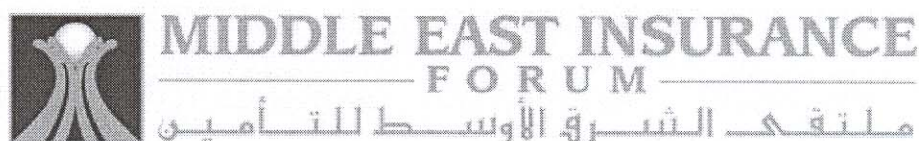


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International Insurance Trends:
Industry Challenges and Opportunities

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- Insurance is one of the essential services for the modern-day financial sector. In addition to its traditional role of managing risk, the insurance sector promotes long-term savings and serves as a conduit to channel funds from policy-holders to investment opportunities, a thriving insurance sector is not only the result of an efficient financial services sector but is also an important aspect of a healthy economy.

- In the Middle East region, insurance had traditionally lagged behind in comparison with the region's other financial services. It is relatively small and under-developed. The total gross premium income of the MENA region reached 9 billion dollars in 2005. This compares with 47 billion for the countries of middle and Eastern Europe and 1.17 trillion for the European Union (15 countries in 2005). In terms of share of world insurance market, the MENA region accounted for only 0.26 per cent in 2005.

- While insurance markets in the Middle East are small, they are witnessing rapid growth. Many countries in the region experienced double digit growth between 2004 and 2005. Between 2000 and 2005, markets of the region grew at the compound annual rate of 12.5 per cent. Further growth is expected in the foreseeable future due to the following factors:

- o Above average levels of macroeconomic growth will result in increasing demand for insurance. In particular, many gulf countries are witnessing large investments in infrastructure and growing trade with other countries of the region and across the world;
- o Recent introduction of compulsory insurance in areas such as automotive and health insurance in many countries of the region will also result in higher demand for insurance coverage;

- o The increasing trend towards government privatization of pension programmes. In the future this will give rise to increasing demand for life insurance schemes with long-term savings;

- o The overall growth in financial services and asset-based financing such as housing and automobile loans will give rise to additional demand for risk mitigating insurance.

- o The demographic situation in the region with young population will give rise to overall increasing demand for insurance coverage as the young population matures.

- Despite the rapid growth, the market still carries significant potential for future expansion. This is indicated by the level of insurance density measured in terms of GPI (Gross Premium Income) per capita, which is very low in the region, compared to Eastern Europe, and the gap is even wider with Western Europe. In 2005, the figure for the MENA was USD 10 to 440, compared to USD 1000 in Eastern Europe and from USD 1400 to 5500 in Western Europe and from USD 2400 to 2900 in North America.

- Life insurance is significantly underdeveloped in the region due to:

- o Demand for life insurance products is heavily influenced by the perception of whether they are compatible with Shari'a Law. In some societies, life insurance is perceived to have prohibited elements of uncertainty (gharar), gambling (maisir), or exorbitant levels of interest (riba);

- o The low level of awareness of life insurance and its benefits within some societies of the region has resulted in low level of demand for life insurance products. This is usually

influenced by cultural factors such as reliance on extended families as well as the traditional reliance on state welfare benefits.

- Policy makers and regulators in the region have the opportunity to release the growth potential of their respective insurance markets; however, this would require an enlightened policy vision that is commensurate with the major changes that have been taking place in the global economy. A very important part of that is the paradigm shift in the global service economy from the old model of a public utility owned by the government to the new, private sector-led model, which operates in a competitive market environment. The insurance sector is no different in this regard.
- Policy and regulatory reforms are key to this sector. This would include the development of modern regulatory frameworks within which private insurance companies would be allowed to operate with relative freedom. At the same time, proper credential regulations would ensure the protection of policy-holders as well as any other persons to whom fiduciary duties are owed. It should be noted, however, that there is wide variability in the maturity of regulatory systems across the region and, therefore, no one model should be considered applicable across all countries.
- It is also necessary to ensure that proper regulatory authorities are well-developed with capabilities to ensure proper oversight. Such regulatory bodies must be independent from any suppliers of insurance services and must be vested with the necessary legal powers.
- Fostering a competitive environment would be essential in the process of developing a sound insurance industry and securing future growth. Competition would drive innovation, improve service quality and ensure competitive pricing. This can only be achieved through the progressive liberalization of insurance markets in countries of the region.
- Negotiations on the liberalization of insurance services are currently taking place in the context of the Doha Round under the auspices of the World Trade Organization (WTO). The legal framework for these negotiations is the General Agreement on Trade in Services (GATS).
- While the DDA started in 2001, progress is still slow. However, these negotiations should be used as a stimulus for regulatory reforms leading to the progressive liberalization of insurance services.
- In spite of the progress made in regulatory reform in the insurance sector, most countries have failed to make an extensive use of the negotiations and undertake commitments in the GATS, for example:
 - o Bahrain has made liberalization commitments only with regard to operations in the off-shore segment.
 - o Oman has basically bound an open regime for direct insurance and reinsurance, but a 70% foreign equity limitation is still imposed on insurance intermediation and auxiliary services.

o Qatar has only committed to keep the five foreign insurance companies present by 1995. (Note: this situation has been improved in the offer, but there is still a 25% foreign equity limitation imposed).

o Saudi Arabia imposes a 60% foreign equity limitation.

o Kuwait and the UAE are two of the few WTO Members to have made no liberalization commitments of any kind in the field of insurance.

• The GATS offers a vehicle for securing progressive liberalization on a non-discriminatory basis and reaping the benefits of a more efficient, stable and diversified financial sector. At least four reasons can be adduced for undertaking liberalization commitments in the GATS:

o First, a multilateral commitment has the effect of tying in the degree of liberalization attained under the existing policy regime, or of tying in future liberalization commitments. In both cases, because these are multilateral commitments, national policies become more predictable and certain.

o Second, the possibility of making commitments to future financial service trade liberalization can help shape and underpin essential macroeconomic and regulatory reforms.

o Third, commitments under the GATS provide a signal of policy stability and intent to potential foreign investors. Offering additional security to foreign investors can give countries an edge as they seek to attract foreign capital.

o A willingness to make commitments in the context of a multilateral negotiation may induce other countries to do likewise, in a virtuous circle of mutual benefits.

o The outlook for the insurance industry 2007- 2008 anticipates slow premium growth in developed markets, combined with sustained profitability; developing countries represent opportunities for higher growth but obviously also a much smaller segment of the overall industry. Greater penetration of developing country markets by the insurance industry has been tied to a variety of positive economic impacts, including a deepening and strengthening of financial sector effectiveness, and higher economic growth. Greater focus on developing markets can produce a win-win for the balance sheet and for corporate good citizenship.

o The biggest challenge on the near horizon is global climate change. Insurers had their greatest losses on record in 2005, with Hurricane Katrina making the most sizeable impact; combined losses in 2005 were over \$ 200 billion. The insurance industry is on the front lines in confronting global climate change, and unless something happens in the political sphere, insurers do not have the luxury of doubting the impact, but instead are faced with the daunting challenge of quantifying the potential costs. The scale of the challenges facing the industry due to climate change is forcing insurers to review their overall strategic plans. A recent report by Lloyds of London stresses the dramatic nature of the challenges facing the global insurance industry, including rising sea levels, increased flooding, weather variability and unpredictability among other issues. For example, the expected damages from floods in the UK are expected to increase by a factor of five, in coming decades. The biggest challenge facing the industry is the growing increase in risks that has yet to be matched by increases in premium income. However proper and proactive steps during the coming years can enable the industry to endure the coming challenges. This will require in particular better efforts to manage catastrophic volatility, greater attention to reinsurance, and management of risks. One example of this in action is a Swiss firm that now requires companies to state their

climate strategy as part of their application for D&O (Directors and Officers) insurance.
o Finally, I call on you to hold your next conference under the theme “e-business in the insurance industry”.

o On the GATS negotiation process in general, including insurance, I have strong personal opinions which I defer to another occasion.

o In collaboration with WTO, UNCTAD and UNDP we are holding a conference on Services in Casablanca on July 24 and extend a warm welcome to you to join us.