Reinsurance capacity on the rise

Undeterred by the financial turmoil and attracted to the region's relatively benign catastrophe climate, global reinsurers are continuing to expand from their regional bases in the DIFC.

In 2009, Liberty International Underwriters (LIU) had 13 staff in its DIFC Gate Village office. Two years on, its floor space has expanded to accommodate a projected headcount of 20 by end-2011. It introduced war and terrorism capacity this year, and is set to launch professional indemnity covers for architects and engineers.

At the beginning of 2011, ACE Insurance Management opened its doors for business in the DIFC's Currency Tower. It has since expanded its floor area and employs more than 10.

Other reinsurers in the DIFC have similar stories to tell – additions to staff, office space and capacity – ones which would make any landlord happy. But this is no ordinary landlord – it is the DIFC, with all its grand ambitions to build a thriving insurance and reinsurance hub, on par with global centres like Singapore.

New entrants

The latest entrants include Reinsurance Group of America (RGA) and specialty underwriter Argo Group, both of which announced the opening of their DIFC-based regional offices in September 2011.

Argo Re, a subsidiary of Argo Group's Bermuda business, will focus initially on casualty, professional and financial lines insurance, including major construction projects and energy risks.

RGA Reinsurance Co Middle East will write group and individual life business on a treaty or facultative basis, as well as health business on a treaty basis. "We regard ourselves as experts in underwriting life business, and we apply a unique and creative approach to substandard risks. We even adapt this to the local market so, for example, diabetes, may not result in the automatic 200+% loading applied by most reinsurers," said Mr Ashraf Al Azzouni, Vice President & General Manager.

"For RGA, we anticipate that our growth will be derived from the rapid growth in health insurance, takaful markets, and through selection of the right partners in the already-thriving core life and health markets in the region."

RGA Middle East currently has a team of eight, out of which six are located in Dubai. It expects to expand operations in Qatar, Egypt and Turkey, and is looking to develop the Saudi Arabia, Kuwait, Jordan and Lebanon markets, revealed Mr Al Azzouni.

Mr Mark Quinn, Senior Executive Officer of ACE Insurance Management welcomes the arrival of new players. "The collective amount of capacity offered from the DIFC can be an attractive proposition. Moreover, a DIFC reinsurer has a good understanding of the local environment. So there is a powerful combination of local understanding and global capacity."

Mr Elie Bouchaaya, LIU's Regional Manager and Vice

Plans for the next three years

"In the next three years, we expect to be bigger, to be the market of choice, and to continue to be a recognised leader, especially in higher-end products. We want to be a company that others want to partner with, and to be a growth engine for ACE globally."
Mr Mark Quinn,
ACE Insurance Management

"In the next few years, we will be in active in all lines of business and in the developing world, including regions like Asia. In the long term, the company will be more broad based"
Mr Michael Gertsch,
Gulf Re

"We plan to remain as a leading reinsurer in the region."
Mr Elie Bouchaaya,
LIU

"Our corporate vision is 'To be the leading global life reinsurer considered essential by its clients for their future prosperity' and this includes providing innovative life and health insurance solutions to companies operating in the Middle East region. We do this by leveraging our unrivaled expertise in life and health insurance from around the world. We look for ways to improve the ease of doing business, responding effectively and quickly to our clients' needs."
Mr Ashraf Al Azzouni,
RGA Reinsurance Co Middle East

"We plan to expand in more lines of business and partner our clients by providing leading-edge solutions to help them mitigate their risks. We will also continue to leverage on the global network and financial strength of the Group, which is increasingly important in today's volatile business environment."
Mr Sanjeev Badyal,
AGCS

President for the MENA region agrees. "The increased competition is healthy and helps promote the DIFC as a reinsurance centre."

Competition drives down prices

In an environment where the tendency is to underwrite at a discount, it pays to be selective. "Massive growth, technical underwriting and being selective don't go together," said Mr Michael Gertsch, CEO of Gulf Re. "And the only way to make money is to be selective – pick the right accounts where you know and trust the clients, and avoid everything else."

"We provide a good product and AA-rated security," said Mr Quinn. "If we feel we are going to erode our group capital by providing it too cheaply, we are not going to do it, and we are not under any pressure to do it."

Despite the soft market, there are signs of opportunities. "Insurers and insureds have started to differentiate between pure capacity providers and companies where they get more than a cheap price, i.e. financial security, service and advice," Mr Gertsch pointed out.

The same has been observed by life and health reinsurer RGA. "Certainly we see this as a market that is no longer just price sensitive," commented Mr Al Azzouni. "It is beginning to appreciate quality service, product innovation and a knowledge of 'how to make it work' in this region."

Powering up the energy business

Given the benign catastrophe climate and good risk profile, the energy business is an alluring one for underwriters in the region, some of whom have ramped up technical capability. One is ACE, which is "in the throes of staffing up in energy", said Mr Quinn. Among the staff added to its DIFC office is an onshore/ offshore underwriter from ACE London who will report to the Regional Energy Manager in Bahrain.

Allianz Global Corporate & Specialty's (AGCS') energy desk will operate from January 2012, bringing its total DIFC headcount to 18. "We see opportunities for renewable energy in places like UAE, Qatar and Pakistan, where three or four more wind farms are expected to be operational in the near future. In the UAE, the government has demonstrated a lot of foresight in encouraging renewable energy sources," said CEO Sanjeev Badyal.

Outcomes of political unrest

Many DIFC reinsurers experienced little impact from the Arab Spring, either because exposures were capped by sub-limits, or the risks were simply not covered. "We see the market as becoming more developed and aware of exposures. As such, some clients have accepted these sub-limits," said Mr Badyal.

Like AGCS, ACE did not see any significant impact resulting from the unrest. A more important effect for the company, albeit an indirect one, was the movement of some underwriters from its MENA regional office in Bahrain. It was a move that had been planned for some time, but hastened by the troubles in the Kingdom.

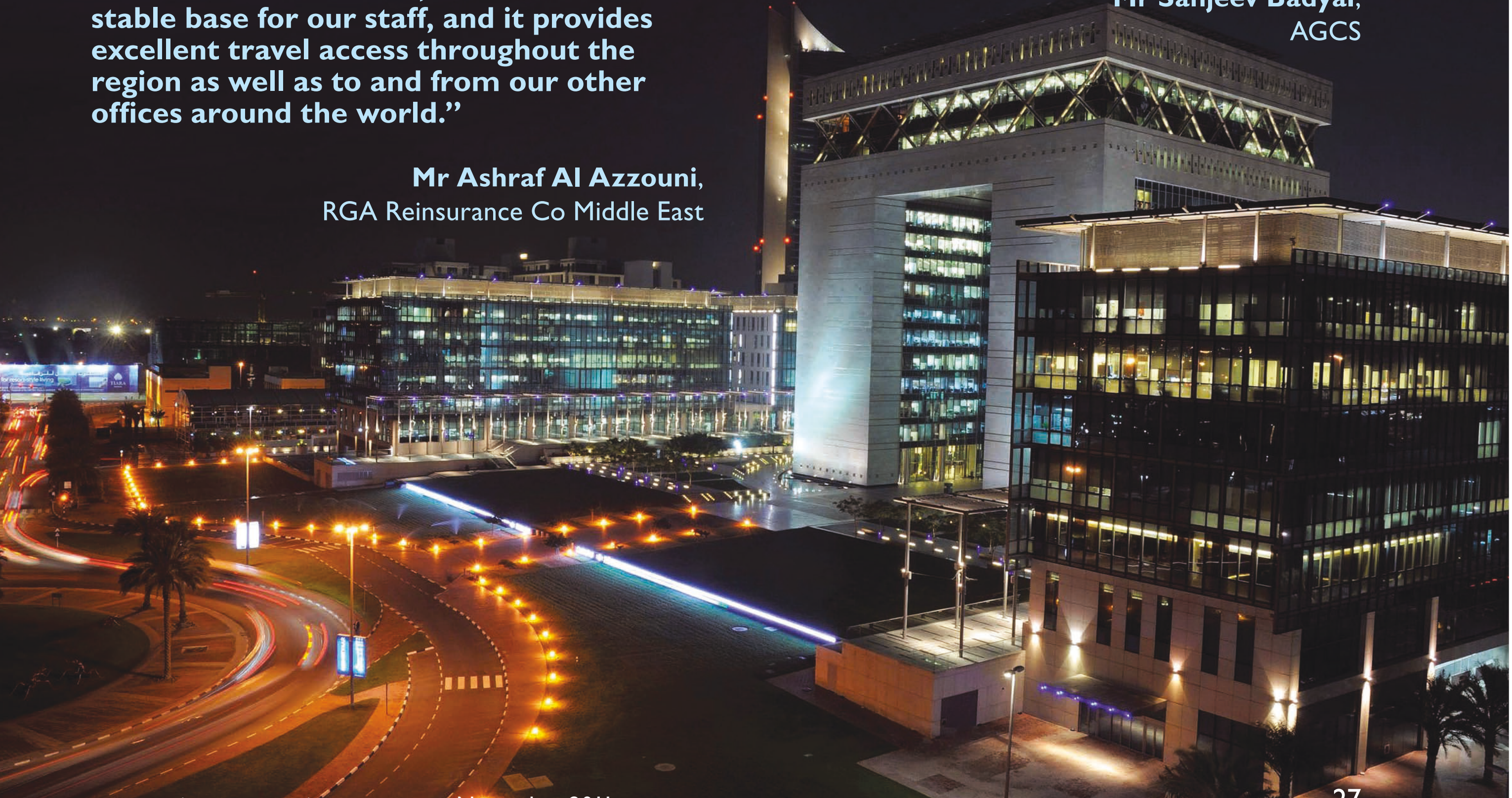
"Our DIFC operation is an extension of what we do in Bahrain," explained Mr Quinn. "ACE is still committed to having Bahrain as a regional office. Everything that we do ▶

"The DIFC and its regulator, the DFSA, have a track record in the region which meets our needs and requirements. In addition, many of our insurance partners are located in the UAE, and it is a safe and stable base for our staff, and it provides excellent travel access throughout the region as well as to and from our other offices around the world."

Mr Ashraf Al Azzouni,
RGA Reinsurance Co Middle East

"There is nothing here that has stopped us from doing business. The DIFC office is a strategic investment for AGCS, and has received a lot of commitment from the top management."

Mr Sanjeev Badyal,
AGCS



NON-LIFE INSURER

Boosted by takeover, RSA builds on strengths

RSA's acquisition of Al Ahlia Insurance in Oman has given the UK insurer the confidence for future takeovers, said Mr Stuart Purdy, CEO of Asia & Middle East.

Commenting on the OMR19 million (US$49 million) purchase, he said: "It was a successful acquisition in terms of bringing together two different businesses, and alignment with shareholders' interests."

The 2010 acquisition helped RSA's Oman operations register double-digit growth in the first half of 2011. The integration was completed in 12 months.

Another recent achievement in the Middle East was the listing of RSA's Saudi operation, Al Alamiya Cooperative Insurance, and the filing of its products. "Now and over the next few years, we want to build our relationships with our partners in Saudi Arabia, such as Riyad Bank," said Mr Purdy, who joined RSA earlier this year from Aviva.

Al Alamiya's founding shareholders are RSA (50.07%), Riyad Bank (19.92%), and a group of Saudi investors (0.01%). The remaining 30% of the company's capital was offered to the Saudi public in October 2009.

Growing in large and complex risks

In the region, RSA has seen "good growth" in its large and complex risks segment, comprising construction & engineering, property, marine and liability. It is also developing two other key segments – motor, comprising individual consumers and dealership tie-ups; and mid-market commercial, targeting the SMEs.

Tie ups with dealers dominate the motor market in the UAE. "RSA works with most of the eight major motor dealers in the UAE. Some of these partnerships are exclusive, and in other cases, we are among a panel of insurers," noted Mr Purdy.

The motor sector is marked by heavy competition – "whether in terms of price or in terms of securing partnerships. The market is quite crowded, and what sets RSA apart is our focus on value and service delivery. Customers have to expect a differentiated level of service from RSA and that's something we work hard to preserve."

Improving risk management

In balancing its motor business against other segments, RSA also sees opportunities to develop its mid-market commercial business. "In this region, when companies purchase commercial insurance, they don't necessarily buy the complete package of solutions. One under-utilised area is business interruption. So there is room for development."

Similarly, there is room to develop the role of risk management, "and how it can be seen to help not just the insurer, but also the customer," said Mr Purdy.

RSA's Asia & Middle East operations, headquartered in Dubai and covering 24 countries through Retail and Specialty, saw gross premiums of GBP115 million (US$180 million) in the first half of 2011, up 17% y-o-y. It registered a combined ratio of 98.6%, down from 103.3% a year earlier.


Mr Stuart Purdy

Reinsurance capacity on the rise *(continued)*

in the DIFC is captured in Bahrain."

Another positive spin-off from the turmoil was the increased demand for coverage, as witnessed by LIU following the timely launch of its war and terrorism cover. "It was introduced at a time when the region needed it, and we saw a good response," commented Mr Bouchaaya. LIU, which also offers construction & engineering, oil & gas, financial lines, marine cargo and casualty, was largely unscathed by the violence as it does not conduct business in Libya and Yemen, he added.


Mr Chakib Abouzaid

Takaful Re has received only one claim related to the unrest, but its growth targets have been somewhat affected by the unanticipated political events, said Mr Chakib Abouzaid, CEO of Takaful Re. "We may see claims from Egypt and Yemen. The impact on economic growth will limit the short-term prospects of reinsurers active in this region. I don't think Takaful Re expects to grow more than 10% in 2011," he added.

Mostly however, the recent unrest could be seen as something of a non-event for reinsurers. "Political unrest is a subject that has been little overrated from an insurance perspective," observed Mr Gertsch of Gulf Re. "It's not like the market is changing dramatically and it's not terribly complex to underwrite. Stay away from areas that have public access - shopping malls, airports, entertainment facilities and so on – that's your underwriting done. But if you have a power plant well outside the major cities, of course we can insure it. From an insurance perspective, the Arab Spring is no more an issue than, say, burning warehouses in Dubai or floods in Saudi Arabia."

Still attractive

Rents continue to be a bugbear, and DIFC faces stiff competition from rivals, especially Qatar. But the fact that companies continue to set up in the Centre is testament to its lure. Whether the DIFC can reach the same status as other global reinsurance centres remains to be seen, but for now, it seems to be on the right track.