

**An *IFC Reports* Interview with
Mr. Tawfik Al-Bahar, Managing Director,
Warba Insurance, Kuwait**

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For our special report on Kuwait



IFC REPORTS: His Highness the Amir has continuously highlighted his aspirations to diversify the Kuwaiti economy from its dependence on oil and reposition Kuwait as a regional financial and commercial hub. The development plan was unanimously passed by Parliament in 2010 and aims to inject approximately \$125 billion into the Kuwaiti economy. However this plan will not be successful if the private sector does not get more involved. What is your opinion of this development plan and how do you think it will affect the Kuwaiti economy?

MR. TAWFIK AL-BAHAR: The development plan covers many different areas and it plans to engage the private sector in many different ways. For us there are great opportunities in areas such as medical insurance and construction projects. We believe that they have allocated a great deal of money for these projects and the private sector is looking forward to being a part of this plan, especially the banks that can provide financial support. The insurance sector will play a major role because according to Article 50 of the Insurance Law, all assets in Kuwait have to be insured in Kuwait, which means we have to be involved in this plan by law. But this has to be regulated well and I believe the government has to ensure premiums made in this country are retained in this country so that it will benefit the country more.

IFC REPORTS: Insurance currently contributes to 0.4% to Kuwait's GDP (Gross Domestic Product) and various leading research houses have predicted a growth to 0.54% over the coming years. What is your assessment of this and the market's potential to grow?

MR. TAWFIK AL-BAHAR: I think it can grow even more if the Development Plan is regulated well, as I mentioned. If they retain as many premiums as possible and if they develop different legislation or different insurance policies in addition to contracting policies, it may grow further.

IFC REPORTS: From our research we understand that the Ministry of Commerce and Industry is currently looking to introduce an Insurance Reform Law which could result in more mandatory insurance for many sectors, given for example that 65% of land in Kuwait is currently uninsured. What further details do you know about this?

MR. TAWFIK AL-BAHAR: Insurance on commercial and personal property cannot be imposed. I believe the right way is to impose liability insurance because that is very important, whether it is personal or commercial. We should also impose employee liability insurance because you have to protect employees. The labor law is protecting them but you have to impose insurance as well. You also need social security for expats.

IFC REPORTS: Regarding insurance for expats, I believe that WARBA has been a pioneer in this field by introducing the micro-insurance policy. Can you please tell us a little bit more about this?

MR. TAWFIK AL-BAHAR: Yes. We are introducing a micro-premium because we realize that certain segments of the market need insurance at a low price. It is a life policy and amounts to about 1,000 KD. It will give some protection to expats. Warba has entered alliance agreements with various International Insurance Companies such as LIC (Intl.), SLIP etc. to serve the expatriate population.

IFC REPORTS: Looking at WARBA Insurance in more detail, we know it is one of the leading insurance companies in Kuwait. It was established in 1976 and it covers all areas of insurance, re-insurance and related investment services. Could you please give us a brief introduction to WARBA Insurance and the role it plays in today's increasingly competitive market?

MR. TAWFIK AL-BAHAR: WARBA Insurance was established by Amiri Decree in 1976 and in the late 1990s it was privatized. Since the World Trade Organization agreement we realized that our borders were going to open and we had to spread ourselves into international markets and as such we have alliances with international companies. By doing this we are able to service all areas of the market. For example we have chosen international companies in the medical sector to give our customers as much protection as they require, so we can service them both locally and internationally. We also established a third party administration company to cover medical policies.

In other fields we have also established a company along with another big investor to recycle motor parts, although operations have not started yet. The company will recycle motor parts to service both us and outside clients in order to reduce the amount spent on claims. The recycling company will provide a guarantee to the buyers and they have 24 hour servicing for the parts. We also have a joint venture with a motor company for our motor policies and this service is for all companies in Kuwait. We are involved in motor insurance, medical insurance and life insurance.

We think there is a large scope of opportunities in the GCC (Gulf Cooperation Council) countries, especially the regulated ones such as Saudi Arabia as premiums are sufficiently high for new market entrants. In Saudi in fact we have already chosen a partner to be our catalyst for entering the market. The company will operate under a different name but WARBA will choose the management and the organizational structure of the company.

Qatar will be the next country as well because of the World Cup coming up. We think there is a lot of scope for premiums in Qatar – the income from premiums in Qatar has increased during the past three years and is now the fifth highest amongst the Arab nations so we think it is the right moment to enter Qatar.

We have a plan for Asia and we have already conducted a study and we are going to be an investor in a big insurance company. There is more than 8 billion worth of premiums in India and 5 to 6 billion of premiums in Malaysia. To be successful in any market you need a sufficient amount of premium, good management and staff.

IFC REPORTS: You mentioned Saudi, UAE and Qatar have very high premiums compared to the region. Where does Kuwait fall into that?

MR. TAWFIK AL-BAHAR: Kuwait is quite behind. I believe that Kuwait could be in 7th or 8th place behind Egypt in the MENA (Middle East and North Africa) region. In Kuwait you are only talking about 170 million KD of premiums.

IFC REPORTS: You have worked for many years in the Insurance sector, I'd be interested to know what you consider have been your biggest challenges, especially given Arab nations are not yet fully enlightened about the many benefits arising from an insurance sector?

MR. TAWFIK AL-BAHAR: It takes time to get to know the insurance industry and Kuwait should recognize the importance of insurance as an industry. The University of Kuwait started insurance classes but then they stopped them. They have to realize that this is an industry. It took me time to get to know the industry and how to deal with it. Insurance is not just a practice, but it is a subject. I had to go all over the place to understand it.

Our biggest challenge was when I insured the Kuwait Airways airplanes and in fact we insured the aircraft also for the Ministry of Defense. We also insured the oil industry as a whole and we are the insurers for Equate in the petrochemicals industry. All this would have been easier if Kuwaitis had knowledge of the insurance sector. We have some of the most qualified people in the insurance industry.

We want state-of-the-art policies in the market and our goal is to link banking insurance to the market. We will add motor insurance and related insurance to life and medical insurance. There are so many medical, life and motor policies. We try to follow development in Kuwait but we want to service the people. That is why we have joined together with international life, medical and motor insurance companies.

Kuwait has a population of almost three million people and it will probably increase by at least 10% in the coming years. There is a lack of knowledge in the public sector and they are still not recognizing the insurance sector. We have so many government-related buildings and assets and they are not insured because the Government thinks that they have to be self-insured.

We need certain legislation to help the insurance industry because the Government has registered so many companies but the insurance premium was stagnant for three years. With the new development plan, this will ease competition but how premiums are distributed has to be regulated. We have to regulate how much of the premiums go internationally and how much stays in Kuwait. All of this has to be regulated.

IFC REPORTS: It has been a true pleasure, thank you very much for your time.

Complimented Written Answers Provided

Changes in Kuwait – Development Plan

IFC REPORTS: Your opinion on the development plan and the impact it could create on the economy, touching upon the opportunities it could create for Insurance companies.

MR. TAWFIK AL-BAHAR: The growth of Insurance in all the countries depends upon the growth of the economy. Kuwait has planned huge economic outlay of US\$ 125 billion towards various projects in the Oil and Non-Oil sector. It will no doubt benefit the Insurance Industry. Further it will create more job opportunities, high money circulation, and more spending with an upward trend in real estate and the Kuwait stock market. As all these projects have to be insured so also the people involved, it will result in increase of engineering and personal lines of insurance business.

IFC REPORTS: Discussion on opportunities which could be created from the Privatization Law, given the increase in private sector participation should enhance the demand of insurance.

MR. TAWFIK AL-BAHAR: At present, the Government properties are not insured in Kuwait. The Government of Kuwait is moving to privatize majority of the services such as aviation, power, communications etc. When these sectors are privatized, the assets will be insured. According to Article 50 of Kuwait Insurance Law 1961, that all properties in Kuwait should be insured with the Insurance Companies registered in Kuwait.

IFC REPORTS: Your view on the effect of the current political instability in other Arab countries given there could be a greater need for the protection of assets and incomes.

MR. TAWFIK AL-BAHAR: We agree with your views that the current political instability in other Arab countries will create more demand for Insurance in respect of the properties as well as Income (profits). We see a lot of potential for political and terrorism related insurance coverage. In addition the Governments of stable countries such as Kuwait can offer insurance coverage for projects in potentially volatile countries undertaken by Kuwait companies.

Insurance Sector

IFC REPORTS: We would like your opinions on the potential or constraints of the Kuwaiti Insurance market.

MR. TAWFIK AL-BAHAR: The major constraints of this market are the absence of compulsory insurance like professional indemnity for stock brokers etc. and lack of qualified and experience insurance professionals. Further the motor third party insurance premium has not been increased for the past 40 years although the cost of spare parts, labour and awards by the court towards third party death or injury have increased by several fold.

We see a lot of potential for the growth of personal lines business such as individual life, health, personal accident etc. If the right type of products are offered with the option to pay in instalments especially through banks i.e. direct debit transfers, this will increase the premiums and income in a big way.

IFC REPORTS: How would you rate the competitive environment of the market, given it is dominated by four main players?

MR. TAWFIK AL-BAHAR: In view of high level of assets, shareholders equity and employment of qualified and experienced insurance professionals, the majority of the business is underwritten by four national insurance companies.

There are around 33 companies operating in Kuwait and half of them are Takaful Companies. If right types of Takaful products are offered with good marketing techniques, then there is bright market for takaful products. As majority of the Kuwaiti population (95%) are Muslims, takaful Insurance products will have very bright future.

IFC REPORTS: Your opinion on the threat from foreign companies coming into the market.

MR. TAWFIK AL-BAHAR: In fact the earlier pioneers of Insurance market in Kuwait are foreign companies such as Guardian Royal, Sumitto, Alico etc. However some of them closed operations due to low volume of business at that time.

However the foreign reinsurers play a major role in accepting business from Kuwait and in fact the majority of the risks are reinsured with well known and reputed international reinsurers.

There are no barriers for the foreign companies provided they meet the requirements set by Ministry. In fact 3 foreign companies entered the Kuwait market during the last 5 years.

The national insurance companies are fully equipped to face the challenges that might arise with the entry of foreign companies in to this market. If foreign companies try to take a slice of the cake by introducing the same policies and premiums, this will not benefit them or the market given the presence of already 33 companies. However if the foreign companies bring unique and new products then they have a bright future.

IFC REPORTS: Your views on a new reform bill and the opportunities this could create.

MR. TAWFIK AL-BAHAR: We welcome the new reform bill which might impose compulsory insurance if the property is used by the public such as shopping malls amusement parks etc.

In addition the proposed Insurance Law is likely to put restrictions on the handling of investments which will ensure more safety of the policyholder funds. We do not see any problem to readjust ourselves to comply with the provisions of the new law as majority of the norms have already been followed by WARBA.

IFC REPORTS: Discussion on the hindrance to growth this would create for Insurance companies.

MR. TAWFIK AL-BAHAR: We do not see any hindrance to growth as the law will bring new regulations regarding the interest of the insurance companies and policyholders. Regulated environments always bring benefits to all segments of the sector.

IFC REPORTS: Your view on the need for an independent regulator in the market.

MR. TAWFIK AL-BAHAR: Yes, we fully agree that Kuwait needs an independent regulator for the Insurance market as the number of companies has increased in the last decade. Further Kuwait Insurance market is poised for major development and the premium is likely to be doubled within 3 – 5 years. In order to ensure safety of the policyholders' and shareholders' funds it is essential to have independent regulator. Furthermore, this platform can be used to voice grievances of Insurance sector.

Warba Insurance Company

IFC REPORTS: Provide us with a snapshot into WARBA Insurance Company's current performance and strategy for expansion.

MR. TAWFIK AL-BAHAR: WARBA's premium income in 2010 was US\$ 92 million; increase of 28.4% compared with 2009. The net profit also increased by 54.3% in 2010. The shareholders' equity and total assets reached the level of US\$ 171 million and US\$ 303 million respectively. We hope to maintain this growth in 2011 and in the future. WARBA plans to enter other GCC countries by establishing branches / companies.

IFC REPORTS: Discussion on the main areas of business and how WARBA differentiates itself from the ever increasing competitive local market.

MR. TAWFIK AL-BAHAR: WARBA specializes in personal lines of business which account for almost 50% of the total premium. In addition WARBA has made several alliances to suit the requirements to the expatriate population who constitute approximately two thirds of the total population of Kuwait.

WARBA is the only company in the entire Gulf Region to have eight alliances with international insurance companies. It enabled us to offer a wide range to products with special features. WARBA employs the largest number of Insurance and other professionals among insurance companies in the Gulf Region which enabled us to render high level of service to the insured public.

IFC REPORTS: Highlight the importance of corporate social responsibility and how this is applied to WARBA's corporate strategy.

MR. TAWFIK AL-BAHAR: WARBA recruits young citizens of Kuwait and gives intensive training to them as we feel that these young Kuwaitis will ultimately have to manage the Companies in Kuwait. We also share our business with other insurance companies so that the maximum premium is retained within Kuwait.

In addition WARBA in association with KFAS & KISR conducted various projects such as water table levels in Kuwait, assessment of catastrophic risk and precautions to be taken in high risk buildings etc. It is worthwhile to mention here that the Government of Kuwait put monitors in various locations to measure the earth tremors in Kuwait and WARBA feels proud that it instigated this move.

IFC REPORTS: An insight into your personal contributions and greatest challenges as the MD of WARBA Ins.

MR. TAWFIK AL-BAHAR: I do not wish to get any credit for the services rendered to WARBA but I have to record the fact that WARBA started to implement various strategies that suit the changing environment and as the General Manager/Managing Director I took the initiative.

The insurance industry highly depends upon the selection and management of the employees who are the assets of the company. The average service of an executive in WARBA is more than 15 years and I myself have been here since inception. It clearly indicates that welfare of the executives and employees have been taken care of.

The Board like any other sector or country looks for high level of returns to service the shareholders' funds. The technical wing always tries to generate more premium but with a lot of caution. I have to make equilibrium between these two ends. The entry of new companies created competition but I welcome all kinds of healthy competition which will result in the growth of the sector.

The share capital of the company was US\$ 19 million in 1989 but now it has reached the level of US\$ 62 million, increasing by more than three times. With the increased Share Capital, I have been putting and need to put more efforts to service the increased capital; which I take as a great challenge.