

EVALUATION OF THE EFFICIENCY OF THE FINANCIAL PERFORMANCE OF THE ISLAMIC INSURANCE COMPANY IN JORDAN WITH A PROPOSED MODEL FOR THE ESTABLISHMENT OF AN ISLAMIC INSURANCE COMPANY IN IRAQ

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ABSTRACT	KEY WORDS
<p>The increasing risks to which man is exposed and what he owns necessitates that he seeks to find ways to mitigate the negative effects of these risks. He resorted initially to saving and mutual support, but with the development of economic and social measures, a new idea was launched based on collective solidarity, and its main goal is to cooperate in covering damages that afflict a member of the group and guarantee his safety, and financial institutions have been established to practice insurance work, which requires the availability of two things: a legal relationship built between the insurer (the insurance company) and the insured (the insurance applicant) and technical and legal foundations that allow the establishment of such a relationship.</p> <p>With this development, the scope of The work of these companies and the methods of covering them led to the idea of establishing Islamic insurance companies that seek to attract shareholders who refuse to resort to traditional companies for fear of falling into legal problems.</p> <p>The research aimed to identify the concepts related to the insurance sector and the mechanisms of work of the insurance companies as well as to focus on the Islamic insurance sector and propose mechanisms to activate the activity of the Islamic insurance companies in Iraq by proposing a model that simulates the traditional companies. One of the important sectors, whether commercial or Islamic, is one of the urgent necessities that protect members of society from various dangers or reduce them as much as possible, and then recommended a set of recommendations, the most important of which are: Encouraging the establishment of traditional and Islamic Iraqi insurance companies working side by side, with the aim of increasing competition between these institutions from In order to compete in providing the best insurance services in a way that enhances the preservation of economic projects and protects them from various risks.</p>	<p>financial analysis, Jordanian Islamic insurance sector, a proposed model for an Islamic insurance company in Iraq.</p>

Introduction

The insurance system in the world has witnessed great development in recent times, as it is among the most important foundations that work to achieve security and stability for the individual and projects and also contributes to supporting economic and social development, as insurance is the best way to protect property and individuals from the various risks to which they are exposed. The Islamic insurance system arose, which aims for cooperation and solidarity among the members of society as a complement and competitor to commercial (traditional) insurance, which in turn aims for profit and directs capital owners in investments in this sector.

However, in the Iraqi insurance market there are no Islamic (symbiotic) insurance companies, trying to search making a comparison from the experience of the Kingdom of Jordan, which is similar to Iraq, being a developing country as well, in how Islamic side grows within its insurance sector, through analyzing and evaluating the efficiency of the financial performance and the Islamic insurance company within the insurance sector in Jordan, and accordingly, how to develop the Islamic insurance sector is suggested (symbiotic activity) and try to spread insurance culture and awareness in Iraq.

1- Research Methodology

1-2- Research problem

The insurance sector in developing countries did not want to play a role similar to the performance of the insurance sector in developed countries, and this comes either because of the low levels of insurance culture or because of the decline in individuals contracting with insurance companies for religious reasons related to the Islamic religion, especially in Iraq, and the Iraqi insurance market is devoid of Islamic insurance companies.

1-3- The importance of Research

The importance of the research lies in the fact that it examines the mechanisms of the insurance sector's work, the Islamic insurance is unique, and the possibilities of exploiting economic resources to be employed in Islamic insurance and solidarity companies.

1-4- Research Objective

The research aims to deliver insurance service and insurance protection to a wider area than is currently in Iraq in order to achieve efficient exploitation of resources, reduce alternative opportunities, and evaluate the efficiency of the financial performance of commercial and Islamic insurance companies to know the most important strengths and weaknesses.

1-5- Research hypothesis

The research stems from the hypothesis that the involvement of individuals in contracting with insurance companies of an Islamic nature would the increase insurance business, activate the levels of performance of the insurance sector, and enhance its role in keeping pace with economic development in the Islamic world.

1-6- Research Methodology

In order to reach the validity of the hypothesis from which the research was launched, it relied on the use of deductive and inductive methods in the analysis. Starting with particles, down to the overall

conclusions, through analyzing and evaluating the efficiency of the financial performance of the Jordanian Islamic Insurance Company, down to the extent of this company's ability to influence economic activity in general and its ability to be financially sustainable.

1-7- Research Method

The research adopted the descriptive method, as well as the use of the financial analysis method for the data.

1-8- Limitations of research

A- Spatial boundaries: The Islamic insurance sector in Jordan (the Islamic Insurance Company) was chosen.

B- Temporal limits: the period between (2011-2020).

2- Theoretical side of the research

2-1- Evaluate the financial performance

2-2- Evaluation of financial performance is defined as a knowledge of what has been accomplished based on work controls, as through evaluation criteria are set for evaluating financial performance based on the planning and strategic objectives of the organization, which depend on methods of performance evaluation as a guide, monitor and control of the efforts of workers in All administrative levels in order to achieve the company's strategic objectives (Poster & Streib, 2005, P;46).

2-3- The concept of Islamic insurance: Islamic insurance (Takaful) stipulates that it is a group insurance contract under which each subscriber undertakes to pay a certain amount with the intention of solidarity and solidarity with other participants to compensate those affected by them on the basis of a donation. The management of insurance operations is handled by a company specializing in insurance in the capacity of an agent. With a known wage. (Melhem, 2012: 12)

2-4- Elements of the Islamic insurance contract

Elements of an Islamic insurance contract

1. The contracting parties, namely: A- The insurer (the company) B- The insured (the insurance applicant)

The two parties are committed to fulfilling the requirements of financial contracts, including the ability to pay, as in commercial insurance the insurance company is the company, while in cooperative insurance the insurer is the association and in the current Islamic insurance the insurer is the insurance account, the group insurance fund for participants, and any insurance An Islamic licensee for companies, acts as an agent for such an account while the insured are either individuals or legal entities. (46:2012, Alhumoudi)

2. The insured risk: It is the contingent future event because it may or may not occur, without its occurrence or non-occurrence dependent on the will of one of the contracting parties (the insured and the company), such as the sinking of the insured goods.

3. Insurance premium: It is the subject of the insured's obligation, and it means the financial amount that the insured pays to the Cooperative Insurance Fund under the insurance contract. The amount of the insurance premium is determined by an agreement between the company and the insured. The most important factors influencing the determination of the amount of the insurance premium: are the amount of insurance, the risk insured from, and the duration of the insurance premium. Insurance.

4. The amount of insurance: It is the subject matter of the insurance company's obligation on behalf of the insured, and it is the responsibility of the company in the event of the occurrence of the insured risk, as the company undertakes, according to the insurance contract, to pay the insured, who is appointed by him on behalf of the insured, the insurance amount when the insured risk occurs. (Mulhem, 2012: 24-25)

3- The practical side of the research

First: Profitability Ratio

Profitability is the indicator that reflects the possibility and continuity of companies in the insurance market. In addition, this indicator motivates investors in making their decisions towards companies, as in the equation:

$$\text{Profitability ratio} = \text{net income} / \text{total assets} \times 100\%$$

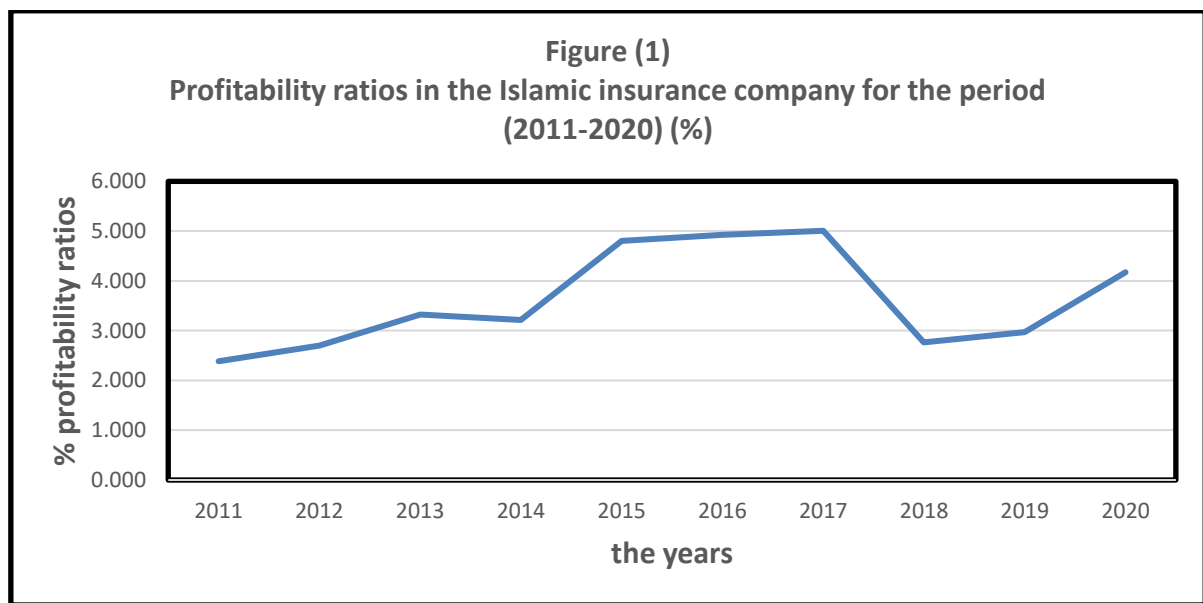
Table (1): Profitability percentage in the Islamic insurance company (2011-2020)

years	net income Jordanian Dinar (1)	the total assets Jordanian dinars (2)	Profitability (%) 1/2
2011	558309	23396678	2.386
2012	725000	26829296	2.702
2013	1008184	30336874	3.323
2014	1080947	33635713	3.214
2015	1787628	37212247	4.804
2016	1863302	37817839	4.927
2017	2002246	39989660	5.007
2018	1114427	40339317	2.763
2019	1180916	39789389	2.968
2020	1732951	41552507	4.171
arithmetic average %			%3.627

Source: Prepared by researchers based on the consolidated financial statements of the Islamic Insurance Company for the period (2011-2020).

The profitability ratio in table (1) shows that the lowest profitability ratio was (2.39%) in 2011, which is an acceptable rate, and the maximum was (5.00%) in 2017, which shows the efficiency of the financial investment policy of this company, which will lead to an increase in retained earnings and reflect The data of the table also indicates that the profitability rates decreased in the years 2018 and 2019, as they amounted to (2.76% and 2.97%), respectively, and the reason for this is due to the emergence of (Covid_19) in 2019, although they are acceptable rates and exceed the acceptable minimum of (2%), and in general the arithmetic average of the profitability ratios reached (3.637%) during the research period (2011-2020), which is a percentage that exceeds the acceptable limit and is considered a high percentage, as the company's investment of 100 Jordanian dinars from its assets will generate a net income of 3.63 Jordanian dinars, which is what It indicates that this company has the ability to sustain its current and future work, increase its capital, pay shareholders profits and face losses, and based on the foregoing, this company has an efficient performance.

Figure (1) indicates the percentage of profitability in the Islamic insurance company during the period (2011-2020).



Source: From the work of the researchers based on the data of Table (1).

Second: Liquidity Ratio

It is the ratio that represents the amount of cash or assets that can be converted into cash within a short period, as this ratio is used as a tool for evaluating the company's credit position, which usually expresses the company's ability to fulfill its short-term obligations, and the liquidity ratio is calculated according to the following formula:

$$\text{Liquidity Ratio} = \text{Current Liquid Assets} / \text{Total Assets} \times 100\%$$

Table (2): Liquidity ratios in the Islamic insurance company for the period (2011-2020)

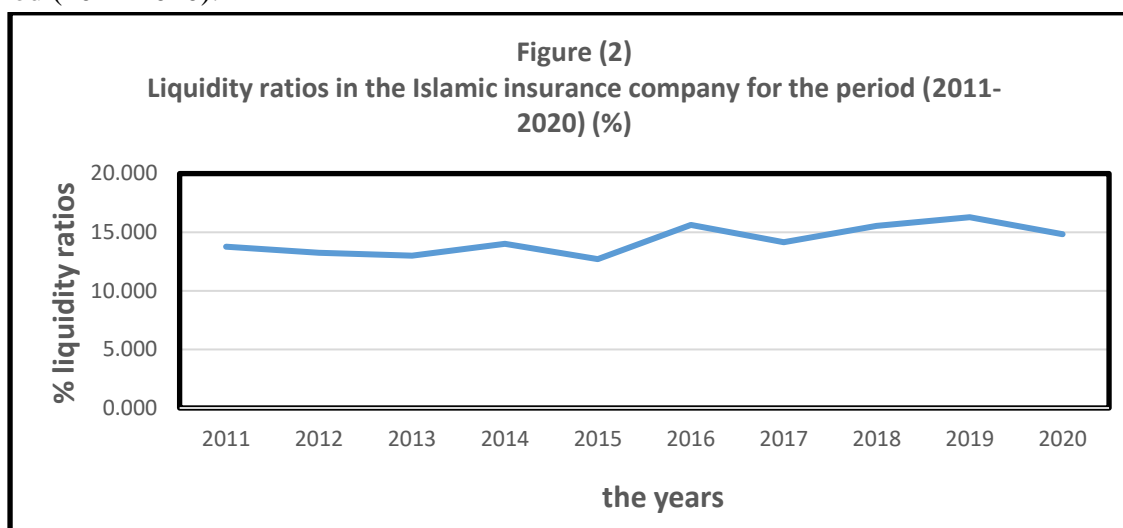
years	current assets Jordanian Dinar (1)	the total assets Jordanian Dinar (2)	Liquidity % ½
2011	3217043	23396678	13.75
2012	3554881	26829296	13.25
2013	3943794	30336874	13.00
2014	4708999	33635713	14.00
2015	4727020	37212247	12.703
2016	5906579	37817839	15.618
2017	5653654	39989660	14.138
2018	6263231	40339317	15.52
2019	6476571	39789389	16.279
2020	6156058	41552507	14.815
arithmetic average %			%14.307

Source: Prepared by researchers based on the data of the financial statements of the Islamic insurance company for the years of study.

Table (2) shows that the liquidity ratios reached the lowest (12.703%) in 2015, which is the percentage of the decrease in the amount of current assets amounting to (4727020) Jordanian dinars, which is the lowest compared to the total assets amounting to (37212247) Jordanian dinars, and the liquidity ratio reached its maximum (16.279%) in the year 2019 as a result of the increase in the volume of current

assets amounting to (6476571) Jordanian dinars compared to the total assets amounting to (39784384) Jordanian dinars, and the liquidity ratio fluctuated between these two ratios, and the liquidity ratio in this company reflects that it does not prefer to keep a large percentage of liquidity in order to achieve safety and the policy of this company is reflected positively on its revenues by employing its money in order to achieve a greater return, and the arithmetic average of the liquidity ratio in this company indicates that it is a small percentage, as it constituted (14.307%) during the period (2011-2020) And investing money to achieve greater returns.

Accordingly, this company is considered a company with good performance and efficient management. Figure (2) indicates the percentage of liquidity in the Islamic insurance company for the period (2011-2020).



Source: The researcher's work, based on the data of Table (2).

Third: Analysis of the financing structure of the company - financial leverage ratio (debt ratio)

If companies are unable to pay their debts and do not find lenders, then they are exposed to bankruptcy, so financial leverage is used to measure the extent to which the company's assets are financed with debt and the formula that expresses the indebtedness ratio:

$$\text{Financial leverage ratio} = \frac{\text{total liabilities}}{\text{total assets}} \times 100\%$$

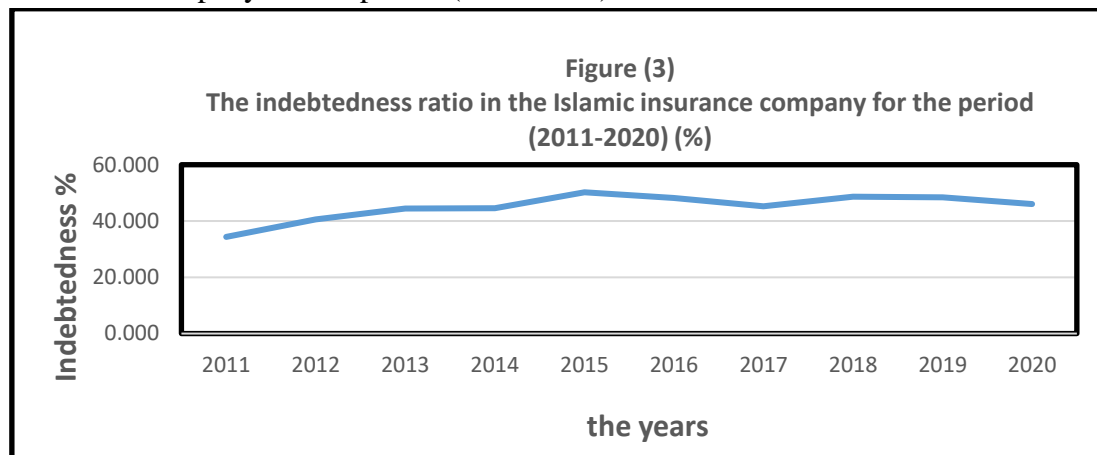
Table (3): The financial leverage ratio (indebtedness ratio) in the Islamic insurance company for the period (2011-2020)

years	total liabilities Jordanian Dinar (1)	the total assets Jordanian dinars (2)	indebtedness % ½
2011	8036759	23396678	34.350
2012	10882430	26829296	40.562
2013	13475054	30336874	44.418
2014	14992081	33635713	44.572
2015	18681545	37212247	50.203
2016	18223319	37817839	48.187
2017	18077696	39989660	45.206
2018	19635532	40339317	48.676
2019	19257044	39789389	48.404
2020	19132920	41552507	46.045
average %			%45.06

Source: from the work of the researchers based on the data of Table (3)

Table (3) data indicates that the lowest indebtedness ratio amounted to (34.35%) in the year 2011, and its maximum amounted to (50.20%) in the year (2015), and the low ratio indicates that the company resorted to self-financing of its assets, as the total liabilities in this year amounted to (8036759) Jordanian dinars, and this ratio means, on the other hand, that the company is financially conservative and resorts to shareholders' rights to finance its operations.

As for the high value of this ratio, it means an increase in the company's obligations, as these obligations amounted to (18,681,544) Jordanian dinars, and this increase indicates that the company resorts to funds. It is noted from the data of the table that the fluctuation of the indebtedness ratio is low in this company, and as long as the arithmetic average of the indebtedness ratio has reached (45.06%), which is less than 50%, therefore, this company operates in a safe situation and works to achieve a balance between debts (the company's future obligations) towards its creditors and assets, and it has the ability to meet its future obligations. Chart (3) indicates the indebtedness ratio of the Islamic insurance company for the period (2011-2020).



Source: from the work of the researchers based on the data of Table (3)

3-2 - Calculating the insurance surplus for the Jordanian Islamic Insurance Company

The primary insurance surplus for the Islamic insurance company is calculated according to the formula (contributions or premiums - compensation). The insurance surplus represents the total profits of the company's insurance operations. Table (4) shows the insurance surplus and the annual rate of change for the Islamic insurance company.

Table (4): Primary insurance surplus (insurance profits) for the Islamic insurance company for the period (2011-2020)

Jordanian dinar

years	subscriptions	rate of change %	The compensation	The rate of compensation	the insurance surplus (Insurance profits)	rate of change %
2011	10051275	-	6930634	-	3120641	-
2012	12207956	%21.4	6156912	-%11.1	6051044	%93.9
2013	13469229	%10.3	7204394	%17	6264835	%3.5
2014	15125172	%12.2	7941213	%10.2	7183959	%14.6
2015	15964840	%5.5	7887501	-%0.6	8077339	%12.4
2016	16323539	%2.2	9907369	%25.6	6416170	-%20.5
2017	16770902	%2.7	10877033	%9.7	5893869	-%8.1
2018	16686975	-%0.5	10369750	-%4.6	6317225	%7.1
2019	17086533	%2.3	11733026	%13.1	5353507	-%15.2
2020	15385732	-%9.9	8949520	-%23.7	6436212	%20.2

Source: Prepared by researchers based on the consolidated financial statements of the Islamic Insurance Company for the period (2011-2020).

It is noted from Table (4) that the total contributions gradually increased, as it exceeded (10) million Jordanian dinars in the year (2011), to record the highest value of contributions (17) million Jordanian dinars in the year (2019), at an annual rate of change of (2.3%) compared to the previous year.

Also, the paid compensations recorded a gradual increase, as it amounted to (6.9) million Jordanian dinars in the year (2011), reaching the highest value (of 11.7) million Jordanian dinars in the year (2019), at a positive annual rate of change (13.1%), then it recorded in recent years a difference between rise and fall to amount to (8.9) million Jordanian dinars in the year (2020) at a negative annual rate of change of (-23.7%) over the previous year.

As for the value of the insurance surplus, which is calculated from the difference between contributions (premiums) and paid compensations, it amounted to (3.12) million Jordanian dinars year (2011) to reach a maximum of (8) million Jordanian dinars in the year (2015), as the total contributions were greater than the paid compensations and the annual rate of change was (12.4%) positive from the previous year, to record after that a varying increase and decrease in the insurance surplus and the rate of change also varies annually.

4- The reality of Islamic insurance (Takaful) in Iraq - basis and ambition

Recently, the importance of Islamic insurance (Takaful) has emerged as one of the types of insurance that are characterized by characteristics that commercial (traditional) insurance lacks. The framework for confronting risks, especially since it is an insurance system that does not violate the principles of Islamic law. The Islamic insurance industry in the world has witnessed remarkable growth and development during the past few years, as it enjoys a great place in the global insurance market and has become a strong competitor to commercial (traditional) insurance.

The type of insurance in Islamic societies and the multiplicity of parties dealing with it, and its diversity, but this industry has not found its way into Iraqi society so far, despite the fact that Central Bank Resolution No. (66) of (2019) has included the position on issuing controls for organizing solidarity in order to support Islamic banking, and indeed it was decided to establish an Islamic Takaful company with a capital of (15) billion Iraqi dinars and with the participation of all Islamic banks, based on the provisions of Article (15) of Islamic Banking Law No. (43) of (2005).

4-1- The proposed application model for the Islamic insurance company

The proposed company operates in accordance with the provisions of Islamic Sharia and its capital is (15) billion Iraqi dinars, as we assume that the volume of annual contributions and compensation increases by 10%, and assuming that the economic, political, and security conditions are stable and therefore the (primary) insurance surplus will be as in Table (5) the following: -

Table (5): Proposal for contributions, compensation, and insurance surplus (initial)

(Iraqi Dinar)

years	subscriptions	compensation	Primary insurance surplus (insurance profits)
first	20000000	6000000	14000000
second	22000000	6600000	15400000
Third	24200000	7260000	16900000
fourth	26600000	7986000	18630000
Fifth	29282000	8780000	20497400

Source: The work of the researchers according to the proposed vision

Table (5) shows the size of the proposed contributions and compensations, which increases gradually by 10%. Since the company started its work in the first year, we suggest that the volume of contributions is (20) billion Iraqi dinars and compensation is (6) billion Iraqi dinars, then it continues to increase in the subsequent years as it reached the volume of contributions in the fifth year is (29) billion Iraqi dinars, and compensation is (8) billion Iraqi dinars, in order to increase the number of participants in the types of insurance that it offers, such as insurance for the various types of Islamic insurance models.

Expenses and provisions related to insurance operations, as we assume that the surplus in the first year is (14) billion Iraqi dinars to increase gradually to reach in the fifth year (20) billion Iraqi dinars, which is a relatively good proposed amount to achieve profits from cash surpluses with the Islamic insurance company at the beginning of its work It is derived from the percentage and proportionality of the compensation granted by the traditional insurance companies, as the company compensates those affected in accordance with the provisions of Islamic Sharia, and thus it has a surplus for insurance.

An appropriate initial investment contributes a great deal to the survival of the company operating in a competitive market side by side with traditional insurance companies, and even attracts larger numbers of subscribers in the scope of its business as it operates in accordance with Islamic Sharia.

4-2- The size of the proposed investments and profits for the Islamic insurance company

As a result of the size of the initial profits that will be achieved as a result of the primary insurance business practiced by the company, it will generate appropriate initial insurance profits, as in the previous table (5), and the desire of the company to expand and develop its capital, it will resort to aspects of investment in accordance with Islamic law, such as investing in Islamic deposits in Islamic banks or invest its resources in the investment aspects it deems appropriate, and assuming that the volume of profits it achieves increases annually by 10%, then the volume of total profits will be according to the following table:

Table (6): The size of the proposed amounts and investments for the Islamic insurance company for a period of five years thousand Iraqi dinars

years	real estate sector		the productive sector (industrial, agricultural)		the banking sector		The financial markets,	
	the volume of investment	The volume of profits	the volume of investment	The volume of profits	the volume of investment	The volume of profits	the volume of investment	The volume of profits
first year	3000000	330000	2000000	220000	5000000	550000	6000000	660000
Second year	3350000	368500	2100000	231000	5200000	572000	6800000	748000
Third year	3510000	386100	2300000	253000	6200000	682000	6930000	762300
fourth year	3820000	420200	2550000	280500	6330000	693300	7640000	840400
Fifth year	4100000	451000	2870000	315700	6820000	750200	8707400	957814

Source: Prepared by researchers based on the proposed vision

It appears from Table (6) that the size of the estimated profits is assumed to increase gradually by (10%) annually, assuming that they were invested in various profit-generating sectors such as the real estate, banking, production and securities sectors, whether the investment was entirely or through joint investment, since The total invested funds = the sum of the primary insurance surplus + a small part of the capital, noting that the volume of investment for the agricultural and productive sector was assumed in the first year at an amount of (3) and (2) billion Iraqi dinars, respectively, either, as for the estimated profit, it amounted to (330), (220) million Iraqi dinars, to raise the volume of investment significantly, as it reached in the fifth year by (4.1) billion Iraqi dinars, and the amount of estimated profit was (451) million Iraqi dinars for the real estate sector, while the productive sector increased the volume of investment in the fifth year to reach (2.8) billion Iraqi dinars, bringing the estimated profit for investment to (315) million Iraqi dinars.

4-3- The total amounts of investments and proposed profits in the invested sectors of the Islamic Insurance Company

Table (7) shows the total investments and proposed profits in all invested sectors of the Islamic Insurance Company for a period of five years.

Table (7): Total investment amounts and proposed profits for the sectors invested in the Islamic insurance company for a period of five years (thousand Iraqi dinars)

Years	Investment	profit
First	16000000	1760000
Second	16400000	1919500
Third	18940000	2083400
Fourth	20634000	2234400
Fifth	22497400	2474714
Total	94471400	10472014

Source: Prepared by researchers based on the proposed vision.

4-4- The size of the total profits (insurance and non-insurance) proposed for the Islamic insurance company

After calculating insurance profits (insurance surplus) and non-insurance profits as a result of investment in different sectors, we extract the size of the total profits (insurance and non-insurance) proposed for the Islamic insurance company for a period of five years. Table (8) shows the total profits of the proposed Islamic insurance company, as follows:

Table (8): The total profits of the Islamic insurance company for a period of five years (thousand Iraqi dinars)

years	Insurance profits	Non-insurance investment profits	Total profits
first	16,000,000	1760,000	17,760,000
second	16400000	1919500	18319500
Third	18940000	2083400	21023400
Fourth	20634000	2234400	22868400
Fifth	22497400	2474714	24972114

Source: Prepared by the researcher based on the activities proposed for the company

It is noted from table (8) that the volume of total profits resulting from the sum of insurance profits (insurance surplus) and non-insurance investment profits in various aspects of investment in accordance with the provisions of Islamic Sharia law increases during the proposed five years with the increase in investments, and this indicates that the total profits will be feasible and the company is operating to develop and increase profitability at a relatively good level, and it will stimulate other Islamic insurance companies to enter this industry, and thus it will compete with traditional insurance companies, and this competition will create or develop the insurance service because of the competition, as insurance companies will seek to provide better services.

Conclusions

1. Islamic insurance companies are a complimentary link to the Islamic economy represented by Islamic banks and Islamic banks, as the proliferation of Takaful insurance companies and their expansion in global markets and their fulfillment of their duties in risk management contribute effectively to supporting the wheel of the national economy.
2. An analysis of the financial performance of the Jordanian Islamic Insurance Company shows that it enjoys good financial performance, and this indicates that Islamic insurance companies are among the financial institutions that can compete in the insurance market.

Recommendations

1. Activating insurance participation by individuals and the business sector, by spreading insurance awareness and demonstrating the importance of resorting to insurance companies for various economic activities in order to mitigate the severity of the risks that the individual may be exposed to personally.
2. Encouraging the establishment of traditional and Islamic Iraqi insurance companies working side by side with the aim of increasing competition between these institutions in order to compete in providing the best insurance services in a manner that enhances the preservation of economic projects and their protection from various risks.
3. Ensuring the development of the role of the Sharia Supervisory Board and the need to issue new regulations and laws that regulate the work of Islamic insurance companies in accordance with the principles of Islamic Sharia, whether internal or external.

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