Reinsurance in MENA

Potential awaits Asian carriers

Capital infusion, closer Asia-Middle East economic ties and diversification strategies are some of the reasons behind Asian reinsurers' growing shares in MENA. **Mr Rainer Lehner** of **Asia Capital Reinsurance Group** looks at trends and opportunities awaiting these carriers.

The MENA region, including Iran and Turkey, has a total population of more than 360 million and generates a combined GDP of about US$3.3 trillion, close to 5% of the world's total. As an entity, the region would rank as the world's fifth largest economy, comparable with the German economy. At an inflation-adjusted growth rate of 4.2% per annum between 2007 and 2011, the region's economies outpaced the global average (3.3%).

Favourable dynamics supporting MENA (re)insurance growth

These macro-economic dynamics explain why, for domestic and foreign insurers and reinsurers alike, the region is an area of great opportunity. Between 2007 and 2011, total non-life and life premiums in the region expanded from about $26 billion to $42 billion, with the non-life sector accounting for 84% of the total. The six Gulf countries alone contribute more than $15 billion in total premiums. Insurance markets have grown significantly faster than the economy as a whole, at annual average real rates of 7.5% and 10% for the non-life and life sector, respectively.

However, the market's insurance penetration remains exceptionally low – premiums account for just 1.3% of GDP, a fifth of the global average, even though GDP per capita in the MENA region comes close to the global average. In other words: Whereas the MENA countries contribute 5% to global GDP, the share of insurance premiums is as small as 1%. This is probably the most powerful illustration of the region's insurance market potential.

The region's attractions from an insurance perspective go beyond its strong economic and associated direct insurance market growth. Favourable demographics – in most countries the average age of the population is below 30 – is another important strength, suggesting a major potential in personal lines such as motor, homeowner's property, life and pensions. In addition, a relatively moderate natural catastrophe exposure (in the Gulf region, the Levant and Egypt) translates into comparatively low and stable loss ratios. Last but not least, continued government spending

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on infrastructure projects – the projects pipeline in the Gulf region alone is worth more than $1 trillion – augurs well for commercial insurance.

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From a reinsurance perspective, the region is particularly attractive: Average cession rates come close to 40%, almost four times the global average. Exposure to natural disasters is limited, which explains why, for the purpose of portfolio diversification, so many international reinsurance companies seek to write business in the region – despite fierce competition and low levels of rates. And, last but not least, infrastructure and construction activities offer almost unparalleled opportunities.

Growing Asian reinsurers' share in MENA

Reinsurance capacity is predicted to rise further as the region continues to be perceived as an attractive high-growth, low-catastrophe market. However, the underlying structure of the region's reinsurance markets is shifting: According to the "GCC Reinsurance Barometer", published in September 2012 by the Qatar Financial Centre (QFC) Authority, the share of Arab and Asian capacity will continue to increase at the expense of the more established sources from Continental Europe, Bermuda and London.

For example, over the past 10 years or so, the QFC Authority estimates that the market share of Asian reinsurers in the region has grown to an estimated 15-20%, from virtually nil. This growth is a result of the broadening footprint of companies such as GIC of India (which has built a market-leading position), Korean Re, Malaysian Re and Asia Capital Re.

From a macro-economic perspective, it is reflective of continued strong capital formation in emerging Asia as well as ever closer economic ties between the Middle East and Asia: With a share of about 50% in total trade volumes (exports and imports), Asia is the most important trading partner of the Gulf countries. This compares with a share of Europe of less than 20%.

In addition, Asian reinsurers are particularly interested in expanding into the MENA region for the purpose of geographical diversification, a strategic approach that has become even more compelling in light of the natural catastrophe losses experienced in the Asia-Pacific region in 2011.

Asian reinsurers' participation in MENA set to increase

We clearly expect this trend to continue, if not accelerate. Asian reinsurers increasingly offer relevant technical expertise (including the ability to quote business), acceptable financial strength ratings and strong and recognised brands.

Players from Asia also tend to benefit from a higher physical and cultural proximity to clients. As young and flexible companies, they usually attach utmost importance to establishing a local presence and recruiting local teams. And, last but not least, their clients at home are making inroads into the MENA region, primary insurers from India and China in particular.

All in all, the MENA reinsurance markets are arguably undergoing a structural sea change. This development not only reflects changing client preferences but also the reality of a new global economic balance of power.

Mr Rainer Lehner is Senior Executive Officer, Dubai Branch Office, Asia Capital Reinsurance Group.