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Obstacles Affecting the Investment and Financial Performance of Iraqi Insurance Companies

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Abstract

Insurance has an important role in the economic development process of the country, through its contribution to drawing up economic plans for the development of the country as well as providing important services to individuals by preserving their properties and reducing losses for them. Most countries of the world work to protect their economic properties from natural or unnatural disasters to preserve public or private property, measuring the extent of people's knowledge and understanding of insurance is what determines the strength or weakness of insurance for the country. In developed countries, we find that most people have sufficient knowledge of insurance and the demand for it is more, so we find it strong, but in some countries with little knowledge of insurance, we find it weak, which reflects negatively on the country's economic. The lack of knowledge of the individual about insurance and its financial and economic role is a problem and its treatment is necessary for developing insurance that effectively contributes to facing the dangers facing individuals as well as supporting the national economy.

Keywords: Growth of the Insurance, Iraqi Insurance Company, Develop, Support Insurance, Explain Insurance to Individuals, Increase knowledge.

1. Introduction

Insurance companies are among the most important financial institutions working in the fields of investment and finance It specializes in providing insurance services with financial confidence, and one of the most important projects that contribute to the running of the economy and growth in many countries of the world in many areas, that insurance companies are one of the components of the insurance sector, which in turn is considered one of the most important drivers of economic growth in the country. The insurance sector is one of the necessary sectors to support the economy of countries and protect human and material resources.

It contributes to the development of the economy through the savings it obtains from individuals and the investments it makes for the purpose of creating and supporting economic development well. Investment constitutes an important activity in insurance companies and plays a major role in the development of Resources resulting from marketing activity for the sale of various insurance policies. The concept of investment covers a large number of activities this concept often refers to investing money in real estate, deposits, remittances, the stock market for companies, real estate lending, and others. The activity of the insurance company is represented in two aspects; the first is the issuance of documents Insurance of its various types in return for premiums and the necessary compensation in the event of the occurrence of the insured risk, which is its main activity. The second is to invest the proceeds of the accumulated installments in various fields of real estate, Deposits, and transfers, stock market for companies, real estate lending, and others.

For financial and economic growth, the insurance industry is essential. The sector lowers the amount of capital required to cover these losses individually by introducing risk pooling and minimizing the impact of significant losses on businesses and families, hence promoting increased output, investment, innovation, and competitiveness. The industry can alter the behavior of economic agents and, as a result, help to reduce accidents, enhance health outcomes, and increase efficiency by using risk-based pricing for insurance protection. Life insurance businesses can aid in the supply of long-term finance and better risk management as financial intermediaries with lengthy investment horizons. The sector can boost the effectiveness of other financial sector components like the bond and banking markets by enhancing the value of collateral through property insurance and reducing losses at default through credit guarantees and enhancements.

2. Definition of Insurance.

According to the definition of insurance, a contract known as a policy is one in which a person or organization receives financial protection and compensation for damages from the insurer or the insurance firm. It is a sort of insurance against potential financial losses at the most fundamental level.

The fundamental tenet of insurance is that an entity will decide to spend little, recurring sums of money to guard against the chance of a massive, unforeseen loss. In essence, each policyholder pools its risks. Any losses incurred by them will be covered by the premiums they pay.

3. The Insurance Sector in Iraq.

At that time, the insurance system in Iraq was established in the form of foreign insurance companies and bodies in Iraq, which are branches of English, French, Swiss, American, Italian, and other companies. Interest in insurance began in Iraq after the First World War. When a group of merchants began importing goods from outside Iraq, they found insurance necessary to reduce the risks to their trade. The first insurance law in Iraq was issued in 1936 with the number 74, and an Iraqi insurance company was established in 1946. Some foreign companies have opened branches in Iraq to secure these goods. The insurance was not only marine but also included insurance against fire and other accidents. In the same period, the state insured its property with foreign companies for which large sums were paid in the form of insurance premiums, which leads to the transfer of funds outside the country.

In 1950, according to Law No. 56 of 1950, the first Iraqi insurance company was established with an Iraqi capital of 100%, which is the Iraqi National Insurance Company, which specialized at the beginning of its work in insuring the .property and state funds and their imports with a capital of one million Iraqi dinars, and its business was limited at the beginning of its establishment until the year 1953 on the work of guaranteeing employees and mediating the conduct of insurance transactions belonging to the government and official institutions with foreign companies, mainly in return for a commission. After that, the law of establishing the insurance company was amended by Law No. 94 of 1960, in which the National Insurance Company opened branches in the governorates of Iraq and outside Iraq. After the events of the July 1958 revolution, there was a development in the Iraqi insurance system, as two Iraqi companies were established; the Baghdad Insurance Company and the Iraqi Insurance Company, and then four other companies were established. Law No. 49 was enacted, which aims to regulate the insurance business in Iraq.

4. Research Problem.

Many problems lead to the weak financial and economic performance of insurance, including weak administrations, political and economic instability, and lack of awareness among individuals, all of which is the weakness of insurance and leads to a lack of insurance contribution to the domestic and economic product.

5. Study Benefit.

The importance of the study is to clarify the problems that limit the development of insurance, work to develop departments, train employees, and create promotion and advertising in an advanced way to easily explain insurance to individuals, all of this will increase the demand for insurance and increase its capital and make things easy to work and develop in the financial and economic aspect that insurance provides to countries.

I am trying to give some simple suggestions to the Iraqi insurance companies that if they implement even a small part of them, things will be better. This information is from researchers and provides a service to other researchers.

6. Research Aims.

1. Developing insurance management and presenting insurance obstacles.

2. Measuring the extent of individuals' awareness of insurance and the extent to which economic reality is affected.

7. Literature Review.

7.1. Feyen, E., Lester, R. R., & Rocha, R. D. R. (2011).

This essay adds to the body of writings by The author looks at the factors that affect total assets and insurance premiums (both life and non-life premiums) for a panel of around 90 nations between 2000- 2008. The findings indicate that factors such as per capita income, population size and density, demographic patterns, income distribution, the size of the public pension system, state control of insurance companies, and the availability of private credit influence life sector rates. These and other factors have an impact on the non-life. While some of these factors are structural, the findings also demonstrate that several policy factors can have an impact on how the insurance industry develops.

In this essay, we looked at the primary forces behind the growth of the insurance industry, including both the life and non-life sectors. The life insurance regressions add some new findings while correlating some of the results of earlier empirical life insurance research. We discover that while money has a significant role in life insurance, population and population density also play significant roles. These two factors, which were shockingly ignored in earlier multi-country research initiatives, highlight the value of larger clienteles, deeper risk pools, scale economies, and simpler distribution routes. According to the findings of earlier studies, inflation limits the growth of the life sector. Some of the criteria are negatively and significantly influenced by life expectancy, which suggests that longer life expectancies decrease the need for life insurance by lowering the likelihood of dying too soon. When the young and old reliance ratios enter independently, age dependency reveals itself to be a significant life insurance driver. The findings support the notion that whereas a high dependency ratio among the young generates demand for insurance against mortality risk, a high dependency ratio among the demands of the elderly increases protection against income loss in old age.

7.2. Almajali, A. Y., Alamro, S. A., & Al-Soub, Y. Z. (2012).

The purpose of this study was to identify the variables most responsible for the financial performance of Jordanian insurance companies. The study population included all insurance companies that had been listed on the Amman Stock Exchange between the years 2002 and 2007—a total of (25) insurance businesses. Multiple fundamental statistical methods, including the T-test and multiple regressions, were used to assess the acquired data. The findings demonstrated that the following variables—leverage, liquidity, size, and management competency index—have a statistically significant favorable impact on the financial performance of Jordanian insurance companies. The researcher advised giving the company's assets a significant amount of thought. Their performance is improved by an increase in leverage. According to the majority of earlier studies, excessive leverage may be advantageous because it might enhance managerial incentives and compel them to make the best investments. On the other side, in an oligopoly product market, highly leveraged enterprises may face aggressive practices from their less leveraged competitors and lose market share. Statistics show that liquidity significantly affects the financial performance of insurance companies. The study is backed by (Chen and Wong, 2004). But it goes against what (Adams and Buckle, 2000). Since liquidity reflects an insurance company's management team's capacity to meet its immediate obligations to policyholders and other creditors without having to boost underwriting and investment profits or sell off financial assets, it is a key indicator of the health of an insurance company. This justification suggests that management is not required to enhance annual operational performance due to high cash. High liquidity may also increase agency costs for owners by encouraging managers to spend excess cash flows in ventures that have a negative net present value or indulge in excessive perquisite consumption.

7.3. Sambasivam, Y., & Ayele, A. G. (2013).

One of the main aims of financial management is to maximize the owner's wealth, making profitability one of the most significant objectives. In this study, the effects of firm-specific characteristics on profitability as measured by return on assets were explored. These factors included the age of the company, its size, the amount of capital it raised, its leverage and liquidity ratios, growth, and the tangibility of its assets. Profitability is a dependent variable, whereas independent variables include the age of the business, its size, the amount of cash it has available, its leverage-to-liquidity ratio, its growth, and the tangibility of its assets. Nine of the listed insurance companies from the nine-year study period (2003–2011) are included in the sample. Secondary data from insurance company financial statements (Balance sheet and Profit/Loss account) and financial publications of the Ethiopian National Bank are examined. The study's goal is to investigate the internal variables that affect insurance companies' profitability as indicated by ROA. The findings of the regression analysis show that the most crucial factors affecting the performance of the life insurance market are leverage, size, the volume of capital, growth, and liquidity, whereas ROA has a statistically negligible association with age. Since the results indicate that liquidity does negatively impact profitability, this has additional ramifications for the companies' efficient risk management procedures. The fact that size and ROA have a positive relationship suggests that size is utilized to account for the fact that larger insurance businesses are better positioned than smaller ones to take advantage of economies of scale in transactions and generate more profits. The risk of bankruptcy is reduced for insurance businesses with adequate capital, which lowers funding costs or eliminates the need for external financing, both of which increase profitability. A high growth rate in terms of total assets suggests that insurance companies are also more likely to be successful, according to a positive and statistically significant association between the growth rate and profitability of insurance companies in Ethiopia.

7.4. Bawa, S. K., & Chattha, S. (2013).

The company's performance contributes significantly to the development of the industry, which in turn contributes to the overall prosperity of the economy. The goal of the current study is to evaluate Indian life insurers' financial performance using several different metrics. Different financial ratios have been calculated to measure it, taking into account the actors in the insurance industry's liquidity, solvency, profitability, and leverage. In general, the profitability of businesses and insurers can be used to estimate performance. The study identifies the effects of liquidity, solvency, leverage, size, and equity capital on the profitability of life insurers in India to achieve the goal. In this study, 18 Indian life insurers—1 public and 17 private—, data from the five years between 2007–2008 and 2011–12 are analyzed. The study measures the influence these factors have on the profitability of life insurance using a multiple linear regression model. According to the study's findings, capital has a negative relationship with profitability for life insurance whereas liquidity and size have a positive impact. There is no correlation between profitability and insurance leverage or solvency.

7.5. Murigu, J. W. (2014).

In Kenya, the general insurance industry contributes 2.08 percent of the country's GDP. Despite growing recognition of the value of insurance and efforts by insurance companies to increase their presence, this is still fairly low. This is accomplished by introducing takaful and microinsurance as well as by using alternate distribution methods. In light of this, the current study used return on asset as the dependent variable to identify the variables affecting the profitability of non-life insurers operating in Kenya. This study examined data from four fiscal years, 2009 to 2012, and included all 23 general insurance companies in Kenya as part of its sample. To achieve this, Return on Assets was regressed against firm-specific factors such as leverage, retention ratio, liquidity, underwriting risk, equity capital, size, managerial competency index, ownership, and age. This study concluded that management competency index, equity capital, and leverage have a favorable and significant impact on the profitability of general insurers in Kenya. The study does not discover proof that the performance of general insurers in Kenya is impacted by the firm's age. The study suggests that general insurers in Kenya should increase their leverage, equity capital, and employee caliber to perform better in terms of their return on assets. According to the findings of this study, equity capital and leverage significantly and favorably affect the profitability of general insurers in Kenya.

7.6. Mazviona, B. W., Dube, M., & Sakahuhwa, T. (2017).

The goal of the study was to investigate the elements influencing the performance of insurance providers in Zimbabwe. Twenty short-term insurance providers provided secondary data that we used. The information covered the years 2010 through 2014. To identify the elements affecting performance and their effects, we employed factor analysis and multiple linear regression models. Our research showed that the expense ratio, claims ratio, and firm size has a detrimental impact on the performance of insurance companies. While liquidity and leverage have a beneficial impact on performance. We advise insurance businesses to implement technologies like automated ones that lower operating costs. ROA was used to gauge the short-term insurance businesses' financial success. The effects of debt, business growth, expense ratio, claims ratio, inflation rate, retention ratio, firm size, liquidity, and equity on ROA were examined using regression analysis and factor analysis. The study's findings indicate that the performance of insurance businesses in Zimbabwe is highly influenced by the expenditure ratio, company size, claims ratio, leverage, and liquidity. In factor analysis, variables that are most likely to have the same effect are grouped. The use of multiple regression reveals that leverage has an impact on performance. However, because leverage is unrelated to any other variable and is thought to have a different effect from any other variable, factor analysis does not take this into account. Equity capital, which is discovered not to affect performance using regression analysis but affects performance using factor analysis, is another variation between the results. This is because grouped factors may not all have an impact on the performance of insurance firms; hence, equity capital is only determined to have an impact on performance when it is linked to the company's size, which an impact on performance.

7.7. Batool, A., & Sahi, A. (2019).

Over the past ten years, both the economy and the insurance sectors in the US and the UK have experienced declines. The researcher compared two insurance sectors, examined potential factors influencing financial performance during the global financial crisis, gathered quarterly data from 24 insurance companies between 2007 and 2016, and used panel data methodologies. Explanatory variables are based on both internal (firm size, liquidity, leverage, and asset turnover) and external (Gross Domestic Product, CPI, interest rate, and WTI) components. Return on assets and return on equity are dependent variables (profitability indicators). The study's findings are as follows: In the USA, a firm's size, liquidity, leverage, asset turnover, GDP and WTI have positive impacts, whereas the CPI and interest rate have negative, substantial effects. In the UK, the firm's size is impacted positively by liquidity, GDP, CPI, and

WTI, but negatively by leverage, asset turnover, and interest rates; US insurance is more effective than UK insurance. The insurance sectors, the government, policymakers, and investors will find these results useful in making decisions and enhancing their operations. The study explains that the American insurance market is more efficient than the British market. Since there is a larger correlation between firm profitability and internal and external factors than there is for UK firm profitability.

8. Obstacles facing insurance companies in Iraq.

8.1. Limited insurance ideas.

The Iraqi insurance companies work is old and not updated according to international companies, such as insurance documents for fire, ordinary accidents, marine, and engineering insurance. Iraq was cut off for some time due to wars, which led to a failure to keep pace with insurance developments in the world.

8.2. Legal reasons.

After lifting the economic embargo on Iraq after the year 2003, the expectation was high that the Iraqi insurance market would return to a better and more developed manner. The opposite happened, which is the issuance of Insurance Law No. 10 of 2005, which determined the development of insurance companies operating in Iraq By not stipulating the obligation to insure the funds that are inside Iraq or that are received by insurance companies in Iraq or any branch of foreign companies in Iraq, this law caused a significant reduction in the productive work of companies in Iraq and the exit of insurance funds outside Iraq.

8.3. The role of terrorism in determining the insurance activity in Iraq.

The Anti-Terrorism Law of 2005 defines terrorism as every criminal act carried out by an individual or group targeting a single individual or group of individuals or governmental or non-governmental institutions to damage and sabotage public or private property or instill terror and fear among people for terrorist purposes aimed at the instability. Insurance has an important role in dividing the damage caused by terrorism by bearing each individual in the group a part instead of the individual bearing it, thus reducing its impact. Terrorism represents a challenge, especially for insurance companies, because losses may be large, as well as not knowing the price of insurance for terrorism due to not knowing or predicting terrorist operations, as high prices reduce the purchase of insurance and low prices may lead to the collapse of insurance companies, in addition to many problems caused by terrorism, whether society or companies.

8.4. Lack of knowledge about insurance.

Insurance differs from one country to another in terms of the extent of its development and its contribution to the country's national economy. In some countries, we find that insurance contributes effectively and significantly to the development of the economy, while others find it weak, and this depends on the extent to which individuals know about insurance, its concept, and the benefits that an individual obtains through insurance. Therefore, insurance companies must spread awareness among individuals through advertisements and promotion through the insurance companies' contribution to support some charitable works to clarify insurance and its importance to society as well as build trust between insurance companies and people.

9. Some solutions that reduce obstacles facing insurance.

9.1. Working to provide solutions to these problems, the first obstacle is the limited ideas to solve this problem is to expand the scope of insurance and link it with the outside world to see updates and work to develop ideas and benefit from the experience in global countries.

9.2. Correcting some laws that limit the development of insurance companies to continue the work of insurance companies in an effective manner that serves the society and the national economy of the country.

9.3. Activating insurance operations against terrorism by activating laws and financial support for insurance companies and working in a clear manner that makes individuals trust insurance companies. Work not to increase the amounts of insurance against terrorist operations to enable people to buy insurance, as well as not to reduce them too much, because this causes a loss for the insurance companies.

9.4. The lack of people's knowledge of the importance of insurance for individuals is one of the problems facing insurance companies, so work must be done to spread the culture of insurance among the community and to use the methods close to individuals through advertising, as well as through support for civil society organizations that aim to support humans, this method will be close to the human being. Especially if the insurance companies provide support for the homes of the elderly and orphans, in addition to other activities of the competitions and offers that the companies present to the community.

10. Investing in insurance companies.

Investing in insurance companies is important for the insurance business to continue to do well. The higher the investment, the better the insurance companies will do because of the benefits that the investment provides to insurance companies.

We review here the volume of investment in two insurance companies in Iraq.

Table (1) Investment in the National Insurance Company from 2010 to 2019 during 10 years:

(Amounts in millions of dinars)

National Insurance Company	
Years	**Investment**
2010	**73471**
2011	**110161**
2012	**114002**
2013	**129485**
2014	**100692**
2015	**157570**
2016	**171263**
2017	**159972**
2018	**153710**
2019	**153028**

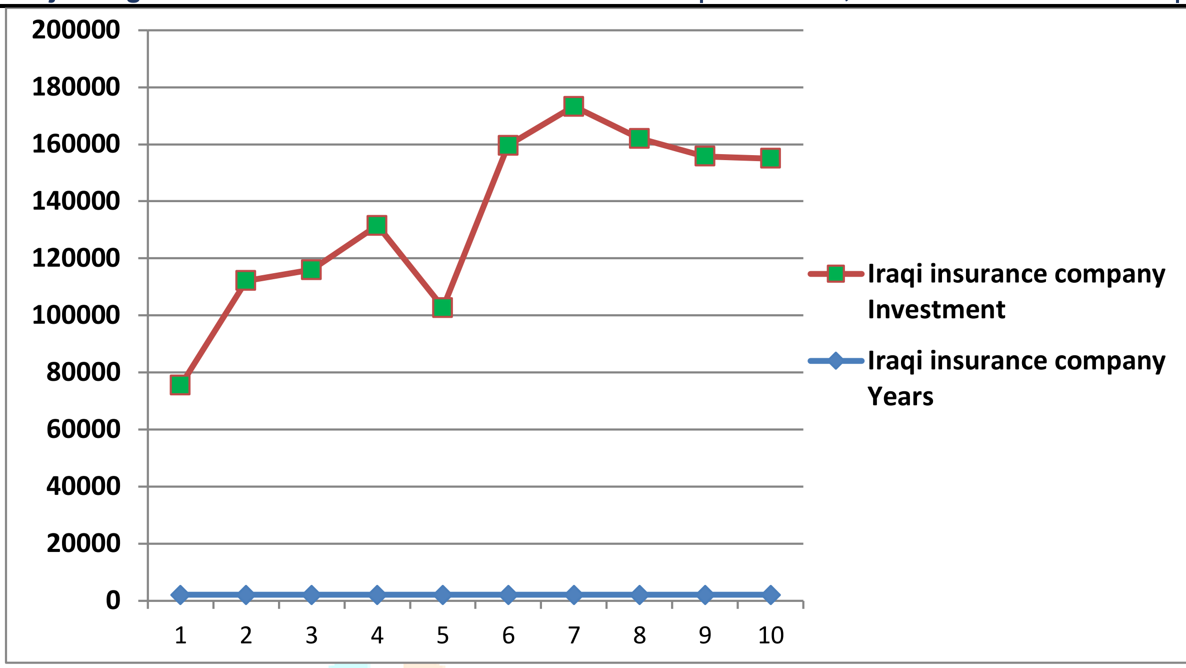
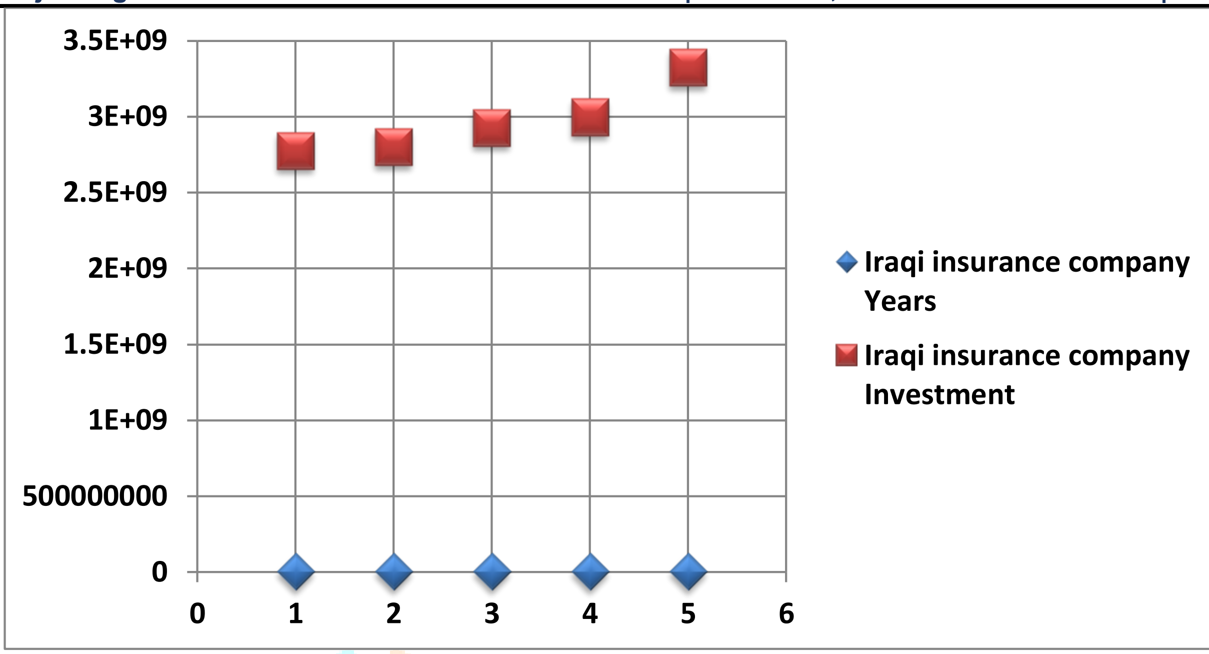


Table (2). Investment income from 2015 to 2019 the Iraqi Insurance Company during 5 years:

(Amounts in dinars)

Iraqi insurance company	
Years	Investment
2015	2771112000
2016	2796636000
2017	2923242000
2018	2993785000
2019	3320460000



Conclusion:

Development and prosperity did not come from a vacuum. The development comes from discovering obstacles and working to provide appropriate solutions to them by working hard. Iraqi insurance companies face several problems, including limited ideas of insurance companies, legal reasons, terrorist operations, and the lack of knowledge of the members of society about insurance and its benefits for the individual and the national economy. The paper presented some solutions that make insurance better than it is now. Developing the ideas of insurance companies by keeping pace with the outside world and getting acquainted with international insurance companies, amending some laws for insurance companies, in line with the development and serving the society and the economy, providing information to the community, clarifying insurance and the benefits it provides to individuals, and reducing losses. A statement of the size of the investment for some Iraqi insurance companies and the benefits they provide for the country.

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