FAIR DAILY

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Adapt global standards to suit local market

Mr Salvatore Orlando

The insurance industry has not been very innovative and dynamic over the years, said Partner Re head of P&C MEAR Salvatore Orlando during a panel session titled 'When innovation meets regulation'. "We have been able to provide nice profits for our shareholders, but when it comes to innovation, we have not really developed new products," he said.

But this will have to change as technology startups are disrupting many existing business models, with significant impact on the insurance industry. Most trends in the industry now are either technology-related or have technology as one of the drivers, he said, citing IoT as an example that has the potential to transform many parts of the insurance value chain over the next few years. Mr Orlando said the value chain of the future could probably include data owners such as Apple.

AM Best MENA, South & Central Asia general manager of market development Vasilis Katsipis who was the moderator asked the panellists if insurers and regulators have enough resources to handle innovative products.

"There are certainly enough resources for new products, but first you have to understand the needs of the market," said Mr Salvatore. "Innovation could come from the outside, for example from tech companies. The challenge is to overcome the competition from these tech companies as they are very strong in their field."

Mr Vasilis Katsipis

Another topic of discussion revolved around the challenges faced by the Moroccan insurance regulator ACAPS who is looking at implementing the risk-based solvency model in the local market.

"Risk-based solvency is a complex issue as it requires much effort and could take years to be deployed," said ACAPS secretary general Othman Khalil El Alamy. "We want a simplified version for our market. The idea is to implement a system inspired by international standards, but simplified and made relevant to the local market. We will take our time to do it right and provide companies with enough time for them to manage the transition smoothly."

Mr Othman Khalil El Alamy

Takaful and the new normal

Takaful providers have recently started to focus on new areas such as SMEs and become more efficient in taking advantage of technology to reduce their operational costs, said Mr Omar Gouda, regional director, North East Africa and Middle East Region, Africa Re. He said the increased use of technology and modern communication is a great opportunity for the takaful industry to reach new segments and minimise their costs.

Providers in the MENA region can learn from their peers in Asia, said Mr Essam Al Ansari, CEO Takaful, GIG Bahrain. He noted that the GCC takaful industry remains young and can learn from the Asian experience on how to expand the range of offerings, use new distribution tools and upgrade regulatory standards.

Mr Fadhel Al-Sabea, head of general treaty department, Hannover ReTakaful added that most takaful providers in the GCC focus on medical insurance while, in Asia, the bulk of business comes from family takaful. He added that there was an upsurge in the number of takaful providers in the region, but they lacked innovation and preferred to work in limited lines. He said they need to give more attention to personal lines with extra focus on products such as education and savings plans. Overall, he said, there is a need for M&A to create successful takaful entities that can make a difference in the industry across the region, noting that providers which are affiliated with larger groups or owned by banks are more profitable than others.

(L-R): Messrs Omar Gouda, Essam Al Ansari, Fadhel Al-Sabea, Christos Adamantiadis

Playing it efficiently

Mr Gouda urged operators to expand their target market as takaful is a suitable solution to Muslims and other communities. This, he added, will help reduce operators' expense ratio which is higher than that of conventional insurers.

Mr Al Ansari noted that providers need to revisit their strategies and consider direct selling to cut costs incurred when offering products through brokers.

The panellists agreed that there remains potential for takaful, but the coming year might still be challenging considering the volatile oil prices and the lack of socioeconomic and political stability in various parts of the region.

Better cooperation among regional industry bodies necessary

The opportunities and challenges the insurance industry faces in Asia and Africa are largely similar in many aspects. Also, considering the social and geopolitical similarities, it is necessary for regional insurance bodies to collaborate to help providers benefit from the resources in the Afro-Asian markets while serving their national economies.

By Osama Noor

Several insurance and reinsurance providers are members of the three largest regional (re)insurance bodies – African Insurance Organisation (AIO), Federation of Afro-Asian Insurers & Reinsurers (FAIR) and General Arab Insurance Federation (GAIF). Members of these three bodies from emerging countries have in common many issues or challenges that need to be addressed jointly to benefit from the available resources in their corresponding regions, said GAIF secretary general Chakib Abouzaid.

Two such issues are dealing with the widening protection gap and climate change, said Mr Abouzaid. "Our main focus should be on how to close the protection gap, and forecast and mitigate the consequences of climate change. Therefore, the three organisations should initiate collaboration in these areas. For example, Turkey and Algeria have excellent experiences in managing Nat CATs; Morocco has a drought scheme; and Ethiopia has also started a drought scheme. Nevertheless, many countries are not yet prepared for the Nat CAT challenge and/or to reduce the protection gap. Exchanging experiences and creating capacities (pools) will definitely be an excellent way to enhance cooperation between African, Arab and Asian countries."

The relatively low retention level due to small capital base and/or lack of technical expertise in some lines of business is another major challenge, said Mr Abouzaid. "Increasing regional capacities will increase the local retentions, especially with the implementation of the new solvency regulations."

FAIR secretary general Dr Adel Mounir said his organisation offers a success story in the field of creating pools for members to ensure the protection of interests and the generation of profits. "The FAIR pools and syndicate have been developing over the years, whether in terms of the size of income generated or the nature of their structure. An example is the energy syndicate, which has become the first of its kind to gain a rating, thereby expanding its range of business to new markets."

Integrating local reinsurance capacity

Reinsurance is a global business by definition; however, all (the emerging) markets are heavily relying on international markets, said Mr Abouzaid. "Even regional hubs like Singapore or the DIFC are channelling premiums to the head offices in London or continental Europe. More cooperation between Afro-Asian companies could create substantial capacity, but it is more important to improve the regional expertise for the highly technical lines of business and/or mega risks. This is not a new need; it was expressed more than 30 years ago by the United Nations Conference on Trade and Development (UNCTAD); but until now, with all due respect to our regional reinsurers, we have not been able to fill the gap."

Increasing insurance penetration and density

Insurance penetration and density reflect the level of a country's development, said Mr Abouzaid. In some member countries, the penetration remains below 1% and the density does not exceed $50. He added that the level of penetration and density are increasing in other countries because of compulsory insurance. "Initiatives such as microinsurance (in India, Sri Lanka, Indonesia) and takaful are bringing new populations to insurance. Using 'top-up' cards for medical or linking insurance to fertiliser suppliers for farmers (in Kenya) are also possible ways to improve the penetration. Our markets should seriously consider implementing such initiatives to promote insurance; and this is the role of our three organisations," he said.

Investing in education

FAIR is in the process of launching its FAIR online academy to enhance the human capacity in the region. "Pooling knowledge from several regions would definitely enrich the accumulation of experiences. We have started thinking of cooperating with regional bodies to hold joint seminars which address common issues facing the Afro-Asian providers. Aside from the exposure participants will gain, holding joint events will build stronger bonds of cooperation and open the door to a wider exchange of business," said Dr Mounir.

Mr Abouzaid said while there are educational institutions with excellent curricula and reputation in countries such as Singapore, India, Malaysia, Lebanon, Tunisia, Algeria Morocco, Egypt and South Africa, "in other countries, especially the GCC countries, we lack skilled local talent. Therefore, a regional education exchange platform could be a good initiative to group educational institutions in the Afro-Asian zone. Investing in education is key; our three organisations should make this their credo."

There are many ways these organisations can collaborate to address untapped insurance potential, said Insurance Federation of Egypt chairman Alaa El-Zoheiry. "The starting point could be a meeting of all three bodies to figure out the right track of cooperation. This could only happen if the responsible leaders of these organisations really have the will to do so."

Looking for a stronger role

Mr El-Zoheiry said, "Besides expanding GWP for their members, insurance and reinsurance organisations develop their insurance markets by providing knowledge, know-how, pooling and capacity building, unifying policies, problem-solving among the members and providing collectively statistics of the different members and countries."

Though each organisation can do more for its members, collaborative efforts of these organisations have not been initiated. To kick things off, "each organisation could have its own technical committees to identify areas of cooperation, determine gaps that need to be filled, define an underwriting philosophy that can be adapted in these regions, enhance members' bottom lines, and finally find topics that can be discussed during the different conferences held by these organisations".

Reinsurance: Trends and outlook

Industry players weigh in on the state of the MENA reinsurance sector.

"To remain sustainable, Middle Eastern reinsurers need to ensure they have robust technical prices for all their risks. Reinsurers need to understand how the prices they are bringing to their books compare to the technical price, and if they are sufficient for their risk appetite given the portfolio profitability they are aiming for. They also need to be prepared to walk away from loss-making business."

Ms Laura Barella, director, head of actuarial services, **PwC Middle East**

"Insurers are increasingly demanding high quality reinsurance that provides continuity, certainty, predictability and added value. In the context of some regional reinsurers stopping to write new business or being engaged in managing their situation, complemented by contracted capacities in some lines from some reinsurance providers, the demand for capacity is inclined to increase. As some regional economies are struggling, some companies may also see challenges to achieve sufficient technical profitability which as a consequence may give an impetus to a change in reinsurance terms at the forthcoming 1/1 renewals."

Mr Andreas Pollmann, client management executive, MENA, **Munich Re**

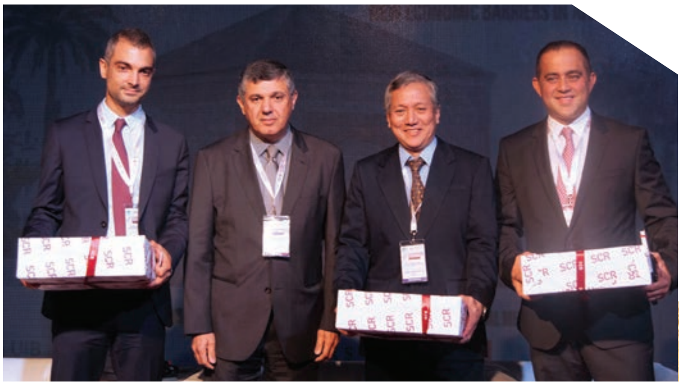
"The July renewals saw an interesting approach from MENA reinsurers. On the treaty side, there were no significant or major changes. The market is still competitive and most of the treaty contracts were renewed at expiring terms and conditions. The facultative side saw very different outcomes. Most lines of business that were renewing in July saw changes in terms and conditions, with increases in pricing in downstream energy, engineering and property of 10% to 15% for loss-free accounts. This trend is expected to continue, especially following major claims from recent losses from a refinery in the US and on the energy side in Algeria. The frequency of such claims will help to fuel further increase in terms and conditions for 1/1 renewals."

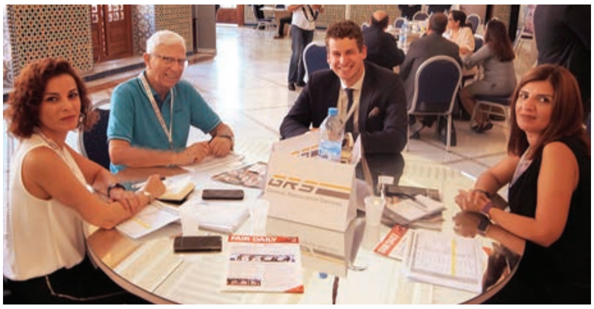
Mr Henri Labat, senior executive officer,
International General Insurance Company (Dubai)

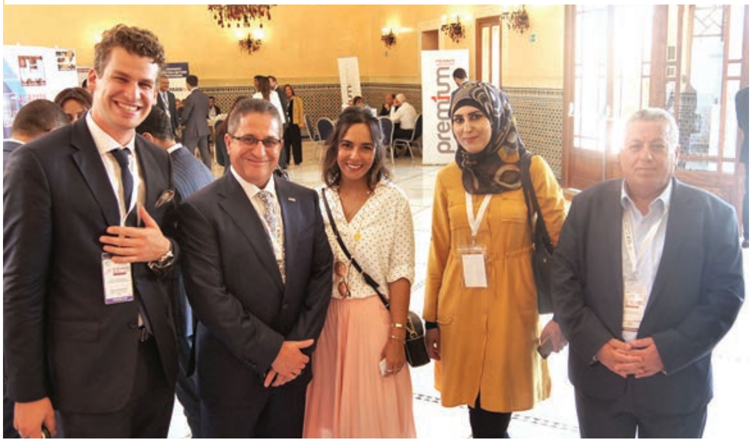
"Regulators have been very efficient in regulating the market by implementing targeted measures such as actuarial pricing and reserving or new solvency regimes. The increased regulation in MENA is a good thing, especially the upcoming introduction of risk-based solvency and compulsory coverage to reduce the protection gap, protect low-income populations and develop societies. The risk-based solvency regimes should continue to stimulate the formation and expansion of local regional champions, reducing the protection gap and the fragmentation of markets. Sound regulation with a strong regulator are prerequisites to ensure a sustainable insurance sector."

Mr Hedi Hachicha, chief underwriting officer,
Treaty P&C, Middle East & Africa, **Scor**

FAIR snapshots







UAE to host its first FAIR gathering in 2021

The UAE will be hosting the 27th FAIR General Conference in 2021, said the Executive Board of FAIR at its meeting in Marrakech earlier this week. This will be the first time for the UAE to welcome the event and it will make it the second GCC country to host it after Bahrain where the 25th Conference was held in 2017.

Mr Mohammed Mazhar Hamadeh, member of the FAIR executive board steering committee, and general manager of Al Ain Ahlia Insurance Co, said "We are positive that it will be a memorable event that will strengthen our relationships as an organisation and be a great opportunity to meet our friends and partners again in one of the distinctive regional markets. Welcome to the UAE and see you in 2021."

Mr Mohammed Mazhar Hamadeh

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