

For the Insurance Industry in Bahrain

## PROMOTING BAHRAIN'S INSURANCE INDUSTRY

The Bahrain Insurance Association (BIA) is the leading insurance trade organization in the Kingdom of Bahrain, representing over 50 insurers. BIA members comprise of local & foreign insurance companies, reinsurers, brokers and service providers.

BIA's roots go back more than 16 years, when it received its Charter in 1993 and became operational as a Society in 1994 under the umbrella of the Ministry of Social Affairs. BIA is proud to be the first financial service industry association, to be reincorporated under Central Bank of Bahrain, with registration number (1).

Chairman of BIA, Mr. Ashraf Bsiesu discusses in brief "BIA is very proud of its history and tradition of leadership, but our strength lies in our ability to look

towards the future and lead the insurance industry in an era of rapid change. The association leads by:

- Forging constructive solutions to industry issues.
- Listen to opinions and ideas of our members, consumers, regulators and business leaders.

Then we build a consensus by formulating the best of what the insurance industry needs to remain sound and what consumers need via insurance protection".

BIA's strategic objective is to promote Bahrain as a Regional Insurance Centre. BIA offers a range of services to its members and the insurance industry as a whole.

- Promoting and fostering public

awareness of the insurance industry throughout Bahrain.

- Interfacing with CBB and other authorities and bodies in other industries to represent their members' interest across the board.
- Delivering sound, ethical and professional standards within the insurance industry.
- Seeking to raise the insurance industry service bar and continue to maintain international standards. This is achieved by promoting education and training and improving the overall technical skills within the industry.
- Facilitating the exchange of information and statistics and resolve issues on specific and non-competitive developments which affect the insurance industry.

### BIA'S OBJECTIVES:

The Association seeks to achieve the following objectives:

- Interfacing with the Central Bank of Bahrain and other appropriate authorities and bodies in other industries to represent members' interests.
- Promoting the insurance industry and fostering public awareness in Bahrain.
- Promoting sound, ethical and professional standards within the insurance industry.
- Facilitating exchange of information and statistics and the resolution of issues on specific and non-competitive developments impacting the insurance industry.
- Promoting education and training and improving the technical skills within the insurance industry.
- Promoting Bahrain as a regional insurance centre.

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## BIA Board of Directors

Mr Ashraf Bseisu	Chairman
Mr Yassir Albaharna	Deputy Chairman
Mr Stephen J. Wagstaff	Secretary
Mr Waleed Mahmood	Treasurer
Mr Fouad Abdulla Aziz	Director
Mr Tawfiq Shehab	Director
Mr Fadi N. Khatib	Director
Mr Essam M. Al Ansari	Director
Mr Fathalla Ebrahim	Director

### BIA HAS A RANGE OF ACTIVITIES FOR ITS MEMBERS, INCLUDING:

- Invitation for elected representative to AGM/EGM meetings
- Information and updates about new developments in the insurance sector
- Representation and promotion of interests of the insurance industry
- Supporting the industry in Bahrain and the industry interests
- Access to information of insurance events/conferences happening in the region with preferred participation for member companies
- Continued education through workshops, conferences and/or debate sessions
- Invitation to attend receptions and opening ceremonies of all industry related events
- Access to all BIA's specialized sub-committees to raise and discuss relevant market issues
- Priority circulation and access to CBB and relevant market reports and circulars
- Access to BIA's office for any related assistance or query
- Priority circulation of all related circulars, news bulletins, etc from above bodies
- Invitation to periodic market meetings/presentations on relevant market issues and developments
- Invitation to the Annual Financial Services Industry Gala Dinner held under the Patronage of H.H. the Crown Prince
- Access to business contacts and networking opportunities
- Searchable directory of BIA members, which potential clients can use to find a service provider

# THE GLOBAL CRISIS

## and its affect on the insurance industry and investment strategy

Once the bubble burst, giants like Lehman Brothers perished, and the situation could have been much worse, if it were not for the ICU treatments, which most governments put in place.

The financial crisis may be a banking crisis; nonetheless, insurance companies have also been affected. As C.A. Gopalakrishnan, Head of Finance and Investments at Bahrain National Holdings explains, "the theory of back to basics has come back. All operations have been streamlined, looking into each and every aspect of business, until confidence improves in the market, the market will remain volatile."

The exposure of most insurance companies to the significant deterioration in global financial markets has been primarily through their investment portfolios. Mr Gopalakrishnan says, "worldwide and in the GCC, the insurance industry relied heavily on the investment income in the



The global economy has seen an exciting run for the last few years. All signs were positive, but fundamentals were forgotten. A combination of over leveraging and over enthusiasm drove the market; this blind optimism had a serious affect on the economy.

past. Due to the crisis, this has changed to a concentration on fundamentals and underwriting operations. Companies now hesitate to take serious risks in investments and are content with nominal returns."

Insurance companies overall tend to have widely diversified portfolios and to focus on high-quality investments; thus they were able to weather the storm, being relatively well protected initially during the period of financial turbulence, when asset value declines were concentrated in lower-quality and higher-risk assets.

In closing, Mr Gopalakrishnan points out, "because of the crisis, developed nations are now in recession and no serious growth is expected in the near future. Countries with internal consumption and growing populations are striking a more positive note, such as Brazil, Russia, India and China. These countries and the GCC have proven that sensible investments are the way forward. In the long-term, investments need to be diversified, there has to be more discipline implemented and a solid consistency will reduce risks and make more returns."



# EDUCATION THROUGH ART

Transforming the Insurance Industry one drawing at a time

Cartoon characters are quite possibly the most powerful and versatile marketing tools ever invented. A mascot speaking for a company or industry can impart vital knowledge otherwise missed to the general public or a specific audience.

In this issue, **In Brief** discusses the Taamina character created by Khalid Al Hashimi.

Mr Al Hashimi is an architect by profession and currently is the Assistant General Manager for Durrat Al Bahrain Company.

Coming from an artistic family, Mr Al Hashimi has been interested in art since he was a child. He believes that cartoons "help convey messages and record moments in an interesting and unique way." His first cartoon was published in 1989 and went on to become a daily cartoon for almost more than ten years in different newspapers.

In 2005, upon the request from Central Bank of Bahrain, Mr Al Hashimi developed and created Taamina as a voice to the insurance industry. The name (Taamina) is derived from 'Tamin' meaning insurance in Arabic and 'Amina' a traditional girl's name in Arabic meaning honest, a perfect marriage as the foundation for a character that needs to speak for the whole industry.

To lighten a heavy topic, Taamina bridges the gap between insurance professionals and the general public. The friendly character that targets all age groups was created to educate the new generation on issues within the insurance industry and is in the shape of a butterfly, which inspired Mr Al Hashimi for its energy, zeal for life and inspiring colours.

As In Brief speaks to Mr Al Hashimi about Taamina, he expresses "Taamina has a responsibility to the general public. I aim to take it to a national level for awareness campaigns. Insurance is vital to our future, and Taamina can become part of

**"By using a character, it gives the public a fresh look, conveying a message with a difference. Taamina can be used as a vehicle, which can educate and direct us towards a better society."**

corporations' corporate social responsibility. Encouraging the public to work in securing a better living environment both financially and physically by working also to protect the environment, help the elderly and other programmes that tie into insurance directly and indirectly.

Mr Al Hashimi goes on to explain, "by using a character, it gives the public a fresh look, conveying a message with a difference. Taamina can be used as a vehicle, which can educate and direct us towards a better society."

Looking to the future, Mr Al Hashimi would like to give Taamina a voice, propelling the character onto a national scale and then eventually taking it

beyond borders to both the GCC and the Arab world. Needless to say such an ambitious project needs serious effort and support by all concerned parties in the insurance industry to make Taamina a living creature in our daily life.





**In Brief** talks with Mr Tawfiq Shehab ACII, General Manager of Al Ahlia Insurance about the motor insurance sector.

## UNDERSTANDING MOTOR INSURANCE

### How has competition affected the motor insurance sector?

Competition is fierce in this market, there are new companies and new players in the market, all looking to get their market share. This is an easy sector, and the best way to get a slice of the pie is to cut the pricing. By doing this, it puts pressure on the quality of service, which can be dangerous. Reducing rates is an unhealthy practice.

### Should compulsory TPL tariff continue?

Rates should be realistic. Either float or change should be based on experience. The tariffs need to be reviewed periodically. The cost of claims sometimes gets to be enormous.

### How would you approach a motor insurance dispute?

We try as much as possible to settle them amicably. Unfortunately, if an agreement cannot be made, we then have to go into litigation, but this is always a last resort.

### What was the strangest claim you have come across? What was the largest?

A third party customer claimed that his rear windshield was bent because of the accident! That was the strangest claim. In Ahlia – the largest claim we had was

of a bus accident, which had passengers. The personal injuries that were claimed was to the tune of BD 170,000!

### How do you set up claim reserves?

We assess the traffic damage report and examine the car in terms of the make, year of manufacture and the service history. But this alone is not viable, after a full inspection, we then rectify the amount after our surveyor inspects the vehicle. Then the claim reserve is amended accordingly.

### What has been your practice in: depreciation, replacement, value, warranties and the like?

The basic principal of insurance – to put it back in the same position it was in. If the car is ten years old – then we are not bound to make it new! Make it to the original quality. If the repair is not economical, we will then replace the parts. Then the company pays the sum insured.

### What does the future look like for the motor insurance sector? Any changes expected in the industry?

The current trend is to lower rates, they have been streamlined to be affordable and sustain good service. The number of vehicles on the road is increasing, so there is expected to be growth in the auto industry.

### View on recent constitutional court case?

Insurance companies are now liable for any personal injury or death to the driver AND his wife and minor children. Previously the compensation was only to the driver. This puts added pressure on the insurance companies and the tariff that is paid out does not really cover the whole family, so it is hard to justify this.

### What is your view on unlimited motor liability?

The law states that property damage is up to BD500,000 and is unlimited when it deals with personal injury or death. If you look at the statistics, the maximum claim is much less than that. Therefore, this should be limited. The statistics need to be evaluated and the decision made based on that.





# YASSIR ALBAHARNA



This issue's resident expert is Yassir Albaharna, CEO of Arig. Mr Albaharna has been serving as CEO since April 2006 and has been with Arig since 1987. He is also a member in the Boards of the International Insurance Society, Bahrain Insurance Association, the Specific Council for Vocational Training - Banking Sector and the Human Resources Development Fund - Banking & Financial Sector in Bahrain.

With a wealth of in-depth knowledge on the sector, Mr Albaharna surmises that "the insurance industry of the MENA region is set on a course for dynamic growth and development. Although the market is currently fragmented with many small companies, it has expanded significantly on the back of strong economic growth and growing wealth, and more and more foreign players are being lured to the region."

## Has the financial crisis created any opportunities for Arig?

Failures of some of the global institutions such as AIG, difficulties by larger global reinsurers following unwise diversifications and the constant spectre of subprime mortgages and other toxic investments, have resulted in many insurers wishing to diversify their reinsurance portfolios. There is no doubt that with Arig's conservative investment strategies (which have protected us from the worst investments such as subprime

mortgages) and its part Government ownership, have given our customers the confidence to increase our shares at the expense of some of the larger competitors. This proved to be good for Arig. It is also positive for the insurance industry of the region as a whole, as more and more of the insurance risks are being retained within the region.

## Are there any lines of business that have performed particularly well over the last year, or any that have been worse-affected by the financial crisis?

2009 has been a good year from an underwriting perspective. At Arig, we have recorded a strong positive underwriting result in 2009. Interestingly, the financial uncertainty is enabling us to highlight our core strengths to clients more effectively. This demonstrates that Arig has a broad ranging portfolio which is able to weather even the most extreme financial conditions.

Non-life classes produced a robust combined ratio of 98.5% This has meant that Arig has been able to improve

its underwriting results despite the financial crisis.

Over recent years, Arig has diversified its portfolio, especially into Life and Health. We have been adopting prudent risk management techniques using highly respected consultants and actuaries. This has placed Arig in a rather strong position in terms of our risk appetite, pricing methodologies and capital strength.

### Are there any lines of business that Arig plans to write more/less this year?

Personal Lines (i.e. Life and Medical), which currently represent a good proportion of Arig's total premium income have been earmarked for further growth than other "traditional" lines of business. Obviously, following the purchase of Scottish Re's Middle East Life portfolio, Arig is determined to position itself within the Life arena. Opportunities therein are not just within group Life business, but also we are seeing encouraging signs of strong development in individual and bancassurance markets. The imminent reform of healthcare in the region and the introduction of compulsory Medical insurance are definitely going to be a spur to the industry.

As regards Non-Life business, Property is our primary line. Engineering represents a good opportunity with all the real estate and mega construction projects happening in the region, albeit some have been re-scheduled due to the crisis.

### How has the introduction of compulsory motor and health insurance in GCC countries affected Arig's business?

We have witnessed continued significant growth in Health insurance and Motor insurance on the back of the developments in compulsory legislation in many of the countries in the region. Our current focus is to leverage Medical insurance and to review motor

opportunities in the GCC region. However, as in any market in a significant growth phase, Arig's development is cautious and controlled.

### How does the regulatory environment in Bahrain compare to other countries in the region?

There is substantial effort being put into insurance regulation all over the MENA region, resulting in more order and much needed professionalism coming into an industry that appears all set to record good growth over the medium term.

The regulatory authorities in the GCC are taking serious steps to regulate the insurance market. They have also demonstrated commitment to adopting international best practices. In Bahrain for instance, the CBB is boasted as setting a first class regulatory framework uniquely in the region, and has also established a legal framework for captive insurance as well as Takaful operators. The CBB is a strong and proactive regulator that frequently consults with the local industry. All this has seemingly attracted many serious players to the island.

### Where does Arig write business at present?

Geographical expansion is an important risk diversification tool for any reinsurance company. At Arig, we already service the most dynamic economies of today throughout Afro-Asia. We have a physical presence in Asia through our branches in Singapore and Labuan (Malaysia) and in Africa through our representative office in Mauritius.

In 2009, our biggest markets for non Life business are Saudi Arabia, Turkey and UAE and for Life Kuwait, UAE and Oman.

India presents new opportunities to Arig, as does the Sub-Sahara region. Arig has also started writing business in Azerbaijan, which represents another target area within CIS.

### How has the pricing environment changed over the last year?

Arig has not changed its pricing philosophy in the last 12 months, even following the recent financial crisis. We have been adopting prudent underwriting practices for a number of years that have improved underwriting results, even in the soft market. As the market is now hardening, Arig is already ahead of the curve in terms of its approach on terms and conditions. Our pricing strategy has remained sound, regardless of the prevailing economic conditions and we remain in a strong position.

### How do you expect MENA insurance markets to develop in the near-term?

The global downturn will without doubt affect insurance and reinsurance, internationally and within the region. Insurers and reinsurers will have to rely less on investment returns and must therefore concentrate on their core principle of generating profit from underwriting results.

We should expect that more adequate product pricing will lead to better risk returns in the mid-term, similar to what was experienced after the market crunch following the 9/11 events. 2009 was a difficult year, but it will be remembered as one where the industry returned to core insurance disciplines.

At Arig over recent years, we have been strengthening our underwriting teams, practices and discipline successfully even within soft markets. This should position us well to remain successful through these difficult times and come out even stronger. We are continuing with our three pronged strategy of sound underwriting discipline, coupled with the use of corporate risk management tools and a strong corporate governance ethos/culture.

## INSURANCE

## JOSEPH M. RIZZO

Joseph Rizzo, General Manager at BNI shares his views on the insurance industry. Mr Rizzo is an Associate of the Chartered Insurance Institute and a Chartered Insurer with more than 28 years experience in insurance and reinsurance.

The insurance sector is said to be the most resilient of all the components of the financial sectors. Its business is the evaluation of risks on a daily basis and therefore should demonstrate a very prudent approach to its exposures and concentrations thereof.

I believe that all of us agree that insurers have emerged relatively unscathed from the fiscal fallout, or so it seems. It is true that, with the exception of one large international insurer, we have not seen any casualties amongst risk takers. However, we cannot fall into the trap of being complacent as we all know that insurers, especially those with limited market and limited spread, have seen a decline in business from construction projects being delayed or deferred, decrease of consumer activity which effected imports and exports and clients' restrictive budgets coupled with new entrants in the market which continued to bring down prices to substandard levels.

In the introduction speeches of the last MEIF conference a lot was said about the low prices, excess reinsurance capacity and excessive competition due to new players coming into the market. Although the solutions put forward varied, all agreed on one point that this trend is unsustainable. There was the suggestion of raising the barriers for entry and at the same time it was being recommended that there should be cross border insurance activity and more freedom of establishment in the GCC region. In these instances the blame was being put on the international reinsurers for providing this capacity and on the regulator for allowing too many competitors. It is also time that the market players have to look inwardly and examine what they themselves are actually doing. It might be due to excessive pressure from their shareholders to service the



Profitability is only achieved and sustained only if the market finds the right equilibrium. Top-line or cash flow underwriting will only serve to reduce prices and destabilize market forces.

capital or maybe the wrong focus on top-line figures only. The time has come for us to do what we preach. It was recommendations for the local players to increase their retentions instead of acting as intermediaries that was refreshing to hear. The sector will grow stronger by maintaining premiums within the local economy as much as is feasible. It is ploughing back profits into the company to make it stronger and more resistant to future threats and not the payment of excessive dividends. Insurance is a long term steady investment. Let us take what happened to the banking sector as a wake up call for our industry and evaluate these areas of common interest.

Profitability is only achieved and sustained only if the market finds the right equilibrium. Top-line or cash flow underwriting will only serve to reduce prices and destabilize market forces. The concept of local facultative reinsurance as opposed to co-insurance also contributes to excessive price reductions as companies compete to write the business and declare 100% of the risk in their gross premiums written but then only retain a fraction. On the other hand the model of co-insurance does not create this pressure as each insurer will declare their respective share of the gross premium and therefore eliminates the urge to cut the price to win the account. Who leads will be dictated by capacity of the insurers participating. Also local facultative inward placements and 100%

fronting tend to distort market figures and statistics.

Instead of raising the barriers to trade I would recommend that implementation of regulations are effected promptly. We have to ensure that regulations are not subject to interpretation and that the terms of trade are clearly defined. Regulations should not differentiate to the extent of creating a different level playing fields for insurance providers. We need to review our industry's accounting standards and solvency requirements in line with the changing economic environment. We need to consider risk based capital and the vast exposures keeping in mind the high values at risk and concentrations we have in the region when compared to the premiums that are being charged. Let us be proactive and not wait for the bang as we might have problems surviving the next fallout. In other countries insurers contribute to an insolvency fund to protect the consumer in the event that an insurance company becomes insolvent. This is the serious approach we have to take as an industry as this will make us stand out and be different. The CBB as the regulator of the insurance industry has come a long way to the extent that it is defined as exemplary in the region. It is now up to the insurance industry to suggest and discuss with the regulator issues that protect the development of the sector and ensure that it continues to be resilient to secure the future.

## MIDDLE EAST INSURANCE MEDICINE FORUM (MIEMF)



Dr. Dennis Sebastian, Chairman of the Medical Committee of the BIA introduces the Middle East Insurance Medicine Forum (MIEMF) to In Brief and talks about why this new forum will benefit the medical insurance industry in the Kingdom.

### How did the idea for the MIEMF initially begin?

Due to the growth of medically qualified personnel such as Doctors; Dentists; Nurses; Pharmacists and Allied Medical professionals, of which there are about 75 professionals working in this industry, we felt the need for an organised environment. The aim was to interact and learn from experts in the same industry, and to set up an additional identity as Insurance Medicine Specialists.

### Was there a need for it in the market?

The market, in particular the regulators and service providers now will have a specific body to whom they can address their medical issues and not administrative, related to medical insurance within the country. This will result in better dialogue and cooperation between the insurers and the service providers, besides it could also result in better mutually agreed practices and policy making.

### Who will be involved?

As it is a Sub Committee of the Medical Committee of the BIA, besides myself, other committee members appointed as coordinators are Dr. Essam Ali; Dr. Azhar Khateeb and Dr. Shabana Shahid.

### Could you tell us about the MIEMF?

The MEIMF will be a sub-committee under the Parent Medical Committee of BIA. The vision of MEIMF is to:

1. Be an active sub-committee under the BIA Medical Committee, ensuring better awareness and cooperation within the Medical Insurance Industry of Bahrain.
2. Be recognised, both by the private and public sector, as a point of reference for all matters related to Medical Insurance related issues and developments in Bahrain.
3. Expand to be a regional forum with members from Medical Insurance providers across the GCC.
4. Be the pioneer in propagating Insurance Medicine as a concept in the Middle East.

The objectives of MEIMF are:

- To learn and advance on the science of medicine as applied to insurance.
- To be a forum for sharing; networking; learning and cooperation between the medical professionals of the insurance industry.
- To be a reference point within Bahrain for all technical (medical) aspects related to health insurance, both for the consumer and public sector organisations.

Membership is open to Doctors; Nurses; Pharmacists; Dentists; Allied Medical and membership fees is nil.

## EVENT CALENDAR

### ■ UAE

**INSUREX, 7-8 April, Westin Dubai Mina Seyahi Beach Resort, Dubai, UAE.** Now in its seventh year, INSUREX 2010 brings together over 200 senior insurance professionals from across the region for stimulating debate, networking opportunities and the sharing of best practice. INSUREX 2010 will respond to industry calls for a greater focus on untapped areas of growth including personal lines and specialty lines. Bringing together regional and global experts, the conference will explore a range of strategic and operational concerns from underwriting to marketing.

### 5TH WORLD TAKAFUL CONFERENCE, 11-12 April, Dusit Thani Dubai Hotel, Dubai, UAE.

The 5th Annual World Takaful Conference (WTC 2010) is one of the world's largest and most pre-eminent gatherings for Takaful industry leaders. WTC 2010, which builds on five years of successfully meeting industry needs, will again set the stage for industry leaders to chart the future direction of the market, showcase cutting edge innovations, and also address the key enablers that will boost growth in the international Takaful market.

### ■ JORDAN

### GAIF 2010, 15-19 May, King Hussein Bin Talal Convention Center, Dead Sea, Jordan.

In its 28th year, the General Arab Insurance Conference (GAIF) is expected to host 1,300 participants representing the highest levels of administrative, technical and legal personnel in the local, regional and international Insurance and Reinsurance industry, and will be attended by the most distinguished members from related industry sectors.