THE POTENTIAL GROWTH OF REINSURANCE AS A PROFESSION, PARTICULARLY IN LEBANON

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DEDICATION

To All Those I Love
ACKNOWLEDGMENT

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Abstract

The size and value of risks written by insurance companies around the world is too huge to be covered by this market alone. Thus to avoid dramatical results, risks must be spread internationally through Reinsurance. Reinsurance market represents the main absorbent of risks written by the insurance market.

The insurance company keeps part of its portfolio of business as its own liability and distributes the rest through reinsurance. The emphasis in this study is on reinsurance practiced by professional reinsurance companies which only accepts reinsurance business.

The international reinsurance market in the nineties is going through bad times due to large losses of catastrophic nature. The attempt is to adjust reinsurance prices and conditions specially for natural catastrophe covers and to improve underwriting techniques.

The Arab Reinsurance market is affected by the problems of international reinsurance market in addition to large competition from foreign reinsurers. In many Arab countries the main insurance business is being absorbed by foreign reinsures. The foreign reinsurers and brokers compete with Arab reinsurers by providing important technical services for the insurance companies in the Arab market in addition to providing larger capacity. Arab reinsurers lack capital funds and shareholders' equity as well as marketing and communications efforts. They are less competent in providing technical services and are slow in payment exchange and reply.
The study describes reinsurance as a profession in Lebanon that faces some of the above problems mainly lack of capital funds and shareholders' equity and lack in technical services provided. A reinsurance company was selected as the model of the study. Information collected was based on interviews, documentations and questionnaires directed to the Lebanese insurance companies that deal directly with the company under study. The study included studying the business portfolio of the company, technical and financial position as well as evaluating its performance by insurance companies.

The company is mainly an inter-Arab company. Technically, it should be more organized concerning division of work and operation policies. Business operation was good in terms of quick response and payment of claims as well as cooperation with other companies. Technical assistance is available but should be improved along with business visits and humans resources. There is a lack in reinsurance specialization among the employees except that accumulated from experience in the company.

In general the company was considered by questionnaire respondents as a good security.

Reinsurance in Lebanon survived during the war period, which hindered its normal growth. Nowadays it has all the potential to improve its position in the market. The main emphasis should be on improving organization, improving technical services provided and strengthening the financial position mainly through investment return capital funds and shareholder's equity. In addition to adapting a growth plan to increase premium volume.
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Chapter I

Introduction

In everyday’s life, man and his possessions are exposed to innumerable risks such as Natural Forces, Economic Crisis, Fire, Accident, and many others. These risks are unforeseeable and unpredictable. No one knows when they will happen nor the extent of the damage they may cause. Being aware of these risks, man can choose to avoid, prevent, limit, transfer or accept the loss. Man alone can not avoid or bear all losses caused by these risks, but by forming a community with common interests he can spread the risk among them. From this need to spread risk, insurance emerged as a risk transfer mechanism. It is defined as "an operation by which one party, the insured obtains from another party the insurer the promise to indemnify the insured or a third person in case of a loss". The payment for this service is called a premium. The insurer accepts a totality of risks and compensates them according to statistical laws.

Reinsurance, is the insurance of the risk assumed by the insurer. The services provided by the insurance company to its policy holders are similar to the services provided by the Reinsurance company to the insurance company. However, Reinsurance can not exist if an insurance contract between the Insurer and the Reinsurer is not determined. Reinsurance is a vital tool for the distribution or sharing of risks and it is also an important method of risk control and management. Modern international Reinsurance practice fulfills an important role for the world insurance industry. Reinsurance is required for all classes of insurance business and every insurance company in the world whether small,
medium, or large requires some form of Reinsurance protection in order to be able to function efficiently\(^1\).

1.1 Major Reinsurance Practitioners:

1) **LLoyds**: is an association of individual underwriters in London accepting business only through their brokers. They are specialized in Marine Insurance and insuring for losses of almost every conceivable kind. **Lloyds** provides one of the largest markets in the Reinsurance field.

2) **Professional Reinsurers**: are companies which write only Reinsurance business of all kinds and usually have large acceptance capacity.

3) **Insurance and Reinsurers companies** practicing direct insurance business and spread their risks through their Reinsurance department.

4) **Underwriting organizations, Reinsurance pools associations and syndicates** which are similar to professional Reinsurers\(^2\).

1.2 The Status of Reinsurance

The market of Reinsurance experienced bad times through decades, but worse is the one faced today in the nineties. The London Insurance and Reinsurance Market Association (LIRMA) drew the attention of its

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\(^2\) S.R. Parikh, "criteria to be considered in the selection of a company's Reinsurer ", (Arig Reinsurance Seminar, 8-10 April 1984, Bahrain).
techni-cal specialisation and low financial capability. High political instability, this insur-ance was increased by the lack of good insurance and reinsurance. Market. This situation was worse in the initiating, security of capital etc., did not provide the right climate for a high rate of income classes. Such conditions as high birth rate, low income classes, high rate of second, bad economical conditions contributed in such insufficiency.

Companies in financial and economical aspects, interested in such investment, besides the insufficiency of insurance are not. Since reinsurance is a long-term business, private capital was not political and economical motivations rather than for commercial ones.

First, reinsurance in the developing countries was established due to be contributed to many reasons:

Insufficiency in the reinsurance market of the developing countries may heavily handicap five percent of the world premium income. This large geo-graphical and population coverage of the developing countries, market because, it depends heavily on it. On the other hand, in spite of the fact very much affected by the performance of the International Reinsurance.

1.2. Reinsurance in the Developing Countries.

Lloyds was affected by the years heavy losses of 2.7 billion Sterling, result of many exits of long established companies. On the other hand because of the radical changes in the London's reinsurance market as a statistic, readers that, it is necessary for them to draw own conclusions.
Insurance companies in the developing countries had two choices to improve their financial stability, one is to expand the business and the second to resort to Reinsurance. However, the chances of expansion were limited and consequently left the insurance companies with the second choice. This meant heavy dependence on foreign Reinsurance markets and high level of transfer of hard currency abroad. However, the self sufficiency of such institutions is not the long term objective. It is very important to keep the cooperation with the international reinsurance market. The aim is rather to limit the need for recourse to cover abroad to the extent dictated by technical principles and the financial strength of the market. Thus, cover is sought abroad only after the national capacity is properly used. However, Reinsurance companies in the developing countries could not stop this outflow of foreign currency, in spite of the tendency in many markets to emphasize the importance of spreading the risk locally before turning to other markets. This indirect currency protection was also supported by UNCTAD (United Nations Conference on Trade and Development). Realizing that Reinsurance is about premiums and losses that can be shared across countries. For example, a claim paid by Egypt Re in Lebanon is a transfer from the Egyptian economy to the Lebanese economy. However, the question of exchange remains debatable, taking into consideration the probability of catastrophic risks in the developing countries as well as the Reinsurance lack of balance between their premiums and their liabilities. Nationalization, however, did not solve the problems of reinsurance. Public enterprises have not delivered what they were established for. Now many see the answer in privatization. Its scholars are the International Monetary Fund (IMF). The world is going through many changes and one should be prepared to such changes.

1.2.2. Reinsurance in the Arab World:

The Arab countries being part of the developing countries face the previously mentioned problems in Reinsurance. Privatization maybe the answer to funds availability. On the other hand, it would be a negative factor in case the private investor turned for the services of foreign Reinsurance if he couldn't find his need in the local market. The problem facing Arab Reinsurers is how to get higher shares of Arab Reinsurance businesses beyond their national markets. The subject of cooperation between the Arab Insurance companies and the Arab Reinsurers is of vital importance. They should benefit from the fact that the Arab countries are situated in a geographical areas less exposed to risks of catastrophic nature compared to other nations such as the United States of America, besides the technical profit of such a market.

In 1990, a study was conducted by the Arab Insurance Group in an attempt to know the participation of each of the local and the international companies in the premium income of Arab Reinsurers. The study included six Arab Reinsurers. Their figures show that the Arab market participation in their portfolio does not exceed 11% while the premium income of local market was 90%.

Some representatives of the Gulf Insurance companies explained in their last meeting with Arab Reinsurers in Beirut their point of view which represents that of most Insurance (or ceding) companies in the Arab world. In their business deals they do not consider much the nationality of the Reinsurer but rather his ability to fulfill his obligations and provide the services needed. Arab Reinsurers are competing strongly with foreigners.
The reasons behind the limited role of Arab Reinsurer are summarized by the following:

1- Low financial capacity resulting from the limited capital.
2- Inefficient and unorganized market efforts.
3- Limited ability in providing technical services.
4- Delay in paying the claims.
5- Delay in answering whether they accept or reject the offered business.
6- Difficulties faced by Arab Reinsurers as a result of the foreign exchange laws.
7- Difficulties in communication⁴.

1.2.3 Reinsurance in Lebanon:

The Reinsurance market in Lebanon is highly affected by Reinsurance in the Arab countries, developing countries, and the world Reinsurance in general. However, Reinsurance in Lebanon as a profession is practiced by a share holding company. Reinsurance is practiced in a free market unlike many Reinsurance companies in the Arab world which are subject to compulsory conditions. This means that by law the insurance companies in that particular country must give the Reinsurance company a certain percentage of their underwriting business. That is why the study mentioned before showed a large percentage of Reinsurance business locally. However, this is not a problem of Reinsurance in Lebanon since they can write business freely from local sources or non-local.

⁴ N. NorAldin, "Is it possible for Arab Reinsurers to get a higher share", Al-Bayan, (Beirut Arab Press, Jan 1994) pp 238-239.
Reinsurance in Lebanon faces many of the problems mentioned before such as lack of expertise, low capital in addition to difficulties in collecting premiums from some countries due to currency transfer laws and other obstacles.

This study will include detailed information on the problems of Reinsurance in Lebanon.

**Purpose of the study**

Reinsurance is practiced in Lebanon by:

1- The insurance companies which distribute part of the risks cover through Reinsurance.
2- Brokers who transfer the risks from the insurance companies to the reinsurance companies.
3- Professional Reinsurance companies which are very few mainly two companies only.

Reinsurance in Lebanon as a profession was not a subject of discussion, mainly the concern was the practice of Reinsurance by direct insurance companies.

The main objective of this study is to give a descriptive evaluation of reinsurance performance in Lebanon as a profession as well as to find recommendations concerning the potential growth of this profession. For this purpose a Lebanese reinsurance company is chosen as the study's model. The study will evaluate the performance of this company by studying its market distribution, technical position, financial position as
well as evaluation of performance and satisfaction from direct Lebanese insurance companies.

The emphasis will be on some key factors which are: capacity, fast response, quick claim payment and settlement, professional assistance in terms of information and services, better organization cooperation, computerizing the system, emphasis on investment income, premium income and reserves, underwriting practices and retrocession programs.

Construction of the Study

The study will include in chapter two a general background on Reinsurance. Part one includes purpose of reinsurance, services provided by reinsurance risk relative to reinsurance, legal aspects of reinsurance historical background, retention determination, kinds and methods of arranging reinsurance cover. Part two includes, background of international reinsurance market, Arab reinsurance market, challenges to Arab reinsurers, qualities of a good reinsurer, financial evaluation of reinsurance, qualities of a ceding company and problems of the market.

Chapter three of this study includes the methodology used in achieving the results of the study. The main source of information is from interviews with managers of the reinsurance company understudy as well as from documentations from that company. The general evaluation of insurance market as well as the reinsurance market and particularly the performance evaluation of the company under study is given through questionnaires directed to Lebanese insurance companies.
performance evaluation of the company under study is given through questionnaires directed to Lebanese insurance companies.

Chapter four includes the results and findings of the study. It is divided into four parts. First the market distribution that includes background of the company, review of the company's geographical and business growth, business portfolio and management strategy for business expansion. Part two concerning the technical evaluation of the company, which includes business operation and coordination between departments, technical departments operation financial department operation, underwriting procedures, control of underwriting operations underwriting results, growth of premium income, control of loss, investment operations, overall result of the company, technical assistance and training, business communications and management strategies for business growth. Part three concerning the financial position of the company which includes solvency margins application, comparison with an international reinsurance company and management strategies for financial growth. Part four concerning the questionnaires directed to the Lebanese insurance company. The first one is directed to give a general overview of insurance problems that are reflected on reinsurance. The second part gives a general view of the insurance company's relationship with reinsurers. The third part of the questionnaire is directed to give a specific evaluation for the performance of the company in study.

Finally, chapter five includes the recommendations and the conclusion.
Chapter II
Literature review

2.1. General background on Reinsurance

2.1-1) **Purpose and Functions of Reinsurance**:

(1) Reinsurance helps insurance companies to accept risks that are beyond their capacity and protecting them through Reinsurance cover. The insurance company will keep, that is, retain part of the risk and cede, that is, reinsure the rest through Reinsurance cover. Thus the insurance company is protected against the risk of large or catastrophic nature that exceed, their financial capability.

(2) Increasing market capacity and the insurance company's capacity by accepting larger risks that the insurer would have rejected without the Reinsurance cover. This will help to promote growth and development in the market and insurance capacity.

(3) Through Reinsurance, claims fluctuations will be reduced and thus the technical results of the insurance company will be more stable that is its operational results would show more stable development.

(4) Reinsurance provides facilitates through the sharing of risks on an international bases thus strengthening the position of the insured. Thus Reinsurance helps in spreading the risk so that the liability of the insured is not concentrated in one location or a certain geographical area.
(5) Reinsurance also helps to avoid a possible financial strain due to a rapid growth of the portfolio.

(6) Professional Reinsurance provides young direct insurance companies with technical assistance including training as well as administrative facilities.\textsuperscript{5}

Reinsurance companies communicate on an international level with different markets and thus provide the following:

2.1.2) \textbf{Services provided by Reinsurance}:

1) Propagating new forms of insurance

Backed up with a better financial capacity and more specialized personnel than the insurance company, they study and launch new forms of insurance. Through their communication and contact with different insurance and Reinsurance companies, they have a better chance of obtaining information concerning different markets and some important information on underwriting methods of these companies.

2) Communicating experiences

Providing and communicating their experience and observation of other markets with the insurance company. In this way the Reinsurer will improve the insurance and improve results of various fields by supplying advise, sales technique, underwriting claim settlement, administration and

organization. The means of communicating can be through information bulletins, visits by general manager or deputy general manager or specialists.

3) Conducting seminars

One example is the seminar on Engineering Insurance that was organized by ACAL (Association des Compagnies D'Assurances Au Liban). Three reinsurance companies participated. These are Swiss Re, Munich Re, and Arab Re. This seminar aimed at giving a clear idea about CAR policy (Contractors All Risks) that is being marketed by the insurance companies in Lebanon. This subject was very important in the light of the present situation of reconstruction and the necessity of CAR cover. The Reinsurance companies are much more experienced and knowledgeable in such a subject due to their communications on an international basis.

4) Suggesting technical restrictions

In addition to experience, reinsurers also supply insurance with recommendations and advising the best reinsurance cover or technique to be followed.

2.1.3) Risks relative to Reinsurance:

1- Risks caused by the insurer or the reinsurer

Since part of the risks endured by the insurer are transferred to the Reinsurer, a negligence or a mistake in administration by the insured will increase the risk on the Reinsurer. This is governed through the follow
the fortune clause so any mistakes in the underwriting methods or in the settlement of a claim, hasty overproduction and inefficient technicians will have its effect on the Reinsurer.

2- Risks beyond the control of the contractual parties:

The Reinsurer is subject to monetary risks affecting its results eventhough no significant attention is payed to it. Fluctuations in currency is an example of such risks. In cases like that, the Reinsurer might pay much higher sums than first estimated. The Reinsurance company should pay sufficient attention to this important subject by setting up an Investment Budget which takes into account monetary fluctuations. However, this subject is limited by legal provisions. Another risk comes from inflation that reduces the value of investments and distorts technical statistics. The statistics would be either useless or dangerously optimistic on a short run basis.

Another important subject that influences both Insurance and Reinsurance companies is Monetary Transfers such as premium and balances for claims settlements. Some countries restrict transfers specially in foreign currencies, this would cause a delay in paying for losses or transferring the balances. Reinsurance operations are sometimes subject to exchange control that would delay payment for Reinsurers even for months that would result in deleting the offer and losing the interest in the Reinsurance market. Also the deposit of technical reserves is a form of monetary investment. However, it would be an administrative risk if the Reinsurer is not free to use this reserve.

Reinsurance companies are subject to fiscal risks specially from countries with budget deficit. In such cases, taxes would be applied on premiums, commissions, profit commissions, interest, and even settlement of losses.
3- Risks inherent to Reinsurance

The Reinsurer is subject to the risk of accumulation since he participates in the insurance companies treaties on a wide scale. As known the treaties are blind risks so the possibility of participating in the same risk from two or more companies is very probable. On the other hand, organization of a Reinsurance company plays an important role in its success. Many Reinsurers were left behind due to deficient organization as a result of bad planning, incomplete control, or lack of specialists.

2.1.4) Legal Aspects of Reinsurance:

A Reinsurance transaction is of a contractual nature. Thus to be valid in the eyes of the law it must have all the features of a binding contract. Furthermore, Reinsurance can not exist without insurance thus the Reinsurance contract validity depends on the insurance contract. Therefore, the principles which apply to the insurance contract should also apply to the Reinsurance contract. These legal principles are:

1) Insurable interest:

First, one must note that not all risks are insurable. Insurable risks must be possible to measure financially, there must be a number of similar risks, they must not be against the public. What is insured by an insurance policy is the subject matter of insurance which can be any form of property or an event that may result in a loss of a legal right or creation of a legal liability. In case of a fire policy the subject matter can be building stock or machinery. Under life policy the subject matter is the

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6 Swiss Re, A Reinsurance manual of the Non-life branches, p30-32
life being insured. Insurable interest can be defined as "the legal right to insure arising out of a financial relationship recognized at law between the insured and the subject matter of insurance". This definition contains the following features:

(a) There, must be some property, rights, life, limb or potential liability capable of being insured.
(b) The above must be the subject matter of insurance.
(c) The insured must stand in a relationship with the subject matter of insurance whereby the benefits from its safety, well-being or freedom from liability and could be prejudiced by its damage or the existence of liability.
(d) The relationship between the insured and the subject matter of insurance must be recognized at law.

Therefore, an insurance contract is not valid in the absence of an insurable interest. Similarly a Reinsurance contract must be supported by insurable interest to be valid. If the original insured has no insurable interest in the risk, any reinsurances on the risk are affected by the lack of insurable interest in the original policy and are therefore illegal.

2) Indemnity:

The second important principle is the principle indemnity. It is considered illegal to give the insured more than an indemnity in the event of a loss. It is the exact financial compensation sufficient to place the insured in the same financial position after a loss as he enjoyed immediately before, the occurrence of the loss. However, not all insurance contracts are contracts.

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of indemnity, specially life and personal accident policies as the value of a person's life or limit can not be measured by money. However, it is very important to note that Reinsurance contracts are all contracts of indemnity. The insurance company is indemnified by the Reinsurer under the terms of the Reinsurance contract. In all Reinsurance contracts only the insurance or the ceding company can claim under the contract. The insured or the original policy holder can only claim from the primary insurer and has no right to claim on the Reinsurers of the ceding company. The reinsurance contract is between the insurance company and its Reinsurers thus the doctrine will not allow a third party to interfere in this contract. On the other hand the ceding company must prove that the loss insured is included in the terms and conditions of the Reinsurance contract in order to be able to claim an indemnity from the Reinsurers. Also, most modern reinsurers tend to "follow the fortunes" of their ceding companies. Thus, when the ceding company pays for a certain claim the Reinsurer will follow the same. However, before the ceding insurer pays a substantial amount on an ex-gratia basis the reinsurer should be consulted about the claim, given the necessary information and getting his approval to "follow the fortune" of the ceding company.

3) Utmost Good Faith
Can be defined as a positive duty to voluntarily disclose accurately and fully all facts material to the risk being proposed, whether asked for them or not. The doctrine of Utmost Good faith is essential for the insurance contract as well as for the Reinsurance contract. The Reinsurance contract requires the ceding company to disclose to the reinsurer every material fact which relates to the risk to be reinsured. It applies to all covers of Reinsurance treaty and facultative. In facultative reinsurance, since each risk is offered individually to the reinsurer, all relevant and material details
of the risk should be stated. If any material information was withheld, the contract would be voided. While, in treaty reinsurance (which would be explained in details later) there is no need for the ceding company to submit slips or details of each risk to the reinsurer for specific acceptance. Although, in Treaty Reinsurance little information about individual risks is received by the Reinsurer but the principle of Utmost Good Faith applies equally to treaty Reinsurance. In treaty Reinsurance, the duty of the ceding company to disclose continues even after a treaty has been affected. The duty of disclosure and the principle of Utmost Good Faith are very essential and therefore if the ceding company is guilty of a breach of this duty by not disclosing material fact the reinsurer becomes entitled to repudiate liability.

2.1.5) Historical Background of Reinsurance:

The origin of Reinsurance is not known exactly. However, Reinsurance can be related to the oldest forms of insurance which is marine Insurance and the Reinsurance contract first known dated 1370. There was also an indirect reference to reinsurance in the decrees of the French King Louis XIV in 1681.

Under the British law of 1746 the Marine Insurance Act was passed, which rendered illegal the making of marine Reinsurance, except, where the original insurer was insolvent, bankrupt or had died. This Prohibition lasted till 1864. However, Marine Reinsurance was practiced during this period but unofficially under cover. On the other hand, fire Reinsurance was first practiced in the end of the 18th century. Fire reinsurance treaty appeared in 1778, while, the first treaty was signed in 1821. Initially,

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Reinsurance was practiced on facultative bases that is reinsuring every risk individually. The industrial and commercial developments in the 19th century caused a rapid growth of insurance and more flexible forms of Reinsurance coverage was needed. This gave rise to the appearance of automatic Reinsurance treaties that would be explained later in the study. This automatic reinsurance treaty covers in general all of the risks accepted by an insurer in a certain branch. At that time, Insurance companies began to accept Reinsurance's business. The demand for Reinsurance coverage gradually grew, competition among Insurance companies accepting or offering Reinsurance increased. This necessitates the foundation of professional Reinsurance companies. Among these companies was first the Cologne Reinsurance Company established in Germany in 1852. Swiss Re was established in 1863. Munich Re in 1880. In England the Reinsurance market was dominated by the Lloyd's underwriters. The first British Reinsurer Mercantile and General established in 1907. These Reinsurers acted on an international bases spreading and distributing the risk worldwide to have a balanced portfolio.

The size of risk which is now written in the insurance markets of the world have grown too large to be covered by the insurers of any one country however large. To avoid dramatical results to local insurance company from a catastrophe, risks must be spread internationally through Reinsurance. However, having local Reinsurers can retain part of the premium income locally to be used for investment and thus enhancing economical growth. Thus Reinsurance companys play an important role in the nations economy on a local and international basis⁹.

⁹ J. S. Butler, "Definition of Reinsurance and Historical Background", (International Reinsurance The Law and Market practice seminar, pp 1,5 Feb 1982, Beirut)
2.1.6) Retention:

Every insurance or Reinsurance company is based on an important issue which is retention. In everyday life one is exposed to numerous risks which can affect persons or property. One does not know when an event might occur nor how large a loss it could cause. If an individual is aware of these risks he will probably also realize that his own financial means are insufficient to meet them and thus look for coverage elsewhere. The individual might choose to retain or to keep to himself the responsibility to meet the risks he is exposed to. One way of transferring the risk is by insurance in which the insurance company agrees to indemnify the insured in case of a loss for a certain premium. On the other hand, the Insurance company can not take the liability of all the business it writes. Thus, a retention should be determined. Similarly a Reinsurance company should determine its retention based on certain criteria and Reinsure the rest through retrocession programs. Retention is the proportion of the risk or the amount of liability the insurance company or the reinsurance company is ready to keep or retain for its own account. The rest is ceded or transferred to the Reinsurer or Retrocessionaire.

2.1.6-1 Retention determination

In determining Retention certain criteria is followed:

1) Financial consideration

From a monetary point of view the company should look for:
1- **Its capital**: the paid-up capital is a good indicator for the company's financial capacity and thus in determining its retention level. For example, if the paid-up capital of the company is $7,000,000 it can definitely retain a higher percentage or amount from a company which its paid-up capital is $1,000,000.

2- **Free reserves**: are funds that the company puts aside to meet its liabilities. Definitely, higher reserve level indicates a higher solvency of the company and its ability to quickly meet its obligations in case of losses. Free reserves together with the paid-up capital help the company to decide on its retention.

3- **Liquid assets**: such as cash and securities that enable the company to pay losses on its own account promptly.

4- **The company's premium volume**: which is the sum of the premium received from all branches of insurance and to the reinsurer from the reinsurance business accepted. This premium volume allows the company to compensate for fluctuations due to losses. A higher premium volume indicates a better position for the company to retain more.

**II) The role of PML in determining retention**

PML is the probable maximum loss which is the maximum loss estimated in case of loss occurred providing the use of all available loss prevention measures. However, determining retention in case of total loss is not difficult. Such loss is probable in life personal accident and marine cargo.
1- Economical changes:

Note that these factors affect the insurance company as well as the Reinsurance company (the writer will indicate the effects on insurance which will also be the effect on reinsurance). Economical changes such as when a country industrializes. There are fundamental changes in the portfolio structure of the insurance company which had covered mainly commercial risks before. That is when the number of industries increases in a certain country they will affect the portfolio of the insurance company. These industries will be insured and the insurance company will have industrial risks in addition to commercial ones. As it is known, industrial risks are more exposed and prone to major losses. Thus they will affect the company's decision of retention. Also, by introducing new manufacturing methods or plants such as those for the production of plastic, can burden the insurance companies too heavily. People using these new methods might not have the experience nor the expertise to handle such improvements and thus make the risk more exposed by nature. Also, Public works to improve the infrastructure can lead to an increase demand for CAR Insurance which may exceed the local Insurance and the local market's capacity. Thus, these risks can not be retained by the local insurance companies and they have to look for cover outside their market. Inflation also, is an important fluctuation factor. Under inflation the insurance company would be underinsured and it is taking less premium. Example, A is insured by $1,000,000. Due to inflation its value becomes $2,000,000. Thus the cover is under insured. The premiums were calculated on the $1,000,000 and not on the real or actual value which is $2,000,000. Thus the company is getting less premium. This will affect their retention through affecting their monetary power. The company premium will have less and thus will retain less.
2. Social changes:
When the social structure of the country changes, such as the growth of middle class, there will be an increase in the population's purchasing power which means an increase in spending on non essential items. An increase in the awareness for insurance would mean an increase in premium income. Therefore, when more people go for insurance, the income will increase and, eventually in the monetary power of the company would increase and thus affecting its retention. When the opinion on the value of human life also changes this influences the liability business. Thus, more premium would be collected from liability business.

Some changes in people's lives often create social tensions which in turn lead to individual acts of violence or organized demonstrations ending in riots and civil disturbances. This would increase the risk exposure, and insuring such markets, will have its effect on retention. That is, when a market is facing such acts insuring this cover means a greater possibility of major losses due to these factors and thus the insurance company should watch its retention.

3 - Changes from Natural catastrophe:
Almost one million Earthquakes occur every year. Floods and tidal waves all have their effect on insurance and retention specially when business is written from areas that are prone to major losses from these catastrophes. Thus, a company must be careful in choosing its retention from the Philippines or Japan since they are within the Earthquake zone. So, any loss could mean an accumulated loss from all the market. Therefore, retention should not be looked as per risk but as per market taking accumulation factor into account.
4 - Political changes:
War have a negative effect on insurance and thus increasing the exposure of risk. Bad political conditions in a certain country may not lead to war but can lead to strikes, malicious damage, civil commotion and Riot, which affect Insurance. Politics can also influence trade and the communication between one country and another. If one country depends in its business on another and for some political reasons the trade is stopped, this will affect insurance. Example, in UAE market, many electrical appliance companies broke. Their main market was Iran so when the war burst the trade business was stopped. These companies were faced with a huge stock and thus found a solution in burning their stock to be indemnified by insurance\textsuperscript{10}.

2.1.7) Kinds and Methods of Arranging Reinsurance Cover:

1) Facultative Reinsurance: is the system of Reinsurance under which each and every offer of Reinsurance is considered individually by the Reinsurer who either accepts or declines in accordance with the dictates of his faculties. This is the oldest form of Reinsurance. It is still used today in all branches mainly when:

   a- Treaty capacity has been used up.
   b- The risk is out with the terms of the Treaty.
   c- For unusual risks.

The Reinsurer has freedom of choice of how much of the risk to insure and at what premium commission rate. However, the insurer has to offer

\textsuperscript{10} S. chamaan, "Retention", Training sessions on Reinsurance, (Arab Re. Sep, 1994)
the risk to the Reinsurer with enough information for the Reinsurer to form a clear idea on its quality. The insurer cannot issue a policy before receiving the reinsurer's formal acceptance. Also, each facultative acceptance is an individual Reinsurance contract. The acceptance is valid for the period of the policy usually it is for one year. In addition, there is no automatic renewal, the ceding company should offer the risk again for renewal and state the conditions and terms.

Advantages and disadvantages of Facultative Reinsurance:

The main advantage of facultative reinsurance is that the reinsurer has the choice of examining the risk individually then accept or reject it. Thus, selecting the portfolio that suits his underwriting policy. Also, by advising the cedant of covers and having certain influence on his underwriting policy, and negotiating an adequate premium rate.

The main disadvantage is in high administration costs. On the other hand, the risks offered facultatively are more risky or have higher values. Immediate decision cannot be given, such a delay may create problems with agents and clients.

2) Pools: A pool is an arrangement whereby a certain number of insurance companies form a collective capacity to accept certain classes of risk each company being liable for its share in the Pool. Pool are sometimes arranged for exceptionally hazardous risks. A risk accepted in the direct market might not be retained by the member company but rather reinsured 100% in the pool. Each member, however, accepts a prearranged percentage of the

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11 K. Gerathewohl "Reinsurance principles and practice", (Germany, Konkordia Gmb H, 1980) pp 57,
127.
business in the pool, thus they all share losses and profits in the shares they have. Examples of such risks: Life assurance, Nuclear energy risks, Aviation, Coronary, etc. Risks that are uninsurable or only accepted for extremely low sums insured can be covered through this method because of the widespread of the risk.

3) **Treaty**: It is a binding Reinsurance contract between an insurer and a Reinsurer under which risks written by the insurer are automatically reinsured by the Reinsurer as written, but always subject to the extent terms and conditions agreed and stated in the treaty wordings.

**There are two types of treaties:**

1) **Proportional Treaties**: referred to as a pro-rata Reinsurance treaty or a participation treaty, in which the Reinsurer shares in the premiums and losses in the same proportion as shares in the total amounts at risks.

The forms of proportional treaty are Surplus and Quota-Share.

A) **The Quota Share Treaty**: In Quota share contracts the cedant binds himself to retain and cede fixed proportions of all the business he underwrites up to a fixed amount, and the reinsurers must accept an agreed percentage of every risk written by the ceding company on an agreed class of insurance business. It should be noted that the insurer can not retain all of any risk no matter how small the sum insured.

Thus, the reinsurers share proportionately according to their accepted shares, in all losses and receive in return their proportion of all premiums
falling under this particular treaty less commission. The operative clause in the treaty will indicate the percentage of the risk to be reinsured. For example, if under the quota-share agreement the reinsured shall retain for own account 40% of all fire risks, then 60% will be reinsured, and the cedant will bare 40% of any claim and the Reinsurer will bare 60% of any claim on the risk.

**Quota-share treaties are used where:**

a- A company has not been long in a particular market and its underwriting experience is unknown and yet it requires substantial Reinsurance protection.

b- A company surplus treaty claims experience has been poor and this may be the only form of Reinsurance cover available to it.

c- It is seen as a means of saving costs by way of earning higher commission rates than on surplus treaties and cutting administrative time on making retention decisions.

**B) The Surplus treaty:** In the surplus Reinsurance systems the company only cedes those amounts which it can not or does not want to retain for own account. The ceding company has to decide the net maximum amount of the sum insured that is prepared to keep for itself and such sum is called a line. If the size of the risk can be retained all by the ceding company there will be no need for surplus treaty.

The reinsurers are compelled to accept up to the number of lines specified in the treaty, if Reinsurance is desired. Sometimes in order to increase the underwriting capacity of the ceding company it enters into a second
surplus treaty whereby another group of Reinsurers will write a certain number of lines in addition to those written under the first Surplus treaty. The second surplus will be used after the first surplus is used with full capacity. (See example 2)

Example 1
If the cedant retention is $20,000 and it has a five line surplus treaty, it can accept $120,000 of any risk in the knowledge that it would retain for its own account $20,000 and would be due to reinsure five times that amount $100,000.

Cedant Share of the risk $20,000 = 1 line.
Reinsurance Share $100,000 = 5 lines.
If a claim amounts to $54,000 the settlement would be:
Cedant Share = 1/6 * $54,000 = $9,000
Reinsurance Share = 5/6 * $54,000 = $45,000

Example 2
Suppose that an Insurance Company has first, second and third surplus treaty. Each of the three treaties has a total capacity of $100,000. A risk with a surplus liability in excess of the ceding company's retention of $150,000 would be allocated as follows:

a) The first surplus treaty would be allocated to its full capacity of $100,000.
b) The second surplus treaty would be allocated the balance of $50,000 but this is still $50,000 less than its full capacity of $100,000.
c) The third treaty would not receive any share of this risk since it was all allocated to the above treaties.

If the capacity of the three surplus are used full, the company can place the balance on facultative basis. Under both Surplus and Quota-Share treaties it is usual for the Reinsurers to be unaware of the individual risks which they are insuring. The treaties are "blind treaties" and the ceding company prepares an account periodically showing the proportion of claims due for them.

II) Non-Proportional treaties:

Non-Proportional Treaties: in which the insurers and the Reinsurers do not share each loss in fixed proportions and may not share some losses at all. The Insurer will underwrite its retention as a form of first loss insurance i.e. it will bear all losses up to a certain figure and the reinsurers will deal with the balance of any loss above this figure with usually an upper limit. The Principle forms of non-proportional covers are Excess of loss and Excess of loss ratio.

A) Excess of loss:
Under this form of Reinsurance, the Reinsurer only becomes involved where a claim exceeds the amount of such loss retained by the direct insurance. When the cedant retention of any one risk is exceeded the Reinsurer steps in and pays the balance. An excess of loss treaty would be arranged to cover for example $90,000 in excess of $10,000 arising of any one event.
<table>
<thead>
<tr>
<th>Loss Amount</th>
<th>Cedant</th>
<th>Reinsurer</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,500</td>
<td>7,500</td>
<td>Nil</td>
</tr>
<tr>
<td>50,000</td>
<td>10,000</td>
<td>40,000</td>
</tr>
<tr>
<td>120,000</td>
<td>10,000</td>
<td>90,000</td>
</tr>
</tbody>
</table>

In the last claim the remaining 20,000 would be paid by the cedant. In such a case the cedant can negotiate a second excess of loss treaty. Many insurers will have three or four excess of loss treaties. For example:

- **Fourth excess of loss** $150,000 in excess of 350,000.
- **Third excess of loss** $150,000 in excess of 200,000.
- **Second excess of loss** $100,000 in excess of 100,000.
- **First excess of loss** $90,000 in excess of 10,000.

Cedant retention first 10,000.

Here the cedant arranged excess of loss protection up to 500,000. It is also called working excess of loss WXL because of working layers. Each progressive layer of excess of loss cover becomes less expensive as losses of higher severity are more unlikely.

**B) Catastrophe cover:**

It offers the insurer protection against the accumulations resulting from numerous losses caused by the same event such as cyclones, earthquakes, conflagrations, etc. In general it protects the retention against catastrophes.

**Example:**
A storm causes 1000 losses of $3000 on policies covering private houses which all are retained within the company's retention. The company having concluded an excess of loss reinsurance cover on its retention for an amount of $2,000,000 Excess 500,000 would in other words charge the Reinsurer $2,000,000 after having itself paid the first $500,000.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total loss</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Cedant retention</td>
<td>500,000</td>
</tr>
<tr>
<td>Reinsurance cover</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Non insured quota payable by the cedant</td>
<td>500,000</td>
</tr>
</tbody>
</table>

C) Excess of Loss Ratio (Stop Loss)

This form of Reinsurance differs from the rest in that it does not deal with individual risk or individual events but is designed to prevent wide fluctuations of the net claims ratio of a particular account over one financial year compared with another.

Example:
The company decides to protect the results of its hail branch by using a cover of 50% in excess of an annual loss ratio of 90%. At the end of the accounting period the loss experience is 102%. Thus the Reinsurer carries 12% which exceed the 90% that the cedant himself carries. The stop loss is used very rarely as it presents reinsurers with a very heavy burden. For this reason the cost of the cover is high and therefore unattractive to ceding companies\(^{13}\).

\(^{13}\) John T. Steele, *Principles and practices of Insurance*, Section 8.
2.2) The International Reinsurance Market

2.2.1) General conditions during the past five years:

The international reinsurance markets during the end of the eighties until recently were characterized by a high degree of overcapacity. This overcapacity resulted in inadequate reinsurance prices and conditions specially for classes of business that are mostly affected by international competition. Many countries and specially European countries are characterized by heavy reinsured industrial business, of high exposure, and on the other hand inadequate premiums and conditions. Many attempts were made to solve this imbalance through rehabilitation of direct insurance. The results were successful in many areas but still substantial adjustments are necessary. The Reinsurance market experienced intense competition. Also during the past years it was faced with many losses and thus, unfavourable claims experience. Some claims were carried forward for many years. Particularly, the US market was heavily affected by the losses. The insurance and reinsurance markets were hit four times with heavy losses from natural catastrophes. These catastrophes are:

- The European winter storms, windstorm Doria in 1990.

During the last five years these losses represented the highest insured losses ever from a single natural catastrophe. These losses did not affect the local markets alone but had their effect on the whole reinsurance market. Many reinsurance companies were broken and others were faced
with huge losses. These high losses on the other hand accumulated in the recent years and affected many insurance and reinsurance companies in different degrees depending on their composition of portfolios. As a result, the reinsurance supply was decreased through the world market. The reinsurance cover for natural hazards was decreased in particular. This cover was included in many policies for free charge.

As a result the above led to the decrease of retrocessionaires capacity. The retrocessionaires are the reinsurers of the reinsurance companies and the risk carriers who are traditionally available for further spreading of large and hazardous risks covered by reinsurers. The decrease in the retrocessions capacity affected many international reinsurers such as Munich Re. Making their spread of risk more difficult and more expensive. This forced many reinsurance companies to retain higher percentages of the risks for their own account. On the other side, this substantial reduction in retrocession and reinsurance capacity presented opportunities to improve the profitability of reinsurance business. This also resulted in adjustments of reinsurance prices and conditions in certain areas of business. Inspite of this, rates were not proportional to the risks reinsured. To maintain reduced fluctuations in the results of direct insurers' business through reinsurance prices and conditions it should be proportional with the risks covered. Reinsurance companies imposed their own prices and conditions on insurance companies rather than waiting for remedial measures in the direct insurance companies. Traditionally, the reinsurer will follow the insurance company's original rates in proportional reinsurance treaties. This practice is of emphasis when both partners are able to view the reinsurance agreement as a mutually sustainable relationship taking into account the loss potential of major risks and catastrophes. However, this premise is not taken for granted anymore.
Reinsurers are fixing the rates and conditions ahead for insurance companies to ensure their profitability in their business since they are the more experienced in the field\textsuperscript{14}.

\textbf{2.2.2) General Reinsurance conditions during 1992-1993}

The reinsurance market recently was going through difficulties of covering natural hazard risks. However, the profits generated by this market were not enough to face the possible risks. (In conclusion, the problem could be solved by increasing the rates for such catastrophe covers and on the other hand limiting the reinsurance companies liability of such covers). In addition, the determination of the premium should be done on more technical and professional basis.

Due to the major losses of reinsurance companies during 1992 many reinsurers were trying to impose restricted rates, terms and conditions for 1992 and 1993 reinsurance covers renewals. They started this policy on some branches of insurance, however, after few months they become less restricted.

We should also note that the losses of the reinsurance companies were not only losses from natural catastrophe but also due to the chaos that characterized many of them. Their main concern was collecting premiums that they neglected the technical aspects of reinsurance underwriting. The reinsurance companies were forced to come back to practice their business on a technical and professional bases specially after it was burdened with losses and a substantial decrease in its reserves. Even investing the premium collected was not enough to cover the losses occurred. Reinsurance turned to facultative reinsurance and increased their acceptance during the recent years. As it is known reinsurance

\textsuperscript{14} Munich Re, Annual Report 93
covers are divided into proportional and non proportional treaties and facultative reinsurance. In respect of the first the reinsurance company covers the risk without any inspection on the risk or on the appropriate rate that was applied for each risk. This situation caused the reinsurance companies a lot of losses in the past and most of them were due to natural causes mostly in Europe and America. These losses forced many reinsurers to stop or to decrease accepting proportional treaties and turned on accepting more facultative business. As mentioned before, this resulted in the decrease of reinsurance capacity cover internationally. In facultative reinsurance the reinsured is capable of controlling the rates, terms and conditions of every individual risk. However, it is insufficient to guarantee the future of the company on the long-run.

However, facultative reinsurance is characterized by high administrative costs and many reinsurance companies prefer to limit their facultative participation from insurance companies which they have treaty covers with them. The confidence between the reinsurance company and the insurance company is of vital importance.

2.2.3) Conditions of the market during 93-94

Different strategies were followed by reinsurance companies during the reinsurance covers renewals of 1994. The main objective was to reach an agreement with the insurance companies to rate all risks for all treaties. Some risks that were covered free without additional rate were rated such as Natural perils in fire policies. A tariff was put for such covers in addition to a deductible which the insurance has to pay for every loss. This deductible benefits the insurance and the reinsurance companies in reducing their liability and also benefits the insured through making him
more aware for insuring himself against such risks\textsuperscript{15}. The Reinsurance market in 1993-1994 showed some improvements in results compared to the preceding years, the main reason was the decrease in the natural catastrophe burden. However, the year was not excluded from extreme weather conditions such as the floods in USA and Europe. Although their influence on the loss ratio of the insurance and reinsurance companies was modest. This was due to the fact that this cover was insured with a little capacity. But, this does not eliminate the danger of natural catastrophe specially for the long run. Many factors are influencing negatively the insurance and reinsurance industry such as higher concentrations of values, higher insurance density and growing number of extraordinary natural catastrophes. The emphases for the coming years to improve the industry conditions, should be on mastering financial consequences, promoting research projects and to supporting loss prevention measures from natural catastrophes. However, all this should be based on a correct calculation of the premium on the basis of the probability of occurrence and possible size of loss. This should remain stable in order to allow for adequate reserves to be formed in years with less severe loss burdens.

In Europe, the motor insurance and reinsurance premiums and conditions were improved, even though theft remained at a high level. Therefore, in order to reach balanced results there must be a cooperation between the motor industry and the insurance reinsurance industry. Moreover, the improvements made by the reinsurers during 1992-1993 on the premiums and conditions for the fire insurance and reinsurance reflected internationally in a steady improvement of results. It is important to keep

\textsuperscript{15} "Interview with International Reinsurers in Morocco", Al-Bayan (Beirut : Arab press) June 1994, pp 92,94.
competition on the basis of risk consultancy and technical terms and conditions plus services provided rather than on price.

In the Far East the main issue was deregulation in Japan and the free access to the Chinese market. Much more attention is being paid to these markets by leading international insurers and re insurers. There is a tendency that competition in these markets will be more intense and thus increasing the pressure on inadequate existing premiums. These markets are light exposed to natural catastrophes and the situation would be worse in the light of premium rates deterioration.

The American Insurance and reinsurance market showed some improvements in the premiums of property insurance due to the intense regulations and supervisory activities and the new capital requirements. This year was also characterized by the entrance of highly capitalized companies into the market, their focus was on catastroph risks covers. This step brought forward the importance of the financial strength for the reinsurer specially for the long run. As we know many international reinsurance companies withdrew from the market due to the huge losses that were beyond their capacity.

In conclusion, natural hazards are increasing and thus larger liabilities for such risk are assumed. International operating reinsurers should be aware of such changes in order to face any problems that can arise. Reinsurance is one way of spreading risks and balancing the fluctuations in claims experience. To guarantee the reinsurance protection reliability and availability on the long run it should have an adequate profit potential and sufficient profitability of reinsurance business\textsuperscript{16}.

\textsuperscript{16} Swiss Re, Annual Report 93
2.3) Reinsurance Market in the Arab World

2.3.1. Social and Economical Conditions:

Insurance and Reinsurance companies in the Arab World are affected by legislation in their respective countries. The effect is in the flexibility of financial outflow and inflow specially for foreign currencies. This affects the easiness of paying claims or transforming premium income. The effect also is on competition versus monopoly.

One can divide the Arab Countries under the following social and economical conditions:

(1) Free Private Enterprise:
The individual is free to form any kind of a company, individually, partnership, or corporation. Competition is an important factor and it regulates the system which operates within the state laws (commercial & Civil).

The countries which fit into this category are Bahrain, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia, United Arab Emirates.

(2) Private Enterprise accompanied by a state-guided economy:
Here, the private sector is free to build its economical and social structure. However, the government interferes in terms of a guidance. Under this condition lies Morocco, Oman, Sudan & Tunisia.

(3) The welfare states:
The state runs most and sometimes all of the countries enterprises: public utilities, financial institutions, insurance concerns, medical, and social
services. The countries that belong to this category Iraq, Libya, Syria and N. Yemen.

(4) Socialist states:
The state gradually aims at reaching full ownership of all enterprises. The state controls production, trade, public services, finance, and insurance. In agriculture it allows private holdings but with the aim of its full ownership in the future. The countries belonging to this category are Algeria, South Yemen and Egypt17.

2.3.2) General conditions of the market:

National and foreign companies:

The insurance and reinsurance market in the Arab World consists of 281 national company and 75 foreign ones. These national companies write about 93 percent of the premiums while the foreign companies write the rest. However, the business of these foreign companies is growing in a higher rate than that of the national companies. In 1992-93 the national companies had a premium growth rate of 11 percent while that for foreign companies was 27 percent. Thus, foreign companies are gradually becoming a threat to national companies. They usually operate in countries whose growth rate is well above the average for the region. They are involved mostly in classes of business that generally record the highest growth rates such as life and property insurance and reinsurance. The foreign companies premium income represents 25 percent of the total premium income of the Arab market. Their main markets are Bahrain, Jordan, Kuwait, Lebanon, Oman, Qatar and UAE. They mostly influence

17 Basim Faris, Insurance & Reinsurance in Arab World, 1983
UAE in which their premium income represents 32 percent of the total premium income in UAE. Their lowest influence is in Jordan in which only one foreign company exists\textsuperscript{18}.

During 1992-93 it was noticed that Arab Countries inflation rates affected the premium volume growth. For those countries with high inflation rates the premium volume declined by 2 percent when expressed at actual exchange rates to the US dollar. While in countries with low inflation rate there was an average increase in premium of 9 percent. The total written premium in the Arab countries amounted to USD 4 Billion that is an increase of 12 percent compared to the previous year. However, compared to the international insurance and reinsurance market this only represent a 0.5 percent\textsuperscript{19}.

The Arab insurance and reinsurance market is characterized by a relatively small capacity and premium income. Only five reinsurance companies wrote gross premiums in excess of USD 50 million in 1991. These companies are:

<table>
<thead>
<tr>
<th>Company</th>
<th>Premium Income</th>
<th>Retention</th>
<th>Loss Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARIG (Bahrain)</td>
<td>$167 (in millions)</td>
<td>65%</td>
<td>62%</td>
</tr>
<tr>
<td>SCR (Morocco)</td>
<td>$121</td>
<td>62%</td>
<td>85%</td>
</tr>
<tr>
<td>EGYPT RE (Egypt)</td>
<td>$79</td>
<td>68%</td>
<td>65%</td>
</tr>
<tr>
<td>STAR (Tunisia)</td>
<td>$77</td>
<td>76%</td>
<td>1.13%</td>
</tr>
<tr>
<td>CCR (Algeria)</td>
<td>$67</td>
<td>68%</td>
<td>78%</td>
</tr>
</tbody>
</table>

The above was a study conducted by ARIG (Arab Insurance Group).

The study included 19 Arab countries of which 136 companies

\textsuperscript{19} ARIG, Annual Report 93.
contributed which represent 76% of the gross written premium income of the Arab Market.

However, the companies are in different market conditions. Some are unregulated such as in Saudi Arabia and some are state monopolies such as in Libya and Syria. Also, the contribution of the foreign companies was minimal in this study.

What follows is the schedule for the largest markets by gross premium\(^{20}\):

**Largest markets by gross written premium.**

(USD 000s)

<table>
<thead>
<tr>
<th>Country</th>
<th>1991</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>609 610</td>
<td>676 205</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>451 767</td>
<td>462 541</td>
</tr>
<tr>
<td>Egypt</td>
<td>343 819</td>
<td>397 594</td>
</tr>
<tr>
<td>Iraq</td>
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<td>381 318</td>
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<tr>
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<tr>
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<td>35 214</td>
<td>30 108</td>
</tr>
<tr>
<td>Yemen</td>
<td>26 400</td>
<td>27 600</td>
</tr>
</tbody>
</table>

Mauritania  NA  10 873
Somalia    NA    180

2.3.3) Largest markets by gross written premium in 1991-1992

What follows is the general condition of insurance and reinsurance market for the first five companies who write the highest premium volume.

2.3.3-1) Morocco:

Morocco has the largest premium volume of which the motor business represents 45 percent of the total premium income while 10 percent is for marine and 8 percent for fire.\(^{21}\)

SCR (Societe Centrale de Reassurance) is the regulating company for all the insurance companies in Morocco. Reinsurance here is compulsory, that is, the insurance companies are obliged by law to cede part of their business to their national reinsurance company. The business portfolio of SCR is composed of 47.55% compulsory business and 52.5% conventional business of which 21.58% relates to foreign business. The direct insurance in Morocco represents the main supplies for S.C.R. The company's premium income increased by 15.23% compared to 91-92. S.C.R. technical results increased by 5% compared to 91-92. This was due to the decrease of the motor branch deficit as a result of claims versus premium improvement, as well as improvements in the Fire, CAR and liability branches. Also investment income increased from 13.2% in 91-92 to 19.44% in 92-93. However, this positive increase in the technical results from Morocco compulsory business was faced by a negative result from conventional and foreign business which were affected from the

\(^{21}\) Ebid
international reinsurance market. However, SCR important role as a secure market saved it from the international market fluctuations. SCR considered its privatization, in addition to continuing being the market regulator, backed up with more than thirty years of experience in the reinsurance market22.

2.3.3-2) Algeria

In Algeria the dominant insurance companies are Caisse Algérienne d'Assurance et de Reassurance, the Agricultural Mutual, CNMA, and the specialist Marine carrier Algérienne de Assurances Transports. The monopolist reinsurance company is CCR (Compagnie Centrale de Reassurance) which is owned by four state investment funds. The Algerian market is very much affected by the international conditions. Industrial countries exercise pressure on the third world countries specially concerning raw material. The demand for the raw material is decreasing versus the supply which resulted in the decrease in prices of raw material. Algeria like all Arab countries was affected by the above specially for crude oil and natural gas which are the countries' main resources. This led to a difficult financial situation of many companies also faced with a huge national debt.

There was a premium growth due to enforced terms and conditions. CCR canceled a number of business treaties from Europe section and thus was not much affected by the losses from natural catastrophies. The company had good results except for Marine. Global turnover increased by 32.88% in 93 (compared to 92). On the other hand, Domestic business increased by 58.75% while International business decreased by 13.31%. However, the devaluation of currency had an impact on the outstanding losses. Also,

22 SCR Annual Report 93
Foreign business represents 23.8% of the portfolio (was 35.34%), National Business 76.2% was (63.66%). CCR had net profit in 92-93 of AD 1758 million increased by 172% compared to 91-92.

2.3.3-3 Tunisia

In Tunisia there are 14 insurers, in which life represents 7% of total premium income compared to 3.5% in Morocco and 15% in Algeria. The two reinsurers in Tunisia are STAR which is 50% government-owned and Tunis Re of which 10% are government shareholders and 42% are direct insurers. The reinsurance market in Tunisia was very slightly affected by the negative results of the international direct insurance market. In 1992-93 the reinsurance market witnessed its lowest level since the decrease in the reinsurance results since the year 1988. The main loss was from the technical results. This decrease was due to the increase in claims verses inadequate rates and risk nature. The reinsurance market in Tunisia was also affected by the overall conditions of the international reinsurance market but inspite of this it had some positive results. The premium income increased by 14.5%. The premium represents 52% local business and 48% foreign business. The reinsurance growth in premium was mainly from local business. The increase in business was about 32%. The reinsurance market also increased the facultative portfolio which resulted in positive results specially in Aviation and CAR branches. The overall results of the Tunisia reinsurance according to branches: Cargo had negative results, Aviation improved but still had negative results, and fire had negative results (the local market had some improvements especially in fire aviation and CAR but the negative results mostly were from foreign business). However, there was an increase in investment.

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23 CCR, Annual Report 93
income of 25%. The main objective of the reinsurance sector in Tunis is increasing the business portfolio and improving the results as well as increasing the paid-up capital. 

2.3.3-4 Egypt

Life insurance represents a significant 35% from total premium. There are three Insurance companies owned by the state. They are Al Chark, Misr and National Insurance which represent 90% of the market. They are shareholders in four out of five joint venture private sector companies. The reinsurance company is Egypt Re which receives statutory cessions from direct insurance business and is wholly state owned. Egypt Re as a reinsurer working on an international market was very much affected by the overall situation of international Reinsurance market. The challenges faced by the company on the international and domestic level necessitates implementing new strategies and management practices. The most important was reorganizing the company's business portfolio. There was also a change in the company's underwriting methods, like international reinsurers Egypt Re imposed tighter terms and conditions and higher rates on the cedant companies. They also became more selective in terms of the type of business they take. Organizational structure is being reviewed.

The most important issue in the Egypt market is privatization. This issue is being studied seriously by Egypt Re and it presents the highest challenge in the future. Reinsurance in Egypt is compulsory.

Privatization would imply a further freedom for the insurance companies to seek reinsurance outside Egypt. For Egypt Re this would imply a decrease in its premium income. Concerning the business performance of the company during the period 92-93. The companies' premium income

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24 Tunis Re, Annual Report 93
increased by 4.8% compared to the previous year. The company continued the strategy of increasing foreign business but on selective bases. Despite the catastrophic losses which adversely affected all reinsurers in the world, the foreign business loss ratio was 127.6%. The company continued its strategy of strengthening its reserves. Technical reserves were increased by 19.5% and paid-up capital increased by 5.3%. The company recorded a profit of LE 2.6 mil in which investment income contributed by an increase in return by 10.1%\(^2\)\(^5\).

\[\text{2.3.3-5 Bahrain}\]

ARIG is leading a strategy of increasing its business as a professional reinsurance company. Despite the losses of the international reinsurance market during 1992, ARIG reported an improvement in its business results in 93. Premium income increased by 15.1% to reach US$ 155.3 million in 1993. The premium from business written in its branch in UK amounted to US$ 36.6 millions. There was also an increase in the company’s total assets from US$ 531.6 millions to US$ 569.2 millions. Shareholder’s funds also increased from US$ 234.3 millions to US$ 241 millions. The company’s net profit amounted to US$ 6.7 millions. However, the technical result of the company was a loss of US$ 12.6 millions.

The company is expanding its business in the Middle East and the North African markets after the withdrawal of several reinsurers after the catastrophes faced by the market.

The business expansion is monitored by the company from its offices in Tunisia and Hong Kong. However, the company had negative results

\[\text{\(^2\) Egypt Re, Annual Report 92}\]
from the Far East caused by Mirelle Typhoons and Gladys. The company's geographical scope is the following:

Arab Markets 20.7%
European Markets 23.2%
American Markets 24.6%
Asian Markets 20.8%
Other Markets 10.7%

ARIG noted that they still look ahead with caution for the reinsurance market. This is due to the formulation of highly capitalized companies in Bermuda that on the long run would fill the market with over capacity than needed and start a downward spiral in the reinsurance cycle. In the Gulf, marine insurance is significant. The premium volume fluctuates to some degree in line with the production of oil and its prices. For example, in Bahrain, the gross premium for hull and cargo fell by 13% in 1988 and rose to 50% in 1991. In UAE, the fall was 13% in 1988 and the rise 20% in 1991.

2.3.4) Challenges to Arab Reinsurers

The Arab Reinsurance market consists of few companies that are specialized in Reinsurance business. These companies are listed in alphabetical order.

---

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>HEAD QUARTER</th>
<th>GOVERNMENT CONTROL</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARAB RE</td>
<td>LEBANON</td>
<td></td>
</tr>
<tr>
<td>ARAB</td>
<td>BAHRAIN</td>
<td></td>
</tr>
<tr>
<td>INTERNATIONAL</td>
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<td></td>
</tr>
<tr>
<td>ARAB UNION RE</td>
<td>SYRIA</td>
<td>100%</td>
</tr>
<tr>
<td>ARIG</td>
<td>BAHRAIN</td>
<td></td>
</tr>
<tr>
<td>BEST RE</td>
<td>TUNIS</td>
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</tr>
<tr>
<td>CCR</td>
<td>ALGERIA</td>
<td>100%</td>
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<tr>
<td>EGYPT RE</td>
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<tr>
<td>IRAQ RE</td>
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</tr>
<tr>
<td>KUWAIT RE</td>
<td>KUWAIT</td>
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<tr>
<td>MED RE</td>
<td>UK</td>
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<tr>
<td>NATIONAL RE</td>
<td>SUDAN</td>
<td>100%</td>
</tr>
<tr>
<td>SCR</td>
<td>MOROCCO</td>
<td>51%</td>
</tr>
<tr>
<td>TUNIS RE</td>
<td>TUNIS</td>
<td></td>
</tr>
</tbody>
</table>

Note: MED Re takes only Algerian and Libyan Business.

Arab Union Re corporation between Syria, Egypt and Libya now only Syria and Libya are involved.²⁸

It is shown from the table above that 46% of the reinsurance companies in the Arab world are controlled by the government. The study conducted by ARIG concerning the Arab Reinsurers showed that a small percentage of the reinsurer portfolio is from Arab market while most of their portfolio is from the local market. These results are very much related to the nature of the company whether it is a corporation or a public enterprise. In the countries in which reinsurance is compulsory it is only logical to see a

²⁸ H. Haidar, (Arab Re, Dec, 1994)
large amount of business absorbed by the local reinsurer not to say all are taken by him.

However, in the light of changing conditions and the consideration of privatizing insurance and reinsurance sector in these countries, the problem of strengthening the reinsurance position arises. When reinsurance is no longer compulsory the insurance companies will be free to choose their reinsurers. However, the issue here is not whether the reinsurance company is working under a controlled or free economy but rather considering its position in the market as a competitor with foreign reinsurers.

2.3.5) Qualities of a good reinsurer

The insurance companies in choosing their reinsurers, they look for certain qualities that should be provided in a professional reinsurer. These qualities are:

1) The financial strength of the company: This is an important factor in determining whether the company is able to meet its liabilities. Such indicators are:
   - Paid-up Capital
   - Premium Income
   - Free Reserves
   - Liquid Assets
   - Investment Income

2) Quickness in reply: because of the competition, immediate reply is very important. The reply should be maximum within 24 hours for facultative business and 2 to 3 days for treaty business.
3) Quick cover of claims.
4) Quick transfer of balances.
5) Providing technical services such as:
   - Advice on the proper coverage for certain risks
   - Help in inspecting certain losses and its settlement.
   - Determining the probable maximum loss (PML) for certain covers.
   - Providing policy wording and clauses
   - Provide rating and quotations for large risks that the insurance company
even does not have the expertise for such a job.
   - Providing the know how
   - Accounting assistance
   - Statistical assistance
   - And organizing assistance

Therefore, if the Arab reinsurers lack some of these characteristics then
they will have a competitive disadvantage versus foreign competitors\textsuperscript{29}.

\textbf{2.3.6) Financial Evaluation of Reinsurance}

The financial evaluation of a reinsurance company starts by studying its
financial strength to meet its obligations. To analyze the balance sheet of
a reinsurance company we take certain ratios into consideration.

For many years the main concern of the insurance and reinsurance
companies was the solvency margins specially after the huge losses that
cased the international market and resulted in the bankruptcy of many
companies in the industry. This result was due to inefficient, unbalanced
underwriting policies and illegal competition. Attention was drawn to
research and study to preserve the financial strength of the company.

\textsuperscript{29} S. Chamaan (Arab Re, June 1994)
The solvency study is of vital importance and it is practiced by many specialized companies around the world in 60 countries covering about 2000 insurance and reinsurance companies. Many companies established their own financial department specializing in studying the solvency margins. The financial strength or solvency of the reinsurance company is determined by its strength to meet its obligations and liabilities in full when they are due as well as the ability of the company to pay for large indemnities as soon as they are asked for without affecting the business or leading to bankruptcy.

2.3.6-1) The factors affecting the solvency

There are two main factors taken into consideration when studying the company's solvency:

I - Internal factors
II - External factors

I) Internal factors: That reflect the financial position of the company such as:

1- Paid-in capital: Usually determining the capital which would be efficient to the company related to the type of business it practices that is, fire, accident, engineering etc. The Capital should be appropriate with the function of the company and its market. The minimum requirement for the paid in capital is determined by law in order to protect the insured. This requirement varies according to the economical situation of the country. The paid-in capital requirement is usually decreased when there
is a need to establish such a company and is increased in times of inflation or stagnation and when the insurance and reinsurance market is saturated. Authorized capital is the capital agreed upon by shareholders when establishing the company. Paid in capital is the capital that is actually paid by the shareholders in the company.

2- Capital reserves: These reserves are amounts which are taken from profits established that are reserved and added to the capital to keep the value of the paid-up capital and preserve the equity. Some of this reserve is a requirement by law, reserving a fixed percentage of profits the rest is considered as free reserve.

3- Free reserves: it is part of financial or technical profit that is kept by the company as a reserve put aside to be used when needed. It is an additional protection taken by the company.

4- Non Distributed profits: It is the net profit generated by the company from a financial and technical point, which is not distributed to shareholders. It is an additional reserve taken by the company.

II) External factors:

1- Economical factors: that have some effect on the company's solvency such as establishing new laws for taxation, financial strain, and currency fluctuation, inflation etc.

2- Technical factors: some factors can have negative effect on the company's solvency such as growth of underwriting business more than
necessary, loss ratio fluctuation which indicates many losses. In addition to the insufficiency of technical reserves and special reserves for outstanding losses etc.

3- Social factors; such as increasing the sum insured on certain risks in case of life or liability insurance and reinsurance. The increase in value would affect the company's ability to meet its obligations.

4- Political factors: such factors affect the economical functions of the company. In case of war, insurance and reinsurance business increases against risks. Premium increases due to the increase in the probability of losses. In such a case the company should increase its reserves to pay for such expected losses at any time.

5- Investment factors: the company's investments should be sufficient for the company's obligation. Taking into consideration avoiding huge risks in investment methods used as well as solvency and profits.

Methods of investment available for the company

Bonds
Shares and securities
Real Estates
Bank deposits
Mortgages

It is important to note here the function of the government in directing the investment. In some companies it is obligatory for companies to invest in
the above investment methods in certain percentage through an economical plan.
There are many factors that affect the company's investment policy such as fluctuations in the stock and bond market, fluctuation in currencies or new materials, fluctuations in property and mortgages subject to supply and demand.

6- Administrative factors: concerning the effectiveness and efficiency of the management in taking the right decisions and drawing the company's policies and selecting business that would maintain good results and preserve the equity of the shareholders.
For further details see Appendix B.

2.3.7) The Qualities of a ceding company

Reinsurance is a two-way relationship and as there are some considerations in choosing a reinsurer, the reinsurer on the other hand set certain conditions to choose the ceding company. The reinsurer must be satisfied with the following:

(a) The quality of the management of the ceding company. The management quality plays an important role in the success and failure of the organization. The reinsurer must look for the management knowledge in business, competence, and integrity.

(b) The reinsurer must also look for the underwriting skills. The underwriting policy of the cedant should be based on sound insurance principles. The cedant should be trusted for sound judgment and skill in

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30 S. Mikati "Studying the financial strength of an insurance and reinsurance company" (Seminar-Arab Re, Beirut 1992).
its underwriting decisions. The Underwriting of the cedant reflects the quality of his business portfolio. The reinsurer should also be sure that the cedant is not practicing any anti-selection against him. That is the cedant is reinsuring the good business in addition to below average risks and not only retaining the good business. He should protect the interest of the reinsurers as if he is retaining the business he underwrites all to himself.

(c) The cedant geographical scope: It is important to reinsurers since it reflects the claim experience of a certain market. There are some factors that influence such a claim record such as natural hazards, economical situation, political situation which all differ according to the geographical area of the cedant company\textsuperscript{31}

2.3.8) Problems of the market

The study conducted by ARIG which was mentioned before came out with the following findings:

(1) Lack of capital funds and shareholder's equity:

Among the 13 reinsurance companies 8 companies have their capital below USD 10 millions. These 8 companies represent 62% of the total. This implies that most Arab reinsurers have limited capacity which limits their activities and affects their business expansion and growth as well as their underwriting capacity.

\textsuperscript{31} Irukwu, Reinsurance in the third world
| Capital in Million of $ | paid-up capital | | shareholders' equity | |
|------------------------|-----------------|-----------------|----------------------|
|                       | Number of       | %    | Number of       | %    |
|                       | Companies       |      | Companies       |      |
| From zero to 10 million | 8               | 62%  | 7               | 54%  |
| From 10 to 25 million  | 4               | 31%  | 4               | 31%  |
| More than 25 million   | 1               | 7%   | 2               | 15%  |
| SUM                    | 13              | 100% | 13              | 100% |

For the reinsurer to absorb more business and build up an important underwriting capacity, should depend on sufficient capital. The reinsurer will retain part of the business he underwrites and covers himself through retrocessions programs. However, the reinsurance market is characterized recently by a lack of capacity to absorb the reinsurance cover even for risks of limited geographical coverage. Thus, the reinsurer finds himself in a situation where he is obliged to retain more than he intended. Than it becomes more and more important to depend on the special capabilities of every reinsurer to provide the necessary capacity to absorb the underwriting business. The paid- up capital and the shareholder's equity of most the Arab reinsurers are below the standards exercised by the reinsurance international market. This situation results in the difficulty and inability of the Arab Reinsurer to accept significant shares that would be economical for both the cedant or the broker. On the other hand, International brokers who are asked to offer most of the large risks (whether Arab or non Arab) to the international market, put in their priority list the reinsurers with low capital in the end of their choice. At the end, what will be left for these reinsurers are only the risks that could
not be covered completely or only very small share of the risk. In the light of this relationship between the capital available and the level of underwriting capacity verses the recent situation of Arab reinsurers implies the following:

- A weak financial capacity which definitely means weakness in underwriting business.
- Inability to accept important shares which would make the reinsurer in a leading position. For the leader of a reinsurance program is the one participating in the highest percentage and thus imposes his terms and conditions on the cedant.
- Inability for the reinsurer to keep his share in case of an increase in sum insured which would result in the cedant's disappointment. As a result the cedant would turn back to the broker or anyone else of the reinsurers to cover the share that was not taken by the reinsurer with limited capacity.
- Limited capability of the reinsurer to attract and develop employees with higher capabilities and better expertise.
- Inability to apply modern systems and managerial aspects which became an essential factor in keeping a competitive advantage in the market.

2) Lack of Marketing and communications efforts:

It is usual for professional reinsurers to visit those cedant companies which they have good relationship with. In addition to the regular visits, representatives of different departments also visit these companies to give advise and help in solving existing problems. Also, professional reinsurers have representatives for every market and country they deal with. This is
important in facultative business. Some reinsurers are offered facultative business through a broker from countries in which they do not have any business with and from companies they know nothing about their situation. A professional reinsurer will not risk dealing with such companies without a careful study and after visiting such a market.

Arab reinsurers are divided into three categories concerning business communication:

a) Those who only met with other companies in Seminars and conferences.

b) Those who visit the important markets on irregular bases. This might be good for the reinsurer but it limits his ability to expand opportunities and be aware of changes and opportunities in the other markets.

c) Those who pay regular visits to the companies or markets they deal with. They communicate regularly with the managers of the cedant companies. Many benefits arise from this communication such as strengthening the reinsurer's relationship with the cedant companies. Also getting more opportunities for expanding the business and having a better geographical distribution for its portfolio of facultative and treaty business. This also implies the support of the reinsurer to the cedant. It helps express his will to continue the relationship, as well as, showing flexibility in underwriting when the cedant company needs help to complete cover of some risks which are difficult to cover.

3) Lack in providing Technical services on the same level as foreign reinsurers:
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3) Lack in providing Technical services on the same level as foreign reinsurers:
The foreign reinsurers and Brokers compete with Arab reinsurers by providing important technical services for the ceding companies in the Arab market. These services are

- Training sessions and conference for the technical staff.
- Provide a huge variety of publications concerning the technical aspects and all subjects related to Insurance.
- Help in choosing the appropriate Reinsurance programs and reviewing it when needed.
- Innovating new insurance products to be used by the cedant.
- Giving technical support for the cedant's marketing and management aspects.

The services provided by Arab reinsurers are limited and are done on an irregular basis. Concerning the training conferences few reinsurers provided this service, but it was done only once. Publications concerning Insurance and reinsurance business are mostly from foreign resources. In addition, there is a lack of publications that are addressed to professional reinsurers, since all the books concerning Insurance and reinsurance are written by International professional reinsurers. In the light of what the foreign reinsurers and brokers provide for the Arab cedant companies, they find themselves in a position where they have no choice but to choose their services. They are even unable to lose the foreign reinsurer share or even reduce it since they depend on him for many years in providing the essential services in respect of large risks. The Arab reinsurer is still unable to substitute the foreign reinsurer and supply the services he offers.

4) The slow in payment exchange and reply:
One of the characteristics of being a professional reinsurer is the ability to reply quickly to any offer or business concern as well as the quickness in paying the claims. Many Arab reinsurers do not operate in a free market. The government imposes some forms of exchange control laws. This has the effect of impeding or delaying the free movement of reinsurance funds and therefore tends to make it difficult for these reinsurers to meet their international reinsurance obligations in time. The difficult economical conditions of some Arab countries also represent an obstacle in the funds exchange. The delay in reply is also contributed to the complication in the managerial system of the reinsurance companies. The decision is taken after a long channel of organizational authority. This bureaucracy between the different levels of management in the important factor in delay. Sometime, a transaction needs the signature of a number of managers before sending the answer to the ceding company.

- The language obstacle:
There is a great attempt of having the business exchange between the Arab reinsurers and the Arab ceding companies in Arabic language. However, the dominant language are the English language for the Eastern part of the Arab world and the French language in the western part except for Libya. This creates an obstacle for Arab Reinsurer and requires additional effort to get employees who are knowledgeable in English and French. The lack of this will lead to delay in reply. The foreign reinsurers compete with Arab reinsurers on this level by having employees skillful in the language of the market they are responsible for. They even have publications in the common languages used in addition to their home language. They also supply advise and services for the cedant companies in both English and French Languages. The foreign existence is increasing in some Arab countries. Some Insurance companies are
dominated by foreign shareholders who are important names in the reinsurance markets. Bad political relationships between some Arab countries makes it more difficult for the cedant company to get support from the reinsurers in that country.\textsuperscript{32}

The findings of this survey apply to a great extent to reinsurance in Lebanon which was part of this survey. In the abscence of similar surveys conducted particularly for the Lebanese market one would consider the survey of ARIG as the reference to this subject.

\textsuperscript{32} N. Nor Aldin, Al-Bayan, p.238-239.
Chapter 3
Research Methodology

3.1 Basic approach

The insurance sector in Lebanon should be as important as the banking sector. However, the insurance sector can not stand without reinsurance. Initially the interest in this research was to draw the lights on reinsurance as a profession which is not known to the public. Reinsurance companies are quite popular among the insurance companies. They are usually unknown to the public since they do not deal with them directly. This phenomena is quite obvious in Lebanon, that many associate reinsurance with insurance as meaning the same. Reinsurance plays a very important role in business. Reinsurance companies only practice reinsurance by accepting reinsurance offers from a direct insurance company, from another reinsurance company or through a broker. The aim of this research is to determine the potential growth of reinsurance in Lebanon taking one reinsurance company as a model. The company will be named A- General Reinsurance Company for the sake of confidentiality. The Company is almost the only professional reinsurance company operating at this time in Lebanon.

3.2. Sources of Information

The main source of information is from interviews with managers in the A- General Re. In particular they are:

- Technical Department staff.
- Technical Manager.
- Advisor and Controller Manager.
- Financial Manager.
- Investment Manager.
- Accounting Manager.
- General Manager.

In addition to the above, internal training programs on insurance and reinsurance were conducted in the company of which they were very vital to the study.

Other sources of information were
- Documentations from an international reinsurance company.
- Interviews with reinsurance managers of insurance companies in Lebanon.
- Questionnaire conducted with reinsurance managers of Lebanese insurance companies of which A-General Re has a business relationship with.
- Some information was obtained from personal experience in the company.

### 3.3. Procedure of Data Collection

During the past year, the information was accumulated regarding the study first from reading books and publications concerning reinsurance. In addition to personal experience in this field through technical work and practice. The staff of the Technical Department were of great help in explaining practices concerning dealing with reinsurance offers, business renewals, business not accepted or declined and others.
The manager of Technical department was also of great help in providing the study with the necessary books, publications, documents concerning the company's general performance as well as explaining many technical terms and subjects.

The manager of the research and control department gave valuable advices concerning the study. He has great experience in the field of reinsurance for more than 30 years and worked in international reinsurance companies. The interviews with the above two managers were almost daily, enquiring about certain subjects and taking their advice.

Seminars were also valuable source of information one of which was the Engineering Seminar conducted by ACAL of which A- General Re, Swiss Re and Munich Re the main participants. About 70 Insurance company representatives attended the Seminar. During this seminar two Engineers in Swiss Re and Munich Re were asked to provide the study with documentations on the importance of Investment in insurance and reinsurance companies. The international reinsurance companies mainly direct their publications to insurance companies.

Some information was drawn from a course in reinsurance principles by correspondence with CII (Charted Insurance Institute) which is a leading institute of Insurance in London.

Part of this study includes a questionnaire which was directed to 27 insurance company in Lebanon. The questionnaire is composed of 3 parts. The first part concerns insurance sector in Lebanon emphasizing on the general problems of the market which are affecting reinsurance. It also includes evaluation of Insurance sector in terms of expertise. The second part deals with the insurance companies relationship with
reinsurers. The third part deals with evaluating the performance of A-General reinsurance company.

The approach included calling each company explaining briefly the aim of the questionnaire and taking an appointment for filling the questionnaire. In the concerned company, the interview was with the managers of Reinsurance department explaining about the study and the questionnaire was given. All were assured that the data will be used for statistical purpose only to guarantee their cooperation. It was important to get the questionnaires back on the spot since the study is limited with 27 insurance company. In most cases it was possible to get extra information regarding the subject so it was like conducting an interview and a questionnaire at the same time. Most managers preferred to talk and explain instead of writing.

The study was given a special permission from A-General Re to interview the insurance companies they deal with. One remarkable aspect was that there was a low sense of bias in answering the questionnaires. The answers seemed to come from an honest opinion even regarding A-General Re or the interviewers company. Some information was obtained by observation of some events during each visit to the company.

The response rate was 100% due to the personal contact with every participant that there was no way of not getting the answers back.

3.4 Study Limitations

Publications specially books concerning reinsurance are limited and hardly available. The Libraries of two universities were searched, but little help was found on this subject. Therefore, the focus was on what
is available at A-General Re from books and publications. However, the latest book was from 1984. Only the publications as magazines were up to date. However, most of reinsurance books deal with reinsurance practiced by insurance companies. These books are written by international reinsurance companies to guide insurance companies. Reinsurance companies are restrictive concerning their own practice of reinsurance. Even when other reinsurance companies ask their advice on certain matters or enquire about certain practices the international reinsurers do not reveal their own policies or practices as they consider them the essence of their success and result of a long period of commutative experience.

Another limitation was concerning the questionnaire. The intention was to address some of Arab and foreign insurance and reinsurance companies outside Lebanon which A-General Re deals with. However, the access and the permission were not given. Finally, the study was limited to the Lebanese market. Since the questionnaires were directed to companies that deal with A-General Re, the target was only 27 companies that represent the study's population. Also, the information was only obtained from reinsurance managers who were qualified for answering all the questions.

In conclusion, all those who participated in this study were very cooperative in supplying it with needed information and contributed a lot in completing this study.
Chapter 4
Research Findings

4.1 Introduction

This study aims at determining the potential growth of reinsurance as a profession in Lebanon. In this chapter the emphasis will be on A-General Reinsurance Company selected as the model of this study. In order to reach conclusions concerning the potential growth of the company the following questions should be raised:

(1) Does the company operate on an international basis?
(2) Is the company strong technically?
(3) Is the company strong financially?
(4) How much is the satisfaction of the company's direct insurers?

The first three questions will depend on data collected from the company and based on interviews and documentations. The last question depends on data collected through the questionnaire directed to insurance companies in Lebanon.

4.2 Does the company operate on an international Basis?

Insurance as well as reinsurance is based on a fundamental concept which is spreading risks based on law of large numbers. The portfolio of business for both an insurance and a reinsurance company should be first based on writing a large number of identical or homogeneous risks, second writing business from different classes such as fire, marine etc., third spreading the risk geographically.
It is important and even advantageous for an insurance company to operate internationally but it is essential and a requirement for a successful reinsurance to operate on an international basis. Reinsurance companies are established to absorb a larger number of risks than insurance companies. They should have larger capacity, reserves, and premium volume. When the company operates on a world-wide basis it has a better choice to write a larger number of risks. Thus, the effect of losses on a larger portfolio of business will have less effect compared to a company limited in its spread of business. Through this spread of business the company uses better the law of large numbers.

On the other hand, when operating internationally the company would write different types of risks from different branches. It can increase its portfolio from a certain branch which is profitable in a certain country and reduce its participation in another. Thus, having a more balanced portfolio. Which means that one loss from one country would be compensated by a profit from another country. Also, the reinsurance company should not concentrate its business from one market due to the high risk from accumulation. Geographical spread is important in case of disasters or natural hazards. If such a disaster happened in one country it is unlikely that the same would happen in another country at the same time.

Reinsurance companies operating on an international basis benefit from the above advantages in addition to accumulating professional knowledge of different markets, also accumulating services and technical information.

4.2.1 Background
A- General Re was first established on 11th March 1972. It started its activities on the 1st of January 1973 as an inter-Arab professional reinsurance company. The company was registered as a Lebanese company. However, it was a special case of corporations in the sense that it has its own rules, by laws, and regulations and does not apply those of the Lebanese law and regulations.

The shareholders of the company are 59 mostly from direct insurance and reinsurance companies and some in the banking sector. The shareholders of the company belong to 14 Arab countries which are Algeria, Egypt, Iraq, Jordan, Kuwait, Libya, Lebanon, Morocco, Saudi Arabia, Sudan, Syria, Tunisia, UAE, and Yemen. Distributed as follows:

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arab Insurance and Reinsurance companies</td>
<td>47</td>
</tr>
<tr>
<td>Arab Banks</td>
<td>9</td>
</tr>
<tr>
<td>Arab Government Concerns</td>
<td>2</td>
</tr>
<tr>
<td>Joint Bank</td>
<td>1</td>
</tr>
</tbody>
</table>

59

The board of directors constitutes of 9 members each representing one country from the above 14. The members have equal shares in the company. For the period of 1994-1995 the board of directors members are from Saudi Arabia, Libya, Morocco, Algeria, Egypt, Lebanon, Iraq, Syria and Kuwait. Even though the company has a Lebanese identity and its headquarter is in Beirut its general manager, deputy general manager, middle managers and some staff are from different Arab countries. The General manager is elected by the board of directors but from outside the company. The general managers who were elected during the past 23 years were from important reinsurance companies such as Egypt Re, Iraq
Re and Mercantile and General. The company started with an authorized capital of Sterling (Stg) 2,000,000 and paid-up capital of Stg 858,750. The authorized capital was increased to Stg. 4,000,000 in 1981 and to Stg 8,000,000 in 1989. Having the accounts of the company in sterling pounds was important. Reinsurance companies in general need a lot of flexibility in foreign exchange currencies since they write business internationally. Premium received was converted to sterling pounds and claims paid converted from sterling pounds to the required currencies. Having its capital and all its accounts in sterling pounds was an important factor in keeping the company in a good financial position specially during the war that witnessed the deterioration of the Lebanese pound. The company like many other companies in Lebanon had to survive in very difficult situations even in days of shelling the work did not stop. During that time the company's results varied from break-even to profit in many years. During the first ten years the company was exempted from paying taxes. This exemption was renewed five years later. This exemption helped in improving the final results of the company. However, recently the government refused a further renewal of this exemption and a percentage is being charged for every offer accepted or business renewed.

4.2.2. Review of the Company's Geographical and Business Growth

The company is registered as a Lebanese company but it has an inter-Arab identity. From the start, the main market for the company was the Arab countries. When the company was first formed, it was agreed between the shareholders that each of their companies will give A-General Re. a certain percentage of their business. That is, the company would have the chance to participate in all their treaty and facultative
business which implied a large volume of premiums from 47 insurance and reinsurance companies. This was a gentlemen's agreement but unfortunately it was not applied. The company started with a very limited portfolio, only few treaties from the board of director members companies.

During the war, two branches were opened: one in Cyprus and the other in London which contributed in expanding the company's portfolio to include foreign businesses as well. The above two branches were established as connection offices when there was difficulties in connecting the main branch in Beirut. When the political situation improved relatively in Lebanon the two offices were closed.

Through the past years the company increased its expansion specially in the Arab countries, so that nowadays its portfolio includes 17 Arab country. It participates in the treaty of 112 companies. The number of treaties from these countries were increased as well as the company's share in each treaty. This expansion was mainly due to business relationship and communications between the consecutive general managers and the Arab insurance and reinsurance companies. The General managers were taken from well established Arab reinsurance companies. They were backed up with professional experience and knowledge of the market. During the eighties facultative business was first written by the company. Since then the facultative business is in constant growth. It started with few risks from Arab companies in which the company participates in their treaty business. Now it developed to include foreign business as well. However, foreign business was obtained mainly through international brokers from London, Paris, India and Singapore. The company mainly depends on London brokers.

The company also witnessed an expansion in treaty business to include other than Arab countries. It has treaty business from 7 countries in
Africa, 7 countries from Asia (other than Arab countries) and 2 countries from Europe. All this business is obtained through brokers except for the two companies in Europe. Each year the company's portfolio expands to include new treaty business from new established business relationships. For example, during 1993-1994 new treaty business was established with the following:

<table>
<thead>
<tr>
<th>Country</th>
<th>New companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lebanon</td>
<td>4</td>
</tr>
<tr>
<td>Jordan</td>
<td>1</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2</td>
</tr>
<tr>
<td>Oman</td>
<td>1</td>
</tr>
<tr>
<td>Brunei</td>
<td>1</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>2</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13</strong></td>
</tr>
</tbody>
</table>

However, some treaties would be cancelled due to many reasons such as their bad results, disagreement on treaty conditions, cancellation from one of the parties. During the year 1993-1994 some treaties were cancelled by the company or by the cedant. They were

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Treaties Cancelled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jordan</td>
<td>2</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1</td>
</tr>
<tr>
<td>Lebanon</td>
<td>2</td>
</tr>
<tr>
<td>Oman</td>
<td>1</td>
</tr>
<tr>
<td>UAE</td>
<td>1</td>
</tr>
</tbody>
</table>
In a way a balance is established between the new treaty and the cancelled one.

What follows is the business portfolio of the company that will give a better view of its operations and market distribution.

4.2.3 Business Portfolio

The business portfolio of the company is divided into reinsurance business and retrocession business. Reinsurance business represents the business accepted from different companies it is divided into Arab and non-Arab business. Each of the Arab and non-Arab business is subdivided to proportional treaty, non-proportional treaty, and facultative business.

Retrocession deals with ceding the above reinsurance business to a number of retrocessionnaires.

1- Reinsurance Business

a- Arab Business

The Arab business represents 94% of all business written by the company. Arab proportional treaty business represents 82% of the total, non-proportional treaty business represents 3% and facultative business represents 10%

Figure 4.1 shows the Business Distribution of A-General Re.
Therefore, the bulk of business is mainly from Arab companies. The business is also subdivided into branches which are Fire, Accident, Engineering, Life, Marine Cargo, Marine Hull and Aviation. From proportional treaties the highest contribution comes from Fire business which represents 30% of the total premium income, followed by Marine Cargo 20% and Accident business 11%. As for non-proportional treaty the Fire branch comes first followed by Accident and Marine Cargo. In facultative business once again Fire branch represents the highest figure followed by Accident branch and Marine Hull.

The company participates in the business of 106 Arab companies in 18 Arab countries of which the total number of treaty programs is 505. The biggest market in the number of insurance companies in which A-General Re participates in their treaty business, is Lebanon. The number from the Lebanese market represents 27 insurance companies followed by 18 insurance companies from Saudi Arabia, 11 companies from UAE, 8 companies from Jordan and Egypt.
On the other hand, the largest market in premium income written by the company is from Libya of which its premium income represents 15% of the total premium income from Arab countries. It is followed by 12% from Egypt 10% from Lebanon and Saudi Arabia, 9% from Algeria and UAE. Mostly the highest premium income comes from the Fire branches.

b- Foreign Business

Foreign business is also divided into proportional, non-proportional treaty business and facultative business which is also divided into branches. However, the company does not have any foreign offers from the life branch as well as Accident facultative offers, Marine cargo and Aviation. Foreign business income represents 5% of the total premium income. The highest contribution is to the foreign proportional treaties of 4%. The foreign business represents participating in the treaty business of 16 foreign companies from 17 countries with a total number of treaty programs 47.

Therefore, the company is mainly an inter-Arab company, in which its main market is Arab countries. Although it has some participation in foreign business but that percentage is a modest one compared to the Arab business. However, the company's nature and situation in Lebanon imposes this characteristic. On the other hand, the company should expand its business to include a balanced portfolio of all branches specially Accident, Life and Engineering. However, this expansion is very much related to the target market. The business emanating from Arab countries concentrates mainly on the fire branch.
2- Retrocession
The treaty and facultative business from Arab and non-Arab companies accepted by the company are arranged into retrocession programs such as fire Quota share retrocession treaty, Engineering Quota share retrocession treaty, Non Marine excess of loss cover, Marine excess of loss and Motor excess of loss. Through this retrocession program the company is protecting itself. For example, in the Fire Quota share retrocession treaty the company includes all the business accepted whether treaty or facultative from Arab or non-Arab countries. The company retains 41.6% and retrocede, that is, reinsure the rest with its retrocessionnaires. The number of the company's retrocessionnaires is 27 out of which 8 are Arab reinsurers, 4 foreign brokers and 2 International reinsurers. The Leader of the company's Fire retro-business is from Poland, Engineering from Germany, Non-Marine excess of loss, Marine and motor excess of loss leaders are from London.

4.2.4 Management Strategy for Business Expansion

The management strategy for business expansion includes first increasing the company's participation in the already existing treaties. Each year the managers review the treaties offered for renewal. They study the treaty results and the cedant financial and technical performance. They seek increasing their participation from well running treaties. They usually discuss such possibility through their business visits. During the past year many already existing treaties were increased. However, such a strategy is not always possible if the cedant have already distributed all the treaty to different reinsurers so increasing the share of one would mean decreasing or
even cancelling the share of another reinsurer. Another limitation to this strategy is the maximum limit of acceptance for the company which represents its capacity.

Second, the company plans to expand its business geographically by entering new markets. The main targets are Africa, Asia and Latin America. Business visits are planned for this expansion. However, treaty business with new companies in new markets is feasible through brokers. The broker plays an important role in spreading the risks. They have a better idea of the companies they deal with specially since they operate on an international basis. The company established new business with countries of the Far East such as Indonesia, Pakistan, India, Philippines and Korea. They also intend to develop the company’s relationship with these markets. However, business accepted from these markets is not offered directly from insurance companies, since it is not possible to establish business relationship with each insurance company. The company expanded its business through developing their relationship with brokers from India and Singapore. Much of the business from the Far East, Africa and Latin America comes also through London brokers. The main expansion focuses on facultative business from the above markets. The strategy is to increase the facultative business from various countries in order to have a well balanced portfolio. However, this strategy is applied with increased precaution, specially when dealing with a new market that has to be well analyzed.

Third, the company plans to develop and strengthen its relationship with insurance, reinsurance companies and brokers they already deal with as well as establishing new business with new companies. About 30 companies
exchange visits with A-General Re. They are on the potential list of establishing treaty or facultative relationship with the company. Business visits play an important role in developing new relationships with different companies. This expansion includes Arab companies as well as foreign ones.

4.3 Is the Company Strong Technically?

Technical performance of the company includes studying the business operation, underwriting procedures, coordination with departments, and growth of premium income. It also studies the procedures for controlling loss and underwriting operations. The technical performance also focuses on investment operations and over all results of the company. Technical assistance and business communication fall under this category.

4.3.1 Business Operation and Coordination Between Departments.

The business ceded from insurance and reinsurance companies represent the raw material for the administrative procedure of the company. In addition, business operation involves the assumption and distribution of risks such as determining Liabilities, supervising possible accumulation, obtaining information on the business underwritten and seeking retrocession. Information provided by cedant reaches the company in different ways, but mostly through Fax, Telex, mail or through telephone. Each written information received is given a number by the secretary and submitted to the General Manager. The General Manager checks all the mail, faxes and
telexes, then marks what should be sent to the Technical Department, Financial Department or another if indicated. The same task is repeated with the Deputy General Manager who reports directly to the General Manager. The Deputy General Manager is responsible for the distribution of the work to the Technical Department and the Financial Department.

4.3.1.1 Technical Department Operation

The Technical Assistant General Manager receives the business related to the Technical Department, also marks the documents received and delegates them to Head of the Technical Department. The Head of the Technical Department checks also the documents and divides them into treaty and facultative business. The treaty and facultative business is divided into categories according to countries. Each member of the Technical Department is responsible for business from a certain country. Facultative business from Lebanon is categorized by companies. The business that reaches the Technical Department is:

1- New offers treaty or facultative.
2- Business renewals treaty or facultative.
3- Loss advises.
4- Closing instructions for facultative business.
5- Amendments.
6- Informational documents concerning treaty or facultative business and visits exchanged.
After processing and analyzing the above, each member of the Technical Department submits a memo to the head of the technical department, who in turn would indicate his or her suggestions and submit the report to the Technical Assistant General Manager. The same process continues with the Assistant General Manager and the Deputy General Manager until it reaches again the General Manager. The General Manager has the final decision in this chain of work. The memo returns to the Technical Department for the underwriter to take the necessary action. If the action involves preparing a telex or a fax the same procedure is done to approve the telex wording.

This department is also responsible for the retrocession program. The persons responsible for this arrangement are the Head of the Technical Department, the Technical Assistant General Manager, Deputy General Manager with coordination of the Financial Assistant General Manager and the General Manager.

4.3.1.2 Financial Department

Similar working procedure happens in this department. The chain begins with the General Manager moves to the Deputy General Manager then to the Financial Assistant General Manager. The later distributes work to the Technical Accounts Department, Current Accounts Department, and Financial Accounts Department. Each of these departments is also subdivided into divisions. The flow of work has also to pass through this organizational hierarchy.

The main tasks of the financial department are
5- Preparing balance sheet and income statement.
6- Banking transactions.
7- Financial affairs
8- Fiscal affairs

The company includes other Divisions summarized as follows:

1- Control Division: Supervise financial and technical operations.
2- Computer Division: Responsible for developing and applying computer programming.
3- Life Section: Underwriting life business which is the direct responsibility of the General Manager
4- Investment Section: Reports directly to the General Manager and it is directed by one person.
5- Personnel Department: Responsible for direction, public relations, personnel affairs, and managerial services.

All the above departments report directly to the General Manager.

The other two departments that report directly to the Deputy General Manager are Research and Development Department which is responsible for planning research, training, and technical services. The other is the Arab Reinsurance Pool which the company is responsible for managing it.

The major drawback of this system is that the final decision making is centralized with the General Manager. It is only in case of the General Manager was absent the Deputy General Manager will take his place. In addition that every business operation passes all the way through this chain of hierarchy more than once which is very time consuming. Some
operations can be finalized by the head of the department or the Assistant General Manager.

Another drawback is that the final decision is for the General Manager, rather than for the majority of the managers. The system aims at group work but ends up with the high authority decision, whether the General Manager or his/her Deputy. However, this system has its advantages, in such a way that everyone of the staff and managers concerned has the chance to give his or her own opinion. Operation of work is more controlled since it is checked by more than one person so the possibility of mistakes is low. The control factor is one of the main reasons given by management to keep its system. In normal cases the system is running well. All business operations including renewals, new offers confirmation of accounts and other, are being done on time.

However, for a more efficient flow of work it is recommended to do the following:

1- Set an organizational chart in a detailed form identifying the flow of work.

2- Set a job description for all levels of the organization. Specifically distributing the work and giving everyone his or her authorities and the tasks to be done.

3- Every member of the company should have a clear idea of his/her job description.

4- To give the technical and the financial staff, the authority to finish tasks that do not need to pass through the hierarchy procedure.

5- Increasing the coordination between the financial and the technical departments through computers.
6- Minimizing manual paper work in the accounting procedures.

4.3.1.3 Coordination with Departments.

Coordination between the departments is of vital importance, specially between the Underwriting or Technical Department and the Accounting Department. The first is responsible for accepting and supervising obligatory and facultative reinsurances and the second is in charge of accounting with direct insurers. Exchange of information is important.

In A-general Re for every offer accepted or business renewed facultatively, the cedant sends a closing instruction indicating the share of the company from the premium. This is checked by the technical department to take the necessary accounting action. The same procedure takes place in case of a debt note which is a note of loss and needs payment or in case of a loss advice. On the other hand, treaty accounts are sent directly to the accounting department. However, any explanation about the terms and conditions of the treaty is asked to the technical staff. So far, this coordination is done on a low level and in a manual procedure. Computers are used in the technical department recently to enter treaty business, renewal amendments or new treaty. The computer system is not yet connected to the various departments, but the work to do so is in progress. Coordination and exchange of information between departments is expected to increase through computer usage.

However, the two departments should be more linked and cooperative since their work is dependable on one and other. The underwriter in the technical department when accepting business, is limited with financial constraints. For every kind of business limits of acceptance should be
known on the spot. For example, it is known for the technical department that fire business facultative from Arab countries should not exceed USD 5000 000 as a liability from one risk. However, the underwriter should know also the limit for the number of acceptances and not only the limit of each acceptance. Vital information should be submitted by the financial department to the technical department up-to-date and describing actually earned business. However, through the use of computers and proper organization and coordination this problem would be solved.

4.3.2 Underwriting Procedures

The underwriting operations represent the raw material of the company. Technical department is responsible for the underwriting operations. The work is divided into facultative and treaty business. As for the treaty business, the cedant sends his/her treaty offer or renewal once a year. They might take the following two forms proportional or non-proportional treaties. Usually the treaty is offered as a bouquet of treaties—for example, a Fire Quota Share, Motor Excess of Loss, Engineering First Surplus etc. This program is usually advised to the cedant by the reinsurance leader of the treaty who will also set the limits of each treaty.

The underwriter in the technical department studies the offer with whatever available information. The treaty slip usually contains information such as name of treaty, kind of business covered, period of the treaty, geographical scope, treaty limit, attachment of cessions, attachment and termination of treaty, exclusions commission, original terms, conditions and rates, accounting clauses and other details. The wording differs for proportional and non-proportional treaties. In case of
renewal, the treaty is supplied with statistics about the treaty performance showing premium incurred, losses paid and out-standing losses. The underwriter studies this treaty and analyse its results, at the end suggesting acceptance or rejection or any other action. The treaty will go through the managerial hierarchy before the final decision is reached by the General Manager.

Facultative offers go through the same procedure but they are offered around the year. There is no specific time for facultative offers. The average every day is around ten offers. The company is more selective in terms of facultative offers. Many criteria is taken into consideration before accepting or rejecting a facultative offer or renewal. They are, the cover, name of the insured kind of risk, location, total sum insured, rate, commission, loss prevention measures and loss record. High risk business is not accepted without a well surveyed report and adequate fire fighting equipments. Rates are another factor for acceptance and rejection along with reinsurance commission.

For the underwriting procedure to be more efficient some authority should be given directly to the head of the technical department. There are some normal procedures like increasing sum insured of a certain risk, extension in the period of insurance, changes in terms and conditions, that do not need to pass through the organizational hierarchy. Such procedures should be the authority of the technical staff and the head of the technical department. Such a problem would be solved through a well organized job description.

4.3.3. Control of Underwriting Operations

The business accepted by the company is arranged in retrocession programs. These programs are offered to retrocessionnaires that is other
reinsurers in order to participate in. The company retains about 41% of its written business the rest is ceded to retrocessionnaire. Each retrocession treaty includes, business cover, geographical scope, type of treaty, retention, treaty limit, commission, over riding commission which is paid to the company acting as a cedant, and other treaty details.

The limit of each of the retrocession treaties represents the limit for business acceptance. For example, in the company’s fire quota share retrocession treaty of 1994 the limit of the treaty is divided into two categories:

1- Arab Business

With a treaty business limit of Stg. 7,500,000 percedant for business emanating from Arab countries, which means that when the company accepts treaty business from Arab countries its liability per risk should not exceed Stg. 7,500,000 of total sum insured.

Facultative business is limited to Stg 5,000,0000 PML per risk located in Arab countries.

2- Non-Arab Business

Treaty business limit Stg 5,000,000 PML while facultative business limit is Stg 5,000,000 per risk.

Therefore, in underwriting, the above represent a limit for every kind of business whether, Fire, Accident, Engineering etc. usually, the underwriter does not use the above limit to the maximum. In facultative acceptances, the maximum acceptance only represents 25% of the maximum limit allowed. The company is undertaken a protective approach specially in facultative offers. The company sets also a
maximum acceptance for facultative offers in percentage terms to be 25% as a maximum if the total sum insured is not relatively large. The two limits in monetary term and percentage term are very important to establish a certain balance in operation.

Controlling accumulation represents an important procedure in underwriting. Risks offered facultatively are also studied for possible accumulation specially if A-General Re participates in the treaty of the cedant offering the facultative business. The maximum acceptance from the facultative offer is considered with the company's liabilities under the treaty. Accumulation might occur also from the treaty of different companies in the same market, specially in case of a disaster that would hit many risks at the same time. Even the same risk might be in the treaty of more than one insurance company in case of co-insurance. All these possibilities are carefully taken care of when new offers are accepted.

The above system is acceptable but not well organized. There should be a clear and written underwriting strategy to be followed when studying business offered or renewed. A too preservative approach would be dangerous and ends up in accepting few business while faced with huge management expenses. On the other hand, in addition to determining the monetary limit of acceptance, there should be a strategy identifying the kind of risks to be accepted, the cover included, range of rates accepted, range of commission accepted, risk requirements such as loss prevention measures and risk quality, as well as the possible number of acceptance from each risk category. Risks that are avoided by the company are known to the underwriter verbally. There is no written strategy that clearly identifies the underwriting requirements. It happens sometimes that an avoided risk for example, textile factory covered by a fire policy, is accepted by the company since it is seen as a good risk in terms of
rating, loss prevention measures, and other conditions. However, accepting one or few risks of this kind even if they are thought to be good quality is of great danger. It is so because the company won't be applying the law of large numbers and the importance of establishing a portfolio of similar and homogeneous risk. Therefore, by accepting such risks the company should create a balanced portfolio of similar risks, that needs a high level of managerial work. Subjective orientation is playing an important role in the business strategy represented by the consecutive general managers. When establishing clear and written underwriting strategy each General Manager will continue the work of his
4.3.3.1 Underwriting results

Reviewing the underwriting results of the company from 1972 till 1994. It is found that most of the years the underwriting results were negative except in few years as in 1978-1981, 1986-1987 and 1993-1994. The highest negative result was in 1992-1993 a loss of Stg 2,500,431. The net underwriting results are shown below in figure 4.2

**Figure 4.2**

![Net Underwriting Results](image)

The negative results indicate that the losses paid or outstanding for the year were much more than the premium received. However, in most international reinsurance companies, the underwriting results are negative as they depend more on investment income to pay for losses incurred. Loss occurrence is not predictable most of the times, that is why it is risky to depend on underwriting results.

4.3.4 Growth of Premium Income
Gross premium income represents the total premium received by the company from its treaty and facultative business. Since the company’s inception in 1972 its portfolio has increased to include more treaty business from new companies in addition to an increase in facultative offers. Figure 4.3 represents the gross premium income of the company since 1972 to 1994.

**Figure 4.3**

**Gross Premium Income**

![Bar chart showing gross premium income over years from 1973 to 1994.]

The first gross premium income started in 1973-1974 of an approximate amount equals to Stg 1,500,000. This figure reached its highest value in 1984-1985 of Stg 17,000,000. However, this increase was due to two reasons: first, normal increase in premium income by increasing shares accepted and adding new business treaty and facultative. The second reason was the improvement of the sterling pound relative to other currencies.
Figure 4.4 graph represents the increase or the decrease in the gross premium income of one year compared to the previous year.

**Figure 4.4**

*Percentage Increase or Decrease in Premium Income of one year compared to the previous year*

The first increase in gross premium income in 1973-1974 represent 100% compared to the year 1972-1973. Gross premium income kept on increasing till the year 1977-1978. Through the years 1978-1980 there was a slight decrease ranging from 15% to 2%. Gross premium income increased again in the years 1981-1983 to reach the maximum in 1984-1985. In the year 1985-1986 the premium decreased by 20% compared to the previous year. Then it dropped sharply in the year 1986-1987 and established a balance till 1991-1992. The main reason for this drop in the gross premium was due to currency devaluation of the sterling pound as well as the Lebanese pound. The economical and political situation in Lebanon played also a negative influence on the premium volume. In addition Gulf War had a negative effect on premium volume specially that most of the premium income comes from Arab business. The premium income in 1992-1993 increased by 50% compared to the
previous year 1991-1992. This large increase was due to the company's increase in its treaty shares and huge increase in facultative business specially from Lebanon and Arab countries. During this period new business was established specially for foreign facultative business from Philippines and Indonesia. While in the year 1993-1994 the increase was about 25% compared to the previous year as the company decreased its participations specially for facultative business after the huge loss of 1992-1993. There was a re-evaluation of risks accepted specially from facultative business of high risk exposure such as chemical industries, fuel and others.

In Figure 4.5 gross premium income of each year is compared to the initial year 1973-1974.

**Figure 4.5**

*Increase in Premium Income Relative to the First Year of Operations*

The maximum increase in premium amounted to approximately 11 times compared to the initial premium. In 1993-1994 premium income regained its improvement, the figure increased 9 times compared to the initial premium.

**Gross Premium Income**

1991-1994

Table 4.1

<table>
<thead>
<tr>
<th>Branch</th>
<th>91-92 £</th>
<th>92-93 £</th>
<th>Percentage increase or (Decrease)</th>
<th>93-94 £</th>
<th>Percentage results compared to 92-93</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marine</td>
<td>1819285</td>
<td>2777522</td>
<td>52.7</td>
<td>3204567</td>
<td>15.4</td>
</tr>
<tr>
<td>Cargo</td>
<td>959850</td>
<td>1933884</td>
<td>101.5</td>
<td>2105718</td>
<td>8.9</td>
</tr>
<tr>
<td>Hull</td>
<td>26449</td>
<td>30490</td>
<td>15.3</td>
<td>33055</td>
<td>8.4</td>
</tr>
<tr>
<td>Aviation</td>
<td>2805584</td>
<td>4741896</td>
<td>69</td>
<td>5343340</td>
<td>12.7</td>
</tr>
<tr>
<td>Total Marine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Non Marine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fire</td>
<td>3260774</td>
<td>4745637</td>
<td>45.5</td>
<td>6151397</td>
<td>29.6</td>
</tr>
<tr>
<td>Accident</td>
<td>1217594</td>
<td>1770504</td>
<td>45.5</td>
<td>2404331</td>
<td>35.8</td>
</tr>
<tr>
<td>Engineering</td>
<td>837703</td>
<td>940043</td>
<td>12.2</td>
<td>1238233</td>
<td>31.7</td>
</tr>
<tr>
<td>Total</td>
<td>5316071</td>
<td>7456184</td>
<td>40.3</td>
<td>9793961</td>
<td>31.5</td>
</tr>
</tbody>
</table>

93
Table 4.1 shows that there was a substantial increase in the premium income from the year 91-92 to 92-93 which is in total 50.2%. This was due to the company’s policy in 92-93 to increase its business portfolio. However, this increase had some bad consequences on the results that the company had a technical loss from its business of Stg 2,798,785. It is noticed for example, the increase in Hull business which amounted to 101.5%. However, Hull business is loosing internationally

4.3.5 Control of Loss

There are two approaches for loss control practiced by the company. One is through underwriting procedures, that were mentioned before. The company determines its maximum liability from each class of business, so it anticipates the maximum loss occurrence. Loss is also controlled through detecting accumulation. The kind of risks selected specially in facultative business plays an important role in loss control. This does not imply that the company has to underwrite only first class risks. Accepting a chemical Industry for a fire facultative cover would be very hazardous to the company if it was the only risk of this kind in the portfolio. In such a case the company should create a portfolio of similar business in kind and exposure in order to establish a balance. So that if this cover was hit by a huge loss it would be compensated by the premium of the other risks. The administration of such risks requires high expertise in the field of insurance and reinsurance A-General Re
follows this criteria in its business acceptances. In facultative business, textile risks specially from the Far East are not accepted, even though the rate is acceptable most of the time. However, the company avoids such risks and does not have a special portfolio for them. Therefore, even when the risks is a textile and of good quality risk it is usually rejected. Loss control is also through determining geographical scope in treaty business. The company does not accept business from USA and Canada since they have a high loss rate. Exclusions in treaties also represent a loss control factor. In fire business exclusions are war, civil war and similar covers, in addition to, nuclear Energy risks. Since the treaty is a blind contract, there are no details for the risks included, but usually a list of risks excluded. For some companies' treaties, chemical risks are excluded as well as wood risks and foam. The list of exclusions is relative to each company's treaty.

The other approach for loss control is after evaluating the results of the year into consideration. In reference to Table 4.1

The company increased its Hull business in 1992-1993 by 101.5% compared to the previous year. However, Hull business was losing internationally. The company suffered some important losses from Hull business during the year 1992-1993. For this reason Hull business was only increased by 8.9% in the year 1993-1994. This increase included the acceptance of some foreign facultative Hull business. However, the main reason for this apparent increase was due to inflation and increase in sums insured. The policy now is to reduce Hull business as much as possible, be more selective in acceptance and decline unprofitable risks. However, the above loss control strategy concerning Hull business is known verbally and it is not written in a defined strategy. Once again the important approach for loss control, in addition to the above practiced by
the company, is a clear and written strategy for underwriting business and loss control procedures.

4.3.6 Investment Operations

The investment operations in the company are the responsibility of the investment department represented by one manager who reports to the General Manager.

The investment made by the reinsurer serves to secure the continues performance of the reinsurer's obligations. The reinsurer must make investments to bridge the time gap between the date on which he receives his premiums and the date on which he pays out claims.

The main form of investment by A-general Re is time deposits at banks. During the year 1993-1994 there was an increase in the type of investments by the company which includes Lebanese treasury bills, deposit shares and stocks in Lebanese companies.

The investment income amounted to Stg 1,018,090 in 1993-1994 compared to Stg 1,028,019 in 1992-1993 which is a decrease by Stg 9,929. This was due to the decrease in international interest rates and bad currency exchange. This figure also increased during 92-93 as compared to 91-92 of which investment income was Stg 119,088. This decrease was for the same reasons above.

What follows is the percentage of each investment form compared to total investments in 1993-1994

<table>
<thead>
<tr>
<th>Investment Form</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities</td>
<td>0.1367%</td>
</tr>
<tr>
<td>Time deposits at Banks</td>
<td>75.8%</td>
</tr>
<tr>
<td>Current account at banks &amp; cash in hand</td>
<td>6.18%</td>
</tr>
</tbody>
</table>
Lebanese Treasury 10.9%
Deposit shares 2%
Stocks 1.3458%
Land 3.589%

In this Figure 4.6 and 4.7 shows investment and investment income in sterling pounds for the years 1972 till 1994. The increase in investment figures is due to accumulation of time deposits in banks along the various years.

**Figure 4.6**

Investments

**Figure 4.7**
However, the investment department should be given the importance of the underwriting department. International insurance and reinsurance companies only compensate their underwriting losses from investment income. Investment income plays a major role in establishing positive results of the company. The department should include specialized people in investment strategies. Investments should be balanced and diversified. International standards require reinsurance companies to have specific investments in a given currency for liabilities accumulated from a specific market. That is, if the reinsurance company underwrites business from the United Kingdom it should have investments in sterling pounds to balance the liabilities from that market. The reinsurer investment policy should be affected by the international business of the reinsurer which is currency matching and freedom of investment. That is, liabilities in a certain currency or currency area must be covered by assets in the same currency or currency area. The reinsurer should also benefit from his freedom of investment and try to minimize the effects of unforeseeable fluctuations of exchange rates. In all significant currency areas the reinsurer must be able to invest his assets in such a way that
he/she obtains an optimum spread of risks and the highest possible degree of liquidity, security and return on investments. The reinsurer is exposed more to hazard of large catastrophic losses and his/her liquidity is very important. Thus, liquidity should be the prime concern in his/her investment policy. The liquidity factor is the main reason for practicing the preservative investment approach by A-General Re. The other constraint is capacity limitation since the investments are not large in monetary terms the company can not take a high risk and decrease its liquidity by investing in fixed assets, stocks or shares of other companies. However, given this constraint specialized personnel in investment should set the appropriate investment policy for the company. Once again the subjective approach in investment should be converted to an objective strategy.

4.3.7 Overall result of the company

**Figure 4.8**

**Final Results**

As seen in Figure 4.8, for the first three years the company's final results were break-even. For three consecutive years here were negative results. Results are affected by losses paid compared to premium income. For
years expanding from 1980 till 1992, the company made a profit in each year, the highest of which was in 1989-1990 the greatest loss was during 1992-1993 of approximately £ 2,000,000. This was due to many reasons:

1- The loss of income from Iraq market due to UN sanction. This income was a significant one in supporting the company's financial position.

2- Stagnant nature of some Arab insurance markets.

3- Severe competition among Arab markets that resulted in a decrease in rates and consequently in premium income.

4- The occurrence of a number of large losses.

5- Drop in the company's investment income.

6- Drop in the value of the sterling pound in which the company's accounts are recorded. However, starting from 1994-1995 all the accounts of the company were changed into US Dollar.

The company regained its positive results in 1993-1994 as an effect of improvement in international reinsurance. This was due to decrease in natural disasters. The decrease in fire facultative business compared to the previous year contributed in decreasing the losses and in improving the result of the company.

4.3.8 Technical assistance and training

- Internal training: Internal training is mainly conducted to newly enrolled staff. During the beginning years of operation, staff specially in the technical and accounting departments, were given special training programs. Some of the staff were sent in training programs to London. However, there was not an organized and continuous program for
training. During 1994, organized training sessions were held in the company. The training sessions were conducted by specialists in the field for more than thirty years. The company also organized a training center in correspondence for the members joining CII (Charted Insurance Institute). All the charges are paid in full by the company in addition to necessary corespondent for registration and examination.

- Technical assistance: technical assistance is given to insurance companies mainly in term of advice. The company has increased its technical assistance to Lebanese insurance companies during the past few years. In 1992 the company held a training seminar, attended by representatives from different insurance companies. The lecturers were from A-General Re staff. At the end of the training seminar, a certificate was given to the participants.

During 1994 and up till this date, the company is giving technical assistance for Lebanese insurance companies specifically in contractor all risks cover and covers related to engineering. The following is recommended to the company to improve its technical and training assistance.

1- The company should continue the internal training sessions.
2- CII certificate should be a requirement for the company's staff specially in the technical department.
3- The company should have a staff specialized in different fields of insurance and reinsurance.
4- The internal resources represent main assets to be used to give technical and training services to the insurance companies.
5- The company can establish a contact center for CII certificate with a special agreement with the institute.
6- Conduct seminars and training programs on a regular basis.
All the above need an organized program and specific investment in personnel and internal resources.

4.3.9 Business communications

Business visits to insurance, reinsurance and brokers companies are conducted on regular basis by the company. The first priority is given to the retrocessionaires. Every year prior to the renewal period, the General Manager accompanied with head of the technical department visits the company’s retrocessionaires. The Deputy General Manager conducts similar visits. The companies on the visiting list are arranged according to countries. Each of the managers will have a number of countries to visit in one travel program.

The managers also travel to attend international seminars or any insurance and reinsurance activities on regional and international level, with possible limits. Managers also have organized visits specially to Arab countries. They visit insurance and reinsurance companies that A-General Re participates in their treaty and facultative business. Through their visits they contact other insurance and reinsurance companies or brokers and open a new door for establishing new business relations.

On the local level, visits are also conducted but not on regular basis. The company is organizing a visiting program specially for the local companies, to be applied soon in the near future. Members of the technical department will participate in turn in this visiting program.

On the other hand, this exchange of visits is done also by the managers of other companies. The general manager mainly and the deputy general manager have visitors from insurance, reinsurance companies and brokers regularly. The visitors also meet with the Assistant General Manager and
the Head of the technical department. Such meetings sometimes are held at the general manager’s office, with the attendance of all managers and a member of the technical department. Foreign companies increased their interest in Lebanon due to the reconstruction period. They study the possibility of increasing their business with Lebanese companies.

ACAL (Association Des Compagnies D’assurance Au Liban) established an engineering pool to absorb the huge business of construction. Members of the pool are Lebanese insurance companies. The reinsurers of this pool are nine international reinsurers. Munich-Re is the pool’s reinsurance Leader, while A-General Re is responsible for the rating and quotation of the risks concerned. This authority was delegated to the company by Munich-Re. This increased the business visits paid to the company specially from parties involved. Such exchange of visits whether of Arab or Foreign companies play an important role in establishing and strengthening business relationships.

4.3.10 Management strategies for Business Growth

A clear strategy for the company is not possible without considering the financial position of the company. Growth is limited to the financial capacity which is limited by capital reserves and shareholders equity. Therefore, even if the company has the intention of increasing its business through underwriting higher shares, it is limited with its financial constraint.

In reviewing the performance of the company it is noted that it existed and continues to exist supported by few major companies from the Arab market. From one of these companies the premium sometimes reaches 20% of the total premium volume of the company. These companies have a huge volume of business since they are the only company underwriting
business in that particular market. Therefore, they have a great influence in determining the rates. Besides, they make it difficult in case of a claim, that is, they don't pay easily. Their business is usually profitable due to their large portfolio of business.

Nowadays, the debatable issue is the GATT (General Trade and Tariff Agreement). This issue indicates the opening of the Arab market to foreign companies. A-General Re, being part of its market would be threatened by loosing important markets to competitors. The market will be exhausted with competitors fighting over limited market. For example, Jordan market is expected to include new insurance companies. The anticipation is that the insurance market results would deteriorate since competition would increase over limited resources.

The important principle of insurance and reinsurance is diversification taking into consideration the law of large numbers. Therefore, in considering the financial constraint of the company, it is left with two choices of diversification. One is diversification geographically to new markets, the second is diversification by branches. It is noticed that the main business of the company is in the fire branch. The company's strategy includes increasing its portfolio of business in other branches such as Life, Engineering and personal Accident. This expansion should be aggressive but slow in order to achieve the desired results. The company has a strategy of increasing its business in the Arab market. As for the Lebanese market, there is no strategy for expansion since the company has exhausted its full capacity from this market which is relatively small and does not generate huge premium.

The company is looking for other markets for expansion. Libya represents an important market to the company since it represents the largest market in premium income. However, expansion would be faced with difficulties, such as foreign currency exchange regulations and
premium collection. There is also a danger of loosing part or all of this market, since they are considering establishing a reinsurance company for their own in Libya. The company looks for expansion in markets of Saudi Arabia and the Gulf. However, these markets are very competitive specially from foreign companies, which come with huge capacity. The rates in these companies are low due to this severe competition.

On the other hand, the company's cautious strategy of accepting only the good risks can not go for long since it would increase its management expenses. However, in the few years to come the company's main strategy is to build a good record of final results to be used as an asset for later expansion and increased investment in the company.

However, as a company constituted in Lebanon it has different advantages:
- A huge pool of educated people graduates with various educational orientation. Most of them master a number of European languages. Also, recruitment does not cause any difficulty.
- Management expenses of the company compared to its international competitors is on the low side due to low cost of labor.
- Operating in an Arab market, which is the company's main market, gives it cultural facilities in terms of language, easiness of communication, deep knowledge of the market and personal relations.

In conclusion, the company performed its best given a modest shareholder's equity. Its plan was to grow from commercial activities, however, the war deprived the company from the possibility of a healthy growth. The aim now is to convince the shareholders to increase the capital of the company to USD 25 million to be accepted on international basis.
The company is considered acceptable technically since it has the potential of improving its technical performance. The assets of the company are its management level, who have high expertise in the field of reinsurance. The company's technical performance would increase after following the strategies of expansion. The important strategies to follow are those concerning underwriting practices, job description, organizational chart, loss control, training and technical assistance programs. The company aims at creating a well trained and specialized staff that would represent a strong asset for the company.

4.4 Is the Company Strong Financially?

Studying the financial strength of the company will include applying the solvency margins on the company's results of 1993-1994. Then a comparison is done with a selected international reinsurance company. Finally, management strategies for improving financial strength will be discussed.

Solvency margins are applied with reference to appendix B

4.4.1 Applying the Solvency Margins

1) Net Premium/Shareholders equity = 235%

The standard ratio is between 220% to 300%. This indicates that the net premium written and retained by the company is 220 percent of the capital and capital reserves.

2) Paid-up capital+Free reserves/Retained premium = 57%
The minimum allowed limit is 50%. The company has a surplus of 7%. This means it can increase its underwriting business by 7%.
While this ratio for 1992-1993 was 70% which means that the surplus is 20%. The premium actually increased by 23% which is within the limits allowed. However, for the year 94-95 the increase in premium volume should be only 7% if paid-up capital and free reserved were the same. Therefore if the company aims at increasing its premium volume then paid-up capital and free reserves should be increased.

3) Measuring the change in net premium. The standard ratio is between -25% and +25%. The increase in premium for 93-94 was 23% which is within the standard required. However, such an increase requires an increase in capital. Unfortunately this increase in capital was not materialized. Increase in premium means increased liabilities for this reason capital should be increased to keep the balance between liability and capital.

4) Net premium/Gross Premium = 66.36%

The standard ratio should be more than 50%. This indicates that the company retains 66.36% of its premium income and depends 33.63% on retrocessionaires, which is an acceptable distribution.

5) Technical Reserves/Current Assets = 93%

The standard ratio should be less than 100%, which means that this ratio for 93-94 is within standards. This indicates that the company has an acceptable strength and readiness to pay quickly for any claim due.
6) Two years Underwriting profits/Two years Investment Income = (116%)

The standard ratio should be more than 25%. Two years are considered so that the focus won't be on one year that might be exceptional. However, the technical loss should not be more than 25% of the investment income. The negative underwriting results of 92-93 were not balanced by the positive results of 93-94. The above ratio is far below the allowed limit. This was due to the disastrous loss of 92-93.

7) Pretax profits/Average shareholder's funds = 5.8%

This ratio should be more than 50%. It measures the income of the capital investments. The above ratio is far below the standards which means that at this stage the results are not much attractive to investors. The pretax profits should be £ 2160835 instead of £ 250954 to reach the standard ratio of 50%.

8) Technical Reserves + Shareholder's Equity /Net Premium = 144%

The standard ratio should be more than 150%. The above ratio is not well satisfactory but almost near the minimum standard. This means that the company has to increase its shareholder's equity and technical reserves to reach an acceptable solvency and technical reserve level.

9) Technical Reserves/Shareholder's Fund = 239%

The standard should be less than 350% the above ratio indicates the technical reserves taken for unexpired risks and outstanding losses. The ratio is acceptable since it is within the standard limits.
In conclusion, most of the ratios applicable are within standards specially those concerning the company's solvency and its readiness to pay claims. The main improvement should be regarding shareholder's equity and technical reserves. Also, investment income should be improved to attract investors whose participation and investment in the company are of vital importance.

4.4.2 Comparison with an Intentional Reinsurance Company

It is really difficult to make a fair comparison between A-General Re and another international reinsurance company since each has its special conditions and circumstances. However, given the information available, Egypt Re, is selected as the most appropriate company for the comparison. The comparison will be done based on figures available from Egypt Re till June 1993\textsuperscript{33}. The comparison is done based on common circumstances. However, two important circumstances should be born in mind. One is the compulsory reinsurance practiced by Egypt Re which is an advantage for increased premium income. The second one is the war situation in Lebanon and gulf countries that had a negative effect on the operation of A-General Re.

Comparison is done on the following basis:

1- Gross premium by Branches

The following Chart 4.1 represents the gross premiums distributed over branches for Egypt Re in 1992-1993

\textsuperscript{33} Egypt Re Annual Report 1992-1993

N.B all data related to Egypt Re are from this reference.
The following Chart represents the gross premiums distributed over branches for A-General Re in 1992-1993:

Concerning the Accident branch, Egypt Re differentiate this branch into Accident, Motor TPL, Motor comprehensive and Inland transport. Considering the above under the Accident branch, the whole represents 31.36% of the total premium. The Accident branch of A-General Re represents 14.43% of the total premium, compared to 31.36% for Egypt.
Re. while Fire branch for A-General Re. contributes with the highest percentage of 38.68% compared to 22.69% for Egypt Re. The above distribution is related to the overall business of the market. Usually aviation business is low compared to the overall capacity of the market. In conclusion it is recommended that A-General Re conduct a plan to increase its participations in profitable branches such as Accident and Engineering. Life branch should be also improved after a careful feasibility study.

The above premium distribution is based on a gross premium income for Egypt Re of Egyptian pounds (EP) 310.3 million corresponding to USD 91,264,705. While the gross premium income of A-General Re for 1993 was USD 19,631,699. The gross premium volume of Egypt Re is 78% greater than that of A-General Re. Local business from Egypt represents about 80% of the total premium volume of Egypt Re. Therefore, the great difference in premium income between the two companies is due to the large local market of Egypt Re, backed up by a compulsory reinsurance cession.

2- Geographical distribution of Retrocession Business The following Chart 4.3 represents the geographical distribution of Egypt Re for retrocession business in 1992-1993

Chart 4.3
The following Chart 4.4 represents the geographical distribution of A-General Re for retrocession business in 1992-1993.

**Chart 4.4**

Geographical Distribution of Outward Business
1992/1993

The main difference between the two companies is their overall dependence on retrocessionaires. Egypt Re depends 62.31% on European retrocessionaires while A-General Re depends 57.6% on Arab retrocessionaires. The Fire business is distributed to Arab retrocessionaires. While Engineering and Marine business is distributed mainly to European retrocessionaires.
3- Development of Gross and Net premium Income

The gross premium is the total volume of premium written by the company. While the net premium is the retained premium after ceding part of the business to retrocessionaires who will be paid part of the gross premium. Studying the Figures 4.9 of gross and net premium income of Egypt Re indicates a continuous growth

**Figure 4.9**

![Graph showing development of gross and net premium income.](image)

The percentage growth of gross premium income of each year compared to the previous one ranges from 55 to 23%. The maximum of which was in the year 1990. While the percentage increase of net premium income ranges from 1% to 26%. The maximum increase in net premium income was in the year 1988-1989. It should be noted here that the increase in premium income from one year to another includes a natural increase in figures due to inflation in addition to the normal growth of business. The normal growth of business is achieved through the increase in the business volume of the market or through the increase in the shares written by the company as well as increasing the volume of the business.
accepted. Therefore, the above figures fall within the healthy pattern of performance.

However, Figure 4.10 of gross premium income and net premium income of A-General Re shows a lot of fluctuations from 1983 till 1993

Figure 4.10

Development of Gross & Net Premium Income

![Graph showing development of gross and net premium income]

The sharpest drop was in year 1986. This was mainly due to currency fluctuations specially the sterling pound and the Lebanese pound. However, during the years 1983-1993, the Lebanese war and the Gulf war played an important role in this instability. The company regained its strength in 1992 when the gross premium income started to increase again. The growth continued in 1994. Inflation is included in its recent growth, but the main emphasis is now on the increase in the business volume accepted by the company. The company has changed all its accounts to US Dollars in order to avoid the fluctuation in the sterling pounds. Therefore, in the light of normal circumstances the company would be able to increase its premium volume on a continuous basis.

4- Development of Technical Reserves
Technical reserves are money kept in reserve to meet any future liabilities faced by the company. For each class of business the company reserves a certain percentage of its premium income which is accumulated from one year to another. The normal process of technical reserves development is a continuous growth. A company is in a better financial position if it has a well built up reserves.

Figure 4.11 of technical reserves of Egypt Re from 1983 till 1993 indicates a continuous growth.

It is noted also that losses incurred through these years did not affect the level of technical reserves since it was continuously increasing. The increase in technical reserves from one year to another ranged from 14% to 29.3% with an average of 20% increase. The increase in technical reserves should be also linked to the increase in gross premium. As the company's gross premium increases this implies an increase in its liabilities which should be compensated with an increase in reserves.
This is well applied in Egypt Re when studying the increase in technical reserves compared to the increase in gross premium. However, the increase is not proportional since reserves are cumulative while premium volume is not. Table 4.2 shows the gross premium income and technical reserves of Egypt Re.

**Table 4.2**

<table>
<thead>
<tr>
<th>Years</th>
<th>Gross Premium Income (£)</th>
<th>% Increase</th>
<th>Technical Reserves (£)</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>83/84</td>
<td>20,000,000</td>
<td>10</td>
<td>16,000,000</td>
<td>14</td>
</tr>
<tr>
<td>84/85</td>
<td>22,000,000</td>
<td>6.7</td>
<td>19,000,000</td>
<td>14.5</td>
</tr>
<tr>
<td>85/86</td>
<td>23,000,000</td>
<td>9.5</td>
<td>22,000,000</td>
<td>22</td>
</tr>
<tr>
<td>86/87</td>
<td>25,000,000</td>
<td>18</td>
<td>26,000,000</td>
<td>20.8</td>
</tr>
<tr>
<td>87/88</td>
<td>30,000,000</td>
<td>19</td>
<td>32,000,000</td>
<td>29.3</td>
</tr>
<tr>
<td>88/89</td>
<td>36,000,000</td>
<td>9</td>
<td>41,000,000</td>
<td>5.7</td>
</tr>
<tr>
<td>89/90</td>
<td>39,000,000</td>
<td>23</td>
<td>52,000,000</td>
<td>16.9</td>
</tr>
<tr>
<td>90/91</td>
<td>48,000,000</td>
<td>5</td>
<td>61,000,000</td>
<td>19.6</td>
</tr>
<tr>
<td>91/92</td>
<td>50,000,000</td>
<td>13</td>
<td>72,000,000</td>
<td>20</td>
</tr>
<tr>
<td>92/93</td>
<td>57,000,000</td>
<td></td>
<td>87,000,000</td>
<td></td>
</tr>
</tbody>
</table>

From the above figures it is noted that up till 1986 the gross premium in monetary terms were higher than the technical reserves. Since 1986, the technical reserves were built up again. In 1992-1993 the technical reserves are higher by 35% compared to gross premium.
A higher level of technical reserves compared to gross premium is a good financial indication. Which means that the company has a better liquidity to meet its liabilities.

On the other hand, A-General Re accumulated its reserves slowly from 1983 till 1992, as shown in Figure 4.12

**Figure 4.12**

![Technical Reserves Graph]

Its technical reserves amounted in 1993 to £10,338,559 compared to £57,000,000 for Egypt Re. Which is six times higher than the technical reserves of A-General Re. A-General Re increased its technical reserves in 1992 by 56% and again in 1993 by 14%. This increase was the highest through 1983 till 1992. From 1987 till 1991 technical reserves stayed on a fixed level. In Reviewing the gross premium income of the company for the years 1986 till 1991 it is noted also that the level of gross premium stayed within a certain limit. This corresponds to the technical reserve level of these years.

The following table represents the gross premium income and technical reserves of A-General Re in sterling pounds.
### Table 4.3

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross premium income</th>
<th>% increase or decrease</th>
<th>Technical Reserves</th>
<th>% Increase decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>83/84</td>
<td>12,803,963</td>
<td></td>
<td>4,377,760</td>
<td></td>
</tr>
<tr>
<td>84/85</td>
<td>17,161,886</td>
<td>34</td>
<td>4,952,959</td>
<td>13.13</td>
</tr>
<tr>
<td>85/86</td>
<td>14,171,172</td>
<td>(17.4)</td>
<td>5,112,463</td>
<td>3.22</td>
</tr>
<tr>
<td>86/87</td>
<td>8,274,348</td>
<td>(41.6)</td>
<td>5,778,544</td>
<td>13.02</td>
</tr>
<tr>
<td>87/88</td>
<td>7,536,545</td>
<td>(8.9)</td>
<td>6,185,961</td>
<td>7</td>
</tr>
<tr>
<td>88/89</td>
<td>7,041,823</td>
<td>(6.56)</td>
<td>6,197,746</td>
<td>0.19</td>
</tr>
<tr>
<td>89/90</td>
<td>7,848,167</td>
<td>11.45</td>
<td>6,132,668</td>
<td>(1.05)</td>
</tr>
<tr>
<td>90/91</td>
<td>7,103,391</td>
<td>(9.48)</td>
<td>6,074,042</td>
<td>(0.9)</td>
</tr>
<tr>
<td>91/92</td>
<td>8,167,561</td>
<td>14.98</td>
<td>5,799,288</td>
<td>(4.5)</td>
</tr>
<tr>
<td>92/93</td>
<td>12,269,812</td>
<td>50.2</td>
<td>9,063,023</td>
<td>56.27</td>
</tr>
</tbody>
</table>

The above table shows the fluctuations from both the gross premium income and technical reserves of A-General Re. During 1987 till 1991 gross premium fluctuated in the range of sterling 7 million while technical reserves fluctuated in the range of sterling 6 million. The technical reserves in monetary terms are well below the gross premium income. The major improvement for technical reserves were in 1992 with an increase of 56.27%. To have a better financial position the company should build up its reserves to reach a higher figure than its gross premium income. It should be noted that in 1992 technical reserves were increased by 56.27% due to the relatively large increase in gross premium which amounted to 50.2%. The company is now trying to balance the increase in gross premium income by increasing constantly
its technical reserves. However, part of losses paid during each year are
deducted from technical reserves which would decrease its accumulation
over the years.

In conclusion, the technical reserves should be in an increase rate. They
should be accumulated to a level higher than the gross premium income.
It is recommended that A-General Re increases its reserves each year and
improves its investment to pay for losses from investment income to
keep a continuous level of increase for technical reserves.

5- Development of shareholder's funds

Figure 4.13 shows the shareholder's funds of Egypt Re from 1983 till
1993

Figure 4.13

Development of the Technical Reserves Egypt Re
Egypt Re has a positive growth of shareholders' funds which represents the paid-up capital and free reserves. The company increases its shareholder's funds every few years. In 1984 the major increase over 1983 was 213% followed in 1987 by an increase of 107% and in 1988 by 62.35%. The final major increase was in 1990. The Table 4.4 shows the shareholder's funds and the percentage increase of each year since 1983 compared to the previous one.

**Table 4.4**

**Shareholder's Funds**

**Egypt Re 1992-1993**

<table>
<thead>
<tr>
<th>Year</th>
<th>Shareholder's Funds</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>83/84</td>
<td>590,219</td>
<td></td>
</tr>
<tr>
<td>84/85</td>
<td>1,847,826</td>
<td>213</td>
</tr>
<tr>
<td>85/86</td>
<td>2,963,377</td>
<td>60.37</td>
</tr>
<tr>
<td>86/87</td>
<td>3,349,402</td>
<td>13</td>
</tr>
<tr>
<td>87/88</td>
<td>6,953,772</td>
<td>107</td>
</tr>
<tr>
<td>88/89</td>
<td>11,289,500</td>
<td>62.35</td>
</tr>
<tr>
<td>89/90</td>
<td>11,845,993</td>
<td>5</td>
</tr>
<tr>
<td>90/91</td>
<td>23,030,280</td>
<td>94.4</td>
</tr>
<tr>
<td>91/92</td>
<td>24,244,995</td>
<td>5.27</td>
</tr>
<tr>
<td>92/93</td>
<td>24,807,537</td>
<td>2.32</td>
</tr>
</tbody>
</table>

On the other hand, Figure 4.14 represents the development of shareholder's funds of A-General Re from 1983 till 1993.
It is noted from the graph that the company had a positive growth of shareholder's funds till 1991. The sharp decrease in 1992 was due to the large losses of that year. The underwriting losses which amounted to £2,500,431 was deducted from the shareholder's funds. The shareholder's funds in 1993 amounted to £4,321,670 compared to £24,807,537 of Egypt Re. The shareholder's funds of Egypt Re is six times higher than A-General Re.

So far the major differences between the two companies are mainly due to the paid-up capital and free reserves. The company can increase its gross premium and technical reserves when it is backed up with a sufficient capital fund. Sine the capital funds of Egypt Re are higher than that of A-General Re this follows that the first can write more business. Table 4.5 shows the shareholder's funds of A-General Re and the percentage growth of each year compared to the previous one.
Table 4.5
Shareholder's Funds
Arab Re 1992-1993

<table>
<thead>
<tr>
<th>Year</th>
<th>Shareholder's Funds £</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>83/84</td>
<td>4,220,203</td>
<td></td>
</tr>
<tr>
<td>84/85</td>
<td>4,386,910</td>
<td>3.90</td>
</tr>
<tr>
<td>85/86</td>
<td>4,591,333</td>
<td>4.65</td>
</tr>
<tr>
<td>86/87</td>
<td>4,671,524</td>
<td>1.74</td>
</tr>
<tr>
<td>87/88</td>
<td>5,213,899</td>
<td>11.61</td>
</tr>
<tr>
<td>88/89</td>
<td>5,392,785</td>
<td>3.42</td>
</tr>
<tr>
<td>89/90</td>
<td>5,855,712</td>
<td>8.58</td>
</tr>
<tr>
<td>90/91</td>
<td>6,257,412</td>
<td>6.85</td>
</tr>
<tr>
<td>91/92</td>
<td>6,566,443</td>
<td>4.93</td>
</tr>
<tr>
<td>92/93</td>
<td>4,070,716</td>
<td>(38)</td>
</tr>
<tr>
<td>93/94</td>
<td>4,321,670</td>
<td>6.16</td>
</tr>
</tbody>
</table>

Since 1983 till 1992 the shareholder's funds were growing positively but in a low rate. The maximum increase was in 1987 of 11.61%. The greatest and only decrease during that period was in 1992 which amounted to 36%. At this stage it is recommended that the company should increase its paid-up capital in order to be in a better financial position. For today's standards a reinsurance company can not start operating with a paid-up capital less than US Dollars 25 million. In
improving the share holding fund the company can have more flexibility for increasing its gross premium income and its technical reserves.

6- Development of Investment Funds.

Figure 4.15 shows the development of investment funds of Egypt Re from 1983 till 1993. This figure reflects a positive growth of investment funds.

![Graph showing investment growth](image)

Table 4.6 shows the investment funds in sterling pounds

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment (£)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>83/84</td>
<td>18,329,789</td>
<td></td>
</tr>
<tr>
<td>84/85</td>
<td>20,162,768</td>
<td>10</td>
</tr>
<tr>
<td>85/86</td>
<td>25,661,705</td>
<td>27.27</td>
</tr>
<tr>
<td>86/87</td>
<td>32,993,621</td>
<td>28.57</td>
</tr>
<tr>
<td>87/88</td>
<td>43,991,994</td>
<td>33.33</td>
</tr>
<tr>
<td>-----</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td></td>
<td>54,989,368</td>
<td>64,154,263</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>16.66</td>
</tr>
</tbody>
</table>

The average increase of investment funds is 24% which is within standards.

On the other hand, Figure 4.16 represents the investment funds of A-General Re.

**Figure 4.16**

![Investments Chart]

The Figure 4.16 shows mostly positive growth in investment funds but at a lower rate than Egypt Re.
Table 4.7 shows the investment funds and the percentage increase of each year compared to the previous one.

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment funds £</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>83/84</td>
<td>5,593,960</td>
<td>49</td>
</tr>
<tr>
<td>84/85</td>
<td>8,342,650</td>
<td>(14)</td>
</tr>
<tr>
<td>85/86</td>
<td>7,163,102</td>
<td></td>
</tr>
<tr>
<td>86/87</td>
<td>8,229,014</td>
<td>14.88</td>
</tr>
<tr>
<td>87/88</td>
<td>8,396,131</td>
<td>2</td>
</tr>
<tr>
<td>88/89</td>
<td>9,402,977</td>
<td>11.99</td>
</tr>
<tr>
<td>89/90</td>
<td>10,100,352</td>
<td>7.4</td>
</tr>
<tr>
<td>90/91</td>
<td>11,033,687</td>
<td>9.24</td>
</tr>
<tr>
<td>91/92</td>
<td>11,511,382</td>
<td>4.32</td>
</tr>
<tr>
<td>92/93</td>
<td>11,345,583</td>
<td>(1.44)</td>
</tr>
<tr>
<td>93/94</td>
<td>11,345,338</td>
<td>(0.002)</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>9.26%</td>
</tr>
</tbody>
</table>
It is noted from the above that the average investment funds amount to 9.26% which is lower than that of Egypt Re. The investment funds of A-General Re in 1992-1993 amounts to £ 11,345,583 compared to £ 126,475,540 of Egypt Re. The later represents 11 times higher than the investment funds of A-General Re. It is recommended that A-General Re should increase its investment funds to be in a better financial position. This would be more flexible in case paid-up capital was increased to an acceptable standard.

4.4.3 Management Strategies for Improving Financial Strength of the Company

The financial strength of the company determines its underwriting capacity. Therefore, when studying the underwriting plan shareholder's funds determines the capacity of the company for meeting its liabilities. The underwriting policy is set to fit the financial position of the company and not the reverse. The study is done to reach a balance between shareholder's funds, treaty limit and retention. The company determined its maximum acceptance from each class of business according to the capital fund available. However, the underwriting acceptances is not fully utilizing the maximum limit allowed since this would mean jeopardizing the whole capital of the company.

The main factor for increasing A-General Re's financial strength is increasing shareholder's equity. This would increase the capacity of the company as well as increasing the limit of acceptance, adding new risks and growing more in new or old markets. Therefore, the plans for technical growth are limited to this financial increase of the company.
Increasing the shareholder's equity is not an easy job. It is related to the investment income of the company and the investors and shareholder's expectations of return. The company is planning at presenting an improved return on investment to attract more investment in the company. However, the company was successful in increasing the paid-up capital by USD 1,500,000 in 1994. The second aim of the company for increasing its financial strength is increasing the investment income. However, increasing return on investment would mean more exposure to risk in certain areas. For example, exchange of currencies has a higher return than investing in property but it is riskier. On the other hand, the company needs large investments in liquid assets. It should be prepared at anytime to pay for any claim arising. Therefore, the company can not invest in long-term projects a high percentage of its investment funds. The available investment funds is not sufficient to diversify in long-term projects, in property or other company's shares. The company prefers to follow the safe strategy of investing mainly in bank deposits.

On the other hand investment income can be improved by establishing a specialized investment department in the company. Specialists in property, currency exchange stocks, bonds and others would be responsible for setting an investment plan for the company. However, this approach is not feasible to management at this stage. They expect that the return will not cover the expenses of establishing such a department given a limited investment fund. The third approach for the company to increase its financial position is by decreasing expenses. Decreasing expenses includes mainly limiting losses through underwriting control. The company is investing mainly in its personnel staff by training in order to improve the efficiency of the company. The company plans to have the maximum efficiency of the available staff.
without any expansion. The plan includes also decreasing management expenses which prevents staff expansion.

In conclusion, the company aims at increasing share holder's funds as well as increasing investment income. It aims also at improving technical results and underwriting control while decreasing expenses and losses.

4.5 How Much is the Satisfaction of the Company's Direct Insurers?

In order to determine the insurers satisfaction a questionnaire was directed to 27 Lebanese insurance companys. The questionnaire's purpose was directed to collect data concerning the problems of insurance sector in Lebanon that affects reinsurance sector as well. It also collects data concerning the general relationship of insurance companies with their reinsurers. Third, it collects data concerning their relationship particularly with A-General Re.

4.5.1 Problems of Insurance Sector in Lebanon

The main drawback of this market is the large number of insurance companies. There are 98 insurance companys registered in Lebanon 84 of which are practicing insurance. This number is far beyond the demand for the market. This unusual situation has led to a severe competition among the insurance companies which is at its highest levels during these days. The result of this illegal competition is a severe decrease in rates even far below the standards accepted by reinsurance.
Decreasing the rates sometimes was on the behalf of services offered to the public.

In reference to the survey conducted, (100%) of the respondents agreed that competition is decreasing the rates provided by the insurance sector. While (63%) agreed that competition is not improving services. The majority agreed that competition has led to a low premium and market volume of business (81%). Also some companies reduced the scope of cover (40.7%) and tried to reduce claims (48.1%). Even though only half of the respondents agreed to the last statement, this phenomena was confirmed through observation of work. Claims are being reduced through proving that the claim is not within the policy cover, getting the minimum settlement of the claim through negotiations, getting indemnified from reinsurers or the other third-party sometimes from government institutions.

The respondents agreed (100%) on increasing capital requirement as one solution for solving the above problems. The majority (85.2%) agreed to merging between insurance companies to decrease their overall number and strengthen capital and human resources. However, they agreed on this approach in principle while in practice they see that it is not applicable since each company prefers to keep its independence. While (96.3%) agreed for setting solvency margins. The majority (74.1%) agreed that the government should limit the entrance of new companies for a certain period. While some agreed on increasing premium requirement (63%) and imposing government control on insurance companies specially concerning reserve requirement (37%). The above represent the main issues of ACAL that are being negotiated with the ministry of commerce. The laws and regulations concerning the insurance sector were not changed since 1968, many of which need to be changed according to the present situation. These changes are faced with
inflexibility from the government side and the absence of government control over the insurance sector especially during the war. It is required by law that each insurance company should have part of its premium in reserve. However, many are not applying this requirement in the absence of government supervision and control. The government agreed recently to increasing the capital requirement for insurance companies. ACAL is still negotiating for approving all the suggested approaches which would solve some of the insurance sector problems.

Concerning the evaluation of insurance sector in terms of expertise, the majority of the respondents agreed that it is acceptable in terms of underwriting (59.3%), promoting standard products (51.9%), selecting a suitable reinsurance programme (59.3%), claims settlement (70.4%), speed of processing accounts (85.2%), investment in bank deposits (44.4%) and property (44.4%). While the majority agreed that expertise are not sufficient in terms of promoting new products (70.4%) collection (66.7%) and investment in shares of other companies. However, (48.1%) of the respondents agreed that the number of employees specialized in insurance in Lebanon is not sufficient and (81.5%) saw that a college degree in insurance is demanded for the market. However, a college degree in insurance is not available in all the universities of Lebanon. A degree in insurance is given at USJ as well as at NDU but still in its beginning stage.

4.5.2 Reinsurance in Relation to Direct Insurance in Lebanon

The reinsurance leader is the one who participates in treaty of an insurance company with the highest percentage or share. All the respondents depend on foreign reinsurers in the range of 100 to 80% while 88.9% of the respondents depend on regional reinsurers in the
range of 30 to 10 %, while (81 %) depend on local reinsurers in the range of 10 % and less. Figure 4.17 shows the percentage dependence on reinsurance by the survey insurance companies.

Figure 4.17

Therefore, local reinsurers represent only a small percentage compared to foreign reinsurers. The leaders are all foreign reinsurers from London, Germany, Switzerland, France and Sweden.

The insurance sector in Lebanon is considered attractive to reinsurers by (70.4 %) of the respondents. The main factors for attracting reinsurers are premium volume, healthy portfolio and claims record, economical factors such as the construction work, prospective growth, dealing with professional insurers, good underwriting, philosophy and management and finally profit making.

However, (48.1%) of the respondents agreed that the insurance sector is not sufficient technically and (48%) agreed that it is acceptable
financially. The insurance sector should be improved technically to be more attractive to reinsurers.

Concerning reinsurance in the Arab market (59.3%) of the respondents agreed that the market is acceptable technically while (66.7%) found it not sufficient in financial terms. The main factors that influence the insufficiency of the market financially are capital, reserve, currency regulations and privatization. All the respondents described a very good relationship with reinsurers. The technical services provided by reinsurers other than capacity are: advice on proper coverage of certain risks (55.6%) of the respondents agreed while (22.2%) said that they are sometimes provided by such a service. Reinsurers sometimes help in inspecting certain losses and its settlement (44.4%). While (77.8%) of the respondents agreed that reinsurers do not provide the determination of PML for certain covers. However, (63%) agreed that reinsures provide them with policy wording and clauses. This percentage should be higher since policy wording and clauses are always provided by the leader reinsurer. Reinsurers also provide rating and quotations for certain risks of (81.5%) as well as know how such as training and publications. While rarely reinsurers provide insurers with accounting, statistical, and organizing assistance.

On the other hand, (51.9%) of the respondents agree that local reinsurance capacity is acceptable in accordance with foreign reinsurance capacity. However, local reinsurance capacity is not sufficient if it is provided without any other foreign capacity. The main services provided by local reinsurers are providing advice on the proper coverage of certain risks (59.3%) and providing rating and quotations for certain risks (59.3%). The above services are provided by local reinsurer (A-General Re) recently. The service is mainly for Engineering cover since A-General Re was assigned by Munich Re to provide the quotations for
CAR (Contractors All Risk) policies issued by the Lebanese Engineering Pool. While local reinsurers lack to provide training and publications to the Lebanese insurance companies. The main advantage of dealing with local reinsurers is easiness of communication (77.8 %) followed by human communication. Refer to table 4.8 at the end of this chapter for a summary of questionnaire findings.

4.5.3 Insurance companies in Relation With A-General Re

The respondents described their relations hip with A-General Re as cooperative (48.2%), very cooperative (37%) and average cooperative (14.8%). Figure 4.18 shows the insurance companies relationship with A-General Re.

Figure 4.18
However, (100%) of the respondents do not see further development in their relationship with A-General Re in treaty business. They expressed that they are satisfied with the recent relationship and do not need extra capacity since they are covered by foreign reinsurers. However, (96.3%) of the respondents expect further development and more participation in facultative business. It is easier for them to find coverage for facultative business locally since it is less expensive and easier in terms of communication. While only (33%) expect more development in technical services and training. The stress was on facultative business, that (33%) of the respondents considered the shares accepted by A-General Re as not economical to them. The rest found it either economical or satisfactory taking into consideration the limited capacity of A-General Re. It was also recommended for the company to expand its business in Life Assurance. The performance of the company was compared to other international reinsurers. The first evaluation was for quickness of response to insurers inquires such as offers renewals, changes and others. The respondents agreed that the company responds quickly by (59.3%) which is a very acceptable level. While (33.3%) of
respondents described the company's response as average and only (7.4%) as slow. The complaint was mainly for facultative offers that need quick response compared to treaty business. However, the majority were satisfied with the company's performance.

Confirmation of accounts was described to be quick by (77.8%) and acceptable by (22.2%). While response to claims payment was described to be fast by (81.5%) and acceptable by (18.5%). The company is quite popular for its fast payment in case of claims which is an important characteristic of a good reinsurer.

The majority of the respondents agreed that technical assistance and training are acceptable when available. However, they expect them to be on regular basis and more improved.

Concerning business visits paid by A-General Re to local insurance companies, the majority of (66.4%) saw that they are not satisfactory and expect these visits to be more frequent. Only few expect such visits to be for a longer period. While (33.3%) of the respondents are satisfied with the frequency of business visits.

Finally, A-General Re as a regional Inter-Arab reinsurance company was seen by (63%) of the respondents as a very good security, (25.9%) as acceptable and (11.1%) as fair security. Figure 4.19 shows the response of insurance companies regarding A-General Re security.

Figure 4.19
The following table 4.9 shows the summary of all the research findings.
### Table 4.9
Summary of Findings

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>STANDARD</th>
<th>A-GENERAL RE</th>
<th>COMMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>I- Does the company operate on International basis?</td>
<td>International operation</td>
<td>Inter-Arab operation. Mainly in the Arab Market.</td>
<td>Acceptable for special circumstances N.B. shareholders being from different Arab countries.</td>
</tr>
<tr>
<td>II-Technical Position:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1- Organization</td>
<td>- Well organizational chart</td>
<td>Lack well organizational chart</td>
<td>Needs improvement</td>
</tr>
<tr>
<td></td>
<td>- Well job description</td>
<td>Lack well job description</td>
<td>Needs improvement</td>
</tr>
<tr>
<td></td>
<td>- Division of tasks</td>
<td>Some tasks overlap</td>
<td>Needs development</td>
</tr>
<tr>
<td></td>
<td>- Good control for flow of work</td>
<td>Good control</td>
<td>Very good</td>
</tr>
<tr>
<td></td>
<td>- Good cooperation at all levels</td>
<td>Average cooperation</td>
<td>Needs improvement</td>
</tr>
<tr>
<td></td>
<td>- Clear, and written underwriting policy in details.</td>
<td>General underwriting policy.</td>
<td>Needs improvement</td>
</tr>
<tr>
<td></td>
<td>- Efficient underwriting and loss control.</td>
<td>Preservative approach</td>
<td>Acceptable</td>
</tr>
<tr>
<td>2- Business operation</td>
<td>Fast and efficient in respect of:</td>
<td>Fast response</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a - Inquires</td>
<td>59.3%</td>
<td>Acceptable</td>
</tr>
<tr>
<td></td>
<td>b - Accounts</td>
<td>77.8%</td>
<td>Very good</td>
</tr>
<tr>
<td></td>
<td>c - Payment</td>
<td>81.5%</td>
<td>Very good</td>
</tr>
<tr>
<td></td>
<td>Very cooperative</td>
<td>Cooperative 48.1%</td>
<td>Acceptable</td>
</tr>
<tr>
<td>DESCRIPTION</td>
<td>STANDARD</td>
<td>A-GENERAL RE</td>
<td>COMMENT</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-----------------------------------------------</td>
<td>------------------------------------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>3 - Technical Assistance</td>
<td>Efficient and on regular basis</td>
<td>- Efficient when conducted.</td>
<td>Needs improvement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Not on regular basis.</td>
<td></td>
</tr>
<tr>
<td>4 - Business visits</td>
<td>Sufficient</td>
<td>66.4% sufficient</td>
<td>Should be increased</td>
</tr>
<tr>
<td>5 - Human resources</td>
<td>Sufficient number of experts and</td>
<td>Experts available for top management level, and</td>
<td>Acceptable in general but lacking</td>
</tr>
<tr>
<td></td>
<td>specialising in the field of reinsurance.</td>
<td>middle management level, university standard</td>
<td>specialization in reinsurance except that</td>
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<td></td>
<td></td>
<td>for technical level.</td>
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<td>III- Financial Position :</td>
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<tr>
<td>1) Paid up capital</td>
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<td>Less than USD 10 mil</td>
<td>Below understand level but acceptable for</td>
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<td></td>
<td>USD 20 mil to 25 mil</td>
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<td>2) Development of gross</td>
<td>Increasing rate</td>
<td>Fluctuating</td>
<td>Acceptable under special circumstances.</td>
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<td>and net premium.</td>
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<td></td>
<td>N.B. Operating during war situation.</td>
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<td>3) Development of technical</td>
<td>Increasing rate</td>
<td>Constant increasing</td>
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<td>reserves.</td>
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<td>4) Development of shareholder's funds</td>
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138
<table>
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<tr>
<th>DESCRIPTION</th>
<th>STANDARD</th>
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<th>COMMENT</th>
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<td>Should be increased</td>
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<td>6) - Solvency Margins</td>
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<td>a- Net premium/Shareholders equity</td>
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<td>235%</td>
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<td>b- Paid up capital + Free reserves/Retained premium</td>
<td>min 50%</td>
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<td>c- Change in Net premium</td>
<td>-25% to 25%</td>
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<td>d- Net premium/Gross premium</td>
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<td>e- Technical Reserves/Current Assets</td>
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<td>f- 2 years w Profits/2 years Investment Income</td>
<td>&gt; 25%</td>
<td>-116%</td>
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<td>g- Pretax profits/Average shareholder's equity</td>
<td>&gt; 150%</td>
<td>5.8%</td>
<td>Not acceptable</td>
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<tr>
<td>h- Technical reserves + shareholder's equity/Net premium</td>
<td>&gt; 150%</td>
<td>114%</td>
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<td>Comment</td>
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<td>-------------------------------</td>
<td>------------</td>
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<td>------------</td>
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<tr>
<td>i- Technical reserves/Shareholder's funds</td>
<td>&lt; 350%</td>
<td>239%</td>
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<tr>
<td>7- Security</td>
<td>very good security</td>
<td>63%</td>
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### Table 4.8
Summary of Questionnaire Findings

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<tr>
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<td>e. Reduce scope of cover</td>
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<td>f. Reduce claims</td>
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<tr>
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<td></td>
</tr>
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<td>37</td>
</tr>
<tr>
<td>f. Setting solvency margins</td>
<td>96.3</td>
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</tr>
<tr>
<td>g. Government control</td>
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<td>63</td>
</tr>
<tr>
<td><strong>3. Evaluation in terms of expertise:</strong></td>
<td></td>
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</tr>
<tr>
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<td>11.1</td>
<td>59.3</td>
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</tr>
<tr>
<td>c. Promoting new products</td>
<td>7.4</td>
<td>22.2</td>
</tr>
<tr>
<td>d. Collection</td>
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<td>25.9</td>
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<tr>
<td>e. Selecting a suitable reinsurance programme</td>
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<td>f. Claims settlement</td>
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<td>g. Speed of processing accounts</td>
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<tr>
<td>h. Investment (bank, stock, etc)</td>
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<tr>
<td>i. Investment (property)</td>
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<td>44.4</td>
</tr>
<tr>
<td>j. Investment (shares in other companies etc.)</td>
<td>3.7</td>
<td>33.3</td>
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<td><strong>4) Number of employees specialized in Insurance</strong></td>
<td></td>
<td></td>
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<td>18.5</td>
<td>48.1</td>
</tr>
<tr>
<td>Not sufficient</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acceptable</td>
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<td></td>
</tr>
<tr>
<td><strong>5) College degree in insurance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Demanded for the market</td>
<td>81.5</td>
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II- Reinsurance in relations to Direct Ins. in Lebanon

1- Percentage dependence on Reinsurance

<table>
<thead>
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<th>Range</th>
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<td>100-80</td>
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<td>30-10</td>
<td>88.9</td>
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<tr>
<td>&lt;10</td>
<td>81.5</td>
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2- Insurance attractiveness

<p>| | |</p>
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<tbody>
<tr>
<td>a-</td>
<td>70.4</td>
</tr>
<tr>
<td>b-</td>
<td>22.2</td>
</tr>
<tr>
<td>c-</td>
<td>7.4</td>
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</table>

3- Insurance sector in Lebanon

<table>
<thead>
<tr>
<th></th>
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<th>Not sufficient</th>
<th>Acceptable</th>
</tr>
</thead>
<tbody>
<tr>
<td>a-</td>
<td>18.5</td>
<td>48.1</td>
<td>33.3</td>
</tr>
<tr>
<td>b-</td>
<td>7.4</td>
<td>44.4</td>
<td>48.1</td>
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</table>

4- Reinsurance in the Arab market

<table>
<thead>
<tr>
<th></th>
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<th>Acceptable</th>
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</thead>
<tbody>
<tr>
<td>a-</td>
<td>11.1</td>
<td>66.7</td>
<td>22.2</td>
</tr>
<tr>
<td>b-</td>
<td>16.5</td>
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<td>59.3</td>
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</table>

5- Local Reinsurance

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>a-</td>
<td>14.8</td>
<td>33.3</td>
<td>51.9</td>
</tr>
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</table>

6- Technical services provided by reinsurers

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<th>No</th>
<th>Sometimes</th>
<th>Rarely</th>
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<tr>
<td>a- Advice on the proper coverage of certain risks</td>
<td>55.6</td>
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<td>22.2</td>
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<tr>
<td>b- Help in inspecting certain losses and its settlement</td>
<td>11.1</td>
<td>3.7</td>
<td>44.4</td>
<td>40.7</td>
</tr>
<tr>
<td>c- Determining the PML for certain covers</td>
<td>7.4</td>
<td>81.5</td>
<td>7.4</td>
<td>3.7</td>
</tr>
<tr>
<td>d- Providing policy wording and clauses</td>
<td>63</td>
<td>7.4</td>
<td>25.9</td>
<td>3.7</td>
</tr>
<tr>
<td>e- Provide rating and quotations for certain risks</td>
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<td>3.7</td>
<td>11.1</td>
<td>3.7</td>
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<td>f- Providing the know how (training, Publications etc.)</td>
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<td>11.1</td>
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7- Local reinsurance

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<tr>
<th>Service</th>
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<td>b- Help in inspecting certain losses and its settlement</td>
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</table>
Chapter 5
Conclusion and Recommendations

Reinsurance as a profession in Lebanon faces the same problems of reinsurance in the Arab Market. The lack of capital funds and shareholder's equity is one of the main problems. Compared to international reinsurers the capital fund and shareholder's equity are far below the standards. However, they are accepted due to the acceptable security and goodwill of the company. On the other hand, the capital funds and shareholder's equity are growing at a slow rate which is widening the gap between Arab reinsures and foreign reinsurers.

1- Financial Capacity:

The weak financial capacity is a constraint for the reinsurance company for expanding its business. It limits also its underwriting capabilities and development of humans resources. It is clear that local reinsurance was within a range of small acceptances of less than ten percent of the insurance market in Lebanon. However, keeping in mind the modest capacity of such insurance companies. This makes the local reinsurers in no leading position to influence their terms and conditions on the market. Due to this limited capacity insurers turn and depend heavily on foreign reinsurers. The main emphasis was on facultative reinsurance since it is easier for the insurance company to place it with a local reinsurer.

The limited financial capabilities also limit development of employees to be more efficient and specialized in their field. The payoffs are not much attractive which would result in a high turnover.
On the other hand, there is a lack of marketing and communications effort but it is progressively improving. Local business visits are below the average but they might be contributed to the saturation of a small market. Local reinsurance under study seemed to emphasize more on other important markets for its marketing and business communication.

Concerning technical services provided by the local reinsurer, they are below average compared to international reinsurers. However, one of the company's strategies is to improve the services provided to insurance companies. The technical training session provided on irregular basis for insurance companies were very satisfactory and up to the standards. Also, at this stage the company is offering technical services in terms of advice and rate quotations specially for Engineering covers. This facility would be improved specially after increasing the capabilities and expertise of the employees.

2- Other Features

The local reinsurance under study is characterized by an important feature which is freedom of exchanged currencies. There are no restrictions since the company operates in a free economical market regarding this aspect. The company pays quickly for claims which gives it a very respectable position upon the companies it deals with. The company is considered a good security and many international insurance and reinsurance companies exchange business with. The company plays a very important role in the Lebanese insurance market. It is highly respected among the insurance companies. It also represents an important source of reference when needed. The company was found to have a good response for inquires which is an important aspect for a good reinsurer. There are exceptional cases when there is a delay but in general the response is very
Financial Reinsurance became popular around ten years ago. During this time some companies were formed specifically to write financial reinsurance consisting mainly of "item and distance" covers. Financial reinsurance programmes are not involved in risk transfer. They are treated as annuities. The reinsurer will receive from the reinsured a set premium and agrees to pay at pre-agreed dates certain amounts. The premium given to the reinsurer represent the present value of all the amount paid later by the reinsurer to the reinsured. (The concept of this reinsurance is that the reinsured gives the reinsurer the mentioned premium to pay from it the losses that would hit a certain portfolio of business of the reinsured). The reinsurer will pay for losses assumed under the portfolio of business reinsured through this method from the premium. This premium is also a mean for investment to generate investment income that would be shared by the insured and reinsurer. Since the reinsurance company works on a wider scale than the insurance company, it has more expertise and can invest business in a better way. The reinsured seeks this method to guarantee a better investment results through reinsurance.\(^{35}\)

4- Developing a Growth Plan

- It is recommended that the company establish a well organized underwriting policy.
- Establish portfolios for homogenous and similar risks.
- Set a premium requirement for each business portfolio.
- Managing the established portfolio on a long run basis.

\(^{35}\) A-Z of Risk, Roger Gillette, Senior vise president, John Son & Higgins (Bermuda).
- Seeking increase in premium volume through expansion in already existing business, geographical expansion and expansion in new businesses.

- Invest in insurance sector by establishing an insurance branch to accept direct insurance business which would be more profitable than reinsurance business only. Most of the international reinsurance companies have insurance subsidiaries that support their business.

5- Recommendations for Future Research

Reinsurance as a profession is a wide subject and mostly not common except within the insurance and reinsurance market. Therefore, there are variety of related subjects to study. An interesting subject would be a study of reinsurance in the Arab market under different political systems. In such a way the study would be conducted on a wider scale.

The questionnaire would be addressed to a wider sample from the Arab market. However, such study is difficult to be conducted at university level because it would be limited with lack of data and difficulties in connecting insurance and reinsurance companies in the Arab market. On the other hand, such a research would need a huge budget.

It is recommended that a research about reinsurance on a wide scale be conducted by the research and development department of a reinsurance company. It is specifically recommended the A-General Re gives special concern to this research area to improve the technical services provided by the company.
Finally, it is concluded that reinsurance in Lebanon as a profession is in a continuous but slow growth. The war contributed a lot in decreasing its progress. The previously mentioned plans and strategies of the reinsurance managers along with the above recommendations would guarantee an improvement in the growth of this profession. At this stage it is very difficult and even impossible for a reinsurance company to start in such a market with limited capital funds. Thus, when this financial limitation is eliminated it would be easy to apply the recommended solutions.
Appendix A

I- Definition of Technical Terms

This section includes some definitions and explanation of technical terms that will be used in this study¹.

(1) Insurance: is a way of transferring the risks of an individual or a corporation to an insurance company which agrees under certain terms and conditions to assume losses suffered by the insured, this service is done for a premium which is paid by the insured, who is the person asking for insurance cover, to the insurance company.

(2) Reinsurance: is a way of transferring the risks of an insurer or the insurance company to another insurer known as a reinsurer (these risks are the business written through direct insurance). The Reinsurer agrees also for a premium known as the reinsurance premium, to assure under certain terms and conditions, losses referred by the reinsured (that is the insurance company) under its original policy.

(3) Reinsurance contract: is a contract by which the reinsurer (or Reinsurance company) undertakes to indemnify the reinsured (or ceding company) against all or apart of the liability which the insured has undertaken on a certain policy of insurance.

(4) Ceding company: is the insurance company which is reinsuring its business with a reinsurer who is the Reinsurance Company or another insurance company. It is also known as direct or original insurer or the reinsured or the ceding insurer.

(5) Cession: refers to the amount of a risk given off by the ceding company through reinsurance to the Reinsurer or Reinsurance company. It also represents the amount accepted by the Reinsurance company. This means that to cede a risk is to pass on to the reinsurer a part of a risk and the reinsurer is said to have reinsured when he accepts such a cession of a risk.

(6) Facultative Reinsurance: is one way of reinsurance cover, under which each and every risk is considered individually by the Reinsurer who will accept or reject according to a certain criteria.

(7) Line: is the retention of the direct insurance company while the Reinsurance company may accept one or more lines.

(8) A pool: is an association of joined insurance companies for the purpose of sharing business or risks of a certain class on an agreed basis. The funds are in the name of the pool association all premiums, losses, expenses, and profits are divided among the members in agreed proportions.

(9) Profit commission: is the percentage of the reinsurer’s earned profits which the reinsurer agrees to return to the ceding company in case of good business.
(10) Reinsurance Commission: is the commission which Reinsurance company pays to the ceding company for the business offered. It is usually a certain percentage of the premium ceded. This commission includes also the expenses of the ceding company.

(11) Reinsurer: A reinsurer is the insurer who has accepted a reinsurance from the original or direct insurer.

(12) Retention: is the part of the risk or the amount of the liability the ceding company keep or retains for its own account.

(13) Retrocession: In other words it is the reinsurance of part or all of the business written by the reinsurer by way of reinsurance. It is the reinsurance of a reinsurance. This is done when the reinsurer wants to limit his liability.
A Retrocessionaire is the reinsurer that reinsurers the first reinsurer.

(14) Treaty Reinsurance: a binding reinsurance contract between the ceding company and the Reinsurance company under which risks written by the ceding company automatically reinsured by the Reinsurance company as written but subject to the extent terms and conditions agreed and stated in the treaty wordings. It differs from facultative reinsurance which is offered individually per risk while the treaty is offered as a group of policies that falls under the same branch, fire, accident etc.
Appendix B

II- Solvency Margins

What follows are some solvency margins which are used by reinsurers to evaluate their financial position.

1) Net Premiums
Shareholders' Equity

The standard ratio should range between 220% to 300%. The aim of this ratio is to show the volume of premium written as a liability compared to the capital and capital reserves. However, the premium differs from one company to another depending on the company's specializing business. For this reason different ratio standards are given for each range of written premium. For example:

<table>
<thead>
<tr>
<th>Net written premium in USD (Millions)</th>
<th>International standard ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1.5</td>
<td>200</td>
</tr>
<tr>
<td>more than 1.5 and not exceeding 3.5</td>
<td>220</td>
</tr>
<tr>
<td>more than 3.5 and not exceeding 7.5</td>
<td>250</td>
</tr>
<tr>
<td>more than 7.5 and not exceeding 15</td>
<td>280</td>
</tr>
<tr>
<td>more than 15 and not exceeding 35</td>
<td>300</td>
</tr>
<tr>
<td>more than 35</td>
<td>330</td>
</tr>
</tbody>
</table>

2 S. Mikati “Studying the financial strength of an insurance and reinsurance company” (Seminar - Arab Re, Beirut 1992).
The higher the ratio the higher is the risk on the capital.

2) Measuring the change in net premium. The standard ratio should be between -25% and +25%. This ratio shows the percentage of change in the net premium volume compared to the previous year. The increase in premium would require an increase in capital.

3) **Net Premium**
   
   Gross premiums

   The standard ratio should be more than 50%. This ratio shows the percentage of premiums retained and the degree of dependency on reinsurers or retrocessionaires. The more the ratio decreases the more the company would depend on its reinsurers.

4) **Technical Reserves**

   Current Assets

   The standard ratio is less than 100%. This ratio indicates the strength and readiness of the company to pay quickly for any claims due.

5) **2 years underwriting profits**

   2 years investment Income

   The standard ratio is more than 25%. This ratio shows the results of underwriting business. The ratio was based on the results of two consecutive years so that the focus won't be on one year that might be exceptional in catastrophic losses. The underwriting results are subject to
being negative if the losses were much more than the premium retained. On the other side, the investment income should be of positive result. Concluding the Technical results, loss should not be more than 25% of the investments income.

6) Pretax profits
   Average shareholder's funds

The standard ratio more than 50%. It measures the income of the capital investment. This ratio is important to investors.

7) Technical Reserves + shareholder's equity
   Net premiums

The standard ratio should be more than 150%. The aim of this measure is showing the company's position its efficiency and its solvency and technical reserves in addition to shareholders equity all which are available to face the liabilities arising from the retained premium (representing risk).

8) Technical Reserves
   Shareholder's fund

The standard ratio is less than 350%. This ratio shows the technical reserves taken for unexpired risks and outstanding losses in addition to reserve for contingency or catastrophe versus capital and free reserves that represent the shareholder's equity.
Appendix C

III- Financial Planning and Capital Investment

The principles mentioned about investment in this study are only a framework for insurers to work as investors. Insurers need a concrete investment policies which take into account their own individual circumstances.

Financial planning is very essential to the company to determine how much to invest, decide upon the nature of investment whether long term short term or medium-term, decide how to meet the risk connected to each investment, and determine the nature of their portfolio.

The underwriting results reveals the amount that can be invested. Net investment amount is calculated by deducting claims and administrative costs from premiums. We add to this figure previous investment incomes. Thus, the investment amount is affected by changes in volume of premium, claims and administrative costs. This amount of investment is also affected by the type of business accepted by the company. For example in some mass business many small losses occur requiring frequent payment. This restrict the scope for investment.

Investment whether for long-term, medium or short term is related to liability. Each liability should be covered by an asset of the same nature. That is if the obligation is expected in the short run, the corresponding assets should be invested in a way that can be easily converted into cash when payment is due for a certain claim.

3 "Munich Re Capital Investments of Insurance Companies", 1995 (for internal use).
Financial planning also involves proper risk management. Assessing the risk and determining the risks that threaten the investment activities of the company and their probability of assurance are of vital importance. In determining the investment policies of the company attention must be given to certain risks such as

- Risk of default or commercial risk. It is the risk faced by the company when its debtor's fail to pay their liabilities in due time. This risk increases with the increase in due time for payment and the low solvency of the debtor.

- Market risk or risk of error: There are many economical risks that faces the investor such as fluctuations in interest rates and exchange rates, economical growth, inflation, foreign trade balance and labour markets can be predicted as general movements.

There are number of factors that influence the investment types and the way they are mixed and spread. The nature of the company's operation is one factor. The structure of the domestic capital market also plays a role. Political, economical and social factors have their influence as well.

The company should examine a number of investment methods that be meet it objectives. The following are some examples.

Short-term investments: are investments usually for less that one year and can be easily converted into cash. They are used by companies whose business is subject to great fluctuations and need cash frequently to settle payments. However compare to long-term investments they have lower returns.
Fixed-interest bearing securities: They are not subject to interest risks and are considered particularly safe. They are a good security when interest rates fall; however, in case interest rates rise, there is a loss of opportunity.

Shares: There are many influences that would affect the corporate share price such as corporate profits, psychological influence and international or domestic political events. However, if the shares were well selected, they offer high returns.

Real estate: During favourable market situation real estate can increase in value influenced by the location and quality of the property in question. However, returns are usually low and it is not immediately convertible to cash. It is a good investment in cases of inflation and crisis.

Mortgages: are considered an excellent investment for preserving nominal capital since there is no market price and no depreciation on investment. On the other hand, liquidity is low.

Capital investment is an important part of the company's operation. An analysis of the company's business is important to determine the investment mix which would generate high returns. The company should have expertise in the field of investment in order to choose the optimal mix and spread of investment that best suits it. International reinsurers do not only have such experts for their operation but also to help insurance companies in their investment decisions.
Appendix D

IV- Financial Reinsurance

Financial reinsurance has some distinctive features:

- Recognizing time value of money. The reinsurer depends a great deal on the investment income generated on the premium before it is paid as losses. This investment income represents the basis of the premium collected.

The premium the reinsurer receives would be sufficient to pay for all normal losses and in most circumstances substantial to pay for all losses presented to him. He will be in a risk position only in case of severe catastrophic loss. If losses exceeded the premium, the contract will call for additional premium depending on the loss experience. This additional premium would be also spread over a number of years.

On the other hand, this also benefits the reinsured through his participation in profits and losses. Through the premium commission or commutation clause the reinsurer will return to the reinsured a part of the unused premium at the end of the contract period.

The above is calculated as follows:

Premium paid + Accrued interest = Premium fund.

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4 A-Z of Risk Roger Gillet, Senior Vice President, Johnson Higgins (Bermuda).
Premium fund less losses paid = unused premium fund less risk
premium and reinsurer's charge.
= Returned commutation payment.

The risk premium represents the charge made for the risk assumed by the
reinsurer. This risk might be a time risk in which losses would be paid
earlier than predicted or underwriting risk in which losses would be more
than premium and accumulated interest.

- Financial reinsurers do not expose themselves to unlimited aggregate
losses. They are rather called finite risk reinsurers. Therefore, in such a
contract there would be an aggregate limit for losses.

The market of finite risk reinsurers is growing continuously. Already
there are some known companies in this field such as Center Re and
Commercial Risk Partners. The overall premium written through these
contracts amounted to USD 5 billion of which USD 1.5 billion are
written in Bermuda. The reinsurance business is growing very fast in
Bermuda due to the presence of very large companies with huge
underwriting capacity, helping them the absence of taxes paid on the
reinsurance business which over burden many reinsurance companies in
other countries.

It is getting clear that the move towards finite risk reinsurance is gaining
momentum. However, nowadays experts to design and implement such
product are few.

In order for a company to consider implementing such a reinsurance
method, its risk managers should obtain a full knowledge of its working
implementation. They should identify if there is an application for such a method in their company.

Financial reinsurance is used for specific purpose. Financial reinsurance can be effective in the following cases:

1) For smoothing profit: some companies are subject to profit fluctuation from one year to another. Financial reinsurance can identify these risks whether pure or business risks and smooth out the peaks and troughs resulting.

2) For insuring a cash flow; This can help in case of catastrophic covers that are insurable risks such as gradual pollution. The reinsurer will pay for the losses and the reinsured will recover through payment in subsequent years.

3) For managing increased retention: The role of finite risk products in the move towards higher retentions, is to provide a comfortable transition by offering some absolute downside risk cover at the sometime allowing the insured to benefit significantly from his own good loss experience.

4) Closing out old years on retained programmes through offering a portfolio transfer of old years particularly as reinsurance of a captive. A corporation may be assisted by removing some uncertainty or to assist by freeing up surplus from established reserves.

However, the finite risk reinsurers are now combining their abilities with the risk taking ability of associated companies to offer more diverse opportunities.
The future of this method looks promising to many. Important reinsurance companies are increasingly continuing the assessment of this subject. More and more risk managers and finance directors are looking at financial reinsurance to use them in the following cases:

- Where the insurance industry imposes high deductibles beyond what can be handled by the insured.
- In certain employee benefit programmes.
- To fill the gap caused by a lack of capacity in some programmes in the market.
APPENDIX E

Sample Questionnaire
Insurance Market

Please answer the following questions concerning the insurance sector in Lebanon.

1) It is known that the number of Lebanese insurance companies are much more than the market capacity.

What (is, are) the consequence(s) of such a saturation?

1- Competition leading to a decrease in rates
2- Competition improving services
3- Low premium and market volume of business
4- Decreasing premium retained by the company
5- Some companies reduce scope of cover
6- Some companies try to reduce claims
7- Others

2) What are the possible approaches for solving the above problem.

1- Merging
2- Form pools (for specific purposes)
3- The Government limiting entrance of new companies
4- Increasing capital requirement
5- Increasing premium requirement
6- Setting solvency margins
7- Others
3) **How do you evaluate Insurance sector in Lebanon in terms of expertise?**

<table>
<thead>
<tr>
<th>Category</th>
<th>Excellent</th>
<th>Acceptable</th>
<th>Not sufficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1- Underwriting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2- Promoting standard products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3- Promoting new products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4- Collection</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5- Selecting a suitable reinsurance programme</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6- Claims settlement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7- Speed of processing accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8- Investment (bank, stock, etc)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9- Investment (property)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10- Investment (shares in other companies etc.)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Any additional comment _______________________

4) **In the Lebanese Insurance market the number of employees specialized in Insurance are**

<table>
<thead>
<tr>
<th>Category</th>
<th>Sufficient</th>
<th>not sufficient</th>
<th>Acceptable</th>
</tr>
</thead>
</table>

5) **A college degree in insurance is**

<table>
<thead>
<tr>
<th>Category</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1- Demanded for the market</td>
<td></td>
</tr>
<tr>
<td>2- Not demanded</td>
<td></td>
</tr>
<tr>
<td>3- Not necessary</td>
<td></td>
</tr>
<tr>
<td>4- Other</td>
<td></td>
</tr>
</tbody>
</table>
Reinsurance in relations to
Direct Insurance in Lebanon

Please answer the following questions concerning your relationship with reinsurance companies.

1) How much do you depend on Reinsurers?

\[
\% \\
1- Foreign \quad \rule{2cm}{0.5pt} \\
2- Regional \quad \rule{2cm}{0.5pt} \\
3- Local \quad \rule{2cm}{0.5pt}
\]

2) Who are your leaders of the following treaties?
   (state either their names or their countries)

<table>
<thead>
<tr>
<th>Name of Leader</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1- Fire.</td>
<td></td>
</tr>
<tr>
<td>2- Accident</td>
<td></td>
</tr>
<tr>
<td>3- Engineering</td>
<td></td>
</tr>
<tr>
<td>4- Marine</td>
<td></td>
</tr>
<tr>
<td>5- Life</td>
<td></td>
</tr>
<tr>
<td>6- Others</td>
<td></td>
</tr>
</tbody>
</table>
3) How much is the insurance sector in Lebanon attractive to reinsurers? (taking the small market volume into consideration).

1- Very attractive
2- Attractive
3- Acceptable
4- Other

4) What do you think are the main factors for attracting reinsurers?

________________________________________________________

________________________________________________________

________________________________________________________

________________________________________________________

5) Do you think the insurance sector in Lebanon is

1- Technically:
a- Sufficient b- Not sufficient c- Acceptable

2- Financially:
a- Sufficient b- Not sufficient c- Acceptable

6) What are your general view of reinsurance in the Arab market?

1- Financially:
a- Sufficient b- Not sufficient c- Acceptable

2- Technically:
a- Sufficient b- Not sufficient c- Acceptable
7) What factors contribute to the sufficiency or insufficiency of the above market?

1- Capital

2- Reserve

3- Currency regulations

4- Privitisation

5- Others

8) Local Reinsurance (Professional Reinsurers and local capacity) is it

1- sufficient

2- Not Sufficient

3- Acceptable

9) How do you describe your relationship with reinsurers

1- Acceptable

2- good

3- very good

10) What are the technical services provided to you by reinsurers other than capacity?

1- Advice on the proper coverage of certain risks

2- Help in inspecting certain losses and its settlement

3- Determining the PML for certain covers

4- Providing policy wording and clauses

5- Provide rating and quotations for certain risks

6- Providing the know how (training, Publications etc.)
7- Accounting assistance

8- Statistical assistance

9- Organizing assistance

10- Others

11) In reference to questions no. 12 above please indicate the services numbered provided to you by local reinsurers (Professional Reinsurance companies).

12) What are the advantages of dealing with local reinsurers?

1- Human communication

2- Interest in the market

3- Knowledge of the market

4- Others

13) Do you face difficulties in finding cover for the following risks?

1- Wood

2- Plastic

3- Foam

4- Rubber

14) Do you face difficulties in rating certain perils?

1- Yes

2- No

3- Sometimes

4- Comment
Questionnaire -1-

1) Compared to other International Reinsurers, How do you evaluate your relationship with the company?
   a- Very cooperative ______
   b- Cooperative ______
   c- Average ______

2) In what areas do you see further development in your relationship?
   a- Treaty ______
   b- Facultative ______
   c- Technical Services & training ______
   d- Others if any ______

3) To help frequency of your facultative offers, How do you evaluate the shares accepted by the company?
   a- Economical ______
   b- Not economical ______
   c- Satisfactory ______
   d- Any comments ______

4) How do you evaluate the performance of the company compared to other International reinsurers in respect of
   a- Response to your inquires (offers, renewal etc . . .)
      1- Slow ________  2- Average ________  3- Quick ________
      Any comments ____________________________________________
b- Confirming of accounts

1- Slow  2- Average  3- Quick

Any comments

---

c- Response to claims payment

1- Slow  2- Average  3- Quick

Any Comments

---

d- Technical assistance

1- Satisfactory  2- Unsatisfactory

Any suggestions

---

E- Training

1- Satisfactory  2- Unsatisfactory

3- Others

---

E- Business Visits

1- Expect to be more frequent

2- Expect to be for longer period

3- Satisfactory

4- Any comments

---

5) As a regional Inter-Arab reinsurer how do you see our company?

a- Very good security

b- Acceptable

c- Fair Security
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