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## Solvency II-type standards years away in GCC

28 September 2009

The introduction of a Solvency II-type framework in the Gulf Co-operation Council (GCC) region is unlikely within the next five years, Shankar Garigiparthi, director of insurance supervision at the Qatar Financial Centre Regulatory Authority (QFCRA), told delegates at the Reactions Middle East Reinsurance Conference in Doha, Qatar, today.

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The introduction of a Solvency II-type framework in the Gulf Co-operation Council (GCC) region is unlikely within the next five years, Shankar Garigiparthi, director of insurance supervision at the Qatar Financial Centre Regulatory Authority (QFCRA), told delegates at the Reactions Middle East Reinsurance Conference in Doha, Qatar, today.

The QFCRA requires companies to hold a risk-based capital amount, which is calculated according to the types of underwriting risks a company writes and the types of investments it holds. Garigiparthi says some companies find even this simple model difficult to follow.

"I'm not entirely sure that the GCC market is ready for Solvency II," said Garigiparthi. "We have brought in risk-based capital modelling and I think the DFSA [Dubai Financial Services Authority] has also got risk-based capital modelling, but we still find that a number of companies find that a challenge."

Garigiparthi says there is a clear need to raise regulatory standards in the Middle Eastern insurance industry, in order to improve transparency and risk management, and encourage primary insurers to retain more risk. Primary insurers in the GCC cede around 90% of their risk to reinsurers.

Among the challenges Garigiparthi sees in the GCC market is the fact that the capital levels of insurers are not aligned with the risks they take. Most GCC markets follow a Solvency I-type approach, which requires a fixed percentage of premiums to claims.

In addition, insurer solvency cannot be calculated from the information companies publish. "The amount of information that is available in this marketplace is so sparse and so high-level that it is very difficult for anybody to really calculate the insurance solvency of an insurer in this region," Garigiparthi said.

He added that existing capital requirements provide little incentive for insurers to perform well. "The insurers that actually do take risk management seriously – that understand their risks better, price their risks better and generate good returns – are still required to hold the same level of capital as a company that is making huge losses," he said.

International insurance companies that are subject to Solvency II will be applying the regime to their branches in the GCC when it comes into force in 2012. Despite this, Garigiparthi believes an equivalent of Solvency II will not be introduced to local companies in the region any time soon.

"Solvency II requires you to develop your own internal models, effectively trying to bring in what risks you see and how you should be pricing your risk. It's still a good five years away for the GCC market, in my view," he said.

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