

GAIIF Daily

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Day 1



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GAIIF: Getting Arab Insurers Fit

We are here at the GAIIF Conference in Beirut. And in such exciting times.

So at this GAIIF, attendance aside, it's all about "Getting Arab Insurers Fit" for survival in this tough socio-political environment. The global economy is rudderless and the extremely competitive environment with low oil prices and persistent low interest rates depresses investment returns.

While the region's insurance industry continues to attract many newcomers, competition is intense and immediate prospects blurred. The market forces insurers to look at technical underwriting and the common refrain is for insurers to stop being risk traders and become risk carriers.

Can GAIIF, rising in Beirut despite the odds, provide the much-needed ambitious answers to such deep-seated challenges? Or is there

even a real solution or is the insurance industry bound to continue the holy grail of seeking that elusive and illusive right price for the risks assumed? Is there a burning cost for risks? Do the attendant variables to the burning cost derail the whole science of underwriting? Do clienting, client-appreciation, and relationship-discounts kill the scientific process of getting the right price?

And now with prices hitting rock bottom, the competition is on who can give the better services and terms.

So who can take on the cudgels to fight the good cause to get back to basics to Get Arab Insurers Fit? Must it be left to regulators? Or for that matter can regulators force a change?

In the fight to be fit, GAIIF as the regional Arab umbrella body can take the lead as it is well-entrenched in the market with its 300-odd members. And with a unified Arab industry voice, GAIIF can act to influence the Arab regulators to get together to look at harmonisation of policies and regulations. It is a tall order, bearing in mind how domestic a business insurance is. But if anyone can have an influence in this area, it has to be GAIIF.

But for that to happen, each and every GAIIF member must give priority and respect to GAIIF! And this must be done for the Arab insurers to get fit collectively beyond just their internal models and enterprise risk management schemes.

Each GAIIF member must itself start the gym regime to trim fat by being operationally lean and efficient on all fronts with every muscle – be it underwriting, building-expertise, embracing cutting-edged technology, innovating with new products, and being customer-centric on the claims – being fully toned and bulging.

Lastly, the reinsurance squad: can they be the first or last check on prices to keep the insurers fighting fit? Can they just walk away from every ill-priced risk? Is this a utopian dream or the very basis of a successful insurance business?

And so we beat back to reality wondering at the source of the capacity that returns in abundance, refreshed and ready to indulge in yet another binge of treats for clients.

Disruptive innovation has yet to hit. But it sure is coming, especially given how social the Arab society is on Social Media.

Watch this space!



Welcome to Beirut!

"We look forward to a successful conference as a continuation to the series of GAIF's General Conferences. This gathering is a translation for our dream to achieve the highest level of integration for the region's practitioners to maximise their benefits.



GAIF is growing in size and importance - the Arab league and Arab Economic Counsel recognise GAIF as one of the large institutions and we are looked at as a reliable voice of the Arab insurance providers.

Beirut is ready to welcome its guests from the regional and international insurance markets and the conference will be an opportunity for the Arab insurance society to meet, revive relationships and exchange experiences."

Mr Abdul Khaliq R Khalil,
Secretary General, GAIF

"The 2016 GAIF Conference is being held at a lovely time of the year in which to visit Beirut, and we have prepared a very interesting line up of topics which will be delivered by an excellent array of speakers.



I would like to give a special mention to ACAL's Secretary general Mr Jamil Harb and his team, and commend them for their great work in making this conference possible.

ACAL warmly welcomes all visitors to Beirut, and may you have an enjoyable and successful time here."

Mr Max Zaccar,
President, Association des Compagnies d'Assurances au Liban
(Insurance Companies Association of Lebanon)

"On behalf of the Federation of Egypt and the Egyptian insurance market, I would like to congratulate Mr Assaad Mirza, the representative of the Lebanese Market, for hosting again the GAIF 31st General Conference 2016 under the theme: 'The Future Challenges of the Arab Insurance and Reinsurance Companies'.



I welcome all the guests who have taken the initiative to gather in Beirut to attend the GAIF 31st Conference.

The conference is a good opportunity for delegates from all over the world to meet with their business partners and to engage with high-profile speakers and debate some of the important and controversial issues and challenges facing our industry today and to exchange ideas and experiences.

I sincerely hope that the conference is going to be very fruitful and successful for all participants."

Mr Abd El-Raouf Kotb,
Chairman, Insurance Federation of Egypt



Saluting the best

There are awards galore and then there is the Middle East Insurance Industry Awards. The market has heralded the Awards for its transparent process, clearly defined parameters and a distinguished panel of Judges drawn from the industry, plus it is independently audited.

Here are the distinguished winners who have been saluted by the industry in the first two editions of the Awards.

2014



2015



Entry deadline: 15 June 2016
Awards Judging: 3 October 2016
Gala Awards Dinner: 8 November 2016
Venue: Conrad Dubai

Categories at a glance

- Life Insurance Company of the Year
- General Insurance Company of the Year
- Health Insurance Company of the Year
- Family Takaful Company of the Year
- General Takaful Company of the Year
- Educational & Training Initiative of the Year
- Innovation of the Year
- Service Provider of the Year
- Corporate Risk Manager of the Year
- TPA of the Year
- Law Firm of the year
- Broker of the Year
- Reinsurance Broker of the Year
- Retakaful Company of the Year
- Reinsurance Company of the Year
- Personality of the Year

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Low oil prices, political instability test MENA insurance markets

A.M. Best reviews how the challenges of unrelenting low oil prices and persisting regional instability will likely dictate the operating landscape in the Middle East and North Africa (MENA) economies over the near to medium term, with repercussions for insurance markets across the region.

Though oil prices recovered slightly after reaching the lows of late January 2016, the upward trend has seen prices only recovering to nearly US\$40 per barrel (April 2016), and there are further potential headwinds including reduced levels of demand from emerging economies, increased shale oil extraction and Iran re-entering the market as a major supplier.

There is also a concern that further reductions in demand or increased supply could drive oil prices lower. The MENA economies displayed relatively strong levels of resilience to the 2008 global financial crisis, however, with oil production and refinement the foundation of most economies in the region, the impact and severity of a prolonged period of low hydrocarbon prices could be significantly more profound.

Managing risk in the long term

A.M. Best uses its country risk methodology and model to assess country-specific factors that influence the credit quality of insurers operating in a given country. A.M. Best separates the risks into three main categories: economic risk, political risk and financial system risk. Financial system risk is further divided into two sections: insurance risk and non-insurance financial system risk. The general increase in regional instability and persistence of low oil prices have elevated country risk levels for many MENA countries, though A.M. Best notes that the manner in which these issues have manifested has varied by country.

While the short-term impact of political instability and related economic and financial systems risks can be absorbed by most insurers in the region, longer-term exposure ultimately requires enhanced enterprise risk management capabilities and practices. Many insurers in the region that are rated by A.M. Best have successfully navigated these issues to date and have a pro-active and constantly evolving risk management approach.

Effective controls

Inflation assumptions are essential when setting premium rates for long-term policies and can also affect sum assured values over time. Additionally, claim and expense costs are often very sensitive to movements in inflation, with a shift outside of an insurer's expectation easily able to move technical operations from a profit to loss position. Furthermore, this type of environment creates additional risk and challenges for insurers when attempting to determine effective investment strategies.

In our opinion, understanding the risks of operating in nations with higher country risk tiers that involve currency fluctuations, illiquid

asset classes, investment market volatility, high inflation and business interruption, is only part of the challenge. The real test for an insurers' risk management approach is the strength and agility of the controls, practices and measures that it puts in place to prevent issues triggering earnings and capital volatility. And as well as having adequate measures and controls in place, the strongest insurers are those that go one step further and consider "what if" scenarios and create contingency plans that target the unexpected.

MENA insurers seem resilient enough

Determining the extent to which the profile, performance and balance sheet strength of local and regional insurers is likely to be impacted by low oil prices and continued political instability in the region over the medium term is not easy.

So far, those insurers rated by A.M. Best have displayed resilience to these challenging market conditions. Looking ahead, should the environment of low oil prices persist, it may dampen insurance growth and pressure earnings. A.M. Best believes the impact of these testing market conditions is unlikely to result in a sudden deterioration in market performance and as such will enable insurers to adapt their strategies as necessary. A.M. Best has also noted that largely, its rated insurers across the MENA region have good balance sheet strength, which enables them to absorb market deficiencies at least over the near to medium term.



A.M. Best delegation at GAIF (L-R)

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- **Nick Charteris-Black**, Managing Director, Market Development - EMEA
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- **Vasilis Katsipis**, General Manager, Market Development - MENA, South & Central Asia
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Reinsurance pulse

We asked reinsurance leaders in the region on what is the largest obstacle facing some of the reinsurers in the region.



"The MENA insurance market is growing at a very fast pace and hence attracting many foreign reinsurance companies to settle in the region. When compared with those global companies, local reinsurers have minor chances to stand their ground and acquire good business.

Currently, what makes matters worse is the fact that the A-rating requirement is becoming the norm in many regional markets -whether imposed by regulators or considered as a prerequisite by insurance companies' boards while choosing their panel of reinsurers. In the short to medium term and should this trend persist, it will impose a heavy burden on non-A rated Arab reinsurers and squeeze their margins even more."

Mr Ronald Chidiac,
Former General Manager,
Arab Re

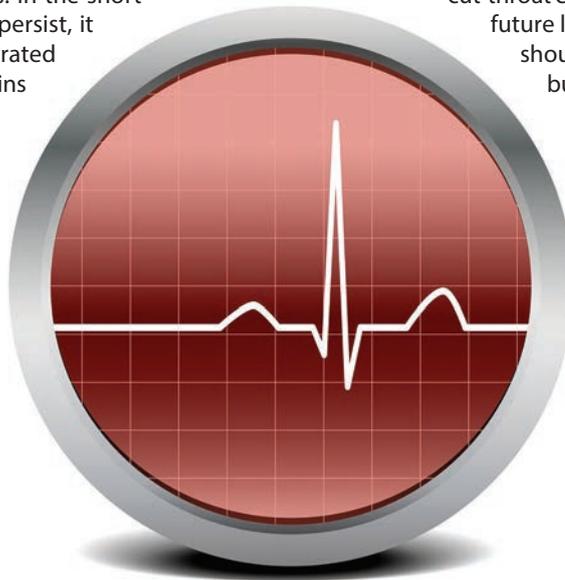
Of course, political instability and falling oil prices are also affecting FDI to the region, forcing investors to wait till the situation stabilises or look for other markets."

"Unlike the saturated markets of the many major Western Countries with stagnant growth, the MENA insurance markets have enjoyed faster premium growth than its GDP in the last decade and this attracted international and regional reinsurance capacity.

Although this gives a good opportunity to the buyers to enjoy huge capacity coming from different parts of the world, this excess reinsurance capacity is also putting pressure to the terms & conditions of the reinsurance programmes causing results to deteriorate in recent years. On the technical side, underpricing remains a large burden and we fear that the whole industry will see the negative effects of this cut-throat competition as the pricing is far off from covering future losses. In order to ride out the wave, companies should be seeking to diversity not only by territory but also by risk type and the focus should be on underwriting profit.



Mr Gökhan Aktaş,
Head of Foreign Inward Business,
Milli Re



GAIF facts & trivia

GAIF has more than **350** members.

GAIF marked its **golden jubilee** in **2014**

by hosting its biennial conference in Cairo where the grouping was founded.

Total premiums of 11 GAIF member countries rose **12%** on year to **US\$31.6 bln** in 2014.

Source: Swiss Re's sigma

Mr Abdul Khaliq R Khalil has been GAIF's **Secretary General** since 1998.

Top **3** GAIF markets by insurance penetration

Lebanon	3.3%
Morocco	3.2%
UAE	2.2%

Top **5** GAIF markets by gross premiums

