Perspectives

Insurance Markets in the Middle East and North Africa

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Introduction

The global insurance industry shrank at a rate of 1.1 percent in 2009 to USD 4,066 billion, which consisted of USD 2,332 billion of life insurance premiums and USD 1,735 billion of non-life premiums (SwissRe 2010). This poor performance is because the major industrialized economies are still in recovery after the global financial crisis. Emerging markets have grown, albeit at slower rates. Yet that growth was not sufficient to compensate for the shrinkage in many developed economies. The Middle East and Central Asia expanded at a rate of 3.4 percent in 2009 (still a far cry from the 9.6 percent in 2007). Emerging markets overall grew at a rate of 3.5 percent (lower than the 11 percent witnessed in 2008).

The average ratio of premiums to GDP (penetration ratios) is 6.98 percent for the world; it is 8.61 percent for industrialized countries and 2.89 percent for emerging markets. Penetration ratios in emerging markets are below world average, pointing up the potential of huge growth in the industry in these markets.

This report will focus on the Middle East and North Africa (MENA) markets. Turkey is included in the study as a benchmark case, mainly due to its proximity to the MENA region and some of the perceived similarities between Turkey and some of the countries in the region.

The Turkish insurance industry has been revamping itself in an effort to converge to EU standards, in the hope of joining the EU at some point in the future. Hence there is great interest in the development of the Turkish market and the opportunities it represents to the industry. Meanwhile many MENA regulators have been reforming their insurance laws and attempting to invigorate their local industries.

Insurance Markets in MENA

The insurance industry in MENA is still in its infancy, despite having a long history in some countries in the region. The premiums in MENA are roughly 0.46 percent (0.65 percent when Turkey is included) of total world premiums, and the contribution of the industry to the GDP of the region is small by international standards - see Figure 01. This indicates that insurance is not yet used as a vehicle for savings and financing investments.

Lebanon and Morocco have both the highest overall and life penetration ratios. In non-life insurance Lebanon still takes the lead, followed by Jordan and the UAE.

Figure 02 presents each country’s contribution to the region’s insurance market in USD. Turkey has by far has the lion’s share at 30 percent (down from 38 percent in 2007) and premiums of USD 7,853 million; followed by the UAE at 19 percent with USD 5,113 million and Saudi Arabia at 15 percent with USD 3,896 million. Morocco also has a sizeable market of 10 percent with USD 2,583 million.

The rankings remain the same for the non-life market (see Figure 03 with Turkey possessing 31 percent (down from 40 percent in 2007) of the market, followed by the UAE and Saudi Arabia with shares of 20 percent and 17 percent respectively. Morocco possesses eight percent of the non-life market. The decline in the Turkish share of this market is due to the high growth in premiums in the GCC, especially in Saudi Arabia.

In the life insurance market the picture starts to look a little different. Turkey is still the market leader with 26 percent of the market followed by Morocco at 19 percent and then the UAE and Egypt each at 16 percent. Figure 04 shows the market share for each country.

The domestic insurance markets are characterized by the presence of many companies competing in small markets. However, strong industrywide growth, prosperity due to sustained high oil prices, and flourishing incomes all point to the advantages of participation in this region.
Figure 01. MENA Insurance Penetration %

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Business</th>
<th>Life</th>
<th>Non-Life</th>
</tr>
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<tr>
<td>Algeria</td>
<td>0.6</td>
<td>0.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Bahrain</td>
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<td>0.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.8</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Jordan</td>
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<td>0.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Kuwait</td>
<td>0.5</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Lebanon</td>
<td>3.1</td>
<td>0.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Morocco</td>
<td>2.8</td>
<td>0.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Oman</td>
<td>1.2</td>
<td>0.2</td>
<td>1.0</td>
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<tr>
<td>Qatar</td>
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<td>0.8</td>
</tr>
<tr>
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<td>0.9</td>
</tr>
<tr>
<td>Tunisia</td>
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<td>1.7</td>
</tr>
<tr>
<td>UAE</td>
<td>2.5</td>
<td>0.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>1.3</td>
<td>0.2</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: Towers Watson based on data from Swiss Re (2010)

Figure 02. MENA - Total Premiums by Country for 2009

USD million

0  1000  2000  3000  4000  5000  6000  7000  8000  9000

Turkey
UAE
Saudi Arabia
Morocco
Egypt
Lebanon
Algeria
Qatar
Tunisia
Oman
Jordan
Bahrain
Kuwait

Source: Towers Watson based on data from Swiss Re (2010)
Figure 03. MENA - Non-Life Premiums by Country for 2009

Turkey
UAE
Saudi Arabia
Morocco
Egypt
Qatar
Algeria
Lebanon
Tunisia
Oman
Jordan
Kuwait
Bahrain

Source: Towers Watson based on data from Swiss Re (2010)

Figure 04. MENA - Life Premiums by Country for 2009

Turkey
Morocco
UAE
Egypt
Saudi Arabia
Lebanon
Bahrain
Oman
Tunisia
Kuwait
Algeria
Jordan
Qatar

Source: Towers Watson based on data from Swiss Re (2010)
SWOT Analysis for the MENA Region

Any [potential] operator needs to be aware of the strengths, weaknesses, opportunities and threats (SWOT) present in the MENA market. Our research and analysis suggests the following SWOT results:

**Strengths**

- **Healthy Economic Growth Rates:** The region overall had been growing at a steady rate of around six percent. According to the IMF World Economic Outlook, the MENA region grew at an impressive 5.8 percent in 2008, yet suffered in 2009 with growth averaging 2.4 percent. Growth is expected to continue through 2010 and 2011 at the stronger rate of 4.5 and 4.9 percent respectively according to the July 2010 update of the IMF projections (IMF 2010).
- **Expansion of Financial Services:** The financial services industry has been one of the sectors of growth in the region, although it ailed during the financial crisis. Confidence in the region’s financial markets is picking up once more, which provides insurance companies with more investment options.
- **Monetary Stability:** Most of the countries in the region have fixed or semi-floating exchange rates. This eliminates fluctuation, and also links monetary policy to the countries to which the currencies are tied (mainly the United States of America).
- **Current Account Surplus:** Due to the current high oil and gas prices, the region has enjoyed an inflow of wealth that has increased foreign reserves and liquidity. The MENA economies have used this to buffer external shocks and ensure stability of their financial systems, as seen during the financial crisis.
- **Demographics:** The population and labour force in the region is generally young and will continue to grow for the next decade or two. This indicates a potential for high rates of economic growth if the right policy mix is utilized in these countries.

**Weaknesses**

- **Insufficient Awareness:** A vast majority of the population in the region lack awareness of insurance, how it works, and how it could benefit them. This results in the low penetration ratios and low contributions per capita observed.
- **Low Capitalization:** Many of the insurance companies in the region lack sufficient capital to grow and cover large risks. This is seen by the ceding of large portions of insurance portfolios to reinsurers who are predominantly foreign.
- **Overcrowding:** The insurance market in MENA is small compared to the global insurance market, and even compared to the insurance market in Turkey. This coupled with the great number of firms in the local markets that provide insurance leads to the fragmentation and overcrowding of the market, and increased competition for a small pool of premiums.
- **Lack of Actuarial Skills:** As a result of the lack of awareness about insurance there is a lack of skilled workers in the industry. There is a severe lack of actuarial skills in the region, with many insurance products not being priced fairly (actuarially), and the competition between firms resting on price.
- **Competition:** As a result of the two previous points most companies engage in price competition rather than innovation and product differentiation that address consumer needs, customer care, and integration of all insurance services.
- **Low Efficiency:** Many providers are public-sector providers resulting in lower performance, efficiency and levels of customer care.
- **High Unemployment:** One of the pressing issues facing the region is the high unemployment rates observed, especially among youth. This results in lower savings by young adults which further exacerbates the small size of life assurance portfolios in the region, thus hindering savings and capital formation.

**Opportunities**

- **Growth in Industry and Low Penetration:** The industry in the region has been growing at impressive double digit rates, evidencing opportunities for profit. Low penetration rates suggest the trend is far from over.
- **Consolidation:** Due to the overcrowding in the local markets in MENA, consolidation is expected in this sector. The raising of minimum capital requirements in some countries is both to ensure the solvency of providers and encourage them toward consolidating. This is an exciting opportunity for foreign insurance providers that want a share in the region’s market, where they can enter the market by acquisition of local firms.
- **Reforms and Structural Changes:** Modern insurance markets in the region are rather immature. This is seen in low penetration rates: the small size of the market relative to the wealth and magnitude of the population. Many countries are reforming their insurance laws and several aspects of their financial sector. These reforms aim at making these markets attractive to foreign investors via convergence to international standards and practices.
- **Privatization:** For countries with public-sector providers, namely Egypt and Saudi Arabia, there are opportunities as these companies are put on the block for privatization. Pension systems in the region will see reforms and will probably...
be privatized, and this will be a catalyst for the development of insurance markets as demand for savings products increases.

**Small Re-Insurance Sector:** The re-insurance industry in the MENA region is not large, and most of the re-insurance business is taken up by foreign insurers. Many companies have already started to move into this space but there will still be much opportunity for growth.

**Regionalization Potential:** Given that the local insurance markets are small, beyond consolidation there will also be a trend toward regionalization. When regionalization takes place, it will make the MENA insurance market even more attractive to ambitious foreign insurers.

**Introduction of Actuarial Skills:** Currently there is a severe shortage of actuarial skills in the region. A number of presentations at the recent Kuwait Insurance Forum (May 2008) lamented this lack and proposed shoring up these competences in the region so that that policies would be actuarially fairly priced. This is an opportunity for foreign insurers as well as insurance consultants to step into the space and provide their services.

**Growth of Takaful (Islamic Insurance):** Takaful - Islamic insurance - is based on the concept of mutuality and Islamic investment principles, and many compare it to mutual insurance operators and friendly societies in the West. The industry has been growing tremendously over the past decade and is predominantly in Southeast Asia and the GCC. Many practitioners view Takaful as well-suited for personal lines, and expect the growth of the industry will be on the back of protection and savings.

**Threats**

**Volatility of Region:** The Middle East has been a stage for international conflicts and wars for several decades. The Israeli-Palestinian conflict, the war in Iraq, proximity to Iran, and the discontent with some of the local ruling elite make the region rather volatile and prone to political instability. This can drive away foreign investors and lower investment rates by locals.

**Lower Oil Prices:** Much of the prosperity of the region comes from oil. The region straddles the largest known oil reserves on earth, and much of the growth seen lately can be attributed to high oil prices. A sharp drop in oil prices could strain the finances of governments in the region, and stall many of the development efforts that are already in place.

**Transparency and Corruption:** The region does not score highly in transparency ranking; corruption ratings show little sign of improvement either. However, in some countries, especially the GCC, there has been a push towards better governance which is reflected in their higher Corruption Perception Index scores. However most of the countries in the region ranked by Transparency International (2009) score below five (on a ten point scale), "indicating a serious corruption problem".

**Conclusion**

The insurance industry in the Middle East and North Africa has been growing at a tremendous rate over the past few years, even through the financial crisis. The low penetration ratio for insurance in the region can be taken as an indicator that there is still more growth to be expected. In many countries, especially in the GCC, the growth has been due to mandated motor and health insurance.

Many of the countries in the region are revamping their insurance laws and requirements. Over the past few years, most of countries in this report have updated their regulation of the industry: with an increase in minimum capital requirements, more emphasis placed on risk management systems, mandating the use of actuaries and auditors, and opening up to foreign competition.

Consolidation locally and regionally is expected to start over the next few years, which will lead to the formation of entities with large financial and technical capabilities to take advantage of economies of scale. The increased minimum capital requirements are seen as a nudge in that direction. We are starting to see the wave of consolidation starting to take place, with mergers and acquisitions across borders.

The growth in the region and the updated laws point to the awakening of this sector in the region. With most industrialized countries still emerging from recession, the region is projected to grow at 4.5 percent for 2010, with higher growth expected into the future. This represents an opportunity to diversify geographically to sustain revenues for many in the insurance industry.

Less than five percent of the region’s population is over 65, and more than 30 percent under the age of 14. This indicates the tremendous human capital the region possesses, and represents an opportunity for the life insurance business as Takaful grows in the region while the population of industrialized countries declines. The SWOT analysis shows where opportunities lie in this part of the world; opportunities that have not been overlooked by international companies such as AXA, Allianz, BUPA, and others.

**Towers Watson can help insurance companies in the region to**

- identify and deploy metrics and methodologies that are appropriate for risk and capital management needs
• Implement enterprise risk management to identify and avoid potential major losses, enhance risk-adjusted returns and establish and meet strategic objectives
• Navigate complex merger, acquisition and restructuring transactions

With 20 years of solid experience in the Middle East, Towers Watson can help insurance companies in the Middle East and North Africa with solutions to measure and manage risk and capital and create competitive advantage in the marketplace.

References


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