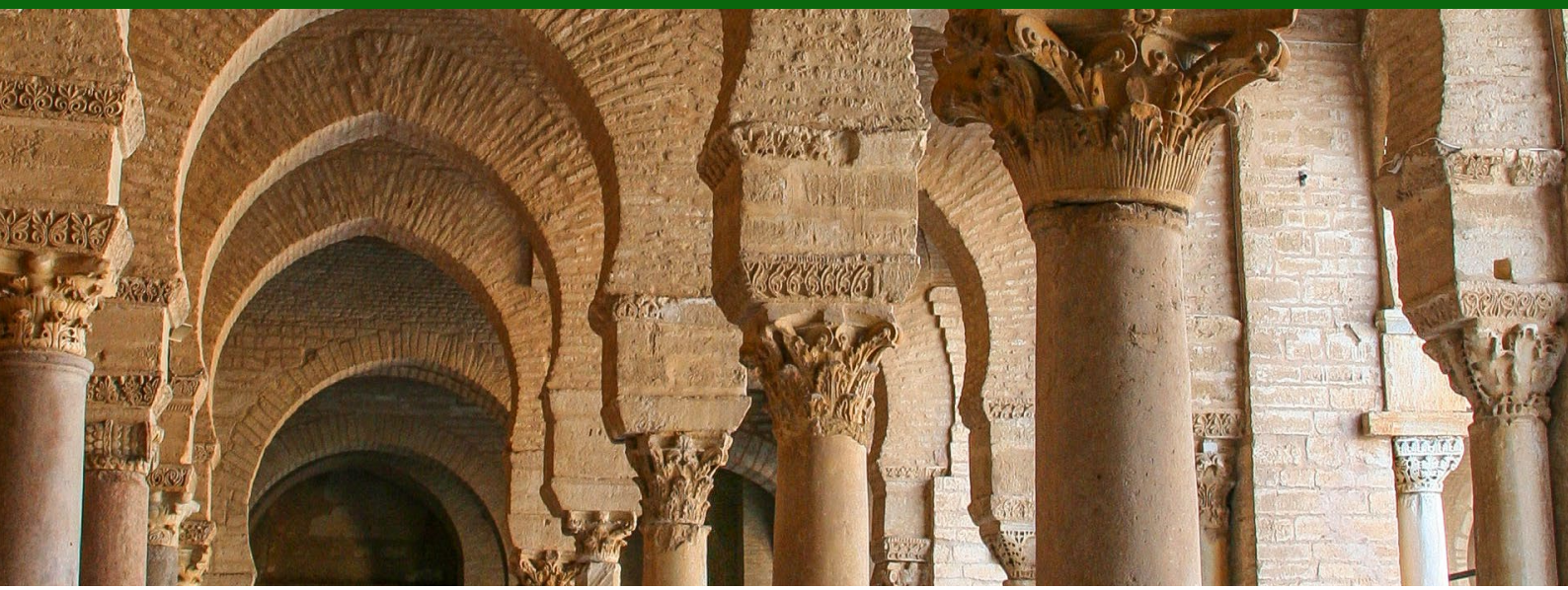

MENA Insurance Pulse 2018

An Annual Market Survey

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Prepared by

Dr. Schanz, Alms & Company

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In media partnership with

MENA Insurance Pulse 2018

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www.pulse.schanz-alms.com

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Foreword

We are pleased to present the sixth 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$ 58 billion primary insurance markets. It paints a comprehensive and quantitative picture of the current market sentiment, tracked over time.

We are very grateful to our sponsoring partners AIG, PartnerRe and Tunis Re as well as to our advertising partner Munich Re. Through the *MENA Insurance Pulse*, these companies demonstrate their commitment to improving the transparency of the regional market place. Their support ensures the continued availability of an important benchmark for strategic and operational decision-making. In addition, we would like to extend our deepest thanks to all interviewees who have supported this research project with their expertise and experience.

The 2018 edition draws on in-depth interviews with senior executives of 45 regional and international insurance and reinsurance companies, intermediaries and trade associations operating in the Middle East and North Africa. 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 and better understand the responses of 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 detailed picture of the market place.

We hope that you will enjoy reading the 2018 edition of *MENA Insurance Pulse* and benefit from its findings. The online version can be found on https://www.pulse.schanz-alms.com.

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

Henner Alms
Partner,
Dr. Schanz, Alms & Company

Tunisia's insurance sector continues on its growth trajectory

This edition of the *MENA Insurance Pulse* is launched at the 32nd General Conference of the General Arab Insurance Federation (GAIF) in Hammamet, Tunisia. As a token of our gratitude to the organising committee of the conference we are pleased to share with our readers a short portrait of our host's insurance market.

Economic conditions remained challenging in Tunisia in 2016. The country's gross domestic product (GDP) expanded by a mere 1.0 %, slightly down from 1.1 % in the prior year. Unemployment stayed at a high 15.5 % with young graduates struggling particularly hard to access the labour market. Inflation receded to 3.7 %, after 4.9 % in 2015, whilst the Tunisian Dinar depreciated against the US Dollar and the Euro by more than 8 %. Going forward, Tunisia's economy is expected to stabilize and accelerate its growth rate to close to 4 % for the years 2017 – 2021, roughly in line with the global average according to the IMF.

The country's insurance sector outperformed the general economy in 2016. According to the Tunisian regulator, the Comité Général des Assurances, premiums written expanded by 10.6 % to TD1.8 billion (US$ 720 million), up from a 7.9 % growth in 2015. On average, premiums expanded by 9.5 % annually from 2011 to 2016. As a result, insurance penetration increased to 2.04 %, up from 1.96 % in 2015 and slightly above the average for the MENA region – but still at less than a third of the global average. Within MENA Tunisia's insurance penetration ranks 7th. Within the Maghreb region it is only topped by Morocco's 3.5 %.

Premium growth was driven by life insurance, which expanded by 24.5 % in 2016, up from 11.8 % in 2015. The life sector has steadily increased its relevance in the overall portfolio mix of the Tunisian insurance industry. Over the past ten years, its share in overall premiums has doubled to roughly 20 % in 2016, which is still considerably below the global average of 55 %. Motor remains the most prominent line of business with a share of 45.8 % of total premiums. In 2016 this line grew by 8.7 %, slightly below the overall market. However, motor claims rose sharply by 12.4 % in 2016, increasing the share of motor claims among total claims to 57.7 %. As a result, overall technical profits for Tunisia's insurance sector declined by 8 % to TD122 million (US$ 49 million), down from TD133 million (US$ 53 million) in 2015.

According to the Comité Général des Assurances, the country's insurance market consists of 22 onshore insurers including Tunis Re and six enterprises regarded as off-shore. In 2016 the top five insurers had a combined market share of 50 %. Five insurers operate in the life segment and three insurers are takaful providers.

«From the buyer's perspective, one of the strengths of MENA is the ample availability of local capacity in the insurance market. With the growth of the (re)insurance hub in DIFC, the region has become much less reliant on capacity sourced from abroad. While this is beneficial to the insurance buyer, one of the flipsides for insurers is fierce competition primarily on the pricing side.»

Sami Sayegh, UAE General Manager, AIG

Methodology

The findings of this report are based on in-depth and structured telephone or face-to-face interviews with executives representing 45 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 March and April 2018.

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

— Abu Dhabi National Insurance Company, UAE
— Africa Retakaful, Egypt
— Al Wathba National Insurance Company, UAE
— American International Group (AIG), UAE
— Arab Insurance Group (Arig), Bahrain
— Arab Misr Insurance Company, Egypt
— Arab Orient Insurance Company, Jordan
— Arope Insurance, Lebanon
— BrokTech SAL, Lebanon
— Chedid Re, Lebanon
— Compagnie Centrale de Réassurance, Algeria
— Damana Saudi Arabian Insurance Company, Bahrain
— Emirates Insurance Association, UAE
— Emirates Insurance Company, UAE
— GroupMed, UAE
— Guy Carpenter, UK
— Hannover Re, Bahrain
— Hiscox, France
— Insurance Federation of Egypt, Egypt
— Jordan Insurance Company, Jordan
— Jordan Insurance Federation, Jordan
— Kay International AMEA, UAE
— Lloyd's, UAE
— MIG Holding, UAE
— Milli Re, Turkey
— Munich Re, Germany
— National General Insurance Company, UAE
— Oman Insurance Company, UAE
— Oman Re, Oman
— Orient Takaful Insurance Company, Egypt
— Qatar Insurance Company, Qatar
— PartnerRe, Switzerland
— Peak Re, Hong Kong SAR, China
— Saham Finances, Morocco
— Saudi Re, Saudi Arabia
— SCOR SE, France
— Société Centrale de Réassurance, Morocco
— Swiss Re, Switzerland
— Trust International Group, Jordan
— Trust Re, Bahrain
— Tunis Re, Tunisia
— UIB (DIFC), UAE
— United Cooperative Insurance Company, Saudi Arabia
— United Insurance Company, Yemen
— Willis Re, UAE

Summary of Key Findings

1. Despite continued economic sluggishness and geopolitical instability, the MENA insurance markets have proved to be resilient. Some 69 % of executives polled expect regional premiums to outgrow GDP over the next 12 months. Survey participants are particularly bullish about personal lines business, which benefits from expanding compulsory insurance requirements as well as pricing support from regulatory action. Even though executives anticipate further economic headwinds and fiscal tightening, price adequacy in commercial lines, especially in property business, has improved, mainly in response to more frequent fire losses as well as regulatory intervention.

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

3. The region's low insurance penetration offers the greatest potential for growth. The ratio of premiums to GDP stands at just a quarter of the global average. Digitisation is the second most frequently mentioned opportunity for the market because of its potential to reduce costs and also increase the appeal of insurance products to the region's large young population. Expanded or more rigorously enforced compulsory schemes rank third among future opportunities.

4. 58 % of executives polled view current prices in MENA commercial lines as at or above the average of the last three years, up from 54 % in last year's Pulse. For personal lines, 93 % of executives said rates were at or above the past three-year average, up from 87 % last year. 75 % and 86 %, respectively, expect commercial and personal lines rates to remain stable or increase further over the next 12 months, virtually unchanged compared with the previous year. Commercial and regulatory pressure for at least stable prices is expected to continue.

5. 51 % – significantly up from last year's 33 % – of respondents anticipate market concentration to increase over the next 12 months. Tightened regulatory capital requirements in combination with increasing investor impatience are seen as the most relevant driving forces.

6. The Pulse also found that prospects for foreign, non-MENA based insurers remain subdued. Only 21 % of respondents expect the market share of foreign primary insurers to increase over the next 12 months, although this is up from 8 %. Interviewees continue to mention some high-profile market exits and retrenchment programmes as a result of significant underwriting losses and rates below internal group targets. In addition, foreign insurers' footprint in the fast growing personal lines segment remains weak.

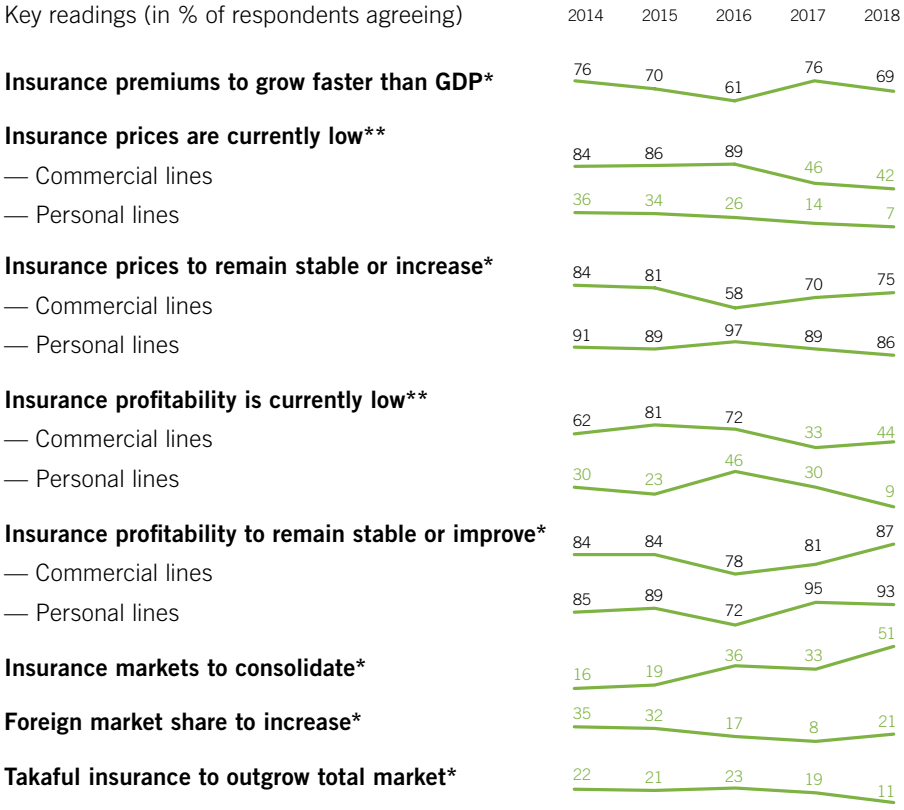
7. 34 % of respondents – virtually unchanged from the previous year – expect Takaful insurance to underperform the market in terms of growth. At 11 %, the share of those expecting it to outperform has further decreased from last year's 19 %. Many executives continue to feel that, especially in the GCC, Takaful offers no genuine differentiation and does not live up to the concept of mutuality, given conflicting interests of policyholders and shareholders. This lack of a unique selling point has forced many Takaful insurers to engage in fierce price competition. Prospects are considered more promising in Egypt, Morocco and Turkey, also on the back of regulatory improvements.

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 the 2018 with the 2017 edition, the two main differences in findings are:

— A more bullish assessment of current rates and technical profitability in personal lines

— Higher expectations as to the prospects of consolidation.



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

Munich RE

«The insurance opportunities offered by the MENA region go far beyond infrastructure projects and compulsory lines of business. Major segments of the population, such as expatriate blue-collar workers, remain virtually uninsured, placing significant contingent liabilities on their host countries. Insurers and reinsurers that can work together to offer innovative micro insurance solutions distributed via non-traditional channels such as service providers, will be well positioned to tap these potential growth areas.»

Salvatore Orlando, Head of Middle East, Africa and Russia, PartnerRe

Market Overview

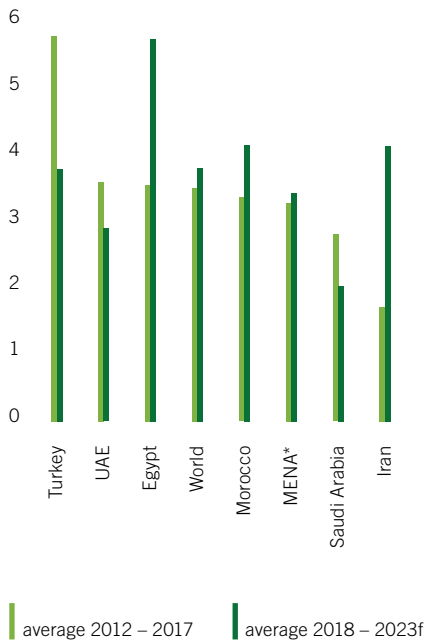
MENA GDP growth falls short of global average

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 2017, these 14 countries, with a total population of about 412 million, generated a combined GDP of around US$ 3.4 trillion, which is equivalent to 4.3 % of the world's total.

At an inflation-adjusted growth rate of 3.3 % per annum between 2012 and 2017, the region's economies (excluding Turkey) grew at a slightly slower pace than the global economy (3.5 %). Going forward, this pattern is expected to persist, with the region trailing slightly behind the global economy's projected 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 (2012 – 2023f; annual averages, in %)



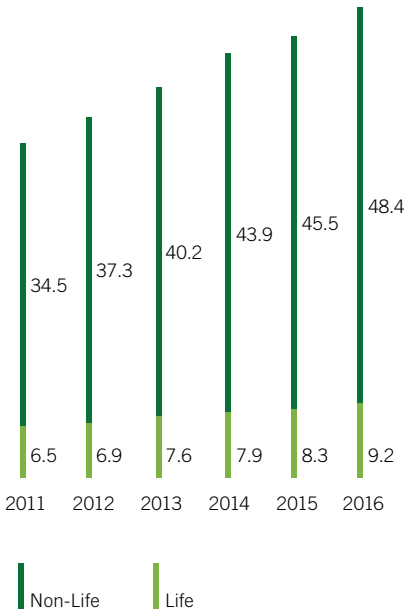
Source: IMF; World Economic Outlook (April 2018)

* MENA according to IMF composition: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.

MENA insurance penetration on the rise

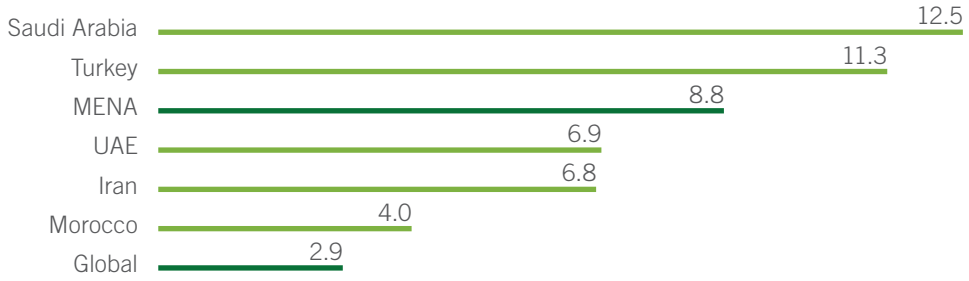
Income per capita levels in the MENA region as a whole are similar to the global average. The region's insurance penetration levels, however, remain extraordinarily low. In 2016, insurance premiums accounted for just 1.7 % of GDP, slightly more than a quarter of the global average. Encouragingly, this gap is narrowing as MENA insurance markets outpace regional GDP growth. Between 2011 and 2016, 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 Institute (Global Insurance Review 2016 and Outlook 2017/18) forecasts real annual premium growth of more than 5 % for 2018 and 2019, higher than the International Monetary Fund's economic growth forecast for the region. According to chart 2, at a share of 16 %, life business continues to play a relatively minor role in the MENA region (in comparison with its global share of 55 %).

Chart 2: MENA insurance premiums by type (2011 – 2016, non-life versus life, in US$ billion)



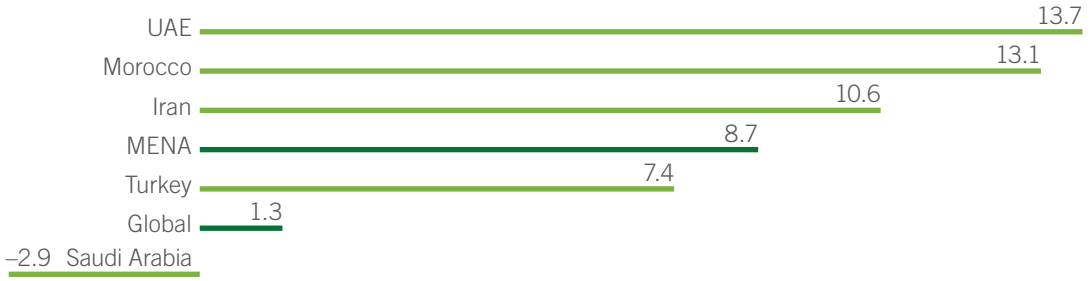
Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

Chart 3: Non-life real premium growth (2011 – 2016, annual averages, in %)



Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

Chart 4: Life real premium growth (2011 – 2016, annual averages, in %)



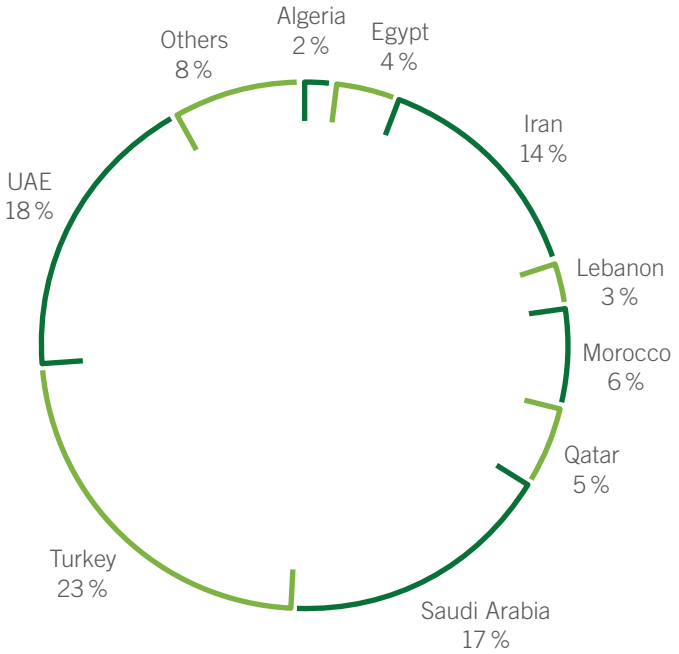
Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

«Throughout MENA insurance markets, we are witnessing an encouraging trend towards increasing regulatory and supervisory sophistication. Modern risk-based solvency regimes and qualitative risk management requirements are on the rise. At the same time, existing frameworks are being more effectively enforced. Such regulatory improvements drive mergers and acquisitions and promote industry consolidation, adding to stability and professionalism and serving the interests of both insurers and policyholders.»

Andreas Pollmann, Client Management Executive, Divisional Unit Middle East / North Africa (MENA), Munich Reinsurance Company

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

Chart 5: Geographical split of MENA insurance premiums (2016, share in %)



Source: Dr. Schanz, Alms & Company, based on Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

Meeting new insurance demands in the sharing economy

By Sami Sayegh, UAE General Manager, AIG

The sharing economy is changing traditional business models, with competition from young start-ups introducing new ways of working, connecting or interacting with a service. It disrupts established pricing models and is changing people's buying habits as they become comfortable with a modular pay-for-use product or service.

Talk of the sharing economy, often referred to as collaborative economy, can mean different things to different people. The UK government describes the sharing economy as:

— a service where customer interactions are made via a website or an app
— a service that involves consumer-to-consumer transactions
— the paid-for provision of short-term access to a good or service with no transfer of ownership
— making greater use of an under-used asset.

There is no doubt that the sharing economy is having an impact on many traditional sectors. It has changed the way people use taxis, book holidays and invest money, to name but a few, and its reach is not bypassing the insurance industry. Work by consultancy PwC in Europe and by its Strategy division in the GCC have highlighted the financial potential of the sharing economy. In 2016, they estimated that the market was worth approximately $31.2bn in Europe and $10.7bn in the GCC. These figures are rapidly increasing and illustrate why insurance companies need to make sure their products and services up-to-speed with the sharing economy.

Start-ups are working hard in developing trust and transparency around the services they offer. They also need to educate their target customers and convince them to transact with a platform that completely changes their buying behaviour. Whilst building their brand, sharing economy start-ups also need to consider the regulatory environments they operate in, the reputational risk they face if things go wrong, and how to protect themselves, particularly as any reputational damage to a young company can have critical consequences for their business.

While the sharing economy has built its reputation on changing market dynamics, companies still need to ensure they have insurance in place, protecting themselves and in some cases the attachment-points where they connect a service with a customer. In the fast-changing, asset-light, peer-to-peer world of the sharing economy, companies need to question whether the insurance products in place today are the right ones for the needs of tomorrow.

For those companies, it is a challenge to develop new on-demand or pay-as-you-use insurance products, services or payment methods to suit these services. This challenge can be exacerbated when it is not always clear what parts of a business need insuring or how often. It can mean embracing business models, such as micro-insurance, which may better suit small start-ups rather than larger incumbents.

Take for instance a company that collects, washes, presses and then returns your clothes. In the world of the sharing economy, this company may consider itself to be an asset-light technology platform – it may not own any washing machines but instead sub-contracts the cleaning to its partners. The only point where they are physically in contact with the clothes may be during their transportation. Which part of the process needs insuring – only the point when they are transporting the clothes or the full process? And what insurance do you apply to a low-value garment if it is damaged?

These questions introduce new thinking around risk and how much a company is prepared to shoulder when it is dealing with low-value items or services that require specialist cover for a limited amount of time. It means updating underwriting processes to ensure they adapt to new insurance requirements, especially if a more on-demand approach is required. It can also mean having to update technology platforms and business rules to match the asset-light platforms they are insuring.

As risks and client expectations change, the industry will need to ensure future product offerings are fit-for-purpose and meet the needs of companies and consumers alike when they enter into peer-to-peer, small-scale or short-term transactions.

The effects of the sharing economy are yet to be felt in many industries. It will introduce new ways of doing business. Long-standing insurance brokers and underwriters will need to adapt or launch products to meet the needs of this market. If they don't, someone else will step in as we can see already with some of the InsurTech start-ups launching niche on-demand or pay-as-you-use products into the markets.

Insurance companies have had successful traditional products in place for many years but they will have to rise to the challenge to keep up with the changes introduced by the sharing economy.

Tunis Re
...your risk is our business

A local presence, regional and Arab intervention capabilities

Established in 1981 by the initiative of the public authorities and with the contribution of the institutional players of the financial sector.

The creation of Tunis Re reflects a strategic choice and a will to develop and support the insurance sector in Tunisia and in the Maghreb, Arab and African markets within an environment led by regional interests and the influence of globalisation.

Tunis Re is conscious of the strategic importance of its role as a national and regional reinsurer, has worked continuously to develop its technical skills and its professional expertise at the service of its partners in order to raise its services to the level of world's leading reinsurers. Also, Tunis Re has always been careful to achieve the objectives for which it was created:

- Strengthen the retention on the local market and reduce flows of transfers of funds abroad while increasing the role of market players as institutional investors.

- Promote the development of a policy of business exchanges based on reciprocity with other institutions of the region and to represent the Tunisian reinsurance market both regionally and internationally.

Today, Tunis Re continues to maintain a solid balance sheet, a respectable size and a confirmed presence despite a highly competitive environment. It has always ensured a sound underwriting policy and well controlled risk management, which allowed it to focus on profitable and sustainable growth.

Strategy & Vision :

The strategic orientations are in close relationship with our capacity to offer favourable and advantageous services to our various partners and higher outputs to our shareholders.

The strategic guidelines of Tunis Re are based on the following axes:

Develop competences and promote risk management: With an experienced and highly qualified team, Tunis Re pursues an aim, that of being close to its clients, provide them with customised solutions and improve the treatment process and the response time.

Indeed, Tunis Re's integrated risk management framework provides a basis for the identification, assessment and management of insured risks.

Strengthening of Equity

Strengthening of equity is essential for the reinsurance profession, which requires a good level of financial solvency. Tunis Re progressively proceeded to strengthen its financial base by successive increases of its share capital reaching 100 million dinars and a capitalisation of the profits bringing its capital to 193 million dinars in 2017.

Achievements :

Tunis Re was the first Tunisian Reinsurance company introduced on the stock exchange since April 2010 with demand exceeding 31 times the offer.

Tunis Re has been certified to the **MSI20000** standards by the Paris Stock Exchange Institute on October 27th, 2010, which has been reconfirmed in 2017. This certification confirms the financial strength of the company and the performance of its development strategy, which supports its financial credibility.

Tunis Re has created its Retakaful window called **Tunis Re Takaful** that responds to the growing needs of Takaful insurance companies for a ReTakaful coverage.

Tunis Re Takaful started underwriting from 1st January 2011, in full compliance with the Shariah rules and standards.

Tunis Re has always assigned a very important place to its relations with **Arab Market** because of its deep conviction of a common destiny, the necessity of cooperation and solidarity with its Arab partners.

AM Best has affirmed on July 27th, 2017, the financial strength rating of B+ (Good) and Long Term Issuer Credit rating of «bbb-» of Tunis Re with stable outlooks of these credit ratings.

Thanks to a well adapted underwriting policy to its retrocession program, Tunis Re has always been able to perform well, despite a highly competitive environment and a constantly changing context.

Tunis Re is confident to proceed its development, to improve its reputation and to confirm its growth with the help of its staff and the faithful adherence of its partners.

Shareholders

Tunisian State	5,34%
Tunisian Insurance Companies	52,08%
Tunisian Banks	24,78%
Others	17,80%

Key Figures 2015-2017

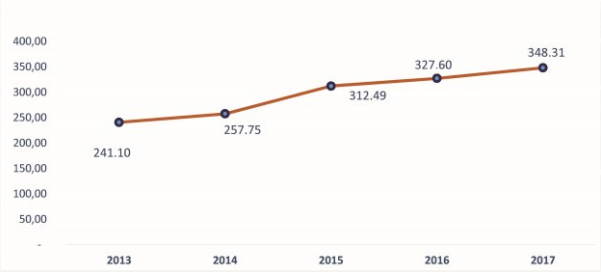
(In M TND)

	2015	2016	2017
Financial Structure			
Capital	100.000	100.000	100.000
Shareholders Equity *	185.655	191.340	193.380
Net Financial Year Income	14.443	15.905	12.286
ROE	8.4%	9.1%	7%
Technical Management			
Turnover	100.586	113.434	121.672
Retention	57.225	68.461	72.263
Technical Provision	184.554	204.902	230.278
Net Combined Ratio	91.6%	90.5%	101.7%
Financial Activity			
Investments	312.489	327.595	348.308
Deposit Rate	165%	160%	151%
Return on Capital	10%	10%	10%

* Before Result Allocation

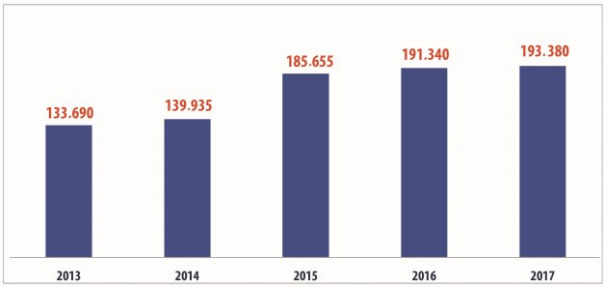
Investments

(In M TND)



Shareholders Equity

(In M TND)



Innovative products help address MENA's low insurance penetration

By Salvatore Orlando, Head of Middle East, Africa and Russia, PartnerRe

Salvatore Orlando, Head of MEAR at PartnerRe, explains how reinsurers can help their insurance clients to address low insurance penetration in MENA with innovative products that meet the specific and sometime unrecognized needs of policyholders.

Low levels of insurance penetration are a global problem, but one that is especially acute in the MENA region. A report from the Qatar Financial Centre[1] found that in 2015, insurance penetration rates in the region were just 1.7 % of gross domestic product – about a quarter of the global average. This represents a huge growth opportunity for the insurance industry, but only if it can create innovative solutions that address the particular issues facing the people and businesses of the region.

The reinsurance industry has a major role to play in helping insurers to create and develop the products needed to meet these challenges. For this to happen, reinsurance companies need a change of mindset. Many reinsurers have traditionally viewed their role as being little more than that of a capacity provider for their clients. Now, however, they need to be much more proactive in finding ways to add value to their insurance clients by helping them to create new products that open up new revenue streams.

We are seeing many examples where insurers and reinsurers are collaborating, often with technology start-ups, to create smart insurance products that meet the needs of consumers and businesses in the region. The insurtech sector has grown exponentially in recent years as insurance companies have looked to apply a raft of tech advances such as artificial intelligence (AI), robotics, machine learning and blockchain to transform the industry. An OECD report[2] found funding levels for insurtech initiatives reached a record of $2.6 billion in 2016 and the disruption some of these new initiatives will undoubtedly create is sure to have major implications globally.

One significant obstacle insurers face when trying to sell insurance products to consumers in MENA is that very few of them have bank accounts. This is obviously a challenge for the banks as well. To overcome this, banks have enticed new customers into opening accounts by offering loyalty programs that reward them with insurance coverage. For example, if the customer completes a set number of transactions, the bank will provide them with an insurance program that protects them and their families. This type of fresh approach allows the bank to attract new customers, insurance companies to sell insurance, and for the end consumer to enjoy the protection of an insurance policy.

War and famine are just some of the reasons for the extraordinary levels of global migration we have seen in recent years, many involving people from the MENA region. The United Nations 2017 International Migration Report[3] found there were 258 million international migrants last year, compared to 220 million in 2010 and 173 million in 2000.

Mass migration has had a significant impact on the MENA region, with millions of people who have moved abroad regularly sending money to support their families back home. Research from the World Bank showed that in 1995, economic migrants were responsible for $100 billion of remittances, with that figure rising to $350 billion by 2015.

The money which migrants send home is a real lifeline for their families, especially in the MENA region where very few households have insurance policies to protect them against circumstances such as illness or the loss of a job.

To address that problem, PartnerRe worked with one insurer to provide micro-insurance for people sending remittances. Together with our client, we partnered with a fintech company that provides the technology to allow millions of customers to remit money to their families. We worked with the

insurer and the fintech business to create a product and pricing structure that was distributed to users digitally. The remittance company was then able to offer its customers insurance, and our client was able to tap into a new stream of digital revenue.

There are other untapped opportunities to innovate for growth among insureds whose needs aren't fully addressed by existing products and who are prepared to pay for outstanding service. For example, insurers could offer frequent flyers travel policies that include a concierge service to take care of rebooking flights and hotels in the event of a cancellation. Reinsurers can help their insurance clients create these kinds of forward-thinking and creative products by providing market insight and assistance with structuring the policies.

The significant under-insurance we see in the MENA region represents a major opportunity for the insurance industry – and reinsurers have a vital role to play in supporting their insurance clients as they develop new and innovative solutions to address the needs of policyholders.

PartnerRe

Sources

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2 OECD Technology and innovation in the Insurance Sector
https://www.oecd.org/finance/Technology-and-innovation-in-the-insurance-sector.pdf

3 United Nations 2017 International Migration Report
http://www.un.org/en/development/desa/population/migration/publications/migrationreport/docs/MigrationReport2017_Highlights.pdf

«The Tunisian insurance market has been able to cope with difficult situations following the revolution of the ‘Arab Spring‘. In fact, the insurance sector demonstrated its resilience with a compound annual growth rate of 9 % of premium income from 2012 to 2017. Despite its growths, Tunisia’s insurance penetration remains at a low 2 %, compared to the global average of 6,5 %, primarily due to the low awareness of insurance as a risk management tool. In fact, with a share of 45 % compulsory insurance still represents a significant portion of the market.»

Lamia Ben Mahmoud, Président Directeur Général, Tunis Re

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. In addition, life insurance is growing quickly as governments scale back social security benefits such as pension entitlements.

The second most frequently mentioned strength (up from third place in 2017) is the regulatory environment which has seen major improvements in countries such as the UAE and Egypt and makes an increasingly positive contribution to the market's overall robustness and stability. A growing number of countries have adopted modern risk-based supervisory regimes and established independent insurance authorities. The region's relatively low natural catastrophe exposure (except for Algeria, Iran and Turkey) is the third most frequently mentioned strength, down from second place last year (see chart 6).

Chart 6: Market strengths (number of mentions)

«The outlook for Egypt's insurance market is positive: Economic growth is picking up and various legislative and regulatory initiatives (such as new compulsory insurance schemes) provide additional tail wind. Challenges to overcome include severe price competition and a still very low level of general insurance awareness.»

Mohamed Mostafa, CEO, Orient Takaful Insurance Company – Egypt

«Regulatory guidance will remain key for many if not most MENA insurance markets in order to ensure the necessary stability and viability which otherwise might be compromised by excessive fragmentation and irresponsible price-driven competition.»

Chakib Abouzaid, Group Chief Marketing Officer – Reinsurance, GroupMed

«The solvency based regulation introduced in Saudi Arabia or the UAE contributes to strengthen these markets. However, it will also translate into higher capital requirements for insurers, in particular for capital intensive risks such as motor or medical. Insurers will either have to bolster their capital adequacy or increase their reinsurance purchasing through quota share arrangements.»

Jasmine Miow, Director South Asia, SEA and MENA Market, Peak Re

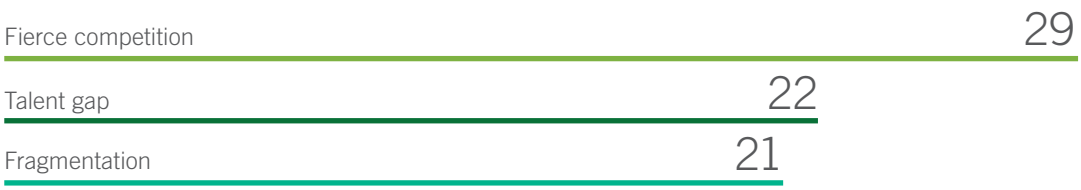
Fierce competition viewed as the major weakness

As in the past, unsatisfactory rates and profitability levels as a result of excess capital and fierce competition, primarily over price, are perceived as the greatest weakness of the MENA insurance marketplace. This view is strongest among GCC countries, which are easily accessible and mostly catastrophe-free and attract ample reinsurance capacity from all over the world.

The talent gap ranks as the second major weakness, as in 2017, as workforce localisation requirements are enforced and the influx of expatriate workers slows. In addition, there are specific shortages in the area of digital skills where insurers struggle to attract talent.

Fragmentation of the insurance supply structure ranks third. The MENA region is served by more than 200 insurers, almost a third of which only operate in the UAE. Many of these players are considered non-viable given tightened solvency requirements and major IT investment needs, for example (chart 7).

Chart 7: Market weaknesses (number of mentions)



«I feel that many insurers across the MENA region focus too much on price competition and tend to view the business as a zero sum game in which the gain of one insurer implies an equal loss for another. We as an industry should rather think of insurance as a market that we can collectively grow, for example through awareness building, tailored product innovation and new technologies which make our offerings more appealing and affordable.»

Faker Rais, Acting CEO, United Cooperative Assurance Co.

«For a sustainable development of their markets MENA insurers need to adopt a different paradigm of competition. The traditional focus on undercutting rates has been discredited, and a number of companies have paid dearly for this type of behaviour. Very encouragingly, there is a growing number of corporate success stories driven by superior service capabilities – a testament to customers' increasing recognition that there is more to an attractive insurance proposition than price.»

Ahmad Idris, CEO, Abu Dhabi National Insurance Company

«For insurers across the region it is vital to increase their investments in talent and expertise. Such investments are a prerequisite to improving the insurance industry's service capabilities which, in turn, would help narrow the significant insurance protection gaps in the MENA region.»

Youssef Fassi-Fihri, CEO, Société Centrale de Réassurance, Morocco

Catch-up potential continues to be the most important opportunity

As in previous years, low penetration is the most frequently mentioned opportunity for 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. While in some markets the hydrocarbon share in the overall GDP is quite high, premium volume directly generated by the oil and gas sector is disproportionately lower (see chart 9 which shows that GCC insurance penetration rates are much closer to the global average if calculated on the basis of non-hydrocarbon GDP only).

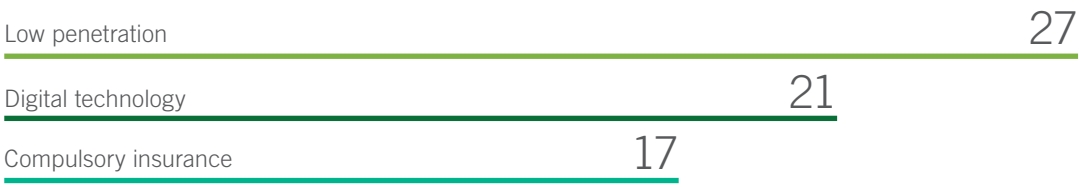
Digitisation ranks second, up one spot from the previous year. It is increasingly viewed as offering the potential for both bringing down operating and acquisition expenses as well as for making insurance products more appealing and meaningful. Specifically, modern technologies could help make competition, which is currently primarily price-driven, more multi-faceted by enabling innovative approaches to claims handling, for example.

Expanded or better enforced compulsory schemes rank third, down one spot. Personal lines insurance business, such as medical insurance, is expected to remain the markets' main engine of growth, even though some markets such as the UAE are beginning to display signs of saturation. In addition, demand for liability cover (e.g. professional indemnity) is expected to receive a shot in the arm from additional compulsory insurance requirements. Medium-term compulsory insurance could be extended to areas such as homes, cyber, D&O and pensions, offering major potential for additional premium growth (see chart 8).

«The MENA region offers great potential for cyber insurance. Awareness, also in Board rooms, is growing rapidly, not least because of a number of high-profile cyber incidents recently. In addition, there are legislative and regulatory trends that are set to stimulate demand for cyber insurance.»

Sami Sayegh, UAE General Manager, AIG

Chart 8: Market opportunities (number of mentions)



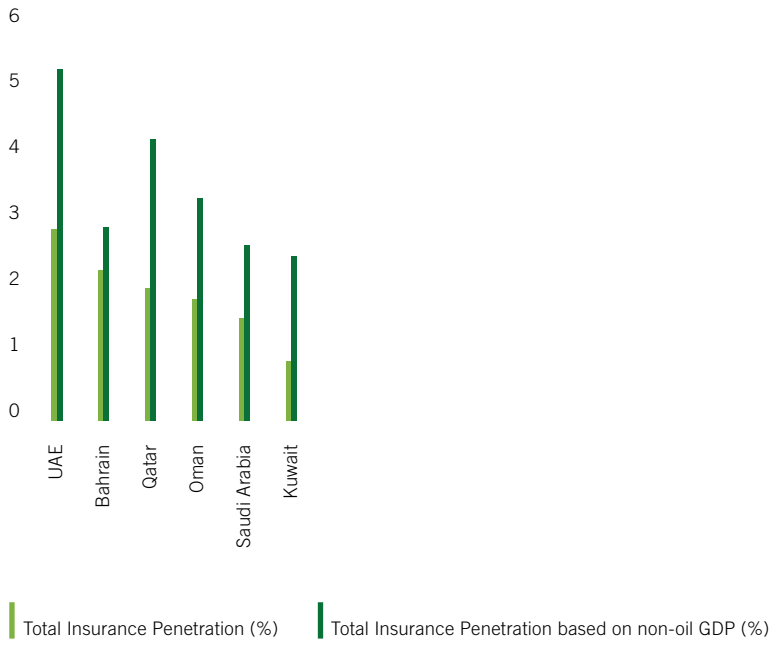
«Building customer centricity is a strategic priority in the underpenetrated insurance markets of the MENA region. Even though this challenge is a global one for the insurance industry it is of particular importance in countries where most people still do not feel comfortable with the basic notion of insurance. I believe that digital technologies will go a long way in addressing long-standing deficits in customer centricity.»

Christos Adamantiadis, former CEO, Oman Insurance Company

«We expect digitisation to make a real difference in MENA insurance markets within the next two to three years. The scope for operating efficiency gains is enormous. In addition, by digitising the insurance value chain, we can greatly enhance the appeal of our products and the quality of our customers' experience – which will ultimately help address the insurance penetration gap across the region.»

Dr. Abdul Zahra Abdullah Ali, CEO, National General Insurance Co.

Chart 9: GCC total insurance penetration rates (including and excluding hydrocarbon-related GDP)



Source: Broktech SAL, IMF, Swiss Re Institute, sigma No 3/2017, sigma-explorer.com.

«The MENA region's insurance penetration is generally perceived as low when compared to other countries with similar levels of per capita income. This perceived penetration gap has long been viewed as a major opportunity and underpins the unabated influx of new players and additional underwriting capacity into the market place. However, stripping out the hydro-carbon-related share of the region's GDP yields a different picture. By that measure, in a nutshell we can say that the penetration gap that would need to be filled by additional capital is lower than anticipated, especially in the Gulf region where oil represents a substantial share of the GDP.»

Ronald Chidiac, CEO, Broktech SAL

«Given the current technological progress and the low insurance penetration in North Africa, and specifically in Algeria, our market offers great potential. However, it is essential that the industry provides a better service to customers and consumer to overcome some scepticism towards the product by investing into research, product development, innovation, digitisation and service.»

Hadj Mohamed Seba, CEO, Compagnie Centrale de Réassurance

Geopolitics as the most important threat

Geopolitical risk was the most frequently mentioned threat, up from second place, hanging over the regional insurance market outlook. The civil wars in Syria and Yemen continue unabated and foreign involvement poses additional risks of escalation. In addition, there is significant uncertainty over the future of the nuclear deal between Iran and a number of other countries.

New for this year, some countries' continued significant dependency on hydrocarbon revenues ranked as the second greatest challenge, making GDP forecasts and projections very difficult. Even though oil prices have recovered from their lows in early 2016, there is an increased awareness of this vulnerability and volatility in government spending, disposable incomes and financial markets.

The third most frequently mentioned risk factor is the lack of locally available talent. Workforce localisation requirements and lower numbers of expatriate staff in a number of countries have added to the relevance of this long-standing fundamental challenge (see chart 10).

Chart 10: Market threats and challenges (number of mentions)

«The MENA region remains characterised by long-standing challenges such as political instability, a heavy dependence on hydrocarbon prices and excess reinsurance capacity. On the other hand, attractive fundamental opportunities abound in light of still low insurance penetration rates, government support through compulsory insurance requirements and the emergence of new insurable risks, such as cyber.»

Gökhan Aktaş, Head of Foreign Inward Business, Milli Re

«In order to enhance or even simply maintain their attractiveness as an employer of choice, (re)insurers must transform into truly digital organisations. This imperative goes beyond simply digitalising existing products and service offerings. It must encompass softer issues such as faster and more transparent career progression opportunities for young talent, a less patriarchal style of leadership, and more flexible working conditions.»

Walid Sidani, MD, Kay International AMEA Limited

«In the MENA region, digitisation in insurance will take time. Transactions continue to be based on relationships and established distribution channels remain well entrenched. Having said that, the industry is ripe for disruption. External pressure on the industry is growing, particularly in MENA where the median age of the population is among the world's lowest and where technology platforms are likely to drive digital transformation.»

Salvatore Orlando, Head of Middle East, Africa and Russia, PartnerRe

2. General insurance market status and outlook

Wider gap between personal and commercial lines pricing

Some 42 % of the 2018 survey, down from 46 % last year, regard current prices in MENA commercial lines business as below the average of the past three years. Even though competition remains fierce, reflecting the continued abundant supply of reinsurance capacity, property insurance rates in Saudi Arabia and the UAE recovered. Both markets account for about 35 % of total MENA insurance premiums.

An increase in the number of large property losses has prompted reinsurers to 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. However, according to some interviewees, at the April 2018 renewals, property reinsurance rates started to erode again.

As in previous years, survey participants judge personal lines business more favourably than commercial lines. In 2018, however, we recorded the widest discrepancy ever, with only 7 % saying that premium rates are lower than the average of the past three years, down from 14 %.

The positive pricing trend in personal lines is primarily attributable to regulatory actions such as new unified motor policies (with wider coverage and higher rates) and actuarial pricing and reserving requirements in medical insurance. This was partially offset by developments in Turkey that saw a sharp decline in motor premiums following the implementation of a premium ceiling in April 2017. In Saudi Arabia, motor rates came under pressure from slowing car sales and the impact of new no-claims discounts.

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, e.g. in policy serving and claims settlement. Personal lines business also tends to be structurally more adequately priced as it is largely retained by insurance companies (see charts 11 and 12).

Chart 11: Current level of rates – Commercial lines

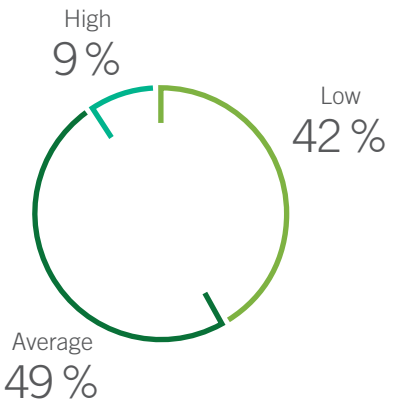
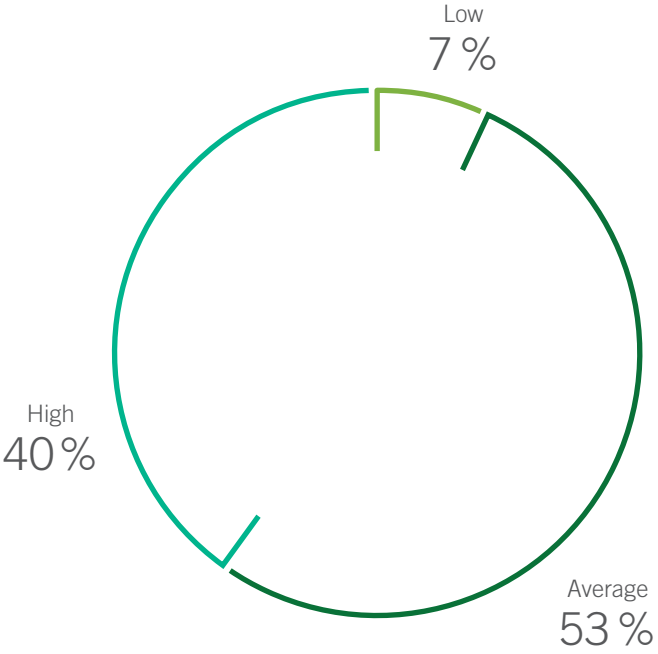


Chart 12: Current level of rates – Personal lines



«In terms of premium growth, we have seen a slow-down compared to the three previous years and this is mainly due to reduction of the oil prices which consequently led to strain the finances of governments in the region and stall many of the development efforts that are already in place. Markets with tighter insurance regulations are expected to perform better due to less reinsurance capacity pouring into these markets due to rating requirements, fragmentation of the market is less pronounced, insurers being more capitalised and the introduction of actuarial skills by imposing minimum rates on certain lines of business.»

Joe Asmar, Group Head of Facultative, Chedid Re

Stable pricing outlook in commercial and personal lines

Compared with 2017, the pricing outlook for commercial lines is largely unchanged. 75 % of executives polled expect stable or higher rates over the next 12 months, up from 70 %. The majority view is that reinsurers, also in light of severe global catastrophe losses in 2017, will remain firm on terms and conditions, enforcing continued discipline in original markets.

The pricing outlook for personal lines has also remained stable, with 86 % (down from 89 %) expecting stable or higher rates. The enforcement of actuarial pricing and reserving as well as minimum rates set by regulators will set a floor on prices. The same effect will emanate from insurers' desire to recoup losses from prior years, in combination with anticipated continued claims inflation (see charts 13 and 14).

Chart 13: Pricing outlook – Commercial lines

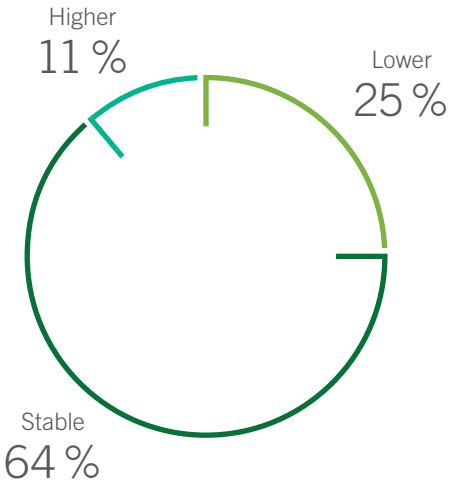
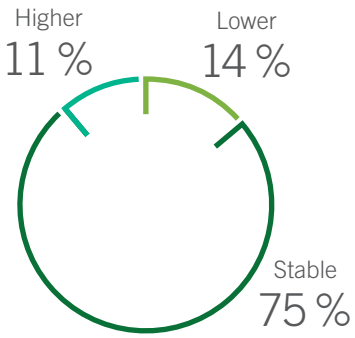


Chart 14: Pricing outlook – Personal lines



«The international reinsurance markets will have a key role to play in turning the GCC commercial insurance space around. As long as reinsurers provide ample capacity at rock-bottom rates and do not insist on their cedants' having more 'skin in the game', domestic insurers will have little incentive to underwrite for profit and invest in risk management.»

Nagib Bahous, President & CEO, MIG Holding

Improved technical profitability in personal lines

The survey found that 44 %, up from 33 %, of respondents consider overall profitability in commercial lines to be low, benchmarked against the past three years. Even though rates have seen some improvement, a higher frequency of large claims and deteriorating reinsurance contract terms and conditions (such as higher deductibles and more exlusions) took their toll on technical profitability in the commercial lines space.

As far as attritional losses are concerned, many insurers report a positive trend, as a result of improving risk management standards which partially reflects pressure from reinsurers.

91 % of executives consider current technical profitability in personal lines as higher or in line with the average of the past three years, sharply up from 70 % in the previous year. This strong improvement follows significant rate increases in motor and medical business, in combination with improved claims management that helped check underlying claims inflation (see charts 15 and 16).

Chart 15: Current level of technical profitability – Commercial lines

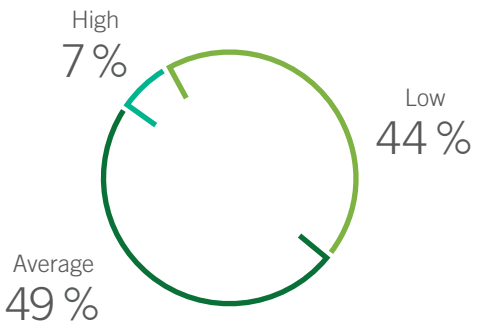
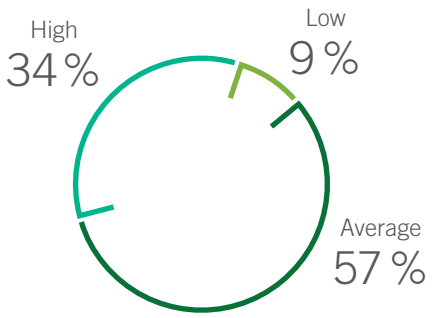


Chart 16: Current level of technical profitability – Personal lines



«Generally speaking, insurers' technical profitability tends to be higher in Northern Africa than in the GCC, because competition appears less fierce. However, due to regulatory pressure, differences in rates and profitability are more pronounced on a class by class basis. Markets with stronger regulation tend to perform better than those where regulation is lax and where we lack guidance on capital requirements or solvency margins. Here markets are fragmented with too many small players chasing after the same clients.»

Chris Pleasant, MD MENA, Guy Carpenter

«Our industry's ability to manage risks professionally and holistically will drive its future prospects. This challenge goes far beyond traditional hazard risk. It also encompasses strategic, operational, credit and financial risks. Such an integrated view of risk in insurance will be a key success factor going forward, not only because of regulatory and supervisory requirements but also due to complex investor demands for high returns on equity and the rapid emergence of the digital risk landscape of the future.»

Fahad Al-Hesni, CEO & MD, Saudi Re

Stable to stronger profitability outlook

87 % of executives polled expect profitability in commercial lines to remain unchanged or edge slightly higher over the next 12 months, up from 79 % in 2017. Corrective measures on pricing, reserving and claims settlement will continue to be felt. In addition, technical profitability is expected to benefit from further improved safety regulations and the fact that insurers can no longer rely on investment income to offset underwriting losses.

In personal lines, 93 % of executives polled expect profitability to remain unchanged or improve, compared with 95 % in 2017. Participants predict regulatory support to continue but also cite improvements in claims management practices, partly enabled by digital technologies (see charts 17 and 18).

Chart 17: Outlook technical profitability – Commercial lines

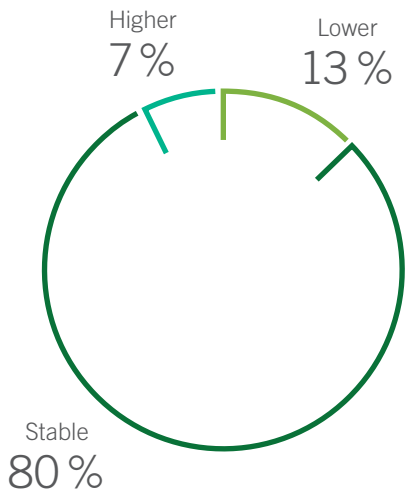
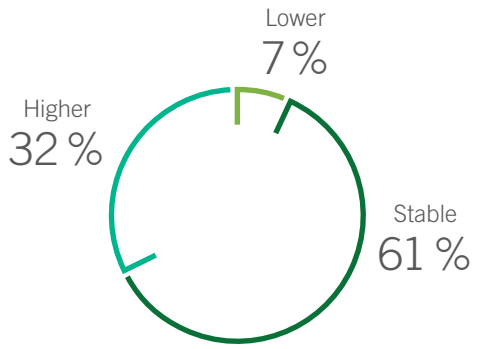


Chart 18: Outlook technical profitability – Personal lines



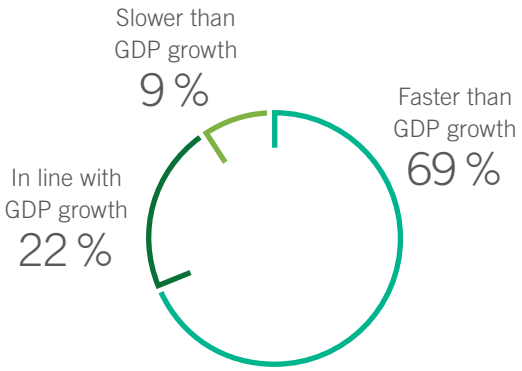
«The regulatory and supervisory framework has developed into a major strength of the UAE insurance market. The Insurance Authority has effectively implemented tighter rules on pricing and policy wordings, for example, which were a major contributor to the market's most recent turnaround towards healthy profitability. Having said this, further steps should follow, especially in the area of risk-based solvency requirements, in order to close the gap with the world's most advanced insurance jurisdictions.»

Fareed Lutfi, Secretary General, Emirates Insurance Association

Insurance penetration expected to increase

Over the next 12 months, 69 % of the survey respondents expect insurance premiums in the MENA region to grow at a faster pace than regional GDP, down from 76 % in 2017. This bullish assessment reflects the continued growth momentum in compulsory personal lines insurance. Offsetting factors cited by the less optimistic respondents include sluggish commercial insurance lines, such as in engineering and marine business (see chart 19).

Chart 19: Expected premium growth versus GDP growth



«For the GCC we assume that premium growth will trail GDP growth in 2018. In 2017 we experienced a strong year, with premiums benefiting from the enforcement of mandatory policy wordings as well as minimum and maximum tariffs in motor by the regulator. Similarly, in the commercial lines rates stabilised as a result of tighter conditions introduced by the reinsurers following the heavy losses experienced in the region in 2015 and 2016. For the current year, we expect a relaxation, as insurance lags behind the overall economy and will only benefit from the recent oil price recovery with some delay.»

Jason Light, CEO, Emirates Insurance

«In terms of growth, we predict that the insurance markets of the Middle East will grow slightly ahead of GDP. Saudi Arabia might well be among the more rapidly expanding markets due to increased efforts to enforce the motor insurance obligation. Currently many Saudi drivers only purchase a one-year policy and remain uninsured for the remaining two years until their car licence is due to renew. Changing that practice can have a substantial effect on the overall market volume.»

Lukas Mueller, Head Middle East & Pakistan and Director Europe, Middle East & Africa, Swiss Reinsurance Company Ltd

«Following the most recent oil price shock, which badly affected many countries in the MENA region, their governments have undertaken very serious measures to diversify their economies away from their sole dependency on oil revenues. The region's economies are moving towards a wide array of sources of income, including manufacturing, tourism or agriculture. This poses great opportunities for insurers, because as the economies diversify so will the premium income.»

Romel Tabaja, CEO, Oman Re

«As in other parts of the world, MENA insurers too face the imperative of digital transformation. In order to meet the needs of the region's exceptionally young population as well as to hold their own against competitors from more mature insurance markets, regional players have to embrace digitisation across the entire value chain. This transformation will produce winners – and mergers and acquisitions will be an important determinant of who will belong to this camp.»

Andreas Pollmann, Client Management Executive, Divisional Unit Middle East / North Africa (MENA), Munich Reinsurance Company

3. Lines of business-specific prospects

Personal lines continue to drive premium growth

Following the trend set 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 have made medical insurance the biggest line of business in Saudi Arabia. In addition, rates have firmed. New compulsory regimes are also being implemented in other jurisdictions such as Kuwait and Egypt. Fiscal constraints continue 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 2017, 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, governments are encouraging pension savings products and a number of executives expect these to become compulsory in due course. From a macroeconomic perspective, 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 20).

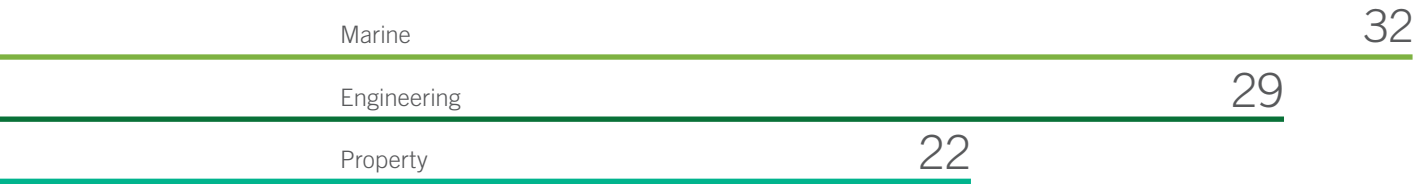
Chart 20: The fastest-growing lines of business (number of mentions)

«A key strength of the MENA insurance markets, namely in the Gulf, is the advanced state of its insurance regulation. Today in the UAE about two-thirds of the market is driven by compulsory lines of business. Previously, motor dominated the market. More recently, medical insurance has become compulsory for all residents based in the UAE. Going forward we expect life pensions to become compulsory as well, providing a further boost to the market.»

Bassam Chilmeran, CEO, Al Wathba National Insurance Company

As far as the slowest growing lines are concerned, the marine and engineering segments were mentioned most frequently as in 2017, given their particular sensitivity to the economic cycle. Property ranks third as construction activity remains subdued (see chart 21).

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



«Micro-insurance provides a great opportunity to Jordan's insurance market, because it opens up new avenues in product development and access to hitherto inaccessible client segments. Together with banking partners, we provide loans to women and protect the credit with a life and – going forward – also with a stop-loss health cover. Thus far, we rolled out the product to close to 500,000 policyholders and - extending it now to include the spouse and children of the women - are targeting to ultimately sell 750,000 policies in three to five years' time.»

Imad Abdel Khaleq, CEO, Jordan Insurance Company

«Our markets are ultra-competitive and I believe rates have reached rock bottom. Growth exists mainly where medical is compulsory and the regulator enforces minimum pricing or actuarially certified pricing rules. Insurers that have access to segments of the market where barriers to entry are relatively high and those insurers that leverage the available technology to manage and stringently control their claims and cost base, in particular if they are active in the retail sector, will be able to succeed and capitalise on the opportunities available in the current market.»

Youssef Al Kareh, General Manager & Executive Vice President, Damana

Dramatic changes for the most profitable lines of business have been recorded this year. Life has jumped from third position last year to take first place. 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, the life insurance segment benefits from lower levels of competition than the non-life market, which is partially attributable to relatively limited reinsurance capacity. Other supporting factors include the favourable demographic profile and rates which are based on internationally recognised mortality tables.

Liability is a newcomer to the top three and ranks second, given the non-litigious culture in the MENA region and a much better demand and supply balance as compared with other non-life lines of business. Marine is third ranked, down from the first spot in 2017. Loss ratios remain relatively low but the prolonged economic slowdown is starting to take its toll (see chart 22).

Chart 22: The most profitable lines of business (number of mentions)

«Despite the regional spill-overs and geographically challenging conditions, the Lebanese insurance sector remains a profitable market scoring steady growth, coupled with a strong domestic talent base and a well-balanced line of business split with a significant share of life insurance.»

Fateh Bekdache, Vice Chairman and General Manager, Arope Insurance

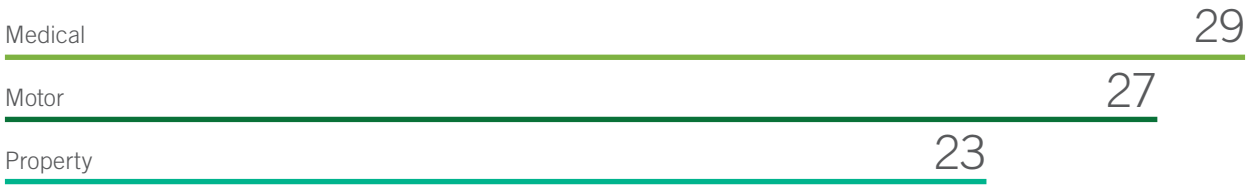
«We see great opportunities for Morocco's insurance markets, which are benefiting from the country's strong GDP growth. Being ideally located between Europe and Africa, substantial foreign investments are flowing into the country. In addition, Morocco is developing as a financial centre and is successfully building industrial ecosystems. This creates a style and positive business environment, which is conducive to the insurance sector as well.»

Pierre-Edouard Fraigneau, Directeur Risques d'Entreprises, SAHAM Finances

As compared to 2017, there is no change among those lines of business considered least profitable. Medical ranks first, reflecting adverse loss trends and accelerating loss cost inflation for medical services, in combination with generally weak claims settlement procedures. However, there are companies in Saudi Arabia and the UAE that generate profits from medical business on the back of superior claims management and fraud control as well as automated processes.

The same is true for motor insurance which also 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 reinsurance capacity and a high degree of commoditisation even though property rates have shown signs of recovery in some markets (see chart 23).

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



«It is striking to observe that in the MENA region, on a market level, premium growth by line of business seems to be inversely correlated with profitability by line of business. This phenomenon illustrates the perennial corporate trade-off between top-line and bottom-line performance. The challenge for industry executives is to reconcile premium growth, i.e. relevance to society, with sustainable profitability, i.e. reliable support from shareholders.»

Dr. Ali Al-Wazani, CEO, Arab Orient Insurance Co., Jordan and Chairman of the Jordan Insurance Federation

«Generally speaking, we observe that the more developed MENA markets are also the least profitable ones. Insurers compete on price and tend to rely on investment income to subsidise their profits. They leverage the abundant reinsurance capacity in the region to pursue a fee-based brokerage business model.»

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

4. Key market trends and drivers

Continued trend towards regulatory improvements

The Pulse found that 46 % (up from 43 %) of respondents believe the overall state of insurance regulation in the region to be adequate. The share of participants stating an 'inadequate' verdict declined from 33 % to 27 %. This more favourable assessment reflects continued progress towards introducing solvency margins or even risk-based solvency rules, especially in the UAE, following the example of the Saudi Arabian Monetary Agency (SAMA).

By enforcing unified policy wordings in combination with actuarial pricing and reserving requirements, regulators are making an increasingly positive contribution to the insurance markets' overall stability and health. 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.

In addition, some interviewees felt that regulators have no clear vision of the insurance industry's future role and, 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 a lacking or inconsistent enforcement of regulatory and supervisory regimes which creates strategic and operating uncertainty.

In general, the region remains highly heterogeneous as far as regulatory sophistication is concerned, ranging from relatively effective and sophisticated regimes in Bahrain, 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 24).

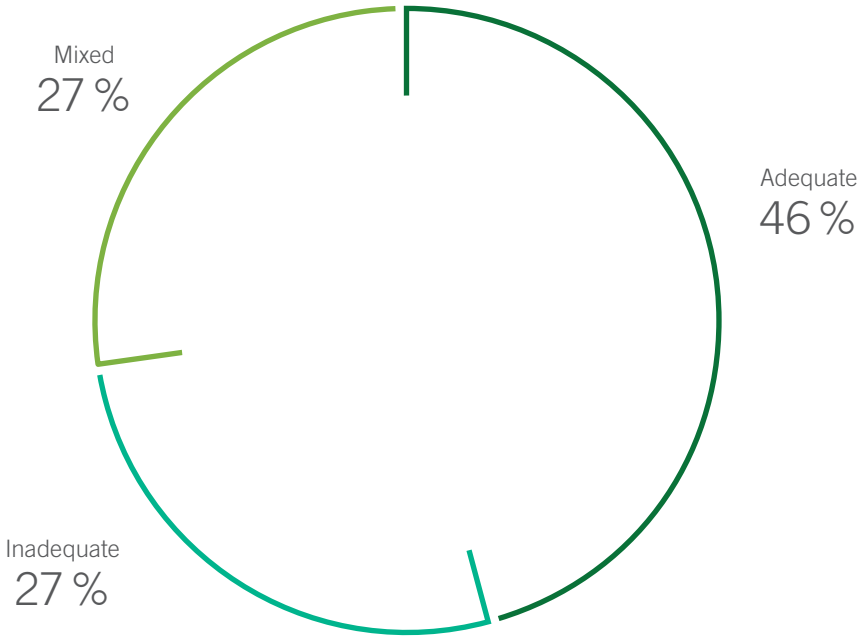
«The introduction of Risk-Based Supervision, which is currently underway or under consideration in markets across North Africa and the GCC, will increase the pressure on insurers to pursue mergers and acquisitions and build up scale to address the rising cost of doing business. Tighter regulation, increased demands on compliance and reporting, mandatory actuarial reviews of how reserves and pricing are determined, as well as requirements to nationalise the workforce – all these are challenges that may substantially drive up the cost ratios of the insurers in the region.»

Hedi Hachicha, CUO, Head Africa & Middle East, Scor

«The current conditions in the Tunisian insurance market are quite positive. Indeed, the achievements accomplished thus far constitute a favourable environment for further reforms to come. Going forward, reforms are expected to streamline the sector, improve the transparency and financial strength of the market players and enhance the overall prospects of the industry.»

Lamia Ben Mahmoud, Président Directeur Général, Tunis Re

Chart 24: State of insurance regulations



«The Egyptian insurance market benefits greatly from new laws and regulations, ranging from the legalisation of electronic signatures, compulsory health insurance to new microinsurance laws. These measures do not only translate into premium growth but also facilitate product innovation. Having said this, for the market to reach its full potential, a modern risk-based solvency regime would be highly desirable.»

Alaa El-Zoheiry, MD, Arab Misr Insurance Group & Chairman of the Insurance Federation of Egypt

«The insurance industry in MENA is facing great challenges as a result of strict legislation and procedures, aiming at complying with international standards for good governance, transparency, and combating the concealment of funds of illegal sources to comply with international sanctions. Furthermore, insurance regulators seek to implement adequate capitalisation and reserving tools to avoid any impurities which may limit the ability of insurance companies in meeting their obligations towards their customers and shareholders.»

Samir Sukkar, COO, Trust International Insurance Co.

Technology, diversification and differentiation as strategic priorities

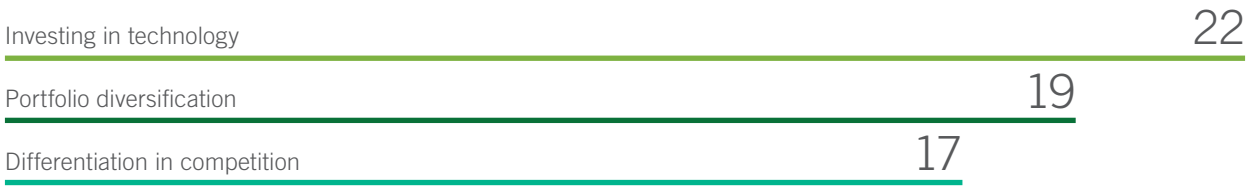
For the first time, the *MENA Insurance Pulse* surveys executives' strategic priorities. Promoting technological capabilities ranks in first place, motivated by the prospect of more cost-efficient internal processes. Bringing administrative expense ratios down and maintaining cost leadership is essential to players that operate in commoditised market segments where price is generally the only relevant criterion in competition.

Having said this, a significant number of executives point to the potential contribution of digital technologies to enhance customer experience and promote the overall appeal of insurance products through innovative and tailored solutions, more frequent customer interaction or automated claims procedures.

The second most frequently mentioned strategic priority is portfolio diversification which, for many executives, is viewed almost imperative in a market dominated by large medical and motor portfolios. Specific areas under consideration include cyber insurance, microinsurance, credit insurance and agricultural insurance.

The third most relevant strategic priority is differentiation in competition. An increasing number of executives are of the opinion that competition on price alone is not a sustainable proposition for the future. New technologies offer many additional opportunities for product and service differentiation which may enable their providers to command a premium price in the market place (see chart 25).

Chart 25: Strategic priorities of MENA insurers



«Digitisation is already a strength of the insurance markets in the MENA region. In terms of marketing many players in the region already use digital means to reach out to their customers. However, we see the largest opportunities in administration – where the potential for cost reductions is enormous – and in distribution. Blockchain will bring about substantial change. In some markets mobile payments or the distribution and handling of medical policies are already further ahead compared to Europe, where we need to overcome many hurdles in terms of established legacies.»

Vincent Grailhon, Senior Treaty Underwriter, Hiscox Re

«Digitisation has the potential to help narrow the insurance protection gaps that are characteristic of the MENA region. Digital platforms increasingly cater to the purchasing and transaction preferences of the region's large 'Millennials' population, as well as to shifting buying habits of Generations X and Y. New technologies will address main consumer concerns such as underwriting complexity and long response times. In competitive markets, consumers will also benefit from cost-efficiency gains across the insurance value chain.»

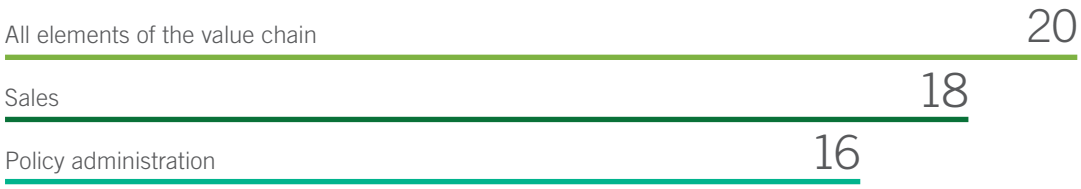
Yassir Albaharna, CEO, Arab Insurance Group

Digitisation to reshape the insurance value chain

As in other emerging and mature markets, digitisation in MENA insurance markets initially focuses on enabling the existing value chain. The full-blown digital transformation of insurers is viewed as a very remote scenario in the MENA region. Most executives mention online sales as immediate priorities, aimed at boosting premium income. A similar focus is on digital policy administration and issuance, with a view to improve operating cost-efficiency.

More ambitious applications such as Artificial Intelligence are not believed to have a major impact any time soon, even though some potential is spotted in claims management and fraud detection. There is a similar degree of scepticism as to the use of Big Data for the purpose of underwriting and pricing. In summary, even though the vast majority of interviewees believe that by 2023 insurance products will be more affordable and appealing as well as better understood on the back of digitisation, a disruptive online only scenario for insurance seems to be inconceivable for almost all executives interviewed (see chart 26).

Chart 26: Areas expected to be most affected by digitisation by 2023



«Going forward, innovation enabled by digital technologies will offer a major potential to narrow the MENA region's long-standing insurance penetration gap. Through digitising their products and services, insurers will be able to reach out more effectively to millennials who account for a much bigger share of the total population than in other parts of the world.»

Mahomed Akoob, MD, Hannover ReTakaful

«Innovation and new technology will greatly enhance the efficiency of insurers in the Middle East and open up new business opportunities for them. Generally, innovation will help to respond with targeted new products and solutions to the evolving regulatory landscape and changing consumer demand. More specifically, digitisation will improve access to data and analytics, improving business and product development as well as risk management. InsurTech, in turn, will contribute to access new and broader client segments, reducing frictional cost even further.»

Atish Suri, Senior Executive Officer MENA, Willis Re

«Digitisation offers tremendous opportunities to insurers in marketing, product development and distribution. However, its greatest impact will arise in eliminating the inefficiencies within the overall value chain of insurance. By becoming more integrated with our external clients – be it through blockchain, Artificial Intelligence or InsurTech – we will be able to reconfigure the data management process fundamentally, no longer re-entering the same data numerous times into the system, but only once at the primary point of contact with the client.»

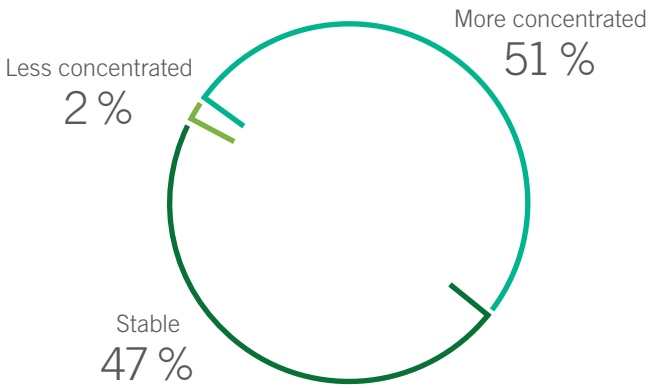
Kamal Hussain Tabaja, Group COO, Trust Re

Pace of consolidation expected to accelerate

The survey found that 51 %, markedly up from 33 %, of respondents expect market concentration to increase over the next 12 months. Even though the relatively comfortable capitalisation of domestic companies in conjunction with family ownership continue to present major obstacles to mergers and acquisitions, regulatory pressure is increasing, both in the form of higher and risk-based capital requirements and more demanding compliance rules.

In addition, regional 'champions' are stepping up their efforts to build a foothold in other MENA markets which, given a moratorium on new licences in some jurisdictions, necessitates acquisitions. A number of executives polled also believe that digital transformation will require scale, putting smaller market participants at a structural disadvantage (see chart 27).

Chart 27: Market structure outlook



«The Middle East is changing at a much faster pace than anyone had predicted. There is more interaction with Africa and also towards the East with the Indian subcontinent and Pakistan, and as a result we see growing opportunities for innovative insurance solutions.»

Mark Cooper, Country Manager & General Representative, Dubai, Lloyd's

«The regulatory disparity across the MENA insurance market place remains a major challenge. The lack of mutually recognised, let alone harmonised regimes, is a significant obstacle to insurers' cross-border expansion and their ability to capture economies of scale – which are of increasing importance given the continued pressure on rates in combination with a massive need for investments in technology.»

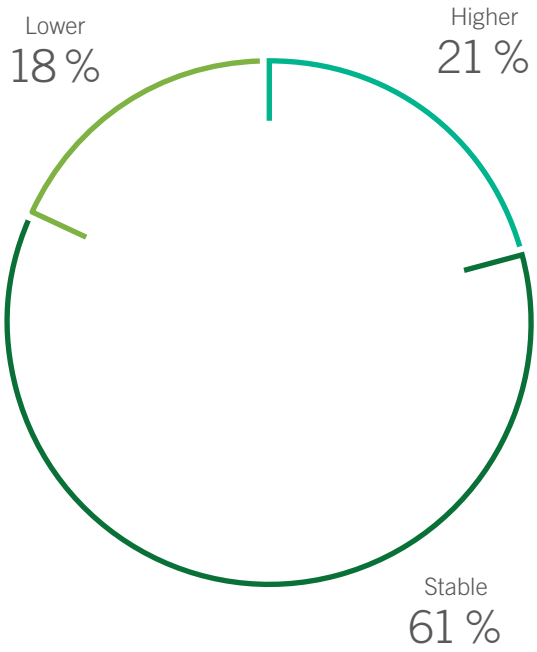
George J. Kabban, CEO, UIB (DIFC)

Foreign insurers expected to hold their own

The Pulse found that 61 %, virtually unchanged from the previous year, of respondents expect the market share of foreign primary insurers to remain stable over the next 12 months. Foreign players continue to enjoy major competitive advantages in commercial lines as well as in life insurance where they are able to offer seamless global service propositions to their multinational clients and trusted brands to expatriates.

However, their footprint in other retail lines such as motor and medical remains very limited. In these areas, domestic players are dominant and seem to gain further market share in light of their strengthening capitalisation. Interviewees continue to refer to some high-profile market exits and retrenchment programmes involving foreign insurers, as a result of significant underwriting losses and rates which fail to pass internal hurdles (see chart 28).

Chart 28: Outlook for foreign market share



«The structure of the GCC markets is particular. The significant share of residents being expatriates results in a general short-termism with residents focusing on maximising available income for savings, creating high price elasticity and increasing price competition. The fact that the average expat stays in the country less than five years further strains the possibilities for making a profit on customers over time, requiring insurers to make profit on customers from the first year on. We don't have the luxury to compensate high acquisition costs with an expectation of creating profits later of our client relationships – the available cycle is frequently too short.»

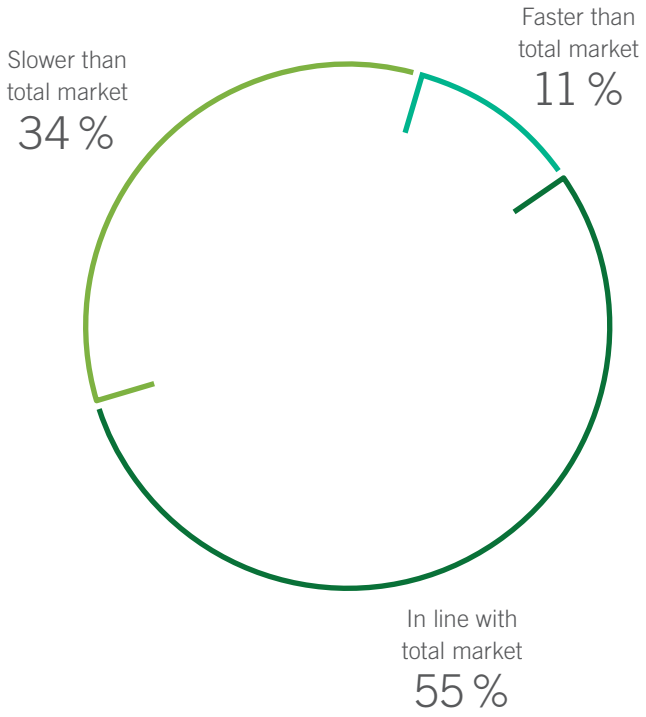
Frederik Bisbjerg, Executive Vice President – MENA Retail, MENA Motor Claims, Qatar Insurance Company

Views on Takaful remain subdued

34 % of respondents – virtually unchanged from the previous year – expect Takaful insurance to underperform the market as a whole in terms of growth. At 11 %, the share of those expecting it to outperform has edged up slightly.

Most executives think that Takaful offers no genuine differentiation and does not even live up to the concept of mutuality, given conflicting interests of policyholders and shareholders as well as the absence of profit sharing. 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, life and medical insurance where portfolios are relatively homogenous (see chart 29).

Chart 29: Growth prospects for Takaful insurance



«Despite the current national war, Takaful insurance is a remarkable success story in Yemen. Through profit sharing policyholders with a favourable loss experience are rewarded handsomely, at a current average level of about 15 %. As opposed to other regional markets, this feature clearly differentiates Yemeni Takaful from conventional insurance. Generally speaking, profit participation in Yemen is facilitated by relatively low loss ratios, high levels of rates and low operating costs.»

Tarek Saeed, General Manager, United Insurance Company

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