MENA REINSURANCE BAROMETER 2014

QFC
Qatar Financial Centre

MENA REINSURANCE BAROMETER

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FOREWORD

SHASHANK SRIVASTAVA

Chief Executive Officer and Board Member of the Qatar Financial Centre Authority (QFC Authority)

We are pleased to present the 2014 edition of the annual MENA Reinsurance Barometer, covering the Middle East and North Africa (MENA) region, including Turkey.

The survey is based on in-depth interviews with senior executives at 34 regional and international reinsurance companies, ceding companies and intermediaries operating in the MENA region. It provides a unique overview of the current state and near-term prospects of the MENA reinsurance market, which generates an estimated US$13 billion in total non-life reinsurance premiums, approximately 7% of the world's total. The report also offers an updated summary of key regional (re)insurance market data.

By supporting this regular research effort, the QFC Authority demonstrates its commitment to improving the transparency of the MENA (re)insurance market and can provide market participants with an additional benchmark for their decision-making in the near future. It paints a comprehensive and quantitative picture of the current market sentiment and will continue to track this over time.

We hope you will enjoy reading this report and benefit from the findings of the 2014 MENA Reinsurance Barometer. Please, do share any feedback on the report as well as thoughts on how we can collectively advance the concept of reinsurance in the Middle East.

METHODOLOGY

The findings of this report are based on in-depth interviews with senior executives at 34 regional and international reinsurance companies, cedants and intermediaries. The interviews were conducted by Dr Schanz, Alms & Company AG, a Zurich-based research, communications and strategy consultancy, in June and July 2014.

The companies taking part in the survey were:

- Abu Dhabi National Insurance Company (ADNIC), UAE
- Africa Re, Egypt
- Aon Benfield, UK
- Arab Insurance Group, Bahrain
- Arab Reinsurance Company, Lebanon
- Asia Capital Re, UAE
- Assicurazioni Generali Middle East, UAE
- Axis Re, Switzerland
- Barents Re, Lebanon
- Canopius, UK
- Catlin Re, Switzerland
- Chedid Re, Lebanon
- Compagnie Centrale de Réassurance (CCR), Algeria
- Echo Re, Switzerland
- Endurance Re, Switzerland
- General Re, Lebanon
- Guy Carpenter, UK
- Hannover ReTakaful, Bahrain
- Hiscox Re, France
- Kuwait Re, Kuwait
- Lockton, UAE
- Malaysian Re, UAE
- Milli Re, Turkey
- Munich Re, Germany
- National General Insurance, UAE
- PartnerRe, Switzerland
- Qatar Re, Qatar
- Saudi Re, Saudi Arabia
- SCOR SE, Germany
- Swiss Re, Switzerland
- Trust Re, Bahrain
- Türker Re, Turkey
- UIB Gulf, UAE
- Willis Re, UAE

SUMMARY OF KEY FINDINGS

1 On the back of robust economic and insurance premium growth, and in combination with a perceived low exposure to natural perils, the MENA region continues to be an attractive destination for regional and global reinsurance capacity. However, fierce competition, pricing pressure and increasing retentions weigh heavily on the sector's growth prospects in the region. Only 28% of executives polled believe that reinsurance premium growth will outpace regional GDP growth over the next 12 months.

2 The tightening of terms and conditions slowed to a halt in the last 12 months, ending a trend which started in 2011. The share of interviewees citing loose terms and conditions, against the five year average, decreased from 38% to 23%. However, going forward, terms and conditions are no longer believed to be immune to the very competitive pricing environment.

3 The percentage of participants expecting reinsurance capacity in the MENA region to expand further has increased sharply from 50% to 88%. The region remains an attractive high growth, low-catastrophe market with positive effects on overall portfolio diversification, in particular as global excess reinsurance capacity has continued to grow over the past 12 months.

4 Only 35% of interviewees, down from 50% in 2013, believe that the share of regional and Asian reinsurance capacity will increase at the expense of traditional Western capacity. This is driven by the abundance of global (Western) capacity and a series of Western reinsurers establishing local representation in the region.

5 Retention levels in the region remain low compared with other markets – on average domestic insurers in the MENA region cede 30% of their premium income to reinsurers. However, 65% of respondents, virtually unchanged from the previous year, expect aggregate retention rates to increase over the next 12 months, as risk retention becomes more attractive in a low investment yield environment. In addition, the overall portfolio composition of regional insurance markets is shifting towards personal lines – medical and motor insurance are now compulsory in many MENA markets – which exhibit higher retention rates.

6 Overall, reinsurance business sentiment in the MENA region remains positive in light of strong long-term fundamentals, such as a young population, robust GDP growth and a significant catch-up potential in insurance markets. Measured on a scale from -5 to +5 (very bearish to very bullish) sentiment currently stands at 0.4, down from 1.2 a year earlier. It is expected to improve slightly to 0.7 by summer 2015. Deterioration in sentiment primarily reflects a heightened degree of political instability in parts of the region and a further intensification of competitive pressures driven by global rather than regional factors. Optimists point to the region's strong economic fundamentals, increasingly sophisticated market participants and the scope for new and innovative products.

KEY BAROMETER READINGS

The Barometer measures current perceptions of the reinsurance market in the MENA region, tracking them over time to monitor changes in attitudes towards the MENA reinsurance market. Findings prior to 2013 are not fully comparable, given the enlarged geographical scope of the report to include MENA, rather than Gulf Cooperation Council (GCC) countries alone. The main differences compared with last year's findings include:

- Reinsurance premium growth expected to trail behind GDP growth.
- A sharply higher share of respondents expecting overall reinsurance capacity to grow.
- Western capacity expected to increase its share in regional reinsurance markets.
- A significantly less positive outlook on reinsurance prices and terms and conditions.

Key readings (in % of respondents agreeing)	Sept 2011	Sept 2012	Sept 2013	Sept 2014
Reinsurance capacity to grow*	50	54	50	88
Reinsurance exposure to grow faster than GDP*	67	67	82	81
Retention levels to increase*	46	52	68	65
Reinsurance premiums to grow faster than GDP*	n/a	58	53	28
Higher share of non-Western capacity*	38	41	50	35
Low average current reinsurance prices**	87	85	89	82
Reinsurance prices to increase*	33	36	34	18
Reinsurance terms to tighten*	88	67	58	21
Low average current reinsurance profitability**	71	76	66	59
Reinsurance profitability to improve*	8	43	24	21
Overall MENA reinsurance sentiment (scale from +5 to -5)	n/a	1.3	1.2	0.4

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

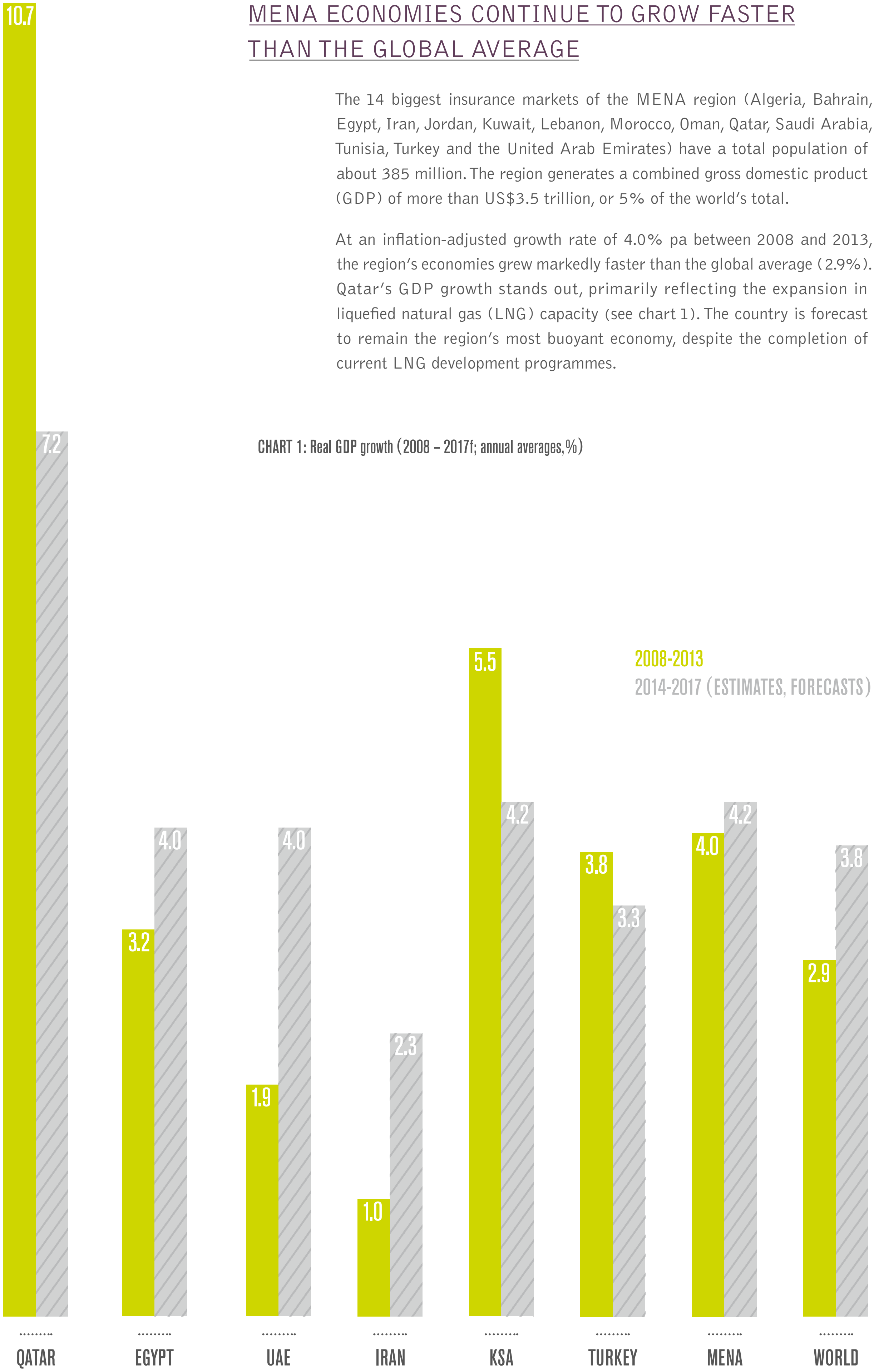
MARKET OVERVIEW

MENA ECONOMIES CONTINUE TO GROW FASTER THAN THE GLOBAL AVERAGE

The 14 biggest insurance markets of the MENA region (Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, Turkey and the United Arab Emirates) have a total population of about 385 million. The region generates a combined gross domestic product (GDP) of more than US$3.5 trillion, or 5% of the world's total.

At an inflation-adjusted growth rate of 4.0% pa between 2008 and 2013, the region's economies grew markedly faster than the global average (2.9%). Qatar's GDP growth stands out, primarily reflecting the expansion in liquefied natural gas (LNG) capacity (see chart 1). The country is forecast to remain the region's most buoyant economy, despite the completion of current LNG development programmes.

CHART 1: Real GDP growth (2008 – 2017f; annual averages, %)



SOURCE: IMF, World Economic Outlook, April 2014

MENA ECONOMIC GROWTH EXPECTED TO ACCELERATE AGAIN

Most of the region's oil-exporting countries are expected to see a marked acceleration of growth from what was a tepid 2013, attributable to weak global oil demand and increased supply from the USA. Growth is expected to rebound as oil output is set to benefit from strengthening global economic activity. In addition, large public investment programmes to create a more diversified economy are being set in motion.

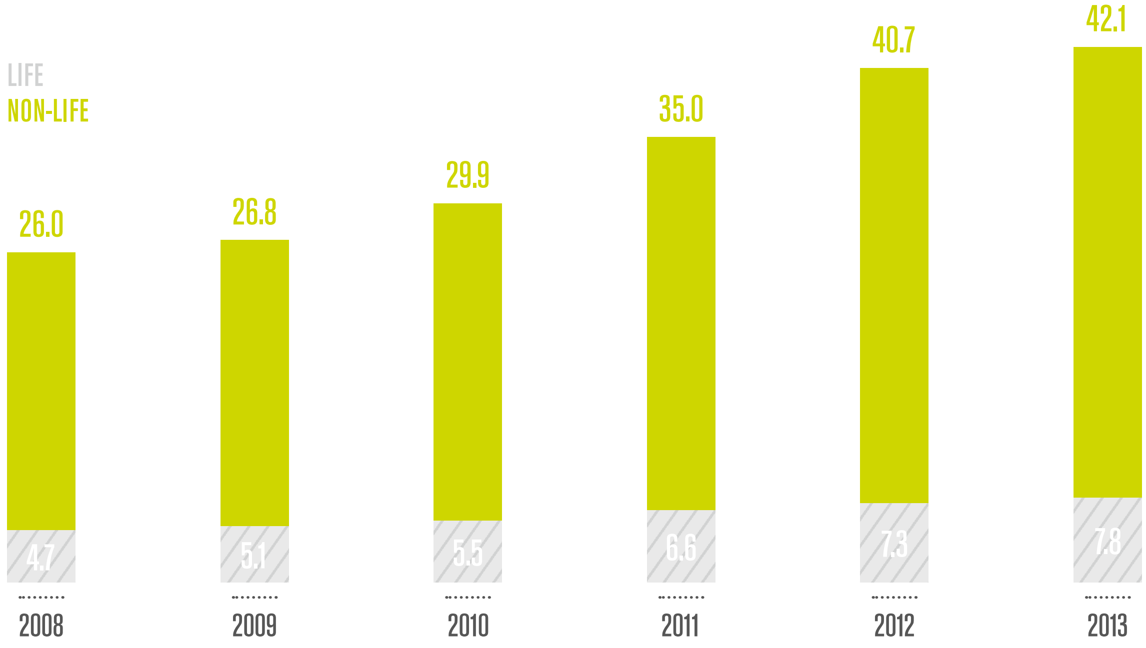
Oil-importing countries continue to suffer from political transitions, social unrest and unresolved structural problems such as government budget deficits. The outlook remains challenging, in particular from a socio-political point of view. However, export growth is expected to strengthen as the economies of trading partners (especially in Europe) gather steam. All in all, the MENA region's economies, according to the IMF, should expand by more than 4% pa over the next few years, slightly in excess of the projected global average.

MENA INSURANCE MARKETS OUTGROW GDP

One of the most striking features of the MENA insurance market is an extraordinarily low insurance penetration – premiums in 2013 accounted for just 1.4% of GDP, slightly more than a fifth of the global average. However, this gap is narrowing as MENA insurance markets outpace regional GDP growth. Between 2008 and 2013, total non-life and life insurance premium volume in the region expanded from about US$30 billion to US$50 billion (see chart 2). The region's four largest insurance markets – Turkey, Iran, UAE and Saudi Arabia – account for about three quarters of the total premium pot.

At a share of less than 16%, life business continues to play a relatively minor role. Since 2008, life insurance premiums have grown only marginally faster than non-life business (at an annual average real rate of 7.9% compared to 7.6%).

CHART 2: MENA insurance premiums by type (life versus non-life, 2008-2013, US$ billion)



SOURCE: Swiss Re, sigma

CHART 3: Non-life real premium growth (2008 – 2013, annual averages, %)

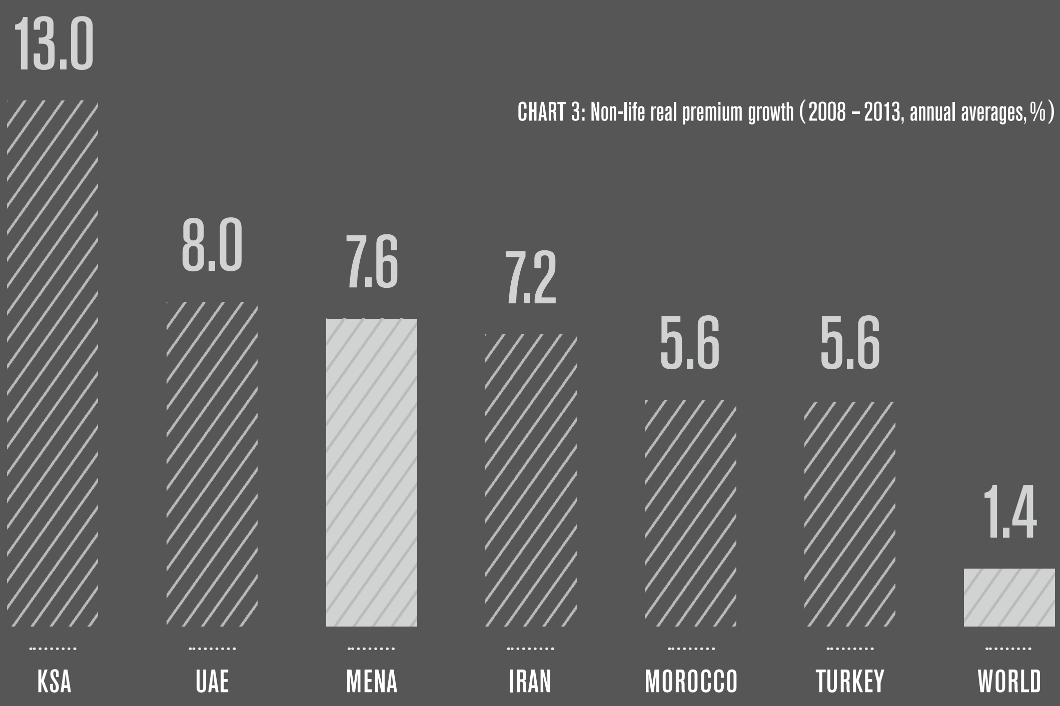
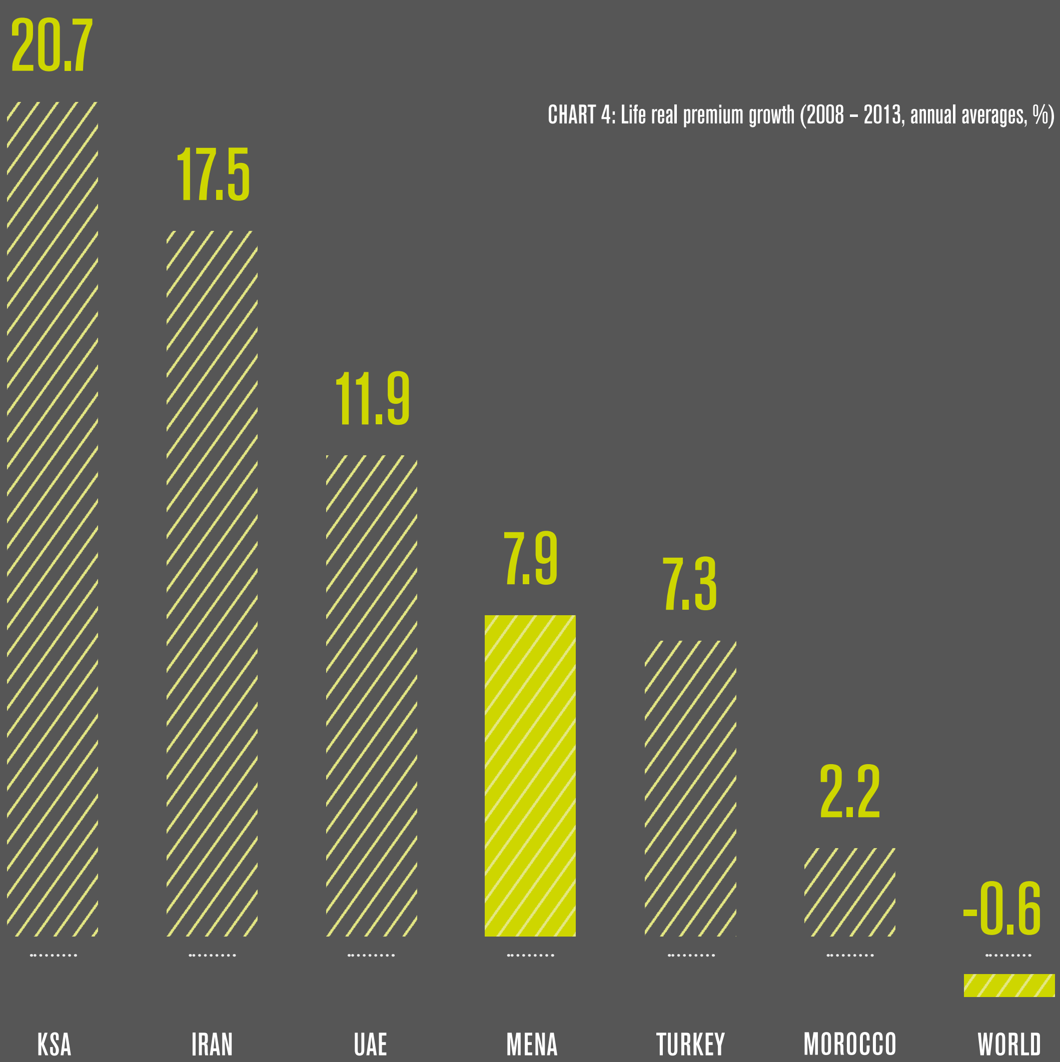
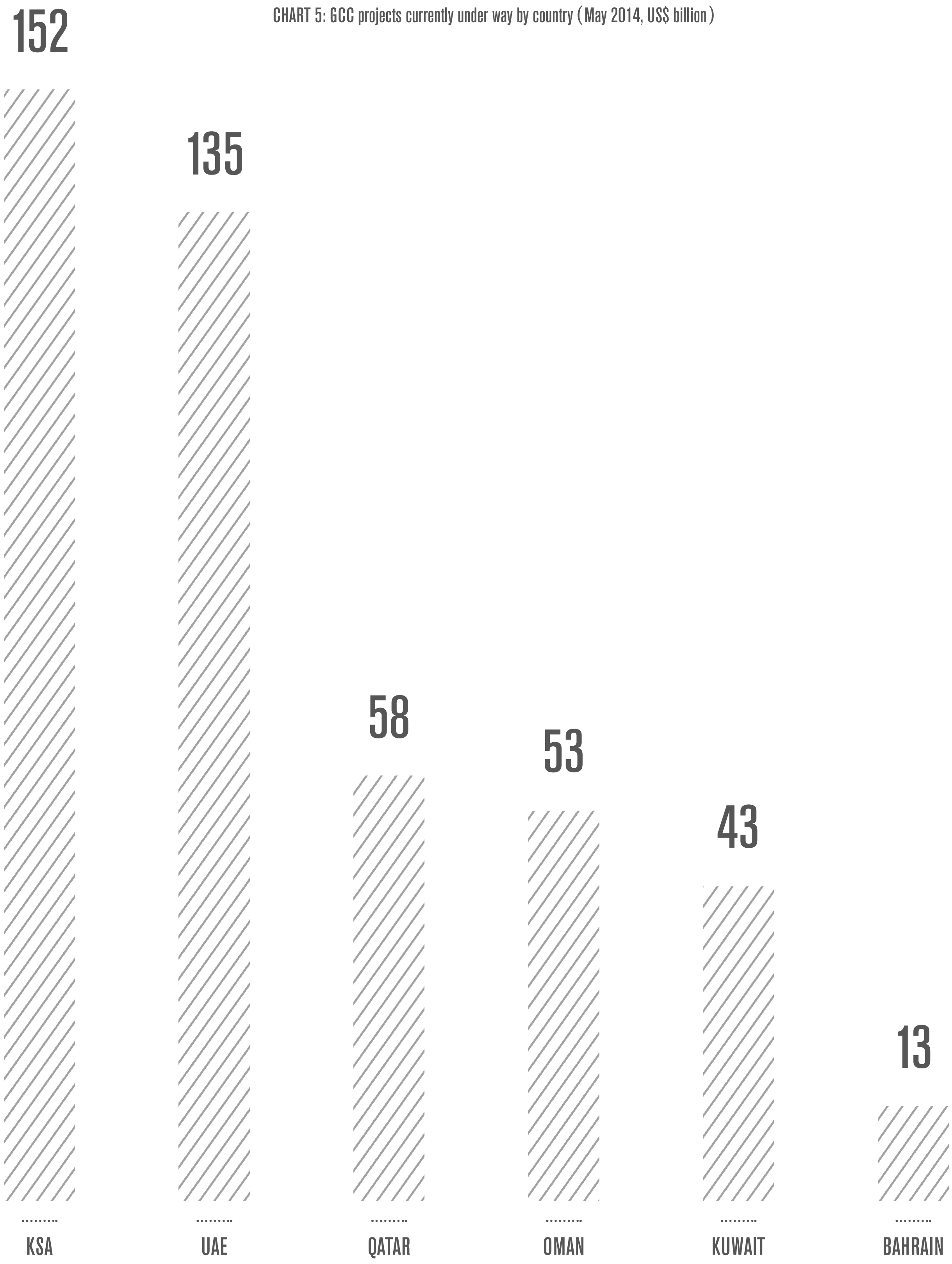


CHART 4: Life real premium growth (2008 – 2013, annual averages, %)



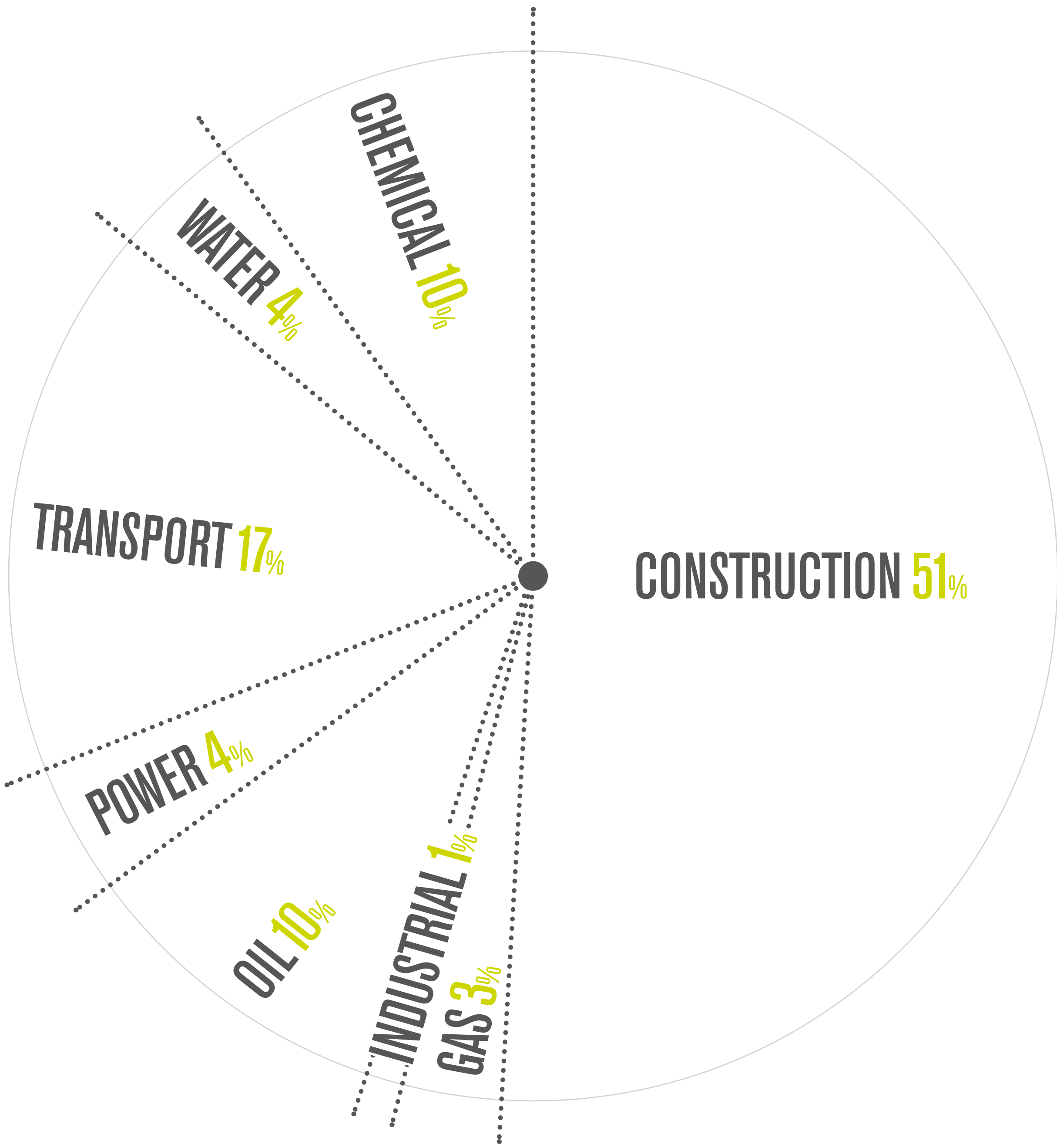
In addition to compulsory insurance schemes in motor and healthcare, massive infrastructure and construction spending continues to be the most powerful driver of insurance and reinsurance demand in the region. As of May 2014, more than US$450 billion of projects were under way in the Gulf region alone (see chart 5).

CHART 5: GCC projects currently under way by country (May 2014, US$ billion)



Infrastructure and construction projects dominate the portfolio of activities with a combined share of 76% (see chart 6).

CHART 6: GCC projects currently under way by sector (May 2014, %)



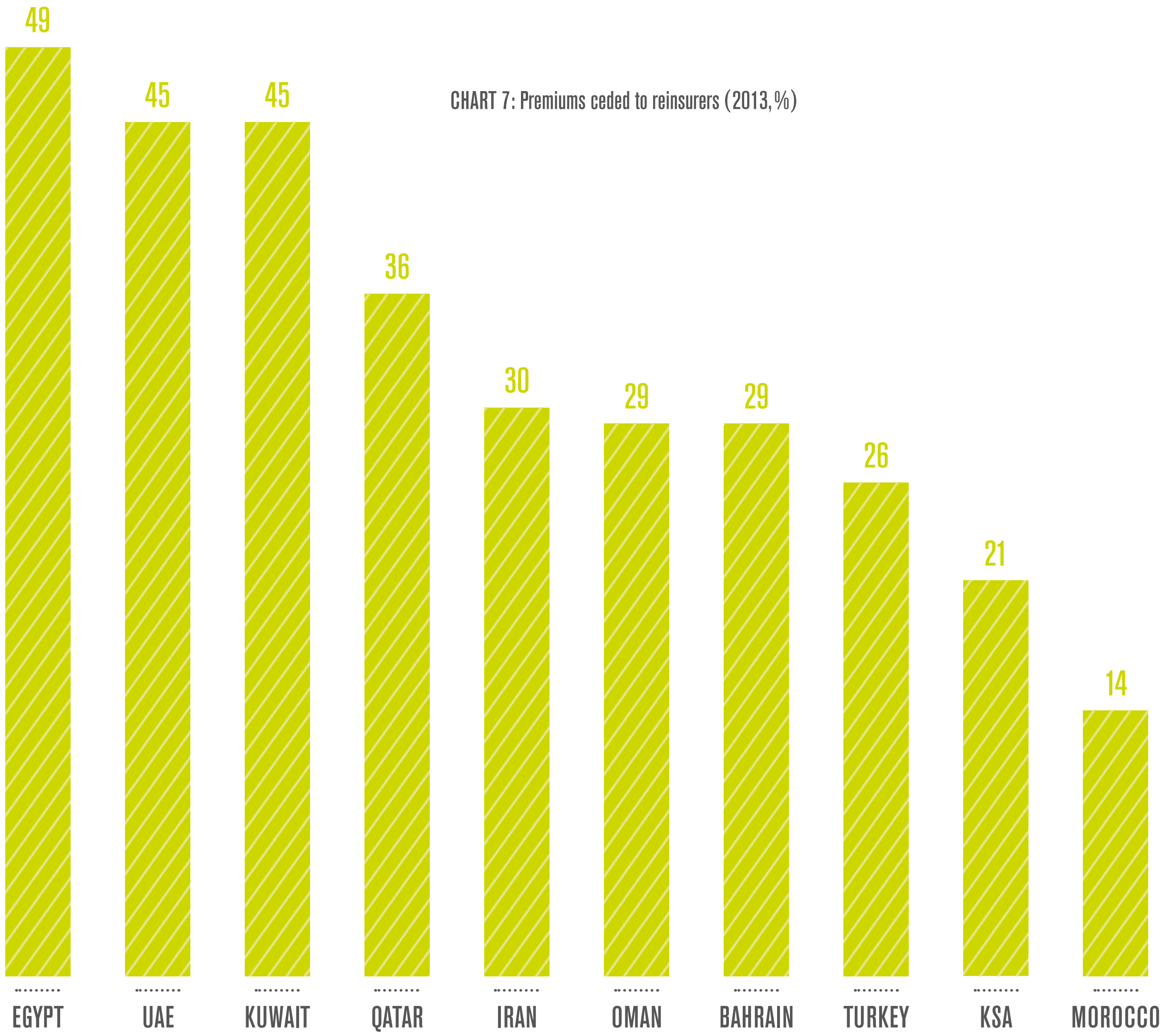
SOURCE: MEED Projects, May 2014

In the MENA region, about 30% of non-life insurance premiums are ceded to reinsurance companies. The total estimated non-life reinsurance market volume for 2013, accordingly, amounts to about US$12.6 billion.

As chart 7 reveals, there are significant regional differences in reinsurance purchasing behaviour. Cession rates in the GCC countries still tend to be highest, at an average of 37%. This reliance on reinsurance reflects the dominance of a direct insurance business model based on commission and investment income which, in turn, is driven by abundant reinsurance capacity and a general lack of technical expertise needed to retain more risk. Even though cession rates in the GCC have been declining, they remain high compared with other countries of similar wealth and the global average of about 10% (sources: Swiss Re and Guy Carpenter).

The declining trend in the GCC region is primarily attributable to above-average growth in personal lines such as motor and medical insurance. These lines of business have significantly lower cession rates than more volatile commercial segments of business. In markets such as Morocco and (catastrophe-prone) Turkey, insurers' risk appetite is significantly more pronounced than in other parts of the region. Saudi Arabia's aggregate cession rate has to be looked at with caution as the country's non-life insurance portfolio is dominated by largely retained medical business.

CHART 7: Premiums ceded to reinsurers (2013, %)



SOURCES: AXCO, ISIS (figure for Iran is an estimate based on AXCO); Egypt, Morocco and Turkey: 2012 data

SURVEY RESULTS

THE OVERALL PERSPECTIVE: STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS OF MENA REINSURANCE MARKETS

POLITICAL INSTABILITY AND CONTINUED EROSION OF RATES CLOUD THE HORIZON

GROWTH DYNAMICS CONTINUE TO BE KEY MARKET STRENGTH

As in 2013, the survey respondents consider the region's robust GDP and insurance market growth as the first most relevant strength of the reinsurance marketplace. On both accounts, the region outperforms the global average. A strong pipeline of infrastructure and construction projects ranks second (as opposed to third in 2013), as major activities have been launched, for example in preparation for the Dubai World Expo 2020 and the FIFA World Cup 2022 in Qatar. The region's relatively low natural catastrophe exposure (except for Turkey, Iran and parts of Northern Africa) is the third most frequently mentioned strength, one rank down from 2013. However, an increasing number of participants feel that this strength is eroding, not as a result of changing natural hazards, but simply as a consequence of rapid asset concentration.

“ From a fundamental point of view the (re)insurance opportunities offered by the MENA region are plentiful: non-life penetration is low, life insurance is at a nascent stage and demographics are highly favourable. However, political stability is the prerequisite for all these opportunities to be captured. ”

Dr Chérif Chentir, Chief Underwriting Officer
Middle East & South Eastern Europe, SCOR SE

“ Especially in the last few years, reinsurers suffered significant losses from their cedants' facultative inwards acceptances. These losses prompted reinsurers to introduce strict restrictions during the January 2014 renewals with sub-limits only for Category I risks in the market where the cedant is located. Such restrictions are expected to drive an improvement of treaty performance in the current year. ”

Gokhan Aktas, Head of Foreign Inward Business, Milli Re

“ The region's rock bottom rates have deteriorated beyond the technical price. The discipline is weak and some of the markets seem happy to renew their risks at a loss-making level. ”

Nabih Massaad, Head of Doha Operations and
Facultative Engineering, Qatar Re

“ In light of excess capital on a global scale, also fuelled by alternative capital, proportional reinsurance capacity is abundant in the MENA region. This state of the market has led to delay what would otherwise be a slow but structural shift to non-proportional reinsurance business and higher retentions. ”

Atish Suri, Head of MENA, Willis Re

CHART 8: Market strengths (number of mentions)

GDP AND INSURANCE GROWTH MOMENTUM 21

PROJECT PIPELINE 18

LOW NATURAL CATASTROPHE EXPOSURE 15

“ The MENA region’s sources of economic growth are highly diverse. Some countries continue to generate significant revenue from the hydrocarbon sector. Others exhibit a great potential in agriculture, tourism, trade or financial services. As a result, reinsurers should look at country-specific opportunities rather than adopting a ‘one size fits all’ approach. ”

Tarik Aouad, Chief Operating Officer, Saudi Re

“ Regulatory fragmentation remains a key weakness of the region. The lack of harmonised rules and ‘single passporting’ across borders prompts many insurers to offer reinsurance instead, further adding to available capacity. ”

Farid Chedid, Chairman & CEO, Chedid Re

“ We are observing an accelerating pace of product innovation in the region, particularly in the UAE. In some other markets, however, innovation is still held back by strict legislation and onerous approval processes. ”

Ahmed Rajab, CEO MENA, Aon Benfield

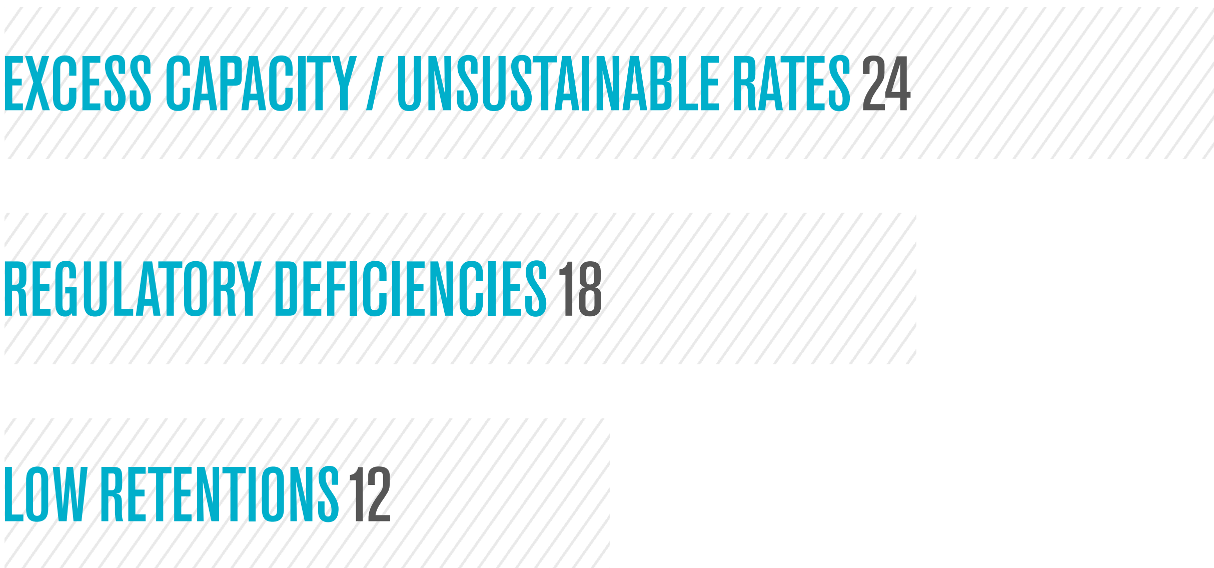
“ The MENA region enjoys the reputation as a growth area and is widely regarded as an attractive place for investment, even though this trend has been broken in view of the current political instability across some countries. International reinsurers are interested in the business generated from this region to meet their diversification criteria along with lessening their risk capital requirement. This leads to regional and global reinsurance capacity becoming more abundant. ”

Yassir Albaharna, CEO, Arig

EXCESS CAPACITY STILL VIEWED AS MOST RELEVANT MARKET WEAKNESS

Echoing the findings of the 2013 MENA Reinsurance Barometer, the most relevant perceived weakness of the MENA reinsurance marketplace is excess capacity, which is creating fierce competition and unsustainable levels of pricing. As in 2013, regulatory deficiencies rank second, with insufficient minimum capital requirements, a lack of minimum retention rules, solvency margins, regulatory coordination and consistency within the region being mentioned most frequently. However, most survey participants are encouraged by recent developments such as the Saudi regulator's (SAMA) clear focus on technical discipline (with imperative actuarial pricing and reserving) and the forthcoming introduction of solvency margins on the UAE. The third ranking weakness is the low level of retentions, which is perceived as a key obstacle towards sound and sustainable premium growth.

CHART 9: Market weaknesses (number of mentions)



“The short-term focus of regional insurers needs to stop. Simply taking advantage of current market conditions and generating profits mainly from investment returns and commissions will not make any contribution to building a sustainable future for the industry.”

Basma Barakat, Assistant General Manager, Arab Re

“Massive infrastructure investments remain one of the key attractions of the region from a reinsurance point of view. Longer term, these investments will result in more diversified economies with strong non-hydrocarbon sectors, creating additional and new insurance and reinsurance needs.”

Peter Schmidt, CEO, Catlin Re, Switzerland

“Political instability is the biggest challenge currently, not just from an overall business sentiment perspective. Reinsurance markets such as Iraq, Libya, Sudan and Syria, albeit small, were usually very profitable.”

Zaini Abdul Aziz, Senior Executive Officer, Malaysian Re

LOW PENETRATION IDENTIFIED AS KEY MARKET OPPORTUNITY

As in 2013, most interviewees identify the low penetration of MENA insurance markets as the key market opportunity. With total premiums accounting for just 1.4% of GDP, the insurance penetration of the MENA region is a mere fifth of the global average, even though the region's GDP per capita matches the global average. This 'penetration gap' is seen as a major long-term and structural driver of insurance and reinsurance market growth in the region. Demographics, ie a young and rapidly growing population, is the second most frequently mentioned opportunity, fuelling growth in medical, motor and life insurance business, for example.

The development and introduction of new insurance products is considered the third most relevant opportunity, making it into the top three for the first time. In this context, specific opportunities mentioned by the executives polled, range from new liability products (eg medical malpractice and professional indemnity) to the resurgence of Takaful, based on the notion of mutuality.

CHART 10: Market opportunities (number of mentions)

PENETRATION GAP

POPULATION GROWTH

NEW PRODUCTS

20

19

14

“One of the most striking developments of the recent past is the emergence of a developing and functional Middle Eastern reinsurance hub with the availability of dedicated, flexible capacity with decision-making authority in the region itself. The result of this has been a notable erosion of the influence of the previous, cross-border business dominance of the London market in many major lines of business.”

Mark G Randall, Senior Vice President, Lockton (MENA) Limited

“The recent development in the MENA reinsurance markets fills me with confidence. In the January 2014 renewals the leading reinsurers have been able to reduce the abundance of facultative inwards business written in the region. If discipline is maintained this will translate into more adequate pricing and ultimately, improvements in profitability.”

Lukas Müller, Head Market Underwriter Africa & Middle East, Swiss Re

“A growing number of well-capitalised regional insurers realise that they can easily afford higher levels of retention, boosting profits from the liabilities side of the balance-sheet.”

Dr Abdul Zahra Al Ali, CEO, National General Insurance

“Some of the new reinsurers who are currently entering the market may face surprises regarding their expected profitability, not because of a lack of professionalism but due to a lack of experience in the region.”

Dr Chérif Chentir, Chief Underwriting Officer
Middle East & South Eastern Europe, SCOR SE

POLITICAL INSTABILITY AS THE MOST SERIOUS THREAT

Political instability is considered to be the most serious threat facing MENA reinsurance markets, up from the second spot in 2013. Sectarian violence in Iraq, increased instability in Libya and the continuing bloody stalemate in Syria weigh on sentiment. Optimists hint at the prospect of an accelerated rapprochement between the USA and Iran and signs of stabilisation in Egypt.

The ongoing erosion of market discipline as a result of massive excess capacity ranks second. There is an unabated influx of new capacity in search for instant diversification benefits. Also, some domestic insurers' engagement in facultative inward reinsurance has added to competition even though reinsurers are increasingly successful in curtailing this practice, which has reduced the market's transparency and heightened its vulnerability to accumulation risk.

The third most frequently mentioned concern is a lack of technical expertise, home-grown expertise in particular. Against this backdrop, the entry of additional players seeking to establish a local presence in the region is expected to fuel the war for talent, pushing up the cost of doing business to potentially critical levels.

CHART 11: Market threats and challenges (number of mentions)

" Capacity continues to flow into the MENA reinsurance markets, most prominently from Western markets such as Lloyd's. In addition, facultative inward acceptances by local insurers continue to exert significant pressure on reinsurance rates – despite a number of major reinsurers' withdrawal of support from this business. "

George Oommen, CEO & General Representative, MENA, Assicurazioni Generali

" Today, regional insurers are facing a pressing question: survival of the fittest or of the biggest? Medium to small-sized players need to understand that full transparency and cooperation are key to the survival of all. "

Basma Barakat, Assistant General Manager, Arab Re

" The MENA region's (re)insurance markets will strongly improve once its regulators tighten market access and conditions. Unfortunately we currently observe the common phenomena that regulators are more present during the hard market, while in the soft market times they seem to retreat. It comes at the expense of the well-managed companies, which aim to improve conditions on their home market, while the weak players don't. "

Marc Maupoux, Senior Underwriter, Axis Re

" The MENA reinsurance markets continue to benefit from the region's economic growth including the large-scale construction and infrastructure projects under way, particularly in the GCC. Furthermore, as markets become more sophisticated, the portfolio widens and other lines of business become relevant, for instance liability and medical malpractice. "

Trevor Oates, Senior Underwriter, Canopius

SURVEY RESULTS

GENERAL REINSURANCE MARKET OUTLOOK

GLOOMY PRICING OUTLOOK, STABLE TERMS AND CONDITIONS, REINSURANCE PREMIUMS EXPECTED TO TRAIL GDP

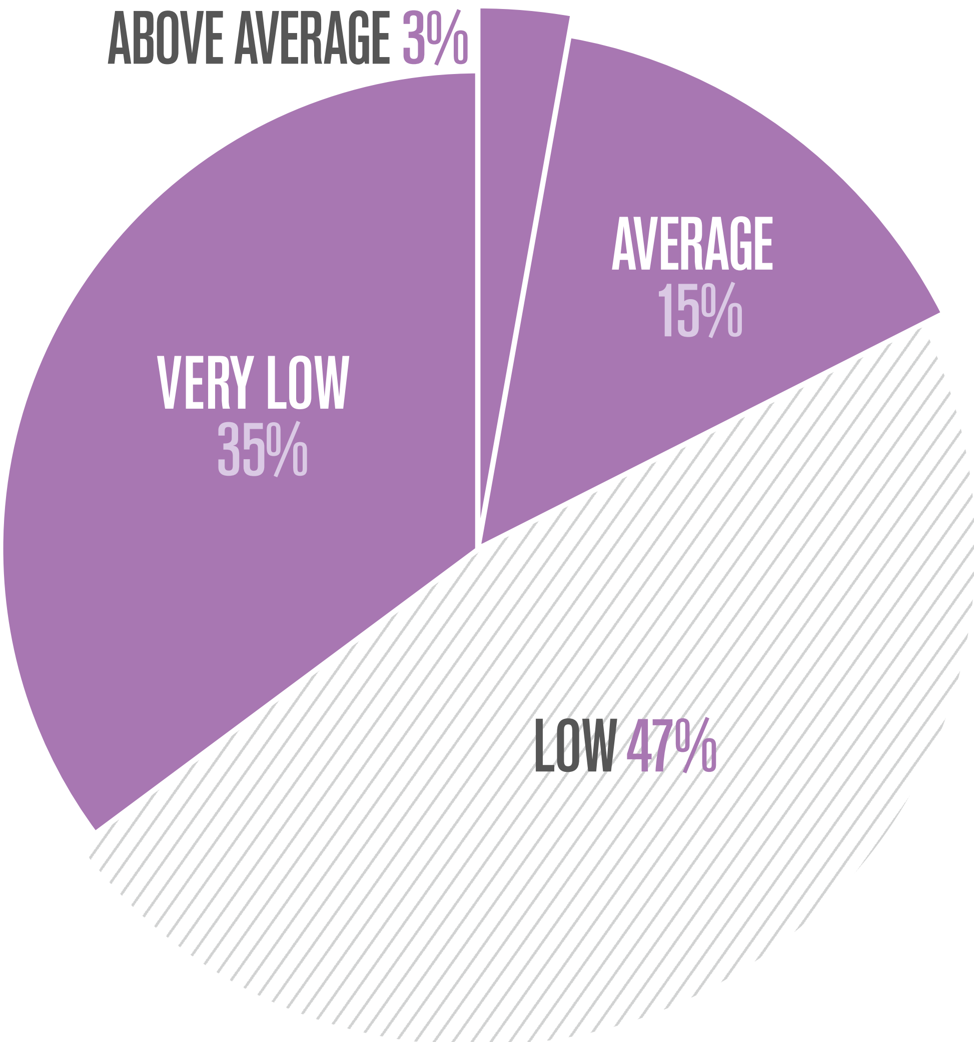
AVERAGE REINSURANCE PRICING LEVELS

Some 82% of interviewees see current reinsurance prices in the MENA region as being below the long-term (five-year) average, slightly down from 89% in 2013. However, the share of respondents who believe prices to be very low has doubled to 35%.

Most survey participants agree that prices have fallen to a level which no longer allows the market to absorb even a series of mid-sized losses, let alone a major loss. However, many interviewees still consider prices acceptable in light of the region's low catastrophe exposure and more attractive reinsurance terms and conditions. An increasing number of executives polled, however, question the longer-term validity of the 'low catastrophe risk' assumption, given the exponential accumulation of assets and increasing vulnerability of the region's more diverse risk landscape.

In general, North African and non-proportional as well as facultative business is considered better priced than GCC and proportional business.

CHART 12: Current average reinsurance prices



“ I predict that reinsurance capacity will continue to increase – though at a slower pace than previously. Predominantly Eastern capacity will flow into the MENA region. In addition, we see a relocation of capacity into the region by players who would like to increase the proximity to their clients. ”

Omar Gouda, Regional Director Northeast Africa/Middle East, Africa Re

“ One of the substantial weaknesses in the region is the limited quality of transactions. Contracts or slips often lack full transparency and submissions do not contain sufficient information. Furthermore, the risk management culture is only at its beginning and the pressure for growth, coupled with the limited risk awareness of some underwriters, makes the region a challenge to turn in a profit. ”

Rainer Lehner, Senior Executive Officer, Asia Capital Re

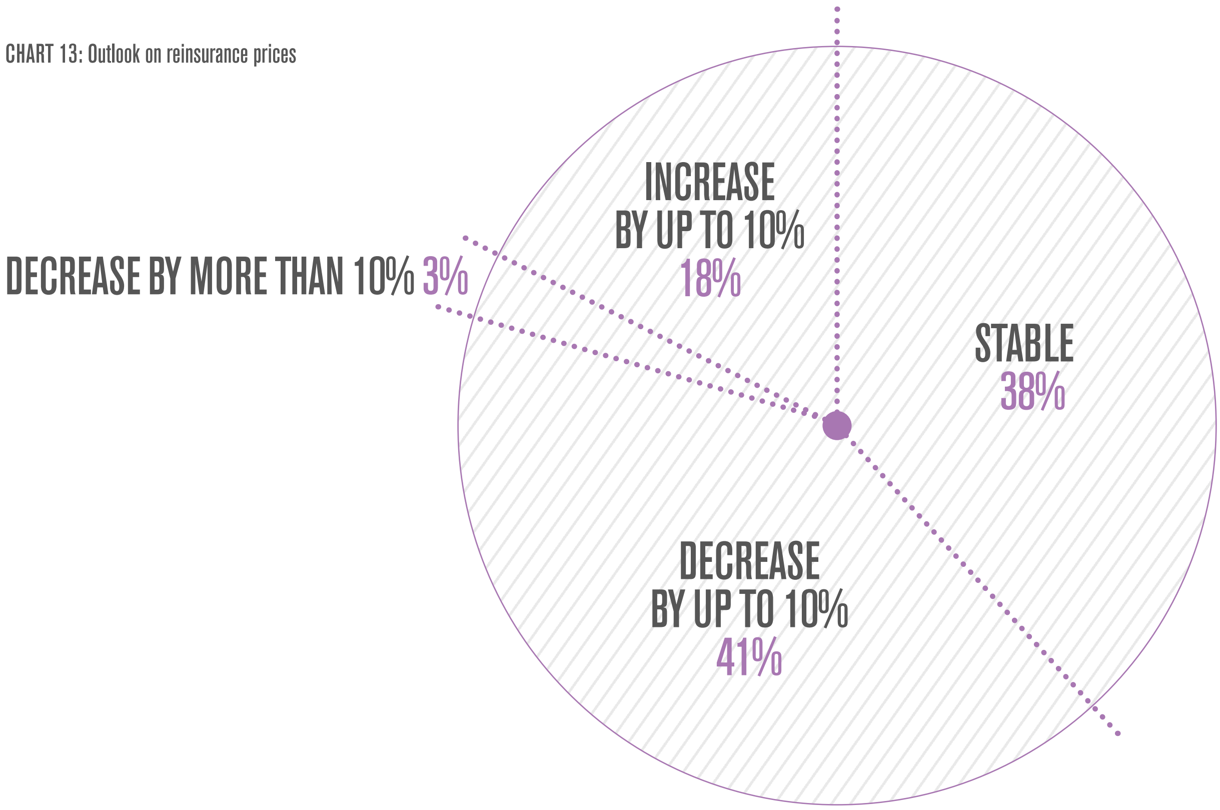
“ We have a bifurcation in the MENA insurance markets: some players grow in tandem or even faster than GDP. They improve their modelling capabilities, strengthen their risk management, retain more risk for themselves, build their business and ultimately exhibit more sophisticated reinsurance needs as well. Alternatively, there is still a considerable part of the market, which is largely reliant upon proportional treaties. They live in expectation of not suffering a disastrous loss and focus more on running their business on a day-to-day basis. ”

Chris Pleasant, Head of MENA, Guy Carpenter

“ I expect reinsurance capacity available in the MENA region to continue to increase. Across the globe, capital is abundant and the region’s growth dynamics and good levels of profitability attract additional market participants. ”

Dr Abdul Zahra Al Ali, CEO, National General Insurance

CHART 13: Outlook on reinsurance prices



The pricing outlook is rather gloomy: 44% say that they expect prices to continue falling during the next 12 months, against 19% a year ago. Only 18% (compared with 34%) of interviewees expect a moderate increase in average MENA reinsurance pricing levels (by up to 10%). The share of those anticipating a stable pricing environment has fallen from 47% to 38%.

Those 44% who expect the price erosion to continue over the next 12 months point to an ongoing influx of capacity, with the broader footprint of Lloyd's and the expected additional pressure on rates in facultative business being mentioned most frequently. In addition, the region is not insulated against the global abundance of capital, from both traditional and alternative sources. An increasing number of carriers divert capacity from fiercely contested areas such as US property catastrophe business to regions such as the Middle East and Asia.

Those executives who expect a stable pricing outlook point to the retrenchment of a number of major European reinsurers from proportional treaty business. In addition, inward facultative acceptances from local and regional insurers are less prevalent.

" To overcome the current insurance market threats such as poor premium rating, low profitability and volatile investment environment, it becomes more important for insurers, reinsurers and local regulators to jointly work together and adapt to a far more sophisticated market approach by applying tighter market discipline and prudent underwriting and deploying more trained insurance professionals. "

Yassir Albaharna, CEO, Arig

" According to our estimation the GDP of the MENA region's economies is expected to grow roughly between 2% to 6% in 2014, depending on the country. The reinsurance exposure, in particular in the GCC markets, will exceed the increase in GDP, as the complexity of the risks and the sums insured grow disproportionately faster. "

Lukas Müller, Head Market Underwriter Africa & Middle East, Swiss Re

" The MENA region's (re)insurance markets will strongly improve once its regulators tighten market access and conditions. Unfortunately we currently observe the common phenomena that regulators are more present during the hard market, while in the soft market times they seem to retreat. It comes at the expense of the well-managed companies, which aim to improve conditions on their home market, while the weak players don't. "

Marc Maupoux, Senior Underwriter, Axis Re

" As a consequence of poor historical technical results, underwriting standards have tightened recently, a trend that seems to be continuing. This development should support better loss ratios going forward, particularly in Turkey. "

Eray Türker, Managing Director, Türker Re

" Despite an abundance of 'following' capacity it is an increasing challenge for many regional insurers to source lead capacity from top-rated international reinsurers. This difficulty reflects the fact that a number of major players have scaled back their involvement in areas that became unattractive from an underwriting profitability perspective. "

Andreas Pollmann, Client Management Executive MENA, Munich Re

" Over the past few years, the Gulf-based financial centres have developed into a full-blown reinsurance hub for the Middle East and parts of Africa. The local establishment of Lloyd's is further testament to this development. "

Ahmed Rajab, CEO MENA, Aon Benfield

REINSURANCE TERMS AND CONDITIONS

Some 59% of executives polled consider overall reinsurance terms and conditions in the MENA region as average when compared with the past five years, unchanged from 2013. The share of those viewing terms and conditions as loose, compared with the five-year average, has decreased from 38% to 23% (see chart 14). However, the tightening trend since 2011 seems to have come to a halt. Back then, the Arab Spring in combination with massive global catastrophe losses had triggered a significant tightening of terms and conditions, in the form of event limits and loss corridors, reduced commissions, higher deductibles and political risk exclusions. In line with the current global and regional soft market environment, terms and conditions are starting to loosen again, with widening coverage available at unchanged prices, for example. This softening of terms is somewhat offset by reinsurers' continued tough stance on inward facultative acceptances by their clients.

Overall, terms and conditions continue to appear acceptable and support technical profitability even in the face of record-low prices (see next section).

Only 21% (down from 58%) of respondents expect terms and conditions to tighten over the next 12 months (see chart 15). The soft rating environment is believed to spill over into the area of terms and conditions.

CHART 14: Current reinsurance terms and conditions

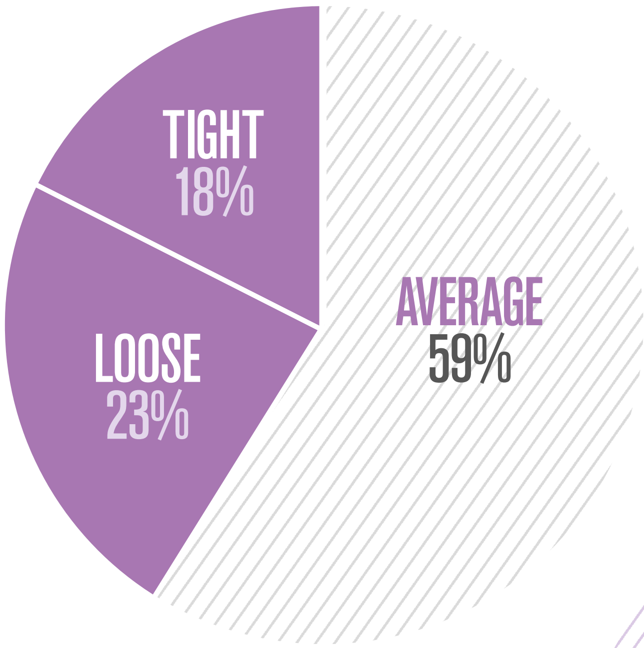
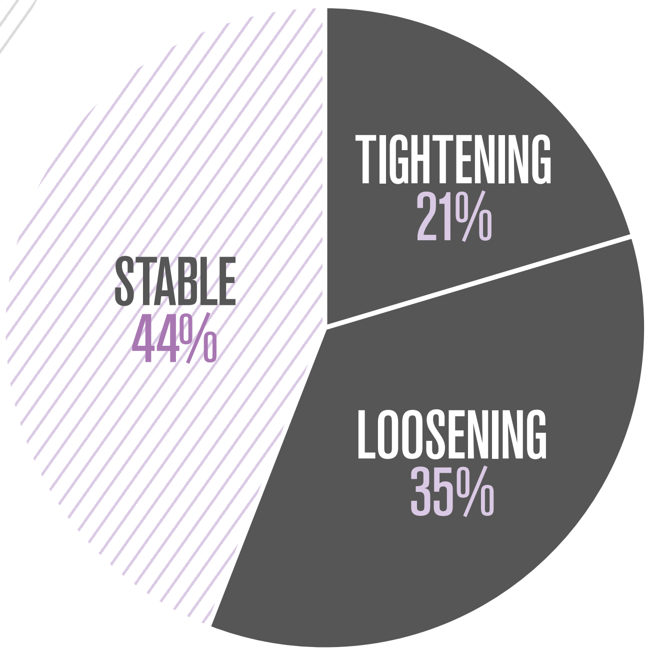


CHART 15: Outlook on reinsurance terms and conditions



OVERALL REINSURANCE PROFITABILITY

59% of executives participating in the survey consider overall reinsurance profitability in the MENA region 'low' or 'very low', down from 66% a year ago. Some 41%, compared with 34% in 2013, see reinsurance profitability at 'average' levels (see chart 16). This moderately more positive assessment of current profitability primarily reflects improved terms and conditions, more effective regulations (in Saudi Arabia in particular), a favourable claims experience in most countries and reduced retrocession expenses as a result of global developments.

As in previous surveys, the view on profitability continues to be more positive than the assessment of prices. This outcome is primarily attributable to the low frequency and severity of catastrophe losses in the region. Selective underwriters can still generate acceptable or even attractive risk-adjusted returns on capital, based on current assumptions concerning catastrophe losses. This is particularly true for internationally priced facultative business, whereas technical results in proportional treaty reinsurance are generally negative. In addition, current levels of profitability do not provide a cushion against a potential major catastrophe event or even a series of mid-sized losses.

As far as the 12-month outlook on profitability is concerned, 50%, against 66%, do not expect any changes. 29%, a massive increase from last year's 10%, believe that profitability will deteriorate. This assessment reflects further pricing pressures, a gradual erosion of terms and conditions, an expected further increase in attritional losses, a rising exposure to catastrophe losses and a widening gap between premium growth and exposure growth (see chart 17).

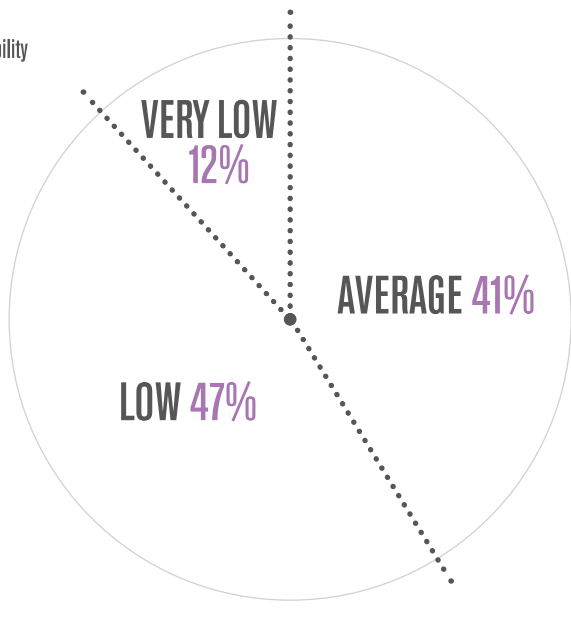
> “Overall retentions may be on the rise because of the aggregate portfolio shift towards personal lines business. A closer analysis, however, reveals that cession behaviour by line of business is rather stable, with many cedants still preferring to make money from the assets side of the balance sheet.”

Guido Zagatti, Senior Manager Reinsurance, MENA, Assicurazioni Generali

> “Cession rates in the Middle East are still remarkably high, in light of the region's and most of its insurers' capital strength. Retaining more risk and developing into genuine risk takers would be a significant opportunity, not only for individual ceding companies but for the marketplace at large.”

Peter Schmidt, CEO, Catlin Re, Switzerland

CHART 16: Current overall reinsurance profitability



" It is absolutely crucial for reinsurers to restrict cedants from writing facultative inward business. This practice has not only resulted in a major erosion of rates but also defeats the purpose of risk diversification. "

José Geara, former Head of MENA, Barents Re

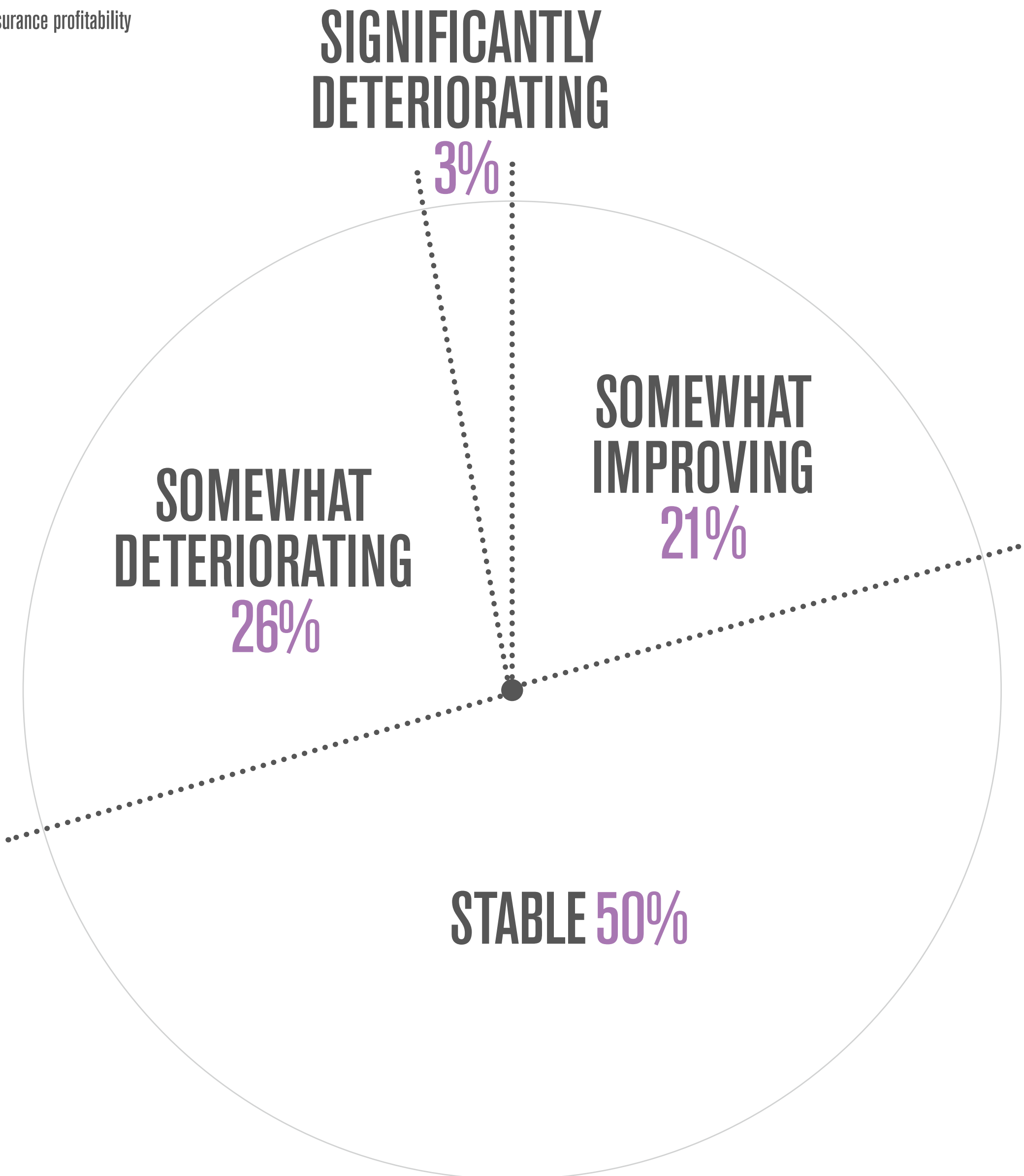
" In terms of reinsurance profitability, we see a silver lining on the horizon. Finally, the industry is demonstrating some discipline by limiting the amount of facultative inwards business and coinsurance in the region. This will contribute to improved returns and enhance the market's transparency. "

Dr Peter Hugger, CEO, Echo Re

" The MENA reinsurance market faces a global soft market phase, which is severely aggravated by the recent influx of alternative capital, and a local prolonged low rate environment, which has characterised the region since almost a decade now. As a consequence, additional international capacity is pushing into the MENA region, although the markets already suffer from overcapacity. "

Vincent Grailhon, Senior Treaty Underwriter, Hiscox Re

CHART 17: Outlook on reinsurance profitability

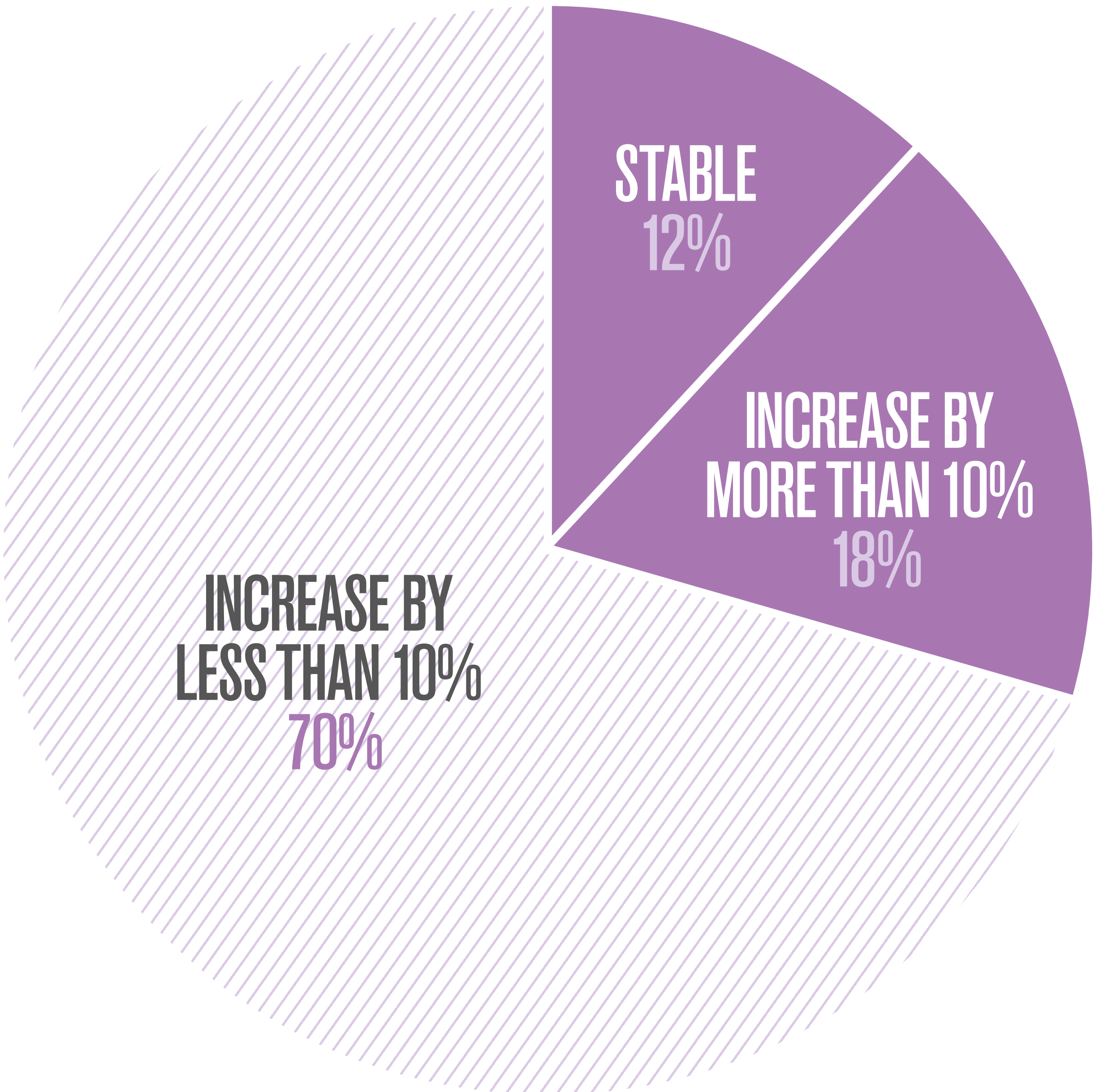


OVERALL REINSURANCE CAPACITY GROWTH

Some 88% of survey participants, sharply up from last year's 50%, believe that total reinsurance capacity deployed to the MENA countries will increase further (see chart 18). The majority of survey participants expect a further inflow of capacity, as the region remains an attractive high-growth, non-catastrophe market with beneficial effects on overall portfolio diversification. In addition, central banks from Washington, DC to Tokyo continue to adopt an extremely loose monetary policy stance. As a result, an increasing share of global capital is looking for yield in reinsurance markets.

This trend is only partially offset by major Western reinsurers' continued retrenchment from proportional treaty business in the region.

CHART 18: Outlook on overall capacity development



“Some of the region’s players maintain a ‘cherry-picking’ approach to retention. Companies have increased tremendously in size and capital over the last decade and can afford to retain more risks. However, due to the abundance in capacity there is no pressing incentive to do so. In fact, many cedants ‘pick and choose’ the magnitude of risks they elect to retain based not, in optimised combination and application, on actuarial mathematics and risk-based capital considerations, but predominantly on business-smart savvy decisions, according to their experiences, preferences and gut-feel.”

Mazen G Abouchakra, Managing Director,
Life & Health Mediterranean MENA & Cyprus, General Re

“The perception of rapid growth in MENA reinsurance markets appears to be increasingly problematic. Underlying direct insurance premium growth primarily comes from compulsory lines that are high-frequency, low-severity business, resulting in a continuous increase in retentions.”

Farid Chedid, Chairman & CEO, Chedid Re

“Available reinsurance capacity in the MENA region keeps increasing, not least because of new market entrants from Africa, Latin America and Russia. This influx puts additional pressure on pricing levels which are already highly competitive.”

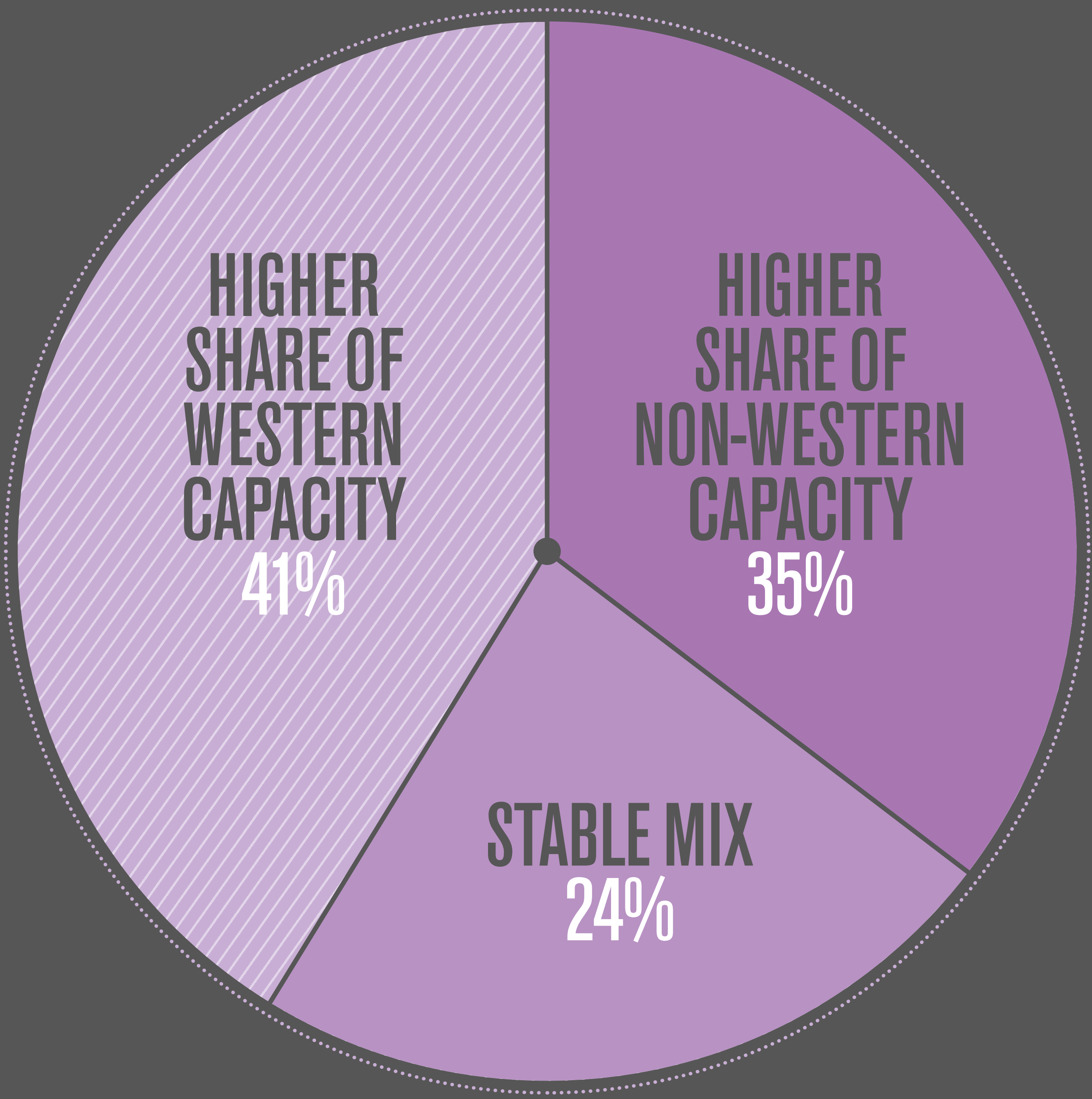
Salvatore Orlando, Head of High Growth Markets, PartnerRe

Some 41% of interviewees expect the share of Western capacity to increase over the next 12 months, sharply up from only 16% in 2013. This expectation reflects the accelerated inflow of capacity as a result of US and European central banks’ ultra-expansive monetary policies. More specifically, Lloyd’s entry to the market through a regional presence is expected to increase the share of Western capacity. A partially offsetting factor is the current political uncertainty, which has prompted some Western players to reduce their involvement, adding to the retrenchment prompted by profitability concerns.

About 35% (compared with 50% in 2013) of participating executives believe that the share of regional and Asian (non-Western) capacity will continue to increase at the expense of more traditional sources from Continental Europe, Bermuda and London (see chart 19). These inroads are expected to be driven by continued strong capital formation in emerging markets and an unabated desire for diversification among Asian reinsurers. The latter are also broadening their footprint in the MENA region for the simple reason of following their domestic clients, similar to the global expansion of Japanese (re)insurers a few decades ago.

Interviewees were also asked about the estimated split between these three sources of capacity. On average, Western reinsurers are believed to boast a market share of about 50%. Based on the executives’ estimates, Asian and regional reinsurers accounted for approximately 30% and 20%, respectively, of the market. These estimates correspond to last year’s findings.

CHART 19: Outlook on split between Western versus non-Western capacity



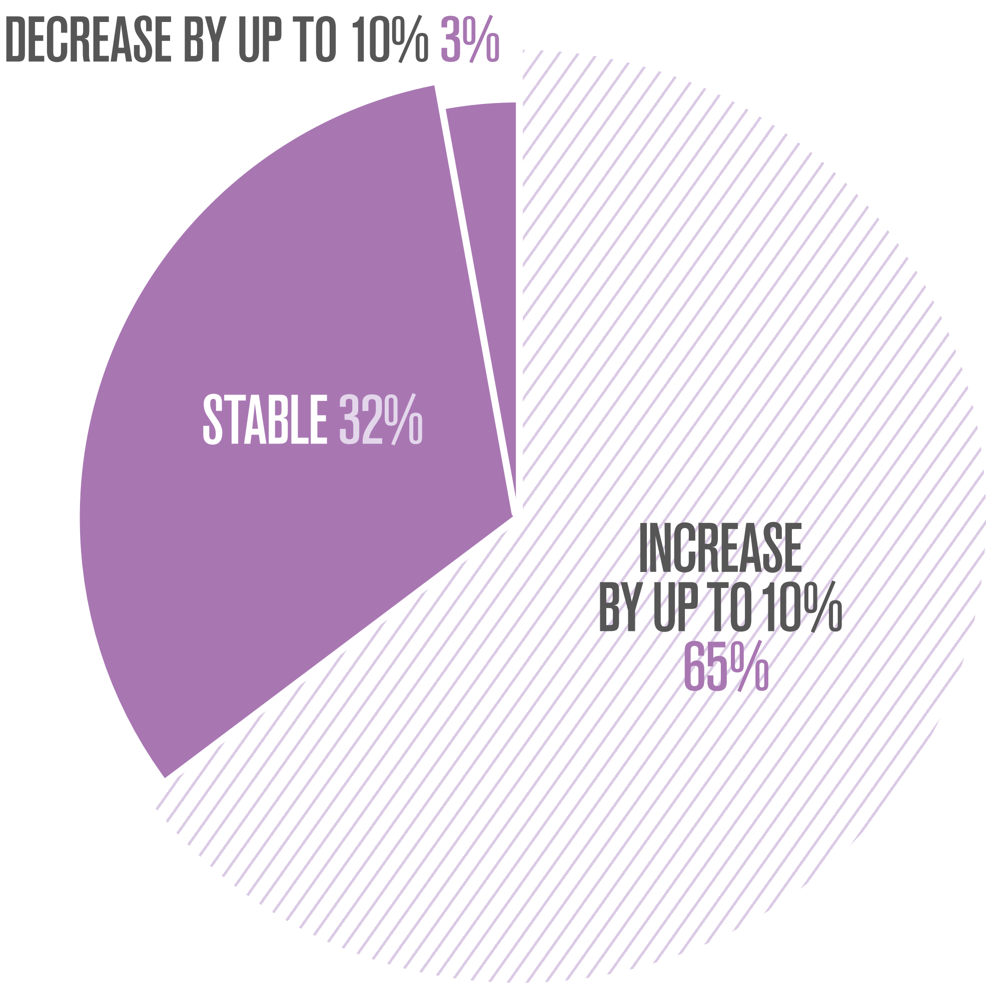
AVERAGE RETENTION LEVELS

On average, MENA insurers retain about two thirds of their non-life premium income (including medical and health), significantly below the global average of almost 90%. Some 65% (virtually unchanged from 2013) of interviewees expect aggregate retention rates to increase by up to ten percentage points over the next 12 months. They cite mounting pressure from reinsurers and regulators (most notably the Saudi Arabian Monetary Agency), who expect domestic insurers to have more 'skin in the game'. Some survey participants also point out that an increasing number of insurers are looking to boost profitability through risk retention in light of a protracted low-yield investment environment. Another reason supporting higher retentions is the emergence of a new generation of regional industry leaders who are more open to risk retention as a source of profits.

In addition, the gradual shift towards non-proportional reinsurance (as proportional treaty capacity is more difficult to obtain and event limits have become commonplace), is pushing up aggregate retention levels. The same effect is exerted by the changing business mix of primary markets. Motor and medical insurance, fuelled by compulsory requirements, grow significantly faster than other property and casualty lines. This shift results in an increase in aggregate retention levels, but should not mask the fact that in lines such as engineering, energy and aviation, retention levels remain well below 10%.

Those executives who expect retentions to remain stable, cite the abundance of cheap capacity and a very pronounced buyer's market (see chart 20).

CHART 20: Outlook on retention levels

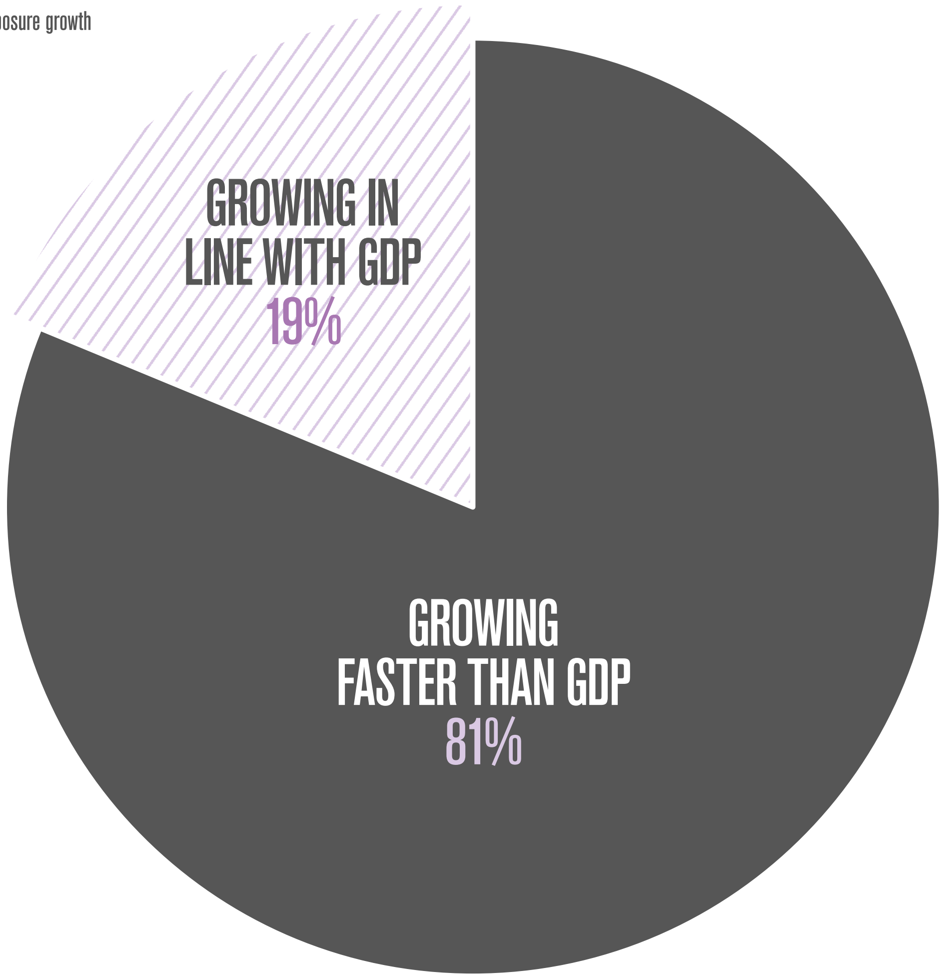


REINSURANCE EXPOSURE GROWTH

Over the next 12 months, 81% (virtually unchanged from 2013) of respondents expect reinsurance exposure, or the sums insured, to grow at a faster pace than the MENA countries' GDP. Not a single survey participant expects exposure growth to trail GDP growth (see chart 21).

The bullish outlook on exposure growth is based on the (long-term) expectation that the region's non-life insurance markets will expand more rapidly than the overall economy. Rising penetration levels are expected from (additional) compulsory lines of business, which also raise reinsurance exposure. The same effect is expected from a more complex and diverse risk landscape and a rapid accumulation and concentration of values due to urbanisation and industrialisation.

CHART 21: Outlook on reinsurance exposure growth



"Competition in the MENA region's insurance and reinsurance markets should be based on service quality, and not on ultra-low risk prices which, in extremis, could lead to the industry's self-destruction."

Tarik Aouad, Chief Operating Officer, Saudi Re

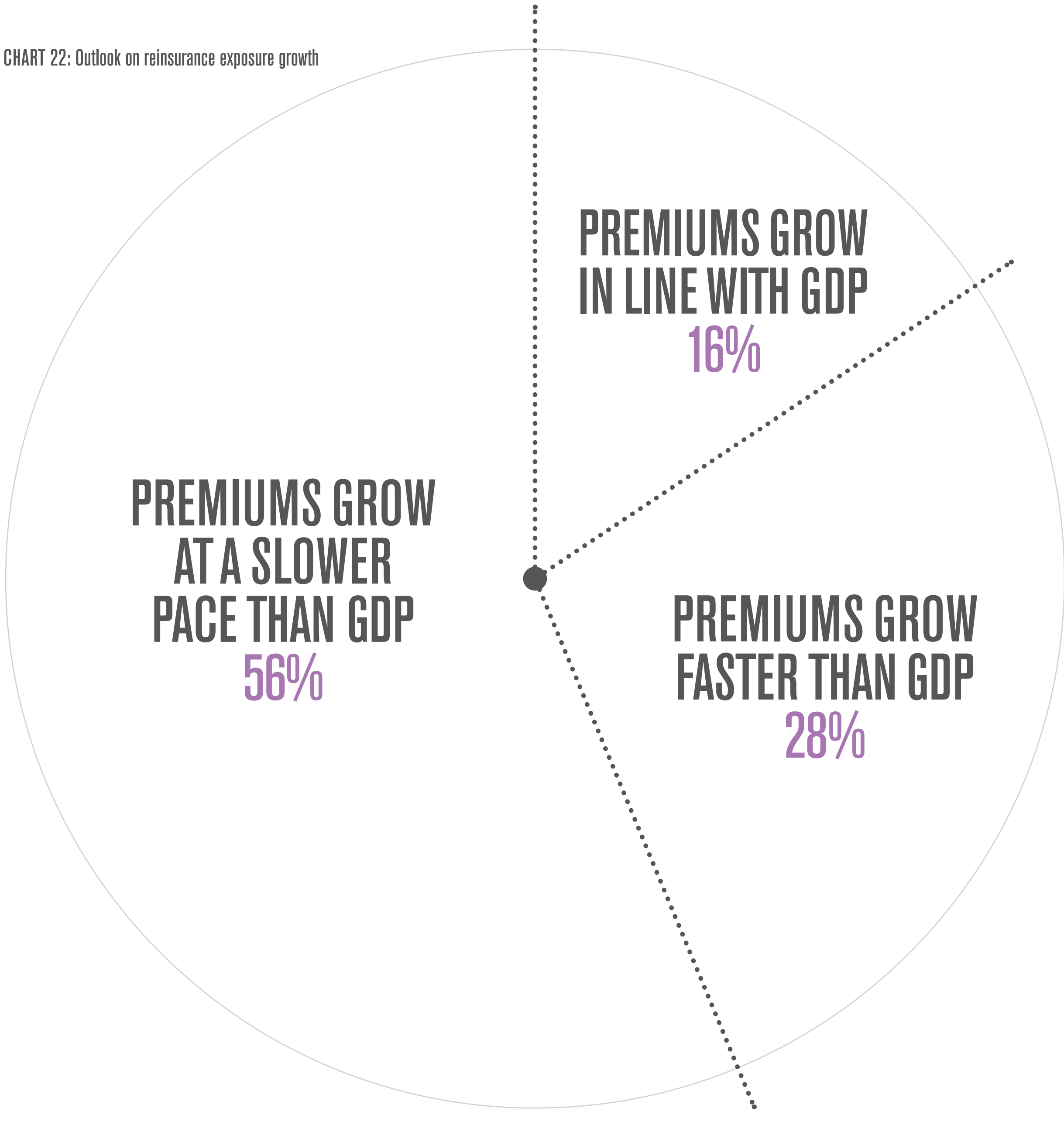
"For as long as original premiums grow in line with GDP, I remain marginally positive regarding the region's reinsurance markets. Although rates have continued to decline for almost a decade, volume growth helps to offset the negative impact from the market softening."

Chris Pleasant, Head of MENA, Guy Carpenter

REINSURANCE PREMIUM GROWTH

Reinsurance premium growth compares less favourably with GDP than reinsurance exposure growth. 56% of respondents expect reinsurance premiums to trail behind GDP growth, a sharp increase from 39% in 2013. These executives point to continued pressure on reinsurance rates, rising retentions and a lower share of proportional business. All these factors dampen reinsurance premium growth (see chart 22).

CHART 22: Outlook on reinsurance exposure growth

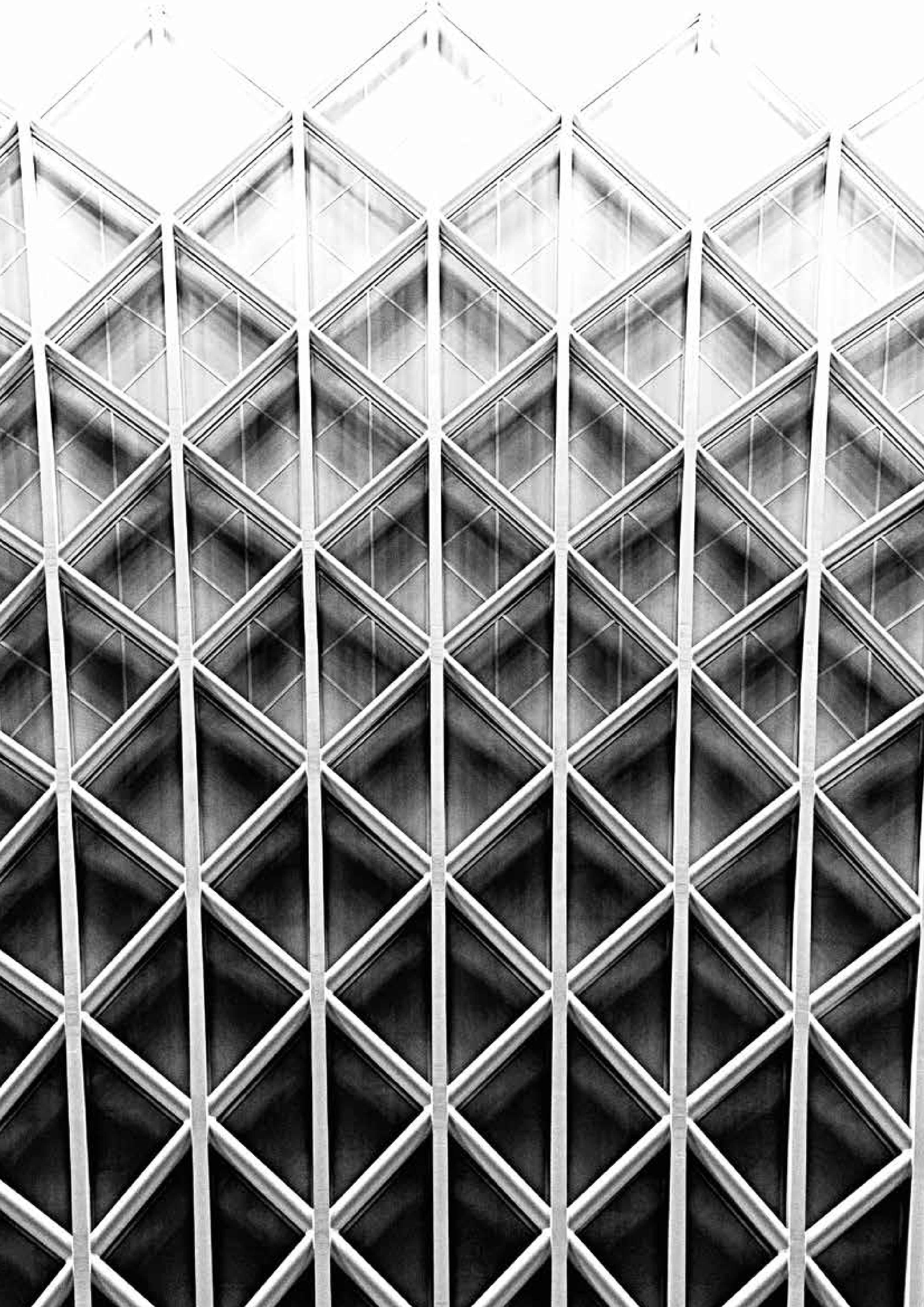


“ As most reinsurance business in the MENA region is proportional we expect reinsurance premiums to grow in line with primary markets, ie in excess of GDP growth. ”

Khaled Nouiri, Regional Director and Senior Treaty Underwriter, Trust Re

SURVEY RESULTS

LINES OF BUSINESS-SPECIFIC PROSPECTS



Medical and health insurance are expected to be the fastest-growing lines of business over the next 12 months, fuelled by the expansion of existing – and the introduction of new – compulsory insurance requirements. Construction and engineering business ranks second, reflecting a continued construction boom in Saudi Arabia, Qatar and the UAE. The third most rapidly expanding line is motor, which is benefiting from strong population growth and an acceleration of economic growth (see chart 23). This ranking is unchanged from the 2013 MENA Reinsurance Barometer.

CHART 23:
The fastest-growing lines of business (number of mentions)

“Despite fierce competition in the primary markets, medical reinsurance can be written profitably in the MENA region. What it takes is pricing on the merits of each risk, an actuarial evaluation of the ceded business and the reinsurer’s active involvement in the cedant’s claims management.”

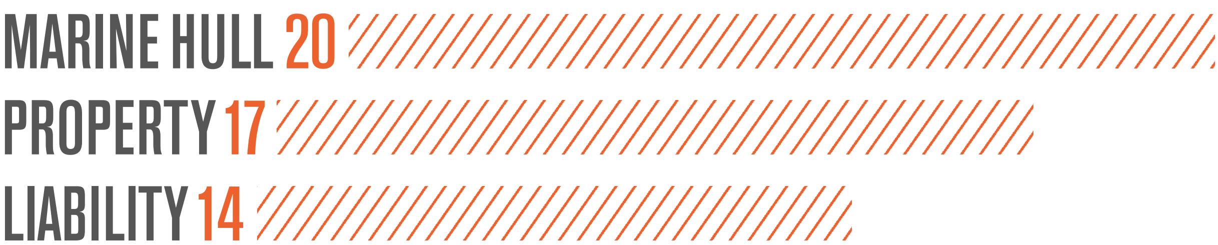
Mahomed Akoob, Managing Director, Hannover ReTakaful

“Facultative engineering business remains a generally profitable segment of the region’s reinsurance markets for leading reinsurers where they can leverage their superior risk management capabilities to add value to individual projects.”

Andreas Pollmann, Client Management Executive MENA, Munich Re

When asked about the slowest-growing lines, marine hull, property and liability were most frequently mentioned. Marine hull business suffers from the declining importance of international trade as an engine of regional growth, as well as the absence of large commercial fleets in the Middle East. Property reinsurance premiums are pressurised by fierce competition in a highly commoditised segment of the market, as well as the virtual absence of a mortgage market in most countries of the region. Liability reinsurance continues to be held back by a very low level of awareness (see chart 24). Compared with 2013, marine hull has risen from the third to the first rank.

CHART 24:
The slowest-growing lines of business (number of mentions)



As in 2013, survey participants consider engineering, marine cargo and liability reinsurance as the most profitable lines of business (see chart 25). Engineering stands out, benefiting from a generally good quality of contractors, international standards of risk management and limited catastrophe exposure. Marine cargo, too, is consistently profitable, mainly due to the small number of players and the niche character of the business. The performance of liability is supported by a low, albeit rising degree of litigiousness as well as a limited supply of capacity.

CHART 25: The most profitable lines of business (number of mentions)

ENGINEERING 23

MARINE CARGO 17

LIABILITY 11

> “Longer term, the casualty line of business offers an attractive potential. For example, new products for environmental liability cover are being introduced into the market. Another example is directors & officers insurance which benefits from increasing foreign direct investments into the region.”
>
> **Salvatore Orlando, Head of High Growth Markets, PartnerRe**

> “Casualty lines in the MENA region exhibit attractive levels of profitability. There is still relatively limited capacity available and levels of litigiousness remain low.”
>
> **George Kabban, CEO, UIB (DIFC)**

Property, motor (quota share) and medical reinsurance are considered the least profitable lines of business. In 2013, medical ranked first and property third.

In respect of property reinsurance, interviewees point to a major degree of commoditisation, abundant naive reinsurance capacity and a general lack of attention to safety issues. The assessment of motor reinsurance reflects original market conditions characterised by repair cost inflation, rising bodily injury compensation payments and a very limited scope for risk selection and segmentation.

Medical reinsurance is still affected by fierce competition, more often than not in the form of cash-flow underwriting, and accelerating claims inflation. However, the situation is expected to improve in the region’s largest medical insurance market, Saudi Arabia, where the insurance regulator has made external actuarial reviews and audits compulsory for all local insurers and reinsurers and across all lines of business. In addition, Saudi Arabia-based insurers and reinsurers have to use actuarial pricing for new business.

CHART 26: The least profitable lines of business (number of mentions)

PROPERTY 22

MOTOR QS 21

MEDICAL 18

SURVEY RESULTS

THE REGION'S MOST RELEVANT REINSURANCE TRENDS

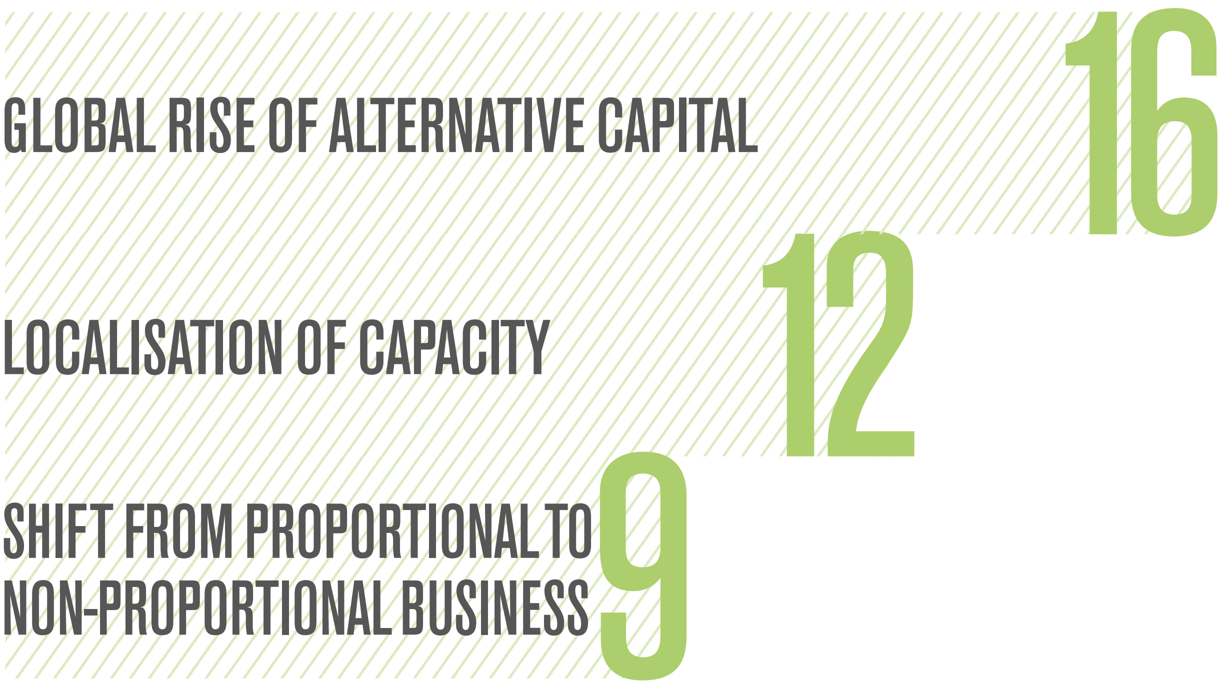
Interviewees were asked to identify the single most relevant trend affecting the MENA reinsurance marketplace.

The most frequently mentioned trend is the rise of alternative capital and its primarily indirect impact on MENA reinsurance markets. In view of the inroads made by alternative third-party investors such as hedge funds and pension funds into property catastrophe reinsurance markets, an increasing number of reinsurance carriers are looking for new destinations for their capacity, with the Middle East and other emerging regions being particularly popular. This development, ultimately a result of ultra-low interest rates in mature economies, puts additional pressure on rates, terms and conditions and overall profitability of Middle Eastern reinsurance business.

Another important trend is the increasing amount of capacity available from local entities of global carriers as well as decision-making authority in the region itself. As a result, there has been an erosion of the earlier dominance of cross-border business in many major lines of business. The local establishment of Lloyd's is viewed as further testament to the need to serve the market from a local base.

The third most frequently mentioned trend is the gradual shift from proportional to non-proportional business. A growing number of local and regional cedants, the bigger players in particular, are increasing their retentions in order to capture additional profits from the liabilities side of the balance sheet. This shift is currently slowing because of an abundance of proportional capacity and the result of cheap global capital. Longer term, this trend will present reinsurers in the region with the need to develop and promote tailored excess-of-loss solutions and, ultimately, adapt to slower top-line growth.

CHART 27: Most relevant MENA reinsurance trends (number of mentions)



“ Whilst the alternative capacity entering the global reinsurance and retrocession market is not yet directly affecting the MENA market, we are already seeing a trickle-down effect as traditional reinsurers look for avenues to deploy their new capacity, with the ongoing softening of treaty reinsurance programmes. ”

Jim Attwood, Chief Underwriting Officer, Kuwait Re

“ Reinsurance business sentiment in the MENA region benefits from positive knock-on effects from a growing sense of global economic recovery and stability. The global financial crisis now seems to be firmly behind us. ”

George Kabban, CEO, UIB (DIFC)

“ A new generation of leaders is taking the reins of many of the region's insurance companies. Their education, passion and skill augur well for the longer-term prospects of the MENA insurance industry. ”

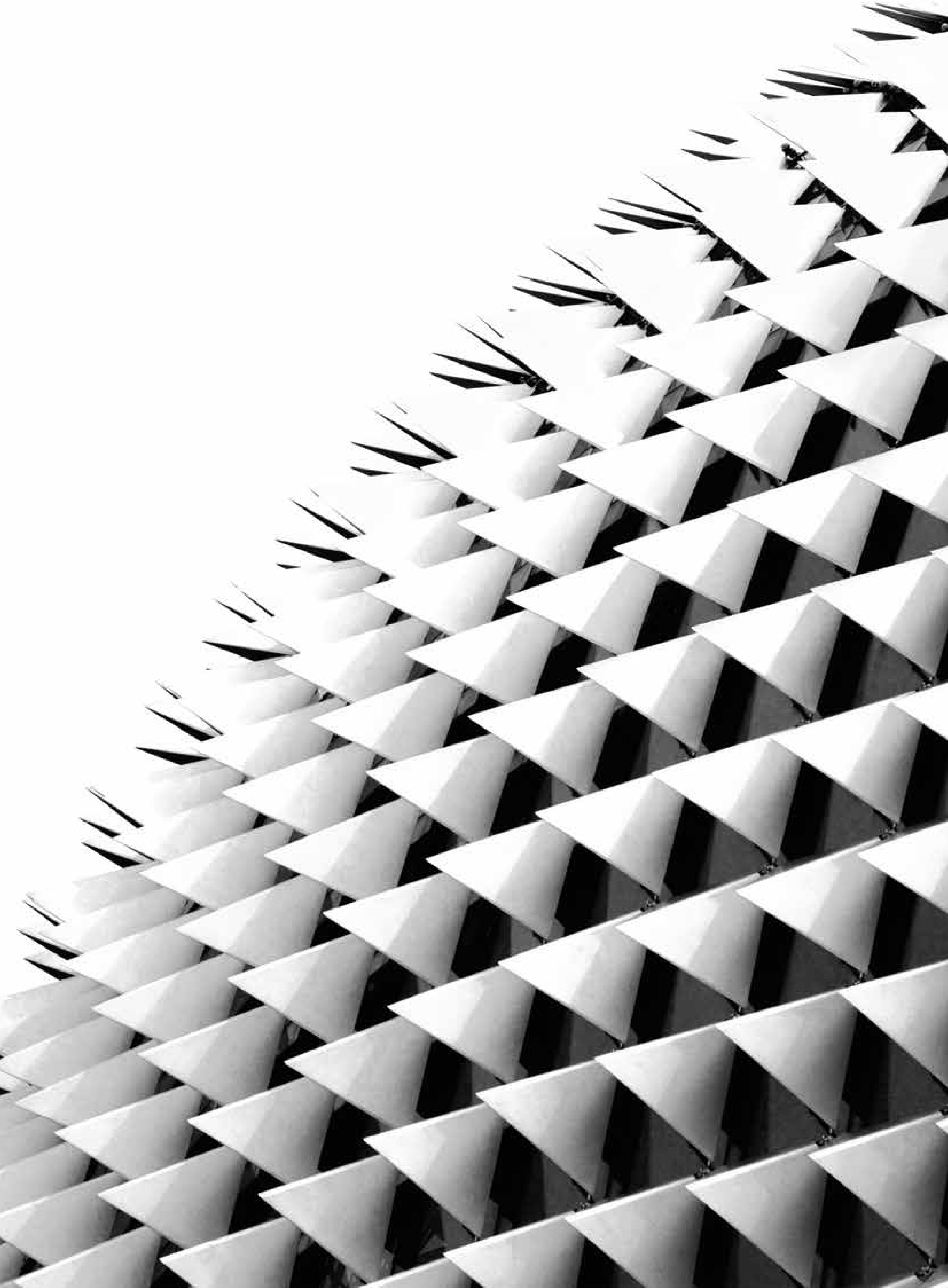
Tim Griffiths, Senior Underwriter, Endurance Re

“ The structure of the MENA reinsurance supply side has changed significantly over the past five to ten years. The big four reinsurers no longer dominate the marketplace. Western and Asian carriers have broadened their presence. The most recent announcement in this regard is from Lloyd's through a physical presence within the DIFC. ”

Atish Suri, Head of MENA, Willis Re

SURVEY RESULTS

OVERALL MENA REINSURANCE BUSINESS SENTIMENT

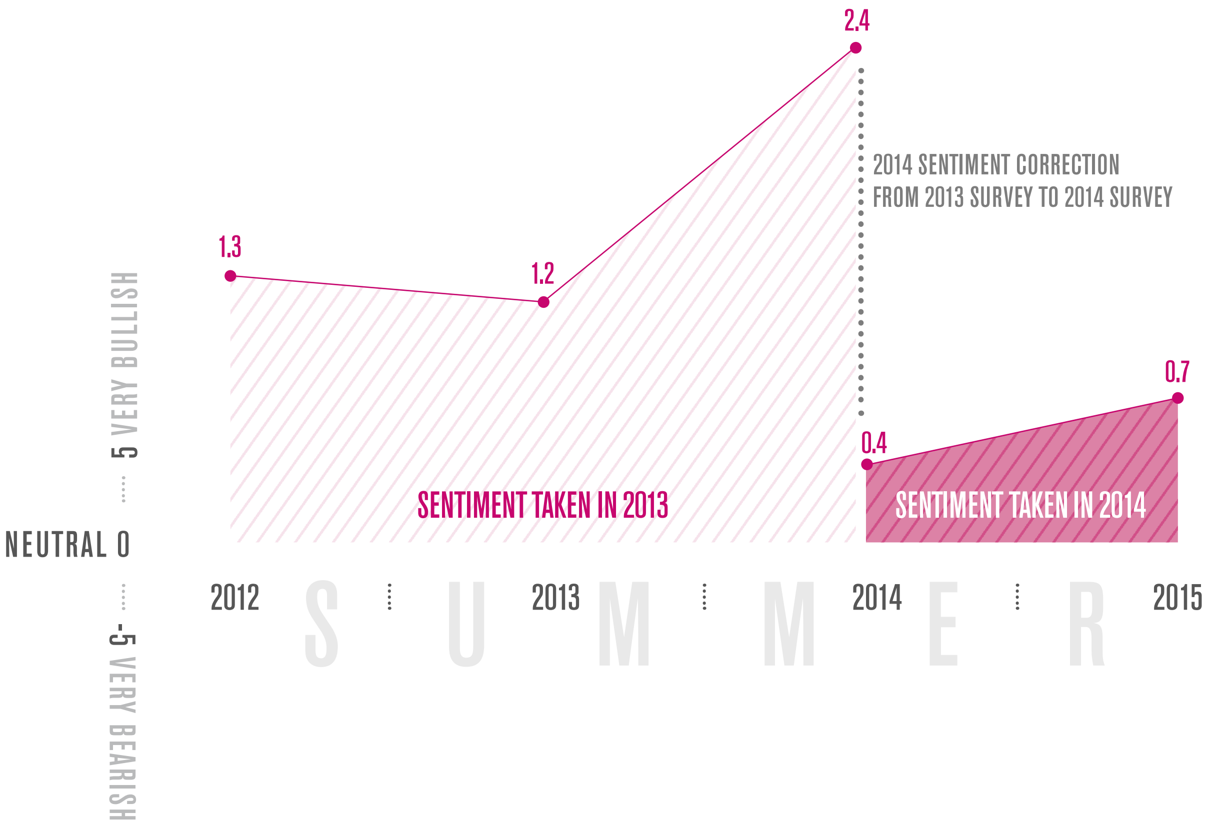


As in the year before, the 2014 Reinsurance Barometer offers an overall MENA reinsurance market sentiment measure. Interviewees were asked to describe their business sentiment on a scale ranging from 5 (very bullish) to -5 (very bearish), with 0 indicating a neutral attitude.

The average sentiment measure for summer 2014 came in at 0.4, down from 1.2 in 2013 and significantly less than the projected 2.4 that 2013 survey participants had expected for 2014. The outlook for 2015 is stable, with sentiment improving slightly to 0.7.

Deterioration in the current sentiment compared with expectations one year ago, as well as the relatively muted outlook, primarily reflect a heightened degree of political instability in parts of the region and a further intensification of competitive pressures driven by global rather than regional factors. Optimists point to the region's strong economic fundamentals, an increasing sophistication of market participants and the scope for new and innovative products.

CHART 28: Average MENA reinsurance business sentiment



“Overall reinsurance sentiment has deteriorated over the past 12 months due to worsening underpricing and evaporating profit margins. Going forward, we could be slightly more optimistic only if tightening reinsurance terms and conditions and a series of losses bring some sanity back to the market.”

Mahomed Akoob, Managing Director, Hannover ReTakaful

“From a leading regional reinsurer's point of view, a selective underwriting approach and a strategy of diversification into new lines and territories are options to respond to fierce competition and eroding margins.”

Khaled Nouiri, Regional Director and Senior Treaty Underwriter, Trust Re

ABOUT THE QFC AUTHORITY

Established by the Government of Qatar in 2005, the Qatar Financial Centre (QFC) is an onshore centre which has become an integral part of Qatar's economy and rapid growth story, and is fulfilling its mandate to help build a world-class financial and business environment in Qatar, providing a platform for domestic, regional and international growth. The QFC comprises four independent bodies: the QFC Authority; the QFC Regulatory Authority; the Civil and Commercial Court (First Instance and Appellate Divisions); and the Regulatory Tribunal.

The QFC Authority is the commercial and strategic arm of the QFC; it is responsible for developing and ensuring compliance with the QFC regulations and rules comprising the QFC's legal and tax environments; it is responsible for the administration of the Companies Registration, Employments Standards and Immigration Offices respectively; and it is also responsible for the licensing of all firms applying to conduct non-regulated permitted activities. The QFC continues to attract a broad range of leading regulated and non-regulated firms, both domestic and international.

QFC-licensed firms benefit from an environment which operates to international standards, with a legal system based on English Common Law, regulation which is risk and principles-based and a competitive tax regime. Business can be carried out in or from the QFC, in local or foreign currency. Uniquely, this allows businesses to operate both locally and cross-border. Furthermore, the QFC allows 100% ownership by foreign companies and all profits can be remitted outside Qatar.

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