MiddleEast Insurance Review's

FAIR Daily

Day 2

18 October 2007 • Thursday

Published by MIDDLEEAST INSURANCE REVIEW INCORPORATING GLOBAL TAKAFUL

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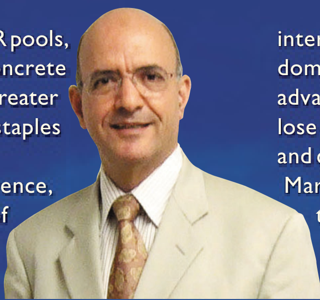
FAIR Hopes for Fiery Action

The FAIR agenda is full and there are many things happening. The list of projects, enhancement and enlargement is long. Here, we bring you a wishlist from some members, some casual visitors and some insiders on what is fair to expect over the next three days as the conference gets into full swing debating the issues under the theme of opportunities and threats in insurance and reinsurance in the FAIR markets.

New classes of pools, more capacity for FAIR pools, greater exchange of businesses, more concrete projects in training and education and ensuring greater professionalism in the market – these are the staples on the action agenda of FAIR.



Mr Ahmed Zinoun

The organiser of the 20th FAIR Conference, Société Centrale de Réassurance (SCR) of Morocco certainly wants to see a solid takeaway from Marrakech as they have left no stone unturned to make the programme here focused and concentrated. They have included new issues as well as pushing for product innovation, distribution dynamics, corporate governance and new and emerging risks into the agenda. Mr Ahmed Zinoun, Managing Director of Host, SCR, and Chairman of Conference Organising Committee, sees scope for in-depth discussion of critical issues of concerns to insurers and reinsurers in a rapidly changing insurance environment. Will this translate into concrete action?

Hot Topics at FAIR

There are several controversial issues that can be touched at FAIR, too, given the wide spread of the agenda. The soft rates, fronting, low retention, and excessive dependence on reinsurers, as well as the need to get more technical and more professionals to be less dependent on investment risks – these are the hot issues of the day on the operational front.

On the management front, the critical issues that must be aired are: the serious need to get started with corporate governance, coping with competition in the market and preparing to face the onslaught of competition coming from the international insurers. The fundamental question is whether the domestic players in the FAIR markets are using their competitive advantage in their home markets to entrench their position or will lose out in the end? The issue of takaful and harmonisation of practices and co-operation between the two sectors must be debated. Hence, Marrakech has the setting to produce interesting results. But will the speakers and delegates go for it to make it an interactive session that comes packed with takeaway lessons for all?

One of the FAIR delegates we spoke to, Mr Bassem S Kabban, CEO of United Insurance Brokers (UIB), readily gave a list of hot topics he felt FAIR should tackle. This includes:

- How some insurance and reinsurance carriers can become international?
- The convergence of commercial and takaful insurance;
- How can the Iraqi insurance market be helped?
- Why is it that the insurers and reinsurers of the developed markets seem more responsive to existing and emerging needs for insurance protection in the region, including in micro insurance?

Getting More Out of the Pools

Unlike other organisations which just meet to discuss issues and creating goodwill, FAIR does have a track record of real on-going business achievements with the three pools: The FAIR Non-Life Reinsurance Pool, managed by Mille Re in Turkey; the FAIR Aviation Pool, managed by SCR in Morocco; and the FAIR Oil & Energy Insurance Syndicate, managed by Trust International Insurance Company (TIIC) in Bahrain.

The business in each of the three classes has been growing, albeit modestly, and the total premiums handled are about US$150 million annually. Hence, their success to date should be assessed and emulated where possible for other classes of the business, perhaps even looking at creating a new Pool.

The Life Stretch

Some have been talking of the need for a life pool as well. In fact, Mr Ezzat Abdel-Bary, Secretary General of FAIR, has been publicly calling for the more advanced life markets in FAIR to share their solutions with the other Middle East and African markets whose life business is still at a fledgling stage. He hopes to see life solutions respond to the economic and demographic changes in the rural and metropolitan sectors as well.

Gunning Down Another Gonu?

Gonu has created waves in the Omani market with the massive damages caused by the floods that arose out of the cyclone that hit

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A Broker's Take on the FAIR Markets: "Add Value to Clients Moving towards being Risk Carriers"

Brokers have long played a very important role in the success of FAIR. Here, *FAIR Daily* brings an exclusive interview with one of the more colourful market figures, **Mr Bassem S Kabban**, CEO of United Insurance Brokers (UIB), a leading London-based independent, global insurance and reinsurance broker with some 300 staff across its network of offices around the world, believing in the maxim of combining an affinity with this part of the world with international expertise.

Fierce Competition

What are challenges of being a broker in the Afro-Asia region?

The deregulation of the insurance markets in Asia has intensified competition among brokers. The entry of new brokers has added to the competition while the density of insurance for personal lines grows slowly. Competition is fierce for large corporate accounts.

The Consolidation Wish

As a broker in the Afro-Asia region, what changes would you like to see?

The general view is that, following decolonisation in the last century, this is an economically emerging region. Some countries have consistently scored remarkable rates of growth, although insurance has been the poor relation – despite the growing number of insurance companies.

We would hope that the individual markets in the region are consolidated, a process that has taken place in the developed markets, but without undermining competition and harming the interests of the consumer. Consolidation would contribute to concentrating resources, human and financial and, in turn, lead to improvement in the quality of service and building up local retention.

Consolidation is not easy, as parochial interests might not easily allow it. The cultivation of a new attitude should contribute to making consolidation an appropriate mechanism for serving all financial interests involved. In certain markets of the region, the regulatory authorities have played an important role in encouraging consolidation through raising minimum capital requirements.

Being a Risk Carrier

The underlying wish is to see the consolidated entities not only retaining more risks for their accounts, but also gradually emerging as international risk carriers. The test of being international is having the capacity to write international risks, ie risks located in other countries, including those in developed countries.

A Word on Rates: Not Always Technical

What is your view on the current rates and capacity in Afro-Asian insurance markets?

The current rates are not always the "technical rates"; they are a function of indigenous and international competition. The markets in the region have not produced catastrophe losses, but this might change with increasing direct foreign investment in industry and consequent increase in insured assets.

When the loss profile and perception of risk in the region changes, rates will be adjusted accordingly. However, as long as underwriting capacity remain high, the downward pressure on rates will remain in place until treaty reinsurance becomes restricted and large losses start to hit the financial position of insurers.

The Takaful Impact

Takaful and retakaful is assuming more importance. When it started, takaful was looked upon as a local cultural response to the needs of a specific community of people. Now with the entry of international insurers and reinsurers into the field, it has become the source of developing new business. What is lacking here is the agreement on the regulation of these entities although there is active on-going dialogue at the international level between the IFSB and the IAIS.

Liberlisation: Be Less Bureaucratic

What is your view of the government initiatives currently taking place in markets like Egypt and Morocco?

Morocco has moved much earlier than Egypt towards adopting a liberalised system for the insurance industry. This development has been welcomed as contributing to consolidation, although more consolidation would be necessary. The new insurance regime has contributed to the growth of premium.

In Egypt, the process has been much slower. It was only recently that the state-owned companies were merged into a single entity as a prelude to their privatisation. The writing of compulsory motor insurance has been assigned to a single company.

The liberalisation ideology is now dominant and it appears that governments have little room to manoeuvre if they are to be in line with the rules of the WTO or benefit from the IMF and other international financial institutions.

I hope the liberalised entities will shed the bureaucratic culture of the past. Some of them are likely to become international risk carriers.

The UIB Factor

How is UIB differentiating itself from the rest of the pack?

Some companies in the market claim that they are unique, which at times carries an air of superiority and even arrogance. UIB is guided by the humility of science in tackling the insurance and risk management needs of its clients by applying what the insurance community has developed (the paradigm of the insurance market), but also addressing what is specific and new to each client.

Technical But Still Personalised

UIB applies the tools of the trade, but always in close proximity with, and with participation by, its clients. Brokers are expected to be close to their clients, but UIB believes that, while it shares this feature with others, it is fully dedicated to its clients. As a financially independent entity, its management has the ability to offer more time to clients.

Always in Competition

Also, thanks to a low staff turnover and the continuity of its core executives, UIB offers an uninterrupted service. For its longstanding loyal clients, UIB works as though it is always in competition with other brokers. Standards are, therefore, always kept at their peak.

Improving Your Financial Rating: Know the Basics

In the context of the greater awareness and movement towards corporate governance, rating has become a big issue. In the FAIR markets, there is no doubt that ratings have become an important aspect of assessing the choice of an insurer or reinsurer. There are an increasing number of players which are actively seeking to be rated to be seen as being at the forefront of embracing corporate governance or just offering a better security as endorsed by a rating agency or to be ahead of the pack. Standard & Poor's rates some 40 companies in the FAIR markets. Here, we catch up with **Mr Yann Le Pallec**, Head of S&P's EMEA Insurance Practice, to offer some background advice on their rating techniques to give those FAIR member companies wanting to improve their financial rating some food for thoughts and avenues to work on to get a better rating. But remember, they look at everything so you cannot fudge. And their ratings are only based on their own analysis of the company and not any other.

S&P's rating methodology uses a wide variety of both qualitative and quantitative information. While much of the rating process is objective in nature – ie, drawing on numeric analysis – a large part is also based on subjective analysis and opinion. This subjectivity allows S&P to fully incorporate a variety of non-statistical issues into the analysis and to impute an appropriate "forward-looking" perspective in company ratings.

Given the wide variety of insurance company types, countries of domicile, accounting and financial reporting conventions, and regulatory regimes, it is not possible to apply uniform quantitative techniques to all companies across all regions. There are certain quantitative methods and approaches which S&P attempts to apply to all insurers to get as much comparability between ratings as possible, but these techniques will be adjusted to reflect each country's particular environment.

The Common Framework

Nevertheless, there is a common analytic framework that runs through all S&P's insurance ratings. The rating methodology involves detailed analysis in, among others, the following areas:

- **Industry risk**: Industry risk is the environmental framework in which an insurance company operates.
- **Competitive position**: We analyse the insurer's sources of competitive advantage as well as its overall business profile with the aim of evaluating its long-term revenue generating capacity.
- **Management & corporate strategy**: The quality and credibility of an insurer's management team is a key determinant in how successful that company will be going forward.
- **ERM**: The insurers that perform best in this category are those which have robust risk-management processes across the entire enterprise, processes that form a basis for informing and directing the firm's fundamental decision making.
- **Operating performance**: We determine how a company's ability to implement its strategies, capitalise on its strengths, and manage its weaknesses, translates into operating performance.
- **Investments**: Of key importance here is how the insurer's investment strategy fits with its liability profile, and to what extent investment results contribute to total company earnings.
- **Liquidity**: We combine both qualitative and quantitative analysis but our focus is on the insurer's three primary sources of liquidity: Cash flows; Investment portfolio liquidity; Credit facilities.
- **Capital adequacy**: Under this heading, we focus on capital adequacy in two ways: first, at the level of capital needed by insurers to support their business needs at a given rating level, and second, from a structural and quality of capital perspective.

Takaful in the Traditional Insurance World

The takaful or Islamic insurance market is booming with many positive estimates of its growth ranging from US$15 billion a year to $20 billion by 2010. It is small in comparison to the established traditional markets, but it is still growing, and in some of the smaller markets in the world, it is already been seen as a potential threat to traditional insurers. The first takaful company has also been launched in UK, and the signs are that the trend will grow in the other Western markets too. In Malaysia, often seen as an emerging global centre of takaful, many of the Islamic insurers report that a significant percentage of their policyholders come from non-Muslims. Here, we bring you the views of **Dr Bassel Hindawi**, Chairman of the Arab Federation of Insurance Regulatory Commissions on how the regulation of takaful differs from the regulation of the traditional insurers, and whether regulators are looking at achieving common standards for the two areas as well.

With the growing awareness of Shariah concepts and principles as a suitable economic alternative to financial services conducted in the conventional system, takaful, in some markets, seems to be the preferred way as an insurance alternative. However, it lacks a suitable regulatory framework, at least for the timebeing.

For takaful to thrive in an orderly and proper manner, a necessary infrastructure that enables national authorities to regulate and supervise takaful operations must be in place. A form of regulatory framework is, therefore, essential for the regulatory authorities to exercise their supervisory functions both in terms of business operations as well as Shariah compliance. It is crucial that the regulatory framework ensures a level playing field for takaful business.

Indeed, the establishment of international standards for takaful would allow conformity in regulation and supervision across the different jurisdictions, whether the institutions transacting business are takaful operators or conventional insurers. Such conformity would allow equal opportunities for all those players in the market to operate, develop and grow, while applying and implementing international standards.

Nevertheless, Arab regulators try to achieve common standards that can be applied to both traditional insurance and takaful, but due to the specificities of takaful operations, some areas such as corporate governance, financial and prudential regulations, transparency, reporting, market conduct and supervisory review process needs specific standards to be laid down. Such standards must be drafted in accordance with the international standards laid down by the international standards setting bodies such as the Islamic Financial Services Board (IFSB).

In advancing this mission, the Islamic Financial Services Board (IFSB) promotes the development of prudent and transparent Islamic financial services through introducing new, or adapting existing international standards consistent with Islamic Shariah principles. To this end, the IFSB plays an active and complementary role to that of the (IAIS) by issuing prudential and supervisory standards for takaful.

FAIR Hopes for Fiery Action *(from page 1)*

the country in July. The claims for the damages are still coming in with estimates going beyond US$800 million. It will make a dent in many insurers and reinsurers bottom lines this year. The Afro-Asian region, exposed to an increasing number of earthquakes and windstorms, must be ready to take action to share its experience in these areas and pool their collective resources to think of creating models for the region to understand the full extent of the exposures now and not wait till another tsunami or a Gonu were to hit the region.

FAIR in Marrakech is the first regional meeting since Gonu. So it is an important platform for a regional exchange of ideas and lessons learnt from the disaster and the necessary preventive measures to be taken now rather than later.

Conclusion: To Dream Beyond Being Equal

Enormous opportunities exist in the Afro-Asian countries where there are inherent elements of competitive advantage. As Mr Abdel-Bary says: "We have the relations, the intelligence, the ethics, and the social responsibility, but we need to match the skills, expertise, and knowledge of the developed markets. Young practitioners should strive to prove that it is not only possible to match the developed countries, but also to excel better than them."

Mr Ezzat Abdel-Bary

FAIR: Delegates by Numbers

The 750-odd delegates coming from 57 countries in the world underscore the fact that FAIR is more than just regional. At the latest count, FAIR, as a professional body, has 197 members from 52 markets.

In fact, the largest number of non-Moroccan delegates to Marrakech are coming from the UK with a contingent of 53 representatives, just slightly less than those from Morocco. Understandably not because of the importance but because of the timing and the distance, the numbers from Asia, outside the Middle East, has fallen to less than 20% with only 90 delegates attending. Almost half that number are coming from India, one of the most important supporters of FAIR and the host of the last FAIR Conference in 2005.

The number from the Middle East including Turkey has risen to 140 with the largest number coming from UAE (50), followed by Bahrain (24). There are more than 100 from outside the FAIR market, including from France, Switzerland,Germany and Bermuda.

FAIR Member Countries from Asia 2006

Asia generated **US$239.6** billion in premium income, accounting for **79.3%** of total FAIR market share. and **6.4%** of world market share.

In terms of **total premium** and **life premium** growth rates

India was the leader of the pack with **56.99%** and **64.8%**, respectively in both categories.

In the **non-life** market, **Philippines** took the top spot with **25.8%** growth rate.

Four out of the **top-five** FAIR markets are from Asia:

South Korea US$101,179 million

China US$70,805 million

India US$43,032 million

South Africa US$40,731 million

Malaysia US$7,537 million

South Korea has the best insurance **penetration rate** of **11.1%**, followed by **Malaysia** at **4.9%** **India** at **4.8%** **Thailand** at **3.5%** & **China** at **2.7%**.

Source: Swiss Re, *sigma*

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