

Social Insurance Issues in the Gulf

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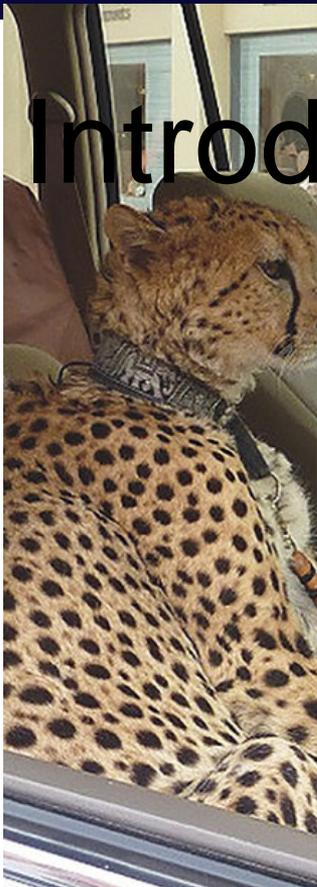


Agenda

- Introduction to the Gulf:
 - Social Insurance Schemes
 - Current Challenges
 - Ex-pats End of Service
- Summary
- Questions?

Introduction to the Gulf

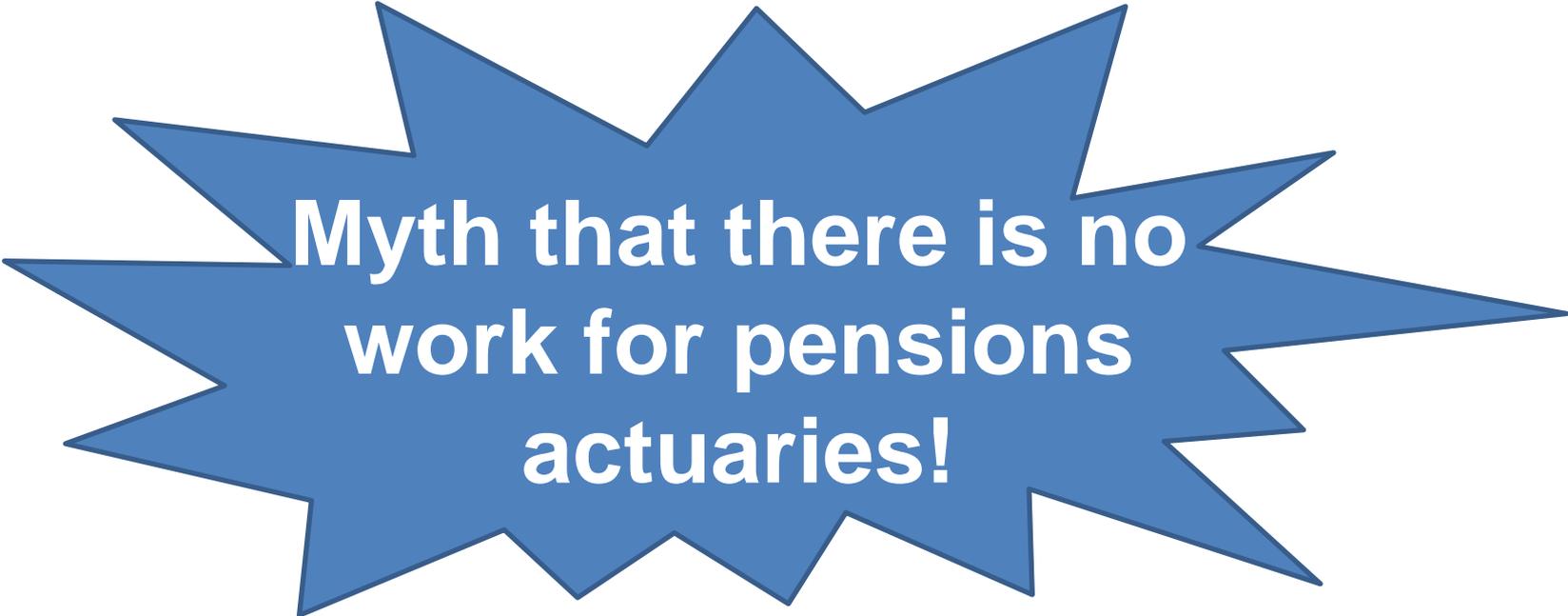
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Introduction to the Gulf



**Myth that there is no
work for pensions
actuaries!**

- Lots of DB scheme work
- Schemes all still open
- Populations still very young
- Exciting place to be an actuary!

Social Insurance Schemes

- Civil Retirement and Social Insurance Schemes ensure pensions in each GCC state **for gulf nationals;**
- **Defined benefit and compulsory;**
 - Saudi Arabia - first social security scheme (GOSI, 1969)
 - Bahrain (GOSI, 1976)
 - Kuwait (KPISS, 1977)
 - Oman (PASI, 1992)
 - UAE (GPSSA, 1999 and ADRPBF, 2000)
 - Qatar (GRPA 2002)
- Largest and possibly only pillar in each of GCC countries so high expectations on income replacement.

Social Insurance Schemes

- Provide for old-age, incapacity and death risks;
- Some provide occupational injury benefits, loans, funeral grants and marriage grants;
- **Benefits are very generous!**
 - Pension replacement rate is very high and maximum pension attained through short service periods,
 - E.g. In Qatar, only 20 years' service period to be eligible to get 100% of final salary,
 - Pension eligibility from early age (at 40 years old in Qatar and Kuwait).

	Maximum Pension (as % of final salary)
Bahrain	88%
Oman	80%
Saudi Arabia	75%
Kuwait	65%

Social Insurance Schemes

Beneficiaries:

- Widows and widowers;
- Children up to age 21 unless:
 - In full time education to age 26;
 - Holds a university degree but does not have a job, to age 26;
 - Is “unable” to earn a living;
 - Is a daughter and is unwed (!!!)
- Father, if his depended on deceased child;
- Mother, is she is divorced or widowed;
- Brother, to age 21;
- Sister, if unwed;
- Grandchildren, if their father is dead.

Social Insurance Schemes

- GCC schemes funded on a partial basis with exception of Kuwait;
- Not common to fully fund liabilities of a social security scheme;
- Definition of a viable scheme is debatable! Typically use:
 - Projected reserve covers benefit expenditure by multiple e.g. 4 times;
 - Projected reserve remains positive for e.g. 60 years;
 - Benefit expenditure will not exceed certain percentage of GDP.
- E.g. Canada: projected reserve ratio same in 10th and 60th year
- E.g. US: income rate between 95% - 105% of cost rate for 75yrs
- GCC: partially funded system is not precisely defined!

Current Challenges

- Reserves misunderstood to be surpluses in past!
- Led to a poor financial position.

2006 report:

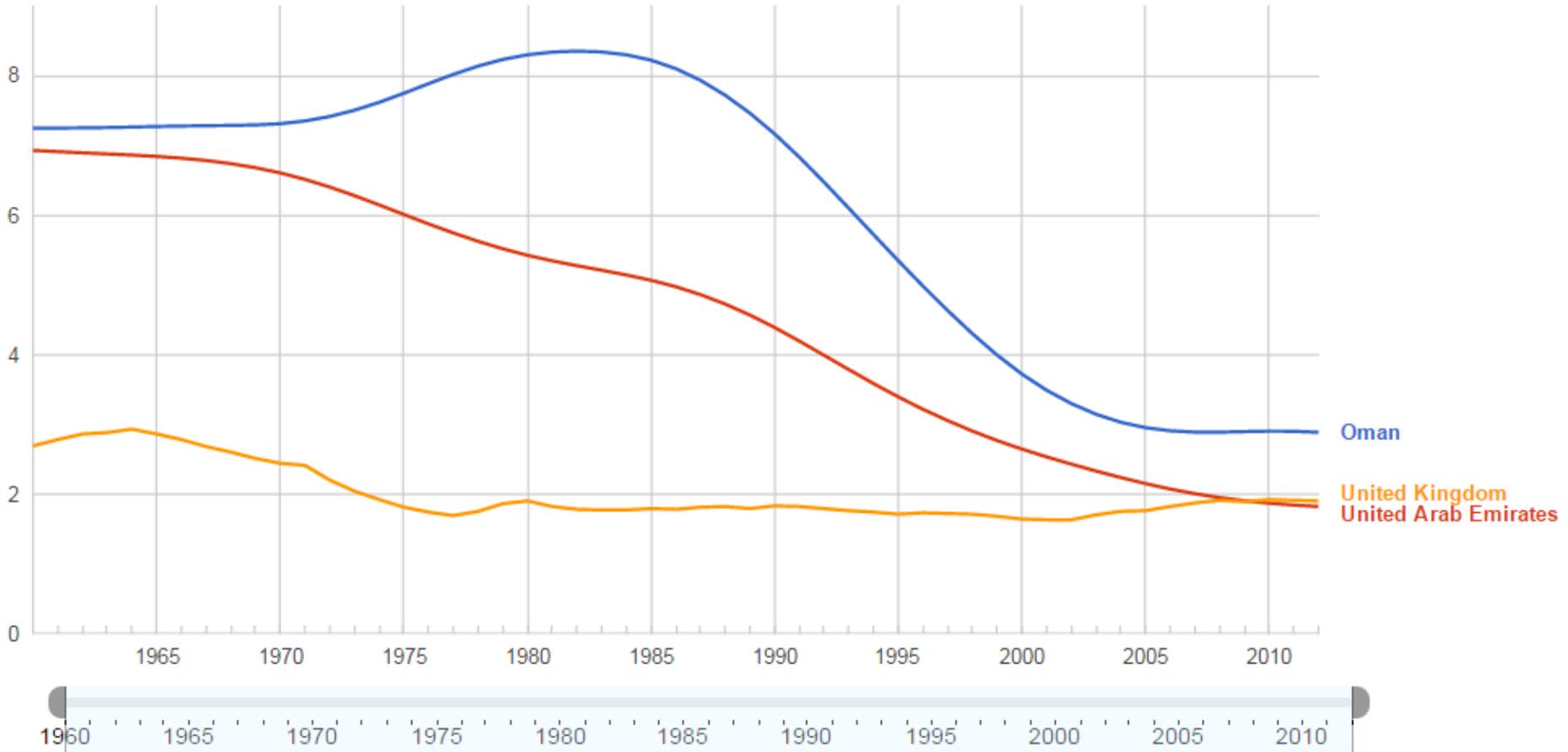
- Total GDP of the GCC approximately \$400 billion;
 - Past service liability approximately \$200 billion;
 - Schemes' deficit approximately \$100 billion;
 - **25% of GDP** therefore significant!
-
- On average, benefits > contributions in 16 years;
 - Funds will be depleted in 49 years.

Current Challenges

- Current funding position, and increasing economic & demographic pressures mean schemes are **unsustainable**;
- Reducing fertility rates;

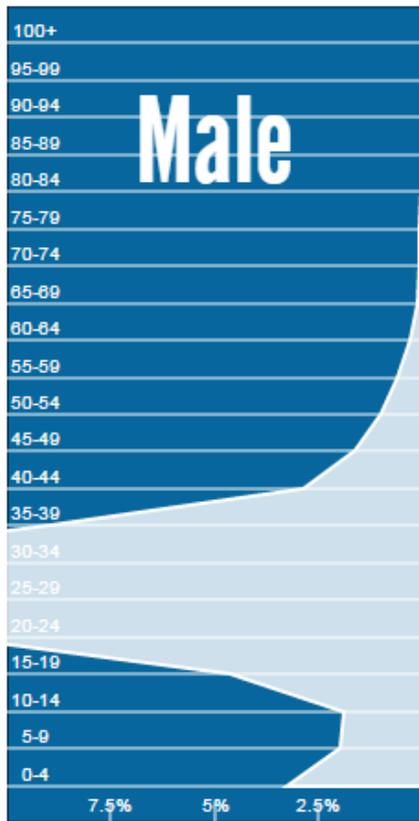
Current Challenges

Fertility rate

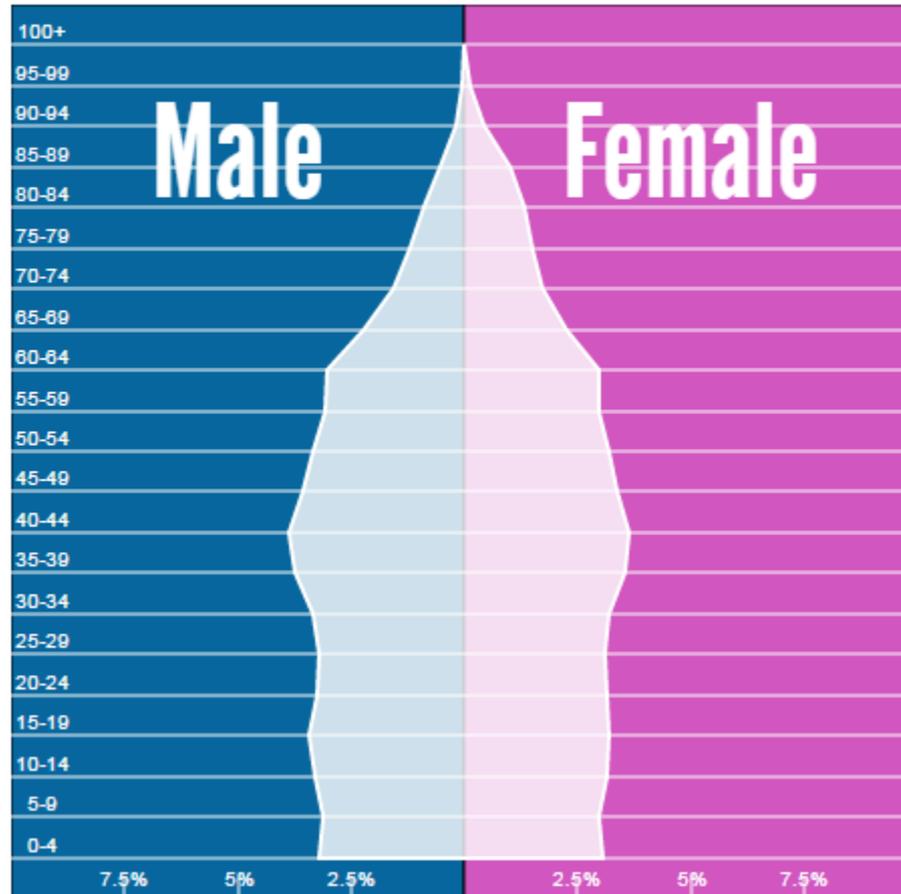


Current Challenges

United Arab Emirates



Norway 2010



2010

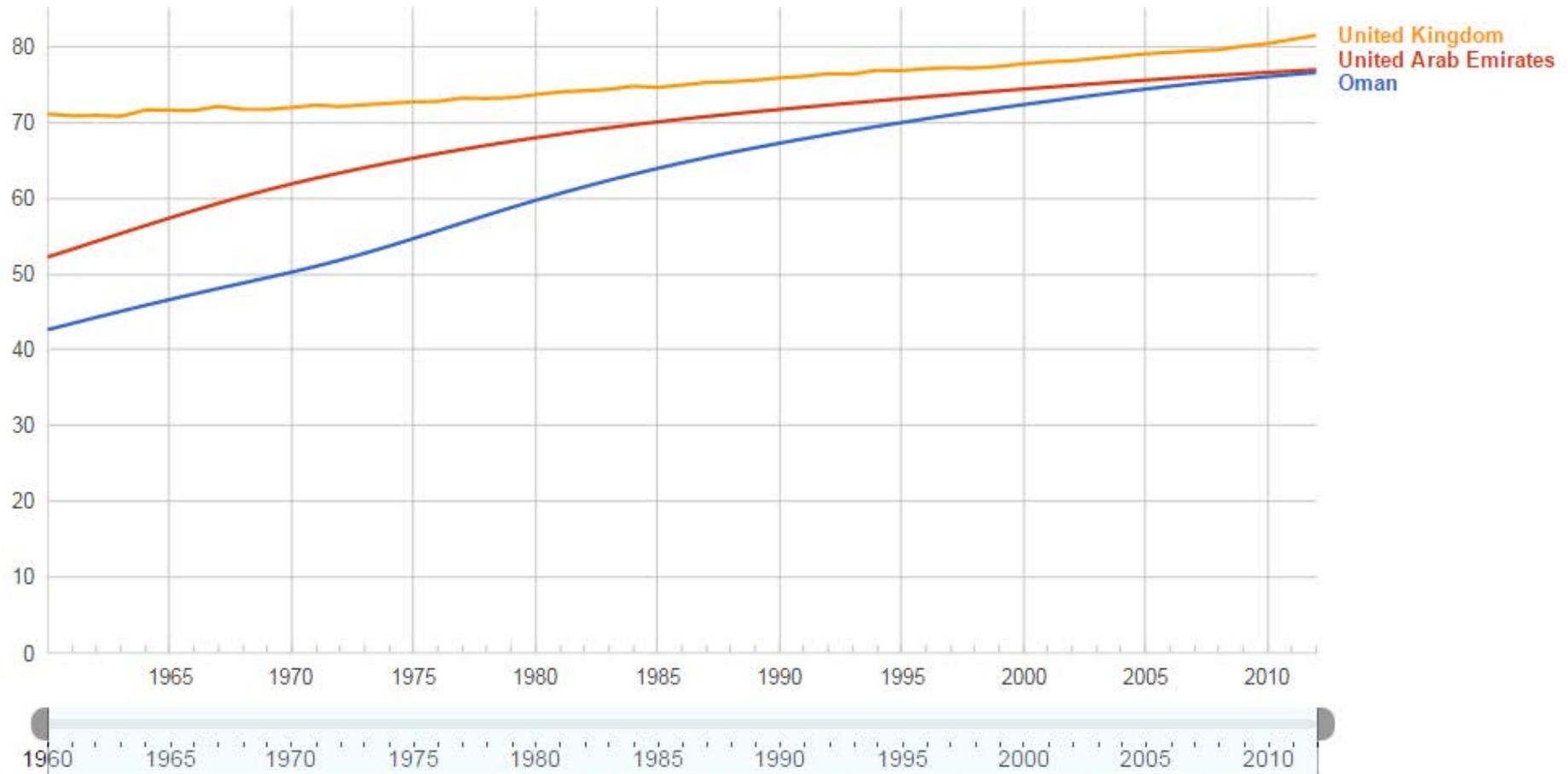


Current Challenges

- Current funding position, and increasing economic & demographic pressures mean schemes are **unsustainable**;
- Reducing fertility rates;
- Low retirement ages observed and increasing life expectancy;
 - Average retirement age observed in 2012 between 48 and 56 years old in GCC states.
 - Life expectancy in Oman risen more than 3 times faster than in UK since 1960

Current Challenges

Life expectancy



Data from World Bank

Current Challenges

Average life expectancy at birth and at 60 years of age in the GCC states, 2000–2012

(Unit: year)

State	Average life expectancy at birth			
	2000	2005	2010	2012
United Arab Emirates	76.20	77.80	75.70	77.60
Saudi Arabia	71.90	72.20	73.30	74.10
Oman	73.38	74.28	76.10	¹ 75.40
Bahrain	72.98	74.23	75.40	78.29
Kuwait	75.30	76.90	77.50	77.50
Qatar	74.46	77.22	77.55	¹ 78.64
State	Average life expectancy at 60 years of age			
	2000	2005	2010	2012
United Arab Emirates	18.00	19.00	16.00	21.00
Saudi Arabia	20.40	20.90	21.50	21.80
Oman	N/A	N/A	N/A	N/A
Bahrain	19.00	20.5	21.50	22.00
Kuwait	15.00	17.00	17.10	19.00
Qatar	20.66	22.85	21.62	[*] 22.50

* 2011 data

Current Challenges

- Current funding position, and increasing economic & demographic pressures mean schemes are **unsustainable**;
- Reducing fertility rates;
- Low retirement ages observed and increasing life expectancy;
 - Average retirement age observed in 2012 between 48 and 56 years old in GCC states.
 - Life expectancy in Oman risen more than 3 times faster than in UK since 1960
- Ratio of number of pensioners to number of contributors is increasing;
 - In UAE, from 24 contributors per one pensioner in 2000 to 5 contributors in 2012,
 - Average age of contributors rose from 29 in 2000 to 36.6 in 2012.
- **Challenge is how to reform the scheme structures to achieve stability and sustainability.**

Current Challenges

Population of the GCC states, 2012

(Unit: 000)

State	Nationals	Total
United Arab Emirates	972	9,206
Saudi Arabia	19,838	28,290
Oman	2,093	3,314
Bahrain	596	1,318
Kuwait	1,079	3,250
Qatar	260	2,051

Ex-pats: End of Service

- Labour laws ensure 'end of service' (EOS) lump sum, based on **final salary** and **years of service**, for ex-pats;
- EOS typically unfunded;
- Returns greater in the oil industry!
- But - no protection on insolvency;
- Many people lost benefits in Dubai crash;
- Ministry of Presidential Affairs (in UAE) asked Callund to advise on options for social insurance for ex-pats;
- **Insurance schemes offer more advantages?**

Ex-pats: End of Service



Government

- Institutional investors stimulate economy
- Ministry of Labour: less complaints!
- Attract more talent



Insurance Companies

- Boom in new business!
- Economies of scale in premium setting



Employees

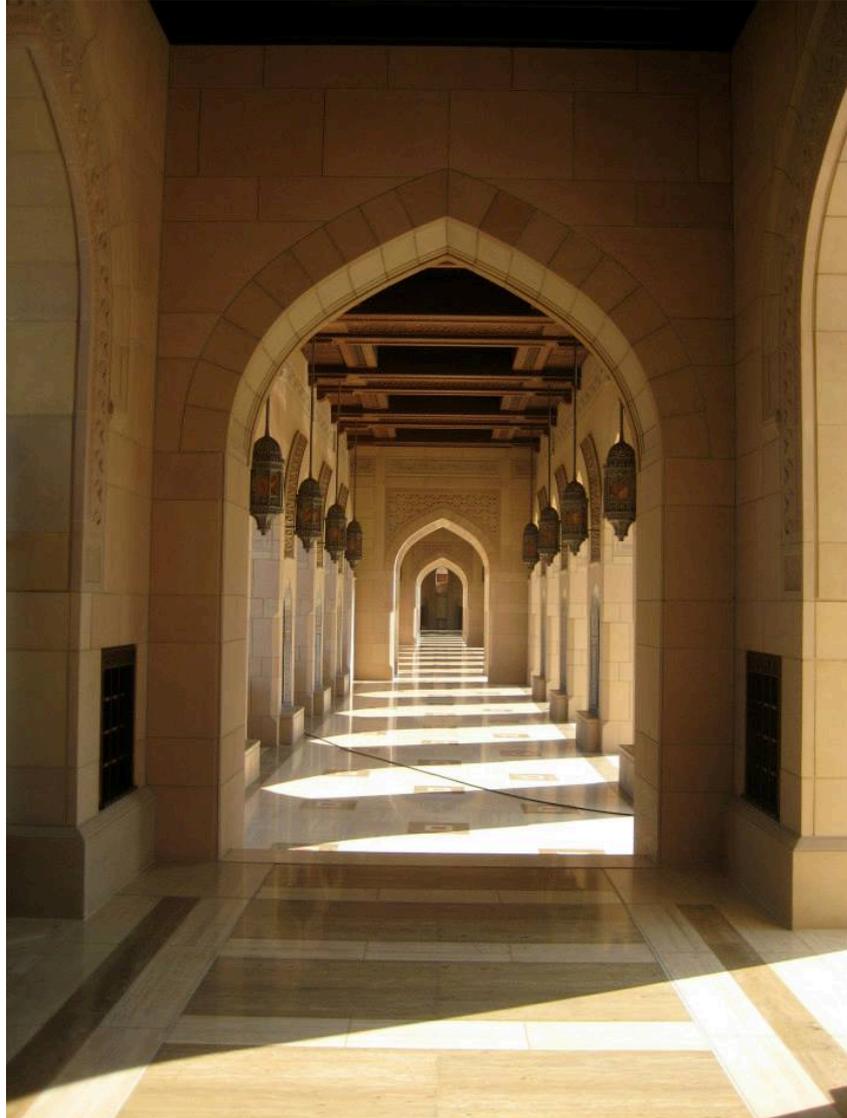
- Protection
- Bring funds to home country when retire
- Combine other insurance for discounts
- Deals with Sharia Law



Employers

- Protection and good compliance
- Less shock effects
- IFRS valuations not required
- Competitive on world stage

Case Study: Oman



سلطنة عمان
وزارة المالية



Case Study: Oman

- Unique compared to the other GCC states:
 - Many more schemes
 - Less money
 - Much worse position than average
- 8 Public Sector schemes:
 - 2 civil service schemes
 - 6 military schemes
- 3 'Private Sector' schemes:
 - Public Authority Social Insurance ("PASI")
 - 2 (more generous) corporate schemes
- Ministry of Finance tries to "regulate" them!

Case Study: Oman

- Approximately 1 million members in total
 - Excludes future beneficiaries
 - PASI: circa 200k members
 - Civil Service: circa 160k members



2007 valuation:
Combined deficit circa
4 billion OMR
(circa 79bn Krone)



2010 valuation:
“Probably 10 billion
OMR”
(circa 197bn Krone)



GDP:
611 billion
Krone

- Deficit is circa 33% of GDP
- Worse than UK?!

Case Study: Oman

- Ministry of Finance (MoF) pays the bills and is meant to regulate all schemes, but:
 - No regulatory regime
 - Limited powers and receives limited information
 - Can postpone payments in
 - 2007: first valuation of all schemes by MoF
- Each scheme run by a Board who usually have an interest in improving benefits
 - No requirement to consult MoF!
 - Reforms get blocked by Boards!
 - Only the Sultan could overrule!

Case Study: Oman

➤ Worried dramatic cuts in future and civil unrest

➤ Aim:



Make Boards independent



Increase retirement age



New hires on reduced benefits



Communication drive

➤ Balance with very paternal culture

Summary

- Social insurance schemes for Gulf nationals are very generous:
 - Paternal Culture
 - Only one pillar
 - Oil money
 - Poor understanding initially
- Currently unsustainable
- Most schemes working on reforms now -> lots of work for actuaries!
- Ex-pat labour force far larger than Gulf nationals
 - Also need sustainable retirement provision

Questions?



**THANK YOU
FOR
your
ATTENTION!
ANY QUESTIONS?**