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FAIR Daily

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Welcome to Abu Dhabi

FAIR chairman
Alaa El-Zoheiry

The FAIR organisation has a great history in paving the road for collaboration among its members. The Federation's role extends to allow some reinsurance capacity building through its different pools such as Nat CAT, aviation and energy.

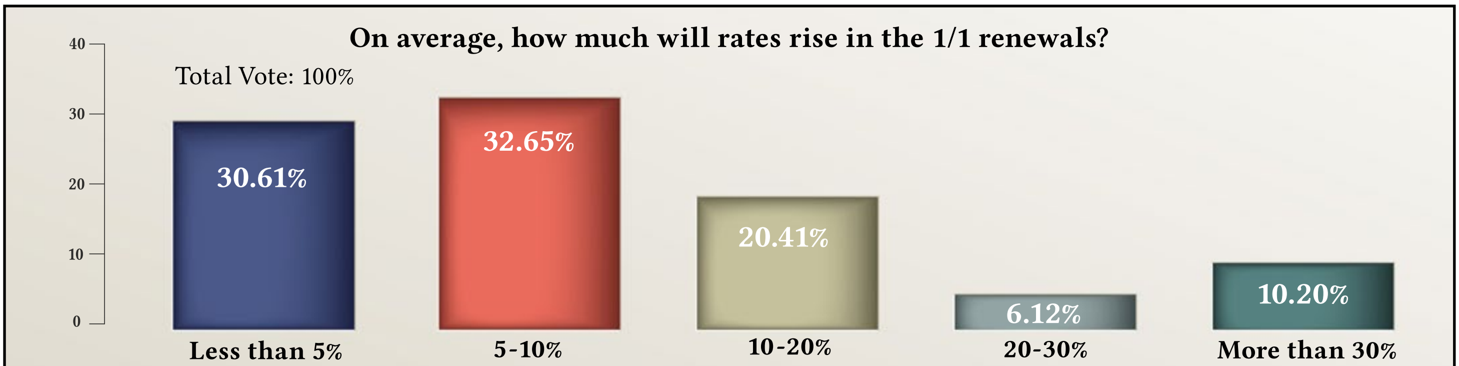
Efforts by our prestigious organisation include a weekly newsletter that provides insights not only on the Afro-Asian markets but also on all international insurance and reinsurance markets. The Federation also organises knowledge sessions through its conferences.

We are very pleased to have the FAIR Conference and the General Assembly this year at Abu Dhabi in the heart of the UAE. The country has provided all required arrangements to ensure full success for such an important conference.

Distinguished speakers are going to discuss and answer a very valid question: Will the hardening of the reinsurance cycle sustain? It is a question that most of those who work in the insurance market are trying to answer as it depends on a lot of complicated factors.

In my capacity as chairman of the FAIR organisation, I am very honoured to welcome all delegates and guests from all over the world and hope they enjoy their stay in beautiful Abu Dhabi.

I also wish for success to the conference and to our friends and colleagues at the Emirates Insurance Association. Enjoy your stay and looking forward to welcoming all of you in person.



This infographic was produced by surveying *Middle East Insurance Review*'s website users.

Positive outlook for reinsurers in the Middle East

Reinsurers in the Middle East have seen a positive turnaround with strong return on equity as a combination of improvement in underwriting results and high investment income. M&A activity has reported to have increased, along with a growing awareness on the importance of Nat CAT pools in the region. **Oman Re**'s **Mr Khaled Nouiri** tells us more.

With the hardening of the reinsurance market since 1H2022, reinsurance buyers are giving more importance to strengthening relationships with their reinsurance panel and investing in new relationships with fresh reinsurers to maximise their options.

This led to creating opportunities for growing regional reinsurers to establish new business relationships while large reinsurance companies focused on improving reinsurance terms and pricing on their large pool of customer base.

Most of the reinsurance companies managed to improve their underwriting results over the past two years despite worldwide increase in both Nat CAT and claims inflation.

During the same period, reinsurance companies had to rebalance their investment portfolios, considering a worldwide increase in interest rates and the volatility in the stock markets.

In 2022, investment returns of reinsurers were largely affected by unrealized fair value losses on their investment assets primarily, bond portfolio.

However, the 'higher for longer' interest rates suit reinsurance companies with a shorter duration bond portfolio as they are expected to see substantial rise in their investment income from 2023 onwards once they reinvest their matured assets at higher yields.

Mr Khaled Nouiri

Overall, 2023 was quite positive for reinsurers, with strong return on equities as a combination of improvement in underwriting results and strong investment income.

Widely stable (re)insurance conditions

Domiciled reinsurers in the MENA region are benefiting from the hard market conditions and improved pricing in recent years and that was reflected in their double-digit top line growth and improved underwriting and financial performances.

On other hand, reinsurance capacity remains abundant in the MENA region for most P&C lines of businesses despite a material increase in retrocession cost of regional reinsurers since 2021.

Retrocession costs are expected to further increase in 2024, especially for claim-affected programs.

In terms of claims activity in the MENA region, there were two major earthquakes in 2023: the Turkey-Syria earthquake with an insured loss estimated at $4.9bn and the Marrakesh-Safi earthquake with economic losses over $300m and insured loss not exceeding $100m.

Additionally, an unfortunate major flash flood loss destroyed a large part of Derna City in Libya causing the loss of more than 10,000 lives and to worsen things, assets were largely not insured.

The frequency of flash flood in the GCC region also increased in recent years with varying insured losses.

In our opinion, the above factors and the persistent hard market conditions of the global (re)insurance market will result in widely stable reinsurance terms and conditions in 2024, since most of the corrective adjustment have been implemented in the previous years.

In terms of pricing, we expect gradual stabilisation of risk adjusted premium rates in 1H2024, with possible rate decreases on lines of business with oversupply of capacity such casualty facultative placements.

With the ongoing armed conflicts in MENA region, political violence (PV) and war risk cover would also be expected to be restricted and/or witness material increases in pricing for marine, aviation and PV policies.

As always and despite the abundant capacities, loss affected reinsurance programs and facultative accounts will continue to be penalised in 2024.

Mr Khaled Nouiri is COO at Oman Re.

Squeezing reinsurance margins not a sustainable tactic to lower price of risk

Collaboration is essential in overcoming the existential problems posed by climate change. We spoke to **Hannover Re**'s **Mr Jean-Jacques Henchoz** to find out more about how the reinsurer is growing and adapting to market dynamics.

By Paul McNamara

Hannover Re chairman of the executive board Jean-Jacques Henchoz discussed recent performance, the year ahead and possible outcomes from the upcoming 1/1 renewals with us.

Mr Henchoz sees the trends of 2023 continuing.

"We've seen already a shift in the retention levels on the property CAT business in 2023," said Mr Henchoz. "We've seen this strikingly in the US market, a little bit in Europe and in the CAT-prone territories in Asia. There might be some more moves, although I've seen many clients in the past couple of months who are very worried about managing their own volatility. They will be keen either to keep the retentions as they are or, in some individual cases, try to find a way to manage their volatility of earnings.

"The reinsurance industry globally wanted the increase in retention to be part of the mix in that reset so that there is more balance in who is taking some of the volatility. Frankly, some of these lower CAT layers were chronically underpriced from our perspective. Instead of trading dollars, it's sometimes best to have a higher retention," he said.

This can lead to creative solutions.

"In some instances, you can work with non-traditional structures, multi-year structures designed to smoothen the volatility in these layers," said Mr Henchoz. "This is something we look at, but generally we'll continue to insist on having a suitable level of retention on the business.

"I hope that globally we'll be able to continue the momentum on terms and conditions in casualty. Here, we're probably more concerned about the US market than Asian or European markets, but still in some geographies there is quite some litigation. The inflationary pressure is there, and we need to make sure that the pricing reflects expected inflation. We'll have a lot of focus on these aspects as well," he said.

Mr Henchoz is approaching the renewals season with his eyes wide open. "In terms of pure reinsurance renewals, 2024 will be a year where we'll look very carefully at terms and conditions," he said. "There'll be a lot of discussions on the wordings and structures. This year was more about rate adequacy, but you see a lot of nitty gritty discussions on the clarity of wordings, clear sub-limits, event definitions, some exclusions in some cases like silent cyber exposures. That will be at the centre of discussions for the 2024 renewals.

"All in all, 2024 is likely to be similar to 2023 because that need for sustainable earnings remains the driving factor for the industry and we're not yet there. There is no significant capital entering the system at this stage. The capacity available may meet the needs at a certain price, but there is no significant excess capacity covering the future needs. That drives the dynamics in the market and is likely to stay that way in 2024.

Uninsurable versus unaffordable

Does Mr Henchoz foresee a time when some business lines or geographies become uninsurable?

"This is a very significant issue and an issue of concern to me," he said. "Climate change is a reality which needs to be taken very seriously. To make these exposures insurable, you need to look into Nat CAT prevention aspects. You need to look into building codes. Can they withstand heavy winds? Are we still building in flood zones? Are the building standards being applied to sustain earthquake shocks? A lot of discussion is needed on climate change adaptation. From my perspective, this is a discussion which is too slow in the dialogue with the governments."

Health insurance in North Africa

Healthcare is receiving increasing attention from governments and individuals in the Middle East. Although there is a variation in the strategies adopted by each country, a common denominator is the growing role played by the insurance sector in providing the required coverages and the potential expansion of this role.

By Osama Noor

In the Arab region, the GCC states have led the trend towards privatising health insurance and assigning the role of providing it to private insurance companies.

Compulsory health insurance coverage has expanded to include the local population through special programmes. Apart from compulsory health insurance, the health insurance line premiums of insurance companies operating in the GCC are estimated at more than $16bn in 2022.

Despite this, other countries in the MENA region are far from adopting similar policies in imposing compulsory health insurance by involving private insurance companies. This may be attributed to the demographic structure of each Middle East market. While expats constitute the majority of the population of the GCC, the citizens of the Levant and North Africa constitute the absolute majority of its population (for example, Egyptians make up over 95% of the country's population while the local population of the UAE is close to 10%). This, in turn, forces governments to adopt different policies based on the principle of providing free or largely subsidised healthcare protection for their citizens.

Another factor that stands in the way of involving insurance companies in the compulsory health insurance system on a large scale in North Africa may be the level of per capita income, which is less than that of the GCC countries.

In general, health insurance premiums for North African countries have grown steadily over the past years – mainly propelled by poor public healthcare services where certain segments of population opt to seek services from the private sector. However, the proportion of health insurance premiums out of the markets' GWP is not as large as the GCC. For instance, health insurance business in Egypt accounts for less than 10% of the market GWP against around 40% in the UAE.

Morocco's AMO

There is a special healthcare insurance system in Morocco, the Mandatory Health Insurance (AMO), which provides basic mandatory medical coverage and guarantees universal access to health care. AMO aims to offer equal and fair access to healthcare to the entire population within the principle of collective and joint responsibility for health expenses.

This basic mandatory health insurance is based on the contributory principle and on the mutualisation of risks without discrimination.

At the same time, the regulator in Morocco has put in place a system where supplementary health insurance as an option that complements basic medical coverage, which is defined as 'a guarantee that allows you to improve your medical coverage and reduce your out-of-pocket expenses'.

According to the Social Security Supervisory Authority, health insurance premiums accounted for around 8% of the market operations in 2022.

Tunisia as a case

The Tunisian National Health Insurance Fund makes sure that citizens and residents in Tunisia have access to healthcare coverage.

Generally, the health system in Tunisia provides comprehensive coverage for citizens ranging from treatment and medication, work accidents, maternity leave and others. The fund offers subscribers three plans of enrolments, each offering different services either limited to the public sector, private or mixed plan.

Hence, the fund is open to serving citizens in the private healthcare facilities, which makes it more convenient to its member. Yet, some citizens seek to benefit from a wider range of health services, therefore seek to buy complementary health insurance from one of the private insurers.

Health insurance premiums in Tunisia, mainly focused on group health insurance, accounted for around 15% of the market GWP in 2021.

The future

Generally, the healthcare sector in North Africa has witnessed a strong government intervention, which might put pressure on the insurance industry's ability to expand in certain health insurance offerings. State intervention will curb other stakeholders, including insurers and healthcare service providers, from achieving excessive profit at the expense of delivering fair healthcare services.

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