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July/August 2010

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QUEST FOR TRANSPARENCY

COMPLIANCE WITH CORPORATE GOVERNMENT AND TRANSPARENCY REQUIREMENTS IS CAUSING THE MOST DIFFICULTY FOR MENA INSURERS, GAIF SURVEY REPORTS

Rising income levels, favourable demographics, economic diversification and regulatory reform remain key long-term growth drivers for the MENA insurance markets. Premium growth continues to be robust but insurance penetration remains low; with the average penetration rate in the region at 1.5 per cent compared to a global average of 7.1 per cent. Takaful is expected to play an important role in unlocking the potential, particularly with the untapped life insurance segment.

Insurance regulatory bodies across the region are making significant progress in upgrading their legal frameworks and enforcement mechanisms, but like other emerging markets, the thirst for greater transparency remains unquenched. There is a clear consensus that corporate governance reform is needed but Arab insurers face a daunting task in restructuring themselves to comply with global governance standards.

A survey of delegates at the recent General Arab Insurance Federation (GAIF) conference in Bahrain revealed that complying with corporate governance and transparency requirements was causing the most difficulty for MENA insurers.

Corporate governance strikes at the heart of a typical Arab insurer's management structure and the region is marked by the prominence of government-owned and family-owned companies. Dr Nasser Saidi, executive director of the Hawkamah Institute for Corporate Governance, spoke of common characteristics and challenges including: a lack of executive succession within family-owned enterprises, a lack of disclosure and the need for skilled board members with financial services industry knowledge.

Saidi also pointed to the absence of board committees, highlighting that the audit committee is the only mandated committee. Other challenges include a shortage of

actuarial services and other skilled labour. Fundamentally, there has been a lack of guidance on how corporate governance should be implemented, but this is being addressed by global and regional initiatives. A number of countries are introducing new corporate governance codes including Bahrain, Saudi Arabia, Qatar and the UAE.

Hawkamah-AFIRC task force

In association with the Arab Forum of Insurance Regulatory Commissions (AFIRC), the Hawkamah Institute spearheaded a task-force on corporate governance reform in the MENA insurance industry. This began with a survey of Arab insurers across the region and culminated in the publication of a Policy Brief, which provided guidelines for the development of the sector. A number of issues were identified including:

- A commitment to good corporate governance practices is perhaps the single most important element of effective implementation and compliance
- A uniform definition of what corporate governance entails (in relation to the insurance industry) must be agreed upon before it be in place and operative throughout the MENA region
- Legal and regulatory systems must be brought into greater harmonisation

Saidi identified the need for qualified and independent board members and revealed that only 29 per cent of respondents in the Hawkamah survey 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.

He also called for effective internal controls and risk management that

* MENA REGULATIONS

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

Corporate governance and transparency 36%

Increasing (minimum) capital requirements 20%

Asset allocation / Investment of insurance funds 19%

Compliance requirements 17%

Anti-money laundering 7%



LEFT: Dhammika Amukotuwa, associate director of policy and legal services at the International Association of Insurance Supervisors **ABOVE:** Fareed Lutfi (left), Emirates Insurance Association, and Dr Nasser Saidi, executive director of the Hawkamah Institute for Corporate Governance

should be ensured by qualified internal and external auditors.

Saidi called in regulators to adopt International Association of Insurance Supervisors (IAIS) principles and encourage companies to adopt uniform insurance corporate governance standards and guidelines. This would need to go hand-in-hand with an upgrade of insolvency laws in the MENA region, as well as the development and compilation of statistics, informational and educational material in Arabic.


IAIS initiative

Dhammika Amukotuwa, associate director of policy and legal services at the IAIS, revealed it is currently amending its insurance core

principles (ICPs): a set of requirements that must be met by all insurance supervisors to meet the IMF's assessment programme.

The revised ICPs are expected to be finalised and adopted by October 2011 and include a strong focus on corporate governance standards. According to the current draft of ICP 9: "The supervisor must require insurers to establish and implement a corporate governance framework which provides for sound and prudent management of the insurer's business. The supervisor must ensure that the corporate governance framework adequately recognises and protects the interests of policyholders and other beneficiaries."

Insurers would be required to have a written corporate governance framework that: establishes clear accountability and effective oversight of the insurer's business by its board of directors; and promotes an appropriate degree of transparency of

the insurer's operations to relevant stakeholders. Aspects to be covered include: overall business strategy, adequate and effective internal controls and risk management, establishment of board committees, clear accountability framework, appropriate financial reporting channels and remuneration policies. 

CORPORATE GOVERNANCE STRIKES AT THE HEART OF A TYPICAL ARAB INSURER'S MANAGEMENT STRUCTURE AND THE REGION IS MARKED BY THE PROMINENCE OF GOVERNMENT-OWNED AND FAMILY-OWNED COMPANIES