Media release

MENA insurance markets benefit from continued rapid growth at improving profitability

Hammamet and Zurich, 25 June 2018 – According to the MENA Insurance Pulse 2018, published by Dr. Schanz, Alms & Company, the insurance markets of the Middle East and Northern Africa are expected to continue outgrowing the region's GDP over the next 12 months. Personal lines business remains the key driver for premium growth, with primary insurers benefiting from compulsory insurance requirements as well as regulatory actions supporting rates. Although the executives interviewed anticipate that geopolitical instability and economic headwinds will continue to weigh on the industry's outlook, price adequacy in commercial lines, especially in property business, has improved too, mainly in response to severe fire losses.

The 6th edition of MENA Insurance Pulse, an annual survey among insurers, reinsurers and brokers operating in the region's US$ 58 billion primary insurance markets, is based on in-depth interviews with 45 senior executives. Launched at the 32nd General Conference of the General Arab Insurance Federation (GAIF) which takes place from 24 – 27 June in Hammamet, Tunisia, the study was supported by AIG, PartnerRe and Tunis Re.

According to Henner Alms and Dr. Kai-Uwe Schanz, the study's authors, "The region's strong insurance premium growth is still considered the market's most important strength, followed by significantly modernised regulatory regimes and a relatively moderate natural catastrophe exposure. Going forward, markets are expected to structurally benefit from the region's still low insurance penetration, which is a mere quarter of the global average. Further, digitisation will contribute to reduce operating and acquisition expenses and enhance the appeal of insurance products to the region's large young population."

Unsatisfactory pricing and profitability levels as a result of excess capital and fierce competition are perceived as the most relevant weaknesses of the MENA insurance market place. As workforce localisation requirements are enforced and the influx of expatriate workers slows, executives warn of a talent gap, in particular for digital skills. Finally, with more than 200 insurers - a third of them in the UAE alone - the MENA region's insurance market remains highly fragmented. Many of these players are considered non-viable given tightened solvency requirements and major IT investment needs.

Geopolitical risks including the uncertainty over the future of the nuclear deal with Iran dampen the industry's outlook. In addition, the region remains highly dependent on hydrocarbon revenues. Although oil prices have recovered from their lows in early 2016, there is an increased awareness of this vulnerability and volatility as well as their implications for government spending, disposable incomes and financial markets.

Rates and profitability might have passed the bottom of the cycle. The executives polled view current prices in the MENA region's commercial and personal lines business as being at or above the average of the past three years. In addition, a vast majority expects rates in commercial and personal lines to remain stable or increase further over the next 12 months. Commercial and regulatory pressure for at least stable prices will continue. Overall, personal lines are expected to outperform commercial lines as regulatory pricing actions and the enforcement of compulsory insurance schemes, like motor and medical, have a strong effect on both premium growth and rates.

In commercial lines an increased share of respondents consider overall profitability to be low. Although rates have improved, a higher frequency of large claims and deteriorating reinsurance contract terms and conditions took their toll on technical profitability. In personal lines a vast majority of interviewees consider current technical profitability as higher or in line with the average of the past three years attributable to significant rate increases in motor and medical business. Going forward, the executives polled expect profitability in commercial lines to remain unchanged or edge slightly higher. Corrective measures on the pricing, reserving and claims settlement side will continue to make themselves felt. In personal lines, the executives see profitability prospects unchanged or slightly improving, benefiting from a continuation of regulatory support, but also enhancements in claims management practices, partly enabled by digital technologies.

Tightened regulatory capital requirements in combination with growing investor impatience are seen as the most relevant forces driving a higher market concentration over the next 12 months. As far as foreign, non-MENA based insurers are concerned, only a minority of respondents expect their market share to increase over the next 12 months. Interviewees continue to mention some high-profile market exits and retrenchment programmes as a result of underwriting losses and rates below internal hurdle rates. In addition, foreign insurers' footprint in the fast-growing personal lines segment remains weak.

A copy of the report can be downloaded at: https://pulse.schanz-alms.com

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