

Poor corporate governance in MENA insurance sector undermining growth

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DUBAI — Poor corporate governance in the insurance industry across the MENA region is one of the main reasons why the industry is less developed than in other parts of the world, said Dr Nasser Saidi, executive director of Hawkamah, the Dubai-based Institute for Corporate Governance in MENA, Central Asia and beyond, at the First MENA CEO insurance summit in Amman, Jordan, recently.

"Insurance in all insurance lines is underdeveloped in MENA," he said. "It accounts for only 1.5 per cent of GDP in 2005, compared with 6-8 per cent of GDP for countries with similar levels of income." He also noted that non-life insurance is relatively more developed than life.

To boost the industry's growth, an appropriate regulatory framework is needed along with an appropriate and effective corporate governance framework, he explained. An effective corporate regime is considered an integral element of sustainable economic growth and development. "One of the main building blocks is corporate governance, to build a strong and efficient industry," he said.

In his presentation entitled "Corporate governance — Walking the talk beyond mere regulatory compliance," he noted that the insurance industry was not only characterized by a "corporate governance gap", but also by concerns over effective insurance supervision, divergent actuarial and accounting practices and capital transparency and solvency practices.

The underdevelopment of the insurance industry in MENA can be attributed to four factors he said, the first of which are barriers to competition and innovation. These barriers include the presence of state monopolies and their control of insurance pricing and products; protection of local insurers; restricted market access and the limited entry of foreign competition. "Captive regulators" is another concern.

Other factors are also constraining the development of the industry, said Saidi. These are: inadequate development of property rights, their protection and enforcement; inadequate development of housing and mortgage markets and a lack of modern, enabling legal and regulatory infrastructure.

The guidelines laid down by the OECD and The International Association of Insurance Supervisors (IAIS) for corporate governance in the insurance sector serve as an industry benchmark for standard setting, he said. These guidelines emphasize the importance of sound risk management and decision-making processes. They also include setting out the role and responsibilities of directors and ensuring that the rights of policyholders and shareholders are protected. Transparency, disclosure and regular reviews are also key requirements to facilitate good decision-making as well as protecting stakeholder rights. Saidi also noted that to date only three countries have undertaken the Report on Observances on Standards and Codes (ROSC), an IAIS initiative. These countries are Bahrain in 2006, Morocco in 2003, and Tunisia in 2002.

Hawkamah, which aims to bridge the corporate governance gap in the region, also works with strategic partners internationally as well as regionally, such as the OECD, the Dubai International Financial Centre (DIFC) and the Young Arab Leaders (YAL). In April Hawkamah signed an MOU with the 13-member Arab Forum of Insurance Regulatory Commissions (AFIRC) to promote and improve corporate governance in the region, and to launch the insurance task force.

"We are working with the insurance commissioners (across the region) to harmonize corporate governance standards," Saidi told Khaleej Times, emphasizing the importance of taking into account local laws and regulations. A survey is being undertaken to identify where the gaps are. The policy brief is targeted for completion in November, he said, and will be launched in December.

A questionnaire has been circulated to insurance organisations in the respective countries. It seeks detailed responses about corporate governance practices, including the role of directors, compensation and remuneration practices and the role of the supervisory authority.

The longer-term aim is to develop a corporate governance policy brief that applies to conventional insurance as well as to takaful and re-takaful, said Saidi. "We will develop corporate governance guidelines, run workshops and board director development programmes. The entire programme will take about three years going forward, to 2010."