Reinsurance: Uncertainties ahead

The MENA reinsurance industry continues to feel the heat as sluggish economic activity and geopolitical tensions contribute to a challenging operating environment. Will reinsurers buckle under pressure or rebound with resilience to face the upcoming renewals?

By Zuhara Yusoff

Slower economic growth and the ongoing geopolitical tensions in the MENA region have had an impact on the reinsurance sector in the last 12 months. The International Monetary Fund (IMF) in its World Economic Outlook said the economic growth for the MENA region is expected to be just 1.3% this year – compared to a previous forecast of 2.5% made in October last year. The region's oil exporters such as Iran, Iraq, Kuwait, Libya and Oman are among the worst affected.

"These are testing times for the MENA reinsurance sector," said Mr Henri Labat, senior executive officer, International General Insurance Company (Dubai). "Shrinking business lines, product commoditisation, as well as economic, geopolitical and climate change issues have given the MENA region some serious challenges to face in the next few years."

He said, "In the last 12 months, the MENA reinsurance market has seen a number of regional reinsurers and global reinsurers with a local presence pull out of the market or drastically reduce their involvement and exposure. Over the last five years, the ongoing geopolitical and economic issues have resulted in less private investment coming into the region. At the same time, a number of large claims have put extra pressure on many organisations amidst an environment of inadequate pricing and excessive capacity. This has resulted in many reinsurers posting poor results locally and also some to have lost their financial ratings."

Regional players under pressure

Commenting on the pricing issue in the region, Mr Mohammad Khan, partner, head of general insurance, PwC UK, said, "The underwriting and pricing conditions faced by Middle Eastern reinsurers are similar to the global specialty and commercial insurance and reinsurance industry, where there is


Mr Henri Labat


Mr Mohammad Khan


Mr Hedi Hachicha

too much capacity in the market."

He added, "The sector will continue to be very challenging from a pricing perspective. The overcapacity in the market does not look like it is going to change soon, and companies need to continue to develop their governance and underwriting processes to remain capital accretive when writing business while remaining competitive."

One of the main challenges regional reinsurers face compared to global players is that they operate in a limited area, said Mr Labat, adding that global reinsurers can diversify their portfolio into other areas, while local reinsurers can only work within the region. "This pressure on rates and pricing has been particularly hard on local and regional reinsurers who are not capable of adequately diversifying their portfolio in terms of products or geography. Some reinsurers have also found it difficult to impose their own terms."

Mr Labat said the only answer is diversification, but cautioned that any local reinsurer looking to expand geographically or into new products will need to do so in a very prudent way, focusing on underwriting basics and profitability.

New risks in the market

Despite the less-than-rosy picture, the region's low penetration rate offers great potential for growth. "Thanks to the region's growing population and increasing insurance penetration, insurance premiums in MENA have outpaced GDP growth," said Mr Hedi Hachicha, chief underwriting officer, Treaty P&C, Middle East & Africa, Scor. He noted that MENA insurance markets have proven to be resilient, and well-established companies have not suffered from these pressures and have met their premium and profitability targets.

Furthermore, transformation plans driven by the respective governments in the region to diversify their

Global reinsurance a great learning tool for Middle East markets


Mr Simon Isgar

The Middle East currently places much of its capacity through the global reinsurance markets, where much of the risk is ceded out to these markets, according to Mr Simon Isgar, partner & head of insurance, BSA Ahmad bin Hezeem & Associates LLP. This has provided immense opportunities to the global reinsurance markets, including the London market in respect of influencing the Middle East insurance industry.

"We have seen relatively few significant regulatory developments for the reinsurance markets in the Middle East over the last 12 months. As Middle East markets continue to mature due to regulatory requirements, mandatory lines of business – primarily motor and health insurance – are driving overall growth," Mr Isgar said.

"Although profitability remains a key concern for reinsurers, there is still a large amount of capacity that is ceded due to a young and immature market, especially with the more complex lines of risk such as fidelity, political, aviation and marine. We have seen several Middle East jurisdictions promulgate domestic laws, which have had an impact, albeit small and indirect, on the global reinsurance markets," he said. These include compulsory lines of risk such as medical and motor – the latter with unified policy wordings and soon to follow with medical insurance in Dubai. Global reinsurers must now control claims costs with their cedant companies, which is often hard to procure due to the complexities of the fragmented and often over-regulated domestic markets with multiple stakeholders involved.

In May 2019, the UAE Insurance Authority (IA) published the reinsurance regulations for the UAE market, regulating for the first time the domestic reinsurance market where previously insurance and reinsurance business was regulated under the general banner of insurance law and regulation. "This may encourage local cedant companies to retain risk as well as develop the local UAE reinsurance market to provide capacity in the region and beyond," said Mr Isgar.

Meanwhile, mandatory medical insurance laws are still pending in Oman and Bahrain, while the Saudi Arabian Monetary Authority (SAMA) has formulated tougher rules for insurance companies as part of a drive to support financial solvency. SAMA will force insurers to review and restructure their businesses and ultimately undergo consolidation if they are not able to meet the requirements. This too, will impact on the reinsurance market as well as present major opportunities for them, said Mr Isgar.

He predicts that reinsurance capacity in the Middle East is set for further growth despite the many hurdles in place with domestic regulations and the multiple players involved. "Global reinsurance offers a great learning tool for the Middle East domestic markets and, to some extent, leads to better outcomes in product offerings, risk retention and claims control. Often, local cedants gain better insight to assess and control risks from the global reinsurance market while also playing a small role in the development of local insurance regulations," he said.

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economies "should progressively stimulate the demand of insurance and bring many new risks to the markets", he said. "At the same time, social protection schemes are expected to be gradually transferred from the public sector to the private insurance sector. Most public health expenditure should become covered by insurance. Similarly, insurance should replace public and state subsidies in case of catastrophe. Most public assets should become insured."

New mandatory lines are being introduced into many markets to better protect the populations against catastrophes, new first-party or third-party risks. "For example, errors & omissions (E&O) insurance is becoming mandatory for most professions. More markets are also expected to make inherent defect insurance for individual constructions mandatory. More and more large or quite-exposed industries are likely to buy cyber insurance," Mr Hachicha said.

Past & upcoming renewals

During the July renewals, Scor Middle East & Africa recorded a healthy progression of premiums at prices meeting its targets – all in line with the January 2019 renewals and the company's plan, said Mr Hachicha.

"However," he said, "it cannot be ignored that global retrocession markets saw rate increases between 20% and 30% for the mid-year renewals, according to S&P. If this trend continues, it could be a game changer for the upcoming reinsurance renewals, also leading to more sustainable reinsurance pricing in the long term. But it is still too early to tell."

Mr Labat observed an "interesting" approach from MENA reinsurers during the mid-year renewals. He said, "There was a very different approach between treaty and facultative reinsurance. On the treaty side, there were no significant or major changes. The market is still competitive and most of the treaty contracts were renewed at expiring terms and conditions.

"Meanwhile, the facultative side saw very different outcomes. Most lines of business that were renewing in July saw changes in terms and conditions, with increases in pricing in most lines of business, including downstream energy, engineering and property of 10% to 15% for loss-free accounts."

Mr Labat expects the increase in pricing to continue especially following major claims, for example, from recent losses from a refinery in the US and on the energy side in Algeria. The frequency of such claims will help fuel further increase in terms and conditions for the upcoming 1/1 renewals, he said.