REINSURANCE

# Reinsurance review and outlook

**Chedid Re's Mr Joe Asmar talks about how the MENA reinsurance industry has performed and responded to challenges over the last two years, and what it can expect in 2022.**


The world economy is emerging strongly from COVID-19. Widespread vaccine deployment and the easing of pandemic-related restrictions in addition to large-scale fiscal stimulus fuelled a stronger economic bounce back in 2021. However, uncertainty around the emergence of more transmissible COVID-19 variants and the ability of vaccines to keep the pandemic under control suggest that the recovery may be more uneven and protracted than forecast.

The pandemic undermined economic growth projections in 2020 in the Middle East. The region faced a slowdown in growth caused by the pandemic lockdowns, recession from political instability and low oil prices.

## Industry responded well

In MENA, recovery started in 2021 supported by geopolitical stability, higher oil prices and the easing of COVID-19 restrictions. The various stakeholders of the reinsurance industry have focused on maintaining business continuity, customer support and employee wellbeing. They have generally responded well to the pandemic by embracing emerging technologies, flexible work models, balancing automation with the need to maintain a human touch and being more proactive in bolstering trust.

One of the major trends widely embraced by the market was the incorporation of video conferencing tools which allowed for good communication and interaction between companies.

Another interesting trend was the shift to a paperless environment to reduce the spread of the coronavirus. Many reinsurers realised its other advantages – mainly to strengthen document security and confidentiality; allow easy access to data, automatic data retention and digital backups; facilitate less expensive client communication; enhance cost-effectiveness; and adhere to audit guidelines.

## Renewals have been complicated

In the renewal rounds throughout 2021, reinsurance negotiations in the MENA region have been lengthy and complex as insurers and reinsurers cautiously worked to quantify and manage rising levels of uncertainty.

The Middle East reinsurance industry has seen widespread increases in rates and a tightening of terms and conditions. This is mainly due to limited local capacities and more dependence on the international market. International reinsurers have been selective in deploying their capacities in MENA with a disciplined underwriting approach. For instance, CAT renewals experienced very low percentage of excess reinsurance mainly due to reinsurers' strict guidelines in deploying capacity.

Additionally, reinsurers have been applying more exclusions, in particular those linked to pandemic-related claims, business interruption cover and cyber exposures. They have also been very strict on premium collection by imposing warranties with specific deadlines in order to improve liquidity and solvency and control bad debt reserves.

Insurance regulators in the region have responded to COVID-19 by offering extensions to regulatory requirements deadlines. Regulators are working to comply with the IFRS17 standards on accounting for insurance contracts.

## Overview of business lines

Developments of the different lines of business during year 2021 can be summarised as follows:

- Motor insurance pricing has declined driven by competition among insurers due to its simplicity and the cashflow it provides. The performance has been favourable due to a decrease in claims mainly related to COVID-19 lockdowns and social restrictions.

- Medical insurance performance improved overall due to lockdowns but started increasing again from June due to deferred treatments. The market was stable overall with insurers trying to retain more.


- Property insurance has seen two main trends in the market. For all large risks with values over $500m, there has been an improvement in terms including rate increases, higher deductibles and more restrictive conditions. As for small to medium accounts with values less than $500m that can be satisfied with the local reinsurance market or facilities by international reinsurers, we have continued to see flat rates and in some cases reductions.

  The high exposure risks or the accounts with poor loss records have seen significant rate increases with major amendments in terms and deductibles. Strict requirements are being requested for consideration of such risks related to risk management, survey reports and underwriting information.

- Engineering insurance sector prices and deductibles continue to increase mainly driven by losses in the region and internationally, along with regional and international reinsures (especially Lloyd's market) exiting the market or reducing their capacities.

  The remaining reinsurers have taken a tougher approach in considering the business with stricter underwriting to be aligned with their guidelines and pricing. Even for extensions, reinsurers have been taking the same stand with full reviews of all underwriting criteria related to any project.

- The airline industry continues to influence the aviation insurance sector negatively due to the pandemic and the plunge in passenger numbers despite an improvement from year 2020. However, premium rates have continued to grow with rate increases mainly related to hardening of the market from previous international losses and reduction in capacity.

- The marine insurance market has shown improvement despite a short restriction in global trade. There have been increases in rates and more restrained underwriting by insurers mainly due to more restrictive regional capacity.

- In the energy and power segment, both the insurance and reinsurance markets were stable with slightly higher prices against the backdrop of another modest loss experience. Output levels remained constant despite rising oil prices while surging interest among customers in products for the coverage of renewable energy continues to be evident.

- For casualty and financial lines insurance cover, rates continue to increase considerably on certain lines of business while capacity is decreasing. There is more pressure to restrict coverages and work to improve wordings.

- Cyber insurance is fairly stable despite international rate increases which are mainly due to a rise in the frequency and severity of claims. The demand is increasing but still not reaching the projected potential.

## Positive outlook

Most insurers and reinsurers expect an accelerating economic recovery and additional digital technology investments in 2022. The outlook for the global reinsurance sector should improve in 2022 due to significant improvement in reinsurers' financial performances mainly driven by the hardening market, a strong rebound in economic activity and lower pandemic-related losses. These positive factors should outweigh the negative effects of declining investment returns, increasing Nat CAT claims due to climate change and a temporary pick-up in inflation.

Driven by strong economic conditions and prospects, the region continues to be perceived as an attractive insurance and reinsurance market with limited exposure to natural perils. The reinsurance industry climate for 2022 could see further price increases and improvements in conditions particularly for loss-affected lines and regions.

A more disciplined underwriting approach will continue due to market losses, inflation expectation, low interest rate environment and pandemic impacts. Conditions are likely to show further improvement on account of the considerable uncertainties, most notably in relation to future pandemics and cyberattacks.

There will be more focus on long-term partnership with clients, especially in challenging market situations, and greater demand for coverage from reinsurers with a robust financial base.

## Improving relations with customers and stakeholders

The industry is increasingly dependent on emerging technologies and data sources to drive efficiency, enhance cyber security and expand capabilities. Nonetheless, the focus should continue to be on improving the customer experience by streamlining the processes with automation as well as providing customised service where needed and preferred.

Many carriers must also consider taking steps to boost trust among stakeholders to strengthen retention and profitability. This can be achieved with more transparency and confidentiality in collecting and using data. Reinsurers can be more proactive in seeking comprehensive solutions to public problems.

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