

# Middle East Insurance Forum

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*Keynote Speech:*

**Regulatory Perspective:**

**Advancing and Evolving the Regulatory Framework to  
Strengthen the GCC Insurance Industry**

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*Ladies & gentlemen,*

It gives me pleasure to extend my thanks and appreciation to Mr. AbdulRahman Al Baker the Executive Director of Financial Institution Supervision at Central Bank of Bahrain **and** to the organizer for their kind invitation to speak here today. It's a great pleasure to be given the opportunity to share with you some views and having very informative discussion during these 2 days.

**Today**, I am going to separate my speech in two parts. **Firstly**, I will raise some open questions about what has been achieve by our industry in GCC countries and main threat we are facing today. And then I will highlight some main issues need to be focused by us **to** achieve our objectives as a regulator.

So, let me start by saying that, according the Swiss Re report, the GCC market is currently in its “**late development and transition stage**”. **The** early stages of development are dominated by non-life insurance products **especially** transportation and trading risks. **As** income increases and household purchase capital goods such as vehicles, real estate etc.

The need for non- life insurance increases as people look to protect their valuable assets and avoid any loses. Government encourage insurance penetration through mandating certain insurance classes such as motor and health. **With** maturing population, **the** next stage is focused on life insurance and pension-like products.

Confluence of macroeconomic factors and regulatory reforms **has** created conducive environment for insurance sector in GCC countries to grow gradually and steadily. **However**, insurers in the region need to gear up significantly to capitalize on the opportunity and remain competitive in the evolving landscape.

Insurance penetration and density is much lower than global peers. **Differences** in social security systems can partly explain the gap between GCC countries and other markets. **However**, removing life and health products from the comparison does not change the conclusion. **Highlight** the potential of growth in the GCC market that attracted many domestic and foreign players which in turn have led to overcapacity. **Consequently**, there is **considerable** fragmentation **and** poor retention levels **resulting** in

weak performance. **Non-life** continues to dominate the markets with approximately 85-90% of the premiums derived from this segment alone compared with 55-60% in world market

GCC insurance industry **continues** to face a number of challenges. But one of the new challenges facing our insurance sector is the effect of dramatic decrease of oil prices which has been dropped by about 50% since last September 2014. **This** risk is hitting our ground **and** with uncertainty about the oil price future **it could makes** the scenario more difficult with lots of ambiguity.

The performance of the insurance sector largely depends on the GDP growth and continued diversification of the regional economy. While there is an effort to diversify the regional economy, **is still** dominated by the oil income with percentage exceeding 70%. A sharp decline in oil prices could strain resources and government spending which will affect the current developments.

*So the critical question today is that for how long the current scenario will continue and how it could affect our industry?*

The second question is that, **did we benefit out of our last decade growth?**

One day John Wooden said that: *don't measure yourself by what you have accomplished but rather by what you should have accomplished with your abilities"*

**As you know**, in economy there is no continuous growth forever! **So**, this question needs to be asked, **did we benefit out of our economic growth in past years!** **Here** I am not talking about companies' profits or about some increase in penetration rate. I am talking about reinvesting our revenues from that growth in enhancing, developing and building a real insurance industry in our countries, **by** building efficient insurance industry with well recognized system, talent and capacity to retain the risk. I have no direct reply to this question, **but** I can say that we still facing the same challenge we faced years back! **Yes** there are some

improvements but these improvements less than what we deserved.

**So referring to what I just said, what's our role as a regulator?**

Ladies & Gentlemen, before talking about our role as a regulator I have to mention that, regulatory function is not only our responsibility as a regulators, **in fact**, it is responsibility of all market players. All of them, all of you, play a key role in achieving our shared goals of keeping our financial system and *specifically* insurance sector efficient and competitive with sustainable long-term growth.

**Then what do we need, WE need a clear pathway:**

As a developer of the market and then as a regulator our responsibility is to build a common understandable regulatory strategy for our industry. **This** strategy optimal goal **is** to help the insurance sector **to play to the full** its economic and social role, and optimal regulatory environment **is required** to achieve this goal.

In this strategy, at least the main goals should be clear to all interested stakeholders.

### **How that can be achieved?**

As regulators we need to continue our effort to reforms and restructure the industry by **re-aligning** local regulation with global standards and best practices to raise investors and policyholders' confidence.

### **How do we get there?**

It is **rather** challengeable pathway but definitely interesting **journey**. **Firstly**, we need to **enhance our regional cooperation**:

**In fact**, in our **region** there is a strong need for further cooperation between regulatory bodies. We are facing the same challenges and working in similar environment beside that many insurance companies are working in different GCC markets. We still have **immature** insurance regulatory framework and by enhancing the sharing of knowledge and experience we could accelerate our **development** not only in regulation but also in supervision by sharing the information about companies in a way enhancing the overall supervisory process.

Also, such cooperation will help to harmonize our licensing and supervising requirements which will help insurance companies to be open to all GCC markets and reduce the regulatory cost and confusion.

**Moreover, we need to maintain close coordination with sector's players:**

Regulator should work closely with companies' management on an on-going basis to ensure that the company develops in line with the plans that have been put in place.

**So, our plan should aim to reduce extreme dependence on foreign reinsurers:**

Actually, the **region** has a significant number of small insurers that lack sufficient capital and skills to underwrite or to invest. The **region** therefore is highly dependent on reinsurance and has significant cession rates.

I think our role as a developer and regulator here is to create, in cooperation and coordination with all industry players, a national program help to moving our industry from fronting business to



more real underwriting business generating higher retention. **Defiantly**, we need to balance the benefit and risk **but** increasing the rate of retention should be our objective. **Therefore**; insurers should clearly know that **in** coming years the scope and structure of business is going to be change in favour of well capitalized, solvent and competitive insurance providers.

**Increase retention requires enhancing ERM principles:**

The regulatory environment for insurance should encourage enterprise risk management in our region. Many GCC insurers still view ERM as just a compliance exercise or a rating agency requirement, failing to recognize **that** their ERM programmes are also meant to generate significant business value.

**In fact**, companies with a mature approach of risk management can achieve a competitive advantage and that is because of having better performance management, capital efficiency, and active stakeholder management who are well-informed **and** confident that risks are understood in a fast changing environment. And last but not least better quality control.

**Furthermore, with current dynamic financial market and aggressive competition, Innovation becomes a necessity:**

We need to encourage innovation in the industry by maintaining flexible regulation, effective and sophisticated supervision and minimizing the cost of over regulation.

**However, no innovation and systematic improvement can be done without a consolidation and building capacity:**

The local markets are saturated with a lot of players and we expect consolidation in the industry for more efficiency and to gains economies of scale. Consolidation will also reduce unhealthy pricing competition and develop performance and will provide opportunities for strategic investors to enter the market through mergers and acquisitions.

Therefore, our regulation should encourage and ensure smooth processing of mergers and acquisitions activities.

**One way also to motivate consolidation and building capacity is developing new solvency requirements** that should contribute to an optimal allocation of capital through an economic risk-based system. However, any solvency system should carefully adapt to our local market circumstances.

**On the other hand, there is also one issue need to be raised, the role of foreign insurers:** Regulators need to restructure their regulation in way enhancing the foreign insurer participation, adding value and commitment to the local market. **The** contribution of foreign insurers was limited till a few years back. This was because of market entry restrictions. **However,** relaxing the entry restriction and regulatory reform allowed the increase of foreign players in the region. The trend of increased foreign participation is likely to continue as growth remains **sluggish** in developed markets.

**Additionally, to make the insurance accessible and avoidable we need to benefit out of Bancassurance:** Bancassurance has been an important insurance distribution channel in GCC countries in recent years. The Bancassurance market **as a whole**

remains under-developed in terms of **both** bank commitments and product diversification.

**Therefore**, Bancassurance in the region need to be reform in a way helping to protecting insurance confidence, **avoid** miss selling, **controlling** bankers' fees, and enhancing products diversification.

**On the other hand**, we need also to design new health policies to respond to the demographic and social changes. **Public-private** cooperation should be considered by policy-makers. Such cooperation would benefit all parties: **public** authorities, citizens and insurers.

**Overall**, in industry we need to prove that we are **efficient** and we can **quickly responding** to the new risks. **And one of these new risks in our region is Climate change**: We have experience extensive damages by natural catastrophe losses during last decade in GCC specifically in Oman and UAE. According to the unofficial estimation **the one day** rains in January this year in Oman cost about 220 million US dollars. **And**

we still remember Cyclone Gonu and phet in 2007 and 2010, respectively. New regulation and risk management system need to be developed and innovated to **mitigate** the climate risk.

Last but not least, the sector requires **significant investment** in technology, database and human resources to capture its huge potential. As regulators an incentive schemes need to be lunched here for the purpose of **encourage** companies to follow this trend.

**Finally, let me conclude by saying that:**

For the purpose of enhancing future growth in our market and benefiting out of it we need both regulators and market participants, to develop high level of cooperation and coordination.

We do believe that, restructuring the market in a way promoting companies capacity and efficiency with effective use of new technology, sophisticate underwriting mechanisms and products innovation with high introduction of business conduct and ethics should deliver important growth avenues for insurance industry. **Last but not least**, increasing sector professionalism along with

an increase in consumer awareness will help to achieve our objectives.

*It has been said that, "I never see what have been done; I only see what remains to be done! Gautama Buddha*

*Good luck for all of us and thank you very much for your attention.*