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Note from the Editor

by Iverne "Joan" Greene, CPCU, ARM, AMIM, CPIW

Iverne "Joan" Greene, CPCU, ARM, AMIM, CPIW, is owner and managing director of Joan Greene and Associates, Inc., Insurance and Risk Management Consultants located in Danville, California in the San Francisco Bay Area.

She received her CPCU in 1972 and has served on the CPCU Society's national Education Committee and International Insurance Section Committee, for which she has served as editor of its highly regarded newsletter for the last several years.

In 2001, after the horror of September 11, the world was focused on the Middle East. So were we. We devoted our issue of the *IQ* following the attacks to what we were able to research about Islamic socioeconomic principles, takaful insurance, sharia law, and business culture in that part of the world.

Since 2001, our chairman, **Gail B. Burns, CPCU, CIC,** has spent time in some of the Middle Eastern countries and has met and worked with insurance and reinsurance executives, consultants, and regulators.

Because of her knowledge and intense interest in how our industry is developing in the Middle East, Gail offered to co-edit this issue and write an article on the insurance market in Saudi Arabia. Through her many contacts, she has been successful in engaging authors to write articles for this issue. Therefore, we are pleased to be able to also include articles on the insurance markets in the Arabian Gulf countries; the U.S. Free Trade Agreement with Bahrain; earthquake insurance in Turkey; and an anti-fraud claims program for the Israeli insurance industry.

I believe you will find this issue most interesting and informative.

Spotlight on the Middle East

What's In This Issue

The Insurance Market in the Kingdom of Saudi Arabia

by Gail Burns, CPCU, CIC

Gail B. Burns, CPCU, CIC, is the chairman of the CPCU Society's International Insurance Section for the term 2005-2007. She is an insurance management consultant and has been consulting for several years in the United States, Africa, the Middle East, and the Balkans. Burns is a past president of the CPCU Society's Maine Chapter, a recipient of the Standard Setter Award for her insurance training program in Sierra Leone, and a member of the U.S. delegation to the OECD in Paris. In January 2005, she received her master of science degree in insurance management from Boston University.

Last fall, I was very fortunate to have the opportunity to work with a team of management consultants on an insurance company licensing project in the Kingdom of Saudi Arabia (KSA). Because of my gender, my consulting took place in Lebanon and Bahrain and not in the KSA.

The number of insurance companies operating in the KSA varies depending upon your sources. The estimated number of insurance companies is 73. In addition, there are brokers, consultants, and claims adjusters. On July 14, 2003, a new insurance law was published requiring companies that wished to continue operating within the KSA to apply for a license. Prior to this law, the insurance business was not officially recognized other than the NCCI (National Company of Cooperative Insurance) Although insurance companies are operating within the KSA, they are registered in other gulf countries, predominantly as exempt companies operating offshore. Business is conducted through branch offices in the KSA operating under an agency agreement often set up by Saudi shareholders.

Because KSA has the largest economy in the Middle East, it also has the largest insurance market in the region. It is estimated that the current market is approximately SR3 billion (Saudi riyals), which is expected to grow to more than SR10 billion over the next five years. There is speculation among many who are involved in the market, that companies could anticipate a 15 percent increase in premiums over the next several years until the market matures. The delay in the growth of the market is attributed to a lack of insurance knowledge and awareness by the general public. Some individuals in the KSA see insurance as a conflict with the strict rules of Islam.

The SAMA (Saudi Arabian Monetary Agency) has the authority under the Law on Supervision of Cooperative Insurance Companies in implementing the new insurance law. SAMA not only receives applications for licensing insurance and re-insurance companies and providers but also has the authority to supervise the insurance operations specified in the Implementing Regulations of the Law.

Some of the licensing requirements for insurance and/or reinsurance companies include:

1. Completed licensing application
2. Memorandum of Association
3. Articles of Association
4. Organizational Structure
5. Feasibility study
6. Five-year business plan
7. Any agreements with outside parties
8. An irrevocable bank guarantee issued by one of the local banks for the capital required and such guarantee must be renewed until the capital is paid up.

The five-year business plan must include the expected number of employees and a Saudization plan for training and employment. This is part of the government's continued effort in creating more private-sector employment opportunities for Saudis by reducing the number of foreign workers. Some analysts estimate that although the average unemployment rate reported by the government is around 10 percent, the unemployment rate for the youth is approximately 25 to 30 percent. This is a concern for the KSA government since it is estimated that 60 percent of the population is less than 20 years old.

Not only do insurance companies have to obtain licenses but so do individuals providing insurance and reinsurance services. SAMA requires that individuals providing these services meet the following:

- A university degree as a minimum, and five years of relevant insurance experience or an insurance designation accepted by SAMA.
- Pass the examination approved by SAMA to engage in the designated insurance profession or any other equivalent qualifications acceptable to SAMA.

The insurance law also states that SAMA shall notify any applicant within 30 days confirming that the application for a license is complete. If the application is incomplete, the applicant will be notified of any requirements or missing documents. Any incomplete and/or missing documents shall be provided within 30 working days from SAMA's notification; otherwise the application shall be cancelled and the applicant must re-submit a new application for consideration. SAMA shall notify the applicant within 90 days from receipt of a completed application of its approval or its rejection by providing reasons.

On December 7, 2004, SAMA posted a notice on its web site advising that September 20, 2005, would be the last day for completing all licensing application requirements by companies transacting insurance and reinsurance business in the KSA. All companies that do not adhere to this date shall start the run-off of their current portfolio and closing of their offices in KSA.

The KSA is continuing to develop and diversify its economic base. On December 21, 2004, an initial public offering of the state-owned National Company for Cooperative Insurance (NCCI) was launched, with the sale of seven million shares. NCCI is the first insurance company to be listed on the stock market in the KSA. It has been the dominant player in the market, accounting for 24 percent of the liability premiums because the company has held the monopoly on all governmental contracts. Hopefully, the sale of these government shares and the insurance licensing regulations for all companies will help open up the insurance market in the KSA. ■

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Check Us Out!

The International Insurance Section is always looking for individuals who are interested in writing an article or giving us topics that our readers would be interested in.

Contact: Joan Greene, CPCU, ARM, AMIM, CPIW, at JGA12345@aol.com
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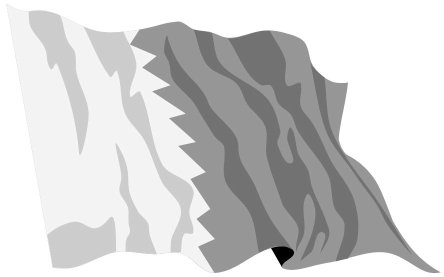
Arabian Gulf Insurance Markets

by Kevin Willis, FCCA

Kevin Willis, FCCA, is a director of Standard & Poor's Insurance Ratings Division, where he started in June 1993. Standard & Poor's is the leading global insurance rating agency, and Willis is sector leader for insurance ratings services to the Middle East and African markets, and for the Lloyd's Insurance Market in London.

There is a new momentum across the Gulf Cooperation Council (GCC) countries in its insurance markets. This is prompted by the countries' governments' recognition of the important role that competent insurance market regulation can play in enhancing the quality of insurance protection and service levels provided to policyholders. This has led to the increasing liberalization of access to insurance risks in the region, and the broadening of ownership of insurance companies. Regionally these are important and necessary steps. The surge in project developments across the region, both to support the energy sector and the associated infrastructure to broaden economic growth factors, are creating significant new insurable risks, and it is acknowledged in the global insurance industry that capacity to offer protection to these projects is currently restricted. At the end of the third quarter of 2004, an article published by *Middle East Economic Digest* (MEED) estimated the value of current projects in the GCC region at more than $250 billion. Under the current insurance structures operated across the region, the bulk of these insurable risks are required to be led by the local national insurers, even if they are incapable of retaining much risk on a net basis because of inadequate capital scale.



The Bahrain Insurance Market

Bahrain's role in these changes is an important one, in that although it is one of the smallest of GCC states in terms of population, area, and values at risk, it has for many years offered an insurance market in which local companies compete openly. Moreover, they also compete successfully with international insurers. In addition, Bahrain has been able to offer reinsurance capacity to regional insurers through its long established coterie of regional specialist reinsurers.

Further supporting Bahrain's position, key international intermediaries maintain a presence in the country to facilitate the placement and management of complex risks from across the GCC region. Indeed this presence is expanding, bolstered by the government's commitment to the Bahrain Financial Harbour development.

The gradual alignment of GCC member states' economic policies—exemplified by the expected move to a common single currency in 2010—should further prompt the development of the Bahrain insurance sector. The Bahrain Monetary Authority has invested in the reinforcement and quality of its regulation, and the investment in the new Bahrain Financial Harbour development will help promote and support the locus of expertise for the insurance and banking sectors.

The BMA is of course in competition with other regional centers—particularly the huge Dubai International Financial Centre project and to some extent Jordan. These three centers have adopted leading-edge insurance regulatory practices, and are all expecting to benefit from the changes in the region.

Bahrain benefits from its Standard & Poor's local currency sovereign rating of A/stable (strong). The UAE has no sovereign rating, and Jordan has a local currency sovereign rating of BBB/stable (good). Thus the financial strength and economic health of the country is demonstrably one of the better in the Arab region. This is complemented by a relatively liberal lifestyle and political stability, with very little Islamic extremist activity to date. All this points to an environment that has been, and is likely to remain, attractive to the ex-patriot community, which brings with it the necessary skills to service and develop the insurance sector. Of the total Bahraini population of around 700,000, almost two-thirds are Bahraini nationals, which is a significant local focus of expertise when compared with neighboring countries such as Qatar, UAE, and Kuwait.

Domestic Market

Bahrain's local direct insurance market is the smallest of the GCC countries, (gross premiums written in 2003 U.S. $210 million), but it represents the second highest insurance density in the region, just behind United Arab Emirates on both life and non-life premiums per capita. Bahrain also has the highest insurance penetration in the Gulf region, at 2 percent of GDP in 2002, but this is low by reference to global average of around 8 percent, demonstrating the growth potential both locally and regionally.

But these risks are spread amongst proportionately more companies (2003: 15) giving the smallest average company size in the region, with gross premiums of just $14 m. The insured risk mix is not unexpected, with motor the largest line at 38 percent, followed by fire at 18 percent. Of relevance is the proportion of life business, which, at 22 percent represents a fairly developed market for this line, in contrast to Bahrain's neighbors.

However, within these summary statistics are some interesting concentrations. For the nonlife accounts, 87 percent of premiums are booked to the national companies, which, as "national" companies, have privileged access to underwrite state-sponsored risks. In complete contrast, just two foreign companies write almost 90 percent of total life business, highlighting the lack of local skills available to manage and develop this line and its demand.

The level of net risk retention in 2003 was 46 percent, which is relatively high in comparison with other GCC countries, and there is a healthy volume of capital supporting these risks.

Although these companies are making attractive profits on their underwritten risks, there is scope for consolidation amongst the companies to prompt greater economies of scale. However, such an action is probably constrained by the close family relationships within individual companies and the inability for shareholder/management teams to easily come to acceptable merger terms.

The performance profile for all lines of business is strong, with gross loss ratios generally being lower than net loss ratios, pointing to the proper role of insured loss protection played by reinsurance.

Bahrain's International Risk Market

Eighty-four companies use Bahrain as an offshore base—significantly more than any other Arab country and a reflection of the benefits of being based in the country. In addition, there is a sprinkling

Continued on page 6

Table 1

Bahraini Insurance Market Financial Strength Characteristics

Summary Market Data (Source BMA 2003 report)

	GPW	GPW	Mkt Share	NPW	NPW	Mkt Share	Gross Claims	Gross Claims	Net Claims	Net Claims
Year	2002	2003	2003	2002	2003	2003	2002	2003	2002	2003
Fire	13,018	13,924	18%	1,600	1,813	5%	3,889	3,052	912	277
Net retention				12%	13%				23%	9%
Loss ratios							30%	22%	57%	15%
Marine	4,518	4,973	6%	1,000	1,145	3%	628	367	262	326
Net retention				22%	23%				42%	59%
Loss ratios							14%	7%	26%	28%
Motor	25,687	30,449	38%	20,339	24,569	67%	19,030	21,632	13,234	15,602
Net retention				79%	81%				70%	72%
Loss ratios							74%	71%	65%	64%
Miscellaneous	10,483	12,641	16%	2,508	2,800	8%	3,208	3,847	1,259	1,560
Net retention				24%	22%				39%	41%
Loss ratios							31%	30%	50%	56%
Total Nonlife	53,706	61,987	78%	25,447	30,327	83%	26,755	28,898	15,667	17,765
Net retention				47%	49%				59%	61%
Loss ratios							50%	47%	62%	59%
Total Life	14,331	17,013	22%	5,843	6,051	17%	6,482	7,522	3,355	3,413
Net retention				41%	36%				52%	45%
Loss ratios							45%	44%	57%	56%
Total Market	68,037	79,000	100%	31,290	36,378	100%	33,237	36,420	19,022	21,178
Net retention				46%	46%				57%	58%
Loss ratios							49%	46%	61%	58%

Arabian Gulf Insurance Markets

Continued from page 5

Table 2

National Companies	2002	2003
Shareholders Equity	48,043	55,340
Net Premium	20,797	24,785
Solvency Ratio (Equity /Premium)	231%	223%

of representative offices and a healthy number of insurance intermediaries and other insurance professional support services—actuarial, loss adjusters, accountancy, etc.

Data produced by the BMA show that in the past three years, the insurance sector has been a net expense, admittedly quite small, to the Bahraini economy and this, as much as anything, is a reflection of the outflow of profitable insurance business to the international (re)insurance companies. If these can be persuaded to establish and maintain large companies in the state, then the insurance sector can become a contributor to the balance of payments. Hence there is a strong rationale for the government to spur the development of a local and international insurance sector. The current reinsurance community in Bahrain serves its regional focus well, but it lacks the necessary scale to absorb many of the high-value insurance risks.

Tables 1 and 2 tell of an expanding marketplace, with gross premiums rising in all sectors. Of significance is that at the net risk level, the dominant sector is motor with 67 percent of total net premiums in 2003. This is essentially a commodity risk that has a high degree of predictability when compared with the other nonlife sectors, and this is reflected in the much lower rate of risk retention for those lines relative to the motor account. Thus, as is so often the case in the GCC region, Bahraini insurers present a high degree of reinsurance utilization, or dependency upon third-party capital. With a net overall retention of just 46 percent in 2002 and 2003, there is a considerable exposure to counterparties. However, the claims statistics for 2002 and 2003 point to higher loss retention (58 percent) than risk retention and so the companies are not leveraging their reinsurer relationships, thereby easing potential credit strain. Also, the level of losses incurred relative to the premiums is quite low, (gross 46 percent; net 58 percent) pointing to the high expense margin available before underwriting becomes unprofitable.

The companies have low capital utilization, as reflected in a solvency ratio (net equity/net premium) well above 200 percent, and thus appear able to absorb a considerable level of financial strain, be it through poor underwriting risk management, or investment market/credit risks. The ability to hold and manage a diverse investment portfolio to reduce concentrations, credit, and market volatility risks to a company are important, and the Bahraini regulations sponsor this.

The likely expansion of compulsory lines to include ex-patriot health insurance will provide new opportunities to the local companies, but the fact that Bahrain is an open market means that experienced international—and regional—players could be attracted if access to sufficient risk volumes and management skills make economic sense.

The Qatar Insurance Market

In 2003, the Qatari insurance market had gross premium of QR890 million (U.S. $245 million) shared among eight insurance companies. Five carry the status of "national" companies, one of which is an Islamic mutual company. The other three companies are small operations set up by non-Qatari operations. However, despite the apparent competition, the market is dominated by just two companies, Qatar Insurance Company (46 percent share) and Qatar General Insurance & Reinsurance Company (32 percent share). The "non-national" companies have a total market share of less than 5 percent.

"National company" status gives those companies the right to quote underwriting terms for all Qatari-government-supported projects, but in real terms, these risks are handled either by Qatar Insurance or Qatar General Insurance & Reinsurance; the other national companies take very small risk lines on a co-insurance basis.

Qatari insurance business is best classified into two discrete sectors—the domestic retail market comprising motor and workers compensation (25 percent of total in 2003) and the industrial sector of marine/fire/energy risks contributing 75 percent. These latter risks are very heavily reinsured, the Qatari market retaining just 12 percent of gross premiums written, compared with 90 percent risk retention for the "retail" sector. This high reinsurance leverage is a key feature of the Qatari insurance market—indeed as it is for the other GCC countries' insurance markets also.

Growth, Retention, and Pricing

The Qatari risk market is expected to experience strong growth over the next few years in response to the government's economic development plans for the country's huge natural gas reserves. There are significant projects underway in the petrochemical/energy sector and the supporting infrastructure. In 2003, gross premiums written were up 19 percent on 2002, and 2002 was up 45 percent on 2001. Table 3 tracks the recent developments in insured risks of 2003.

Table 3
Insured Risks of 2003

	Gross Premium Share	Growth	Net Premium Retention
Marine	16.2%	+30%	20%
Fire	18.2%	+24%	7%
General Accident	40.4%	+25%	12%
Motor	23.6%	+1%	91%
Workers Compensation	1.5%	+10%	82%

A key dynamic in the placing of these risks is the preferred status of the national companies, but the projects are of such a scale that the local companies cannot fully meet the risk base, and this prompts the high reinsurance utilization and presence of the international insurance market in risk management in the region.

The project risk managers are usually external consultants, often the big international brokers who set minimum financial strength requirements for participating insurers, which the local market has not always been able to attain. However, as the national companies are expected to lead the risk management process, Qatar's leading domestic insurers do actively participate, but retain only a small percentage of the gross project risk, with the majority being ceded to the international market. As a consequence, risk pricing is also undertaken by the local insurers with reference to foreign insurers.

The local companies are able to demonstrate persistent long-term reinsurance relationships for managing and controlling these risks, which point to the satisfaction engendered amongst that community as to the risk pricing and management by the domestic Qatari insurers.

Another notable factor in the Qatari market is the emphasis on insurers placing invested funds into the local market, which creates a material asset concentration risk. Meanwhile, the very rapid recent growth in business and liquidity in the country has caused the Qatari stock market to boom over the past three years (it is up almost 50 percent in 2004). Although there is no legal requirement to invest in Qatar, for those insurance companies that do, this inflationary surge is an issue, as this asset value growth may not be sustainable over the long term.

Industry Risk

The industry risk for Qatar insurance (and GCC generally) has to be considered high, as its low risk market—that of the low value-high volume personal lines sector—is substantially smaller than its largely energy/petrochemical derived commercial and industrial risks market, in which the risks are highly concentrated.

Qatar's liability risk market lacks the onerous legal system and claims inflation environment found in the United States and Europe. Instead, the Sharia "blood-money" concept of third-party liability acts as a major cost-containing measure and prevents liability from developing long-tail issues, both in recognition and settlement. The "blood money" concept is seen most keenly in the motor third-party liability market. Motor third-party liability is a compulsory cover and a fixed-price tariff market with a maximum liability settlement of QR150,000. However, the benefits that Sharia law offers of a short-tail and limited claims cost environment have failed to make the Qatari motor insurance market profitable, with underwriting losses in 2002 and 2003. ■

U.S. Free Trade Agreement with Bahrain

by Louisa Marinaccio

Louisa Marinaccio is the program director, financial services negotiations, at the United States Department of Commerce in the Office of Finance. Her job is to work to achieve meaningful market access liberalization for all sectors of the insurance industry in overseas markets. Marinaccio has participated in all the trade negotiations involving insurance and insurance-related services since 2001.

President Bush announced the U.S. government's intention to negotiate a comprehensive Free Trade Agreement (FTA) with Bahrain on May 21, 2003.

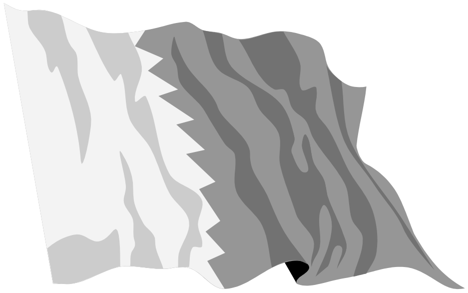
Negotiations began between the United States and Bahrain in January 2004, and concluded May 27, 2004. The Agreement is a comprehensive one encompassing all goods and services.

The trade agreement is broken up into various chapters, which collectively form the Agreement. The commitments with respect to financial services are contained in two chapters: the financial services chapter and the investment chapter. The financial services chapter covers all investment-regulated financial institutions (banking, securities, insurance) and the cross-border provision of all financial services. The investment chapter covers the investment in institutions that may provide financial services but are not regulated as financial institutions. This means that the investment in a bank would be covered by the financial services chapter but the issuance of credit cards by a department store or the provision of loans by an automobile manufacturer would not, since the department store or automobile manufacturer would not be regulated as financial institutions.

The negotiations on financial services were twofold: on the text of the chapter, which can be thought of as the rules governing investment in financial services and the derogations to these rules often called reservations or non-conforming measures. These are areas in which the country reserves the ability to not comply with the specific rules set out in the chapter in areas such as national treatment, market access, and transparency to name a few. For example, from the lofty ideal of market access (the ability for any qualified financial services company to establish if it meets the prudential requirements of the regulator), if the number of foreign bank licenses in a country is limited to a specific number, then this would have to be reserved for in the non-conforming measures.

The Agreement locks in U.S. financial institutions' access to the financial services sector in Bahrain by guaranteeing their ability to establish institutions on a national treatment basis and compete on an even playing field with domestic and regional counterparts. The transparency provisions ensure that applications from U.S. institutions for new licenses will be decided in 120 days and that U.S. institutions will be granted the ability to review and comment on proposed financial regulations before they are implemented.

For the past 20 years, Bahrain has served as the principal financial center for the Gulf region, much of the Arab world, and beyond. Financial services now account for upwards of 20 percent of Bahrain's GNP, and Bahrain is the fastest growing banking and financial center in the Middle East. Bahrain's attraction as a financial center is based on its established offshore facilities, free foreign exchange movement, tax-free status, stable Bahraini Dinar-USD foreign exchange rate, growing insurance sector, modern telecommunications systems, and prime geographical location among the Gulf Community Countries (GCC). As of March 2003, Bahrain's financial institutions included: 23 full commercial banks, three specialized banks, 51 offshore banking units, 36 investment banks, 29 representative offices, 18 investment advisory and other financial services, 17 money changers, and four money brokers.



The results of the commitments achieved in financial services were most dramatic in the insurance sector where the market access was closed to non-GCC insurance companies. Immediately upon entry into force of the Agreement, the current moratorium on the issuance of new licenses in the insurance sector will be lifted for U.S. companies in the area of life and medical insurance, and will be granted in the non-life insurance market six months after implementation of the Agreement. The Agreement gives U.S. firms a definite market access advantage over their non-U.S. competitors.

The Bahrain Monetary Agency (BMA), which has regulatory responsibility for the insurance sector, has been actively upgrading the regulatory framework to develop the country as a regional insurance center. Bahrain's underdeveloped insurance market holds significant profit potential for U.S. investors. Only 150 companies were registered by the BMA's Directorate of Insurance in 2003.

The Agreement also provides that U.S. firms will be able to supply reinsurance, reinsurance brokerage, goods in international transit, consultancy, actuarial, claims settlement, and risk assessment services immediately upon entry into force on a cross-border basis without establishing a commercial presence in Bahrain.

One year after entry into force of the Agreement, U.S. firms will be able to supply marine, aviation, and transportation insurance and the brokerage on a cross-border basis as well. These areas are currently closed to U.S. service providers that do not meet the local presence requirement. Access to these sectors will provide U.S. firms with a significant advantage over their non-U.S. competitors, particularly in the area of maritime, aviation, transportation, and goods in international transit, where currently Bahraini law requires that these risks be insured on the Bahraini market.

Additional potential areas of benefit to U.S. insurance service providers include:

Automobile Insurance: Compulsory automobile insurance and the growing number of motor vehicles in Bahrain are accelerating growth of the industry, contributing more than two-fifths of the insurance industry's total net profits. Under the FTA, U.S. insurance providers will be allowed to participate in this previously restricted market six months after the implementation of the Agreement.

Health Insurance: In February 2002, the Ministry of Health announced a plan to make medical insurance mandatory for all Bahraini residents. If enacted, this could provide potential for growth in this sector. Under the FTA, U.S. insurance providers will be allowed to participate in this previously restricted and growing market immediately upon implementation of the Agreement.

Life Insurance: Demand for life insurance in Bahrain is rising. According to a Bahrain Ministry of Commerce study, Bahrainis spend more on life insurance than other GCC nationals. Under the FTA, U.S. insurance providers will be allowed to participate in this previously restricted and growing market immediately upon implementation of the Agreement. ■

Earthquake Insurance in Turkey

by Eugene N. Gurenko, Ph.D., CPCU, ARe

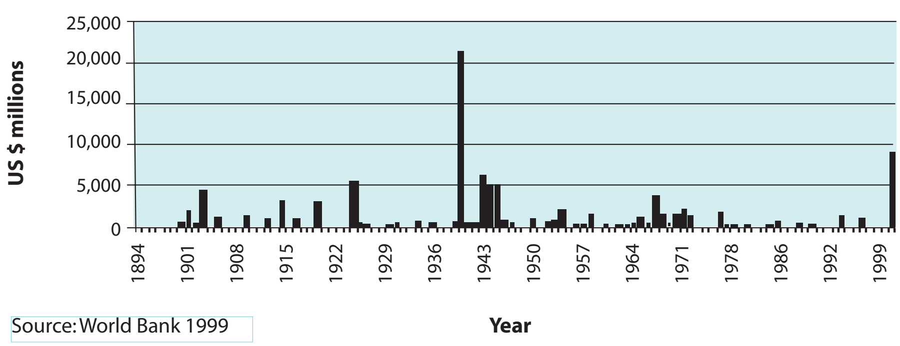
Eugene N. Gurenko, Ph.D., CPCU, ARe, is a senior insurance officer at the World Bank Insurance Practice in Washington, DC, currently on an extended staff exchange assignment with Integrated Risk Management Division at Munich Re.

Over the past few months, Turkey has been making frequent headlines in the international press regarding its European Union (EU) accession prospects. Many economic observers were quick to point out numerous deficiencies in the country's economic policies and institutions, and predicted a rather long journey ahead for the country to be finally fit to meet the EU accession standards. Yet, in some areas such as catastrophe insurance, Turkey is clearly a trendsetter for most EU countries.

Turkey lies in one of the most active earthquake and volcanic regions in the world. More than 95 percent of the country's land mass is prone to earthquakes and large-scale earthquakes can occur at anytime in areas in which 70 percent of the population live and 75 percent of industrial facilities are located. Since 1894, economic damages caused by earthquakes were frequently in excess of $5 billion and, in the case of the 1939 Erzincan earthquake, were as high as $23 billion. (See Figure 1.)

With approximately 95 percent of the country's territory prone to earthquakes and a majority of the population living in these areas, the persistent potential for large-scale natural disasters has become a real concern for the Turkish government, which ultimately led to the establishment of the Turkish Catastrophe Insurance Pool (TCIP). Among the main rationales for the creation of TCIP were a grave government fiscal exposure to natural disasters and a disproportionately low level of catastrophe insurance penetration for such a disaster-prone country, a situation not dissimilar to many EU countries exposed to the risk of flood and quake. Modeled after similar disaster insurance programs in California (CEA) and New Zealand (EQC), TCIP was established as a public sector insurance entity providing catastrophe risk insurance for the Turkish homeowners. However, compared to the two above-mentioned programs, TCIP has no public employees as all its business functions, ranging from sales to reinsurance and claim management, are subcontracted to the private insurance industry. The role of the government in the program is limited to providing additional liquidity support in excess of TCIP's overall claims-paying capacity—a scenario equivalent to occurrence of an earthquake in Istanbul with a 200-year return period.

Figure 1
Turkey Earthquake Losses Since 1894



Source: World Bank 1999

TCIP commenced its operations in September 2000 in the aftermath of yet another devastating 1999 Marmara earthquake. The principal objectives of the program are to (1) provide earthquake insurance coverage at affordable but actuarially sound rates for all registered dwellings through improved risk domestically and globally; (2) limit the government's financial exposure to natural disasters; (3) build long-term catastrophe reserves to finance future earthquake losses; and finally (4) encourage risk reduction and mitigation practices in residential construction.

Since the commencement of the program, the insurance penetration for catastrophe coverage has more than tripled. Providing coverage to about two million of the Turkish homeowners (corresponds to 16 percent of insurable housing stock), today TCIP is by far the largest insurance program in the country. The insurance penetration achieved by the program in Istanbul, however, is much higher, on the order of 30 percent. For comparison, in 1999, there were only 0.6 million earthquake insurance policies in Turkey.

In only four years the program managed to build around U.S. $100 million in its own reserves and secure close to a U.S. $1 billion in total claims-paying capacity, with most of it coming from the international reinsurance market at rather competitive terms. In addition, since its first reinsurance placement, the program

has managed to achieve a 35 percent reduction in its reinsurance rates despite the hardening reinsurance market.

The program has already managed to significantly reduce the government fiscal exposure to the risk of earthquake. In the course of several small- and medium-scale earthquakes over the last few years, TCIP has clearly demonstrated its ability to pay claims quickly and in full. So far, more than 6,000 claims for the total amount of U.S. $6 million have been promptly settled. Due to its low cost structure and well-managed reinsurance costs, TCIP offers earthquake insurance coverage with a limit up to $50,000 at very competitive rates at an average annual premium of $40, which makes catastrophe insurance affordable even for the low-income homeowners. However, the rates charged by TCIP are actuarially sound and are fully sufficient to cover the risk and operational costs. Additional cost efficiencies have been realized through the introduction of the state-of-the-art underwriting IT system driven by the Internet-based platform that enables more than 10,000 insurance agents countrywide to access the TCIP production system in real time. The introduction of the IT system enabled the TCIP to reduce the cost of issuing a TCIP policy to the lowest in the industry, and at the same time receive real-time financial and risk accumulation data for all business written.

The creation of TCIP has also produced a massive shift in the awareness of earthquake risk by the public due to a wide ongoing public information campaign dedicated to earthquake insurance. The concept of earthquake risk management and insurance has recently been introduced in school textbooks as well. The program also helps to improve the compliance of local builders with the construction code as it would not provide insurance coverage for any buildings that do not carry valid construction and occupancy permits. To summarize, in four years, the TCIP (DASK in Turkish) has managed to transform itself from an unknown and controversial government-sponsored program to one of the most trusted brand names in the Turkish insurance industry. Its internal success has also brought a worldwide recognition. To date, inspired by the TCIP's example, more than a dozen countries, including China, Colombia, Greece, India, Iran, Italy, the Philippines, Romania, and Russia, have started technical and legislative work toward the preparation of similar catastrophe insurance programs.

Although the TCIP's operations so far have been not without glitches, it has a great potential for further growth if it can ensure a stronger commitment by the Turkish insurance industry and secure sufficient government support for the program that so far has been an example of Turkey's clear leadership in the field of catastrophe risk management among the EU member and accession states. ■

Anti-Fraud Claims Program for the Israeli Insurance Industry

by Lisa Sayegh

Lisa Sayegh is currently project manager for ISO Claimsearch Israel. She is based in ISO headquarters in New Jersey and can be reached at lsayegh@iso.com or (201) 469-2235.

As in many countries, auto insurance fraud is a growing problem in Israel. The industry estimates that it pays almost $200 million a year in fraudulent claims—a substantial percentage of the industry's annual premiums. To help Israeli insurers win the battle against insurance fraud, ISO and the Israeli Insurers Association have agreed that ISO will develop an anti-fraud claims database and provide special investigations services.

The timing was right. A recently-passed automobile insurance law—with a goal of increasing competition among the nation's insurance companies—also generated interest on what could be done to fight fraud.

Israel turned to ISO for its expertise in managing antifraud databases and long-standing relationship with Israel operating the country's statistical plan used to collect data on losses.

In the United States, insurers rely on ISO's "all-claims" database to combat fraud by submitting tens of millions of reports on individual insurance claims that can be cross-checked to detect patterns of fraud or expedite payments of meritorious claims.

Fraud in the U.S. property and casualty industry is estimated to cost insurers about $25 billion annually. With 400 million claims records, ISO ClaimSearch is the U.S. property and casualty industry's comprehensive system for improving claims processing and fighting fraud. ISO ClaimSearch serves more than 90 percent of the U.S. property and casualty insurance industry (in direct written premium) and other entities, including many law-enforcement agencies involved in investigating and prosecuting insurance fraud.

With ISO's reputation and proven track record of ensuring data security and confidentiality of competitors' information, the Israeli auto insurance industry supported the development of a claims database to fight fraud.

The database concept was supported by the commissioner of insurance, which is part of the Israeli Ministry of Finance. His support was instrumental in ensuring that all insurers would provide data to this database, a critical need for an effective fraud-detection claims database.

The initial focus of the database will be the compulsory auto casualty line of insurance. The core of the Israel ClaimSearch system is the collection and use of claims data. While the system will employ all the functionalities of the original ISO product, it will also be tailored to the specific needs of Israeli auto insurers and unique requirements of the Israeli insurance market.

Customization of the system and service for Israel ClaimSearch include:

- Underwriting information in addition to information for claims handling, which is a first for Israel.
- Data analysis by ISO staff who will work with insurers' special investigation units (SIU) in investigating fraudulent activities. ISO staff data analysts will trigger fraud investigations with companies and act as liaisons with Israeli law enforcement agencies.
- Integration of data from other governmental entities, such as car registration data from the Ministry of Transportation. The system will validate the information provided by the insurers in accordance with Israeli law. Other data sources include the Ministry of the Interior, the police, the workers compensation fund, and the ambulance service.
- Training Israeli companies' SIUs. ISO fraud experts will help train company investigative units and function as data analysts.

Now with the above plan in place, ISO is looking forward to working with insurers in Israel to implement an effective anti-fraud program.

News From the Europe Chapter

by Anthony E. Fienberg, CPCU, ARe

Editor's Note:
The following information prepared by Europe Chapter President Anthony E. Fienberg, CPCU, ARe, originally appeared in the Europe Chapter chaptergram, dated January 24, 2005.

Author's Note:
In its day-to-day operations, the Europe Chapter is almost entirely "virtual." There are no offices, no pre-set monthly meetings, but lots of phone calls and e-mails. However, we can still make you feel the proximity, even if it is not physical location. We hope you enjoy the content and ask that you please give the Executive Committee any feedback you may have. Everything is useful, so do not think it is not relevant!

Chapter Happenings

- **Semi-Annual Meeting**—Invitations will go out shortly, scheduled for April 29 to May 1, 2005 in Zurich. The goal is to hold mid-year opportunity for all members to meet in person. If you think your company would be willing to sponsor one of the meals, please contact Daniel Hess, CPCU (+ 41 1 206 4008 or Daniel.Hess@abrax.ch).
- **Pub Meetings**—These regular, but ad-hoc meetings are a great way to informally get together, especially when someone is visiting from out of town. Are you travelling within Europe in the next few months? Do you feel like organizing a pub meeting? For more information, please contact Anthony E. Fienberg, CPCU, ARe (+ 33 1 70 36 65 52 or afienberg@chubb.com).
- **Annual Meeting**—This year, it will be held near the end of September in London. More information will follow in the second quarter of 2005.
- **Bylaws Amendments**—Based on suggestions made by members made at the 2004 annual meeting, a "Bill-of-Rights"-style batch of 12 amendments to our bylaws is being discussed with the national CPCU Society. The aim is for the Europe Chapter to fully conform to Swiss law, eliminate any inconsistencies, and assure a majority European presence on the Board of Directors. Once all parties agree on the principle, it will be submitted to the membership for approval, according to our present bylaws.
- **Circle of Excellence Recognition Program**—This is the measure by which our chapter operations are judged. Last year, our first in existence, we would have qualified for the Bronze level. We will be aiming to submit an application in June to be judged, along with being considered for a full chapter charter at the Annual Meeting and Seminars in Atlanta (October 2005).

Membership

- **Dues**—Notices were sent out in mid-November 2004. Of our 27 members, as of December 31, 2004, only 15 have paid so far. Please ask your fellow CPCU members to be diligent and pay ASAP. If you know of someone who is a CPCU and is not a member, or was a member last year and has not paid, get him or her aboard! Are you having any trouble? Let us know!
- **Welcome Pack**—This initiative is to help our marketing efforts toward members and potential members. In addition to the information the CPCU Society sends out when you first join, we are working on putting together a series of documents that can be used to prospect new members, give to candidates or the press in general. The content will depend on the audience. All new members will also receive a pack, with a welcome letter from the president.
- **Membership Drive**—Our goal is to have 50 members by the end of 2005. Do you know any people around you who are not members? We have a list with almost 30 CPCUs around Europe. Please contact Ralph Ronnenberg, CPCU (+ 49 89 3891-3844 or rronnenberg@munichre.com).

Visibility

- Have you been to our web site lately? There is a plethora of information. If you don't know the address, it is www.europe.cpcusociety.org. Log on—if you have never done so, or can't, get your password, go to https://webster.cpcusociety.org/source/Custom/SendPassword.cfm. You can see some things without logging in, but one of

Continued on page 14

News From the Europe Chapter

Continued from page 13

the benefits of being a member is to be able to access the members-only part. First thing to do is update your contact information https://webster.cpcusociety.org/source/security/member-logon.cfm?section=Home. Then, surf!

- **Mentor Program**—At the 2004 annual meeting, it was decided to put in place a program to help candidates pass their CPCU exams. A pilot is being conducted in Zurich and the results will be released shortly.
- **Connections**—The Society's strategic goals include increasing our visibility. In Europe, this is even more important. Every time you talk to a colleague, mention that you are a CPCU and that you are part of the Europe Chapter. Put "CPCU" on your business card and e-mail signature. At the 2004 annual meeting, the attendees all agreed to speak with one person in their management team about the CPCU Society. In order to help you with your efforts in 2005, we are going to obtain a "script" to follow, so you can feel more comfortable or just build up the courage to take this initiative. Watch this space for more information.
- **European CEOs Tour**—The Society's new President, Donald J. Hurzeler, CPCU, CLU, a member of the executive team at Zurich North America, is planning to meet with a number of the top management at the major international insurance/reinsurance companies/brokers in the principal European cities, during the 2005 year. Can you help set up a meeting with your group's CEO? Please contact Anthony E. Fienberg, CPCU, ARe (+ 33 1 70 36 65 52 or afienberg@chubb.com).

Volunteer Opportunities

- Wondering how you can participate and/or help the Europe Chapter grow? These are just some of the areas where we are looking for people with ideas or just willing to lend a hand:
  - **Membership Drive**—assigning, researching, keeping track or just contacting CPCUs in Europe to join.
  - **Circle of Excellence**—keeping track of where we are and suggesting solutions to achieve Gold status in 2005.
  - **Web**—revamping the web site, deciding on the structure (map) and content.
  - **Volunteers**—finding people to fill the chapters' needs for action.
  - **Committees**—we have four standing committees: Membership, Visibility, Education, and Information Technology.
- Don't think you have enough time? Every little bit helps. Please contact Thomas Seidl, CPCU (+ 49 89 3891 5636 or tseidl@munichre.com).

Education

Check out the section on "Interesting Presentations" on our web site (www.europe.cpcusociety.org). Do you have any to add?

More to come next quarter…remember, do it today, make a difference. ■

Don't Miss This Outstanding CPCU Society Symposium in Phoenix!

One of the benefits of International Insurance Section membership is that you are eligible to attend CPCU Society symposia at a reduced registration fee . . . and soon you will have an opportunity to enjoy this benefit.

Reinsurance Section Symposium/ Associate in Reinsurance (ARe) Completer Recognition

April 12–13, 2005 • Phoenix, AZ

International Insurance Section members should mark their calendars and plan to attend the annual Reinsurance Section Symposium at the beautiful Pointe Hilton Squaw Peak Resort in **Phoenix, AZ, April 12–13.** In addition to the usual one and one-half day symposium—at which noted reinsurance industry professionals will share their knowledge and opinions—the two-day event will feature a workshop that is both a refresher course for reinsurance professionals and a primer for those who need to understand reinsurance basics to improve job performance. All symposium attendees will be entitled to attend the special luncheon on Wednesday, at which Associate in Reinsurance (ARe) completers will be honored. The Reinsurance Section invites International Insurance Section members to attend these excellent education and networking events at the lowest registration fee!

CPCU SOCIETY INSURING YOUR SUCCESS

Learn more about the Reinsurance Section Symposium and Workshop by visiting www.cpcusociety.org or by calling the Member Resource Center at (800) 932-CPCU, option 4.

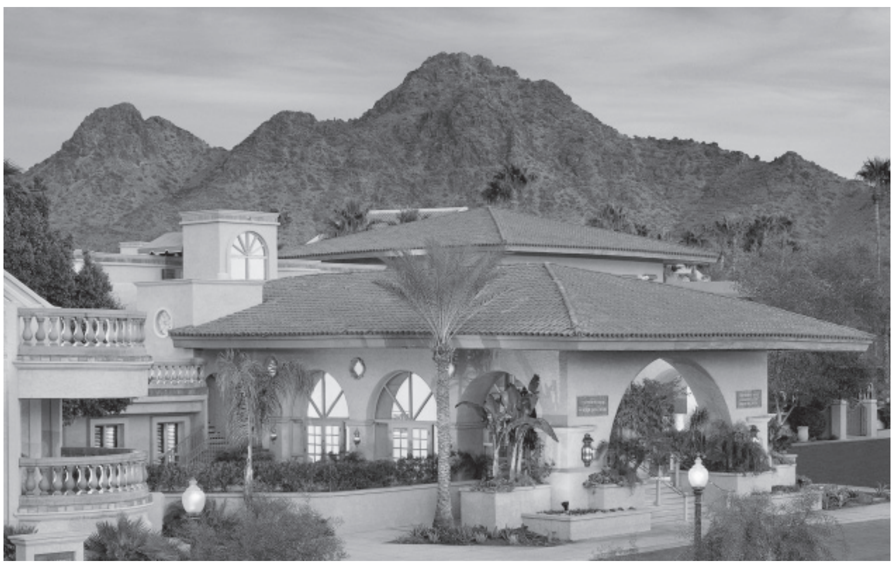
Skills to Stay Out in Front!

Attend CPCU Society National Leadership Institute (NLI) courses April 14-15, 2005

Plan on joining us at the 2005 CPCU Society Leadership Summit in Phoenix, Arizona, April 13-16—the all-inclusive leadership and career development event for the Society's national, chapter, and section leaders!

Choose from nine courses and two leadership luncheons, with inspirational talks by this year's keynote speakers, and enjoy the opportunity to be among Society leaders and see leadership skills in action.

Register today at www.cpcusociety.org or by calling the Society's Member Resource Center at (800) 932-CPCU, option 4, to request a form. Nonmembers are welcome!



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