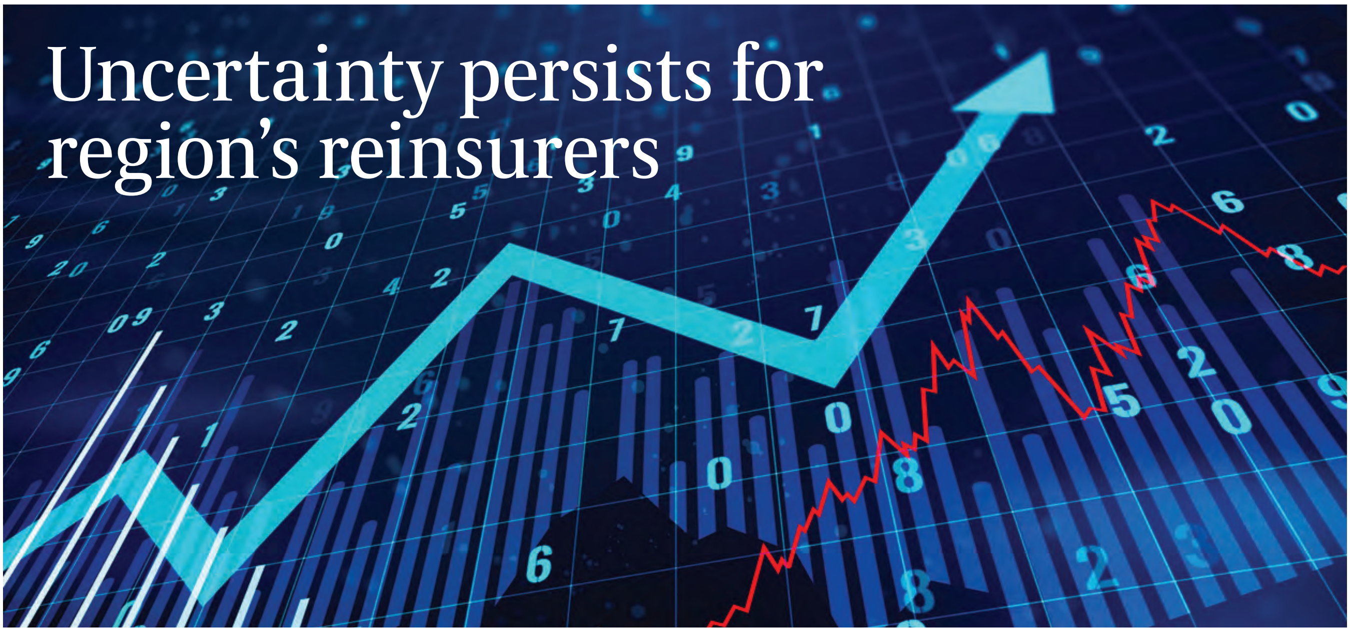

Uncertainty persists for region's reinsurers

The fact that the effect of the pandemic has not been fully reflected on the economy strongly points to a highly volatile and challenging marketplace for the upcoming 1 January renewals, says **Milli Re** general manager **Fikret Utku Özdemir**.

By Zuhara Yusoff

Mr Fikret Utku Özdemir

GCC insurers have been facing various challenges on profitability as interest rate reductions imposed by central banks across the region, combined with weaker equity markets and a potential fall in real estate values are expected to create a heavy burden on investment income, said Mr Özdemir. In addition to this, lower premiums will accelerate the already intense competition in the GCC insurance markets.

The coronavirus outbreak, compounded with the drastic fall in oil prices, is weighing heavily on economic growth in the MENA region, he noted. The sharp slowdown in economic activity will evidently reduce the volume of insurable assets and activities, which will have a negative impact on the insurance sector.

"During a time when financial activity has slowed down to such an extent, payments made for COVID-19-related claims have resulted in serious consequences in the balance sheets of market players in most developed countries," he said.

"Reinsurers operating in these markets are expected to see a fall in premiums as claims increase, and as a result, they will try to tighten terms and conditions to achieve underwriting profit. However, it is worth noting that COVID-19-related claims have had limited impact in this region since the lines of business affected by the pandemic in the West are less developed in emerging markets, including MENA."

In the face of increased competition and pricing pressure in the MENA region, reinsurers may find it challenging to hike up reinsurance prices to balance their retrocession costs, said Mr Özdemir. "If the prices cannot be adjusted properly, it may create additional pressure on the profitability and the balance sheets of retro market players."

Furthermore, he said the current crisis will potentially increase delays in the recovery of insurance and reinsurance receivables, which insurers hold in large volumes on their balance sheets, hence further hitting their profitability and capital.

Renewals

Mr Özdemir said the January 2020 renewals saw a more disciplined approach in the sector, with adjustments of terms such as reduction in commission levels working in favour of reinsurers.

The global hardening is expected to have an impact on the region, affecting reinsurance pricing and technical profitability. On the other hand, pressure on financial markets as a result of the distressed global economy will continue to linger and fuel volatility in terms of investment income. For these reasons, he expects the upcoming renewals to be very challenging.

"The fact that the effect of the pandemic has not been fully reflected on the economy strongly points to a highly volatile and challenging marketplace for the upcoming 1 January renewals," he said.

"One of the important developments we witnessed during the mid-year renewals was the exclusion of pandemic/epidemic in the majority of the business we participate. We have also seen some modifications in business interruption/contingent business interruption conditions in favour of reinsurers such as linking such covers to physical/material damage.

"In addition, the wide range of projected COVID-19 losses, combined with underlying issues of prevailing competitive rating environment, as well as loss creep which resulted in an increased focus on underwriting profitability are the other key drivers of market hardening. Nevertheless, I expect reinsurers to maintain a similar approach at the last couple of renewals, whereby they varied the terms and conditions in view of factors such as territory, lines of business and historical performance."

In terms of re-evaluating pricing adequacy and risk exposures, Mr Özdemir said reinsurers will focus on a clearer scope of cover, especially in terms of communicable diseases and other emerging perils. "We expect catastrophe programmes that cover 'all perils' to go back to named perils basis. Any contagious disease exclusion recently introduced could become retroactively applicable to exposures carried in respect of previous underwriting years," he said.

Opportunities

Mr Özdemir noted that the economic and political issues facing the region, including the plummeting of investments coupled with large risk losses, poor pricing and excess capacity have put additional stress on many of the insurance and reinsurance companies, leading to rating downgrades of some regional reinsurers and the downsizing of operations of some Lloyd's syndicates. Despite these developments, he believes the region continues to attract capacity due to its low insurance penetration as well as the fact that it is less exposed to natural catastrophes.

He said, "COVID-19 is an unprecedented event for the reinsurance environment because it impacts both sides of the balance sheet: the asset side, where investment portfolios will be slow to recover, and the liability side due to long tail large number of unquantifiable losses.

"Despite these challenges, the pandemic brings about an opportunity to improve the underwriting process and risk assessment. It also offers the sector the chance to demonstrate its ability to provide cover and indemnification for the losses.

"In addition, as seen by the recent establishment of numerous pandemic-related collaborative (re)insurance schemes around the world, the importance of risk transfer has been underlined during this crisis. This is instrumental in increasing public awareness of insurance, and consequently, increase penetration rates, especially in emerging markets."

InsurTech to transform sector

Incumbents can reduce their in-house risks and have their use cases addressed quickly by taking them to InsurTech startups, says **DIFC Authority** CEO **Arif Amiri.**

The DIFC announced in June that its reinsurance sector grew by 17.4% to nearly $2bn in premiums, representing the highest volume of premiums ever written in the market. GWP for 1Q2020 reached $472m, on par with 1Q2019.

Based on the 1Q2020 performance, Mr Amiri expects GWP to continue on this upward trend. He said, "Like other industries, the insurance and reinsurance sector will be reviewing its response to the pandemic. Going forward, the sector will see how best to address protection for assets, projects and businesses. Inclusions may see premiums increase."

Mr Amiri also noted the accelerated adoption of technology within the sector as a result of the pandemic. Describing this development as "transforming", he said, "Over the last few years, we have seen the reinsurance industry embrace technology. Whilst there is a need to keep some traditional methods and processes in the industry, adopting new technology and efficiency in underwriting, claims management and brokering is coming to the fore.

"DIFC is focused on shaping the future of finance through innovation, digitalisation and collaboration. This will be achieved by equipping the next generation of talent with the skills and foresight to deliver large-scale changes in the sector. Additionally, providing an enabling platform and a dynamic environment with forward-looking laws and regulations will encourage growth."

Stressing the importance of InsurTech as a catalyst for change in the insurance industry, he said, "InsurTech is currently leading the rapid transformation of the insurance and reinsurance sector. Established firms can reduce their in-house risks and have their use cases addressed more quickly by taking them to InsurTech startups."

Singling out Addenda, a DIFC-based startup from the second cohort of the FinTech Hive accelerator programme, Mr Amiri noted how the company had reached a significant milestone in its growth, having successfully signed up five major regional insurers, including a takaful operator, to its integrated blockchain platform.

"This achievement reaffirms the DIFC's status as an ideal base for InsurTechs to thrive and transform the insurance sector, shaping the future of finance in MEASA," he said.