Insurance Market in Armenia

Insurance industry in Armenia is on its way to development, and as an essential sector of financial system, it needs to evolve continuously. The Armenian Insurance market is a very small one, and its main feature is that we do not have life insurance companies. The main reason of the absence of life insurance is the low living standards in Armenia.

There are only six non-life insurance companies in the market now, and only three of them are owned by Armenian investors. The others are partly or fully owned by Russian corporations.

In 1991-1996 there were 82 insurance companies in the Armenian insurance market, but after 1996 The Ministry of Finance, which was the only institution responsible for regulating the insurance market, adopted a law stating the main principles and norms for the insurance companies. The improvements in legislation led to the diminishing number of insurance companies, and in 1998 there were only 20 companies left in the market, a part of which were life insurance companies. The next step of the insurance market evolution was the change of the market supervisor from the Ministry of Finance into the Central Bank of Armenia in 2006. In comparison with other developing countries’ insurance markets, the life insurance market in the Republic of Armenia didn’t have a big role in the insurance industry and wasn’t widespread in the Armenian society. At that time insurance companies were allowed to issue both life and non-life insurance policies. The main reform in the insurance market was the new law on insurance adopted in 2006. With this law the insurance companies were allowed to do only either life or non-life insurance. And after this change there were only 12 non-life insurance companies left in the market.

Despite the big changes in the insurance market, people still did not buy insurance, and besides, there weren’t any mandatory types of insurance. So in 2010 the Central Bank of Armenia adopted a law on making motor third-party liability (MTPL) insurance mandatory in order to increase the consumption of insurance services. That was the first step forward to the outspread of insurance in the Armenian society. After making this type of insurance mandatory most of the people started to understand the essence of insurance and buy some policies of other types. With the adoption of this law the insurance premium collected by the insurance companies and the insurance payments by the insurance companies multiplied by several times. At that time there were 8 insurance companies in the market, two of which were merged with other companies during the last few years. In order to define concentration ratio of Armenian insurance market for the year 2014 I’ve calculated the Herfindahl-Hirschman index using the ratios of insurance companies in the total amount of insurance premiums collected in the whole market. And this number indicates moderate level of market concentration.

\[ HHI = 2,259.25 \]
The level of development and growth of insurance market is assessed with the level of insurance penetration, which is the percentage of insurance premiums in the GDP and insurance density, which is insurance premium per capita. For 2014 the insurance penetration index equals 0.65%, while in 2011 it was 0.58%. The insurance density for 2014 is almost 18 euros, while in 2011 it was only 13.5 euros.

In 2014, the biggest part, namely 59% of the insurance premiums were collected from MTPL, the next type of insurance is health insurance (14% of the whole insurance premiums), and in the third place is the automobile insurance with 7% of the insurance premiums. And correspondingly the biggest part of insurance claims are from the MTPL insurance (44%), the second type of insurance with highest insurance claims paid is property insurance (22%) and third one is health insurance (21%).

Nowadays, despite the essential improvements in the market and financial stability of insurance companies, people still do not buy insurance policies of voluntary types of insurance. That’s mostly connected with the fact that the Republic of Armenia is a Post-Soviet country and people do not trust the insurance companies. However, the Armenian insurance market is on its way to prosperity.