

Bridging the Protection Gap

*Business Owners' Perspectives on
Disaster Risk Insurance*



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WPI

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ABSTRACT

Micro, small, and medium-sized enterprises (MSMEs) in Albania are prone to natural disasters but lack disaster risk insurance (DRI) to cover damages. This protection gap leaves businesses vulnerable to earthquakes and flooding and leads to prolonged and costly recovery times. Working with UNDP, the team interviewed 71 business owners to identify key MSME access barriers to DRI. The team found that businesses tend to underestimate their risk, lack awareness of DRI, and distrust insurance companies. The team recommended outreach campaigns, subsidizing DRI premiums, and strategies for insurance companies to build trust.

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INTRODUCTION

Natural disasters are devastating events that disrupt entire regions and countries. In 2022, natural disasters claimed over 30,000 lives (CRED, 2023) and caused an estimated US\$330 billion in worldwide damages (Urso, 2023). Low-frequency high-impact events (LFHI) like earthquakes remain devastating, while high-frequency low-impact events (HFLI) such as flooding are set to increase in frequency and impact due to climate change (USGS, 2023). Central governments around the world are striving to manage disaster risk and the associated damages.

Disaster risk insurance (DRI) can be an effective strategy to alleviate the consequences of catastrophes by compensating for losses through risk transfer (Okuyama & Rose, 2019). Policyholders pay premiums to build a pool of funds which insurers pay out in the event of disaster. Most developing economies have coverage rates well below 10% (Munich Re, n.d.). DRI is “often not available or affordable for people with low-value assets and low incomes” (UNDRR, 2022, p. 34). Even with affordable insurance, penetration remains low due to “a longstanding culture in many countries” of relying on public relief (World Bank & GFDRR, 2014, p. 39). In response, government agencies have mandated disaster risk insurance with success. Albania, a small, mountainous country in the Balkans, is also striving to embrace DRI because of its vulnerability to natural disasters. Albania has the highest rate of hazards in relation to natural disasters in Europe (Hilft & RUB, 2022). Despite this, the country has one of the least developed insurance markets in the region, with only about 2-3% of properties being covered by DRI due in part to the lack of interest among businesses to purchase insurance (International Monetary Fund, 2022).

Micro, small, and medium enterprises (MSMEs) constitute about 80% of employment in Albania and drive economic growth (OECD, 2022). Low levels of commercial DRI have hampered the economy’s ability to recover from recent disasters. After the 2019 earthquakes, businesses saw US\$56 million in damages and losses and slowed economic growth

by an estimated 0.5% (GoA et al., 2020). To pay for the recovery, the central government resorted to budget reallocation and foreign donor assistance, which proved inefficient and unsustainable for MSMEs (World Bank & GFDRR, 2021b). The gap between the available government budget and probable loss from disasters was estimated to exceed US\$130 million per year.

The United Nations Development Programme Albania (UNDP) has worked with Albanian MSMEs in recent years to help them become more resilient to natural disasters. In its Economic Recovery and Resilience (ERR) program, UNDP Albania works with the Albanian government and private sector to help hundreds of MSMEs develop and recover from disasters. Through the ERR program, the UNDP has identified a need for private disaster risk insurance that compliments government relief.



Figure 1: Transformation of an ERR Business (UNDP Albania, 2023)

The purpose of our project was to evaluate business owner attitudes towards disaster risk insurance and identify key factors that influence business owner decision-making. We interviewed 71 MSMEs in Tirana, Durrës, and Lezha. We also conducted interviews with the largest insurance company in Albania, Sigal Uniq Group, and two government agencies to assess their perspectives on increasing DRI penetration among MSMEs. Our research identified DRI needs of MSMEs and key factors inhibiting them from getting disaster risk insurance.

From our research, we recommended strategies for UNDP, insurance companies, and the government to motivate MSMEs to purchase insurance. For UNDP, we recommend a combination of social media outreach, workshops, and personal contact with MSMEs to promote disaster preparedness and DRI. This project also laid the foundation for future research into MSME decision-making, including more in-depth studies in rural areas and among businesses who bought insurance.



BACKGROUND

Albania & Natural Disasters

RISK & RESILIENCE

Albania has one of the highest rates of natural disasters in the Balkans and Europe, of which earthquakes and flooding pose the greatest threat to societal wellbeing (World Bank & GFDRR, 2021b). Major earthquakes are typically infrequent but cause massive, regional damage. Flooding is more localized and has less fiscal impact than earthquakes, but the damage is more frequent and sustained than earthquakes. In tandem, the two disasters cause an estimated US\$147 Million in damages every year (World Bank & GFDRR, 2021b). A GFDRR modeled combined risk profile in Figure 2 visualizes the probability and damages earthquakes and floods have on Albania. A “1 in 100 Years” event on the risk profile means there is a 1 in 100 chance, or 1% chance, of earthquakes and floods causing over US\$2 Billion in a single year (World Bank & GFDRR, 2021b). It does not mean that a combined event of that magnitude will happen only once every 100 years. The probabilities and damages represented by the risk profile model will only increase through flooding due to climate change and demonstrate Albania’s need to evaluate communities’ risk and resiliency towards flooding and earthquakes.

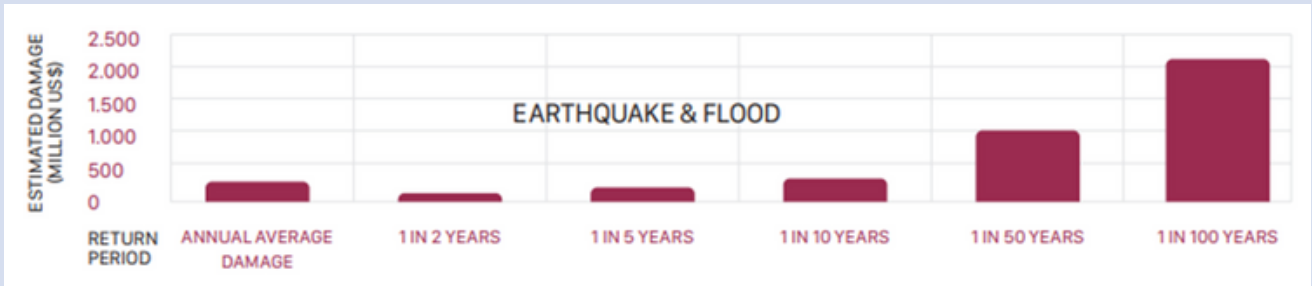


Figure 2: Modeled Risk Profile from the Combined Risk of Earthquakes and Floods in Albania

RIVERINE FLOODING

From 1995 to 2015, riverine flooding caused the greatest damages in Albania. The floods that took place in 2002 and 2010 were particularly damaging, affecting more than 5,000 households and causing damages of US\$75 million (World Bank & GFDRR, 2021b). Riverine flooding has such a significant impact as high river flow rates in mountainous regions are influenced by snowpack melts and increased precipitation (Xiong, Alegre 2019). The rates of riverine flooding are increasing due to climate change (Uruci, 2018). Much of the riverine



flood risk comes from rivers north of Tirana that flow down from the mountains. These rivers, such as the Mati River, the Buna River, and the Drini River, as well as many others shown in Figure 3, are characterized by their high flow rates. This makes them more prone to flooding (Barron et al., 2022; Uruci, 2018). As about 85% of yearly rainfall comes between the winter months of November and March (Uruci, 2018), there is a significant risk for riverine floods in these regions through these months.

Climate change is still set to make riverine flooding more frequent in nature. By 2050, Albania is expected to have an average temperature increase of around 2.5°C (USAID, 2016). This temperature rise will increase evaporation rates and the amount of water vapor in the air, increasing overall precipitation and the likelihood of more extreme storms (EPA, 2022). The added runoff from the mountains will increase the already heavy flow rates in these downstream rivers to higher peak winter flows, which will in turn lead to an unwelcomed increase in flooding in Albania (World Bank & GFDRR, 2021; Barron et al., 2022).



Figure 4: Flooding in Lezha

EARTHQUAKES

In the last 70 years, Albania has had seven earthquakes that measured 5.9 or higher on the Richter scale (Banushi et al., 2020). These earthquakes are particularly devastating due to the location and positioning of the seismic plates under Albania. The seismoactive layer under Albania is quite shallow, at 20-25 km deep (Ormëni et al., 2022). While earthquakes due to this layer may not be as large overall, they lead to much more damage on the surface as opposed to areas that have a deeper seismoactive layer.

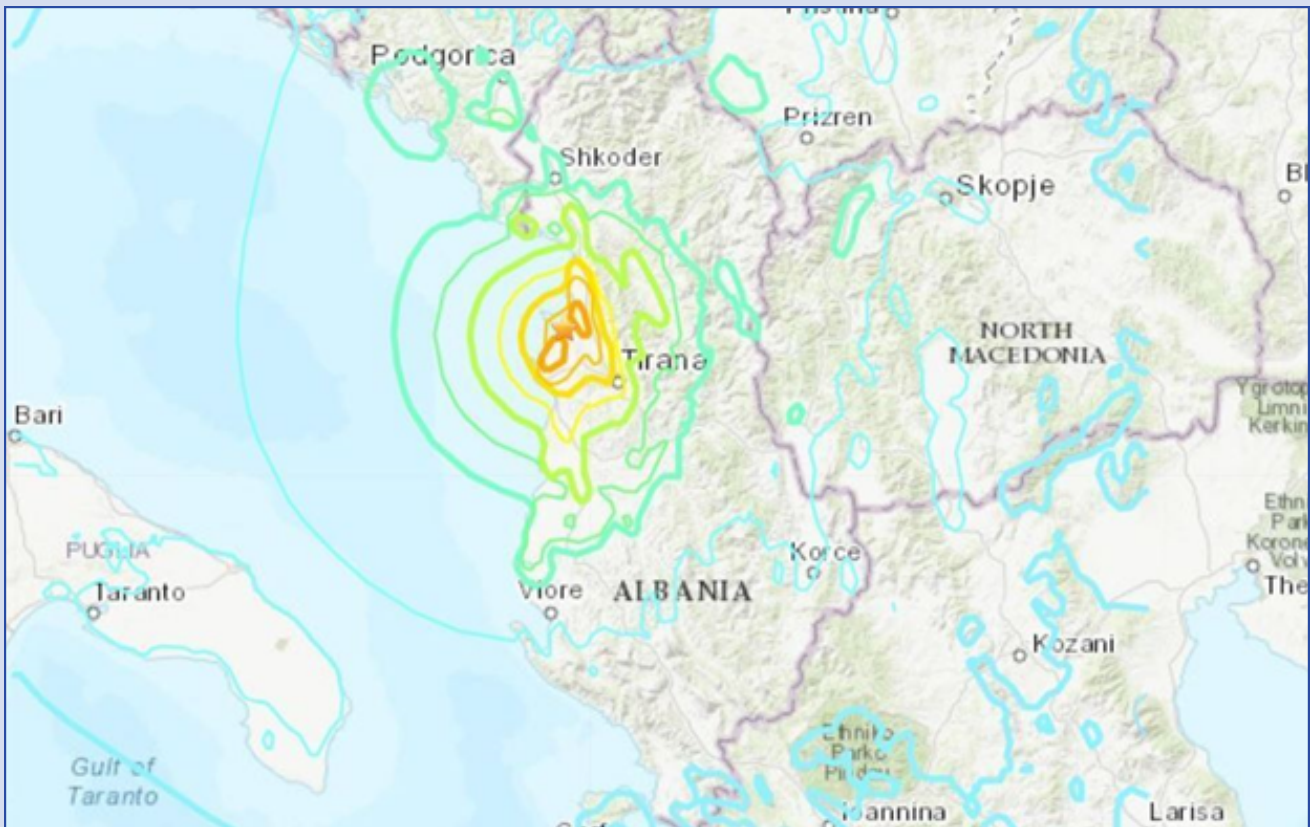


Figure 5. Map of 2019 Earthquake (Chappell, 2020)

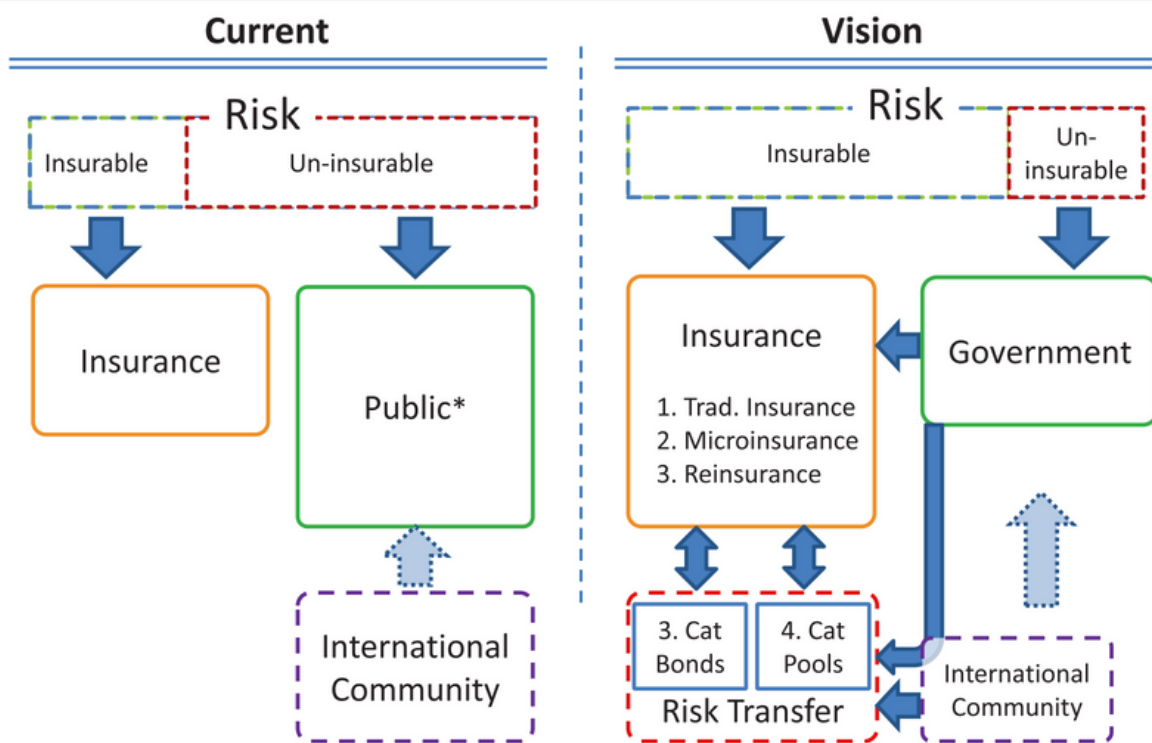
The most impactful earthquake to Albania, and specifically Tirana, Durres, and Thumane in recent years was the November 2019 earthquake. This earthquake generated about US\$1 billion in damages to houses and businesses which equated to about 6.4% of Albania's national GDP at the time (World Data, 2023; Banushi et al., 2020). This single earthquake caused 51 deaths, 913 injuries, and displaced some 17,000 people from their homes. About 76.5% of losses and damages from this earthquake were from the private sector as assessed by the Post-Disaster Needs Assessment (GoA et al., 2020). Shown in Figure 5 is the epicenter and its effective radius, which encompasses a large portion of the Tirana and Durres regions (Chappell, 2019).



Figure 6. Damages from the 2019 Earthquake

Approaches to Disaster Risk Insurance and Resiliency

The principal idea behind disaster risk insurance is to enhance a community's financial preparedness for natural disasters by developing effective mechanisms to pool risk. Instead of solely relying on public budgets to insure potential losses from disaster, the World Economic Forum (WEF) argues that innovative systems of risk transfer “strengthens the financial preparedness of communities exposed to natural disasters” (WEF, 2011, Page 57). Figure 7 provides a visual graphic to explain the relationship between risk, insurance, and methods of risk transfer:



* Government may step in to pay for losses where resources allow, otherwise individuals will pay

Figure 7: Vision for Increased Financial Preparedness (WEF, 2011)

Un-insurable risks refer to events that are too volatile or financially unfeasible for private insurance companies to insure, such as floods, earthquakes, or droughts (Jaffee, D. M., & Russell, 1997). The limited capacity of private insurers leaves the government as the primary holder of risk, straining public budgets. If governments have no specific system to manage disaster risk and resiliency funds, a protection gap is created: the difference between assets that are presently insured versus the volume of assets that would economically benefit from being insured but are not (Schanz 2018). This leaves communities more vulnerable to the hazards of natural disasters and inhibits the pace of redevelopment.

To bridge this protection gap, government agencies and private insurance companies utilize catastrophe pools and bonds to transfer risk across numerous stakeholders. Catastrophe pools are a way for governments to “pool” funds and capital dedicated to natural disaster relief and resiliency (World Bank, 2017). Catastrophe bonds are a financial tool enabling private companies to share risk with private investors and government catastrophe pools (Polacek, 2018). The two systems work in tandem to transfer disaster risk to both private and public stakeholders.

Many governments have attempted to implement such systems into their own national resiliency strategies. Table 1 provides a snapshot view of national efforts from Turkey, Romania, France, and Bulgaria. The systems each country has devised is tailored to their specific region and main natural hazards. There are many common themes with each countries’ strategy, with each utilizing mandatory insurance schemes, government catastrophe pools, and a robust private insurance market to further provide coverage and transfer disaster risk to private stakeholders. The resiliency and insurance practices of these countries can serve as a starting point for other nations in hazardous regions. Appendix G provides in-depth case studies for each country.

In Albania, the National Civil Protection Agency (NCPA) is the lead agency responsible for disaster risk reduction. The NCPA has recently finalized the National Disaster Risk Reduction Strategy with approval from the Decision of Council of Ministers. The Strategy is supported by the World Bank and is aimed to be completed in 2030. A key point of the Strategy is Strategic project no.14. Included in strategic project no. 14 is earthquake insurance for households, access to finance for farmers and MSMEs, and insurance market development. Although specific policies and actions for these goals have not yet been defined, the National Disaster Risk Reduction Strategy is a step forward in increasing Albania’s resilience.





Approaches to Disaster Risk Insurance & Resiliency				
Country				
Disasters	Earthquakes	Earthquakes, Floods, Landslides	Tropical Storms, Hurricanes, Floods	Floods, Wildfires, Earthquakes
Strategy	<i>DASK</i> : State-owned catastrophe pools which mandates insurance and provides policies to owners through private insurance companies	<i>PAID</i> : Mandated private home insurance through a union of 12 private insurance companies	<i>CATNAT</i> : Public-private partnership between private insurers, public reinsurance, and a government-backed guarantee	EU Directive <i>Solvency II</i> Private insurance market
Successes	+ Payment claims capacity of US \$4.2 Billion + Utilizes private insurers to sell policies. + Historically effective payouts	+ Payment claims capacity of €900 million + Financially sound private insurers + Affordable premiums: €10 or €20 per year	+ Mandated through private insurers + Large disasters are backed by reinsurance and government + Able to pay back large losses efficiently	+ <i>Solvency II</i> enables a stable market + Legal pathways to file complaints and seek damages + unintentional misrepresentation will still receive some payout
Challenges	- Low penetration: no legal penalty for not insuring & was only compulsory for one year - Not resilient to frequent or extremely damaging earthquakes	- Resistant population & low enforcement, 20% penetration rate - Moral hazard: gov. indemnifies non-insured homes	- 6% - 12% of premium to private insurers go to reinsurance companies	- Penetration rate is still relatively low - Slow market growth - <i>Solvency II</i> capital requirements increase the price of premiums

Table 1: Approaches to Disaster Risk Insurance and & resiliency (Adapted from the works of World Bank & GFDRR, 2021b; China-CEE Institute, 2023; OECD, 2019; World Bank & GFDRR, n.d.)

MSME Owner Insurance Decision-Making

The decision to insure against a natural disaster is not straightforward given uncertainties about their frequency and impact. To make such a decision, ideally business owners would invest a considerable amount of time researching relevant information, assessing the risk a disaster would have on their business, and finally weighing the cost and benefit of holding an insurance policy (Kousky, Shabman, 2015). Researchers have shown that people make decisions about purchasing insurance by relying on mental shortcuts called heuristics (Kunreuther, Meyer, 2020). Heuristics are rules-of-thumb that allow us to reach answers quickly and efficiently based on past experiences, familiarity, or available information (Frimodig, 2023). While heuristics are a part of our daily lives, they can lead to cognitive biases.

These mental short-cuts affect the decision-making process of small business owners with regards to buying insurance and can result in communities being underprepared in the face of disaster (Kunreuther, Meyer, 2017). Table 2 lists examples of how different factors influence a business owners' decision to buy insurance.









	Factor	Definition	Insurance Example
	Availability	“The ease in which similar instances of the event can be brought to mind”	Damages from a recent flood are prevalent in an owner’s mind, driving them to pursue insurance.
	Representativeness	“The degree to which an event is stereotypically associated with a category”	An owner may associate earthquake damage to be primarily structural without considering other potential losses such as lower business revenue or damaged inventory, leading them to not seek insurance for the latter damages.
	Myopia	“A tendency to focus on short future time horizons when appraising immediate costs and the potential benefits of protective investments”	A business owner in a difficult financial position may view the immediate cost of premiums to be another expense that could be dedicated elsewhere, discouraging them from pursuing insurance.
	Optimism	“A tendency to underestimate the likelihood that losses will occur from future hazards”	An owner’s business withstood a heavy storm with no damage to the structure or contents, leading them to think that they have no need for future insurance.
	Certainty Effect	“Individuals have been shown to place added value on certainty”	A flood event is characterized as a 100-year flood. Framing the flood hazard as having a 1% chance per year of occurring may discourage individuals from seeking insurance whereas presenting the flood hazard as having a 26% chance of occurring over 30 years may encourage individuals to seek insurance, despite both scenarios having the same risk.
	Inertia	“A tendency to maintain the status quo or adopt a default option when there is uncertainty about the potential benefits of investing in alternative protective measures”	Business owners may see the process of researching, comparing, deciding, and buying policies as too much of a hassle, leading them to not buy insurance.
	Herd Behavior	“A tendency to base choices on the observed actions of others”	A business owner may be encouraged to research insurance after talking to neighbors and learning that they have purchased disaster risk insurance for their businesses.
	Loss Aversion	“A tendency to prefer the avoidance of losses rather than the realization of a gain of the same amount”	The premiums for an insurance policy may be perceived as a loss rather than a potential future gain, making an owner reluctant to buy insurance.

Table 2: Heuristics and Applications (Adapted from the works of Kunreuther & Meyer, 2019, Kousky, & Shabman, 2015, Pitthan & De Witte, 2021).

MSMEs also make insurance decisions based on their coping capacity, their ability to “manage adverse conditions, risk or disasters” (UNDRR, 2023). Many owners have technical skills to repair building and machine damage by themselves. Albanians have long had an attitude of self-sufficiency due to an inability to rely completely on the government. In disasters, MSMEs also use personal savings and receive help from family and neighbors, in addition to receiving remittance money from relatives making money abroad. Depending on an MSME owner’s technical ability and access to funds, they may be more inclined to seek disaster risk insurance.

To encourage higher insurance penetration, it may be tempting for policymakers to draft legislation that is targeted at mitigating the effect of these heuristic factors. However, heuristics are a natural part of how we make decisions. It is in the best interest of both legislators and business owners for policies and strategies to be aimed at working with, not against, these natural biases (Kunreuther, Meyer, 2020). There are several examples of how heuristics can be used to expand insurance coverage. Insurance marketing strategies that consider the emotional state of their customers can determine their decision process, utilizing the availability or loss aversion heuristics as applicable (Jasperen, Aseervatham, 2017). Beyond marketing strategies, mandatory insurance programs with an opt-out option utilize the inertia heuristic as many individuals would decide to keep the status quo biases (Kunreuther, Meyer, 2020). When leveraged properly, heuristics are not an inhibitor to insurance access, but rather an opportunity to expand insurance coverage.

Current Disaster Risk Management in Albania

Existing Property Disaster Insurance

Albania has one of the least developed insurance markets in Europe. From 2008 to 2018, Albania's property insurance penetration rate rose only 0.4% from a very low rate of 0.65% to 1.05% (World Bank & GFDRR, 2021b; World Bank, 2020). Growth in the insurance sector is hindered by lack of government regulation, low disposable income, and mistrust (World Bank, 2014). Low insurance penetration has led to a significant natural disaster protection gap—the difference between insured and uninsured losses from a natural disaster.

Currently, Albania has no state-sponsored insurance to provide relief to after disasters. Through private companies, property insurance policies that include disaster coverage are offered as packages combining fire, catastrophe (may or may not include earthquakes or floods), and theft. Compensation is determined by the rebuilding cost for the structure and replacement cost for the content. Property insurance penetration is low with only one or two houses out of 100 holding it (World Bank, 2020).

The scant coverage is largely driven by mortgages. After the 2019 earthquake, 85% of triggered policies were related to mandatory mortgage insurance (World Bank & GFDRR, 2021b; World Bank, 2020). For an Albanian to take out a mortgage loan, they must hold DRI that at least covers the outstanding balance and interest (World Bank & GFDRR, 2021b).

Reliance on Government Funding

In case of major disasters, most households appeal to the government for help (World Bank & GFDRR, 2021b). With limited risk transfer options, the central government is constrained by its budget and donor aid to finance disaster recovery and rehabilitation. After the 2019 earthquake, the central government was forced to mobilize additional financing resources by diverting funding from student scholarships, unemployment benefits, and reconstruction aid.

The central government employs a few prearranged post-disaster financing instruments (such as contingency funds, civil emergency funds, and ministries reserve funds) with many of them only partially operational or yet to be implemented (World Bank & GFDRR, 2021b). Albania also currently operates an annual disaster relief reserve fund of US\$14 million. After major disasters, the lack of sufficient post-disaster financing instruments reveals a funding gap in the central government's budget.

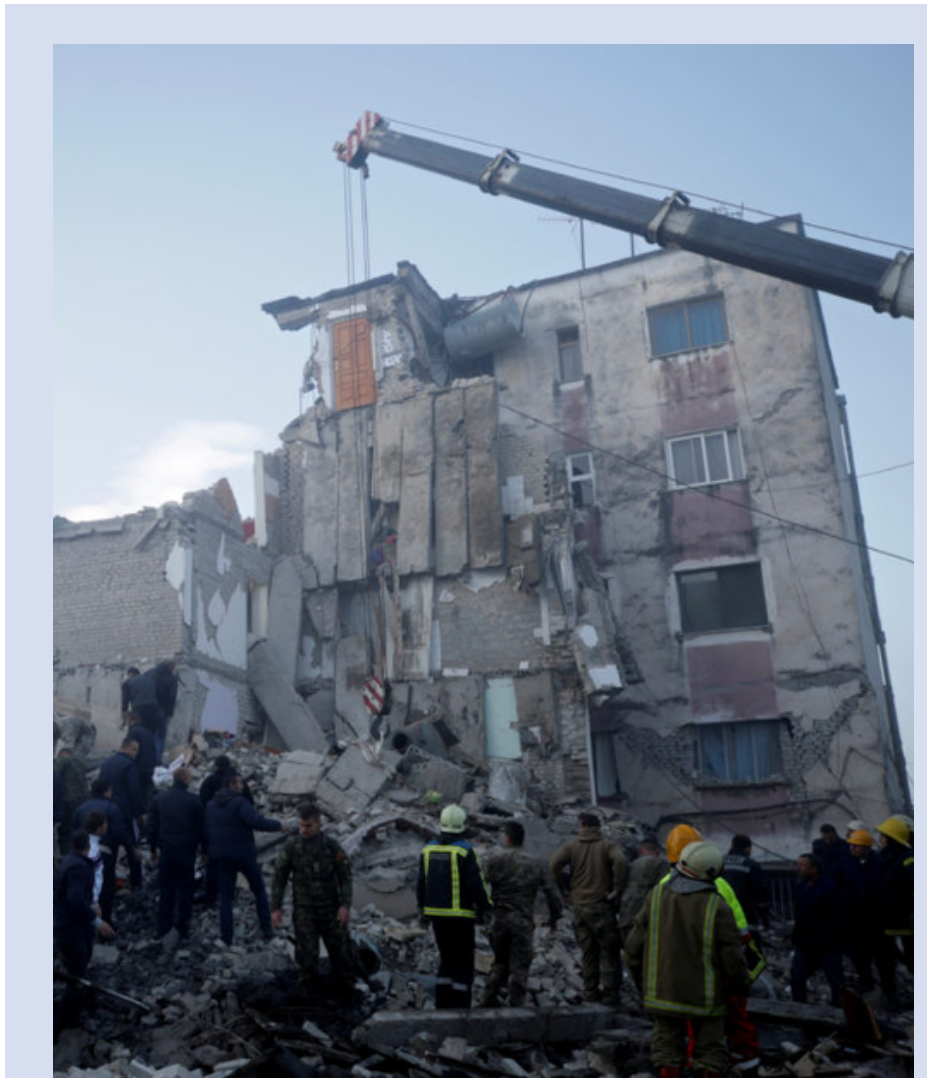


Figure 8: Earthquake damage

The government of Albania's current disaster financing instruments are decentralized, with local governments taking the lead. Under the Albanian Law on Self-Governance (2015), post-disaster financing is a responsibility of the local government. Local governments are to first utilize their own civil protection funds for all disasters. In the event of small-scale disasters, local governments are expected to fund disaster relief and recovery by themselves. Large-scale disasters where a state of emergency is declared, the central government takes the lead in disaster recovery, however local governments are still expected to exhaust their financial resources (World Bank & GFDRR, 2021b). If local governments are unable to mobilize sufficient funding efficiently, national government funding and intervention is needed. Along with stressing central government resources, the process of requesting and mobilizing these resources extends recovery time after disaster. Even minor disasters can stress and put pressure on some municipalities, while major disasters can exceed municipal budgets. When local governments disaster response capacities are exceeded, they may request assistance from the national government (World Bank & GFDRR, 2021b).

Expanding Private Insurance

Insurance Stagnation and Reliance on Government

The disaster insurance market in Albania has stagnated in the last decade. The amount of the gross written premiums (GWP) for property insurance for both fire and catastrophic coverage in Albania from 2011 to 2022 has remained around the same, as can be seen in Figure 9. GWP has hovered around US\$19-20 million, growing by only 9% from 2013 to 2022 (AFSA 2011-2022). Meanwhile, gross paid claims have risen, especially around the 2019 earthquake and pandemic, paying for various property damages. The earthquake did not stress the insurance sector. All companies reinsured in European markets and paid around €40 million in claims within 6 months of the earthquake (AFSA 2011-2022). Interestingly, GWP dropped in 2019, likely due to economic hardship from the earthquake and pandemic, but GWP has bounced back since.

The relatively small market share and slow growth of DRI indicates a struggle to promote insurance among MSMEs. For a long time, MSMEs have relied on aid from the central government or other sources in times of disaster, and there are no signs of significant change.

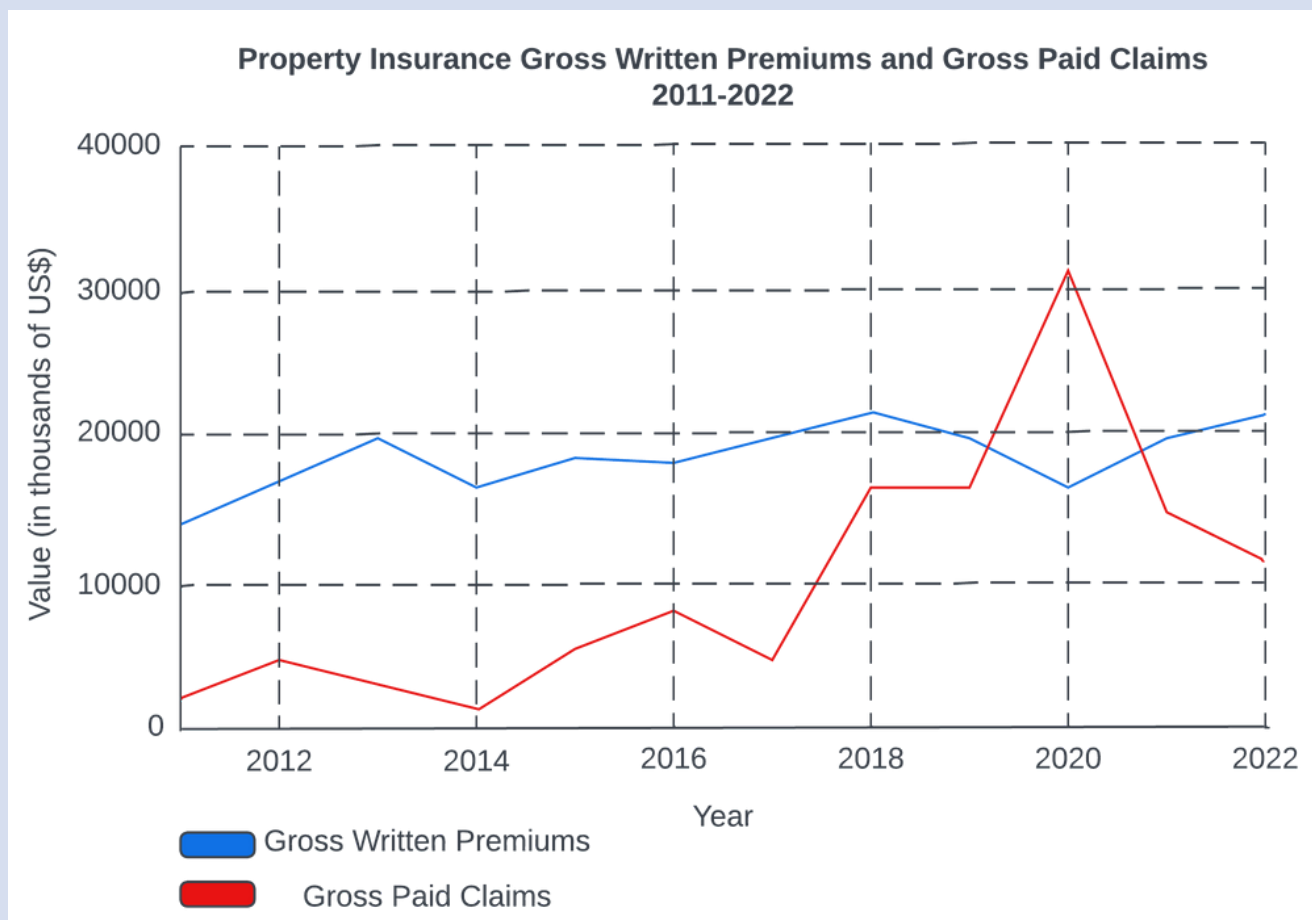


Figure 9: Property Insurance Premiums and Paid Claims 2011-2022 (AFSA, 2011-2022)

Need for Knowledge on MSME Perspectives

The central government, UNDP Albania, and insurers have a general idea as to why MSME demand for disaster risk insurance is low. However, detailed knowledge on how MSMEs evaluate risk and insurance is limited. MSMEs have a variety of sources about disaster impacts and recovery options, use different mental short cuts to assess the value of insurance, and have different coping capabilities that affect their perspectives about the utility of disaster risk insurance. Investigating MSMEs decision-making processes can help insurance companies and government agencies better understand how to reach MSMEs. Knowing what risk and insurance information MSMEs value most and how to communicate it effectively and credibly can illuminate new ways to encourage MSMEs to buy private disaster risk insurance.



METHODS

Project Objectives

The purpose of this project was to explain how business owners made decisions about whether to purchase DRI and to identify opportunities to expand DRI coverage. The team conducted fieldwork to assess MSME perspectives but also to illuminate the evolving disaster risk insurance market. We identified three objectives to help us achieve our goal:

1. Identify disaster risk policies and market strategies of leading insurance companies.
2. Identify government agencies' perspectives related to the transfer of risk from MSMEs.
3. Assess business owners' needs and coping capacities and analyze barriers to disaster risk insurance purchases.

Identify Disaster Risk Policies and Market Strategies of Local Insurance Companies

To determine the available resources and capabilities of insurance companies, we conducted an in-depth interview with the director of the property and guarantee department of the Sigal Uniqa Group Austria, the largest private insurance company operating in Albania. Sigal and Albsig's online property insurance calculators were also used to familiarize ourselves with premiums and coverage options. The key

informant interview provided insight into the policies offered by insurance companies, how they operate in relations to MSMEs, and challenges they face in expanding their MSME client base. Our interviews focused on the following topics.

- Factors contributing to low insurance penetration in MSME's.
- Effects of the 2019 earthquake in the insurance market.
- Effect of climate change on the future of the insurance market.
- Mandated government back insurance and its continuation and effect on MSME's.
- Typical disaster insurance pricing for MSME's.
- Currently available coverage options.
- See the full list of questions in Appendices B and C

Identify Government Perspectives related to Risk Transfer

We interviewed two key government agencies to evaluate government attitudes and goals for disaster risk transfer strategies relating to MSMEs: the Albanian Financial Supervisory Authority (AFSA) and the National Civil Protection Agency (NCPA). The AFSA supervises and regulates the insurance industry in Albania and provided valuable insight into the limitations of the agency to influence market penetration. The NCPA implements policies in the field of disaster risk reduction and resiliency and offered a valuable perspective into current developments in disaster risk reduction.

Interviews and questions addressed the following topics:

- Roles and responsibilities of your organization regarding DRI.
- Characteristics of the current interest in DRI for MSME's.
- Vision for DRI supporting MSME's in the future.
- Continual development of the insurance market, both public and private.
- Vision for government and private insurance cooperation in the future
- A full list of questions can be found in Appendices D and E.

Assessing Business Owners Needs and Analyzing Barriers towards Insurance Penetration

A critical question of the project is why many MSMEs are not embracing DRI, despite the devastating damage of earthquakes and the increasing frequency and intensity of climatic shocks. To answer this question, we conducted interviews with 71 MSMEs located in Tirana, Durrës, and Lezhë. Figures 10, 11, and 12 map the interview locations. We relied on our co-researchers Anisa Bali and Melanie Doka for translations when the interviewee only spoke or preferred to speak in Albanian.

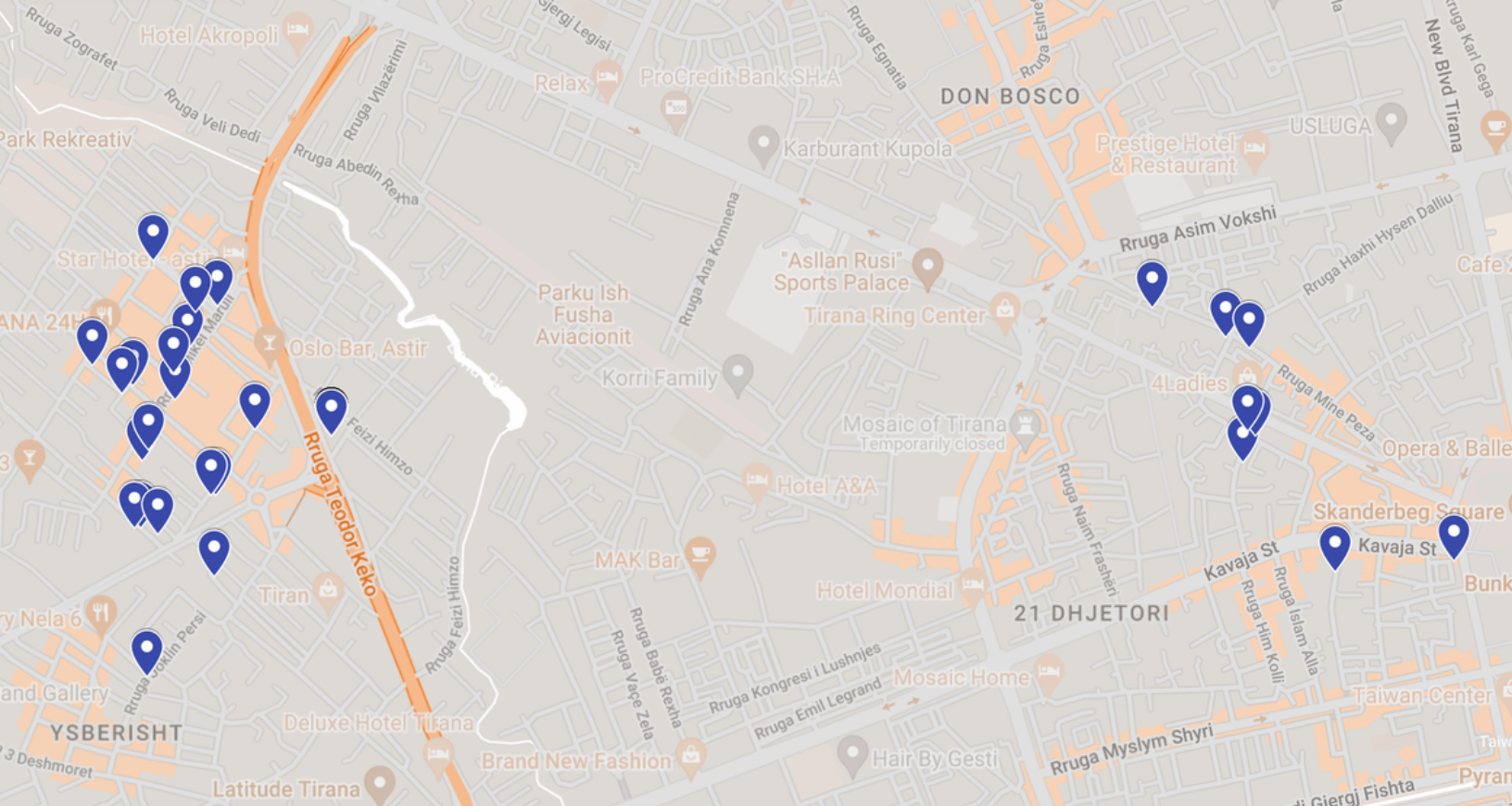


Figure 10: Map of Interviewed MSMEs in Astir and Tirana

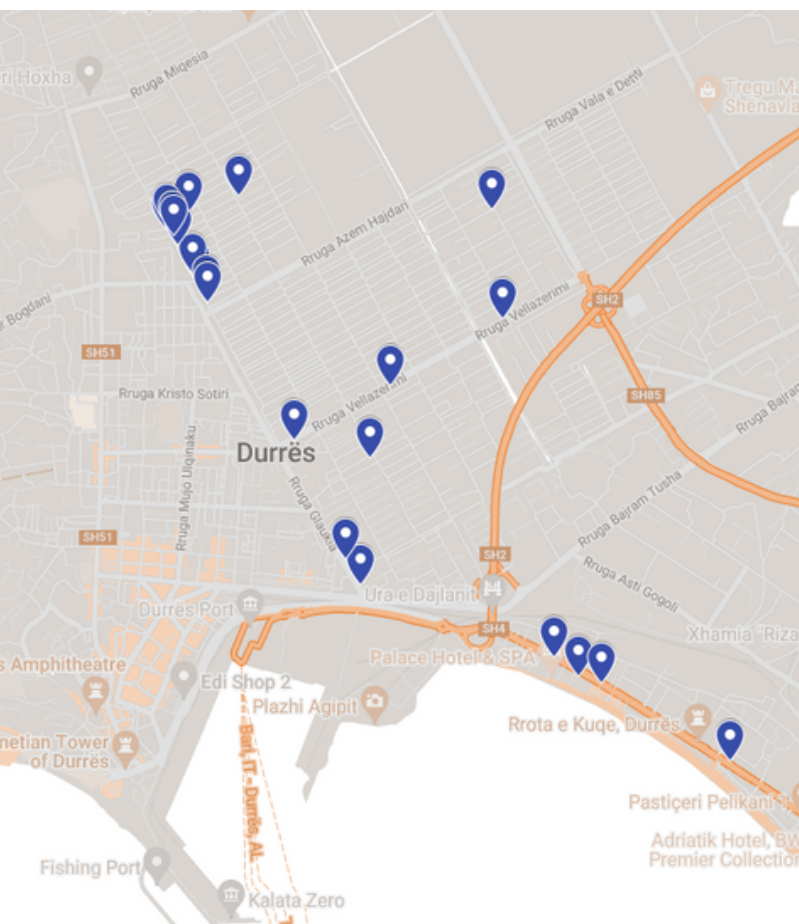


Figure 11: Map of Interviewed MSMEs in Durrës

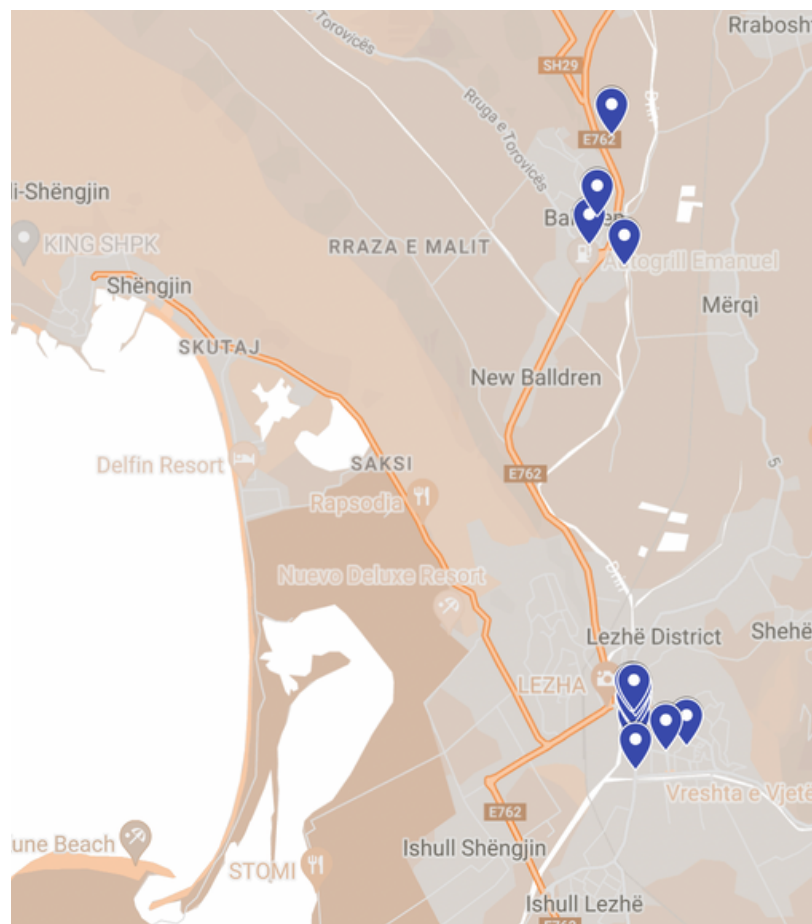


Figure 12: Map of Interviewed MSMEs in Lezha

These cities account for about 52% of all registered MSMEs in Albania (OECD, 2022). Interviews helped us understand the “lived experience” of MSME owners in disaster risks and “the meaning they make of that experience” (Seidman, 2013, p. 9).

We utilized the UNDP’s contact information database through its In Motion and Growing with Your Business programs to develop the preliminary list of businesses to contact. Our sampling strategy targeted a variety of companies based on their size, type of business, and location. To avoid a sampling bias of only contacting UNDP-affiliated business, we also interviewed non-affiliated enterprises in the same region. The following topics were addressed in the interviews:

- Effects of disasters on businesses.
- Current insurance situation.
- Factors shaping decisions on purchasing insurance.
- Confidence in the insurance market to payout claims.
- Opinions on mandated insurance and state insurance companies.
- See the full list of questions in Appendix F

The interviews provided us with valuable insight into the experience of MSME owners with insurance, as well as their opinions and values regarding insurance and its surrounding topics.



Figure 13: The team organizing findings on sticky notes



FINDINGS

The team gathered information from insurance company directors, key government officials, and MSME owners to illustrate the current state of disaster risk insurance in Albania. Government agencies have not systematically planned to increase disaster risk insurance access for small businesses. This is seen as the responsibility of the private sector. Insurance companies have resources to develop DRI policies for MSMEs but have struggled to expand coverage. The main barriers that dissuade MSMEs from purchasing disaster risk insurance awareness, applicability, and trust which we discuss below.

Insurance Company Perspectives on MSME Insurance

Sigal offers many DRI options for MSMEs with options for type of risk, cost, and coverage.

Mr. Ogert Shrepka, director of the property and guarantee department at Sigal Uniqa Group Austria, stated that Sigal offers 48 insurance products and provides insurance coverage for a variety of risks. The base coverage for a DRI policy is fire, although additional risks can be added, including but not limited to earthquakes, floods, storms, glass breakage, theft, terrorism, and more. Insurance options are also available for revenue loss due to material damage from a natural catastrophe. These products are also present for business owners who rent their space.

Sigal offered its base fire and earthquake insurance for an average annual price of €1/sqm, or 0.15% of the total sum insured. These prices differ based upon the location of the business, the risks insured, and security measures that the client has implemented. For example, the price of a premium may be higher if a business is in a flood plain or if shelves and fragile electronics are not secured. Sigal uses the Munich Re and Swiss Re price calculations to determine the true final price.

The insurance choices for MSMEs can be customized and owners can opt for full or partial coverage. Sigal also advises businesses on what damages to insure, based on the factors listed above like location. From our interview with Sigal, DRI options are readily available to MSMEs.



Figure 14: Sigal Uniqa Group in Tirana, Albania

Sigal believes lack of coordination between government agencies and limited promotion efforts affects low insurance coverage for MSMEs.

Several factors influence low DRI penetration rates for MSMEs. After the 2019 earthquake, the central government undertook reconstruction without promoting DRI as an option for economic recovery. As a result, awareness of DRI has continued to be limited. In the absence of effective central government efforts to incentivize or subsidize businesses to buy private DRI, many business owners believe that, just as it did after the 2019 earthquake, the government would compensate them for damages associated with disasters.

Payouts for the 2019 earthquake did not stress Sigal or the greater private insurance sector due to its reliance on reinsurance.

Mr. Shrepka stated that all insurance companies providing property insurance paid out some €40 million in property insurance claims to houses and businesses after the 2019 earthquake. In the face of \$780 million in total damage and losses in the housing sector, this small portion of insured value did not do much.

Sigal and other Albanian insurance companies bought reinsurance in European markets to transfer risks. This was an effective decision. All companies paid all their claims within 6 months of the earthquake. Most DRI claims were attached to mortgages. The private insurance sector's reliance on disaster risk reinsurance allowed for companies to transfer their risk to reinsurers in exchange for a portion of premiums, allowing for such a robust and effective system in the face of disaster.

Flooding and other HFLI events could become harder to insure due to climate change. Sigal's outlook on global warming aligns with the literature on climate change impacts in Albania (USGS, 2023). The increased frequency and severity of natural disasters will change risk profiles, raise the cost of insurance, and impact the investments of reinsurers. These factors have significant implications for the entire DRI market. Mr. Shrepka stated that although it is hard to predict the specific areas where change will be seen, he was confident in seeing a responsively adaptive private insurance landscape. We were unable to identify specific strategies that Sigal was developing to maintain company profitability in the face of possible increasing future disaster damage.

The future for the market is uncertain, and Sigal has no current plans to expand MSME disaster risk insurance penetration.

Complex economic conditions and possible regulatory changes make it hard for Sigal to predict the future development of the insurance market. Several trends may cause MSME DRI penetration to increase. If the Albanian economy continues to grow and modernize, MSMEs may increasingly recognize the use of insurance coverage. The Albanian government may also implement incentives to promote DRI or even capture the DRI market themselves through mandated state-provided insurance. Possible larger economic factors beyond the control of Sigal deter them from trying to expand MSME DRI penetration.

What Pricing and Coverage do MSME's Want in Disaster Risk Insurance?

Different Businesses Desire Different DRI Insurance Coverages

The type of business and ownership status were the two main contributing factors when MSMEs determine what they want covered under a DRI policy. Businesses that rented their operating space were only interested in insuring products--- not the premises--- since most believed that it was the building owner's responsibility to insure the building. MSME's who owned the premises prioritized insuring their building. This was especially true for business owners who lived in the same building where they worked. Bakeries, stationary store, and other businesses that utilize expensive machinery like ovens, computers, and copy machines, were generally in favor of insuring those machines as well due to their high cost of replacement. Businesses such as grocery stores were less likely to seek coverage for products, as they saw them as inexpensive and replaceable.

Most business owners we interviewed were interested in full coverage of their insured assets. Of the businesses interviewed, 78% said they would opt for full over partial coverage for either the building, products, or both. Overall, MSME's tended to not see any value in only partially ensuring their building or their products, as they believed paying a premium that would not cover their full damages would cause more financial hardship than the premium for full coverage.

DRI is Affordable

We found that the price of disaster insurance starts around €50 per year. At this price point businesses can expect full or partial coverage depending on the value of their insured assets against fires and earthquakes with the possible addition of damage from flooding. Businesses that operate out of small spaces or with cheap inventory could foreseeably receive full coverage at this price. Businesses with large spaces or expensive equipment or machinery would be able to receive partial coverage with €50 equating to 0.005% - 1.5% of the insured amount depending on a variety of factors. Flooding can be included in this price, with a lower payout. We asked MSME's about their ability to afford this basic €50 premium, and what they believe to be a fair price for further coverage they might desire.

Of the interviewed businesses, 93% said they could afford an entry level price of €50 while many expressed their desire to pay more for greater coverage. Business owners relished the idea of a premium that was inexpensive but recognized that the coverage they desired would likely come at a higher price. Businesses that could only afford lower cost premiums did not see the value in it, as they felt it was a further detriment to their financial position, further exemplifying loss aversion. The immediate cost of insurance is not worth the payout for low income MSMEs.

While many businesses were able to afford entry level insurance, a few were not. We found that 7% of the businesses we interviewed were unable to afford entry level insurance with a premium of €50 per year. For these businesses, insurance is an economic impossibility. These businesses struggle to turn a profit, and even the lowest coverage options would be too big of a financial burden. A fast-food outlet in Durres, for example, operates in a low-income neighborhood next to a school. Most of their business comes from this school where many of the children cannot afford food to purchase food after school. They have been struggling since the 2019 earthquake ravaged their store and profits. Had they not owned the building, they would not have been able to keep the business going. In their current situation they cannot afford even a €50 premium, and if insurance were mandated, they would have to close.

Some MSMEs Have Pursued DRI

We found a few MSMEs that held DRI policies or had actively searched for one. Three of the MSMEs we interviewed currently had DRI policies and purchased the policies as part of a mortgage or loans taken out for their businesses. They all actively pay between €500 - €800 a year for full coverage, including the building and machinery of their businesses. Other MSMEs that sought insurance were quoted similar prices. One business owner was quoted €600 per year for full DRI but did not purchase it due to its lack of theft coverage. Another coffee shop in the area was quoted around €500 per year for partial coverage. As he was not offered full coverage and felt the quote was far too high, he remains uninsured.

Business Profile 1: Eiffel Cafe

Location: Durres

Eiffel Café has been open for 8 years and is a father & son operation. Owned by Dritan Frakully, and staffed by his father, Eiffel Café is a popular Paris themed café in the heart of Durres. During the 2019 earthquake a section of the wall was destroyed and items in the café were broken. It cost over €6000 to repair the damage and had to close for over a month. After the Earthquake, Dritan approached Albsig for full coverage DRI for his building and its contents. He was quoted around €600 a year for full coverage including fires and earthquakes. Dritan ultimately did not purchase the policy due to its lack of theft coverage. Theft



Figure 15: Eiffel Cafe in Durres

is his most frequent problem, and he currently pays €450 per year for a private security company. Had theft been included or not a problem for him, he would have purchased the policy. Dritan said that the process for getting insured was smooth and straight forward. He is also still interested in getting insured if he can find a policy with his coverage needs at the right price.

Experience With Disasters Affected Insurance Desirability

Prior experience with natural disasters influences the willingness of MSMEs to pay for DRI. Businesses that had been affected by earthquakes or flooding placed a higher value on insurance than those who have not been. A stationary store in Durres whose building and expensive electronics were destroyed by the 2019 Earthquake is currently seeking insurance for its new computers and copy machines in case of future disaster. The owner now sees insurance as necessary as the cost of replacing his equipment depleted his savings and in the event of another disaster, he would not be able to replace them again.

**“[I] cannot afford something like [the earthquake] to happen again”
– Bledar Vora**

To get a sense of what business owners are willing to pay for insurance we posed a hypothetical pricing question. We asked business owners if they were to get insured today and did not have any issues with trust, how much would they be willing to pay. This question was posed separately from coverage and was meant to evaluate the financial commitment businesses were willing to make. On average, businesses affected by disasters were willing to pay over twice as much for insurance as unaffected businesses (€135.5 to €65.6, respectively). Businesses unaffected by disasters are similarly more inclined to pay as little as possible, around €50 with 69% stating this desire. On top of this, it is worth noting that the those who were interested in paying more were only interested in paying up to €100. In contrast, only 37% of the businesses affected by natural disaster in the past would opt to pay €50. Of affected businesses, 31% stated that they were more interested in paying over €100 with interest ranging from €150 to €600. It is important to note that 16% of affected businesses stated a desire to pay as much as was needed if it meant that they would get full coverage, while none of the unaffected businesses shared a similar sentiment.

What do MSME Owners know about Disaster Risk Insurance?

The vast majority of the 71 MSMEs we interviewed do not have insurance. Only 4% had DRI. Although only a few businesses have DRI, 63% of businesses told us that their business property, contents, or revenue was affected by natural disasters in the last five years. This finding aligns with the literature on the protection gap discussed earlier in background section 2.2 (Schanz 2018). Owner awareness of specific DRI coverage options and the business owners cannot take to learn more about DRI contribute to the MSME protection gap.

MSME owners are familiar with insurance through their auto insurance policies.

Many MSME owners are familiar with the concept of insurance due to the Motor Third Party Liability (MTPL) insurance system, established in 2008. The law stipulates that all motor vehicle owners must have insurance coverage for their vehicle to legally drive on roads. Insurance policies are established when the vehicle first gets registered and are subsequently renewed each year. To pay for their policy, people have the choice to pay in cash at a brokerage office or pay online through a company website.

When asked where they could go to purchase DRI or learn more, many MSME owners named their auto insurance provider, often being either Albsig or Sigal. This indicates that many MSME owners are familiar with insurance from their subjective experiences with auto insurance.

Affected owners were more likely to be familiar with DRI.

Despite familiarity with the concept of insurance, awareness of DRI differed depending on if the business had been impacted by a natural disaster. Of the 44 businesses who reported damage from natural disasters, 68% stated they were aware of DRI. In contrast, of the 27 unaffected businesses, only 48% stated they were aware. Figure 16 compares affected and unaffected businesses knowledge of DRI and where to purchase it.

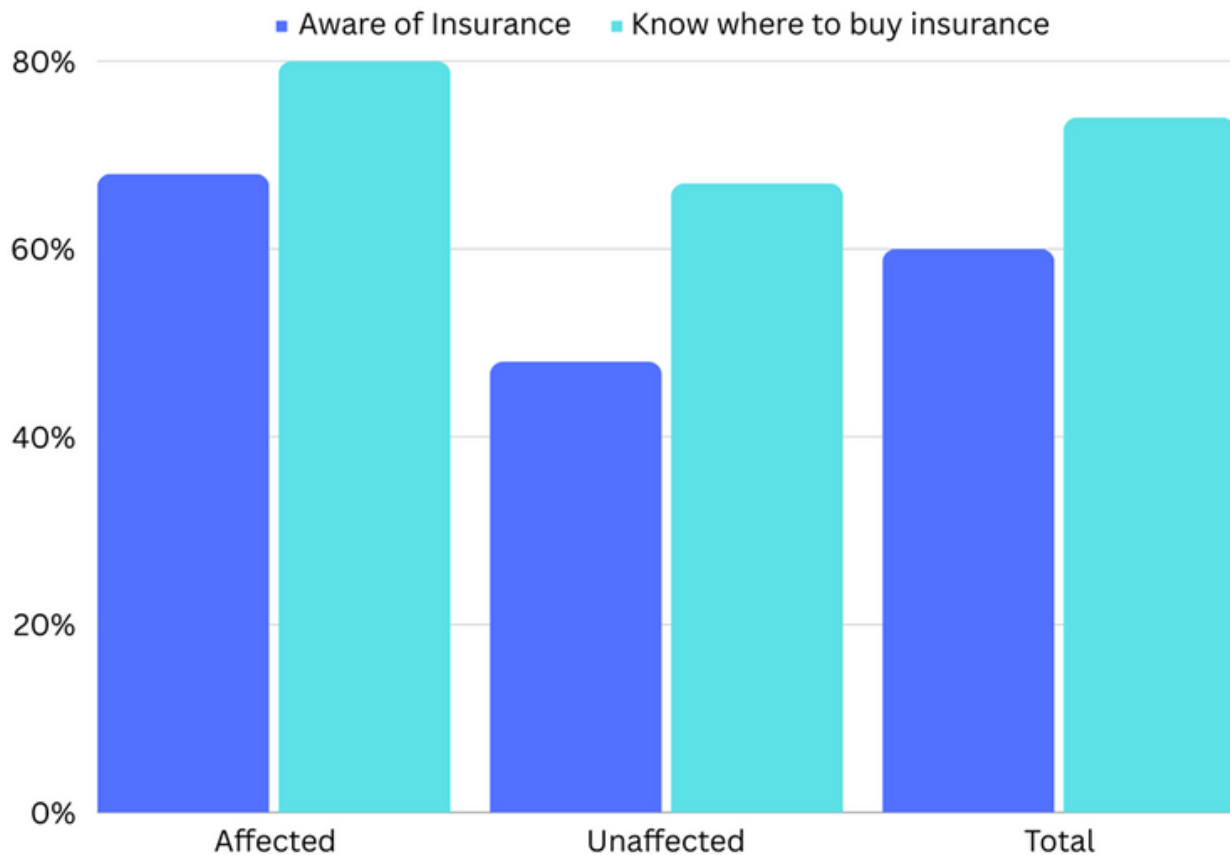


Figure 16: MSME Familiarity with DRI

The increased awareness of DRI among affected business owners also can be seen through the lens of the availability heuristic, which posits that people are more easily able to recall recent events that happened to them. MSMEs that had been affected by the 2019 earthquake or recent flooding were more likely to be interested in learning about DRI than those who were unscathed. However, this finding does not fully explain the low uptake of DRI and indicates that other barriers exist beyond owner awareness of DRI options.

Many MSME owners did not know about specific DRI options or did not know that it could apply to their business.

While not fundamentally different from auto insurance, DRI offers multiple different coverage options that many MSME owners were unaware of. For example, owners that were renting their business premises stated that they had no interest in DRI as they did not own the building in which they operated. This finding is indicative of what we described earlier as the representativeness heuristic, wherein owners that rent are unaware of other coverage options for earthquakes beyond structural damage, such as lost revenue or damaged inventory which would be relevant to their situations. When we discussed other coverage options that directly applied to them, many renting MSMEs expressed interest in insuring their machines or inventory.

Business owners do not have the time to prioritize learning about DRI coverages, exclusions, and premiums.

A common theme among business owners was that they were too busy to learn about DRI. These sentiments reflect the labor characteristics of MSMEs. Figure 17 shows the percentages of employees, including the owner, at the MSMEs we interviewed. Eighty one percent of owners stated that they were the sole worker, or they had had one other employee. In many cases, this second employee was an immediate family member such as a spouse or child.

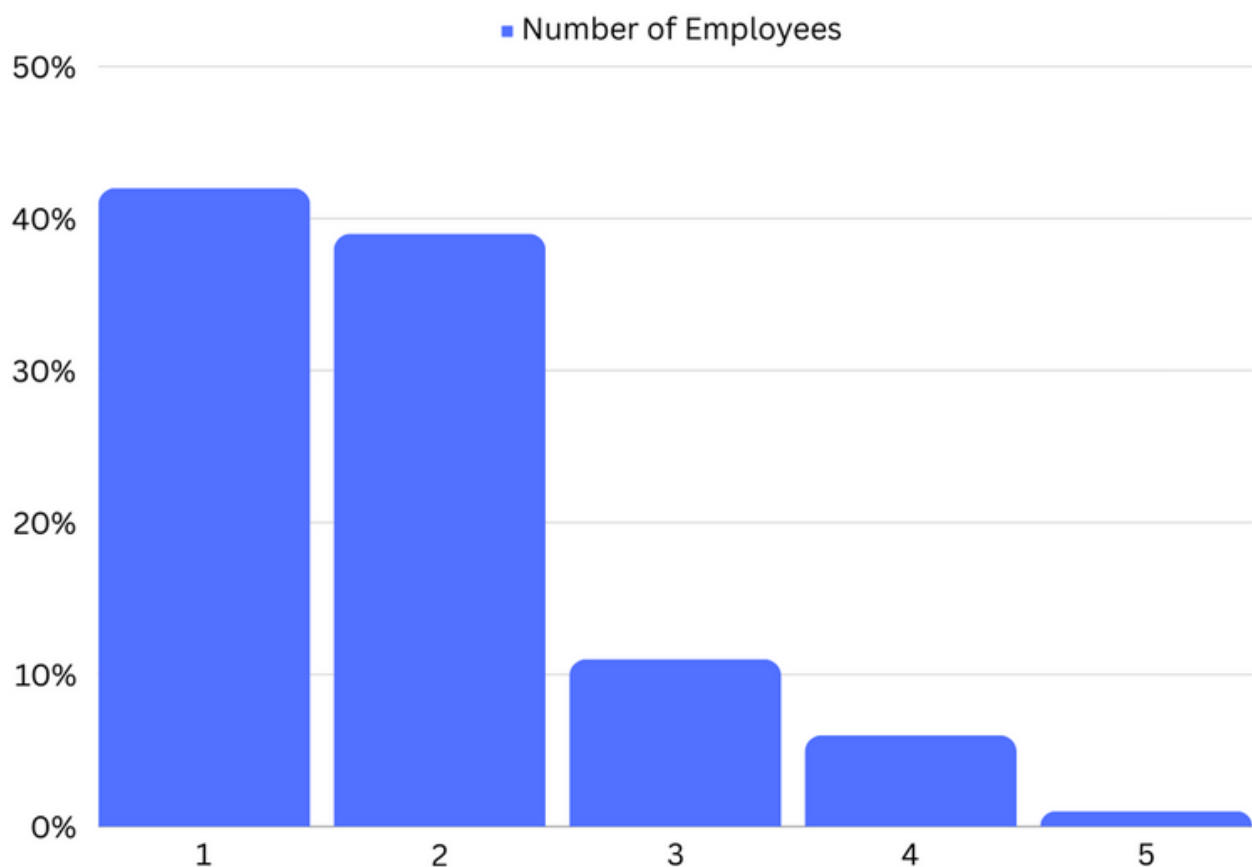


Figure 17: Number of Employees in MSMEs

MSME owners view the process of acquiring insurance as a bureaucratic hassle. Stories from other business owners attempting to purchase DRI or negative personal experiences with auto insurance influence these attitudes. This information, coupled with the responsibility of running the business, leads owners to believe that learning about DRI is not worth their time. These attitudes align with what researchers have called the inertia heuristic. With limited time to find information, it is easier for busy MSME owners to maintain the status quo and not opt for insurance.

Another key factor affecting MSME interest in DRI were the challenges of running a small business. Thirty-four percent of business owners claimed that their business was struggling financially, and they would not be able to afford DRI premiums. Owners felt that the urgency of immediate expenses outweighed the cost of paying for a policy they might never need, affecting their overall assessment of the utility of insurance. This decision-making process in the face of uncertainty aligns with both the myopia and loss aversion heuristics discussed earlier, arguing that owners tend to focus on short-term horizons when weighing immediate costs for future benefits. The present survival of the business is the immediate priority for owners managing their enterprise. Furthermore, the unpredictability of natural disasters led owners to view the cost of premiums as another loss rather than as an assurance of a future payment to cover damages and lost revenue. The business demographics and immediate financial struggles that MSME owners face can be exemplified in Business Profile 2, Supermarket “Gjoni”.

Business Profile 2: **Supermarket Gjoni**

Location: **Shenkoll**

Bardh Gjoni and his wife opened their supermarket six years ago with his wife. His business was slightly affected during the 2019 earthquake. The seismic shaking caused slight cracks in the wall and also damaged some inventory. He was able to repair with savings and get his business operational again.

After the earthquake, Gjoni was interested in buying disaster risk insurance for his business goods. However, his situation has since grown to be much more dire. Nearly 60% of Shënkoll's population have left, greatly affecting Gjoni's revenues. Furthermore, electricity can cut out for 8 hours per day and lead to produce spoilage. When Gjoni looked into a policy, he decided that the cost of DRI was too much for him when weighing these other factors and, chose not to buy it.



Figure 18: Supermarket Gjoni in Shenkoll

How do MSME Owners Perceive Risk?

Many MSME owners believe that disasters will not affect them, or the impact will not be severe.

While we have noted the extent to which Albania is prone to earthquakes and floods, MSME interviewees tended to underestimate the likelihood and consequences of disasters impacting their businesses. Twenty-four percent of owners interviewed believed a disaster would not occur at their business, and 46% believed they would have insignificant damage to their property and operations. Combining these two results, and accounting for overlap, 56% of owners did not see a need for insurance due to this estimated low future risk.

MSME owners assess future risk of natural disasters through the lens of past experiences with earthquakes and flooding.

Figure 19 displays two attitudes among MSMEs about 1) the likelihood of a natural disaster in the near future, and 2) the impact of natural disasters if it were to occur. The data is split between those unaffected, affected, and those affected by low-frequency earthquakes and high-frequency floods.

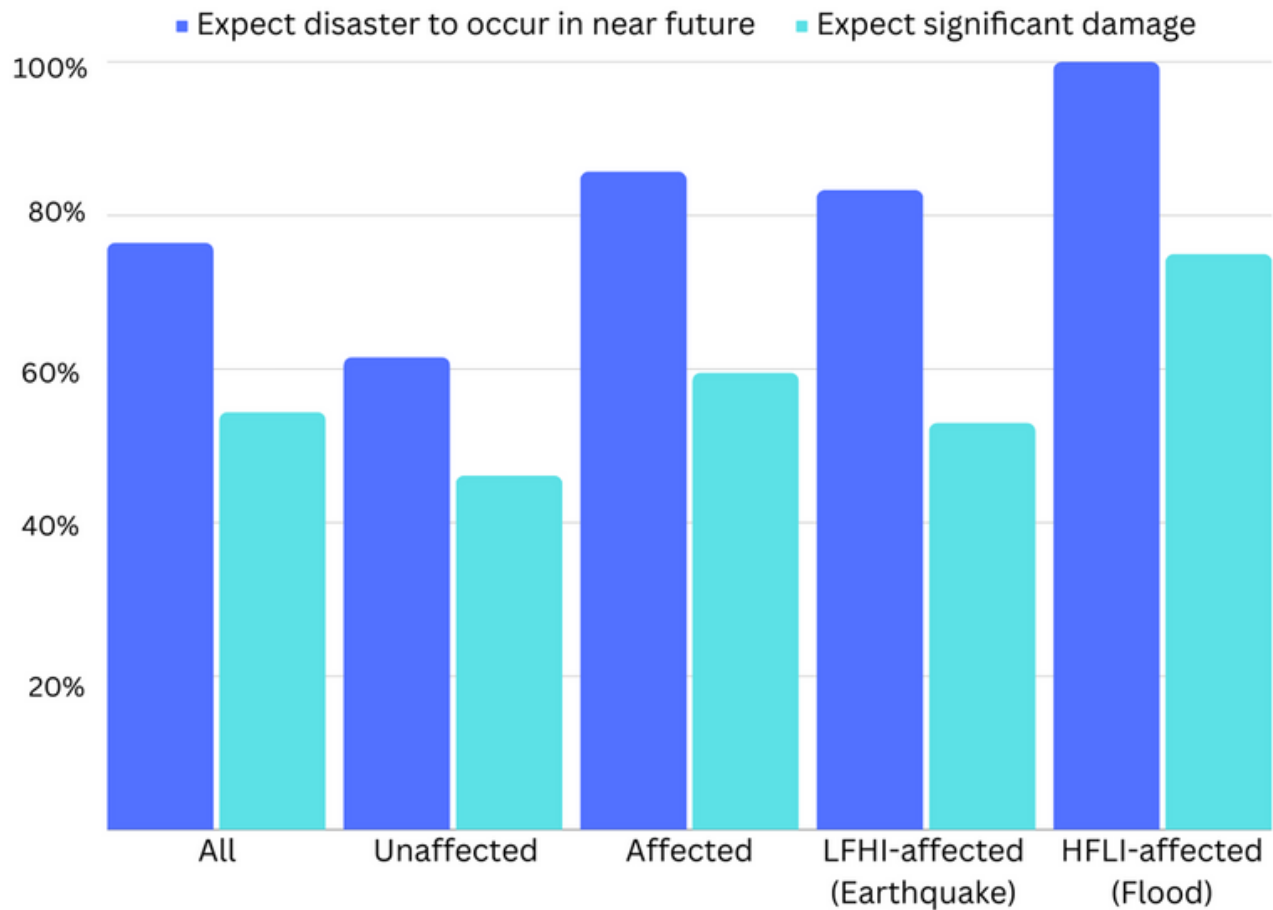


Figure 19: Percent of MSMEs without insurance due to low perceived risk

Of the unaffected businesses that did not have DRI, 62% believed they would encounter a disaster in the near future and 46% believed they would experience significant damages in the event of a future disaster. In contrast, 86% of affected businesses not covered by DRI believed they would encounter a disaster in the near future and 60% expected significant damages. This shows that businesses impacted by disasters in the past were more likely to believe they would experience future disasters and significant damages.

Of the businesses affected only by earthquakes, a low frequency but high consequence disaster, 83% believed they would experience an earthquake in the near future and 53% expected significant damages from such an event. Of the businesses affected by flooding, a high frequency disaster, 100% believed they would experience a flood in the near future, while 75% expected significant damages. From this, we see that businesses impacted by flooding were more likely to believe they would encounter disasters in the near future and significant damages when compared to businesses impacted by just earthquakes. Business profile 2 shows an example business impacted by flooding.

Interestingly, 17% of businesses that were affected by only earthquakes believed they would not see another disaster. One business owner in Lezha, whose shop was impacted by the 2019 earthquake, said that natural disasters “are things that might happen once in fifty years.” Several other owners expressed their belief that earthquakes were once-in-a-lifetime events. They believe that they had their run-in with a disaster and will not have another disaster for a long time. This is slightly accurate as high-magnitude earthquakes happen rarely, but every year still has the possibility of a high-magnitude earthquake. One owner said, “nobody can predict the future” and expressed their focus on short-term business goals over uncertain long-term disaster concerns. For flooding, most business owners’ assessments were valid as their shops were either near the Drin and exposed to flooding or elevated and less exposed.

Business Profile 3: **Bar Restaurant Dashi**

Location: **Balldren**

Bar Restaurant Dashi operates in Balldren, a village near Lezha. Balldren experiences flooding regularly, especially when the dam is opened down the Drini river. Dashi's dining area is elevated and not vulnerable to floods, but they store equipment in the basement. The basement is not perfectly sealed, and floods damage the equipment every year. Sometimes, the water rises to above one meter in height in Dashi's basement. Every year, they see around €700 in damages.

Bar Restaurant Dashi acknowledges their high risk because they have been damaged so regularly. They got DRI only recently due to a mortgage on their property. They have not had to file any claims yet. Before DRI, they used savings to cover damages. They have a good income, as the restaurant is popular and the owner also has another job, so covering damage by themselves has been a very viable method.

They face more pressing issues than earthquakes and floods. They are located out of the center of Balldren and lack running water and consistent electricity. Gjoni, the owner, said that sometimes their lights will



“just come on two hours a day.” Electricity powers the business' lighting and cooking equipment. They regularly lose business because they cannot cook food and have light for customers to eat in.

Figure 20: Bar Restaurant Dashi in Lezha

**“[We] mostly have problems with flooding. It happens 2 to 3 times a year. [We] have equipment [in the basement] that gets damaged basically every year”
- Flutura Gjoni, Bar Restaurant Dashi**

MSME owners that did not experience significant damages in the past believed that they would not experience significant damages in the future and thus did not need insurance. Many buildings had minor tile or plaster cracks and expected similar small damages from future earthquakes. Figure 21 shows a grocery store’s minor cracks from the



Figure 21: Minor tile cracks from the 2019 earthquake in a grocery store

2019 earthquake. Many business owners also expressed that they believed their building was strong enough to prevent significant damage. As an example, the owner of Fish Mania in Astir, said, “I’m just hoping that [an earthquake] won’t happen,” but in the event of another earthquake, “I think [my building] is strong enough because it didn’t have much damage in the other earthquake in 2019.”

How have MSMEs coped with past disasters and what resources do they have to shape their resilience in the face of a future disaster?



Figure 22: A business with metal columns and walls

Many owners believed they had the resources, skills, and support network to buffer the impacts of natural disasters which made insurance less attractive. Some also had buildings made of metal sheets and frames that could withstand earthquakes, like the grocery store in Figure 22. Business products were also arranged in such a way as to avoid significant damage, such as placing glass bottles on the ground where they could not fall and break.

We found few instances of government support for MSMEs, often in the form of a few hundred dollars in financial aid. Without DRI and sufficient government support, interviewees had to rely on their own abilities. MSME owners believed they had resources available to cover damage from future disasters without DRI. Thirty-one percent were willing to forego insurance and instead pay for damages, new stock, and new equipment via their savings, community help, or remittance money. We found two instances of remittance money used to pay for damages from earthquakes. Nick's bakery in Lezha was damaged in the 2019 earthquake. In the aftermath, he replaced his walls using his technical skill and with the support of his nephews, who live in America and provided him with financial aid.

In the business profile below, we describe how Elton Shqipja's construction shop received support from his community and used construction skills to cope with damages. Many MSME owners we talked with have a degree of technical skill, particularly in construction-related businesses. But many other businesses, ranging from restaurants to beauty salons, were able to fix cracks in drywall and other minor damage.

Business Profile 4: **Construction Shop**

Location: **Durres**

Elton Shqipja runs a construction shop making products. His construction machines burnt out due to an electrical surge in the 2019 earthquake, destroying his inventory of products including doors, windows, and lots of glass. Elton found funds to recover “with the help of friends, family members, and a bit of savings.” He ordered new machine parts online and used his construction skills to repair his machinery. As he was ordering and shipping the parts, he faced unexpected customs fees from shipping abroad. The fees accumulated and increased the price of the new parts to €20,000 total. Elton spent countless hours replacing his machine parts and fixing them. After spending €20,000 and laboring for hours, he wished he just bought the machines new.

He recognized that DRI would theoretically be of great use. It took him two years to get back to where he was before the earthquake. However, he lacks trust in insurance companies due to a bad experience with car insurance. Paying for damages himself is certain, getting proper payouts from insurance companies is not. Elton believes he can manage



Figure 23: Elton's Construction Shop in Durres

disasters himself through his coping capacity. Like Elton's other businesses that perceive themselves as at-risk often hit the other barriers of awareness, trust, and pricing and resort to managing risk in other ways.

Do MSME Owners Trust Insurance Companies to Pay for Claims from Natural Disasters?

Lack of trust in insurers deters MSMEs from buying disaster risk insurance

MSMEs we interviewed in Tirana, Durres, and Lezha have little trust in insurance companies. More than half of the MSME owners interviewed did not trust insurance companies to pay out their claims. This was the main reason for roughly a third of our interviewees not currently having DRI.

Many of the MSME owners we interviewed told us they do not trust insurance companies. They explained there was a generalized distrust of such companies, based on their conversations with friends, family, and other business owners. MSME owners share experiences and information with each other, so one person's bad experience with insurance, either through property insurance or automobile insurance, can become a cautionary tale for others. One such example is Memet Subashi, who runs Bar Kafe Subashi in the Astir neighborhood of Tirana. His café is a popular spot for the older community of Astir to relax and talk with friends, which include a multitude of small business owners from the area. During our interview, he described instances of how other business owners, as well as his personal friends, did not receive payouts from insurance companies to which they were entitled. This ranged from damages from the earthquake or other natural disasters to auto insurance claims.

The correlation between trust in insurance companies and trust in the government.

Our data analysis revealed a correlation between the trust levels of private insurance and the government. Approximately 70% of our interviewees who said they had distrust in the government also harbored distrust towards private insurance companies. Various reasons for this linkage emerged during our interviews, ranging from the belief that both institutions collaborate solely for profit to a lack of awareness about how private insurers operate. Consequently, these perceptions led individuals to generalize their distrust from private insurers to the government.

An example of this would be Valentina Marku, the owner of a tailor shop in Lezha nearby to the Drini River. She expressed anger and frustration towards the government on the basis of her experiences of running a small business in Lezha for 15 years. She described government officials as selfish, caring more about themselves and big businesses than MSMEs. She claimed that “[Lezha] is built on small businesses, but the big businesses and government get all the money and buildings and we get nothing.” Moreover, Valentina had no prior experience with insurance, although she claimed to not have trust in them. This generalization between the two results in Valentina’s main reason for not pursuing insurance to be trusted.

“Having a [small] business [in Lezha] is psychological warfare” – Valentina Marku



Figure 24: Aidan and Sean with Valentina Marku

MSME Owners do not anticipate full claim payouts from insurance companies.

While just under half of MSME owners said they have trust in private insurance companies, only 30% of this pool believe they would receive the full amount of compensation stipulated in their policies in the event of a natural disaster. Most expected an expected payout of 70-80% for any submitted claim.

One of our interviewees, Gjyste from Market Pacini in Lezha, echoed a similar sentiment. Although she possessed familiarity with insurance through her experience with automobile coverage, she had not considered purchasing DRI. Gjyste expressed confidence in private insurance companies, citing that if she had been insured at the time, she believed she would have received a full return on her policy, or at least close to it. Regardless of the circumstances, she maintained the conviction that private insurance would offer better returns compared to any assistance from the government. She told us about a flood event where nearly 20 cm of water covered her store, causing both inventory and minor structural damage. Despite these damages totaling €2000-€3000, she received no support from the government. Based on that experience, she emphasized the advantage of having a clear point of contact for questions and accountability through local brokerages when dealing with private insurers, in contrast to the inefficiency associated with government channels.

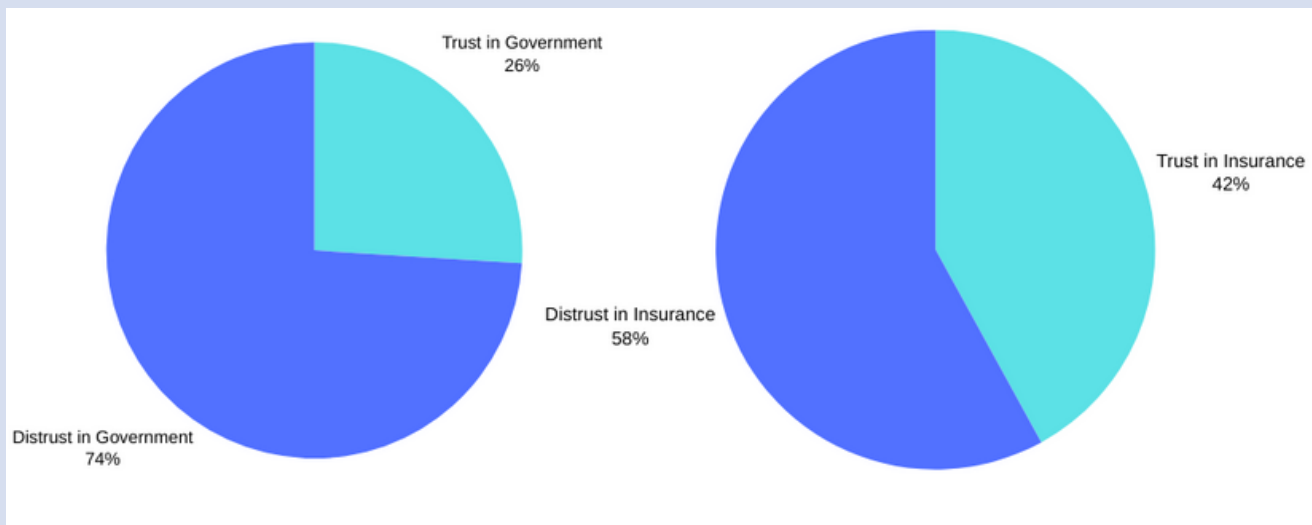


Figure 25: Owner responses for trust in insurance and government

Younger business owners have greater trust in insurance companies and government than older owners

Both trust in insurance companies and trust in the government had negative correlation with age as is shown in Figure 26. Interviewees under forty year old had a more positive attitude. Forty percent have a positive degree of trust in government, while 60% trust insurance companies. MSME owners forty and above had less trust in both institutions. Interviewees often explained this mistrust on the basis of unsatisfactory experiences with insurance companies or the government, as well as occasionally through past events that they have lived through in Albania. Adrian Ndoj of Market Ushqimore, a 26 year old owner of a small market in Lezha, had only minor damage to his shop from the 2019 earthquake. He was also able to repair the damage himself. Independently of this, he specified that he has trust in insurance companies. He believed that, in the event of a natural disaster, insurance companies would do an excellent job in providing the claim payments, as he had heard in response to the 2019 earthquake. He also cited his lack of negative experience regarding automobile insurance up to this point in his life as being an influencing factor in this.

“I have had bad experience with [the negative side] of impacts to my property, [so some form of insurance] would serve to help... [I would] have to budget for it, but it would be helpful” – Adrian Ndoj

From our trends in the data, there is a possibility that the trust barrier for insurance will lessen as younger generations become more involved in the MSME community. They have been able to grow up in a time with a different governmental system than previous generations, and could lead more MSMEs to be willing to buying into DRI in the near future.

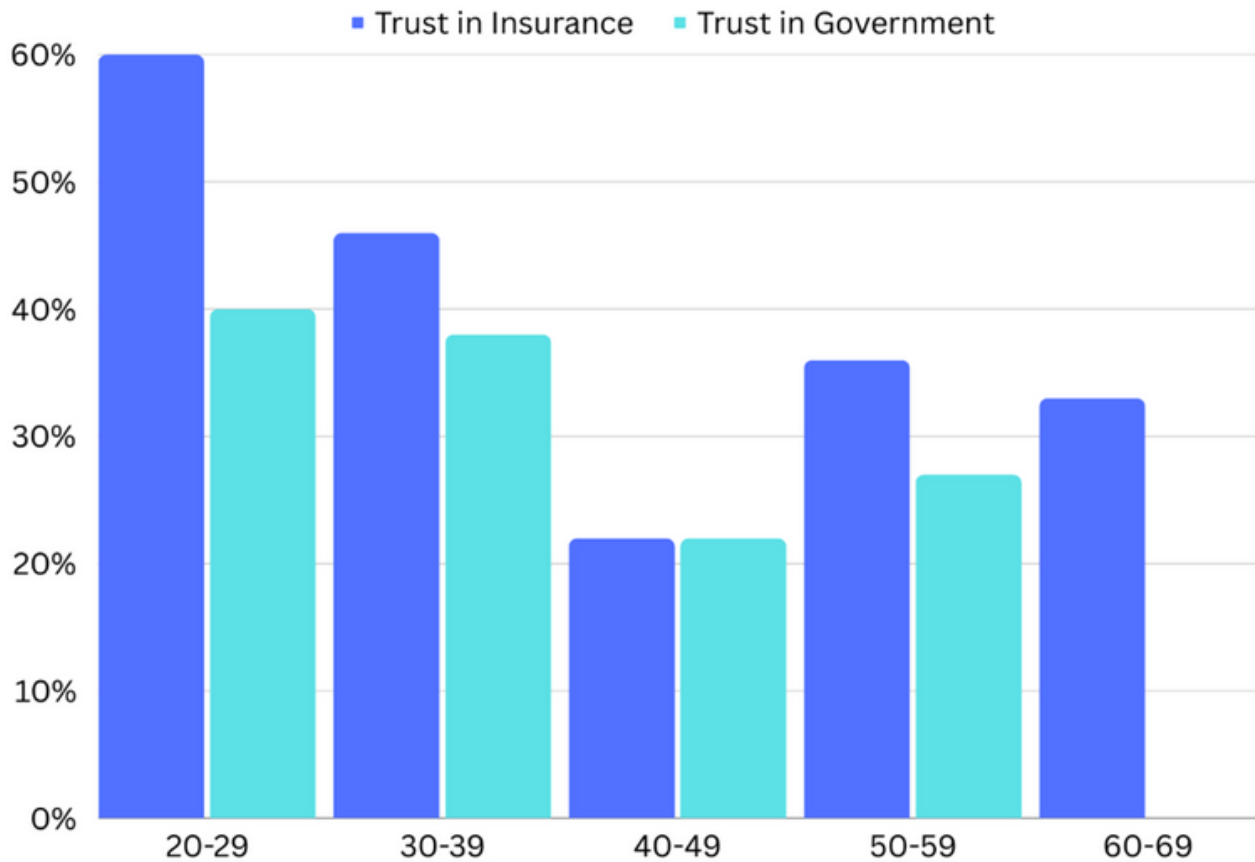


Figure 26: Trust in Insurance and Government by Age

Business owners who rent their space had higher trust than those who owned their space.

About 60% of businesses interviewed operated from a rented space, while some 40% owned their space. Twenty-five percent of owners who owned their storefront had trust in insurance companies. Meanwhile, 47% of MSME owners who rented their storefront had trust in insurance companies. Kristina Marku is the owner of Rrobaqepsi, a tailor shop in the small village of Shenkoll outside of Lezha. For ten years she has rented her workspace and had minimal damage from any natural disasters. While she did not quite trust that she would get a complete payout from insurance companies, Kristina had an overall trust that she would receive enough to make an insurance policy worth it to her, for the right price. Much of this perspective came from perspectives she inherited from her peers and friends. Also, due to renting the building, she believed that the burden of having DRI for the building fell to the building owner. If she were to look for insurance, she believed it would be easier to cover the contents of her store than covering the entire building and its contents, through a storefront owner's perspective.



Figure 27: Age Lale's Lala Market

Down the street from Rrobaqepsi, the owners of Lala Market, Age Lale and his wife articulate a prevailing sense of distrust more common to businesses that operate from their own building. The market has been in operation for three years. During the 2019 earthquake, Age was constructing the store, and the earthquake caused small but significant damage to the floor. Despite receiving €1000 from the municipal government for this damage, he asserted that it fell short of covering the full extent of the losses incurred. The municipality had previously promised Age and his peer's coverage and reimbursement from the earthquake, and as this was not upheld, this led to Age's higher level of distrust in both the government and insurance companies alike. As his business was in the same building as his house, he expressed his doubt that private insurance would be affordable to him. In his ideal world, he said that insurance would be a beneficial practice for him to look into, especially if he could do it in a way where the building itself along with its products would remain insured.

“[The government and insurance companies work together] to make them all richer” – Age Lale

Business Profile 5: **Bedding Shop**

Location: **Lezha**

Pashk and his wife own and run a small bedding shop on the main road of Lezha. The 2019 earthquake caused small, surficial cracks in the shop's walls but nothing more structural. Flooding from the Drini River, which runs 20m behind the business is a larger problem. Pashk described that they experienced significant, shallow deep flooding about once a year. In 2010, during heavy flooding, over a meter of water filled the store. He estimated the damages from this flood at about €1000. Despite this, Pashk was not interested in DRI. As our oldest interviewee at 67 years old, he claimed to be knowledgeable about insurance companies. He explained that, in the past, "evaluators told [me] that superficial damage doesn't mean you get a payout." He has not had interest to look into insurance policies for his business and is very distrustful of both insurance companies and the government. When we asked him about an ideal mechanism to handle DRI, he believed that a system in which government and private insurers worked in complementary fashion, would just go to "fill the pockets of those involved." Even after the flood in 2010, when he had at least €1000

of damages to his shop, the municipal government did not compensate him, similarly to Age Lale mentioned before. This furthered Pashk's levels of distrust in institutions beyond the levels they previously were.



Figure 28: Bedding Shop in Lezha

Owner sentiment varied towards a government mandated DRI program for their small businesses

We surveyed our interviewees to gauge their opinion on a government-run mandatory DRI program for small business. This was a hypothetical scenario, and we made that clear through the phrasing of the prompt. We framed this question relating it to a current draft law that would make earthquake insurance for households' mandatory. We did not provide specifics for coverage, exclusions, or deductibles. We framed the question more specifically towards the central government mandating insurance instead of a voluntary system.

“A mandate would put us all on the same playing field.” – Kastriot Xhangoli

A handful of owners liked this idea of mandated insurance for all MSMEs. They thought that a this uniform scheme, with all business owners contributing to a pool of premiums would benefit businesses as a whole, and they had more faith in receiving benefit from the scheme. The owner of Market Lenia in Durres had a positive view of mandated insurance. He had a negative experience regarding automobile insurance when he did receive a smaller amount of coverage than he was entitled to. This experience left him distrustful of insurance companies. By contrast, under mandated insurance in which all business owners would be insured, he thought it was an interesting but positive idea. By insuring all MSMEs in Albania, he believed that there would be more accountability through the government to honor their payouts in this scheme.

Many other MSME owners saw the positive that could come out of a mandated insurance policy but thought that the central government of Albania could never be trusted to conduct something along those lines. While the system may seem ideal and beneficial, many owners believed that it would never be able to conduct effectively by the central government. Bar Gjoni from Supermarket Gjoni, a small market in Lezha, shared this perception. After the 2019 earthquake, where the market lost a substantial portion of its inventory in damages, Bar was interested in looking into DRI. However, after getting a premium cost that was out of his range, he decided to maintain his current status quo. When posed the question regarding the hypothetical government mandated insurance, he acknowledged that it sounded like a great idea in theory. However, Bar emphasized the need for transparency and accountability in the government for such a scheme. He expressed concerns about whether the central government could effectively ensure fair coverage without their overall profit and added that having some form of added transparency and accountability to the public eye would go a long way in the trustworthiness of this scheme. Despite recognizing the potential benefits, he and other MSME owners remained skeptical, citing a lack of trust in the government's ability to implement and uphold such a plan with integrity.



LIMITATIONS

Sampling Bias

We used the UNDP's contact information log from its In Motion and Growing Your Business programs to develop our MSME outreach plan. This initial database proved essential in enabling us to interview 71 MSMEs in our four weeks in the field. We understood that relying solely on the UNDP contact list could generate sampling biases. To avoid this, we also made efforts to interview random businesses in the regions that were not affiliated with the UNDP.

At the end of our fieldwork, we interviewed 43 UNDP and 28 non-affiliated businesses. Out of these, 88% of UNDP and 21% of non-affiliated businesses were affected by natural disasters. As UNDP businesses were more heavily weighted in this study, the findings may overrepresent trends correlating with businesses affected by natural disasters. Furthermore, the UNDP business interviews were scheduled ahead of time whereas the non-affiliated business interviews were conducted spontaneously. As a result, some of the non-affiliated interviews ended sooner or there was a higher degree of skepticism.

Quantitative vs Qualitative Approaches

While we interviewed a number of MSMEs during our fieldwork, our study could have benefitted a larger sample that could accurately encompass the different demographics seen within Albania and its MSMEs. A representative distribution of owners age, location, and business types would have proved beneficial in drawing more conclusive findings on how these impact DRI understanding and desirability. Our study was oriented towards providing a snapshot of MSMEs, but a more robust study could focus more on in-depth interviews with MSMEs to explore motivations, the social construction of trust and mistrust, and communication platforms to inform MSMEs about disaster risk insurance options.



CONCLUSIONS & RECCOMENDATIONS



Figure 29: Kristina Marku's Rrobaqepsi

An Integral part of the Community

Through our fieldwork, we saw firsthand the impacts of natural disasters on MSMEs throughout different communities. Without disaster risk insurance and government support, many MSME owners insured in other ways. We confirmed the low penetration rate and large protection gap and investigated factors preventing MSMEs from obtaining disaster risk insurance. The lack of awareness of DRI, low perceived risk, self-reliant coping capacities, distrust in institutions, and perceptions of pricing and coverage all influenced DRI decision-making. Factors like age, location, coping capacity, and prior experience with disasters and insurance were part of MSME decision calculus. Through our interviews, we captured a broad snapshot of MSME insurance perspectives as well as the deeper stories behind MSMEs' unique experiences.

Bardh Gjoni's supermarket, Elton Shqipja's construction shop, and so many more MSMEs are integral parts of their communities. Beyond a source of employment, these businesses also provide cornerstone services that support the greater wellbeing of the community. Below are several recommendations to improve insurance access for MSMEs.

FOR THE UNDP

Devise targeted social media campaigns to provide MSMEs with more accurate information about the frequency and impact of natural disasters.

Many owners expressed general optimism about the frequency and intensity of natural disasters. Social media campaigns on Instagram and Facebook can frame the risk of natural disasters more accurately and in the context of climate change way (E.g., framing the risk of a 100-year-flood as having a 26% chance of occurring over 30 years rather than a 1% chance ever year). Showing images of destroyed buildings or flooded cities can also raise awareness of the damage of natural disasters.

We recommend UNDP work with other organizations and news outlets in Albania to spread disaster awareness among MSME owners and people in general. This can help influence MSME owner risk perception and lead them to view the frequency of natural disasters with less optimism. It can also serve to remind them of damage that disasters had on their own business. This strategy would also leverage the availability and optimism heuristics and may even drive business owners to learn about ways to enhance their resiliency.

Spread DRI awareness among MSME owners.

Many owners expressed that they did not know anything about DRI. Sponsoring a workshop where owners can learn about options, communicate with others about their experiences, and expand their resiliency opportunities is just another way that the UNDP can expand their mission. We also recommend UNDP encourage DRI for future business owners they work with. Pamphlets on disaster resiliency and the basics of DRI options can inform business owners efficiently. UNDP may communicate basic DRI options while allowing insurance companies to inform MSMEs on more specific DRI information. Basic information would include what DRI is and how payouts are triggered. It could also include common prices for brackets of different business sizes and coverages.

Work with MSMEs to enhance their businesses resiliency to natural disasters.

MSME owners explained a variety of damages that earthquakes had on their business. While structural damage to the building or superficial cracks to flooring was a concern, many of the damages consisted of the following:

- Inventory falling and breaking on the floor
- Mounted televisions snapping off their supports and breaking
- Power surges overloading the circuitry of expensive machinery
- Bookcases, fridges, and shelves toppling and breaking.
- Broken furniture.
- Cracked glass due to the warping of the building structure.

Helping businesses enhance their resiliency to natural disasters can benefit owners in two ways:

1. Measures that owners take to prevent business damages can help lower the cost of DRI premiums

2. If an owner does not want insurance, they can still make choices that helps their business become more resilient to natural disasters

There are many preventative measures that business owners can implement to mitigate some of these damages. For instance, securing heavy appliances or shelves with earthquake-certified security straps is a way to prevent them from falling over. Using surge protectors on heavy machinery can prevent damage from power surges. Safety film can be retrofitted over windows to prevent them from cracking or shattering. If the UNDP worked with MSME owners to identify which preventative practices would work best for their business, it could help promote greater resiliency to natural disasters. Furthermore, measures that business owners take to protect their business can reduce the costs of insurance premiums. As such, these measures will not only enhance resiliency but also increase the affordability of DRI for MSME owners.



Above Figure 30: Earthquake Shelf Storage Solutions



Left, Figure 31: Furniture Earthquake Straps

As UNDP works with more MSMEs in the future, they can identify opportunities to improve risk resiliency. UNDP can also use workshops and social media to promote ways businesses can prevent disaster damages.

FOR INSURANCE COMPANIES

Create advertising campaigns promoting DRI coverage options.

We identified information gaps in awareness of pricing, coverage, requirements for obtaining insurance, and awareness of DRI to begin with. Informational campaigns promoting DRI in various accessible mediums would help to inform MSME owners and increase DRI penetration. Useful information would include pricing and coverage options for different types of businesses and disasters. Providing profiles of coverage options along with their price and payouts could help MSMEs better understand the coverage options available to them. Currently, companies send a representative to analyze a prospective business and give recommendations for coverage and pricing.

Utilize business profiles that successfully recovered from disaster with insurance as a means to build trust.

Many owners are also distrustful that they will receive full payouts. Building trust between insurance companies and the community should be a top priority. Too often in our interviews MSMEs cited lack of trust as a main reason they are uninsured. The use of statistics from the 2019 earthquake regarding amounts paid and the speed at which they were can better inform MSMEs about the reliability of insurance companies. Profiles and examples of businesses that rebuilt after the earthquake with insurance can help rationalize and personalize the benefits DRI can have on their business.

Advertise disaster risk insurance options when MSME owners go to renew their auto insurance policy.

One way to expand DRI penetration is for insurance brokers to advertise DRI. When MSME owners go to renew their annual auto insurance policy, it presents an opportunity for insurance companies to interact with them and explain potential benefits of DRI as it relates to their business

Leveraging heuristics in marketing strategies may effectively increase MSME DRI uptake.

In our interview with Sigal, Mr. Shrepka stated that market factors and government agencies needed to change before MSME DRI penetration could increase. A way that insurance companies can influence penetration is to make use of the insights from research in decision making under uncertain, also known as heuristics, in advertising campaigns.

We found that a variety of factors influence owners' decision-making to not buy insurance. Insurance companies can evaluate these factors and adapt them to their advertising. Constant reminders of businesses damaged by the 2019 earthquake or flooding can help mitigate the availability bias. This can help to increase MSME's perception of risk as an active threat to their business. DRI could be included in basic business and property insurance by default with an opt-out option. This could help change the perception of DRI to being a normal insurance and expense for businesses. This inertia of upholding the status quo could lead to more owners getting DRI.

FOR THE NCPA AND AFSA

Insurance is a vehicle to promote MSME resiliency and financial security in the face of natural disasters. Increasing the use of private insurance transfers recovery costs from public budgets. While increasing market penetration is not the sole responsibility of the government, the government has a vested interest in doing so. There are many agency actions that can be taken to increase insurance uptake and improve awareness of disasters and resiliency in general.

Revised legislation increasing the transparency and accountability of insurance companies can help increase trust in the market and drive insurance penetration.

Like Bulgaria, Albania could adopt a law mandating insurance companies still provide some coverage in the case of accidental misrepresentation or accidental failure to disclose. This type of legislation can ensure that people still get some payout in cases where the insurer can currently deny it. Such an approach could increase trust as policy holders can be sure they will not be denied compensation over a mistake. A legal system through which the insured can seek damages from the insurer in the case of late payment would also be beneficial.

Bulgaria has an established government agency that manages complaints against insurance companies. If the AFSA adopted a similar strategy, the results could prove fruitful. When an insurance company fails to pay out in a set period, the insured can file a complaint against the company and seek damages in court. This would go a long way to assist in building trust in the market. If the community knows the insurance companies can be held accountable, they may be more inclined to get coverage.

Mandate flood insurance for borrowers and new construction in floodplains.

A strategy that the United States of America has implemented through their National Flood Insurance Program (NFIP) is to mandate flood insurance for borrowers in who live in a floodplain with a 1% annual chance of flooding. This system has expanded insurance uptake, with over 5 million policy holders currently enrolled (CRS 2023). While the NFIP system designation of flood plains are challenged by hydrological changes related to climate changes (Shabman, Kousky, 2023), the idea of mandating flood insurance areas facing recurrent flooding remains relevant. Mandating insurance in high-risk flood areas, based on floodplain maps produced by the NCPA, can increase the pool of premiums, and allow for greater DRI uptake. Incorporating private insurance more readily in such a scheme would further help to diversify risk across numerous stakeholders and promote greater systemic resiliency.

Explore financial support and incentive options for MSME owners seeking to enhance resiliency or purchase DRI.

There currently are no such policies in place to promote MSME DRI uptake. Albanian Financial Supervisory Authority officials stated that the idea of government subsidies to support MSME DRI uptake was not very “straightforward,” as public tax money would be used to support a private enterprise. However, the NFIP in the USA utilizes taxpayer money to subsidize premiums of policyholders (CRS, 2023). Legislators should further investigate ways to incentivize business owners to uptake DRI while. One idea could be to provide one-time economic incentives for MSMEs to adopt pre-disaster strategies rather than providing continuous subsidies for DRI premiums. For example, in the United States, the California Earthquake Authority offers policies at a discounted price for older homes if they have been properly retrofitted (CEA 2023). Government assistance to increase business resiliency in the face of natural disasters would be less costly than subsidized premiums while also increasing the affordability of DRI.

FUTURE RESEARCH

Future research can more deeply investigate how MSMEs understand and assess DRI. Interviews with the few owners who actively sought and bought DRI not due to a mortgage would provide a unique perspective. Interviews may also go deeper into the process of meeting requirements to obtain DRI, choosing policies and acquiring DRI, paying premiums, filing claims.

Future research should also evaluate MSME owner attitudes in more rural areas and villages. Our research focused primarily on the urban centers of Tirana, Durrës, and Lezha due to their high concentrations of MSMEs. An evaluation of small business owner attitudes in more rural areas could help to provide a fuller picture of owner sentiments.

More examples of insurance policies and coverage can be part of in-depth interviews. Questions about deductibles, partial coverage options, and other specifics would better facilitate discussion about pricing barriers, coverage, and needs. This would include prior research with pricing options for businesses of different sizes and different regions, which would allow for more accurate representations of MSME's affordability of different DRI policies.

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APPENDICES

Appendix A. Informed Consent Script

Considerations:

- Remain neutral on the subject. Ask open-ended questions, not leading questions. Embrace uncertainty.
- Ensure the interviewee knows that their identity will be confidential.
- Do not pry if the interviewee gets uncomfortable.

Introduction:

Hello _____. We are American students from Worcester Polytechnic Institute doing a research project on natural disaster insurance for local businesses like yours. Our research is intended to make natural disaster insurance more available to businesses like yours.

We are working with The United Nations Development Program Albania, a United Nations organization that works on achieving sustainable development. We would like to interview you on (interview topic). This interview will take about (how much time). Can we record you during this interview on our phones to make sure we accurately capture your responses? If you would rather not, it is perfectly fine, we can just take notes instead. Your participation in this interview is completely voluntary and you may withdraw at any time. As part of our interview, can we take your picture which we may use in our report to serve as an example of a MSME owner? We would like to use your name in our report and directly quote you. If you prefer, however, not to be quoted and not to be identified, we will ensure confidentiality. Our report will be available online by the end of December, and we can also email it to you if you wish.

If we ask a question that you do not want to answer, just let us know and we will move on to the next one. If you do not understand our question, let us know and we can try to rephrase it. Do you have any questions for us before we begin?

Date/Time:

Location:

Interviewers:

Interviewee:

Interviewee Role:

Do we have permission to record this interview (y/n)?

Would you like to be confidential, or can we use your name and quote you in our report (y/n)?

Would you like us to share our paper with you when it is complete (y/n)?

Conclusion:

Thank you for talking with us today and for participating in our research!

Was there anything in the interview that you think we missed or wish we had talked about more? Would you like to see and read over the analysis of this interview? You can always reach us at (emails/phone numbers) and you can also contact UNDP to ask for us (contact info).

Thank you for your time.

Appendix B. Questions for Identify Policies and Strategies of Local Insurance Companies

1. Through our research, we found that disaster risk insurance penetration is very low for small businesses. What factors do you see contributing to this low level of coverage?
2. Has there been an increase in demand for disaster risk insurance from MSME owners?
 - a. What impact did the 2019 earthquake have on MSME owner's decisions to buy disaster risk insurance?
 - b. What impact have the recent flooding events had on MSME owner's decisions to buy disaster risk insurance?
3. Over the next 10 years, do you see the Albanian insurance market expanding further into MSMEs?
4. To what extent did the 2019 earthquake insurance payouts stress the insurance sector overall, and your company specifically?
5. How do you see climate change affecting the disaster risk insurance markets in the future?
6. There is a drafted law that's aim is to mandate government-backed disaster risk insurance for houses. If this law ends up pushing through to MSMEs, how do you see this affecting the private insurance market of disaster risk insurance for MSMEs?

Options available for MSMEs:

1. What is a typical premium/price for insurance for a small business, on average?
 - a. What methods do you use to determine premium prices?
2. What coverage options are available?
 - a. Can business owners choose what types of disasters to insure against?
 - b. Can they choose to have full or partial coverage?
3. Many business owners rent their space and do not think it is their responsibility to buy insurance for the structure. Are there options available to insure the business contents, not the structure? Are there options to insure revenue losses from disasters?

Appendix C. Questions to Identify Policies and Strategies of the AIA

1. Through our research, we found that disaster risk insurance penetration is very low for small businesses. What factors do you see contributing to this low level of coverage?
2. Has there been an increase in demand for disaster risk insurance from MSME owners?
 - a. What impact did the 2019 earthquake have on MSME owner's decisions to buy disaster risk insurance?
 - b. What impact have the recent flooding events had on MSME owner's decisions to buy disaster risk insurance?
3. Over the next 10 years, do you see the Albanian insurance market expanding further into MSMEs?
4. To what extent did the 2019 earthquake insurance payouts stress the insurance sector overall?
5. How do you see climate change affecting the disaster risk insurance markets in the future?
6. How does the AIA collaborate with its members on strategies to educate MSME owners about disaster risk insurance?
7. How does the AIA collaborate with government stakeholders to improve disaster risk preparedness and insurance coverage for MSMEs?
8. What innovative industry practices are being implemented to reach more MSMEs and improve outreach?
9. There is a drafted law that aims to mandate government-backed disaster risk insurance for houses. If this law ends up pushing through to MSMEs, how do you see this affecting the private insurance market of disaster risk insurance for MSMEs?
10. Is there any other information you would like to share to help illustrate the state of Albania's disaster risk insurance landscape?

Appendix D. Questions for Identifying National Civil Protection Agency Perspectives relating to Risk Transfer

1. What is AKMC's overarching policy and strategy concerning disaster risk management, and how does it incorporate the role of insurance in building resilience?
2. How does AKMC collaborate with the insurance industry to enhance disaster risk resilience for both public and private entities?
3. What regulatory framework or guidelines are in place to encourage MSMEs to adopt disaster risk insurance as part of their risk management strategy?
4. Are there initiatives or incentives for fostering public-private partnerships in the area of disaster risk insurance?
5. How does the agency share information with MSMEs about the importance of disaster risk insurance and available options for coverage?
6. Is there any government support or subsidy for MSMEs to offset the costs of disaster risk insurance premiums?
7. What initiatives are in place to build the capacity of businesses in understanding and implementing disaster risk management strategies, including the use of insurance?
8. To what extent does the government aid or support MSMEs through the AKMC in the aftermath of a disaster, particularly concerning insurance claims?
9. What are the long-term goals of the government, as facilitated by the AKMC, in terms of enhancing the overall resilience of MSMEs and other communities to disasters, and how does insurance fit into this vision?
10. What other information would you like to share that wasn't asked in these questions?

Appendix E. Questions for Identifying Government Officials' Perspectives relating to Risk Transfer for the AFSA

1. What are the roles and responsibilities of the AMF regarding disaster risk insurance?
2. Which other government entities do the AMF work directly with, and do they work with any insurance companies directly?
 - a. If yes, how do they work in relation to each other?
3. How would you characterize the current interest in disaster risk insurance for MSME's?
 - a. What percentage of MSMEs have disaster risk insurance for MSMEs?
 - b. What percentage of these businesses have disaster risk insurance just because they are required to have it for a loan?
4. How do you envision disaster risk insurance supporting MSMEs disaster resiliency in the future?
5. What steps are being taken to further develop the disaster risk insurance market in Albania, either through private insurance companies or the government overall?
 - a. What initiatives are in place to build the capacity of businesses in understanding and implementing disaster risk management strategies, including the use of insurance?
6. Do you envision private insurers working at a closer level with government-backed insurance in the future?
7. What other information would you like to share that wasn't asked in these questions?

Appendix F: Questions for Access Barriers and Needs of MSMEs

1. Tell us a bit about your business:
 - a. What do you do?
 - b. How long have you been in business?
 - c. How many people do you employ?
2. Does your business have a company bank account?
 - a. Do you have a personal bank account?
3. Has your business been affected by natural disasters?
 - a. Has it been affected by earthquakes, floods, heavy rain, both, or other?
 - b. In what ways did these disasters affect you and your business?
 - c. What is the most damage a single disaster did to your business in monetary terms?
 - d. How did you recover from the damages? Did you self-insure, take a loan, have insurance, or receive central/local government or community help?
4. Some property insurance covers damage from natural disasters. How familiar are you with disaster risk insurance?
5. Do you currently have disaster risk insurance for your business?
 - a. If YES:
 - i. Where did you go to get disaster insurance?
 - ii. What factors shaped your decision to buy an insurance policy? What factors encouraged or deterred you?
 - iii. What is your premium?
 - iv. What does it cover?
 - v. Are you satisfied with your policy?
 - b. If NO:
 - i. Did you hold a policy in the past?
 1. Where did you go to get disaster insurance?
 2. What factors shaped your decision to buy an insurance policy? What factors encouraged or deterred you?
 3. What was your premium?
 4. What did it cover?
 5. Were you satisfied with your policy?
 6. Why did you end your policy?

- ii. Where would you go to get disaster insurance?
 - iii. Do you feel you need disaster risk insurance? Under what conditions would you consider buying an insurance policy?
 - iv. A common price for disaster risk insurance covering a business space is 50 euros per year. Would you be willing to pay this price? How much would you be willing to pay?
 - v. What would you like to be covered in this policy?
 - vi. What disasters would you like to be insured against?
6. How confident are you that you would get a payout from an insurance claim if a disaster damaged your business?
7. There is a central government proposal for mandatory earthquake insurance for homes. Mandated disaster insurance for businesses is also a future possibility. In what ways do you think this would be helpful or harmful, effective or ineffective?
- a. The law would create a state company to provide insurance policies as supposed to using private companies. Would you rather use private companies or a state company for insurance? Which do you trust more?

Appendix G. Disaster Risk Insurance Best Practices Deliverable



Disaster Risk Insurance Best Practices

Sponsor: United Nations Development Programme Albania

Advisors: Professor Melissa Bulter, Professor Robert Hersh

Authors: Aidan Behilo, Gabriel Shiu, Sean Sullivan, Robert White

Risk and Resiliency in the Western Balkans

The Western Balkans are at a high risk of natural disasters including earthquakes, floods, droughts, and wildfires (FAO, 2019). Climate change is expected to increase the frequency and intensity of climatic shocks in the region, and many governments are working to increase national resiliency and recovery measures. Montenegro and Serbia are examples of countries that have implemented disaster risk reduction (DRR) strategies. Albania has the most recent DRR strategy in the region with the approval of its National Disaster Risk Reduction Strategy (NDRRS).

Montenegro's main hazard exposures are flooding and earthquakes. Earthquakes affect 9,000 people and cause upwards of US\$70 million in damages annually (Magheru, 2022). Flooding impacts 10,000 people annually and causes upwards of US\$90 million in damages (Magheru, 2022). Over the last 20 years, six major flood events have occurred. A 2010 flood was particularly devastating, with €14 million in damages (FAO, 2018). To mitigate the effects of such disasters, Montenegro has implemented the Strategy for Disaster Risk Reduction for 2018-2023. The strategy has four priorities: understanding disaster risk, strengthening management, investing in disaster risk reduction, and increasing readiness for disasters (FAO, 2018). The conclusion of the plan occurs this year, and evaluations of its implementation will be seen in future years.

The main hazards that Serbia is exposed to primarily are droughts and flooding. In 2014, Serbia experienced its worst flooding in over a century, causing over US\$1.5 billion in damages and displacing 125,000 people (GFDRR, 2017). To manage extreme weather events, Serbia implemented its National Disaster Risk Management Program (NDRMP). This program utilizes a multi-donor trust fund to provide the basis for the system. The NDRMP focuses on institutional building, disaster risk identification and monitoring, structural and non-structural risk reduction, early warning systems, risk financing strategies, and resilient recovery (World Bank, 2021). The Serbian NDRMP officially concluded in 2020, and the effects of these resiliency efforts are yet to be seen.

There are no significant differences between the disaster risk reduction strategy between Serbia and Montenegro. Both programs concluded recently, and feature





programs focused on foundational efforts toward resiliency. In comparison, Albania has the most recent and newly developed risk reduction strategy in the region.

The Council of Ministers in Albania recently approved the National Disaster Risk Reduction Strategy (NDRRS) of Albania. The strategy was developed with assistance from the World Bank and features a 7-year timeframe to address key resiliency goals. Furthermore, it serves as a guide to Albania's future disaster risk management activities and investments.

The NDRRS emphasizes that strengthening the catastrophe insurance market plays a role in increasing the disaster resilience of Albania. The Multi-Risk Disaster Risk Management Projects, Strategic project no. 14 "Strengthen financial preparedness of the country through adopting a National Disaster Risk Financing Program" aims to increase financial resilience against national disasters by increasing the capacity to meet post-disaster funding needs. The second key activity in this project titled "Access to financial services post-disaster by households, farmers and businesses and the poor", focuses on insurance. This project aims to address: 1) earthquake insurance for households, 2) access to finance (by farmers and MSMEs), 3) adaptive social protection, 4) insurance market development, 5) the introduction of financial instruments that can strengthen financial and private sector resilience against disasters and climate change.

Albania's NDRRS is a newly developed strategy to address disaster risk reduction in the region. With this framework, Albania is trailblazing disaster risk reduction in the Western Balkans. If effectively implemented, the strategy will increase the resiliency of Albania to exceed that of the region and put it at the forefront of disaster risk management in the Balkans. Although Albania has a sound development plan, it can still benefit from the practices of other countries that have faced similar challenges. The national efforts of Turkey, Romania, France, and Bulgaria can provide further practices that Albania may consider implementing.

Approaches to Disaster Risk Insurance & Resiliency

Country				
Disasters	Earthquakes	Earthquakes, Floods, Landslides	Tropical Storms, Hurricanes, Floods	Floods, Wildfires, Earthquakes
Strategy	<p>DASK: State-owned catastrophe pools which mandates insurance and provides policies to owners through private insurance companies</p>	<p>PAID: Mandated private home insurance through a union of 12 private insurance companies</p>	<p>CATNAT: Public-private partnership between private insurers, public reinsurance, and a government-backed guarantee</p>	<p>EU Directive Solvency II Private insurance market</p>
Successes	<ul style="list-style-type: none"> + Payment claims capacity of US \$4.2 Billion + Utilizes private insurers to sell policies. + Historically effective payouts 	<ul style="list-style-type: none"> + Payment claims capacity of €900 million + Financially sound private insurers + Affordable premiums: €10 or €20 per year 	<ul style="list-style-type: none"> + Mandated through private insurers + Large disasters are backed by reinsurance and government + Able to pay back large losses efficiently 	<ul style="list-style-type: none"> + Solvency II enables a stable market + Legal pathways to file complaints and seek damages + unintentional misrepresentation will still receive some payout
Challenges	<ul style="list-style-type: none"> - Low penetration: no legal penalty for not insuring & was only compulsory for one year - Not resilient to frequent or extremely damaging earthquakes 	<ul style="list-style-type: none"> - Resistant population & low enforcement, 20% penetration rate - Moral hazard: gov. indemnifies non-insured homes 	<ul style="list-style-type: none"> - 6% - 12% of premium to private insurers go to reinsurance companies 	<ul style="list-style-type: none"> - Penetration rate is still relatively low - Slow market growth - Solvency II capital requirements increase the price of premiums

Case One: Turkey

Turkey is at a high risk of seismic activity. In 1999, an earthquake struck the city of Izmit, just 100km away from Istanbul. According to a 1999 World Bank Report, the earthquake resulted in over 17,000 deaths and US\$10 billion in damages (World Bank, 2003). Financing relief and recovery efforts caused significant strain on the public budget while resources were devoted to restoring public access to water, services, and infrastructure before compensating affected households (World Bank & GFDRR, 2021b). The government understood that its current system for disaster mitigation was unsustainable and looked for alternative solutions.

With the support of the World Bank, Turkey launched the Turkish Catastrophe Insurance Pool (DASK) in 2000. A 2012 law further specified the goals of DASK, defining the responsibilities of “providing affordable earthquake insurance for every homeowner, allowing for a true risk transfer mechanism, introduce claims-paying capacity to limit government exposure, and building national catastrophes reserves over time” (World Bank & GFDRR, 2021 b, p. 39). The concept behind the insurance pool was to mandate earthquake insurance for residential buildings, covering material damage to the structure but not the contents of the building. DASK sells policies through private insurance companies, which take a fee on all transactions. Premiums are based on a multitude of variables, factoring in building location, total size, and construction type (World Bank & GFDRR, 2021b). The DASK system has built a US \$2.9 billion safety net since its inception from these premiums, but the capacity and efficiency of the system is currently being challenged.

The 2023 Turkey-Syria earthquakes that struck the southeastern region of the country exposed a significant weakness in the DASK system. Despite the word “mandatory”, policies are required for only one year and there is no legal penalty for not having coverage. Furthermore, business entities are not required to buy into DASK (Howard, 2023). The result of such policies was a protection gap, leaving many unprotected assets vulnerable to over USD\$34.2 billion in seismic damages (World Bank, 2023).

The Turkish Catastrophe Insurance Pool, while an imperfect and presently strained system, is a modern approach to distribute risk across a seismically active region. Further development of the program is necessary, as evidenced by the 2023 earthquake, but the DASK model and its operation are tailored to the region and can serve as a starting point for other countries in seismically active areas.



Figure 1: Damage in Ankara, Turkey (NY Times, 2023)

types of buildings covered by the insurance program. Type A buildings, with a resistant structure made of reinforced concrete, metal, or wood, or external walls made of stone, burnt brick, or treated materials, have a maximum insured amount of €20,000, with an annual premium of €20. Type B buildings, with external walls made of unburnt bricks or untreated materials, have a maximum insured amount of €10,000, with an annual premium of €10.

Seventeen private insurance companies provide the PAID insurance (China-CEE Institute, 2023). It is very financially sound. The program holds approximately €900 million in reinsurance and boasts a high solvency ratio, indicating it has more than enough capital to cover claim obligations to policyholders (World Bank, 2019). As of 2019, PAID has never experienced a year in which payouts surpassed the program's income.

Though legally mandated, PAID has an actual penetration rate of 19% as of December 2018 (China-CEE Institute, 2023). Local authorities are supposed to enforce the mandate, but due to the unpopularity of PAID, they do not enforce it (World Bank, 2019).

PAID has been compensating for losses in recent disasters. PAID policyholders were compensated for 1,664 earthquake damage claims from 2013 to 2022. In February 2023, a 5.7 magnitude earthquake hit Southern Romania which caused earthquake damage compensation to increase significantly, with about US\$600,000 in payouts of 35 cases. In 2022, about US\$300,000 was paid out for almost 500 flood claims (China-CEE Institute, 2023).

The PAID policy has remained unchanged since 2008. The government is discussing future changes to improve the policy and extend coverages to storms, which have increased in recent years (China-CEE Institute, 2023). It is serving Romania well as an inexpensive, efficient, financially-sound source of insurance against various natural disasters.

Case 3: France

France's main impacts from natural disasters come in the forms of tropical storms, hurricanes, and flooding. In 1999, Storm Lothar and Storm Martin caused US\$8.5 billion in damages, as well as 92 deaths, while affecting 3.4 million more people. Floods often follow major storms such as these, but can often times be more devastating. The Paris region floods in 2016 damaged around US\$2.4 billion alone (OCED and World Bank, 2019).

Disasters like these caused France to develop a national disaster risk insurance plan in 1982 (Aktualitet, 2023). This scheme, called Catastrophes Naturelles, or CATNAT, is a scheme where public and private insurers work in a partnership to manage the disaster risk insurance landscape of France. CATNAT mandates property insurance for natural disasters; when renting, it is obligatory that you have insurance to cover the contents and the building, whereas if you own the property, you must at least have third-party liability insurance (Complete France, 2022). 12% of the premiums for property insurance are transferred from the private insurers to a public reinsurance company Caisse Centrale de Reassurance, or CCR. This public company acts to assist the insurance companies of France in the case of an abnormally large natural disaster (Aktualitet, 2023).

CATNAT is also backed by a state guarantee, where in the unlikely event that the CRR is unable to completely cover the insurance companies, the government will step in to provide the remaining funds (OECD, 2019). In the 40+ years where CATNAT has been in effect, there has only been one instance where the government has had to intervene. This happened in 2000, where the government stepped in and added US\$250 million to cover the outstanding payments that had been claimed from the previously mentioned storms Martin and Lothar in 1999 (OECD, 2019).

Overall, the CRR is estimated to pay out an average of US\$1.2 billion per year to compensate for damages resulting from natural disasters. However it might seem, the CRR and private insurers are not the only stakeholders that help with disaster relief. Local authorities and emergency relief funds have quite some impact as well, contributing about US\$100 million in relief after the 2016 floods in the Paris area

(OECD, 2019). Other national programs such as the Solidarity Provisions for Local Authorities, Emergency Relocation Fond, and National Guarantee Fund for Agricultural Disasters help to further resiliency through help with reconstruction, relocation, and more (OECD, 2019).

Overall, with the CATNAT system and government-backed guarantee, France has created a very stable disaster insurance market and proven it to be very resilient over the past 40 years. Even with a large risk of heavy storms and flooding, the partnership of private and public markets and companies has proven to be an effective way to combat disasters and improve the country's resiliency overall.



Figure 4: Damages from Storm Lothar, 1999 (Ouest France, 2019)

Case 4: Bulgaria

Bulgaria is at biggest risks from flooding and earthquakes. Bulgaria's location makes it a prime candidate for heavy rainfall along with melting snow and ice in the mountains, creating the potential for flash flooding rivers and torrential downpours. In 2005 a series of floods killed 30 people and caused around US\$300 Million in damages (World Bank & GFDRR). Rainfall in Bulgaria has only increased in recent years with global warming, and recent studies show that rates will continue to increase (World Bank).

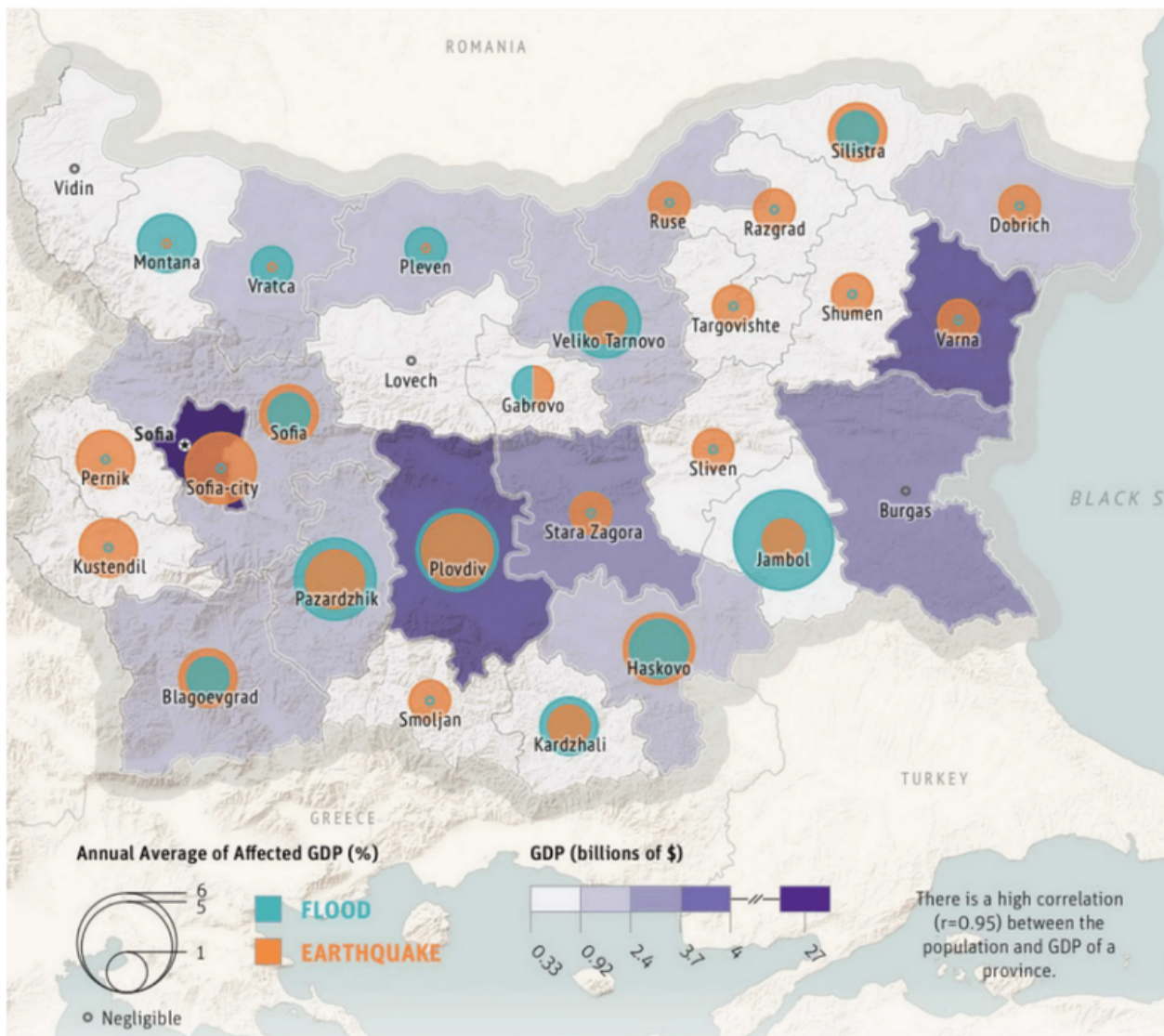


Figure 5: Average annual affected GDP from floods and earthquakes (World Bank & GFDRR)

Bulgaria does not employ any mandated insurance programs or government insurance programs to mitigate the affects of such disasters. Instead, Bulgaria relies on its well developed and regulated private insurance market. Property insurance is the second most popular form of non-life insurance after motorvehicle insurance which is mandated. Bulgaria's insurance code is largely based on EU Solvency II, a 2016 EU directive which aims to unify the EU insurance market and strengthen consumer protection. Solvency II consists of 3 main areas or pillars to regulate insurance markets. Pillar 1 sets out the monetary requirements of insurance companies including the amount of capital they should hold. Pillar 2 sets out governance requirements, risk management of insurers, and effective supervision of insurers. Pillar 3 sets out rules for transparency and disclosure (EIOPA). While Solvency II is not a perfect system, it is a good framework for a well developed insurance market.

Bulgarian insurance code sets out rules and regulations for insurance companies. Domestic and foreign insurance companies must obtain a insurance licence from the Bulgarian Financial Supervision Commission (FSC), with an exception for EU companies who can use licences from their home country. Insurers can only sell insurance types they or their parent company are licensed for and cannot sell both life and non-life insurance policies. This policy prevents insurance companies from expanding and spreading assets to thin into between insurance types. A stand out part of Bulgarian insurance code is the effect of misrepresentation or non-disclosure. In the case of unintentional misrepresentation or nondisclosure, the insurer cannot refuse to compensate. They are allowed to reduce the payment accordingly but still must pay. This helps to build trust in the market by acknowledging accidents happen and not refusing payouts. This ensures that no insured person is without some form of compensation in the event of a disaster.

Bulgarian insurance code also contains ways for the insured to take action against the insurer in the case of late payment or inadequate compensation. Complaints can be brought to the Bulgarian Consumer Protection Commission or the FSC in the case of late payment. In case of inadequate funding or seeking damages, a system is in place to bring insurers to court. This further holds insurance companies accountable and promotes

transparency in the insurance market. This further builds the public's trust in the market and can help increase insurance penetration and decrease the protection gap.

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Bridging the MSME Protection Gap

From a UNDP-WPI joint study of 71 MSMEs in Tirana, Durrës, & Lezha

Protection Gap



70% damaged by disasters

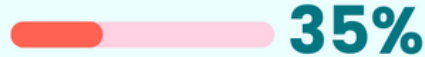


4% had insurance

What causes the protection gap?



Lack of Awareness
Unfamiliar with DRI



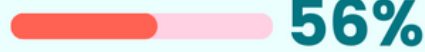
35%

Pricing
Unwilling to pay over €100/yr



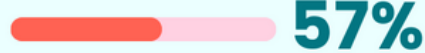
81%

Risk Perception
Expect little future disaster damage



56%

Distrust
Distrust Insurance Companies



57%

A business profile

Supermarket Gjoni

by Bardh Gjoni in Shenkoll, minorly damaged in 2019

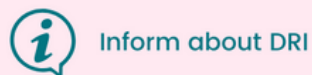
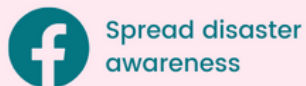


No insurance

-  Familiar with insurance
-  Distrusts insurance
-  Too expensive
-  Doesn't expect disaster
"in another 30 years"

Looking Ahead

Outreach



Improve resiliency

