

## DIFC Holds Forum on Risk Management and Captives

With the growing importance of the term in the region, the DIFC hosted the “Corporate Risk Management Forum” last November in a one-day event that attracted experts from different segments to share their views on the concept. The first-of-its-kind forum held by the DIFC also focused on a key theme concerning the insurance industry these days – captive insurance – a concept which is gradually gaining recognition in the Middle East as an alternative risk management solution for corporate risks.

The event, attended by over 60 delegates from different financial and industrial sectors, was presented by an impressive line-up of speakers from specialist companies, including Qatar Gas, Oman Insurance and Heritage Group.

In his welcome note, Mr George Oommen, Executive Director of Reinsurance at the DIFC, said the forum aimed to share experiences in Enterprise Risk Management (ERM) and Corporate Risk Finance. In addition to explaining the process of ERM with its different unique set of key risks and its effects, the forum also intended to explain the benefits that could be achieved by establishing a captive insurance company, or group-dedicated insurance company, in order to self-manage and partly self-finance corporate risks.



Mr George Oommen

### Manage Risk in Totality



Mr James N Portelli

In his presentation “ERM, The Safety Net beneath the Enterprise Tightrope”, Mr James N Portelli, Senior Manager, Oman Insurance Co, said that only the tip of the iceberg is covered by the insurance companies. Many risks are not insured and need to be managed, specifically the indirect costs. He urged enterprises to give serious consideration to managing risk in its totality rather than seeking to control only its direct cost.

Defining risk management as the concept of identification, evaluation, and economically controlling of events that threaten the enterprise, Mr Portelli said it is becoming an essential element that rating agencies are looking for in their evaluations.

In presenting identification and evaluation techniques, he stated that no technique can be universally applied to all sorts of industries and no matter how comprehensive

any technique is, new risks will emerge. Therefore, risk analysis has to be continuous.

### The ERM Process

As for implementing ERM, Mr Portelli said that this mainly starts with the appointment of a risk manager who is considered the “focal point” of all risk-management and compliance activity. The risk manager is not an expert in all the pillars of risk control, but his role is seen as a coordinator of all these pillars.

Mr Rahat Latif, Risk Management Specialist with Qatar Gas, said that the first step to establishing an ERM process is to set the principles and identify the process of risk management as a regular cycle.

The next step is to clarify the key values of risk management and ensure that these are reflected while implementing the enterprise’s goals.



Mr Rahat Latif

Establishing a pragmatic structure for the purpose of capturing and managing risk through the breakdown of components is a major step in creating the process, he added.

Clear roles and responsibilities should also be set for all levels of the organisation from strategic level, departmental level, project level and so on to include the process of risk management as part of formal job accountability.

Mr Latif said that tying likelihood risks with impacts is a good way to reach a consistent approach for risk evaluation, and highlighted embedding a culture of continuous risk review and risk monitoring as a very important point in the process.



Mr Stephen May

### Captives Emerging in Gulf Region

Mr Stephen May, Managing Director of Heritage Group, an independent insurance management firm specialising in the management of captive insurance companies,



said that though captive insurance companies have so far eluded the Gulf region, it is increasingly recognised by big corporations as a risk management tool.

He pointed out that these operate in the same way as other insurance companies with the exception that they are owned by the insured party. This gives the latter the ability to retain a sizeable portion of its risk exposure, resulting in the captive being seen as a desirable risk management tool and as an important alternative risk transfer (ART) method.

According to Mr May, the captive phenomenon is expanding with more than 5,000 captives worldwide, and equivalent premium income of \$60 billion with capital/reserve of \$500 billion. More than 80% of the Global 500 companies now have captive insurance vehicles.

Citing the example of Tabreed – the UAE-based cooling provider which set up the first captive in the GCC, in Bahrain this year – Mr May said that some maintainable and diversified industrial companies from various sectors such as aviation, tourism, and other providing companies have insurable assets and liabilities which are entitled to benefit from the captive approach.

He added that captives can be applied to most areas of insurance, including life, pensions, and other income protection covers, if the risk is clearly defined. Besides getting most favourable terms from reinsurers and closer monitoring of risk and financial security, a captive can write third-party business if the opportunity arises.

With the high economic growth rates in the GCC and the increasing population in the area, Dubai could be the global hub to foster the development of a thriving captive insurance market, he suggested. The DIFC's legislative framework, coupled with its favourable tax environment, offers a convenient platform for the establishment of a captive. Furthermore, DIFC's geographic location in the Middle East makes the administration and management of captive insurance companies much easier due to the

time zone and easy accessibility.

### The Feasibility of the Captive Approach



Mr David Jewell

Mr David Jewell, Director of Capita Group, said that the good practice of risk management increases the appetite for captive insurance as a tool to gain maximum control over cost centres, thereby increasing the organisation's profitability. He also said that when forming a captive, decisions have to be made concerning the choice of a territory/regulator, and selection of professionals.

With rates plunging in the Middle East markets, he stressed that captives should not be seen as a threat for any of the insurance industry players. Rather, it should be seen as an approach that aims to achieve efficiency and best practice for any huge corporation. Capita Group is willing to co-operate with other players in the insurance field, including insurance brokers, he added.

### DIFC Sets the Platform

Mr Ronny Vellekoop, Captive Director for DIFC, speaking on why firms should be thinking about ERM now, said that the massive uncertainties of today's business mean that managing risk is more difficult than ever to achieve. Risks solutions are also changing fast with new options available today like captive facilities.

He said the DIFC was a global hub for captive insurance market aimed at serving the sector and providing the necessary environment for the industry to prosper. The number of interested parties is already growing, reflecting the viability of captives as an alternative risk transfer solution. ■



Mr Ronny Vellekoop

