

Insurance sector state policy and legal regulation improvement in Kosovo

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Abstract. Kosovo, especially in the circumstances of European integration, requires improvements in social and public insurance policies to ensure that society functions efficiently and protects its members from risks. The study aimed to identify ways of improving national policy and legal regulation of the insurance sector in Kosovo. Regulatory documents and statistical data from insurance authorities in Kosovo were addressed to achieve this goal. An examination of the public policy and legislative framework controlling Kosovo's insurance sector found various issues that demand immediate attention and reform. The analysis showed that existing legislation does not always meet the challenges and needs of the insurance market in the 21st century. The need for a new regulatory framework becomes even more urgent due to the need to introduce voluntary insurance for all segments of the population, which has the potential to provide wider access to insurance services and reduce risks for individuals in the event of unforeseen events. The study also found that one of the important problems is the low level of insurance culture among the population. Many Kosovo citizens might underestimate the advantages of insurance or are unaware of the many insurance products and possibilities available. Addressing this problem requires large-scale educational campaigns and programmes aimed at raising public awareness of the importance and benefits of insurance, as well as disseminating information about available insurance products and their options. The practical significance of this study is the development of ways to improve the insurance sector in Kosovo

Keywords: service agreement; damage; policy; regulatory authorities; social protection

Introduction

As part of the European integration process, Kosovo needs to address social and public insurance policies. Kosovo is improving its structures and legislation to align with European Union standards, as the insurance industry is crucial for sustainable development and competitiveness. To ensure that society functions effectively through the advancement of the insurance sector, a suitable legal and regulatory framework must be established, as well as active support for social programs and initiatives that improve financial literacy and protect the interests of insurance consumers. Problems include a lack of clarity and efficiency of state policy, underdeveloped legal regulation, low consumer protection, limited competition in the insurance market, and the need to adapt to international standards caused by the need for European integration and development of society. Given the constant changes in the social and economic environment,

it is imperative to adapt and improve the policy and legal framework in the insurance sector. Kosovo, which has faced challenges in developing its insurance industry in the context of global trends, is facing the challenge of optimising its policy and legal framework to ensure a stable and efficient insurance sector.

A. Shabani and M. Hashani (2023) determined that life insurance is a new segment of the market in Kosovo, having developed significantly over the past twenty years. The study discovered a crucial element influencing Kosovo people's decisions to obtain life insurance plans. In this field, R.K. Ranjan *et al.* (2020) contended that greater competition has resulted in the introduction of novel techniques targeted at obtaining a bigger market share. To do this, businesses were boosting their penetration, distribution, and sales skills, with a focus on increasing client access. Since 2010, the insurance

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industry has been growing steadily, reflecting the general trend towards greater financial security for both individuals and businesses. As the economy develops and the number of risks associated with life activities increases, the demand for various insurance products grows. This includes both traditional types of insurance, such as health, motor and property insurance, and newer areas, such as cyber insurance or pandemic insurance. This issue was studied by S. Todorova and G. Deda (2022). The authors concluded that insurance is a complex category that requires a deep understanding of many aspects. This applies to economic and financial mechanisms, as well as legal, social and ethical issues.

S. Gojani and E. Hajdari (2021) investigated the evolution of obligatory and optional insurance in Kosovo. Their findings emphasised that the expansion of the insurance industry is a critical component of Kosovo's economic prosperity, and the growing emphasis on social and public policy in this domain underscored the necessity of expanding compulsory insurance for society to operate effectively. B. Zekaj and A. Rexhepi (2022) conducted a study on the activities of insurance businesses in Kosovo, which are vital components of the financial sector. Their findings demonstrated that the insurance sector plays an important role in economic development, contributing to the country's financial stability. Citizens, businesses, and the government benefit from insurance firms' business security, investment protection, and financial stability, which promotes economic and financial development. However, in order for society to function properly, it is critical that all population segments' requirements be met and that compulsory insurance be expanded. H. Kukaj *et al.* (2019) evaluated the insurance industry's impact on the country's economic development. Their research results reveal a positive association between insurance, particularly life insurance, and development in the economy, owing to the sector's ability to provide financial stability, social safety, and investment possibilities.

Kosovo has several laws and regulations related to social insurance and protection, but this legal framework does not always meet the needs of citizens adequately. As a result, the most vulnerable segments of society do not have access to a sufficient level of social insurance due to the lack of special programmes. A. Robaj (2019) studied the functions of social insurance in Kosovo and found that although the legal infrastructure for social insurance recipients in the country is available, it is not sufficient to meet their needs in full. The insurance market in Kosovo is characterised by a more distributed structure. More insurance companies are operating in Kosovo, which contributes to greater competition and compliance with antitrust laws. E. Korsita and E. Meka (2022) highlight important differences between the insurance markets of Albania and Kosovo, emphasising the need for effective regulatory policies for maintaining the competitiveness and development the Western Balkans' insurance markets. Areas that remain unexplored include what are the challenges in Kosovo's public insurance sector and how to improve public policy, as well as what technological innovations can enhance the efficiency and accessibility of insurance services in Kosovo.

The study aimed to identify ways to improve the national strategy and legal regulation of the insurance sector in Kosovo. To achieve the research objective, the following tasks were set: to analyse the current state of the insurance industry in Kosovo; to identify key problems and shortcomings

of the state policy in the insurance sector; to analyse international experience in the insurance sector to identify best practices; to develop proposals for improving national insurance policy and legislation.

Materials and methods

This research examined the legislative and regulatory framework of Kosovo's insurance sector to establish its influence on the industry's operating and development. The main types of insurance, minimum requirements for the authorised capital of insurance companies, solvency requirements and reserves that insurance companies must maintain to ensure the fulfilment of their obligations were analysed by studying Law of the Republic of Kosovo No. 05/L-045 "On Insurances" (2015). This defined the role and powers of state supervisory authorities over insurance activities, with the Central Bank of Kosovo (CBK) as the main regulator.

The next legal act that was studied in the research is the Law of the Republic of Kosovo No. 03/L-209 "On Central Bank of the Republic of Kosovo" (2010). This law established the rights and obligations of the supervisory authority, as well as how the CBK regulates and supervises insurance activities and set out the criteria for obtaining permission to conduct insurance activities (licensing). In general, the law assessed the impact of the insurance sector on general monetary policy, including the investment of insurance reserves and their impact on the financial market.

The use of statistical indicators provided by the CBK made it possible to obtain an objective assessment of the state of the insurance market (Financial stability report, 2023; Ghetu, 2024; Victor, 2024). Financial indicators such as gross written premiums (GWP), net profits, and asset composition were collected and analysed to determine the insurance sector's economic contributions and growth patterns. Market performance data, such as the number of policies issued and claims processed, was also evaluated to show market stability and consumer engagement patterns. This data provided extensive information on insurance companies' financial positions, market competition, and development patterns. The analysis of these reports formulated recommendations and made appropriate decisions to improve public policy and legal regulation of the insurance sector in Kosovo. This approach provided a deeper understanding of the current and potential problems of the industry and contributed to the development of effective strategies for the further development of the insurance market in the country.

The study of international Solvency II standards determined what requirements and regulatory policies may affect the insurance market (Directive of the European Union No. 2009/138/EC, 2009). This includes an understanding of the possible implications for competition, innovation and the affordability of insurance services for consumers. The study of Solvency II provided detailed information on the financial aspects of the insurance industry, helped to identify risks and issues, and provided a basis for developing policy and regulatory recommendations for the sector.

Results

The insurance sector in Kosovo started to emerge in 1974, when a new constitution was adopted, according to which Kosovo was granted equal status with other territories of the former Yugoslavia. This event was a significant milestone in the region's history, as it contributed to economic

development and the creation of new institutions. At that time, the Property Insurance Association was established, with its headquarters in Pristina, the capital of Kosovo. The Property Insurance Association has taken on the task of developing the basic principles and standards of the insurance business in the region. It began to introduce a variety of insurance products covering property, motor, liability and other types of insurance. Subsequently, given the efforts of the Association, public confidence in insurance services has increased (Ahmeti & Iseni, 2022). The relevant organisation was engaged in insurance of property that was 100% owned by the state. In the period from 1990 to 1999, insurance companies of both state and private ownership appeared in Kosovo, with the main activity of these insurance companies being vehicle insurance. After the end of the war in 1999, the international community handed over the administration of Kosovo to the United Nations Mission in Kosovo. It aimed to create and strengthen state institutions, including those in the insurance sector.

With Kosovo's autonomous status, the insurance industry was allowed to develop further. New insurance companies emerged and began to compete, which helped improve the quality of services and expand their range. It is necessary to note that this process was influenced by economic and political changes both in Kosovo and in the former Yugoslavia as a whole. After the break-up of Yugoslavia in the early 1990s, the insurance industry in Kosovo faced new challenges. However, despite the economic difficulties and political instability, insurance companies continued to operate, adapting their activities to the new environment (Canh *et al.*, 2020). This period saw the gradual integration of the Kosovo insurance market into European and global standards. The insurance business began to grow fast in the early 2000s, as Kosovo's economy recovered and stabilised. The introduction of new legislation, such as Law of the Republic of Kosovo No. 05/L-045 "On Insurances" (2015) and Law of the Republic of Kosovo No. 03/L-209 "On Central Bank of the Republic of Kosovo" (2010), has created a legal framework for operating and regulating the insurance companies. This industry in Kosovo continues to grow, introducing novel items and services that match the demands of the 21st-century market. Integration into international markets is also a significant factor, which contributes to the competitiveness of Kosovo's insurance companies.

Since 2010, the insurance sector in Kosovo has shown favourable development, in particular, due to the implementation of reforms and the emergence of companies presenting innovative services. State regulation of the insurance sector in Kosovo is carried out through a range of bodies and regulations to make sure that the insurance market is stable and reliable. The main state regulatory authority in Kosovo is the CBK. It performs a crucial function in regulating and supervising the country's financial sector, including insurance companies. Its functions and responsibilities cover several key areas. The CBK is responsible for issuing licences to insurance companies operating in Kosovo. The licensing process involves a thorough review of applicants, an assessment of their financial standing, business reputation, business plans, and compliance with legal requirements (Akhil, 2022). In addition, after obtaining a licence, the CBK exercises ongoing supervision over the activities of insurance companies. This includes regular reviews and monitoring of financial statements, analysis of solvency and

risk indicators, and compliance checks. Since Kosovo has not yet joined the Green Card system, the Kosovo Insurance Bureau (KIB) regulates some insurance companies. Kosovo has reached agreements with its neighbouring countries, including Serbia, North Macedonia, and Albania. In certain cases, the KIB handles losses incurred by vehicles from these countries to vehicles insured with local firms in Kosovo, or vice versa. The KIB operates as both a correspondent and supervisory body for insurance firms operating in the country, overseeing that compensation is paid on a regular basis by responsible parties and mandating regular updates from these organisations.

The CBK also ensures that insurance companies comply with applicable laws governing their activities, such as capital, reserves, transparency and reporting requirements. The CBK has the right to impose sanctions on companies that violate the law. Consumer protection is an equally important activity of the CBK, namely, ensuring that insurance companies provide accurate and transparent information to their customers, handle insurance claims fairly and resolve complaints promptly. The CBK develops and implements regulations governing the insurance sector (creating rules and instructions that define the standards of insurance companies' operations, corporate governance, asset valuation and risk management requirements). The CBK, in its function as regulator and supervisor, has made numerous concrete and positive initiatives that had been missing for many years. Among them is the adoption of Law of the Republic of Kosovo No. 05/L-045 "On Insurances" (2015) and Law of the Republic of Kosovo No. 04/L-249 "On Health Insurance" (2014). The legal framework governing insurance companies in Kosovo consists of several laws and regulations covering various aspects of insurance institutions, such as licensing and registration of insurers, setting financial requirements, including capital and reserves, control over compliance with financial reporting and audit standards, regulatory and supervisory mechanisms, and the rights and obligations of insurers and policyholders.

The fundamental regulatory act governing the activities of insurance companies is Law of the Republic of Kosovo No. 05/L-045 "On Insurances" (2015), which regulates the activities of insurance companies in Kosovo. This law establishes general provisions for the establishment, licensing, operation and liquidation of insurance companies. This law develops minimum capital requirements, corporate governance rules and regulations to ensure the financial stability of insurance institutions. Following Chapter 3, Article 19 of Law No. 05/L-045, the authorised capital of all insurance companies licensed to conduct insurance business in Kosovo, except for life insurance, must be at least two million two hundred thousand (2,200,000) euros. In the case of inclusion of one or more risks in classes 10-15 referred to in Article 7 of this Law, the share capital may not be less than three million two hundred thousand (3,200,000) euros. The law specifies the rights and duties of insurance firms and policyholders, including the terms and conditions of insurance policies, claims procedures, and means for settling disputes between the parties.

Insurance companies in Kosovo follow the rules outlined in the asset investment regulation, which encompasses technical and material reserves alongside the financing of central bank policyholders' capital shares, as enacted by Law of the Republic of Kosovo No. 03/L-209 "On the Central Bank of

the Republic of Kosovo” (2010). This regulation demands all insurers to maintain a minimum share capital of 3 million EUR as a requirement for getting a license. Of this total, 10% must be deposited with the CBK. The remaining share capital can be invested through various avenues, such as deposits with commercial banks regulated by the CBK, up to 20% of the capital held in a trust account at a commercial bank, or securities released by the Government of the Republic of Kosovo, contingent upon obtaining approval from the CBK.

In accordance with the law, insurers must maintain a minimum level of equity capital throughout their operations, which cannot be less than the authorised share capital of at least EUR 3 million. If an insurer does not achieve this minimum equity requirement, its shareholders must infuse extra capital to address the deficit and return the company to the requisite equity position over 30 days upon discovering the shortage. Insurers can invest in a variety of financial instruments, including treasury bills, bonds, and other capital market assets issued by the Government of the Republic of Kosovo. Non-life insurers must have investments with a maximum term of one year, whereas life insurers are not subject to such restrictions. Insurers may also participate in these instruments upon special request and prior approval from the CBK, provided that the securities have a credit rating of “BBB” or above from Standard & Poor’s, Fitch, or Moody’s.

According to Law of the Republic of Kosovo No. 05/L-045 “On Insurances” (2015), there are varieties of insurance to satisfy the demands of many sectors and individuals. The main types of insurance provided for by this law include property insurance, including insurance of buildings, housing, vehicles, enterprise property and other material assets. Property insurance protects owners from financial losses associated with the risks of fire, theft, natural disasters and other events. Liability insurance covers a person’s liability to third parties for losses or injuries caused to them as a result of negligence or negligent act, which may also include car owners’ insurance, corporate liability and other types of liability insurance. Another type of insurance is life and health insurance. This type of insurance offers financial security to individuals and their families in the case of a serious disease, accident, or death. It includes disability insurance, surgical treatment, chronic diseases and other medical expenses (e.g., doctor’s visits, medicines, hospital treatment and other medical services that may be provided for in the insurance contract) (Baranyk & Kachula, 2023).

It is worth noting that Kosovo has a separate, special Law of the Republic of Kosovo No. 04/L-249 “On Health Insurance” (2014), which regulates the health insurance system and ensures access to healthcare services in Kosovo. It establishes rules and procedures for compulsory and voluntary health insurance (VHI) and defines the scope of coverage and the rights and obligations of insureds and insurers in this area. The Law of the Republic of Kosovo No. 05/L-045 “On Insurances” (2015) regulates the general aspects of insurance in Kosovo, covering a wider range of insurance types. Business insurance aims to protect enterprises and entrepreneurs from risks associated with their activities. It includes corporate liability insurance, property insurance, and insurance against natural disasters (Sanjeewa *et al.*, 2019). Transport insurance covers the insurance of vehicles, including cars, motorcycles, trucks and other types of transport. It may include insurance against losses from accidents, theft, fire and other risks. These types of insurance are provided by

various insurance companies in Kosovo following the legal requirements and standards set by the CBK and other relevant authorities (Fig. 1).

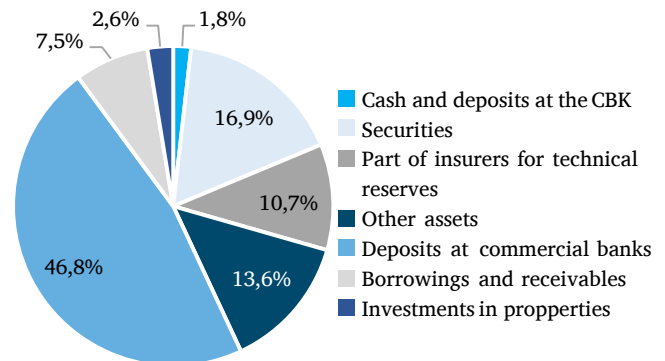


Figure 1. Structure of assets of insurance sector (December 2022)

Source: compiled by the authors based on Financial stability report (2023)

Another important law in the insurance sector in Kosovo is the Law of the Republic of Kosovo No. 03/L-209 “On Central Bank of the Republic of Kosovo” (2010), as the Central Bank plays a key role in ensuring the financial stability of the country. Its policies and regulations affect the financial situation in general, including the insurance sector. Accordingly, an understanding of central bank supervision and regulation can be useful for insurance companies in determining their risk and risk management strategies. The policy set by the Central Bank affects the country’s macroeconomic indicators, such as inflation, exchange rate, unemployment rate. These factors, in turn, affect the demand for insurance services, the financial stability of insurance companies and the overall dynamics of the insurance market.

The legal framework governing insurance companies in Kosovo ensures the stability and transparency of the insurance market. It includes a wide range of regulations covering all aspects of insurance companies’ activities, from licensing to consumer protection. Such a regulatory system promotes the establishment of a competitive insurance market and protects the interests of all market participants. The insurance industry contributes positively to economic growth, financial system stability, employment, balance of payments, and, thus, human well-being (Tasdemir & Alsu, 2024). Insurance contributes to gross domestic product growth as people who purchase or use insurance services pay fees to insurance firms. These companies then use the premiums received for financing and investment activities, which positively impact economic activity. By investing in various sectors of the economy, insurance companies assist in the growth of entrepreneurship, the creation of new jobs and an increase in overall production.

In Europe, insurance has a substantial influence on economic growth by facilitating the efficient allocation of resources (Wanat *et al.*, 2019). With insurance products, companies and individuals can protect their assets from various risks, thus planning and allocating resources more effectively. Reducing transaction costs is another important aspect, as insurance reduces the cost of settling unforeseen financial losses. Liquidity creation is another key aspect of insurance’s impact on the economy. Insurance companies, accumulating

large amounts of funds in the form of insurance premiums, provide liquidity in financial markets, which contributes to the stability and resilience of the economy (Asongu, 2020). Economies of scale are also achieved through the large volumes of transactions carried out by insurance companies, which lowers the cost per unit of products and services.

Insurance also encourages investment, as insurance companies invest in a variety of projects, from real estate to stocks and bonds. This makes it possible to improve infrastructure, modernise industrial facilities, and introduce new technology (Sulemana & Dramani, 2020). Expanding insurance coverage allows more people and businesses to use insurance services, which increases the overall level of risk protection of the economy. Thus, insurance fulfils an important role in guaranteeing economic stability and growth, stimulating the progress of different sectors of the economy, increasing the level of security, and creating conditions for the efficient allocation of resources and investments. According to the CBK, Kosovo insurance companies recorded gross premiums of 146.4 million EUR, an increase of 9.2% year-on-year (Ghetu, 2024). Net profit of insurance companies in 2023 was 13.3 million EUR, significantly higher than 1.3 million EUR from a year earlier.

The assets of insurance firms by the end of December 2023 reached 304.1 million EUR, up 3.5 million EUR from the previous month. The structure of this sector's assets includes deposits with commercial banks (45.8%), securities with other assets (29.4%), and reinsurance (14.2%) (Ghetu, 2024). The total liabilities of insurers reached 304.1 million EUR, of which technical reserves amounted to 198.6 million EUR. Total profit as of the end of December 2023 amounted to 13.3 million EUR. Gross written premiums (GWP) amounted to 146.4 million EUR and ceded premiums amounted to 19.5 million EUR. The insurers' financial income reached 5.1 million EUR. Total expenses, including claims paid, amounted to 70.8 million EUR, and operating expenses to 45.4 million EUR, of which 15.7 million EUR were acquisition costs (Ghetu, 2024). By the end of December 2023, Kosovo insurance companies had sold 1.48 million policies, of which 572,800 were for domestic compulsory motor third-party liability insurance and 503,000 were for border insurance. The total number of claims paid out was 70.6 thousand, of which 41.3 thousand were related to one of the types of motor third party liability insurance contracts.

According to the annual report of the Slovenian reinsurance company Sava (2024) for 2023, the largest insurance companies in the Kosovo market in terms of GWP are insurers owned by the Slovenian insurance group Sava and the Austrian UNIQA (Sava Insurance Group, 2024). Insurance companies owned by the Sava Group, such as Illyria and Illyria Life, are the first in the market, with a position equivalent to 21.7 million EUR. They are the market leader, and their closest competitors are the local subsidiaries of UNIQA Group, Sigal and Sigal Kosova Life, which have the second position in the market, with an equivalent of 21.4 million EUR (Fig. 2). The top five companies also include Scardian, Eurosig and Elsig.

According to the official monthly data of the CBK, in the period from January to December 2023, GWP of Kosovo insurers had an increase by more than 9% year-on-year to 146.5 million EUR. The total amount of claims paid grew by 11.5% to 71.7 million EUR. In 2023, 95.5% of total insurance premiums were accounted for by non-life insurance,

and only 4.5% by life insurance. GWP in the non-life segment increased by 9.5% and in the life segment by approximately 5%. The total net profit of local insurers more than tripled over the year, reaching 10.7 million EUR at the end of December 2023, up 7.2 million EUR from 3.5 million EUR a year earlier, according to the CBK (Victor, 2024). These positive trends demonstrate the steady growth of the Kosovo insurance market, the increasing financial strength of insurers and their ability to attract foreign investment. This contributes to the further development of the country's economy and raises the level of financial services available to households and businesses.

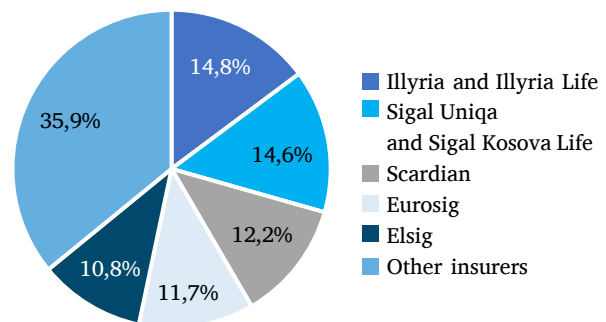


Figure 2. Kosovo's insurance market in 2023

Source: compiled by the authors based on Sava Insurance Group (2024)

One of the main challenges faced by the state regulation of the insurance sector in Kosovo is the lack of maturity of the regulatory framework. The absence of developed legislation and regulations in this area creates significant legal gaps that adversely affect the stability and development of the insurance market. Outdated laws cannot effectively regulate the activities of insurance companies, which leads to problems with ensuring the rights and protecting the interests of policyholders (Dragos *et al.*, 2017). For instance, in Kosovo, one of the main problems in the insurance sector is the lack of a developed voluntary insurance system, especially among the low-income population. This issue has a substantial influence on the entire state of the insurance sector and citizens' wellbeing.

The economic situation in the country is not conducive to the widespread introduction of voluntary insurance (Peleckienė *et al.*, 2019). Many people have limited financial resources and often cannot afford the cost of insurance policies. For many people in the low-income category, the intention is to cover fundamental requirements like food, housing, education, and the expense of insurance appears costly. Low levels of financial literacy are also a significant obstacle to the development of voluntary insurance. Many people simply do not understand how insurance products work and what benefits they can bring (Ruß *et al.*, 2024). The absence of information campaigns and financial literacy programmes leads to a lack of understanding of the importance of insurance and its role in protecting against risks. In addition, the lack of trust in insurance companies is a serious problem. Historical examples of fraud and insurers' failure to fulfil their obligations have created a negative image of insurance services. Citizens fear that their insurance premiums may be wasted or that companies will not pay compensation in the case of an insured occurrence.

The regulatory framework also remains weak, which is not conducive to the development of voluntary insurance. The lack of effective laws and regulations which protect consumer rights and ensure the stability of insurance companies raises concerns about the trustworthiness of insurance products. Another key aspect is a lack of incentives to establish voluntary insurance (Rubio-Misas, 2023). The state does not offer sufficient tax or financial incentives for individuals and businesses to use insurance products more actively. This makes insurance less attractive compared to other expenses. It is worth noting the way of France, which has a wealth of experience in the development of the insurance sector, which can be useful for other countries, including Kosovo. The French insurance market is one of the largest and most developed in Europe, but the country has faced several challenges along the way that have been successfully resolved. One of the main challenges was to ensure the financial stability of insurance companies. In the 1990s, certain French insurance companies faced a liquidity crisis due to poor investment policies and low profitability. To address this problem, the French government has introduced strict regulatory requirements, including higher capital adequacy standards and stricter risk management rules (Carré & Le Maux, 2024). This stabilised the market and increased the reliability of insurance companies.

Another important problem was the operational inefficiency of insurance companies. To address this, several reforms were introduced to increase the transparency and accountability of companies, as well as improve internal control and audit processes (Charpentier *et al.*, 2022). In addition, the French government has intensified efforts to improve the professional level of personnel in the insurance sector through educational programmes and training courses (Clark *et al.*, 2023). France also addressed consumer protection. To this end, clear rules on information transparency have been developed and implemented, requiring insurance companies to provide customers with complete and accurate information about insurance products and services. This increased public confidence in insurance companies and stimulated market growth. France was able to overcome the main problems faced by the insurance industry and create a stable and efficient insurance market employing these measures. This can be useful for Kosovo in shaping domestic strategy for the development and regulation of the insurance sector. To overcome the above problems, Kosovo's state authorities need to take comprehensive measures. First and foremost, the government should ensure that financial literacy education programmes are conducted to help citizens better understand the benefits of insurance. Furthermore, stricter supervision and control over the activities of insurance companies should be introduced to increase their credibility. It is also worth developing incentives for individuals and businesses, such as tax breaks, to encourage them to buy insurance products. It is only through a systematic approach and cooperation between the state, insurance companies and the public that a significant development of voluntary insurance in Kosovo can be achieved.

The need to constantly update the regulatory framework in line with international standards and practices is critical for the stable development of the insurance market. International standards, such as Solvency II in the European Union, provide a framework for assessing and managing risks, ensuring the financial stability of insurance companies and

protecting consumers. Their implementation will increase transparency and accountability, as clear rules and standards will facilitate more transparent operations of insurance companies and increase their responsibility to customers. In addition, adequate capital and reserve requirements will help ensure the financial stability of insurance companies, reducing the risk of bankruptcy. In addition, compliance with international standards will facilitate Kosovo's integration into the global insurance market, attract foreign investment and increase the competitiveness of local companies. Thus, a well-developed regulatory framework is a key condition for the successful development of the insurance sector in Kosovo. It provides legal certainty, increases confidence in the insurance market, protects consumer rights and promotes economic growth through financial stability and effective risk management.

Discussion

Improving the state policy and legal regulation of the insurance sector in Kosovo is extremely important for ensuring stable economic development and social protection of the population. One of the main areas for improving public policy is the harmonisation of Kosovo's legislation with European standards. This includes the adaptation of existing laws and the adoption of new regulations to meet the requirements of the European Union. The harmonisation of legislation will not only improve legal regulation but also increase the confidence of foreign investors, which in turn could stimulate the development of the insurance industry. Legislative adaptation involves a thorough analysis of current regulations, identification of gaps and inconsistencies, and development of new laws and regulations that will meet EU standards. This may include the implementation of EU Directives into national legislation, in particular those related to insurance services, consumer protection, financial stability and anti-fraud. The process of harmonisation requires close cooperation with European institutions, an exchange of experience with other countries that have successfully passed this way, and the involvement of experts. Engaging international consultants and participating in EU technical assistance programmes can significantly speed up and facilitate the adaptation process (Bakalo & Makhovka, 2024).

The same opinion is shared by M. Vaduva (2023), who argues that the insurance market is a complex network of interdependent and competitive relations between economic agents, where insurance serves as a means of protection against negative consequences. Several factors are used to assess the growth of the national insurance market, including changes in Gross Written Premiums (GWP), market shares of various insurers, the composition of different insurance classes, and the identification of the leading companies by premium volume, all of which are obtained from the asfromania website. The author concludes that the introduction of European standards is an important step towards Romania's deeper integration with the European Union. This will allow Romania to become part of the single European insurance market, which will open new opportunities for the development of the national economy and improve the living standards of citizens. A similar opinion is shared by N. Kakashvili (2023), who notes that, for instance, in Georgia, life insurance remains unpopular due to the low interest of the population and a small number of insured persons, as there are gaps in the legislation that need to be clarified and

supplemented to ensure greater clarity and stability in the insurance sector, and many citizens have a lack of knowledge regarding life insurance. The adaptation of Georgian insurance legislation to European standards will have a comprehensive beneficial effect on the insurance market. It will increase confidence in insurance companies, improve financial stability, expand the broad spectrum of insurance products and services, and integrate with international markets. In addition, the harmonisation of legislation will strengthen cooperation with other EU countries in the area of regulation and supervision of insurance services.

G. Overton and O. Bandt (2022) concluded that low profitability is the main indicator of problems in insurance companies. This underscores the importance of insurers prioritising long-term financial performance. The disparity between the life and non-life insurance sectors is also an important finding. The high importance of bond investments in life insurance indicates the need for a conservative investment approach, while for other types of insurance, operational efficiency is key. Differences between countries, such as a higher response to operational inefficiencies in France and a smaller impact of bond investments in Japan, demonstrate how regional differences and regulatory frameworks influence insurance markets. The preceding section of the current research evaluated France's experience in the insurance business, emphasising its importance in aligning insurance legislation with European norms. This study emphasised the need of using similar methodologies and standards to regulate insurance operations, which are critical for promoting financial stability and the efficiency of the insurance market. The identification of low profitability as a key indicator of problems in insurance companies underscores the importance of introducing standards that promote the financial stability of insurers (Litvinova *et al.*, 2023). European standards, such as Solvency II, already include capital and risk management requirements aimed at maintaining the financial strength of insurance companies. Alignment of legislation with European standards can help reduce the risk of insolvency of insurance companies, which is one of the key topics of the study. Uniform rules and regulations can contribute to greater market transparency and predictability.

The study revealed that the expansion of the insurance industry is critical to fostering economic growth in Kosovo. Insurance, as an integral part of the financial system, serves a number of critical services that contribute to economic stability and growth. Insurance firms make enormous investments, providing long-term resources to governments and the insurance sector. A significant amount of the funds invested by these organisations come from life insurance, which is fundamentally long-term in nature. Insurers have traditionally devoted a significant percentage of their resources to various assets, primarily government bonds, in order to maintain the value of their money, meet their responsibilities to clients, and increase investment returns (Trusova *et al.*, 2020). M. Giuzio and L. Rousová (2019) agree, emphasising the need of a strong investing strategy in ensuring financial stability. Insurance businesses have close relationships with other financial intermediaries and play an important role in delivering long-term funding to the economy. For example, in the eurozone, the insurance industry accounts for more than 40% of investments in government bonds with maturities greater than ten years. Y. Bayar *et al.* (2021) offer an alternative approach, investigating the

effect of insurance sector expansion on economic growth using data from 14 post-transition countries in Central and Eastern Europe during a 19-year period from 1998 to 2016. They discovered no evidence of a direct link between life insurance and other forms of insurance and economic development. However, as discussed in the preceding section, both life and other types of insurance have a significant influence on economic growth. Insurance services create a favourable climate for business, providing protection against risks and stimulating investment (Novytkova *et al.*, 2023). In addition, insurance can provide stability and confidence in the future for the population, which contributes to consumer activity and economic growth.

Developing countries, such as Kosovo, must face the issues that arise during the transition era. Aside from the obstacles of adaptation, there are considerable challenges in developing legislation, rules, and establishing organisations to regulate insurance activity. Additional hurdles include establishing insurance firms, training employees, introducing new products, and developing public knowledge about the value of insurance. This study revealed a fundamental concern in Kosovo: a low rate of voluntary insurance enrolment, particularly among those with limited resources. According to A. Purcel *et al.* (2023), VHI becomes more popular than obligatory health insurance as a country's financial growth improves. In countries with modern financial systems, high levels of financial knowledge, and great confidence in healthcare services, VHI becomes the favoured option. S.A. Janzen (2020) designed a dynamic theoretical model to evaluate how asset insurance affects poverty and social protection spending in evolving countries, which is both timely and informative. The model makes two different technical assumptions: a standard production technology with a fixed-cost technology and a universally concave production function enable many equilibria. According to the research, establishing an asset insurance market can efficiently reduce both poverty and social protection spending. The authors of the current study agree with previous academics on this topic, recognising its importance in developing countries' policy formulation. Supporting governmental measures, such as giving insurance premium subsidies to low-income and vulnerable households, is a reasonable and important step (Gutium *et al.*, 2023). This will not only attract them to the insurance market but also create mechanisms for risk protection, which will contribute to poverty reduction.

Despite the many challenges associated with the functioning of microinsurance markets, the potential benefits of addressing them are significant. Microinsurance can provide households with the necessary tools to manage risks, which is beneficial to economic stability and growth. The implementation of such programmes can be a decisive factor in the fight against poverty in the long term. Thus, the proposed model and approaches deserve detailed study and implementation, as they can have a significant positive impact on the socio-economic development of developing countries.

Conclusions

The governmental policies and regulatory framework controlling Kosovo's insurance sector are critical for ensuring stability and promoting economic growth. Some progress has been made in this area in recent years, but some significant problems and challenges need to be addressed and resolved.

It is vital to recall that Kosovo's insurance sector is young and still developing. Low competitiveness, a small range of products and services, and a high level of volatility in the industry all limit the sector's potential for expansion. A set of measures is recommended to improve the state policy and legal regulation of the insurance sector in Kosovo. An in-depth analysis of existing laws and regulations is needed to identify their shortcomings and gaps. Based on this analysis, new regulations can be developed, or existing ones amended to improve the state of the insurance industry. Furthermore, it is necessary to ensure effective supervision and control over the activities of insurance companies by the relevant state authorities. This includes conducting periodic audits and inspections and taking appropriate action in the event of violations. It is also necessary to support the development of an insurance culture among the population of Kosovo. Information campaigns and educational programmes can help to raise awareness of the benefits of insurance services and their importance in protecting their interests. To summarise, further improvement of the state policy and legal regulation

of the insurance sector in Kosovo is an important task that requires joint efforts from the government, insurance companies and citizens. Stable and efficient development of this important sector of the economy can be achieved only through cooperation and systematic efforts.

Future research possibilities include a number of crucial topics, including the study of how digital technologies are changing the insurance business. This involves investigating the use of blockchain and other innovations to enhance the efficiency of insurance operations. Furthermore, it is worth addressing the level of protection of policyholders' rights in Kosovo, identifying the key problems faced by insurance consumers, and developing new legal instruments to improve the protection of policyholders' rights.

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Conflict of interest

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Удосконалення державної політики та правового регулювання страхового сектору в Косово

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Анотація. Косово, особливо в контексті європейської інтеграції, потребує вдосконалення політики соціального та державного страхування для забезпечення ефективного функціонування суспільства та захисту його членів від ризиків. Метою дослідження було визначення шляхів удосконалення національної політики та правового регулювання страхової галузі в Косово. Для досягнення цієї мети було проаналізовано нормативно-правові документи та статистичні дані страхових органів Косово. Дослідження стану державної політики та правового регулювання страхового сектору в Косово показало, що сектор стикається з великою кількістю проблем, які необхідно негайно вирішити та вдосконалити. Аналіз показав, що існуюче законодавство не завжди відповідає викликам і потребам страхового ринку в XXI столітті. Потреба в новій нормативній базі стає ще більш нагальною у зв'язку з необхідністю запровадження добровільного страхування для всіх верств населення, що потенційно може забезпечити ширший доступ до страхових послуг та зменшити ризики для фізичних осіб у разі настання непередбачуваних подій. Дослідження також виявило, що однією з важливих проблем є низький рівень страхової культури серед населення. Багато громадян Косова не розуміють переваг страхування або не мають достатньої обізнаності про існуючі страхові продукти та їхні можливості. Вирішення цієї проблеми вимагає проведення широкомасштабних освітніх кампаній і програм, спрямованих на підвищення обізнаності населення про важливість і переваги страхування, а також поширення інформації про наявні страхові продукти та можливості їхнього вибору. Практичне значення цього дослідження полягає в розробці шляхів удосконалення страхового сектору в Косово

Ключові слова: договір про надання послуг; шкода; поліс; регуляторні органи; соціальний захист