

Latest

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Forum***

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Opening Keynote Plenary Session

**Regulatory Perspectives – Advancing and
Evolving the Regulatory Framework to
Strengthen the Middle East
Insurance Industry
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By

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Your Excellencies, Ladies and Gentlemen –
Good Morning.

It gives me a great pleasure to welcome you all to the 11th Middle East Insurance Forum. In its 11th year now, this forum has come a long way in supporting and strengthening the insurance industry. It has now firmly established its reputation as the region's most influential annual gathering of the insurance industry leaders, supporting growth, excellence and innovation in the local and regional insurance industry. The Central Bank of Bahrain is proud to be associated with this

event and will continue to support it in the future. I would like to thank the organizers, sponsors and speakers for supporting this important gathering.

My theme today is "Regulatory Perspectives – Advancing and Evolving the Regulatory Framework to Strengthen the Middle East Insurance Industry". This theme is important and timely as the insurance industry in the MENA region is undergoing transformation and there is a tremendous potential for the regional insurance market to grow and thrive.

As you may aware, the insurance industry plays an important role globally, as it contributes to more than US\$4 trillion in worldwide revenue. Furthermore, the macroeconomic trends of the emerging markets in Asia, South America, Africa, as well as the Middle East will continue to grow. As a result, the current demand for sound conduct of business and transparency, as well as the enhancement of policyholders and shareholders confidence, create the need for strong and sound regulatory infrastructure for insurance industry in the MENA region and globally, greater now than ever before.

Basically, the global financial system is undergoing an important regulatory overhaul. The Solvency II, Corporate Governance and other financial regulation are global initiatives that try to reformulate the future landscape for finance. The Global insurance industry is experiencing dramatic change as reserve and capital regulations transition from the traditional, prescriptive approach to principles-based approach. This fundamental change most likely signifies the gradual global convergence of regulations across countries and insurance products.

As the Insurance industry expands, the need to standardize the regulations for Insurance in the GCC countries, in terms of regulatory and market conduct requirements, is of paramount importance.

The regulators all over the world, especially in the MENA region need to work closely to strengthen their regulatory framework in order to create greater harmony amongst the different jurisdictions so that the industry could capitalize on the growth opportunities. The financial crisis has been a reminder that

markets need effective regulation if they are to operate properly.

As a regulator, the CBB always believes in continual enhancement and improvement of its regulatory framework for the growth and betterment of industry. The CBB has always played an important role in launching new initiatives to develop the insurance industry both locally and regionally. The work towards revision of the existing Takaful model is one of these initiatives in reaffirming Bahrain as the jurisdiction of choice for all the Takaful/Retakaful companies globally. As you may

aware, the objective of modifying the existing Takaful rules is to facilitate a faster growth of Takaful business in Bahrain while protecting the interest of all stakeholders, vis-à-vis participants, shareholders, and Takaful operator.

It is also expected that the changes to the model will attract new entrants to the market and will foster competition for the betterment of the consumers. The new framework was released in October 2014 in order to be implemented starting January this year.

In addition to this, the CBB issued rules on client money, which aim at enhancing the regulatory framework in relation to appointed representatives and insurance brokers. The market response to these rules has so far been quite positive.

The CBB is firmly of the view that in order to overcome competitive pressures and capture profitable growth, the insurance companies should ensure that the risk is assessed and priced properly. Hence the businesses should be underwritten and priced in a way that all the inherent risks are considered. Generally, it has

been observed that companies charge premium rates based on the competition and without regard to the proper assessment of risk.

In addition, it is important for insurance companies to ensure that their investments are highly diversified and are not concentrated in a particular sector or high risk assets. Employing Asset Liability Management methodology ensures that the asset portfolio matches the liability profile of a company.

Implementing risk management policy and strategy whereby Underwriting, Pricing,

Investment and Operational risks are managed effectively, is vital for achieving profitable growth. Regulators should ensure that adequate legislation is in place to develop, promote, and strengthen the enterprise wide risk management concept in the insurance industry across the region.

To overcome competitive pressures and capture profitable growth, it is important to enhance the quality of services provided to the customers. It might be easy to compete on prices, but difficult to compete on quality services. Superior services create loyalty

which is vital for the company to maintain profitability in the long-run. In order to be profitable, an insurance company must distinguish itself from its competitors and in order to be distinguished it must offer superior services compared to its competitors. Product innovation is another area which can add significant value to the profitability and the financial soundness of insurance companies.

The CBB has taken various steps to ensure that a stable insurance market continues to thrive and prosper in Bahrain. One of the main regulatory priorities that a regulator should

address is the adequate protection of the policyholders. This objective has been clearly outlined in the CBB Law as well as through the rules that have been introduced to specifically deal with tied agents. These rules require a minimum level of qualifications for those dealing with potential policyholders and recognize that the offering of insurance products must be made in a professional and proper manner.

The training of workforce is very important for profitable growth of the company. It is necessary that the insurance licensees continue

to improve the level of expertise and professionalism of their workforce. The CBB is keen to see that all insurance licensees do their utmost to provide adequate training and development opportunities for their staff. The CBB has been working on enhancing its Training and Competency regime and the rules are expected to be finalized in due course.

Maintaining adequate level of solvency that is in line with the best regulatory standards is another regulatory priority for the regulators in the Middle East. Such solvency requirements should be helpful to provide early warning to

regulators so that they could take the necessary measures should the capital of insurance firm falls below the required level. Adequate solvency requirements enhance the confidence in the financial stability of the insurance industry and further improve the financial standing of insurance firms.

Another area that regulators in the region need to focus more on is the “Corporate Governance”. Regulators must ensure that their respective rules and regulations on Corporate Governance are robust and in line with the best international practices.

Regulators should require market players to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognizes and protects the interests of policyholders.

Furthermore, Regulatory authorities should support public awareness in order to enhance the public knowledge on the basics of insurance and the importance of such financial services to the general public. As far as consumer education is concerned, the CBB in

collaboration with the Bahrain Insurance Association (BIA) have been holding “Insurance Week” on a yearly basis, the purpose of which is to educate the public on the importance of insurance products and services. The “Insurance Week” has so far been successful in enhancing insurance awareness amongst people. This is expected to further increase the penetration rate of insurance in Bahrain.

For sustainable business growth, it is vital that the proper line of business is chosen for expansion. Bahrain has the highest life

insurance penetration in the GCC. Although the penetration is still much below the global life penetration, there is tremendous potential for growth. Due to the huge potential for long-term insurance business in both Bahrain and the whole GCC, it would be sensible to invest in this line of business.

Another line of business with the tremendous growth potential across the Mena region is the medical insurance. Mandatory health insurance coupled with growing populations and increased government spending, is

expected to lead to a sharp rise in business for medical insurers.

Looking ahead, we see great new and untapped potential for insurance industry in the coming years. There is an expectation of increased investment in GCC on construction, infrastructure, and petroleum industry related projects. According to an estimate, the GCC is set to invest more than US \$900 billion in around 1,600 new projects over the next decade. All of this is expected to result in a surge in insurance activity and a growth in gross premiums.

With such an outstanding growth expectation in the Middle East insurance industry in the coming years, it is important that the regulators work together at the local, regional and international level to effectively deal with the risks that can have a systemic impact. Furthermore, regulators need to work more closely with insurance companies, service providers and other industry stakeholders to ensure a close oversight of their activities and a healthy financial sector.

Ladies and Gentlemen, this brings me to the end of my remarks. All that remains is for me to wish you an interesting and productive forum, and to thank you all for your kind attention.

Thank you.