

[News](#) > Middle East 01 Nov 2020

MENA: COVID-19 pandemic accelerates change in the reinsurance market

By [Osama Noor](#) | 01 Nov 2020



Reinsurance prices are hardening in the MENA region, a development that started to take shape around two years ago but the COVID-19 pandemic and challenging geopolitical conditions have accelerated changes, said speakers at a webinar on reinsurance organised last week by the General Arab Insurance Federation (GAIF).

The hardening rates in the Middle East are in line with global trends. Commenting on such changes, Mr Chakib Abouzaid, GAIF secretary general, said, “The reduction in the capitalisation of reinsurers in the first half of the year will impact the industry on a global scale. There are expectations of premium increases but these will be mainly accomplished through price increases.”

In recent months, the Arab region has been facing its own set of challenges including tough economic and geopolitical conditions, the Beirut Port blast and the withdrawal of a number of local reinsurers from the market, he observed, noting that the COVID-19 crisis is an additional challenge which has further affected investments in the region.

Despite the challenging environment, the latest results indicate that Arab reinsurers continue to generate satisfactory outcomes, he said. “This is especially for the reinsurance companies which are wholly or partly state-owned.”

The MENA region is not far from the reinsurance price hardening that has been evident globally, said Mr Fahad Al Hesni, CEO/MD of Saudi Reinsurance Co. “Prices have increased in various lines, particularly for energy and casualty lines, in which prices have doubled or even tripled on an annual basis.”

He added that the main reason for this trend is that the prices have hit rock bottom in the past years. “The increase in prices is part of the underwriting cycle . What is seen today is a full transformation in the underwriting 'philosophy' in light of past years' results. They are more of corrective measures.”

Changing the modus operandi

To achieve profitable results, reinsurance companies need to focus on diversifying their portfolios, said Mr Hesni. “They need to think beyond their local markets in order to avoid concentration of risks. The geopolitical risks in the region should push reinsurers to consider geographic diversification.”

He recommended insurers rationalise their pricing mechanisms in the coming period. “Commissions and soft terms will see major changes on the back of the pandemic and the challenging economic conditions. Overall, change is inevitable.”

Mr Bassam Chilmeran, CEO of Al Wathba Insurance Co (AWNIC), said that the hard market started to take shape in 2018 as reinsurers began adjusting prices and terms, especially in this region. “International and regional reinsurers are undergoing hard times that have led to a drain on their profits and capitalisation.”

He said that international reinsurers look to achieve decent returns from the capacity deployed in the region. “As returns deteriorate, reinsurers resort to corrective measures.”

He added that international reinsurers have started to enforce cession limits and loss corridors in the region. “The pandemic crisis, along with the plunge in oil prices and deterioration in investment returns have placed enormous pressure on reinsurers. The correction started earlier and will continue in the coming renewal season. Now we will see further adjustments on the prices of XoL covers, which is the first action reinsurers take to enhance their returns and assist them in increasing prices.”

Decline in local capacity

The local reinsurance capacity is very limited because several regional reinsurance companies have ceased operations, said Mr Chilmeran. He noted that the withdrawal of local reinsurers is inevitable given that the business model currently in place has proven to be ineffective.

“Providers need to revisit their underwriting strategies ... to achieve rewarding returns on capital to ensure sustainability.”

International capacity has also started to decline and interest in writing business in the region has begun to fade because of falling rates of return on deployed capital, he added. “The cut-throat competition caused by the decline in business will place more pressure that will affect companies’ balance sheets. This should force companies to revise their pricing and underwriting strategies so as to preserve their solvency to avoid endangering their businesses.”

The webinar, held with the theme “Reinsurance in the Arab Region: Current Competition & Renewal Outlook,” was organised by GAIF in cooperation with Saudi Re. The virtual event was attended by around 400 participants.

<https://www.meinsurancereview.com/News/View-NewsLetter-Article/id/74364/type/MiddleEast/MENA-COVID-19-pandemic-accelerates-change-in-the-reinsurance-market>