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Time to Make the Potential Real

The more-than-1,500 delegates at the 27th General Arab Insurance Federation (GAIF) Conference have a chance to make a milestone difference to set the tone for the future of the Arab insurance industry mere platitudes. Although the global economy is moving towards a recession, and the pernicious effect of the sub-prime problem and the freezing up of credit around the world is spooking the stockmarkets, the new-found confidence in the region since the massive infrastructural developments commenced, remains.

For sure, that the Arab insurance markets hold out a great promise of growth and huge potential is accepted as a fact. The drove of international insurers coming to the region is a clear proof of this potential. The real challenge is whether they can turn this potential into a reality? And how can this be achieved in double-quick time to catch up with the rest of the world?

As Mr Abdul Rahman Al Baker, Executive Director, Central Bank of Bahrain (CBB) said at a press conference last year, this year's GAIF gathering comes at a particularly opportune time as the region's insurance industry stands on the threshold of significant expansion with the Arab insurance industry in an ideal position to compete internationally. He cited statistics to show that MENA insurance premiums stood at some US\$21.4 billion in 2006. But it is still miniscule (although higher than the *sigma* figures which puts the total at only \$11.8 billion), and in terms of global market share is between 0.5 and 0.6% only.



Mr Abdul Rahman Al Baker

Underscoring the Potential

The two oft-cited sets of figures that hold out the promise of the potential are the insurance penetration in the MENA region being almost 6.4 percentage points below world average of 7.5%; and the MENA share of insurance market standing at way below its 3.07% share of world economic output of \$48 trillion.

However, the key social factors limiting growth are the general lack of insurance awareness, social and religious inhibitions to insurance and low wages with lower disposable income by the majority. With local insurance companies being lowly capitalised and focusing on personal lines, the big ticket items like oil and gas are going straight to the London market.

Momentum Building Up

But times are changing and things are beginning to happen. With liberalisation, the internationals are coming in droves. With takaful growing, insurance is becoming more acceptable even among the highly religious. Islamic finance has generated its own momentum with many huge corporates and conglomerates getting into the act. The infrastructural and tourist development in the region in the 21st century is producing a growing middle class with greater disposable income and more assets to protect. There are also more compulsory classes being introduced. And the Internet is making the young Arabs more "modern" and more exposed to Westernisation in all its forms.

The Lure of the Pools

With the economy booming and the demand for protection increasing, can Arab insurers respond effectively? Will the set up of regional pools enhance the ability of the Arab insurers to take on more risks? The lure of the regional pool, a hot topic of the day, relates to allowing the lowly capitalised companies to be able to assume more risks than their capital

would technically allow. Pools work if there is real commitment and there is a genuine co-operation and sharing of risks. They must not evolve to become dumping grounds for sub-standard risks. Pools must be voluntary and not made compulsory. Hence, for pools to work, they must produce mutual returns for all. The Arab War Risks Insurance Syndicate is a classic example of a pool that has worked all these years with excellent returns as well. To add to its current four pools, FAIR is said to be considering the launch of more pools including in life and in CATS.

Too Many Players in the Market?

In general, Arab insurers have been reporting overall profit over the years, be it due to investment income, technical profits or reinsurance commissions. Hence, although there are some 350 insurers spread across the 18 markets in MENA, they have been under no real pressure to undertake structural reforms or change drastically to increase returns to shareholders. However, today, there are more frequent calls for mergers and acquisition to lead to consolidation within the region so that the insurance industry can be more efficient.

As GAIF Secretary General, Mr Abdul Khaliq R Khalil said, Arab insurers must restructure, including through mergers and acquisitions, to face the increased competition posed by internationalisation and globalisation. This will be the subject of a lively debate tomorrow as to whether proliferation of new insurance companies across the Arab markets, which currently has some 350 players, is inhibiting consolidation through mergers and acquisitions.

With the advent of more aggressive foreign companies and the focus by local regulators trying to impose minimum solvency standards and move towards best practices, the domestic insurance insurers in many markets have been forced to review their operational and strategic business drivers. Competition has become more intensive and aggressive, so there is a general mood to shake up the industry, observers say.

Realising the Potential: The Minimum

To get there, the Arab markets must become more professional and move towards higher standards. The industry must:

- Invest in human resource development to nurture the necessary skills resources needed for expansion as well as attract new people into the industry;
- Become more technical by improving the knowledge based and underwriting expertise including having a real technical price for risks assumed;
- Enhance consumer reach and awareness of insurance and the benefits it brings, including through more efficient claims management and better use of innovative distribution channels; and
- Embrace tougher regulations with higher corporate governance guidelines and move towards world class standards.

Game, Match and Set

This cannot be done in a day. But the 27th GAIF Conference, with its huge numbers attending, can make an important contribution to this process. This is the challenge today: to create that ambitious consensus, commitment and action plan among the Arab insurers, both traditional and takaful, to become more technical underwriters providing the necessary protection to the risks faced by the man in the street and corporates in business.



Mr Abdul Khaliq R Khalil

Lessons from the EU for Arab Insurers Eager for Single Arab Market

While regulators are aware that a single Arab market will take ages to come to pass, the industry is, however, eager for the set up of a single Arab market so that they can tap into the potential of the Middle East as one single market without having to set up operations and get licences in the different 19 markets in MENA or even at the GCC market to start with. As the applicability of the EU insurance regulations to Arab markets is a key subject of the essay writing competition at this GAIF forum, we take a look at the single European market and look at what lessons can be learnt, bearing in mind that in the US, there is no such thing as a single American market with insurers having to meet the different requirements of the 50 states.

The EU is the largest economic and political entity in the world, with 494 million people and a combined nominal GDP of 11.6 trillion (US\$14.5 trillion) in 2006. And the single market is one of the EU's concrete successes though it did not come easy and did not happen overnight.

The Lure of the Single Market

In a single market, for individuals, it means the right to live, work, study or retire in another EU country as if it were their own national state. For consumers, it means higher quality and safety standards, and a wider choice of products and services at lower prices. For businesses, it means operating on a common set of rules and enjoying access to a domestic market of 500 million consumers without borders. For Europe as a whole, it means a more open society and a more competitive economy in which new opportunities are created, social rights are respected and high standards of health, safety and the environment prevail.

The Single Insurance Market

The single insurance market was built over a period of the last 30 years of the 20th century and became a reality on 1 July 1994. And it has gone through three generations of insurance directives starting with freedom of establishment, freedom to provide services to all, and finally the single license rule. This effectively meant that the market was integrated so that a British insurer can offer insurance to Spaniards as if it were a Spanish company with no additional procedures to be followed or obligations to be assumed.

Re-Regulations

While there was political will at the highest level, the process of harmonisation of national laws was fraught with difficulties in changing the mindsets of bureaucrats, removing old ways of doing things, removing existing mechanisms that had worked or changing laws sometimes codified as sacrosanct and taking power away from the provincial "mini" lords as well. The progress was painstakingly slow especially because there were persistent differences between national legislations even in fields which were already harmonised by European directives. There were also national suspicions that too much power was being given to the European Commissions and Euro-bureaucrats at the expense of national sovereignty.

Moreover, in the face of the single market, more rules and regulations were sprouting. Some say that the number of regulations had increased by a factor of 10 in the last decade in the drive for the single market.

Integration in Arab Economies

In the Arab markets, the interest in achieving financial integration can be dated back to the 1950s with the proposal for a customs union between Syria and Lebanon in 1947, while the proposal for an Arab free trade zone by 2010 is still ongoing. However, the main difference between the EU and the Arab markets is the absence of a strong and influential supra-national body that can drive integration effectively across the board with binding effect. There are many regional entities for networking and intergovernmental dialogues, but none with binding status directly on nations. These entities lack formal rules, have informal constraints, and their decisions cannot be effectively enforced.

The Obvious Conclusions

Studies have shown that EU has succeeded because there is a high degree of harmonisation of rules, mutual recognition of policies, institutionalisation with a degree of transfer of competencies to the Union; and a widespread feeling of a common identity and/or mutual obligations among the people of the European Union. These

same indicators are only weakly present in the Arab context.

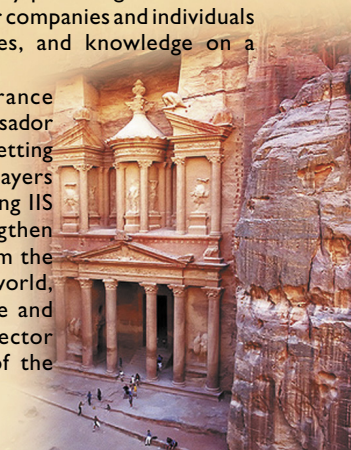
Thus, the single Arab market has a long way to go yet. For the time being, it might be better to aim for standardisation as a first step. There is, however, an ongoing dialogue between EU and the Arab states which could set the stage for greater Arab regional integration efforts.

IIS to Host First Event in ME in Jordan in 2009

Jordan will host 45th Annual Seminar of the International Insurance Society (IIS), touted as the number one global insurance event for CEOs, in 2009.

The Annual Seminar provides a platform for delegates to keep abreast of the latest global developments by providing information, education and networking opportunities for companies and individuals seeking contacts, cross-border exchanges, and knowledge on a global scale.

Dr Bassel Hindawi, Jordanian Insurance Commissioner, IIS Board Member and Ambassador to the region, as well as the prime mover in getting IIS to Jordan, urged the regional industry players to have strong presence at the forthcoming IIS Annual Seminar in Taiwan in July, to strengthen mutual relations with representatives from the different insurance sectors around the world, and consequently enhance the knowledge and experience of the regional insurance sector in order to contribute to the growth of the industry.



Leveraging on IT for Growth: 3i Infotech



The use of Internet technologies among insurance companies in the Middle East is still low, but this is about to change as more companies realise the competitive advantages it brings, says Mr Hari Padmanabhan, Deputy Managing Director, 3i Infotech.

In the MENA region, the business complexities are less and the operations are a lot simpler than in other countries.

Previously, insurance companies were happy with the traditional business, but the scenario is now changing rapidly. To maintain their competitive advantage and survive in the marketplace, insurance companies are innovating their products and improving the time to market by adopting new technology. Considering that these companies do not carry large IT investments from the past like their western counterparts, they are able to “leapfrog” in adapting current technologies right at the very core of their operations and derive benefits of lower costs and higher flexibility that these technologies provide.

IT managers’ priorities and hence their approach to technology investment has also undergone a shift. They need to rapidly respond to business demands rather than simply automate existing processes, as in the past. They have, therefore, shifted from developing software in-house, with its attendant challenges of talent retention and time to deploy changes and new functions, to working with proven software products that are quicker to deploy, from vendors who offer full life cycle support and development services. They also seek and obtain close to 4% of premium as IT investment, which is significantly greater than in the past.

What Insurers Should Do

The use of the Internet to do everyday business remains woefully low. This is mainly due to misconceived ideas of data security and “fear of opening up” to the Internet. This will, however, change rapidly, with more companies beginning to have regional aspirations, and deregulation bringing in more foreign players into the market,

forcing incumbents to adopt more aggressive “go-to-market” and customer servicing strategies to remain competitive, grow market share and increase profitability.

Internet and mobile technologies provide end customers with more choices than before. Motor or health insurance quotes from various companies can be quickly obtained and evaluated, before choosing which insurer to go with.

Today, there are service providers who aggregate the information across multiple insurance companies to service their clients. Although competition is intensifying, the cost of doing business is falling while the ability to reach the mass market is significantly increasing. Hence, it is more imperative to provide low cost services to a larger number of customers.

Mobile technology is also providing innovative process improvements like alerting customers for renewal or providing current status updates to the claimant. The insurance agent can not only provide a quote instantly to the client following a meeting but, for certain standard risk covers, also issue the policy. Mobile technology also creates the opportunity to improve the efficiency of the claims settlement process, with the surveyor using the mobile device to fill the relevant information and submit photographs online.

Therefore, technology is driving both demand and supply. For the consumer, it provides choice, availability of competitive pricing and terms, and the opportunity to get the best deal. For the insurance company, it creates the business model for continued profitability and growth with lower cost of operations due to increased reach and faster turnaround.

Getting Ready for the GAIF Conference

As registrations kicked off yesterday, meetings also began in earnest for GAIF’s various committees in charge of takaful, reinsurance, Arab supervisors and Arab brokers. There was also the main GAIF council meeting, the last meeting for the present council headed by outgoing GAIF President, Mr Sulaiman Al Hassan. Mr Abdul Khaliq R Khalil, GAIF Secretary General, presided at all meetings, which took place throughout the day and tackled various issues of concern to the industry.



Takaful Council Meeting

GAIF Council Meeting

WHAT THE REGULATORS SAY

In preparation for the GAIF Conference, we approached several of the regulators in the region to share their concerns and to offer a message to the delegates gathered here today looking at the theme of "Towards a More Integrated Arab Insurance Market". Here, we bring the views of three selected regulators.

Egyptian Insurance Supervisory Authority

Dr Adel M Rabeh, Chairman

We need more co-operation among Arab insurance markets. I believe that through the Free Trade Agreement in services between Arab countries we can achieve full elimination of limitations and restrictions on market access and cross border supply, full elimination of limitations on national treatment.

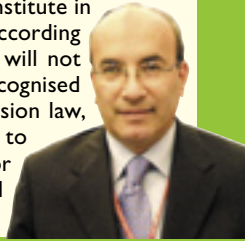
I am sure that will lead to the creation of a strong single Arab insurance market on the same par as the European Union.

The most important challenge is enhancing human resources to cope with international standards.

We have 15,000 insurance employees in the whole market. There are 8,000 individual intermediaries and only half this number has a high school equivalent certificate. That is why I am working hard to raise the

capacity, technicality and professionalism of the workforce.

We established the Egyptian Insurance Institute to raise our peoples' qualifications and professionalism according to international standards. We will co-operate and sign MOUs with the CPCU Institute in the US and the CII in the UK to certify our employees according to the standards set by international institutes. We will not license our employees without an internationally-recognised certificate. In addition, according to the new supervision law, all current and future employees should be qualified to work in the insurance industries. We will request for EISA-approved training, and approve the best-licensed people to work in this industry.



Insurance Commission of Jordan

HE Dr Bassel Hindawi, Director-General

The increasingly dynamic changes within the insurance industry on the global level and the increase of cross-border insurance business have intensified the need for combined efforts of both the industry and the regulators. Effective regulation requires a shared vision between regulators and regulated businesses. The regulator of a given market and the insurance institutions operating therein are the integral parts of the market, hence co-operation and co-ordination between them is inevitable to meet common objectives.

Therefore, it is essential for regulators to develop strong working relationships with the industry through regular and ongoing dialogue, and create open channels for communication. Similarly, insurance institutions are urged to actively work with the regulatory authorities so that the authorities have the full benefit of their input as they set policies. In this respect, the Arab Forum of Insurance Regulatory Commissions (AFIRC)



seeks to strengthen cooperation with GAIF to jointly work towards the development of the Arab insurance industry.

Competition in a free marketplace is healthy, provided that it is constructive and positive. However, Arab insurance markets are fragmented by the presence of many small insurance companies. Such a situation demands consolidation, which would result in larger players who are sincerely committed to developing the market. Yet, they need to consolidate from a business point of view first so that they can continue to grow in a smoother fashion.

Indeed, bigger entities will be able to retain more risk. We need to encourage the market to retain more risk. For the time being, the majority relies mostly on reinsurance. A small portion is retained within the local or regional markets, with the exception of motor and medical insurance. I do not think companies will be able to retain more risk unless they become much larger financially. I prefer consolidation, rather than an injection of new capital.

Saudi Arabian Monetary Agency (SAMA)

Mohammad Alshayea, Director of Insurance Supervision

It has become vital to pursue regional co-operation in insurance through the establishment of common standards and regulations. An integrated insurance market requires a common framework to allow insurers to operate throughout the region and to establish and provide services freely. The legal framework also has to protect customers, particularly individuals, where the safe delivery of promised benefits is vital.

The way forward is to identify differences in regulatory arrangements across jurisdictions and to consider issues of common interest, keeping in view the improvement in market maturity and regulatory reforms. Convergence within the insurance system across this region puts a premium on a shared understanding of problems and on a shared formulation and implementation of solutions.

SAMA is in the process of implementing a relatively new insurance regulatory framework. The current challenge, therefore, lies in realising the benefits of these new regulations through effective implementation and delivery, taking into account the industry structure, the stage of development of the insurance system and the extent to which consumers understand the financial services environment and the insurance products they are being sold.

The new framework aims to produce improvements in the insurance market structure. These constitute enhanced insurers' solvency and stability, protection of insureds' interest, and the creation of a financially stable environment.



Trust Launches New Brand with the Vigour of Orange

Twenty-year-old Trust Group has launched a new brand Trust International Insurance and Reinsurance to capture the dynamism and energy of its youthful management team, while retaining its history with its clients and the accumulated wisdom of the experiences of its Board members including Founder and Trust Group Chairman Ghazi Abu Nahl.

At a press conference held on the sidelines of the GAIF Conference, CEO of Trust Bahrain and Trust Group Board member, Mr Fadi Abu Nahl said the company will be expanding beyond its traditional oil and gas portfolio and looking into new classes of business to meet the clients' needs including liability as well as retakaful. Innovation and client responsiveness will be the hallmark of the new brand in orange instead of the old blue, he added.

Mr Kamel Abu Nahl, Chairman of Trust Bahrain explained: "The

new brand reflects integrity of traditional values, ethics and principles with a more contemporary forward-thinking approach which maintains tradition yet is in keeping with modern industry demands and the effects of globalisation."

Trust, which started as a family business with 12 employees, has grown to some 500 staff with a network of insurance and reinsurance companies in 15 countries including the Afro-Asian region and the US, the UK and Spain.



(L-R): Messrs Kamel Abu Nahl, Fadi Abu Nahl, Nabil Cotran and Ghazi Abu Nahl

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