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Effective Strategies to Increase Interaction between banks and Insurance Companies with Country's Capital Market

Fariba Farmahini Farahani [a], Hamidreza Shammakhi [b]

[a] *Student of Accounting, Saveh Branch, Islamic Azad University, Saveh, Iran.*

[b] *Faculty Member, Islamshahr Branch, Islamic Azad University, Islamshahr, Iran*

Abstract

The insurance industry and bank and capital market are the main institutions of the economy. Global trend between them shows a high convergence and interaction. The insurance industry and bank need capital market as well as capital market require insurance industry and bank and on the other hand, the national economy needs them and more interaction between them. Capital market is the place of interactions of capitals and the insurance market and bank is the place of interactions of confidence. 3 strategies in the field of increasing interaction between insurance companies with country's capital market and 5 strategies in the field of increasing interaction between banks with county's capital market according to research literature were identified. This research is a descriptive survey study. The studied sample is 213 experts in the insurance industry and bank and capital market, which were selected by random sampling from Morgan table. Tool of data collection is a questionnaire. To statistical analysis, path analysis and LISREL software is used. Results indicate that all strategies identified with increasing interaction have a significant relationship with the country's capital market.

Keywords: Insurance, Capital Market, Bank, Path Analysis

1. Introduction

Financial sector of the economy consists of two money and capital markets. Money market mainly meets to short-term financial needs of economic units through the banking system and the capital market meets the needs of medium-term and long-term of economic units through non-banking financial institutions. Or the existence of the role of capital market in mobilizing and allocating financial resources is far more important than money market. So that in developed countries, the volume of capital market activities and operations is often several times of the volume of money market activity (Sehat, et al., 2011).

On the other hand, today, in many countries, the way of financing needed economic activities is different depending on the amount of emphasis of applicant of capital to the capital market or banks and given the importance of financial markets and their role and function in the economy, the financial systems with bank-based structure or market-based have been created. On the other hand, in countries like Iran, which are mainly based- bank, banks are considered as the most important mediators of cash flow, that by designing kinds of bank deposits, collect surplus funds of natural and legal persons and through bank facilities give at the disposal of economic actors and thereby finance economic plans and projects. Sometimes the banks themself faced with financing problems and to provide resources resort to other financial markets and use other financial instruments with bank deposits (Mousavian, 2010).

An integrated financial market has three basic elements of short-term capital, long term and confidence. Short-term capitals in money market and specifically banks and financial and credit institutions are traded. Capital market and specifically stock exchanges is also the place of interactions of long-term capitals. Both of these markets need to third element be able to survive. Confidence as the third pillar of financial markets is offered by the insurance industry.

Capital market in terms of nature and its initial operation provides the tool needed for funding and financing to continue economic activities of insurance companies. Mutually insurance industry and insurance companies according to their primary function provide confidence to capital market. Although the primary function of capital market is capital exchange, but today, the function of the market today is far beyond this limit. The market now is one of the basic pillars of risk management and providing coverage against a variety of financial risks that using modern tools and financial engineering is done. A variety of products and derivatives in such an atmosphere exchanges in the capital markets. On the other hand, insurance companies as well, especially considering the long-term nature of life insurance are considered traditional capital market investors (Khosravani, 2013).

Considering the stated concepts, the aim of this study is to examine the effective strategies to increase interaction between banks and insurance companies with country's capital market. In the following, theoretical foundations and research background is investigated and then using structural equation modeling and path analysis, the data has been analyzed.

2. Research Background

Saleh Abadi (2012) in an article titled, the relationship between the capital market and other financial markets in financing and investment, according to Iran's experiences made in the financial market,

investigates the mutual services and activities of capital market in this system and in the end, investigated the common grounds of cooperation between various fields and has concluded that by increasing complexity of the financial sector and the introduction of services of new financial products, day by day, it is added to the importance of cooperation and engage in capital markets, money and insurance to match the efforts to increase economic growth.

Abde Tabrizi and Radpour (2012) in their article titled, the place of capital market and its role in dealing with the banking industry, introduce one way to help banks to the capital market and bank lending to companies and in the continuing suggest that investment banks play an important role in the development of the capital market, including increasing the capital base of financial markets, help to privatization, increase the liquidity of the stock market and increase the information efficiency of the market.

Nazarpour et al (2013) examined the relationship between banks with capital market in the framework of banking system without interest, they concluded that bank in interest-free banking system can communicate with capital market using the tools of underwriting and dealing Islamic sukuk, sukuk of securities of assets, certificates of deposit, shares certificates of civic participation and while entry into the market, provide the required financial resources.

Ghanbari and Rostamnejad (2014) examined the strategies of developing interaction of insurance and capital market, they provided three strategies to develop a relationship between the capital market and insurance industry in this study that include: Investment of insurance companies in the capital market, providing credit insurance and new common innovations by activists of insurance industry and capital market, called insurance Exchange.

Siflu (2010), in a similar study has investigated the insurance securities. In this study, insurance securities are investigated and their growth process and structure have been studied. Also in this study, according to the benefits of these securities, it has been suggested that the insurance industry and capital market activists act to publish these securities.

Gruen Wood et al (2003) in a joint paper titled China's stock market performance and the role of banks, investigated the relationship between Shanghai and Shenzhen securities market efficiency and changes in regulations related to banks in stock exchange and found that, when banks were removed from the scene of exchange activity in 1996, liquidity and efficiency of the securities market reduced and information flow not helps to market efficiency and when again in 2000 were admitted in stock market, activity of exchanges improved.

3. Theoretical foundations

In this section, theoretical foundations consists of two parts: in the first part, the strategy of developing interactions between the insurance industry and capital market is expressed and in the second part, the strategy of developing interaction between banks and capital market is expressed.

3-1 Insurance industry and capital market

An integrated financial market has three basic elements of short-term capital, long term and confidence. Short-term capitals in money market and specifically banks and financial and credit institutions are traded. Capital market and specifically stock exchanges is also the place of interactions of long-term capitals. Both of these markets need to third element be able to survive. Confidence as the third pillar of financial markets is offered by the insurance industry. In the following, three key strategies in relation to the insurance industry and capital markets will be examined (Khosravani, 2013)

3.1.1 Insurance industry, an institutional investor in the capital market

Although the main function and responsibility of insurance industry is to get right of insurance and providing insurance coverage to the insured, but now investment is one of the main elements of insurance companies. Especially with regard to the long-term nature of insurance such as life insurance, interval between receiving right of insurance and payment of compensation and the need to preserve the purchasing power of money and deal with its devaluation and the necessity of creating value-added, investment in insurance companies is inevitable.

Insurance companies that have funds of to policyholders in the form of technical reserves use as profitable asset and invest in proper economic activities. The companies as financial institutions can invest funds compacted policyholders in commercial and industrial institutions owned by the state and the private sector. In large markets, the insurance industry in the development of financial and capital markets as well as earn foreign currency that can improve the balance of payments in a recession, can have continuous and efficient cooperation (Peykarju, 2001).

3.1.2 Credit Insurance of securities, the most important insurance product for capital market

Capital Market is exchange market of capital items and mainly financial assets and specifically securities. Tehran Stock Exchange as known symbol of the capital market is the characteristics of a financial market developing. Capital market due to the nature of investment is faced with kinds of risks. Risks affect investment in stock. Some of these risks are endogenous arising from the performance of companies and their stakeholders that can be avoidable, reduced and even removed but exogenous risks or risks arising from OTC market conditions, macroeconomic conditions or the international economy cannot be removed easily (Khosravani, 2013).

Credit insurance according to the type of covering risks which are covered is divided into several types. The most important types of insurance are commercial credit insurance (foreign and domestic or export), bond credit insurance, credit insurance of cash loans, credit insurance of debtor balance, credit insurance of sickness and accident, insurance of bank deposits, credit insurance of accounts receivable documents , involuntary unemployment credit insurance (non-voluntary) and credit insurance of property (Tarshizi

Faruj, 2005). At present, various types of credit insurance is defined and implementing in other countries, but in Iran, insurance companies only offer life credit insurance (partially) and cash loans credit insurance (by determining the lender as policyholders). Policyholders in other countries can select each type of insurance fit their need, or can act to combination selection of them in the case of offering insurance as an insurance package. Some insurance policies such as disability credit insurance are not separately offered and necessarily must be supplied with credit insurance debtor balance (Binazir, 2009).

The most important credit insurance that is directly related to the capital market is bond credit insurance. Bond credit insurance is an insurance that is signed between insurance company (as the insurer) and issuer of bond (as policyholders) and according to it, the insurer undertakes to compensate whole or a part of the buyers loss of these securities in case of bankruptcy or failure of policy maker to pay principal and interest of bond.

3.1.3 Insurance securities: joint innovation of capital market and insurance industry

The term "insurance securitization" for the first time in an article about twenty-five years ago was used (Gushay and Sendero, 1973). Surprisingly, this term even before its application in the financial markets-decade 70 in this paper has been used. After using assets in securities in the financial markets, it lasted about 20 years to the release of insurance securities becomes real (Gurut, 1999).

The first issue of securities was in 1988, including insurers that was related to sell the earnings of a set of life insurance and annuities. Another initiative in 1992 by the Chicago Board of Trade (CBOT) was carried out in which it had provided a kind of futures contract about changing property damages due to natural disasters such as hurricanes and earthquake. In recent years, we see the development of other types of securities of natural disasters, including securities CAT and a growing volume of changing life insurance and annuities to securities. However, this volume is still very low compared to the volume of asset-backed securities (An, 2010).

Insurance securities are published with two main objectives. The first objective is the main functions of the insurance industry ie risk transfer. Non-life insurance securities are generally released with this purpose of insurance and in particular reinsurance. Today, the main important objective of releasing insurance securities is an increase in the capacity of reinsurance. The costs of reinsurance is one of the key factors in the possibility of release these securities (Lidbeter and Kuvas, 2003).

The second objective of releasing insurance securities is done with the aim of finance. Except severe losses securities (deaths) that has a structure as non-life insurance securities, securities of life insurance are generally released to finance. Life insurance securities are used to convert intangible assets such as deferred acquisition costs (future) to cash and convert to asset the present value of future earnings (ie hidden value). In addition, life insurance securities are used to finance funds for deposits of legal capital of (mandatory) United States (conversion to the assets), or to convert to the assets of the portfolio of life contracts (Frey et al., 2009)

3-2 Bank and capital market

Since the banking system and capital market as intermediate act in guiding people's savings toward capital projects, they can complement or replace each other. Thus, in both markets, loan is borrowed and banks in terms of conditions, sometimes through money market are financed and sometimes prefer to be financed through the capital market. The reason for this is difference of need of these firms and financial market conditions. So, it can be said that the banking sector and capital market, in private and public firms funding are in the form of complementary or competing each other.

3.2.1 Underwriting and buying and selling securities by banks for capital market

One of the measures of commercial banks that is dine in the money and capital market and for banks has income is buy and sale of securities and intermediaries in the buying and selling of securities in financial markets. In fact, commercial banks can act to buy and sell stocks and bonds of plans of investment according to law of interest-free banking operations in two ways of intermediation and contracting, provided that these securities for legal not have religious problem (Nazarpour et al., 2013).

3.2.2 Tradable certificates of deposit of banks deposits

Tradable securities causes boost the capital market and preparation for the entry of commercial banks into the capital market. When these securities are released as steady and with long-term maturities or even, if possible, without maturity, it will follow greater importance because in this case, the securities for a long time can be traded in the capital market (Pil Pam, 2012).

3.2.3 Direct investment of banks in the capital market

Legal partnership and direct investment are the tools that are used in order to finance long-term sources of production, trade and services unites and practically they emphasize established territory and set up new units or completing and developing existing units (Sadeghian and Frahaniyan, 2008).

3.2.4 Mutual funds

In some conditions that entering the companies to the main stock market and their access to the market is often difficult, banks can enable access of companies to required funds through the capital market in the role (capital market brokerage firms) while reducing investment (Fabuzi et al., 2010).

3-2-5 assignment of bank credits to firms operating in capital market

One of the most important sources of external finance of companies is bank credits that is usually for a period of one year and is renewable annually. Banks can assign bank credit up to a certain amount to the

applicant company, as that bank for applicant companies opens bank credit annually (Nazarpour and Haghighi, 2013).

5. Hypotheses

The first hypothesis) there is a significant relationship between the investment of insurance industry and increase of interaction with the country's capital market.

The second hypothesis) there is a significant relationship between the release of credit insurance of securities and increase of interaction with the country's capital market.

The third hypothesis) there is a significant relationship between the release of insurance securities and increase of interaction with the country's capital market.

The fourth hypothesis) there is a significant relationship between the underwriting and buy and sale of securities by banks for capital market and increase of interaction with the country's capital market.

The fifth hypothesis) there is a significant relationship between the tradable certificates of deposit of banks deposits and increase of interaction with the country's capital market.

The sixth hypothesis) there is a significant relationship between the direct investment of banks in the capital market and increase of interaction with the country's capital market.

The seventh hypothesis) there is a significant relationship between opening mutual funds and increase of interaction with the country's capital market.

The eighth hypothesis) there is a significant relationship between assignment of bank credits to companies operating in capital market and increase of interaction with the country's capital market.

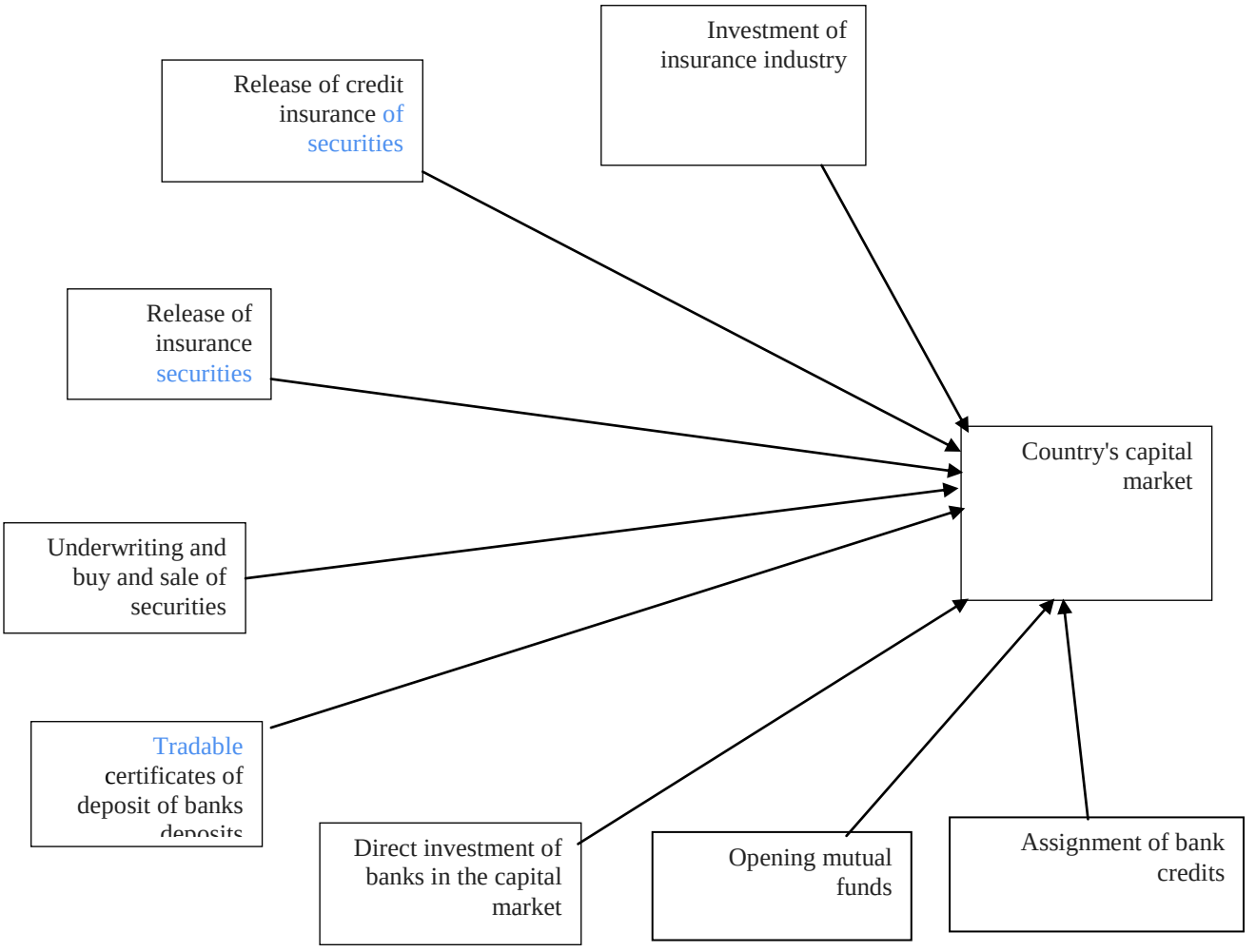


Figure 3: conceptual model

6. Research method

The research method is descriptive-survey, the method of collecting data is by two methods of library and field so that by the method of library, all written and electronic sources (valid scientific magazines and sites) are used to collect the literature of research and variables and models. In field research, by distributing questionnaires of research among respondents, all the information considered to be collected, the population is activists in the field of insurance, banking and capital market, and 213 samples were selected using random sampling method. To determine the validity and reliability of questionnaire is acted that its reliability was determined by Cronbach's alpha that its amount is equal to 0.876 and considering that it is more than 0.7, reliability is confirmed and its validity is confirmed by experts and

academics. To analyze the data, structural equation method and path analysis using LISREL software program is used.

7. Research findings

1.7 fitness of model

Information collected in the form of inferential statistics including path analysis technique have been investigated, when a model has appropriate theoretical backing in next time it would appear that fit of this model to be investigated with the data that is collected, therefore, in this section, some of the tests that are used to evaluate the fit of the model are expressed. In Table 1, the values of indices of model fit are shown.

Table 1: fit of model

Index	goodness of fit	adjusted goodness of fit	Tucker-Lewis	adaptive fitness	degrees of freedom	chi-square	RMSE
Value	0.95	0.92	1.00	1.00	743	770.09	0.011

As shown in Table 1, values of indices of chi-square / degrees of freedom, goodness of fit, adjusted goodness of fit, Tucker-Lewis and adaptive fitness are in very good levels that this represents an acceptable fit so in general, given that the majority of indices are at an acceptable level, it can be concluded the research model has a good fitness.

8. Data analysis

Path analysis is a method that is used to test the overall models and requires adjusting a model for causal graph. This method allows the analyst to use causal explicit assumptions in analyzing data. When the fundamental assumptions of path analysis are realized, may be theory and data in a position that many variables simultaneously controlled are linked to each other.

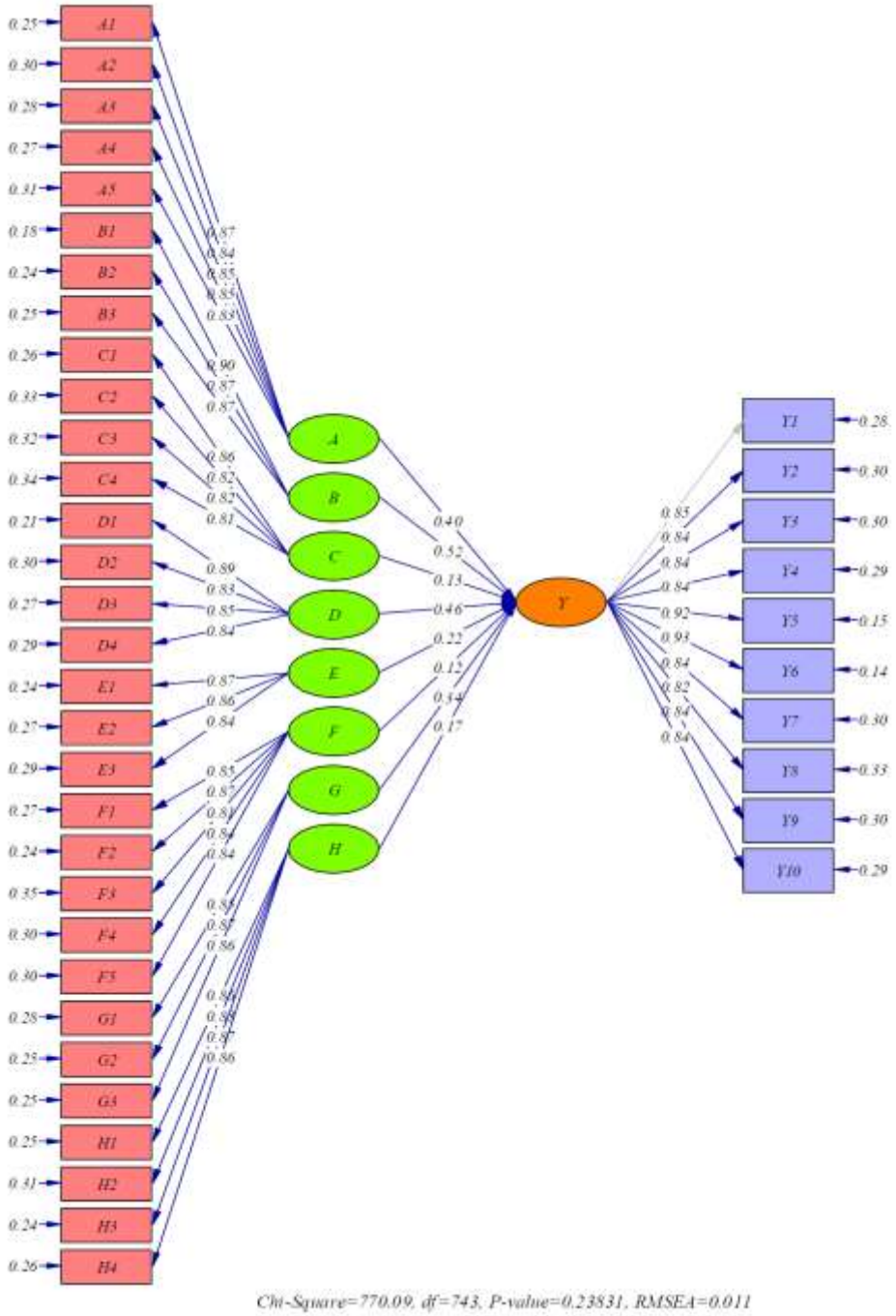


Figure 1: Diagram of standard coefficients of model

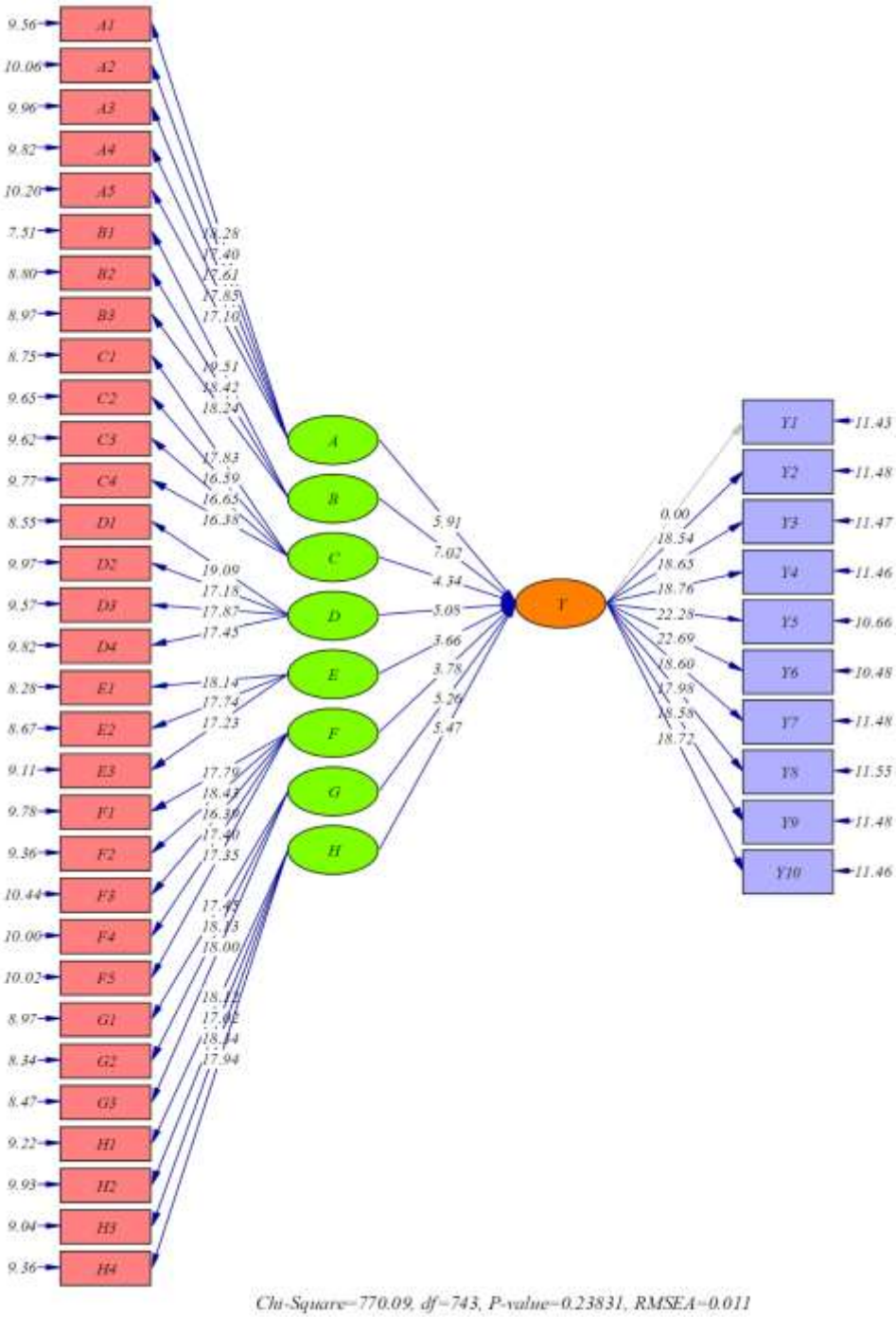


Figure 2: Diagram of t coefficients of model Source: research findings

The first hypothesis) there is a significant relationship between the investment of insurance industry and increase of interaction with the country's capital market.

Statistical hypothesis:

H0: there isn't a significant relationship between the investment of insurance industry and increase of interaction with the country's capital market.

H1: there is a significant relationship between the investment of insurance industry and increase of interaction with the country's capital market.

Table2: Results of the first hypothesis

Hypothesis	Standard coefficient	t static	Compare to critical value	Significant	Result
First	0.40	5.91	5.91>1.96	Significant	Accepted

Source: research findings

In the first hypothesis, to investigate the significance of the hypothesis raised, t-statistic is used, considering that t-statistic is equal to 5.91, and the amount is not placed in the range of (-1.96,1.96) so it can be concluded that the hypothesis is significance. Also the value of standard coefficient of this path is 0.40 which represents the significant relationship of this path. According to the results of the first hypothesis, it can be concluded that there is a significant relationship between the investment of insurance industry and increase of interaction with the country's capital market and the first hypothesis is accepted.

The second hypothesis) there is a significant relationship between the release of credit insurance of securities and increase of interaction with the country's capital market.

Statistical hypothesis:

H0: there isn't a significant relationship between the release of credit insurance of securities and increase of interaction with the country's capital market.

H1: there is a significant relationship between the release of credit insurance of securities and increase of interaction with the country's capital market.

Table3: Results of the second hypothesis

Hypothesis	Standard coefficient	t static	Compare to critical value	Significant	Result
Second	0.52	7.02	7.02>1.96	Significant	Accepted

Source: research findings

In the second hypothesis, to investigate the significance of the hypothesis raised, t-statistic is used, considering that t-statistic is equal to 7.02, and the amount is not placed in the range of (-1.96,1.96) so it can be concluded that the hypothesis is significance. Also the value of standard coefficient of this path is 0.52 which represents the significant relationship of this path. According to the results of the second hypothesis, it can be concluded there is a significant relationship between the release of credit insurance of securities and increase of interaction with the country's capital market and the second hypothesis is accepted.

The third hypothesis) there is a significant relationship between the release of insurance securities and increase of interaction with the country's capital market.

Statistical hypothesis:

H0: there isn't a significant relationship between the release of insurance securities and increase of interaction with the country's capital market.

H1: there is a significant relationship between the release of insurance securities and increase of interaction with the country's capital market.

Table4: Results of the third hypothesis

Hypothesis	Standard coefficient	t static	Compare to critical value	Significant	Result
Third	0.13	4.34	4.34>1.96	Significant	Accepted

Source: research findings

In the third hypothesis, to investigate the significance of the hypothesis raised, t-statistic is used, considering that t-statistic is equal to 4.34, and the amount is not placed in the range of (-1.96,1.96) so it can be concluded that the hypothesis is significance. Also the value of standard coefficient of this path is 0.13 which represents the significant relationship of this path. According to the results of the third hypothesis, it can be concluded that there is a significant relationship between the release of insurance securities and increase of interaction with the country's capital market and the third hypothesis is accepted.

The fourth hypothesis) there is a significant relationship between the underwriting and buy and sale of securities by banks for capital market and increase of interaction with the country's capital market.

Statistical hypothesis:

H0: there isn't a significant relationship between the underwriting and buy and sale of securities by banks for capital market and increase of interaction with the country's capital market.

H1: there is a significant relationship between the underwriting and buy and sale of securities by banks for capital market and increase of interaction with the country's capital market.

Table5: Results of the fourth hypothesis

Hypothesis	Standard coefficient	t static	Compare to critical value	Significant	Result
Fourth	0.46	5.08	5.08>1.96	Significant	Accepted

Source: research findings

In the fourth hypothesis, to investigate the significance of the hypothesis raised, t-statistic is used, considering that t-statistic is equal to 5.08, and the amount is not placed in the range of (-1.96,1.96) so it can be concluded that the hypothesis is significance. Also the value of standard coefficient of this path is 0.46 which represents the significant relationship of this path. According to the results of the fourth hypothesis, it can be concluded that there is a significant relationship between the underwriting and buy and sale of securities by banks for capital market and increase of interaction with the country's capital market and the fourth hypothesis is accepted.

The fifth hypothesis) there is a significant relationship between the tradable certificates of deposit of banks deposits and increase of interaction with the country's capital market.

Statistical hypothesis:

H0: there isn't a significant relationship between the tradable certificates of deposit of banks deposits and increase of interaction with the country's capital market.

H1: there is a significant relationship between the tradable certificates of deposit of banks deposits and increase of interaction with the country's capital market.

Table6: Results of the fifth hypothesis

Hypothesis	Standard coefficient	t static	Compare to critical value	Significant	Result
Fifth	0.22	3.66	3.66>1.96	Significant	Accepted

Source: research findings

In the fifth hypothesis, to investigate the significance of the hypothesis raised, t-statistic is used, considering that t-statistic is equal to 3.66, and the amount is not placed in the range of (-1.96,1.96) so it can be concluded that the hypothesis is significance. Also the value of standard coefficient of this path is 0.22 which represents the significant relationship of this path. According to the results of the fifth hypothesis, it can be concluded that there is a significant relationship between the tradable certificates of

deposit of banks deposits and increase of interaction with the country's capital market and the fifth hypothesis is accepted.

The sixth hypothesis) there is a significant relationship between the direct investment of banks in the capital market and increase of interaction with the country's capital market.

Statistical hypothesis:

H0: there isn't a significant relationship between the direct investment of banks in the capital market and increase of interaction with the country's capital market.

H1: there is a significant relationship between the direct investment of banks in the capital market and increase of interaction with the country's capital market.

Table7: Results of the sixth hypothesis

Hypothesis	Standard coefficient	t static	Compare to critical value	Significant	Result
Sixth	0.12	3.38	3.38>1.96	Significant	Accepted

Source: research findings

In the sixth hypothesis, to investigate the significance of the hypothesis raised, t-statistic is used, considering that t-statistic is equal to 3.38, and the amount is not placed in the range of (-1.96,1.96) so it can be concluded that the hypothesis is significance. Also the value of standard coefficient of this path is 0.12 which represents the significant relationship of this path. According to the results of the sixth hypothesis, it can be concluded that there is a significant relationship between the direct investment of banks in the capital market and increase of interaction with the country's capital market and the sixth hypothesis is accepted.

The seventh hypothesis) there is a significant relationship between opening mutual funds and increase of interaction with the country's capital market.

Statistical hypothesis:

H0: there isn't a significant relationship between opening mutual funds and increase of interaction with the country's capital market.

H1: there is a significant relationship between opening mutual funds and increase of interaction with the country's capital market.

Table8: Results of the seventh hypothesis

Hypothesis	Standard coefficient	t static	Compare to critical value	Significant	Result
Seventh	0.34	5.36	5.36>1.96	Significant	Accepted

Source: research findings

In the seventh hypothesis, to investigate the significance of the hypothesis raised, t-statistic is used, considering that t-statistic is equal to 5.36, and the amount is not placed in the range of (-1.96,1.96) so it can be concluded that the hypothesis is significance. Also the value of standard coefficient of this path is 0.34 which represents the significant relationship of this path. According to the results of the seventh hypothesis, it can be concluded that there is a significant relationship between opening mutual funds and increase of interaction with the country's capital market and the seventh hypothesis is accepted.

The eighth hypothesis) there is a significant relationship between assignment of bank credits to companies operating in capital market and increase of interaction with the country's capital market.

Statistical hypothesis:

H0: there isn't a significant relationship between assignment of bank credits to companies operating in capital market and increase of interaction with the country's capital market.

H1: there is a significant relationship between assignment of bank credits to companies operating in capital market and increase of interaction with the country's capital market.

Table9: Results of the eighth hypothesis

Hypothesis	Standard coefficient	t static	Compare to critical value	Significant	Result
Eighth	0.17	5.47	5.47>1.96	Significant	Accepted

Source: research findings

In the eighth hypothesis, to investigate the significance of the hypothesis raised, t-statistic is used, considering that t-statistic is equal to 5.47, and the amount is not placed in the range of (-1.96,1.96) so it can be concluded that the hypothesis is significance. Also the value of standard coefficient of this path is 0.17 which represents the significant relationship of this path. According to the results of the eighth hypothesis, it can be concluded that there is a significant relationship between assignment of bank credits to companies operating in capital market and increase of interaction with the country's capital market and the eighth hypothesis is accepted.

7. Discussion and conclusions

Financial market is comprised of three principal actors, money market, capital market and confidence market. Due to need of these three markets to each other, there was a close interaction between these three markets. The country's insurance industry and also banks are somewhat involved in the capital market more or less by doing investments in the country's capital market and recently with the entry of public insurance and banks to the stock market and their privatization. Capital market development and achieve the goals of visions, demands that the interaction considering the global trends about convergence of banks and insurance companies with capital market to be more than before and but multiplied. So the aim of this study is to investigate effective strategies to increase the interaction between banks and insurance companies with country's capital market.

As it was observed, 3 strategies in the field of increasing interaction between the insurance with country's capital market and 5 strategies in the field of increasing interaction between banks with country's capital market according to research literature were identified. In the following, to confirm these strategies using the path analysis method, data was analyzed. The results show approval of every eight hypotheses and in other words, each 8 hypotheses are selected that these results are similar with the research results of Nazarpour and Haghighi (2013), Sehat and colleagues (2011), Ghanbari and Rostamzad (2014), Nazarpour and colleagues (2013), Khosravani (2013) and Frey et al. (2009) that it confirms the accuracy of the results.

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