

**Biennial Convention 2009**

**Go for Gold**

**19–22 April 2009 • Sydney**



Institute of Actuaries of Australia



# **The Middle East Perspective**

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معهد البحوث للدراسات المصرفية والمالية

Shaping tomorrow's financial leaders today



“The owners of capital will stimulate the working class to buy more expensive goods, houses, and mechanical products, pushing them to take more and more expensive credits, until their debt becomes unbearable. The unpaid debt will lead to bankruptcy of the banks, which will have to be nationalised, and the state will have to take the road which will eventually lead to communism.”

Das Kapital

# Agenda

- What's Happening in the GCC Middle East Financial System
- The Middle East as a New Region for Insurance Globally
- Challenges for Risk Management
- Differences and Similarities with Australia and New Zealand

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# GCC

- Bahrain
- Kuwait
- Oman
- Qatar
- Saudi Arabia
- UAE

# Dubai ...some media headlines

- “Dubai bailed out by Abu Dhabi after property bust”
- “Laid off foreigners flee as Dubai spirals down”. New York Times.
- “Over half of UAE construction projects on hold”. Reuters
- “India expecting 200,000 Indian workers home from GCC”. Arabian Business

# The financial crisis

GCC states are not immune, but they  
are resilient



# The financial crisis...GCC countries are not immune

Bank	Write-downs, \$m
Abu Dhabi Commercial Bank	272
Gulf Investment Corporation	246(another 200 expected)
Gulf International Bank	966
Arab Banking Corporation	1200
Gulf Bank Kuwait	740
<i>Some global ones:</i>	
UBS	37,700
Citigroup	39,100
Merrill Lynch	29,100

# The Risks

- The risk of property sector excesses, particularly in Dubai
- Cost and access to funds
- GCC oil revenues forecast to contract by \$US300b in 2009 due to lower oil price and lower production
- Banking sector profitability will come under stress
- Equity markets lost 57% of their value in 2008 relative to their January peak
- Foreigners (including financial institutions) sold out of their positions; foreign outflow of capital

# But starting position is strong

- Central banks still have large foreign reserves
- Banks are well capitalised
  - (12 - 26%) due to strict capitalization regulations by Central Banks in the GCC

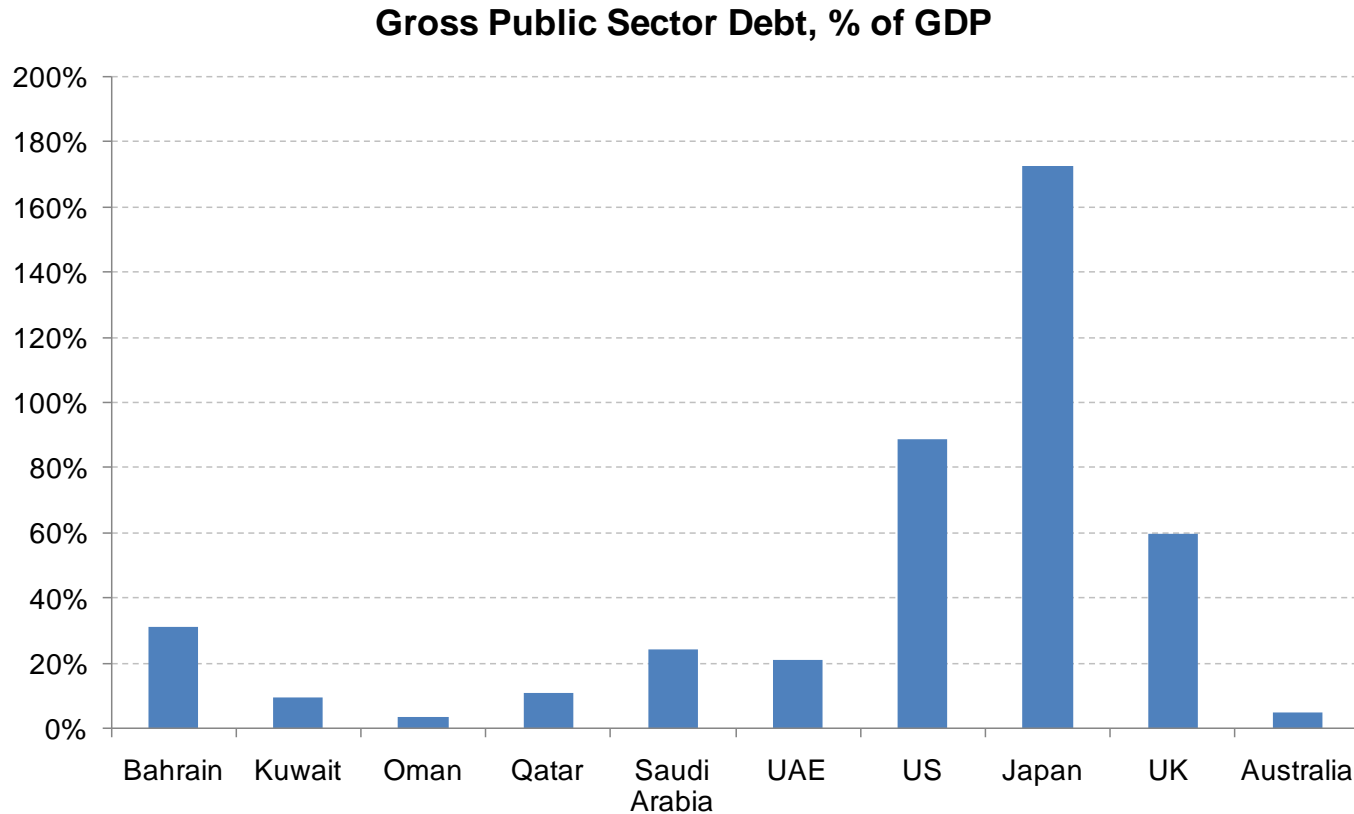
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- Governments are in a strong financial position

# Strong government financial positions

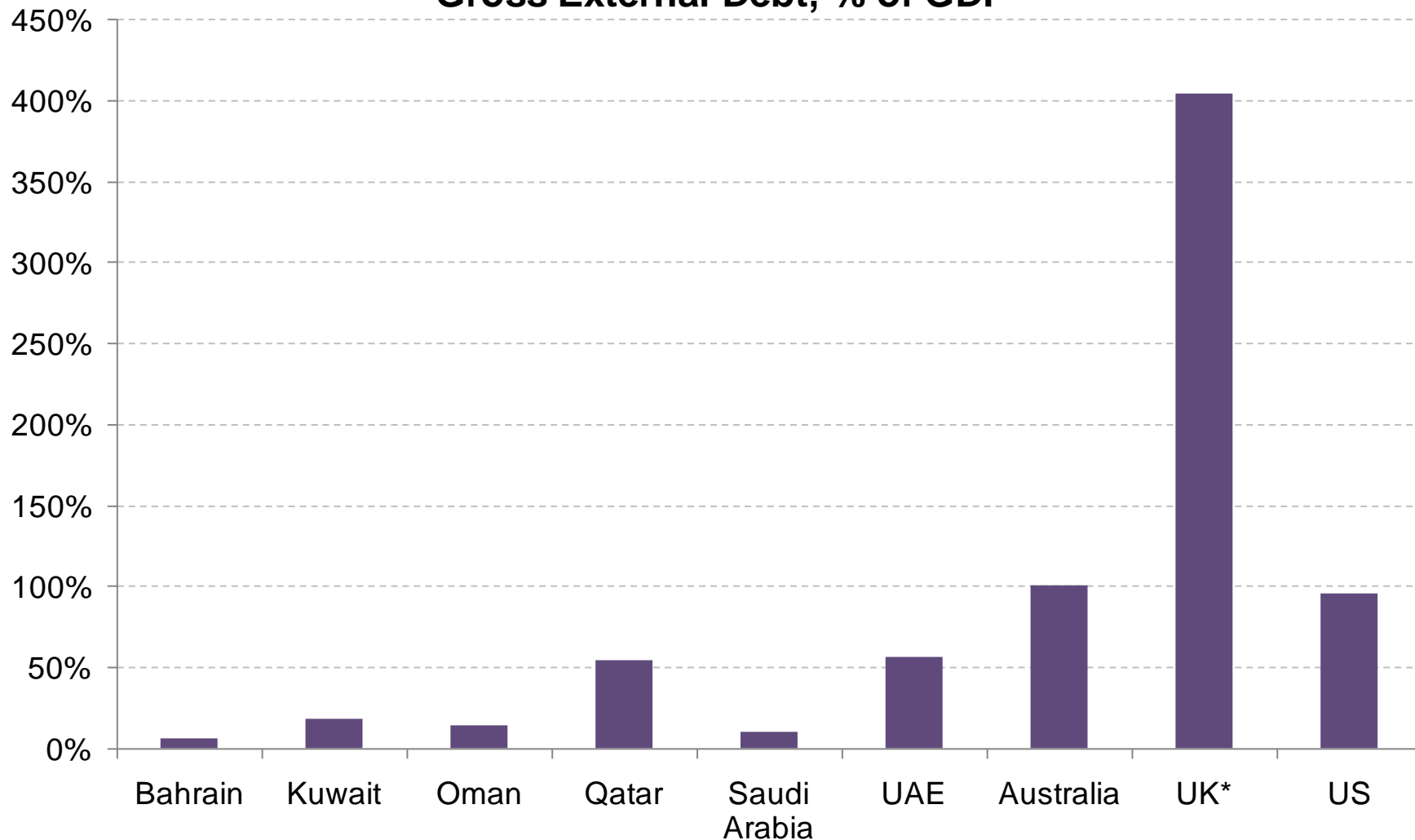


Gulf countries are 2007 data. UK, Japan and Australia are 2008 data, US is 2009 official projection.

Source: CIA, SICO, Australian Treasury, White House

# Also strong external positions

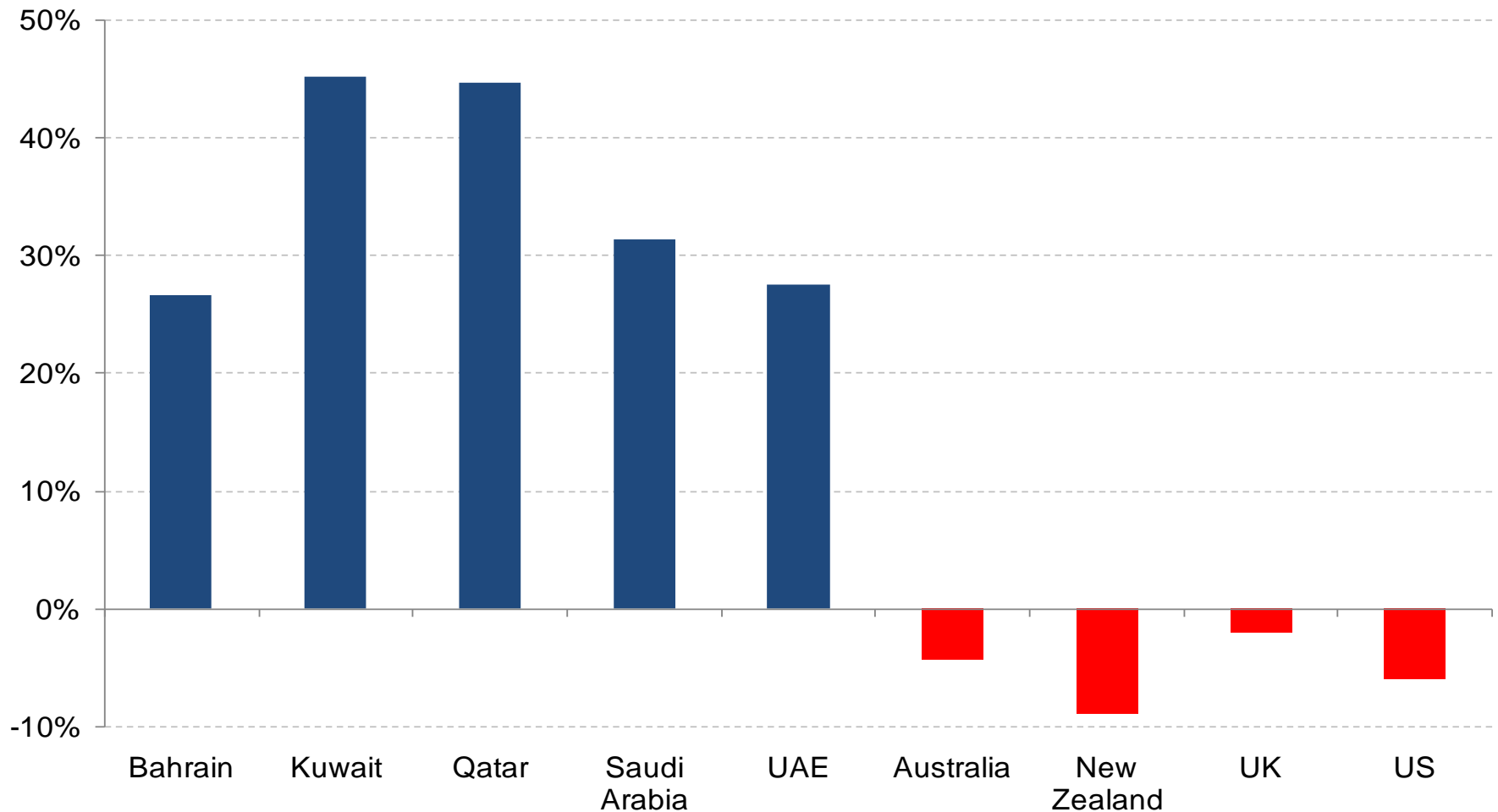
Gross External Debt, % of GDP



Source: IMF, ABS, UK Office for  
National Statistics

# And large current account surpluses

Current Account Position, % of GDP\*



Source: IMF, Statistics NZ, ABS

\* 2008 projections for Gulf countries, otherwise 2008 actual



# But starting position is strong

- Central banks still have large foreign reserves
- Banks are well capitalised
- Limited exposure to toxic assets
- Governments are in a strong financial position
- Large sovereign wealth funds, with significant ability to provide fiscal support

# And large sovereign wealth funds

	Name	Created	Estimated Size, \$US	Nominal GDP, \$US
Kuwait	Kuwait Investment Authority	1953	\$213b	\$160b
Qatar	Qatar Investment Authority	2003	\$60b	\$117b
Saudi Arabia	Saudi Arabian Monetary Agency	1952	\$330b	\$468b
Abu Dhabi	Abu Dhabi Investment Authority	1976	\$500-\$875b	
Dubai	Investment Corporation of Dubai	2006	\$82b	

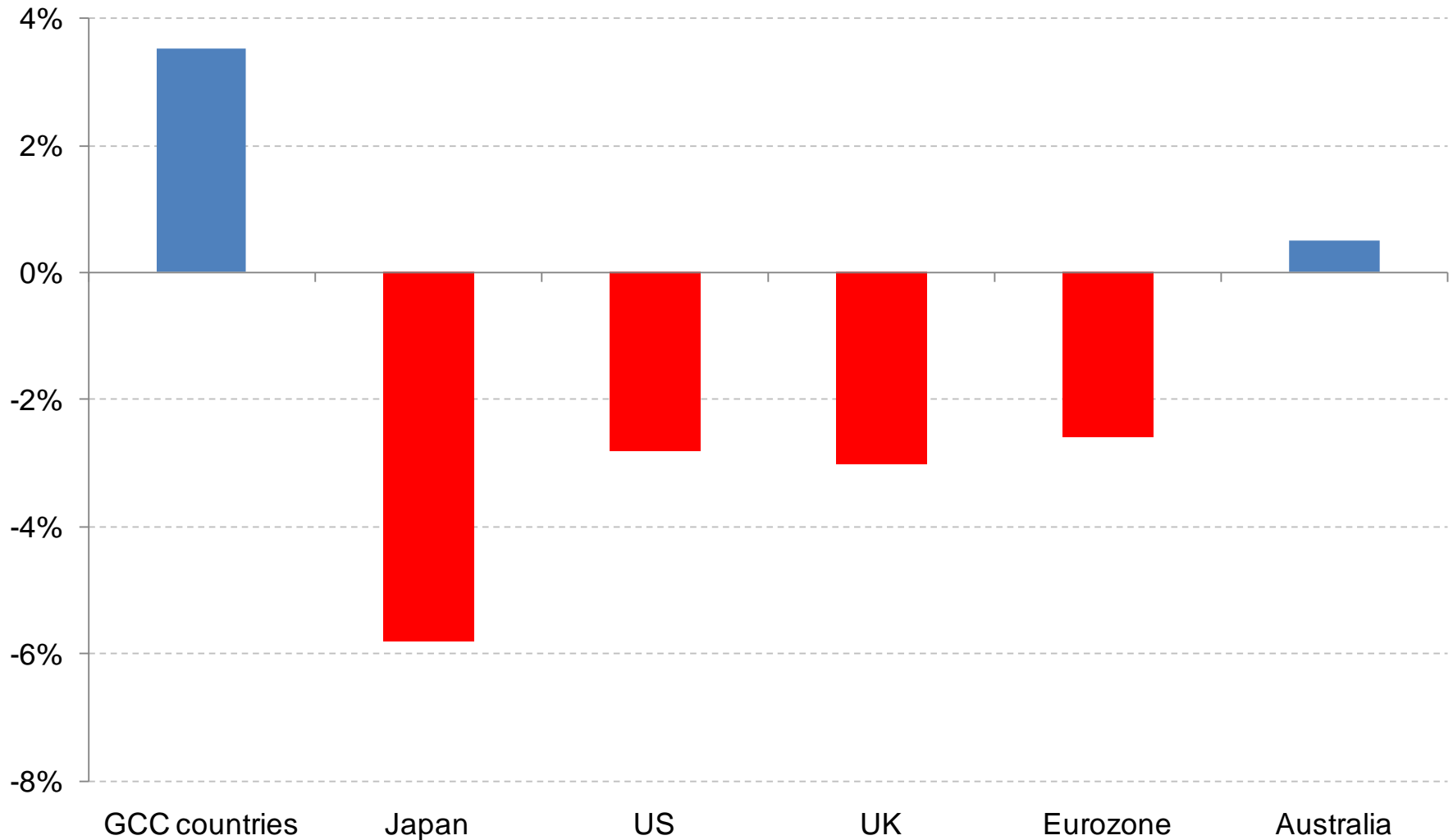
\* Total UAE GDP is around \$270b in 2008.

# But starting position is strong

- Central banks still have large foreign reserves
- Banks are well capitalised
- Limited exposure to toxic assets
- Governments are in a strong financial position
- Large sovereign wealth funds
- Economic slowdown, not recession

# Economies will continue to expand

GDP Growth, 2009 Forecast



Source: IMF, Consensus Forecasts, RBA

# But starting position is strong

- Central banks still have large foreign reserves
- Banks are well capitalised
- Limited exposure to toxic assets
- Governments are in a strong financial position
- Large sovereign wealth funds
- Therefore significant ability to provide fiscal support
- Economic slowdown, not recession
- Government funded infrastructure projects to continue

# Core projects to support GDP

	Projects \$USb	% of GDP	Excluding Construction	% GDP
Bahrain	40	228	8	48
Kuwait	267	239	88	79
Oman	92	229	41	102
Qatar	215	293	108	147
Saudi Arabia	492	129	251	66
UAE	904	474	142	74
Total	2010	247	638	78

Source: SICO

# What is an Islamic Bank

- A Financial Intermediary that sources and directs funds in a manner compliant with Shari'a requirements

# Islamic Finance

- An ethical, conservative and regulated industry
- Prohibition on usury or interest
- Prohibition on ambiguity and uncertainty
- My thoughts



# Challenges for Risk Management

- Financial Crisis has been a crisis of judgment on the part of many banks, apparently fueled by an excessive focus on short – term gain and a lack of rigor in risk management. By instilling greater discipline into the risk management process, banks can hopefully get back to the basic business principles that served them so well in the past.
- Overreliance on quantitative models was at least partly to blame for some of the decisions that led to the credit crisis. In future, qualitative judgment should take precedence, with data supporting, rather than driving, decision-making in what has become a volatile and unpredictable market.

# Challenges for Risk Management

- In the same way that US company boards require someone on the audit committee with an accounting background, there may one day also be a similar requirement for risk professionals.
- The modern structure for managing risk should be based on three lines of defense; the business unit people 'on the ground'; the risk management function; and finally, internal audit. None of this will work unless senior management takes a firm lead in creating a strong risk culture, where the risk function holds greater authority and risk is no longer seen as a peripheral issue to be delegated either to regulators or middle management.

# Insurance cover

	Life	Non-Life
MENA	20%	80%
World	60%	40%
Emerging	55%	45%

# Insurance cover per capita

	Cover per capita \$US
Mena	\$45
World	\$608
Industrialised	\$3577
Emerging	\$72

# Current Shortages - Actuaries

	No of Actuaries	Actuaries Required*
UAE	2	28
Qatar	0	6
Oman	1	5
Saudi Arabia	1	22
Egypt	8	12
Kuwait	1	8

\* Based on a ratio of total actuaries to premiums of 1:65.

# Takaful Insurance

- Cooperative risk-sharing by using charitable donations.
- Example

# Lifestyle and working environment

- Climate
- Greenery
- Family friendly
- Very good education - international
- Respect for cultural and religious differences – incl. alcohol
- Driving
- Cost of living
- Remuneration and tax

# Lifestyle and working environment

- Housing allowances
- Petrol – 37cents/litre
- Countries vary
- English language
- Dress
- Cheap household help
- Democracy
- Laws,ownership



# Expat Comments

## ■ Quote

Comparing the Gulf and in particular Bahrain to the Middle East is like saying Australia and NZ are 1 country. They are completely different.

# Expatriate Comments

- Opinion
- Kindness, supportive and safe are the three words I use to describe Bahrain. I already envisage the children doing all their school, seeing the world, learning Arabic, and in a lifestyle that is relaxed (for them). Westerners are welcomed, and like everywhere, if you learn to immerse yourself or at least try to integrate into the culture, this place is as good as anywhere.

# Expatriate Comments

- It may not rain much, have little greenery, and be hot in summer, so go away during the month break.

Culture is king here. They like ex-pats, but only while they add value .....to society, which I believe should be the case everywhere



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