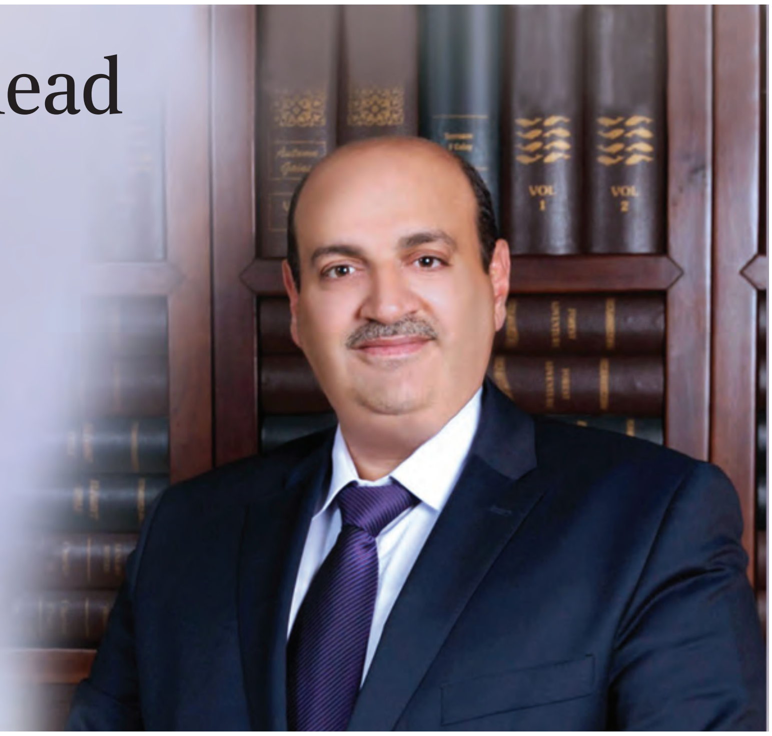
Fruitful term ahead for the sector



The **Jordan Insurance Federation** (**JIF**) foresees a rewarding stage ahead with a new insurance law in the making and the sector's regulatory tasks to be transferred to the Central Bank of Jordan. **Mr Majed Smairat**, newly re-elected chairman of the JIF, sheds light on the sector's recent developments and the Federation's major future initiatives.

What is your assessment of the performance of Jordan's insurance market in 2018?

For 2018, the preliminary financial statements of insurers show an increase in GWP by 2.2% to JOD606m ($856m) compared to JOD593m in 2017. Gross paid claims increased by 3.7% to JOD462m. The increase in paid claims came mainly from marine, motor and credit insurance branches.

Twenty-three insurers out of the market's 24 have reported net profit of JOD14.8m in 2018 against JOD3.4m in the previous year, an increase of 335%. These are preliminary results; the final consolidated results for the sector will be issued after the release of the results from the remaining insurer.

Following your re-election as chairman of the Federation for the term 2019-2021, what are the most important goals you aspire to achieve in the coming period?

Continuing for another two years would enable the board to complete the projects we have started since we were first elected in 2017 and follow up on developments related to initiatives that have been launched since then.

Probably the most important project the board will be undertaking is to continue discussions which we have initiated recently with the Economy and Investment Committee at the parliament on finalising the insurance regulations law.

We will complete the discussions on all articles of the draft law and submit our observations before proceeding with the ratification procedures of the law.

Once promulgated in the Official Gazette, the draft law will constitute a qualitative leap forward for the insurance sector through the transfer of regulatory tasks over the sector from the Insurance Administration at the Ministry of Industry and Trade to the Central Bank of Jordan (CBJ). The ensuing results of this move would include the issuance of new instructions and regulations as well as the amendment of the existing ones to organise the sector's businesses.

The bill will pose challenges for the sector to implement new standards which include the separation of ownership of insurance companies from the executive management, in addition to applying corporate governance instructions which are currently imposed on banks – considered stringent to a certain extent compared to those applied by insurers and other financial entities.

Additionally, the JIF board will continue to communicate with the Federation's members to take note of their observations and suggestions in regard to future projects during the next term. Among the most important projects include amending the Federation's bylaws to strengthen the role of the JIF and increase coordination with insurance-related entities and further enhance coordination with relevant institutional bodies.

Another important initiative the board will be working on is launching the electronic linkage with the Ministry of Health to exchange reports of medical committees pertaining to motor accident injuries. The current mechanism of issuing reports drains insurance companies' capacities as a result of exaggeration of disabilities in these reports, with some cases citing injuries which existed prior to the accidents. Establishing this e-linkage will be a qualitative leap for the sector to address the problem insurance companies have been suffering from for a long time and one of the main reasons for losses in motor TPL insurance.

Enhancement of training programmes and complimentary workshops for insurance professionals are among the JIF's goals, too. This is to improve employees' ability and efficiency and thereby improving the level of services offered to citizens, enhance professional certificates, and facilitate the exchange of expertise

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among the sector's employees.

The JIF plans as well to urge the government to allow insurers to conduct prudent underwriting for motor TPL and have the freedom to set the adequate price.

The Board also plans to work on developing the internal regulations of the Federation, enhancing the institutional governance, transparency and developing its cadres.

What can insurers do to achieve growth under the current economic conditions?

The Middle East region in general, and Jordan in particular, has witnessed economic challenges in recent years. Jordan continues to suffer from the decline of economic activities due to the drop in trade exchange with Arab countries such as Iraq and Syria as a consequence to instability these countries are witnessing.

This has led to a reduction in marine insurance business. Moreover, the limited investments implemented by the state in recent years because of the lack of budget, has led to a decline in construction insurance covers as well. All these challenges, in addition to the economic slowdown, have contributed to reduce the citizens' purchasing power, forcing them to focus on the basic requirements, where insurance is not at the top of their priorities.

With all these circumstances, insurance companies are required to develop solutions that meet the needs of the local market, and create innovative insurance products and services at affordable rates.

Companies need to expand microinsurance offerings and design insurance products aimed at insuring homes and small businesses, as their coverage remains below the targeted level, so as to increase the take-up of insurance, which would subsequently increase the size of premiums and insurance penetration.

In parallel, the government, represented by the insurance supervisory bodies, is required to introduce new compulsory insurance, such as professional liability insurance for doctors, engineers and various professions. Moreover, there is a need to impose compulsory insurance against risks related to natural disasters and earthquakes to protect the national economy and assets. All these moves have the potential to increase the contribution of insurance to the country's GDP as it is still modest at 2%, while insurance density is at around $80.

What are the chances for M&A in the coming period? How can this trend be encouraged?

The market currently includes 24 insurance providers, a large number compared to the relatively modest size of the insurance market of JOD600m.

Following the decisions of the Economic Committee of the government in 1988, several mergers took place among insurance companies at the time. Subsequently, there was only one successful merger that took place between Yarmouk Insurance Co and First Insurance Co around three years ago, which resulted in Solidarity Insurance Co, one of the successful players in Jordan. Solidarity benefited from the merger thanks to the Prime Minister's decision issued in the Official Gazette on 16/10/2017, which granted companies resulting from the merger of insurance companies a three-year exemption of income tax and annual fees. The merged company also receives exemption from paying the ownership transfer and capital raising fees.

I believe that in the near future, following the transfer of regulating the sector to the CBJ, there will be mergers between some insurance companies. This would be a healthy route which the JIF encourages in order to create large insurance entities capable of competing efficiently and increasing the market retention rates, which will be reflected positively on the market and strengthen the ability to negotiate with reinsurers, invest more in developing the human element, market studies to identify potential developments and future business opportunities.

What are your expectations for the market this year?

It is still early to judge market results for 2019, but the sector has not seen any strategic decisions affecting the progress of the legislation or the introduction of new mandatory covers. Hence, the market is expected to grow modestly according to what has been seen in recent years, with no more than 5% growth rate. However, I expect a decline in the profitability of the sector for 2019 compared to 2018 based on the indicators of the first quarter of this year, not to mention the tightening of regulators and actuaries with insurance companies to increase technical reserves, which will negatively affect the profitability of the sector. Moreover, the speed up in issuing court rulings for cases brought against insurers in 2018, which is continuing in 2019, has forced insurance companies to use their bank deposits or liquidate assets to be able to meet their obligations.