MENA REINSURANCE BAROMETER 2015

AN ANNUAL MARKET SURVEY

QFC

Qatar Financial Centre

MENA REINSURANCE BAROMETER

No 3 / September 2015

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FOREWORD

YOUSUF AL-JAIDA

Chief Executive Officer, Qatar Financial Centre (QFC) Authority

We are pleased to present the 2015 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 32 regional and international reinsurance companies, ceding companies and intermediaries operating in the MENA region. It provides a unique overview of the current state and near-term prospects of the MENA reinsurance market, which generates an estimated US$ 13 billion in total non-life reinsurance premiums, approximately 7% of the world's total. The report also offers an updated summary of key regional (re)insurance market data.

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

We hope you benefit from the findings of the QFC 2015 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 32 regional and international reinsurance companies, cedants and intermediaries. The interviews were conducted by Dr Schanz, Alms & Company AG, a Zurich-based research, communications and strategy consultancy, in June and July 2015.

The companies taking part in the survey were:

- Africa Re, Egypt
- Aon Benfield, UK
- Arab Insurance Group, Bahrain
- Arab Reinsurance Company, Lebanon
- Asia Capital Re, UAE
- Assicurazioni Generali, UAE
- Compagnie Centrale de Réassurance (CCR), Algeria
- Canopius, UK
- Chedid Re, Lebanon
- Echo Re, Switzerland
- Emirates Re, UAE
- Endurance Re, Switzerland
- General Re, Lebanon
- Guy Carpenter, UK
- Hannover ReTakaful, Bahrain
- Hiscox Re, France
- Kuwait Re, Kuwait
- Lockton, UAE
- Lloyd's of London, UAE
- Malaysian Re, UAE
- Milli Re, Turkey
- Munich Re, Germany
- PartnerRe, Switzerland
- Qatar Re, Qatar
- SCOR SE, France
- SEIB Insurance & Reinsurance, Qatar
- Swiss Re, Switzerland
- Trans Re, Switzerland
- Trust Re, Bahrain
- Türker Re, Turkey
- UIB Gulf, UAE
- Willis Re, UAE

SUMMARY OF KEY FINDINGS

1 In light of strong primary insurance market growth and in combination with a perceived low exposure to natural perils, the MENA region continues to be an attractive destination for regional and global reinsurance capacity. However, unabated pressure on prices and the increasing share of self-retained personal lines business weigh heavily on the sector's growth prospects in the region. Only 17% of executives polled believe that reinsurance premium growth will outpace regional GDP growth over the next 12 months, down from 28% a year ago.

2 The widening of terms and conditions seen in 2014 has continued offsetting most of the improvements recorded since 2011. The share of interviewees citing loose terms and conditions, against the five year average, increased dramatically, from 23% to 71%. The outlook remains challenging, with 45% expecting a further loosening.

3 The percentage of participants expecting reinsurance capacity in the MENA region to expand further has increased marginally to 91%. The region remains an attractive high growth, low-catastrophe market, with positive effects on overall portfolio diversification, in particular as global excess reinsurance capacity has continued to expand over the past 12 months. However, the share of those expecting capacity to increase by more than 10% has dropped from 18% to 3%, suggesting a deceleration in growth.

4 Some 49% of interviewees believe that the share of Western capacity in the region will continue to increase – up from 41% in 2014 – driven by the abundance of global capital and an enhanced local presence of Western reinsurers.

5 Retention levels in the region remain low compared with other markets – on average domestic insurers in the MENA region cede 30% of their premium income to reinsurers. Only 42%, down from 65%, of respondents, expect to see rising retentions over the next 12 months. As reinsurance capacity is abundant and inexpensive, there is little economic incentive to retain more, despite continued pressure from rating agencies, regulators and reinsurers to have 'more skin in the game'.

6 Overall, reinsurance business sentiment in the MENA region remains mildly positive in light of strong primary market growth and improving regulations, in addition to long-term fundamentals such as a young and growing population, in combination with a low insurance penetration. These positive factors offset the negative, such as continued fierce competition and exacerbating political instability. Measured on a scale from -5 to +5 (very bearish to very bullish), sentiment currently stands at 0.3, immaterially down from 0.4 a year earlier. It is expected to return to 0.4 by summer 2016.

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:

- Reinsurance premium growth expected to trail even further behind GDP growth
- A sharply higher share of respondents citing loose reinsurance terms and conditions
- Capacity expected to continue to grow, but at a slower pace
- Only a minority of interviewees anticipate rising retention rates.

Key readings (in % of respondents agreeing)	Sept 2011	Sept 2012	Sept 2013	Sept 2014	Sept 2015
Reinsurance capacity to grow*	50	54	50	88	91
Reinsurance exposure to grow faster than GDP*	67	67	82	81	70
Retention levels to increase*	46	52	68	65	42
Reinsurance premiums to grow faster than GDP*	n/a	58	53	28	17
Higher share of non-Western capacity*	38	41	50	35	19
Low average current reinsurance prices**	87	85	89	82	100
Reinsurance prices to increase*	33	36	34	18	19
Reinsurance terms to tighten*	88	67	58	21	29
Low average current reinsurance profitability**	71	76	66	59	97
Reinsurance profitability to improve*	8	43	24	21	19
Overall MENA reinsurance sentiment (scale from +5 to -5)	n/a	1.3	1.2	0.4	0.3

*Over the next 12 months **Compared with 5-year average

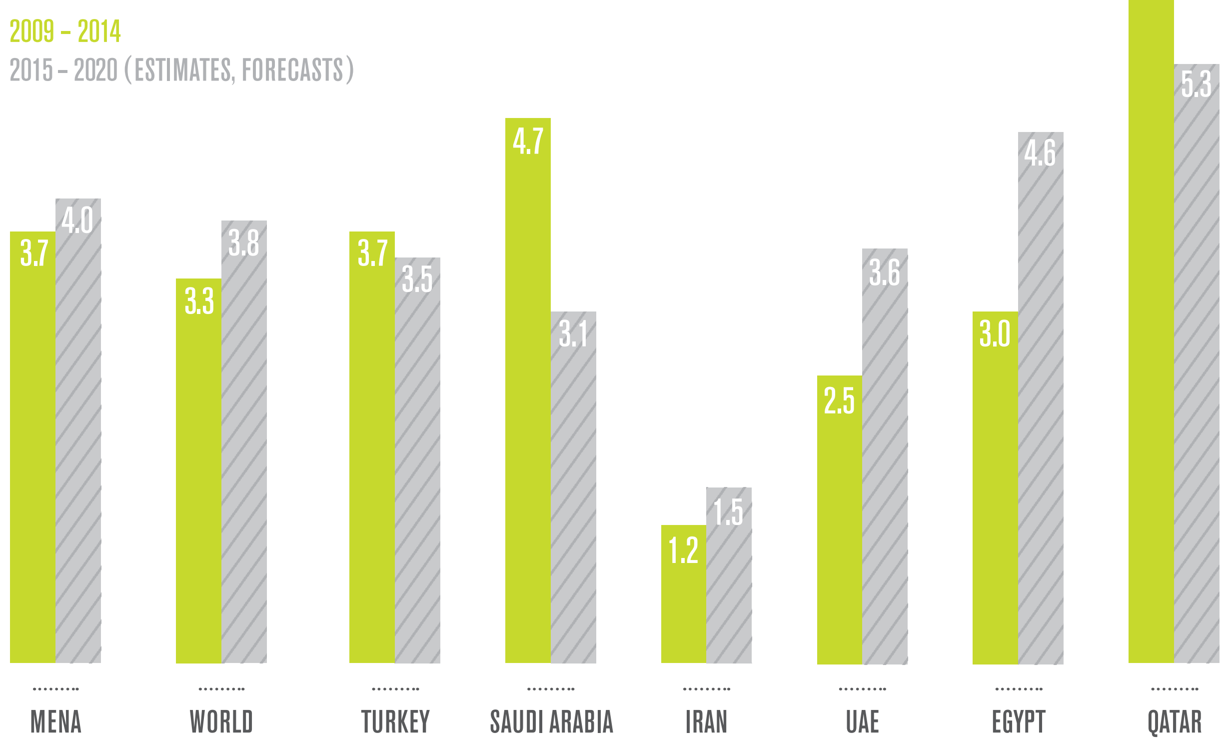
MARKET OVERVIEW

MENA ECONOMIES CONTINUE TO GROW FASTER THAN THE GLOBAL AVERAGE

The 14 biggest insurance markets of the MENA region (Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, Turkey and the United Arab Emirates) have a total population of about 387 million. The region generates a combined Gross Domestic Product (GDP) of more than US$ 3.6 trillion, or 5% of the world's total, according to the IMF.

At an inflation-adjusted growth rate of 3.7% per annum between 2009 and 2014, the region's economies grew slightly faster than the global average with 3.3%. Qatar's GDP growth is particularly striking, primarily reflecting the expansion in liquefied natural gas (LNG) capacity (see chart 1).

CHART 1: Real GDP growth (2009 – 2020f, annual averages, %)



SOURCE: IMF, World Economic Outlook, April 2015

NEAR-TERM ECONOMIC GROWTH PROSPECTS DAMPENED BY OIL-EXPORTING COUNTRIES

Most of the region's oil-exporting countries are expected to see continued tepid growth in 2015. Even though sharp cuts in spending were successfully avoided on the back of large fiscal buffers, the steep decline in oil prices from mid-2014 continues to be a drag on economic growth. This is particularly true for Saudi Arabia, Iran and Algeria. Medium-term, however, GDP growth is expected to return to historical levels of 3% to 4% p.a. as hydrocarbon prices steadily recover and the non-oil sector continues to outperform other sectors in the region. This expectation is based on a reduction in oil price volatility and reasonably robust private investment sentiment, which would require current security disruptions in a number of non-Gulf countries to be contained.

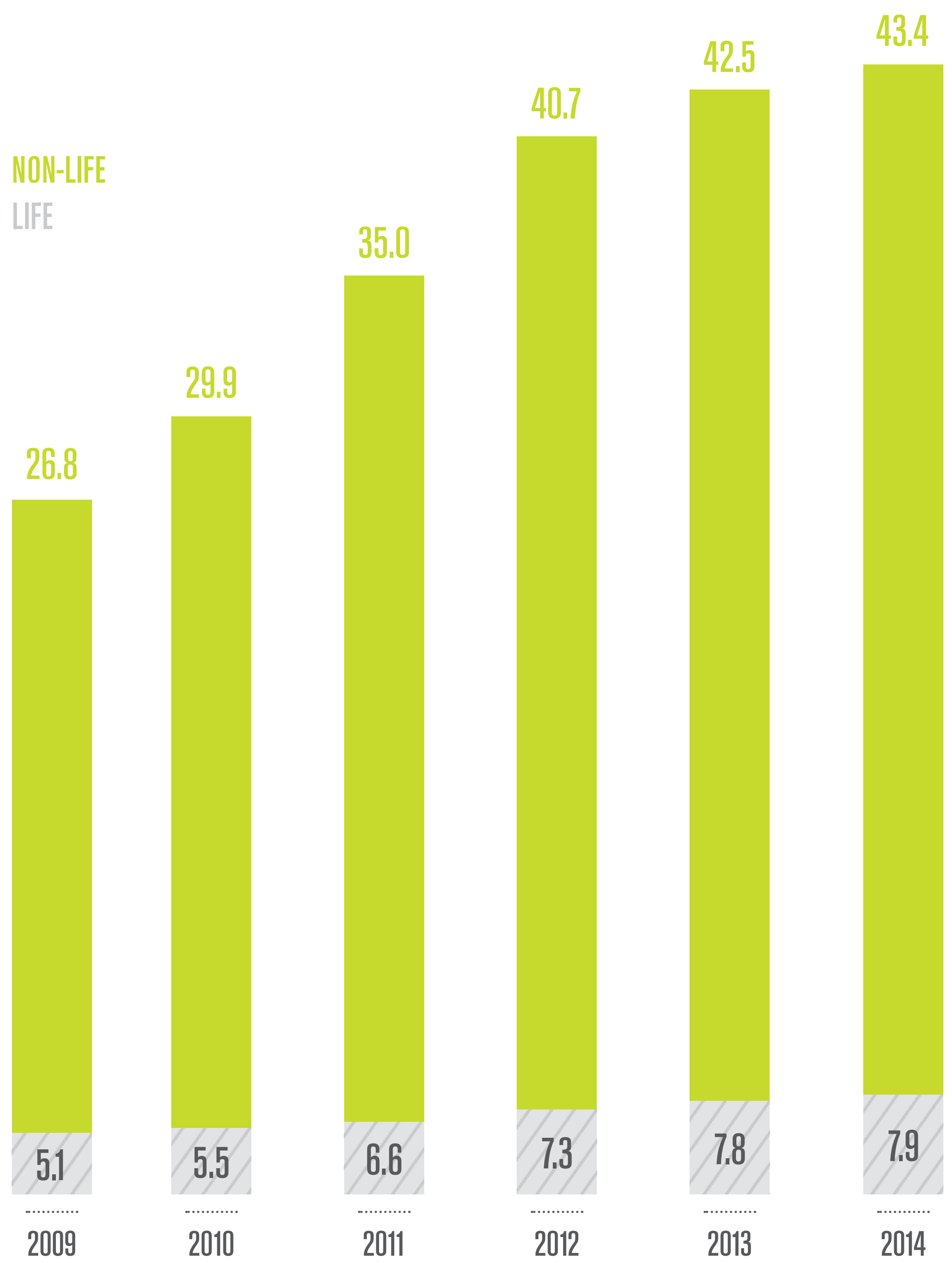
Oil-importing countries continue to suffer from political tensions, social unrest and unresolved structural problems, such as government budget deficits. However, lower oil prices have bolstered growth and have created favourable conditions for cutting energy subsidies and increasing energy taxes. Also, export growth is expected to strengthen as trading partners (especially in Europe) gather steam in the wake of a depreciating euro and falling oil prices. All in all, the MENA region's economies, according to the IMF, should expand by 4% p.a. over the next five years, slightly above the projected global average.

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 2014 accounted for just 1.4% of GDP, less than a quarter of the global average. However, this gap is narrowing as MENA insurance markets outpace regional GDP growth. Between 2009 and 2014 total non-life and life insurance premium volume in the region expanded from about US$ 32 billion to more than US$ 51 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 2009, life insurance premiums have grown in line with non-life business (at an annual average real rate of 8.3% compared to 8.5%). Catch-up for the life insurance sector therefore remains elusive.

CHART 2: MENA insurance premiums by type (life versus non-life, 2009 – 2014, US$ billion)



SOURCE: Swiss Re, sigma

CHART 3: Non-life real premium growth (2009 – 2014, annual averages, %)

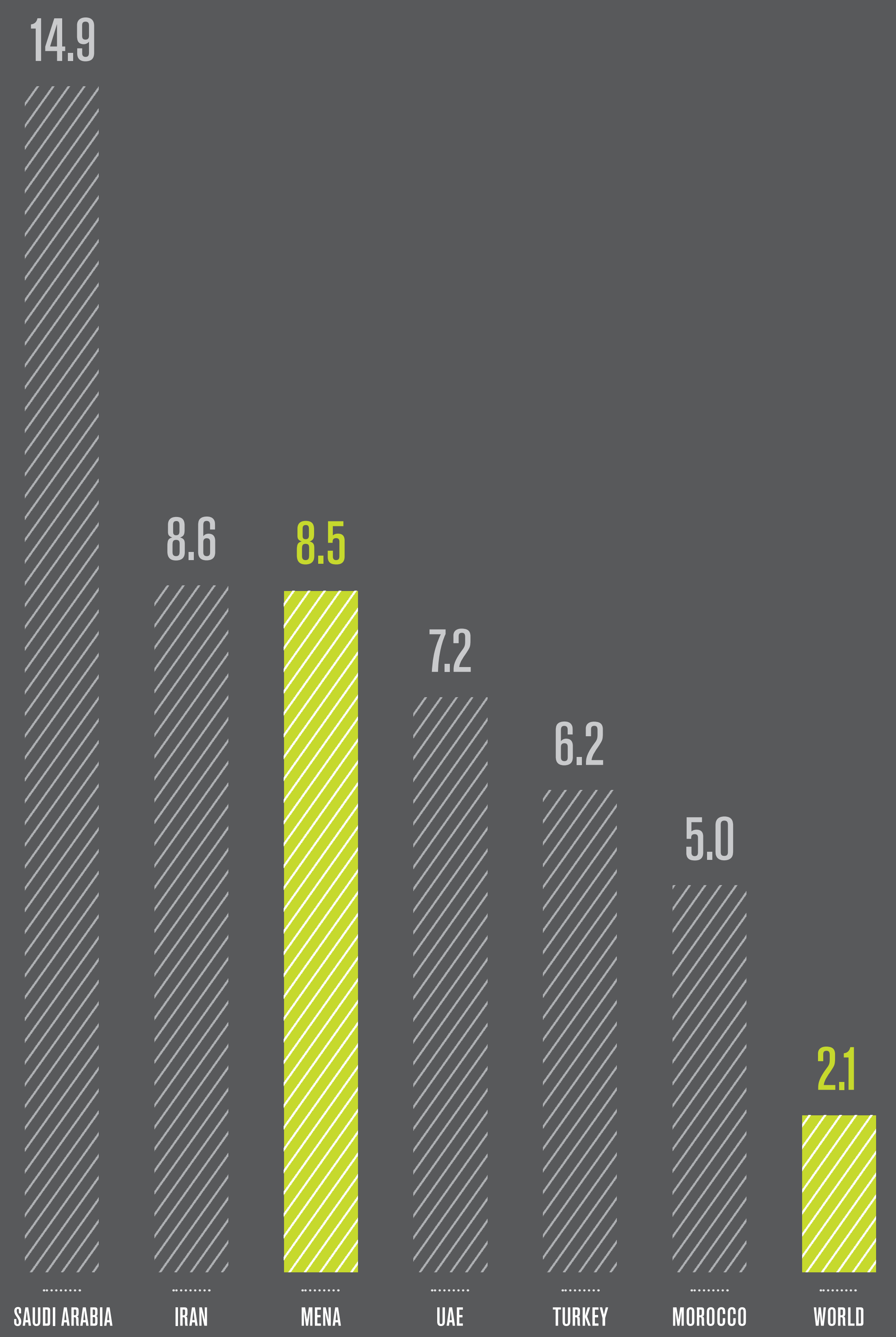
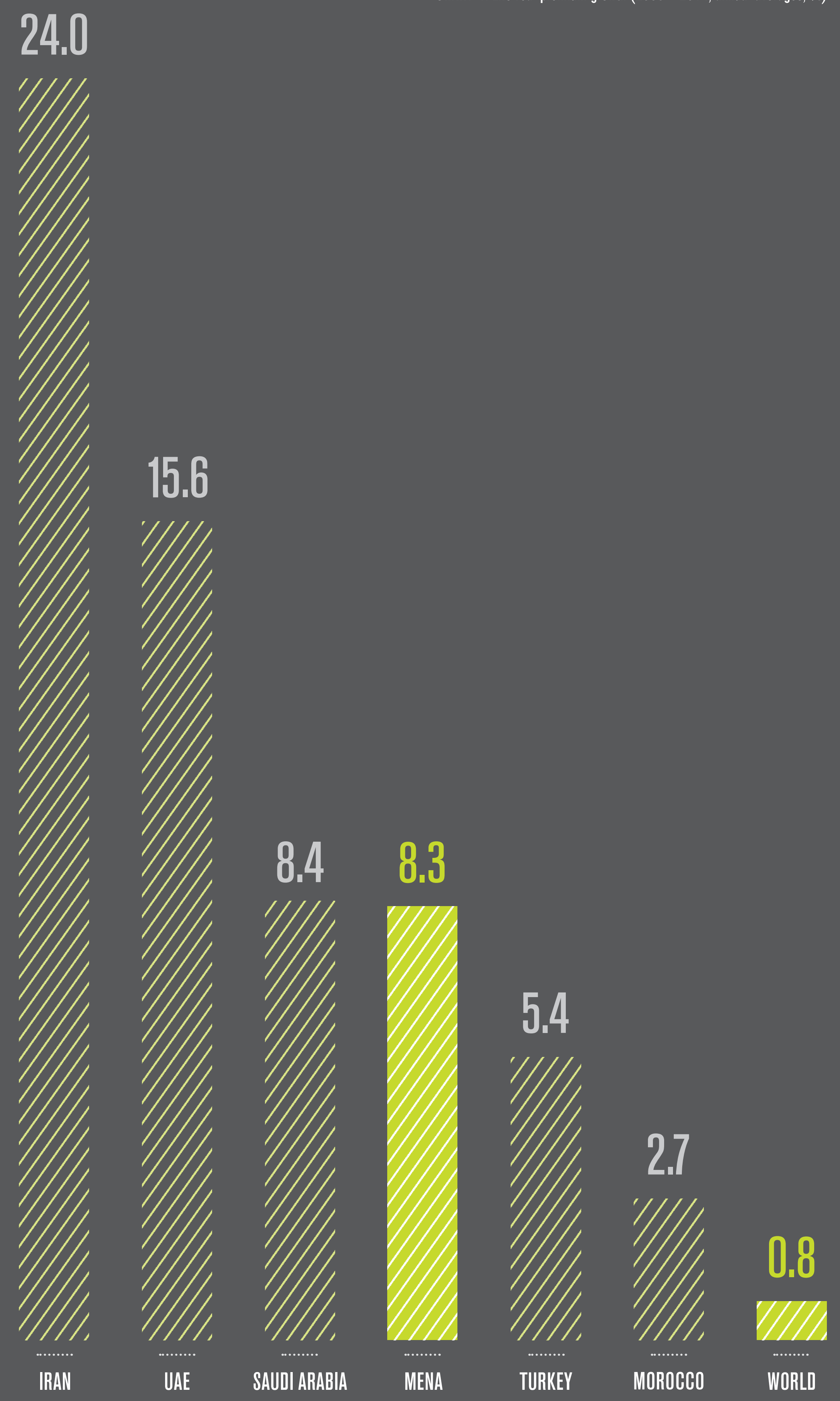


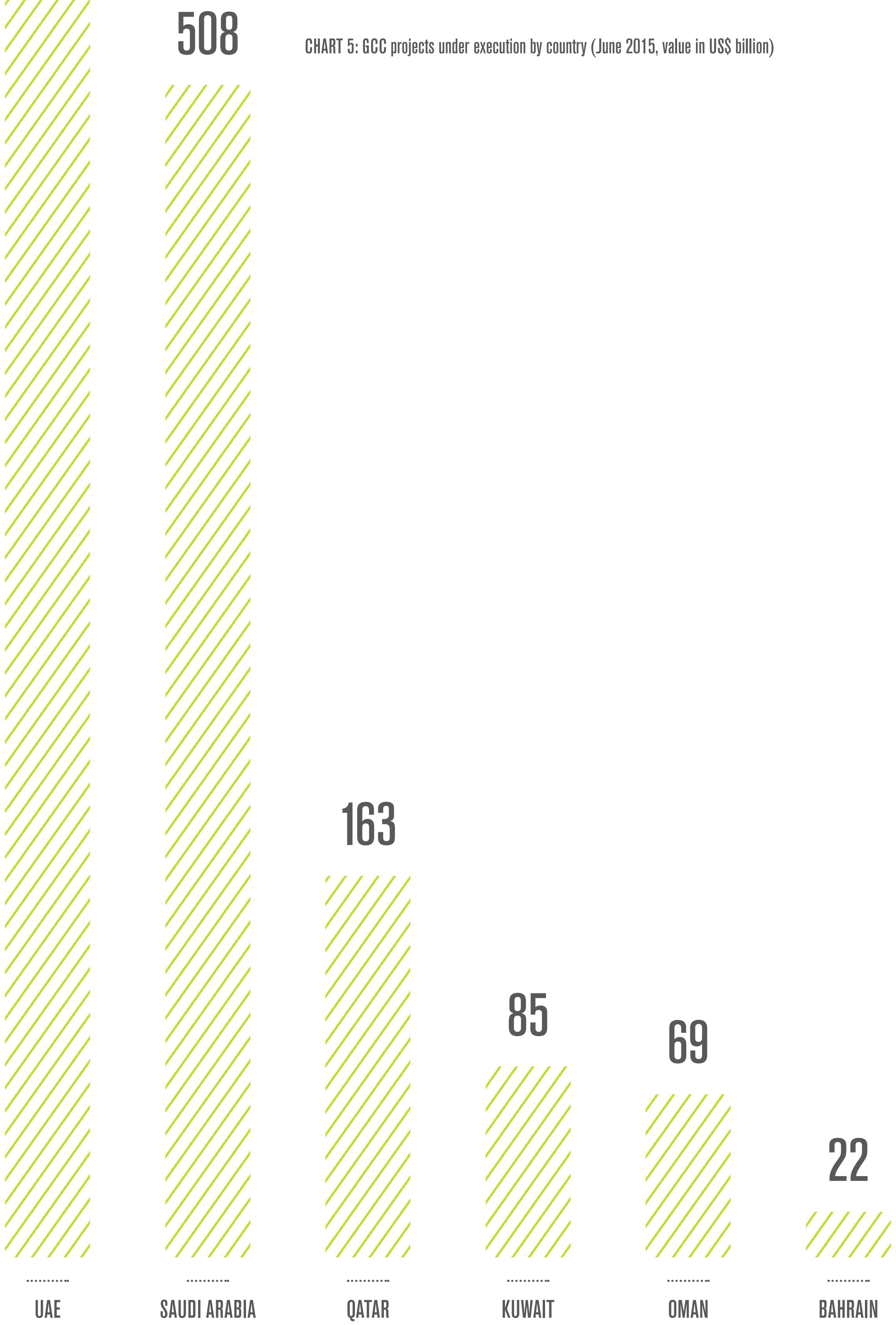
CHART 4: Life real premium growth (2009 – 2014, annual averages, %)



SOURCE: Swiss Re, sigma

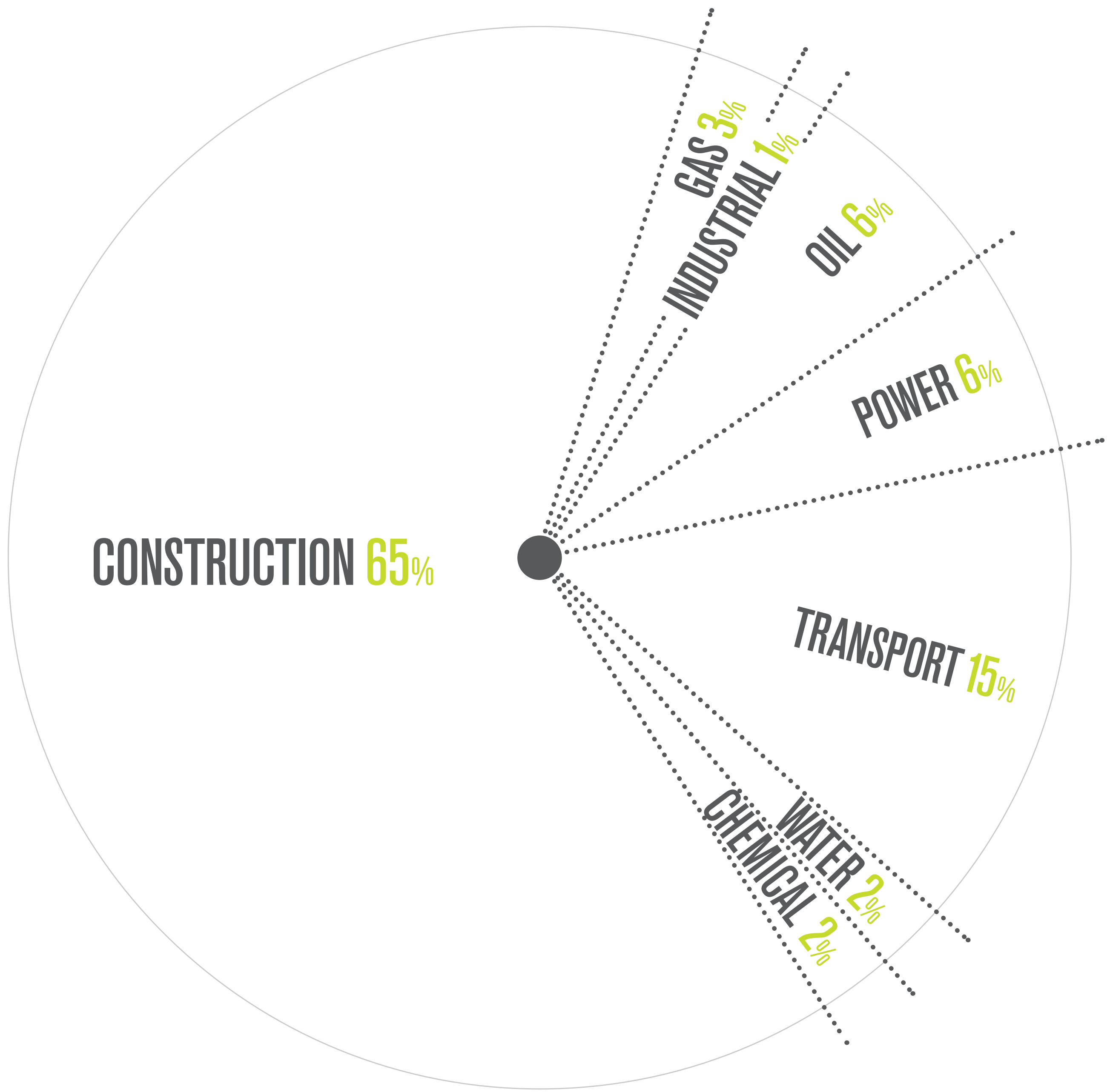
In addition to compulsory insurance schemes in motor and healthcare, massive infrastructure and construction spending continues to be the most powerful driver of insurance and reinsurance demand in the region. As of June 2015, more than US$ 1.41 trillion worth of projects are currently being executed across the GCC region (see chart 5).

CHART 5: GCC projects under execution by country (June 2015, value in US$ billion)



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

CHART 6: GCC projects currently under execution by sector (June 2015, %)



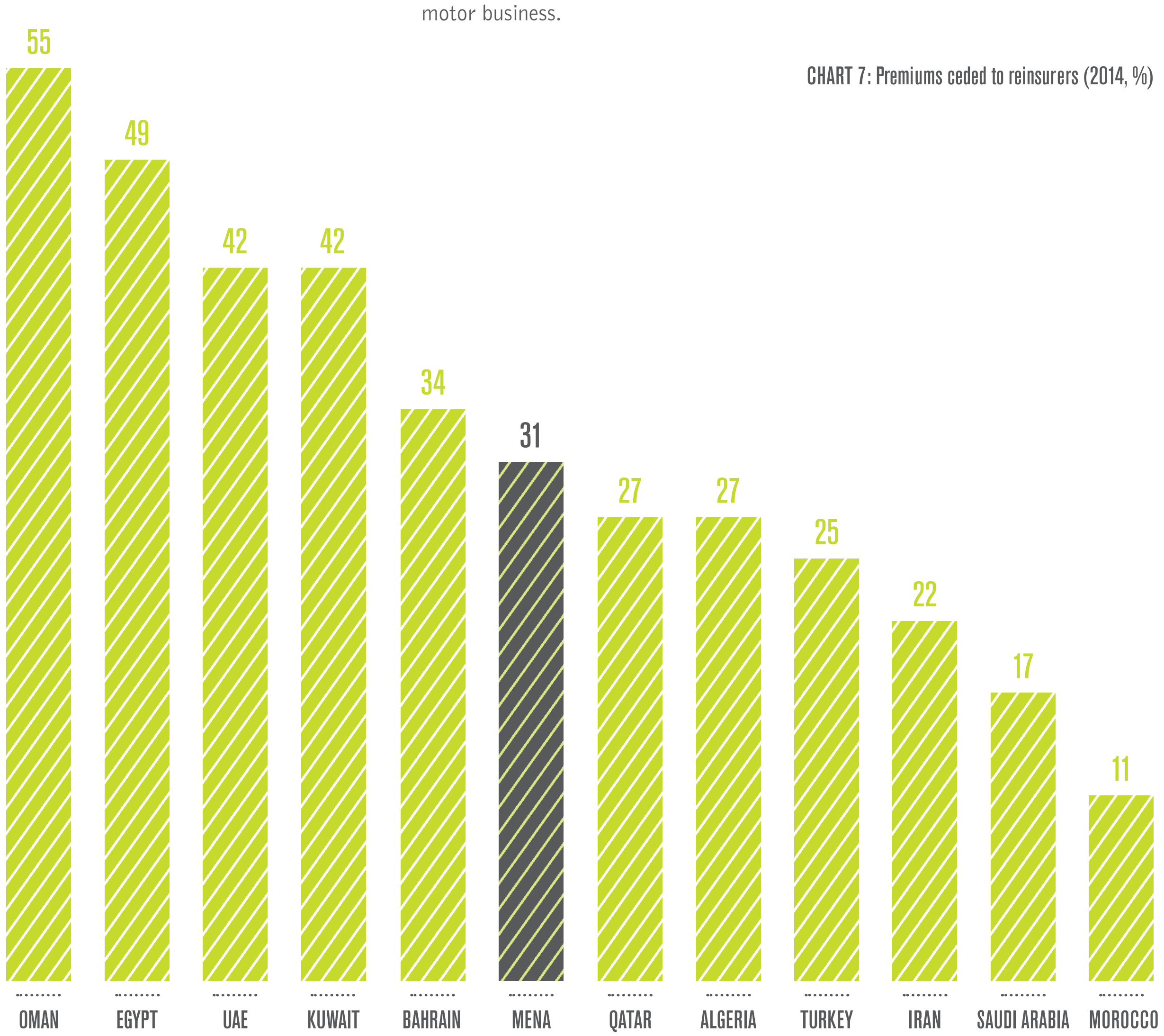
SOURCE: MEED Projects, June 2015

In the MENA region, about 30% 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 2014, accordingly, amounts to about US$ 13 billion.

As chart 7 reveals, there are significant regional differences in reinsurance purchasing behaviour. Cession rates in the GCC countries still tend to be highest, except for Saudi Arabia and Qatar. This reliance on reinsurance reflects the dominance of a direct insurance business model based on commission and investment income which, in turn, is driven by abundant reinsurance capacity and a general lack of technical expertise needed to retain more risk. Even though cession rates in the GCC have been declining, they remain high compared with other countries of similar wealth and the global average of about 10%, according to Swiss Re and Guy Carpenter. The declining trend in the GCC region is primarily attributable to above-average growth in personal lines, such as motor and medical insurance. These lines of business have significantly lower cession rates than more volatile commercial segments of business where net retentions remain marginal, also as a result of very inexpensive reinsurance.

In markets such as Morocco and (catastrophe-prone) Turkey and Algeria, insurers' risk appetite is significantly more pronounced than in other parts of the region. Saudi Arabia's low aggregate cession rate reflects the fact that the country's non-life insurance portfolio is dominated by largely retained medical and motor business.

CHART 7: Premiums ceded to reinsurers (2014, %)



SOURCES: ISIS via BVDep, CCR for Algeria.

SURVEY RESULTS

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

POLITICAL RISK AND PROTRACTED REINSURANCE MARKET SOFTNESS CLOUD OUTLOOK

PRIMARY INSURANCE MARKET GROWTH CONSIDERED KEY MARKET STRENGTH

As in previous years the survey respondents consider the region's robust insurance market growth, which clearly outperforms the global average, as the first most relevant strength of the reinsurance marketplace. A strong pipeline of infrastructure and construction projects ranks second, as in 2014, as major activities have been launched, for example in preparation for the Dubai World Expo 2020 and the FIFA World Cup 2022 in Qatar. In addition, spending seems to be relatively resilient to the decline in oil prices that began in the summer of 2014. The region's relatively low natural catastrophe exposure (except for Turkey, Iran and Algeria) is the third most frequently mentioned strength, as in 2014. This makes the region very attractive from a global diversification point of view.

Furthermore, it is worth mentioning that the openness of the region's reinsurance market has been more frequently mentioned as a strength than in previous years. This may reflect an increasing trend towards restricting cross-border reinsurance in other emerging markets, such as in Asia.

CHART 8: Market strengths (number of mentions)

INSURANCE GROWTH MOMENTUM 20

PROJECTS PIPELINE 17

LOW NATURAL CATASTROPHE EXPOSURE 11

“ From a reinsurance perspective, one of the key strengths of the region is the availability of A-rated capacity and the local and global expertise associated with it. ”

Mark Cooper, Lloyd’s Dubai Country Manager

“ One of the key strengths of the MENA region is that it is abundant with opportunities. The region’s low natural catastrophe risk helps diversify the book of global reinsurers, its young population continues to grow and contribute to the economy and finally, government vision and investments for large infrastructure projects continue over long term – despite the recent slump in oil prices. ”

Atish Suri, Head of MENA, Willis Re

“ Although I am rather sceptical about the general market development, there are some strengths as well. The MENA reinsurance markets, especially the GCC countries should benefit from the large sovereign wealth funds of the region, which helped to buffer the impact from the decline in oil prices. In addition, we have also seen some substantial improvements in regulation, such as in Saudi Arabia or in the UAE, which have created opportunities in medical, motor or liability. ”

Zaini Abdul Aziz, Senior Executive Officer, Malaysian Re

CHART 9: Market weaknesses (number of mentions)

EXCESS CAPACITY/UNSUSTAINABLE RATES 22

LACK OF TECHNICAL EXPERTISE 13

POLITICAL INSTABILITY 12

EXCESS CAPACITY STILL VIEWED AS MOST RELEVANT MARKET WEAKNESS

As in previous years, the most relevant perceived weakness of the MENA reinsurance marketplace is excess capacity, which is creating fierce competition and unsustainable levels of pricing. A lack of technical expertise on the ground ranks second, replacing regulatory deficiencies which no longer features among the top 3 weaknesses. The third ranking weakness is political instability which renders day-to-day operations more difficult and has eliminated entire reinsurance markets, such as Syria and Libya.

“ A structural weakness of the market is the opportunistic behaviour of many participants. Companies and individuals alike tend to focus on short-term gain rather than adopting a long-term perspective to the region’s potential. ”

Ronald Chidiac, General Manager, Arab Re

“ One of the market’s major weaknesses is the lack of a genuine risk culture as a result of low levels of risk awareness. Longer-term, addressing this shortcoming possibly represents the biggest opportunity for the Middle Eastern insurance and reinsurance markets. All relevant stakeholders, including reinsurers and regulators, need to join forces to make this happen. ”

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

“ The continued influx of new reinsurance carriers into the MENA markets has exacerbated the traditional shortage of technical skills in the region. Therefore, dedicated efforts to broaden the local talent base are needed, for example through adjustments to educational systems. ”

Ahmad Rajab, CEO MENA and Turkey, Aon Benfield

“ The global reinsurance industry is in a soft market phase, there is no doubt about that. However, the situation in MENA is more dramatic. Despite the size of the marketplace – in fact there is not really one market, but an accumulation of rather heterogeneous and fragmented markets – the amount of capacity, which continues to flow into the market, is staggering. ”

Peter Hugger, CEO, Echo Re

LOW PENETRATION CONTINUES TO BE SEEN AS KEY MARKET OPPORTUNITY

As in previous years, most interviewees identify the low penetration of MENA insurance markets as the key market opportunity. With total premiums accounting for just 1.4% of GDP, the insurance penetration of the MENA region is less than a quarter of the global average, despite the fact that the region's GDP per capita matches the global average. Therefore, the low penetration is considered a major opportunity for reinsurers in the MENA region even though the bulk of premium growth is contributed by personal lines, such as motor and medical, which are largely self-retained by insurers. Regulatory frameworks rank as the second major opportunity, making its first ever appearance in the GCC/MENA Reinsurance Barometer. Following the Saudi Arabian Monetary Agency's (SAMA) example in Saudi Arabia, other authorities, namely in the UAE and Qatar, are preparing to introduce more modern and risk-based regimes which are expected to promote market discipline.

As in 2014, the development and introduction of new insurance products is considered the third most relevant opportunity. Specific opportunities mentioned by the executives polled range from new liability products (e.g. medical malpractice and professional indemnity) and specialty policies covering cyber and renewable energy risks.

CHART 10: Market opportunities (number of mentions)

" Proportional treaty business is increasingly under the microscope of reinsurers. Long-standing profitability issues finally need to be addressed and reinsurers' appetite for losses is clearly diminishing. "

Mahomed Akoob, Managing Director, Hannover ReTakaful

" The MENA region is proving to be a very dynamic marketplace with tremendous potential and in that environment it's important to apply both global experience as well as specific local knowledge. The capability to develop and analyse consistent data will differentiate those Insurers, Reinsurers and Intermediaries that have a long term outlook. "

Jonathan Sharland, CEO, Trans Re Zurich

" The Turkish reinsurance market is becoming more competitive as additional players and increased capacity enter the scene as a result of global developments. Global reinsurance profitability was at record levels in 2014 and the Turkish market will benefit from it even though the lowered original rates as a result of competition impact the reinsurance market negatively. "

Eray Turker, Managing Director, Turker Re

POLITICAL INSTABILITY AS THE MOST SERIOUS THREAT

As in 2014, political instability is considered to be the most serious threat facing MENA reinsurance markets. Sectarian violence in Iraq, continued instability in Libya, the continuing bloody stalemate in Syria and the violent escalation in Yemen weigh on sentiment. Optimists continue to cite the prospect of an accelerated rapprochement between the international community led by the US and Iran and signs of stabilisation and economic recovery in Egypt.[1]

The protracted softness of reinsurance markets and subsequent erosion of market discipline continues to rank second. The region remains attractive to new capacity in search of instant diversification benefits. In addition, some domestic insurers have expanded their engagement in facultative reinsurance.

The third most frequently mentioned concern is the region's heavy dependence on hydrocarbon prices. This is not a new phenomenon but the significant erosion of prices since the summer of 2014, and the associated substantial slowdown in economic growth, has served as a reminder of many countries' vulnerability.

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

POLITICAL RISK 22

FURTHER EROSION OF MARKET DISCIPLINE 19

DEPENDENCY ON OIL PRICES 12

"A major challenge presented by the MENA (re)insurance market is its heterogeneity. Some areas are virtually unexposed to natural perils whilst others are heavily catastrophe-prone. At the same time, income per capita levels across the region differ widely. This non-homogeneity makes it difficult to develop and market genuinely regional propositions and reap economies of scale benefits."

George J. Kabban, CEO, UIB (DIFC) Ltd

"Currently there is more than enough capacity available in the MENA region. Local reinsurers are struggling to deploy their capital within the region and have started searching for opportunities outside of MENA. In fact, they are becoming supra-regional reinsurers – located in the MENA region, yet expanding into Africa and Asia in their quest to find sufficient business to service their capital."

Trevor Oates, Senior Underwriter, Canopius

"Many regional insurers' natural catastrophe exposure is largely unmanaged. In the absence of robust models and data, reinsurers tend to shy away from offering coverage. This protection gap is a significant threat as some events, even relatively minor floods, can result in major insured losses."

Tim Griffiths, Senior Underwriter, Endurance Re

[1] Interviews were concluded before the breakthrough in nuclear negotiations between Iran and six world powers plus the European Union on 14 July 2015.

SURVEY RESULTS

GENERAL REINSURANCE MARKET OUTLOOK

FURTHER PRESSURE ON PRICES AND, IN PARTICULAR, TERMS AND CONDITIONS – WORSENING PROFITABILITY OUTLOOK LEADS TO DECELERATION OF CAPACITY GROWTH

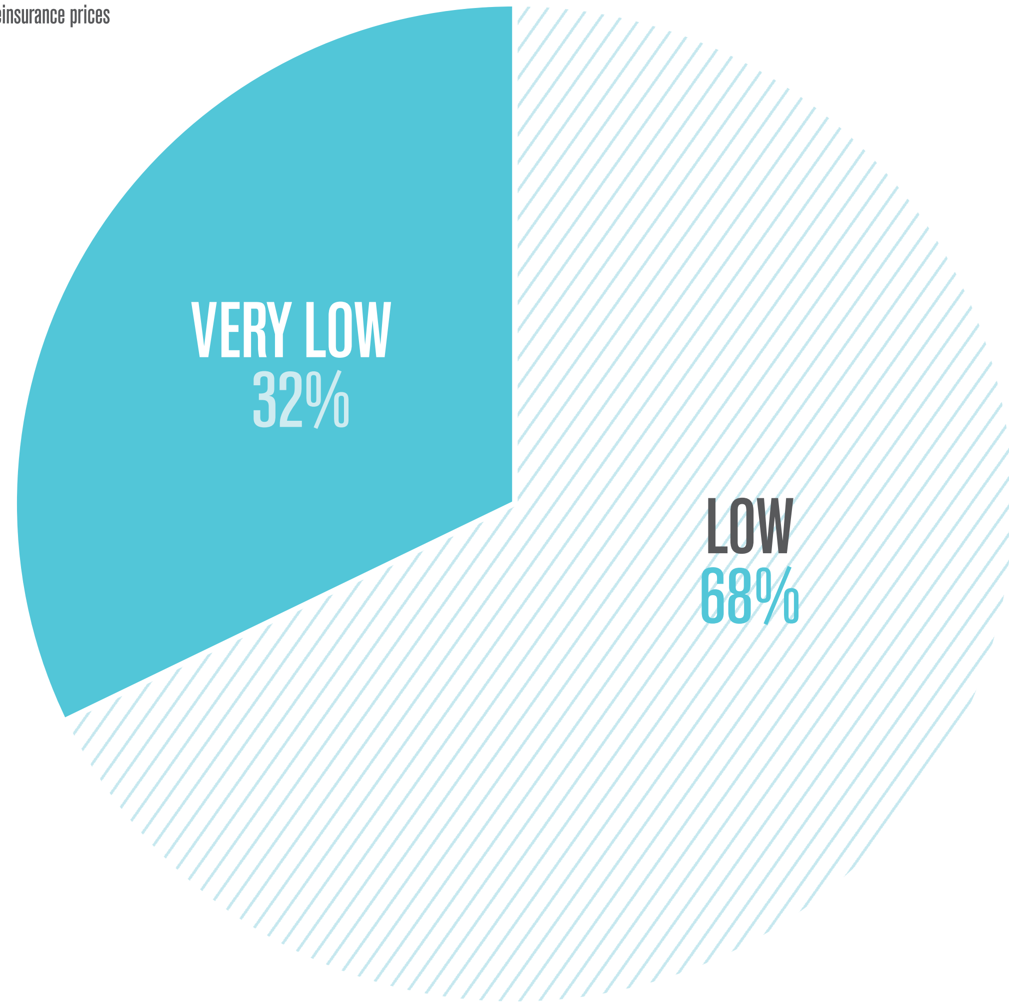
AVERAGE REINSURANCE PRICING LEVELS

100% of interviewees see current reinsurance prices in the MENA region as being below the long-term (five year) average, as compared with 82% in 2014. The share of respondents who believe prices to be very low has remained virtually unchanged at 32%.

Most survey participants agree that prices have fallen to a level which no longer allows the market to absorb even a series of mid-sized losses, let alone a major loss. However, some interviewees still consider prices acceptable in light of the region's low catastrophe exposure and a relatively benign loss experience.

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

CHART 12: Current average reinsurance prices



The pricing outlook remains largely unchanged from the previous year: 45% say that they expect prices to continue falling during the next 12 months. As with last year's Barometer, only 19% of interviewees expect a moderate increase in average MENA reinsurance pricing levels. The share of those anticipating a stable pricing environment has remained largely unchanged at 36%.

The 45% of interviewees that expect the price erosion to continue over the next 12 months point to an ongoing influx of capacity, with the broader footprint of Lloyd's and the expected additional pressure on rates in facultative business being mentioned most frequently. The region remains vulnerable to disruptions at a global scale, such as the rise of alternative capital. An increasing number of carriers divert capacity from fiercely contested areas such as US property catastrophe business to regions such as the Middle East and Asia.

Executives expecting a stable pricing outlook, or 'bumping along the bottom', as one of them put it – point to the effects of tighter pricing, reserving and solvency regulations in Saudi Arabia and other countries, which are expected to halt the decline in rates. Among those who expect a turn in rates are also some bigger reinsurers that benefit from preferential terms and conditions.

" If unchecked, the continued increase in excess capacity and the unabated erosion of pricing levels could undermine the stability of the MENA insurance and reinsurance marketplace. "

Mahomed Akoob, Managing Director, Hannover ReTakaful

" Ultimately the MENA reinsurance market is still quite young and in contrast to the mature markets, in flux. Here, the battle for a position in the market, to secure and increase market share, is more intense (than in mature markets). Thus, primary insurers have little difficulty in placing their business. In fact, as barriers of entry are still low, they will eventually find a reinsurer willing to write the business, irrespective of the risks, rates and terms. This situation will only change as the market matures. "

Rainer Lehner, Senior Executive Officer, Asia Capital Re

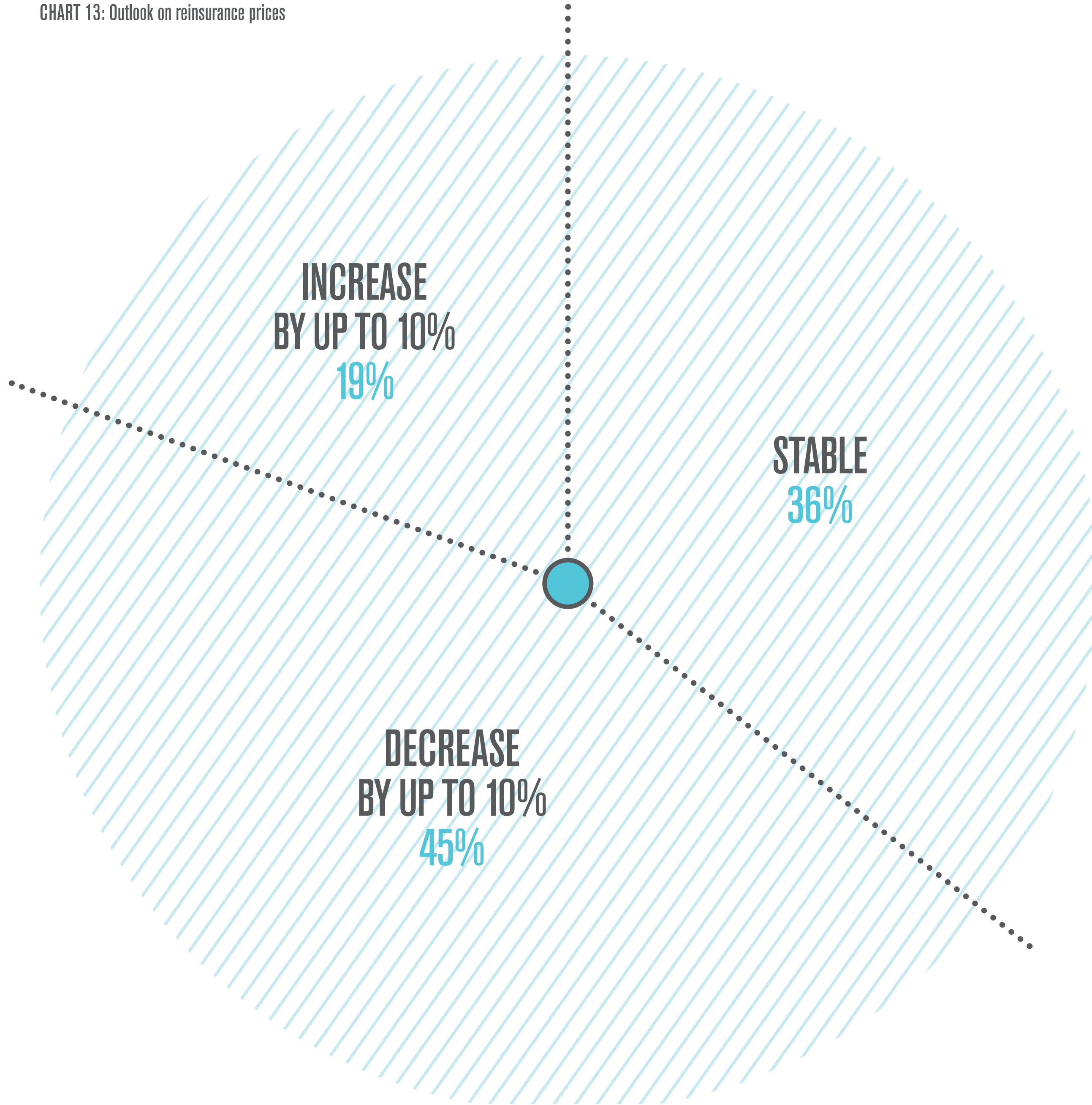
" Reinsurance exposure levels continue to grow fast, while rates keep on eroding premiums and margins as a consequence of a rapid accumulation of assets and the emergence of new exposures such as liability. "

Farid Chedid, Chairman & CEO, Chedid Re

" Market conditions are improving in some countries. While overall rates are still at rock bottom, we see a strengthening of market discipline. A tightening in regulation, in particular in Saudi Arabia, is a key driver for improvements in profitability and more favourable market conditions. We remain bullish for the MENA region, as the market holds in store plenty of opportunities for further growth and development. "

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

CHART 13: Outlook on reinsurance prices



REINSURANCE TERMS AND CONDITIONS

Some 29% of executives polled consider overall reinsurance terms and conditions in the MENA region as average when compared with the past five years, sharply down from 59% last year. The share of those viewing terms and conditions as loose has increased dramatically from 23% to 71% (see chart 14). The tightening trend since 2011 seems to have been reversed as markets soften relentlessly and reinsurers are determined to fight for market share. In 2011, the Arab Spring, in combination with massive global catastrophe losses, triggered a significant tightening of terms and conditions in the form of event limits and loss corridors, reduced commissions, higher deductibles and political risk exclusions. Over the past year, terms and conditions have loosened significantly, with widening coverage available at unchanged prices and further rising levels of commission.

As far as the outlook for terms and conditions is concerned, views vary more widely than last year: 29% (up from 21%) of respondents expect terms and conditions to tighten over the next 12 months. Similarly, the share of those expecting a further loosening has increased from 35% to 45% (see chart 15).

“One of the striking features of MENA reinsurance markets, in particular Saudi Arabia, is their extreme volatility. The large losses seen in recent years occurred entirely randomly – affecting good as well as bad risks. One loss can easily overturn the result of an entire year and, given the current soft market conditions, it remains uncertain how to compensate for that loss over time.”

Christopher Pleasant, Managing Director MENA, Guy Carpenter

“Current insurance policies terms and conditions referred for reinsurance consideration are not always entirely adapted to the MENA market insurance regulatory and socio-economic environment. It appears that they often reflect the conditions prevailing in more regulated non-emerging markets. As a consequence there are plenty of loopholes and uncertainties in their interpretations or applications within our regional setting, which will only close as we adjust them to our market's reality or if the regulator considers corresponding reforms.”

Mazen G. Abouchakra, Managing Director, Gen Re

“Based on strong direct insurance market growth, the MENA markets have continued to attract international and regional capacity, also helped by the growth of financial hubs such as the DIFC and the QFC which greatly facilitate a physical presence in the region. Although this development offers plenty of opportunities to buyers, the resultant excess reinsurance capacity is also putting pressure on terms and conditions and ultimately causes treaty results to deteriorate.”

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

CHART 14: Current reinsurance terms and conditions

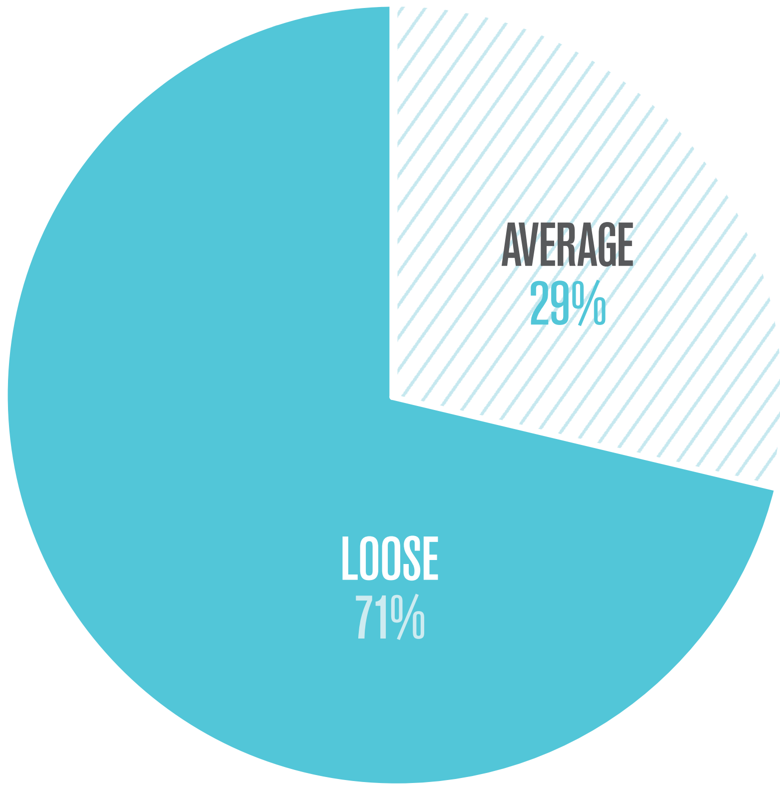
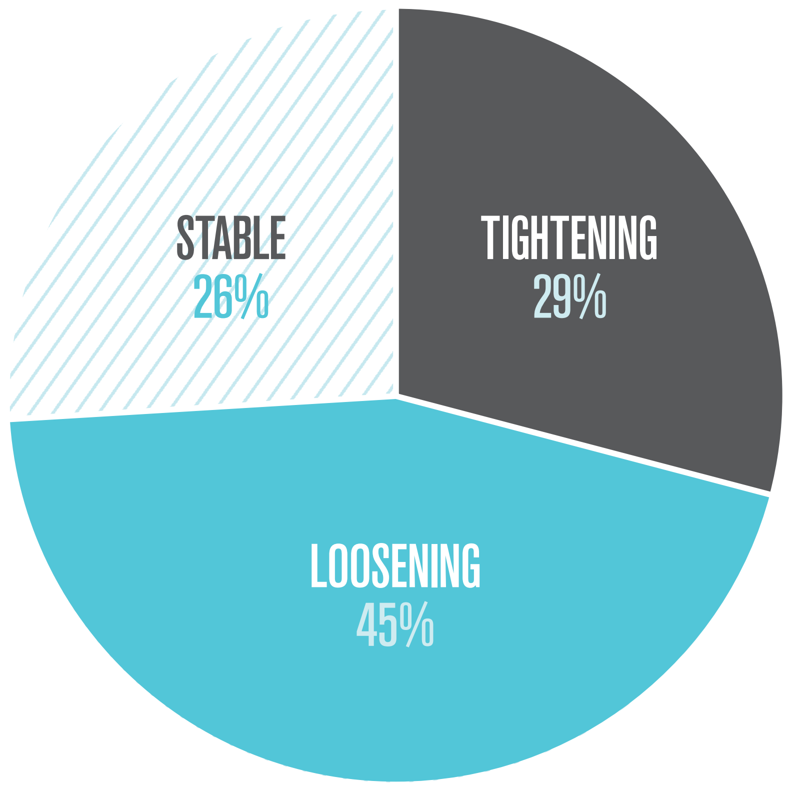


CHART 15: Outlook on reinsurance terms and conditions



OVERALL REINSURANCE PROFITABILITY

Some 97% of executives participating in the survey consider overall reinsurance profitability in the MENA region 'low' or 'very low', up from 59% in 2014. Only 3%, down from 41%, see reinsurance profitability at 'average' levels (see chart 16). This significantly more negative assessment of current profitability primarily reflects less attractive reinsurance terms and conditions and a trend towards higher attritional losses in a number of countries.

Having said this, selective underwriters can still generate acceptable or even attractive risk-adjusted returns on capital, based on current assumptions concerning catastrophe losses. This is particularly true for internationally priced facultative business, whereas technical results in proportional treaty reinsurance are generally negative. In addition, current levels of profitability do not provide a cushion against a potential major catastrophe event or even a series of mid-sized losses.

As far as the 12 months outlook on profitability is concerned, 49% believe that profitability will deteriorate, a massive increase from last year's 29%. This assessment reflects further pricing pressures, a gradual erosion of terms and conditions, an expected further increase in attritional losses, a rising exposure to catastrophe losses and a widening gap between premium growth and exposure growth (see chart 17).

“The MENA reinsurance market is reaching a crossroads. Current levels of pricing and profitability are no longer sustainable. Even the traditional attraction of diversification benefits for a global reinsurance portfolio is fading given the increasing trend in man-made losses. A shakeout is overdue, both in reinsurance and domestic insurance. The markets need to consolidate in order to recover.”

Guido Zagatti, Head of Underwriting, Assicurazioni Generali S.P.A.

“Those players with a presence on the ground have to prepare for a further deterioration of overall profitability: Whilst margins are set to continue on their downward path, operating expenses (for human resources in particular) keep rising.”

George J. Kabban, CEO, UIB (DIFC) Ltd

“Many regional insurers are undergoing a shift in their investor base. Some new shareholders place a higher emphasis on companies' (technical) profitability which will support pricing levels going forward.”

Salvatore Orlando, Head of High Growth Markets, PartnerRe

CHART 16: Current overall reinsurance profitability

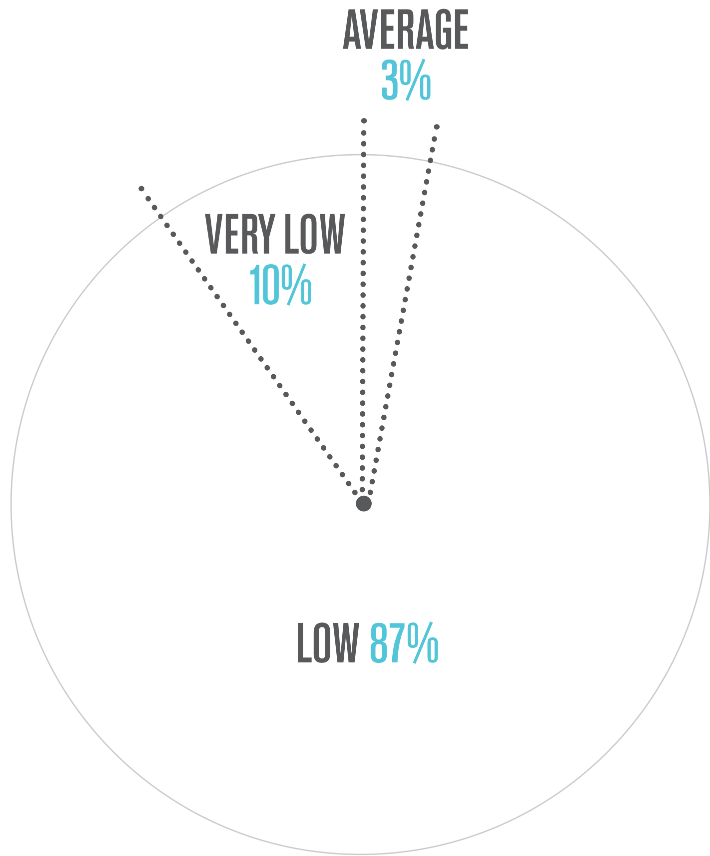
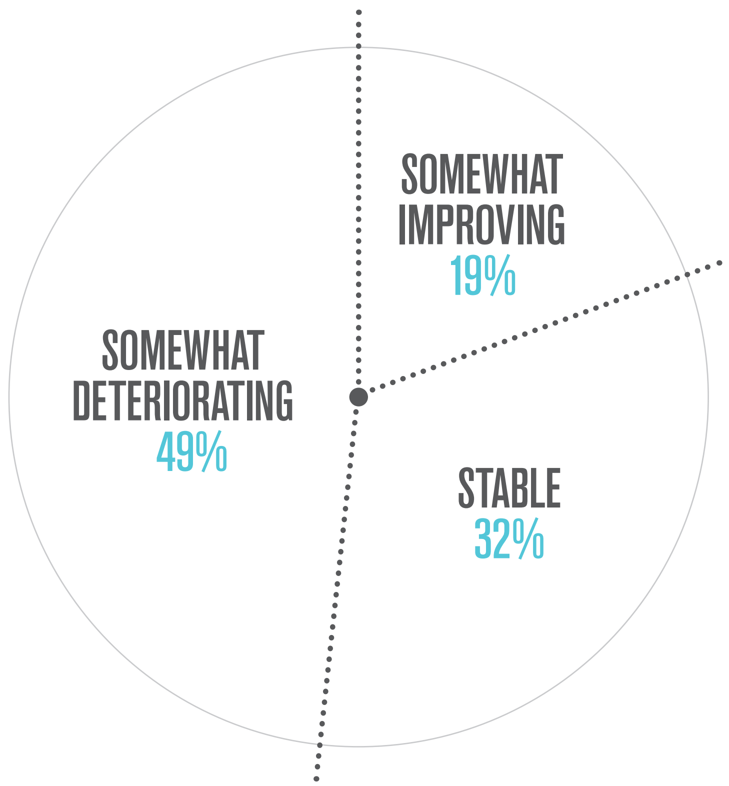


CHART 17: Outlook on reinsurance profitability



OVERALL REINSURANCE CAPACITY GROWTH

Some 91% of survey participants, slightly up from last year's 88%, believe that total reinsurance capacity deployed to the MENA countries will increase further (see chart 18). The majority of survey participants expect a further inflow of capacity as the region remains an attractive high growth, non-catastrophe market with beneficial effects on overall portfolio diversification. In addition, the region is not insulated from the global glut of capital and indirect effects from the rise of alternative reinsurance capital.

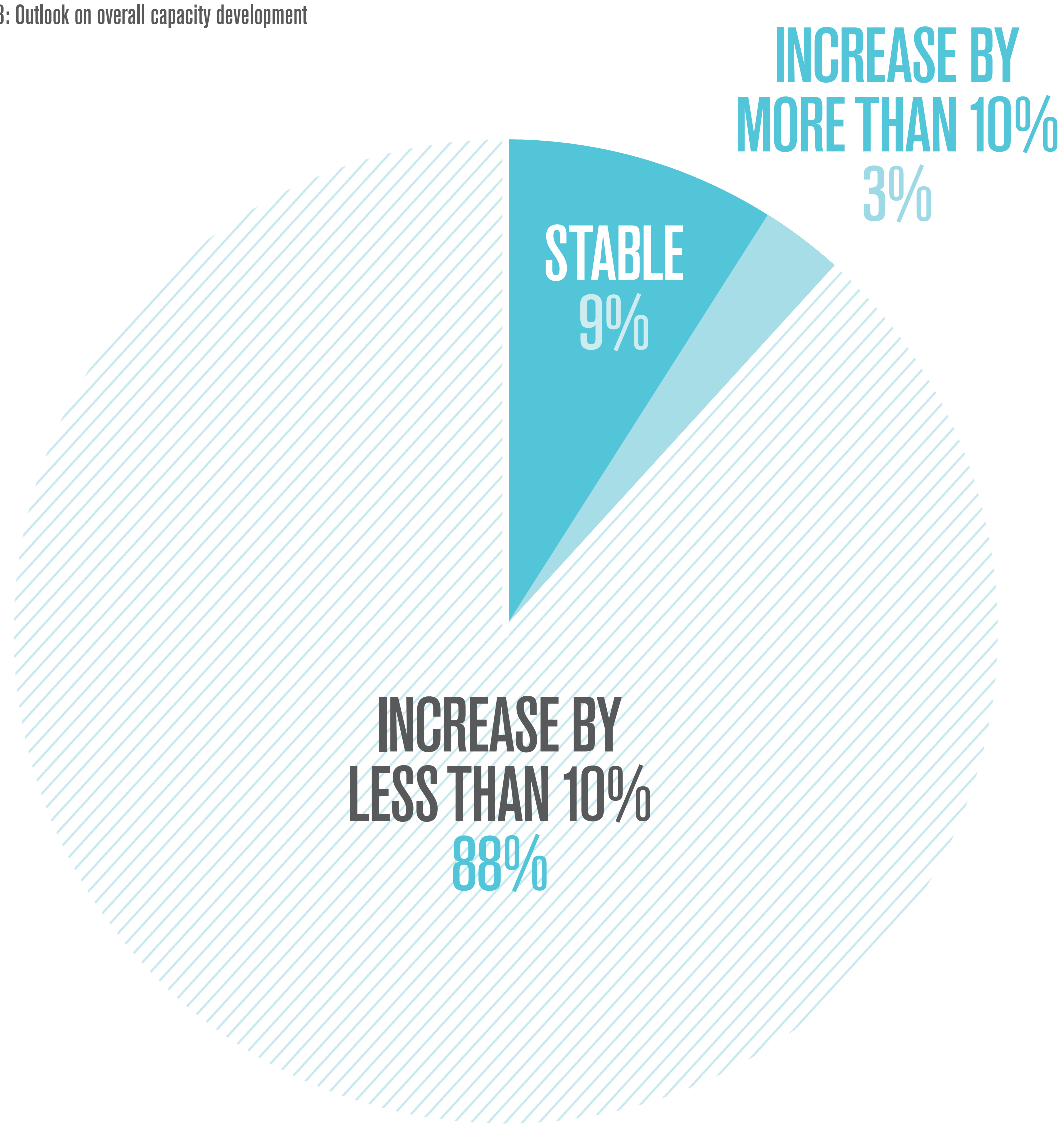
A 'game changer' might be a reversal in global interest rates which would not only wipe out huge unrealised gains on reinsurers' balance-sheets but also reduce the appetite of alternative investors for (re)insurance risks.

However, none of the executives polled expects a significant further increase in capacity by more than 10%, as compared with 18% a year ago. Capacity growth is clearly decelerating.

> "My medium-term outlook is cautiously optimistic. An increasing number of decision-makers are realising that the status quo in terms of rates and profitability is not sustainable."
>
> **Ronald Chidiac, General Manager, Arab Re**

> "The ease of transacting business in the region has improved significantly over the past few years. This is not only attributable to breakthroughs in technology but also a result of more capacity being available locally, within the same time zone."
>
> **Ahmad Rajab, CEO MENA and Turkey, Aon Benfield**

CHART 18: Outlook on overall capacity development

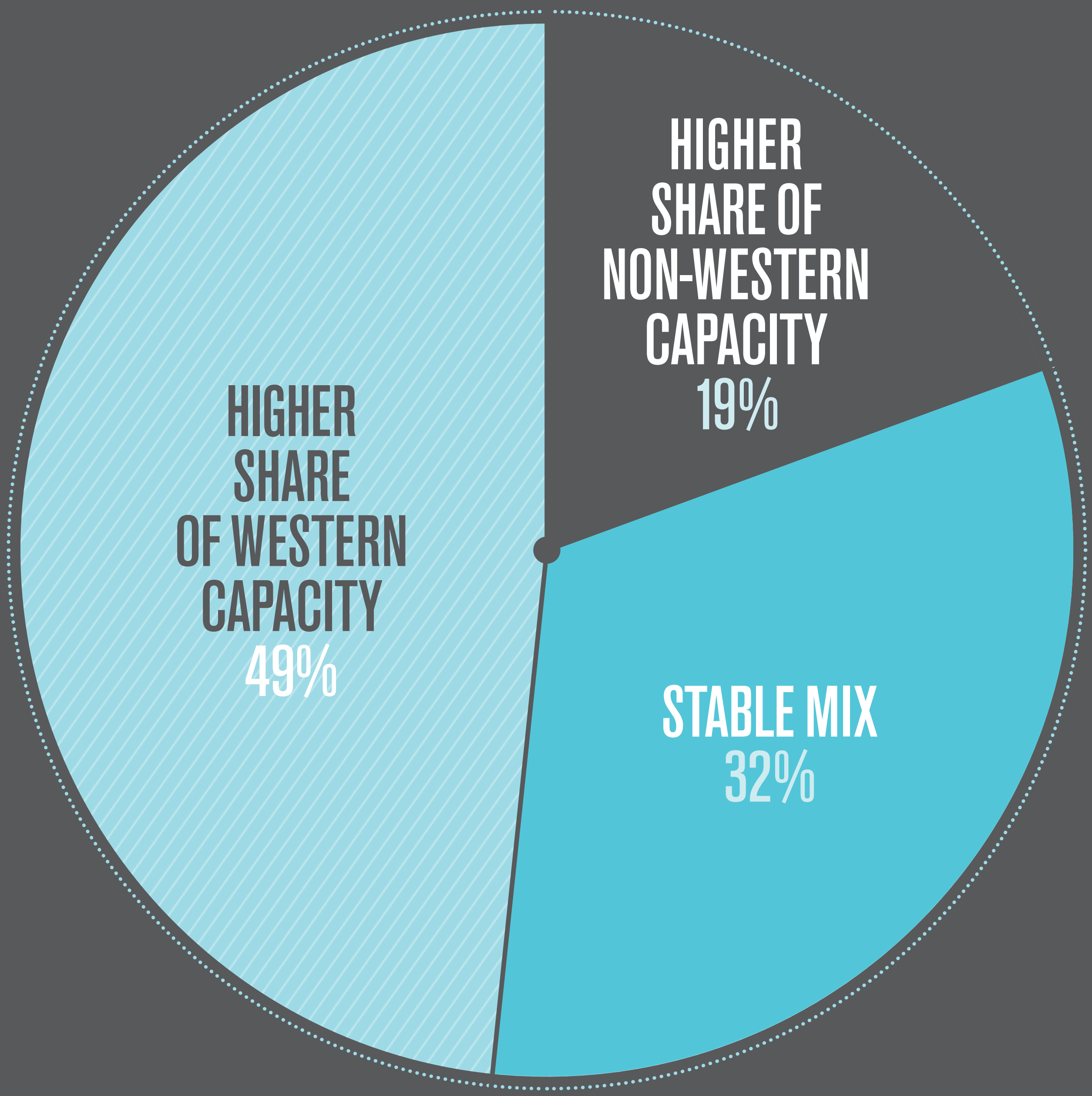


Some 49% of interviewees expect the share of Western capacity to increase over the next 12 months, up from 41% in 2014. This expectation reflects the accelerated inflow of capacity as a result of US and European central banks ultra-expansive monetary policies. More specifically, Lloyd's entry to the market through a regional presence is expected to increase the share of Western capacity, in particular in the field of large risks. A partially offsetting factor is the current political uncertainty which has prompted some Western players to reduce their involvement.

Only 19% of participating executives, compared with 35% in 2014, believe that the share of regional and Asian (non-Western) capacity will increase at the expense of more traditional sources from Continental Europe, Bermuda and London (see chart 19). Some players are retrenching following significant underwriting losses. However, Chinese capacity, still largely absent from the MENA markets, is considered a wild card and could change the picture.

Interviewees were also asked about the estimated split between these three sources of capacity. On average, Western reinsurers are believed to boast a market share of more than 50%. Based on the executives' estimates, Asian and regional reinsurers accounted for less than 30% and 20% of the market respectively.

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



“ Buying cheap reinsurance capacity is getting easier but it doesn’t provide a competitive advantage if everyone else has it. Those insurers that maintain discipline in both their underwriting and selection of reinsurance partners will create the most sustainable success. ”

Jonathan Sharland, CEO, Trans Re Zurich

“ The MENA reinsurance market has become more selective recently. This trend puts a premium on those players with a strong franchise and a customer proposition emphasising differentiation rather than price. Therefore, we are starting to see the wheat being separated from the chaff. ”

Hedi Hachicha, CUO, Treaty P&C, Africa & Near East, SCOR Global P&C

AVERAGE RETENTION LEVELS

On average, MENA insurers retain about 70% of their non-life premium income (including medical & health), significantly below the global average of almost 90%. Some 42%, down from 65% of interviewees, expect aggregate retention rates to increase by up to 10 percentage points over the next 12 months. They cite mounting pressure from rating agencies, reinsurers and regulators (most notably SAMA) which expect domestic insurers to have more ‘skin in the game’. In addition, the gradual shift towards non-proportional reinsurance is pushing up aggregate retention levels. The same effect is exerted by the changing business mix of primary markets. Motor and medical insurance, fuelled by compulsory requirements, grow significantly faster than other property and casualty lines. This shift results in an increase in aggregate retention levels but should not mask the fact that in lines such as engineering, energy and aviation, retention levels remain well below 10%.

Interestingly, 19% of executives polled expect retentions to decrease, compared with 3% in the previous year. Capacity is cheap and commissions generous, reducing the incentive to retain more (see chart 20).

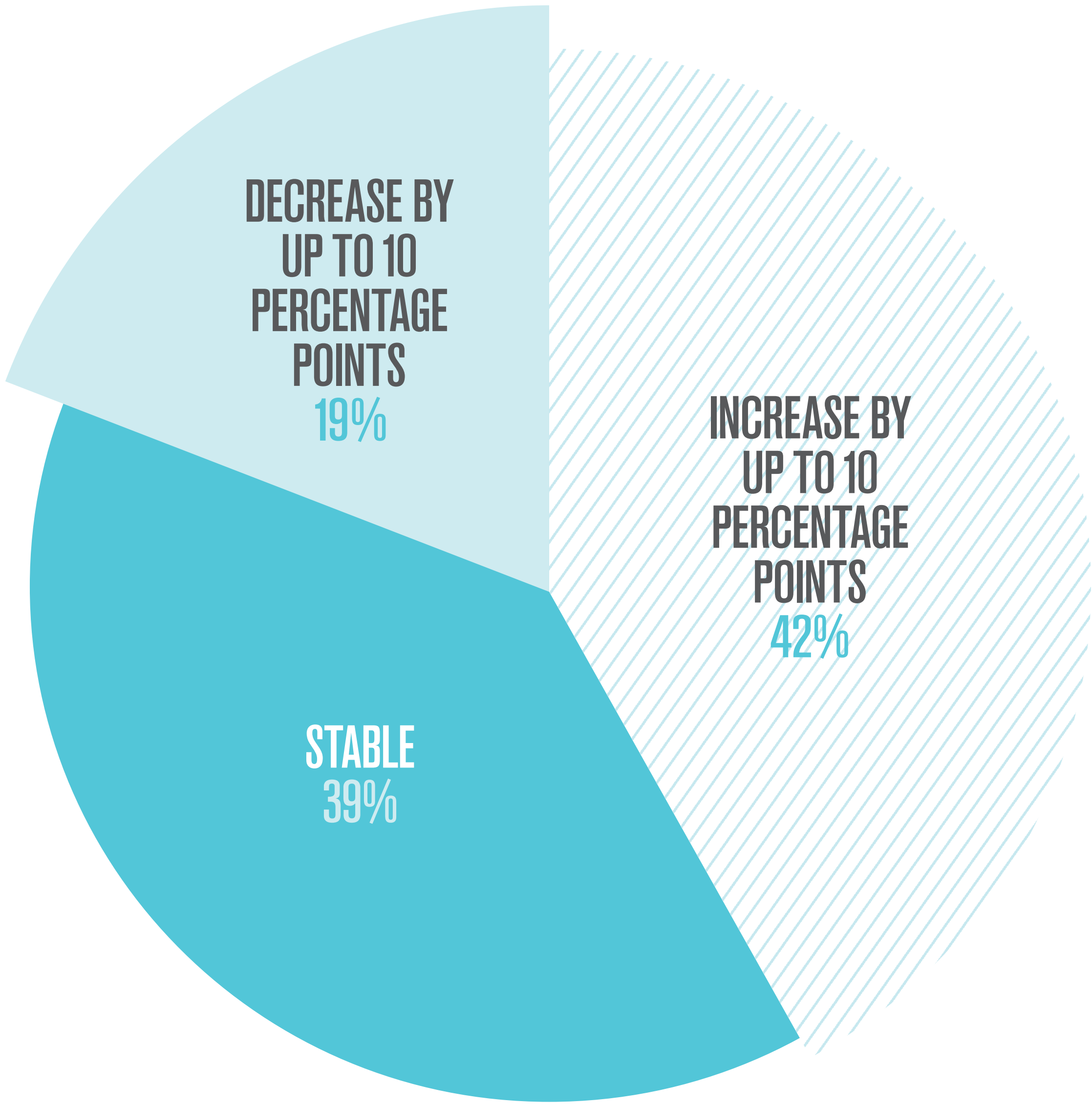
“We have to be cautious about aggregate retention trends: Rising retentions are still largely limited to personal lines and the bigger players in the market.”

Yassir Albaharna, CEO, Arig

“Regarding the current level of retentions, we are seeing a mixed picture. On one side, some larger and advanced insurers surely will increase their retentions and retain more risk. On the other side, we witness phenomena almost forgotten such as poor Motor liability pro-rata cover or even some sort of Medical quota shares, demonstrating that in the current market environment cedants experience no difficulty in placing even the worst loss-making risks.”

Vincent Grailhon, Senior Treaty Underwriter, Hiscox Re

CHART 20: Outlook on retention levels



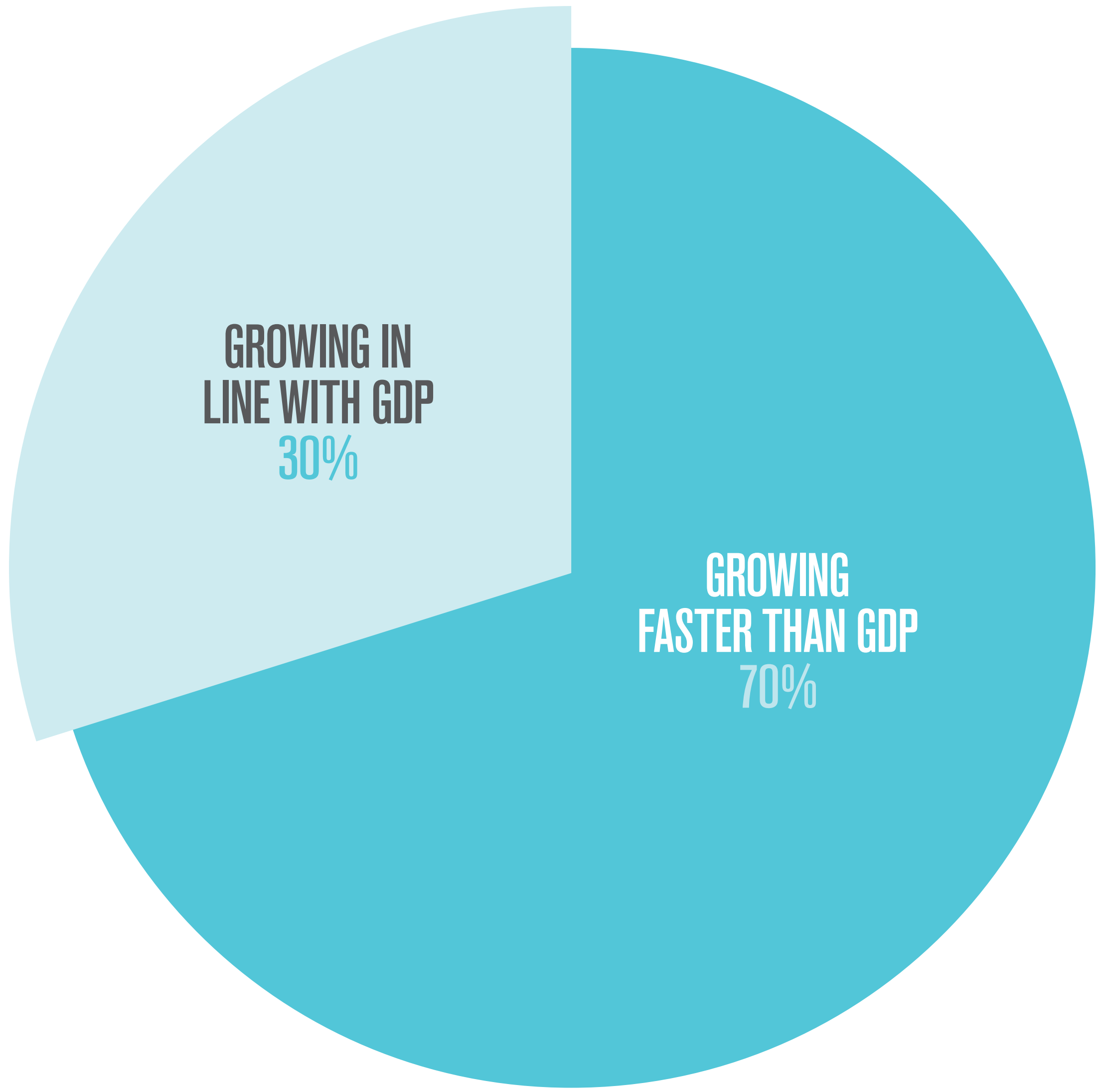
REINSURANCE EXPOSURE GROWTH

Over the next 12 months, 70% of respondents expect reinsurance exposure to grow at a faster pace than the MENA countries' GDP, compared with 81% in 2014. Not a single survey participant expects exposure growth to trail GDP growth (see chart 21).

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

However, exposure growth is also the result of softening rates which cause risk to grow faster than returns.

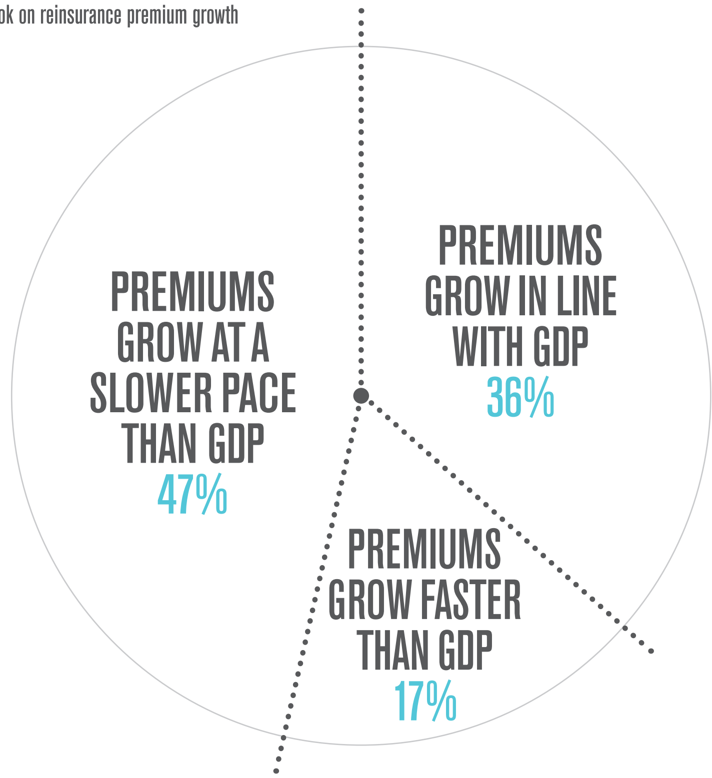
CHART 21: Outlook on reinsurance exposure growth



REINSURANCE PREMIUM GROWTH

Reinsurance premium growth compares less favourably with GDP than reinsurance exposure growth. Some 47% expect reinsurance premiums to trail behind GDP growth, against 56% of respondents in 2014. These executives point to continued pressure on reinsurance rates, rising retentions, the growing share of personal lines business and a lower share of proportional business. All these factors dampen reinsurance premium growth and prevent reinsurers from fully participating in the primary markets' strong expansion (see chart 22).

CHART 22: Outlook on reinsurance premium growth



"The slowdown of reinsurance premium growth rate compared to that of GDP could be explained partially by the price competition in our MENA markets but may also have something to do with the low insurance penetration rates in the MENA economies. This is to say that enhancement of individuals and companies' revenues pertaining to economic growth are probably not producing more demand on insurance and reinsurance products due to the lack of insurance awareness. It's particularly the case for insurances covering households and small businesses."

Mohamed Seba, Chairman, CCR

"We expect that reinsurance exposure growth will outpace that of GDP. Clearly, value creation continues in the region, but, more importantly, cedants buy more capacity at very competitive rates. As a consequence, we witness a steady increase of liabilities, while reinsurance premiums do not develop proportionally."

Khaled Nouiri, Regional Director & Senior Underwriter, Trust Re

SURVEY RESULTS

LINES OF BUSINESS-SPECIFIC PROSPECTS

Medical insurance continues to be viewed as the fastest growing line of business over the next 12 months, boosted by the expansion of existing – and the introduction of new – compulsory insurance requirements. The second most rapidly expanding line is motor (up from third in 2014), which is not only benefiting from strong population growth but also from higher rates in the wake of regulatory action. Construction and engineering business ranks third, one position lower than in 2014, reflecting a continued construction boom in Saudi Arabia, Qatar and the UAE (see chart 23).

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

MEDICAL	25
MOTOR	19
CONSTRUCTION & ENGINEERING	14

The slowest growing lines are property, marine hull and liability. Property reinsurance premiums are being squeezed by fierce competition in a highly commoditised segment of the market as well as the virtual absence of a mortgage market in most MENA countries. Marine hull business continues to suffer from the declining importance of international trade as an engine of regional growth as well as the absence of large commercial fleets in the Middle East. Liability reinsurance remains marginal as a result of a very low level of awareness (see chart 24). Compared with 2014, property and marine hull have swapped positions in the ranking.

“Casualty reinsurance is growing strongly in the MENA region, albeit from a small base, as more and more countries make coverage mandatory. An example is Professional Indemnity insurance in the Maghreb, Saudi Arabia and the UAE. At the same time, this trend towards longer-tail business creates challenges in the area of ALM as fixed-income assets with matching durations are in short supply throughout the region.”

Hedi Hachicha, CUO, Treaty P&C, Africa & Near East, SCOR Global P&C

“It is a well-proven fact across all emerging markets that the financial sector plays a pivotal role in economic and societal development. Insurance offers particular benefits, from enabling innovation to facilitating financial intermediation. That’s why it is so important that policymakers in the MENA region continue their efforts to jump-start insurance markets through additional schemes, for example for homeowners.”

Bernd Kohn, CEO Africa & Middle East, Munich Re

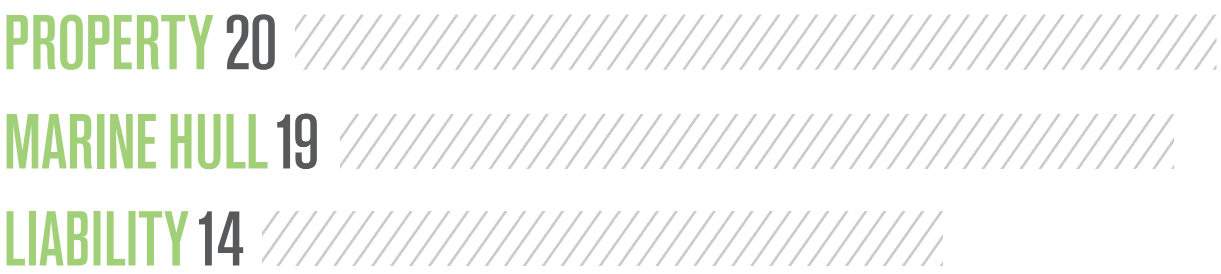
“In the motor and medical lines of business rates appear to have hit bottom. As a result of major losses, insurers have started to re-underwrite these portfolios which are largely retained.”

Salvatore Orlando, Head of High Growth Markets, PartnerRe

"To some extent, the unabated influx of reinsurance capacity into the MENA marketplace is based on a misperception. The headline numbers of primary market growth are impressive. However, the engines of this development are medical and motor insurance, i.e. lines that are largely retained by insurers. As a result, reinsurance premiums expand at a significantly slower pace than the primary market."

Farid Chedid, CEO, SEIB Insurance and Reinsurance

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



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

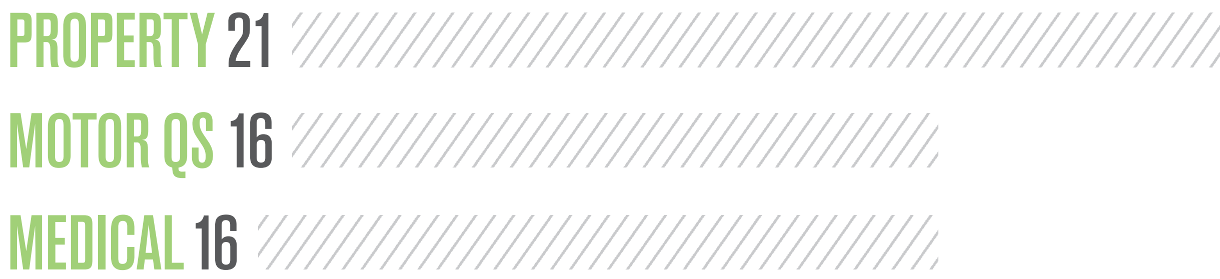
CHART 25: The most profitable lines of business (number of mentions)

Property, motor (quota share) and medical reinsurance are considered the least profitable lines of business, unchanged from 2014.

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

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

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

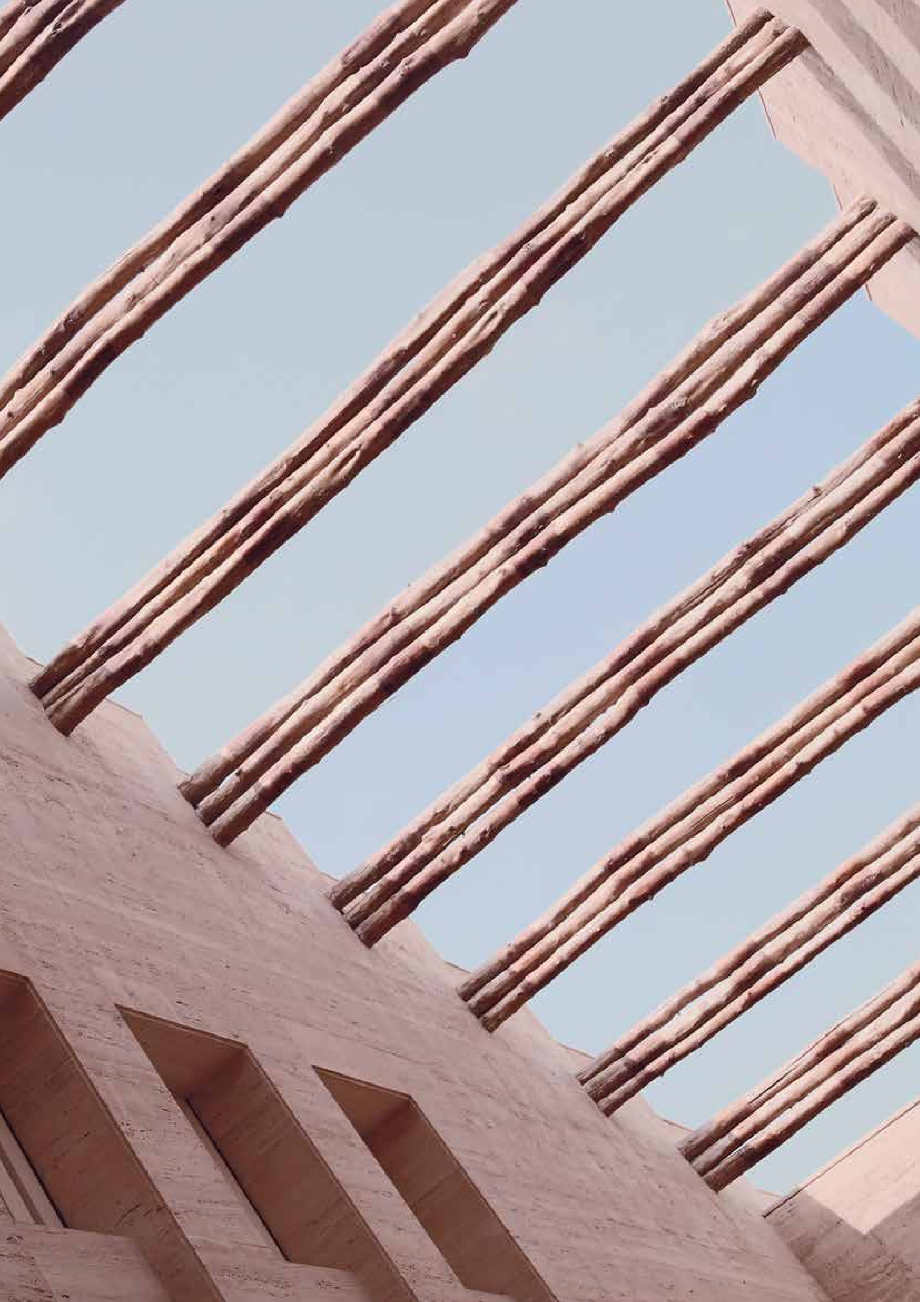


"Reinsurers that want to succeed and build an account in the Middle East need to differentiate themselves from the herd. They have to have the talent and the capability to innovate and enter new classes of specialist business, which will enable them to diversify away from the commoditised lines which are dominated by pricing competition."

Christopher Pleasant, Managing Director MENA, Guy Carpenter

"Facultative business is generating acceptable returns as it is internationally-priced, whereas technical results in proportional treaty reinsurance are generally negative."

Yassir Albaharna, CEO, Arig



SURVEY RESULTS

THE REGION'S MOST RELEVANT
REINSURANCE TRENDS

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

As in 2014, the most frequently mentioned trend is the rise of alternative capital and its primarily indirect impact on MENA reinsurance markets. An increasing number of traditional reinsurance carriers are looking for new destinations for their capacity, with the Middle East and other emerging regions being particularly popular. This development continues to put significant pressure on rates, terms and conditions and the overall profitability of Middle Eastern reinsurance business.

The localisation of capacity continues to be the second most frequently mentioned trend. There is an increasing amount of capacity available from local entities of global carriers as well as decision making authority in the region itself. As a result, traditional cross-border business is losing in importance. The local establishment of Lloyd's is viewed as further testament to the need to serve the market from a local base. In general, the local availability of 'A' rated capacity, as well as relevant technical expertise, is viewed as a very positive development which will strengthen the region's reinsurance markets.

A new trend, and the third most frequently mentioned, is the adoption and implementation of more effective regulatory frameworks in the region. Regulators tend to move to more risk-based approaches to solvency determination and seem to be more inclined to enforce more disciplined pricing and reserving policies. So far, however, the latter developments primarily affect personal lines (medical and motor), with limited immediate impact on reinsurers.

" In some markets, and among North African insurers in particular, we are witnessing an increasing awareness of the importance of capital management, a total balance-sheet approach and the steering of business according to economic principles. This is a major development which, in conjunction with evolving ERM practices in the region, could pave the way for genuine risk taking, rather than customary risk trading, by local insurers. "

Andreas Pollmann, Client Executive MENA, Munich Re

" Most classes are now underwritten locally through A-rated capacity, with the technical knowledge and expertise on the ground. This is a major development which has made the region's insurance and reinsurance markets stronger and added to overall professionalism. "

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

" We are witnessing an increase in retention in some of the MENA markets where Africa Re is active. Insurers have retained some of their profits to strengthen their capitalisation, which enables them now to keep more business on their balance sheet. In addition, primary insurers demonstrate a stronger confidence into the quality of their own business and thus cede less. "

Omer Gouda, Regional Director Northeast Africa & Middle East, Africa Re

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

SURVEY RESULTS

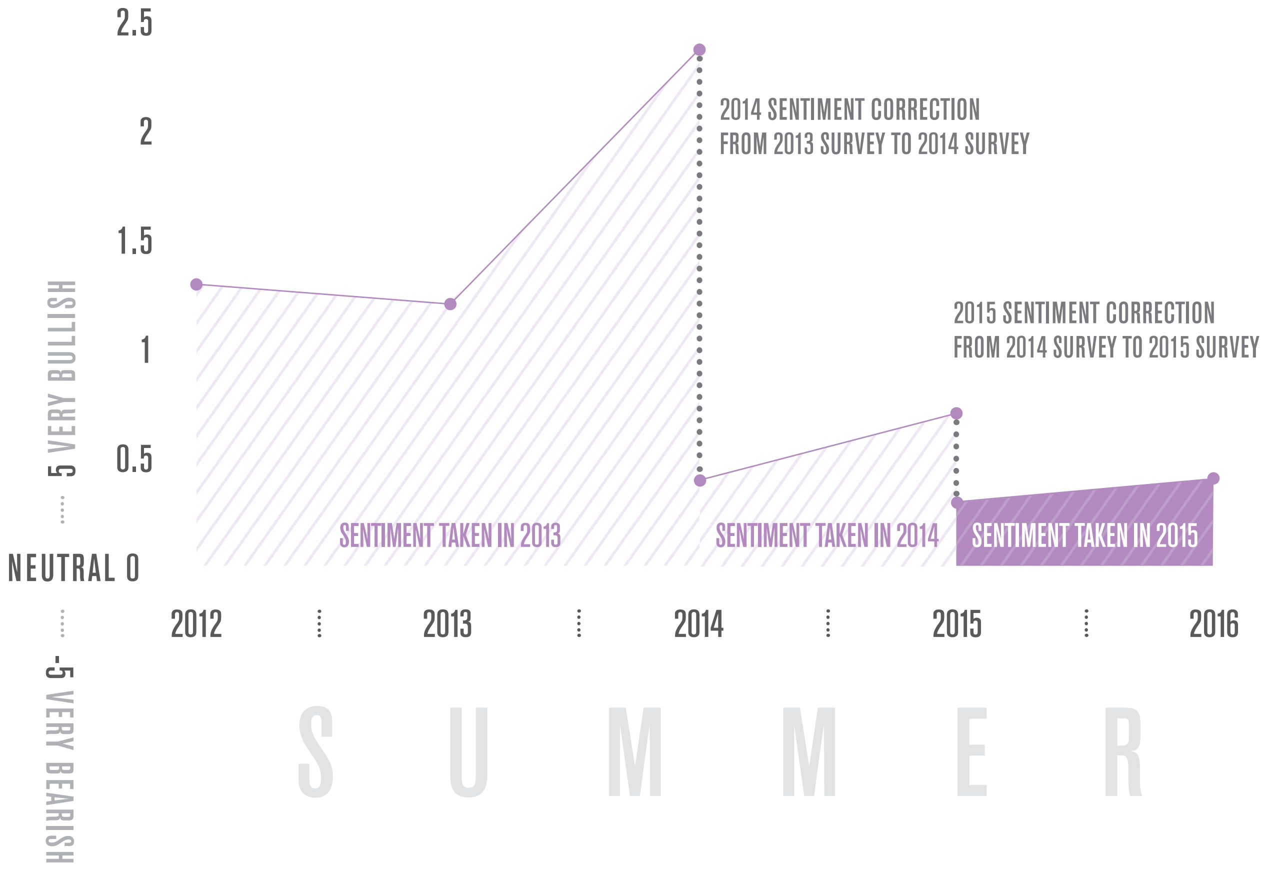
OVERALL MENA REINSURANCE
BUSINESS SENTIMENT

As in previous editions, the 2015 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 2015 came in at 0.3, marginally down from 0.4 in 2014 and only slightly less than the 0.7 that survey participants predicted for 2015 in the last Barometer 2014. The outlook for 2016 is stable with sentiment improving slightly to 0.4.

Despite continued pressure on rates, terms, conditions and profitability as well as growing political instability, overall sentiment remains slightly positive. Unabated growth in primary markets, significant regulatory improvements and a deceleration of reinsurance capacity growth are strong offsetting factors.

CHART 28: Average MENA reinsurance business sentiment



" Open access is a traditional strength of the MENA reinsurance market. However, the current pressure on margins and terms as a result of ever-growing excess capacity calls for regulatory measures aimed at strengthening market discipline. The 'law of the jungle' is not a viable proposition from a long-term perspective. I would like to recommend to the regulators in the region to study the Chinese example (C-ROSS) which includes measures to reward genuinely committed reinsurers with a local presence and capital base without foregoing the benefits of an open market, but would limit the excess capacity in the MENA reinsurance market. "

Mohamed El-Dishish, CEO, Emirates Re

" One of the biggest threats to the region's (re)insurance market is passivity: We need to embrace technology and innovation in order to create a stronger and more resilient marketplace. At the same time this is an opportunity as there are no major legacy problems standing in our way. "

Mark Cooper, Lloyd's Dubai Country Manager

" The promotion of local talent and the development of know-how is of utmost importance. More should be done in this area, also at the industry associations' level. Otherwise, requirements of workforce localisation could impose a significant cost on local insurers and reinsurers. "

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

" Regional reinsurers have to face the global trend towards increasing scale. A consolidation of the marketplace seems to be inevitable to meet clients' future needs. "

James Attwood, Chief Underwriting Officer, Kuwait Re

ABOUT THE QATAR FINANCIAL CENTRE

The Qatar Financial Centre (QFC) is a fully onshore business and financial centre which provides an excellent platform for firms to set up and do business in Qatar and the region.

The QFC licences a broad range of professional and business services firms and supports their entry with streamlined processes and fast application turnaround times. New firms can set up anywhere in Qatar and are assisted with immigration, visas and office facilities.

The QFC offers its own legal, regulatory, tax and business environment, which allows 100% foreign ownership, unlimited repatriation of profits, and no restrictions on the currency used for trading. QFC-licensed firms benefit from a double taxation agreement with over 60 countries and are charged a competitive rate of 10% corporate tax on locally sourced profits. Local companies can opt for a concessionary tax rate of 0% to apply to their QFC business entities.

The QFC community is served by a dedicated Client Relations team who provide networking opportunities, publications, and an extranet platform, in addition to advice and support to firms.

For more information about
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