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Solvency Regulation in the UAE: A Benchmark and Impact Study

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AGENDA

- Principles of new Regulations
- Risk Based Capital Approach
- Solvency Capital Requirements (SCR): Principles & UAE Implementation
- Solvency II and QIS-5
- Market Benchmarking
- Conclusions & Questions



SOLVENCY REQUIREMENTS

To protect the interests of policyholders or beneficiaries by ensuring the financial stability of insurance and reinsurance undertakings

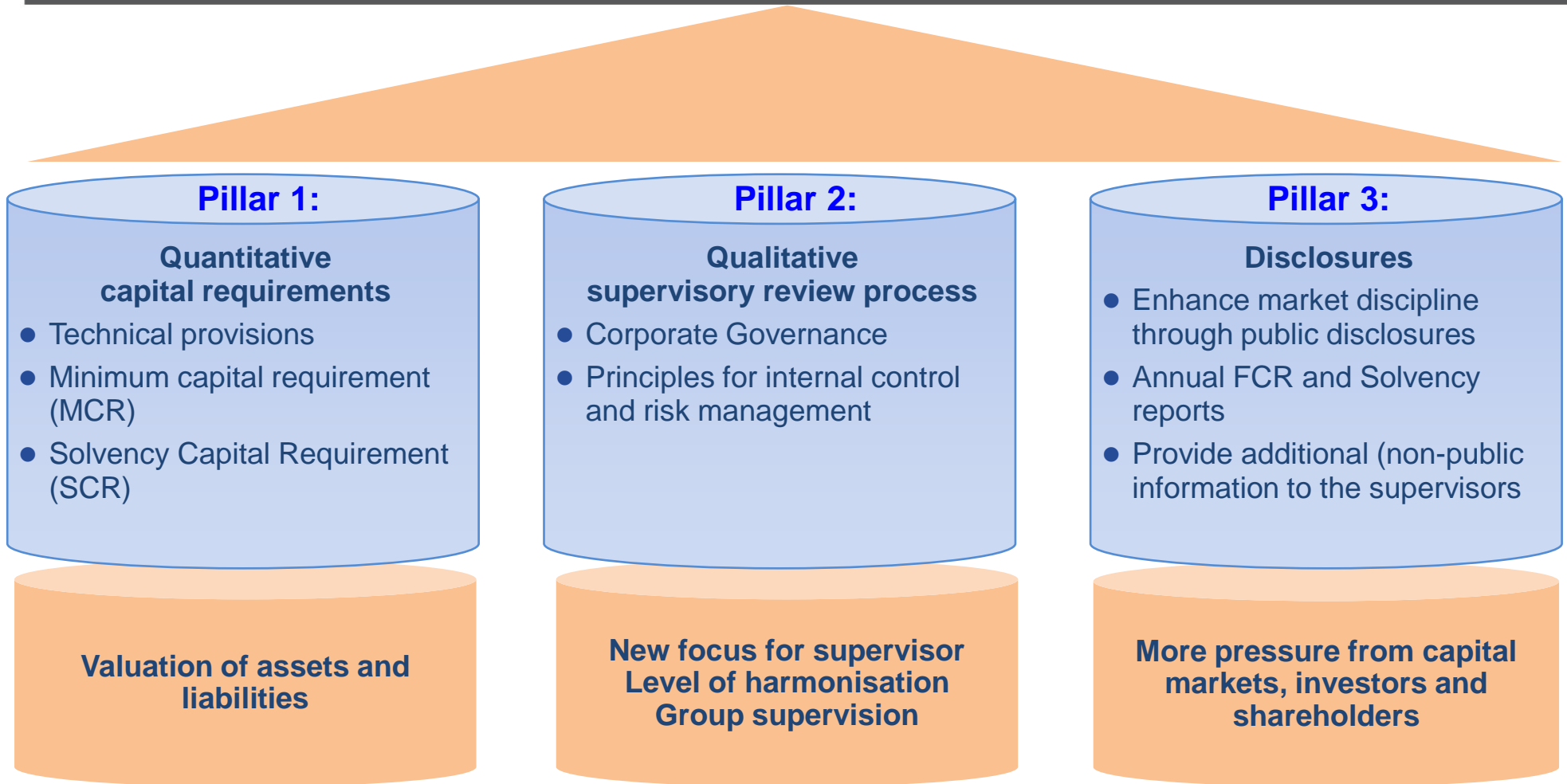


WHAT IS THE PURPOSE OF INSURANCE REGULATIONS?

- Key aspect of new Regulations is to put in place a regime which has
 - (i) risk based capital requirements
 - (ii) complemented by relevant non-financial measures and which
 - (iii) enables as much transparency as possible through statutory reporting requirements



THE THREE PILLAR APPROACH





PROBLEMS WITH TOO LITTLE CAPITAL

- Will restrict the volume of business that can be RETAINED by the company.
- Less business is written.
- More reinsurance is required to maintain a net retention consistent with the capital base.
- Will restrict the growth and profitability of an insurer in times of hardening profitable markets.
- Raising additional capital by issuing more shares will depress the share price of the company [if it is listed], in the short term until the new capital generates additional profits.



PROBLEMS WITH TOO MUCH CAPITAL

- It is a matter of concern for investment analysts.
- Management has to demonstrate what they plan to do with the excess capital i.e. will they generate a return on capital greater than the investors could gain themselves?
- The excess capital may be “wanted” on over-priced or ill-judged acquisitions or unprofitable growth initiatives.



CAPITAL REQUIREMENTS IN INSURANCE REGULATIONS

Three capital thresholds

- Solvency Capital Requirement (SCR)
- Minimum Capital Requirement (MCR)
- Minimum Guarantee Fund (MGF)

Differences in calculations, repercussions in case of breach, limitations in eligibility of own fund items



CAPITAL REQUIREMENTS IN INSURANCE REGULATIONS

- Capital values which trigger regulatory intervention
- The amount below which the amount of financial resources should not fall
- Must be calculated quarterly



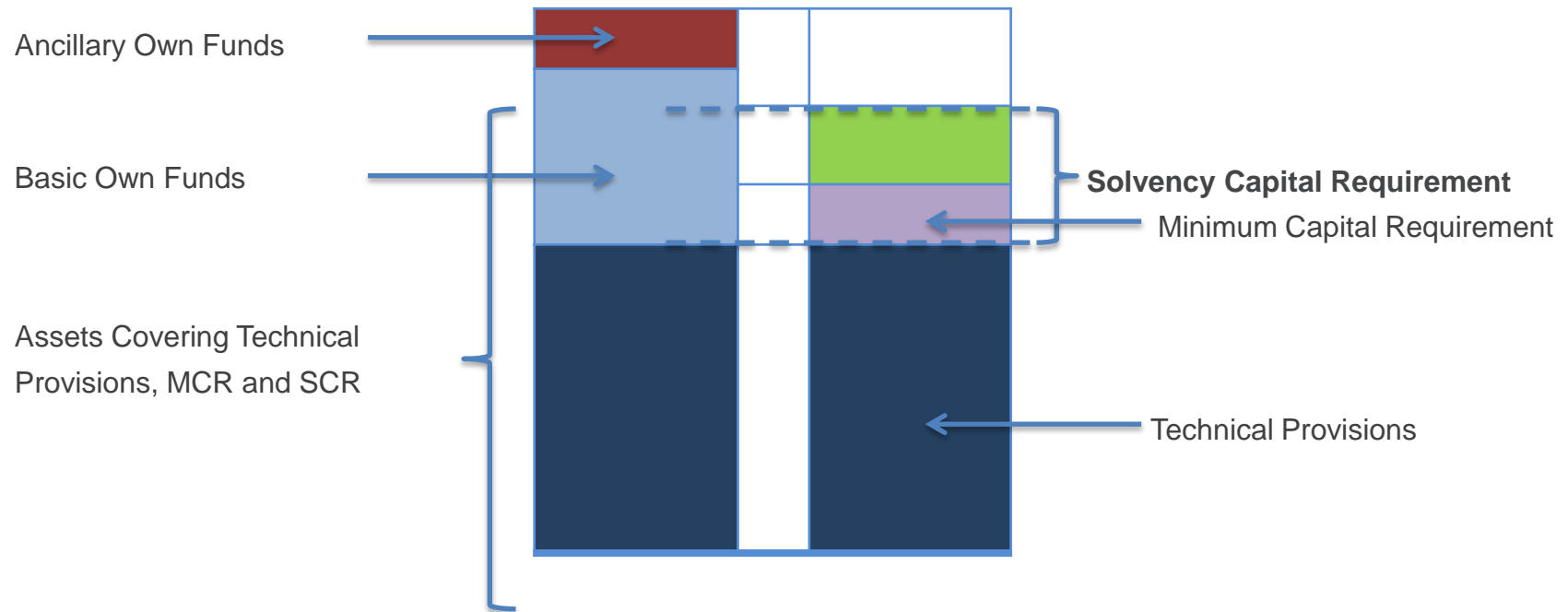
MINIMUM CAPITAL REQUIREMENT

- AED 100 million for insurance company
- AED 250 million for a reinsurance company
- Must be covered 100% with Basic Own Funds

If the value of the Own Funds slips below the MCR plan for recovery within six (6) months of the date of observation of non-compliance with the Minimum Capital Requirement



INSURANCE COMPANY BALANCE SHEET



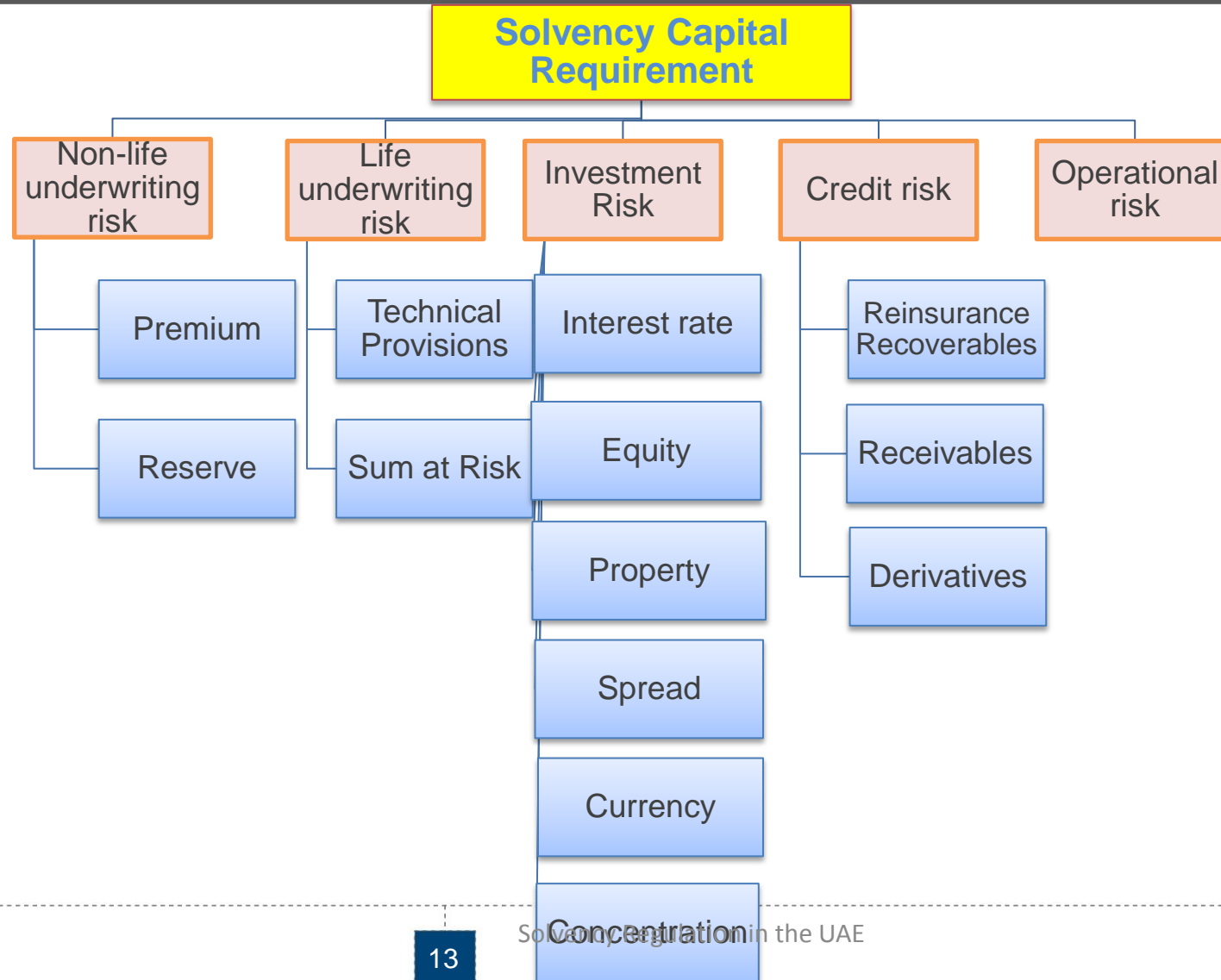


SOLVENCY CAPITAL REQUIREMENT

- “The economic capital to be held by an undertaking in order to ensure that ruin occurs no more than once in 200 cases”
- The SCR corresponds to the Value at risk of the basic own funds of a company subject to a confidence level of 99.5% over a one year holding
- Calculated based on the formula as set out in the Regulations (Solvency Template)



SOLVENCY CAPITAL REQUIREMENT



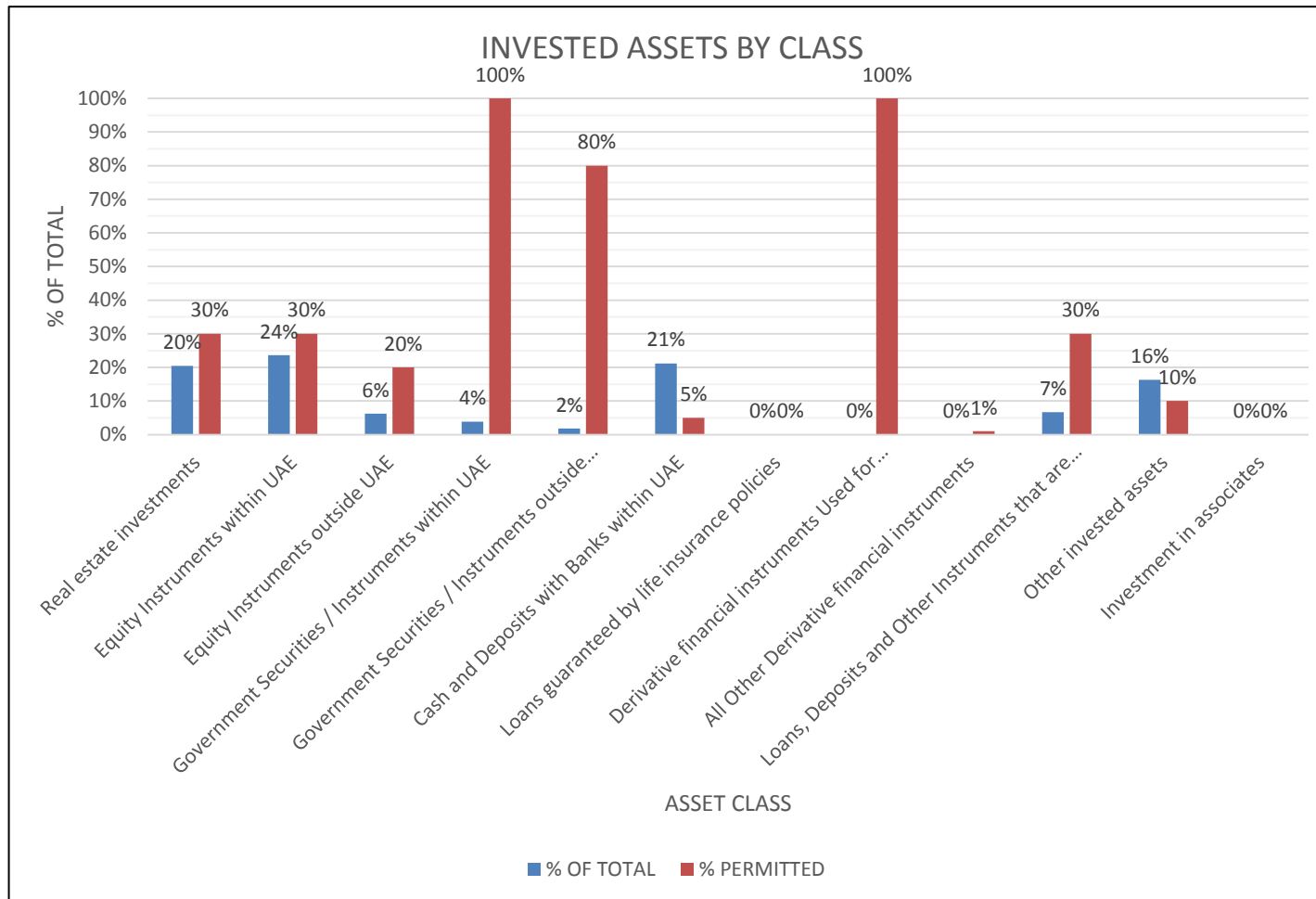


SOLVENCY II AND QIS-5

- EU Insurance & RI Regulation
- Report in March 2011
- Used to assess impact of SII on capital position
- ~70% market participation
- Feedback into regulation

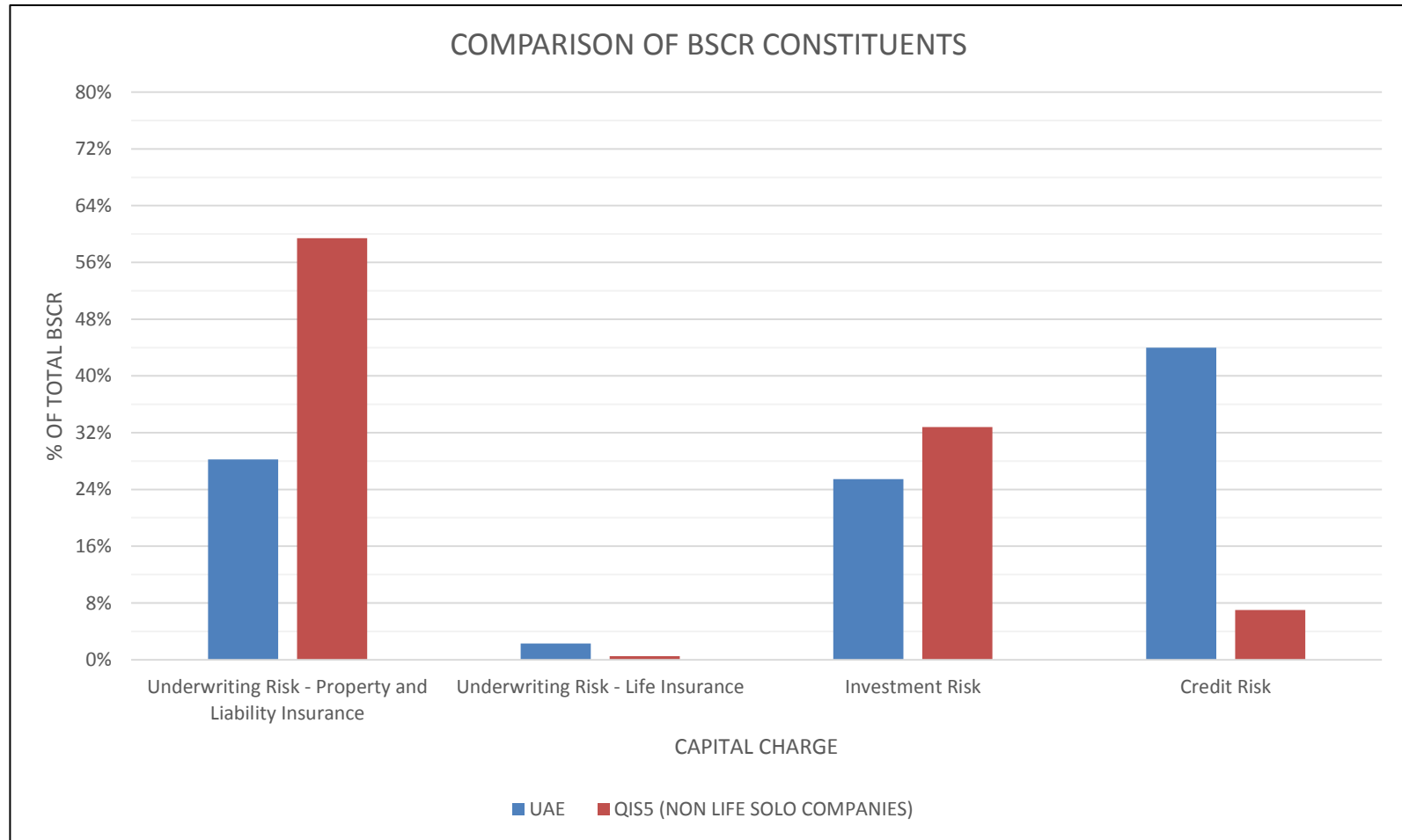


UAE MARKET SAMPLE: ASSETS HELD



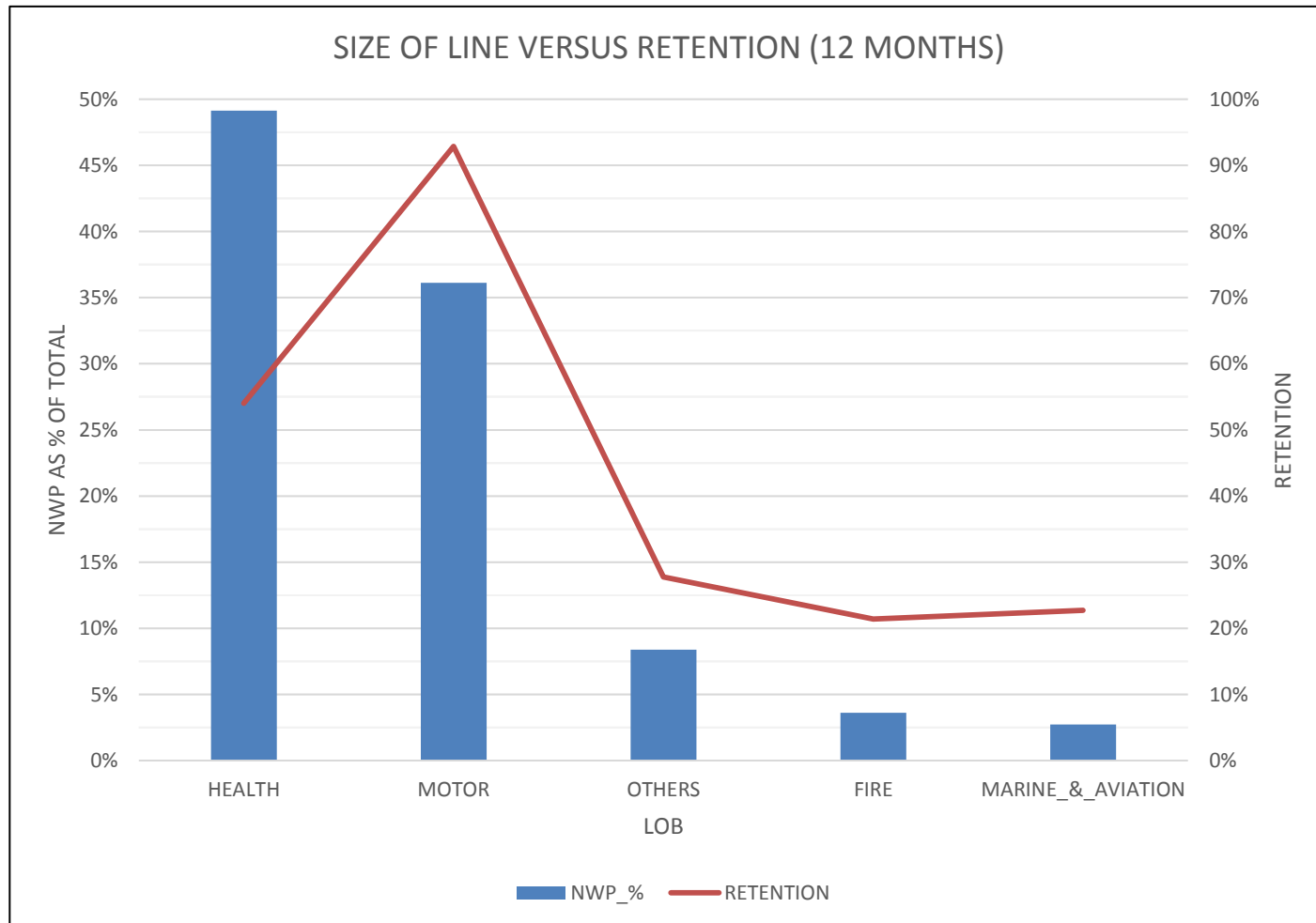


UAE MARKET SAMPLE: SOLVENCY POSITION



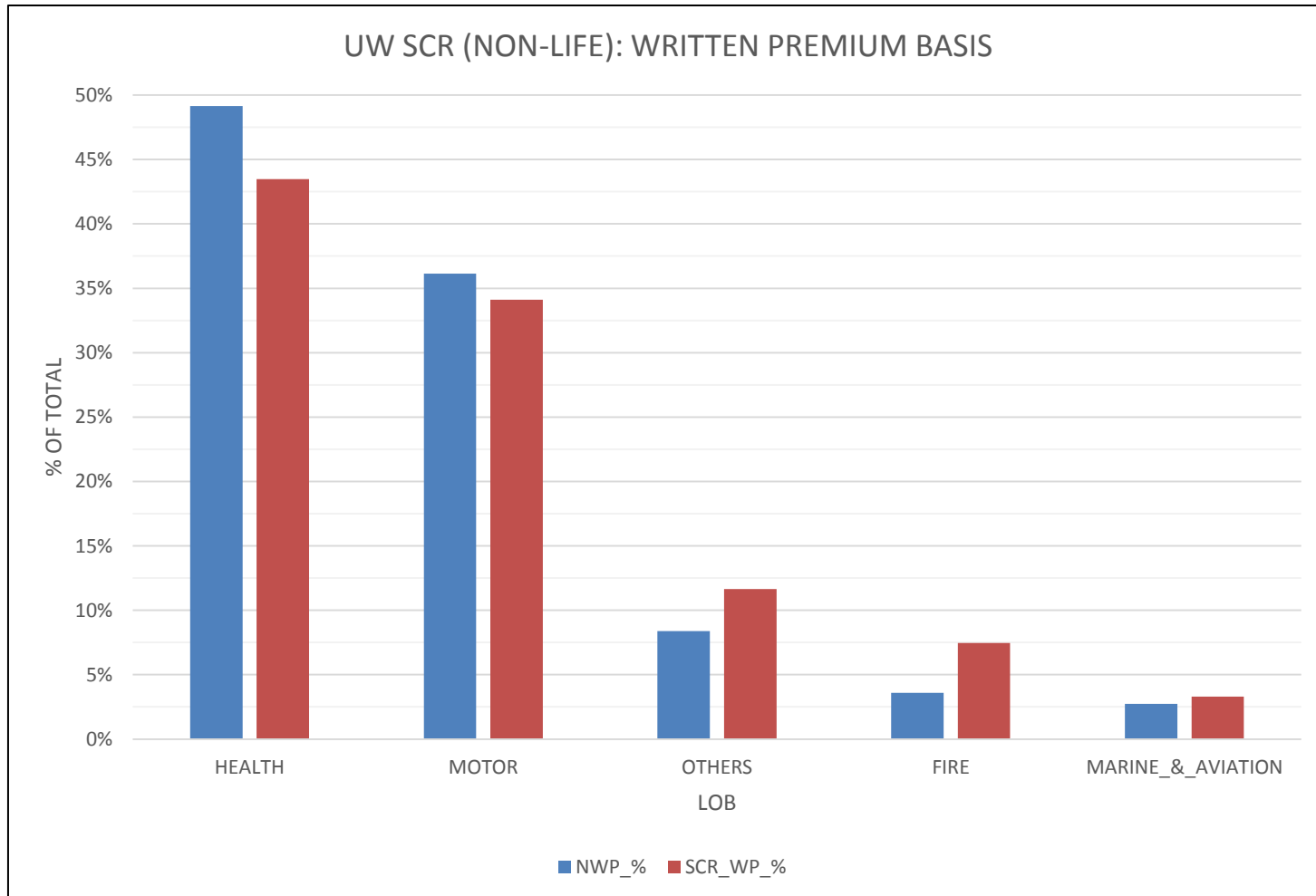


UAE MARKET SAMPLE: BUSINESS WRITTEN



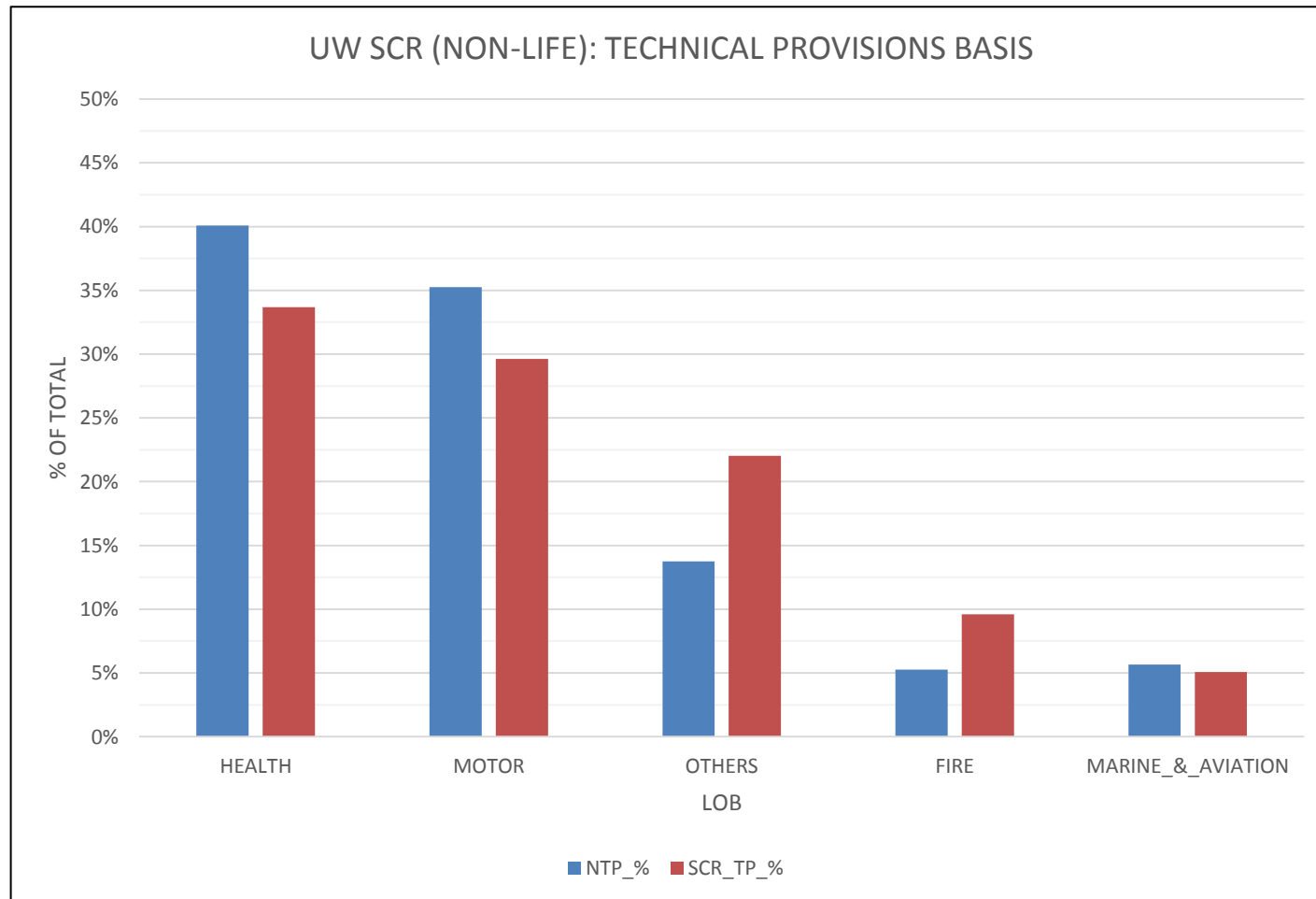


UAE MARKET SAMPLE: UW RISK CHARGE (NON LIFE)





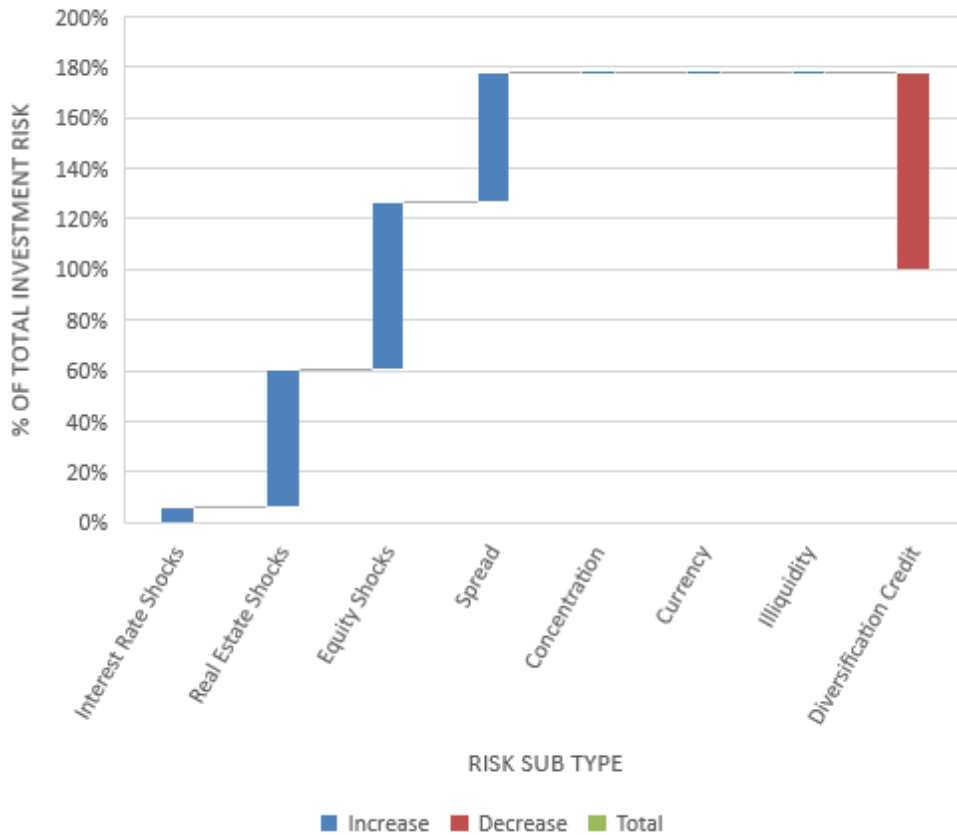
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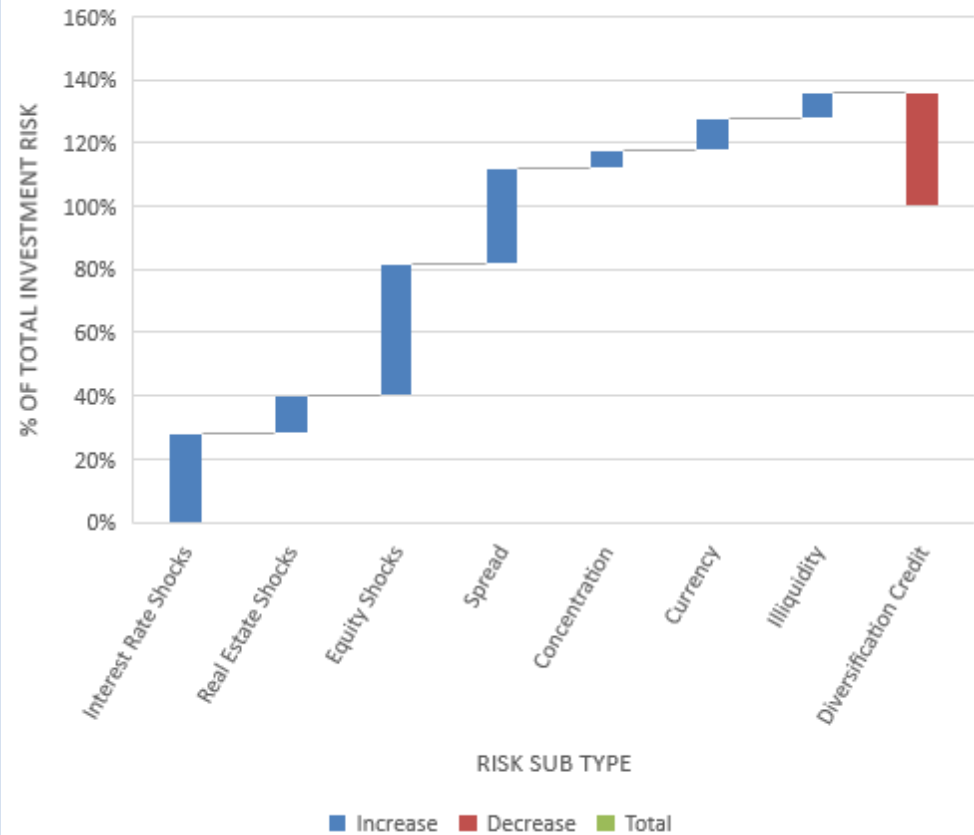


UAE MARKET SAMPLE: INVESTMENT RISK

UAE SCR: INVESTMENT RISK

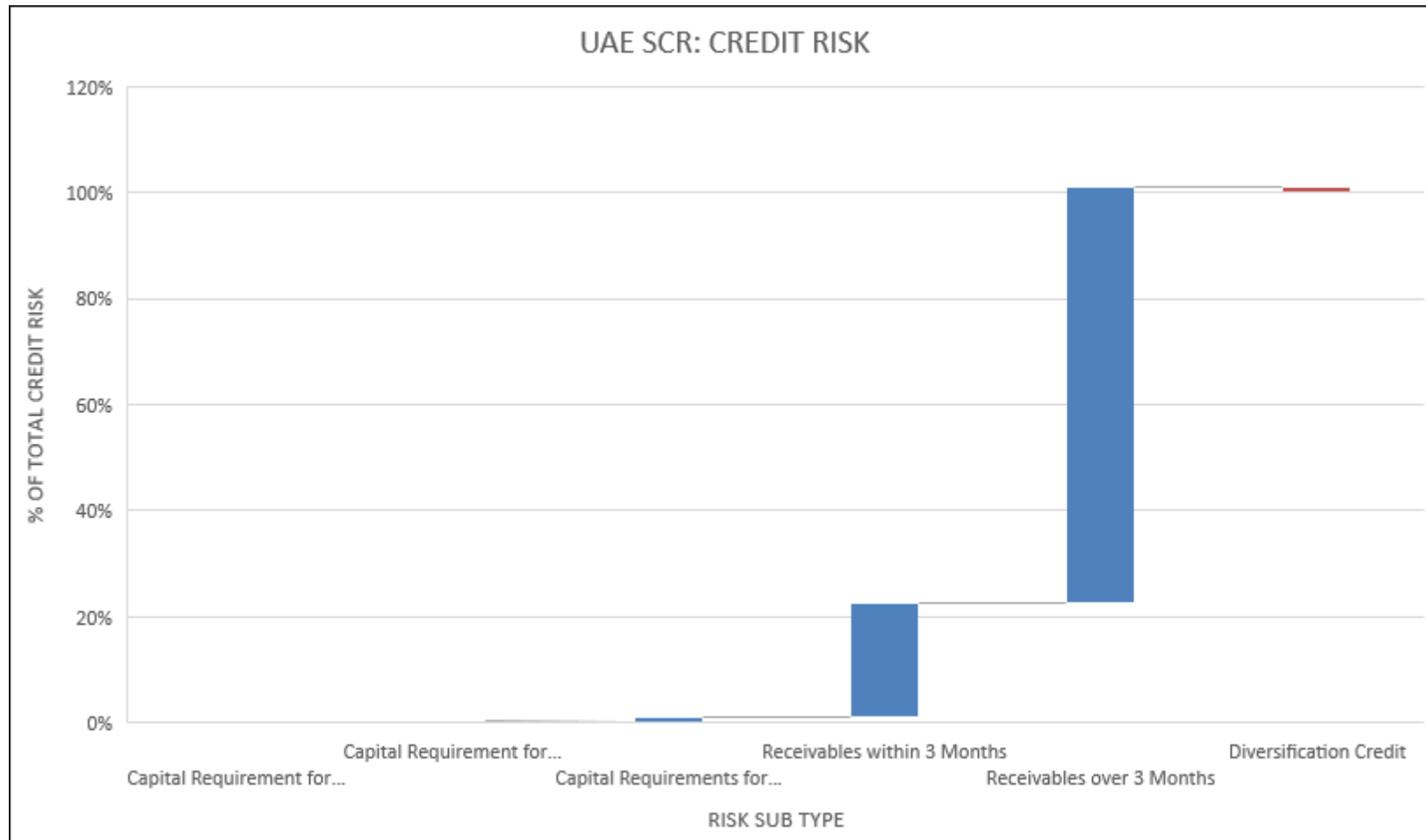


QIS5: INVESTMENT RISK





UAE MARKET SAMPLE: CREDIT RISK





CAVEATS

- Concentration risk not considered
- Changes in SII after QIS 5 not considered



CONCLUSIONS

- Health & Motor Market: UW capital requirement too high?
- Assets held in line for the Market but individual insurers out of line.
- Regulatory intent to discourage smaller insurers: low retention disallowed & asset concentration limits.
- Insurance & RI receivables have a significant impact on solvency: need to tighten controls!

QUESTIONS?



THANK YOU



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