UAE Insurance Market Review

Husain Feroz Ali takes a detailed, actuarial view of the UAE insurance market.

As the year 2022 comes to a close, it's time to take a look at the performance of the insurance market in the United Arab Emirates (UAE). The country has a diverse and rapidly growing economy and the insurance industry is no exception to growth. First and foremost, it's important to note that the insurance industry in the UAE has been growing at a steady pace in recent years. An analysis performed on listed insurance companies in the UAE shows that YE 2020 & YE 2021 growth in GWP was three percent and seven percent respectively (refer Chart 1). In the first nine months of 2022, the GWP has grown by 13 percent (refer Chart 2) compared to the same period last year. This increase has been observed from conventional insurers, while Takaful insurers showed a decrease in contributions. The top three insurers (Orient, ADNIC & Sukoon) have shown maximum premium growth pushing up the average growth in GWP across the industry (27 percent in Q3 2022 with respect to Q3 2021).

However, this growth came at the expense of falling net profits margin from 22 percent in Q3 2021 to 15 percent in Q3 2022 and this decline was spread over 20 insurance companies so the effect of falling profitability was widely spread over the market.

The loss ratio has remained close to 60 percent for the first nine months of 2022, similar to the previous year – the key reason for worsening profitability is the increase in the expense ratio of the industry from 29 percent for the first nine months of 2021 to

CHART 2: GROSS WRITTEN PREMIUM MOVEMENT

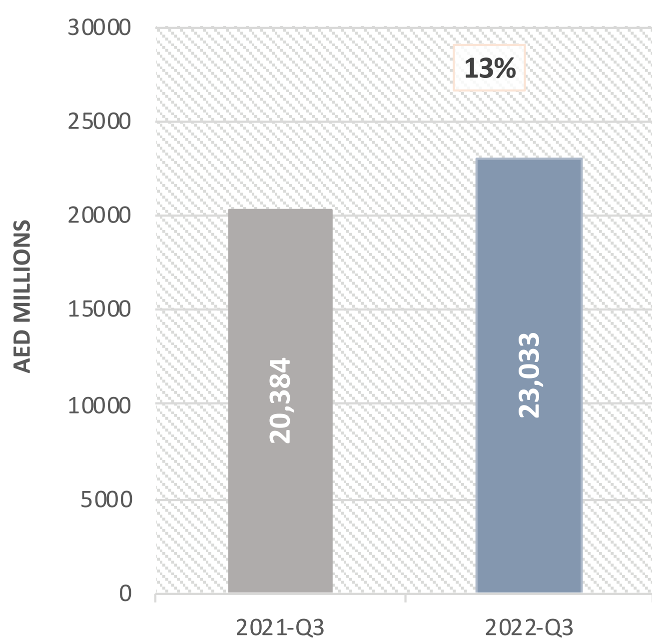
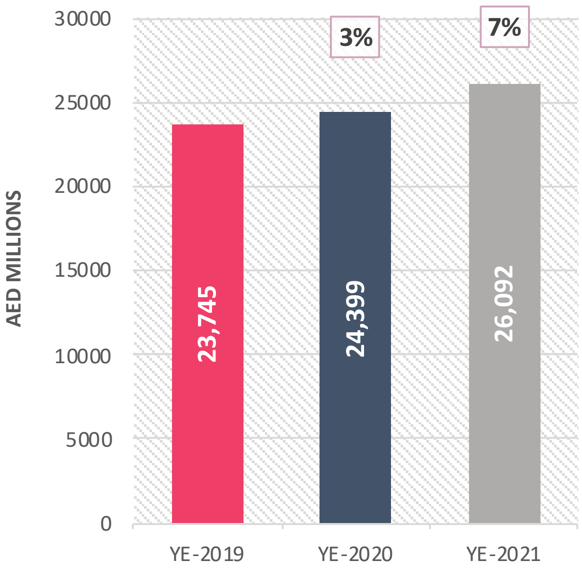


CHART 1: GROSS WRITTEN PREMIUM MOVEMENT



34 percent for the same duration in this year. The significant increasing trend of expenses is a cause of concern until significant steps are taken by the companies to reduce their expense to curb this issue. Expenses are on the increase due to worldwide challenging macroeconomic conditions such as the commodity super-cycle, stagflation (low growth and high inflation combo) and continuing supply shocks due to COVID-19 and Russia-Ukraine war.

There is also a significant decline in the industry's Total Comprehensive Income AED0.71 billion, from last year's figure of AED2.22 billion. Decline in stocks/investment market movements (fair value losses/decline in return on investments) and decrease in net profit margins are reasons for this decline. As stagflation (low growth, high inflation) hit the global market hard this year, the investment portfolios have been the biggest casualty of the uncertainty that has dominated in 2022-Q3.

The study included 28 list insurance companies in UAE; of which the top three insurers have 54 percent of the GWP market share in Q3 2022 which means that remaining 25 insurers compete for 46 percent of the remaining pie which shows a highly fragmented market. The insurance sector is experiencing high M&A and consolidation activities similar to KSA which would benefit the industry as it would mean that sophisticated insurers with better risk management, capital adequacy and technical capacity can emerge, operate and survive in the tough competitive landscape of the country.

MARKET SEGMENTATION

It is useful to break the market wide analysis into further sub-segments. One way is to categorise insurance companies into different Tiers based on their GWP levels to see how even or uneven the performance ratios have been over time. For this purpose, the following categories are made:

This shows the following skewness in results between insurers in different tiers:

1. Tier 1 companies enjoy health net profit margins relative to other tiers.
2. Retention ratio increases from Tier 1 to Tier 4 (refer Chart 5). This is largely due to the composition of lower tiered insurers largely being motor and medical whereas Tier 1 insurers have considerable P&C business as well that has low retention ratios. It is felt that there is an inherent need to optimise reinsurance arrangements so that companies can benefit from underwriting profitable business without passing the risk and reward to reinsurers and just acting as fronting partners; at the same time not effecting their solvency position.
3. Tier 2 appears to be in the 'sweet spot' of lowest loss ratio (refer Chart 5). This is because Tier 2 insurers' market position enables them to balance themselves between the two extremes of Tier 1 and Tier 3-4 dynamics. The dynamics for top insurer

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TABLE 1: COMPANY CATEGORISATION BASED ON GWP

0-AED400 Million	Tier 4
AED400 Million - AED800 Million	Tier 3
AED800 Million - AED3 Billion	Tier 2
AED3 Billion - Above	Tier 1

The ranges have been pro-rated for nine months for the purpose of this report

CHART 3: GROSS WRITTEN PREMIUM

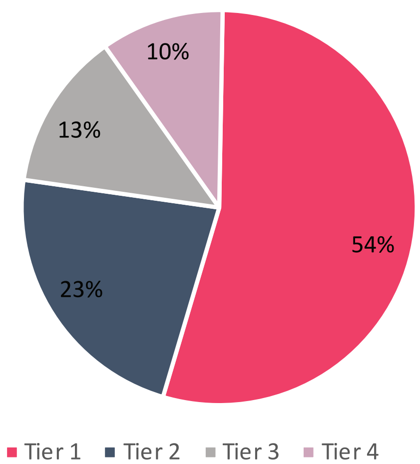
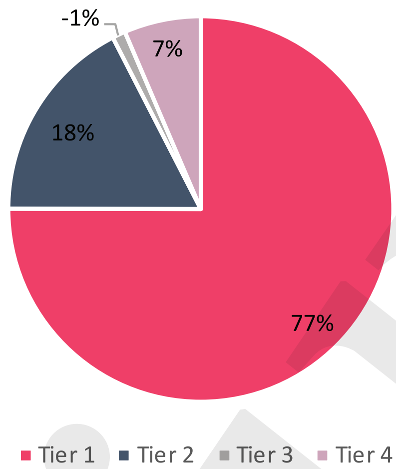


CHART 4: NET PROFIT



that pushes their loss ratio up is that they are the market leaders and so there is considerable pressure to maintain high renewal ratio of their clients to maintain their market leading position. Tier 3-4 has low underwriting economies of scale and so undercut prices gain more market share but lose on profitability due to this. Tier 2 has reasonable underwriting economies of scale and is not in a market leading position so can afford to focus more on profitability.

4. Expense ratio of Tier 1 is lowest (refer Chart 5) which is to be expected as they have the largest business portfolios to spread over their expense base. The expense ratio is computed as the G&A expenses plus the net commissions (commissions paid less commissions earned) along with other operational expenses and income recorded for the period by the companies as a proportion of net earned premiums.

RECENT REGULATIONS

The Central Bank of the UAE (CBUAE), as the supervisory and regulatory authority, acts as a strong guiding force on the market. Regulatory reforms have been introduced to ensure safety and soundness of insurers, protecting policyholders and developing the insurance sector in line with international best practices that include:

» An approval process for distribution of dividends for insurance companies (or profit repatriations from foreign branches). The Notice (Dividend announcement and Profits Repatriation – Approval Process) was issued recently on 21 November 2022 (Notice No. CBUAE/BSD/2022/4697).

» Corporate governance regulation for insurance companies (Circular No. 24/2022) is applicable to all licensed insurance companies in the UAE including foreign branches. This circular provides comprehensive guidance on various dimensions of corporate governance, such as composition of board of directors, compensation structure, independence between risk management and risk-taking function, takaful Shari'ah compliance and making sure that business is conducted in a fair ethical manner and that risks are taken within the risk appetite of the company.

» The notification "Escrow Account for Funds & Premiums of Insurance Companies" issued on 22 November 2022 (Notice No. CBUAE/BSD/2022/4708) requires all insurance agents/brokers/ TPAs to set up escrow accounts for insurance companies. These escrow accounts are only to be used for deposit of premiums/funds of the concerned insurance company, payment of dues to the insurance company and payment of dues from insurance company to third parties. Escrow accounts are where third party agrees to hold and transact sums of money upon contractual terms and conditions mutually decided by the two primary parties. This helps to increase security of the arrangement between the insurer and the insurance agents/brokers/ TPA and can also reduce the liquidity issues and reduce receivables.

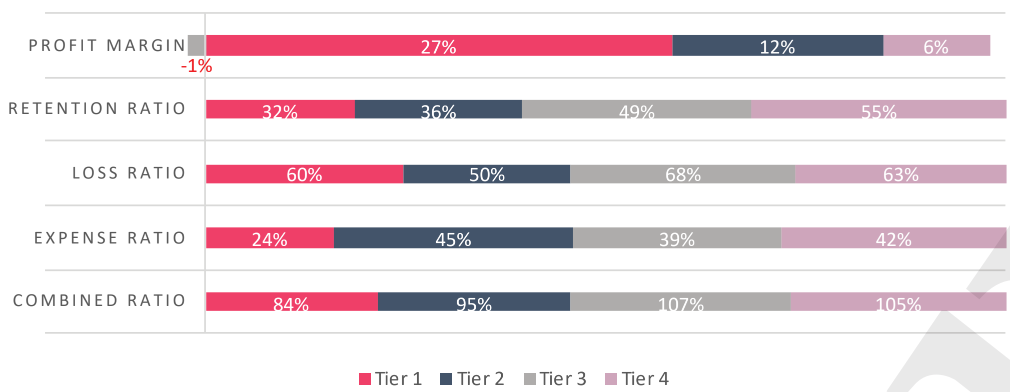
Challenges, Opportunities & Way Forward

Insurers should be cautious of competing on pricing especially as IFRS17 is scheduled to go live from 1 January 2023. IFRS17 will reveal the onerous loss-making contracts of insurance and bring them onto the surface. Previously, under IFRS4, they were being swept under the surface by cross-subsidising with other profitable parts of the portfolio. The onerous part being shown will specially impact Medical and Motor portfolios as price competition is very intense in these lines of business.

Moreover, due to requirement of explicit Risk Adjustment inclusion in reserves, underpricing in face of potential increase in reserves will further worsen losses unless the insurance industry takes pricing sustainability into account.

There is higher demand for life insurance products (mortality protection, health) as consumers' risk awareness has increased during the pandemic. We expect claims inflation to feed through into rate hardening in non-life commercial and personal lines

CHART 5: RATIOS BY TIER



this year and next. Depreciation, energy and food inflation leading to macroeconomic weakness. Drop in purchasing power can affect new business in life insurance, lead to higher lapses and surrenders during economic downturns and more requests for policy loans.

The UAE insurance market faces several key challenges and opportunities. The most significant challenge is increasing competition in all segments of the market, leading to lower premiums and reduced profits for insurers. Other key challenge is the ongoing uncertainty surrounding the global economy. The impact of the COVID-19 pandemic, as well as geopolitical tensions and trade disputes, have created a challenging environment for businesses around the world. As a result, many insurance companies are being cautious about their growth plans and are focusing on building resilience and financial stability in the face of these challenges.

On the other hand, there are also several opportunities ahead for insurers. These include developing innovative products to meet customer needs. Additionally, there is potential for growth in emerging areas such as cyber risk insurance and health tech products.

Many insurance companies in the country are looking to expand their operations and tap into new markets. In addition, the UAE government is continuing to support the growth of the insurance industry through a range of initiatives, including regulatory reforms and the development of new insurance products.

The UAE insurance market has several strengths which make it attractive for investors and insurers alike. These include a well-developed infrastructure for insurance operations, a diversified economy with healthy demand for insurance products, and a highly educated population with a good understanding of insurance concepts. In addition to these trends, the UAE insurance market has also seen an increase in the use of technology and digital tools. This has helped to improve their efficiency and speed, making it easier for customers to purchase policies and for insurers to process claims. Use of artificial intelligence and machine learning to improve the accuracy of risk assessments and underwriting processes will continue to bring innovation to insurance industry.

However, there are also some weaknesses which need to be addressed to ensure sustainable growth in the sector. These include a lack of long-term customer loyalty due to low customer satisfaction levels, limited product innovation due to conservative risk management strategies, and high operational costs. Looking ahead, we can expect further growth in the UAE insurance market as demand for insurance products increases due to an improving economy and increasing awareness of risk management among consumers. Additionally, emerging technologies such as IoT, AI, blockchain etc., will create new opportunities by increasing customer engagement and reduce costs. Finally, insurers will also need to focus on customer acquisition and retention strategies as well as product innovation to remain competitive in this increasingly crowded market.

In conclusion, the insurance market in the UAE has continued to grow and evolve in Q1-Q3 2022. The ongoing uncertainty surrounding the global economy has created challenges for insurers, and many companies are focusing on building resilience and stability. Despite these challenges, the insurance market in the UAE remains strong and offers a wide range of opportunities for growth. Ⓟ

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