MENA INSURANCE BAROMETER

March 2014

QFC Research and Insights
Mena Insurance Barometer No. 2 / March 2014
An Annual Market Survey
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FOREWORD

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

We are pleased to present the second edition of the annual MENA Insurance Barometer. The Barometer is based on in-depth interviews with senior executives of 38 regional and international insurance and reinsurance companies, as well as intermediaries operating in the region. It provides an overview of the current state and near-term prospects of the US$ 44 billion insurance markets comprising the Middle East and North Africa (MENA) with a total population of more than 370 million and a combined gross domestic product of US$ 3.6 trillion. The Barometer also offers a summary of key regional insurance market data.

Our second survey reveals the growing attractiveness of the region's insurance markets. Confidence among survey participants has been strengthened by additional compulsory insurance requirements and demand from infrastructure projects. In addition, the fundamentals remain strong: Insurance penetration is on the rise, demographics are favourable and economic growth continues to be robust.

At the same time, the region is becoming increasingly more diverse in terms of political stability, social trends and economic development. The report explicitly discusses the significant differences between the Gulf region, the Levant, North Africa and Turkey.

Through the Barometer the QFC Authority aims to foster greater transparency in the MENA insurance marketplace and provide market participants with an additional benchmark for decision-making. The Barometer offers a comprehensive picture of current market sentiment and will track this over time, based on a consistent methodology.

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

METHODOLOGY

The findings of this report are based on in-depth and structured telephone or face-to-face interviews with executives representing 38 regional and international (re)insurance companies and intermediaries. The interviews were conducted by Dr. Schanz, Alms & Company AG, a Zurich-based research, strategy and communications consultancy, in December 2013 and January 2014.

The companies that took part in the survey were:

- Abu Dhabi National Insurance Company (ADNIC), UAE
- Africa Re, Egypt
- Allianz Global Corporate & Specialty, UAE
- Al Wathba, UAE
- American International Group (AIG), UAE
- Arabia Insurance Company, Lebanon
- Arab Insurance Group (Arig), Bahrain
- Arab Re, Lebanon
- Arope Insurance, Lebanon
- Asia Capital Re, UAE
- Bahrain Kuwait Insurance Company / Gulf Insurance Group, Bahrain
- Chedid Re, Lebanon
- Doha Insurance Company, Qatar
- Dubai Insurance Group (Dubai Holding), UAE
- Hannover Re, Bahrain
- Generali Middle East, UAE
- GroupMed, UAE
- Jordan Insurance Company, Jordan
- Marsh Middle East, UAE
- MIG Holding, Bahrain
- Milli Re, Turkey
- Misr Insurance Company, Egypt
- Munich Health, UAE
- Munich Re, Germany
- Oman United Insurance, Oman
- Qatar Insurance Company (QIC International), Qatar
- PartnerRe, Switzerland
- QBE Insurance, UAE
- Saudi Re, Saudi Arabia
- SCOR SE, France
- SEIB Insurance and Reinsurance, Qatar
- Solidarity Holding, Bahrain
- Swiss Re, Switzerland
- Tokio Marine, UAE
- Türker Brokers, Turkey
- United Insurance Yemen, Yemen
- United Insurance Company, UAE
- XL Insurance, Switzerland

SUMMARY OF KEY FINDINGS

1. Confidence in the future of the MENA insurance markets strengthened in 2013. 76% of executives polled expect regional premiums to outgrow gross domestic product (GDP), up from 68% a year ago. Survey participants are particularly bullish about personal lines business which is set to benefit from additional compulsory insurance requirements. In addition, commercial insurance will receive a boost from new infrastructure and construction projects. This assessment is primarily driven by the Gulf insurance markets. Other regions are viewed considerably less positively.

2. Participants continue to consider the region's strong economic and direct insurance market growth as its most important strength, followed by a perceived moderate natural catastrophe exposure and a growing and young population which augurs particularly well for personal lines insurance such as motor, homeowner's property, life and pensions.

3. The prospect of major infrastructure and construction projects in the Gulf region ranks highest in terms of market opportunities. Low penetration levels are the second most frequently mentioned opportunity. For the wider MENA region, the average share of premiums in regional GDP is about 1.3%, compared with 6.5% for the world as a whole. Population growth, including a continued influx of expatriates, ranks third.

4. The Barometer found that 84% and 36% of executives polled view current prices in MENA commercial and personal lines business, respectively, as being below the average of the past five years. 84% and 91%, respectively, expect commercial and personal lines rates to remain stable or improve over the next 12 months, up from 77% and 72%, respectively, a year ago. Rate expectations have improved as higher losses and tighter regulations promote underwriting discipline.

5. Only 16% of respondents anticipate MENA insurance markets to consolidate over the next 12 months, sharply down from 36% a year ago. Solid levels of capitalisation - most recently boosted by recovering financial markets - in combination with family ownership of many regional insurers, stand in the way of market consolidation.

6. Only 35% of executives interviewed expect that foreign insurers will gain market share over the next 12 months, down from 50% a year ago. A number of foreign players have suffered losses and are reviewing their approach to the region.

7. Compared with the previous Barometer, the prospects of Takaful insurance are judged more critically. Only 22% of participants expect this market segment to outgrow total insurance premiums in the next twelve months, down from 38%. Business models are believed to be in need of a thorough review and still fail to offer genuine product differentiation based on the principle of mutuality.

KEY BAROMETER READINGS

The Barometer measures current perceptions of the insurance market in the MENA region, tracking them over time to monitor changes in attitudes. When comparing 2014 with 2013, the main differences in findings include:

- A stronger expectation of increasing insurance penetration levels;
- A more positive view on current insurance prices and profitability, in particular for personal lines;
- A more confident outlook on insurance prices and profitability;
- Lower expectations of industry consolidation and the degree of foreign competition;
- A significantly less optimistic assessment of the prospects of Takaful insurance.

Key readings (in % of respondents agreeing)	January 2013	January 2014
Insurance premiums to grow faster than GDP*	68	**76**
Insurance prices are currently low**		
Commercial lines	91	**84**
Personal lines	55	**36**
Insurance prices to remain stable or increase*		
Commercial lines	77	**84**
Personal lines	72	**91**
Insurance profitability is currently low**		
Commercial lines	66	**62**
Personal lines	39	**30**
Insurance profitability to remain stable or improve*		
Commercial lines	77	**84**
Personal lines	83	**85**
Insurance markets to consolidate*	36	**16**
Foreign market share to increase*	50	**35**
Takaful insurance to outgrow total market*	38	**22**

*Over the next 12 months

** Compared with 5 year average

MARKET OVERVIEW

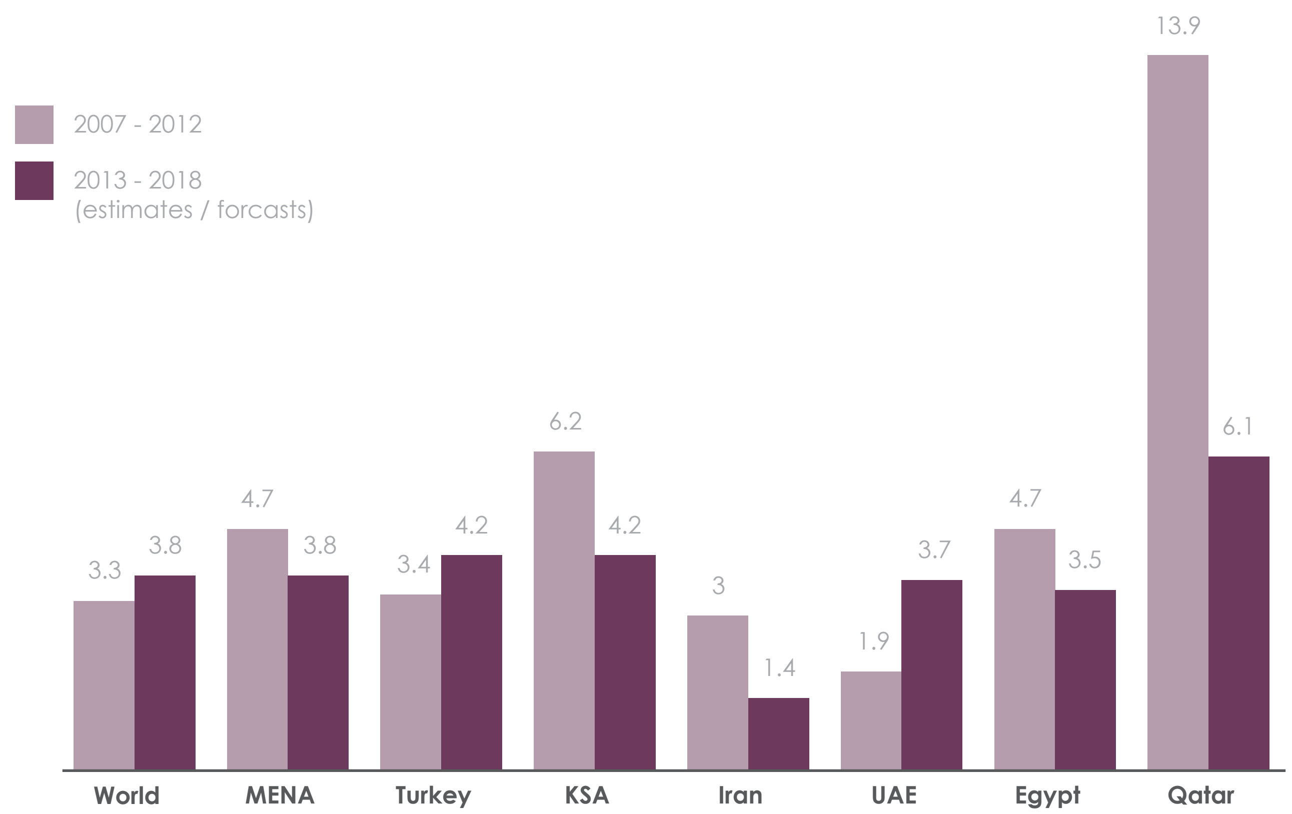
Slowing but still robust GDP growth

This report covers 14 countries in the Middle East and North Africa: Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, Turkey and the United Arab Emirates. The country selection (hereafter referred to as MENA) reflects the availability of internationally comparable insurance data.

In 2012, these 14 countries, with a total population of more than 370 million, generated a combined gross domestic product (GDP) of about US$ 3.6 trillion, more than 5% of the world's total. As an economic block the region would rank as the world's fourth largest economy, ahead of Germany.

At an inflation-adjusted growth rate of 4.7% 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. Qatar is expected to remain the region's most vibrant economy, although growth rates are set to fall to single-digit levels as LNG development programmes near completion. The region as a whole, however, is no longer expected to outgrow the global economy (see chart 1).

Chart 1: Real GDP growth (2007 – 2018f, annual averages, in %)



Source: IMF, World Economic Outlook October 2013

Oil-exporting countries to outgrow oil-importing economies

In general, the near-term economic outlook for the MENA region has weakened. Political transition and heightened uncertainties from the civil war in Syria weigh on the economic prospects of the region's oil-importing countries. At the same time domestic supply disruptions in Iraq and Libya and a modest fall in oil production in Saudi Arabia have resulted in a decrease in regional oil production in 2013, for the first time since the global economic recession in 2009. Downside risks are tilted to the non-GCC (Gulf Cooperation Council) countries. Political instability clouds the economic horizon in a number of countries. In addition, global oil demand could continue to decrease as a result of lower growth in emerging markets and rising supply from non-traditional energy sources. On the other hand, as the Euro zone emerges from recession, North African countries with strong economic links with Europe are set to benefit.

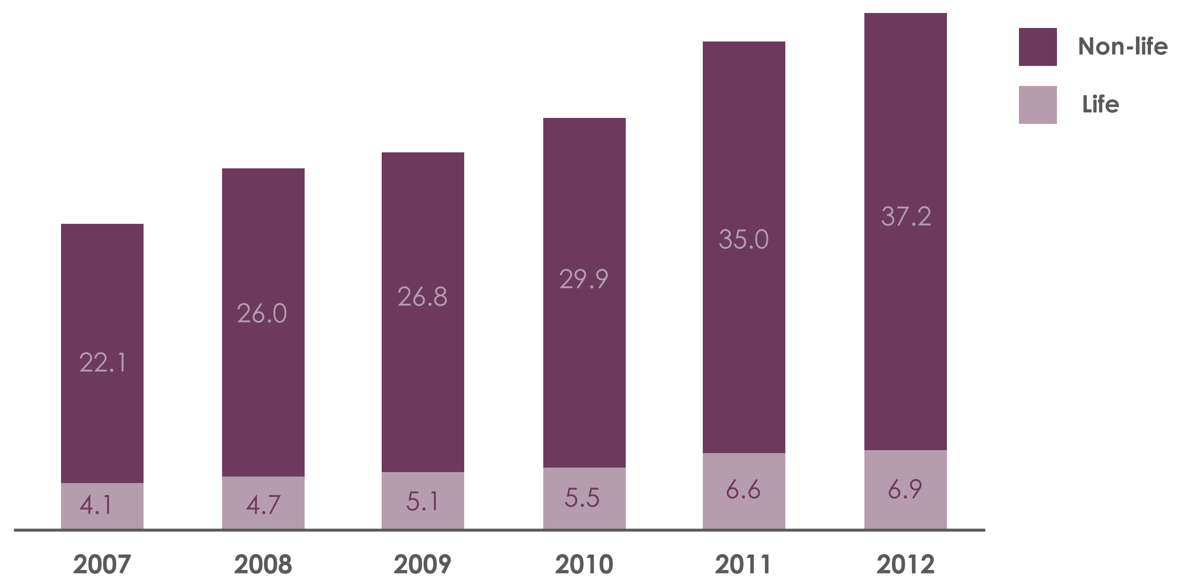
All in all, for 2013 and 2014, the International Monetary Fund projects an average real GDP growth of about 3% for the region's oil-exporting and oil-importing countries. The forecast is brighter for the GCC economies, with an expected growth of almost 4%.

MENA insurance penetration on the rise

Income per capita levels in the MENA region as a whole are similar to the global average. The region's insurance penetration levels, however, are extraordinarily low. In 2012 insurance premiums accounted for just 1.3% of GDP, a fifth of the global average. Encouragingly, 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). Going forward, this trend is expected to continue. Swiss Re (Global Insurance Review 2013 and Outlook 2014/15) forecasts real annual premium growth of about 7% for 2013 to 15, almost twice as much as the International Monetary Fund expects for economic growth.

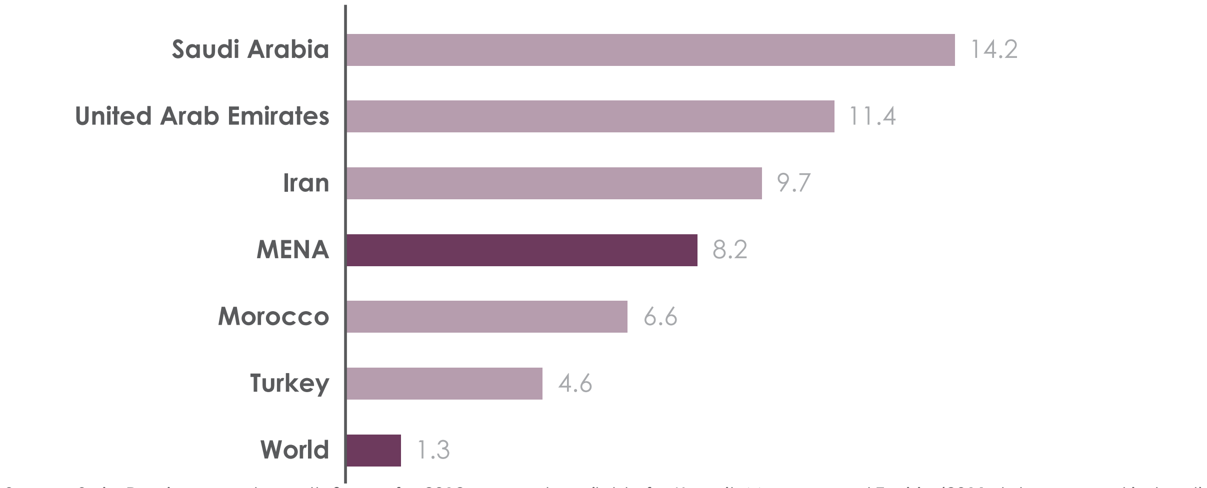
At a share of less than 16%, life business continues to play a relatively minor role (in comparison with its global share of 57%) even though it grew slightly faster than the non-life market (at an annual average real rate of 9.1% as compared with 8.2%).

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



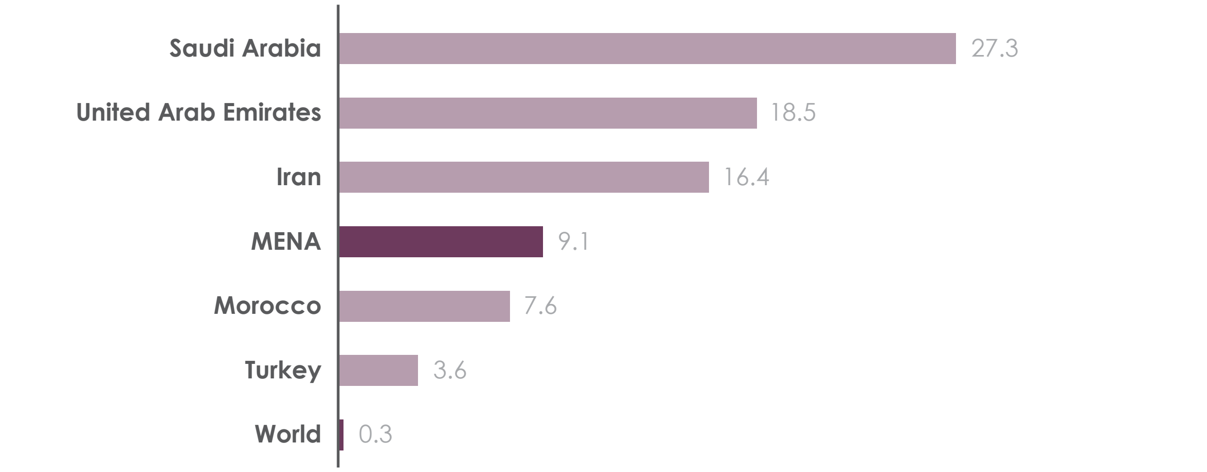
Source: Swiss Re, sigma

Chart 3: Non-life real premium growth (2007 – 2012, annual averages, in %)



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

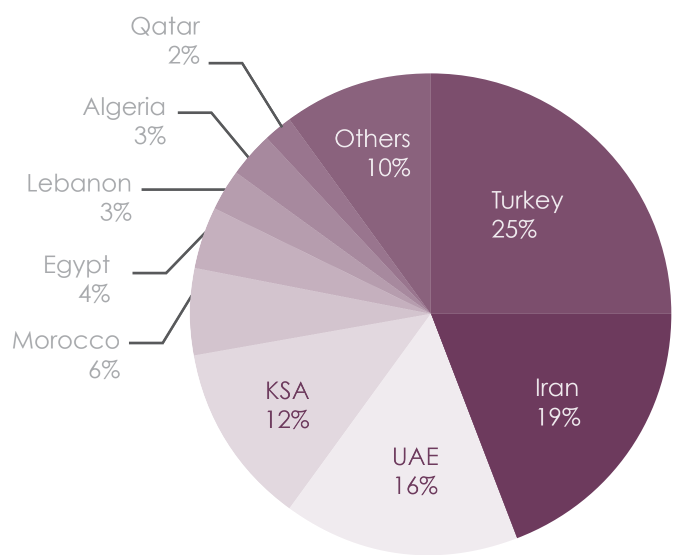
Chart 4: Life real premium growth (2007 – 2012, annual averages, in %)



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

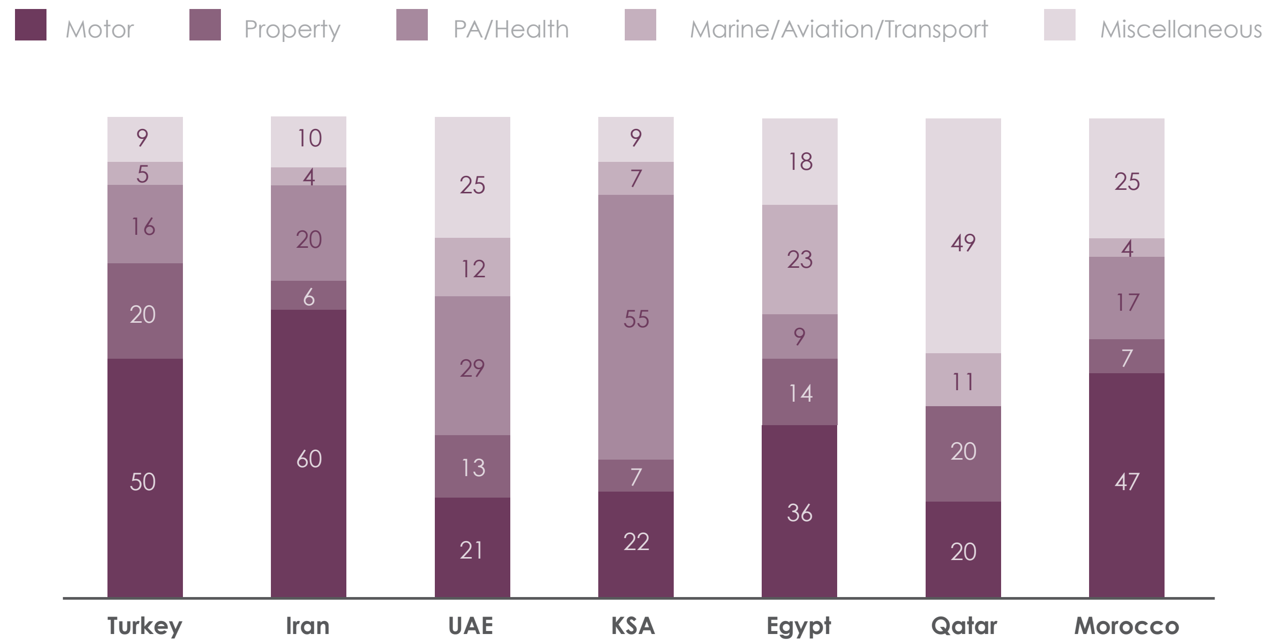
Chart 5: Geographical split of MENA insurance premiums in 2012

Chart 5 reveals that the region's four largest insurance markets - Turkey, Iran, UAE and Saudi Arabia - account for almost three quarters of the total premium pot.



Source: Swiss Re, sigma

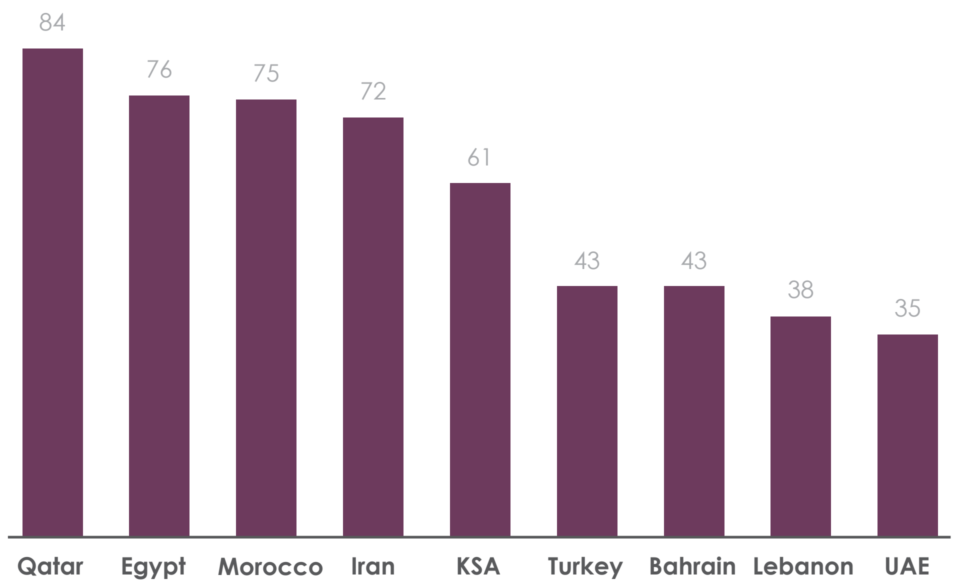
Chart 6: Lines of business split, 2011, in %



Source: AXCO, National Supervisory Authorities

Chart 6 provides the lines of business split for a number of MENA non-life insurance markets. Motor is still the largest segment in major markets such as Turkey, Iran, Morocco and Egypt. However, over the past few years, personal accident and health insurance has been the fastest growing line of business in Saudi Arabia and the UAE, and now represents the biggest market segment. The main driver behind this spectacular growth is legislation, in particular compulsory insurance requirements.

Chart 7: Non-life insurance market share of Top 5 insurers, 2012, in %

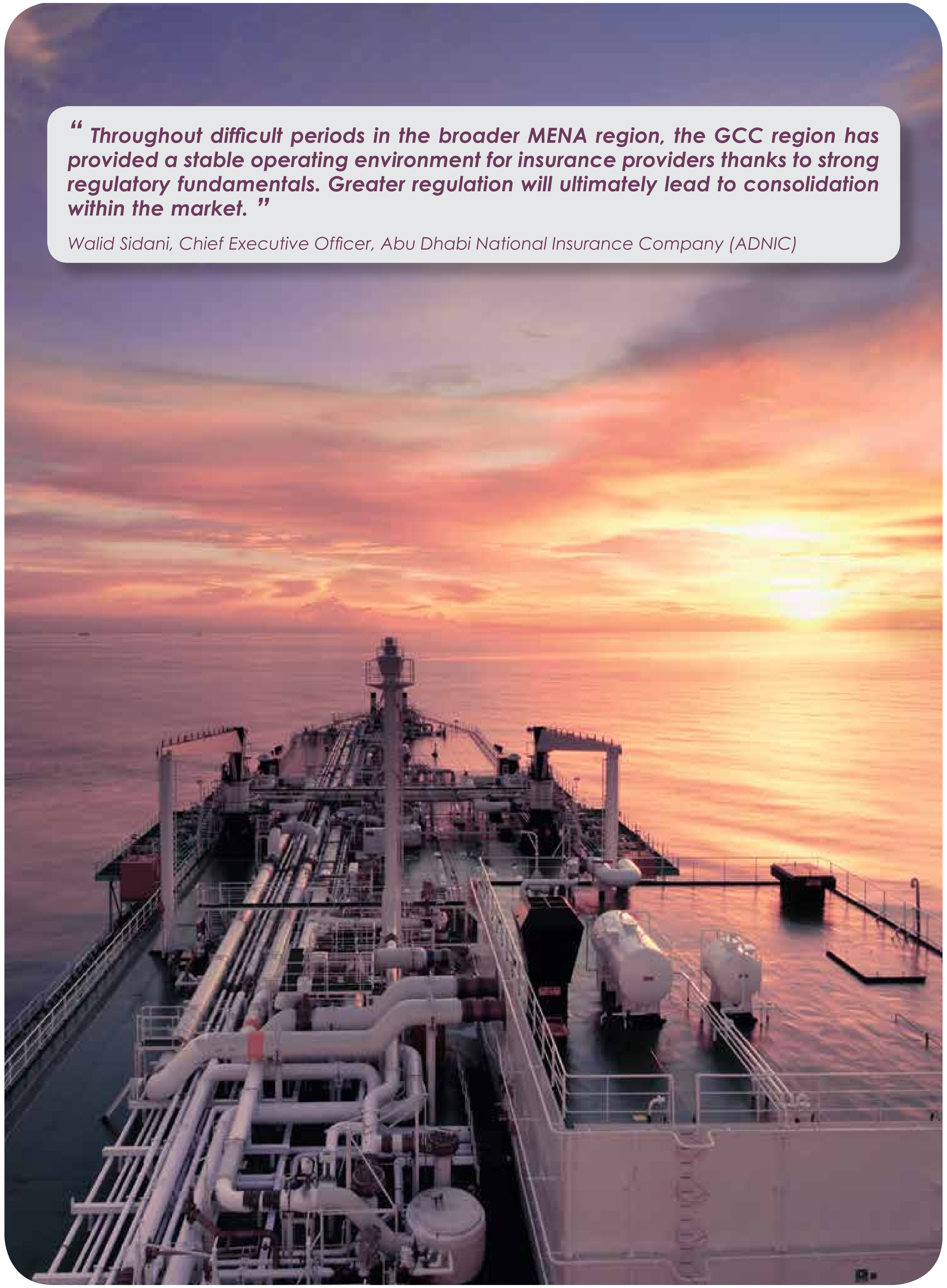


Sources: National Insurance Associations and Supervisory Authorities, S&P, Moody's; for Egypt 2011 data was used.

Chart 7 demonstrates the significant intra-regional differences in market structure, ranging from highly concentrated markets such as Qatar, Egypt, Morocco and Iran to rather fragmented environments such as the UAE. The former reflect strong national champions with a long record of market leadership, the latter are characterized by low barriers to entry.

"Throughout difficult periods in the broader MENA region, the GCC region has provided a stable operating environment for insurance providers thanks to strong regulatory fundamentals. Greater regulation will ultimately lead to consolidation within the market."

Walid Sidani, Chief Executive Officer, Abu Dhabi National Insurance Company (ADNIC)



"Insurance regulations in the region are primitive and need to be more vigorous to accommodate the ever changing insurance market dynamics. For example, we would welcome the introduction of solvency margins that link capital to both premium and liabilities."

Bassam Chilmeran, General Manager, Al Wathba National Insurance Company

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"While rates and investment results are at rock bottom, exposures and claims have increased. In addition, event limits as well as terms and conditions have still not loosened. We are now witnessing that smaller companies can no longer sustain this situation and despite little incentive from regulators, market concentration is expected to increase as mergers and acquisitions are on the horizon."

Imad Abdel Khaleq, Chief Executive Officer, Jordan Insurance Company

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"Micro-insurance and Takaful are two promising approaches to increasing the MENA region's insurance penetration."

Mohamed Khalifa, CEO & Deputy Chairman, Misr Insurance

"When looking at the concept of insurance penetration as a proxy for a market's development, it might be more meaningful to focus on the portion of premiums retained within a country."

Bassam Hussein, Chief Executive Officer, Doha Insurance Company

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"Historically, the region has enjoyed relatively low loss ratios, adding to its attractivteness and fuelling rate competition. Against this backdrop, the market is now under-priced from a technical perspective."

Michael S. Jensen, Head of Commercial Lines, Arabia & North Africa, AIG

"When compared to 10 years ago, construction has taken over from trade as the key driver of commercial insurance in the region."

Sanjeev Badyal, Chief Executive Officer, Dubai, Allianz Global Corporate & Specialty

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"We believe that insurance penetration will continue to increase. Commercial lines benefit from a strong pipeline of infrastructure and construction projects, and personal lines growth is fuelled by compulsory schemes."

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

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"For regional insurance industries to genuinely grow and mature, risk retentions will have to increase. The current model which is closer to the nature of risk trading is not conducive to a sustainable and stable development of MENA insurance markets."

Andreas Pollmann, Client Executive MENA, Munich Re

SURVEY RESULTS

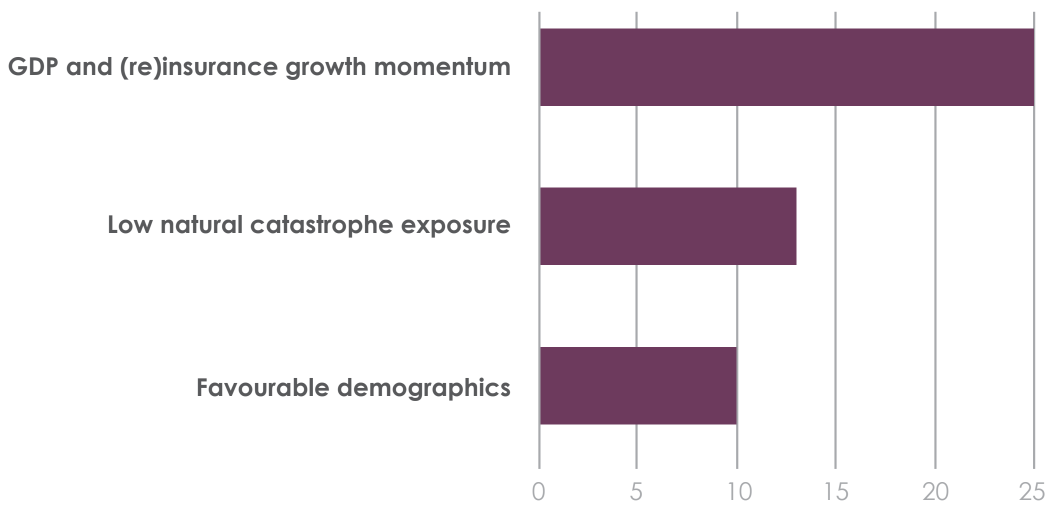
1. THE OVERALL PERSPECTIVE: STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS OF MENA INSURANCE MARKETS

Strengthening fundamentals in the GCC countries; growing political instability in the Levant and North Africa

Growth momentum continues to be key strength

As in 2013, the participants consider the region's strong economic and direct insurance market growth as the most important strength. The second most frequently mentioned strength is a relatively moderate natural catastrophe exposure (in the Gulf region, the Levant and Egypt) leading to comparatively low and stable loss ratios. The region's growing, and increasingly younger population, ranks third, boosting demand for personal lines insurance such as motor, homeowner's property, life and pensions. This strength is further accentuated by a growing influx of expatriate workers into Gulf countries such as Qatar and the UAE (see chart 8). Compared with 2013, the moderate natural catastrophe exposure and favourable demographics have swapped ranks.

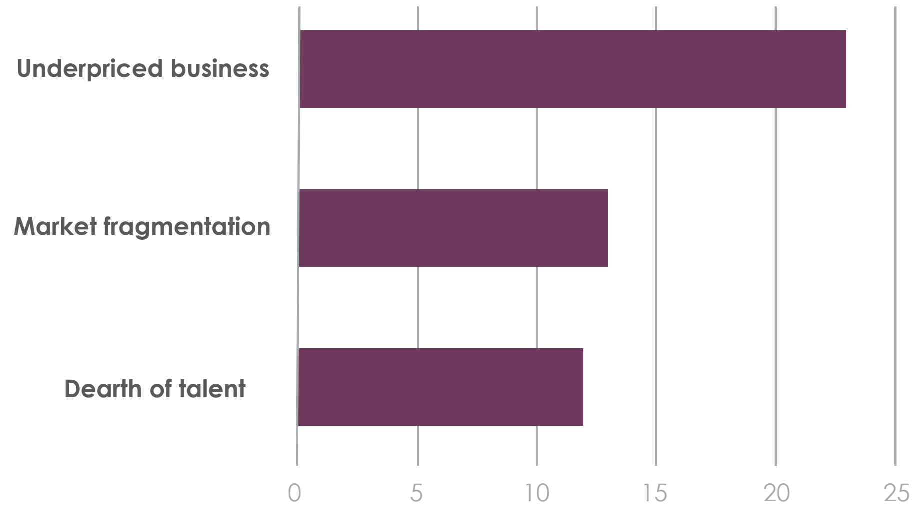
Chart 8: Market strengths (no. of mentions)



Underpriced business viewed as major weakness

Poor levels of technical rates and profitability as a consequence of fierce competition are the most relevant perceived weakness of the MENA insurance marketplace. This result is in line with the findings of the 2013 MENA Insurance Barometer and particularly true for the GCC countries, although less so in North African insurance markets where barriers to entry are considered higher and overall market attractiveness is lower. The high degree of fragmentation ranks second. A large number of relatively small and weakly capitalised insurance companies are jockeying for business. Among these insurers are new entrants supported by brokers. The third most frequently mentioned weakness is a dearth of talent, particularly with shortages of indigenous professionals. This weakness is expected to further gain in importance as the gap between the existing talent base and the pool of expertise required to support rapid premium growth widens (see chart 9). As opposed to the 2013 MENA Insurance Barometer regulatory weaknesses no longer rank among the top three, reflecting significant progress made in countries such as Saudi Arabia and Qatar.

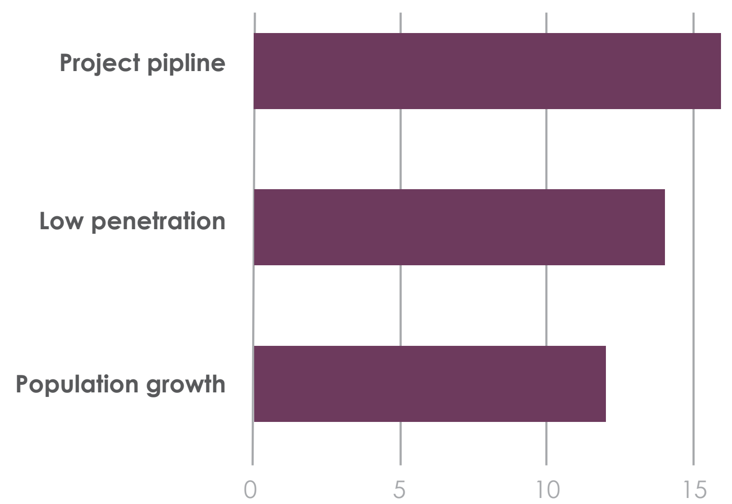
Chart 9: Market weaknesses (no. of mentions)



Strong projects pipeline perceived as most important opportunity

The prospect of major infrastructure and construction projects in the Gulf region ranks highest in terms of market opportunities, up from third place in 2013. In addition to initiatives in Qatar (in the run-up to the 2022 FIFA World Cup) and Saudi Arabia, many respondents point to opportunities offered by Dubai's successful bid for the World Expo 2020. Low penetration levels – the number one opportunity identified in 2013 - are the second most frequently mentioned opportunity. The average share of premiums in the wider MENA's region's GDP is about 1.3%, compared to 6.5% for the world as a whole. As the MENA region's average GDP per capita is similar to the global average, the potential penetration is a multiple of the current one. Population growth, including a continued and accelerating influx of expatriates, ranks third, with personal lines business expected to benefit in particular [see chart 10]. This opportunity did not feature among the top three in the 2013 MENA Insurance Barometer.

Chart 10: Market opportunities (no. of mentions)



“ Commercial lines rates will benefit from most reinsurers’ tougher stance towards cedants’ co-insurance / facultative inward business. ”

Dr Chérif Chentir, CUO Middle East & South Eastern Europe, SCOR SE

“ Most recently, we have witnessed an increasing frequency and severity of losses in commercial lines. This development needs to be reflected both in pricing and risk management on the primary side. ”

Mahomed Akoob, Managing Director, Hannover ReTakaful

“ Natural catastrophe exposure continues to be underestimated in large parts of the MENA region. A lack of building codes in exposed areas, insufficient accumulation control and a lack of coherent risk analysis create a significant level of vulnerability for insurers and policyholders alike. ”

Yassir Albaharna, Chief Executive Officer, Arig

“ Following the Arab Spring, the MENA region has grown significantly more heterogeneous in terms of political stability, social development and economic growth. Against this backdrop, it is increasingly difficult to speak about one ‘MENA insurance market. ”

Omar Gouda, Head Northeast Africa & Middle East, Africa Re

“ There is an urgent need for more consistency and homogeneity among the regulatory frameworks in the region. In the current fragmented regulatory environment it is very difficult for regional insurers to reap economies of scale from their cross-border activities. ”

Farid Chedid, Chairman & CEO, Chedid Re and CEO, SEIB Insurance & Reinsurance

“ We expect Takaful insurance to outgrow the conventional market. Customers are particularly attracted by the prospect of refunds, ie the possibility to benefit from positive claims experience. ”

Tarek A. Hayel Saeed, Chief Executive Officer, Yemen, United Insurance Company

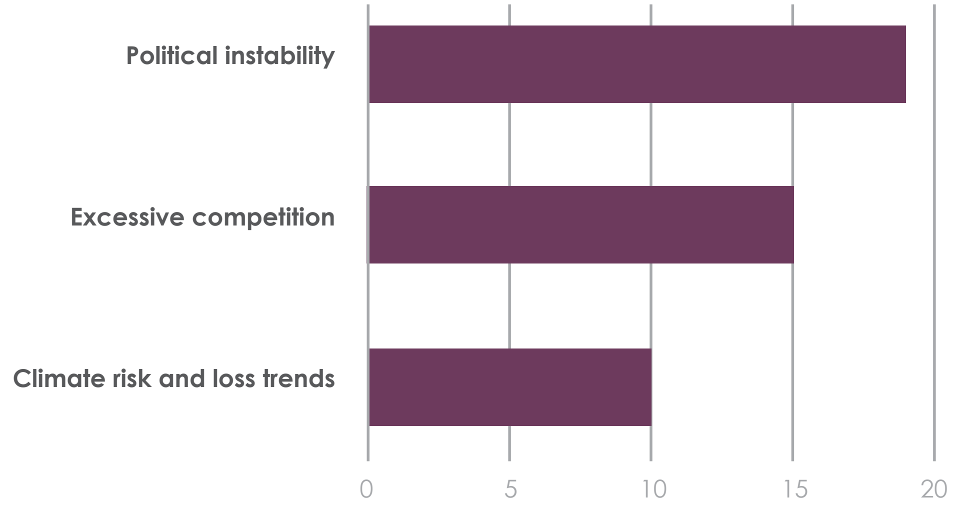
“ The dearth of local talent is a major weakness of the marketplace. It cannot be offset by expatriates who generally move on after a few years. The sustainable development of local insurance markets requires an appropriate local talent base. ”

Sanjeev Badyal, CEO, Dubai, Allianz Global Corporate & Specialty

Political risk continues to top list of challenges

Most respondents consider political instability as the most relevant threat to their operating environment. The second most frequently mentioned risk factor is the potentially destabilising effect of fierce competition which a number of interviewees refer to as irrational. Specific concerns include a destruction of capital and the spectre of corporate failures which could dent policyholders’ confidence in the insurance industry as a whole. An increased frequency of weather-related insured losses (from floods in particular) ranks third, after having received very few mentions in 2013. This concern reflects most recent loss patterns (see chart 11).

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



“ The region’s primary insurance markets are generally profitable with attractive loss ratios and only marginal catastrophe exposure. However, major weaknesses such as a lack of local talent, low retentions, fragmented markets and underdeveloped Enterprise Risk Management and corporate governance frameworks need to be addressed collectively and as a priority. ”

Ashraf Bseisu, Group Chief Executive, Solidarity Group Holding

2. GENERAL INSURANCE MARKET STATUS AND OUTLOOK

Continued strong market growth and slightly improving pricing outlook

Low commercial insurance rates and average prices in personal lines

The Barometer found that 84% (as compared with 91% a year ago) of those interviewed view current prices in MENA commercial lines business as being below the average of the past five years. Competition remains fierce, reflecting the continuing abundant supply of reinsurance and the increasing relevance of brokers. However, internationally quoted transactions are considerably more attractively priced than local (co-insurance) deals. In general, rates in North Africa, the Levant and Turkey are viewed as being more adequate than in the Gulf region where competition and pricing pressure are further fuelled by widespread tendering requirements for public projects.

Participants judge personal lines business more favourably, with 61% saying that premium rates are at average levels, against 45% a year ago. In comparison with commercial insurance, personal lines business is characterised by a smaller number of players, higher barriers to entry, greater customer loyalty and, as a result, more scope for upward rate adjustments. In addition, non-price competition, e.g. through distribution or services, plays a significant role (see charts 12 and 13).

Chart 12: Current level of rates - Commercial lines

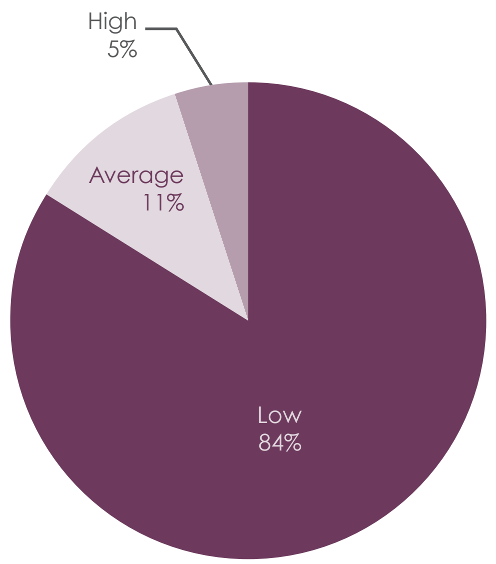
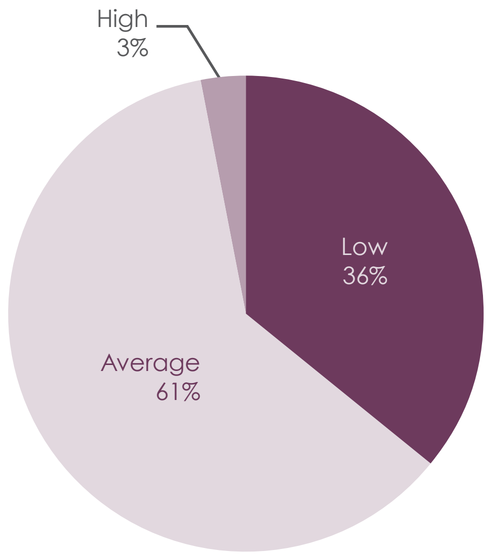


Chart 13: Current level of rates - Personal lines



“ The increasing global availability of alternative reinsurance capital could indirectly affect the MENA region as more traditional reinsurance capacity is allocated to our part of the world. This effect would further heighten competitive pressures, in particular in commercial lines insurance. ”

Robert Makhoul, Chief Executive Officer MENA, Marsh

“ Most insurers in the region are focused on top-line growth. Therefore, margins keep deteriorating and many companies are actually destroying value.”

Farid Chedid, Chairman & CEO, Chedid Re and CEO, SEIB Insurance & Reinsurance

“ Our sector lags behind in terms of education, product development and branding. As a consequence, I predict the MENA region’s insurance industry to perform below its potential and only grow in line with GDP. ”

Ewen McRobbie, Chief Executive Officer, QIC International

“ With the emergence of shale gas and oil, economic diversification away from the hydrocarbon sector becomes an even more urgent imperative for regional governments. The ongoing shift in the economies’ structure presents major opportunities to insurers and reinsurers. ”

George Oommen, CEO & General Representative MENA, Generali

Broadly stable but improving pricing outlook

The majority of the respondents expect rates to remain flat over the next 12 months, in particular for personal lines. About a quarter of executives polled anticipate higher rates in both commercial and personal lines. As far as commercial insurance is concerned, the assessment is similar to last year’s. Upward pressure on rates seems more likely in the non-GCC markets and is generally attributed to less accommodating treaty reinsurers, higher claims and increasing operating expenses. In contrast, the share of those expecting a hardening in personal lines has increased from 19% to 27%. This more positive outlook is based on tightening regulatory oversight of personal lines business (e.g. in Saudi Arabia where appointed actuaries are expected to strengthen underwriting discipline) and the emergence of additional compulsory schemes which, at least temporarily, create a sellers’ market (see charts 14 and 15).

Chart 14: Pricing outlook - Commercial lines

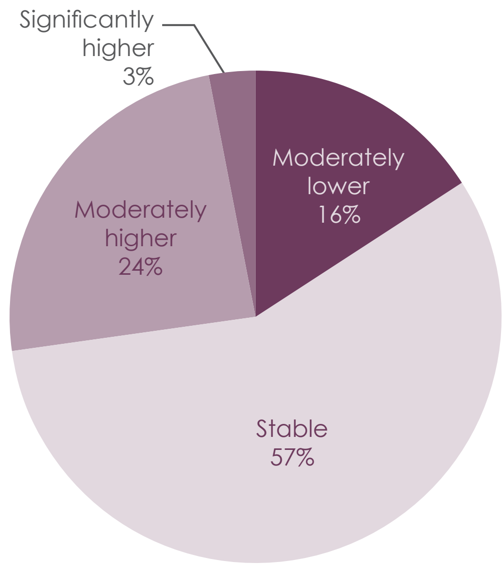
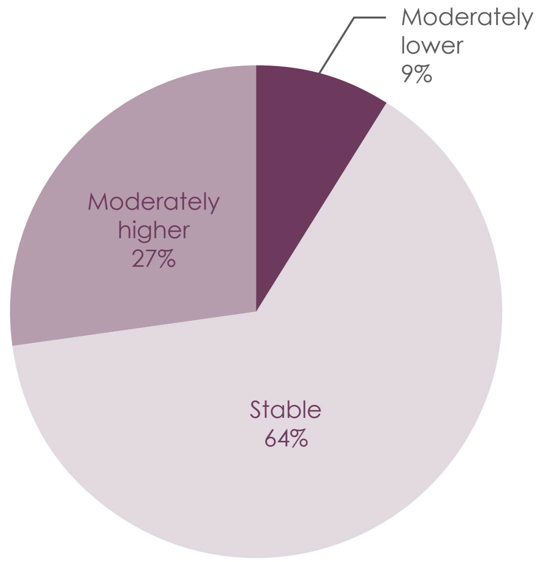


Chart 15: Pricing outlook - Personal lines



Profitability weighed down by low rates and increasing losses

The survey found that 62% of respondents consider overall profitability in commercial lines to be low (benchmarked against the past five years), virtually unchanged from last year. This assessment is primarily a result of depressed levels of premium rates in combination with a higher frequency of relatively large losses (including weather-related losses, such as flooding) and rising costs of doing business. The non-Gulf markets are considered more profitable because of relatively mature regulatory and risk management frameworks.

Personal lines business is viewed as considerably more profitable, with 67% of executives polled describing profitability as average, slightly up from last year's 61%. For the reasons given above, price competition in personal lines is less severe than in commercial insurance business.

In general, compared with rates, the profitability picture looks brighter as most companies still generate reasonably decent underwriting results, enjoy relatively generous commission income from reinsurers and benefit from improving investment returns (see charts 16 and 17).

Chart 16: Current level of profitability - Commercial lines

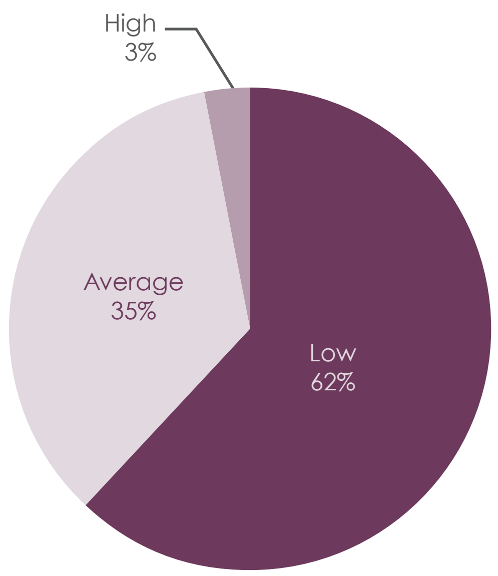
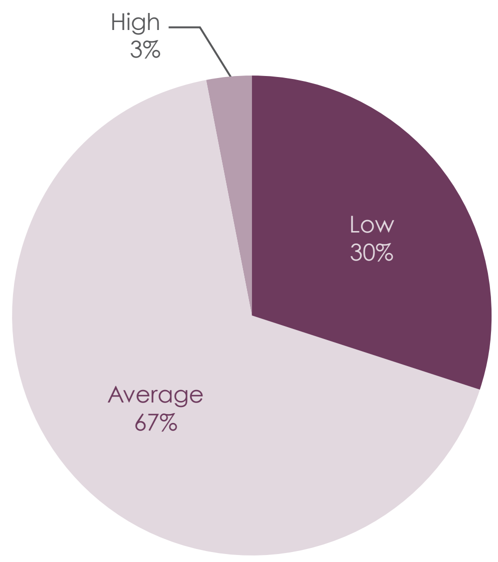


Chart 17: Current level of profitability - Personal lines



> ***"** Given their strength of brands, experience and access to large resources, it is natural to expect that the market share of international insurers should be rising. However, competition remains fierce, in particular from domestic players. As a result, I don't expect the market shares of the international or domestic insurers to change much. **"***
>
> *Rainer Lehner, Senior Executive Officer, UAE, Asia Capital Re*

> ***"** Natural perils are becoming more frequent in the Gulf region, leading to higher attritional loss ratios. Societies need to strengthen their resilience, e.g. through tighter building codes and construction standards. For insurers and reinsurers, it is no longer feasible to give away catastrophe protection for free. **"***
>
> *Guido Zagatti, Senior Reinsurance Manager MENA, Generali*

Stable outlook for profitability

The majority of participants do not expect major changes to the industry's profit margins over the next 12 months. The assessments for commercial and personal lines are virtually identical, with upside and downside risk equally distributed. Encouraging developments such as recovering investment markets, a tighter regulatory oversight and improving risk management practices are offset by concerns about an increasing frequency of losses and rising operating expenses (see charts 18 and 19).

Chart 18: Outlook profitability - Commercial lines

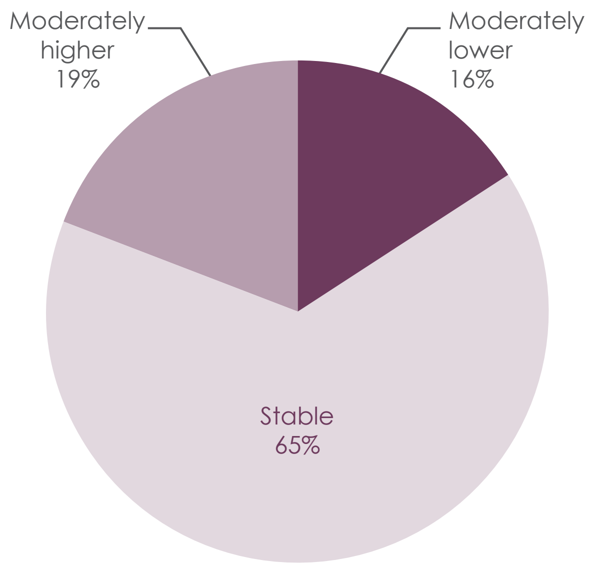
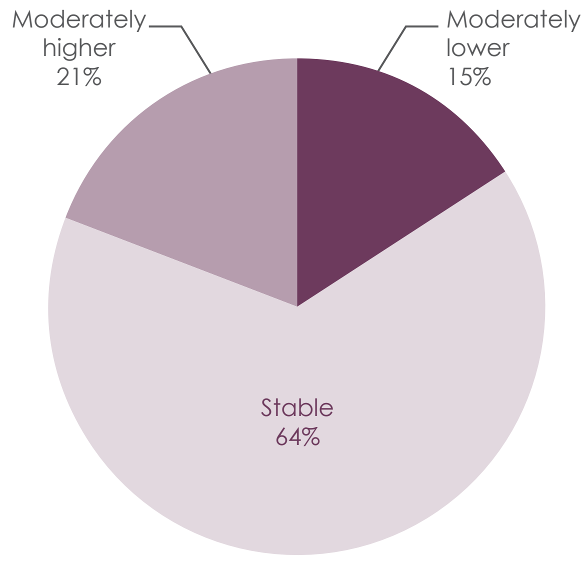
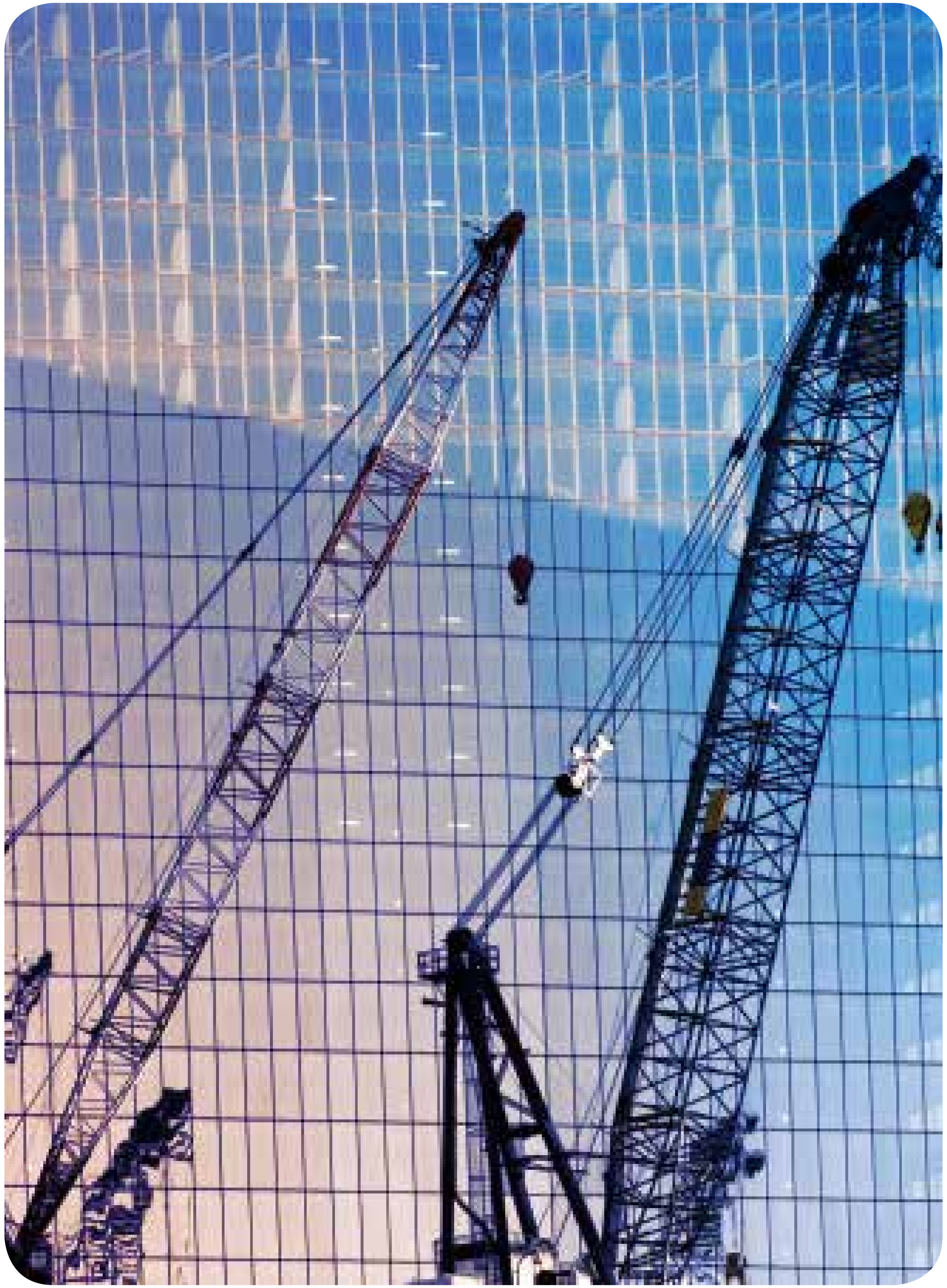


Chart 19: Outlook profitability - Personal lines



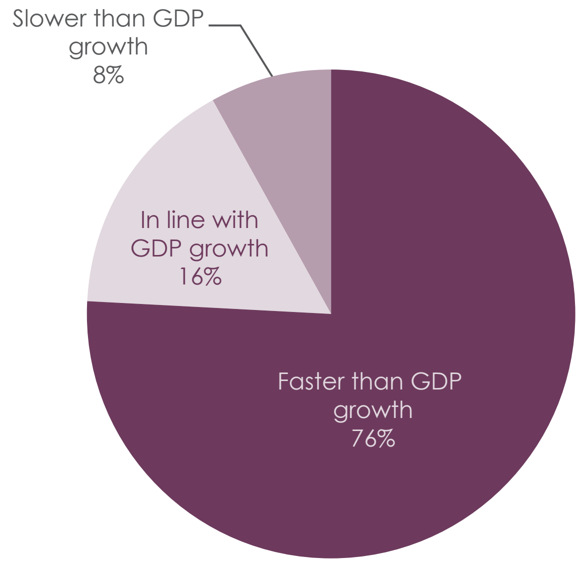
> ***"** Our market outlook for personal lines is slightly more favourable than for commercial lines as additional compulsory insurance requirements (e.g. health insurance in Dubai) will have an impact on the market in the short term. **"***
>
> *Walid Sidani, Chief Executive Officer, Abu Dhabi National Insurance Company (ADNIC)*
>
> ***"** Although some classes deserve a higher rating, aggressive competition compels insurers to hold the rates flat, at best. Rates have seen a downward trend in recent years and any further fall will be unsustainable. **"***
>
> *Sai Gopal, Chief Underwriting Officer, Bahrain Kuwait Insurance*



Insurance penetration expected to increase

Over the next 12 months, 76% of the survey respondents expect insurance premiums in the MENA region to grow at a faster pace than regional GDP, up from 68% in 2013. This outcome reflects a more bullish outlook for personal lines which are set to benefit from additional compulsory insurance requirements as well as advances in distribution (e.g. bancassurance). In addition, a strong pipeline of additional major construction and infrastructure projects underpins the anticipated increase in insurance penetration. Survey participants were particularly optimistic for the Gulf region and Turkey, whereas the Levant and Northern Africa are expected to be held back by political instability and relatively more mature market conditions. The less bullish executives point to a widening gap between exposure and premium growth, primarily because of pricing pressures (see chart 20).

Chart 20: Expected premium growth versus GDP growth



> *" Population growth in general, and expanding middle classes in particular, augur well for sustained growth in personal lines such as medical, motor and life. "*
>
> *Chakib Abouzaid, Group Chief Marketing Officer, GroupMed*

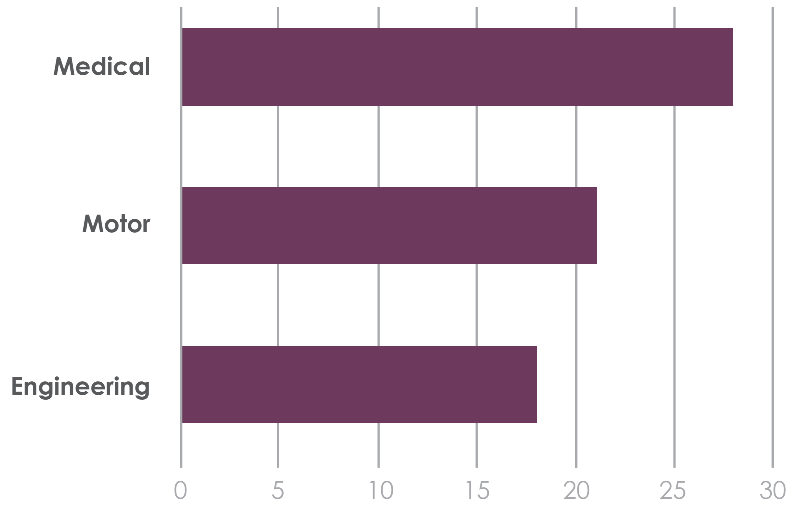
> *" MENA investors must challenge the validity of any proposed business plan before venturing into the insurance and reinsurance industry. "*
>
> *Basma Barakat, Assistant General Manager, Arab Re*

3. LINES OF BUSINESS-SPECIFIC PROSPECTS

Over the next 12 months, medical insurance is expected to be the fastest growing line of business in the MENA region, mirroring the results of last year's Insurance Barometer. Growth continues to be fuelled by compulsory insurance requirements which, for example, have made medical insurance the biggest line of business in Saudi Arabia. New compulsory regimes are also being implemented in other jurisdictions, for example in Qatar and Dubai. In addition, medical insurance is becoming more important as a fringe benefit in the competition for talent.

As in 2013, motor business ranks second, driven by a combination of compulsory insurance requirements and a continued influx of expatriates. Engineering is the third most frequently mentioned line of business when it comes to short-term growth prospects, reflecting major infrastructure and construction projects in Saudi Arabia, Qatar and a rebound of activities in the UAE (see chart 21).

Chart 21: The fastest-growing lines of business (no. of mentions)

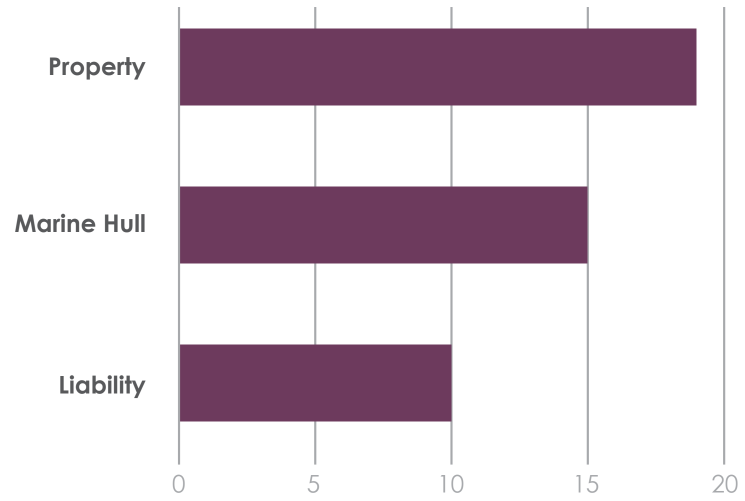


> *" Similar to the other GCC countries, the Oman insurance market benefits from a dynamic economic environment, a young population and political stability. However, a key concern is the insufficient pricing of the risk, especially given the natural catastrophe exposures. Under these circumstances reinsurers may not find the market attractive if a major event were to happen again. "*
>
> *Ravi Shankar, CEO, Oman United Insurance Company*

> *" The health (re-)insurance business has developed into an exciting but also highly challenging line of business in the region. It offers significant opportunities for (re-)insurers with the right strategy, expertise and technical approach. "*
>
> *Dr Frank Mayer, Chief Executive Officer, Munich Re Underwriting Agents (DIFC)*

As far as the slowest growing lines are concerned, property business was mentioned most frequently, mainly attributable to rock-bottom premium rates. Marine hull insurance ranks second, reflecting the lower importance of international trade as an engine of regional economic growth and the absence of large commercial fleets. Liability insurance is the third most frequently mentioned line as awareness remains low, despite an increasing frequency of court awards (see chart 22). The overall ranking of lines has not changed compared with the 2013 Insurance Barometer.

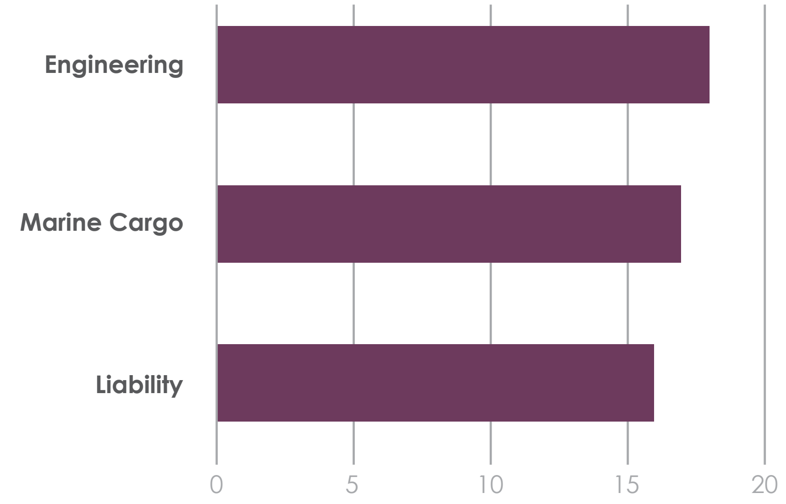
Chart 22: The slowest-growing lines of business (no. of mentions)



> *" Bancassurance is a major driver of insurance demand in the MENA region. On the one hand, banks gain in importance as cost-efficient distribution outlets. On the other, insurance products tied to mortgages or personal loans, for example, are experiencing rapid growth. "*
>
> *Fateh Bekdache, Vice Chairman & General Manager, AROPE Insurance*

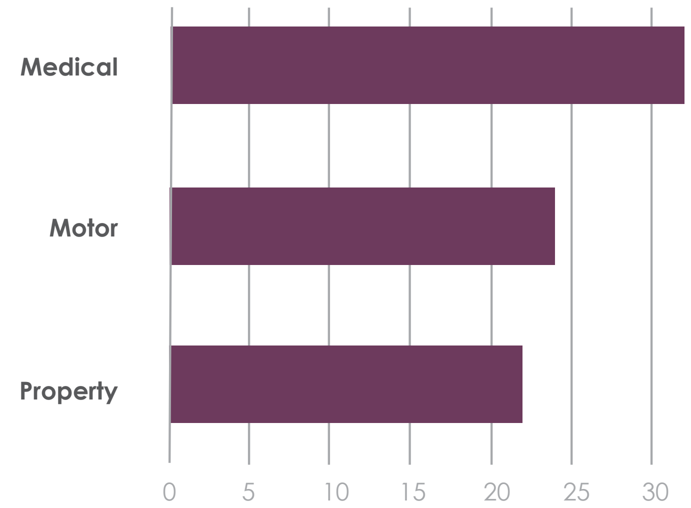
Over the next 12 months the survey respondents consider engineering as the most profitable line of business, reflecting relatively high barriers to entry and generally high standards of construction. Marine cargo and liability was considered the next profitable line of business, due to a relatively small number of providers and low levels of litigation, respectively (see chart 23). Again, the ranking is unchanged compared with 2013.

Chart 23: The most profitable lines of business (no. of mentions)



Medical business is considered the least profitable area. Claims inflation continues to rise, mainly because there is no effective control of private medical service providers. Motor business is the next most frequently mentioned line, as new players (including Takaful companies) continue to enter the market and the scope for risk selection and risk-based pricing in this compulsory line is limited. Medical and motor business swapped ranks as compared with the 2013 Barometer. As last year, property ranks third, as a result of fierce competition, low barriers to entry and plentiful reinsurance capacity (see chart 24).

Chart 24: The least profitable lines of business (no. of mentions)



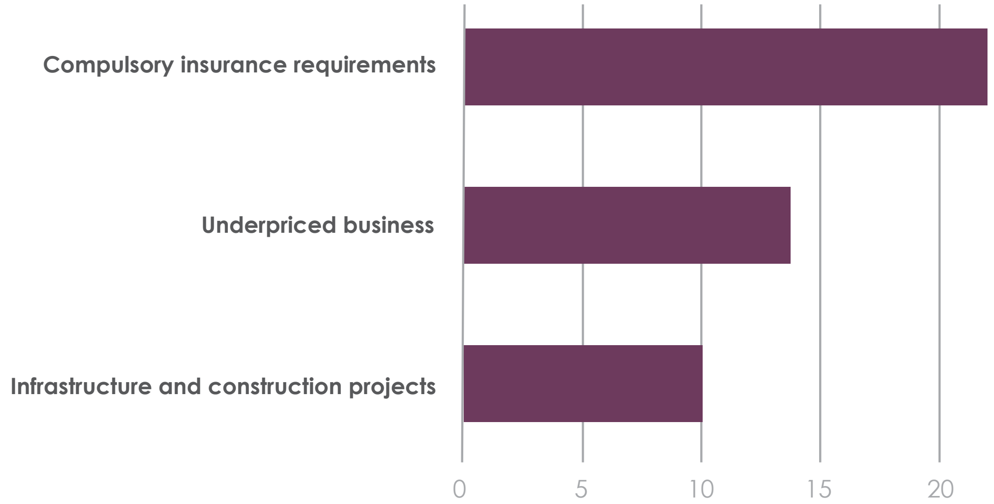
4. KEY MARKET TRENDS AND DRIVERS

Governments continue to drive insurance demand

As in 2013, governments are expected to be the main driver of insurance demand and awareness by implementing compulsory insurance schemes and funding new major infrastructure projects. This is particularly true for the Gulf region. In general, voluntary insurance demand remains comparatively weak, not only in retail business, where social security systems remain generous, but also in commercial lines where insurance is frequently bought primarily because of contractual requirements.

Bancassurance is the third most frequently mentioned driver, although it did not even feature among the top three in 2013. Loan and mortgage growth is robust throughout the region and banks increasingly put pressure on their customers to take out cover such as life insurance (chart 25). Against this backdrop, banks and insurers are strengthening their collaboration. Lebanon, one of the region's most mature insurance markets, is a forerunner in this respect.

Chart 25: Main drivers of insurance demand (no. of mentions)



> *" Given the lack of local talent we have set up our own academy to develop indigenous professionals and help localise our workforce. "*
>
> *Robert Makhoul, Chief Executive Officer MENA, Marsh*

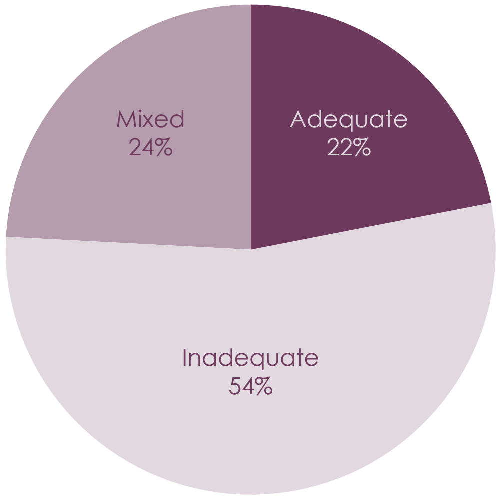
> *" Regulators should think of imposing actuarially founded minimum rates to promote market discipline and overall stability. "*
>
> *Dr Chérif Chentir, CUO Middle East & South Eastern Europe, SCOR SE*

Insurance regulations still considered inadequate

The Barometer found that 54% of respondents believe the overall state of insurance regulation in the region to be inadequate, virtually unchanged from the previous survey. The most frequently mentioned shortcomings include a lack of solvency margins, not to mention risk-based solvency rules, insufficient minimum capital requirements as well as a general lack of cohesion, transparency, consultation and implementation. In addition, regulations on insurers' investments and reserving practices are deemed inadequate. An increasing number of the executives surveyed also express concern about the absence of effective broker regulations, given the increasing role of intermediaries and their perceived contribution to price competition. However, most interviewees agree that regulatory developments are headed in the right direction as supervisory authorities are stepping up their game, e.g. by recruiting more qualified staff and/or establishing integrated regulatory bodies.

In general, the region displays significant differences in regulatory sophistication, ranging from relatively effective and sophisticated regimes in Bahrain, Jordan, Morocco (coming close to Solvency II) and Saudi Arabia, to rudimentary and/or insufficiently enforced frameworks in a number of Gulf countries that even fall short of Solvency I (see chart 26).

Chart 26: State of insurance regulations



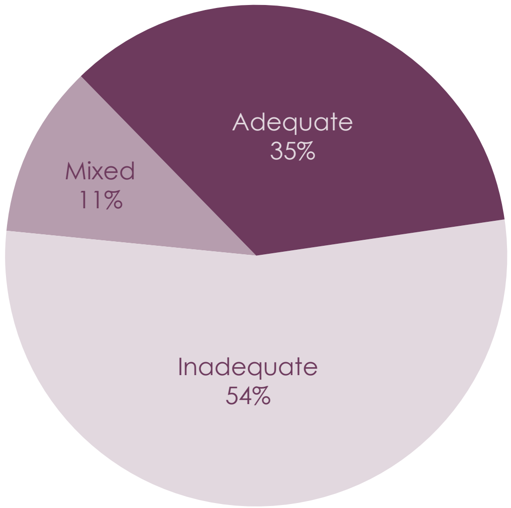
> *" In most GCC countries insurance regulations still lack maturity and uniformity. This is also a major impediment to local companies pursuing regional expansion strategies. "*
>
> *Nagib Bahous, Chief Executive Officer, MIG Holding*

> *" The regulatory environment is improving but more needs to be done to ensure the overall quality and stability of insurance markets. One specific area to look at is minimum capital requirements. "*
>
> *Mohamed Khalifa, CEO & Deputy Chairman, Misr Insurance*

Growing awareness of natural catastrophe exposure

The Barometer found that 54% of participants believe that levels of natural catastrophe protection, both in personal and commercial lines, are inadequate, down from 71% in the previous year. Exposure to cyclones, floods and other natural perils tend to be underestimated, primarily in the GCC region where there is a lack of major historical loss events and respective data and, as a consequence, a shortage of quantitative models and rating tools. The trend, however, is positive as awareness of increasing climate risk and risk accumulation strengthens. In addition, the massive reduction of event limits by reinsurers will raise direct insurers' (and ultimately policyholders') awareness of natural catastrophe exposure. North Africa and Turkey, which runs the world's fifth largest earthquake pool, are viewed more favourably in terms of coverage adequacy and awareness, not least because of significant earthquake exposure (chart 27).

Chart 27: Level of natural catastrophe protection



"Awareness of risks such as fire, earthquake and flooding is gradually improving in the region. This trend will be a major driver of insurance demand going forward."

Fareed Lutfi, Group Director Insurance Services, Dubai Holding

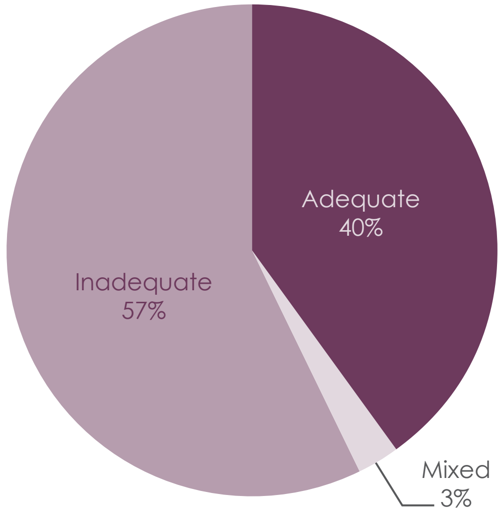
"There is still a widely held belief that the MENA Region is not exposed to catastrophic events except in some countries like Iran and Algeria which are exposed to earthquake risk. It is true that the frequency and the severity have been very low, but the number of cat events is increasing."

Gökhan Aktas, Head of Foreign Inward Business, Milli Re

Political risk with perceived mismatch between supply and demand

57% of executives polled consider the level of insurance protection against political risk in the MENA region as inadequate, compared with 67% in 2013. Despite the Arab Spring being a catalyst and eye-opener for political risk insurance, the market remains of marginal size as too little cover is actually bought. This state of affairs is also attributable to supply side factors. Some of the executives polled bemoan that reinsurers and specialist insurers are reluctant to provide adequate (treaty) protection. In addition, rates are frequently deemed 'unaffordable' (chart 28).

Chart 28: Level of political risk protection



"Clearly, the lack of risk retention is a weakness in the market place. Low retentions demonstrate a weak alignment of interests between insurers and reinsurers. They also highlight a flawed business model because insurers could provide more value to their clients and investors, if they would maintain a higher share of the risk - rather than passing a large part of it on to their reinsurers."

Edward Melvin, Chief Underwriting Officer, Saudi Re

"The regulatory environment in the MENA region is still fragmented. This has little impact on plain vanilla products. But for specialist products it becomes difficult to trade across the region and generate the necessary scale for efficiency gains."

Khalil Eid, Senior Executive Officer, QBE Insurance (Europe) Limited (Dubai Branch)

"In order to make a real difference in the MENA region, Takaful players need to be more creative in developing genuine Takaful products, for which there is demand in the market. There are encouraging success stories in other parts of the Muslim world, e.g. in Malaysia, which should be studied carefully."

Bassam Chilmeran, General Manager, Al Wathba National Insurance Company

"Today, many insured (property) losses in the MENA region are total losses. In order to rectify this situation, the underlying notion of underwriting risk needs to evolve: From a primarily quantity-driven view to more emphasis on the quality of risk."

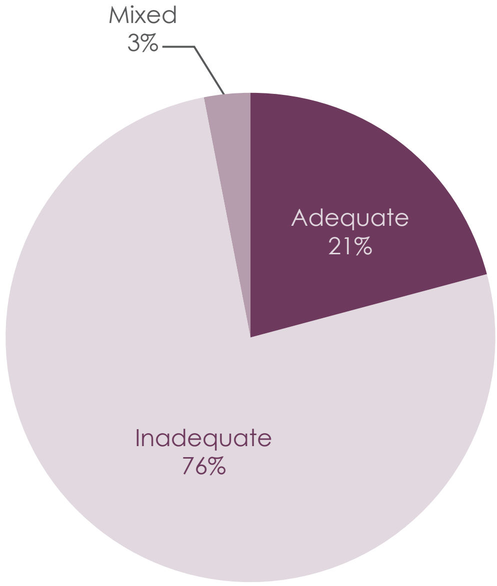
Salvatore Orlando, Head of High Growth Markets, PartnerRe

Thin base of local talent

As in 2013, three out of four respondents believe that local technical skills are inadequate, resulting in a reliance on expatriate staff, which most interviewees do not consider sustainable (see chart 29). Some executives say that insurers themselves are to blame for this situation as they generally fail to nurture local talent and invest in the development of management, and there are even calls for regulators to put pressure on boards to do so in future. In addition, some blame the industry's overall poor public image for the failure to attract qualified local staff and to compete more effectively with governments and banks. The latter are seen as more 'glamorous' and profitable.

The state of local technical skills is another powerful illustration of the region's diversity. Whereas the situation in Turkey, the Levant and some North African countries is judged relatively favourably, the dearth of local talent is particularly acute in the Gulf region (except for Bahrain), with further pressure coming from various workforce localisation requirements.

Chart 29: State of local technical skills



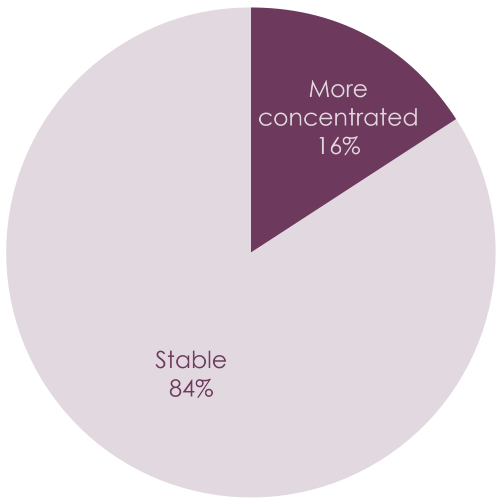
> *" Banks are a major driver of insurance demand in Turkey. They increasingly make loans conditional upon insurance coverage. "*
>
> *Eray Türker, Assistant General Manager, Türker Brokers*

> *" We consider the Financial Regulations Draft Rulebook in the UAE an impressive effort that will propel insurance legislation in the Gulf region's largest insurance market into the 21st century. "*
>
> *James Portelli, General Manager, United Insurance Company*

Further reduced pressure for consolidation

The survey found that only 16% of respondents expect market concentration to increase over the next 12 months, sharply down from 36% a year ago. Domestic insurers remain relatively well capitalised, benefiting from the recent recovery of investment markets. In addition, family owners are reluctant to engage in mergers and acquisition, which is viewed as the biggest single structural obstacle to market consolidation (see chart 30).

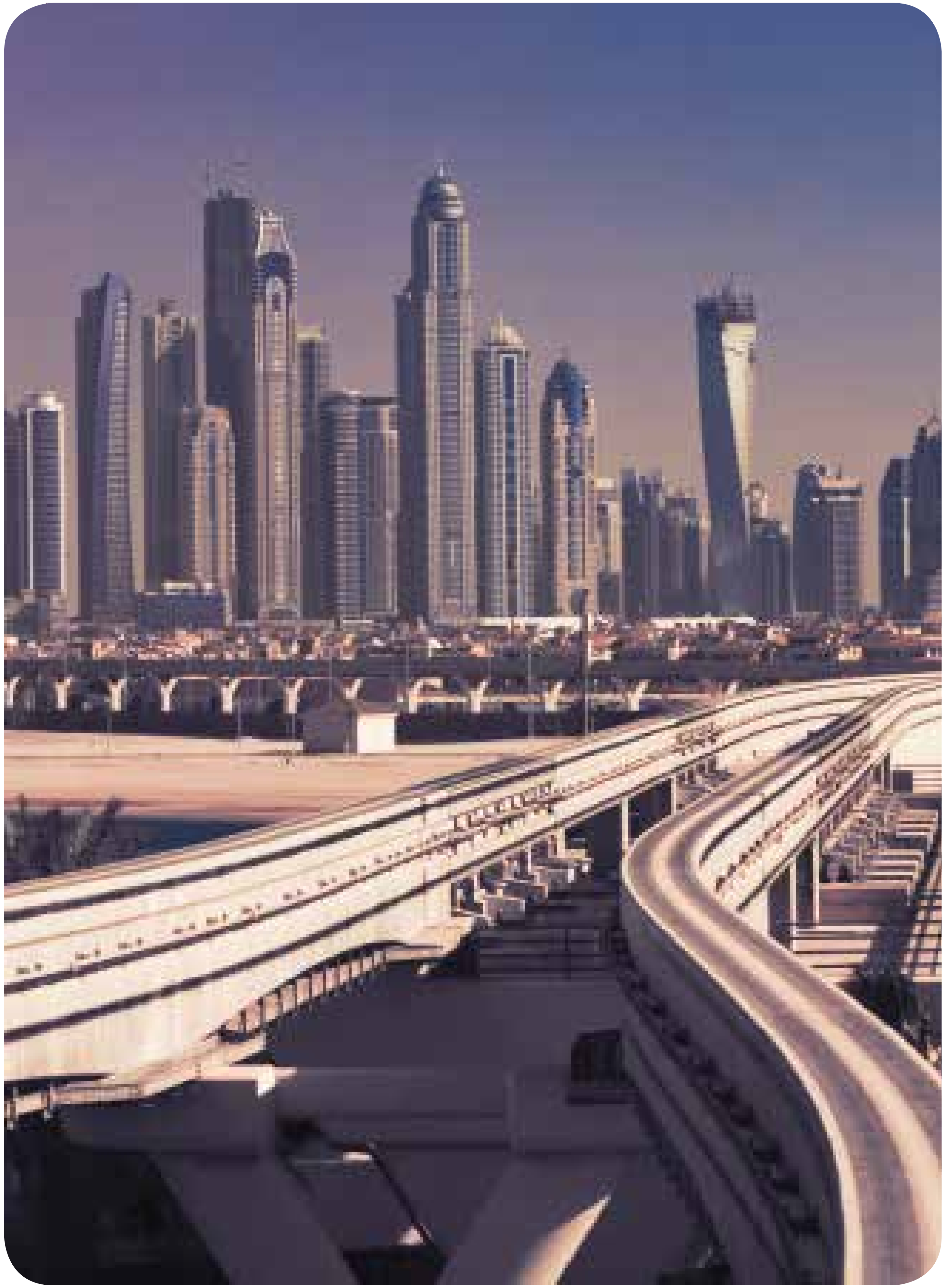
Chart 30: State of local technical skills



> *" Short-term, we do not expect a wave of industry consolidation. However, local insurers could see (higher) equity participations from foreign companies. "*
>
> *Mahomed Akoob, Managing Director, Hannover ReTakaful*

> *" I do not expect rates to return to a sound and sustainable level unless regulators and/or reinsurers put more pressure on insurance companies. "*
>
> *Fady Shammas, Board Member and former CEO, Arabia Insurance Company*

> *" There are some markets in the Middle East with more than 30 companies sharing US$ 400-500 million in premiums. Although there are some very good companies with a strong capital base, the market needs consolidation to become more robust. "*
>
> *Gökhan Aktas, Head of Foreign Inward Business, Milli Re*

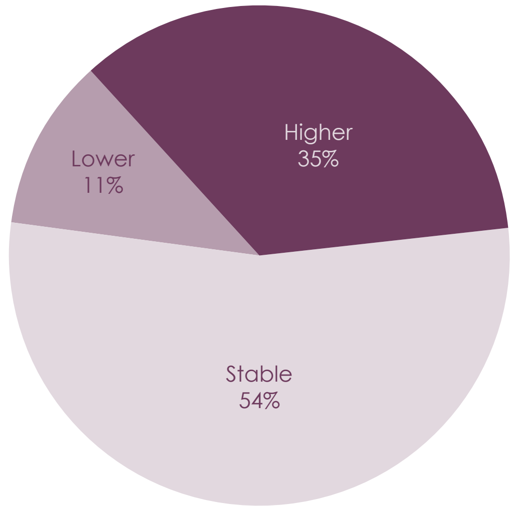


Stable foreign market share

The Barometer found that only 35% of respondents expect non-MENA-based insurers to gain market share over the next 12 months, down from 50% in 2013. Those that anticipate an increasing share of foreign players point to their superior financial security, technical expertise, customer focus and distribution know-how. In addition, the rapidly growing expatriate community tends to prefer to deal with insurers from their home countries.

The growing number of survey respondents that expect a stagnation or even erosion of foreign insurers' market share highlight the significant losses recently suffered by some global insurers operating in the region. 'They are licking their wounds', as one executive put it. Other participants suggest that global players struggle to keep pace with the strong expansion of personal lines in the MENA region (see chart 31).

Chart 31: Outlook for foreign market share



"The risk aversion of local insurers remains a major impediment to a sound and sustainable growth trajectory for MENA insurance markets."

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

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"The MENA reinsurance market is currently still a buyers' market. However, we observe the supply of highly rated reinsurance capacity is diminishing as margins are increasingly unattractive. Ultimately, this retrenchment of top-tier capacity is expected to translate into consolidation and more disciplined primary market behaviour."

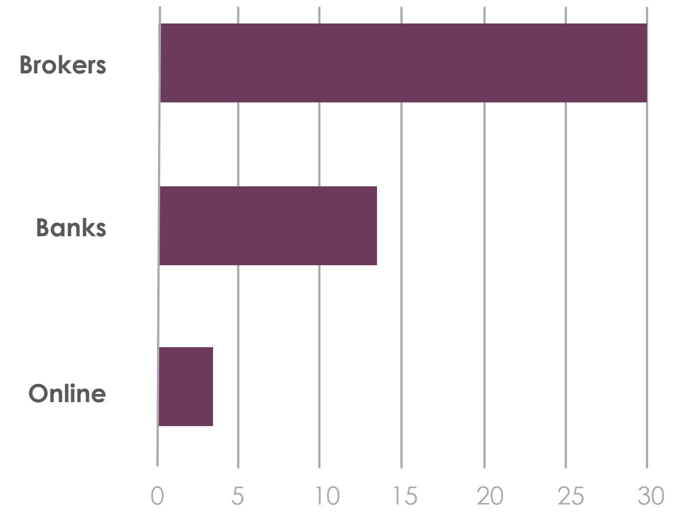
Andreas Pollmann, Client Executive MENA, Munich Re

Brokers continue to gain in importance

Intermediaries are expected to be the fastest growing distribution channel over the next 12 months, overtaking banks as compared with the 2013 Barometer. Brokers are believed to benefit from the growing complexity of cover and increasing need for expert advice going beyond a purely transactional role. In general, they are now widely accepted as a distribution channel, for example in Saudi Arabia where their estimated market share has grown from 30% to 70% over the past 10 years. In addition to commercial lines, brokers are also broadening their footprint in personal lines business.

Banks rank second and are expected to capture a disproportionate share of rapidly growing life insurance sales (not just in the GCC countries but also in Turkey and North Africa). By a wide margin, online distribution is the third most frequently mentioned distribution channel. It is believed to have significant potential given the region's young and increasingly internet-savvy population but is still held back by legislative and regulatory restrictions (see chart 32).

Chart 32: Fastest growing distribution channels (no. of mentions)



> *“ A growing number of Takaful insurers are now starting to focus on profitability rather than market share. This shift in strategy could result in slower premium growth and some consolidation. ”*
>
> *Michael S. Jensen, Head of Commercial Lines, Arabia & North Africa, AIG*

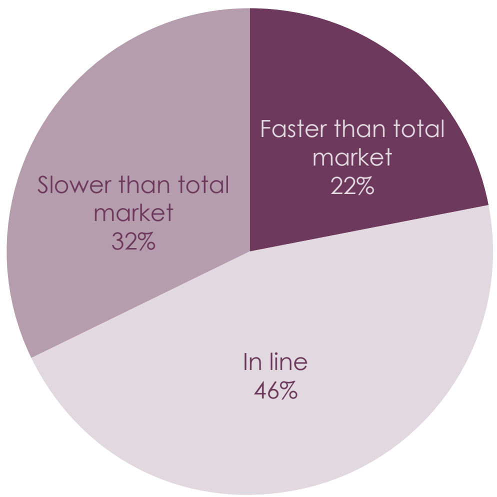
Deteriorating outlook for Takaful insurance

78% of respondents expect the Takaful market to grow in line with, or at a slower pace than, the insurance market in general, as compared with 62% a year ago. The share of those expecting slower growth has almost doubled from 18% to 32%.

Given its profitability record, most respondents expect a wave of consolidation to reshape the Takaful sector. Many executives feel that Takaful offers no genuine differentiation and does not even live up to the concept of mutuality given conflicting interests of policyholders and shareholders. However, most survey participants seem to agree that the principle of Takaful, if applied properly, is valid and promising, as demonstrated, for example, by some Asian markets such as Malaysia.

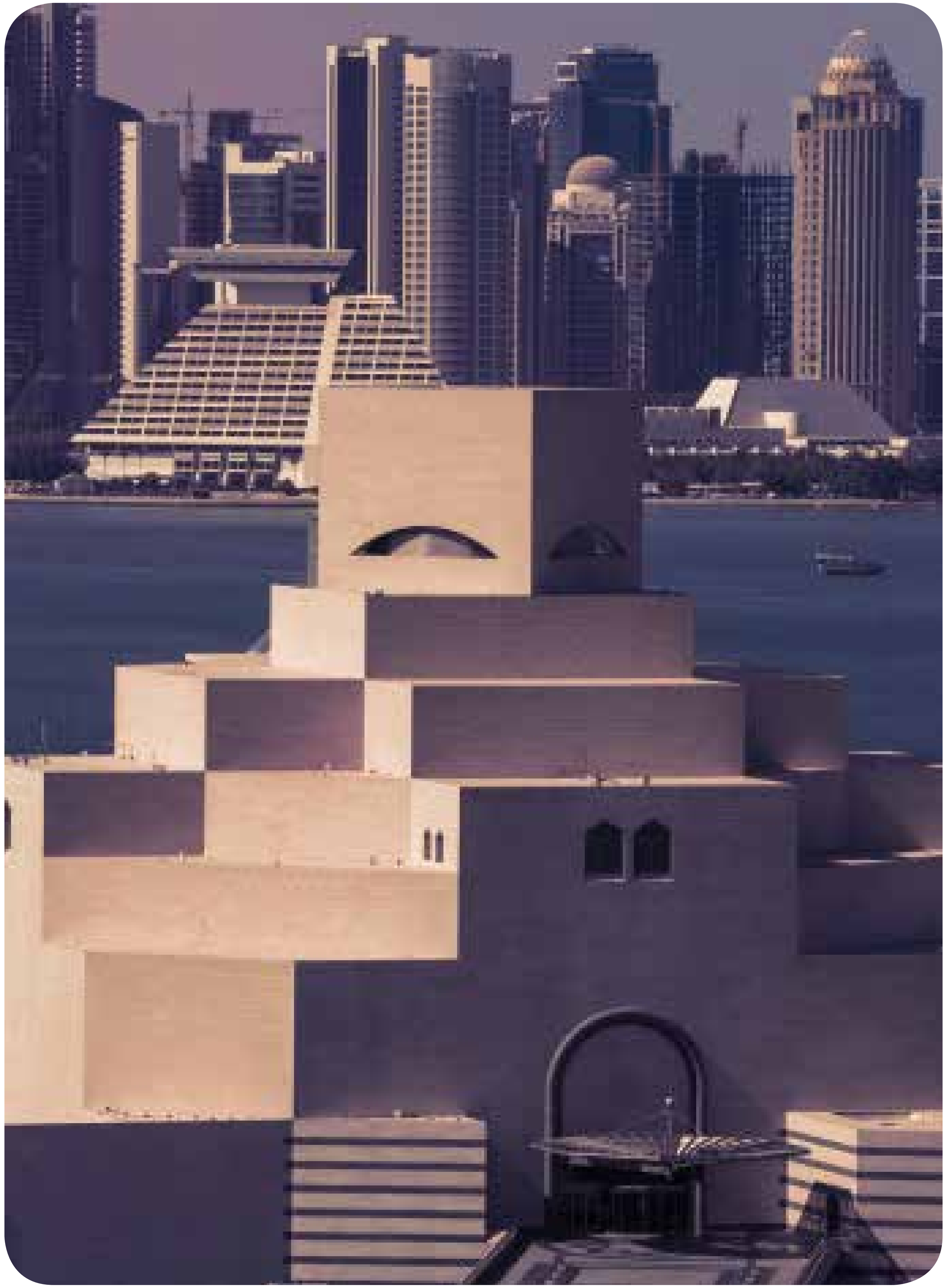
Those that expect Takaful to outperform in the Middle East point to rapidly growing personal lines, as the principle of mutuality works best with homogenous portfolios. Other encouraging aspects include improved regulation for Takaful insurance (see chart 33).

Chart 33: Growth prospects for Takaful insurance



> *“ I expect foreign insurers to further grow their market share. The investments in infrastructure, which are picking up again, plus large events like the FIFA World Cup in Qatar or the Expo 2020 in Dubai, are key attractions of the MENA markets and will draw further players to the region. ”*
>
> *Keith Byrne, Director General Insurance Operations, Tokio Marine Middle East*

> *“ We are witnessing that cedants take an increased interest in the insurers on their panel and how well they are equipped to pay their claims in case of a loss. Ultimately, this indicates that finally quality prevails over price. ”*
>
> *Christian Mueller, Underwriting Manager Construction, XL Insurance*



Qatar Financial Centre (QFC) is a financial and business centre established by the government of Qatar in 2005 to help build a world-class financial services sector in Qatar, providing a platform for domestic, regional and international growth. It is an integral part of Qatar's economy.

QFC consists of a commercial arm, the QFC Authority, and an independent financial regulator, the QFC Regulatory Authority. It also has an independent judiciary which comprises a civil and commercial court and a regulatory tribunal. QFC includes as well the Qatar Finance and Business Academy which helps professionals and organisations to improve their skills and knowledge.

A principal aim of QFC is to help all QFC licensed firms generate new, and sustainable, revenue streams and provides access to local and regional investment opportunities. Business can be transacted inside or outside Qatar, in local or foreign currency. Uniquely, this allows businesses to operate both locally and internationally. Furthermore, QFC allows 100% ownership by foreign companies, and all profits can be remitted outside of Qatar.

The QFC Authority is responsible for the organisation's commercial strategy and for developing relationships with the global financial community and other key institutions inside and outside Qatar. QFC Authority's strategy focuses on creating a global business hub for a broad range of domestic and international financial services firms.

The QFC Regulatory Authority is an independent statutory body and authorises and supervises businesses that conduct financial services activities in, or from, the QFC. It has powers to authorise, supervise and, where necessary, discipline regulated firms and individuals.

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