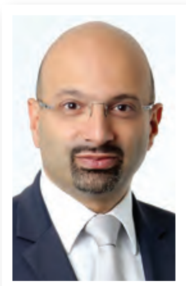
FEATURE – RENEWALS

Reinsurers grapple with new dynamics

The Middle East reinsurance market is seeing a major shift with traditional European reinsurers exiting and new ones entering the scene, says **Mr Ahmed Rajab** of **Shields Reinsurance Brokers**.



The year 2017 was not a great one for the reinsurance market. This was followed by another bad year – 2018 – with catastrophe losses in excess of $70bn mainly due to hurricanes Irma and Maria. In addition to these catastrophe losses, we have witnessed a larger number and higher severity of risk losses internationally. We strongly believe that 2019 will continue this bad trend as the year has already started with extreme weather events such as the severe cold winters in the US and the UK, major floods in Australia and a dam rupturing in Brazil with estimated damages of $7bn, according to Bloomberg. All these natural events and large risk losses will put further financial pressure on reinsurers.

The Middle East also experienced extreme weather with Cyclone Mekunu generating an insured loss of $400m in Oman in May 2018. This is the second event of such magnitude in a decade with Cyclone Gonu generating an insured loss of $780m in 2007.

On the man-made losses front, we have unfortunately witnessed large claims with the major fire at ADNOC's Ruwais oil refinery and more fires in buildings in Dubai such as the Zen Tower in May 2018 and the Torch Tower for the third time in January 2019.

Changing reinsurance landscape

These losses in the Middle East have pushed international reinsurers to either exit the market or drastically change their underwriting guidelines. In September and October 2018, each week, reinsurers were either closing their operations in the region, exiting from some classes of risks they were underwriting just a month before or doubling or tripling their prices.

According to our own research, more than $450m of capacity per risk has exited the MENA region and the catastrophe capacity available has been reduced significantly.

During the 1 January renewals, buyers who came to the market very early were able to maintain the cost of their insurance premiums or even benefit from a slight reduction, while those who have delayed their renewal and came to the market late could not find enough capacity and had to pay significantly more.

Overall, insureds who have incurred even minor losses saw their premiums rise by 25% to 50% or more, while those who had a loss ratio close to 100% saw their premiums doubled.

For treaty renewals, we have seen terms being either maintained as expiring or further deteriorating for reinsurers but improving for insurers. Though this situation could be explained by treaty underwriters expecting to benefit from the increased prices in the facultative market, the reality is very different. Prices of risks that do not require facultative placement are being put under further pressure due to local competition and insurers trying to maintain market share.

Liquidity and credit control issues

The downside of having increased premium on facultative is that it has pushed insureds to further delay premium payments or pay premiums in instalments. At the same time, insurers are paying reinsurance premiums before receiving the insured's money. Such a situation highlights a lack of credit control and puts immense pressure on the insurers' cashflow. As such, the insurer's capital is not remunerated adequately, and they have no option but to postpone wider investments required to develop their operations. This will put further pressure on liquidity which could compromise claims payments.

This major issue and the need to address it was highlighted in a recent A.M. Best report about the region. Ways to resolve this issue could include legislation forcing insureds to pay or forcing insurers to collect by imposing international accounting and reserving standards.

New players

The reinsurance market in the Middle East is undergoing transformation, which will last at least another six months to one year. Traditional European reinsurers are exiting the region and new ones are entering it. At 1 January, we witnessed the increasing presence of Asian insurers and reinsurers supporting Asian investments in the region. At Shields, we have seen a significant inflow of new business. We are now working with more than 30 insurers in the GCC and supporting the local market by placing almost half of our premiums regionally, followed by Asia and London.

New reinsurers entering the Middle East have been waiting for the right moment, and now that prices are increasing and conditions are firmer, they have decided to take on a significant market share. M

Mr Ahmed Rajab is CEO of Shields Reinsurance Brokers.