MARKET PROFILE – UAE

Still room for huge reinsurance growth in the UAE

The past year has been one of growth and opportunity for reinsurance in the UAE. But there is more yet to come. We spoke to Zurich Insurance's Mr Peter Englund and Chedid Re's Mr Joe Asmar to find out that the recent growth comes with its own challenges.

By Paul McNamara

Mr Peter Englund

Mr Joe Asmar

While it is true that all reinsurance markets around the world are interconnected, it is also true that local conditions can have a profound effect on both profitability and performance.

The UAE reinsurance market has benefited from the global hardening of rates – but there have been impediments too – in the form of a flood of additional capacity.

To draw an accurate picture of how the market has developed – and what the year ahead holds in store - we spoke to Zurich Insurance senior executive officer - Middle East Peter Englund and Chedid Re global operations deputy chief executive officer Joe Asmar about the realities of carrying out reinsurance business in the UAE and the prospects for the future.

Cause for optimism

The past can often hold lessons for the future.

"It's an interesting outlook," said Mr Englund. "If you look over the last 20-plus quarters, on the global stage, you've seen positive rate increases leading to this hardening market. In the last quarter we also see positive rate movements across many lines – property, construction, energy. We still see rate movements due to social inflation and linked to some US-exposed risks on the casualty side. On general liability, even if it's low single digits, we still see some favourable rate movements."

On the whole, Mr Asmar agrees. "Throughout last year, a discernible trend of market hardening persisted, specifically in aspects pertaining to treaties," he said. "Reinsurers exhibited a reluctance to provide additional flexibility, and a heightened sense of discipline was observed in underwriting practices. This trend manifested through a reduction in surplus capacity offered and limitations imposed on the scope of coverages given."

Restrictions could be selective.

"As an illustrative instance, throughout 2022, a majority of reinsurers instituted exclusions related to pandemics, notably enforcing LMA 5394 communicable disease provisions for property treaties.

"Furthermore, for the year 2023, additional restrictions were implemented, including the application of LMA 5583B, specifying territorial exclusions for Belarus, Ukraine and Russia, across various coverages," said Mr Asmar.

"Concerning other facultative lines of business, sustained competition prevails across the majority of segments. This phenomenon primarily continues due to the increase of cedants capacities, the emergence of new MGAs, the establishment of additional facilities and an influx of reinsurers entering

the market," he said.

A complex picture

Not all pricing developments were positive.

"Where we have seen change lately is some deterioration across financial lines," said Mr Englund. "We see PI rates - but particularly cyber rates - coming down and D&O rates are coming down significantly."

What is driving this?

"If you look at the global supply of reinsurance capital, there is still not as much correlation to these big catastrophic events as we would expect," said Mr Englund. "It's true that this year you're looking at a CAT spend of more than $100bn globally, and that's way bigger than it was in the past. But what's striking these days, if you compare it to previous cycles, is the availability of capital.

"I now see more alternative capital coming into the industry as well. That type of capital was more hesitant perhaps over the last two years, but I expect it to come back now. The overall theme is that capital is more readily available today and can be deployed quicker into a local market. The cyber experience is a good example of that. We see a lot of cyber players coming into places like the DIFC and this leads to a more competitive marketplace and hence a deterioration in rates," said Mr Englund.

"The thing to look out for is if that CAT spend will continue and reach the $120bn range, and developments in the US are obviously very important to understand and look out for, but if we start to see a maintained CAT spend in that range, that will still lead to continued pressure on rates in select markets. The US will remain an important driver for the reinsurance market as a whole," said Mr Englund.

Mr Asmar is also concerned about the quality of some of the reinsurance capital that has been flooding the UAE market.

"These newcomers have brought their capacity with a very aggressive approach," he said. "For them to be able to access business and grow their market share, they have to reduce rates, terms and be more flexible on conditions.

"We had anticipated enhancements in specific lines of business owing to restrictions in the reinsurance market. However, the co-insurance capacity among insurance companies in the market has not markedly contributed to that perspective.

"In assessing the broader market landscape, we observe a prevailing stability, with participants diligently upholding momentum. Nevertheless, regional variations have emerged due to comparatively lenient entry barriers and fewer prerequisites differentiating the access between regional markets," said Mr Asmar.

Look to the future

What does the year ahead hold in store – and has reinsurance reached a peak in the UAE in terms of market size?

"No, there could definitely be another new growth phase that everyone is eyeing," said Mr Englund. "There are many people in GAIF that are very much dependent on markets such as the UAE and Saudi Arabia. Saudi Arabia grew at 26.9% last year and that growth outlook could lead to a significant growth phase for the industry as a whole. It's just due to the sheer size of these projects we're witnessing right now.

"At the same time, you have other things happening in the background. The region is becoming more and more litigious and you can see that in the number of law firms that are establishing in places like the DIFC. If you link a more litigious region, significant infrastructure growth, increasing insurance penetration in general and awareness - that leads to a bullish outlook," Mr Englund said.

Some lines will perform better than others

Mr Asmar's view of the year ahead is one of optimism tinged with realism.

"We observed a continued firming of the market, particularly evident in the treaty business and its impact on capacity," he said. "This trend is influenced by two primary factors.

"Firstly, market outcomes, especially within motor and medical insurance, have significantly contributed to the observed market hardening.

"Secondly, reinsurers possessing both the requisite rating and capacity are actively driven by the pursuit of increased profitability. Consequently, there is a discernible trend of various insurance companies either exiting the market due to unmet terms and conditions or strategically reducing their participation.

"The influx of capacity, whether from rated or unrated entities, is notable for originating from players without leadership status, but with the capability to follow industry trends. This flood introduces a dynamic equilibrium to the anticipated market hardening. While additional capacity is entering the market, the potential for further enhancements in terms and conditions may be constrained. The current surge in capacity, permeating the market, poses challenges to anticipating substantial improvements in terms and conditions, as individuals and organisations increasingly explore alternative options," said Mr Asmar.

Better terms ahead?

"Some of those hardening effects are subject to a delayed effect that that we will start to see playing out in the upcoming quarters. But given all the regulatory changes that are happening and with some of the markets consolidating as well, I am bullish overall for the next year or two," said Mr Englund.

Mr Asmar sees growth potential as well as some impediments.

"Despite confronting an aggressive price war and opportunistic manoeuvres by market peers, we have made substantial investments to champion our reinsurance partners, addressing a spectrum of volatile and distressed securities," he said.

"Despite encountering various challenges, I maintain a positive outlook, anticipating further improvements in the future. The evolving markets in the MENA region are poised to become more regulated, necessitating additional specialised capacities characterised by financial stability, strong ratings, transparent ownership structures, licensing under authentic financial hubs regionally or internationally, a proactive embrace of technology and a well-diversified range of offerings," said Mr Asmar.