

FAIR Daily



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BEST RE

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Changing consumer expectation bodes well for takaful growth

The global takaful sector has the potential to present itself as a viable alternative in the financial services industry as consumer expectations evolve to demand more equitable and transparent products, said panellists at the fourth plenary session at the FAIR Conference yesterday.

Shariah-compliant finance has been making prominent strides in recent years, and Professor Datuk Dr Syed Othman Alhabshi, Chief Academic Officer & Head of Takaful and Wealth Planning Department, International Centre for Education in Islamic finance (INCEIF), presented to delegates the fundamental principles of Islamic finance compatible with Shariah law.

He pointed out the risk-sharing element entrenched in Islamic finance is conducive to a more holistic financial industry which attempts to harmonise the role of the financial sector with the real economy.

When extended to the practice of takaful, Islamic insurance distinguishes itself via the shared guarantee of risk among participants rather than through the sale and purchase of policies.

Emerging opportunities for takaful

Mr Manjit Singh, Senior Executive Director, Assurance, PricewaterhouseCoopers Malaysia, touched on the aftermath of the global financial crisis and the role of takaful in the future financial landscape.

Admittedly, the Islamic finance industry has evolved from a faith-based industry to one that is business-driven for all communities. And as the demand profiles of consumers the world over evolve as a result of the crisis, takaful operators should be enterprising enough to reach out to consumers seeking alternative products, especially in emerging markets.

He noted there are tremendous opportunities for takaful to be marketed as an alternative form of savings and investments in the life segment.

"There is a unique opening for Islamic finance to capitalise on the 'distrust' of conventional products if they are able to think out of the box," said Mr Singh.

The regulatory aspect

Director of Islamic banking and takaful department at Bank Negara Malaysia, Mr Ahmad Hizzad brought the oversight element into the debate, noting the strength of governance in takaful is key, particularly as the structure of takaful dictates that participants share risks with other fellow participants.

"Takaful funds are to protect participants so it is important for the industry to have strong management resources to ensure that takaful funds are not going to be depleted," he said.

He also highlighted the various efforts of the central bank to raise the visibility and profile of takaful locally and on an international level.

Among the priorities Mr Ahmad offered in unlocking the growth prospects of takaful is to increase the depth of Shariah-compliant investment instruments. He also noted that the development of a regulatory framework for takaful in various jurisdictions is also crucial for the industry to further progress.

"There are only a few countries in the world that has specific regulation for takaful. So we are pursuing the agenda to ensure that the industry is regulated so as to grow better. The theme of the day is there is going to be more regulation and if there is less regulation in the industry, perhaps people are not going to be very keen to participate."

21st F.A.I.R. CONFERENCE
20 - 22 OCTOBER 2009
KUALA LUMPUR

Jointly hosted by

(L-R) Tn Haji Syed Moheeb Syed Kamarulzaman, Datuk Dr Syed Othman Alhabshi, Mr Manjit Singh and Mr Ahmad Hizzad.

RISK management in an uncertain world

Panellists yesterday highlighted the importance of risk management to ensure sustainability and competitiveness in the challenging marketplace. As regulators will be more stringent in their regulatory requirements, this will require companies to evaluate internal controls more closely, said Ms Margaret Chin, Managing Director, Tricor Roots Consulting.

Discussing the importance of ERM, she noted the need for companies to proactively respond to changes in the risk environment vis-a-vis their business strategies "to better grasp opportunities and be prepared for all contingencies".

Touching on the subject of ALM, Mr Mung Mo Lee, General Manager, Analytics, AM Best Asia Pacific, spoke on the ongoing process of implementing and revising strategies related to assets and liabilities.

He pointed out several important factors affecting the balance sheet, such as reserve risk, interest rate risk and catastrophe hazards. He also noted credit and accounting risks which are already underway amid regulatory changes. Insurers and reinsurers should be well-prepared as adoption of certain regulatory standards may see players face short-term volatility in solvency capital.

Mr Mohd Razlan, CEO of Malaysian Rating Corporation, spoke on credit rating risk of debt market instruments in the financial crisis.

He highlighted the increasing number of downgrades and defaults on bond issues, particularly in the last quarter of 2008 and in early 2009, although the situation has rather stabilised in recent quarters. Nonetheless, the boom-and-bust cycles mean that companies should avert default risk by identifying alternative sources of liquidity and building up financial buffers.

Due to the credit crisis, we expect the premium increment in the UAE to be reduced. This is particularly within emirates like Dubai as the construction business has fallen and many projects have been put on hold for some time. Personally, I expect to see 5%-8% increase in premiums coming mostly from motor and property. This increase is dictated by reinsurers as they are putting more pressure on insurers due to huge losses in both classes.

I believe that unlike the stagnation taking place in the Western economies, FAIR countries will witness some growth regardless of size. With the competence of FAIR reinsurers and the increase in co-operation between the Far East and the Middle East, there is hope for progress in the coming few years to succeed in riding out the crisis.



Mr Fareed Lutfi,
Secretary General,
Emirates Insurance Association

In 2010, Pakistan's GDP is budgeted to grow 3.5%-4%, and economists are hopeful of only a modest turnaround in the country's economy. At NJI, we hope to carry the growth momentum of 2009. Our motivation to do well will remain the same with the conviction that we can repeat our success despite the difficult times ahead.

We plan to grow by 18%-20%, thereby increasing our market share to 12-12.5%.



Mr Tahir Ahmed,
Managing Director &
Chief Executive,
New Jubilee Insurance Company
(Pakistan)

EXPECTATIONS FOR 2010

Ceylinco will maintain its market leadership both in life and non-life sectors, and we will improve the dividends which we have maintained at 30% during the last couple of years. A massive expansion plan in the north and east branch network will bring us the expected growth. We will meet the increase in capital requirements to Rs500 million per class (US\$4.4 million) which will be introduced by the end of 2010 by the Insurance Board of Sri Lanka. The company will also accelerate the regional expansion plan subject to the regulatory approval in 2010 which was put on hold due to the global scenario.



Mr Jagath Alwis, Director (Technical),
Ceylinco Insurance (Sri Lanka)

Our take is that by 2010, there will be perceptible improvement on all fronts. We subscribe to the view that the downturn has bottomed out and the regional economies will pick up. We have yet to gauge the consequences of the current series of natural catastrophes in the region on the primary markets and the re-insurance cycle.

Mr S A Kumar, General Manager & CEO,
Asian Reinsurance Corporation (Thailand)

We have seen a recent improvement in trading conditions that we expect to continue into 2010. Following recent press announcements and the award of several major development contracts, we expect to see significant new business opportunities that are encouraging for the future.



Mr Mohd Mazhar Hamadeh,
General Manager, Al Ain Ahlia
Insurance (Abu Dhabi)

TAKAFUL FACTBOX

Takaful contributions amounted in 2007 to **US\$7.2 billion.**

Family takaful made up **23%** of total contributions in 2007.

Malaysia is the largest takaful market in the **Far East** and the world's second largest with contributions of

US\$950 million in 2008.



179 is the number of Islamic insurance operators in 2007.

Malaysia's first takaful company - **Syarikat Takaful Malaysia** - was set up in **1984.**



The **world's first** takaful company - the **Islamic Insurance Company of Sudan** - was set up in **1979.**

*Sources: World Islamic Insurance Directory, Bank Negara Malaysia, Saudi Arabian Monetary Agency

6th Asian Conference on Healthcare and Health Insurance

24 - 25 Nov 2009, Orchard Hotel, Singapore

Theme: *The Challenges & Demands of Meeting the Healthcare Needs of the New Generation*

To reserve your seat, please contact Loga at loga@asiainsurancereview.com OR Register online at www.asiainsurancereview.com





BEST RE: “Things are looking up in retakaful”

After trudging through the difficult business environment, the resounding vibe from BEST RE is solid, after recording good underwriting results last year, with net underwriting income of US\$23 million, in addition to making deeper imprints in its key markets and setting up a new office in Mauritius. General Manager Riadh Karray elaborates in an interview with *MiddleEast Insurance Review*.

Despite minor impairments on the investment front, BEST RE raked in net profit of US\$10.6 million last year, against \$10 million in 2007. “The good thing is that it was a profit for a very exceptional year,” said Mr Karray. For 2009, he estimates that BEST RE will probably close on \$300 million in gross written premium, up from \$258 million in 2008.

The Tunisia-headquartered retakaful company has eight offices worldwide, and in September, declared its Mauritius branch open for business. It will cover the eastern and southern-part of Africa and “will complement our existing offices and reinforce our presence in this continent,” Mr Karray asserted.

And while he is extending BEST RE’s trail in the African region, it is the Far East which is his jewel pot. “We see more growth in the Far East, in China and Malaysia...the fastest growing area is definitely the Far East. We will consolidate our position in the Middle East and try to capture some business in Central Asia,” Mr Karray said. BEST RE’s China business, written from its Far East Regional Office in Kuala Lumpur, recorded US\$25 million in premiums last year.

Last year’s figures were in line with BEST RE’s strategy. By geography, 66% of its business emanated from the Far East region, and Turkey and Central Asia accounted for 16%, while Africa and the Middle East and Gulf filed 9% each. Almost three quarters (64%) of its business is written as treaty proportional; facultative accounted for 19% and treaty non-proportional tallied 17%.

Opportunity for takaful

The takaful business and players have mushroomed over the last five to six years “with an abundant supply of capacity and more of retakaful providers or companies with at least a window,” Mr Karray said.

And in such challenging times, “our main advantage is a good rating, capacity and capability to provide value-added services,” he said, unfazed by new competition. “After the crisis, the problem is that there is no leverage on capital anymore. It is a sign for all players to be careful and apply underwriting discipline. Players have to make sure they are solid and make underwriting profit in order to survive and continue.”

Talking about new opportunities in the takaful segment, he added: “What is interesting is that Western Europe is coming in, and there is an interest to launch companies or at least windows to provide services to the Muslim communities there which are quite substantial in certain markets.” However, he commented that it remains to be seen whether the takaful sector can compete on the conventional side on the industrial and commercial lines.

Next for BEST RE

With 2009 drawing to a close, the mantra is “going back to the basics” of technical underwriting. “We did not see much correction on the pricing, so the challenge for the next renewal is to see how the market will bring some underwriting discipline on the rates. This is the biggest challenge because the investment income is no longer there, at least not in a significant way.”

Though BEST RE has been quiet in the past, it is growing in a disciplined way. “We hope that the economy will pick up from this crisis. I think the signs we see from China and India are quite encouraging.” Yet, questions remain as to whether the effects will spill over to other economies in the Far East or Middle East. “Recovery is there, but it is quite fragile and we will need to see how sustainable this is,” he said. Nonetheless, “things are looking up in retakaful.”

Asia meets Africa in a burst of dance

It was a night when the Far East, Middle East and Africa converged in a celebratory mood. Trust Re's dinner on Tuesday opened with the cymbals of a Chinese lion dance and was punctuated by energetic South African drumbeats and lively Lebanese folk moves.



22nd FAIR Conference to be held in *Libya*



Mr Mokhtar M Daerah

Mr Mokhtar M Daerah, Chairman and GM of Libya Insurance Co and Head of the Organising Committee, said: "The 22nd FAIR Conference will be held in Tripoli in 2011, and we promise to exert all efforts needed by the insurance companies and the Libyan Insurance Federation to create a successful gathering. We have started taking the preliminary steps

to smoothen the procedures for all visitors to the Libyan market, which is promising and full of untapped opportunities. Libya opens its arms wide to receive members and guests from all over the world. I personally welcome all to visit our great country."

*Welcome to Tripoli,
Ahlan wa Sahlan*



Al-Fatah Tower is the tallest building in Libya



Theatre, Leptis Magna - Libya

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