



Qatar  
FINANCIAL CENTRE  
AUTHORITY

No.1 / March 2011

# THE GCC REINSURANCE BAROMETER

A market survey conducted on behalf of the Qatar Financial Centre Authority





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Report prepared by Dr. Schanz,  
Alms & Company AG, Zurich



## FOREWORD BY THE ACTING CEO OF THE QATAR FINANCIAL CENTRE AUTHORITY (QFCA)

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Local insurance companies in the GCC countries rely heavily on reinsurance. In aggregate they cede about 46% of their non-life premium income to reinsurers, primarily foreign players domiciled in Europe and Bermuda. In 2009, non-life reinsurance business originating from the GCC region was worth almost US\$ 5 billion. The GCC region's reinsurance cession rate is among the highest in the world.

Life insurance accounts for as little as 15% of the GCC region's total premium volume which is why we have decided to focus this report on the non-life sector, including the rapidly growing medical and health line of business.

Despite their significant commercial relevance, reinsurance markets in the GCC countries are still under-researched and often characterised by a lack of overall transparency, not least attributable to deficiencies in the quality and availability of market and cedant data.

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“ In 2009, non-life reinsurance business originating from the GCC region was worth almost US\$ 5 billion. ”

.....

Against this backdrop, the QFCA has decided to launch a systematic and recurrent effort to shed more light on the region's non-life reinsurance markets.

The publication is intended to contribute to enhancing the transparency of the GCC reinsurance marketplace and benefit market participants by providing an additional benchmark for decision-making. Furthermore, this research work is expected to raise global awareness of the GCC reinsurance markets and their potential.

The QFCA and its partners will conduct the survey and publish its results twice a year, prior to the MultaQa Qatar event in March and the Monte Carlo Rendez-Vous in September, respectively.

We hope you will enjoy reading and benefit from the findings of our 1st GCC Reinsurance Barometer.

**Shashank Srivastava, Acting CEO**  
*Qatar Financial Centre Authority*



## METHODOLOGY

Our findings are based on in-depth and structured telephone interviews with executives representing a total of 28 companies. In addition to international and regional reinsurers we have gathered views from major reinsurance buyers as well as international and regional reinsurance brokers. The interviews were conducted by Dr. Schanz, Alms & Company AG, Zurich in December 2010 and January 2011.

*The Companies taking part in the survey were;*  
 Abu Dhabi National Insurance Company, Abu Dhabi  
 ACR ReTakaful MEA, Bahrain  
 Aon Benfield Middle East, Bahrain  
 Arig, Bahrain  
 Aspen Re, London  
 Assicurazioni Generali Middle East, Dubai  
 AXIS Capital, Zurich  
 Bahrain National Holdings, Bahrain  
 Canopus Group, London  
 Chedid Re, Beirut  
 Echo Re, Zurich  
 GIC of India, Dubai  
 Gulf Re, Dubai  
 Guy Carpenter, London  
 Haakon Ltd., Basle  
 Hannover ReTakaful, Bahrain  
 Hiscox, London  
 Mapfre Re, Madrid  
 Munich Re, Munich  
 Oman Insurance, Dubai  
 PartnerRe, Zurich  
 Q Re, Doha  
 RFIB, Dubai  
 SCOR SE, Cologne  
 Swiss Re, Zurich  
 Takaful Re, Dubai  
 Willis Re, Dubai  
 XL Re, Dublin

“ The drivers of reinsurance growth will be the large number of major infrastructure investments and the scope for insurance penetration to increase. ”

## SUMMARY OF KEY FINDINGS

1. The potential for growth of the Gulf insurance markets continues to attract the global reinsurance industry.
2. Reinsurance capacity is expected to continue to increase in 2011 in line with the strategic objective of reinsurers to position themselves in the region for the expected growth to come and to further diversify their business.
3. The drivers of reinsurance growth will be the large number of major infrastructure investments and the scope for insurance penetration to increase.
4. With capacity in excess of current needs and competition for market share, pricing levels are currently low, although reinsurance in the region generally remains profitable given the absence of major loss events. Pricing levels are expected to come under additional pressure as the region remains highly attractive to international and regional reinsurers.
5. Engineering and construction is considered the most profitable line of business, while property is the least.
6. Medical and health insurance is expected to be the fastest-growing line of business over the next two years, followed by engineering and construction.
7. The limited exposure of the region to catastrophe risk increases its attractiveness, although the impact of climate change has arguably led to a recent increase in claims.
8. Reinsurance exposure is predicted to increase faster than the GCC countries' GDP, which is a strong result for a region that has some of the fastest economic growth rates in the world.
9. As the Gulf insurance market develops, regional shares of capacity are expected to increase.
10. Standards of regulation and regulatory implementation vary widely throughout the region and reinsurers would welcome a more consistent and effective framework for the industry.
11. Some participants feel that, as a relatively new and rapidly developing industry, the Gulf reinsurance sector requires more leadership, for example in the collection and dissemination of market data.

## THE REINSURANCE BAROMETER

## KEY READINGS

The Barometer results have produced key measurements for current perceptions of the Gulf region reinsurance market. It is intended to track these measurements over time to monitor the evolution of attitudes towards the market.

The initial set of key readings reflects the expectation of strong continued growth in reinsurance exposure and regional capacity, with the associated impact on pricing.

|   | % of respondents |
|---|------------------|
| Reinsurance exposure to grow faster than GDP            | 65               |
| Retention levels to remain stable at current low levels | 61               |
| Reinsurance capacity to grow by more than 10%           | 43               |
| Higher share of regional capacity                       | 82               |
| Low average reinsurance prices                          | 47               |
| Reinsurance prices to fall                              | 71               |
| Stable reinsurance terms and conditions                 | 64               |
| Reinsurance profitability                               |                  |
| Average   | 29               |
| Low   | 71               |
| Stable reinsurance profitability                        | 43               |

“ Reinsurance capacity is expected to continue to increase in 2011 in line with the strategic objective of reinsurers to position themselves in the region for the expected growth to come and to further diversify their business. ”

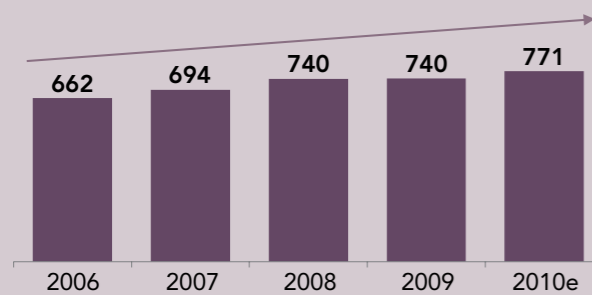
## VIBRANT ECONOMIES UNDERPIN RAPID GROWTH OF INSURANCE BUSINESS

In 2010, the six countries of the Gulf Cooperation Council (GCC), i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, generated a combined estimated Gross Domestic Product (GDP) of US\$ 771 billion (at constant 2005 prices). This level of output ranks the GCC amongst the 20 largest economies in the world. At an inflation-adjusted 3.9% p.a., the pace of expansion during that period of time compares favourably with the global average of just 1.8%. At a 13% real annual rate of GDP growth Qatar

stands out, primarily driven by a significant expansion of LNG production capacity.

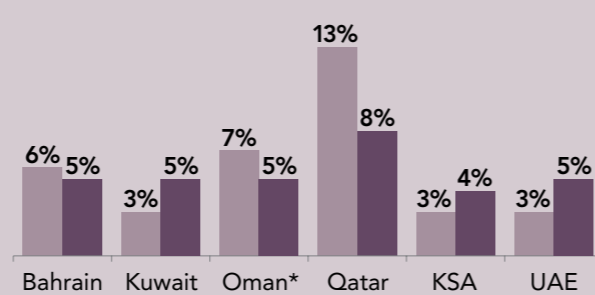
Forecasts suggest that the GCC economies will grow at an even faster rate of 4.9% p.a. between 2010-2014. Qatar is expected to remain the region's most vibrant economy. Growth will continue to be underpinned by huge hydrocarbon reserves at an estimated worth of between US\$ 40 trillion (at a US\$ 55 Barrel of Oil Equivalent) and US\$ 70 trillion (at a US\$ 95 Barrel of Oil Equivalent), according to BP and QFCA analyses.

### GCC AGGREGATE REAL GDP AT 2005 PRICES (2006-2010, US\$ BN)



Source: EIU

### REAL ANNUAL GDP GROWTH (2006-2014 %)



Source: EIU

\* Estimate of GDP for Oman does not include 2013-2014

“ Qatar is expected to remain the region's most vibrant economy. Growth will continue to be underpinned by huge hydrocarbon reserves at an estimated worth of between US\$ 40 trillion... and US\$ 70 trillion. ”

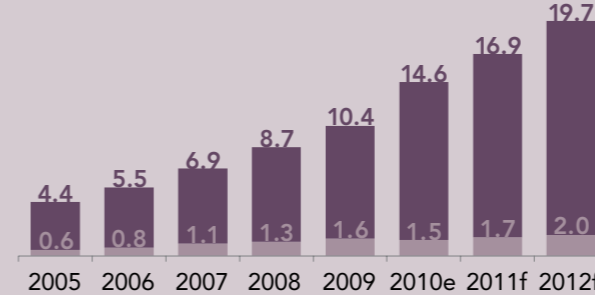
## GCC INSURANCE MARKETS PROJECTED TO REACH THE US\$ 20 BILLION THRESHOLD BY 2012

For 2010, total non-life and life premium volume in the GCC is estimated at more than US\$ 16 billion and projected to reach the threshold of US\$ 20 billion by 2012. Life business grows faster than the non-life segment but continues to be of marginal importance.

Between 2005-2009, GCC insurance premiums expanded almost five times as fast as the global average, with Qatar registering an impressive 25% nominal growth p.a.

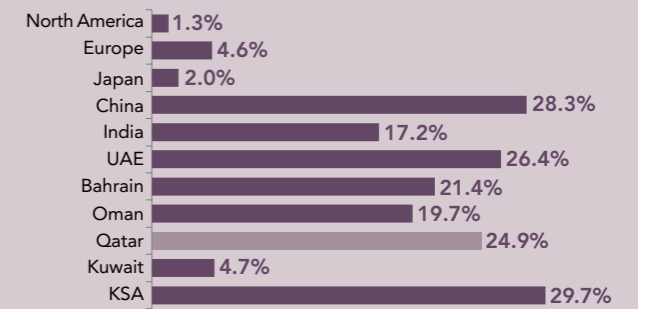
“ Between 2005-2009, GCC insurance premiums expanded almost five times as fast as the global average... ”

### GCC INSURANCE PREMIUMS BY TYPE (2005-2012F, IN US\$ BN)



Sources: Compiled by QFCA Strategic Development based on Swiss Re, Central Bank of Bahrain, Business Monitor International

### NOMINAL CAGR OF TOTAL INSURANCE PREMIUMS (2005-2009, IN %)



Sources: Calculated by QFCA Strategic Development based on Swiss Re, Central Bank of Bahrain, Business Monitor International

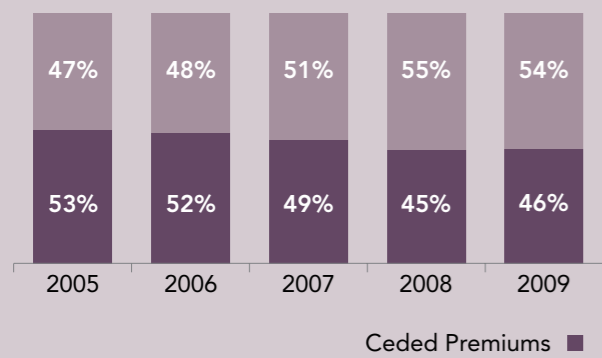
“ For 2010, total non-life and life premium volume in the GCC is estimated at more than US\$ 16 billion and projected to reach the threshold of US\$ 20 billion by 2012. ”

In the GCC, 46% of non-life premiums are ceded to reinsurance companies. The total reinsurance market volume, accordingly, amounts to close to US\$ 4.8 billion. Even though cession rates have been declining recently they remain high compared with other countries of similar wealth.

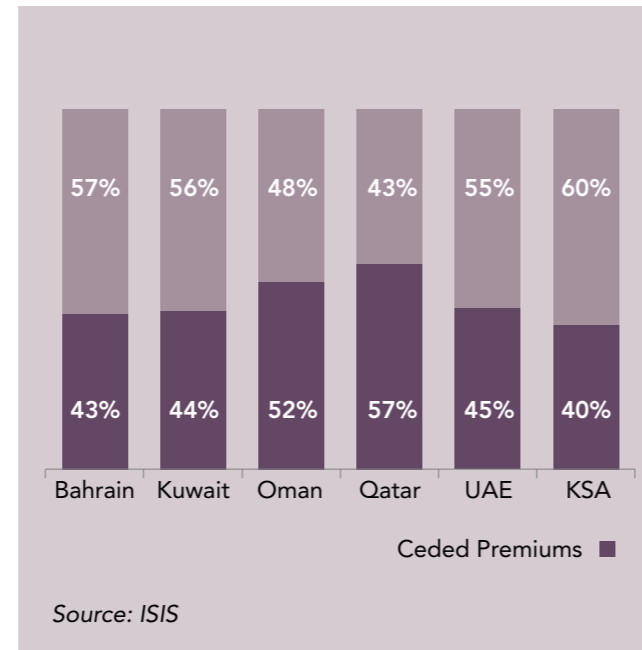
At 57% Qatar displays the highest cession rate in the GCC given the high share of large risks in energy, engineering and other commercial lines. At 40%, Saudi Arabia has the lowest cession rate, reflecting the significant growth of medical business which is largely retained by domestic insurers.

“ In the GCC, 46% of non-life premiums are ceded to reinsurance companies. The total reinsurance market volume, accordingly, amounts to close to US\$ 4.8 billion. ”

### GCC PREMIUMS CEDED TO REINSURERS (2005-2009, IN %)



Source: ISIS



Source: ISIS

“ At 57% Qatar displays the highest cession rate in the GCC given the high share of large risks in energy, engineering and other commercial lines. ”

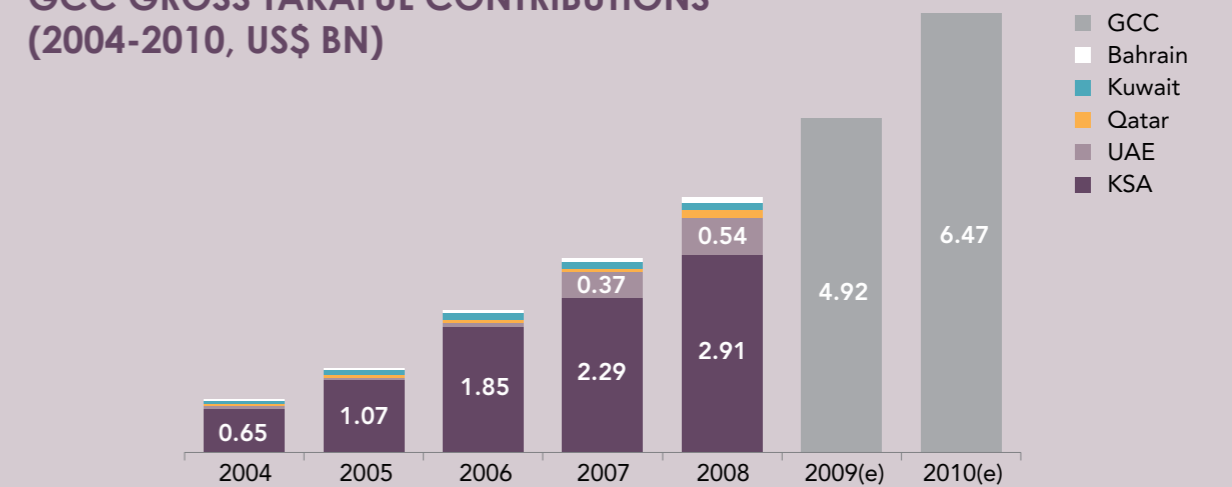
## TAKAFUL BUSINESS CAPTURES AN INCREASING SHARE OF THE REGION'S INSURANCE MARKETS

With estimated contributions of US\$ 6.5 billion in 2010, the GCC markets account for approximately 70% of the global Takaful market, i.e. the market for Shari'a-compliant insurance solutions. Within just seven years the GCC Takaful marketplace has grown tenfold and now makes up about 40% of the region's total insurance business.

35-40% of GCC-generated Takaful contributions are ceded to Shari'a-compliant reinsurers (Retakaful companies). This cession rate is lower than for the insurance market as whole reflecting the fact that the share of largely retained personal lines business in the Takaful segment is above-average.

“ Within just seven years the GCC Takaful marketplace has grown tenfold and now makes up about 40% of the region's total insurance business. ”

### GCC GROSS TAKAFUL CONTRIBUTIONS (2004-2010, US\$ BN)



Source: Ernst & Young, Global Takaful Report 2010

“ With estimated contributions of US\$ 6.5 billion in 2010, the GCC markets account for approximately 70% of the global Takaful market. ”

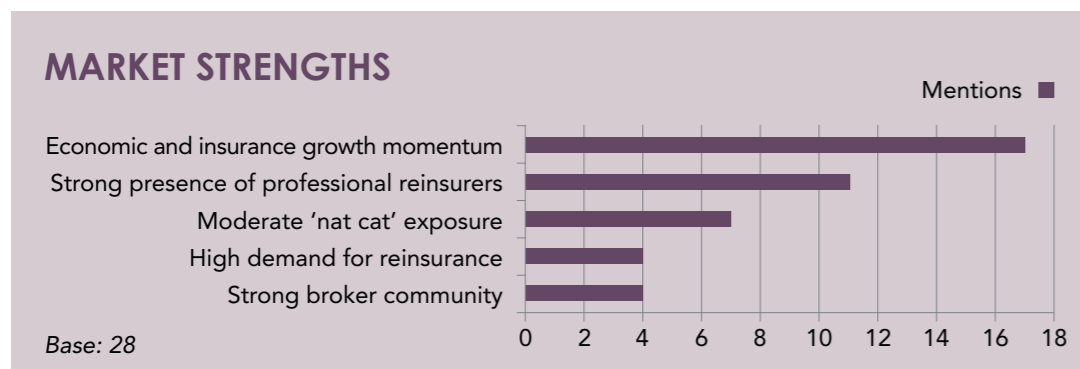
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## THE OVERALL PERSPECTIVE: SWOT PROFILE OF THE GCC REINSURANCE MARKETS

### THE GULF MARKET CONTINUES TO ATTRACT THE GLOBAL REINSURANCE INDUSTRY

The interviewees perceive the region's strong economic and associated direct non-life insurance market growth momentum as the most relevant strength of the GCC reinsurance marketplace. The massive presence of professional reinsurers offering high quality security and value-added services ranks second. Other more frequently

mentioned strengths include a relatively moderate natural catastrophe exposure (translating into comparatively low and stable loss ratios), a strong underlying demand for reinsurance from (weakly capitalised) domestic insurance companies and the presence of a strong broker community which offers relevant expertise and services.



“ The GCC reinsurance markets are well established, offer high financial security and benefit from a strong broker community. ”

**Yassir Albaharna, CEO,**  
Arig

“ Favourable demographics and a considerable pipeline of major infrastructure projects are among the key strengths of the GCC region. ”

**Salvatore Orlando, Head of P&C Southern Europe, MEA, Latin America,** PartnerRe

“ Available broker know-how is one of the strengths of the GCC reinsurance marketplace. ”

**Guido Ammann, Senior Underwriter,**  
Echo Re

“ The GCC markets offer international reinsurers access to some attractive, non-correlated exposures. ”

**Marc Maupoux, Senior Underwriter,**  
AXIS Capital

“ Huge growth potential, moderate catastrophe exposure and ceding companies who value continuity and loyalty are the key strengths of the GCC reinsurance marketplace. ”

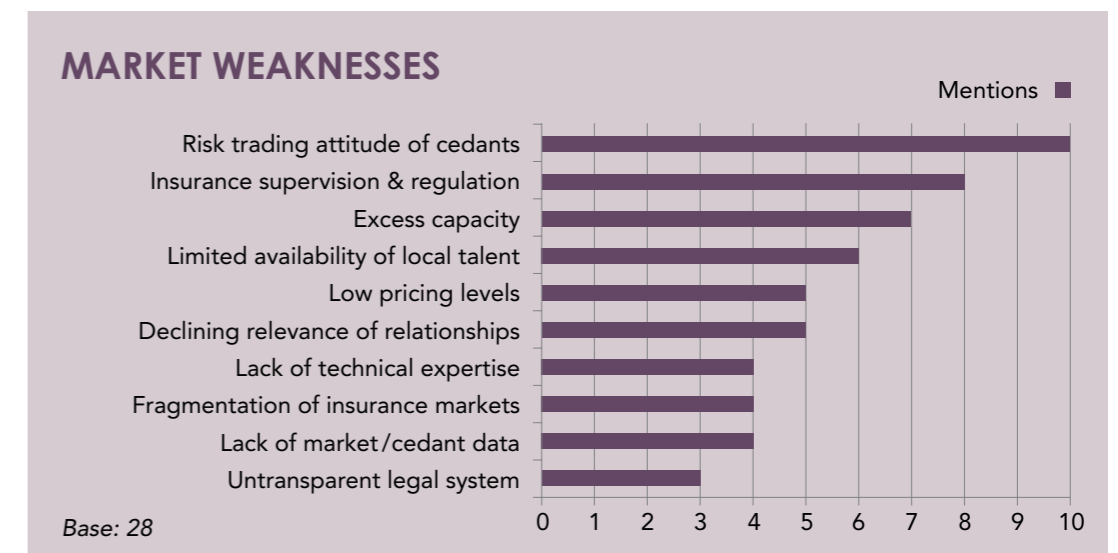
**Dr. Chérif Chentir, Regional Chief Underwriting Officer,** SCOR SE

“ The very strong infrastructure investment momentum is a key regional strength and sets the GCC region apart from most other parts of the world. ”

**Mahomed Akoob, Managing Director,** Hannover ReTakaful

The most relevant perceived weaknesses of the GCC reinsurance marketplace include a widespread preference for risk trading among ceding companies (i.e. very low risk retentions), inconsistency regarding the effectiveness and enforcement of insurance regulations, excess capacity fuelled by the continued inflow of international and regional reinsurance companies, and a limited availability of local talent (i.e. a heavy reliance on expatriate staff).

A larger number of interviewees also mentioned low pricing levels (as a direct consequence of excess capacity), a declining relevance of relationships (as evidenced, for example, in the increasing prevalence of tendering practices), a lack of technical expertise at domestic insurance companies, insufficient market and cedant data and, finally, a high fragmentation of domestic insurance markets, i.e. a large number of relatively small and poorly capitalised players.



“ The market is extremely competitive, fuelled by an accelerating shift to tendering as well as the absence of larger catastrophe events. ”

**Dermot Dick, CEO,**  
Q Re

“ Current pricing levels are extremely low and not sustainable. For long-term viability, GCC reinsurance markets need to return to technical pricing. ”

**Lukas Mueller, Head of MENA Region,**  
Swiss Re

“ A major weakness of the GCC reinsurance marketplace is the absence of any meaningful correlation between regional pricing and results. This is primarily due to the small share of GCC-sourced business in the portfolios of the leading global reinsurance companies. They tend to pursue their strategic agenda regardless of regional loss trends. ”

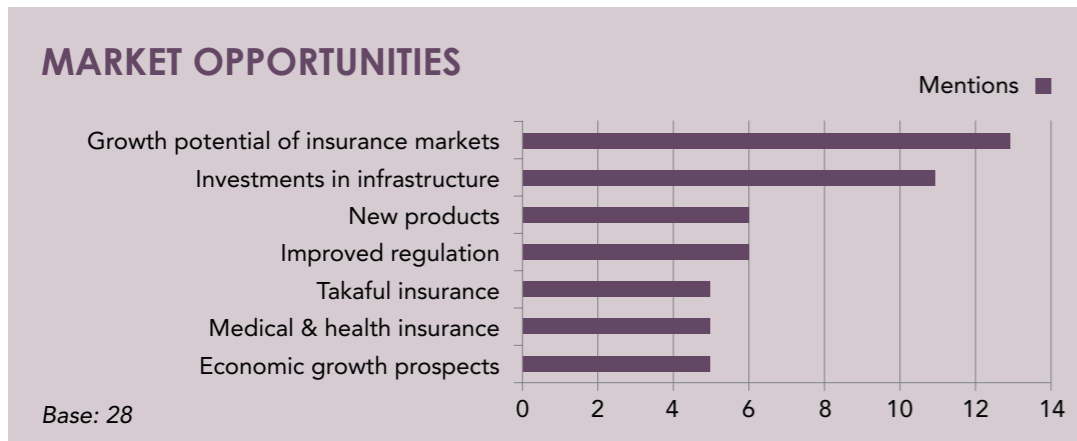
**Farid Chedid, Chairman & CEO,**  
Chedid Re

“ The insurance market in the region is increasingly fragmented, with growing pressure on established companies. Supervisory authorities should provide incentives to mergers and acquisitions, and thus to the formation of pan-Arab players with the capacity for greater efficiency, financial resilience and innovation. ”

**Andreas Pollmann, Head of MENA Region,**  
Munich Re

When asked about key market opportunities going forward most interviewees highlighted the growth potential of the region's direct non-life insurance markets, in particular as insurance penetration (premiums as a share of GDP) is just 1% (compared with the global average of 3%). The continued boom in infrastructure investments based on a project pipeline worth more than US\$ 1 trillion is mentioned as the second most important market opportunity, especially in Saudi Arabia, Abu Dhabi

and Qatar. New products for the region (e.g. medical malpractice and professional indemnity cover) as well as improved regulation (e.g. a 'single passport' for all insurers and reinsurers based in the GCC region) rank third. Other frequently mentioned opportunities include Takaful insurance (also as a catalyst for insurance awareness) and medical and health insurance (on the back of broadening and deepening compulsory insurance requirements).



“ The region is considered by us a boom region with still low insurance penetration. Accordingly we expect a continuous rapid development of the region for example in health, personal lines and infrastructure development. ”

**Andreas Pollmann, Head of MENA Region, Munich Re**

“ Most reinsurers would probably welcome an accelerated consolidation of the GCC insurance markets as this would lead to higher retentions among cedants and better underwriting results for reinsurers. ”

**Enrique Ballesteros, Manager Middle East, Mapfre Re**

“ Based on budgeted investments, Saudi Arabia, Abu Dhabi and Qatar offer significant opportunities in construction and energy business. ”

**Mark Randall, Director, RFIB Middle East**

“ Insurance regulations in the GCC region are still in their infancy but recent progress, for example in Saudi Arabia, is encouraging. ”

**Lukas Mueller, Head of MENA Region, Swiss Re**

“ Future reinsurance growth will be supported by the GCC countries' proactive economic diversification strategies, e.g. the establishment of tourist facilities. ”

**Trevor Oates, Treaty Underwriter, Canopus**

“ Insurance awareness in the GCC countries is increasing. Therefore, insurance penetration is set to rise, translating into a continued robust growth of direct markets. ”

**Lukas Mueller, Head of MENA Region, Swiss Re**

“ Personal lines (e.g. PA), life and liability insurance offer major growth opportunities to (re)insurers operating in the GCC. ”

**Dr. Chérif Chentir, Regional Chief Underwriting Officer, SCOR SE**

“ Changing laws governing medex insurance are the most relevant industry-specific trend in the region. ”

**Salvatore Orlando, Head of P&C Southern Europe, MEA, Latin America, PartnerRe**

“ The construction, property and health lines of business offer major opportunities to insurers and reinsurers operating in the GCC. ”

**Jonathan Wilton, CEO, ACR ReTakaful MEA**

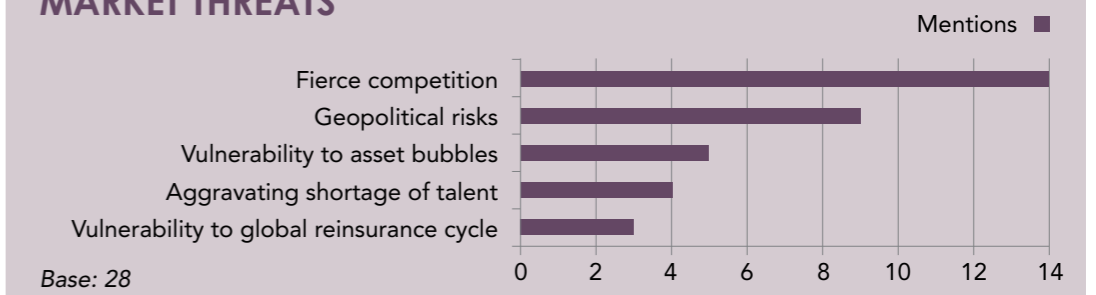
“ There is a trend towards increased religious compliance. This trend will fuel demand for Takaful insurance, also in personal lines. ”

**Chakib Abouzaid, CEO, Takaful Re**

The high degree of competition is considered to be the most serious threat facing the GCC reinsurance markets as an increasing number of international and regional reinsurers as well as domestic insurers are keen to capture the region's reinsurance potential. Geopolitical risks rank second, in particular the prospect of a military conflict involving Iran and Israel. (The interviews

were completed before the recent events in Egypt and other parts of the MENA region). Other threats highlighted by the interviewees include an aggravating shortage of talent as the relative attractiveness of other regions (e.g. India) increases and a significant vulnerability to swings in the global reinsurance cycle, given domestic cedants' heavy reliance on international capacity.

MARKET THREATS



“ There is a continuing inflow of capacity as reinsurers are keen to diversify into these high-growth and low-catastrophe markets. ”

**Salvatore Orlando, Head of P&C Southern Europe, MEA, Latin America, PartnerRe**

“ The lack of adequate cedant data needs to be taken seriously as it can threaten reinsurers' balance-sheets. ”

**Jonathan Wilton, CEO, ACR ReTakaful MEA**

“ For the GCC region, there are two critical issues: Competition in the GCC region continuously drives down rates and, selection of clients and risks becomes even more important to achieve risk adequate returns. ”

**Andreas Pollmann, Head of MENA Region, Munich Re**

“ To date, Takaful insurance has not yet demonstrated a clear and distinct added value as compared with conventional insurance. This deficiency could backfire. ”

**Dr. Chérif Chentir, Regional Chief Underwriting Officer, SCOR SE**

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**GENERAL GCC REINSURANCE MARKET OUTLOOK**

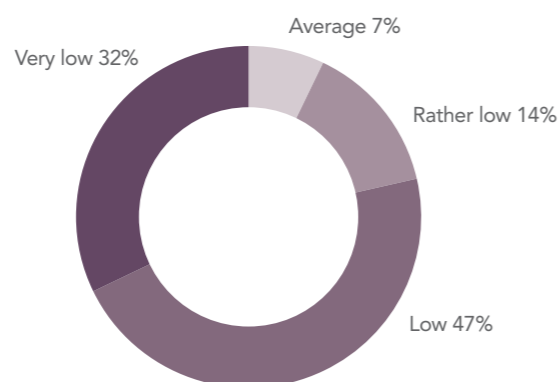
**GROWTH IN CAPACITY AND COMPETITION IS INCREASING PRESSURE ON PRICING BUT MARGINS REMAIN ACCEPTABLE**

**AVERAGE REINSURANCE PRICING LEVELS**

Almost all interviewees view current reinsurance prices in the GCC below the longer-term average, with almost one third even considering them 'very low'. This assessment reflects the fact that the region has seen a massive inflow of reinsurance capacity over the past few years. Reinsurers, in particular from the developed countries, were and are still keen to position themselves in one of the world's fastest growing non-life insurance markets and seek opportunities for portfolio diversification. There is a general consensus that current pricing levels are attributable to fierce competition among reinsurers and the fact that reinsurance supply has outpaced reinsurance demand.

Individual assessments depend on whether technical, i.e. actuarially determined rates or 'adequate' prices, i.e. those which yield acceptable overall profits, are used as a benchmark.

**CURRENT AVERAGE REINSURANCE PRICES**

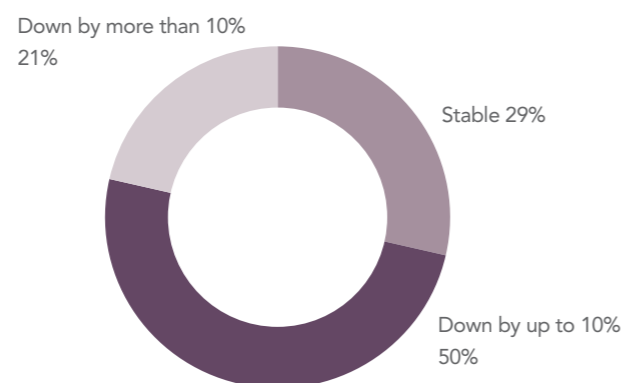


“ Construction and property reinsurance rates are getting to the point that would appear to offer little scope for further reductions. ”

**Mark Randall,**  
Director Middle East,  
RFIB

Over the next 12-24 months, 71% of interviewees expect prices to decline further, 21% by at least another 10%, fuelled by an unabated inflow of additional reinsurance capacity and compounded by an increasing trend towards tendering reinsurance programmes. 29% of interviewees believe that prices will remain stable, mainly because of the view that their current level does not offer any scope for further reductions and a growing number of reinsurers will return to technical pricing. Not a single market participant anticipates price increases unless, of course, a major global catastrophe event changes the dynamics of reinsurance supply and demand.

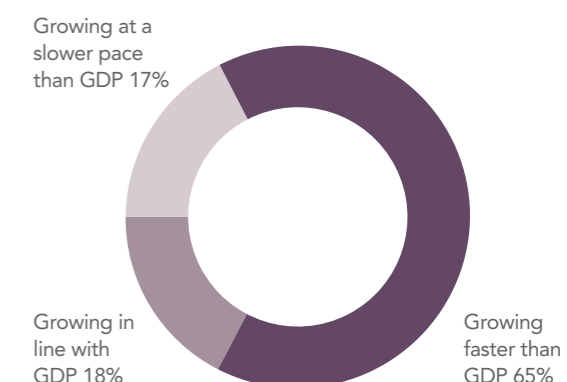
**OUTLOOK ON REINSURANCE PRICES**



**REINSURANCE EXPOSURE GROWTH**

Over the next 12-24 months, almost two thirds of the interviewees expect reinsurance exposure (i.e. the sums insured) to grow at a faster pace than the GCC countries' GDP. A major factor behind this reasoning is the expectation that underlying direct non-life insurance markets will expand more rapidly than the overall economy as insurance penetration rises and approaches levels which are more commensurate with the GCC countries' GDP per capita levels. In addition, reinsurance exposure will rise in tandem with rapidly growing insurable assets in areas which are exposed to natural disasters.

**OUTLOOK ON REINSURANCE EXPOSURE GROWTH**



“ Overall reinsurance exposure is expected to grow faster than GDP, primarily driven by the engineering and construction lines of business. ”

**Mohamed Akoob,** Managing Director,  
Hannover Re Takaful

“ 'Nat cat' exposure in the GCC region is expected to grow significantly as well as insurers' and reinsurers' awareness of the need to control and inform accurately about it. ”

**Enrique Ballesteros,** Manager Middle East,  
Mapfre Re

“ Climate change has already modified the physical sphere in the Middle East, as manifested by an increasing number of heat spells and droughts, increases or decreases in rainfall and changes in the frequency and intensity of extreme weather events. ”

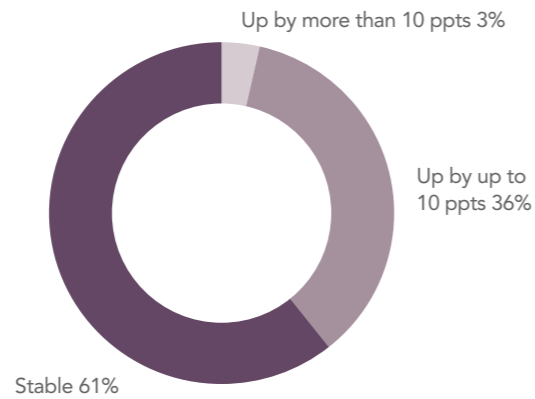
**Andreas Pollman,**  
Head of MENA Region,  
Munich Re

AVERAGE RETENTION LEVELS

On average, GCC insurers only retain about 54% of their non-life premium income (including medical and health), one of the lowest levels worldwide. 61% of interviewees expect this pattern to remain unchanged over the next 12-24 months, citing the soft reinsurance market outlook and the lack of sufficient pressure from reinsurers and regulators to increase retentions. Many cedants enjoy high commission income and do not believe that their profitability could be boosted by retaining more risk.

However, 36% of interviewees expect that retentions will increase by up to 10%, as consolidation gathers pace, the balance sheets of domestic insurers strengthen, pressure from rating agencies mounts and risk taking is increasingly viewed as a potential contributor to overall profitability. Some ceding companies are also starting to question the sustainability of their current heavy reliance on (foreign-based) reinsurers.

OUTLOOK ON RETENTION LEVELS



“ Higher retentions offer the potential for better financial results – both for the reinsurer and the cedant. ”

**Dermot Dick, CEO,**  
Q Re

“ We expect some domestic insurers' retentions to go up as their balance sheets strengthen. ”

**Russell Merrett, Managing Director,**  
Hiscox

“ We expect retention levels to start rising as consolidation gathers pace and the technical expertise of cedants strengthens further. ”

**Heather Goodhew,**  
**Head of Asia & Middle East,**  
Aspen Re

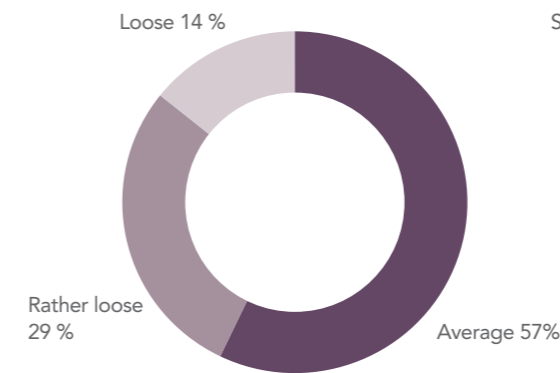
REINSURANCE TERMS AND CONDITIONS

The majority of interviewees consider overall reinsurance terms and conditions in the GCC as average. Even though there is a certain trend towards broadened coverage and reduced deductibles, the strong presence of international brokers ensures that regional policy terms and conditions generally develop in line with the global market. In general, terms and conditions

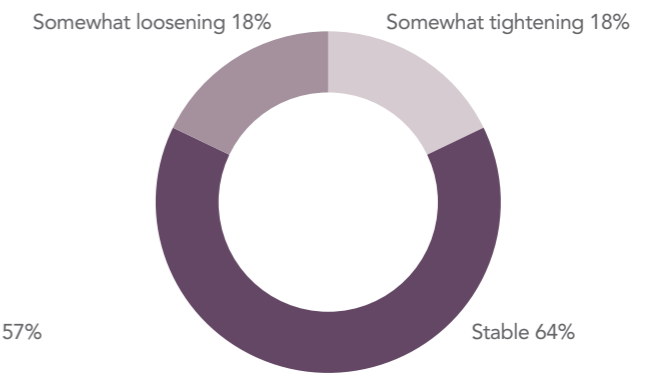
in the GCC countries reflect the current soft cycle of global reinsurance markets.

Almost two thirds of interviewees do not expect this pattern to change over the next 12-24 months, with the remaining third equally split between those who expect a further loosening and those anticipating a tightening of terms and conditions.

CURRENT REINSURANCE TERMS AND CONDITIONS



OUTLOOK ON REINSURANCE TERMS AND CONDITIONS



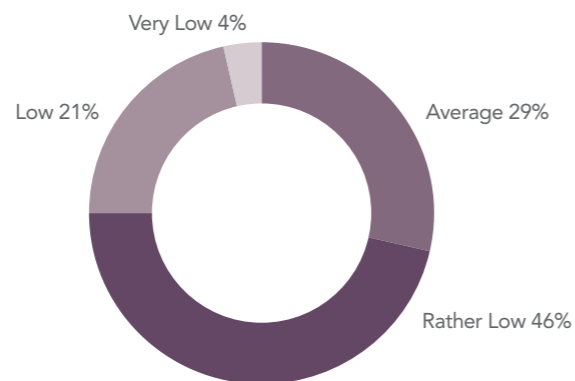
“ ...the strong presence of international brokers ensures that regional policy terms and conditions generally develop in line with the global market. ”

## OVERALL REINSURANCE PROFITABILITY

Compared with current pricing levels interviewees' assessment of overall reinsurance profitability is relatively sanguine. This picture reflects the region's low and relatively stable loss ratios and the absence of large, market-transforming catastrophe claims.

Almost a third of market participants consider profitability levels as 'average' and close to 50% as 'rather low'. Only a quarter of interviewees take a more negative stance.

### CURRENT OVERALL REINSURANCE PROFITABILITY



“ Margins are squeezed but still acceptable given the absence of large losses. ”

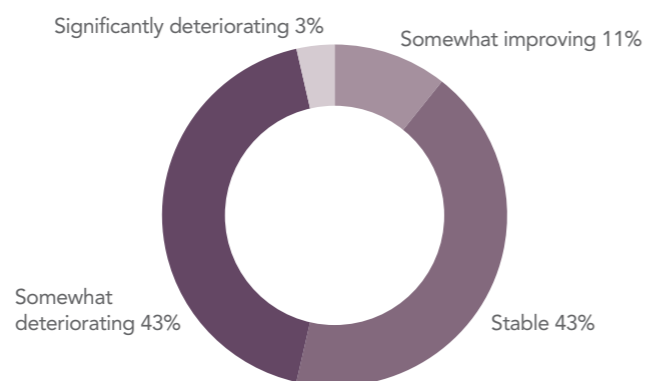
**Gail Norstrom, CEO,**  
Gulf Re

“ Margins may be squeezed but seem to be still acceptable for most reinsurers. ”

**Christopher Pleasant, Managing Director,**  
Guy Carpenter

As far as the 12-24 months outlook on profitability is concerned, 43% of interviewees do not expect any major changes. The same percentage, however, expects a slight deterioration as capacity continues to enter the market and the investment outlook remains subdued. Again, there is a broad consensus that any significant improvement in overall profitability would have to be driven by a major global catastrophe loss event.

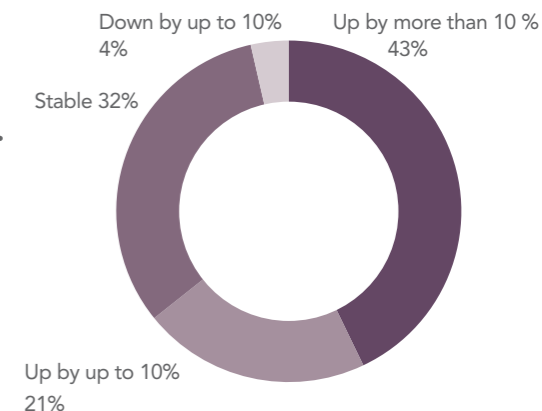
### OUTLOOK ON REINSURANCE PROFITABILITY



## OVERALL REINSURANCE CAPACITY GROWTH

64% of interviewees believe that total reinsurance capacity deployed in the GCC countries will further increase; 43% even expect another major expansion by more than 10% as demand in many global reinsurers' traditional markets remains anemic and regulatory changes (Solvency II) encourage reinsurers to seek additional opportunities for portfolio diversification.

### OUTLOOK ON OVERALL REINSURANCE CAPACITY GROWTH



“ We expect a further growth in overall reinsurance capacity in the region, not least because international brokers are expanding their presence in the GCC. ”

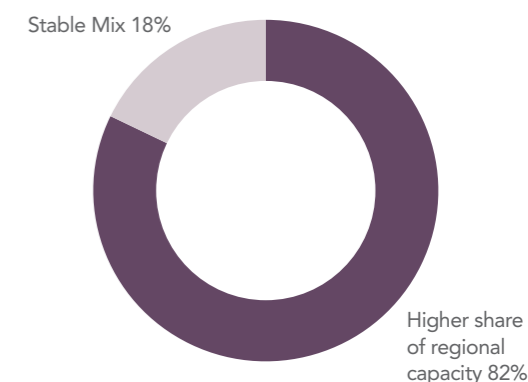
**Heather Goodhew, Head of Asia & Middle East,** Aspen Re

“ We expect reinsurance capacity to grow further as the GCC reinsurance markets offer tremendous growth prospects as well as an attractive hedge for a variety of global exposures. ”

**Atish Suri, Divisional Director,** Willis Re

There is a general consensus among interviewees that the share of regional capacity (including 'Eastern' capacity from Asia) will continue to increase at the expense of 'traditional' international capacity from Continental Europe, Bermuda or London. 82% of interviewees expect a further 'regionalisation' of capacity deployed in the GCC region as capital formation in the region remains strong, customers feel more comfortable about strongly rated regional capacity and international reinsurers aiming at 'technical' rather than 'adequate' rates may reduce capacity allocated to the GCC region. However, some interviewees also feel that industry consolidation will strengthen those domestic insurers who traditionally rely on international rather than regional capacity, somewhat offsetting the trend towards 'regionalisation'.

### OUTLOOK ON SPLIT INTERNATIONAL VERSUS REGIONAL CAPACITY



“ We are seeing more regional capacity but this may be more reflective of the soft market rather than indicative of a structural shift. ”

**Christopher Pleasant, Managing Director,** Guy Carpenter

“ Regional capacity is growing, not least because of local direct insurers expanding inwards reinsurance activities. ”

**Bruno Bertucci, General Manager & Senior Executive Officer,** Generali Middle East

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**LINEs OF BUSINESS-SPECIFIC PROSPECTS**

Over the next 12-24 months, medical and health insurance is expected to be the fastest growing line of business, fuelled by compulsory insurance requirements which are reshaping some of the region's non-life markets, in particular Saudi-Arabia. Engineering and construction business ranks second, reflecting a strong rebound after the financial crisis and the subsequent economic downturn. Energy business is also expected to

continue to grow robustly on the back of additional on-shore facilities. Other fast-growing lines include family Takaful insurance, i.e. Shari'a-compliant life insurance policies which are frequently required by banks for mortgage loans, and casualty insurance, driven by compulsory requirements but also reflective of a growing awareness in the wake of the financial crisis (e.g. Professional Indemnity).

**THE FASTEST GROWING LINES OF BUSINESS**

Mentions ■



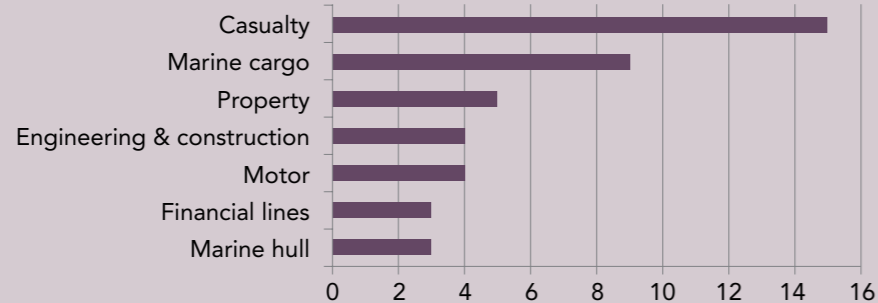
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“...medical & health insurance is expected to be the fastest growing line of business...”

When asked about the laggards in terms of growth, casualty business was most frequently mentioned, with most interviewees citing a still highly limited awareness as the main reason. Marine business ranks second as this market segment is perceived to be large and mature, with little scope for additional significant growth.

**THE SLOWEST GROWING LINES OF BUSINESS**

Mentions ■



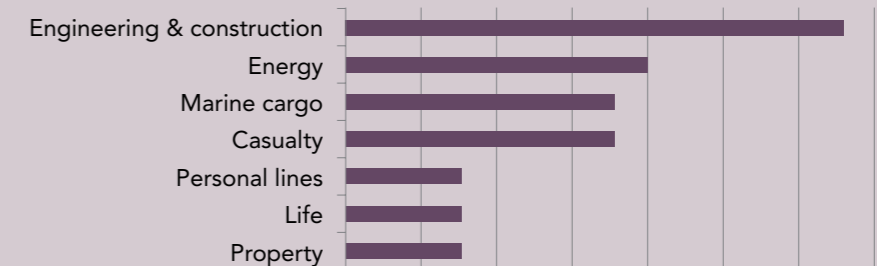
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Interviewees consider engineering and construction, energy and marine cargo as the most profitable lines of business. Also casualty is perceived to offer attractive profitability prospects, given a limited (albeit increasing, in particular in the UAE) degree of litigiousness. However, a number of interviewees caution that it is very difficult to establish a general picture as underwriting profitability very much depends on individual skills.

“Interviewees consider engineering and construction, energy and marine cargo as the most profitable lines of business.”

**THE MOST PROFITABLE LINES OF BUSINESS**

Mentions ■



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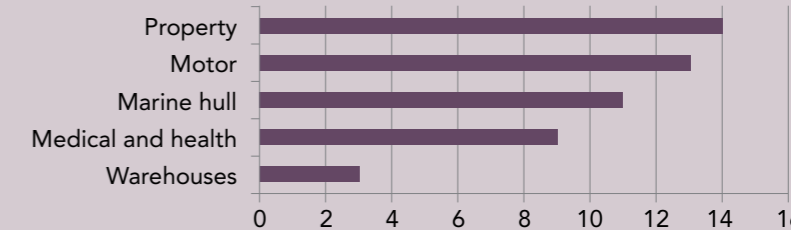
“Property business is considered to be the least profitable, reflecting fierce competition and ‘naïve’ capacity.”

Property business is considered to be the least profitable, reflecting fierce competition and ‘naïve’ capacity. The motor and medical lines of business are also mentioned

frequently as displaying a poor profitability, primarily because of their compulsory character and insurers’ limited scope for risk selection.

**THE LEAST PROFITABLE LINES OF BUSINESS**

Mentions ■



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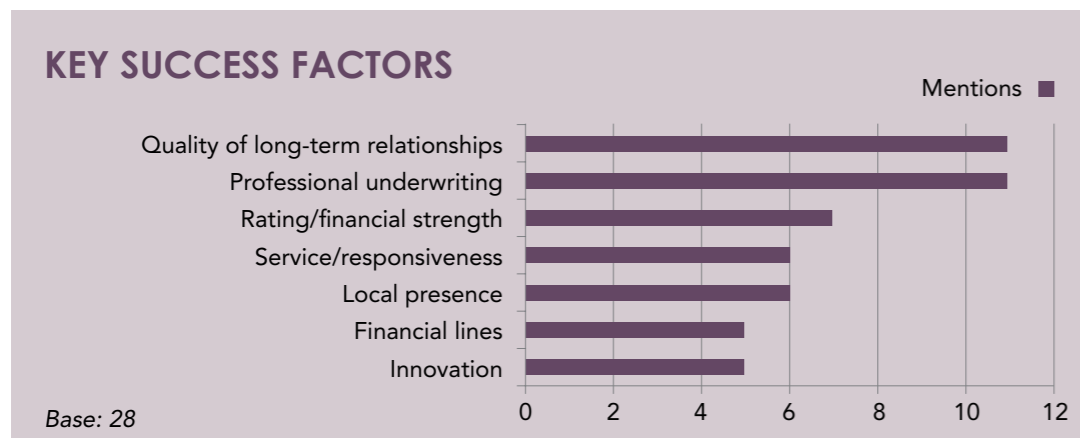
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## FACTORS SUPPORTING AND INHIBITING SUCCESS FOR REINSURANCE BUSINESS IN THE GCC REGION

AS A NEW AND RAPIDLY DEVELOPING INDUSTRY, STANDARDS OF REGULATION AND THEIR IMPLEMENTATION VARY WIDELY AND RELIABLE DATA IS DIFFICULT TO OBTAIN

The quality of long-term client relationships, a professional approach to underwriting and financial strength (ratings) are considered the most relevant success factors for reinsurers when doing business in the GCC region. Other frequently mentioned key success factors

include service quality and responsiveness, a local presence (i.e. an office in the region), client selection (given fierce competition and major differences between ceding companies) and innovation (in light of the preponderance of plain-vanilla products).



“ A local presence and the quality of client relationships are key success factors for foreign reinsurers operating in the GCC markets. ”

**Mohamed Akoob, Managing Director,**  
Hannover Re Takaful

“ A key success factor for reinsurers operating in the GCC is underwriting flexibility, i.e. their willingness to write more than just one line of business. ”

**Enrique Ballesteros, Manager Middle East,**  
Mapfre Re

“ Consistent and fair relationships, underwriting expertise and timely overall service are key success factors of doing reinsurance business in the GCC region. ”

**Dr. Chérif Chentir, Regional Chief Underwriting Officer,**  
SCOR SE

“ Cultural sensitivity is a key success factor for foreign reinsurers as their counterparts in the GCC region are highly educated and sophisticated individuals. ”

**Trevor Oates, Treaty Underwriter,**  
Canopus

“ In order to increase premium growth and capitalise on the very real market potential in the region, re/insurers would benefit from both greater product innovation and the utilisation of an experienced intermediary that would help them to target an appropriate audience for their products. ”

**Russell Walters,**  
**CEO, Reinsurance,**  
Aon Re Middle East

Aggressively competing for market share is perceived as the most serious pitfall for reinsurers operating in the GCC region, followed by wrong decisions as a consequence of lacking region-specific expertise and cedant data. Other frequently mentioned pitfalls include a lack of cultural sensitivity, e.g. an arrogant or ‘preaching’ attitude towards clients, and a lack of continuity, i.e. a purely opportunistic approach to deploying and withdrawing underwriting capacity.

“ Aggressively competing for market share is perceived as the most serious pitfall for reinsurers operating in the GCC region... ”



Interviewees were also asked about their views on what the GCC region needs to accomplish in order to develop into a globally recognised, reputable and sophisticated reinsurance marketplace which offers more than just the prospect of growth.

Most interviewees believe that a more effective and consistently applied regulatory regime would boost the region’s global reputation as a reinsurance marketplace. In some countries, current solvency regulations even fall short of the outgoing Solvency I regime in the European Union, i.e. do not stipulate minimum capital requirements as a function of premium income and reserve levels. In other countries, more sophisticated risk-based capital

requirements are in place but not properly enforced. Other flaws that many interviewees would like to see tackled include the ‘dichotomy’ of regulatory regimes (i.e. conflicting onshore and off-shore regimes within the same country) and the lack of consistency and mutual recognition between the GCC countries.

A more technical mindset of insurers ranks second on the interviewees’ ‘wish list’: Domestic companies need to demonstrate a genuine appetite for risk, i.e. increase their retentions, and develop appropriate capabilities in Enterprise Risk Management. A third frequently mentioned area to address is the availability of local talent, e.g. through higher and more targeted investments in insurance-specific education and training.

### HOW THE GCC REINSURANCE MARKETS CAN BUILD A GLOBAL REPUTATION FOR EXCELLENCE

Mentions ■



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“ The industry would benefit from strong trade associations which could promote market discipline on the basis of more reliable and comprehensive market data. ”

**Chakib Abouzaid, CEO, Takaful Re**

“ Regulation needs to strengthen further, ensuring an effective market control and accelerating consolidation. ”

**Yassir Albaharna, CEO, Arig**

“ A robust pan-regional regulatory framework offering a ‘single passport’ to insurers and reinsurers would boost the global attractiveness and recognition of the GCC marketplace. ”

**Dermot Dick, CEO, Q Re**

“ Improvements in consistency and enforcement of regulations could boost the global attractiveness of the GCC (re)insurance marketplace. ”

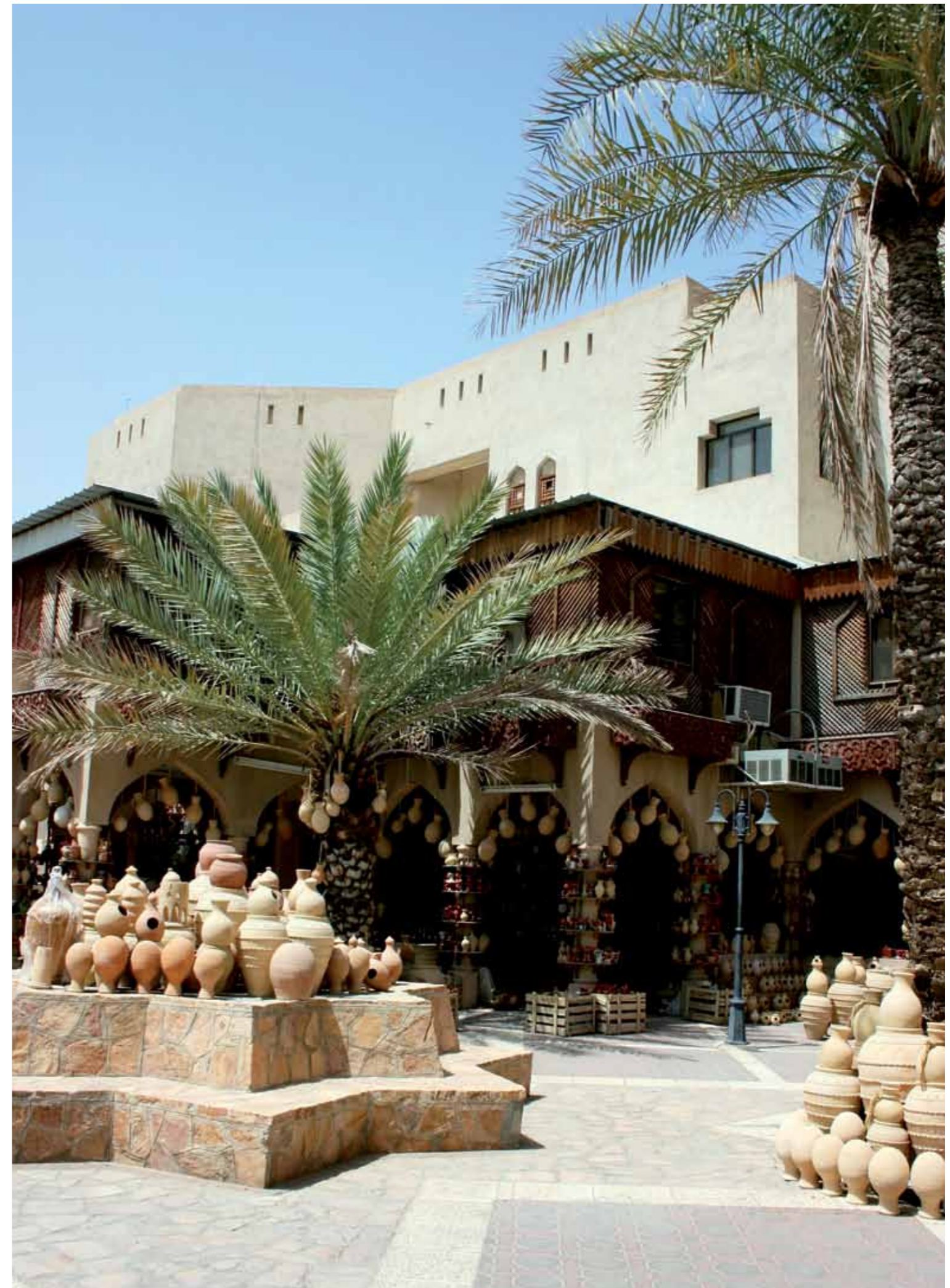
**James Portelli, Executive Vice President, Oman Insurance**

“ The lack of reliable historical data is a major challenge that needs to be addressed by insurers, regulators and trade associations alike in order to exploit the region’s full potential. ”

**Heather Goodhew, Head of Asia & Middle East, Aspen Re**

“ To bolster the overall attractiveness of the GCC markets, we believe that the public and the private sectors need to work together to bring appropriate re/insurance solutions to consumers and businesses in the region. In this regard, governments can utilise re/insurers’ long term experience of structuring and marketing products to global clients. ”

**Russell Walters, CEO, Reinsurance, Aon Re Middle East**



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