

Marsh News China

News for Marsh clients in China



The Middle East Targets The Middle Kingdom For Investment

Islamic investors in Saudi Arabia are seeking to invest an estimated US\$1 trillion (RMB7.1 trillion yuan) outside its borders during the next 15 years and China is a likely destination for a substantial portion of these funds, said an Islamic finance expert, Oscar Agha. But this capital injection could be complicated by the fact that these investors may insist on using Islamic banking, financing and insurance structures in their transactions.

“There is a trillion dollars of money sitting out there looking to come into markets that have Islamic investment vehicles,” said Agha, a partner of the international law firm DLA Piper, in address to the British Chamber of Commerce in Hong Kong in January.

Islamic banking and finance has been making its presence felt around the world, particularly over the past five years, Agha said. Driven by rising oil prices, Middle Eastern countries such as Saudi Arabia, Qatar, Kuwait and the United Arab Emirates, have amassed enormous wealth which they are seeking to invest outside the region sometimes through investment vehicles that are acceptable under Shari’ah, or Islamic law.

As a result of the interest in China from Islamic funds, the Hong Kong government has been paving the way for it to become a centre for Islamic banking and finance. Speaking at a conference in January, Hong Kong’s Finance Secretary John Tsang said the government would consider changing its tax regime to accommodate the global rise in Sukuk, the nearest Islamic equivalent to a conventional bond.

“To further consolidate Hong Kong’s position as an international financial centre, we should actively leverage on this new trend by developing an Islamic finance platform, and focus on, among other things, developing a wholesale Islamic finance market,” Tsang said.

To receive investment funds from the Middle East, Hong Kong and China will quickly have to learn about the intricacies of Islamic financing. Under Shari’ah, charging interest on loans is forbidden and income must be derived as a return from entrepreneurial investment.

“Islamic financing is about creating partnerships between an Islamic financier and the party that is being financed,” Agha said. “In Islamic finance, you have to share risk with your client.”

Islamic funds investing in companies or projects in China are likely to insist that Islamic insurance is obtained for the transactions, particularly

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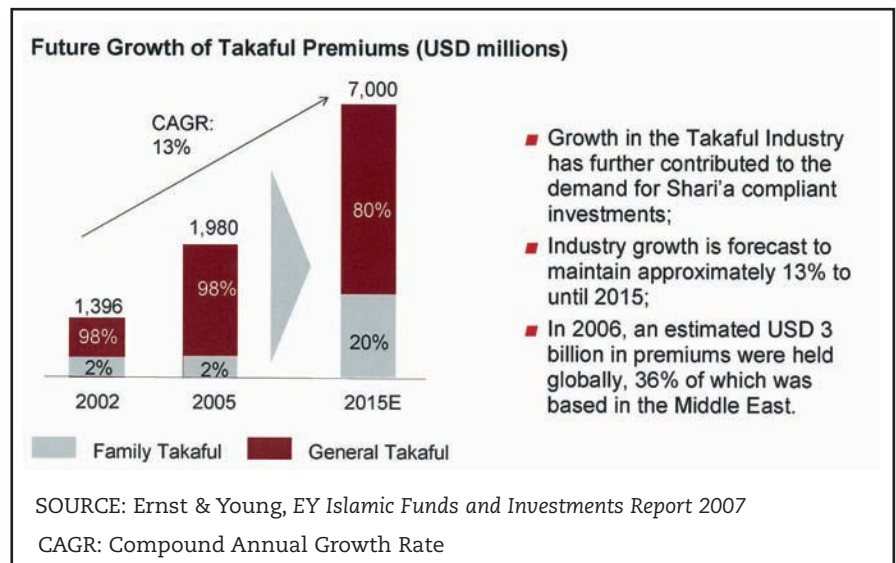
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if they take a majority stake in a venture, says Georgios Nassaouati, Vice President of Marsh's expatriate mergers and acquisitions upstream practice.

Islamic scholars believe that insurance practice should adhere to the concept of Takaful. This implies insurance business be performed according to the principles of mutual assistance and co-operation. In theory, members contribute money to a common pool for the purpose of sharing each others' burdens rather than making profits, Nassaouati says.

The main challenge Islamic insurance presents for China and other recipients of Islamic financing is that the Islamic insurance market is very small (but growing quickly) and often lacks capital to cover risks for large projects. Nassaouati estimates it



currently represents between 2-3% of the global insurance market.

Other problems facing the Islamic insurance industry include that there remain disagreements over what is permissible under Shari'ah, Nassaouati says.

"For example, the Shari'ah in Malaysia is more flexible than the Shari'ah in Saudi Arabia," he says.

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The Importance Of Having A Plan 'B'

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Plenty of deals do not work out. Mergers and acquisitions can be highly complicated and, despite the best of intentions, can fail to be completed for reasons outside the participants' control.

But plenty of deals also fall over because participants withdraw at the first sight of a risk when investigating a deal. Businesses are often guilty of only seeing the rewards of a transaction, and frequently do not spend enough time setting strategies to help overcome difficulties that inevitably arise in the transaction process.

The efforts and opportunities that are wasted on failed deals are enormous. Over the last three years, 173 merger and

acquisition deals failed to launch in Asia Pacific, according to the research group, Mergermarket. Among the 164 that disclosed the size of the deals, these could have potentially been worth \$US97.9 billion (RMB696.4 million yuan) in total.

In every deal, the seller makes certain promises about their company and, in many cases, is required to hold a portion of the sale's proceeds in escrow for the buyer to draw on if the company does not meet these promises. Too often, deals fail during negotiations on this issue, particularly as sellers generally dislike having these funds tied up in low- or no-return environments and retaining liability even after the sale.

What both parties often overlook are alternative solutions, or a Plan 'B', if negotiations come to such an impasse. One solution is to quarantine some of this risk with warranty and indemnity insurance. It has the added benefit of passing the responsibility of compensating the buyer, if a warranty is breached, from the seller to an insurance company and allowing the seller to remove itself from the transaction at closing.

It is just one of many reasons why careful planning and consideration for alternate solutions is a crucial step for reducing the likelihood of a deal going sour.

Global Risk Survey highlights political and economic uncertainty



Looking at the year ahead, a recession in the United States is possible and economists are divided on whether consumption-led growth in Asia can drive the global economy, concludes The World Economic Forum's latest report, *Global Risks 2008*.

Released in January, the report finds that the global financial system has improved its capacity to assume and distribute risk, and has become more stable. But mitigating the impact of challenges, such as the financial crisis which began in the US and is expected to spread across the world, will require increased public and private sector collaboration on stress testing, liquidity management, risk assessment and prevention in order to address what the report describes as the "fragmentation of ownership of global risks".

The *Global Risks 2008* report assesses both the likelihood and severity of the 23 core global risk issues facing business and communities in the world today. Based on input from a network of more than 100 top business leaders, decision-makers, scientists and other leading academics convened throughout 2007 as part of the World Economic Forum's Global Risk Network, the report highlights the need for new thinking and concerted action in a number of problem areas.

In addition to its conclusions on financial risks, the report also highlights the risks on food security, supply chain vulnerability, and energy.

Food security

In 2007, prices for many staple foods reached record highs and global food reserves were at a 25-year low, making world food supply vulnerable to an international crisis or natural disaster. Looking ahead, *Global Risks 2008* suggests that the drivers of global food insecurity – population growth, lifestyle changes, use of crops to manufacture bio-fuels, and climate change – are likely to sharpen over the coming decade, setting the world for a potential long-term rise in food prices and leading to a set of complex challenges to global equity.

Supply chain vulnerability

All companies and governments who depend on external suppliers face disruptions to their supply chain. Building a new culture in this area,

along with an international approach to supply-chain risk management across private and public sectors, are key among the first steps to broader risk mitigation.

Energy

With predictions of a 37% increase in oil demand over current levels by 2030, the report sees limited scope for a fall in energy prices over the next decade. Capital investment in energy infrastructure is unlikely to keep pace with the growth in demand as it will be limited by uncertainty over future returns and regulations on greenhouse gas emissions.

Global Risks 2008, is published by the World Economic Forum in co-operation with Citigroup, Marsh & McLennan Companies, Swiss Re, the Wharton School Risk Center and Zurich Financial Services. A full copy of the report can be downloaded at <http://www.weforum.org/pdf/globalrisk/report2008.pdf>.



NatCat: Natural Catastrophe
NPT: Non-Proliferation Treaty
CII: Critical Information Infrastructure

SOURCE: *Global Risks 2008*

Newsbites

Marsh #1 International Broker In China

Marsh has been ranked the number one international insurance broker in China by the China Insurance Regulatory Commission (CIRC). The ranking of China's top 20 intermediaries was based on their annual invoiced revenue in the CIRC's 2007 Insurance Intermediary Market Report.

Marsh (Beijing) Insurance Brokers ranked top among all international brokers and fourth of all brokers in China. Its invoiced revenue was RMB93.65 million yuan in 2007, up 27% from the previous year, and representing a market share of 4.64%. Of the 322 insurance broker companies operating in China, five are international brokers.

Marsh Greater China CEO, Paul Wilkins, says he is thrilled with the result for 2007 – just one year after the CIRC granted Marsh China with the first and only Wholly-Owned Foreign Enterprise insurance broking licence. “Our ranking as China's number one international broker is a tremendous honour,” Wilkins says.

Marsh also serves Chinese clients offshore through its China Global Client Services network in key markets in the Asia Pacific, United States, United Kingdom, and Europe. Wilkins says: “Marsh's ranking clearly shows that in a market expanding as rapidly as China, organisations value the unmatched support, service, global footprint and technical expertise of Marsh.”

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IPO's Face Delays Over Pollution

China's environmental authorities are cracking down on polluting companies preparing to publicly list. Last year, several companies were forced to postpone their initial public offerings (IPOs) by the State Environmental Protection Administration (SEPA), according to a *Wall Street Journal* report in February.

Ten IPOs were held back during the second half of 2007 after the government began screening the deals for their compliance with environmental regulations. While most were eventually approved, two are still waiting for approval.

As a result of SEPA's scrutiny, one coal producer listed on the Hong Kong stock exchange did not offer domestic Chinese shares until four months after gaining shareholder approval, the *Wall Street Journal* reported.

Between January and October 2007, SEPA rejected 187 investment projects because of their potential environmental impact, which represented about \$US91 million (RMB651 million yuan) in spending. This was a substantial increase on the 110 rejections in 2006.

SEPA reportedly said it delayed approval for IPOs for reasons that included excessive emissions, insufficient waste-treatment plants or outstanding pollution lawsuits against companies or their subsidiaries.

China Snow Storms Hit Insurers

Blizzards that devastated southern China this winter have resulted in direct economic losses of about RMB111.1 billion yuan to February 12, according to the Civil Administration Department. The heavy rain, snow, frost and low temperatures affected 11 provinces and severely damaged transportation, telecommunications and power supply systems.

The storms have also been costly for insurance companies, which were facing claims totaling RMB8.4 billion yuan by February 25, according to Marsh estimates. The China Insurance Regulation Commission reports that 803,400 catastrophe insurance claims were made by February 10, and the indemnity paid had reached RMB1 billion yuan.

According to the *Financial Times*, Sally Yim, an analyst at credit rating agency Moody's in Hong Kong, said: “Insurance coverage is much more widespread than it was during previous natural disasters so the insured losses will very likely be the costliest catastrophe for the insurance industry in China ever.”

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