

June 3, 2013

**Another insurance hub in the UAE would face significant challenges.**

## Abu Dhabi Enters the Fray of Financial Services Hub Competition

**T**he Middle Eastern insurance market is already well served by three hubs, and A.M. Best expects the establishment of another in the United Arab Emirates (UAE) would face significant challenges, given there is already competition among the financial centres in the region.

A.M. Best notes the recent statement (May 1, 2013) by the General Secretariat of the Executive Council detailing plans to create “The Global Marketplace Abu Dhabi”. The free zone will be located on Al Maryah Island, aiming to promote Abu Dhabi as a leading global market, develop the emirate’s economy, and attract financial investment.

According to the new law, licensed companies can participate in financial and banking activities; trading in securities, currencies, and commodities and minerals; and prime, financial and cash brokerage. A.M. Best expects the primary focus of the new marketplace will not be on insurance-related business. However, the Executive Council has made provision for the insurance sector, stating the marketplace will offer “insurance and reinsurance, insurance brokerage, including securing property and casualty insurance, life insurance and other types of insurance and any other services related to such activities”.

The Global Marketplace Abu Dhabi is in an early developmental stage, with further details expected on its proposed structure in the coming months. A.M. Best believes its success and contribution to the region’s financial market development will depend on its ability to focus on specific niche market segments that are not adequately served by the existing financial centres.

It is worth noting that while insurance demand in the Middle East has been growing in recent years, the sector is still relatively small. Total gross premiums written (GPW) for the six Gulf Cooperation Council (GCC) countries combined reached USD 14.6 billion in 2011 – for example, less than the GPW of Indonesia (USD 14.9 billion). In particular, there is high demand for reinsurance, but little business is placed locally, with the majority ceded to international reinsurers.

It is unclear as to why the UAE requires a further financial centre, given the presence and close proximity of the Dubai International Financial Centre (DIFC). Abu Dhabi’s Executive Council has stated the new market “eliminates the time gap among global financial markets” from 7 a.m.-11 a.m., although this is already overcome through the existence of the DIFC.

In addition to the DIFC, the insurance sector is also well served by the Qatar Financial Centre (QFC) and Bahrain. A summary of these insurance markets follows:

### Dubai – the DIFC

The UAE has two regulatory regimes in place: the Insurance Authority, which has oversight of the domestic market, and the Dubai Financial Services Authority (DFSA) in the DIFC. The DIFC was established in 2004 as a financial free zone, subject to its own bespoke laws and regulations, and has become an important hub for foreign insurers

#### Analytical Contact

Maresh Mistry, London  
+44 20 7397 0325  
Maresh.Mistry@ambest.com

#### Researcher & Writer

Yvette Essen, London  
+44 20 7397 0322  
Yvette.Essen@ambest.com

#### Editorial Management

Brendan Noonan



attempting to build a presence in the region, as well as for a number of regional reinsurers. The DIFC considers itself to have strong supervision of companies.

It is intended that only reinsurance or Retakaful business, in relation to UAE-based risks, be conducted from the DIFC. There are almost 50 active DIFC-registered insurance organisations, including insurers, reinsurers, brokers and advisory firms.

### **Qatar – the QFC**

Similar to the UAE, there are currently two regulatory regimes in Qatar. Since December 2012, the Qatar Central Bank, which regulates banking and financial services institutions, assumed responsibilities for licensing and supervising insurance companies, reinsurers and intermediaries. Previously, companies were licensed and supervised by the Ministry of Business and Trade.

Local insurers since 2005 have had the option to be licensed within the independently operated QFC, which is considered to have one of the better regulated regimes in the GCC. The QFC was established to create an onshore centre accessible to regional markets operating under the more robust Qatar Financial Centre Regulatory Authority (QFCRA), which conforms to sound regulatory practice and international standards. It aims to develop three key sectors – reinsurance, captives and asset management.

The decision to harmonise the regulatory framework under a single body in Qatar is seen as a positive step but may alter the structure of regulation in the market, with Qatar potentially operating a similar model to that of the Central Bank of Bahrain (CBB).

### **Bahrain**

Bahrain has maintained its position as a key insurance hub despite a prolonged period of political turbulence. In April 2013, 25 local companies and 11 overseas insurance entities carried out insurance, reinsurance, Takaful and Retakaful business in Bahrain.

Before the creation of the DIFC and the QFC, the country was considered the Gulf's financial centre. Despite its small size, Bahrain has become a hub for several regional and international reinsurance and Retakaful companies.

The regulator, the CBB, is widely regarded as among the most advanced supervisors in the Middle East, adopting a risk-based capital approach. Bahrain's insurance regulatory framework is in line with the International Association of Insurance Supervisors' (IAIS) core principles and is considered to be among the most comprehensive in the GCC.

### **Additional Challenges Facing the Global Marketplace Abu Dhabi**

A.M. Best recognises that the UAE has two insurance hubs, Dubai and Abu Dhabi. As Abu Dhabi is the largest oil-producing emirate, some leading insurers are incorporated there to benefit from close proximity to some of the larger commercial risks in the country.

To date, the DIFC and, to a lesser extent, the QFC have sought to attract primarily the reinsurance community, as opposed to encouraging competition with domestic insurers. It remains unclear as to whether the Global Marketplace Abu Dhabi will focus on the primary or secondary market. However, A.M. Best believes most international reinsurers that desire a foothold in the Middle East have already established themselves in one of the existing insurance hubs.

*For information about A.M. Best's ratings for this region, please contact Vasilis Katsipis at +971 4375 2782.*

A.M. BEST COMPANY WORLD HEADQUARTERS	• Oldwick, NJ	• +1 (908) 439-2200
Washington Office	• Washington, DC	• +1 (202) 347-3090
Miami Office	• Miami, FL	• +1 (305) 347-5188
A.M. Best Asia-Pacific Ltd.	• Hong Kong	• +852 2827-3400
A.M. Best Europe Rating Services Ltd.	• London, UK	• +44 (0)20 7626-6264
A.M. Best Europe Information Services Ltd.	• London, UK	• +44 (0)20 7626-6264
A.M. Best – MENA, South & Central Asia	• Dubai, UAE	• +971 43 752 780

**Important Notice:** A Best's Financial Strength Rating is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile. These ratings are not a warranty of an insurer's current or future ability to meet contractual obligations. The Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. For additional information, see A.M. Best's Terms of Use at [www.ambest.com/terms.html](http://www.ambest.com/terms.html).

SR-2013-B-457