

UAE Actuarial Regulations

Gulf Actuarial Society

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HOW INSURANCE ACTUARIES HAVE WORKED IN THE UAE PRIOR TO THE REGULATIONS

Pre-Regulations Regulatory Regime (1)

- Prior to the formation of the Insurance Authority, the insurance industry was regulated by the Ministry of Economy
 - Registration of actuaries started in the early 2000s
 - Prior to that actuarial certification of products was still needed but there was no formal registration
- With the formation of the Insurance Authority in 2007 responsibility for all insurance regulation (including personnel) was transferred, this including the regulation of actuaries.

Pre-Regulations Regulatory Regime (2)

- Prior to the Insurance Regulations being issued in January 2015, the regulation of actuaries was limited to:
 - licensing of individual actuaries by the Insurance Authority
 - Some provisions in the 2007 law and 2009 regulations requiring actuarial certification of life insurance premium rates and reserves and the production of an actuarial report (contents listed in Article 42)
- There was (and is) a trade activity called “Insurance Mathematics” (رياضيات التأمين) which is defined as follows:
 - Includes firms specialized in mathematics sciences related to probability principle and compound interest as well as other insurance related mathematical issues. Such firms use mathematical and statistical methods in order to calculate the rates set forth by insurance companies for each of the insurance types. The basic elements for the above-said can be the person's age or the age of the insured thing, as well as the years during which a person is expected to live, and the dangers that may arise.
- This activity was obtained by at least one consulting firm registered “in the state” (which still has it but does not do any actuarial work)

Pre-Regulations Regulatory Regime (3)

- All actuaries registered to date with the IA are registered as individuals (natural persons)
- Organizationally registered actuaries operate in any of the following forms:
 - Are employed by insurers (or regional entities of the insurers) and sign off on actuarial reports.
 - Operate as individuals/sole proprietors and sign off as such. Some times use business names.
 - Work for corporate entities registered in free zones and sign off in an individual capacity but the corporate entity contracts with the client (in which contract the signing actuary is named) and reports are issued in a corporate style – including naming other actuaries who have worked on the report
 - Incidentally none of the entities have the trade activity “Insurance Mathematics” on their license although two registered in the DIFC have “Actuarial Consulting” (although this does not exist in the list of trade activities in the UAE).

New Regulations

- The financial regulations and underwriting/pricing circulars certainly made more specific the deliverables to be provided by the Actuary
 - Areas which remains unclear include the pricing certification of long term life products and also the extent to which non-life products require actuarial certification
- Scope of this presentation has, however, been limited to the contents of the Actuarial Regulations issued on 23 March 2017

Scope of Actuarial Regulations

- Licensing/registration of Actuaries
 - Who can do actuarial work
 - Registered/licensed Individuals and corporates (concept of corporate actuaries introduced for first time)
 - Restriction on employed Actuaries as well as consultants
 - Qualifications, legal form, etc.
 - Process of registration, renewal, etc.
- Operations (how actuaries are to work)
 - Appointment and termination by insurers
 - Responsibilities
 - Obligations/professional standards
- Regulations cover actuaries already registered as well as those who will be registered in the future
 - Those currently registered have been given one year to align with regulations (i.e., by 23 March 2018)

**SUMMARY OF AND COMMENTS ON
ACTUARIAL REGULATIONS WITH
RESPECT TO LICENSING AND
REGISTRATION**

Regulation of Who Can Do Actuarial Work

- Article 2(2) limits the practice of “the profession of an Actuary in insurance business in the State” to licensed and registered actuaries.
 - Article 2(3) excludes requirement of registration for those who do actuarial work but do not sign off on actuarial certificates/documents
 - In the workshop it was also clarified that actuarial advice not covered by regulations can also be signed off by a non-registered actuary.
- There is a limitation on those working as actuaries (apparently applicable to both individuals and corporations) from working in certain activities (Insurance Agent, Insurance Broker, etc.) (Art 2(5))
 - Explicit allowance for doing other non-insurance actuarial work
 - Does not explicitly prohibit other work (e.g., IT related or HR related)
- Limitations on actuaries employed by insurer (apparently applicable only to the person assigned actuarial work in a regulatory capacity)
 - Cannot mix actuarial and other work
 - Cannot work as the actuary and in any other capacity
 - Cannot work for any other company (apparently in the UAE)
 - Clarification during workshop that can do actuarial work for the UAE insurer as well as other insurers of the group in other jurisdictions

Limitations on Quantum of Work Which Can Be Done by an Actuary

- Introduces limits on work to be done by an Actuary (number of companies for which any regulatory work done)

	Resident	Non-Resident
Individual	3	2
Corporate	4	2

- Not clear in terms of Corporate Actuary as to how non-resident actuaries can be related to the licensed corporate entity
 - For example can a non-resident registered actuary employed by a parent company or subsidiary of the Corporate Actuary registered in the state be counted for this purpose.
- The signing person in the case of the Corporate Actuary has to be a registered actuary but can apparently sign off on a unlimited number of companies' reports as long as the Corporate Actuary has enough registered persons employed.

Qualifications for Individual Actuaries

- Fellow of “institute or institution specialized in Actuarial studies and approved by IA”
- Associate with at least two years experience under supervision of Actuary (assume registered actuary) holding Fellow or Associate qualification
 - Apparently the two years is not post qualification as an Associate as long as the person had worked under the supervision of a registered actuary for two years even prior to qualification as an Associate
- At least 25 years of age
- Other normal fit and proper tests (e.g., no convictions, suspensions, etc.)
- Professional indemnity insurance for AED 1 million
 - May be a challenge for non-resident Actuaries

Corporate Actuaries

- A company established in the state (i.e., not in a free zone) under the Commercial Companies Law with its main objective being to practice the actuarial profession and with capital of AED 100,000 or more
 - Under Article 10 of the Commercial Companies Law at least 51% of the shareholding has to be held by a UAE national
- A branch of a company established in a financial free zone with a license to practice the actuarial profession and is subject to a similar regulatory authority, having no less than 2 years of practicing the actuarial business with capital of AED 250,000 or more
- A branch of a foreign company licensed to practice the actuarial profession in the country of origin; being subject to a similar regulatory authority; and having no less than 2 years of practicing the actuarial business with capital of AED 250,000 or more
- Internal risk management system, internal audit system and a requirement for a peer review
- Professional indemnity insurance for AED 1 million (understood to be per registered actuary)

Process of Registration/Renewal

- The process is similar to that followed prior to regulations
 - Submission of various documents (many requiring certification)
 - Main new provision – PII policy
 - There is currently an interview process
 - Payment of fees
- Renewal process similar
 - New provisions
 - Need to submit summary of work done in past year
 - Need to submit proof of continued membership of professional body of which he/she is a member of based on which the original registration was granted

Comment – Employed Actuaries

- For employed actuaries the restrictions are a bit harsh and could make it unviable for many companies to employ a qualified actuary
 - Prevention of other duties should be restricted to those involving a conflict of interest, e.g.
 - Operational areas such as underwriting and claims adjudication / setting up case reserves
 - Finance and accounting
 - Non-conflicting areas should be allowed to be assigned to the actuary in addition to regulatory actuarial functions, e.g., risk management
- The clarification made during the workshop that an employed actuary working for other group companies in other jurisdictions should be made in writing by IA

Comment – Consultants (1)

- Most actuarial work done in the UAE is done currently by consulting firms which operate as corporate entities but with an identified registered individual signing off on all actuarial reports for a single insurer.
 - All of these barring two will need to drastically restructure themselves and will probably not be able to register as corporate actuaries for at least two years.
 - Only two firms registered in financial free zone with actuarial license
 - If others set up in a financial free zone with an actuarial license they will have to wait for a 2 year qualification period – and will need to do actuarial work outside the UAE (as they will not be able to work in the UAE as a corporate entity) during this period
 - Foreign firms registered will also probably not qualify as they do not have a similar regulatory regime
- Implementation of the regulations will mean that all Actuaries other than those relating to two firms may need to “de-corporatize” and convert to individuals
 - Will mean loss of the effective corporate structure which includes things like standard processes with specialized functions being performed by multiple people and reviewed and signed off by the Actuary, peer reviews, etc.
 - Will be a step backwards

Comment – Consultants (2)

- Suggested solutions to corporate issue:
 - Extend the corporate registration to professional licenses issued by Ministry of Economy (civil companies)
 - Allow new financial free zone companies to set up branches without the 2 year waiting period provided they have on board actuaries who have been registered and working in the UAE for 2 year or more
 - Can limit the maximum number of companies to be signed off by any registered actuaries employed by the free zone company or branch to that applicable to individuals for the first 2 years
 - Formally declare which free zones are “financial free zones”
 - Facilitate the granting of actuarial/insurance mathematics licenses in financial free zones.
- Clarity also needed if consulting firms set up in financial free zone can do consulting work other than that explicitly prohibited – e.g., HR or IT consulting work
 - Note all the large accounting firms do such work in addition to actuarial work

**SUMMARY OF AND COMMENTS ON
ACTUARIAL REGULATIONS WITH
RESPECT TO OPERATIONS**

Appointment/ Termination

- Appointment and termination by Board Resolution (Art 2(9))
 - Article 4 of Section 3 of Financial Regulations require each company to appoint an Actuary
- Natural person can either be an employee or contracted – IA to be informed within 7 days
- No specific provision for corporate actuary – assume must be by contract and again IA to be informed within 7 days
- Termination – must inform the IA within 7 days and appoint another actuary within 30 days
 - Insurer must provide IA with reason for termination
 - IA can investigate if it views termination as arbitrary and “provide the Insurance Company with its opinion”

Basic Duties (Article 15 & 16)

All companies

- Prepare reports on risk portfolio, loss ratio trends, capital adequacy, technical provisions and solvency
- Review pricing and underwriting policy
- Review reinsurance arrangements
- Assess soundness of investment policy
- Assess “statistical system” adopted by the Company
- Examine financial position re life insurance
- Review surplus calculation for with profits life policies
- Set technical basis for pricing new products (life?) and specify amounts payable to policyholders of life policies on termination thereof (surrenders ?)
- Review basis used by company to report technical and investment profits and the method of profit distribution
- Assess solvency and liquidity position

Additional for Takaful

- Assess soundness of takaful contributions
- Where continuing losses assess reasons and make recommendations
- Review investment policy for participant funds
- Review basis of surplus distribution
- Review wakala fee and mudarabah share determination

Actuary's Obligations

- Required to follow professional standards of body he/she is a member of
- Issues which affect financial position of company – needs to report to Board
- Issues where company not adhering to laws/regulations – report to Board and IA
- Maintain confidentiality (reporting to IA not considered a breach of confidentiality)
- Cannot assign work to another actuary unless agreed with company and reported to IA
 - Implies that can rely on work done by another actuary provided this is agreed with company and reported to IA
- Submit reports in line with Financial Regulations and underwriting/pricing circulars
- Keep data and records for 10 years
- Submit a declaration in form provided by IA that data and documents are accurate.

Special Reports to Authority

- If it is evident the insurer is not solvent
- If it is evident that the underwriting policy of insurer will expose the insurer to risk
- If any reservation of any report required to be submitted to IA by insurer
- If management of insurer prevents him from performing duties
- If he resigns or is terminated

Comments

- Articles 15 to 18 are not properly structured and lack clarity in many cases
 - Need to be restructured to avoid duplication and improve clarity
 - Some of the provisions of Article 18 will mean that the Actuary needs to himself initiate reports in certain circumstances
 - Not sure if this is a workable Article especially in view of the next comment
- Most important it is not clear if all the responsibilities in Articles 15 and 16 are to be done by the same Actuary
 - In the workshop the IA seemed to indicate that reserving reports and underwriting reports could be submitted by different actuaries
 - Goes against the basic theme of Articles 15 to 18 which seem to follow an “appointed actuary” framework where a single actuary is responsible for the actuarial functions relating to regulatory compliance.
 - Strongly suggest that it be clarified that a single appointed actuary should sign off on all regulatory submissions to the IA

NEXT STEPS

Next Steps

- Regulations have been issued – therefore not sure how flexible the IA will be to modifications
- Suggest that for some areas where there is flexibility of interpretation that the IA may issue clarifications

THANK YOU