CORPORATE SOCIAL RESPONSIBILITY IN COMMERCIAL BANKS - THE CASE OF ALBANIA

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Abstract
Increasing of corporate responsibility among private banks, operating in the secondary banking system of Albania has become one of the main topics of discussion in public as well as in the institutional debate. Considering the fact that corporate responsibility is judged as one the key factors for making effective financial decisions, such tool can be also considered as the backbone of an effective decision making process of the commercial banks operating in Albania. Furthermore, the rapid changes in the everyday environment, technology development, product innovations and sophistications, high competition as well regulation and globalization of financial markets have transformed the necessity of corporate responsibility to a more than vital factor to survive in “the wild” financial world. In additional to that, the new era of extremely volatile financial markets, increasing job uncertainty, rising debt etc., summed up in what is widely called “financial crisis”, the business has a low trust ratings in public perception. There is an increasing expectation that companies will be more open, more accountable and be prepared to report publicly on their performance in social and environmental arenas. Banks, which are often referred as “trust institutions”, must invest in creating a synergy of ethics, a cohesive society and a sustainable economy where markets, labor and communities are able to function well together.

This paper main objective is the analysis and evaluation of the level of corporate responsibility developed in the Albanian banking system. A detailed analysis shall be carried out over the corporate responsibility policy followed by the main banks operating in our banking system. The analysis will try to assess the level of corporate responsibility as integral part of the overall corporate governance through different issues included in it. Conclusions and recommendations are presented considering not only the analysis assessment, but also the specific quantitative and qualitative factors of Albanian citizen’s behavior, history and culture. Proposals on possible tools to be implemented or strategies to be followed are presented, aiming to help modestly the bank’s policymakers in enhancing corporate responsibility among Albanian banking system in particular and Albanian economy in general.

Key words: Corporate Governance, Corporate Social Responsibility, Financial Decision Making, Commercial Banks

Introduction
In their daily life, people frequently hear about the risk, but only few of them have tried to study deeply what is behind this obscure crust. Humanity has suffered and is still suffering from the uncertainties of the future and from the many kinds of risks the life is offering. The Risk, despite its intensity or the damages level, has only one face, which reflects fear, desperateness, and anxiety. Insurance companies face a multitude of risks on a daily basis. The company’s exposure to these risks is influenced by the design of the policies sold. (Jacques Tremblay, June 23, 2008) Based on the general literature and experience, we can say that only a minuscule part of the society has the means and the capacity to face with its own means the daily risks. As result of that has
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arised the need of specialized entities which will mitigate the risks of the future. Humanity has invented a “mechanism” which heals the wounds created by the unexpected risks, which would prevent its members from going “back in time” (Bundo, 2013). The invention of this mechanism, called “insurance” may be considered and a world miracle from the social-economic utility that brings to the society.

Objectives

This paper is focused on studying the insurance market in the city of Permet, in Albania. We tried to have a perception on the people/consumers expectations which we consider are the key for the improvement of the insurance companies approach in the regional market. By analyzing the information provided by the questionnaires we will try to figure out the development and the penetration of the insurance market in the city of Permet.

Methodology

A questionnaire was sent to different individuals asking their opinion regarding specific issues related with the insurance system in general and its development in the city of Permet in particular. In total we distributed a total number of 250 questionnaires out of which we received feedback (filled questionnaires only 100 questionnaires, rate of return 40%). The information of each questionnaire was grouped and processed through MS Excel.

The Insurance market

The insurance market is the market where people “purchase security”. This market it is governed from the principles of free choice and competitive markets. In this type of market, like in other markets, are present the demand, the supply, the intermediaries and the supervisory authorities. The table below provides a picture of how it is organized the insurance market:

Table 1 – The structure of the insurance market

<table>
<thead>
<tr>
<th>Financial Supervision Authority</th>
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<tbody>
<tr>
<td>Insurance company</td>
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<tr>
<td>Intermediary</td>
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<tr>
<td>The insured</td>
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The insurance industry bases its activity in the higher numbers probability rule. This means that we must have a large number of homogeneous events to create a portofoglio which will have enough means for the redemption and on the other hand considers the assumption that based on historical data, mathematical and statistical methods a certain rate of the portofolio (not all the portofolio) will face the damages for which it is secures in the insurance industry. From this mechanism, the insurance companies calculate the insurance premium.

The main instrument which confirms the insurance agreement is the insurance contract which generally has two sections, the one with the general specifications and the other with special terms and conditions.

The contracts are drafted based on the laws in force, but also in the principal principles which are schematized as following:

Table 2- Insurance Industry Principles (Hoti, 2011)
In Albania, the insurance companies are divided into insurance companies with private capital and insurance companies with public capital, with domestic capital and with foreign capital. Out of 10 companies only one is company with public capital (INSIG SHA). The biggest part of the privately owned insurance companies is owned by well known Austrian insurance companies. The level of competition within the Albanian insurance Market doesn’t seem to be very aggressive in comparison with other Balkanic countries. From the data analyzing (described in the below Figure), Albania is listed as the last country in Balkans as it regards the competition in the insurance markets. In Albania operate one insurance company for every 280,000 inhabitants (Institut of statistics, 2014). The highest insurance competition market is the Macedonian insurance market.

![Figure No. 1](source: Authors processing of web site information)

The return Ratio plays a crucial role in the insurance market. This ratio is calculated by comparing the total redemption with the total gross premiums. The Figure below provides analytical information regarding the Return ratio.

![Figure No. 2](source: Financial Supervision Authority / Statistical bulletin / Jan- Apr 2014)

During Y 2014 we can notice that the average insurance premium has increased with ALL 3,440 reaching a value of approximately ALL 12,457. On the other hand the increase of the average price has triggered the decrease in the total number of insurance contracts have decreased during the last year. Moreover, by calculating the average size and frequency of loss for the entire insurance industry we can conclude that the redemption level during Y 2014 has increased to 3.1% of the total gross premium proceeds. On the other hand, despite the fact that the loss frequency has increased, the loss size has been decreased during Y 2014 (Financial Supervision Authority, 2014).

To illustrate the relationship between price and number of contract lets refer to the Figure No. 4. Based on the above Figure it can be noticed that an increase in the premium price has resulted in the decrease in the demand and vice versa (Financial Supervision Authority, 2009-2013). The best way to test the relationship is by testing the elasticity. The elasticity during the last year has been 6.1 while during the last 5 years has been 3.4 meaning that the demand for insurance policies is very elastic.

**The paper survey**

In order to assess the development of the Permet regional insurance market and also to discover other knowledges and facts, we decided to study the market through a survey.
We prepared a closed questionnaire with a total number of 26 questions and distributed it to different individuals. Some of the results of the survey will be presented in this paper. From the processing of questionnaires it resulted that 60% of the respondents were males and 40% females. Most of the respondents had an average age of above 40 years old, 17% were single while 83% married.

The below Figure provide detailed visual information regarding the age, gender, civil status and educational level, annual income and employment type of the respondents.
The Figures above show results of the sample who has taken part in the survey. It is obvious that these results would change if we took into consideration the entire population of the Permet District. The sample does not include persons with age below 18 years old and above the retirement age.

Figure No. 5 includes detailed information regarding the types of insurances the respondents use more frequently. As above shown it is obvious that the vast majority of the respondents most frequently insured their responsibility (80% of the respondents). The answer is

![Type of insurances](image)

Source: Authors’ survey
mostly related with the insurance policies purchased for the obligatory vehicle TPL insurance. On the other hand when asked about the preferred type of insurances the majority of the respondents have declared that they prefer to insure their health (62% of respondents) and their lifes (22% of the respondents).

The last Figures (No. 8 and No. 9) provide information regarding the most preferred insurance companies in the Albanian Insurance Market as well as the redemption ratio. From the processing of the answers (as displayed in the Figure No. 8) Sigal Uniqa Group Austria is one of the most preferred insurance companies in the Albanian insurance market. In the second position it is ranked the public insurance company INSIG SHA. The insurance premium price is the main driver of the individuals in choosing the insurance company while another driver is the good name of the company in the market.

The majority of the respondents (65%) have declared that they have not received any redemption from the insurance companies, 27% have declared that they have been partially redempted while only 8% have been fully readopted (Figure No. 9). Despite the numerous obstacles found in this paper, the abovementioned results give a clear picture of what people in general think about the insurance industry. Of course, we can’t say that the sample we chose (100 persons) was a fully representative sample, but we may say it comes considerably near to the majority of the population. The vast majority of the population in the City of Permet has lack of information regarding the insurance industry. The majority of the population doesn’t trust the insurance companies as they haven’t been redempted when they have faced accidents in the past (depite holding an insurance police).

Conclusions and recommendations
The information that we have retrieved from the questionnaires shows a very unpleasant situation regarding the penetration of the insurance industry in the city of Permet. The citizens have very little information regarding the insurance companies and the insurance products. The insurance industry has not shown a satisfactory trend during the last years. Such a conclusion is reached even in the reports of Financial Supervisory Authority as the increase in price has caused the decrease in the total number of contracts.

Based on the results of the survey, we can conclude that the insurance market of the region of Permet is based on the obligation (obligatory vehicles insurances) and not on the individual willingness, meaning that the market is an undeveloped market. In
most of the cases the insurance premium is considered as a tax and not as a fee on a beneficiary product. More efforts should be done from the insurance companies in order to increase the people awareness regarding the importance and benefits of insuring their lives, their health and their properties. From the general results of the survey we have reached to the conclusion that the insurance companies must stay closer to the general public/population as “there is lack of trust” in the insurance market. To avoid this, the insurance companies, must open their own branches even in the small cities by not only working through agents. The insurance companies must hire higher educated specialists, who would better transmit security and trust to the clients (general public). Developing and implementing modern customer communications that allows the organization to access relevant customer data and repurpose it for effective multichannel communication can highly increase the good name of the companies and also increase their financial turnover.

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