Milliman Academy

NEW FINANCIAL REGULATIONS FOR THE UAE MARKET

To improve the overall regulatory framework for insurance business in the UAE, the Insurance Authority (IA) has issued new financial regulations for both conventional insurance and Takaful companies.

In 2015, the much-awaited regulations were signed into effect and set out new rules for investment policies, solvency capital requirements, the setting of technical provisions, record-keeping and accounting policies.

While the regulations include a transition period of up to three years for some parts of the new rules, our clients are strongly advised to start the transition process with immediate effect.

STRONG FOUNDATION FOR THE FUTURE

The new regulations released by the Insurance Authority are a significant step forward in developing risk-based regulation of the insurance industry in the UAE. The framework of the regulation puts in place all the critical components for a full risk-based approach to regulation, whilst at the same time focusing on improving the self-regulation of each company by requiring internal risk management practices and procedures. Some of the key components of the new regulations include, but are not limited to:

- Use of International Financial Reporting Standards (IFRS) to bring the UAE in line with global accounting standards.
- Improved data reporting standards using a comprehensive financial reporting tool able to expand the data required in key areas. This should improve the quality of data available and facilitate its use, thereby giving companies better understanding and risk-based regulatory oversight of their operations.
- Broad investment risk management categories to manage asset portfolio risks such as concentration, counterparty, liquidity market, interest rate and liability profile, matching risks while allowing companies to maximize their returns for all stakeholders (i.e., policyholders, participants and shareholders) and encouraging maximum investments within the UAE.
- Strong board-of-directors-level involvement in all areas of risk management.
- Significant focus on development of industry technical skills by requiring actuaries to be involved in all key areas of financial reporting (including reserving and solvency assessments), pricing, reinsurance and risk management.
- Full transparency of financial results, with strong requirements for adequate technical provisions.
- Consistent approach for both conventional companies and Takaful operators, while recognizing the necessity for Takaful operators to also comply with Shari'a law.
- Improved communication between company management, the board of directors and the IA using new or strengthened reports on investment risk analysis, technical provision analysis, financial condition, etc. These can be implemented over time to balance technical improvements with resource requirements.
- Emphasis on solvency of all companies, building on the Minimum Capital Requirement established in the law by adding a Solvency Capital Requirement and a Minimum Guarantee Fund which is based on the broad principles of Solvency II (in Europe) and risk-based capital (in the US).
- Long-term vision for the future as the regulations provide the foundation for continuous improvement and allow for a transition as:
  a. Companies adapt to the new regulations
  b. The IA implements different requirements over time (e.g., types of reports such as investment risk analysis, technical provision analysis and financial condition reports)
  c. The IA calibrates its regulatory processes to improve oversight activities

OBSERVATIONS

Companies should expect the following as a result of these new regulations:

- A higher level of supervision by the Insurance Authority
- A need for major improvement in risk management practices including ERM framework
- A requirement to closely work with actuaries on solvency, reserving, investments and financial forms

CONCLUSIONS

With the new guidelines, the IA has certainly raised the bar for insurance regulations in the region. We expect many changes as the new regulatory framework is implemented over the coming months and years.

Milliman has worked with both regulators and the private sector in the region, including UAE, and is fully aware of the requirements in order to comply with the regulations. We have a strong actuarial team in all areas of actuarial and consulting work. These areas include reserving actuaries, pricing actuaries, financial risk management actuaries and actuaries with strong enterprise risk management capabilities.

ABOUT MILLIMAN

Milliman is one of the largest consulting and actuarial firms in the world. We are recognized leaders in the markets we serve, including the Middle East, Southeast Asia and Africa. For more than 60 years, Milliman has pioneered strategies, tools and solutions worldwide. Milliman insight reaches across global boundaries, offering specialized consulting services in property and casualty insurance, life insurance and financial services, employee benefits and investment consulting, healthcare, and rating support, as well as risk management services.

At Milliman, we help clients make business sense of complex and technical situations with practical intelligence that yields results. Our consultants in the Middle East have global credentials, international experience and local knowledge—qualities that are recognized by the top industry leaders in the region and abroad, who recently awarded Milliman's Middle East office the title of Best Service Provider 2014 at the first Middle East Insurance Industry Awards.

Whether you are an insurer, reinsurer, Takaful or Retakaful operator, regulator, global player, or investor, Milliman is here to provide you with a range of services right at the heart of Middle East.

CONTACT

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