MARKET PROFILE – EGYPT

Where has Egypt's reinsurance capacity gone?

Despite its strong growth in recent times, Egypt's insurance market still suffers from a lack of reinsurance capacity. We spoke to Chedid Re's Mr Joe Asmar to find out what's happening and what could be done to improve the situation.

By Amir Sadiq

The Egyptian insurance market has developed rapidly over the last few years, driven by economic growth, political stability, a rebound in tourism, shipping through the Suez Canal, exports supported by gas, agriculture and manufactured goods all supported by progressive regulations.

A sigma report by Swiss Re Institute in July said that Egypt was the fastest growing insurance market in MENA in 2021, showing the highest real growth rate of 10%.

The market's strong growth is likely to continue, with the Financial Regulatory Authority (FRA) hoping to double insurance penetration in the next four years as part of its drive to increase financial inclusiveness, according to FRA assistant to the chairman Hesham Ramadan in an interview with The Actuary earlier this year.

However, the exit and shuttering of several reinsurers in the market and the region has resulted in a shortage of reinsurance capacity.

The demand for reinsurance

Speaking to Middle East Insurance Review (MEIR), Chedid Re executive director Joe Asmar said that the demand for reinsurance capacity has been increasing for both conventional risks and new specialised ones.

"The pressing demand for reinsurance capacity is mainly for complex engineering risks, power plants and large complicated property risks. These risks require a detailed level of underwriting information and risk assessment reports which are not always available to enable underwriters to deploy their capacity," he said.

"Additionally, there is a need for capacity in casualty and financial lines, specifically for bankers blanket bond and directors and officers risks, in addition to credit insurance cover. Many capacities have withdrawn over the last couple of years due to unfavourable results.

"Moreover, the Egyptian insurance market needs capacity for emerging new risks such as agriculture, livestock and cyber, as well as for parametric solutions. These require a detailed level of information along with clear process and professional level of expertise."

Enticing reinsurers to the market

The simple and obvious solution to the lack of reinsurance capacity is to have large reinsurance players with regional or international expertise and capabilities to set up shop in Egypt. This is something Mr Asmar feels is possible with certain improvements to the industry's operating framework.

"Reinsurers have always enjoyed operating in the Egyptian market," he said. "Considering the potential future growth of the economy in the upcoming years, many reinsurers will continue to be attracted by the insurance market particularly if enhancements by the local authorities are applied to some of the rules, regulations and requirements of the industry."

He suggested several actions can be taken to achieve these improvements, including:

- Increasing the required capital of insurance companies and encouraging more mergers and acquisitions, which will result in more stable and capable companies along with a healthier competition
- Reviewing the requirements for reinsurers to be approved to operate in the market based on their rating, capital and country of registration
- Introducing new procedures for licensing direct and reinsurance brokers and not allowing others to operate locally
- Standardising reporting procedures and reserving practices constantly, improving compliance requirements, and strengthening risk management and internal audit for each insurance company
- Requiring all policies to be issued locally
- Imposing new obligatory coverages, for example, liability and professional indemnity for all corporate business and property all risk for all industrial business.

New reinsurer in the works

Earlier this year, MEIR reported that there are plans in the works to establish a reinsurer in Egypt that could serve the market as well as the wider region, that is also facing a shortage of reinsurance capacity.

To be established along the lines of Africa Reinsurance Company, the new reinsurer will have a minimum capital of EGP1bn ($63.6m). A study is already being conducted to examine the feasibility of establishing the new company and the new reinsurer is expected to bring in participation not only from Egypt but also from other Arab countries.

While the new reinsurer will be meant to serve the region, having it based in Egypt will still be a boon to the local market.

"During the last couple of years, many regional reinsurers ceased their operation due to various factors causing a drop in capacity on both treaty and facultative business. The local insurance companies had to find alternatives from the international market and from other regions to replace them," said Mr Asmar. "As such, there could be an opportunity with the current market's hardening situation to establish a new regional reinsurer based in Egypt."

The reinsurer will be expected to bring with it technical expertise, regional know-how, high service standards, new technology, training services and development of local talents.

Developing the right talents will be a crucial aspect of establishing a new reinsurer – the industry will need to groom a new generation of insurance professionals to face the challenges arising from digitalisation and the emergence of new risks like cyber and ESG requirements.

Insurance professionals with expertise in managing ESG requirements in particular will be required, with the Insurance Federation of Egypt having announced earlier this year that it is cooperating with the FRA to develop a sustainable strategy for the Egyptian insurance market.

Other developments

There have been suggestions that alternative risk transfer mechanisms such as insurance-linked securities (ILS) could help to address the lack of reinsurance capacity. Mr Asmar, however, does not see this as a viable solution due to the region's low Nat CAT exposure. Currently, the vast majority of ILS contracts are CAT bonds.

Another point of note, Mr Asmar said that there has recently been an increase in the number of established managing general agents that are acting as agent on behalf of reinsurers, particularly in DIFC, and who are supporting the region.