Life Insurance in Republic of Macedonia – Luxury or Necessity

Gordana Vitanova [1], Gordana Trajkoska [1], Dragica Odzaklieska [1], Tatjana Spaseska [1] , Kosta Sotiroski [1]

[1]Faculty of Economics Prilep, Gjorce Petrov bb, Prilep, Macedonia

Abstract – **Individual's life is uncertain and limited, such as are his working life and working ability, therefore life insurance represents a manner of managing with risks which may be expressed through the lack of means for subsistence in a certain period of life or protection of the individual or the members of his family in financial terms. By having a life insurance policy one invests in his own security, protects his loved ones, while saving and planning their own future. Life insurance policy is a long-term solution that combines the safest savings and reliability.**

There is a tradition of having a life insurance policy in the developed countries, while in the Republic of Macedonia the number of individuals with life insurance is still very small. In this paper we will do a research on the perception of the population in the country regarding the benefits of owning a life insurance policy, limiting factors and measures to increase the contracts on life insurance.

Key words: **Insurance companies, life insurance policies, assets, risks, individuals.**

1. Introduction

Life insurance is the best form of insurance that represents an ideal way of saving and also provides the insured with protection during the contract. This kind of insurance has three functions, such as: safety, mobilization and allocation and social one. Life insurance should not be observed only as an insurance product, but it should be perceived as an opportunity for investment and protection of daily risks. The risks in daily life are numerous and cannot be eliminated. Insurance companies create an opponent of the risk – safety.

In order for the risk to be insured, certain terms must be met, such as:

- possibility to express the damage in money, because the purpose of insurance is to keep safe the financial position of the insured;
- the damage must be accidental or unexpected in terms of insured;
- ensuring only pure risk where the damage is the only alternative to the current situation, and not also a speculative risk.

Having a life insurance policy in developed market economies is a lifestyle. The number of individuals owning life insurance policy in Republic of Macedonia is small although there are 4 insurance companies that offer this product. The aim of research in this paper is to gain knowledge about the share of population that owns life insurance policy, whether enough of them are aware of the benefits of owning such product and which are the limiting factors.

2. Literature review

As the market becomes more competitive, the future landscape of life insurance sector is set to evolve. The presence of diverse institutions will offer an expanded range of products and services innovated to better serve the needs of consumers. There will be a larger segment of more discerning consumers demanding for more products and services that meet their needs to be delivered through new delivery channels most convenient to them. The more empowered consumers with higher expectations would demand increased level of professionalism provided by intermediaries and enhanced transparency in the provision of products and services [1].

Life insurance companies take savings in the form of premiums; invest these funds in stocks, bonds, real estate and mortgages; and finally make payments to the beneficiaries of the insured parties. In recent years, life insurance companies have also offered a variety of tax-deferred savings plans designed to provide benefits to the participants when they retire [2].

Insurance is classified by which type of undesirable event it is ensured. The most common types are life insurance and property and causality insurance. In its simplest form, life insurance provides income for the heirs of the deceased. Many insurance companies offer policies that provide retirement benefits as well as life insurance. In this case, the premium combines the cost of life insurance with a saving program [3]. The broad categories of life insurance products are *term, whole life* and *universal life.*

The simplest form of life insurance is the *term insurance policy*, which pays out if the insured dies while the policy is in force. This form of policy contains no saving element. Once the policy period expires, there are no residual benefits. Since term life insurance does not carry a saving feature, it generally has a lower premium than whole life coverage [4].

Yearly adjustable renewable Term (ART) is coverage that increases in cost each year. Initially, this is the least expensive life insurance and can remain in effect with no future evidence of insurability to age 85 or 90. However, the cost of this coverage increases dramatically in the later years and becomes cost prohibitive [5].

The first type of Permanent insurance developed, Whole Life, grew out of the inadequacies of Term insurance. It was developed for those people who wanted to obtain a death benefit for life at a level premium. A Whole Life policy provides a guaranteed death benefit as long as premiums are paid, as well as a guaranteed cash value. Most Whole Life policies also provide for additional cash value through dividends [5].

A whole life insurance pays a death benefit if the policyholder dies. Whole life policies usually require the insured to pay a level premium for the duration of the policy. In the beginning, the insured pays more than if a term policy had been purchased. This overpayment accumulates as a cash value that can be borrowed by the insured at reasonable rates. Survivorship benefits also contribute to the accumulated cash values. When members of the insured pool die, any remaining cash values are divided among the survivors. If the policyholder lives until the policy matures, it can be surrendered for its cash value [6].

Universal life policies combine the benefits of the term policy with those of the whole life policy. The major benefit of the universal life policy is that the cash value accumulates at a much higher rate [3].

The importance of life insurance companies as part of the financial sector has significantly increased over the past decades, both as provider of important financial services to consumers and as a major investor in the capital market. Beck and Webb (9) use a greatly expanded data set on life insurance consumption to examine the determinants of the demand and supply of life insurance products across countries and over time.

Their paper analyzed the determinants of life insurance consumption in a cross-country sample of 63 countries and in a panel of 23 countries. They used three different indicators of life insurance, Life Insurance Penetration, Life Insurance Density, and Life Insurance in Force to GDP. Their cross-country regression results indicate that Life Insurance Penetration and Density increase with the income level, whereas there is no independent effect of real per capita income on Life Insurance in Force to GDP Using a cross-sectional sample of 63 countries [7], Beck and Webb find that educational attainment, banking sector development, and inflation are the most robust predictors of life insurance consumption, while income is only a weak predictor. The results strengthen the case for promoting price stability, financial sector reform, and an efficient education system if life insurance and its many benefits are to be fully realized in an economy.

The other study, reveals that that demographic variables like life expectancy, young and old dependency, adult literacy rate and rate of urbanization significantly determines insurance demand. However, the study can be extended considering more variables and dummies to look for the country and time specific factors affecting demand. The results are of importance to the policy makers as most of the selected economies have undergone changes, particularly in terms of regulatory reforms. Identification of variables, which affect insurance consumption decisions, may be of prime interest and more detailed country specific variables with dummy for legal and institutional reforms may reveal the growth trend [8].

One research that was conducted by Gregory A. Kuhlemeyer and Garth H. Allen shows that there is a high connection between consumer satisfaction with the agent's ability to assess products, the agent's ability to meet the financial goals and needs of the consumer, consumers' trust in the agent, and consumer perception of agent competence. The results also reveal a clear difference in consumer satisfaction depending on the type of life insurance product queried. The lowest level of consumer satisfaction was for single premium and limited pay life insurance. Term insurance, universal life, and whole life insurance have the highest levels of consumer satisfaction, in that order. The overall satisfaction with life insurance was higher than expected and resulted in an above average satisfaction benchmark in almost all areas [9].

According to Liedtke (2007) insurance should be considered a key component of economic development and the best mechanism to take care of multidimensional risks in modern economies. It is necessary to clear the confusion regarding considering life insurance as a superior or luxury good among potential consumers in developing countries with comparatively low per-capita income. But as per-capita income is steadily creeping up in the selected economies with changes in the standard of living, the suppliers might stimulate demand and increase the availability of insurance products. This would reduce the scarce and costly outlook of life insurance products. The study can be extended considering more variables and dummies to look for the country and time specific factors affecting demand. The results are of importance to the policy makers if they are aspiring to elevate insurance density and penetration in the economies. Most of the selected economies have recently undergone changes, particularly in terms of regulatory reforms. It would be useful to take much bigger sample in terms of countries and periods considered, to understand why some of the variables behaved so differently than expected [10].

3. Benefits from the life policy

Life insurance is essential for every individual, primarily for its reliability. There are different types of life insurance, but they all have a common feature - enabling long-term savings. In order to ensure the insured risk, it is necessary for the insured to pay a premium, which actually depends on the sum insured for life insurance. Life insurance policy is a unique financial product that offers dual advantage, i.e. the insured is allowed to be ensured and to save. In the event of ensured case (i.e. one of the risks covered by the policy occurs), the user of insurance or his heirs receive the entire sum insured. If there is no occurrence of some of the risks covered by the policy, the insured receives pre-determined sum, plus the sum of profit determined by the insurance company each year. The life insurance policy is a product that every individual needs, because not only it allows long-term saving, it also covers the risks of illness or accidents. The financial consequences of surviving severe illness or accident can be destructive for the living standard of the family. The life insurance policy provides incomes during the hardest moments for the family, covers hospital costs and care. There are different types of life insurance and the most common are: life insurance and profitable insurance. Life insurance is a type of insurance where the insurance company promises in exchange of premium to pay a sum of money to the insured or other person upon the death of the insured. The basic aim of the profitable insurance is providing the insured with material security, i.e. saving in third age of life.

4. Indicators of development on the market of life insurance

Life insurance is more present in developed countries. Basic indicators of development on the market of life insurance are: penetration, presence of insurance and participation of insurance premium in total premium of insurance. Penetration of insurance means participation of insurance premium in GDP in certain country. The share of premium in GDP in developed European countries is around 8%, while in Republic of Macedonia it is 1.5%. The presence of insurance expresses the ratio between the insurance premium and the number of inhabitants in the country. In developed market economies, a large part of the population owns a life insurance policy, including: Switzerland 78% of the population owns life insurance policy, in Germany 70%, Austria 62%. In former Yugoslavia, the number of people owning life insurance policy is increasing, and 21% in Slovenia, 18% in Croatia, Bosnia 9%, 8% in Serbia, Montenegro 8% and only 1.5% of the population in Macedonia owns life insurance policy.

The share of life insurance premiums in the total earned premium for the different types of insurance in developed European countries is 50%, in neighboring countries is 29% and in our country 8.50%.

5. Life insurance market in the Republic of Macedonia

Insurance market is the third largest segment in the financial system in Republic of Macedonia and in 2012 owns 3.3% from the total assets in the financial system. This market has a big potential, especially in the segment of life insurance. The insurance sector in the Republic of Macedonia consists of: 15 Insurance companies (11 companies for non-life and 4 companies for life) 20 insurance – brokerage companies, 9 companies for in insurance and 1 bank – representative in the field of life insurance [11]. Market concentration of the insurance sector measured through gross policy premiums of insurance companies (GPP) is not high, but in 2012 it significantly lowered (from 998 HFI and 60 CR5 in 2011 to 951 HFI and 57,6 CR5 at the end of 2012). The degree of penetration (presence of GPP and GDP) is 1.5% in 2012. Life insurance policies are still minimal, i.e. from total of 1.023.983 concluded insurance contracts, only 6.971 are life insurance contracts. Namely, from total of 7.013.622 thousand denars gross policy premiums, 598.134 thousand denars are for non-life insurance and 6.415.488 thousand denars are for life insurance, i.e. life policies take 8.5% in total insurance. Bank insurance in Macedonia is in its initial phase, which means in 2012 it started by a contract between AD Ohrid bank and shareholders' company for life insurance - Grave. In 2012, the greatest part of mobilized resources companies place in securities issued in Republic of Macedonia (45,1%) and in banks (44,4%), [12].

6. Methodology of research

In order to obtain information about the share of population that owns life insurance policy, how familiar is the population with the benefits of life insurance policy and which factors limit this kind of insurance presence, there was a survey conducted. The survey consists of 12 questions. There are 110 interviewees from the larger cities in statistic region of Pelagonia in Republic of Macedonia.

The preparation and realization of the survey is in compliance with the basic principles of representativeness, objectivity, measurability and documentation, providing the mandatory safety assessment results (with risk of 5% or reliability of 0.95% as a standard in statistic research). The selection of interviewees as elements of the sample, creating the appropriate database from the survey, processing and presentation of data is realized with appropriate software support.

In the survey research, there are more stages of random excerpt applied, without any repetition and all the fair and objective estimates are generalized for the population as a variable of interest in and adequate manner. In the testing of statistic hypothesis a non-parametric test (χ^2) is applied.

The expected effects of research are identifying the current situation and increase awareness of the possibilities of life insurance as a way to invest in free funds.

7. Hypothetical research frame

Based on the subject, goals and objectives of the research in this paper, the following hypothesis of research can be defined:

General hypothesis: *Different characteristics of the interviewees (population) influence their attitude towards the life insurance.*

Based on the above-defined general hypothesis there can be differentiated the following hypotheses:

Hypothesis 1: The position of life insurance depends on the level of education of the interviewees.

Table 1.1. Empirical frequency variables: education level of interviewees (in lines) and the attitude of life insurance (in columns).

	Necessity	Luxury
High school degree	4	21
College degree	3	12
University degree	17	30
M.Sc.	7	11
Dr.	5	0

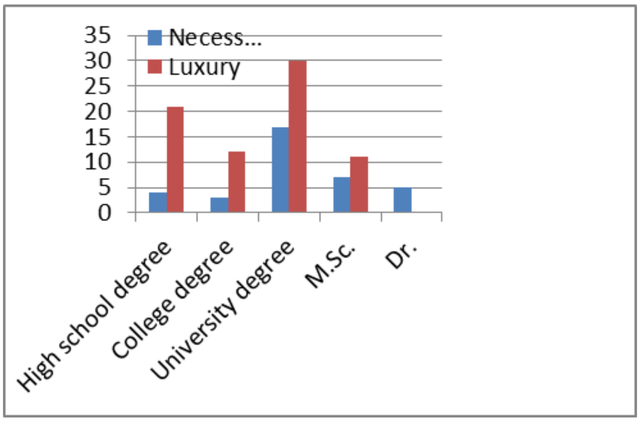

Figure 1.1. : Empirical frequencies of variables level of education of interviewees and their attitude towards life insurance.

Table 1.2 Results from χ^2 - test
Chi-Square Test of Independence

Chi square	15.1220
Df	4
P<	0.0040
Cases(n)	110

The calculated value of the test is $\chi^2_{pr} = 15{,}1220$.

For risk of error of 0.05% and the number of degrees of freedom $r = (m-1)(n-1) = (5-1)(2-1) = 4$ the theoretical (critical) value of the test is: $\chi^2_{(0{,}05;4)} = 9{,}49$

Since the calculated value of the test $\chi^2_{pr} = 15{,}1220$ is bigger than the theoretical value $\chi^2_{(0{,}05;4)} = 9{,}49$, the established hypothesis is dismissed and we can conclude that the position of life insurance depends on the level of education of the interviewees. That is also confirmed by the fact that the defined risk of error is $1-\alpha$, i.e. p=0,05 is higher than the value of realized level for error, which is p=0,0040.

Hypothesis 2: Attitude towards life insurance does not depend on the age structure of the population.

Table 2.1. Empirical frequencies of variables: age structure of interviewees (in lines) and the attitude of life insurance (in columns).

	Necessity	Luxury
18-27	8	4
28-37	17	13
38-47	7	31
48-57	4	26

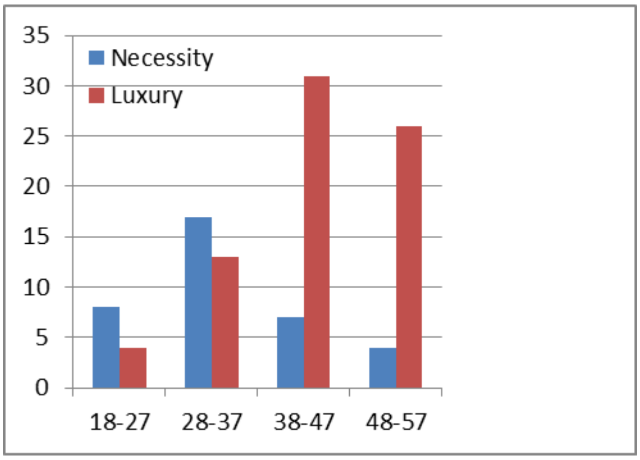

Figure 2.1. Empirical frequencies of variable: age structure of interviewees and their attitude towards life insurance.

Table 2.2. Results from χ^2 - test
Chi-Square Test of Independence

Chi square 22.7450
Df 3
P< 0.0000
Cases(n) 110

Calculated value of the test is $\chi^2_{pr} = 22{,}7450$.

For risk of error of 0.05% and the number of degrees of freedom $r = (m-1)(n-1) = (4-1)(2-1) = 3$ the theoretical (critical) value of the test is: $\chi^2_{(0,05;3)} = 7{,}81$

Since the calculated value of the test $\chi^2_{pr} = 22{,}7450$ is bigger than the theoretical value $\chi^2_{(0,05;3)} = 7{,}81$, the established hypothesis is dismissed and we can conclude that the position of life insurance depends on the age structure of interviewees. That is also confirmed by the fact that the defined risk of error is $1-\alpha$, i.e. p=0,05 is higher than the value of realized level of error, which is p=0,0000.

Hypothesis 3: Attitude for life insurance does not depend on the monthly incomes of the interviewees.

Table 3.1 Empirical frequencies of variable: monthly incomes of interviewees (in lines) and attitude towards life insurance (in columns).

	Necessity	**Luxury**
Under 10 000	4	7
10 000-20 000	5	18
20 000-30 000	7	29
Over 30 000	20	20

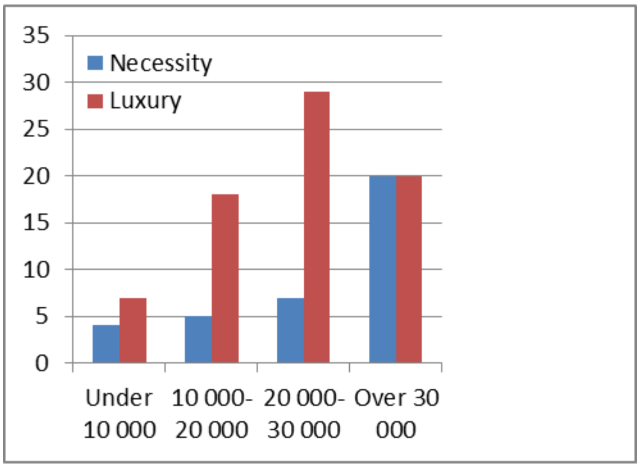

Figure 3.1. : Empirical frequencies of variables: monthly incomes of interviewees and their attitude towards life insurance

Table 3.2. Results from χ^2 - test
Chi-Square test of Independence

Chi square 9.6330
Df 3
P< 0.0220
Cases(n) 110

Calculated value of the test is $\chi^2_{pr} = 9{,}6330$.

For risk of error of 0.05% and the number of degrees of freedom $r = (m-1)(n-1) = (4-1)(2-1) = 3$ the theoretical (critical) value of the test is: $\chi^2_{(0,05;3)} = 7{,}81$

Since the calculated value of the test $\chi^2_{pr} = 9{,}6330$ is bigger than the theoretical value $\chi^2_{(0,05;3)} = 7{,}81$, the established hypothesis is dismissed and we can conclude that the position of life insurance depends on the monthly incomes of interviewees. That is also confirmed by the fact that the defined risk of error is $1-\alpha$, i.e. p=0,05 is higher than the value of realized level of error, which is p=0,0220

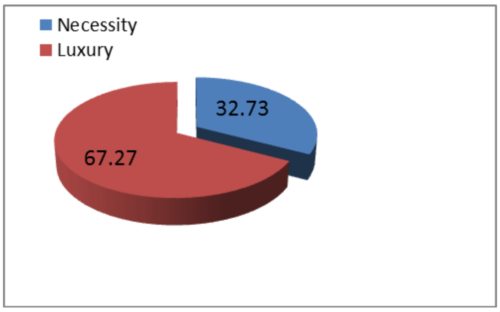

Figure 4. The attitude of interviewees towards life insurance

According to the research data, it can be established that owning life insurance policy in Republic of Macedonia is considered a luxury.

8. Conclusions

According to the research data, it can be established that owning life insurance policy in Republic of Macedonia is on a very low level. The research regarding the cause for this situation point out that there is a need of serious engagement, first of all because of the need for change in collective recognition of the need of life insurance policy. Namely, the most common reason (excuse) for not owning such policy among the population in Republic of Macedonia is the poor financial situation, i.e. lack of opportunity for such savings. The real reason is actually a lack of feeling that there must be serious measures taken for financial security for themselves, after the period of insurance, which in most cases coincides with the time of retirement or when in the family with insurance coverage occurs such event, which is always undesirable (death, severe illness in which one becomes unable to work or accident that caused the disability and partial or complete work disability).

Given the poor financial situation of the state pension fund, which is based on the principle of intergenerational solidarity and is unsustainable in the long term, i.e. does not provide guarantee of prosperity and financial security of future retirees, it is necessary to animate the population about the necessity of having a life insurance policy that will provide, an addition to insurance contractual risk and opportunity for financial security in retirement. It is time for individuals to begin to fend for their future, to forget that the state "owes" them financial security in their old age and to begin long term and dedicated saving today for a decent and dignified living environment in their third age.

In order to increase the number of individuals that will own life insurance policy, there is a necessity of:

- Aggressive advertising and promotion;
- Tax incentives when investing in life insurance policies;
- More aggressive media informing and educating of the population for the necessity of owning life insurance policy;
- Innovating the current insurance products, i.e. taxes;
- Anticipating of the clients’ requirements and offering new insurance products;
- Greater presence of life insurance in studying programs in the university education, which will provide the young population to be timely informed for their significance and benefits they provide;
- Organizing debates in the media about the importance of policies for life of each individual, which would motivate the population to take timely measures to ensure financial security.
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Next research that would enrich this issue is a comparative analysis of life insurance in the region.

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Corresponding author: Dragica Odzaklieska
Institution:Faculty of Economics- Prilep, Macedonia
E-mail: dragicaodzaklieska@yahoo.com