

# Examining the Middle East Growth - The Actuarial View

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# Overview

- Strong Growth
- Compare with Leading Western Economies
- Expected Changes

# Ratings

- Measure of Insurance Co Strength
- Crucial for Reinsurers in particular
  
- Sovereign Ratings - Barrier?
- High Capital - Efficient Use
- Best Practice in all Areas?

# GCC - Sovereign Ratings (S&P)

- Qatar (AA-)
- Kuwait (A+)
- Saudi Arabia (A+)
- Bahrain (A)
- Oman (A)
- UAE
  
- UK (AAA)
- USA (AAA)
- France (AAA)
- Germany (AAA)

# Some Local Examples

- Qatar (AA-)
  - Qatar Insurance (A)
  - Al Khaleej (BBB)
  - Doha Insurance (BBB)
  - Qatar General (BBB)
- Bahrain (A)
  - Bahrain National (BBB+)
  - ARIG (BBB)
  - BKIC (BBB)
  - Trust (BBB)

# Amount of Capital

- Isn't more capital good?
- Yes but....
- Inefficient use may be penalised

# Best Practice

- Retaining Risk
- Reserving
- Capital Modelling
- Business Planning
- Pricing

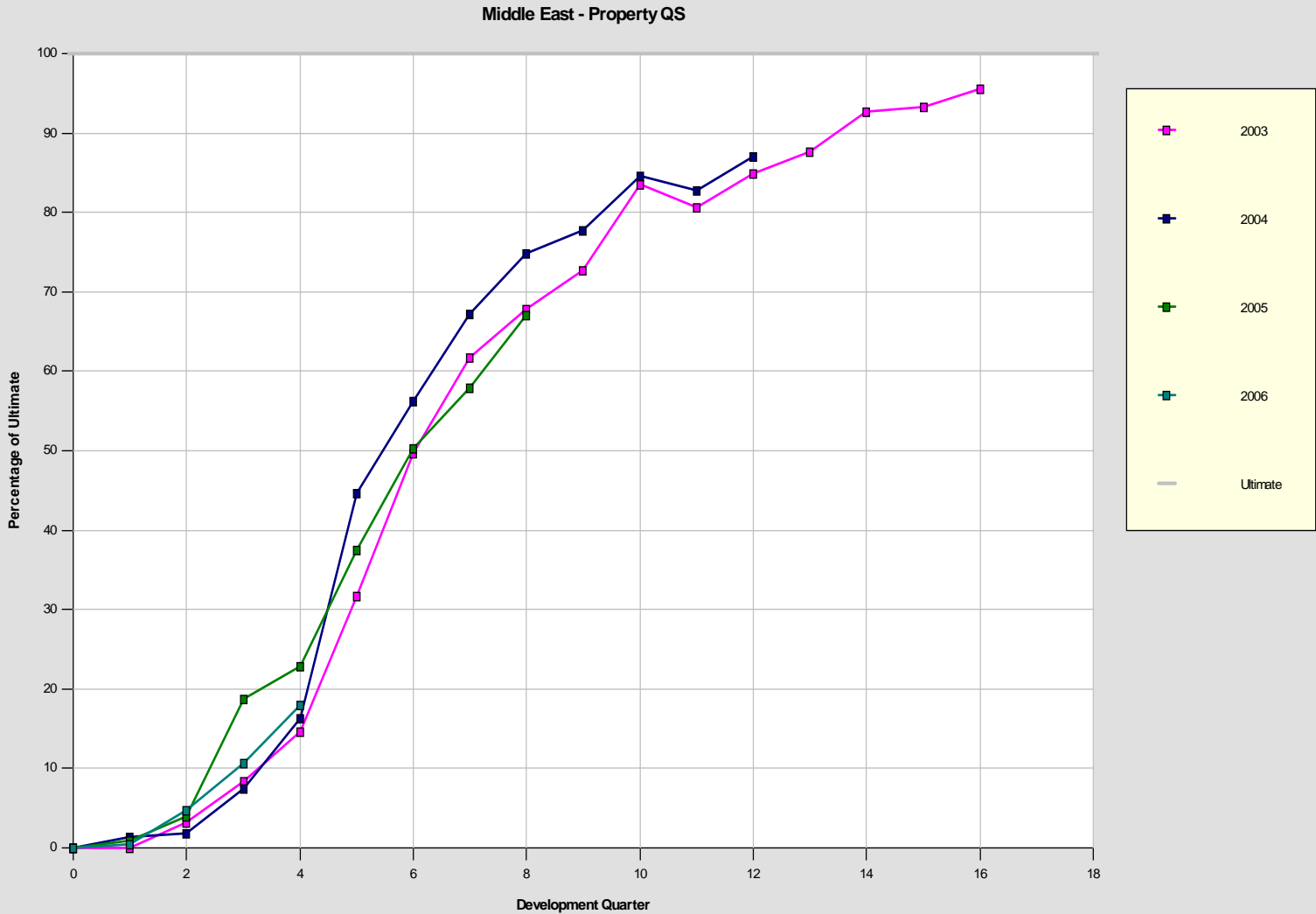
# Who takes the risk?

- Often little retained
- Little incentive for:
  - Understanding IBNR
  - Pricing accurately
- BUT once others do:
  - undercut on profitable risks
  - retain the unprofitable ones
  - insufficient understanding to rectify

# Reserving

- Even short tail business has a tail
- UWers need to track claims to ultimate
- Consider Gross then RI
- Split out cats/large claims/key contracts
- Needs to be more detailed
  - spot the problem contracts
  - isolate unprofitable areas/classes
  - then use targeted rate changes

# Is there IBNR?



# Capital Modelling

- Assess all of a company's risks:
  - Underwriting
  - Reserving
  - Operational
  - Group
  - Market
  - Credit
  - Liquidity
  - (correlations between risks)
- Full range of outcomes & probabilities

# Why model?

- Rating agency best practice
- Regulator best practice (ICAS/Solvency II)
- Efficient Use of Capital
- Understand Decision Implications
- Planning - Test Strategies
- Integral Part of Management  
(Risk as Expected?)
- UNDERSTAND THE RISKS

# Planning

- Detailed Reserving:
  - Problem Classes
  - Problem Contracts
  - Problem Locations
- Capital Model allows:
  - Meet your risk appetite
  - RI optimisation (value? Strain on capital?)
  - Expansion (Profit/Capital. Diversification?)
  - See the full picture (downside risk)

# Pricing

- Feedback Loop with Reserving
  - Allow fully for IBNR
  - Inflation
  - Changes in Exposure
- “Generalised Linear Models”  
(Isolate effect of each rating factor)
  - Personal lines
  - Small commercial lines

# The Years Ahead

- Continued strong growth
- Insurance spreads from key industries & key personal lines (Energy/Motor etc)
- More Understanding and Retaining Risk
- Detailed Reserving leads to:
  - sophisticated pricing
  - competitive advantage
  - capital models
  - integrated business decisions
- Booming GCC financial sector