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ASSESSING THE NEW STATE OF PLAY

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> QATAR'S INSURANCE SECTOR IS VIBRANT AND WELL PLACED AS NEW REGULATORY AND ACCOUNTING CHANGES FOR INSURERS COME INTO PLAY. INSURANCE COMPANIES AND INSURANCE SUPERVISORS THAT WISH TO STAY AHEAD INCREASINGLY NEED INTERNATIONAL PERSPECTIVE AND STRATEGY. HOW WILL THIS NEW STATE OF PLAY IMPACT LOCAL AND INTERNATIONAL INSURANCE ENTITIES IN QATAR?

The unrelenting pace of regulatory reform across the financial services sector continues, and important insurance initiatives such as the IAIS (International Association of Insurance Supervisors)Insurance Core Principles (ICPs) will be a key focus for many insurers during the next few years. As Qatar insurance supervisors begin to examine how best to introduce the new IAIS ICP requirements, a growing strategic challenge for insurers is how best to accommodate compliance and reporting requirements and extracting value.

- Revised ICPs were adopted in October 2011, and since then many insurance regulators have spoken about reform agendas that seek to capture and align themselves with the IAIS standards.
- This year is the second full year since adoption of the revised IAIS ICPs, with many of the world's insurance regulators now putting pen to paper and proposing and implementing wide-ranging reform packages.
- ICPs take the form of 26 standards with accompanying guidance papers covering governance, legal, solvency, valuation and group supervisory requirements and are enforced by the IAIS, though real enforcement is achieved by the IMF/World Bank Financial Sector Assessment Programme (FSAP).

Risk management change

IAIS have a strong focus on risk management through the Enterprise Risk Management – ERM standard (ICP 16). Risk management is not new to the insurance industry, but the pace of change in regulatory requirements is new for the region. The current global operating environment is characterised by low growth, flat yield curves and high expectations from external stakeholders such as analysts, rating agencies and regulators for quality risk and capital management. Considerable pressure is therefore being applied to the management of insurers to write profitable business and achieve a decent return on capital while at the same time maintaining robust risk and capital management frameworks and reducing operating expenses. Given these imperatives, it is not surprising that many insurers are increasingly turning to their existing risk management functions and asking: how can we best optimise output to ensure value-enhancing performance?

The past 10 years have seen considerable change generally, with risk emerging as a separate function, and the CRO becoming a significant board-level role in many insurance companies. Innovation from the capital and risk modelling work in this period has been used to influence and inform current practices. A significant proportion of this development has been triggered by regulatory need, which has for many firms tended to be interpreted as requiring a 'compliance' focus rather than being primarily driven by the business itself. For a few, these changes have been driven by the volatile and challenging market environment and the need to have a greater understanding of the risks being run.

- In the future, risk functions are going to have to justify the cost of risk management, from both a commercial and a compliance perspective.
- While many risk functions have made significant progress, driven largely by compliance considerations in some markets, they now need to step back and align the commercial and compliance perspectives.
- The capabilities for this new world are in no way different, but there will need to be a significant

change in attitude and therefore in culture.

- Embedding an efficient and coherent risk framework will be fundamental to this, as well as ensuring that technology and reporting are well structured and aligned to business needs.
- Perhaps the biggest challenge will be working out how to measure cost and value so as to demonstrate this to stakeholders – this will be far more challenging than simply demonstrating effectiveness, which will be viewed as a given.

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The Conduct Agenda change

The approach of many supervisors continues to build upon the G20 concepts of Treating Customers Fairly and Customer Outcomes and includes some key learning from recent insurance conduct issues. The new approach moves away from the traditional focus on point of sale and places the regulatory lens squarely into product design and customer value, in particular the product development process and governance, product features and customer needs and whether products are designed to be suitable and remain suitable for the intended consumer market.

- Suitability of existing products. There is an expectation that supervisors will continue to challenge the suitability of existing products sold in the sector, particularly where such products are very profitable; there are clear advantages to firms being proactive on this topic.
- Compliance levels of financial promotions and the robustness of financial promotions approval processes.
- Improvement required in post-sales processes, including complaints handling and post-sales reviews.

Accounting change

The insurance contract project of the International Accounting Standards Board (IASB), or IFRS 4 Phase II as it is commonly known is an ambitious project to have a single comprehensive measurement model for all types of insurance contract. The project is in its final stages with a Re-exposure Draft expected this summer and the final standard expected by the end of the year. IFRS 4 Phase II proposes a completely new approach to profit and loss, performance measurement and monitoring put together with implications for the underlying system changes and processes insurers have to go through to produce required information.

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has also taken up a project to review its guidance for Takaful contracts. KPMG has been mandated by AAOIFI to review guidance for Takaful contracts to bring them up to speed with the latest international standards within Islamic Shariah principles.

- The key challenge for insurers in Qatar is to manage the differing timelines, interdependences and alignment of the change, beyond systems and for business synergies.
- A comprehensive review plan should identify practices that can add genuine value so the business can derive real benefit out of what may otherwise be viewed as simply a compliance exercise e.g. setting of risk appetites and subsequent linking to strategy and business plans.
- Qatar insurers need to stay abreast of the IFRS 4 proposals to ensure they are well placed to adopt the standard.

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Cutting through complexity

It is difficult to remember a time when the region's insurers were facing so many regulatory pressures from so many sources. Coupled with the plain fact that the region is supporting the growth and expansion of the insurance industry, it is clearly critical for insurance companies – either those operating solely on a local and domestic level or those operating globally and throughout the region – to build the tools and capabilities to cut through this period of increasing regulatory complexity and build a solid platform that supports the successful implementation of strategy into the future