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Research Article

THE MAJOR FACTORS AFFECTING THE GROWTH AND DEVELOPMENT OF THE INSURANCE INDUSTRY: EVIDENCE FORM JORDAN

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ABSTRACT

The main purpose of this theoretical paper is to clarify the issues facing the insurance sector in Jordan and offer long-term, up-to-date suggestions to foster its expansion. The paper's key findings highlight the sector's primary issues and illustrate its expansion and growth trajectory in Jordan over the period from 2016 to 2023. According to the paper's findings, the three biggest challenges presently plaguing the insurance sector are those related to automobile insurance, the Central Bank of Jordan's regulations, and accounting-auditing standards. The paper confirmed the necessity of understating mandatory insurance, market size, population, competition, inflation, fragmentation, cost, and supply and demand as the main factors affecting the sector's growth. On the other hand, the paper recommended that the CEOs of insurance companies should take into account other sides, though, like managing the risks, keeping up with compliance and regulatory developments, ensuring that the company's strategies are robust and transparent, and training their staff, especially those who are not familiar with new standards and regulations like the CBJ regulations and IFR standards.

Keywords: Insurance Industry, regulations, accounting standards, mandatory insurance, Growth, Development, Risk mitigation, compliance, Jordan.

INTRODUCTION

The insurance sector has emerged as a pivotal focus for many countries, particularly noteworthy as studies indicate its potential to enhance both financial and economic development. Demographic shifts in the later part of the 20th century and increased economic prosperity, after 2002 have led to heightened interest in risk mitigation via insurance among countries in the Middle East region, the underwriting activity in the Middle East regional markets is projected to grow at double-digit rates until 2012, intensifying the trend observed over the past five years (Outreville,1990). According to Hasan (2015), compulsory insurance programs for health and automotive coverage are primary catalysts for the increase in rates. The provider landscape is fragmented, and industry structures are heterogeneous across Middle Eastern countries. Consequently, international insurance companies have begun to show increased interest in the region, which, despite recent growth rates, remains one of the least developed insurance markets globally, indicating significant potential for insurance expansion. The sector encounters substantial problems and considerable potential, amplifying investment interest in insurance markets and operators despite the significant hurdles it faces, growth is the medium- and long-term perspective for this industry. Ali (1984) mentioned that there has been a simultaneous increase in the need for insurance across the region, especially in developed countries and oil-producing countries. Ten years After the oil price surges of 1973, there has been a phase of accelerated economic expansion for the majority of the Middle East countries, accompanied by a swift increase in both the quantity and magnitude of insured risks. The rising demand for insurance has been addressed by enhancements in domestic retention capacity and the importation of overseas reinsurance; the demand for reinsurance coverage is substantial. Considering that the size of insurance is larger than in developed countries, this can be attributed to the limited retention capacity of local insurance companies, which are often small and maintain highly unbalanced insurance portfolios. It's important to look at how the Middle East insurance market has changed over time, especially how well it has been able to keep customers. This helps us understand the problems that many developing countries face when they try to build their insurance markets and become less dependent on foreign insurers. In spite of the very fast rise in insurance demand in the Middle East region over the last ten years, like many other developing countries worldwide, Jordan has to deal with a growing number of big individual risks and the growth of natural disaster-prone urban and industrial areas (Kong and Manmohan, 2005).

In both instances, the potential losses might exceed the total domestic premium income of tiny nations like Jordan by several multiples. The restricted capacity of the Jordanian insurance markets to retain risks domestically, resulting in a significant requirement for foreign reinsurance, raises concerns for Arab and other developed countries (Al-Abdallah and Abo Rumman, 2024).

THE JORDANIAN INSURANCE SECTOR'S GROWTH LIMITATIONS:

The growth of the insurance industry in Jordan has been impeded by numerous factors. Some of the main current factors include; ***the Automobile insurance challenges, the Central Bank of Jordan regulatory challenges, and accounting-auditing standards challenges.*** an empirical working paper by Lester (2011), reveals that the insurance industry encounters numerous hurdles, which largely explain the underdevelopment of the Jordanian insurance market. The underdeveloped retail credit markets in Jordan, including mortgages and personal loans, also affect the demand for insurance. The dominant role of state insurers frequently hinders advancement. Supplementary variables are more difficult to quantify and empirically evaluate, although they have considerably impeded the sector's expansion. For example, Jordan has been lethargic in enforcing mandated insurance in essential industries such as occupational

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injuries and health. Moreover, it produces a lower amount of premium revenue from car insurance, despite a significant vehicle per capita ratio. This can be ascribed to numerous particular difficulties. The proliferation of small insurance companies in Jordan may have impeded the industry's growth. This is due to the fact that many lack the capacity to establish sufficient risk pools, underwrite contracts, and foster innovation. The lack of professional skills and knowledge in the Jordanian sector has been a considerable obstacle (Khalifa, M, 2024). Ultimately, regulatory inadequacies and inadequate consumer protection, characterized by a lack of openness and trust, have hindered the sector's growth. A supplementary study about the evolution of the insurance industry affirmed that the non-life sector holds greater significance during the initial phases of the industry's development. The management of transportation and commerce risks propels development in the first phases. In the subsequent phase, households obtain motor vehicles, and governments mandate third-party liability insurance for motor vehicles. Subsequently, mortgage markets evolve, and household insurance becomes increasingly prevalent. Ultimately, a middle class emerges, rendering life insurance appealing for life cycle planning, encompassing pension-like products. In numerous affluent nations, the life sector is crucial to social protection, particularly when state systems evolve and economic demands intensify (Vittas, 2004).

Another crucial factor in advancing the insurance sector in Jordan is the cash generated by automotive premiums. Feyen *et al.,* (2010) and Lester (2011) identify ***four primary reasons influencing motor premium revenues***: ***non-compliance, underestimation of provisions for outstanding claims, price regulations in certain countries, and predatory pricing competition***. The degree of adherence to mandatory motor insurance appears to be insufficient. A significant portion of the population appears to lack comprehension of the value of this insurance, perceiving it instead as a tax. Although some countries, such as Jordan, mandate proof of insurance before motor vehicle registration, this approach has been ineffective in enhancing compliance rates in Middle Eastern nations. Inadequate validation protocols, fraudulent policy documents not authorized by insurers, and erroneous vehicle classifications are tactics employed by drivers to evade insurance payments. They prefer to "settle in the street," even if it incurs higher expenses than the formal procedure. A second factor for insufficient motor premium income is the persistent underestimation of motor third-party claim provisions by insurers, coupled with price regulations. Claims provisions directly influence premium calculations, and if underestimated, will lead to insufficient pricing. This is especially apparent in nations where the legal profession significantly influences the claims negotiating process, resulting in claims that may require several years to resolve. The minimization of claims expenses (and hence technical premiums) is a more critical concern when motor third-party liability insurance rates are sanctioned by the government (often the Ministry of the Interior) and possess a political dimension. The fourth primary reason for insufficient automobile third-party premiums in Jordan is predatory pricing competition, sometimes predicated on the assumption that investment profits will offset underwriting losses. Motor third-party insurance possesses substantial liquidity, allowing for rapid capital investment. This appeals to entrepreneurs who minimize claims provisions and frequently employ inadequate claims-handling techniques (Seddiki and Bali, 2016). Small enterprises frequently engage in under pricing and under-reserving, leading to extended conflicts and settlement delays. Additional variables influencing the development of the insurance industry in Jordan include regulatory constraints, which mostly encompass the Central Bank of Jordan's stipulations, including minimum capital requirements, licensing prerequisites, and obligatory insurance mandates. The minimum capital requirements in Jordan are often elevated in comparison to other nations in the region. Minimum capital requirements serve as a conventional regulatory mechanism to evaluate the quantity and caliber of applicants in the insurance and financial sectors; nevertheless, in Jordan, they have not mitigated the proliferation of insurers in the market, some of which contribute very marginally. Jordan adheres to international standards on licensing criteria, which include a business plan and appropriate qualifications for senior management. Nevertheless, comprehensive fit and relevant information regarding Board directors and owners is infrequently mandated. The efficacy of the fit and appropriate rules in screening applicants and preventing the entry of insurers lacking the capacity to contribute meaningfully to the marketplace remains ambiguous (Mahindra, 2011). Finally, the mandatory insurance requirements issued by the Central Bank of Jordan have significantly contributed to the growth of the insurance business in Jordan. Motor third-party liability insurance is often the initial type of insurance mandated in Jordan, thereafter succeeded by additional liability coverage where the public faces risks associated with enterprises. The size of mandatory insurance lines in Jordan has been increasing, however enforcement remains limited and often ineffective. Nonetheless, the requirements are regarded as an impediment to the advancement of this industry in Jordan (Al-rawashdeh, 2016). A further challenge impacting insurance development in Jordan is the accounting and auditing standards; in this regard, Jordan adheres to the International Financial Reporting Standards (IFRS). Nonetheless, the Central Bank of Jordan's standards and timelines are regarded as a hindrance to the sector's development. The quality of accounting and auditing in Jordan is constrained by insufficient knowledge of the new International Financial Reporting Standards, particularly (IFRS17). The Big Four international firms, local auditing firms, and international institutions provide active in-house training programs that offer professional accreditation. Nevertheless, their resources are constrained in comparison to the specific requirements of the insurance industry. This has resulted in a scenario where only a limited number of auditing companies are permitted to conduct audits of insurers. This is an absurdity, as a comprehensive modern insurance audit necessitates governance and an assessment of internal controls and risk management, requiring a minimum of one week and a team of specialists, including systems experts in practice. The Big Four international firms occasionally endorse the activity of major insurance companies in Jordan, which impedes the sector's development (Ben Othman and Kossentini, 2015).

THE JORDANIAN INSURANCE SECTOR'S EXPANSION AND GROWTH:

The insurance sector is currently a crucial element of the economy and society in Jordan: It supports advancement and facilitates the secure progression of humanity. Nonetheless, the risk-averse mindsets of Jordanian insurers, along with their emphasis on underwriting margins and solvency, have typically sustained a cautious tempo regarding their innovation and modernization efforts. This frequently leads to unsustainable or suboptimal solutions for addressing unpredictable fluctuations in certain company sectors and profitability. High inflation and increasingly unpredictable climate-related losses have exerted pressure on the profitability of non-life insurance lines in recent years. Many insurers reacted by increasing premium rates and even retracting coverage for specific high-risk categories. Furthermore, when interest rates increased, life insurance and annuity providers competed for prominence in a saturated market to capitalize on the heightened customer interest in savings-related products.

These short-term strategies contributed to property and casualty insurers' most favorable year-over-year underwriting outcomes (Miani, 2007). To explain the progress in the insurance sector in Jordan, we use the following table:

Table (1) Jordanian Insurance Sector Growth for the period 2016 - 2023

Year/Details	2016	2017	2018	2019	2020	2021	2022	2023
Number of Insurance Companies	24	24	24	24	24	23	21	20
Growth Rate of Premiums	5,7%	1,9%	2,0%	1.60%	%3.60-	9.70%	9.60%	6.30%
Growth Rate of Paid Claims	20,2%	2,6%	4,5%	2,4%	(12,9) %	20.90%	0.40%	5.20%
Insurance Density: premiums Per Capita in (JD)	59.5	59	59	58,3	63,1	56.7	62.1	61.2
Insurance Penetration: premiums as % of GDP	2,1%	2,09%	2,02%	1,9%	1,94%	2.20%	2.50%	2.30%

Source: **Jordan Insurance Federation (JIF) statistical reports.**

Table 1 above illustrates the expansion of the insurance sector in Jordan from 2016 to 2023. The number of insurers was 24 in 2016, thereafter decreasing to 23 by 2021, 21 by 2022, and 20 by 2023. The technical factors mostly account for the fluctuations in the number of insurance businesses in Jordan. One technical cause is the underwriting policy, particularly the risk pricing. It is impermissible to diminish the price or elevate it to intolerable thresholds. For instance, comprehensive insurance for large trucks operating domestically and internationally is priced lower than that for a small sedan within the Kingdom, despite the fact that the damage caused by trucks significantly exceeds that of small cars, as evidenced by the cost of third-party insurance for the truck. The pricing for both small and large insurance products must remain reasonable, as the concept of insurance has yet to be fully embraced by the populace.

This challenge extends to various sectors, including marine and fire insurance. Additionally, there is a pressing need for a reinsurer capable of offering adequate coverage at competitive rates within the Jordanian market. Reliance on unclassified brokers and companies that evade initial claims is inadvisable. Furthermore, it is essential to employ professionals with expertise and a strong presence in the Jordanian market. The motors department of an insurance business must employ skilled technicians and collaborate with reputable repair shops that deliver high-quality service, irrespective of any personal connections among the owners. They must also refrain from interfering with the shop owners when determining pricing for damages and parts, and prevent them from working for the companies, as substandard repairs could incur additional costs for the companies (Arena, 2008). Ultimately, they must establish equitable and informed committees for the sale of accident debris that results in vehicle write-offs. The table above indicates that 2020 was a calamitous year for the Jordanian insurance business, as the growth rate of premiums and paid claims declined. This pertains to various factors, including the pandemic, inflation of claims, investment returns, and costs associated with delivering the insurance service. Additional variables include the decline in insurance rates as rivalry among companies escalates owing to previously discussed reasons. The per capita premiums increased from 59.5 in 2016 to 61.2, as indicated in the table. The rise in per capita premiums (the premium assigned to each individual covered by an insurance policy) is primarily attributed to factors including population size and density, demographic composition, income distribution, administrative costs of health plans, and actuarially equivalent plans.

RECOMMENDATIONS FOR A BETTER INSURANCE INDUSTRY IN JORDAN:

1. To advance the industry in Jordan, companies need to consider the following points: a recent World Bank study found that accelerated expansion and development in the insurance sector correspond positively with reduced fragmentation in the offered products and services.
2. Insurance companies must understand that compulsory insurance, which is legally required for activities such as driving a car and provides protection against accident-related costs, does not directly influence the development or growth of the automobile insurance sector.
3. The expansion and advancement of the insurance sector in Jordan are contingent upon several factors, including market size, population, competition, inflation, and supply and demand. insurance markets are typically more fragmented, less influenced by vehicle classes, and exhibit elevated claims and combined ratios.
4. Evidence from the World Bank suggests that fragmentation in insurance goods and services results in price competition, which may compress margins and limit investment in innovation.
5. In response to the regulatory challenges posed by the Central Bank of Jordan, insurance companies must take into account the following considerations:
   - Compliance is fundamental to the insurance business model, affecting decision-making, product development, marketing strategies, and customer service.
   - Staying apprised of compliance and regulatory developments is essential for organizations to adjust to changes.
   - Regulatory compliance standards delineate explicit regulations for company conduct, risk management, and policyholder protection.
   - Challenges in adhering to evolving regulations require ongoing monitoring and modifications to compliance strategies.
6. To address the issues posed by accounting and auditing standards, insurance businesses in Jordan should consider the following points:
   - Insurers must train their personnel, particularly those unfamiliar with IFRS 17. IFRS 17 mandates that firms gather and handle extensive data at a highly detailed level. This necessitates that firms implement the requisite systems and processes to accurately collect, retain, and report this information.
   - IFRS 17 mandates that organizations employ actuarial models to project the anticipated cash flows from insurance contracts. This engenders model risk, as the precision of the financial outcomes will rely on the fidelity of the foundational models.
   - Insurers must meticulously manage this risk and guarantee that their models are resilient and transparent.
   - IFRS 17 mandates that organizations implement substantial modifications to their systems and processes to achieve compliance with the new standard. This includes the creation of modification of current actuarial models, the implementation of new software systems, the utilization of

automation opportunities, and the enhancement of existing financial reporting procedures.

7. Insurers should address the 5Cs change in insurance: Communication, Customization, Connection, Cognition, and Consensus.

CONCLUSION

The primary purpose of this theoretical paper is to clarify the main issues facing the insurance sector in Jordan and offer long-term, up-to-date suggestions to foster its expansion. The paper's key findings highlight the primary issues facing the sector and illustrate its expansion and growth trajectory in Jordan between 2016 and 2023. According to the paper's findings, the three biggest issues presently plaguing the insurance sector are those related to automobile insurance, the Central Bank of Jordan's regulations, and accounting-auditing standards. The paper confirmed the necessity of understating mandatory insurance, market size, population, competition, inflation, fragmentation, cost, and supply and demand as the main factors affecting the growth of the sector. On the other hand, the CEOs of insurance companies should concentrate on other sides, such as; managing this risk, keeping up with compliance and regulatory developments, ensuring that the company's strategies are robust and transparent, and training their staff, especially those who are not familiar with new standards and regulations like the CBJ regulations and new IFRS.

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