

THE LEBANESE INSURANCE INDUSTRY (1975-1987)  
A SURVEY OF ITS PROBLEMS AND PROSPECTS  
FOR IMPROVEMENT

By  
BASSAM ADIB CHILMERAN  
RESEARCH TOPIC

Beirut, Lebanon

RT  
305

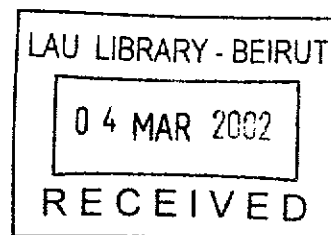
II

THE LEBANESE INSURANCE INDUSTRY (1975-1987)  
A SURVEY OF ITS PROBLEMS AND PROSPECTS  
FOR IMPROVEMENT

A Research Topic  
Presented to Business Division  
Beirut University College

In partial Fulfillment  
of the Requirements for the Degree  
Master of Science in Business  
Management

By  
BASSAM ADIB CHILMERAN  
August, 1988



19747  
LAU  
047

BEIRUT UNIVERSITY COLLEGE

P.O. BOX 98 13-5053

BEIRUT, LEBANON

APPROVAL OF RESEARCH TOPIC

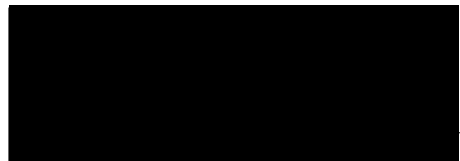
CANDIDATE BASSAM ADIB CHILMERAN DATE AUGUST 1988  
 DEGREE MASTER OF SCIENCE IN BUSINESS ADVISOR DR. HAMDI ALY  
 TITLE OF RESEARCH TOPIC THE LEBANESE INSURANCE INDUSTRY(1975-19  
A SURVEY OF ITS PROBLEMS AND PROSPECTS FOR IMPROVEMENT

The following professors nominated to serve as the advisor of the above candidate has approved this research topic.

ADVISORS

DR. HAMDI ALY

NAME



SIGNATURE

DR. TAREK MIKDASHI

NAME



SIGNATURE

**To** my family  
For their constant support  
and encouragement

## ACKNOWLEDGEMENT

I am grateful to the many people who have made suggestions and recommendations for improving this project. Included among those people are professor Hamdi Ali, my advisor, Shafik Jundi, Ghassan Labban and Nada Mneimneh. Special thanks are also due to all the insurance personalities, who participated to this project, for their assistance and cooperation in providing the necessary pertinent information.

## TABLE OF CONTENTS

<u>CHAPTER</u>	<u>Page</u>
LIST OF TABLES	IX
TABLE OF EXHIBITS	VII
I. INTRODUCTION	1
Statement of the Problem	2
Statement of the Purpose	2
Performance Objective	3
Methodology	4
II. FUNDAMENTAL PRINCIPLES OF INSURANCE	5
Risk Management	5
Definition of Insurance	6
Components of the Definition	6
- Risk	6
- Premium	9
- Common Pool	10
Classification of Insurance	10
- Marine Insurance	10
- Fire Insurance	11
- Accident Insurance	13
- Life Insurance	14
Scope of Insurance	16
Losses Coverage	17
- Loss of Property	20
- Loss of Earning Power	20
- Future Expenses	21
- Legal Liability	21
Social and Economic Aspects of Insurance	23
III. DEVELOPMENT OF THE INSURANCE MARKET IN LEBANON	26
Structure of the Lebanese Economy	26
Insurance Legislation in Lebanon	34
Development of the Market	36
Marine Cargo Insurance	40
Fire Insurance	45
Accident Insurance	46
Life Insurance	49
The Effect of the War on the Insurance Market	51

<u>CHAPTER</u>	<u>Page</u>
IV. RESEARCH PRESENTATION AND ANALYSIS OF RESULTS	57
Research Setting and Methodology	57
Presentation and Analysis of Results	60
Problems Facing the Industry	60
Structure of the Market	67
Control and Legislation in the Industry	70
Relations Within the Insurance Industry	76
Prospects of the Industry	79
V. CONCLUSION, RECOMMENDATION AND SUMMARY	82
APPENDICES	88
BIBLIOGRAPHY	95

## TABLE OF EXHIBITS

<u>EXHIBIT</u>	<u>Page</u>
I. CLASSIFICATION OF RISKS	18



## LIST OF TABLES

<u>TABLE</u>	<u>Page</u>
I - Exports of Industrial Goods of Lebanese Origine 1970 - 86	33
II - Nationalities and Number of Insurance Companies Working in Lebanon in 1914	37
III - Operating Companies in Lebanon	41
IV - National and Foreign Companies Share in the Market Between 1926 - 1984	42
V - Premium Collected By Insurance Companies 1926- 1975	43
VI - Growth of Net Premium Collected By Insurance Companies 1979 - 1986	53
VII - National Investment Guarantee Corporation	74

## CHAPTER I

### INTRODUCTION

Until the breakout of the tragical civil war in Lebanon in the Autumn of 1975, Lebanon was considered as one of the most beautiful and busiest places in the eastern Mediterranean. Beirut, the capital of Lebanon, was the emporium for the whole area of the Middle East as well as the linkage for the transit trade between Asia, Africa and Europe. For this, there is no wonder why the insurance companies found their prosperity and glory in this market. In the early twenties of this century, there were about fourteen foreign companies, but it was not till 1948 that the first Lebanese company was formed. The number has grown through the years to reach 107 registered companies in 1974.

(In 1975, the death wave, destruction and economical deterioration were brought by the civil war to ruin everything that Lebanon had stood for. The insurance sector was no exception where the war has left its prints on this vital sector. The first sign was the withdrawal of a number of operating foreign insurance companies from the Lebanese insurance market. The number had declined from sixty-five companies in 1971 to twenty in 1986. However, the insurance sector has experienced a reasonable rate of growth and the number of the new established insurance companies, especially national companies, has increased during the last couple of years.

It is extremely difficult to anticipate the future at this stage. However, as soon as Lebanon gains its peace the country will reassume its glory once again where reconstruction will take place in all sectors of the economy and this, by all means, will enhance the role of the insurance sector.

### Statement of the Problem

Over the past thirteen years, all sectors of the Lebanese economy have been suffering from the effects of the war, including the insurance sector. This project aims to answer the following questions:

- 1 - What is meant by insurance, what is the status of the insurance industry in Lebanon and what problems has it been facing during the last fourteen years ?
- 2 - How can the insurance sector be developed ?

### Statement of the Purpose

(The importance of insurance is derived from the benefits which are introduced by insurance to the individuals and the society as a whole. On the personal level, insurance can provide security and fulfill the need for safety. On the social level, insurance plays an important role in reviving the economy by reinvesting the collected premiums in its different sectors. In Lebanon, the insurance sector, as any other sector in the

Lebanese economy, is suffering from several problems that can be summarized as follows:

- Lack of government regulation in the insurance field
- The existence of a large number of insurance companies in a saturated market.
- Difficulties concerning the relationship among the operating companies within the insurance industry.
- The deterioration in the local currency and its effect on the insurance industry.

Therefore, it is the purpose of this project to study the insurance market in Lebanon as it existed before and during the last thirteen years in order to reveal and reflect the real situation of the Lebanese insurance industry so as to ascertain a possible way for developing this market and diluting its problems.

#### Performance Objective

To accomplish the purpose of the project and to answer the stated questions, the study will undertake the following objectives to fulfill:

- 1 - To introduce and define insurance in general and study its role and impact on the society and the economy.

- 2 - To review the history of insurance in Lebanon and to introduce the problems facing the industry.
- 3 - To develop recommendations and suggestions that could help in developing the insurance industry in Lebanon.

### METHODOLOGY

The information needed to accomplish this project is gathered from two sources. The first, which is the published information, is collected from the existing literature concerning this subject, such as, books, periodicals, reports and pamphlets. The second source, which is the unpublished information, is obtained from the internal records of the insurance companies which participated in the project.

A survey was conducted by distributing a questionnaire to prominent personalities in the profession. The questionnaire aims to reveal and reflect the attitude of the respondents about the problems and prospects of the insurance industry. In general, the project is limited to the economical and managerial aspects of insurance without considering the technicality of the insurance field.

## CHAPTER II

### FUNDAMENTAL PRINCIPLES OF INSURANCE

The human beings life is surrounded by uncertainty concerning the future. For each move or action taken some kind of risk may be involved. This uncertainty and the individual's personality determine how he behaves under the circumstances. This realization led to the desire of some sort of security against these risks.

#### Risk Management

Risk, in many instances, is inevitable and must be confronted. In general, risk can be dealt with either by avoidance, prevention or transfer.

The first way of managing risk comprises the avoidance of risk by not taking the action or move that is associated with the risk. If one is concerned with the likelihood of a motor accident, then he can sell his car and avoid the risk. Although this technique is useful in some instances, it is sometimes not apractical or even a possible way for dealing with risk. For example in case of death or poor health, the consequences are unavoidable.

Risk prevention is the second way of managing risk, where risk can be prevented or minimized by treating the cause of the unfortunate consequences. The risk of a car accident can

be prevented or minimized by providing for better roads, better lights and better traffic regulations. Prevention of the unfortunate happening is by all means the most useful way of dealing with risk. However, in some cases the individual is not capable of doing so. For example, many fires may occur in spite of precautions, or people may die even with medical care.

The last way of managing risk is by transferring it to someone who assumes the risk by taking it willingly upon himself. The leased property may be subject to risks such as fire. However, the owner of the property may transfer the risk by writing into the contract that the tenant is responsible for any damage caused by fire.

The common form of risk transfer is insurance. It is a financial mechanism by which risk is controlled, whereas the first two ways of dealing with risk, risk avoidance and risk prevention, are physical mechanisms for controlling risk.

#### Definition of Insurance

In the insurance literature, the definition of insurance varies from one author to another depending on their point of view. The French author, Hemard defines insurance as follows:

**Insurance is an operation by which one party, the insured, obtains from another, the insurer, the promise to indemnify the insured or a third person in case of loss. The payment for this service is called premium. The insurer accepts a totality of risks and compensates them**

according to statistical laws.(1)

Robert Riegel, on the other hand defines insurance as follows:

Insurance is a social device whereby the uncertain risks of individuals may be combined in a group and thus made more certain, with small periodic contribution by the individuals providing a fund out of which those who suffer losses may be reimbursed.(2)

### Components of the Definition

Following the brief introduction of insurance, and from the two definitions cited above, three facts concerning the characteristics of insurance can be observed. These characteristics are as follows:

#### 1. Risk

*Handwritten: new definition*  
Risk is the uncertainty of loss. The uncertainty implies two distinct features; when loss will occur and how severe it will be once it occurs. With this in mind, insurance comes as a way of treating and removing the effects resulting from the risks and not as a way of preventing them. It is convenient to distinguish between two types of risks, that is speculative

- 1) Swiss Insurance Training Centre, Reinsurance, (Zurich: Swiss Reinsurance Company, 1981), P.1.
- 2) Robert Riegel, Jerome S. Miller, C. Arther Williams, JE. Insurance Principles and Practices, (Englewood Cliffs: Printice Hall Inc., 1976), P.15



risk and pure risk.

The first, speculative risk, exists when consequences may be either favorable or unfavorable. For example, the risk involved in exchange operation or gambling has the possibility of loss or gain. Pure risk, on the other hand, always entails unfortunate consequences. For example, the risk of facing fire, flood or any other unfortunate happening. In general insurable risks have specific features that must exist in the risk which one is seeking protection against in order for the insurance contract to operate equitably, produce the desired benefits, and be practical from a business point of view. These features are as the following:(3)

- a - Insurable risks are mostly involved with pure risks because protection against speculative risks may cost too much compared to the gain, or even it could eliminate the possibility of gain. Furthermore, speculative risks are normally taken in the hope of gain, and the existence of an insurance policy in this case will eliminate the possibility of loss, and therefore, eliminate the incentive of doing the best to bring about the gain.

---

3) Gordan C.A.Dickson, M.Lit and John T.Steel, Introduction to Insurance, Study course 010, The CII Tutition Service, (Cambridge: Burlington Press, 1981), P.3.

- b - The risk must involve a loss that can be financially measured. The insurance company can not sell a policy for future guarantee without some estimation for the future loss.
  
- c - A large number of insured that are exposed to similar, homogeneous risks must exist in order for the "law of Large Numbers" to work. That is, the combination of large number of risks will reduce the degree of the risk and thus uncertainty.
  
- d - The premium paid for the insurance company should be sufficiently small to be within the reach of nearly every one. It should be also reasonable in relation to the likely financial loss insured by the insured.
  
- e - The insurable loss should be entirely fortuitous because it is not possible to write an insurance policy against a certain loss for which there will be no risk involved.

## 2. Premium

The premium is an amount of money that is paid by the insured in exchange of the services of assuming the risk. Thus, it can be said that the premium is the price of the insurance. The premium should be commensurate with the degree of risk of loss.

### 3. Common Pool

Insurance is mutual in nature where individuals subject to similar risks cooperate to reduce the effect of these risks. Here the individual agrees to make a small contribution, as premium, in order to form a pool that can reimburse those who suffer from the risk. From this it can be said that insurance is preeminently social in nature, where it represents cooperation for mutual benefits.

### Classes of Insurance Business

There is more than one way by which insurance is classified. However, it is customary to classify insurance under marine, fire, accident and life classes. There is no scientific or technical rule on which this classification is based.

#### 1 - Marine Insurance

Marine insurance business is the first type of insurance that was known and practiced. The importance of this class of business is gained from its role in activating international trade between the countries.

This type of insurance has no specific frontiers that bound the horizon where the insurance policy is applicable. Consequently, the marine insurance has universal characteristics where its policy is almost uniformed in most countries except for some

differences due to the distinction in the insurance technique that are applied.

It is customary to divide marine insurance into the following two categories. First, Hull insurance which applies on the ship hull, and the equipment aboard the ship, such as the rigging, the mast, the tiller, etc. For each of these there is a specified price. Second, Cargo insurance which includes the insurance on the cargo aboard the ship. The Marine policy is written to cover two types of perils. The first is "Perils of the sea", and the second is "Perils on the sea".

Aviation insurance is sometimes classified under marine insurance. The development of this class is of recent origin, when the first regular civil aviation service was started in 1919, after the First World War. In 1923 the British Aviation Insurance Group, representing a group formed by the union of Canton Insurance Company and the White Cross Insurance Company, began offering aviation insurance.

This type of insurance includes the insurance on the body of the airplane and all its equipments, the liability to the Aviator and other members of the crew, the liability to the airport for any damages occurring by the insured plane and the insurance on the passengers and their properties.

## 2 - Fire Insurance

This class of business is considered to be very vital and

essential for the society as it is for individuals. The London fire in the year 1666 is a clear indication of the importance of fire insurance, and for this the first fire insurance company "Phoenix" was founded in 1680.

What is really meant by fire insurance does not only include fire accident which is a result of an actual ignition; but rather many other perils that may be included in a fire policy. The perils that may appear on a fire policy may be compiled as (4)

- 1 - Original perils, which include hazards resulting either from fire, explosion or thunder.
- 2 - Additional perils, which include
  - a) Flood, Inundation, storm and tempest.
  - b) Aircraft and other aerial devices and/or articles dropped therefrom.
  - c) Impact by any vehicles, horses or cattle.
  - d) Bursting of or overflowing of water tanks, apparatus or pipes.
  - e) Earthquake.
  - f) Explosion.
  - g) Spontaneous combustion
  - h) Riot and civil commotion
  - i) Strikes.

---

(4) Mories Mansour, Studies in Insurance, (Baghdad: Al-Maharef, 1978), P.274 (In Arabic)

The fire insurance policy may include all the perils, or it may include only those that are specified by the insured. In this case, each peril will be priced separately to determine the maximum liability of the insurance company for each peril. In general, it is preferred to write a policy which includes all the perils, to avoid the possibility of misunderstanding or undervaluing any of the perils. However, if the insured is looking for security for a specific part of his property or against a specific risk, then a policy that specifies the perils should be written.

### 3 - Accident Insurance

The basic concept of the insurance policy is to provide compensation in the event of an accident or an unfortunate happening. Those accidents vary from burglary to personal accidents. However, it is customary that the accident insurance includes the following: (5)

- a) Burglary Insurance
- b) Fidelity Guarantee Insurance
- c) Money Insurance
- d) Motor Vehicle Insurance
- e) Contractor All Risk Insurance (C.A.R.)
- f) Erection all Risk Insurance (E.A.R.)
- g) Credit Insurance
- h) Contract Guarantee

---

(5) Ibid., P.304

- i) Engineering Insurance
- j) Public Liability Insurance
- k) Products Liability Insurance
- l) Professional Liability Insurance
- m) Property Owner's Liability
- n) Motor Accident Compulsory Insurance
- o) Workman's Compensation Insurance
- p) Personal Accident Insurance

•

#### 4 - Life Insurance

Every individual is confronted with death in his early age or at a later time. And for this many people think of a way to support their families after they pass away, or even to support themselves after retirement. So the idea of life insurance came to existence to facilitate the life of the human being.

It was in June 18, 1583 when the first real evidence, of life insurance policy for a man named William Gibbous for a sum of Stg.£ 38 233 in Britain. The life insurance class of business is considered independent from other classes of insurance for it has its own regulations, laws and rules. In general, there are four types of life insurance to choose from these four types are discussed below:

1 - Term Insurance, which is a contract between the insurance

company and the insured, whereby the beneficiary of the contract is paid, in case the insured passes away within a stated period, the amount agreed upon and specified in the contract. However, if the insured stays alive at the end of the specified period, then the contract will be abolished. From this, it can be noted that this type of insurance does not include the saving virtue of life insurance.

- 2 - Whole Life Insurance, which is a contract between the insurance company and the insured; whereby the beneficiary of the contract is paid, in case the insured passes away within a stated period, the par-value of the contract or, if the insured stays alive after the stated period, then he will be the beneficiary from his contract.
- 3 - Endowment Insurance, as in the whole Life Insurance, the importance is in the saving element, where the insured is paid the par value of the contract after the stated period is passed and he stays alive.
- 4 - Annuities Insurance, which is considered as the typical life insurance, whereby the insurance company pays the insured, according to the written contract, an annual amount as long as the insured is alive.



### Scope of Insurance

Documents which go back to 385 B.C. and even farther indicated that insurance, in its simplest forms was known in the days of Athens where creditors used to lend money to the merchants to finance their trades. The creditors used to bear all the risks in case the merchandise was not safely delivered to its destination. However, if it arrived safely the creditor will share the profits with the merchant and get his loan back. (6)

In the year 41 A.D. when Rome faced a grain shortage, the Czar of Rome encouraged the construction of ships to import grain. The Czar promised to compensate any loss the merchants faced. It was also in the days of the Romans when the idea of forming a pool was introduced. The Romans used to come together in burial societies, where they all would contribute to a fund and the members of the pool would have their burial costs met by the society. (7)

---

(6) Emile Jiryès Nassar, A Summary of Insurance History in Lebanon and the World , (Beirut: Al Matbaha Al Hadetha, 1980), P.15. (In Arabic)

(7) Gordan C.A. Dickson, M.Litt, John T.Steel, Introduction to Insurance, study course 010, the CII Tutition Service (Cambridge: Burlington Press, 1981), P. 5/1 .

After that, insurance as a security against risk, become more desirable and vital. As a result, insurance started entering new fields where risks existed and it was necessary to be secured against them. For example, the famous fire catastrophe which broke out in London on September 2, 1666. The fire resulted in a great loss and the need to be secured against such losses arose.

Consequently, and because of the continuous increase of the uncertainty towards the future and man is vulnerable exposure to various forms of risks, special companies are specialized in insuring people and their properties against these risks were formed.

### Losses Coverage

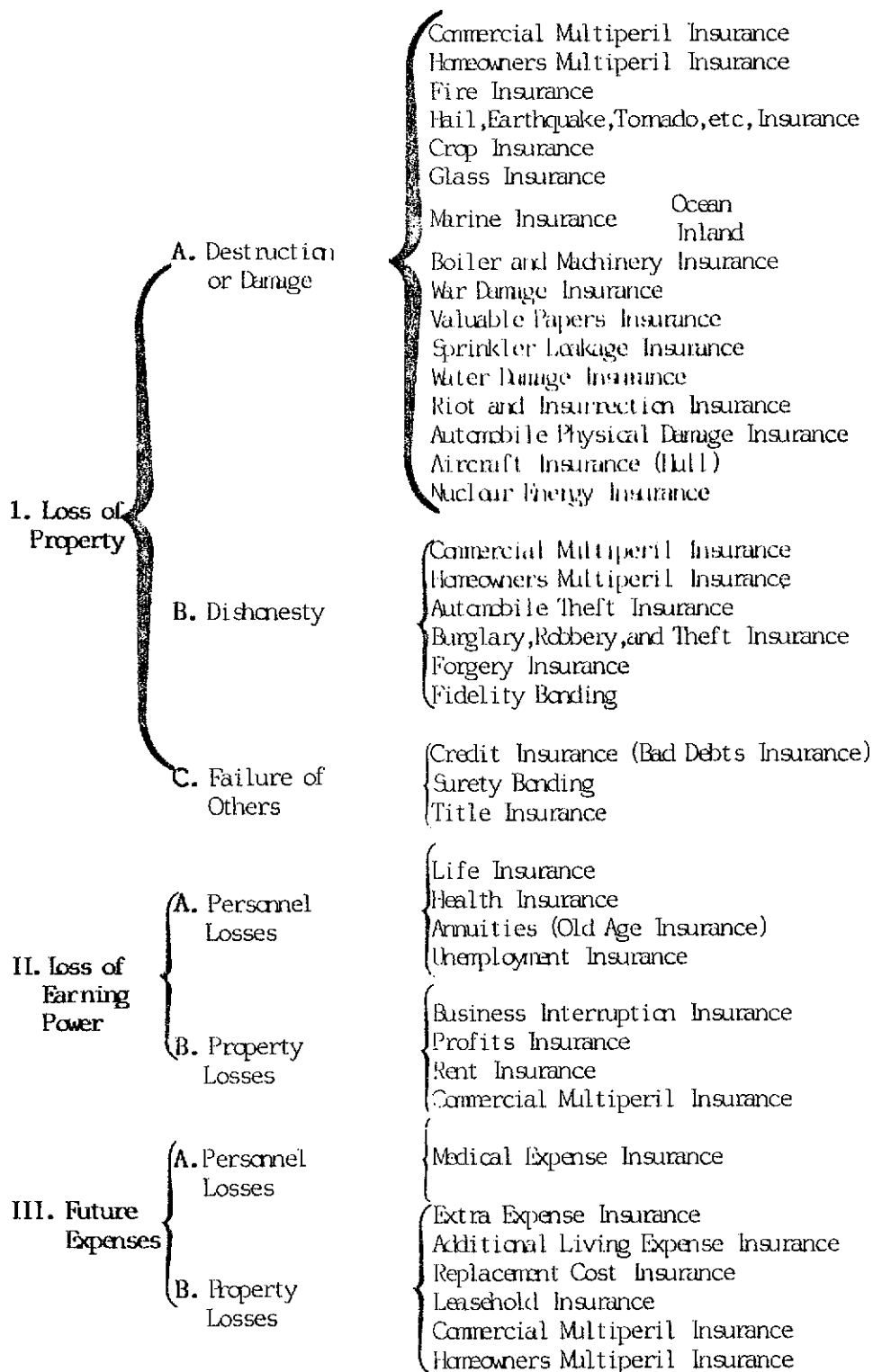
Robert Riegel classifies the kind of losses protected by the different types of insurance covers (Exhibit 1). His classification of losses is as follows: (8)

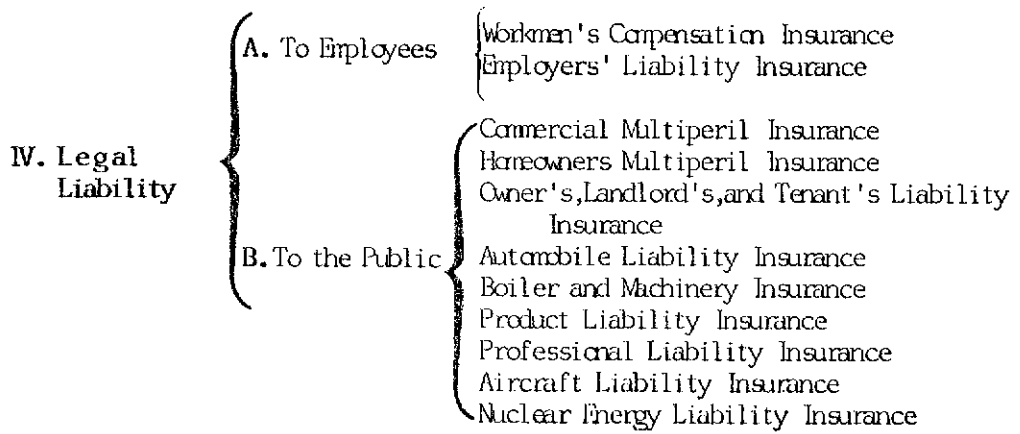
---

(8) Robert Riegel, Jerome S. Miller, C. Arther Williams, JE. Insurance Principles and Practices, (Englewood Cliffs: Printice Hall Inc., 1976). P.28

## EXHIBIT 1

## Classification of Risks





Source: Robert Riegel, Jerom S. Miller, C. Arther Williams, JE.

Insurance Principles and Practices

## 1 - Loss of Property

Every individual, firm or corporation has its own properties and possessions. These possessions are exposed to dangers of destruction and damage. Such dangers are fire, earthquakes, tornadoes, loss at sea, explosion, water damage, etc. These risks are covered by various forms of insurance which have been devised to reimburse those who suffer from the risks.

Another unfortunate happening may occur because of dishonesty and unfaithfulness that may endanger the properties. For example, property may be stolen or a bank account may be forged. These happening necessitate the existence of another group of insurance policies protecting the insured against loss of property. The improper act or performance may also endanger the property. For example, the failure to repay debts or the default of a contractor to fulfill his contract.

## 2 - Loss of Earning Power

The future earnings may be in danger due to some personal reasons or due to loss of property. Personal reasons represent unfortunate happening which individuals may face like death, illness, accident, old age or loss of employment. Loss of property includes the property that will be acquired in the future and not the one that is currently owned. Such properties are profit, interest, rent, etc. It should be noted that the losses

of earning power may also be a result of the loss of property. For instance, the loss of profit due to a fire breakout, or loss of rent due to the destruction of a building by a storm.

### 3 - Future Expenses

This type of risk results from common perils which most individuals face during their lives. The probability of entering a hospital and incurring expenses, the destruction of one's house and renting another, all these represent some future unexpected expenses that insurance can cover.

### 4 - Legal Liability

This type of risk represents an important type because of its burden on individuals as well as on institutions when it happens. Consequently, individuals always seek to be covered against such risks.

The idea of liability insurance is based on the properties which have exposed to any kind of risk and thereafter any loss. Such liability arises from risks like selling an unsafe drug which may cause a lot of death cases or disability for those who use it. Consequently, the firm producing the drug will be obliged to compensate those who suffer. Other examples for such risks are aircraft accidents, nuclear hazards, etc.

Exhibit 1 shows different types of losses and their proper

insurance coverages. However, it should be noted that it is possible that the same form of insurance may appear as a coverage to several loss categories. Thus, what is known as Automobile Insurance is in fact a protection against legal liability, loss of property, future expenses, and some loss of earning power.

Many of the aforementioned losses may face the same individual separately or at the same time. For example, a factory owner may require to purchase fire, loss of rent, theft, money and liability insurance policies along with goods in-transit, engineering fidelity, credit and loss of profit insurance. For this, a combination of various forms of insurance may be found in one insurance policy. The insurance policy, sometimes known as "traders combined" or "shopkeepers combined" is very suitable for a large number of business insured for it will be less costly, have less chance of overlooking one form of cover, have one premium and one day renewal and it is easier to be marketed as one product. (9)

---

(9) Gordan C.A.Dickson, M.Litt, John T.Steel, Introduction to Insurance study course 010, the CII Tutition Service (Cambridge: Burlington Press, 1988). P.6 .

Social and Economic Aspects  
of Insurance

It is important to evaluate and appraise the value of insurance as a social and economical institution. Consequently, an examination of the services and benefits rendered by insurance is necessary.

Insurance is a social device by which a security is obtained. (10) It is well known that the world is in a continuous exposure to catastrophes, such as floods, earthquakes, hurricanes, etc. These catastrophes may endanger the whole society to losses that can not be offsetted. For this, insurance has been sought to reduce or even abolish the effect of such losses by distributing them among the society.

Another social service provided by insurance is securing the future of the society by encouraging a provision for the future. This is accomplished by establishing special programs such as old age, disability, and health insurance programs. In such insurance programs, individuals are asked to contribute to these programs by a premium in order to be compensated in

---

(10) Marwan Iskandar, Social Security For Lebanon, an Economical Study, (Beirut: Dar AL-Talla'h, 1985), P.25 .



case of an unfortunate happening or at a certain age when the individual is unable to support himself and becomes a burden to his society. The effect of the social benefits provided by insurance cannot be measured by only evaluating the compensation of individuals. The value of insurance goes beyond this. For example, the issuance of an insurance policy for a factory to cover the risk of fire, will certainly mean that the factory owner will have the adequate capital to reinstate his factory in case of fire, and therefore, recreating jobs for those workers who might otherwise be unemployed. Moreover, industries are dependent on each other either for raw material or other factors of production. So any distress affecting any of these industries will have its negative implications on the others.

Insurance can enhance and participate in the development of the economy by encouraging investments in businesses which are unattractive to individuals to invest in, due to the large risks involved. For instance, the opportunity to invest in an export business may seem very promising and profitable. However, hazards incidental to ocean transportation and the dangers of fire and dishonesty may hinder the undertaking of the investment unless insurance is introduced as a mean of protection. Efficiency may also be increased as a result of eliminating or reducing risk. Here the management of the firm may devote more time to aspects that may be considered unfeasible without the introduction of insurance.

Insurance has another advantage to businesses by increasing

their ability to borrow. In case of mortgage, it is most important to be insured in order to get the mortgage, otherwise the mortgager will refrain from lending the money because of the risk involved in the mortgage itself. Even sellers do not accept to sell on credit unless the buyer insures the goods. By doing so they can guarantee the safety of their goods in case of default.

Insurance can increase competition by enabling small companies to compete with large corporations that are will diversified and distributed to minimize the effect of risk. Those large corporations can absorb the losses that can crush small companies.

From all the foregoing, which is only a fraction of how insurance contributes to the society and economy, one can see how insurance can be so essential nowadays where the world is full of uncertainty and risk.

## CHAPTER III

## DEVELOPMENT OF THE INSURANCE MARKET IN LEBANON

It is necessary to understand what constitutes the Lebanese economy in order to be able to judge and appraise any of its sectors. For this purpose, the following prologue concerning the Lebanese economical structure is introduced. Then, the Legislation of the Lebanese insurance industry is reviewed together with a thorough discussion of the status of the insurance industry in Lebanon

Structure of the Lebanese Economy

Lebanon has obtained its political independence in 1943 (end of the French Mandate). In 1950, it has obtained its economic autonomy (termination of the customs union with Syria).

The Lebanese economy is said to have an uncommon structure.<sup>(11)</sup> On the one hand, it differs from the majority of the Arab Economies, which are predominantly agricultural in character i.e. agriculture is the major contributor to their national product. In Lebanon, agriculture occupies the third place among the individual sectors.<sup>(12)</sup> On the other hand, it differs

---

(11) United Nations Economic and Social Office in Beirut, Studies on Selected Development Problems in Various Countries in the Middle East, 1970

(New York: United Nation Publications, 1970). P.2 .

(12) Yusif A. Sayigh, The Economies of the Arab World-Development since 1945 (London: Biddles Ltd., 1978), P.281 .

from those economies which are mainly oil-producing and exporting, as there is no petroleum extraction in Lebanon. In general, the highest single contribution to national product in Lebanon is made by a non-commodity sector, which is trade.(13)

Another characteristic of the Lebanese economy is the country's adherence to a system of private enterprise exceeding its counterpart anywhere else in the Arab World in Liberism.(14)

Lebanon is relatively poor and not well endowed with natural resources for there are no oil, gas, phosphates, etc. However, Lebanon is endowed with other than mineral resources. For example, Lebanon's position in the centre of the Near and Middle East gives it a strategic trading advantage for carrying on trades and services for other surrounding countries. Another endowment is the wonderful climate, lovely scenery, and geographic location of Lebanon which makes it a perfect place for tourism.

The course of Development of the Lebanese economy, till 1975, was showing a considerable rate of growth. For example, the gross domestic product had increased from LL 3,200.0 million in 1964 to LL 6,365.0 million in 1972; an increase of about 98.9 percent.(15)

---

(13) Ibid., P.281 .

(14) Ibid., P.281 .

(15) Yusif A. Sayigh, The Economy of the Arab World-Development since 1945, (London: Biddles Ltd., 1978), P.285 .

This shows the tremendous increase in the gross domestic product achieved during that period, where the average annual rate of the gross national product were in the same direction as the gross domestic product. It had increased from LL 3,309.5 million in 1964 to LL 6,595.0 million in 1972; an increase of 99.3 percent. (16) The national income had also witnessed a tremendous increase during that period where it had increased from LL 3,023 million in 1965 to LL 6,365 million in 1972. All the sectors of the Lebanese economy had contributed to this growth. For example, the agriculture, livestock and fisheries sectors showed an increase from LL 409 million in 1965 to LL 631 million in 1972; an increase of 54 percent, and the financial and insurance sectors had shown an increase from LL 409 million in 1965 to LL 631 million in 1972; an increase of 88 percent. (17)

In general, the Lebanese national income is comprised of a variety of sources which can be summarized as follows:

- 1 - The position of Lebanon at the center of the Middle East made it the link of transit trade between the West and the East. The importance of this position has increased in 1948 after the Palestine War which left the Mediterranean ports of Haifa and Yaffa in

---

(16) Ibid., P.285 .

(17) Mohamad Mady, The Reflection of the Civil War on the Tourisitic Sector, (Beirut: Dar Al Nahar, 1981), P.15 (In Arabic).

Israeli hands. In 1973 the imports were LL 3,786,8 million, exports were LL 1,599.5 million, re-exports LL 265.1 million and the transit trade was LL 1,345.3 million. (18) Lebanon also serves as a passage for two major pipelines carrying crude oil from Iraq and Saudi Arabia. These two advantages which came about due to Lebanon's position represented an important source of foreign currency for the country.

- 2 - Lebanon has unique banking system which can be compared with the Swiss banking system, or even better, where a security of accounts is obtained and speed in the procedures is accomplished. This resulted in a flow of capital by wealthy non-Lebanese seeking the security of their accounts. Another reason for the flow of capital is the open opportunities for productive investments in Lebanon due to the limitation of restriction on capital movements.
- 3 - For a long time Lebanon has been known for the service sector which provides services not only to Lebanon but for the whole area of the Middle East.

---

(18) Yusif A. Sayigh, The Economies of the Arab World-Development since 1945. (London: Biddle Ltd.1978), P.305 .

The educational services, secondary and university, are considered to be one of the best in the area. The first university in Lebanon was established in 1866, the second in 1875 and by 1970 there were four fully fledged universities and as many liberal arts colleges operating in and around Beirut. In 1980, there were five universities and seven colleges. For this, students from all the Arab countries and other parts of the world who sought a high quality of education came to Lebanon for educational purpose.

The health services in Lebanon were also well provided. The medical facilities available, including medical personnel and equipment, were definitely unsurpassed in the Arab World during the late 1960s and early 1970s. For this, people from the neighboring Arab countries used to visit Lebanon to benefit from the medical services.

4 - Another source of income is the industrial sector which includes industries such as textiles, pharmaceuticals, cement, refining of petroleum products, canning and preserving fruit and vegetable, soap manufacturing, plastics, tanning, sugar refining, paper, clothing, etc. The industrial products in Lebanon have been well known for their quality especially in the Arab countries where the major export markets for the Lebanese products are.

5 - Lebanon is well-endowed with two agricultural resources, arable land and water. (19) The arable land is estimated at 240,000 ha, out of a total land area of 1.04m ha.

Exports of agricultural products have dominated Lebanese exports. In 1966, such exports amounted to about 50 percent of total merchandise exports.

Lebanon exports more than seven million cases of citrus fruits, 8 million crates of apples and an average of 9 million crates of crop annually.

Lebanon is also famous in agriculturing and exporting vegetables, such as tomatoes, potatoes, etc.(20)

6 - Lebanon has been known as a touristic place for its summer and winter resorts. For this, people from all parts of the world visit Lebanon. Consequently, income from this sector is considered important where it formed about 19.4 percent in 1974 of the gross domestic product.

---

(19) Yusif A. Sayigh, The Economies of the Arab World-Development since 1945, (London: Biddles Ltd.,1978), P. 293.

(20) Basim A.Faris, Insurance and Reinsurance in the Arab World (London: Kluwer Publishing, 1983), P.13 .



The year 1975 was a major downturn in the history of Lebanon and the Lebanese, where the disastrous civil war had broken out. As a result, the economy of Lebanon has been affected badly and most of its sectors were paralyzed. For example the damage in the industrial sector as indicated by the Industrial Development Centre for Arab States (IDCAS), ranged from LL 592 million to LL 611 million in 1975-76. (21)

In 1977 the operating production capacity was estimated to be about 65 percent of the 1974 level. And in 1978 this figure had dropped to 60 percent due to the renewal fighting. (22) In addition, the Agricultural sector had also suffered from the war. The damage in 1975-76 was estimated to be about LL 500 million. (23)

Exports of industrial goods of Lebanese origin also declined. For example, in 1985 the quantity exported declined to 2,753,000 LL from 4,346,000 LL in 1981 (Table 1). The decrease was due to the destruction of the elements of production where many factories became a target for bombardments and a part of Beirut turned to a battlefield. All this and many other factors have contributed to the destruction of the Lebanese economy.

---

(21) Al-Bayan Magazine, Issue No. 93, August 1979, P.25 .

(22) Al-Bayan Magazine, Issue No. 113, April 1981, P.43 .

(23) Al-Bayan Magazine, Issue No. 113, April 1981, P.121 .

TABLE I

## EXPORT OF INDUSTRIAL GOODS OF LEBANESE ORIGIN 1970-80

<u>Year</u>	<u>Quantity (tons)</u>	<u>Value-Cost and Fright (LL 1000)</u>
1970	266.165	208.308
1971	695.242	261.773
1972	506.699	245.449
1973	414.727	446.342
1974	1,149.540	836.492
1975	978.131	623.893
1976	N.A.	N.A.
1977	354.330	836.152
1978	345.681	772.378
1979	1,489.398	1,270.842
1980	N.A.	1,820.000
1981	N.A.	4,346.000
1983	N.A.	1,905.000
1985	N.A.	2,753.000
1986	N.A.	4,705.000

Source: Basim A.Faris, Insurance and Reinsurance in the Arab World. P.80 (1970-1980)  
Chamber of Commerce, Pamphlets. (1981-1986)

### Insurance Legislation in Lebanon

Before 1955 there was no legislation to organize the insurance activities in Lebanon. However, in the days of the French mandate the insurance receipts were under the regulations of the financial stamps, where stamps used to be attached on every insurance receipt in order to be legal.(24) After the entry of the general insurance into Lebanon in 1926 the French mandatory promulgate Decree No.96 required insurance offices to be under some government control. These insurance offices were to be registered with the competent Lebanese authority and had to submit a guarantee, which was LL 25,000 for life insurance and LL 15,000 for accident, fire and marine, either from a bank or in the form of a mortgage on real estate or any other financial form. With this Decree the insurance practices in Lebanon became governed by general company laws.

In may 1932, a new legislation was issued concerning the contract law. This new legislation forced the insurance companies, local and foreign, in Syria and Lebanon to organize their insurance contracts. According to this law any contract that is not prepared or written in conformity with this law was considered void. This had led the American and Canadian

---

(24) Basim A.Faris, Insurance and Reinsurance in the Arab World (London: Kluwer Publishing, 1983), P.75 .

insurance companies to withdraw from the market because they refused to be confined to the law.

On January 26, 1955, the first law for the control of insurance companies was issued. Later on, an amended law was enacted dated February 26, 1956. Under this law an Insurance Advisory Committee was formed. This Committee constituted of representatives of the profession and various government departments. The chairman of the Committee was the director of the Ministry of National Economy.

On March 23, 1960, Decree No.255/1/141 was issued, which was an amendment of Decree No.9590 of March 11, 1956, and of Decree No.9988 of April 10, 1957, and was concerned with the formation of the National Advisory Committee.

The Insurance Advisory Committee had served till 1968 where it was replaced by the Insurance Advisory Council. The Council was set up under Decree No.9812 of May 4, 1968. This Decree was very comprehensive and provided for the control of the companies. Under the Decree, technical reserves were to be set up and a certain percentage of them should be invested in Lebanon (40 percent of fire and general accident classes of business, 25 percent of Marine). The law has also required the insurance companies to increase the minimum guarantee deposit to reach LL 200,000 for life and LL 100,000 for fire, Marine and Accident - a total of LL 500,000.

Decree No.9812 also implied that insurance clients within Lebanon are obliged to deal with companies that are registered in Lebanon. The Decree excluded marine insurance and gave the client the freedom to choose the insurance company whether it is registered in Lebanon or abroad. It also provided for the obligatory third party motor insurance.

Unfortunately, neither of the two provisions mentioned above has been enforced for even completely implemented as no more than 40 percent - 50 percent of all vehicles on the road were covered by insurance of any sort.(25) It is over 20 years now since the Decree was promulgated and the bulk of its provisions (except those relating to guarantee and reserve deposits) has not been enforced.(26) Another criticism to the Decree is that it is lenient in the matter of reciprocal treatment of foreign offices. One can find in Lebanon more than one insurance company that belongs to countries where insurance is nationalized with no Lebanese companies operating on those markets.

#### Development of the Market

After the end of the Lebanese Civil War which broke out in 1860, the importance of Lebanon has increased due to its strategic position on the Mediterranean. Consequently, the trading business has entered a new phase of prosperity and a

---

(25) Ibid., P.76 .

(26) Ibid., P.76 .

number of foreign shipping companies have opened agencies to represent them in Lebanon. One of the pioneers was Henry Heild and Company whose headquarter was in Liverpool, England.

The opening of the shipping agencies necessitated the existence of insurance companies to provide the needed services to facilitate the work of those agencies and ensure their continuity. Heild and Company were the first to represent an insurance company in Lebanon, the Royal Insurance Co. After that, the number of insurance companies working in Lebanon has increased to reach 14 foreign companies in 1914 (Table II).

TABLE II  
NATIONALITIES AND NUMBER OF INSURANCE  
COMPANIES WORKING IN LEBANON IN 1914

<u>Nationality</u>	<u>Number</u>
British	5
French	2
American	2
Canadian	1
Russian	1
German	1
Austrian	1
Italian	<u>1</u>

T O T A L:    14  
=====

Source: Emile Jiryès Nassar, A Summary of Insurance History in Lebanon and the World. P.20 .

After the end of the First World War, and during the French mandate, the insurance industry was enjoying a period of prosperity and the number of foreign insurance companies increased to nearly nineteen companies including the British "Guardian", "Liverpool and London and Globe", etc. The French "La Nationale", "Le Phoenix" and two Italian companies "Assicurazioni Generali" and "Riunione Adriatica di Sicurtà". However, and despite this prosperity, the insurance industry had faced three major problems during this period.

The first was when the Golden Sterling and Turkish Golden Lira were replaced with paper bank notes. This led to a deterioration in the value of the insurance contracts which were written in the first place in Golden currency. The second was due to the depression which the American and European trade faced and led to a deterioration in the value of the currency, especially the French Franc, and therefore, in the value of the insurance contracts. The third was when Germany occupied central Europe and nationalized all the insurance companies in the area. Consequently, most of these insurance companies were broke, and among them was one of the most important insurance companies in Europe at that time, the Phoenix Autrichien. The bankruptcy incurred a loss of 400,000 Golden Lira to the Lebanese insured.

Between 1914 and 1925 there was no government supervision over insurance and the market was entirely free. It was only at the close of the year 1926 when 19 foreign companies received

licence in accordance to Decree 96, to operate in the two territories of Lebanon and Syria which were under the French mandate.(27)

The first Lebanese insurance company to be formed was "Al Ittihad Al Watani" which was founded in 1948. The capitalization of the outset was £ 100,000, and later converted to LL 1,000,000. Following Al Ittihad Al Watani, another two Lebanese companies were formed. The "La Compagnie Libanaise d'Assurances" S.A.L., which was founded in 1951, and the "La Libano-Suisse" S.A.L., which was founded in 1959.

The pioneers of the industry were more specialized than those who came later. Out of the nineteen companies which were registered since 1926, twelve confined themselves to either marine, fire or life insurance. The companies that were registered later were considered general companies where they wrote all classes of general insurance. However, later in time, and after these companies have prospered, they undertook life assurance.

Between 1960 and 1975, the last normal year for Lebanon before the eruption of the Civil War, the insurance industry in Lebanon was going through a remarkable growth as a result of the prosperity of the Lebanese economy. This remarkable growth in the insurance industry was accompanied by an increase

---

(27). Ibid., P.75 .



in the number of Lebanese insurance companies (Table III). It can be seen that the number of national companies had increased from only 9 companies in 1962 to 21 companies in 1975 (the percent of national companies in the market had increased from only 9 percent to 25 percent during this period). It is interesting to note that this increase in the number of national companies was also accompanied by a decrease in the number of foreign insurance companies working in Lebanon. The decrease was also associated with a decrease in the premium income volume received by foreign insurance companies from the market. Table IV illustrates the market share for foreign and national companies, where it can be seen that the share of foreign companies had declined from 79.1 percent in 1962 to 55 percent in 1975. The premium received by insurance companies is illustrated in Table V which shows the premium collected from the different classes of insurance. The premium had increased during that period as a result of the prosperity of the insurance sector.

### Marine Cargo Insurance

Marine cargo insurance was the fastest class of business to grow in the Lebanese Market. That was attributed to the growth in the foreign trade. The period between 1951-1966 experienced a tremendous growth in the Lebanese imports which increased from about LL 300 million to LL 1641 million, an increase of almost five and a half times within 15 years. On the other hand; exports for the same period quadrupled.

TABLE III  
OPERATING COMPANIES IN LEBANON

Year	No. of National Companies	No. of Foreign Companies	Total	% of the National Company in the Market
1926	-	19	19	-
1962	9	88	97	9%
1966	10	94	104	10%
1969	12	75	87	14%
1971	11	65	76	14%
1975	21	60	81	25%
1978	18	45	63	28%
1980	33	28	61	54%
1981	32	31	63	50%
1982	37	24	63	59%
1983	44	26	70	63%
1984	41	23	64	64%
1986	61	20	81	75%

Source: Basim A. Faris, Insurance and Reinsurance in the Arab World, P.73 . (1975 - 1981)

Arab Reinsurance Company Pamphlets (1982-1986).

TABLE IV  
 NATIONAL AND FOREIGN COMPANIES SHARE IN  
 THE MARKET BETWEEN 1926-1984

Year	% of Premium Received by National Companies	% of Premium Received by Foreign Companies
1926	-	100.0
1962	20.9	79.1
1966	43.5	56.5
1969	39.2	60.8
1971	36.8	63.2
1975	45.0	55.0
1978	57.3	42.7
1980	72.4	27.6
1981	67.5	32.5
1982	67.35	32.65
1983	67.96	32.04
1984	70.80	29.2

Source: Basim A. Faris, Insurance and Reinsurance in the Arab World, P.78 (1926 - 1981)

Arab Reinsurance Company, Pamphlets (1982-1984).

TABLE V  
 PREMIUM COLLECTED BY INSURANCE COMPANIES, 1962-75  
 (L.L.)

<u>Year</u>	<u>Fire</u>	<u>Accident</u>	<u>Marine</u>	<u>Life</u>	<u>Total</u>
1962	2,370,452	9,959,092	3,055,180	6,500,000	21,884,724
1966	3,280,170	14,441,955	5,555,160	8,500,000	31,777,285
1969	3,964,048	16,938,285	9,950,616	12,000,000	41,852,949
1972	5,250,000	21,200,000	15,300,000	16,000,000	57,750,000
1975	6,825,000	25,500,000	19,500,000	19,500,000	71,325,000

Source: Basim A. Faris, Insurance and Reinsurance in the Arab World, P.79 .

Table I illustrates the growth in the exports of the industrial goods produced in Lebanon. These figures serve as a good indicator of the prosperity of the Lebanese economy in that period. It shows an increase of about five times in 1974 than it was in 1970. However, the exports declined from 1,149,540 tons in 1974 to 978,131 tons in 1975. This decline is due to the breakout of the Civil War in 1975 when Beirut and its port were turned to a battlefield.

Another factor affecting the growth of the marine insurance business is the role of Beirut as a linkage for the trade between the countries. Many Lebanese have served as agents for the neighbouring countries handling their imports for a commission. Therefore, the insurance policies on these trades were written in Lebanon by those companies that were registered in Lebanon.

Table V illustrates the development of the marine insurance business during the stated period especially in the middle seventies where the premium received increased from LL 9,950,616 in 1969 to LL 19,500,000 in 1975. This reflects the importance of Beirut as a capital of trade in the Middle East during that period.

One of the serious problems which faced the marine class in Lebanon during this period is the acute competition and cut-throat rates prevailing in the market. This exacerbated

the losses incurred by the insurance companies and, thereafter, the reinsurance companies that have shouldered the burden of the losses. The Lebanese association had no important role in this matter where it failed to hold the falling rates.

Another problem was introduced when the "extended risks" war cover was replaced by "all risks" cover. The first, which is better, used to list all the risks that were insurable and also the exclusions. That used to eliminate all the misunderstanding which may arise between the insurer and the insured.

### Fire Insurance

The fire insurance business in Lebanon, till 1975, was not considered developed. The overall portfolio of fire class did not form more than 10 percent of the total local insurance business written in that period. Even the growth of this class of business was slower than those of other classes, especially between the period 1955-1960 where the increase in the gross premium income was only from LL 1,325,000 to LL 1,950,000 compared with an average annual increase of 13.3 percent for all the insurance classes as a whole.

The slow development in the fire class can be attributed to more than one reason. For example, the nature of the local building and the materials which were used in constructing these building were considered by some simple people as fire-proof. For that, they did not seek fire insurance protection

as it would be a waste of money protecting against a remote possibility.

From Table V, it can be seen that the premium received in 1975 is five times greater than the 1955 premium. However, this rate of growth is considered slow compared with those of life, accident or marine insurance, where the life class had increased by twenty-six times, accident class by six times; and marine class by seven times.

The fire portfolio is composed, in its majority, of industrial corporations and large enterprises. It was estimated that no more than 7 to 8 percent of the insurable interest within the urban area are protected by some sort of fire insurance.(28) Most of the insured seek the fire insurance and buy fire policies only when they are forced to do so in order to get a loan from a financial institution that refuses to give loans on real estate or any other mortgage without writing an insurance policy.

#### Accident Insurance

In Lebanon the accident class insurance is primarily composed of motor and workman's compensation. The growth of this class was very high as the premium received had increased from LL 4,358,000 in 1955 to about LL 9,362,000 in 1960.

---

(28) Ibid., P.82 .

However, it should be noted that in motor insurance in 1960, claims amounted to LL 7,988,000 or 50 percent more than premium income.(29) The reason behind this defect is explained by the increase in the number of vehicles on the road. The position of Lebanon as a capital of trade and a place for tourism, under normal conditions, made it very crowded with vehicles bearing foreign licence.

The motor accident class is considered as a very tricky and irritating class of business for the insurers. One of the reasons for this is the rugged nature of the terrain and the steep mountains dotted with over 1000 towns and villages which demand the need for roads to link the various places and to facilitate transportation. These roads form a network fraught with curves, hairpin bends, steep climbs, and furthermore, these roads are loaded with heavy traffic.

In the early and mid seventies, Lebanon was considered to have expensive labour and high prices for spare parts. For this the repair cost was very high. It was estimated that assembling an American car such as Ford or Chevrolet, will cost higher than the local sale price of such a vehicle at its licensed agency.(30)

---

(29) Swiss Reinsurance Company, Insurance Markets of the World, (Zurich: Swiss Reinsurance Company, 1964), P.472 .

(30) Basim A.Faris, Insurance and Reinsurance of the Arab World, (London: Kluwer Publishing, 1983), P.84 .



The increase of the motor insurance premium income is attributed to the increase in the number of vehicles during that period. However, the claims have also increased. The premiums received are distributed among a large number of insurance companies thus making them insufficient to cover losses. Moreover, the market was full of competing companies, including representatives of foreign brokers who attracted a good share of the business and placed it abroad which further aggravated the situation.

The reinsurers have also worsened the situation by accepted motor-accident treaties at terms adverse to themselves, with the view that the overall portfolio of which the motor accident is a part would be a profitable one. This is not a healthy attitude because it had encouraged abuses by some members of the profession.

The remainder of this class had achieved excellent results, however, the premium received was small because the market was not much developed for this class. In this class, the only other trouble, in addition to Motor accident, was the employment liability, especially for industrial injuries. The claims paid were about LL 2,031,000 in 1960 against a total premium income of LL 1,385,000. The claims paid exceeded the aggregate premium income by 47 percent.(31)

---

(31) Swiss Reinsurance Company, Insurance Market of the World,

(Zurich: Swiss Reinsurance Company, 1964), P.472 .

## Life Insurance

Life insurance in Lebanon had grown very fast especially between 1955-1960, where premium income received had increased from LL 750,000 to LL 2,114,000; an increase of about three times within five years. During this period the share of the Lebanese companies changed from 26.2 percent in 1955 to 23.9 percent in 1960.

The function of a life assurance company is to provide life assurance services to the public involving both the protection of a wide range of interests and the incentive to save. Achieving success in this field calls for a high degree of expertise and financial dexterity and a keen awareness of variable situations and trends.

The tremendous growth in the Life Insurance in Lebanon is a result of the benefits and guarantees offered by this class along with the awareness of the people concerning life insurance.

The course of growth in the Lebanese Economy is clear from the foregoing and from the figures already presented. The insurance sector was in the same direction of the overall economy. However, this does not necessarily mean that the insurance sector was healthy and without problems. Four major observations can be made on this matter. First the permissiveness and maximum freedom in the establishment of insurance companies in such a saturated market. That resulted in a tough competition

where the premium income was not enough to justify the growing number of insurance companies.

Second, a more fundamental problem was the control over the increasing number of insurance companies by the government (Ministere de l'Economic Nationale) and the Association of Insurance Companies in Lebanon. Neither the government nor the Association have practiced any role or enforced any legislation to organize entrance to the market.

Third, a problem related to the first two problems, was the leniency of the insurance laws and legislations in Lebanon which encouraged the procurement of new insurance licences. Furthermore, there was no enforcement in the matter that concerns the provisions of the law.

Finally, the insurance sector was suffering from bad organization and from lack of cooperation amongst the insurance companies. In 1960 the Minister of Health sought the cooperation of the insurance companies in the preparation of a social insurance scheme whereby all the workers would be reimbursed for a part of the cost of medical attendance and medicament. The companies felt that the data available in such scheme to be based on was insufficient and thus were unable to assist the Minister.(32)

---

(32) Ibid., 474 .

### The Effect of the War on the Insurance Market

As mentioned earlier in the chapter, the breakout of the civil war in 1975 put an end to the progress that has been achieved. The rising political unrest and instability have seriously harmed the economy, inhibited investment, and caused long stoppages in work. Furthermore, the social unrest has in recent years become a serious reality where the socio-economic gap between the rich and the poor has become wide and increasingly menacing. The problem has been worsening due to the increase in the cost of living and the continuous devaluation of the Lebanese Pound to the degree where a kind of starvation was apparent in the horizon during the last two years. The insurance sector, as a part of the Lebanese economy, has also suffered as a result of destruction especially because it is the sector whose function is the protection of the society against losses.

The insurance companies had reimbursed those who suffered from the war and who were protected by the Strike, Riots and Civil Commotion (SRCC) coverage. Many insurance companies issued policies covering internal insurrection at a high premium. The exact figure of the amounts that have been paid is not available because it affects the relation between insurance companies and their reinsurers. After the insurrection has started, a number of establishments were damaged, some insurance companies withdrew their policies which cover war risks. Such action led to many claims and suits in the Lebanese courts.

One of the most notable effect of the existence of a state of war on the insurance sector is on the market structure. The insurance market in Lebanon was oriented towards foreign companies than towards national ones before the war. For example in 1971 there were 65 foreign companies and 11 national companies (Table IV). This figure became 20 foreign companies and 61 national ones in 1986 (the total percentage of national companies has increased from 14 percent in 1971 to 75 percent in 1986).

The main reason behind the withdrawal of foreign companies was the shakiness and instability in the economic and political situation along with the absence of government control. Another reason is the deterioration in the premium in term of U.S.Dollars.

Table VI illustrates the premium received by the insurance companies between 1979-86. The figures show a tremendous increase during this period. For example the premium collected in 1979 was about LL 122 million, this figure increased to LL 243 million in 1984. The increase is attributed to the increase in the premium collected from the different classes of insurance. In 1986, the total premium received reached LL 625 million that is an increase of five times in seven years. By comparing the last two years premiums it can be noticed that the premium received in 1986 was double that received in 1985. However, if the figures are measured in term of Dollars, as an average price of LL 18 per Dollar in 1985 and LL 50 in 1986, the result will change.

TABLE VI  
 GROWTH OF NET PREMIUM COLLECTED  
 BY INSURANCE COMPANIES ( 1979 - 1986) L.L.

Year	Fire	Transportation	Accident	Auto	T o t a l
1979	15,575,561,25	28,035,302,92	23,441,391,85	19,697,752,00	122,045,879,49
1983	30,923,260,20	32,733,657,25	78,624,195,49	50,883,672,53	215,739,785,47
1984	36,692,694,67	50,321,985,80	97,672,469,44	55,621,905,40	243,216,655,31
1985	54,778,783,39	68,464,673,37	121,889,669,69	82,006,266,25	327,139,392,70
1986	100,515,729,02	140,011,054,11	233,628,831,69	137,986,124,98	625,479,404,84

Source: Arab Reinsurance Company Pamphlets.

The premium in terms of U.S.Dollars shows a decline from 18 million dollars in 1985 to 12 million Dollars in 1986. In fact, the premium has shown a decline eventhough it has increased in terms of L.L. The devaluation of the L.L. compared to other currencies forced insurance companies to change their monetary units to Dollars. Applying this measure was necessary because of the discrepancy between the premiums received and the claims paid. This premium decline reflects the economic and political instability the country is going through and can be attributed to the following.(33)

- a) Refrain from investing in industrial, agricultural or any other new project and indulging in the purchase and selling of foreign currencies because they have higher turnover in a shorter time. This has led to some sort of paralysis in some sectors of the economy. Thus, the demand on the insurance policies has declined.
- b) The present situation has led the importers to decrease their imports of foreign goods due to the deterioration in the local currency. Consequently, the demand on the transportation insurance policies has also declined.

---

(33) Al-Bayan, Issue No. 184, March 1987, P.58 .

c) The deterioration in the local currency has a negative effect on the purchasing power of the population. Thus, the ability of the insured to buy insurance policies has declined. Furthermore, the high prices that the insurance companies are asking for in some types of insurance caused people to refrain from buying such insurance policies. For example, insurance companies ask for about 10 percent of the total cost of a car as an insurance premium. And if the car is stolen the company does not pay more than 50 percent of the total cost of the car.

As for the premium share received by national companies during this period, it has increased as (Table VI) indicates; The premium received in 1979 was LL 122 million and LL 624 million in 1986, this is compared to LL 57 million in 1972 (Table V). The percentage of the national companies share of the premium received during this period has also increased to about 70.8 percent, compared with 36.8 percent in 1971.

The premium received by the insurance companies operating in Lebanon between 1985-1986 shows that the first ten leading companies enjoy the majority of the share which is equal to about 40 percent of the total premium received. Furthermore, the growth in 1986 premium has increased for the ten leading companies far beyond the increase of the small companies. It is also important to note that the premium received by the first company in 1986, in terms of U.S.Dollars had declined in 1985.



This applies to the rest of the companies.\*

The authorities that regulate the insurance market in Lebanon were also affected by the war and their authority became a questionable one. These authorities are the government, which is represented by the "Minister de l'Economie Nationale", and the Association of Insurance Companies in Lebanon. There is no serious control over the insurance market to regulate and organize the operations and the entrance to the market. Consequently this has led to an unorganized market.

---

\* Refer to Appendix 4

## CHAPTER IV

### RESEARCH PRESENTATION AND ANALYSIS OF RESULTS

The extra-ordinary conditions which exist in Lebanon made it difficult to get the requested information. For this, it was found necessary to conduct a research survey to help in understanding and clarifying some important aspects concerning the insurance industry in Lebanon. The survey necessitated studying the attitude of some prominent personalities in the insurance profession towards the problems facing the insurance industry and their expectations for insurance prospects in case the present situation continues. The problems facing Lebanon, whether internal or external, are not easy to be solved. For this, it is necessary to find means of coping with these problems until they come to an end.

#### Research Setting and Methodology

The research was done by conducting a survey. The technique that had been used was distributing a questionnaire to insurance personalities who hold a managerial level (general managers and division managers) and who have been in the profession for more than ten years to enable them to answer the questions that are related to the pre 1975 period. This was necessary because many existing problems are ramifications of former ones,

The chosen sample comprises 20 percent of the insurance companies operating in Lebanon (17 companies out of 81). This number is considered a good representative of the insurance companies. Furthermore, the proportion of the national and foreign insurance companies in the sample is the same as the one in the Lebanese insurance market.

The questionnaire contains fourteen comprehensive open questions which have been constructed to cover the areas of interest. The reason for choosing open questions is to encourage free expression and to avoid the biases of listing possible answers that may not be a true reflection of the thoughts of the respondent. Furthermore, each respondent was given one week to answer the questions which is a sufficient period to supply the information required and to keep the replies as accurate and feasible as possible.

The position and the order of the questions in the questionnaire, as shown in Appendix 2, was meant to arouse and keep the interest of the respondent. The influence of one question on another was also considered. The questions were designed to cover five major areas to obtain the information needed in the light of the purpose of the research. They were constructed to reveal a sufficient and validated data to allow for adequate interpretation of the replies. Questions 1,2 and 3 comprise the first group of questions which are related to the problems facing the insurance industry in Lebanon during three periods: before 1975, after 1975 and in 1988. The reason

behind this division is to facilitate the classification and interpretation of the problems facing the industry. Furthermore, this division of the periods helps in distinguishing between those problems which existed before the breakout of the war in 1975 and those which exist due to the war. It was also necessary to examine which of these problems is still in existence nowadays.

Question 12 is also related to this group of questions. However, it deals with an external problem since it reflects the effect of the recession prevailing in the Arab World on the Lebanese insurance market. The second group of questions is 4 and 5 which are related to the structure of the Lebanese insurance market and the number of insurers operating in it. These two questions were constructed in order to examine the reasons behind the turnover of the companies which were behind the changing structure of the Lebanese insurance market.

The third group of questions (6,7 and 8) are concerned with the existence of the powers that control, monitor, and organize the insurance market in Lebanon. These questions are meant to clarify the efficiency and effectiveness of the insurance legislation in Lebanon and the role of the government and the Association in the market. The fourth group of questions is 9 and 10 which are related to the relations within the insurance market in Lebanon. It was important to find out the attitude of the respondents on this matter since they are directly involved in it.

In the insurance market the interaction among local insurers and their international reinsurers is inveterate. Group five, which is the last group of questions, comprises questions 11,13 and 14 which are addressed to disclose the attitude of the respondents towards the solutions of the existing problems. This group of questions were constructed to examine the attitude of the respondents towards the establishment of a national re-insurance company and the merger as a solution to the problems.

### Presentation and Analysis of Results

The distribution of the questionnaire among the respondents was accompanied by an interview to explain the objective of the questionnaire and to increase the accuracy and completeness of responses by explanations and by checking over the questionnaire form. It was also an opportunity to discuss some matters of importance concerning insurance. Documentary records and other sources of data were also collected from the insurance companies to help in illustrating and understanding the information extracted from the questionnaire. These data will be used along with the analysis of the questionnaire.

### Problems Facing the Industry

The first group of questions is related to the problems facing the insurance industry in Lebanon. The questions classify the problems into three periods, before 1975, after 1975 and in 1988.

The pre 1975 period was the time when the Lebanese economy was experiencing prosperity and glory and the insurance sector was flourishing. This does not mean that the market was not facing any problems. On the contrary, replies on the first question indicate that the insurance market was facing some serious problems at that time. Some of the problems are:

- a) The premium income received by insurance companies does not justify the number of insurance companies in the market which increased competition amongst them. This can be confirmed by comparing the increase in the number of insurance companies (Table III) with the increase in the premium received from the different insurance classes during this period. For example, there were eighty one companies operating in the Lebanese insurance market in 1975, twenty-one of which were national and sixty foreign companies. These companies were competing for a total market of LL 71,325,000 million. This figure is small compared to other markets where there exists a small number of insurance companies over which the total premium is distributed. Jordan, for example has half as many companies as Lebanon and the number is decreasing due to the merger which is taking place between companies.

- b) The respondents have also agreed that there is a lack

of professionally qualified personnel needed to justify the development taking place in the growing number of insurance companies in the Lebanese market. What worsened the situation was the migration of professionals to neighbouring Arab countries where high salaries were offered. One respondent added that there was a lack of universities and colleges that offer courses in insurance and train the workers to specialize this field to fill the shortage gap.

- c) Another problem mentioned by the respondents was the need to implement compulsory insurance and the provisions of the insurance laws as they were in the insurance legislation which regulates and organizes the insurance market in Lebanon; Decree No. 9812 of May 4, 1968. the legislation provides for the obligatory third party motor-accident insurance which has not been implemented. Even the provision for the obligatory placement of all insurance with the companies registered in Lebanon, except for marine, has not been enforced. This leniency in implementing the provisions of the insurance laws led to a disorganized market which need some amendments of the insurance laws to reconstruct the market and enforce some kind of control over insurance companies.

The other problems which were cited by some of the respondents reflect their different points of view. For example,

two of the replies indicated that the population in Lebanon, in the stated period, had less insurance awareness and they described them as being in a seller's market. The situation worsens, as indicated by one respondent, because of the attitude of judges and lawyers that insurance companies are rich and make enormous profits, and thus can afford indemnifications for the poor insured who suffer from bodily injuries. Two respondents emphasized on the image of the insurance companies in that period, where they indicated that there were very few companies that were structured properly and trying to develop products and concepts.

One of the respondents added that some insurance companies were trying to be far more strict than they should be in paying claims to those who suffer from losses. Furthermore, some foreign companies were charging lower prices than those in the local market. Consequently, importers turned to buy their goods from sources where insurance is placed abroad (C.I.F) and this had deprived the local insurers from these premiums.

Question two is concerned with the second period, i.e. after 1975. The purpose of this question is to see what is the effect of the breakout of the civil war on the insurance sector. There was a general agreement in the replies, as to the problems which existed before 1975. Furthermore, the respondents revealed that these problems were worsening due to the state of war. For example the shortage of professionally



qualified personnel had increased because of the increase in the number of emigrants who left the country in the search for better conditions.

Additional problems were mentioned by the respondents to reflect the situation during this period. For example, the problems of strikes, riots and civil commotion coverage, (SRCC). This coverage is written to protect against losses incurred by risks, such as, strikes, riots and civil commotion. Many firms and institutions have bought an (SRCC) cover before 1975, but for a high premium. However, after the start of the war in 1975, many insurance companies withdrew the policies issued in prior periods. This procedure created a gap between the insurance companies and their customers. It is worth mentioning that four respondents indicated that public awareness towards the insurance concept increased because the war, which brought destruction, made them think more thoroughly of insurance and its benefits.

One of the serious problems which was given a considerable attention by the respondents was the loss of the purchasing power of the Lebanese Pound during the last few Years. The value of the U.S.Dollar had increased from L.L. 2.4 in June 1976 to L.L. 65.8 in June 1987 and L.L. 323.8 in November 1987. This devaluation in the local currency, as stated by four respondents made the Lebanese insurance market an insignificant one to the international reinsurers due to the reduction in volume of premiums when transferred to foreign currencies.

This had also affected the purchasing power of the population who were forced to abandon many ways of living to which they were accustomed, such as writing an insurance policy. They could no longer afford such expensive luxury especially when one knows that he has to pay ten percent of the total cost of his car as insurance premium.

The foregoing, along with the inflationary premium which has increased during the last few years, tempted many to operate as issuers of medical insurance policies. This has created another problem in the market because the premium which has been collected was not equivalent to the services offered. Consequently, these companies incurred losses and faced difficulties in reimbursing those who suffer. What worsened the situation was that medical insurers have no right to operate as insurance companies for they are not qualified to do so. However, the absence of the government and any form of controlling power made such companies operate freely.

Two respondents have emphasized the lack of morality among some insurers, companies and agencies, because the war and the increasing number of insurers in a saturated market as Lebanon led to a "savage" competition which caused the insurers to reduce their prices. This reduction in the insurance prices has affected the capability of the insurance companies to reimburse their clients. The price of an insurance coverage is based on many facts some of which can not be changed or reduced for the sake of competition. For example,

the probability of incurring the loss; the larger the probability, the higher the price charged for covering the risk. Consequently, the reduction in insurance prices where it is no more commensurated with the insurable risk had affected the capability of some insurers to reimburse their clients.

In 1988, as the respondents replied on question 3, the foregoing problems are still in existence. However, they emphasized the hazards which these problems are forming to the insurance market. For example, the continuous decline in the value of the Lebanese Pound wiped off the value of premiums received by the insurance companies. However, this is not seen as a problem by others, since the premium is not measured in foreign currencies, as it is collected in Lebanese Pounds and the claims are paid in the same currency. Consequently there is no need to relate the devaluation in the Lebanese Pound to the premium, especially when the figures show a tremendous increase in the premium collected during the last few years.

The effect of the recession prevailing in the Arab countries on the Lebanese insurance market was addressed to the respondents in question 12. The respondents agreed that the recession and the negative results which have been achieved in Saudi Arabia and the Gulf in 1983 - 1984, along with the breakout of the Gulf war, have affected the Lebanese insurance market. The reason they gave to support their answers was that the Lebanese insurance companies operating in the Arab

Gulf countries such as Jordan, the United Arab Emirates, Oman and Kuwait, governments requested all insurance companies operating in their markets to increase their capital. Since the capital of the Lebanese insurance companies was written in Lebanese Pounds which lost its value, it was difficult for Lebanese companies operating in those markets to meet the new capital requirement. This has forced them to close or merge with other companies.

### Structure of the Market

The second group of questions, question 4 and 5 concerns the structure of the Lebanese insurance market and the companies operating in it. There was an unanimous agreement in the replies of the respondents on question four that the large number of insurance companies operating in the market has a negative effect on the insurance industry in general. Even though, in theory, a large number of insurance companies can rationalize the working procedures and make competition more perfect. However, and in practice, the scene is quite different and the respondents gave the following reasons:

- a) The large number of insurers and the tough competition led to the reduction in the insurance prices and this, as mentioned earlier, affected the capabilities of the insurance companies to reimburse the insured. Consequently, reinsurers curtailed their incoming portfolios from Lebanese companies.

- b) A respondent has indicated that such a large number is an obstacle to "serious companies to develop properly and improve their structure and management". The reason is that when the market is full of small companies, it tends to decrease the potential of that market as these small companies are usually in shortage of resources. They tend not to have adequate financial assets, technical skills, or market position that can be achieved by large companies.
- c) Most of the respondents agreed that the increase in the number of insurance companies was not accompanied by a similar increase in the premium received even though the figures show a tremendous increase in premiums in terms of Lebanese Pound. Respondents disclosed that these figures reflect the inflation in premium which is a result of the increase in the price of insurance policies due to the devaluation of the local currency. Consequently, services provided by these companies to their clients were highly inflicted. On the other hand, it is worth mentioning that one respondent indicated that this large number of insurance companies may create more awareness, increase sales and encourage employment.

For long, the insurance market in Lebanon was dominated by foreign companies which received the largest share of the premium (Table IV). In 1962 the percentage share of the total

premium received by foreign companies was 79.1 percent. Consequently in the late seventies and early eighties, after the withdrawal of foreign companies, the percentage share of the total premium received declined to 42.7 percent in 1978 and to 29.2 percent in 1984. Question 5 was addressed to reveal the reasons behind this withdrawal. The answers disclosed the following:

- a) An unanimous agreement centered on the security factor as a main reason for withdrawal from the market. It is well known that the war has seriously damaged the infrastructure especially the service facilities which led to improper communication due to the unreliability of the mailing services and difficulty in obtaining international telephone calls. Moreover, the absence of frequent business visits due to the security situation created a gap between these foreign companies and the market of origin.
- b) The continuous deterioration of the Lebanese Pound resulted in an inflationary premium. The premium measured in foreign currencies was decreasing as the results of operations of these foreign companies on their balance sheets and income statements are shown in foreign currencies. Consequently, this made Lebanon an economically unfeasible market.
- c) The fierce competition in the Lebanese insurance

market resulted in the reduction of the prices of insurance. Consequently, the profit margin has also declined to a level where it was no longer satisfactory to these foreign insurance companies. Furthermore, the war has resulted in large "unexpected" claims due to its continuity which increased the probability of loss.

All the foregoing has contributed to the withdrawal of the foreign companies. In addition, other respondents added that the lack of government control over the insurance sector led to an inappropriate market for those companies to operate efficiently as they can in normal conditions.

#### Control and Legislation in the Industry

The next group of questions, 6,7 and 8, are related to the powers that regulate the insurance market and monitor the operations of insurance companies. Question 6 is about the suitability of the legislations that exist in the Lebanese insurance market. There was a complete agreement among the respondents to the need of modifying and amending these legislations to be in conformity with the changing conditions of the market. One of the respondents added that the legislations are inadequate, insufficient and obsolete. From Chapter III it was clear that more than one compulsory insurance aspect, such as motor third party liability was not implemented.

The modification of the legislations, as indicated by one respondent, can be accomplished by setting up strict control over the establishment of new companies and on the operation of the existing companies. Three other respondents suggested the implementation of compulsory insurance. On the other hand, one respondent replied that the legislation has never been properly implemented in the insurance market. For example, the control of the "Minister de l'Economie National" on the accounts and reserves of the insurance companies operating in Lebanon has never been seriously implemented. However, he added, "if the legislations were to be respected and seriously implemented, then they could be considered acceptable".

The answers to question 7 were also in the same sense similar to that of question 6. The respondents revealed that the government can play a more important role with regard to the problems facing the insurance industry mentioned above. This can be achieved by undertaking a complete reorganization of the insurance legislations in the light of the daily experiences witnessed by the insurance procedures and the on-going search for up-dated legislations. However, one respondent doubted that the government would do anything because he thought that the government never regarded the insurance field highly in the past, and he does not think that such an attitude will change in the future as long as the insurance companies represented by their Association do not have a definite strategy to be suggested and lobbied to the government.



The civil war which commenced in 1975 weakened the central government and this weakness was one of the main reasons for the war to go on. This tragic situation wiped out whole industrial areas, and a large number of business institutions involved in trade, finance, and construction were destroyed and abandoned. The result was a large-scale migration of manpower, capital and institutions. A requisite is to encourage firms to reestablish themselves and to reconstruct their premises and equipment and to attract new investments to Lebanon. To do so, a state of security and stability must exist. If this is not foreseen in the near future, a solution is to be found to revive the economy.

One respondent indicated a solution that was undertaken by the Lebanese government in 1977. The government then instituted through Decree Law No.3 of 5 January 1977 a public agency that insures new investments in tangible fixed assets. The risks covered by this agency were strictly political and were limited to direct damages caused by the war, civil insurrection and all acts of violence which were public in nature. This agency was named the National Investment Guarantee Corporation (NIGC). The reason for such an insurance to be undertaken by the state and not by private companies is that war and other political risks, which may endanger private business, stem from public authority decision. Consequently, these risks do not bear the element of randomness, and thus cannot be subject to the law of large numbers. As a result, the insurance of political risks cannot be conducted by profit

seeking business activities.

The scope of cover provided by the NIGC includes firms in industrial, trade, and real estate activities. It also includes institutions offering cultural, health, and philanthropic services, in addition to diplomatic and international delegation in the country. There were no rules and constraints concerning the nationality of the insured. The NIGC is to cover 95 percent of the value insured, which is a high ratio compared with coverage ratios in other investment insurance systems in Western countries. The insured is to pay a premium of no more than 2 percent of the value insured, with the provision that the Council of Ministers set a specific rate for each year in consultation with the insurance organization implementing the law.

The Decree Law instituting the NIGC did not assign any capital fund. Instead, the state guarantees all the commitments that the corporation undertakes in its investment insurance operations. Furthermore, the Decree did not specify the upper limit on total committed insurance, nor on total risk per contract. Table VII illustrates the number of contracts issued and types of investments insured by NIGC.

The total amount insured in 1979 was L.L. 5.6 million from 12 contracts written by different types of investment. This figure increased in 1980 to L.L. 103.1 million and 33 contracts and kept increasing as shown in Table VII.

TABLE VII  
 NATIONAL INVESTMENT GUARANTEE CORPORATION:  
 NUMBER OF CONTRACTS ISSUED AND TYPE  
 OF INVESTMENT INSURED FROM 1979-82

(L.L. Million)

	1979 (from March 1)		1980		1981		1982 (till 31 May)		T o t a l	
	No. of Contracts insured	Amount insured	No. of Contracts insured	Amount insured	No. of Contracts insured	Amount insured	No. of Contracts insured	Amount insured		
Industrial	7	22.7	23	55.8	47	198.8	13	45.1	90	322.4
Services	3	21.5	-	-	9	39.3	5	15.1	17	75.9
Tourism	-	-	1	3.6	7	42.6	3	18.6	11	64.8
Real Estate	-	-	12	34.9	1	6.7	1	14.2	4	55.8
Medical Equipment and Construction	1	1.2	6	7.5	6	16.2	5	7.4	18	32.3
Contractors' Equipment	-	-	-	-	2	1.7	3	10.5	5	12.2
Trade	1	0.2	1	1.3	-	-	-	-	2	1.5
Totals	12	45.6	33	103.1	72	305.3	30	110.9	147	564.9

Source: NIGC records.

The largest sector which had been covered by the NIGC was the industrial sector with an amount insured of L.L. 22.7 million.

In addition to the NIGC, some respondents added that in order for the government to face the cited problems facing the insurance industry, it should stop granting licenses to new insurance companies and impose rates (tariffs) in order to direct competition from rate reduction to better servicing.

Question 8 is related to the role of the Association of Insurance Companies in Lebanon. The answers were somehow similar where the respondents agreed that the Association did not have an important role in the insurance market because it could not force itself in the market since its members do not abide by the decisions taken by the Association. Furthermore, the Association can not impose its decisions on all the insurance companies as long as there are companies that are not members of the Association. However, some of the respondents indicated that the Association is heading in a new direction. For example, some meetings were held to discuss the situation of the unauthorized insurance companies which give medical insurance coverages. The Association studied the possibility to sue those companies and the people who are operating them illegally.

A number of suggestions were made in the replies of six of the respondents. First, they emphasized the need to reach

an agreement among the insurance companies operating in Lebanon to assign a minimal limit of a standard rate. Such a rate will include all the elements of the insurance price which are determined by the price of the risk, the amount insured and the period of the insurance. However, companies can manipulate with other price elements, such as the managerial expenses and the profit margin to compete with other companies. This will mitigate the technically unjustified rates reduction. Second, the Association can help in preparing and organizing insurance seminars and meetings to exchange points of view and to discuss the problems facing the industry. This might help in finding the desired solution for these problems.

#### Relations Within the Insurance Industry

The fourth group of questions, 9 and 10, are related to the relations which exist within the market. Question 9, on one side, is concerned with the cooperation and coordination among insurance companies. The responses to this question agreed upon the lack of cooperation and coordination among insurance companies. They indicated that if there is any kind of cooperation or coordination then it is minimal. One respondent to this question listed some ways of cooperation among the insurance companies. For example, he says that some companies cooperate in insuring some risks by forming pools or by ceding treaties to reinsurance companies.

The Lebanese insurance market has always suffered from bad organization and from lack of cooperation among the companies. However, the state of war has forced some kind of cooperation in the insurance field. That is by forming pools among themselves to cover certain risks, such as banking perils.

The other side of the relations which exist within the market is between the insurance companies and their reinsurance companies. Question 10 was addressed to reveal this relation as seen by the respondents. All the respondents agreed that the existing problems, which the insurance industry in Lebanon is facing, do not make the relation easy. For example, the deterioration in the Lebanese Pound, as mentioned previously, made the Lebanese market insignificant due to the reduction in volume premium measured in foreign currencies. The result of this was that the reinsurance companies stopped accepting portfolios ceded by Lebanese insurance companies because the size of the portfolio in Lebanese Pound is considered trivial when transferred to any foreign currency. This had led to another difficulty in dealing with the reinsurance companies because these reinsurers started imposing hard provisions on the treaties ceded by Lebanese companies by putting limits on the maximum ceiling which they accept. These were the answers for question 10 by the majority of the respondents.

As a consequence of the foregoing, insurance companies

operating in Lebanon started to cooperate by forming pools to overcome the problems that emerged in the market. For example, in 1985 there was an idea of forming a pool which consists of twenty insurance companies to guarantee against banking perils. This pool was necessitated by the fact that many banks were exposed to many types of risks due to the prevailing situation of instability. In 1986 only, there were about forty-six bank robberies and the total amount stolen was about 22 million L.L.

The pool issues a policy to cover all risks that are included in a policy that is known as a "Bankers Blanket Bond". This policy covers robbery, forgery, mistrust, loss of checks, risks of transferring money, etc.

The pool works on bases of "Fronting- l'Assurance to Facade", this means that any of the companies participating in the pool can sign a contract with their client and thus bind the pool. So, any profits or losses will be distributed among the members of the pool according to an agreed upon percentage. In order to be able to join the pool, the insurance company must get a bank guarantee that equals eight times its retention. (34)

---

(34) Al-Bayan. - Issue No. 165, August 1986, P.90 .

### Prospects of the Industry

The last group of questions, 11,13 and 14, are concerned with how the respondents foresee the future and their attitudes towards two suggested solutions for the problems facing the insurance industry in Lebanon.

It is clear that the responses to the previous questions revealed the problem which exist between the insurance companies operating in Lebanon and their international reinsurers. For this reason, question 11 was addressed to examine the attitude of the respondents towards the establishment of a national reinsurance company to help in solving the problems in the insurance market. The answers were not all the same. From the total, thirteen respondents did not see how a national reinsurance company can help in solving some of the existing problems facing the insurance industry. The reason which they gave is that such a company will face the same problems facing the Lebanese insurers. For example, if the problem of the deterioration of the local currency will not be solved, the reinsurance company will also face problems in ceding the treaties to other reinsurance companies, consequently the problem will not be solved. Furthermore, the insufficient legislations and the lack of control will also remain unsolved. The respondents give further reasons for the expected failure of such a company. They added, for a national reinsurance company to operate equitably it should reinsure 100 percent of the market treaties and become "the only vehicle of reinsurance



placement abroad, and this cannot be achieved in Lebanon."

The rest of the respondents were in favor of a national reinsurance company because they think that the existence of such a national company will smoothen the problem facing the insurers by accepting their portfolios and be more understandable for the situation in Lebanon. In a written note prepared by one of the respondents, concerning the establishment of a national reinsurance. He concluded the following:

Looking now at the Lebanese economy and especially at reinsurance industry, I believe and most of the people who are working in the field of reinsurance that it is the proper time to establish and set up a national reinsurance company, since we have acquired the confidence of the Arab and foreign countries in this area of business.

Question 13 was addressed to reflect the attitude of the respondents towards merger as a solution for the problems facing the Lebanese insurance market especially those that are related to the large numbers of insurers within the insurance market. The answers reflected two opinions. First, those who are not in favor of merger, and they are only 3 respondents. They back their opinion by claiming that "merger will lead to merger of small problems only". One respondent added that the experience he had in Jordan was not really very positive and suggested as an alternative for merger a strict control on the market to force amateurs and marginalists to quit in favor of survivors.

The second group of opinions, which represent the majority, are in favor of merger. This is because they say that merger is a good solution in case of inflationary number of insurance companies. The advantages of merger as they listed them are as the following:

- a) Merger may reduce the number of the operating companies, thus minimizing competition and increasing the profitability of these companies.
- b) Decrease the managerial expenses and the cost of production by achieving synergy.
- c) Compile premium, thus facilitating reinsurance and improving provisions and services provided by reinsurers.

Concerning question 14, all the respondents agreed that if the present state of war, unstability and economical turn-down were to persist, the market will end up as a "little unhealthy market". This will affect the profitability of the insurance companies and the services provided by them. Furthermore, the relation with the reinsurance companies will be much harder and more difficult. Consequently, they added, if Lebanon does not recover there will be no promising future for the insurance industry.

## CHAPTER V

### CONCLUSION, RECOMMENDATIONS AND SUMMARY

Beirut was considered as the financial capital of the Middle East where the enterprises, financial and industrial, could find the best services that facilitate their work and operations. For this, there is no wonder why the international insurance companies found Lebanon as the most appropriate place for their operations.

During the period which ended with the breakout of the civil war in 1975, the insurance sector had prospered and grown to be a very promising industry and this was clear from the increasing premium income received during that period. However, the insurance market was not that ideal for there were some problems facing the market. First, the existence of a large number of insurers due to the extraordinary facility to obtain a licence. Second, few professionals with many small size companies and agencies. Third, no serious control by the government.

(After the breakout of the civil war in 1975, the economy had suffered and the insurance sector was affected as a part of the overall economy adding new problems to the existing ones. These problems are: First, the inadequate legislations related to the insurance industry in Lebanon. Second, the difficulties concerning the relationship between the insurance

companies and their reinsurers. Third, the deterioration of the local currency which resulted in an inflationary premium.

Some insurance companies tried to lessen the effect of these problems by looking for foreign markets, for example the expansion in neighbouring Arab countries in order to dilute the effects of the local problems. A further step was taken by issuing policies in some classes of insurance in foreign currencies to avoid the losses caused by the deterioration in the local currency. Some companies have formed pools to cover certain risks that arise because of the present situation.

No doubt, the above have contributed to solving or diluting some of the problems. However, their effectiveness is limited because of the continuing situation of instability and the existence of the state of war. For this, the future cannot be viewed with optimism if the war does not come to an end. And the responses to the question of the future prospects of the insurance sector in Lebanon focused on the idea that the insurance industry is a part of the Lebanese economy requesting social, economical and political security in order to develop fully. Consequently the respondents foresee the future as bleak and foggy. Moreover, some indicated that if the foregoing problems were to persist, the market will end up as a "little unhealthy market". But if the future brings an end to the war, then Lebanon will reexperience its previous glory and its economy will flourish again. However, if the present situation were to persist, the following suggestions and recommendations

are made so as to help in developing the insurance market and solve its problems.

First, the revision of the present insurance legislation Decree No. 9812 of May 4, 1968. The present Decree has been regulating the insurance profession for about 20 years, and this period is considered long enough to necessitate some amendments, especially that the war has changed all the formulas which the Decree was enacted for.

There was a complete congruency from the respondents of the questionnaire that the insurance legislation should be modified to be more appropriate and convenient to the changing condition of the market.

The revision of the legislation should regulate the entrance to the market and introduce some "compulsory insurance aspects" such as motor third party liability insurance (such law was enacted in June 30, 1977 but was not implemented). Furthermore, there should be some strict control on the operations of insurance companies.

Second, a control system should be enforced through two authoritative levels. These levels are:

- a) The first is the authority of the government by introducing some restrictive regulations on the insurance activities and operations. For example, there should

be some restrictions on the types of insurance practiced by the companies especially on the medical insurance which is the most common type that is practiced these days by insurance and non-insurance companies.

- b) The Association of Insurance Companies should also play a better role in this respect by getting its members closer together in order to respect the ethics of the profession and thus, improving the operations within the insurance market. This can be accomplished by introducing agreed upon rates/tariffs to direct competition away from rate reduction.

Third, as indicated by four of the respondents that the establishment of a national reinsurance company can smoothen the present problems existing in the market, however there is a doubt in the possibility that such a project can survive due to the same problems facing the Lebanese insurers. As an alternative to the establishment of a national reinsurance company is to construct pools among the Lebanese Insurers themselves, and this can be a more realistic solution to avoid the difficulties that may arise in forming a reinsurance company.

Fourth, mergers as a solution for the inflationary number of insurance companies in Lebanon may tend to reduce the number of operating companies, thus minimize competition. It will also decrease the managerial expenses and the cost of production. Furthermore, it will facilitate reinsurance through

compiling premiums, it will promote more discipline and more manageable cooperation.

On the other hand, some respondents to the questionnaire were not in favor of merger especially in the present situation where Lebanese insurance companies are considered far beyond the maturity stage which is necessary for the merger to serve its purpose and to succeed. Nevertheless, mergers can be, as said before, a solution for some of the existing problems if certain aspects were to be met. Then merger between companies will improve their position in the insurance market, enhance their long-term competitive position through the joint use of the combined resources and achieve synergy.

## A P P E N D I C E S



## Appendix 1: Air traffic and tourism in Lebanon.

Traffic through Beirut  
International Airport

Year	Aircraft	Passengers	Freight (Metric tons)	Tourists (1000)
1970	41,553	1,558,246	57,691	-
1971	39,643	1,832,514	69,742	2,258
1972	38,735	2,090,634	87,991	2,282
1973	40,037	2,258,474	109,560	1,904
1974	48,070	2,747,972	118,431	3,008

Source: Basim Faris, Insurance and Reinsurance in the Arab World. London, Kluwer Publishing 1983. (P.81)

Appendix 2  
QUESTIONNAIRE

The objective of this questionnaire is to study the attitude of some prominent personalities in the insurance profession towards the problems facing the insurance industry in Lebanon. We appreciate your answering to the following questions that will help in accomplishing our objective.

- 1 - In your opinion, what were the major problems facing the insurance sector in Lebanon before 1975 ?
  
- 2 - What are the major problems facing the insurance sector after 1975 ?
  
- 3 - Are the problems cited above still existing in 1988 ?
  
- 4 - In your opinion, what are the effect of the large number of insurance companies that exist in the Lebanese insurance market ?
  
- 5 - To what factors do you attribute the withdrawal of a number of foreign insurance companies in Lebanon during the past few years ?
  
- 6 - Do you think that the legislations that govern the insurance industry in Lebanon are suitable for the present conditions ?

- 7 - What role can the Lebanese government play in alleviating the problems facing the insurance industry?
- 8 - Do you think that the Association of insurance companies in Lebanon can play a more important role in the insurance industry ? How ?
- 9 - In the Lebanese insurance market, do you think that there is cooperation and coordination among insurance companies ?
- 10 - What difficulties do national insurers face with their international reinsurers ?
- 11 - Do you think that a national reinsurance company can smoothen the existing problems facing the insurance industry ?
- 12 - Does the recession prevailing in the Arab countries affect the insurance industry in Lebanon ? In what ways ?
- 13 - Do you think that mergers can be a solution for the problems facing the insurance industry in Lebanon ?
- 14 - In your opinion, what are the future prospects of the sector in Lebanon ?

## Appendix 3

## The Average Dollar Rate (in L.L.)

Month/Year	JAN	MAR	MAY	JUL	SEP	NOV
1976	2.4	2.4	2.8	3.2	3.3	2.8
1978	2.9	2.9	2.9	2.9	2.9	3.0
1980	3.2	3.3	3.4	3.4	3.4	3.6
1982	4.9	4.8	4.9	5.3	N.A	N.A
1984	5.3	5.4	5.8	6.0	6.1	7.7
1986	17.9	22.5	22.81	37.3	44.5	45.7
1987	65.8	97.7	115.1	131.7	204.0	323.8
1988	485.6	395.0	370.3			

Source: Arab Reinsurance Company (Financial Department)

APPENDIX 4

PREMIUM COLLECTED BY INSURANCE COMPANIES 1985-1986

	Premium 1985	Order According to Premium Received 1985	Premium 1986	Order According to Premium Received 1986	% Growth
Bankers Assurance	59,772,167	1	24,505,983	1	144
Al-Itihad Al Watani	53,074,750	2	26,550,050	3	100
Union des Assurances de Paris	36,422,667	3	10,062,416	1	91
Al-Mashrek Ins. & Reinsurance	33,616,850	4	16,077,833	4	109
Société Libano-Française	30,280,350	5	11,488,233	6	163
Libano-Arabe	25,272,433	6	11,835,100	5	113
American Life	22,032,917	7	10,902,216	8	102
La Libano-Suisse	21,299,050	8	11,483,283	7	85
Société Arabo-Européenne	20,179,667	9	10,276,033	9	96
Société Nationale	19,045,916	10	9,344,116	10	104
Al-Nisr	17,809,200	11	8,776,683	11	103
Overseas	17,008,750	12	6,000,000	-	183
Compagnie Libanaise	15,668,500	13	-	-	-
North America	14,523,233	14	4,560,516	25	218
Phoenicienne	14,091,550	15	8,414,666	12	67
Mesir	13,405,667	16	7,323,283	14	83
Arab Universal	13,194,883	17	7,609,700	13	73
Société Franco-Arabe	10,940,150	18	6,030,800	16	81
International Insurance	10,677,633	19	5,844,150	18	83
Commercial Insurance	10,128,366	20	6,144,366	15	65

Appendix 4 (Cont'D)	Premium 1985	Order According to	Premium 1986	Order According to	% Growth
		Premium Received 1985		Premium Received 1985	
SOGENAR	10,109,333	21	5,165,966	23	96
Assurex	10,031,633	22	5,793,133	19	73
METRA	9,598,317	23	5,772,483	20	66
General Guaranty Group	7,845,200	24	5,483,866	21	43
Assicurazioni Generali	6,992,333	25	2,330,916	34	200
Arab Insurance	6,765,783	26	4,210,666	26	61
City Insurance	6,748,700	27	3,800,976	28	78
Lebano German	6,122,817	28	4,651,250	24	32
Credit General	6,112,967	29	2,680,183	33	128
Noeth Assurance	5,136,950	30	3,863,533	27	33
Amana Insurance	5,063,083	31	3,530,050	30	43
Prosperity Assurance	4,904,700	32	3,739,700	29	31
Groupment Français	4,889,867	33	3,379,216	31	45
Iskan Insurance	4,448,083	34	2,799,316	32	59
Arab	3,792,783	35	2,208,800	35	72
Union des Assurances de Paris	3,446,967	36	1,681,383	39	104
Union Commercial	3,304,333	37	1,965,466	36	68
Kfra Insurance	3,216,217	38	1,878,600	37	71
Adonis Inc.	2,789,211	39	-	-	-
As-Salam	2,260,783	40	1,840,400	38	50
International Trust	2,649,467	41	1,331,996	41	99
Société Centrale	2,601,617	42	-	-	-
Byblos Insurance	2,564,317	43	184,866	58	1293
La Mutuelle Gen.	2,166,217	44	1,197,650	42	81
Mecis Insurance	2,017,083	45	413,566	55	388
Alpina	1,781,033	46	1,000,000	-	78

	Premium 1985	Order According to Premium Received 1985	Premium 1986	Order According to Premium Received 1986	% Growth
Provincial	1,524,467	47	1,044,750	45	46
Oriental Ins.	1,414,317	48	717,683	51	97
Fidelity	1,402,516	49	-	-	-
Yasuda	1,368,600	50	824,350	48	66
L'Union Financière	1,079,866	51	478,250	54	126
SLAG	1,062,017	52	983,266	47	8
Precam	999,233	53	751,983	49	33
Continental Insurance	743,033	54	1,140,866	43	35
Astra Insurance	693,343	55	166,343	62	317
Taisho	439,016	56	315,693	60	39
Manar	296,767	57	307,985	61	4
St. Paul	158,476	58	-	-	-
Tokio	150,150	59	-	-	-
Mediterranean Ins.	117,083	60	113,300	63	3
Ennia	77,616	61	-	-	-
Al-Shams	53,637	62	664,700	57	91
Assurance Générales	32,383	63	-	-	-
Royal Ins.	20,200	64	90,100	64	77

Source: Al-Maal Wal Aamal Magazine, May 1987, P.34 .

## BIBLIOGRAPHY

- 1 - Basim A. Faris, Insurance and Reinsurance in the Arab World, (London: Kluwer Publishing, 1983)
- 2 - Emile Jirges Nassar, A Summary of Insurance History in Lebanon and the World, (Beirut: Al Matbah Al Hadetha, 1980) (in Arabic)
- 3 - Gordan C.A. Dikson, M.Lit and John T. Steel, Introduction To Insurance, Study Course 010, The CII Tuition Service (Cambridge: Burlington Press, 1981)
- 4 - Gordan C.A. Dikson Principle and Practice of Insurance, The CII Tuition Service (Cambridge: Burlington Press, 1981).
- 5 - Marwan Iskandar, Social Security for Lebanon, an Economical Study, (Beirut: Dar Al-Tallah 1985)
- 6 - Mohammad Mady, The Reflection of the Civil War on the Touristic Sector, (Beirut: Dar Al Nahar, 1981)
- 7 - Mories Mansour, Studies in Insurance, (Baghdad: Al-Maharef, 1978)
- 8 - Robert Rigel, Jerome S. Miller, C.Arther Williams, J E, Insurance Principles and Practices, (Englewood Cliffs: Printice Hall Inc., 1979).



- 9 - Swiss Insurance Training Centre, Reinsurance, (Zurich: Swiss Reinsurance Company, 1981).
- 10- Swiss Reinsurance Company, Insurance Markets of the World, (Zurich: Swiss Reinsurance Company, 1964)
- 11- United Nations Economic and Social Office in Beirut, Studies on Selected Development Problems in Various Countries in the Middle East, 1970 (New York: United Nations Publications, 1970)
- 12- Yusif A. Sayigh, The Economics of the Arab World-Development since 1945 (London: Biddles Ltd., 1978)
- 13- Al-Bayan Magazine, issues No. 93,113,121,165 and 184
- 14- Al-Mal Aamal Magazine
- 15- Pamphlets of Arab Reinsurance Company, Central Bank of Lebanon, Association of Insurance Companies in Lebanon and Chamber of Commerce.