

The impact of investment on the profitability of Takaful insurance companies A case study of the Islamic insurance company in Jordan, 2011-2019

أثر الاستثمار على ربحية شركات التأمين التكافلي
دراسة حالة شركة التأمين الإسلامية بالأردن الفترة 2011-2019

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Abstract:

This study aims to clarify the effect of net investment profits on the profitability of Takaful insurance companies, By conducting a standard study on the Islamic insurance company in Jordan during the period 2011-2019, After conducting the study, we concluded that there is a weak and adverse effect of the value of the net investment profits on the profitability of the company, This indicates a high underwriting profit rate (technical result), Which may be the result of the increase in the prices of the Takaful insurance products more than what means a real success for the company.

Keywords:Takaful insurance, investment, profit.

JelClassificationCodes: G22, G24.

ملخص:

تهدف هذه الدراسة إلى إبراز أثر صافي أرباح الاستثمار على ربحية شركات التأمين التكافلي، من خلال إجراء دراسة قياسية على شركة التأمين الإسلامية بالأردن خلال الفترة 2011-2019، وبعد إجراء الدراسة توصلنا إلى وجود تأثير عكسي وضعيف لقيمة صافي أرباح الاستثمار على ربحية الشركة، وهذا ما يدل على ارتفاع معدل الربح الاكتتابي (النتيجة التقنية)، والذي قد يكون نتيجة ارتفاع أسعار منتجات التأمين التكافلي أكثر مما يعني نجاحا حقيقيا للشركة.

كلمات مفتاحية: تأمين تكافلي، استثمار، ربح.

تصنيف JEL : G22، G24.

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1.INTRODUCTION:

Insurance companies invest the surplus funds in various fields. Some of them are related to investing in corporate stocks and bonds, Granting loans to the insured, Real estate construction, leasing and establishment of joint-stock companies, All this in order to achieve the necessary revenue to strengthen its financial position on the one hand, And make profits on the other hand.

The investment profit of the insurance company is no less important than the underwriting profit. Often the result of investment operations may be more stable, And it works to moderate the losing underwriting results if it is carried out according to a correct approach. Therefore, this study was conducted to find out the extent of the impact of net investment profits on the profitability of takaful companies By posing the following research problem:

- ✓ **What is the impact of the net investment profits on the profitability of the Takaful insurance companies?**

To answer this problem, the following hypothesis was put forward:

- ✓ **The net investment income greatly affects the profitability of the Takaful insurance companies.**

In order to test the hypothesis and the answer to the problem, the research was divided into three axes as follows:

The first axis: The Concept of Islamic Takaful Insurance;

The second axis: Investment in the Takaful insurance companies;

The third axis: The impact of net investment profits on the profitability of the Islamic insurance company.

2. The Concept of Islamic Takaful Insurance

In this element, we will address the definition of takaful insurance and its objectives, and the most important differences between it and commercial insurance through the following:

2.1. Definition of Takaful Insurance:

Many attempts were made to develop a unified concept of Takaful insurance.

But all these attempts are close in meaning, It expresses the principle of Takaful, cooperation and solidarity that this type of insurance aims to achieve, The following definition is considered one of the most prominent of these concepts:

Islamic Takaful Insurance can be defined as "A Collective Insurance contract, whereby its subscribers are committed to pay a specific amount of money as a donation to indemnify the victims on the basis of Cooperation and Takaful, when the risk actually occurs. Its Insurance operations are run by a specialized Company, in their capacity as Agents (Wakala Model) on behalf of the policy Holders for a fixed fees." (Sabbagh, 2012, p. 27)

2.2. The objectives of the Takaful insurance

Among the objectives of Islamic Takaful insurance, we mention the following:

- a) The main objective is to achieve Takaful and cooperation among all insured persons, This is consistent with the purposes of Sharia; (Jaafar, Theoretical and organizational foundations of traditional insurance in Algeria, 2011, p. 24)
- b) Providing insurance protection for the money and property of those who fear falling into Sharia violations;
- c) Encouraging charitable work;(Jaafar, 2006, p. 124)
- d) Reducing the insurance premium as little as possible;
- e) Completion of the Islamic Economy circles.(Omar Ghazazi, 2013, p. 05)

2.3. The Difference between Islamic Takaful Insurance and Conventional Insurance

The main difference between the two types is the primary goal for which the insurance company was established, If the goal is profit, then this is commercial insurance, But if the main objective is cooperation and the exchange of benefits between them, then this is Takaful insurance (Beltagy, 2008, p. 41), There are many differences between takaful and commercial insurance due to the nature of each of them and the relationship that arises with others. The following table shows the most important of those differences:

Table 1.The Difference between Takaful Insurance and Conventional Insurance:

	Conventional Insurance	Takaful Insurance
1	Conventional Insurance of offsets contracts is not free of usury and ambiguity and other Islamic prohibitions. Where conventional Insurance Companies are not embarrassed to insure things that are forbidden and that an interest-based investing style.	Takaful Insurance is based on cooperation and falls under donation contracts and devoid of usury and other religious prohibitions
2	The presence of a technical committee only.	The Presence of a Shari'ah Committee, as they check the company's records and contracts and Reinsurance agreements, the areas of investment, and make sure that all this work has been managed according to Islamic code and free of any religious prohibition because they act on behalf of those lacking representation.
3	The Relationship between the Company and the insured is based on a conventional basis governed by supply and demand conditions.	The Relationship between the insurer and the insured is being joint partners in profit or lose.
4	The Original, or any part of the value of the premium paid is not returned in any way to the owner.	The Origin of the value of the premium paid is reverted to its owner on the basis that it is Insurance surplus, after deducting his share of the compensation and expenses lawfully.
5	Returns of premiums assets investment revert to the conventional Company (shareholders) only without others.	Returns of premiums assets investment is property of their respective owners "Policyholders" after deducting the company's share being a "speculator".
6	The Company aims to achieve the highest possible profit for shareholders.	The Company aims primarily to provide cooperation and solidarity among members of society and its development.
7	Company profits result from investing their own funds in addition to trading profits from complete Insurance operations.	Company profits result from investing their own funds and its share "as a speculator" from returns of premiums surplus investment, and the fixed remuneration for managing The Cooperative Insurance Fund.

8	Has one capital only for "shareholders.	Characterized by the existence of "fixed" capital belonging to shareholders and another "variable" capital" belonging to policyholders.
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Source: Ahmed Mohammed Sabbagh, 2012, p. 68

3. Investment in the Takaful insurance companies

In this element, we will address the investment mechanism in Takaful insurance companies through the following:

3.1. The importance of investing in Takaful insurance companies

The importance of investment policy for insurance companies is represented in the following elements:

- a) Reducing losses resulting from indemnification;
- b) Capital Guarantee: Where the funds invested insurance companies are far from risk;
- c) Liquidity: Values held by the company will be salable and purchase at any time you want;
- d) Another alternative to financing: Investments are another way to finance insurance companies rather than bank loans;
- e) Reducing taxes on profits: Some countries give tax exemptions if capital is directed to invest. (suead, 2015, p. 19)

3.2. Principles of investing funds for Takaful insurance companies

- a) Liquidity: It is stipulated that investments should be easy to convert into cash when needed. In order for the company to be able to pay its expected obligations when the insured risks are realized;
- b) the guarantee: Insurance companies' investments must be in safe ways, Because the money earmarked for investment is a cover for policyholders;
- c) Profitability: It comes in the third stage after achieving a large amount of liquidity and guarantee, It is important to strengthen the company's competitive position in the market. (Faiza Ibrahim Mahmoud Al-Ghabban, 2013, p. 219)

3.3. Controls for investment in Takaful insurance companies

Takaful insurance companies' investments are committed to the following:

- a) Compliance with the provisions of Islamic Sharia, So that all investments of Islamic insurance companies are through legitimate means;
- b) Compliance with laws, regulations and legislation of insurance companies;
- c) Adherence to the standards for Islamic insurance companies issued by the Accounting and Auditing Organization for Islamic Financial Institutions for investment;
- d) Adhere to the articles of association of each company with regard to investment;
- e) Adherence to the decisions and instructions of the boards of directors. (Al-Saad, 2011, p. 41)

3.4. Ways to invest funds of Takaful insurance companies

Islamic insurance companies invest their money in several ways. They are divided into direct and indirect methods as follows:

- a) Direct investment in the financial markets through buying and selling shares in accordance with the directives of Sharia supervisory bodies;
- b) Direct investment in currency trading, where a percentage of the funds allocated for investment is determined in hard currencies, For example, dollars, according to the provisions of the exchange contract;
- c) Indirect investment through Islamic banks in accordance with the provisions of the Mudaraba contract. So that the company is the party with the money and the Islamic bank is the speculative party, And profit between them according to the agreement. (Qantqji, 2008, p. 54)

4. The impact of net investment profits on the profitability of the Islamic insurance company

4.1. Introducing the Islamic insurance company

The Islamic Insurance Company is the first Takaful insurance company in Jordan.

It was established in 1996. It practices the legitimate cooperative Insurance which complies with the Islamic Share'ah laws and on the basis of a Wakalah (agency) with a known wage.

The company started with a capital of 2 million Jordanian Dinars and now reached 15 million Jordanian Dinars.

The Islamic Insurance Company dominates the largest share of the takaful market in Jordan and occupies a prominent position in the takaful insurance market inside and outside Jordan. The Islamic Insurance Company won many awards and it has a distinguished rating of 'A (jd)' (Single A) from the Islamic International Rating Agency.

We have participated in establishing many Takaful insurance in the Middle-East such like; Islamic Insurance Company in Yemen, Al-Aman Takaful Insurance Company (A.T.I) in the Lebanon, Saudi Reinsurance Company (Saudi Re), in Riyadh/Kingdom of Saudi Arabia, and At-Takafulia Assurances in Tunis. (The Islamic Insurance Company, 2019, p. 10)

4.2. Company mission

- a) Provide a legitimate alternative to commercial insurance to serve the needs of customers who don't deal with conventional insurance companies;
- b) Completion of the Islamic Economy circles alongside with Islamic Banks in Jordan;
- c) Contribute and flourish the national economy through securing economic projects, and investing and developing its funds by legitimate means;
- d) Providing high quality services to achieve customer satisfaction according to the rules and principles of the Islamic Shari'ah. (The Islamic Insurance Company, 2019, p. 10)

4.3. Evolution of net investment profits and profits in a company

By reading the data contained in Table No. (02) It is noticed that the average net investment profit amounted to 196617.44 Jordanian dinars during the period 2011-2019. The value of investment profits during the study period ranged

between (98874) and (275143) Jordanian dinars. The rate of increase in investment profits was estimated at (11.94%) during the study period, i.e. doubled by (178.28%). To witness this, a steady increase from year to year, at an annual rate of increase estimated at 7,445.6 Jordanian dinars.

While the average profits of the company amounted to 1165515.8 Jordanian dinars during the period 2010-2019, The value of profits during the study period ranged between (334199) and (2002246) Jordanian dinars. The percentage of increase in profits was estimated at (20.2%) during the study period, i.e. doubling by (499.12%). To witness this, a steady increase from year to year, at an annual rate of increase estimated at 128,312 Jordanian dinars.

Table 2.Evolution of net investment earnings and profits

the year	profits	Growth rate	net investment profits	Growth rate
2010	334199	-	-	-
2011	558309	67,1	233609	-
2012	725000	29,9	214604	-8,14
2013	1008184	39,1	164974	-23,13
2014	1080947	7,2	133617	-19,01
2015	1787628	65,4	122843	-8,06
2016	1863302	4,2	98874	-19,51
2017	2002246	7,5	275143	178,28
2018	1114427	-44,3	264184	-3,98
2019	1180916	6,0	261709	-0,94

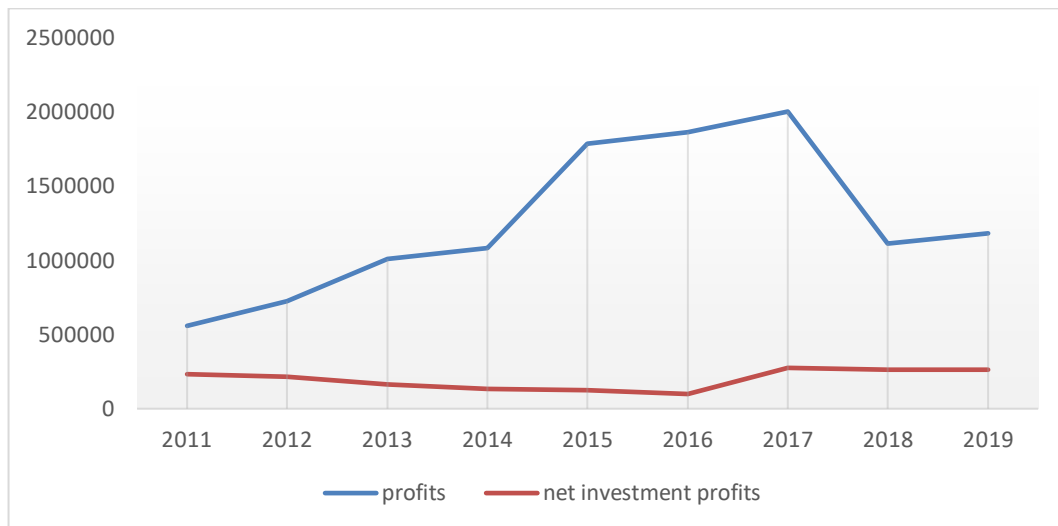
Source:The Islamic Insurance Company, Annual Reports

4.4. The impact of net investment earnings on profitability

The figure below shows the evolution of the net investment profits and the profits of the Islamic insurance company for the period 2011-2019:

Fig.1.Evolution of net investment earnings and company

The impact of investment on the profitability of Takaful insurance companies



Source:Prepared by the researcher based on Table No. (1)

Through Figure No. (1), we notice that there is no strong relationship or effect of net investment profits on the company's profits. To confirm the findings, we will conduct a standard study to know the effect of net investment profits on profits, Where we run a simple linear regression of the value of net investment earnings over company earnings, The results of the linear estimate are shown in the following:

Table 3.Results of linear estimation

Coefficients ^a						
Modèle		Coefficients non standardisés		Coefficients standardisés	t	Sig.
		A	Erreur standard	Bêta		
1	(Constante)	1638606,407	571149,535		2,869	,024
	net.inves.profits	-1,936	2,736	-,256	-,701	,506
a. Variable dépendante : profits						
Récapitulatif des modèles						
Modèle	R	R-deux	R-deux ajusté	Erreur standard de l'estimation		
1	,256 ^a	,066	-,068	528803,610		
a. Valeurs prédites : (constantes), net.inves.profits						

Source:Prepared by the researcher based on IBM SPSS Statistics 20 program

From the table below, the regression model can be written as follows:

$$Y^* = a + b x \pm S_{yx}$$

Y = profits, x = net investment profits

$$\text{profits} = 1638606,407 - (1,936) \text{ net investment profits}$$

The slope parameter indicates that increasing the value of net investment profits by one degree leads to a decrease in profits by (1,936).

We will use the "t" test to test the hypothesis of the slope parameter "b" according to the following hypotheses:

$$H_0: b = 0$$

$$H_1: b \neq 0$$

The decision on these hypotheses is to reject the null hypothesis at a significance level of 5% if ($p < 0.05$).

The probability p value of the slope parameter "b" is equal to (0.506) and is greater than 0.05, This reflects the lack of importance of the variable in the model, i.e. acceptance of the null hypothesis, Which means that there is no effect of the net profit of the investment on the profits of the company.

Consequently, there is no relationship between net investment profits and company profits. This is confirmed by the coefficient of determination, whose value is very weak and is estimated at 6%. The explanation for this is that 6% of the data or total deviations in the values of the dependent variable (profits) are explained by the linear relationship, That is, the regression model and that 94% of the deviations are due to other factors Most notably, underwriting profit.

5. CONCLUSION:

The insurance company is a commercial enterprise that aims to achieve profit, and achieving this goal is a legitimate and required matter, It can be a measure of management success and safety performance. However, the weak effect of net investment profits on the company's profits indicates a high underwriting profit rate (technical result), This may hide a negative practice in determining the

insurance price and does not mean real success. It is imperative to establish controls and practice technical control capable of setting standards to deal with the state of profit achieved in the case of a monopolistic market, It is equally important to prevent negative competition that may lead to safety of prices in the case of markets in which the number of insurance companies exceeds the need and absorption of the market.

5.1. Results

The most important results of the research are the following:

- a) Insurance companies are considered one of the most important service and effective financial institutions in any economy;
- b) The existence of a weak effect of net investment earnings on company profits (**negation of the research hypothesis**);
- c) Investment in bank securities and deposits occupies the largest part of the total invested funds;
- d) The insurance company collects huge sums of money. Shareholders own a small part of it, while the largest part belongs to policyholders. This justifies the necessity of supervision and control and setting controls for investing these funds by the state.

5.2. Recommendations

Based on the research results, the study recommends the following:

- a) Work on enacting laws and legislations in order to encourage and facilitate the work of Takaful insurance companies;
- b) The need to develop investment policies and controls in Takaful insurance companies;
- c) The necessity for insurance companies to adhere to the principle of diversification in their investments;
- d) Supporting insurance companies with technical personnel capable of developing and implementing successful investment policies.

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