

FINANCIAL SERVICES

Focus shifts to insurance

After five successful years, Qatar Financial Centre is changing its strategy to focus on asset management and insurance. But a unified regulator will be key to future gains

MELISSA HANCOCK

Doha's efforts to turn itself into a world-class hub for international financial institutions reached a milestone in March as Qatar Financial Centre (QFC) celebrated its fifth anniversary.

Headquartered in a gleaming new building in the West Bay business district, QFC has already managed to attract 121 global institutions to make a base in Qatar.

Among its clients are Switzerland's Credit Suisse and Zurich International Life; the US' Goldman Sachs, Citibank and Morgan Stanley; India's ICICI Bank; UK-based firms KPMG, PricewaterhouseCoopers and Clyde & Co; Paris-headquartered AXA Insurance; Japan's Sumitomo Mitsui Banking Corporation; and Germany's Deutsche Bank.

Strategy change

In trying to attract finance companies to Qatar, Doha has had to compete head on with the region's other financial centres, Bahrain and Dubai, with the latter being its most well-publicised rival.

The Dubai International Financial Centre, a freezone governed by the Dubai Financial Services Authority was established in April 2006 and today hosts around 300 institutions.

But since the start of 2010, QFC has changed strategy to focus on asset management, reinsurance and captive insurance.

"In the five years that QFC has been in operation, we've seen more than a doubling in the size of the government budget to more than \$100bn," says Phillip Thorpe, chairman and chief executive of Qatar Financial Centre Regulatory Authority (QFCRA).

"You can't have an economy growing that fast if you don't have the financial services infrastructure to support it."

Thorpe says that whereas even five years ago it might have been satisfactory for these services to be provided by firms in Bahrain or Dubai or London, he now views it as "critical" to have the necessary institutions and people on the ground in Qatar.

IN NUMBERS

\$115.9bn

Qatar's projected nominal gross domestic product in 2010

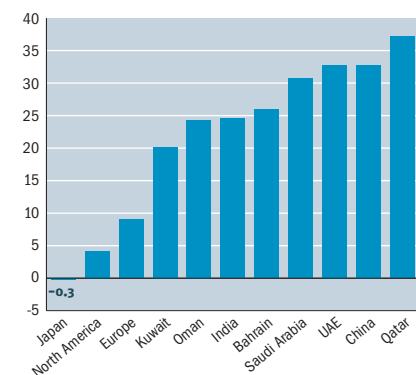
\$134.6bn

Qatar's projected nominal gross domestic product in 2011

Source: Central Bank of Qatar

GROWTH OF INSURANCE PREMIUMS, 2005-08

COMPOUND GROWTH (PERCENTAGE)



Sources: Swiss Re; Central Bank of Bahrain

"We're looking at an economy that is producing very large pools of liquidity and there's an ever-increasing demand for asset management," says Thorpe.

Doha is projected to earn more than \$59bn from gas exports in 2010, up from \$37.3bn in 2009 as a decade of investment in building up Qatar's liquefied natural gas (LNG) infrastructure comes to fruition.

LNG production capacity at the giant industrial city of Ras Laffan on the northeastern coast of the Qatar peninsula hit 77 million tonnes a year (t/y) this year, a leap of nearly 25 per cent from 62.2 million t/y in 2009, and 95 per cent higher than in 2008.


The central bank is forecasting nominal gross domestic product (GDP) of \$115.9bn in 2010, a rise of 36 per cent on 2009. For 2011, it is forecasting a further 16 per cent rise to \$134.6bn. Qatar now ranks as the world's richest nation, with the highest per capita income.

"We're not just talking about high net-worth individuals here or corporates, but the overall astonishing economic growth of Qatar as the prime driver for financial services activity," says Thorpe. "It's not how we service business in Saudi Arabia or what opportunities lie in sub-Saharan Africa, but the story on our doorstep and that's what we need to meet first and foremost."

Insurance coverage

QFC is targeting the insurance market as a major growth area through a focus on reinsurance, which helps companies offset risk, and captive insurance, whereby a company sets up an insurance arm to underwrite its own risks to save costs.

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"Insurance is an area that is particularly underprovided for, not only in Qatar, but also in the region as a whole and so we're starting from a very low base," says Thorpe.

Currently, between 60-70 per cent of insurance premiums are reinsured outside the region and insurance for large corporates – is almost entirely exported.

"The penetration of premium numbers is very low and out of step with just about anywhere in the world," says Thorpe.

"It made sense when we were looking at a very small market, but Qatar now has capital items of vast size – whether its LNG gas trains, shipping fleets or buildings, and it has risks that really need to be serviced on the ground."

Special Report Qatar

On 2 September, UK-headquartered Kane became the first insurance company to be awarded a licence to establish captives in QFC, but Thorpe says he is currently in talks with “many other firms”, that are considering locating there. Bahrain’s T’azur was the first Islamic insurance provider to be given a licence to operate a general takaful business at the QFC.

The change in strategy at QFC was accompanied by a management shake-up. Stuart Pearce, who had served as chief executive since its establishment, was replaced by Shashank Srivastava, who is currently acting chief executive but also retains his role as director of strategy and planning.

Captives hub

Srivastava says the centre is seeking to become one of the top jurisdictions in the world for captive insurance companies within the next few years.

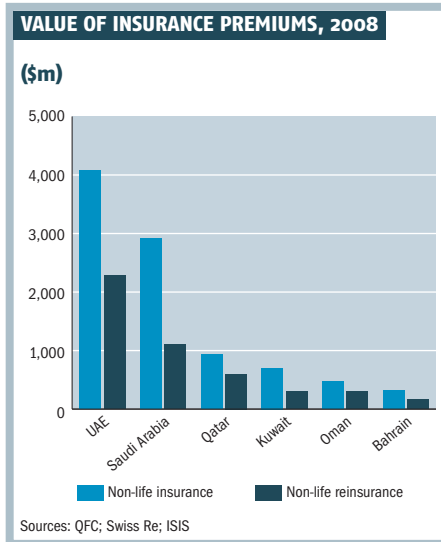
“Eighty-90 per cent of the world’s captives are effectively managed by four companies, so it’s not that big an industry in terms of managers,” says Srivastava.

“The industry is under a lot of pressure in the traditional centres worldwide. As a result, Kane and other managers are increasingly seeing Qatar as an attractive alternative.”

Bermuda currently boasts the largest market for captives, while, within the region, Doha is competing with Dubai and Manama.

Bahrain already has a well-established insurance centre, while Dubai has also been pursuing the market in recent years, albeit with questionable success.

It is hoped the development of these two financial areas will have far-reaching benefits beyond the realms of QFC. Pursuing new avenues of growth, such as asset management should come as a welcome boost to Qatar’s overcrowded banking sector. Today, 18 banks



serve a population of only 1.6 million in Qatar. This includes seven international lenders, such as the UK’s HSBC and France’s BNP Paribas, as well as four Islamic banks.

Qatar’s retail banking sector is highly saturated and conventional lenders are being forced to downsize their sharia-compliant lending activities by the end of 2011 to comply with new regulations issued by the central bank on 29 August.

The rules stipulate that an Islamic branch’s capital should not exceed 10 per cent of total shareholder’s equity, while its assets must not exceed 15 per cent of a conventional bank’s total assets. The loan-to-deposit ratio of its sharia activities must not exceed 90 per cent. The legislation also bars them from opening additional branches for Islamic banking.

“The major impact will be on corporate lending as those deals are usually large,” says Philip King, assistant general manager of retail banking at the local International Bank of Qatar

(IBQ). The regulatory changes will force banks to reconsider their growth plans.

As a result, it is expected that banks will start diversifying their income streams by expanding into wealth management for high net-worth individuals or cash management for large corporations.

“As interest rates have become less attractive from a depositor perspective, the enthusiasm for better-performing asset classes has increased,” says Thorpe.

“There is a need for collateral services, such as custodian arrangements and companies providing settlement facilities, to be developed around this demand. We are still a small community in that regard and the institutions focusing on that will find a rich vein of activity.”

Single regulator

Doha’s financial services industry has undergone a huge transformation over the past 5 years, but the introduction of a single regulator will be central to its continued development.

The unification of the various regulatory bodies – the central bank, the QFCRA and the Qatar Financial Markets Authority (QFMA), which regulates the Doha bourse – was first mooted in 2007, but has been repeatedly delayed.

Local financiers say a single regulator would create a level-playing field in the industry and this in turn would help attract foreign investment.

Earlier this year, Qatar’s Finance Minister Youssef Hussain Kamal said a unified regulator would be in place before the summer, but there is still no clarity on its status.

“I think it’s the next obvious step for Qatar,” says Thorpe. “As things stand, we have areas that aren’t overseen at all or have traditionally not been well-regulated, so there are some black spots that really need to be addressed.”

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