



The Life Insurance Market in Albania: An Overview of Developments and Perspectives

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Received: 25 September 2025 / Accepted: 15 November 2025 / Published: 25 December 2025
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Doi: 10.56345/ijrdv12n3s127

Abstract

This article analyzes the life insurance market in Albania, assessing its historical development, current level of progress and future prospects. Although the Albanian life insurance sector remains at a relatively early stage of maturity, it has exhibited consistent growth in recent years. Drawing on available data and prevailing market trends, the study identifies key drivers behind this development, including increased consumer awareness, improving macroeconomic conditions and the diversification of insurance products offered by both domestic and international firms. The paper also sheds light on the challenges hindering the full development of the market. Among these are low levels of financial literacy and entrenched cultural preferences, that favor traditional savings over formal insurance mechanisms. Nevertheless, the study highlights substantial growth opportunities, particularly in the areas of digitalization and the personalization of insurance offerings, tailored to evolving consumer needs. In conclusion, the study argues that while the life insurance market in Albania is still emerging, it possesses significant growth potential in the future, especially if insurance companies and regulatory institutions collaborate to address existing challenges and promote broader adoption of life insurance products.

Keywords: consumer awareness, insurance companies, life insurance, regulatory institutions

1. Introduction

In recent years, the insurance market in Albania has experienced slow yet steady development, particularly following the country's transition to a market-oriented economy in 1991 and the subsequent liberalization of private sectors. Insurance has gradually become an increasingly important component of financial security for both individuals and businesses. Nevertheless, there remains considerable room for further growth and development within the sector. According to data from the Albanian Financial Supervisory Authority (AFSA), the insurance market is predominantly composed of non life insurance, which accounts for over 90% of total written premiums. In contrast, life insurance remains an underutilized product, despite having recorded modest growth in recent years.

Life insurance represents one of the most essential pillars of the insurance sector, offering financial protection to an individual's dependents in the event of loss of life, Heo (2020). Nonetheless, in Albania, the development of this segment of the insurance market has lagged behind other lines of insurance, most notably motor and health insurance.

However, many insurance companies have begun to introduce new and tailored life insurance products, designed to meet the specific needs of the Albanian market. Concurrently, there have been efforts to raise public awareness regarding the importance of life insurance, particularly among individuals with dependents such as children and family members, who may be financially impacted in the event of a loss of income due to an unforeseen tragedy.

2. Literature Review

The life insurance industry is essential for economic development, as it facilitates long-term savings, promotes capital market development and ensures financial security. Life insurance encompasses two principal components: capital accumulation and financial protection. The capital accumulation aspect, manifested through savings and investment-oriented policies, enables policyholders to steadily build wealth over time. Through consistent premium contributions, individuals invest in these plans, with insurers typically allocating the collected funds to generate returns. Upon reaching predefined milestones, such as policy maturity or retirement, policyholders are granted access to the accumulated capital, often enhanced by accrued interest or investment gains. This type of policy facilitates strategic financial planning, allowing individuals to allocate resources toward long-term goals, including funding education, purchasing a home, or securing retirement income.

Simultaneously, life insurance serves a critical function in safeguarding the financial well-being of individuals and their dependents, offering essential protection against unforeseen life events, Zinyoro&Aziakpono (2023).

Several studies have explored various facets of life insurance. Some studies focus on the association between life insurance and macroeconomic variables, noting a close interaction between the two, Horvey & Odei-Mensah (2024). The International Association of Insurance Supervisors (IAIS), highlighted in their 2023 Global Insurance Market Report, that interest rate, liquidity and credit risks in a challenging macroeconomic environment, are significant factors affecting the life insurance sector. Other studies, highlight the increasing competition in the insurance sector and emphasize the importance of efficient service delivery to policyholders, for expanding insurance coverage and market share. Some researchers found that service quality is a key influencing factor in the insurance market, suggesting that companies focusing on service excellence can gain a competitive advantage, J.D.Power (2023).

Service quality has a significant impact on customer satisfaction. Studies have shown that various service quality factors, such as agent performance, functional services and the overall organization, directly influence the overall level of consumer satisfaction. Hien (2023), evaluated the impact of service quality variables on customer satisfaction, regarding life insurance claim settlement services, finding that factors like employee empathy, significantly affect customer satisfaction. Mugesh et.al (2023), in their study assessed customer satisfaction related with life insurance service quality, revealing that issues like slow service and complicated procedures, negatively impact the customer experience. Furthermore, some studies concluded that proficiency, physical and ethical perfection and functionality, significantly impact the overall service quality of life insurance. Deloitte's 2023 Life Insurance and Annuity Product Development Study, found that product development is core to insurers' growth strategies, with a focus on aligning product attributes with customer needs, to drive success in the insurance market. The 2023 Global Insurance Market Report by The International Association of Insurance Supervisors (IAIS), discussed structural shifts in the life insurance sector, including changes in product offerings to meet evolving consumer demands, highlighting the importance of product features in policy selection.

3. The Evolution of Insurance in Albania: A Historical Overview

The history of insurance in Albania reflects the country's broader socio-economic and political transformations throughout the 20th century. Initially introduced in the 1930s, the concept of insurance gained traction primarily among entrepreneurs and business owners in major urban centers such as Vlorë, Durrës and Tirana. During this period of economic growth, several Italian insurers began operations in Albania, offering life and property insurance tailored to the needs of a burgeoning commercial class. Life insurance, in particular, became a common safeguard for businessmen engaged in regional trade.

This promising trajectory was abruptly disrupted by the onset of the Second World War, which brought political and economic instability. The situation further deteriorated following the establishment of the communist regime, which fundamentally altered the legal and economic foundations necessary for insurance. The 1976 Constitution abolished private property rights, effectively eliminating demand for insurance services. What little remained of the sector, administered through the Institute of Savings Banks, was eventually phased out under the collectivist policies of the time. A revival of the insurance industry began in the early 1990s, following the fall of communism and Albania's shift toward a market-based economy. The state-owned Insurance Institute resumed its operations, offering life and non-life products. As the financial sector liberalized and private enterprises emerged, the insurance market expanded, aligning itself with international standards and practices. This period marked a renewed emphasis on risk management and financial security, signaling the reestablishment of insurance as an essential pillar of Albania's economic infrastructure.

4. Discussion. Insights into Albania's Life Insurance Sector

Life insurance, as a vital component of the financial system, functions both as a mechanism of social protection and as a tool for economic development, by fostering long-term savings and capital market growth, Moreno et.al (2020). In Albania, however, life insurance remains underdeveloped, with significantly lower penetration and density, compared to regional and European benchmarks. According to data from the Albanian Financial Supervisory Authority, the volume of life insurance premiums has shown a consistent upward trend, although it still represents a relatively small share of the overall insurance market (approximately 9%). Several insurance companies currently operate in the Albanian market, offering various life insurance products. These companies provide a broad range of life insurance services, in order to diverse customer needs, designed to meet both individual and corporate coverage requirements. These products include:

- ✓ Return of premium life insurance, which provide coverage for a specified term and at the end of the period, the policyholder receives a refund of the premiums paid, provided no claim has been made
- ✓ Investment linked life insurance, which combine life insurance coverage with the opportunity to invest in financial markets, offering both protection and potential financial returns
- ✓ Group life insurance, typically offered by employers as part of employee benefits packages. These policies provide life insurance coverage to a group of employees under a single contract.

The insurance market in Albania is supervised by the Albanian Financial Supervisory Authority (AFSA), which oversees that insurance companies, operate in compliance with established laws and regulations. AFSA also promotes transparency and the protection of consumer rights, playing a key role in fostering trust and stability within the insurance sector.

Albania ranks among the countries with the lowest expenditure on insurance, dedicating only around 1% of its Gross Domestic Product to insurance services. Despite recent efforts to promote life insurance in Albania, several structural and socio-economic challenges continue to hinder its development and broader adoption, such as:

- ✓ Limited Public Awareness: A significant segment of the population does not view life insurance as a necessary financial safeguard, or a viable long-term investment tool. This general lack of awareness, diminishes demand and undermines the perceived utility of life insurance products.
- ✓ Income Constraints and Persistent Unemployment: The relatively low average income levels, combined with ongoing challenges in the labor market, constrain individuals' capacity to commit to regular premium payments. These financial limitations directly affect participation rates in the life insurance sector.
- ✓ Low Institutional Trust: The legacy of Albania's centralized economic past, compounded by widespread financial illiteracy, has contributed to a prevailing distrust toward financial institutions. This skepticism poses a considerable barrier to the acceptance and expansion of life insurance services.
- ✓ Underdeveloped Capital Markets: Life insurance is inherently linked to long-term investment strategies; however, the limited scope and maturity of Albania's capital markets restrict the availability of stable and attractive investment vehicles. This underdevelopment impedes the creation and sustainability of competitive, diversified life insurance products.

Although the figures show a year-on-year increase, Albania continues to rank last in the region and in Europe in terms of insurance density. According to economic experts, this is due to a deeply rooted mentality that the state should be responsible for addressing every problem. Albania constitutes a relatively small insurance market, characterized above all by a markedly low level of voluntary insurance culture. A more detailed analysis of the market structure, reveals that it is predominantly composed of mandatory insurance products. These are primarily concentrated in compulsory motor insurance, particularly third-party liability coverage. Furthermore, a significant share of the market consists of insurance policies required for vehicles operating outside the country, such as those covered under the Green Card system. Furthermore, the life insurance segment is predominantly comprised of debtor's life insurance, which accounted for 71% of the total in 2023. This type of insurance is mandatorily, required by banks as a condition for granting individual loans, serving as a guarantee for loan repayment.

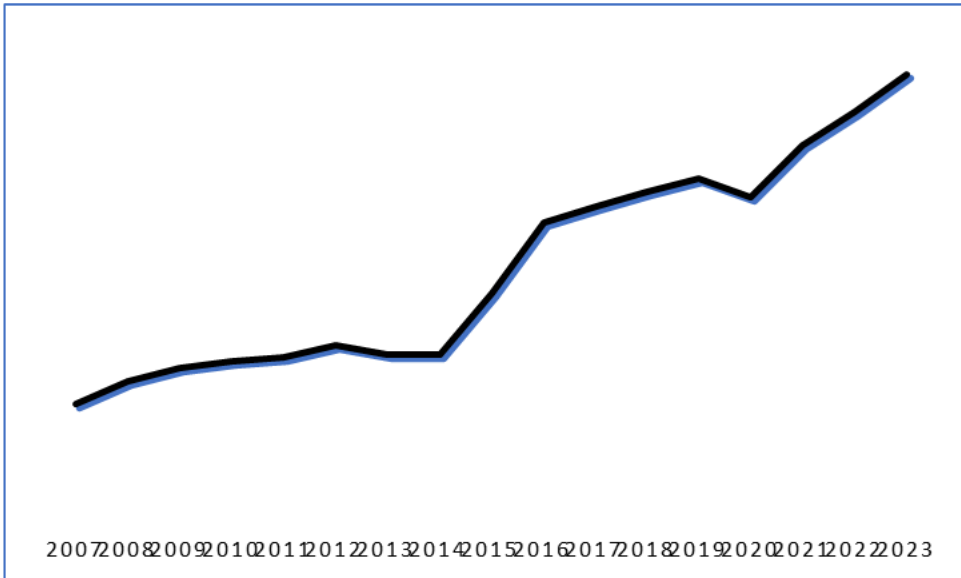


Figure 1: Trend of gross written premium, 2007-2023 (000 ALL)
Source: Albanian Financial Supervisory Authority, author's calculation

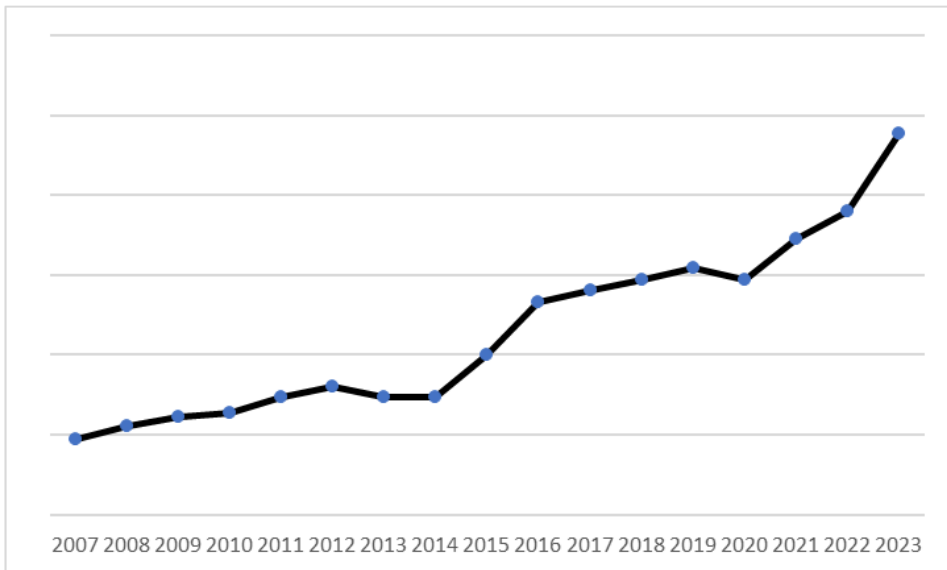


Figure 2: Trend of premium per capita, 2007-2023 (ALL)
Source: Albanian Financial Supervisory Authority, author's calculation

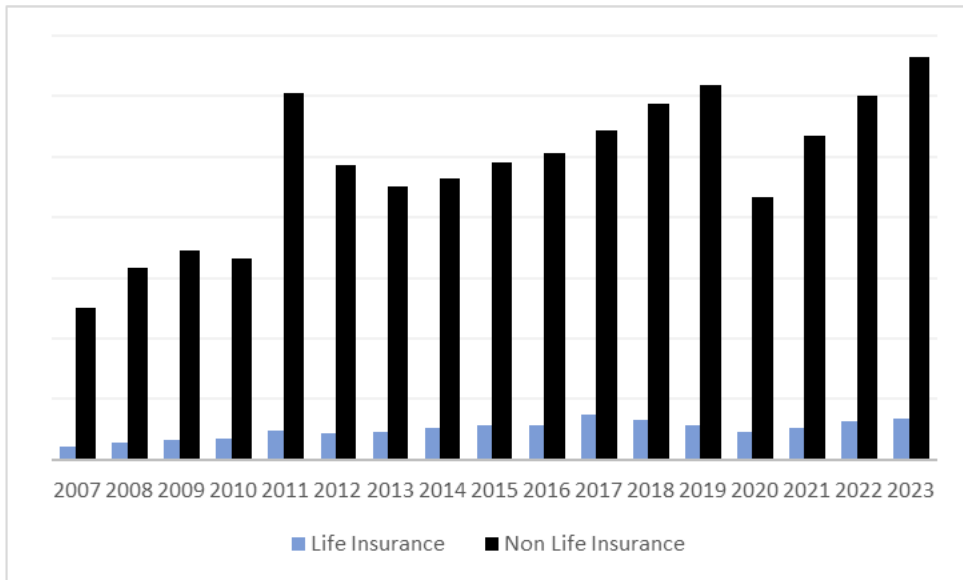


Figure 3: Trend of the number of insurance contracts 2007–2023
Source: Albanian Financial Supervisory Authority, author's calculation

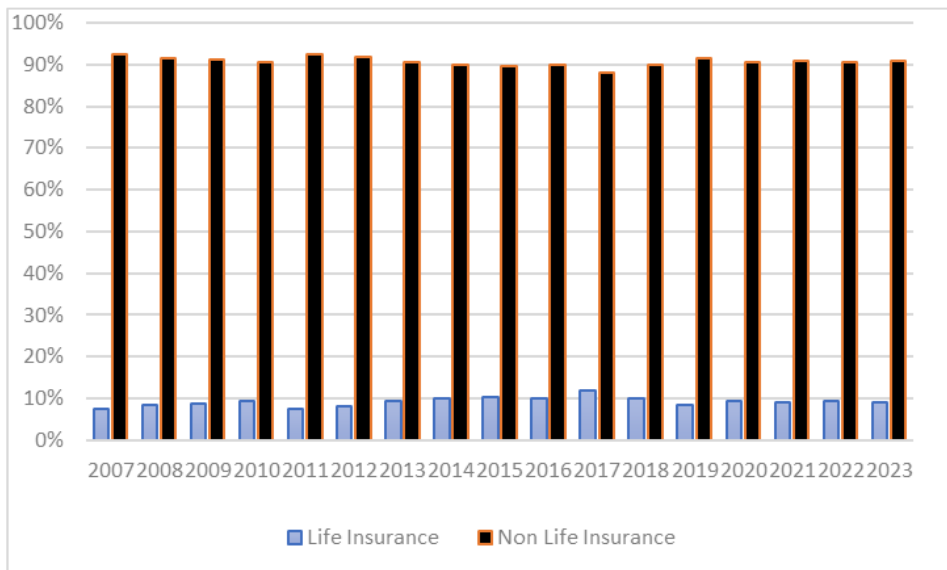


Figure 4: Share of Insurance Contracts (%), 2007–2023
Source: Albanian Financial Supervisory Authority, author's calculation

The graphs illustrate a long-term, steady growth trend, with some minor fluctuations. Following 2015, there is a notable and more dynamic increase, marking a significant leap in the volume of insurance premiums. Although the premium per capita has experienced a substantial growth reaching 9,526 ALL in 2023, it remains the lowest in both the region and

Europe. The results highlight a structural imbalance in the market: the Albanian insurance sector is heavily skewed, relying almost exclusively on non life insurance. Nevertheless, there is a gradual increase in both public awareness and economic capacity to purchase life insurance in Albania. However, given that the insurance penetration rate remains low (approximately 1% of GDP), this suggests that a considerable untapped potential still exists within this segment. The graphs confirm that the Albanian insurance market is still developing, characterized by a dominance of non life products and a slowly growing life insurance segment.

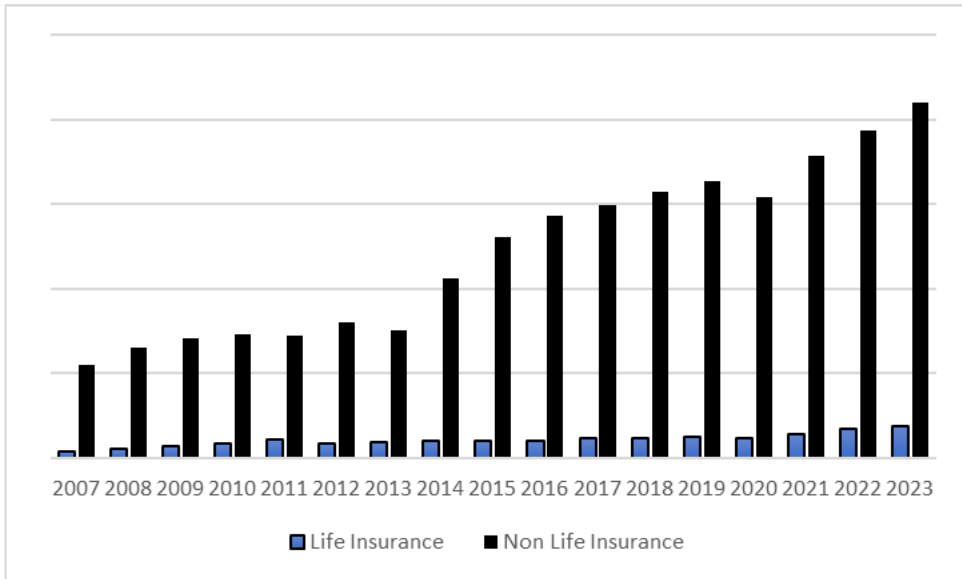


Figure 5: Trend of Insurance Contract Value 2007–2023, (000) ALL
Source: Albanian Financial Supervisory Authority, author’s calculation

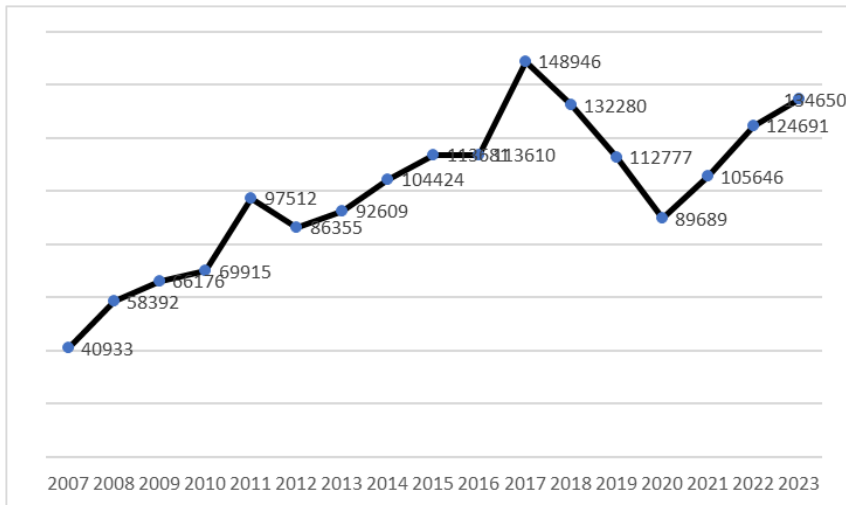


Figure 6: Trend of the number of life insurance contracts 2007–2023
Source: Albanian Financial Supervisory Authority, author’s calculation

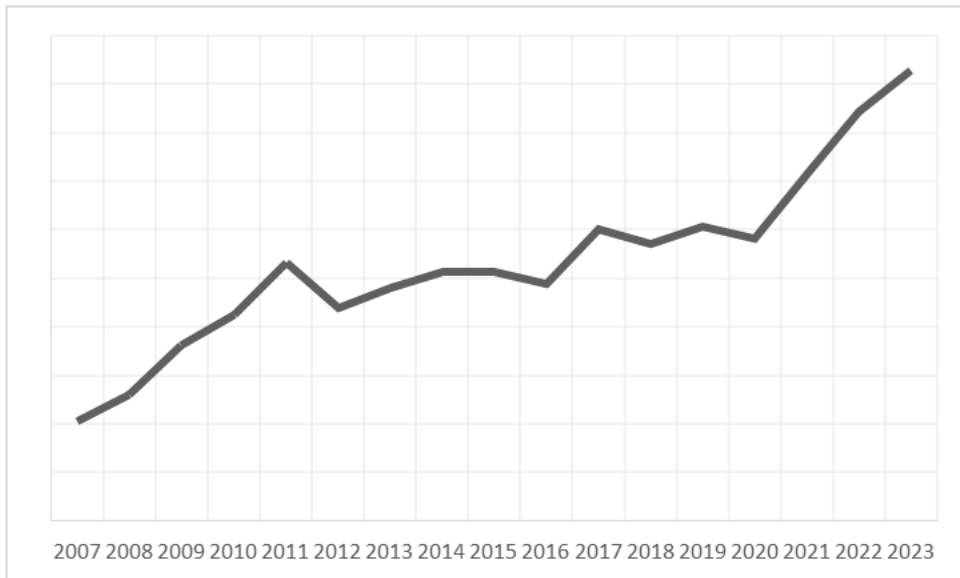


Figure 7: Trend of life insurance contract value, 2007-2023 (000 ALL)
Source: Albanian Financial Supervisory Authority, author's calculation

5. Conclusions

The insurance market in Albania has continued to develop, yet it remains in a phase of consolidation and consumer education. It is still sensitive to economic fluctuations and political changes; however, there is a general trend toward growth and the diversification of insurance products. With increasing awareness of the importance of life and health insurance, there is a significant potential for expansion in these market segments.

Many insurance companies are investing in consumer education and information campaigns to help individuals better understand the importance of financial protection and the potential benefits of insurance coverage. Some companies have also invested in enhancing online services and providing opportunities for customers to purchase and manage insurance policies through digital platforms.

Despite the current challenges, Albania's insurance market holds significant growth potential. While the motor and health insurance sectors are relatively more developed, life insurance remains an underexplored segment. There is a clear opportunity for expansion in this area, especially by focusing on:

- ✓ **Financial Education and Awareness Campaigns:** There is a significant opportunity to increase financial literacy through education campaigns. Raising awareness about the importance of life insurance, health insurance and other insurance products could drive demand, especially as individuals become more aware of the benefits of financial protection.
- ✓ **Product Innovation and Diversification:** Expanding the range of insurance products to meet the diverse needs of the Albanian population could provide growth opportunities. Offering more tailored products, such as health insurance with preventive care, or life insurance plans with flexible premiums, could appeal to a broader demographic.
- ✓ **Technology and Digital Platforms:** The digital transformation of the insurance industry presents a huge opportunity. It has begun but at a slower and prudent pace. By offering digital platforms for purchasing, managing, and tracking insurance policies, companies can cater to the growing trend of online services. Mobile applications or web based platforms could improve accessibility and convenience for consumers.
- ✓ **Corporate Insurance Solutions:** Many businesses in Albania could benefit from group life, health, or liability insurance. Expanding insurance offerings to the corporate sector, could help diversify the market and increase penetration, especially as Albanian companies look to provide more benefits to their employees.

- ✓ **Microinsurance Products:** Given the lower income levels and economic challenges faced by a significant portion of the population, microinsurance products could be a potential opportunity. These products are designed to offer basic coverage at an affordable cost, targeting low income groups and individuals who may not traditionally access insurance.
- ✓ **Government Partnerships:** Collaborating with the government to promote compulsory health or life insurance for specific groups, such as low income families or pensioners, could help broaden market penetration. Government backed insurance schemes could also help instill trust in the sector.
- ✓ **Targeted Marketing to Younger Demographics:** Younger generations in Albania are more likely to be open to modern insurance solutions, including digital insurance products. Marketing campaigns targeted at millennials and Gen Z, with messaging that focuses on long-term financial security and investment in health, could help grow the market.
- ✓ **Cross-Border Insurance Products:** Given Albania's proximity to the European Union and the increasing movement of people within the region, there is an opportunity to introduce insurance products that are recognized across borders, such as travel insurance, cross-border health insurance, or products tailored to the Albanian diaspora.

These opportunities could help expand the market, increase consumer engagement and promote a broader understanding of the value of insurance products in Albania. Nevertheless, with the rise in financial literacy and the increasing involvement of banks and digital platforms in the distribution of insurance products, life insurance is expected to play a more prominent role in the Albanian financial system. In the context of Albania, the further development of this sector has the potential to enhance private savings and decrease reliance on public pension schemes.

With the right strategies in place, the Albanian insurance market especially the life insurance segment, could see a diversification of offerings, a broader consumer base and a stronger more resilient sector, that contributes significantly to the country's economic growth.

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