INSURANCE – GENERAL

Ensuring insurance growth in Jordan

The insurance industry in Jordan is very well established and has been known for providing the region with high-calibre professionals for many years. Today, the sector faces some challenges, but regulatory intervention is expected to put the market on the right track, says United Insurance Company's Mr Raed Haddadin.

By Osama Noor

Overcrowding in the market is the biggest challenge facing the insurance sector in Jordan, according to United Insurance Company (UIC) CEO Raed Haddadin.

"There are 21 insurers (in Jordan) while GWP stands around JOD740m ($1bn)," said Mr Haddadin. "This crowdedness creates unhealthy competition in certain lines of business, which affects the solvency of some companies and the sector at large."

Fragmentation of the marketplace necessitates market consolidation, he said.

"Having many insurers vying for a relatively small pie breeds unhealthy practices and ignites price competition. Hence, there is a dire need for M&A" said Mr Haddadin.

He believes the market cannot sustain more than eight insurers. "This is the ideal number in light of the size of the market," he said.

The Central Bank of Jordan (CBJ) instructed insurers to increase their capital by 2025, which could be a game changer. Composite insurers are required to raise their capital to JOD16m, and non-life or life insurers to JOD8m.

"Companies were granted a grace period until 31 March 2025 to comply with the new regulation. Leading insurers, like UIC, have the capacity to raise their capital. The capital increase requirement may push towards mergers or for some composite insurers to limit their operations to non-life or life business," said Mr Haddadin.

Premium growth should not be at the expense of profit, said Mr Haddadin. "The main goal is to maintain business profitability and a solid financial solvency ratio, which reached over 200% for UIC, against the required 150%, in the second quarter of this year. With a history that goes back more than fifty years in Jordan, our priority is to achieve a healthy and steady growth and avoid harmful competition," he said.

The MTPL conundrum

The Jordan Insurance Federation's Unified Bureau for Compulsory Motor Insurance (Unified Bureau) writes motor third party liability (MTPL) compulsory insurance on the rotation system on behalf of insurers. Insurers have no say in accepting or rejecting policies, which is a main hurdle facing the industry, said Mr Haddadin.

"MTPL is a loss-making business, where the premiums do not cover the paid claims," he said.

In recent years, the issue has become more serious as some companies were suspended from writing insurance business. Currently, a number of insurers have been suspended by the CBJ from writing MTPL for corrective measures or because their MTPL premiums reached 100% of shareholders' equity.

"The motor business these companies used to write was directed to the existing players," said Mr Haddadin. "This has caused problems for us because the number and size of claims has amplified from the beginning of the year. The continuation of the current situation bodes ill for insurance companies."

Motor claims

Companies get notified of lawsuits filed against them without their knowledge of the accident. Claimants file the lawsuit without communicating with the insurer to resolve the claim before resorting to courts.

"The reason is attributed to harmful practices carried out by some parties to profit from traffic accident cases illegally," said Mr Haddadin.

The good news is that the CBJ has started taking corrective measures to amend some of the MTPL articles to end the negative practices resulting from some loopholes, he said.

Last month, the cabinet approved new MTPL insurance bylaw. The bylaw should contribute to resolving disputes arising between insurers and beneficiaries of the insurance contract, by specifying the cases covered under the insurance contract, as well as accidents that are not covered.

"This is a positive development. The CBJ has promised to resolve issues related to MTPL insurance accompanied by a review of prices before the end of the year," said Mr Haddadin.

Updating prices is a priority, he said. "The prices of compulsory insurance were set back in 2002, and many changes have occurred since then, such as the hike in inflation rates which significantly increased in the prices of labour, wages, spare parts, medical expenses and others. This increase in prices was not considered. The continuation of the current situation will negatively affect the solvent companies as well. It is a ticking bomb that needs to be addressed."

Solving the MTPL issue

Mr Haddadin, who previously worked at the Insurance Commission of Jordan, the regulatory body of the insurance sector, said that there was a suggestion to float the tariff, while preserving the rights of policyholders and insurers, by setting a minimum and maximum price limit.

"The minimum limit ensures that the pricing does not fall below sound technical standards, while the maximum limit ensures that prices are not exaggerated so that companies take advantage of motorists. Insurers can compete between the two limits.

"Ultimately, without setting a balanced tariff, insurers won't be able to provide quality services that satisfy the client," he said.

Motor insurance business accounts for around one-third of the market GWP; however, its paid claims account for almost half of the market's overall paid claims, mainly because of the MTPL losses.

Out of Jordan's 21 operating insurers, there is one life insurer and two operators that do not write motor.

Lack of compulsory covers

In many countries there are mandatory insurances such as medical insurance coverage for workers, employees and their families; and professional indemnity/liability insurance for independent professionals such as medical practitioners, architects, lawyers and others.

"In Jordan, it is limited to MTPL, which explains why this line of insurance is a constant concern for companies," said Mr Haddadin.

He said that having more compulsory insurance covers would help create a stronger safety net for citizens, improve insurance awareness and alleviate burdens off the government's shoulders. "This would also generate substantial income to the sector," he said.

Tracking growth

Despite challenges, there are opportunities for companies to grow in Jordan, said Mr Haddadin, who joined UIC as CEO at the beginning of the year, from Abu Dhabi National Insurance Company where he was executive vice president and chief legal and compliance officer for 13 years.

"Our future strategy is to roll out new products including savings and endowments products, long-term investment and other personal line offerings," he said.

UIC looks to expand in profitable business, other than motor and medical, such as marine and life.

"We look to be more active in lines where profitability isn't under pressure," said Mr Haddadin. "Generally, companies should explore new areas such as microinsurance and bancassurance to offer new services and address emerging needs of their customers."

The priority for this year is to increase capital size, he said.

"UIC can meet the new capital requirement and will continue to pay a special attention to compliance, risk management and corporate governance. This is rewarding for us and is in line with the CBJ vision for the marketplace."

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