Cover Story – Reinsurance

Chasing growth with tenacity

Persisting overcapacity has been the key reason for ongoing soft market conditions in the last 12 months. Despite the 'survival of the fittest' operating environment, reinsurers in the Middle East remain optimistic about the industry's growth prospects as government spending picks up and oil prices go up.

By Zuhara Yusoff

In the last 12 months, the reinsurance markets in the MENA region have seen solid GWP growth compared to global markets, said S&P Global Ratings director of financial services, insurance ratings Emir Mujkic.

Mr Emir Mujkic

"This is mainly driven by infrastructure projects and mandatory motor and medical covers," he said. "The large catastrophic losses from hurricanes in the US have not significantly impacted the reinsurance rates in MENA in the last 12 months. While rates have stabilised or marginally increased in selected lines of business, persisting overcapacity has been the key reason for ongoing soft market conditions."

Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE have experienced lower activity for earthquakes, storms and flooding in comparison with other countries, according to a report by A.M. Best. While the GCC countries have had lower exposure to Nat CATs, man-made disasters have caused quite an impact on the Middle East reinsurance markets.

There were two very large man-made losses in the region last year – the Abu Dhabi National Oil Company (Adnoc) and Oman's Sohar Aluminium plant incidents – but there were fewer large fire-related losses in Saudi Arabia and the UAE mainly due to better risks, said Mr Mujkic.

"There were five to six losses that were above $100m in the GCC market," said IGI senior executive officer Henri Labat. "But even with these losses, we didn't see the market acting as we had expected. It is still a soft market due to overcapacity."

Mr Henri Labat

Reinsurers need to increasingly focus on enterprise risk management to manage the impact of possible claims, while insurers need to re-examine their risk appetite and strengthen their ERM practices to ensure risks are appropriately managed, said the A.M. Best report.

Tangled up in challenges

The geopolitical instability in the Middle East continues to pose its set of challenges to insurers and reinsurers in the region. The conflict between Qatar and its neighbours has yet to be resolved, the future of the nuclear deal with Iran continues to hang in the balance and Yemen remains in a state of chaos.

IGI, however, has managed to find some bright spots amidst this dark political landscape. "There is some positive impact on our business arising from what is happening with Qatar and its neighbours," said Mr Labat. Qatar reinsurers have less and less access to businesses located in Saudi Arabia and the UAE due to the political tensions, said Mr Labat, so this translates to new business opportunities in these markets for IGI.

On the other hand, Yemen which used to be a substantial market for IGI is now seeing less business activity. "Our clients are becoming less and less active because of the worsening situation," said Mr Labat. "It's very difficult for us to do business there for the time being." The geopolitical issues in the region is a double-edged sword, he added.

In 2017, GWP for IGI grew by 19% to $275m, achieving a net profit of $8m against $32m in 2016. MENA used to account for 40% of its portfolio seven years ago, but rates started to soften, and the region stopped being as profitable as it used to be.

Tighter regulations

The industry also has to adapt to enhanced regulatory and corporate governance standards as regulators are continuously focused on improving market conduct to protect consumers and solvency-based capital controls to ensure insurers develop sustainable business models.

The Saudi Arabian Monetary Authority (SAMA) suspended Willis Saudi Arabia's insurance and reinsurance activities in May this year due to "severe violations which impacted the integrity and fairness of competition". SAMA also suspended Chedid Reinsurance Brokerage in the same month due to "severe violation of regulations and weak internal auditing".

New regulations that have resulted in higher capital and solvency requirements pose as barriers to entry – limiting the number of newcomers in the market. Some insurers are also pushed out of the market or are forced to merge with others.

While such stringent measures may inflict short-term pains, they could also nurture the industry into a mature marketplace in the long run.

Malaysian Re, which entered the Middle East market in 1977 and subsequently expanded its business with the incorporation of Malaysian Re (Dubai) in 2006, takes a positive approach to regulatory challenges.

"Operating in multiple countries within the Middle East region, each with distinctive market requirements under different regulatory regimes, is definitely a challenge," said Malaysian Re (Dubai) senior executive officer Ahmad Saiful Bahri Mohamed. Its primary markets include the UAE, Saudi Arabia and Turkey.


Mr Ahmad Saiful Bahri Mohamed

"However, it has also given us unique perspectives and allows us to tailor our offerings to the different markets effectively," he said.

For IGI, which has offices in many different locations, operating in a heavily regulated environment is the norm. "For us, it is not a problem," said Mr Labat. "In fact, most of the new regulations in the region are influenced by regulations already existing in other places such as Bermuda and the UK."

Companies with operations only in the Middle East will probably find it tougher to adapt to new regulations, he said.

Eye on opportunities

The Middle East continues to be the land of opportunity for reinsurers. "We see much potential for new lines of business and for specialty lines such as medical malpractice especially in the GCC, in addition to classic lines of business such as P&C and engineering," Mr Labat said.

Malaysian Re (Dubai) is also eyeing the GCC countries – and Turkey – to milk new opportunities. "Low levels of insurance penetration is one of the problems in this industry, especially in the Middle East region," Mr Ahmad Saiful said.

"However, this problem can turn into an opportunity if we come up with innovative solutions or products for the market. In addition, our takaful segment is currently underserved and ready to be accelerated to meet the demands from the Middle East market," he said.

Malaysian Re (Dubai) had a GWP of MYR118.5m ($30.7m) as of its last financial year ended 31 March 2018. It has a strong brand recognition in the foreign markets, thanks to its home country Malaysia, which has a well-earned reputation for cutting-edge Islamic finance and insurance ecosystem.

The road ahead

Looking ahead, growth prospects for the industry will remain favourable as government-driven infrastructure spending is picking up again with some high-profile projects in the pipeline such as Dubai Expo 2020, said Mr Mujkic. "We expect that international and regional reinsurers will try to broaden their income streams by offering additional reinsurance solutions," he said.

"For example, increased solvency requirements may lead to an increase in reinsurance demand, ie, capital/liquidity relief treaties. We have already seen some arrangements in the past and believe that the demand for these, as well as other risk services, will continue to increase.

"In the absence of any large losses and ongoing high capacity in the MENA region, rates are expected to remain soft but stable over the next 12 months," said Mr Mujkic.

Mr Labat said, "There were many losses in the market in 2017. As of 2018, there have also been some losses, so we expect the market to be more disciplined and to take into consideration these losses to act and to have more reasonable pricing.

"With oil prices going up, we expect a lot of investment and this will have an impact on businesses like engineering. We are confident and optimistic for the rest of 2018," he said.

Mr Ahmad Saiful said, "We remain cautiously optimistic. Some uncertainties arising from geopolitical tension will be mitigated by the stabilising energy industry, which will have positive impact on property developments, engineering work and enlarged disposable income for the Middle East population."