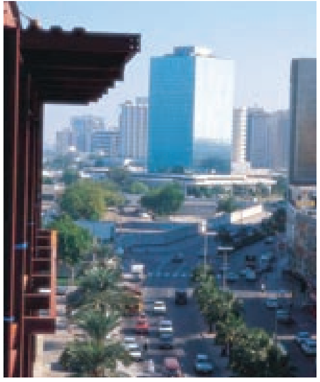
مصرف البحرين المركزي
Central Bank of Bahrain

# The Insurance & Takaful Review



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# Ernst & Young slate GCC as main driver in global takaful growth

In what might be regarded as the most comprehensive look at the global takaful industry to date, Ernst & Young, one of the world's foremost auditors and financial services firms, has released its inaugural "The World Takaful Report 2008" publication. The report, which will be published annually, takes an in-depth look at the worldwide takaful industry, and predicts that the significant potential for future growth will largely be driven and funded by companies based in the GCC.

Of approximately US$ 2 billion in premiums as of 2006, 50% were from the GCC. With global insurance premiums at US$ 3.7 trillion, takaful is currently a very small part of the global insurance market, but one that is predicted to grow exponentially for several reasons.

Takaful is viewed in the GCC region as insurance primarily for construction projects, with 46% of premiums being put towards property and accidents. It has yet to be applied extensively to other market segments, such as life insurance, as occurs in the conventional insurance industry. Life insurance, the largest segment of the global insurance industry, makes up 59% of all premiums worldwide. In the GCC, it makes up less than 19% of total premiums.

The GCC and the wider Middle East are seen by the report as having the largest potential for takaful. While markets such as Western Europe and the United States have premiums of 8 to 9% of their nominal GDPs for their entire insurance industries, the Middle East has premiums that make up only 1% of their GDPs. The room for growth on the part of the takaful industry is evident.

But while the size of the takaful industry is at best diminutive in comparison with the conventional insurance industry, takaful is growing rapidly with an average growth rate of 20% per annum. Although the GCC makes up a small percentage of the global Muslim population, it is the home to the largest number of takaful firms, with 59 out of the total 133 takaful operators based in the region. In every GCC country, the takaful sector's growth has far outstripped the comparative growth of conventional insurance.

**"Although the GCC makes up a small percentage of the global Muslim population, it is the home to the largest number of takaful firms, with 59 out of the total 133 takaful operators based in the region."**

There are several important drivers that will continue to make takaful a rapidly expanding and vibrant industry in the GCC for years to come. The first is the demographic makeup of the region. An average of 26%of the GCC's population is under 18. While the old generation has traditionally viewed insurance of any kind as unnecessary, the young generation is far more open to purchasing it, particularly from takaful firms.

Another factor is the high liquidity that exists in the GCC. Globally, Sharia-compliant assets grew at a

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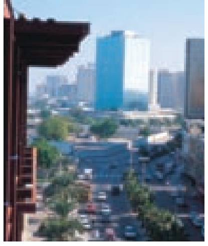




CAGR (compound annual growth rate) of 30% in 2007, and the GCC managed almost 40% of that total. The massive construction projects in the region are demanding Sharia-compliant financing and more importantly, Sharia-compliant insurance. As the Gulf economy grows and becomes more sophisticated, so will the preference to conduct business in a Sharia-compliant manner and that will mean the popularity of takaful will continue for the foreseeable future.

"The Ernst & Young report is an accurate depiction of the current trends and challenges facing the nascent takaful industry," Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision of the CBB. "We are confident that by working closely with the industry's leaders, we can create an insurance market that serves consumers well. This will be achieved through a process of consumer education, bolstered by regulation and transparency, as well as knowledgeable and professional insurance personnel. We feel that the best years of this sector are ahead of us."

While the overall outlook is bright, there are challenges ahead. Perhaps one of the greatest obstacles facing the takaful industry in the Gulf is in the area of human resources. As the industry is young, governments and the industry will have to work hard to train employees to understand the intricacies of the sector and match the high level of service offered by conventional competitors. As time goes on, takaful firms will also have to work hard not only to recruit new employees, but also to train and retain them, in order to maintain the crucial competitive advantage of an experienced workforce.

Other challenges include making consumers aware of the range of takaful products available and ensuring that the products are part of a broad portfolio that allows for enhanced cross selling. As the market in the Gulf becomes more sophisticated and accepting of takaful products, the population will begin to demand more complex products, such as life insurance, life assurance and savings products: takaful firms will have to be prepared to offer them.

The report also suggests that takaful firms will have to diversify their investments and reduce their current emphasis on equities and short term placements with financial institutions, as these investments tend to be risky. The retakaful industry must therefore grow at the same pace. Finally, although takaful firms are purposely structured differently to conventional insurance firms, they will have to comply with the exactly the same international standards and regulations, such as Basel II and Solvency II, as well as the laws of the country(ies) in which they choose to operate.

# International acclaim for CBB's pivotal role in taking Bahrain's takaful industry to new heights


Mr. Fouad A. Wahid Abdulla, Head of Overseas Insurance and Supporting Services Firms, received the award on behalf of the CBB

The Central Bank of Bahrain (CBB) was lauded by the global financial industry at the recent International Takaful Awards – held as part of the 2nd International Takaful Summit in London – for its role in encouraging the substantial expansion in the takaful and retakaful sector in Bahrain over recent years.

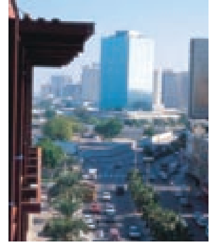
Recognised as a driving force in the takaful industry by financial experts, the CBB was recently honoured with the award for "Outstanding Contribution to the Takaful Industry" from The Middle East Business Forum, co-organisers of the summit. An industry panel reached the unamimous conclusion that the CBB was the leader in the field due to their unstinting efforts in creating a regulatory environment which was highly conducive to the development of Bahrain's successful and robust takaful industry.

Mr. Fouad A. Wahid Abdulla, Head of Overseas Insurance and Supporting Services Firms, received the award on behalf of the CBB, and said: "The award is testament to the CBB's dedicated work in establishing an appropriate regulatory framework for takaful and reTakaful, which has allowed the sector to grow and prosper. In fact, we expect to see sustained annual growth."

In recent years, the CBB has set the groundwork for the sector's phenomenal growth. Indeed, the CBB's track record has been so overwhelmingly positive that, although the panel – comprised of journalists, Islamic banking and takaful practitioners, as well as advisors and lawyers – considered the achievements of a number of other institutions and individuals, they did not feel it necessary to draw up a formal shortlist. The CBB was the unanimous winner.

Mr. A. Wahid added: "This confirms that we have succeeded in our role as a regulator. Our aim is to establish a specific and supportive regulatory environment for each sector of the financial industry in Bahrain, and one in which the industry players feel secure yet able to function as independent entities, in order to achieve their individual business objectives."

Recent additions to Bahrain's takaful and retakaful industry include respected names such as Hannover Retakaful, AIG Takaful-Enaya, Allianz Takaful, T'Azur Company and ACR Retakaful, recognising Bahrain's position as a leader in this fast developing market.





# Promising demand for reinsurance, but low retention levels highlight need for development

**Yassir Al Baharna, CEO of ARIG, explains that while the outlook for the GCC's insurance sector is promising, there is still much work to be done to iron out inconsistencies across the region, and to encourage local risk assessment and product development.**

*The views expressed in this article are not necessarily those of the Central Bank of Bahrain*

The Middle East is one the world's fastest growing insurance markets for domestic and global players alike. Growing demand for insurance products is being driven by the region's strong and growing economies and the increasing tendency of Middle-eastern governments to shift the onus for protection of personal welfare onto the private sector. The aforementioned boom has contributed to the creation of a wealthy middle class that is now more aware of the need for cover and, as a result, is investing in life insurance, as well using other retirement planning methods.

According to ARIG's research, in 2006, reinsurance premiums in the Middle East reached US$ 2.9 billion, up from US$ 2.4 billion in 2005. Also in 2006, an average of 40% of all direct insurance premiums was ceded to reinsurers (2005: 41%). Reliance on reinsurance markets varies from country to country and is largely a reflection of different industries creating their own specific demand.

Once we discount motor premium, which is sizeable and tends to be reinsured on excess of loss basis, it is obvious that the capacity for risk retention has remained quite low. That is particularly true for the "stars" of the regional boom, the GCC economies.

Though this scenario creates a massive opportunity for reinsurers to write volume, it remains to be seen whether we can assume balanced business relations if the underlying insurance risk is so unevenly distributed. There has been a recent influx of highly capitalized regional reinsurance ventures both, conventional and retakaful. We still have to see whether they will add to the regional risk capacity, or act as fund managers.

The oil boom has resulted in billions of dollars fuelling investments in property construction, infrastructure and commercial activity, all boosting demand for insurance and reinsurance. With industrial projects taking on an increasingly regional perspective, the industry will see more opportunities for cross-border integration. Companies that are ready for the challenge will thrive in tandem with market liberalisation.

At the same time, low levels of insurance penetration translate into exciting growth opportunities for life and medical lines, where the region is trailing behind other emerging markets. Similarly, demand for auxiliary services, such as outsourcing solutions, actuarial services or surveyors, will grow as the industry matures.

For this growth to happen, insurance companies will need to adjust their business model from trying to be the cheapest to being a provider of products and services that truly differentiates them from the competition. We are eagerly awaiting the emergence of the first widely recognized regional insurance brand.

The regional reinsurance industry, in particular, is attracting immense interest from international insurance groups, largely due to the heavy demand for insurance products and services. Companies and individuals are becoming increasingly receptive to the importance of managing risks in their personal life, as well as in business.

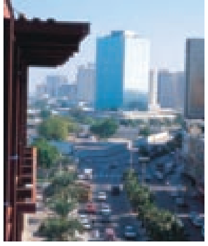
With the demand for corporate insurance gaining momentum, regional governments have put into effect comprehensive insurance regulations in line with the best international best practice to govern and enable the growth of the industry.

In addition to its prominence as a banking hub, Bahrain has more recently developed a reputation for being a formidable domicile for regionally active insurance and reinsurance companies. Big international firms have chosen to make the Kingdom their home base from which they extend their reach as far as the Indian Subcontinent or Africa.

Without a doubt, this trend is due to the pro business philosophy of the Bahraini government and a highly active central bank, which as the supervisory authority has been driving this development. Modern insurance regulations, transparent accounting rules based on IFRS (International Financial Reporting Standards) and specific regulations for retakaful and captive companies have been a lure to foreign investors.

Several international insurance and reinsurance companies have been granted licenses to establish offices in Bahrain, a significant development that recognizes Bahrain's leadership in this developing market. The price we pay is a higher demand for skilled professionals and a strain on the domestic infrastructure. But these demands are equally valid for other insurance hubs. With our combined efforts we are confident that any impasse will be temporary.

While industry statistics are on the rise, there are challenges that the local industry needs to address. Though governments are taking the utmost measures to regulate and promote the industry, inconsistencies remain across the region. The major cause is the lack of local risk assessment and product development in the market and this is directly hampering the innovation and development of the sector. Attention needs to be focused on improving the skills of product distributors, which will give a further boost to the industry's growth.





# CBB committed to combating financial crime

No country wishes to be regarded as a safe haven for anything but the most respectable and above board financial transactions and the Kingdom of Bahrain is, naturally, no exception. Its authorities are totally committed to applying international standards and regulations to combat money laundering and terrorist financing.

As far back as 1996, the International Monetary Fund estimated that money laundering –defined as a process through which the origins of illegal or dirty funds originating from criminal activities are concealed and transformed into apparently clean funds – made up between two to five percent of the world's gross domestic product, or between US$ 590 billion and US$ 1.5 trillion. Actual figures are impossible to measure due to the nature of the activity, but it is almost certain that current figures are higher.

As the leading financial hub in the GCC, Bahrain took a decisive and early stance on anti-money laundering (AML) and combating the terrorism financing (CFT), beginning in 2001 with Decree Law No. 4 outlining the offenses and punishments, followed by Decree Law No 54 in 2006, amending the earlier law to criminalise the financing of terrorist financing, as well as laying down a legal basis for the introduction of a disclosure system for cash couriers.

The upshot of this zero tolerance stance brings an increase in confidence in the financial system, according to Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision of the Central Bank of Bahrain (CBB). "Bahrain has been active on the international stage, cooperating with the world's authorities to stamp out criminal activity in the financial sphere. We have established a robust structure in terms of laws, regulations, and enacting bodies to develop a highly efficient and respected system. Our AML /CFT system is second to none, earning Bahrain the respect of the international financial community globally. This has been a key influencer for the many global financial institutions who have established operations in Bahrain."

The initial legislation was developed after an evaluation carried out in 2000 by the Financial Action Task Force (FATF), an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels to combat money laundering and terrorist financing. Bahrain is a member of FATF's Gulf Cooperation Council chapter, and is committed to the implementation of all international standards. It is also a founding member of the regional MENA-FATF, and hosts its secretariat.

The Anti-Monetary Laundering Terrorist Financing Unit (AMLTFU) was set up in 2001as a result, and forms part of the Ministry of the Interior. The CBB created a Compliance Directorate to deal with this and other compliance issues, to foster inter-agency and global cooperation in this area. It also provides analysis and information for the Kingdom's policymakers on which to base their decisions.

A Policy Committee, chaired by the CBB and composed of a cross section of concerned authorities, is responsible for domestic coordination, studying new developments, drafting laws, and disseminating information promptly to all concerned parties.

"This system has proved to be highly efficient in establishing a zero tolerance policy, and in strengthening the enviable reputation of Bahrain's various financial sectors – which include banking, insurance and capital markets," said Mr. Al Baker.

The recommendations of subsequent assessments have been fully and enthusiastically implemented by the CBB whose role is also to assist and ensure that its licensees abide by the regulations set out in the AML/CFT laws and which are elaborated upon in the CBB Rulebook's Financial Crime (FC) Module.

AML/CFT applies equally to all sectors within financial services. Each faces its own particular challenges in terms of scrutinizing its products and procedures to make them as watertight as possible.

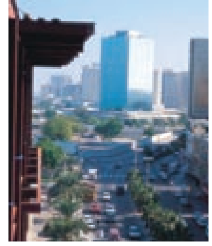
The FC Module for volumes 1, 2, 3 and 4 of the CBB rulebooks (Appendix 6) which covers conventional banks, Islamic banks, insurance and investment businesses requires a risk-based approach to customer due diligence. On-site AML/ CFT examinations of the insurance industry began in 2005, and are ongoing, which has greatly increased awareness. AMF-CFT regulations for capital market licensees were completely overhauled and the new rulebook (Volume 4) issued in 2006, brought these into line with the banking and insurance sectors

"All institutions, large and small, need to abide by the same rules, and are under a legal obligation to satisfy certain minimum criteria, including procedures for verifying clients' identities, record-keeping procedures, internal reporting procedures, the appointment of a money laundering reporting officer, procedures for external reporting, training of relevant employees in legal obligations and procedures for recognising and reporting suspicious transactions," Mr. Al Baker said.

The CBB, require the licensees to comply with a series of requirements.

- Follow the "Know your customer" (KYC) guidelines by being familiar with the customer's profile, considering each transaction, questioning anything that seems unusual, or out of character. File a Suspicious Transaction Report (STR) when they encounter any doubtful transactions or potential terrorist financing activities.
- Appoint a Money Laundering Reporting Officer whose role is akin to an internal auditor and who is responsible for establishing and maintaining polices and procedures, and ensuring compliance.
- Arrange an annual third party audit to review the effectiveness of the Licensee's AML/CFT system.

Mr Al Baker ended: "Due to the commitment and compliance of our financial institutions who work tirelessly to uphold the regulations to be in line with AML/CFT requirements stipulated by the CBB, I am confident that Bahrain will continue to be a shining example in this respect on the regional and wider international stage."





# Insurance boosts confidence in Bahrain's construction and engineering sector

**Andy Smith, Construction and Engineering Leader Middle East, of the Royal Sun Alliance, comments on the increasingly important role that insurance is playing in the phenomenal growth of Bahrain's construction industry.**

*The views expressed in this article are not necessarily those of the Central Bank of Bahrain*

The construction boom across the GCC region is extraordinary in terms of magnitude and sheer numbers of iconic developments within the region. Driven by the record breaking price of oil, the six states that comprise the GCC have invested the revenue from state-owned oil enterprises back into their own economies. The result is new cities springing up almost overnight and old centres of trade and commerce being revamped and expanded enormously.

This phenomenon is unparalleled in my two decades of experience in the construction industry. Even though Bahrain is currently considered as the smallest GCC construction market, it is predicted that almost US$ 28 billion will be spent on construction projects across the Kingdom's public and private sectors over the next two years, and an astounding total of US$ 1 trillion will be spent on construction throughout the region by 2010. (Source: MEED Projects, Market Forecasts).

One thing seems certain, oil wealth and booming economies will continue to radically transform every city in the Gulf well into the future.

Until recently, some projects within the Gulf were conducted without any form of insurance. If these had the luxury of government backing, any loss from fire or other disaster would result in only in a temporary setback.

Governments cannot fund every building project, and need the private sector to step in and fill the demand, particularly when their economies are booming to the extent that we are seeing in the GCC.

This injection of private capital into the region's economies has brought additional requirements, including the adoption of international standards for construction and property development and, often, mandatory insurance.

This new trend has benefited all parties involved, but particularly investors from the private sector, who are playing an increasing role, as the Gulf States move towards more dynamic market-driven economies.

The main reason for the private sector's demand for insurance is simple: it does not have the luxury of an infinite budget that is available to sovereign nations to fall back on should untoward events strike. When private companies participate in a development, they rely on insurance to cover setbacks of all kinds.

Another obvious reason behind the growing demand for insurance is the sheer scale, complexity and duration of many of the current projects. The culmination of these factors engenders more significant risks that could be catastrophic to the developer and investors. The degree of complexity is correlated to the risk, and of a significant setback with onerous consequences. Hence, the need for insurance has arisen.

Historically, Middle-eastern culture has not considered insurance to be a priority.. The factors mentioned above, as well as the growth of Sharia-compliant insurance, better known as takaful, in recent years has encouraged many Gulf-based companies to reconsider their stance on insurance, whether conventional or takaful.

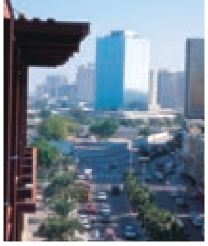
Finally, there is a growing feeling in the market today that it is simply unwise not to insure a project. While this region is not normally beset by natural disasters, even a fire on a construction site can occur without warning and wreak havoc. Insuring a project helps to manage the risk more efficiently and to ensure peace of mind for all stakeholders.

The demand for insurance should continue to grow in tandem with the many huge projects in the pipeline within the private sector, as it is increasingly being regarded as a prerequisite to win the necessary capital investment.

If governments continue to support the industry, as they are currently doing, developers and contractors will come to regard insurance as a necessity to protect their assets from the many potential risks associated with construction. Insurance has been the cornerstone underpinning development the world over. It is our job as insurers, in conjunction with the relevant regulatory authorities, to ensure that development and construction firms view insurance as a worthwhile necessity, rather than a burden, or merely a requirement for additional financing.

Being based in Bahrain, I have witnessed this country's efforts to regulate and support its burgeoning insurance industry. These efforts have facilitated the dramatic expansion of the industry, and reassured customers that the insurance firms are reliable and competent. There is also an earnest effort on the part of the government, the Central Bank of Bahrain, and various professional bodies, to foster talent in the industry with programmes designed to educate and train Bahrainis in the diverse aspects of the insurance sector.

Bahrain's many existing and planned projects will radically transform the face of the country. I am optimistic that many of these will make use of insurance to provide investors with peace of mind, and continue to make Bahrain an increasingly attractive choice for investment locally, regionally and internationally.





# CBB announces results of two key consultations for insurance industry

The Central Bank of Bahrain (CBB) has recently published its responses to consultations on two topics that promise significant impact for the insurance sector.

The first consultation was in regards to solvency margin requirements for takaful funds, and the second was in regards to achieving authorisation to conduct business as a composite insurance firm.

Current solvency margin requirements for takaful funds have often been found to be too onerous for newly established funds. At present, regulations require all takaful funds over a year old to fulfill the solvency margin requirements, or have shareholders make a free loan (Qard Hassan) to cover any shortfalls. Funds have one year to build up the necessary capital.

The consultation recommended that newly established funds be allowed one year of operation without having to fulfill the solvency margin requirements. Subsequent to this first year of operations, the calculation of the fund's capital available would be subject to valuation rules but not to deductions resulting from inadmissible assets for a period of five years from the start of the fund, or when the asset base of the fund reaches BD 5 million, whichever comes first. However, should the fund not fulfill solvency margin requirements, shareholders would be required to make a free loan to cover any shortfall. The October 2008 update of the Volume 3 (Insurance) will include an amendment to Module CA (Capital Adequacy) in light of this recommendation.

The second consultation dealt with authorising insurance firms to conduct business as a composite insurance firm. The CBB's aim in introducing this proposed amendment was to foster growth in the long-term insurance segment, particularly in life and savings type products.

The results of the consultation clearly indicate that promoting the formation of composite insurers would not lead to the further development of long-term insurance. In light of these findings, the CBB has opted not to pursue this amendment.

The CBB is required by law to consult with the industry formally before issuing any new regulations. Consultations always involve discussions with relevant members of industry, government and the public.

"These consultations are essential in creating regulations that promote and support this nascent industry," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision of the CBB. "The takaful sector is playing an increasingly important role in Bahrain's finance and banking industry, and directives such as these will help it to prosper long into the future to the benefit of our economy and our citizens."

Results from the consultations can be found on the CBB's website (http://www.cbb.gov.bh/cmsrule/media/2008/V3_Con._TakafulFunds_Apr08.pdf and http://www.cbb.gov.bh/cmsrule/media/2008/V3_Con._Composite%20Co_Apr08.pdf)

# Insurance industry to implement minimum training and competency standards

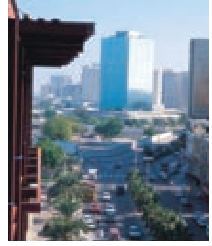
The Central Bank of Bahrain (CBB) is working in coordination with the Bahrain Institute of Banking and Finance (BIBF) and the Chartered Insurance Institute (CII) to establish minimum training and competency standards for insurance brokers and appointed representatives.

The initiative comes as a direct response to demand from insurance players, who take the view that comprehensive guidance on minimum requirements for those involved in offering insurance products will serve both to protect the consumer and to foster the growth and success of reputable insurers.

A survey conducted by the CBB within Bahrain's insurance industry confirmed the unprecedented growth in the sector, confirming that there are more than 500 representatives in Bahrain dealing directly with consumers purchasing insurance products.

Mr. Nader Al Mandeel, Head of Local Insurance and Reinsurance Firms at the CBB, said: "The survey served to highlight the need for the introduction of minimum training and competency standards for brokers and appointed representatives. This current initiative will go a long way towards reassuring customers that only the most ethical and professional services will be allowed. The move demonstrates the CBB's commitment to the Bahraini economy and the ever-growing diversity of its financial services sector."

"The insurance market in Bahrain has boomed in the past decade," commented Mark Greenwood, Head of Regional Business -Middle East, CII. "As the products and consumers have become more sophisticated, it is important that those working in the industry have the skills, knowledge and understanding to continue that growth. Raising the level of professionalism within the industry by improving competence can only have a positive effect. This initiative will ensure the necessary training is implemented to achieve this."





# The challenge of technology in insurance

**Technology and insurance go hand in hand. Or do they? Some critics argue that the insurance industry is a monolith that it stuck in its ways when it comes to innovation. Mr. Abdulla Al-Suwaidi, General Manager, Motor and Personal Lines Insurance, Bahrain National Insurance Company, sets out to prove this theory wrong.**

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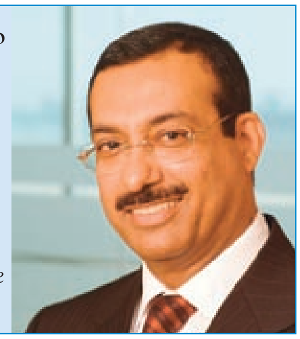


The application of information technology (IT) has implications for each and every aspect of the insurance industry, although it is the public interface that is the most visible and therefore most widely recognized.

IT within customer relations alone has had a dramatic effect on the way that companies do business. This e-commerce is the result of a direct injection of technology offering customers more choice while enjoying the same high level of service they have come to expect from traditional face-to-face interaction.

However, a recent study by the IBM Institute for Business Value, "Insurance 2020: Innovating Beyond Old Models", offered an interesting insight into industry attitudes which could be interpreted as reluctance on the part of the insurance industry when it comes to innovation in the IT sphere.

The study suggested that while the market demands innovation in business models, insurers consistently focuses on the optimization of products, processes and services i.e. they favour a product-centric rather than a techno-centric approach.

While it is true that insurers are good at utilizing technology, there is almost certainly an element of truth in the above assumptions, and that this resistance to technological change arises as a result of culture, internal politics and the engrained aspects of human nature.

Customer interface is important in Middle-eastern culture, with many people being reassured by face-to-face contact. This situation is dynamic, and with the new techno-savvy generation demanding more online services, we in the insurance industry need to be ready and willing to embrace new ideas.

Technology is used at every stage on the insurance process: from the aforementioned customer service, in actuarial assessment using ever-more complex formulae, in claims underwriting, and even in fraud prevention.

What is interesting is how much the insurance playing field has actually changed in recent years, driven as it has been by technology and the aforementioned shift in preference towards virtual services. This is however not without its pitfalls for both consumer and provider.

Online transactions can result in sub-optimal decisions by the customer, whether they are attracted by a special offer, or the lowest price, without having the benefit or advice. A well-designed web interface which allows for interactivity if and when required can go a long way to solving this problem.

These very same advances in technology have opened up the insurance sector to such an extent that the market has become global with some multinational insurers offering "borderless" policies, notably in travel and health insurance. In some countries, even non-insurance players are capturing some market share – notably in travel insurance – with many high street stores and travel agencies offering insurance; somewhat similar to the surge in high street store credit cards which have appeared in recent years.

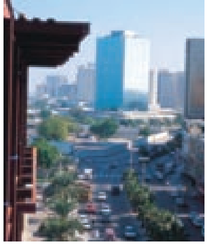
Insurers need to be gearing up now to cope with the effects of the changing demographics. Bahrain and the GCC have some of the world's youngest populations: an average of 26 per cent of the GCC's population is under 18 (Source: Business Monitor International, Global Insight). When you also take into consideration the steady increase in Bahrain's population, one can see that there are implications for the insurance industry in terms of volumes of business, as well as the upcoming generation's more informed attitudes towards risk (older generations have been less likely to see insurance as a necessity), as well as their quick adoption of new technology.

There are many questions which we need to be asking ourselves now rather than later to ensure that we are prepared for these changes:

- How to take advantage of predicted changes in demographics, and use technology to prepare for these?
- How will the new generation prefer to interact with its insurer of choice?
- Will insurance professionals have to adopt ever more innovative methods of customer interaction?
- How to maintain a competitive edge within the traditional insurance sector, but also against the new breed of high street retailers.
- How to be on the ball in terms of KPIs (key performance indicators) e.g. turnaround times, accuracy, reliability?
- How to develope ever more sophisticated, customized products that will be necessary to gain and retain customers?

It is necessary to review our IT structures, and to be clear on what is required to keep pace with the market demands. We need to ask ourselves if we have the critical mass of business to justify and entirely in-house system, or can we take advantage of "off-the-shelf" systems, which can be customized to suit our requirements? We also need to explore the potential for innovation through industry collaboration.

It is my firm belief that only by innovating can we ensure a competitive edge, always provided that this is combined with some good old-fashioned personalized customer service.





# Bahrain and Qatar Chambers of Commerce in takaful venture

The Bahrain and Qatar Chambers of Commerce have announced the signing of a Memorandum of Understanding (MoU) to create a jointly-run Sharia-compliant insurance company. The joint venture will be known as the Al Jasir Takaful Insurance Company and will draw upon the considerable resources and management expertise of both chambers. Its creation will make a significant contribution to the burgeoning Islamic insurance sector in both countries and it will commence operations in the near future.

> **"The sharing of expertise and talent in this industry will help to fulfil the enormous demand for Sharia-compliant insurance in both markets."**

Each of the Chambers will have a 20 per cent stake in the company while the remaining 60 per cent will be offered to the public through an initial public offering (IPO) on both the Bahrain Stock Exchange and the Doha Securities Market. The company will focus on offering Sharia-compliant insurance for the real estate, automobile and marine industries.

"The significance of this agreement is the acknowledgement by insurance sectors in each country of the increasing demand for Sharia-compliant insurance," said Dr. Essam Fakhro, Chairman of the Bahrain Chamber of Commerce. "Consumers in both countries wish to have insurance that is acceptable to their faith, and to purchase this from a company that draws upon the expertise of their respective country's business community. We feel we have answered the market's demand in this new institution."

"The formation of Al Jasir Takaful Insurance Company will undoubtedly benefit the Islamic insurance sector in the GCC," commented Mr. Ebrahim Sherif Al Rayes, Chief Executive Officer, Bahrain Kuwait Insurance Company, whose company is providing much of the support for the new firm. "As the first of its kind, it demonstrates the willingness of the governments of Bahrain and Qatar to work together to strengthen the sector. This is ultimately to the benefit of consumers within the region, and we look forward to working closely with this new company."

Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision of the Central Bank of Bahrain, said: "The sharing of expertise and talent in this industry will help to fulfil the enormous demand for Sharia-compliant insurance in both markets. As the economies of the GCC grow closer, agreements such as these will act both as knowledge sharing agreements, and drivers towards our countries' shared goal of sustained economic prosperity."

Qatar and Bahrain's economies are set to grow even closer with the building of the Qatar-Bahrain Friendship Bridge. At 45-kilometres in length, it is set to be the longest causeway in the world when it opens in 2013. The Al Jasir Takaful Insurance Company will facilitate cross-border travel by offering insurance for automobiles crossing the causeway.

## FACTFILE

| | |
|---|---|
| **Regulator:** | **Central Bank of Bahrain** |
| **Financial Institutions:** | 408 (August 2008) |
| **Financial Sector Workforce:** | 11,960 (2007) |
| Bahraini nationals | 8,248 (69%) |
| Foreign nationals | 3,712 (31%) |
| **Key Economic Indicators:** | |
| GDP (Current) | US$15.8 billion (2006) |
| Growth | 17% |
| GDP (Constant) | US$10.9 billion (2006) |
| Growth | 6.9% |
| Financial Sector contribution to GDP | 25.5% |
| Sovereign rating | A (S&P 2007)<br>A (Fitch 2007) |
| Population | 742,500 (2006) |
| **Banking Sector:** | |
| Assets | US$259 billion (May 2008) |
| No. of institutions | 125 (July 2008) |
| Retail banks | 24 |
| Locally incorporated | 9 |
| Branches of foreign banks | 15 |
| Wholesale banks | 64 |
| Representative offices | 36 |
| **Islamic Banks (included in above):** | |
| No. of banks | 26 |
| Assets | US$18.9 billion (May 2008) |
| **Insurance Industry:** | |
| No. of firms | 168 (July 2008) |
| Domestic market | |
| Gross premiums | US$308 million (2006) |
| No. of firms | 35 |
| Locally incorporated insurance firms | 24 |
| Overseas insurance firms (foreign branches) | 11 |
| Brokers restricted to business inside Bahrain | 32 |
| Insurance firms restricted to business outside Bahrain | 38 |
| Brokers restricted to business outside Bahrain | 10 |
| Captives (locally incorporated) | 1 |
| Managers | 1 |
| Representative offices | 6 |
| Loss adjusters | 12 |
| Actuaries | 20 |
| Others | 12 |
| **Takaful (Islamic insurance) Firms (included in above)** | |
| Takaful firms | 18 |
| ReTakaful firms | 1 |
| **Investment Business Firms:** | |
| No. of firms | 44 |
| **Capital Market:** | |
| Market capitalization | US$29.98 (August 2008) |
| Brokers | 15 |
| Listings Companies | 53 |
| Mutual funds | 42 |
| Bonds | 15 |
| **Specialised Licensees:** | |
| No. of firms | 15 |
| Money changers | 19 |
| **Funds Industry:** | |
| Authorised funds | 2,740 (August 2008) |
| NAV | US$20.23 billion (June 2008) |
| Local funds | 136 |
| NAV | US$6.79 billion (Mar 2008) |
| Conventional | 79 |
| Islamic | 57 |
| Foreign funds | 2,604 |