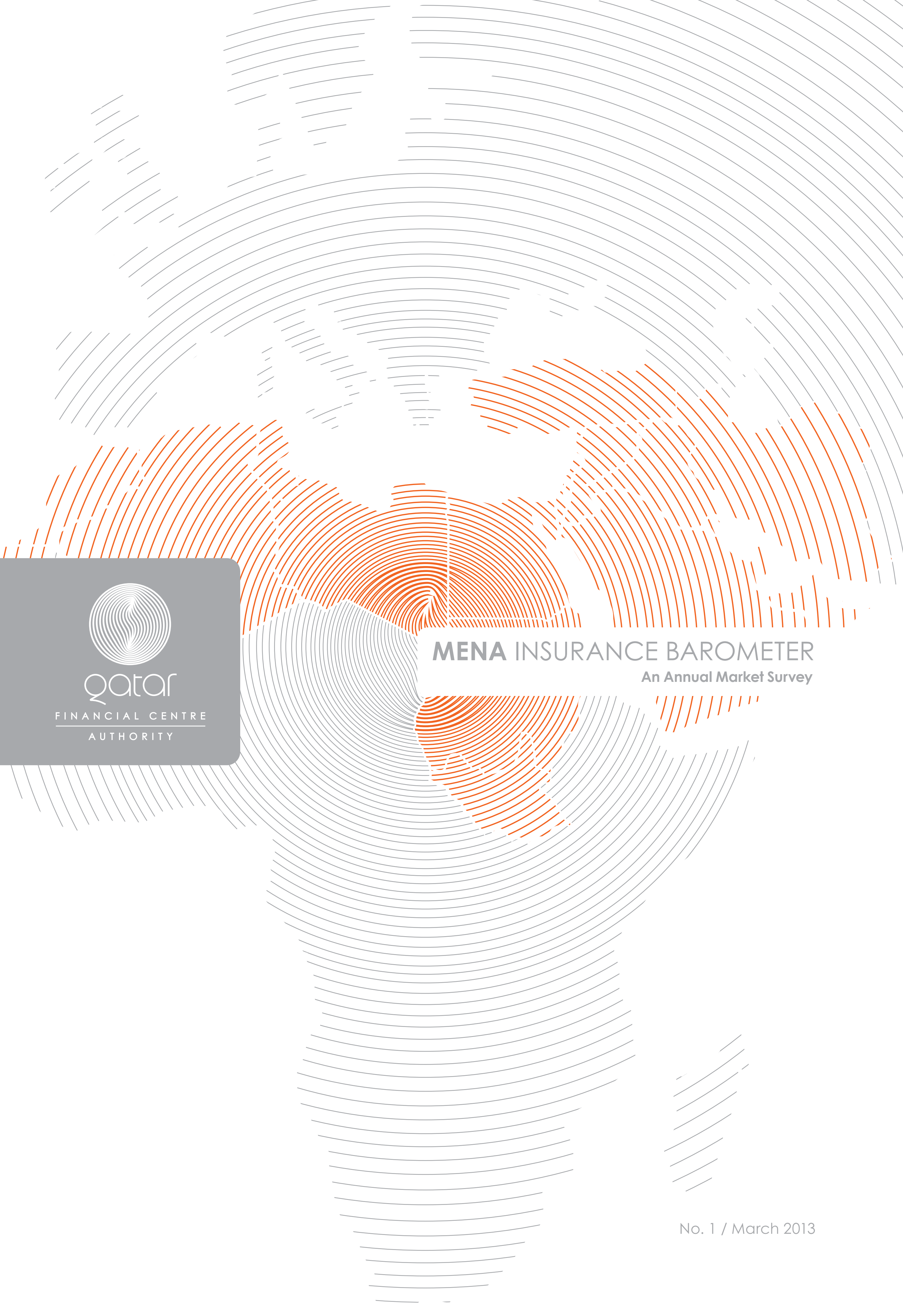

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MENA INSURANCE BAROMETER

An Annual Market Survey

No. 1 / March 2013

THE MENA INSURANCE BAROMETER

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An Annual Market Survey

Prepared by Dr. Schanz, Alms & Company AG, Zurich

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FOREWORD

Shashank Srivastava
CEO & Board Member of the Qatar Financial Centre Authority (QFC Authority)

We are pleased to present the first edition of the annual 'MENA Insurance Barometer'. It builds on the 'GCC Insurance Barometer' launched in 2012 but now includes the wider Middle East North Africa (MENA) region. This extended geographical scope takes into account the ever closer economic, social and political ties between the Gulf region, the Levant, Northern Africa and Turkey.

This report is based on in-depth interviews with senior executives of 35 regional and international insurance and reinsurance companies, as well as intermediaries operating in the region. It provides a unique overview of the current state and near-term prospects of the US$ 40 billion MENA insurance markets, with a total population of more than 360 million, as well as a summary of key regional insurance market data.

Over time, the Barometer will help foster greater transparency in the MENA insurance marketplace and provide participants with an additional benchmark for decision-making. The Barometer offers a comprehensive picture of current market sentiment and will track this over time.

The first survey identifies a number of trends and developments shared by the entire region. However, it also confirms that the MENA countries differ widely in terms of insurance market and regulatory dynamics.

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

METHODOLOGY

Our findings are based on in-depth telephone and face-to-face interviews with executives representing 35 companies active in the MENA region, including international and regional insurers, reinsurers and intermediaries. The interviews were conducted by Dr. Schanz, Alms & Company AG, Zurich in December 2012 and January 2013.

The companies that took part in the survey were:

- Abu Dhabi National Insurance Company (ADNIC), UAE
- ACR ReTakaful, Malaysia
- Africa Re, Egypt
- Al Futtaim/Orient, UAE
- Allianz Global Corporate & Specialty, UAE
- Al Wathba, UAE
- Arab Insurance Group (Arig), Bahrain
- Arab Re, Lebanon
- Chedid Re, Lebanon
- Compagnie Centrale de Reassurance (CCR), Algeria
- Dubai Insurance Group (Dubai Holding), UAE
- Emirates Insurance, UAE
- Eureko Sigorta, Turkey
- Generali Middle East, UAE
- Hannover Re, Bahrain
- Howden Insurance Brokers, UAE
- Marsh Middle East, UAE
- Milli Re, Turkey
- Munich Re, Germany
- Oman Re, Oman
- Oman United Insurance Company, Oman
- PartnerRe, Switzerland
- QBE Insurance, UAE
- Q-Re, Qatar
- Saudi Re, Saudi Arabia
- SEIB Insurance and Reinsurance, Qatar
- Solidarity Holding, Bahrain
- Swiss Re, Switzerland
- Takaful Re, UAE
- Tawuniya, Saudi Arabia
- Tokio Marine, UAE
- Trust Re, Bahrain
- Türker Brokers, Turkey
- XL Insurance, Switzerland
- Zurich Insurance Company, UAE

SUMMARY OF KEY FINDINGS

1. Confidence in the future of the MENA insurance sector remains strong. 68% of respondents expect that premium growth will exceed that of the region's gross domestic product (GDP). Robust economic growth is anticipated to continue to be the most powerful driver of insurance market growth going forward. The region's exceptionally low insurance penetration, at just one-fifth of the global average, and a bright outlook for personal lines business are considered key long-term opportunities for the insurance sector.

2. The major weaknesses of the MENA insurance markets are perceived to be excessive levels of competition and regulatory deficiencies. Reflecting the Arab Spring, geo-political risk features most prominently on the list of threats and challenges, followed by an erosion of profitability as pressure on rates persists and investment income is expected to remain low.

3. The Barometer found that an overwhelming number (91%) of respondents consider commercial insurance rates to be low, while just over half (55%) hold the same view for personal lines business. The majority of respondents do not expect further deterioration of rates over the next 12 months. Profitability levels are judged more positively, with 66% considering them as low in commercial lines business but only 39% holding the same view for personal lines. The outlook for profitability is similar to the respondents' assessment of pricing trends – more than three quarters of respondents expect a flat or slightly upward trend.

4. The survey found that only 36% of respondents expect the MENA insurance market to consolidate over the next 12 months as average levels of capitalization are solid and family ownership remains a major obstacle to mergers and acquisitions.

5. Some 50% of interviewees expect that foreign insurers will gain market share over the next twelve months, on the back of superior customer focus, distribution know-how and technical skills.

6. The prospects of Takaful insurance are viewed critically. Only 38% of respondents expect this market segment to outgrow total insurance premiums. Business models for Takaful insurance are believed to be in need of a thorough review.

THE MENA INSURANCE BAROMETER

The Barometer measures current perceptions of the insurance market in the MENA region, tracking them over time to monitor changes in attitudes towards the MENA insurance market. Findings from 2012 and 2013 are not fully comparable, given the enlarged geographical scope of this report to include MENA, rather than Gulf Cooperation Council (GCC) countries alone. The main differences in findings include:

- A stronger expectation of increasing insurance penetration levels.
- A significantly more positive view on the current profitability of personal lines.
- 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)	**May 2012**	**March 2013**
Coverage area	**GCC**	**MENA**
No. of participating companies	20	**35**
Insurance premiums to grow faster than GDP*	60	**68**
Insurance prices are currently low		
- Commercial lines	90	**91**
- Personal lines	58	**55**
Insurance prices to remain stable or increase		
- Commercial lines	70	**77**
- Personal lines	75	**72**
Insurance profitability is currently low		
- Commercial lines	70	**66**
- Personal lines	73	**39**
Insurance profitability to remain stable or improve		
- Commercial lines	90	**77**
- Personal lines	79	**83**
Insurance markets to consolidate	40	**36**
Foreign market share to increase	60	**50**
Takaful insurance to outgrow total market	80	**38**

*Over the next 12 months

MARKET OVERVIEW

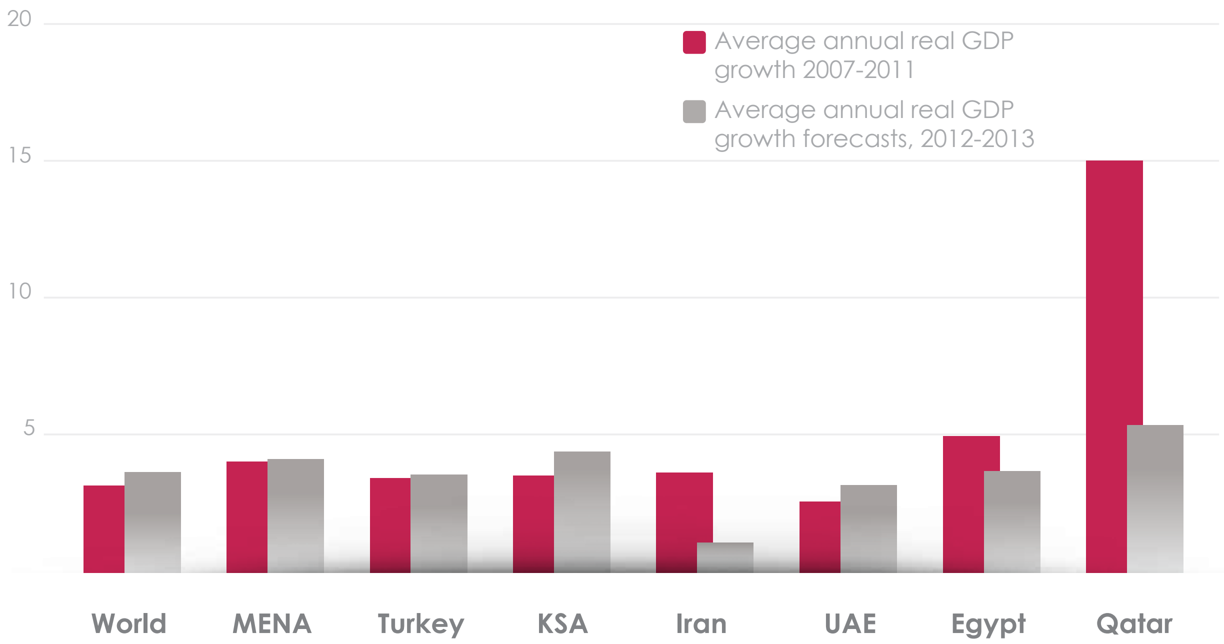
MENA economies and insurance markets continue to outgrow global average

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. This country selection (hereafter referred to as MENA) reflects the availability of internationally comparable insurance data.

In 2011, these 14 countries, with a total population of more than 360 million, generated a combined gross domestic product (GDP) of about US$ 3.3 trillion, close to 5% of the world's total. As an economic block the region would rank as the world's fifth largest economy, almost matching Germany.

At an inflation-adjusted growth rate of 4.2% per annum between 2007 and 2011, the region's economies grew faster than the global average (3.3%). Qatar's GDP growth stands out, primarily reflecting the expansion in liquefied natural gas (LNG) capacity (see chart 1). Qatar is expected to remain the region's most vibrant economy though growth rates are set to fall to single-digit levels as LNG development programmes near completion.

Chart 1: Real GDP growth (2007-2013f)



Source: IMF

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

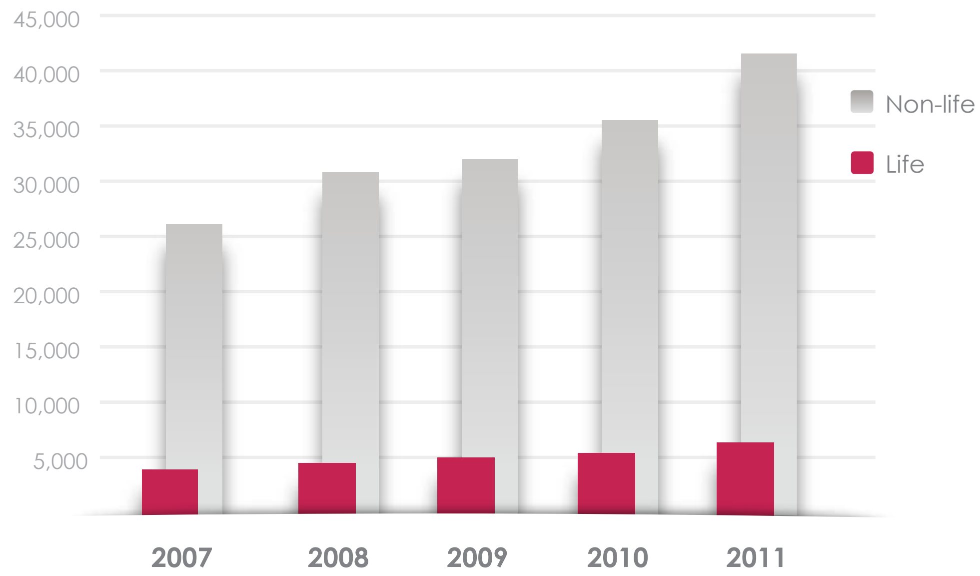
The economic outlook for MENA countries is mixed. Most of the region's oil-exporting countries are expected to continue growing at healthy rates whereas oil-importing countries are forecast to face economic headwinds. Driven by proceeds from booming oil prices, growth in the six countries of the GCC remains robust. Governments continue to spend heavily and monetary conditions remain favourable. However, in a number of countries government expenditure on wages has risen faster than the price of oil, increasing their vulnerability to a negative oil price shock. The outlook for oil-importing countries is more challenging. Even though (newly-elected) governments have maintained macroeconomic stability, fiscal and external balances have deteriorated as foreign direct investment flows have slowed and international food and fuel prices have continued to rise. In addition, the crisis of the Eurozone weighs heavily on a number of countries that have important economic links with Europe.

All in all, for 2012 and 2013 the International Monetary Fund (regional outlook November 2012) expects GDP growth in oil-exporting countries to be more than twice the level of oil-importing countries (4.6% versus 2.2%), widening the historical growth gap between the two regions.

MENA insurance markets outgrow GDP

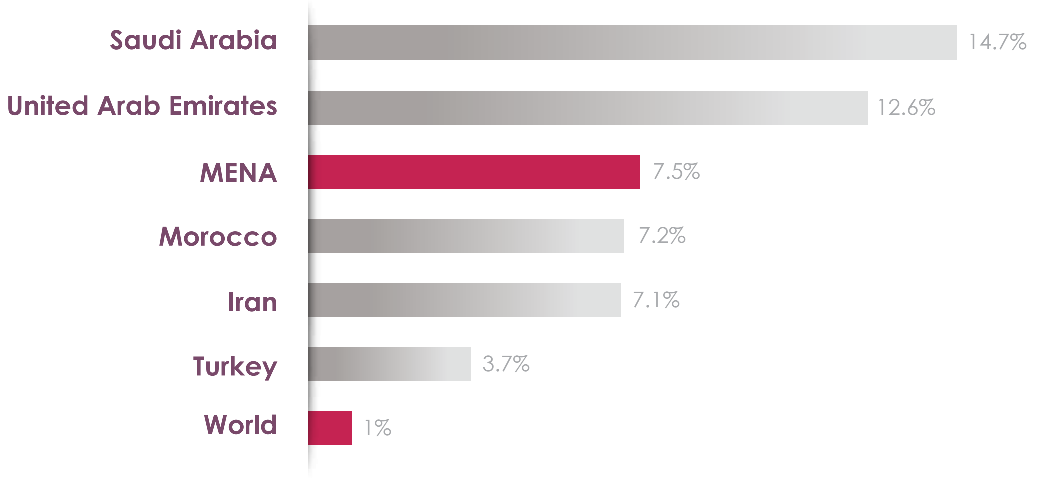
Insurance markets in the MENA region mirror the macroeconomic dynamics of the region as well as the market's low insurance penetration - premiums account for just 1.3% of GDP, a fifth of the global average. However, this gap is narrowing as MENA insurance markets have outpaced GDP growth recently. Between 2007 and 2011, total non-life and life premium volume in the region expanded from about US$ 26 billion to US$ 42 billion (see chart 2). At a share of less than 16%, life business continues to play a relatively minor role even though it grew slightly faster than the non-life market (at an annual average real rate of 10% as compared to 7.5%; see charts 3 and 4).

Chart 2: MENA insurance premiums by type (2007-2011, in US$ million)



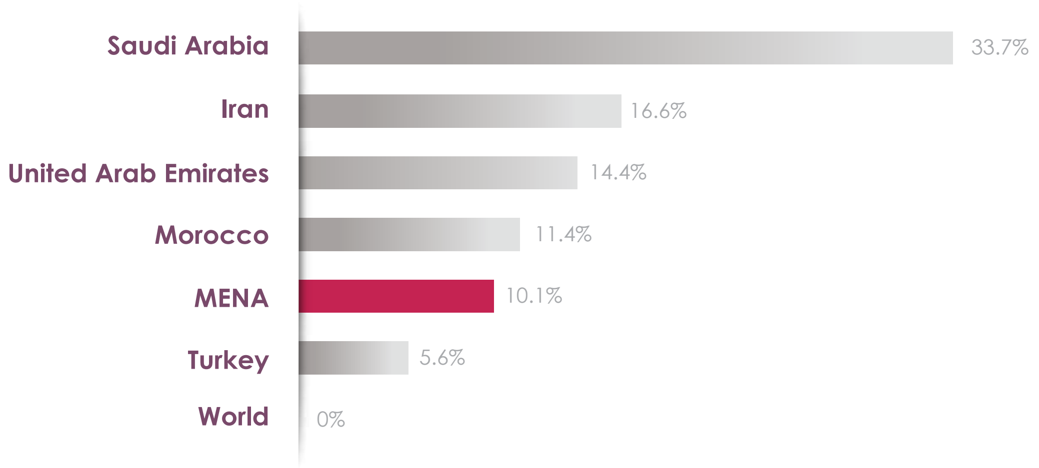
Source: Swiss Re, sigma database

Chart 3: Non-life real premium growth (annual average 2007-2011)



Source: Swiss Re, sigma database

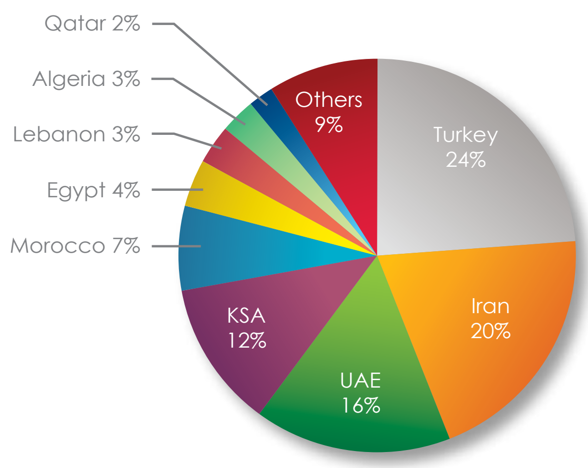
Chart 4: Life real premium growth (annual average 2007-2011)



Source: Swiss Re, sigma database

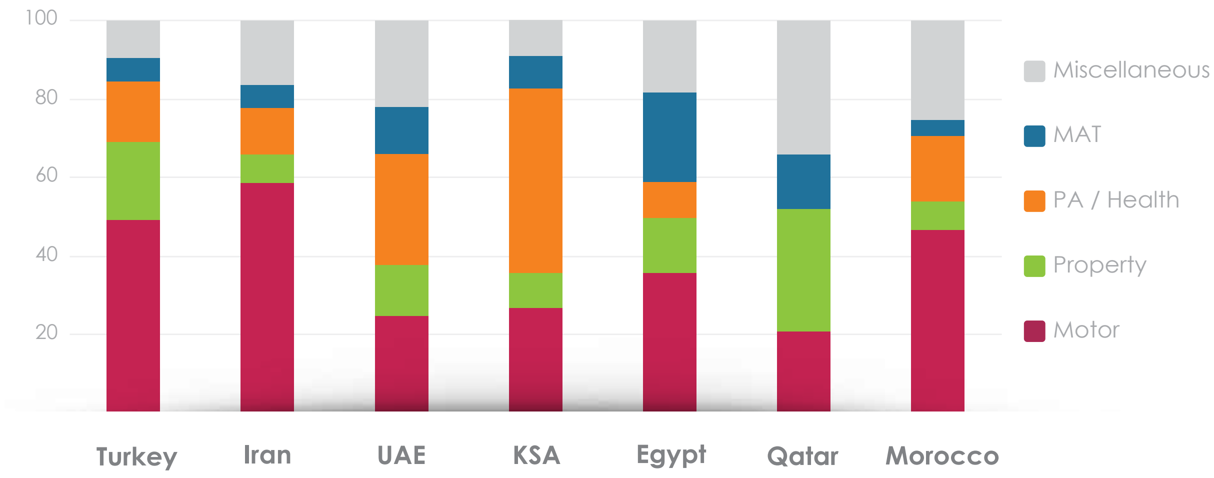
Chart 5: Share of MENA insurance premiums in 2011

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: Own calculations based on Swiss Re sigma database

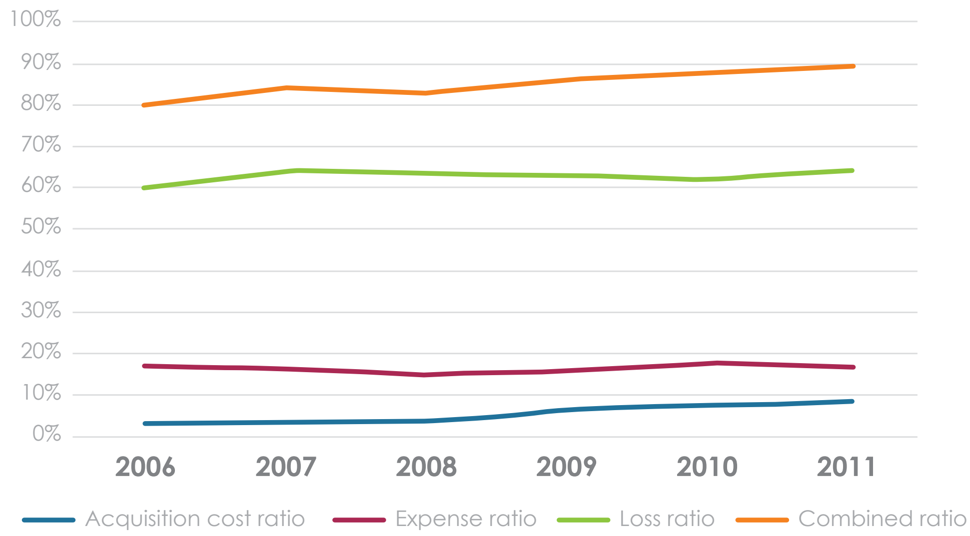
Chart 6: Lines of business split in 2010 (%)



Source: AXCO, based on 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 market segment in major markets such as Turkey, Iran, Morocco and Egypt. However, over the past few years, personal accident and health insurance have been the fastest growing lines of business in increasingly affluent countries such as Saudi Arabia and the UAE, and now represent the biggest market segment. The main driver behind this spectacular growth is legislation, in particular compulsory insurance requirements.

Chart 7: Technical performance, 2006-2011



Source: AM Best (based on their regional rating universe)

Chart 7 demonstrates that the region exhibits strong, albeit deteriorating, technical profitability, primarily driven by increasing acquisition cost ratios. Fierce competition and the influx of new players have put pressure on technical results.

“ **Political instability is clearly a major risk factor in the Middle East. However, this is likely to be a short-term hiatus and not expected to eclipse the strong, long-term fundamentals of the region.** ”

(Ewen McRobbie, CEO, Q-Re)

“ **The progressing diversification of our economies offers significant risk management opportunities for insurers, particularly as we invest more in Alternative Energy, Technology, Aviation & Aerospace, and focus on increasing our Manufacturing Output Capacity. These developments will introduce more complex variations of risk such as Products Liability and Cyber risks.** ”

(Walid Sidani, CEO, Abu Dhabi National Insurance Company)

“ The new regulatory framework in Saudi Arabia offers the potential of making the country the most disciplined insurance market in the region. ”

(Ali Abdulrahman Al-Subaihin, CEO, Tawuniya)

“ Governments are heavily investing in infrastructure, construction, trade, tourism and other sectors to diversify economies away from the hydrocarbon sector. As a result, insurable assets and values are growing exponentially. ”

(Gökhan Aktas, Head of Foreign Inward Business, Milli Re)

“ The MENA region clearly benefits from its comparatively strong economic growth and also the continuous inflow of foreign investments. ”

(Edward Melvin, CUO, Saudi Re)

“ Insurance in Turkey and other MENA countries benefits greatly from the middle class's increasing integration into the financial system, e.g. as a by-product of bank lending requirements or government legislation. ”

(Eray Türker, AGM, Türker Brokers)

“ One of the weaknesses to the market can be attributed to the level of maturity of the legal framework and the level of financial compensation, i.e. rewards, to plaintiffs particularly comparing to other countries wherein such systems are much developed like the United states and Europe. ”

(Bassam Chilmeran, GM, Al Wathba National Insurance Company)

“ Natural catastrophe exposures remain a major concern in particular as most recent events in other parts of the world have exposed the limitations of quantitative models. ”

(Saad Mered, CEO Middle East & Africa, Zurich Insurance Company)

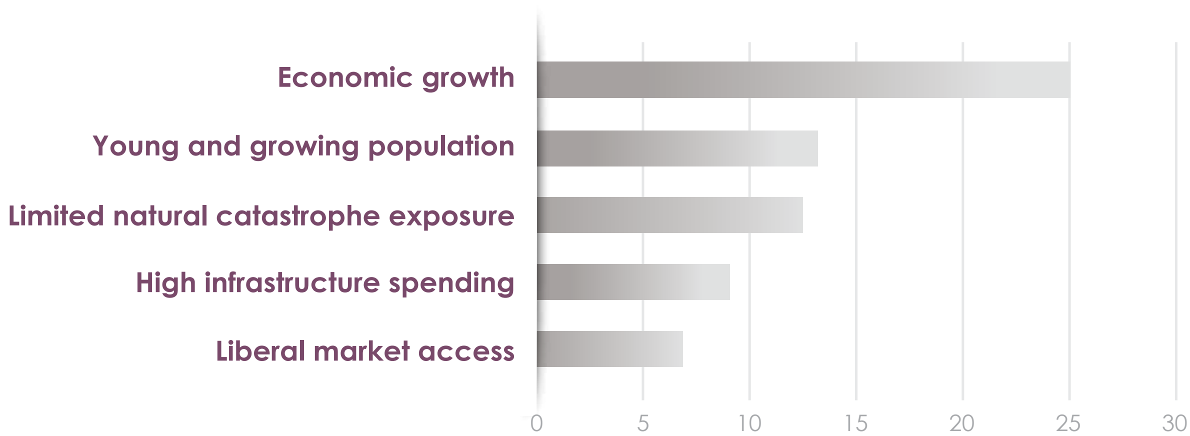
SURVEY RESULTS

1. The overall perspective: Strengths, weaknesses, opportunities and threats of MENA insurance markets

Economic growth considered key strength

The interviewees perceive the region's strong economic growth and associated direct insurance market growth as the most relevant strength. The region's favourable demographics – in most countries the average age of the population is below 30 – ranks second, boosting demand for personal lines insurance such as motor, homeowner's property, life and pensions. Other frequently-mentioned strengths include a relatively moderate natural catastrophe exposure (in the Gulf region, the Levant and Egypt) translating into comparatively low and stable loss ratios, continued government spending on infrastructure projects and generally liberal market access [see chart 8].

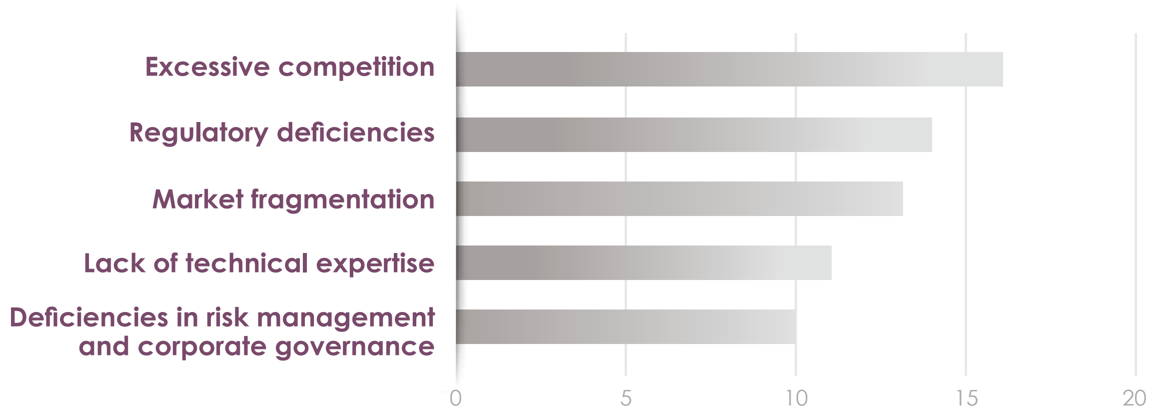
Chart 8: Market strengths (no. of mentions)



Fierce competition viewed as major weakness

High levels of competition and a resulting pressure on technical results – acquisition costs in particular - are the most relevant perceived weakness of the MENA insurance marketplace. This is particularly true for the GCC countries, although less so in North African insurance markets. Regulatory shortcomings rank second – including a lack of supervisory consistency across the region. Other frequently mentioned weaknesses include the high degree of fragmentation, such as a relatively large number of small insurance companies, which tends to make markets less stable and more price-driven, a lack of technical expertise, which also reflects insurers' failure to be perceived as employers of choice and attract talent, as well as the inadequate Enterprise Risk Management and Corporate Governance standards (see chart 9).

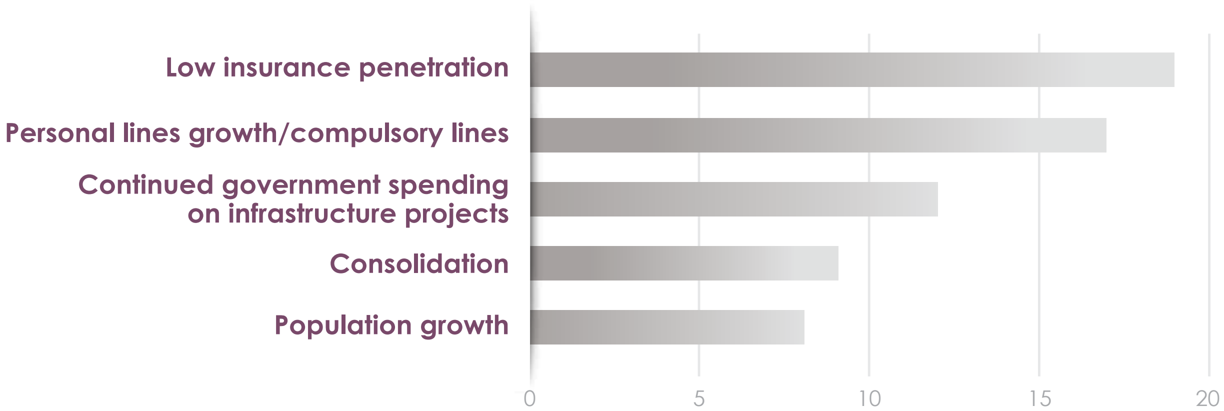
Chart 9: Weaknesses (no. of mentions)

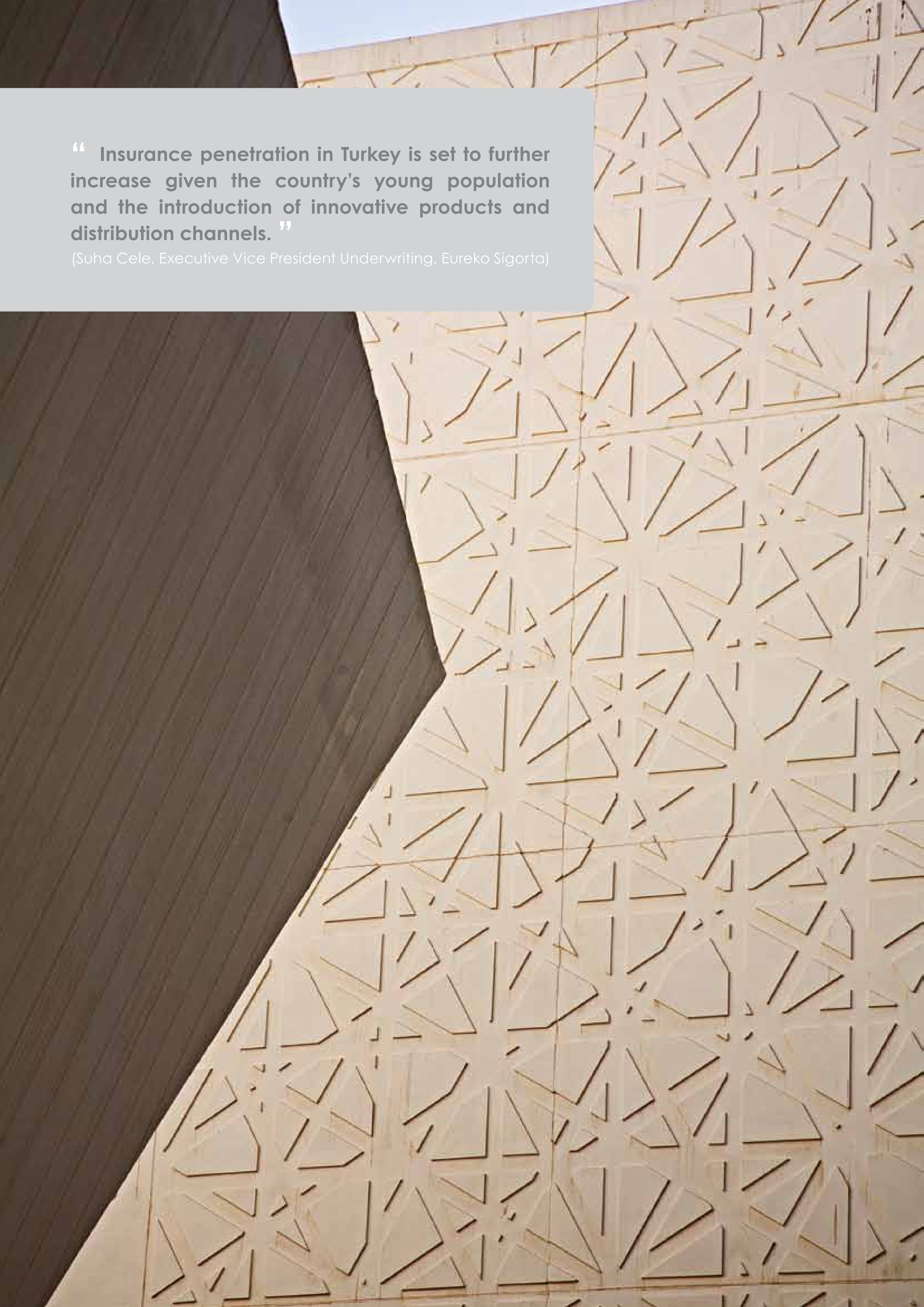


Low insurance penetration levels perceived as most important opportunity

Low penetration levels are one of the most prominent features of the MENA insurance market. The average share of premiums in regional GDP is about 1.3%, compared to 6.6% for the world as a whole. In view of average GDP per capita levels in the MENA region, the potential penetration should be significantly closer to the global average. This major growth potential is viewed as the main market opportunity by most interviewees. A strong outlook for personal lines business ranks second, driven by additional compulsory schemes in the Gulf region (as governments move away from the concept of 'cradle to grave' protection) and Northern Africa, as well as a strengthening of private health insurance in Turkey. Furthermore, increasing levels of personal wealth make individuals more aware of the benefits of household, health and life insurance. Other frequently mentioned opportunities include continued government spending on infrastructure, insurance industry consolidation (with expected positive effects on overall market professionalism and stability) and population growth, including a continued influx of expatriates [see chart 10].

Chart 10: Opportunities (no. of mentions)





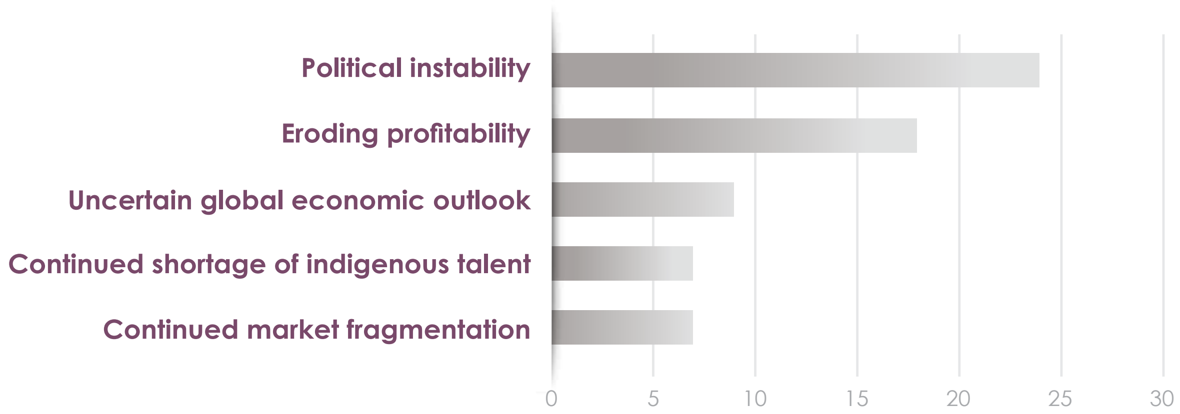
“ Insurance penetration in Turkey is set to further increase given the country’s young population and the introduction of innovative products and distribution channels. ”

(Suha Cele, Executive Vice President Underwriting, Eureko Sigorta)

Political risk continues to top list of challenges

Most interviewees consider political instability (both domestic and geopolitical) as the most relevant threat to their operating environment. The second most frequently mentioned risk factor is an erosion of industry profitability as investment returns remain low while pressure on rates persists. Other potential threats include global economic uncertainty (in particular the debt crisis in the Eurozone, which is an important trading partner to the MENA region), a continued fragmentation of insurance markets (and potential threats to market stability) and the shortage of local talent which could cloud the medium- to long-term prospects of the region's insurance industry (see chart 11).

Chart 11: Threats (no. of mentions)



> **"The region's insurance industry currently faces the double challenge of having to boost the profitability of its core business of risk underwriting whilst navigating through a dynamically evolving regulatory landscape."**
>
> *(Walid Sidani, CEO, Abu Dhabi National Insurance Company)*

> **"Risk management in the region does not sufficiently reflect the actual risk exposures. This is particularly threatening as current rates are below the technical price."**
>
> *(Christian Mueller, Underwriting Manager Construction – International, XL Group)*

2. Market Status and Outlook

Commercial lines business remains fiercely competitive

The Barometer found that 91% 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 capacity and as brokers gain in importance. Many respondents say that prices are below technical levels but adequate given low loss experience. In general, rates in North Africa are viewed as being more adequate than in the Gulf region.
Personal lines business is judged more favourably, with 45% of interviewees saying that premium rates are average. There seems to be more scope for upward rate adjustments in personal lines as compared with commercial lines. In addition, customer loyalty is considered greater in this segment. However, competition is heating up - in particular for motor insurance - as insurers expand into personal lines in response to eroding profitability in commercial lines [see charts 12 and 13].

Chart 12: Current level of rates – Commercial lines

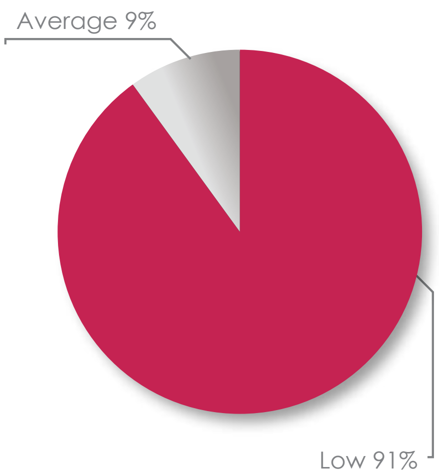
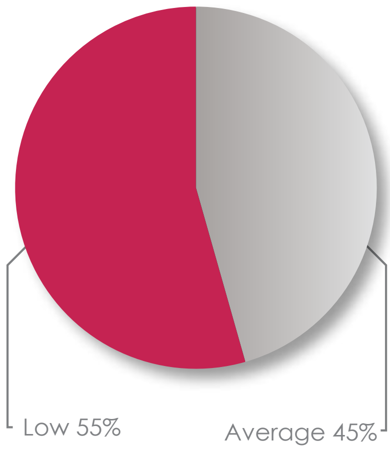


Chart 13: Current level of rates – Personal lines



“ In our view, rates have leveled out in most markets. In today’s investment environment cash-flow underwriting is no longer a viable option. Insurers will have to go back to basics of technical underwriting. ”

(Ashraf Bseisu, Group CEO, Solidarity Group Holding)

Stable pricing outlook

The pricing outlook for the next 12 months is remarkably consistent for commercial and personal lines business, with about 50% of respondents expecting average MENA insurance rates to remain stable. 29% of survey participants believe that commercial lines rates will trend higher (such as in Turkey) as cash-flow underwriting is no longer an option and as pressure from treaty reinsurers grows. In contrast, only 19% of those interviewed expect hardening rates for personal lines as competition increasingly shifts to this market segment [see charts 14 and 15].

Chart 14: Pricing outlook – Commercial lines

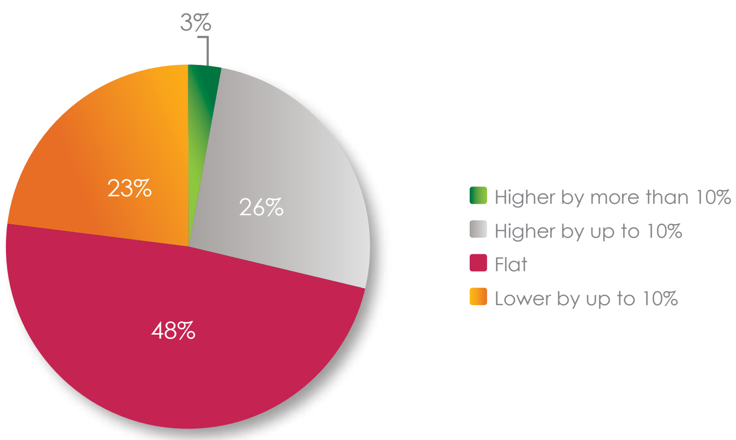
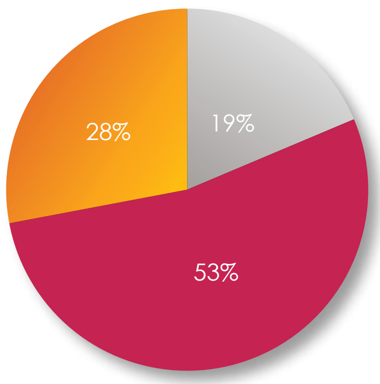


Chart 15: Pricing outlook – Personal lines



> “ Insurance awareness in the MENA region is increasing, primarily driven by a heightened need for asset protection. In addition, commercial insurance buyers, sellers and intermediaries are becoming more sophisticated. ”
>
> *(Robert Makhoul, CEO MENA, Marsh)*

> “ Insurance premiums in the region are expected to continue outgrowing GDP. This is particularly true for the GCC markets which are witnessing an unabated influx of expatriates and strong regional development. ”
>
> *(George Oommen, CEO & General Representative, Generali)*

Low investment yields put pressure on profitability

The survey found that 66% of respondents consider overall profitability in commercial lines to be low. This assessment not only reflects fierce rate competition but also higher attritional losses and sharply reduced investment income – an historically important earnings pillar for GCC insurers in particular. Most MENA insurers have a high asset concentration in equities and real estate and, accordingly, were severely affected by volatile investment performance. Personal lines business is viewed more favourably, with 61% describing profitability as average (benchmarked against the past five years). Compared with the assessment of current rates, the profitability picture looks brighter as most companies still generate reasonably decent underwriting results on the back of low loss ratios and enjoy relatively generous commission income from reinsurers [see charts 16 and 17].

Chart 16: Current profitability – Commercial lines

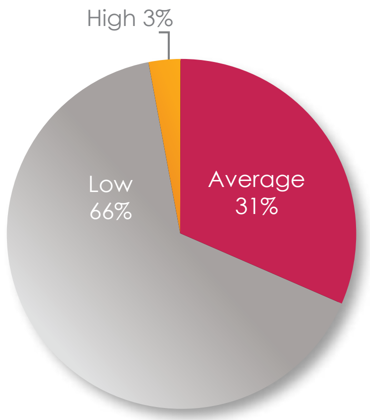
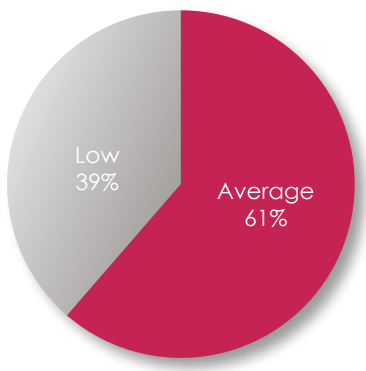


Chart 17: Current profitability – Personal lines



> **“ Premium income should outgrow GDP growth. That is the classical insurance paradigm and there is no reason why it should not apply to the MENA region. ”**
>
> *(Tayseer Treky, CEO, Oman Re)*

Stable outlook for profitability with limited upside

As compared with the pricing outlook, market expectations for both commercial and personal lines profitability are slightly less optimistic, with just 21% and 16% of respondents, respectively, anticipating an improvement over the next 12 months. The most frequently cited drag on profitability is a further expected deterioration of investment results. 56% and 67%, respectively, do not expect major changes to the overall industry profitability (see charts 18 and 19).

Chart 18: Outlook profitability – Commercial lines

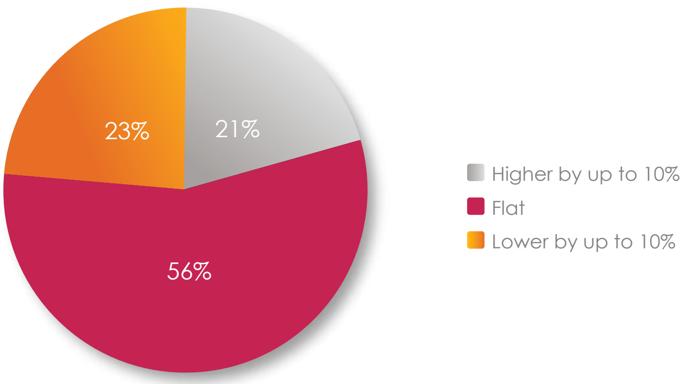
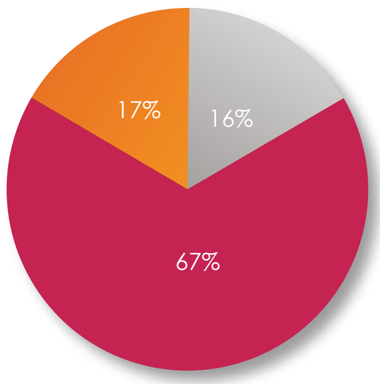


Chart 19: Outlook profitability – Personal lines



> “ GCC countries struggle to achieve higher insurance penetration levels as their GDP growth is primarily driven by hydrocarbons. A combination of Insurance density, i.e. insurance spend per capita and penetration rate (as a percentage of GDP), may be a more meaningful measure. ”
>
> *(Chakib Abouzaid, Reinsurance, Insurance and Takaful Executive)*

> “ The future prosperity of MENA insurance markets will depend on their ability to generate premium growth on the back of the industry’s superior financial strength as well as on the effectiveness of insurance regulations in terms of maintaining overall market stability. ”
>
> *(Hadj Mohamed Seba, CEO, Compagnie Centrale de Reassurance)*

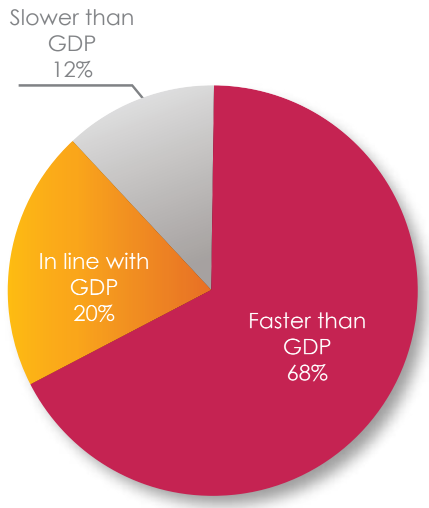
“ Insurance penetration across the region is expected to rise further, with medical insurance being a major contributor. ”

(Robert Makhoul, CEO MENA, Marsh)

Insurance penetration expected to increase

Over the next 12 months, 68% of the interviewees expect insurance premiums in the MENA region to grow at a faster pace than the regional GDP. This assumption is based on the expectation that insurance penetration will continue to rise and edge closer to levels that are more in line with the MENA countries' GDP per capita levels. Survey participants were particularly bullish for the Gulf region and Turkey. Less optimistic interviewees cite the dampening effects from a reduced infrastructure and construction project flow and excessive levels of competition which result in exposures growing considerably faster than premium income. In addition, the 'Arab Spring' is considered as an impediment even though it has also created new opportunities for insurers, for example, a new pension law in Tunisia and the introduction of mandatory classes of insurance in Libya (see chart 20).

Chart 20: Expected premium growth versus GDP growth

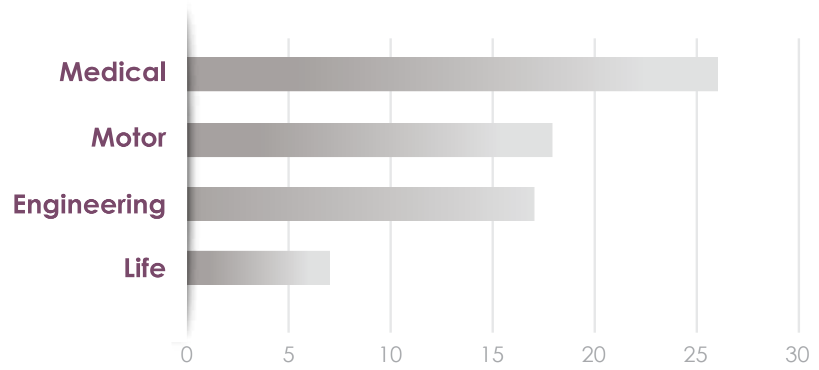


> **"Insurance awareness with ordinary people and small-scale businesses is still low: They tend to see insurance as an expense, rather than a cost-effective tool to protect their wealth and balance sheets, respectively."**
>
> *(Ali Abdulrahman Al-Subaihin, CEO, Tawuniya)*

3. Prospects by Lines of Business

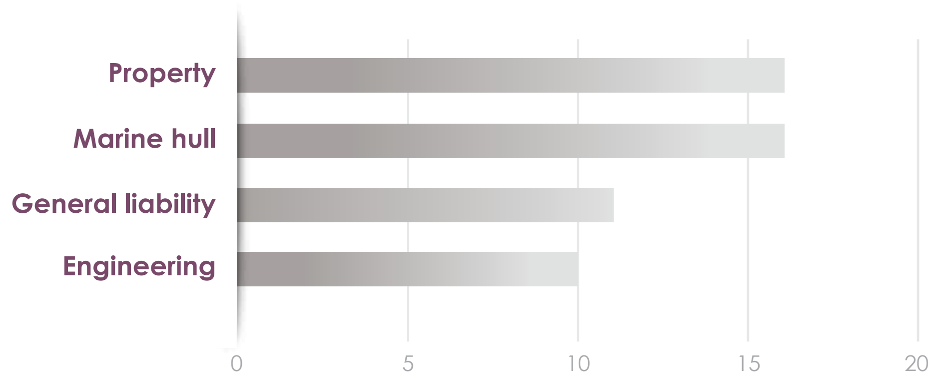
Over the next 12 months, medical and health insurance is expected to be the fastest-growing line of business in the MENA region, driven by compulsory insurance requirements that are reshaping some of the region's non-life markets, in particular Saudi Arabia, and the promotion of private insurance solutions in Turkey. Motor business ranks second, another compulsory line which, in the GCC region, also benefits from a strong influx of expatriates. Engineering and life insurance are mentioned less frequently, driven by prospective major infrastructure and construction projects in Saudi Arabia and Qatar and a recovery of activities in the UAE, as well as rapid growth from very low levels (see chart 21).

Chart 21: Fastest growing lines (no. of mentions)



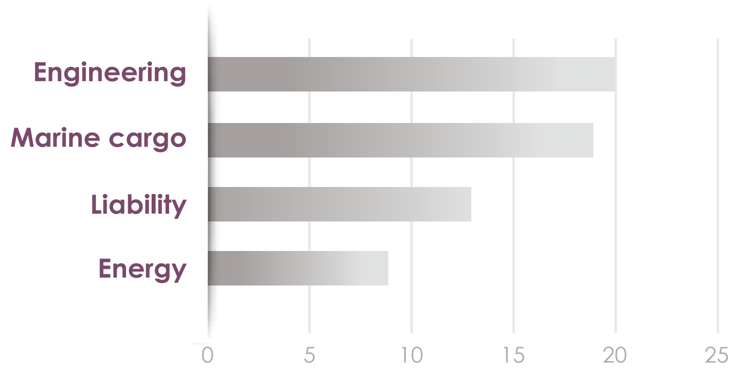
When asked about the laggards in terms of growth over the next 12 months, property and marine were mentioned most frequently, attributable to depressed rates and a slowdown in economic growth, respectively (see Chart 22).

Chart 22: Slowest growing lines (no. of mentions)

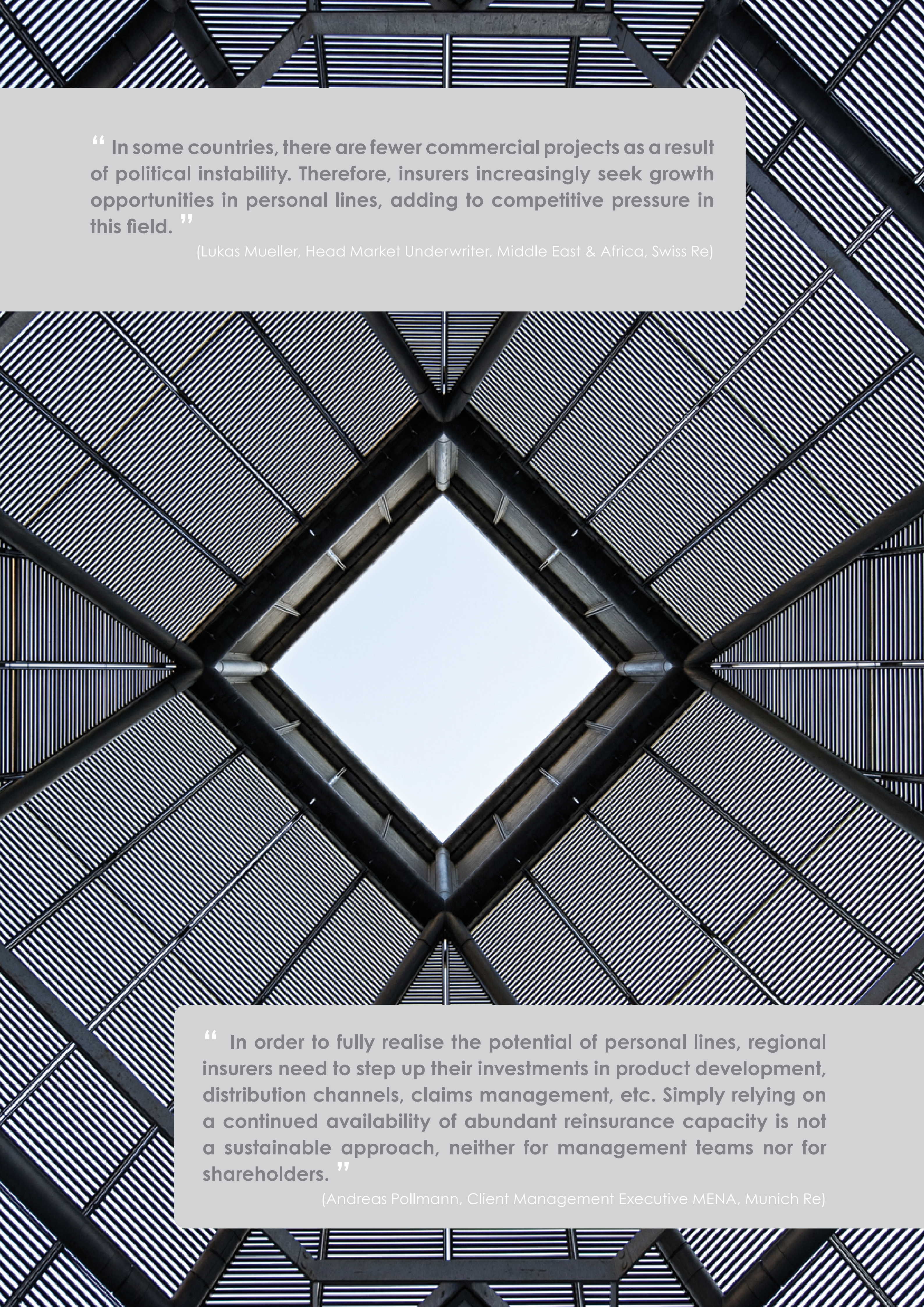


Over the next 12 months, interviewees consider engineering as the most profitable line of business, reflecting relatively high barriers to entry and a generally high quality in construction, followed by marine cargo, liability and energy (see chart 23).

Chart 23: Most profitable lines (no. of mentions)



> “ The limited take-up of life insurance, shariah-compliant and conventional, in the MENA region is not simply a result of cultural or religious reservations. It also reflects the industry’s deficits in offering policyholders the right products through the right channel. ”
>
> *(Luc Metivier, CEO, ACR Retakaful)*



“ In some countries, there are fewer commercial projects as a result of political instability. Therefore, insurers increasingly seek growth opportunities in personal lines, adding to competitive pressure in this field. ”

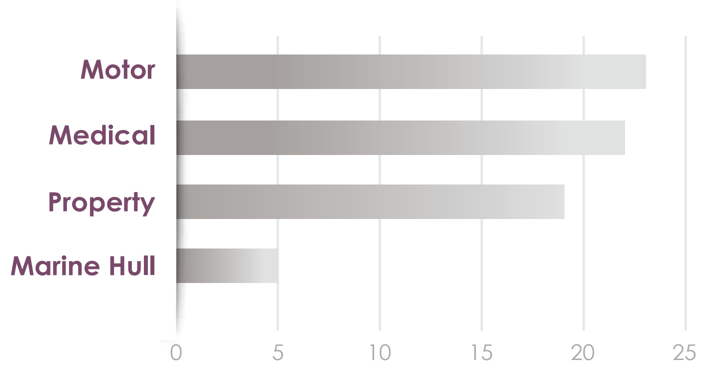
(Lukas Mueller, Head Market Underwriter, Middle East & Africa, Swiss Re)

“ In order to fully realise the potential of personal lines, regional insurers need to step up their investments in product development, distribution channels, claims management, etc. Simply relying on a continued availability of abundant reinsurance capacity is not a sustainable approach, neither for management teams nor for shareholders. ”

(Andreas Pollmann, Client Management Executive MENA, Munich Re)

Motor business is considered the least profitable area, followed by medical, primarily because of insurers' limited scope for risk selection in this compulsory line and claims inflation outstripping any rate increases, respectively. Property ranks third, as a result of fierce competition, low barriers to entry and plentiful reinsurance capacity (see Chart 24).

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



> “ Pricing levels in commercial lines have been depressed for the past ten years. Accordingly, we see more competition for personal lines business which, so far, has been more profitable. As a result, rates in these segments have come down, too, over the past 12-24 months. ”
>
> *(Basma Barakat, AGM, CUO, Arab Re)*

> “ Even though medical rates have improved significantly, overall profitability in this line of business continues to deteriorate as claims inflation more than offsets rate increases. ”
>
> *(Arvind Kashyapa, CEO MENA, Howden Insurance Brokers)*

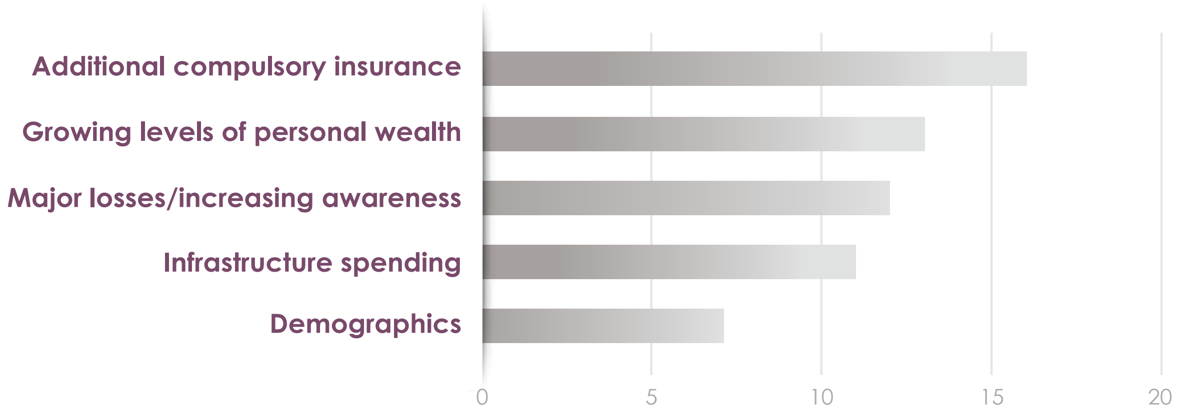
4. Key Market Trends and Drivers

Government action continues to drive insurance demand

Governments are expected to continue to play a key role in driving insurance demand and awareness by implementing additional compulsory insurance schemes and funding new major infrastructure projects. This is not only true for the Gulf region but increasingly for North Africa also. Furthermore, rising levels of wealth help create awareness of insurance and its benefits. In general, voluntary insurance demand is comparatively weak, not only in retail business but also in commercial lines where many small- to medium-sized enterprises, for example, purchase insurance simply because of contractual requirements.

In addition, major loss events - such as flood damage in Saudi Arabia or fire losses in the UAE - are believed to promote a broader awareness of the need for insurance. Another frequently mentioned factor is that of demographics: Young and growing populations are expected to create increased demand for insurance (chart 25).

Chart 25: Drivers of insurance demand (no. of mentions)



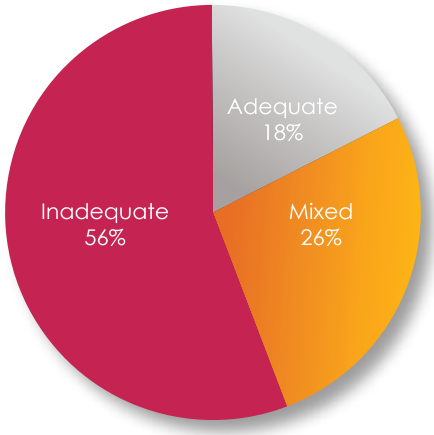
> "Commercial lines rates are expected to bottom out. They are increasingly being recognized as inadequate and pressure from treaty reinsurers is growing, also in the wake of superstorm Sandy."
>
> *(Dermot Dick, Chief Underwriting Officer (International), Emirates Insurance Co., Dubai)*

Insurance regulations still considered inadequate

The Barometer found that 56% of respondents believe the overall state of insurance regulation in the region to be inadequate. The most frequently cited shortcomings include solvency regulation, which is considered less sophisticated than the current European Union Solvency I regime, a lack of cohesion, transparency, consultation and implementation as well as inadequate regulations on insurers' investments and reserving practices.

However, 44% of respondents view the regulatory status quo more positively, either as mixed - displaying both positive and negative features within the same or across different jurisdictions - or even adequate. Regulatory differences across the region are considered to be huge, ranging from relatively effective and sophisticated regimes in Bahrain, Jordan, Morocco and Saudi Arabia to basic and/or insufficiently enforced frameworks in a number of Gulf countries (see chart 26).

Chart 26: State of insurance regulations

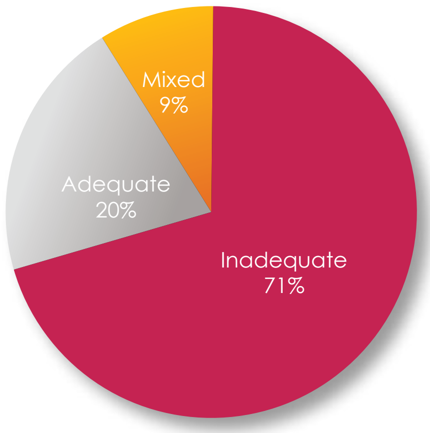


> **"The regulatory landscape continues to be highly fragmented, even within relatively homogeneous regions such as the GCC."**
> *(Khalil Eid, General Manager & SEO at QBE Insurance Europe Ltd. (Dubai Branch))*

Natural catastrophe exposure underestimated

The Barometer found that 71% of interviewees believe that levels of natural catastrophe protection, both in personal and commercial lines, are inadequate. Exposure to cyclones, floods and other natural perils tend to be underestimated, primarily in the GCC region where there is a lack of any major historical loss events and respective data and, as a consequence, a shortage of quantitative models and rating tools. North Africa and Turkey, which runs the world's fifth largest earthquake pool, are viewed differently in terms of coverage adequacy and awareness (chart 27).

Chart 27: Natural catastrophe protection



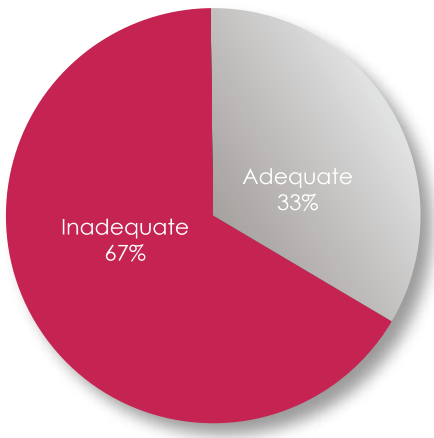
> **"In light of dwindling investment results and given the absence of any meaningful improvements on the technical side, overall profitability in certain primary insurance markets is set to deteriorate further. Some players may even face life-threatening challenges."**
>
> *(Salvatore Orlando, Head of Property & Casualty Mediterranean Europe, Middle East, Africa and Latin America, PartnerRe)*

> **"The bigger insurers are expected to further grow their market share as they benefit from customers' 'flight to security'."**
>
> *(Fareed Lutfi, Group Director, Insurance Services, Dubai Holding)*

Political risk: Improving awareness

The Arab Spring has heightened awareness of political risk throughout the region. It is widely perceived as being a catalyst and eye-opener for political risk insurance. However, the market remains of marginal size as too little cover is actually bought and reinsurers and specialist insurers are reluctant to provide adequate (treaty) protection. Where there is demand it is frequently driven by contractual requirements from banks. Therefore, the current state of affairs reflects both demand and supply side factors (chart 28).

Chart 28: Political risk protection



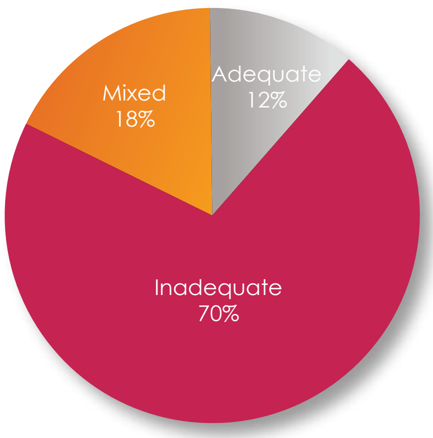
> **“ Throughout the region insurance is increasingly being accepted as a risk management tool. Cultural reservations vis-à-vis the notion of insurance are much less relevant than some people believe. ”**
>
> *(Saad Mered, CEO Middle East & Africa, Zurich Insurance Company)*

> **“ The most effective way of improving industry profitability in the region would be for regulators to accelerate consolidation through higher capital requirements, for example. ”**
>
> *(Omer Hassan Elamin, Senior MD, Al Futtaim/Orient)*

Strong reliance on expatriate skills

Three out of four respondents believe that local technical skills are inadequate, resulting in an extreme reliance on expatriate staff, which most interviewees do not consider sustainable (see chart 29). These deficiencies extend to all major areas of underwriting, claims management, risk management and general management. Many respondents 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. 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. However, 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).

Chart 29: State of local technical skills



" The general state of local technical skills in MENA insurance markets remains inadequate. This partially reflects many insurers' reluctance to invest into professional skills building as it represents an additional expense. "

(Yassir Albaharna, CEO, Arab Insurance Group)

" Protection against natural catastrophes is inadequate in the MENA region. People grossly underestimate their exposure and fail to recognize the need to purchase sufficient cover. "

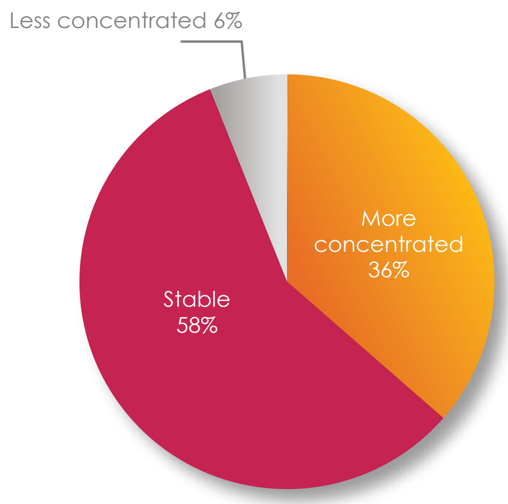
(Omar Gouda, Regional Director, North East Africa and Middle East Region, Africa Re)

No immediate pressure for consolidation

The survey found that 58% of respondents do not expect market concentration to increase over the next 12 months, citing the relatively comfortable capitalization of domestic insurers and family owners' general reluctance to engage in M&A. The latter is viewed as the biggest single obstacle to market consolidation. Some respondents even expect concentration levels to decrease as smaller foreign insurers enter the market, such as in Turkey.

In contrast, those 36% of respondents who believe that consolidation is on the short-term industry agenda point to regulatory pressures, customers' flight to quality, the waning profitability of smaller market participants and the regional expansion strategies of pan-Arab insurance groups as drivers for M&A (see chart 30).

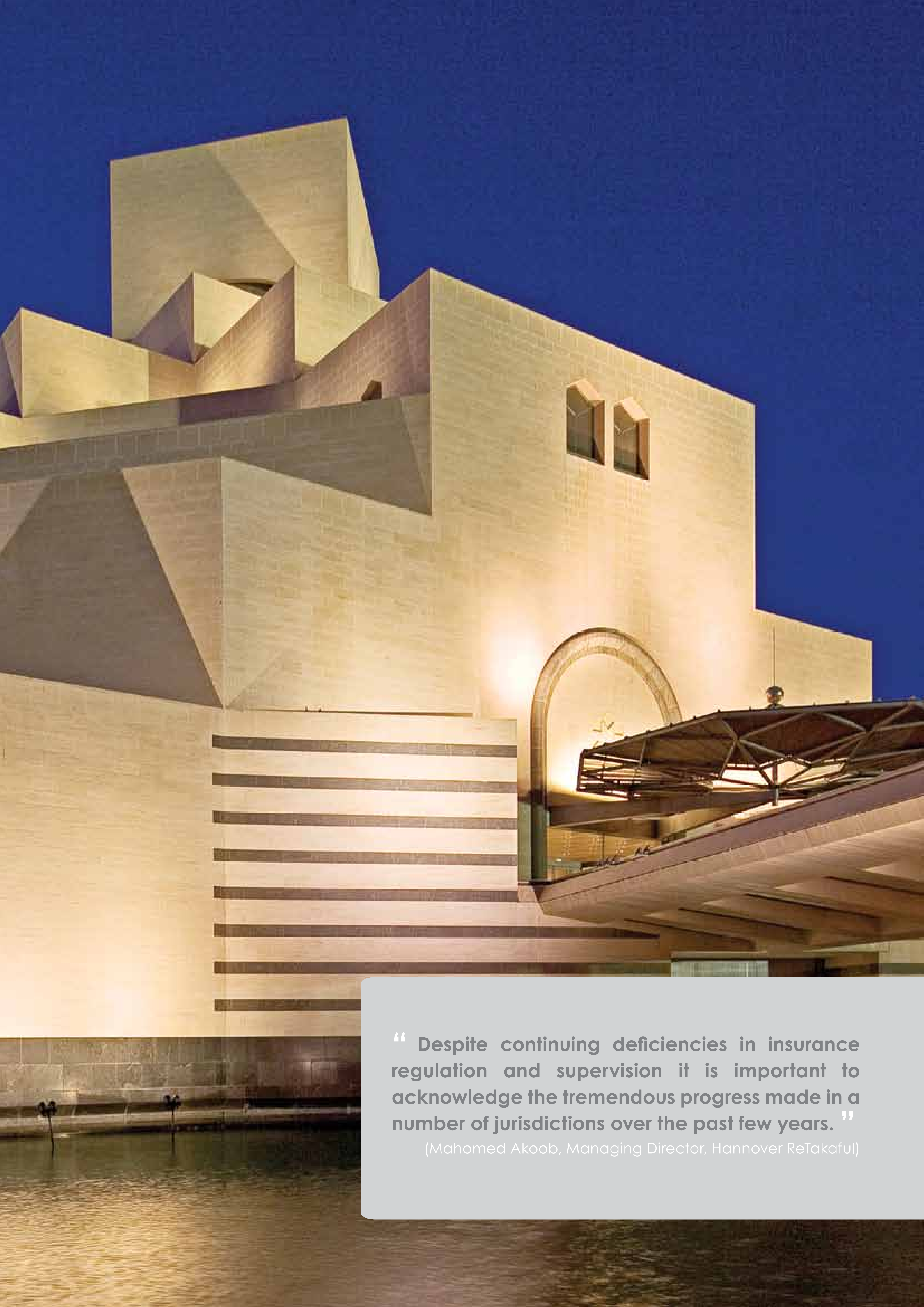
Chart 30: Market structure outlook



> “ **Given the lack of region-specific natural catastrophe models, insurers and reinsurers tend to underestimate exposures, particularly in the GCC.** ”
>
> *(Sanjeev Badyal, CEO, Allianz Global Corporate & Specialty, Dubai)*

“ Many insurance shareholders in the region expect immediate returns. This attitude makes it difficult for management to engage in long-term investments in talent development and the growth of personal lines business, for example. ”

(Farid Chedid, Chairman & CEO, Chedid Re; CEO SEIB Insurance and Reinsurance Company)



“ Despite continuing deficiencies in insurance regulation and supervision it is important to acknowledge the tremendous progress made in a number of jurisdictions over the past few years. ”

(Mahomed Akoob, Managing Director, Hannover ReTakaful)

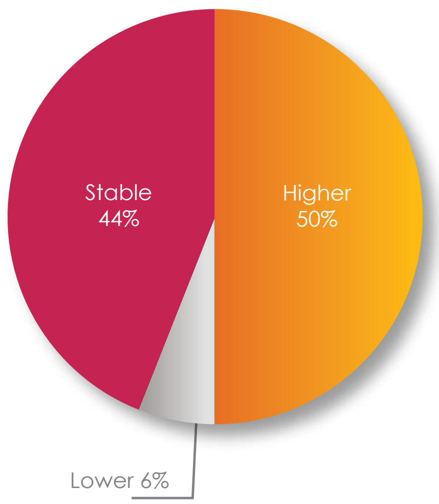
Foreign competition expected to heighten gradually

The Barometer found that 50% of respondents expect foreign, non-MENA-based insurers to gain market share over the next 12 months, pointing to their superior financial security, technical expertise, customer focus and distribution know-how. In addition, the expatriate community – which is growing again - tends to choose insurers from their home countries. Some respondents also feel that a number of domestic insurers could be sold to foreign competitors as profitability erodes and global reinsurance markets become less accommodating.

Those interviewees who expect a stagnation or erosion of foreign insurers' market share suggest that these companies have less appetite for the region following the Arab Spring, focus more rigorously on the bottom-line and, accordingly, are more willing than their domestic counterparts to shed unprofitable books of business in the currently highly competitive market (see chart 31). The expansion of foreign insurers is also inhibited by a relationship-driven business culture, in commercial lines in particular.

Longer-term, however, most surveyed executives believe that foreign insurers and domestic banks will gain market shares.

Chart 31: Outlook for foreign market share

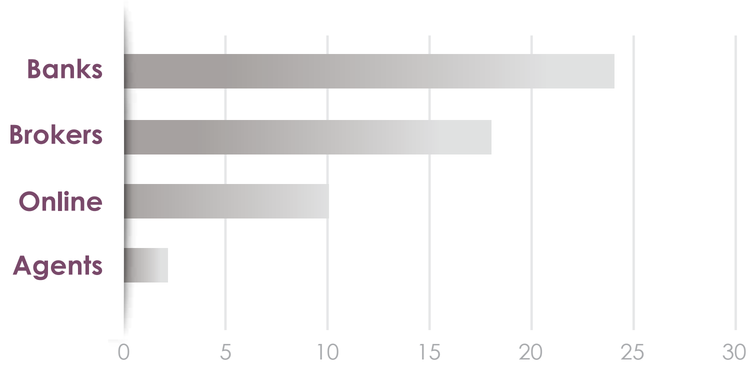


> **" Domestic insurers depend heavily on foreign reinsurance cover. As such, in case global reinsurance markets harden, they could come under pressure and lose market share to major foreign primary insurance groups. "**
>
> *(Thommy Thomas, Chief Underwriter, Trust Re)*

Bank and broker distribution expected to grow fastest

Bancassurance and intermediaries are expected to be the fastest growing distribution channels over the next 12 months. Banks should be able to capture a disproportionate share of rapidly growing life insurance sales (not just in the GCC countries but also in Turkey and North Africa) and are increasingly interested in entering the insurance business. Brokers are believed to benefit from their superior product expertise and increasing acceptance, especially in commercial lines business in the Gulf region. Online distribution is believed to have particularly significant potential in Turkey on the back of its young population (see chart 32).

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

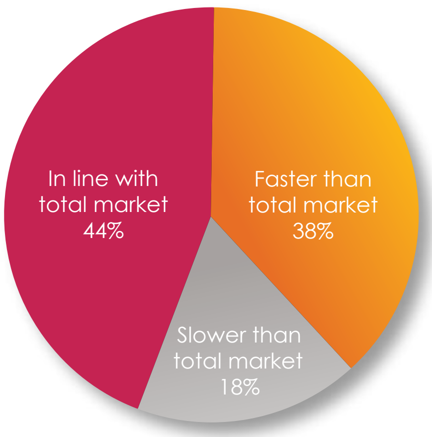


> **"The broadening and deepening of indigenous technical skills is one of the biggest challenges ahead of the region's insurance industry. Addressing this challenge requires more than just offering attractive remuneration packages. It also, and maybe primarily, calls for an improved public image of insurance."**
>
> *(Keith Byrne, Director, General Insurance Operations, Tokio Marine Middle East Limited)*

Slowing Takaful insurance momentum

62% of respondents expect the Takaful market to grow in line with, or at a slower pace than, the insurance market in general. There is a broad consensus that Takaful does not serve as a substitute to conventional insurance. Many interviewees feel that the potential of Takaful insurance has been overestimated. However, the Arab Spring is expected to favour the prospects of Takaful, and possibly at the expense of conventional business. Based on an amended business model which, for example, addresses the need to effectively share both profits and losses, Takaful insurance might enjoy brighter prospects, in particular in the form of Family (Life) Takaful solutions distributed via Islamic banks (see chart 33).

Chart 33: Outlook for Takaful growth



> “ **Mandatory and contractual requirements remain the key drivers of insurance demand in the region.** ”
>
> *(Khalil Eid, General Manager & SEO at QBE Insurance Europe Ltd. (Dubai Branch)*

> “ **Overall, we expect the structure of the region’s insurance markets to remain stable over the next 12 months. Gains in market share recorded by the bigger companies will be kept in check by a continued inflow of new players.** ”
>
> *(Guido Zagatti, Senior Manager MENA, Generali)*

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