

## PRIVATIZATION IN THE INSURANCE INDUSTRY

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### Abstract

*Privatization has been proposed as one of the important issues in the many developing countries and particularly Iran. Privatization will follow goals such as reduce the financial burden of the government, increased competition, economic efficiency, increased investments efficiency, optimal use of resources, and etc. Experience has also shown that success not one hundred percent by public companies. So private sector can plays more obvious effect in the policy-making. Considering this and need for attention to importance of the insurer organizations and also increasing complexity, rapid of environmental changes, uncertainty in the organizations' environment be feel strongly growing need for long-term strategic decisions, and possession of empowerment employees. Hence, if an organization, or in other words, insurer organization be able have available set of employees high-willed, activist and committed to organization and offering organizational citizenship behaviour, could be better have react vulnerable to turbulence competition and threats. One of the philosophies privatization is increased competition and empowerment to different industries including insurance industry. In considering this importance in the this study will be discussed the privatization debate in the insurance industry.*

**Keyword:** *Insurance, Financial Market, Indices Insurance, Privatization*

### Introduction

The World in the 1980 has been witness series of changes in the public sector, including unprecedented reduction costs, efforts to increase efficiency, and various forms privatization. International institutions such as the World Bank and IMF have encouraged and enhance privatization as part of their loan application and assistance. The main idea privatization this is compels Competitive environment and the ruling system on the market, private agencies and entities that has more efficient and better performance than public sector (SalimiFar & Bagheri Gilgol 2003). Privatization is transfer of ownership or controlled economic enterprises from government to the private sector. Privatization is a strategy that has been used in the combating inefficiencies in the wide range of countries and proportional to available fields in the each country and the strength of their actions have provided different results. (Outreville 1979)

About the proper implementation privatization can say that if privatization be implemented properly, will be increased efficiency, encourage investment, economic growth and employment and also will free government sources for infrastructure and social programs. (Athearn Et al. 1989)

**Insurance**

Insurance literally is having secure life and property from potential risks and it seems be derived from word **fear**. Law Iran Insurance adopted May 1937 defines insurance: Insurance is a contract that whereby on one hand has commitment in return payment funds to other hand, in case of occurrence incident, compensate its damage or pay a certain funds. Committed be called insurer, commitment is insured. Pay missionary from insured to insurer is insurance premiums and what be insurance is subject of insurance. (Zahedi 1999)

**Place of Insurance Agencies in the Financial Market**

Financial market is set of institutions, organizations and relations that its task is savings resource mobilization and credit allocation. In general it can be said financial market is divided to two major group money market and capital market. (Kugler & Ofoghi 2005)

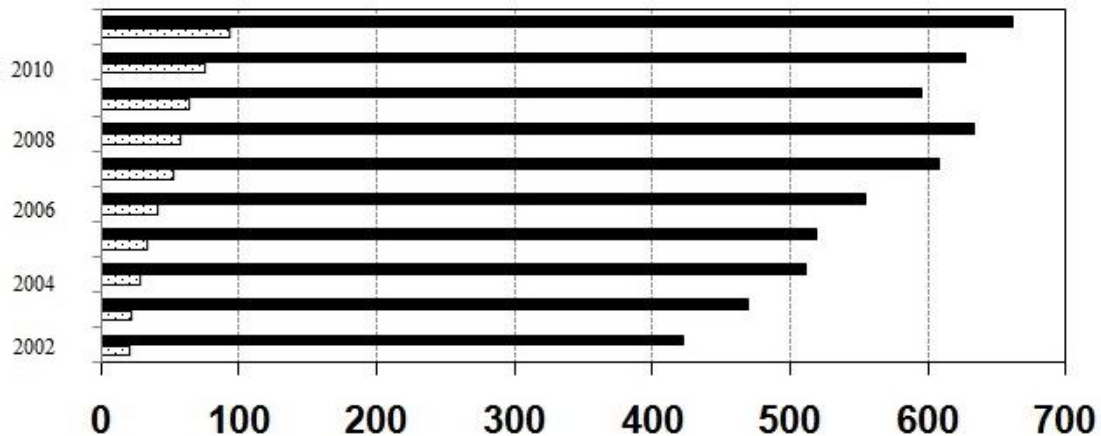
According to previous research in Iran money market allocated the major contribution to itself in the financial market. In other words, money market is dominant on the capital market. Capital market basically is a market with long-term horizons. It is clear that in the such a market are requires consistency in policy. (Azizi 2011)

**Insurance Indices and Their Evaluating In the Countries and Comparison With Iran in the Last Decade**

During 2001-2011 countries such as America, Japan, England, France, Germany, Italy, South Korea, Canada, the Netherlands, Spain and China have high scores in received premium and capita premium among developed countries. Iran among regional countries has been rank 46 in received premium and rank 68 in capita premium. Average insurance penetration rate has been 8/6 percent and Iran and the average has acquired insurance penetration rate 1/2 percent during these years. Iran between region countries has rank 72 for insurance penetration rate. (AbasZadegan 2001)

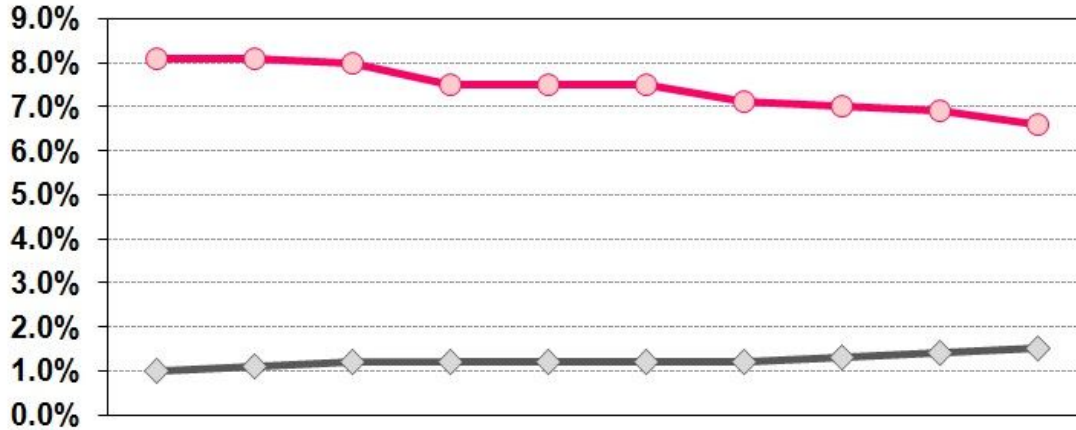
**Table 1:** Capita premium in Iran and the world

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>World(\$)</b>	423	470	512	519	555	608	634	595	627	661
<b>Iran(\$)</b>	21	22	29	34	41	53	58	64	76	93



**Table 2: Insurance penetration rate in Iran and the world**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>World</b>	8.1%	8.1%	8.0%	7.5%	7.5%	7.5%	7.1%	7.0%	6.9%	6.6
<b>Iran</b>	1.0%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%	1.4%	1.5%



**Privatization**

Terms of privacy and private orientation for first time approved and printing officially in English language (1983) in the Webster's new collegiate dictionary. Governments for privatization have used incentives and have enacted limitations that able to cope political necessities. (Salehi Kord Abadi Et al. 2011)

Privatization means governing climate change on the state institutions so that with maintenance main tissue of activity but changing mentioned space and market conditions affect on the institution's performance and motivation and mechanisms in the private sector be decision criteria in institute. (Zarrabi 2001)

Experience has shown that success by public companies not a hundred percent. So the private sector can plays more obvious effect in the policy-making (Zargarani 2007). In addition, surely privatization will fail without a private sector efficiency that has ability to manage and organizing of assigned sections. For a successful privatization should not be power and efficiency of the private sector less than government. Because, the main objective from privatization can't be realized, that is same increase efficiency. (Rezaei KelidBari & Salehi Kord Abadi 2011)

**Privatization Objectives**

**I. Primary Objectives of Privatization**

1. Reducing state's direct activity in the economy
2. Increasing entrepreneurial capacity and level of economic enterprises efficiency
3. Development of domestic capital markets and access to capital, technology and foreign financial resources
4. Earn money for the state for cover budget costs, release budget from the financial burden of bad companies

## **II. Secondary Objectives of Privatization**

1. Increasing public participation in the economic decision making and distribution of income
2. Growth entrepreneurship and creativity to provide fields of improvement production potential economy
3. Reduce state budget costs in relation the payment of subsidies and also reducing capital expenses for covered units.
4. Better allocation of resources based on market performance
5. Improving business conditions due development private enterprises finally, the technical knowledge promotion
6. Providing capital resources for economy and balancing between saving and investment

(Mahdavi Adeli & Rafe'ei 2006)

## **Other Privatization Objectives**

1. Increase productivity and national output
2. Government access to financial resources of the private sector
3. Encourage competition, increase national welfare and increase efficiency of economic activities
4. Savings in the government spending
5. Creating a boom in the capital market and developing culture of participation in the country
6. Preventing apparent monopoly in the some industries and services and also preventing hide monopoly as a special concession to top entities of the country
7. Cash collection and creating a balanced system of income distribution between different groups of people

(SafarZadeh Parizi 2003)

## **The Benefits of Privatization**

1. Reduction in government brokerage: Reducing the size and volume of government activities, in fact tightening of government activities in the various fields of economics including in the manufacturing sector.
2. Transfer of ownership and economic control: Changed hands of ownership in the developed countries are caused reduce some of the conflicts and legal responsibilities of political decision.
3. Increased efficiency and productivity: Many economists believe going to the market is along increasing efficiency.
4. Reducing the budget deficit and government debt: Reducing the size of government activities with sale of assets or other methods usually be caused cost reductions and increase government revenues.
5. Development of capital markets: Distribution be caused extensive shares ownership and increases size of trades in the stock market and capital market and raises new and multiple financial institutions.

(Rezaei KelidBari & Salehi Kord Abadi 2011)

## **Privatization in the Insurance Industry**

Insurance industry is as one of the financial institutions that has a special place in the privatization process. So that efficient functioning of this industry in the allocation of its available funds will be stimulus of other special sections. Indeed thee small funds steepen to

insurance companies, form huge sums that make turnovers great economic cycle. (Hajati 2001)

### **Opportunities and Threats of Privatization in the Insurance Industry**

#### **I. Opportunities of Privatization in the Insurance**

1. Reduce the size of government activities
2. Optimal investment by the government
3. The use of potential capital
4. Increased competition
5. Deregulation
6. Strengthen principle of accountability against performance
7. Transparency of information

#### **II. Threats of Privatization in the Insurance**

1. **Change in the monopoly:** In the privatization insurance industry in order to prevent re monopoly and establishing social justice best way to sell is Use of financial markets.
2. **Overhead Corporate:** In the privatization process there is possibility that successful companies sold easily, but weaker companies not sold and be government overheads.
3. **Unhealthy competition:** With the entry of private sector competition increases substantially. But, care must be taken that may this competition become to unhealthy competition with tools such as breaking rate.
4. **Fading of management moral issues**
5. **Government organizations employees:** Some government organizations employees are opposing with privatization. One of the main reasons for this is fear of losing current position.
6. **Human resources adjustment**

(AkbarZadeh 2000)

### **Conclusion**

Privatization activities mainly is due to factors such as continuing the general trend to reduce the role of government in the economics, budget constraints, need to attract investment, technological change that can be have importance dimensions political, social and economic. In this regard, for that to be able achieved to sustainable development and comprehensive should be considered all dimensions of privatizations economic, social, cultural and political on the development process. However according to the privatization wave around the world has become to active and comprehensive waves necessity of more attention to it is essential in the shadow of organizations and communities efficient measures. Because, privatization without productivity and lack of attention to components of sustainable development can be caused irreparable damage on the organizations and communities configuration. At the end should noted that in the event continuity of laws and regulations, stable of economic decisions, transparency in pricing, abolition of monopolies, lack of government competition with private sector, protection of foreign investments and its uptake, authorities believe to efficiency of the private sector, adjusting expectations of private sector for getting benefit and support of private sector can be leads to increased employment, profitability and development of economic activities and capital market that beyond it can achieved to comprehensive and sustainable development. Accordingly and considering the role of such umbrella insurance on the various communities emphasizes need to privatization of insurance industry has more important in order to better response and transparency.

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