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Executive Summary

Table: Total Premiums 2008-2015

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f
Total premiums, IRRmn	40,561,040	46,459,701	53,428,656	64,731,468	78,523,976	95,690,490	116,791,826	133,172,551
% change y-o-y	19.9	14.5	15.0	21.2	21.3	21.9	22.1	14.0
IRR per capita	561,093	635,241	722,266	865,410	1,038,515	1,252,378	1,513,310	1,709,234
% of GDP	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.3
Total premiums, US$mn	4,302	4,710	5,210	6,106	6,959	7,904	9,105	9,874
% change y-o-y	17.3	9.5	10.6	17.2	14.0	13.6	15.2	8.4
US$ per capita	60	64	70	82	92	103	118	127
Total premiums, EURmn	2,927	3,364	3,928	4,270	5,043	6,080	7,284	7,899
% change y-o-y	9.4	15.0	16.8	8.7	18.1	20.6	19.8	8.4
EUR per capita	40	46	53	57	67	80	94	101

e/f = BMI estimate/forecast. Source: Bimeh Markazi Iran

Key Insights And Key Risks

- Iran’s insurance sector is substantial and has shown that it can develop, if not thrive, despite the lack of access to global markets.
- However, it is not growing in real terms. Unlike in most countries, ‘liberalisation’ and ‘privatisation’ are processes that are unhelpful for most insurance companies.
- Iranian households have no incentive to use life insurance and there is no sign that this is going to alter any time soon.

- The sector has huge potential – but this is most unlikely to be realised unless there is wholesale political change.

Iran's insurance sector has a number of strengths, including scale in terms of gross written premiums per annum. **Bimeh Iran**, the largest company that is a state-owned enterprise, is one of the largest underwriters in the Middle East and would rate as a reasonably large insurer in most countries. Non-life penetration has consistently remained slightly above 1% of GDP. Among other things, this suggests the regulatory regime is reasonably sound. Iran's insurers have managed to survive in the face of various challenges – not least of which is the almost complete lack of access to the global reinsurance markets. Unlike in other Middle Eastern countries, Iran's insurance sector does not consist of a surprisingly large number of sub-scale non-life companies that are offshoots of local business interests that do not have a clear edge in the industry.

The sector is undergoing 'privatisation', via listings of companies on the Tehran Stock Exchange, and 'liberalisation', in that the decisions over products and pricing are moving from **Bimeh Markazi Iran** (the regulator and, to a certain extent, provider of reinsurance service) to the insurers themselves. However, in contrast to privatisation in other countries, the deals in Iran are not necessarily reducing government control and are certainly not increasing formerly state-owned companies' access to capital. The limited data that is available suggests the main impact of 'liberalisation' is to transfer resources from shareholders of private sector companies (including the recently 'privatised' **Bimeh Alborz**, **Bimeh Asia** and **Bimeh Dana**) to the still state-controlled Bimeh Iran, employees and, to a certain extent, insurance customers.

High inflation in Iran distorts the insurance sector in two ways. It obscures the fact that in real terms insurance has hardly been growing. It also provides a major disincentive for the many Iranian households that have significant savings to use life insurance, which hardly exists in the country.

Parsian Insurance, the private sector operator that benefits from its Bancassurance partnership with the eponymous bank, has released figures that indicate that the industry grew by around 15% in Iranian year 1389 (the year to 20 March 2011, which we have shown as 2010). The Iranian insurance sector is barely growing in real terms. This is partly because some of the companies with whom Parsian is competing are pricing products at uncommercially low levels.

SWOT Analysis

Iran Insurance Industry SWOT	
Strengths	▪ The industry has scale. Bimeh Iran, the largest, and still state-owned, insurance company, is one of the biggest groups in the Middle East. ▪ The industry is sophisticated and has evolved far beyond basic lines such as motor insurance. ▪ The regulatory regime is, in some respects, unusual but it is one with which the protagonists can work effectively. ▪ Unlike in other countries, particularly the Gulf Cooperation Council states, Iranian insurers have shown that they can thrive, or at least survive, with limited access to the global reinsurance markets.
Weaknesses	▪ Stagnation – in real terms, the non-life segment is hardly growing at all. ▪ ‘Privatisation’ and ‘liberalisation’ are not operating as they would in other countries. Privatisation does not imply greater access to capital, and not just because of the international sanctions against Iran. ▪ Liberalisation is not clearly benefiting entrepreneurs and shareholders either. Clients are, apparently, benefiting from non-life insurers pricing products at uncommercially low levels. ▪ Costs appear to have been rising relative to revenues. ▪ Entrenched inflation means that the life segment hardly exists at all. ▪ There are no obvious reasons why any of this should change. Non-life penetration and life density will likely stay unaltered through the forecast period.
Opportunities	▪ A wildcard is major political change. By most metrics, the Iranian insurance sector is (very) underdeveloped. Under different circumstances, total premiums could be 2-3 times as large as they are.
Threats	▪ ‘Privatisation’, the main aim of which is to entrench government control over insurance companies in order to run them ‘for policy objectives rather than profit’. ▪ ‘Liberalisation’, the main aim of which appears to be to disadvantage shareholders of private sector (and, to some extent, recently privatised) companies and to benefit most other stakeholders. ▪ The squeeze on underwriting profits in the market for motor third-party liability cover. ▪ The distortion of the economy and financial markets through high inflation.

Iran Political SWOT	
Strengths	▪ Since the overthrow of the Pahlavi family in 1979, there has been some reduction in the level of political corruption, while wealth distribution has improved marginally. ▪ The Revolutionary Guard and Basij militia are fiercely loyal to the supreme leader, helping to maintain social stability.
Weaknesses	▪ The Islamic Republic has one of the poorest human rights records in the region, and authorities do not hesitate to quell dissidents. A number of journalists and anti-government protesters are being held in custody. ▪ While decision-making ultimately rests with the supreme leader, the regime is heavily fragmented and consensus is hard to reach. ▪ Widespread perceptions of electoral fraud during the course of June 2009's presidential elections have damaged the regime's legitimacy in the eyes of many Iranians.
Opportunities	▪ The Majlis (parliament) is more than just a rubber stamp – the move by 150 parliamentarians (out of 290) to hold the president accountable for his handling of the economy is a positive indication that checks exist.
Threats	▪ Ongoing nuclear tensions raise the prospect of further US and UN Security Council sanctions and the – albeit very limited – possibility of a military strike by the US or Israel. ▪ Ethnic tensions are on the rise. ▪ High youth unemployment. ▪ The rising influence of the Revolutionary Guards within the political and economic arena may present a challenge to the status quo over the long term.

Iran Economic SWOT	
Strengths	▪ Iran has the world's second-largest proven oil reserves after Saudi Arabia, and the world's second-largest proven gas reserves after Russia. ▪ Oil and gas aside, Iran is rich in other resources and has a strong agricultural sector.
Weaknesses	▪ Local consumption of hydrocarbons is rising rapidly and this, coupled with ageing technology in the oil & gas sector, will have a negative impact on its oil- and gas-exporting capacity. ▪ The commencement of the country's subsidy reform programme has lowered its growth prospects and accelerated inflation. ▪ International sanctions discourage foreign oil companies from bringing much needed technical knowledge and equipment to maintain oil output levels.
Opportunities	▪ The gas sector remains underdeveloped, and there is considerable room to maximise this source of revenue. ▪ A growing population, combined with a shortage of housing, provide opportunities for investment in residential construction.
Threats	▪ A decline in global oil prices would have a marked impact on the economy. Although an Oil Stabilisation Fund exists to protect the economy at times of weaker oil prices, it has increasingly been used to fund government over-spending and could be close to empty. ▪ A further deterioration in Iran's relations with the international community over its nuclear programme could result in the imposition of more extensive economic measures by the UN Security Council or the US. ▪ There is a serious risk of capital flight owing to fears of conflict or sanctions.

Iran Business Environment SWOT	
Strengths	▪ The Foreign Investment Promotion and Protection Act gives some protection to foreign investors and now allows relatively good terms for the repatriation of profits. ▪ Although stifled in the years since the Islamic Revolution, Iranians have traditionally been renowned for their entrepreneurial skills – a factor that is potentially a strong pull for foreign investors.
Weaknesses	▪ Progress on the privatisation front remains slow, despite some recent encouraging signs. ▪ Foreign firms are currently unable to own Iran's hydrocarbon resources. The resultant 'buy back' deals offer less advantageous terms than those elsewhere, limiting hopes of new investment.
Opportunities	▪ As part of the fourth five-year development plan 2005-2009, the government ended tax and customs concessions afforded to the country's quasi-statal *bonyads*, or foundations. ▪ The government has inaugurated the first phase of an oil swap project with Russia, Kazakhstan and Turkmenistan. The project will compete with the rival US-backed pipeline that will run to the Mediterranean from Baku in Azerbaijan through Georgia to Ceyhan in Turkey.
Threats	▪ UN, US, and EU sanctions on the Islamic Republic pose a significant threat to the participation of foreign firms in the oil & gas sector. ▪ Central bank supervision of charitable funds will be stepped up sharply after it emerged that a number of these funds had collapsed due to indiscriminate lending practices.

Life Sector

Middle East Life Sector Overview

Table: Middle East And Africa Life Premiums, 2008-2015 (US$mn)

	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Algeria	73.30	76.72	94.87	101.05	107.60	114.52	121.84	129.57
Egypt	1,063.11	1,077.21	1,229.04	1,155.51	1,175.42	1,255.06	1,339.57	1,429.09
Kenya	262.81	276.69	337.07	374.49	427.49	483.16	541.45	602.32
Libya	7.36	8.77	10.67	0.77	0.78	0.78	0.79	1.11
Morocco	856.08	864.70	845.39	853.90	862.52	871.17	879.76	888.23
Nigeria	247.36	262.02	310.12	365.75	375.11	384.73	394.60	404.74
South Africa	22,695.77	218,14.15	28,220.08	36,230.26	40,073.07	44,291.34	45,822.36	47,403.11
Tunisia	92.66	99.97	113.18	114.40	115.60	116.77	117.92	119.06
Bahrain	138.24	152.61	159.57	182.02	207.54	236.56	269.54	307.01
Iran	**224.40**	**325.03**	**359.57**	**418.12**	**486.06**	**564.85**	**656.12**	**761.75**
Israel	5,154.13	5,035.30	5,799.29	6,579.11	7,096.02	7,643.19	8,227.04	8,853.84
Jordan	50.66	49.44	53.67	56.01	58.28	60.51	62.76	65.10
Kuwait	152.58	152.81	185.79	191.31	196.30	200.88	205.25	209.57
Oman	106.49	101.30	106.49	108.93	111.15	113.19	115.14	117.06
Qatar	58.25	58.09	59.58	53.69	56.11	58.57	61.05	63.57
Saudi Arabia	158.61	267.82	259.55	318.65	390.86	479.07	586.85	718.54
UAE	724.21	890.95	1,089.18	1,200.93	1,286.58	1,377.52	1,474.07	1,576.53

f = BMI forecast, Source: BMI, national insurance regulators/associations

Across the region, Israel stands out as being exceptional in terms of their life insurance segments. Its peculiar economic and financial history means that the life segment is extremely well developed by most metrics – as is also true in Taiwan and South Africa, whose political situations have been very different to most other countries over the last three decades. In all three cases, there has been a critical mass of households with excess savings, who have seen life insurance as a fairly attractive investment vehicle. There have been few suitable alternatives. Israel differs from Taiwan and South Africa in that one of the largest life companies, **Migdal**, is a 70% subsidiary of **Generali**.

For the rest of the region, the common theme is that there are clear reasons why life insurance density is low by virtually any yardstick. In Iran, the reason is high structural inflation. The government has run a substantial deficit, which it has monetised, for a long time. It has tolerated the consequent devaluation of the rial, which has reduced the true value of its outstanding debts, and the reinforcement of inflationary expectations. Any households with excess savings are forced to invest overseas, if they can, or in real (as opposed to monetary) assets. Life insurance, which requires a long-term commitment to monetary assets, is not an attractive option.

In the Gulf Cooperation Council (GCC) states, the main problem is that most people, or at least the local citizens, do not believe they need life insurance. Life insurance can be thought of as a substitute for social security, which in the GCC countries is extremely generous. In addition, the general underdevelopment of local financial markets means there is a shortage of suitable long-term financial assets, especially high quality bonds that insurers can use to offset their long-term liabilities.

In countries where life premiums form a significant percentage of total premiums – Lebanon, Tunisia, Jordan, Morocco and Egypt – the constraints are different again. In these countries and Algeria there are significant numbers of households that are too poor to provide for their long-term future using life insurance. In some cases, political risk issues mean that the households that could afford to use life insurance products choose not to. Many of the companies that are active in the insurance sector lack the financial and managerial resources to operate in the life segment. Many of the other companies are commercially sluggish, state-owned enterprises.

Nevertheless, there is a commercial opportunity across the region for multinational life companies through the provision of life insurance and related savings products to expatriates who spend a limited period of time working in the region – partly to build up a nest egg. In short, the customers that have a need for long-term savings are receptive to the offerings of life companies and are happy to deal with (very) substantial organisations whose brands they are familiar with.

Zurich International Life (ZIL), for instance, has a presence in the UAE (Dubai, Abu Dhabi and Sharjah), Bahrain and Qatar. It appears that ZIL's business in the Middle East and the Asia-Pacific (ie the substantial operations in Taiwan and Singapore) have been growing rapidly. Total deposits, premiums and policy fees amounted to US$528mn in Q111 and US$825mn in Q211. In the previous corresponding periods, the figures had been US$507mn and US$469mn respectively. **Zurich Insurance**, a related company, purchased a Lebanese life company, **Compagnie Libanaise d'Assurances** (CLA) in October 2010. CLA's annual gross written premiums amount to about US$50mn.

MetLife ALICO probably has the largest geographical footprint in the region. It offers group and individual products (and some products that we would class as non-life lines, such as travel insurance) in Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia and the UAE. Documentation provided by MetLife at the time of its acquisition of ALICO from **AIG** in 2010 indicated that ALICO wrote US$570mn in premiums across the region in the year to November 2009.

Allianz reported that, globally, its life premiums fell from EUR29,480mn in H110 to EUR27,248mn in H111. In the MENA region, life premiums rose from EUR63mn to EUR84mn. In sub-Saharan Africa, premiums increased from EUR18mn to EUR23mn. The cost-to-income ratios deteriorated somewhat in the former, but improved in the latter.

Friends Provident International (FPI) has an operation in Dubai that serves the entire region. Total sales increased from GBP120mn in H110 to GBP132mn in H111, including business in Hong Kong and Singapore. FPI's news release of August 16, 2011 highlighted how its businesses in East Asia had been growing strongly. 'In South Asia, served through our branch in Singapore, and the United Arab Emirates, we are well positioned for growth.' Over the course of H111, FPI's total assets under management rose by 3% to GBP5.9bn.

Iran Life Sector Update

A middle-income country where the average person spends less than US$5 per annum on life insurance, as is the case in Iran, is an exception rather than the rule. Some Iranian households are unquestionably too poor to save for their future, but not all of them. In this respect, Iran is not like markets in Sub-Saharan Africa. Most Iranian insurance companies are small by international standards but the sector, unlike its counterparts in some Eastern European and African countries, does not include dozens of tiny operations that are built mainly around the premise that claims are mostly lower than premiums. The regulatory regime in Iran appears to be tilted in favour of **Bimeh Iran**, the government and some consumers of non-life insurance, but it has not prevented the development of a substantial non-life segment, which is emphatically not dominated by compulsory lines. In addition, unlike in some Gulf Cooperation Council (GCC) countries, Iran is not a country where a small population enjoys extremely generous social security, therefore having no need to use life insurance.

We think that the main problem is that economic and monetary policy has for a long time been run in a way that entrenches high inflation and high inflationary expectations. Until this changes, the life insurance segment will hardly exist in Iran.

Life Insurance Industry Forecast Scenario

Table: Total Life Premiums 2008-2015

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f
Total life premiums, IRRmn	2,115,754	3,206,209	3,687,140	4,432,835	5,484,583	6,838,146	8,415,917	10,273,626
% change y-o-y	11.8	51.5	15.0	20.2	23.7	24.7	23.1	22.1
IRR per capita	29,268	43,838	49,844	59,264	72,536	89,496	109,048	131,859
% of GDP	0	0	0	0	0	0	0	0
% of total premiums	5	7	7	7	7	7	7	8
Total life premiums, US$mn	224	325	360	418	486	565	656	762
% change y-o-y	9.4	44.8	10.6	16.3	16.3	16.2	16.2	16.1
US$ per capita	3	4	5	6	6	7	9	10
Total life premiums, EURmn	153	232	271	292	352	435	525	609
% change y-o-y	2.0	52.1	16.8	7.9	20.5	23.4	20.8	16.1
EUR per capita	2	3	4	4	5	6	7	8

e/f = BMI estimate/forecast. Source: Bimeh Markazi Iran

Bimeh Markazi's annual reports show that life premiums rose from IRR1,892,229mn in Iranian year 1386 to IRR2,115,754mn in 1387 to IRR3,206,209mn in 1388. These years correspond to the years to 20 March 2008, 2009 and 2010 respectively: we have shown them as 2007, 2008 and 2009. We have assumed that life premiums rose in line with non-life premiums in Iranian year 1389 (the year to 20 March 2011, or 2010).

As the table shows, Iranian households basically do not use life insurance. This is partly because many are too poor to do so. The government and the central bank have also run economic and monetary policy in such a way that high inflation expectations have become entrenched. The government has benefited from revenues related to the production of energy but its spending has typically exceeded these. Unwilling or unable to borrow from other sectors of the domestic economy, or from overseas, the government has monetised the deficit. As a result, money supply has grown at a rapid rate and inflation has been much higher in Iran than elsewhere. Over time, the currency has fallen in value, reducing the effective size of the government's debt, given that its revenues are linked significantly to the US dollar through global energy prices.

Any economy that is run in this way is one where no prudent person would use local life insurance contracts – or long-dated local currency financial assets –for their retirement savings. If they could, the consumer would invest in foreign currency denominated assets (ideally US dollars, given the importance of the energy sector to Iran's economy). Otherwise, they would prudently look for suitable real assets at home, such as property or gold.

Iran is an unusual example of a national economy where the inflationary policies of the government and the (not independent) central bank make it almost impossible for a viable life insurance sector to develop. (Venezuela, incidentally, is the other example that comes to mind.) We see no reason why this should change and expect that life density will remain at very low levels throughout the forecast period.

Growth Drivers And Risk Management Projections

Population

Population data is a crucial growth indicator for the life insurance sector: key demographic trends reveal not only specific areas of growth potential, but can also highlight liability imbalances, and show impending growth limitations when viewed in conjunction with penetration figures. Favourable demographics, such as a large youth population, are indicative of promising growth potential, whereas an ageing population or a dwindling birth rate can signal curtailment of growth momentum for the sector.

Table: Insurance Key Drivers, Demographics 2008-2015

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f
Population, mn	71.9	72.9	73.8	74.8	75.7	76.7	77.6	78.5
Population, % change y-o-y	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2
Population, total, male, '000	36,613	37,075	37,537	38,012	38,478	38,937	39,389	39,832
Population, total, female, '000	35,343	35,835	36,327	36,821	37,308	37,786	38,257	38,720
Population, 0-4 yrs, total, '000	6,284	6,424	6,566	6,616	6,652	6,672	6,676	6,665
Population, 5-9 yrs, total, '000	5,439	5,626	5,816	6,006	6,174	6,320	6,443	6,542
Population, 10-14 yrs, total, '000	5,863	5,547	5,221	5,327	5,439	5,555	5,677	5,805
Population, 15-19	8,047	7,600	7,138	6,574	6,095	5,705	5,408	5,208

Table: Insurance Key Drivers, Demographics 2008-2015								
yrs, total, '000								
Population, 20-24 yrs, total, '000	9,232	9,111	8,983	8,616	8,244	7,869	7,490	7,109
Population, 25-29 yrs, total, '000	8,094	8,502	8,918	9,060	9,136	9,143	9,079	8,941
Population, 30-34 yrs, total, '000	5,844	6,204	6,571	7,193	7,738	8,202	8,581	8,873
Population, 35-39 yrs, total, '000	4,860	4,987	5,117	5,335	5,584	5,866	6,181	6,531
Population, 40-44 yrs, total, '000	4,350	4,460	4,572	4,607	4,674	4,773	4,906	5,075
Population, 45-49 yrs, total, '000	3,690	3,806	3,925	4,048	4,169	4,287	4,401	4,513
Population, 50-54 yrs, total, '000	3,003	3,135	3,269	3,382	3,496	3,611	3,726	3,842
Population, 55-59 yrs, total, '000	2,209	2,353	2,500	2,637	2,771	2,902	3,030	3,155
Population, 60-64 yrs, total, '000	1,513	1,610	1,709	1,839	1,970	2,100	2,229	2,358
Population, 65-69 yrs, total, '000	1,168	1,182	1,196	1,247	1,307	1,376	1,455	1,544
Population, 70-74 yrs, total, '000	1,022	1,008	993	973	964	966	978	1,002
Population, 75+, total, '000	1,338	1,354	1,370	1,373	1,376	1,380	1,385	1,391
Dependent ratio, % of total	42	41	40	40	41	41	41	41
Dependent population, total, '000	21,115	21,142	21,162	21,542	21,912	22,270	22,615	22,949
Active population, % of total	71	71	71	71	71	71	71	71
Active population, total, '000	50,842	51,769	52,702	53,291	53,876	54,456	55,032	55,605
Youth population, % of total	35	34	33	34	34	34	34	34
Youth population, total, '000	17,586	17,597	17,603	17,949	18,265	18,548	18,797	19,012
Pensionable popn, % of total	7	7	7	7	7	7	7	7
Pensionable popn, total, '000	3,529	3,544	3,559	3,593	3,647	3,722	3,818	3,937
Life expectancy at birth, male, years			70.1					70.6
Life expectancy at			73.4					74.1

Table: Insurance Key Drivers, Demographics 2008-2015								
birth, female, years								
Urban popn. % of total	68.5	68.9	69.4	69.9	70.3	70.8	71.2	71.7
Rural popn. % of total	31.5	31.1	30.6	30.1	29.7	29.2	28.8	28.3
Urban popn, total, '000	49,261	50,257	51,262	52,278	53,293	54,305	55,315	56,322
Rural popn, total, '000	22,695	22,653	22,602	22,555	22,493	22,419	22,331	22,230

e/f = BMI estimate/forecast. Source: World Bank, BMI

Non-Life Sector

Middle East Non-Life Sector Overview

Table: Middle East And Africa Non-Life Premiums, 2008-2015 (US$mn)

	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Algeria	1,016.17	993.42	997.15	901.28	1,005.09	1,031.40	1,074.34	1,131.43
Egypt	767.91	855.93	918.09	898.71	1,045.09	1,284.93	1,516.82	1,769.52
Kenya	529.68	558.44	660.63	687.05	836.73	977.35	1,139.90	1,313.95
Libya	234.86	286.36	381.31	26.69	32.90	39.38	56.71	77.42
Morocco	1,700.90	1,830.16	1,931.37	1,835.23	1,937.48	2,093.54	2,211.13	2,353.43
Nigeria	1,020.67	1,081.16	1,093.37	924.59	1,146.70	1,425.14	1,763.12	2,206.04
South Africa	7,470.88	8,090.40	9,302.75	10,108.89	11,654.65	13,102.34	14,603.49	16,225.99
Tunisia	686.75	659.82	672.77	710.47	779.18	848.62	900.45	959.79
Bahrain	359.23	380.32	367.02	355.20	418.36	478.50	515.15	569.35
Iran	**4,077.62**	**4,384.85**	**4,850.80**	**5,687.54**	**6,473.01**	**7,339.47**	**8,449.18**	**9,112.43**
Israel	5,198.21	4,910.59	5,229.85	5,755.23	6,127.82	6,641.31	7,124.75	7,655.44
Jordan	419.49	466.10	524.01	522.65	570.94	627.48	694.06	766.86
Kuwait	517.29	520.94	612.32	708.38	741.40	750.11	779.95	820.40
Oman	444.16	516.88	545.45	633.82	676.63	709.11	743.29	780.37
Qatar	934.19	925.55	957.42	1,061.97	1,265.40	1,482.00	1,675.57	1,877.75
Saudi Arabia	2,757.09	3,633.38	4,116.15	5,372.53	5,884.91	6,434.90	7,056.36	7,672.89
UAE	4,251.33	4,565.28	4,887.68	5,330.30	5,831.97	6,274.66	6,802.77	7,406.17

f = BMI forecast. Source: BMI, national insurance regulators/associations

In theory, the Middle East should be a major area of opportunity for global non-life insurers. In practice, there are a number of constraints on growth. One is the legacy of past laws across the region that have (and in some countries still do) constrain the ability of foreign groups to invest in local insurers. The result is that most markets include at least a fairly dominant state-owned company that is small by virtually all standards other than those of the Middle East. **Tawuniya**, formerly the government-owned monopoly cooperative insurer in Saudi Arabia, which annually writes premiums of about US$1.2bn, is a partial exception. Other companies are typically small, listed, private sector concerns owned by local conglomerates that have no obvious competitive advantage in insurance.

The consequence of this is that many companies face challenges on two fronts. On one hand, they usually have to endure brutal competition in basic lines such as property (home) insurance and motor insurance –

with some rivals discounting premiums in a desperate effort to defend market share. On the other, they lack capital to bear larger risks (eg: in marine/transport or the region's enormous energy sectors). As a result, retention ratios are often quite low. Foreign majors such as **Allianz**, **Chartis** and **RSA** are present, although they focus on risks that the local companies are unwilling to take on. We note, however, that the Middle East and North Africa do not represent important regions for any of the foreign majors that are present. Many of the largest risks are underwritten by **Lloyd's** or the global/specialist divisions of the large multinationals.

In some countries whose insurance sectors are surveyed by **BMI**, some players are able to overcome the challenges posed by overly competitive non-life segments by operating as composite insurers. Although there are significant life segments in Egypt and Morocco, this option is typically not open to non-life companies in the Middle East. Life insurance is very underdeveloped for various reasons. Even in Egypt and Morocco, the largest life companies lack scale by most metrics. Very few of the region's non-life companies have enough skilled personnel to develop a viable life insurance business. Usually, any life business that is available is dominated by multinationals such as **Zurich International Life, MetLife ALICO** or **Friends Provident International**.

Interestingly, none of the generalisations that apply to the rest of the region apply in Israel. Lack of capital and pricing discipline are not problems there. The non-life market is dominated by four large composite groups, one of which is the local subsidiary of Italy's **Generali**. Non-life and life insurance are well developed by virtually all metrics, though neither is growing particularly rapidly.

We would suggest that the excitement about general *takaful* in the region exceeds the reality. According to **Ernst & Young's** World Takaful Report 2011, total gross *takaful* contributions in the GCC countries amounted to US$4,887mn. This was dominated by the business generated by the cooperative insurance companies in Saudi Arabia, not all of which are – strictly speaking – *takaful* operators. Saudi Arabia was the only country in the region where virtually all non-life premiums (and life premiums) were shari'a compliant. Much of the overall growth in shari'a compliant premiums across the region is accounted for by the expansion of compulsory health insurance in Saudi Arabia. In 2009, the latest year for which Ernst & Young publish the data, *takaful* accounted for less than a fifth of total premiums in Bahrain, Qatar, the UAE and Kuwait. Except in Kuwait, the growth in *takaful* slowed in these countries in 2009 compared to the longer-term trends of 2005-2008. Further afield, gross *takaful* contributions in the Levant and northern Africa (particularly Sudan) amounted to US$193mn and US$377mn respectively in 2010.

Although particular non-life companies have been able to post remarkable growth in gross written premiums in H111 relative to H110 (if not in net written premiums or bottom line earnings), the limited data available from non-life companies that operate across the MENA region as a whole suggest that the first six months of 2011 have been quite challenging. In spite of difficult global (and financial market) conditions, **Allianz**, for instance, managed to increase its global property/casualty premiums from

EUR23,945mn in H110 to EUR24,445mn in H111. However, its premiums from MENA markets fell from EUR40mn to EUR37mn. Interestingly, and in contrast to some of the local non-life insurance companies across the region, Allianz managed to reduce the combined ratio of its various MENA businesses from 111% to 107%. Unsurprisingly, given the difficult investment markets, profits were minimal.

The comments from regional reinsurer **ARIG**, made at the end of August 2011 in relation to its performance in H111, highlighted many of the challenges. 'The company announced a six-month net loss of US$4.1mn (H110 loss of US$2.8mn) that was largely driven by provisions taken against reported and unreported MENA riot claims and by underperforming financial markets. The half-year result was also influenced by lower earned premiums and certain impairment provisions relating to subsidiaries.' Gross premiums increased by 6.7% to US$189mn. 'Following a review of the latest developments, ARIG decided to increase its reserves for riot claims arising from the events of the "Arab Spring" in several of its MENA markets.' Investment earnings of US$8.8mn were higher than they had been in H110 (US$5.5mn) but were below expectations.

ARIG's forward looking comments were notable for an air of caution. ARIG is looking for improved pricing in 2012, after a difficult year in 2011. 'ARIG will continue to gradually shift its emphasis away from the MENA region to a more global basis by increasingly employing its Lloyd's corporate membership. This allows the company to become more opportunistic, utilising pricing trends in different parts of the world to its advantage. While the performance of the technical results and general business for the remainder of 2011 is yet unknown, we are assuming lower returns than in the previous year. Much will depend on the outcome of the US wind season and the future behaviour of the jittery financial markets.'

Iran Non-Life Sector Update

Table: Breakdown Of Gross Written Premiums, 2009-2010 (IRRmn)

	Year to March 2009	Year to March 2010	Change y-o-y
Fire	2,592,614	2,915,427	12.5%
Cargo	1,042,933	794,764	-23.8%
Accident	2,888,585	3,248,438	12.5%
Motor (CASCO)	4,977,934	5,451,871	9.5%
Motor (CMTPL)	18,388,571	20,051,889	9.0%
Health	3,647,090	5,393,273	47.9%
Hull	140,110	135,129	-3.6%
Aviation	445,845	541,650	21.5%
Engineering	761,480	1,079,272	41.7%
Liability	2,373,458	2,619,426	10.4%
Credit	70,094	33,039	-52.9%
Oil and energy	1,076,260	912,534	-15.2%
Others	40,316	76,780	90.4%
Sub-total, non-life	38,445,290	43,253,492	12.5%
Sub-total, life	2,115,700	3,206,209	51.5%
Total	40,560,990	46,459,701	14.5%

Source: Bimeh Markazi Iran

Table: Breakdown Of Earned Premiums, 2009-2010 (IRRmn)

	Year to March 2009	Year to March 2010	Change y-o-y
Fire	2,472,280	2,789,954	12.8%
Cargo	1,056,361	873,415	-17.3%
Accident	2,275,829	3,081,975	35.4%
Motor (CASCO)	4,181,455	5,196,999	24.3%
Motor (CMTPL)	15,715,570	19,379,484	23.3%
Health	3,165,840	4,231,833	33.7%
Hull	142,258	130,456	-8.3%
Aviation	445,857	506,015	13.5%
Engineering	769,062	999,853	30.0%
Liability	2,136,546	2,423,466	13.4%
Credit	76,622	46,676	-39.1%
Oil and energy	876,554	1,006,363	14.8%
Others	37,490	62,370	66.4%
Sub-total, non-life	33,351,724	40,728,859	22.1%
Sub-total, life	473,685	1,078,969	127.8%
Total	33,825,409	41,807,828	23.6%

Source: Bimeh Markazi Iran

Table: Retention Ratios, 2009-2010 (net premiums as % of gross premiums)

	Year to March 2009	Year to March2010
Fire	95.4%	95.7%
Cargo	101.3%	109.9%
Accident	78.8%	94.9%
Motor (CASCO)	84.0%	95.3%
Motor (CMTPL)	85.5%	96.6%
Health	86.8%	78.5%
Hull	101.5%	96.5%
Aviation	100.0%	93.4%
Engineering	101.0%	92.6%
Liability	90.0%	92.5%
Credit	109.3%	141.3%
Oil and energy	81.4%	110.3%
Others	93.0%	81.2%
Sub-total, non-life	86.8%	94.2%
Sub-total, life	22.4%	33.7%
Total	83.4%	90.0%

Source: Bimeh Markazi Iran

Writing at the end of September 2011, we do not yet have access to official data for Iranian year 1389, which ended in March 2011. As we explain below, our understanding from the latest annual report of **Parsian Insurance**, we think that non-life gross written premiums increased by around 15%.

The tables shown above, which cover Iranian years 1387 and 1388 give an indication of the key themes that dominate Iran's non-life segment, which appears in a negative light.

In the years to March 2009 and March 2010, consumer price inflation (CPI) in Iran was 17.8% and 10.4% respectively. In real terms, the non-life segment has hardly grown at all. Gross premiums have been falling in real terms (and in nominal terms in some cases) in many of the lines identified by **Bimeh Markazi Iran**. The figures in the tables above indicate that competitive conditions have become a lot tougher thanks to the partial 'liberalisation' of Iran's insurance sector.

In August 2010, an article in Middle Eastern Insurance Review explained how the privatisation of three of the four state owned insurance companies (**Bimeh Alborz, Bimeh Asia** and **Bimeh Dana**, but not **Bimeh**

Iran) would be accompanied by a progressive move towards deregulation of premiums, which had previously been set by the regulator. The deregulation was set to take place in six steps, the first two of which had been completed prior to August 2010. The six steps are:

1. Marine cargo, marine hull and aviation.

2. Engineering, voluntary motor and residential/fire.

3. Public liability, and medical malpractice liability.

4. Personal accident and (partially) industrial/fire.

5. Medical, credit risks and (totally) industrial/fire.

6. Motor third-party liability.

This is emphatically not a wholesale liberalisation of the insurance sector, although we accept that in the short-term customers may have been beneficiaries of the change. Interestingly, it appears that the last part of the segment to be liberalised, CTPML, is by far the most important, accounting for about 43% of premiums but nearly 57% of claims. In short, the pre-eminent line in the segment, which dominates premiums, is one of the least profitable.

In mid-2011, Parsian Insurance provided a fairly comprehensive description of conditions in the non-life segment. Liberalisation has resulted in (dramatically) lower prices in a number of lines. Some of the reductions are ‘unjustifiable’ given the risks that are being assumed. The implication is that some of Parsian’s competitors are not operating along entirely commercial lines.

Non-Life Insurance Industry Forecast Scenario

Table: Total Non-Life Premiums 2008-2015

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f
Total non-life premiums, IRRmn	38,445,286	43,253,492	49,741,516	60,298,633	73,039,394	88,852,344	108,375,909	122,898,925
% change y-o-y	20.4	12.5	15.0	21.2	21.1	21.6	22.0	13.4
IRR per capita	531,825	591,402	672,422	806,147	965,979	1,162,882	1,404,263	1,577,375
% of GDP	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
% of total premiums	94.8	93.1	93.1	93.2	93.0	92.9	92.8	92.3
Total non-life premiums, US$mn	4,078	4,385	4,851	5,688	6,473	7,339	8,449	9,112
% change y-o-y	17.8	7.5	10.6	17.2	13.8	13.4	15.1	7.8
US$ per capita	56	60	66	76	86	96	109	117
Total non-life premiums, EURmn	2,774	3,132	3,657	3,977	4,691	5,646	6,759	7,290
% change y-o-y	9.8	12.9	16.8	8.8	17.9	20.4	19.7	7.8
EUR per capita	38	43	49	53	62	74	88	94

e/f = BMI estimate/forecast. Source: Bimeh Markazi Iran

Bimeh Markazi's various annual reports show that non-life premiums rose from IRR31,931,862mn in the Iranian year 1386 to IRR38,445,286mn in Iranian year 1387 to IRR43,253,492mn in Iranian year 1388. These are, respectively, the years ending 20 March 2008, 2009 and 2010. We have shown them as 2007, 2008 and 2009. As of September 2011, we do not yet have the official figures for Iranian year 1389 (the year to 20 March 2011, or 2010). However, **Parsian Insurance's** annual report suggests that the sector expanded by around 15%.

In other words, both the nominal growth in non-life premiums and nominal GDP have slowed over recent years. Taking a longer retrospective, what is noteworthy is the stability of non-life penetration, which has consistently remained at just over 1% of GDP.

In most countries, liberalisation of the insurance sector implies innovation and rapid growth – in real terms – of premiums. In practice, the main impact of the partial liberalisation and (apparent) privatisation of Iran's insurance sector seems to be the imposition of greater costs on the private sector insurers and their shareholders. For the time being, we assume non-life penetration will remain unchanged throughout the forecast period. Gross written premiums will continue to grow quite strongly in nominal terms but only because of the rise in nominal GDP in a country with a high rate of inflation.

Growth Drivers And Risk Management Projections

Macroeconomic Outlook

Fiscal Stimulus Unlikely To Boost Economy

BMI View: *Iran's economy will experience marginal growth rates going forward, boosted primarily by high oil prices. However, owing to our expectation that oil export volumes and prices will decline in the coming years, we believe Tehran will need to work quickly in order to keep a degree of growth momentum. We have pencilled in real GDP growth rates of 1.2% and 2.4% in FY2011/12 and FY2012/13 respectively.*

We maintain our view that Iran's lacklustre economy will benefit from the ongoing elevation in international energy prices, as higher export revenues feed through from public coffers to investment projects (*see our online service, March 29 2011, 'Libya Crisis Improves Growth Outlook'*). Our view that energy prices will moderate somewhat through the end of 2011 remains in place, as we expect the price of Brent crude to average US$101/bbl in H211 (compared with an average of US$111/bbl in H111). We note that, while Iran currently has a degree of flexibility in allocating capital to large-scale investment projects in order to spur economic activity, in our view the government will not have the resources to continue stimulating the economy to the same degree over the medium term. We forecast real GDP growth to come in at 1.2% and 2.4% in FY2011/12 and FY2012/13 respectively.

Fiscal Spending Constraints

While we see scope for marginal growth in oil production over our five-year forecast period (*see chart*), we believe exports will contract slightly over the medium term as Iranian oil refining capacity increases. Indeed, Tehran is seeking self-sufficiency in creating refined oil products to counter the imposition of international sanctions, which prohibit sales of refined products to the Islamic Republic (*see our online service, December 9 2010, 'Smog Signals Wider Problems As Gasoline Production Chokes Petchems Exports' and May 25 2011, 'US Gets Tough On Sanction Dodgers As Iran Thirsts For Refined*

Products'). As Tehran channels more resources towards domestic consumption of crude oil, we expect export revenues – and thus fiscal revenues – to decline in 2012 and 2013. Our expectation that Brent crude prices will moderate to an average of US$98/bbl in 2012 and US$93/bbl in 2013 indicates that the effect on fiscal revenues of lower export volumes will be compounded by lower energy prices.

Such a scenario suggests that Tehran's plans to boost the economy through capital investments will need to be supplemented by growth in other areas of the economy over the coming years. Unlike many countries in the Middle East and North Africa that have increased their spending on consumption to appease their citizenry, Tehran has prioritised investments in key sectors as a way to stimulate the economy while achieving its strategic objectives (*see our online service, July 4 2011, 'Finding Relative Value Across Sectors'*). The railway and housing industries, in particular, are among those considered high-priority, and Tehran's plan to launch a national internet project to improve access to high-bandwidth internet services is a key element of Iran's five-year development plan (*see our online service, July 5 2011, 'Iran To Launch First Phase Of National Internet Project In Q311'*). While these projects will have a positive effect on the economy, we do not expect them to be able to replace the fall in oil revenues.

Although the Central Bank of Iran lowered interest rates in April in an effort to kick-start the economy, we do not expect private investment to pick up much as a result (*see our online service, May 4 2011, 'A Dismal State Of Affairs'*). Lending rates have fallen from the 26-28% range to 14-17%, allowing firms to borrow at a lower cost. However, the massive gap between consumer price inflation and producer price inflation (PPI), which widened to 18 percentage points in April, suggests that firms are focusing on cost minimisation rather than expansion of fixed investment (*see our online service, June 17 2011, 'Inflation To Remain Highest In Region'*). We project PPI to average 35.0% in FY2011/12 and believe the cost minimisation strategy will likely be the focus of firms over the coming quarters.

Furthermore, the tightening of international sanctions will likely prevent significant inflows of foreign direct investment (FDI). The US government has begun to impose penalties on firms from a number of different countries, including Venezuela's state-owned oil company **Petróleos de Venezuela** and a number of shipping firms (*see our online service, May 25 2011, 'US Gets Tough On Sanctions Dodgers As Iran Thirsts For Refined Products'*). Furthermore, the EU has begun to impose more stringent sanctions and we believe this trend will continue, boding ill for already-weak FDI flows (*see see our online service, May 25 2011, 'Sanctions: Further Tightening Ahead'*).

Elevated inflation is likely to prevent private consumption from rebounding strongly as well. Consumers, too, have had to deal with rapidly rising prices and we believe government aid will not result in a consumption boom on any scale. Indeed, while many are recipients of government transfer payments, those transfers are set at a fixed amount – implying that the purchasing power of those funds will continue to decline as long as inflationary pressures remain (*see our online service, December 21 2011, 'Subsidy*

Reform To Raise Tensions And Slow Growth'). Consequently, we have pencilled in a growth rate of just 1.7% y-o-y for private consumption.

We foresee the possibility that exports could suffer as a result of Western sanctions. Not only is Washington imposing sanctions on shipping firms, it is also seeking to target port operators (*see our online service, July 1 2011, 'Tidewater Added To US Blacklist As Sanctions Noose Tightens On Iran'*). The move has already had an effect on the industry, as **Maersk Line**, the world's largest shipping company, announced that it would be cutting all services to Iranian ports. As a result, we are relatively bearish regarding Iran's trade accounts.

Taken together, we believe the international energy market has provided Tehran with the resources to boost the economy through fiscal stimulus measures aimed at gross fixed capital formation. However, our view that oil exports will decline in FY2012/13 and FY2013/14 suggests that this policy will become less effective over the medium term. At present, no other component of GDP has the potential to supplement public investment projects in boosting the economy. As a result, for the economy to stay afloat in the coming years, Tehran will need to find ways to boost private consumption, fixed investment and exports.

Table: Iran Economic Activity, 2008-2015

	2008	2009e	2010e	2011f	2012f	2013f	2014f	2015f
Nominal GDP, IRRbn [1,2]	3,377	3,717	4,104	4,910	5,962	7,295	8,977	10,185
Nominal GDP, US$bn [1,2]	353.1	374.9	396.7	452.9	509.3	586.7	687.7	743.0
Real GDP growth, % change y-o-y [1,2]	0.8	1.2	1.6	1.2	2.4	2.2	1.9	2.5
GDP per capita, US$ [1,2]	4,907	5,142	5,371	6,053	6,721	7,647	8,857	9,459
Population, mn [3]	72.0	72.9	73.9	74.8	75.8	76.7	77.6	78.6
Unemployment, % of labour force, eop [1,4]	12.5	14.0	13.5	13.0	12.5	12.0	12.0	12.0

e/f = BMI estimate/forecast. Note: [1] Year begins in March (Iranian calendar). Source: [2] Central Bank of Iran/BMI, [3] World Bank/BMI, [4] Statistical Centre of Iran

Political Stability Outlook

The unprecedented instability in the Middle East and North Africa during 2011 is likely to signal a change in both pricing and appetite for political risk and terrorism insurance, business interruption insurance and other related lines on a global scale.

As perceived need for asset and property protection is likely to increase not only domestically, but also amongst the international commercial and industrial communities, a new challenge and opportunity for insurers to address is presented: not only to satisfy the increased demand for coverage with improved and tailored products, but also for improved risk premium calculation to ensure profitable underwriting.

BMI's Security Risk Ratings and Political Stability Outlook provide a guide to country-specific and regional threats, highlighting the potential opportunities and liabilities for the (re) insurance community.

Table: Middle East And Africa Defence And Security Ratings

	Interstate	Terrorism	Criminal	Composite domestic risk	Rank	Composite security risk	Rank
Kuwait	88	76	79	77	3	81	1
UAE	84	83	73	78	2	80	2
Jordan	85	71	77	74	4=	78	3
Saudi Arabia	82	68	81	74	4=	77	4=
South Africa	92	86	53	70	7	77	4=
Israel	64	65	79	72	6	69	6
Turkey	80	60	64	62	9	68	7
Iran	**30**	**79**	**79**	**79**	**1**	**63**	**8**
Uganda	63	60	57	58	10	60	9
Egypt	64	58	49	53	11	57	10
Syria	39	71	56	64	8	55	11
Iraq	82	44	37	41	12=	54	12
Sudan	41	49	33	41	12=	41	13
Yemen	39	33	32	33	15	35	14
Libya	15	43	38	41	12=	32	15

Scores out of 100, 100 the highest. The 'Composite Security Risk' is the principal rating. It comprises 'Interstate' risk – the risk of becoming a primary party to an inter-state conflict that threatens significant damage to homeland; 'Terrorism' risk – the risk of terrorists (domestic or international) being able to launch a major attack/sustained campaign; and 'Criminal' risk – the risk of (politically motivated) violence against expatriate workers. Each of the risks is given equal weighting. The 'Composite domestic risk' rating comprises 'Terrorism' and 'Criminal', each of which is given equal weighting. Each rating (State, Terrorism, Criminal) is assessed subjectively by our analysts within a clearly defined methodology, incorporating a minimum of six conceptually distinct elements. Source: BMI

Scenarios For Political, Economic And Social Change

BMI View: *Iran is undergoing a period of political, economic and social tensions, and we do not believe the current situation will be sustainable. We have outlined a number of scenarios for change, along with regional and global implications. We note that, in all cases, economic losses and social upheaval are likely.*

While much attention in the Middle East and North Africa has been centred on the political transitions of Tunisia and Egypt, the civil conflicts in Syria and Libya, the potential for unrest in Saudi Arabia and its associated consequences for the world oil market, significantly less attention has been paid to the threat of turmoil in Iran and its potential effects on both regional geopolitics and the global economy. The Islamic Republic is undergoing a period of pronounced risks, including political instability, economic stagnation and social tensions, and we believe the current situation will be unsustainable over the long run. We have therefore outlined a number of ways in which these risks may manifest themselves, along with their associated consequences on the economy. In the process, we highlight that the course of Iran's future could have dramatic and pervasive consequences for the region and the world.

Power Struggles Will Undermine Regime

The long-running power struggle between President Mahmoud Ahmadinejad and Supreme Leader Ayatollah Ali Khamenei has intensified in recent months and could undermine the stability of the regime. A series of public disagreements began when Ahmadinejad dismissed Minister of Intelligence and Security Heydar Moslehi on April 17, only to have Khamenei reinstate him. Ahmadinejad subsequently protested by not working for 10 days (*see our online service, May 9 2011, 'Intensifying Power Struggle Could Undermine Regime'*). Esfandiar Rahim Mashaie, a close ally of the president, has also been a subject of contention owing to his liberal views on Iranian foreign policy and his prioritisation of nationalism over religion. Khamenei forced Ahmadinejad to remove Mashaie from the position of first vice president in July 2009 and pressure from conservatives forced Ahmadinejad to remove him from his chief of staff position in early April. Conservatives later even went as far as to claim that Mashaie was using sorcery to manipulate Ahmadinejad.

Another political battle is being waged between Ahmadinejad and parliament. In May, the president dismissed three cabinet ministers, including Oil Minister Massoud Mirkazemi, as part of a plan to reduce the size of the cabinet, and then announced that he would become the caretaker head of the oil ministry and attend an OPEC conference. Conservative lawmakers declared the move illegal and some have vowed to impeach the president for overstepping his legal boundaries.

These power struggles highlight the competing ideologies of religion in Iran, with the supreme leader and clerical establishment supporting the existing theocratic system while others are promoting the emergence of a more nationalistic polity. Public support for clerical rule in Iran has reportedly declined to low levels, and should nationalism grow in prominence, the legitimacy of the Islamic Republic would be weakened. That said, the Iranian Revolutionary Guard Corps (IRGC), which is charged with protecting the 1979 revolution, still appears to support the clerical regime and we believe the IRGC's support for the supreme leader will make regime change much more difficult, as the group possesses a large degree of military, economic and political power (*see our online service, February 6 2011, 'Regime Secure, For Now', 6*).

Economic Woes Increase Threat Of Unrest

Unilateral and multilateral sanctions imposed against the regime have significantly slowed Iran's economic growth trajectory, while economic stagnation has raised the threat of unrest. Many of the sanctions have been imposed against the energy and financial sectors, which are major growth drivers. Indeed, while Iran's crude oil exports do not fall within the scope of these punitive economic measures, firms are prohibited from selling refined oil products to the Islamic Republic. Furthermore, many countries have stopped buying Iranian crude oil because they want to avoid even the potential for punitive measures against them in the future. Western countries, including the US and EU member states, have indicated their plans to tighten their sanctions policy, which bodes ill for the Iranian economy.

Ahmadinejad's subsidy reform policy has also caused severe economic distress among both firms and customers in Iran. In order to remove distortions from the economy, the president announced in December 2010 that government subsidies across a wide range of products - including fuel, electricity, water and food products - would be subject to removals (*see our online service, December 21 2010, 'Subsidy Reform To Raise Tensions And Slow Growth'*). Official inflation figures have shown a rapid acceleration in prices, as evidenced by April's consumer price inflation and producer price inflation figures coming in at a respective 19.7% and 37.7% y-o-y. We suspect that real inflation could be even higher, as firms flout government-imposed price ceilings (*see our online service, June 17 2011, 'Inflation To Remain Highest In Region'*). Given the massive rise in consumer prices, as well as firms' inability to pass on the majority of their cost increases to customers, we note that economic woes have strong potential to breed widespread discontent among the Iranian public.

Scenarios For Change

We foresee the current situation in Iran playing out in a number of different ways, but we note that a common theme among all of them is economic loss and social upheaval. Below, we present a number of elements and their associated impact on the country's future:

- The smoothest transition would come about if the IRGC as a whole defected from the current establishment. Given the body's prominence in Iranian politics and business as well as its military power, we believe the IRGC is capable of facilitating a smooth transition. However, the IRGC is far from united, with varying degrees of loyalty to the clerical establishment, and we believe further economic stagnation could provide enough impetus for some IRGC members to push for regime change. Given our view that Iran's economic growth will be anaemic at best, with FY2011/12 and FY2012/13 real GDP growth forecasts of 1.2% and 2.4% respectively, we see the potential for the IRGC to split into two factions, with one retaining loyalty to the supreme leader and another advocating its overthrow. This would likely lead to a confrontation between the factions and huge economic losses as the groups target each other's assets and resources.

- There is the potential for a popular movement that seeks to overthrow the Islamic Republic, which would likely play out similar to the case of Syria. Brief demonstrations in Iran in February showed that the opposition movement is alive and well, and further frustrations related to economic troubles could spark widespread demonstrations. We would expect Tehran to react with a combination of brute force and minor concessions, similar to Damascus, and we believe the situation would escalate as civilian casualties mount. Rebel groups would likely attack or capture oil infrastructure in order to cut off a key source of government revenues. We believe it is more likely than not that the regime retains power under this scenario.

- One scenario that could help to resolve the economic situation while maintaining the integrity of Iran’s political institutions, but which we believe to be highly unlikely, is for Tehran to give up its nuclear programme. Such a move would result in the lifting of international sanctions and likely restore much-needed foreign investment in the oil sector. However, the supreme leader has been adamant about continuing with the programme, despite international pressure through sanctions and condemnations, and we believe it is unlikely that anything short of a domestic nuclear disaster will be sufficient to change his mind. While the economic pressures may be relieved when sanctions are lifted, we believe there will continue to be an undercurrent of political opposition to the regime.

Regional And Global Implications

Political turmoil in Iran would likely have a substantial negative impact on the international oil market, driving oil prices up sharply. Iran is among the largest oil producers in the world, and the loss of Iranian supply (even despite many countries’ unwillingness to purchase Iranian crude) would cause dramatic supply shocks. Furthermore, speculative trading would also likely contribute to elevated prices. In terms of natural gas, Iran consumes most of its production, exporting only to Turkey and Azerbaijan, and we see little effect on this market.

A regime overthrow would have significant implications for the regional balance of power, as Iran exercises considerable influence in Syria, Iraq and Afghanistan, as well as supporting Hizbullah in Lebanon and Hamas in the Gaza strip. The supreme leader has a keen interest in both foreign policy and the nuclear programme, and his fall from power would likely weaken Iranian influence in the Middle East. Indeed, political leaders would be much more focused on restoring domestic stability in the event of a political transition.

The future of the nuclear programme could become less certain as many Iranians had praised the programme until the Japanese nuclear disaster in March. In this case, the development of the nuclear programme would be slowed or temporarily stopped, in our view, easing regional tensions. Recent reports from the International Atomic Energy Agency have stated that Tehran has been undergoing research related to nuclear-triggering technologies until recently and leaders from Arab states like Saudi Arabia have cautioned that allowing Iran to continue these activities could lead to a regional arms race.

Healthcare

Private health insurance is a key area of growth for the industry due to universal demand and need for coverage. Economic developments have a major impact upon the provision of healthcare and the availability of health insurance. Hospitalisation remains a major cause of indebtedness across all socio-economic sectors of society where a robust public health insurance system is not in place, therefore perceived need is also very much on the rise.

As the cost of healthcare rises, so does the need for coverage. Mapping the progress of public healthcare developments is a vital indicator for the private health insurance sector as emerging, frontier and developed markets each have their own growth opportunities and risk management rationale.

The government has invested in the development of the healthcare system substantially, with investments paving the way for an increase in the number of doctors and hospitals in the country, although quality issues have yet to be resolved. The government has attempted to improve public access to primary and preventative care, particularly in the rural areas where more than 35% of the population lives. Since 2005, a rural insurance scheme has been implemented, which has led to significant falls in infant mortality among these at-risk groups. The measures have improved basic health indicators to some extent, and life expectancy has been rising steadily in recent years.

All Iranians are eligible for community-based preventive public health and limited curative health services, financed and provided through the primary healthcare network, which is funded entirely by the national government. This system was established to improve rural access to healthcare and reduce the gap between rural and urban health outcomes. Although Iran’s Social Security Organisation (SSO) guarantees a minimum level of care for those who meet their insurance obligations, it also gives added benefits to those who volunteer to pay higher premiums.

Medical students and employees do not have access to experienced doctors from Western countries, which negatively affects the quality of care. The health of the population is threatened by the poor disposal of wastewater and sewage, along with the limited availability of clean water, especially in rural areas. Despite the investments in healthcare, the infant mortality rate is estimated to be much higher than in the developed world.

Spending levels have risen steadily in recent years, despite government attempts to control costs. The government currently accounts for a progressively smaller percentage of the overall spending on health (about 45% in 2010), even though the country’s private healthcare coverage remains fragmented. Although the private sector – including out-of-pocket spending – accounts for the majority of healthcare expenditure, private health insurance comprises only 2.6% of total expenditure.

Health Insurance

Iran has a compulsory health insurance system managed by the SSO. The public sector guarantees a minimum level of care for those who meet their insurance obligations but gives added benefits for those who volunteer to pay higher premiums. Membership of the SSO is mandatory for all employed, who pay 7% of their salaries as premiums. These are mostly topped up by the employer, with a small proportion also provided by the government (3%). Self-employed citizens have to contribute voluntary premiums, of about 15% of their income. Most private healthcare insurance is also operated by state-owned companies.

The health insurance organisation encourages generic substitution, agreeing to pay the cost fixed at the level of the lowest-priced medicine using the same molecule, regardless of the actual price of different drugs. However, insurance covers only 70% of the pharmacy and 80% of the hospital value of products, and then only if included on the positive reimbursement list. Therefore, patients who wish to use imported drugs have to cover the difference, which can be significant and even unaffordable when higher-cost medicines are involved.

The government still provides approximately US$240mn in subsidies for drugs and infant milk per year. The medicine subsidies are primarily for older oncology drugs, plasma derivatives and multiple sclerosis products. Although some over -the-counter drugs, including paracetamol, continue to be subsidised, local reports suggest this is likely to change in the near future.

Low capacity and investment in public hospitals are the leading problems facing the state healthcare sector, as wealthier Iranians tend to opt for ‘private’ healthcare or travel abroad for treatment. Despite the fact that the government subsidises pharmaceutical production and drug imports, most households spend more than 19% of their healthcare expenditure on pharmaceuticals.

Jam-Jam reported in February 2010 that the SSO owed IRR3,800bn (US$385mn) to the hospitals with which it held contracts. Additionally, reimbursements to pharmaceutical companies were also delayed, causing friction between the SSO and the industry. At the same time, its outstanding liability to pharmacies was reported to be in the range of millions of US dollars. While some of those debts are likely to have been repaid since, their sheer size would have prevented full resolution in a timely fashion.

Epidemiology

Studying health and illness at the population level is key to highlighting regional and demographic vulnerabilities, opportunities and liabilities in the health insurance sector. Urbanisation, growth in real incomes and the increased prevalence of lifestyle diseases are all factors that are expected to contribute strongly to the demand for healthcare and health insurance in the next decade.

Table: Insurance Sector Key Drivers – Disability-Adjusted Life Years, 2008-2015

	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
All diseases and injuries, total, male, DALYs	6,338,752	6,422,220	6,505,853	6,589,414	6,672,698	6,755,559	6,837,922	6,919,766
Communicable, maternal, perinatal and nutritional conditions, total, male, DALYs	844,378	838,322	831,960	825,282	818,281	810,951	803,289	795,292
Non-communicable diseases, total, male, DALYs	3,511,095	3,565,467	3,620,466	3,675,884	3,731,543	3,787,318	3,843,141	3,898,992
All diseases and injuries, 0-4 yrs, male, DALYs	1,099,159	1,104,167	1,107,440	1,108,993	1,108,851	1,107,040	1,103,585	1,098,512
All diseases and injuries, 5-14 yrs, male, DALYs	529,148	529,321	531,252	534,917	540,251	547,144	555,439	564,942
All diseases and injuries, 15-29 yrs, male, DALYs	1,858,090	1,847,780	1,830,882	1,809,303	1,784,754	1,758,749	1,732,630	1,707,584
All diseases and injuries, 30-44 yrs, male, DALYs	1,147,583	1,208,909	1,276,939	1,349,029	1,422,838	1,496,354	1,567,879	1,635,979
All diseases and injuries, 45-59 yrs, male, DALYs	965,906	990,655	1,013,870	1,036,189	1,058,204	1,080,442	1,103,372	1,127,415
All diseases and injuries, 60-69 yrs, male, DALYs	399,936	403,684	409,586	417,289	426,438	436,719	447,865	459,658
All diseases and injuries, 70+ yrs, male, DALYs	338,929	337,703	335,884	333,694	331,362	329,111	327,152	325,677
All diseases and injuries, total, female, DALYs	5,455,098	5,518,761	5,582,072	5,645,264	5,708,545	5,772,058	5,835,881	5,900,032
Communicable, maternal, perinatal and nutritional conditions, total, female, DALYs	942,887	926,137	909,479	892,922	876,473	860,139	843,922	827,824
Non-communicable diseases, total, female, DALYs	3,306,118	3,368,690	3,431,004	3,493,266	3,555,655	3,618,297	3,681,259	3,744,562
All diseases and injuries, 0-4 yrs, female, DALYs	955,916	959,865	962,213	962,984	962,210	959,919	956,143	950,908
All diseases and injuries, 5-14 yrs, female, DALYs	473,469	472,386	472,814	474,721	478,043	482,678	488,488	495,300
All diseases and injuries, 15-29 yrs, female, DALYs	1,476,436	1,456,966	1,434,202	1,409,389	1,383,630	1,357,880	1,332,972	1,309,631

Table: Insurance Sector Key Drivers – Disability-Adjusted Life Years, 2008-2015

	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
All diseases and injuries, 30-44 yrs, female, DALYs	1,023,400	1,064,385	1,107,817	1,152,052	1,195,699	1,237,607	1,276,836	1,312,617
All diseases and injuries, 45-59 yrs, female, DALYs	806,354	836,086	865,661	895,297	925,205	955,565	986,513	1,018,146
All diseases and injuries, 60-69 yrs, female, DALYs	368,179	376,272	384,612	393,605	403,540	414,597	426,881	440,431
All diseases and injuries, 70+ yrs, female, DALYs	351,344	352,800	354,754	357,215	360,218	363,811	368,049	372,999
All causes, DALYs	11,793,850	11,940,982	12,087,925	12,234,678	12,381,243	12,527,618	12,673,803	12,819,798
Communicable, maternal, perinatal and nutritional conditions, DALYs	1,787,265	1,764,459	1,741,439	1,718,204	1,694,755	1,671,090	1,647,211	1,623,116
Non-communicable diseases, DALYs	6,817,213	6,934,158	7,051,470	7,169,150	7,287,198	7,405,615	7,524,400	7,643,554
All diseases and injuries, 0-4 yrs, total, DALYs	2,055,076	2,064,033	2,069,653	2,071,977	2,071,061	2,066,960	2,059,728	2,049,420
All diseases and injuries, 15-29 yrs, total, DALYs	3,334,526	3,304,746	3,265,084	3,218,692	3,168,384	3,116,629	3,065,601	3,017,215
All diseases and injuries, 30-44 yrs, total, DALYs	2,170,983	2,273,295	2,384,756	2,501,081	2,618,537	2,733,962	2,844,715	2,948,596
All diseases and injuries, 45-59 yrs, total, DALYs	1,772,260	1,826,741	1,879,531	1,931,486	1,983,409	2,036,008	2,089,886	2,145,560
All diseases and injuries, 5-14 yrs, total, DALYs	1,002,617	1,001,707	1,004,066	1,009,638	1,018,295	1,029,822	1,043,927	1,060,242
All diseases and injuries, 60-69 yrs, total, DALYs	768,115	779,956	794,198	810,894	829,978	851,316	874,745	900,089
All diseases and injuries, 70+ yrs, total, DALYs	690,273	690,503	690,638	690,909	691,580	692,922	695,201	698,675

f = forecast. Source: BMI Burden of Disease Database

According to our Burden of Disease Database, the number of disability-adjusted life years (DALYs) lost to disease or injury in Iran is expected to increase to over 10.7mn by the end of 2030. Underlying this trend is the burden of non-communicable disease, which is expected to increase by an average of 1.5% y-o-y, due to increasing affluence and an aging population. The burden of communicable disease (including conditions such as malaria and cholera) is expected to fall due to improved healthcare. The prevalence of respiratory diseases and cancers in Iran is increasing at a significant rate, according to a Tehran Times report. **BMI** notes the Iranian capital is exposed to higher risk factors than other regions including the geographical situation, climate and congestion, which all increase the levels of air pollution in the city. With none of these causes likely to change within the short- to medium-term, we expect multinational drug firms that focus on respiratory related diseases to find Iran an attractive market to boost revenues in the Middle East. This view is also supported by the fact that respiratory diseases are estimated by the World Bank to cause losses to the economy in excess of US$640mn annually, which is likely to prompt the authorities to deal with the issue.

The Behesht-e Zahra Organisation conducted a demographic study in Tehran during 2007-2008 to determine the scale of the problem. During this period, 762 people died from lung cancer in Tehran, while 291 people died from respiratory diseases. Over two thirds of those dying from respiratory-related disease in the capital were men. A further 401 people have died from lung cancer during 2008-2009, with more expected be added to this number pending an additional consensus on figures available. Public awareness of the dangers that air pollution poses to health is increasing, although this is not entirely due to government intervention. As the incidence of asthma and other respiratory illnesses rises, physicians have begun advising patients not to venture outdoors during peak traffic periods and at midday during the summer. **BMI** believes early diagnosis and management of respiratory diseases must also be encouraged to reduce the morbidity rate.

Additionally, diabetes is emerging as a public health issue. According to the December 2010 diabetes awareness survey across the 10 countries in the region (Algeria, Egypt, Iran, Iraq, Jordan, Lebanon, Morocco, Saudi Arabia, Tunisia and the UAE), 40% of the respondents were at risk of developing diabetes. The survey found that over half of the people questioned were unaware of the medical repercussions of the disease, while 37% had never been screened for it. **Novo Nordisk** appointed **Ipsos Emirates Health** for the survey as part of its contribution to World Diabetes Day 2010.

Motor

As demand for vehicles grows, the correlative scope for insurance growth is large. Monitoring key indicators, tightening insurance regulations and domestic purchasing power can be crucial in a market with a short-purchase cycle and high churn rate. Vehicle sales and car ownership statistics are crucial growth indicators for the motor insurance market. Identifying growth trends for these two indicators has the dual advantage of highlighting potential areas of growth and the need for line diversification in both compulsory and non-compulsory motor insurance products.

As growth rates slow in the core private passenger segment, insurance companies look to faster growing specialty segments for expansion, including motorcycles and heavy goods vehicles, whose domestic sales statistics also offer an insight into the potential of the smaller specialist insurance market.

The enforcement of economic sanctions on Iran has resulted in the country’s government prioritising the development of a strong domestic auto industry. This policy has seen the government show strong support for continued investment in production capacity as indicated by the planned opening of a new **Iran Khodro Company** (IKCO) plant in Tabriz, north eastern Iran. The plant is capable of producing 200,000 Peugeot 206 units a year and once it has opened in 2012, it will further boost production which is already running at record levels as it undergoes a period of rapid expansion.

In March 2011, the Iranian news agency Fars reported that passenger vehicle production in Iran rose 13% y-o-y. Production figures were boosted by the opening of the new manufacturing plant by Iranian state-run automaker **Saipa** in May 2010. As the plant gears up to full production it will produce still greater numbers of vehicles in 2011. Fars, citing the Iranian Ministry of Industries and Mines, said that total passenger vehicle production reached 1.35mn units for the year ending March 20 2011. IKCO reported a record year registering a 13% y-o-y increase in passenger car output, to more than 685,000 units during the period between March 21 2010 and February 16 2011. Sales rose by 20% during the period, according to statements from the company. ICKO is expecting still further increases for the next financial year starting March 2012, setting a total production target of 850,000 vehicles which will see the company considerably surpassing its long-held target of a 50% share of the Iranian market. In 2010, IKCO raised its share of the total car products market to 48.5% of the market, finally overtaking its rival Saipa which itself retained 46.6%.

Total auto production is likely to be further boosted by IKCO’s February announcement of the production plans for its second ‘national car’, the Runna. Production was scheduled to begin in mid-2011and the company plans to produce 20,000 units by March 2012. The Runna forms one of the central planks in IKCO’s ambitious export plans. IKCO aims to export 9% of its total output in 2011, including both completely built units and completely knocked down kits, totalling 75,000 units. The company has an aggressive export policy and hopes to export 16% of its total production by 2014, increasing to 30% by 2025.

According to data from the global consulting firm **Booz & Company**, once a nation reaches a per capita GDP of roughly US$10,000, car sales accelerate. As in Russia, India, China, Malaysia and Indonesia, Iran has not yet reached that level, although it is expected to do so soon.

Islamic Finance

Iran’s insurance companies operate within the context of a legal system and a financial system that is guided by shari’a law but they are not *takaful* operators. They are not structured to operate as mutual insurance companies and do not have formally constituted shari’a boards. Until recently they followed the dictates of Bimeh Markazi Iran, the regulator and provider of compulsory reinsurance in terms of pricing and other commercial decisions – and not negotiations that seek to promote mutual benefit. Bimeh Markazi Iran and Iranian insurers are absent from the lists of members of international Islamic finance bodies such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), though some Iranian banks are members of both.

In its World Takaful Report for 2011, **Ernst & Young** showed the premiums written by Iranian insurers separately from global gross *takaful* contributions. In the six discrete years up to and including 2009 the Iranian insurers’ premiums were US$2,164mn, US$2,561mn, US$2,896mn, US$3,644mn, US$4,128mn and US$4,144mn respectively. Global gross *takaful* contributions, by contrast, were US$1,384mn, US$1,988mn, US$3,068mn, US$4,122mn, US$5,323mn and US$6,975mn. The growth of *takaful* has been helped greatly by the introduction of compulsory health insurance in Saudi Arabia, a country where the cooperative insurance companies operate along cooperative lines and are therefore thought of as a key part of the global *takaful* sector. Nevertheless, it is difficult to avoid the conclusion that the Iranian insurers have, in a global context, lost ground compared to the *takaful* operators.

Insurance Risk/Reward Ratings

Table: Iran's Insurance Risk/Reward Ratings

	Data	Score, out of 10	Score, out of 100
Non-life			**22.5**
Non-life premiums, 2011, US$mn	5,687.4	5.0	
Non-life premium increase, 2011-2015, US$mn	3,424.5	6.0	
Non-Life penetration, 2011, % of GDP	1.2	3.0	
Measure of openness			
Life			**35.0**
Life premiums, 2011, US$mn	419.8	1.0	
Life premium increase, 2011-2015, US$mn	343.6	3.0	
Life penetration, 2011, % of GDP	0.1	0.0	
Measure of openness			
Country rewards			**51.7**
GDP per capita, 2011, US$	6,053	5.0	
Active population, 2011, % of total	71.2	7.0	
Tax regime		3.4	
GDP volatility		7.0	
Financial Infrastructure		2.5	
Risks			
Regulatory framework			**20.0**
Regulatory framework and development		3.0	
Regulatory framework and competitive landscape		1.0	
Country risks			**43.1**
Long-term financial risk		3.5	
Long-term external risk		8.7	
Long-term policy continuity		7.0	
Legal framework		2.0	
Bureaucracy		1.1	
Insurance risk/reward rating			**34.1**

Source: BMI

The Insurance Risk/Reward Ratings take into account objective measures of the current state and long-term potential of both the non-life and the life segments. It also takes into account an assessment of the openness of each segment to new entrants and economic conditions. Collectively, these measures enable an objective assessment of the limits to potential returns across all countries and over a period of time. The rating incorporates an objective assessment of the risks to the realisation of returns. The risk assessment is based on **BMI**'s Country Risk Ratings. It embodies a subjective assessment of the impact of the regulatory regime on the development and the competitive landscape of the insurance sector.

Table: Middle East And Africa Insurance Risk/Reward Ratings

	Industry Rewards - Non-Life	Industry Rewards - Life	Country Rewards	Rewards	Regulatory Framework	Country Risks	Risks	Insurance Risk/Reward Rating	Rank
South Africa	75.0	72.5	77.5	75.6	65.0	60.9	62.5	71.4	1
Israel	56.3	52.5	60.0	73.5	80.0	68.3	73.0	66.1	2
Bahrain	32.5	35.0	30.0	74.6	85.0	70.9	76.6	57.5	3
UAE	40.0	50.0	30.0	69.6	70.0	65.5	67.3	56.5	4
Saudi Arabia	36.3	47.5	25.0	77.4	60.0	63.5	62.1	55.5	5
Oman	23.8	30.0	17.5	71.6	65.0	72.7	69.6	50.9	6
Egypt	28.8	27.5	30.0	60.2	60.0	54.2	56.5	45.9	7
Qatar	18.1	31.3	5.0	70.2	55.0	65.7	61.4	45.7	8
Morocco	30.0	40.0	20.0	55.0	70.0	50.6	58.3	45.5	9
Kuwait	15.0	20.0	10.0	74.7	50.0	67.2	60.3	45.3	10
Jordan	22.5	30.0	15.0	70.0	70.0	43.6	54.1	45.3	11
Tunisia	21.3	30.0	12.5	60.8	55.0	44.3	48.6	40.5	12
Kenya	23.8	32.5	15.0	47.9	45.0	34.6	38.8	35.0	13
Algeria	17.5	27.5	7.5	44.5	50.0	47.1	48.3	34.3	14
Iran	**22.5**	**35.0**	**10.0**	**51.7**	**20.0**	**43.1**	**33.9**	**34.1**	**15**
Nigeria	21.3	32.5	10.0	44.8	25.0	44.6	36.8	32.5	16
Libya	2.5	2.5	2.5	42.0	30.0	45.0	39.0	24.5	17

Scores out of 100, with 100 the best. Source: BMI

Competitive Landscape

Competitive Landscape Analysis

The insurance sectors of Middle Eastern countries fall into two categories. The first is characterised by a relatively small number of oligopolists, whose positions may have been formally protected by law (as in most of the GCC countries) or effectively protected by geopolitical issues (as in Israel and Iran). The oligopolists are large by local standards but no more than medium-sized companies by other standards. Examples include **Clal**, **Harel**, **Phoenix/Hadar** and **Menorah** in Israel and **Bimeh Iran**, **Bimeh Asia**, **Bimeh Dana** and **Bimeh Alborz** in Iran. Outside Israel, these companies are overwhelmingly non-life insurers. Following the announcement by the Egyptian government in late 2007 that three state-owned insurers, **al-Chark**, **Misr Insurance and National Insurance**, were to be merged, concentration is increasing in that country.

The second category is characterised by the large number of local players relative to the present market opportunity. By world standards, these are small companies. Typically they are pure non-life companies, or non-life companies that derive a small portion of total income from life products. Often they have a close association with a local banking or trading company that may assist with procurement of business. The UAE, where local companies account for nearly 80% of the market, is a good example. So too is Kuwait, where the local companies account for about 90% of local premiums.

Other markets in the region with (comparatively speaking) large numbers of players relative to the total opportunity include Oman (eg: **Oman United** and **Muscat International**), Qatar (eg: **QIC**, **QGIC**, **Doha Insurance** and **al-Khaleej**), Bahrain (eg: **Bahrain National**, **Gulf Union** and **Bahrain Kuwait**), Algeria, Morocco, Tunisia, Jordan and especially Lebanon.

Chartis and **RSA** are noteworthy as major foreign multinationals with non-life operations across the region. Multinationals with a strong presence in the life segment include **Zurich Financial Services, Friends Provident International**, **MetLife ALICO** and **HSBC Insurance**. **Allianz** is active in the non-life and the life segments.

A number of Middle Eastern insurers have expanded their business into other countries in the region. Examples include Lebanon’s **Medgulf** and **ARIG**, the Bahrain-based reinsurer.

Major Players In Iran's Insurance Sector

The insurance sector in Iran is regulated by Bimeh Markazi Iran, which is also sometimes known as Central Insurance Iran. It was established in 1971. Until two years ago, it set the premium rates that could be charged by Iran's insurers. However, the rate setting process is gradually being 'liberalised'. Bimeh Markazi Iran has also traditionally acted as reinsurer for the industry in relation to situations where the regulations that the insurers actually take out reinsurance.

There were 18 companies active in the market at the end of March 2010 (for when the latest official data is available). These included two state owned companies, **Bimeh Iran** and **Bimeh Dana**; two formerly state-owned companies (classified as private sector insurers), **Bimeh Alborz** and **Bimeh Asia**; and 14 private sector insurers. The other private sector players are: **Parsian, Karafarin, Razi, Tose'e, Sina, Mellat, Hafez, Omid, Dey, Saman, Novin, Pasargad**, **Moallem** and **IranMoeen**. Also present are two private sector reinsurance companies, **Amin Re** and **Iranian Re**.

In accordance with the constitutional requirement that it cut its holding in state owned enterprises to 20%, and the commercial desire to ensure visibility of the value of the companies in question, the government sold 80% of Alborz in late 2009. Ten per cent of the stock was listed on the Tehran Stock Exchange. The government undertook a similar transaction with Bimeh Asia in December 2000. In late 2010, the government sold down its holding in Bimeh Dana, which had been 63%, and arranged for 5% of the stock to be listed. We note that, as is the case with other state owned enterprises that have been privatised, some of the new shareholders are, actually or potentially, other entities that are linked with, or controlled by the government. In addition, the government has indicated that some of the shares that it is disposing of will be transferred to funds that will effectively hold the shares in trust for lower income households: over time these funds will channel dividends to the households and thereby, at least in theory, provide many of the benefits of equity ownership to a large number of Iranians.

In other words, the privatisations are, in a number of important respects, different from privatisations in other countries. Significantly, the government has indicated that Bimeh Iran is regarded as a strategic asset and there are no plans to undertake a privatisation for the foreseeable future. The figures available from Bimeh Markazi Iran provide a possible explanation. There is no evidence that the private sector companies that were established prior to March 2006, nor the three formerly state-owned insurers in which the government has sold down its stake, have benefited from the partial liberalisation of Iran's insurance market.

In fact, the reverse is true. In an industry that has hardly grown at all in real terms, the private companies' share of direct losses has increased more dramatically than their share of direct premiums. The number of employees has more or less doubled since early 2006, while the industry has also had to bear the additional costs associated with substantial rises in the numbers of branches, agents and brokers. Bimeh

Iran continues to benefit from economies of scale and established infrastructure. Customers have benefited from lower real premiums (and nominal premiums, in some cases). Employees have benefited from new job opportunities or greater job security. However, the shareholders of the private sector insurers have not gained.

Parsian, a private sector insurer that was established in 2003, became the fourth listed insurer in early 2011.

Iran is the only substantial insurance sector in the world from which foreign insurers are completely absent –a result of the trade and commercial embargoes against the country. The lack of easy access to global reinsurance markets for Iranian insurers therefore provides a commercial advantage to Bimeh Markazi Iran and the private sector reinsurers.

Table: Direct Premiums And Direct Loss, 2006-2010

Year to March	**Share of direct premiums, %**		**Share of direct loss, %**	
	State companies	Private companies	State Cos.	Private Cos.
2006	86.24	13.76	91.43	8.57
2007	83.68	16.32	89.33	10.67
2008	77.85	22.15	84.36	15.64
2009	74.94	25.06	81.33	18.67
2010	52.25	47.75	57.82	42.18

Source: Bimeh Markazi Iran/BMI

Table: Total Premiums Growth, 2006-2010

Year to March	**Total premiums, IRRmn**	**Nominal change y-o-y**	**Real change y-o-y**
2006	21,529,919		
2007	26,561,089	23.4%	8.4%
2008	33,824,091	27.3%	4.0%
2009	40,560,989	19.9%	1.8%
2010	46,459,701	14.5%	3.8%

Source: Bimeh Markazi Iran/BMI (real growth figures)

Table: Number Of Insurance Companies And Employees, 2006-2007

Year to March	Companies			Employees		
	State co.	Private co.	Total	State co.	Private co.	Total
2006	4	14	18	5,963	1,255	7,218
2007	4	15	19	7,857	1,928	9,785
2008	4	15	19	8,157	2,612	10,769
2009	4	16	20	10,406	3,273	13,679
2010	2	16	18	6,483	8,302	14,785

Sources: Bimeh Markazi Iran/BMI

Table: Number Of Branches, Agents And Brokers, 2006-2010

Year to March	Branches	Agents	Brokers
2006	424	7,134	230
2007	535	7,852	234
2008	557	8,532	254
2009	649	11,530	266
2010	731	15,221	288

Sources: Bimeh Markazi Iran/BMI

Company Profiles

Local Company Profiles

Bimeh Alborz

Strengths	▪ Well established. ▪ One of the leading local insurance companies.
Weaknesses	▪ Lack of scale in anything other than a local context. ▪ Chronic underdevelopment of life insurance. ▪ Very limited capacity to expand beyond Iran.
Opportunities	▪ Use of technology to enhance efficiency and to boost agent productivity. ▪ Access to new capital through stock market listing. ▪ Development of new products.
Threats	▪ Competition from emerging insurance companies. ▪ Less than optimal business environment. ▪ Exposure to any deterioration in economic conditions in Iran.

Company Overview

Bimeh Alborz was established in 1959 as a life and non-life insurance provider. Along with other insurance companies, it was nationalised in 1979. As a general insurance company, Alborz offers life and non-life insurance. Its services include various commercial and personal insurance, from private motor and home insurance to fire, marine, aviation, engineering, liability, individual and group life, as well as medical and personal accident cover. It sells its products through 39 branches, 1,250 agents and 267 brokers across Iran.

Company Details

- Home country: Iran
- Status: Privatised and listed – late 2009
- Main source for press releases: www.alborzinsurance.ir
- Website: http://en.alborzins.com

Bimeh Asia

Strengths
- Well established.
- One of the leading local insurance companies.
- Active in many segments of life and non-life businesses.

Weaknesses
- Lack of scale in anything other than a local context.
- Chronic underdevelopment of life insurance.
- Very limited capacity to expand beyond Iran.

Opportunities
- Use of technology to enhance efficiency and to boost agent productivity.
- Access to new capital through stock market listing.
- Development of new products.

Threats
- Competition from emerging insurance companies.
- Less than optimal business environment.
- Exposure to any deterioration in economic conditions in Iran.

Company Overview

Bimeh Asia was established in 1959 and nationalised in 1980 after the revolution. The company's activities include insurance and reinsurance in all segments. The company has 83 branches and more than 1,500 agencies supervised by in over 380 Iranian towns and cities.

Company Details
- Home country: Iran
- Status: Privatised and listed – late 2009
- Address: 104 Taleghani–Gharani Crossroads, Tehran, Iran
- Tel: +98 21 88900124
- Fax: +98 21 88900125
- Email: info@bimehasia.ir
- Website: www.bimehasia.com
- Main source for press releases: Public relations; tel: +98 21 8900076, fax: +98 21 8900078

Bimeh Dana

Strengths

- Well established.
- One of the leading local insurance companies.
- Large market share in health insurance.

Weaknesses

- Lack of scale in anything other than a local context.
- Chronic underdevelopment of life insurance.
- Very limited capacity to expand beyond Iran.

Opportunities

- Use of technology to enhance efficiency and to boost agent productivity.
- Access to new capital through stock market listing.

Threats

- Competition from emerging insurance companies.
- Less than optimal business environment.
- Exposure to any deterioration in economic conditions in Iran.

Company Overview

Bimeh Dana was liquidated along with several other Iranian insurance companies in 1981, eventually being nationalised by the Islamic Revolutionary Council. In Dana's case, its portfolio was taken over by two nationalised companies, Bimeh Asia and Alborz Insurance. Settling the accounts of these nationalised companies lasted from 1979 to 1986 and was followed by a redefinition of their legal status. As a result, on December 4 1988, nine insurance organisations, including Sharg Insurance, were merged into Dana Insurance Company. On March 22 1989, Dana began its operations as a completely nationalised company.

Company Details

- Home country: Iran
- Status: Privatised and listed – late 2010
- Address: 25 Fifteenth Street, Gandi Avenue, Tehran, Iran
- Tel: +98 21 877 0971
- Fax: +98 21 877 2997
- Website: www.dana-insurance.com

Bimeh Iran

Strengths

- Largest and longest established state-owned insurer, with a market share of about 50%.
- Massive nationwide network, with over 200 branches and nearly 4,500 agencies.
- Comprehensive range of products, for both the non-life and the life segments. Bimeh also takes on inwards reinsurance.
- Branches or agencies in the UK, Jordan, Saudi Arabia (Jeddah; Dammam), Oman (Muscat; Salalah), and the UAE (Abu Dhabi, Dubai, Ras al-Khaimah, Sharjah and Al Ain).
- Leading position in particular lines, such as energy risks and aviation risks in Iran.
- Writing annual premiums of around US$2.5bn, Bimeh Iran would rank as at least a medium-sized insurer in most countries. It is undoubtedly one of the largest insurers in the Middle East and North Africa.

Weaknesses

- Chronic under-development of life insurance.
- Limited ability to expand beyond Jordan and the GCC countries.

Opportunities

- Greater potential economies of scale than other Iranian companies.
- Use of technology to boost agent productivity.
- Development of new products.

Threats

- Competition from emerging insurance companies. Over the long-term, the company has been losing market share.
- The less than optimal business environment.
- Exposure to any deterioration in economic conditions in Iran.

Company Overview

Bimeh Iran was established in 1935 as the first insurance company in Iran. It is active in all branches of life and non-life businesses. Offering commercial and personal coverage, including motor, fire, marine, engineering and liability lines, it has over 50% of the national market.

Bimeh Iran has underwritten risk for most of Iran's infrastructure projects, for example those in oil, natural gas, petrochemical, the aviation industries, dams and power plants. The company says it secures reinsurance coverage from the international markets 'at its own discretion'.

The company has 13 foreign branches in the Middle East and one in the UK.

Company Details

- Home country: Iran
- Status: Government-owned insurer
- Address: 107 Fatemi Avenue, Tehran, Iran
- Email: iad@iraninsurance.ir
- Website: www.iraninsurance.ir
- Main source for press releases: Press office; tel: +98 21 88954674

Parsian Insurance

Strengths

- Arguably the most dynamic of the private sector insurers, claiming to be the fourth-largest insurer overall, with a market share of about 6%.
- Achieving double-digit growth in premiums.
- Backing of Parsian Bank, and ability to distribute through the bank's branches.
- Nationwide network of 28 branches and 1,500 agents across Iran.
- Comprehensive range of products.

Weaknesses

- Lack of scale in anything other than a Middle Eastern context. Premium income in Iranian year 1389 (year to 20 March 2011) amounted to about US$354mn.
- Chronic under-development of life insurance.
- Virtually no capacity to expand beyond Iran.

Opportunities

- Further growth through access to new clients.
- Further growth through development of new products.
- Use of technology to enhance efficiency and to boost agent productivity.
- Access to new capital through stock market listing.

Threats

- Competition from entrenched players.
- Less than optimal business environment.
- Exposure to any deterioration in economic conditions in Iran.

Company Overview

Parsian Insurance Company was established in March 2003 and began operations in August of that year. It is an affiliate (and bancassurance partner) of Parsian Bank, which owns an 18.1% stake. Other key shareholders are Iran Khodro Investment Development Co. and Oil Industry Retirement Fund Investment Co. According the Parsian's Annual Report for Iranian year 1389 (ie the year to 20 March 2011), these shareholders have stakes of 14.0% and 17.6% respectively. Azim Distribution Co. is the fourth largest shareholder, with a 7.5% stake.

Parsian offers a comprehensive range of products: motor CMTPL and CASCO; fire (domestic and industrial) cover; group life and accident insurance; personal life insurance; liability insurance for a very wide variety of businesses; engineering cover; supplementary group medical insurance; travel medical treatment insurance; cargo insurance; personal accident insurance, and credit insurance.

Highlights of Iranian year 1389 (year to March 20, 2011) included: a 14% rise in gross premiums to IRR3,622.7bn; a 25% rise in total revenues to IRR5,207.9bn; 19% increase in operating profit to IRR539.0bn; 26% growth in net profit to IRR559.8bn. Meanwhile, total assets and total shareholders' equity rose, respectively, by 6% to IRR7,471.3bn and 12% to IRR1,997.8bn.

Claims expense increased by 26.8% to IRR2,432.1bn.

The company reduced the number of branches by three to 24, but grew its agency network by

5.3% to 1,508. As at the end of the year, there were also 38 damage payment centres.

Company Details

- Home country: Iran
- Status: Privatised and listed
- Street Address: 15, Shaid Sae'ei Street, Africa Blvd., Tehran, Iran
- Email: info@parsianinsurance.com
- Website: www.parsianinsurance.ir

Regional Company Profiles

The following company profiles are included for the sake of completeness and consistency with other reports on the insurance markets in the Middle East that are published by **BMI**. Because of the embargoes and sanctions applied to business dealings with Iran, none of these companies have a presence in the country.

Allianz

Company Overview

Allianz Group is a global financial services provider. It has approximately 153,000 employees and 75mn customers in about 70 countries. The group provides a range of insurance and finance products and advisory services through its subsidiaries. It primarily works in four operating segments: property casualty, life/health, banking and asset management.

Corporate Highlights

Allianz's businesses in the Middle East and Africa can be described collectively as being a small, but – in part – rapidly growing part of the total. Worldwide non-life premiums rose from EUR23,945mn in H110 to EUR24,445mn in H111. Premiums written in Sub-Saharan Africa grew from EUR47mn to EUR50mn: in the MENA region, they slipped slightly from EUR40mn to EUR37mn. In Sub-Saharan Africa, the combined ratio moved from 66.0% to 99.0%. In the MENA region, it slipped from 110.9% to 107.2%.

Worldwide, Allianz's life premiums slipped from EUR29,480mn in H110 to EUR27,248mn in H111. Sub-Saharan Africa, where premiums increased from EUR18mn to EUR23mn and the MENA countries, where premiums rose from EUR63mn to EUR84mn stood out as (small) pockets of rapid growth.

Regional Operations

Middle East, non-life and life/health in all countries except Qatar, where Allianz is active in life/health only.

- Bahrain
- Egypt
- Lebanon
- Qatar
- Saudi Arabia – Allianz Saudi Fransi
- Turkey- Koc Allianz

Africa – non-Life in all countries, plus life in Burkina Faso, Cameroon, Côte d'Ivoire, Madagascar and Senegal.

- Benin
- Burkina Faso
- Cameroon
- Central African Republic
- Côte d'Ivoire
- Ghana
- Madagascar
- Mali

- Senegal
- Togo

Company Details	▪ Parent company: Allianz SE ▪ Home country: Germany ▪ Status: Public listed company, based in Germany but structured as a Societas Europaea ▪ Main source for press releases: www.allianz.com/news ▪ Contact position: Head of group communications ▪ Tel: +49 89 3800 2114 ▪ Email: emilio.galli-zugaro@allianz.com

Arab Insurance Group (ARIG)

Company Overview

ARIG is unusual in that it is a substantial, Arab-owned, professional reinsurance group. It is owned by three governments in the Middle East and North Africa region. The UAE government is the largest shareholder, with 31.4% of the stock. The other two governments are those of Libya (14.5%) and Kuwait (12.3%). Private investors in Kuwait and the UAE account, respectively, for an additional 16.0% and 8.6% of the stock.

ARIG is listed on the stock exchanges of Bahrain, Dubai and Kuwait. 'Operating out of Bahrain, ARIG offers a broad range of treaty and facultative reinsurance services for Property& Casualty, Specialty, as well as Life and Medical lines to its clients from the region and beyond. Together with its subsidiaries, ARIG also provides Takaful reinsurance solutions and popular insurance software products.'

Aside from the main reinsurance operations in Bahrain, underwriting is co-ordinated through the group's branches in Singapore and Labuan, Malaysia. There is also a representative office in Mauritius.

ARIG is also an equal partner in the joint venture Hardy ARIG Insurance Management (HAIM). Through its subsidiary ARIG Capital Limited (ACL) in the UK, ARIG has entered into a two-year tenancy agreement with the Hardy Group to write a 7.5% share of the business written from 2011 by Hardy's syndicate 382 at Lloyds of London. 'This arrangement will provide the Hardy Group with additional capital flexibility, whilst giving ARIG access to London…opportunities and furthering the strategic relationship between the two groups.'

Aside from ACL, other subsidiaries include Takaful Re Limited (Dubai, in which ARIG has a 54% share), Gulf Warranties WLL (66%) and Arima Insurance Software WLL (100%). The last two subsidiaries are based in Bahrain.

At the end of November 2010, ARIG announced that it plans to open a representative office in Tripoli, Libya, which will service clients in that country and in the Maghreb.
Source: www.arig.net

Corporate Highlights

2011 has been a somewhat challenging year for ARIG. In relation to H111, it posted a loss of US$4.1mn – or rather more than the US$2.8mn loss that it had reported for H110. This result was 'largely driven by provisions taken against reported and unreported MENA riot claims, and by under-performing financial markets.' ARIG's performance was also adversely affected by reduced earned premiums and certain provisions for impairments in ARIG's subsidiaries.

Gross written premiums increased by 6.7% from US$177.1mn in H110 to US$188.9mn in H111. Net investment income rose from US$5.5mn to US$8.8mn. The combined ratio improved from 98.5% to 96.3%. The reduction in net earned premiums from US$102.3mn to US$89.6mn was due mainly to 'under-performing medical accounts that were discontinued in 2010.'

Total investments rose from US$647mn in December 2010 to US$675mn in June 2011.

Regional Operations

Bahrain is the centre for ARIG's core reinsurance operations and Arima Software. The partially owned subsidiary Takaful Re is based in Dubai.

Company Details	▪ Status: Public listed company ▪ Home country: Bahrain, but also listed in Kuwait and the UAE ▪ Main source for press releases: www.arig.net

Aviva

Company Overview

With over 53mn customers worldwide, Aviva is one of the world's largest international insurers, with a focus on eight markets in Europe, North America, China and India. In 2010, Aviva's IFRS operating profit rose by 26% to GBP2,550mn. Aside from focusing on particular markets, Aviva is seeking to exploit its core strengths 'in marketing and distribution expertise, technical excellence, operational effectiveness and financial discipline'. It also benefits from having developed a single brand with strong recognition and from being able to cross-sell life and general insurance products in the various markets in which it operates.

Corporate Highlights

Aviva's Middle Eastern operations come under its Asian division. The company has entered a strategic partnership with Dubai-based National General Insurance (NGI), a leading insurance company in UAE, 'to address the growing insurance requirements for both locals and expatriates alike. Policies issued in the UAE are insured by NGI & administered by Aviva Ltd'.

Aviva said: 'NGI is a growing composite national company based in Dubai. NGI is listed on the Dubai Financial Market and has enjoyed outstanding growth, having built its business on a reputation of excellence and trust.'

Regional Operations

- Turkey – Aviva SA Emeklilik ve Hayat AŞ (50%), Istanbul; Aviva Sigorta, Istanbul. AvivaSA is a joint venture with AK Emeklilik, part of Aksigorta AS, which is a part of the Sabanci Holding conglomerate.
- UAE – National General Insurance, Dubai (strategic partnership).

Company Details

- Parent company: Aviva plc
- Home country: UK
- Status: Public listed company
- Main source for press releases: www.aviva.com/media
- Contact position: Press office
- Tel: +44 20 7283 2000

AXA

Company Overview

AXA is a French-based global insurance major. In 2010, gross revenues, underlying earnings and assets under management amounted to about EUR90bn, EUR4bn and EUR1,000bn respectively. Globally, the group has 214,000 employees and 95mn clients. Roughly half of all business comes through proprietary channels (tied agents, salaried salespeople and direct sales), the remainder comes from non-proprietary channels such as brokers, independent financial advisers, banks and other partnerships.

Corporate Highlights

Across the region, AXA is a provider of life insurance products (pure savings, universal savings, term assurance, whole life, universal life, endowment, disability, annuity and unit linked). It is also a provider of non-life insurance in Turkey.

AXA's Annual report for 2010 indicated that the company is the 10th largest life group in Turkey (with a market share of 3%). Demand for protection and term products enabled Turkey's life market to achieve double digit growth. In the non-life segment, motor insurance underpinned the growth in premiums in Turkey.

AXA's corporate profile indicates that, across the GCC countries, its business wrote US$446mn in premiums in 2009 and generated income of over US$40mn. The company has 650 employees and 500,000 customers.

Regional Operations

- Bahrain – AXA Insurance Gulf, Bahrain
- Lebanon – AXA Middle East, Beirut
- Morocco – AXA Assurance Maroc, Casablanca
- Oman – AXA Insurance Gulf, Muscat
- Saudi Arabia – AXA Insurance Saudi Arabia, Riyadh
- Turkey – AXA Oyak, Istanbul
- UAE – AXA Insurance Gulf, Dubai

Company Details

- Parent company: AXA SA
- Home country: France
- Status: Public listed company
- Main source for press releases: www.axa.com/en/press/pr
- Contact position: Media relations
- Tel: +33 1 4075 4674

Chartis

Company Overview

Chartis is essentially the global non-life business of American International Group (AIG). Like ALICO and AIA, which have already been spun out of AIG, Chartis' origins can be traced back to the foundation of the predecessor of AIG, by Cornelius Vander Starr, in Shanghai in 1919.

On July 27 2009, as a part of its restructuring following a bailout by the Federal Reserve Bank of New York (FRBNY), AIG formed a special purpose vehicle (SPV) into which was placed its AIU subsidiary. Kristian P Moor was appointed as President and Chief Executive Officer of the new business, which was rebranded as Chartis. Chartis is headquartered in New York, and combines commercial insurance, foreign general insurance and private client group operations. The company suggests that the formation of the SPV, the appointment of Mr Moor and the development of the new brand (whose name is derived from the Greek word for map), will 'advance its reputation as a pre-eminent global insurance organisation and showcase its strengths'. The strengths include its experienced management, financial stability, product innovation and geographic reach.

'Chartis is a world leading property-casualty and general insurance organisation serving more than 40 million clients in over 160 countries and jurisdictions. With a 90 year history, one of the industry's most extensive range of products and services, deep claims expertise and excellent financial strength, Chartis enables its commercial and personal insurance clients alike to manage virtually any risk with confidence.'

Within the Middle East and North Africa, Chartis is present in Bahrain, Egypt, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, and the UAE. Nearby, it is also present in Turkey.

In Sub-Saharan Africa, Chartis has operations in Kenya, South Africa and Uganda.

Commercial insurance lines include: accident and health; aerospace/aviation; commercial auto; captive management services; commercial umbrella and excess liability; directors' and officers' liability; e-business risks; environmental/pollution liability; extended warranty; general casualty; marine and energy; multinational liability; political risk and trade credit; professional liability; property; risk finance; transaction liability; travel; and workers' compensation.

Personal insurance lines include: accident and health; auto; homeowners/renters; extended warranty; private client group offerings; travel; and specialty short-term products.

Corporate Highlights

Chartis' premiums written outside North America rose from US$12.3bn in 2009 to US$14.4bn in 2010. The combined ratio slipped from 100.2% in 2009 to 97.6% in 2010. The main lines were: accident and health, 28%; personal lines, 24%; specialty, 20%; casualty, 6%; and property/other, 12%.

Worldwide, net premiums amounted to US$31.6bn; 54% of net premiums were written in North America in 2010. Europe (substantially the UK) accounted for another 18%; Japan, a similar percentage. Growth economies, primarily the Asia-Pacific, the Middle East and Latin America, accounted for the remaining 10%.

Globally, the statutory surplus at the end of 2010 was US$35bn.

Regional Operations

- Bahrain – New Hampshire Insurance Co, CHARTIS Takaful Enaya BSC, Manama
- Egypt – CHARTIS Insurance Co, SAE, Cairo
- Kenya – Chartis, Nairobi
- Kuwait – Chartis, Kuwait
- Lebanon – CHARTIS Lebanon SAL, Beirut
- Oman – Chartis, Jibroo
- Qatar – Chartis, Doha
- Saudi Arabia – Chartis, Jeddah
- South Africa – Chartis, Parktown
- Turkey – CHARTIS Sigorta AS, Istanbul
- UAE – American Home Assurance, Dubai
- Uganda – Chartis, Kampala

Company Details

- Parent company: AIG
- Home country: US
- Status: Public listed company
- Web: www.chartisinsurance.com

Generali

Company Overview	Generali is one of the largest composite insurance companies worldwide, with 70mn clients in 68 countries. In 2009 its gross written premiums amounted to EUR70.5bn. The group is the market leader in Italy and a key player in Germany, France, Austria, Spain, Switzerland, Israel and Argentina. Through the Generali/PPF Joint Venture, the group has a dominant position in Central and Eastern Europe.
Corporate Highlights	In August 2011, Generali released its results for H111. Globally, gross written life premiums were 9.5% lower than they had been in H1110 at EUR23,842mn. However, non-life premiums advanced by 2.0% to EUR12,011mn. APE basis new life sales slipped by 9.8% to EUR2,513mn. The total operating profit advanced by 12.7% from EUR2,136mn in H110 to EUR2,408mn in H111. In the 'Rest of World' segment, which includes Generali's businesses in the Middle East, operating profit soared by 29.2% from EUR130mn to EUR168mn. Gross life premiums in the 'Rest of World' rose by 6.0% to EUR1,941mn. Non-life premiums increased by 15.0% to EUR732mn.
Regional Operations	▪ Israel – Migdal Group, Tel Aviv ▪ Tunisia – Assurances Maghrebia Societe d'Assurances et de Reassurances SA, Tunis ▪ Turkey – Generali Sigorta AS, Istanbul ▪ UAE – Licence granted in April 2009
Company Details	▪ Parent company: Assicurazioni Generali SpA ▪ Home country: Italy ▪ Status: Public listed company ▪ Main source for press releases: http://bit.ly/4s0FGG ▪ Contact position: Head of Corporate Press Office ▪ Tel: +39 040 671180 ▪ Contact email: Lucia_Sciacca@generali.com

HSBC Insurance

Company Overview

HSBC Insurance, part of the HSBC Group, claims to be the 13th largest insurer in the world, serving 30mn customers globally through underwriting, agencies and insurance brokers.

HSBC describes its UAE-based HSBC Insurance Brokers Ltd as 'one of the leading insurance brokers in the Middle East. It provides a full insurance broking, consultancy and risk management service including corporate, commercial, marine, construction, aviation and personal insurance'.

HSBC Amanah, the bank's global Islamic finance division, is headquartered in Dubai.

HSBC has a 40% holding in The Saudi British Bank (SABB) and through that a share in the joint stock company SABB Takaful, offering Islamic insurance products.

Corporate Highlights

Globally, HSBC's gross insurance premiums amounted to US$10,609mn in 2010. This compared with gross premiums of US$10,991mn in 2009 and of US$12,547mn in 2008. Net earned premiums for 2010, 2009 and 2008 were US$11,416mn, US$10,471mn and US$10,850mn. respectively Growth in 2010 'was largely attributable to the continued strong performance of life insurance products in Asia'. Net earned premiums were also boosted by greater sales activity in the UK and by sales of investment contracts in France with DPF. There was marginal growth in HSBC's insurance business in Latin America. However, the growth was partially offset by lower non-life premiums. This was due to the run-off of the motor book in the UK and by the decision not to renew certain contracts in HSBC's Irish business. Sales of payment protection products in the US also declined.

Regional Operations

- Saudi Arabia – SABB Takaful
- UAE – HSBC Insurance, Dubai

Company Details

- Parent Company: HSBC Holdings plc
- Home country: UK
- Status: Part of HSBC Holdings plc
- Main source for press releases: www.hsbc.com/1/2/newsroom
- Contact position: Press office
- Tel: +852 2822 4929

MAPFRE

Company Overview

MAPFRE is an independent Spanish business group operating in insurance, reinsurance, financial, real estate and service activities in Spain and another 44 countries. The activities are carried out via 258 companies, grouped in divisions and wide-ranging units with ample management autonomy, under the coordination and supervision of the senior management bodies and governing bodies, which establish the general guidelines and common policies for the group.

Following corporate restructuring in 2006, all group business activities are integrated under listed holding company, MAPFRE SA. The majority control of the latter is held by FUNDACIÓN MAPFRE, a private foundation which undertakes non-profit activities through five specialised institutes (social work; insurance science; culture; prevention, health and environment; and road safety).

Corporate Highlights

MAPFRE accounts for about 17% of the Spanish non-life and 8% of the life market. Its key Spanish businesses are: MAPFRE SA, Madrid; MAPFRE Vida, Madrid; MAPFRE Caja Madrid Vida (51%), Madrid; CCM Vida y Pensiones, Madrid (50%); Bankinter Vida, Madrid (50%); Union Duero Vida, etc, Madrid (50%); MAPFRE Familiar, Madrid; MAPFRE Empresas, Madrid; MAPFRE Caucion y Credito, Madrid.

Outside Spain, the three key businesses are the International Direct Insurance Division, MAPFRE RE and MAPFRE Asistencia.

In 2008, MAPFRE expanded its Middle Eastern presence. MAPFRE Asistenciaoffers assistance services to the insurance, finance and automobile sectors in Dubai. The new office will be a base to launch new programmes and services in the region, MAPFRE said. MAPFRE Asistencia operates in 43 countries and already had offices in the Middle East and North Africa, including Bahrain, Jordan and Egypt. The offices provide claims management, specialty risk management, travel assistance and other services.

Regional Operations

- Algeria – SPA Roadside Assist Algerie, Algiers
- Bahrain – Gulf Assist BSC, Bahrain
- Egypt – MAPFRE Asistencia, Cairo
- Jordan – MAPFRE Asistencia, Amman
- Tunisia – Afrique Assistance SA, Tunis
- Turkey – Turk Assist Yardim ve Servic Ltd Sirketi, Istanbul; Genel Sigorta, Istanbul; Genel Yasam, Istanbul
- UAE – MAPFRE Asistencia, Dubai

Company Details

- Parent company: MAPFRE SA
- Home country: Spain
- Status: Public listed company
- Main source for press releases: http://bit.ly/5SH3B5
- Contact position: Media contact
- Contact tel: +34 91 581 8196
- Contact email: susanadiaz@mapfre.com

MetLife ALICO

Company Overview

On March 8 2010, MetLife Inc announced a definite agreement to ALICO from the American International Group (AIG) for about US$15.5bn. The MetLife/ALICO transaction is one of the most important merger and acquisition deals ever to have taken place in the global life insurance industry. It will transform MetLife into a global business that derives well over one-third of its premiums and other considerations from outside the US. As a result, MetLife will become a more diverse and over the long-term almost certainly a faster growing company than it otherwise would have been. Among much else, MetLife has become the leading cross-border life company in Latin America. It has also become a very large and – perhaps surprisingly – steadily growing player in Japan.

ALICO previously described itself fairly as ‘one of the largest and most diversified international insurance companies in the world.’

ALICO traces its origins to Shanghai in 1921, where Cornelius Vander Starr, the founder of the global AIG group, had already been active for about two years. What makes it unusual in global terms is that it is large by any measure, has long been established as one of the largest foreign life insurers in Japan and has a global footprint that spans dozens of countries. Together with MetLife, ALICO serves 90 million customers in 60 countries worldwide.

In an 8-K statement on March 8 2010 filed with the US Securities and Exchange Commission (SEC), MetLife said that the purchase of ALICO represents a ‘unique opportunity, not replicable, either organically or by M&A’.

The new style of the company is MetLife ALICO.

Personal products include: life insurance; savings products; retirement planning; accident insurance; travel insurance and health insurance.

Corporate solutions include: group life, medical and accident plans; annuities and pensions, and credit life insurance.

Source: www.ALICO.com

Corporate Highlights

In the Middle East and North Africa, MetLife ALICO has a presence in Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia and the UAE. It also carries out business in the Palestinian National Authority.

Regional Operations

Although MetLife ALICO is present in over 60 countries (which includes micro-states in the Caribbean and the Palestine National Authority) it is perhaps more helpful to think of the company as having a substantial presence in six areas: USA; Japan; Latin America and the Caribbean; UK, France, Italy, Spain and Portugal; Middle East (mainly Gulf Co-operation Council countries, but also Egypt, Lebanon and Jordan); Central and Eastern Europe (including Greece).

ALICO claimed to have a top five position in 23 of the 55 national markets in which it operated. Of course, market share in terms of gross premiums is only one measure of relative importance.

Across the Middle East, MetLife Alico has 13,000 customers, 50 dedicated agents and various distribution partners. A recent highlight was the mid-September 2011 announcement of a new bancassurance partnership with Bahrain's Mashreq Bank.

Regional Operations	▪ Bahrain ▪ Egypt ▪ Jordan ▪ Kuwait ▪ Lebanon ▪ Oman ▪ Palestine National Authority ▪ Qatar ▪ Saudi Arabia ▪ UAE
Company Details	▪ Parent company: MetLife ▪ Home country: US ▪ Status: Public listed company ▪ Main source for press releases: www.ALICO.com/ALICO/en/News/Press-Releases/index.html

RSA

Company Overview

RSA is a FTSE 100 company listed on the London Stock Exchange. The company says it is the UK's largest commercial insurer, the largest property and second largest liability and motor insurer while its personal business is the third largest in the UK.

Within personal, RSA is the UK's second largest household insurer and fourth largest motor insurer. Through direct business, it provides 2.6mn covers for household, motor, travel and pet insurance.

RSA's International division includes businesses in Sweden, Denmark, Norway, Finland, Canada, Ireland and Italy. Codan in Denmark and Trygg-Hansa in Sweden are the third largest insurers in their respective markets.

The company's Emerging Markets division operates across 20 developing insurance markets and is RSA's fastest growing region. Areas of operation include Latin America – its largest business in the Emerging Markets division, with operations in seven countries. The largest is in Chile, where it is the market leader, and RSA is also the largest private insurer in Uruguay.

It is also the largest general insurer in the Baltic region, with leading market positions in Latvia and Lithuania. Intouch, its business in Central and Eastern Europe, has market leading direct operations in Poland, Russia and the Czech Republic.

RSA operates in four countries across the Middle East and serves Asia through commercial hubs in China, Hong Kong and Singapore and through its associate, Royal Sundaram, in India.

Corporate Highlights

RSA began operations in Bahrain on January 1 2003, building on the acquisition of the Northern Assurance Portfolio, whose history in the Gulf dates back to the 1950s. In January 2009 its Bahrain office announced it was expanding and appointed three new executives.

RSA has been operating in Oman for more than 35 years. RSA Oman has been functioning as a branch office in Oman since 1972. In July 2004, a new joint venture company RSA Oman was started. In February 2010, RSA announced that it had bought al-Ahleia, one of the leading non-life insurers in Oman, from ONIC Holdings. ONIC will become a 20% shareholder of RSA Oman. The combined group will be the largest insurer in Oman in terms of net written premiums.

The UAE operations were RSA's first in the Middle East. In addition to its main office in Dubai, RSA has offices in Abu Dhabi city and relaunched its Sharjah operation in 2004 to better support the emirates' growing industrial and free zone sectors.

In respect of H111, the company noted that net written premiums in the Middle East and Asia were 22% higher than they had been in H110, in part because of the acquisition of al-Ahleia in Oman and in part because of the further development of its specialty business. The cost ratio of RSA's overall emerging markets business improved to 98.6% in spite of extreme weather events in various places, including Saudi Arabia.

Regional Operations

- Bahrain – RSA Insurance plc, Bahrain
- Oman – RSA Oman SAOC, Muscat

- UAE – RSA Dubai
- Saudi Arabia – Al-Alamiya Insurance, Jeddah

Company Details

- Parent company: Royal & Sun Alliance Insurance Group plc
- Home country: UK
- Status: Public listed company
- Main source for press releases: www.rsagroup.com/news.aspx
- Contact position: Head of UK External Communications
- Tel: +44 20 7337 5146

Zurich Financial Services

Company Overview

Zurich Financial Service (ZFS) is 'an insurance based financial services provider with a global network of subsidiaries and offices in North America and Europe, as well as in Asia Pacific, Latin America and other markets. Founded in 1872, ZFS is headquartered in Zurich, Switzerland. It employs around 60,000 people, serving customers in more than 170 countries.'

Within the Middle East, ZFS has non-life operations in Bahrain, Morocco (and, a little further afield, Turkey).

In late 2010, the company announced that its subsidiary, the Zurich Insurance Company, had signed an agreement to buy 99.98% of Cie Libanaise d'Assurances SAL, a privately owned Lebanese insurer with branches in the UAE, Kuwait and Oman. Cie Libanaise d'Assurances offers general and life insurance solutions through these three countries, and Lebanon. In 2009, its gross written premiums amounted to US$49.1mn and its net income after tax was US$5.1mn. The deal increases its ability to cross-sell its existing products to the Lebanese company's clients and distribution partners in these markets.

ZFS' main life insurance operation in the region is Zurich International Life (ZIL), which is present in Bahrain, the UAE (in the Dubai International Finance Centre and elsewhere) and Qatar. ZIL also has substantial operations in Hong Kong, Singapore and Taiwan.

ZIL's products for individual clients include: regular premium savings and investments; single premium savings and investments, and; protection products. Solutions for companies and non-government organisations include: corporate savings and investments; international group protection; international risk pooling, and; corporate multi-national solutions.

Corporate Highlights

Zurich's global life gross written premiums rose by 1% in USD terms, from US$13,111mn in H110 to US$13,267mn in H111. In local currency terms, they fell by 5%. However, APE basis new business rose by 11% to US$1,899mn in USD terms, and the new business margin increased by 3.3 percentage points to 26.9% of APE. The growth of the global business reflected 'the continued diversification of its geographic presence into the higher growth markets of Latin America, Asia-Pacific and the Middle East.' Total new business from these regions is now approaching the target, which is 30% of the total. It appears that ZIL's business in the Middle East and the Asia-Pacific has been increasing particularly rapidly. Total deposits, premiums and policy fees amounted to US$528mn in Q111 and US$825mn in Q211. In the previous corresponding periods, the figures had been US$507mn and US$469mn respectively.

Regional Operations

- Bahrain – Zurich Insurance Services (Middle East) EC, Bahrain; Zurich International Life, Bahrain
- Qatar – Zurich International Life, Doha
- Lebanon – Cie Libanaise d'Assurances, Beirut (with branches in Kuwait, the UAE and Oman)
- Morocco – Zurich Compagnie Marocaine d'Assurances, Casablanca
- Turkey – Zurich Sigorta, Istanbul
- UAE – Zurich International Life Ltd, Dubai, Abu Dhabi, Sharjah

Company Details

- Parent company: Zurich Financial Services
- Home country: Switzerland
- Status: Public listed company
- Main source for press releases: www.zurich.com/main/media
- Contact position: Media relations
- Contact tel: +41 44 625 2100

BMI Methodology

BMI's insurance reports provide insights into the operating conditions in and prospects for insurance in over 60 mostly developing countries. The reports incorporate the latest information available from official sources such as regulators, international associations of regulators and trade associations; comparable information from other countries; and **BMI**'s economic and risk data. The reports focus on gross written premiums in two segments: non-life and life. Unless stated, 'premiums' refers to gross written premiums.

In **BMI**'s reports, non-life insurance includes health insurance premiums if these are normally considered by industry observers to lie within the mainstream insurance sector. Non-life insurance includes inwards reinsurance premiums if these would normally and reasonably be considered a significant part of the non-life segment. In practice, this means that we generally include inwards reinsurance in developed countries and offshore financial centres that specialise in insurance. We consider outwards reinsurance to be an expense. Life insurance includes all long-term savings products that are legally structured as insurance products. Life insurance premiums do not, therefore, include contributions to pension plans and other long-term savings schemes unless they are legally constituted as being within the insurance sector.

Life Segment

In projecting life premiums, we consider two aspects: the likely development of population and of life density (life premiums per capita). Typically, we forecast life density for 2015 and assume density changes evenly from 2011 to 2015. In some cases there will be clear reasons why life density is not likely to change evenly over time. In such cases, we forecast life density from year to year. Forecasts of life density for 2015 typically take into account the following factors: life density in 2011; density in nearby countries at a similar level of development; relative importance of life insurance in terms of overall retirement savings; and other factors promoting or retarding evolution of the life segment.

Non-Life Segment

In making projections of premiums in the non-life segment, we consider two aspects: the likely development of nominal GDP and of non-life penetration (non-life premiums as a percentage of GDP). Typically, we forecast non-life penetration for 2015 (the end of the forecast period) and assume that non-life penetration changes evenly from 2011 to 2015. However, in some cases, an examination of the various lines (motor, accident/health, liability etc) that constitute the non-life segment indicates that the non-life penetration is not likely to change evenly over time. In such cases we forecast the non-life penetration from year to year. Forecasts of non-life penetration for 2015 typically take into account the following factors: non-life penetration in 2011; penetration in nearby countries at a similar level of development; whether or not health insurance is generally considered to be within the insurance sector; and other factors promoting or retarding evolution of the non-life segment.

Autos

At a general level, we approach our forecasting from both a micro angle and a macro perspective, assessing the expansion plans of relevant multinationals/ indigenous firms, while also taking account of the prevailing economic outlook. In this latter respect, BMI projections for macro variables such as industrial output, private consumption, government investment, monetary policy and GDP growth play a key role.

Tourism

There are a number of principal criteria that drive our forecasts for each tourism sector variable. Figures for the tourism sector data are based, where possible, on industry associations/operators, government/ministry sources and official data. Where these are unavailable, tourism forecasts are based on a range of variables:

- Government policy, industry trends and expenditure levels stated in international and national press.
- Industry trends and expenditure levels stated in tourism company official financial reports or releases.
- Likely expenditure and growth patterns owing to international developments/demographic patterns.
- Likely alterations in expenditure patterns owing to economic/political activity.

Burden Of Disease

The burden of disease in a country. This is forecasted in DALYs (disability-adjusted life years) using **BMI**'s Burden of Disease Database, which is based on the WHO's burden of disease projections and incorporates World Bank and IMF data.

Security Risk Ratings

BMI's Security Ratings service, which integrates closely with our Country Risk service, offer a comprehensive comparative analysis of security risk across three key areas – interstate conflict, terrorism and physical safety for expatriate workers – across major states in each region. The ratings are combined to form a composite security rating to provide an overall guide to long-term trends and risks. Finally, we integrate our short-term political and economic ratings with the terrorism rating, to indicate a state's vulnerability to a sustained terrorist campaign or major terrorist attack. In all instances, the rated period is two years, with each country assigned a score out of 100, with a low score indicating a high level of risk.

Insurance Risk/Reward Ratings

BMI's Insurance Risk/Reward Rating has a threefold approach. First, we assess market attractiveness and risks to the predictable realisation of profits in each state, capturing operational dangers facing companies. Second, we identify objective indicators that serve as proxies for issues/trends in the industry to ensure consistent evaluation across states. Finally, we use **BMI**'s Country Risk ratings to ensure the ratings capture broader issues relevant to the industry and that may limit market attractiveness or imperil returns. The ratings system – which integrates with all industries covered by **BMI** – offers an industry-leading insight into prospects/risks for companies. The ratings divide into two distinct areas:

Rewards
Evaluation of the industry's size and growth potential in each state, and also broader industry/state characteristics that may inhibit its development.

Risks
Evaluation of industry-specific dangers and those emanating from the state's political/economic profile that call into question the likelihood of anticipated returns being realised over the assessed time period.

Indicators
The following indicators have been used. Almost all indicators are objectively based.

Table: Insurance Risk/Reward Indicators And Rationale

Rewards	
Insurance market	**Rationale**
Non-life premiums, 2011 (US$mn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in non-life premiums, five years to 2015 (US$mn)	Indicates growth potential. The greater the likely absolute growth in premiums the better.
Non-life penetration, %	Premiums expressed as % of GDP. An indicator of actual and (to an extent) potential development of non-life insurance. The greater the penetration the better.
Non-life segment measure of openness	Measure of market's accessibility to new entrants. The higher the score the better.
Life premiums, 2011 (US$mn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in life premiums, five years to end-2015 (US$mn)	Indicates growth potential. The greater the likely absolute growth in premiums the better.
Life penetration, %	Premiums as % of GDP. An indicator of actual and (to a certain extent) potential development of life insurance. The greater the penetration the better.
Life segment measure of openness	Measure of market's accessibility to new entrants. The higher the score the better.
Country structure	
GDP per capita (US$)	A proxy for wealth. High-income states receive better scores than low-income states.
Active population	Those aged 16-64 in each state, as a % of total population. A high proportion suggests that market is comparatively more attractive.
Corporate tax	A measure of the general fiscal drag on profits.
GDP volatility	Standard deviation of growth over 7-year economic cycle. A proxy for economic stability.
Financial infrastructure	Measure of financial sector's development, a crucial structural characteristic given the insurance industry's reliance on risk calculation.
Risks	
Market risks	
Barriers to entry	Subjectively evaluates de facto/de jure regulations on development of insurance sector.
Regulatory environment	Subjectively evaluates impact of regulatory environment on the competitive landscape.
Country risk (from BMI's Country Risk Ratings)	
Short-term financial risk	Evaluates currency volatility.
Short-term external risk	State's vulnerability to externally induced economic shock, which tend to be principal triggers of economic crises.
Policy continuity	Evaluates the risk of sharp change in broad direction of government policy.
Legal framework	Strength of legal institutions. Security of investment key risk in some emerging markets.
Bureaucracy	Denotes ease of conducting business in a state.

Source: BMI

Weighting

Given the number of indicators/datasets used, it would be inappropriate to give all sub-components equal weight. Consequently, the following weight has been adopted.

Table: Weighting Of Indicators

Component	Weighting, %
Rewards, of which	70, of which
– Insurance market, of which	65, of which
– Life	– 50
– Non-life	– 50
– Country structure	– 35
Risks, of which	30, of which
– Market risks: regulations and impact on development and competitive landscape	– 40
– Country risks	– 60

Source: BMI