INSURABLE RISK MANAGEMENT: BRITISH INSURANCE COMPANIES

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Abstract - This study investigates (PR) factors from the perspective of both British Insurance Companies (BIC) operating in Jordan and potential Insurance Companies (IC), which might enter Jordan market. Therefore, a qualitative method is chosen for this research. Principle component factor analysis is used to reach the final number of factors to be used in the analysis.

Keywords - Risk Management, Insurance, Jordan.

I. INTRODUCTION

Due to the importance and necessity of foreign investment for strengthening economic stability and quickly evolving of developing countries toward a developed economy, some developing countries are seeking to attract as much foreign investors as possible. On the other hand, companies (Cs) are also interested into expanding their activities toward developing countries. Therefore, some developing countries have generated interest in insurance investment decision of international (Cs). Factors, which prompt foreign (Cs) to enter individual countries, have been reported in various studies and in different ways. For many researchers, Political Risk (PR) is considered the most important determinants in investment decision-making. This is due to the belief that unpredictability and volatility in the political environment of the host country increases the perceived Risk (R) and uncertainty experienced by the company.Furthermore, when several countries try to attract some investment, the result may be a policy competition between the countries, which in turn, makes this mission much harder. For Jordan, many incentives have been made to attract all kinds of foreign investment. Yet, the level of inward foreign investment is far less than the desired. As conclusion, foreign investment tends to go to handful countries, while poor and unexplored countries remain ignored. The country with the more flexible and attractive investment environment and less industry risks, will find it easier to attract more foreign investment. More foreign investment inflows lead, inter alia, to improve the overall economic situation of the host country, without increasing the burdens on the government or the people, i.e., increasing or implementing new ones.

1. Literature Review

On the other hand, business increasingly recognizes investment opportunities exist in emerging economies. The reforms introduced to economical laws and regulations in recent years have pushed up the level of foreign investment in the capital market. The most significant of these changes has been the shattering of the 50% ceiling on non-Jordanian ownership, allowing 100% foreign ownership on any project in any economic sector, with certain expectations in some sectors as stipulated in the Investment Promotion Law.As investments in developing countries have increased, foreign investors are exposed to more risks of various kinds. One of these risks is (PR). It implicates the (R) of negative effects for a company due to political actions. For foreign investors in the developing countries which often suffer instability and democracy problems, the (PR) is often more important than for activities civilization. (Oetzel et al, 2001). However, (PR) is almost in all kinds of investment. (PR) can originate from a variety of different sources. Expropriation/ nationalization, currency controls, domestic ownership requirements, etc. despite many studies regarding this issue, yet no agreed (PR) components were cleared. There are many factors that make it very hard to assess the probability of a political event. For example, not very many people had predicted the Iraqi invasion of Kuwait, or the invasion of Afghanistan. No static way to measure the exact chance of someone to do coup detat or the consequences of such event.

1.2 Purpose

(PR) assessment is a central component of Risk Management (RM). Knowing the level of (PR) allows both investors and host countries to do effective actions for managing those risks i.e., avoiding, removing, insuring, reducing, etc. Also, such knowledge can improve the profitability of the foreign investment opportunities. The presumption is that policies geared directly or indirectly toward increasing foreign direct investment inflows are most effective when designed and implemented within an institutional framework conductive to FDI.This study concentrates on (PR)s rather than industry or firm risks of foreign insurance investment. The reason is that firm risks have less effect when political factors have been already discouraging foreign insurance investment. The focus on (PR)s and exploring what factors are the most frightening for foreign insurance investment of either working or potential (Cs) is

intended to provide scholars and policy makers with sound frame for dealing with these obstacles. Furthermore, by determining the major political events and constraints for foreign insurance development and identifying its variables, interests could utilize this knowledge to eliminate and control negative political factors.

1.3 Research Scope

Due to the belief that industry factors matter less when political factors are already discouraging FDI. This study concentrates on (PR) rather than industry determinants of foreign insurance investment. The focus on (PR)s, as a determinant of FII is intended to provide scholars, policymakers, and investors with a framework for analyzing the relationship between (PR) and FII inflows. It should also enable these interests to develop a better understanding of each other's interest and constraints.

Such understanding will enhance communication and cooperation in shaping institutional structure related to Foreign Insurance Companies (FIC) policies and processes in a manner consistent with national development goals. Although, the largest FII inflows to Jordan are from Arab countries, the reason for limitation the research to United Kingdom insurance investment is that there might be political or cultural aspects influencing the (PR) assessment. Also, UK is considered one of the largest recipients of and exporters of FDI i.e., U.S.A, U.K, France, and Hong Kong respectively.Smaller (IC) operating in Jordan and with a F partner are probably just as exposed to (PR), but I excluded them since I estimate that they do not have the same resources to work as actively with the (PR) as large (IC). The study is further limited by the exclusion of (PR) that the (Cs) are exposed to in the host country and from the perspective of foreign insurers.

Interaction by the home country government can obviously affect the outcomes. By focusing on a single sector and country, this study could avoid the potentially confounding effects that different regulations and market conditions could have in cross-sectional/ cross-border studies. Harhoff et al (1998) claims that different tax regimes can significantly influence the rate of corporate investment.

1.4 Problem Area

(RM) is the entire process from identifying the risks and assessing them to respond to the various risks in one way or another. For (IC) working in a third world country, (PR) is a major part of foreign investment decision. For Jordan, attracting foreign investment is in the top priority of government agenda. Hence, the amount of inward investment is far less than the desired level. Therefore, knowing risks that hinder investment in general and insurance investment can put Jordan on the first step of managing those risks. Thus, the question of this study is: "What are the (PR)s that hinder UK (IC) of entering Middle East markets?" and "What are the (PR)s that affect the operations of (BIC) (IC) operating in Middle East, either by hindering the entry of such (Cs), or by affecting the operations of existing ones?"

1.5 Research Significance

Efficient insurance markets are an essential basis for the developing countries to achieve integration into the global economy and sustainable strong economies growth. With their capacity, capital and know-how, global insurance plays a major role in the establishment of an efficient insurance sector.

Since Jordan has not received as much investment as expected, attracting, and encouraging foreign investment are crucial. This goes with the state's trend to apply and encourage free market policy, to improve the economic situation, especially at this stage, in which the area is witnessing many changes due to the critical situation between Israeli and Palestinians.

Previous studies regarding the investment obstacles in Jordan, very little attention has been given to the opinions of investors themselves. Besides, no attempt was made to go deep into the problem and ask for their demands and proposals. However, this study is the only one, which investigates and uncovers the opinions of foreign insurers toward three axes of (PR) faces them: host government (PR), interstate (PR) and non-governments (PR). Furthermore, not any previous study has done regarding the (PR) with any other types of foreign investment That is to be aware of such risks, their significance, and the way they hinder foreign insurance investment. Surveying and knowing these risks and the degree they affect those (Cs), would make it much easier for the decision-makers to put the right agenda to solve such risks. Furthermore, the insurance industry plays a major role in the UK economy employing over 230,000 persons in some 840 firms in 1997 (Association of British Insurers, 1998). The British insurance market is the biggest in Europe and third largest in the world, accounting for 8% of total worldwide premium income as recorded in 1998. UK insurance industry mirrors the highly concentrated structure of other Western insurance markets, most notably the US (Globerman, 1986). Consequently, the results of this study would provide guidelines and a perspective to other insurance markets.

II. METHODOLOGY

For the credibility of this study, it is necessary that there is a transparency in how the work has been carried through. Explaining the research method is important since it provides the possibility to

understand how the data was collected and a justification to the way, which proceeded. There are two abroad approaches to (R) assessment, the heuristic and scientific approaches. Although a heuristic approach may include some form of quantification, generally it is qualitative and subjective, relying on individuals' collective judgment. A scientific approach employs quantitative modeling and requires formal training in the mathematics used. (Waring & Glendon 1998 p.22) The purpose of my research is to answer what (PR) components that hider the foreign insurance investment inflows to Jordan. The study is thus, per-definition, made subjectively with interpretations based on pre-understanding. The problem for this study is a little bit complex and required much flexibility when collecting data. It was not possible to find the information needed in previously published material or to acquire all the information from a qualitative survey.

Therefore, a qualitative method is chosen for this research. One advantage of the qualitative method is its ability to show a totality of various variables and therefore give increased understanding of contexts and relations. This study will be prepared within two stages: Interviewing number of foreign insurers i.e., managers, executives, governmental officials working in Ministry of Trade & Supply, then a questionnaire was designed depending on those interviews and literature review as well.

The second stage is the questionnaires will be distributed to the British (IC) operating in Middle East. But due to the very small number of (BIC) operating in, a modified questionnaire will be distributed to the potential (BIC) that have branches in Middle East and could invest in Jordan. This study has some of cubist methodology, which presupposes those multiple views need to be taken of the object under study. Besides, the consistent and systematic application of multiple instruments built several checks and balances into the fieldwork.

2.2 Sampling

The study included (BIC) operating in Jordan. The studied population is determined to be (IC) of all types. A representative sample will be taken from this population. The sample consisted of the whole population of (Cs) as: (BIC) operating in Middle East; (BIC) operating in Middle East; Potential (IC), which might inter Jordan market.

2.3 Scale

The respondents will be asked to identify and rank important political events or constraints in their investment decision-making and assign different weight a long a seven-point Likert type scale. The scale started from (1) which indicated total disagreement with stated statement. While (7) indicated total agreement with the statement, number (4) was for the neutral answer where the respondent neither agrees nor disagrees with the statement.

2.4 Analytical Method

- Principle component factor analysis will be used to reach the final number of factors to be used in the analysis.
- Mean analysis will be used to classify the different variables.
- Chi-square analysis will be used to find the relation between the different variables, and the sector the company works in and the legal entity.
- Cronbach alpha will be used to determine the reliability of the questionnaire.
- Analysis tables and ordinary manual tables will be used to rank the different variables.

2.5. Research Variables

The variables of the study will be determined by the literature survey and interviews with deputies of a sample of the (FIC). The variables are of two kinds: variables reflecting the risks facing foreign insurers and those areas:

- Host government factors:
- Low& Regulations.
- Administrative
- Judicial
- Lobbying
- Interstate variable:
- War/ external conflict
- Trade investment Sanctions
- Trade dispute retaliation
- The peace process with Israel
- The changing environment in the middle east
- Non-governmental variables:
- Terrorist destruction of assets
- Kidnapping / assassination of personnel
- Civil unrest/ ethnic tension/ religious tension
- Boycotts
- Military in politics
- Campaign against foreign goods.

The other kinds are variables reflecting the institutional characteristics of the (Cs).

1. The sector the company works in.
2. Legal entity of the company.

2.6 Research Hypothesis

The hypothesizes of the study can be classified into two groups as follows:

GROUP ONE: Deals with the (PR)s facing the operations of (FIC)

1. The legislation authority in Jordan hinders (BIC) and considers as a potential (R) for their operations.

2. The executive authority in Jordan hinders (BIC) and considers as a potential (R) for their operations.
3. The Judiciary Authority in Jordan hinders (BIC) and considers as a potential (R) for their operations.
4. The lobbing situation in Jordan hinders (BIC) and considers as a potential (R) for their operations.
5. The interstate (PR)s hinder (BIC) and considers as a potential (R) for their operations.
6. The non- political actions in (PR)s hinder (BIC) and considers as a potential (R) for their operations.

GROUP TWO

Deals with the relations between the institutional variables and the political variables affecting foreign insurance investment in Jordan:

1. There is a relation between the sector the insurance company works in and the (PR)s facing the company in Jordan.
2. There is a relation between the legal entity of the company and the (PR)s facing the company.

2.7 Model

The study uses both Kim and Olsen (1993) model and International Country (R) Guide scale to explore measurements of (PR).

III. (PR) Model

3.1 Operational Definitions of the Variables:

Numerous variables are existing in determining a country's (PR)s, not all variables are taken into consideration of decision- makers. While some variables are considered more important for some decision- maker, others are not when they determine a country's (PR). Furthermore, each variable may have different degree of influence on decision making due to the perceptions. The following are the operational definition of the different variables used in this study:

GROUP ONE

The variables that reflect the (PR)s the (FIC) might face are:

1. Host government (PR)s factors
Law and Regulation
Executive System
Judiciary System
Lobbying
2. Inter-state (PR) factors
3. Non- government (PR) factors

IV. LAW AND REGULATIONS FACTOR

Legislative's decision and law-making process are transparent, efficient and reasonably democratic.

Variables:

1. Limits on currency exchange / currency Inconvertibility.
2. Restrictions on repatriation of capital, profit, and management fees.
3. Price control for insurance sector services.
4. High corporation tax on company.
5. Taxation policy intended to attract foreign capital for investment in the insurance sector.
6. Jordan insurance market is full of (IC).
7. Jordan market has related industries to insurance industry i.e. Banks,.
8. Tax credits for creating new jobs or providing training and education.
9. Labour law being restrictive regarding hiring employees(e.g. racial quotas).
10. Labour law protecting employees by establishing an employee welfare fund.
11. Minimum standards required for registering with the government to be officially recognized as a high standard company
12. Labor law protecting employees by setting a minimum wage.
13. A company's project should be approved by the government before the construction / renting is started.
14. Constantly changing regulations.
15. Reductions of red tape to get governments permits.
16. The joining of Jordan to WTO.
17. The joining of Jordan into free trade agreements with U.S.A.
18. Local tax holidays.
19. Setting standards for safety and work.
20. Limits on the number of foreign employees who may be employed in the company.
21. Labour law being restrictive regarding creation of a union and its activity.
22. Setting standards for safety of customers and employees in particular fire safety.
23. Availability of police forces to ensure securities in cities and neighborhood
24. Restrictions on company location.
25. The exchange rate reflects a currency's true value, which reduces uncertainty and transaction costs for foreign investors.
26. Restrictions on export regime.
27. Restrictions on import regime.
28. The existence of corruption in government.
29. Domestic ownership requirements.
30. Total content requirements.
31. The existence of intellectual property rights.
32. Restrictions on raw materials access.
33. Length registration procedures.
34. Ambiguous registration procedures.
35. Controlling and auditing laws of the company.
36. Access to the top management of the (Cs) to the authorities responsible for them.
37. The availability of labor (skilled / unskilled).
38. Clear tax rates and procedures.

39. Income tax on foreigners.
40. The availability of tax incentives.
41. The availability of up-to-date information about investment climate and insurance market.

V. ADMINISTRATIVE (EXECUTIVE) FACTOR

That policies are implemented transparently, efficiently and consistently to ensure equitable treatment of all subjects under the law.
Factors:

1. Continued uncertainty and instability on the political socio-economic front-history of coup detat military power and influence in every day life.
2. Currency controls (e.g. requiring company to collect all changes only in the domestic currency)
3. Waiver of import duties of material for establishment of new firm.
4. Tightening of monetary policy affecting economic expansion.
5. Restrictions on business hours.
6. Excessive requirements for licensed and permit before allowing full operation of the company.
7. Controls on purchasing system in the company.
8. Increased crime controls in country.
9. Discouraging major (Cs) from investing in property development.
10. Civil service employees with poor English language skills or with poor knowledge about insurance industry.
11. Enforcement of safety laws and regulations affecting building and operations of company.
12. Uncertainty of repudiation / expropriation by the government.
13. The applied banking polices by domestic banks.
14. Applied monetary polices.
15. The stability of Jordanian Dinar.

VI. JUDICIAL FACTOR

High transparent, reliable, independent, fair and equitable judiciary guarantee. High government fitness of the legislature and executive branch.
Variables:

1. Interpretation of trademark rights.
2. Interpretation of resident versus non-resident marketing / franchising agreements.
3. Court decisions interpreting the enforceability of company contracts.
4. Court decision enforcing union rights and responsibilities.
5. Cases of disputes over employment rights of hiring and importing foreign personnel.
6. Overall integrity of the judicial system and the quality of the judiciary.
7. Enforceability of foreign judgments or arbitration awards.
8. The smooth access to the court system.

VII. LOBBYING FACTOR

1. Integrity of local business environment.
2. The ability to discuss problems and concerns with decision or policy makers.
3. Maintaining access to government officials at the decision / policy making level either directly or through an organization.
4. National laws governing lobbying.
5. Using a firm association as an organized lobbing group.
6. Ability to hire executive who are knowledgeable about government's impact on a firm's business and how to manage government's involvements.
7. Maintaining access to government officials in the various agencies and bureau at the decision making level.

VIII. INTERSTATE (PR) FACTOR

1. The uncertainty of war between Jordan and Israel.
2. The uncertainty of military conflict between Jordan and one of its neighbours.
3. The possibility of Jordan being under trade / investment sanctions.
4. The peace process with Israel, and the expected political and economical treaties with Israel.
5. The changing environment in the Middle East.
6. The political and diplomatic relations between Jordan and its neighbouring countries.
7. Ease of trade flow between Jordan and the neighbouring countries.
8. The easy access to global markets
9. The easy access to Israel.
10. The existence of Free –Trade Agreement with U.S.A.

IX. NON- GOVERNMENT (PR) FACTOR

1. The possibility of terrorist destruction of a company's assets.
2. The possibility of kidnapping / assassination a company's personnel.
3. The possibility of civil unrest.
4. The possibility of ethnic tension.
5. The possibility of religious tension.
6. The possibility of boycotts on a company's services due to political reason.
7. The uncertainty of coup detat or military in power.
8. The possibility of campaigns against a company's services.
9. The possibility of labour unrest.

GROUP TWO

The institutional variables; those variables will be taken separately and will include:

- Sectors the company works inside Jordan
- Legal entity of the company

X. STUDY LIMITATIONS

This study has been designed as a further steppingstone toward explaining foreign Insurance investment in Jordan. Also, it integrates macro and micro determinants that still have not enough recognition due to the difficulty in quantifying them. The difficulty in finding a proper and commonly accepted definition of (PR)s is a troublesome for building a solid model easily applicable. Furthermore, the scope of the (PR) is another determent for the development of research in this field.Another difficulty is the lack of sufficient up-to date information about both investment climate and foreign (Cs) working in Jordan i.e., there are neither lists nor addresses in the Ministry of Trade and Industry. Besides, accessing to needed information requires many approvals from top management. Which often needs much time and effort.

XI. EVALUATION OF METHOD

There is no such thing as a perfect choice of methodology. For this study a questionnaire is the most appropriate method.

XII. VALIDITY

(PR) is susceptible to objective analysis, yet the accurate evaluation and comparison of political climate is largely an immature art for businessmen. The assessment of (PR) depends upon prevailing attitudes, first impressions and generalization on single event accruing in the host country (Formica, 1996). Another reason to question the validity of the study is that a large proportion of the literature, on which it is based, was suitable for a single country or concentrated on the perspective of home country rather than a host country. Furthermore, it is possible that the information obtained from the interviews and questionnaires were biased or incorrect. Surveying as many different (Cs) as possible reduces this possibility. A researcher must continue to sample until each of the studied categories is saturated, or else the theory will be lacking density and precision (Strauss &Corbin: 1998).

XIII. RELIABILITY

In this study, Cronbach alpha will be used to determine the reliability of the questionnaire.

Literature

Application to Jordan

(FIC) are taking a global view of their strategies, whereas host countries are beginning to recognize the importance of global dimension in their economic development planning. Previous studies show that firms that have a higher preference for investment entries are sensitive to investment attributes. Hence, Jordan should not only develop policies that make insurance investment attractive for foreign investors, but also should reduce their (PR)s exposure and (R) perceptions through regulations that permit repatriation of profits, majority ownership and control, patent protection and enforcement of contracts. From the government's perspective, it should be noted that regardless of the stage of economic development of the country, policy variables that reduce the (R) would have a positive impact on inward investment.Recent trends indicate a move by Jordan government to enhance investment environment, whereby conditions are being created for a more favorable investment climate through relaxation of investment controls and provision of investment incentives including better protection of property rights and enforcement of contracts. Thus, (FIC) with higher ownership advantages are willing to enter these countries and enjoy the benefits and advantages as the first mover. If a country does not confront its political problems, the country will be excluded in the list of future insurance investment plan of (IC). To determine and get rid of the major political barriers and risks to foreign investment development is the first step that any developing country should exercise to attract more inward investment. Incentives offered by the host government:

1. Policies

- Duty—free import of materials (until the goods are sold locally)
- Tax concession (income and property)
- Infrastructure improvements: roads, water, electricity, telecommunications, schools, etc.
- Subsides; subsidized financing, subsidized land, environmental subsidies working training.
- Free trade zones on export processing zones that provide some of the incentives.

Insurance industry as a speculative risk

Pure (R) are associated with hazards such as health, safety, environment, and security where success with (R) control can never be better than removal of the hazard so that exposure is zero and no harm can result. (R) associated with business, finance, investment, human resources, IT strategy and politics are all speculative risks, where success is always relative to that of the economy, the market sector, competitors, and the power attributes of others. (Waring and Glendon 1998)

XIV. (PR) ASSESSMENT

"as with other speculative risks, (PR) assessment is frequently an art-and-judgment technique seeking to speculate about possible and likely turns of events as contexts develop, relative trade-offs of risks and benefits, and the most judicious combinations of timing and actions" (Waring &Glendon 1998) p.43

Hazards, threats, and risks

There is no agreed definition of those two terms. Threats and hazard represent the objects of (RM). Waring & Glendon (1998) distinguish the two terms as "hazard" is used in connection with health, safety, and environment, whereas "threats' is used in connection with security and some speculative (R) topic. For (PR) topics as a speculative risk, the (RM) process is essentially a gamble in which success often means maximizing financial, political, or other returns on speculative investments of various kinds and avoiding loss or disadvantage. (Waring & Glendon 1998).

Applications to host government

To lower (PR) and promote more foreign inward investment, host government must fully evaluate all controllable factors and deal with problems of (PR). Formica (1996) claims that there is no single universally accepted definition of (PR). (PR) is conceived in terms of government interference with business operation. (Carbon, 1979) It is important to distinguish (PR) from political instability. Carbon (1980) claims that instability is a feature of the general environment, whereas (R) is something narrower in focus which directly affects the MNE. Schmidt (1986) defines (PR) as "the application of host government policies that constrain the business operation of a given foreign investment".

The relationship between (PR) and foreign investment

Foreign investors consider many factors before entering a particular country. (PR) factors are the most important factors in assessing a company's foreign direct investment in a foreign company. (Erol, 1985) Previous studies have found political events to be one of the most important factors in foreign investment decision. Furthermore, the stability and the attitude of the host government toward foreign investment are considered as the most important considerations in the investment decision. Kobrin (1978) claimed that there is a negative relationship between (PR) and FDI.

(PR) measurement

A foreign investment decision process requires an examination of both the general environment and the specific operating functions of the proposed company. (PR) is one of the most important factors to be analyzed before a decision made. There are no agreed variables of (PR) components; also there is a difficulty of predicting such events. Rummel and Heenan (1978) integrate objective and subjective methodologies which allows for the best features of management science to be combined with insights and intuition of regional experts.Erol (1985) stated traditional studies assessing (PR) and its relationship with foreign investment have contemporarily taken into consideration a variety of data from different countries and industries. Thus, this generic perspective has led to a failure in determining reliable assessment of the dimension of (PR) and its relationship with investment from outside the host country. Fathei-sadeh and Safizadeli (1988) stated that multinational corporations belonging to different industries do not perceive the same degree of (R) when facing the same political turmoil in each country.

Perception of (PR)

Kobrin (1979) claimed that managers' assessment and evaluation of politics are general, unsophisticated subjective and superficial. Keegan (1974) indicates that the executive responsible for international operations of multinational (Cs) rely very little on systematic environmental scanning methods. Rummel and Heenan (1978) suggest that the forecasts of the underlying factors on which the predictions are based are frequently judgmental. (R) assessment is inherent in human existence, cognition, perception, motivation, and attitude interplay with decision-making and prioritizing actions across the spectrum of individual interests, needs and concerns (Waring & Glendon 1998) p. 21

Proposed framework

Sethi and Luther (1986) stated that there are not many frameworks to measure country's (PR). This study uses a modified framework based on Kim and Oslen (1993) Framework, International Country (R) Guide scale.

Methodology

Research sample will be consisted with two groups of (IC): (FIC) operating in Jordan and international (IC) not operating in Jordan. By focusing on a single sector and country, this study could avoid the potentially confounding effects that different regulations and market conditions could have in cross-sectional/ cross-border studies. Harhoff et al (1998) claimed that different tax regimes can significantly influence the rate of corporate investment.

The challenges face insurance industry

Globalization of financial services markets. Insurance sector has witnessed a wave of consolidation and restructuring.There are an increasing number of mergers on a cross-border basis. Besides, new players are entering new markets which will lead to more intensification of cross-sector mergers and acquisitions. Technological developments are increasingly driving insurance business. The e-commerce is just a start of this stage. (RM) concepts are getting more sophisticated. These developments pose new challenges to the way regulation must be prepared and supervision enforced.

The role of insurance for economic development

1. (R) transfer

One of insurance's key roles is safeguarding the financial health of small and medium-sized enterprises. A sophisticated insurance sector is also important in encouraging domestic production, innovation, and trade. Insurance reduces the investment (R) faced by (Cs) and the state. Many (Cs) find it far more expensive, if not impossible, to take out a loan without purchasing the requisite insurance protection. Insured, thereby reduces the cost of raising the capital they need. This is especially important in emerging markets, as a shortage of capital is one of the major disincentives to investment. By reducing investment risk, insurance can also encourage (Cs) to think more long term and increase their (R) tolerance. A lot of investments in new production facilities and newly founded (Cs) would never happen if every company was required to have the necessary financial means to make good every conceivable loss. While arguable, it is no exaggeration that the availability of insurance is sometimes being heralded as a factor of production. (Baur, E and Birkmaier U and Rustmann M, The economic importance in Central and Eastern Europe and the impact of globalization and e-business, United Nations, Economic and Social Council, Trade/2001/15, p.3)

2. Information role

The level of insurance premiums provides an indication of existing (R) and of how probable it is that a loss will occur. This helps (Cs) make a comparison of the risk/return profiles of projects, thereby ensuring that the available resources are put to the best possible use. (IC) also offer consultancy services, advising on how to improve safety standards and a product's quality. (Baur et al 2001).

3. Capital market role

(IC) receive premiums and set them aside as provisions for the payment of future claims. They proceed to invest them in the capital market, which give them the status of major investors. From a macro-economic point of view, the insurance market could help to mobilize national savings and narrow the investment gap of emerging economies. In emerging markets, domestic savings have not been fully mobilized despite huge funding needs arising from infrastructure projects, for example. (IC) as important long-term institutional investors, therefore functioning as financial intermediaries, contribute to bringing together savers and borrowers. Life insurance can make saving available- although life insurers are themselves dependent on a functioning capital market if they are to measure up to their role in the area of (R) transfer (Baur et al 2001).

The role of foreign insurers in developing countries

A. Advantages

to enhance the efficiency of local insurance, markets by providing superior customer service, introducing new products, and transferring technological and managerial know-how. Liberalization increase competition and encourages a more pronounced specialization according to comparative advantages. (Kono 1997) to enhance the financial condition of individuals, households, and corporations due to the high ability to pay superior claims. To facilitate the trade and commerce of developing economies. The availability of a reliable insurance sector has been recognized as one of the prerequisites in attracting foreign direct investment. Globally active industrial and service (Cs) expect their insurers to follow them and provide worldwide support. To improve the efficiency of capita, allocation. Underwriting and investment decision made by foreign insurers based on their international experience and best-practice consideration could send useful signal to markets for efficient resources allocation. The availability of these signals, particularly in markets where credit allocations are not completely based on economic considerations, is important in improving capital productivity. (Baur et al 2001).

B. Disadvantages

Foreign insurers focus on high-value clients and neglect the lower income groups. The entrance of foreign insurers could threaten the financial stability of existing (Cs). Foreign insurers would raise fund outflows over the longer term in the form of profit repatriation and overseas reinsurance. Perhaps more disturbing to policymakers in emerging markets is the prospect of over-reliance on foreign insurance capacity. There are worries that a sudden withdrawal of foreign insurers and capacity in times of conflicts could cripple local trade and commerce. (Baur et al 2001)

C. Economic growth

In the years 1996 to 2000, the average growth rate was 3 %, below the average population growth rate of 3.3 %. This has led to an erosion of per capital GDP. The challenge of achieving growth is compounded by unfavorable regional conditions including the political turmoil in Palestine and the ongoing embargo against Iraq, the Jordan's leading trade partner. These factors weaken prospects for higher foreign investment in Jordan. Jordan has tried to achieve trade liberalization and reform by following:

- Accession to the WTO and singing of the US. Jordan FTA.
- Establishment of the Aqaba Special Economic Zone (ASEZ).
- Developing of Qualifying Industrial Zones (QIZs).

- Conducting a privatization program.
- Setting up Economic Consultative Council (ECC).

Despite serious measures to boost the economy's growth rate, Jordan remains hobbled by regional political instability, particularly on the Iraqi and Palestinian fronts. Therefore, a comprehensive peace settlement and stability in the Middle East are crucial for Jordan to attain its economic objectives. (Jordan Country Report, Atlas Investment Group, April 2001). Jordan's economic performance has been further debilitated by structural weaknesses. These include A lack of accountability due to frequent changes of government. Cumbersome bureaucratic procedures. Redundancy in the public sector that in many instances crowds out the private sector.The economy's productivity has been undermined by long public holidays, which consume a considerable amount of the working year. These holidays have been detrimental to the efficiency of the industrial sector and to overall economic output. (Jordan Country Group, 2001).

D. The contribution of insurance sector to GDP

Business service, including finance, insurance, and real estate, maintained their contribution at 20.5 % of GDP for the year of 1995 to 1999. (CBJ Monthly Statistical Bulletin).

E. Insurance sector and market capitalization

The ASE has grown rapidly since its establishment in 1978. Market capitalization packed in 1998, climbing to JD 4.16 billion from JD 286 million twenty years earlier. The distribution of market capitalization across sectors clearly tilts towards financial in the banking sector accounting for 53% of the overall capitalization, followed by the manufacturing sectors at 28%, while insurance ratio is just 3%. The ratio of market capitalization to GDP, which stood at 72% in 1999, is one of the highest among the Middle East stock markets.

F. Foreign insurance investment in Jordan

The reforms introduced to economical laws and regulations in recent years have pushed up the level of foreign investment in the capital market. The most significant of these changes has been the shattering of the 50% ceiling on non-Jordanian ownership, allowing 100% foreign ownership on any project in any economic sector, with certain expectations in some sectors as stipulated in the Investment Promotion Law. Foreign ownership in the Sharing (IC) Jordan Times **Tuesday, February 2, 1999** Government signs with Irish consultancy to strengthen insurance market By Mohammad Ben Hussein AMMAN — In its efforts to upgrade the Kingdom's insurance sector and enhance its role in economic development, the government signed an agreement worth $2 million with an Irish consultancy firm which ends in 2002, an official said Monday. The overall objective of the agreement, signed with Clan William, an Irish consulting firm, aims at strengthening the insurance market through the implementation of rules in agreement with international standards, strengthening the insurance supervisory body and conducting audit reviews according to international standards, said Bassel Ali Hindawi, controller of insurance at Ministry of Industry and Trade. The government's move came about as one of two key steps that it has undertaken to reform the insurance sector in the country with the aim of modernizing (IC)' activities. The first key step was to draft a new insurance law which is currently going through the constitutional process for enactment.

The draft law, expected to be approved within the month, requires the establishment of an Independent Insurance and Regulatory Commission, — under the umbrella of Ministry of Industry and Trade — which implies a complete reorganization and modernization of the supervision of the insurance sector. The government's second key step was to develop a long-term technical assistance program, develop regulatory function and develop the insurance industry. Subsequently, the government signed the agreement with the Irish firm which will enable officials working in the insurance sector to receive training in Ireland. According to the ministry's expectations, with the completion of the program, signed with Clan William, the Office of the Insurance Controller will have acquired the proper skills to effectively fulfill its regulatory and supervisory functions on a self-sustainable basis. The development program is funded by the USAID Trust Fund and administrated by the World Bank. According to Hindawi, the project will involve long-term provision of experienced professionals, familiar with the regulations and supervision of the insurance industry.

The deal is also expected to provide professional training in insurance subjects that will be delivered by the Chartered Institute of Insurance, the largest provider of professional training in the industry worldwide. It will also install modern insurance information systems which will provide sophisticated analytical tools to support the supervisory function of the Ministry of Industry and Trade, said Hindawi. Ministry of Industry and Trade figures show that there are 27 (IC) competing in the country's under-developed insurance market.

The value of the insurance market for the year 1997 was about JD97 million, with per capita share not exceeding JD20. The sector's contribution to GDP is less than two per cent, while it averages five per cent in developing countries and as much as 10 percent in many developed markets. The size of the insurance market relative to GDP should be at the five per cent mark for a country like Jordan. Poor economic

growth has hindered the development of the sector and its contribution to GDP.

XV. ACKNOWLEDGMENT

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