INVESTMENT POLICIES OF INSURANCE COMPANIES AND THEIR CONTRIBUTION TO NATIONAL DEVELOPMENT

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Abstract:*This paper explores the investment role of insurance companies in Algeria and their contribution to national economic development. It highlights the importance of effective investment policies, particularly in securities, real estate, and policy loans, to enhance financial performance and support the national economy.*

Keywords*: Insurance, Investment, Real Estate, Policy Loans, Economic Development.*

INTRODUCTION

Insurance companies accumulate substantial funds due to the nature of their various insurance activities. Leaving these funds unutilized in different sectors naturally harms the interests of these companies in particular and the national interests in general. Therefore, these companies must adopt an investment policy to invest these funds wisely, as the growth and diversification of insurance companies' activities primarily depend on the success of their investment strategies.

The rapid development in the field of technology has led to increased competition among insurance companies, each striving to distinguish itself and achieve superiority in order to remain in the business world. To do so, insurance companies must obtain sources that contribute to achieving the desired competitive edge. Among the most important financial sources that contribute to this edge is the investment of insurance premiums, which strengthens and enhances their financial standing and helps achieve broader objectives within the framework of the national development plan.

Insurance plays a crucial and active role in capital accumulation due to the extended period between the collection of premiums from policyholders and the payment of claims. Insurance companies invest the funds they accumulate, resulting in economic benefits for society. Therefore, the research paper addresses the following questions:

- How effective are the investment policies of Algerian insurance companies in enhancing national investment?
- To what extent can insurance contribute to national investment?

CHAPTER ONE: THE CONCEPTUAL FRAMEWORK OF THE RESEARCH

The insurance sector is one of the most important sectors in the global financial services industry. It provides economic protection to many development projects and also offers necessary funding for development plans through the accumulation of financial inputs by insurance companies. To clarify the crucial role of this sector, it is essential to understand some fundamental concepts:

First: The Concept of Insurance

1.Definition of Insurance The Insurance Terms Committee of the American Institute for Risk and Insurance defined it as:"The pooling of accidental losses by transferring such risks to insurers, who agree to indemnify insureds for such losses or to provide other pecuniary benefits on their occurrence, or to render services connected with the risk."[1]

It has also been defined as:

" Insurance is a financial arrangement in which a party (the insurer) provides compensation to another party (the insured) in the event of specified losses, in exchange for regular premium payments. It is a mechanism for transferring and managing risk by pooling it among a large number of policyholders."[2]

2. Types of Insurance

The field of insurance is vast and expansive. As risks diversify, new types of insurance emerge:

A. Personal Insurance: This type of insurance obligates the insurer to pay a specified amount or determine an income if an event affecting the insured person occurs, not their property — such as reaching a certain age, death, or illness — in exchange for annual premiums or subscriptions paid by the insured[3]. It includes various forms such as:

- Health insurance.
- Accident and injury insurance.
- Marriage and children insurance.
- Life insurance.

B. Property Insurance: This type of insurance covers risks that relate to a person's property rather than their person. It applies to various assets, whether real estate or movable property[4]. Property insurance is divided into two main categories:

• Insurance on property:It protects the insured from material damages that may affect their property or real estate due to the occurrence of various risks. This type of insurance includes:

- Fire insurance.
- Theft insurance.
- Water damage insurance.
- Hail insurance (for agriculture).

• Liability Insurance: Liability insurance is a type of damage insurance that aims to protect the insured against compensation claims resulting from their legal liability for harmful acts. It is a contract whereby the insurer agrees to cover the risk of third-party claims against the insured due to their responsibility[5].

C. Export Credit Insurance: a financial product that protects exporters against the risk of non-payment by foreign buyers due to commercial risks (like insolvency or default) or political risks (such as war, expropriation, or currency inconvertibility). It ensures that exporters receive payment even when the buyer fails to pay, thus encouraging international trade[6].

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3. Importance of Insurance

A. Social Importance of Insurance: The primary social role of insurance is to maintain societal cohesion and well-being. Through the payment of an insurance premium, the insured or beneficiary can rebuild a house destroyed by fire, replace stolen property, obtain financial support in case of illness or disability, and receive a pension in old age. Widows and orphans can secure a minimum income after the loss of the family breadwinner[7].

B. Economic Importance of Insurance: The main objective of insurance is to provide financial coverage for individuals and institutions against various risks. It contributes to economic stability through the following elements[8]:

- Insurance as a means of investment and savings.
- Promoting increased production.
- Facilitating and expanding credit operations and foreign trade.
- Helping balance supply and demand in the economic system.
- Supporting broader employment and workforce participation.

Second: The Concept of Investment in Insurance Companies

Investment plays a key role in insurance companies. But what does investment mean in this context, and on what basis is it carried out?

1. Definition of Investment in Insurance Companies:

In general, investment is “the allocation of funds with the aim of generating income or profit.” It is also defined as “that portion of income used in productive activities for the formation of capital”[9].

In the context of insurance companies, since most of the funds they manage belong to policyholders, investment means utilizing these funds to fulfill their obligations, preserve value, grow assets, and generate returns. These returns help cover insurance claims and generate profits for shareholders[10].

2. Investment Principles in Insurance Companies:

Investment in insurance companies is guided by several principles:

A. Liquidity: Liquidity refers to the economic unit’s ability to meet current liabilities as they come due. It also means the ability to quickly convert financial instruments into cash without incurring losses[11]. Insurance companies must maintain liquidity to honor claims and obligations. To do this, they distribute investments based on the nature of liabilities, placing short-term funds in banks and allocating part of the capital to highly liquid assets. These funds should be neither too high (reducing returns) nor too low (risking insolvency)[12].

B. Security: Insurance companies should not invest in high-risk or speculative assets that fluctuate wildly in value. They must diversify within each investment type—for example, holding shares from different

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companies instead of concentrating them in one. Geographical diversification may also be used to mitigate regional risks or time-based concentration in investment maturity[13].

C. Profitability and Return Stability: The primary goal is to achieve an adequate return—socially or economically. Investing in insurance companies aims to generate income that strengthens their financial position, ensuring the ability to meet policyholder obligations and maintain consistent returns. The success of their investment policy is measured by the profitability of their investment portfolio[14].

3. Sources of Investment Funds in Insurance Companies:

Insurance companies derive their investment funds from several sources:

A. Shareholders' Equity: This includes paid-in capital and retained earnings allocated for future uncertainties such as natural disasters. These funds are the ultimate safety margin for policyholders but represent only a small portion of the company's total investable assets[15].

B. Policyholder Funds: These are premiums collected from policyholders and are divided into[16]:

- Life Insurance Reserves:These are among the most important sources for life insurance investments. Since these reserves are long-term, their revenues grow as more policies are issued. In addition to life reserves, there are also reserves for pending claims and other reserves.
- General Insurance Funds:Key sources include:
• Unexpired Risk Reserve: Formed from premiums paid in advance to cover risks in future years. Legislators often regulate the required percentage for this reserve across insurance branches.
• Pending Claims Reserve:Consists of funds for claims incurred in the current fiscal year but not yet settled. These accumulate and are generally invested in long-term instruments.

C. Non-Insurance-Related Funds: Also known as non-technical reserves, these are allocated for specific losses or bad debts. They include receivables from insurance and reinsurance companies, agents, brokers, and any outstanding creditor accounts. These are usually short-term and constitute a small fraction of the total investable assets[17].

CHAPTER TWO: THE CONTRIBUTION OF INSURANCE COMPANIES TO ENHANCING NATIONAL INVESTMENT

Insurance companies manage their investments according to general regulations and internal guidelines. They invest through various instruments and sectors that support national investment and yield social benefits, particularly added value to the national product. These investment avenues include:

- Investments in securities
- Real estate investments
- Loans backed by life insurance policies

First: Investments in Securities:

1. Financial Investments

These are also called financial investments and involve allocating funds in financial securities such as stocks, bonds, and others.

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A. Stocks: Insurance companies primarily invest in stocks because they yield better returns compared to other types of investments. This includes investment in private companies' stocks, mixed-sector companies' stocks, and foreign companies' stocks[18].

Investing in stocks contributes to national growth and prosperity by enabling the implementation of large-scale projects. Long-term stock investment reduces the risk of losses due to price declines. Additionally, stock investments often yield higher returns than bonds, particularly when investing in large industrial projects that typically generate substantial profits. Moreover, rising stock prices during the investment period increase the value of insurance companies' assets, reinforcing their financial position, especially when competition among insurers intensifies[19].

B. Bonds: These financial instruments are characterized by a specific maturity date for the return of invested funds and a fixed return regardless of the issuing entity's business performance. This contrasts with stocks, which usually have no defined redemption date[20].There are two types of bonds:

− **Government Bonds:**These represent the state's borrowing mechanism and are known in Algeria as Treasury Bonds. They play a critical financing role for the state treasury and serve as a primary alternative tool for funding public expenditures. Their legal framework is defined by the Ministry of Finance and the Director of the Public Treasury, who determine the types, forms, maturity dates, interest rates, and repayment methods[21].

Issuing these bonds requires a thorough study of the financial market conditions to determine a suitable interest rate, ensuring the collection of enough funds to cover loan values. Insurance companies invest in these bonds for two main reasons:

- They offer investment safety, being more secure than other types, even if their interest rate is relatively lower than stock returns.
- They help the state implement development projects, indirectly benefiting insurance companies through economic and industrial progress[22].

− **Private Loans Bonds**: These are debt securities referred to in Algerian law as "Entitlement Bonds," commonly called regular bonds or loan bonds. Article 715 bis 81 of the Commercial Code defines them as: "transferable securities that, for a single issue, confer equal debt rights with the same nominal value."[23]

These are among the most significant bonds that joint-stock companies can issue, alongside stocks. They represent a debt claim for the bondholder against the company over a medium or long term[24]. It is worth noting that these bonds are not common among insurance companies, especially in developing countries, due to the lack of guaranteed security compared to government bonds. However, they can be more profitable. Encouraging investment in these bonds is feasible if adequate guarantees are in place, as they also contribute to economic and social development[25].

Second: Real Estate Investments

These are tangible and visible assets, typically including land and buildings. Insurance companies invest part of their funds in real estate for several reasons, primarily due to their need for various types of real estate to use as fixed assets for their ongoing operations. These are held for continuous use, with no intention of resale as long as they remain functional.Although leasing is an alternative, owning property is preferred as it

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visibly reflects the company's financial strength in the eyes of policyholders[26]. Real estate is also considered a sound and secure investment due to its long-term value appreciation, offering protection during inflationary periods[27].

Real estate investment also includes “mortgage loans", which are loans secured by property, granted by insurance companies. These loans align well with the needs of insurance companies due to high-interest rates, the collateral offered ensures the loan amount does not exceed the property value, continuous liquidity for insurance companies, since loan maturity schedules are predetermined, avoiding the need to liquidate property at a loss.

As such, investing in mortgage loans has become a key element of insurance companies' portfolios due to the attractive returns[28].

Third: Policy Loans Secured by Life Insurance Contracts

These are among the most common investments after securities. Insurance companies offer loans to policyholders against their life insurance contracts[29], often secured by various forms of collateral. They retain the right to hold or sell the collateral if the debtor fails to repay on time[30].

Insurance companies consider these loans as high-quality investments. However, managing them can be challenging due to several factors; loan amounts are determined by policyholders' requests, preventing insurers from planning investment volumes in this area; if many policyholders repay their loans, the investments may collapse suddenly; a surge in loan requests during crises can disrupt the company's liquidity position, creating financial instability[31].

According to the regulation issued on October 2, 1996[32], Algerian insurance companies must adhere to the following investment allocation ratios:

- At least 50% in government bonds.
- 20% in term deposits (DAT).
- Maximum 10% in real estate.
- 15% in the financial market (stock exchange).
- 5% in corporate equity.

CONCLUSION

Insurance plays a vital role in economic and social life, serving as a key protection tool for individuals and institutions by offering financial compensation in times of loss. However, insurance companies cannot operate this activity independently from a complementary financial activity—investment.

They collect premiums and invest those funds due to the time gap between premium collection and claims payments. This makes them active financial institutions contributing to national investment.

To ensure the success of insurance companies' investment policies, we propose the following recommendations:

- Maintain a financial balance between investment durations and insurance contract obligations.

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− Expand investment in government and private (entitlement) bonds, which play a crucial role in national development projects.

− Increase investment in real estate, as it preserves purchasing power, particularly during inflationary periods.

− Diversify investments across various sectors and geographic regions to avoid financial disaster in the event of sector-specific or regional risks.

− Avoid speculative or high-risk investments, which can significantly endanger the financial and structural integrity of the company.

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