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Working for a better marketplace



Madaba, Jordan

Rolling out of the new insurance law and shifting the insurance supervisory to the Central Bank will be game changers for the sector, says **Jordan Insurance Federation (JIF)** chairman **Majed Smairat**.

By Osama Noor

Presently, the insurance sector operates under the Insurance Regulatory Act of 1999 and its amendments; therefore, there has been an urgency to update the regulatory environment. Preparations for issuing a new law have been afoot over the past year with the JIF holding several meetings with stakeholders, including lawmakers and the Central Bank of Jordan (CBJ), to discuss the best means for the implementation of the new law. Last March, the Lower House endorsed a bill to update the insurance law. When passed, the law will authorise the CBJ to take over the supervision of the insurance sector, currently handled by the Insurance Directorate at the Ministry of Industry, Trade and Supply (MITS).

Shifting the insurance supervision to the CBJ will entail amending regulations and legislations, said Mr Smairat. “The CBJ adopts a different policy and is expected to reassess various critical issues such as liberalisation of the motor third-party insurance tariff, capital and licensing requirements as well as the implementation of stricter corporate governance directives, which will require a separation of ownership and executive managerial control. The CBJ also would give more emphasis on adopting prudent risk management strategies for insurers.”



Mr Majed Smairat

Among the suggestions in the new law is setting up a special fund, financed by insurance companies, to support troubled companies and compensate their claimants. The JIF is against this proposal as it will burden insurers’ capacities, said Mr Smairat. “There are other alternatives such as arranging certain reinsurance agreements or requiring D&O policies for executives.”

The issuance of the new law requires the approval of the Senate. It was scheduled to be passed by the mid

of this year but, with the current conditions caused by COVID-19, it is unclear how the process will go.

Generally, the new law and taking over of the supervisory tasks by the CBJ would be the most significant developments for the insurance sector in Jordan, he said. “We hope for the new law to push the insurance sector forward, contribute in organising its operations and develop practices in line with international standards.”

The new insurance law includes 111 articles which tackle all the regulatory aspects of the insurance industry in Jordan. The most significant outcome from the new law is having the sector’s supervision under the umbrella of CBJ, said JIF director general Maher Al-Hussein. “The CBJ will work on launching prudent plans to organise the insurance business. This will require greater efforts from insurers, but eventually it will be a quantum leap for the insurance industry in Jordan – given the success the CBJ has achieved in organising the banking system in the country.”



Mr Maher Al-Hussein

He expected five years, from the CBJ taking over the supervisory tasks, for the insurance sector to achieve notable progress in terms of the size of premiums and other performance indicators. “The regulations the CBJ will impose might also reduce the number of operating insurers in case there is a lack of commitment to the new regulatory requirements, which will be more stringent than those currently enforced.”

Overcoming challenges

The insurance market continued to face tough conditions in 2019 as in the preceding years, but it managed to grow, said Mr Smairat. “The tough economic conditions in the

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region, including in Jordan, pose massive challenges for the insurance industry to grow and achieve higher penetration levels.”

Therefore, insurers are required to roll out new insurance products that respond to the needs of citizens, he said. “There is a need for new and innovative products at affordable prices, including microinsurance products as they are inexpensive and target the underinsured population. They also need to promote home and SMEs lines, which remain underpenetrated segments.”

He noted that this will eventually increase the penetration rate which stands at a modest 2%, and increase the \$83 density mark. “The industry also hopes that the government would exempt life insurance from income tax to encourage people to take up life insurance.”

Insurance premiums in Jordan grew by 1.4% in 2019 to JOD614.5m (\$866.7m), with 86% coming from non-life business. Life operations account for 14% of the market GWP and dropped by 0.4% to \$85.8m in the past year.

The motor TPL challenge

Liberalising the motor third-party liability (MTPL) tariff is a pressing need for the insurance sector in Jordan as this branch has been registering massive losses over the years, said Mr Smairat. “We are in continuous discussions with MITS to liberate prices so they would be subject to supply and demand, as well as to enable insurers write this business in line with technical standards and the insureds’ claims history. This would curb the losses of the sector and increase profits. Overall, having this implemented would improve the rate of returns for the sector, thereby increasing shareholders’ satisfaction and encouraging investors to inject capital into the sector.”

Motor premiums control the lion’s share (38%) of the market GWP with a portfolio of JOD235m in 2019, of which JOD106m came from MTPL. Paid claims in the past year reached JOD235m, equivalent to 50% of the market’s gross paid claims.

Mr Smairat added that MITS has introduced certain amendments, including the increase of some MTPL-related fees. “This will help cover some of the sector’s losses, but we are still waiting for the decision to increase deductibles based on the insured’s claims history. We are also looking to discuss other issues such as dealing with ride-hailing apps.”

Last year, the federation made an agreement with the Public Security Directorate to provide motor licensing departments and drivers with electronic MTPL and comprehensive insurance policies (digitally issued motor policies), making it the first step towards embracing paperless system for motor insurance documents, said Mr Al-Hussein. “Presently we issue one hard copy for drivers until they get accustomed with the new system.” The federation issues more than 800,000 insurance policies every year, along with thousands of amendments and related documents.

He noted that this move would help improve the efficiency of issuing insurance policies and the services provided to policyholders, as well as limit fraud. “Overall, it would also reduce costs of issuing policies and is a major step in our efforts to keep abreast of the new technological progress. The plan this year is to expand the

JIF, a training hub in the region

The JIF plans to cement its role as a reliable regional centre and has launched several training programmes to upgrade the professionalism of the sector, said Mr Al-Hussein. In 2019, the federation offered training to 912 professionals, including 804 from Jordan and 108 from other Arab countries. “In addition to those working for insurance companies, trainees come from other various economic sectors, including banking and governmental and official institutions.”

Following the success achieved in the past year, the federation has launched a comprehensive training programme for 2020, which consists of 21 training courses. It offers complimentary passes for two employees for each local insurer for each course. “The training programmes are in line with the federation’s goal of improving insurance awareness and enhancing the level of professionalism.”

The new training programme covers a wide range of subjects which have become increasingly important to the insurance industry, said Mr Al-Hussein. IT, claims management in general and medical insurance lines, pricing of motor and medical products, are some of the areas of interest.

In addition to the training programme, the JIF is active in holding various workshops, seminars and conferences that attract audiences from the region and beyond, said Mr Al-Hussein. “The Aqaba Conference has been a great success as it continues to attract delegates from across the world to come and discuss vital topics. We will soon start preparations for next year’s gathering.”

digitisation process to include the transactions related to claims handling.”

Mr Al-Hussein added that the federation has been discussing with the MITS about launching a new mobile app for policyholders to obtain their motor insurance policies digitally.

Projects ahead

The sector looks forward to taking part in the comprehensive healthcare insurance scheme the government plans to launch. “The sector has extensive experience in this area, and can benefit the country from its network of healthcare service providers,” said Mr Smairat.

Efforts are also ongoing to prepare the sector for the implementation of IFRS 17. The JIF has arranged for an international consultancy house to help conduct the necessary gap analysis for the industry. “Implementing IFRS 17 is a big challenge which requires substantial financial resources and enormous efforts. The federation has already started to take the necessary preparations ahead,” he said.

The automation of health insurance payments and claims is another project the federation is working to implement. “This is an important platform we need to create so as to automate claims and approvals for medical spending. The implementation of this project requires electronic linkage between stakeholders, modernising systems and updating software. It is a huge investment for the industry.”