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Facing the region's battles

The threat of political instability is looming large over the Middle East insurance sector, even as it fights its own battles in pricing, retention and education, said speakers at the reinsurance panel yesterday.

Mr Christian Kraut, Chief Executive, Middle East & Africa for Munich Re and one of the two European reinsurers on the panel, said that while prospects for the region were bright 10 years ago, the same could not be said today. "There are too many question marks in the region on the political side," he commented.

Other panellists pointed to the opportunities created by political events. "Political instability acts as a dampener for some classes of business, but the silver lining is that it has raised awareness among certain buyers and increased the desire to shift risks to reinsurers," said Mr George Kabban, CEO of United Insurance Brokers (DIFC) Ltd. "In all trading conditions, there will be opportunities."

Mr Mahomed Akoob, Managing Director of Hannover ReTakaful Bahrain said that while instability is a concern, the company has factored this into its long-term strategy and pricing model. "We're here to stay," he added.

Addicted to reinsurance

Meanwhile, challenges within the industry are waiting to be tackled. Among these is certain cedants' "addiction to reinsurance", said Mr Kabban, citing the example of Iran which has had to become self-reliant because sanctions effectively killed the option of cheap reinsurance. So while insurers in Iran have learnt that reinsurance is for the "big stuff" and have learnt to "pay for it out of their own pockets", the Arab world in general is still looking to reinsure the "small stuff", he said.

Still, some buyers' behaviours have changed, said Mr Romel Tabaja, Deputy CEO of Trust Re, giving the example of motor XOL, where retentions have been "pushed higher".

Retentions remain low

In general however, retention levels remain below expectations. "We have seen levels go up, but not significantly," said Mr Akoob.

As to what are the optimum retention levels, Mr Kraut noted that insurers make their decisions based on their risk appetites. Levels are "extremely low" today and risk managers have to take the steps to be active risk takers, he said.

Pointing to Nat CAT risks in the region, he said that risk assessment should take into account all potential exposures, not just past years' results. "But it's very difficult to communicate this to clients," he added.

Forging the right partnerships

So are reinsurers following the fortunes or misfortunes of their clients? On the positive side, companies are evolving, and good partnerships will make the difference, said panellists.

"We need to have the right partners," said Mr Kraut. "We're all in this together."

Heard at the panel

On whether there should be more compulsory lines: "It will of course enlarge the pie, but broadly, we need more innovation. Making businesses compulsory isn't the answer to our problems."

– Mr Mahomed Akoob

On the UAE restricting the number of brokers: "The problem is not that there are too many brokers, but that there are too many unqualified brokers."

– Mr George Kabban

On risk assessment: "Risk assessment is more than just looking at the past five years' results. It is also about looking at exposures."

– Mr Christian Kraut

On key challenges faced: "A key challenge is how to reach low-income groups and make products attractive for them. People still tend to see insurance as a luxury item."

– Mr Romel Tabaja



(L-R): Messrs Mahomed Akoob, George Kabban, Yassir Albaharna (panel moderator and CEO of ARIG), Romel Tabaja and Christian Kraut

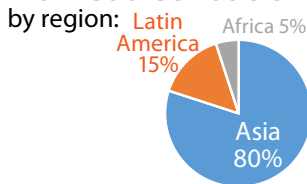
The microinsurance potential

The number of people covered by microinsurance increased almost **6.5** fold in five years, reaching nearly **500 million** worldwide in 2011.

In **Africa**², microinsurance covers **44.4 mln** lives and properties. Of these, the majority are in the **West** 4.4 mln, **East** 8.5 mln, and **South** 30.5 mln.

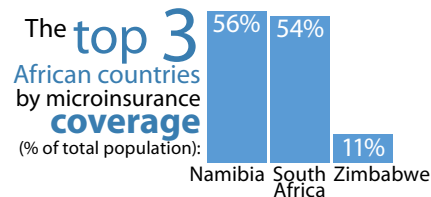
¹ ILO's Microinsurance Innovation Facility
² 2012 African Microinsurance Landscaping Study
 All figures as of 2011 unless otherwise stated.
 Sources: ILO's Microinsurance Innovation Facility; 2012 African Microinsurance Landscaping Study

Market distribution



In **Africa**¹, microinsurance **grew** by **200%** between 2008 and 2012.

Policies comprise



In 2013, the **African Insurance Organization** inaugurated a **Microinsurance Committee** to **oversee** the **growth** of microinsurance on the continent.

The IS crisis and the PV market

How has the recent conflict in Iraq affected the political violence and terrorism market? Underwriters comment on developments.

The marketplace has seen an increase in enquiries and submissions coming from Iraq especially, but with also an increase in other territories such as Lebanon and Jordan. However, with the limited appetite and capacity for these territories, especially Iraq, we believe the current rates charged are probably deterring a large take up.



Insureds in Iraq are looking for extending coverage such as political violence perils. These extensions further increase the premiums charged and reduce the available capacity.

Mr Tariq Al-Salihi, Head of War & Terrorism, **Advent Syndicate 780** and Director – Business Development (**Fairfax International**)



While the situation in Iraq has deteriorated significantly, it is too early to fully assess the impact on the market overall. There have been a number of claims advised to London insurers, but it will take time for the true picture of the entire conflict period to become clear. Access to certain insured sites has been prohibited, and we are in a period of slow information flow due to the difficult situation on the ground. To date, the evidence suggests that total insured claims will not be significant in monetary volume terms, but it is important to bear in mind that the political violence take up rate for insurance in Iraq is extremely low among domestic insureds. The majority of policies purchased have been in respect of oil and gas production, and for relatively small policy limits.

Mr Andrew Bauckham, Political Violence Class Underwriter, **Chaucer Syndicates**



Recent developments have created increased demand in Iraq and rates have also increased. Some markets are steering away from writing this business and others, such as Hiscox, are underwriting the risks that fit our strategy. For us, that means the areas of Kurdistan and the far south around Basra and Um Qasr. That is not to say that the Shia-dominated south does not have a sizeable Sunni population and that Kurdistan is in any way guaranteed to be a safe haven, but we feel that they at least offer a better chance of avoiding a direct attack than other areas in Iraq. In terms of losses to the market, it is hard to comment as we have not had any ourselves and have not heard of any large claims, but I would be very surprised if there had not been a number of assets that have been affected.

Mr Charles Rawlins, Line Underwriter - War, Terrorism and Political Violence, **Hiscox**

Instability in the MENA region is nothing new, and the complex interdependency of the security environment between different countries in the region is understood by experts in the market. As such, there is no doubt that the recent levels of violence have eclipsed those seen in recent years, but in terms of impact to the market, it will come as no huge shock to underwriters who are aware of the almost constant conflicts and tensions in the region. Hence, capacity is still available both locally and from London to offer cover for risks across the region, although in certain territories that are experiencing the most instability, (re)insurers may be looking to cut back their line size and aggregate slightly, leading to a hardening of rates, and a tightening of conditions.



Mr Kit Welsh, Senior Underwriter – Terrorism & War, Middle East & North Africa, **Liberty Specialty Markets**

Takaful facts & figures

Global **takaful contributions** reached around **US\$19 billion** in 2012.

Global distribution by region:
Middle East: 81.6%
Africa: 2.1%



Takaful contributions in **MENA** formed only **1%** of total **Islamic finance assets** in 2012.¹

Contributions from the **Middle East** and **Africa** stood at **\$15.9 bln.**

Top 3 in **GCC** takaful markets

Saudi Arabia:	\$5.5 bln
UAE:	\$1.0 bln
Qatar:	\$0.3 bln

in **Africa**

Egypt:	\$98.2 mln
Senegal:	\$8.0 mln
Libya:	\$2.2 mln

Only **Bahrain, Malaysia** and **the UAE** have dedicated takaful **regulations**. **Oman's** takaful law is in the final stage of completion.

In 2013, the **number** of **takaful operators** worldwide grew by **3%** y-o-y to **206**.

Most were from **the GCC: 78**, followed by the **Far East: 42** and **Africa: 38**.



¹ Deloitte.
 All figures from World Islamic Insurance Directory (WIID) 2014 unless otherwise stated.

The CEO's impact on the ratings process



With companies in the region becoming more rating conscious and ratings taking on a more important position, **Dr Roger Sellek** of **A.M. Best** discusses the vital role of a CEO in the interactive rating process.

The quality and experience of a CEO and his management team are critical for achieving rating success. A.M. Best's confidence in a company's ability to deliver on its strategic plans is founded on the credibility of the corporate management team under the leadership of the CEO.

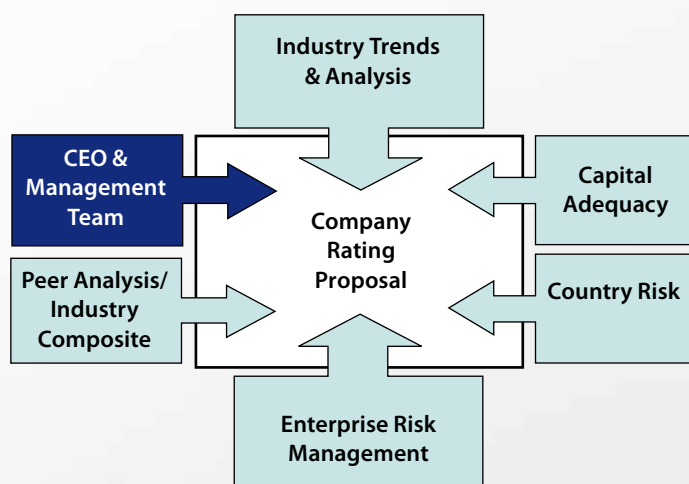
The CEO must understand the rating process and key rating factors – both external and internal – that have a bearing on the rating. However, the extent to which a CEO will need to participate in the day-to-day communications with the rating analyst will vary from company to company.

The basics

Basically, an insurer's financial strength is determined by its balance sheet strength, operating performance and business profile, as well as its ERM capability which should be embedded throughout the organisation. In addition, A.M. Best identifies country-specific factors that could adversely affect an insurer's ability to meet its financial obligations (country risk), examines industry trends and conducts peer analysis.

As the Exhibit 1 shows, the CEO and the quality of the management team are an important component in the overall evaluation of the company.

Exhibit 1: Integration of the CEO into the rating process



The rating management meeting

A meeting is held with management prior to the initial issuance of a rating, or when the rating is being updated. The meeting might last between half a day to a day, depending on the size and complexity of the company. Though a rating decision is not taken on the spot, this meeting provides the principal opportunity for the CEO and the senior team to showcase their business, and provides analysts with essential first-hand exposure to the team running the company. It is also a chance for the company to share information that may be extremely sensitive or proprietary in nature.

Striking the right balance

The CEO needs to be not only engaged in the rating process, but also in the management meeting itself. An example of a CEO who is less engaged is one who may not be involved in preparing for the meeting and may not even attend it. However, one that actively leads pre-meeting preparations and spearheads the management meeting is far more likely to generate a positive impression.

A balance between providing guidance and direction – as opposed to running the process – also needs to be struck. On the one hand, the CEO needs to be engaged in the process and demonstrate market knowledge coupled with strategic vision. However, it is important for the depth and culture of the company to be observed at the meeting,

so the CEO should not seek to dominate proceedings and exclude senior colleagues from engaging in the rating discussions.

A CEO who understands the rating process can present the company in the best possible light. Furthermore, his awareness of developments within the company that can influence the rating helps ensure that communication is maintained on key issues.

Managing rating communication

The CEO must define a clear communication strategy, including identifying a staff member to be the first port of call with the rating agency. Pro-active management of the communication with the rating agency ensures key information is delivered in a timely fashion and build trust. Such an approach will be viewed as far preferable to a situation in which both the CEO and the company react only when prompted by the rating agency. The CEO should assist with setting the communication tone and managing shortfalls in performance against stated corporate targets by admitting and addressing them, rather than ignoring issues.

Allowing the strengths of the senior management team to be evident to the rating agency is another example of effective management of the rating relationship. Rather than the CEO personally communicating all company developments, a depth of expertise can be exhibited by allowing senior management to communicate on topics relevant to their respective areas of responsibility.

The CEO is expected to establish a credible risk management function that is adequately staffed with a clearly articulated risk appetite of the company. The culture of the company must be based around an understanding of risk and not driven solely by revenue.

The CEO and the outcome of a rating

The CEO's involvement in the rating process and management meetings is critical. In A.M. Best's experience, the most successful CEOs influence rating outcomes through the performance of their company and their team.

By being engaged in the ratings process and providing a balance between guiding and directing management meetings, the CEO can help present the company in the best possible light. By creating a proactive communication strategy and setting the communication tone, the CEO can also ensure that the rating agency receives key information in a timely fashion and that a good level of trust is created between the two parties.

Dr Roger Sellek is CEO of A.M. Best – EMEA & Asia Pacific.



On the shores of Sharm

GAIF celebrated its birthday in a convivial atmosphere at the Marriott on Tuesday night, enlivened with the sights and sounds of traditional Egyptian performances.



Welcome to Beirut!

Lebanon is pleased to host the 31st GAIF General Conference in 2016 and we look forward to seeing our Arab and international partners at this important occasion. Beirut last hosted the GAIF Conference in 2004, achieving great success. We promise to exert all efforts to make it another success and to make it a remarkable opportunity to discuss the latest regional and international issues.

Despite tough circumstances, Lebanon has preserved its status as one of the key markets in the region. Lebanese professionals are present in all Arab and many international markets, and we have always supported the regional insurance industry from technical and manpower perspectives. Lebanon will continue with the same momentum and holding next GAIF is a great opportunity to further strengthen Arab and international relationships.

Welcome and see you in Beirut in 2016.

– Mr Assaad Mirza,
President, ACAL

(Insurance Companies Association of Lebanon)



Beirut, Lebanon

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