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MENA: Insurers should brace for a tougher reinsurance environment

By [Osama Noor](#) | 25 Feb 2021



Change in the reinsurance equation is imminent and insurers in the MENA region, especially small institutions, are going to bear the brunt of changes unless they take the right measures, executives at a webinar organised by General Arab Insurance Federation (GAIF) have warned, while voicing the need to establish a strong regional reinsurer.

The high possibility of having proportional treaties removed from reinsurance agreements within the coming five or six years will pose a serious challenge for Arab insurance companies, especially those which lack sufficient capacity to stay in the market, warned the CEO of Gulf Insurance Group (gig), Mr Khaled Saoud Al Hassan.

He said, “Insurance companies in the Arab world face a big challenge in the coming years because most of them rely on big international reinsurers. We need to prepare for any alterations in the pattern of reinsurance agreements.”

He said that insurers should adjust their models from depending on commissions generated from proportional business to working with non-proportional business which eventually depends on good underwriting, precise actuarial pricing and sound risk evaluation.

Change is going to happen eventually, he stressed. In addition, he warned that international reinsurance companies would not continue to pay insurance companies commissions and would not contribute to bearing the losses insurers incur, especially those arising from mega risks.

Establishing a mega Arab reinsurer

To this end, the president of Orient Group, Mr Omer Elamin, called for the establishment of a regional Arab reinsurance company. He noted that under the current circumstances, a large number of insurance companies face difficulty in renewing their reinsurance agreements and several have accepted rough terms. Reinsurers' stiffness though appears justified because unprofessional competition has dragged prices to unacceptable levels.

He said, "And with the possibility of proportional agreements being stopped in the very near future, small companies will not be able to continue operating with non-proportional terms as they don't have the capacity to do so.

"The main solution is to set up a very large Arab reinsurance company with a huge capital (size) of no less than US\$3bn, to be able to absorb the businesses in the market. This company can be a pan-Arab or Gulf reinsurance (operation) with 50-50 government-private ownership. This company can succeed but there needs to be a compulsory cession of no less than 25% in the first five years to help it take off."

He stressed the importance of having a very well capitalised reinsurance company because most regional reinsurers currently are small in size.

Mr Elamin has also said that the increase in prices the market is witnessing now due to lack of capacity will support the establishment of the proposed reinsurance company. "If we don't move swiftly in setting up this company, we will face difficulty in finding reinsurance (capacity), especially for small companies."

Reviving ARIG

On his part, Mr Chakib Abouzaid, the secretary general of GAIF, emphasised the importance of the Arab reinsurance initiative and called for reviving Arab Reinsurance Group (ARIG) as an option. He pointed out that there might be some investors who are willing to invest in this iconic reinsurance establishment which had previously contributed a lot to the region, especially in terms of being a school for professionals in the Arab world.

Mr Abouzaid added that local and regional reinsurers are suffering from several problems such as the rating barrier and nature of businesses. "But hopefully there will be an initiative towards (improving) the reinsurance business in the region. I hope that this call reaches the concerned parties."

ARIG, which was formed in 1980, announced in August 2020 that its operations were in the run-off. The regional reinsurer is owned by the governments of Kuwait, Libya and the UAE.

GAIF's webinar, the fifth in its series of online activities, was held with the theme "The Arab Insurance General Context: Geopolitical issues & Outlook". Speakers tackled various geopolitical topics and the current status of the regional (re)insurance industry.

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