

## Tax Concession in Life Insurance in Algeria



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**SUMMARY:** The Algerian insurance market remains under-exploited. In 2019, it generated a turnover of 152,148 billion DA, of which 14.118 MDA (9.27%) in life insurance. The insurance penetration (turnover / GDP) is about 0.68% against 2.14% in Tunisia and 3.88% in Morocco and a world average of 6.09%. Also, about the density (CA / Population), in Algeria, it is about 28 \$ / head against 75\$ / head in Tunisia and 127\$ / head in Morocco and a world average of 682 \$ / head.

The purpose of this study is to show the impact of the life insurance tax system on the development of the latter. For that, we started by presenting the Algerian market insurance, its organization, its structure, its world ranking, this is to detect the difficulties and weaknesses of the latter, particularly the insurance branch of people and the reasons for his delay. Next, we have presented the efforts made by the public authorities in tax breaks to promote the latter, and the shortcomings related to the application of these measures, of which we have cited the Tunisian example, finally, we tried to give recommendations to better exploit these reliefs.

**KEY WORDS:** life insurance, taxation, benefits.

**JEL Classification:** G22, K34, H22.

### INTRODUCTION

Insurance in general is divided into life and damage insurance. Life insurance covers the consequences of an event (illness, accident, death) or a process (aging) affecting the physical integrity and earning capacity of the person or causing them additional burdens. Damage insurance, is typically defined as any insurance that is not determined to be life insurance it is called property and casualty insurance or non-life insurance.

In Algeria, life insurance remains in an embryonic state despite its development all over the world, this branch represents only 9% in the global architecture against 55.64% of the world average.

This work will respond to the following problem:

**"What are the measures taken by the public authorities to promote the personal insurance sector in Algeria? »**

The following questions arise from this main question:

- *What is the current situation of the Algerian insurance market?*
- *What are the measures taken by the public authorities to promote it?*
- *What are the difficulties encountered that are hindering its growth?*
- *What are the measures to take and the recommendations to suggest?*

In order to answer these questions, we will first of all define the concept of " life insurance", present the life insurance sector in Algeria, its organisation and structure, its world ranking, detect the weak points and difficulties, and finally, we will ask ourselves about the prospects for its development and discuss the reforms introduced in the sector. The aim of this study is to show the factors that still hinder the development of this activity in order to finally give recommendations and measures to take in order to make this sector take off.

### I. DEFINITION OF INSURANCE

Insurance is a contract by which an insurance company guarantees the insured, in return for a premium or contribution, the payment of an agreed sum in the event of a specific risk.

It covers a risk, i.e. a damaging, future, uncertain event that is not exclusively dependent on the insured. There are three categories of insurance:

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Property damage insurance (motor, home, business...);

Liability insurance, which covers all risks of liability towards third parties;

Life insurance (health coverage, incapacity, disability, death, retirement, and all forms of savings). In the first two, it is the indemnity scheme, in the third one; we are in the lump sum field.

### II. CLASSIFICATION OF INSURANCE "DAMAGE INSURANCE AND LIFE INSURANCE".

#### 1. Damage insurance: an indemnity contract

The compensatory nature means that the compensation cannot exceed the amount of the damage, which means that the victim must, at the end of the compensation, find himself in the same situation as if there had never been a claim, and therefore neither rich nor poor.

Damage insurance includes property insurance and liability insurance or, in concrete terms, insurance compensation is paid directly to a third-party, so the insurer substitutes for the insured under the theory of risk transfer.

Parallel to this indemnity insurance, another branch of contracts has developed: lump-sum compensation insurance, or life insurance.

#### 2. Life insurance

Life insurance is a contract between an insurer and a policyholder in which the insurer guarantees, in exchange for premiums paid by the policyholder, payment of a benefit to named beneficiaries in the event of an event or at the term provided for in the contract, in the form of a capital sum or annuity.

The risks that can be covered in life insurance include:

- Risks depending on the length of human life;
- Accidental death;
- Temporary inability to work;
- Reimbursement of medical, pharmaceutical and surgical expenses.

The insurance of persons includes the following branches:

- The insurance in case of death, in case of life and mixed;
- Insurance against personal injury;
- Group insurance;
- Assistance insurance;
- Loss of license insurance or safety and rescue certificate;
- Bail bond insurance;
- Other personal insurance.

### III. THE ALGERIAN INSURANCE MARKET SITUATION

In 2006, the Algerian legislator introduced the principle of the separation of the activity of life insurance from that of damage insurance companies.

Pursuant to the law 06-04 and since 1 July 2011, damage insurance companies are no longer authorised to contract commitments relating to life insurance. In 2018, the Algerian insurance market will be driven by 24 insurance companies as follows:

- 11 damage insurance companies;
- 08 life and health insurance companies.
- 01 reinsurance company.
- 02 companies specialized in the insurance, respectively, of real estate credit and export credit (SGCI, CAGE);
- 02 mutual insurance companies;

#### 1. Production trends in the Algerian insurance market.

Some national and international indicators on the insurance market :

- *Coverage rate*: One point of sale per 28,000 inhabitants (against 1 per 5000 inhabitants: world average).
- *Insurance density* (premiums per head)

#### Table 01 : insurance density (Premium per head "in USD")

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	Total	Life	Non life
<b>Algeria (82)</b>	<b>28</b>	<b>3</b>	<b>26</b>
<b>Tunisia (70)</b>	75	16	59
<b>Morocco (72)</b>	127	59	67
<b>World</b>	<b>682</b>	<b>370</b>	<b>312</b>

Source: SIGMA 3/2019, Insurance in the world, the great turning point towards the East continues, Year 2018

On average, 28\$ was spent on insurance, of which 3\$ was spent on life insurance alone. Thus, Algeria ranked 83rd in the world remains far behind its neighbours: Morocco and Tunisia which are ranked 66th and 73rd respectively, and whose average world density is about 682\$ or even more than 24 times the density in Algeria.

- The pénétration rate :

Table 02 :Insurance penetration (in % « Premium/GDP »)

	Total	Life	Non life
<b>Algeria (82)</b>	<b>0,682</b>	<b>0,066</b>	<b>0,62</b>
<b>Tunisia (70)</b>	2.14	0,46	1,69
<b>Morocco (72)</b>	3.88	1,824	2.06
<b>World</b>	<b>6,09</b>	<b>3,31</b>	<b>2,78</b>

Source: SIGMA 3/2019, Insurance in the world, the great pivot east continues.

Measured as a percentage of GDP, the penetration of insurance in Algeria in 2018 is 0.68% for all premiums, which represents a rate of 0.06% for life insurance. Algeria is ranked 82nd in the world, from which Morocco and Tunisia are ranked 42nd and 61st respectively, the penetration rate in Algeria remains far from the world average rate of 6.09%.

- The share of life insurance in the global turnover

Table n°03 : The share of the life insurance premium in the global volume. (U: million USD)

	Total	Non life	Life	%(life)
<b>Algeria (82)</b>	<b>1 189</b>	<b>1 084</b>	<b>105</b>	<b>09</b>
<b>Tunisia (70)</b>	4 579	2 432	2 147	47
<b>Morocco</b>	870	684	186	21
<b>World</b>	<b>5 193 225</b>	<b>2 373 050</b>	<b>2 820 175</b>	<b>54</b>

Source: SIGMA

3/2019, Insurance in the world, the great pivot east continues.

total insurance, we cite as examples: France (64%), Japan (76%), South Africa (80%), the premiums written in life insurance in Algeria represents only 8.83% of total premiums, this rate is far from the world average and even from the neighbouring countries Morocco and Tunisia.

Figure n°04: Evolution of insurance production in Algeria during the period 2003-2018

Year	2003	2004	2005	2006	2007	2008	2009	2010
<b>T.O *<sup>1</sup></b>	29 867	33 767	39 045	43 459	50 314	62 579	71 918	73 903
<b>(%)</b>	96%	94%	94%	93%	93%	92%	93%	91%
<b>T.O**<sup>2</sup></b>	1 405	2 081	2 602	3 045	3 547	5 430	5 760	7 180
<b>(%)</b>	4%	6%	6%	7%	7%	8%	7%	9%
<b>Total</b>	<b>31 272</b>	<b>35 848</b>	<b>41 647</b>	<b>46 504</b>	<b>53 861</b>	<b>68 009</b>	<b>77 678</b>	<b>81 083</b>

<sup>1</sup> T.O\* : Turn Over of the market of insurance

<sup>2</sup> T.O\*\* : Turn Over of life insurance.

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Year	2011	2012	2013	2014	2015	2016	2017	2018
T.O *	80 286	92 683	106 321	116 496	118 723	119	125876	130
(%)	92%	93%	93%	93%	92%	91%	91%	91%
T.O**	7 043	7 499	8 564	8 976	10 320	11 533	12 212	12 789
(%)	8%	7%	7%	7%	8%	9%	8,8%	8,9%
<b>Total</b>	<b>87 329</b>	<b>100 182</b>	<b>114 885</b>	<b>125 472</b>	<b>129 043</b>	<b>130</b> <b>972</b>	<b>138</b> <b>088</b>	<b>143</b> <b>334</b>

Source : Note de conjoncture, marché des assurances, CNA 2018.U: Million D.

Figure n°01 : Evolution of insurance production in Algeria over the period 2003-2018

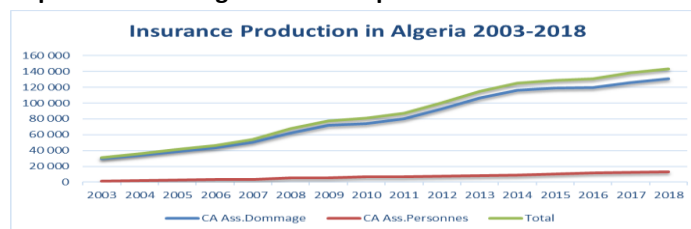
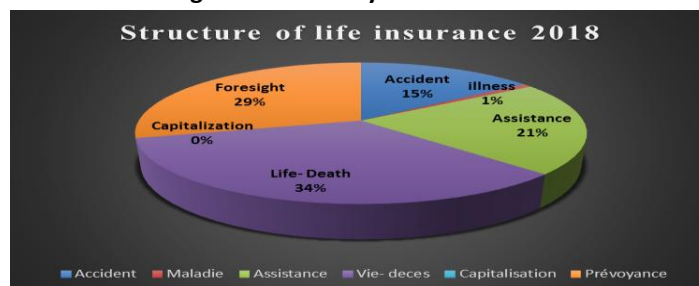


Figure n°02 : Structure of life insurance in the Algerian market by branche



Source : Note de conjoncture de marché des assurances, CNA, 2018.

The table and the graph above show that the insurance activity in general has experienced a strong evolution during the period studied, however, the share of life insurance varies between 4% and 9% of the global architecture, very low in comparison with world references, where life and health insurance is taking an increasingly important share in the global structure, therefore, during a considerable period (2003-2018), the evolution of life and health insurance remains timid and experiences a weak evolution from year to year. The year 2011 has seen a decline of nearly 2% due to the entry into force of the separation between personal insurance and damage insurance during the same financial year.

The graph above shows that the structure of life insurance continues to be dominated by group insurance. According to the managers of the insurance companies, the development of life insurance is supported in majority by the branches mentioned, considering the nature of some products such as travel assistance for the granting of Schengen visas and temporary death cover for loan (under the death and life branch) for the granting of real estate loans in recent years.

As for group insurance (group provident scheme), it is granted in the form of a benefit by the companies to their employees. It must therefore be concluded that the majority of life and health insurance is made up of compulsory insurance, while optional insurance such as capitalisation insurance is totally absent.

### 2. Difficulties and reasons of the brake on life insurance development:

The insurance market has not yet succeeded in giving satisfactory figures for the Algerian economy, this is due to various reasons, among the factors which slow down the development of insurance in general and that of life insurance in particular, we cite the following:

- *Weakness of the insurance culture:* Life and health insurance represents an under-exploited market segment, which is explained by the weakness of the insurance culture in Algeria.
- *Social solidarity in Algeria:* Mutual aid between neighbours and members of the same extended family was a constant and widespread practice. The "touiza" group work was indeed a force that mobilized energies to help an elderly person, a widow, a sick person, etc. The needs of the group took precedence over those of the individual. The

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survival of the individual depended on the survival of the group, as well as the identity and status of the group in the community.

- *The lack of an offensive policy:* the lack of innovation and commercial aggressiveness of insurance companies in the popularization of all life and health insurance products, the latter systematically using rate reductions as the only competitive measure.
- *The absence of a capital market in Algeria:* which does not offer many opportunities for investment and return on capital which, in other countries, is a driving force for the development of savings products.
- *The weakness of purchasing power :* which is a real obstacle to the development of insurance in general. Similarly, the limited purchasing power of some sections of the population who consider insurance as a luxury product, reserved for those from the high-income class, was a real obstacle to the development of the sector.
- *The religious factor:* for a long time, the insurance operation was considered immoral because it developed negligence and the notion of gambling, and was rejected by the Islamic legal system.  
But the modern formula of insurance in general and life insurance in particular is far from being mentioned in the Quran. This is where the discussion of modernist and traditional Muslims takes place. The former want adapting life insurance to Islamic concepts, the latter on the other hand are attached to the original interpretation of the Quran and the strict application of its recommendations.
- *Inadequacies in the regulatory framework:* the marketing of life insurance products suffers from many problems, particularly because of the absence of texts governing:
  - The relationship between the employer/insurer/tax authorities in order to cross-check and consolidate information;
  - The content and form of life insurance information leaflets;
  - The conditions laid down for the insured to share in the technical and financial profits made by the insurer;
  - The methods for calculating the surrender value.
- Difficulties for life insurance companies concerning the VAT which is not effectively recovered.

### 3. Prospects for development:

The life and health insurance sector is a virgin market with great potential, thanks in particular to:

- *Growth in the demand for life and health insurance:* The increase in the income of a category of society that is looking for adequate savings products to invest its surplus income. Indeed, the increase in the remuneration of employees rose from 970.6 billion dinars in 2001 to 3,817.8 billion dinars in 2011 following the raising of the National Guaranteed Minimum Wage (SNMG) from 8,000 AD to 18,000 AD in September 2010.
- *A population with a young majority:* the population of working age (between 15 and 60 years) constitutes more than 60% of the total population;
- The degradation of social security benefits in relation to the real cost of care, which represents an opportunity to develop complementary health insurance.
- The observed deterioration in the purchasing power of retirees clearly shows that the compulsory pension scheme alone is not enough, which increases the demand for supplementary pension insurance products.
- The national life insurance market represents an enormous development potential that could relieve the social insurance sector given the cash flow difficulties of social funds.
- Longer schooling open to the private sector.
- *Takaful Insurance:* These Takaful products (especially Takaful-Family) meet the needs of a market segment which considers that the traditional products do not meet its expectations, especially religious ones, and could play an important role in the popularization of insurance in general and the development of life insurance in particular. Some countries have overcome the socio-cultural and religious problem as well as the RIBA taboo in the debt interest rate formula which they have called the participatory product. The latter is a product that overcomes the socio-cultural barrier and adapts to the social reality.

*In spite of social solidarity, under the effect of the progressive penetration of market values in Algerian society, demographic growth, the State's monopolization of collective resources and social and educational functions, the area of solidarity-based social relations has begun to contract and the need for recourse to individual insurance is constantly increasing.*

## IV. INSURANCE TAXATION: Insurance activity in Algeria is subject to the following taxes and duties:

- corporate profits tax;

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- professional activity tax ;
- Value added tax;
- Vocational training and apprenticeship tax;
- Stamp duty.

### 1. Corporate profits tax (IBS)

The IBS is due on profits earned during the previous year. In the event of a deficit, it is considered as an expense for the following year and deducted from the profit made during that year.

If this profit is not sufficient for the deduction to be made in full, the excess of the deficit is carried forward successively to the following financial years until the fourth financial year following the financial year in which the deficit occurred.

Insurance companies, apart from the agricultural mutual insurance company and CAGEX which are exempt, are required to make a declaration of the amount of the taxable profit of the enterprise to the direct tax inspector of the place of the registered office or principal place of business no later than 30 April of each year.

The tax rate is 25% on the fiscal result which is determined on the basis of the accounting result after the reintegration of non-deductible expenses and the deduction of non-taxable income.

### 2. Tax on professional activity (TAP)

Insurance companies are subject to this tax. It is 2% on the total amount of total professional income or turnover, excluding VAT, made during the month.

### 3. Value added tax (VAT)

This tax is paid by the insured to the insurer who makes the collection for the benefit of the state. Its rate is set at 17% on commercial premiums on collection.

VAT is paid to the State monthly before the 20th of the following month.

Transactions concerning life insurance, natural catastrophe insurance (NatCat) are exempt from VAT. Also, CAGEX is exempted in order to promote exports.

### 4. Stamp duties

*The size stamp:* this is a fixed amount determined according to the size of the page. It is paid for each page of the contract and its annexes. For A4, it is fixed at 40 DA.

*The graduated stamp:* It is an amount determined according to the net premiums in car insurance. This stamp duty is collected to finance the automobile sector and road safety.

### 5. The vocational training and apprenticeship tax

Only the insurance activity is subject to this tax, which is paid semi-annually.

The tax rate is 1% of the turnover of insurance companies.

It should be noted that this tax is not deductible.

### 6. Parafiscal taxes.

Apart from these taxes and fiscal charges, the insurance activity is subject to parafiscal taxes which are paid into funds protecting the interests of the insured. These are as follows:

- The automobile guarantee fund

This fund is instituted by Executive Decree No. 04-103 of April, 5th, 2004, this fund is fed by 3% of the motor third party liability cover. This fund is used to compensate accident victims when those responsible are not insured.

- The insured persons' guarantee fund

It is financed by 0.25% of the written premiums net of cancellation in order to protect the insured in case of solvency problems of the insurance companies. In other words, this fund protects the interests of the insured when insurers are unable to honour their commitments.

## V. MEASURES TAKEN BY THE AUTHORITIES TO PROMOTE THE LIFE INSURANCE SECTOR.

In order to facilitate the increase in the volume of business of life insurance, several incentives have been taken by the authorities:

### 1. Reduction of the base subject to the global income tax (IRG) for subscribers to life insurance contracts.

This allowance is about 25% of the amount of the annual net premium without, however, exceeding 20,000 AD per year, it concerns insurance contracts subscribed for a minimum duration of eight years. The modalities of application of this measure are specified by circular of the DGIN°02 of April 06, 2008.

### INADEQUACIES OF TAX BENEFITS MESURES

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- Fixing the allowance at 25% of the premium and limiting it to DA 20,000 does not encourage people who wish to pay large premiums, in fact, with a small calculation; we conclude that for the insured to benefit from the maximum allowance, he only has to pay annually  $4 \times 20.000 \text{ DA} = 80.000 \text{ DA}$ , nevertheless, even if the amount paid is very large, this limit remains fixed.

Hence the interest to revise, upwards, the base of the IRG allowance which is fixed at 20.000 AD, taking into account the salary increases.

- The procedure for recovering the IRG is very cumbersome, particularly for individuals who must each time go to their place of work if they are employees and to the labour inspectorate to present them with an insurance certificate, although it should be noted that this practice is not popularized at the level of all tax inspectorates.
- The Finance Act provides for this allowance for contracts taken out for a minimum period of 8 years, without however specifying the future of this allowance in the case of termination or buy-back before the expiry of the 8 years, the method of restitution of the allowance, either by the insured or by the employer;
- Absence of texts to govern the relationship between the employer/insurer/tax authorities in order to cross-check the information and consolidate it.

### 2. Exemption from Value Added Tax for Life insurance contracts

This measure was implemented to encourage life and health insurance, however:

#### Weaknesses of the exemption measure:

- This provision puts life insurance companies in difficulty with regard to VAT, which is paid on all acquisitions and even on the commissions of general agents who charge them net premiums not subject to VAT, and not effectively recovered.
- VAT prior to spin-off was compensated for by the various branches, but now it is likely to weigh on the subsidiaries, which would find themselves obliged to relate this tax to expenses illegally.

### 3. Shortcomings in the regulatory framework :

The marketing of insurance of persons' products encounters many problems, particularly, the lack of legislation governing the marketing of such products:

- The content and form of life and health insurance information leaflets;
- The conditions set to allow policyholders to share in the technical and financial profits made by the insurer;
- The methods for calculating the surrender value.

### 4. Tax advantages relating to life insurance in Tunisia.

Insurance or life annuity contracts concluded with insurance companies are subject, regardless of the place where they were concluded, to a tax known as the "single tax on insurance".

The following are exempt from the single insurance tax:

- 1- Reinsurance contracts;
- 2- Insurance contracts for agricultural or fishing risks;
- 3- Insurance contracts for export goods risks and export credit insurance contracts;
- 4- Compulsory insurance contracts in the field of construction for residential use in accordance with the legislation in force;
- 5- Life insurance contracts, capitalization contracts and life annuity contracts;
- 6- Insurance contracts for risks located outside Tunisia.

According to the study of taxes and duties imposed on insurance activity in Algeria, it was found that the Tunisian tax system differs from that applied in Algeria. The former imposes a single tax on insurance, while the latter treats the insurance company on the one hand as an ordinary company: it is subject to VAT, PAT, stamp duty (of dimension) and IBS, and on the other hand, this system takes into consideration the particularities of the insurance branches by imposing parafiscal taxes, such as the graduated stamp duty on the automobile branch.

Life insurance premiums are deductible from the basis of calculation of the personal income tax "IRPP", the deductible amount can reach 10.000 TD or 3.039 Euros (equivalent to 461.624,00AD ).

The capital or annuities paid to the insured are exempt from the "IRPP", the capital or annuities paid to the beneficiaries designated in the contract are exempt from estate registration fees.

## VI. RECOMMENDATIONS

In order to promote the life and health insurance sector we recommend the following:

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- The weakness of the insurance culture offers insurance companies an immense field of intervention, on the condition that they implement an offensive policy for the popularization of all products in order to really see their respective turnover take off.
- Frame by implementing texts the relationship between the employer/insurer/tax authorities for the restitution of the "IRG" in order to cross-check and consolidate information and facilitate the task for the three stakeholders.
- To revise, upwards, the base of the "IRG" allowance which is fixed at 20.000 AD, taking into account salary increases.
- To widen the practice of group insurance of persons intended for the personnel of companies such as the grouped retirement practiced by TALA assurance which is a good experience involving the employee/employer and facilitating the management of contracts.
- Necessity for the creation of direct agencies by "life" insurance companies within a short period of time in order to break away from the dependency of the parent companies.
- The need to rapidly initiate technical and commercial training of staff to maintain the customer portfolio.
- Simplifying the products marketed by the companies to make them easier for policyholders to understand.
- Multiply information and communication campaigns to popularize Insurance of Persons products and their scope and envisage multiple actions, such as door-to-door.
- Provide for a commission system for business introducers, particularly staff outside the Insurance of person's subsidiary network.
- Need to review insurance premiums at their fair value.
- Increase commissions for life insurance contracts, which remain low in relation to some non-life contracts.
- Reflect on the inclusion of a major behavioural study to identify the obstacles and motivations for the consumption of insurance products.
- *Adaptations of regulations for Takaful insurance:* For Takaful insurance, the hybrid status of the company (between mutual and joint-stock companies), the management of the surplus fund, the composition, role and doctrinal source of the Shariah boards, the conditions for setting up and reimbursing the quardh-el-hassan and generally the aspects related to the governance of the Takaful insurance company need to be clarified.
- Takaful is a type of Islamic insurance in which members pool money to benefit from a mutual guarantee against loss or damage. Based on the precepts of Shariah law, Takaful insurance is based on the idea that individuals should cooperate with each other and protect each other. Takaful insurance companies are an alternative to traditional commercial insurance companies, which run counter to the principles of ribâ (interest), al-massir (chance), and al-ghârar (speculation), all of which are prohibited by Sharia law.
- Encouraging the training of actuaries in order to provide managers of insurance companies with skills in actuarial techniques essential in the determination of measurement indicators and in the control of technical management, particularly within the framework of the implementation of IAS/IFRS standards, the evaluation of technical provisions and the implementation of a solvency monitoring system in accordance with international standards.
- Standardize the actuarial profession in accordance with international practices in this area (responsible actuary).
- Encourage the establishment of a professional code of ethics in order to provide a proper framework for the profession.
- Regulatory framework.
- *The development of the financial market:* As the development of "life and capitalisation" insurance is highly dependent on the financial market, the development of the latter would allow the development of the marketing of life and health insurance products.

## CONCLUSION

Despite the importance attributed to the insurance of person's sector by the separation of life and non-life insurance activities and the efforts made by the public authorities, particularly fiscal measures to promote this sector, the Algerian market lags considerably behind when comparing its indicators with those of the world market and neighbouring countries.

Indeed, the business volume of the life and health insurance branch represents only **8.9%** of the overall volume of insurance premiums and the density represents only **28USD/head** against a world average of **682USD/head**.

Our study has made it possible to identify the reasons for delays which can be summarized in the absence of implementing legislation for the tax measures put in place, the absence of an offensive policy by insurance companies which are



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faced with a society where the insurance culture is weak in the face of the presence of the spirit of solidarity between family and tribe, together with the religious factor from which some believe that life insurance is prohibited "haram".

The result of this work is to draw, in the face of these problems, the prospects for development existing in the personal insurance market, to cite the fiscal measures put in place to promote the sector, to raise the shortcomings related to the application of these measures in terms of lack of regulatory texts, and the problem of VAT. Finally, we gave recommendations, for example, to revise, upwards, the base of the IRG allowance which is fixed at 20 000 AD, this amount which is too low taking into account salary increases and comparing it with other countries as the Tunisian case cited as well as recommendations relating to VAT which is regulated on the acquisitions of life and health insurance companies but not really recovered.

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