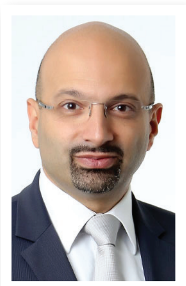
GCC – A dynamic and attractive market

Although over-capacity in the region has kept prices low, the market is poised to see a hardening market soon, says **Mr Ahmed Rajab** of **SHIELDS Reinsurance Brokers**.



The 1 January renewals was turbulent. The recent renewals might have as well been called the "31 January" renewal as many facultative risks and treaties renewals came in very late due to insureds not giving instructions to insurers (shopping around) or to insurers not giving instructions to reinsurers. The delays this year were more pronounced and of greater magnitude than those in past years.

We witnessed these delays at all levels, which is worrying as more reinsurers are specifying "no cover given till confirmation of signed shares". This is particularly problematic in cases of claims occurring before the allocation of shares to reinsurers.

The insured is often not aware that there are layers of reinsurance behind his policy, so when he instructs his insurer to bind cover a few hours before inception of the policy, the insurer is at a high risk of being without reinsurance as it takes time, sometimes days, to complete the reinsurance placement of large risks.

Pricing & terms at recent renewals

In terms of pricing, the 1 January renewals clearly witnessed increases in rates for small- and medium-sized risks, while the pricing for large risks continues to come under pressure.

Apart from pricing, reinsurers have been very careful about terms and conditions they are offering, with a further tightening of protection and an increased number of exclusions.

Regional reinsurers have been offering stricter terms and conditions than international reinsurers who do not have presence on the ground.

These same regional reinsurers have also exited from risks such as warehouses, storage in the open, residential buildings, where we see less capacity and therefore more opportunities for experienced underwriters.

How the different classes fared

From a casualty point of view, specialised reinsurers were very reactive and were keen to offer reasonable terms and conditions as this market is less

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affected by competition, especially for classes such as professional indemnity and D&O.

Facultative engineering is almost non-existent due to a low number of projects, while marine is almost entirely absorbed by local insurers' treaties.

Large energy and aviation risks are still being placed outside of the region. However, the number of underwriters specialised in these fields based locally, particularly at the DIFC, is increasing.

For cyber risk insurance, we have seen more enquiries than in the past. The expertise in quotation, wording and claims management clearly lay with large international insurers and London reinsurers.

We expect that the health sector will be next in line demanding cyber risk protection after banks.

In contrast, we were surprised not to see cyber risk insurance bought for large industrial risks such as power and energy.

Improved terms for treaty

From a treaty point of view, we have witnessed improved terms and conditions for our insurers in contrast to what has happened in the facultative market.

Insurers with good track records have been rewarded with improved capacities and commissions, while those who have generated claims had a flat renewal.

Soft market to end

The abundance of capital available generated by low interest rates over the last 10 years has brought about overcapacity, putting tremendous pressure on pricing and pushing them below technical levels.

However, we expect the soft market to end soon as worldwide higher interest rates are diverting capital away from reinsurance. Shareholders who are keeping their investments with reinsurers will require higher returns than in the past, making the cost of reinsurance more expensive.

With the current abundance of cash, it is unlikely for a major CAT event to affect globally the reinsurance market. We believe interest rates have a greater influence on reinsurance pricing than large CAT losses.

It is therefore clear that we are entering a harder market than before, where capital for reinsurance is less abundant and costs more.

We strongly believe that the 1 July renewals will confirm this analysis.

With the perspective of increased reinsurance prices, our clients will buy differently or even buy less to fit their budgets.

To assist our clients optimise their reinsurance, we have invested and adopted the most advanced financial modelling and GCC CAT modelling tools, allowing us to advise our clients on how to structure their reinsurance appropriately.

Local MGAs & Asian reinsurers replacing historical ones

When we review reinsurers' position in the Middle East, we clearly see historical players increasingly giving less support. Their roles are progressively being replaced by either local managing general agents (MGAs) or Asian reinsurers who are all well-rated and with whom we work more.

Their underwriting tools and pricing methodology have been adapted to the specificities of our region, where Nat CAT is limited, infrastructure is new and cannot be compared in any way to the infrastructure, factories, ports or buildings in Europe.

Further, the level of litigation is far lower in the GCC than in Europe, where there is no notion of punitive damages when it comes to compensations awarded by the courts.

In addition, many traditional reinsurers are increasingly becoming more unhappy about risk pricing in the Middle East.

The reality is that some types of risks, especially on the facultative side, have become commoditised due to their large number and the low level of premium and claims, while the amount of work provided by reinsurers when underwriting a risk remains the same or has increased.

Therefore, some traditional reinsurers have exited from some segments in the market due to higher acquisition costs and are being replaced by MGAs and managing general underwriters (MGUs) who are pooling capacities on behalf of several reinsurers having lower headcount and lower expenses.

The most successful MGU at the DIFC has been writing space risks for 10 years and has pooled three times the capacities of the second-largest space underwriter in the world.

Big Data not widely used in region

One more factor that needs to be taken into consideration is that our region is still not utilising Big Data in structuring adequate pricing tools adapted to the nature of risks in the GCC.

At the base of our business, we rely on the mathematical law of large numbers, which requires precise collection and analysis by actuaries of claims' magnitude and frequency, as well as the modelling of exposure.

The impact of VAT

The introduction of VAT has created a significant delay in the way insurers, brokers and reinsurers interact. However, the ultimate loser in all of this is the original insured, as reinsurers have been and will be providing their technical prices net of taxes, a worldwide practice. So insurers will add the 5% VAT when invoicing their customers. International reinsurers will not be impacted by VAT as insurers are exporting the risk.

Growth but at slower pace

The insurance and reinsurance market in the GCC remains dynamic, attractive and will keep growing although at slower pace than in the past but still higher in percentage than other European countries.

The market is now driven by the pooling of capacities through the facilities of MGAs, MGUs and brokers as this seems to be one of the most efficient ways to deploy capital in reinsurance.

Mr Ahmed Rajab is CEO of SHIELDS Reinsurance Brokers.