



## The influence of regulatory changes on Kuwait insurance industry: A descriptive study

Fahed S. Beneid<sup>(1)</sup>

### Abstract

**Objectives:** Insurance market is one of the important financial sectors in every country, which provides insurance services that help in compensating financial risks affecting individuals and institutions. Unfortunately, this importance did not coincide with the volume of research about insurance issues in Kuwait. This study aimed to review the change in insurance regulations and its effect on the insurance market in Kuwait. **Method:** A theoretical descriptive analysis is carried out in the study to compare the articles in the new insurance law in Kuwait with the insurance core principles set by the International Association of Insurance Supervisors. Moreover, this study answers whether this regulatory change has significant effect on Kuwait insurance market. Two insurance indicators are used in this study: insurance density and insurance penetration. Insurance density is calculated by dividing total premiums by the total population in a country, while insurance penetration is calculated by dividing total premiums by the total gross domestic product. **Results:** The study reached two important results: the new insurance law in Kuwait has covered most insurance core principles of International Association of Insurance Supervisors. In addition, the insurance market has not witnessed a significant change after the new insurance law. **Conclusion:** More research in insurance issues is needed, especially in the determinants of Kuwait insurance demand.

**Keywords:** insurance regulations, regulatory changes, insurance penetration, insurance density

(1) Assistant Professor, Insurance & Banking Department, College of business studies, The Public Authority for Applied Education & Training [PAAET], Kuwait. fs.beneid@paaet.edu.kw

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## تأثير التغييرات التشريعية على صناعة التأمين في الكويت: دراسة وصفية

فهد صقر بن عيد<sup>(1)</sup>

### ملخص

**الأهداف:** تعتبر خدمات سوق التأمين من الخدمات المهمة التي تحتاج إليها كل قطاعات الدولة بدءاً من إدارة الأخطار المالية إلى الحصول على التعويضات المالية عن الخسائر التي تعرض لها الأفراد والمؤسسات. ومع ذلك تأت أهمية سوق التأمين مقارنة لما تم من أبحاث عن التأمين في الكويت؛ مما يجعله مطلباً ملحاً لدراسة علاقة تشريعات التأمين وقوانينه بتطور سوق التأمين في الكويت. عرضت هذه الدراسة لعلاقة التغيير في قانون التأمين بالكويت بتطور سوق التأمين فيها. **المنهج:** استخدمت الدراسة المنهج الوصفي التحليلي مع مقارنة مواد قانون التأمين الجديد بمبادئ التأمين التي وضعتها المنظمة الدولية لمشرفي التأمين. تهدف المقارنة إلى معرفة مدى تغطية أهم المبادئ العالمية لتشريعات التأمين في مواد قانون التأمين الجديد بالكويت. روجعت مؤشرات التأمين الفنية (كثافة التأمين وتغلغل التأمين) خلال سنوات معينة لمعرفة تأثير القانون الجديد على تطور سوق التأمين. يعرف مؤشر كثافة التأمين بأنه مؤشر فني يحسب عن طريق قسمة إجمالي أقساط التأمين في دولة معينة على عدد السكان. أما مؤشر تغلغل التأمين؛ فيحسب عن طريق قسمة إجمالي أقساط التأمين على إجمالي الناتج المحلي للدولة. **النتائج:** من نتائج هذه الدراسة، أن مواد قانون التأمين الجديد قد غطت -بشكل نظري- أغلبية مبادئ التأمين؛ التي لدى المنظمة الدولية لمشرفي التأمين، وهذا يعتبر من التغييرات الإيجابية لتشريعات التأمين في الكويت، إلا أنه لم يؤثر -بشكل كبير- على تطور سوق التأمين في الكويت من ناحية مؤشرات التأمين الفنية. **الخاتمة:** ما تزال هناك حاجة إلى مزيد من الدراسة لأسباب عدم انتشار خدمات التأمين، خصوصاً الخدمات الاختيارية، في المجتمع الكويتي. ومعرفة حجم الوعي التأميني لدى المجتمع والعوامل التي تؤثر

(1) أستاذ مساعد، قسم التأمين والبنوك، كلية الدراسات التجارية، الهيئة العامة للتعليم التطبيقي والتدريب، الكويت.  
fs.beneid@paaet.edu.kw

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تصدر عن مجلس النشر العلمي بجامعة الكويت. جميع الحقوق محفوظة للمجلة.

فيه، سلباً وإيجاباً، وهذا يظل موضوعاً يحتاج لدراسة ميدانية مستفيضة، مع العلم أن موضوع التأمين في المجتمع الكويتي لا يزال من الموضوعات التي تحتاج الى جهود كبيرة، سواء على الصعيد الحكومي أو الصعيد الخاص؛ لتوضيح مفاهيم التأمين وأهمية خدماته.

**الكلمات المفتاحية:** تشريعات التأمين، تعديلات منظمة، تغلغل التأمين، كثافة التأمين

## Introduction

The insurance industry is an important industry in the financial sector of every country. Its importance stems from its role as an industry responsible for mitigating risks and losses that occur in any economy. Therefore, a well-functioning insurance mechanism contributes directly and/or indirectly to the welfare and development of every society. Insurance has several benefits that contribute to the economic growth. Insurance can promote the financial stability as it can finance losses attributed to natural and man-made risks. It also encourages the accumulation of funds and savings through life insurance policies. Insurance is a perfect mechanism that encourages loss mitigating practices and risk management (Skipper & Kwon, 2007) .

To maintain a well-functioning insurance mechanism, insurance regulation and insurance regulatory authority must utilize proper insurance regulatory codes to monitor and supervise the solvency of insurance companies and the affordability of insurance products. Skipper and Kwon (2007) stated that, historically, the trend of insurance regulation development evolves as the market moves from conservative markets towards a more liberal market. That appears to be the case in most of the developed countries, where it still needs more investigation in the developing countries. This study investigates the influence of regulatory change on Kuwait insurance market.

Insurance regulation is a topic of great importance in the insurance industry as it plays a crucial role in maintaining financial stability and protecting the interests of policyholders. However, there are several challenges that regulators face in effectively regulating the insurance industry. Insurance regulation is facing more complex issues like changes and developments to financial solvency regulations, financial technologies, health care plans, political and terror-

ism risks, underwriting and rating tools, and statutory accounting practices (Baranoff & Baranoff, 2003).

Insurance monitoring and supervising authorities in most countries go through continuous revisions and amendments relating to insurance regulatory codes that cope with internal and external factors affecting the efficiency of the current insurance regulation process. In Kuwait, Insurance Department in the Ministry of Commerce & Industry is responsible for monitoring and supervising the insurance industry, according to the insurance law in 1961 (Law (24)/1961 Regarding Insurance Companies and Insurance Agents, 1961), and it has faced many challenges for a long period of time. And since it was effective for more than 58 years, the enactment of a new insurance law was crucial; therefore, a new insurance law was decreed in 2019 (Law 125/2019 Regarding Regulating Insurance, 2019).

There is considerable research about determinants of insurance demand, where researchers attempt to explain the limitation in insurance demand in developed as well as developing countries. Factors affecting insurance demand vary from insurance companies' strategies, insurance regulatory regime, and behavioral of insurance consumers. In this study, the author concentrates on the regulatory regime factor. It is not intended by the author to evaluate the new insurance law.

Therefore, this study aimed to answer two major questions:

- Firstly, has the new insurance law 2019 (and its executive regulations and resolutions) taken in consideration the Insurance Core Principles (ICPs) prepared by the International Association of Insurance Supervisors (IAIS) in 2019?
- Secondly, has the insurance market in Kuwait saw significant changes after the implementation of insurance law 2019?

To answer the above questions, it is helpful to execute a mixture of qualitative and quantitative methods. Qualitative method aims to compare regulatory texts structured by an international agency of insurance supervision with regulatory articles enacted in the new insurance law in Kuwait. Then, statistical analysis is used to see whether there is a significant relationship between the new insurance law and the development of insurance industry in Kuwait.

The study is organized as follows: the first section of the study looks at the importance of insurance mechanism in maintaining safety and promoting development of business activities. The second section reviews related literature to emphasize the importance of the research topic. The third section explains the research methods conducted in this study. The fourth section addresses theoretical discussion while comparing articles in insurance law 2019 in Kuwait against insurance core principles in IAIS (2019). The final section presents results and conclusions.

## **Literature Review**

As businesses develop around the world, regulatory policies develop accordingly. In most developed countries, regulating businesses policies are revised and modified according to changes in business environments. There is a common understanding that regulations and polices regulating businesses are needed in all societies. Among other reasons, Heilbroner & Thurow (2002) and Skipper & Kwon (2007) agreed on three important reasons why do we need regulations and policies. First, there is the information asymmetrical issue where neither the insurance company nor the insured knows how the other party will behave in the future. Second, insurance regulations are needed to correct market failure in the insurance market. Regulations are intended to mitigate negative externalities and free rider problems related

to insurance markets. Third, insurance regulation can monitor market competition to prevent the destructive competition.

It is well publicized that, without addressing these factors in specific industry, probability markets failure might increase; therefore, it is vital that proper regulating policies address the above issues (Heilbroner & Thurow, 2002). In addition, Benston (2000) had reviewed few goals for financial regulations. First, maintaining consumer confidence is vital for proper financial systems. Second, making market information available for consumers can maintain healthy competitive market. Third, assuring fair pricing of financial products provided by well solvent financial institutions is an important goal for financial regulations.

Regarding insurance regulations, Alwan (2014) reviewed five goals for regulating insurance industry: first, to guarantee the availability of a sound financial system; second, to enhance trust and confidence in the insurance market; third, to protect the rights of policy holders; fourth, to channel insurance funds towards economic development; finally, to raise insurance market efficiency and effectiveness.

As policyholder protection is considered as a vital goal for insurance regulation, Stoyanova & Schlutter (2012) indicated that safety and affordability are concerns to be looked at by all insurance regulators. Safety of insurance companies is related to solvency regulations of insurers, where affordability means that insurance prices are in reach for insurance buyers. Even when it looks like these regulatory goals seem in contradiction (Born & Richter, 2010), insurance regulators should take those goals under consideration of the overall objective of policyholder protection.

There is a reasonable body of literature that addresses the relationship between insurance regulation and other insurance market factors (Born & Richter, 2010). For example, research was conducted to analyze the impact of policy form regulation on insurance pricing in German insurance market (Berry-Stolzle & Born, 2012). The authors used the deregulation in 1994 as a natural experiment in the German insurance market. In that year, the operating environment for German insurers changed dramatically from a very restrictive prior approval system to free product competition.

In their study, Klein & Schacht (2001) studied market conduct regulation in which they assessed the efficiency of market conduct examinations and other related regulatory activities. They stressed that it is important that insurance regulators monitor insurance industry to deal with some adverse practices like misrepresentation of insurance products, inappropriate risk classification, inconsistent insurance rating, and failure to legitimate claims. Insurance regulation may have a direct and/or indirect effect on the insurance market. Insurance market regulation, solvency regulation, and insurance rate regulation are important areas of insurance regulation that have a direct effect on the insurance market. For example, regulating and monitoring rates of automobile insurance may be conducted to make auto insurance more affordable and available to consumers (Weiss et al., 2010).

Governmental monitoring and supervision regulations may affect the development of insurance market in Kuwait. Proper insurance regulatory rules help in guiding the insurance industry surpluses towards the overall national development strategy. In general, this study is one of the very few studies about Kuwait insurance market. Not much attention paid previously by insurance academics in Kuwait. The little number of insurance academics is behind the shortage of research regarding insurance market in Kuwait. Thus, descriptive

analysis is well justified in researching insurance market in Kuwait to build up a reasonable literature in the future. In addition, the insurance market is considered a small and limited market with low insurance density and insurance penetration ratios.

Hence, it is highly important to relate the local regulatory regime to the development in the insurance industry in every market. Moreover, it is helpful to use the insurance density and insurance penetration ratios as an indicator for the development of insurance market in every market. Tables 1 and 2 show the difference in insurance indicators between developed markets and emerging markets.

**Table 1**

*Insurance Density: Premiums per Capita (US Dollar)*

Year	Emerging Markets	Developed Markets
2018	85	3276
2019	85	3247
2020	80	3234
2021	92	3694
2022	80	3308

*Source.* (SwissRe Institute, 2019, 2020, 2021, 2022, 2023).

From Table 1, it appears that there is a significant difference in insurance density between developed markets and emerging markets. That can confirm that there is a positive relationship between insurance market progress and market development. In 2022, a person spends on average US\$3308 annually in the developed markets, while a person spends on average US\$80 in the emerging markets.

**Table 2**

*Insurance Penetration: Premiums as % of GDP*

Year	Emerging Markets	Developed Markets
2018	1.9	7.6
2019	1.9	7.7
2020	1.9	7.9
2021	1.6	8.0
2022	1.5	7.4

Source. (SwissRe Institute, 2019, 2020, 2021, 2022, 2023).

The numbers in Table 2 confirm what is available in Table 1. In 2022, total spending on insurance in developed markets represents 7.4% of total GDP, while it represents 1.5% of GDP in emerging markets. For the above, the study uses those two insurance indicators to investigate the influence of regulatory change on Kuwait insurance development.

## Research Method

As a developing country, Kuwait's insurance industry has not been under thorough study since insurance started in the country. Also, there is obvious rarity of studies executed regarding insurance regulation in Kuwait. The only research conducted on this topic was the research by Almansory and Hasaneen in 1986, which represents a huge gap in the literature of Kuwait insurance regulation. In this research, the author applies theoretical comparative analysis tool in comparing major insurance regulatory articles in the new insurance law with 24 ICPs set by the International Association of Insurance Supervisors (IAIS). This analysis helps in locating any gaps in the Kuwaiti insurance law that can be addressed in further amendments, then a historical comparison is done on two major insurance indicators: insurance den-

sity ratio and insurance penetration ratio. To understand the effect of introducing a new insurance law in 2019 on Kuwait insurance industry, the study will compare the averages of insurance indicators during three years before the new insurance law with those averages three years after the new insurance law. Using the small data for a short period of time is well justified considering the limited insurance market of Kuwait. Also, using insurance indicators for a short period of time is precisely considered to exclude any other external/eternal factors that might affect the development of insurance market in Kuwait.

The reason behind selecting IAIS is because it is a voluntary membership organization of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry to develop and maintain fair, safe, and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard setting body responsible for developing principles, standards, and other supporting material for the supervision of the insurance sector and assisting in their implementation. In 2019, IAIS has updated its 24 Insurance Core Principles (ICP), and at the same year, Kuwait government enacted new insurance law, which consisted of 92 articles and the executive regulations and resolutions that regulate the insurance industry in Kuwait. Therefore, using the 24 ICPs set by IAIS would be an appropriate benchmark for the insurance regulatory development in Kuwaiti insurance market.

## **Discussion and Results**

In this section, comparative analysis is conducted between the functionality of the articles in the new insurance law and the con-

ceptuality of ICPs established by IAIS. This comparative analysis is intended to look for gaps between those regulations. Following the comparative analysis, a review of insurance indicators of Kuwait insurance industry is carried out to detect if there is a significant change in insurance market related to the regulatory changes that have been decreed.

### **Comparative Analysis between ICPs of IAIS and the New Insurance Law**

Instead of listing the complete 24 ICPs separately, the author arranged and grouped the 24 ICPs to be under 7 headings and then compared each group with what is related and available in the new insurance law. These headings are extracted from the main goals on insurance regulations: solvency regulation and market regulation. Solvency regulation consists of licensing of companies, reporting and financial analysis, capital requirements, examination of companies, reserves and investments monitoring, insolvencies and liquidation of failed insurance companies, and rate regulations, while market regulation consists of unfair practices, policy forms, competence of agents, and consumer complaints (Rejda, 2011; Vaughan & Vaughan, 2008).

#### ***First: The Supervisor (ICPs 1, 2, 9, 23, 24, & 25)***

ICP 1 code states that primary legislation should clearly define responsibilities of authority of insurance supervision and clearly determine the objectives of insurance supervision, and these include at least the protection of policyholders, promotion of the maintenance of a fair, safe, and stable insurance market, and contribution to the financial stability. The new insurance law included Article 6, which states that Insurance Regulatory Unit (IRU) is established to accomplish the following objectives:

- Supervise and monitor insurance activities in transparent, equity, and competitive manner.
- Develop insurance activities and practices in a compatible way with best international practices.
- Protect the interests of policyholders.
- Apply just and transparent policies and prevent conflicts of interest.
- Promote and encourage insurance awareness among the public.

ICP 2 declares that the supervisor is operationally independent, accountable, and transparent in the exercise of its responsibilities and powers and has adequate resources to discharge its responsibilities. Operational independence means the supervisor should be able to take actions and make decisions in the exercise of its supervisory responsibilities without interference from any part of the government, including other governmental bodies, the legislature, and the insurance sector.

In a similar manner, Article 5 in the new insurance law maintains that IRU is established and put under the supervision of the Minister of Commerce & Industry and should be financially and operationally independent in carrying out its responsibilities. Articles 15 and 16 specify from where the IRU gets its financial resources. The financial resources include the following:

- Any governmental financial aid allocated to the IRU.
- Fees collected from the insurance market.
- Financial penalties according to the new insurance law.
- 10% of previous year's surplus made by the IRU, and the rest will be transferred to the state public treasury.

In ICP 9, the supervisor uses off-site monitoring and on-site inspections to examine the business of each insurer; evaluate its financial condition, conduct of business and corporate governance framework and the overall risk profile; and assess its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.

Article 7 in the new insurance law declares that the higher committee is formed under the presidency of the IRU director and the membership of the following:

- The IRU deputy director.
- Representative of the Kuwait Central Bank.
- Representative of the Ministry of Commerce and Industry.
- Three members nominated by the Minister.

Moreover, Article 10 listed the responsibilities of the higher committee, which included the following:

- Review applications for starting traditional insurance/reinsurance companies.
- Grant licenses for practicing insurance activities.
- Organize insurance related services.
- Apply international standards for insurance supervision.
- Approve the financial and organizational structure of the IRU.
- Maintain inspection procedures on insurance companies in the market.
- Provide principles and regulatory procedures, which approve/cancel licenses to practice insurance, reinsurance, and insurance related professions.

- Assure the commitment of all licensed insurance companies by local and international insurance principles.
- Protect the interests of the policyholders.
- Monitor the solvency of all insurance companies.
- Promote governance principles.
- Encourage qualified human resources in insurance discipline, including establishing insurance institute for this objective.
- Approve programs and plans to develop the insurance sector, to enhance insurance awareness, and to conduct studies on insurance practices.
- Maintain cooperative relationships with regional and international insurance supervisors.
- Specify risks where compulsory insurance is preferred.
- Establish insurance database.
- List fees collected from insurance providers.
- Suspend and cancel insurance license because of insolvency.
- Approve insurance company liquidation.
- Follow rules of Anti-Money Laundering and Combating the Financing of Terrorism.

Moreover, chapter two of the executive regulations of the new insurance law emphasized the importance of monitoring and on-site inspections of insurance companies to assure that insurance companies comply with IRU regulations.

In ICP 23 and ICP 24, these codes state that the group-wide supervisor, in cooperation and coordination with other involved su-

supervisors, identifies the insurance group and determines the scope of group supervision. And the supervisor identifies, monitors, and analyzes market and financial developments and other environmental factors that may impact insurers and the insurance sector, using this information to identify vulnerabilities and address, where necessary, the build-up and transmission of systemic risk at the individual insurer and at the sector-wide level. The new insurance law did not fully address those two principles. This gap might be the result of the limited insurance market in Kuwait. ICP 25 encourages the supervisor's cooperation with involved supervisors and relevant authorities to ensure effective supervision of insurers operating on a cross-border basis. As mentioned above, the new insurance law mentions a similar goal in the responsibilities of the higher committee of the IRU.

### ***Second: Licensing (ICPs 4 & 5)***

ICP 4 declares that a legal entity that intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective, and public and must be consistently applied. According to Article 10 in the new insurance law, the higher committee is responsible for studying and approving insurance company license. And Article 26 prohibits engaging in insurance activities unless the company is legally licensed by IRU. The details of requirements and conditions on insurance licensing are explained in chapter three of the executive regulations.

In ICP 5, the supervisor requires board members, senior management, key persons in control functions, and significant owners of an insurer to be and remain available to fulfil their respective roles. Similarly, Articles 7 and 8 set requirements of higher committee members. In addition, chapter eight explains the requirements and

conditions to practice insurance services by specialized persons like risk assessors, insurance consultants, and actuaries.

### ***Third: Solvency Requirements (ICPs 14, 15, 16, & 17)***

ICP 14 states that the supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes. Article 30 in the new insurance law clarifies the minimum guaranteed deposit required by each licensed insurance company. Chapter six in the executive regulations goes into many details on how to calculate the solvency margin and what action is needed when the solvency margin drops below the required margin.

ICP 15 expresses that the supervisor establishes regulatory investment requirements for solvency purposes for insurers to make appropriate investments taking account of the risks they face. In the new insurance law, there are no articles dealing with investment per se; however, chapter six in the executive regulations talks about the investment policy that every insurance company should have, where it should invest 50% of its available assets and should periodically analyze surrounding financial risks, for example, market risks, credit risks, interest rate risks, and currency and liquidity risks.

ICP 16 mentions that the supervisor requires the insurer to establish within its risk management system an Enterprise Risk Management (ERM) framework for solvency purposes to identify, measure, report, and manage the insurer's risks in an ongoing and integrated manner. There is no specific article in the new insurance law addressing enterprise risk management; nevertheless, in its framework resolution, the IRU has required that every insurance company must establish an effective risk management unit, which monitors and deals with major risks that affect the financial condition of the insurance company.

In ICP 17, the supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and provide degrees of supervisory intervention. In chapter three of the executive regulations, a minimum capital requirement is imposed on insurance companies while selling insurance policies.

***Fourth: Conduct of Business (ICPs 7, 8, 19, 21, & 22)***

ICP 7 declares that the supervisor requires insurers to establish and implement a corporate governance framework, which provides sound and prudent management and oversight of the insurer's business and adequately recognizes and protects the interests of policyholders. In Article 10, the higher committee is responsible for protecting the interests of policyholders while maintaining governance rules and insurance profession's principles. In addition, IRU has published detailed governance framework for insurance and reinsurance companies.

In ICP 8, the supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal control, including effective functions for risk management, compliance, actuarial matters, and internal audit. In its framework resolution, the IRU has requested that every insurance company must establish an effective risk management unit, which monitors and deals with major risks that affect the financial condition of the insurance company.

ICP 19 states that the supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied. In the new insurance law, Article 6 states that one of its goals, the IRU, intends to monitor and regulate insurance activities to assure trans-

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parent, competitive, and just transactions. In addition, the IRU will provide protection of policyholder's interest.

ICP 21 mentions that the supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report, and remedy fraud in insurance. Regrettably, insurance fraud is not mentioned in the new insurance law.

ICP 22 declares that the supervisor requires insurers and intermediaries to take effective measures to combat money laundering and terrorist financing. The supervisor takes effective measures to combat money laundering and terrorist financing. Similarly, the IRU has decreed a specific resolution concerning anti-money laundering and combating the financing of terrorism.

### ***Fifth: Information Disclosure (ICPs 3 & 20)***

ICP 3 asserts that the supervisor obtains information from, and shares information with, relevant supervisors and authorities subject to confidentiality, purpose, and use requirements.

Article 10 clarifies overall duties and responsibilities of the higher committee, which is formed by Article 7. The duties of this committee include, among other duties, establishing cooperative relationships with other regional and international insurance regulators and establishing an insurance database. Chapter three in the executive regulations explains thoroughly the confidentiality of this insurance database.

ICP 20 states that the supervisor requires insurers to disclose relevant and comprehensive information on a timely basis to give policyholders and market participants a clear view of their business activities, risks, performance, and financial position. In the new insurance law, Articles 40 and 41 and chapter six in executive regula-

tions clarify requirements of holding record books and accounts. And to renew its license, insurance companies must provide the required documents to the IRU.

***Sixth: Reinsurance and Intermediaries (ICPs 13 & 18)***

ICP 13 states that the supervisor requires the insurer to effectively manage its use of reinsurance and other forms of risk transfer. The supervisor considers the nature of reinsurance business when supervising reinsurers based in its jurisdiction. Even though there are no specific regulations on reinsurance transactions, the new insurance law states that all insurance/reinsurance providers and intermediaries will be subject to regulations of the new insurance law and its executive regulations, as well as Takaful/Takaful insurance, foreign insurance branches, and insurance pools.

In ICP 18, the supervisor sets and enforces requirements for the conduct of insurance intermediaries, in order that they conduct business in a professional and transparent manner. Articles from 63–69 in the new insurance law and chapter eight in the executive regulations explain regulations on insurance intermediaries.

***Seventh: Corrective Measures and Exit (ICPs 6, 10, & 12)***

ICP 6 declares that the supervisor assesses and decides on proposals: to acquire significant ownership of, or an interest in, an insurer that results in a person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer, and for portfolio transfers. In the new insurance law, Articles 48 and 49 and chapter four of its executive regulations describe the requirements of portfolio transfer from one insurance company to another.

ICP 10 shows that the supervisor requires and enforces preventive and corrective measures and imposes sanctions that are timely, necessary to achieve the objectives of insurance supervision, and based on clear, objective, consistent, and publicly disclosed general criteria. Article 10 and chapter three of its executive regulations give the power to the IRU to suspend/cancel the insurance company's license once it is found that the interest of insurance policyholders is threatened and/or violations of insurance regulations.

ICP 12 states that legislation provides requirements for the voluntary exit of insurers from the market, and the resolution of insurers that are no longer viable or are likely to be no longer viable and have no reasonable prospect of returning to viability. Article 10 in the insurance law and chapter four of its executive regulations explain the procedures that must be followed when an insurance company decides to exit from the market.

In conclusion, from the above discussion, it appears that the new insurance law has mostly covered the ICPs set by IAIS. However, the insurance law did not address those ICPs in an extensive matter. For example, the new insurance law has not directly addressed the issue of investment in a detailed quantitative manner; it mentioned (in the executive regulations) that the insurance company must periodically monitor and analyze financial risks. There were no obvious requirements that guide insurance companies in investing their surpluses.

Overall, the change of insurance regulations in Kuwait is considered a reasonable regulatory development that answers many challenges faced by the previous regime and, at this time, may be considered an adequate regulation, and there are no crucial gaps with ICPs set by IASI.

## Kuwait Insurance Market

Kuwait insurance market ranked 69th in the world in terms of the total premium volume in 2022 (SwissRe Institute, 2023). This rank symbolizes the small insurance industry in Kuwait especially when compared with the remaining 88 insurance markets in the other countries around the world. The total insurance premiums amount to US\$1,698 million, divided into two main sectors, life insurance and non-life insurance. Life insurance represents the smaller part of total premiums of US\$ 167 million, while the bigger part goes to non-life insurance with total premiums of US\$1,531 million. This anomaly is noticed in most insurance markets of the emerging countries, hence, the need for more research regarding the determinants of the demand of insurance.

Looking at recent statistics of non-life insurance in Kuwait would shed the light at insurance performance in terms of loss ratio. Loss ratio is basically calculated by dividing the total paid claims by insurance companies (outgo) into total premiums received by insurance companies (income). This ratio can help in understanding the relationship between premiums received and paid claims by insurance companies. If loss ratio is under 100%, that means insurance companies are charging insurance premiums that would be sufficient to pay their claims, and if the loss ratio is above 100%, that means insurance premiums are not enough to compensate for losses, and hence, insurance companies might face financial difficulties in a particular sector.

In Table 3, it is obvious that the loss ratio is decreasing from 169.00% in 2017 to 7.4% in 2022. This significant decline can be traced to one insurance company that faced massive fire losses, which affected the total paid claim in 2017. However, the average loss ratios for the period from 2017 to 2022 (56.80%) show that the overall fire insurance sector is profitable.

**Table 3**

*Premiums, Claims, and Loss Ratios of Fire Insurance 2017–2022 (Million KD)*

Year	Premiums	Claims	Loss ratios %
2017	31.3	52.9	169.00
2018	32.4	24.2	74.70
2019	37.8	16.3	43.10
2020	39.2	8.7	22.20
2021	43.7	10.7	24.50
2022	47.4	3.5	7.40
Average			56.80

*Source.* (Multiple reports, Ministry of Commerce and Industry, 2017- 2022).

Loss ratios in marine and aviation insurance from 2017 to 2022 give another insight. Loss ratios vary from 43.80% in 2021 to 8.20% in 2022, and the average loss ratio for this period equals 21.1% (Table 4). This means that insurance premiums received by insurance companies are calculated to be much higher than the anticipated losses. Therefore, the marine and aviation insurance sector may be more profitable than the fire insurance sector.

**Table 4**

*Premiums, Claims, and Loss Ratios of Marine and Aviation Insurance 2017–2022 (Million KD)*

Year	Premiums	Claims	Loss ratios %
2017	14.9	4.3	28.90
2018	16.3	4.1	25.20
2019	16.9	3.5	20.70

**Cont. Table 4**

*Premiums, Claims, and Loss Ratios of Marine and Aviation Insurance 2017–2022 (Million KD)*

Year	Premiums	Claims	Loss ratios %
2020	15.9	5.2	32.70
2021	14.6	6.4	43.80
2022	18.2	1.5	8.20
Average			21.10

*Source.* (Multiple reports, Ministry of Commerce and Industry, 2017- 2022).

Table 5 shows loss ratios for auto insurance sector in Kuwait. Except for the year 2022 where the loss ratio equals 12.30%, the loss ratios for the remaining years can be considered normal loss ratios. If the insurance company experienced a loss ratio between 60% and 80%, that means it can compete in the insurance market by following price competition. Thus, auto insurance in Kuwait is considered a highly competitive market.

**Table 5**

*Premiums, Claims, and Loss Ratios of Auto Insurance 2017–2022 (Million KD)*

Year	Premiums	Claims	Loss ratios %
2017	92.2	77.1	83.60
2018	92.8	77.6	83.60
2019	95.3	84.8	88.90
2020	83.9	55.5	66.20
2021	94.2	57.3	60.80
2022	115.2	14.1	12.30
Average			65.90

*Source.* (Multiple reports, Ministry of Commerce and Industry, 2017- 2022).

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## Insurance Indicators of Kuwait Insurance Industry

Kuwait insurance market is considered a small insurance market when compared with international insurance markets. By total insurance premium volume, Kuwait ranked 69 out of the 88 insurance markets in the world in 2022. Kuwait insurance market share is nearly 0.03 % of total premium volume in 2022. And that is not a surprising fact since all middle east countries have low insurance premiums volume when compared with developed countries. For example, the share market of emerging middle east insurance markets is about 0.06 of the world market in 2022, while the share market of the advanced insurance markets is 81%. Even when compared with emerging insurance market, the total share market of all emerging markets is the remaining 19%.

Instead of using total premiums alone, two major insurance indicators can give an understanding of the importance of insurance mechanisms in any society: insurance density and insurance penetration. Insurance density is calculated by dividing total premiums by country's population. This ratio can give an indication of how much insurance premiums are acquired by the population. Insurance penetration, on the other hand, is calculated by finding the ratio of total insurance premiums to the total gross domestic product of the country. Here, we look at the historical movement of insurance density and insurance penetration ratios from 2017 up to 2022.

Regarding the relationship between the implementation of the new insurance law and the development of insurance market in Kuwait, it appears that there is insignificant change in both insurance density and insurance penetration ratios. Table 3 shows that the average insurance density ratio for three years before the implementation of the new insurance law 2019 was US\$278, while the average for

three years after the new insurance law was US\$340. This increase might give the impression that there was an increase in insurance premiums spent by consumers; however, this increase is calculated according to both life and non-life insurance. When we looked at the life insurance density, we noticed that the average of life insurance density before in the new insurance law was US\$39, and the average after the new insurance law was US\$33. Therefore, the increase in the overall insurance density ratio can be explained by an increase in non-life insurance density rate, which might be caused by other factors other than the influence of the new insurance law, which is beyond the scope of this study.

**Table 6**

*Insurance Density of Kuwait Insurance Market 2017–2022*

Year	Life	Non-Life	Total
2017	38	163	201
2018	39	276	315
2019	41	277	318
2020	30	240	270
2021	31	321	352
2022	39	359	398

Source. (SwissRe Institute, 2018, 2019, 2020, 2021, 2022, 2023).

To verify the above results, calculating the average of insurance density for the last 10 years may help know if there was a significant difference in insurance density indicator. From Table 4, the average insurance density for the last 10 years was US\$ 308, which is not distant from the average of the three years after implementing the new insurance law.

**Table 7***Insurance Density of Kuwait Insurance Market in USD 2014–2023*

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Insurance density	291	260	280	201	315	318	270	352	398	398

*Source.* (SwissRe Institute, Multiple issues).

Regarding the insurance penetration ratio, Table 5 shows that the average insurance penetration ratio for three years before the implementation of the new insurance law 2019 was 0.90, while the average for three years after the new insurance law was 1.06. Therefore, it can be concluded that the implementation of the new insurance law has an insignificant influence on insurance penetration ratio. This might be in contradiction with what is seen in many developed countries, where insurance regulations may directly or indirectly have some effect on their insurance markets.

**Table 8***Insurance Penetration of Kuwait Insurance Market 2017–2022*

Year	Life	Non-Life	Total
2017	0.13	0.58	0.71
2018	0.12	0.88	1.00
2019	0.13	0.85	0.98
2020	0.11	0.90	1.10
2021	0.10	0.90	1.00
2022	0.10	0.90	1.00

*Source.* (SwissRe Institute, 2018, 2019, 2020, 2021, 2022, 2023).

Table 6 verifies the above result, where the average insurance penetration for the last 10 years is 0.91. This insurance penetration ratio proves the slow development of insurance market in Kuwait.

**Table 9**

*Insurance Penetration of Kuwait Insurance Market 2014–2023*

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Insurance penetration	0.60	0.90	0.89	0.71	1.00	0.89	1.10	1.00	1.00	1.00

Source. (SwissRe Institute, Multiple issues).

## Conclusion

In this study, a descriptive analysis is performed in order to shed the light on one part of an expansive question regarding the limited demand of insurance services in Kuwait. There are many factors, external and internal, that interfere with insurance demand around the world. Examples include the insurance companies' strategic decisions, regulatory interference, and behavior of insurance customers.

As regulatory interference overseeing insurance transactions in every insurance market in the world, this study attempted to search for a relationship between the new insurance law and the development of insurance industry in Kuwait. The study does not include performance analysis of insurance companies, traditional nor takaful. The objective of this study is to prove or disapprove the influence of regulatory changes on Kuwait insurance market.

In conclusion, it appears that while the new insurance law addressed most of the ICPs set by IAIS, there is insignificant effect of the new insurance law on the insurance market in Kuwait. This result suggests that, to develop insurance market in Kuwait, other issues relating to the Kuwaiti insurance market might need more investigation. My recommendation is that more research is needed on the demand side of the insurance market and search for internal and external factors affecting the development of insurance market in Kuwait.

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**Dr. Fahed S. Beneid**, Assistant Professor, Insurance & Banking Department, College of business studies, The Public Authority for Applied Education and Training [PAAET], Kuwait. He joined PAAET in 1994. He received his Ph.D. from the University of South Australia in 2009. His research interests include any topics related to insurance supervision and regulations insurance markets.

fs.beneid@paaet.edu.kw

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