# FAIR DAILY

Day 2

Tuesday, 24 September 2019

Published by: Middle East Insurance Review

Sponsors: MIRABILIS Engineering Underwriting Managers; OMAN Re Reinsurance Protection Beyond Expectations

Media Partner: Asia Insurance Review


## Positive outlook for emerging market reinsurers with better cooperation

Emerging markets are expected to be the growth engine of global insurance, increasing their share of global premiums from 21% today to 34% by 2029, said Dr Schanz, Alms & Company partner Henner Alms during a panel on the mechanisms of cooperation among emerging markets and the relevance of intra-regional trade flows.

Expectations are similar for reinsurance, where emerging market premiums already account for 25% of the total, he said. However, the number of reinsurers originating from emerging markets is considerably smaller. While both S&P and AM Best list in their top 40 and top 50 ranking about 20% of reinsurers domiciled in emerging markets, most of these are based in markets no

*(Continued on page 2)*

(L-R): Messrs Oumar Ba, Hedi Hachicha, Youssef Fassi Fihri, Kamal Tabaja, Henner Alms

## Closing protection gap in Africa should be priority

Closing the protection gap in Africa should be a priority for insurers, said Swiss Re managing director, head of Middle East & Africa Beat Strebel. Outside countries such as Morocco, Namibia and South Africa, insurers face a massive challenge in the continent as the penetration rate remains below 1%, which leaves the great majority of people uninsured.

The insurance industry, however, has the necessary tools to close the gap, but viable partnerships are necessary, said Mr Strebel. Cooperation is needed between the various players in the ecosystem, including insurers, governments, regulators, technology firms and consultants.

### Start by building trust

The African market enjoys extraordinary development prospects, but insurers need to adapt to the market, and not the other way around, said Wafa Assurance director general Echchihab Slimane, noting that this is a main criticism the industry faces.

(L-R): Messrs Yosr Tazi (moderator), Echchihab Slimane, Beat Strebel and Omer Elamin

He added that insurers need to be closer to their clients and their needs. "There is potential, but the supply does not match the needs of clients."

Building confidence takes time, but insurers can benefit from the ecosystems that people trust such as banking, healthcare or telecommunications, said Mr Strebel. "The most important thing is to identify people's expectations and understand the community needs."

Orient Insurance group president Omer Elamin said insurers can benefit from the outreach which banks have been achieving. The bancassurance channel has been expanding notably in recent years, although there is still a need for close regulatory supervision, he said.

### Microinsurance to serve communities

Microinsurance is a viable tool as it touches people's lives and their economies, pointed out Mr Streble. He listed three A's as key drivers for microinsurance: awareness, accessibility and affordability. He added that using effective and efficient distribution means would help insurers achieve their goals in selling micoinsurance policies.

However, he said providers need to hit certain volumes to make up for the low premium base of microinsurance policies. Moreover, they need to implement digitisation and automation to control the cost of claims.

The best way for microinsurance to succeed is to simplify products as much as possible and minimise exclusions, said Mr Slimane.

# Global takaful contributions grew 4.3% to over $26bn: IFSB

Amidst the slowdown in the economic environment, rising inflation and exchange rate pressures, the total contributions of global takaful markets grew on average by 4.3% to about $26.1bn in 2017, according to the recently released IFSB Islamic Financial Services Industry Stability Report 2019.

The GCC remains the largest global takaful market with a contribution worth about $11.71bn, accounting for 45% of the total global takaful contributions, followed by the MENA region (ex-GCC) at 31%, South and Pacific Asia at 22% and sub-Saharan Africa at 2%, said the report. Country-wise, Iran, Malaysia, Saudi Arabia and the UAE are the major takaful markets, accounting for more than 87% of total contributions in 2017.

## Prospects in the GCC remain positive

The economic slowdown in the GCC countries stifled the growth of takaful contributions by 6.8%. The contraction in the general business in Saudi Arabia – the largest takaful market in the GCC – was the main cause of the drag on overall contributions, said the report.

The UAE has been fairly resilient in the face of the growth headwind, reporting an estimated double-digit growth of 13.2% in 2017, compared to Oman, Qatar and Bahrain with a modest growth of 9.0%, 8.5% and 4.2%, respectively. The sector has benefited from the increase in demand resulting from the introduction of compulsory cover in medical and liability businesses. General takaful made up 87% of the gross contributions in Kuwait, amounting to $276.4m. Motor and medical were the largest lines, controlling 40% and 22%, respectively. Meanwhile, the general takaful segment in Saudi Arabia and the UAE has benefitted from regulatory changes such as setting minimum pricing for motor insurance and the introduction of mandatory health insurance for workers. Oman is also implementing its mandatory health insurance scheme for private sector employees, including expatriates and visitors before end-2019.

Overall, the prospects for growth of the takaful sector in the GCC remain positive as takaful operators are realigning their strategic focus towards meeting the needs of the market. Governments' expansionary fiscal policies are expected to drive economic activities. In addition, a series of regulatory initiatives introduced in the sector is expected to drive the sector's growth and boost its attractiveness.

## MENA total contributions exceed $10bn

Total contributions in the takaful sector in the MENA region (ex-GCC) grew on average by 8.2% to $10.2bn in 2017. Countries in this region include Algeria, Egypt, Iran, Jordan, Palestine, Sudan, Tunisia and Turkey.

Iran, the largest market in MENA, grew by 2.5% to $7.9bn. In Jordan, the contribution is estimated to have grown by 3.4% to reach $88.86m in 2017. Sudan's takaful market registered an average growth rate of 18%, estimated at almost $450m.

Takaful in Turkey received a boost following the implementation of the participatory insurance regulatory framework. Takaful in Tunisia, Algeria and some other countries in the region remains in its nascent stage, but is growing steadily.

## Positive outlook for emerging market reinsurers with better cooperation *(from page 1)*

longer considered "emerging".

"African reinsurers who write business in other emerging markets focus mainly on Asia (50%), followed by the Middle East (40%). Asian reinsurers write even less business outside the region, and those who do so focus on the EU and US. Meanwhile, the bulk of premiums written by Middle East players stems from advanced markets," said Mr Alms.

In terms of regulation, Morocco has benefited from a more liberalised approach to doing business, said Société Centrale de Réassurance (SCR) CEO Youssef Fassi Fihri. "SCR has increased its scope geographically and is looking at new opportunities in financial lines. We need to find smart solutions to collaborate with African and Asian players. There needs to be an incentive to collaborate with international players," he said.

Having a strong financial strength rating would put African reinsurers in a better position to compete with major players, said Continental Reinsurance managing director, CIMA region Oumar Ba. However, there are many local companies which are not even rated, as most have a 'follower' mindset and have never considered getting rated a priority, he said, adding that those without a rating will only retain 5% of the business. But some companies are now opening their doors and increasing their transparency, he said, and this could eventually lead to earning a rating.

In the Middle East, the ongoing geopolitical and economic turmoil is posing a big challenge for reinsurers who are looking at approaching other markets, said Trust Re COO Kamal Tabaja. He called on regulators to have a deeper understanding of the challenges regional reinsurers are facing and to play a more proactive role to move the industry forward.

"Market restrictions protect policyholders. However, regulators also shelter the market from competition," said Scor chief underwriting officer, treaty P&C, Middle East & Africa Hedi Hachicha. "Competition is necessary. Otherwise, there will be distortion of prices." There are initiatives to integrate economies in the region and he called on providers to focus on closing the protection gap, adding that Scor is available to assist the market through the transfer of know-how.

# Protectionism in the FAIR region

**Rising protectionism is affecting the reinsurance sector in Asia and Africa. Oman Re CEO Romel Tabaja wonders if this phenomenon runs counter to FAIR's mission of promoting cooperation and business relations among its member countries – and whether the Federation can provide a platform for a solution.**

During the last decade, the regions under the umbrella of the Federation of the Afro-Asian Insurers & Reinsurers (FAIR) have witnessed an increasing trend of economic protectionism, in general, and more specifically in insurance. Governments have been taking action to limit the freedom of trade in the insurance sector, which by its very nature, has always been an international activity. The trade of insurance did not have a restricted provision until a few decades ago when Europe started to take action against the unrestricted provision of insurance and reinsurance. Protective barriers to trade in insurance and reinsurance are now obvious in the FAIR region.

## Protectionism as an economic term

Protectionism is a policy of protecting domestic industries against foreign competition by means of tariffs, subsidies, import quotas, or other restrictions or handicaps placed on the imports of foreign competitors. In other words, protectionism is the opposite of the economic ideology of free trade. Usually a protectionist policy is pursued to encourage domestic investment in specific industries and to protect local goods and services from foreign competition. However, this policy has its advantages and disadvantages, just like any other policy. Advantages can be lower imports and higher GDP, but the disadvantages can be an increase in prices, limited choices for consumers, less motivation to innovate and stagnation in the development of technology.

## Protectionism in (re)insurance: What does it mean?

Protectionism in (re)insurance has the same meaning and concept as explained above. The main aim of protectionism here is to encourage local investment in insurance and reduce the outflow of premiums abroad. Local authorities execute protectionism by various means. Here are some ways protectionist policies are applied in (re)insurance:

- Restrictions on foreign investments in the local (re)insurance industry, including disallowing branches of foreign companies;
- Local compulsory cessions and formation of local pools;
- Solvency advantages for locally registered and capitalised (re)insurance companies;
- Minimum levels of market retentions;
- Higher corporate taxes imposed on foreign (re)insurance;
- Compulsory registration of international reinsurers with strict solvency criteria; and
- Government assets insured only with national companies.

The above barriers are the main means of protectionism used worldwide, and recently in Asian and African FAIR member countries. Such barriers now exist in Malaysia, Indonesia, India, Turkey, Egypt, China, most of the GCC countries as well as being widely apparent in Africa, from north to south.

Whether protectionism is considered right or wrong as an economic policy depends on many factors. It can be right in certain circumstances and it can be wrong in others. The crux of this article, however, is not to condemn protectionism because it might be a good policy option for developing countries to a certain extent. Rather, the question here is: As an organisation, where does FAIR stand in light of increasing protectionist tendencies?

The Federation was established in 1964 to promote cooperation among insurance and reinsurance companies in Africa and Asia through the regular exchange of information, expertise and the development of business relations.

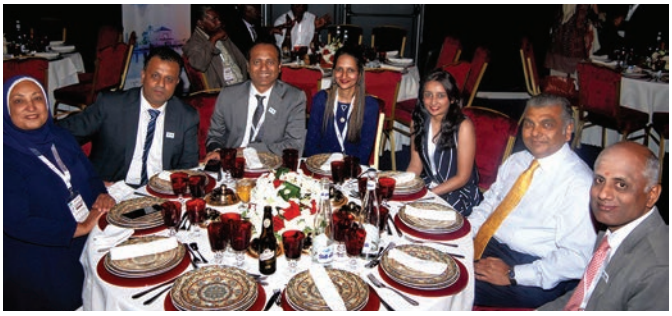
The crucial word here is 'cooperation'. This takes us to another question: Does protectionism negatively affect FAIR's mission? The answer is 'yes'. Protectionism increases the barriers between its members and hence lessens cooperation between them. It is more difficult for members to open insurance company branches in the FAIR member countries. The pools established by the organisation see less business because they cannot be registered in each and every country in Africa and Asia. Furthermore, there is less cooperation when it comes to reinsurance business because local capacity is given priority, which creates isolation from other FAIR members.

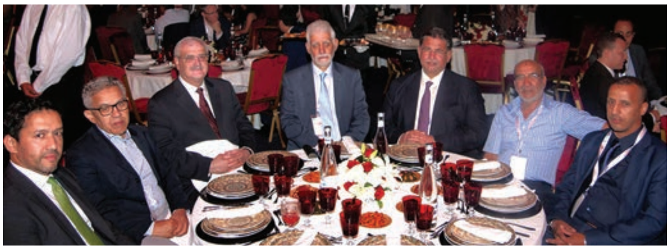
To sum up, the executive board of the Federation is urged to look seriously at protectionist policies between its member countries and to take an active role in the trade policy of (re)insurance among its members. FAIR members ought to have the privileges of free trade of (re)insurance in countries under the FAIR umbrella. Otherwise, one day the very ethos upon which FAIR was established – that of cooperation – will disappear.

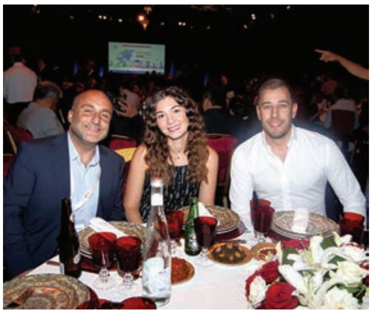
# Moroccan night

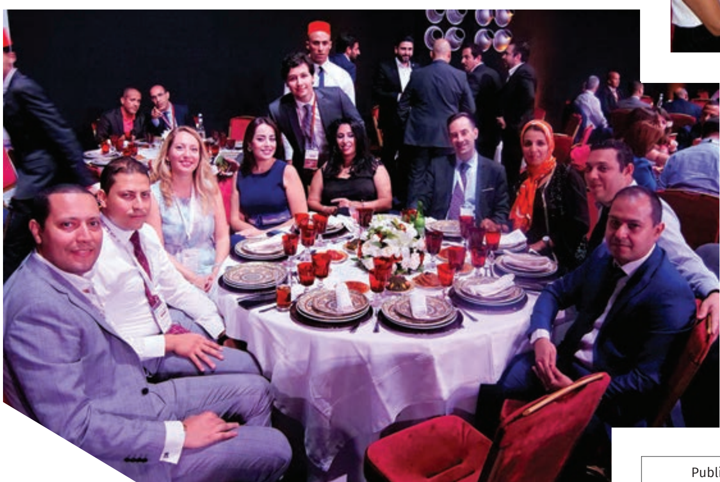
A traditional Moroccan gala dinner hosted by SCR at the Hotel du Golf rounded off the first day of the FAIR conference. Guests were treated to a feast of local delicacies, music and dance.

Dr Adel Mounir and Mr Youssef Fassi Fihri presenting the Hall of Fame award to Mr Yassir Albaharna for his contributions to the Federation









**FAIR Daily team:**
Sheela Suppiah-Raj • Osama Noor
Zuhara Yusoff • Cynthia Ang • Charles Chau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