Address by Paul M Koster - Chief Executive
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at the 17th Annual Conference of the IAIS
Dubai
27 October 2010

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Special Guests, Your Excellencies, Distinguished Guests, Ladies and Gentlemen - Welcome.

It is my pleasure to welcome you to Dubai for the International Association of Insurance Supervisors' 17th Annual Conference.

We, at the Dubai Financial Services Authority, are honoured to be hosting this prestigious event and hope and trust that you have a memorable few days ahead. I am sure you will gain a deeper understanding of emerging industry trends and regulatory developments. But I hope you take the time to explore this vibrant city and enjoy the Arabian hospitality on offer – which is as warm as Dubai's weather.

I have, no doubt, that you have read much negative press about economic conditions in Dubai and I imagine that many of you are surprised to see that our roads are filled with traffic rather than rolling tumbleweed. There is no question that the financial crisis prompted significant challenges for the domestic economy. Dubai saw a contraction last year prompted by a combination of weak international economic conditions and softness in domestic real estate and banking sectors. The crisis also drew attention to the heavy borrowings of Dubai entities, many linked to the government or to real estate, or both. Dubai Government Related Entities' indebtedness is being actively addressed through various debt restructurings. Much progress has been made within recent months, in particular, the near unanimous agreement among Dubai World creditors. This has been a key confidence building development which together with robust performance in Dubai's trade, tourism and logistics sector should usher in a brighter economic outlook in 2011.

For those who are not familiar with the Dubai International Financial Centre, I would like to take a moment to explain its conception. The DIFC is a novel concept in that it is a purpose-built onshore financial centre spanning 110 acres, complete with its own civil and commercial laws, an independent court system and an independent financial services regulator – the DFSA.

The Centre was first announced in 2002, and opened its doors just 2 years later. As you may have already sensed, Dubai is tireless in fulfilling its many and great ambitions. The Centre is intended to provide greater access to capital and to facilitate investment in support of Dubai, the UAE and the wider region's economic development. That is, the DIFC is a gateway to growth, as symbolised by the iconic architecture of The Gate building.

Despite the relatively short history of the Centre, it now hosts around 300 regulated firms – a population which I am pleased to say continued to rise throughout the crisis despite the challenging domestic economic conditions.

The quality of the physical, regulatory and legal infrastructure combined with the attractive local and increasingly important regional growth opportunities, have attracted leading firms in all sectors. The Centre also houses two exchanges; NASDAQ Dubai lists equity, bonds and derivative products, while Dubai Mercantile Exchange is the Centre's oil commodity exchange.

The DFSA is responsible for the authorisation and supervision of all financial and ancillary services firms in the DIFC. Our regulatory approach is to be risk-based and bring world-class regulation to the DIFC. This is pursued via the DFSA's continual involvement in influencing and responding to changes in global financial standards.

We are signatories to the IOSCO multi-lateral memorandum of understanding and are a member of the Emerging Markets Committee. We are members of the Basel Committee on Banking Supervision's consultative group, and the International Federation of Independent Audit Regulators. In Islamic finance, we are very active members of the Accounting and Auditing Organisation for Islamic Finance Institutions and the Islamic Financial Services Board. In the IAIS, as you will know, we are members of the Technical Committee, the Insurance Groups and Cross-Sectoral Issues Sub-Committee and the Governance and Compliance Sub-Committee. And that does not exhaust the list. We do this because we are well aware that the regulatory agenda is now being set at an international level, and we need to be engaged with this, both to ensure that standards take proper account of jurisdictions like our own and to ensure that we have the knowledge to implement the standards as they emerge.

I am proud of the DFSA staff's contributions to the thought leadership in these various global bodies. We are fortunate at the DFSA to have attracted internationally experienced staff with a wealth of regulatory knowledge and diversity too – having come from a range of jurisdictions with varying regulatory arrangements.

The DFSA is responsible for regulating the insurance and reinsurance sector within the DIFC. We currently host 19 firms that are authorised to engage in insurance-related activities. Our friends and colleagues at the Emirates Insurance Authority are responsible for regulating the sector in the greater UAE. The Authority is a relatively new body, established only in 2007, and has a quite aggressive programme to overhaul insurance regulation in the UAE, with both improved regulations and a heightened level of supervision. This is part of the general advance in standards across the region that we have seen in recent years.

Activity in the UAE insurance sector has continued to expand throughout the crisis and has a buoyant outlook. In 2009, gross premiums rose ≈10%, led by life and savings business, while property and casualty insurance premiums rose 8%. In contrast to global averages, the UAE insurance sector is heavily dominated by non-life insurance business, partly due to the insurance of major projects, but also to hesitations in taking out life insurance in light of cultural considerations. In terms of total premiums, the UAE enjoys the third highest penetration rate among emerging markets, with total premiums equating to 2.5% of GDP. While this is impressive, it still lags Europe and North America by something like a factor of three. This suggests that there are significant opportunities even in the relatively well developed UAE insurance market.

One specific source growth in both domestic and regional insurance sectors is Islamic-compliant insurance. The concept of takaful dates back more than 1,400 years and is based on the principle of mutual guarantee. Islamic insurance is becoming increasing popular in the GCC and South East Asia and appears to be enjoying faster growth than its conventional counterparts, albeit from a much lower base. In the recent past, cultural practices and religious beliefs have limited the development of the life insurance market. However, the growing awareness and acceptance of Islamic insurance, appears to be opening up a significant growth opportunity.

Broadly speaking, the outlook for the Gulf's insurance sector is as robust as the UAE's. Even more than in the UAE, insurance penetration lags behind that of the Western economies, yet economic growth rates would be the envy of most of the world. Development plans are ambitious with over 2 trillion dollars worth of projects currently planned and underway. This amounts to roughly double the current level of economic output from the GCC economies. Furthermore, the value of projects is set to rise in markets such as Saudi Arabia where a staggering 1 million housing units are planned for construction in the next 4 years. Savings products may be another opportunity in the medium-to-long term if a pension industry emerges. In addition to strong growth prospects, the Gulf insurance sector is expected to become more sophisticated as underwriting risks becomes more refined, encouraging the retention of more risk and, we hope, greater profitability.

This year's theme is 'The Gateway to Trust in the Insurance Industry.' The global financial crisis has reminded us all of the critical importance of maintaining trust in financial institutions and markets to promote financial and economic stability. Though core insurance activity was not at the heart of the recent financial crisis, the increasingly overlapping fields of banking, securities and insurance have meant that the IAIS is playing a significant role in the reorganisation of the international standards architecture. The crisis has provided the momentum to develop a set of global prudential standards for the insurance sector. This is a difficult task, but an essential one if we are to meet the expectations of the international community.

The Financial Stability Board, answering in effect to the G20, has become a critical driver of standards setting and implementation. It now effectively oversees the work of the Basel Committee, IOSCO and the accounting standards setters, as well as the IAIS.

Membership of the FSB carries with it an obligation to adopt global standards developed from the key banking, insurance and securities bodies just mentioned. Adding further accountability to these obligations is the on-going International Monetary Fund-World Bank Financial Stability Assessment Programme and peer reviews of observance of these standards. Over time, we must expect that members beyond the Financial Stability Board, will apply serious pressure to other jurisdictions to be assessed against the same standards. There is a clear determination that there should no longer be major gaps or opportunities for regulatory arbitrage, either between sectors or between countries.

In addition to promoting consistency in the adoption of standards across jurisdictions, co-operation has been a key theme in global regulatory circles. The increased usage of supervisory colleges for financial institutions with significant cross-border activity is another example of increased co-operation, and one which is very important to a jurisdiction like ours, which hosts many firms from around the world.

Norman Cousins, an American author and journalist stated “Man is not imprisoned by habit. Great changes in him can be wrought by crisis - once that crisis can be recognised and understood.”

A parallel can be drawn with global regulation. The depth and breadth of reform in the global regulatory architecture, the regulations themselves and unprecedented level of cross-jurisdiction co-operation are all unlikely to have emerged in the absence of the recent global financial crisis. As we continue to learn from the recent crisis, we must, however, be wary that the regulatory response does not provide a guarantee against another financial crisis of another form occurring.

Before I conclude, I would like to thank all of those involved in making the IAIS' 17th Annual Conference what I expect will be a great success. Particular thanks go to the Emirates Insurance Authority, the DIFC Authority, and of course, the IAIS and our sponsors for all of their support.

Again, it has been my pleasure to welcome you to Dubai for this great event. I hope that you all actively participate in the various sessions ahead of us and excursions planned for us. I wish you a productive and enjoyable coming few days and hope that you are able to explore all that Dubai has to offer. THANK YOU.