

# Chapter 3

## Encountering Strategic Management and Corporate Governance Issues within a Turbulent Environment: Hayat Insurance Company

**Grace Khoury**

*Birzeit University, Palestine*

**Leila Amer**

*Birzeit University, Palestine*

**Zein Khalaf**

*Anabtawi Group, Palestine*

### **EXECUTIVE SUMMARY**

*This case study examines strategic management issues related to corporate governance and CEO-Chair duality, which have led to the use of power and family control of a very profitable and successful public holding company that dominated the insurance industry in Palestine for 20 years. It specifically describes the incidents that made Hayat Insurance Company (HIC) vulnerable and unable to choose the right strategies to cope with external threats, such as the rising competition and the developing regulations during the 1990s. With government interventions, the situation deteriorated, and HIC was dissolved. The selected solution, to liquidate HIC by selling its license to another insurance company, was thought to be for the best interest of the various stakeholder groups. The case is based on interviews with major stakeholders including insurance experts, shareholders, board of directors, former employees and managers, and government officials in various departments.*

## **ORGANIZATIONAL BACKGROUND**

In the midst of the Israeli Occupation since 1967, Hayat Insurance Company (HIC) was the first Palestinian insurance company to be established in Ramallah, West Bank in 1975 with a total capital of one million Jordanian Dinar (JOD). The company was founded by an experienced man who had good networking relations with the community and with the civil administration in the West Bank. Before founding HIC, he had owned, for ten years, an insurance agency for one of the British insurance companies in Palestine. HIC was formed as a public holding company with the assistance of a British insurance expert hired as a consultant. Majority shareholders were the founder and his close family members and friends from the elite families of the city. The major shareholders were the board of directors. The founder was educated with a bachelor degree in agricultural engineering. He belonged to a wealthy family in the community and was an admired businessman who had gained the trust of his board of directors.

Insurance is a risky and sophisticated industry; its companies require human and international relations skills, in addition to a very liquid investment portfolio. Establishing an insurance company in the West Bank at that time was considered a patriotic and courageous move by the Palestinians because, before HIC, it was unprecedented to have a full-fledged Palestinian insurance company as there were only representing agency offices of Israeli and foreign insurance companies in the Palestinian Territories.

In 1975, a major insurance legislation act was passed in Israel to form the “Israeli Fund for Road Accident Victims” (IFRAV), where twenty years down the road, would influence a similar act in the Palestinian Territories. This act dictates that compensations for road accidents are unlimited and all victims or their dependents will be fully compensated. The objective of IFRAV was to compensate road accident victims who were not insured or the person responsible for the accident was not identified. It also served as the security to cover those who were insured under a company that would become bankrupt during the validity period of their insurance policy. According to an Israeli military order, this fund was also applied in the West Bank and Gaza since they were under Israeli occupation. The fund is financially supported through a fixed percentage fee on insurance policies and car registration fees. All insurance companies including HIC were required to contribute a percentage of insurance premiums to sustain IRFAV.

The decision making process at HIC was in the hands of the original founder who had also assumed the dual role of being the CEO and Chairman of the Board simultaneously. In the eighties and right after his two sons’ graduation from British universities, his sons were appointed as deputies to their father. HIC grew into a monopoly of the insurance market in the West Bank and Gaza. During the founder’s

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