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FAIR Opportunities: Riding High With Afro-Asian Tigers and Elephants

With the rapid growth in the insurance markets in the Middle East, Asia and Africa, the Afro-Asian market today accounts for some US$300 billion in premiums, excluding Japan.

Today, FAIR has 197 members representing 52 markets in Africa, Middle East and Asia.

Musicians at the Jemaa el Fna

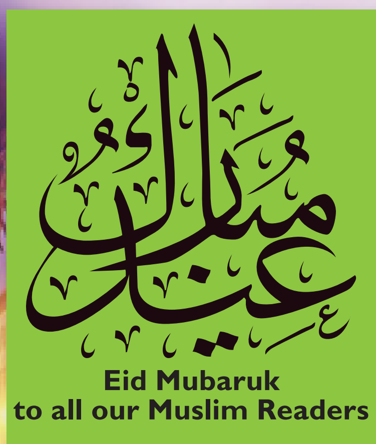
If one considers that the size of the premiums handled by the three pools of FAIR only accounts for about $150 million annually only, the scope for greater co-operation and business exchange seem limitless. Just take the example of oil and gas. Mr Ezzat Abdel-Bary, revered Secretary General of FAIR, said that with the Afro-Asian countries accounting for more than 77% of the global reserves, and 53% of the total world production, he hopes to see "Afro-Asian insurers banding together, pooling resources and developing regional capacity for having a reasonable share of this important but high-risk industry". In the person of Mr Abdel-Bary, FAIR has a dedicated regional figure imbued with the varied dictates of the insurance business having served as a Cabinet Undersecretary, as a regulator, as a CEO of a public insurer and a regional reinsurer, as an insurance law draftsman, and as an insurance lecturer.

Business Is International & Co-operation is About Profit

There are no illusions that FAIR is about co-operation because of regional sentiments or political dynamics. Mr Abdel-Bary said that though dedicated to the cause of regional co-operation and the development of the insurance industry in the Afro-Asian countries, FAIR encourages its members to be "genuine partners to profit from the various opportunities which exist in the region". And more importantly, he highlighted that although FAIR adopts a professional stance for a strong Afro-Asian base, "insurance is international in theory and practice."

Therein lies the reality for FAIR's continued survival and success. And therein lies the reason why, every two years, more than 750 people in the industry come together to meet at the FAIR Forum to exchange business formally or informally, regionally or bilaterally.

continued on page 4



Marrakech, Morocco

The World of Rating Agencies: Being Powerful and Being FAIR

With rating agencies holding so much sway in the insurance industry, with rating downgrades having almost catastrophic impact on the business of global reinsurers and many regulators building in minimum ratings requirements as a pre-requisite to recognising reinsurance security, and with the move towards IFRS, ERM, risk-based capital and risk credits for capital, rating agencies today play a very dominant role in the market. Here, we bring you an interview with **Mr Yann Le Pallec**, Head of EMEA Insurance Practice, Standard & Poor's Ratings Services, on their perception of the FAIR markets and the role of rating agencies in insurance.

What is the power of rating agencies today? How do you maintain your relevance and usefulness to the insurance industry in the FAIR region and the world?

At both the global and local levels, ratings are a highly relevant part of the insurance industry.

The High End Risks

In many of the markets in the FAIR region, there will continue to be high-profile, high-value risks that demand international participation. The earnings potential from these projects is strong, but they necessitate strong reinsurance protection. However, the continuing strong growth in risk volumes handled locally is changing the insurance dynamic in the region. From being largely "risk distributors" to the international reinsurance market, regional insurers are becoming true risk carriers as the need for insurance protection spreads through the economies, benefiting from strong energy prices and positive cash flows.

A More Aware Public

The introduction of compulsory health and motor liability covers introduces the whole regional population to the benefits of insurance, and we can expect to see demand for protection continues to grow, both in the commercial and personal lines. In the medium term, we expect non-life insurance to increase at a more strongly consistent rate than life assurance. The market for this service remains much undeveloped, and the recent equity market uncertainty may, to some extent, have undermined the "investment" perspective of the life assurance sector. The demand for life morbidity/mortality protection tends to take a second place behind asset protection offered by the non-life sector, but if it follows the pattern of the more developed economies, life assurance will be a powerful new sector.

What are the current rating priorities, and how different are the rating issues in Asia, Middle East and Africa?

The key difference we see with insurers in the region is their approach to capital management. While capital is sufficient to meet the risks the insurers are running, regulatory minima, in the form of minimum amount, rather than solvency-based capital are adhered to. So, in our assessment of Enterprise Risk Management (ERM), it tends to be weak or adequate, with only a few, exceptional categories being scored as strong.

Greater Investment Risks

The main risks the capital is exposed to focus on the asset side of the balance sheet. Generally, insurers in the region have high exposures to the equity markets, which mean both high market and high concentration risk, as the regional equity markets lack depth. However, interest in understanding ERM is clearly rising in the region, and this gives Standard & Poor's cautious optimism that investment risk management will generally improve, although the speed and extent of this improvement has yet to be determined. Improvement, in turn, may lead to a higher credit rating in some cases, if Standard & Poor's has more confidence in an insurer's ability to identify, measure, and manage its risks within its risk tolerance.

Greater Reinsurance

Also on the subject of capital, underwriting risk tends to be minimised through higher use of reinsurance capacity. We are, however, seeing more risk-aware insurers opting for defined risk tolerances, rather than just pure risk minimisation.

Corporate governance is also an important area of difference between Mena and Europe. Though many of the companies we rate across the Gulf/Mena region are quoted, they tend to have fairly static or large family-grouped shareholdings that can influence the sources of business and financial flexibility. Transparency can, therefore, be an issue.

Do rating agencies regulate the insurance industry?

No. The role of an S&P rating in the insurance and reinsurance sector is usually to offer an opinion on the financial strength of an insurance company, ie, its ability to pay policyholders. It may also assess the credit strength of the company, if it is issuing debt, offering an opinion of its ability to pay back the debt.

This is quite different from the role of the regulator which is setting the rules within the sector and ensuring they are adhered to.

Obviously there are areas where the interests of the rating agency and the regulator converge, and S&P has working relationships with regulators across the globe. It is also true that regulators may use ratings within their rules as a guide to the market about what levels of financial strength and risk management they expect. Saudi Arabia and Bahrain are two examples where this has occurred.

How do your differentiate yourself from other rating agencies?

We are a leading provider of rating services with an extensive international network, combining global standards with local awareness and understanding. The key features that set us apart are:

- Our extensive coverage both globally and in the region of insurers and reinsurers;
- The transparency of our rating process with a focus to ensure that the methodology is open and available to the market;
- Our expertise – we have a team of very experienced analysts working in the FAIR region with deep understanding and long-term relationships in the market; and
- Relevance: The last decade has seen significant growth in the financial markets, both in geographic scope and the number and complexity of financial products. In this changing environment, we have taken the lead in expanding our analytical and financial information services.

FAIR *IN FIGURES*

The Federation of Afro-Asian Insurers and Reinsurers was established in Cairo in September 1964

FAIR now has 197 members from 52 markets in Africa and Asia.

Mr Ezzat Abdel-Bary has been the full-time Secretary General of FAIR since September 1993.

FAIR's 1st General Meeting was held in Karachi, Pakistan in 1967.

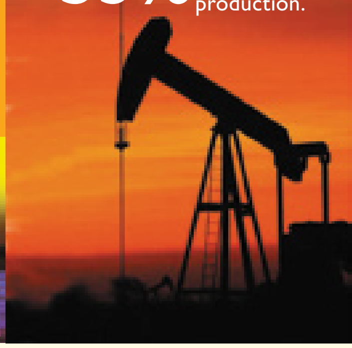
Under the umbrella of FAIR, there are

2 Pools
FAIR Non-Life Reinsurance Pool
FAIR Aviation Pool

and

1 Syndicate
FAIR Oil & Energy Insurance Syndicate

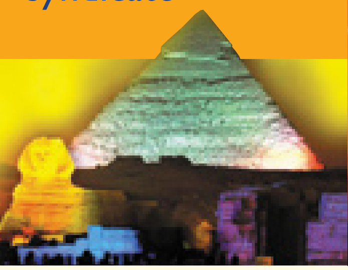
Afro-Asian countries account for more than 77% of the world's oil & energy reserves, and 53% of the total world production.



Based on Swiss Re's *sigma* report Insurance premiums generated by FAIR member countries amounted to US$302.3 billion in 2006.

Out of this, 67.8% came from life and 32.2% from non-life.

FAIR's Founder's Meeting was held in Cairo, Egypt in 1964.



FAIR Opportunities *(from page 1)*

The Changes Since the Last FAIR

The 19th FAIR, held in Mumbai in September 2005, saw repeated calls for increasing co-operation among Afro-Asian insurance markets in the midst of increased natural calamities and the threat of terrorism.

The situation 25 months down the road has not changed much except that the threats have become more severe with global warming and pandemics, the likes of bird flu, having become more major international concerns added to the list. With globalisation and liberalisation, competition has continued to be intense, with more foreign players coming into the Afro-Asian markets. The buzzwords are for the industry to get more professional in technical underwriting with the right price, increase capital and increase retention, embrace greater risk analyses and risk management have become louder, and there is now greater emphasis on corporate governance.

The takaful market is also growing rapidly to meet the protection needs of the Muslims who are not comfortable with traditional insurance, and the growth of micro-insurance to help the poorer segments of the community. Another key difference today is that the Middle East markets are beginning to find their niche in the international scene with regional insurance centres popping up in Bahrain, Dubai, Jordan and Qatar.

Terrorism Pool

There was a strong call at the last FAIR Conference with the immediate past president of FAIR, Mr Albert J Nduna, Group Chief Executive Officer, Zimre, stressing for the need to explore the creation of a FAIR Terrorism Pool to cover on an optional basis, property damage and operational disruption arising from acts of terrorism. But there were strong objections even then with some arguing that, with the complexity of modern terrorism acts, there are big question marks over the insurability of terrorism risks. Even in the developed markets in the US and Europe today, the debate on whether the private sector can offer terrorism cover without the government stepping in as reinsurer of last resorts is still an on-going debate. So the jury is still out on this question.

Scope for Boosting Capacity

Mr Nduna's other proposal still merits consideration. He had suggested that FAIR insurers and reinsurers aggregate the capacity available so that there is a valid alternative for FAIR members to place their business. While the softening market conditions do not make such an alternative an immediate imperative, it should still be on the cards. With global reinsurers continuing to treat the regional markets with greater concessions and kids' gloves in the search for geographical diversification of risks, most cedants are spoilt for choice. But they must prepare for the day when reinsurers decide to walk away from a risk because of "uneconomic rates". It is just a matter of time.

With the increasing list of emerging risks, greater frequency of natural disasters and higher costs of losses in the region, the demand for insurance and reinsurance protection is rising. Those who argue that the demand is beyond the available capacity, expect FAIR to get its members to develop greater capacity for their respective countries, regions and continents through pooling and co-operative exchanges. But there are more international players coming into the region with more capacity and pushing rates down. So it becomes a chicken-and-egg question looking for a market vote.

Training and Professionalism

Aside from the Pools, FAIR also aims to nurture the profession with its society of friends and to focus on training and education. Mr Abdel-Bary says: "There is a work programme aimed at enhancing the expertise and knowledge of staff in the region to match the level of skills and professionalism, which exist in the developed markets."

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