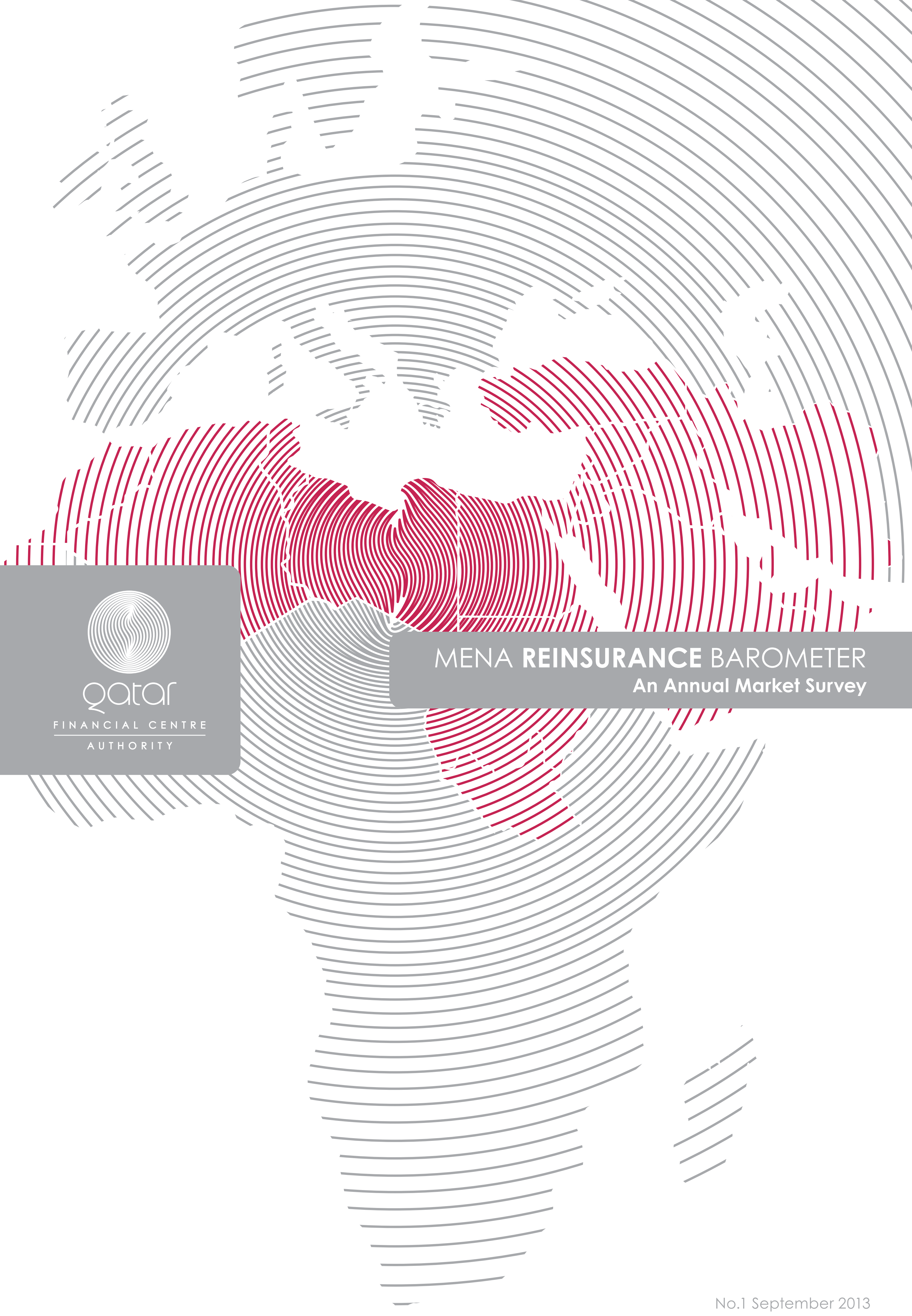

MENA **REINSURANCE** BAROMETER

An Annual Market Survey

qatar
FINANCIAL CENTRE
AUTHORITY

No.1 September 2013

MENA REINSURANCE BAROMETER

No. 1 / September 2013

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QFCA Tower - West Bay, Qatar

FOREWORD

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

We are pleased to present the first edition of the annual MENA Reinsurance Barometer. It builds on the well-established GCC Reinsurance Barometer launched in March 2011, but now includes the wider Middle East North Africa (MENA) region, including Turkey. This extended geographical scope takes into account the ever-closer economic, social and political ties across the region.

The MENA Reinsurance Barometer is based on in-depth interviews with senior executives of 38 regional and international reinsurance 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$ 12 billion in total premiums. The report also offers a summary of key regional (re)insurance market data.

Over time, the Barometer will help improve the transparency of the MENA (re)insurance market and provide participants with an additional benchmark for decision-making. It paints a comprehensive and quantitative picture of current market sentiment and will track this over time.

We hope you will enjoy reading this report and benefit from the findings of our first MENA Reinsurance Barometer.

METHODOLOGY

The findings of this report are based on in-depth interviews with executives at 38 regional and international reinsurance companies and intermediaries. The interviews were conducted by Dr. Schanz, Alms & Company AG, a Zurich-based research, communications and strategy consultancy, in June and July 2013.

The companies taking part in the survey were:

- **Abu Dhabi National Insurance Company (ADNIC), Abu Dhabi**
- **Africa Re, Cairo**
- **Aon Benfield, London**
- **Arabia Insurance Company, Dubai**
- **Arab Reinsurance Company, Beirut**
- **Asia Capital Re, Dubai**
- **Aspen Re, London**
- **Assicurazioni Generali Middle East, Dubai**
- **Axis Re, Zurich**
- **Compagnie Centrale de Réassurance (CCR), Algiers**
- **Canopius, London**
- **Catlin Re, Zurich**
- **Chedid Re, Beirut**
- **Echo Re, Zurich**
- **Emirates Insurance, Dubai**
- **Endurance Specialty Holdings, Zurich**
- **General Re, Beirut**
- **GIC of India, Dubai**
- **Gulf Re, Dubai**
- **Guy Carpenter, London**
- **Haakon, Basle**
- **Hannover Re Takaful, Bahrain**
- **Hiscox, Paris**
- **Malaysian Re, Dubai**
- **Miller Insurance, London**
- **Milli Re, Istanbul**
- **Munich Re, Munich**
- **Oman Re, Muscat**
- **PartnerRe, Zurich**
- **QBE Insurance, Dubai**
- **Q-Re, Doha**
- **Saudi Re, Riyadh**
- **SCOR SE, Cologne**
- **Swiss Re, Zurich**
- **Trust Re, Bahrain**
- **Türker Brokers, Istanbul**
- **UIB Gulf, Dubai**
- **Willis Re, Dubai**

SUMMARY OF KEY FINDINGS

1. Driven by strong economic conditions and prospects, the MENA region continues to be perceived as an attractive (re)insurance growth market with limited exposure to natural perils. The majority of interviewees believe that reinsurance premium growth will continue to outpace regional GDP growth.

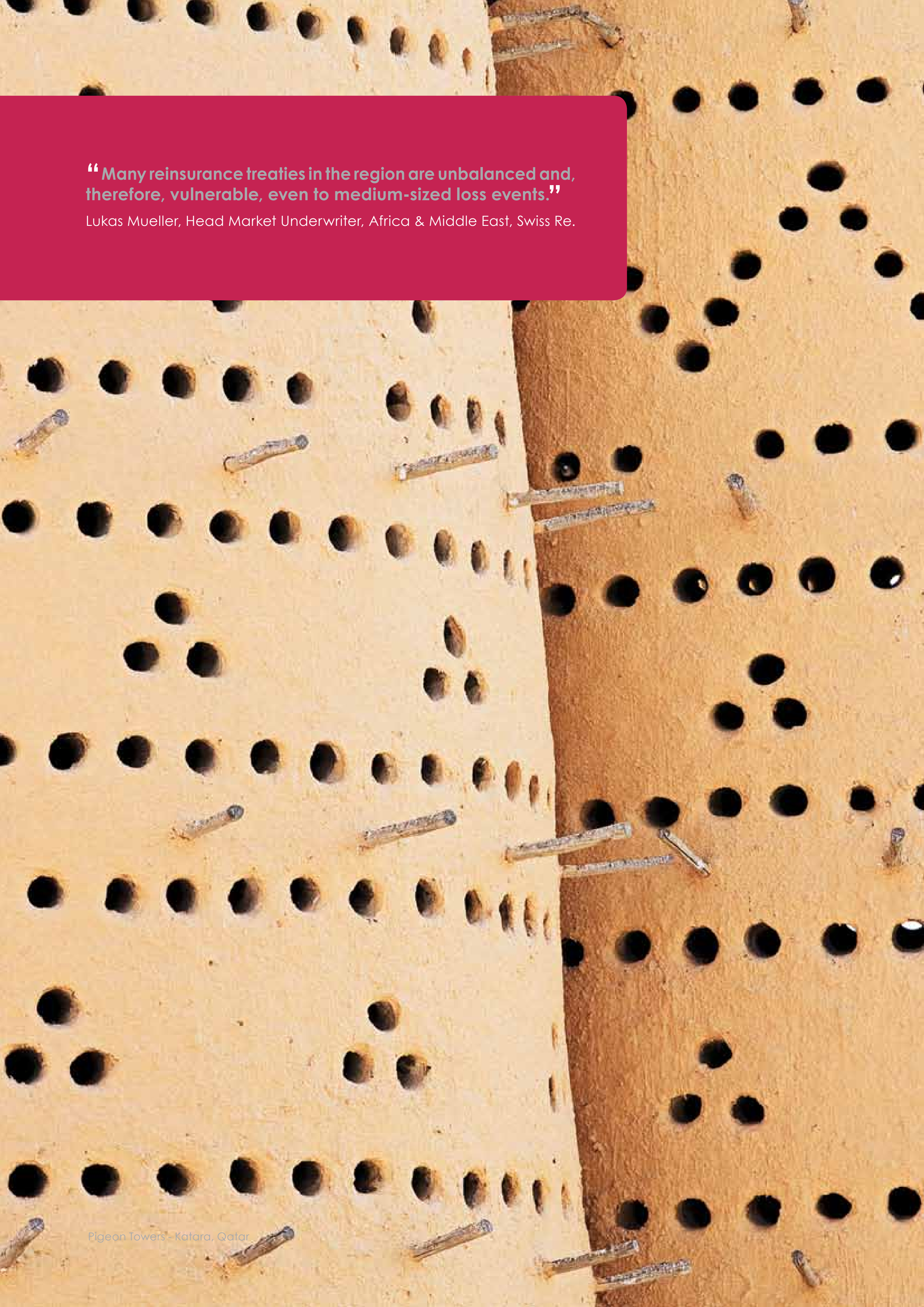
2. Terms and conditions have continued to tighten over the past 12 months, a trend which started in 2011. To some extent this explains why the MENA reinsurance market remains attractive despite relatively low rates. The share of interviewees citing loose terms and conditions declined from 48% to 38%. This change in assessment primarily reflects the aftermath of the Arab Spring and an increasing awareness of the region's catastrophe exposure.

3. The percentage of participants expecting reinsurance capacity in the MENA region to grow further has decreased slightly from 54% to 50%. A further inflow of capacity is expected as the region remains an attractive high growth, low-catastrophe market with positive effects on overall portfolio diversification.

4. Some 50% (up from 41%) of respondents believe that the share of regional and Asian reinsurance capacity will continue to increase, at the expense of traditional Western capacity. This is driven by continued strong capital formation in emerging markets and closer economic ties between the Middle East and Asia. Many survey participants also expect that Western capacity will continue to retreat because of profitability concerns.

5. Retention levels in the region remain extraordinarily low compared with other markets - on average domestic insurers in the MENA region cede 33% of their premium income to reinsurers. However, 68% of respondents (up from 52%) expect aggregate retention rates to increase over the next 12 months as risk retention becomes more attractive in a record-low investment yield environment.

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 stood at 1.2. It is expected to improve to 2.4 by summer 2014 as terms and conditions tighten further and as strong fundamentals prevail over current political uncertainties.



"Many reinsurance treaties in the region are unbalanced and, therefore, vulnerable, even to medium-sized loss events."

Lukas Mueller, Head Market Underwriter, Africa & Middle East, Swiss Re.

Pigeon Towers - Katara, Qatar

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 from 2012 and 2013 are not fully comparable, given the enlarged geographical scope of this report to include MENA, rather than Gulf Cooperation Council (GCC) countries alone. The main differences in findings include:

- A stronger expectation of reinsurance exposure outgrowing GDP.
- A higher share of respondents expecting a continued shift to non-Western capacity.
- Higher expectations of increasing retention levels.
- A less positive outlook on reinsurance profitability.

Key readings (in % of respondents agreeing)	Mar 2011	Sept 2011	Sept 2012	Sept 2013
Reinsurance premiums to grow faster than GDP*	n/a	n/a	58	53
Reinsurance exposure to grow faster than GDP*	65	67	67	82
Retention levels to increase*	39	46	52	68
Reinsurance capacity to grow*	64	50	54	50
Higher share of non-Western capacity*	82	38	41	50
Low average current reinsurance prices**	93	87	85	89
Reinsurance prices to increase*	0	33	36	34
Reinsurance terms to tighten*	18	88	67	58
Low average current reinsurance profitability**	71	71	76	66
Reinsurance profitability to improve*	11	8	43	24
Overall MENA reinsurance sentiment	n/a	n/a	1.3	1.2

*Over the next 12 months

**Compared with 5 year average

"The MENA (re)insurance markets have the opportunity to realise their full potential as regulatory frameworks, risk management standards, corporate governance systems and other relevant fundamentals gradually strengthen."

Andreas Pollmann, Client Management Executive MENA, Munich Re.

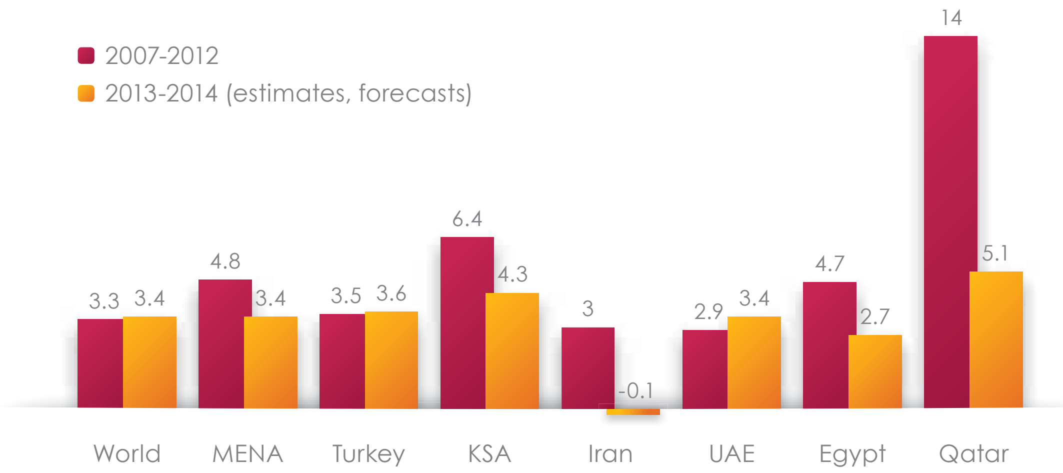
MARKET OVERVIEW

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 370 million. The region generates a combined gross domestic product (GDP) of close to US$ 3.5 trillion or 5% of the world's total.

At an inflation-adjusted growth rate of 4.8% per annum between 2007 and 2012, the region's economies grew markedly faster than the global average (3.3%). Qatar's GDP growth stands out, primarily reflecting the expansion in liquefied natural gas (LNG) capacity (see chart 1). The country is expected to remain the region's most vibrant economy, though growth rates are set to fall to single-digit levels as current LNG development programmes near completion.

Chart 1: Real GDP growth (2007-2014f; annual averages)



Source: IMF, World Economic Outlook July 2013

Narrowing growth gap between oil-exporting and oil-importing countries

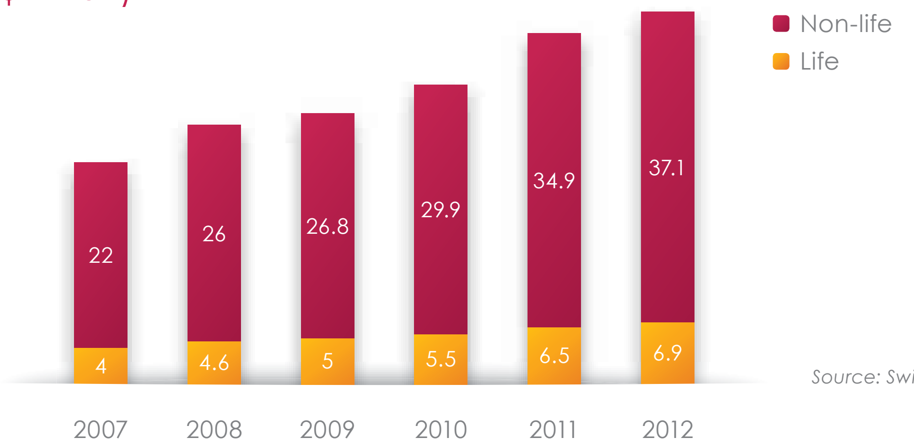
The economic outlook for the MENA countries has become more homogeneous ("Narrowing differences in a two-speed region", as the International Monetary Fund (IMF) puts it). Most of the region's oil-exporting countries are expected to continue growing at healthy rates. However, their growth momentum is slowing, largely because of an expected slowdown in hydrocarbon exports. The outlook for oil-importing countries remains challenging, not least because of ongoing political transition processes. In addition, the protracted recession in the Eurozone weighs heavily on a number of countries that have important economic links with Europe. All in all, for 2013 and 2014 the IMF (July 2013) expects GDP growth in oil-exporting countries to slightly exceed the pace of expansion of oil-importing countries (3.5% versus 3.2%). Overall, near-term regional economic growth is expected to equal the 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 2012 accounted for just 1.3% of GDP, a fifth of the global average. However, this gap is narrowing as MENA insurance markets outpace regional GDP growth. Between 2007 and 2012, total non-life and life insurance premium volume in the region expanded from about US$ 26 billion to more than US$ 44 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.

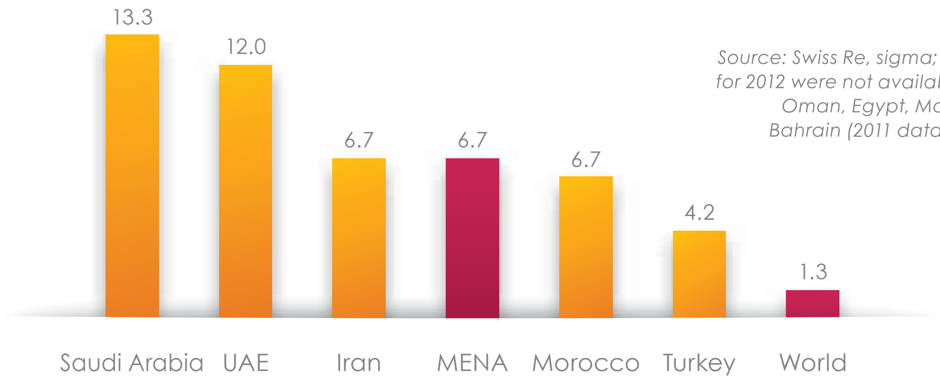
At a share of less than 16%, life business continues to play a relatively minor role even though it grew slightly faster than the non-life market (at an annual average real rate of 9.1% as compared to 7.6%)

Chart 2: MENA insurance premiums by type (life versus non-life, 2007-2012, in US$ Billion)



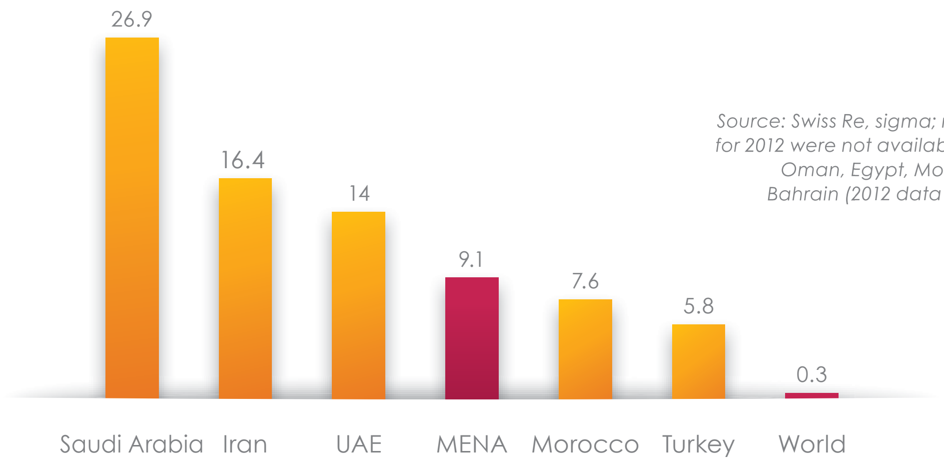
Source: Swiss Re, sigma

Chart 3: Non-life real premium growth (annual average 2007-2012)



Source: Swiss Re, sigma; real growth figures for 2012 were not available for Iran, Kuwait, Oman, Egypt, Morocco, Tunisia and Bahrain (2011 data was used instead)

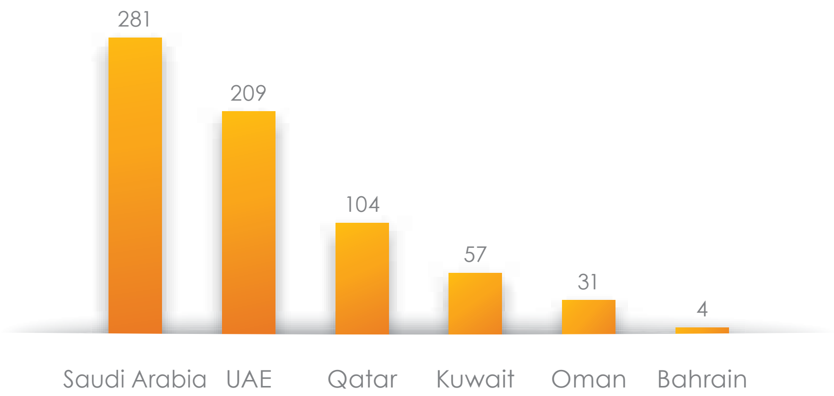
Chart 4: Life real premium growth (annual average 2007-2012)



Source: Swiss Re, sigma; real growth figures for 2012 were not available for Iran, Kuwait, Oman, Egypt, Morocco, Tunisia and Bahrain (2012 data was used instead)

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 August 2013, more than US$ 685 billion worth of projects were underway in the Gulf region alone (see chart 5).

Chart 5: GCC projects underway by country (August 2013, US$ Billion)



Source: MEED Projects August 2013

Infrastructure and construction projects dominate the portfolio of activities with a combined share of 62%. Hydrocarbon and power projects contribute another 25% (see chart 6).

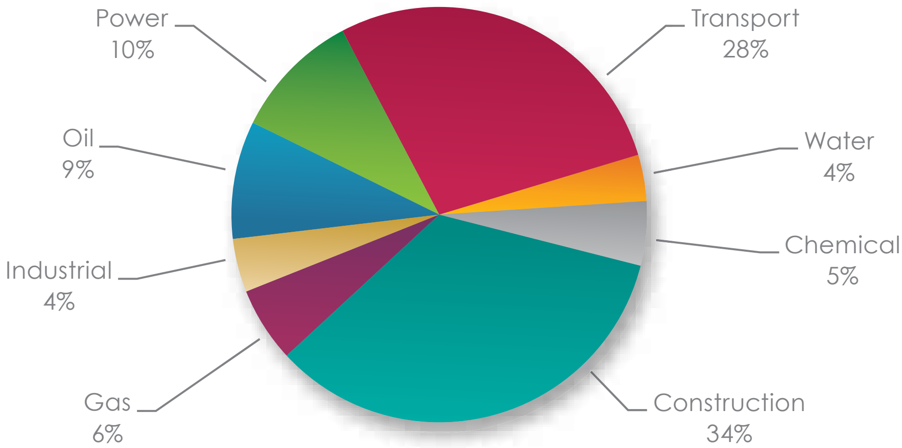
"Due to the specific socio-cultural and demographic mix in our region, accompanied by a combination of low insurance penetration and a young population, personal lines protection, in particular medical cover, remains at the forefront of opportunistic growth fuelling the regional insurance industry at large."

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

"Inward facultative reinsurance among ceding companies is a major risk to market stability and discipline. It therefore needs to be addressed through appropriate terms and conditions."

Mahomed Akoob, Managing Director, Hannover Re Takaful.

Chart 6: GCC projects currently underway by sector (August 2013, %)

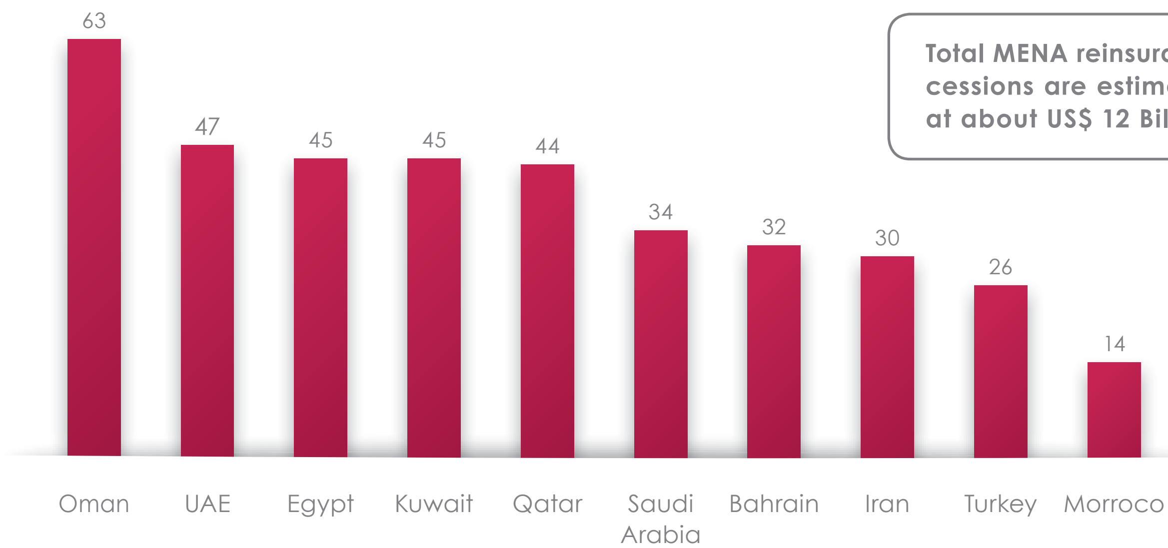


Source: MEED Projects August 2013

In the MENA region, about a third of non-life insurance premiums are ceded to reinsurance companies. The total estimated non-life reinsurance market volume for 2012, accordingly, amounts to about US$ 12 billion.

As chart 7 reveals, there are significant regional differences in reinsurance purchasing behaviour. Cession rates in the GCC countries tend to be highest, at an average of 40%. 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 display significantly lower cession rates than more volatile commercial segments of business.

Chart 7: Premiums ceded to reinsurers (2011, in %)



Total MENA reinsurance cessions are estimated at about US$ 12 Billion.

Sources: AXCO, ISIS

SURVEY RESULTS

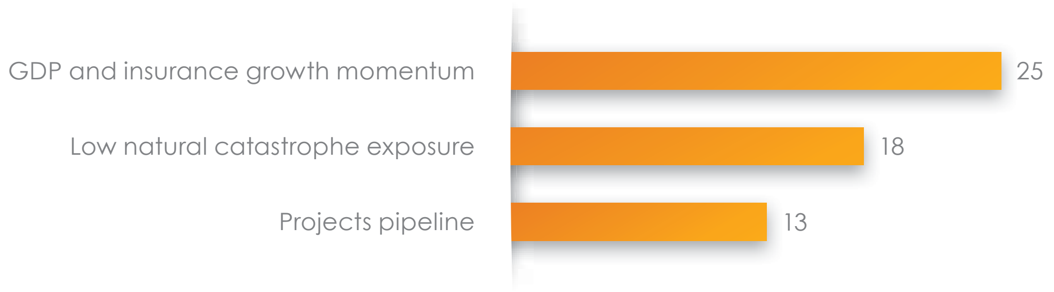
1. THE OVERALL PERSPECTIVE: STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS OF MENA REINSURANCE MARKETS

Strong fundamentals partially offset by fierce competition and political instability

Growth dynamics considered key market strength

Despite an expected slowdown in economic expansion, the interviewees see the region's robust GDP and insurance market growth momentum as the most relevant strength of the reinsurance marketplace. In contrast, many other regions (such as Europe and Japan) are going through a protracted period of stagnant premium growth. The region's relatively low natural catastrophe exposure (except for Turkey, Iran and parts of Northern Africa) is the second most frequently mentioned strength. GDP growth and low natural catastrophe exposure were also top of the list of perceived market strengths in the 2012 GCC Reinsurance Barometer. A strong pipeline of infrastructure and construction projects ranks third, even though the flow of projects in most countries (except for Saudi Arabia and Qatar) has slowed.

Chart 8: Market strengths (no. of mentions)

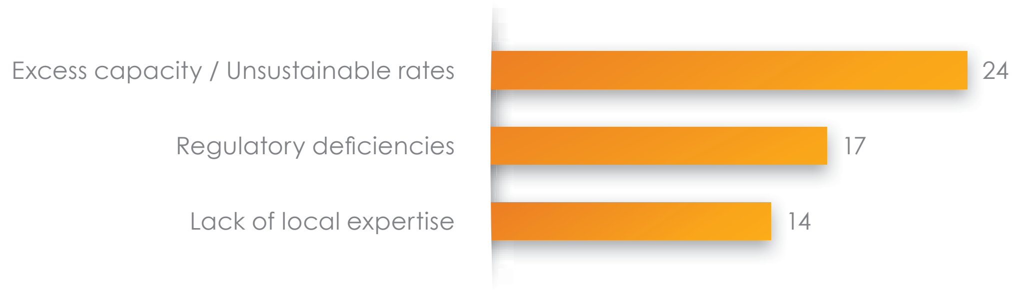


> "There are budding signs of some realism among MENA insurers and their reinsurers. Rates exhibit a moderate upward trend and terms and conditions are tightening, e.g. as far as inward facultative reinsurance written by cedants is concerned."
>
> Edward Melvin, Chief Underwriting Officer, Saudi Re.

Excess capacity viewed as most relevant market weakness

Echoing the findings of the 2012 GCC Reinsurance Barometer, the most relevant perceived weakness of the MENA reinsurance marketplace is excess capacity, which is creating fierce competition and, frequently, unsustainable levels of pricing. As in 2012, regulatory deficiencies rank second, with insufficient minimum capital requirements, a lack of minimum retention rules and a lack of regulatory coordination and consistency within the region being mentioned most frequently. The third ranking weakness (as in 2012) is a lack of technical expertise and sophistication in a number of areas, ranging from underwriting and risk retention to Enterprise Risk Management and exposure management. Some local management teams still view expertise and skills as an expense, rather than a benefit.

Chart 9: Market weaknesses (no. of mentions)



"Inward facultative reinsurance business conducted by local insurers can be considered the biggest threat to the market's overall stability and is preventing any recovery of original rates. Therefore, we urge and encourage our clients to focus on their original business in primary markets."

Dr. Chérif Chentir, Regional Chief Underwriting Officer, SCOR SE.

"We took very positive note of the recent regulatory dynamics in Saudi Arabia. The fact that well-proven industry professionals are joining SAMA augurs well for the future and could also have a knock-on effect on other countries."

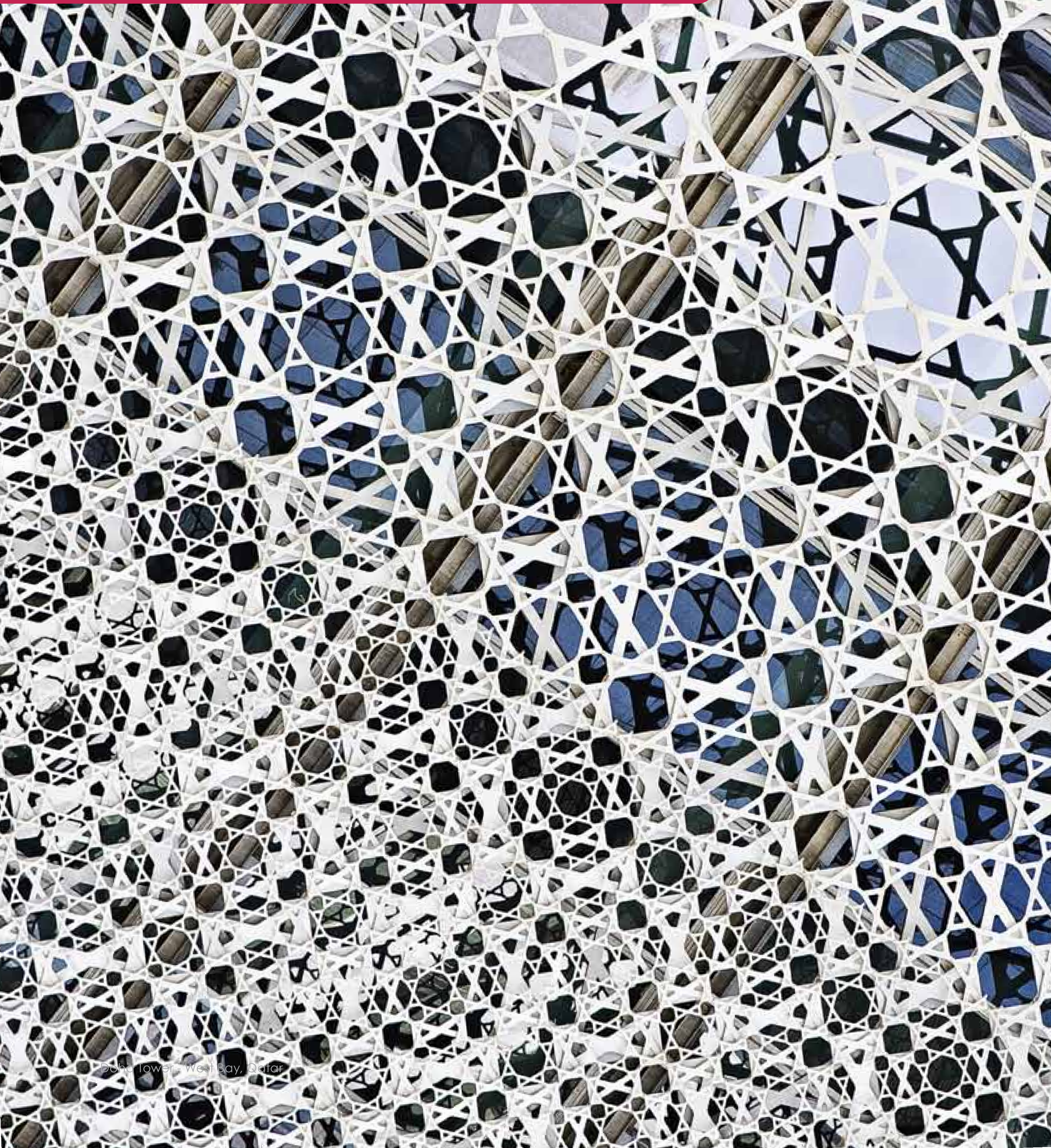
Andreas Pollmann, Client Management Executive MENA, Munich Re.

"A major driver of capacity growth in Turkey is the emergence of Insurance-Linked Securities as an alternative source of natural catastrophe capacity."

Eray Türker, Assistant General Manager, Türker Insurance and Reinsurance Brokers.

"The region's property insurance penetration is relatively low due to the fact that governments play a major role as investors. Therefore, in a number of countries, mortgage markets are almost non-existent."

Salvatore Orlando, Head of High Growth Markets, PartnerRe

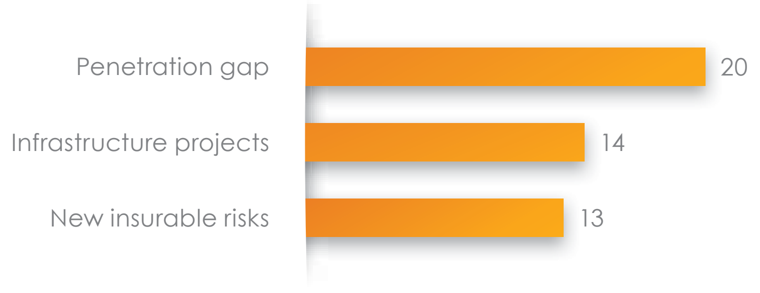


Doha Tower - West Bay, Qatar

Under-penetration identified as key market opportunity

As far as key regional reinsurance market opportunities going forward are concerned, most interviewees point to the low penetration of MENA insurance markets. With total premiums accounting for 1.3% 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 believed to be a major long-term and structural driver of insurance and reinsurance market growth in the region. It is now seen as the top opportunity, up from second place in 2012. The pipeline of planned infrastructure and construction projects is the second most frequently mentioned opportunity, representing a volume of assets of more than US$ 1 trillion over the next 10 years. In 2012, infrastructure projects ranked first.
Survey participants also believe that further moves towards economic diversification by local governments (economic master plans) and the resultant emergence of new insurable risks (e.g. in manufacturing and renewable energies) are major opportunities, taking it into the top three in 2013.

Chart 10: Market opportunities (no. of mentions)

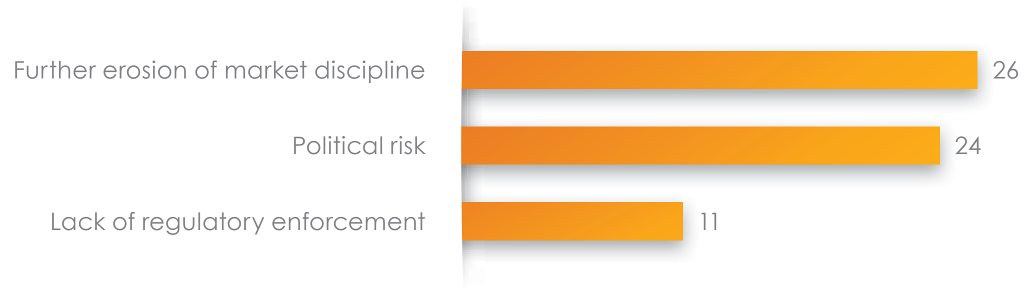


> **"The marketplace has its pros and cons. It nicely diversifies against our existing book, but due to low rates and abundant capacity, market conditions remain challenging. Nevertheless, we will enhance our physical presence in the region, but continue to pursue a selective underwriting approach."**
>
> Peter Schmidt, CEO, Catlin Re Switzerland.

Further erosion of market discipline as the most serious threat

Unchecked competition is considered to be the most serious threat facing MENA reinsurance markets. This long-standing concern is further exacerbated by a continued influx of frequently 'naïve' capacity in search for instant diversification benefits. Also, some domestic insurers' engagement in facultative inward reinsurance has added to competition. This has reduced the market's transparency and heightened its vulnerability to accumulation risk. The need for increased political stability (with a focus on non-GCC countries) ranks second, relating to both a lack of domestic stability and geopolitical tensions. The third most frequently mentioned concern is a lack of regulatory enforcement, with the Saudi Arabian Monetary Authority being a notable exception. Many respondents fear that the (re)insurance markets' overall stability and reputation may be severely dented if excessively aggressive market participants are not effectively reined in and non-viable players are not removed from the market place. As compared to 2012, excessive competition and political risk rank similarly, even though the gap between the two concerns has narrowed. The lack of regulatory enforcement is a newcomer to the top three.

Chart 11: Market threats and challenges (no. of mentions)



"Although diversification opportunities represent important drivers for reinsurers, they should not take priority over a thorough understanding of local markets and their requirements."

Salvatore Orlando, Head of High Growth Markets, PartnerRe.

"Clearly, it is a strength of the MENA reinsurance market that it meets the clients' needs. It is certainly competitive and changing or adapting, but ultimately clients get good value because they can always find a solution for their problem within the marketplace."

Christopher Pleasant, Head of MENA, Guy Carpenter.

"Proportional reinsurance terms in large parts of the MENA region are rock-bottom. Therefore, highly rated international reinsurance capacity is receding."

Dr. Chérif Chentir, Regional Chief Underwriting Officer, SCOR SE.

"I am optimistic for the region, although with a pinch of salt. We are seeing improvements in business conduct as regulation is tightening in some countries. However, rates and profitability remain at a very low level which does not allow compensating for larger losses."

Dr. Peter Hugger, CEO, Echo Re.

"Many reinsurers pin high hopes on the rapidly growing and modernising MENA region – and rightly so. This confidence should receive a further boost from a strengthening market discipline on the primary side as international insurers broaden their footprint, also by entering into joint ventures with local companies."

Marc Maupoux, Underwriter, AXIS Re.

"The region is currently at a crossroads. It has enormous potential and the fundamentals remain strong. However, the major market players, insurers and reinsurers alike, are now showing signs that they are less inclined to put up with wafer thin, at best, margins or the continuation of attritional losses without on-going change."

Russel Walters, Head of MENA, Miller.

"The region's reinsurance markets remain highly competitive as the influx of new players, in particular from the West, continues."

Samir El Mouaffek, Regional Director & Senior Underwriter, Trust Re.

"The long-term fundamentals of the MENA reinsurance market remain strong and appealing: Insurance penetration is on the rise, new insurable risks (e.g. solar and nuclear power) are emerging and the quality of insurance regulation is improving."

Chakib Abouzaid, Advisor to the Group CEO & Dubai Branch Manager at Arabia Insurance.

"Insurers and reinsurers in the MENA region face the challenge of putting their strong solvability to profitable use in order to achieve sustainable growth."

Hadj Mohamed Seba, Chairman and General Manager, Compagnie Centrale de Réassurance.

"The growing professionalism of the MENA insurance marketplace offers significant opportunities for knowledge-based reinsurance providers. Their advice and assistance is increasingly sought after by sophisticated cedants."

Hans-Joachim Guenther, Chief Underwriting Officer, Head of Reinsurance Europe & Asia-Pacific, Endurance Specialty Insurance.

"The professionalism of the region's reinsurance market has improved noticeably over the past few years, primarily because more international reinsurers have established a local presence in one of the financial centres."

Tobias Luescher, Vice President, Senior Broker, Europe & Middle East, Haakon Ltd.

“Following the catastrophe losses of 2011, many regional reinsurers are retrenching and refocusing on their home markets.”

Dermot Dick, Chief Underwriting Officer (International), Emirates Insurance Co.

Imam Muhammad Ibn Abdul Wahhab Mosque - Doha, Qatar

2. GENERAL REINSURANCE MARKET OUTLOOK

Stable to slightly improving pricing outlook, tightening terms and conditions, reinsurance premiums expected to outgrow GDP

Average reinsurance pricing levels

Some 89% of interviewees see current reinsurance prices in the MENA region as being below the long-term (five year) average, slightly up from the September 2012 survey (85%). However, the share of respondents who believe prices to be very low has reduced from 30% in 2012 to 18%.

Most survey participants agree that prices are below technical levels, which do not allow the market to absorb a major loss. However, they still consider prices acceptable in light of the region's low catastrophe exposure and tightening terms and conditions (see next section). A significant minority of executives polled, however, question the longer-term validity of the 'low catastrophe risk' assumption given the recent earthquakes in Iran, which were felt in the Gulf region where asset accumulation continues unabated.

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

In reference to the pricing outlook, 19% of respondents expect prices to continue falling during the next 12 months, against 6% a year ago. However, a third 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 58% to 47%.

Those who expect rates to harden point to the retrenchment of a number of major reinsurers from proportional treaty business. That, combined with rising retrocession rates and increasing pressure from rating agencies on local reinsurers, is believed to support a moderate hardening.

Most survey participants believe that price increases will primarily be recorded in non-proportional and specialty business such as energy. However, according to a significant number of interviewees, there is also a trend towards hardening in the area of proportional treaty business, mainly due to tightening terms and conditions.

19% of respondents who expect price erosion to continue point to an ongoing influx of non-traditional and, more often than not, naïve capacity.

Chart 12: Current average reinsurance prices

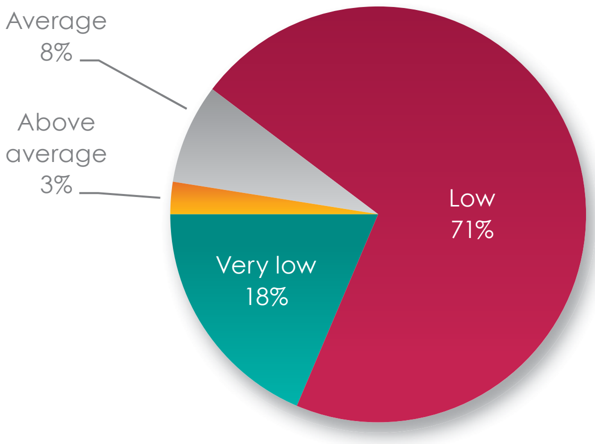
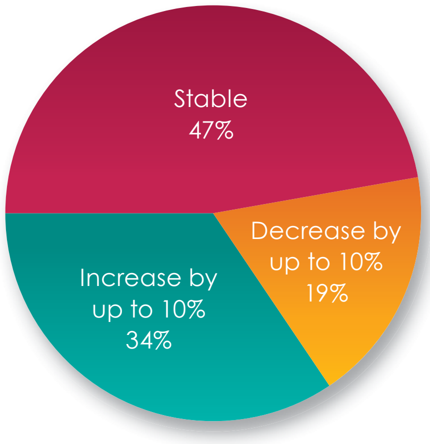


Chart 13: Outlook on reinsurance prices



Reinsurance terms and conditions

Some 59% of executives polled consider overall reinsurance terms and conditions in the MENA as average when compared with the past five years, up from 52% in 2012. The share of those viewing terms and conditions as loose has declined from 48% to 38% (see chart 14). This change in assessment reflects both the impact of the Arab Spring and an increasing awareness of the region's catastrophe exposure (which has driven the introduction of event limits, for example). In addition, the market has witnessed reduced commissions, the introduction of loss corridors, increased deductibles and more exclusions (especially in the area of political risk). Last but not least, reinsurers are showing less tolerance towards facultative inward business conducted by cedants which they believe reduces market transparency and heightens the accumulation risk.

In summary, terms and conditions continued to improve over the past 12 months, a trend which started in 2011. This also explains why the MENA reinsurance market remains attractive despite low levels of rates. For many reinsurers, pushing through tighter terms and conditions seems to be a valid alternative to imposing higher rates.
Some 58% of respondents expect terms and conditions to tighten further, down from 67% a year ago (see chart 15). This change in expectation reflects the significant improvement of terms and conditions over the past 12 months and suggests that the scope for a further tightening is diminishing.

Chart 14: Current reinsurance terms and conditions

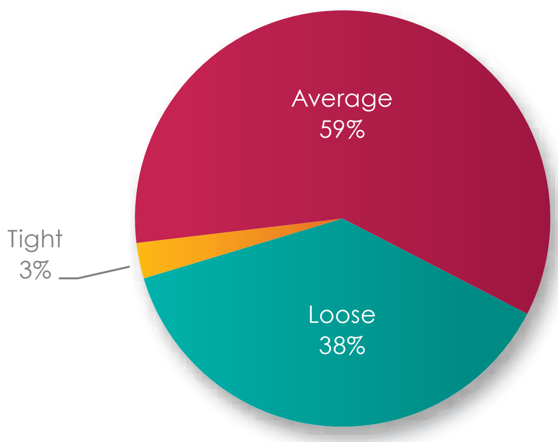
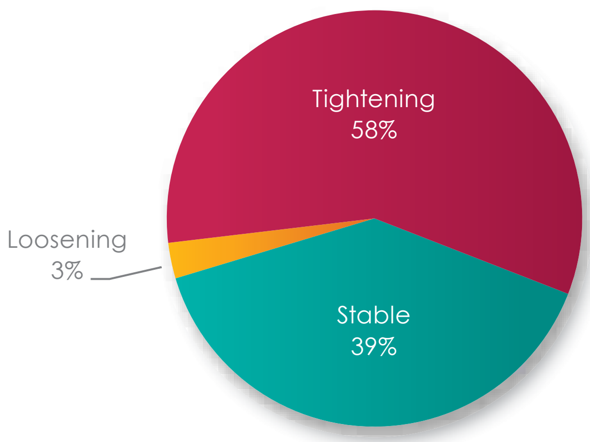


Chart 15: Outlook on reinsurance terms and conditions



Overall reinsurance profitability

Almost two thirds of executives participating in the survey consider overall reinsurance profitability in the MENA region 'low' or 'very low', down from 76% a year ago. Some 34% see reinsurance profitability at 'average' levels (see chart 16), up from 24% in the previous Barometer. This more positive assessment of current profitability primarily reflects improved terms and conditions, a more selective underwriting approach by reinsurers and, to a lesser extent, a shift to non-proportional reinsurance which decouples reinsurers from original rates.

As in previous surveys, the view on profitability continues to be more positive than the assessment of prices, given 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. However, current levels of profitability do not provide a cushion in a major catastrophe scenario.

As far as the 12 months outlook on profitability is concerned, two thirds of interviewees do not expect any changes as compared with 36% a year ago. Only 10% believe that profitability will deteriorate, down from 21% in 2012. Almost a quarter (24%) of respondents expects overall profitability to improve, sharply down from 43% a year ago. This assessment reflects diminishing scope for further improvements in 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).

Chart 16: Current overall reinsurance profitability

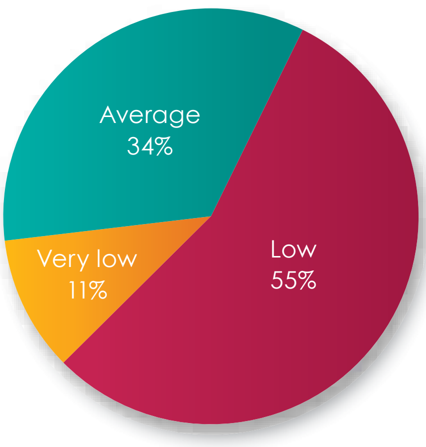
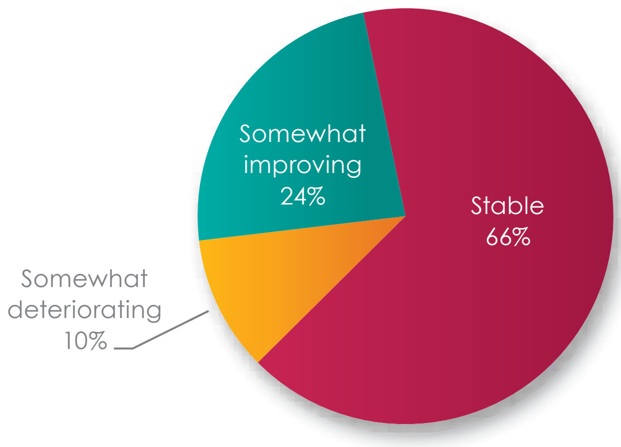


Chart 17: Outlook on reinsurance profitability



Overall reinsurance capacity growth

Some 50% of survey participants believe that total reinsurance capacity deployed to the MENA countries will increase further, down from 54% expressing the same view a year ago (see chart 18). Those participants who expect a further inflow of capacity cite the region's continued attractiveness as a perceived high growth, non-catastrophe market with beneficial effects on overall portfolio diversification.
Those who expect a reduction of capacity point to the continued retrenchment of some major (European) reinsurers resulting in a decrease in proportional treaty capacity.

Some 50% (compared with 41% in 2012) 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. In addition, some Arab reinsurers are returning home following severe losses during the Asian catastrophe year of 2011. Another factor is the current political uncertainty which has prompted some Western players to reduce their involvement, adding to the retrenchment prompted by profitability concerns.

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 30% and 20%, respectively, of the market.

Chart 18: Outlook on overall capacity development

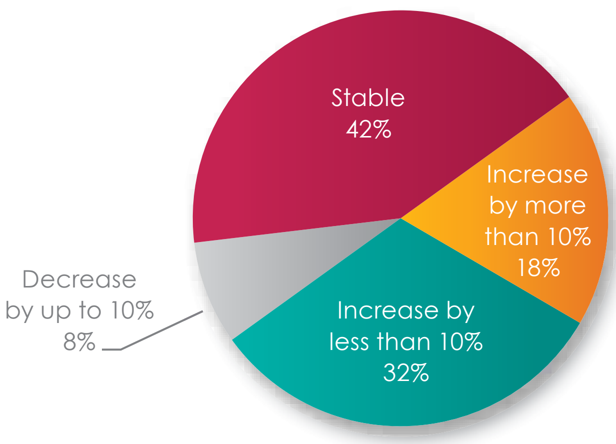
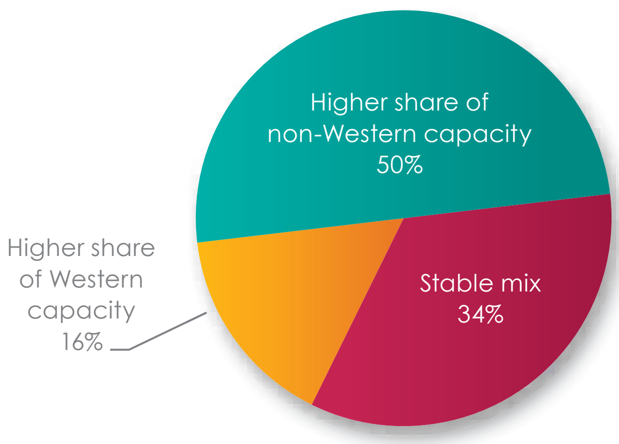


Chart 19: Outlook on split between Western versus non-Western capacity



"Retention levels are on the rise as primary insurers try to increase profits from prudent underwriting to offset decreasing investment income. In some cases, increased retentions are also being driven by the reinsurance market as such."

Atish Suri, Executive Director MENA, Willis Re.

"We are observing moderately improved reinsurance terms and conditions such as reduced commissions, capacity levels and event limits and a more restrictive approach to inward facultative business."

Lukas Mueller, Head Market Underwriter, Africa & Middle East, Swiss Re.

"For the MENA region, I expect reinsurance exposure to outgrow GDP, fuelled by continued investments into construction and infrastructure. However, due to the fierce competition, I expect premium growth to fall short of the increase in exposure."

Nabih Massaad, Head of Doha Operations, Q-Re.

"Reinsurers must look at MENA as an area of opportunities for development and growth other than a place where to balance the volatility of their worldwide results. This means mainly building strong market value other than following its usual trends."

Guido Zagatti, Senior Reinsurance Manager, Generali Middle East.

"Reinsurance growth in the MENA region is expected to outpace GDP growth as primary markets expand strongly, average retention levels remain low and new niche opportunities, e.g. in PV, casualty and credit reinsurance, emerge."

Khaled Nouiri, Regional Director & Senior Underwriter, Trust Re.

"Under the current market conditions it is becoming increasingly more difficult for reinsurers to build a profitable portfolio. As a consequence, we are seeing traditional international reinsurers substantially reduce their involvement in treaty business and focus more on facultative or facilities reinsurance solutions. On the other hand, we are seeing Asian reinsurers fill the gap."

Bruno Bertucci, Non-Executive Director, UIB (DIFC) & Managing Partner, B&F Partners.

"In the recent renewals we saw some hardening of pricing in loss making portfolios. Prices seem to stabilize, in particular as we witnessed a tightening in terms and conditions and a continued movement from treaty into facultative reinsurance to better steer the overall profitability of the book."

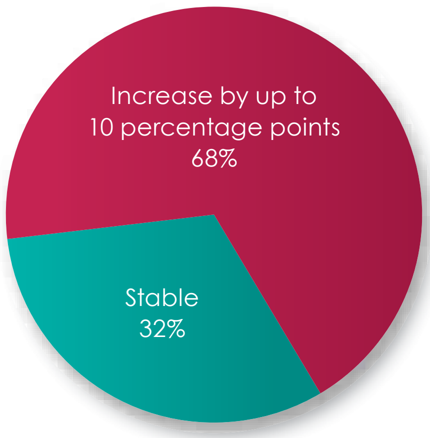
Zaini Abdul Aziz, Senior Executive Officer, Malaysian Re, Dubai.

Average retention levels

On average, MENA reinsurers retain about two-thirds of their non-life premium income (including medical & health), significantly below the global average of almost 90%. Some 68% (up from 52%) of interviewees expect aggregate retention rates to increase by up to 10 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 more insurers are trying harder to make money on risk retention, in light of a protracted low-yield investment environment. Another reason supporting higher retentions is the gradual shift towards non-proportional reinsurance (as proportional treaty capacity is more difficult to obtain and event limits have become commonplace). However, the trend towards higher retentions is mainly limited to the larger players as well as to personal lines business in motor and medical insurance. Retention levels of the average commercial lines insurer remain very low, more often than not below 10%.

Those executives who expect retentions to remain stable cite the competitive nature of reinsurance markets which allow cedants to continue enjoying high commission income (see chart 20).

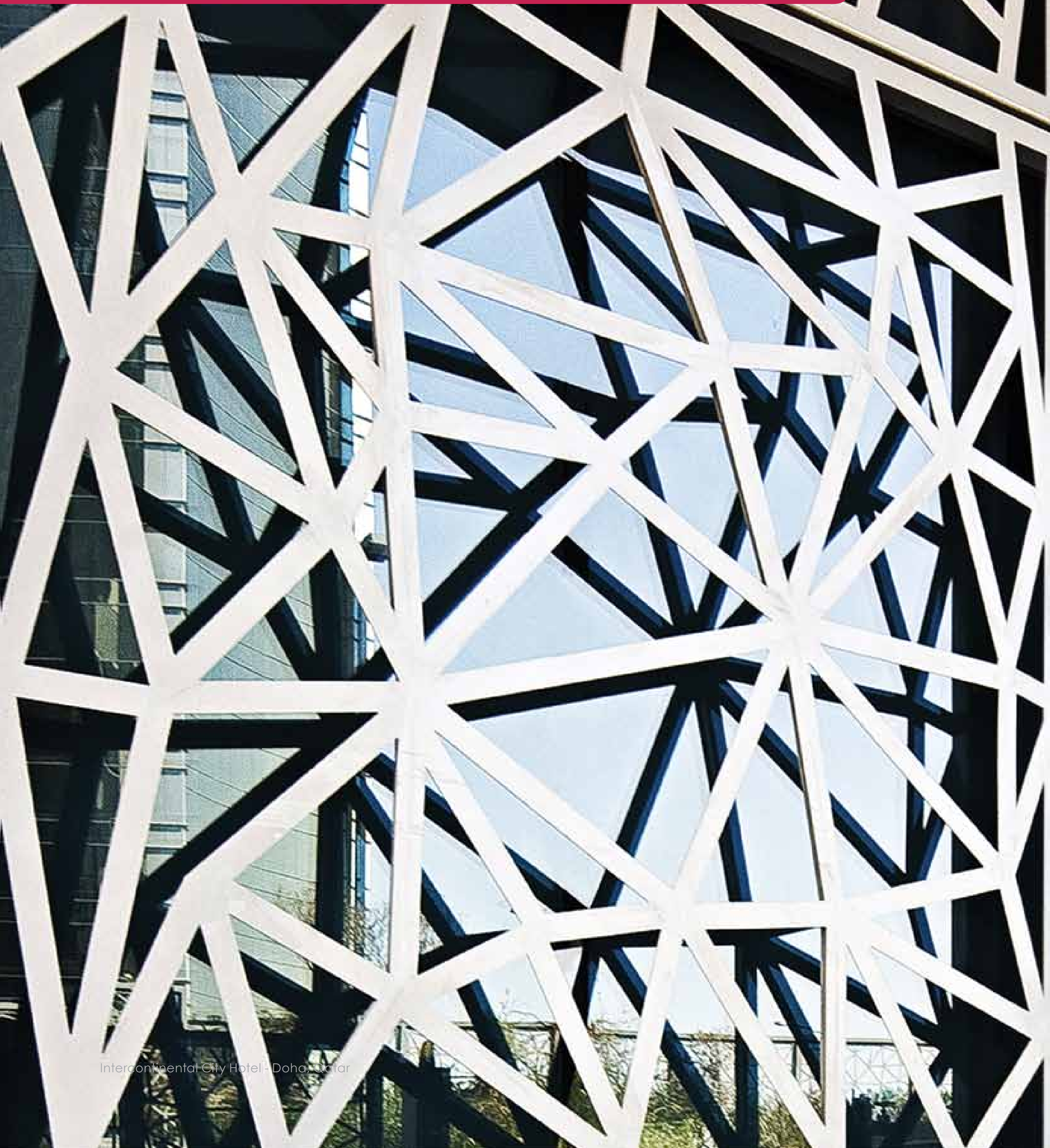
Chart 20: Outlook on retention levels



> **"MENA reinsurance markets will remain profitable only if the local insurance market will be encouraged to increase the level of responsibility and retention of the business written. Retention is the key to creating a healthy regional insurance market."**
>
> George Oommen, CEO, Generali Middle East.

“As reinsurance terms and conditions continue to tighten ceding companies in the MENA region may conclude that it is more promising to retain more risk.”

Omar Gouda, Regional Director, Northeast Africa and Middle East, Africa Re.



Intercontinental City Hotel - Doha, Qatar

Reinsurance exposure growth

Over the next 12 months, 82% (up from 67% in 2012) 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 - as insurance penetration rises and approaches levels which are more in-line with the MENA countries' average GDP per capita levels. In addition, reinsurance exposure will increase in tandem with a more complex and diverse risk landscape and a rapid accumulation of values due to urbanisation and industrialisation, compounded by a perceived increase in exposure to natural disasters.

Reinsurance premium growth

Reinsurance premium growth compares less favourably with GDP than reinsurance exposure growth. Only 53% of respondents believe that reinsurance business will expand at a faster rate than the MENA economies as a whole, down from 58% a year ago. 39% of interviewees even expect reinsurance premiums to fall short of GDP growth (up from 24% in 2012), pointing to continued pressure on reinsurance rates, rising retentions and a lower share of proportional business. All these factors have a dampening effect on premium volumes (see Chart 22).

Chart 21: Outlook on reinsurance exposure growth

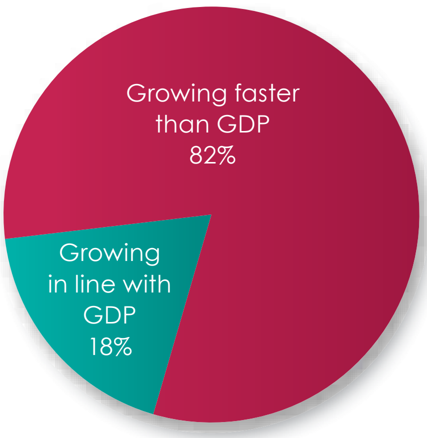
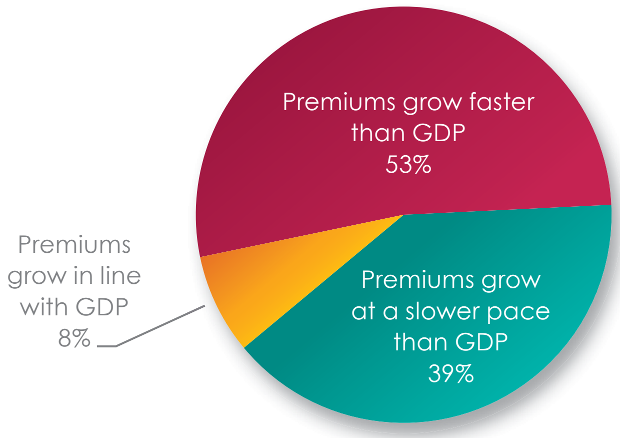
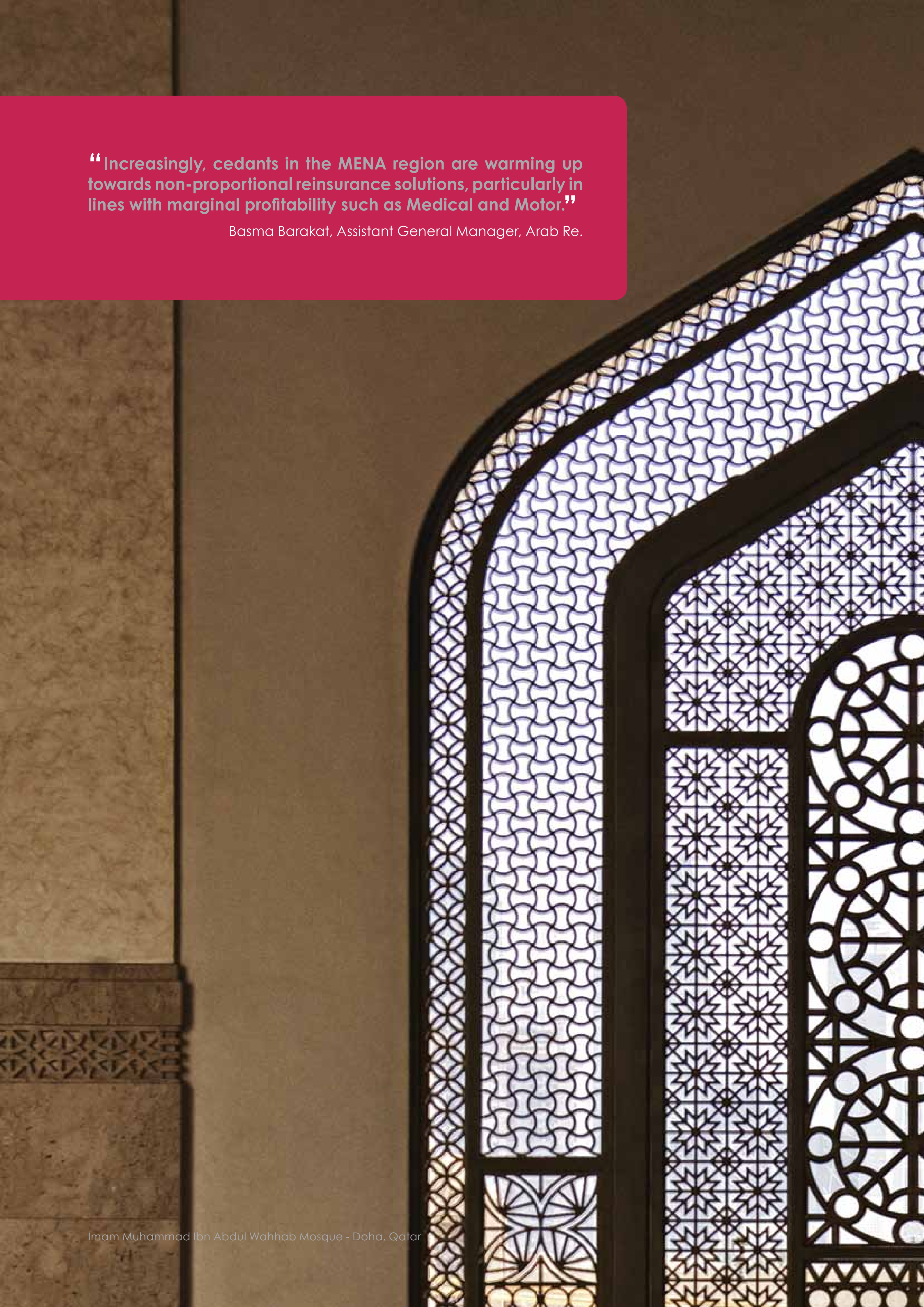


Chart 22: Outlook on reinsurance premium growth



> "Increasingly, cedants in the MENA region are warming up towards non-proportional reinsurance solutions, particularly in lines with marginal profitability such as Medical and Motor."
>
> Basma Barakat, Assistant General Manager, Arab Re.

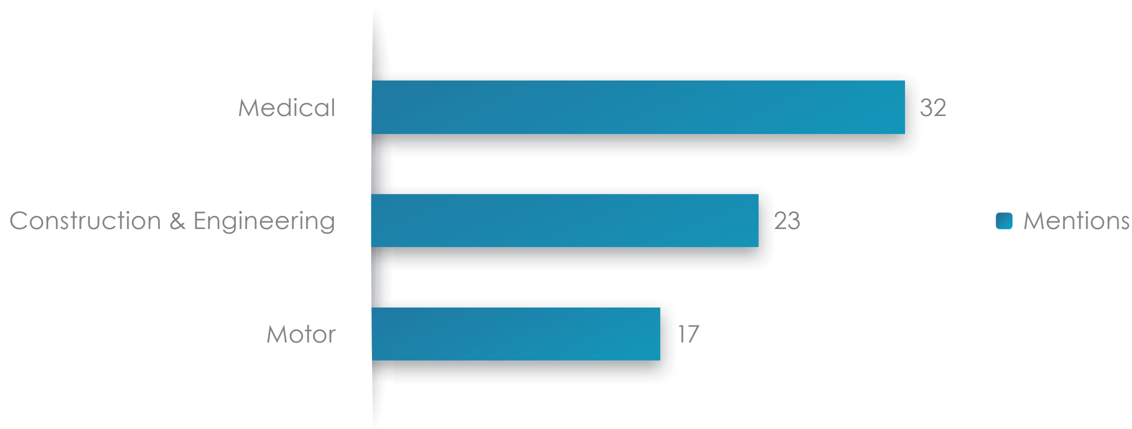


Imam Muhammad Ibn Abdul Wahhab Mosque - Doha, Qatar

3. LINES OF BUSINESS-SPECIFIC PROSPECTS

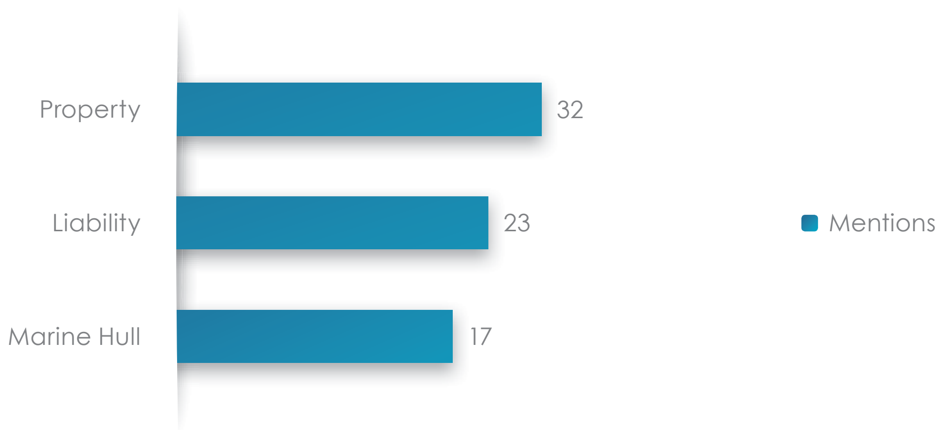
Over the next 12 months, medical and health insurance is expected to be the fastest-growing line of business, fuelled by compulsory insurance requirements. Saudi Arabia is a particularly illustrative case in point: medical and health insurance accounts for more than 50% of the Kingdom's total non-life premiums. New compulsory schemes are also underway in Qatar and Dubai. Construction and engineering business ranks second, reflecting a strong rebound in the UAE after the financial crisis and the subsequent economic downturn as well as a continued construction boom in Saudi Arabia and Qatar (in the run-up to the 2022 Football World Championship). The third most rapidly expanding line is motor, which is benefiting from strong population growth (see chart 23). This ranking is unchanged from the 2012 survey.

Chart 23: The fastest-growing lines of business



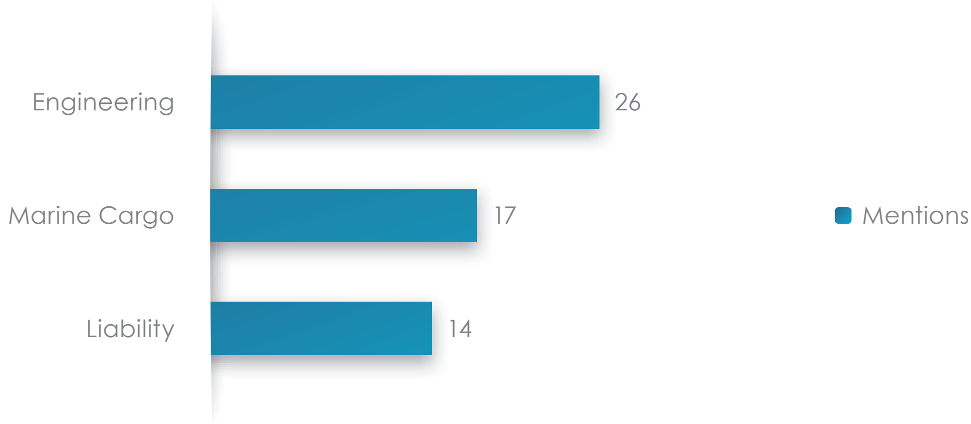
When asked about the slowest-growing lines, property, casualty and marine hull were most frequently mentioned. Property reinsurance suffers from fierce competition, dampening premium volume growth and a certain market saturation in the segment, combined with a relatively slow recovery of construction activity. A more structural reason for this line's relative sluggishness is the virtual absence of a mortgage market (with a few exceptions such as Saudi Arabia), given governments' major involvement as investors. Liability reinsurance continues to be held back by a very low level of awareness (see chart 24). Again, the ranking is identical to the 2012 Reinsurance Barometer.

Chart 24: The slowest-growing lines of business



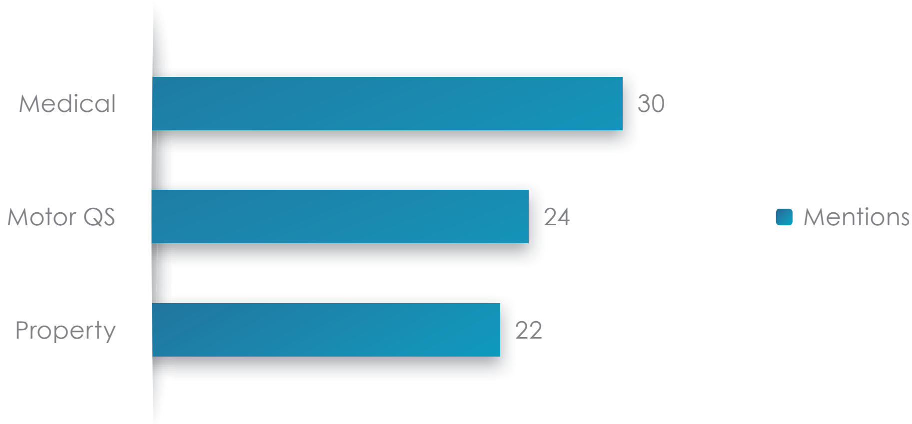
As in 2012, survey participants consider engineering, marine cargo and liability reinsurance as the most profitable lines of business (see chart 25). Engineering stands out, benefiting from a generally good quality of contractors, international standards of risk management and limited catastrophe exposure. 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 reinsurance is supported by a low, albeit rising, degree of litigiousness.

Chart 25: The most profitable lines of business



Medical business is considered the least profitable line of business, given fierce competition and accelerating claims inflation. It is followed by (proportional) motor reinsurance which reflects original market conditions characterised by repair cost inflation, rising bodily injury compensation payments and a very limited scope for risk selection and segmentation. Property reinsurance ranks third, with interviewees pointing to a major degree of commoditisation, abundant naïve reinsurance capacity and a general lack of attention to safety issues. The ranking is slightly different from 2012 when property business was judged to be least profitable, followed by medical and motor (see chart 26).

Chart 26: The least profitable lines of business (no. of mentions)



"Despite competitive pressures, the MENA reinsurance market continues to be highly attractive. There is significant demand in commercial and specialty lines of business and opportunities are aplenty for selective reinsurers."

Khalil Eid, General Manager & Senior Executive Officer at QBE Insurance Europe Ltd (Dubai Branch).

"We are seeing a shift from proportional to non-proportional reinsurance or at least the introduction of limitation clauses which leads to a certain decoupling of reinsurance from original rates, terms and conditions."

Farid Chedid, Chairman & CEO, Chedid Re.

"I see major potential in personal lines business such as pension, life and health (re)insurance."

Rainer Lehner, Senior Executive Officer, Asia Capital Re.

"From our view, one of the major opportunities offered by the MENA region is a growing demand for specialty lines reinsurance such as Terrorism and Professional Indemnity."

Abdallah Balbeisi, Head of MENA, Aspen Re.

"To survive in the current poor rate environment, market participants have already or will have to adapt to a far more sophisticated market approach by applying tighter underwriting criteria, more prudent risk selection and client segmentation. Otherwise they will disappear."

Vincent Grailhon, Treaty Underwriter, Hiscox.

4. MOST RELEVANT TRENDS AND CORPORATE RESPONSES

Interviewees were asked to identify the single most relevant trend affecting the MENA reinsurance market place as well as to elaborate on how they adapt or respond to it.

The most frequently mentioned trend is a stricter reinsurance market discipline. Examples of this changed behaviour include the imposition of event limits and the explicit exclusion of inward facultative reinsurance activities by cedants from the scope of reinsurance treaties. One participant summarised this trend as follows: "Reinsurers operating in the region are becoming more sophisticated and primary insurers have no alternative but to follow suit". Another major observation in this context is reinsurers' much more selective approach to underwriting. Writing for market share is no longer considered a viable strategy. Client segmentation has become the 'name of the game' in the MENA reinsurance market place.

Another important trend is local insurers' heightened focus on underwriting results, accompanied by rising retentions. This development is a result of the limited scope to generate investment income and an increased pressure from reinsurers and rating agencies, with the latter becoming more relevant in the region. One response from reinsurers is to more pro-actively market non-proportional types of coverage.

The third most frequently mentioned trend is the growing importance of personal lines. Its share in direct non-life markets has steadily grown over the past few years, fuelled by compulsory insurance requirements, strong population growth and rising levels of personal wealth. Reinsurers are responding to this trend by offering tailored solutions which, for example, include assistance in product development and claims settlement.

Chart 27: Most relevant MENA reinsurance trends

"We consider a local presence and proximity to clients a key success factor. Higher expenses are generally outweighed by a better understanding of clients' needs and their operating environment."

Ahmed Rajab, CEO MENA, Aon Benfield.

"We are witnessing a renewed emphasis on catastrophe exposure, not least because of the major Iran earthquake in April. This means, for example, that reinsurers are introducing specific limits for natural perils."

Mahomed Akoob, Managing Director, Hannover Re Takaful.

"Tightening terms and conditions are a major trend in the region's reinsurance markets. Event limits are an important example, largely driven by an increasing awareness of catastrophe exposure."

D. Arya, Assistant General Manager, GIC of India.

"Retention levels are set to increase further. On the one hand, reinsurers continue to push for more 'skin in the game'. On the other hand, cedants increasingly realise that risk retention can be an attractive driver of profitability."

Michael Gertsch, CEO, Gulf Re.

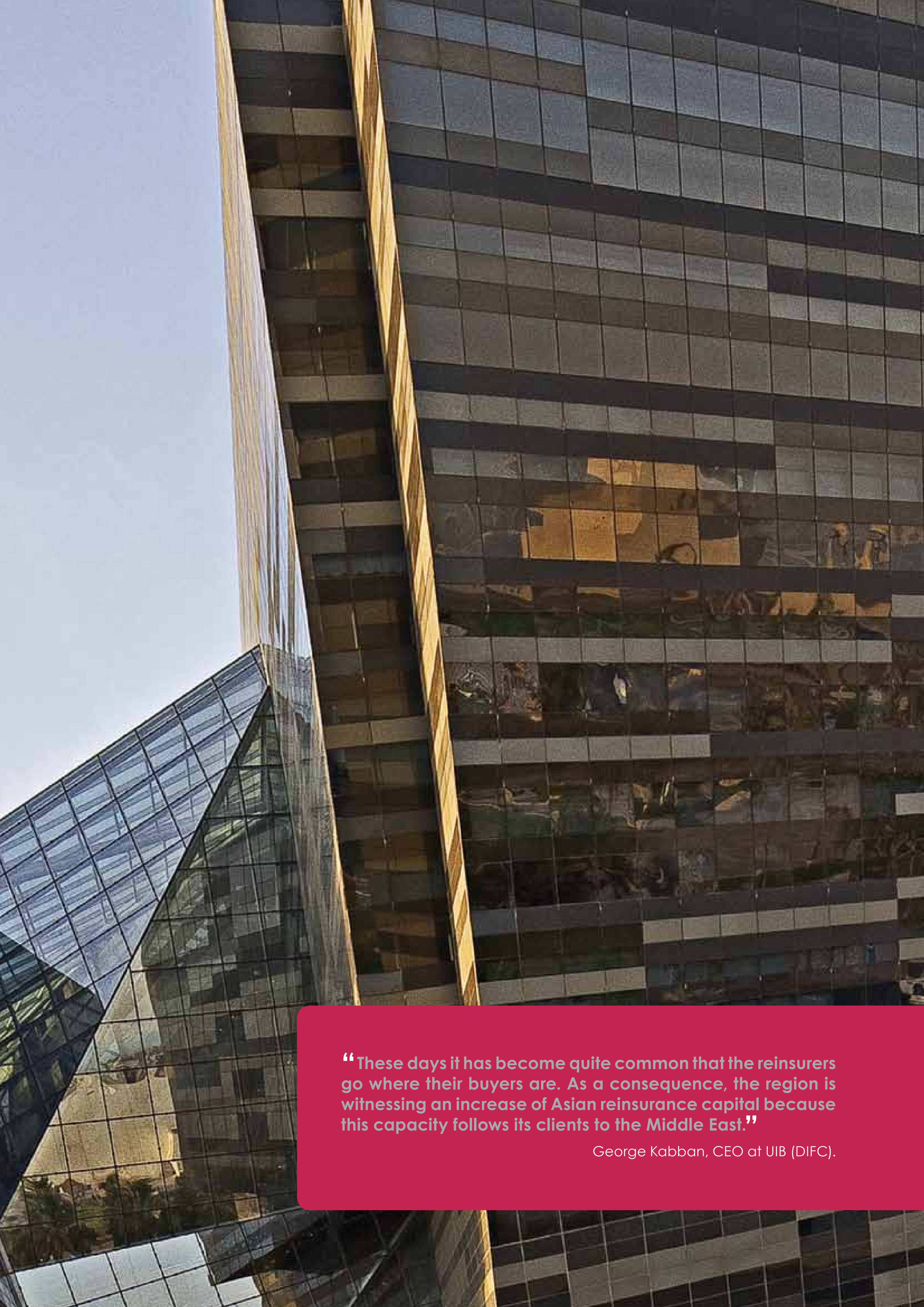
"The reinsurance market of the MENA region is still a profitable market for people who know it well. The region is largely unmodeled, lacks data and works by relationships. As a consequence, it is not generic and thus not as prone to the various types of opportunistic capital which are currently pushing into our sector. This is an advantage, because the market still requires genuine reinsurance expertise."

Trevor Oates, Underwriter, Canopius.

“Overall reinsurance business sentiment in the MENA region is suffering from growing political instability.”

Tayseer Treky, CEO, Oman Re.

Al Hitmi Complex - Doha, Qatar



"These days it has become quite common that the reinsurers go where their buyers are. As a consequence, the region is witnessing an increase of Asian reinsurance capital because this capacity follows its clients to the Middle East."

George Kabban, CEO at UIB (DIFC).

5. OVERALL MENA REINSURANCE BUSINESS SENTIMENT

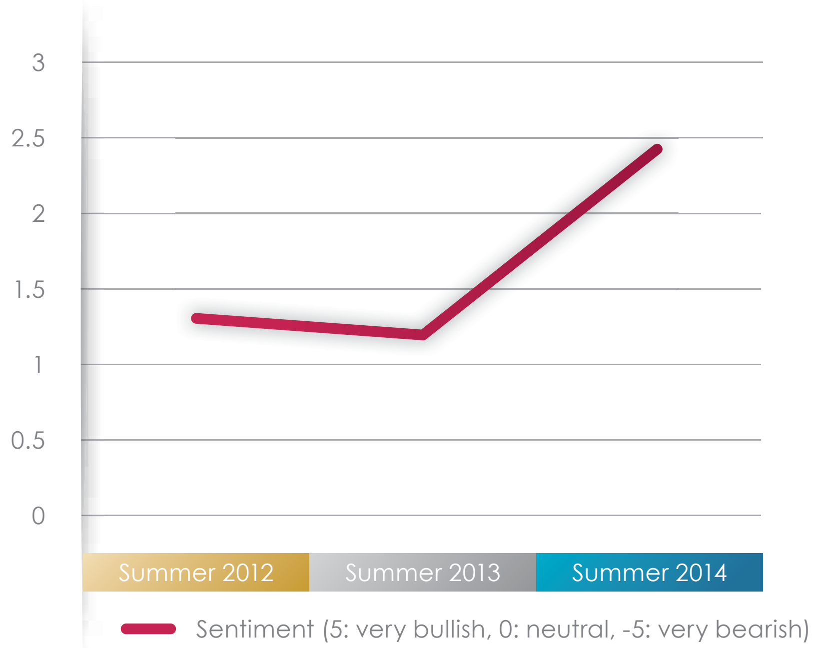
For the first time, the 2013 Reinsurance Barometer offers an overall MENA reinsurance market sentiment measure. Interviewees were asked to describe their business sentiment on a scale ranging from 5 (very bullish) to -5 (very bearish), with 0 indicating a neutral attitude.

The average sentiment measure for summer 2013 came in at 1.2, slightly below the summer 2012 sentiment which stood at 1.3. This marginal decline is primarily due to rising political instability in a number of non-GCC countries. This is weighing on overall sentiment and offsets a more positive assessment of the general reinsurance market environment, driven by tightening terms and conditions.

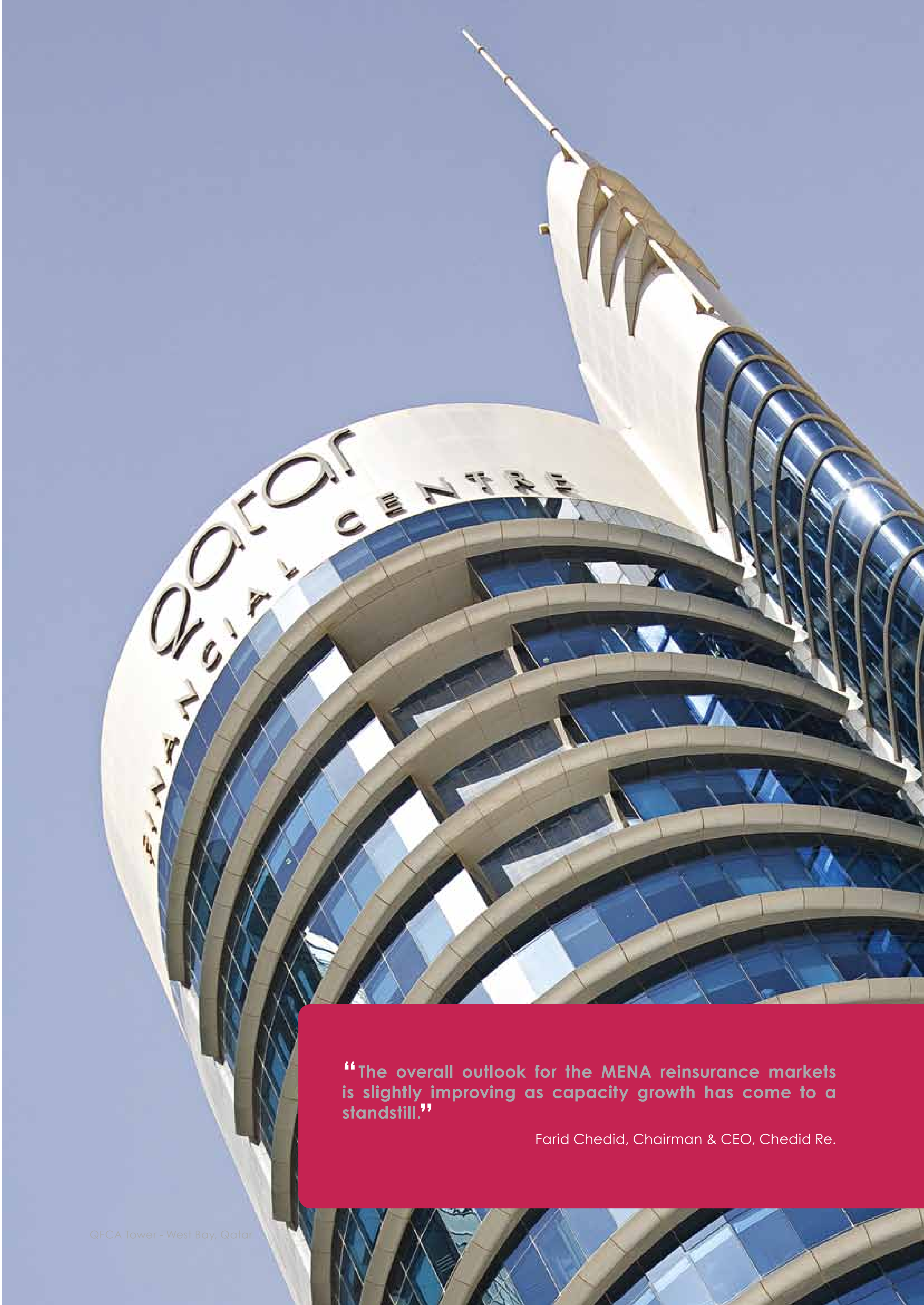
Looking ahead, on average, interviewees expect market sentiment to improve markedly to 2.4 by summer 2014, reflecting a continued trend towards more professional insurance and reinsurance markets – under the assumption that the political situation will not deteriorate further.

Average sentiment is clearly in positive territory, with most interviewees emphasising the region's strong long-term fundamentals such as a young population, robust GDP growth and a significant catch-up potential in insurance markets.

Chart 28: Average MENA reinsurance sentiment



> **"Due to competition, the terms of the direct insurance market are usually below a sound underwriting level. Changing this state of affairs is not that easy but especially for the last two years we have been witnessing marginal improvements in terms of retentions, restrictions on facultative inward business and a reduction of event limits."**
>
> Gökhan Aktaş, Head of Foreign Inward Reinsurance, Milli Re.



QFCA Tower - West Bay, Qatar

"The overall outlook for the MENA reinsurance markets is slightly improving as capacity growth has come to a standstill."

Farid Chedid, Chairman & CEO, Chedid Re.

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