

Investigating the Impact of Social and Economic Factors in the Insurance Industry on Financial Performance of Dana Insurance

Mahnaz moradi

CEO consultant dana insurance co

Abstract: Due to the important role of insurance industry in the economy and society and impact of social and economic components on the insurance industry, it can be said that economic and social factors in the insurance industry have a significant effect on financial performance of insurance. Accordingly, in this research, the impact of social and economic factors in the insurance industry on financial performance of Dana Insurance is investigated. The study population included all Dana Insurance staff in Tehran. A number of 110 questionnaires were randomly distributed among them. To test the research hypotheses, Pearson correlation coefficient was applied in SPSS. Based on the results obtained from the hypotheses test, economic factors in the insurance industry had a negative and significant effect on the financial performance of insurance. Also, the negative and significant effect of social factors in the insurance industry on the financial performance of insurance was confirmed.

Key Words: Insurance Industry, Financial Performance, Social factors, Economic Factors

INTRODUCTION

One of the ways provided by intelligent human to face with risks and perceive his social, economic and psychological conditions is the "insurance" phenomenon, because insurance is a tool that in addition to compensating for the economic losses caused by events, providing future, improving the standard of living of individuals and paving a safe and secure ground for economic growth and development, leads to calmness in members of society, which in turn results in dynamics of social life, growth and prosperity of talents and increase of efficiency and productivity in society (Kalantari, 2013). Accordingly, promotion of performance is of major importance for growth and survival of insurance industry. Due to the importance of insurance industry in the socio-economic development of societies, improving the performance of this industry which depends on improving the efficiency of insurance companies active in, is an essential requirement of every country's economy (Nahavandi & Sharifinia, 2017). The insurance industry is in particular part of a system of immunization and reform of an economy, and successful performance of this industry can provide the necessary power for other industries and development of the economy. However, insurance companies are always subject to a fall in the value of assets and investments when the investing condition is changing; this category greatly affects the interests of shareholders, and insurance companies may be in trouble to meet their own obligations (Nyamu, 2006). Failing to meet the obligations by the insurance companies can have irreversible effects on the economy and community; therefore, in order for insurance to provide stability in the economy and community, it must have a decent financial performance. From this perspective, it is necessary to study economic and social factors affecting the financial performance of insurance companies. Hence, in this study, the effect of social and economic factors in the insurance industry on the financial performance of Dana's Insurance is investigated.

Review of related literature and research background

Insurance companies, such as banks, are financial intermediaries that finance manufacturing capital by facilitating the flow of funds from units with surplus funds to ones with deficit funds through the issuance of insurance coverage for insurers (Gatsi & Gadzo, 2013). The financial performance of insurance companies plays a key role in the growth of the entire industry, which ultimately contributes to the success of an economy. Insurance companies risk their financial performance by assuming different types of risks (Wani & Showket, 2015). The financial performance of insurance companies can be assessed on the basis of factors at both micro and macro-economic levels (Burca & Batrinca, 2014). The financial performance of insurance companies is related to macroeconomics, because the insurance industry is one of the components of financial system of growth and economic stability (Wani & Showket, 2015). Due to the uncertainty, and risk of households and firms' financial resources and earnings caused by uncertainty about the future, turning to the insurance industry is becoming more and more widespread, so that this industry, in addition to securing economic activities and reducing uncertainty through providing insurance services, plays a very important role in the mobility and dynamism of financial markets and providing funds that can be invested (Hosseinzadeh, 2011). From this point

of view, it can be said that social factors may also affect the financial performance of insurance. So far, few studies have been conducted by other researchers regarding the subject of this research; therefore, some studies which are somewhat similar to the present research will be mentioned in future.

In a research titled *Impact of Macroeconomic Factors on Financial Performance of Insurance Companies in Kenya*, Nyamou (2016) examined the impact of macroeconomic factors on financial performance of insurance companies. This study was conducted on 50 insurance companies in Kenya in 2015. This study showed that there is a positive relationship between the financial performance of insurance companies and the rate of GDP (gross domestic product) and inflation, and a negligible negative correlation between the financial performance of insurance companies and loan and exchange rates and money supply. There is also a direct relationship between economic growth and financial performance of insurance companies in Kenya.

In a study titled *Economic Factors Affecting Financial Performance of Romanian Companies Listed in Bucharest Stock Exchange*, Mihaela (2015) analyzed economic factors affecting the financial performance of companies. In this research, 15 companies from different economic sectors were investigated between 2003 and 2013. The results showed that the company's age and net profit have a positive effect on financial performance, and firm size and financial leverage have a negative effect on financial performance. Receivables have no significant impact on returns on assets.

Çekrezi (2015) examined the financial performance of insurance companies in Albania from 2008 to 2013. There were 5 companies and the variables investigated included: Financial leverage, firm flexibility, risk and size, ratio of fixed assets to total assets and return on assets. Researchers investigated the financial performance of Albanian insurance companies at micro level using the variables mentioned. The data of this study were collected from financial statements of the Albanian insurance companies and classified using the integrated data model (PANEL). Based on the results, the financial leverage and firm risk have a negative effect on financial performance (return on assets), and firm flexibility has a positive impact on return on assets of the companies under investigation.

In a research titled *Economic Determinants of Financial Performance of Romanian Companies Using Extensive Data Over a 14-Year Period*, Pantea et al. (2014) investigated the relationship between economic factors and financial performance. The research sample included 55 Romanian industrial companies listed in the stock exchange between 1999 and 2012. The results showed that there is a significance relationship between economic factors and financial performance.

Burca & Batrinca (2014) examined 13 variables to identify factors affecting financial performance of the Romanian insurance market in the years from 2008 to 2012. Some of these variables are: insurance financial leverage, firm size, years of firm's membership in the stock market, gross premium growth rate, market share, penetration rate, investment rate, reinsurance share, risk rate, solvency margin, etc. The results showed that there is a positive relationship between firm size and financial performance, because larger companies have more financial resources, more penetration coefficient and a comprehensive information system.

Almajali et al. (2012) identified factors affecting the financial performance of insurance companies in Jordan. They investigated insurance companies listed in Omani stock exchange during the period 2002-2007, and analyzed the data using statistical methods such as t-test and multiple regression. The results showed that variables such as financial leverage, firm size and liquidity have a significant effect on the financial performance of insurance companies in Jordan.

In a research titled *Investigating the Financial Performance of Insurance Companies Accepted in Tehran Stock Exchange*, Ahmadi & Norouzi (2016) examined financial determinants of insurance companies accepted in Tehran Stock Exchange during the period 2008-2013. The research sample included 9 insurance companies, and hypotheses were tested using multiple regression model for integrated data during the six-year period. The results of the research showed that the relationship between ratio of liabilities and returns on assets is significant and negative, the relationship between the ratio of fixed assets to total assets and returns on assets is significant and negative, as well as the relationship between firm flexibility and returns on assets is not significant. There is a significant and negative relationship between firm size and returns on assets. Also, the correlation between firm risk and returns on assets is significant and negative. Based on the results, there is a significant and negative relationship between firm's loss ratio and returns on assets. Also, the correlation between production premium and returns on assets is significant and positive.

In a research titled *Investigating the Impact of Social and Economic Factors on Life Insurance Demands in Iran and the Commonwealth of Independent States*, Hosseinzadeh (2011) examined the effect of social and economic factors (per capita income, inflation, interest rate, financial development, the dependency ratio between old and young age, education and life expectancy) on demand for life insurance in Iran and the Commonwealth of Independent States during the period 2001-2009 using the data panel method. The results of research showed that per capita income, interest rate, financial development level, education and life expectancy are among the most important factors affecting the demand for life insurance in the countries under investigation. In this regard, the young-age dependency ratio has an inverse relationship with life insurance demand.

In a research titled Analysis of Economic, Social and Psychological Factors Affecting Demand for Life Insurance in Iran, Kalishmi & Majed (2011) investigated the factors affecting the extension of life insurance in the country. The study population included three provinces of Tehran, Mazandaran and East Azerbaijan. To study effective factors, the variables related to these factors were divided into two main socio-economic and psychological groups, and their data were collected through 73 indicators using a questionnaire. The results indicated that demand for life insurance according to sample data, has a negative relationship with individual's expected health, premium payment, positive inflation expectations, risk aversion coefficient, individual's assessment of his mental health, tendency to express individual beliefs in a community and income, and variables, including a belief in inheritance, economic optimism, belief in improvement of the national economic situation in future, the age of individual, the employment of the spouse and the degree of individuals' study have a positive effect on demand for life insurance.

Research hypotheses

The general objective of this research is to investigate the effect of social and economic factors in the insurance industry on financial performance of Dana insurance. Economic factors in the insurance industry include low income and non-competitiveness of traditional life insurance with other investment activities, as well as social factors in the industry insurance include lack of culturalization in the community through mass media or government support and people's unfamiliarity with life insurance and regarding it as social security and health insurance. Accordingly, this research includes two main hypotheses and four sub-hypotheses as follows: Economic factors in the insurance industry have a significant effect on financial performance of insurance. Low income has a significant effect on financial performance of insurance. Non-competitiveness of traditional life insurance with other investment activities has a significant effect on financial performance of insurance.

Social factors in the insurance industry have a significant effect on financial performance of insurance. Lack of culturalization in society through mass media or government support has a significant effect on financial performance of insurance. People's unfamiliarity with life insurance and regarding it as social security and health insurance has a significant effect on financial performance of insurance.

The conceptual model of research

According to the related literature and research background as well as the relationship among research variables, the conceptual model of this research is represented in Figure 1.

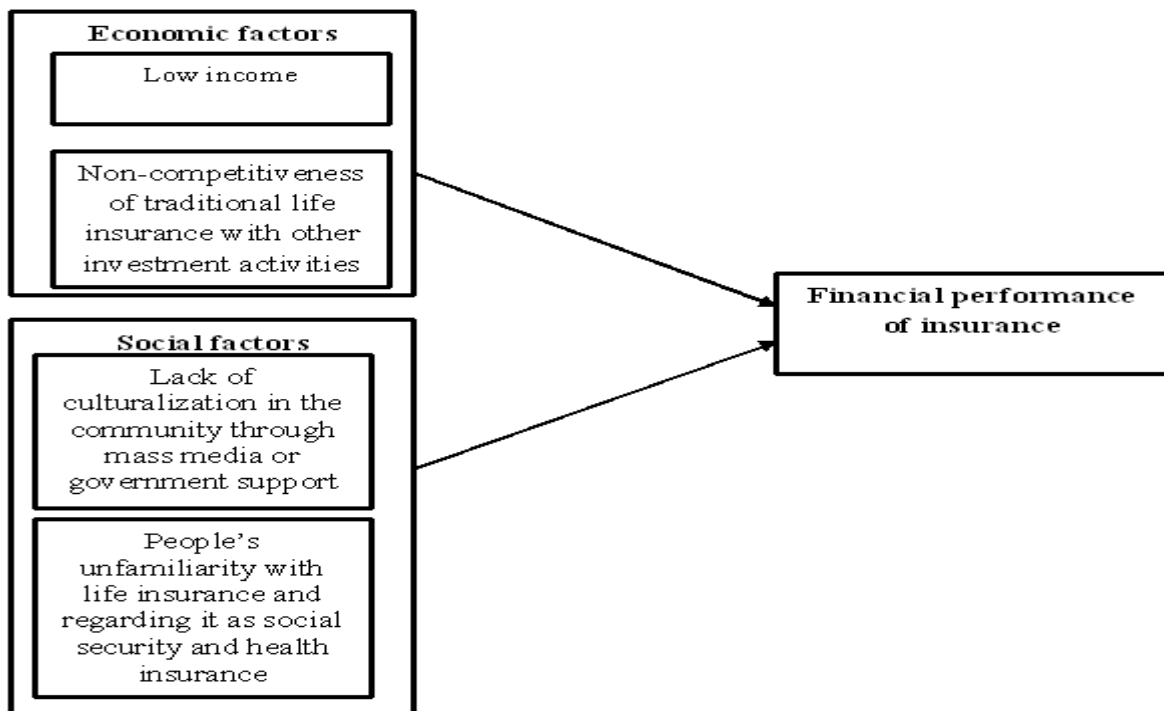


Figure 1. The conceptual model of research

Research method, population and statistical sample

Research data were collected using library method and referring to documents and electronic information. Questionnaire is used as a field method in this research. From purpose viewpoint, this is applied, and from procedure, data collection and descriptive data viewpoint, this is a survey research. The study population included all Dana insurance staff in Tehran. A number of 110 individuals were randomly selected as study sample, and 110 questionnaires were distributed among them.

Data collection tools

The data gathering tool was questionnaire in this research. The required data were obtained by collecting 110 questionnaires completed by experts of Dana Insurance in Tehran. In the present study, financial performance questionnaire was developed based on research conducted by Lee et al. (2006) and Qrunfleh et al. (2014), and questionnaire of socioeconomic factors in the insurance industry was designed based on Kalantari research (2013). To measure variables in order to test the research hypotheses, items of the questionnaire are represented according to Table 1.

Table 1. Items of the questionnaire to measure variables

Variables	Items
Economic factors	Low income Non-competitiveness of traditional insurance with other investment methods
Social factors	Lack of culturalization in the community through mass media or government support People's unfamiliarity with life insurance and regarding it as social security and health insurance
Financial performance	

Questionnaire reliability was achieved using Cronbach's alpha coefficient. According to Table 2, the Cronbach's alpha coefficient for all variables is higher than 0.7 which indicates reliability of the questionnaire.

Table 2. Cronbach's alpha coefficient

Scale	Cronbach's alpha coefficient
Economic factors	0.92
Social factors	0.88
Low income	0.83
Non-competitiveness of traditional insurance with other investment methods	0.72
Lack of culturalization in the community through mass media or government support	0.81
People's unfamiliarity with life insurance and regarding it as social security and health insurance	0.76
Financial performance	0.89

Data analysis

In this research, to analyze the statistical data and examine the research questions, SPSS was used to calculate descriptive statistics and inferential tests proportional to the type of data and variables. In this research, Kolmogorov-Smirnov test was first used to examine the normality of distribution of variables and the Pearson correlation coefficient was then applied to investigate the significant relationship among variables. Since, in order to use appropriate statistical techniques, it must first be determined that whether the data collected are normally distributed or not; in this stage, the results of Kolmogorov-Smirnov test for each variable were examined. Table 3 shows the results of normality test of variables.

Table 3. Results obtained from data normality test

Variables' statistics	Number	K-S statistic	Significance level
Economic factors	110	8	0.112
Social factors	110	0.821	0.175
Low income	110	0.721	0.115
Non-competitiveness of traditional insurance with other investment methods	110	0.625	0.301
Lack of culturalization in the community through mass media or government support	110	0.971	0.224
People's unfamiliarity with life insurance and regarding it as social security and health insurance	110	0.832	0.145
Financial performance	110	0.922	0.211

The results of Kolmogorov-Smirnov normality test are shown in the table. The significance level above 0.05 in the probability of statistics in the variables indicates normality of variables and the use of a parametric test to test the hypotheses.

The first main hypothesis

In Table 4, results of the regression test show that economic factors in the insurance industry have significant effect on the financial performance of insurance. Hence, the first main hypothesis of the research is confirmed.

Table 4. Results of the first main hypothesis test

Hypothesis	Pearson correlation coefficient	Significance level	Confidence level	Test result
First main	-0.312	0.000	99%	Confirmed

As shown in Table 4, since sig = 0.000, and this value is less than $\alpha = 1\%$, the hypothesis is confirmed, and it can be said that economic factors in the insurance industry have significant effect on the financial performance of the insurance. Since the Pearson correlation coefficient (-0.312) is negative, with 99% confidence, it can be said that economic factors in the insurance industry negatively affect financial performance of the insurance.

The first sub-hypothesis (1-1)

In Table 5, results of the regression test show that low income has a significant effect on the financial performance of insurance. Hence, the first sub-hypothesis of the research is confirmed.

Table 5. Results of the first sub-hypothesis test

Hypothesis	Pearson correlation coefficient	Significance level	Confidence level	Test result
First sub	-0.275	0.000	99%	Confirmed

As shown in Table 5, since sig = 0.000, and this value is less than $\alpha = 1\%$, the hypothesis is confirmed, and it can be said that low income has a significant effect on the financial performance of the insurance. Since the Pearson correlation coefficient (-0.275) is negative, with 99% confidence, it can be said that low income negatively affects financial performance of the insurance.

The second sub-hypothesis (1-2)

In Table 6, results of the regression test show that non-competitiveness of traditional life insurance with other investment activities has no significant effect on the financial performance of insurance. Hence, the second sub-hypothesis of the research is rejected.

Table 6. Results of the second sub-hypothesis test (1-2)

Hypothesis	Pearson correlation coefficient	Significance level	Confidence level	Test result
Second sub	-0.115	0.025	99%	Rejected

As shown in Table 6, since $\text{sig} = 0.025$, and this value is more than $\alpha = 1\%$, the hypothesis is rejected, and it can be said that non-competitiveness of traditional life insurance with other investment activities has no significant effect on the financial performance of the insurance.

The second main hypothesis

In Table 7, results of the regression test show that social factors in the insurance industry have significant effect on the financial performance of insurance. Hence, the second main hypothesis of the research is confirmed.

Table 7. Results of the second main hypothesis test

Hypothesis	Pearson coefficient	correlation	Significance level	Confidence level	Test result
Second main	-0.421		0.000	99%	Confirmed

As shown in Table 7, since $\text{sig} = 0.000$, and this value is less than $\alpha = 1\%$, the hypothesis is confirmed, and it can be said that social factors in the insurance industry have significant effect on the financial performance of the insurance. Since the Pearson correlation coefficient (-0.421) is negative, with 99% confidence, it can be said that social factors in the insurance industry negatively affect financial performance of the insurance.

The third sub-hypothesis (2-1)

In Table 8, results of the regression test show that lack of culturalization in the community through mass media or government support has a significant effect on the financial performance of insurance. Hence, the third sub-hypothesis of the research is confirmed.

Table 8. Results of the third sub-hypothesis test (2-1)

Hypothesis	Pearson coefficient	correlation	Significance level	Confidence level	Test result
Third sub	-0.361		0.000	99%	Confirmed

As shown in Table 8, since $\text{sig} = 0.000$, and this value is less than $\alpha = 1\%$, the hypothesis is confirmed, and it can be said that lack of culturalization in the community through mass media or government support has a significant effect on the financial performance of the insurance. Since the Pearson correlation coefficient (-0.361) is negative, with 99% confidence, it can be said that lack of culturalization in the community through mass media or government support negatively affects financial performance of the insurance.

The fourth sub-hypothesis (2-2)

In Table 9, results of the regression test show that people's unfamiliarity with life insurance and regarding it as social security and health insurance has a significant effect on the financial performance of insurance. Hence, the fourth sub-hypothesis of the research is confirmed.

Table 9. Results of the fourth sub-hypothesis test (2-2)

Hypothesis	Pearson coefficient	correlation	Significance level	Confidence level	Test result
Fourth sub	-0.227		0.000	99%	Confirmed

As shown in Table 9, since $\text{sig} = 0.000$, and this value is less than $\alpha = 1\%$, the hypothesis is confirmed, and it can be said that people's unfamiliarity with life insurance and regarding it as social security and health insurance has a significant effect on the financial performance of the insurance. Since the Pearson correlation coefficient (-0.227) is negative, with 99% confidence, it can be said that people's unfamiliarity with life insurance and regarding it as social security and health insurance negatively affects financial performance of the insurance.

DISCUSSION & CONCLUSION

According to the results obtained from the analysis of hypotheses, except for the second sub-hypothesis (1-2), all the research hypotheses were confirmed. In general, it can be stated that all economic and social factors in the insurance industry have a negative and significant effect on the insurance performance and lead to its reduction. Perhaps, this result can be attributed to the economic and social structures of the country. Lack of proper introduction and advertising of advantages and disadvantages of insurance in the community

and consequently in the country's economy have caused the social and economic components in the insurance industry to weaken its performance. According to the results of this research, all managers and administrators of insurance companies are recommended to advertise and introduce insurance as much as possible in line with the social and economic situation of the community. It is suggested to researchers to investigate the impact of broader range of economic and social factors on the financial performance of insurance in further research.

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