MENA INSURANCE BAROMETER 2016

AN ANNUAL MARKET SURVEY

QFC
Qatar Financial Centre

MENA INSURANCE BAROMETER

No 4 / March 2016

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FOREWORD

YOUSUF MOHAMED AL-JAIDA

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

It is with great pleasure that I present to you the fourth edition of the annual MENA Insurance Barometer, which is based on in-depth interviews with regional and international (re)insurance experts.

The MENA Insurance Barometer is a powerful tool that helps provide 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 about 350 million and a combined gross domestic product (GDP) of more than US$ 3.4 trillion. It also offers a summary of key regional insurance market data.

The most recent survey confirms the resilience of the region's insurance markets, amid economic headwinds. The majority of executives polled continue to believe that premium growth will outpace GDP growth, which is expected to slow going forward. In addition, the pricing outlook for the region's personal lines business has improved. More fundamentally, interviewees see opportunities from fiscal tightening as governments consider transferring additional risk management and provision to the private insurance sector, with medical insurance being the most prominent example.

Through the Barometer, the QFC demonstrates its commitment to fostering greater transparency in the MENA insurance marketplace, which accounts for an increasing share of the region's economies. It also provides market participants with an additional benchmark for decision-making.

We hope you will enjoy reading this report and benefit from its findings.

Please do share your feedback and thoughts on how we can collectively advance the concept of insurance in the Middle East, to the benefit of our economies and societies.

METHODOLOGY

The findings of this report are based on in-depth and structured telephone or face-to-face interviews with executives representing 36 regional and international (re)insurance companies, intermediaries and trade associations. The interviews were conducted by Dr Schanz, Alms & Company AG, a Zurich-based research, strategy and communications consultancy, in December 2015 and January 2016.

The companies that took part in the survey were:

- Abu Dhabi National Insurance Company, UAE
- Abu Dhabi National Takaful Company, UAE
- Africa Retakaful, Egypt
- Alkhaleej Takaful Group, Qatar
- Al Wathba National Insurance Company, UAE
- American International Group (AIG), UAE
- Arab Insurance Group (Arig), Bahrain
- Arab Re, Lebanon
- Bahrain Kuwait Insurance Company/ Gulf Insurance Group, Bahrain
- Chedid Re, Lebanon
- Emirates Insurance Association/ Gulf Insurance Federation, UAE
- Emirates Insurance Company, UAE
- Federation of Afro-Asian Insurers & Reinsurers (FAIR), Egypt
- Generali Middle East, UAE
- Hannover Re, Bahrain
- Marsh MENA, UAE
- MIG Holding, Bahrain
- Milli Re, Turkey
- Misr Insurance Company, Egypt
- Munich Re, Germany
- Munich Re Underwriting Agents, UAE
- National General Insurance Company, UAE
- National Health Insurance Company, Qatar
- Noor Takaful, UAE
- Oman Insurance Company, UAE
- Orient Insurance Group, UAE
- Qatar Insurance Company, Qatar
- PartnerRe, Switzerland
- SCOR SE, France
- SEIB Insurance & Reinsurance Company, Qatar
- Solidarity Group, Bahrain
- Swiss Re, Switzerland
- Tawuniya, Saudi Arabia
- Tokio Marine, UAE
- Trust Re, Bahrain
- XL Group, UAE

SUMMARY OF KEY FINDINGS

1 Slowing economic growth and continued geopolitical instability weigh on executive sentiment in the MENA insurance markets. However, the industry is believed to remain resilient, with 61% of executives polled expecting regional premiums to outgrow GDP. Survey participants continue to be particularly bullish about personal lines business which benefits from broadening and deepening compulsory insurance requirements as well as corrective pricing and reserving measures. However, as a result of economic headwinds and fiscal tightening, the outlook for commercial lines such as marine and engineering has deteriorated.

2 Participants consider the region's strong direct insurance market growth as its most important current strength, followed by a relatively moderate natural catastrophe exposure and continued government spending on construction and infrastructure.

3 The region's low insurance penetration is considered to be the key opportunity for future growth. The ratio of premiums to GDP is a mere quarter of the global average. Additional, expanded or more rigorously enforced compulsory schemes in medical and motor insurance rank second among future opportunities. Regulatory improvements are considered the third most important opportunity, reflecting the rapid pace of enacting new and implementing existing rule books, for example in the UAE.

4 The Barometer found that 89% and 26% of executives polled view current prices in MENA commercial and personal lines business, respectively, as being below the average of the past five years. 58% and 97%, respectively, expect commercial and personal lines rates to remain stable or improve over the next 12 months, which compared with the previous year, indicates a deteriorating outlook for commercial lines and improved expectations for personal lines. The commercial and regulatory pressure for higher prices in personal lines is stronger than in the wholesale segments of the market.

5 36% – up from 19% – of respondents anticipate MENA insurance markets to consolidate over the next 12 months. Some international and domestic insurers are exiting the market as a result of severe underwriting losses and unsustainable pricing. In addition, many respondents believe that it will become more difficult for domestic insurers to raise additional capital that could be needed to meet new risk-based capital requirements.

6 36% of executives interviewed expect that foreign insurers will lose or give up market share over the next 12 months, compared with only 11% a year ago. Interviewees point to some high-profile market exits and retrenchment measures as a result of massive underwriting losses. These moves could erode some local policyholders' faith in global brands and favour domestic and regional market leaders who are increasingly expanding cross-border within the region.

7 34% – up from 22% – of respondents expect Takaful insurance to underperform the market as a whole in terms of growth. Many executives continue to feel that Takaful offers no genuine differentiation and competes on price only. However, most survey participants agree that the principle of Takaful, if applied properly and geared towards mutuality, is valid and promising.

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 2016 with 2015, the main differences in findings are:

- A less bullish view of insurance premium growth outperforming GDP growth
- An improving pricing outlook for personal lines and deteriorating expectations for commercial lines
- A higher share of interviewees predicting industry consolidation and erosion of market share for foreign insurers.

Key readings (in % of respondents agreeing)	Jan 2013	Jan 2014	Jan 2015	Jan 2016
Insurance premiums to grow faster than GDP*	68	76	70	61
Insurance prices are currently low**				
• Commercial lines	91	84	86	89
• Personal lines	55	36	34	26
Insurance prices to remain stable or increase*				
• Commercial lines	77	84	81	58
• Personal lines	72	91	89	97
Insurance profitability is currently low**				
• Commercial lines	66	62	81	72
• Personal lines	39	30	23	46
Insurance profitability to remain stable or improve*				
• Commercial lines	77	84	84	78
• Personal lines	83	85	89	72
Insurance markets to consolidate*	36	16	19	36
Foreign market share to increase*	50	35	32	17
Takaful insurance to outgrow total market*	38	22	21	23

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

MARKET OVERVIEW

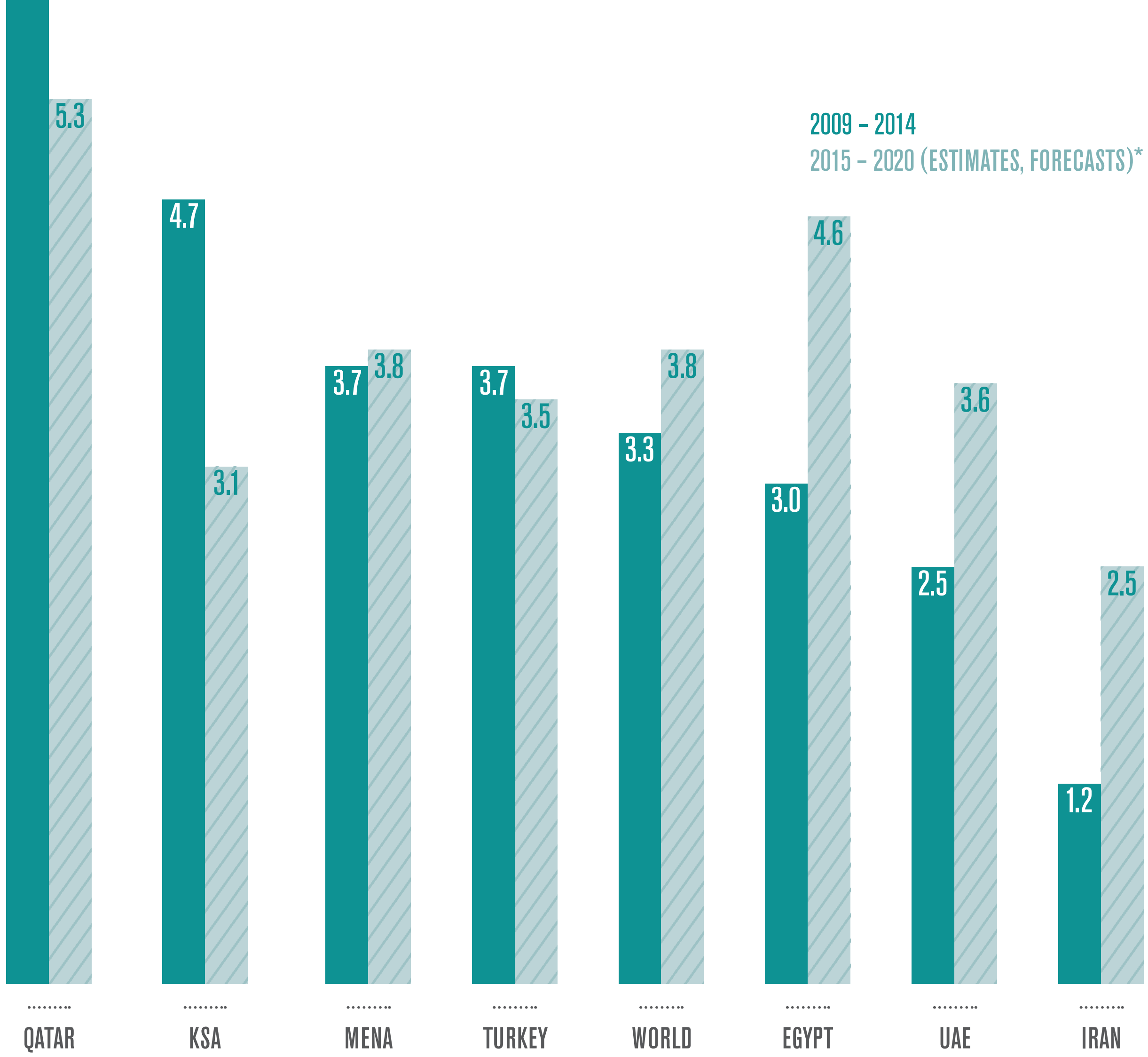
SOLID MENA GDP GROWTH

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 2014, these 14 countries, with a total population of about 350 million, generated a combined GDP of around US$ 3.4 trillion, close to 5% of the world's total. As an economic block, the region would rank as the world's fifth-largest economy, ahead of the UK.

At an inflation-adjusted growth rate of 3.7% per annum between 2009 and 2014, the region's economies grew faster than the global average (3.3%). Going forward, the region's growth is forecast to match the performance of the global economy (see chart 1), in light of reduced public spending as a result of lower oil prices and unresolved regional conflicts.

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



SOURCE: IMF, World Economic Outlook (October 2015)

*Forecasts do not fully incorporate the further fall in oil prices towards the end of 2015.

SLOWING GROWTH IN OIL-EXPORTING COUNTRIES

Economic growth in the GCC region is slowing, primarily as a result of actual or expected fiscal tightening. The International Monetary Fund expects fiscal deficits in the GCC to run as high as 13% of GDP in 2015. It also expects the oil price drop to be persistent, necessitating major adjustments to regional spending and revenue policies. In addition, downside risks to global growth have exacerbated, in particular a continued slowdown in China and turbulence in other emerging markets, also in view of the normalisation of US monetary policy.

On the other hand, economic recovery in the MENA region's oil-importing countries is gathering momentum. Economic reforms facilitate private-sector growth, lower oil prices create fiscal policy space and improving economic growth in the euro zone promotes exports. However, severe socio-political tensions continue to heavily weigh on the prospects of major countries such as Iraq, Libya and Syria.

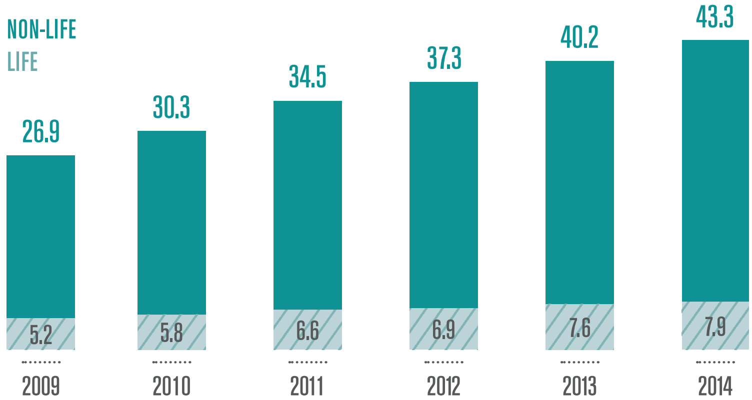
On the upside, the moderation of economic sanctions on Iran and a potential improvement in regional security conditions could boost near-term economic growth outside the GCC to about 5% per annum.

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 2014, insurance premiums accounted for just 1.5% of GDP, less than a quarter of the global average. Encouragingly, this gap is narrowing as MENA insurance markets outpace regional GDP growth. Between 2009 and 2014, total non-life and life insurance premium volumes in the region expanded by almost 60% to about US$ 51 billion, growing more than twice as fast as GDP (see charts 2, 3 and 4). Going forward, this trend is expected to continue. Swiss Re (Global Insurance Review 2015 and Outlook 2016/17) forecasts real annual premium growth of more than 5% for 2016 and 2017, higher than the International Monetary Fund's economic growth forecast for the region.

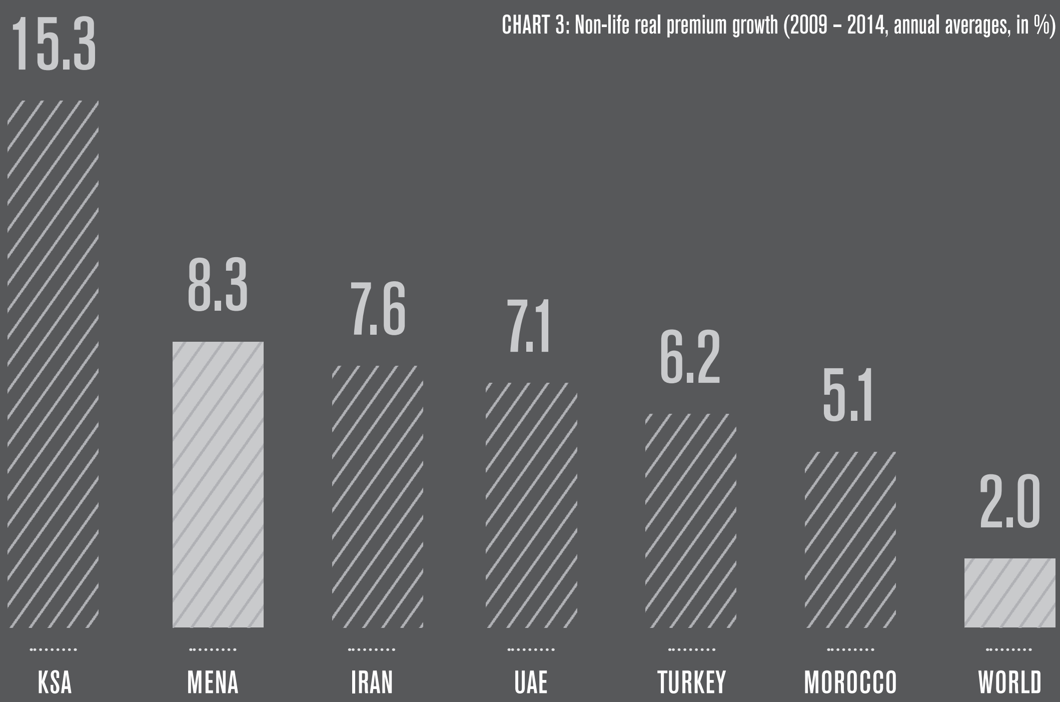
At a share of 15%, life business continues to play a relatively minor role (in comparison with its global share of 56%).

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



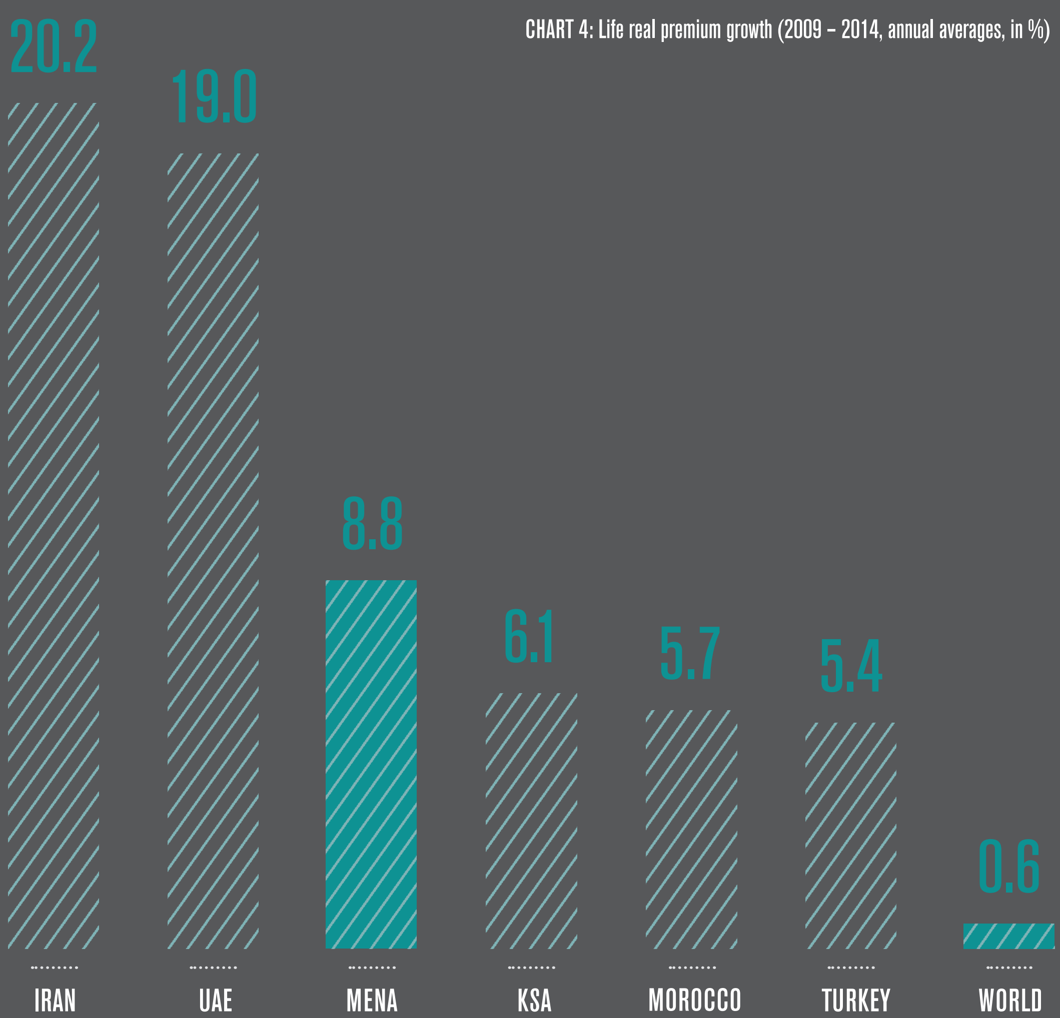
SOURCE: Swiss Re Economic Research & Consulting

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



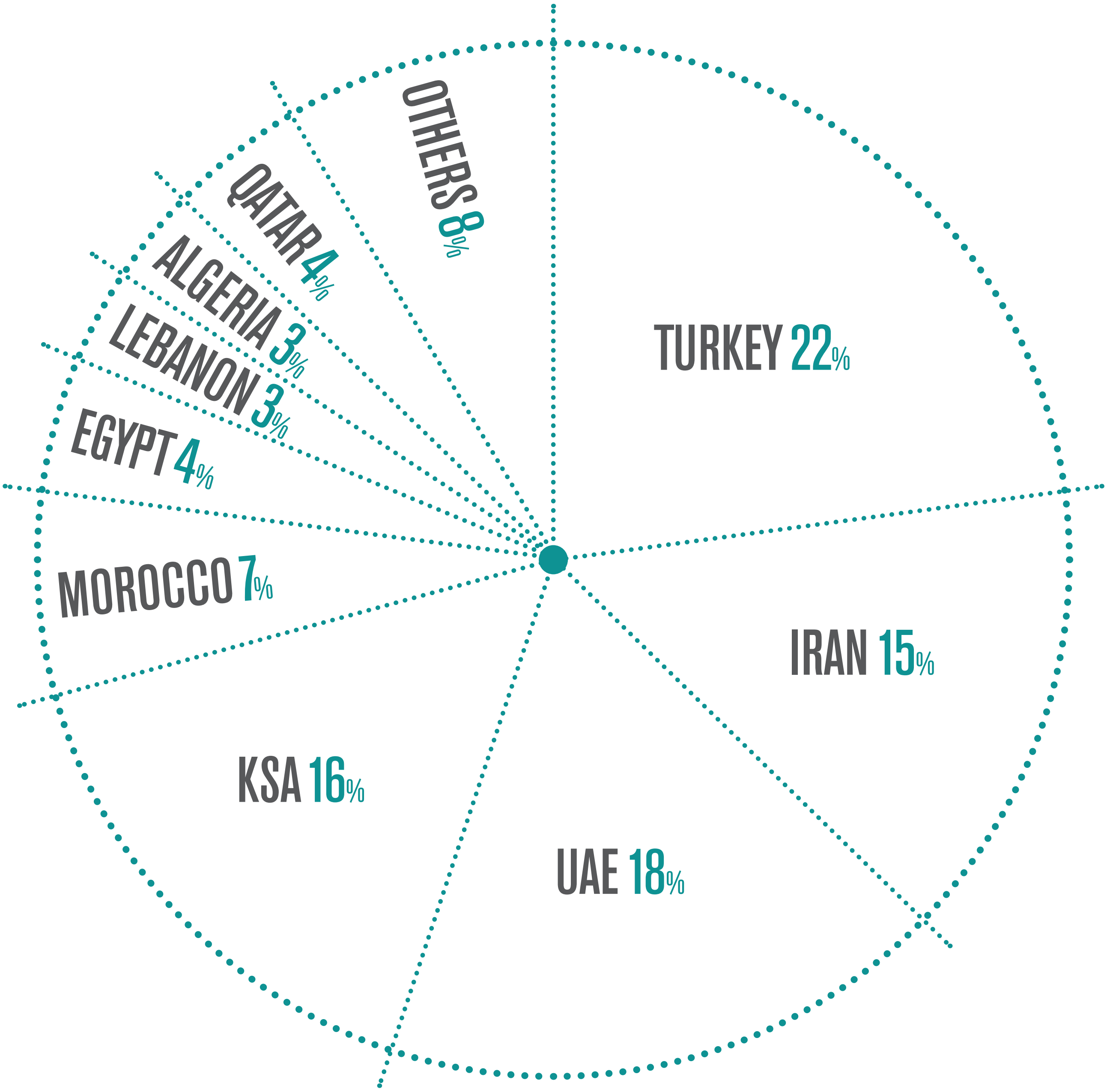
SOURCE: Swiss Re Economic Research & Consulting

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



SOURCE: Swiss Re Economic Research & Consulting

CHART 5: Geographical split of MENA insurance premiums in 2014, share in %

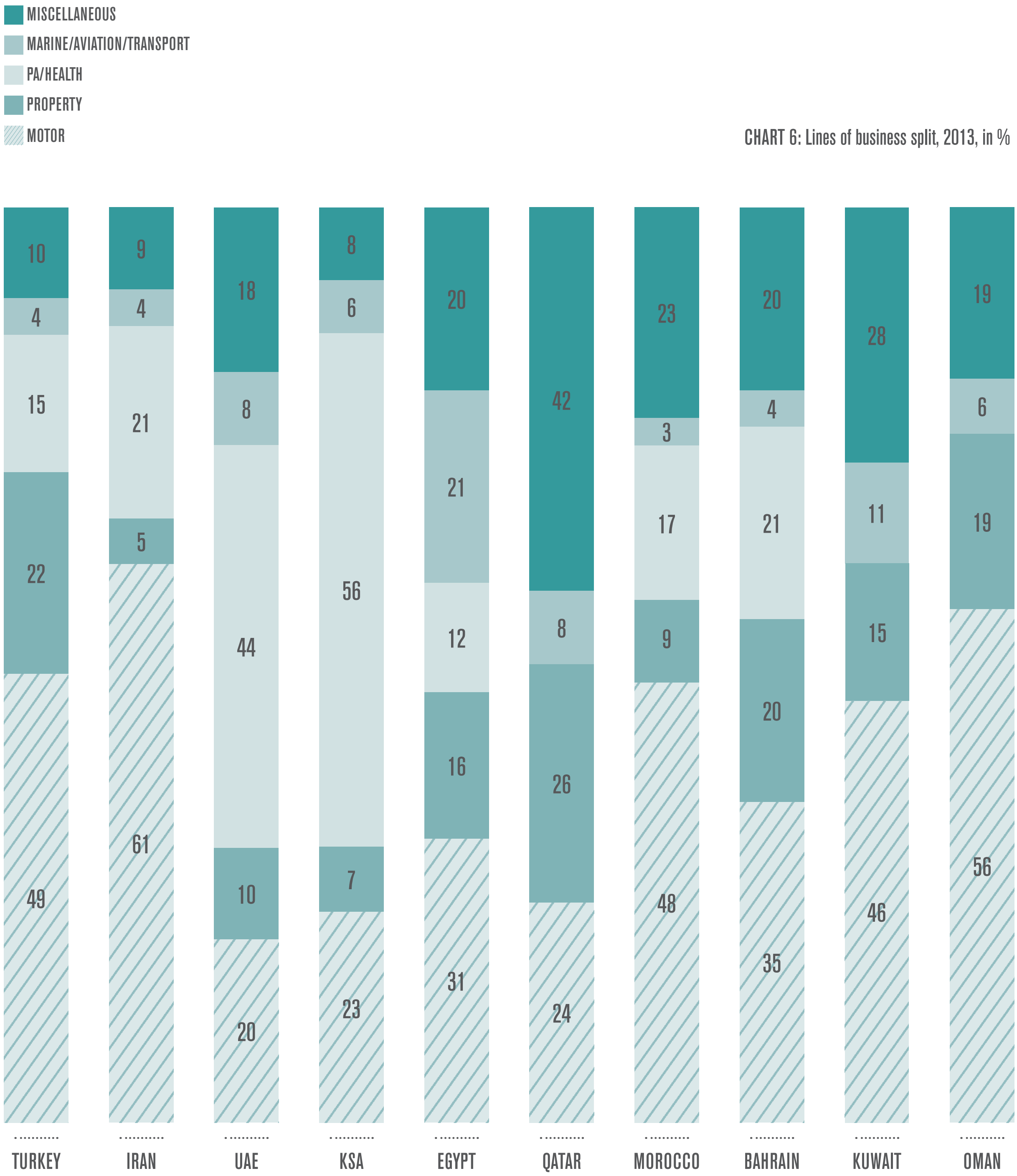


SOURCE: Swiss Re Economic Research & Consulting

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 2013 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. Compulsory health insurance schemes are expected to further spread across the region.

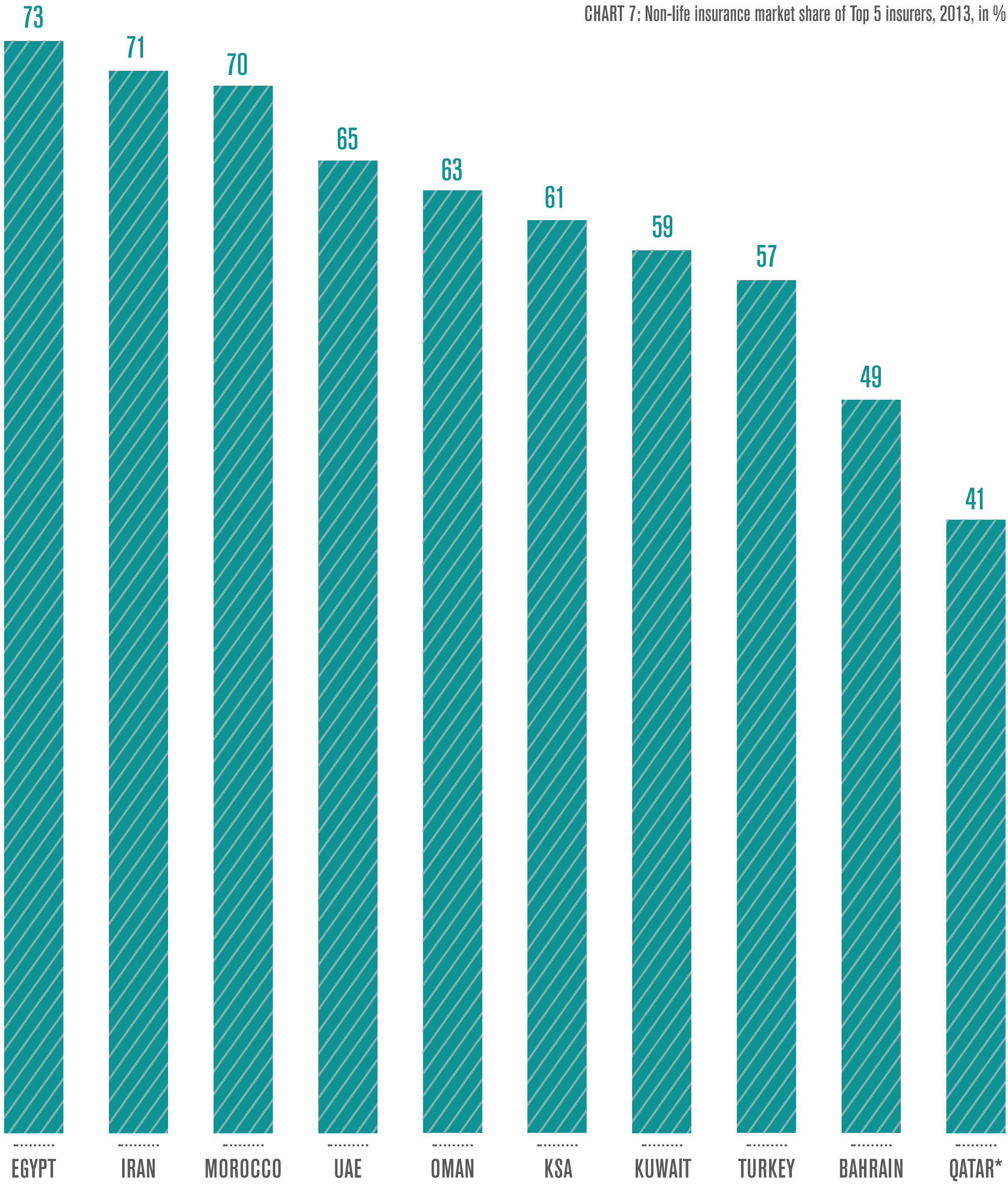
CHART 6: Lines of business split, 2013, in %



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 in the GCC. Reasons for the former include powerful national champions with a strong record of market leadership, whereas the latter are characterised by relatively low barriers to entry.

CHART 7: Non-life insurance market share of Top 5 insurers, 2013, in %



SOURCE: AXCO, based on national insurance associations and supervisory authorities

*Does not include Al Koot, the captive insurer of Qatar Petroleum.

SURVEY RESULTS

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

CONTINUED CONFIDENCE DESPITE THE REGION'S ECONOMIC SLOWDOWN

GROWTH MOMENTUM CONTINUES TO BE KEY STRENGTH

As in prior years, the vast majority of participants consider growth (and premium growth in particular) as the most relevant strength of the MENA insurance marketplace. The second most frequently mentioned strength is the region's relatively low natural catastrophe exposure (except for Algeria, Iran and Turkey) which supports technical profitability. Continued government spending on major projects is the third most frequently mentioned strength, down from the second spot in 2015, as some projects have already been cancelled or delayed (see chart 8 on page 20).

" Despite current headwinds from lower oil prices, we remain confident about the region's medium-term outlook. MENA countries will continue to reap the dividend from very favourable demographics. In addition, the on-going diversification of national economies towards non-hydrocarbon activities will make these countries less vulnerable to future shocks and present insurers and reinsurers with new opportunities. "

Bernd Kohn, Chief Executive, Africa & Middle East, Munich Re

" Overall, MENA countries have experienced rather resilient economic and insurance growth recently, despite civil wars in Libya, Syria and Yemen, the political and social tensions that may exist in certain other MENA countries and headwinds due to low oil prices, a persistent economic stagnation in Europe and a slowdown in Asia. The outlook remains cautiously optimistic as general public awareness of risk in the MENA region is rapidly developing which should lead to higher insurance penetration and greater insurance sophistication, in terms of both products and distribution. Another positive development is the generalisation and extension of risk-based approaches in the MENA region which should result in more concentrated and healthier markets, with both top and bottom lines moving in the right direction. "

Hedi Hachicha, CUO, Head of Africa & Middle East, SCOR Global P&C

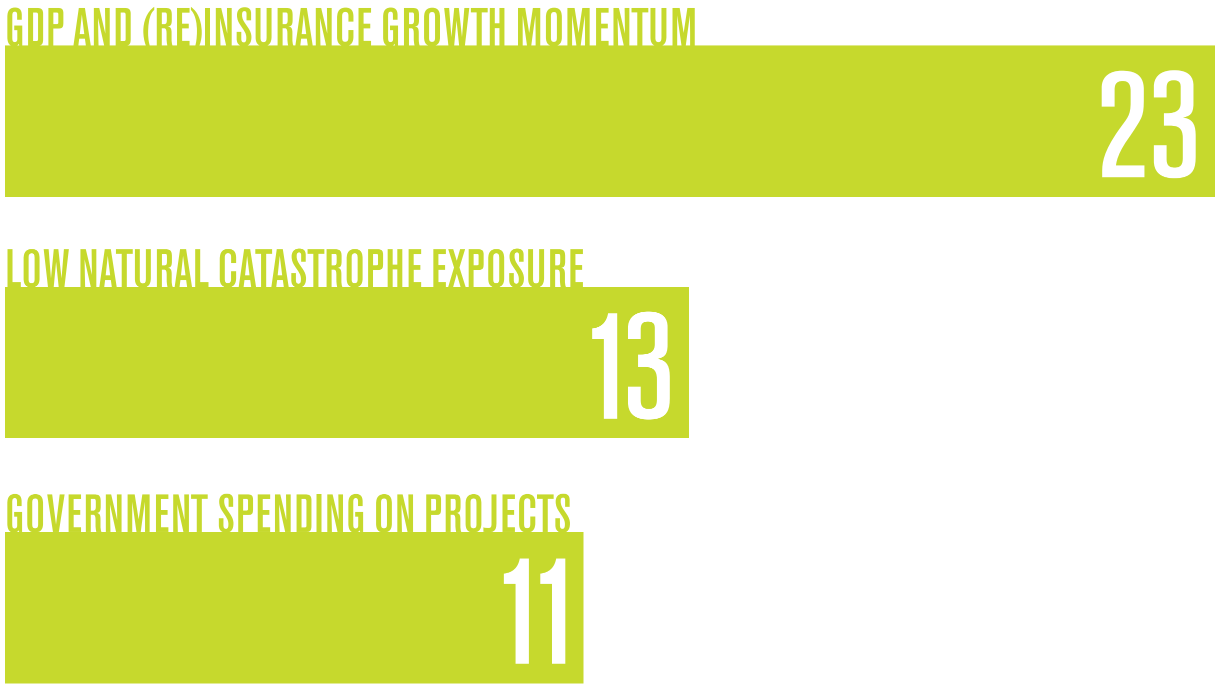
" The prospects of the Egyptian insurance market are promising. Economic growth is accelerating, government spending on construction and infrastructure is picking up and foreign direct investment is increasing. Having said this, competitive pressures are growing as we see new entrants joining and global reinsurance markets remaining ultra-soft. This environment poses additional challenges to the regulator. We believe that additional controls are needed to ensure a smooth and stable future development of Egypt's insurance sector. "

Mohamed Khalifa, Vice Chairman, Misr Insurance Company

" In light of lower investment returns, we believe that insurers will be placing more emphasis on their underwriting results. At the same time, they are exploring less volatile asset classes for investment purposes. Both developments should support the market's overall stability and resilience going forward. "

Jassim Ali A. Al-Moftah, CEO, AlKhaleej Takaful Group

CHART 8: Market strengths (number of mentions)



MISMATCH BETWEEN SUPPLY AND DEMAND VIEWED AS MAJOR WEAKNESS

As in the past, poor rating levels and profitability as a result of excess capital are perceived as the most relevant weaknesses of the MENA insurance marketplace. This view is strongest for the relatively easily accessible and mostly catastrophe-free GCC countries. The talent gap ranks second, making it among the Top 3 for the first time as workforce localisation requirements are enforced and the influx of expatriate workers slows. Regulatory shortcomings rank third, as opposed to second in 2015 as various jurisdictions are showing significant improvements (see chart 9).

CHART 9: Market weaknesses (number of mentions)

“Although we see improvements, often enough regulation is still one of the weaknesses of the MENA region. In some countries the actual legal framework is quite adequate, but its enactment might be too loose, or, on the contrary, rather harsh. In other cases, however, it is still the legislation, which remains to be wanting.”

Omar Gouda, Managing Director, Africa Retakaful

“Still far too often the players in our insurance markets rely on a commission-driven business model. As a result, they invest too little in advancing the market or in capturing the opportunities offered by the many underpenetrated lines of business in our region. Instead, they look to the government or the regulator for 'making the market' through the enforcement of compulsory insurance schemes.”

Khalid Al Mughesib, Vice Chairman of the National Health Insurance Company

“The GCC region is still inadequately protected against political risks from an insurance point of view. Although the geopolitical situation has worsened in the past twelve months and despite the fact that capacity for these risks is sufficiently available, most clients choose not to buy the cover. In some countries clients are still in a state of denial, assuming that they won't be affected, while in some others, the semi and fully state-owned companies in particular are perhaps reluctant to take out protection because that could be read as a sign of eroding confidence.”

Sai Gopal, Chief Underwriting Officer, Bahrain Kuwait Insurance Company

“Risk awareness in the region is low and, despite an increasing frequency and magnitude of incidents experienced in recent years, no substantial improvements are visible. There is a substantial lack in key components of proper risk management starting from building codes definition to implementation and follow up. Even considering the soft market scenario, there is no hope that current pricing will stand in front of poorly managed risks.”

Guido Zagatti, Head of Underwriting, Generali Middle East

UNDER-PENETRATION IDENTIFIED AS MOST IMPORTANT OPPORTUNITY

Low penetration levels are the most frequently mentioned opportunity offered by MENA insurance markets, up from the third spot last year. The average share of premiums in the region's GDP is about one quarter of the global level. This gap suggests major catch-up potential given the region's relatively high average GDP. However, some executives point to potential structural reasons for the region's low penetration rates, such as the absence of major natural perils and still generous government schemes. The fledgling status of the life insurance sector is also attributable to the large number of expatriates who tend to buy cover at home. In general, there are tax incentives for buying life insurance, which in other parts of the world, is a major driver of demand.

Additional, expanded or better enforced compulsory schemes rank second. Personal lines insurance business, such as medical insurance, is expected to remain the markets' main engine of growth. Regulatory improvements are considered the third most important opportunity reflecting the rapid pace of enacting new and implementing existing rule books (see chart 10).

CHART 10: Market opportunities (number of mentions)

“ When looking at the region’s high rates of premium growth one needs to keep in mind the key driver for this: Compulsory insurance requirements. There is still an endemic lack of non-mandated, awareness-based growth. ”

Farid Chedid, CEO, SEIB Insurance & Reinsurance Company

“ As far as risk transfer and absorption are concerned, the shift from the public to the private sector continues. Compulsory insurance schemes are spreading across the region, both geographically and by line of business. This trend continues to be one of the biggest opportunities for MENA insurance markets. ”

Fareed Lutfi, Secretary General, Emirates Insurance Association and Gulf Insurance Federation

“ Man-made industrial exposures are widely underestimated in the UAE. Many insurers do not understand the associated accumulation risk. The Tianjin blast should encourage the local community to pay more attention to this area. ”

Jason Light, CEO, Emirates Insurance Company

“ The level of insurance penetration in Saudi Arabia is still very low; hence the opportunity for the market to grow in the coming years is high. This positive outlook is supported by the latest regulatory developments in the KSA, leading to a healthier and more stable insurance market for the years to come. ”

Raeed Tamimi, CEO, Tawuniya

“ Despite the well-known political, economic and insurance-specific challenges the MENA region still offers attractive opportunities for innovative and technically versed market participants. For example, I can think of cyber insurance, given some high-profile cyber-attacks in the region. In addition, trade credit insurance is set to grow rapidly as awareness of the benefits of insuring receivables improves. ”

Robert M. Makhoul, Executive Chairman, Marsh MENA

“ The fiscal challenges due to declining oil prices will prompt even more governments to slash medical subsidies and replace current systems with compulsory insurance schemes run by the private sector. This trend will sustain robust growth in medical insurance for the foreseeable future. ”

Nagib Bahous, President & CEO, MIG Holding

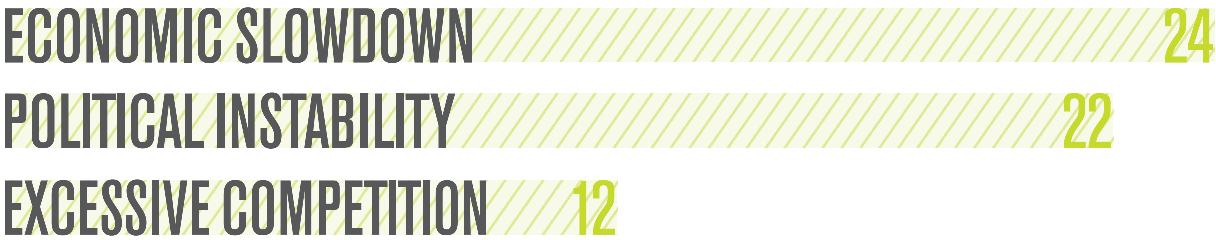
SLOWER ECONOMIC GROWTH TOPS THE LIST OF CHALLENGES

As in 2015, the majority of respondents consider economic risks to be one of the most relevant challenges to their operating environment. The fall in oil prices since the summer of 2014 continued through 2015 and dramatically accelerated in early 2016, increasing nervousness among many respondents because of adverse effects on government spending, disposable incomes and financial markets.

Geopolitical risks are mentioned almost as frequently as economic challenges, in light of the worsening situations in Libya, Syria and Yemen and growing tensions between Iran and Saudi Arabia. The prospect of Iran re-joining the international community, stabilisation in Egypt and the further consolidation of Tunisia's new political order are viewed as bright spots.

The third most frequently mentioned risk factor (as in 2015) is the potentially destabilising effect of fierce competition. Reinsurers continue to offer ample capacity to regional cedants. Competition is also fuelled by the prospect of a shrinking insurance pie as commercial projects are delayed and other voluntary purchases of insurance might come under pressure in an environment of stagnant or even declining levels of income (see chart 11).

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



"The region's insurance executives need to resist the pressure to fight for market share. They should be absolutely transparent with their Boards as far as the current state and near-term prospects of the market are concerned. The determination to walk away from loss-making business and even budget negative growth will be a prerequisite to fixing the market."

Ahmad Idris, CEO, Abu Dhabi National Insurance Company

"Current levels of rates are not sustainable. A return to a more technical approach to underwriting is needed as the economic outlook for the region deteriorates. In addition, tightened regulations and increasingly impatient shareholders will add to the pressure on insurance executive teams to address this challenge."

Mahomed Akoob, Managing Director, Hannover ReTakaful

"Calls for consolidation across the region's fragmented and highly competitive markets is one of the most hot topics which bubbles to the top of conversations across the region from time to time. Indeed there are too many insurance companies in the region. This is mostly to do with the social fabric in this part of the world. However, there hasn't been much sign of consolidation in the region to date. Of course, the political instability and the falling oil prices are also affecting Foreign Direct Investment to the Region and pushes the investors to choose to wait until the situation stabilises or look for other markets."

Goekhan Aktas, Head of Foreign Inward Business, Milli Re

SURVEY RESULTS

2 GENERAL INSURANCE MARKET STATUS AND OUTLOOK

CORRECTIVE RESERVING MEASURES CLOUD SHORT-TERM PROFITABILITY OUTLOOK IN PERSONAL LINES, COMMERCIAL LINES RATES AND PROFITABILITY UNDER CONTINUED PRESSURE FROM EXCESS CAPACITY IN GLOBAL REINSURANCE

Price levels in personal lines more favourable than in the commercial space

In line with 2015, the Barometer found that 89% of those interviewed regard current prices in MENA commercial lines business as being below the average of the past five years. Competition remains fierce, reflecting the continued abundant supply of reinsurance, the increasing relevance of brokers and local insurers' attempts to expand into regional markets. Most interviewees consider current prices to be at an 'all-time low', with an average estimated price erosion of about 50% over the past five years in most GCC markets.

Participants judge personal lines business more favourably, with 71% – up from 63% – saying that premium rates are at average levels, benchmarked against the past five years. Since 2013, regulators have become more active in pushing prices to sustainable levels and enforcing an actuarial approach to pricing, for example in the health insurance markets of Bahrain, Jordan and Saudi Arabia. In addition, personal lines business is characterised by a smaller number of players, higher barriers to entry, greater customer loyalty and more scope for non-price competition. Personal lines business also tends to be more adequately priced as it is largely retained by insurance companies who therefore have more 'skin in the game' (see charts 12 and 13 on page 28).

“ The current paradigm of competition in the MENA region is still very much driven by price. I think all stakeholders, including our policyholders, would benefit from a collaborative effort designed at shifting this paradigm more towards excellence in services and products. The prospects for this are positive as the market is continuously growing in sophistication, with price being only one element of a sustainable proposition. ”

Christos Adamantiadis, CEO, Oman Insurance Company

“ The fall in oil prices has led to fiscal tightening across the GCC. This will not only affect commercial lines insurance as public construction budgets are being reviewed. Reduced subsidies and new or higher taxes will take their toll on personal lines insurance, too, as disposable income is likely to decline. All in all, premium growth in the GCC and other oil-exporting countries in the region might even trail GDP growth. ”

Yassir Albaharna, CEO, Arig

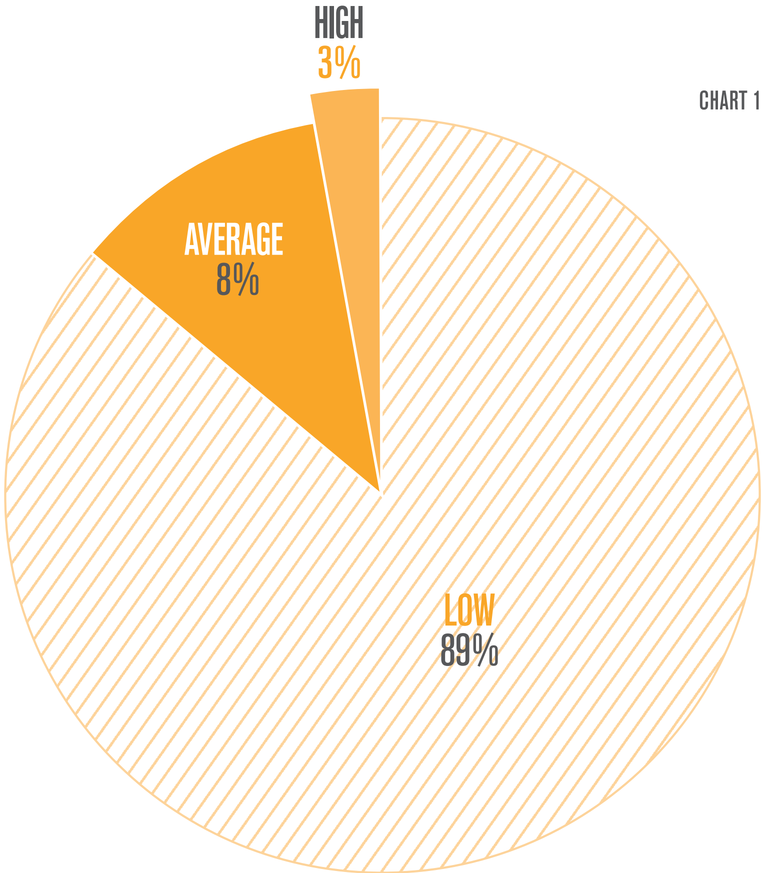


CHART 12: Current level of rates – Commercial lines

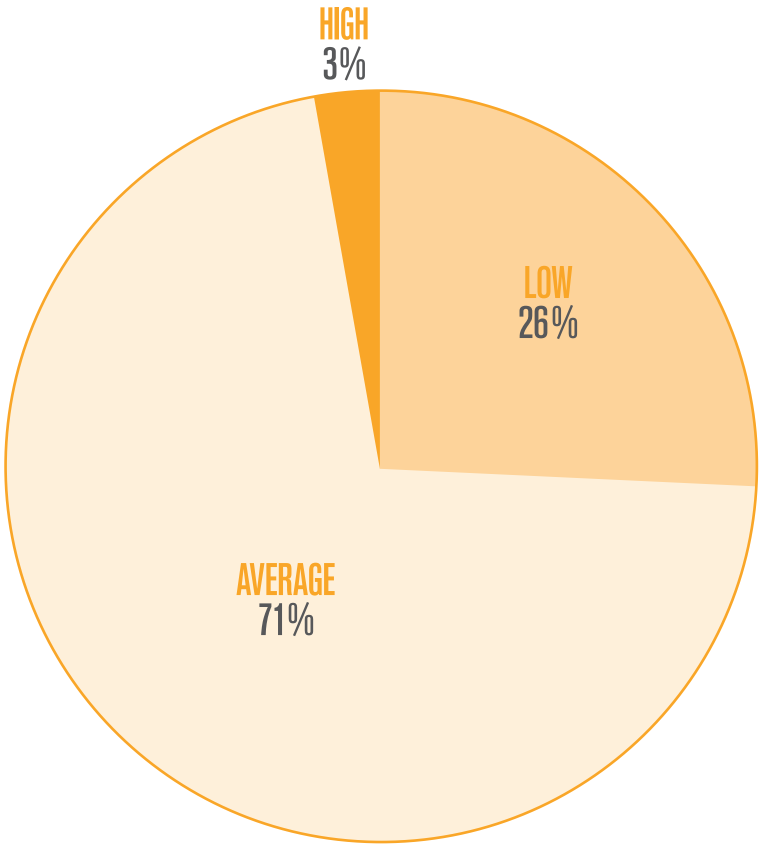


CHART 13: Current level of personal lines

IMPROVING PRICING OUTLOOK IN PERSONAL LINES

Compared with 2015, the pricing outlook in commercial lines has deteriorated. 42% of executives polled expect a further erosion of rates over the next 12 months, up from 19%. The region continues to be awash with reinsurance capacity. In addition, the prospect of shrinking volumes of business as a result of fiscal tightening by governments is weighing on interviewees' sentiment, with the rating outlook for marine and engineering business considered to be particularly grim.

By contrast, the pricing outlook for personal lines has slightly improved. The share of those expecting stable or higher rates has increased to 97%, up from 89%. The enforcement of actuarial pricing by regulators will put a floor under rates. In addition, tighter reserving practices for motor in Saudi Arabia and the UAE have prompted a stabilisation or even recovery of rates, in conjunction with higher losses, which have hit insurers' retentions (see charts 14 and 15).

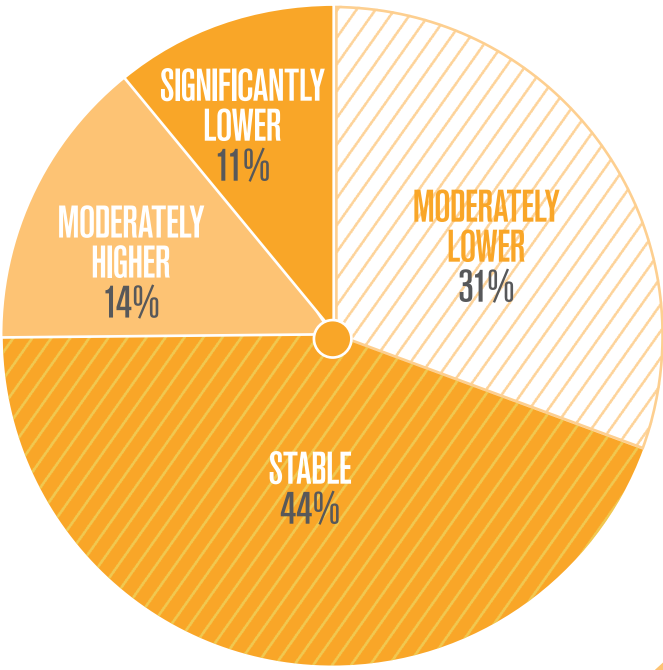


CHART 14: Pricing outlook – Commercial lines

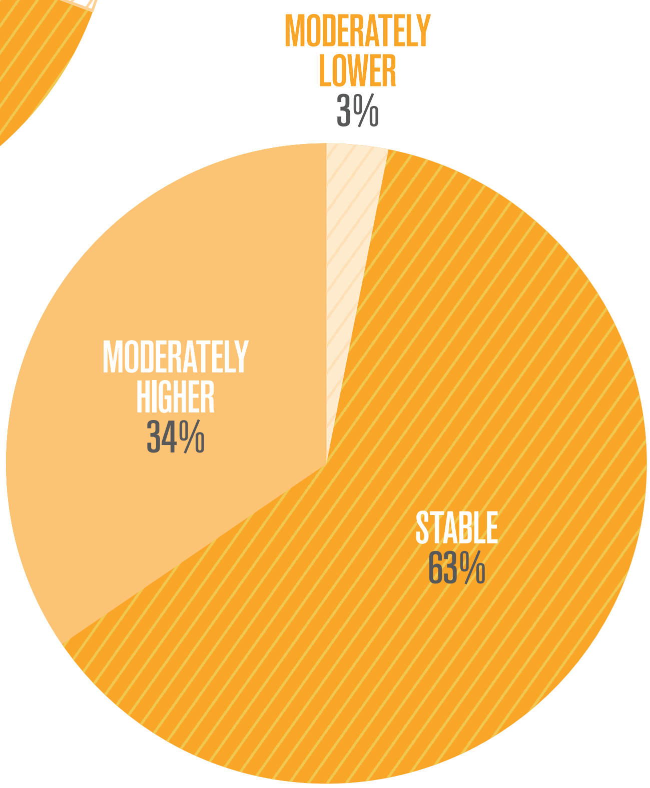


CHART 15: Pricing outlook – Personal lines

“ We suspect that in general, rates in commercial lines will continue to decline further as many insurers in the region still pursue a commission driven business model, which benefits from access to abundant reinsurance capacity. For personal lines, however, the situation is different as the risks are largely self-retained. In addition, the regulators exert pressure that pricing remains sustainable. ”

Kamal Tabaja, Chief Operating Officer, Trust Re

“ I call upon the MENA region's insurance industry to stick to the basics of sound underwriting. Longer-term, excessive competition is detrimental to both policyholders and shareholders. Responsible competition, on the other hand, is a prerequisite to the market's profitable, stable and sustainable future. This is particularly true for commercial lines business where the fall in oil prices clouds the growth outlook and could further exacerbate the degree of competition. ”

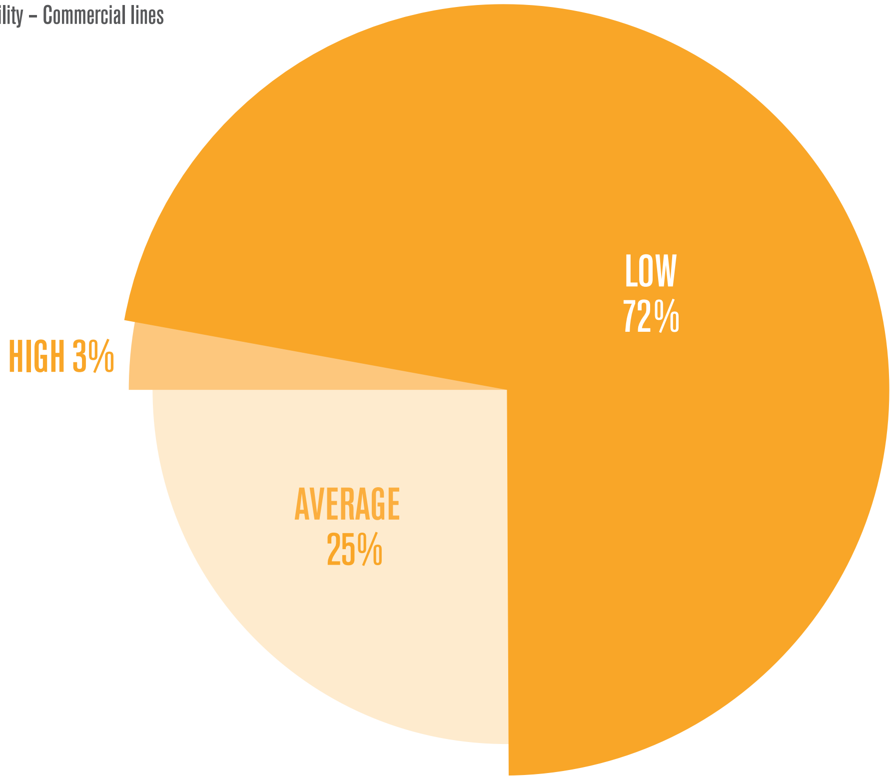
Dr Adel Mounir, Secretary General, Federation of Afro-Asian Insurers & Reinsurers (FAIR)

PROFITABILITY DRAGGED DOWN BY LOW RATES AND INCREASING LOSSES

The survey found that 72%, down from 81%, of respondents consider overall profitability in commercial lines to be low, benchmarked against the past five years. On the one hand, rates have further eroded over the past 12 months despite an increased frequency of larger fire losses. On the other hand, a number of executives report improved claims handling practices which help control loss ratios.

Personal lines business continues to be viewed more favourably, with 48% of executives considering current technical profitability as average. However, this share is down from 77% in 2015, with a marked increase of those who view profitability as low. This development reflects recent reserve strengthening, unfavourable loss trends, claims cost inflation in both medical and motor insurance (partially also driven by depreciating local currencies) and a continued upward trend in operating and acquisition expenses (see charts 16 and 17).

CHART 16: Current level of technical profitability – Commercial lines



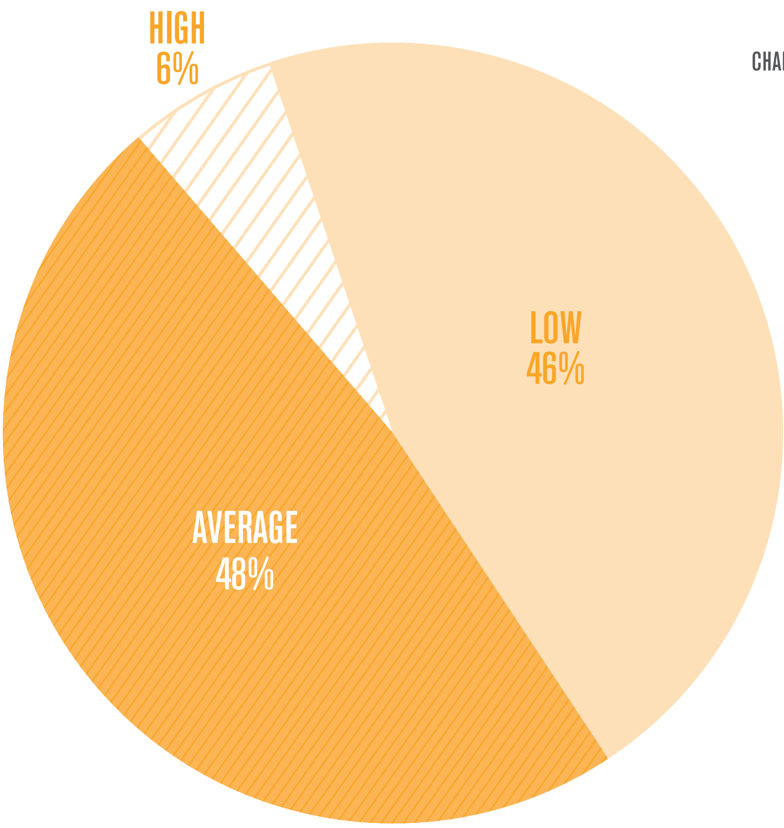


CHART 17: Current level of technical profitability – Personal lines

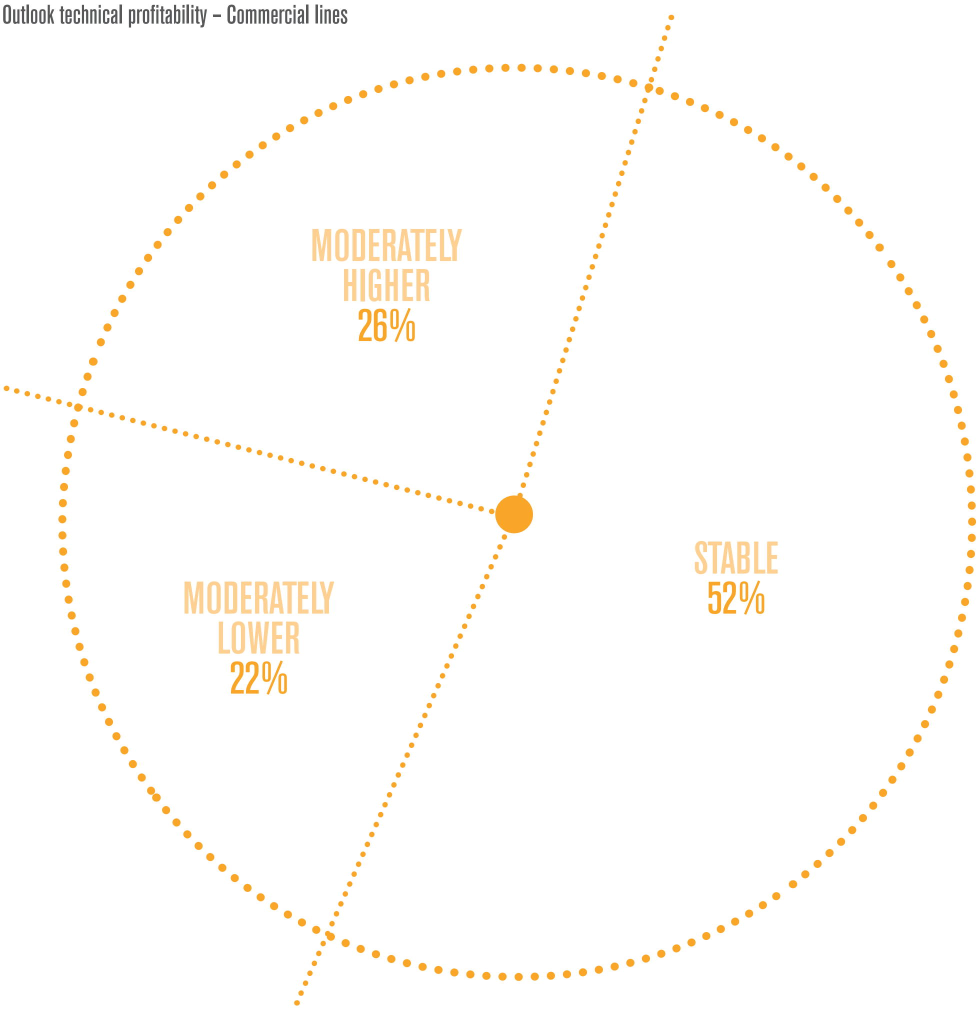
" In order to wisely navigate the region's economic challenges, insurers have to return to the basics of underwriting discipline, lean cost structures and adequate frameworks of corporate governance and Enterprise Risk Management. On such solid footing, the industry might even emerge stronger from today's trying times. "

Ashraf Bseisu, Group CEO, Solidarity Group

" The current economic slowdown across the region exacerbates long-standing challenges in insurance markets such as eroding rates and levels of profitability. Should the premium volume shrink as a result, competitive pressures might increase further. However, the insurance market in the MENA region should focus on the significant growth opportunities not dependent on the economic cycle through expanding product lines and increased penetration rates. Current penetration rates are exceptionally low, in light of relatively high income per capita levels. "

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

CHART 18: Outlook technical profitability – Commercial lines



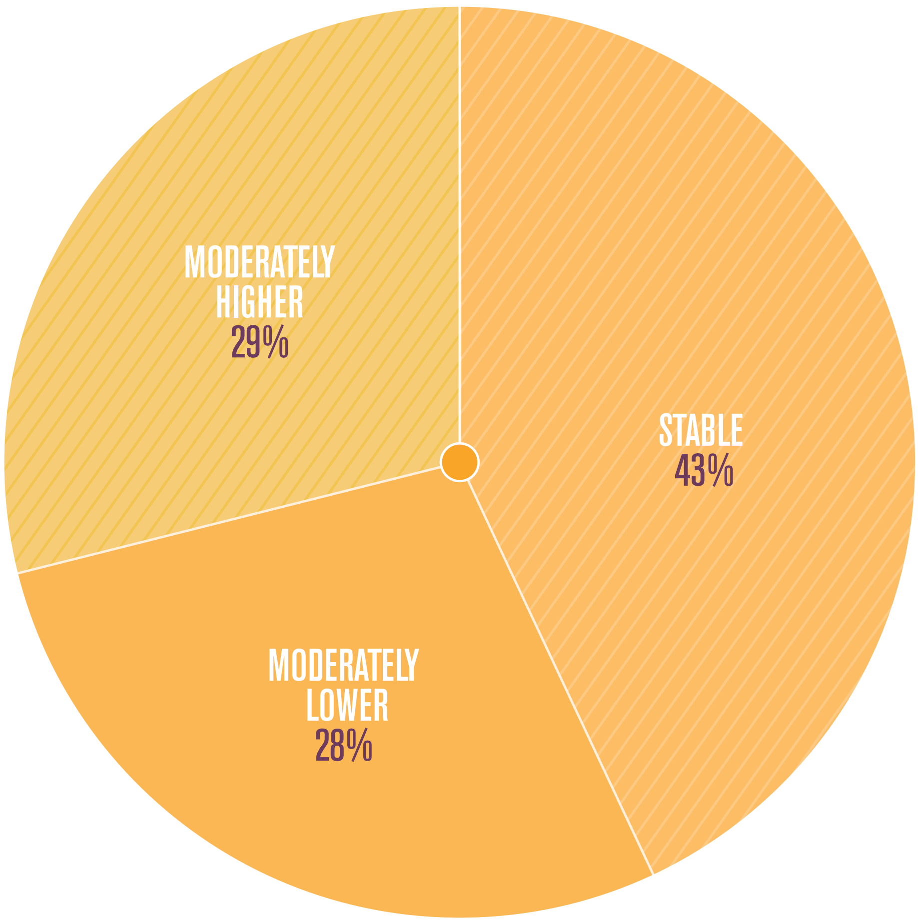
PROFITABILITY OUTLOOK REMAINS UNINSPIRING

The majority of executives polled expect profitability in both commercial and personal lines to remain unchanged over the next 12 months. The remainder of responses are equally split among those considering the upside or the downside, respectively, more likely.

In commercial lines, ample reinsurance capacity will continue to weigh on margins whereas corrective measures on the pricing, reserving and claims settlement side will take time to filter through. In addition, fraud is of increasing concern, as is typical of a slowing economic growth environment.

Profitability expectations in personal lines depend on the respondent's view on the pace of re-underwriting existing books on the basis of more realisitic pricing and reserving practices. In addition, there is significant uncertainty as to macro-economic determinants such as disposable income, inflation and foreign exchange rates (see charts 18 and 19).

CHART 19: Outlook technical profitability – Personal lines



INSURANCE PENETRATION EXPECTED TO INCREASE

Over the next 12 months, 61% of the survey respondents expect insurance premiums in the MENA region to grow at a faster pace than regional GDP, down from 70% in 2015. This still bullish assessment reflects continued growth in personal lines insurance which benefit from additional compulsory insurance requirements, anticipated rate increases and improved distribution, e.g. through bancassurance (see chart 20). Those who hold a more bearish outlook hint at shrinking commercial insurance volumes, uncertainties surrounding disposable incomes as subsidies are being cut and taxes introduced and a slowdown in expatriate recruitment.

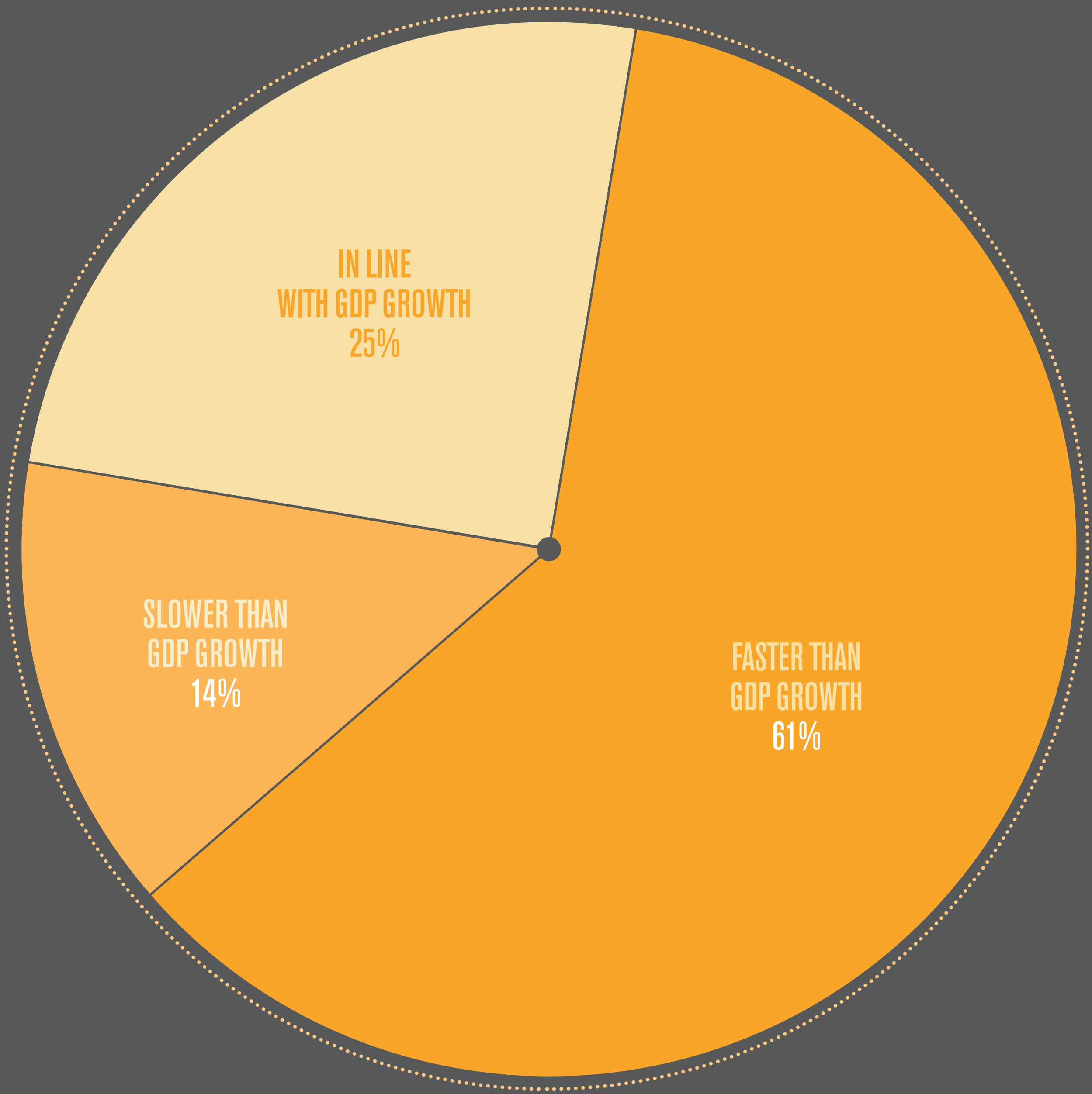
“2016 will be a year of consolidation, with a number of players exiting certain lines of business or the market altogether. For financially and technically strong market participants with a long-term outlook, this shake-out offers major opportunities in terms of expanding their footprints and sharpening their profiles. Far-sighted insurers will capitalise on today's challenges to position themselves for the economic recovery of a region which no aspiring business can afford to ignore.”

Michael Jensen, Managing Director MENA, AIG

“In a number of MENA countries, we witness a marked increase in disputed claims which ultimately go to court. From the region's insurers' point of view, this is a worrying trend. It drives claims costs, as judges who generally lack insurance expertise tend to rule unfavourably. Lawmakers should respond, for example by appointing mediators.”

Ronald Chidiac, CEO, Arab Re

CHART 20: Expected premium growth versus GDP growth



SURVEY RESULTS

3 LINES OF BUSINESS-SPECIFIC PROSPECTS

As in previous years, medical insurance is expected to be the fastest-growing line of business in the MENA region over the next 12 months. 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, with a significant role for the private insurance sector. In addition, medical insurance rates in Saudi Arabia have increased markedly as a result of regulatory intervention which, among other measures, made actuarial pricing compulsory. In general, growing fiscal constraints are expected to prompt more governments in the region to 'privatise' health insurance through regulatory compulsion.

Motor business continues to rank second, driven by expected rate increases, cost inflation, a more stringent enforcement of third-party liability insurance and growing car ownership. Life insurance is the third most frequently mentioned line of business when it comes to short-term growth prospects, reflecting a growing awareness of the risks associated with premature death and critical illnesses (see chart 21).

As far as the slowest-growing lines are concerned, the marine and engineering segments were mentioned most frequently, mainly attributable to slowing economic growth, reduced public spending and falling oil and gas prices, compounded by growing pressure on rates. Property, which used to rank first in previous years, now comes in third, reflecting a certain anticipated stabilisation of rates in this line of business in response to claims developments (see chart 22).

"The introduction of compulsory medical insurance schemes does not only benefit the growth prospects of insurers. It also makes an important contribution to improving general awareness of insurance. People start to better understand the concept of risk protection against a premium, with potential positive effects on other lines of business, too."

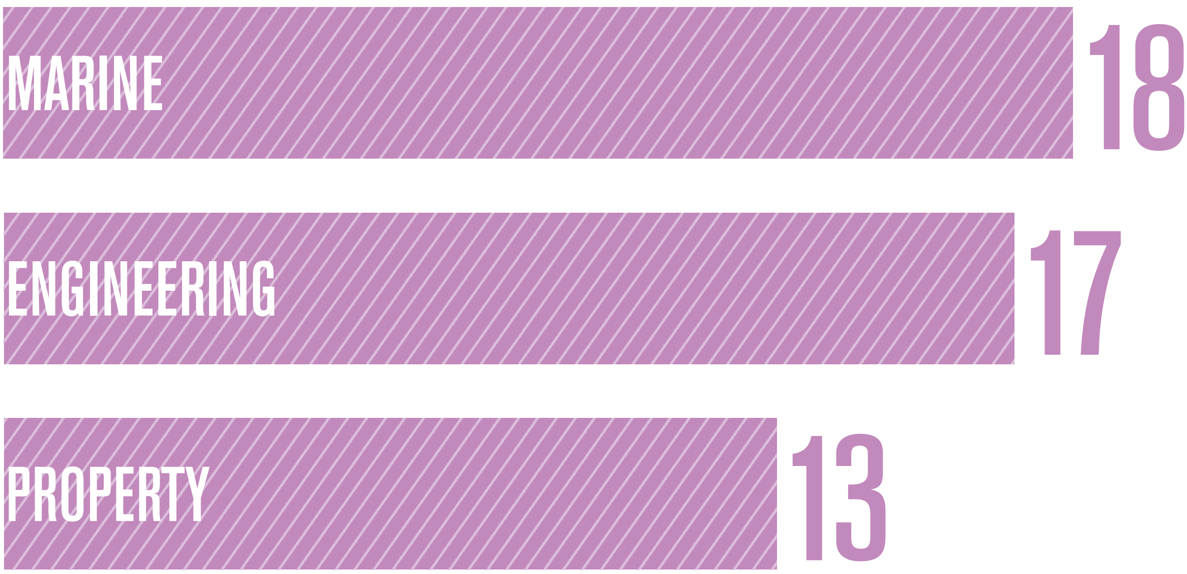
Dr Abdul Zahra A. Ali, CEO, National General Insurance Company

"Health insurance will continue to be the leading or a major line of business in many markets in the region. In an economically challenging environment with companies trying to avoid any increase in their health insurance, spending technical margins will be under significant pressure. At the same time, medical inflation is expected to continue at high single digit or partly again double digit rates. Navigating these challenges requires a close collaboration of insurance companies, TPAs and reinsurers with corporate clients to match their budgets with amended benefits and provider network solutions as well as engaging them and their employees in cost savings measures."

Dr Frank Mayer, Senior Executive Officer, Munich Re Underwriting Agents (DIFC) Ltd, Region, Middle East & Africa

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

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



Over the next 12 months, the survey respondents expect marine to be the most profitable line of business, mainly owing to very low loss ratios. Engineering ranks second, benefiting from relatively high barriers to entry and generally high standards of construction. However, most executives polled expect a significant deterioration of the profitability outlook for both marine and engineering business over the medium-term. 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. In addition, according to some interviewees, the life insurance segment is relatively profitable as there is less competition than in most other lines, the demographic profile is favourable and rates based on internationally recognised mortality tables offer some cushion (see chart 23). There were no major changes to the profitability ranking as compared with 2015.

Motor and medical are expected to be the least profitable areas over the next 12 months, attributable to adverse loss trends and accelerating loss cost inflation (for car parts and medical services). In addition, profitability in some markets will continue to be hit by reserve strengthening measures. Property is viewed as the third least profitable line of business due to ample and inexpensive reinsurance capacity and a high degree of commoditisation. In addition, there are question marks over the level of future construction activities, in the GCC in particular. On a positive note, property rates are showing signs of recovery in a few markets (see chart 24).

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

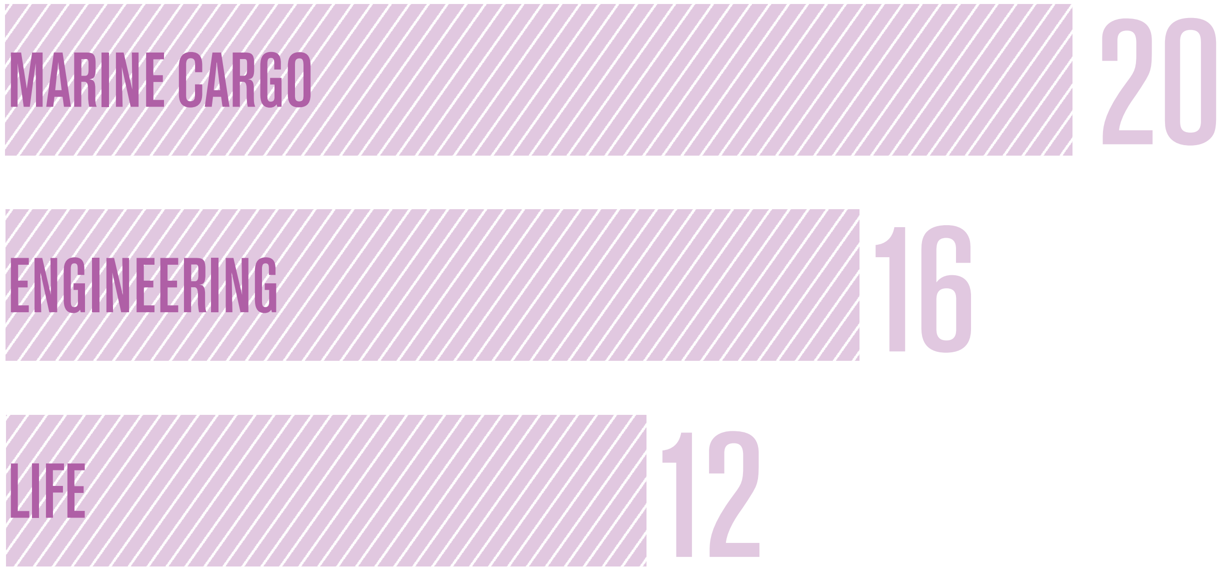
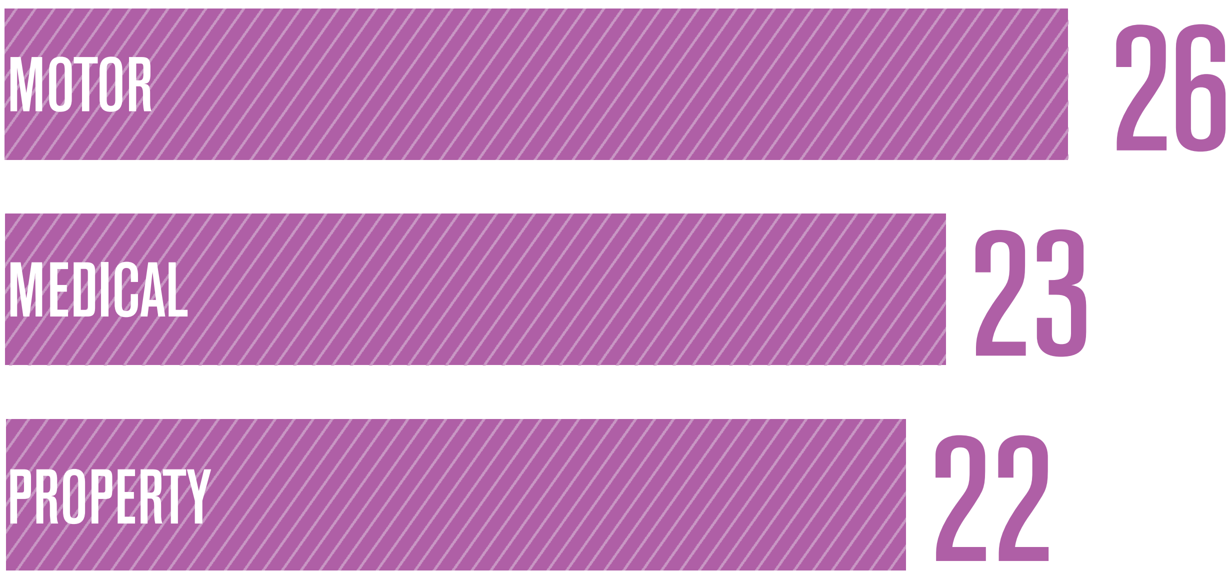


Chart 24: The least profitable lines of business (number of mentions)



SURVEY RESULTS

4 KEY MARKET TRENDS AND DRIVERS

MORE FAVOURABLE ASSESSMENT OF REGULATORY ENVIRONMENT

The Barometer found that 33% of respondents believe the overall state of insurance regulation in the region to be inadequate, sharply down from 49% in 2015. This more positive assessment reflects progress towards introducing solvency margins or even risk-based solvency rules, in combination with a more rigorous enforcement of existing rules, following the example of the Saudi Arabian Monetary Agency (SAMA). However, some executives raised concerns over the capacity of the region's regulatory authorities to implement tighter regimes, given the lack of qualified staff and a high reliance on external service providers.

In general, the region remains 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).

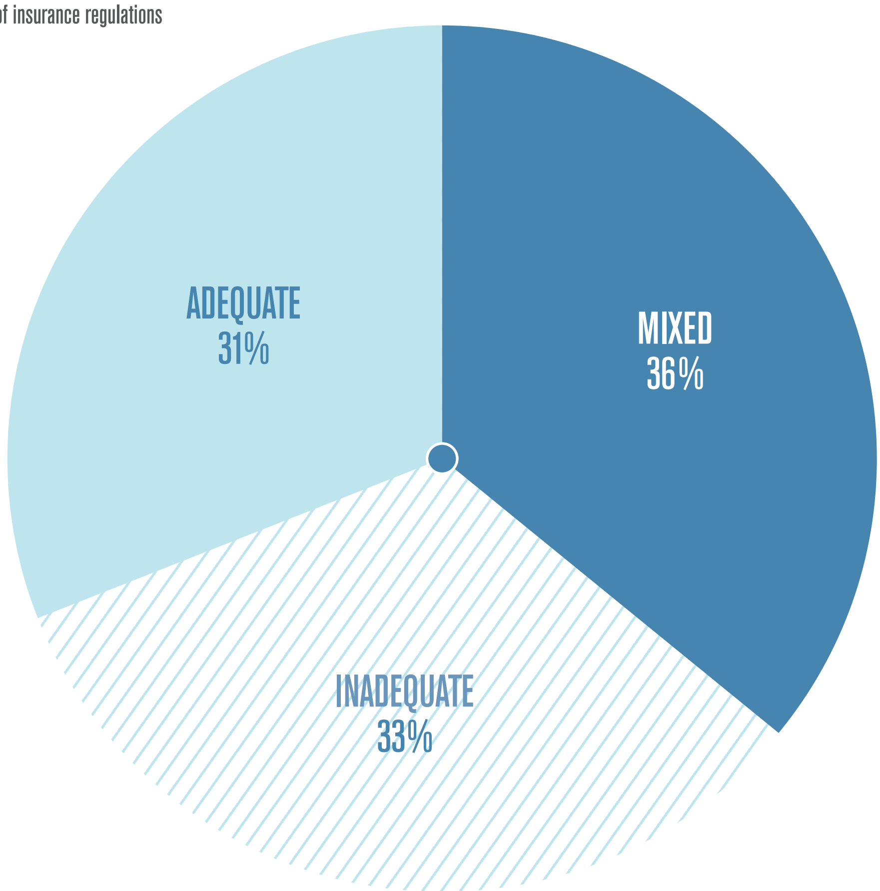
“Capital management will continue to gain in importance for MENA insurers. Regulators increasingly adopt risk-based approaches to solvency requirements and tighten their stance on reserving practices and investment policies. This is likely to encourage domestic insurers to place more emphasis on the allocation of capital.”

Andreas Pollmann, Client Management Executive MENA, Munich Re

“In order to address insurers' chronically poor technical results regulators should consider the imposition of minimum rates, as in other parts of the world. Through their policy rates central banks exert a significant influence on the cost of capital. Why should it be different for insurance and the cost of risk?”

Bassam A. Chilmeran, CEO, Al Wathba National Insurance Company

CHART 25: State of insurance regulations



“Medium-term, a consolidation of the region’s insurance markets is inevitable. On the one hand, regulatory pressures are building up, be it through higher minimum capital requirements or more sophisticated risk-based solvency rules. On the other hand, many investors are running out of patience as evidenced in sharply lower price-book ratios of listed insurers.”

Farid Chedid, Chairman & CEO, Chedid Re

“It is a welcome development that MENA insurance regulators place more emphasis on the actuarial adequacy of reserves and rates. However, in practice, this approach can take years to address specific issues at individual insurance companies. A rigorous risk-based capital regime would enable regulators to instill technical discipline ‘upfront’ by requiring insurers to allocate capital in a way commensurate with the underlying risk.”

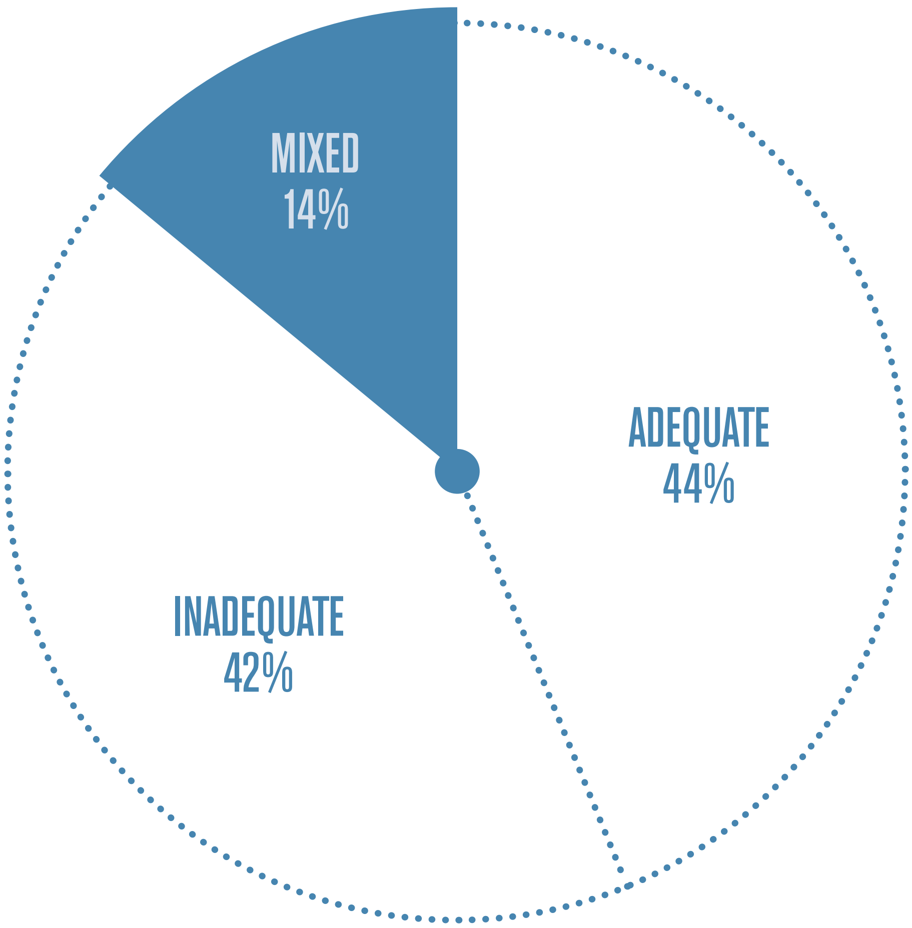
Salvatore Orlando, Head of High Growth Markets, PartnerRe

POLICYHOLDERS 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. Policyholders, in the GCC in particular, frequently benefit from cover given away for free by many insurers. However, general awareness of natural catastrophe exposure remains weak and insurers themselves are widely viewed as not doing enough to address this situation, be it through campaigns or clearer and simpler policy wordings.

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 (see chart 26).

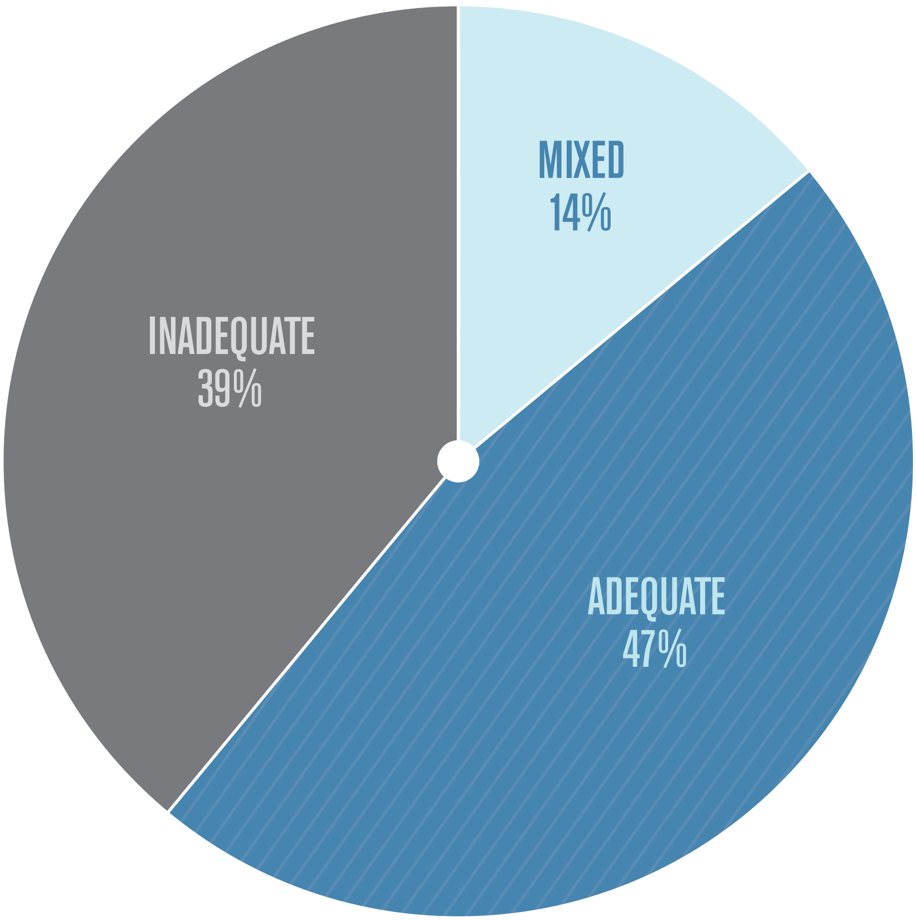
Chart 26: Level of natural catastrophe protection



POLITICAL RISK INSURANCE MARKETS ARE MATURING

47% of executives polled consider the level of insurance protection against political risk (SRCC (Strike, Riots, Civil Commotions) in particular) in the MENA region as adequate, virtually unchanged from the previous year. Supply side restrictions have continued to ease and companies that want to buy cover can do so at increasingly 'reasonable' prices (see chart 27).

CHART 27: Level of political risk protection



SLIGHTLY IMPROVING OUTLOOK ON LOCAL TALENT

61% of respondents believe that local technical skills are inadequate, down from 81% in the previous year. Most insurers continue to depend on expatriate staff, which is widely regarded as unsustainable. Insurers still do not adequately invest in the development of local talent, partly driven by a widespread 'poaching' culture in the market, coupled with employee opportunism. However, the outlook is positive as expense pressures and the need to comply with workforce localisation requirements encourage investments in regional 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. As in other parts of the world, the latter are seen as more 'glamorous'. Finally, a number of executives point to a lack of curriculum planning and other educational shortcomings as structural reasons for the indigenous talent gap.

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, and improving in Saudi Arabia and Oman, the dearth of local talent remains acute in countries such as Kuwait, Qatar and the UAE (see chart 28).

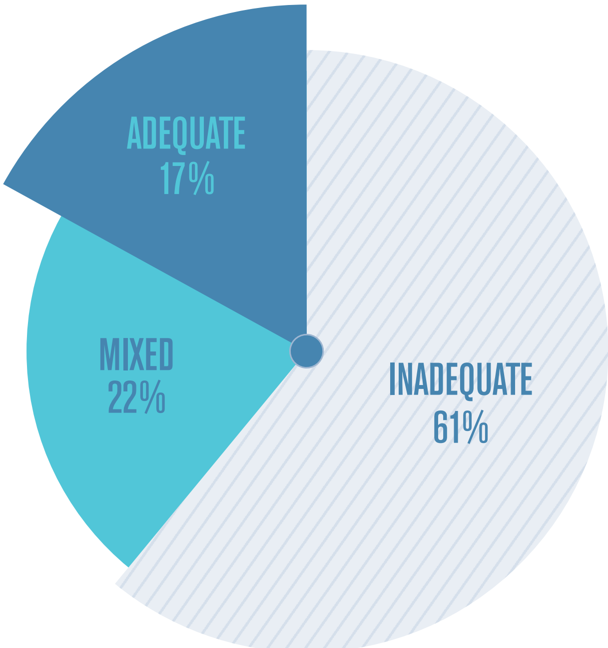


CHART 28: State of local technical skills

"Two structural weaknesses of the MENA insurance markets are a lack of risk awareness and a shortage of indigenous technical skills and competencies. In order for the MENA insurance sector to live up to its full potential, a concerted effort involving insurers, reinsurers, regulators and trade associations is required. The rewards of addressing these weaknesses would be substantial: An improved risk quality and better technical results on the one hand and a much smoother and effective implementation of the various workforce localisation initiatives in the region on the other."

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

CONSOLIDATION PICKING UP SLOWLY

The survey found that 36% – up from 19% – of respondents expect market concentration to increase over the next 12 months. Some international and domestic insurers are exiting the market as a result of severe underwriting losses. In addition, many respondents believe that it will become more difficult for domestic insurers to raise the additional capital potentially needed to meet new risk-based capital requirements.

Having said this, the relatively comfortable capitalisation of domestic companies in conjunction with family ownership continue to present major obstacles to mergers and acquisitions (see chart 29).

FOREIGN INSURERS MORE LIKELY TO LOSE GROUND

The Barometer found that 47% – down from 57% – of respondents expect the market share of foreign primary insurers to remain stable over the next 12 months. The share of those anticipating a reduction in foreign market share has more than tripled to 36%. Interviewees point to some high-profile market exits and retrenchment programmes as a result of significant underwriting losses. These moves could erode some local policyholders' faith in global brands and favour domestic and regional market leaders that are increasingly looking at regional cross-border expansion. Also, some local insurers have stepped up their game, both in terms of underwriting capacity and expertise and say they have benefited from certain foreign insurers' inability to adapt to local market conditions, needs and practices.

Those interviewees who expect a stable or higher market share for foreign insurers emphasise their specific competitive advantages such as superior financial security, technical expertise, customer focus and distribution know-how (see chart 30).

“The withdrawal or retrenchment of some major international insurers is testament to the challenging situation in the UAE insurance space. This shake-out, however, will offer opportunities to the major domestic insurers in the market and, in combination with more stringent regulations, could help overall market discipline.”

Omer Hassan Elamin, President, Orient Group

“The MENA insurance market is a paradox; despite being an active insurance market for long, it still needs to see consolidation; the products and players are still fragmented compared to Northern Europe and the US – here's a sense of 'Wild West', as large international insurers seem to be 'feeling their way' into the markets, especially in personal lines, where local insurers fight to position their brands vis-à-vis the large internationals.”

Frederik Bisbjerg, Executive Vice President & Head of Retail, Qatar Insurance Company

CHART 29: Market structure outlook

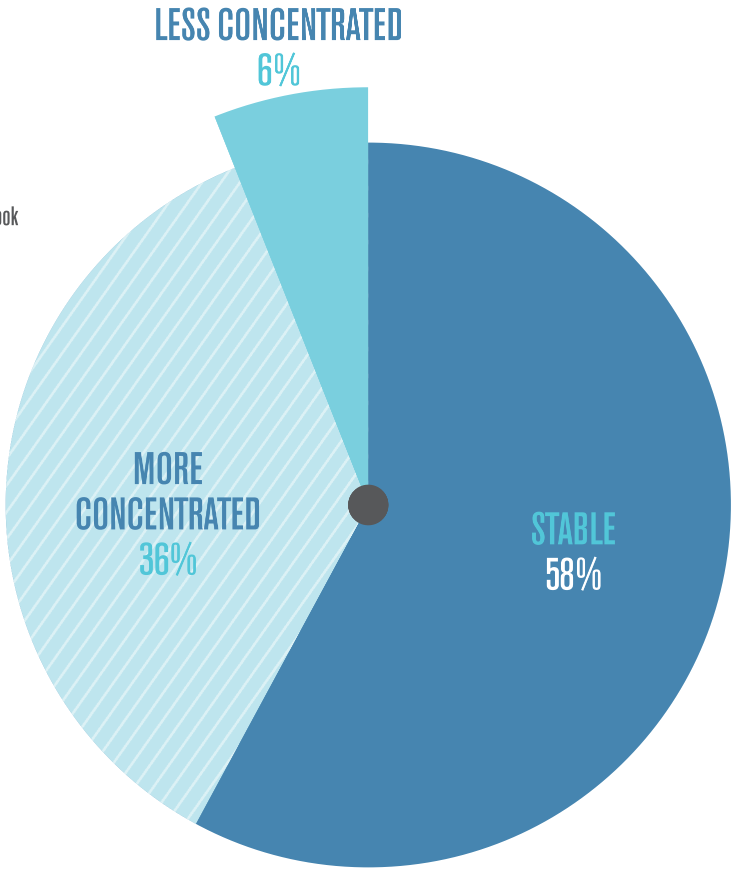
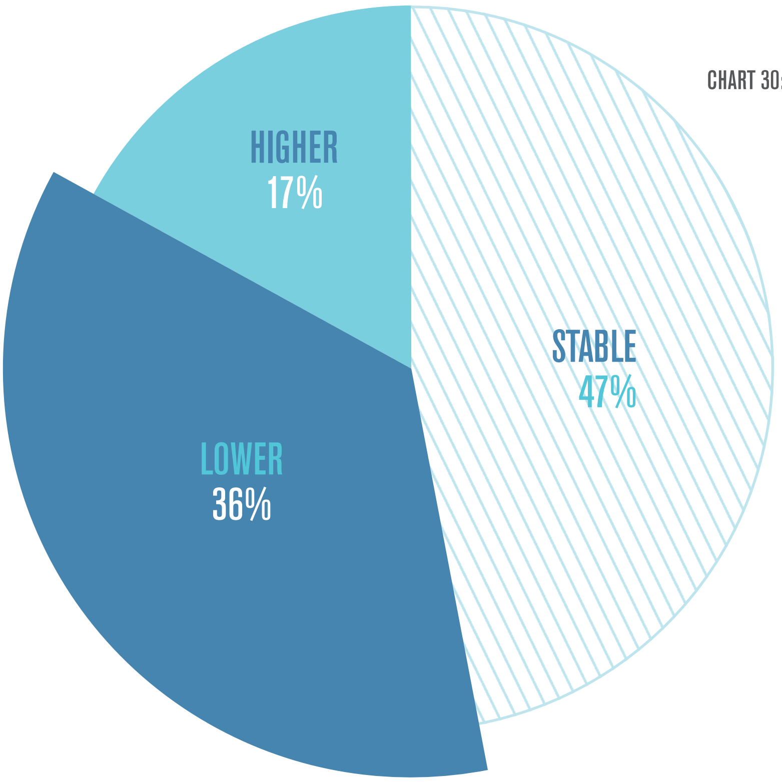


CHART 30: Outlook for foreign market share



BROKERS CONTINUE TO GAIN IN IMPORTANCE

As in 2015, 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 and support (e.g. in claims settlement) going beyond a purely transactional role. However, emerging regulations, including minimum capital requirements, could herald some consolidation in the brokerage sector.

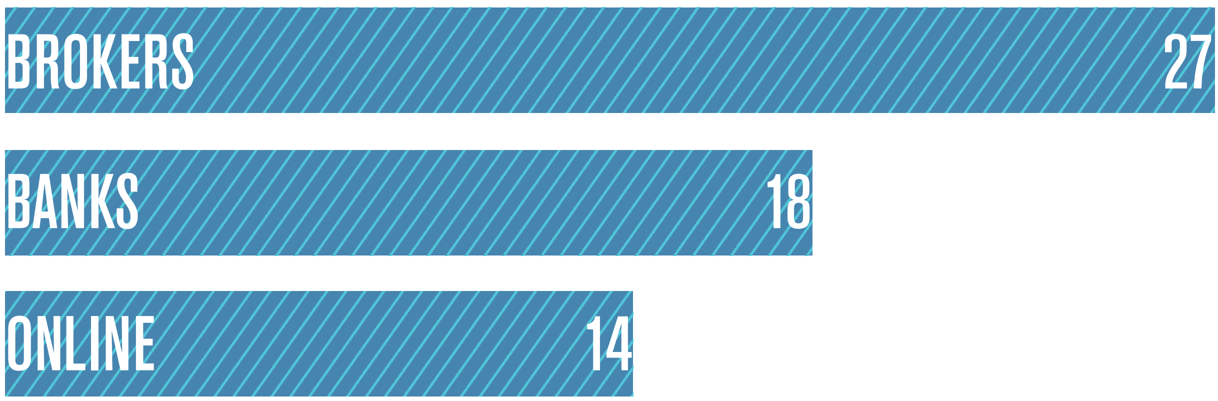
Banks continue to rank second, with a specific advantage in distributing life insurance policies. A growing number of banks are starting to understand the potential of insurance sales as another contributor to overall profitability. They take advantage of the fact that their client relationships tend to be stronger than those of insurers.

Online is the third most frequently mentioned distribution channel. It is believed to have significant potential in retail business given the region's young and internet-savvy population. In addition, its cost benefits are increasingly being recognised by insurers that 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 the GCC, brokers are the most rapidly growing distribution channel. Certainly, they are becoming more and more sophisticated, broadening their offering and successfully transplanting models and solutions that performed well outside the region. In addition, many insurers rely on their services and thus see less need to maintain or develop their own direct sales force.”

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

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



MIXED VIEWS ON TAKAFUL PROSPECTS

34% – up from 22% – of respondents expect Takaful insurance to underperform the market as a whole in terms of growth. At 23%, the share of those expecting it to outperform has remained virtually unchanged.

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. This lack of a 'Unique Selling Proposition' forces many Takaful insurers to engage in fierce price competition.

However, most survey participants continue to agree that the principle of Takaful, if applied properly, is valid and promising, as demonstrated, for example, by some Asian markets, including Malaysia. For Egypt as well, the assessment is relatively positive, on the back of differentiated products and profit sharing schemes.

Going forward, some interviewees suggest that Takaful players should concentrate on embracing the concept of mutuality which works best in personal lines such as motor and medical insurance where portfolios are relatively homogeneous (see chart 32 on page 54).

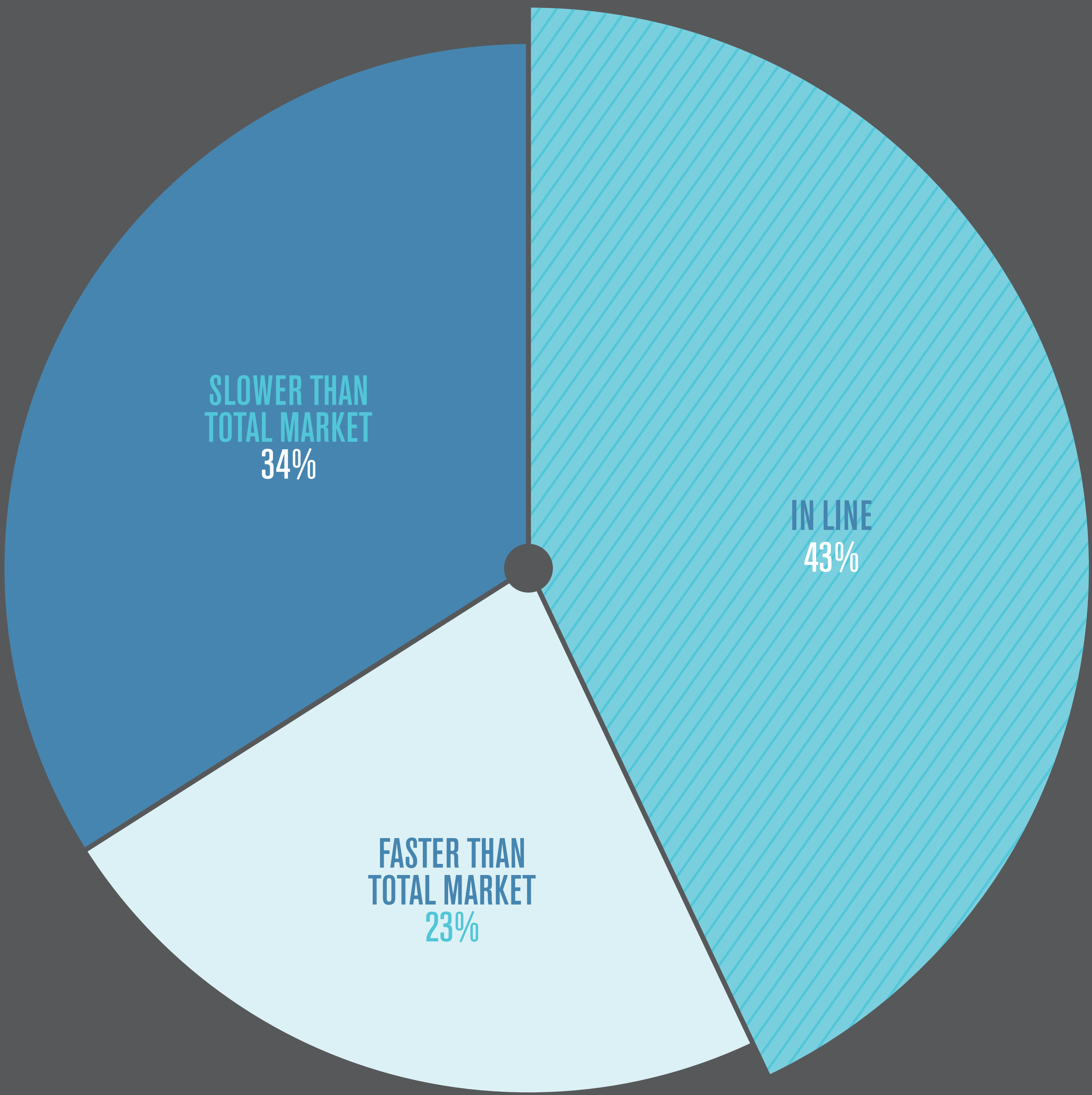
" The UAE's Takaful sector has been through a healthy period of self-assessment recently. On the general side, growing underwriting losses from motor and the advent of tighter regulations such as higher capital requirements have prompted strategy reviews among Takaful shareholders. Various measures have been taken to strengthen underwriting discipline. We may see signs of consolidation through tie-ups and strategic co-operations. On the life/family Takaful side, bancassurance and brokers are writing rising volumes indicating increasing acceptance and sophistication of customers. All these developments augur well for a stronger and more profitable Takaful sector going forward. "

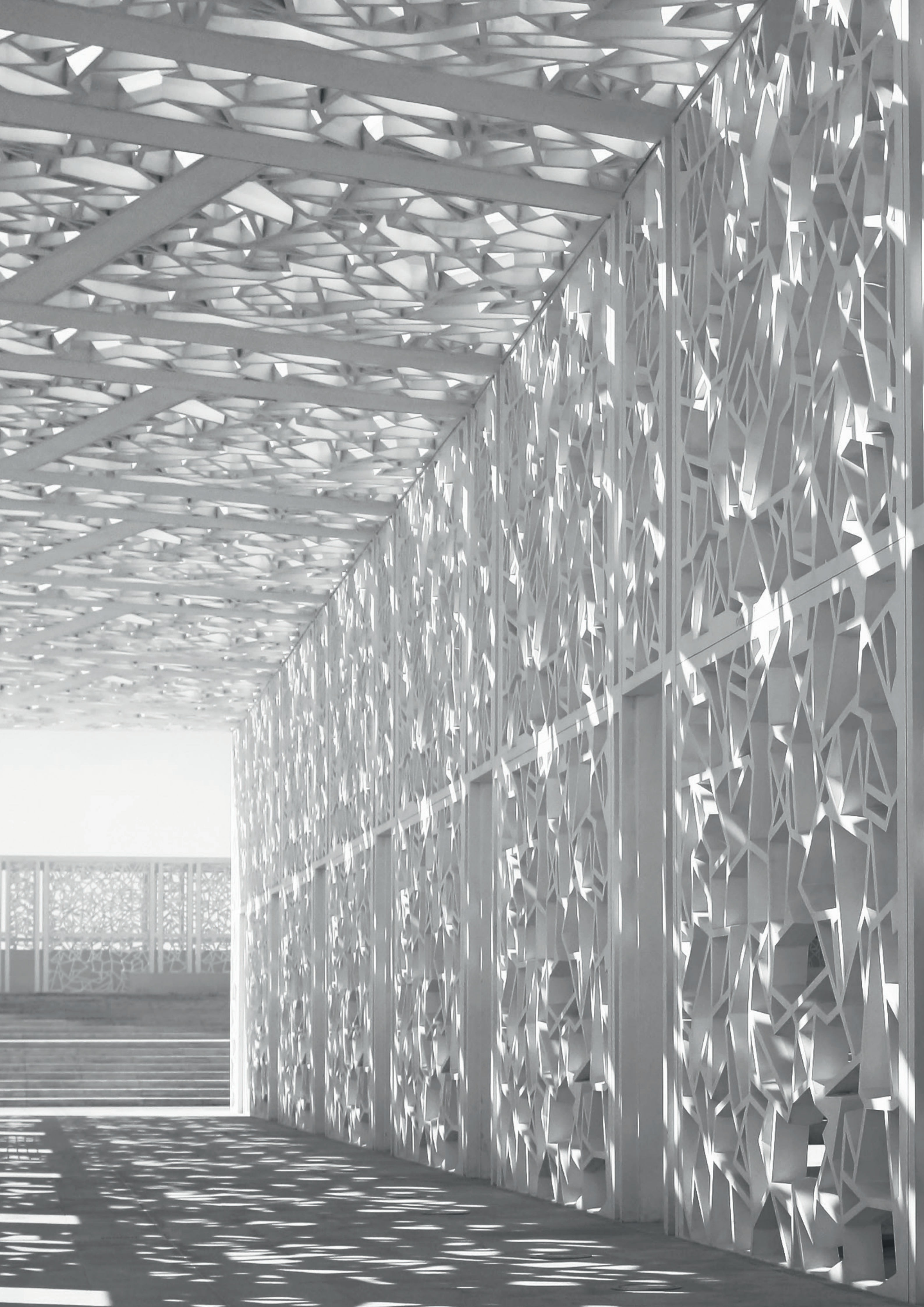
Rajesh Sethi, CEO, Noor Takaful

" The concept of Takaful offers great opportunities, especially in the field of Family Takaful Insurance Products insurance. Takaful operators enjoy the advantage of being both dedicated segment underwriters and competitors in the conventional market. The profitability issues we saw recently are mostly associated with Takaful companies that were set up at a time when markets already had reached a very soft condition. Some of these players aggressively went after market share without giving adequate consideration to technical aspects in rating their products. However, their problems should not mask the potential of Takaful in general. "

Osama Abdeen, CEO, Abu Dhabi National Takaful Company

CHART 32: Growth prospects for Takaful insurance





ABOUT THE QATAR FINANCIAL CENTRE

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

These foundations have helped to foster Doha's world-class business environment. Qatar is currently ranked as the 14th most business-friendly country in the world (Economic Forum Global Competitiveness Report 2015–2016) and within the top 25 financial centres worldwide (The Global Financial Centres Index 18, September 2015).

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

For more information about
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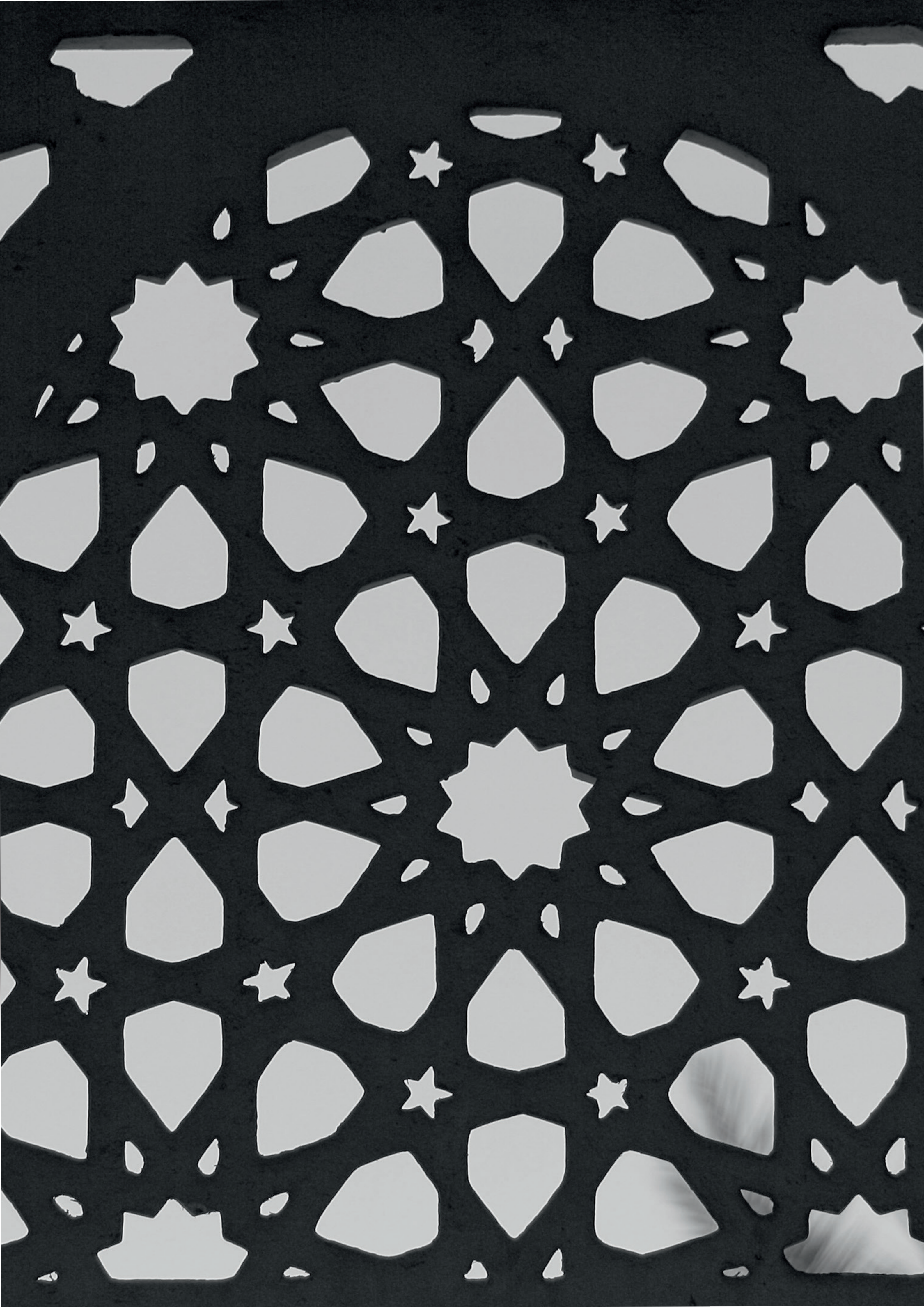

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