



RGGA



Draft Life Insurance Regulations in the UAE - Challenges and Opportunities

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Life Insurance

the sincerest love letter ever written

A Life Insurance policy is just a time-yellowed piece of paper with columns of figures and legal phrases until it is baptized with a widow tears.

Then it becomes a modern miracle, a sort of Aladdin's lamp,

It is food, clothing, shelter, education, peace of mind.

It is the sincerest love letter ever written.

It quiet the crying of a hungry baby at night.

it eases the heart of a bereaved widow.

It is the comforting whisper in the dark silent hours of the night.

It is new hope, fresh courage, and strenght for the widow to pick up the broken threads of life and carry on.

It is an education for the sons and daughters (a chance for a career, instead of the need for a job)

It is a father parental blessing to his children on their wedding day.

It is the function of a father's hopes and dreams for his family's future.

through life insurance he lives on.

there is no death..Life insurance exalts life and defeats death.

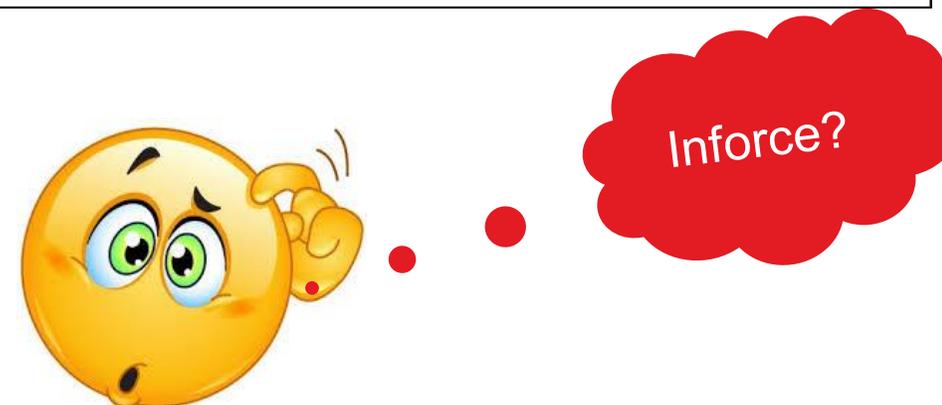
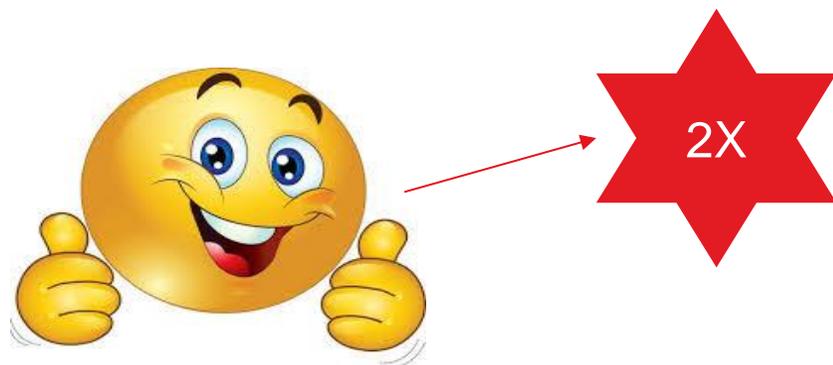
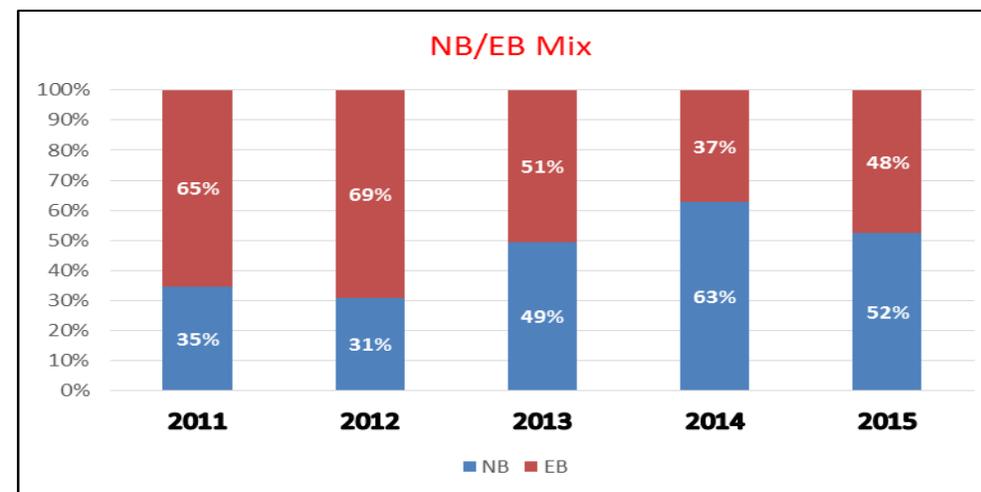
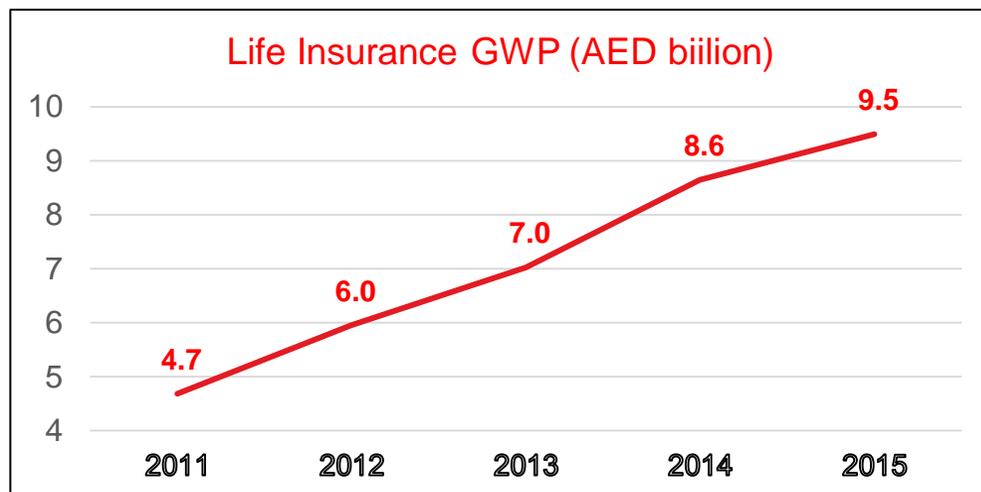
It is the premium we pay for the privilege of the living after death.

Jack Leterman (an insurance salesman)



Growth story

How do we look in the mirror?



Source: IA annual report 2015



The backdrop

Teenaged industry

- Self regulation
- Demographics
- Short-termism
- Awareness
- Sales Capacity

Khaleej Times

September 15, 2016

58% of UAE residents do not have life insurance

The Friends Provident International (FPI) survey - which was conducted by YouGov - found that 58 per cent of 503 respondents do not have life insurance, compared to 48 per cent in last year's survey.

Just over a fifth - 21 per cent - said they currently have critical illness insurance to protect themselves and their families should they fall seriously ill.

TheNational | BUSINESS

December 8, 2016

UAE regulator clamps down on savings, investment and insurance policy sales practices after 'alarming amount of complaints'

"The data provided by the industry revealed that both the conventional and takaful operators charge heavy commissions and up-front fees to policyholders, which is perceived to provide poor policy value to customers in the early years of the policy," the Insurance Authority said in a circular distributed to insurance providers and brokers last month.

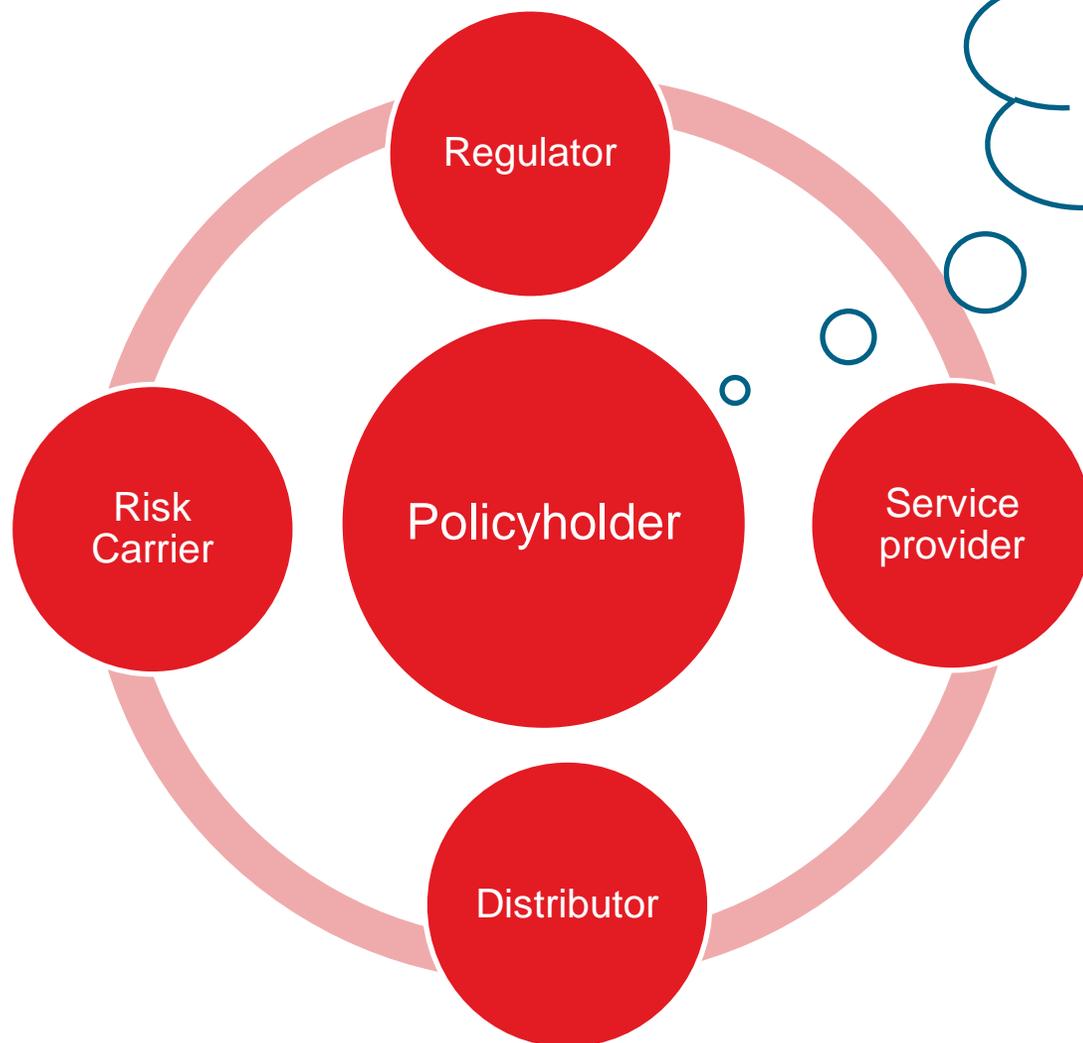
"The IA has also noticed an alarming amount of complaints from the policyholders that they are provided with no value if they surrender in the early years of the policy."

Numerous UAE residents have found themselves burnt by buying into long-term products that seemingly offer attractive returns, only to find early gains eaten up by commission fees, with an inability to exit plans without incurring heavy penalties.



The ecosystem

Stakeholders alignment





Mis-sold?

How we sold right?

Customer

Industry

Product



- Simplicity
- Proper advice

- Complex
- One size fit all

Transparency



- What do I pay?
- What do I get?

- x% return
- Can cancel at any time

Flexibility



- Payment flexibility
- Liquidity

- Pay only for 2-3 years
- Withdraw thereafter

Protection



- Mortality protection
- Financial protection

- Little or No life Cover
- Past fund performance



Components

the 3 Ds

Distribution

- Remuneration
- Allocation
- Qualification

Disclosure

- Adequate
- Explicit
- Accountability

Dependability

- Treat Fairly
- File & Use
- Technical Provisions



Distribution

Rationalizing the incentive structure

- Savings and Protection components to have different limits
 - Protection: $10\%AP \times \text{Policy term}$ to max 160%
 - Savings: $4.5\%AP \times \text{Policy term}$ to max 90%
 - Single premium: 10%
 - Takaful: Fee (including commissions) capped at 35% of GWP for short-term products
 - Short term - Group / Credit life; Long term- regular premium credit life /Takaful – No cap?
- Cap on upfront Commission
 - Min (50% AP, 50% total commission)
 - Remaining spread linearly over premium paying term
 - Claw-back during the first five years (pro-rata?)
- Other types of incentives to be treated part of the Commission
- Initial access fees to be offset against Commissions
- Licensing and minimum qualification for intermediaries
- Commission abuse strictly prohibited



Disclosure

Facilitate informed decision by the customer

- 30 days Free-look period
 - Return full premium after deducting medical UW costs
 - No pressure to the policyholder to continue the policy
- Illustration
 - Disclose all Charges, 'Gross' premium and 'Net' benefits
 - Distinguish guaranteed and non-guaranteed proceeds
 - Annual statement to policyholders
 - At-least 2 investment return scenarios with max 3-months EIBOR+4%
 - Illustration of 'reduction in yield'
- Past performance for Top 5 funds for at least 5 years at point of sale and annually thereafter
- Protection component <10%: Include warning **“Limited or No protection benefit”**
- Insurance product with no insurance possible – regulatory arbitrage?



Dependability

Protecting Policyholder Values

- Surrender value
 - Fair to both Policyholder and the Company
 - Company not profit from surrender more than it would had the policy continued
 - Zero surrender value allowed if justified
 - Equity between Cash value and Surrender value

- Credit Life
 - Quoting net of Commission rates not allowed
 - Obtain confirmation from customer for insurance separate from loan or other transactions
 - Exclusivity ok but the customer should have the option to buy insurance elsewhere
 - Customers are entitled to any surplus or profit shared by the insurer

- Takaful
 - Fee to be in line with expenses taking into account PRE
 - Surplus solely belongs to the participants and no entitlement to the intermediaries

- Prior approval required for Products

- Technical provisions – actuarial funding not allowed



Role of Actuaries

Serving the Cause of Public interest

- Calculation of Protection Benefit Ratio
- Analysis of Bonus sustainability
- Certification of rationale for any changes in charges
- Cost split by distribution channels
- Setting up of Surrender values
- Calculation of medical UW costs
- Setting up of Wakala fee for long-term products
- Product certification





Challenges / Opportunities

Changing rules of the game

- More disciplined market conduct
- Greater transparency and control on leakages
- Push towards D2C and protection heavy products
- Increased Public trust and confidence in the industry
- Transition – systems, products and training
- Monitoring compliance especially on 'principle based' parts
- Ability to attract qualified sales personnel
- Cost of Compliance vs benefits



A nighttime photograph of a city skyline. In the foreground, a complex multi-level highway interchange is illuminated with warm orange and yellow lights, showing light trails from traffic. In the background, the city skyline is lit up with various colors, including blue, white, and red. The Burj Khalifa is the most prominent building, illuminated in white. The sky is dark blue.

Thank You