Sector Monitor Series

Impact of Market Access on the UAE Insurance Sector

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Executive Summary

- The insurance sector is considered one of the most important drivers of Dubai economy.
- Insurance market size can be measured in different ways, in terms of investment, premiums or capital.
- Investment in the UAE insurance sector totaled approximately AED 12 billion in 2004. Premiums in the UAE insurance sector totaled AED 5.8 billion in the same year, of which 82 per cent from the non-life insurance activities and 18 per cent from life insurance.
- In 2004, the number of insurance establishments in the UAE reached 46, of which 23 were local companies and 23 were foreign branches.
- The General Agreement on Trade in Services is the first set of multilaterally agreed and legally enforceable rules and disciplines ever negotiated to cover international trade in services.
- FTAs include all WTO agreements and in addition, those not agreed upon the WTO such as opening the service market.
- When comparing the UAE and U.S. financial sector GDP growth, we found that in the year 2004, UAE financial sector GDP increased by 12 per cent while U.S. financial sector increased by 4.8 per cent in the same year.
- UAE insurance sector employment is growing faster than that of U.S during the period 2000 – 2004 and this could be attributed to the fact that UAE insurance sector is emerging.
- The results of the survey which conducted by DCCI showed that, there are many gaps in the UAE insurance sector, and the extent to which these gaps will provide opportunities
for U.S insurance companies will depend on activities of insurance firms coming from U.S. and their specialization.

- U.S. insurance premiums represented approximately 30 per cent from the total world premiums in 2004, while UAE insurance premiums represented only 0.05 per cent in the same year.

- The UAE insurance market is dependent only on the non-life insurance activities. There is a potential to increase this activity in the UAE market.

- From the results of the survey which conducted by DCCI among the insurance companies in Dubai, 42.4 per cent expect that the FTAs with U.S will have a positive effect on their businesses and 27.3 per cent expect that it would have negative effects, while 24.3 per cent said it would not affect them.

- As market access stimulate foreign investment in the country, but on the other side, it will have reversed impact on the insurance market. For the purpose of the study we classified this impact into two parts namely, the impact on the insurance sector in general and the influence on the UAE national insurance companies.

- If the domestic players are not ready for this tough competition, they will lose their market share and this will lead to exit from the market.

- The study suggests exploiting the gaps in the insurance activities in the UAE market to create business joint ventures with the U.S firms.

- Firms are advised to go into local, regional or international strategic alliances and partnerships in order to close the gaps resources and technologies used to increase their competitiveness locally or internationally.
ً٢٠٠٤ ﺩﺍﺩ ﺍﻟﺘﺄﻤﻴﻥ ﺍﻹﻤﺎﺭﺍﺘﻲ ﻭﺍﻟﺨﺎﺭِج، ﺍﻟﺘﺄﻤﻴﻥ ﻓﻲ ﺍﻟﻌﺎﻡ، ﻭﺍﻟﻨﺼﻑ ﻣﺤﻠﻲ ﻓﻲ ﺍﻟﻤﺎﻟﻲ ﺑﺎﻹﻀﺎﻓﺔ، ﺍﻟﺨﺩﻤﺎﺕ ﻓﻲ ﺑﺎﻹﻤﺎﺭﺍﺕ ﻟﻠﻘﻁﺎﻉ، ﻓﻲ ﺍﻟﻌﺎﻡ، ﻭﺍﻟﻭﻻﻴﺎﺕ ﻓﻲ ﻭﺍﻻﻴﺎﺕ ﺑﻤﻌﺩل، ﻓﻲ ﺑﺎﻻﺴﺘﺜﻤﺎﺭ، ﺍﻹﻤﺎﺭﺍﺕ ﻓﺭﺹ ﻭﺘﺨﺼﺺﺎﺕﻬﺎ ﻓﻲ ﺑﻤﻌﺩل ﻓﻲ ﺑﺎﻻﺴﺘﺜﻤﺎﺭ، ﺍﻹﻤﺎﺭﺍﺕ ﻓﺭﺹ ﻭﺘﺨﺼﺺﺎﺕﻬﺎ ﻓﻲ ﺑﻤﻌﺩل، ﻓﻲ ﺑﺎﻻﺴﺘﺜﻤﺎﺭ، ﺍﻹﻤﺎﺭﺍﺕ ﻓﺭﺹ ﻭﺘﺨﺼﺺﺎﺕﻬﺎ ﻓﻲ ﺑﻤﻌﺩل، ﻓﻲ ﺑﺎﻻﺴﺘﺜﻤﺎﺭ، ﺍﻹﻤﺎﺭﺍﺕ ﻓﺭﺹ ﻭﺘﺨﺼﺺﺎﺕﻬﺎ ﻓﻲ ﺑﻤﻌﺩل
التأمين سوق الحياة يعتمد على التأمين يشمل الذي يعتمد على الإمارة في.

تتوقع دبيان، في التأمين شركتا بين الغرف أجرته الذي النسب تنتهي من 42.4% أن شركتا هذه ستكون الإمارة والولايات مع الحرارة التجارية الاتفاقية توقعت بينما أعمالهم، على إجابة تأثير لها 27.3% وسلبي تأثير إلى ستوزي أنهم 24.3% الاتفاقية على تأثير تتتأثر أن

تثير إلى يودي إلى ذلك للجنبي، الاستثمار يشجع إلى الأسواق الولوية تسهيل أنها معروف التأمين على العكس.

التأثير تحديدًا، جزء في التأثيرات هذه بتنسيق رأسية، الإمارة الوطنية شركات على التأثير عام بشكل التأمين قطاع على

وسوف الأسواق حصته تفقت وعامة الشعبية، انتاسبة للهذاة مسيرة إلى ذلك.

الد رقت الشركات لخلق الإمارة في التأث steril في الأستعمرية وعالمية وإقليمية محلية وشركاء تكافع في تدخل با Tinder الشركات توصية على أو محليا التنازلية قدرا تزايد الأعداء وتأتي الخطوة!
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1. Introduction

1.1 Background

The insurance sector is considered to be one of the most important drivers of Dubai economy. The number of services provided by the insurance industry has witnessed remarkable increase.

The economic role of insurance is very important for business. It enhance the transparence of the business environment as business risks are concerned to encourage activities to be undertaken by means of improved risk management in consistency with market demand.

The size of the Insurance market can be measured in different ways, in terms of investments, premiums or capital. In 2004, investments in the UAE insurance sector totaled approximately AED 12 billion, of which 54 per cent are shares, 36 per cent are deposits, land and loans 10 per cent.

UAE insurance market size by premiums totaled AED 5.8 billion in 2004. The non-life insurance activity represented 82 per cent of the market size, while life insurance activity represented 18 per cent only.  

In 2004, the number of insurance establishments in the UAE reached 46, of which 23 were local companies and 23 establishments were foreign branches. Dubai is considered the hub of insurance industry in the UAE. It involved 49.4 per cent of the operating establishments, followed by Abu Dhabi with 32.9 per cent and Sharjah with 10.4 per cent. About 93 per cent of the operating establishments is hosted by the biggest three emirates.

The General Agreement on Trade in Services "GATS" (which is considered and important agreement in the WTO agreements), covers some 160 separate sectors including telecommunications, transport, distribution, postal services, insurance, environment, tourism, construction, real estate, entertainment and leisure industries. The agreement is bent on opening up every conceivable area that covers the trade in services.

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1 A report on the activity of the UAE Insurance Sector, 2004 – Ministry of Economy & Planning
The GATS is the first multilateral agreement to provide legally enforceable rights to trade in all services. It has a built-in commitment to continuous liberalization through periodic negotiations. It is the world’s first multilateral agreement on investment, since it covers not just cross-border trade but every possible means of supplying a service, including the right to set up a commercial presence in the export market. The implication of different rules of the GATS, and the Free Trade Agreements "FTAs" regarding the insurance will affect the sector in the UAE, in terms of procedures, regulations, competition and competitiveness.

Upon joining the WTO in April 1996, the UAE decided not to liberalize the insurance sector. Foreign insurance establishments have not been allowed to enter the market, and no commitments were made as far as this sector is concerned. The justification for that was the local market is unprepared for competition and opening the market would have an adverse impact on the national establishments. Furthermore, the UAE market is considered small (in terms of insurance services).

Liberalization will put the insurance sector in greater and more intensified competition, both domestic and foreign, as large global players will enter the market. Increasing competition pressurizes profitability and forces insurance establishments to work more efficiently. Because of this, local establishments should diversify their businesses to offer greater choice to consumers, and better quality through human resource and technology.

1.2 Objective

The objective of this paper is to assess the economic implication of the market access based on rules of World Trade Organization (WTO) and Free Trade Agreements (FTAs) between UAE and other countries like the US, the EU, Singapore, Australia, and India regarding the insurance sector. The study explores the effects on the UAE insurance sector in terms of advantages and disadvantages, and proposes some policy recommendations. In particular, the study aims at answering the following questions:

(i) What are the main aspects of WTO and FTAs on market access concerning insurance sector?

(ii) What are the main characteristics of UAE insurance sector?
(iii) What are the main characteristics of USA insurance sector

(iv) What are the major possible or expected changes that will take place after the application of market access rules? And to which extent are these changes likely to affect the insurance sector?

(v) What are the future prospects of UAE insurance sector under market access?

1.3 Data and Methodology

This paper uses the following:

1. Literature review
2. A survey among UAE insurance companies
3. International literature on the rules of WTO agreements concerning trade in services and the bilateral agreements that are signed by some countries in the Middle East.

Quantitative analysis will be used to check the relationships among the different factors that affect the insurance sector and to predict the future prospect of the sector.

1.4 Outline of the study

Section 2 gives the review of literature, and section 3 highlights the main aspects of WTO and FTAs on market access concerning insurance sector. Section 4 benchmark the UAE insurance sector with that of the US in terms of premiums and financial assets, section 5 shows the results of Dubai insurance sector survey. Section 6 looks into the perspective of the UAE insurance sector under the market access rules and try to assess the impact of these rules to the sector. Section 7 closes with conclusions and recommendations.
2. Main Aspects of WTO, FTAs Concerning Insurance Sector

2.1 WTO Aspects (The GATS Agreement)

The General Agreement on Trade in Services is the first set of multilaterally agreed and legally enforceable rules and disciplines ever negotiated to cover international trade in services. It is one of 28 free trade agreements of the World Trade Organization (WTO) and it sets the rules for trade and investment in services. Services are estimated to represent 60 - 80% of GDP of WTO member countries. The GATS covers 160 service sectors such as education, health care, telecommunications, tourism, postal delivery, social security, a variety of municipal services, and insurance. The scope of the agreement is very broad potentially covering government regulation of trade in services, and potentially covering government services at all levels of governments.

The GATS agreement covers four modes of supply;

- Cross border trade, which is defined as delivery of a service from the territory of one country into the territory of other country;
- Consumption abroad - this mode covers supply of a service of one country to the service consumer of any other country;
- Commercial presence - which covers services provided by a service supplier of one country in the territory of any other country, and
- Presence of natural persons - which covers services provided by a service supplier of one country through the presence of natural persons in the territory of any other country.

The market access provision prohibits six types of limitations, unless a member inscribed them in his schedule. These are: (a) limitations on the number of suppliers; (b) limitations on the total value of service transactions or assets; (c) limitations on the total number of service operations or on the total quantity of service output; (d) limitations on the total number of natural persons that may be employed; (e) measures which restrict or require specific types of legal entity or joint venture; and (f) limitations on the participation of foreign capital. In scheduled sectors, the existence of any of these limitations has to be indicated with respect to each of the four modes of supply described above.
*National treatment* is defined under Article XVII in the traditional GATT manner, as treatment no less favorable than that accorded to like domestic services or service suppliers. In contrast to the GATT approach, however, members may inscribe limitations on national treatment in their schedules— with respect to each of the four modes of supply, as in the case of the market access provision. Countries can freely decide where to liberalize on a sector-by-sector basis, including which modes of supply they want to cover for which sector.

The GATS general obligations are:

- Most-Favoured-Nation Treatment
- Transparency
- Participation of developing countries
- Domestic regulation
- Recognition
- Monopolies and business practices
- Safeguards, Government Procurement and Subsidies
- Payments and transfers
- Restrictions to safeguard the balance-of-payments
- Exceptions

Specific commitments under the GATS are registered in schedules. Each Member of the WTO is required to have a schedule in which it registers its commitments to provide market access and national treatment to services and service suppliers of other Members. When making a commitment, a Member binds the level of market access and national treatment specified in the schedule and undertakes not to impose any new measures that would restrict entry into the market or discriminate in favour of services or services suppliers of national origin. A specific commitment thus has an effect similar to a tariff binding under the GATT. Commitments can only be withdrawn or modified after negotiation and agreement with other Members on a compensatory adjustment through which the modifying Member offers alternative commitments. However, new commitments and improvements to existing ones can be added at any time.
The UAE also submitted the table of exemptions, which includes articles that are excluded or exempted from the agreement. Table 1 below shows the UAE exemptions from the agreement.

Table 1: UNITED ARAB EMIRATES - FINAL LIST OF ARTICLE II (MFN) EXEMPTIONS

<table>
<thead>
<tr>
<th>Sector or sub sector</th>
<th>Description of measure indicating its inconsistency with Article II</th>
<th>Countries to which the measure applies</th>
<th>Intended duration</th>
<th>Conditions creating the need for the exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Sectors</td>
<td>Preferential treatment for service suppliers of the Gulf Co-operation Council, (GCC) countries.</td>
<td>GCC countries</td>
<td>Indefinite</td>
<td>GCC regional arrangement and eventual economic integration in the area of services.</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Authorization for the entry/establishment/operation of foreign financial services suppliers (including banks and insurance establishments) and the opening of new branches will be subject to the decision of competent authorities.</td>
<td>All countries</td>
<td>Indefinite</td>
<td>UAE is a small market and is already saturated. Preferential treatment, on a case-by-case basis, may have to be accorded in order to get mutually advantageous benefits for UAE.</td>
</tr>
</tbody>
</table>

Source: [www.wto.org](http://www.wto.org)

In general, the specific commitments made by the UAE safeguard the national economic interests.

When analyzing those commitments, we note that, limitations on national treatment (mode 3 - commercial presence: acquisition of land, taxes on income and subsidies) are remain to be applied to all services except banking and financial services, research and development, and tourism. Limitations on market access (mode 3 - commercial presence: foreign equity participation) are removed for some sub-sectors including professional services, computer and related services, research and development, advertising, testing and analysis, courier services, construction, environmental services, and tourism. Some sectors, such as telecommunications, insurance and distribution services have not been incorporated in the schedule for a reason or another such as the size of the national market, the need of a long time to adapt those sectors with the foreign competition, their contribution in the national development efforts….etc.

Nevertheless, some developed members (US, EU, Japan, and Canada) exercise, at present, some pressures on the UAE to grant concessions in the aforementioned sectors, given their economic importance. Consequently, it is highly required that the national
negotiating group develops a whole argumentation, economic as well as legal, in order to persuade those countries of the legitimacy of the national stand.

In November 2004, the Ministry of Economy and Planning announced that it would open its insurance sector to new foreign insurance establishments. About 52 per cent of the current working insurance establishments in the UAE are foreign, but the UAE government froze new entries to the market due to a perception that the market was saturated. New foreign establishments will be required to meet high international rating criteria and to offer new services to the market. The Ministry of Economy and Planning is about to issue a list of foreign establishments permitted to make deals in the UAE’s lucrative insurance market before it formally opens the insurance sector to foreign players.

2.2 FTAs Aspects

The FTAs take into consideration all aspects agreed upon by the WTO, and in addition, involve more aspects not agreed by the WTO, such are:

1. Open Services Markets "Insurance …etc."
2. Agreement on Services – Commercial Presence

These two points include several aspect concerning service and commercial presence such as:

- Ownership
- Principle of National Treatment
- Facilitation of procedures related to the Commercial Presence
- Cross border service
- Senior management and board of directors
- Market access
- Local presence

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2 Cross –border supply in insurance sector includes the re-insurance and providing directly insurance coverage from overseas.
Based on the above mentioned aspects of the FTAs and WTO especially the market access, we will discuss and benchmarking the UAE insurance sector with that of U.S to assess the competitiveness of UAE insurance sector against that of U.S.

The insurance industry is made up of two distinct segments: life/health insurance and property/casualty or non-life insurance, which provides insurance for cars, homes and businesses. Property/casualty insurance can be divided into commercial and personal lines types of insurance. Commercial lines include the kinds of insurance businesses purchase. Personal lines, as the term suggests, includes coverage for individuals, auto and homeowners insurance.

This part of the study will benchmark the structure and performance of the UAE insurance sector with that of the US, in terms of GDP, types of insurance, premiums, assets, investments etc.

### 3.1 **Structure of the UAE and U.S Insurance Sectors**

In this part, we will compare the structure of the UAE insurance sector with that of the US in terms of GDP, number of establishments, and the number of employees in the sector.

#### 3.1.1 **Growth of the UAE and US Financial Corporation Sector GDP**

From the below table, it is clear that UAE financial corporation sector GDP growth rate is higher than that of the U.S indicating a faster growing UAE financial sector. In the year 2004, UAE financial sector GDP grew by 12 per cent while U.S Financial sector GDP grew by 4.8 per cent. The UAE financial corporation sector represented 5.9 per cent of the UAE total oil GDP. While on the hand, the U.S financial sector represented 7.9 per cent of U.S total GDP. This indicated how the financial sector is important to the UAE economy.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of UAE FinCorp</td>
<td>8.8</td>
<td>13.3</td>
<td>3</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Growth of US FinCorp</td>
<td>7.5</td>
<td>7.7</td>
<td>7.8</td>
<td>8</td>
<td>4.8</td>
</tr>
</tbody>
</table>

*Source: UAE Ministry of economy and planning; U.S. Bureau of Economic Analysis*
3.1.2 Number of Establishments

The number of operating establishments in the UAE insurance sector (includes agents and brokers) in the year 2004 was 237 establishments of which, 46 were insurance, 16 were agents and 175 were brokers. 50 per cent of the insurance establishments were foreign and 50 per cent were local establishments. Within these 46 establishments, only 9 establishments (7 locals and 2 foreign) practice all types of insurance (life and non-life insurance activities).

Table 3: UAE Insurance Establishments by Activity, 2004

<table>
<thead>
<tr>
<th>Activity</th>
<th>Local Establishments</th>
<th>Foreign Establishments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>23</td>
<td>23</td>
<td>46</td>
</tr>
<tr>
<td>Agents</td>
<td>16</td>
<td>0</td>
<td>16</td>
</tr>
<tr>
<td>Brokers</td>
<td>166</td>
<td>9</td>
<td>175</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>32</td>
<td>237</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy and Planning, annual insurance report 2004

The above table mentioned that local establishments represents 86 per cent of all working insurance activities (including brokers), while the foreign branches are only 14 per cent.

In 2004, the number of insurance service establishments was 158, of which 18 were consultants, 60 were experts of detection and estimation of damages and finally 74 were insurance auditors.

Dubai dominated the UAE insurance market, where 49 per cent of operating establishments are located in it.

According to the National Association of Insurance Commissioners (NAIC) there were more than 2,000 property/casualty insurers operating in the U.S., in 2003, more than 3.8 million licenses had been issued to individuals to provide insurance services as brokers and agents. Therefore, it is difficult to quantify the exact number of these establishments.

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This could be attributed to the diversification of the U.S insurance market, which includes many activities such as the producers, agents, brokers, solicitors, consultants, reinsurance intermediaries and others. Some attributed this huge number to the type of licenses issued which varies from state to state in the U.S. While some states issue an all encompassing “producer” license, others issue separate “agent” and “broker” licenses and some draw distinctions among the services offered by individuals and issue licenses for each line of authority separately.

The U.S. insurance brokerage market is large, with about 74 percent of global brokerage revenues originating from the U.S. Brokers in the U.S. play a much more significant role in commercial lines than personal lines, holding a 69 percent market share of commercial lines, compared to a 34 percent market share of personal lines.

### 3.1.3 Employment in the UAE and US Insurance Sector

The number of employees in UAE insurance sector witnessed a 22.6 per cent increase over the period 2000 – 2004 to reach 3,862 employees in 2004, while USA insurance’ employees totaled 2.3 millions in 2004 and grew by 2 per cent during the same period. This shows how growing the UAE employment in the insurance sector compared to the U.S insurance sector, and this could be attributed to the fact that UAE insurance market is emerging, while the U.S is already developed.
Table 4: Employment in UAE and US Insurance Sectors, 2000 – 2004

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment in UAE insurance sector</td>
<td>3,150</td>
<td>3,269</td>
<td>3,420</td>
<td>3,640</td>
<td>3,862</td>
</tr>
<tr>
<td>Employment in US insurance sector (000)</td>
<td>2,221</td>
<td>2,234</td>
<td>2,233</td>
<td>2,266</td>
<td>2,260</td>
</tr>
</tbody>
</table>

Source: UAE ministry of Economy and Planning; and U.S. Department of Labor, Bureau of Labor Statistics

We tried to assess the productivity of the workers of the insurance sectors in UAE and US by dividing the total value of their premiums by the total number of workers in the year 2004. The results showed that the productivity of the U.S insurance workers is higher than that of the UAE insurance sector workers. The productivity for the UAE insurance workers was $0.41 million of the premiums per worker, while it was $426 million for the U.S insurance workers. This means that the U.S insurance sector uses few workers to produce higher premiums, which indicates higher efficiency. We noticed that U.S insurance market is highly developed compared to the UAE insurance market, which is growing faster than the U.S insurance market. Specifically, in 2004, the growth in the insurance premiums in the UAE insurance market was 21 per cent, while it was 4.8 per cent in U.S insurance market.
The productivity of the U.S insurance workers increased by 57 per cent during the period 2000 – 2004, while in the UAE insurance sector increased by 58 per cent during the same period. Although the employment growth rate is higher in the UAE insurance sector, the efficiency of the U.S workers increased faster.

3.2 Types of Insurance

There are many types of insurance that either not existent or not popular in the UAE insurance market when compared to the U.S insurance market. These short comings of UAE insurance sectors provide relevant business opportunities for the UAE – U.S joint ventures. Table 5 below shows the insurance activities that are popular in the U.S insurance market and not popular or existent in the UAE insurance market.
Table 5: Insurance Types less or not popularly practiced in UAE compared to U.S

<table>
<thead>
<tr>
<th>Insurance activities</th>
<th>UAE</th>
<th>U.S</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Business interruption</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- crime</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>- term life</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>- purchased as combined single limit</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>- trip cancellation</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>- medical evacuation</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>- international health insurance</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>- multi – trip</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- quote and purchase</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>- whole life</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>- universal life</td>
<td></td>
<td>✔</td>
</tr>
</tbody>
</table>

Source: DCCI insurance sector survey (2005)

The above table provides a list of insurance activities that are less or not popularly practiced in the UAE insurance market, while usually practiced in the US. The missing activities shown in the UAE insurance market are feasible opportunities for the US insurance companies once an FTA is being concluded.

The extent to which these insurance activities will provide opportunities to the U.S insurance companies will depend on the portfolio of the insurance companies coming from U.S and the degree of specialization in the respective activity. Moreover, it could provide an opportunity to UAE insurance companies to enter into successful strategic alliances with the US insurance companies without sacrifice.

3.3 Performance of the Insurance Sector (UAE vs. US)

3.3.1 World Insurance Premiums

World insurance premiums (property/casualty and life/health) totaled $3.2 trillion in 2004. It increased by 33 during the period 2000-2004 and on an annual rate of 7.3 per cent. In the year 2004, world life insurance premiums represented around 57 per cent of the world total premiums.
The world life premiums increased on an annual rate of 5 per cent during the period 2000 – 2004. On the other hand, Non-life insurance premiums increased on an annual rate of 10.7 per cent during the same period, it reached US $ 1.4 trillion in 2004.

Table 6: World Insurance Premiums (life and non – life), 2000 – 2004

<table>
<thead>
<tr>
<th></th>
<th>Non – life</th>
<th>Life</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>926,503</td>
<td>1,518,401</td>
<td>2,444,904</td>
</tr>
<tr>
<td>2001</td>
<td>969,945</td>
<td>1,445,776</td>
<td>2,415,720</td>
</tr>
<tr>
<td>2002</td>
<td>1,098,412</td>
<td>1,534,061</td>
<td>2,632,473</td>
</tr>
<tr>
<td>2003</td>
<td>1,275,616</td>
<td>1,682,743</td>
<td>2,958,359</td>
</tr>
<tr>
<td>2004</td>
<td>1,395,218</td>
<td>1,848,688</td>
<td>3,243,906</td>
</tr>
</tbody>
</table>

Source: Swiss Re, sigma, No 2/2005

The two main activities (life and non life insurance) in the U.S insurance market are nearly equal for premiums with a slight difference to the premiums from life and health insurance, which represent 55 per cent.

3.3.2 Premiums

Premiums are considered one of the indicators of the market performance for the insurance sector. The premiums are used to determine the size of the insurance sector beside the investment and the capital.

In this part, we compared the premiums collected in the UAE insurance sector vs. premiums of the U.S insurance sector.
U.S insurance premiums approximately represent 30 per cent from the world insurance premiums in the year 2004, while UAE insurance premiums represent only 0.05 per cent from the total world premiums.

Life and health insurance activity in UAE increased over the period 2000 – 2004 by 51 per cent, while Life and health insurance activity increased in the U.S in the same period by 8 per cent. Property and casualty market in the UAE is widening, premiums from this activity represented 82 per cent from the total premiums in the 2004 while it represented 45 per cent of the U.S insurance premiums in the same year.

In 2004, the written insurance premiums in UAE totaled $ 1,572 million, of which non-life premiums totaled $ 4,740 million and life premiums reached $ 1,043 million. Overall premiums rose nominally by 21 per cent in 2004 with non-life premiums growing by 20 per cent and life premiums rising by 26 per cent from the previous year. It is clear from the above table that, U.S insurance market is bigger than the UAE insurance market. The premiums of the U.S insurance sector are much greater than UAE insurance premiums and this is normal since the U.S insurance sector is already developed and considered one of the biggest insurance sectors in the global insurance market. The size of the establishments, the employees' number and productivity and the assets are major indicators of that.

The UAE insurance market is mainly dependent on the non-life insurance activities. The sector has a potential to increase these activities. UAE population is growing by high growth rate, during the period 1996 – 2004, the UAE population increased on annual growth rate of 8.2 per

---

### Table 7: Premiums of the insurance sector (UAE, US) by insurance type, 2000 – 2004

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UAE</td>
<td>US</td>
<td>UAE</td>
<td>US</td>
<td>UAE</td>
</tr>
<tr>
<td>Non-life Insurance % from total</td>
<td>77%</td>
<td>50%</td>
<td>81%</td>
<td>44%</td>
<td>82%</td>
</tr>
<tr>
<td>Life Insurance % from total</td>
<td>23%</td>
<td>50%</td>
<td>19%</td>
<td>56%</td>
<td>18%</td>
</tr>
<tr>
<td>Total “$ million”</td>
<td>832</td>
<td>604,600</td>
<td>905</td>
<td>851,800</td>
<td>1,075</td>
</tr>
</tbody>
</table>

Source: UAE Ministry of Economy and Planning "Annual Insurance Report, 2003", and [www.iii.org](http://www.iii.org)
cent. The UAE population is expected to touch the 5-million mark during this year 2005, 10 times more than what it was in 1975.

3.3.3 Assets

The other performance indicator is the value of the financial assets, which shows a great difference between the UAE insurance sector and that of U.S. This difference shows how strong the U.S insurance sector is. UAE insurance sector assets increased by 79 per cent during the period 2001-2004, while U.S insurance sector increased by only 36 per cent during the same period indicating the growing potential of the UAE insurance sector.

![Figure 2: Growth of the Assets in the UAE and U.S Insurance Sector, 2001-2004](source: UAE Ministry of Economy and planning; Board of Governors of the Federal Reserve System)
4 Dubai Insurance survey

4.1 Type of insurance:-

According to DCCI membership database, 44 insurance companies are registered with DCCI as of the 2nd quarter of 2005. A survey questionnaire was sent by fax to all of these insurance companies. The responses received were 31, which gives 70 per cent response rate.

The responses have shown that 61 per cent of the respondents are engaged in insurance, only 3 per cent are engaged in reinsurance, and 36 per cent are engaged in both insurance and reinsurance. Please refer to figure 3, which shows the number of the companies in each category.

Figure 3: Insurance companies by category

Source: Dubai insurance sector survey, 2005
4.2 Type of Insurance and Company Size

The respondent insurance companies are classified into size classes, using the number of employees. Those who employ 1 to 9 are classified as small size, 10 to 49 as medium small, 50 to 99 as medium large and 100 and more as large. Out of the 31 companies that have responded to the questionnaire, 2 of them have not answered the question regarding the number of their employees. In total, the 30 companies whose number of employees is known employ 2,116 workers. 10 per cent of those companies are small, 45 per cent are medium small, 14 per cent are medium large, and 31 per cent are large. Therefore, 69 per cent of the 30 companies are small and medium size companies (both medium small and medium large). The average number of the workers of the small company is 8; the average for the medium small company is 25 workers, 75 for the medium large company, and 151 workers for the large company. Please refer to table 9, which shows the number of companies and employees by size class.

Table 9: Number of Companies and Employees by Size Class

<table>
<thead>
<tr>
<th>Number of companies</th>
<th>1-9</th>
<th>10-49</th>
<th>50-99</th>
<th>100 &amp; more</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of companies</td>
<td>3</td>
<td>13</td>
<td>4</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>% of employees</td>
<td>1.2%</td>
<td>16%</td>
<td>15%</td>
<td>67.8%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: DCCI- Dubai insurance sector survey, 2005

The companies, which are undertaking the insurance activity, are employing 924 workers, those who are doing re-insurance activities are employing only 24 workers, those who are doing both insurance and re-insurance are employing 1,058 workers. Therefore, companies that are engaged in both insurance and re-insurance employ 53% of the workers of the respondent companies.

Table 10: Insurance categories by company size

<table>
<thead>
<tr>
<th>Employment class</th>
<th>Insurance</th>
<th>Re insurance</th>
<th>Both</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-9</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>10-49</td>
<td>7</td>
<td>1</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>50-99</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>100+</td>
<td>4</td>
<td>0</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>1</td>
<td>11</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: DCCI- Dubai insurance sector survey, 2005
4.3 Insurance Activities

The surveyed companies were asked about the insurance activities that they practiced to determine the mostly practiced and popular activities in Dubai insurance market. For the purpose of the study, we classified the insurance activities as most popular (practiced by 100%), popular (practiced by 70% and less than 100%), less popular (practiced by more than 50% & less than 70%), and finally not popular (practiced by less than 50%).

The table below shows the activities practiced in Dubai insurance market as per the respondent's selection. It is clear that the most popular and common activities that are provided by all companies are automobile, fire, cargo and fixed property insurance. Then the popular activities are liability insurance, accidental death, medical insurance, travel medical, and loss of income insurance.

Table 11: Insurance activities popular or not popular in Dubai insurance market

<table>
<thead>
<tr>
<th>Activities</th>
<th>Freq</th>
<th>Cumulative Freq</th>
<th>Popularity degree</th>
</tr>
</thead>
<tbody>
<tr>
<td>automobile</td>
<td>30</td>
<td>30</td>
<td>100.0</td>
</tr>
<tr>
<td>cargo</td>
<td>30</td>
<td>60</td>
<td>100.0</td>
</tr>
<tr>
<td>fixed property (building)</td>
<td>30</td>
<td>90</td>
<td>100.0</td>
</tr>
<tr>
<td>fire</td>
<td>30</td>
<td>120</td>
<td>100.0</td>
</tr>
<tr>
<td>Liability insurance</td>
<td>26</td>
<td>146</td>
<td>86.7</td>
</tr>
<tr>
<td>accidental death</td>
<td>22</td>
<td>168</td>
<td>73.3</td>
</tr>
<tr>
<td>medical insurance</td>
<td>21</td>
<td>189</td>
<td>70.0</td>
</tr>
<tr>
<td>travel medical</td>
<td>21</td>
<td>210</td>
<td>70.0</td>
</tr>
<tr>
<td>loss of income</td>
<td>21</td>
<td>231</td>
<td>70.0</td>
</tr>
<tr>
<td>Business interruption</td>
<td>20</td>
<td>251</td>
<td>66.7</td>
</tr>
<tr>
<td>crime</td>
<td>18</td>
<td>269</td>
<td>60.0</td>
</tr>
<tr>
<td>term life</td>
<td>16</td>
<td>285</td>
<td>53.3</td>
</tr>
<tr>
<td>purchased as combined single limit</td>
<td>15</td>
<td>300</td>
<td>50.0</td>
</tr>
<tr>
<td>trip cancellation</td>
<td>15</td>
<td>315</td>
<td>50.0</td>
</tr>
<tr>
<td>medical evacuation</td>
<td>15</td>
<td>330</td>
<td>50.0</td>
</tr>
<tr>
<td>international health insurance</td>
<td>15</td>
<td>345</td>
<td>50.0</td>
</tr>
<tr>
<td>multi – trip</td>
<td>12</td>
<td>357</td>
<td>40.0</td>
</tr>
<tr>
<td>quote and purchase</td>
<td>8</td>
<td>365</td>
<td>26.7</td>
</tr>
<tr>
<td>whole life</td>
<td>5</td>
<td>370</td>
<td>16.7</td>
</tr>
<tr>
<td>universal life</td>
<td>4</td>
<td>374</td>
<td>13.3</td>
</tr>
</tbody>
</table>

Source: Dubai insurance sector survey, DCCI, 2005
FTAs mean open market for competition. The competition will depend on many factors such as the company's growth strategy, size of the company, specialization, etc.

When classifying the above activities by life and non-life insurance, the results showed that life insurance activities were not popularly practiced in Dubai insurance market and this could be attributed to different factors such as religion, culture and costs. Life insurance represents only 18% in the total premiums of the insurance sector as per the respondent's answers. While the non-life activities represent 82%.

**Figure 4: Share of life & Non-life insurance to total premiums**

![Pie chart](image)

Source: DCCI- Dubai insurance sector survey, 2005

4.4 Expected impact of FTAs on the insurance industry

UAE is currently negotiating several FTAs with different countries; we assessed the expected impact of these FTAs on Dubai insurance sector by asking the companies about the effect of these expected FTAs on their businesses. They were asked whether these FTAs would have positive, negative or no effect on their businesses. From the results of the survey, 43 per cent expect that the FTAs will have a positive effect on their businesses and 27 per cent expect that it would have negative effects, while 24 per cent said it would not affect them. Please refer to figure 4.
Those who expect these FTAs to be negative are almost the local companies and these are belonging to the category of the most popular and popular activities. They expect that foreign companies will drive local companies out of the market.

Finally, it remains obvious for the insurance companies that are optimistic about the expected FTAs that the FTAs will increase the competition and improve the services provided by the sector. In addition, they said it would open new areas and opportunities to improve business and decrease risks, extend the scope of e-Commerce and develop the ways for marketing channels.

The extent to which the lower-end popular insurance activities will provide opportunities to the foreign insurance companies will depend on the activities portfolio of the insurance companies coming from FTA countries and their degree of specialization in the respective activity.
5 Impact of Market Access on the UAE Insurance Sector

Market access will stimulate foreign investments into the country, improve the effectiveness, and enhance competitiveness of the national companies. In addition, the market access upgrades efficiency and develop service delivery through attempts to keep pace with foreign companies. This will lead to enhance the national technological structures by means of acquiring state-of-the-art technology transferred by foreign companies from the developed countries and to extend the scope of e-Commerce and improve the ways and means to access distribution channels and global information networks. However, on the other side this competition will have reversed impact on other players in the insurance market.

For the purpose of the study, we divide the impact of the market access into two: Impact on the insurance market in general and the impact on the national companies (UAE companies).

5.1 Impact on the insurance sector in general

UAE insurance companies are expected to encounter intense competition after the signing of the U.S FTAs. They will face tough foreign competition from the U.S. insurance companies and the following issues will arise.

- US firms will be able to sell all insurance activities such as (life & non-life), marine, aviation, and transport insurance, reinsurance, insurance brokerage of reinsurance, and auxiliary services from their US offices or either inside UAE market. If the domestic players are not ready for such competition, they will lose their market share and this situation will cause some companies to go out of business.

- Competition for human resources — Competition to hire and retain insurance specialists from the limited market will heat up. Compensation levels will rise, and labor mobility is increasing as people jump between jobs. As a result, UAE insurers will need to fill their needs not only in the labor market, but also through training & development and localization.
5.2 Impact on the UAE national insurance companies

As we have seen before, the GATS classifies the mode of trading in services into four types namely; (1) cross-border supply; (2) consumption abroad; (3) commercial presence; and (4) movement of natural persons.

Foreign commercial presence in UAE is currently subject to the law stipulating that UAE nationals own at least 51 per cent of the capital.

FTA with US will involve liberalization of foreign commercial presence for US nationals. If so, this is expected to ultimately lead to a full liberalization of foreign commercial presence; i.e., allowing full foreign ownership of firms in UAE. This would likely lead to conversion of small firms with foreign equity into fully foreign owned.

The impact of the FTA's liberalization of the trade-in-services on the UAE's insurance sector is not expected to be influenced in the short-term as the status will remain unchanged, but the sector will face fierce competition in medium and long run, after the FTA implementation.

For purposes of the analysis of the impact of liberalization of commercial presence for the insurance sector in UAE, firms are classified into three groups according to the risk of being converted into foreign owned firms. These are as follows:

a) High-risk firms – These are small firms, employing less than 10 workers. The probability is high that the UAE national owners are ‘silent partners’. Many of these firms operate informally. Since maintenance of the ‘silent partner’ is an added cost to the operation of the firms, they are likely to become wholly owned by the foreign owners when liberalization is implemented.

b) Medium risk firms – These are medium sized firms, employing 10 – 99 workers. Some are expected to remain unaffected by liberalization but others may move towards full foreign ownership. Rules should be developed in this respect, as well as, to streamline ownership transfer management and regulations.
c) Low risk firms – Large firms, employing more than 100 workers. These firms are formally organized. Thus, they are likely to remain unaffected by the liberalization due to shared management, ownership and control.
6 Conclusion and Recommendations

1. The UAE Insurance sector will encounter high competition in the medium and long term after the signing of the potential FTA's and the application of the GATS agreement. The sector needs to be arranged in order to meet the new situation.

2. Firms should increase the staff and skills of the employees to deal with new activities and technology.

3. Many gaps in the insurance activities in UAE market being as potential opportunities for business joint ventures with the US insurance firms.

4. Firms should go into local, regional or international strategic alliances and partnerships in order to close the gaps of the resources and technology used to increase the competitiveness of the firm locally and internationally. The mergers and acquisitions in the U.S insurance sectors totaled $ 65.2 billion in the year 2004.

5. UAE Insurance companies should develop their portfolio furthermore to include new insurance activities and spread out the business risks especially when business environment is getting turbulent. However, without ignoring the geographical diversification and exploration of new markets elsewhere.

6. UAE insurance companies should adopt a more aggressive growth strategy based on principals of collective competition that accentuates firm-group-advantages.
Appendix: DCCI Dubai Insurance Sector Survey

1. Company name: .................................................... 2. ID Number: ....

2. Main insurance activity: ............................................................

3. Number of employees, at present: ............................................

4. Which of the following does your company do?
   - [ ] Insurance
   - [ ] Re Insurance
   - [ ] Both

5. Which of the following activities does your company do? (You can select more than one)

<table>
<thead>
<tr>
<th>Insurance activities</th>
<th>Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Property/casualty Insurance</td>
<td></td>
</tr>
<tr>
<td>- automobile</td>
<td></td>
</tr>
<tr>
<td>- fire</td>
<td></td>
</tr>
<tr>
<td>- crime</td>
<td></td>
</tr>
<tr>
<td>- cargo</td>
<td></td>
</tr>
<tr>
<td>- fixed property (building)</td>
<td></td>
</tr>
<tr>
<td>- purchased as combined single limit</td>
<td></td>
</tr>
<tr>
<td>2. Life insurance</td>
<td></td>
</tr>
<tr>
<td>- term life</td>
<td></td>
</tr>
<tr>
<td>- whole life</td>
<td></td>
</tr>
<tr>
<td>- universal life</td>
<td></td>
</tr>
<tr>
<td>- medical insurance</td>
<td></td>
</tr>
<tr>
<td>3. Travel insurance</td>
<td></td>
</tr>
<tr>
<td>- travel medical</td>
<td></td>
</tr>
<tr>
<td>- trip cancellation</td>
<td></td>
</tr>
<tr>
<td>- accidental death</td>
<td></td>
</tr>
<tr>
<td>- medical evacuation</td>
<td></td>
</tr>
<tr>
<td>- international health insurance</td>
<td></td>
</tr>
<tr>
<td>- multi – trip</td>
<td></td>
</tr>
<tr>
<td>- quote and purchase</td>
<td></td>
</tr>
<tr>
<td>3. Liability insurance</td>
<td></td>
</tr>
</tbody>
</table>

32
4. Business interruption

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>- loss of income</td>
<td></td>
</tr>
</tbody>
</table>

6. What is the share of the following in your total premiums in percentage?
(a) Life insurance …………. %   (b) General Insurance …………..%

7. UAE is negotiating several Free Trade Agreements (FTAs) with several countries. To which extent this will affect your business.

- [ ] Negative effect
- [ ] Positive Effect
- [ ] No effect

8. What do you think of the implication of the liberalization of the insurance sector?

- [ ] Increase competition and efficiency
- [ ] Foreign companies will derive local companies out of the market
- [ ] Extend the scope of e-Commerce and improve the ways for distribution channels
- [ ] Others (Specify) .................................................................

V. Respondent's contact information

a. Name: ____________________________  b. Designation: ____________________________
b. Tel No.__________________________  c. Fax No.__________________________  E-mail:__________________________

Thank you very much for your cooperation