

INNOVATIONS

Content available on Google Scholar

Home Page: www.journal-innovations.com

The impact of the insurance sector in achieving economic development / applied research in the Iraqi Stock Exchange

Wisal Abdullah Husain¹, Oroba Main Ayeshe²

¹ Dr. Lecturer, Market Research and Consumer Protection Center, University of Baghdad, Iraq

E-mail: wesalab@mracpc.uobaghdad.edu.iq

² Assistant Professor, Middle Technical University, Technical Institute for Administration, Iraq

E-mail: ouroba92@mtu.edu.iq

Abstract

The research comes to highlights the important role of the insurance sector in the development of the national economy, as the services provided by insurance companies are a guarantee to provide financial protection for individuals and companies against the various risks that they may be exposed to, and on the other hand, the insurance sector is one of the important channels for collecting national savings, which can be used to finance national investments, in order to create new job opportunities and reduce unemployment rates, then achieve

The importance of financial markets comes from their role in mobilizing domestic savings and directing them towards investments to achieve economic development. Therefore, the financial markets in developed countries constituted one of the pillars of economic progress. Some financial markets in Arab countries have registered to build markets that compete with global markets such as Dubai Financial Market and Egyptian Market

Sectorial activity in the Iraqi Stock Exchange witnessed big fluctuations in the percentage of contribution, and there is a decrease in the contribution of insurance companies in the market. The research have been reached to a set of recommendations, including the need to educate Iraqi citizens about the importance of investing in the financial markets and simplifying work

procedures in the market, which works to reduce hoarding inside homes, operate money in the market and reduce consumption.

Key words: 1. Insurance sector 2. Economic development 3. Iraqi stock market.

Introduction

There is no doubt about the importance and role of the insurance sector in economic development. In the first hand, it provides a cover for protection individuals, and their properties (companies and the rest of the production elements) from the risks, and in the second hand, this sector contributes to mobilizing the national savings to finance investments, which will help to achieve economic development. Therefore, it is necessary to promote the development of insurance activities in Iraq, to improve the efficiency of its investments, by absorbing economic developments in the financial markets in preparation for achieving economic development.

It is possible to use the shares and bonds of insurance companies sector in the stock market (the place where sellers and buyer meet for handling their shares or bonds) with the aim of mobilizing their savings and directing them towards channels that can be invested, in another mean, making those funds available to individuals and organizations that wishes in investing.

The research will study the reality of the movement of shares and bonds of insurance companies traded in the Iraqi stock exchange, to know the level of their participation and performance in this market, compared with other sectors of the national economy. The research paper was divided into four axes, the first axis included research methodology, and the second axis included introductory concepts of: insurance, economic development and the Iraqi Stock Exchange and their importance. The third axis included an analysis of some insurance indicators in the Iraqi Stock Exchange. And in the fourth axis included conclusions and recommendations.

1. Research Methodology

1.1. Research problem

The Iraqi insurance companies face many difficulties, including the absence of insurance awareness of Iraqi individual, the instability of the economic and security situation, the absence of laws and legislation necessary to advance this sector, and of course this has an impact on the efficiency of operating the financial resources obtained by this sector.

1.2. The importance of the research

The research is a modest contribution to highlight on the extent of insurance companies' contribution to the Iraqi Stock Exchange, in order to reach a set of recommendations that can contribute to the recovery of this sector.

1.3. The aim of the research

The research highlights on the importance of investment in the insurance sector to achieve the economic development, and the reality of the insurance sector in Iraq by studying the activities of those companies whose shares are traded in the Iraqi Stock Exchange.

1.4. Research hypothesis

The absence of investment awareness leads to weakness in the trading of shares and bonds of national insurance companies in the Iraqi Stock Exchange.

1.5. Research limits

The limits of spatial research was in the Iraqi Stock Exchange, and for period, it extended for the years from 2014 to 2020.

1.6. Research Methodology

In studying the subject of the Iraqi Stock Exchange, we adopted descriptive and analytical approaches, through the use of researches and studies published in books and specialized journals, as well as the annual reports issued by the Iraqi Stock Exchange.

2. Definition Concepts: Insurance and economic development, Iraqi Stock Exchange

2.1. Insurance and Economic Development Sector

Economically: the importance of insurance activities is embodied in the insurance cover for individuals and organizations, and its reflection on the joints of economic and social life, including them; Its main role is to mobilize savings to reinvest them in various fields, reduce poverty rates that arise as a result of high rates of unemployment, illness, disability, old age and death, and avoid losses that may be incurred by the properties of individuals and organizations. (Merza. 2006: 25).

Insurance is also one of the mechanisms for achieving a balance between the forces of supply and demand in the economy. In periods of economic boom, the state can, through its government policies and with the aim of reducing inflation rates, expand by providing compulsory social insurance, and in periods of

economic depression the state works to increase spending in order to increase demand rates in the economy. (Al-Zuwaini. 2010: 64)

The insurance sector works to develop invisible trade in the country. The insurance premiums paid by the insured to the insurance organizations are collected to be reinvested in various economic activities, such as investing in the Iraqi stock exchange, in addition to its contribution to achieve balance in the payments balance. Insurance organizations obtain foreign currencies in return for their services and as a result of the reinsurance operations, it leads to an increase in exports and an improvement in the payments balance in a way that expands foreign trade, in preparation for achieving high rates of economic development. (Salam, Shaqiri. 2009 :93).

2.2.Iraqi Stock Exchange

The Iraqi Stock Exchange was established under Law No. 24 of 1991, and it was considered as a government market at the time. The number of Iraqi companies listed in it was 113 Iraqi companies (private and mixed). The work of the market continued until the issuance of temporary law No. 74 in 2004 to establish two financial organizations: Iraq Stock Exchange and Iraqi Securities Authority. The Iraqi Stock Exchange is the market where the seller and the buyer meet, where securities are dealt with, as it serves as a channel for mobilizing and developing savings to prepare them for various investment fields. (Al-Rubaie. 2009: 26)

The Iraqi Stock Exchange has certain objectives,including:

- a) Work towards developing the capital market in Iraq by providing support to companies to build capital for the purpose of investing them, as well as diagnosing investment opportunities available in the Iraqi market to direct investors to them.
- b) Preserving the interests of investors in a free, safe, effective, competitive and transparent market, and regulating and simplifying the transactions of securities in the market, by regulating the transactions of its members to determine the rights and obligations and the means of protecting them.
- c) Analyzing and publishing statistics for companies whose papers are traded in the market, as well as communicating with the Arab and international capital markets to develop the market's business(Hussain. 2013: 73).

3. Analysis of the performance of the insurance sector in the Iraqi Stock Exchange

A: Volume Indicator

The trading volume index means the value of shares traded in the market (the number of shares multiplied by the average price of one share during a certain period) of the important indicators in the financial market, showing the importance of the traded shares. Table -1- shows the sectorial trading volume in the Iraqi Stock Exchange.

Table -1- Sectorial trading volume in the Iraqi Stock Exchange for the years 2014-2020

Industrial	Hotels & Tourism	Agriculture	Services	Insurance	Telecommunications	banks	Year
37916.5	59018.2	3088.0	21503.5	2218.3	10971.2	763582.7	2014
39760.9	19368.2	5941.5	24802.4	1317.0	8787.4	355859.7	2015
55294.2	24727	3453	16122	436	13782	312946	2016
37869	11269	4968	8311	1030	17609	305821	2017
54852	12731	8109	9046	193	20375	127372	2018
38825.7	8957.1	6881.0	7041.6	876.8	43867.9	58142.2	2019
39942.2	4818.9	6583.0	8209.3	342.3	73068.3	103854.2	2020

Source: Prepared by the researchers based on:

The Securities Commission, Research and Studies Department, the annual report on the movement of trading in the Iraqi Stock Exchange 2014, 2015, 2016, 2017, 2018, 2019, 2020.

It is evident from Table -1- the relative decrease in the volume of the insurance sector trading in the Iraqi Stock Exchange compared with the sectors during the years 2014-2020. During the year 2014, the trading volume of the insurance sector amounted about 2.2 billion Iraqi dinars, which is relatively less compared to the rest of the sectors, where the banking sector recorded about 763.5 billion Iraqi dinars (the highest). The trading volume of telecommunications sector was about 10.9 billion Iraqi dinars, and the hotel and tourism sector was about 59.01 billion Iraqi dinars.

When comparing the trading volume of the insurance sector with the years of study, we noted that it recorded a decrease, as the trading volume during 2014 amounted about 2.2 billion Iraqi dinars, it decreased to 1.3 billion Iraqi dinars in 2015, then the declines continued, as the trading volume in 2016 amounted about 0.4 billion Iraqi dinars, and it reached about 0.3 billion Iraqi dinars during the year 2020.

B: Index of the number of shares traded

The stock index traded in the stock markets is among the indicators that measure the level of performance of those markets. It is measured by the number of shares that are traded for sectors and activities of the economy during a certain period (day, month, and year). In general, the increase in the number of shares traded in the market indicates a state of market recovery, which means that investors are interested in trading securities, otherwise, investors are reluctant to trade in the financial market, due to the decrease in the volume of shares trading. The same applies to economic activities whose shares are traded in the stock markets.

Table -2- Number of shares traded by sector for the years 2014-2018

Industrial	Hotels & Tourism	Agriculture	Services	Insurance	Telecommunications	banks	Year
23794.9	3515.6	623.0	6749.3	1344.0	694.9	707114.4	2014
26185.4	1522.0	1332.4	8107.0	1398.5	1236.2	539459.9	2015
37133.3	3500.4	912.2	7732.1	1054.1	2493.4	864664.7	2016
21505.4	814.5	1225.5	4830.2	1358.6	3120.3	598565.6	2017
34296.8	785.8	1618.0	3731.1	400.3	2394.5	333579.8	2018
24220.8	559.2	1600.5	3847.3	1845.0	5543.6	173224.4	2019
17056.9	1153.7	1041.9	3617.9	616.3	9703.3	229721.5	2020

Source: Prepared by the researchers based on The Securities Authority, Research and Studies Department, the annual report on the movement of trading in the Iraqi Stock Exchange 2014, 2015, 2016, 2017, 2018, 2019, 2020.

Table -2- shows the volume of shares trading sectorial in the Iraqi Stock Exchange for the period 2014-2020. The banking sector was relatively the highest in terms of the volume of its shares trading, as it amounted to about 707.1 billion shares in 2014 and decreased to about 539.4 billion shares in 2015. Then, the trading volume rebounded in 2016 to reach about 864.6 billion shares, but during the subsequent years a decrease in trading volume was recorded to reach about 598.5, 333.5, 173.2 and 229.7 billion shares for the years 2017, 2018, 2019, 2020, respectively.

With regard to the size of the insurance sector shares in the Iraqi Stock Exchange for the years 2014-2020, it was characterized by a relative decline compared with the banking sector, as it amounted during 2014 about 1.3 billion shares, and it maintained the same level in 2015 to record a slight decrease during 2016 about 1.05 billion shares, and 2018 witnessed the lowest trading percentage of

shares, amounting about 0.4 billion shares, then it increased slightly during the year 2020 to reach about 0.6 billion shares.

The low volume of shares trading in the insurance sector for the years of study indicates the reluctance of investors to acquire insurance shares because there is no incentive to invest.

C: Trade Count Indicator

Table -3- indicates the number of transactions that were held in the Iraqi Stock Exchange for the years 2014-2020. The insurance sector was the relatively lowest compared to the rest of the economic sectors, reaching 0.7 thousand in 2014, while the number of transactions in the banking sector reached about 59.3 thousand and communications about 1.01 thousand deals, services about 10.5 thousand deals, agriculture 3.5 thousand deals, industry 18.1 thousand deals, and hotels and tourism 11.1 thousand deals.

Table - 3- Number of contracts or deals sectorial for the years 2014-2018

Industrial	Hotels & Tourism	Agriculture	Services	Insurance	Telecommunications	Banks	Year
18110	11146	3581	10548	719	1019	59388	2014
22818	9094	7064	19476	1203	5237	55767	2015
21378	11047	5248	17949	979	3570	51048	2016
19821	6215	6700	9940	1625	3712	46980	2017
30742	5923	7006	7563	297	2635	33346	2018
27970	7039	7323	8382	2250	3231	21619	2019
28336	2747	5013	8421	263	8989	17176	2020

Source: Prepared by the researchers based on

The Securities Commission, Research and Studies Department, the annual report on the movement of trading in the Iraqi Stock Exchange 2014, 2015, 2016, 2017, 2018, 2019, 2020.

During the years 2015, 2017, 2019 the insurance sector witnessed a recovery in the number of deals, reaching about 1.2 thousand, 1.6 thousand, and 2.2 thousand respectively, but it declined again during the year 2020, bringing the number of deals about 0.2 thousand deals, which means that investors in this sector did not turn up.

4. Conclusion and recommendations

A: Conclusion

1. The stock market is among the indicators that measure the level of movement of the sectors of the economy during a certain period, and it has an impact on the growth rates of the economy, through its role in financing all kinds of economic activities (productive and service) and this leads to a rise in the gross domestic product, then in the national income.

2. The dominance of the banking sector on the volume of trading in the Iraqi Stock Exchange.

3. Relative decline in the insurance sector's contribution to the Iraq Stock Exchange.

4. Most of the sectors participating in the stock market in Iraq witnessed great fluctuations during the study years.

B: recommendations

1. The necessity of activating a stock market, by creating the appropriate environment that motivates companies to enter the market, and what these companies can contribute by providing sufficient capital to finance investments for many projects that the country needs, and contribute to achieving its economic, security and investment stability.

2. Paying attention to the insurance sector because it guarantees the work of the rest of the economic sectors.

3. Educating citizens about the importance of investing in the financial markets and simplifying work procedures in the market, in a way that reduces hoarding inside homes, operating money in the market and reducing consumption.

References

1. *Al-Zwaini, Ilham Nima Kazem. Study of the marketing mix in the National Insurance Company in Iraq, an unpublished master's thesis. Higher Institute of Accounting and Financial Studies, University of Baghdad, 2010.*
2. *Merza. Said Abbas. Insurance theory and practice. First edition. Baghdad. 2006.*
3. *Salam, Osama Azmi, and Shuqiri Nuri Musa, Risk Management and Insurance, Dar Al-Hamid for Publishing and Distribution, Amman, Jordan, first edition, 2009.*

4. *Al-Rubaie, FalahKhalaf, Ways to Promote the Iraq Stock Exchange, Al-Sabah Newspaper, June 26, 2009 issue.*
5. *Hussain, Maysoon Ali. Securities and their markets with reference to the Iraq Stock Exchange, theoretical framing. Babylon University Journal. Humanities. Volume 21. Issue 1. 2013.*
6. *Securities Commission. The annual report on the movement of trading in the Iraqi Stock Exchange for the year 2014.*
7. *Securities Commission. The annual report on the movement of trading in the Iraqi Stock Exchange for the year 2015.*
8. *Securities Commission. The annual report on the movement of trading in the Iraqi Stock Exchange for the year 2016.*
9. *The Securities and Exchange Commission. The annual report on the movement of trading in the Iraqi Stock Exchange for the year 2017.*
10. *Securities Commission. The annual report on the movement of trading in the Iraqi Stock Exchange for the year 2018.*
11. *The Securities and Exchange Commission. The annual report on the movement of trading in the Iraqi Stock Exchange for the year 2019.*
12. *Securities Commission. The annual report on the movement of trading in the Iraqi Stock Exchange for the year 2020.*