



Qatar
FINANCIAL CENTRE
AUTHORITY

GCC REINSURANCE BAROMETER

NO.2 / SEPTEMBER 2011



A BI-ANNUAL MARKET
SURVEY CONDUCTED
ON BEHALF OF THE
QATAR FINANCIAL
CENTRE AUTHORITY



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Report prepared by
Dr. Schanz, Alms & Company AG, Zurich



FOREWORD BY THE CEO OF THE QATAR FINANCIAL CENTRE AUTHORITY (QFCA)

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We are pleased to present the second edition of the GCC Reinsurance Barometer, a bi-annual market survey launched in March 2011.

The publication builds on the inaugural edition in terms of providing a systematic overview of the current state and near-term prospects of the US\$6 billion GCC reinsurance markets and the region's economic fundamentals and outlook. Over time, the bi-annual readings of the Barometer will contribute to significantly enhancing the transparency of the GCC reinsurance market place and provide market participants, ie reinsurers, insurers and brokers, with an additional benchmark for decision-making. The results of our second survey have already identified significant shifts in expectations, as the impact of global trends and rising demand in the region leads to firmer pricing.

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This most recent edition of the Barometer is set to be of particular interest as it explicitly covers two important topical issues, the implications of an extraordinary string of insured catastrophe losses in Asia and the US since the beginning of the year and the ramifications of the political volatility in parts of the MENA region.

We hope you will enjoy reading and benefit from the findings of our 2nd GCC Reinsurance Barometer.

Shashank Srivastava, Acting CEO
Qatar Financial Centre Authority



METHODOLOGY

Our findings are based on in-depth and structured telephone and face-to-face interviews with executives representing a total of 24 companies. In addition to international and regional reinsurers we have gathered views from major reinsurance buyers as well as international and regional reinsurance brokers. The interviews were conducted by Dr. Schanz, Alms & Company AG, Zurich in June and early July 2011. Previous interviews were conducted in December 2010 and January 2011.

The Companies taking part in the survey were:

- Abu Dhabi National Insurance Company, Abu Dhabi
- ACR ReTakaful MEA, Bahrain
- Arab Insurance Group, Bahrain
- Assicurazioni Generali Middle East, Dubai
- AXIS Capital, Zurich
- Canopus Group, London
- Chedid Re, Beirut
- Echo Re, Zurich
- Endurance Specialty Holdings, Zurich
- GIC of India, Dubai
- Gulf Re, Dubai
- Guy Carpenter, London
- Haakon Ltd., Basle
- Hannover ReTakaful, Bahrain
- Hiscox, London
- Malaysian Re, Dubai
- Oman Insurance, Dubai
- PartnerRe, Zurich
- RFIB, Dubai
- SCOR SE, Cologne
- Swiss Re, Zurich
- Takaful Re, Dubai
- Willis Re, Dubai
- XL Re, London

SUMMARY OF KEY FINDINGS

1. Confidence in the future of the reinsurance sector in the GCC remains strong within the global reinsurance industry, which perceives the region as one of the leading global growth markets. About two thirds of interviewees continue to expect that reinsurance will outpace the rate of expansion of regional GDP, which is already one of the fastest growing in the world.
2. The GCC region has experienced a strong turnaround in expectations of reinsurance pricing. Almost all interviewees (92%) expect reinsurance prices in the GCC to stabilise or increase over the next 12-24 months, compared with the equivalent level of 29% at the beginning of 2011. In a new development, one third of respondents predict a moderate increase in average GCC reinsurance pricing levels. This change in outlook for the market reflects a slowing of capacity growth following major insured catastrophe losses in Asia and the US in the first half of 2011.
3. Political change in the wider Middle East has had a limited impact on perceived prospects for the industry in the Gulf region. A specific effect, however, of heightened awareness of political risk was observed on reinsurance terms and conditions, which 88% of interviewees expected to tighten, (up from 18% six months earlier), leading to clearer contract definitions, exclusions and event limits.
4. The share of those expecting reinsurance capacity in the GCC to grow further has fallen from 64% to 50%, as a consequence of a sharp reduction in excess capacity in global reinsurance markets, bringing supply and demand in the region into closer balance.
5. Only 38% of respondents believe that the share of regional (including Asian) capacity will continue to rise, down from 82%, the reason being that regional companies are perceived to be disproportionately affected by global market developments such as a massive surge in the cost of retrocession.
6. There are however some signs that retention levels may increase, as a result of regulatory pressure and other factors, since 46% of respondents believe retentions will increase from their average levels of 57% of non-life premium income.
7. As a result of these factors, the profitability of the regional industry is stabilising, although at low but acceptable levels. Almost three-quarters of respondents (71%) expect profitability to remain stable or improve, compared with under half (43%) at the beginning of the year.
8. Overall, the outlook for the reinsurance industry in the GCC has improved significantly in the last six months, as the market continues to grow, while capacity growth slows and pricing improves.

THE REINSURANCE BAROMETER

The Barometer results have produced key measurements for current perceptions of the reinsurance market in the Gulf region. It is intended to track these measurements over time to monitor the evolution of attitudes towards the market.

The most recent set of key readings reflects much improved sentiment on reinsurance prices, terms and conditions and overall profitability.

KEY READINGS

Key Readings	Mar 2011 %	Sept 2011 %
Reinsurance exposure to grow faster than GDP	65	67
Retention levels to increase	39	46
Reinsurance capacity to grow	64	50
Higher share of regional capacity	82	38
Low average current reinsurance prices	93	87
Reinsurance prices to remain stable or increase	29	92
Reinsurance terms to tighten	18	88
Current reinsurance profitability		
Average	29	29
Low	71	71
Stable or improving reinsurance profitability	43	71

GCC ECONOMIES AND INSURANCE MARKETS CONTINUE TO GROW FASTER THAN THE GLOBAL AVERAGE

In 2010, the six GCC countries generated a combined estimated Gross Domestic Product (GDP) of US\$ 805 billion (at constant 2005 prices). This level of output ranks the GCC amongst the 20 largest economies in the world. At an inflation-adjusted 3.4% p.a., the region's economies grew twice as fast as the rest of the world.

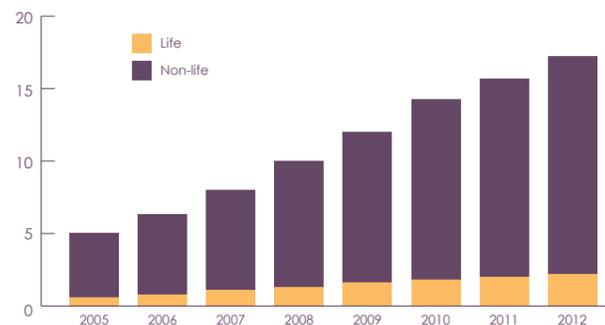
REAL ANNUAL GDP GROWTH (2006-2014F)



Source: EIU

▲ At a 13.1% real annual rate of GDP growth Qatar stands out, primarily driven by a significant expansion of LNG production capacity. Qatar is expected to remain the region's most vibrant and, as a matter of fact, one of the world's most rapidly growing economies. Growth will continue to be underpinned by huge hydrocarbon reserves at an estimated worth of between US\$ 40 trillion (at a US\$ 55 Barrel of Oil Equivalent) and US\$ 70 trillion (at a US\$ 95 Barrel of Oil Equivalent), according to BP and QFC Authority analyses.

GCC INSURANCE PREMIUMS BY TYPE (2005-2012F, IN US\$ BN)



Sources: Compiled by QFC Authority Strategic Development based on Swiss Re, Central Bank of Bahrain, Business Monitor International

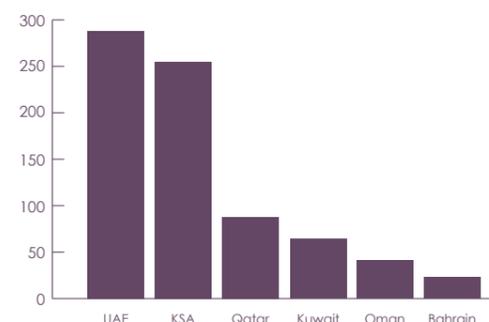
▲ Insurance markets in the GCC mirror the macroeconomic dynamics of the region. For 2010, total non-life and life premium volume in the GCC is estimated at more than US\$ 14.3 billion and projected to exceed US\$ 17 billion by 2012. Life business grows faster than the non-life segment but continues to be of marginal importance with a share of less than 15%.

Between 2005-2009, GCC insurance premiums almost expanded five times as fast as the global average, with Qatar registering an impressive 25% nominal growth p.a.





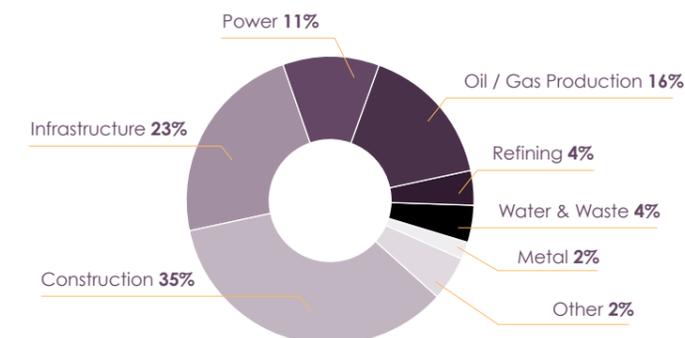
GCC PROJECTS CURRENTLY BEING EXECUTED BY COUNTRY (JANUARY 2011, US\$ BN)



Source: MEED Projects - January 2011

▲ Infrastructure and construction spending on a massive scale continues to be the single biggest specific driver of insurance demand in the region. In Qatar alone more than US\$ 75 billion were awarded to infrastructure projects between 2004 and 2010. As of January 2011, US\$ 88 billion worth of projects were underway in the country, with a further US\$ 130 billion in the pipeline for the next three years.

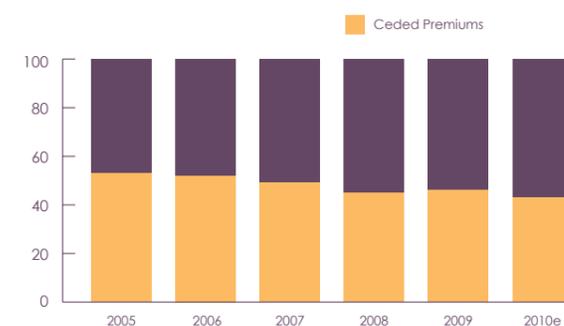
GCC PROJECTS CURRENTLY EXECUTED BY SECTOR (2011, %)



Source: MEED Projects - January 2011

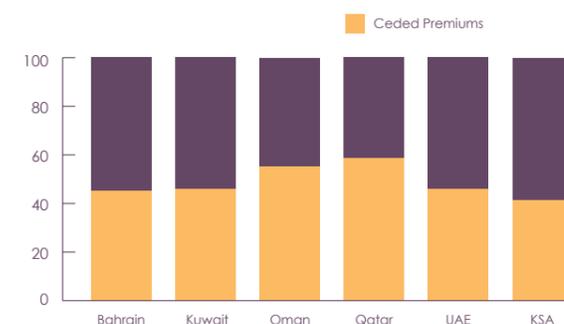
▲ Infrastructure and construction projects dominate the projects pipeline, with a combined share of 58%. Hydrocarbon and power projects contribute another 31%.

GCC PREMIUMS CEDED TO REINSURERS (2005-2010, IN %)



◀ In the GCC, 43% of non-life premiums are ceded to reinsurance companies, reflecting the preponderance of a direct insurance business model based on commission and investment income. The total reinsurance market volume for 2010, accordingly, amounts to about US\$ 5.5 billion. Even though cession rates have been declining recently they remain high compared with other countries of similar wealth.

CESSION RATES BY COUNTRY



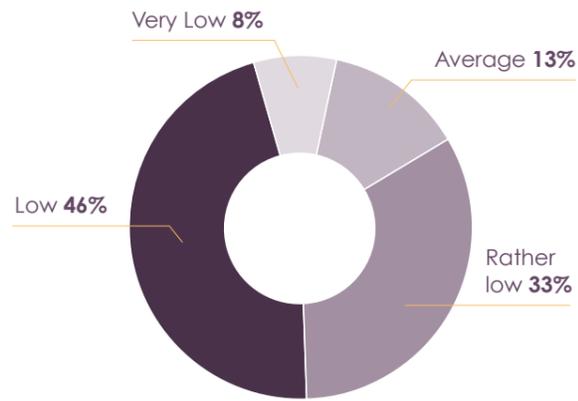
◀ At 57% Qatar displays the highest cession rate in the GCC given the high share of large risks in energy, engineering and other commercial lines. In these volatile areas domestic companies retain hardly any risk on their own balance sheet. At 40%, Saudi Arabia has the lowest cession rate, reflecting compulsory local reinsurance requirements as well as the significant growth of compulsory medical business which is largely retained by domestic insurers.

Source: ISIS

GENERAL GCC REINSURANCE MARKET OUTLOOK

Prices and terms and conditions to stabilise and harden moderately, reflective of global catastrophe losses and regional political volatility.

CURRENT AVERAGE REINSURANCE PRICING LEVELS



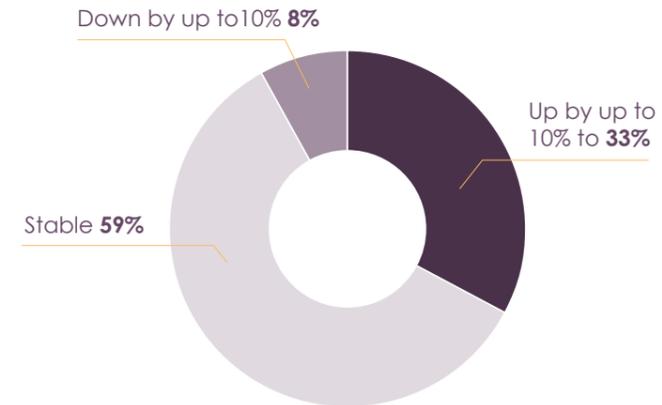
87% of interviewees view current reinsurance prices in the GCC as being below the longer-term average, down from 93% in March 2011. Many say that prices are 'below technical' but adequate given low loss experience. The share of those considering them 'very low' has decreased markedly from 32% to 8%. As in March 2011, almost 50% of respondents believe that current reinsurance prices are 'low', whereas the share of those describing them as 'rather low' has more than doubled to 33%.

This more upbeat assessment primarily reflects the July treaty renewals where, whilst excess capacity continues to exist, the gap between reinsurance supply and demand seems to have narrowed.

“ Reinsurance rates in the GCC are low from a technical perspective but appear to be within commercial tolerances ”

Christopher Pleasant – Managing Director, Guy Carpenter

OUTLOOK ON REINSURANCE PRICES



The pricing outlook for the next 12-24 months differs markedly from March 2011 when 71% of the respondents expected a further price erosion, with as little as 29% predicting a stabilisation. In stark contrast, this time, a third of interviewees expect a moderate increase in average GCC reinsurance pricing levels. The share of those anticipating a stabilization of prices has increased to 59%. Only 8% of respondents believe that reinsurance prices will soften further.

This reversal of pricing expectations reflects major insured losses in Q1 and Q2 2011 from natural catastrophes in Australia, New Zealand, Japan and the US. In addition, natural catastrophe awareness among GCC-based cedants has increased as the frequency of floods and typhoons in the region keeps rising. However, not a single respondent expects a significant hardening of prices as there is still excess capacity in the market and additional reinsurers are entering the region.

“ Global retro markets are hardening as a result of the major cat losses experienced since the beginning of the year. This effect could improve overall reinsurance market discipline in the GCC region ”

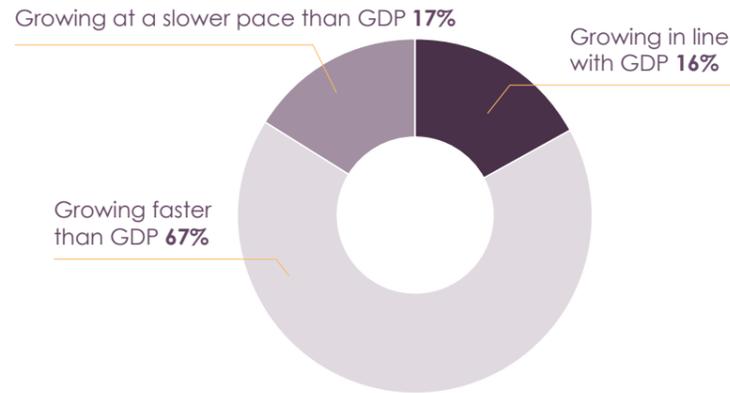
Lukas Mueller, Head of MENA Region, Swiss Re

“ The continued run of global natural catastrophe losses of the past 18 months is squeezing the margins for reinsurers operating in the region and is starting to drive moderate rate increases across the GCC region ”

Atish Suri, Divisional Director, Willis Re

REINSURANCE EXPOSURE

OUTLOOK ON REINSURANCE EXPOSURE GROWTH



▲ Over the next 12-24 months, 67% of the interviewees expect reinsurance exposure (i.e. the sums insured) to grow at a faster pace than the GCC countries' GDP. This assumption is based on the expectation that underlying direct non-life insurance markets will expand more rapidly than the overall economy as insurance penetration rises and approaches levels which are more commensurate with the GCC countries' GDP per capita levels, which are among the world's highest. In addition, reinsurance exposure will rise in tandem with rapidly growing insurable assets in areas which are exposed to natural disasters. The survey results are virtually identical to those from March 2011.

“ As a driver of reinsurance growth, regulation may be even more relevant than GDP development ”

Dermot Dick, Manager Middle East, XL Re

“ The current political uncertainty will weigh on insurance and reinsurance growth in the GCC region. This, however, is partially offset by fiscal windfall gains due to higher than projected oil prices ”

Jonathan Wilton, CEO, ACR ReTakaful MEA

“ We expect the fundamental trend of reinsurance exposure growth exceeding GDP growth to continue in the GCC region ”

Salvatore Orlando, Head of P&C Southern Europe, MEA, Latin America, PartnerRe

“ Because of very low penetration levels insurance in the GCC is expected to continue to grow faster than GDP. Governments could accelerate growth further by improving regulatory frameworks and introducing additional compulsory lines of business ”

Farid Chedid, Chairman & CEO, Chedid Re

“ We consider the GCC a very attractive emerging insurance and reinsurance market. Strong economic fundamentals, combined with very low levels of insurance penetration, suggest a major potential for future growth ”

Hans-Joachim Guenther, Head of Reinsurance Europe & Asia, Endurance Specialty Holdings

AVERAGE RETENTION LEVELS

“ Retention levels vary by class. Reinsurance is precisely there to help balance the books ”

Mahomed Akoob, Managing Director, Hannover ReTakaful

“ Overall, we expect cession rates in the GCC region to remain stable. Only a few companies are increasing their retentions, not least because of ratings considerations ”

Bruno Bertucci, General Manager & Senior Executive Officer, Generali Middle East

“ Retention levels in the GCC are expected to go up as pressure from shareholders, regulators and rating agencies mounts ”

Sahimy Man, CEO, Malaysian Re (Dubai)

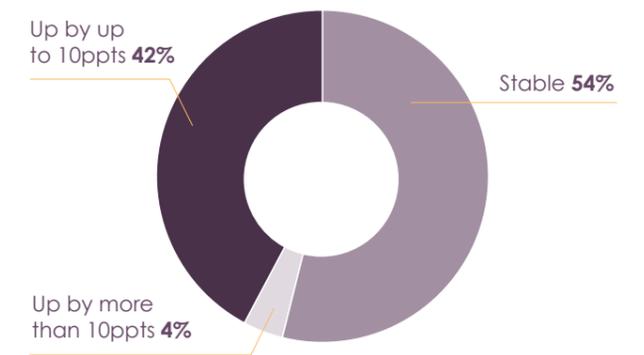
“ We could see higher retentions in the GCC region if other regulators follow SAMA's (Saudi Arabian Monetary Agency) example and exercise pressure on local insurers ”

Chakib Abouzaid, CEO, Takaful Re

▼ On average, GCC insurers retain about 57% of their non-life premium income (including medical & health), a relatively low level in light of the region's high GDP per capita levels. 54% of interviewees, as compared with 61% in March, expect this pattern to remain unchanged over the next 12-24 months, as reinsurance markets will remain competitive. Many cedants enjoy high commission income and do not believe that their profitability could be boosted by retaining more risk.

However, 42% of interviewees expect that retentions will increase by up to 10 percentage points, up from 36% in March as markets show some hardening, M&A activity picks up and pressure from rating agencies, regulators and shareholders mounts.

OUTLOOK ON RETENTION LEVELS

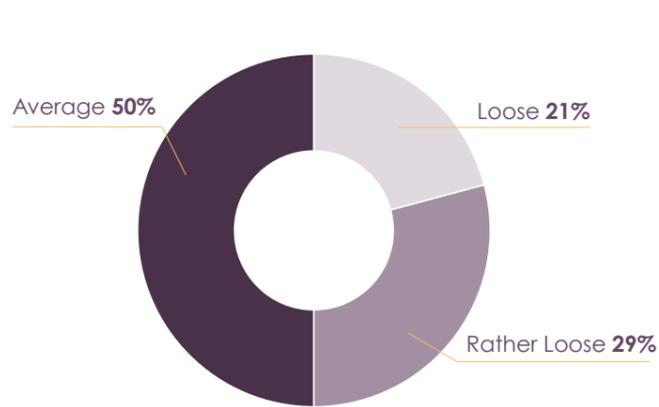


“ Retention levels in the GCC may go up as ceding companies become financially stronger and respond to a hardening reinsurance market ”

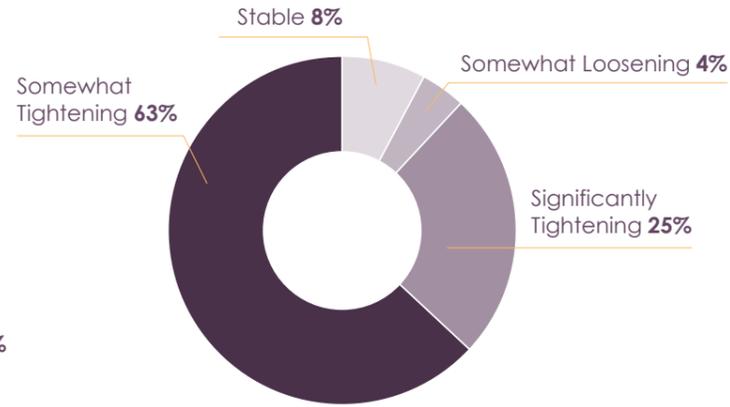
Trevor Oates, Treaty Underwriter, Canopi Group

REINSURANCE TERMS & CONDITIONS

CURRENT REINSURANCE TERMS AND CONDITIONS



OUTLOOK ON REINSURANCE TERMS AND CONDITIONS



▲ 50% of interviewees consider overall reinsurance terms and conditions in the GCC as average when compared to other reinsurance markets. Even though coverage remains relatively broad and deductibles low, the strong presence of international brokers ensures that regional policy terms and conditions generally develop in line with the global market. In general, terms and conditions in the GCC countries reflect a relatively soft market environment as well as the favourable loss ratios in the region.

In stark contrast to March 2011, 88% of respondents expect terms and conditions to tighten over the next 12-24 months, up from 18%. 25% of interviewees even anticipate a significant tightening (as compared to none in March).

This pattern is arguably the most relevant impact of the 'Arab spring' on the GCC region's reinsurance markets. In light of increasing political uncertainty in parts of the MENA region and significant insured losses, reinsurers are now insisting on more restrictive terms and conditions, political risk exclusions and event limits in the area of Strikes, Riots and Civil Commotion (SRCC). Some respondents expect this tightening to spill over to other lines of business, too.

“ Reinsurance terms and conditions in the GCC will certainly tighten as reinsurers insist on clearer definitions of political risk and introduce event limits for SRCC ”

Chérif Chentir, Regional Chief Underwriting Officer, SCOR SE

“ Loose terms and conditions could severely hit reinsurers and prove even more dangerous to them than inadequate prices ”

Jonathan Wilton, CEO, ACR ReTakaful MEA

“ As a result of political volatility, SRCC could develop from a standard policy inclusion to a standard exclusion ”

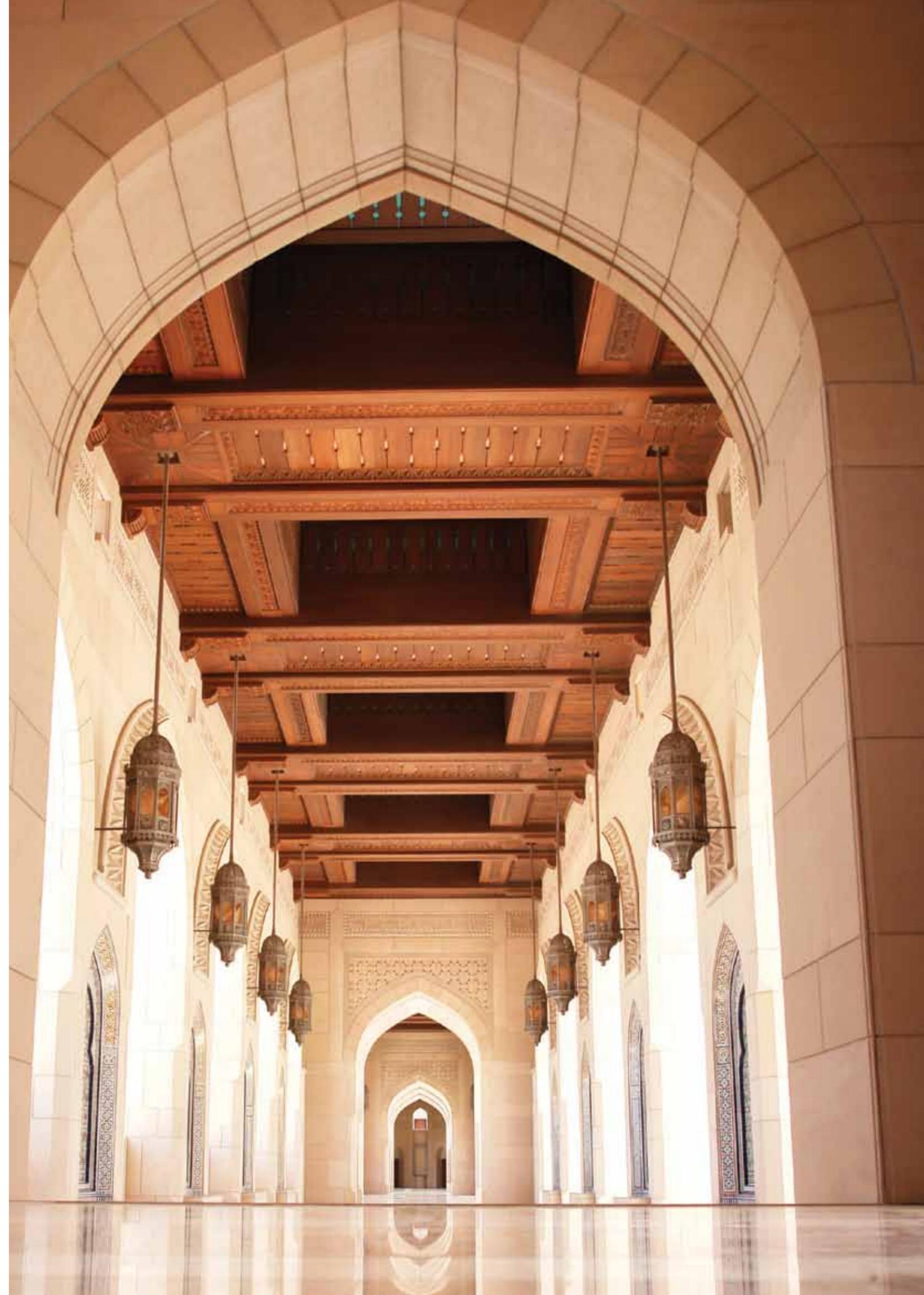
Mark Randall, Director, RFIB Middle East

“ In the GCC, reinsurance terms and conditions are likely to be tightened in light of the political volatility in the MENA region. This effect is probably more relevant than any impact from catastrophe losses outside the region ”

Marc Maupoux, Senior Underwriter, Axis Capital

“ The most recent political unrest has revealed some significant policy wording uncertainty which is likely to be addressed by market participants ”

Vincent Grailhon, Senior Underwriter, Hiscox



OVERALL REINSURANCE PROFITABILITY

“ Reinsurance profitability is rather marginal, especially for treaty reinsurers who are fully exposed to fierce price competition among local insurers ”

Christopher Pleasant,
Managing Director, Guy Carpenter

CURRENT OVERALL REINSURANCE PROFITABILITY

▼ 71% of interviewees consider overall reinsurance profitability in the GCC 'low' or 'rather low'. 29%, however, see reinsurance profitability at 'average' levels. This picture is virtually unchanged from March. The view on profitability is somewhat more positive than the assessment of prices, reflecting the low severity of catastrophe losses in the region which allows selective underwriters to generate attractive RoEs.

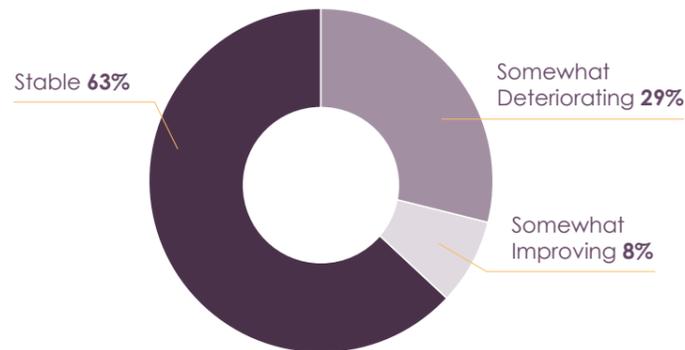


“ Overall profitability of reinsurance business in the GCC region continues to suffer from the double whammy of soft rates and a low-yield investment environment ”

Sahimy Man, CEO,
Malaysian Re (Dubai)

OUTLOOK ON REINSURANCE PROFITABILITY

▼ As far as the 12-24 months outlook on profitability is concerned, 71% of respondents expect overall profitability to remain stable or improve somewhat, up from 54% in March. This more upbeat assessment is driven by moderately hardening prices. 29% of interviewees, however, remain bearish on profitability given the surging cost of retrocession, a continued vulnerability to large catastrophe losses and a widening gap between premium growth and exposure growth.



“ Reinsurance profitability in the GCC could somewhat deteriorate if top line growth suffered from the current political volatility ”

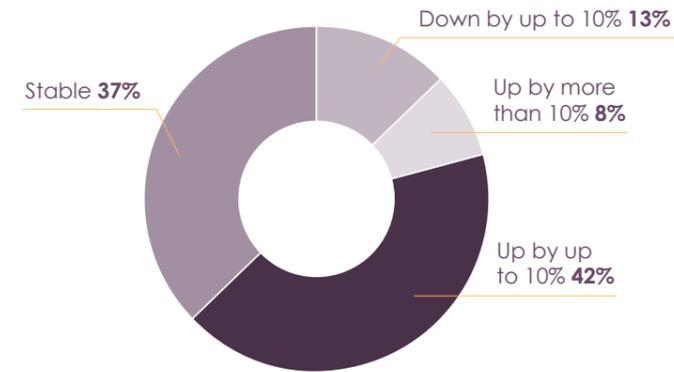
Dermot Dick,
Manager Middle East, XL Re

OVERALL REINSURANCE CAPACITY GROWTH

OUTLOOK ON OVERALL REINSURANCE CAPACITY GROWTH

◀ 50% of interviewees believe that total reinsurance capacity deployed to the GCC countries will further increase, down from 64% expressing the same view in March; the share of those expecting an increase of more than 10% has dropped from 43% to 8%. Those who expect a further inflow of capacity cite the region's continued attractiveness as a high growth, non-catastrophe market and the fact that portfolio diversification is viewed as even more essential for global reinsurers following a series of major insured catastrophe losses in H1 2011.

The expected slowdown in capacity growth reflects the significant reduction of excess capacity in global reinsurance markets. In addition, reinsurers may reallocate some capacity from the GCC region to areas where prices may be more attractive such as Europe, following the introduction of Solvency II or the US in light of the rollout of RMS V 11.0, a new quantitative natural catastrophe model expected to increase demand for reinsurance.



“ Overall reinsurance capacity available in the GCC is expected to remain stable or even slightly recede as global capacity may be reallocated to more attractively priced business opportunities, eg in Japan, the US or Europe where Solvency II looms ”

Andreas Weidlich,
General Manager, Reinsurance, Arig

“ The region's attractiveness lies in sustainable growth, absence of catastrophe losses and average retention levels. These ideal factors define the market and positively impact the influx of capacity that is being experienced in the region ”

Atish Suri,
Divisional Director, Willis Re

“ Political uncertainty and poor margins could discourage reinsurers from deploying additional capacity to the GCC region ”

Farid Chedid,
Chairman & CEO, Chedid Re

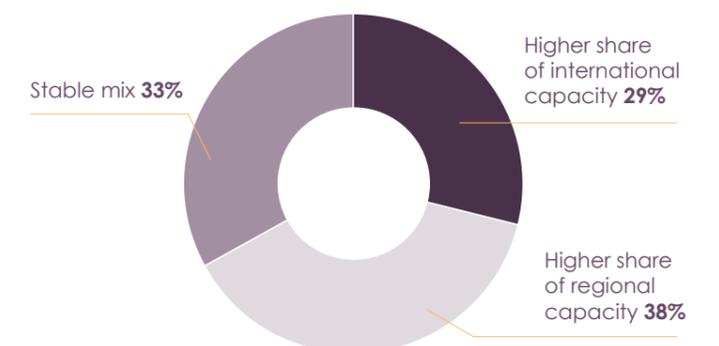


OVERALL REINSURANCE CAPACITY GROWTH

▼ 38% of interviewees believe that the share of regional capacity (including 'Eastern' capacity from Asia) will continue to increase at the expense of 'traditional' international capacity from Continental Europe, Bermuda or London. These inroads are expected to be driven by strong capital formation in the region, customers feeling more comfortable with strongly rated regional capacity and international reinsurers aiming at 'technical' rather than 'adequate' rates which may reduce capacity allocated to the GCC region.

However, the share of respondents adopting this view has dropped from 82% in March, when none of them expected traditional international players to expand their share of the market, as compared to 29% during this most recent series of interviews. Those who expect regional capacity to recede cite two main arguments: First, the most recent catastrophe losses combined with the spectre of political turmoil have heightened cedants' awareness of credit risk. Second, since the beginning of 2011, retrocession rates have increased sharply, with a disproportionately strong effect on regional players who are highly reliant on retrocession cover.

OUTLOOK ON SPLIT INTERNATIONAL VERSUS REGIONAL CAPACITY



“ We may see a reduction in regional reinsurance capacity as regional players are likely to be disproportionately affected by increases in the cost of retrocession ”

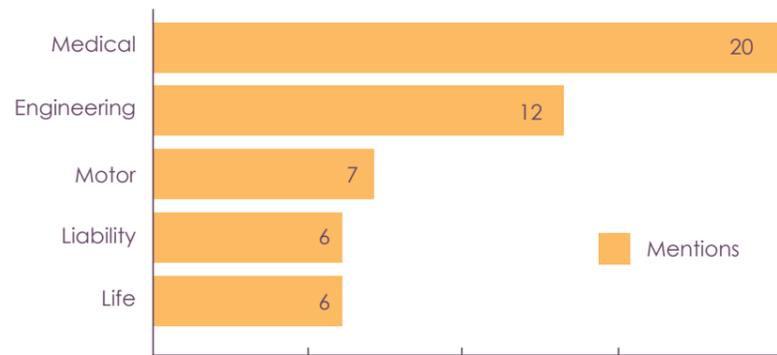
Salvatore Orlando
Head of P&C Southern Europe, MEA, Latin America, PartnerRe

“ We could see a slower or even stagnating growth in capacity deployed to GCC markets by regional reinsurers. These firms have to digest the rapid growth of recent years ”

Juergen E. Gerhardt, CEO, Echo Re

LINE OF BUSINESS-SPECIFIC PROSPECTS

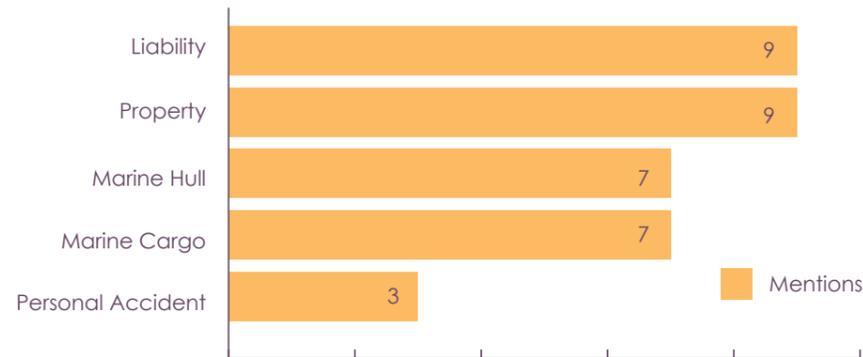
THE FASTEST GROWING LINES OF BUSINESS



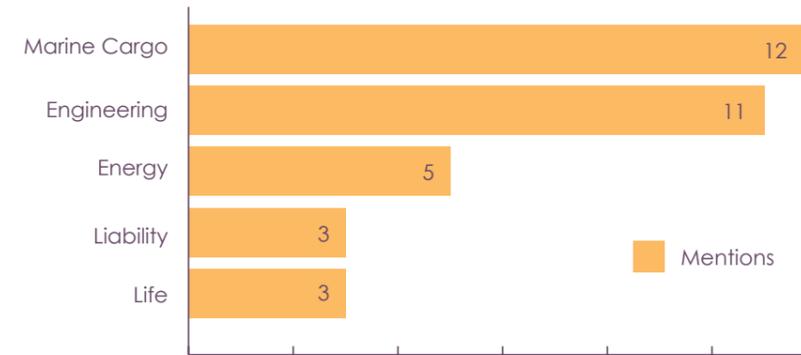
◀ Over the next 12-24 months, medical & health insurance is expected to be the fastest growing line of business, fuelled by compulsory insurance requirements which are reshaping some of the region's non-life markets, in particular Saudi Arabia. Engineering business ranks second, reflecting a strong rebound after the financial crisis and the subsequent economic downturn. Other fast-growing lines include Motor, Liability (from very low levels though) and Life insurance, in particular Sharia-compliant Family Takaful insurance.

THE SLOWEST GROWING LINES OF BUSINESS

▶ When asked about the laggards in terms of growth, Liability and Property business was most frequently mentioned, with most interviewees citing a still highly limited awareness and fierce competition dampening premium volume growth, respectively, as the main reasons. Marine Hull and Cargo business still suffer from the economic slowdown whereas awareness of Personal Accident insurance remains low.



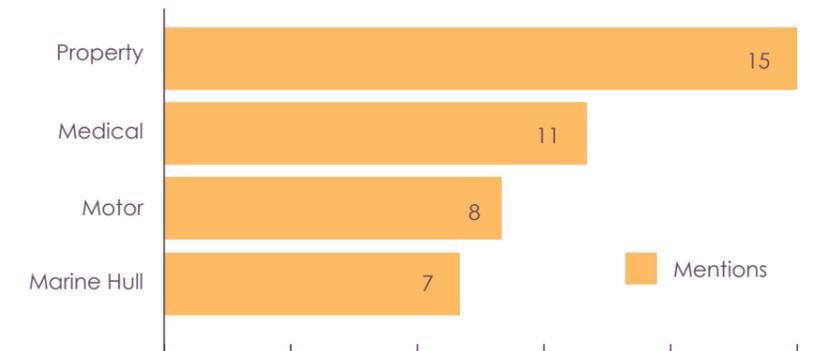
THE MOST PROFITABLE LINES OF BUSINESS



◀ Interviewees consider Marine Cargo and Engineering as the most profitable lines of business, followed by Energy, Liability and Life.

THE LEAST PROFITABLE LINES OF BUSINESS

▶ Property business continues to be the least profitable area, reflecting fierce competition and 'naïve' reinsurance capacity. The Medical and Motor lines of business are also mentioned frequently as displaying a poor profitability, primarily because of escalating cost of treatment and insurers' limited scope for risk selection, respectively.



“ Infrastructure investments and construction activities are picking up again in many GCC countries, supporting reinsurance demand ”

Lukas Mueller,
Head of MENA Region, Swiss Re

“ Medical insurance underwriting would seem to remain unprofitable. This class can be considered as akin to cash flow underwriting, with the growing cost of medical treatment whittling away at any possible underwriting profit ”

Mark Randall
Director, RFIB Middle East

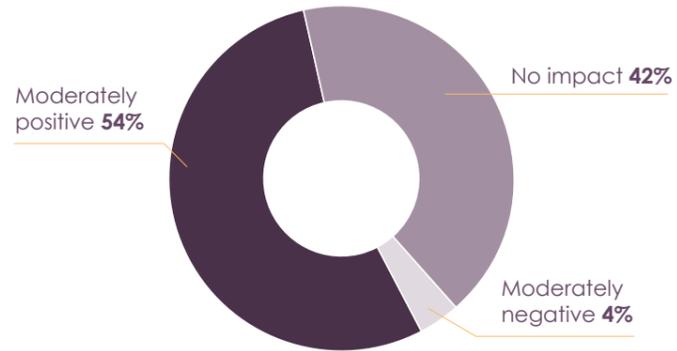
“ Recently, most growth outside the oil & gas sector has been government induced. Medical and motor have been the drivers over the last two years, as some GCC jurisdictions are making the purchase of covers compulsory ”

Andreas Weidlich, General Manager,
Reinsurance, Arig

TOPICAL FOCUS 1: IMPLICATIONS OF GLOBAL CATASTROPHE LOSSES

Erosion of global excess capacity makes itself felt in the GCC

IMPACT OF GLOBAL CATASTROPHE LOSSES ON GCC REINSURANCE PRICING



◀ An exceptional string of major natural catastrophe losses in the first half of 2011 cost insurers and reinsurers about US\$ 60 billion (source: Munich Re, July 2011). These losses have eroded much of the global reinsurance industry's excess capital, triggering significant price increases in the regions affected. According to 54% of interviewees global catastrophe loss experience, all other things being equal, will exert a moderately positive influence on reinsurance pricing in the GCC. Some reinsurers may reallocate capacity to areas outside the GCC where risk-adjusted pricing levels look more attractive. Others will pursue a more disciplined underwriting strategy in the GCC as the cost of retrocession has surged in the wake of global catastrophe losses. As described above, the biggest impact, however, is expected on reinsurance policy terms and conditions, with exclusions, clarifications and event limits leading to a harder reinsurance market environment.

In contrast, 42% of interviewees expect no impact whatsoever, citing the continuation of excess capacity and the pursuit of a distinctly regional strategy by most reinsurers as the main reasons. A minority view even maintains that prices may come under additional pressure as more capacity could be deployed to the GCC region as the quest for diversification strengthens further.

“ In Q1 and Q2, the leading European treaty reinsurers have suffered major catastrophe losses in Asia and the US. This could translate into a moderate upward trend for reinsurance rates in the GCC region as the price for capital globally will increase ”

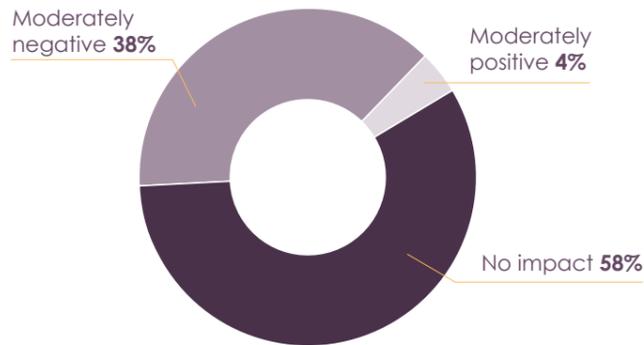
Michael Gertsch, CEO, Gulf Re



TOPICAL FOCUS 2: IMPLICATIONS OF THE 'ARAB SPRING'

The fundamental attractions of the GCC remain compelling

IMPACT OF 'ARAB SPRING' ON AVAILABLE GCC REINSURANCE CAPACITY



◀ 58% of interviewees expect that the amount of reinsurance capacity available in the GCC markets will not be affected by the current political volatility in parts of the MENA region. The established players are widely expected to remain committed to the region and attracted by the growth potential and diversification benefit offered by it. Some of the newcomers though may take a more cautious stance given the perception of increased political risk.

In addition, there is a broad consensus that the quality of available capacity is set to improve as terms and conditions tighten, in particular in the area of 'Strikes, Riots and Civil Commotion' (SRCC). A small minority of interviewees even expects that this improvement, all other things being equal, could be strong enough to result in an increase in available capacity.

“ The major global reinsurers will remain loyal to the GCC region and help domestic insurers navigate the current turbulent environment. However, cedants need to understand that quality and security have a price ”

Chérif Chentir,
Regional Chief Underwriting Officer, SCOR SE

“ The political unrest in the MENA region could adversely affect available reinsurance capacity in the GCC, too, as international reinsurers introduce new exclusions and restrict travel to these markets ”

Michael Gertsch, CEO, Gulf Re

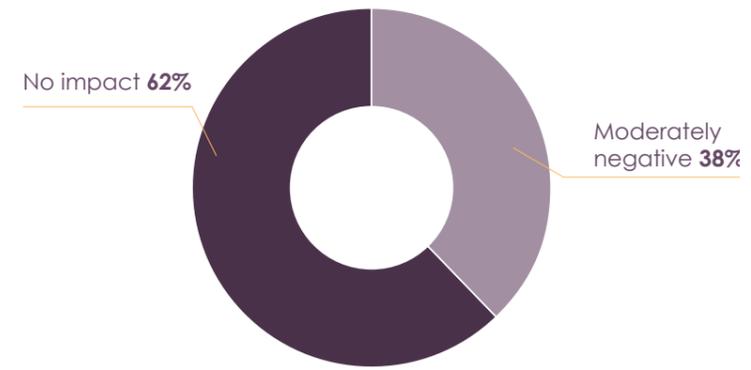
“ Political volatility in the MENA region will not affect the fundamental rationale behind international reinsurers' interest in the GCC region ”

Chakib Abouzaid, CEO, Takaful Re

“ We do not anticipate any noticeable impact from the political volatility on available reinsurance capacity in the GCC, at least not on the dominant cross-border type of business. Most reinsurance relationships are driven by long-term considerations ”

Bruno Bertucci, General Manager & Senior Executive Officer, Generali Middle East

IMPACT OF 'ARAB SPRING' ON THE OVERALL ATTRACTIVENESS OF THE GCC AS A REINSURANCE DOMICILE



◀ As far as the overall attractiveness of the GCC region as an aspiring emerging reinsurance domicile is concerned 62% of interviewees do not anticipate any adverse impact from the political situation in the MENA region, not even short-term. 'There is no collateral damage and the strong fundamentals of the GCC region remain intact' is a view expressed by many survey participants.

However, a strong minority of 38% believes that, short-term, political uncertainty will lead to a slowdown in the number of foreign reinsurers looking at a physical presence in the region. A 'wait and see' attitude is expected to be adopted by these players concerned about overall political stability and security.

“ The political volatility in the MENA region and some GCC countries could adversely impact the perception of the region as a whole, including unaffected jurisdictions ”

Lukas Mueller, Head of MENA Region, Swiss Re

“ With socio-economic reforms on the horizon, one cannot help but be optimistic about the region's future ”

Mahomed Akoob, Managing Director, Hannover ReTakaful

“ Some jurisdictions in the region, such as the DIFC and QFC, are proactively developing their regulatory frameworks based upon leading industry standards. We are encouraged by a region-wide trend towards modern risk-based solvency and supervisory regimes ”

Hans-Joachim Guenther, Head of Reinsurance Europe & Asia, Endurance Specialty Holdings



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