

Shifting dynamics



The challenging market conditions have forced some international reinsurers out of the region – but opportunities are still aplenty for players focused on innovation.

By Zuhara Yusoff

The reinsurance landscape in the Middle East continues to be characterised by challenging conditions, overcapacity, and an increase in large loss activity.

The recent exits of well-established players from the DIFC such as Aspen Re, Partner Re, Lloyd's Talbot and most recently, Allianz Global Corporate & Specialty (AGCS) suggest a general shift away from market softening, tighter underwriting discipline and cost cutting measures.

"The decision to enter or exit the market for an international organisation is based on its allocation of profit centres and the corporate strategy to access and service international clients," said New Dawn Risk head of treaty placement Amal Jallouq.

"The recent exits of Aspen Re and AGCS DIFC, for example, appear to be driven by cost rationalisation on the one hand. On the other, new entrants like Misr are seeking proximity to their regional clients. Exiting the DIFC does not always mean that the capacity is withdrawn as the companies may still be looking to write the business out of other locations," she said, adding that "generally, there is no shortage of capacity in the market, although we could see increasing rates in the short term until the market adjusts."

Ed Broking (MENA) CEO Minesh Jani agrees that while there has definitely been a withdrawal of capacity on shore from the local market, many of the reinsurers continue to be committed to the region, and will continue to write business in the region albeit some without local presence. He believes there will not be a significant impact on reinsurance capacity



Ms Amal Jallouq



Mr Minesh Jani

COVID-19 losses unlikely to be significant

On Reinsurance Solutions global head of life Colin Dutkiewicz believes that COVID-19 will cause “some additional losses, but these are unlikely to be significant”.

Irregular and global epidemics like the novel coronavirus are anticipated by the reinsurance market and modern risk-based capital regulatory regimes now require insurers to specifically hold capital against this kind of event if the insurer does not reinsure the risk, he said.

He added, “Capacity may reduce as some reinsurers may withdraw from the market. While the life and health



Mr Colin Dutkiewicz

industry globally will not be significantly impacted by COVID-19, many companies will take the chance to reassess their portfolios. Contracts that have reviewable premiums will certainly be carefully scrutinised and rate adjustments made.

“Insurers in the strongest position are those that have already adequately identified the risk and protected themselves through reinsurance arrangements, hold adequate capital or have a well-diversified portfolio. The heightened awareness of pandemic risk means insurers are also turning to more in-depth analytics, including evaluation of capital levels, diversification of risk and risk modelling to manage their current and future exposure levels.”

available to the market, although the exits will hamper the development of the local talent pool.

He said, “In the last 10 years, we have noticed the trend of reinsurers following the localisation strategy with the supposition that being closer to the clients would provide them with a better understanding of the underlying risk and greater hold over the cedants, helping them increase their market share manifold.

“These last 10 years also witnessed an unprecedented soft market. This has had a two-fold impact on the reinsurers: an increase in their overall expense due to the increased cost of having local operations, and a decrease in the price obtained for the same risk due to soft market conditions.”

Mr Jani also noted that there has been tremendous improvement in communications and globalisation in the last 10 years – be it internet-based correspondence, transmission and dissemination of information or air travel. “Business continues to flow to the markets in London, Europe, the US and Asia in the same way it does to the local markets, without providing the locally-based reinsurers with much competitive advantage. With all these factors, some of the reinsurers have come to the realisation that the cost benefit for the local office may not make sense,” he said.

Heavy reliance on reinsurers

Many insurers in the region continue to rely heavily on reinsurers to cede out most of their risks. Traditionally, the retention rate in the Middle East has been low compared to other regions, including Asia.

The primary reason behind the low retention is that the Middle East is still a relatively new and developing market, said Mr Jani. “Due to the absence of major catastrophe events in the past, there has been no dearth in reinsurance capacity on offer, with the major reinsurers offering significantly high capacity,” he said.

“Due to this, the risk appetite of the ceding companies has always been limited and dependent on reinsurance support for carrying out business. Having said that, recent events such as the storm in Oman and the unprecedented floods in the UAE in January have led to a change in the risk perception of the region and will likely be a factor in future pricing models.”

Ms Jallouq said, “Until risk-based capital and solvency regulations are updated in the region, capital requirements remain low with a disproportionately large number of players relative to the market size. Eventually, regulators or market forces will push for consolidation, which may increase the new entities’ appetite to retain more risks. Bouquet treaty reinsurance will continue to be the norm until penetration rates and technical pricing pick up, but this will take years or even decades for some of the markets to achieve.

“Proportional reinsurance is still one of the most popular ways of buying reinsurance and will continue to remain so in the future,” said Mr Jani. “If the market continues to remain underpriced, as has been seen in other markets worldwide, rather than complete withdrawal of proportional capacity, there may be some pressure on retentions, commission levels and other treaty terms and conditions.”

Mr Jani noted that property and engineering reinsurance has been bought mainly on proportional basis, and this will continue for some time. “The facultative capacities for property and engineering have definitely reduced over the past couple of years,” he said, “especially with A-rated companies, and we see some upward movements in terms of pricing. How long this trend will last is difficult to say at this moment.”

He added that there are some motor and medical quota share treaties in the market, with the former bought mainly for solvency purposes. Medical quota share treaties are also bought for pricing and product support from big brands around the world.

“We don’t foresee many changes in reinsurance buying; however, we are seeing that commission terms are no longer as attractive for cedants as has been the case in the past,” Mr Jani said.

Opportunities in the sector

Like other emerging markets, opportunities are always present but dependent on a range of factors including insurance awareness, the right economic environment and product development, said Ms Jallouq. “The UAE and Saudi Arabia remain the largest insurance markets in MENA, with Saudi Arabia set to lead the growth rate. Opportunities will be plenty in North Africa and the

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Mr Minesh Jani

Levant, if and when the security and political situation stabilises,” she said.

Due to the low insurance penetration rate in the region, Mr Jani believes that product development that aims to reach the masses is the key to the growth of

the sector. “Investment in product development, rating tools, and technology is the way forward in the market for reinsurers as well as brokers. Non-traditional lines such as casualty, special contingency, cyber, and retail products such as home insurance, individual health, and life insurance have a higher potential growth rate than the traditional lines of business. In short, innovation holds the key,” he said.

Upcoming renewals

Ms Jallouq expects the 1/7 renewal season to be similar to that of 1/1, adding “it is likely that there will be rate increases for the poorer performing accounts and renewals as per expiring terms for profitable business”. She said, “It’s probably too soon to see if the Aon-Willis Towers Watson deal will have any impact on the 1/7 renewal season.”

Mr Jani also believes that the mid-year renewals may not see any significant changes, but cautioned that there may be some uncertainty with regard to the flood losses in the UAE. He said, “The ultimate loss figures of the January floods in the UAE are still not clear. If we do obtain a better understanding of the impact of those losses in the next couple of months, and if the losses do tend to impact the reinsurance in place, then we can expect some tightening of terms of the cover.”

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