



## MENA REINSURANCE BAROMETER

No 4 / September 2016

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# FOREWORD

## YOUSUF MOHAMED AL-JAIDA

CEO and Board Member of the Qatar Financial Centre (QFC)  
Authority

We are pleased to present the 2016 edition of the annual MENA Reinsurance Barometer, covering the Middle East North Africa (MENA) region, including Turkey.

The survey is based on in-depth interviews with senior executives of 29 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\$ 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.

The 2016 edition finds that the share of executive respondents expecting firmer reinsurance rates, tighter reinsurance terms and conditions, and improved technical reinsurance profitability has increased sharply. Overall sentiment towards the region's reinsurance markets has also improved, compared with last year's research.

Through this report, now in its sixth year, the QFC Authority demonstrates its continued commitment to improving the transparency of the MENA (re)insurance market. We also believe that the report may serve as an additional benchmark for decision-making in the near future.

We hope you will enjoy reading this report and benefit from the findings of the 2016 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 29 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 2016.

The companies taking part in the survey were:

- Allianz Global Corporate & Specialty, UAE
- Africa Re, Egypt
- Aon Benfield, UK
- Arab Insurance Group, Bahrain
- Asia Capital Re, UAE
- Aspen Re, USA
- Compagnie Centrale de Réassurance (CCR), Algeria
- Chedid Re, Lebanon
- Echo Re, Switzerland
- General Re, Lebanon
- Guy Carpenter, UK
- Hannover ReTakaful, Bahrain
- Hiscox Re, France
- Lloyd's of London, UAE
- Malaysian Re, UAE
- Milli Re, Turkey
- Munich Re, Germany
- PartnerRe, Switzerland
- Peak Re, Hong Kong
- Qatar Re, UAE
- SCOR SE, France
- SEIB Insurance & Reinsurance, Qatar
- Swiss Re, Switzerland
- Trust Re, Bahrain
- Turker Re, Turkey
- UIB Gulf, UAE
- Willis Re, UAE
- XL Catlin Re, UAE
- Ronald Chidiac, former General Manager Arab Re, Lebanon

## SUMMARY OF KEY FINDINGS

- 1 In light of a series of major insured losses in the GCC and the retrenchment of some leading market participants, the MENA reinsurance markets are expected to harden over the next 12 months. 52% of executives polled believe that average reinsurance rates in the region will increase, markedly up from 19% last year. Reinsurance terms and conditions are also expected to tighten, by 62% of executives, against 29% in 2015.
- 2 The percentage of participants expecting reinsurance capacity in the MENA region to expand further has reduced sharply to 52%, compared with 91% last year, suggesting an easing of the long-standing mismatch between demand and supply in the region. While MENA remains an attractive high-growth, low-catastrophe (except for Algeria, Iran and Turkey) market, with positive effects on the diversification of global risk portfolios, many reinsurers operating in the region have recently suffered significant losses and view current pricing levels as technically insufficient.
- 3 Two thirds, up from one third, of the executives polled expect the geographical composition of MENA reinsurance capacity to remain unchanged. The biggest movements are believed to take place within the 'Western' camp of capital providers as the reduced presence of European carriers is offset by an increased risk appetite of Bermudan and London-based reinsurers using the Lloyd's platform, in particular in the field of large and specialty risks.
- 4 Retention levels in the region remain low compared with other markets. On average, domestic insurers in the MENA region cede 29% of their premium income to reinsurers, almost four times the average global share. 48%, up from 42%, of the executives participating in the 2016 MENA Reinsurance Barometer expect average retention levels to increase. After the recent major loss events, reinsurers have stepped up their pressure on cedants to keep more 'skin in the game', on top of requirements from regulators and the de facto regulators, i.e. rating agencies.
- 5 Measured on a scale from -5 to +5 (very bearish to very bullish), the average MENA reinsurance market sentiment for summer 2016 came in at 0.5, up from 0.3 in 2015. The outlook for 2017 is positive, with expected sentiment in summer next year jumping to 1.5. Despite continued political instability and the economic slowdown in the wake of falling oil prices, overall sentiment is strengthening. An increasing number of executives polled see a silver lining on the underwriting horizon as regulatory action, in combination with large property losses, ease pressure on reinsurance rates, terms and conditions. In addition, the return of Iran – a US\$ 8 billion insurance market – to the regional and global reinsurance landscape is viewed as a positive.

# 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. 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:

- A sharply higher share of respondents expecting:
  - Increasing reinsurance rates
  - Tightening reinsurance terms and conditions
  - Improving technical reinsurance profitability
- Expected accelerated slowing of capacity growth, and
- Improved overall sentiment.

| Key readings (in % of respondents agreeing)              | Sept 2013 | Sept 2014 | Sept 2015 | Sept 2016 |
|----------------------------------------------------------|-----------|-----------|-----------|-----------|
| Reinsurance capacity to grow*                            | 50        | 88        | 91        | 52        |
| Reinsurance exposure to grow faster than GDP*            | 82        | 81        | 70        | 52        |
| Retention levels to increase*                            | 68        | 65        | 42        | 48        |
| Reinsurance premiums to grow faster than GDP*            | 53        | 28        | 17        | 38        |
| Higher share of non-Western capacity*                    | 50        | 35        | 19        | 17        |
| Low average current reinsurance prices**                 | 89        | 82        | 100       | 97        |
| Reinsurance prices to increase*                          | 34        | 18        | 19        | 52        |
| Reinsurance terms to tighten*                            | 58        | 21        | 29        | 62        |
| Low average current reinsurance profitability**          | 66        | 59        | 97        | 93        |
| Reinsurance profitability to improve*                    | 24        | 21        | 19        | 52        |
| Overall MENA reinsurance sentiment (scale from +5 to -5) | 1.2       | 0.4       | 0.3       | 0.5       |

\*Over the next 12 months. \*\*Compared with 5 year average (3 year average as from 2016 Barometer).

## MARKET OVERVIEW



## ECONOMIC GROWTH IN THE MENA REGION SLIGHTLY UNDERPERFORMS THE GLOBAL AVERAGE

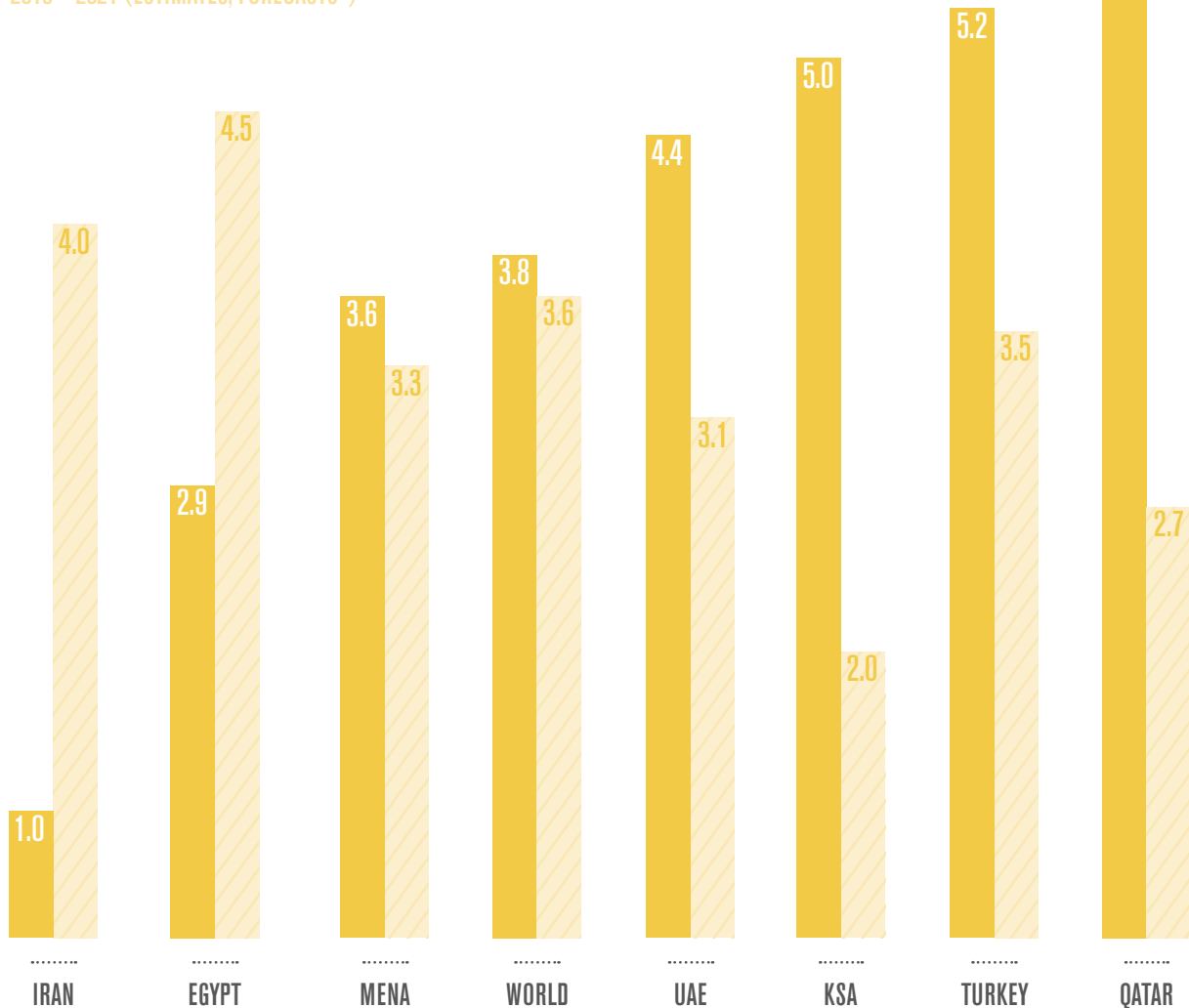
The 14 biggest insurance markets of the MENA region (Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, Turkey and the United Arab Emirates) have a total population of close to 400 million. They generate a combined gross domestic product (GDP) of almost US\$ 3.3 trillion, or 5% of the world's total, according to the IMF.

At an inflation-adjusted growth rate of 3.6% per annum between 2010 and 2015, the region's economies slightly underperformed the global average (3.8%) (see chart 1).

Chart 1: Real Gdp Growth (2010 – 2021F, Annual Averages, %)

2010 – 2015

2016 – 2021 (ESTIMATES, FORECASTS\*)



SOURCE: IMF, World Economic Outlook April 2016.

## CLOUDED ECONOMIC GROWTH PROSPECTS IN OIL-EXPORTING COUNTRIES

As compared with the 2015 edition of the MENA Reinsurance Barometer, the economic outlook for the MENA region, based on forecasts from the IMF, has continued to weaken as a result of further declines in oil prices and aggravating political and security risks. Overall growth in the region is projected at a real 3.3% p.a. from 2016 to 2021, 0.7 percentage points below the IMF's projections a year ago. With no sustainable recovery of oil prices in sight, the region's oil-exporting countries have embarked on severe fiscal tightening, in combination with cuts in subsidies and the introduction of taxes. Even with these measures, fiscal deficits are forecast to grow in the short-run. The member countries of the Gulf Cooperation Council (GCC) are expected to experience the most pronounced slowdown in economic growth, with medium-term rates of expansion projected at 2% per annum. Positive effects, on the other hand, are expected to come from increased oil production in the post-sanctions Islamic Republic of Iran, in Iraq and, depending on domestic political developments, in Yemen.

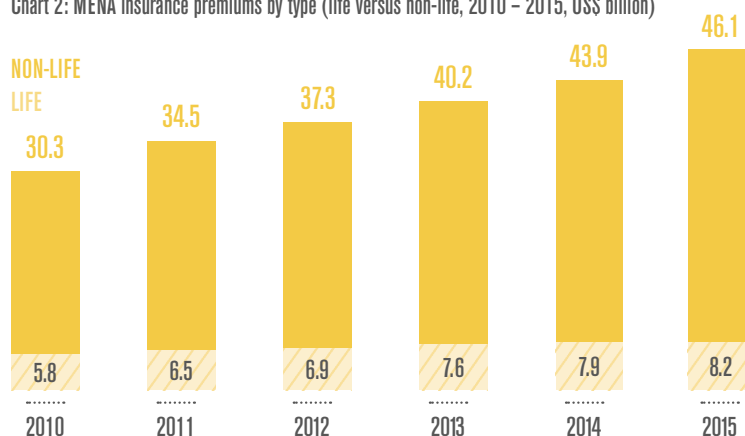
Growth in oil-importing countries continues to be adversely affected by slowing GCC economies, domestic social tensions and spillovers from regional conflicts and security disruptions. These developments largely offset the positive effects from economic reforms and the lower cost of oil imports.

## MENA INSURANCE MARKETS OUTGROW GDP

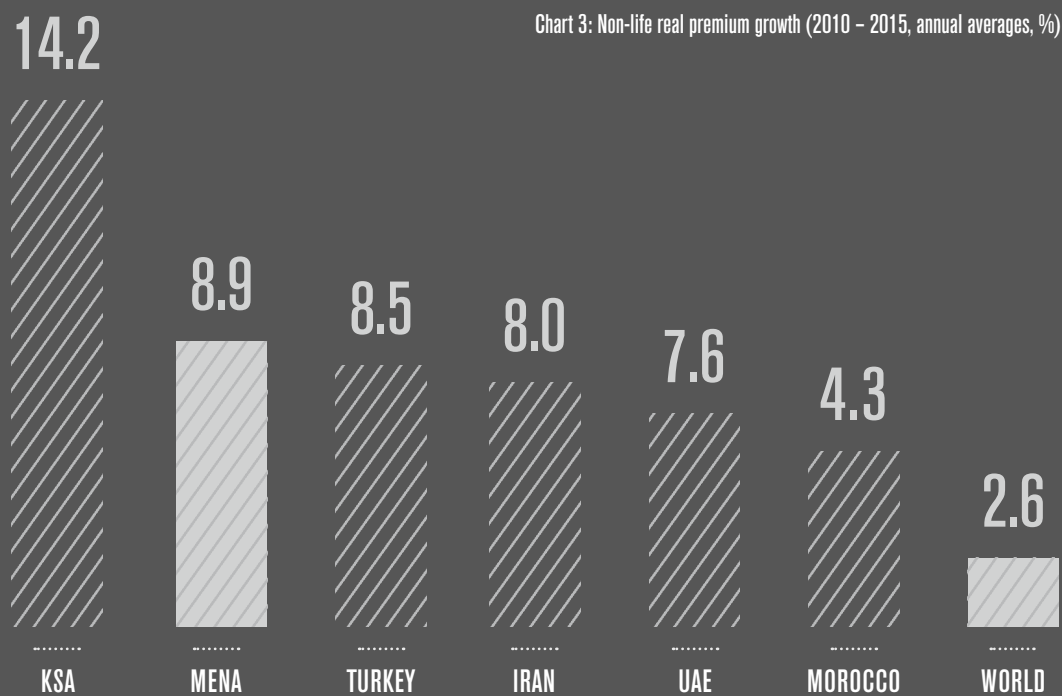
Insurance penetration remains remarkably low in the MENA region, given relatively high levels of per-capita income. Non-life and life premiums in 2015 accounted for just 1.6% of GDP, slightly more than a quarter of the global average. However, this gap is narrowing as MENA insurance markets outpace regional GDP growth. Between 2010 and 2015 total non-life and life insurance premium volume in the region expanded from about US\$ 36 billion to more than US\$ 54 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.

Life business continues to play a relatively minor role, accounting for just 15% of the MENA insurance market. Since 2010, life insurance premiums have grown at a slower pace than non-life business (at an annual average real rate of 8.2% compared to 8.9%). Catch-up for the life insurance sector remains elusive.

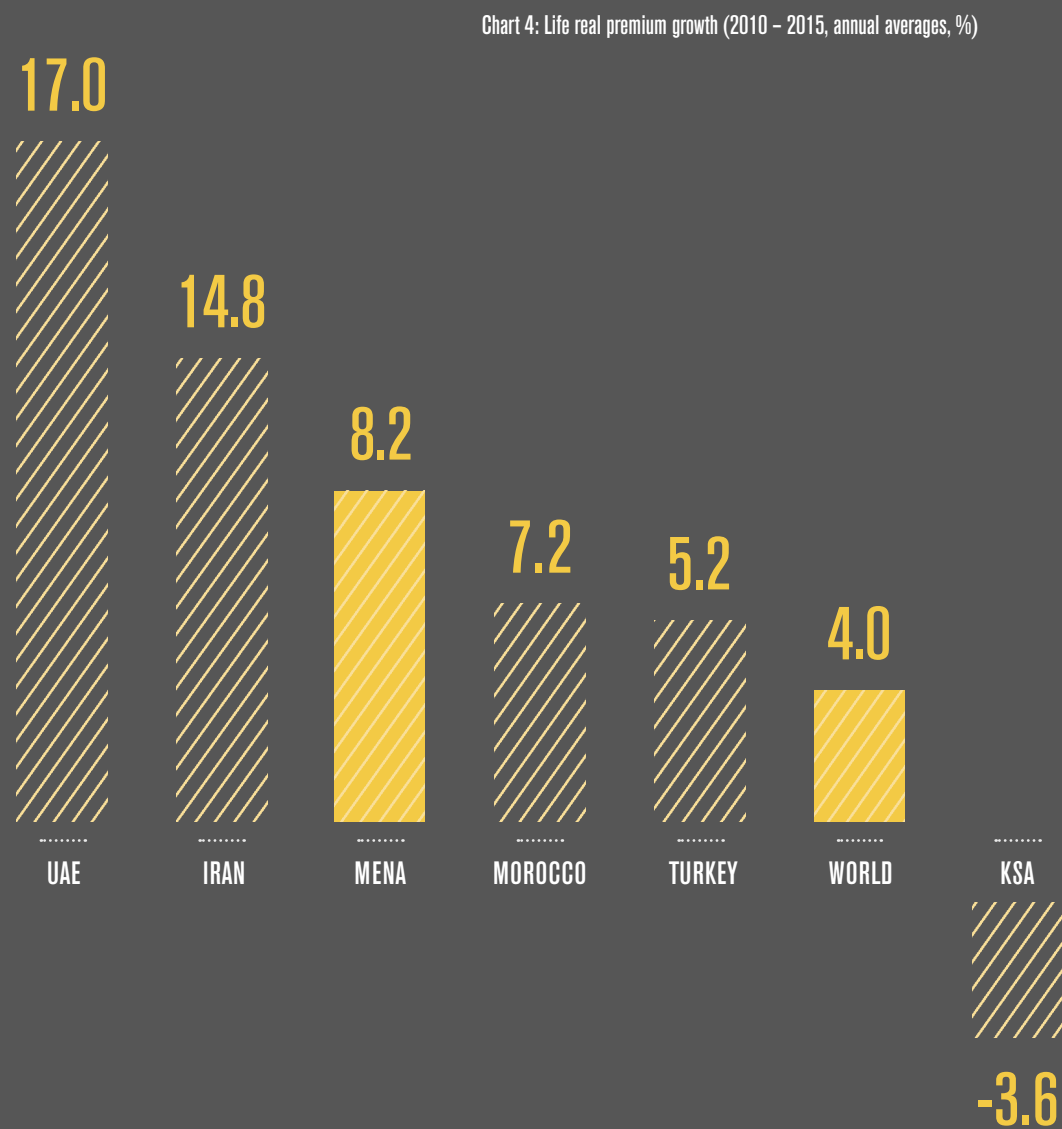
Chart 2: MENA insurance premiums by type (life versus non-life, 2010 – 2015, US\$ billion)



SOURCE: Swiss Re, sigma.



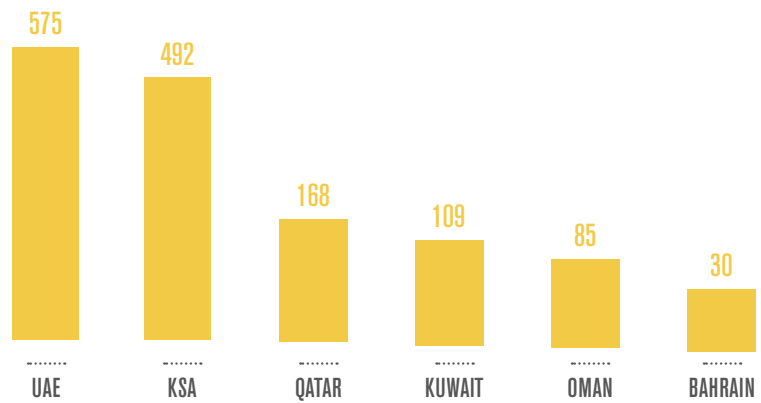
SOURCE: Swiss Re, sigma.



SOURCE: Swiss Re, sigma.

In addition to compulsory insurance schemes in motor and healthcare, infrastructure and construction spending continues to be the most powerful driver of insurance and reinsurance demand in the region. As of April 2016, about US\$ 1.46 trillion worth of projects were underway in the Gulf region alone (see chart 5).

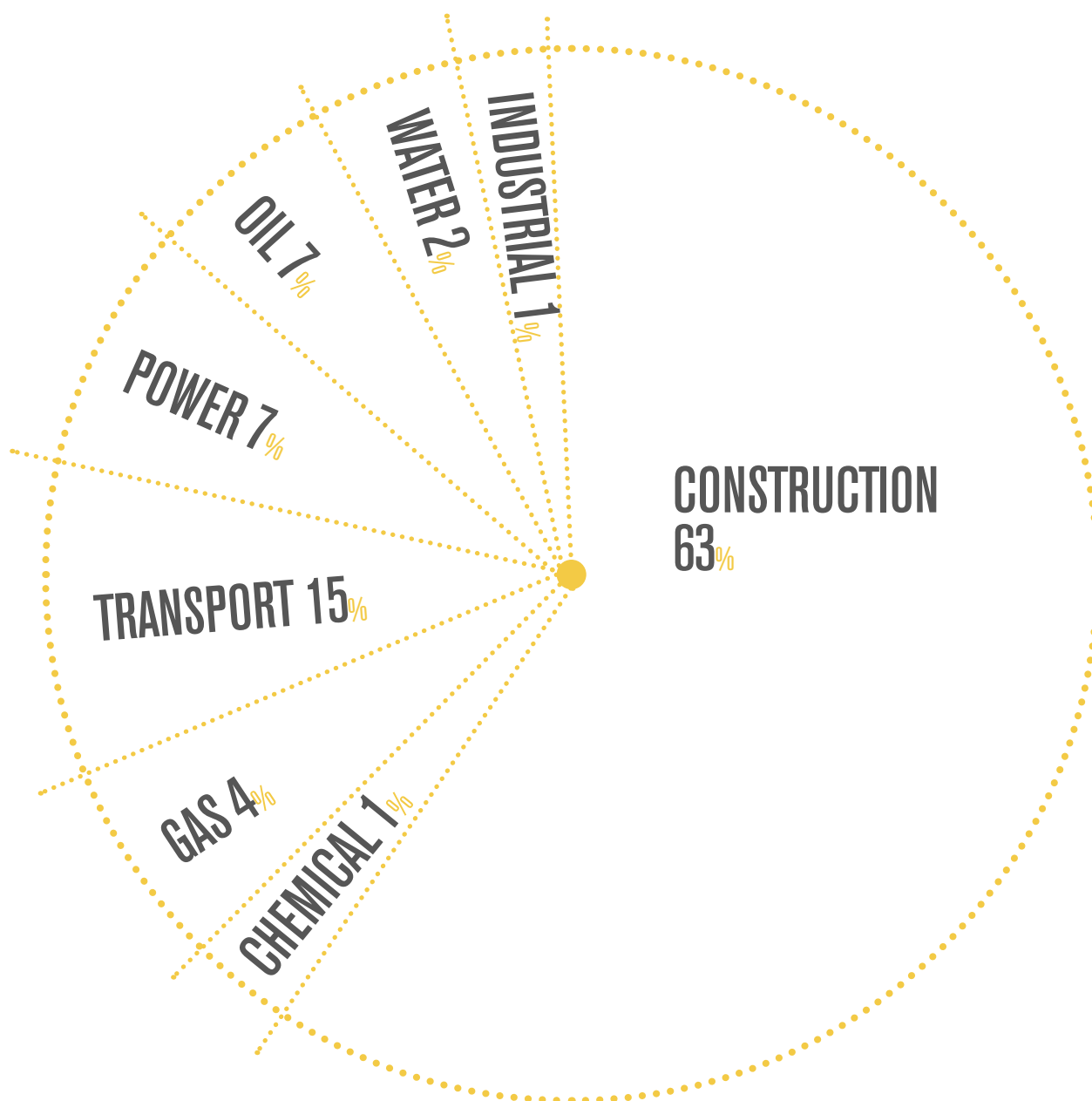
Chart 5: GCC projects under execution by country (April 2016, value in US\$ billion)



SOURCE: MEED Projects – April 2016.

Construction projects dominate the portfolio of activities with a share of almost two thirds (see chart 6).

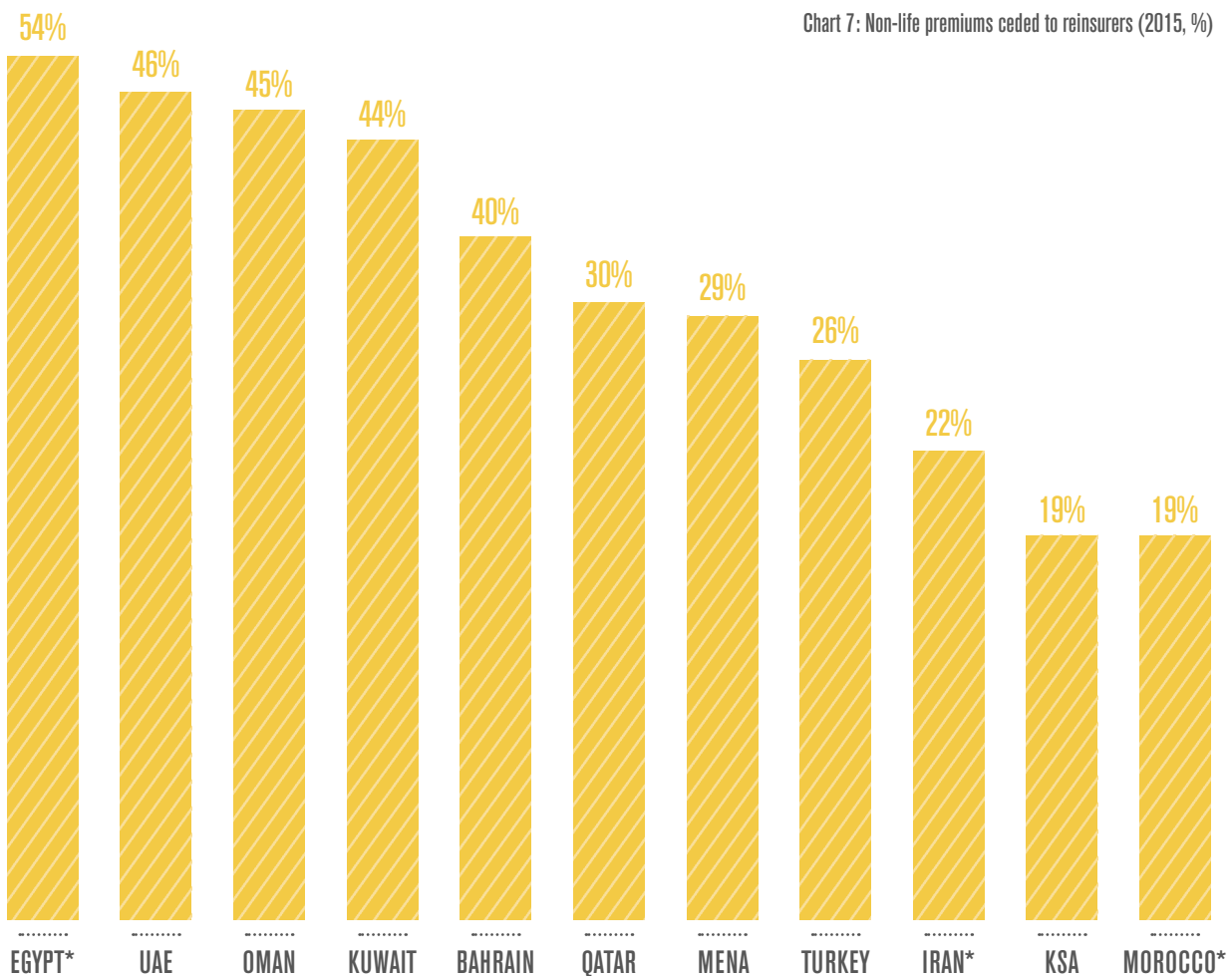
Chart 6: GCC projects currently under execution by sector (April 2016, %)



In the MENA region, about 29% of non-life insurance premiums are ceded to reinsurance companies (calculated as the weighted average of the countries listed in chart 7). The total estimated non-life reinsurance market volume for 2015, accordingly, amounts to about US\$ 13 billion.

As chart 7 reveals, there are significant regional differences in reinsurance purchasing behaviour. Cession rates in all GCC countries, except for Saudi Arabia, are above the MENA average. This reliance on reinsurance reflects the dominance of a direct insurance business model based on commission and investment income. Local cedants benefit from highly competitive reinsurance terms and conditions and see no economic incentive to invest in technical expertise which would enable them 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 8%, according to AM Best and Swiss Re. The declining trend in the GCC region is primarily attributable to above-average growth in personal lines, such as motor and medical insurance. In Saudi Arabia, for example, these market segments now account for more than 85% of total non-life business. They have significantly lower cession rates than more volatile commercial segments of business where net retentions remain marginal as a result of very inexpensive reinsurance and a lack of technical expertise needed to keep large risks on local balance sheets.

Chart 7: Non-life premiums ceded to reinsurers (2015, %)



Source: Qatar Financial Centre Authority, Isis Via Bvdep (\*2013 Data).

# SURVEY RESULTS

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





## **A SILVER LINING: TOWARDS MORE DISCIPLINED AND SOPHISTICATED GROWTH**

### UNDERLYING PRIMARY INSURANCE MARKET GROWTH REMAINS KEY MARKET STRENGTH

As in previous years, the survey respondents consider the region's robust insurance market growth, primarily driven by compulsory schemes, as the most relevant strength of the reinsurance marketplace. The regulatory environment for insurers ranks second, a massive change from previous years when regulations generally featured as a major weakness. The tightening observed in Saudi Arabia since 2013 seems to be spreading to other jurisdictions, too. Regulators across the region are examining the virtues of more rigorous implementation standards and substantial changes such as the imposition of actuarial pricing and reserving requirements and minimum deductibles. The region's relatively low natural catastrophe exposure (except for Turkey, Iran and Algeria) is the third most frequently mentioned strength, as in previous years. This makes the region very attractive from a global diversification point of view. However, an increasing number of executives point to more severe weather-related losses in the region, citing climate change as the main reason.

The pipeline of infrastructure and construction projects, a long-standing key strength, has dropped out of the top 3 ranking in 2016, reflective of slowing construction activities, except for event-linked projects such as the preparation for the Dubai World Expo 2020 and the 2022 FIFA World Cup in Qatar, for example.

Chart 8: Market strengths (number of mentions)

## INSURANCE GROWTH MOMENTUM

18

## REGULATORY ENVIRONMENT

12

## LOW NATURAL CATASTROPHE EXPOSURE

9

“ Regulation is tightening across the MENA region, which is a development we can only applaud, because it will contribute to a strengthening of the markets. Prices are no longer adequate and losses have been rising significantly in the past years. The regulators are taking action now by imposing actuarial pricing, and companies are required to standardise actuarial practices with a periodic review of reserves. This will help to improve underwriting results and ultimately benefit the market. ”

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

“ The GCC region is becoming increasingly attractive as a business hub for reinsurance. As a result, there is an accelerating influx of talent and a growing diversity of products and solutions available from locally-based reinsurers. This development adds further momentum to the GCC reinsurance hub’s aspiration and ability to serve regions farther afield, such as Sub-Saharan Africa, Central Asia and the Indian Subcontinent. ”

**George Kabban, CEO, UIB Gulf (DIFC)**

“ Currently the MENA markets are very much affected by the excess capacity, which continues to pour into the region and affect all aspects of our business. One very important positive development is the return of Iran to the market, once the sanctions are completely lifted. If Iran and the global insurance industry successfully integrate, this will be beneficial to all parties related. ”

**Eray Türker, Managing Director, Türker Re**

## EXCESS CAPACITY STILL VIEWED AS THE MOST RELEVANT MARKET WEAKNESS

As in previous years, the most relevant perceived weakness of the MENA reinsurance marketplace is excess capacity. As a result, the market place is characterised by fierce competition and unsustainable levels of pricing. A lack of technical expertise on the ground, especially among the national work force, ranks second, alongside the economic slowdown, with growth rates declining to levels not seen since the financial crisis and an immediate negative impact on insurance classes such as motor, marine and engineering.

“ At the current level of rates, the major insurance markets in the MENA region could not even sustain two large man-made property losses per annum, with claims approaching or exceeding the market premium volume. It goes without saying that this situation is not sustainable, also in light of a growing exposure to natural disaster losses. ”

Mahomed Akoob, Managing Director, Hannover ReTakaful

“ We have seen large losses across the GCC markets, in 2013 and 2014 in Saudi Arabia, and more recently in the UAE, translating into strong net losses on the balance sheets of the insurers. Finally, the regulator is taking action and forces the insurers to maintain a tighter discipline regarding their reserves and solvability. This will hopefully contribute to improve the overall market. ”

Vincent Grailhon, Senior Treaty Underwriter Southern Europe, Middle East and Africa, Hiscox Re

“ We see a trend towards commoditisation in the Middle East. Since rates are low and substantive information is hard to obtain, the relevance of technical underwriting declines. Instead, it is all about the deployment of capacity and where to best position oneself. ”

Rainer Lehner, Senior Executive Officer, Asia Capital Re

Chart 9: Market weaknesses (number of mentions)

### EXCESS CAPACITY / UNSUSTAINABLE RATES

20

### LACK OF TECHNICAL EXPERTISE

9

### ECONOMIC SLOWDOWN

9

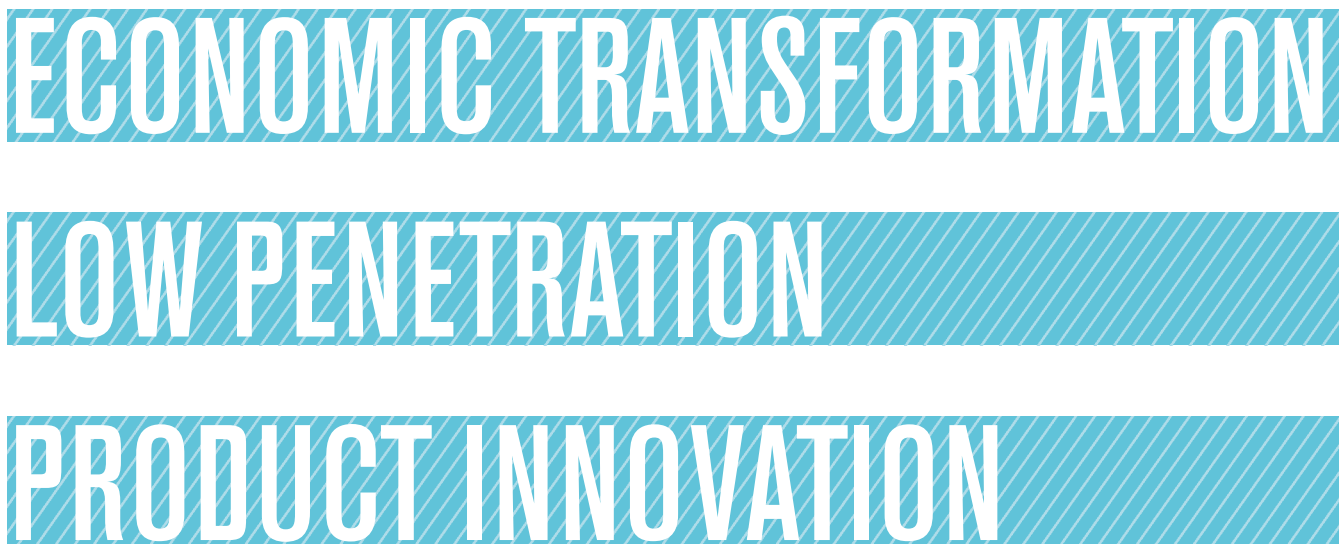
## ECONOMIC TRANSFORMATION EMERGES AS A MAJOR OPPORTUNITY

The majority of interviewees considers the economic transformation of the oil-exporting countries as the biggest medium-term opportunity, with Saudi Arabia's Vision 2030 being mentioned most frequently. The slump in oil prices has accelerated economic diversification strategies across the region as governments are anxious to reduce their dependence on hydrocarbon revenues. Once completed, these efforts will have brought about a significantly more diverse and sophisticated risk landscape which, in combination with a reduced role of the public sector as the ultimate absorber of risk, presents major opportunities to insurers and reinsurers.

Low penetration of MENA insurance markets ranks as the second most relevant opportunity, almost at par with economic transformation measures. With total premiums accounting for just 1.6% of GDP, the insurance penetration of the MENA region stands at a quarter of the global average. Even though largely self-retained by primary insurers, reinsurers see a major potential in motor and medical business, also in light of recent rate increases.

As in 2015, product innovation ranks as the third major opportunity, especially in the areas of cyber, political, trade credit and liability risk where penetration levels across the region are marginal. The local establishment of Lloyd's of London is widely considered a catalyst for the development of these niche businesses, which are vital to the region's continued economic diversification and sophistication.

Chart 10: Market opportunities (number of mentions)



“ Despite highly competitive market conditions the aggregate reinsurance capacity deployed to MENA keeps increasing. The region remains attractive as a high-growth low catastrophe market place, in particular as opportunities in other parts of the world are in short supply. ”

**Romel Tabaja, Deputy CEO, Trust Re**

“ Some markets in the MENA region are currently experiencing a dislocation, driven by a confluence of management changes, increasingly unsustainable primary rates, regulatory pressure towards actuarial pricing and reserving, and, last but not least, a string of major reinsurance losses in the property line of business. This dislocation is a major opportunity for the market to build stronger fundamentals for its future growth and prosperity. ”

**Peter Emblin, Managing Director, Latin America, Middle East & Africa  
and Head of Casualty, Aspen Re**

17

16

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“ The growth of the Middle East Insurance Market has slowed for the time being due to economic headwinds and intense competition. The slump in oil price over the last year, impacting projects in that sector - generally new projects have been limited to essentials/ infrastructure - meaning that insurance premiums continue to be under pressure. However, economic and demographic fundamentals still support an outlook for growth as does the recent pick up of the oil price. There are also opportunities for growth in the continued introduction of compulsory insurance products (medical) in the UAE and growth in the General Insurance business in countries such as Pakistan and Turkey. To take advantage of these opportunities insurers will need to adapt models to the needs of the dynamic market place and create innovative solutions in line with emerging risks and changes in customer’s requirements. ”

**Sajan Baburajan, Head of Claims and Loss Control Engineering, Allianz  
Global Corporate & Specialty**

## POLITICAL INSTABILITY REMAINS THE MOST SERIOUS THREAT

As in previous years, political instability is perceived to be the most severe threat to MENA reinsurance markets. However, an increasing share of interviewees expect a stabilisation in the not too distant future and a boost to demand arising from reconstruction work, for example. The lifting of sanctions against Iran has also contributed to a slightly improved assessment of geopolitical risk in the region.

The region's heavy dependence on hydrocarbon revenues ranks second, with more mentions than in 2015. The 'lower for longer' scenario for oil prices is viewed more likely than a year ago and only few executives expect economic transformation programmes to have a substantial impact in the near future.

The protracted softness of reinsurance markets and subsequent erosion of market discipline ranks third, down from the second spot in 2015. It was mentioned less frequently as underwriting conditions have improved markedly in a number of geographical markets and lines of business.

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



“ The recent large fire losses in the GCC and the number of flooding incidents highlighted the need to better manage the increasing accumulation exposure as well as adequately price for the CAT exposure in the region. The continued growth of reinsurance capacity in the region provides a further challenge for the sector to address those issues. ”

Mohamed Alali, Senior Executive Officer, XL Re Europe SE (DIFC Branch)

“ Over the past few years, SAMA has done a tremendous job in tightening regulatory oversight of the Saudi market, at a time when the introduction of compulsory schemes of insurance and the response to financial market volatility did pose additional simultaneous challenges. These regulatory measures have led to a healthy market shake-out and are starting to radiate to other MENA insurance markets, too. ”

Farid Chedid, Chairman & CEO, Chedid Re

“ The current challenges confronting the MENA reinsurance markets are quite demanding. As a result of the decline in oil price and the ongoing political turmoil, the economy has slowed down and although we see some large projects in Egypt, activities have been reduced in the GCC and elsewhere. For the next twelve months we don't expect much of a change in the region, but hope to see some improvements the year after. ”

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

# SURVEY RESULTS

## 2 GENERAL REINSURANCE MARKET OUTLOOK





## PRICING AND PROFITABILITY OUTLOOK BRIGHTENS

### AVERAGE REINSURANCE PRICING LEVELS

Almost all interviewees see current reinsurance prices in the MENA region as being below the average of the past three years. Having said this, prices have recovered to above-average levels in individual lines of business, e.g. motor (re)insurance in Saudi Arabia.

Most survey participants agree that average prices are still at a level which no longer allows the market to absorb even a series of mid-sized losses, let alone a major loss. As a result, the market has seen what some interviewees describe as a 'dislocation' following the spate of recent weather-related and man-made losses in the GCC. The long-standing trend of eroding rates has slowed considerably over the past 12 months and has already started to turn.

In general, North African and non-proportional, as well as internationally priced facultative businesses, are considered more attractive than GCC proportional business.

“ Current reinsurance prices in the MENA region are below the past three-year average. They have reached a level which no longer allows the market to absorb mid-sized, let alone large-sized losses. Having said this, for some markets, prices can be considered acceptable in light of the low catastrophe exposure. In addition, as in other parts of the world, there are signs that the decline in rates is slowing. ”

Yassir Albaharna, CEO, Arig

“ MENA reinsurance companies are being threatened in their existence by both the fierce price competition in their domestic markets but also the commercial domination of the global reinsurers and tremendous restrictions issued by supervision entities in the region's countries such as the minimum rating condition. This reality underlines the need for MENA reinsurers to explore opportunities in building up a common strategy to promote regional risk integration more effectively. ”

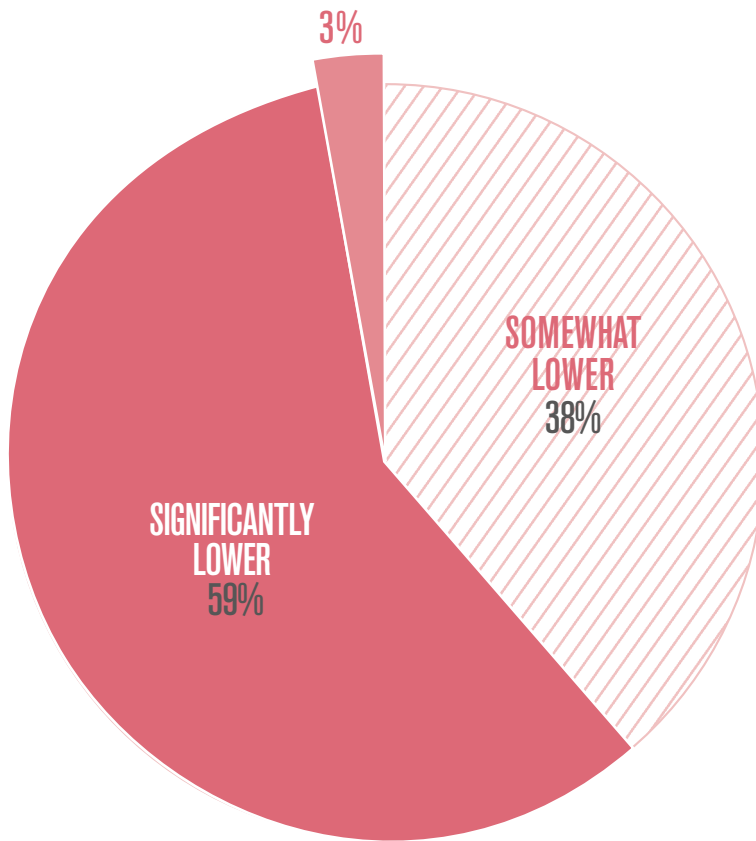
Hadj Mohamed Seba, CEO, CCR

The pricing outlook has changed fundamentally from the previous year; 52%, as compared with 19%, say that they expect an increase in average MENA reinsurance pricing levels. The share of those anticipating a further erosion of rates has reduced from 45% to 24%.

The turnaround in pricing expectations is driven by the GCC markets, and proportional rates in particular. It reflects a number of major insured losses, which were mostly absorbed by reinsurers. However, non-proportional rates are believed to remain under pressure. In addition, the hardening trend seems to be limited to the GCC region whereas in other major markets such as Turkey, the softening trend continues.

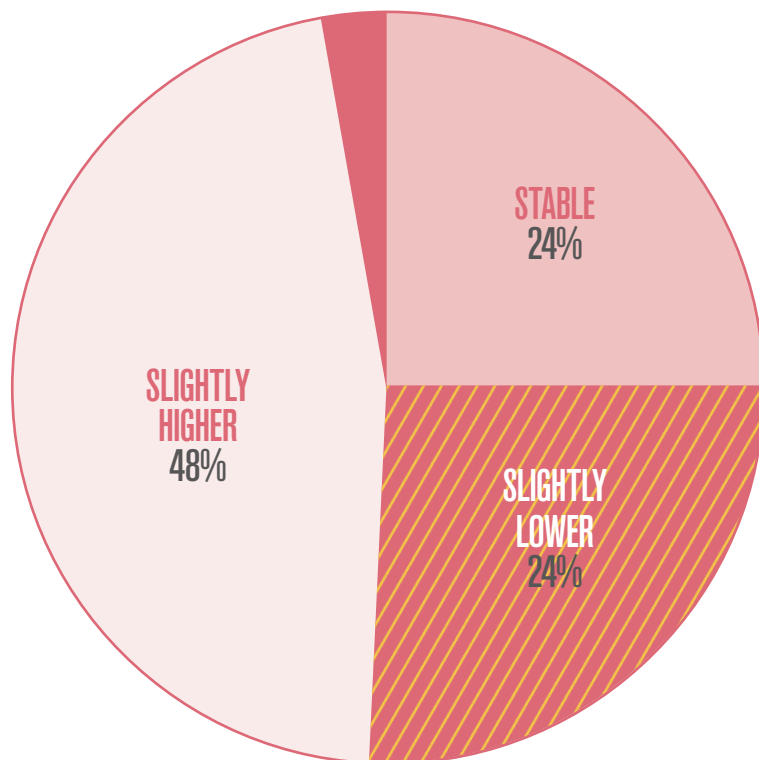
### AT AVERAGE

Chart 12: Current average reinsurance prices (compared to average of past three years)



### SIGNIFICANTLY HIGHER

Chart 13: Outlook on reinsurance prices



## REINSURANCE TERMS AND CONDITIONS

All executives polled, up from 71%, consider overall reinsurance terms and conditions in the MENA region as loose when compared with the average of the past three years (see chart 14). Over the past two years in particular, terms and conditions have loosened significantly, with widening coverage available at unchanged prices and levels of commission rising further, completely reversing the tightening trend which was observed in the immediate aftermath of the Arab Spring.

As compared with the previous year, the outlook for terms and conditions has changed as significantly as on the pricing front; 62% expect a tightening, against 29% a year ago. The share of those anticipating a further loosening has virtually collapsed, from 45% to a mere 10% (see chart 15). Following the most recent losses, reinsurers are imposing higher deductibles on cedants. Additional pressure is building from regulators, with SAMA mandating minimum deductibles in the property insurance line of business, with others expected to follow.

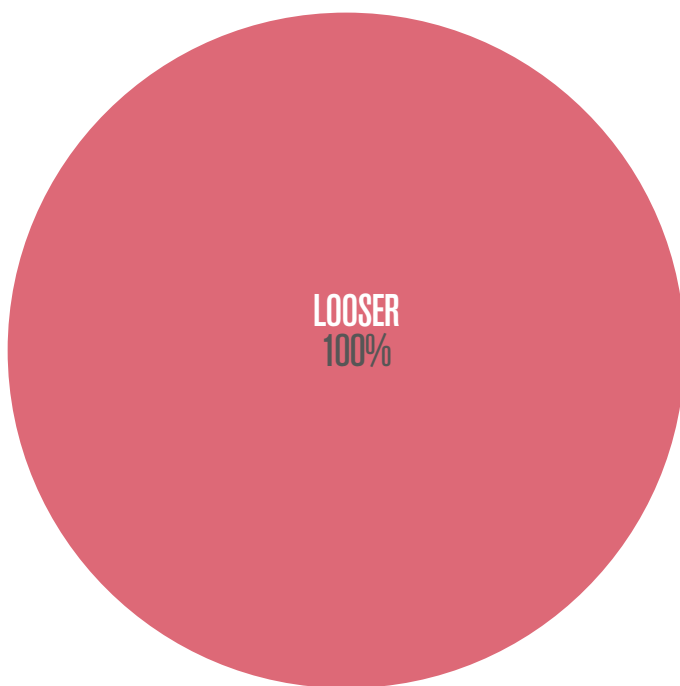


Chart 14: Current reinsurance terms and conditions  
(compared to the average of the past three years)

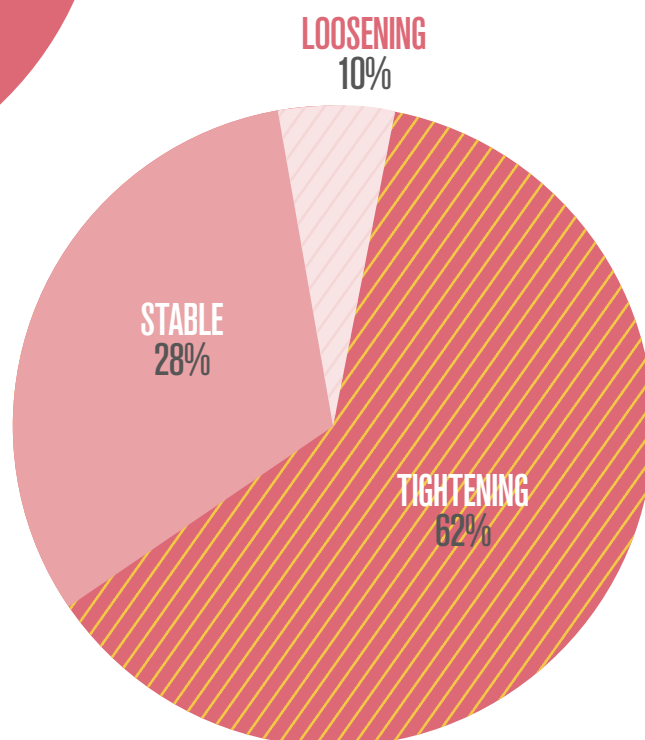


Chart 15: Outlook on reinsurance terms and conditions

“ The recent spate of major weather-related and man-made losses is impacting the dynamics of the MENA reinsurance market. Reinsurers insist on tighter terms and conditions and are more restrictive in deploying proportional capacity. This dislocation is compounded by some large players’ retrenchment from the region. ”

Christopher Pleasant, Managing Director MENA, Guy Carpenter

“ We see a tightening of terms and conditions as a consequence of the losses that the market experienced in relation to the fire of the Address Hotel in Dubai. According to our experience, underwriters are keen to restrict or even eliminate the acceptance of probable maximum loss (PML) for the cover of fire risk in the UAE and we expect that such a stricter practice will extend throughout the region. ”

Dr Peter Hugger, CEO, Echo Re

## OVERALL TECHNICAL REINSURANCE PROFITABILITY

Some 93% of executives participating in the survey consider overall technical reinsurance profitability in the MENA region to be below the three-year average (see chart 16). This assessment of current profitability primarily reflects the situation in proportional treaty business which is impacted by less attractive reinsurance terms and conditions, a trend towards higher attritional (not exceptional headline) losses in a number of countries and rising operating expenses.

The picture looks brighter in facultative and non-proportional business because of international pricing standards and the absence of major natural disasters, respectively.

As far as the outlook for the next 12 months is concerned, 52% believe that profitability will improve, a massive increase from last year’s 19%. This assessment reflects tightening terms and conditions and easing cost pressures (see chart 17).

Chart 16: Current overall reinsurance profitability

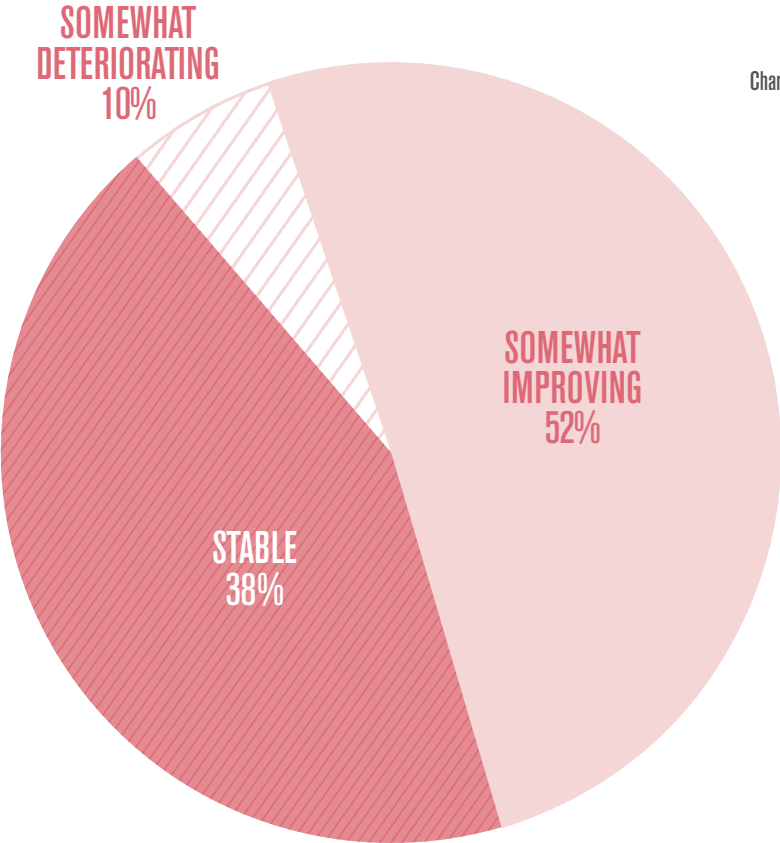
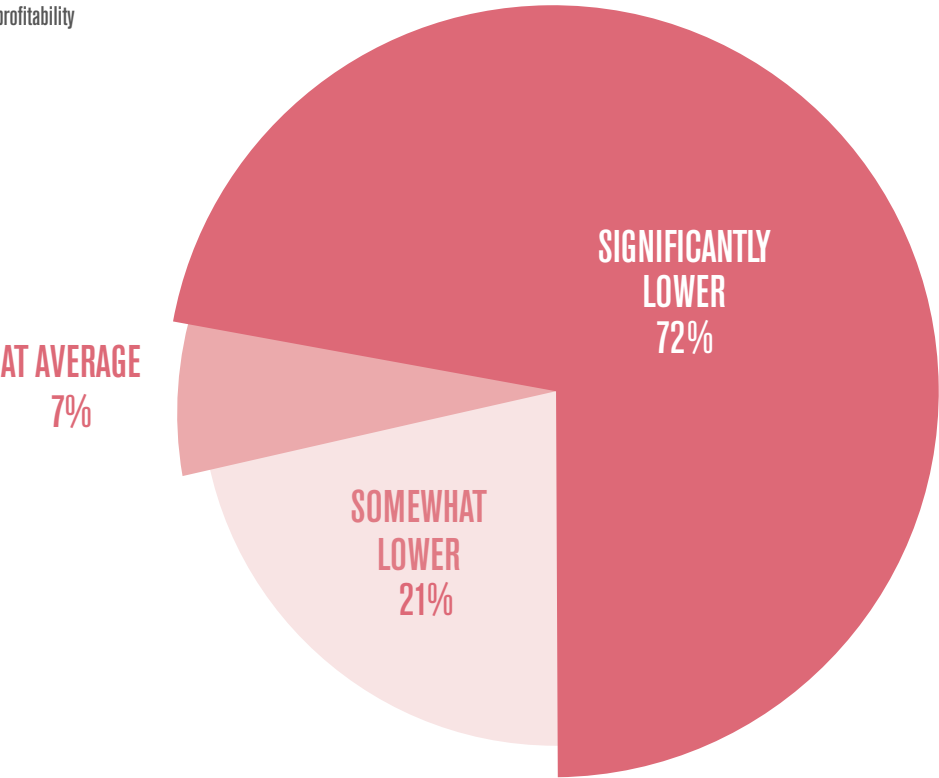


Chart 17: Outlook on reinsurance profitability

“ As a result of regulatory intervention, some markets have seen a significant improvement in technical profitability. However, for this development to be sustainable, the markets’ behaviour needs to change. One example is the entirely price-driven approach to buying insurance and reinsurance which, as we know from history and other parts of the world, is not conducive to the insurance industry’s long-term health and prosperity. ”

**Stephan Wirz, Head Client Management Middle East P&C & L&H, Swiss Re**

“ At challenging times, whether from an economic, social, political or insurance market standpoint, especially when considering the lower investments returns and the increased frequency of large losses as well as the coming regulatory changes which may impact the insurers’ balance sheets in most countries, companies must improve their technical profitability. Back to basics in underwriting such as a detailed analysis of exposures to be written and the application of sustainable prices and conditions, both commensurate to the exposures are recommended. ”

**Hedi Hachicha, Chief Underwriting Officer, Head of Africa, Near & Middle East, SCOR  
Global P&C**

## OVERALL REINSURANCE CAPACITY GROWTH

Some 52% of survey participants, sharply down from 91%, believe that total reinsurance capacity deployed to the MENA countries will increase further (see chart 18). The majority of these interviewees, however, expect a decelerating pace of capacity growth. The region remains an attractive high growth market with little exposure to major natural disasters (except for Algeria, Iran and Turkey) which benefits the diversification of global risk portfolios. In addition, the region is not insulated from the global glut of capital and indirect effects from the rise of alternative reinsurance capital which prompt some players to divert capacity from fiercely contested areas such as US property catastrophe business to the MENA markets.

Having said this, the spate of recent losses in combination with the current level of rates, terms and conditions have reduced the availability of top rated capacity from (European) market leaders.

Two thirds, up from 32%, of the executives polled, expect the composition of MENA reinsurance capacity to remain unchanged. The biggest movements are believed to take place within the ‘Western’ camp of capital providers as the reduced presence of European carriers is (more than) offset by an increased risk appetite of Bermudan and London-based reinsurers using the regional Lloyd’s platform, in particular in the field of large and specialty risks.

Interviewees were also asked about the estimated split between these three sources of capacity. On average, ‘Western’ reinsurers are believed to remain the dominant source of capital, with a market share of more than 50% - and increasing. Based on the executives’ estimates, Asian and regional reinsurers accounted for less than 30% and 20% of the market respectively, with the latter’s share reducing.

Chart 18: Outlook on overall capacity development

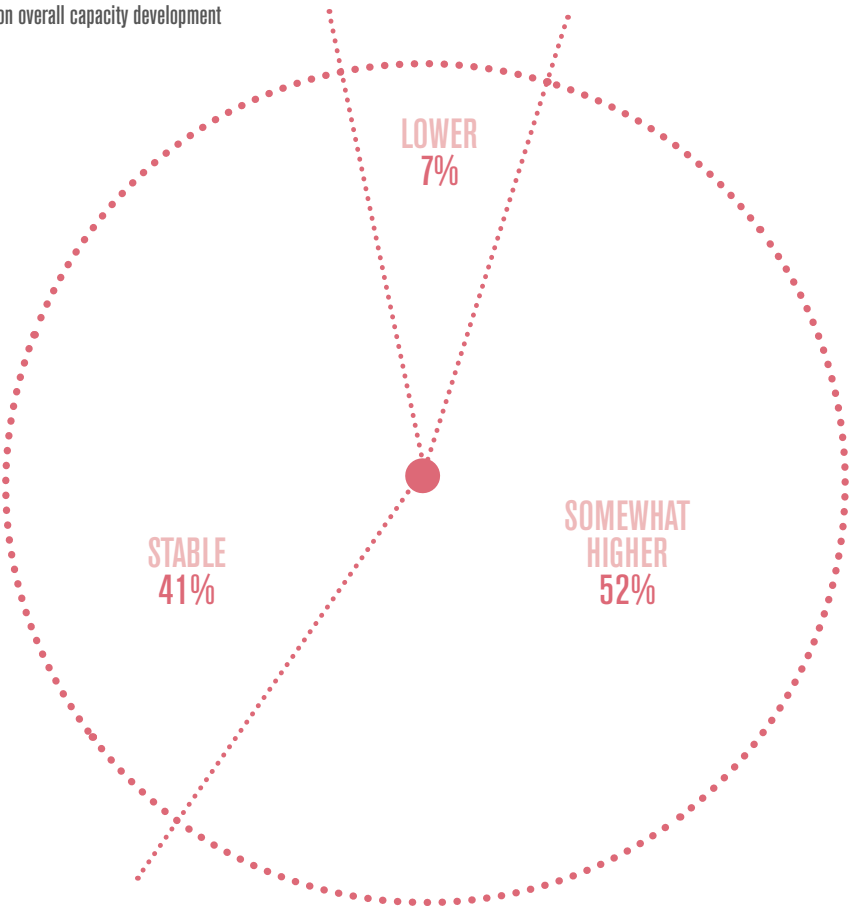
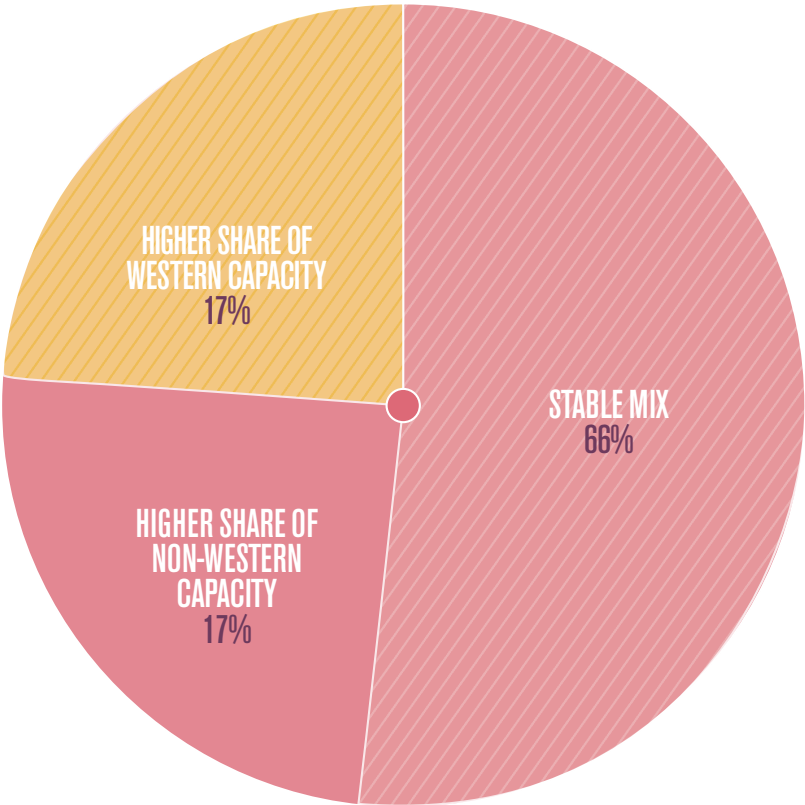


Chart 19: Outlook on split between Western versus non-Western capacity



“ The most recent insured losses in the GCC region have demonstrated once more that local cedants are excessively reliant on reinsurers. In most commercial lines they continue to have almost no ‘skin in the game’. The major reinsurers have long argued that this is not conducive to the market’s sustainable and stable growth. Regulators are starting to adopt a similar view. SAMA, for example, has recently mandated compulsory minimum retention levels for domestic property insurance. ”

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

“ We witness that global clients - also those based in the region - have taken advantage of the low rates and increased their reinsurance cover. Thereby, their reinsurance spendings in fact remain unchanged, but their protection goes up. With local or regional insurers we perceived a reverse trend, whereby they aim to reduce their spending with lower rates. ”

**Ahmed Rajab, CEO MENA, Aon Benfield**

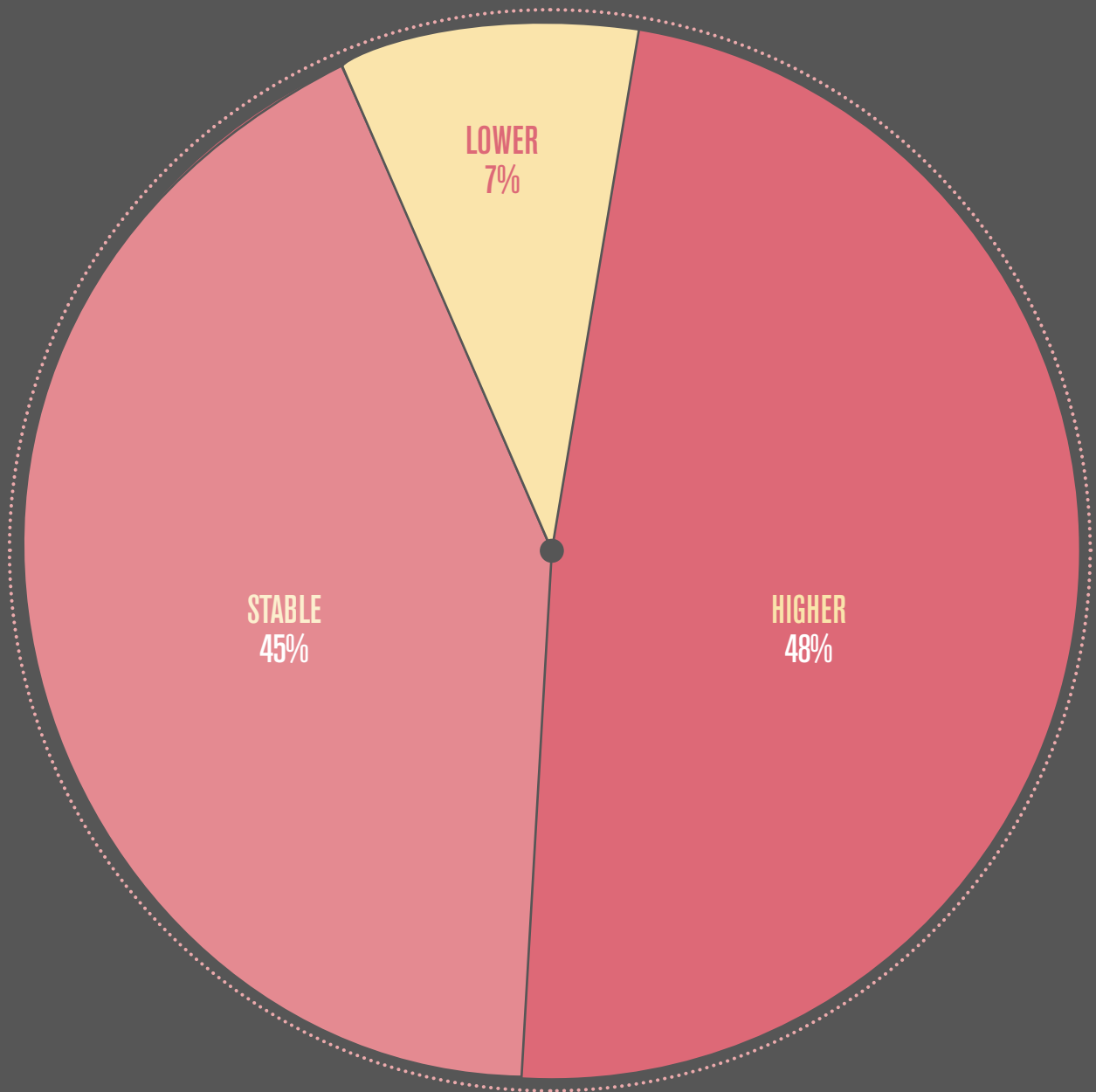
## AVERAGE RETENTION LEVELS

On average, MENA insurers retain more than 71% of their non-life premium income (including medical & health), significantly below the global average of more than 90%. After some major loss events, reinsurers have stepped up their pressure on cedants to keep more ‘skin in the game’, on top of requirements from regulators and the de fact regulators, i.e. rating agencies.

In aggregate, as expected by 48% of participants (up from 42%), retention levels are bound to further increase: In primary markets, the largely self-retained motor and medical insurance business, fuelled by compulsory requirements, is set to grow significantly faster than other property and casualty lines. This shift, however, should not mask the fact that in lines such as engineering, energy and aviation, retention levels remain well below 10% as local cedants lack the technical expertise, the capital strength and the economic incentive (given highly competitive reinsurance markets) to keep more risk on their own balance sheets (see chart 20).



Chart 20: Outlook on retention levels



## REINSURANCE EXPOSURE GROWTH

Over the next 12 months, 69% of executive respondents expect reinsurance exposure to grow at a faster pace than the MENA countries' GDP, virtually unchanged from 2015 (see chart 21).

This picture reflects the expectation that the region's non-life insurance markets will continue to expand more rapidly than the overall economy, adding to reinsurance exposure. The same effect is expected from new large and complex (engineering) risks and, more generally, a rapid accumulation and concentration of values due to urbanisation and industrialisation. In addition, a number of interviewees point to a higher exposure to natural disasters as climate patterns appear to be changing.

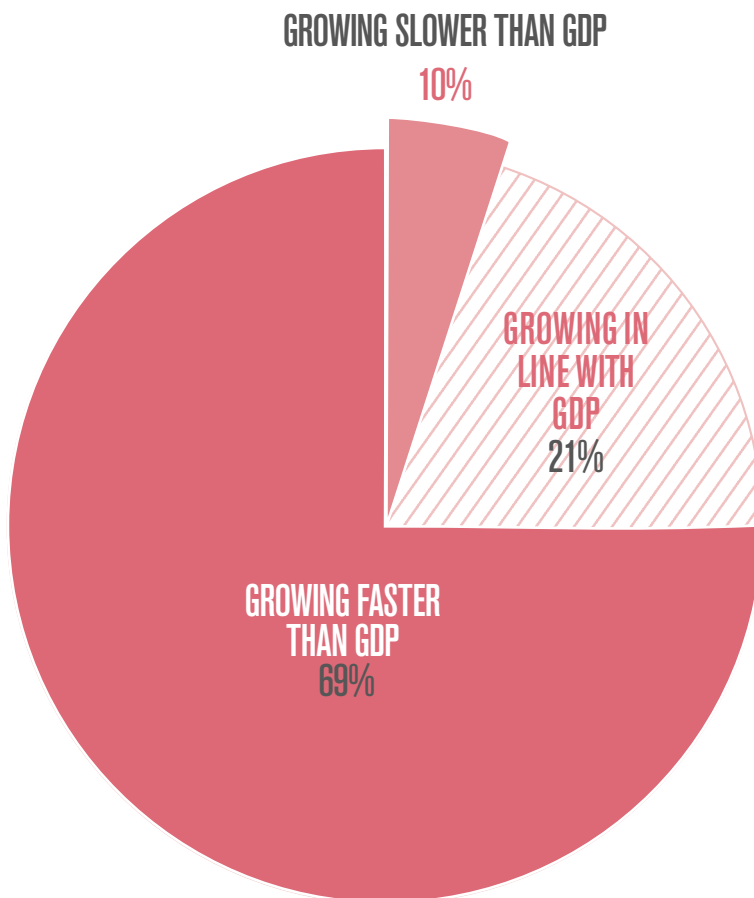


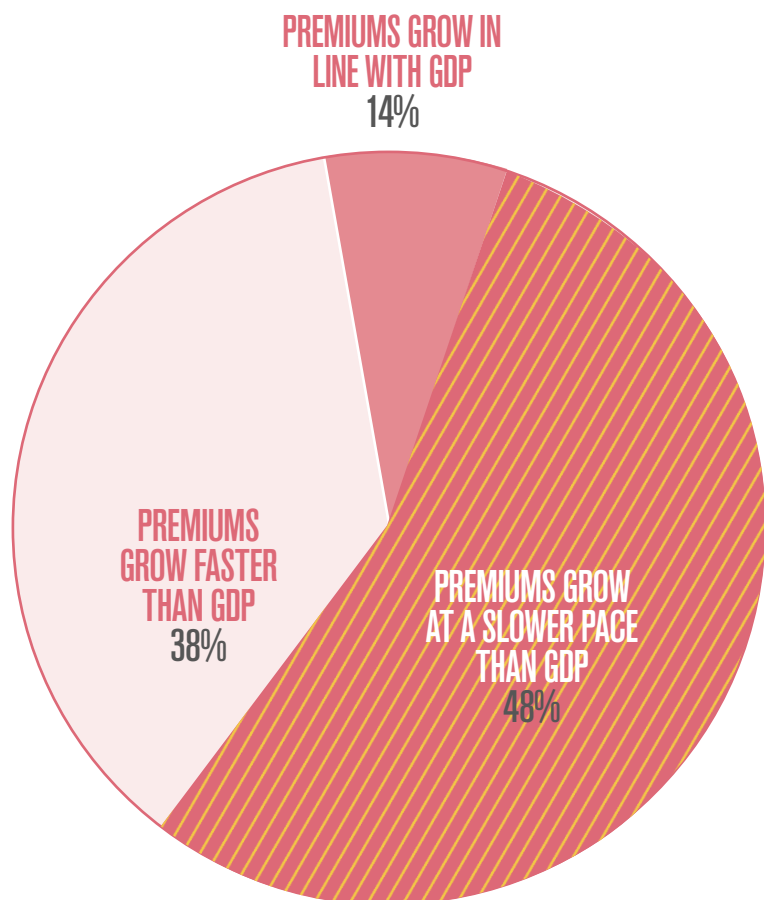
Chart 21: Outlook on reinsurance exposure growth

## REINSURANCE PREMIUM GROWTH

Reinsurance premium growth compares less favourably with GDP than reinsurance exposure growth. Some 47%, against 48% in 2015, expect reinsurance premiums to trail behind GDP growth. These executives point to continued pressure on reinsurance rates, rising aggregate retentions and the growing share of personal lines business. All these factors weigh on reinsurance premium growth and cause the segment to underperform the strong growth recorded in primary insurance markets (see chart 22).

However, 38% of executives anticipate reinsurance premium growth to exceed GDP growth over the next 12 months, primarily because of expected rate increases and lower economic growth forecasts.

Chart 22: Outlook on reinsurance premium growth



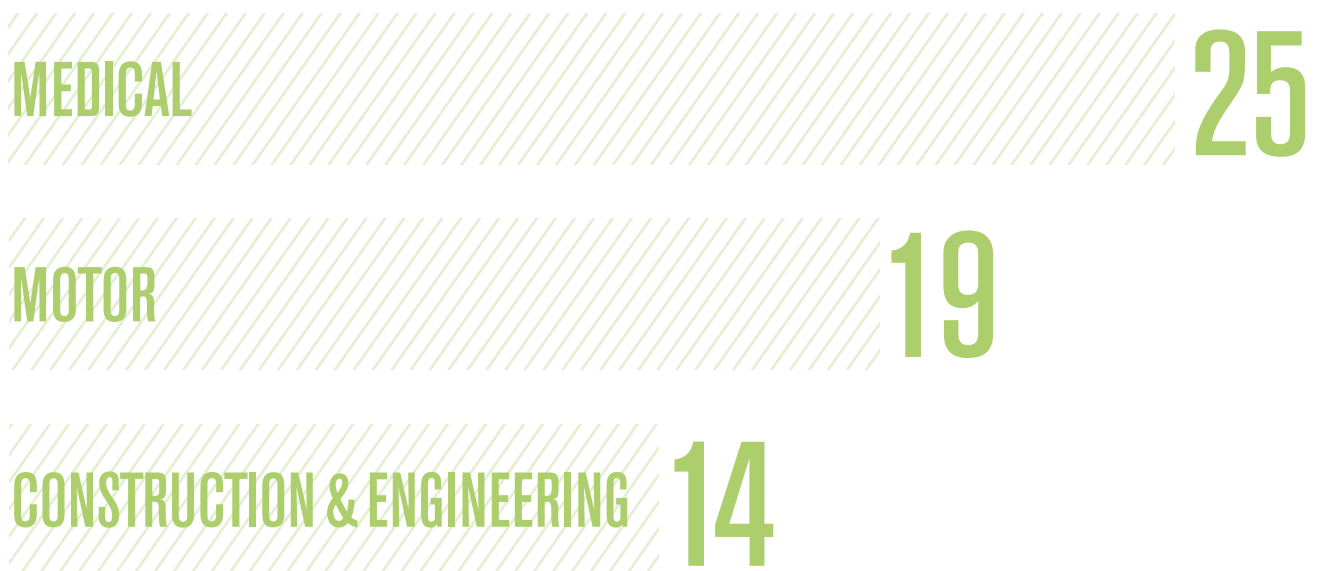


# SURVEY RESULTS

## 3 LINES OF BUSINESS-SPECIFIC PROSPECTS

As in previous years, medical insurance continues to be viewed as the fastest growing line of business over the next 12 months, fuelled by the expansion of existing and the introduction of new compulsory insurance requirements. The second most rapidly expanding line is motor, unchanged from 2015. Even as (expatriate) population growth is slowing, premium volume benefits from regulatory action which, in Saudi Arabia for example, has led to a multiplication of rates. Liability insurance ranks third, replacing construction and engineering business as the construction boom loses traction and rates continue to erode. The growth in liability business reflects an increasing number of mandatory schemes in professional indemnity as well as a trend towards a higher degree of litigiousness (see chart 23).

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



The two slowest growing lines are marine and property, swapping positions compared with the previous year. The decline in marine is a result of decreasing trading volumes exacerbated by continued pressure on rates. Property reinsurance premiums continue to be squeezed by fierce competition in a highly commoditised segment of the market. Structurally, this line's relative weakness is attributable to the virtual absence of a mortgage market in most MENA countries. Engineering reinsurance ranks as the third slowest growing segment, replacing liability insurance which ranked third in 2015, for the reasons given above (see chart 24).

“ In the Arab world, medical insurance is rapidly growing due to both mandatory guidelines and increasing awareness which has promoted health tourism and hospital satellite network businesses across the region. Thus, health insurance is increasingly playing a major role in the economy. The MENA insurance markets might be lagging behind in terms of “Big Data” and predictive modelling applications and research; yet there are many efforts and developments across the board in mobile health insurance related programmes coming to see the light. ”

Mazen Abouchakra, Managing Director, Gen Re MENA & Cyprus

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



In 2016, engineering reinsurance lost its long-standing position as the region's most profitable line of business to marine cargo (see chart 25). While engineering business continues to benefit from a generally good quality of contractors, international standards of risk management and limited catastrophe exposure, pressures on rates, terms and conditions have mounted over the past 12 months. Marine cargo is now considered the most profitable line, mainly due to a relatively high supply side concentration and the niche character of the business. Liability reinsurance continues to rank third, as capacity remains relatively scarce.

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





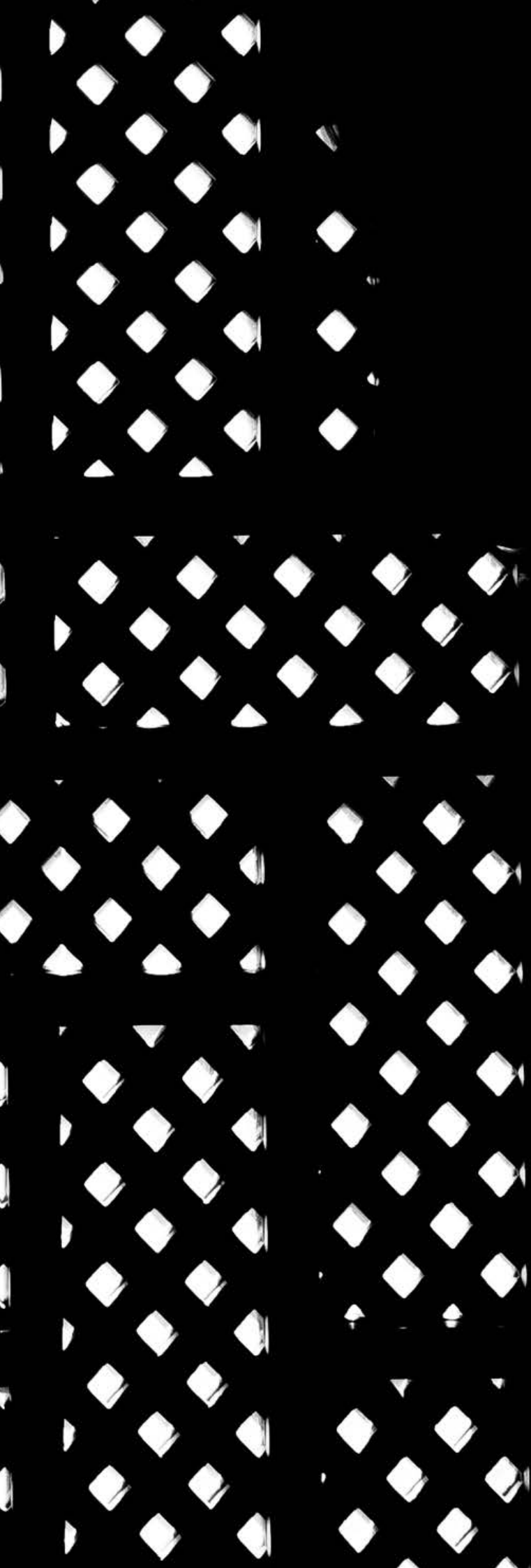
Property, motor and medical reinsurance are considered the least profitable lines of business, unchanged from 2015.

Property reinsurance continues to be characterised by a significant degree of commoditisation, abundant naïve reinsurance capacity and a general lack of attention to safety issues leading to elevated fire losses in particular. The profitability of motor reinsurance remains under pressure as a result of repair cost inflation, rising bodily injury compensation payments and a very limited scope for risk selection and segmentation. Having said this, the pressure seems to be easing in light of significant rate increases in primary markets which are hoped to offset adverse claims dynamics.

Medical reinsurance remains a severely contested market segment, with rampant cash-flow underwriting and accelerating claims inflation. However, emanating from Saudi Arabia, the situation is expected to improve in other jurisdictions, too. The Saudi regulatory measures, in particular the compulsion to use external actuarial reviews and audits across all lines of business as well as to base the underwriting of new business on actuarial pricing, are being studied carefully across the region.

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





# SURVEY RESULTS

## 4 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 accelerating transformation of the MENA risk landscape as a result of the slump and continued weakness of oil and gas prices. Executives polled expect the private sector to play a bigger role as governments (in oil-exporting countries) face the need for fiscal tightening. In addition, efforts to boost the services industry and manufacturing sector are expected to be expedited, widening the spectrum of insurable assets in the region.

Lower barriers to foreign direct investments and other forms of foreign market participation are the second most frequently mentioned trend. The former is believed to be a key determinant of Saudi Arabia's future economic course and development, whereas the latter is referred to most frequently in the context of Iran.

As in 2015, the third most frequently mentioned trend is the adoption and implementation of more effective regulatory frameworks in the region, ranging from risk-based solvency regimes to specific measures aimed at enforcing more disciplined pricing and reserving policies. With respect to the latter, some executives even start to warn about signs of 'overregulation'.

Last year's two most important trends – the global rise of alternative capital and the localisation of reinsurance capacity – no longer feature among the top 3 for 2016.

“ We see a silver lining for technical improvements in the MENA insurance market place. Encouragingly, this is not only attributable to expected rate increases following recent loss events in some GCC countries. It also reflects a continuous trend towards an increasing market sophistication. For example, a growing number of CEOs see the merits of harnessing reinsurance as a tool for economic capital management and profit steering – not just in anticipation of regulatory pressure but also in order to maintain shareholder returns in challenging times. ”

Andreas Pollmann, Client Executive MENA, Munich Re

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



“ Despite the region’s challenges, our outlook continues to remain positive: Economic growth continues to exceed mature market levels and regional governments are adapting to lower oil prices by launching economic transformation plans which we believe will ultimately benefit not just insurance penetration, but also drive innovative product segments. In addition, the GCC and the UAE in particular, are fast developing into a preferred hub for risks from high growth markets outside of the GCC, helping to increase business flow and create long term opportunities. ”

Mark Cooper, General Representative Middle East, Lloyd’s of London

“ New technologies could also reshape the MENA insurance and reinsurance market; they hold the potential to dramatically improve transactional transparency and, ultimately, policyholder trust which, as in other emerging markets, is fragile or even non-existent in the region. ”

Ronald Chidiac, former General Manager, Arab Re



# SURVEY RESULTS

## 5 OVERALL MENA REINSURANCE BUSINESS SENTIMENT

As in previous editions, the 2016 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 2016 came in at 0.5, up from 0.3 in 2015 and slightly above the 0.4 that survey participants predicted for 2016 in the last Barometer. The outlook for 2017 is positive, with expected sentiment jumping to 1.5 which, in case it materialises, would be the highest level recorded since we started to track MENA reinsurance sentiment in 2012.

Despite continued political instability and the economic slowdown in the wake of falling oil prices, overall sentiment is strengthening. An increasing number of executives polled see a silver lining on the underwriting horizon as regulatory action in combination with large property losses ease pressure on reinsurance rates, terms and conditions. In addition, the return of Iran - a US\$ 8 billion insurance market - to the regional and global reinsurance landscape is viewed as a positive.

“ Based on well-established client relationships and the commitment to provide top-quality services to clients there is still room for prudent reinsurance portfolio expansion in the MENA region - in spite of the prevailing soft market conditions and excess reinsurance capacity on a global scale, the slow-down of economic growth in the region and continued price competition amongst primary market players. ”

**Gökhan Aktas, Head of Foreign Inward Business, Milli Re**

“ The potential in MENA still remains to be fully realised. This is a region where penetration levels are low, economies are in a developing stage, a resource rich region and a young population that has only just started to comprehend the insurance space. What we need today are players with ideas who try and expand the pie rather than come to this region to compete on price, price and price. ”

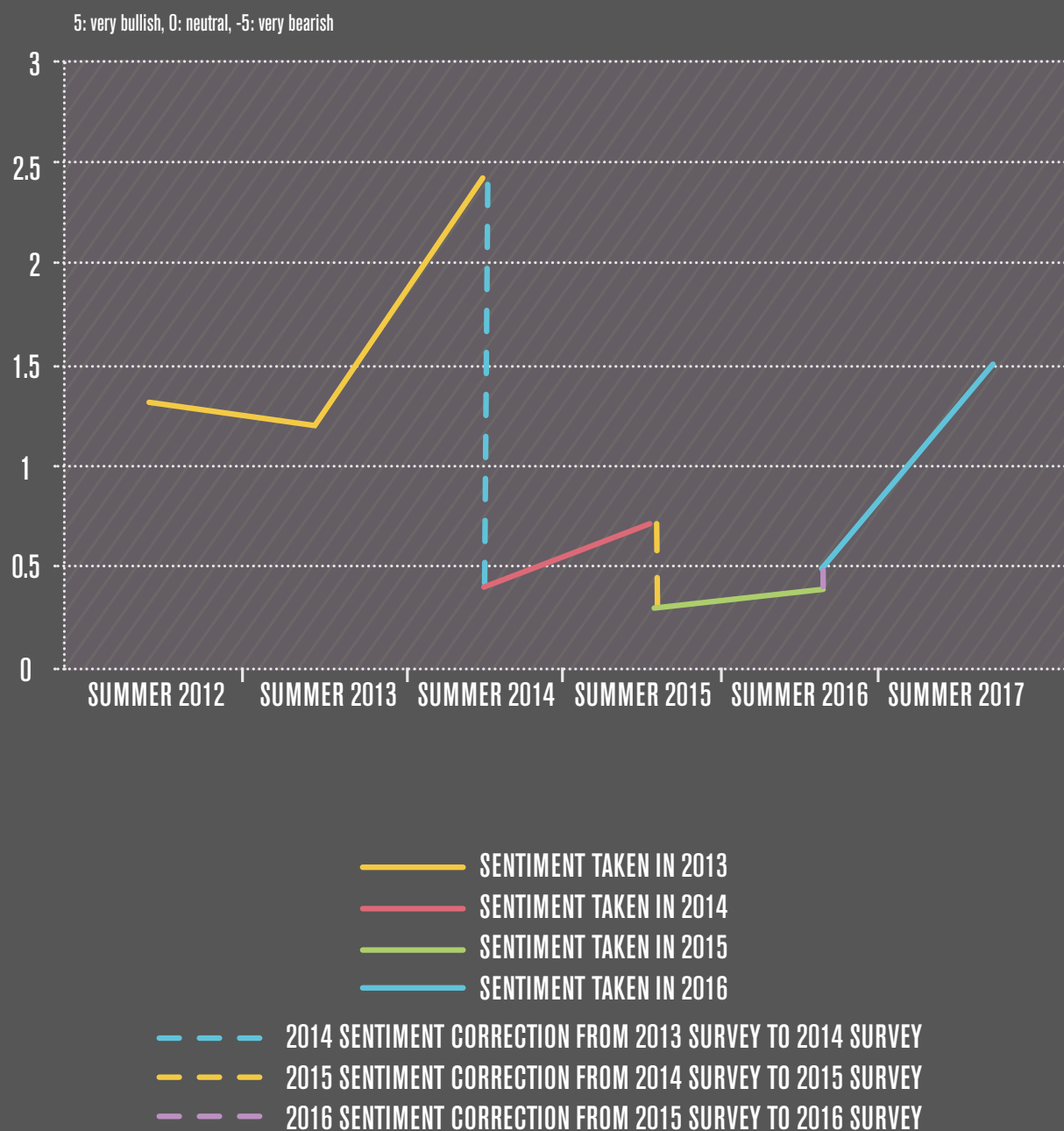
**Atish Suri, Head of MENA, Willis Re**

“ The MENA reinsurance markets are diverse with competitive rates. In addition, regulation varies across the region which makes the business environment difficult. However, the authorities in Saudi Arabia and the UAE have taken actions recently to strengthen the regulation. Although it will take some time to see the effects, we are confident that these changes will lead to greater underwriting discipline, improved technical results and help to build the confidence in these markets. ”

**Jasmine Miow, Senior Vice President for South & South East Asia Markets, Peak Re**



Chart 28: Average MENA reinsurance business sentiment



## ABOUT THE QATAR FINANCIAL CENTRE

The QFC is a fully onshore business and financial centre located in Doha, and provides an excellent platform for firms to incorporate and do business in Qatar and the region. It offers its own legal, regulatory, tax and business infrastructure, which allows 100% foreign ownership, unlimited repatriation of profits, no restrictions on the currency used for trading, and charges a competitive rate of 10% corporate tax on locally sourced profits.

These foundations have helped to foster Doha's world-class business environment. Qatar is currently ranked as the most business-friendly country in the MENA region and 14th worldwide (Global Competitiveness Report 2015-2016).

The QFC has recently undertaken several legal and structural enhancements, together with process improvements, to encourage a broader range of professional and business services firms to be licensed, facilitated by streamlined processes, significantly shortening the turnaround time for applications.

For more information about  
the QFC, please visit [qfc.qa](http://qfc.qa)

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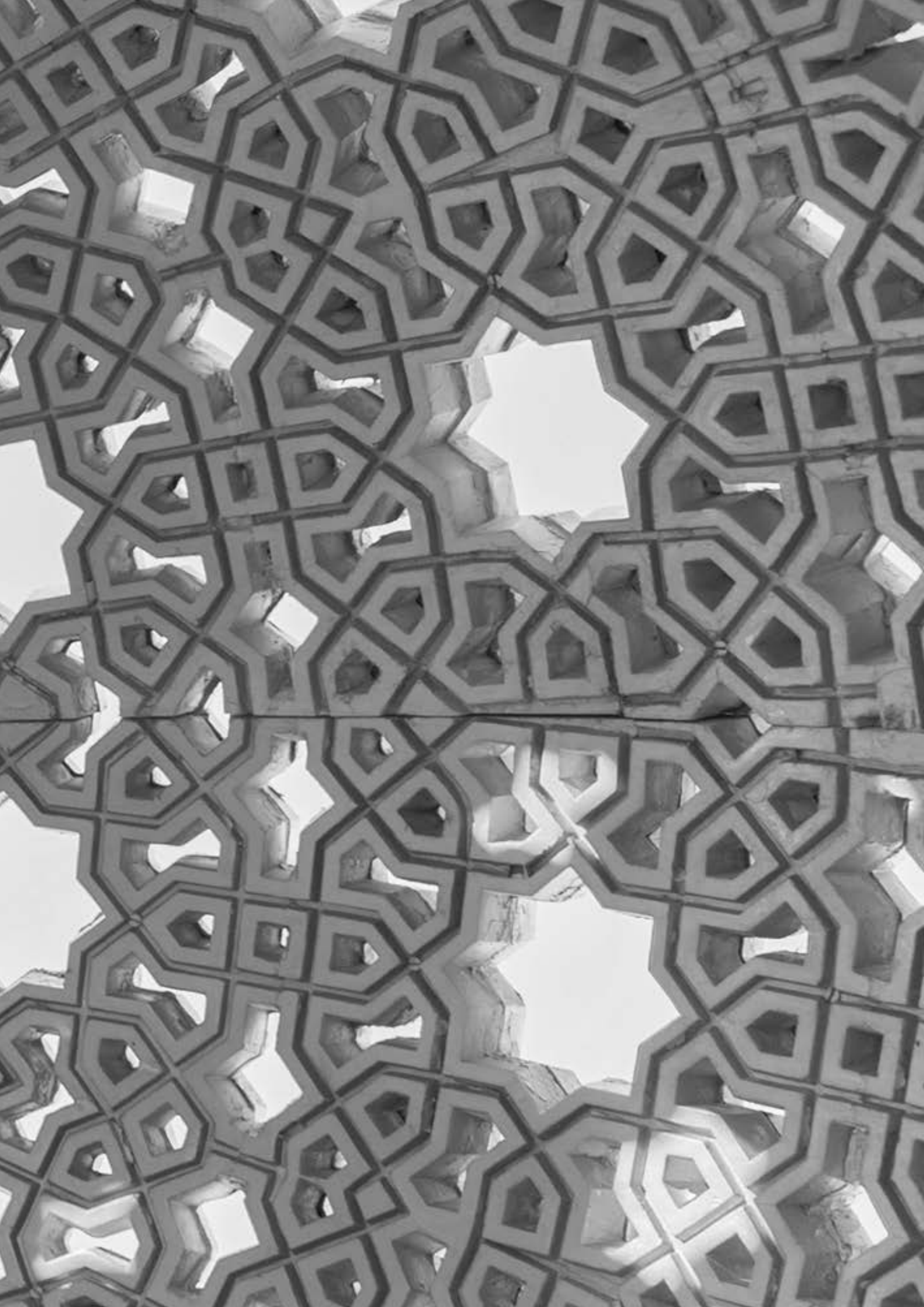
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