

# FAIR Daily

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## The Magic of Takaful: The Spell is Cast

Takaful is the buzzword of the day. It has caught the world by storm. Even in the West, takaful operators have started to appear, and the market is estimated to reach US\$7.5 billion conservatively with GCC accounting for 27%, Asia 42% and the remaining 31% coming from Europe, including Turkey, the US and others, said **Mr Sameer Al Wazzan**, CEO, Solidarity Group. Yet the Panel Session on new products revealed that the actual awareness of takaful among several Afro-Asian insurers and reinsurers was still elementary. But no one can deny the deep-seated almost exclusive interest in takaful at the session with the Session Chairman, Mr Ahmed Zinoun having no choice but to end the Panel 30 minutes beyond the allotted time, even though there were still several hands raised for more questions.



Mr Sameer Al Wazzan

### The Expanding Mantra

Looking at the external and internal challenges facing the fast growing takaful industry, Mr Al Wazzan said takaful providers have to take advantage of this positive climate, approach the market in the most professional manner, create consumer confidence, educate the public about the concept, products, and benefits of takaful, apply best business practices in their operations, and assist in the growth of individuals' living standards. He suggested that takaful companies build strategic alliances with other operators aiming to offer region-wide takaful protection eg Gulf-wide coverage. They should tap into the expertise and reach of different financial services institutions, mainly banks, for wide distribution networks.

### The Reality of Success

Sharing the lessons of the Malaysian takaful market widely seen as a leader in the field, **Mr Syed Moheeb**, CEO, Takaful Ikhlas, Malaysia, said: "There is an untapped market segment that needs takaful, and that takaful can co-exist in a dual system, with conventional insurance." He added that, while many traditional insurers viewed takaful as competitors, he was co-operating with insurers, including through strategic partnership to seek business for mutual benefits.



Mr Syed Moheeb

Commercially driven takaful can be a success and must compete in the same market space with the traditional players. Hence, price is an important factor. In Malaysia, experience has shown that, even under the same competitive environment, takaful operators had a better loss ratio than the traditional insurers. Among the list of critical success factors, he identified a strong legal and regulatory framework that supports the industry as fundamental along with the need to train and nurture the right staff.

In fact, under the Financial Services Master Plan for Malaysia, Bank Negara's target is for takaful to account for 20% of the overall market in 2010 projected to reach \$11 billion from its current \$5 billion.

### The Confusion of Windows

In Southeast Asia, family takaful was more popular while in the GCC, non-life accounted for some 85% of the business. The Panel, which raised a host of questions, brought out some key elements as well. Both Mr Al Wazzan and Mr Syed Moheeb agreed that, while it was acceptable for a company to offer both takaful and traditional products as long as the accounts and the investments were kept separate with the takaful takings complying with the Shariah requirements, they both agreed that it was better to be separate to send the right signal and not confuse the public.

In conclusion, both experienced and seasoned takaful leaders in Southeast Asia and the GCC agreed that takaful must compete with traditional on price, service and coverage. Otherwise, takaful will only be bought by those seeking to buy a religious product.

## Takaful NUGGETS

The word

"Takaful" originates from the Arabic word **Kafalah**, which means "guaranteeing each other" or "joint guarantee".



The world's **1st** takaful company – the Islamic Insurance Company of Sudan – was established in **1979**.



Takaful business is now being carried out in over **25** countries of the world

Global takaful contributions amounted to more than **US\$2 billion** in 2005 and are expected to reach **US\$7.5 billion** by 2015.

In **1985**, the Grand Counsel of Islamic scholars in Makkah, Saudi Arabia, **Majma al-Fiqh**, approved **takaful** as the alternative form of insurance written in compliance with Islamic Shariah laws.

In **1984**, **Malaysia** played a **pioneering role** in setting the first legal framework specific to takaful (Takaful Act)



# Report Card on How 20th FAIR Fared

## WHAT DELEGATES SAY

FAIR means different things to different people. Some come for the solidarity of regional dynamics. Some come to contribute their expertise. Some come because their clients are here and they cannot not be here. Many come to use FAIR as a contact centre for their treaty business. Some come to exchange business. Many come because they are members

of the Pools and the Syndicate of FAIR. Some come to FAIR voraciously hungry for new business or to grow their business. And, of course, some came because of the lure of the history of Marrakech! Here, we bring you a selection of the views of some of the delegates on their views, expectations and assessment of FAIR.

“The meeting serves the aims of the insurance industry in the Afro-Asian markets. Presentations were of great value and tackled issues of great concern to our markets and provided us the opportunity to see each others’ experiences.”

**Mr Abdul Khaliq R Khalil,**  
Secretary General, GAIF

“The rise in numbers in delegates and country terms mean that FAIR is achieving a geographical expansion. With all the regional reinsurers present, Marrakech provided a great opportunity for insurance and reinsurance companies to build more bridges of co-operation and open wider horizons for business. As a mark of the importance attached to FAIR, Best Re sent in one of the largest delegations. The gathering was rich because of the meeting taking place on the sidelines of presentations. I hope to see Marrakech become the capital of insurance and reinsurance industry for the Afro-Asian community.”

**Mr Reyda Ferid Benbouzid,**  
Managing Director, Best Re

“The 20th FAIR Conference has proven to be a well-organised event and our fabulous Moroccan hosts did their share to produce a remarkable turnout of industry leaders and movers. As a result, we have found it an excellent platform to meet and exchange views, especially on the forthcoming year-end contract renewals.”

**Mr Andreas Weidlich,**  
General Manager, ARIG

“The event comes at a good time, and on top of giving participants a market update, it also acts as a pre-discussion for the upcoming renewals in January. The location of the event is also marvelous and presents me with a good opportunity to meet people from the various markets such as those in Africa and the Far East.”

**Mr Abdelfattah Chami,** Senior Underwriter,  
Arab World, Iran N Turkey, Hannover Re

“The Conference gave me the chance to meet many people and experts and get to know the current practices and trends in the industry in order to use it to update the training approaches for the insurance and reinsurance companies.”

**Dr Isaya J Jairo,** Director of Studies, the  
Institute of Finance Management – Tanzania

“Marrakech has a track record in attracting people. FAIR is a hard-to-miss event.”

**Mr Jamal Al Hamoud,** DGM,  
Qatar General Ins and Reinsurance Co

“The programme and the committee meetings were impressive with much achieved. One of the recommendations coming out from Marrakech is the co-operation in the use of e-learning co-operation. This will boost the talent growth in the industry. The bilateral meetings are increasingly becoming a trend in all FAIR conferences and becoming a trademark of the forum and thus adding to the Afro Asian co-operation.”

**Mr Yehia Abdel Ghaffar,**  
Deputy Chairman,  
Egyptian Insurance Supervisory

“It allows me to meet with different people throughout the region. It’s an excellent opportunity to network and learn more about the different countries and companies. Hopefully, this conference will enhance my company’s capacity and generate more business for us. The conference inspires our confidence to want to play a more active role to engage in any future dealings.”

**Mr Ayaz Hussain M Gad,** General Manager,  
Pakistan Reinsurance Co

“The general topics of the conference are very interesting. I hope to gain more knowledge of the region by the end of the event. I applaud the organisers for being able to attract a large number of participants which also translate into a large number of business contacts.”

**Mr Marcin Kowalski,**  
Underwriter, Client Manager,  
Poland & Asia, Polish Reinsurance Company

“It is a good place to meet up with people involved with all aspects of the insurance industry. I like to see more active participation by the bigger international players at the next FAIR. It will be good to more active discussion panels that will enable participants to come up with practical solutions.”

**Mr Soran Seyedi,** Iran Rep, Kay Intl plc

“FAIR is a great gathering by itself, socially, technically and from a business wise perspective as well. The Moroccan intellectual and cultural heritage has added another milestone to FAIR.”

**Mr Tayseer Treky,** Deputy General  
Manager, Arab Re

Takaful is a welcome addition to the topics in FAIR agenda. I believe that FAIR Marrakech gives a strong message for the need to benchmark now against the international players.

**Mr Chakib Abouzaid,**  
CEO, Takaful Re

**Mark  
Your  
Dates**

**27th GAIF General Conference 2008**  
26-28 February 2008, Manama, Bahrain

Theme “Towards a More Integrated Arab Insurance Market”

For more details, visit  
<http://www.gaif2008.com/>



# Can An Insurer Overcome the Sovereign Ceiling?

This proved to be an interesting active debate and discussion at the ratings session. The prevailing wisdom is that an insurer generally cannot get a rating beyond the sovereign rating.

**Mr Majid Mohamad**, CEO of Labuan Re, Malaysia, said: "In most cases, the rating assigned to the insurer cannot exceed the country ceiling. Exceptionally strong insurers that are shielded from transfer risk (ie, risk that authorities would impose exchange controls that would prohibit the transfer overseas of foreign currency) may be rated above the country ceiling."

**Mr Yann Le Pallec**, Head, S&P's EMEA Insurance Practice, who preferred to refer to the issue as sovereign "influence rather than ceiling", said when exceptional conditions are met and the "transfer & convertible" concerns are met, an insurance company can get a rating beyond the country's sovereign rating. He cited the example of Italian-based Generali which got a rating beyond its country ratings as it had managed to diversify its bond investments globally and reduced its dependence on Italian government bonds.

**Mr R Chandrasekaran**, General Manager, GIC Re, India, sharing his experience of the company losing its "A" rating in 2001 overnight when the sovereign rating was downgraded following a Cabinet decision to delay the disinvestment in certain State-owned sectors, said: "Global credit rating agencies hold sovereign information as more reliable than company level data. He said: "Close relationship exists between firm and sovereign rating in developing countries, while it is non-existent in developed countries", noting that

"rating agencies do not trust the information provided by firms in developing countries; they discount such information or rely on benchmark information from other international organisations". Responding to this, Mr Le Pallec said that it was not a question of prejudice against companies in developing countries, but a question of transparency of data offered by the companies in the region.

The Panel was in agreement that rating was an opinion and not an absolute score. Companies should use the rating as a guide to ask the right questions of the security they are looking for. There was general consensus that rating agencies and insurance companies should adopt a positive approach to work together as partners to enhance transparency on both sides. Mr Chandrasekaran said: "Since insurance and reinsurance is a business relationship built on trust, confidence, and good faith, companies should attach only that much importance as it is necessary for these external ratings. These ratings are to be treated as guidelines and not sacrosanct."

Mr Majid said that, at the end of the day, it is really about knowing your client well regardless of what the rating agency say.



Mr Majid Mohamad



Mr Yann Le Pallec



Mr R Chandrasekaran



## Getting the Best from Your Broker

Brokers have been sometimes blamed and accused for the sad state of the market, and have often time being praised for adding that important distribution link of the industry to the rest of the world. In the changing dynamics of the global economy and the insurance sector, the role of the broker is being critically redefined and made more important even though at times there was the threat of disintermediation. Here, we catch up with **Mr Bassem S Kabban**, CEO of United Insurance Brokers (UIB), who has done his time in the industry with a vision and passion on what new roles can a broker play to bring greater professionalism to the market.

Insurance, including broking, has always been an "open" activity in the sense that there have not been barriers to entry by people with different qualifications.

The "professionalisation" of the insurance activity has been an ongoing process fuelled by the need for greater division of labour and specialisation. The process has been aided by the role that specialist institutes of learning have played in insurance education.

### Restricting Entry to The Qualified Only

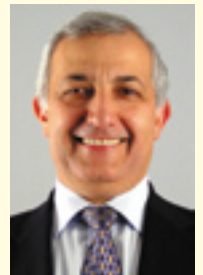
The history of other professions shows that professionalisation has been achieved through restricting entry to the profession unless certain qualifications were met. The medical profession is a clear example.

Broking activity, like underwriting, has been moving towards greater professionalism in the form of qualifications of various levels required from those wishing to practice the activity. Regulators have played a role in making the practice of the activity confined to those who carry the required qualifications.

### The Basic Service: Securing Cover

The broker provides a bundle of services. The most important, historically, has been that of securing the best insurance and reinsurance protection and the related services that go with the protection: premium collection, claims management, collection and payment of claims funds. Over the years, these services have become more sophisticated thanks to the evolution of relevant technologies.

The rendering of these services will continue in the near future in conjunction with growing mastery of the broker of the techniques of risk management.



### Use of Specialist Skills

The "professional" broker is making greater use of specialists in his organisation to survey and analyse risks, formulate loss scenarios, recommend improvements to the insured, handle environmental issues, legal and regulatory challenges, etc. Some of these specialist professional services are provide in-house or through associates.

### No Longer Just a Middleman

The traditional role of the broker, especially in developed markets, as a "middleman" is no longer viable. With the increasing sophistication of corporate clients and their complex risks and liabilities and operating in a regulated environment and under public pressure for transparency and accountability, the traditional role of the intermediary is no longer adequate to address the problems and requirements of clients.

The dynamics of the modern economy, the shifting centers of business and finance, the sudden pressures of market forces, pose questions that have to be addressed by the broker as well as the underwriter. Insurance as a transfer mechanism of risk will continue to be demanded by clients and will be developed in response to risks that are not "pure risk" as the textbooks inform us.

### Two-Way Process

Professionalism is a two-way street. On its own, the broker's professionalism has no value if it is not matched by that of the underwriter. Historically, the broker, especially in the London market, has contributed to the development of new products and solutions but the increasingly the underwriter is "competing" with the broker for innovation and sometimes bypassing the broker by working directly with the client.

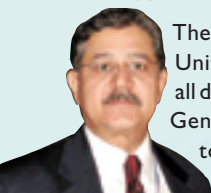


# A FAIR Fete

The venue for dinner, a Palace Restaurant, was amazing with its intricate motifs and design in white marble. The dancing music and singing in true Moroccan warmth and vigour made it a nite to remember.



## Au revoir Marrakech & Hullo UAE!



Mr Fareed Lutfi

The next 21st FAIR Conference will be held in the United Arab Emirates for the first time. Welcoming all delegates to the UAE, **Mr Fareed Lutfi**, Secretary General of the Emirates Insurance, said they hope to parallel the success of Marrakech.

As we say goodbye to Marrakech, on behalf of the delegates of the 20th FAIR, we, at the FAIR Daily team, would like to pay special tribute to **Mr Ezzat Abdel-Bary**, the Secretary General of FAIR and the whole Organising Committee of the 20th FAIR so ably led by **Mr Ahmed Zinoun**, CEO of SCR, our hosts. It is, indeed, a major feat that the Committee handled the whole show, the logistics, the entertainment and the numerous nitty-gritties involved in ensuring the success of FAIR Conference with some 700 delegates in all.

Congratulations and thank you to SCR for their Gracious Hospitality!



Mr Ezzat Abdel-Bary

## Drum Roll of VIPs

The Organising Committee who has been hard at work behind the scenes to ensure the success of the event include:

- **Mr Ahmed Zinoun**, President, (from SCR)
- Mr Mustapha Ababri, VP, (DAPS)
- Mr Larbi Hilali, VP (DAPS)
- Mr Hamid Besri, VP (Moroccan Federation of Insurance and Reinsurance)
- Mr Mohamed Larbi Nali, VP (SCR)
- Mr Mohamed Najib, VP (SCR)
- Mr Nouredine Allaoui, Sec-Gen (SCR)



Mr Ahmed Zinoun



Some members of the Organising Committee

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