

Market Update from Associated Insurance Consultants - UAE

New unemployment insurance benefits for employees in the GCC

Despite rapid economic growth over the past decade, the unemployment rate of nationals in the Gulf Cooperation Council States (GCC States) currently ranges between 6 and 14% (and is even higher among the youth population).

These figures became more apparent following the global financial crisis and, coupled with the social unrest associated with the Arab Spring, have prompted the GCC States to introduce a range of social and economic policies.

As part of this drive, policies in the form of financial assistance, in the form of unemployment insurance schemes, aimed at providing a safety net for workers during periods of unemployment and potential downturns are beginning to be implemented.

Until recently, Bahrain was the only member state to establish a mandatory and permanent unemployment insurance scheme. However, 2013 has witnessed the introduction of unemployment benefits programs for unemployed nationals in several other GCC States. This update discusses the recent developments in unemployment benefits in the GCC.

Saudi Arabia

On 1 July 2013, the Saudi Shura Council approved a Draft Law on Employment Interruption Insurance (Draft Law). The Draft Law is yet to be passed by the Council of Ministers and enforced through a Royal Decree by the King.

This insurance will complement the social insurances currently provided to Saudi nationals. At present this comprises old-age retirement, survivors, long-term disability, and worker's compensation benefits. The old-age social security pension scheme is applicable to all Saudi nationals, including those employed abroad not covered by the local social security system.

Foreign nationals also benefit from the worker's compensation program and since 2011, Saudi national university graduates have been able to claim a benefit called Hafiz, which provides for SAR 2,000 a month for 1 year.

The Draft Law guarantees payments to unemployed "contributors" (i.e. those who have made the relevant contributions to the General Organization of Social Insurance (GOSI), during their employment) and envisages a minimum income being provided for a period of up to 6 months where employment is interrupted for a reason outside of the employee's control.

At present, retirement (as well as survivors and disability) benefits are funded by employer and employee contributions of 9% each. The minimum and maximum monthly earnings for the purposes of contributions and benefits are SAR 1,500 and SAR 45,000, respectively. The level of contributions that will be required to be made in respect of unemployment benefit has not yet been confirmed.

This benefit will become available to all Saudi national employees who are registered with GOSI and who are under the age of 59 when the Draft Law is implemented. As is the case across the GCC, employees who are nationals of other GCC states are covered by their country's social insurance plan through a reciprocal arrangement.

Kuwait

On 21 April 2013, Law No. 101 of 2013 (Unemployment Insurance Law), was published, providing all Kuwaiti nationals with an entitlement to an unemployment benefit, payable from a social security fund. The Unemployment Insurance Law builds on the existing unemployment benefits and extends cover to all Kuwaiti nationals working in the private sector (including the oil and gas sector).

A Kuwaiti national, on whose behalf contributions have been made for the requisite period, will be entitled to an unemployment benefit of 60% of the salary upon which their pension is calculated under the Social Security Law (i.e. currently their monthly salary up to a maximum of KWD 1,500).

Under the Unemployment Insurance Law, an employer must administer both employer contributions and employee contributions to the Public Institute for Social Insurance (PISI) on behalf of Kuwaiti national employees.

A monthly contribution of 1.5% of the employee's monthly Remuneration (basic and complementary) is payable to the PISI in respect of unemployment insurance. The contributions are shared equally between the employee, employer and the Public Treasury. Deductions apply retrospectively from 1 May 2013 for all Kuwaiti nationals employed in the private sector and registered with PISI from that date.

These contributions are in addition to the existing monthly contributions due to the PISI in respect of old age, disability, sickness and death insurance (currently 15% of monthly remuneration basic and complementary)) and in respect of the Retirement Pensions Increment Fund (currently 3.5% of monthly remuneration basic and complementary).

In order to be eligible for unemployment benefit, the individual must:

- be at least 18 and under 60 years of age;
- have completed at least 6 months service for the first benefit claim; 18 months employment for the second benefit claim; and 36 months for any subsequent claim. Accordingly, employees will first be eligible for benefits from 1 November 2013;
- be able to work; and
- not yet be eligible to withdraw their pension.

On termination of employment of a Kuwaiti national, employers must notify the PISI. Where termination is for cause, the employer must notify the Ministry of Labour and Social Affairs, who will inform the Labour Force Restructuring Programme.

In order to receive the benefits, the unemployed individual must apply to the Labour Force Restructuring Programme within 6 months of the termination of their employment. The benefit will be paid for a period of 6 months and will become payable from the eighth day following the termination of employment (in the event that the employee applies to the Labour Force Restructuring Programme within 30 days from the date of termination) otherwise the benefit will become payable from the date on which the employee submits the application for the benefit.

Whilst receiving the benefit, individuals will be required to undertake any work or training which becomes available through the Labour Force Restructuring Programme. They will cease to be eligible for the benefit where they fail to provide any requested documentation, attend review dates or become self employed. Fines may be imposed on individuals who submit false information to the PISI under this programme. The Minister of Finance is due to issue a further decision regarding the rules of registration and payment arrangements.

Unlike other social security benefits, Kuwaiti nationals who are working overseas, including in the GCC, (and who are not working for a Kuwaiti employer) will not be eligible to participate in the programme.

Bahrain

Bahrain has been ahead of the trend on social insurance. Established in 2006, Bahrain's unemployment insurance scheme was implemented in 2007 and is financed by contributions of 3% of the employee's salary, shared equally between the employee, employer and the Government.

Decree Law No. 78/2006 (Law on Insurance against Unemployment) differentiates between two important categories of unemployment benefits:

The first is called "Unemployment Aid Benefit", and it is available to first-time jobseekers. It is payable for a maximum period of 6 months. The monthly Aid Benefit amount is currently BHD 150 for those who hold a university degree and BHD 120 otherwise. The Aid Benefit is paid for up to 6 months.

The second group is the unemployment insurance benefit for insured employees who become unemployed. It is called the "Compensation Benefit" and is payable for a period of up to 6 months. The Compensation Benefit amount is currently determined as 60% of the employee's average earnings in the last 12 months, with a minimum monthly benefit of BHD 150 and a maximum of BHD 500.

In contrast to the schemes being introduced in Saudi Arabia and Kuwait, the Compensation Benefit is available to all public and private sector employees (regardless of nationality), whereas the Unemployment Aid Benefit is payable to

Bahraini nationals only. This is surprising given that across the GCC States, a foreigner's right to be in the country is often intrinsically linked to their employment (with the employer acting as the sponsor of their residence visa) and a foreigner is usually required to leave the country once they become unemployed.

In order to qualify for the Compensation Benefit, the individual must:

- be under 60 and a legal resident of Bahrain;
- have at least 12 consecutive months of employment for the first benefit claim; 12 months employment during the last 18 months for the second benefit claim; 18 months during the last 24 months for the third benefit claim; and 36 months during the last 48 months for any subsequent claim;
- be registered at an employment office; and
- be capable of and available for work.

Additionally, the individual's unemployment must not be due to voluntary resignation, misconduct, or the refusal of a suitable job offer.

In order to qualify for the Unemployment Aid Benefit, the individual must:

- be a Bahraini national;
- be at least 17 years old, but younger than 60;
- be a first time job seeker or an insured person who does not qualify for the Compensation Benefit;
- not be engaged in gainful activity or own a business, and
- be capable of and available for work.

The entitlement to unemployment benefits is in addition to the benefits provided through GOSI in respect of old-age pension, natural disability pension, end of service benefit, survivor pension, death grant, marriage grant and funeral grant benefits for Bahraini national employees. GOSI coverage also provides for temporary work injury allowances and medical care and other compensation relating to work injuries which apply to employees of all nationalities.

GOSI contributions for a Bahraini national employee currently amount to 19% of his/her wage with a maximum employee contribution of 7% of his wage (the employer must contribute 12% and may contribute at a higher percentage). For non-Bahraini national employees, the GOSI contribution is currently 4% of which an employee contribution of 1% may be deducted from the employee's salary. GOSI contributions are currently only applied against the first BHD 4,000 of wages.

The rest of the region

It remains to be seen whether the other GCC states will follow suit. The state of Qatar enjoys a very different situation from its neighbors, with an unemployment level estimated at around 0.5%. (the lowest in the GCC and one of the lowest in the world), a recent GDP growth rate of 15%. and the highest GDP per capita in the world. There are, as a result, no significant social tensions to be concerned about.

In the UAE, provision is made for those who are genuinely unable to work, however there is no unemployment insurance fund for those who are fit to work. In May 2012 a draft federal law to establish a social security system, which supported the unemployed by allocating a monthly benefit payment to help them was rejected by the Ministry of Labour and Social Affairs. At present, the focus is very much on encouraging nationals into the workforce and in particular into the private sector, a program which has been financed by the Khalifa Fund for Emiratisation Empowerment, and spearheaded by Government Organisations such as the Abu Dhabi Tawteen Council and Tanmia.

Relevance for Middle East insurers

Insurers, brokers and other service providers involved in arranging or providing employee benefits covers in the GCC will no doubt be interested to understand the developments in statutory unemployment insurance schemes around the region, so that these can be taken into account in the design and distribution of employee benefit products and advice.

Action required by employers

In light of the recent developments, it is crucial that employers are aware of their obligations with respect to the registration of their employees with the relevant social fund, as well as the level and dates on which contributions should be made on behalf of eligible employees. An issue which can also arise within the GCC States is the employee's possession of a family book conferring full citizenship rights.

Prior to making deductions, employers are well advised to inform their employees of the nature of the benefit and the level of deduction. In certain GCC States, employers may be subject to fines if they wrongfully collect deductions from employees who are not eligible to participate in the schemes.

On termination of employment, employers are usually under an obligation to notify the relevant fund.

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