

## Determinants of the Profitability of Commercial and Islamic Insurance Companies in Iraq: An Applied Study (Workers in Iraqi and National Insurance Companies)

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### Abstract

*The profitability of insurance companies (commercial and Islamic) in Iraq, an analytical study. Abstract The current research seeks to identify the profitability of insurance companies in Iraq, and in order to achieve the objectives of the current research, the researcher relied on the descriptive survey method through a sample of workers in insurance companies (national and Iraqi) amounting to (150) individuals according to a set of demographic variables, and in order to collect the necessary data and information A questionnaire consisting of a number of paragraphs was designed to measure the profitability of insurance companies in Iraq. The researcher was keen to verify the basic statistical characteristics of the questionnaire before applying it to the research sample by verifying the validity and reliability of the questionnaire. After being satisfied with those characteristics, the questionnaire was applied Based on the current research.*

**Keywords:** Determinants Of Profitability, Commercial and Islamic Insurance Companies.

### INTRODUCTION

The insurance sector is one of the essential elements and pillars of any modern economic activity in the world. The importance of the insurance sector lies in its contribution to providing economic protection for individuals and institutions against the various risks they may face. This protection includes financial compensation for damages, thereby ensuring the continuity and stability of institutions and projects in their activities, which positively impacts the overall business environment.

The insurance sector, as one of the financial services sector elements, plays a crucial role in achieving economic growth, improving risk management efficiency, and reducing transaction costs, And creating liquidity in the market and facilitating investment operations (Doumpos, et. al. 2012: 98) In light of global economic development and the complexity of its operations, no economy can advance and develop without the presence of a strong and developed insurance sector capable of meeting the needs and requirements of all parties that need insurance operations. He believes (Akotey.Et Al ,2013: 98) that **(the business world is unable to continue Without insurance because it is a world fraught with risks and unable to bear all risks in light of the changes and uncertainty in the global economy)** Commercial insurance in Islamic countries requires research and application effort in order to be able to gain significant validity in the insurance market. Iraq is trying to enter into this type of insurance, like other Islamic countries, as a result of the developments and radical changes taking place in the economic sector.

### First: The Research Problem

Insurance companies aim to achieve potential profitability by seeking to increase the return on their investment activities, as the profitability of insurance companies is not limited to insurance price differences. Rather , it is a condition for the profits of insurance companies that the return on their investments be at an acceptable level. But **(Islamic commercial)** insurance companies in Iraq face problems of fluctuation in the value of their profits throughout the year between rise and fall, coinciding with the increase in the size of their investments and the size of their assets, which constitutes an imbalance that affects the role of insurance companies, which

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expresses the extent of the efficiency of their management in using their assets to achieve the highest possible profitability. This may reflect positively or negatively on the reality of economic development in Iraq.

### **Second: The Importance of Research**

A real addition to the Iraqi library, especially since it lacks such research in the field of insurance.

This research can help university and higher institute students and employees in insurance companies.

The importance of cooperative insurance built in accordance with Islamic Sharia in achieving insurance compatible with the provisions of Sharia.

### **Third: Research Objectives**

The current research seeks to identify the level of achieving profitability in commercial and Islamic insurance companies.

### **Fourth: Research Hypotheses**

**First: The First Main Hypothesis:** is that there are no statistically significant differences in the answers of the research sample members to variables according to demographic variables (**gender, age, educational qualification, job experience**).

**The First Sub-Hypothesis:** There are no statistically significant differences due to the gender variable (**males - females**) in the sample's responses to the study variables.

**The Second Hypothesis:** There are no statistically significant differences due to the age variable in responding to the study variables

### **Fifth: Research Methodology**

The application (**descriptive correlational investment**) was used, which is used to describe the first variable, which is the profitability of commercial and Islamic insurance companies, and the second variable is related to profitability. To cover the field aspect of the study, the researcher resorted to collecting primary data through a questionnaire form as the main tool for research, and then analyzing the questionnaire using the statistical program (**SPSS**), in addition to methods of analyzing and testing hypotheses.

### **Sixth: Previous Studies**

**al-hunaiti, (2017), the impact of reinsurance on the financial solvency of islamic insurance companies, international journal of islamic marketing, published by the international islamic marketing authority.**

“The research aims to study the nature of reinsurance, identify the types of reinsurance, know the positive and negative aspects of reinsurance, as well as know the concept of financial solvency among insurance companies and methods for measuring it, and study the impact of reinsurance on the financial solvency of the company under study.

The descriptive analytical approach was relied upon in order to identify Theoretical aspects of the research topic. Simple regression was also used

**(continued)**, and the research concluded that achieving the solvency margin at the levels determined by the project is one of the most important responsibilities of insurance companies, as well as ensuring the continuity of the company and its ability to fulfill its obligations.

**Kunduz, Al-Sahlawi, (2015), Solvency Margin in Saudi Insurance and Reinsurance Companies, Journal of Economic Sciences, Issue Thirty-Eight, Volume Ten.**

“The research aims to introduce financial solvency and highlight its importance in Islamic insurance companies, and the importance of the ability of insurance companies and Islamic reinsurance companies to fulfill their obligations, analyze various aspects of their financial solvency, and identify the extent of their respect and application of the solvency margin. The descriptive analytical approach was relied upon to identify the theoretical aspects.

**The Theoretical Framework of the Research**

**The First Topic: (Commercial-Islamic) Investment Policy and Its Role In The Profitability Of Insurance Companies**

Evaluating financial performance is considered one of the most important topics that financial theories and literature have focused on, as it is a measure used by owners, investors, lenders, and financial analysts to judge the success of management, its efficiency in using available resources, and its ability to maximize the wealth of its owners to achieve high performance rates in a way that ensures its survival and continuity, while the company's performance is affected negatively or positively with determinants algebraically and used in a specific category of external and internal determinants. The external determinants are represented by (the inflation rate and per capita national income), while the internal determinants are represented by those

factors and decisions that are under management's control and affect operational performance, such as decisions related to (company size, debt ratio, liquidity risk, loss rate).

**Inflation Rate**

Inflation is considered one of the most important macroeconomic factors that affects all economic sectors, and while some believe that these institutions expect inflation and adjust interest rates in a way that ensures greater profits.

**Economic Expansion**

Economic growth is considered one of the macroeconomic factors that is taken into consideration when studying the profitability of companies in the financial sector, especially financial institutions, as some previous studies believe that economic growth plays an important role in the stability of the economy and therefore positively affects the profitability of financial institutions: (Bshir, 2000); (Pasiouras And Kosmidou ( 2007)

**Company Size**

Economic theory indicates that increasing the size of the company enables it to benefit from the technical, administrative and financial advantages of economies of scale that affect its efficiency and its ability to better exploit the available productive capacities and provide services at a lower cost, such as (Dennis And Taisier, 2011) studying and (Fadzlan,2010).

**Debt Ratio (Financial Leverage Ratio)**

Signaling theory indicates that a high financial leverage ratio represents a positive signal from management that suggests a bright future for the company, and this supports the existence of a direct relationship between this ratio and the company's profitability. Such as (Zaghoud, 2009), (Abor, 2005), and (Joshua, A 2005) studying.

Therefore, the relationship between the financial leverage ratio and the company's profitability in the commercial and Islamic insurance companies sector is not predictable. The financial leverage ratio is measured by the ratio of total liabilities to total assets.

### **(Liquidity Risk)**

The nature of insurance companies' business requires their commitment to pay compensation to their customers as quickly as possible because any lagging or delay will affect the reputation of the company, which is considered an important part of the company's capital.

### **The Second Topic: The Resources of Insurance Companies Consist of the Following Sources**

**Shareholders funds and rights, policy rights funds, life insurance policyholders.** (Salam and Musa, 2010: 33).

**General Insurance Funds:** Their most important sources are the following allocations: **(allocation for applicable risks, allocation for compensation under settlement, allocations for fluctuations in loss rates)** (Salima, 2014: 32).

### **The Importance of Insurance Plays A Role in the Economic Process as Follows**

The primary function of insurance is to provide security for individuals and national economic units against risks that result in material damage and cannot be predicted in advance. Insurance helps in expanding the scope of credit, which is essential for all projects. This includes, for example, the case of mortgage loans, where the lender refrains from granting credit unless assured that the property is insured against potential risks. **(Asaf, 1986: 27).**

### **Practical Aspect**

#### **Research Methodology**

The researcher in the current study relied on the descriptive survey method, which is one of the types of descriptive studies. The current research community consists of all employees working in insurance companies in Baghdad for the academic year 2023-2024.

#### **Research Sample**

Below are the demographic variables for the research sample, as illustrated in the following:

#### **Demographic Variables by Gender**

It is evident from Table (1) that the number of males in the research sample is (85) and constitutes (57%), while the number of females is (65), making up (43%) of the total research sample (150). This indicates that the sample tends to be more male-dominated.

**Table (1) Demographic Variables by Gender**

Variables	N	%
Gender		
Male	85	57%
Female	65	43%
Total	150	100%

#### **Demographic Variables by Age**

The research sample included employees from both the National Insurance Company and the Iraqi Insurance Company, with their ages ranging from under (31 years) to more than (60 years) The age groups (31 and below) constituted the highest frequency with (40) individuals, representing (27%) of the research sample. See Table (2) for more details.

**Table (2) Demographic Variables by Age**

Variables	N	%
The Age		

Under 31	40	27%
31-39	31	21%
39-40	30	20%
50-59	24	16%
60 and above	25	16%
Total	150	100%

### By Educational Qualification

The results, as shown in Table (3), indicate that those with a bachelor's degree numbered (70) and constituted the highest percentage (47%) among the listed qualifications.

**Table (3): Demographic Variables by Educational Qualification:**

Variables	N	%
Qualification		
Bachelor's Degree	70	47%
Higher Diploma	20	13%
Master's Degree	30	20%
Doctorate	30	20%
Total	150	100%

### By Work Experience

The results in Table (4) show that the number of the sample with a work experience of (40) years was the most frequent at (20) individuals, accounting for (27%) The second most frequent group had (25) individuals with a percentage of (17%).

**Table (4): Demographic Variables by Work Experience**

Variables	N	%
Functional experience		
Less than 5 years	40	27%
6-9 years	30	20%
10-14 years	20	13%
15-19 years	35	23%
20 years and above 25	25	17%
Total	150	100%

### Third: Research Tools: Questionnaire for Insurance Companies

#### Construction of the Questionnaire

Based on this, the researcher developed a scale consisting of five levels to evaluate the questionnaire items. The scale is graded from (5, 4, 3, 2, 1) when corrected. The following table illustrates this:

**Table (5): Questionnaire Correction**

Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
5	4	3	2	1

#### Testing and Clarity of Items and Instructions

To determine the extent and clarity of the items and instructions, the researcher applied the questionnaire to a sample of (30) individuals outside the statistical analysis sample and the final application, as shown in the following table:

**Table (6): Testing and Clarity of Items and Instructions**

Variable	Sample
Male	15
Female	15
Total	30

### Psychometric Properties of the Questionnaire

Extracting the discriminatory power of vocabulary and its validity coefficients is considered one of the most important psychometric properties of vocabulary in the process of statistical analysis of vocabulary, which must be verified by psychological standards, including honesty, the honesty of the arbitrators, and the honesty of the internal person. In calculating the validity of the item, the researcher relied on the (Pearson) correlation coefficient between the score of each item and the total score of the questionnaire, and the following table shows the internal validity of the questionnaire items.

**Table (7) Correlation of The Item With the Total Score of the Questionnaire**

Paragraph number	Correlation of the paragraph to the overall grade
1	0.546
2	0.437
3	0.411
4	0.387
5	0.497
6	0.347
7	0.578

It is observed, through the calculated correlation coefficient value and comparing it with the tabular values of the correlation parameters, that all paragraphs are characterized by internal consistency, which means that they are honest in measuring what they were designed for.

Discriminatory power, and to achieve this the researcher followed the following steps:

Correcting the forms and determining the total score for each one. Arranging the grades obtained by the respondents from the lowest grade to the highest grade. The percentages adopted as a standard for determining these two groups differ. In light of this percentage (27%), the number of questionnaires for each group reached (41) questionnaires, meaning that the number of questionnaires that were subjected to analysis reached (82) form.

The researcher applied the second test (T-test) for two independent samples to test the significance of the difference between the upper and lower groups on each item, by comparing it with the tabular T-value, which amounted to (1.96).The T-value was considered an indicator of the distinction of each item at a significance level of (0,05) and degree of freedom (80) Table (8) shows that the differences between the two groups were significant in all items.

**Table (8) The Discriminating Power of the Questionnaire Items:**

1	Senior group	41	3.49	.553	18.645
	Lower group	41	1.29	.512	
2	Senior group	41	3.49	.810	12.729
	Lower group	41	1.49	.597	
3	Senior group	41	3.76	.435	10.156
	Lower group	41	2.29	.814	
4	Senior group	41	3.95	.218	9.597
	Lower group	41	2.95	.631	
5	Senior group	41	3.95	.218	11.000
	Lower group	41	2.34	.911	
6	Senior group	41	3.66	.480	8.984
	Lower group	41	2.27	.867	
7	Senior group	41	3.80	.459	6.578

**Second: Reliability.** Reliability was calculated in more than one way, as follows: (Test Retest method) according to the reliability coefficient of the questionnaire by calculating the scores of this sample with its scores in the first application. "The Pearson correlation coefficient "was used between the scores of the two applications, and the correlation coefficient was (0.82) which is a good stability coefficient.

## Alpha Cronbach, 1951 Method

This method is based on calculating the correlations between the scores of all questionnaire items, given that the item is a questionnaire in itself, and the reliability coefficient here indicates the consistency of the individual's performance, that is, the consistency between the questionnaire items (Odeh, 2000:354). To extract reliability in this way, the researcher applied an equation (Alpha cornbach) On the scores of the sample members, which numbered (50), the value of the scale's reliability coefficient was (0.80), which is an additional indication that the questionnaire's reliability coefficient is good.

## Research Results, Conclusions and Recommendations

### First: Descriptive Research Results

Before we touch the descriptive statistics to find the variables of the current research, it is necessary to clarify the classification criterion used in the current study to verify whether the items are met or not, and they range from the weak level to the excellent level, as follows:

**Table (9) Shows the Classification Criteria for the Fields of Study**

T	Category	The ratio
1	Excellent	85-100%
2	Very good	75-84%
3	Good	65-74%
4	Acceptable	50-64%
5	Weak	Less than 50%

### Second: Descriptive Statistics on the Profitability of Insurance Companies

To identify the level of the field (**profitability of insurance companies**) from the point of view of workers in insurance companies, the arithmetic means, standard deviations, and relative weight of each of the paragraphs were calculated, and the results related to this are shown in the following table:

**Table (10): Arithmetic Means, Standard Deviations, Percentage Weight, And Ranking of Insurance Companies' Profitability Items**

T	Paragraphs	Arithmetic Mean paragraphs	standard deviation	Percentage weight	Ranking
1	The trend towards Insurance generally affects the profitability of insurance companies.	3.90	0.54	78%	Fifth
2	The economic situation (per capita income) affects the profitability of insurance companies.	3.87	0.38	77%	Sixth
3	The high Unemployment rate Negatively effects on the profitability of Insurance companies.	3.80	0.59	76%	Seventh
4	High inflation Rates negatively effect on the profitability of insurance companies	4.40	0.43	88%	Second
5	Interest rates effect on Insurance companies' investments.	4.22	0.48	84%	Third
6	The number of existing Competitors effects on the profitability of insurance companies	4.15	0.43	83%	Forth
7	The academic Qualifications of senior Management contribute to making sound Financial decisions.	4.50	0.30	90%	First

T o t a l	The overall degree of profitability of insurance companies.	4.15	0.48	83%	
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The results of the dimension (Profitability of Insurance Companies) showed that its relative weight is (83%), with an arithmetic mean of (4.15) and a standard deviation of (0.48) Based on the classification criterion adopted by the researcher, it becomes clear to us that (Profitability of Insurance Companies) among workers in insurance companies It is classified as very good.

## CONCLUSION

The high unemployment rate will negatively affect the company's profitability, i.e. the reluctance of individuals from the insurance process and thus a decrease in insurance awareness.

The impact of the economic situation on the profitability of insurance companies and the acceleration of economic development.

Inflation is considered one of the most important macroeconomic factors that affect all economic sectors, and while some believe that these institutions expect inflation and adjust to ensure greater profit, a high inflation rate will negatively affect the company's profitability.

Islamic insurance aims to achieve cooperation among members of society and does not aim to profit from the insurance process, while commercial insurance aims to profit from the insurance itself.

## Recommendations:

The necessity of adopting Islamic or cooperative insurance, as it has proven more effective in insurance work than commercial insurance.

Seeking to provide legal, economic and social guarantees for Islamic insurance to work better than other insurance.

Conducting ongoing training courses for workers in Islamic insurance companies.

Holding cultural seminars that shed more light on the importance of Islamic insurance as an economic trend parallel to the development of economic resources.

Directing researchers to further research and study the approved forms of insurance, with a focus on Islamic insurance.

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