



Iraq-Cargo Underwriters exposure during the Rebuilding of the Country

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I have been providing IUMI conferences with information on Iraq marine cargo insurance since 2002

New York 2002 Annual conference- “Oil For Food Program”

Established by the United Nations Security Council resolution 986 in 1995 the Office of The Iraq Program (OIP) was a temporary measure to provide for the humanitarian needs of the Iraqi People following the sanctions imposed in 1990.

A complex system was then organized for cargo entering through Um Qasr port, and by land through Turkey, Jordan and Syria.

Claims results were excellent for many reasons:

1. the strict control of cargo through the exclusive appointment of a Swiss surveyor Messrs. Cotecna
2. the security under Saddam's regime
3. the acceptance by the authorities of the damaged cargo which could be repaired to avoid the huge delays to order replacements.

Singapore 2004 Annual Conference- “Update of Marine Cargo Insurance to Iraq”

The food for oil program stopped in November 2003.

Iraqis were allowed to import all they needed mainly by land through a policy of “Open Borders”

Cargo marine insurance results remained excellent.

Rome 2005 Spring meeting- “The War, are our worries over”

In summer 2004 results deteriorated because of the long land transits involved:

1. Cargo through Um Qasr port still needed a transit by truck of about KM 600 to Baghdad
2. The open borders policy stopped and as a result customs at land borders delayed the entry of trucks
3. Insurgents with the help of insider information from customs officers began hijacking high value cargo which they usually released against a ransom of about 30% of the value. At the same time drivers were kidnapped and sometimes killed.
4. Problems arose with the settlement of claims: which insurance cover should pay: the All risks, the War, or the SRCC? Was ransom a covered risk?
5. Following this chaos underwriters used to exclude theft or required expensive armed protection for convoys.
6. Practically, Iraqis were left without marine insurance. Thus the importers organized themselves to buy their safe passage with the local tribes and militias.

Gathering Facts in Baghdad

All information on the Iraq insurance market and marine business is scarce and imprecise.

Although I tried to obtain information from the local insurance companies, I received contradictory figures on premiums and claims experience. So I decided to travel to Iraq.

The temptation was to fly to the safer Irbil in Kurdistan, but there are issues with the mainland which I wanted to avoid. After all Kurdistan is part of Iraq and represents only 10% of the country's activities.

So I travelled to Baghdad, where the head offices of most insurance companies are, and stayed there from the 24th to the 28th of July 2010.

I was told that I was the first foreign insurance/reinsurance person visiting Baghdad since the 90's.

Iraq wealth

1. 112 billions of barrels of proven (but not all) oil reserves; the second largest after Saudi Arabia
2. 3 trillions of cu m of proven (but not all) gas reserves
3. expected daily oil output is 6 million barrels for 2011
4. population is 31 million (38th most populated country)
5. surface area km² 435000 (58th biggest country)
6. government budget for 2011 is \$80 billions
7. the government is still distributing food rations and as a result is importing the basic staples for the population. In addition it also imports all equipment for all the state owned companies in particular the oil industry.
8. until now the custom tax is limited to 5% on imports. As a result the private sector is thriving with the Iraqi people buying items to which they had no access during the embargo

Imports to Iraq: Points of Entry

Will depend upon the final destination to avoid long transits by truck inside Iraq

- Shipments to the North of Iraq will be shipped by truck through Turkey
- Shipments to Baghdad and Central Iraq will be shipped by truck via Jordan and Syria
- Shipments to the South of Iraq will be shipped through the Um Qasr port or by truck via Kuwait and the UAE
- The airport is only used for some valuable imports
- Baghdad is in the center to all those points of entry

Imports of Cargo is divided

- Port: about 60%
- Land Borders: 30% mostly for private imports
- Airport: 10% for highly value cargo

The ports (60%)

The General Company for Ports of Iraq (GCPI) www.scp.gov.iq is in charge of the Iraqi ports.

Although the authorities use the name "ports" there is really only one deep sea port and that is Um Qasr which is divided into two main ports known as the old port and the new port. In between, one can find the location for the Sugar and Silo Berth.

Um Qasr is situated at a distance of about 65km from Al Basrah.

The other ports are river ports that are not used for imports.

Um Qasr port caters for all governmental imports including grains and bagged cargo as well as for heavy equipment and containers.

Although the installations are adequate, there are complaints relating to:

1. congestion
2. lack of port equipment; for a number of cargo shippers have to carry some loading/unloading equipment on board to meet their needs.
3. delays from the administration and customs

Many international shipping lines are serving the port, the most important one being: CMA CGM.

Land Borders (30%)

As previously mentioned it is mainly private cargo that comes through Turkey, Iran, Kuwait/UAE and especially from Jordan.

I will focus on the most important border Trebil between Jordan and Iraq.

During 2009:

- The main imports were steel, wood, medical drugs and equipment, cars and miscellaneous cargo
- 70,000 tons of cargo is discharged in Aqaba in transit to Iraq. This represents about 9% of the total imports of Jordan
- 6000 trucks crossed the borders at an average rate of 16 per day.
- Truck companies are complaining because of delays and truck drivers are complaining about the lack of accommodation facilities during these delays.

Kuehne & Nagel, Al Gezairy are some of the truck companies operating in Iraq.

Airport(10%)

TNT, DHL, Aramex, Federal Express operate in Baghdad

In addition, a number of airlines fly to Baghdad on a regular basis.

Operations are quick and efficient

Exports

We could not obtain any information in relation to exports which are presently mostly limited to oil.

The insurance market

Following the nationalization of insurance companies in 1964 the country was left with 2 state owned insurance companies and one state owned Reinsurance Company.

- The largest state owned is the National Insurance Company
- The second largest state owned is the Iraq Insurance Company which was writing exclusively life before 1998
- The state owned reinsurance company Iraq Re had the role of sole reinsurer of the market. During the embargo and without external reinsurance backing it had to limit its acceptance of risks. It is still acting as the main reinsurer of the market although the treaty limits are limited to about \$3 million on all lines of business. Iraq Re is reinsured with Munich Re, Scor, and Arig. It is difficult to ascertain the future of the company since the market is now free to buy reinsurance any where.
- In the year 2000, the authorities allowed the establishment of private insurance companies. There are presently 18 of them and many new licenses are now pending.

The regulatory authority is the Iraqi Insurance Diwan which was established in 2005
www.iraqinsurance.org

The Iraqi Insurance Association is active again

The insurance premium income for 2009

The premium written by the Iraq Insurance Market amounts to a mere \$57 millions for all lines, 90% of which is written by the two state owned companies.

Each private company writes an average of \$350,000 only.

The Iraq insurance market used to be the most sophisticated in the Arab World. Just to give you an example, the motor insurance "Pay as you Drive" has long been in force in Iraq for the compulsory motor insurance and the premium which was a percentage of the petrol bought, was paid at petrol stations.

The marine Insurance premium for 2009

The premiums written inside the country are the following:

Cargo: \$1,4 million

Hull: \$ 600000 for the 10 government owned cargo vessels and 4 oil tankers

Aviation: \$7,5 Million

Total: \$9,5 million

The volume of marine insurance ceded premium to Iraq Re is \$550000,-

Before 1980 and the many wars that disrupted the country, the marine insurance premium amounted to \$ 240 millions!

So where is the gap between the \$9,5 million premium of today and the \$240 millions in 1980?

1. all the imports by the government are done through the state owned Trade Bank of Iraq known as TBI, on a CIF basis. Is it a lack of trust towards the insurance market?

2. export of oil is insured by the buyer
3. the private sector is also used to buy on a CIF basis

Surveyors

Although most of the international surveyors are established in the nearby countries of Jordan, Kuwait and UAE, I don't think there are any senior residents inside Iraq.

In case of claim they can rapidly deploy one of their surveyors.

It would of course be much cheaper and quicker to appoint a local independent surveyor. I have met with one of them, Mr. Hussam Falah HussamFalah@yahoo.com, previously an Iraqi insurance company manager who is the appointed surveyor by most insurance companies. Other insurance companies have their own in-house surveyor

Marine Claims

Surprisingly, there are no marine major claims reported.

The airport import operations are secure and go smoothly.

The Port installations are adequate.

Given that it is a very large country, there is a great amount of land transit which was the main concern for insurers because trucks and their cargo were hijacked in the past.

Since the beginning of 2007, the security situation has improved considerably and there were no reported claims of hijacking

As far as small claims are concerned, it seems that the Iraqi traders spend more time selling their goods than wasting it to declare small claims.

Nevertheless, the Jordan Insurance Market reported claims of about 25% on land cargo insurance premiums. The transit premium constitutes 15% of the overall marine premium of the Jordanian insurance market.

The War and SRCC insurance rate to the port and airport is close to the one applied worldwide. WSRCC on land, including hijacking, is about 0,60%

Conclusion

Iraqis now define the period of their lives as before the fall of Saddam and after the fall which took place in March 2003

Before the fall of Saddam Hussein

1. In 1958 the King was overthrown and the Republic established. Since then and until the fall of Saddam Hussein, the citizens were living some sort of dictatorship
2. The baathist regime was a socialist regime and as a result banks and insurance companies were nationalized in 1964
3. Saddam Hussein took over in 1979 and started the devastating war against Iran in 1980 which ended in 1988
4. Saddam Hussein invaded Kuwait in August 1990 but had to withdraw his troops in January 1991 following the intervention of the coalition force
5. Sanctions were imposed.

After the fall of Saddam Hussein and up to today

1. 1,1 million Iraqi police and army forces have improved the security of the country.
2. Many parts of Iraq are safer today although there hasn't been a day without human casualties. Presently, the tension is very high in the absence of a government.
3. On the economic side, the reconstruction of all the country's infrastructure is moving at tremendous speed.
4. the private sector is flourishing

Thanks to

Al Sumaria TV who has arranged my trip to Baghdad, accommodated me in its compound and produced the many films for my presentation.

To my security escort during my visit

To the Iraqi and Jordanian governmental departments

To local Insurers

To Reinsurers in particular SCOR and Swiss Re

To surveyors

To the welcoming, good and courageous people of Iraq I wish peace.

Max Zaccar, IUMI's Special Envoy to the Middle East