UAE Roundtable

Call for code of conduct to guide players

A code of conduct would help players operating in the highly competitive UAE insurance market, said participants at the first UAE roundtable organised by *Middle East Insurance Review*. But while there are obstacles to growth, participants maintain a positive outlook as they strive to conduct business in a more value-based, ethical way.

By **Al R Dizon**

Arguably, the UAE's insurance market is the most fragmented, and by far the most competitive one in the GCC.

In a population of about 5.5 million, of which less than 20% are citizens, there are 62 insurers serving the nation's insurance needs with a premium penetration of 1.9%. Saudi Arabia, in contrast, has 32 insurers and one reinsurer serving a population of 26.9 million.

And UAE market players are cognizant of this.

"The large number of insurers and brokers is really not helping the industry," said Dr Abdul Zahra Abdulla Ali, CEO of National General Insurance (NGI). "The results are deteriorating year after year, and even some of the bigger companies with a track record in the industry are also bleeding."

Upsides and certainty

The short-term upside is that insurers in the UAE are projected to see strong continued growth in 2013, despite expectations that the country's economy will expand at a slower pace, said a recent report by A.M. Best.

It added that the UAE's positioning of itself as a major Islamic finance hub could see benefits filter into the insurance sector by increasing opportunities for takaful operators to boost premium growth, as well as greater diversity in Islamic finance instruments. Another line of business expected to see further growth is trade credit insurance, given the UAE's trade hub status.

But there remains the fact that keen competition is putting considerable pressure on rates, which are in turn the parameter of the health of industry.

(Standing L-R): Mr George Kabban, Mr Mohammed Iqbal Mankani, Mr Walid Sidani
(Seated, L-R): Dr Abdul Zahra Abdulla Ali, Mr Fareed Lutfi, Mr Jason Light, Mr Patrick Choffel

Dialogue with regulator

Dr Abdul Zahra said it is perhaps time to have a dialogue with the government on this and related issues. "We need to sit with the Insurance Authority, and we need to speak loudly," he said. "Maybe consolidation by way of mergers is in order to realign the industry. Or maybe increasing the capital from AED100 million (US$27.2 million) to AED200 million – which is of course the easiest way."

It may be recalled that as a result of the 2008 global financial crisis, the Authority doubled the minimum paid-up capital for UAE insurers from AED50 million to AED100 million.

"The number of players in the market needs to be looked into," said Dr Abdul Zahra. "Now we have 62 companies. I am surprised by what I've seen so far in the industry. When companies quote AED500,000 premium for a certain risk, and one company quotes AED50,000, this drives us to a situation when we ask ourselves what kind of competition is this?"

Mr Jason Light, CEO of Emirates Insurance, suggested caution when discussing the subject of competition with the regulators. "In a way, regulators love it when we talk about competition, because they will always say that is none of their business," he said. "It's not their job to control competition; their job is the protection of our policyholders. So long as insurers are solvent and honest, regulators are not much concerned with competition."

He pointed out that the discussion should not be on how much the industry players compete, but on professional standards and how to maintain them. More importantly, regulators must be well-trained, consistent and transparent.

"That's the longer journey, but not an impossible one," he said. "Who would have predicted 10 years ago that Saudi Arabia would have the regulatory regime it has today? They invested a lot in training their people. Funding is not a problem – there's a huge amount of it available."

Mr George Kabban, CEO of UIB (DIFC), said: "We do have a regulator that has been doing a marvellous job within the DIFC framework because the stakeholders who are in there did not oppose it. Outside of the DIFC, there are some stakeholders who have a lot to lose if there was a viable, stakeholder-owned regulator. They would be asked to clean up their act for the benefit of the policyholder. Should we wait until the inevitable happens? Or should those of us who have invested time, effort, careers and life in the industry do what we have to do – engage the regulator?"

Roundtable participants

Mr Walid Sidani

Mr Sidani is the CEO of Abu Dhabi National Insurance Company (ADNIC), responsible for driving the company's ambitious expansion and modernisation strategy.

Mr Sidani brings over two decades of experience in commercial insurance and expertise in conceptualising and promoting conventional insurance and takaful products and services in the Middle East, North Africa, and the US.

Mr Sidani has been a member of the MENA Insurance CEO Club (MICC) since 2010, a member of the International Insurance Society since 2011, and a member of the American Chamber of Commerce – Abu Dhabi since 2012.

Mr Jason Light

Mr Light is the CEO of Emirates Insurance Company. After spending the early years of his career as a reinsurance broker in the London market, Mr Light joined the Renewal and Reconstruction team at Lloyd's in 1995 and was later appointed as the founding Managing Director of Lloyd's Japan, Lloyd's retail insurance business in Japan.

Immediately prior to joining Emirates Insurance in May 2007, he was CEO of Hemayah Insurance, Toyota ALJ's captive insurance business in Saudi Arabia.

Dr Abdul Zahra Abdulla Ali

Dr Abdul Zahra is CEO of National General Insurance Company (NGI). He earlier served as NGI's General Manager (head of organisation), since January 1998.

Prior to joining NGI, Dr Abdul Zahra worked in Yemen as General Manager (head of organisation) with Saba'a Yemen Insurance Company and as Deputy General Manager, Non-marine division with Iraq Reinsurance Company.

Dr Abdul Zahra has a PhD from the University of Nottingham, UK and a Bachelor in Business Administration from the University of Baghdad.

Mr Patrick Choffel

Mr Choffel was appointed CEO of Oman Insurance Company in September 2011. He came to the post from AIG, where he held key positions in Australia, Africa, Europe and the Middle East. He was most recently Regional President, Middle East, Africa and South Asia for ALICO, based in Dubai.

More recently, Mr Choffel also held several board positions, and acted as an advisor with Rothschild Dubai operations and as a consultant for major financial institutions in the Middle East.

Communication is key

"Communication is key," said Mr Walid Sidani, CEO of Abu Dhabi National Insurance Company (ADNIC), estimating that half of those receiving communications or directives from the Insurance Authority in the Arabic language are unable to speak Arabic. "Almost 86% of persons residing in the UAE are expatriates. Regulators must acknowledge the realities of the stakeholders that they are trying to service."

He also enjoined the industry to communicate effectively with the regulator. "I am not sure we are communicating effectively, even in the area of disclosures. It is evident from company websites that there are communication shortcomings at every level. We have to do a better job at communicating to all our stakeholders, both in terms of language and operations."

The industry understands, however, that the regulator is currently in a state of flux with ongoing structural changes, which could impact the Authority's direction and implementation of regulations. The UAE industry is not short of regulations, but implementation – which has not always been prompt and vigorous – is a key concern. Insurers, for example, are still awaiting clearer guidance regarding the proposed legislation on the separation of life and non-life companies.

Code of conduct needed

Meanwhile, the industry players feel there is a need for a code of conduct.

Mr Patrick Choffel, CEO of Oman Insurance agreed, citing some questionable business practices that have put the industry in a bad light at the expense of clients.

"The present state of affairs cannot continue," he said. "Perhaps we are waiting for another earthquake to strike. Until then, will we just wait and see how the industry would react? A major loss would be a wake-up call to the market. But then it would be too late. Necessary capital adjustments and adequate risk transfer programmes should be required and monitored."

He added: "Customers should be able to tell whether a company is worth doing business with. The customer is not an innocent individual who will do business with just about anybody, without exercising his due diligence."

"We talk about a code of conduct, and yet we don't have an entity to implement or enforce such a code. Who will do it?" asked Mr Mohammed Iqbal Mankani, Managing Director of MIM Business Consultants and former Chief Operating Officer of AMAN.

Mr Fareed Lutfi, Secretary General of Emirates Insurance Association (EIA), said the EIA is up to the task, and ready to take it on. "We don't have to reinvent

Mr Fareed Lutfi

Mr Lutfi is the Group Director - Insurance Services with Dubai Holding and Chairman and Senior Executive Officer of DHIS, a captive company based in the DIFC.

He is a Board member of Gulf Warranties Company in Bahrain and Al Fajer Retakaful Company in Kuwait, and is Secretary General of both the Emirates Insurance Association and the Gulf Insurance Federation, based in UAE.

Mr Lutfi's career began with Arab Insurance Group (Arig) in 1981, where he worked until 1996, setting up and managing the London contact office from 1982 to 1986. He has over 30 years of experience.

Mr Lutfi holds a Bachelor's degree in Marketing Management and Economics from Oglethorpe University, Atlanta, Georgia, USA.

Mr George Kabban

Mr Kabban is the CEO of UIB (DIFC) Ltd and serves on the Board of Directors of UIB's parent company, UIB Holdings (UK) Ltd and UIB International.

Mr Kabban joined UIB London in 1987 and was one of the founders of UIB's Oil & Gas Division. An expert in well control insurance, Mr Kabban is one of the few insurance practitioners with first-hand well control experience in post-liberated Kuwait, when he observed and worked with a specialist well control team.

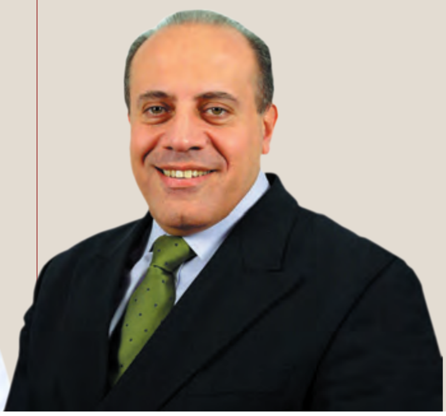
Mr Kabban holds an MBA in Finance from the University of Southern California's Marshall School of Business.

Mr Mohammed Iqbal Mankani

Mr Mankani has more than 44 years in the insurance industry, 37 of which have been spent in Dubai.

He is currently the Managing Director of M.I.M Business Consultants, which provides insurance consulting services.

Mr Mankani was formerly the General Manager and Chief Operating Officer of Dubai Islamic Insurance & Reinsurance Co (Aman).



the wheel," he said. "The system is in place. But what we need is the active participation of the industry players in drawing up the code."

"While the Authority enforces the regulations, the Association's code of conduct will ensure we – insurers, brokers, reinsurers, loss adjusters – conduct our business in a fair way that does not disadvantage the customer," said Mr Kabban. "We can adopt best practice standards, learn from other viable markets, aspire to be the best that we can be and therefore differentiate ourselves from the others."

Voting with their business

Clients can vote with their business, said Mr Kabban. For example, brokers who are signatories to the code would only recommend a set of insurers who are similarly signatories to a client.

He said: "When a client comes to me and says, 'I want to tender my business', I would say to him, 'I will tender your business among a set of companies who are signatories to a code of conduct'. As brokers, we would only be with companies that sign up to this code. If someone signs up but does not live up to it – we would know who these companies are. Are we as brokers ready to do this? Some of us are, but the vast majority does not want that. The bottom line is that we need to support those who are aspiring to do better in terms of code of conduct and standards."

The UAE industry is not short of regulations, but implementation is a key concern. Insurers, for example, are still awaiting clearer guidance regarding the proposed legislation on the separation of life and non-life companies.

There were also voices citing the attitude of reinsurers towards the industry.

"They have come down hard on the insurance industry," said Mr Mankani. "I know of two of the biggest risks in Dubai which were given cheapest rates by top-named reinsurers who are 'AAA'-rated. Had these reinsurers not done this, the rate would have more than doubled. Even then, the insurers are only covering 60% of the risk based on the PML, and the client is not aware of that. What is the insurance industry going to do about that?"

Calls for improvement at association level

"Corrective measures have been taken to address the shortcomings of the industry," noted Mr Sidani. "Perhaps the EIA can sit down with the authorities, talk to them about adopting a code of conduct and get the industry to implement it."

He acknowledged that the EIA is the best-placed agency to be the spokesperson for the industry with regulatory bodies, but to do that, the EIA requires improvements to its structure and a substantial redefinition of its role.

Dr Abdul Zahra said those selected as committee member positions in the Association should be able to drive it forward. "That means we should get the CEOs of some of the leading companies as committee members," he said. "That's how the Bankers' Association has been doing it."

There are voices against this if membership is dominated by direct insurers who may push their own agenda. "But if the committee composition has a fair representation of the industry – including brokers, reinsurers – then it would be good for the industry as a whole," said Mr Kabban.

"We are here to recognise one another as important wheels, important cogs to make our industry better."

Shining moments

In spite of the shortcomings, the industry players believe there are still many shining moments in the market that should be recognised.

As Mr Sidani pointed out, there are many companies actively participating in the regulatory process by providing insights and suggestions on the impact of draft UAE insurance regulations. "Also, there is less dependence on investment income as insurers are now focusing more on their core underwriting performance. There is better implementation of enterprise risk management (ERM) and corporate governance."

It has been noted that ERM has been developing steadily, but in some instances ERM levels are still basic as some insurers are still not defining risk appetite, not performing any capital or catastrophe modelling, or not seeking third-party assessment of general reserves. But at least there are voices acknowledging the need for the industry to move towards adopting proper ERM practices to enhance operations.

Leading by example

There is consensus that a lot rests on the values of market players, most of which are publicly listed.

"Shareholders subscribe to the values that companies stand for," said Mr Sidani. "We have to lead by example. There is has to be more emphasis on transparency, innovation, and progress – essentially, doing right things in the right way. ADNIC firmly adheres to its core values, which has resulted in the company becoming a trusted insurance partner, recognised for its long-standing expertise in provide reliable solutions to customers, while maintaining shareholder confidence."

He added: "If we are pushing for a value-based professional code of conduct, we have to be the ones to advocate it in order for it to happen now, and we must all be signatories to it."

"We have to have realistic goals," Mr Light said. "We are not going to change the world in a short time. But the future can be bright if we take the right steps."

A jolt for UAE insurers

Mr George Kabban was in his DIFC office when an earthquake struck in Iran in the afternoon of 16 April, the second to shake the emirate in a week.

"What happened in our office tower convinced me that the UAE is not prepared for a natural disaster," he said. "Someone decided to initiate an evacuation. But the gates had been locked as no one was being allowed to leave. There was a jam in the basement, with people in their cars waiting for the gates to be opened so that they could get out of the building. It was sheer chaos."

For Mr Jason Light, it was quite an event, too. "I have lived in this country for six years, and these were the first tremors I felt. If we are honest, most organisations, even insurance companies, have no idea what to do in the event of an earthquake."

Added Mr Fareed Lutfi: "Obviously we need to look at our readiness and capacity. I think the Insurance Association can be the mouthpiece of the industry regarding this matter."

"In terms of risk management and preparedness, we as an industry have to lead in instituting emergency evacuation procedures and protocols," said Mr Walid Sidani. "Certainly, the last recent tremors from the earthquakes that emanated from Iran have enhanced both public and industry awareness, and served as a wake-up call."

Building codes

The shock and reaction in Dubai was expected as the area is not known to be part of the earthquake zone that swathes across Iran and Pakistan. "To date, insurers are still not sure to what extent Dubai falls within the earthquake zone," commented Mr Iqbal Mankani. "But I think there have been about 30 tremors in the last two years – the number that Iran would get in one day."

Buildings in the UAE are constructed to accepted standards, with buildings between five and 10 storeys already adhering to a Zone 2A standard under the 1997 Uniform Building Code. This standard requires structures to resist tremors from earthquakes of up to magnitude 5.5 on the Richter scale.

Following the April earthquakes, the Building Department of Dubai Municipality issued a circular requiring all new buildings above 10 floors to be built to withstand earthquakes up to a magnitude of 5.9 on the Richter scale.

Even this could be seen as an over-reaction given the actual level of the threat. Dubai is officially classified as a safer Zone 0, which is characterised by exposure to little or no ground acceleration, while Zone 2A anticipates a peak acceleration of 0.15g (equivalent to g force).

No room for complacency

Nevertheless, in light of the recent earthquakes, complacency has been proven to be a bad option, as while major earthquakes can release tension between the earth's tectonic plates and potentially reduce the risk of recurrent events, they can equally destabilise faults.

The 17 April earthquake was a magnitude 7.8 on the Richter scale, with the epicentre located 194km southeast of the city of Zahedan in Iran, or 700km from Dubai. Iran's Russian-built nuclear plant at Bushehr was 600km away.

"The 6.3-Richter quake on 9 April in Bushehr and the latest 7.8-Richter tremor, though arising from separate faults, have once again provided a strong reminder that larger-magnitude events are not necessarily infrequent," said Mr Kabban.

"For the longest time, we might have been sticking our head in the sand, happy with the thought that this is not an earthquake zone. But it is obvious, with the recent events, that we can actually have a win-win situation."

Industry should lead

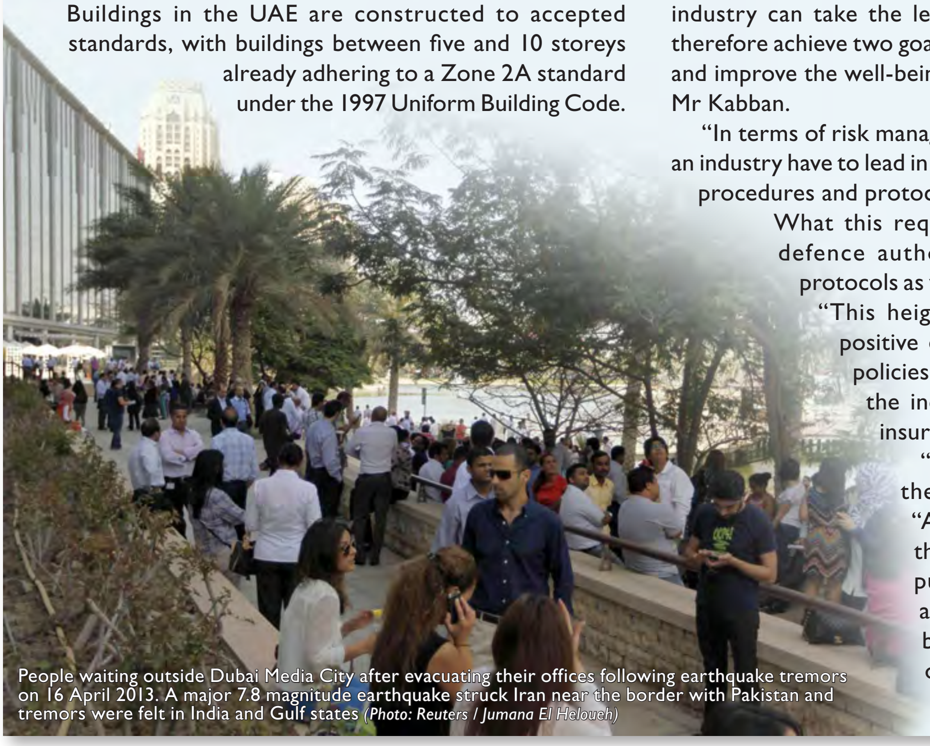
"First, we can increase the awareness, and the insurance industry can take the lead though the Association and therefore achieve two goals: enhance our industry's profile and improve the well-being of the nation as a whole," said Mr Kabban.

"In terms of risk management and preparedness, we as an industry have to lead in instituting emergency evacuation procedures and protocols," said Mr Lutfi.

What this requires is working with the civil defence authorities to put in place these protocols as well as emergency preparedness.

"This heightened awareness will have a positive effect on the sales of insurance policies," said Mr Sidani, as evidenced by the increase in demand for property insurance after recent fires.

"But people have short memories; their priorities change," he said. "As an industry, our message is: the unexpected could happen, the public must be ready for them, and we as an industry have to be here with proper protection options."



People waiting outside Dubai Media City after evacuating their offices following earthquake tremors on 16 April 2013. A major 7.8 magnitude earthquake struck Iran near the border with Pakistan and tremors were felt in India and Gulf states *(Photo: Reuters / Jumana El Heloueh)*