

# The Central Bank of the UAE operates and regulates a dual insurance system

In the year 2021, the Central Bank of the UAE (CBUAE) announced the commencement of operational procedures aimed at assuming the supervisory and regulatory responsibility of the insurance sector pursuant to Decretal Federal Law No (25) of 2020 whereby the merger of the Insurance Authority into the central bank was decided. His Highness Sheikh Mansour bin Zayed Al Nahyan, the deputy prime minister and minister of presidential affairs and chairman of the CBUAE stated: “The wise leadership is keen on taking the appropriate decisions to enhance the performance and indicators of federal entities through the unification of efforts to achieve the desired results with a forward-looking vision, specifically given that the banking sector is a key pillar to the UAE economy. Since then, the CBUAE operates and regulates a dual insurance system, namely a conventional insurance system operating in tandem with a Takaful insurance system. PROFESSOR DR ABDUSSALAM ISMAIL ONAGUN explores.



**Professor Dr Abdussalam Ismail Onagun** is the managing director and CEO at Qitmeer Smart

Consultancy. He can be contacted at [abdussalam@qitmeersca.com](mailto:abdussalam@qitmeersca.com).

Sheikh Mansour added that: “The decision to merge the Insurance Authority into the Central Bank of the UAE is part of a bigger initiative to transform the Central Bank of the UAE into one of the top 10 central banks globally.” Sheikh Mansour expressed his confidence in the CBUAE to perform its mandate across its core functions, including the supervision and regulation of licensed institutions ensuring financial stability and consumer protection in the insurance sector.

The governor of the CBUAE said: “Giving the central bank a broader mandate will ensure that high standards of supervision and regulation apply to all the sectors which we regulate including banking, insurance, money exchangers and payment services providers. Our vision to build a prosperous insurance sector protects the interests of the policyholders and ensures adequate supervision and regulation, characterized by financially strong and properly managed insurance market participants who follow the highest standards of market conduct. Such an insurance sector will be well-suited to serve the needs of our diversified and growing economy”.

The decretal federal law issued earlier in this regard stipulates that the CBUAE shall assume the regulatory, supervisory, licensing and enforcement functions of the insurance sector. The CBUAE will provide an appropriate environment to develop and enhance the dynamics.

In year 2023, the merger of the Insurance Authority with the CBUAE process was considered successful where the CBUAE regulates and supervises the UAE insurance sector. Its central objective is to maintain a favorable climate for the development of the UAE insurance industry. In doing so, the CBUAE will serve a broader purpose, including the advancement and protection of the national economy and supporting UAE economic development.

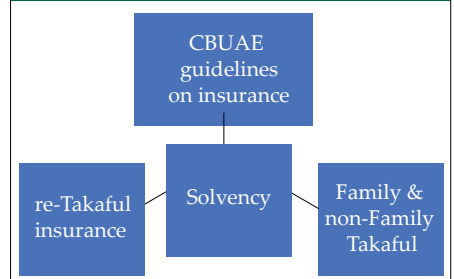
The insurance function of the CBUAE also helps to create fair and effective competition within the nation’s insurance industry, promotes quality insurance services for both conventional and Takaful insurance at affordable rates and advances emiratization in the UAE insurance market.

The CBUAE requires all insurance companies operating in the UAE to adopt the Insurance Core Principles set out by the International Association of Insurance Supervisors (IAIS) and to adopt the IFSB standard on Takaful insurance. The IAIS is a voluntary membership organization of insurance supervisors and regulators from more than 200 jurisdictions.

The association promotes the effective and consistent supervision of the global insurance industry to establish and maintain fair, safe and stable insurance markets, with the aim of protecting policyholders and supporting global financial stability. The CBUAE guidelines on the insurance sector can be summarized in Diagram 1.

- **Solvency:** The UAE insurance sector of both conventional and Takaful insurance has strict guidelines around solvency to protect consumers, businesses and industries. These regulations include minimum capital

Diagram 1: CBUAE guidelines on the insurance sector



Source: Qitmeer Smart Consultancy publication

requirements, solvency margins, funding and more.

- **Re-Takaful (reinsurance):** Reinsurance means to cede part of or the entire liability for the risk taken by the direct insurer (insurer A) under the insurance contract to the reinsurer (insurer B). Reinsurance also reallocates any rights and obligations to the reinsurer.
- **Family and non-Family Takaful (life and non-life insurance):** Life and non-life insurance both arise from contracts where the insurer is obliged to pay the insured or the beneficiary compensation in case of damage or loss. This arrangement is made in return for installments or monetary sums paid by the insured. The direct insurance operations are divided into three types: Life insurance and fund accumulation operations; properties insurance; and liabilities insurance.

In conclusion, the CBUAE, through its supervisory and regulatory mandates, works to ensure that all insurance companies (both conventional and Takaful insurance) as well as insurance related professionals abide by the UAE laws, regulations and standards adopted by the CBUAE. This is to safeguard the transparency and integrity of the insurance industry and the UAE’s financial system. ☺