

The impact of authority's decision to separate the damages insurance and persons insurance from 2011, on the Algerian insurance market.

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Abstract:

In this article, we focus on the impact of the decision to separate damages insurance and persons insurance in Algeria. To do this, we observed and analyzed the evolution of the statistical data of persons insurance for two periods, the first between 2002 and 2011, the second between 2012 and 2022. Therefore, the two periods located before and after 2011, the year of the beginning of the application of the separation.

Our main conclusion is that this decision of legal separation has increased the number of persons insurance companies, but the turnover of the branch has not experienced a real increase, compared with the increase in the number of persons insurance companies.

Keywords: Damages insurance; Persons insurance; Indemnification; Losses; Insurance market.

JEL Classification Codes: G22, G23, G28.

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1. INTRODUCTION

The Algerian authorities have granted insurance companies a period of five years to carry out the effective separation between persons insurance and damages insurance (Art 204 bis of law 06-04, modifying and supplementing ordinance 95- 07 relating to insurance, JORADP N°15, 2006). The measures relating to the increase in the share capital of insurance companies, particularly for the "persons insurance" activity, confirm the option of the public authorities to strengthen the capacity of insurers to meet their commitments and, by the same token, the protection of policyholders. Add to this the tax measures and other incentive decisions, mainly the exemption from TVA (Taxe sur la Valeur Ajoutée) for all people insurance operations.

The strong contribution of the people insurance branch to the overall production of the sector in certain developed countries no longer needs to be proven (up to 50% in certain countries). However, in Algeria, it does not exceed the average of 6% during the 10 years before 2011, while the potential is by far greater, particularly with the exhaustion of the national social insurance and pension system and the significant development of employment in the decade before 2011.

Importance of the research:

The importance of this study lies in the need to separate damage insurance and persons insurance activities, and to show the main differences between the two, in terms of management and representation in the insurance market.

The research problem:

The main question that will make the objective of this research work is; What is the impact observed, after the application of the separation between damages insurance and persons insurance, promulgated by law 06-04, modifying and supplementing ordinance 95-07 relating to insurance?

Hypothesis:

To answer this problem, one hypothesis appears: The separation between damages insurance and persons insurance, applied from 2011, will

considerably increase the production of persons insurance, in terms of turnover and number of companies.

The research objective

The objective of this article is to measure the extent of the variation observed, through the analysis of statistical data on the production of the insurance sector, and in particular persons insurance in Algeria.

Search limits:

This study will concern statistical data on the production of the Algerian damages and persons insurance market, for the period between 2002 and 2022.

Methodology and structure of the article:

The choice of the methodology of our research is based on an analytical and critical study of statistical data from two periods, the first between 2002 and 2011, the second between 2012 and 2022 (2012, the year of passage, is not taken), therefore before and after 2011, the year of the beginning of the application of separation.

This article will first give the conceptual framework of damages insurances and persons insurances, which defines the differences and similarities between the two kinds of insurance, then, in a second place, we will present the evolution of the Algerian damages' insurance and persons insurance market, before and after 2011.

2. General information's on damages insurance and persons insurance: legal and technical distinctions.

Insurance is the operation by which an insurer organizes in mutuality, a multitude of policyholders exposed to the realization of certain risks, and compensates those of them who suffer a claim thanks to the common mass of collected premiums. This reduces the incidence of the occurrence of a risk for the insured. This mechanism meets a basic security need. The concept appears for the first time in maritime transport. Little by little, it has won over all areas of human activity. The traditional purpose of insurance is to allow the reimbursement of goods in the event of a claim. But, today, individual liability insurance has developed considerably, so that the field of insurance can be distinguished into two categories, damages insurance and

persons insurance (Marquet R. 2015). Their mode of management also varies, according to two models, capitalization and distribution (Martin A, 2016). It is therefore appropriate to study the specific characteristics of each of these two categories.

2.1 The gradual diversification of the object of insurance: damages insurance and persons insurance

This distinction is due to the fundamental difference between the obligations of the insurer during the execution of the contract. Indeed, in the context of damages insurance, the insurer must compensate the beneficiary for the consequences of a claim, which amounts to carrying out a case-by-case assessment of the value of the property in question (Vaughan J. 2008, p169). On the other hand, in the case of persons insurance, the compensation that will be paid to the beneficiary is a lump sum determined at the time of the conclusion of the contract, regardless of the damage suffered (LOMA, 2017).

2.1.1 Damages insurance (DI): an indemnity-based contract:

In terms of damages insurance, it is consequently the principle of integral reparation which prevails. Thus, the beneficiary of the insurance must be compensated for all his damages suffered. But by virtue of a second principle, the indemnity principle, the reparation cannot go beyond the amount of the damage. The purpose of the contract is therefore to guarantee, in the event of a claim, repair by equivalent, that is to say that the victim must, at the end of the repair, find himself in the same situation as if there were no never had a disaster, so do not get rich or poor.

Damages insurance includes property insurance and liability insurance (Alford Stevenson J. 2016). Property insurance will come to guarantee an asset of the insured's heritage. The repair will then be a sum equal to the value of the thing insured, assessed on the day of the loss. We are interested here in the patrimonial value likely to be lost for the beneficiary following the disaster. Therefore, it suffices that there is an economic relationship, and not a legal one, between the person and the thing exposed to the risk, for the object of the insurance to be valid, and therefore for the beneficiary, even if he is only a simple user of the thing and has no right over it, is eligible to

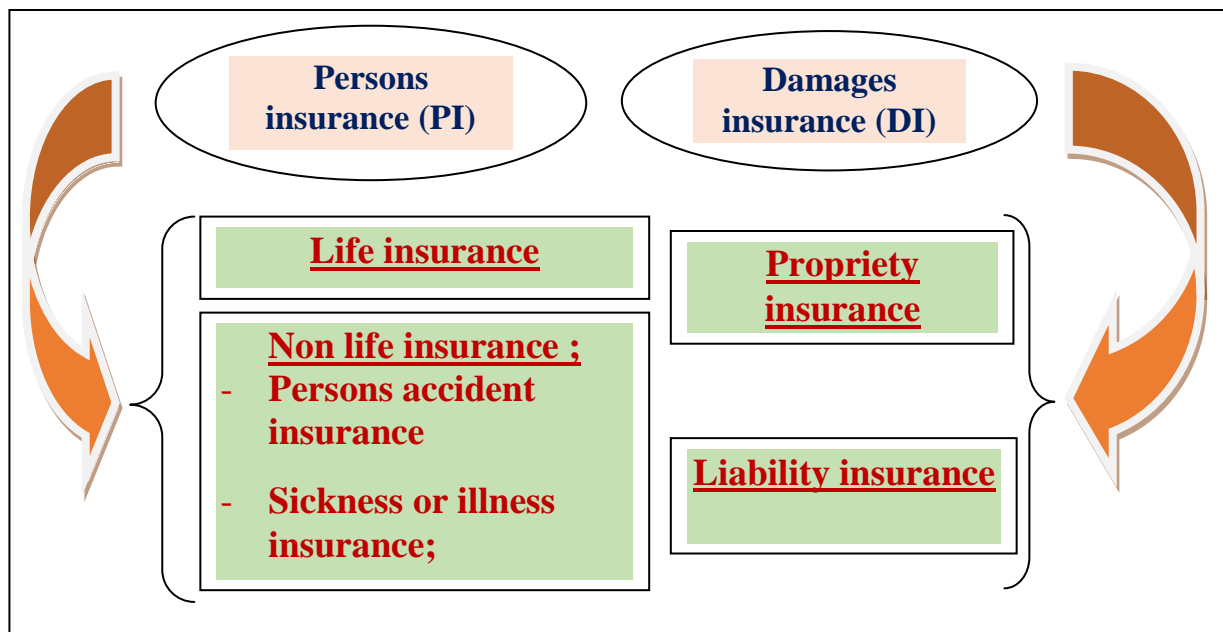
compensation. Liability insurance, on the other hand, guarantees compensation for damage caused by the insured to a third-party victim. Here, the object of the insurance contract is of a legal nature since it is a question of guaranteeing the consequences of a civil liability. This type of insurance is governed by a set of legal texts whose purpose is to protect victims and guarantee their compensation. In concrete terms, the insurance indemnity is paid directly to a third-party. The insurer replaces the insured under the theory of risk transfer. It should be noted that the criminal liability of the insured is always excluded from the liability insurance, this exclusion being of public order. Only civil repairs can be compensated by the insurer. Alongside this indemnity insurance, another branch of contracts has developed: lump-sum compensation insurance, or persons insurance (The Institute of Company Secretaries of India, p165).

2.1.1 Persons insurance (PI): a lump-sum contract

The risks guaranteed in persons insurance are those that will directly affect the insured person, and not their property. If these risks materialize, the compensation will then be fixed: its amount is determined a priori, and without assessment of the damage suffered. It is the contract that determines a priori the amount to be paid. The most common forms of insurance are:

- life insurance,
- non-life insurance:
 - persons accident insurance,
 - sickness or illness insurance,
 - and disability or incapacity insurance.

Figure (01): Dividing according the object of insurance



The source: Made by the authors

However, it should be noted that there is an attenuation to this lump-sum nature of the compensation: today there are benefits of a compensatory nature in persons insurance, this is for example the case of daily sickness benefits.

Faced with this first rather legal classification, we find a technical classification, in that it focuses on the mode of risk management. We will then distinguish insurance managed on distribution (a pay-as-you-go) basis from that managed on a capitalization basis.

2.2 A variable management method: insurance managed by distribution and capitalization basis:

The Algerian regulation (law 06-04, modifying and supplementing ordinance 95- 07 relating to insurance) imposes a legal separation between the companies which practice branches managed by distribution, and those managed by capitalization, except if it is about incidental risks, which justifies the technical dichotomy between these two management methods. (Pimbert A. p34)

2.2.1. Insurance managed on distribution (a pay-as-you-go) basis:

This is the simplest form of risk distribution among all the policyholders: during a year of operation, the insurer distributes among the insured parties the mass of premiums paid by all the members of the mutuality, the probability of occurrence of the risk being constant during the contract. The insurances using this mode of management are damages insurance, as well as two types of persons insurance: accident and illness. The other insurances are, for their part, managed by capitalization.

2.2.2. Insurance managed in capitalization:

Capitalization insurance is insurance taken out for the long term. Premiums will be collected using the composite interest method. The risk covered is not constant: it varies during the course of the contract. This mode of management will concern all insurance companies that do not obey to the distribution management. This is particularly the case for life insurance and collective provident insurance.

By the double differentiation between persons and property insurance and by the mode of management of this insurance, it is therefore possible to classify each insurance contract within this diversity represented by the sector.

3. Evolution of the Algerian market of damages insurance (DI) and persons insurance (PI), before and after 2011.

During this period, before the obligation of separation (damages/persons), insurance companies have the right to practice all branches of insurance approved by the State.

3.1 Period between 2002 and 2011:

before 2011, the Algerian insurance sector was made up of 16 companies, including (cna.dz/acteur/societes-dassurances):

- 11 Damage/Persons insurance companies;
- 02 Mutuels;
- 02 Credit insurance companies;
- 01 Reinsurance company.

This period was marked by several incentive measures to facilitate the growth of persons insurance business volume, such as:

- Free designation of contract beneficiaries;
- TVA exemption for Persons insurance contracts since 1996;
- Expansion of distribution to brokers and general agents, in 1995;
- Expansion of distribution to bancassurance, in 2006 (effective in 2010);
- Abatement of the base subject to IRG (Impôt sur le Revenu Global) up to 25%, effective since April 2008;
- Evolution of the notion of group insurance.

Table (01): Evolution of the production of the Algerian insurance sector since 2002 until 2011. (Values in millions of DZD).

Years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Persons' insurance (PI)	27861	29866	33 767	39046	43458	50 314	62 580	71 919	73 904	80 284
Damages' insurance (DI)	1 148	1 405	2 081	2 602	3 045	3 547	5 430	5 760	7 180	7 044
TOTAL	29009	31271	35 848	41648	46503	53 861	68 010	77 679	81 084	87 328

The source : CNA, Conseil National des assurances, "Notes Statistiques du marché Algérien des assurances" Years; 2011, P03.

On examining the branch's results from 2001 to 2011, it appears that the share of persons insurance in the overall market portfolio fluctuates between 4% and 9% with a slight change of nearly 6%. However, the market opportunities are considerable and the insurable potential has continued to evolve. Knowing that, the increase in the remuneration of employees increased from 970.6 billion dinars in 2001 to 3,817.8 billion

dinars in 2011 following increases in the guaranteed national minimum wage (SNMG) which rose from 8,000 DA to 18,000 DA in September 2010 for an employed population of over 9.74 million. (<https://www.ons.dz> (2014)).

3.2 Period between 2012 and 2022:

In this period, the Algerian insurance sector was made up of 27 companies, including (can.dz/acteur/societes-dassurances):

- 13 Damages insurance companies;
- 09 Persons insurance companies;
- 02 Mutuals;
- 02 Credit insurance companies;
- 01 Reinsurance company.

however, the new companies created after 2011 (can.dz/acteur/societes-dassurances) are:

- For damages insurance :
 - AXA Assurance Algérie Dommages ;
 - TAKAFUL GAM ;
 - El Djazair TAKAFUL, ALGERIAN GENERAL TAKAFUL.
- For persons insurance:
 - CAARAMA Assurance ;
 - AMANA Assurance ;
 - TAAMINE LIFE ALGERIE, TALA ;
 - MACIR VIE ;
 - AXA Assurance Algérie Vie ;
 - LE MUTUALISTE ;
 - L'ALGERIENNE VIE ;
 - El Djazair El Moutahida Takaful Familial.

The following table presents the evolution of the sector during this period:

Table (02): Evolution of the production of the Algerian insurance sector since 2012 until 2022.

Values in millions of DZD.

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Persons' insurance (PI)	7499	8619	8976	10583	11461	12925	12629	14118	12410	13478	16137
Damages' insurance (DI)	92683	106487	116496	118102	119192	121625	126198	132141	126207	133373	139611
TOTAL	100182	115106	125472	128685	130653	134550	138827	146259	138617	146851	155748

The source: made by the authors, based on the CNA's statistical notes, Conseil National des Assurances : "Notes Statistiques du secteur Algérien des assurances ; 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, and "Notes de conjoncture ; 2020, 2021 & 2022".

3.3 Analysis of the two periods, 2002-2011 and 2012-2022:

According to the calculations made for the statistical data of Tables (01), 2002-2011 and Table (02), 2012-2022, the conclusions summarized in the following table have been drawn:

Table (03): Comparison between the two periods under study.

Periods	Table (1); period 2002-2011	Table (2); period 2012- 2022
Global average evolution of the insurance sector	13,18%	5,55%
Average evolution of the persons insurance branch	21,10%	8,20%
Average evolution of the damage's insurance branch	12,63%	5,31%
Average person's insurance rate compared to the global production	6,60%	8,72%
Average damages insurance rate compared to the global production	93,40%	91,28%
Number of insurance companies	16	27

The source: Made by the authors, based on the Table (01) & Table (02)

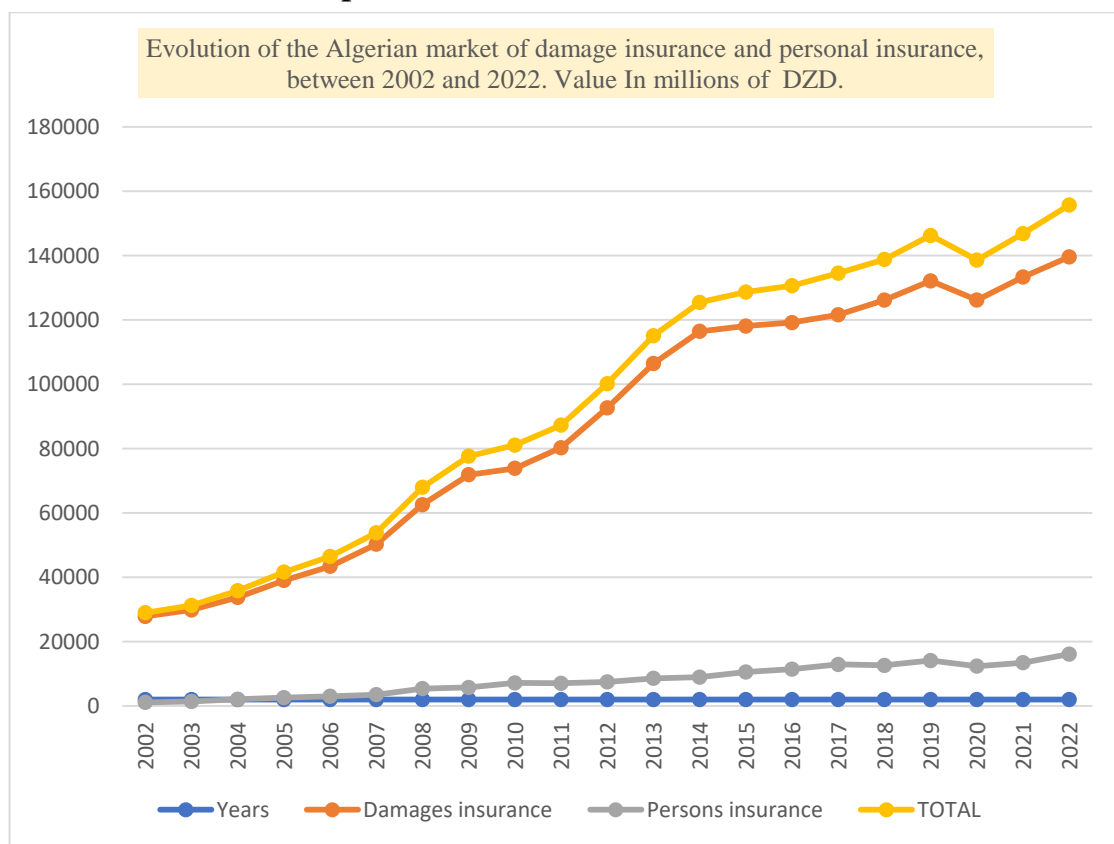
Through the table (03), we were able to conclude the following points:

- The analysis of the production data of the Algerian insurance sector for the period 2002-2011, shows an average evolution of 13.18% from one year to another, on the other hand, this rate is 5.50% for the period 2012-2022, so the overall evolution of the production of the insurance market is more important for the period 2002-2011, compared to the period 2012-2022.
- This regression in the average rate of change (from 13.18% to 5.50%), between the two study periods, is mainly due to the following factors:
 - Decision of the authorities of the obligation to subscribe to a natural disaster insurance contract, for all the owners of buildings, and this, after the earthquake of Boumerdes in 2003;
 - The increase in travel insurance contracts, in the period 2002-2011, required for obtaining visas by the consulates of foreign countries.
- Persons insurance represents a low average rate in the overall market portfolio, for both periods, respectively 6.60% for 2002-2011, and 8.72% for 2012-2022.
- Decline in the share of damages insurances in the overall market portfolio, between the two periods, respectively, 93.40% for 2002-2011, and 91.28% for 2012-2022.
- The dominance of damages insurance in the insurance market, for both periods; 93.40% for 2002-2011, and 91.28% for 2012-2022. While, the share of persons insurance in the overall market portfolio has increased.
- For both periods, the rate of change in persons insurance is higher than that of damages insurance, respectively; persons insurance 21.10% damages insurance 8.20% for 2002-2011, and persons insurance 12.63% damages insurance 5.31 for 2012-2022.

- In terms of number of companies, the market has expanded from 16 companies for the period 2002-2011 to 27 companies for the period 2012-2022, a considerable increase of 69%. 11 new companies, including 9 companies specializing in persons insurance.

The following graph presents the evolution of the sector during the period ranging from 2002 until 2022:

Graph (1): Evolution of the production of the Algerian market of damages insurance and persons insurance, between 2002 and 2022.



The source: made by authors, on the basis of the data in the Table (1) and the Table (2).

Graph (01) shows the rate of change, between 2002 and 2022, of the Algerian insurance sector, in its two branches, personal insurance and damage insurance.

The strongest rates of evolution are:

- between 2007 and 2009,
- between 2011 and 2014,
- between 2021 and 2022.

The only regression observed, in the whole of the period covered by the study, is between 2019 and 2020. Explained mainly by the spread of the Corona virus Covid-19, during this period.

4. CONCLUSION

At the end of this research, and in order to answer the problem posed in the introduction, on the impact of the decision of the authorities of separation between the activities of persons insurance and the activities of damages insurance, we arrived at the following theoretical and practical conclusions:

- The main difference between persons insurance and damage insurance are;
 - the persons insurance contract is lump-sum contract,
 - but the damage insurance contract is of an indemnity nature.
- The mode of management of persons insurance is by capitalization, however, the mode of management of damage insurance is by distribution.
- Persons insurance is divided into life insurance and non-life insurance, on the other hand, damage insurance is divided into property insurance and liability insurance.
- The dominance of damage insurance in the insurance market, for both periods;
- Regression of the average growth rate of the sector (from 13.18% to 5.50%), between the two study periods.
- Personal insurance represents a low average rate in the overall market portfolio, for both periods.
- Decline in the share of damage insurance, while the share of personal insurance increased between the two periods.
- For both periods, the rate of change in persons insurance is higher

than that of damage insurance.

- In terms of number of companies, the market expanded between the two periods, going from 16 companies to 27 companies.

Following these conclusions, the answer to our problem, which is the impact observed, after the application of the separation between damage insurance and persons insurance? We can say:

- That there was a 69% increase in the number of insurance companies between the two research periods.
- On the other hand, the rate of evolution of the market, in terms of turnover, remains relatively low.

Hypothesis test: These two findings partially confirm our hypothesis; therefore, this separation between damage insurance and personal insurance has really considerably increased the number of insurance companies, but it has no notable effect on the average rate of change in the turnover of the insurance sector.

Recommendations: Through this study, it was given to us to propose the following recommendations;

- To the Authorities;
 - Encourage “Insurtech”; start-ups that rely on technology to offer innovative digital insurance services.
 - Proceed, in consultation with the institutions of the insurance market (CNA and UAR), to update the prudential rules, differentiated, for damage insurance on the one hand, and for persons insurance, on the other hand somewhere else.
 - They must make more effort to attract multinational insurance and reinsurance companies, in order to benefit from their know-how.
- To insurance companies:
 - Necessity to improve the insurance service offered by Algerian insurance companies, in terms of coverage, compensation and file processing times.
 - Use e-commerce more, by creating virtual insurance agencies, open 24 hours a day, 7 days a week, which will eliminate

bureaucracy and the use of paper.

- Propose new adapted insurance products, with new covers that best meet the needs of policyholders.

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- IRG; Global income tax, Impot sur le revenue global.
- CNA, National Insurance Council, Conseil National des Assurances.
- UAR, Algerian Union of Insurance and Reinsurance Companies, Union Algérien des sociétés d’assurance et de Réassurance.