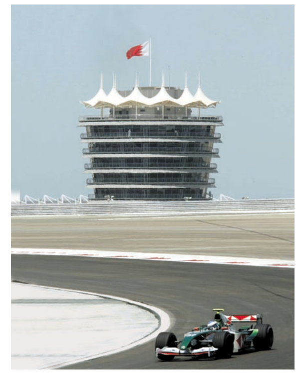
The Insurance & Takaful Review
BAHRAIN
May 2008 Issue 17
Published by the Central Bank of Bahrain (CBB)



Inside

Page 2
Rules for composite insurers
Licence for ACR ReTakaful

Page 3
Solvency rules for takaful funds

Page 4
CBB captive brochure

Page 5
Bancassurance prospects

Page 6
CII to offer BIBF course
BIA focus on development

Page 7
Room for growth

Page 8
CBB attends IAIS meeting
Financial Fact Sheet

Editor
Indira Chand, CBB

E-mail:
insurance@cbb.gov.bh

CBB Contact:
Director
Insurance Supervision Directorate
Central Bank of Bahrain
P.O. Box 27, Manama
Kingdom of Bahrain
Tel: +973 17547304
Fax: +973 17535170
Website: www.cbb.gov.bh

Big surge in insurance sector employment

Employment in Bahrain's insurance industry surged by nearly 26% in 2007, compared with the previous year, according to a Central Bank of Bahrain (CBB) survey on employment in the financial sector.

The insurance sector added 314 new jobs, raising total employment in the sector to 1,529 in 2007, from a revised 2006 figure of 1,215. The 2007 insurance employment numbers were an increase of 25.8% over 2006 and 55% over 2005.

The growth in employment in the insurance industry, in fact, outpaced the overall surge in employment in Bahrain's financial sector, which also includes the banking and capital markets sector, the CBB survey found.

The overall financial sector employment growth was 22.6% in 2007.

"Bahrain's insurance industry is expanding significantly in recent years," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

The economic boom in the region, large scale Government and private investment in economic and infrastructure projects as well as growing public acceptance of insurance are creating a strong demand for insurance products, both conventional and Islamic, he noted.

The surge in insurance employment is a demonstration of the industry's expansion, said Mr. Al Baker.

The Bahraini workforce in the insurance sector grew 16.6% to 915, from 785 in 2006, with women, totaling 328, representing 35.8% of the Bahraini workforce in the insurance sector, according to the Bahrain financial sector employment survey, which is conducted by the CBB's Directorate of Financial Stability.

The survey found that Bahrain's financial services industry added more than 2,200 new jobs during 2007, raising total employment in the sector to a record 11,960 last year.

The 2007 employment was a continuation of a recent trend of double-digit growth in financial sector workforce, which has more than doubled since 2000 when the CBB began conducting the survey annually.

The survey for 2007 found that of the 2,208 new jobs created, 1,230 (or 55.7%) went to Bahrainis, raising the number of Bahrainis employed in the financial sector to 8,248 last year, from 7,019 in 2006.

"The growth in financial sector employment in 2007 was the strongest in recent years, reflecting the unprecedented economic expansion taking place in the region," said Shaikh Salman bin Isa Al Khalifa, Director, Financial Stability, at the CBB.

The financial sector has added 3,742 jobs in the past two years alone and 6,729 since 2000.

A key highlight of the 2007 survey is the increase of 22.8% in the employment of Bahraini women, who accounted for 37.2% of all Bahrainis employed by the financial sector and one-quarter of the total workforce.

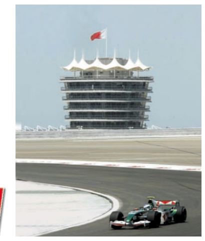
The banking industry, the bedrock of Bahrain's financial sector, remained the largest employer within the financial services industry, adding 1,470 new jobs during 2007. This resulted in a 20.6% increase in employment in the banking sector to 8,608, which constituted 72% of all financial sector jobs in 2007.

Bahrainis comprised 6,241 (72.5%) of the banking jobs in 2007, with Bahraini women, numbering 2,354, accounting for 27.3% of the jobs in the banking sector.

"The 2007 employment numbers are a strong demonstration of Bahrain's continued development as the leading international financial centre in the Middle East region," said Shaikh Salman.

On its part, the CBB continues to ensure that Bahrain's financial institutions enjoy a transparent and business-friendly regulatory environment and the availability of skilled and professional human resources, he said.

The Insurance & Takaful Review
BAHRAIN



Rules on composite insurers

The Central Bank of Bahrain (CBB) is considering a proposal to allow general insurance companies to undertake long term insurance (life and savings type products) within the same company.

The CBB is consulting with the industry on draft amendments to the CBB Insurance Rulebook (Volume 3 of the CBB Rulebook) to govern composite insurance companies, which would be able to offer both general and long term insurance products, up to a set percentage limit.

At present, life and general insurance are segregated activities which must be undertaken by separate entities.

"The CBB believes that its regulations and directives should encourage the further development of the insurance industry in the Bahrain. Since the introduction of the new CBB insurance regulatory framework in 2005, gross premiums have increased significantly. In 2006 alone, gross premiums increased by 26%," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

"The CBB believes that there remains significant potential in developing the insurance market further. One of the areas where we believe there is tremendous potential for growth is in long-term insurance, particularly in life and savings type products."

The existing regulation requiring segregation of general and long term insurance was first introduced in 2005, he pointed out.

At the time, the CBB wanted to make sure that regulations complied with international standards. In particular, the CBB referred to the international standards (IAIS core principles) as promulgated by the International Association of Insurance Supervisors (IAIS).

Proposed Amendment

"The CBB believes that it can strike a balance by encouraging the development of long-term insurance and abiding by international standards," said Mr. Al Baker.

"The CBB acknowledges that developing a healthy book of business for long term insurance, such as life, takes time and that insurance companies could generate much-needed revenues from general lines, such as motor, in the interim."

The CBB is, thus, considering allowing general insurance firms to undertake long-term insurance, up to a maximum of 30% of gross premiums. Where an insurance firm's long-term gross insurance premiums would exceed the 30% cap, the CBB would require that a separate entity be licensed as a separate long-term insurance firm.

In order for companies to avail themselves of this added flexibility, they would need to keep separate books and records for general and long-term insurance and comply with the specific solvency margin requirements in place for general insurance and long-term insurance as outlined in Chapter CA-2 of Module CA (Capital Adequacy) of the CBB Insurance Rulebook. In addition, composite companies would be required to comply with all actuarial requirements outlined in Module AA (Auditors and Actuaries).

The above requirements would not apply to pure reinsurers and captive insurers due to the nature of their insurance activities.

This proposed amendment would require the amendment of Module AU, in particular Paragraph AU-1.1.14 would need to be amended as per the proposal above.

In accordance with the CBB's established policy to consult with industry prior to the issuance of new regulations or upgrading existing rules, the CBB has issued a consultation paper containing details of the new proposal.

Following the consultation, the CBB will review possible amendments for the July 2008 update to the CBB Insurance Rulebook.

The consultation paper is available on the CBB website at www.cbb.gov.bh

CBB licenses ACR Retakaful

The Central Bank of Bahrain (CBB) has granted a licence for the establishment of ACR ReTakaful MEA B.S.C., an Islamic reinsurance company.

The new firm is a wholly-owned subsidiary of Dubai-based ACR Retakaful Holdings, established recently as a joint venture between Dubai Banking Group, which is part of the Dubai Group, Malaysian national investment company Khazanah Nasional Bhd, and Singapore-based reinsurance firm ACR Capital Holdings Pte. Ltd.

ACR ReTakaful MEA, the first operational entity of ACR Retakaful Holdings, will be capitalized at US$200 million and will underwrite general (non-life) large risk business.

"The CBB is delighted to welcome ACR ReTakaful MEA to the Kingdom's growing community of takaful and retakaful operators," said Mr. Ahmed Abdul Aziz Al Bassam, Director, Licensing & Policy, at the CBB.

Bahrain is among few jurisdictions in the world to offer a comprehensive regulatory environment specific to Islamic insurance and reinsurance (takaful and retakaful) companies, he said.

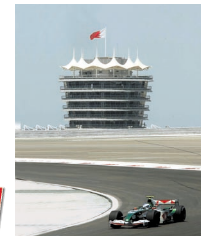
Mr. Jonathan Wilton, Chief Executive Officer of ACR ReTakaful MEA, said: "We are delighted to have obtained a licence to start our retakaful business in Bahrain. With it, we can now respond to the needs and the market potential in Islamic countries across our region.

"With ACR's vast management experience and technical underwriting expertise, we are confident that we can contribute positively to the retakaful sector which we believe has good growth prospects."

ACR ReTakaful MEA is the second Bahrain venture of Singapore-based ACR Capital Holdings, which spearheaded the establishment of ACR Retakaful Holdings.

In October 2007, the CBB approved the establishment of a Representative Office of Asia Capital Reinsurance Group Pte. Ltd., a subsidiary of ACR Capital Holdings, which is a reinsurance company exclusively focused on Asian risk.

The Insurance & Takaful Review
BAHRAIN



Solvency rules for takaful funds

The Central Bank of Bahrain (CBB) has issued a consultation document seeking comments on a key requirement of the solvency margin requirements for takaful (Islamic insurance) companies licensed in Bahrain.

The CBB is considering a transition period in the determination of admissible assets for purposes of calculating the capital available needed to meet the solvency requirements for new takaful funds. The transition period will take into consideration the level of assets of the takaful fund and the first five-year operational period of the fund.

The aim of this transition period is to allow new takaful funds a period of time to build up the level of their assets, prior to being subject to deductions due to category and counterparty limits as outlined in Module CA (Capital Adequacy) of Volume 3 (Insurance) of the CBB Rulebook.

"Since issuing the CBB Insurance Rulebook in 2005, the CBB has continued to work closely with the insurance industry to facilitate the implementation of the new insurance regulatory framework," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

During this transition phase, several issues have surfaced that have led to amendments and updates to the Rulebook.

"One area that warrants further consultation and possible amendment relates to solvency margin requirements for newly established takaful funds," said Mr. Al Baker.

These requirements, detailed in Section CA-8.4 of the Module CA (Capital Adequacy) of the CBB Rulebook, oblige takaful firms to maintain and calculate their capital available to meet the solvency requirements of each takaful fund, as if each fund were a separate licensed insurance firm.

To meet the solvency requirements, the capital available of the takaful fund is defined as the participants' equity (accumulated surplus of revenues over expenses), adjusted by any reductions to the capital as per the calculation of capital available, defined in Section CA-1.2.

New Funds

When a takaful fund is established, its balance sheet is nil, unlike a newly-established conventional firm, which will have assets equivalent to the equity injected. The takaful fund builds up its asset base as contributions from participants (policyholders) are received. Naturally, some of the funds received from contributions will be used to cover the cost of claims incurred from the fund as well as wakala fees paid to the takaful operator (shareholder fund).

Since the fund initially starts with a nil amount of assets, the accumulation of assets, so that the resulting balance sheet results in a surplus to participants, takes several years to build up. This is because claims must be paid and the high wakala fees resulting from the initial start up of the fund.

Paragraph CA-8.4.13, does provide transition rules for newly-established takaful insurers, in their first year of operation, providing an exemption for the takaful fund to meet its solvency margin requirements to build up its capital base. Following this first year of transition, the takaful fund is expected to meet the solvency margin requirements. Should it fail to do so, the CBB expects the shareholders of the firm to cover any shortfall by way of a free loan (Qard Hassan) for the takaful fund.

Proposed Rule

One of the challenges with the current transition rules is that they apply to the first year of operation of the "takaful insurer" as opposed to the "takaful fund". This implies that if a takaful fund is started at a later stage from the first year of operation of the takaful insurer, the new takaful fund will not benefit from any transition period.

As a first step, the CBB proposes that transition rules be formulated for takaful funds (as opposed to takaful insurers).

Furthermore, the fact that the transition rules is a factor of "time" may prove difficult for funds to build up an asset base large enough to have a diversified portfolio, meeting all Rulebook category and counterparty limits.

To address this challenge, the CBB proposes that the transition rules should not only be linked to a time factor but also the size of the asset base of the takaful fund, as this is an important element in the application of the admissibility rules for both category and counterparty limits. New insurance firms are required to have a minimum Tier 1 capital of BD5 million. However, for a takaful fund to build up such an asset base takes a few years. But one should reasonably expect to reach this level in a 5-year period. The CBB, therefore, believes that a transition rule for newly established funds would be appropriate, as follows:

In the case of a newly-established takaful fund, in its first year of operation, the fund will not be required to meet the solvency margin requirements. Subsequently, the fund will be expected to meet the solvency margin requirements, but the calculation of its capital available (participants' equity) will still be subject to valuation rules though not subject to deductions resulting from inadmissible assets (by category or counterparty):

(a) for a period not exceeding 5 years from the start of the takaful fund; or

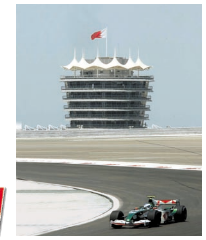
(b) when the asset base of the fund reaches a minimum asset level of BD5 million.

Should the takaful fund not meet the solvency margin requirements, the CBB expects the shareholders of the takaful firm to cover any shortfall by way of Qard Hassan.

Once a Takaful fund has reached one of the conditions (a) or (b), it will be expected to calculate its capital available as per Paragraph CA-1.2.21, including all deductions related to inadmissible assets.

"The new proposed transition rules are aimed at putting in place a realistically achievable target to allow newly established takaful funds to build up their capital base," said Mr. Al Baker.

They will also ensure that participants' interest will be protected, through the requirement of Qard Hassan.



CBB brochure on captives

The Central Bank of Bahrain (CBB) has published an informative brochure on captive insurance.

The brochure, titled 'Captive Insurance: Why and How to Form a Captive in Bahrain', is aimed at raising awareness about the prospects for the captive industry in the Middle East region and Bahrain as the domicile of choice for captives.

The CBB has also created a special e-mail address for receiving inquiries on captive insurance. The e-mail address is captive@cbb.gov.bh

"Captive insurance is a nascent industry in the Middle East & North Africa region," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

"However, the sector holds promising prospects as the region, particularly the GCC countries, has a critical mass of large and medium sized conglomerates which could find the captive option beneficial."

Captive insurance companies, or 'captives', are subsidiary insurance companies whose primary function is to insure all or part of the risks of their owners, or 'parents'.

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

By establishing 'captives', the parent companies can benefit from more efficient and cost-effective insurance buying as well as premium stability and coverage flexibility. Captives also afford potential for investment returns, among other benefits, to their parent firms.

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

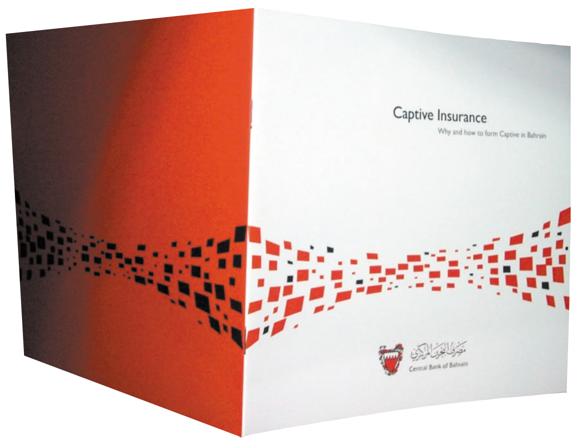
Globally, captive insurance first emerged in the 1960s and the growth of this industry has been substantial, rising from over 1,000 in 1980 to over 4,000 at present. Captive companies are estimated to account for approximately 10% of the world's commercial insurance premiums.

"We feel the MENA market is ripe for captive insurance business and that Bahrain is the most suitable domicile in the region for such firms," said Mr. Al Baker.

He pointed to the introduction in Bahrain of a sound regulatory framework for captive insurance business. The regulations, issued in 2005, are contained in the CBB Insurance Rulebook.

This was followed, in 2007, by the establishment in Bahrain of the Middle East region's first captive insurance company, Tabreed Captive Insurance Company (TCIC).

"The CBB aims, through the brochure, to raise awareness about the potential of this business line, in addition to providing information about the regulatory environment in Bahrain for captive business," said Mr. Al Baker.



The brochure provides useful information about captive insurance and the promising prospects for it.

"In the last few years, a larger number of companies have been established and prospered in the region. Many of these companies have had an excellent safety record and low levels of insurance claims. Hence, the feasibility of setting up a captive insurance firm to insure the risks of these companies and allow them to benefit from lower insurance rates and increase investment income makes much more economic sense," says the brochure.

The benefits of captives are categorized as financial and operational, as follows:

Financial Benefits

- Lower premiums, more accurately reflective of actual loss experience;
- Better cost control of insurer's administrative overhead and profit margins;
- Underwriting profits and related investment income retained in captive subsidiary;
- Direct access to reinsurance market.

Operational Flexibility

- Availability of risk coverage which otherwise may be unavailable or very expensive from the conventional market;
- Cash flow advantage;
- Insulation from cyclical and volatile insurance market;
- Flexibility in the design of the insurance programme.

In a segment on Bahrain as a Captive Center, the brochure details the insurance regulatory environment in Bahrain. As the single regulator for the financial sector in the Kingdom, the CBB has spearheaded a series of liberal reforms, creating new opportunities for insurance business across the region.

"The CBB's insurance regulatory framework is in line with the international standards as defined by the International Association of Insurance Supervisors (IAIS)," says the brochure.

Both direct and reinsurance captives can be set up in Bahrain. The annual licensing fees for captive insurers is US$2,650.

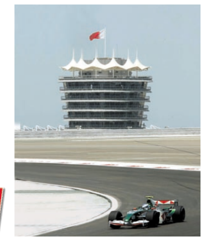
The Kingdom of Bahrain boasts the following advantages as a premier financial services jurisdiction:

- The largest concentration of insurance companies in the MENA region, building on years of experience in the insurance sector;
- Advanced and sophisticated insurance sector with a trained and efficient workforce;
- Home of the Arab War Risks Insurance Syndicate (AWRIS) and Federation of Afro-Asian Insurers and Reinsurers (FAIR) Oil and Energy Syndicate;
- A regulatory and supervisory environment responsive to the insurance needs of the region, working closely with the insurance industry towards solutions to further the growth and development of the insurance industry;
- Proximity to major markets in the Middle East;
- Highly favorable tax environment, with no corporate, personal value-added or withholding tax;
- Free foreign exchange movement.

For more information on captive insurance in the Kingdom of Bahrain, please contact CBB's Insurance Supervision Directorate as follows:

Tel: (973) 17 547 302
Fax: (973) 17 535 170
E-mail: captive@cbb.gov.bh
Website: www.cbb.gov.bh

The Insurance & Takaful Review
BAHRAIN



Bancassurance prospects bright

New approaches to insurance distribution are needed if the industry is to maximize its growth potential, says a senior Central Bank of Bahrain (CBB) official.

Mr. Al Baker

Both insurers and banks have much to gain from marketing insurance products through banking channels in the Middle East & North Africa (MENA) region, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

He was speaking at the 2nd Middle East Conference on Bancassurance and Alternative Distribution Channels, held in Bahrain on 28 & 29 April 2008.

"The MENA region has recorded significant growth in GDP, averaging approximately 6% in 2007," said Mr. Al Baker. The encouraging economic growth prospects of the region present tremendous growth potential and opportunities for the insurance market.

Key factors contributing to the growth potential in the region include a large young workforce in the middle income group, he said. The changing priorities and lifestyles of this new generation, growing wealth and growing middle class will also support continued and further growth in demand of investment-linked and wealth management products.

As a result, the insurance industry has, and will continue to, expand its role beyond merely providing protection products. Against this backdrop, prospects for increasing insurance penetration are clearly positive.

This will, however, depend on the ability of the industry to respond to these changing demographics and dynamics in the financial system. In 2007, insurance premiums in the MENA region averaged less than 2% of GDP, compared to almost 9% in the US and 16% in the UK.

"Compared to the banking sector, the insurance industry remains less developed and represents a smaller percentage of the total financial assets of the region's financial system," said Mr. Al Baker.

"To tap these opportunities, new approaches and thinking are required. In this regard, a significant development has been the evolution of alternative distribution mechanisms for insurance products and services, notably bancassurance."

Bancassurance, which is the distribution of insurance products through a bank's distribution channels, allows insurers to widen their outreach by tapping into an established banking network and client base. Worldwide, insurers have been successfully leveraging on bancassurance to gain a foothold in markets with low insurance penetration and a limited variety of distribution channels.

There are several reasons why banks should seriously consider bancassurance, the most important of which is that it helps to enhance their overall income. Banks that build fee income can cover more of their operating expenses, and one way to build fee income is through the sale of insurance products, said Mr. Al Baker.

Banks also have the advantage of lower cost per sales over traditional insurance distributors due to their sizable, loyal customer base.

Banks also enjoy more superior marketing and processing capabilities and have access to multiple communications channels, such as statement inserts, direct mail, ATMs, telemarketing, etc. Banks proficiency in using technology has resulted in improvements in transaction processing and customer services.

"Generally, insurers also have much to gain from marketing through banks. By capitalizing on banks relationships, insurers can capture their wide client base in order to increase market penetration, given the relatively higher level of public confidence in banks," said Mr. Al Baker.

For both banks and insurers, capitalizing on synergies derived from tapping into the banks' extensive customer base to offer consumers comprehensive financial solutions, while optimizing on the branch network have proven to be highly successful strategies towards mutually improving productivity and profitability.

Bancassurance also offers benefits to consumers in the form of convenient access to a wide range of integrated financial services from a single provider, and more competitively priced insurance products as a result of insurers passing on cost savings arising from lower distribution costs.

In Bahrain, bancassurance products may be categorized into credit-related and non-credit related products. The most common credit-related products are consumer credit insurance products purchased by borrowers in connection with mortgage loans, vehicle loans and overdraft facilities provided by banks.

On the other hand, the non-credit related insurance products feature far more prominently in bancassurance in the life sector. Of this, investment-linked policies, which are currently offered by a few banks, are the most common type of product in Bahrain.

Other non-credit related bancassurance products that consist primarily of education, traditional whole life and medical insurance policies are not offered by banks in Bahrain, due to their more complex features and corresponding need of consumers for more intensive advice to understand them.

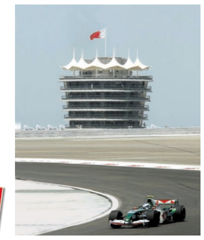
In the general insurance sector, bancassurance products in Bahrain are predominantly credit-related personal-line products including residential fire and motor insurance policies.

"Although the industry remains some way from achieving the level of sophistication seen in Europe, the future prospects for further growth and development in bancassurance in Bahrain remain strong," said Mr. Al Baker.

The low penetration of life insurance, coupled with the increasing sophistication of consumers, point towards a large untapped market potential. Second, the single product relationships, mainly in the form of savings or current deposit accounts, continue to dominate retail banking in Bahrain, underscoring the scope that still exists for banks to more effectively leverage on banking relationships with their customers by offering an expanded product range, including insurance products and services.

Also, customer visits to bank branches are still common, indicating valuable opportunities for banks to have access to face-to-face contact with customers that are already pre-disposed to considering insurance solutions to meet their diverse financial needs.

"Last but not least, the high level of confidence and trust generally placed by the public in banks makes them particularly well-positioned to attract consumers to purchase life and other insurance products from their distribution outlets," said Mr. Al Baker.



CII to offer BIBF takaful course

The Chartered Insurance Institute (CII) continues its partnership with the Bahrain Institute of Banking and Finance (BIBF) by accrediting the programme on takaful (Islamic insurance) recently launched by the BIBF.

The CII will also make the new qualification available in the UK by September 2008.

"The takaful sector is quickly establishing itself as a key component in the industry - not just in the Middle East but throughout the world - and the CII is delighted to be part of this exciting project," said Mr. Lee Gladwell, Director of General Insurance at the CII.

"We aim to have all the learning materials in place and available for UK applications by the beginning of September 2008 and successful examinees will receive an internationally recognised certificate."

The programme will cover key topics, such as Shari'a practice and perspective, comparative analysis between conventional and takaful companies, accounting standards for takaful, surplus and loss distribution, structure and operations of Islamic insurance companies, as well as family and general takaful products.

The programme has been developed by seven top academic and professional experts from around the world and the BIBF plans to publish an Arabic version of the textbook. In addition, there are plans to develop a series of textbooks and training programs in the different areas of takaful, such as Islamic accounting standards for takaful operators.

Mr. Mark Greenwood, head of regional business for the CII in the Middle East said: "We are proud to be working with the BIBF, which is seen as the leading provider of Islamic finance and insurance training programs throughout the Middle East and, by combining our experience and resources with their expertise, we will jointly be able to offer a vital addition to the further development of the takaful market."

For the first time in CII history it accredits and adapts a qualification from outside UK as a part of its curriculum. This is an indication that CII Academy at the BIBF is working very well.

The Central Bank of Bahrain (CBB) will also develop a joint qualification with the BIBF and CII for Insurance Brokers and Agents. These qualifications will be exported to the region in cooperation with insurance regulators in each country.

The CII Academy at the BIBF, launched in 2007, is the exclusive training provider for CII courses in the Middle East. The Academy also houses the first online examination center for the CII outside the UK.

The CII is the largest and most influential insurance training and educational body worldwide. It currently has over 90,000 members and provides a suite of insurance and financial planning qualifications.

BIA focus on development

Bahrain's insurance industry is spearheading a number of developmental initiatives aimed at supporting the sustained growth of the fast-growing insurance services sector.

Projects aimed at boosting research and development (R&D) as well as education and training are among projects being undertaken by the Bahrain Insurance Association (BIA).

Such capacity-building initiatives are imperative for the efficient functioning of the insurance industry, which provides a critical service to society, said Mr. Ashraf Bseisu, Chairman of the BIA.

He was speaking at the annual gala dinner of the Bankers Society of Bahrain and the BIA. The event was attended by HH Shaikh Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander and Chairman of the Economic Development Board (EDB).

It was attended by more than 250 executives, representing the financial services community in Bahrain. Ministers, top government officials, business leaders and chief executives of national companies also attended.

Mr. Bseisu pointed to the strong economic growth taking place in Bahrain and the tremendous expansion of the financial services industry.

The insurance industry, too, has witnessed record growth in terms of market growth, expansion, and foreign direct investment.

Bahrain also hosted the premier pan-Arab insurance event, the General Arab Insurance Federation (GAIF) conference, held in February 2008.

"However, with great strides of opportunity and growth come great challenges of sustenance and sustainability," said Mr. Bseisu.

"One of our main challenges lies in the education and development of human capital."

In the financial services and insurance industry, the average spending on training is in the range of 1% of total expenses, when it should be closer to 4 or 5%.

"In order to move forward, we must recognise that training and development is a long term capital commitment, not merely a cost outlay," said Mr. Bseisu.

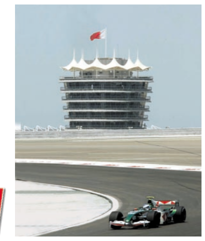
"At the level of the BIA, we have embarked on a number of related developmental initiatives for Bahrainis in association with the Labour Fund, the Human Resources and Development Fund, and the Bahrain Institute of Banking and Finance."

Another key area of focus is research and development (R&D).

"In the Middle East & North Africa (MENA) region, only a startlingly low 0.2% of GDP is spent on R&D," Mr. Bseisu said.

"On this front, the BIA is currently collaborating with the University of Bahrain and a UK university to set up, in Bahrain, a centre of excellence for academia and research in the field of insurance."

The Insurance & Takaful Review
BAHRAIN



Room for Growth

In this article, Global Investment House, a leading investment banking and asset management firm based in Kuwait and Bahrain, analyses the growth of Bahrain's insurance industry and its future prospects.

The increase in economic growth coupled with increasing public awareness and acceptance about the need for insurance have contributed to the expansion of the insurance sector in Bahrain.

The insurance industry in Bahrain continues to attract a number of insurance players from around the globe. Several new insurance licenses were granted in 2006 and 2007, expanding the scope of insurance activities, particularly in the takaful and retakaful areas. Among major international players to establish operations in Bahrain is Germany's Allianz Group, which launched a wholly owned subsidiary, Allianz Takaful (Bahrain), to serve as the Group's global hub for Islamic insurance (takaful). The firm has also established in Bahrain the Allianz MENA Holding Company, which will provide support services to the Group's entities throughout the Middle East region as well as the Indian Subcontinent.

Hannover Re has also opened a branch in Bahrain that will provide conventional reinsurance services throughout the region and beyond. The move followed the establishment in Bahrain of Hannover ReTakaful, the principal underwriter of Hannover Re's global retakaful business.

Bahrain continues to play a leading role in developing the regional insurance opportunity and is also the most attractive in the region. Bahrain intends to become the insurance hub of the region, and is taking necessary steps to achieve the goal.

To further enhance Bahrain's attractiveness for international insurance firms, the CBB has amended capital requirements for branches of overseas insurance firms by recognizing the support provided to the branches from their overseas parent company. As such, the CBB no longer requires branches of overseas insurance firms to maintain a minimum amount as capital.

From 31 December 2007, all other insurance firms are subject to the minimum capital requirements of BD5 million (BD10 million for pure reinsurers), in addition to meeting the minimum solvency margin requirements. Branches of overseas firms are required to maintain minimum solvency margins as set by the CBB, i.e. BD500,000 (US$1.3m) for general insurance and BD400,000 (US$1.1m) for life business. The minimum solvency requirements increase as the volume of business (premiums and claims) of the firm increases.

Gross Premiums & Claims of Local Insurance Market (By Segment)

(BDÕ000)	Gross Premiums			Gross Claims		
	2004	2005	2006	2004	2005	2006
Life	**18,622**	**16,423**	**24,529**	**4,750**	**7,876**	**8,896**
General	**71,462**	**77,377**	**93,638**	**32,710**	**38,557**	**45,423**
Fire	14,363	14,779	20,215	2,585	5,349	8,492
Marine	5,864	5,851	7083	653	493	1676
Motor	34,046	36,923	40,693	23,289	27,291	29,460
Miscellaneous	17,189	19,824	25,647	6,183	5,424	5,795
Total	**90,084**	**93,800**	**118,167**	**37,460**	**46,433**	**54,319**
Growth Rate (%)	*14.0*	*4.1*	*26.0*	*8.7*	*24.0*	*17.0*

Source: Central Bank of Bahrain

At 2007-end, Bahrain had a total of 165 insurance and insurance related firms compared with 155 reported at the end of 2006 and 147 at 2005-end.

Growth Potential

We believe that insurance companies have a lot of room to grow, especially in life business. The penetration levels in the life segment in the GCC are far below the global penetration rate, as this segment is still fairly new in this region. Many international players are entering the insurance market to tap this segment.

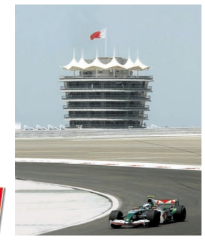
The growth of the insurance industry has continued its trend during 2006 with the total gross premiums from general and life insurance increasing by a whopping 26% to reach BD118.2m in 2006, compared to BD93.8m the previous year. In 2006, life insurance premiums registered a turnaround with a substantial increase of 49.4% to reach BD24.5m. Life business accounted for 20.8% of total premiums written in 2006. Although gross premiums from life insurance increased substantially, the growth in life claims was only 13% and touched BD8.9m in 2006 as compared to BD7.9m the previous year.

General insurance premiums, too, registered a significant gain of 21% to reach BD93.6m in 2006 as compared to BD77.4m the previous year and accounting for 79.2% of total premiums underwritten in 2006. This percentage decreased from 82.5% in 2005, despite the increase of 21% in general insurance premiums and reflects the growing acceptability of life insurance in the region.

The loss ratio, which had increased from 25.5% in 2004 to 48% in 2005 in life insurance, decreased again to 36.3% in 2006, having a positive impact on the overall profitability of the insurance industry. As a result, the overall loss ratio of the insurance market declined from 49.5% in 2005 to 46% in 2006. The decrease in overall loss ratio was also due to a decrease in loss ratios in the motor and miscellaneous sectors as well.

The insurance industry in Bahrain has been growing steadily in recent years. Public perception of life insurance, in particular, has changed considerably with the introduction of takaful and now represents a huge, fairly untapped opportunity. However, insurance penetration in Bahrain continued to be low by world standards and hence offers significant room for growth. There is a need to raise awareness about insurance among the public in Bahrain, in order to further grow the insurance market. In addition, the quality of human resources in the insurance sector needs to be improved and the CBB is trying to ensure the provision of quality training.

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



CBB at IAIS triannual meet

The Central Bank of Bahrain CBB will be represented at the upcoming triannual meetings and global seminar of the International Association of Insurance Supervisors (IAIS) scheduled to take place in Seoul, South Korea from 16 to 20 June 2008.

The CBB delegation to the event comprises Mr. Nader Al Mandeel, Head, Local Insurance and Reinsurance Firms, and Ms Johanne Prevost, Advisor, Insurance Supervision.

"The IAIS gathering is an important opportunity to promote the exchange of views at an international level, on topics important for the further development of insurance business and its supervision," said Mr. Al Mandeel.

The CBB is committed to implementing an advanced insurance regulatory regime, in line with the principles and standards set by the International Association of Insurance Supervisors (IAIS), the international standard setter for insurance, he said.

At this IAIS event, several documents dealing with draft standards, principles and guidance will be discussed during the course of the meetings of the various committees and sub committees of the IAIS.

Topics discussed will include draft guidance papers and standards on structure of capital requirements, enterprise risk management for solvency purposes and internal models for single entity. In addition, draft principles on group-wide supervision and a draft guidance paper on the regulation and supervision of captive insurers are part of the agenda.

The above documents are being discussed in preparation for their approval and submission at the IAIS's General Meeting taking place on 17 October 2008 in Budapest, Hungary.

The triannual meetings will also focus on the progress of supervisory papers for either endorsement to release for consultation or progress reports to seek guidance. The topics discussed in this category relate to the mutual recognition of reinsurance supervision, the evaluation of the reinsurance cover of primary insurers and the security of their reinsurers, the risk transfer, disclosure and analysis of finite reinsurance and the role of a group-wide supervisor.

The IAIS is putting in place a new market conduct subcommittee and the mandate of this new working group will be agreed upon during the course of these meetings.

The meetings will also feature plenary sessions under the heading of the IAIS global seminar with special focus on various presentations dealing with solvency guidance papers, group supervision, reinsurance mutual recognition, and the multilateral memorandum of understanding. In addition, presentations on asset liability management and the IAIS insurance laws database will take place.

"The CBB recognises the importance of taking part in such working group meetings at the international level, to keep abreast of regulatory and supervisory changes having an impact on the insurance industry, particularly as the insurance industry in Bahrain continues to grow significantly," said Mr. Al Mandeel.

Such supervisory exchanges often form the basis of consultations and possible amendments to the CBB's Volume 3 (Insurance) Rulebook, to ensure that Bahrain maintains its reputation as a leader in the development of insurance regulatory framework in line with international standards.

Factfile

Regulator:	Central Bank of Bahrain
Financial Institutions:	410 (Apr 2008)
Financial Sector Workforce:	11,960 (2007)
Bahraini nationals	8,248 (69%)
Foreign nationals	3,712 (31%)
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$259.2 billion (Apr 2008)
No. of institutions	150 (Apr 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$18.4 billion (Apr 2008)
Insurance Sector:	
No. of firms	166
Domestic market	
Gross premiums	US$308 million (2006)
No. of firms	35 (Apr 2008)
Locally incorporated	24
Branches of foreign firms	11
Firms operating outside Bahrain	41
Representative Offices	5
Captives	1
Brokers	43
Loss adjusters	10
Actuaries	19
Others	12
Takaful Firms (included in above)	
No. of firms	18
Onshore	9
Firms operating outside Bahrain	9
Retakaful firms	1
Investment Business Sector:	
No. of firms	41
Capital market:	
Market capitalization	US$29.8 billion (May 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	2,584 (Mar 2008)
NAV	US$16.1 billion
Local Funds	123
NAV	US$4.5 billion
Conventional	73
Islamic	50
Foreign Funds	2,461