

# The Role of Insurance in the Economy of the Republic of North Macedonia

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## ABSTRACT

Insurance presents an important role on the financial system that contributes in a significant way to a country's economy. The insurance market also has great potential in the economic development of the country, where it provides financial assistance, and it helps in risk management.

In this paper, we tried to build the objectives of growth and development on insurance in the Republic of North Macedonia, as well as to measure growth and to assess the impact of insurance on GDP.

Insurance can be used to encourage investment, to mobilize savings, and to promote financial stability. Also, it can be count as a source of sustainable funding for the financial markets as well as for the domestic economy.

Based on secondary data we have tried to analyze the relationship between insurance development and their impact on GDP.

**KEYWORDS:** *financial system, risk management, investment, financial stability*

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## 1. INTRODUCTION

Insurance represents a significant share of financial sector of the whole economy. Most of insurance companies offer basic contracts in the life sector. It depends by people who are working and retired population. The ageing population also contributes to this trend. Therefore, most of the countries privatized their pension system. Many people intend to purchase products of life insurance which turned into long-term saving vehicles (Lorent 2008).

In our country insurance companies have three basic functions. Firstly, they provide a protection to risk adverse people by risk transferring to institutions which are able to manage risk. Also, the insurance sector has an impact on individual and firms. Secondly, they sell insurance products to numerous individuals to avoid the risk that all losses will occur at the same time. Finally, they improve resource allocation and to reduce the level of risk by allocating.

The main risk for life insurance sector are movements in interest rates because they influence the values of assets and liabilities (KPMG 2002). They indirectly affect policyholders. An increase in interest rates may result in conclusions to lapse policies because policyholders expect higher borrowing costs (Komarkova&Gronychova 2012). Insurers must deal with permanently low interest rate environment in non-life sector. Changes in interest rates are not a main risk since duration of non-life insurance contracts is short-term. However, they can influence the rate of return on investments (EIOPA 2014).

Jan Webb (International Insurance Foundation), Martin Grace (2001) and Harold Skipper (2001) have carried out an empirical analysis between several countries (cross country) and have concluded that the development of the insurance sector and of financial intermediation increases the total productivity of the production factors by facilitating the efficient allocation of capital.

The insurance facilitates not only economic transactions by transferring risks and granting insurance benefits should risks occur, but it is also regarded as a promoter of financial intermediation (Ward and Zurbruegg, 2000).

The insurance may have an effect along the line of maintaining financial stability, of mobilizing savings, of facilitating trade and industry; it allows for the risk to be managed more effectively, helps reduce losses, allocate capital more efficiently, and it can also be a substitute or complement for government security programs (Skipper, 2001)

## 2. Methodology and data

The methodology of this paper is consisted of descriptive, comparative, analytic and statistical methods. We can measure the relationship between insurance and economic growth in North Macedonia. We will statistically test the correlation between GDP per capita (Annex D) and the degree of insurance penetration, for the total insurance market, life insurance and non-life insurance.

To analyze, we have obtained data for 8 years for the insurance sector and GDP for a study period from 2008-2018 to see their relationship.

**Table 1: Insurance sector**

Total insurance premiums /GDP (%)	Gross premiums written for life insurance/GDP (%)	Gross premiums written for non-life insurance/GDP (%)
1.52	3.05	1.1
1.52	3.8	1
1.45	3.3	0.97
1.48	4	3.3
1.44	5.7	12.8
1.45	7.06	2.6
1.5	8.4	1.95
1.52	8.6	2.7

Source: Selected and processed data from Annual Reports of Insurance in <https://aso.mk/>

Testing of the correlation between the GDP per capita, as a dependent variable, and the degree of insurance penetration, for the total insurance market, life insurance and non-life insurance, has led to obtaining results that give evidence in support of an important correlation with direct influence between the variables. Our analysis develops around these indicators where we can create a regression model found:

R <sup>2</sup>	Adjusted R-squared	Std. Error	Durbin-Watson stat
0.761297	0.665815	290.7292	2.520239

Note: GDP per capita Dependent Variable:

The degree of insurance penetration (gross premiums written with the share in the gross domestic product) Independent Variable

Regarding the correlation coefficient R, we can conclude that we have a regression with a strong degree of significance, where R tends to overestimate the association of dependent and independent variables, we can see the level of R<sup>2</sup> =

0.761, or the square of the multi-correlation coefficients, in our calculation. The value of this indicator certifies that there is a significant regression between indicators.

The second step, in the regression model testing is the F test, where the role is to demonstrate the existence of a variable in a way that our regression is not zero. The regression model obtained in our case is a multiple one, where the dependent variable y is the GDP per capita, while the independent variables are Life insurance premium and Non-Life insurance premium.

Following, we can say that we have a function of the following form Y =f(X<sub>1</sub>, X<sub>2</sub>).

$$Y = 191.551 * X_1 - 35.851 * X_2 + 4428.121$$

where: Y – GDPcap

x<sub>1</sub>– written gross premiums on life insurance /GDP

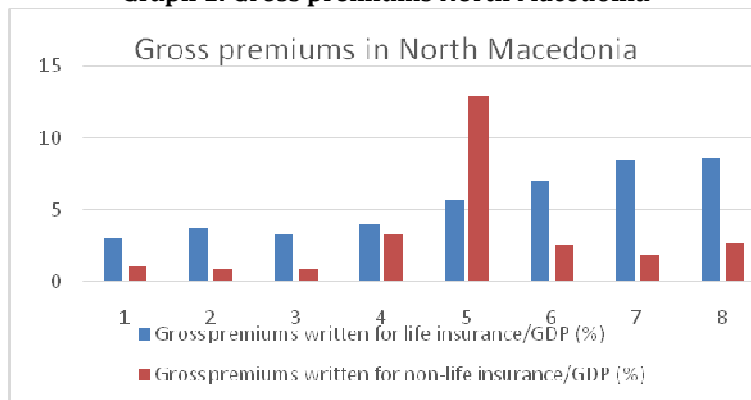
X<sub>2</sub>– written gross premiums insurance on non-life /GDP

The interpretation of the obtained equation based on the data analyzed for the period 2012-2019 from Insurance Supervision Agency of North Macedonia, on a short time horizon, we can conclude that if the share of life assurance in the GDP increased by 1 percentage point, the GDP per capita increases by 191.5513 USD, in the other hand, if the share of insurance non-life in GDP increased by 1 percentage point, GDP per capita decreases by 35, 85150 USD.

Testing of the correlation between the GD Ppercapita, as a dependent variable, and the degree of insurance density, as an independent variable, shows that there is a high and direct correlation (the Pearson coefficient is 0.827), with a high level of confidence (the Sig coefficient is 0.011).

Based on the data that we analyzed we can see that there is a significant relationship between life insurance and GDP. In the other hand, we can see that there is no significant relationship between non-life insurance and GDP.

**Graph 1: Gross premiums North Macedonia**



Source: Annual Reports of Insurance

**3. Conclusion**

The purpose of this paper is to provide the impact of insurance on the entire markets with life insurance and non-life insurance in their relationship with economic growth in North Macedonia. We saw that the correlation was high, between the life insurance market and economic growth measured with GDP per capita. But regarding non-life

insurance we can obtain that there was a negative relationship with GDP per capita because in our state as a state with middle income it is a hard one to be reached and that is for the reason because in Macedonia everything regarding insurance is more connected with life insurance, their way of living, their way of civilization. The result of this should be a guide for businesses to practice insurance for

their businesses taking into consideration the dynamism and many changes in our economy. These changes negatively affect even in business activity therefore insurance can maintain its stability.

This topic that we analyzed is very current so whenever that research will take place in conjunction with the results will always leave the opportunity to be well studied further.

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