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Factors Affecting the increasing Income and Development in the Branches of Melat Insurance Company in Isfahan City (IRAN)

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Abstract

The modern world is one that depends on organizations as entities which satisfy the needs of humans in different areas. This is to an extent that societies with organization which perform their duties better enjoy higher social welfare. Economy is one of the most vital areas of modern societies. Economy, like all other aspects of modern life, depends on organizations to function. Financial markets are important sectors of economy in the modern world. The insurance industry is a leading and important financial market. This industry also depends on organizations to function in the society, in this case insurance companies. Nowadays, insurance can be considered as one of the most important pillars of socio-economical life in societies which guarantees economic cycle. In modern societies, all people, regardless of their social and financial status, are involved with insurance and insurance coverage. The role of insurance is to mitigate the incurred loss in dangerous situations. In this manner, actual losses are not incurred by one individual or a group. One of the main goals of insurance is to keep the economic cycle alive through preserving national wealth.

Three factors were considered in determining the factors that increase profitability in branches of Melat Insurance Company: effective representatives, sufficient level of liberty in each branch, and high motivation among employees. The hypotheses were tested using collected data and the correlation between the mentioned factors i.e. effective representatives, sufficient level of liberty in each branch, and high motivation among employees and branch income was analyzed. The collected data were analyzed using SPSS software package along with Pearson and Spearman correlation coefficients to prove all three hypotheses.

Keywords: Insurance, Insurer, Insured, Types of insurance

Introduction

Nowadays, the insurance industry is considered as a major and strong economic entity which supports other economic entities as well as families. Insurance is a shield against shocks and prevents extreme fluctuations in real sectors of the economy.

Development and profitability are two important factors for any institution to survive and thrive. To remain in competition and for increasing profitability, it is necessary to pay attention to these factors. Insurance companies are no exception and their survival and development are

important matters. The insurance industry has a special place in any country and may have an extended domain of activities. Usually, developments in countries are followed by development of the insurance industry. Among important achievements of insurance are preserving infrastructural capital, certainty in investment, and increased social welfare. The last achievement manifests itself through property and personal insurance. Insurance in our country, despite having 60 to 70 years of history, is underdeveloped, which can be attributed to different reasons. With the privatization of the insurance industry in mind, and since insurance companies provide beneficial services to the society, they must focus on development and profitability in order to be able to survive and compete. One important factor that affects development and increase in profitability is the level of a company's nationwide activity. This is the role of branch offices. The key to increasing the satisfaction of the insured, which leads to development followed by advances in insurance companies, is in the size of the sales network and reimbursement departments' i.e. easy access to services. Thus, branch offices play an important role. The present research tries to identify factors that affect income in branch offices and test the relationship between those factors and increased income n order to increase branch effectiveness. To this end, branch offices, representatives, and employees of Melat Insurance Company in Isfahan are studied.

Theoretical Framework

Definition of insurance in Iran
Clause One of the 1937 Insurance Law defines the insurance contract as a contract where one party makes a commitment to reimburse the other party for losses or pay a certain amount money to that party in case of an accident provided that the first party receives one or multiple payments from the second party. The first party is named the insurer, the second party is the insured, the payment made by the insured is the premium, and the entity being insured is called the subject of insurance.

The subject of insurance can be actual property, benefits, or any kind of responsibility provided that the insured is a beneficiary to the existence of the insured entity. Furthermore, the insurance maybe for an accident or danger by which by which the insured incurs losses (Magiran website, Asia specialized quarterly, Issue 1).

Insurer and insured
The insurer is a legal personality who makes a commitment to reimburse losses or pay a certain amount of money in case of an accident in return for receiving premiums from the insured. The insured is a legal personality or natural person who is the other party to the commitment made by the insurer as well as the person who by paying premiums insures his property or responsibility of himself or another person (Iranlou and Lotfi, 2011).

Types of insurance in Iran
There are four types of insurance

1- Insurance of property or items: covers different types of insurance which concern reimbursing loss of property or benefits of the insured. Property insurance includes insurance types such as automobiles, fire, theft, freight, etc.

2- Personal or life insurance: Life insurance is one of the common indicators in measuring social welfare in countries. Rich countries participate in economic activities with more certainty (Baaseri et al., 2011). In personal insurance the insured himself is the subject of insurance. The insurer considers possible event for the insured and makes commitments. The events include: life, death, accidents, sickness, dismemberment, disablement, marriage, and birth. This type of insurance does not aim reimburse the insured for his losses because some types personal insurance (such as life, marriage, starting higher education, and birth) do not lead to loss for the insured. This is common among many types of personal insurance. In other types of personal insurance (such as insurance on the condition of death, dismemberment, or sickness) even though the insurer intends to receive compensation for the loss that certain accidents create for the insured or legal owners, this is not considered as the real reason to buy insurance. The insurer pays according to the commitment but the loss incurred and its value are not considered at all. In other words personal insurance is not the main function of compensation (Amini, 2010).

3- Professional liability insurance: reimbursing losses incurred by civil responsibility of motor vehicle owners (Third party, atonement, surplus), professional liability for medical practitioners, employee liability insurance, transport liability insurance, etc.

4- Engineering insurance (Wikipedia)

Subtypes of insurance in Iran

1- Automobile insurance: by automobile we mean any kind of motor vehicle that move on the ground whether lightweight or heavy such as buses, minibuses, trucks, sedans, trailers, trains, tractors, and the likes (Vahidi Asl and Taymourian Sefide Khan, 2009).

   a. Automobile body insurance: covers certain dangers that directly affect the vehicle. In this type of insurance the vehicle, for which all the specifications are recorded, is insured against accidents, fire, and theft. Losses incurred by old age, poor maintenance, manufacturing defects, tires, and decrease in the value of the vehicle are not covered (Daghiani, 2005).

   b. Third party insurance: all parties who may lose their life or property due to motor vehicle accidents on the ground are considered third parties. This is true for both natural persons and legal personality (companies). Third party insurance, as the name suggests, covers losses incurred by third parties (Dehghani and Abasgholi bayk, 2012).

   c. Passenger and driver accidents insurance: this rype of insurance is a type of personal or life insurance which reimburses the insured for losses incurred by events that happen unexpectedly to the passengers of the vehicle and cause physical harm such as death, dismemberment, and medical expenses. Such events are considered out of the driver's (i.e. the insured) control.

2- Fire insurance: this type of insurance defines fire as the reaction of any substance with oxygen on the condition that it is insured. The fire must originate from an uncontrollable source or go out of control and have enough energy to expand. Fire insurance covers the building and all the items inside it in case of fire, explosion, or lightening. The

subject can be a residential, non-residential, industrial, or business building (Vahidi Asl and Taymourian Sefide Khan, 2009).

3- Life insurance is a subtype of personal insurance insurance. In the modern world, life insurance is an important economic tool and has numerous uses (Mehrara and Rajabian, 2006). One reason to purchase life insurance is to mitigate the risk of income loss posed by the death of the head of the family (Mahdavi, 2009). Propagation of life insurance decreases the gap between social classes as well as poverty because it prevents the financial fall of a family. Although the insurance industry in Iran is about 80 years old, life insurance is remains very obsolete with very low demand compared to other types of insurance (Majed and Mahdavi Kalishami, 2011).

There are three types of life insurance

1- Insurance upon life
2- Insurance upon death
3- Hybrid (Amini, 2009)

4- Freight insurance: developments in the insurance industry and especially freight insurance have had acceptable effects on transportation (Hassani Sadrabadi and Fouladian, 2008). Looking at the share of freight insurance from the market it is clear that insurance companies have not achieved the full potential of this type of insurance (Hajebi, 2004) According to available statistics only 19.2 percent of damaged freight have been insured and received compensation. This shows a clear gap between ideal coverage and the current situation in the transportation community (Hassani Sadrabadi and Fouladian, 2009).

5- Engineering insurance: engineering insurance is a type of property insurance and covers unexpected physical harm to the subject caused by accidents. Since engineering insurance covers construction, industrial and manufacturing projects negligence by employers and contractors to purchase this type of insurance may lead to enormous losses in accidents (Mahmoudi and Bozorgi, 2007). Employers, contractors, and owners can purchase engineering insurance in almost all civil projects regardless of the size of the project (Hosseini, 2009).

Research goals

1- Studying the relationship between effective representatives and income in income in Melat Insurance Company branch offices

2- Studying the effects of liberty in reimbursements and profitability in Melat Insurance Company branch offices.

3- Studying the relationship between employee motivation and income in Melat Insurance Company branch offices.

Research hypotheses

In this research we propose the following hypotheses according to the goals of the research:

1- Having effective representatives directly affects income in branch offices of an insurance company.

2- Liberty in the sales and reimbursement departments directly affect income in branch offices of an insurance company.
3- Employee motivation directly affects income in branch offices of an insurance company.

Research methodology

This research is a descriptive survey which tries to study the current situation using questionnaires and identify changes that need to be made to reach the desired situation. The statistical population includes all active branch offices and representatives of Melat Insurance Company located in the Province of Isfahan, which is a total of 80 offices. Branches are divided into four categories by the head office: premium, level one, level two, and level three offices all of which are managed by the regional affairs department located in the head office. The company has a staff of 720 working in different departments and postions. There are also a total of 80 branch offices all qualified before 2011.

To test the first hypothesis all the population i.e. the 80 offices were considered. To increase accuracy and validity of the results, no sampling was performed and all the members of the population were considered. The same was done regarding hypothesis 2, which is about the liberty of the branch office. All 80 branch offices were considered in order to test the second hypotheses without any kind of sampling. For the third hypothesis 66 of 80 branches with a total of 330 employees were selected at random using the Morgan table. Questionnaires were then distributed among the sample members. The statistics are from 2011. In this research questionnaire designed by the researcher were used for data collection. The questionnaire for the third hypothesis was designed based on the book Effective Organizational Behavior: A Skills and Activity-Based Approach by Alan Anderson.

Research findings

Hypothesis 1: Having effective representatives directly affects income in branch offices of an insurance company.

An effective representative is defined as having an educational degree and experience as well as being qualified to issue insurance policies. Each factor is assigned a certain number of points as explained below:

1- Degree

Degree	Points
Diploma	1
Associate	2
Bachelor	3
Master or PhD	4

2- Experience: one point for every two years of experience
3- Qualification to issue insurance policies: 1 point for qualification for each type of insurance such as automobiles, fire, etc.

The representatives' score is the sum of all their points. There are 20 premium branches in the province of Isfahan. Each premium branch's score was calculated followed by calculation of their income in 1390. Spearman and Peterson correlation coefficients were used to prove hypothesis 1. Using these correlation confidents and the scores, a positive correlation was found between effective and representatives and income, this proves the first hypothesis.

Table(1): Spearman and Peterson correlation coefficients between income and representative scores

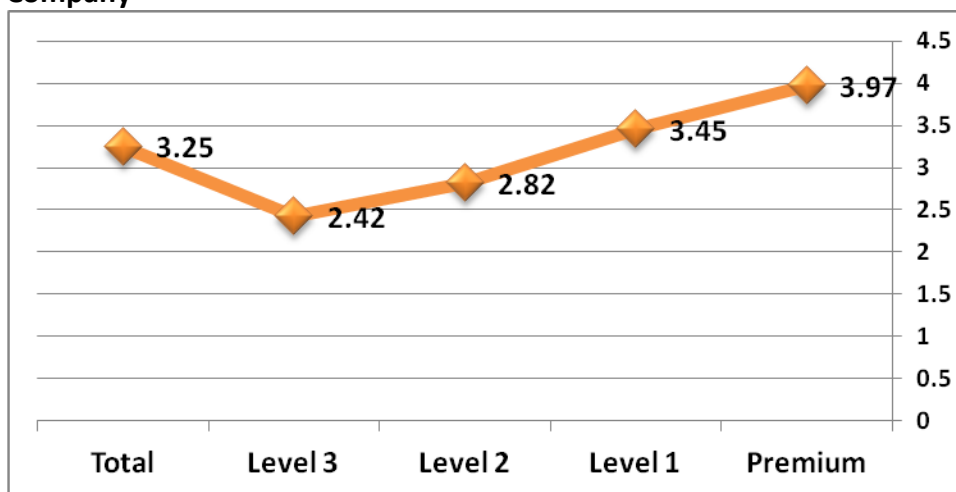| Branch	Spearman correlation	coefficient Peterson	P-Value
Premium	0/916	0/972	**0/000**
Level 1	0/921	0/959	**0/000**
Level 2	0/796	0/860	**0/000**
Level 3	0/756	0/792	**0/001**

Hypothesis 2: Liberty in the sales and reimbursement departments directly affect income in branch offices of an insurance company.

Liberty means the maximum amount allowed for reimbursements that the branch can pay directly without permission from the head office which is determined by the branch's ranking. Maximum amounts were collected from each office and evaluated using the Peterson coefficient. The coefficient was calculated to be 0.754 with p-value of 0.This shows a direct relationship between branch liberty and income which means the higher the liberty of the branch the higher its income. This proves hypothesis 2.

Employee motivation directly affects income in branch offices of an insurance company.

To test hypothesis 3 the questionnaire in the book Effective Organizational Behavior: A Skills and Activity-Based Approach by Alan Anderson was used. Diagram (1) shows the overall level of employee motivation for each category of branch offices of Melat Insurance Company.

Diagram (1): mean level of motivation in employees of different branches of Melat Insurance Company

The following results were obtained about employee motivation in branch offices of Melat Insurance Company:

1- Most employees are relatively satisfied with their jobs.

2- Employees have a medium level of liberty in their jobs.
3- Creativity is not considered a key factor for employees in performing their tasks.
4- Employees are not interested in group work.
5- Employees believe that they are being watched.
6- Employees take relatively high responsibility towards the goals of the branch.
7- Employees claim that they have too much work.
8- Employees participate in making decisions about their jobs.
9- Employees claim that they are underappreciated.
10- Employees claim that they are underpaid.
11- Branch offices do not lack any major facilities.
12- Employees believe that there is no realistic encouragement for them.
13- Most employees believe that they have excellent performance.
14- Employees are completely open to solving problems their co-workers may have.
15- Employees are relatively reluctant to increasing their responsibilities.

To test the third hypothesis i.e. the relationship between employee motivation and branch income, Peterson and Spearman correlation coefficients were used. 330 employees were selected as the sample in 66 branch offices. SPSS was used to calculate mean motivation in each of the 66 branches. Branch income was then determined and correlated with employee motivation using Peterson and Spearman correlation coefficients. Table (2) shows a positive relationship between employee motivation and branch income which proves the third hypothesis.

Table (2): Peterson and Spearman correlation coefficients for the relationship between employee motivation and branch income

Peterson coefficient	Spearman coefficient	significance value
0/778	0/891	0/000

Conclusion

The present research aimed to study the factors that affect income in branch offices of Melat Insurance Company in the province of Isfahan in the year 1391. Effective representatives, liberty in decision making, and employee motivation were the three factors selected based on prior research by other Iranian or foreign researchers and experts. The relationship between each factor and branch income was tested. To test the first hypothesis, Spearman correlation coefficient was used. The value varied from 75.6% in level 1 branches to 92.1% in level 3 branches which shows a positive relationship between the two variables. Thus, the first hypothesis is proved with certainty since the complete statistical population was studied. Because all the population was studied we can certainly say that there is a direct (positive) relationship between branch income and having effective representatives (determined using education, experience, and qualifications). Comparison of branch income among premium, level 1, level 2, and level 3 branches shows that increased liberty in making decisions leads to increased income. The Peterson correlation coefficient for this relationship was 0.754 with significance level of 0. This proves the seconds hypothesis which says there is a positive and

significant relationship between liberty in making decisions and branch income which means more liberty leads to more income. The third hypothesis is regarding the relationship between employee motivation and branch income. Analyzing the data collected from questionnaires distributed among the sample shows a high Spearman correlation coefficient with value of 89%. Thus, since the data collection tool, sampling, and processing were all valid, we conclude correctness of the third hypothesis as well. Thus all three hypotheses of the research are proved.

Suggestions

1- Kualifying more representatives to issue policies for less risky insurance types that generate more income.
2- Increasing the representative's percentage in insurance types with a lower loss index that generate more income.
3- Reducing paperwork for accepting new representatives as well as accepting representatives according to key factors such as experience in the insurance industry, high influence, and education.
4- Giving special loans to representatives such as loans for renting an office.
5- Holding meetings regularly to address problems representatives may have.
6- Encouraging representatives to enter more underdeveloped areas of the insurance industry through increasing their percentages, providing options for paying premiums, etc.
7- Establishing a reasonable relationship between the representative's percentage and the volume of work to be done (e.g. variable rates according to the amount income generated by the representative), to encourage more representatives.
8- Giving better facilities to representatives with better rankings.
9- Giving the necessary liberties to representatives in issuing policies and reimbursements.
10- Automating insurance purchase and reimbursements.
11- Training sales agents in issuing policies which are currently only issued by the head office such as engineering and liability insurance.
12- Training reimbursement specialists and coordinating their efforts in order to accelerate the process of reimbursement.
13- Regular assessment of reimbursement specialists.
14- Creating an environment that promotes innovativeness of the staff.
15- Compensating employees based on their performance.
16- Creating a reasonable work sharing system.
17- Increasing sense of responsibility cooperation in branches.
18- Training branch staff in the field they work in to ensure they stay up-to-date in order to increase their job satisfaction.

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