

Insurance and History of Its Origin, and Its Surrounding Issues in Iran

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ABSTRACT

The "Insurance agency" has an effective role in creating the balance and economic and financial relief of Human life among various forms of struggling and dealing with the harmful consequences of events and risks. Basic concepts and structure of insurance market can be explained based on the development of this industry in response to the new events. Development of the insurance industry has been resulted from the important effects of international trade, urban development, increased catastrophic events such as fire and the industrial revolution. Nowadays, the insurance needs the skillful techniques knowledge based on the principles, statistics and mathematics, leadership and management of facing the risk. In the first half of the twentieth century, the insurance was mainly changed into an institutionalized activity. Evolution of insurance activity has changed this industry from only a series of contracts among the individuals into a matter concerned by all countries. It is often argued that the global competition and free financial services will develop the relative performance of insurance in each country. Moreover, the legislators have determined the obligations resulted from the insurance operations by developing the rules along with expanding the insurance. The knowledge of insurance management also is changed into a technical and professional knowledge tantamount to the social developments. Although the insurance and the history of its origin in the world particularly Iran is review in this study, the issues related to the insurance law, insurance development and also the legislation and laws are discussed in Iran.

KEYWORDS: Insurance industry; development; legislators; Iran.

1. INTRODUCTION

After creating and expanding the fields of cooperation and synergy among the humans one of the emerging fields of insurance, which was facing with and fighting against the risk, was formed. Thus, if by a simple language the insurance is considered as facing with the risk, we should acknowledge that the first human's efforts to deal with the risk was the emerging field of insurance.

The first mention, which has been made about the intervention in favor of injured one in the ancient texts, is related to 4500 years BC. According to the papyrus leaves, the stonemason in lower area of Egypt established a fund for themselves and that allowed them to help each other in the occurrence of some catastrophic events and huge disasters. A few centuries later in 2250 BC, "Hammurabi", Legislator king of Babylon, established a law under which the transporting operators, called as "Dharmata", had the responsibility towards their owners for the goods transportation.

During the years 588-640 BC, the associations were established among the members of a guild or the philosophical, religious and political groups in Athens and their targets were to support the members against the horrible and harmful events. These associations formed the joint funds which helped the injured and lost ones by receiving a monthly contribution if necessary.

Cooperation and collaboration were and are the common need for human social life. Therefore, exciting the sense of participating and assisting the injured and needy ones and understanding the mutual aid may underlie the emergence of insurance (Abedpour, 1386, 4). The most important community of Insurers was held in the coffee shop owned by a person named "Edward Lloyd" in London (Karimi, 1387: 25).

In today competing world in which the technology plays an essential role in the sustainable development, the insurance industry as an indicator of development needs to maintain pace with the updated technologies in order to achieve the sustainable development and attract the domestic and foreign investments by identifying the new opportunities and play its role in the economic prosperity (Fadaei and Sadeghi, 1387: 423).

According to the diversification of risks and threatening subject of risks and ways of preventing their complications, a multiple and various forms of insurance have been formed since its creation. Based on the form and the insured and insurer's objectives, the insurance is divided into the cooperative and business (private) insurance and into the private and social insurance in terms of learning and required observance of personal and social interests. Also the insurance is divided into the property, personal and liability insurance based on the subject of insurance (Jamalizadeh, 1380: 111).

Social Insurance

Social insurance, which is also called the "compulsory insurance" or "insurance resulted from the law", is applied mostly by the workers and low-income strata of society.

Business Insurance (Optional)

Business insurance is also called as the "optional insurance" and in which the insurer supplies a variety of business insurance covers willingly and freely.

According to the type and nature of risk, business insurance is divided into two major categories including the marine and non-marine insurance. Other divisions of business insurance include a) property insurance, b) liability insurance, c) Monetary loss insurance, and d) personal insurance.

The point that should be considered specifically and particularly in the field of insurance industry role in mobilizing the saving resources as a financial institution is that the power of saving and mobilizing the resources of other tools and financial institutions are drastically reduced and the special saving of insurance activities is changed into the only people's saving channel in the developing countries with low per capita income level and especially in difficult economic and severe inflation periods, but the role of this financial institution in developing countries, which have mainly a low per capita income level and are encountered with the deficit of saving resources for investment and production growth and several economic crises and high inflation are the special features of their economy, should be considered more than the developed countries (Hassanzadeh and Kazemnejad, 1387: 276) .

Each person can buy a life insurance but the amount of premium will depend on the age, health and his job. Wife and husband can insure each other's life but insuring other individuals' life is impossible unless their life has benefit for the insurer and their death is a loss for him. This subject, which exists in all insurance, is called the Insurable Interest (Sobat, 1390: 21).

Intervention in insurance market is generally done through the legislating laws and regulations. Economists predict three groups of rules for the insurance market and link them to the market failure; these regulations are as follows:

- Economic regulations
- Market health regulations and its facilities
- Information Regulations

In the insurance industry, the economic regulations are the regulations overseeing the performance of market such as the rules related to the minimum capital and the activity an insurance company and the matters related to merging the companies.

Market health regulations and its facility mostly include the aspect of ensuring the ability to fulfill the commitments of insurance companies and in fact the subjects of sustainability and stability of insurance industry the kinds of these regulations.

Information regulations are the regulations resulted from the inappropriate and incorrect information. When we review the worldwide insurance market, each of these regulations is used in the insurance market based on different aspects.

There is the government intervention in all insurance markets even in the freest ones. The presence of market failure is the most common justification.

However, there is a limitation for the insurance regulations in most countries and it varies from market to market. The main purpose of insurance regulation is to enable the reliable and capable insurers to offer good services with proper quality and price as well as giving them the chance to continue their activity (Farshbaf Maherian, 1388: 82). Most countries (including the developed countries) do not allow their own nationals to insure their insurance by insurance companies except the local ones. Nowadays, there is a tendency to reduce difficult conditions for entering new companies or presence of private sector in the insurance activities (Hemmati and Dehghani, 1388: 324).

The role of insurance and Bank in capital market development is related to the market nature of these two groups. Money, without confidence, will not be successful in capital formation, and the Insurance without a cash investment cannot ensure the confidence. The capital market will not be mutually successful without ensuring the conditions of confidence and adequate flow of investment money (Karimi, 1390: 188).

Receiving the payments, called the insurance premiums, the insurance companies undertake to pay the net possible losses in the future. Since, first the losses are faced with the possibility and then are related to the future, there is a considerable lag time between receiving the premium and paying the compensation if possible. In fact this lag provides the possibility of insurance companies active participation in the capital market and investing the accumulated funds called the Insurance and technical reserves. (Hassanzadeh and Kazemnejad, 1387: 276).

The roles of insurance in the economy are: 1- Compensating role of insurance, 2- reducing the loss, 3- Distributing the financial losses, 4- Building the confidence in investing, 5- creating the jobs, 6- increasing the investment, 7- Mobility and flow of financial resources, and 8- Industrial growth and economic development (Hemmati and Dehghani, 1388: 67).

The main objectives of the Islamic insurance are: 1- Supporting the social integrity, 2- helping in line with protecting the society against the negative effects of adverse conditions, 3- Improving the quality of life through the mental peace which is achieved through creating the security, 4- Saving and money investment through a participatory system which pays the profit based on the paid premium by investors in the annual courses (Ali Khan, 1998).

Fundamental differences between the Islamic and non-Islamic insurance

Table 1

	Non-Islamic Insurance	Islamic Insurance
Investment	Its foundation is based on the profit and not compliant with the legal provisions	Its foundation Profit is not based profit and is totally compliant with the Sharia provisions
Sharia supervision Parliament	Not have	Supervising the process of implementing the Takaful (Islamic participating insurance)
Content	It is divided based on the consent of the company	It is divided among all subscribers
Guarantee/ warranty	It is given by the company	Subscribers guarantee each other
Loss/ compensation	It is paid by the capital of company	It is paid by the capital of Takaful
Administrative costs	They are paid by the premium	They are paid by the shareholders' capital
Fee of institution	They are paid by the premium	They are paid by the shareholders' capital
Order	It is not accordance with the orders and provisions of Islamic Sharia	It is completely accordance with the orders and provisions of Islamic Sharia
Type of Contract	Buy and Sell	Tabaroe (donation) and Mozarebeh (Speculation)
Liability of investing company	issued warranty	Managing the Investment

Underdevelopment of life insurance is one of the major reasons of low insurance penetration in the Islamic countries. Insurance, especially Life insurance, is an important part of social support which is necessary for each society. Insurance has a right status in Islam, but lack of knowledge and adequate notice to it during many years has caused the decentralization about insurance in the Muslims' culture. Takaful or Participating insurance is a proper way to remove these obstacles. This type of insurance can develop the insurance market in areas in where the conventional insurance does not have the growth potential means the Muslim countries (Khanzadeh, 1386).

In the legal and economic system of Iran after the Islam, the concept of insurance, based on the today common term, is unknown, so that in the eighteenth and nineteenth century, when the insurance had been developed in Europe and America and even India, there was no insurance and Insurer in the legal and economic system of Iran. Emergence and development of Insurance, in today concept in Iran, has no long history. The history of insurance in Iran started from Nasser al-Din Shah's era in about 1268 (solar year). For the first time in his reign the new and common concept of insurance entered the culture of law and Literature in Iran (Jamalzadeh, 1380:54).

In fact, in 1289 (1910 AD) two Russian Insurance Institutes named Nadezhda and Caucasus Mercury started their work for the first time in Iran, but before that and for the first time in 1112 (solar year), a Russian citizen named "Lazar Poliakov" proposed the Iranian government for the establishment of insurance in Iran under the name "Patent of transportation and establishing the Insurance center in Iran" and after that the English, German, Austrian and... insurance companies one after another opened branches for doing the activity in Iran. Especially in the past seventy years and since the establishment of the first Iranian insurance company in 1314 (solar year), the insurance need and institution has had a remarkable development and expansion, thus in several past decades and today, it has become one of the supporting and useful fiscal activities in our country and played a valuable role in changing and improving the conditions of social life and Iran's economy (Mahmoud Salehi, 1388: 84).

The first foreign insurance companies in Iran

Table 2

Company Name	Nationality	Year of Establishment	Field of Activity
Nadezhda And Kafkazi Mercury	Russian	Early in Ahmad Shah Qajar's reign	Property and commercial products Insurance
Allianz	English	1300 (Solar Year)	Fire, auto, and theft insurance
Fowler	English	1308(Solar Year)	Fire, cargo, marine, life, accident, and auto insurance
Western Australian	Lebanese	1309(Solar Year)	Life insurance
Eagle Star	English	1310(Solar Year)	Fire, freight, accident, auto, life and liability insurance
Ingosstrakh	Russian	1310 (Solar Year)	Transportation, fire and auto Insurance
Yorkshire	English	1308(Solar Year)	auto, accident, cargo, fire and life insurance
Royal	English	1305(Solar Year)	cargo, accident, fire, theft, and all- risk insurance
Allianz ond Sheto Tkart Frain	German	1310(Solar Year)	Fire, transportation insurance
Reunion Adriatikadi Sikorta	Italian	1315(Solar Year)	Indirect activity along with the reinsurance contract with Iran Insurance Company
Asikorazioni Generali	Italian	1314(Solar Year)	Indirect activity along with the reinsurance contract with Iran Insurance Company
Ettahadieh al-Watani	Lebanese	1329 (Solar Year)	Individual accident, auto, and fire insurance
National Swiss	Swiss	1314 (Solar Year)	Auto, fire, and cargo insurance
Palestine Lloyd	English	1313 (Solar Year)	Auto and Fire insurance
Phoenix	English	1323 (Solar Year)	Fire, transportation, auto and accident insurance

Most of the foreign insurance companies closed their branches and agencies after the Second International War (Pourmohammadi, 1386: 22).

The first Iranian private insurance company, called "Shargh Insurance" was founded in 1329 (Solar Year). After that and until 1343 seven other private insurance companies, named Aria, Pars, Melli, Asia, Alborz, Omid, and Building and Work, were gradually established respectively and did the insurance activity. As was mentioned, since 1316 (solar) all insurance companies were obligated to assign 25 percent of their insurance affairs to Iran Insurance Company as the compulsory reinsurance. This assignment was primarily done through the lists named "bordero" which contained all information about the issued insurance policies and paid losses of these companies. Clearly, the

insurance companies were not satisfied with providing the information for the competing insurance company (Karimi, 1387: 29). On the other hand, by increasing the number of insurance companies, the need for supervising this industry more by the government and developing the standard principles and criteria for the insurance activities in order to protect the insurer and insured rights was felt. Therefore, in 1350 (Solar) the "Iranian Central Insurance" was established in order to fulfill the above objectives. Thus, the insurance activities were specially supervised for the first time in Iran. One of the important points in the legislated law in 1350 was to transfer the compulsory reinsurance from Iran Insurance Company to the Iranian Central Insurance, and all institutions were required to make 50 percent life insurance and 25 percent of other fields of insurance as the reinsurance compulsory by the Iranian Central Insurance (Pourmohammadi, 1386: 24). Establishment of Iranian Central Insurance gave more consistency to the insurance industry and since then the "Insurance Supreme Council", which is one of the pillars of Iranian Central Insurance, ratified different regulations and rules in the field of implementing the insurance operations in the country, rates, and types of insurance policies (Karimi, 1387: 30).

Table 3: Private insurance companies in Iran

No.	Company Name	Year of Establishment
1	Shargh Insurance Co.	1329
2	Nejat Insurance Co.	1331
3	Pars Insurance Co.	1334
4	Melli Insurance Co.	1335
5	Alborz Insurance Co.	1338
6	Asia Insurance Co.	1338
7	Omid Insurance Co.	1339
8	Building and work insurance Co.	1342
9	Iran and America International insurance Co.	-
10	Dana Insurance Co.	-

All these private insurance companies were established after the Islamic Revolution under the act dated 04.04.1358; and the government became responsible for the ownership of all of them after ratifying the constitution of Islamic Republic of Iran and thus the government had the monopoly on the insurance activities (Article Forty-Fourth of constitution) (Mahmoud Salehi, 1388: 94).

Now, four insurance companies including Iran, Asia, Alborz and Dana companies do the Insurance affairs and by ratifying the law of establishing the non-governmental insurance institutions since 1380 (Solar) the private insurance companies including Karafarin, Sina, Mellat, Hafez, Persian, Dey, Novin, Razi, Saman, Omid, Amin reinsurance, and Pasargard started their work.

Despite the fact that the performance of this industry has been considerable during a seventy-year period, based on the successful world samples in the indicators such as the range of presence in the industry, coverage level of economic agreements in various sectors of economy in the country, portion of insurance industry of GDP, and Insurance penetration in the country it is indicated that the insurance industry has not yet be able to obtain proper and decent position and the activity field of this industry should be developed by increasing the existing capacities and eliminating the obstacles. In recent years, great effort has been done in order to increase the quality of offering the services in the Insurance companies, but since the nature of Insurance activities in the state insurance companies has the fundamental differences with the insurance companies, there is not a possibility to develop this way more than what is done and the only way is to increase the insurance coverage in the society and as a result increasing the annual premium volume of market and finally enhancing the per capita premium in Iran, and establishing the new insurance companies with the private structure. Private sector participation in the insurance policy is one of the best practices for developing the insurance and this will not be possible without a proper field. Obviously, the way of activity in the insurance market should also be changed as well as reforming the structure (Karimi, 1390:111). Iranian insurance industry is on the verge of the greatest development after the victory of glorious Islamic Revolution. Private insurance companies will be entered this field in near future. However, it takes at least between three to five years for the private insurance companies to be able to provide a balanced portfolio.

The public viewpoint about these laws states that the regulation is done in order to correct the failures of market, external effects, incomplete information, and protect the consumers. This matter is a normative approach about which Stigler (1971), Paster (1974) and Peltzman (1976) conducted several studies in 1970. Most of the economic analyses have been focused on the field of regulating the insurance rules, wealth rules, premium rates regulations, and the ability of insurance coverage.

In many countries, governments apply the economic activities of public sector as a tool for macroeconomic policy in order to not only provide the insurance services but also to achieve the macroeconomic and social objectives such as the employment, financing for priority investments and/or increase the foreign exchange reserves.

Most of the developing countries not only consider the insurance companies, which they have established regionally, as an essential and necessary part for economic and political independence, but also they consider them as the most important driving force in the economic development process (Hemmati And Dehghani, 1388:477). The first bill on the Iranian insurance was the postal insurance bill which was discussed and negotiated by the representatives in the Third Assembly of the National Council and was passed on 15 Ramadan 1332 AH (1914 AD).

Current state of Insurance regulation and development

Despite the importance and role of investment in the qualitative and quantitative growth and development of insurance industry of capital market, this case has not received more attention by the insurance industry yet; and because of the poor performance of this industry the technical reserves and investment funds in this industry is very low despite having very high potential. (Ahmadvand, 1379: 67).

Another important indicator, which is used to evaluate the performance of the insurance industry, is the per capita premium. The premiums per capita is calculated by dividing the total premium by the population of country and indicates the premium which is spent on average for each of people in the society during the year; in fact, this index shows distribution of total premium among the population of country during a year. Insurance Penetration index or the ratio of insurance premium to GDP is among the important factors in evaluating the performance of insurance industry and different countries have compared it.

Major problems of development and expansion of insurance can generally be summarized in two parts:

- 1- Problems outside the insurance industry affected by the economic factors
- 2- Problems within the insurance industry due to inadequate skilled and professional manpower in sales, issuing the issuance policy, evaluating and paying the compensation which leads to the inability in offering desired services to customers.

In addition to these cases, the insurance culture has not been spread in Iran and people do not care the provision which the insurance can make.

Premium produced by the Industrial insurance

The premium produced by the insurance industry was equal to 2.9 billion dollars in 1385 (solar). This rate is equivalent to 0.80 percent of total produced premiums of the world insurance market. According to these rates, despite the fact that Iranian insurance industry is far from the developed countries in terms of producing the premium, it has been achieved the first place among the countries in the Middle East. According to the Figure 1, the produced premium has had a growing process in recent years. However, it should be noted that a significant proportion of this increase has been due to the inflation and continuing decrease of national currency value.

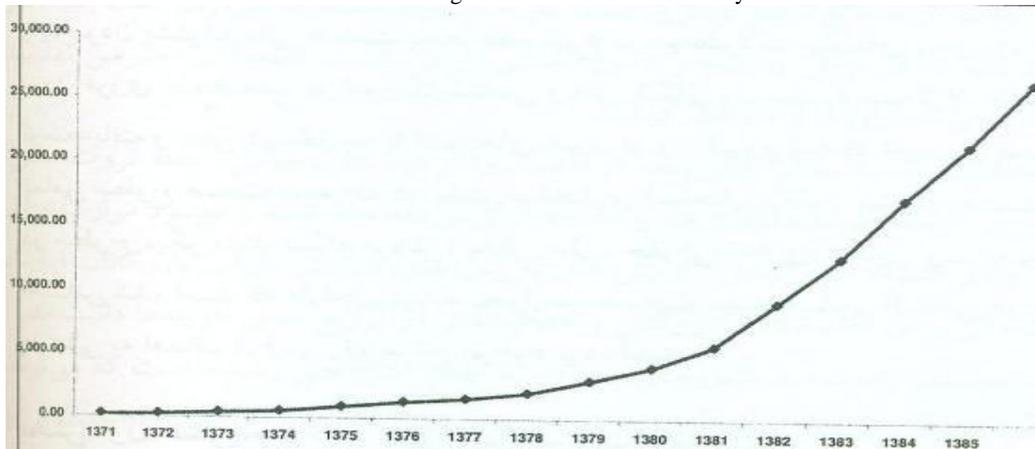


Figure 1: Produced premium trend of total insurance industry

According to Figure 2, it can be seen that despite the fluctuations in the percentage of changes in produced premium in the past years, this percentage has always been positive and the Index of produced premium has always been grown, but the trend line of growth percentage of premium has had a negative slope and this means that the growth speed of produced premium has been has declined during the recent years.

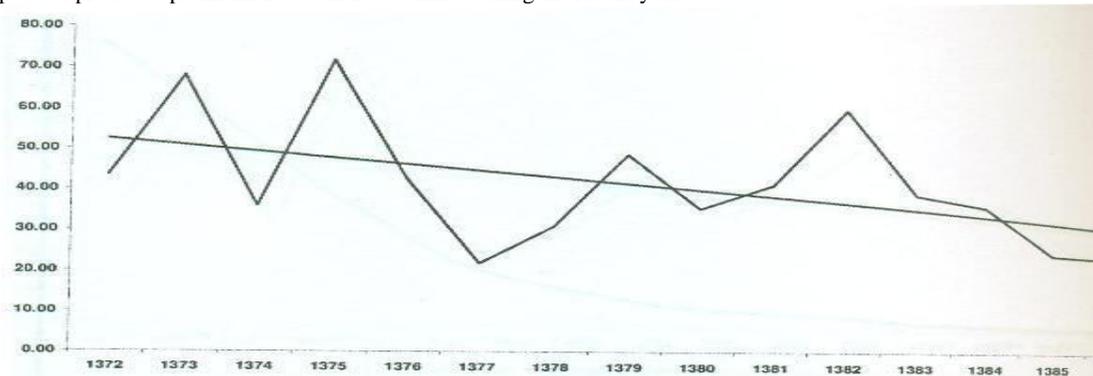


Figure 2: Trend of Percentage of produced premium Changes in the insurance industry

Per capita Business Premium

According to statistics announced by the Central Insurance of Islamic Republic of Iran, the business insurance per capita premiums in 1385 (solar) was \$ 41; this figure gave Iran the seventeenth place compared to 25 top Asian countries and by adding the produced premium of all insurer organizations such as the social security agency, retirement organization, and the Health insurance organization this figure will be Increased to \$ 127. It is worth noting that the per capita premium in the Middle East countries has been over \$ 260 in 1385 (Solar) and nearly \$ 2.900 in the developed countries. On the other hand, according to Table 3, the trend of per capita premium in the Iranian insurance market has been ascending, but like the produced premium index, this index depends on the inflation level in the society and its increasing trend is not enough for claiming the proper performance of insurance industry.

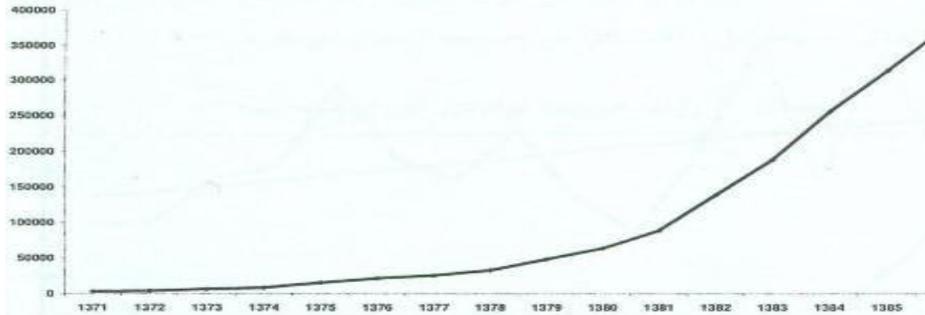


Figure 3: Trend of per capita premium for business insurance

Therefore, the index of Percentage of changes in per capita premiums during recent years has been used for better understanding of this index as shown in Figure 4. Despite having the fluctuation this index has always been growing and the percentage of its change has been positive. However, the trend line of per capita premium growth percentage has a negative slope and this means that the growth rate of per capita premium has been declined during the recent years.

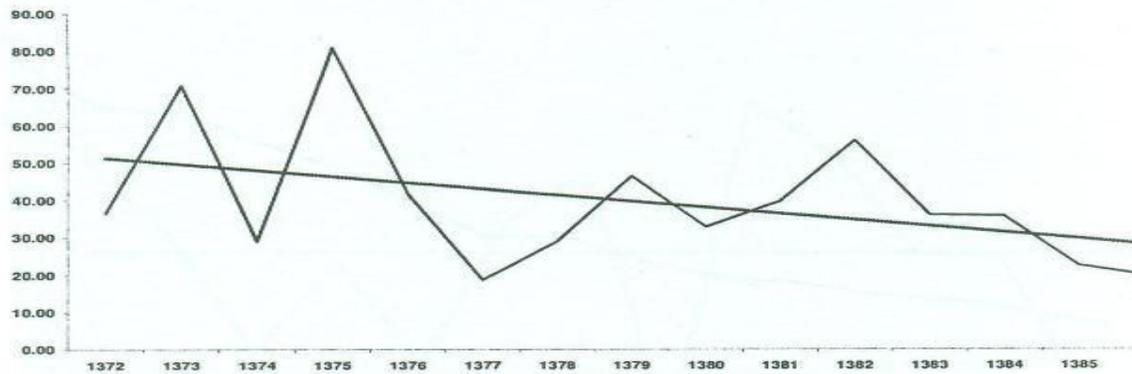


Figure 4: Trend of percentage of business insurance per capita premium changes

Business Insurance Penetration

Business Insurance penetration in 1385 (solar) was about 1.5 percent. This low rate represents the disproportion of insurance growth and development among the three components of national economy. This rate is over 7 percent in many advanced countries.

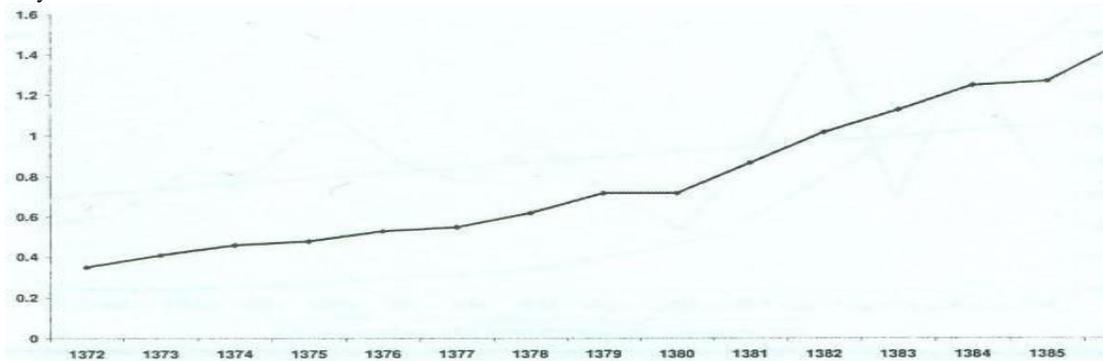


Figure 5: Trend of insurance penetration rate in Iran

Current status of Insurance Industry in Iran

Iran insurance market has the features which probably can rarely be seen in the world; one of these features is the 50-Percent portion of Auto and Third party field in the insurance market of our country. Auto and Third party insurance is a field which the parliament authorizes the law related to it, its commitments are determined by the Judiciary and its losses are paid by the government and other insurance companies.

Such a portion for the auto and Third party insurance indicates that the Iranian insurance market is captured by a field, which the insurance companies do not have the maneuverability in it and are only required to pay the compensation. The changed third party insurance law, despite the insurance company administrators' warnings about its consequences, made the responsibility of Insurance companies double.

However, nearly 50 Percent of market portion in the world Insurance market belongs to the life insurance. This field covers even 70% of insurance market in Japan, Switzerland and some of European countries, but this field of insurance covers about 5 to 6% of portion in Iran.

According to the current status of insurance industry in Iran, it seems that this industry has not found its actual and key position in the economy yet and has not been able to ensure the entrepreneurs. About 3.5 billion dollars produced premium and 1.3 percent Penetration rate in this industry represents a deficiency and inefficiency.

Numerous reasons have been raised for this lack of development; the most important of which is the state economy and relying on the oil earnings.

Since 1382, the privatization and liberalization were also considered as the solutions, which enhance the efficiency and development of economic activities in the insurance industry, and by ratifying the law, which allowed the private institutions to work, in 1380 and establishing about 16 private companies until now, it has been entered the execution phase (Farshbaf Maherian, 1388:95).

If we change the comparing level to the insurance industry of other countries, the condition gap of insurance industry and the need for its growing development become more clear (Notash et al, 1388:41).

Iranian insurance industry consists of a state agency and 20 companies providing the insurance services with 648 branches across the country. Iranian Central Insurance plays the role of state agency in the Iranian insurance market and the Insurance companies which present the nonprofit services are the active business enterprises in this Market. 20 percent of these companies (4 companies) are governmental and 80 percent (16 companies) are non-governmental. Iranian Insurance Market share of state companies is 75 percent and 25 percent for the non-governmental companies. From 30 million and 800 thousand insurance policies issued in 1387, nearly 72 percent was belonged to the governmental companies and about 28 percent to the non-governmental companies.

Sale network of Iranian Insurance industry consists of Insurance agencies and brokers including 11,517 agencies and 266 brokerage. 11,500 employees work in insurance companies; the number of insurance industry reaches nearly 36 thousand people by adding the employees in Insurance agencies and brokerage.

Central Insurance of Islamic Republic of Iran is the supervisor entity of Insurance industry in Iran. This entity is a state company which started its activities in 1350.

The produced premium value of Insurance companies in 1387 (solar) was about 40.6 thousand billion Rials which had had an increase of 19.9 percent compared with a year before. 25.1 percent of market Premium in this year was produced by the Insurance companies.

Table 4: Share percentage of Insurance companies in the Iranian insurance market, separated by being governmental and non-governmental

Description	1385 (Solar)	1386 (Solar)	1387 (Solar)
Governmental insurance companies (including Iran Insurance Co.)	83.7	77.8	74.9
Non-Governmental Insurance companies	16.3	22.2	25.1

In 1387 (solar), the insurance industry has issued nearly 30.8 million insurance policies which had the growth of 27.5 percent compared with the last year.

In 1387 (solar), approximately 45.3 percent of produced premium insurance in companies insurance belonged to the third party field and after that to the insurance of auto body (12.3 percent), health (9 percent), fire (6.4 percent), liability (5.9 percent), life (5.2 percent) and Passenger accidents (5.1 percent).

In general, 84.1 percent of premiums in the insurance market are produced in these 7 fields. Moreover, it is obvious that is 62.7 percent of premiums in the insurance market are produced in the auto insurance (third party, passenger, body). During this year, the produced premiums of the fields such as fire, cargo, ship, money, engineering and credit were reduced compared to last year (between 2 to 23.6 percent) and in contrast the insurance of other fields were increased (between 11.8 to 61.3 percent). Based on the statistics in 1386 (solar), the insurance industry of Iran is considered as the 46th world insurance industry with 9 percent share of total world produced premium. Turkey is ranked 34th in this field.

Per capita Premium in Iran is \$ 50. Per capita Premium in the world is \$ 608. Moreover, the insurance penetration rate in Iran, as the most important indicators for evaluating the status of insurance industry in the countries, is 1.3 percent.

However, the penetration rate in Turkey is 1.7 Percent, the United Arab Emirates: 1.9 percent, Middle East and Central Asia: 1.5 percent, Middle East and "MENA" Region 1.61 Percent, Africa: 3.4 percent. Latin America: 2.5 Percent, South and East Asia: 8.8 percent, developed countries: 9.4 Percent and the world: 7.5 Percent.

Rate of Iran in this field is 76 in the world, rate of the United Arabic Emirates: 64 and Turkey 68. Portion of life insurance in the whole insurance industry in Iran is only 5.2 Percent, while this rate is about 59 Percent for the entire world (Farshbaf Maherian, 1388: 4).

Table 5: Indicators for evaluating the insurance industry of Iran during 1383 to 1386 (solar)

Title	1383 (2004)	1384 (2005)	1385 (2006)	1386 (2007)
Per capita premium (dollar)	29.4	34.9	40.8	50.0
Insurance penetration rate (percent)	1.25	1.27	1.46	1.33

Identifying, introducing and analyzing the challenges facing the insurance industry, especially the state insurance companies, are very important. Challenges can be analyzed and divided into five fields: insurance services, finance affairs, informatics, structure, rules and regulations, supervision and inspection.

Principles of Supervising the Insurance Regulations

Without any doubt, supervising the insurance companies, like other financial and credit institutions, is very important. Not only the insurance companies guarantee the national economic growth by compensating the financial losses and continue the economic development planning of country, but also play a critical role in the monetary and credit policies of country and practically prepare the potential facilities of macro investments in the different economical channels by concentrating on the national capital as the premium and creating the technical and calculated reserves. The law for establishing the Iranian Central Insurance was passed by the parliament at that time in 1351 (solar) in order to achieve the above objectives and supervising the insurance affairs was considered as the main task of this organization (Farshbaf Maherian, 1388: 108). Most of the countries have special legislations and regulations for long-term life insurance policies. Life insurance, which is the result of people's savings, is important both for people and government. These countries have another law for other fields of insurance. The level of monitoring the life insurance companies and other insurance companies, and also monitoring the reinsurance activities and the way the insurance intermediaries are done are partly different. Each country ratifies its monitoring law and regulations according to the social field, people's culture, and structure of insurance industry (Karimi, 1390:114).

Monitoring insurance operations have various aspects including:

Technical supervision, accounting supervision, financial supervision, legal supervision and the economic supervision (strategic supervision)

In modern economies, the financial markets are the parts for which the severe regulations are ratified. These markets have been grown over past two decades, thus they underwent the structural changes. Meanwhile, the regulatory approaches have also been changed.

All countries, which have changed their supervising system, have had changes in the market, supervision structure and the community demand. It seems that if we want to create a change in line with the liberalization, we will inevitably be faced with these cases; therefore we should be ready for facing with the changes of insurance industry structure after the development and liberalization and consider this issue (Lalianpour et al, 1388: 135).

Establishing the companies for protecting the rights of insured ones along with the membership of all insurance companies can protect the implementation of their commitment in case of the disability of insurance companies.

Other Institutions along with the regulatory bodies can exist and facilitate monitoring the right fulfilling of the industry beneficiaries. These institutions include:

1. Internal auditors of insurance companies

Considering the importance of corporate governance principles, a unique organization consisting of heads of internal audit groups in insurance companies, is essential for discussing and evaluating the problems and issues of insurance accounting and providing the suggestions and practical solutions for the governmental agencies especially the regulatory agencies.

2. Public Standards Association

In case of liberalizing the tariffs, defining the appropriate standards for sales and services is essential.

The main objective of this Association, which its members ban include the insurers, intermediaries companies or other groups associated with the insurance industry, is to ensure the proper service and fair deal with the customers in the insurance process.

3. Insurers' Syndicate

In new conditions, the Iranian Insurers' Syndicate, as a representative and protector of insurers' right, should play a more prominent role in the insurance industry.

Providing the solution for the Iranian insurance industry

By evaluating the supervision system of different countries we will find that monitoring the Insurance industry has a long history and presence in the Western and European societies; however, the process of supervising the insurance in Iran has no long history and this supervision was established only after the emergence and founding the insurance activities. Monitoring the insurance institutions, like other financial and credit institutions, has a particular importance. Not only the insurance institutions can ensure the national economic growth by compensating the financial losses and guarantee the continuity of economic development planning, but it also play a critical role in monetary and credit policy of country and practically provide the macro investment in various economic channels by focusing on the national capital as the premium and creating the technical and calculated reserves.

These guidelines can be proposed in order to reform the insurance system of country:

1 - Premium rate should be determined in each insurance company by creating the balance between the premium and other pursuant revenues in every field of insurance and the losses and pursuant costs of that field, and by ensuring the standard loss coefficient in the insurance market of country;

2- Domestic reinsurance capacity should be applied by ensuring the professional principles of risk distribution in the international markets;

3- Creating and development of professional and specialized institutions in the insurance market;

4- Gradual reform of the insurance market of country in order to facilitate the establishment of a competitive market;

5- Avoiding the creation of a monopoly in the insurance market of country and dealing the disruptive issues of competitive market such as aggressive pricing (dumping), collusion, and the untrue and misleading information;

6 - Developing and operating a comprehensive system of supervision in the insurance industry of country with the objective to establish the nontariff supervision instead of the tariff one and by predicting the required executive guarantees maximum during two years;

7- Applying the information technology in collecting and generating the insurance information within the framework of specified standard forms;

8- Issuing the insurance policy with observing the capacity of insurance companies in the risk management or by obtaining the appropriate reinsurance coverage;

9- Reviewing and developing the needs of reinsurance operations of insurance institutions;

10- Developing the standards and reviewing the general conditions of insurance policies in each insurance field and other regulations and provisions;

11- Developing the regulations related to the approving the technical officer and auditor's competence in the insurance companies;

12- Developing the regulation about protecting the insured and insurers' rights and the way of handling the complaints and differences in the insurance industry of country (Lalianpour et al, 1388:159).

By approving the nationalization Act of insurance companies, the operation of foreign insurance institutions were banned in Iran but at the end of imposed war the government passed the laws in order to prepare the field for the activity of foreign companies in Iran.

At first, by ratifying the law for allowing the registration of foreign agencies or branches, approved in 8/21/1376 (solar), the government accepted the insurance operations by foreign companies subject to the reciprocity; and by approving the Act in 30/04/1378(solar) in the form of Additional Article 28 for the way of administrating the Free Trade-Industrial Zones of Islamic Republic of Iran by foreigners, they were allowed to register the Insurance companies in the Free Trade-Industrial Zones and engage in the activities (Abedpour, 1386: 75).

Improving and completing the insurance provisions

Achieving the objectives predicted in the industry development plan of country including the increased insurance penetration rate and improved quality of insurance services require various changes and reforms in the regulatory and organizational structure of Insurance industry and the interaction and cooperation between various practitioners in the insurance industry is essential for such these reforms. In reforming and regulating, the scope of supervision and involved cases should be determined by relying on the transparency principle. These regulations, with the sensitivity to the wealth and ability to fulfill the commitments, should be in a way that the supervisor is notified of the financial ability of insurance institution by overall monitoring and avoiding the minor handlings. Insurance providers such as the insurers, agents, brokers and other professional service providers should be committed to the principles and standards of professional behavior because this feature is the necessity and prerequisite of Insurance industry. Unfortunately, in the insurance market of country, these principles and standards have not been developed and approved in its minimum form, yet. Developing such these criteria as well as predicting the necessary executive guarantees should be in the programs of changing the insurance industry.

In most of the developing countries, the costs of regulating the provisions and state control is very high and providing the effective regulation for the insurance companies needs the state administrative resources in order to achieve the complete ownership. If the supervising agencies failed to fulfill the determined targets, the created disorders probably will prevent implementing the laws and failure to achieve the legislation objectives (Hemmati and Dehghani, 1388: 493).

Necessary reforms in the laws and Provisions

In conducted studies and according to the reports and results of conducted studies in developing the changing plan in the insurance industry, the necessary amendments in the laws and regulations should be provided in the following fields:

1- Information Technology and Supervision

Issuing the electronic insurance policies, which is one of the requirements of creating the change in the insurance industry, should be done based on the coordination with the existing laws and regulations including the Article 2 of Insurance Act through developing the necessary regulations and instructions.

2- International interactions and reinsurance matters

Providing the possibility of participation, foreign insurance companies and investors' activity in order to use their capital, knowledge and professional information in order to develop and strengthen the insurance industry of country, reducing the dependence of insurance industry to the foreign reinsurance companies, limiting the scope of reinsurance assignment to the abroad, and increasing the ability of domestic insurance companies in the field of accepting the foreign reinsurance by the proper and useful way.

3- Legal Affairs

One of the needs of Iranian insurance industry is to establish the specific branches of criminal and legal courts in the presence of judges who have knowledge about handling the insurance cases.

4- Financial matters

The need for predicting the article in the direct tax or Value Added Tax law or any other appropriate law in order to prohibit from imposing the taxes, charges and different funds by different authorities on the insurance policies issued by the insurance companies.

5- Development of insurance and considering the sales network

Inserting the necessary articles in the law of five-year program, law of regulating a part of government financial regulations and the annual budget laws in order to make the fire insurance of buildings, public properties, public auto body, Machinery and utilities, governmental factories, and other insurance policies required to maintain and protect the public properties and prevent the destruction of national capital compulsory.

6- Administrative, organizational and training affairs in the insurance companies

Providing the necessary fields for attracting the experts, maintaining and keeping them, and investing in order to improve their knowledge and information during the service is one of the basic needs for creating the change in the insurance industry.

Challenges facing the development program

Existing problems facing the implementation of develop program in the insurance industry often make the way of implementing the programs difficult by two reasons.

A) External challenges:

- Government's will to price (such as the status of Third party insurance, Duplicate Health Insurance, providing numerous charges and legislating or reforming the laws of insurance regardless of the nature of business insurance companies)

- Specific social features of country (such as the composition of active and inactive population, composition of age groups, high overhead population, low welfare, low educational level)

- Economic features of country (e.g. size and volume of Government, inflation, lack of balance between the income and cost in the family budget, and lack of equitable distribution of income)

- Cultural features of Country (such as the rule of honoring spirit and belief in the fate, culture of driving)

B) Internal challenges:

- Lack of appropriate alternative supervising tools

- The governmental monopoly of the state insurance companies

- Lack of a strong and independent reinsurance company

- Lack of ranking the insurance companies

- Lack of comprehensive statistical plan

- Restrictions on increasing the capital of commercial insurance companies

- Lack of skilled manpower

- Lack of technical calculations cores

- Lack of appropriate varied products which are in accordance with the customer requirements (Amin and Kamalkhani, 1387: 350).

Anticipating the insurance

Every year, the insurance industry provides its services for millions of people and Institutions. Economic and social developments of country affect the insurance industry (Asoudeh, 1387: 417).

Islamic Republic of Iran 1404 Vision Document has outlined a clear horizon for the development and growth of holy system of Islamic Republic of Iran in the economic, cultural, social, political, scientific, and technological dimensions.

In this document, the clear objectives have been introduced for all sectors and Industries of countries and also a transcendent and developed place has been determined for the insurance industry (Notash et al, 1388: 48).

The plan of developing the Iranian insurance industry is trying to lead this industry to the desired position by creating a competitive space in the insurance market. World experience and also the history of Iranian Insurance until the late 60's (1369) indicates that achieving the desired state through assigning the Insurance activity to the mechanism of market and private sector and no need to the government's intervene and responsibility in the insurance affair is obtainable. Developing other industries and economic sectors also depends on the insurance industry because each development action and step require that the units accept the risk in a tolerable and acceptable limit, thus the insurance status is not proportional to the level of economic development and the need of organizations, companies and active individuals in the economy and in order to achieve this situation, it should start the quick growth and development process (Notash et al, 1388: 49).

Structurally, five major features can be identified for the Iranian insurance industry:

1- Government ruling in the Insurance market:

According to the performance of insurance industry in the year 1386, four state-owned insurance companies (Iran, Asia, Alborz, Dana) are responsible for 84.36 percent of Insurance market.

2- Monopoly:

According to the statistics, about 51.36 Percent of Commercial insurance market is belonged to a public Insurance company (Iran Insurance Co.).

3- Tariff System:

Observing the determined rate and conditions set by the Supreme Council of Insurance or government cabinet for the insurance programs is compulsory for all governmental and private insurance companies and in cases that there is no previously announced rate, obtaining the approvals of the Iranian Central Insurance is necessary.

4- Available Compulsory Reinsurance:

According to Article 71 of the Iranian Central Insurance establishing and insuring law approved in 30/03/1375, 50 Percent of Non-life insurance and 50 Percent of Life insurance should be compulsory reinsured by the Iranian Central Insurance.

5 - Mixing the acts of ruling with the economic responsibility:

Iranian Central Insurance as an observer, which legally rules the insurance industry by the government, plays the role of a reinsurance company simultaneously because of the compulsory reinsurance law and this needs the participation in profits and losses of business insurance companies and presence in the insurance and world market as a reinsurance insurer.

Vision of the insurance industry in Iran

Consider the following principles, the program of developing the insurance industry of our country outlines the vision of Iranian insurance industry on the planning horizon 1404 (solar) and stating the strategies, policies and plans and projects by considering the following principles:

1- Moving in the direction of achieving the twenty-year vision of Islamic Republic of Iran

2- Moving in the direction of general policies of Article 44 of the constitution

3- Moving in the direction of achieving the President's ten-clause command about the evolution of the Iranian insurance industry

4- Foresight about the internal and external environment of insurance industry

5- Dealing with the main challenges of insurance industry efficiently

6- Pay attention to the Insurance industry executive authorities and scholars' collective wisdom and views (Farshbaf Maherian, 1388: 6).

The outlook of insurance industry is developed based on the conducted studies and evaluations, strategy, activity of insurance industry by the efforts of Iranian Central Insurance and extensive efforts of insurance companies in the form of a five-year plan in order to achieve the objectives of the second economic development plan.

The outlook of this industry on the twenty-year vision horizon of Islamic republic of Iran will be as follows:

"On the horizon 1404, the Iranian Industry Insurance is an economic, a fair, stable, healthy and reliable industry with the professional ethics and associated with the society, which prevents the impaired natural process of all citizens' life, the normal cycle of agricultural, industrial and civil service activities, which are the results of natural and human causes, in an easy, a fast, customer-oriented, with the lowest cost, and comprehensive manner and it is a model in this field for the insurers in the Central Asia, Middle East and North Africa. "

In order to be successful in achieving the outlook of Iranian Insurance industry, the following macro objectives should be accomplished:

1 - Insurance penetration higher than the global average;

2- First place in the insurance industry in Central Asia, Middle East and North Africa;

3- Non-governmental sector's share of the Iranian insurance market: 75 to 80 percent;

4- Commercial, competitive and Professional insurance industry of Iran;

5- Making the insurance services available for the lowest income deciles and balancing the insurance coverage in different areas of country;

6- Sustainability and stability in providing the insurance services;

7- Easiness, speed, customer-oriented, cheap and comprehensive supply of insurance services to the households, economic firms and foreign customers;

8- Having the professional ethics, being healthy, and having the reliability among the customers and governmental and regulatory entities of Insurance Industry in the country;

9- Diversity and decentralization in the structure of insurance industry Portfolio (Farshbaf Maherian, 1388: 6).

Suitable and efficient ways should be adopted in order to achieve the macro objectives selected for the development in the Iranian insurance industry; these strategies include:

1 - Establishing the intelligent, institutional and self-regulatory monitoring and regulatory system (governmental level)

2 - Developing the micro insurance coverage with cheap prices on the surface (households level)

3 - Developing the macro insurance coverage with the competitive prices in the depth (Firms level)

4 - Developing the regional and International interactions (International level)

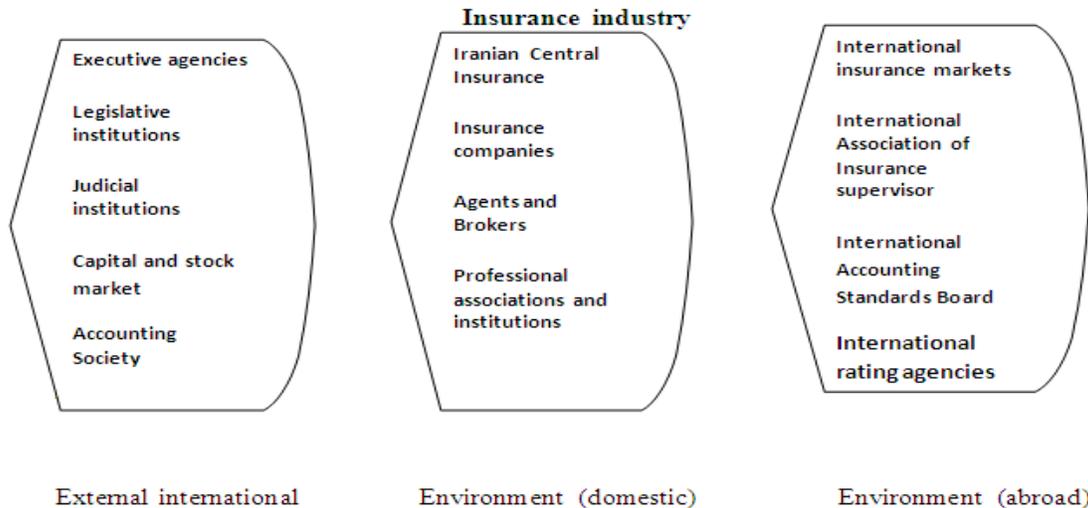
The following policies of these strategies will be considered in order to achieve the objectives of development program:

- 1 - Replacing the financial supervision with the tariff supervision in the insurance industry of country;
- 2 - Government activities in the insurance market as a complementary for the non-governmental sector rather than its rival in order to ensure the continuity of providing the insurance services (dealing with the market fluctuations and playing the role as an anchor of market stability and sustainability);
- 3 - Making the structure of Iranian insurance industry competitive and non-governmental;
- 4 - Playing the facilitating role (catalytic) by the government about new insurance products;
- 5- Developing the life insurance;
- 6- Reducing the micro insurance prices and easy, extensive and high quality service in this area;
- 7- Active interaction with the actual and potential insurers in the country in order to balance the foreign assignment and increase the insurance coverage of their activities;
- 8- Considering the Insurers' distinguishing characteristics in calculating the likelihood of accidents and determining the premiums (using the price discrimination in the market);
- 9- Improving the efficiency of insurance industry investment resources and centralizing the investment profits in administrating the Insurance companies;
- 10 - Active interaction of the insurance industry with the capital and monetary markets;
- 11 - Strengthening the technical and financial capability of insurance companies
- 12 - Developing the domestic reinsurance insurance;
- 13- Expanding the imports and exports of reinsurance insurance services with emphasis on the exports;
- 14- Exchanging the technical knowledge with the market about the regional countries and in contrast about the developed countries;
- 15- Developing the IT application in all affairs of insurance industry and considering it as a principle in transferring the information in this industry;
- 16- Growing the professional manpower in regulation and supervision;
- 17- Developing the guild institutions;
- 18- Investing in the research and development of insurance industry by the government;
- 19- Investing in the development of Insurance culture by the government;
- 20- Investing in the train of professional manpower for the insurance industry by the government;
- 21- Deregulating and ratifying the simple, low-volume and also efficient laws and regulations;
- 22- Political support and facilitating the domestic insurers with the foreign insurers by the government (Farshbaf Maherian, 1388: 8).

Iranian insurance industry covers numerous properties and people throughout the world. A lot of insured properties and people are traveling across the world; besides the insured small and big risks within the country are covered by the abroad reinsurance.

Moreover, Iranian insurance industry should be able to take more risks as the reinsurance from abroad. In general, the insurance is something which has a lot of and wide relationships with the international markets; therefore, the globalization of economic and commercial affairs will have the severe impact on this industry. The insurance industry advocates are interacting with the international markets and active institutions in these markets by a variety ways. Generally, the Insurance industry should also have the effective interaction with the relevant institutions about various matters with coherent and integrated form. Interaction among the insurers in insurance industry of country can increase the efficiency and effectiveness of international interactions (Asoudeh, 1387: 417).

Interaction of insurance industry with the external and International environment



Conclusion

Insurance is not totally considered as a trade, but it is based on the business. In addition, the cost and benefit should be considered in the insurance. Insurance and reinsurance plays an effective role in the economic development of each country. The role of government in the development of insurance and reinsurance is very obvious. It is true that the government should be a strong supervisor in the insurance and reinsurance activities and reduce its involvement in this regard as far as possible, but the experience has proved that the small involvement of government has led to the development of insurance in the developing countries.

Therefore, the government's role in the tenure sector and also the supervision part leads to the developed and strengthened insurance market. On the other hand, the government has a duty to provide the rules and regulations necessary for the insurance industry and plays the basic role in providing the foreign currency for the operations of insurance and reinsurance and controlling it. Furthermore, the supervision and control organ is responsible for support the insurers' and Insured rights.

In addition, precise determination of insurance position in the economic, social, cultural, political and legal structure, preventing the interference of insurance centers, and making decision about the integration or separation of their duties are also the categories which have been noteworthy in developing the comprehensive laws, and the Unity of direction in the legislative system avoids from different preferences.

The insurance industry, influenced by its predicted position in the country, is implementing the 20-year vision document, general policies of Article 44 of the constitution, and the development programs. Increasing the market competitiveness and Insurance penetration and improving the productivity and quality of insurance services are some of the objectives of the insurance industry development plan. Achieving the anticipated objectives requires the reforms in the structure and provisions of insurance industry and this industry participants' consistent and coordinated movement in various sectors. Proper performance of programs and consistent movement is possible just by proper organizing, empathy, and interaction between the insurers, intermediaries and expertise and specialized services suppliers. With regard to the increased number of insurance companies and high number of insurance market representatives, brokers, experts and consultants, the interaction between the Iranian Central Insurance, insurers and those involved in the insurance industry should be organized in an appropriate manner.

Lack of necessary study and research centers, heterogeneous composition of policy-making boards, heterogeneity of decision-making councils and such these cases are the reasons which can sacrifice the insurance industry for the temporary and unstable plans.

On the other hand, the recent developments in the insurance market of Iran will bring a new culture and professional principles which reflect the market competitiveness and economic development at different levels.

However, the insurance should be pervasive in our country and all social classes at different levels should benefit from the Insurance services because the future success of insurance industry depends on designing and providing various and new coverage based on the customer requirements and using the effective tools of marketing and sales network. Overcoming the technical and administrating problems in the private insurance companies also depends on the planning and promoting the activity level. Central Insurance of Islamic republic of Iran should also create a new strategy with a strong competitive culture, thus the insurance industry of Iran will be strong and famous worldwide.

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