UAE

Recent changes and future considerations for brokers in the UAE


By Mark Beswetherick and Laura Chicken

Developments in the premium collection regime

In the past 18 months, the UAE insurance market has been the victim of a number of scandals, the most high-profile of which concerned a brokerage firm in Dubai being found to have used premiums collected from its clients as working capital of the business (and even for investment in property) rather than keeping them in a segregated client account. This left a number of insurers without payment and had important consequences for the insured customers whose premiums had not been passed on.

The UAE Insurance Authority's initial response was to issue a Circular in April 2011, requiring premiums collected by brokers to be deposited in a separate account to the one used for their day-to-day working capital needs. For many brokers in the UAE, particularly those set up in accordance with international best practice, this requirement was nothing new and was already in place. However, for some it presented more of a challenge. Historically, premiums collected in the UAE were often used for the brokers' own short-term working capital requirements, with arrangements in place whereby the broker would make payments to insurers at the end of a specified period.

The Insurance Authority continued its reforms with the issuance of Circular No. 3 of 2012. This Circular requires that, from 1 March 2012 onwards, cheques issued by the insured customer for the payment of insurance premiums must be issued directly in the name of the insurer. However, insurers often do not have the systems in place to process broker commissions in a timely manner upon receiving these payments, resulting in delays in brokers receiving their remuneration. This also causes problems, for example, where premiums are paid in instalments rather than one lump sum.

This sudden change to existing practice caused some consternation within the local market, resulting in the broking community approaching the Insurance Authority to ask them to reconsider their position. We shall have to wait and see whether the Insurance Authority bows to pressure, or whether it stands firm on this issue.

Other areas for reform

There are a number of areas which will require greater scrutiny by regulators in the UAE in due course, including the practice of 'grossing up' of premiums. Grossing up occurs where the insurer obtains reinsurance terms from reinsurers, but passes on a significant increase in price (even on a proportional placement) to the customer. It is not unknown for premiums to be grossed up by as much as 80 percent or more in some cases. Such practices are, typically, not transparent and do not serve the customer's best interests.

The future for broker remuneration

It is arguable that the controversy surrounding existing broker remuneration practices could largely be avoided by moving to a fee-based structure whereby brokers are paid for services provided to their clients, rather than underwriters accounting for acquisition costs. This is in line with most other professional services providers who charge their clients for time spent on a particular matter, according to set hourly (or fixed) rates. Developments in developed markets such as London will continue to have an impact in the UAE, which often looks to models of international best practice for guidance.

Whether there is an appetite for such a shift is another matter, particularly in the UAE. We understand that a new law for brokers is in the pipeline so it remains to be seen what further regulatory developments this will introduce.

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