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RISK TAKING OF LIFE INSURANCE COMPANIES FROM THE PERSPECTIVE OF SENIOR MANAGERS AND EXPERTS

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Abstract. In the contemporary world, the insurance industry is considered one of the crucial factors of the development and progress of countries, and the insurance condition is an indicator of this phenomenon. The aim of the study is to assess risk taking of insurance companies from the perspective of senior managers and experts. The methods of research are questionnaire and interview with experts and senior managers of life insurance of active insurance companies in the city of Tehran using random sampling. In the present study, among 60 senior managers and experts, descriptive statistics in the field of demography such as gender, background, and educational level of respondents have been studied, and then they have been asked for the confirmation and rejection of statistical assumptions in the form of known criteria and opinions of experts and decision-makers. To prioritise the factors from the hierarchical analysis process for factor ranking, the results have indicated that inflation, governmental policies and lack of expertise are the major factors affecting risk taking in the industry of life insurance.

Keywords: *Insurance industry, life insurance, risk factors.*

INTRODUCTION

Nowadays, the insurance industry is considered an eminent factor in the development and progress of countries, and also insurance is a determining factor during the development of countries. Insurance plays a prominent role along with other economic sectors and increases the incentive to invest by covering possible losses caused by various economic activities, and increasing investment also plays a significant role in the country's growth and development, as well as the study of the growing trend of insurance in general and life insurance in particular over the past decade has been indicating the increasing role of life insurance in the families' economy in developed and developing countries (Baker & Simon, 2010).

The risk is the cause of insurance contracts, and if the assumption of risks is generally eliminated, the conclusion of the insurance contract is also meaningless. The risk is always with itself, bitterness and negativity, and the meanings of present kind are reminded and precisely in the face of luck (McNeil, Frey, & Embrechts, 2015). Therefore, it is noted that the risk existence is crucial in concluding insurance contracts, and insurers are the most obsessive individuals present at the contractual stage of the contract; it is a matter of accurately identifying the risks surrounding the insurer. Basically, most risks have the ability to create insurance coverage, and insurance companies perform it in the normal process of making insurance coverage. However, in some cases, it is impossible to create coverage for some risks, such as those that are the product of intentional or unintentional insurer's fault, which do not come from the first place within the scope of coverage. Or, if it is not and it is possible to create an insurance umbrella, insurance companies can receive an excessive amount of additional premium on the organisation from the applicant in order to provide him with the coverage of the desired insurance. Risk is the major and effective component of the contract. As long as there are an increase and decrease of risk that affect the legal fate, it creates rights for the insurance and the insurer. In the research, the identification and ranking of factors affecting the risk taking of insurance companies in the life insurance industry were assessed (Baker & Simon, 2010; Hoyweghen, 2010). Risk taking means the eventual occurrence of an unpredictable event in the future, a situation that may be risky or has adverse consequences and incidents. Basically, life insurance and survivors cover two general risks in human life, including sudden and unexpected death (risk of death). This risk is especially crucial in the case of the death of the family's guardian and breadwinner. In many families, the economic life of the family depends on its breadth and, with the sudden death of family members it is deprived of its material and spiritual support. Revenue from member's business and work is cut off and the family is subjected to severe economic and social injuries. Life expectancy is higher than expected (life risk): In the face of the risk of death, there is a risk that a person and his family will be exposed to severe economic and social conditions due to his long life span. The reason is that reaching the retirement age, the income of individuals decrease, and the expenses also increase as a result of increased costs of treatment due to illness and aging problems (Cummins, Smith, Vance, & Vanderhel, 2013). The aim of this study is to examine factors affecting the risk taking of Tehran's active insurance companies in the life insurance industry in 2017.

1. MATERIALS AND METHODS

The present study comprises the combination of quantitative and qualitative parameters, as well as represents exploratory and survey type.

The purpose of exploratory research is to create a suitable ground for better understanding of different phenomena or a particular problem that the investigator does not have sufficient information about. Exploratory research may be carried out in different ways. The present research has been implemented according to interviews with individuals, consultation with professors and experts.

The study is a *cross-sectional survey*. In addition, since the present research is about a real, objective, vivid, and dynamic subject, and its results can be scientifically applied, it is also applied research.

The statistical population of the research has been considered by senior managers of life insurance of active insurance companies in Tehran. Determining the sampling plan to be used and selecting sample volumes are the key issues in designing a survey. In the present research, simple random sampling has been used.

For this purpose, according to the Morgan table, 70 respondents have been interviewed; the number of samples obtained has been 60.

Data collection methods comprised: (1) Literature survey, including books and articles used to collect information and study context and data collection tools, which have been included in the questionnaire and (2) interview with experts. According to the responses of managers and experts, the seven factors under consideration have been included to be described later. In the present study, the indicators used to confirm the interview have been used.

In order to study the weights and priority of variables, the hierarchical analysis process method and the paired matrix questionnaire have been used.

Reliability is the technical characteristics of the measuring instrument. The reliability of a measuring instrument indicates the extent to which the results of the measuring instrument are stable and consistent. In the present research, the Cronbach' coefficient Alpha has been used to examine the reliability of the instrument.

Regarding the concept of validity and reliability of the questionnaire mentioned in the present study, in order to investigate the reliability of the questionnaire, a questionnaire has been developed based on the Likert spectrum and seven identified options distributed among the statistical samples. The Cronbach's Alpha Test has also been used for the analysis of results.

The present study aims at identifying and ranking the factors affecting the risk taking of active life insurance companies in Tehran based on a statistical sample of 60 senior managers and experts. To this end, by reviewing literature and research background, all seven factors have been identified according to the interview with the experts of each of the seven factors, then using the hierarchical analysis process method and the available spectra in the method, the questionnaire has been completed by the sample statistical analysis.

2. RESULTS

First, using descriptive statistics, cognitive status of demographic characteristics of respondents has been obtained and then, by approving the criteria and factors, the ranking of these criteria has been performed using the hierarchical analysis process.

Out of the 60 respondents, the percentage of men was highest (80 %). The majority of respondents had a Master's degree (54 %) and the smallest number had a Doctoral degree (8 %). Moreover, the majority of respondents had an experience of between 10 and 20 years (81 %) and the smallest number – between 20 and 30 years (8 %). According to the responses of managers and experts, using the statistical analysis, all seven factors under consideration have been of utmost importance in the quality of life insurance, including equality of competition among provider organisations (40/60, $p=0.0021$), sales expertise in serving the service (46/60, $p=0.0011$), variety of services provided (54/60, $p<0.001$), informing people about the diversity of current services (lack of appropriate advertising) (43/60, $p=0.0019$), price variations of organisations to attract customers (58/60, $p<0.001$), government policy and lack of inflation in the community (60/60, $p<0.0001$).

Table 1 provides the final values of each index obtained by the corresponding calculations and column mean of the final results. Finally, the values and effeteness of each factor according to calculations and the matrix obtained, and the hierarchical analysis process technique are presented in Fig. 1.
The designation of the analysed factors is the following:

A: Inequality of competition among the organisations;
B: The lack of sales expertise in providing the service;
C: The lack of diversity in the services provided;
D: Failure to inform people about the variety of current services (lack of appropriate advertising);
E: Different prices provided by different organizations to attract customers;
F: Government policies;
G: Inflation in society.

Table 1. Column Mean of the Final Results, the Final Values of Each Index (developed by the authors)

	A	**B**	**C**	**D**	**E**	**F**	**G**
A	1	0.25	9	2	7	0.11	0.2
B	4	1	9	6	3.03	0.33	0.14
C	0.11	0.11	1	1	5	7	0.33
D	0.5	0.16	1	1	0.2	0.33	5
E	0.14	0.33	0.2	5	1	0.33	0.2
F	9	3.03	0.14	3.03	3.03	1	1
G	5	7	3.03	0.2	5	1	1

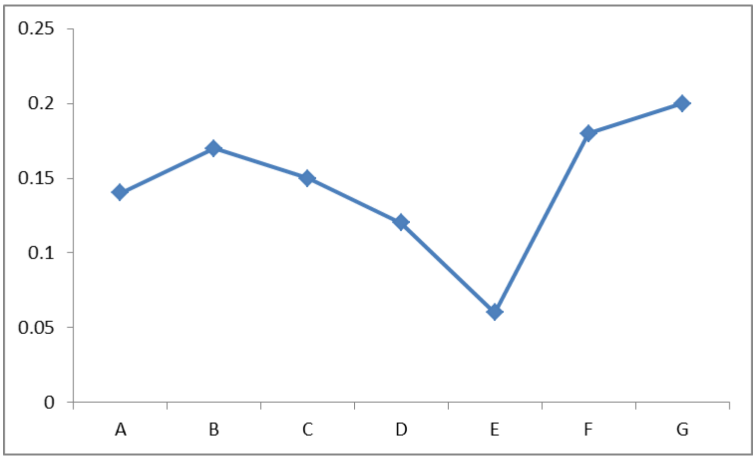

Fig. 1. The values and effeteness of each factor according to calculations and the matrix obtained, and the hierarchical analysis process technique (developed by the authors).

In addition to the existing conditions in the country's insurance market (tariff liberalisation, privatisation, entry of new rivals, all of which lead to increased competition), which strengthen the necessity and need for the establishment of a risk management system for controlling and monitoring the risks in the insurance companies of the country, there are issues related to the market and institutions of the country providing insurance without a management system. There is no risk of solving them. The statistical survey of the state of the insurance market as well as the study of the financial situation of the country's insurance companies indicates an increase in risks of the insurance companies of the country. In the society where there is no risk, there will be no insurance or risk, there are different types and forms, but with many variations and in spite of their variety, there is a stable result. Risk assessment is different in each of the individuals' insurance, and the path to education varies from one to the other. In life insurance, the premium is calculated on the basis of the death table, which is for normal risks. In the stock market of developed countries, there are markets responsible for securing the risk of fluctuations in stock prices. These markets are called stock market trading, while comparing the stock options agreement and the insurance contract, the present paper examines the possibility of reducing the risk of purchasing shares in the stock market based on insurance contracts. In this regard, after introducing the general framework of the study, the theoretical consideration of the subject has been examined using domestic and foreign sources. Then, using the field method, the data have been gathered, obtained from a questionnaire distributed among the shareholders in the Exchange Hall and analysed using the software. The results have shown that the shareholders tend to be insured. They believe that the involvement of the insurance industry in the stock market as a reliable security market can increase the amount of investments. Finally, proposals have been formulated with regard to the results. Controlling and holding risk management and implementing methods of coping with risk should be considered, in other words, risk management is applied to the set of actions with assets of an institution to maintain firm (Oscar Akotey, Sackey, Amoah, & Frimpong Manso, 2013).

The environmental complexity, the intensity of competition, the advent of new and advanced technologies, the advancement and development of information and communication technology, the new ways of supplying goods and services, environmental issues and the orientation of organisations from intangible assets are among the major factors which have caused organisations and businesses to face a lot of risks –high and even unpredictable risks during their lives. For this reason, in order to reduce the risk and compensate for the resulting losses, scientific literature of various types of risk management, such as risk management, business risk management and strategic risk management, is presented in everyday literature (Acharyya & Mutenga, 2013).

Obviously, each organisation experiences different risks depending on its nature. In today's changing environment, the success of each firm is basically the ability to control its risks and management type (Agarwal & Ansell, 2016).

Risk management implies that conditions are likely to suffer losses and uncertainties. This type of management includes a wide range of areas that comprise financial, operational, commercial, strategic, and wider areas of risk incidents. In general, risk management is the risk measurement process, and then the risk management strategy, the scholars have identified four common strategies for risk management: risk transfer (acceptance of risk by another), risk avoidance (non-performing risk taking activity), risk reduction (methods that reduce the severity of losses), and acceptance of risk (acceptance of losses at occurrence), but the main thing in our companies is that there is no strategic look at identifying risk management, so that there is no specific place for this kind of management in our organisations and companies (Altuntas, Berry-Stölzle, & Hoyt, 2011).

Within the framework of the present study, using Cronbach's alpha analysis, all seven criteria under consideration have been of utmost importance in risk taking of life insurance, including equality of competition among provider organisations (40/60, $p=0.0021$), sales expertise in serving the service (46/60, $p=0.0011$), variety of services provided (54/60, $p<0.001$), informing people about the diversity of current services (lack of appropriate advertising) (43/60, $p=0.0019$), price variations of organisations to attract customers (58/60, $p<0.001$), government policy and lack of inflation in the community (60/60, $p<0.0001$). Some previous studies have evaluated risk taking of markets, banks, directors' and officers' liability insurance and deposit insurance (Calomiris & Jaremski, 2016; Che & Liebenberg, 2017; Hoyt & Liebenberg, 2011; Rosser & Rosser, 2018).

Over the past few years, the financial industry worldwide has had its share of recession. Given the widespread reporting of unpredictable business failures and the global financial closure of the economy, the debate about the size of insurance companies and excessive risk appetite has become a concern for economic operators (Chapman, 2011; Knox, Agnew, & McCarthy, 2014). Recent research has shown that the size of the company and the ratio of the company's capital have had a significant impact on the risk of insurance companies. Given the widespread reporting of business unpredictable failures and the global financial closure, and, according to the debate (Kaplan, 2016; Pomeranz & Topik, 2014; Tylecote, 2013) over the size of insurance companies, excessive risk appetite has become a concern for economic operators.

CONCLUSION

Life insurance provides a social peace for the community, economic security and the prosperity of financial markets for the economy of a country. At the community level, the life insurance insurer, in return for payment of a premium, ensures the receipt of the amount of insurance capital in the future. Insurance companies with a significant source of their mathematical savings can invest in different sectors that lead to the dynamics of the economy. There are factors such as inflation, government policies, and lack of expertise in the key priorities that affect risk taking in the life insurance industry. Factors that can affect and help improve conditions include equality of competition among provider organisations, sales expertise in serving the service, variety of services provided, informing people about the diversity of current services (lack of appropriate advertising), price variations of organisations to attract customers, government policy and lack of inflation in the community.

Some limitations of the study include pitfalls in terms of insurance in accurate responses by interviewing, not same time of interviewing for all experts, possibly affecting the accuracy of the responses by the managers or experts.

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