

# WAITING ON THE BENCH

Iran is a country eager to join the international community and improve its business environment after the partial lifting of economic sanctions at the beginning of 2016.

For international insurers, the country represents a new business opportunity and several non-US (re) insurers are now exploring ways to tap into a market worth \$9bn in annual premium.

For local (re)insurers the lifting of sanctions is a breath of fresh air in a market suffering from a lack of foreign investment.

Pari M Rezaei, reinsurance director at Ma Insurance Company, tells *Mena Insurance Review*: “The lifting of international sanctions will allow our insurance industry to cede market risk to the global insurance market and be sure that in the event of a major loss we will recover from our losses.”

Rezaei says it would allow Iranian (re)insurers to learn about and acquire new technologies from the international (re)insurance industry. She adds that money flow for premium payments and claim recovery will be facilitated.

Rachel Ziemba, managing director of Emerging Market Research at 4CAST-RGE, Aon’s partner on political risks research, says that Iran’s political risk environment has been improving since the country signed the nuclear deal with the P5+1 powers in 2015. Additionally, the easing of sanctions this year should improve the country’s overall situation and recover President Hassan Rouhani’s popularity ahead of the elections next year.

Ziemba says there are still political challenges to be overcome, “but the suspension of international sanctions will enable Iran to develop its exports and improve its economy, which will lead to a reduction in overall political risks in the country. We are cautiously optimistic about the situation in Iran.”

Alexander Frost, head of Global Risk Intelligence & Data, and Ken Maw, regional partner for Axco Insurance Information Services, believe that the lifting of international sanctions will provide several benefits to the financial sector and insurance in particular.

Key among these was Iran’s readmission to the Society for Worldwide Interbank Financial Telecommunication (SWIFT) international payments system in February 2016, which facilitates the movement of premiums and claims’ payments in and out of the country by the banking sector.

## COUNTRY FOCUS

# IRAN

Iran’s (re)insurance players are ready to take advantage of opportunities in the global market and open their industry to foreign investors, but uncertainty over sanctions is casting a shadow of doubt

**By Alicia Dimas**



**IRAN'S (RE)INSURANCE MARKET REGULATION**

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**Iran's insurance market: New business opportunities for foreign insurance companies**

Following the implementation of the Nuclear Deal on 1 January 2016 and the lifting of sanctions against Iranian economy, new market is opening-up for foreign companies to conduct business and investment activities in Iran.

The insurance sector could be potential market, as Iran's economy relies heavily on export of petroleum products mainly through the Persian Gulf and Iran has the largest shipping fleet in the region for transportation of oil and gas.

Iran also has a large consumer market, driven by a population of around 80 million.

According to a report published in the *Financial Tribune* on 16 November 2016, quoting Axco Insurance, Iran was the 29th largest market globally and has the largest non-life insurance market in the Middle East.

According to the Axco report from 2014-15, the non-life market premium income (excluding health business) had a growth rate of 22.6%.

**What are the government policies to promote foreign investments in the insurance market?**

In recent years, the government has pursued programmes concerning liberalisation, deregulation and privatisation of the economy to promote and develop the insurance market and attracting private sector investment.

The Fifth Economic Development Plan covering 2010-2015 has authorised the formation of partnership by foreign insurance companies with local commercial insurance companies for the purpose of establishment of joint commercial insurance companies in Iran.

The Fifth Plan also envisages attracting foreign capital by local insurance companies and establishing and operating branch and representative of foreign commercial insurance companies.

The bill on Sixth Development Plan (2016-2021) was submitted by the government to the parliament, where it is pending ratification.

The Sixth Plan is expected to renew government policies towards foreign investments in the insurance industry.

**What vehicles are suitable for structuring investment?**

Foreign companies interested in conducting business and investment in Iran should seek advice as to the suitable vehicle for structuring their investments depending on the field of activity. In the insurance sector, foreign insurance companies may establish joint ventures with Iranian insurance companies or register branch and representative office.

**Who is the regulator of the insurance industry?**

The Central Insurance of Iran (CII), established in 1971 according to the act of parliament, has the responsibility concerning, inter alia, advising, guiding, protecting and supervising insurance companies in order to maintain a healthy insurance market.

The CII has the task of regulating the reinsurance market and preventing unfair competition.

Other important duties of CII include preparation of bylaws and regulations for good performance and operation of insurance affairs in Iran. The CII is also in charge of issuing licences for all types of insurance activities.

**Are there any limitations on foreign shareholdings in the insurance sector?**

According to the Iranian law, foreign companies may acquire shares of Iranian insurance companies up to maximum 49% shareholdings, subject to the approval of respective authorities.

Foreign investors may purchase shares of listed companies subject to the approval of the Security and Exchange Organisation (SEO) which is the authority responsible for regulating the capital markets and stock exchanges.

As a legal requirement, individual or group of investors cannot directly or indirectly own more than 20% of capital of any given company listed in the stock exchanges or over the counter (OTC) markets.

**Setting-up a commercial presence in the Free Trade Zones (FTZs)**

Foreign insurance companies may register company or branch office in the FTZ and

offer insurance and reinsurance services by obtaining a licence from the CII.

The privileges and incentives offered by FTZ legal regime include, inter alia, 20 year tax exemption for all commercial activities and establishment of companies with 100% foreign ownership of shares.

There are currently seven FTZs: Aras, Arvand, Anzali, Chabahar, Qeshm, Kish and Maku.

**What are the mechanisms for protecting investments?**

The Foreign Investment Promotion and Protection Act (Fippa) is the law governing foreign investment activities in Iran.

Fippa guarantees foreign investments by granting, inter alia, non-discriminatory treatment, compensation for nationalisation and expropriation, transfer of currency and access to international arbitration in case of existence of applicable bilateral investment treaty (BIT) containing dispute resolution procedure.

The Organisation for Investment, Economic and Technical Assistance of Iran (OIETAI) is the authority in charge of regulating investment activities and issuing investment license.

**Conclusion**

Analysis of the insurance market suggests that the friendly tax and investment regime offers foreign investors opportunities to diversify their financial assets through establishing partnerships with Iranian insurance companies.

Investors may structure their investments to benefit from the protections under the Iranian BITs and Double Taxation Treaties (DTTs). Foreign investors companies must conduct due diligence on the applicable laws and regulations to ensure their activity complies with the regulatory framework and find suitable local partner for joint venture activities.

**Legal disclaimer:**

*This article is intended to provide general information for readers and should not be relied upon as legal advice. Individuals and companies wishing to know more about the regulatory environment must obtain professional assistance and specific legal advice.*

**INSURANCE MARKET DIRECT PREMIUM**

SOURCE: IRAN INSURANCE CO.

Class	Share(%)	Growth(%)
Fire	4.0	30.7
Cargo	1.0	-15.2
Accident	6.0	33.9
Motor(P.D)	6.6	17.9
Motor(T.P.L)	42.2	25.1
Health	19.7	32.7
Hull	0.7	-19.8
Aviation	0.6	-18.6
Engineering	1.1	12.2
Liability	5.6	26.9
Credit	0.1	-58.4
Oil & Energy	1.7	18.3
Life	10.5	45.5
Others	0.1	10.9
Total	100.0	26.7

Frost and Maw say that the major area that insurers will look to benefit from is the huge energy sector, but also by providing coverage in Iran’s extensive manufacturing sector, particularly for cars and aviation. It will be easier for foreign insurers to target energy and marine lines as they do not legally require a domestic presence.

Hakimi Bimeh, manager at Bimeh Iran Insurance Company, is also optimistic about the future of the country’s insurance market. “After 30 years, international limitations against Iran are withdrawing slowly, and now Iran is one

**EU SANCTIONS RELIEF**

With effect from 16 January 2016 (Implementation Day), European Union Sanctions were lifted in respect of:

- Financial, banking and insurance;
- Oil, gas and petrochemical sectors;
- Shipping, shipbuilding and transport sectors;
- Gold, other precious metals, banknotes and coinage;
- Metals and software;
- Financial sanctions removed for certain targeted individuals, entities and bodies.

of the safest markets for investment.”

He adds that the country’s growing population, oil and gas reserves, rapidly expanding economy and favourable business environment are some of the factors contributing to the country’s increased appeal for foreign investors.

Bimeh Iran Insurance Company was recently approached by a foreign broker that wishes to expand their business to Iran. “We signed a contract with one of the well-known and active independent-international European intermediaries R.I.B., who is interested in doing business in Iran, and is a very important broker in Italy and Europe.”

this has not happened yet,” says Rezaei.

Additionally, the majority of international banks are unwilling to process the premium and claims payments on Iranian related insurance policies. Rezaei considers that this happens because there are still numerous sanctions in place and banks do not want to risk problems with the US.

The Iranian (re)insurance market is now facing a high degree of uncertainty regarding the 2015 nuclear agreement, after Donald Trump, who was overtly critical of the deal during his election campaign, won the United States’ presidential election in November.

**“ International limitations are withdrawing and now Iran is one of the safest-markets for investment”**

HAKIMI BIMEH, BIMEH IRAN INSURANCE COMPANY

Despite the market’s optimism regarding the lifting of international sanctions, Supreme Leader Sayyed Ali Hosseini Khamenei has said that “they removed the sanctions in paper only”.

There are still many restrictions on trading with the Middle Eastern country, and some complain that rules are not completely clear and wordings are ambiguous.

“One thing is for sure: we expected to see sanctions to be lifted totally since

**Elections 2017**

Next year Iran will hold its own presidential elections. President Rouhani faces the risk of not being re-elected, although many believe his re-election will depend on external factors.

Frost and Maw believe Rouhani’s re-election will depend largely on whether the implementation of the international nuclear accord continues, “allowing sanctions relief to be felt by the population at large, but also by powerful state actors with economic interests”.

Recent reports have suggested that the influential Revolutionary Guard, which remains under secondary terrorism sanctions, has been trying to weaken the president through corruption investigations, and Frost and Maw say it is possible the group will attempt to weaken the president further ahead of the elections, if they feel they are getting a raw deal.

Iran is therefore in a delicate situation, where market conditions deeply rely on the government’s ability to navigate the international community’s norms and requirements and its capacity to maintain peace within Iran’s borders. ■

**IRAN’S INSURANCE MARKET IN NUMBERS**

- Worth **\$9bn** in annual premium
- **27** insurers
- **2** reinsurance companies
- **4%** of total Iranian insurance premiums are ceded to reinsurers, worth around **\$300m**
- Iran’s insurance market ranked **42nd** in the world in terms of premium value
- **\$94** written premiums per capita
- Insurance industry constitutes around **2%** of the country’s GDP
- Non-life insurance segment accounts for **89%** of total premiums written