



The Insurance & Takaful Review



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Bahrain set for major insurance forum

The stage is set for this year's Middle East Insurance Forum (MEIF), which takes place in Bahrain from 7 to 9 May 2007.

Now in its 4th year, the annual event, which is held under the patronage of the Central Bank of Bahrain (CBB), is the region's largest and most significant gathering of international and regional insurance industry representatives.

The theme of this year's event is 'Growth Opportunities in a Dynamic Region', with deliberations to focus on assessing the potential and seizing new opportunities in the Middle East insurance market.

With the regional insurance market entering a new phase of development, characterised by the introduction of tighter supervision, new compulsory insurance, liberalisation and the opening of markets, more than 300 delegates, representing decision-makers from Arab and international insurance and reinsurance companies, regulatory agencies, brokers, banks and finance organisations, will participate in the MEIF.

Leading speakers at the event will include Mr. Rasheed Mohammed Al Maraj, Governor of the CBB. With some experts projecting that growth in the Middle East insurance market will be substantially above international norms over the long term, a panel of expert speakers will tackle the challenge of unlocking new growth opportunities in the regional insurance market.

Key topics that will be discussed at MEIF 2007 include:

- The Changing Insurance Landscape – Assessing Key Global & Regional Trends: Liberalisation, Supervision & Competition;
- Capturing Growth Opportunities: Is the Regional Market Ready for Growth & What is the Real Potential;
- Strengthening the Supervision framework in the Insurance Industry: Key Regional Regulatory Initiatives;
- Market Trends and Financial Product Opportunities;
- Assessing the Role & Opportunity for Captives in the Middle East Insurance Market;
- Strategies for Success in an Increasingly Competitive Insurance Market;
- The Impact of the International Free Trade Agreement on the Middle East Insurance Market;
- Challenges and Opportunities in the Takaful and Retakaful Industry.

The event also serves as an excellent opportunity for market leaders to gather to chart the key trends and capitalise on new opportunities that will shape the direction of the regional insurance industry.

MEIF 07 is supported by the Bahrain Insurance Association. It will be held at the Gulf International Convention and Exhibition Centre at the Gulf Hotel.

CBB licence for Allianz

The Central Bank of Bahrain (CBB) has granted a license to Germany's Allianz Group, the world's second largest insurance firm, to establish an insurance operation in Bahrain.

Allianz Takaful (Bahrain) will serve as the Allianz Group's global hub for Islamic insurance (takaful). It is being established as a wholly-owned subsidiary of Allianz Group.

The Munich-based Allianz Group, founded in 1890, is today the largest insurer in Europe and the second largest in the world, with premiums in excess of US\$52 billion. Allianz is also one of the world's largest asset managers, with assets in excess of US\$1 trillion under management. The Group posted a net income of US\$9.2 billion for 2006, with offices in more than 70 countries.

"The CBB is delighted to welcome the Allianz Group to Bahrain's well-diversified financial services community and to the growing insurance industry," said Mr. Ahmed Al Bassam, Director, Licensing & Policy, at the CBB.

See Also 'Allianz Bahrain Eyes Life Market' – Page 3.



Insurance potential outstanding

Insurance premiums have been growing at an annual average pace of 70% during the past six years in the Middle East and North Africa region (MENA), a senior CBB official told a gathering of regulators of financial services in the GCC region.

Although insurance penetration in the region remains well below international averages, the potential for growth is outstanding, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

"Insurance growth is mainly being driven by the life and Islamic insurance (takaful) segments of the industry," he said.

Mr. Al Baker, whose responsibilities include supervision of Bahrain's insurance industry, was speaking at the inaugural GCC Regulators' Summit, held in Doha, Qatar on 28 February and 1 March 2007. His talk focused on 'Insurance and reinsurance in Bahrain'.

Three other senior CBB officials who spoke at the event were Mr. Khalid Hamad, Executive Director, Banking Supervision; Mr. Yousif Hassan Yousif, Director, Retail Banking Supervision; and Mr. Ralph Ricks, Advisor to the Governor.

Mr. Hamad was a speaker at a session on 'The importance of risk-based regulation: Challenges for the region'; Mr. Yousif Hassan participated in a session on corporate governance and another on Basel II; while Mr. Ricks joined a panel discussion on 'Regulatory standards and objectives – Regional challenges and opportunities'.

Regional Surge

"At the end of 2006, the total premiums of the insurance market in the MENA region reached around US\$9 billion, compared to approximately US\$1.7 billion in 2000. This represents significant growth of four times the premiums reported in 2000, with an average increase of 70% per annum," Mr. Al Baker told conference delegates, who included senior representatives from select international financial services firms.

This growth clearly shows the outstanding performance of the industry as well as the surge in the economic growth in the MENA countries which continues to reflect positively on the



Mr. Al Baker

performance of the insurance sector.

The insurance market in the GCC countries is estimated to grow by US\$2 billion by 2010, to reach US\$7 billion, from approximately US\$5 billion in 2006. Such growth will be mainly due to the outstanding performance of GCC economies as well as the opening up of the insurance market in the region.

Although the expected growth in the insurance market of the GCC is significant, the existing level of premiums represents less than 1% of the overall GDP of the GCC countries.

In Bahrain, the insurance industry (excluding pure reinsurance) has grown by over 80%, with total premiums amounting to BD95 million (US\$252 million) in 2005, compared with BD52.4 million (US\$140 million) in 2000. This was mainly due to outstanding growth in life and fire insurance. While general insurance represents almost 82% of the total premiums, life insurance represents the remaining 18%. Motor and fire insurance premiums represent 54% of the total.

The number of insurance entities licensed by the CBB currently stands at 159. These include 19 locally incorporated insurance firms, 9 branches of foreign insurance companies, 58 exempt insurers, 2 reinsurance companies, 1 re-takaful company (Hannover Retakaful), 1 insurance manager, 1 captive company, 2 insurance pools & syndicates and 66 other insurance service providers such as loss adjusters, actuaries, consultants and representative offices.

"One of the insurance classes that contributes very positively to the insurance market in Bahrain is takaful, which is averaging an annual growth in gross premiums of over 60%. Although the percentage of takaful premiums represents less than 10% of the gross premiums in Bahrain, this class of insurance is very promising," said Mr. Al Baker.

Reinsurance Gap

He pointed to a 'significant need' for reinsurance and retakaful services in the

MENA region due to the growth in gross premiums and retained premiums in the market, the opening up of new markets in the region, which will stimulate demand for reinsurance, and also due to the increase in the number of insurance and takaful companies that have set up in the region.

Gross reinsurance premiums in Bahrain reached US\$274 million in 2005 compared to US\$224 million in 2004. It is expected that gross premiums of reinsurance companies in Bahrain will reach around US\$1 billion by 2010 due to the increase in the number of insurance companies in the region and the opening up of new markets.

However, there are a limited number of pure reinsurance companies in the MENA region, which has resulted in low competition in the market. The situation is changing with some major international reinsurance companies now establishing a presence in the region. These include Hannover Re and New Hampshire Re, which are setting up base in Bahrain.

The regulatory framework in Bahrain to address reinsurance includes requirements related to provide adequate capital and cash reserves to ensure serious and solid companies, less stringent public disclosure requirements that recognise the lack of direct contact with policyholders, anti-money laundering requirements that are in line with International Association of Insurance Supervisors (IAIS) guidance, as well as exemption from business conduct rules, as they do not have any dealings with the general public.

For the regulator, however, there are a number of challenges, both current and future, to be faced. These include the importance to have dynamic regulation, skilled human resources, and sufficient statistical information on insurance.

The regulatory environment needs to be dynamic to ensure regulations are updated and take into account market changes and international best practices.

"Perhaps one of the most important issues that a regulator needs to address is how to maintain the balance between proper regulation and market developments since over-regulation may kill the business," said Mr. Al Baker.

The CBB has addressed this issue with its Insurance Rulebook, which is updated every quarter.



Allianz Bahrain eyes life market

Global insurance giant Allianz is eyeing the life market with its newly-licensed Islamic insurance (takaful) subsidiary.

The Central Bank of Bahrain (CBB) has granted a licence to Allianz to establish Allianz Takaful (Bahrain), which will undertake family takaful, with a focus on life insurance, investment-linked insurance, as well as health and medical insurance.

Bahrain-domiciled Allianz Takaful (Bahrain) will serve as the Allianz Group's global hub for Islamic insurance.

During a recent seminar, organized by the CBB for top Allianz Group executives, CBB officials provided an overview of the growth and development of the insurance and takaful industry in Bahrain, the regulatory framework governing insurance and takaful business and CBB's experience in developing the insurance industry in general, and takaful, in particular.

"Robust economic growth, renewed government investment in large infrastructure projects and strong private sector investment in real estate and other economic sectors are contributing to a huge expansion of the insurance sector. In addition, increasing public awareness and acceptance of the need for insurance is also contributing to the growing demand for insurance products, both conventional



CBB officials and Allianz executives are seen at the seminar.

and Islamic," said Mr. Ahmed Al Bassam, Director, Licensing & Policy, at the CBB.

Public perception of life insurance, in particular, has changed considerably with the introduction of takaful and now represents a huge, fairly untapped opportunity, he said.

"The entry of a global insurance player, such as Allianz, in the takaful arena also points to the tremendous potential of this line of business," said Mr. Al Bassam.

Mr. Tawfiq Shehab, Director, Insurance Supervision, at the CBB said the takaful segment within the insurance industry was seeing the fastest growth in recent years.

For its part, the CBB is committed to advancing the promising insurance sector by ensuring that Bahrain continues to maintain its premier position as an excellent base for insurance and other

financial services providers. The CBB Insurance Rulebook provides a clear and transparent regulatory framework for Bahrain's insurance industry.

The licence for Allianz is the third to be granted by the CBB in recent months to an international insurance giant to establish a takaful or retakaful operation in Bahrain.

The Allianz team, comprising six members, included Mr. Antoine Issa, Deputy Chief Executive Officer of SNA Assurance, a subsidiary of the Allianz Group.

Following the seminar at the CBB, the Allianz team visited the Bahrain International Insurance Centre (BIIC), which is part of the US\$1.3 billion Bahrain Financial Harbour development project.

They were shown around the 22-storey building, which will be ready for tenants by mid-March 2007.



The Allianz team at the Bahrain International Insurance Centre.

Takaful suitable for any cover

Takaful can be designed for any product, be it a car, house, life or fire cover, says leading Shari'a scholar Shaikh Nizam Yaquby.

The concept of mitigating risk, which is the essence of insurance, is well-known in Islamic Law. However, the objections of Islamic jurists centre around two issues:

1) The element of uncertainty, associated with most conventional insurance products, is not acceptable. Islamic jurists consider the sale of 'comfort of security' contracts not something saleable. However, the concept of a gift is perfectly acceptable. So, to be permissible, the insurance/takaful contract should be based on the gift concept, which is closer to mutual insurance.

2) Investment of funds collected by insurance/takaful firms – Islamic jurists agree that such funds must be invested. Takaful operators must take care to invest such funds in a 'permissible' manner.

Islamic jurists also require takaful companies to first explore the retakaful option before resorting to conventional reinsurance.

Shaikh Nizam was speaking during a seminar organized by the CBB for senior executives from the Allianz Group.



CBB launches AML/CFT initiative

The Central Bank of Bahrain (CBB) has launched a programme of regular liaison with Bahrain's insurance industry on anti-money laundering issues.

A first meeting was held with Money Laundering Reporting Officers (MLROs) of insurance and reinsurance firms based in Bahrain. More than 30 firms were represented at the meeting, which took place on 15 February 2007.

"The aim was to establish a dialogue between the CBB and the industry regarding anti-money laundering (AML) and combating the financing of terrorism (CFT) issues," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB, who chaired the meeting.

The CBB is an active participant of the Financial Action Task Force (FATF), the international body that promotes policies to combat money laundering and terrorism financing, he pointed out. Also, Bahrain is the base for MENAFATF, a regional FATF-style organization serving the Middle East and North Africa (MENA) region. FATF considers the global insurance industry, which generates premiums of some US\$2.9 trillion per annum, potentially vulnerable to money laundering due to the industry's size, its accessibility and structure.

"The CBB has, since long, been committed to implementing international best practice in all aspects of supervision, including the area of AML/CFT," said Mr. Al Baker. While regulations related to AML/CFT have been in place for several years, those related to the insurance industry are fairly new. These are contained in CBB's Insurance Rulebook, which came into effect in 2005.

"The CBB Insurance Rulebook contains many new AML/CFT requirements for insurance firms operating in and from Bahrain,"

said Mr. Al Baker.

The industry, in general, and the MLROs, in particular, need to be aware of the CBB requirements, to ensure their firms' compliance with CBB regulations. For example, firms are legally liable for wilful ignorance of the source of client assets or the nature of client transactions. They are also legally liable for failing to report suspicious transactions.

The Financial Crime (FC) Module of the CBB Insurance Rulebook, which comprises Volume 3 of the CBB Rulebook, details the regulatory requirements related to AML/CFT.

A key requirement obliges insurance firms to designate a specific person to serve as the firm's MLRO. Firms are also required to have in place AML/CFT systems and controls, which should enable the MLRO to conduct ongoing customer due diligence and transaction monitoring. The responsibilities of the MLRO include establishing and maintaining AML/CFT policies and procedures; ensuring compliance with the AML Law and other applicable AML/CFT legislation and regulations; and ensuring day-to-day compliance.

Firms are also required to provide regular training to staff who handle customer transactions, to enable them to recognise possible signs of money laundering or terrorism financing transactions and to know what to do once a risk has been identified. "The CBB recognises that the AML/CFT regulations represent a step change in the supervision of insurance firms. However, we firmly believe that everyone stands to benefit from better supervision," said Mr. Al Baker.

The CBB will hold an ongoing dialogue with MLROs, to disseminate and provide guidance on CBB regulations.

CII Academy launched in Bahrain

The Bahrain Institute of Banking & Finance (BIBF) celebrated the launch of a new academy for insurance training.

The CII Academy has been created in partnership with the Chartered Insurance Institute (CII) of the UK. It is the exclusive training provider for CII courses in the Middle East and it also houses the first online examination centre for the CII outside the UK. It is the largest and most influential insurance training and educational body worldwide. It currently has over 90,000 members and provides a suite of insurance and financial planning qualifications.

BIBF's Insurance Learning Center provides technical insurance training and examinable courses in both English and Arabic, on a face-to-face basis and by distance learning. All courses enjoy international recognition through accreditation by the CII towards part of the CII qualifications.

Speaking at the launch of the CII Academy, Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, said the BIBF-CII alliance comes at an opportune time.

"Since taking over responsibility for regulating the insurance sector in 2002, the CBB, previously the Bahrain Monetary Agency, has made significant efforts to grow the sector and to give it the profile that it deserves," he said.

"We created a completely new regulatory framework for the insurance sector, to ensure the application of high standards consistent with international norms. We have also worked with the industry to stimulate greater awareness of insurance."

These efforts were driven by the fact that insurance provides a critical service to society. It enables individuals and businesses to manage risk. A vibrant and efficient insurance sector therefore provides a vital underpinning to economic growth and stability.

"I believe that these efforts are beginning to bear fruit. The insurance sector is growing strongly and new providers are coming into the market. The consensus is that insurance represents significant potential in the region as a whole," said Mr. Al Maraj.

"However, for this potential to be tapped successfully, firms require qualified and capable staff – and this is why the launch of the CII Academy is so opportune. Human resources are absolutely critical if the insurance industry is to continue growing. This is a challenge that I am sure the BIBF, in conjunction with the CII, is now superbly well equipped to meet."

Mr. Lee Gladwell, Sales and Marketing Director, CII UK, said "the financial services industry, which includes insurance, is a vitally important part of the world economy."

"The training and development activity we provide helps guarantee the integrity and viability of commerce across the international arena," he said.

The BIBF and the CII share proud histories and their reputations are honoured throughout this region and beyond.

"As we collaborate and grow together in this unique joint venture, we can spread our message of professionalism, integrity and excellence to an ever wider audience. And we will help ensure that Bahrain and the Middle East region remain at the forefront of global economic progress," said Mr. Gladwell.



AIG: Targeting a huge market

Q. The past few months have seen several international insurance giants, such as AIG, enter the takaful arena. What is attracting them to takaful?

Mr. Al-Ajmi: The prospects for takaful are tremendous. We are talking about 1.5 billion potential customers and AIG, as an insurance market leader, cannot afford to ignore such a massive customer base. We want to provide products that satisfy their needs without compromising their beliefs.

The presence of AIG brings international standards to this industry, which is very much in its infancy.

Takaful customers can now enjoy superior insurance service, with the kind of experience and knowledge of insurance that AIG carries. Under the trade name Enaya, AIG Takaful offers a range of takaful products and services to meet the requirements of both consumer and corporate clients, all under the supervision of our Shari'a Supervisory Board which is comprised of well-known Shari'a scholars, Sheikh Nizam Yaquby, Dr Mohammed Elgari and Dr Imran Usmani.

Q. What are your plans for the near term?

Mr. Al-Ajmi: Currently, we are focused on establishing our headquarters in Bahrain, which is the ideal location, but our customers are across the globe. AIG is present in 130 countries. However AIG Takaful-Enaya is now concentrating on the region. We are already writing facultative retakaful in a number of countries and the reception we are receiving for our direct business is very encouraging.

Q. What is AIG Takaful's value proposition?

Mr. Al-Ajmi: At AIG Takaful-Enaya, we are building our strength on more than 85 years of experience. The cornerstone of our success is sharing knowledge to create relevant solutions and influencing the best thinkers to reflect the ideas of a new age. We strive to exceed expectations and set new standards of achievement in every market we serve.

With Enaya, we're targeting individuals, offering them a variety of products for individuals and their families, including Auto & Homeowners Takaful,



Mr. Ayman Al-Ajmi, General Manager of Bahrain-based AIG Takaful, speaks to The Insurance & Takaful Review Bahrain about the entry of the American Insurance Group (AIG) in the Islamic insurance market and the prospects for this line of business.

Extended Warranty, Travel, Accident and Health covers and other specialized products. By capitalizing on our global experience we are the first in the market with new dynamic products tailored to meet the different needs of a broad range of customers at competitive prices.

We are also planning to introduce female cancer cover, which will be unique in that it will cover not only medical treatment but reconstructive surgery as well. The product launch will be accompanied by a campaign to raise awareness about female cancer and promote early detection, so we plan to play a social role as well.

We are also targeting small and medium enterprises for whom we have already launched a product that covers their entire risks under one cover - Small Business Solutions (SBS).

Q. How do you see the takaful industry developing over the next few years?

Mr. Al-Ajmi: The next 5 to 10 years will be the golden period for the industry as well as its maturity stage. People are more keen now to use Islamic insurance products and this will translate into real business for takaful providers. The retakaful industry will see an even larger expansion.

I see more companies coming into the industry and more conventional companies coming in, either with full-fledged subsidiaries or takaful 'windows'. The takaful industry is about 20 years behind the Islamic banking industry but I see the same trend of phenomenal growth.

Q. Can takaful companies unlock the potential for growth in the GCC and broader MENA region, where insurance remains quite under developed?

Mr. Al-Ajmi: Takaful companies can do that. However, they will have to carry out campaigns to raise awareness, especially for personal lines, such as family takaful products. This is where the real growth is.

At the corporate level, insurance is seeing a 20-30% annual growth but individuals spend negligible amounts on insurance. Takaful companies can generate tremendous growth. What we need to do is educate the public about the benefits of takaful products and the need for takaful.

We intend to work collectively with our industry colleagues to create public awareness about risk and how this can be mitigated with takaful services. On our part, however, we have a very intensive campaign lined up and we are confident it will bear fruit.

Mr. Ayman Al-Ajmi joined AIG Takaful in 2006 as the firm's first General Manager. Mr. Al-Ajmi previously helped to kick-start the Dubai Islamic & Reinsurance Company (AMAN) and has also served with Norwich Union. Mr. Al-Ajmi is an Associate of the Chartered Insurance Institute (ACII), a Chartered Insurer and has a Bachelor of Business Administration in Risk Management & Insurance from the University of Memphis (USA).

AIG Takaful was launched in Bahrain in June 2006, with a paid-up capital of US\$15 million. AIG Takaful provides Shari'a-compliant insurance solutions in a range of takaful products, including accident & health, motor, personal contents, property and casualty.

AIG Takaful is a member company of the American International Group Inc. (AIG), a world leader in insurance and financial services, with operations in more than 130 countries and jurisdictions. AIG companies serve commercial, institutional and individual customers through the most extensive worldwide property-casualty and life insurance network of any insurance company. In addition, AIG companies are leading providers of retirement services, financial services and asset management around the world. AIG's common stock is listed in the U.S. on the New York Stock Exchange as well as the stock exchanges in London, Paris, Switzerland and Tokyo.



CBB joins key IAIS Task Force

The Central Bank of Bahrain (CBB) has been included in a key task force of the International Association of Insurance Supervisors (IAIS).

The Corporate Governance Task Force will focus on those aspects of corporate governance which are specifically relevant for regulation and supervision of insurers and reinsurers, with a particular emphasis on the protection of policyholders' interests.

The CBB is represented on the task force by Mr. Nader Al Mandeel, Head, Local Insurance and Reinsurance Firms, at the CBB.

The main focus of the task force will be to:

- Review existing work on corporate governance requirements within the IAIS and work done by other international bodies, such as the Basel Committee on banking supervision;
- Survey current industry practice;
- In consultation with relevant IAIS working parties, describe the main elements of a broad corporate governance framework applicable to insurers, including identifying those more peculiar to insurance, to be progressed by other working parties, where relevant;

- Review the Insurance Core Principles to ensure that they cover all relevant aspects of corporate governance; and
- Revisit the definitions of corporate governance, board of directors and management board (senior management) and other relevant terminology in the IAIS glossary.

The results of the work and proposals for further decisions will be presented for consideration to the IAIS Technical Committee.

"Sound corporate governance is, of course, very important for the financial services industry, of which insurance is an integral part," said Mr. Al Mandeel.

The rapid changes brought about by globalisation, deregulation and technological advancements are increasing the risks in insurance systems, requiring boards of directors of firms to be closely involved in monitoring the performance of management and ensuring that policyholders are adequately protected.

Corporate governance guidelines are a key element of the CBB Insurance Rulebook, it also covers such issues as segregation of shareholder and policyholder funds, capital adequacy and solvency, valuation of assets and liabilities and the conduct of business. The CBB guidelines on corporate governance are contained in the High Level Controls (HC) Module of the CBB Insurance Rulebook.

Standards promote uniformity

The recent growth of takaful and re-takaful industry has been characterised by strong positive market forces for, and increasing awareness of, takaful products. Encouraging support for the industry has led to improvement in financial results of existing takaful and retakaful companies, establishment of new entrants into the industry and expansion of cross-border operations.

The increasing globalisation of takaful ventures and the inherently international takaful activities highlight the importance of international standards in harmonising takaful and retakaful practices across different jurisdictions and introducing global convergence in financial reporting by takaful and retakaful companies.

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has already developed a comprehensive list of international accounting and Shari'a standards for the Islamic finance industry, including takaful companies. The standards – on financial reporting, Shari'a application and Shari'a compliance processes – have been adopted in leading Islamic banking and finance centres across the world.

Bahrain-based AAOIFI, supported by over 140 members from 30 countries, is an autonomous international organisation responsible for formulation and issuance of accounting, auditing, governance, ethics, and Shari'a standards for the international Islamic finance industry. The standards are published in two publications, entitled the Accounting, Auditing and Governance Standards, and the Shari'a Standards.

Accounting Standards

Included among AAOIFI's standards are the international accounting standards specifically formulated for Islamic insurance or takaful companies, namely:

- General Presentation and Disclosure in the Financial Statement of Islamic Insurance Companies;
- Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies;

- Provisions and Reserves in Islamic Insurance Companies;
- Contributions in Islamic Insurance Companies.

The accounting standard on General Presentation and Disclosure in the Financial Statement of Islamic Insurance Companies defines the financial statements that should be periodically published by takaful companies, establishes the general principles for the presentation of the financial statements, and prescribes the information that should be disclosed.

In the accounting standard on Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies, the disclosure requirements are prescribed so as to reflect the accounting policies that are applied as well as to the contractual relationship between the policyholders and shareholders.

The accounting standard on Provisions and Reserves in Islamic Insurance Companies covers technical provisions related to unearned contributions provision, outstanding claims, and claims incurred, but not reported. It also applies to deficit and equalisation reserves.

As for the accounting standard on Contributions in Islamic Insurance Companies, it deals with the accounting rules relating to contributions – or payments that policyholders undertake to make under an Islamic insurance contract entered into with a takaful company.

Shari'a Standard

In addition to the international accounting standards for Islamic insurance companies, AAOIFI has also formulated a Shari'a standard on takaful which is scheduled to be issued later this year. AAOIFI is also developing a Shari'a standard on retakaful. The Shari'a standards aimed to promote uniform Shari'a application to the international takaful and retakaful practices. Along with the existing accounting standards, the new Shari'a standards have been formulated to support the expansion and growth of takaful and retakaful institutions internationally.



The Case for Captives

There are many developments that have contributed to making captive insurance a hot topic in the GCC region. The most important one is perhaps the emergence of Bahrain and others as captive domiciles with the requisite legal and regulatory frameworks.

Although still a new concept in the region, there is a great opportunity to develop this industry in the MENA region.

In its simplest and purest form, a captive insurance company, or 'captive,' is a subsidiary insurance company whose primary function is to insure all or part of the risks of its owners, or 'parents'.

The main difference between captives and traditional insurance companies that captives are owned, in part or in whole, by the companies which they insure.

A lot of the world's leading firms, such as BP, Citibank and Johnson & Johnson have utilized captive insurance structures. Aon Insurance Managers estimate that 2/3 of the Global 500 companies have captives.

Captives can be owned and used by almost every type of insurance buyer and are especially popular in sectors such as energy, industry, real estate, financial services, transportation, utilities and healthcare.

Captive insurance first emerged in the 1960's and originally developed as a 'check' on the cost efficiency of risk retention and risk transfer via traditional insurance markets.

The 1970's saw the growth in popularity of captives as large corporations realised the cost advantages that could be obtained by managing their own risks and insurance coverage, particularly during hard cycles. The popularity of captives declined in the 1980's as certain tax benefits were eliminated and the reinsurance markets softened. With harder markets in the 1990's and a growing focus on enterprise risk management, usage of captives accelerated again.

The use of captives in the new millennium seems to be dictated more by holistic risk management rather than by pure market cycle considerations, which explains the continued growth of captive insurance and the increase in captive domiciles despite the drastic accounting and taxation changes and soft reinsurance market conditions still a feature of the market.

Today, the global captive market comprises over 5,000 firms, holding assets worth some US\$130 billion and writing premiums in excess of US\$25 billion.

Captives are particularly promising for companies which:

- Pay large annual insurance premiums.
- Own high value assets, which often require sophisticated and efficient



Mr. Youssef Al Kareh, General Manager of Ensurion, an insurance management firm based in Bahrain, provides an overview of captive insurance and the prospects for this class of business in the Middle East region. Ensurion has successfully overseen the incorporation, in Bahrain, of the first captive insurance firm to be domiciled in the MENA region.

insurance coverage.

- Have unique risks, as insurance for such risks may be expensive or unavailable.

- Are vulnerable to premium volatility, as captives have the ability to smooth premiums over time.

- Have complex risk profiles: Centralisation and pro-active risk management through a captive vehicle allow efficient handling of complex risks.

Captive Variations

Captive insurance companies may be set up in varying forms, differing mainly on the basis of the number of parents, risk diversity and type of management, as follows:

- Number of Parents – Single parent captives are owned and controlled by one owner, also known as 'pure captives'. Multi-parent captives, also known as Group or Joint Venture captives, insure the risks of different, but related entities.

- Risk Diversity – while Homogenous captives, also known as Industry or Association captives, are set up to insure the risks of a group of companies in the same industry or association, Heterogeneous captives are set up for companies from varying industries.

- Type of Management:

- i) Traditional captives are managed by a professional third party captive manager often a fully owned subsidiary of a large brokerage firm.

- ii) Rent-a-Captive vehicle is owned and managed by a third party and 'rents' its services to other.

- iii) Protected Cell captive is essentially a Rent-a-Captive that ensures the statutory separation of the individual cell's assets and liabilities and is one of the fastest-growing areas of the captive insurance industry worldwide.

- iv) Agency captive is formed and often owned, by insurance brokers, agents, or other intermediaries, to allow them to participate in high quality risks, which they control.

Whatever the model or structure, captive insurance affords several benefits. Captives can make a parent's insurance operations more efficient and have the potential to significantly lower the insurance costs of their owners in a number of important ways, not to mention the potential financial returns from investing in own risk.

Captive insurance has a great potential in the MENA region for several reasons:

First the asset boom currently seen in the GCC region is creating large and growing amounts of physical assets commanding large insurance premiums, which provide an excellent backdrop for the growth of captive insurance.

Second, regional corporations are growing in sophistication as well as in size and complexity, which is creating a perfect environment for a more favourable reception of the captive concept.

Last, but not least, countries such as Bahrain, Dubai and Qatar have put in place sound regulatory captive insurance frameworks on a par with international captive domiciles and are more suitable to corporations based in the Middle East. The fact that none of the three domiciles imposes any tax on insurance premiums, or on the profits of the captive ensures that the parent's premium payments will be 100% transferred to the captive, and the captive's profits 100% retained or repatriated, offering an important value proposition to interested captive parents.

Captive Potential

The regional potential for captive insurance is very obvious. However, challenges exist at two different levels: market and individual corporation.

At a market wide level the lack of unified regional insurance laws and regulations means that large corporations will require fronting arrangements in each country where they have operations, to be able to bring all of their regional risks into the captive. This, in the long run, is a deterrent to the development of a vibrant captive insurance industry.

At an individual corporate level, the sustained run of healthy profits for the regional businesses means that insurance efficiencies have not received the proper attention from board rooms and executive management alike.

The challenges are not insurmountable though. Soon, hopefully, stories of success in this field will convince more regional corporations to explore this interesting risk management field in particular, as public listings and privatizations will exert added pressure on managements to derive value out of all aspects of operations, including insurance procurement.

• The views expressed in this article are not necessarily those of the CBB.



CBB green light for LIC expansion

The Central Bank of Bahrain (CBB) has granted permission to Bahrain-based Life Insurance Corporation International (LIC International) to expand the scope of its activities in Bahrain.

The permission allows LIC International to offer insurance services to all Bahrain residents and citizens, not just Indian nationals residing in Bahrain.

LIC International, established in Bahrain in 1989, is 98.9% owned by Indian insurance giant LIC of India, while the remaining 1.1% is held by its Bahrain's Intercol Group.

"We are delighted to support the expansion of the Bahrain operation of LIC International," said Mr. Tawfiq Shehab, Director, Insurance Supervision, at the CBB.

"LIC is a sterling company and the expansion of LIC International's activities

will be a value addition to the Bahrain market. It will also strengthen the range of life products offered in Bahrain."

The Bahrain operation is among LIC's most successful ones, according to Mr. D K Mehrotra, Managing Director of LIC.

LIC International reported a surplus of about BD4 million (US\$10.6 million) for 2005 and is expected to collect US\$30 million in premiums in 2006.

"LIC International will soon become a billion dollar company," he said during a visit to Bahrain.

"Our total investments have reached US\$325 million. The number of policies serviced by the company is more than 60,000, with the growth in the volume of sales touching 33% and growing."

LIC of India has a client base of 190 million people and an asset base of US\$130 billion.

Licence for Aman

The Central Bank of Bahrain (CBB) has granted a licence for the establishment of Aman Bahrain Insurance Company, with a paid-up capital of US\$20 million.

The main founders and shareholders of Aman Bahrain are Dubai Islamic Insurance and Reinsurance Company, Al Salam Bank Bahrain, Al Salam Bank Sudan and several other regional companies and businessmen.

"The Gulf region is witnessing unprecedented economic growth. In particular, the Bahrain market has been showing a high demand for Islamic insurance (takaful), as indicated by our feasibility studies," said Sultan Saeed Al Mansoori, Chairman of the Dubai Islamic Insurance and Reinsurance Company.

"This was the main reason that encouraged us to establish an Islamic insurance company in Bahrain."

Mr. Hussein Mohammed Al Meeza, Aman Managing Director, said Aman Bahrain would positively contribute to the development of the Islamic insurance industry in Bahrain.

"We will strive to provide the best possible insurance services to the fast-growing Bahrain economy. Aman wants to support this growth and will work hard to transfer its expertise and knowledge to this promising market."

BIA gets new board

The Bahrain Insurance Association (BIA) has elected Mr. Ashraf Adnan Bseisu as the new Chairman.

Mr. Ebrahim Sharif Al Rayes was elected Deputy Chairman, while newly elected committee heads include:- Mr. Yassir Al Baharna for Communications and Development, Mr. Yahya Nooruddin for the Motor Committee, Mr. Younis Jamal for the Life, Medical and Takaful Committee, Mr. Mahdi Al Aradi for the Property, Casualty and Marine Committee, and Mr. Fouad Abdullah Aziz for the Legal Affairs Committee.

Mr. Osama Saadeh was appointed Treasurer and Mr. Philip Dominic, Secretary.

Mr. Bseisu succeeds Mr. Sameer Al Wazzan, who was honoured for his long service and contribution to the BIA, at a recently held annual general meeting of the association.

Fact file

Regulator: Central Bank of Bahrain

Financial institutions: 387 (Feb 2006)

Financial sector workforce: 8,219 (2005)
Bahraini nationals 5,951 (72.4%)
Foreign nationals 2,268 (27.6%)

Key economic indicators:
GDP (constant prices) US\$9.3 billion (2005)
Growth 7.8%
Financial sector contribution to GDP 7.6%
Sovereign rating A (S&P 2006)
A- (Fitch 2006)
Population 724,645 (2005)

Banking Sector:
Assets US\$187.4 billion (Dec 2006)
No. of institutions 150
Retail banks 28
Locally incorporated 10
Branches of foreign banks 15
Wholesale banks 86
Representative Offices 36
Islamic Banks (included in above):
No. of banks 26
Assets US\$12.2 billion (Dec 2006)

Insurance Sector:
No. of firms 159
Domestic market
Gross premiums US\$251 million (2005)
No. of firms 28 (Feb 2006)
Locally incorporated 19
Branches of foreign firms 9
Exempt firms 58
Representative Offices 6
Captives 1
Brokers 33
Loss adjusters 9
Actuaries 14
Others 10

Takaful (Islamic insurance) Firms
(included in above)
No. of firms 13
Onshore 4
Exempt 9

Investment Business Firms:
No. of firms 29

Capital market:
Market capitalization US\$20.4 billion (Feb 2006)
Brokers 14
Listings
Companies 50
Mutual funds 35
Bonds 19

Specialised Licensees
No. of firms 35
Money Changers 18
Others 14

Funds Industry
Authorized Funds 2,064 (Sep 2006)
NAV US\$9.3 billion
Local Funds 93
NAV US\$3.7 billion
Conventional 56
Islamic 37
Foreign Funds 1,971