

MENA Insurance Corporate Governance Reform: Main Issues

Corporate Governance Workshop:
The Changing Landscape of the Insurance Industry

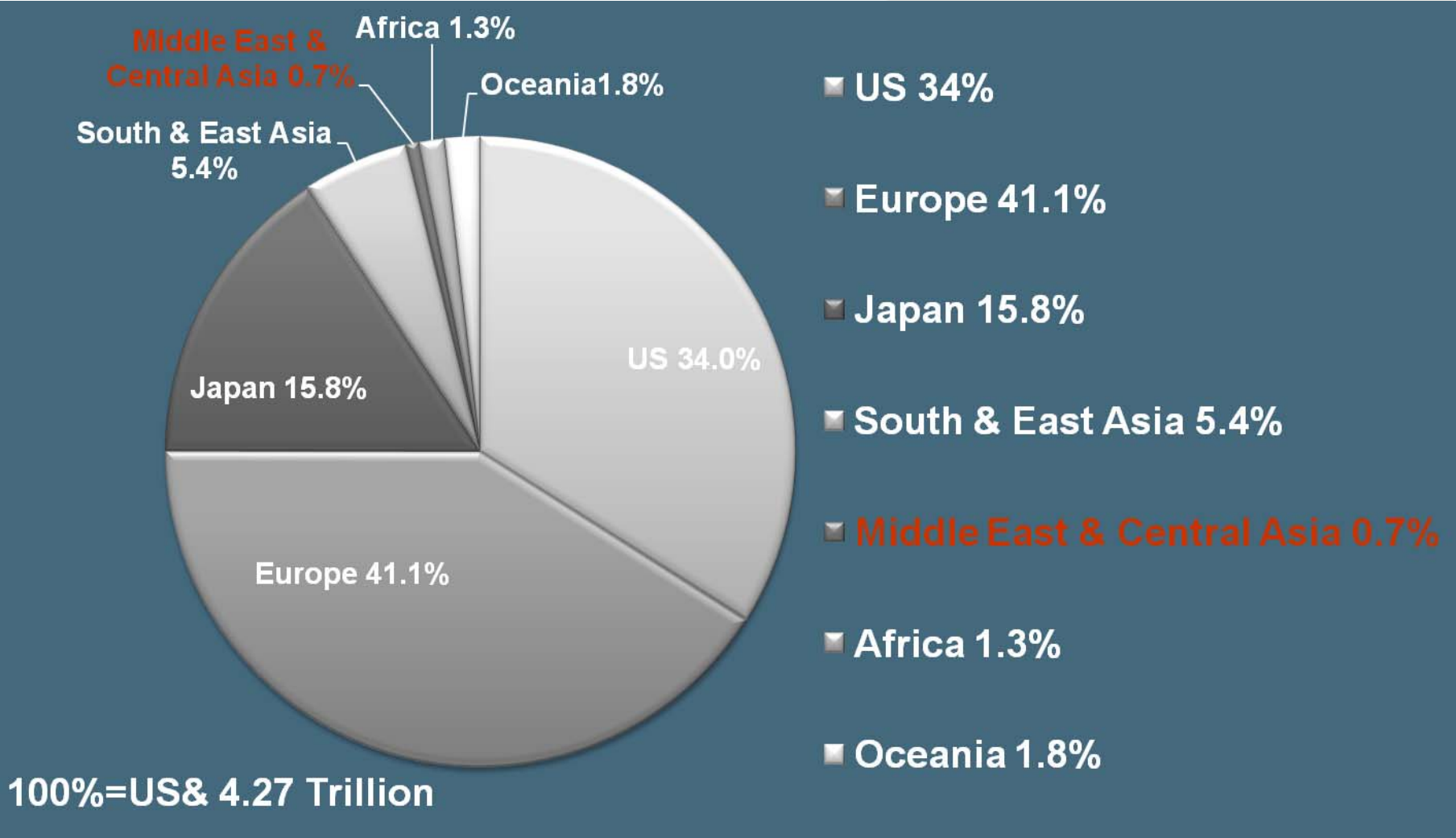
31 May 2010, Dubai

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Agenda
MENA Insurance Corporate Governance Reform:
Main Issues

- **Underdevelopment of MENA Insurance: Facts & Trends**
- **Hawkamah-AFIRC Taskforce on Corporate Governance for the Insurance Industry in the MENA region**
- **Measure s for Corporate Governance Reform**

Global Insurance Market 2008: Premiums worldwide

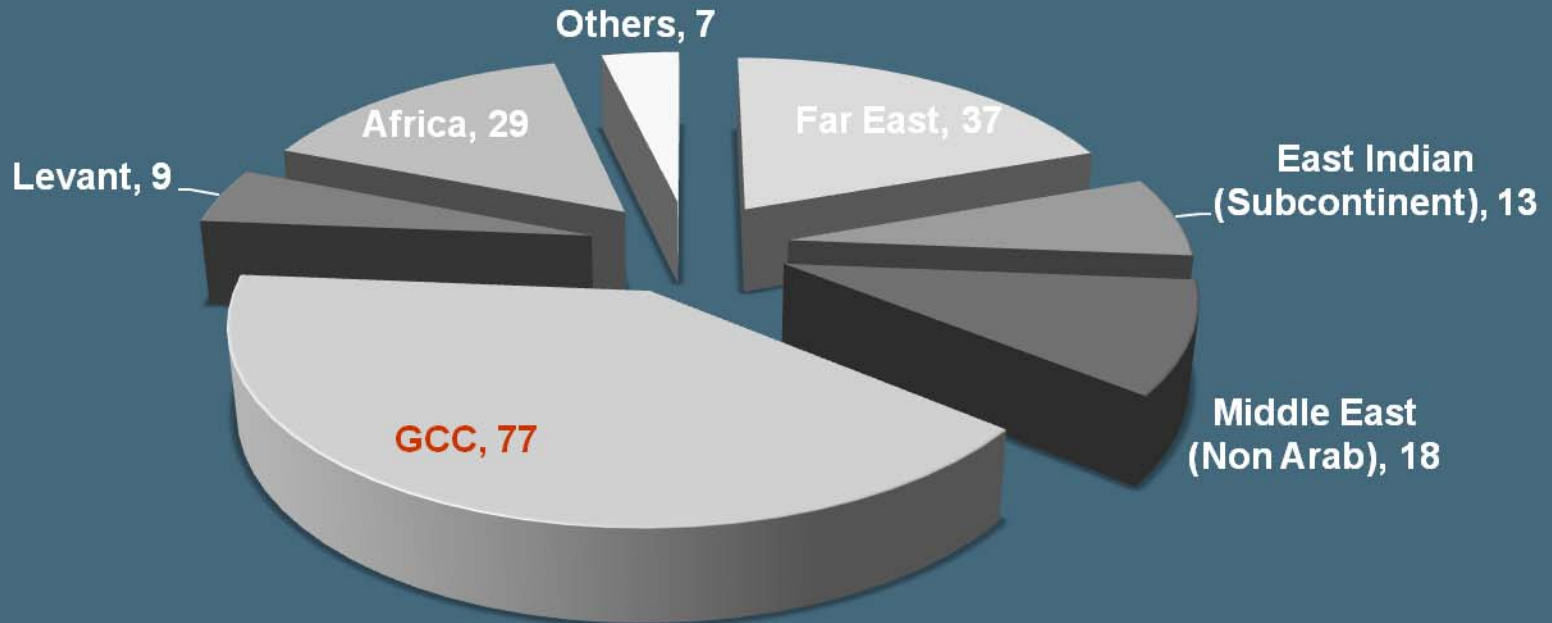


Source: Swiss Re, Economic Research & Consulting, sigma No. 3/2008

- ME Average Insurance Penetration is at 1.5% Compared to a Global Average of 7.1%
- In 2008, the Total Insurance Premiums in ME & CA Grew 4.7%, Compared to a Decline of 2.0% Globally

Total Business Region	Premiums (in USDmn) 2008	Real Growth 2008	Share of world market (in %) 2008	Insurance Penetration	Insurance Density
				Premiums in % of GDP 2008	Premiums per Capita (in USD) 2008
America	1,450,749	-2.4	33.98	7.29	1,552.7
North America	1,345,816	-3.1	31.52	8.54	3,988.8
Latin America and Caribbean	104,933	8.4	2.46	2.53	175.8
Europe	1,753,200	-6.2	41.06	7.46	2,043.9
Western Europe	1,656,281	-6.9	38.79	8.33	3,209.2
Central and Eastern Europe	96,919	9.0	2.27	2.79	299.2
Asia	933,358	6.6	21.86	5.95	234.3
Japan and newly industrialised Asia	675,109	3.8	15.81	10.41	3,173.2
South and East Asia	229,036	16.3	5.36	3.20	65.5
Middle East and Central Asia	29,213	4.7	0.68	1.45	110.3
Oceania	77,716	8.6	1.82	7.02	2,271.9
Africa	54,713	4.9	1.28	3.57	55.6
World	4,269,737	-2.0	100.00	7.07	633.9
Industrialised countries	3,756,939	-3.4	87.99	8.81	3,655.4
Emerging markets	512,799	11.1	12.01	2.72	89.4
OECD	3,696,073	-3.2	86.56	8.32	3,015.2
G7	2,925,946	-4.4	68.53	8.96	3,930.2
EU, 27 countries	1,616,461	-6.7	37.86	8.28	3,061.3
NAFTA	1,364,839	-3.0	31.97	8.10	3,065.7
ASEAN	45,493	0.4	1.07	2.99	85.1

Rise in Takaful (Shari'a Compliant Insurance)

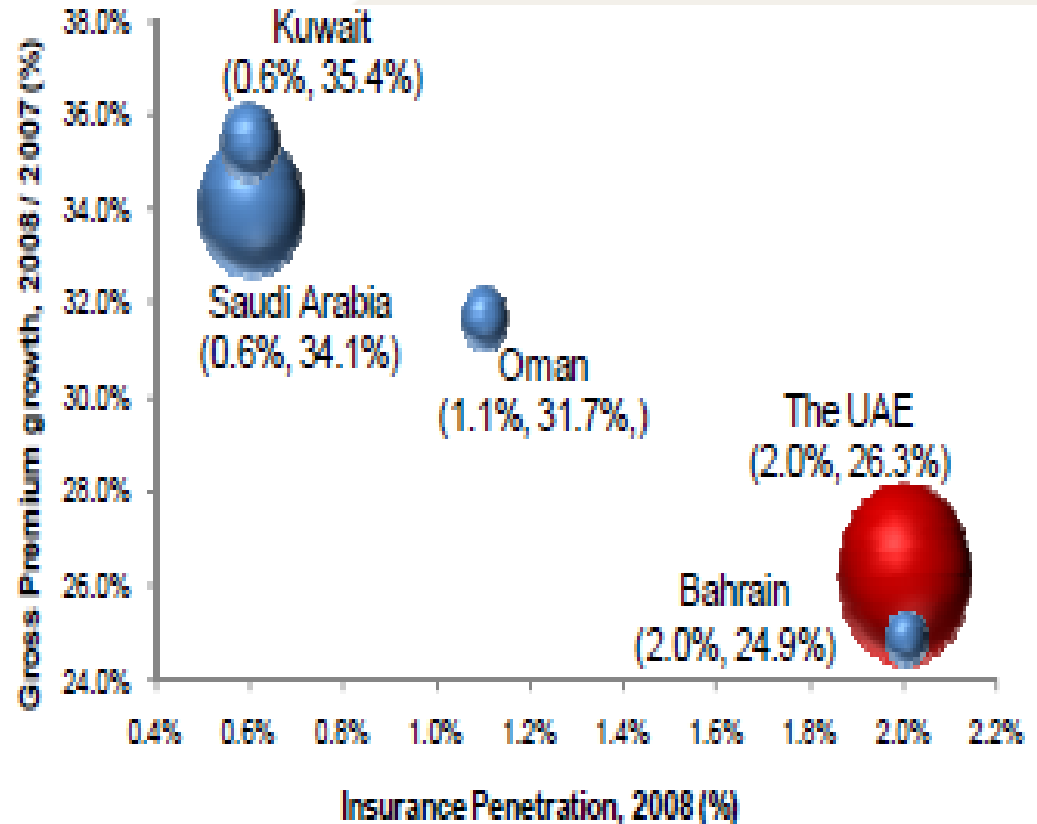


**Number of Islamic Insurance Operators in 2008
(Total 190)**

- Takaful contributions worldwide grew 25 percent from US\$7.5bn in 2007 to US\$9.4bn in 2008*
- Increase of number of Islamic Insurance Companies to 190 worldwide with the highest concentrations in the GCC (77 operators)*

GCC Insurance Characteristics & Growth Potential

- UAE largest and most developed
- Highest Insurance Penetration: UAE & Bahrain
- Kuwait and KSA growing faster than UAE & Bahrain
- Non-Life Insurance dominant line of business
- Takaful Premiums represent around 20% of the GCC Insurance markets
- Increased use of captive insurance or “self insurance” (Bahrain, Dubai & Qatar)

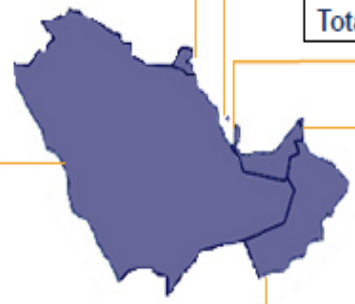


Source: Swiss Re, June 2009, Size of bubbles indicate gross premium income (US\$ million) in 2008

GCC Insurance Growth Potential: GCC Premiums 10,551 mn

Kuwait
 Total population¹: 2,691,158
 Total licensed insurers: 25
 GDP²: US\$149.5 billion (2008 est.)
 Total premiums³: US\$914 million

Bahrain
 Total population¹: 727,785
 Total licensed insurers⁴: 36
 GDP²: US\$26.89 billion (2008 est.)
 Total premiums³: US\$451 million



Saudi Arabia
 Total population¹: 28,686,633
 Total licensed insurers⁸: 26
 GDP²: US\$577.9 billion (2008 est.)
 Total premiums³: US\$3.07 billion

Qatar
 Total population¹: 833,285
 Total licensed insurers⁵: 13
 GDP²: US\$91.55 billion (2008 est.)
 Total premiums: US\$538 million

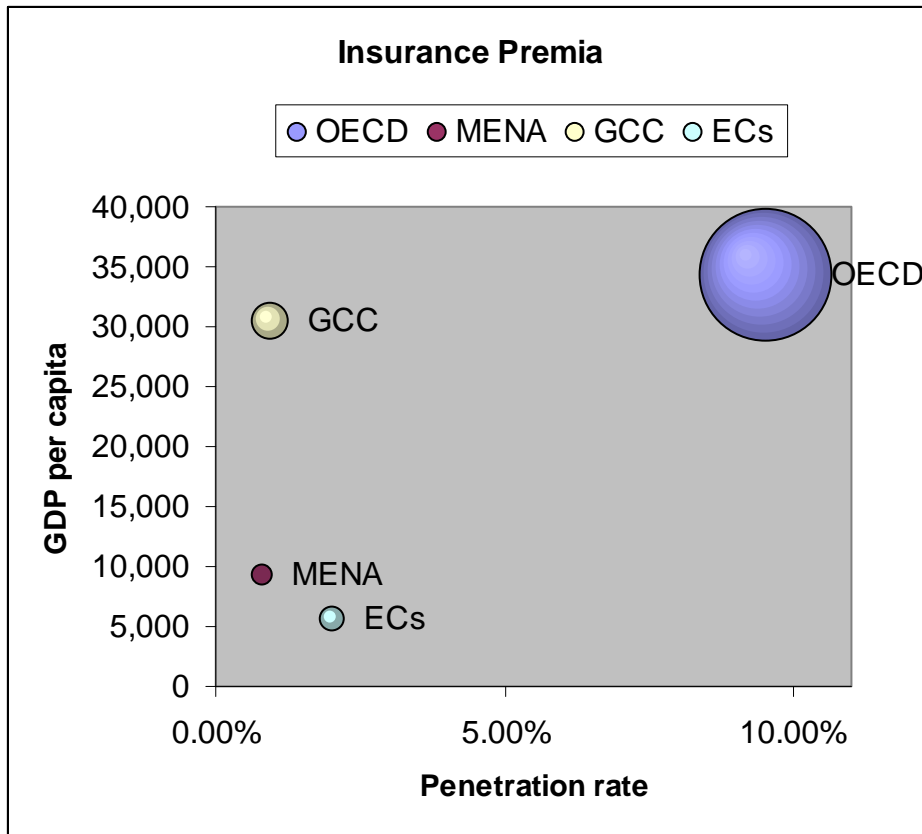
Oman
 Total population¹: 3,418,085
 Total licensed insurers⁷: 23
 GDP²: US\$66.87 billion (2008 est.)
 Total premiums³: US\$578 million

UAE
 Total population⁶: 4,798,491
 Total licensed insurers: 56
 GDP²: US\$206.3 billion (2008 est.)
 Total premiums³: US\$5 billion

Total Insurance Premiums*	
Global	US\$ 4,269,737 million
Western Europe	US\$ 1,656,281 million
America	US\$ 1,450,749 million
Asia	US\$ 933,358 million
Japan	US\$ 327,331 million
Belgium	US\$ 42,867 million
GCC	US\$ 10,551 million

1. All population figures are from the CIA World Factbook unless otherwise stated and include non-nationals (July 2009 est.)
 2. GDP (Purchasing Power Parity) from CIA World Factbook
 3. Policy Magazine – MENA Insurance 2009 Quick Reference Guide
 4. From Central Bank of Bahrain Insurance Market Review 2008
 5. From Ministry of Foreign Affairs in Qatar
 6. Estimate is based on the results of the 2005 census that included a significantly higher estimate of net immigration of non-citizens than previous estimates (July 2009 est.)
 7. From Capital Markets Authority website
 8. From Tadawul website

MENA Insurance: Key Growth Drivers



- Favorable demographics: young and fast growing population
- Low insurance penetration, compared with other Emerging Markets and OECD countries
- Higher wealth and growing per capita incomes

	Population (mn people)	Dependency ratio	15-64 working-age	over 65
OECD	1,126	51%	66%	14.40%
GCC	37	48%	68%	3%
MENA	255	56%	64%	4%
ECs	3,254	47%	67.80%	0.07%

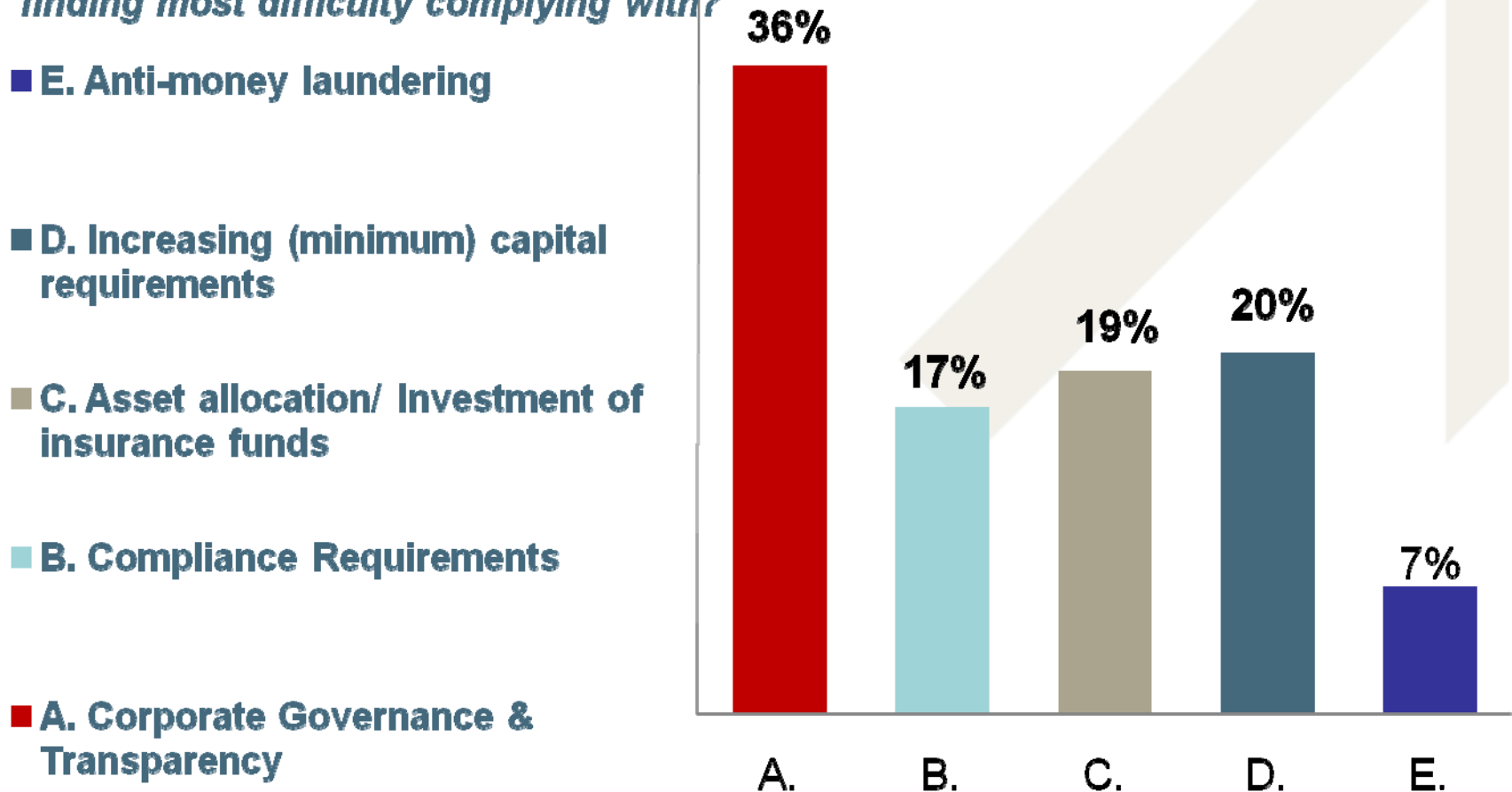
Source: Databank by World Bank, SWISS RE sigma No.3/2009, Source: DataBank by World Bank
size of Bubbles indicate premium per person in 2008

MENA Insurance: Key Growth Drivers (cont'd)

- Economic Diversification
- Development of Regulatory framework in emerging markets (Compulsory insurance cover, including third party motor, health & home insurance)
- Upgrading the Regulatory framework underway including Insolvency and AML/CTF
- Introduction of new Corporate Governance codes (Bahrain, KSA, Qatar, UAE) and guidelines (Yemen)
- Takaful set to be a strong contributor to overall insurance growth - increased availability of Takaful products; 24% of global population is Muslim
- Signal of an increasing trend for Insurance Gross Premiums in 2009 in the MENASA region (according to a study of S&P, UAE GPI increased by 5% in 2009)

GAIF 2008 Survey: Many challenging regulations to deal with, but corporate governance strikes at the heart of a typical Arab insurer's management structure

Which one of these regulations do you think MENA Insurance companies are finding most difficulty complying with?



Hawkamah-AFIRC Task Force on Corporate Governance for The Insurance Industry

- To undertake a **corporate governance assessment** of the insurance sector in participating Arab countries
- To develop an insurance corporate governance **policy brief** to include conventional insurance and “Takaful”
- To develop a **corporate governance framework and guidelines** for the insurance sector
- To build the **corporate governance capacity** of the industry
- To provide the **sound basis for the development** of the insurance industry

Status Report on the Survey Data Collection

Survey was sent out to over 100 insurance companies and 13 regulatory agencies

Received a 45% response rate

Countries represented: Bahrain, Egypt*, Jordan, KSA, Lebanon, Oman*, Sudan*, UAE

	Companies	Regulators	Total per country	Percentage
Bahrain	4	1	5	10%
Egypt	0	1	1	2%
Jordan	4	1	5	10%
KSA	4	1	5	10%
Lebanon	10	1	11	24%
UAE	13	1	14	31%
Sudan	0	1	1	2%
Oman	3	1	4	8%
Palestine	1	0	1	2%
Total	39	8	47	100%

MENA Insurance: Common Characteristics & Challenges

- Ownerships structure: SOEs/FOEs
- Lack of executive succession within FOEs
- Lack of disclosure
- Need of skilled Board members with financial services industry knowledge
- Absence of Board committees: Audit committee is the only mandated committee
- Shortage of actuarial services and other skilled labor
- **Lack of guidance on how Corporate Governance should be implemented**

Source: Hawkamah-AFIRC Task Force on CG for the Insurance Industry

Main Issues for Reform in MENA Corporate Governance – Hawkamah- AFIRC Task Force (1)

- **Commitment** to good CG practices is perhaps the single most important element of effective implementation and compliance
- **A uniform definition of what CG** entails must be agreed upon before CG can be in place and operative throughout the MENA region

70% of respondents indicated that CG deserves special attention in the insurance industry.

- **Legal and regulatory systems** must be brought into greater harmonization

85% of respondents indicated that it would be desirable for their countries to develop CG principles that focus exclusively on the insurance industry

Main Issues for Reform in MENA Corporate Governance - Hawkamah- AFIRC Task Force (2)

- Need for **qualified and independent Board members**

Only 29% of respondents indicated that there is a definition of independent director in their country's legal framework of corporate governance or in the statutory documents of their insurance firms

- Need for **qualified and independent Actuaries**

- **Insurance ownership structures must have high levels of transparency and disclosure**

Prominence of State-Owned & Family-Owned Structures

- **Effective internal controls and risk management** should be ensured by qualified internal and external auditors

Implementing CG Reform Measures: Regulatory

✓ **Regulatory Level**

- Ensure the development of **well-regulated insurance markets** and provide **ongoing supervision**
- Encourage the adoption of **IAIS Insurance Principles**
- Encourage companies to adopt **uniform insurance corporate governance standards and guidelines**
- Ensure that standards of business conduct and ethical behavior for Board members, senior management, actuaries and other personnel are in place and strictly enforced.
- **Upgrade the Insolvency laws in the MENA Region**
- Foster the collation and production of **statistics on MENA Insurance Markets**
- Develop **informational and educational material in Arabic**
- **Dynamic & interactive process of shaping and strengthening legislation**

Implementing CG Reform Measures in MENA: Industry

✓ **Industry Level**

- Ensure that accounting, actuarial and auditing standards are comprehensive, documented, transparent and consistent with international standards:
 - ❑ Adopt **International Financial Reporting Standards (IFRS)**;
 - ❑ Adopt **IFSB guidelines and AAOIFI standards for Shari'a compliant Insurance**
- Comply with **IAIS Insurance Principles**
- **Region-wide capacity building** for directors, senior management , actuaries, and Shari'a Board members
 - *Hawkamah (Cairo, 2009) - Conducted 1st CG Insurance Regulators Training in the region*
 - *Mudara IoD Director Development Program (Ongoing – www.mudara.org)*
 - *Hawkamah's CG Workshop for the Insurance Industry (31 May 2010)*
- Enhance **transparency & disclosure**
- **Adopt the recommendations provided in the Policy Brief on CG for MENA Insurance** (*Copy available at the workshop and on Hawkamah's website*)
- **Participate in Insurance associations and encourage the development of voluntary industry standards**

Implementing CG Reform Measures in MENA: Boards

✓ **Board Level**

- Understand its **fiduciary duties** and responsibilities towards the insurance company, policyholders and other stakeholders regardless of the ownership structure
- Ensure that its **actions are in accordance with the laws** and of the jurisdiction in which the company operates
- Create **specialized Board committees** to extend its oversight into particular areas of the company's operations and business.
- Ensure that **standards for remuneration policy are enforced.**
- **Communicate** on a regular basis **with the regulator** and the public and to participate, when invited, in the development of both the regulatory policy and regulations

***Partner with us in
Building Institutions for the Region***

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