

EARTHQUAKE INSURANCE PRODUCT – IS IT NEED OR NECESSITY? (CASE STUDY DURRËS ALBANIAN)

*Deprem Gereklik mi Yoksa Zorunluluk mu ?
(Durrës-Arnavutluk Örnek Olay İncelemesi)*

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Abstract: Earthquake insurance is a challenge we are often facing with nowadays. This insurance can reduce the impact of this devastating natural phenomenon. Do we all need earthquake insurance? To answer this question we need to explore the willingness and ability of Albanian families to perceive the benefits this type of insurance provides to the population. No one can give a more accurate answer than we do. Many of us, especially people living in areas that do not have much tectonic cracking in their home country, choose not to receive this coverage. In the case of this natural occurrence that we often tend to call natural disasters, we must be prepared for the worst. In fact, the earthquake is a natural phenomenon. We know that risk is not simply eliminated, we try to minimize it through forms of insurance. Are we able to cover the cost of rebuilding the house in the event of an earthquake and even more to replace the household equipment? Do we know the benefits of earthquake insurance? What is the value we have to pay for this type of insurance? Are Albanian families able to pay for it ? This paper answers all these questions by analyzing questionnaires designed for this problem and distributed to the residents in one of the most seismic areas of Albania, Durrësarea.

Keywords: Earthquake, insurance,risk, natural phenomenon, ability.

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Deprem Gereklilik mi Yoksa Zorunluluk mu? (Durrës-Arnavutluk Örnek Olay İncelemesi)

Özet: Deprem sigortası, bugünlerde sıkça karşı karşıya kaldığımız bir zorluktur. Bu sigorta, bu yıkıcı doğal olgunun etkisini azaltabilir. Hepimizin deprem sigortasına ihtiyacı var mı? Bu soruyu cevaplamak için Arnavut ailelerinin bu tür bir sigortanın nüfusa sağladığı faydaları algılamak için istek ve kabiliyetlerini araştırmamız gerekiyor. Kimse bizden daha doğru cevap veremez. Birçoğumuz, özellikle de kendi ülkelerinde tektonik çatlağı olmayan bölgelerde yaşayan insanlar, bu teminatı almamayı tercih ediyor. Genellikle doğal afetler olarak adlandırdığımız bu doğal oluşum durumunda, en kötüsüne hazırlıklı olmalıyız. Aslında, deprem doğal bir olgudur. Riskin basit bir şekilde ortadan kaldırılmadığını biliyoruz, sigorta formlarını en aza indirmeye çalışıyoruz. Bir deprem durumunda evin yeniden inşa edilme maliyetini ve hatta ev aletlerinin yerine koyma maliyetini karşılayabilir miyiz? Deprem sigortasının yararlarını biliyor muyuz? Bu tür sigortalar için ödemek zorunda olduğumuz değer nedir? Arnavut aileleri bunun için para ödeyebiliyor mu? Bu makale tüm bu soruları, bu sorun için tasarlanan anketleri analiz ederek cevaplıyor ve sakinlerine Arnavutluk'un en sismik bölgelerinden biri olan Durrësarea'da dağıtıyor.

Anahtar Kelimeler: Deprem, sigorta, risk, doğal olay, yetenek.

1. Introduction

Earthquakes are a great threat to human life and economic development. We think about this phenomenon over and over, but when they happen, we take note of the dangers we face and think of ways we can minimize the devastating effects of earthquakes. The latest case was the September 21, 2019 earthquake of magnitude 5.8 on the Richter scale that involved Durrës, Tirana and other districts in Albania. There was no loss of human life, but it was accompanied by material damage that caused panic and uncertainty about the future. This earthquake clearly showed that the Albanian population is at risk because the rules for earthquake resistant construction are not functioning properly. Albania is a country with seismic activity in some of its areas, including the coastline. However, measures are being taken to raise public awareness of the need to secure property from phenomena such as fire, explosion, earthquake, etc. Damage reduction requires better building standards and a population that is risk-aware and actively involved in mitigation efforts through property insurance, and the first step is to recognize the risks. Let's hope this material will be some kind of awareness call. We all know that the earthquake is not a "disaster", but is a phenomenon that cannot be stopped, but their effects can be minimized.

2. Literature Review

The earth has four main layers: the inner core, the outer core, the cloak and the crust. The crust and surface of the cloak make up a thin skin on the surface of our planet. But this skin is not all one - it is made up of many parts like a puzzle covering the surface of the earth. Not only that, but these pieces of the puzzle continue to move slowly, sliding into each other and slamming into each other. These parts are called tectonic plates, and the edges of the plates are called plate boundaries <http://www.geologypage.com/>

Earthquake is one of the most devastating natural calamities which causes sudden shaking of the earth surface. It not only causes damage to buildings and other structures but also affects the surrounding environment and our lifestyle significantly. Ischemic waves are produced when the form of energy stored in the Earth's crust is suddenly released, usually when the rock's clamping measures against each other suddenly "slip".

An earthquake can cause sudden changes in the environment which can be classified as primary (surface demolition) and secondary effects (rock displacement, tsunamis, earthquakes, landslides). These effects are known as the earthquake environmental effects.

Bevere, Lucia et.al(2018) in their paper emphasize the importance of improving building standards and strict enforcement, along with infrastructure and efforts to mitigate and mitigate the negative effects of earthquakes.

Lu, Yi Xu, Jiuping (2015) provide guidance on formulating planning before disaster occurs, setting up structures for public involvement, process coordination, developing disaster insurance, protecting disaster-affected groups, and evaluating plan quality.

2.1. Property (earthquake) Insurance scheme in Albania

Fire and additional perils covers property from:

- ✓ Basic perils: Fire, explosion, lightning, fall of aircraft or parts of aircraft, removal of debris.
- ✓ Additional perils: earthquake, flood, storm, landslide, etc.

Earthquake:

Damages of property secured as a result of seismic events , not less than 4 scale by Richter are covered. (AMF Albania)

Questions in our minds:

2.2. Is Earthquake automatically covered on my policy?

Answer: A regular property insurance policy does not include this coverage. It is needed an additional coverage.

2.3. Is the Earthquake coverage expensive?

- ❖ The Earthquake coverage expense depends on the risk area that we live in.
- ❖ It depends on the surface of the property.
- ❖ The higher the risk of an earthquake - higher the rates.

2.4. How do I know if my insurer can pay out my claim?

- ❖ The ability for insurance companies to pay out catastrophic claims from earthquakes is no different than fire or other events that damages our homes. We must be aware of the consequences of this phenomenon and and to be convinced to buy the earthquake insurance as we buy the property coverage.

3. National Seismic Activity Monitoring Center in Albania

The detailed service obligation is monitored continuously 24 hours a day, of seismological activity being restricted within and around the territory of Albania. Signal transmission and seismic wave data is realized through satellite telemetry. In this way, each seismic signal arrives at the National Center for

processing in near real time. The VSAT (Very Small Aperture Telemetry) system is today one of the most advanced technologies in this field that enables almost real-time retrieval of any type of seismic information (weak, strong oscillations and GPS), without interruption and loss.

3.1. Presenting soma data about Albania:

The population of Albania on January 2019 (the end of 2018) was 2 862 427 residents. (*INSTAT Albania*).

The following tables provide information on the market status of non-life insurance premiums in the last three years (2016, 2017 and 2018), in Albania.As you can see, there is a modest growth of this market year after year.

2016	
Gross written premiums (Non Life) in total	
<i>Type of insurance</i>	MARKET
<i>Fire and other damage to property (classes 8 and 9)</i>	1,881,536
TOTAL	1,881,536

(Source - AMF Albania)

2017

Gross written premiums (Non Life) in total

<i>Type of insurance</i>	MARKET
<i>Fire and other damage to property (classes 8 and 9)</i>	1,921,281
TOTAL	1,921,281

(Source - AMF Albania)

2018	
Gross written premiums (Non Life) in total	
<i>Type of insurance</i>	MARKET
<i>Fire and other damage to property (classes 8 and 9)</i>	2,098,754
TOTAL	2,098,754

(Source - AMF Albania)

As for Durres area related information on non-life insurance premiums, we will see their levels drop in 2016 compared to 2015 (9.62 percent less) and in 2017 compared to 2016 (8.47 percent less) and a big positive hop in 2018 compared to 2017(570.62%).

This indicates a growing awareness of property insurance.

Gross Written Premiums in Non Life Insurance Durrës 2015/2016

Type of insurance

Value (000 ALL)

Change

Share in total value

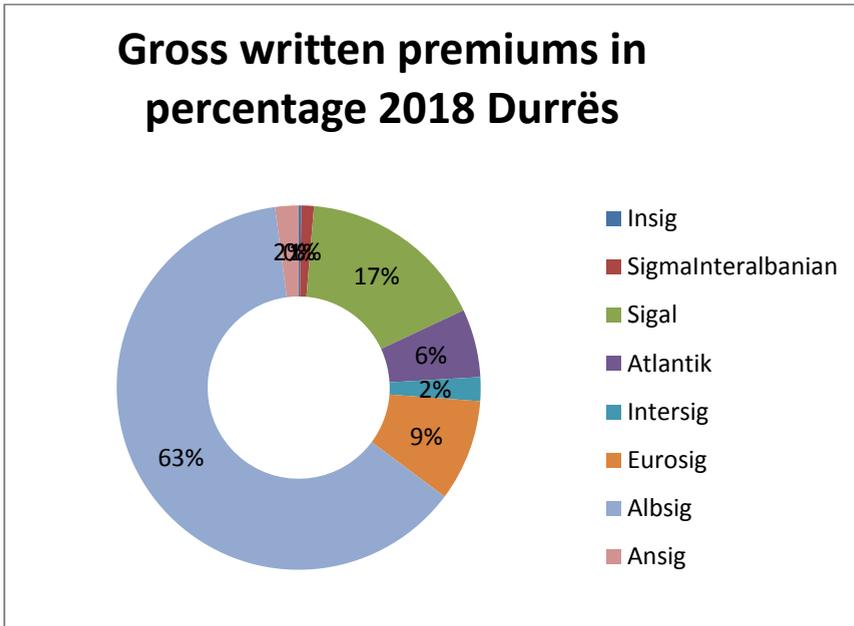
			(in %)	(in %)	
	2015	2016	'16/'15	2015	2016
			-1		
<i>Fire and other damage to property (classes 8 and 9)</i>	36,692	33,161	(9.62)	3.76	2.75
TOTAL	36,692	33,161	(9.62)	3.76	2.75

Gross Written Premiums in Non Life Insurance Durrës 2016/2017

Type of insurance	Value (000 ALL)	Change (in %)	Share in total value (in %)		
	2016	2017	'17/'16	2016	2017
			-1		
<i>Fire and other damage to property (classes 8 and 9)</i>	33,161	30,353	(8.47)	2.75	2.59
TOTAL	33,161	30,353	(8.47)	2.75	2.59

Gross Written Premiums in Non Life Insurance Durrës 2017/2018

Type of insurance	Value (000 ALL)	Change (in %)	Share in total value (in %)		
	2017	2018	'18/'17	2017	2018
			-1		
<i>Fire and other damage to property (classes 8 and 9)</i>	278	1,867	570.62	0.11	0.58
TOTAL	278	1,867	570.62	0.11	0.58



But what about earthquake insurance as additional property insurance? Let's see the results of our study below.

3.2. The research questions of this study:

- What are the factors that determine the insurance property /earthquake in Albania?
- Is this kind of insurance a necessity?

3.3. Objectives of this study:

To undersand the obstacles in securing property:

- Financial reasons
- This kind of insurance is not needed
- The lack of proper information regarding this insurance
- lack of trust in service providers or Another reason

In fact, we often make questions to ourself: Who needs earthquake insurance?Does everyone need earthquake insurance?To answer these questions we may say that: Only we can make this determination. Usually people, especially those who do not live in earthquake areas, choose not to receive this type of coverage, because they think : It is not needed . Someone think that : To pay for earthquake coverage can be quite costly.

4. Research Methodology

Sample Size:- 100 students were targeted from Durrësi city to collect responses, considering the fact that Durrësi is one of the seismic areas of Albania.

Sampling Technique:- Simple Random sampling technique was used while selecting the target group. The sample is random because each respondent has an equal chance of being chosen.

Demographic Profile:- 36 % Females and 64 % males were chosen randomly.

4.1. Descriptive Statistics

This paper uses the SPSS statistical data processing program. As a result of data analysis 36 persons (36 %) from 100 in total are female and 64 persons, (64%) are male.

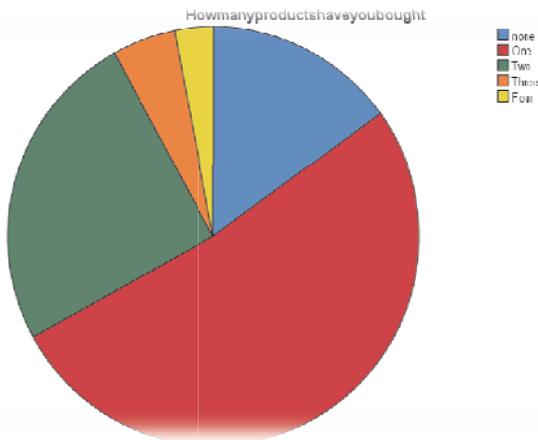
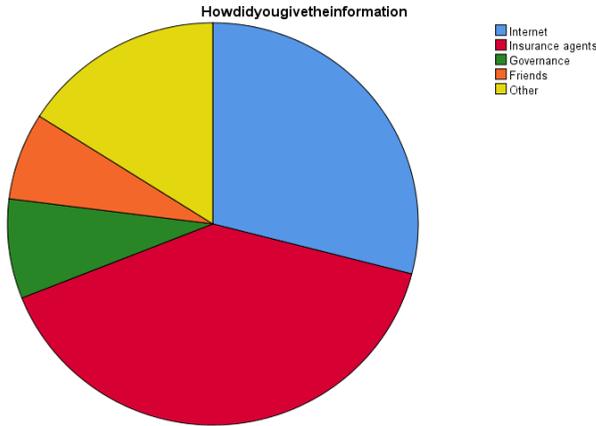
The interviewed responded as the table below to the question: The level of income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0- 26000 All	4	4.0	4.0	4.0
	26000-50000 All	23	23.0	23.0	27.0
	50000-75000 All	30	30.0	30.0	57.0
	75000-115000 All	22	22.0	22.0	79.0
	Over 115000	4	4.0	4.0	83.0
	Other	17	17.0	17.0	100.0
	Total	100	100.0	100.0	

26 000 All is the minimum level of the wage in Albania.

As we can easily see the 52 % of the respondents have the level of their income over 50 000 All and only 4 (four) persons have the level of income over than 115 000 which is the maximum level of wage in Albania. When we asked the respondents : How did they give the information about insurance products, most of them (40% of them) answered they have taken the information from insurance agents, 29% of them from internet and the others from friends, governance or other sources. We can see that the consumers tend

to believe more to the insurance agents when they are interested in insurance products.



When we asked the respondents how many products they have bought from insurance providers , 52 percent responded they have bought one product and 25 percent of them two products , 5 percent thre products and only 3 percent of them have bought four products. So, most of respondents have bought only insurance car product which is a mandatory product and the rest of the respondents have purchased more than one product and one of them is compulsory car insurance.

The respondents answered the question about the difficulty to pay the cost of insurance : 40 percent said that it was very difficult or difficult to pay it and 24 percent easy or very easy (4 percent very easy). 36 percent of them, do not prefer to answer this question. Also 77 percent of the respondents have not benefited from any of the policies they currently have and 23 percent of them have benefited. This is not a problem in terms of security offered by insurance companies, but since most of them have purchased car insurance, there have been no damages, so they have not benefited.

An interesting fact is also the fact that 81 percent of the respondents and of those who have property insurance have no property earthquake insurance and only 19 percent have additional insurance from the earthquake. Also, the majority of respondents and specifically 93 percent when asked if they would like to have earthquake insurance responded positively and only 7 percent said "no".

When respondents were asked about the reasons they refuse to buy this insurance product 31.1 percent of them responded that it were financial reasons that prevented them from buying such a product, 1 percent considered it unnecessary, 20.08 percent have no information (do not know this product) 18.8 per cent do not trust service providers (insurance companies) and the rest, 28.1 per cent for other reasons. Asked if it was time to buy this product, they answered 100 percent "yes" and when asked if it was need or necessary, 77 percent responded that it was necessary.

5. Conclusions

Referring to the latest information which is not yet in written form and also the earthquake that struck our country in September 2019, the Albanian government is trying to take measures to control the state of buildings over 50 years ,valuable over than 5 million All, including institutions such as schools, other public buildings, in order to take precautionary measures against the devastating effects of phenomena such as earthquakes. New buildings will not be out of this focus..

Although there is a brief history of the development of insurance companies in Albania, people are aware that this type of insurance is indispensable.

The insurance industry in Albania already offers earthquake insurance, but faces challenges that limit the degree of reliability.

The insurance industry should undertake marketing campaigns to make this type of insurance known to the clients as the information is often missing or incomplete.

Financial factors are often a barrier to this type of insurance.

The government should take measures to include some types of insurance, including earthquake insurance in the mandatory scheme, as Albania is a seismic zone. If this type of insurance is introduced as compulsory insurance, the government should take mitigation measures especially for families who are unable, as this would also facilitate the government's own work in case of disaster.

The insurance industry must enhance the quality of risk management services for clients to provide solutions and thereby motivate consumer behavior towards risk

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