

## ***“Discipline in emerging markets key to position on the world stage”***

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### **Introduction:**

*As the global credit crunch continues, the economies of the Middle East are undergoing change as traditional oil rich countries look to diversify and large international businesses spread their risk by trading with new counterparties. The region is increasingly presenting attractive opportunities in the large commercial and reinsurance sectors. Regional insurers and reinsurers wishing to take advantage and gain market share must establish their credentials and satisfy the regulatory and rating agencies, such as AM Best, if they are to compete successfully on the world stage. Consequently, technology is of growing importance, helping to ensure that the necessary disciplines and controls are in place, as well as allowing insurers and reinsurers to be proactive in business planning and execution.*

### **An attractive outlook - The Middle East:**

With the global economies facing continuing uncertainties, the insurance industry is growing in the economies in the Middle East. The housing slump and automotive 'meltdown' have put a considerable dampener on adoption of new business being written in the US and Europe, while demographic changes in the Middle East since 2002 have created an increasing appetite for risk mitigation through insurance. For example, Takaful business is becoming a fundamental part of the insurance landscape, alongside conventional business, and it is going from strength to strength within the region and internationally, with more players springing up even in Europe and North America.

The Middle East insurance market is still relatively small in comparison with other parts of the world, but the scope for expansion is huge. According to the “Middle East Insurance Market Forecast to 2012” report, the region offers significant opportunities and an expected compound annual rate of growth of over 20% in the near future. Existing market players and new entrants are readying themselves to win a share, and then exploit their expertise on the wider international stage.

### **Current challenges:**

Insurance is increasingly being recognised as a social and economic necessity in the Middle East. However, the field of providers is fragmented and industry structures lack consistency across the region. The local availability of manpower and expertise is also a key factor that must be addressed.

A single unified regional approach is restricted due to the uneven distribution of wealth. Looking specifically at countries across the region, the report states that the UAE has left behind other fellow countries and is growing year on year at a rate of over 27%. Turkey follows in second place with a growth rate of nearly 23.7%. So it is not surprising that the UAE has the highest number of insurance companies in the Gulf Cooperation Council (GCC).

The industry undoubtedly faces some significant challenges and opportunities, increasing the attention which investors have paid to insurance markets and operators. It is clear that, despite the tough challenges ahead, growth is the medium and long term outlook. A number of big international players in this sector, including some of the world's top companies have stepped forward with their strategies to adapt to the changing landscape.

Having highlighted the potential of the Middle East and detailed the opportunities available, astute insurers are aware that implementing their plans requires a defined and disciplined approach. Insurers will rightly wish to spend time on key business issues such as capital raising, marketing, pricing and reserving. Once these have been addressed, speed to market is key and here technology has an important role to play.

#### **Discipline on the world stage:**

The importance of a disciplined business approach is two-fold and not specific to the exploitation of opportunities within the region. Regional insurers should and indeed are also keeping one eye firmly fixed on the global market, where placement on the international stage is an ultimate goal. When implementing an operational approach therefore, insurers need to build operational efficiencies founded on solid business sense, which can then be transferred directly to any future expansion.

Placement on the world stage obviously means local and regional companies must compete with established global players. They must establish their credentials if they are to be successful in developing their businesses and a good rating by a top company (such as AM Best or Standard & Poor's) can provide distinct differentiation between competing insurers fighting for business in the economic downturn.

Ratings are based on a number of factors, but it is clear that as technology supports multiple operational disciplines it is likely to have a significant role. With a strong IT infrastructure underpinning sound business principles, a regional player in the Middle East, having maximised local opportunities, can begin to challenge for a place alongside the major global players with a like-for-like rating.

#### **The technology conundrum:**

The importance of technology in the whole process should not be underestimated. It is the enabler that underpins any insurance company and new market entrant. Good IT that is delivered quickly and effectively will help the business to focus its resources where they are needed most – further exploiting the opportunities and maximising revenue. For any insurer, buying a core IT system is an important and potentially complex decision. However, implemented correctly, the time and cost savings can be significant.

Investment in a good IT infrastructure can be justified in several ways. Underwriting discipline and processing efficiencies are key measures that can be strongly influenced by IT. For example, considerable gains have been achieved through notable savings in annual ceded premium, reducing what is very often a major cost to the organisation, by demonstrating clear discipline and control throughout the book of business. This includes risk management, whereby all new business submissions and renewals are assessed in terms of their business profile and the quality of the counter-parties involved, including their current business status, previous credit history and track record in delivering good quality business.

A well implemented IT infrastructure will enable the business to grow without the need for a proportionate rise in headcount. This offers a clear cost-benefit in terms of salaries and overheads, but it also means that the company can avoid the risks of

losing business through poor service, fines from regulators through missed deadlines, and diminished performance through bad decisions that arise from a large element of manual processing and re-keying of data. Application software, when implemented effectively, helps the business to add value in its core activities, through focusing on increased revenues and greater profitability rather than dealing with the distractions of manual processes.

An up-to-the-minute system will help the business to proactively monitor operations and control decision-making, in a way that is clearly visible to all stakeholders including clients, business partners, reinsurers, investors, regulators and the rating agencies. The IT solution should support the day-to-day operations across the business from a single, integrated system, ensuring efficiency and thereby delivering accurate, timely management information.

Management information is a key differentiator that should be delivered from the IT solution according to the individual requirements at each level of the organisation. The ideal situation is to have a single, integrated system that delivers one version of the truth. For example, individual contract statistics, including all premiums and claims together with the full renewal history, will show performance at the granular level, to help underwriters and business development managers to focus on their individual accounts. Tracking of departmental activities, such as the current portfolio of submissions or the current open claims, will streamline processing activities to ensure that no items are overlooked. At the whole account level, business performance by key measures such as profit and cost centres, geographic region and business partner, will enable senior management to monitor actual progress against the business plan and make decisions to adjust to the changing landscape.

**The perfect plan sealed with success – exceptional ratings:**

Regional insurers, reinsurers and new market entrants, having identified potential opportunities throughout the Middle East, are looking to implement systems that can enable them to be operational as soon as possible. By integrating the very latest systems that have been proven on the international stage, they can therefore be positioned more favourably in these markets, providing a clear indication of their expertise. In effect, IT can be the enabler that helps them realise their goals or it can become a barrier that they have to overcome. Finally, to invest wisely in IT, the following two points are worth emphasising as they will be relevant to the majority of insurers and reinsurers growing into or planning to set up in the Middle Eastern markets:

- Don't waste time and money 're-inventing the wheel'. Quick, effective delivery is vital so that IT promotes disciplined, good practice from the outset and does not hold the business back.
- Do choose your vendors carefully. Look for a proven track record with flexible, integrated solutions and proactive services that will meet your requirements at every step, such as temporary hosting and data entry during start-up, within budget and on time, and with the financial strength to provide support for the long-term.

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**About Eurobase Insurance Solutions:**

Eurobase Insurance Solutions is a division of the Eurobase International Group. The group operates across a broad range of markets including insurance, reinsurance, financial services, IT consultancy, technical services and recruitment. Established in 1988, Eurobase's nearly 300 employees and contractors support clients throughout the world. Clients include market leaders such as Beazley, Hannover Group, Asia Capital, Primary Group, WestLB, Standard Chartered Bank, Dow Chemical Company and LogicaCMG. Eurobase prides itself on the strength of its partnerships with leading technology providers such as PwC, IBM, Oracle, Microsoft and Hewlett Packard. For more information, visit <http://www.eurobase-international.com>. Eurobase's recruitment arm Eurobase People provides specialist recruitment services to the insurance and reinsurance sector.

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