MENA INSURANCE BAROMETER 2015

QFC
Qatar Financial Centre

MENA INSURANCE BAROMETER

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FOREWORD

SHASHANK SRIVASTAVA

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

We are pleased to present the third edition of the annual MENA Insurance Barometer. The Barometer is based on in-depth interviews with senior executives of 37 regional and international insurance and reinsurance companies, as well as intermediaries operating in the region. For the third consecutive year, it provides an overview of the current state and near-term prospects of the US$ 50 billion insurance markets comprising the Middle East and North Africa (MENA) with a total population of close to 380 million and a combined gross domestic product (GDP) of more than US$ 3.7 trillion. As in the past, the Barometer also offers a summary of key regional insurance market data.

The most recent survey reveals the robust and resilient attractiveness of the region's insurance markets, even in the face of economic headwinds. Confidence among survey participants has been strengthened by stabilising, and, partially increasing rates, in personal lines business in particular. In addition, the fundamentals remain promising: insurance penetration is on the rise as premiums continue to grow faster than GDP, demographics are favourable, and the ability of most Gulf countries to withstand short-term volatility in oil prices is strong. At the same time, political stability in Northern Africa is improving whilst the mayhem in Syria and Iraq continues.

Through the Barometer, the QFC Authority demonstrates its commitment to fostering greater transparency in the MENA insurance marketplace and providing market participants with an additional benchmark for decision-making. After three years, we are also starting to see the benefits from tracking and analysing market sentiment over time, based on a consistent methodology.

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

METHODOLOGY

The findings of this report are based on in-depth and structured telephone or face-to-face interviews with executives representing 37 regional and international (re)insurance companies and intermediaries. The interviews were conducted by Dr Schanz, Alms & Company AG, a Zurich-based research, strategy and communications consultancy, in December 2014 and January 2015.

The companies that took part in the survey were:

- Africa Retakaful, Egypt
- Alkhaleej Takaful Group, Qatar
- Allianz Global Corporate & Specialty, UAE
- Al Wathba National Insurance Company, UAE
- American International Group (AIG), UAE
- Arab Insurance Group (Arig), Bahrain
- Arab Re, Lebanon
- Arope Insurance, Lebanon
- Asia Capital Re, UAE
- Bahrain Kuwait Insurance Company / Gulf Insurance Group, Bahrain
- Chedid Re, Lebanon
- Emirates Insurance Association, UAE
- Emirates Insurance Company, UAE
- Generali Middle East, UAE
- Hannover Re, Bahrain
- Jordan Insurance Company, Jordan
- Marsh MENA, UAE
- MIG Holding, Bahrain
- Milli Re, Turkey
- Misr Insurance Company, Egypt
- Munich Health, UAE
- Munich Re, Germany
- National General Insurance Company, UAE
- National Health Insurance Company, Qatar
- Orient Insurance Group, UAE
- Qatar General Insurance & Reinsurance Company, Qatar
- Qatar Insurance Company, Qatar
- PartnerRe, Switzerland
- SCOR SE, France
- SEIB Insurance & Reinsurance Company, Qatar
- Solidarity Group, Bahrain
- Swiss Re, Switzerland
- Takaful International Company, Bahrain
- Tawuniya, Saudi Arabia
- Tokio Marine, UAE
- United Insurance Company, UAE (former General Manager)
- XL Insurance, Switzerland

SUMMARY OF KEY FINDINGS

1 Confidence in the future of the MENA insurance markets remains strong, despite ultra-competitive global and regional insurance markets and economic headwinds from falling oil prices. 70% of executives polled expect regional premiums to outgrow GDP, only slightly down from 76% a year ago. Survey participants are particularly bullish about personal lines business which, in addition to compulsory insurance requirements, benefits from regulatory action. Over the next 12 months, sliding oil prices are not expected to have any material adverse impact on infrastructure and construction projects in the Gulf. Insurance prospects for North Africa have improved on the back of a political stabilisation in Egypt and Tunisia.

2 Participants continue to consider the region's strong economic and direct insurance market growth as its most important current strength, followed by a massive pipeline of major infrastructure and construction projects and the region's relatively moderate natural catastrophe exposure.

3 Personal lines are viewed as the key future opportunity of MENA insurance markets, due to population growth, legislation and partially improving rates. The prospect of additional major infrastructure and construction projects in the Gulf region ranks second. Low penetration levels are the third most frequently mentioned opportunity. For the wider MENA region, the average share of premiums (non-life and life) in regional GDP is about 1.3%, compared with 6.5% for the world as a whole.

4 The Barometer found that 86% and 34% of executives polled view current prices in MENA commercial and personal lines business, respectively, as being below the average of the past five years, virtually unchanged from 2014. 81% and 89%, respectively, expect commercial and personal lines rates to remain stable or improve over the next 12 months, very similar to last year. However, in commercial and personal lines the share of those expecting rate increases has grown from 19% to 30% and 21% to 37%, respectively. Rate expectations remain moderately positive as prices appear to have hit bottom and regulators continue to take supportive action.

5 Only 19% of respondents anticipate MENA insurance markets to consolidate over the next 12 months, compared with 16% a year ago. Solid levels of capitalisation and family ownership are major obstacles to consolidation. Regulators are widely viewed as the only likely catalyst for consolidation over the longer run.

6 Only 32% of executives interviewed expect that foreign insurers will gain market share over the next 12 months, marginally down from a year ago. Foreign insurers increasingly prioritise profitability over growth. In addition, local competitors are stepping up their game.

7 Only 21% of participants expect Takaful insurance to outgrow total insurance premiums in the next 12 months, similar to the findings of the 2014 Barometer. However, the share of those predicting an underperformance of the segment has decreased from 32% to 22%. This slightly more favourable overall assessment of the prospects of Takaful reflects the more upbeat outlook for personal lines where Takaful companies can most effectively compete.

KEY BAROMETER READINGS

The Barometer measures current perceptions of the insurance market in the MENA region, tracking them over time to monitor changes in attitudes. When comparing 2015 with 2014, the main differences in findings include:

- A somewhat less bullish view on insurance premium growth outperforming GDP growth.
- A higher share of executives expecting rates and profitability to improve, in particular for personal lines.
- Remaining low expectations of industry consolidation and the degree of foreign competition.
- A lower share of interviewees expecting Takaful insurance to underperform the market as a whole.

Key readings (in % of respondents agreeing)	Jan 2013	Jan 2014	Jan 2015
Insurance premiums to grow faster than GDP*	68	76	70
Insurance prices are currently low**			
• Commercial lines	91	84	86
• Personal lines	55	36	34
Insurance prices to remain stable or increase*			
• Commercial lines	77	84	81
• Personal lines	72	91	89
Insurance profitability is currently low**			
• Commercial lines	66	62	81
• Personal lines	39	30	23
Insurance profitability to remain stable or improve*			
• Commercial lines	77	84	84
• Personal lines	83	85	89
Insurance markets to consolidate*	36	16	19
Foreign market share to increase*	50	35	32
Takaful insurance to outgrow total market*	38	22	21

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

MARKET OVERVIEW

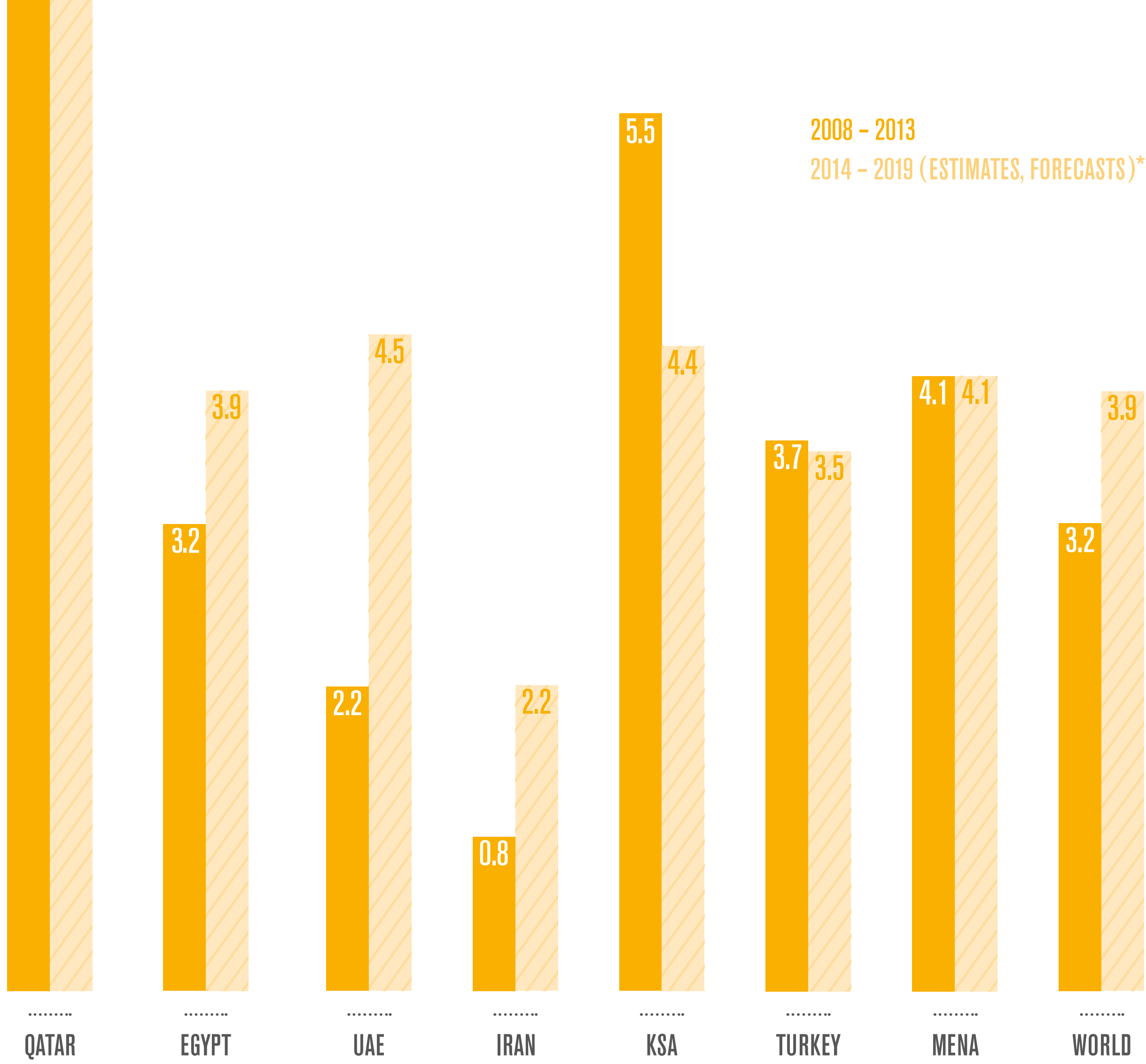
ROBUST MENA GDP GROWTH

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

In 2013, these 14 countries, with a total population of close to 380 million, generated a combined GDP of about US$ 3.7 trillion, more than 5% of the world's total. As an economic block the region would rank as the world's fourth-largest economy, ahead of Germany.

At an inflation-adjusted growth rate of 4.1% per annum between 2008 and 2013, the region's economies grew markedly faster than the global average (3.2%). Based on a buoyant non-hydrocarbon sector, Qatar is expected to remain the region's most vibrant economy, even after the completion of its massive liquid natural gas development programmes. Going forward, the region's growth is forecast to only slightly exceed the world economy's performance (see chart 1).

CHART 1: Real GDP growth (2008 – 2019f, annual averages, in %)



SOURCE: IMF, World Economic Outlook (October 2014)

*Forecasts do not fully incorporate the further fall in oil prices towards the end of 2014.

SLOWING GROWTH IN OIL-EXPORTING COUNTRIES

The near-term economic outlook for the MENA region continues to reflect the diversity across the region. The high-income oil exporting countries still record robust growth, on the back of solid fiscal positions and improving economic fundamentals (for example, a higher GDP share of the non-hydrocarbon sector). However, fiscal positions in most oil exporters are weakening, reflective of sharply declining oil prices in the second half of 2014 and continued high government spending. Medium term, measures to strengthen fiscal positions are expected to slow economic growth, also in a number of Gulf Cooperation Council (GCC) countries.

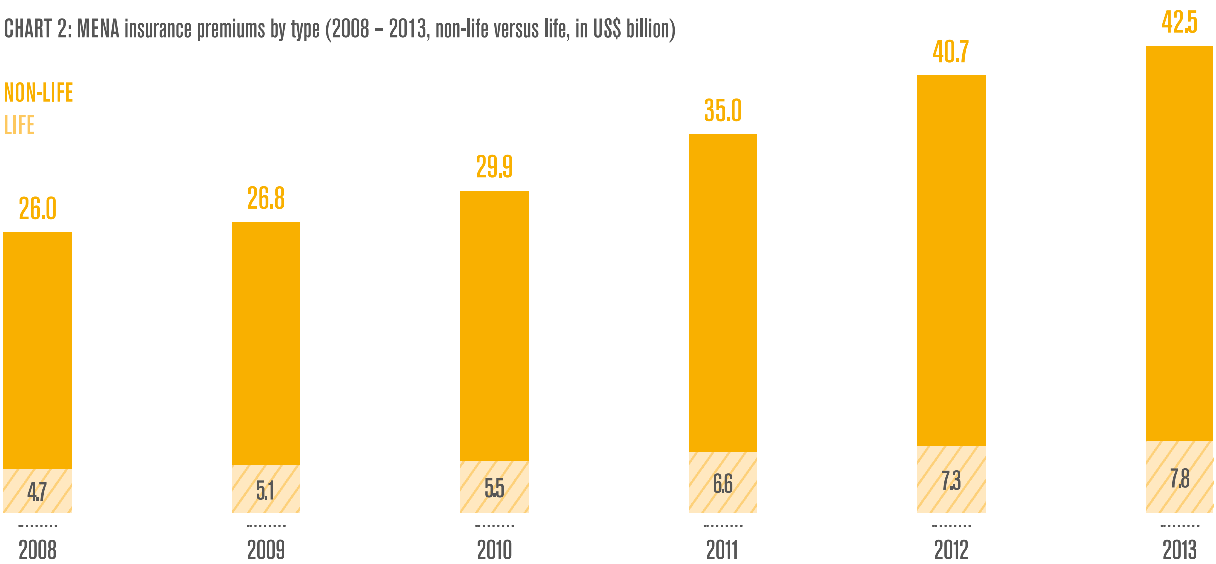
Deep-rooted socio-political tensions continue to weigh on the prospects of some of the region's countries. The humanitarian and economic consequences are particularly severe in Iraq, Libya and Syria. However, a number of countries, such as Egypt, Morocco and Tunisia, have embarked on structural reforms, starting with an overhaul of inefficient and entrenched subsidy schemes which have led to structural budget deficits.

MENA INSURANCE PENETRATION ON THE RISE

Income per capita levels in the MENA region as a whole are similar to the global average. The region's insurance penetration levels, however, remain extraordinarily low. In 2013 insurance premiums accounted for just 1.3% of GDP, a fifth of the global average. Encouragingly, this gap is narrowing as MENA insurance markets outpace regional GDP growth. Between 2008 and 2013, total non-life and life insurance premium volumes in the region expanded from about US$ 30 billion to more than US$ 50 billion (see chart 2). Going forward, this trend is expected to continue. Swiss Re (Global Insurance Review 2014 and Outlook 2015/16) forecasts real annual premium growth of about 5.5% for 2015 to 2016, higher than the International Monetary Fund's economic growth forecast for the region.

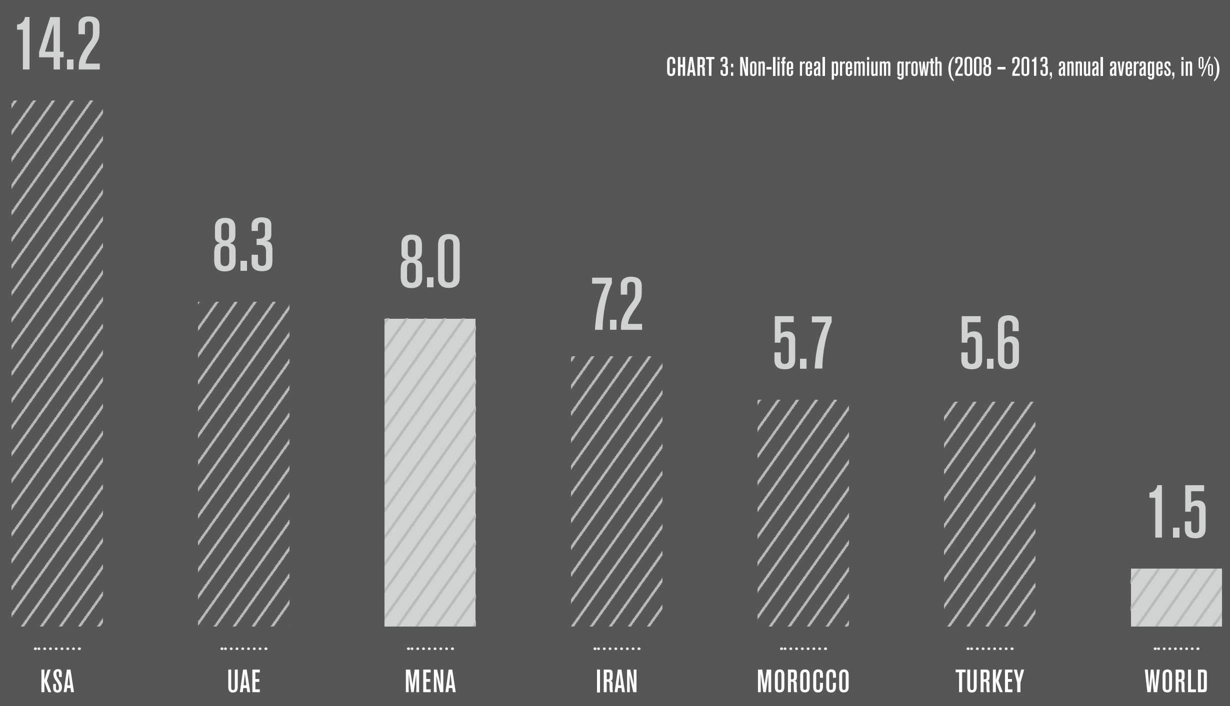
At a share of less than 16%, life business continues to play a relatively minor role (in comparison with its global share of 56%).

CHART 2: MENA insurance premiums by type (2008 – 2013, non-life versus life, in US$ billion)



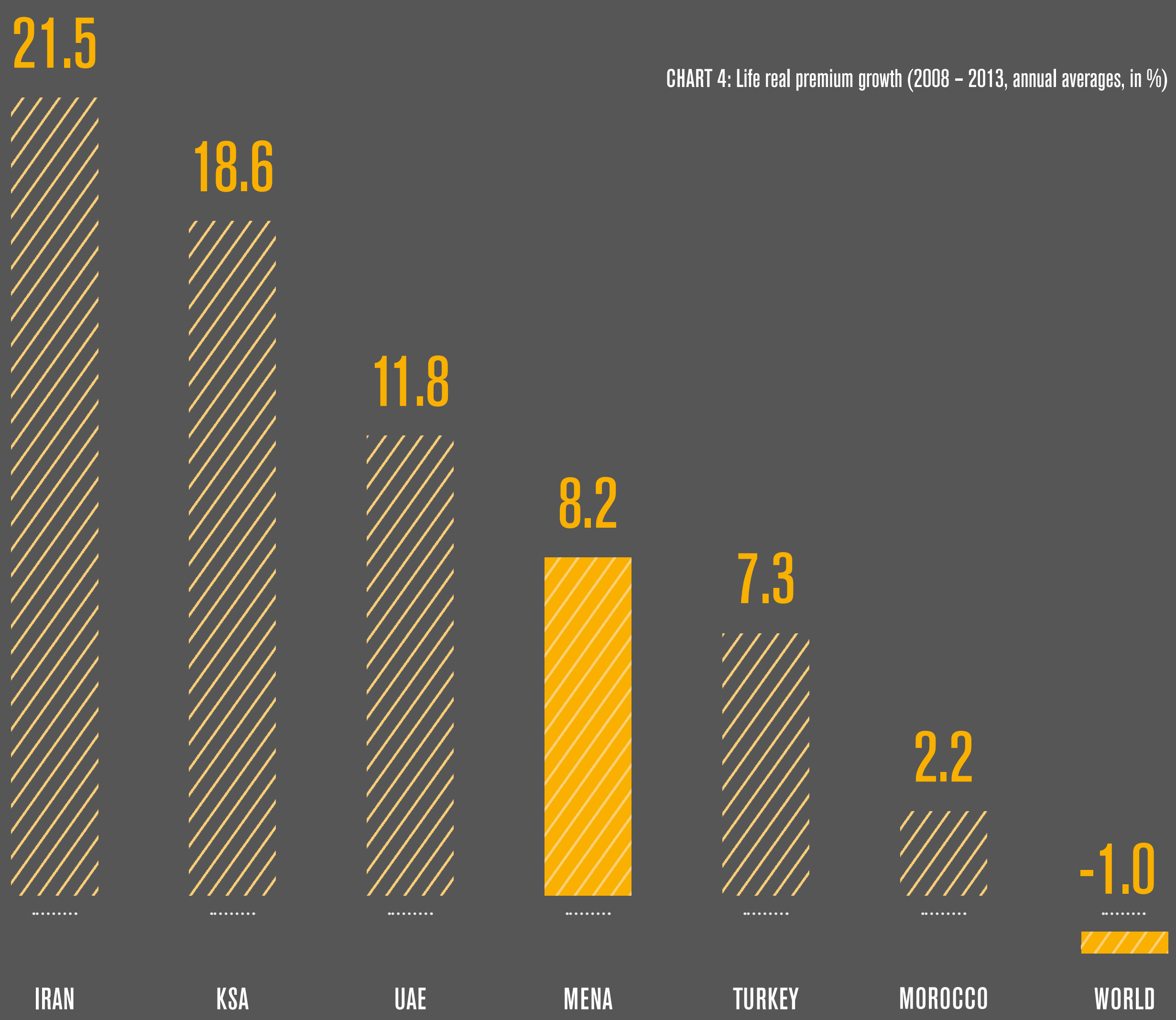
SOURCE: Swiss Re, sigma (January 2015)

CHART 3: Non-life real premium growth (2008 – 2013, annual averages, in %)



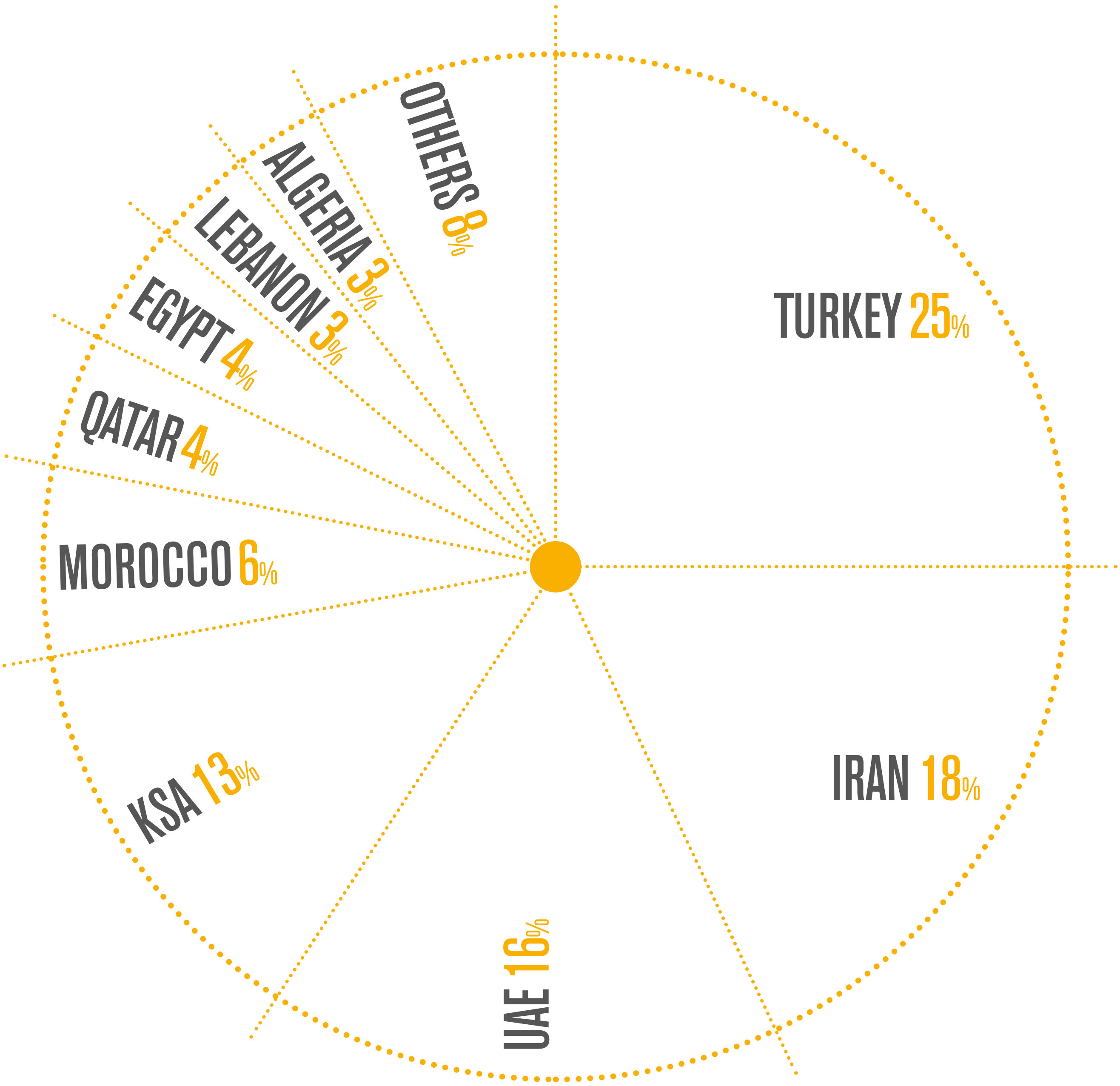
SOURCE: Swiss Re, sigma (January 2015)

CHART 4: Life real premium growth (2008 – 2013, annual averages, in %)



SOURCE: Swiss Re, sigma (January 2015)

CHART 5: Geographical split of MENA insurance premiums in 2013

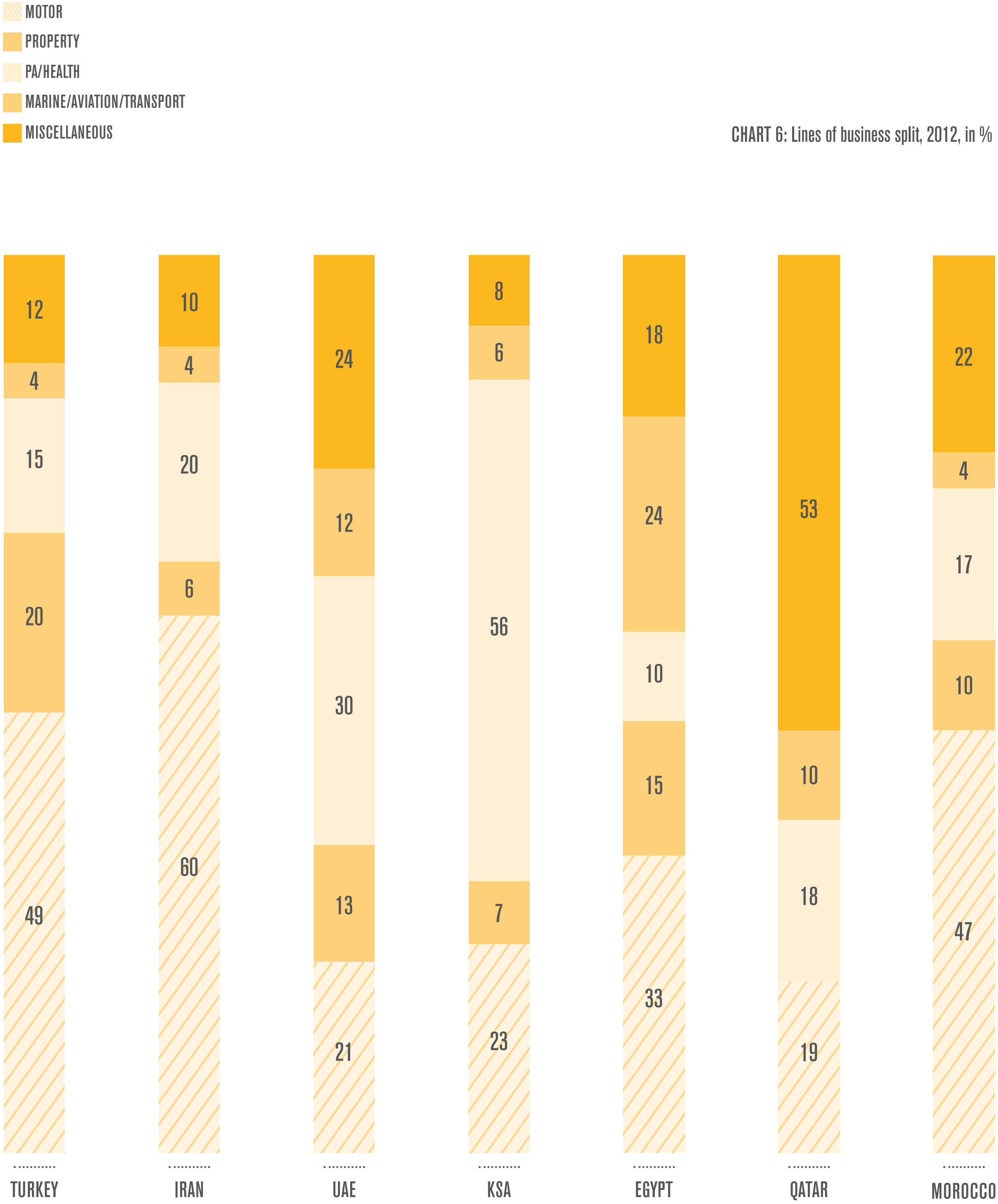


SOURCE: Swiss Re, sigma (January 2015)

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.

Chart 6 provides the lines of business split in 2012 for a number of MENA non-life insurance markets. Motor is still the largest segment in major markets such as Turkey, Iran, Morocco and Egypt. However, over the past few years, personal accident and health insurance have been the fastest-growing segments in Saudi Arabia and the UAE, and now represent the biggest market segment in these two countries. The main drivers behind this spectacular growth are legislation, in particular compulsory insurance requirements and population growth.

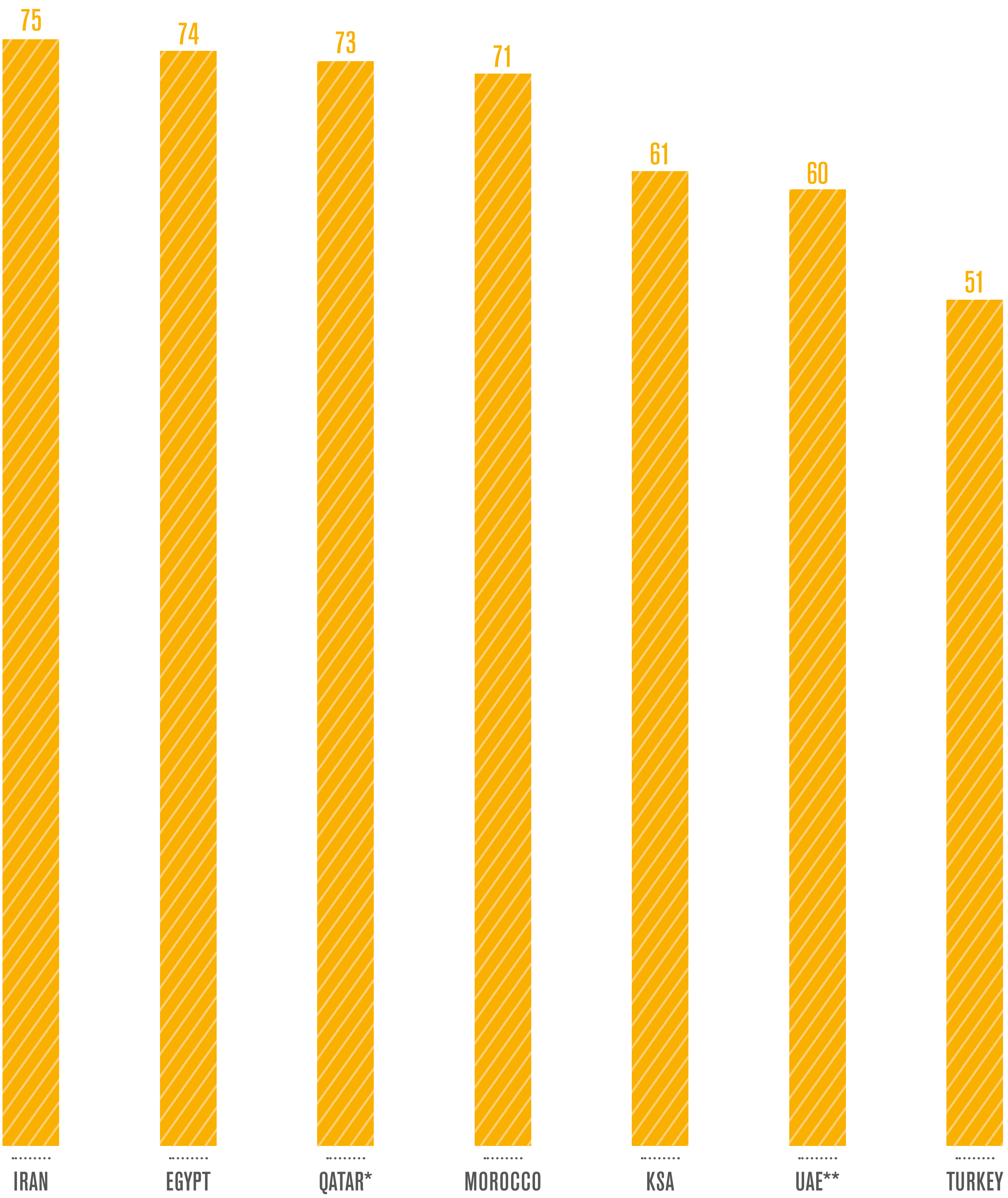
CHART 6: Lines of business split, 2012, in %



SOURCE: AXCO, National Supervisory Authorities

Chart 7 illustrates the supply side structure of the region's insurance markets, demonstrating the significant intra-regional differences in market structure, ranging from highly concentrated markets such as Iran to relatively fragmented environments such as Turkey. Reasons for the former include powerful national champions with a strong record of market leadership, whereas the latter are characterised by low barriers to entry.

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



SOURCES: National insurance associations and supervisory authorities

*Own estimate

**Estimate of Top 7 market share according to AXCO

SURVEY RESULTS

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

CONTINUED CONFIDENCE DESPITE GROWING ECONOMIC RISKS

GROWTH MOMENTUM CONTINUES TO BE KEY STRENGTH

As in 2014, the vast majority of participants consider strong economic and direct insurance market growth as the most important current strength of the MENA insurance marketplace. The second most frequently mentioned strength is continued government spending on major projects, followed by a relatively moderate natural catastrophe exposure (in the Gulf region, the Levant and Egypt) which still allows for technical profits despite rock-bottom insurance rates (see chart 8).

" The Saudi insurance market is benefiting from tighter and more effective regulations, resilient economic conditions and strong demand for insurance as the population keeps growing. "

Raed bin Abdullah Al-Tamimi, CEO, Tawuniya

" The 'Arab Spring' has improved people's awareness of insurance and has led to a more risk-conscious mentality. "

Mohamed Khalifa, Vice Chairman, Misr Insurance Company

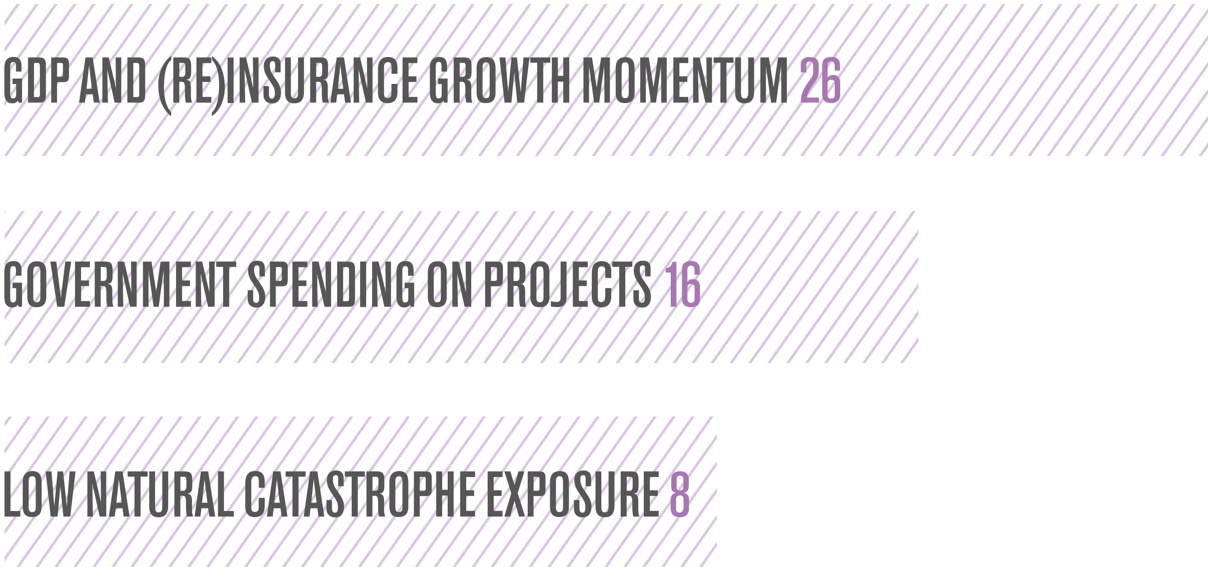
" Even smaller domestic insurers increasingly look for opportunities abroad, in particular in other GCC countries. This urge to expand geographically is driven by a search for 'greener pastures' and the accelerating economic integration throughout the region. It adds to the need for harmonised regulatory frameworks as well as specific rules governing cross-border trade in insurance services. "

Yassir Albaharna, CEO, Arig

" Bahrain is a very well-regulated market place. Unfortunately, that is not true of all the other markets in the region. As the economies of the region in general and the insurance markets in particular are closely entwined, inconsistent regulation is a major obstacle to further growth. "

Sai Gopal, Chief Underwriting Officer, Bahrain Kuwait Insurance Company

CHART 8: Market strengths (number of mentions)



UNHEALTHY COMPETITION STILL VIEWED AS MAJOR WEAKNESS

As in the 2014 Barometer, poor levels of technical rates and profitability as a consequence of fierce competition continue to be perceived as the most relevant weakness of the MENA insurance marketplace. This result is particularly true for the relatively easily accessible and mostly catastrophe-free GCC countries. Regulatory shortcomings rank second. In 2014, they did not feature among the three most important weaknesses. The same is true for a generally low degree of awareness of insurance. Insurance still tends to be bought only when required by compulsory schemes or banks as part of a loan (see chart 9).

CHART 9: Market weaknesses (number of mentions)

"The lack of consumer awareness and insurance insight is the biggest structural impediment to Qatar and other MENA insurance markets reaching their full potential. There is a very large consumer base that only acquires insurance for legal purposes. Insurers need to make a collective effort to address this shortcoming, and educate the market. An insurance policy should be considered as valuable support for personal and business growth. It should not be seen as a purely legal requirement."

Jassim Ali A. Al-Moftah, Chief Executive Officer, Alkhaleej Takaful Group

"In terms of their future premium growth, the MENA insurance markets will vary largely – mainly due to the decline in oil price. For the oil-producing countries we expect that next year's premiums will only grow in line with GDP, while oil-importing economies like Egypt will see its premiums grow in excess of GDP growth, due to its ambitious development plans and because the low oil price will benefit consumption."

Omar Gouda, Managing Director, Africa Retakaful

"The lack of local talent remains one of the most serious weaknesses of the region's insurance markets. For Boards of Directors and senior management teams it is now the time to walk the talk and address the issue. This is of utmost importance in order to ensure the sector's long-term sustainable development."

James Portelli, Former General Manager, United Insurance Company

PERSONAL LINES BUSINESS CONSIDERED AS MOST IMPORTANT OPPORTUNITY

The prospect of additional and broader compulsory schemes coupled with continued population growth ranks first among the future opportunities and is expected to boost personal lines insurance business such as medical and motor insurance. In second place, and down one position, is a strong and resilient pipeline of major infrastructure and construction projects in the Gulf region (driven by the Dubai World Expo 2020 and Qatar FIFA 2022), and, to a lesser extent, also in a stabilising and recovering Egypt. Low penetration levels are the third most frequently mentioned opportunity. The average share of premiums in the wider MENA region's GDP is about 1.3%, compared with 6.5% for the world as a whole. As the MENA region's average GDP per capita is similar to the global average, the potential penetration is a multiple of the current one (see chart 10).

CHART 10: Market opportunities (number of mentions)

“ The political stabilisation in Egypt and the subsequent improvement of the overall business and investment climate offer plenty of opportunities, for example in commercial lines such as construction. ”

Mohamed Khalifa, Vice Chairman, Misr Insurance Company

“ GCC countries are making rapid progress in implementing their overarching economic policy strategy to diversify away from the hydro-carbon sector. As a result, a new risk landscape emerges. The rise of the manufacturing and services sectors, for example, presents major new opportunities for insurers. ”

PE Alexander, CEO, Qatar Insurance Company

“ In addition to personal lines we are seeing major opportunities in specialty business such as professional liability. Growth prospects in this area are not only driven by compulsory insurance requirements but also an increasing sophistication and internationalization of policyholders. ”

Nagib Bahous, CEO, MIG Holding

“ Despite significant competitive challenges, the MENA insurance markets offer exciting opportunities. Low penetration levels suggest a vast untapped potential at a multiple of today’s market size. ”

Mahomed Akoob, Managing Director, Hannover ReTakaful

ECONOMIC RISKS NOW TOP THE LIST OF CHALLENGES

Most respondents consider economic risks as the most relevant challenge to their operating environment, replacing political instability which now ranks second. The dramatic fall in oil prices since the summer of 2014 is causing nervousness among many respondents, not least because of adverse effects on the region's financial markets. In case of continued pressure on oil prices, some governments may be forced to curtail their spending as from 2016, negatively impacting commercial lines business in particular.

Despite the rise of IS and the continued civil war in Syria and Libya, political risk is mentioned less frequently than in 2014. The prospect of Iran rejoining the international community, the stabilisation in Egypt and the further consolidation of Tunisia's new political order are viewed very positively.

The third most frequently mentioned risk factor (as in 2014) is the potentially destabilising effect of fierce competition, which a number of interviewees continue to refer to as 'irrational'. Concerns are compounded by the fact that investment results in the region have become more volatile as a result of sliding oil prices (see chart 11).

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

"Many MENA insurers' business models are coming to a difficult stage due to decreasing enthusiasm and availability of attractive and suitable reinsurance, continued low interest rates, pressure on asset values, losses and consequently an increasing pressure on their net financial resilience."

Andreas Pollmann, Client Management Executive MENA, Munich Re

"Returns from stock markets in the region have come under severe pressure recently. The ultimate impact on insurance market behaviour is difficult to predict: Some insurers will place more emphasis on underwriting profitability. Others will continue to rely on (even more aggressive) cash-flow underwriting."

Dr Frank Mayer, Managing Director Reinsurance, Munich Re Underwriting Agents (DIFC) Ltd (Munich Health), Region Middle East & Africa

"MENA insurance markets are still characterised by a continued influx of capacity from global and regional reinsurance markets. Excess capacity could jeopardise the (partial) improvements achieved on treaty terms and conditions over the past two years. Although competition is inevitable and here to stay, the reinsurers operating in the region should at least be in a position to maintain these levels of achievements. Everybody knows that current pricing levels will not allow for absorbing a major loss."

Gökhan Aktas, Head of Foreign Inward Business, Milli Re

SURVEY RESULTS

GENERAL INSURANCE MARKET STATUS AND OUTLOOK

GENERAL INSURANCE MARKET STATUS AND OUTLOOK

RESILIENT GROWTH AND MODERATELY IMPROVING PRICING AND PROFITABILITY OUTLOOK

Low commercial insurance rates and average prices in personal lines
In line with 2014, the Barometer found that 86% of those interviewed view current prices in MENA commercial lines business as being below the average of the past five years. Competition remains fierce, reflecting the continuing abundant supply of reinsurance and the increasing relevance of brokers. Many interviewees consider current prices to be at an 'all-time low'. This is particularly true for the Gulf insurance markets which are highly attractive, easily accessible and, in general, not prone to catastrophe losses.

Participants judge personal lines business more favourably, with 63% saying that premium rates are at average levels, against 61% a year ago. In comparison with commercial insurance, personal lines business is characterised by a smaller number of players, higher barriers to entry, greater customer loyalty and, as a result, a better balance between demand and supply, resulting in more room for upward rate adjustments. In addition, non-price competition, for example through distribution or services, plays a significant role. Furthermore, personal lines business tends to be more adequately priced as it is largely retained by insurance companies who have more 'skin in the game'. Last but not least, in the most recent past, medical and motor rates have benefited from regulatory intervention, with the Saudi Arabian Monetary Agency (SAMA), for example, mandating the use of independent pricing and reserving actuaries (see charts 12 and 13).

" The current state of the market reflects a prolonged soft cycle. However, in the industry's own interest, this must not give rise to unbridled and self-defeating competition. "

Mahomed Akoob, Managing Director, Hannover ReTakaful

" One of the advantages of the GCC insurance market is its growth potential. However, it is also a non-CAT market. This means there is no natural limit to the current rate decline as there is no CAT event in sight which would possibly turn the market. In fact, rates may continue to fall. "

Rainer Lehner, Senior Executive Officer, Asia Capital Re

" On the regulatory front, we are seeing positive and encouraging signs, with some authorities enforcing more stringent rules on rates, reserves and solvency. However, much remains to be done in order to establish a homogenous regulatory environment with 'passporting' opportunities for the region's insurance companies. "

Farid Chedid, CEO, SEIB Insurance & Reinsurance Company

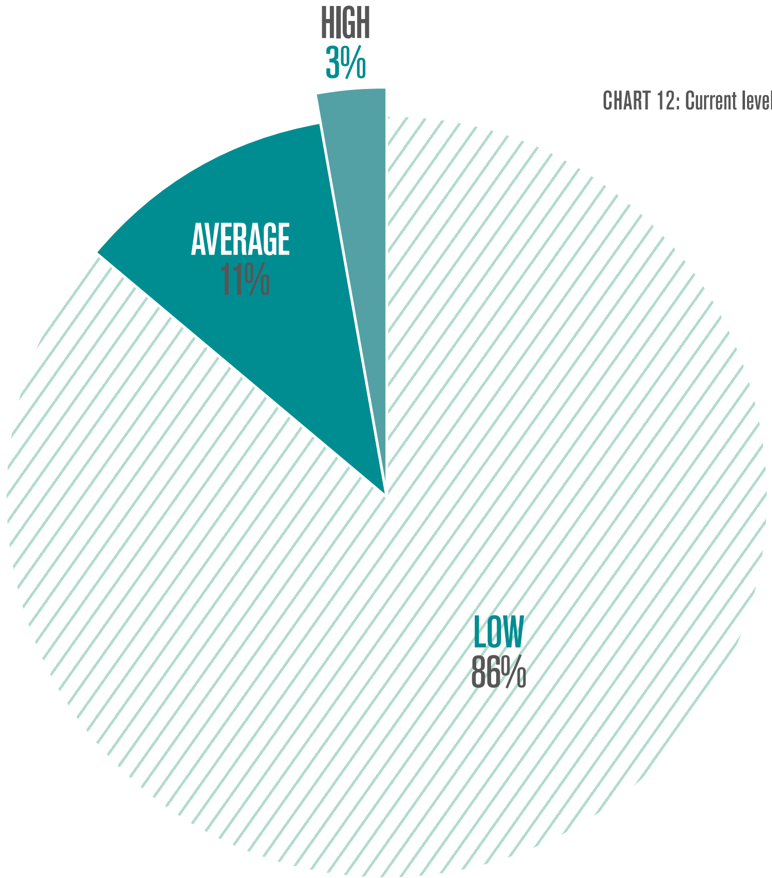
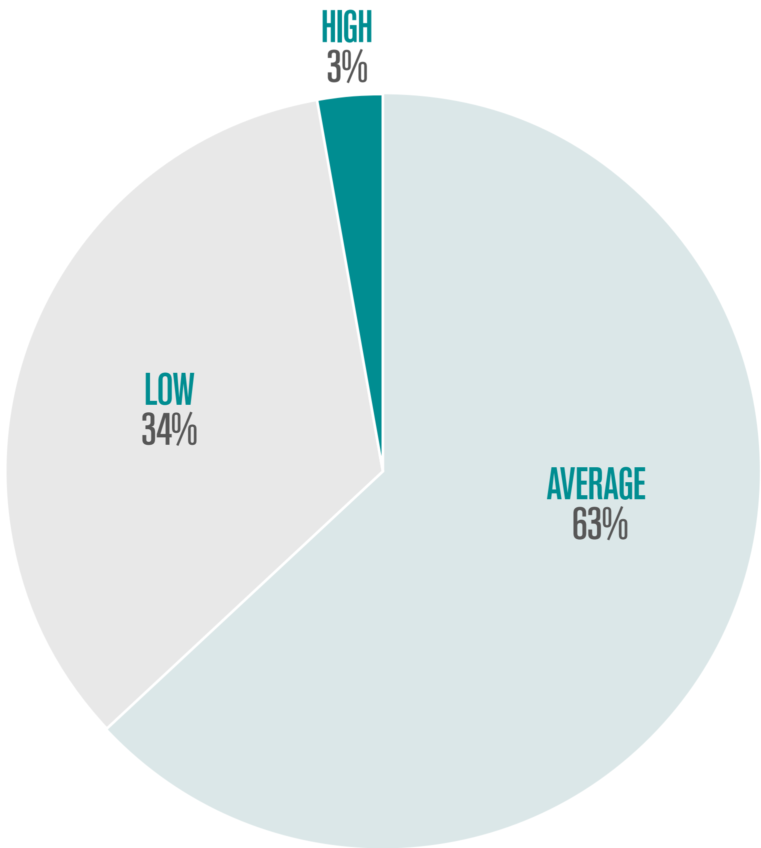


CHART 12: Current level of rates – Commercial lines

CHART 13: Current level of personal lines



IMPROVING PRICING OUTLOOK, IN PARTICULAR IN PERSONAL LINES

Roughly half of the respondents expect rates to remain flat over the next 12 months. The share of those expecting higher rates in both commercial and personal lines has increased, from 24% and 27%, to 30% and 37%, respectively.

Most interviewees believe that rates have hit bottom. Reinsurers are less accommodating following a series of major commercial lines losses. The markedly more positive assessment of personal lines pricing prospects reflects the full effect of SAMA's regulatory 'crack-down' which started in 2013 and saw the appointment of independent external auditors to enforce more rigorous pricing and reserving practices. A number of executives polled expect positive knock-on effects on other (GCC) countries, too (see charts 14 and 15).

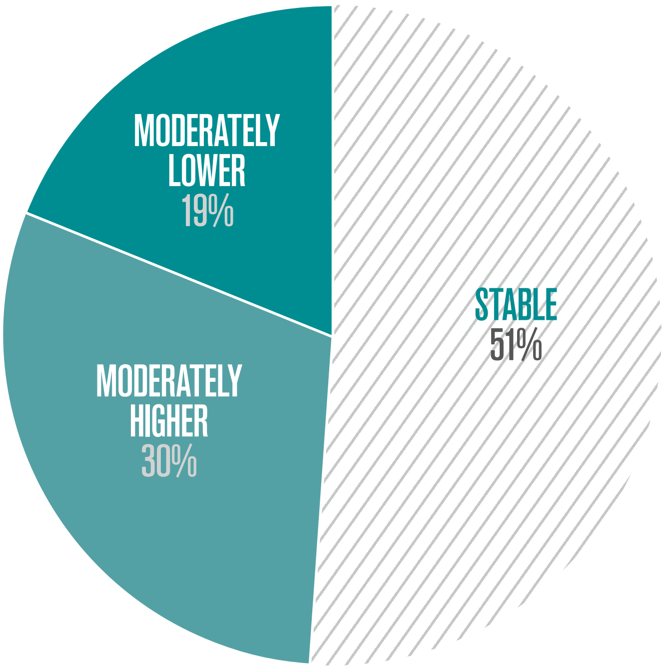


CHART 14: Pricing outlook – Commercial lines

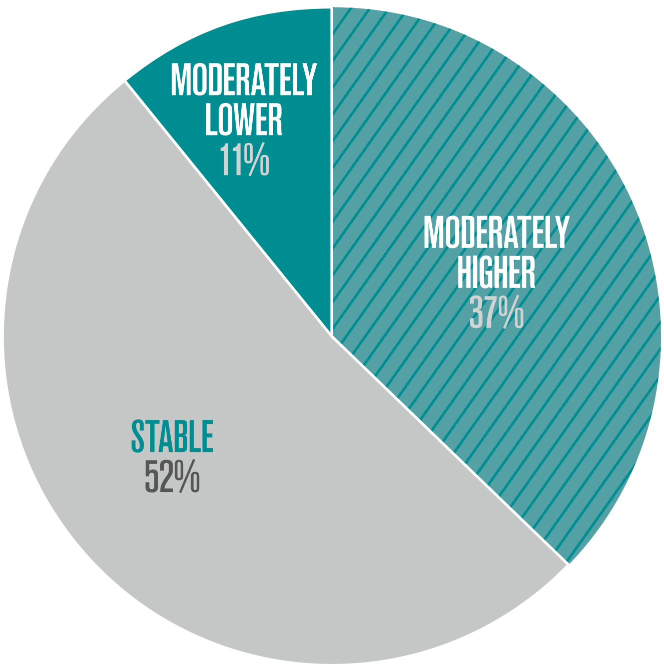


CHART 15: Pricing outlook – Personal lines

“The current downturn in investment results could inject more technical discipline in the market place. The larger, strongly branded insurers in particular are expected to push for higher rates and more rigorous terms and conditions.”

Farid Chedid, Chairman & CEO, Chedid Re

“From our perspective, prices are stabilising. In particular, the regulatory interventions of SAMA in Saudi Arabia including its introduction of more stringent capital requirements and more justifiable rating mechanisms in compulsory lines are positively impacting insurance rates. We expect that the regulator's action will have a lasting effect for at least the next 12 months.”

Keith M. Byrne, Director, General Insurance Operation,
Tokio Marine Middle East Limited

“There are huge differences in sophistication of regulatory frameworks across the Middle East: In some markets, regulations are still relatively weak. In other jurisdictions we are seeing signs of overregulation with regulators starting to impose strict rules on rates, loadings, etc.”

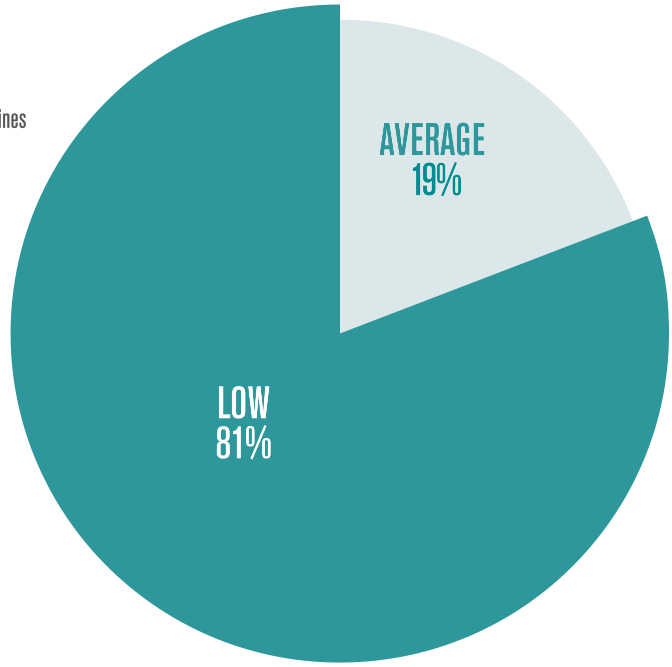
Dr Frank Mayer, Managing Director Reinsurance,
Munich Re Underwriting Agents (DIFC) Ltd (Munich Health),
Region Middle East & Africa

PROFITABILITY WEIGHED DOWN BY LOW RATES AND INCREASING LOSSES

The survey found that 81% of respondents consider overall profitability in commercial lines to be low (benchmarked against the past five years), up from 62% last year. This assessment is primarily a result of a further erosion of rates over the past 12 months in combination with a higher frequency of relatively large (fire) losses. In addition, strong investment returns in 2014 have encouraged some underwriting largesse. The non-Gulf markets are considered more profitable because of more advanced regulatory and risk management frameworks, despite a higher exposure to natural disasters.

Personal lines business continues to be viewed more favourably, also in comparision with last year's Barometer. 77% of executives polled describe profitability as average, up from 67% in 2014. The effect of regulatory tightening started to make itself felt in 2014, raising the five-year average of profitability (see charts 16 and 17).

CHART 16: Current level of profitability – Commercial lines



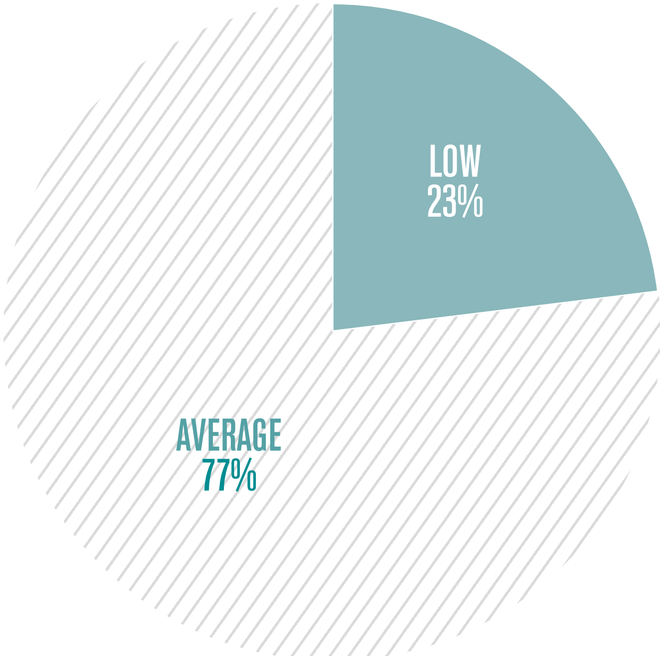


CHART 17: Current level of profitability – Personal lines

“Commercial lines business in the region is expected to remain highly competitive, given the glut in global reinsurance capacity and the absence of any significant market losses.”

Ashraf Bseisu, Group Chief Executive Officer, Solidarity Group

“The MENA insurance industry will move back to underwriting basics once new regulations aimed at adequate reserving have been implemented and enforced.”

Basma Barakat, Assistant General Manager, Arab Re

“Saudi Arabia is one of the few markets where we expect commercial lines rates to moderately recover, driven by improved regulatory oversight and risk management practices as well as less accommodating reinsurers.”

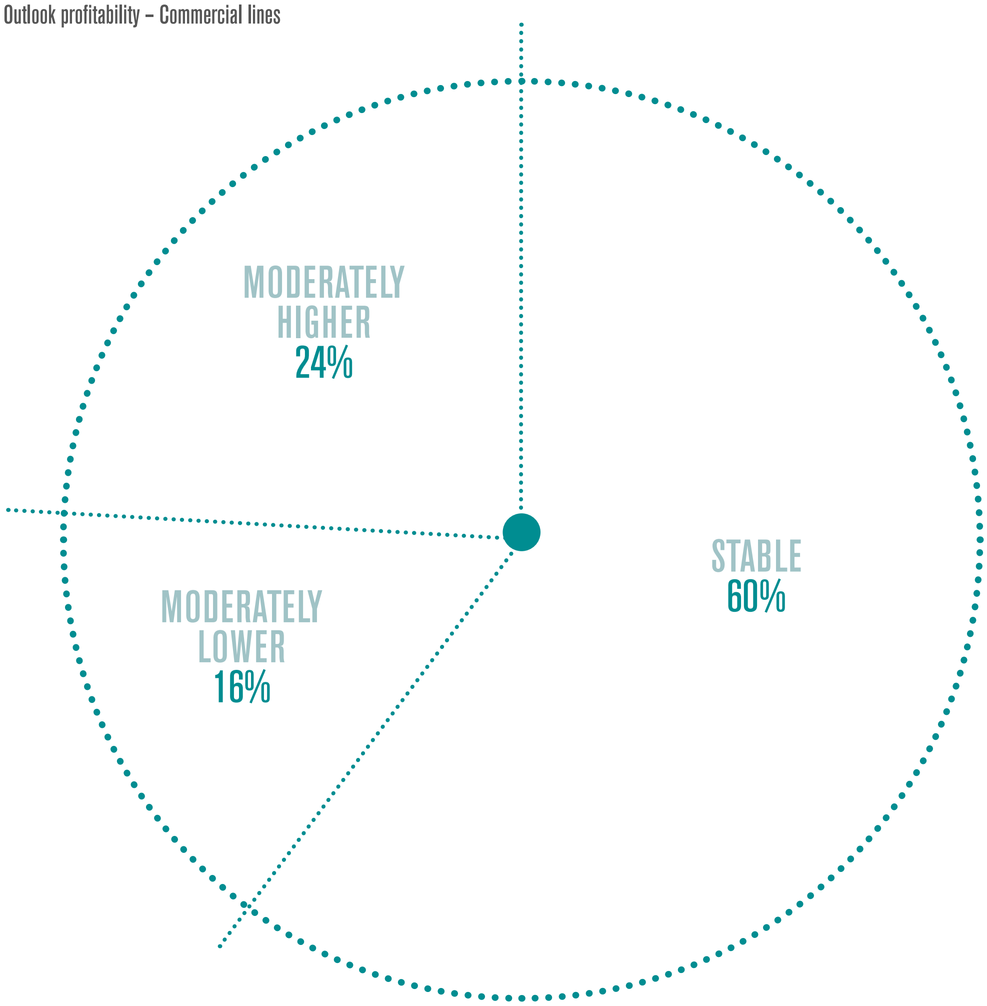
Salvatore Orlando, Head of High Growth Markets, PartnerRe

IMPROVING OUTLOOK FOR PERSONAL LINES PROFITABILITY

The majority of participants expect profitability in commercial lines to remain unchanged over the next 12 months. 24% of executives polled, up from 19% in 2014, believe that profitability will moderately improve. On the one hand, ample (reinsurance) capacity continues to weigh on margins. On the other hand, investment income is expected to come under pressure. This trend could encourage commercial lines insurers to place more emphasis on underwriting profitability. The net effect from these conflicting forces is uncertain.

Profitability expectations in personal lines have improved more noticeably over the past 12 months (with the share of those anticipating increased profitability almost doubling), largely attributable to regulatory measures in Saudi Arabia. Initially, these measures put pressure on profitability as medical and motor insurers were required to increase technical reserves. In the meantime, the positive effect from higher technical rates is starting to filter through. In addition, the 'back-to-technical basics' effect from eroding investment returns is even stronger in personal lines business which is largely retained by insurers. Having said this, social inflation, for example in the provision of health care services, remains a severe concern and a number of interviewees question whether the most recent rate increases will be sufficient to offset this adverse inflationary impact (see charts 18 and 19).

CHART 18: Outlook profitability – Commercial lines



“ The Gulf region in particular has seen significant improvements in terms of the quality of available capacity, the maturity of risk takers and advisors and the proximity to underwriting decision-makers. These developments have added to the market's strength and resilience. ”

Robert Makhoul, Executive Chairman, Marsh MENA

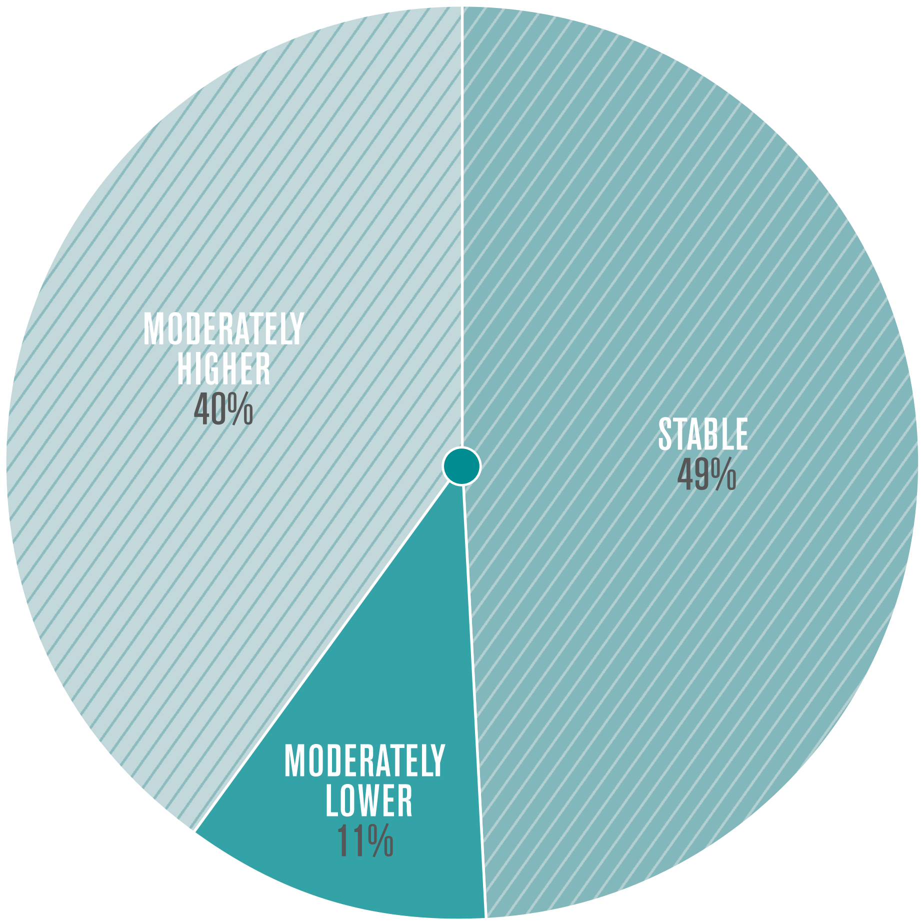
“ The insurance markets in which we operate – the Levant, in particular Jordan, and the Gulf – are highly professional and well advanced. Apart from a few exceptions all players in the region are rated. The markets are closely regulated and, in addition, our personnel are well trained and skilled. Finally, the IT systems we use are state-of-the-art and provide us with full transparency by the minute. ”

Imad Abdel Khaleq, CEO, Jordan Insurance Company

“ Personal lines probably offer the biggest potential for insurance in the region. On the one hand, their growth is fuelled by compulsory insurance requirements. On the other, awareness is improving as insurers introduce and market new products. ”

Khalid Al Mughesib, Advisor at the Office of HE, the Minister of Finance of the State of Qatar and Vice Chairman of the National Health Insurance Company

CHART 19: Outlook profitability – Personal lines



INSURANCE PENETRATION EXPECTED TO INCREASE

Over the next 12 months, 70% of the survey respondents expect insurance premiums in the MENA region to grow at a faster pace than regional GDP, down from 76% in 2014. This still bullish assessment reflects a strengthened outlook for personal lines which are set to benefit from additional compulsory insurance requirements, further rate increases as well as advances in distribution (for example, bancassurance). In most GCC countries, in the short term, the vast pipeline of major construction and infrastructure projects will not be adversely affected by sliding oil prices and continues to underpin the anticipated increase in insurance penetration. Survey participants were also optimistic about Turkey (benefiting, for example, from a much improved regulatory environment) and Northern Africa where political instability seems to be receding (see chart 20).

“ Adequate solvency regulations would go a long way in strengthening market discipline and enabling a more stable and sustainable growth path for the region's insurance markets. ”

Bassam Chilmeran, General Manager, Al Wathba National Insurance Company

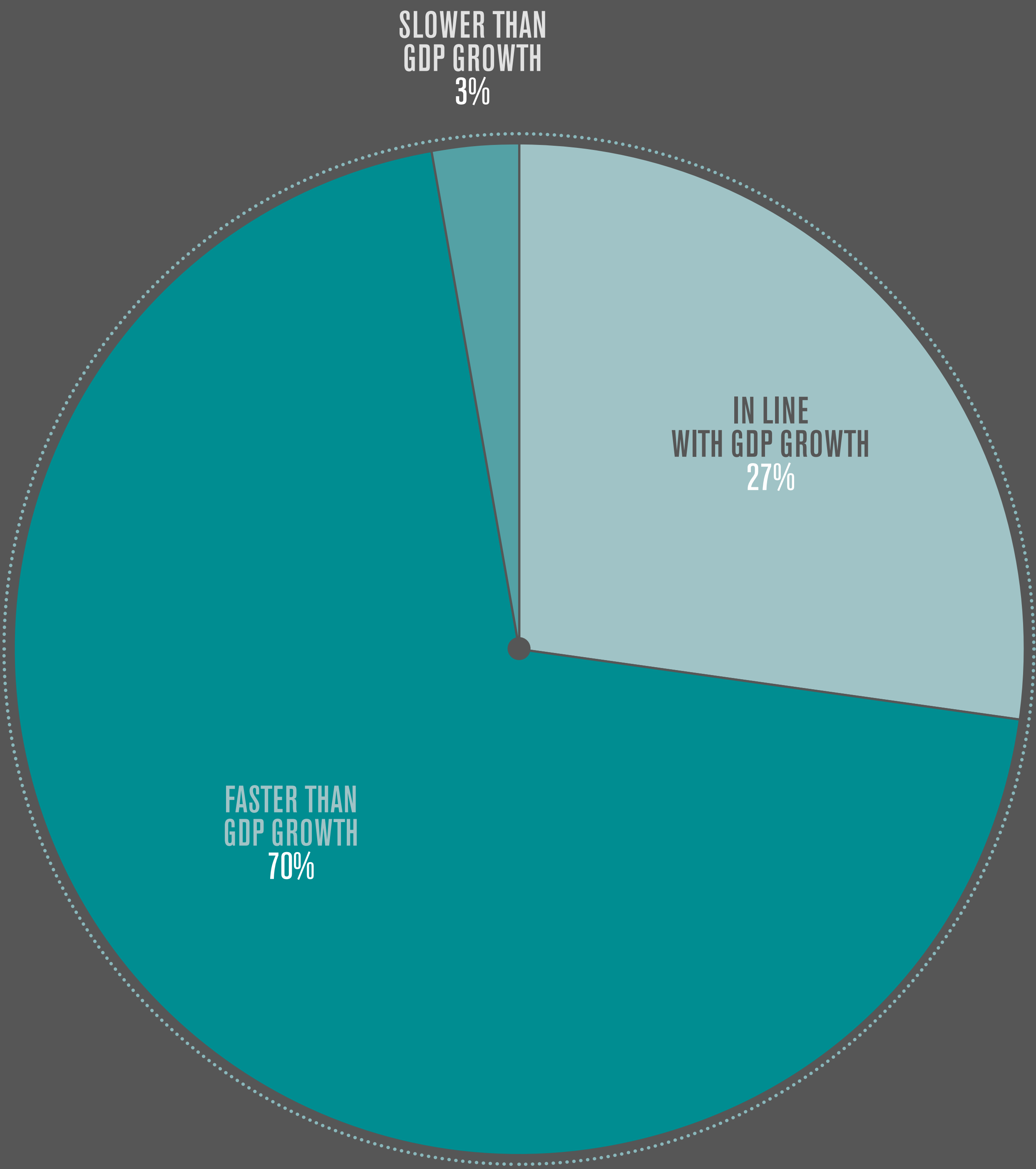
“ Insurance penetration in the MENA region is expected to increase further. However, the pace of premium growth is likely to slow given the macro-economic headwinds from declining oil prices. ”

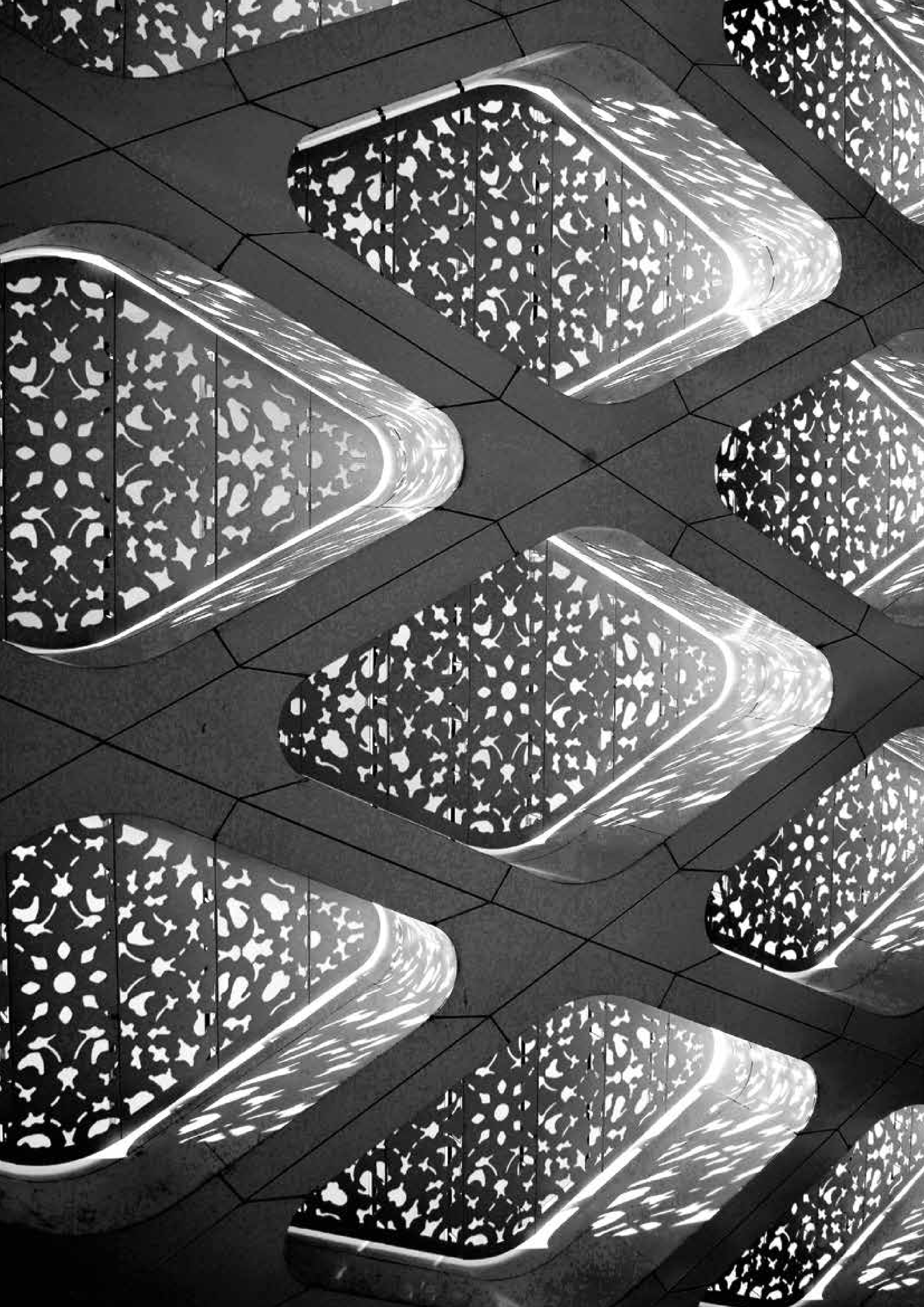
Dr Abdul Zahra Al Ali, CEO, National General Insurance Company

“ We welcome the changes to the regulatory environment for brokers. However, in the interest of effective consumer protection, we urge regulators to maintain a level playing field across the entire spectrum of distribution channels. ”

Robert Makhoul, Executive Chairman, Marsh MENA

CHART 20: Expected premium growth versus GDP growth





SURVEY RESULTS

LINES OF BUSINESS-SPECIFIC PROSPECTS

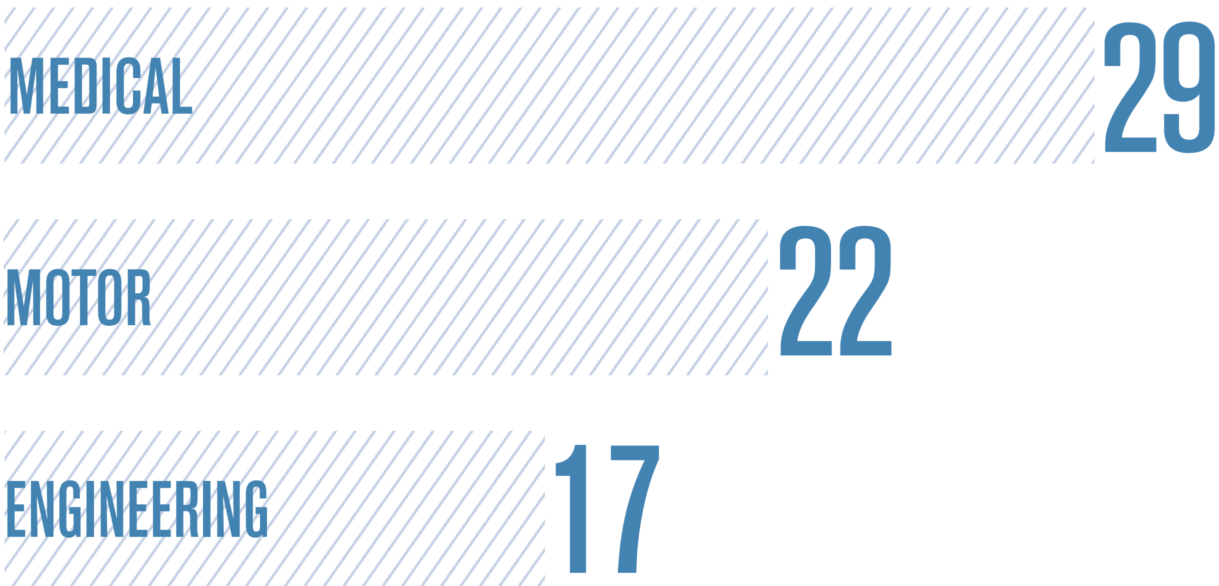
LINES OF BUSINESS-SPECIFIC PROSPECTS

Over the next 12 months, medical insurance is expected to be the fastest-growing line of business in the MENA region. Growth continues to be fuelled by compulsory insurance requirements which, for example, have made medical insurance the biggest line of business in Saudi Arabia. New compulsory regimes are also being implemented in other jurisdictions such as Qatar. In addition, in Saudi Arabia, medical insurance rates have increased markedly as a result of regulatory intervention.

Motor business ranks second, driven by a combination of compulsory insurance requirements and a continued population growth. Engineering is the third most frequently mentioned line of business when it comes to short-term growth prospects, reflecting major infrastructure and construction projects in Saudi Arabia, the UAE, Qatar, and, to a lesser extent, Egypt. Over the next 12 months, most interviewees do not expect any negative implications of falling oil prices on project activity (see chart 21).

The ranking of these three lines of business is unchanged from the 2014 MENA Insurance Barometer.

CHART 21: The fastest-growing lines of business (number of mentions)



“Compulsory business such as medical insurance will continue to be the fastest growing segment of the market and is expected to further boost overall insurance penetration.”

Maurizio Colautti, Deputy CEO Insurance, Qatar General Insurance & Reinsurance Company

“The introduction of new compulsory insurance requirements such as Medical Malpractice and Lawyers Malpractice, is a major opportunity for liability insurers in the region.”

Bassam Chilmeran, General Manager, Al Wathba National Insurance Company

“The Middle Eastern insurance markets are changing rapidly. The most recent regulatory and supervisory enhancements are set to further accelerate this transformation and promote a more disciplined and sophisticated market place.”

James Portelli, Former General Manager, United Insurance Company

As far as the slowest-growing lines are concerned, property business was mentioned most frequently, mainly attributable to rock-bottom premium rates. Marine hull insurance ranks second, reflecting the lower importance of international trade as an engine of regional economic growth and the absence of large commercial fleets. Liability insurance is the third most frequently mentioned line as awareness remains low, despite an increasing frequency of court rulings and a trend towards compulsory schemes in professional liability (see chart 22). The overall ranking of lines has not changed compared with the 2014 Insurance Barometer.

“There is an urgent need for closer collaboration between legislators and insurance regulators in order to ensure that courts rule according to applicable insurance regulations. The current ‘disconnect’ is a major problem for insurers.”

Basma Barakat, Assistant General Manager, Arab Re

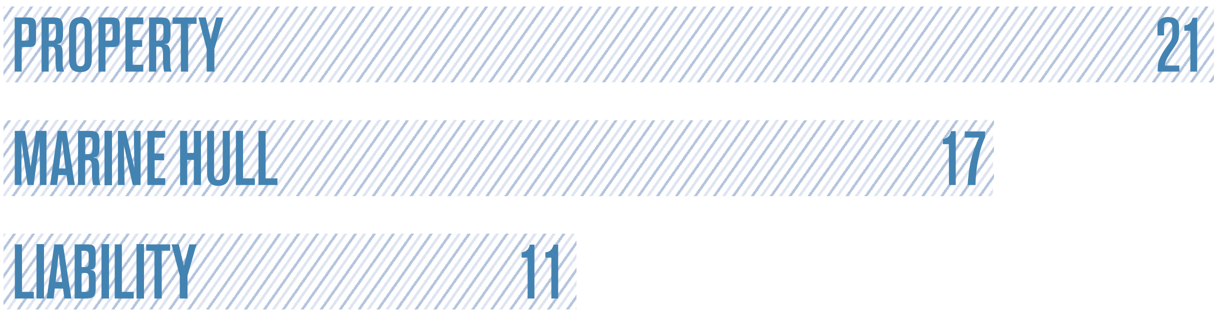
“Insurance companies which are highly trusted by their customers have best chances to withstand the current soft market trends and to enjoy smooth performance and solid growth. Long-term partnerships and business retention can be achieved only by understanding customers’ needs, providing added value and risk management expertise in order to actively protect the customers, their lives and their businesses.”

Guido Zagatti, Senior Manager, Assicurazioni Generali S.p.A., Middle East Regional Office

“The rapidly growing SME sector in the MENA region is one of the key opportunities for the insurance industry to tap into. Typically these firms are run by the younger, more entrepreneurial-minded generation, which has a different attitude towards insurance than their established counterparts as they are keen to protect their newly created assets.”

Sanjeev Badyal, CEO, Allianz Global & Corporate Specialty Dubai

CHART 22: The slowest-growing lines of business (number of mentions)



Over the next 12 months the survey respondents consider engineering as the most profitable line of business, reflecting relatively high barriers to entry and generally high standards of construction. Marine cargo was considered the next profitable line of business, due to a relatively small number of providers and low loss ratios. Life insurance was identified as the third most profitable line. Group life insurance in particular is an attractive market segment for insurers who are able to offer bespoke and value-added solutions for corporate clients (see chart 23). Whilst the ranking for engineering and marine cargo business did not change over the course of the past 12 months, life insurance made it into the 'Top 3' for the very first time.

“ Given the strong pipeline of major construction and infrastructure projects as well as additional compulsory insurance requirements, premium growth is poised to outperform GDP growth over the foreseeable future. ”

Younis Jamal, CEO Takaful International Company

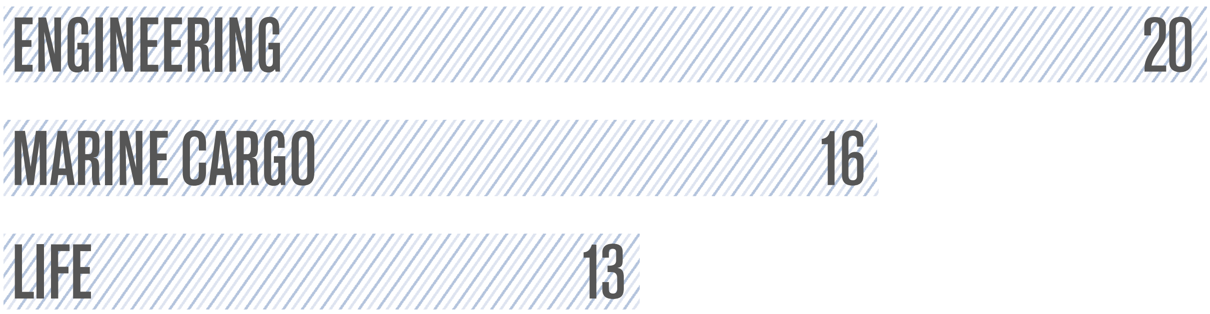
“ We are observing increases in property rates, as a result of large and frequent losses in 2014 and, given the fact that rates had reached their technical minimum. ”

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

“ Many insureds in the MENA region continue to benefit from natural catastrophe cover which is given away free of charge. For some insurers this practice amounts to brinkmanship, leaving them highly vulnerable to a major disaster. ”

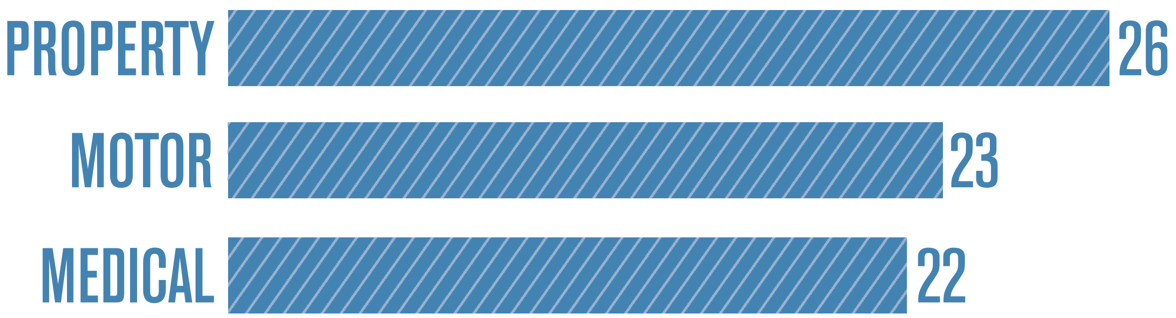
Dr Chérif Chentir, Chief Underwriting Officer
Middle East & South Eastern Europe, SCOR SE

CHART 23: The most profitable lines of business (number of mentions)



Property insurance is considered the least profitable area, up from third rank in 2014. Competition has further intensified on the back of ample and inexpensive reinsurance capacity. In addition, barriers to entry remain low in this commoditised segment of the market. Motor and medical business rank more favourably as compared with the 2014 MENA Insurance Barometer as SAMA has proven how effective decisive regulatory measures can be in strengthening the technical discipline of the marketplace. Rates in these two areas of business have improved significantly and a number of interviewees expect other regulators in the region to carefully study the Saudi example (see chart 24).

CHART 24: The least profitable lines of business (number of mentions)



SURVEY RESULTS

KEY MARKET TRENDS & DRIVERS

KEY MARKET TRENDS AND DRIVERS

INSURANCE REGULATIONS STILL CONSIDERED INADEQUATE BUT IMPROVING

The Barometer found that 49% of respondents believe the overall state of insurance regulation in the region to be inadequate, slightly down from the previous survey. The most frequently mentioned shortcomings continue to include a lack of solvency margins, not to mention risk-based solvency rules, insufficient minimum capital requirements as well as a general lack of cohesion, transparency, consultation and implementation.

However, most executives acknowledge that significant progress is being made. In addition to and following the example of Saudi Arabia and other countries, in particular UAE and Qatar, are committed to bringing their respective regulatory environments in line with the requirements of a modern insurance market. Furthermore, broker regulations are about to be introduced, in the UAE, for example, which is viewed positively by most interviewees given the increasing role of intermediaries and their perceived contribution to price competition.

In general, the region is highly heterogeneous as far as regulatory sophistication is concerned, ranging from relatively effective and sophisticated regimes in Bahrain, Jordan, Morocco (coming close to Solvency II) and Saudi Arabia, to rudimentary and/or insufficiently enforced frameworks in the Gulf region, most notably Kuwait (see chart 25).

“Solvency and rating requirements have become an issue for very many MENA insurers in most markets that cannot be resolved by the insurance companies alone – the availability of solvency, capital management and rating expertise is becoming increasingly relevant for MENA insurance companies to cope with the changing regulatory and business environment.”

Andreas Pollmann, Client Management Executive MENA, Munich Re

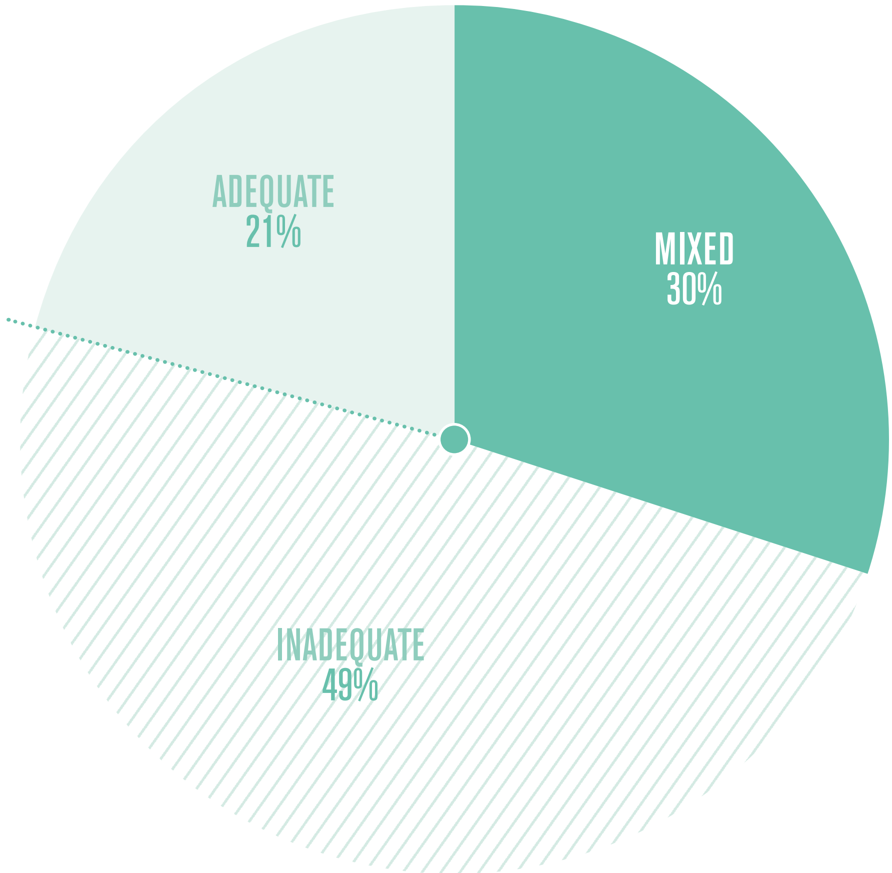
“I expect major regulatory improvements in the UAE, such as the introduction of solvency margins and specific regulations on reserving and investment policies.”

Omer Hassan Elamin, President, Orient Insurance Group

“In the Middle East, insurance supervision tends to be more of a challenge than insurance regulation. Many authorities simply lack the resources and specialist expertise to effectively implement and enforce regulations.”

Fareed Lutfi, Secretary General, Emirates Insurance Association

CHART 25: State of insurance regulations



INSURERS REMAIN HIGHLY EXPOSED TO NATURAL CATASTROPHE RISK

Executives views' are evenly split as far as the adequacy of natural catastrophe cover in the region is concerned. This outcome differs from last year's when 54% of participants felt that levels of natural catastrophe protection, both in personal and commercial lines, are inadequate and only 46% opined that the exposure is adequately insured.

In this context it is important to differentiate between insurers and insureds (such as households and corporations). Whereas the former are not adequately covered through reinsurance protection (which now comes with event limits), the latter benefit from cover, which, as a matter of fact, is given away for free by many insurers. This is particularly true for the GCC countries, but does not apply to highly exposed countries such as Turkey and Algeria, where insureds are significantly more vulnerable to earthquake risk than elsewhere in the region.

In many markets, the exposure to natural perils tends to be underestimated due to a lack of comprehensive historical loss events and respective data, and, as a consequence, a shortage of quantitative models and rating tools (chart 26).

“Individuals and corporations are insufficiently protected against natural catastrophes, the impact of which is becoming more severe as the concentration of asset values continues.”

Raed bin Abdullah Al-Tamimi, CEO, Tawuniya

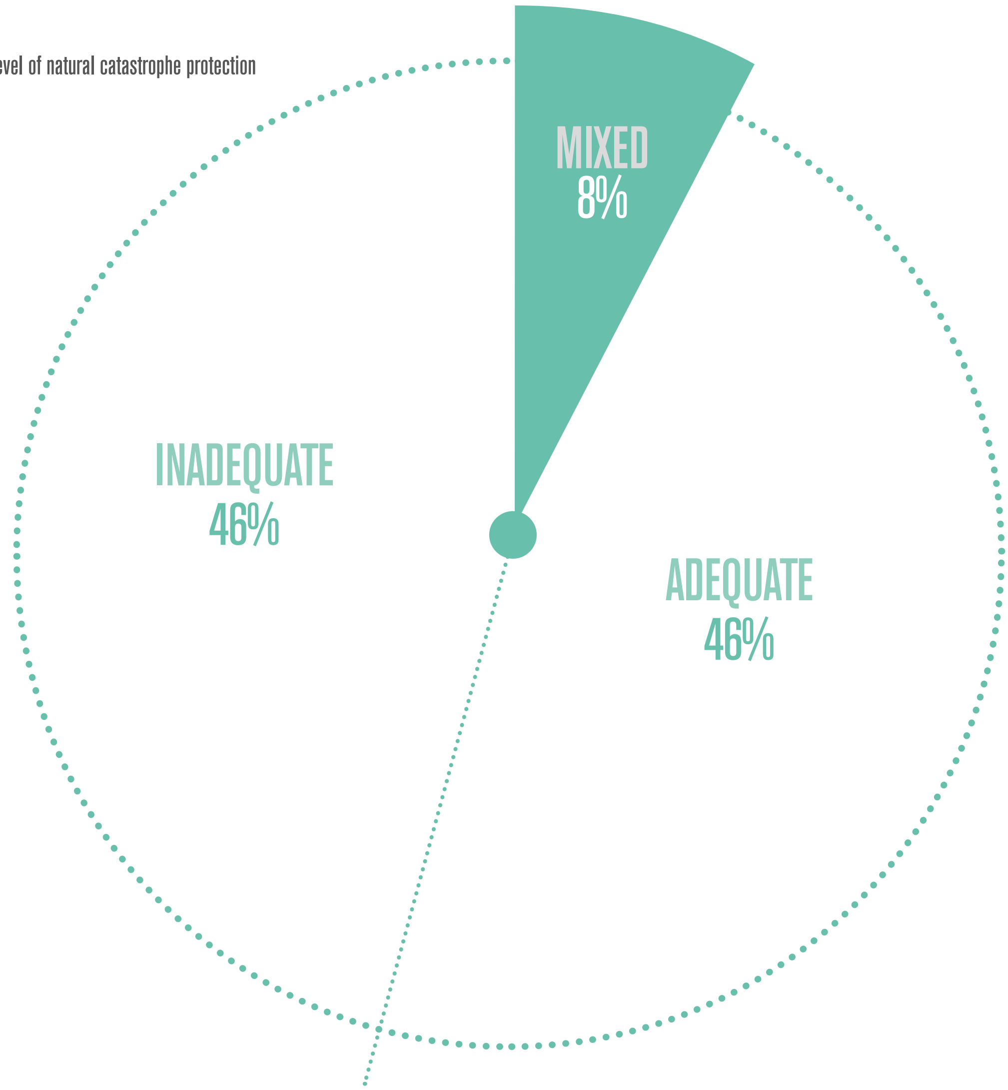
“Many direct insurers in the region are dangerously exposed to natural catastrophe risk as their net retentions are inadequately protected through reinsurance.”

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

“Natural catastrophe exposure in the region is heavily underinsured, with a lack of historical data and quantitative models being the main reason.”

Dr Abdul Zahra Al Ali, CEO, National General Insurance Company

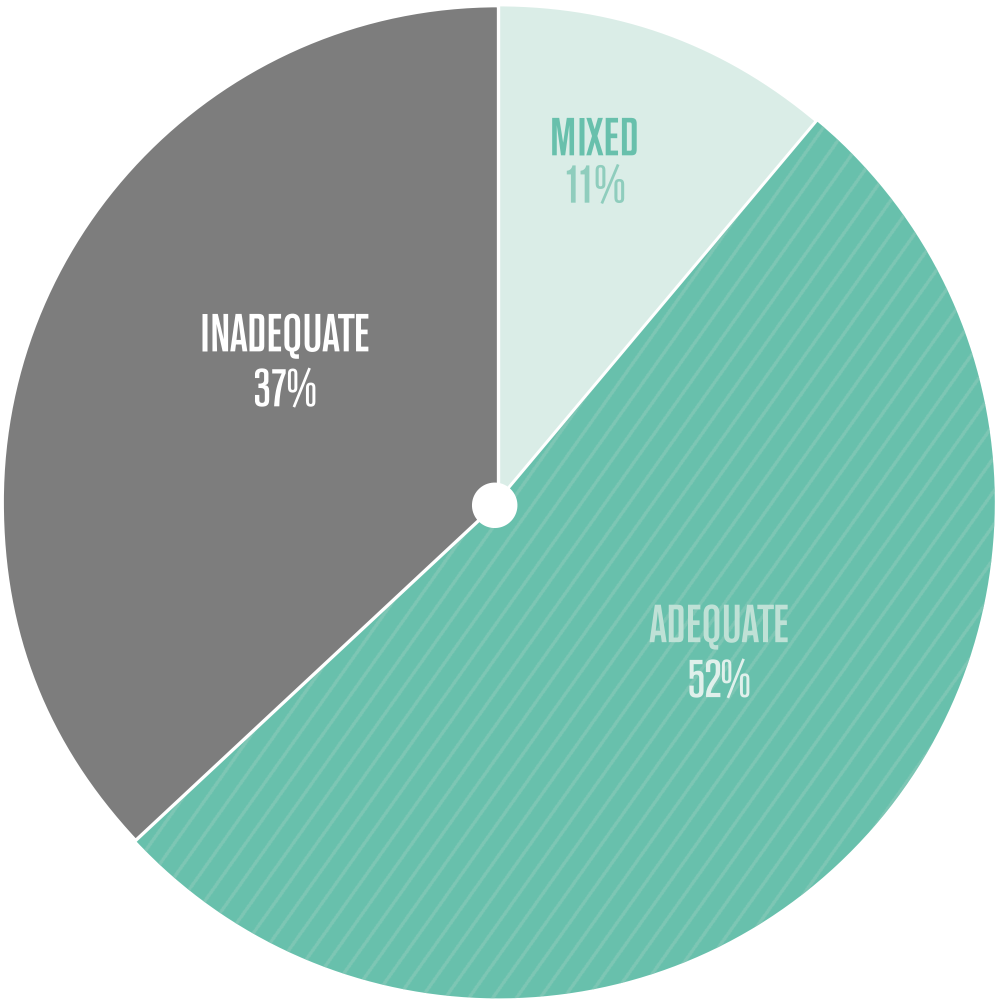
CHART 26: Level of natural catastrophe protection



POLITICAL RISK INSURANCE MARKETS ARE MATURING

52% of executives polled consider the level of insurance protection against political risk in the MENA region as adequate, up from 40% in 2014. Supply side restrictions which were mentioned last year have eased over the past 12 months. Those who want to buy political risk cover can do so at prices which are still elevated but no longer prohibitive (chart 27).

CHART 27: Level of political risk protection



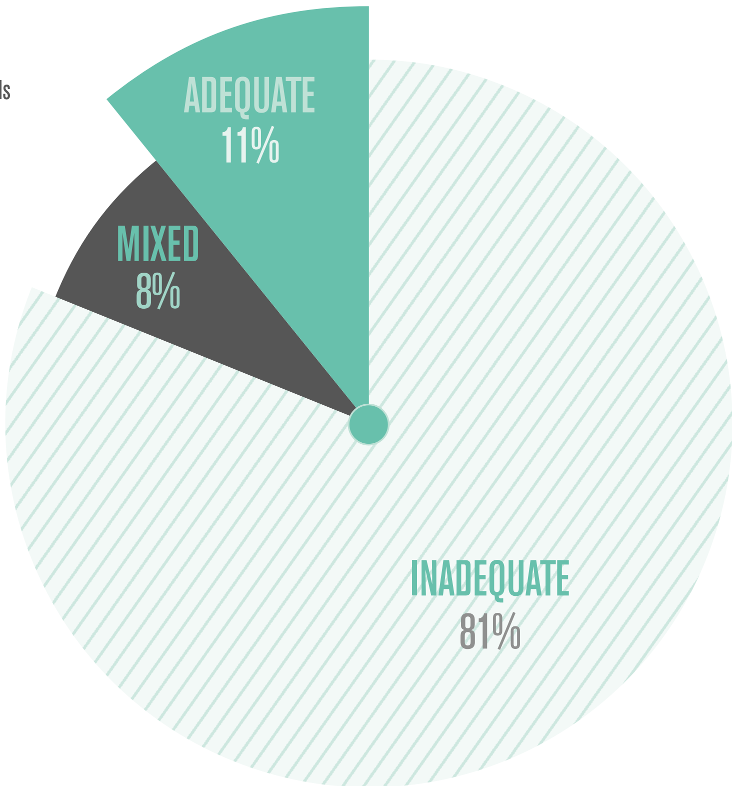
DEARTH OF LOCAL TALENT REMAINS A MAJOR CHALLENGE

81% of respondents believe that local technical skills are inadequate, up from 76% in the previous year. Many insurers continue to depend on expatriate staff, which most interviewees do not consider sustainable (see chart 28). Some executives say that insurers themselves are to blame for this situation as they generally fail to nurture local talent and don't invest in the development of management. There are even calls for regulators to put pressure on boards to do so in future. In this context, some executives bemoan the 'poaching' culture in the market, coupled with employee opportunism. This state of affairs obviously discourages investments in talent development.

In addition, some blame the industry's overall poor public image for the failure to attract qualified local staff and to compete more effectively with governments and banks. The latter are seen as more 'glamorous' and profitable. More fundamentally, a number of executives call for reforms to educational systems in order to address the root causes of the shortage of indigenous talent.

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

CHART 28: State of local technical skills



" Insurers struggle to successfully compete with the public sector when it comes to attracting and retaining local talent. "

Jason Light, CEO, Emirates Insurance Company

" In my opinion, in order to address the perennial lack of local talent in our region, we need changes to the educational system such as the establishment of dedicated faculties of insurance at universities. "

Omer Hassan Elamin, President, Orient Insurance Group

" Addressing the shortage of local insurance talent in the region requires a public-private partnership: Governments need to enhance educational systems through elements which cater to risk and insurance management. At the same time, the insurance industry needs to deploy collective efforts to reap the benefits. Bahrain is a good example of such a success story. "

Nagib Bahous, CEO, MIG Holding

CONSOLIDATION REMAINS ELUSIVE

The survey found that only 19% of respondents expect market concentration to increase over the next 12 months, virtually unchanged from 2014. Domestic insurers remain relatively well capitalised and prevailing family ownership remains an almost insurmountable obstacle to mergers and acquisitions. Longer term, however, tightening regulations (including forthcoming minimum capital requirements in a number of countries) are expected to translate into market consolidation (see chart 29).

" Insurance market consolidation in the region would have to be spearheaded by lawmakers and regulators. Market forces on their own appear to be insufficient to deal with the excess number of players. "

Michael S. Jensen, AIG Property Casualty, Managing Director MENA

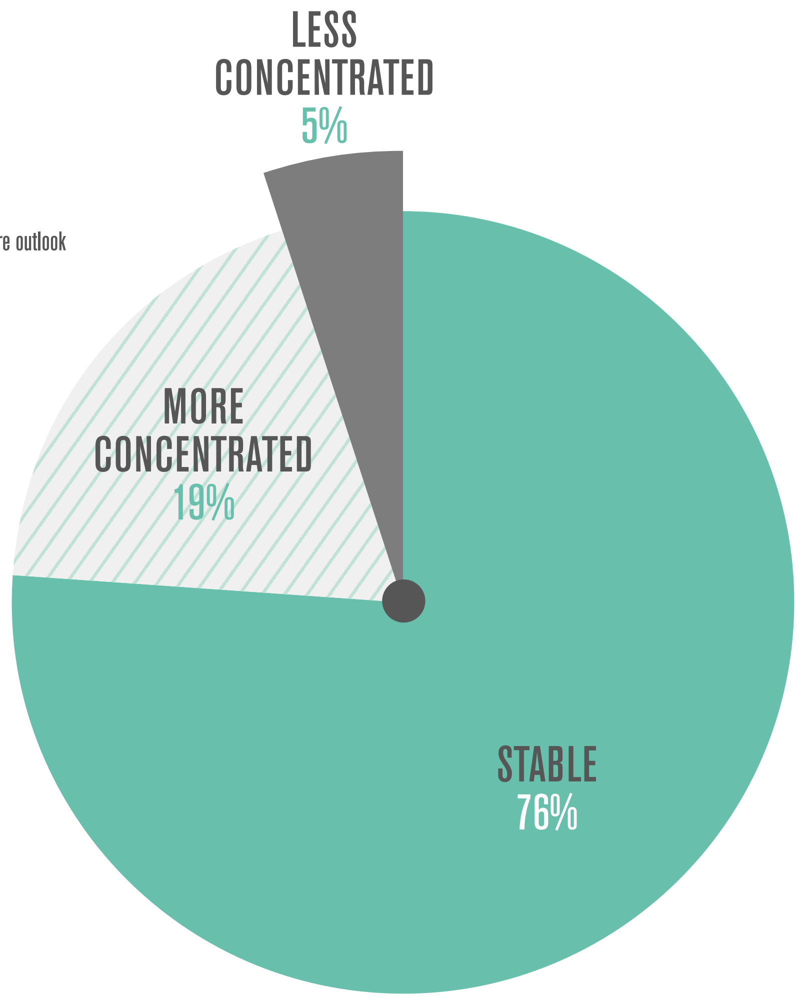
" Longer-term, tighter capital and reserving requirements could facilitate the consolidation of the UAE's insurance industry. "

Jason Light, CEO Emirates Insurance Company

" Longer-term, consolidation in MENA insurance markets seems to be inevitable. At some stage, owners will stop tolerating ever-eroding returns on investment. "

Salvatore Orlando, Head of High Growth Markets, PartnerRe

CHART 29: Market structure outlook



STABLE FOREIGN MARKET SHARE

The Barometer found that only 32% of respondents expect non-MENA-based insurers to gain market share over the next 12 months, marginally down from 35% in 2014. Those that anticipate an increasing share of foreign players point to their specific competitive advantages such as superior financial security, technical expertise, customer focus and distribution know-how. In addition, the rapidly growing expatriate community tends to prefer to deal with insurers from their home countries. A new argument brought forward by a number of executives is the general market trend towards more specialty products in the commercial space, for example, professional indemnity insurance. In this area foreign insurers are considered well ahead of their local competitors.

The majority of surveyed executives continue to expect a stagnation or even erosion of foreign insurers' market share in light of significant losses recently suffered by some global insurers operating in the region. Others point to the fact that in a number of fields, local insurers have stepped up the game, both in terms of underwriting capacity and expertise (see chart 30).

" From an investment point of view, 2015 is likely to be more challenging than the past few years. However, one opportunity here is a potential acceleration of 'back to basics' as far as insurers' focus on risk underwriting and technical profitability is concerned. "

Ashraf Bseisu, Group Chief Executive Officer, Solidarity Group

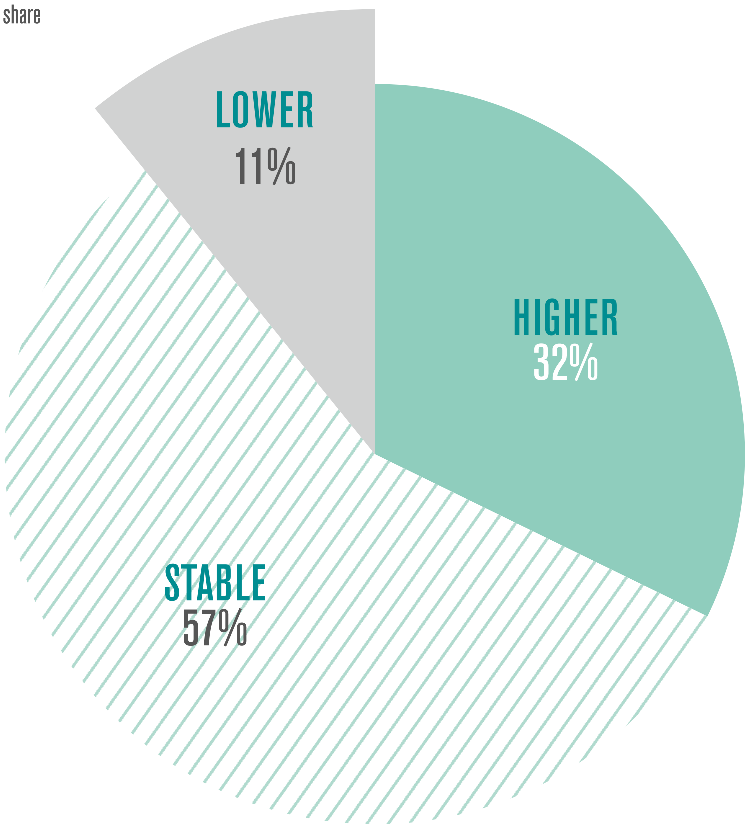
" We remain very confident about the MENA insurance market's potentials and prospects. However, generally speaking, foreign insurers are facing tougher competition from local and regional carriers who have grown in sophistication and are able to offer increasing levels of capacity. "

Michael S. Jensen, AIG Property Casualty, Managing Director MENA

" We expect a further increase in foreign insurers in the region. We have already seen a strong influx of international brokers who have gone local to be closer to their clients. As a result, less business is ceded internationally and therefore more external insurers are drawn to the MENA region. "

Christian W. Müller, Underwriting Manager Construction, XL Insurance

CHART 30: Outlook for foreign market share



BROKERS CONTINUE TO GAIN IN IMPORTANCE

As in 2014, intermediaries are expected to be the fastest-growing distribution channel over the next 12 months. Brokers are believed to benefit from the growing complexity of cover and increasing need for expert advice going beyond a purely transactional role. However, emerging regulations, including minimum capital requirements, could herald some consolidation in the brokerage sector.

Banks continue to rank second, with a specific advantage in distributing life insurance policies. A growing number of banks are starting to understand the potential of insurance sales as another contributor to overall profitability. They take advantage of the fact that their client relationships tend to be stronger than insurers'. Also, in a number of countries, legislative and regulatory restrictions are being lifted. Egypt is a case in point.

By a significant but decreasing margin, online distribution is the third most frequently mentioned distribution channel. It is believed to have significant potential given the region's young and internet-savvy population. In addition, its cost benefits are increasingly being recognised by insurers who operate at marginal levels of profitability. However, lacking or restrictive regulations remain a major obstacle for further growth of the digital channel (see chart 31).

> "In Lebanon, banks enjoy a high level of credibility based on their financial strength and performance record. Many of them own insurers who benefit from the banks' good reputation."

Fateh Bekdache, Vice Chairman & General Manager, Arope Insurance

CHART 31: Fastest-growing distribution channels (number of mentions)

IMPROVING OUTLOOK FOR TAKAFUL INSURANCE IN PERSONAL LINES

22% of respondents expect Takaful insurance to underperform the market as a whole in terms of growth, down from 32% in 2014. The share of those expecting it to grow in line with the overall market has increased from 46% to 57%.

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

The slightly more favourable overall assessment as compared with the 2014 Barometer is a reflection of strong personal lines growth, also driven by improvements in profitability. The principle of mutuality can be most effectively applied in personal lines such as motor and medical insurance where portfolios are relatively homogenous (see chart 32).

“ In many cases, Takaful insurers continue to lack a distinct and compelling value proposition. The business tends to be driven by short-term profit maximization rather than a sustainable approach to sharing surpluses and losses with policyholders. ”

Yassir Albaharna, CEO, Arig

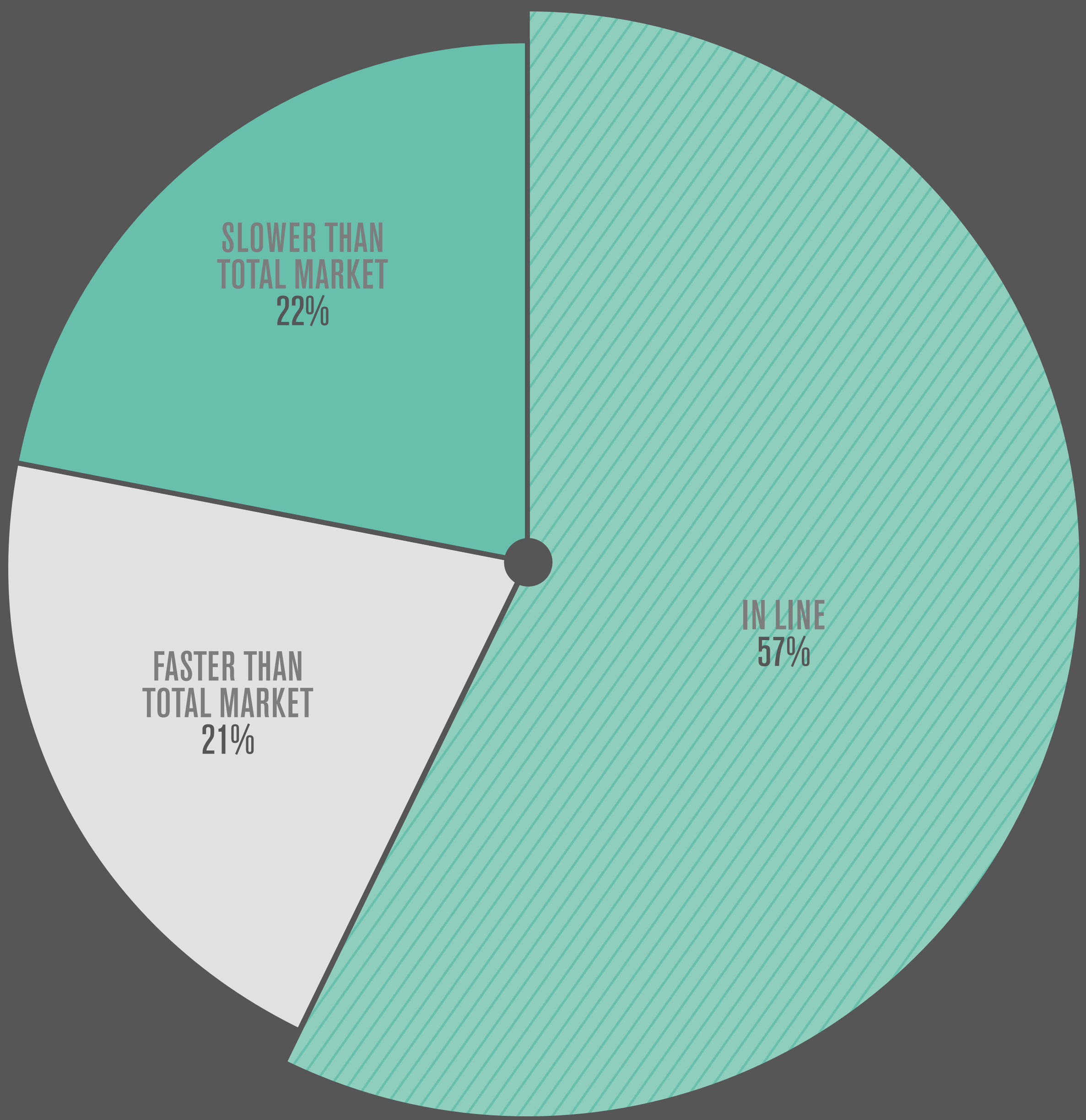
“ The results over the last 10 years for Takaful Insurance companies in the MENA region have in general not been satisfactory and by far lower than those of conventional insurers in the region. We have to be very realistic: I think the future of Takaful in MENA lies in the Life, Health and other personal lines business – often labelled as 'Family Takaful'. In these segments you can find the true potential – if you can convince the very large uninsured part of the society with the right 'sharia arguments'. ”

Dr Chérif Chentir, Chief Underwriting Officer
Middle East & South Eastern Europe, SCOR SE

“ Fundamentally, the prospects for Takaful insurance in the Middle East are bright. However, the regulatory and supervisory framework needs to improve. Malaysia is a good case in point. The sophistication of Bank Negara was instrumental in developing a vibrant Takaful market. ”

Fareed Lutfi, Secretary General, Emirates Insurance Association

CHART 32: Growth prospects for Takaful insurance



ABOUT THE QATAR FINANCIAL CENTRE

Established by the Government of Qatar in 2005, the Qatar Financial Centre (QFC) is an on-shore centre which has become an integral part of Qatar's economy and rapid growth story and is fulfilling its mandate to help build a world-class financial and business environment in Qatar, providing a platform for domestic, regional and international growth. The QFC comprises four independent bodies: the QFC Authority; the QFC Regulatory Authority; the Civil and Commercial Court (First Instance and Appellate Divisions); and the Regulatory Tribunal.

The QFC Authority is the commercial and strategic arm of the QFC; it is responsible for developing and ensuring compliance with the QFC regulations and rules comprising the QFC's legal and tax environments; it is responsible for the administration of the Companies Registration, Employments Standards and Immigration Offices respectively; and it is also responsible for the licensing of all firms applying to conduct non-regulated permitted activities. The QFC continues to attract a broad range of leading regulated and non-regulated firms, both domestic and international.

QFC-licensed firms benefit from an environment which operates to international standards, with a legal system based on English common law, regulation which is risk and principles-based and a competitive tax regime. Business can be carried out in or from the QFC, in local or foreign currency. Uniquely, this allows businesses to operate both locally and cross-border. Furthermore, the QFC allows 100% ownership by foreign companies and all profits can be remitted outside of Qatar.

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