

The Role of the Insurance Sector in Supporting Economic Development in Algeria

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Abstract:

The insurance sector serves as a structural mechanism for economic development through risk transfer, long-term capital mobilization, and household income stabilization after adverse events. Algeria's insurance market recorded total written premiums of 172 billion dinars in 2024, at 0.5 percent of GDP, against an OECD average of 5.4 percent. This article examines the economic development functions of the Algerian insurance sector, drawing on official data from the Direction des Assurances and the Conseil National des Assurances for 2024.

The analysis identifies three channels through which insurance supports economic growth: capital formation through investable reserves, risk transfer that reduces the cost of credit and investment, and social stabilization through indemnification. Despite capital strength well above regulatory thresholds, the sector's contribution remains limited by low penetration, a product mix concentrated in compulsory motor cover, and weak voluntary uptake of life and property insurance. The 235 percent growth in Takaful premiums in 2024 confirms that supply-side regulatory action releases latent demand.

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1. INTRODUCTION

Insurance is not simply a financial product. It is an economic institution that performs three functions no other market mechanism replicates: it transfers defined financial losses from exposed households and firms to a pooled reserve, it converts those reserves into long-term investable capital, and it stabilizes consumption by indemnifying policyholders after adverse events. Each function contributes directly to economic development.

For Algeria, these contributions remain theoretically documented but practically underperformed. Total insurance premiums reached 172 billion dinars in 2024, at 0.5 percent of GDP (Direction des Assurances, 2025).

The OECD average for the same year was 5.4 percent. The gap is not a measure of lower risk. It is a measure of untranslated risk. Households and firms bear losses directly instead of transferring them to an insurer. This self-retention absorbs capital that would otherwise fund investment.

The academic literature treats this gap as both a symptom and a cause of development constraints. Arena (2008) tested insurance activity as a driver of economic growth across 56 countries between 1976 and 2004 and found positive, significant effects for both life and non-life segments in low-income economies. Beck and Webb (2003) documented a robust positive relationship between life insurance penetration and long-run economic growth across 68 countries. Algeria's situation requires a market-level examination.

This article examines the mechanisms through which the Algerian insurance sector contributes to economic development and identifies the gaps that reduce that contribution below its potential. The analysis draws on official data from the Direction des Assurances and the Conseil National des Assurances for 2024, supplemented by international benchmarks from the OECD, Swiss Re Institute, and the World Bank.

The research question is:

To what extent does the Algerian insurance sector fulfill its economic development role, and what structural barriers reduce that contribution?

The article is organized as follows:

- Section I develops the theoretical framework and reviews evidence from comparable emerging markets.
- Section II presents the structure and current performance of the Algerian insurance market.
- Section III analyzes the sector's actual development contributions through three channels.
- Section IV concludes with policy recommendations.

I.1. Insurance as an Economic Institution: Theoretical Background

The economic literature approaches insurance through three analytical lenses that collectively explain its development potential.

The risk-transfer lens draws on Arrow's (1971) framework for risk-bearing in market economies. Arrow demonstrated that equilibria without insurance are inefficient because households over-accumulate precautionary savings and under-invest in productive activities.

Insurance replaces precautionary saving with a contractual protection mechanism, and the freed capital flows into investment. In an economy where 47 percent of insurance premiums concentrate in compulsory motor cover, the risk-transfer function operates in one product line and leaves the rest of the economy unprotected (Direction des Assurances, 2025).

The capital mobilization lens builds on Haiss and Sümegi (2008), who tested the insurance-growth nexus across 29 European countries between 1992 and 2005. Their analysis shows that life insurance reserves constitute long-term institutional savings that fund infrastructure bonds, corporate debt, and equity markets. Life insurance assets in OECD countries averaged 56 percent of GDP in 2023 (OECD, 2024). Algeria's life segment accounted for only 9 percent of total premiums in 2024, severely limiting the capital mobilization function.

The financial stability lens draws on Zweifel and Eisen (2012), who analyze insurance as a shock absorber. When insured firms suffer asset losses, they claim from their insurer rather than liquidating assets or defaulting on bank loans. This mechanism stabilizes credit portfolios and maintains productive capacity through adverse shocks. Algeria's banking system's non-performing loan ratio of 12.4 percent in 2023 (Banque d'Algérie, 2024) reflects, in part, the limited shock-absorption capacity of an insurance sector that reaches only a fraction of borrowers.

I.2. Insurance and Economic Development: Evidence from Emerging Markets

The empirical literature on insurance and economic development in emerging markets converges on three findings relevant to Algeria.

First, the relationship between penetration and growth is non-linear. At very low penetration levels, below 1 percent of GDP, the insurance sector contributes to growth primarily through risk transfer and credit support. Capital mobilization becomes significant only when life insurance exceeds 2 percent of GDP (Ward and Zurbrugg, 2000). Algeria sits in the first phase, where the primary mechanism is the stabilization of investment by reducing credit risk for lenders.

Second, regulatory design shapes the development contribution. Countries where regulators authorized dedicated Takaful operators to compete with conventional insurers saw penetration rise faster than countries that restricted Takaful to product windows (Hassan, Salman, and Kayed, 2021). Algeria's Order 06-04 of 2021 follows the first model and produced the 235 percent Takaful premium growth in 2024 that the market data confirm.

Third, compulsory motor insurance, while it dominates premium volumes in emerging markets, contributes least to economic development. Motor premiums transfer losses between parties in accidents. They do not accumulate long-term reserves, do not finance investment, and do not protect productive assets from economic shocks. Algeria's 47 percent motor share limits the development contribution of the sector regardless of absolute premium volume.

II – The Algerian Insurance Market: Structure and Performance

II.1. Market Overview and Key Indicators

The Algerian insurance market comprises 24 licensed operators in 2024, including 9 public insurers, 14 private insurers, and 1 dedicated Takaful operator, operating under the supervision of the Direction des Assurances within the Ministry of Finance (Direction des Assurances, 2025).

Four state-owned insurers, SAA, CAAR, CAAT, and CASH, account for approximately 55 percent of total premiums (Conseil National des Assurances, 2024).

Total written premiums reached 172 billion dinars in 2024, representing growth of 5.8 percent.

Net technical results reached 23.6 billion dinars. Solvency margins across all operators averaged six times the regulatory minimum.

The market is financially sound but structurally narrow.

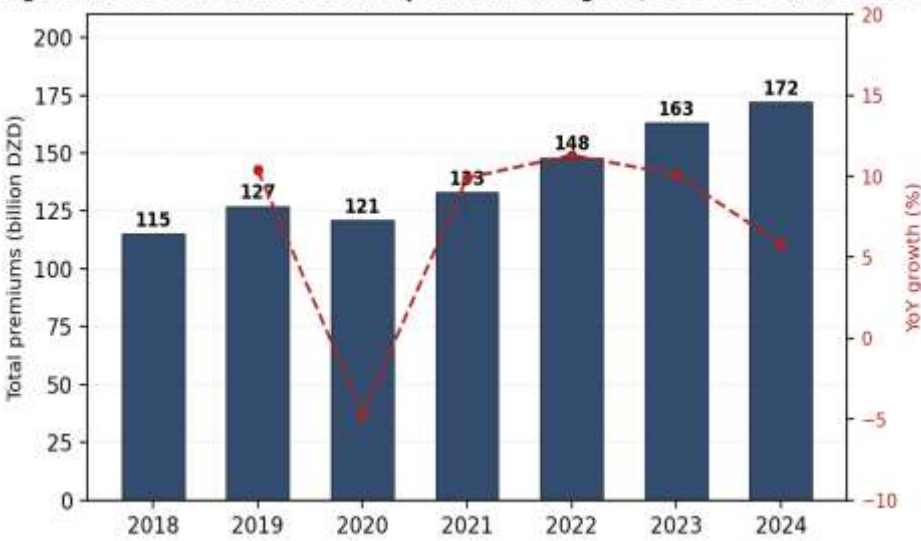
Three structural imbalances define the current market. The motor segment dominates at 47 percent of non-life premiums.

Life insurance represents only 9 percent of total premiums, well below the 2 percent of GDP threshold where capital mobilization effects become significant in the literature.

Property insurance for households and firms represents 19 percent of non-life premiums.

Figure (1) shows the trajectory of total written premiums from 2018 to 2024.

Figure (1): Total insurance written premiums in Algeria, 2018-2024 (billion DZD)

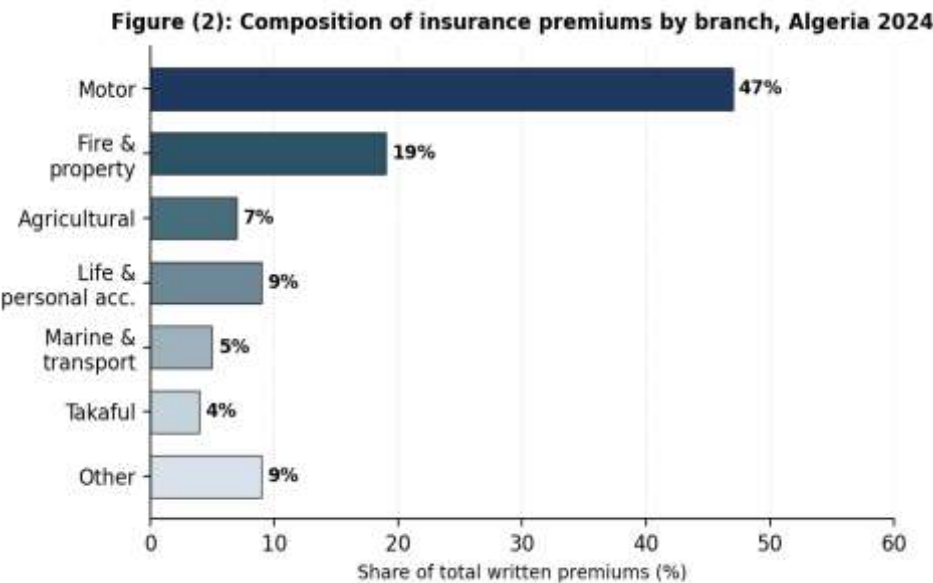


Source: (Direction des Assurances, 2025) for 2024, estimates by the author for 2018–2023.

Premium growth averaged 6.2 percent annually between 2018 and 2024 in nominal terms. Real growth, adjusting for inflation, was lower.

The sector grew at approximately the same rate as nominal GDP, meaning penetration remained stable at 0.5 percent rather than closing the gap with emerging market benchmarks.

Figure (2) shows the composition of the premium portfolio by insurance branch.



Source: (Direction des Assurances,2025), (Conseil National des Assurances, 2024).

II.2. Regulatory Framework and Institutional Context

Algeria's insurance regulation follows a state-centric model established in 1974 when the sector was nationalized. Liberalization, initiated in 1995 under Law 95-07, introduced private competition but maintained state dominance.

The most significant recent development is Order 06-04 of 2021, which authorized dedicated Takaful operators. This change addressed the product fit barrier that suppressed voluntary uptake among observant Muslim customers.

Takaful written premiums grew from 2.0 billion dinars in 2023 to 6.7 billion dinars in 2024, a 235 percent increase (Direction des Assurances, 2025). This growth rate confirms that the barrier was supply-side rather than demand-side: customers existed and wanted a Shariah-compliant product. The regulatory system did not previously supply it. This experience carries a general lesson. Targeted supply-side regulatory action

produces rapid demand responses in a market previously characterized as apathetic.

The compulsory motor insurance framework, unchanged since 1988, requires every vehicle owner to hold at least third-party liability cover.

This compulsion generates stable premium volume but does not extend protection to the vehicle owner's own assets.

Comprehensive motor policies accounted for approximately 32 percent of motor policies in 2024, against 68 percent third-party-only policies (Conseil National des Assurances, 2024). The gap between compulsory cover and comprehensive cover leaves the majority of vehicle assets unprotected.

III- Results and discussion :

Insurance Sector Contributions to Economic Development

III.1. Capital Formation and the Investment Function

Insurance companies accumulate premiums in advance of claim payments and invest the reserves in financial assets. These investable reserves constitute the productive asset base of the insurance sector and its primary channel of contribution to economic development.

Total insurance sector assets in Algeria reached approximately 450 billion dinars in 2024, equivalent to roughly 1.7 percent of GDP (Direction des Assurances, 2025). OECD insurance sectors average assets of 60 to 70 percent of GDP. The gap in investable capital is larger than the gap in premiums because the asset-to-premium ratio is itself lower in Algeria. Life insurance represents only 9 percent of premiums, generating minimal long-term reserves. Short-tail non-life policies, especially annual motor contracts, rotate quickly and do not accumulate multi-year reserve pools.

Life insurance deserves specific attention because it carries the largest development multiplier. Beck and Webb (2003) found that a 10-percentage-point increase in life insurance penetration correlates with a 0.3 to 0.5 percentage point increase in annual economic growth. The Algerian life segment, at 9 percent of premiums and 0.04 percent of GDP, operates

well below the threshold where this effect becomes significant. A life insurance penetration increase from 0.04 to 0.15 percent of GDP, achievable through mandatory savings products tied to formal employment contracts, would add approximately 35 billion dinars of new long-term investable capital annually.

Existing insurance reserves finance public securities, bank deposits, and real estate primarily. Holdings of infrastructure bonds and long-term corporate debt remain negligible, not because insurers lack capital but because the domestic bond market lacks appropriate long-duration instruments. A deepened public infrastructure bond market, co-designed by the Ministry of Finance and the Direction des Assurances, would channel existing reserves toward projects that the national development plan already identifies as priorities.

III.2. Risk Transfer, Credit Access, and Social Stabilization

The second channel of insurance's development contribution operates through risk transfer. When productive assets are insured, lenders extend credit at lower risk premiums. The collateral behind the loan is protected, and the probability of default falls. This mechanism operates in mortgage lending, SME financing, and agricultural credit.

Algeria's non-performing loan ratio stood at 12.4 percent in 2023, against an OECD average of 2.1 percent (Banque d'Algérie, 2024). Bank lending concentrates on public enterprises and large private firms where collateral is visible and enforcement is feasible. Small and medium enterprises account for 98 percent of private sector firms in Algeria (Ministère de l'Industrie, 2024) but receive only 22 percent of bank credit. A significant share of this credit constraint traces to collateral uncertainty. Insured assets provide auditable collateral. Expanding property insurance for SME assets would directly widen the credit supply to the private sector.

The agricultural insurance segment illustrates the credit mechanism at national scale. Algeria allocated 3.5 billion dinars to crop insurance subsidies in the 2024 fiscal budget (Ministère de l'Agriculture, 2024). Each

insured farmer can obtain production credit that an uninsured farmer cannot access.

The World Bank (2022) evaluation of agricultural insurance programs across 14 developing countries found that insured farmers invest 23 percent more in inputs, generate 18 percent higher yields, and service their credit obligations at a rate 31 percentage points higher than uninsured counterparts.

Table (1) presents the development channel framework applied to Algeria.

Table (1): Insurance development channels: mechanism, current status, and policy lever

Development channel	Mechanism	Algeria current status	Policy lever
Capital formation	Life insurance reserves fund infrastructure bonds, corporate debt, and equity	9% life share, assets ~1.7% of GDP	Mandatory group life for formal workers
Credit support	Insured assets as auditable collateral reduces credit risk and lowers borrowing cost	22% of bank credit to SMEs, NPL ratio 12.4%	Mandatory property cover for mortgage borrowers
Risk transfer	Firms and households transfer shocks to insurers, maintaining investment and consumption	47% motor compulsory, voluntary cover low	Expand agricultural and property compulsory lines
Social stabilization	Indemnification replaces lost income, reducing burden on public pension system	Health/accident: 8% of premiums, CNAS strained	Mandatory disability cover for gig workers

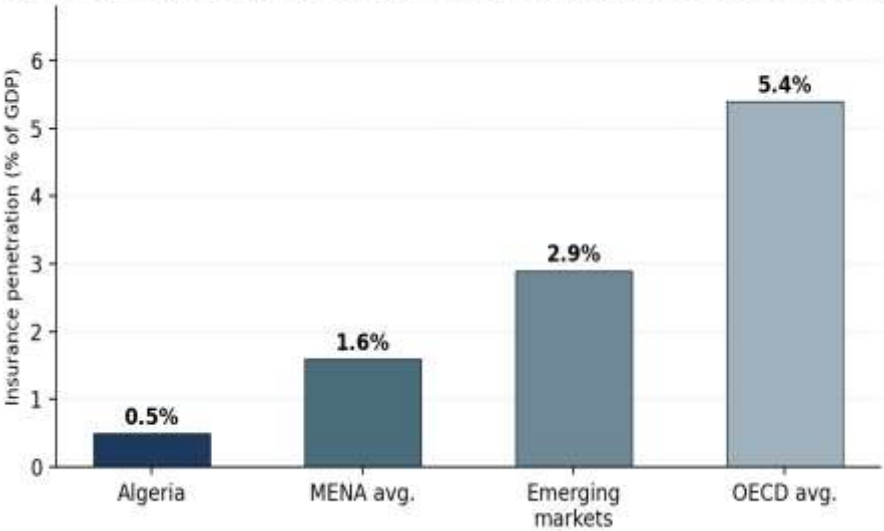
Source: developed by the author based on (Arena, 2008), (Beck & Webb, 2003), (Direction des Assurances, 2025).

The social stabilization function addresses income volatility for households. Algeria's social protection architecture relies predominantly on the public employment system and the public pension fund (CNAS). Private insurance supplements this architecture for workplace accidents, disability, and group life cover. Health and personal accident lines represent approximately 8 percent of total premiums in 2024 (Direction des Assurances, 2025).

Each percentage point of additional voluntary health and life coverage reduces the fiscal burden on CNAS through reduced claim loads on the public system.

Figure (3) places Algeria's penetration gap in international context and quantifies the development cost of the current position.

Figure (3): Insurance penetration in 2024: Algeria against international benchmarks



Source: compiled by the author from (OECD, 2024), (Swiss Re Institute,2024), (Direction des Assurances, 2025).

The comparison demonstrates that each percentage point of penetration Algeria gains generates approximately 26 billion dinars of additional annual premiums at current GDP levels. Of this, approximately 18 to 20 billion dinars would add to investable reserves at the asset-to-premium ratio observed in comparable emerging markets. The development

financing effect of closing even half the gap to the emerging market average exceeds most public capital market initiatives currently under consideration.

IV- CONCLUSION

Insurance penetration in Algeria stood at 0.5 percent of GDP in 2024, against 2.9 percent across emerging markets and 5.4 percent across OECD reporting jurisdictions. The gap is a development finance constraint that limits capital formation, depresses credit access for SMEs and households, and leaves productive assets exposed to shocks that interrupt investment programs.

This article identified three channels through which the insurance sector contributes to economic development and measured Algeria's underperformance in each. The capital formation channel is constrained by a life insurance segment that represents 9 percent of total premiums. The credit and investment stability channel is constrained by low property and asset insurance coverage, which limits auditable collateral and keeps SME credit rationed. The social stabilization channel is constrained by the concentration of compulsory motor cover.

Four policy actions follow from the analysis. First, regulatory authorization of comparison aggregators would reduce acquisition cost and improve pricing transparency for all non-life lines. Second, mandatory property insurance for mortgage borrowers would extend asset coverage to approximately 400,000 new households annually at current housing construction rates. Third, mandatory group life and disability cover for all formal sector workers would expand the life insurance segment from 9 to an estimated 18 to 22 percent of total premiums within five years. Fourth, a co-designed infrastructure bond program between the Ministry of Finance and the insurance sector would channel existing reserves toward national development priorities.

The 235 percent growth in Takaful premiums in 2024 shows that supply-side regulatory action produces rapid demand responses in a market

previously characterized as apathetic. The same mechanism applies to each of the four policy actions above. The Algerian insurance market has the capital and the institutional framework to play a larger role in national economic development. The constraint is not capacity. It is design.

This research is limited by the absence of comprehensive time-series data on insurance sector asset allocation in Algeria. Future research should test the relationship between property insurance coverage rates and SME credit access using firm-level survey data, and estimate the fiscal savings to CNAS from an expansion of private disability and life insurance coverage.

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