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1988	1989	1990
1991	1992	1993
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2003	2004	2005
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2009	2010	

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RRT ERBIL: ANOTHER INDUSTRY ENDANGERED BY KRG CORRUPTION?

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This is an Erbil Regional Reconstruction Team message.

1. (SBU) SUMMARY: The sole foreign insurance broker in the Kurdistan Region (KR) says that he would like to provide a wider array of insurance products to the Kurdish market, but has faced numerous hurdles due to the party/family-dominated Kurdistan Regional Government's vested interest in marginalizing any competition in the insurance sector. Sizeable non-energy sector Foreign Direct Investment continues

to elude the KR, due in part to a lack of modern banking/insurance services. END SUMMARY.

2. (C) RRToff recently met with William Wakeham (protect), the British owner of AAI Insurance Brokerage (AAIIB.) AAIIB, based in Jordan and operating in the United Kingdom, Afghanistan, the Kurdistan Region, and the rest of Iraq, faces two major obstacles in the KR. The first is that there is one

local insurance broker connected to the Kurdistan Regional Government (KRG) that has, according to Wakeham, through its mother-company, Ster Group, squeezed all competition out of the industry. (NOTE: Wakeham claims that KRG Intelligence Chief Masr'ur Barzani is the majority shareholder of Ster

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decline to specify which one. END NOTE) The second obstacle that Wakeham faces is the lack of an insurance law that governs the use of, and need for, insurance in the KR, and would require potential brokers to open offices in the KR, both of which Wakeham believes are essential for the insurance industry to flourish.

DOMINANCE OF FAMILY/PARTY-LINKED COMPANIES

3. (SBU) Wakeham listed the numerous administrative hurdles that he has had to overcome in order to set up shop since his arrival in 2003. "We have registered twice, had our registration rescinded twice, and have paid for our licensing twice." He believes these trials will continue unless he obtains a local partner, but refuses to work with the one local partner that continues to put its name forward (Ster Group). According to Wakeham, Ster Group wants 50 percent of AAIIB's revenue earned in exchange for being its local partner. Wakeham will not work with Ster Group under this arrangement because, "that is effectively our entire profit margin, and that is not how one does business."

4. (C)According to Wakeham, Ster Group purports to offer one insurance product (accident insurance to trucks crossing the Turkish border into Northern Iraq), but he does not believe this to be "real insurance" because "there is no underwriting and no claims are paid." Because Ster Group is backed by a very-senior level KRG official, Wakeham believes that the company has effectively eliminated or intimidated all of AAIIB's other potential partners (including one with whom Wakeham would like to work, but who is avoiding Wakeham for fear of retaliation from Ster Group.) However, without a local partner, Wakeham is hindered in his ability to offer the additional insurance products that he needs to in order to make his business viable (such as third-party motor insurance.) Wakeham believes he has been allowed to work thus far because AAIIB sells travel insurance, which government and other high-end travelers in the Kurdistan Region (KR) use frequently. But Wakeham says that without a change in this stalemate, he will leave the KR.

5. (SBU) Regarding the second obstacle to AAIIB's success, the

great deal of talk, but very little action. The only law in place now is CPA Order 17, which Wakeham says has no requirement for local placement of insurance companies. A better model, in his opinion, is the insurance law of Afghanistan. At present, any insurance policy written in the KR is a contract between a Kurd and a foreign company outside of the KR. It is far more difficult and expensive to file a claim if the company is based outside of the KR than inside, providing very little incentive for the average citizen to buy

a policy. Wakeham believes that, were there a law to regulate the sale and use of "real insurance" in the KR, and were foreign insurance brokers required to register as businesses and open offices in the KR, more Kurds would be willing to

BAGHDAD 00004042 002 OF 002

purchase insurance, thus making it a profitable exercise for numerous foreign insurance brokers to work in and offer a competitive array of "real insurance" products to the KR.

6. (SBU) A day after meeting with RRTOff, Wakeham says that he met with the KRG's Secretary to the Council of Ministers and the Ministers of Trade, Finance and Planning. He said that there "now seems to be a general consensus that an insurance law needs to be drafted (as soon as possible)", but added that careful steps must be taken to ensure that the new law will not be so restrictive or set so high a standard for entry into the market that it facilitates the continued dominance of the family/party-backed companies by excluding less-connected vendors. While these meetings appear to be forward movement, Wakeham noted that he has had meetings with high-level KRG officials before, and had previous assurances that even KRG Prime Minister Nechirvan Barzani was committed to a KRG insurance law. To date, no concrete steps have resulted from such meetings and assurances.

7. (C) COMMENT: Wakeham's case illustrates the cost of corruption to the economic development of the KR, and the KRG's inability to fully appreciate how this hinders development. A modern banking sector, a functioning insurance

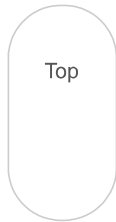
critical to their ability to work in the KR. In one breath, the KRG laments that the volume of FDI that they desire continues to elude them. In the next, they limit the private sector creation of the market features required to attract FDI. KRG Prime Minister Barzani frequently speaks of his openness to the change necessary to foster development, but we do not know how much leeway he has on matters affecting the Barzani family's own business interests. Until the KRG understands how deleterious a series of seemingly small amounts of corruption can be, non-energy related investment and development in the KR are likely to continue to stagnate.

END COMMENT.
CROCKER

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Tor is an encrypted anonymising network that makes it harder to intercept internet communications, or see where communications are coming from or going to.



Tails is a live operating system, that you can start on almost any computer from a DVD, USB stick, or SD card. It aims at preserving your privacy and anonymity.



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Bitcoin uses peer-to-pee technology to operate without central authority or bank: managing transactions and the issuing of bitcoins is carried out collectively by network.

