

# How to find your oasis of profit

A deceleration of the world economy is expected in 2007. So, with the major developed nations gearing up for a transitional period, a growing consensus is that a more optimistic outlook for the global economy will rest largely on exceptional performance in some of the world's more exotic markets.

Predictions are rarely unified, particularly concerning business cycles, though given escalating global political turmoil, experts all share a confidence in the Gulf Co-operation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates [UAE]). Representing the world's 15th largest economy, this region is in a phase of relentless economic expansion.

According to Wayne Jones, who has been based in the region since 2001 as a partner in law firm Clyde & Co's Abu Dhabi office, the potential for international insurance carriers, brokers and service providers is enormous. Infrastructure improvements, lack of insurance penetration, growth in personal real-estate and home ownership for expatriates are just some of the attractions.

"The historical entry barriers to foreign interests in the sector are slowly being removed through regulatory reform and developments in the region. In Abu Dhabi, for example, health insurance will be compulsory for all expatriates working or residing in the emirate with effect from 1/1/07. A national insurance company has been established, managed by Munich Re. We expect the compulsory insurance scheme to be implemented in Dubai and other emirates in the near future, which will increase the opportunities for an already booming product line. We expect to see the number of international players, which already include the likes of BUPA and Goodhealth, to increase."

Mr Jones indicates that Clyde & Co had a hand in advising on the detailed implementing regulations for the Abu Dhabi scheme.

## Dynamic economies

Key factors fuelling the economic boom are the buoyancy of the energy industries, a concerted policy by governments to reinvest revenues toward enhancing private- and public-sector industries, and diversification programmes. Coupled with the bullish performance of the stock markets (rising fivefold between 2002–2006), there has also been a growing repatriation of capital and investments.

Oil prices peaked at around \$70 a barrel in 2006 and are now hovering at \$50, and given that many of the local economies function effectively on a per-barrel price of around half that, the budget windfalls are further facilitating growth and diversification. Oil rev-

enues across the region are estimated to have reached \$400bn, an increase of 25% over 2005. Among some circles, predictions are that the bull market for oil is likely to continue until 2010, to peak around \$115 a barrel.

Having grown to almost \$600bn in 2006, the region's gross domestic product (GDP) for 2007 is estimated to exceed \$700bn. At 8.5% GDP growth, the UAE ranked as the 10th fastest-growing country in the Economist Intelligence Unit's 2007 league. Following closely behind are Qatar at 7.5%, Kuwait at 6.5%, Saudi Arabia at 6.2%, Bahrain at 6% and Oman at 5% (2006 figures).

For 2007, Saudi Arabia's GDP is forecasted at \$380bn, and government spending is expected to increase by some \$37bn to support capital expenditures. In Oman, increased natural-gas production contributed to a 6.5% increase in GDP, representing 35% growth since 2005. These growth rates are anticipated to be sustainable in the short term for most of the countries, with Qatar probably taking centre stage as it continues to boost natural-gas production.

Comprising a population exceeding 34 million, with an estimated 400 000 expatriates forming an increasing proportion, the GCC is home to over 1400 projects, for which the value in the second quarter of 2006 alone exceeded \$1trn. Ambitious construction projects, infrastructure developments, investments in the tourism and retail sectors, privatisation programmes, and reforms in legal and regulatory frameworks are rapidly appearing across the region.

Much of the real-estate boom has been in the UAE, driven by population growth and high liquidity levels. Insurance, professional services, public utilities, healthcare, telecommunications, construction, manufacturing and petrochemicals are expected to do well.

## Dubai: the new Bermuda?

The pace of development and reform is no less prevalent in the financial-services sectors, where several countries have introduced measures to encourage inward investments through privatisation, liberalisation of market forces and revised regulatory frameworks. Dubai, Qatar and Bahrain are all competing to become the financial centres of choice for international companies considering setting up in the region.

International broker Aon claims to have the largest ground presence in the region. Richard Slatter, managing director of Middle East operations, believes Dubai currently represents the "biggest opportunities and financial-growth engine in the area". He agrees it could match Bermuda in the long term, par-

We all know the Gulf Co-operation Council (GCC) countries offer once-in-a-lifetime opportunities for profitable growth in the next decade, but where do you start? Let former Heath broker **Taravat Taher-Zadeh** give you directions

Picture courtesy of Hedge Funds Review



**Midnight at the oasis: already an iconic tourist landmark, the luxury Burj Al-Arab hotel on the coast of the booming desert hotspot of Dubai is a symbol of the region's fast-accelerating economic growth.**

ticularly given the developments in the Dubai International Financial Centre (DIFC). "The vision in the Middle East is to extend the GCC to mirror the EU community, a move to create monetary union and a common currency within five years. There's enormous capacity in Dubai provided by some 30–40 companies and increasing at a rate of 30% annually, but local capacity is still insufficient — risks valued at over \$200m are ceded to the international market."

Established offshore as a financial-free zone since its launch in September 2004, the DIFC is regulated by the Dubai Financial Services Authority (DFSA). It has gained impressive growth, attracting a number of leading international insurance entities. As of early 2007, over 300 companies of various business categories were registered as active at the DIFC.

Modelled on the DIFC, the Qatar Financial Centre (QFC), although still in its infancy since its launch in May 2005, is attracting equally positive attention, with over 30 registered companies, several of which are from the international insurance sector. Repatriation of profits and 100% ownership by non-nationals

# table growth in the Gulf States



are just some of the attractions luring companies to the QFC, for which the independent regulatory body is the Qatar Financial Centre Regulatory Authority (QFCRA).

In January this year, Clyde & Co obtained its licence to operate in Qatar. Matthew Gill, operations director for the Middle East, says, "The move is part of our continuing international expansion plans and to build on our current regional presence in Dubai and Abu Dhabi. It's also in response to clients' needs, identifying Qatar as a major growth area. The QFC presents a unique and exciting opportunity for businesses seeking to achieve their business goals in Qatar."

The Bahrain Monetary Agency, (BMA), established as an onshore centre, is the regulatory body for all financial institutions in Bahrain, and is actively encouraging the development of Islamic banking and insurance. Hannover Retakaful is the first western reinsurance group to establish a wholly

owned Islamic law-compliant subsidiary in the region. Although "the potential for takaful business is estimated at between \$3–3.5bn, with up to 20% growth annually," predicts Christopher Pleasant, senior vice-president at Guy Carpenter, London, "there are not enough retakaful reinsurance companies presently to meet demand."

## Getting a footprint in the region

Investors wishing to establish a footprint in the region are warned to seek sound legal advice on the options available and their respective limitations. Mr Jones says, "There is no 'one-size-fits-all' solution to entering the Gulf market. At present there are no passporting rights, and each jurisdiction has its own regulations, entry criteria and limitations. There are also a number of different methods of registering, the merits of each will depend on the proposed entrant's business plans and goals."

Across the region, there are plans to revive the insurance industry and remove entry barriers. The level of growth in insurable risks presents major challenges for the local market, given low capitalisation and retentions. This in turn offers exciting opportunities to overseas (re)insurers, serving to increase insurance penetration and help support these economies' infrastructure developments.

In 2006, Standard & Poor's (S&P) published ratings on 12 Gulf region insurers showing a threefold increase over two years. Whereas growth rates in developed markets stagnated at 2%–3% per year, growth rates in the region are "more dynamic...ranging from a relatively low 5% in Bahrain to 17% in Qatar and over 30% in the UAE" (*S&P GCC Credit Survey 9/06*).

The GCC market comprises over 130 of the 350 or so companies across the Arab countries — however, the region's share of the \$2.3trn in global premiums accounts for just \$4bn. Given the size of many of these companies, there is a high reliance on reinsurance support. The profitability and low rates of these markets outweighs their small size within global perspectives, compared to more-established insurance markets.

"Total premium income for the Arab world is some \$6bn against a population of around 330 million," comments Mouzaffer Aktas, managing director, Middle East and Africa at brokers Willis Re. "The most significant new opportunities are across the Gulf. These economies are growing very fast; the volume of

risks is increasing; large infrastructural investments are being made into air and sea ports; retail insurance business is increasing by 20%; and business-interruption risks are growing too. These will consequently have a knock-on effect on opportunities for reinsurance business, as local capacity and retentions, despite increasing, are still not enough."


With increasing demand for reinsurance, and market developments and reforms still in their infancy, the question is securing capacity to absorb future demand. Mr Pleasant adds: "There is new capacity emerging from financial markets and hedge funds in general, and there's of course the 'sidecar' business model, providing an additional vehicle for capacity. However, these vehicles, born in response to the demand-and-supply capacity issues in the catastrophe markets, are largely targeted at excess-of-loss-driven companies.

"The region is principally non-catastrophe-exposed; there is a mixture of proportional and non-proportional treaty portfolio, and more excess-of-loss business is emerging, but the region is largely reliant on proportional treaties, for which the reinsurance market hasn't grown substantially, and it is still largely European-led — historically, Munich Re and Swiss Re have enjoyed a stronghold in this region; the challenge to new entrants is interjecting these relationships. A major problem for reinsurers will be monitoring facultative risk exposures across the region and the ensuing element of unknown accumulations — for example, one of our reinsurers picked up losses from seven cedents on one claim."

## Additional capacity

As insurance companies in the Gulf State region have grown and have portfolios that are more statistically stable, several have decided to review their reinsurance programmes on a more scientific basis.

Factors partially influencing the low levels of insurance penetration are: a poor reach at the retail level; constraints on the availability of technical skills; and cultural issues owing to being insurance-averse. Given the emerging compulsory-retail insurance-product lines such as health and motor insurance, as the Islamic-compliant takaful market expands, there should be noticeable market penetration throughout the region.

An increasing trend in recent years has been the formation of public-private partnerships (PPP), and joint ventures in financing and operating large-value projects. Project finance is a massive area of growth in construction, energy, transport, utilities and tourism sectors, which will demand additional capacity from overseas. 

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