

## **Rasheed Mohammed Al Maraj: Meeting the challenges of growth**

Opening keynote plenary by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at the 5th Middle East Insurance Forum “Meeting the Challenges of Growth”, Manama, 8 February 2009.

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Your Excellencies, Ladies and Gentlemen, Good morning.

It gives me a great pleasure to welcome you to Bahrain for the 5th Middle East Insurance Forum. This event is an opportunity for the insurance industry to meet and exchange views on current market and economic conditions that have a direct impact in our insurance markets. I would like to thank the organisers, sponsors and speakers for supporting this important gathering.

This year’s theme for the Forum – “Growth Opportunities Beyond the Crisis” – is a reminder that the financial landscape has changed dramatically since the last time this Forum was held.

The turning point in the global financial crisis is generally agreed to have been the bankruptcy of the investment bank Lehman Brothers in the middle of September last year. This turned a problem that had been seen as primarily affecting the developed markets into a worldwide phenomenon. Previously the slowdown was expected to be limited to the developed markets while the emerging markets continued their recent strong growth. After Lehman the slowdown began to affect all parts of the global economy. The crisis has been a stark reminder of how interconnected the world financial system and economy has become.

Financial sectors have also become more interconnected. While most comment has concentrated on the role that the Lehman bankruptcy played in worsening the crisis, we should not forget that the events surrounding AIG also had an impact on global financial markets. In other words, AIG had become systemically important and had far reaching implications outside the insurance industry.

At the Central Bank of Bahrain, we believe that the recent experience of global financial crisis has reinforced that our top priority must remain our duty to ensure the protection of policyholders. We remain truly committed to foster the trust and confidence that insurers provide to their clients, particularly in times of need.

From a regulatory perspective, the CBB has taken various steps to ensure that a stable insurance market continues to thrive and prosper in our region. We are fortunate in Bahrain to have had significant growth in the level of gross premiums over the last several years. In 2007, insurance premiums increased by more than 20% and the interim reports received for 2008 appear to indicate a similar trend. We remain however vigilant and through ad hoc reporting have kept a close eye on insurance licensees to ensure the soundness of the insurance market. Through the years, we have established an excellent relationship with the insurance market and this has helped tremendously as we solicit key information and feedback. This feedback has allowed us to ensure that our rules are kept up to date and flexible enough to deal with the dynamic nature of the insurance industry.

To strengthen the insurance market, we need to have an ongoing dialogue with insurance firms and we do so on a regular basis through prudential meetings as well as by working closely with various components of the insurance infrastructure such as the Bahrain Insurance Association (the BIA) and the Insurance Learning Center of the Bahrain Institute of Banking and Finance (the BIBF). Bahrain has also played a key role in the MENA region by hosting the GAIF conference last year and now having assumed its presidency for the next term.

Since the introduction of our new regulatory framework in 2005, we have gradually implemented our rules and continue to believe that while our model abides with the best international standards as promulgated by the International Association of Insurance Supervisors, it must also recognise the unique characteristics of our region. As an example, this is why we have taken the lead in tailoring our framework for the Takaful and retakaful markets.

We believe that insurance firms should have proper public disclosures that reflect their true financial positions. The disclosure of an appropriate level of technical and mathematical reserves must be in line with international actuarial standards. To reinforce our belief in the added value of using actuarial expertise, we are requiring all companies licensed by the CBB to produce on a regular basis a detailed actuarial report, outlining the basis of the liabilities appearing on companies' balance sheet. These reports are reviewed and in some instances subject to further scrutiny should we believe that there may be a tendency to understate claims liabilities or to ignore the need to set up premium deficiencies where products are being priced well below profitable rates to "squeeze out" the competition. These tactics may have short term benefits but when the claims start exceeding the premiums and significant loss ratios emerge, insurers will be faced with decreasing profit margins and significant losses.

At the same time, however, responsibility for ensuring the soundness of the industry does not only fall on regulators. It is also a vital responsibility of those running insurance businesses. The lessons of the global crisis will necessitate a clear direction from company management and the need to adapt and revamp business strategies if companies wish to pursue growth opportunities in the region.

In this context, let me outline some of these strategies and business practices that insurers need to address.

First, the events surrounding the AIG group have led to a tightening of reinsurance rates, a business aspect that is crucial in the smooth functioning of an insurance market. The current status of reinsurance capacity in our region needs to be scrutinized and companies must adapt new strategies based on their current assessment of the reinsurance markets.

Second, as insurance providers, companies receive funds from policyholders up front and must make important investment decisions to ensure that liquidity needs are met when called upon by policyholders. The current investment climate has been plagued with much uncertainty with many "sure" investments having disappeared from the financial landscape. Who could have imagined that Lehman Brothers would no longer be an active member of the financial industry? Companies therefore need to revamp their investment strategy to cope with these changes.

Third, we need to be reminded of the importance of having in place a good corporate governance regime. Corporate governance is a key component in ensuring the overall soundness of all companies, including insurance firms. The valuation of shares as well as public disclosure and transparency are highly dependent on management's approach to a sound framework of corporate governance.

While it is sometimes tempting for those in the industry to view regulation as a burdensome imposition from outside, the financial crisis has been a reminder that markets need effective regulation if they are to operate properly. As a regulator, we at the CBB believe in creating a climate that encourages the development of a strong and sound insurance sector. In Bahrain, we have welcomed several new companies over the last few years, a testimony to the belief that we offer an environment where companies can explore growth opportunities. These new entrants, many from world class international insurance players, have provided further evidence that there are ways to tackle the low level of insurance penetration in the region by offering products uniquely tailored to meet the local demand. Several of these new entrants, have seen great advantages in setting up their regional headquarters in Bahrain, having access to significant markets in the region.

My remarks have highlighted key areas that insurance firms must focus on. I trust that this Forum will provide you with the opportunity to have fruitful discussions over the next two days. Additionally, I encourage all of you to look closely at your current business strategies and the need to possibly tailor them to the market changes that we are now facing.

Thank you.