

The Bahrain Monetary Agency is set to release its regulatory insurance Rule Book in early 2005. This will be a culmination of more than 18 months research and development and aims to be the cornerstone that will establish the **Bahrain insurance industry** as a globally recognised market. Will the Rule Book meet expectations and how will the local industry cope?

Market potential

At the 45th Federation of Afro-Asian Insurers and Reinsurers (FAIR) Executive Committee Meeting and Forum held in Bahrain in September this year, the Bahrain Monetary Agency (BMA) once again strengthened its claim as the region's leading financial and insurance hub. BMA governor, Sheikh Ahmed bin Mohammed Al Khalifa, during his opening address at the event, said the country and the Agency would remain committed to the modernisation of the banking, financial and insurance sectors by providing an environment where such industries can prosper and grow.

The BMA has been instrumental in the development of the financial services industries, particularly insurance, in Bahrain since 2002 and continues to strive to create an infrastructure—both regulatory and physical—that is conducive to conducting local and international business. While the regulatory aspect of this progress is looking to be complete by early 2005, the physical aspect—the Bahrain International Insurance Centre, to be housed within Bahrain Financial Harbour—is planned for completion in 2006. Once these two cornerstones are achieved, Bahrain will be in a position to provide all the necessary services and facilities that will allow it to compete and operate on an international level. The success of each of these goals however, is reliant upon one another.

BIIC breakthrough

The landmark building that will house the Bahrain International Insurance Centre (BIIC) will provide state-of-the-art facilities for providers of insurance, reinsurance and ancillary services, but for these entities to work smoothly and unhindered, the new regulatory rule book needs to be in place and comprehensively enforced. Without that regulatory framework in place and being accepted on an international platform, it is unlikely that global companies will be comfortable conducting business from the location. But with the emphasis and importance that the BMA is placing on both projects it is likely that both the physical and written infrastructure will complement each other well. Certainly the local insurance industry is supportive of the development and can see the potential that the plans will bring to the region.

“The Bahrain International Insurance Centre needs to attract expertise and insurance service companies—consultants, risk managers, actuaries, captives, etc—to the island. This is really what is missing over here rather than new risk carriers (underwriters). The Centre should

become a regional hub that is able to service not just Bahrain but also the Gulf and MENA region,” says Yassir Al Baharna, general manager, reinsurance at the Arab Insurance Group (ARIG).

It is the view of Gopi Rao, general manager at Bahrain Kuwait Insurance Company (BKIC), that the benefits of BIIC to the local market are not entirely clear-cut but, if the BIIC is able to entice international entities as mentioned by Al Baharna, it is likely to have a positive affect on the local industry.

“It is difficult to assess to what extent the Bahrain International Insurance Centre will benefit the insurance market in Bahrain. It would depend to a large extent on the types of organisations that would be a part of BIIC. If major reinsurers are attracted to set up regional underwriting activities in the Centre, this would give the local insurance market easier access to capacity and technical guidance,” he says.

Giving the BIIC further structure has resulted in the decision recently taken by the BMA to appoint Stratum WLL, the Bahrain-based investment advisory firm, to serve as strategic project manager for the Centre. The intention is for Stratum to work closely with the Bahrain Financial Harbour and a global network of industry professionals in order to engage local, regional and international participants from across the insurance sector. And, judging by recent developments, the partnership is already proving fruitful. In September the BMA granted a licence to global insurance and consulting company, Aon Corporation to establish Aon Re Middle East, an insurance brokerage firm in Bahrain and it also issued a licence to a group of



Captive capabilities

The establishment of the Bahrain International Insurance Centre within the Bahrain Financial Harbour has opened up numerous opportunities for various insurance entities and service providers. One such service is that of captive insurance companies and with the creation of Ensuriion, the region's first captive management company, there are obviously clear intentions for such entities to become a prominent part of the Bahrain insurance framework. But just what affect would captives have on the market in general.

"The question of whether captives will change the framework of the Bahrain insurance market merits a two part answer," says Gopi Rao general manager at Bahrain Kuwait Insurance Company. "If captives that are formed and based in Bahrain happen to be captives of multi-national or regional industrial parents then it is unlikely that there will be any direct impact on the Bahrain insurance market since, effectively, offshore business will be transacted by these entities.

"On the other hand, if local industries decide to form captives then there is likely to be considerable impact on the Bahrain insurance market. Here again, it would be necessary to look at the Bahrain insurance market separately as regards local companies transacting purely local business and Bahrain based reinsurers. While captives of Bahrain based industries might negatively impact local companies they may well contribute positively to reinsurers based here," he says.

However, Udo Krueger CEO of Arab Insurance Group, feels that it could be a long time coming before captives in the Middle East really take off. "Surveys show that those who

have used captives during the recent past have enjoyed a high success rate. In times of hard reinsurance markets captives help to manage capital more efficiently and to maintain greater control over losses. Once markets soften clients usually return to conventional insurance/reinsurance solutions in order to benefit from competitive pressures. That is why the ratio between active



Udo Krueger

and dormant captives fluctuates considerably over time. At the onset of a softer market cycle it might be difficult to attract clients and convince them of the benefits of captives and outsourced captive management.

"Furthermore and for various reasons, clients seem to favour established captive markets when deciding on an appropriate domicile. In this regard all financial centres in the Middle East still need to improve their public relations initiatives in order to provide viable and convincing business proposals."

There is little doubt that Bahrain is putting in place the necessary foundations and services to provide the ideal environment for captive companies but it will be interesting to see just how quickly a return is seen on such investment and development. ■

corporates and investors from Saudi Arabia to establish CareCard Insurance Company, a group health insurance provider. Once established and when the BIIC is complete, CareCard will be relocated to the Centre.

Such progress is encouraging and will certainly increase industry confidence and awareness, particularly when these decisions have succeeded other equally noteworthy events. For example, the establishment of the region's first captive insurance management company was also a landmark moment. Ensuriion—which was granted its licence in July this year—once again saw Stratum in the headlines, creating as they did, the management company with a capital level of US\$2–5 million. The move highlighted further the expectations and the belief that is pinned on the insurance sector's ability to reach out to and fulfill international and regional demands (see Captive capabilities).

Local outlook

But while Bahrain continues its progress in marketing and developing itself into an international financial hub, what have been the developments within the local insurance market? By all accounts, the outlook is similar to that of the national forecast—strong and positive.

The 2003 BMA Annual Report showed encouraging figures for the 21 insurance companies now operating in Bahrain. The 12 national companies and nine branches of foreign companies carrying out direct insurance business in Bahrain reported total premiums of BD79 million (US\$209.3 million) for 2003, compared with BD68 million (US\$108.2 million) in the previous year.

The total volume of general insurance premiums was BD62 million in 2003, compared with BD53.7 million (US\$142.3 million) in 2002, an increase of 15.4 per cent. General insurance accounted for 78.5 per cent of total premiums, while gross claims from this sector rose from BD26.8 million (US\$71 million) in 2002 to BD29 million (US\$76.8 million) in 2003.

The total volume for life insurance in 2003 also saw an increase, rising from BD14.3 million (US\$37.9 million) in 2002 to BD17 million (US\$45 million) in 2003. Gross claims for the sector also increased from BD6.5 million (US\$17.2 million) in 2002 to BD7.5 million (US\$19.9 million) in 2003. Despite the increase in gross premiums and gross claims in 2003 the net premiums (BD6 million (US\$15.9 million)) and claims (BD3.4 million (US\$9 million)) for life insurance remained unchanged for 2002 and 2003.

And the reinsurance sector also saw growth. "There has been an organic growth within the traditional non-life reinsurance book written by ARIG over the past 12 months," says Yassir Al Baharna. "In some instances, this was a reflection of an increase in original rates, in others it was an increase in the percentage shares accepted. ARIG concentrated on profitable lines business and client selection, even at the expense of reducing its premium base. Going forward, our intention is to consolidate our market position and target new growth opportunities in life reinsurance and retakaful."

The life and specifically medical lines of business are areas that are still causing much interest but, similar to other GCC nations, there has been more talk than action. This however, could be about to change in Bahrain since the intervention of Prime Minister Sheikh Khalifa bin Salman Al Khalifa who has recently enquired about the progress on the health insurance system for non-Bahrainis and entrusted the Ministry of Health and the Ministry of Finance and National Economy to coordinate on the matter and to submit a report to the Ministerial Committee for Financial and Economic Affairs.

"The subject of health insurance for non-Bahrainis has been discussed for some time now. Clearly, the fact that HH The Prime Minister has now mentioned the subject, there will be a greater sense of urgency in ►►



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Yassir Al Baharna, Arig

working out the details,” says Gopi Rao. “Till details are known, it will be difficult to assess whether the scheme will give all private sector insurers a role to play and also as to what extent the scheme will be a positive step from the point of view of insurers.

“Quite apart from any proposed scheme for non-Bahrainis there is a general increase in awareness of health insurance and to that extent growth is expected in this area,” he says.

Al Baharna at Arig agrees with this scope for potential. “Bahrain, much like its neighbouring GCC countries, has been discussing the reform of its health insurance system for a while now,” he says. “There were a number of studies conducted and I believe there is now, as a Government policy, a clear mandate for implementation. The potential for health insurance is enormous and it is certainly going to be a class of business that will witness considerable development in the near future, much akin to compulsory motor insurance.”

Service history

The development of compulsory motor insurance, as mentioned by Al Baharna, is still a line of business that can achieve better results, but this could be dependent on the provision of better services to the insureds. Motor insurance provides the largest total of gross premiums in Bahrain but similarly it also has the highest gross claim figure.

“Motor insurance has been a thorny issue in the local scene,” says Al Baharna. “On the one hand, there is a public outcry to ‘control’ premium charged and on the other, insurance

companies cannot continue to subsidise losses.

“The BMA has been in a constant dialogue with the insurance industry and the Bahrain Insurance Association to find an amicable solution. I am glad to note that considerable progress has been made which will provide insurance companies more flexibility in rating, yet not penalising those insured who have a favourable claims experience record,” he says.

Providing improved rates for good drivers while punishing the bad is a recognised system throughout the world but it is not just a matter of rates that is important to the improvement of this line. For example, National Bank of Bahrain and Bahrain National Insurance Company recently launched Ta’ameen Alwatani, a comprehensive motor insurance service at the bank’s main branch in Manama. The new product is the first bancassurance service to be launched and will give motorists the opportunity to pay for their insurance in up to six instalments, something not previously available. Such options go a long way to improving the way the public view a product.

Banking on it

The utilisation of banking institutes as a distribution channel is still a relatively underdeveloped sector of the market, although more and more companies are moving towards this arrangement for certain products. The benefits it can bring both insurer and insured are numerous but, as mentioned, the product and the service must be tailored in the correct manner to reach full potential. But certain companies are achieving their goals through this system.

“Our relationship with the Bank of Bahrain and Kuwait (BBK) is developing very positively,” says Gopi Rao at BKIC. “We are currently marketing motor insurance policies and homeowner’s insurance policies under the Secura brand name. Awareness of the bancassurance programme has spread over the past four years that we have been conducting this business and we are now planning to expand the range of policies to other classes of insurance.”

Taking action

The positive growth of bancassurance mirrors the general steady growth of insurance throughout Bahrain but there is still work to be done. There

are aspects of the industry that need addressing but, unlike some neighbouring countries, Bahrain is quicker to recognise these aspects and take action than most. The Consultation Papers that have been issued by the BMA over the past 18 months have been comprehensive in their topics but it will not be until the actual Rule Book is issued in 2005 that the industry will establish whether the whole process has been successful.

Gross premiums & claims of companies operating in Bahrain (Motor)

	Gross Premiums		Retained Premiums		Gross Claims		Net Claims	
	2002	2003	2002	2003	2002	2003	2002	2003
National Companies								
Bahrain National Insurance Co	5,394	6,391	5,160	6,144	4,739	5,657	3,546	4,092
Bahrain National Life Assurance Co	0	0	0	0	0	0	0	0
Bahrain Kuwait Ins Co	2,341	2,899	1,817	2,172	1,683	2,079	1,247	1,580
Al Ahlia Insurance Company	1,370	1,477	1,291	1,407	804	734	726	708
United Insurance Company	2,515	2,949	2,139	2,510	609	587	556	487
Takaful International Ins.Co.	1,554	1,910	1,444	1,689	1,501	1,695	941	1,059
Norwich Union Ins.(Gulf)Co.	1,535	1,864	1,497	1,803	903	961	903	961
Gulf Union Ins.&Reins.Co.	6,266	7,585	2,980	4,259	5,094	5,822	1,920	2,977
SUB -TOTAL	20,975	25,075	16,328	19,984	15,333	17,535	9,839	11,864
Foreign Companies								
American Life Insurance Co.	0	0	0	0	0	0	0	0
New India Insurance Co.	961	1,271	961	1,271	455	883	454	883
Arabia Insurance Company	854	882	834	827	823	706	797	692
Iran Insurance Company	1,495	1,660	1,495	1,660	946	1,169	946	1,169
Royal & Sun Alliance *	679	733	4	0	561	337	286	0
AXA Insurance Company **	170	0	164	0	350	175	350	175
Al-Nisr Insurance Co.	553	828	553	827	562	674	562	666
Royal Exchange In.Co.**	0	0	0	0	0	153	0	153
Zurich International Life Ltd.	0	0	0	0	0	0	0	0
SUB -TOTAL	4,712	5,374	4,011	4,585	3,697	4,097	3,395	3,738
GRAND TOTAL	25,687	30,449	20,339	24,569	19,030	21,632	13,234	15,602

*Royal & Sun Alliance Company Superseded Northern Insurance Company on 1/1/2003
**Under Liquidation

Gross premiums & claims of Bahrain local insurance market (By class share)

(BD '000)

	Gross premiums				Gross claims			
	2002	Relative Share %	2003	Relative Share %	2002	Relative Share %	2003	Relative Share %
General	53,706	78.9	61,987	78.5	26,755	80.5	28,898	79.3
Fire	13,018	19.1	13,924	17.6	3,889	11.7	3,052	8.4
Marine	4,518	6.6	4,973	6.3	628	1.9	367	1.0
Motor	25,687	37.8	30,449	38.6	19,030	57.3	21,632	59.4
Miscellaneous	10,483	15.4	12,641	16.0	3,208	9.6	3,847	10.5
Life	14,331	21.1	17,013	21.5	6,482	19.5	7,522	20.7
Total	68,037	100.0	79,000	100.0	33,237	100.0	36,420	100.0

it was also pointed out that customer-driven retail insurance would likely enhance competition. It has been pointed out that certain companies are in a better position than others when it

"The consultation papers put out by BMA are very comprehensive and the step-by-step approach is commendable," says Gopi Rao. "We are all looking forward to the publication of the Rule Book which will be the culmination of the consultation process."

But it has been a drawn out process that may still leave certain issues untouched.

"There have been a number of consultation papers issued by the BMA recently, which in my opinion are rather exhaustive," says Yassir Al Baharna. "The insurance market in Bahrain needs time to study these and absorb their full ramifications. There is always scope for additional regulations, but a balance needs to be created between what is essential (in the short-term) and what is optimum (in the long-term)."

Certain aspects of the industry however, cannot be rectified or guaranteed through the provision of the Rule Book. As with many insurance companies operating throughout the Middle East, to rectify certain issues there needs to be a fundamental rethink within the framework of companies.

"A number of Arab insurance companies have—for the right or the wrong reasons—established a reputation of being more of a broker rather than a risk taker willing to expose capital," says Udo Krueger, CEO of ARIG. "An increase in capital requirements as enforced by a number of regulators in the region, significantly reduced reinsurance commissions and the request from international reinsurance companies to increase retention levels will ultimately force these companies to expose more of their capital."

"Undoubtedly only companies with a solid understanding and assessment of the underlying risks will be able to benefit from such a development. Some of them will have to improve their underwriting competence. And because underwriting competence is a combination of training, skills and experience, which only comes over time, we will probably see in the short term a stronger involvement of expatriate staff in this process."

In Arig's AIM report issued earlier this year

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Gopi Rao, BKIC

comes to company foundations, so how will the market react to this potential increased competition?

"Companies that have already reached a good ranking in their markets obviously have an advantage," says Krueger. "As long as they listen to and understand the requirements of their clients they should also be able to react appropriately. Complacency however would be a recipe for failure."

"But usually they already have access to the resources required, they have established reinsurance channels and they have critical mass. A newcomer however will have to secure such a business basis first—unless he manages to successfully occupy a niche market, provide innovative and new products or exploit new and cost-efficient distribution channels."

Continued improvement

Despite the obstacles, established companies in Bahrain are confident of a continued improvement. Outside influences will of course have their input, but for companies currently operating, the key objective will be to get their core basics in place and concentrate on providing a service that will continue to entice the general population.

"Over the next 12 months it is likely that we will see some contradictory trends in insurance growth," says Gopi Rao. "On the local level it is expected that there will continue to be construction projects and general improvement in the economy which will lead to premium growth for insurers. It is also likely that major industrial risks and business that is internationally rated will see some reduction in premium due to softening of the international insurance market."

"The overall growth of insurance business in Bahrain will therefore depend on whether additional premium generated from local economic factors outweighs the fall in premium due to international market considerations," he says.

From an international perspective, the role of the reinsurer will be of paramount importance. As Udo Krueger believes, reinsurance rates look to remain the same in 2005 and Middle Eastern insurers will have to be prepared for this.

"During the recent Monte Carlo Rendez-Vous there seemed to be a consensus that reinsurance terms and conditions will be maintained on the same level as for the 2004 renewals," says Krueger. "Furthermore there was agreement that reinsurance companies will continue to be more selective in providing capacity only to insurance companies that provide an adequate return over time. And in such a scenario, Middle Eastern insurance markets will not enjoy a strategic significance for most of the top international reinsurance companies. But at the same time we expect to witness continued growth in our core markets which will be significantly over and above the world average. For ARIG it means that we need to continuously increase our ability to service our clients appropriately—with capacity, products and expertise."

Focusing on improving such abilities would be sensible for any current industry player and will no doubt become imperative once the new Rule Book is enforced. ■