# Deadline passes for insurance firms to promise capital hikes

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The deadline imposed by the Ministry of Economy for insurance companies to commit to raising their minimum capital to $1.5 million expired on Wednesday. It appears that just about every company has undertaken to increase capital.

Although the move was expected to give an indication of how many insurers would stay in operation and in which fields, the minister might find quite a different market by next June, when firms will be required to turn promises into hard funds.

"We'll see part of the results with this requirement, but it won't produce the full effect," said Eugene Nader, general manager of Bankers Assurance. "It's only a commitment at this stage, although it is a move in the right direction."

The first deadline that will matter is June 28, 2000. Insurance companies will be required at that point to front 50 percent of the amount needed to reach a capital of $1.5 million as well as 50 percent of the guarantees, or blocked funds, for each type of insurance they intend to continue writing. The remaining 50 percent will have to be produced a year later.

Nasser Saidi, the minister of economy and trade, obliged all insurance companies to hold general assemblies and commit to raising their capital by Sept. 28. But for all intents and purposes it was used as a delay tactic by some companies that are caught scrambling to get a bigger market share and to find the funds.

"Basically decisions have been deferred," said Paul Warren, an independent insurance consultant. "The government's intention was probably to find out which companies intended to stay in business, but we won't know that until the first deposit goes in."

The general feeling in the industry is that the Ministry of Economy, which acts as the insurance sector's regulator, is too lax with deadlines. "The government should have got on with this years ago. So in a sense it's disappointing," said Warren. He felt that Wednesday should have marked the crunch time rather than delaying matters a further nine months. And he's not alone.

"I feel that the minimum capital requirement of $1.5 million is too low and to give two years to raise it is very indulgent," said Jacques Sacy, chairman of United Commercial Insurance company. "Over the next nine months, some will raise the necessary funds and some won't be able to. I think we'll see both scenarios."

There are currently some 30 companies that don't meet the new minimum capital requirement, according to Joseph Zakhour, president of Ameco insurance. "All of those companies have committed to increasing their capital," he said. "But most likely they won't make it; either they'll merge or liquidate."

Although Saidi is pushing for mergers in the insurance sector, there is a strong argument that will make the merger scenario unlikely in the majority of cases.

Most insurance companies rely heavily on brokers. If an insurance company is in trouble, brokers can simply take their portfolios elsewhere, leaving the insurer with little in the way of assets other than real estate. That is exactly what happened when Mesir and Phoenix got into financial difficulties.

Combined, those two firms had $40 million in premiums, according to Nader. He predicted that the insurers which gained from Mesir's and Phoenix's misfortunes might be the next to fall.

"We're not learning our lessons," he said.

Wednesday also marked the deadline for firms wishing to write credit and agriculture insurance to apply for new licences and front the guarantees for those two areas. According to Zakhour, no new credit or agriculture licences have been issued, although companies continue to write credit insurance.

Firms were permitted to continue with credit business that was written prior to June 28, when the new law went into effect, but are not allowed to write new premiums. Nonetheless, some continue to write credit insurance, said Zakhour.

Next June will be the crunch time not only for insurance companies, but also for Saidi himself. If the minister doesn't hold tight on his deadlines, any remaining confidence in the insurance sector will be lost and the stage will be set for further fiascos. Saidi will have to swing the hatchet on insurers that don't make the grade or run the risk of appearing utterly incompetent.

Insurers are are also calling on Saidi to pull the plug on firms that are contravening the law and on the 18 firms warned for operating without capital.

## Guarantees required

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| Life | $800,000 |
| General* | $800,000 |
| Fire | $230,000 |
| Transport** | $230,000 |
| Credit | $800,000 |
| Agriculture | $500,000 |

*Includes medical and car insurance
**Includes marine and air

*Source: Ministry of Economy and Trade*