Building a successful (re)insurance hub:
Lessons from Dubai and Singapore

While Dubai and Singapore possess the same kinds of qualities that have helped them become successful reinsurance hubs, both are facing threats and challenges, says **Mr Rainer Lehner** of **Asia Capital Re** in a comparative study.

Dubai and Singapore are the undisputed reinsurance centres of the world's most rapidly growing insurance markets, the Middle East and Emerging Asia. The rise of these two hubs as leading regional (re)insurance centres is not a matter of chance, especially against the backdrop of strong market growth and changing customer needs, including their preference to deal with clusters of carriers, intermediaries and consultants in their proximity. Offering all the relevant elements associated with (re)insurance hubs elsewhere, notably Bermuda, London and Zurich, the emergence of Dubai and Singapore is a consequence of acute foresight and careful economic engineering.

Growth dynamics and customer needs

Over the past 10 years, non-life insurance markets in the regions of the Middle East and Asia have grown at real annual rates of 12% and 14%, respectively, according to industry sources. Despite a tendency towards rising retentions, the reinsurance business has also expanded strongly. The Middle Eastern and Asian (including Japan, Australia and New Zealand) reinsurance markets account for 7% and 20% of the world's total non-life cessions, respectively.

At the same time, Middle Eastern and Asian cedants have become more demanding as far as their reinsurers' physical proximity and response times are concerned. Reinsurers and brokers have reacted by moving closer to their clients and sourcing or offering capacity locally and regionally, operating in offshore markets from effective and efficient hubs.

Ingredients of a reinsurance hub

Among the qualities necessary to become an effective (re) insurance hub are a set of staple conditions essential for the success of any business sector: economic and political stability, quality of local legislation and regulation, ease of doing business, a cosmopolitan environment, attractive lifestyle options, availability (or "importability") of highly skilled, multi-lingual underwriting and finance professionals, adequate education and (technical) training facilities, a competitive tax environment and a convenient geographical location, complemented by superior flight connections.

More specifically for a (re)insurance hub, the aspirant should offer capacity for both the mainstream lines and niche segments such as political risks, excess liabilities, marine liabilities, financial lines, credit & surety.

Dubai and Singapore (re)insurance hubs 2013

	DIFC	Singapore
(Re)insurance GWP	> US$1 billion	>US$4 billion*
No. of (re)insurers	18	201 (31 reinsurers, 64 captives, 78 direct insurers and 28 Lloyd's)
No. of intermediaries	37	73
Employees in (re)insurance	> 900	> 30,000**

* Overseas business only;
** Domestic and overseas business, including retail

Sources: DIFC, MAS

Furthermore, the hub's overall effectiveness will depend on its ability to provide a reliable suite of ancillary services such as specialised lawyers, loss adjusters risk engineers/surveyors, forensic accountants, HR consultants.

These are qualities that the economies of both Dubai and Singapore possess.

Dubai and Singapore – Commonalities and differences

DIFC – a purposefully built free zone

Established in 2004, the Dubai International Financial Centre (DIFC), a purposefully built financial services free zone, has developed into the undisputed (re)insurance hub of the MENA region, with wider aspirations and capabilities pertaining to Central Asia, South Asia and Sub-Saharan Africa. It offers its member companies major benefits such as full foreign ownership and a zero tax rate, with no restrictions on capital convertibility or profit repatriation.

The free zone also has its own independent financial services regulatory body, the Dubai Financial Services Authority (DFSA), committed to a modern risk- and principles-based approach. In addition, it offers an independent common law judiciary with jurisdiction over civil and commercial disputes.

On the back of this conducive legal and regulatory environment, the DIFC has built an effective cluster of reinsurers, brokers, Lloyd's coverholders and other Managing General Agents (MGAs), in addition to a growing number of specialised service providers.

A specific feature of the DIFC is the exclusive admittance of reinsurance and wholesale insurance

Dubai

Singapore

business. Of the 55 insurance-related entities authorised by the DFSA, 18 are (re)insurers and 37 intermediaries. A further 16 offer specialist services, such as actuaries, risk consultants and loss adjusters.

Among the DIFC's regulated carriers are some of the global leaders in the (re)insurance industry, including top 10 players such as AIG, Allianz, Generali, Liberty, Munich Re, Swiss Re and Zurich, as well as leading intermediaries such as Marsh, Aon, JLT, Guy Carpenter, Lockton and UIB. In addition, Lloyd's is currently setting up at the DIFC, establishing a market platform with a number of existing syndicates as well as new syndicates and MGAs entering the DIFC.

Against this backdrop, in 2013, gross premiums of more than US$1 billion were placed from the DIFC, a fifth and a 10th of the Gulf Cooperation Council (GCC) and the MENA region's total reinsurance cessions, respectively.

We are now seeing risks that were traditionally ceded to the major European markets of London, Munich, Paris and Zurich, being transacted in the DIFC. The total (re) insurance workforce in the DIFC has also increased to more than 900.

Singapore – a nation-wide regulatory framework

On the other hand, the (re)insurance hub of Singapore offers a common, nation-wide legal and regulatory framework for both onshore and offshore business (including retail lines of business). Its roots go back to the 1960s when its Insurance Act was enacted and the General Insurance Association was established. In 1970, the Monetary Authority of Singapore (MAS), one of the world's most respected regulators, was formed.

Since then, the MAS has deployed significant efforts to promote the country as a financial hub, based on its English common law system, sophisticated regulatory environment, competitive tax rules (such as a favourable 10% corporate tax rate for offshore businesses), a superior quality of living and a deep domestic talent pool. The years 2000 and 2003 saw further milestones, with the removal of foreign ownership limits and the introduction of a Risk-Based Capital Framework, respectively. In the country's relatively short history of less than 50 years, Singapore has moved steadily up the World Economic Forum's Global Competitive Index to become, as of 2014, the world's second most competitive economy, for the fourth year running.

Almost all international insurers, reinsurers and brokers have established a presence in Singapore and primarily use it as a hub for the Asia Pacific. Today, Singapore hosts 78 direct insurers, 31 reinsurers, six authorised reinsurers (providing services in Singapore without a physical presence), 64 captive insurers and 73 brokers. These operators are regulated through the Singapore Insurance Fund (SIF) for domestic businesses and the Offshore Insurance Fund (OIF) for non-domestic businesses.

Reinsurers have been a major driver of Singapore's OIF business growth, expanding from GWP of $2.1 billion in

2009 to $3.1 billion in 2013. This is a reflection of rapidly growing overseas inward business, which accounts for more than 90% of all reinsurance premiums booked in Singapore. However, the effective amount of reinsurance written out of Singapore is significantly higher as a sizeable portion of direct insurers' OIF business ($1.8 billion) is reinsurance. For example, Singapore's largest offshore insurer, Lloyd's Asia Scheme, writes about 70% of its total business in reinsurance lines of business.

Steady stream of reinsurance capacity

Similar to the DIFC, Singapore continues to attract new reinsurance capacity as an increasing portion of business once placed in London and other Western hubs is now being transacted in the region. In addition, the continued influx of capacity reflects a rapid expansion of the underlying primary market rather than a mere relocation of underwriting authority. To some extent, and this is true for both hubs, some surplus capacity is absorbed by strong exposure growth as well as increasing and more risk-based capital requirements in the respective market regions.

When comparing reinsurance premiums generated through the DIFC and the Singapore, one also needs to keep in mind that a certain portion of Dubai's aggregate reinsurance business is written by carriers outside the DIFC, a financial services free zone, as opposed to Singapore, which is essentially seen as one market. This limits the comparability of the two hubs.

We do not expect an erosion of the dominant regional position of Dubai and Singapore as (re)insurance hubs. Their governments are aware of the challenges ahead and remain fully committed to their respective visions. Most important, both hubs have not been resting on their laurels but instead have kept enhancing and adapting the soft and hard components of their business environments.

Government support

As in Dubai, government support was instrumental in building Singapore's thriving (re) insurance hub. In 1999, then-Chairman of the MAS and the current Prime Minister of Singapore, Mr Lee Hsien Loong, laid out his vision for Singapore to be a premiere insurance hub in Asia by the year 2003. He defined the underlying four-pronged strategy, which has paved the way for Singapore's success story today:

- Expand the scope and underwriting authority of reinsurers with local operations, to include specialist lines such as offshore energy and aviation;
- Encourage product innovation and a more holistic approach to risk management;
- Leverage Singapore's well-developed business infrastructure in telecommunications and its state-of-the-art IT infrastructure for attractive back office propositions; and
- Groom an increasing number of (re)insurance professionals through a combination of well-established educational entities such as the Singapore College of Insurance and the government-backed Financial Sector Development Fund.

Maintaining pole position

Dubai and Singapore are arguably the world's biggest (re) insurance hub success stories of the 21st century. Both are rooted in an unwavering political commitment from the highest levels of government, rigorous yet responsive and highly professional regulators, attractive and constantly improving hard and soft infrastructure systems, including cosmopolitan lifestyle options and, last but not least, rapidly growing regional reinsurance markets.

Both hubs are facing challenges though. Dubai competes with other existing and aspiring domiciles in the MENA region such as Abu Dhabi, Bahrain, Casablanca and Doha. In addition, the cost of doing business in Dubai is increasing at a faster pace than elsewhere in the region, a development which needs to be watched carefully in the light of the growing cost pressures on global and regional (re)insurers in the midst of a soft market cycle.

Singapore is facing an even bigger and structural challenge: the rise of China as one of the world's largest and most rapidly expanding reinsurance markets. On the back of this development, Hong Kong, which has lost out to Singapore over the past 15 years, could see a revival of its fortunes particularly as its regulatory environment is undergoing a major overhaul towards a higher degree of sophistication. Alternatively, and less realistically at this point, a dedicated mainland China reinsurance hub might also evolve, although this proposition is likely to be delayed by legal, regulatory, tax and currency convertibility issues.

Overall, we do not expect an erosion of the dominant regional position of Dubai and Singapore as (re)insurance hubs. Their governments are aware of the challenges ahead and remain fully committed to their respective visions. Most important, both hubs have not been resting on their laurels but instead have kept enhancing and adapting the soft and hard components of their business environments. This seems to be a major lesson any domicile keen to emulate Dubai's and Singapore's success stories should heed.

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