

Dubai and Bahrain compete for regional trade

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Dubai takes the initiative in the competition to be the Gulf's business hub by opening the Dubai International Financial Centre

With the launch of the Dubai International Financial Centre (DIFC) and its Financial Services Authority, the competition between Dubai and Bahrain has been exposed once again. With fierce advocates on both sides, the international insurance sector is spoilt for choice about where to make its Middle East home.

The DIFC has already issued the first licences to three financial institutions, including banking and equity fund managers. And it says the issue of other licences is imminent.

At the launch, David King, chief executive of the DIFC Financial Services Authority, said: "International institutions will have the peace of mind of knowing that ... in the DIFC, they will enjoy an operating environment in which they can create a real and vibrant capital market."

Dr Omar Bin Sulaiman, DIFC Authority director general, made an equally bullish comment about the launch: "By providing a highly regulated, low-cost financial environment with complete transparency and state-of-the-art physical environment, our vision of creating a universally recognised hub for institutional financial services and the regional gateway for capital and investment is nearly fulfilled." Sitting in a central time zone of 1.6bn people with an annual GDP of \$1.5trn, Dubai hopes to capitalise on what it considers to be one of the world's greatest untapped regions.

The strategy has clearly been to put the regulatory regime at the heart of its offering and it even uses a system based on the UK model to encourage investors familiar to the Western system. David King emphasised that: "International institutions will have the peace of mind of knowing that when they locate in the DIFC, the regulations they will operate under, and their application, will be crystal clear, of world quality and will be very familiar to them because they are based on the best practices of London, Wall Street and other major financial jurisdictions." (More details are on page 45)

And others seem to share the enthusiasm. JLT Risk Solutions has announced that it has expanded its Middle East operation with the opening of a new office in Dubai, becoming the first broker to receive its licence from the DIFC.

The office is headed up by Mike Good, who said: "We carried out extensive investigations and due diligence with regard to a number of cities including some of the less obvious locations, however, there were a number of factors that, in combination, impressed us about the DIFC and influenced our choice."

He describes the regulatory environment as "strong and very supportive of our ambitions" and the company broker was also impressed with the potential of Dubai as a financial hub within the Middle East, as well as being close to both East Africa and the west coast of India.

"We like the infrastructure that is being set up; for example, the DIFC will have a number of separate areas of financial activity, including a stock exchange, electronic trading exchanges, insurance and reinsurance markets. Also, since it is offshore and exempt from tax, it offers possibilities as a location for setting up captive insurance companies; this is of great interest as captive management is one of the key areas of expertise that JLT offers to clients and we foresee that Dubai may offer an attractive alternative to Bermuda or Guernsey," Mr Good explained.

Competition pushing hard

But where does this leave the other great contender for the Middle East market - Bahrain? In January this year, it announced the plans for the Bahrain Financial Harbour project, which aims to be home to local, regional and international financial institutions, as well as capital market, stock broking and trading firms. It will also be the location of the Bahrain International Insurance Centre (BIIC). BIIC follows the concept of the Financial Mall, located within the Financial Centre, in that it aims to gather together the major players in insurance in Bahrain and internationally.

The facility will apparently offer the customer the opportunity to seek out in a single location the best cover, policies and premiums to suit their needs. For the insurers, BIIC will offer a close-knit working "market" environment where risks can be more quickly assessed and, as required, shared. The BIIC's close proximity to the Financial Mall means that it can draw on the significant financial presence of, and data from, the mall to ease its access to the world money markets.

Bahrain Monetary Agency (BMA) will be leasing several floors of the BIIC on a long-term basis to sub-lease them to other insurance companies. The BMA is providing the regulatory cornerstone of the Bahrain market. This week, it has started to roll out 'rule books' that aim to enhance the transparency of BMA requirements, according the authority. The first book applies to banking, with the third volume, covering insurance firms, due by January 2005.

The Bahrain location also has its champions. James Portelli, acting general manager of Ensurion, a captive insurance management company that set up in Bahrain this summer, says that: "While adhering to comments that there is further scope for development in financial services and investment sectors within the region ... Bahrain has the longest-standing tradition in financial services and insurance in the Gulf, going back decades." He considers that Bahrain has capitalised on this "by establishing itself as the leading financial centre in the region." Mr Portelli concludes: "Admittedly, the marketing of it is a little bit more low key when compared to regional neighbours, but the legal and historical foundations on which it is being built are more than sound."

The competitiveness of Bahrain and Dubai in their quest to become the leading financial centre in the region has been an ongoing and passionately argued debate. For the global (re)insurance industry, there is the advantage of a choice of well-resourced and user-friendly environments for them to choose from.