A new phase in the cycle

The pandemic has contributed to the hardening of the reinsurance market in the region.The upswing in the market cycle is a healthy development for providers – both direct and reinsurers – yet it changes the rules of the game at a time of economic stress.

By Osama Noor


Mr Mohammad Tabtabaei

The reinsurance market in the Middle East has been characterised by its overcapacity and competitive pricing in the past decade. However, in 2019, signs of a hardening market started to emerge with the withdrawal of several reinsurance providers from the arena.

In 2020, COVID-19 changed all aspects of life and business; the regional insurance market was hit indirectly by the economic slowdown more than the direct consequences of claims arising from the pandemic.

Kuwait Re COO Mohammad Tabtabaei said the pandemic crisis has so far had a limited effect on the insurance industry in the region. "Insurers and reinsurers in the region are still in a strong position as COVID-19 is explicitly excluded from coverage in all insurance and reinsurance policies by default. Overall and from our experience at Kuwait Re, we have not had notable exposure except for some markets in Europe and South Africa," he said.


Mr Khaled Nouiri

On the technical level, the regional reinsurance market witnessed many developments in recent years, said Oman Re COO Khaled Nouiri. "Part of these developments are largely linked to the changes in the international reinsurance markets and others are specific to some major regional reinsurance players," he said.

These major developments include the withdrawal of several of Lloyd's syndicates from the DIFC and the run-off of major regional capacity providers such as Arab Insurance Group, Gulf Re, ACR ReTakaful and Takaful Re.

"This contributed to a significant reduction of capacity offered regionally, which was partially compensated by the rise of other regional reinsurers such us International General Insurance, Kuwait Re, Saudi Re and Société Centrale de Réassurance. This situation made regional insurers less dependent on international reinsurers in terms of capacity offered, reinsurance terms and pricing," Mr Nouiri said.

In parallel, he said that the hardening in the international reinsurance market, affecting terms and pricing, began at the end of 2018 following the large losses from Nat CATs and man-made losses globally. "COVID-19-related losses significantly accelerated the trend in 2020 and 2021 renewals," he said.

A long-awaited hardening

There are signs of hardening in the reinsurance market which was long overdue, said Mr Tabtabaei. "The trend needs to continue as the world is witnessing uncertain


Mrs Yolla El-Khoury

times and technical underwriting along with pricing on merits becomes paramount in managing risks."

ACE Holding CEO Yolla El-Khoury said that the scarcity in capacity is more evident in specialty lines such as D&O and cyber. She said, "Capacity for specialty lines has dropped dramatically, particularly for D&O to avoid claims that could be linked to the pandemic. And because of the COVID-19 crisis, D&O rates have increased by 70% to 80% even for loss free accounts."

She added that prices have increased across all lines. "Even a zero-loss making account would witness an increase of between 5% and 10%. Flat renewals are not available anymore."

Mr Tabtabaei noted that the shortage in capacity in certain lines such as energy and marine is due to some companies withdrawing altogether from these lines. "This has been observed even in the London market, where there have been notable losses in the past two years. In addition, there are companies which have reduced their capacity in the region. All this has created a shortage in capacity. However, once prices start to improve, capacity is expected to return. This is the nature of the cycle," he said.


Mr Joe Asmar

Chedid Re executive director Joe Asmar said certain lines of business were affected more than others, in particular energy, financial lines and engineering. "What adds more stress is that premiums for various sectors, mainly those related to tourism and services, have dropped due to the COVID-19 situation and the fact that most businesses are cutting down their expenses," he said.

Poor appetite for proportional business

Over the past period, regional reinsurers were more focused on writing non-proportional business, which is a threat that insurers face in the coming years considering their limited capacities.

Mr Asmar expects this trend to take effect in particular on the treaty side. He pointed out that adverse results that reinsurers have sustained on certain lines such as motor and medical, have prompted reinsurers to go after non-proportional cover. "However, it remains unclear how many years it will take for the market to mature and reach that stage for most reinsurance business," he said.

He added that the impact is going to be translated in insurers demonstrating higher retention and less reinsurance being ceded out. "Insurers will be more flexible in determining the size of their exposure and will have to decide on the capacity to be deployed."

Nonetheless, non-proportional or excess of loss (XoL) agreements are common in mature markets as they require large capacity, technical rates and sufficient experience, he said. "Players in the region would need more time to reach that stage. Some countries in the region are making wide strides towards maturity, such as Saudi Arabia where regulations strongly address solvency requirements and capital adequacy among other standards."

According to Mrs El-Khoury, writing proportional business has become hard depending on the quality of the book of business, minimum retention, and combined ratios. "We note that although it is easier to arrange XoL, it is still challenging to find capacities to support specialty lines such as D&O, cyber and banker's blanket bond."

A market correction

In addition to the hardening in rates in the upcoming short period, there will be stricter underwriting and claims handling approach, said Mr Asmar. "There is a correction in the market following the soft rates offered at lenient terms and conditions in the past years. Market correction is happening today as players are adjusting prices and amending conditions, deductibles and other provisions."

Yet, he emphasised that the direction of the reinsurance industry also depends on other factors including oil prices in the region and the global economic developments, "Political stability also determines the flow of investments in the region," he said.

Reinsurance pricing is always going in cycles, said Marsh CEO Middle East and Africa Christos Adamantiadis.


Mr Christos Adamantiadis

"We have been going through a hardening cycle for the last two years. It is hard to predict exactly when we will reach an inflection point but we do not foresee rates dramatically declining thereafter. Most likely, hard market conditions will sustain as long as interest rates remain so low, suppressing investment income. Once interest rates start climbing up, insurers and reinsurers will have more room to compete on the technical pricing level," he said.

'A'-rated and new capacity

Energy and similar sophisticated risks require 'A'-rated security and there are big players controlling this niche market, said Mr Tabtabaei.

Other risks, such as those in the hospitality sector, might be placed with lower security players, he said. "It is happening but due to the current situation companies prefer to seek stronger security rather than gambling with reinsurers who are not well rated. But with shortage of capacity, prices are increasing even in commercial lines. Overall, there are practices in both ways. Some companies do place risks with low-security reinsurers," Mr Tabtabaei said.

Mrs El-Khoury believes that there will always be newcomers but it is unlikely for the top-rated reinsurers to return in the current situation.

Mrs El-Khoury, who is also a board member at the DIFC Reinsurance Association, has observed that second-tier reinsurers have started to show interest in entering the market.

She noted that in the past ACE used to seek capacity from only 'A'-rated reinsurers. "But things have changed recently. The increase in prices and stringent terms of 'A'-rated protection witnessed in the past couple of years have forced clients to pursue less expensive alternatives. Therefore, brokers have started seeking other options. For us, we started approaching other players while preserving the minimum regulatory requirements ('BBB+'-rated reinsurance protection is the minimum accepted by the regulator in Saudi)."

The terms and conditions of 'BBB+' are in line with the minimum standards but at a different level of capabilities,

Market Profile – UAE

MENA reinsurers – Technical performance, 2017-2019

		Loss ratio - Non-life (%)				Combined ratio - Non-life (%)			
Company Name	**Country**	**2019**	**2018**	**2017**	**3yr Avg**	**2019**	**2018**	**2017**	**3yr Avg**
Arab Reinsurance Company	Lebanon	7.11	69.6	76.7	72.4	105.7	105.4	107.4	106.1
Arab Insurance Group	Bahrain	59.5	84.0	69.0	70.9	96.4	118.3	103.8	106.2
Compagnie Centrale de Réassurance	Algeria	59.4	52.7	51.3	54.4	84.3	83.3	82.3	83.3
Hannover ReTakaful	Bahrain	63.7	69.1	61.1	64.6	102.7	101.6	95.1	99.8
Kuwait Reinsurance Company	Kuwait	65.9	63.9	67.4	65.7	96.5	96.2	98.0	96.9
Milli Reasurans Turk Anonim Sirketi	Turkey	89.2	93.9	75.8	86.3	122.4	128.9	110.8	120.7
Oman Reinsurance Company	Oman	66.5	55.2	62.3	61.3	106.6	93.7	105.6	102.0
Saudi Reinsurance Company	Saudi Arabia	63.6	63.2	67.2	64.7	95.4	98.1	100.4	98.0
Société Centrale de Réassurance	Morocco	35.1	51.0	62.2	49.4	81.8	93.2	94.9	90.0
Societe Tunisienne de Réassurance	Tunisia	62.3	73.3	65.2	66.9	99.2	113.2	105.2	105.9
Trust International Company	Bahrain	NA	73.0	69.0	71.0	NA	102.9	101.7	102.3

Source: Best's Financial Suite - Global, AM Best data and research

noted Mrs El-Khoury. "The capabilities differ in certain aspects such as the speed of claims settlement and the level of understanding of sophisticated business."

However, despite the capacity crunch, there are still committed 'A'-rated reinsurers writing business from the region, said Mrs El-Khoury. "Saudi Arabia and the UAE are the two largest markets in EMEA with great potential. In addition, the region continues to lure reinsurers due to the low frequency and intensity of natural disasters."

The inward facultative challenge

Part of the reinsurance business some insurers write might pose a serious challenge because it increases the exposure of risks for reinsurance companies. "There is a need for certain limits to be in place to control inward facultative business because sometimes reinsurers find themselves unaware of certain risks being placed on their book of business," said Mr Tabtabaei.

Moreover, inward facultative facilitates the opportunity for insurance companies to co-insure or accept risks without approaching the international reinsurance market. "It increases price competition in the market as they don't necessarily stick to the technical prices offered by international reinsurers. This eventually results in creating unhealthy competition," he said.

Major reinsurers who are providing capacity for direct players to write this kind of business shoulder greater responsibility, said Mr Tabtabaei. "International reinsurers have taken some action in this regard but more is required to identify exposures and limit price disturbances. Reinsurance companies should deal with this practice to avoid difficulties in controlling exposure to unknown risks coming from various places," he said.

Inward business accounts for a considerable portion of some companies' announced written premiums. Some players use it as a means to amplify their portfolios and balance sheets.

Hardening to continue but countered by competition

In light of the past renewals, further hardening is expected in the coming period, said Mr Tabtabaei. "We have witnessed some hardening in 2021, accompanied with an overall shortage of capacity. Going forward, prices are being revised and there are expectations for price correction in various degrees depending on the lines of business. Generally, this bodes well for a strong return to a healthy level of pricing."

Prices will continue to increase in the coming two years at least, said Mrs El-Khoury. "Prices have reached a rock-bottom level and it is about time to increase rates. Brokers would benefit from the increase in prices as their commission will rise too but with tough competition, there are always other brokers who would bring in cheaper prices with limited protection quality. And due to the weak economic activity and the increased pressure on many sectors including retail, hospitality and aviation, clients seek lower prices. At the same time, there are reinsurers who would charge less than the existing rates. That is why competition is extremely tough these days," she said.

Pressure on clients caused by lacklustre economic activity in the past year has increased receivables and write-offs which put further pressure on reinsurance companies' liquidity and credit conditions as clients are unable to pay or postpone payments to maintain a positive cash-flow status, she said.

Mrs El-Khoury noted that hikes in prices will continue taking an uptrend trajectory in the coming period. "It will reach a stage where it will stabilise, most likely post-2022 and then prices will take the right level."

The hardening in global reinsurance terms is expected to continue in 2021 and most probably thereafter if the COVID-19-related losses continue to grow or if this year records major Nat CAT or man-made losses, "and the Middle East region is no exception", said Mr Nouiri.

Upgrading the standards of the profession

At the global level, there was an increase of reinsurance capital and the reinsurance capacity is sufficiently available at the right price, said Mr Nouiri. "Regionally, the reduction in regional reinsurance capacity has deprived regional insurers from securing automatic proportional treaty capacity," he said.

Consequently, he added, a majority of the regional insurers had to sacrifice part of their commissions and accept strict performance control mechanism including loss

MARKET PROFILE – UAE

capping and reduced underwriting capacity for loss-making activity bands. "For the longer term and especially after the implementation of IFRS17, the regional insurers will need to reduce dependency on the reinsurance commissions, focus on underwriting profitability, embed ERM practices and gradually increase their risk retention," said Mr Nouiri.

Eventually, regardless of the available reinsurance capacity, direct insurers should adhere to the professional underwriting standards and fortify their reserves, said Mr Tabtabaei. "This is what helps companies in rainy days. The region has witnessed a number of unforeseen events including the Beirut port blast. Therefore, players need to build their reserves and act professionally."

Rating agencies confirm firming market conditions

The recent developments in the global reinsurance market cast a shadow over MENA's regional market conditions where prices and terms have hardened.


Ms Emily Thompson

Indications from 1/1 renewals in the MENA region confirm the firming market trends observed during 2020, and signal a turn in the market conditions witnessed across the region in recent years, said AM Best financial analyst Emily Thompson. "Mirroring the rate increases observed across global reinsurance markets, reinsurance price rises are prevalent across MENA markets as reinsurance markets show continued signs of hardening."

She noted that rate rises appear most noticeable on energy and property lines, where several large losses, which have been heavily ceded by direct markets to their reinsurers, have occurred in recent years. "In particular, several large fire losses were reported in the UAE over the past five years, which have impacted property lines," she said.


Mr Emir Mujkic

Reinsurance rates started to increase for energy, property and liability business in 2019 before the outbreak of COVID-19, said S&P director – financial services, insurance ratings Emir Mujkic. "This was because of large Nat CAT losses, adverse loss trends in certain US casualty lines, and fierce competition among reinsurers exacerbated by alternative capital, which over the years has eaten up margins in certain property and casualty line of business. Like in previous years, we believe that the global reinsurance sector did not earn its cost of capital in 2020, due to COVID-19-related losses.

In 2020, the top 20 global reinsurers incurred about $15.5bn of COVID-19-related losses (mostly incurred but not reported), with some reinsurers yet to report their 4Q results. We therefore expect that reinsurance rates will maintain a positive momentum in 2021, while terms and conditions may also further tighten," Mr Mujkic said.

Capacity remains

In AM Best's view, capacity for the MENA region remains, although reinsurers are tightening their focus on profitability. "Changes in reinsurers' appetites, rate rises and changes to terms and conditions are reflective of this and will challenge insurers' renewal experiences," said Ms Thompson. While a relatively benign CAT exposed region, the market has not been immune to large loss events, for which insurers have heavily relied on the reinsurance market to bear the brunt of losses, she added. "Hardening market conditions and changes in reinsurers' appetites as to where they deploy their capacity are reflective of the lower than anticipated profitability of regional business and alleviate increased capital pressures of reinsurers."

She pointed out that reinsurance commissions have long been a driving contributor to insurers' operating results in the region, and increases in reinsurance rates and changes to terms as reinsurers focus on profitability may ultimately challenge insurers' profit margins.

Looking ahead

While several regional and international players have exited the market in recent years, largely driven by the challenges of generating strong returns, AM Best expects there to be continued capacity available across the region. "However, the hardening rate environment signals an enhanced focus on underwriting profitability following these performance challenges, which may sustain the turn in market conditions," said Ms Thompson.

With this tightened focus on underwriting performance, insurers in the region, particularly those that have ceded meaningful losses to reinsurance partners, may see changes in the reinsurance capacity available to them over the near term – which may also result in a weakening in the credit quality of available capacity, she said.

"We also note the increased interest from MENA primary insurers to write inward facultative business to participate on local reinsurance risks and capitalise on capacity needs, which we expect to remain a feature over the near term."

Although rate increases in commodity lines like motor and medical are more modest than for other property and casualty business, in S&P's view, regional reinsurers and primary insurers that write reinsurance business will benefit from the higher rates, said Mr Mujkic. "Regional reinsurers typically do not have material exposure to Nat CAT risks and pandemics and they do not write business relating to event cancellation, which generated large claims for international reinsurers last year. We therefore believe that regional reinsurers and primary insurers will report robust underwriting results and top-line growth in 2021."