

COMBATING INSTABILITY

Coupled with the challenges of the transformation of the health care industry, regional governments and private companies are finding new opportunities in how they deal with insuring their citizens and employees in this new global economy.

By Jay Akasie

Hisham Radwan has been general manager of the global insurance giant Aetna's Middle East and Africa operations for only two months. But he is a 20-year veteran of the insurance industry and says that his firm is helping its clients deal with the volatility often caused by the Western capital markets.

"There is pressure on all financial institutions, a pressure to be transparent," says Radwan. "The ratings agencies are talking and the regulators are speaking to each other. The governments of the Middle East don't want to have the same experience that the developed countries had during the global economic crisis."

The kind of pressure he speaks of includes the motivations of Middle Eastern and North African governments to transform their healthcare systems. Part of what the global financial crisis did was to call to attention the importance of having laws and systems in place to deal with all types of issues – including those caused by the Western capital markets.

The nation of Saudi Arabia, for instance, did not have any specific laws addressing an on-shore insurance industry, according to Radwan. Most business involving insurance was conducted offshore in many Mena countries. So before the crisis, re-insurance companies were the norm. In addition, multinationals were

tending to take advantage of opportunities in the Middle East by running offshore operations.

Middle eastern countries, especially in the GCC, are becoming conscious of the need to regulate the insurance industry. Now they are zooming towards health care reform as well. So it is an exciting time to be an insurer in the region. "Volatility certainly influences this part of the world – it does significantly," says Radwan. "Everyone is sharpening their pencil and becoming more prepared. There are more restrictions on operating companies, and the different ministries such as health and finance are being asked to come up with best-in-class systems for their people. That's where we can help them operate in a better and more efficient manner."

The GCC countries, because of their relative wealth, stability, and preparedness in the region, are good examples of the kinds of new thinking taking place as to how best address volatile markets in the West. Both Saudi Arabia and Abu Dhabi have implemented laws and regulatory bodies charged with supervising the insurance industry now. So they have kicked-off the process.

Also, the government of Dubai is moving closer to implementing a mandatory enforcement policy for companies to hold insurance policies. In fact, most

governments, whether wealthy or not, are under pressure to provide affordable, accessible healthcare to people in an efficient way.

Still, the overall Middle East-North Africa region, with a population close to that of Western Europe or the United States, has by comparison a relatively low market penetration for the insurance industry. For instance, insurance premiums in the Mena region account for just 1.3 percent of gross domestic product. According to a survey by the Qatar Financial Centre, that's one-fifth the global industry average. The good news for insurers of all stripes is that insurance penetration is now outpacing GDP growth.

According to Aetna's Radwan, there is a move throughout the Middle East to a competitive, market-driven model so that employers can provide the types of coverage they think is best for their companies. "They are all moving towards legislation," he says.

Consider the fact that 46 million people currently live in the GCC countries alone – the majority of them in Saudi Arabia. By 2025, these countries will have been experiencing 25 percent growth; some 60 million people will then reside in the GCC region. The small nation of Qatar alone is experiencing a population boom.



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When the large North African countries such as Egypt are factored in, the total population of potentially insured people rises to 265 million by end of 2025, from 224 million today.

There are different insurance issues from one Mena country to the other and no single solution can fit more than one nation. For example, Bahrain has different needs than Egypt and Sudan is a very different market than Saudi Arabia.

Aetna's Radwan says that the opportunity he sees in the entire region is the desire to make quality health-care more affordable and accessible to everyone. There's also a democratization of sorts in the health care industry

because of new products and because of the fact that he has been working with regulators in region.

"Our strategy is to be the global leader in empowering people to lead healthier lives," says Radwan. "We have a range of products and services – dental, vision, evacuation, emergency, medical management, and disease, for example. There are so many things we provide. The objective is to play a role in supporting this region. The GCC is a model of efficiency when it comes to wanting an integrated health care system. We want to share our vision for a world-class international system because we have a strong foundation of primary care and prevention."

In some ways, the Mena region mirrors the West, both in the volatility it feels in the financial markets, as well as the health trends of its residents. Around the world, an aging population and new diseases caused by sedentary lifestyles are much the same. In the GCC countries, for example, more than 20 percent of the population is suffering from diabetes. Obesity is one of many health issues related to a modern lifestyle; so is cardiovascular diseases, not to mention chronic diseases. "So unless you start moving now as a government to address these issues, they will get out of control," says Radwan.

Spending on health care and its associated costs are rising very fast and every country is trying to address the issue the best it can. At Aetna, for example, the company takes a systematic approach through what is known as a continuum

of care. Health care management through analytics is a methodology to help governments in managing healthcare systems and identifying trends.

"When we look at the continuum of care and management, we look at segmentation," says Radwan. "In every community, there are people who are low risk, and we try to develop products for their needs. But based on data, another segment of people are at high risk, and we try to identify them as well to prevent diseases from spreading."

In terms of chronic diseases, companies have a desire to structure programs that support the return to health and productivity of the people involved. When a person is dying, there is an effort to manage care so that a person dies with dignity and respect. "The future of health-care will be nothing like the past – it's changing and very fast," says Radwan.

"Aetna and others have to be providing transparency and tools that will encourage value and accountability. We want to encourage members to do things like view apps on their phones, engage on our Web site, and investigate the different plan designs. For us it's about wellness and improving the outcome of treatments."

To be sure, the insurance sector in the Mena region is growing rapidly. A first-ever assessment of the industry – and a sweeping, very complete one at that – by the Qatar Financial Centre last year showed that in 2011, the Middle East-North Africa region's insurance market rose to \$42 billion in annual premiums from \$26 billion in 2007. Non-life markets accounted for \$35 billion in 2011 and grew at an average annual growth rate of 7.5 percent. Life markets, on the other hand, were valued at \$6.6 billion and grew by an annual rate of 10.1 percent.

Dubai-based Takaful Emarat specializes in life and health insurance lines. The Director of Marketing for the company, Muhammad Junaid Khan, said that the Middle East market is a mixture of local and international insurance organizations. "The local insurance operators will not feel much about the volatility of Western markets as their core investments and funds are structured within the GCC regions and they have very small exposure beyond the region," he says. "However, the international opera-



tors will for sure see the impact of it."

Khan continued: "Getting more specific in terms of lines of business, local insurers who are offering insurance-cum-investment products – commonly known as unit-linked products – will also see push back in investment products as compared to simple protection insurance plans. Takaful will leverage from this situation having their investment strategies embedded with Shari'a-compliant funds and as most of them are GCC/Middle East-based."

A spokesman for another Dubai-based insurance firm, Noor Takaful, says that a comparison between stock market volatility versus insurance market volatility yields has, in recent years, witnessed a steady recalibration away from a reliance upon historically positive investment earnings as a mechanism to off-set mediocre underwriting results.

"The position has been exacerbated by a reduction in rated low-risk investment vehicles, which, in turn, leads to still lower investment performance and a still greater focus on generating positive technical results," he says.

Those companies, which value their rating agency A status, have found it necessary to look very cautiously at their approach to risk – across all heads – and this has led to capacity shrinkage and/or greater specialization, according to the Noor Takaful spokesman.

"On the one hand, we have seen a continuance of intense price competition, while on the other hand, a requirement to steadily increase technical reserves – which combine to erode technical margins from both ends," he says.

The landmark Mena insurance survey in Qatar cited the region's young and rapidly growing population as



beneficial to long-term economic prospects overall. However, in terms of perceived weaknesses, the study indicated that the region's insurance markets are no strangers to competition, which puts pressure on technical results and drives up acquisition costs. Some 56 percent of the Qatar study's respondents said they view the region's insurance regulations as inadequate – especially the lack of consistency in supervisory oversight.

Respondents said that personal lines should benefit most from the rising affluence of the Mena region's population. Political instability ranks highest with the Qatar study's respondents, followed by continued pressure on rates and a further erosion of profitability.

"It's ironic because I was just talking

about volatility with a number of Gulf-region investors," says Jacob Yahiyayan, managing member of Continental Advisory Services, a merchant bank that partly invests in the Middle East and North African markets. "Most investors don't have the utmost clarity in a particular region's underwriting.

"So what I look for in the property and casualty space is the sheer underwriting strength of the entity and the various provisions of the underwriters. How do you underwrite coverage these days for Egypt? The Levant? How do you get mitigation if, say, an aluminium smelting plant blows up? There are lots of questions facing accredited Western investors," he says.

During much of his career Yahiyayan has served a number of global invest-

ment banks and was based in Beirut. Today, from his merchant bank/family office, he often advises Middle Eastern firms and investors on systematic risks of the region. To that end, he says that he currently looks at investing in many areas of the Middle East with a fair amount of trepidation.

To get started, he looks at best practices and the design and engineering elements of companies. It does not help that across the Atlantic, the Federal Reserve (the central bank of the United States) continues its quantitative easing policies, which often tend to drive up large cap stocks. A good gauge for him is to watch what Saudi-based family offices do. "The Saudi families are into development, global products, as well as looking for the ability to have a claim honoured," he says. ■