

## 7. NON-BANK FINANCIAL INSTITUTIONS AND INSURANCE COMPANIES

Non-bank financial institutions include all financial institutions not defined as 'bank' according to the law 'On banks in the Republic of Albania'. Except for insurance companies, the rest of non-bank financial institutions have an almost negligible share in the system's total. Hence, the business risks of these institutions are not systemically important. They are represented by non-bank financial institutions licensed by the Bank of Albania and other. As of end the last quarter, their financial situation was characterized by a decreased activity relative to the previous quarter, decreased capitalization of their activity and an insignificant increase of non-performing assets. Three foreign companies entered the insurance market through the purchase of the majority of capital and other co-operation modes with the existing domestic insurance companies.

Assets of insurance companies have a relatively small share in the assets of the financial system. Insurance sector displays a positive performance in terms of soundness indicators, more specifically capital adequacy, assets' quality and efficiency in capital use for 2007. However, the size of this sector curtails considerably its capacity to financially handle the financial damages that may be claimed due to the difficulties the rest of the financial system may be faced with.

Non-bank financial institutions by and large act as financial intermediators that do not accept deposits from the public. In official statistics, they are classified as other financial intermediators excluding insurance companies and pension funds. As of end-year 2007, 7 non-bank financial institutions licensed by the Bank of Albania and 3 other institutions were operating in the market.

In general, non-bank financial institutions (excluding insurance companies) have a negligible share in the GDP, accounting for nearly 0.61% for 2007 and only 1.83% of the financial system's assets. Meanwhile, the banking sector's assets have the main share in the GDP, accounting for 77.6%, while insurance companies share about 1.36% of the GDP (charts 51 and 52).

Non-bank financial institutions' assets dropped by about 56% in the last quarter of 2007 relative to the previous quarter. Operations with clients and cash transactions, deposits and accounts, being the main items in their balance sheets, provided the main contribution to this drop. Chart 53 shows the

Chart 51 Share of financial system's components to GDP (2007)

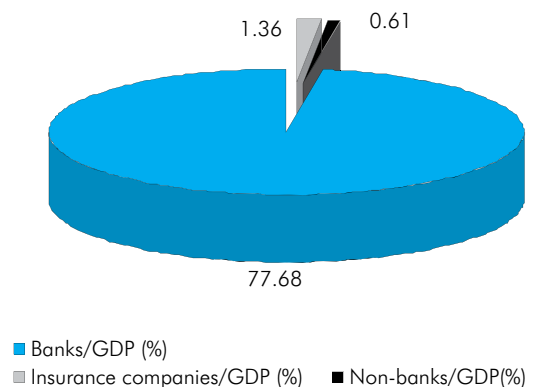


Chart 52 Share of financial system's components in %

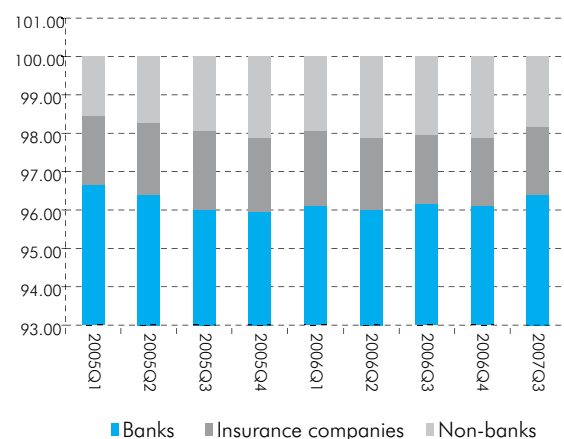
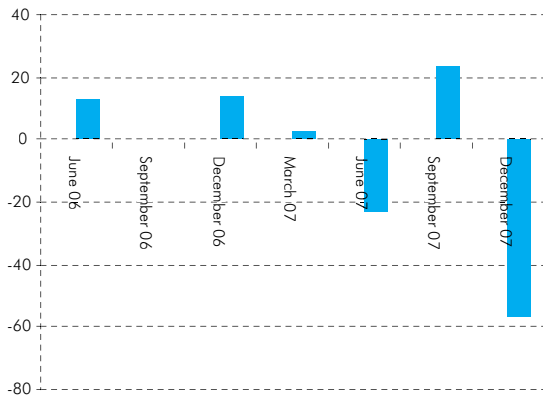


Chart 53 Change in assets of non-bank institutions in %



change in the assets of these institutions by quarter of 2006-2007.

Business capitalization of non-bank institutions, expressed as the percentage of capital accounts with total assets, was about 44% in the last quarter of 2007, dropping by 5 percentage points relative to the third quarter of the same year. With regard to the assets' quality for the last quarter of 2007, credit portfolio accounted for about 83% of total assets. Non-performing loans accounted for 1.17% of their total loans, increasing slightly by 0.23 percentage points relative to the third quarter of 2007.

The ratio of non-financial assets to total assets is another indicator for assets' quality. In the last quarter of 2007 it accounted for about 2%, decreasing by

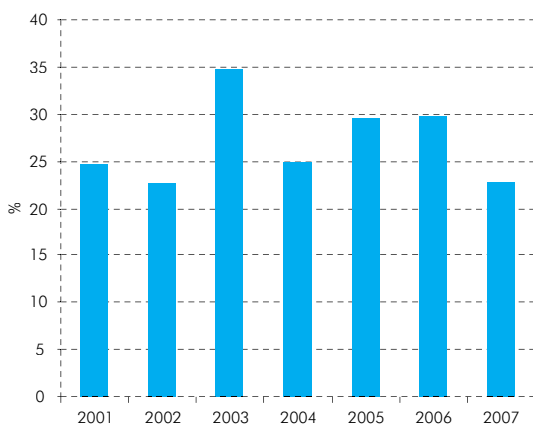
3.7 percentage points relative to the third quarter of 2007.

Interest income represent the main source of income for these institutions. As of end the last quarter of 2007, they shared about 82.2% of total income. Income from commissions, which shared about 9.6% of total income in the last quarter of 2007, are another source of income. Income from interests and commissions have shown a significant downward tendency in the last quarter relative to the previous quarter by 22.3% and 74.9%, respectively.

Based on the analysis of these indicators, it may be underlined that the

activity of non-bank financial institutions has slowed down in the last quarter of 2007 relative to the previous one.

Chart 54 Ratio claims/premiums in the total insurance market



Source: AFSA, Albanian Financial Supervisory Authority

Insurance sector has large development potentials although a lot remains to be done. The entry of three foreign companies is expected to encourage the further development of this sector. They have chosen to position themselves in the Albanian market, where 11 insurance companies are currently operating, through capital acquisition and other co-operation ways with the existing insurance companies. Out of 11, only 3 insurance companies offer life insurance products.

Assets of insurance sector grew by about 17% in the third quarter<sup>21</sup> of 2007 relative to the same period the previous year. According to some estimations, total premium income account for 0.6% of the GDP and their total assets account for about 1.4% of the GDP. Insurance companies' assets have a relative small share in total assets of the financial system (about 1.8% in the third quarter of 2007). Premium income grew by 30.6% in 2007 relative to

the previous year and totalled 5.9 billion leks (out of which 93% is represented by non-life market). The ratio claims/premiums fell by 6 percentage points in 2007 relative to the year 2006 (chart 54).

Business capitalization, which is measured as the percentage of capital to total assets, is another important soundness indicator which shows the capacity of the sector to handle the losses from possible risks. Capitalization was 52.4% in the third quarter of 2007, increasing by 5.4 percentage points relative to the same period the previous year. In addition to this indicator, there is another indicator which is measured as the percentage of capital to technical reserves. In the third quarter of 2007, it accounted for 116.5%, increasing by 20.7 percentage points. Technical provisions, which grew by about 50%, are another element of the system's capacity to pay.

With regard to return on equity (ROE), it reached 19.7% in the third quarter of 2007, which is about 2.1 percentage points higher than the previous year.

In conclusion, insurance sector shows a positive performance in terms of soundness indicators, more specifically, business capitalization, assets' quality and efficiency in capital use for 2007. However, the size of this sector curtails considerably its capacity to financially handle the financial damages that may be claimed due to the difficulties the rest of the financial system may be faced with.