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Bahrain offers solid base for insurers

Bahrain offers a forward-looking and business-friendly regulatory regime for the insurance industry, says Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain (CBB).

This has enabled the country to become a prominent insurance centre in the Middle East region with new and significant growth being seen in the Islamic insurance (takaful) sector, he said during the opening session of the 27th General Conference of the General Arab Insurance Federation (GAIF), held in Bahrain from 26-28 February 2008.

It was held under the patronage of HH Shaikh Khalifa bin Salman Al Khalifa, Prime Minister of the Kingdom of Bahrain, who attended the event's opening ceremony.

Mr. Al Maraj thanked the Prime Minister for attending the event, which was the largest-ever GAIF General Conference, attracting about 1,400 delegates from throughout the Middle East and beyond.

"The Prime Minister has given special attention to the development of Bahrain's financial services industry, including insurance," Mr. Al Maraj pointed out.

"This has led to the sound and solid establishment of a vibrant financial sector, which is today a major contributor to the national economy."

Under the continued guidance of the Prime Minister, the CBB has taken further strides in recent years to enhance and further develop the regulatory environment for the insurance industry, to enable its continued and long-term growth, he said.

"I am delighted to welcome all the participants to Bahrain for this event, which is the most important event on the insurance calendar in the pan-Arab region," said Mr. Al Maraj.

"The exchange of ideas that will take place here will, without doubt, add a new dimension to insurance business and stimulate the pursuit of new initiatives to develop the Arab insurance businesses, in order to cope with the tremendous growth taking place in many Arab economies."

The conference theme, "Toward a more integrated Arab Insurance Market", underscores the importance for the pan-Arab insurance industry to develop greater synergies across borders in order to grow and expand the domestic markets, which are at different stages of development, both in terms of regulation and market practices. The industry, surely, stands to benefit from being able to operate seamlessly throughout the Arab world, where unprecedented economic expansion is creating unparalleled business opportunities for providers of insurance services.

As a regulator of the insurance industry, the CBB is fully supportive of the sound growth and advancement of the insurance industry.

The regulatory framework for the industry is in line with the international standards set by the International Association of Insurance Supervisors (IAIS), while taking into account recognized insurance practices.

Standards focusing on capital adequacy and solvency and key areas of corporate governance are now an integral part of the insurance regulatory framework in place for all insurance firms and brokers operating in the Kingdom.

The establishment of international standards and their implementation has bolstered Bahrain's reputation as a regional centre where sound practices prevail. This has encouraged many insurance and reinsurance firms to choose Bahrain as a base.

Highlights of key recent developments include the establishment of the Middle East region's first captive insurance company in Bahrain.

Furthermore, Bahrain has also attracted a number of major international insurance companies which have established takaful and retakaful operations.

Mr. Al Maraj also thanked Bahrain's insurance industry for its pivotal role in hosting the conference and its successful organization.

HH Shaikh Khalifa bin Salman Al Khalifa, Prime Minister of the Kingdom of Bahrain, and Mr. Rasheed Al Maraj, Governor of the Central Bank of Bahrain, are seen with representatives of GAIF and the Bahrain Insurance Association during the opening of the 27th GAIF Conference, held in Bahrain.

Unified rules needed

The lack of unified rules is hampering insurance firms from operating across borders in the Arab world, speakers said at the 27th Conference of the General Arab Insurance Federation (GAIF), held in Bahrain from 26-28 February 2008.

There is a multitude of insurance companies; however, the vast majority of these are small, with operations restricted to small domestic client bases, speakers said during a debate titled 'Proliferation of new insurance companies across the Arab markets is inhibiting consolidation through mergers and acquisitions'.

Only three insurance companies have ventured beyond their domestic borders into other Arab countries, it was pointed out.

"As long as there are no unified insurance and financial laws, I don't see pan-Arab market integration happening," said Mr. Farid Chedid, Managing Director of Lebanon-based Chedid Re.

Half of the over 320 insurance companies in the Arab world are family-owned, which is a major barrier to consolidation.

Mr. Udo Krueger, Executive Committee Chairman of Bahrain-based Solidarity, said market forces will drive mergers and acquisitions (M&A) and that regulators should certainly not get involved in forcing this.

M&A activity is also hindered due to over-valuation of companies, said Mr. Moussa Rubaian, President of Saudi Arabia's Dar Moussa.

Session speakers also concurred that the Arab insurance markets are lagging in product development and innovation.

"We have not seen any new products. The most noteworthy development is takaful (Islamic insurance), which was started with the aim of reaching untapped markets although this has not happened," said Mr. Andreas Molck-Ude, Munich Re's Chief Executive for Middle East and Africa.

Mr. Krueger said takaful was the only distinct development in the past 10-15 years. However, far from opening up new markets, takaful companies were having to 'cannibalise' in the conventional market.

Speakers agreed that while there is room for all companies, there is a need to 'grow the pie'.

On the issue of whether consumers have benefitted from the proliferation of insurance companies, Mr. Molck-Ude said this was the case in terms of pricing of products. However, service quality "is not of the level that the consumer can benefit from".

Focusing on human resources, Mr. Krueger pointed to the 'paradox' in the Middle East and North Africa region, which suffers from high unemployment, yet lacks skilled workers for the financial services industry, including insurance.

He also pointed to the industry's negative image, which makes 'poaching' by other employers easier.

"People come to this industry not by choice but by default," noted Mr. Abdul Latif Al Rayes, Chairman and Chief Executive Officer, Aon Middle East (Bahrain).

Bahraini is new GAIF President

The presidency of the General Arab Insurance Federation (GAIF) has been passed to Bahrain.

Mr. Ashraf Bseisu, Chairman of the Bahrain Insurance Association (BIA), was named the new GAIF President at the recently-concluded 27th GAIF Conference, held in Bahrain from 26-28 February 2008.

Mr. Bseisu takes the reins of GAIF for a two-year term.

Cairo-based GAIF is a pan-Arab body whose primary purpose is to strengthen the pan-Arab market and insurance sector, as well as coordinate activities across the Arab insurance market.

GAIF member organizations include Arab and non-Arab insurers and re-insurers, regulators, national insurance associations, research organizations and industry training centres.

The GAIF General Conference, which is the largest gathering of insurance professionals from the Arab world, takes place every two years in different Arab countries.

CBB thanks GAIF supporters

Mr. Rasheed Al Maraj (left), CBB Governor, presents a memento to Mr. Ashraf Bseisu, Chairman of the Bahrain Insurance Association

Dr Anwar Al Sadah (2nd from right), CBB Deputy Governor with Bahrain Insurance Association board members

The Central Bank of Bahrain (CBB) held a ceremony to thank all the Bahrain institutions involved in the successful organization of the 27th General Arab Insurance Federation (GAIF) General Conference, held in Bahrain from 26-28 February 2008.

The event attracted over 1,400 delegates of 70 nationalities, making the Bahrain event the largest GAIF General Conference ever to be held.

It was held under the patronage of HH Shaikh Khalifa bin Salman Al Khalifa, Prime Minister of the Kingdom of Bahrain, who attended the event's opening ceremony.

The Bahrain event was coordinated and managed by the Bahrain Insurance Association (BIA), with the support of the CBB.

Speaking at the CBB ceremony, Mr. Rasheed Mohammed Al Maraj, Governor of the CBB, thanked HH the Prime Minister for his interest and support for the event, which attracted insurance professionals from throughout the pan-Arab world and beyond.

He appreciated the efforts of all those involved in the smooth organization and management of the event, including facilitating the entry of such a large number of delegates.

Mr. Al Maraj presented mementos of appreciation to representatives of the Prime Minister's Court, Ministry of Information, General Directorate of Nationality, Passports and Residency, Civil Aviation Affairs, Customs Directorate, Central Governorate, Muharraq Governorate, as well as Bahrain Insurance Association and the event organizers, Eventscom.

Life, medical classes seeing huge growth

Life, medical and takaful classes of insurance business are posting strong growth in Arab markets, said Mr. Abdul Khaliq Khalil, Secretary General of the General Arab Insurance Federation (GAIF).

Speaking at the 27th GAIF Conference in Bahrain, he highlighted the growth of the industry and the need for product innovation and better legislation, to maximize the growth potential of insurance.

Gross premiums in the Arab world stood at US$12 billion at 2006-end, an increase of 16% over the previous year, he said.

However, insurance expenditure remains low, averaging about 1.1% of gross domestic product (GDP). Per capita insurance expenditure amounted to a mere US$38 during 2006, although in Bahrain it was US$400 and in some other GCC states, it exceeded US$600.

This growth was largely due to strong demand in medical and life classes, as well as takaful.

Mr. Khalil called for the introduction of regulations specific to takaful, to enable this high-growth segment to maximize its potential.

He also called for consolidation, including mergers and acquisition, as the vast majority of insurance firms operating in the Arab world are modestly-capitalised, with limited retention capacity.

Despite the expansion, there is a need for product innovation as well as better underwriting, risk management and pricing.

Fair competition, higher levels of customer service and human resource development are also critical issues facing the insurance industry in the Arab world, said Mr. Khalil.

Supervising Takaful

The Central Bank of Bahrain (CBB) invited supervisors from insurance jurisdictions to discuss and exchange experiences in supervising takaful and retakaful firms. Ms Johanne Prevost, Advisor, Insurance Supervision, at the CBB, sums up the deliberations that took place at the workshop.

Over the last few years, the takaful/retakaful industry has taken off in a big way. In Bahrain alone, more than 8 locally-incorporated companies are licensed as takaful/retakaful, six of which have been licensed in the last two years. The proliferation of takaful conferences reflects this trend and has stimulated many interesting and varied debates on this topic. All this activity has not gone unnoticed by the insurance supervisory community and has led to some initiatives in this area, particularly striving for some consistency in the application of regulatory requirements. The consistency in the application of regulations is an area that the International Association of Insurance Supervisors (IAIS) and the Islamic Financial Services Board (IFSB) have also targeted.

Against this background, the Central Bank of Bahrain (CBB) felt that the time was ripe to invite insurance supervisors from the region for an open dialogue on the supervision of takaful companies. Supervisors from Bahrain, Brunei, Dubai, Pakistan and Qatar met at the Bahrain Institute of Banking and Finance (BIBF) for two days in February. During this workshop, presentations from the IAIS and the IFSB took place as well as from some local takaful/retakaful firms and external auditors.

Having the standard setters (IAIS and IFSB) present at this workshop was of great value for the supervisors participating as they could share some of the issues that are surfacing as attempts are being made to implement a takaful/retakaful supervision framework. Several of these concerns were also highlighted by the other presenters at this event.

Corporate Governance

As a follow up to the issues paper issued jointly by the IFSB and IAIS in August 2006, the IFSB Council approved the establishment of the Governance for Takaful Operator Working Group (GTOWG). Corporate governance has been identified as one of the major themes raised in the issues paper on the regulation and supervision of takaful. Priority was given to the area of corporate governance as the IFSB believed that understanding the contractual rights and obligations between stakeholders and the takaful operator is central and paramount before it can proceed on other prudential considerations.

Recognising that one of the supervisor's main objective is the protection of policyholders (participants for takaful companies), supervisors taking part in the workshop raised concerns with respect to how the corporate governance regime acts to protect the rights of the participants of the takaful funds. Participants of takaful funds are the key stakeholders that insurance supervisors believe that good corporate governance standards need to address. The relationship between the takaful operator and the participant is key to ensuring that the participant is fairly treated in dealing with a takaful company.

Capital Adequacy

One of the great challenges for supervisors has been to arrive at an acceptable approach to establish the solvency margin of takaful companies. This is due in part to the unique structure of takaful companies, incorporating elements of both stock and mutual companies, into one entity. Supervisors agree that the solvency margin rules should apply to the takaful funds themselves as this is the part of the company where the insurance activity is undertaken. However, the issue of Qard Hassan (free shareholder loan), in the case of a deficit in the fund, also has significant implications on the shareholder fund, the takaful operator. While the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI) suggests approaches on how to deal with fund deficits, it does not impose a specific approach in doing so. In addition, supervisors are not satisfied by simply having a deficit in the fund covered; insurance solvency margin rules include a "cushion" recognising the uncertainty associated with claims liabilities and the cyclical nature of the insurance business.

Much work remains to be done on this front, including a more unified view from Shari'a supervisory boards on how deficits in takaful fund should be addressed and the purpose of Qard Hassan.

Retakaful Pools

The need for retakaful capacity has also triggered the emergence of retakaful entities. Information provided at this workshop showed that there are now in existence six full-fledged retakaful operators and a further six operating through windows. Several of these companies are rated by international rating firms such as Standard and Poor's and Moody's Investors Services. This increased capacity has led to fewer fatwas (legal opinions) being granted by Shari'a Supervisory Boards and have meant that takaful operators, are limited to cede their business to retakaful companies.

For retakaful companies, this is a positive step. However, the transition for takaful operators having been permitted in the past to use conventional reinsurers to increase their capacity, is not an easy phase. The whole concept of retakaful pools is based on the sharing of risk among takaful operators, and sharing in the surplus. However, takaful companies have been unaccustomed to share in the operations of their competitors and having been used to a conventional approach that allows for profit commissions.

This situation has led to inconsistencies in the treatment of retakaful pools and challenges the manner in which retakaful pools should be set up, particularly considering the various nature of risks, geographic regions and types of retakaful treaties.

Very little attention has been given by the standard setters on the treatment of retakaful and this is an area that will need to be addressed to obtain a degree of consistency in the operations of these key players in the takaful industry.

Further Dialogue

Who would have guessed that out of the first takaful company established in Sudan in 1979, that such an industry would have flourished and has now led to a series of significant issues that require further consideration in order to continue with the development of this industry. Indeed, there is a need for further dialogue among all those involved in the takaful industry and address the issues raised above as well as many others.

Insuring Growth

Mr. Ashraf Bseisu, Chairman of the Bahrain Insurance Association, provides an industry perspective on the growth potential of the insurance industry and of Bahrain as a hub for insurance services.

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

Since its inception, the Bahrain Insurance Association (BIA) has played a dual role in terms of promoting the interests of its members, as well as working in conjunction with the government to promote Bahrain as a regional insurance centre.

Working very closely with the Central Bank of Bahrain (CBB), the BIA has played a proactive role in the drafting of new regulations. Both collaborated to ensure that the Arab insurance industry's largest and most important conference, the General Arab Insurance Federation (GAIF) Conference 2008, held in Bahrain from 26-28 February 2008, was a resounding success.

It is worth noting that the growth of the takaful sector has been healthy and is gaining momentum. As a regulator, the CBB must be commended for maintaining a steady growth pace for takaful. However, it is a relatively young industry, so there are still a number of issues that need to be fine-tuned.

Shifting regulatory responsibility from the former Ministry of Commerce to the central bank and the creation of a single regulator for the financial services industry, in 2002, has had a positive impact. On the issue of single or dual regulators, I believe that the CBB is the right umbrella organization for this sector; consequently, I don't think we need an independent insurance regulator at this time or in the foreseeable future. Taking an interdisciplinary approach, it is apparent that financial services is one whole entity that comprises banking, investments, asset management, and insurance.

> 'Encouraging more foreign firms to set up in Bahrain is integral to the development of the insurance industry as they bring with them new products, technology, and expertise that will help expand the market'

International Standards

The new regulations are now at par with international best practice, and conform to international regulatory jurisdictions. The CBB administered a very well-managed transition when they introduced the regulations, allowing a transition period for licensees to adjust.

While some companies have not adjusted as well as others, overall, the regulations have opened a gateway to attracting more foreign investments. Over the past few years, we have witnessed quite a few entrants and the regulatory framework has been a large part of Bahrain's appeal.

Encouraging more foreign firms to set up in Bahrain is integral to the development of the industry, as they bring with them new products, technology, and expertise that will help expand the market.

Unique Concept

One of the major undertakings of the BIA is a partnership between the local insurance sector and a specialized Spanish firm to establish a company capable of dealing with minor traffic accidents. The project has reached advanced stages of cooperation and coordination with the Ministry of Interior and the Traffic Directorate, with the project's realization projected during 2008.

The new company would contribute to raising the standard of all insurance companies operating in the local market, particularly larger companies working in the field of motor insurance.

The modus operandi of the company will be based on superior information systems that are sophisticated and advanced in terms of accuracy, efficiency and precision. Furthermore, the new system will provide an electronic platform on the Internet, enabling access to follow-up reports for minor traffic accidents.

This concept, which is the first of its kind in the Gulf, and the Arab world at large, will comprise the head office and branch offices covering all Governorates in the Kingdom.

Other Initiatives

The BIA is also currently involved in a number of initiatives targeting human resources development and placement. These programmes are in conjunction with the Ministry of Labour, the Labour Fund, the Human Resources Development Fund (HRDF), and the Bahrain Institute of Banking & Finance (BIBF). The overall aim is the development of the insurance sector human resources pool; and the promotion of national insurance professionals.

While Bahrain's insurance sector is rooted in a firm foundation, nevertheless, there is always room for improvement. Life insurance and investment linked products in particular have huge potential, so it should be an area targeted for growth. Furthermore, product innovation and overall insurance awareness in Bahrain represent two areas which are quite underdeveloped. We need to focus more on a combination of increased awareness, and the introduction of new products to spur market growth.

In addition to foreign investment, Bahrain is likely to experience positive implications following recent insurance reforms in Saudi Arabia, which represents the region's largest insurance market. Endowed with exceptional insurance proficiency, abundant human resources, advanced training capabilities, and a strategic geographical location, Bahrain can serve as the optimal support centre for new operations in Saudi Arabia.

The new cooperative law will also be a catalyst for increased demand of insurance services, which will lead to the development of the sector.

The Bahrain insurance industry is a pioneer amongst its peers in the area. We believe that the industry will further develop and evolve, setting Bahrain as the recognized Center for Financial Services and Insurance in the region.

CBB attends Arab forum

The Central Bank of Bahrain (CBB) attended a key meeting of the Arab Forum of Insurance Regulatory Commissions (AFIRC).

The CBB is a founder member of AFIRC, which was established in September 2006.

The organisation's 12 founding members are Saudi Arabia, UAE, Oman, Qatar, Jordan, Lebanon, Syria, Palestine, Egypt, Libya and Yemen, besides Bahrain. Three new members include Sudan, Mauritania and Tunisia.

AFIRC's mandate includes developing regulators' capabilities and supervisory standards, sharing information and enhancing coordination between member regulatory authorities as well as with international and regional standard-setting bodies.

"The CBB is an active member of AFIRC, which is a much-needed regional initiative," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB, who attended the AFIRC meeting, along with Mr. Fouad Abdul Wahid, Head, Overseas Insurance & Supporting Services Firms.

"The AFIRC was formed with the aim of providing a platform for insurance supervisors from across the Arab world to meet and exchange ideas related to regulation and supervision, with the overall aim of implementing uniform practices among member countries," he said.

AFIRC has launched a number of initiatives addressing key issues, including corporate governance. A task force has been established with the mandate to assess corporate governance in the insurance sector and develop a policy brief and guidelines for market participants.

AFIRC has also established a technical committee to study the 'Orange Card Agreement', an agreement between Arab countries to allow the free movement of vehicles across borders.

Cooperation amongst regulators and supervisors has assumed critical importance as a result of the growing complexities and cross-border reach of financial services, said Mr. Al Baker.

The harmonization of rules and regulations governing the insurance industry among Arab countries is also a key concern of the insurance providers, he pointed out.

This would facilitate cross-border operations of insurance firms, which are currently largely focused on their domestic markets.

"The CBB is committed to being a part of the regional and global international community and to the implementation of international best practice in all aspects of financial regulation," said Mr. Al Baker.

The CBB is also a member of the International Association of Insurance Supervisors (IAIS), the standard setter for the global insurance industry.

CBB briefing for insurers

The Central Bank of Bahrain (CBB) held a session for Bahrain's insurance industry to brief them about the new Bahrain banknotes, featuring new designs and added security features.

The session was attended by chief executive officers, general managers and senior management executives of direct insurance companies operating in Bahrain.

They received a detailed briefing regarding the design details and security features of the new banknotes, which are in the existing denominations of BD20, BD10, BD5, BD1 and BD1/2.

The change to the new currency was necessitated by the enactment of the Central Bank of Bahrain and Financial Institutions Law (CBB Law), issued in September 2006, which provided for the creation of the Central Bank of Bahrain (CBB) to succeed the now-defunct Bahrain Monetary Agency (BMA).

The new Bahrain banknotes

As the successor organization of the BMA, the CBB assumed all the rights and obligations of the BMA. As such, the existing currency, bearing the name of the BMA, has remained a legal tender.

"The new currency reflects this significant change and each denomination of new banknotes bears the name of the Central Bank of Bahrain," said Dr Abdul Rahman Saif, Executive Director, Banking Operations, at the CBB, who conducted the briefing session.

Each denomination of new banknotes has a new design, while some denominations have a new colour as well. All of the new notes incorporate enhanced security features.

"The new banknotes and the existing banknotes will co-circulate for a period of time, to allow for all existing banknotes to be returned to the CBB in the normal course of business," said Mr. Fahad Al-Arabi, Head of Vault, at the CBB.

The new banknotes also incorporate enhancements to the security features, as well as some new features. This is designed to make the new currency easier to authenticate, harder to duplicate and more secure than ever before.

In addition to the security features, the new banknotes also incorporate, for the first time, a feature to enable the visually-impaired to easily recognize the value of each note. The feature comprises a series of short, raised lines, which appear at the top right on the front face of the note. The BD1/2 has one line; BD1 has two lines and so on, up to BD20, with five lines.

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Actuaries add value

Mr. Tassos Anastasiou, Senior Manager, European Actuarial Services, at Ernst & Young's London offices examines the changing role of actuaries in safeguarding the financial health of an insurance company.

Actuaries employed by general insurance companies in the past traditionally worked in the Reserving Department. Their main responsibility centred on estimating the ultimate level of insurance provisions so that the company would have been able to meet all its future claims obligations arising from insurance contracts they had written.

In most countries this role is created through local regulatory requirements and the Appointed Actuary not only estimates the level of insurance provisions but also has the ultimate responsibility to set the reserves which will be booked on the balance sheet. In this instance, the Appointed Actuary is expected to express his independent view on the reasonableness of the reserves. In countries where there are no local regulatory requirements for actuarial certification of the insurance reserves, insurance companies still employ actuaries to estimate the reserves but it is the management of the company who decides the level of booked reserves.

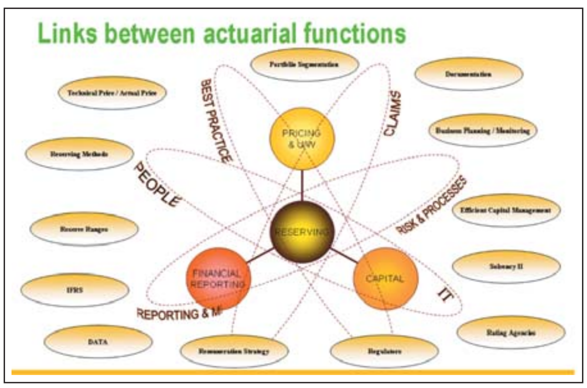
The importance of the Reserving Actuary then becomes obvious since the insurance provisions are by far the biggest element on a general insurer's balance sheet. The Reserving Actuary has indirectly a two-fold role; determining the level of declared annual profits but also safeguarding the sustainability and financial health of the company. Liability claims in advanced and more litigious insurance markets might take more than ten years to emerge so it is critical for the Reserving Actuary to identify those trends and make the necessary provisions.

It is also realised that there are other functions within an insurance company that contribute to its profitability and financial health and are directly linked to reserving (see Flow Chart). The actuarial skills and abilities to identify and assess various types of risk were recognised and as a result actuaries are now employed in various functions such a pricing, capital modelling, finance and reporting.

Pricing insurance products is not an easy task. It requires the use of advanced statistical techniques (commonly know as Generalised Linear Models) in identifying those risk factors, such as age, sex, type of vehicle, location for a motor policy, which are significant in increasing the likelihood of having a claim. Correctly identifying these factors is not enough without knowing the appropriate claim cost. If the ultimate level of claims is not correctly estimated, this can lead to under or over pricing on the insurance premium.

What is more important though is if this under/over pricing occurs at the wrong time of the insurance cycle. If the company under prices (as a result amongst other things of under-reserving) its products during the hard part of the cycle, it will attract a bigger share of the bad risks and consequently its profitability would suffer. If this is coupled with under-reserving, the company will find itself in a distressed situation where its revenue stream is lower but also has to inject more capital in order to meet its claims obligations.

Insurance companies in more advanced markets have taken their pricing techniques a step further by introducing 'optimal pricing'. This technique builds on the technical pricing by introducing new parameters such as customer retention and 'street prices'. In simple terms it attempts to optimise the price an insurance company can charge a customer before he defaults, by estimating the market price elasticity and the customer's propensity to spend.



Another area where actuaries are increasingly involved is Capital Modelling. The most common risk measure is the Tail Value at Risk, where the capital required is established at such a level that the insurance company can withstand extreme shocks usually 99.5 times out of a hundred. This tail capital value is driven most of the times by exposure to catastrophic events such earthquakes, windstorms, floods.

However, the overall capital requirement is also influenced by the volatility of the underlying insurance provisions. Significant fluctuation of these provisions will increase the capital value. Most of the companies also model the dependency between the underwriting and reserving risks. They derive a matrix correlating essentially the effect of changes in the loss ratios of new business (underwriting risk) and already assumed business (reserving risk). It then becomes apparent how both pricing and reserving decisions can have an impact on the economic capital of the company. This becomes even more important as some companies have already decided to disclose in the balance sheets their derived economic capital values – although there is no regulatory requirement to do so yet. This is another step taken by companies to demonstrate the embededness of their Enterprise Risk Management framework and communicate to their shareholders and rating agencies their financial strength.

IFRS phase II will entail significant work to bring insurers' financial statement in the agreed format. Insurers will have to restate their balance sheet and profit-and-loss accounts to reflect the new principles. As such, the insurance liabilities will need to be discounted at the appropriate rate to reflect the assets backing those liabilities but also to be consistent with the assumptions used in the capital modelling analysis.

In addition to the best estimated discounted insurance provisions, the companies will have to add an unbiased and explicit margin that market participants require for bearing the risk. Whatever method is selected it will have to be again consistent with the capital modelling assumptions. This means that actuaries will need to be linked with the Accounting and Finance Departments, or even employed there in order to assist with the new implementations. In addition to this, actuaries are being involved in the budget planning so that they can test the assumptions used but also to help with the monthly or quarterly monitoring.

Reserving still remains a significant part of the role actuaries fulfil in insurance companies. However, as the Flow Chart demonstrates, estimating and setting up the insurance provisions cannot be done in isolation and as a stand alone exercise. Actuaries' involvement in other functions of the insurance companies has demonstrated how they can use their skills in various areas and add value.

● ***The views expressed in the article are not necessarily those of the CBB.***

Allianz expands Bahrain base

The Central Bank of Bahrain (CBB) has granted a licence to Allianz Global Investors Europe GmbH (AllianzGI Europe) to open an office in Bahrain.

Germany-registered Allianz Global Investors Europe is a subsidiary of Allianz Global Investors (AllianzGI), the asset management arm of Allianz Group, one of the world's leading insurers and financial services providers. Allianz is also one of the world's top five asset management groups.

Allianz Global Investors Europe undertakes portfolio management, investment advisory and brokerage services. The Bahrain office of the firm will develop and service the firm's institutional client base throughout the Middle East & North Africa (MENA) region.

The licence for AllianzGI Europe is the third to be granted by the CBB to Allianz Group.

In 2007, the group established Allianz Takaful (Bahrain), the Islamic insurance arm of Allianz. Later the same year, the group established Allianz MENA Holding Company as an Ancillary Service Provider in Bahrain. The new firm is the group's central office, which monitors, supports, guides and controls the various insurance operations of Allianz in the Indian Subcontinent and MENA region.

"The CBB is delighted to welcome another Allianz subsidiary to Bahrain," said Mr. Ahmed Abdul Aziz Al Bassam, Director, Licensing & Policy, at the CBB.

The demand for wealth management services is soaring in the region, he pointed out. According to a new report from McKinsey Global Institute, the GCC states will have US$3.5 trillion to invest abroad between now and 2020, nearly twice their current foreign wealth. The report estimates that the six GCC countries held foreign assets worth about US$1.9 trillion at the end of 2006. That was more than double the 2003 figure and nearly equal to the combined size of the Brazilian and Indian economies, or the market value of the top 10 Fortune 500 companies.

Bahrain provides an excellent operational base for institutions such as AllianzGI Europe, to tap the robust regional demand for asset management services, said Mr. Al Bassam.

He pointed to the new regulations on collective investment undertakings (CIUs), which were introduced by the CBB last year. The comprehensive CIU framework provides for the full range of investment funds catering to various categories of investors and includes Bahrain's first-ever rules allowing CIUs targeting professional investors.

"Asset managers based in Bahrain can now offer a much more diversified range of CIUs, including hedge funds, derivatives and other alternative investment vehicles, which can be domiciled and offered in Bahrain," said Mr. Al Bassam.

Bahrain has, since the 1970s, played host to many international and regional asset managers and investment and private banks, he pointed out.

Mr. Sami Zghal, Chief Representative Officer and Head of Business Development, MENA, at AllianzGI Europe, said: "While Allianz Global Investors already has developed a strong client base in the MENA region, it is committed to foster its strategic aspiration through establishing a local presence operating from its regional office in Bahrain. It is also committed to offer conventional and Shari'a compliant products to reflect the specific demand, needs and culture of the region."

Allianz Group, with total revenues of more than US$163 billion and a net income of more than US$12.7 billion in 2007, is also one of the world's largest asset managers, with third-party assets of over US$1 trillion under management.

Factfile

Regulator:	Central Bank of Bahrain
Financial institutions:	408 (Mar 2008)
Financial sector workforce:	9,753 (2006)
Bahraini nationals	7,019 (72%)
Foreign nationals	2,734 (28%)
Key economic indicators:	
GDP	US$10.9 billion (2006)
Growth	6.5%
Financial sector contribution to GDP	25.5%
Sovereign rating	A (S&P 2007) A (Fitch 2007)
Population	742,500 (2006)
Banking Sector:	
Assets	US$251 billion (Feb 2008)
No. of institutions	151 (Mar 2008)
Retail banks	29
Locally incorporated	14
Branches of foreign banks	15
Wholesale banks	86
Representative Offices	36
Islamic Banks (included in above):	
No. of banks	29
Assets	US$17.7 billion (Feb 2008)
Insurance Sector:	
No. of firms	165
Domestic market	
Gross premiums	US$308 million (2006)
No. of firms	33 (Mar 2008)
Locally incorporated	22
Branches of foreign firms	11
Firms operating outside Bahrain	41
Representative Offices	6
Captives	1
Brokers	43
Loss adjusters	10
Actuaries	19
Others	12
Takaful Firms (included in above)	
No. of firms	15
Onshore	6
Firms operating outside Bahrain	9
Retakaful firms	1
Investment Business Sector:	
No. of firms	39
Capital market:	
Market capitalization	US$29.4 billion (Mar 2008)
Brokers	13
Listings	
Companies	51
Mutual funds	33
Bonds	17
Specialised Licensees	
No. of firms	40
Money Changers	19
Others	21
Funds Industry	
Authorized Funds	2,483 (Dec 2007)
NAV	US$15.6 billion
Local Funds	124
NAV	US$4.5 billion
Conventional	76
Islamic	48
Foreign Funds	2,360