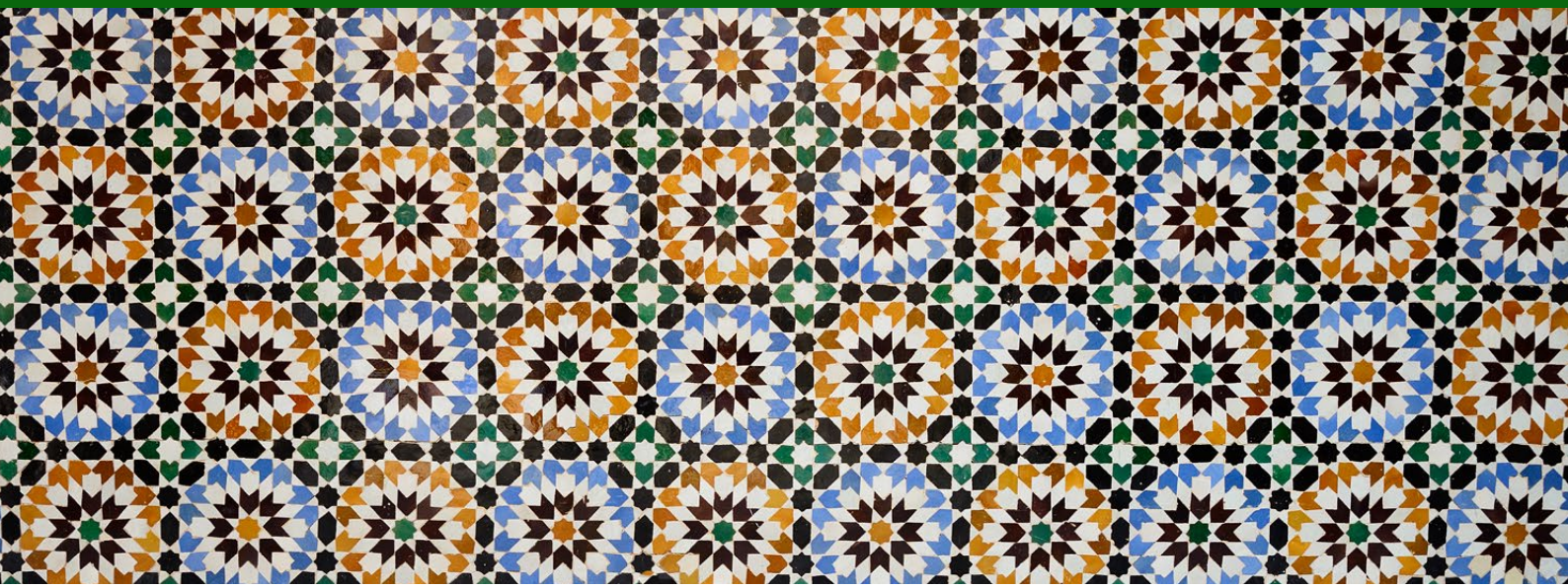

# MENA Insurance Pulse 2017

## An Annual Market Survey

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For more information about the report, please contact:
Dr. Schanz, Alms & Company
Dufourstr. 24
CH-8008 Zurich
Switzerland
Telephone: +41 44 256 10 80
info@schanz-alms.com
www.schanz-alms.com

To download a copy of the report, please visit:
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# Foreword

We are pleased to present the 5th edition of *MENA Insurance Pulse*. This annual research initiative is aimed at offering an authoritative overview of the current state and future prospects of the region's US$ 54 billion primary insurance markets. It paints a comprehensive and quantitative picture of the current market sentiment, tracked over time.

Our regular readers and interviewees will notice that we have renamed the former MENA Insurance Barometer to *MENA Insurance Pulse*. For the first time, we no longer publish this research on behalf of a single sponsor but as a Dr. Schanz, Alms & Company report, drawing on the support of altogether six sponsors led by the Qatar Financial Centre. The renaming to *MENA Insurance Pulse* is meant to reflect this change. However, the publication's remit, methodology and quality benchmarks will remain unchanged. The online version can be found on www.pulse.schanz-alms.com.

Through the *MENA Insurance Pulse,* the contributing sponsors demonstrate their commitment to improving the transparency of the regional market place. In addition, their support ensures the continued availability of an important benchmark for strategic and operational decision-making.

The 2017 edition draws on in-depth interviews with senior executives of 40 regional and international insurance and reinsurance companies, intermediaries and trade associations operating in the Middle East and North Africa. We believe that the key methodological strengths of the *MENA Insurance Pulse* lie in its comprehensiveness, diversity and diligence. Our qualitative interview approach enables us to probe deeper, obtaining clarifying responses from the participating executives. In addition, by including both global and regional players, as well as generalists and specialists, we have been able to collate a broad yet nuanced picture of the market place.

We would like to extend our deepest thanks to all sponsors and interviewees who have supported this research project, which is designed to benefit the MENA insurance market as a whole.

We hope that you will enjoy reading the 2017 edition of *MENA Insurance Pulse* and benefit from its findings.

**Dr. Kai-Uwe Schanz**
Chairman and Partner,
Dr. Schanz, Alms & Company

**Henner Alms**
Partner,
Dr. Schanz, Alms & Company


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# Foreword Qatar Financial Centre

It is with great pleasure that the Qatar Financial Centre (QFC) co-presents to you the 5th edition of the annual *MENA Insurance Pulse*. We are proud to have served as the lead sponsor of this year's research report, in continuation of our previous role as the sole sponsor.

Through the Pulse, the QFC demonstrates its commitment to the insurance industry, which accounts for an increasing share of the region's economy. This is particularly true of Qatar where insurers are set to play a key role in accompanying the transition to a knowledge-based and diversified economy as well as the creation of deeper and broader domestic capital markets.

Our support of the Pulse is a natural extension of our continued hosting of Multaqa Qatar, one of the region's leading event franchises for senior risk and insurance executives.

We hope you will enjoy reading this report and benefit from its findings.

**Yousuf Al-Jaida**
CEO & Board Member,
Qatar Financial Centre

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«Transparency concerning the most recent developments in insurance is key to benchmark the progress of our sector with those in other markets, learn from best practice and guide our decisions. To the QFC the MENA Insurance Pulse is an important tool, which provides us with this kind of information in a concise fashion.»

**Yousuf Al-Jaida, CEO & Board Member, Qatar Financial Centre**



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# Methodology

The findings of this report are based on in-depth and structured telephone or face-to-face interviews with executives representing 40 regional and international (re)insurance companies, intermediaries and trade associations. The interviews were conducted by Dr. Schanz, Alms & Company, a Zurich-based research, communication and business development consultancy, in December 2016 and January 2017.

The interviewees that participated in the survey were from the following companies and organisations based in the respective countries:

Abu Dhabi National Insurance Company, UAE
Africa Re, Egypt
Al Wathba National Insurance Company, UAE
American International Group (AIG), UAE
Arab Insurance Group (Arig), Bahrain
Chedid Re, Lebanon
Damana Saudi Arabian Insurance Company, Bahrain
Dubai International Financial Centre Insurance & Reinsurance Association, UAE
Emirates Insurance Association, UAE
Emirates Insurance Company, UAE
Federation of Afro-Asian Insurers & Reinsurers (FAIR), Egypt
Gulf Insurance Federation, UAE
Hannover Re, Bahrain
Kay International AMEA, UAE
Kuwait Insurance Company, Kuwait
Lloyd's, UAE
Marsh MENA, UAE
MIG Holding, Bahrain
Munich Re, Germany
Munich Re Underwriting Agents, UAE
National General Insurance Company, UAE
Noor Takaful, UAE
Oman Insurance Company, UAE
Orient Insurance Group, UAE
Qatar General Insurance & Reinsurance Company, Qatar
Qatar Insurance Company, Qatar
PartnerRe, Switzerland
Peak Re, Hong Kong SAR, China
Saudi Re, Saudi Arabia
SCOR SE, France
SEIB Insurance & Reinsurance Company, Qatar
Société Centrale de Réassurance, Morocco
Solidarity Group, Bahrain
Swiss Re, Switzerland
Tokio Marine, UAE
Trust International Group, Jordan
Trust Re, Bahrain
United Insurance Company, Yemen
Vision Insurance, Oman
Zaris & Partners, Lebanon

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«Awareness and penetration of personal insurance in the MENA region continues to improve, particularly with the introduction of new digital distribution channels and banc-assurance. This provides an opportunity, from which both insurance companies and clients can benefit.»

**Michael S. Jensen, Managing Director**
**MENA Zone, AIG**


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# Summary of Key Findings

Despite the continued economic slowdown and geopolitical instability, the MENA insurance markets can be considered resilient. 76% of executives polled expect regional premiums to outgrow GDP over the next 12 months. Survey participants continue to be particularly bullish about personal lines business, which benefits from expanding compulsory insurance requirements as well as pricing support from regulatory action. Even though the executives anticipate further economic headwinds and fiscal tightening, price adequacy in commercial lines, especially in property business, has improved, too, mainly in response to more frequent fire losses.

Participants consider the region's strong direct insurance market growth as its most important current strength, followed by a relatively moderate natural catastrophe exposure and improved regulatory regimes.

The region's low insurance penetration is considered the key future opportunity offered by the market. The ratio of premiums to GDP is a mere quarter of the global average. In addition, expanded or more rigorously enforced compulsory schemes in medical and motor insurance rank second among future opportunities. Digitisation is the third most frequently mentioned opportunity because of its potential to both bring down operating and acquisition expenses as well as to make insurance products more appealing and meaningful.

The Pulse found that 54% and 86% of executives polled view current prices in MENA commercial and personal lines business, respectively, as being at or above the average of the past three years – a major improvement in sentiment, against 11% and 74%, respectively, in the previous year. 70% and 89%, respectively, expect commercial and personal lines rates to remain stable or increase further over the next 12 months, which compared with the previous year, indicates an improved outlook for commercial lines and slightly deteriorating expectations for personal lines. Commercial and regulatory pressure for higher or at least stable prices is expected to continue.

Only 33% – virtually unchanged from the previous year – of respondents expect market concentration to increase over the next 12 months. The relatively comfortable capitalisation of domestic companies in conjunction with family ownership continue to present major obstacles to mergers and acquisitions. However, going forward, it will become more difficult for domestic insurers to raise the additional capital potentially needed to meet new risk-based capital requirements. In addition, as reinsurers insist on higher retentions, an increasing number of shareholders with limited risk appetite is expected to withdraw from insurance companies.

The Pulse also found that 60% – up from 47% – of respondents expect the market share of foreign primary insurers to remain stable over the next 12 months. The share of those anticipating a reduction in foreign market share has decreased slightly from 36% to 32%. Interviewees continue to mention some high-profile market exits and retrenchment programmes as a result of significant underwriting losses and a perceived deterioration of the market outlook. These moves are expected to favour domestic and regional market leaders. Also, some local insurers have stepped up their game, both in terms of underwriting capacity and expertise.

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32% of respondents – virtually unchanged from the previous year – expect Takaful insurance to underperform the market as a whole in terms of growth. At 19%, the share of those expecting it to outperform has decreased slightly. Many executives continue to feel that Takaful offers no genuine differentiation and does not even live up to the concept of mutuality, given conflicting interests of policyholders and shareholders. This lack of a 'Unique Selling Proposition' forces many Takaful insurers to engage in fierce price competition.


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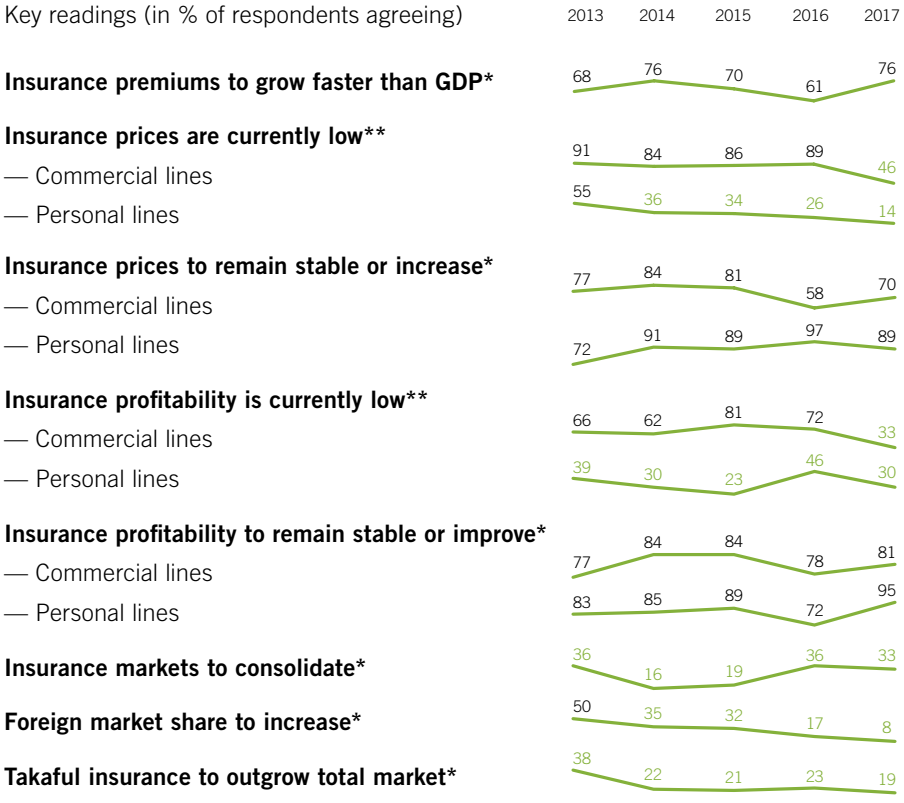
# Key Pulse Readings

The Pulse measures current perceptions of the insurance market in the MENA region, tracking them over time to monitor changes in attitudes. When comparing 2017 with 2016, the two main differences in findings are:

— A more bullish view of insurance premium growth outperforming GDP growth

— An improved assessment of current pricing and technical profitability levels in commercial and personal lines.




*Over the next 12 months
**Compared with three-year average

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«A lack of customer centricity is a historical weakness of the global insurance industry. This is particularly true of the MENA markets which are very much driven by price competition. Encouragingly, we are witnessing a trend towards service quality becoming a key success factor, especially in personal lines. I expect this shift to further boost insurance penetration across the region.»

**Constantinos Hadjigeorgiou, Group Corporate Services Officer, Trust Re**



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# Market Overview

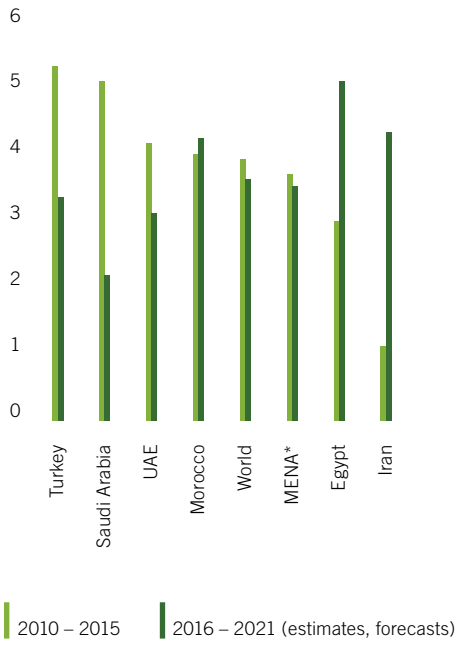
## MENA GDP growth in line with global average

This overview covers 14 countries in the Middle East and North Africa: Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, Turkey and the United Arab Emirates. The country selection (hereafter referred to as MENA) reflects the availability of internationally comparable insurance data.

In 2015, these 14 countries, with a total population of about 396 million, generated a combined GDP of around US$ 3.2 trillion, which is equivalent to 4.4% of the world's total. As an economic block, the region would rank as the world's fifth-largest economy, slightly smaller than Germany's.

At an inflation-adjusted growth rate of 3.6% per annum between 2010 and 2015, the region's economies (excluding Turkey) grew at a slightly slower pace than the global economy (3.8%). Going forward, this pattern is expected to persist, with the region trailing slightly behind the global economy's projected pace of growth (see chart 1). Reduced public spending as a result of lower oil prices and unresolved regional conflicts will continue to weigh on the MENA region's near-term economic prospects.

**Chart 1:** Real GDP growth (2010 – 2021f, annual averages, in %)




Source: IMF, World Economic Outlook (October 2016): * excluding Turkey (as per the IMF's classification)

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# Continued economic slowdown in oil-exporting countries

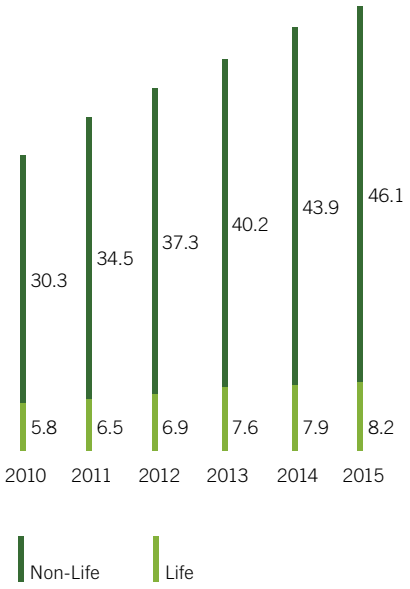
According to the International Monetary Fund, the recent moderate recovery in oil prices is not expected to noticeably revive economic growth in oil-exporting countries. Most are likely to continue fiscal tightening in response to structurally lower oil revenues. Austerity policies in most countries of the Gulf Cooperation Council (GCC) are projected to hold back economic growth over the near-term.

In Iraq, higher-than-expected oil production will benefit the domestic economy, partially offset by continued security challenges and lower investment in the oil sector following declining prices.

The Islamic Republic of Iran's outlook has brightened as a result of higher oil production following the lifting of sanctions. However, the country's future economic prospects will largely depend on its reintegration into global financial markets and domestic economic reforms.

Recent reforms (e.g. in the area of taxation and subsidies) and lower oil prices have helped macroeconomic stability in many oil-importing countries of the MENA region. However, economic prospects remain vulnerable to security concerns and social tensions.

**Chart 2:** MENA insurance premiums by type (2010 – 2015, non-life versus life, in US$ billion)




Source: Swiss Re Economic Research & Consulting



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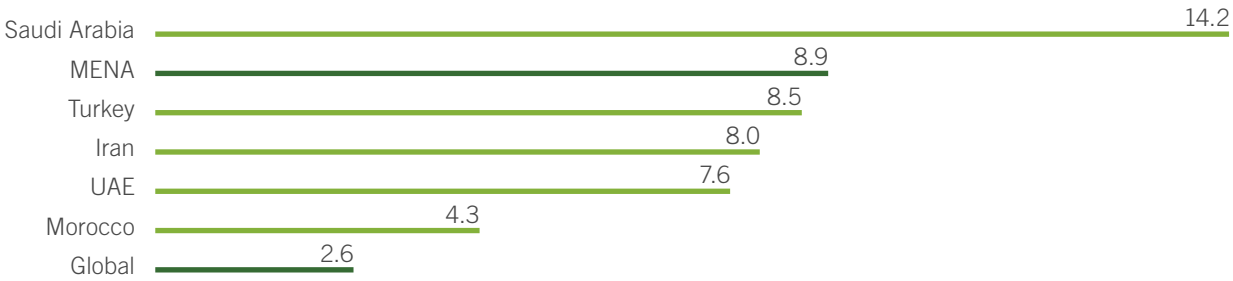
# MENA insurance penetration on the rise

Income per capita levels in the MENA region as a whole are similar to the global average. The region's insurance penetration levels, however, remain extraordinarily low. In 2015, insurance premiums accounted for just 1.7% of GDP, about a quarter of the global average. Encouragingly, this gap is narrowing as MENA insurance markets outpace regional GDP growth. Between 2010 and 2015, total non-life and life insurance premium volumes in the region expanded more than twice as fast as GDP (see charts 3 and 4). Going forward, this trend is expected to continue. Swiss Re (Global Insurance Review 2016 and Outlook 2017/18) forecasts real annual premium growth of more than 5% for 2017 and 2018, higher than the International Monetary Fund's economic growth forecast for the region.

According to chart 2, at a share of 15%, life business continues to play a relatively minor role in the MENA region (in comparison with its global share of 56%).

**Chart 3:** Non-life real premium growth (2010 – 2015, annual averages, in %)




Source: Swiss Re Economic Research & Consulting

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«Insurance is an essential factor in stimulating the economic growth and stability throughout the MENA region. The sector also has an important potential to facilitate the development of financial markets. In Qatar we have experienced significant premium growth over the course of the recent years, driven by population growth, higher disposable income as well as large scale infrastructure projects and the ongoing expansion and diversification of Qatar's economy.»

**Dr. Haitham Al-Salama, Chief Economic Adviser, Qatar Financial Centre**



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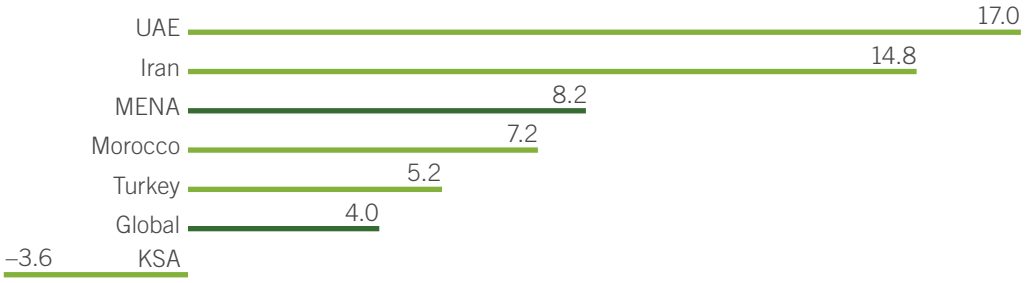
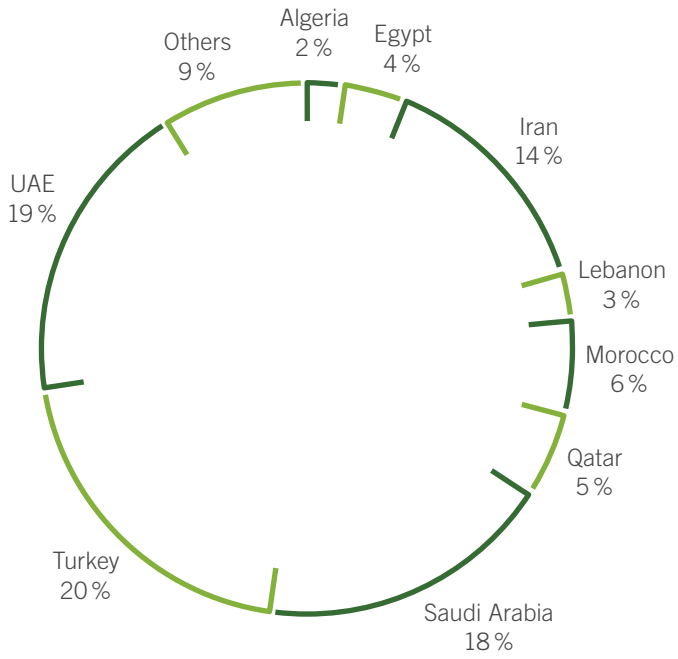
**Chart 4:** Life real premium growth (2010 – 2015, annual averages, in %)




Source: Swiss Re Economic Research & Consulting

Chart 5 reveals that the region's four largest insurance markets – Turkey, Iran, UAE and Saudi Arabia – account for more than 70% of the total premium pot.

**Chart 5:** Geographical split of MENA insurance premiums (2015, share in %)




Source: Swiss Re Economic Research & Consulting

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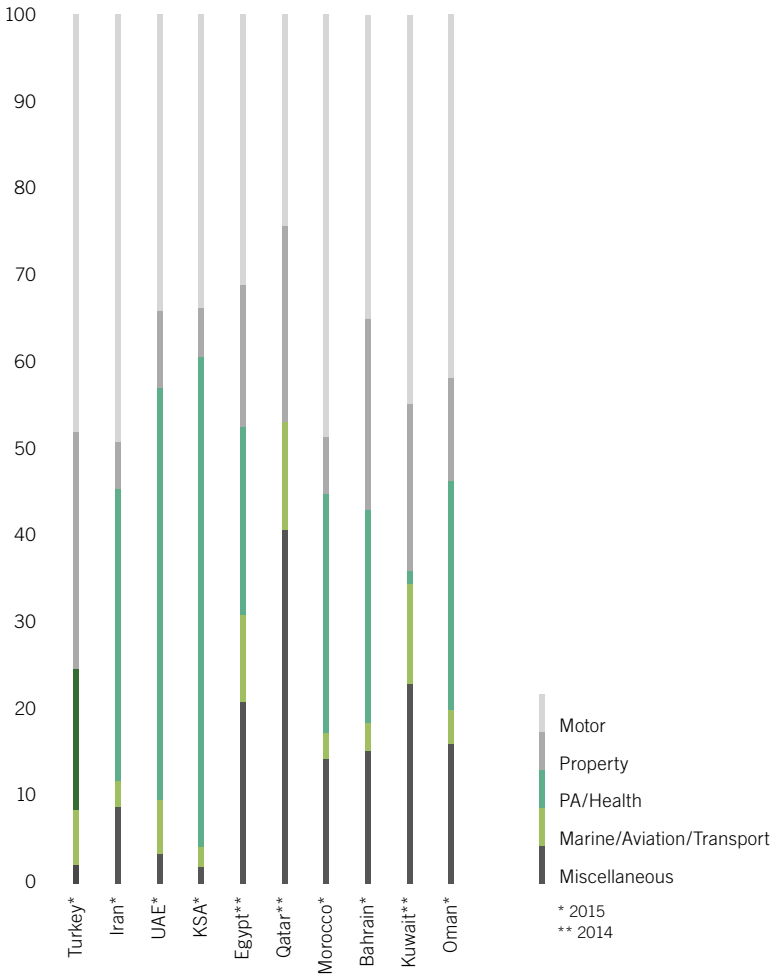
Chart 6 provides the lines of business split for a number of MENA non-life insurance markets. Motor is by far the largest segment in major markets such as Turkey, Iran and Morocco. However, over the past few years, personal accident and health insurance have been the fastest-growing segments in Saudi Arabia and the UAE, and now represent the biggest market segment in these two countries. The main drivers behind this spectacular growth are legislation, in particular compulsory insurance requirements, and population growth. Compulsory health insurance schemes are expected to further spread across the region.

**Chart 6:** Lines of business split, 2014-15, in %




Source: National Supervisory Authorities



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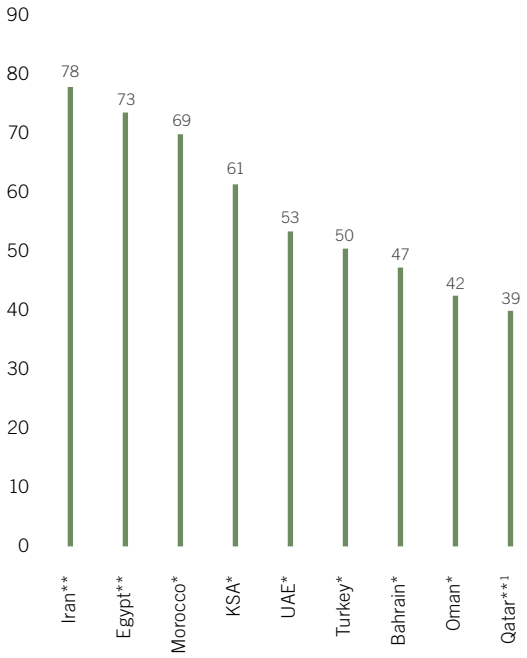
Chart 7 illustrates the supply side structure of the region's insurance markets, demonstrating the significant intra-regional differences in market structure, ranging from highly concentrated markets such as Iran to relatively fragmented environments such as in the GCC. Reasons for the former include powerful national champions with a strong record of market leadership, whereas the latter are characterised by relatively low barriers to entry and family ownership structures that inhibit consolidation.

**Chart 7:** Non-life insurance market share of Top 5 insurers, 2014-15, in %




Source: National insurance associations and supervisory authorities; 2014 data**, 2015 data*,
[1] figure for Qatar does not include Al Koot

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# Insurance matters to Qatar's economic development and transformation

By Yousuf Al-Jaida, CEO & Board Member, Qatar Financial Centre

Qatar remains firmly committed to its National Vision 2030, which sets out a balanced and sustainable growth agenda based on the four key pillars of social, economic, human and environmental development. They will contribute to creating a diversified, knowledge-based economy with a substantial and competitive private sector, supported by modern, state-of-the-art public institutions. The development of Qatar's human capital or 'software' takes centre stage as education, health and research are priority areas for investment.

In order to fully capture the nation's potential, Qatar heavily invests in infrastructure, such as a new rail and metro network, roads, power plants and hotels. These projects will be completed in time for the FIFA World Cup 2022. The respective investments are set to boost Qatar's non-hydrocarbon economy. According to the Qatar National Bank (QNB) in 2015 this new growth engine already accounted for more than 60% of the country's GDP and helps to offset the current contraction in the oil and gas sector.

The challenges facing commodity-exporting countries are well known. In 2016, Qatar's GDP is expected to have grown by 3.4% in real terms, still ahead of the global average of close to 3.2% and the advanced economies of 1.9% (according to the IMF). Nevertheless, as a result of lower oil and gas prices, fiscal tightening is an imperative for Qatar, too. Therefore, in 2016 the Government reduced its spending and in order to cover the fiscal shortfall, Qatar raised debt with at the time one of the largest sovereign issuances in the Middle East of US$ 9 billion in May 2016. The country's debt to GDP ratio of roughly 50%, also according to the IMF, remains extraordinarily low by international standards, affording much leeway to the country. Although, in 2016, the Government recorded its first fiscal deficit in 15 years, it did not tap into the nation's reserves and savings, held by the Qatar Investment Authority, for example.

**Insurance as a catalyst for financial market and economic development**

The insurance industry has an eminent role to play in contributing to economic growth and societal development. The sector is a prerequisite to effective corporate lending through the banking system because it prevents businesses from suffering life-threatening liquidity and solvency problems in case of major insured losses. The indemnification and risk pooling properties of insurance effectively facilitate commercial transactions and the economically vital provision of credit by mitigating losses.

Insurance can be considered a fundamental prerequisite to doing business, an indispensable «lubricant of commerce». However, its relevance goes beyond the real economy: Insurers help accumulate and invest huge amounts of capital, almost US$ 30 trillion globally, making the industry one of the world's largest institutional investors, alongside pension funds and mutual funds. This crucial role in financial intermediation is particularly relevant to countries such as Qatar, which are in the process of developing broader and deeper domestic capital markets as well as a stronger savings culture.

More specifically, insurers play a major role in funding infrastructure projects in both mature and emerging economies. There is a growing need for infrastructure investments globally while banks are under pressure to curtail long-term lending as a result of regulatory and deleveraging pressures. Given the long-term nature of their liabilities, insurers and pension funds are ideally suited to provide a long-term asset base, filling the infrastructure financing gap.

In general, we see a major potential for the services sector in Qatar which, at around 30% of GDP, according to current statistics from the World Bank, is currently still relatively small for a country which boasts the world's highest income per capita. In this context, insurance is a particularly striking


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example of a low penetration in financial services: At annual premiums of close to US$ 3 billion, the sector accounts for just 1.5% of Qatar's GDP. This compares with the global average of more than 6%. There are still major cultural and institutional obstacles to insurance growth that need to be dealt with, e.g. through promoting Sharia-compliant Takaful insurance and enhancing regulatory frameworks. The potential is undoubtedly there, in particular in retail insurance, and the Government is highly committed to supporting the industry's growth by transferring additional risk management and provisioning tasks to private insurers, for example in the area of healthcare.

**The role of the Qatar Financial Centre**

The QFC is a fully onshore business and financial centre located in Doha, and provides an excellent platform for firms to incorporate and do business in Qatar and the region. It offers its own legal, regulatory, tax and business infrastructure, which allows 100% foreign ownership, unlimited repatriation of profits, no restrictions on the currency used for trading, and charges a competitive rate of 10% corporate tax on locally sourced profits.

These foundations have helped to foster Doha's world-class business environment. Qatar is currently ranked as the 18th most business-friendly country in the world, according to the 'World Economic Forum Global Competitiveness Report 2016' and within the top 20 financial centres worldwide, according to the Global Financial Centre Index 2015.

To sum up, Qatar's medium-term economic outlook remains positive. Large infrastructure investments and increased production in non-hydrocarbons sectors such as manufacturing and services are set to support the continued expansion of the economy. Strong fiscal reserves and the ability to issue debt at attractive terms generate additional resilience.

This also augurs well for Qatar's insurance sector as economic growth is arguably the biggest single determinant of insurance premium growth. In addition, the ongoing diversification of the economy will give rise to a changing risk landscape and, accordingly, new opportunities for insurers and reinsurers. Finally, the Government of Qatar encourages a stronger involvement of insurers in hitherto publically provided risk transfer and management tasks.

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# The irresistible rise of InsurTech in the Middle East

By Michael S. Jensen, Managing Director MENA Zone, AIG

InsurTech has, quite drily, been defined as 'the use of technological innovations to squeeze out savings and efficiencies from the current insurance industry model.' However, what we are now witnessing is nothing short of a revolution, taking place not only in the insurance sector, but across the entire financial services industry.

Technology has been quick to revolutionise many industries, but the insurance industry, both globally and in this region, cannot be counted among these. Until recently, it had changed little since its inception. However, technology is now challenging traditional insurance business models and the industry has entered a phase of profound transformation, in the MENA region and beyond.

There is a fundamental shift in the way insurance companies both assess, manage and price risk, and engage with their customer. This is driven by the need to meet the changing needs of customers, remain relevant and become more efficient – and will be facilitated and enabled by the adoption and use of new technology and digital transformation.

Whilst change is taking place in nearly all aspects of the industry, we believe there are two key areas where the impact of InsurTech is most visible: data analysis and customer engagement.

**Data analysis**

As the number and type of internet-connected devices increases, insurers are able to gather and analyse the behaviour, actions and choices of their customers more accurately than ever before. Estimates suggest that, globally, there will be more than 50 billion connected devices by the end of the decade, up from 500 million 10 years ago; truly staggering growth. From Dubai – which is well on its way to becoming one of the world's smartest and most 'connected' cities – outwards, we are witnessing a growing trend in the use of connected devices in the region.

The gathering and analysis of data is something that insurance companies have been doing for decades, and advances in technology will not change this. However, the ability to generate, gather and analyse huge data sets, and factor these into risk calculations and product offerings, is catapulting the industry into a new age and a new way of conducting business.

We have connected devices in our homes, cars, pockets, on our wrists and even inside our bodies. All of these generate and gather data on any number of things – where we have been, how we drive, how far we have walked, what time we got to work, our health and so on. The analysis of such data provides insights with which insurers can develop risk profiles for individuals, in real time. This has never been possible before and the insurance industry, which has always been at the heart of data-driven analytics and risk mitigation, now needs to capitalise on the huge benefits and opportunities offered by this. Regional insurers must also take note of these fundamental changes and alter their business models and approach, or risk being left behind.

If insurers are able to successfully marry data generated by these devices with the historic data they have always gathered, they have a powerful ability to price risk more effectively and revolutionise the insurance products and services they offer their customers.

Telematics in cars is the obvious example of this – real time data on driving style, conditions, and times of use, combined with traditional factors used to price car insurance, such as age, gender, car make/model and geography, will lead to a far more bespoke premium, that can be changed on an ongoing basis, providing a much more accurate and personally tailored product for the customer.



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**Customer engagement**

Today's customer behaviours and expectations are evolving quickly, driven largely by the massive use of smart phones – particularly in several MENA countries, from Egypt to Saudi Arabia, which have some of the highest mobile penetration rates in the world. Customers expect the same ease of use, access and transparency from their insurers as they get, for example, through mobile banking or car sharing apps. To achieve this, insurers must not just embrace technology, but further drive its development and application throughout the entire organisation. They also need to change their employee mind-sets and sales and marketing approach in order to adapt to this new paradigm.

Whether it is automated registration, utilising information from customers' social media profiles, or automated claims and settlements being managed in real time, each of these new applications can not only improve the customer's experience, but can also drive further penetration of insurance, by simplifying access. The Middle East is under-insured compare to other global regions, so promoting more awareness about and ease of access to insurance in the region will undoubtedly drive the regional insurance market forward.

**Staying ahead**

Navigating this new landscape is no mean feat. Valid concerns about privacy and the security of personal data are prevalent, while there is a general cultural aversion to data being collected on individuals' behaviour. Insurance firms must work to address and assuage these fears, and demonstrate to customers the tangible benefits of real time data collection and utilisation, particularly in some of the more conservative societies in this region.

To do this, insurance firms must put innovation at the heart of their strategy, bolstering their technology capabilities, either in-house, through the acquisition of firms with relevant technology, or through incubator programmes or strategic partnerships with FinTech companies.

In the last few months, we have seen positive developments in the regional FinTech space, with the launch of two world-class FinTech hubs: the DIFC FinTech Hive in Dubai and the ADGM FinTech Regulatory Laboratory in Abu Dhabi. The technological innovations developed here should be eagerly embraced by the regional insurance industry.

The benefits and opportunities provided by InsurTech abound; however, it is a highly competitive and dynamic landscape. Regional insurance firms that will succeed by benefiting from them recognise that the fundamentals of their industry have changed, and are willing to move with the times. Those that don't, run the risk of being left behind – quickly.

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## Global energy outlook and its implications for the MENA region

By Fadi AbuNahl, Group CEO, Trust Re

When in Fall 2016 Trust Re issued its whitepaper on the global energy landscape, the sector was navigating in choppy waters. Sluggish economic growth, persistent low interest rates and the dramatic slump in oil and gas prices since 2014 had led to dislocations in the global energy market place. The glut of oil, coupled with overcapacities in coal, heavily affected investments into future energy capacity and caused postponements or cancellations of energy projects.

As a result of the low oil price environment since mid-2015 the GCC countries implemented austerity measures. Due to lower subsidies, reduced government spending, in particular on infrastructure projects, growth in the GCC countries declined from 3.8% in 2015 to 1.9% in 2016.

Since February 2016 oil prices recovered from a low of US$ 30 to more than US$ 52 in January 2017, benefiting from the agreement of OPEC and non-OPEC producers to stabilize and cut supply, reached in November last year. Improved pricing and mildly improved economic outlook for OECD countries will have little bearing on the fundamental changes that the global energy sector will undergo. Demand is projected to grow by 30% to 50% from 2014 to 2040, predominately driven by non-OECD countries due to an accelerating industrialization, population growth and the expansion of the middle class. The OECD countries, by contrast, will consume less energy by 2040 than today, while demand from non-OECD markets will rise by more than 70%, originating foremost from Asia, which will consume roughly three quarters of the global energy production by 2040.

Investments of close to US$ 70 trillion are required to meet the expected increase in energy demand until 2040. Almost 40% of these are needed to assure oil and gas supplies, while 30% will be used for investments in power supply and another 30% will contribute to reduce the consumption of energy via higher end-consumer efficiency.

Technology plays an important role in the demand for as well as supply and efficiency of energy. While the cost for renewable energy production will decline, cost for oil and gas extraction will increase due to higher geographical complexity of the exploration sites. The energy mix is set to change markedly too. Oil production will grow by 15% to 30% until 2040 and will account for about two-thirds of total oil production. However, the share of oil and coal in global energy supply will decline by 9 percentage points, while renewables, gas and nuclear will gain in importance. Electricity will grow by 70%, faster than any of the primary sources of energy. By 2040, 50% of power is generated from renewables in the European Union, 30% in China and 25% in India.

Longer-term, these trends offer major opportunities to energy and power insurers and reinsurers. In the short run, margins will remain squeezed and top-line growth will be hard to come by. Technical profitability will thus be paramount. Insurers have to be flexible, leave established tracks and expand into new markets and technologies, where growth is still at hand.

Energy and power insurance premiums worldwide, including mutual and captive insurance business, amounted to around US$ 23.6 billion in 2014, up from around US$ 21.5 billion in 2010. In 2014, energy insurance premiums stood at around US$ 14.2 billion whereas power insurance premiums came in at approximately US$ 9.4 billion.

Upstream insurance accounted for premiums of around US$ 7.2 billion of the energy market, US$ 2.2 billion came from midstream insurance and US$ 4.8 billion from downstream insurance. As far as power insurance premiums are concerned, in 2014, around US$ 7.3 billion were generated from conventional power insurance and US$ 2.1 billion from renewable and other power insurance, the latter


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being up from around US$ 1.5 billion in 2010. These premiums are gross insured premium and not necessarily placed in the open market.

Premium volumes in the oil & gas segment are eroding as a result of abundant capacity and also due to an increasing reliance on captives. In the downstream area sharply reduced cost of feedstock has boosted refiners' margins, with business interruption values up accordingly. This offers opportunities in terms of additional premium income for downstream insurers while making claims multiples of actual physical loss.

A major constraint to the provision of adequate liability insurance for the energy industry is capacity. Many claims in recent years have exceeded US$ 1 billion, including clean-up costs and subsequent pure financial losses. There is also increasing demand for environmental liability and risk assessments/ risk engineering services. Fracking, for example, increases environmental legal liability exposure whilst sophisticated technologies which control the drilling are increasingly vulnerable to failure. Another growing challenge is climate risk, particularly at a time when producers are stepping into environmentally sensitive areas such as the Arctic.

In the Middle East region, we are noticing new government strategies to diversify into alternative power such as solar, wind, and nuclear. This will assist countries in revenue saving which otherwise was going for subsidies on power and water. The increase of nuclear energy will represent new liability challenges to countries. There is currently small capacity created for nuclear and will demand insurers and reinsurers to come together with the assistance of international pools.

Business interruption including supplier and demand contingencies are an increasing risk especially in the Middle East. This is creating rising claims figures which is challenging insurers when premiums are not adequate. New alternative risk transfer mechanisms may need to be found.

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## Peak Re's position in the MENA region and its opportunities going forward

By Jasmine Miow, Senior Vice President, Peak Re

Peak Re is one of the few reinsurers of Asian origin present in the MENA region. We started to underwrite our first business in MENA in 2015. Ever since then we have steadily expanded our footprint in the region. Today we have customers in markets such as the GCC (Bahrain, Kuwait, Qatar, Saudi Arabia, United Arab Emirates), Jordan, Lebanon, Tunisia, Morocco, Egypt and Algeria. In addition, we travel to the region regularly to expand our client relationships.

We position ourselves as a traditional reinsurer based on modern foundations. Peak Re puts the traditional values of a reinsurer first: we are a reliable, responsive, loyal and long-term partner for our cedants and we pursue this approach on the foundations of our state-of-the-art systems and processes – in terms of modelling capabilities, risk management or governance structures – which allow us to establish a cost and capital efficient global franchise in a period that has seen no rate increases ever since we received our license in late 2012.

Our approach applies to all our clients – whether they are based in Asia Pacific, the MENA region or other markets. However, our positioning resonates particularly well with our cedants here, who first and foremost understand insurance as a people-business, built on trust earned over time. It has therefore been very helpful that our underwriters have been known in the region for quite some years before joining Peak Re.

In line with our overall underwriting policy, we carefully select our clients, and invest our time and build an in-depth familiarity with their book of business. Our intention is to grow along with our clients over time and support them with our experience and knowledge in various specialty lines to create sustainable value in the long run.

Our origin in Asia Pacific comes as an advantage as we build our foothold in the MENA region. Much of the market trends that we experience here, resemble the developments that we see or have already experienced in Emerging Asia. On the upside there is the speed of growth as both regions will continue to invest heavily into building their infrastructure and economic transformation, which will bring significant opportunities for the (re)insurance market. For the period from 2015 to 2020, most of Emerging Asia will register an annual premium growth in the double-digits, and this will be the expected range for markets like the UAE and – to a slightly slower degree – also Saudi Arabia (according to an Emerging Market study by EY, 2016). Growth in both regions, given their low insurance penetration, is expected to increase as urbanisation and the emergence of a more affluent middle class progresses.

Furthermore, as already evident in China and other Asian markets and also approaching in some MENA markets, technological transformation and digitisation will change the foundations of insurance, the way how its products are designed and sold – providing access to new consumer segments and possibly also habits.

Tighter and more stringent regulation is creating the hotbed for insurance growth. While in parts of Emerging Asia we are experiencing these changes already, in the Middle East, we are witnessing its effects currently in Saudi Arabia and also in the UAE, where compulsory insurance schemes are creating growth in personal lines. The tighter regulation also contributes to improve rates for the benefit of the markets. However much remains to be done in Asia and the MENA to enhance the consistency of regulation and also assure its enforcement.


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On a downside, there is also the dependency of economies in both regions on commodity prices, namely revenues generated through oil sales, their exposure to currency depreciations and the need to diversify the economies away from a dependence on single or correlated revenue streams.

Since many of these changes tend to happen slightly ahead of the MENA region in Asia, cedants can benefit from Peak Re's experience in our home region. We thereby bring a unique asset to the table as we transfer emerging market experience from one growth market to another. As we look for durable client relationships, we will continue to share our experience, knowledge and technical know-how with our cedants, and create sustainable value into the future.

PeakRe ›

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«Similarly to many markets in Asia Pacific, where Peak Re originates in, the MENA region is characterized by significant growth opportunities such as low insurance penetration, major infrastructure needs and a growing middle class with rising demands for insurance protection. The MENA Insurance Pulse provides a precise and accurate overview on these trends and serves as a source for Peak Re in its decision making processes.»

**Franz Hahn, CEO, Peak Re**



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# Survey Results

## 1. The overall perspective: Strengths, weaknesses, opportunities and threats of MENA insurance markets

**Premium growth momentum continues to be the key strength**

As in prior years, the vast majority of participants consider growth (and premium growth in particular) as the most relevant strength of the MENA insurance marketplace. Compulsory insurance schemes continue to lend support to insurance demand despite the economic slowdown. The second most frequently mentioned strength is the region's relatively low natural catastrophe exposure (except for Algeria, Iran and Turkey) which supports technical profitability. For the first time ever, the regulatory environment made it to the Top 3 strengths as the rigorous Saudi regime is being adopted elsewhere in the region (especially in the UAE) and promises to strengthen overall market discipline and profitability. Government spending on major projects no longer features among the Top 3 strengths as fiscal tightening makes itself felt (see chart 8).

**Chart 8:** Market strengths (number of mentions)

*«The UAE Insurance Authority's new regulatory regime was introduced in late 2015 and began in earnest as of 2016. Without doubt the fundamental principles it lays out will contribute to a strengthening of our industry. The key issues are not ones of principle but of execution by the industry and effective enforcement by the regulator. It seems likely that some companies will struggle to comply with the new regulations and we will have to see what actions their boards, shareholders and the Authority will take in such cases.»*

**Jason Light, CEO, Emirates Insurance Company**

*«Sophisticated modern regulatory regimes are of utmost importance to the long-term stability and development of MENA insurance markets. This is particularly true of risk-based solvency requirements which can protect both policyholders and investors from the consequences of flawed or even reckless underwriting and investment decisions.»*

**Fahad Al-Hesni, MD/CEO, Saudi Re**

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**Fierce competition viewed as the major weakness**

As in the past, unsatisfactory rates and profitability levels as a result of excess capital and fierce competition are perceived as the most relevant weaknesses of the MENA insurance marketplace. This view is strongest for the relatively easily accessible and mostly catastrophe-free GCC countries which continue to attract reinsurance capacity from all over the world. The talent gap ranks second, as in 2016, as workforce localisation requirements are enforced and the influx of expatriate workers slows. The continued dependency of many regional economies on hydrocarbon revenues ranks third, as a strong and sustainable rebound of oil and gas prices continues to appear elusive (see chart 9).

**Chart 9:** Market weaknesses (number of mentions)

*«Insurers in the MENA region are faced with significant risks of change. For example, regulators play a much more active role in the market place. They mandate new policy forms, stipulate specific pricing and reserving requirements and phase-in complex risk-based capital regimes, to name but a few regulatory initiatives. Against this backdrop, the region's insurers have to step up their game and need to build additional skills and know-how. This imperative will also influence their future relationships with leading reinsurers.»*

**Andreas Pollmann, Client Management Executive MENA, Munich Re**

*«In the MENA region our industry continues to suffer from its inability to create new business opportunities. Players still compete for the same sized cake. As a result, rates decline, conditions loosen and profitability erodes. In short, markets become less robust from a policyholder's perspective and less attractive in the eye of investors.»*

**Omar Gouda, Regional Director, North East Africa and Middle East Region, Africa Re**

*«A lack of innovation is one of the weaknesses of MENA insurance markets. It ranges from product design to distribution and is partly to blame for the region's low insurance penetration. However, this state of affairs presents a major opportunity to innovative carriers who come up with products that are tailored to local circumstances and preferences, rather than simply copying approaches from abroad.»*

**Youssef Al Kareh, General Manager & Executive Vice President, Damana Saudi Arabian Insurance Company**

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**Catch-up potential continues to be the most important opportunity**

As in 2016, low penetration levels are the most frequently mentioned opportunity offered by MENA insurance markets. The average share of premiums in the region's GDP is about one quarter of the global level. This gap suggests major catch-up potential given the region's relatively high average GDP. However, some executives point to potential structural reasons for the region's low penetration rates, such as the absence of major natural perils and still generous government-sponsored social security schemes. The fledgling status of the life insurance sector is also attributable to the large number of expatriates who tend to buy cover at home. In general, there are no tax incentives for buying life insurance, which in other parts of the world, is a major driver of demand. Having said this, the gradual retrenchment of governments as 'lenders of last resort' and providers of 'cradle to grave' protection is widely expected to structurally boost insurance demand going forward. In addition, many respondents see potential for a higher voluntary insurance demand, for example in home, long-term and credit insurance.

**Chart 10:** Market opportunities (number of mentions)

*«Despite harsh economic conditions the region's insurance markets have proven quite resilient. Premium growth continues to be fundamentally supported by low penetration rates, growing populations, higher risk awareness and expanded compulsory insurance schemes. Having said this, profitability remains under pressure from excess capacity, sub-optimal underwriting standards and continued claims inflation.»*

**Ashraf Bseisu, Group CEO, Solidarity Group Holding**



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Expanded or better enforced compulsory schemes rank second, as in the previous year. Personal lines insurance business, such as medical insurance, is expected to remain the markets' main engine of growth. In addition, demand for liability cover (e.g. professional indemnity) is expected to receive a shot in the arm from additional compulsory insurance requirements. A newcomer among the Top 3 opportunities is technology. Digitisation is increasingly viewed as offering the potential for both bringing down operating and acquisition expenses as well as for making insurance products more appealing and meaningful (see chart 10).

26

20

16

*«The MENA region offers a huge potential for embracing modern technologies to promote product innovation. The spectrum ranges from personal lines to SME commercial business, including cyber, drone and political risk insurance, for example. The benefits are not limited to the availability of more differentiated, relevant and appealing products. In addition, a whole-sale modernisation of the region's insurance industry would also make it more attractive to local and international talent.»*

**Walid Sidani, MD & CEO, Kay International AMEA Limited**

*«Modern technologies offer a major opportunity for the region's insurance markets. They do not only allow to cut administrative and acquisition expenses but also help improve customer satisfaction and retention. In personal lines in particular, digitisation will reshape all parts of the insurance value chain, fuelled by customers' price-driven approach to insurance buying.»*

**Ronald Chidiac, CEO, Zaris & Partners**

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«We have recently witnessed a remarkable self-correction of the market, mainly on the pricing front. It is particularly encouraging that this development is not just a result of growing pressure from regulators and reinsurers. It also reflects a learning process among an increasing number of locally operating direct insurers.»

**Christos Adamantiadis, CEO, Oman Insurance Company**



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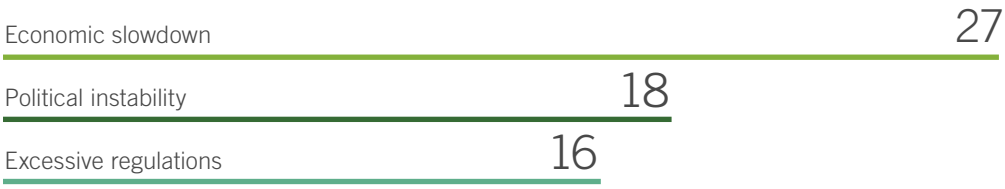
**Economic slowdown remains the most important challenge**

As in 2015 and 2016, the majority of respondents consider economic risks to be the most relevant challenge to their operating environment. The fall in oil prices since the summer of 2014 continued through 2015 and dramatically accelerated in early 2016, increasing nervousness among many respondents because of adverse effects on government spending, disposable incomes and financial markets. The most recent uptick in prices is not deemed to be sufficient to remedy this situation.

Geopolitical risks rank second but were mentioned less frequently than in 2016. The prospect of Iran re-joining the international community, stabilisation in Egypt and the slightly improved odds for an end to the Syrian tragedy have lifted spirits.

The third most frequently mentioned risk factor, a newcomer, is the threat of excessive or ineffective regulation. Many executives bemoan spiralling costs of compliance and feel that some regulators are overzealous and pursue the wrong priorities, e.g. by adopting a heavy-handed rules-based approach to regulating the industry, rather than implementing key reforms such as risk-based solvency capital (see chart 11).

**Chart 11:** Market threats and challenges (number of mentions)




*«The slow pace of economic growth, coupled with severe competition and inferior reinsurance support, is expected to expose the region's insurance market to new levels of threat.»*

**Bassam A. Chilmeran, CEO, Al Wathba National Insurance Company**

*«Overall, the regulatory framework has greatly improved and strengthened in recent years in the MENA region. However, we see some tendencies of a slightly excessive regulatory tightening or a discrepancy between adequate regulation and its proper enforcement. Finally there are still some markets in the region where we regard the regulation as insufficient.»*

**Dr. Frank Mayer, Senior Executive Officer, Munich Re Underwriting Agents (DIFC)**

*«Insurers need to innovate in order to increase customer satisfaction and strengthen their competitiveness. This is the most promising recipe for addressing the current business challenges. The prospects for achieving this are good given the potential offered by digitisation in a region with one of the world's most favourable demographic structures and a highly IT savvy young generation.»*

**Dr. Adel Mounir, Secretary General, Federation of Afro-Asian Insurers & Reinsurers (FAIR)**

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«MENA insurers would be well-advised to take a more long-term approach to their technical profitability. In the current ultra-soft market environment it will be very tough to secure corporate survival through price competition only. A more promising approach towards the future is a differentiation strategy, ranging from products to services and effectively reshaping what today is a largely commoditised market.»

**Farid Chedid, Chairman & CEO, Chedid Capital and CEO, SEIB Insurance & Reinsurance**



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# 2. General insurance market status and outlook

**Price levels in both commercial and personal lines more favourable**

As opposed to 89% of those interviewed in the previous year, only 46% of the 2017 survey participants regard current prices in MENA commercial lines business as being below the average of the past three years. Even though competition remains fierce, reflecting the continued abundant supply of reinsurance, property insurance rates in Saudi Arabia and the UAE have somewhat recovered. Both markets account for almost 40% of total MENA insurance premiums. The elevated number of fires in high-rise buildings has prompted reinsurers to further tighten terms and conditions, for example by requiring higher net retentions from cedants or by cutting commission payments. As a result, original rates in some commercial markets have increased. 27% of the executives polled even believe that, in aggregate, commercial lines rates exceed the average of the past three years. Having said this, many remain concerned about the sustainability of these improvements, given the continued abundance of reinsurance capacity in combination with much reduced construction activities.

*«With lower economic growth and a slightly depleted return on investments, as well as the introduction of risk-based solvency regimes and actuarial pricing and reserving, most MENA insurance companies are putting more emphasis on their underwriting profitability, and developing new underwriting and distribution strategies accordingly. In many markets, this is also resulting in price increases in compulsory lines, which should expand progressively to other lines depending on pricing levels and technical profitability. In a market adjustment phase like this, the support of tested premium reinsurance securities is of paramount importance.»*

**Hedi Hachicha, CUO, Head of Africa & Middle East, SCOR Global P&C**

*«Throughout the region we observe large variances in rates. Commercial lines remain very competitive. Rates for personal lines are higher in Saudi Arabia and the UAE, where tighter regulation has helped to improve pricing levels. However, in other places, for instance Qatar, rates are still unsustainable. Due to the slow-down in economic growth and the low oil price, large projects have stalled. Premium volumes collapsed, which further exerts pressure on rates.»*

**Stephan Wirz, Head CM Middle East P&C & L&H, Europe, Middle East & Africa, Swiss Re**

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Survey participants continue to judge personal lines business more favourably, with 86% – up from 74% – saying that premium rates are higher or in line with the average of the past three years. This figure compares with 54% in commercial lines. Since 2013, regulators have become more active in pushing prices to more sustainable levels and enforce an actuarial approach to pricing, for example in the health insurance markets of Bahrain, Jordan and Saudi Arabia. Major developments have also taken place in the UAE recently. In motor insurance, for example, tighter and unified policy wordings, in combination with minimum rates are starting to have the desired effect. In addition, more fundamentally, personal lines business is characterised by a smaller number of players, higher barriers to entry, greater customer loyalty and more scope for non-price competition. Personal lines business also tends to be structurally more adequately priced as it is largely retained by insurance companies (see charts 12 and 13).

**Chart 12:** Current level of rates – Commercial lines

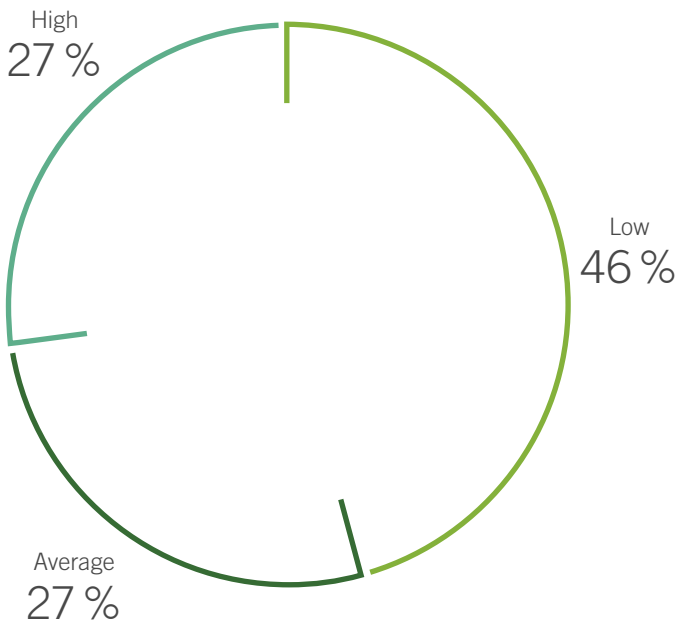
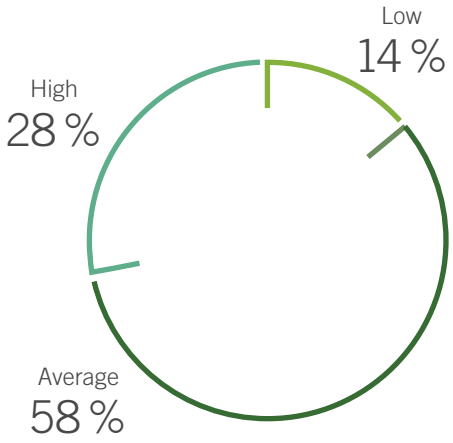



**Chart 13:** Current level of rates – Personal lines

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**Improving pricing outlook in commercial lines**

Compared with 2016, the pricing outlook for commercial lines has improved. 70% of executives polled expect stable or higher rates over the next 12 months, up from 58%. The majority view is that reinsurers will remain firm on terms and conditions, enforcing continued discipline in original markets. Having said this, the prospect of shrinking volumes of business as a result of fiscal tightening by governments is weighing on interviewees' sentiment, with the rating outlook for marine and engineering business considered to be particularly challenging.

By contrast, the pricing outlook for personal lines has slightly deteriorated, but overall, remains strong. The share of those expecting stable or higher rates has decreased to 89%, down from 97%. In combination with minimum rates, the enforcement of actuarial pricing and reserving by regulators will put a floor under prices. At the same time, inflationary claims trends in the motor and medical lines of business are expected to remain challenging, hitting insurers' retentions and instilling technical discipline (see charts 14 and 15).

**Chart 14:** Pricing outlook – Commercial lines

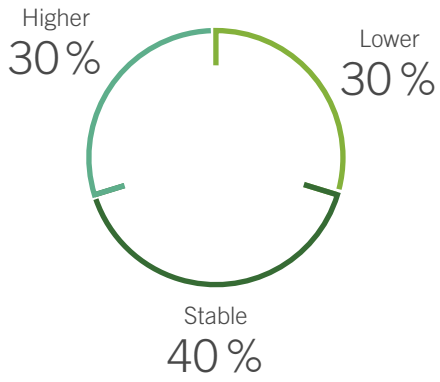
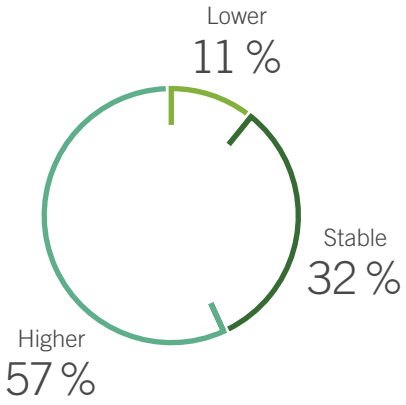



**Chart 15:** Pricing outlook – Personal lines



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**Improved technical profitability in both personal and commercial lines**

The survey found that only 33%, sharply down from down from 72%, of respondents consider overall profitability in commercial lines to be low, benchmarked against the past three years. On the one hand, rates have somewhat recovered over the past 12 months. At the same time, and on the other hand, the frequency of larger fire losses decreased markedly in 2016, partly as a result of improved safety regulations, e.g. for high-rise buildings. In addition, the advent or prospect of modern risk-based capital regimes has prompted insurance executives to place more emphasis on technical profitability as volatile equity and property investments will entail sharply increased solvency capital charges.

**Chart 16:** Current level of technical profitability – Commercial lines

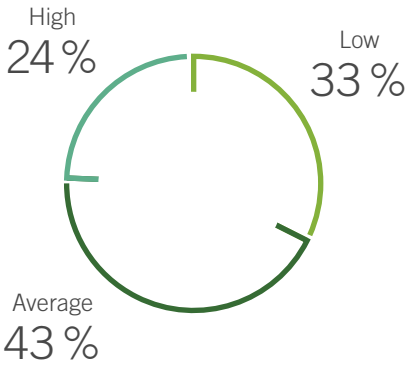
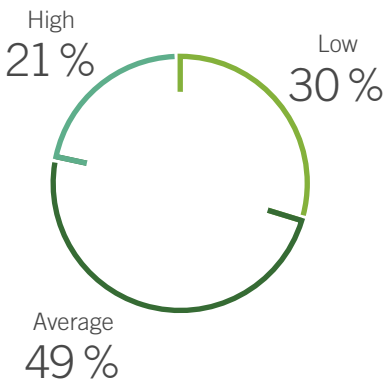



**Chart 17:** Current level of technical profitability – Personal lines

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70% of executives consider current technical profitability in personal lines as higher or in line with the average of the past three years, up from 54% in the previous year. Having said this, as opposed to past Pulse reports, personal lines business is no longer viewed as more favourable than commercial lines, given the significant improvements in sentiment recorded in the commercial space. The positive view on personal lines profitability reflects regulatory action coming to fruition, reduced underwriting and claims settlement expenses as a result of heightened cost discipline and profitable growth opportunities for local insurers in the wake of the perceived retreat of foreign multinational operators (see charts 16 and 17).

*«It is imperative for MENA insurers to adhere to strict technical discipline. That's the only way to address the massive challenges of today's market place such as dwindling investment income and heightened pressure from reinsurers on cedants to have more 'skin in the game'.»*

**Omer Elamin, President, Orient Group**

*«Higher retentions are a necessary condition for improved technical profitability in MENA insurance markets. Having more skin in the game would incentivise carriers to tighten underwriting discipline, to the benefit of the market as a whole. Reinsurers have to play a key part here. Inundating the region with under-priced capacity is not in their long-term interest and undermines the insurance markets' long-term viability.»*

**Nagib Bahous, President & CEO, MIG Holding**

*«Despite its rapid growth over the past 10 years the MENA insurance market place remains relatively immature. The lack of technical expertise in combination with excess capacity and sometimes irresponsible competition require a rigorous regulatory response. It would be premature and even detrimental to regional insurers' health and sustainability to simply leave insurance supply and demand to the market mechanism.»*

**Sami Sharif, CEO, Kuwait Insurance Company**



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**Stable to stronger profitability outlook**

49% of executives polled expect profitability in both commercial and personal lines to remain unchanged over the next 12 months. However, the balance of the remainder of responses has shifted towards those expecting improvements. This is particularly true of personal lines where 46% of executives polled expect higher levels of technical profitability, up from 29% in the previous year. Participants expect a continuation of regulatory support but also cite improvements in claims management practices, a key success factor in an environment of low rates.

In commercial lines, while ample reinsurance capacity will weigh on margins, corrective measures on the pricing, reserving and claims settlement side will continue to make themselves felt. In addition, technical profitability is expected to benefit from further improved safety regulations and relentless pressure from reinsurers (see charts 18 and 19).

**Chart 18:** Outlook technical profitability – Commercial lines

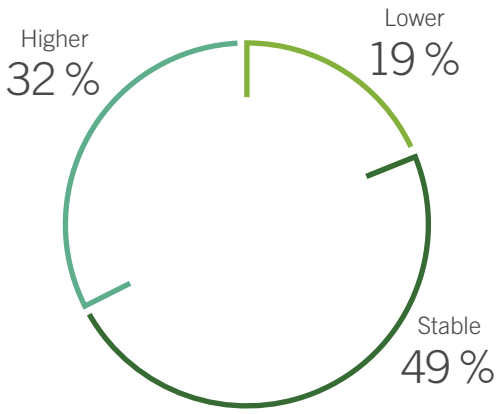
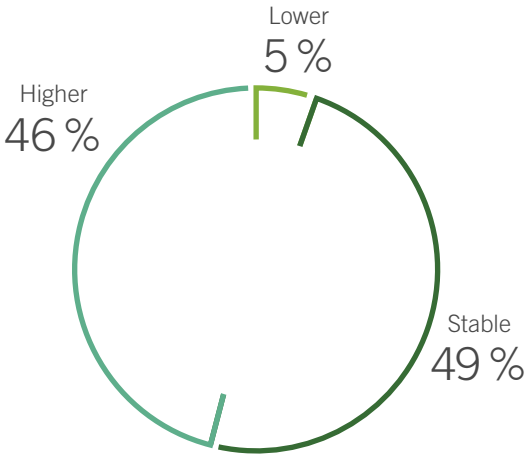



**Chart 19:** Outlook technical profitability – Personal lines

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«While the MENA insurance industry is already equipped with adequate regulatory systems in many of our jurisdictions, proper enforcement of these remains a weakness in a number of jurisdictions. In some cases, the gap is even widening as new and additional rules continue to be promulgated, with uncertain effects on the efficiency and stability of insurance markets. Going back to the basics of implementing existing rule books may be the more appropriate route to go down for regulators.»

**Michael S. Jensen, Managing Director**
**MENA Zone, AIG**



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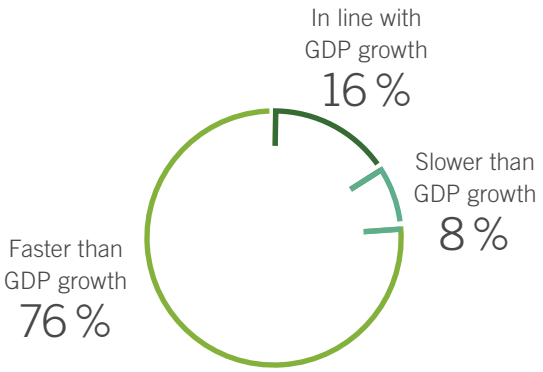
**Insurance penetration expected to increase**

Over the next 12 months, 76% of the survey respondents expect insurance premiums in the MENA region to grow at a faster pace than regional GDP, up from 61% in 2016. This bullish assessment reflects the current momentum towards increasing rates and the continued growth in compulsory personal lines insurance (see chart 20). Offsetting factors cited by the less optimistic respondents include shrinking commercial insurance volumes, uncertainties surrounding disposable incomes as subsidies are being cut and taxes introduced, and a slowdown in expatriate recruitment.

**Chart 20:** Expected premium growth versus GDP growth




*«Many regulatory bodies in MENA fail to see the opportunities associated with banc-assurance. A tie-up between a bank and an insurer can facilitate the provision of an exciting and sophisticated service that meets the needs of modern day consumers. Banks can bring a strong client base to the table whereas insurers know how to 'manufacture' products that appeal to different client segments. Both entities can jointly create a powerful sales forces on the premise of 'insurance is sold, not bought' and ultimately boost insurance penetration to their mutual benefit.»*

**Samir Sukkar, COO, Trust International Insurance**

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«The rise of modern technologies requires a major degree of vigilance, agility and adaptability from MENA insurers. Digitisation has the potential for both disrupting and enabling existing insurance value chains. In order to be on the winner's side insurers need to rethink their current business models and be prepared to make adjustments wherever needed.»

**Constantinos Hadjigeorgiou, Group Corporate Services Officer, Trust Re**



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# 3. Lines of business-specific prospects

**Personal lines continue to drive premium growth**

As in previous years, medical insurance is expected to be the fastest-growing line of business in the MENA region over the next 12 months. Growth continues to be fuelled by compulsory insurance requirements, which for example, have made medical insurance the biggest line of business in Saudi Arabia. New compulsory regimes are also being implemented in other jurisdictions such as the UAE, with other GCC countries expected to follow suit. In addition, medical insurance rates have benefited from regulatory intervention such as mandatory actuarial pricing. In general, continued fiscal constraints are expected to afford private health insurers a structural boon.

Motor business continues to rank second, driven by rate increases, unabated cost inflation and a more stringent enforcement of third-party liability insurance. As in 2016, life insurance is the third most frequently mentioned line of business when it comes to short-term growth prospects, reflecting a growing awareness of the risks associated with premature death and critical illnesses in times of reduced government benefits. Further, bank loans are increasingly contingent upon mortality and disability protection. In addition, the issuance of public debt in a number of countries will favour life insurers in terms of access to long-term investment opportunities that match their liabilities profiles (see chart 21).

**Chart 21:** The fastest-growing lines of business (number of mentions)

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MENA Insurance Pulse 2017

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As far as the slowest-growing lines are concerned, the engineering and marine segments were mentioned most frequently, given their particular sensitivity to the economic cycle. The prospects for liability business are viewed less favourably than in the past as competition keeps heating up. Property, which used to rank among the slowest growing lines in previous years, no longer features on the list, reflecting a certain recovery of rates as discussed above (see charts 14 and 22).

**Chart 22:** The slowest-growing lines of business (number of mentions)

*«One of the fundamental weaknesses our markets have to overcome is the way how repairs are handled in the Motor line of business. We are in a very competitive market situation and cannot afford not to have fully optimized claims management processes. As an industry we have to implement the necessary processes and structures to improve the way how these costs are better contained.»*

**Frederik Bisbjerg, Executive Vice President, MENA Retail, Qatar Insurance Company**

*«In Saudi Arabia the tightening of regulation introduced by SAMA has contributed to a strengthening of the market, in particular in the motor and medical lines of business. In the UAE we expect that the implementation of regulatory changes will show a similar effect, possibly leading to a rise in rates by 30% to 40% in motor – although claims are expected to increase in tandem.»*

**Keith M. Byrne, Director, General Insurance Operations, Tokio Marine Middle East**

*«In many MENA markets, especially in the Gulf region, life insurance still plays a very marginal role, accounting for less than 10% of total premiums. This imbalance should be addressed by the industry, not only through general awareness building but also through innovative and appealing savings, critical illness or pension products. Medium-term, advanced data analytics are very likely to serve as a catalyst.»*

**Dr. Bassel Hindawi, Chairman/CEO, DIFC Insurance Association NPIO**

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As far as the most profitable lines of business are concerned, there is no change whatsoever compared to last year's survey results. Over the next 12 months, the executives polled continue to expect marine to be the most profitable line of business, mainly owing to low loss ratios. Engineering ranks second, benefiting from relatively high barriers to entry and generally high and further improving standards of construction. Again, life insurance was identified as the third most profitable line. Group life insurance in particular is an attractive market segment for insurers who are able to offer bespoke and value-added solutions for corporate clients. In addition, according to some interviewees, the life insurance segment is relatively profitable as there is less competition than in most other lines (also as a result of relatively limited reinsurance capacity), the demographic profile is favourable and rates based on internationally recognised mortality tables offer some cushion (see chart 23).

**Chart 23:** The most profitable lines of business (number of mentions)

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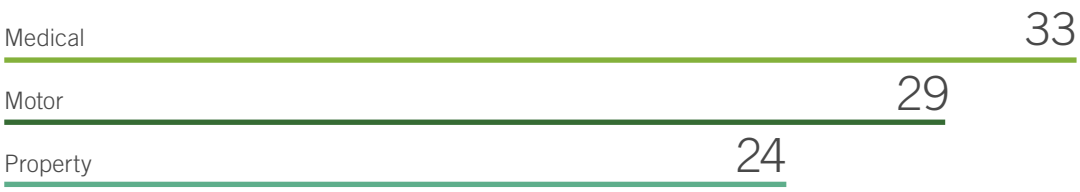
As compared to 2016, medical and motor have swapped ranks as the least profitable areas over the next 12 months, with the former now in the top spot. Adverse loss trends and accelerating loss cost inflation for medical services are expected to continue. The same is true for motor insurance which, however, benefits from rising rates in a number of markets. Property continues to be viewed as the third least profitable line of business due to ample and inexpensive reinsurance capacity and a high degree of commoditisation. On a positive note, property rates have shown signs of recovery in some markets but doubts abound as to the sustainability of this trend (see chart 24).

**Chart 24:** The least profitable lines of business (number of mentions)




*«One common strategic response to the unabated pressure on rates and profitability is increased diversification, both geographically and by line of business. This is one of the key drivers in the region as players look for new markets to help grow and address unmet protection needs. However, along with diversification strategies, the market also needs genuine innovation and to embrace technology which will support these new strategies, and progress on that front continues to remain fragmented and patchy.»*

**Mark Cooper, General Representative Middle East, Lloyd's**

*«Whilst the aggregate state of insurance regulations in the MENA region remains rather inadequate, we are witnessing encouraging trends from a number of markets. There is clear progress towards introducing solvency margins or even risk-based solvency rules. These changes will go a long way in enhancing the region's insurance markets' sophistication and stability.»*

**Yassir Albaharna, CEO, Arig**

*«Increasing competitive pressures on a global scale have prompted some of the world's largest insurers to scale back their presence in the Middle East. From an economic perspective, this trend implies a much greater scope for local risk atomisation as the relevance of global balance sheets reduces. It will put a premium on those local insurers who know how to manage large and complex commercial risks.»*

**Salvatore Orlando, Head of Middle East, Africa, Russia & Latin America, PartnerRe**

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«We expect that the technical profitability for commercial non-life insurance will improve in the Gulf markets. The devastating claims experience from recent underwriting years plus the introduction of tighter and stronger regulation in the UAE and in Saudi Arabia already left their positive mark in the recent renewals. The regulatory changes will bring greater underwriting discipline and financial stability to these insurance markets.»

**Jasmine Miow, Senior Vice President, Peak Re**



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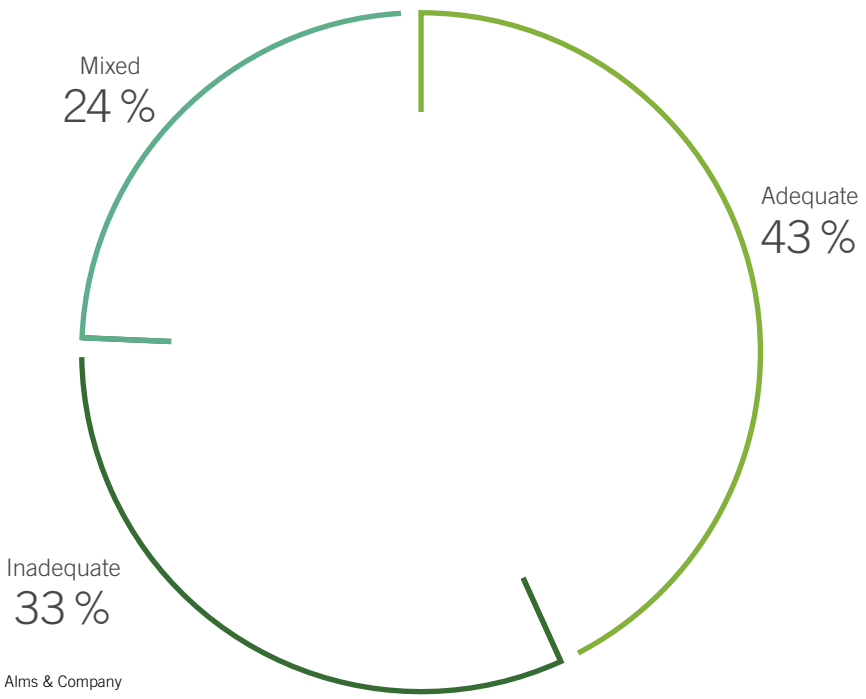
# 4. Key market trends and drivers

**More favourable assessment of regulatory environment**

The Pulse found that 43% of respondents believe the overall state of insurance regulation in the region to be adequate, up from 31% in 2016. This more positive assessment reflects progress towards introducing solvency margins or even risk-based solvency rules, especially in the UAE, in combination with a more rigorous enforcement of existing rules, following the example of the Saudi Arabian Monetary Authority (SAMA). However, some executives raised concerns over the capacity of the region's regulatory authorities to implement new complex regimes, given the lack of qualified staff and a high reliance on external service providers. In addition, some interviewees felt that regulators have the wrong priorities. Rather than setting specific rules and adding ever more onerous and intrusive compliance requirements they should focus on a principles-based approach founded upon a risk-based capital regime. Other executives expressed concerns about the trend towards fixed tariff ranges which could impair innovation and exacerbate a major market weakness: the high degree of commoditisation. A number of executives also believe that regulators should entirely focus on protecting policyholders, rather than affording shareholders additional protection.

In general, the region remains highly heterogeneous as far as regulatory sophistication is concerned, ranging from relatively effective and sophisticated regimes in Bahrain, Jordan, Morocco (coming close to Solvency II), Saudi Arabia and the UAE, to rudimentary and/or insufficiently enforced frameworks in parts of the Gulf region (see chart 25).

**Chart 25:** State of insurance regulations

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# Pearl Diving

## a brave diver and Seib looking after his safety

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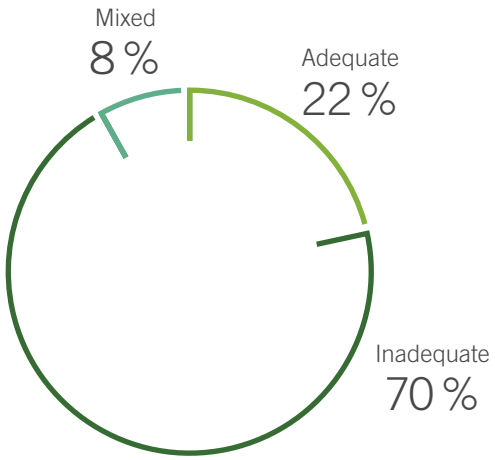
**Local talent situation remains challenging**

70% of respondents believe that local technical skills are inadequate, up from 61% in the previous year. Most insurers continue to depend on expatriate staff, which is widely regarded as unsustainable. Insurers still do not adequately invest in the development of local talent, partly driven by a widespread 'poaching' culture in the market, coupled with employee opportunism. Talent shortages have been exacerbated by workforce localisation requirements.

In addition, some blame the industry's overall poor public image for the failure to attract qualified local staff and to compete more effectively with governments and banks.

The state of local technical skills is another powerful illustration of the region's diversity. Whereas the situation in Bahrain, Turkey, the Levant and some North African countries is judged relatively favourably, and improving in Saudi Arabia and Oman, the dearth of local talent remains acute in countries such as Kuwait, Qatar and the UAE (see chart 26).

**Chart 26:** State of local technical skills




*«For the upcoming twelve months we expect insurance premiums to clearly outgrow GDP in Morocco. Insurance penetration is still low, while our population is young and growing. In addition, disposable incomes are on the rise. All of these factors contribute to a positive outlook for insurance, in particular in personal lines.»*

**Fassi Fihri Youssef, CEO, Société Centrale de Réassurance (SCR)**

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«One of the biggest challenges facing medical insurers is the prevailing ‘fee for service’ model. There is little transparency with regards to and focus on quality and outcomes. This needs to change in order to put medical insurance on a sounder and truly sustainable footing.»

**Christos Adamantiadis, CEO, Oman Insurance Company**



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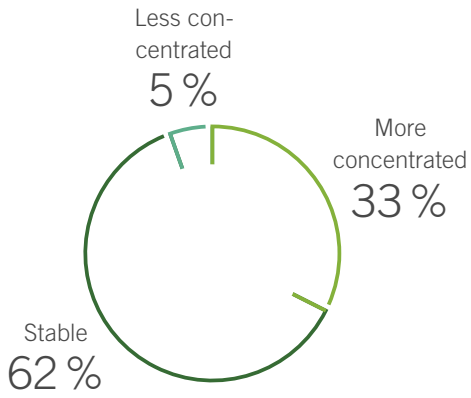
**Consolidation remains elusive**

The survey found that only 33% – virtually unchanged from the previous year – of respondents expect market concentration to increase over the next 12 months. The relatively comfortable capitalisation of domestic companies in conjunction with family ownership continues to present major obstacles to mergers and acquisitions. However, going forward, it will become more difficult for domestic insurers to raise the additional capital potentially needed to meet new risk-based capital requirements. In addition, as reinsurers insist on higher retentions, an increasing number of shareholders is expected to withdraw from insurance companies (see chart 27).

**Chart 27:** Market structure outlook




*«For the sake of the insurance markets' long-term sustainability we need to have a consolidation of the supply side. Longer-term, the current fragmentation would have highly detrimental effects. The banking industry might serve as an example. Here, a similar logic has recently led to major market-changing transactions.»*

**Dr. Abdul Zahra A. Ali, CEO, National General Insurance Company**

*«Fierce competition in direct markets, fuelled by a surfeit of reinsurance capacity, is the defining feature of the MENA insurance landscape. Some regulators have realised that this state of affairs could ultimately jeopardize the long-term sustainability and viability of the market place at large and, accordingly, have embarked on corrective action. However, it will require a fundamental change of behaviour among market participants to ensure the regional insurance industry's sound and long-term development.»*

**Mahomed Akoob, MD, Hannover ReTakaful**

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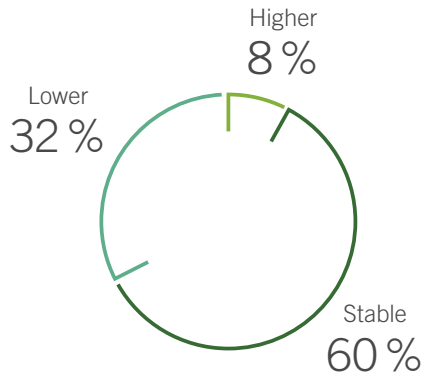
**Foreign insurers expected to hold their own**

The Pulse found that 60% – up from 47% – of respondents expect the market share of foreign primary insurers to remain stable over the next 12 months. The share of those anticipating a reduction in foreign market share has decreased slightly from 36% to 32%. Interviewees continue to mention some high-profile market exits and retrenchment programmes as a result of significant underwriting losses and a general market environment that is deemed less attractive. These moves are expected to favour domestic and regional market leaders. Also, some local insurers have stepped up their game, both in terms of underwriting capacity and expertise.

Having said this, foreign insurers expand their footprints in the life and medical segments of the market where they are able to offer seamless global service propositions to their multinational clients and trusted brands to expatriates (see chart 28).

**Chart 28:** Outlook for foreign market share




*«Yemen's insurance market offers a huge potential as soon as peace and stability have returned to the country. Yemen exhibits highly favourable demographics, a robustly diversified economy as well as abundant natural resources such as oil and gas. Reconstruction needs are enormous, as are the associated commercial insurance requirements.»*

**Tarek A. Hayel Saeed, GM & MD, United Insurance Company**

*«Oman boasts very favourable fundamentals which underpin its insurance market's relative strengths. Governance standards are at par with international best practice – which affords comfort not least to international reinsurers dealing with domestic cedants. Growing per capita income levels drive the continued expansion of retail insurance lines. And, last but not least, very high safety standards benefit the construction sector and its (re)insurers. Having said this, as other markets in the region, Oman has to contend with a high dependency on oil price developments as well as excess capacity resulting from a fragmented market structure.»*

**P.R. Ramakrishnan, CEO, Vision Insurance**



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**Brokers maintain their dominant position**

As in 2016, intermediaries are expected to be the fastest-growing distribution channel over the next 12 months. In addition to their natural relevance in a price-driven market brokers are believed to benefit from the growing complexity of cover and increasing need for expert advice and support (e.g. in claims settlement) going beyond a purely transactional role.

Banks continue to rank second, with a specific advantage in distributing life insurance policies. A growing number of banks are starting to understand the potential of insurance sales as another contributor to overall profitability. They take advantage of the fact that their client relationships tend to be stronger than those of insurers. The latter are more interested in tying up with banks in order to bring down the cost of distribution and improve their operating efficiency.

Online is the third most frequently mentioned distribution channel. It is believed to have significant potential in retail business given the region's young and internet-savvy population. In addition, its benefits are increasingly being recognised by insurers that operate at marginal levels of profitability. However, the loyalty to traditional channels of distribution is deemed high in the region which slows the advance of digital insurance (see chart 29).

**Chart 29:** Fastest-growing distribution channels (number of mentions)

*«Most insurers in the region still compete on price only. This behaviour does not only destabilise the market but also ignores the major commercial potential from offering superior quality service and reliability. Don't underestimate customers' willingness to pay a higher price for a more appealing insurance product.»*

**Ahmad Idris, CEO, Abu Dhabi National Insurance Company**

*«Insurers and their intermediaries should realise that ultimately they all have to work towards a common goal – promoting customer awareness and trust. One single individual misstep on any echelon of the corporate hierarchy, from corporate governance to sales and operations, can set back the entire industry by damaging its collective reputation. Against this backdrop, the case for living up to the highest possible standards goes far beyond individual corporate bottom-lines.»*

**Fareed Lutfi, Secretary General, Emirates Insurance Association & Gulf Insurance Federation**

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«As opposed to other sectors of the economy the insurance industry receives relatively little attention from governments in the Middle East. This is a real shame given the growing economic and societal importance of insurance. Due to fiscal constraints, risk transfer will increasingly have to be provided by private sector insurers. In addition, the industry will have to play a pivotal role in accompanying economic policies aimed at diversifying away from oil and gas revenues. Last but not least, insurers will be vital to facilitating deeper and broader domestic capital markets, also in light of increased levels of sovereign debt issuance.»

**Farid Chedid, Chairman & CEO, Chedid Capital and CEO, SEIB Insurance & Reinsurance**



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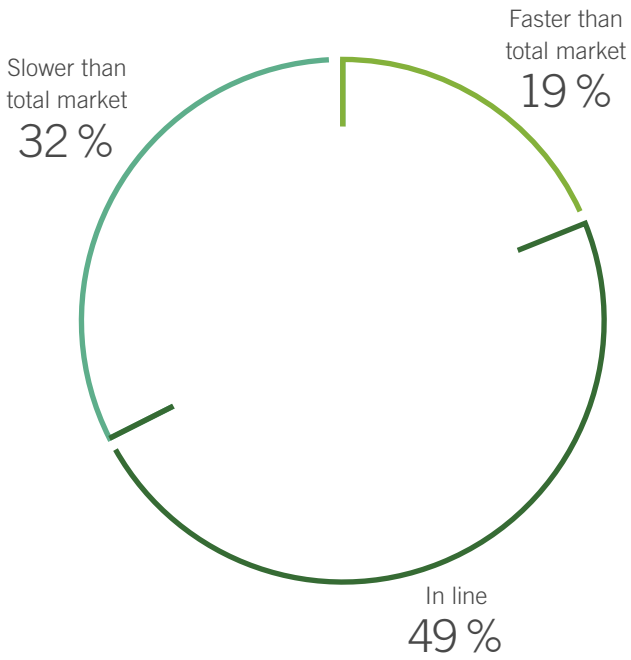
**Views on Takaful remain subdued**

32% of respondents – virtually unchanged from the previous year – expect Takaful insurance to underperform the market as a whole in terms of growth. At 19%, the share of those expecting it to outperform has decreased slightly.

Many executives continue to feel that Takaful offers no genuine differentiation and does not even live up to the concept of mutuality, given conflicting interests of policy-holders and shareholders. This lack of a 'Unique Selling Proposition' forces many Takaful insurers to engage in fierce price competition.

Going forward, some interviewees suggest that Takaful players should concentrate on embracing the concept of mutuality which works best in personal lines such as motor and medical insurance where portfolios are relatively homogenous. The biggest potential is seen in Family Takaful, i.e. life insurance and savings products (see chart 30).

**Chart 30:** Growth prospects for Takaful insurance

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