The home-grown reinsurer

Yassir Albaharna, CEO of Arab Insurance Group, says his company's home-grown strategy has been a success.

Arab Insurance Group (Arig) has come a long way since the early 1980s, when the governments of Kuwait, Libya and the United Arab Emirates (UAE) teamed up to create the world's first Arab-owned international reinsurer.

Now owned around 40% by private investors – with the remaining shares split between its three founding governments – Arig claims to be one of the leading regional reinsurers in the Middle East, North Africa and east Asia (collectively known as the Afro-Asia region), with an estimated market share of 10%, \$220m of paid-up capital, and four offices in the region, including its head office in Bahrain.

Back to its roots

Life has not always been easy for Arig. When Yassir Albaharna, Arig's CEO, was appointed to lead the reinsurer in June 2006, the company was coming to the end of a difficult transition period. After several attempts to venture into primary insurance – and a disastrous trial run in the US and Europe – Arig was in the process of returning to its roots as an Arab-based reinsurer.

"My main objective when I took over the helm at Arig was to re-focus on our core business of reinsurance and to establish our company as the reinsurer of choice in the Mena [Middle East and North Africa] region," says Albaharna.

Albaharna, who had been with the company since starting as a trainee in 1987, was fortunate that many of his goals were shared by his predecessor Udo Krueger.

In 2002, Krueger made the decision to discontinue all of Arig's business in Europe, Latin America and the US. This followed a move in 2000 to place Arig UK, the London-based subsidiary of Arig, into run-off. Krueger also decided to sell or close down Arig's primary insurance businesses in the Middle East, including its 65.4% stake in Arab Jordanian Insurance Group and its 39.5% holdings in Al Ahlia Insurance Company, Bahrain.

"Arig has adopted strategies in the past that were not based on its core strengths," says Albaharna. "We had a very broad geographical base and wrote direct insurance as well as reinsurance. At that time – being a relatively small business – it was difficult to control and also be an expert in each of those markets when operating out of the Middle East."

He adds that Arig's business model did not fit well in Europe or the US. "Arig did not have much value-added those markets," he says. "These are sophisticated markets, where we did not get the cream of the business. We were offering what we call innocent capacity or following shares, and we were no longer content with this."

Today, Arig's business is confined to its main markets: the Middle East, where it writes around 59% of its business; Asia, where it writes 28%; and Africa, which accounts for 13%.

The company has two branch offices – one in Singapore and the other in Labuan – to serve its east Asian clients. With the exception of east Asia, all of Arig's business is written from its hub in Bahrain.

Takaful steam ahead

Since deciding to concentrate on Afro-Asia, Arig has focused on meeting the needs of its core markets.

In 2005, Arig set up Takaful Re, a Shariah-compliant reinsurer, which was the first of its kind in the region. The firm – in which Arig is the main shareholder – is capitalised with \$125m and based in the Dubai International Financial Centre.

"We saw the signs coming that institutional investors – such as banks – were starting to put together plans to invest in takaful operations, because what happened to Islamic finance 20 years ago, with the establishment of Islamic banks, is going to happen within the takaful industry," says Albaharna.

"For the region to grow it has to retain more and more premium. There are no better companies to retain premium than those companies that are regional-based because they are here for this purpose."
Yassir Albaharna, CEO of Arig

"We wanted to position ourselves before it was too late. Also, we wanted to protect the parent company, Arig, so that we have both worlds and don't lose clients who want to go over to a particular line."

Albaharna also decided to steer the company away from its almost exclusively non-life roots, to take advantage of increasing demand for life insurance in the Middle East. Arig's life business, which accounted for 22% of its premium income in 2008, was boosted in 2007 by the company's purchase of Scottish Re's Middle East life portfolio.

"We had a small book of life business but we realised that to organically grow this book of business would be next to impossible," says Albaharna. "The Scottish Re purchase was part of our strategy to become a bigger player in the life markets."

At the time worth $22m, the portfolio now brings in an estimated $35m. Overall, gross written premiums from Arig's life business came to $61m in 2008, out of total gross written premiums of $280.7m.

The next target is personal lines – such as life and medical cover – which have been earmarked as an area of further growth for the company. Albaharna says the growing awareness, and take-up, of insurance in the Middle East has been helped by the introduction of compulsory third-party motor insurance in all six Gulf Cooperation Council (GCC) countries and the gradual privatisation of health insurance in the region.

"The imminent reform of healthcare in the region and the introduction of compulsory medical insurance are definitely going to be a spur to the industry," says Albaharna. "Our focus now is to leverage medical insurance and to review motor opportunities in the GCC region."

Gross written premiums by business class 2008

Total $280.7m

Property	24%	$66.6m
Accident	11%	$30.8m
Engineering	16%	$46.0m
Marine	10%	$28.0m
Medical	11%	$31.9m
Extended warranty	3%	$8.5m
Other non-life	3%	$7.9m
Life	22%	$61.0m
Facultative	14%	
Treaty	64%	
Life	22%	

Source: Arig

Beating the crisis

The global financial crisis may put some of these plans on hold, however. Dubai's compulsory health insurance scheme, which was due to be rolled out this year, has been deferred until 2010.

"The financial crisis is slightly going to delay the implementation of these compulsory schemes," says Albaharna. "Governments are a bit cautious at this stage about making them mandatory, in the fear that there are some public sentiments about it."

Arig has also not escaped the financial turmoil of the past 18 months. Albaharna estimates that offers on engineering and marine business have fallen by at least 25% over the past year, as a result of construction projects being dropped or delayed. Gross written premiums for the first quarter of 2009 were down 14%.

But Albaharna remains bright about the company's prospects. Despite posting a net loss of $28.6m in 2008, Arig returned to profitability in the first quarter of 2009 with a net income of $1.5m.

Albaharna says that – like most Arab reinsurance companies – Arig escaped the worst of the investment losses. "We take risks on the liability side," he says. "On the asset side we are conservative because the money does not belong to us. Of course, we deny ourselves the possibility of having a higher return, but it is risk and reward.

"Our shareholders are happier with this profile, rather than investing the money in derivatives and CDOs [collateralised debt obligations] and real estate. This is why we were totally unaffected by our investments."

He adds that Arig has been in a good position to benefit from the downfall of some of its international peers. "Failures of some of the global institutions, such as AIG, difficulties by larger global reinsurers following unwise diversification strategies, and the constant spectre of subprime mortgages and other toxic investments have resulted in many insurers wishing to diversify their reinsurance portfolios," he says.

"There is no doubt that Arig's conservative investment strategy and its part government-ownership have given our customers the confidence to even increase our share at the expense of some of the larger competitors."

Albaharna believes this diversification will be beneficial for the region in general. Since Arig started out in 1981, the Arab reinsurance market has grown from being limited to the four big European groups – Munich Re, Swiss Re, Hannover Re and Scor – to include an eclectic mix of regional names, such as Trust Re, Arab Re, and Gulf Re.

"For the region to grow it has to retain more and more premium," says Albaharna. "There are no better companies to retain premium than those companies that are regional-based because they are here for this purpose."

Still growing

Arig, for its part, has no plans to stay still. The company now writes business in more than 73 markets throughout Afro-Asia. According to Albaharna, this number is likely to grow.

"Geographical expansion is an important risk diversification tool for any reinsurance company," he says. "India presents new opportunities to Arig, as does the sub-Sahara region. Arig has also started writing business in Azerbaijan, which represents another target area."

In October last year, Arig opened a representative office in Mauritius, as a way of tapping into the sub-Saharan African market. He says: "We are considering plans to expand further in North Africa."

Albaharna adds that – despite its home-grown strategy – Arig is keeping its eyes open for whatever good opportunities come its way. But he adds: "There is little value added today for Arig to open an office on its own in Europe or the Americas."

He continues: "We are not totally confined just to Afro-Asia. From time to time we may get brokers, insurers or reinsurers offering us a treaty facility to write business in Europe in return for something else. Or there may be an opportunity to invest in a company that exists outside our core markets. If there is something interesting and worthwhile, and we feel we should go for it, we will." ●

By Karen Eeuwens

Arig's results

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	2008	2007	2006	2005	2004
Gross premiums written	280.7	250	166.3	173.7	261.7
Net earned premiums	255	210.8	145.8	134.9	210.5
Net profit (loss)	-28.6	23.7	30.4	48.2	26.5
Investment assets	678.5	711.7	674.3	659.4	1,098.50
Total assets	1,079.80	1,049.80	930.2	905.1	1,608.30
Net technical provisions	524.7	459.1	361.2	346.5	887.6
Shareholders' equity	239.6	298.4	293.4	272.4	223.1

*2004 includes figures relating to direct insurance subsidiaries divested in 2004 and 2005

Source: Arig