

Good Governance, Liberalization & Innovation: Way Forward for MENA Insurance

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Good Governance, Liberalization & Innovation

- n Infancy and Underdevelopment of MENA Insurance: Facts & Trends
- n Governance Building Blocks: Hawkamah Institute for Corporate Governance
- n Breaking Barriers: Internal Reform & Liberalization vs. External Pressure
- n Way Forward for MENA Insurance

Insurance underdevelopment in ME & CA: I

Life & Non- Life Premium Real Growth Rates by Region

Region	Life		Non-life	
	Premium Growth 2004	Annual Average Growth Rate 1994-2003	Premium Growth 2004	Annual Average Growth Rate 1994-2003
World	2.34%	4.14%	2.30%	3.11%
Industrialised countries	1.67%	3.47%	1.71%	2.69%
North America	0.67%	4.71%	2.04%	3.06%
Western Europe	4.05%	6.96%	1.84%	3.19%
Japan	-1.00%	-1.01%	-0.51%	-1.00%
Oceania	6.20%	4.46%	0.44%	4.85%
Emerging Markets	7.38%	10.82%	7.71%	7.31%
South and East Asia	9.78%	11.01%	6.64%	8.17%
Latin America and the Caribbean	17.13%	12.89%	5.93%	5.40%
Central & Eastern Europe	-11.22%	11.10%	13.53%	9.31%
Africa	-4.74%	8.31%	10.11%	4.55%
Middle East & Central Asia	4.12%	6.39%	2.17%	8.01%

Source: Swiss Re, Economic Research & Consulting

Insurance underdevelopment in ME & CA:II

Insurance Penetration & Density by Region (2004)

Region	Life			Non Life		
	Premium (USD mn)	% of GDP	% of World	Premium (USD mn)	% of GDP	% of World
America	544,530	3.7	29.5%	672,370	4.6	48.2%
North America	524,327	4.1	28.4%	643,249	5.1	46.1%
Latin America & the Caribbean	20,203	1.0	1.1%	29,121	1.5	2.1%
Europe	694,563	4.7	37.6%	503,621	3.2	36.1%
Western Europe	683,334	5.1	37.0%	473,177	3.3	33.9%
Central & Eastern Europe	11,229	0.8	0.6%	30,444	2.2	2.2%
Asia	556,321	5.6	30.1%	179,715	1.8	12.9%
Japan	386,839	8.3	20.9%	105,587	2.3	7.6%
South & East Asia	165,480	3.8	9.0%	64,078	1.4	4.6%
Middle East & Central Asia	4,002	0.5	0.2%	10,050	1.2	0.7%
Africa	26,241	3.4	1.4%	11,368	1.5	0.8%
Oceania	27,034	3.7	1.5%	28,144	3.9	2.0%
World	1,848,688	4.6	100.0%	1,395,218	3.4	100.0%

Source: Swiss Re, Economic Research & Consulting

MENA Insurance characteristics

- n Insurance in all insurance lines underdeveloped in MENA, comparable to Africa
- n Non-life relatively more developed than life
- n Limited or no integration with capital markets
- n Concerns:
 - n Effective insurance supervision
 - n Divergent actuarial & accounting practices
 - n Capital transparency & solvency practices

MENA Insurance underdevelopment due to

- n Barriers to competition and innovation:
 - n State monopolies and control of insurance pricing and products
 - n Protection of local insurers, restricted market access & limited entry of foreign competition
 - n 'Captive regulators'
- n Inadequate development of property rights systems, protection and enforcement
- n Inadequate development of housing and mortgage markets
- n Lack of modern, enabling legal & regulatory 'infrastructure'

Poor Penetration Rates: Example Mexico

- n 50 million residences in Mexico
- n Of which 30 million are insurable (solid walls, running water)
- n Of which 0.8 million houses are insured (< 3%)
- n Industrial Sector is 90% and Commercial Sector is 50% insured

→ Establishing an efficient property rights system is an essential building block for non-life insurance

Source: Insurance Industry Association in Mexico

Cited by Kleindorfer, WB 2003

Market Failure in MENA?

- n Loss of credibility - compulsory motor insurance syndrome
- n Lack of history of insurance, social acceptance of the role/value of insurance
- n Information costs: Un-insurability at acceptable /affordable prices
- n Lack of transparency & disclosure: Agency costs
- n Competition barriers: Re-insurer/Broker/Capital Market Rents
- n Government intervention: Moral Hazard

Establishing credibility in Emerging economies: How not to do it

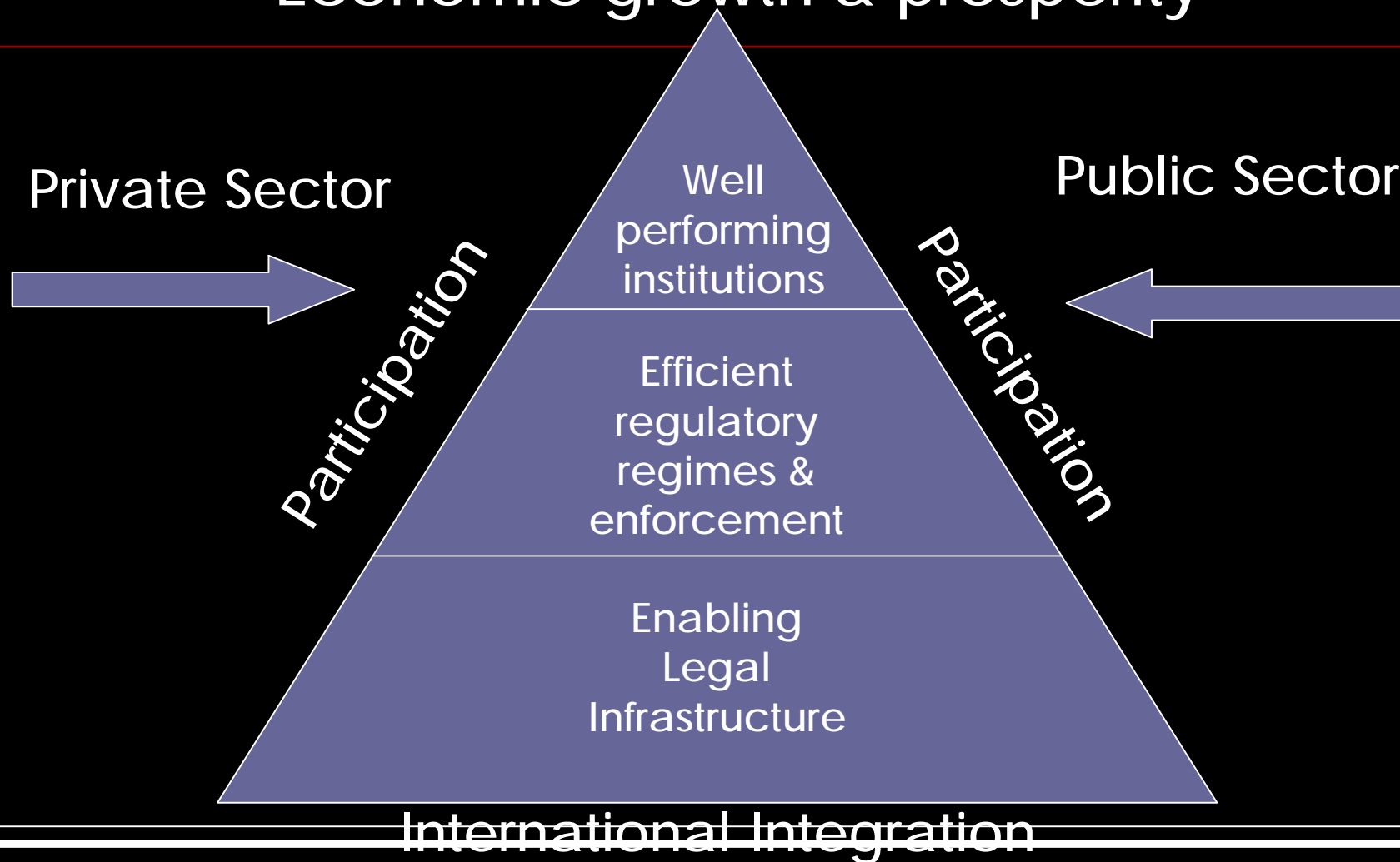
- n Typically: Compulsory motor liability
- n But: Poor claims payment record;
- n Insurance seen as a tax, not a valuable service
- n No effective legal recourse/ consumer or investor protection
- n Lack of trust in insurance

→ Compulsory insurance schemes are not the way forward

Kleindorfer, WB 2003

Effective CG: integral element of sustainable economic growth & development

Economic growth & prosperity



Insurance Corporate Governance

1. Good CG of insurers: complement to regulatory prudential framework
2. Principal-Agent, asymmetric information and market power issues are complex for insurers. Face Technical & non-technical risks
3. Only 2 MENA countries, Morocco (2003) & Tunisia (2002) undertook ROSC Report on Insurance Supervision

OECD Guidelines for CG

n Governance Structure: Guidelines 1-7

- n The governance structure must establish an appropriate division of administrative and oversight responsibilities, stipulate and delineate the qualifications and duties of persons bearing responsibilities, and protect the rights of policyholders and shareholders or “participating policyholders”.**

n Internal Governance Mechanisms: Guidelines 8-9

- n Insurance entities should have appropriate control, communication and incentive mechanisms that encourage good decision-making power and timely execution, transparency, disclosure and ensure regular review and assessment, having regard to the branches of business operated. These mechanisms should be tailored to the protection of policyholders, beneficiaries and shareholders (or participating policyholders)**

n Stakeholders’ protection: Guidelines 10-12

- n The governance framework of insurance entities should ensure an appropriate protection of the rights of stakeholders through disclosure and redress mechanisms and the compliance with the basic rights of shareholders or participating policyholders in the case of mutual insurers.**

OECD Guidelines for Governance of Insurers

April 2005 [<http://www.oecd.org/dataoecd/19/10/34799740.pdf>]

1. Identification of Responsibilities
2. Board (s) Structure
3. Functions, Responsibilities of Board (s)
4. Composition & Suitability
5. Accountability
6. Actuary

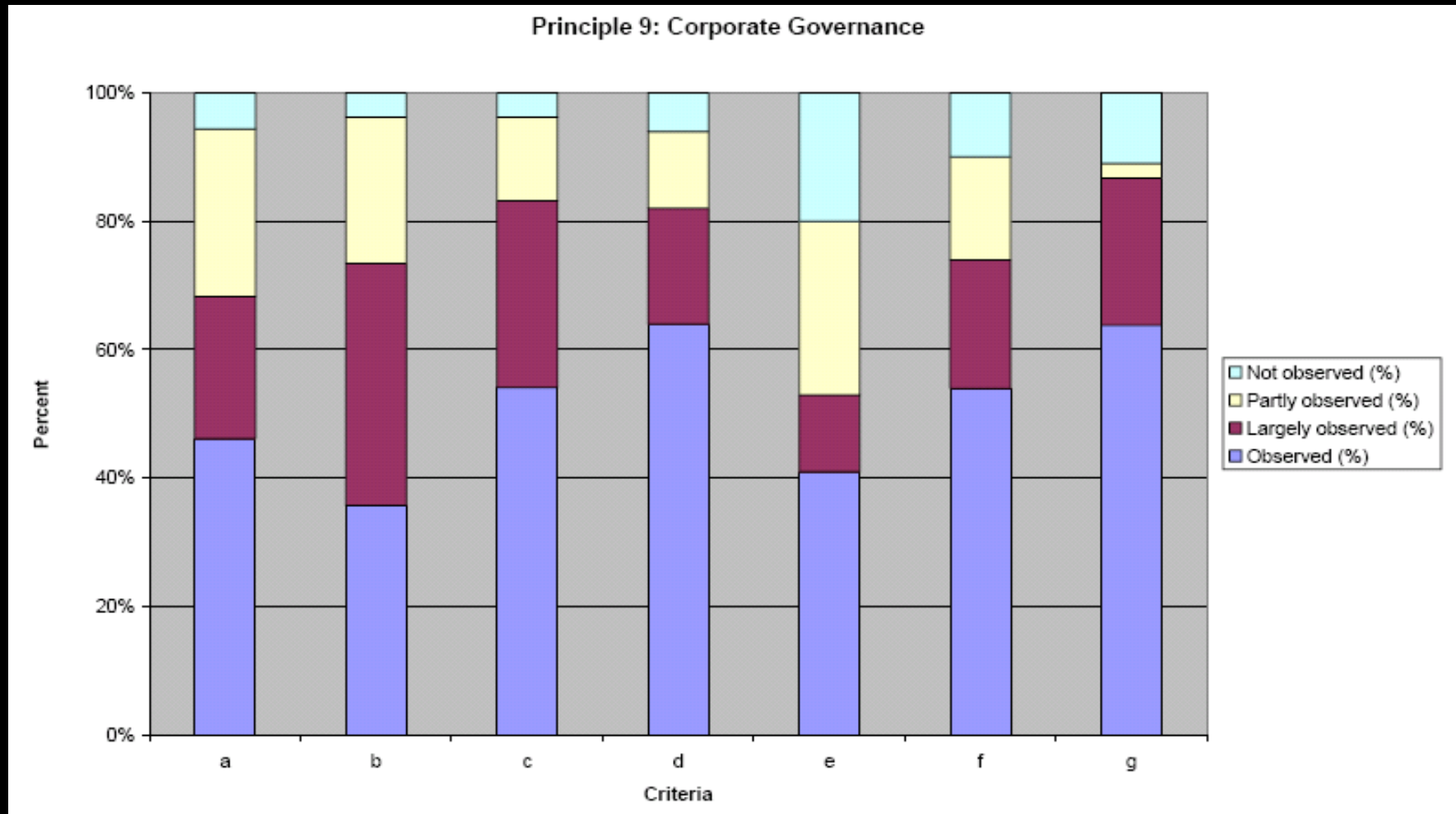
1. External Auditors
2. Internal Controls
3. Reporting
4. Protection of participating policyholders in the case of mutual insurers
5. Disclosure
6. Redress

IAIS issued 28 Core Principles: CP 9 on CG

- a. The supervisory authority requires and verifies that the insurer complies with applicable corporate governance principles.**
- b. Duties & responsibilities of the board of directors**
- c. Responsibility of Senior Management**
- d. Establishment of Board Committees**
- e. Remuneration policy**
- f. Appointment of Compliance Officer**
- g. Role of Actuaries**

IAIS REPORT ON INSURANCE CORE PRINCIPLES

SELF-ASSESSMENT EXERCISE, 2004/2005: Fifty-eight jurisdictions completed self-assessment on observance of the Insurance Core Principles as of 1 December 2005.
MENA: Bahrain, Egypt, United Arab Emirates



Hawkamah-ICG Mission

- n 'Bridge the CG gap' and serve as a platform for regional co-operation aiming to raise awareness of national, regional and global initiatives
- n Assist the countries and companies of the region in developing sound and globally well integrated CG frameworks and implementation of CG reforms
- n Monitor the outcomes of CG policies at the public and private sector level.

Hawkamah Institute for Corporate Governance

- n First Institute of its kind in the region
- n An autonomous international association, hosted by the DIFC and serving the wider MENA region
- n Partners: DIFC, OECD, WB, IFC, CIPE, YAL, IMD, DSG, UAB
- n Strengthen institutional and capacity building through **Hawkamah Institute of Directors.**
- n Source of CG technical assistance, monitoring, analysis, research, consultation and reform.
- n Foster communication and policy dialogue on CG

Hawkamah Targeted Sectors

- 1. Listed Companies, Capital Markets & Regulatory Authorities**
- 2. Banks, Financial Institutions, Insurance industry, Central Banks & Supervisory Authorities**
- 3. Non-listed companies – Family-Owned Enterprises (FOEs) & Small and Medium Enterprises (SMEs)**
- 4. Public Sector – State-Owned Enterprises (SOEs)**
- 5. Media – Academia: Raising Awareness, Building Capacity & conducting research on CG**

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MENA Insurance Promise

- n External pressure to open markets: WTO/GATS and FTAs with US, EU and bilaterals
- n High growth potential for MENA insurance, but predicated on public-private partnership to build capacity & institutions
- n Build infrastructure capacity:
 - n Independent Insurance Regulators and Enforcement Regime: example of Lebanon
 - n Modernize laws & regulations
 - n Build capacity: build actuarial & insurance analyst professions
- n Insurance sector liberalization should be within comprehensive Financial Sector reform agendas

Financial Sector Reform Agenda

1. FS Reform should be priority on policy agendas
2. Adopt 12 Financial Standards for Financial Stability as basis for FS development
3. Focus on Governance of Banking and Financial Services
4. Develop the Capital Markets and their international integration
5. Build-up Institutional investment: insurance, pension funds
6. Reform Social Security Systems
7. Regional economic & financial integration to develop markets and create the potential for increased specialization and potential benefits from economies of scale and scope
8. Liberalization of trade in services

Way Forward: Dominant Factors

- n GCC integration, Monetary Union and financial harmonization
- n International Economic & Financial Integration: WTO/GATS, FTAs
- n MENA Capital Market Development
- n Develop Islamic insurance niche: *Takaful*
- n Compliance with international standards and principles: Corporate Governance guidelines & Basel II

MENA Insurance: Way Forward

- n Improve and strengthen governance & supervision: adopt international guidelines, standards and core principles
- n Foster capital markets-insurance industry links: institutional investment, pension funds
- n Reform Social Security Systems
- n Build capacity: actuarial and insurance professionals
- n Undertake domestic liberalization & reform prior to opening-up through instruments of WTO/GATS and FTAs

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Thank you

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