

# Precious commodity

The battle between international and local insurers for Iraqi business is made even tougher by complicated regulations



COVER  
FEATURE

By **Suzie Neuwirth**

It was never going to be simple. With a turbulent political climate, on-going sanctions and one of the world's largest oil reserves attracting attention, Iraq's insurance market is complex to navigate. To add to the challenges, a significant part of Iraq's insurance sector is brokered and written by the London market, despite regulations prohibiting international insurers writing primary business in or from Iraq.

Lloyd's regulations state that "Lloyd's underwriters are not licensed to write insurance in or from Iraq", with an exception being that "the insured can place business with a non-admitted insurer either directly or through the use of an intermediary, outside the territory". With regard to reinsurance, the regulations stipulate: "Lloyd's underwriters are permitted to write reinsurance originating from Iraq from outside Iraq on a cross-border basis only. The underwriting must take place outside of the territory."

Thus while insurers without a licence may not write primary business within Iraq, they can write the insurance cover from London. Despite confirmation from a Lloyd's spokesperson that "there is no change to our approach to business in Iraq, nor has there been a change in regulation that we are aware of," a number of people involved in the Iraqi insurance market told *Mena Insurance Review* last month that there had been recent changes, disputes and even illegalities in the way that international insurers operate there. The fact that there is

such widespread confusion is a sign that there needs to be clarification and cohesion between the international and local legislative frameworks.

Many of the companies purchasing insurance in Iraq are international, as penetration among local companies is very low. As such, these international companies tend to use international insurers through the aforementioned non-admittance basis.

Smita Malik, director of commercial insurance at

## SANCTIONS

Iraq is no longer subjected to the near-total financial and trade embargo which the UN imposed back in 1990, but some European sanctions still remain which present an extra hurdle for the insurance industry.

**"European sanctions on Iraq are updated fairly frequently. There are a series of prohibited persons and organisations who cannot be insured, as well as assets broadly related to those organisations. International groups, such as the UN, the Office of Foreign Assets Control, the EU and the HMT, will be wary of a whole variety of sanctions."**

David Whear, partner in corporate finance at Norton Rose LLP

**"It is extremely challenging, owing to the enormous regulation put on us brokers by both the FSA and the EU...particularly because of many of the sanctions on Iraq which are still in existence. Even though other super economies, namely the US, have ignored these difficulties, it is still difficult for European companies."**

Adrian Spooner, managing director for the Middle East at RFIB

the US-headquartered broker and insurer Clements, explains that as an international insurer, their clients in Iraq tend to be international too. “We mostly insure multi-national companies, NGOs. Our client base is relief, development and global,” she explains. “We’ve insured a few oil companies, providing cover for staff, accident insurance, kidnap and ransom and business liability.” Clements does not have an on-the-ground presence in Iraq.

When questioned about regulations in relation to international insurers, Malik acknowledges that there is a grey area. “It’s very difficult to see what they’re asking in terms of regulations as there is a lot of ambiguity. What qualifies as primary business in Iraq is ambiguous. If you’re an international company with services, not assets there – does that count as primary business?”

It does not seem that things are poised to change in the foreseeable future. “I have not seen a large number of international insurers looking to be domestic in Iraq. Insurers are writing Iraqi business on a non-admitted basis or through reinsurance,” comments David Whear, partner in corporate finance at Norton Rose.

However, working as a non-admitted insurer can have its limitations, he explains. “The question is how far non-admittance rules let you go and how practical it is to achieve the levels of business that you want,” he says. “There may be categories of risk that you can’t write on a non-admitted basis; this is the case in the US for certain types of liability cover, for example.”

Lloyd’s regulations outline that third-party liability for motor vehicles may not be placed on a non-admitted basis, while Bassam Chilmeran, board member at Ur International Insurance Company in Iraq, a private local insurer, says that CAR cover must be placed locally.

“Furthermore, the insurer is dependent on business coming to it in a remote way, so it lessens how much they can pick up,” continues Whear. “Insuring on a non-admitted basis works if you are doing business irregularly.”

**Aside from the** international insurers, it is the state-linked insurers which dominate the market, particularly within the energy sector. “They have some sort of monopoly on energy business,” says Chilmeran.

Adrian Spooner, managing director for the Middle East at international broker RFIB, does not see how private local insurers will gain more market share in the near future. “All contracts have to go through the ministries,

## IRAQI MARKET

GDP: **\$82.150bn** <sup>(2010)</sup>

Population: **32,030,823** <sup>(2010)</sup>

GNI per capita: **\$2,340** <sup>(2010)</sup>

Percentage of population under national poverty line:

**22.9%** <sup>(2007)</sup>

Unemployment (% of total

labour force): **17.5%** <sup>(2006)</sup>

Merchandise trade

(% of GDP): **117.3%** <sup>(2009)</sup>

Source: The World Bank

particularly the Ministry of Oil, Finance & Transport. Their preference will undoubtedly be towards the national companies,” he comments.

“Changes will occur as the local insurance industry shows their inability to offer a complete service to the growing demands of international clients,” he continues. “This has already become very evident, although how international businesses will be able to ignore the national insurance companies’ dominance is like walking a tight rope with the ministries, who could react badly if national companies are not involved.”

So as long as national insurance companies continue to have a rather cosy relationship with the energy sector (which makes up the vast majority of the Iraqi economy), it does not appear that the 24 private local insurers can grab a decent slice of the pie.

With so much ceded to the international market or to state-owned firms, what is left for Iraq’s private sector? It is a concern for the country’s development, according to Spooner. “For Iraq to rebuild its financial structures it definitely needs to control and keep as much of the insurance and reinsurance spend as possible,” he affirms. “Larger brokers have been ignoring this issue, preferring to insure business directly and thereby taking the business out of the country. This is unlikely to continue.”

The predominance of international brokers in Iraq is likely to encourage business being transferred to London. “The majority of business comes from brokers such as Marsh, Willis, Aon, UIB, Fenchurch Faris and Nasco,” says Chilmeran. “There are only very few local brokers. They are not as active as international ones.”

Ultimately, it seems that the main dispute is centred around the somewhat antagonistic relationship between international insurers, state insurers and the struggling local private sector. However, the international market’s heavy presence in Iraq may have some benefits for the country in the future. “The more that international ways of doing business are introduced to Iraq, the better for the country,” says Jonathan Biles, CEO of Iraq Gate Insurance Brokers. “Transparency and international standards should encourage more investment, which will encourage the growth of the insurance sector which will then encourage domestic investment.”

With the London market and the government as very powerful competitors, it looks like private Iraqi insurers will have a sizeable battle on their hands if they wish to fight back. ■