first half of 2012, the insurance market seems to have undergone a slight decline compared with the preceding period of 0.18%, although the number of policies sold has fallen by 8% during this period.

While in the non-life operations recorded an increase in premiums sold by 7% in life insurance have a significant decrease of 21%.
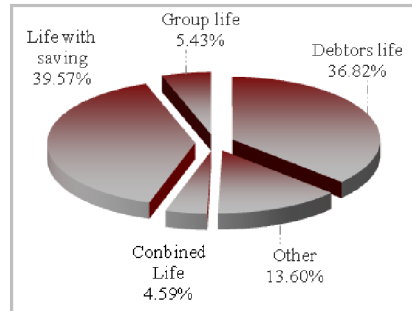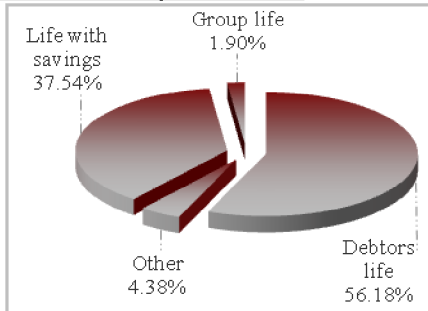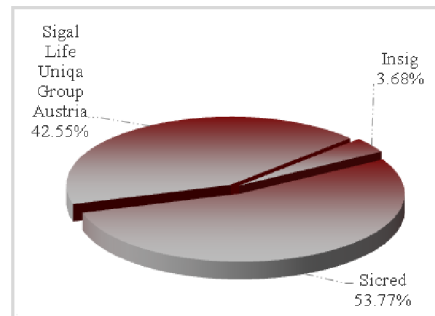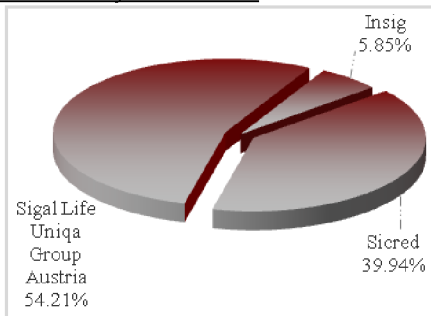
The specific weight of these market companies during 2005 is as follows:

- Sicred -1.52%
- Sigal-life - 1.72%
- Insig (Life) - 2.71%
- Sigal - 27.21%
- Sigma - 18.98%
- Insig – 15.09%

- Intersig – 9.09%
- Atlantic – 10.28%
- Interalbanian – 6.27%
- Albsig - 5%
- Dukagjini AL - 14.2%.

Albanian insurance market is dominated by domestic capital to 80% thereof. Foreign capital invested in this sector is represented by IFC and EBRD. For the first time in the Albanian insurance market it has a capital company Kosovo and Albanian companies which conduct only authentic life of activity. Some of Albanian companies have expanded their activities in Kosovo and Macedonia turning into regional companies, as well as increasing considerably their premiums. As a monopolist position of the state has always been the landing place leaving private initiative. There is a complete change of the insurance market in favor of private companies. Increased competition has caused these companies to respond better to the needs of the insurance market, to offer a wider range products and competitive insurance premiums.

Main features for insurance in Albania

The number of insurance policies reached 72,134 which indicate an decrease 3.05% compared to the year 2015.Gross insurance premiums in Life insurance business reached the value of ALL 92,543 thousand, which indicate an increase 2.13% compared to the year 2015. The number of Life insurance policies reached 7,859 which indicate an increase by 4.30% compared to the year 2015.

Market structure - Life insurance

Market share - Life insurance
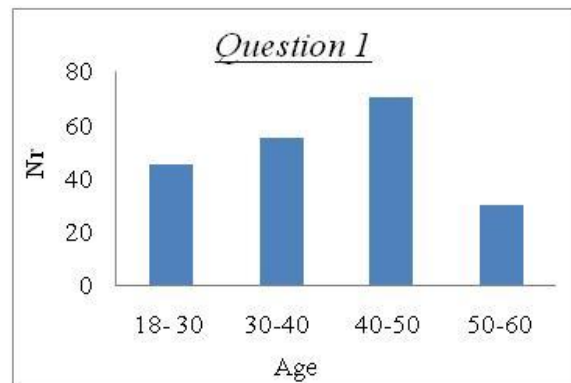

Number of Policies and Paid Claims - Life Insurance

Clase	Type of insurance	No. of policies (in items)		Change (in %)	Share in total value (in %)	
	January	**2015**	**2016**	**16/ 15-1**	**2015**	**2016**
Number of policies (in items)						
	Life Insurance					
A	*Pure endowment insurance*	-	-	-	-	-
	Debtor's life	4,706	3,516	(25.29)	62.46	44.74
	Combined life	61	56	(8.20)	0.81	0.71
	Life and health in travel	1,641	1,913	16.58	21.78	24.34
	Group life	337	910	170.03	4.47	11.58
	Student's life	5	7	40.00	0.07	0.09
	Pupil and student's life	11	108	881.82	0.15	1.37
	Life with savings	721	822	14.01	9.57	10.46
	Depositor's life	-	-	-	-	-
	Flexi plan	4	6	50.00	0.05	0.08
	Cash plan	49	521	963.27	0.65	6.63
	Sportman's life and accidents	-	-	-	-	-
	Other	-	-	-	-	-
	Annuity insurance	-	-	-	-	-
B	*Marriage - Birth*	-	-	-	-	-
	/Marriage - Birth	-	-	-	-	-
	Birth	-	-	-	-	-
C	*Insurance connected to Investment Funds*	-	-	-	-	-
D	*Administration of Collective Funds*	-	-	-	-	-
	TOTAL (A+B+C+D)	**7,535**	**7,859**	**4.30**	**100.00**	**100.00**

The aim of this survey is to know what your perception about life insurance is. All the information that you provide will be used only for academic purposes. In this survey are taken into consideration all persons who have reached the age of 18 years but not more than 60 years you have the right to be provided.
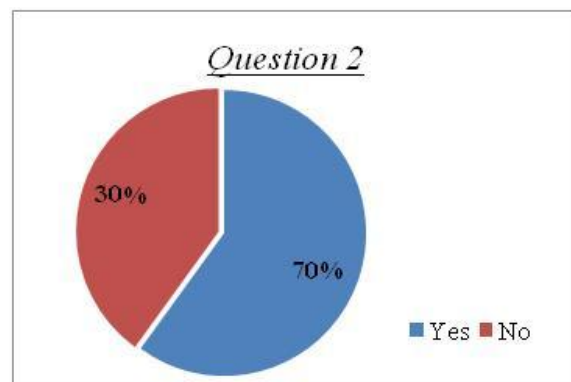
The results of the survey

1. What is your age?
    a. 18- 30
    b. 30-40
    c. 40-50
    d. 50-60

As we see from the graph obtained starting from 18 years – 60 years. 18 years of age where they can reassure themselves without the legal representatives of parents to age 60 years where to buy a contract sigurmi 5 years.
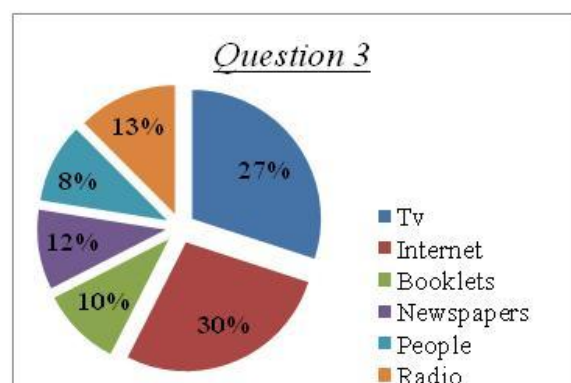

2. Do you know what life insurance is?
    a. Yes
    b. No

In the chart below we see that the major part people have information for life insurance, 70% they have information while 30% of them have not informnacion for life insurance.

3. Information on life insurance:
    a. Tv
    b. Internet
    c. Booklets
    d. Newspapers
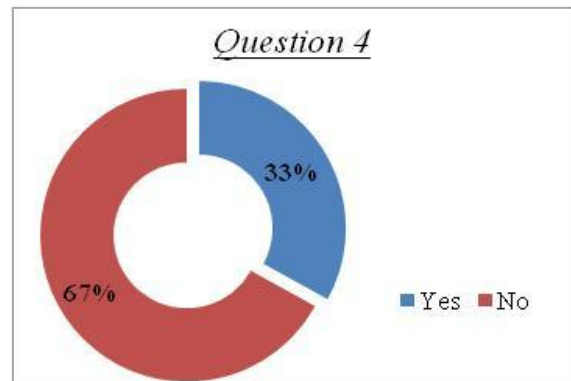   e. People
    f. Radio

Faster ways to get information is internet you can get information in real time. As you can see from the chart the highest information is obtained through internet with a weight 30% by searching the internet ,   web site of the Insurance Companies , social networks like facebook and instagram ect. Another way to get information is

by television from advertising, because a part of the time people use to watch TV. This way information has a weight 27%. Another way distribution of information is radio it disperses in real time. Every morning people who go to work by car listen to radio including advertising. With a weight of 12% newspapers and their advertising provide information also and booklets

with a weight of 10%. In the end with a weight 7% people communicating with each other share information.
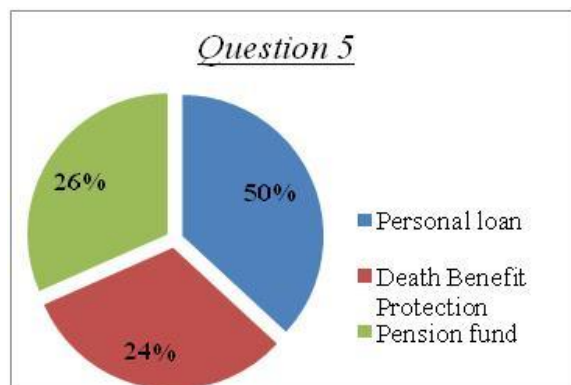
4. Do you have life insurance?
   a. Yes
   b. No

As we see from the chart a small part have life insurance with a weight 33% while the rest do not have a life insurance with a weight 67%.

5. If yes, rank your main reason.
   a. Personal loan
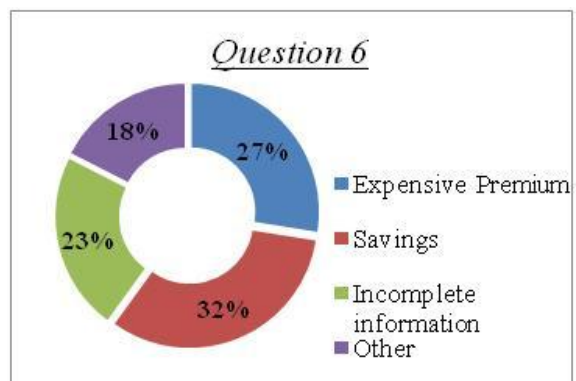   b. Death benefit protection
   c. Pension fund

As we see from the graphic, the majority of people have bought a life insurance because they have a personal loan to pay. By making a life insurance they provide a guarantee to bank for the repayment of this loan. The rest have bought a life insurance because they could turn it into a pension fund and benefiting from this investment a future pension. The other part has bought it to guarantee a death benefit, in order to ensure an amount of money to the family or beneficiaries in case of death.

6. If no, why you are not interested in buying life insurance?
   a. Expensive Premium
   b. Savings
   c. Incomplete information
   d. Other

As we see from the graphic below, some people try to save money for expenses that they may have in the future and they do not see it as an inves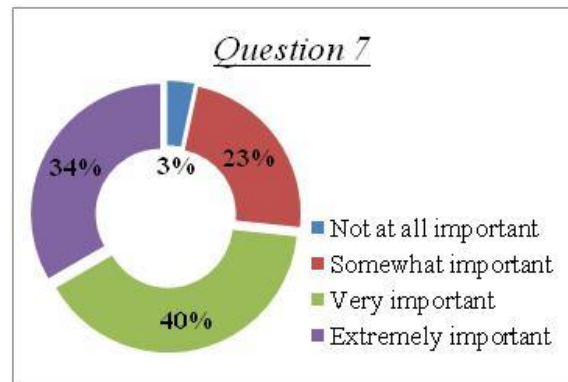tment opportunity, buying a life insurance. To another part, the paid price seems too expensive, therefore they prefer to not buy a life insurance. They keep the risk by themselves, at any situation that may arise as a premature death bringing funeral costs etc. Others since they do not have a complete information, they feel more risky to be insured without this information. Others are very young and having a life insurance seems unnecessary for the moment.

7. How important is giving financial security to your family in the long term?
   a. Not at all important
   b. Somewhat important
   c. Very important

   d. Extremely important

As it appears from the graphic, most people consider it extremely important the financial insurance of family, which means providing a lot of money or saving funds to their family in case they do not live anymore. Leaving a considerable amount of money if they are head of the family to their children, in order for them to attend school or live a normal life financially. Only a very small percentage do not require this financial insurance, because they are younger and have still have not created their own family.

Factors that have a negative impact on the acquisition of a life insurance:

5. Conclusions and Recommendations

– The major part people have information for life insurance.
– The highest information is obtained through searching internet web page Insurance Company and by television from advertising.
– A small part of people have life insurance.
– The majority of people have bought a life insurance because they have a personal loan to pay, and the rest have bought a life insurance because they could turn it into a pension fund and benefiting from this investment a future pension.
– Individuals with high income can affordpayment of premium for a life insurance and individuals with low income can not afford this payment.
– Young people tend to keep themselves risk and do not prefer ensure life whileelderly want to ensure because they feel pressure health wicked , death.
– Most people consider it extremely important the financial insurance of family, which means providing a lot of money or saving funds to their family in case they do not live anymore
– Residence may be far away from the Insurance Company, these impacts negatively to acquire a life insurance, it requires more time and cost.

- Individuals feel uncertain due to lack of information, they tend not to ensure by feeling high risk.
- Individual that have personal loan are bound by banks to buy a life insurance , so bank feel safe that payment will be returned and in case if death.
- There should be more information on media and radio as these affect more heads which have more interest in insurance life. By creating their family a financial security in case of death. Dissemination of information through the Internet attracts more young people, which are not susceptible for an insurance life.
- By reducing the premium insurance life becomes affordable for those individuals who have lower incomes.
- Add more insurance agents in those countries where there is opportunity to open a branch of insurance company.
- More detailed information on the web sites of insurance company

References

1. Fundamentals of risk and insurance ■ Tenth edition Emmett j. Vaughan therese M. Vaughan
2. Risk Management - An Analytical Study" (PDF). IOSR Journal of Business and Management. Feb 2014. pp. 83–89. Retrieved 6 June 2016.
3. Hansson, Sven Ove; Zalta, Edward N. (Spring 2014). "Risk". The Stanford Encyclopedia of Philosophy. Retrieved 9 May 2014.
4. Risk Management and Insurance Industry , Botimi II, Tirana 2011 Ilir Hoti
5. Albanian Financial Supervisory Authority, Statistics, Insurance Market January 2016
6. The Benefits of a Secondary Market For Life Insurance Policies by Neil A. Doherty Hal J. Singer
7. Life insurance , Dorlan H. Francis CLU , CFP
8. http://www.investopedia.com/terms/i/insurance.asp#ixzz4dH2AHohS
9. http://www.zapmeta.ws/wiki/page/Insurance_policy#cite_note-Mowbray485171-1