

AM Best's Insurance Market Briefing - Manama



BIA

جمعية التأمين البحرينية
BAHRAIN INSURANCE ASSOCIATION

In collaboration with



18 November 2024

AM Best's Insurance Market Briefing - Manama

Nick Charteris-Black
Managing Director,
Market Development – EMEA

09:30 **Welcome and Introductory Comments**
*Nick Charteris-Black, Managing Director,
Market Development – EMEA*

09:40 **Global Reinsurance Update**
*Greg Carter, Managing Director, Analytics
– EMEA & AP*

10:05 **Updates on the MENA Regional
Reinsurance Segment**
*Mahesh Mistry, Senior Director, Head of
Analytics - London*

10:30 **An Analytical Look at the Major UAE
Floods of April 2024**
Emily Thompson, Senior Financial Analyst

11:15 

11:45 **Observations on the Implementation of
IFRS17**
*Shivash Bhagaloo, Managing Partner, Lux
Actuaries & Consultants*

12:15 **Best's Credit Rating Methodology (BCRM) in
Action: Mock Rating Committee**
*- Greg Carter, Managing Director, Analytics –
EMEA & AP*
*- Mahesh Mistry, Senior Director, Head of
Analytics – London*
- Emily Thompson, Senior Financial Analyst

13:00 **Closing Comments**
*Nick Charteris-Black, Managing Director,
Market Development – EMEA*

13:15 **Networking Lunch**

Disclaimer

Copyright © 2024 by A.M. Best Company, Inc. and/or its affiliates (collectively, “AM Best”). All rights reserved. No part of this report or document may be distributed in any written, electronic, or other form or media, or stored in a database or retrieval system, without the prior written permission of AM BEST. For additional details, refer to our *Terms of Use* available at AM BEST’s website: www.ambest.com/terms. All information contained herein was obtained by AM BEST from sources believed by it to be accurate and reliable. Notwithstanding the foregoing, AM BEST does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained herein, and all such information is provided on an “as is” and “as available” basis, without any warranties of any kind, either express or implied. Under no circumstances shall AM BEST have any liability to any person or entity for (a) any loss or damage of any kind, in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of AM BEST or any of its directors, officers, employees, or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory, punitive or incidental damages whatsoever (including without limitation, personal injury, pain and suffering, emotional distress, loss of revenue, loss of present or prospective profits, loss of business or anticipated savings, or loss of goodwill) resulting from the use of, or inability to use, any such information, in each case, regardless of (i) whether AM BEST was advised in advance of the possibility of such damages, (ii) whether such damages were foreseeable, and (iii) the legal or equitable theory (contract, tort or otherwise) upon which the claim is based. The credit ratings, performance assessments, financial reporting analysis, projections, and any other observation, position or conclusion constituting part of the information contained herein are, and shall be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor do they individually or collectively address the suitability of any particular financial obligation for a specific purpose or purchaser. Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. Service performance risk is the risk that an entity may not meet its contractual service performance obligations on behalf of its insurance partners. Consequently, neither credit ratings nor performance assessments address any other risk, including but not limited to, liquidity risk, market value risk or price volatility of rated securities. **NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR ASSESSMENT OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY AM BEST IN ANY FORM OR MANNER WHATSOEVER.** Each credit rating, performance assessment or other opinion must be weighed solely as one factor in any investment or purchasing decision made by or on behalf of any user of the information contained herein. Each such user will, with due care, make its own study and evaluation of each security or other financial obligation, and of each issuer and guarantor of, and each provider of credit support, and an independent view of service provider performance for, each security or other financial obligation that it may consider purchasing, holding, or selling or for each service contract that it may consider entering into. For additional detail on credit ratings or performance assessments, and their respective scales, usage, and limitations, refer to the Guide to Best’s Credit Ratings (<http://www.ambest.com/ratings/index.html>) or the Guide to Best’s Performance Assessments (<https://www.ambest.com/ratings/assessmentMethodology.html>).



Disclaimer

US Securities Laws explicitly prohibit the issuance or maintenance of a credit rating where a person involved in the sales or marketing of a product or service of the CRA also participates in determining or monitoring the credit rating, or developing or approving procedures or methodologies used for determining the credit rating.

No part of this presentation amounts to sales / marketing activity and AM Best's Rating Division employees are prohibited from participating in commercial discussions.

Any queries of a commercial nature should be directed to AM Best's Market Development function.



Global Reinsurance Update

Greg Carter
Managing Director, Analytics
EMEA & Asia Pacific, AM Best

Global Reinsurance Market

Outlook –

Positive: a distinct type of hard cycle

Robust Operating Results –

Global benchmarks clouded by IFRS 17 adoption

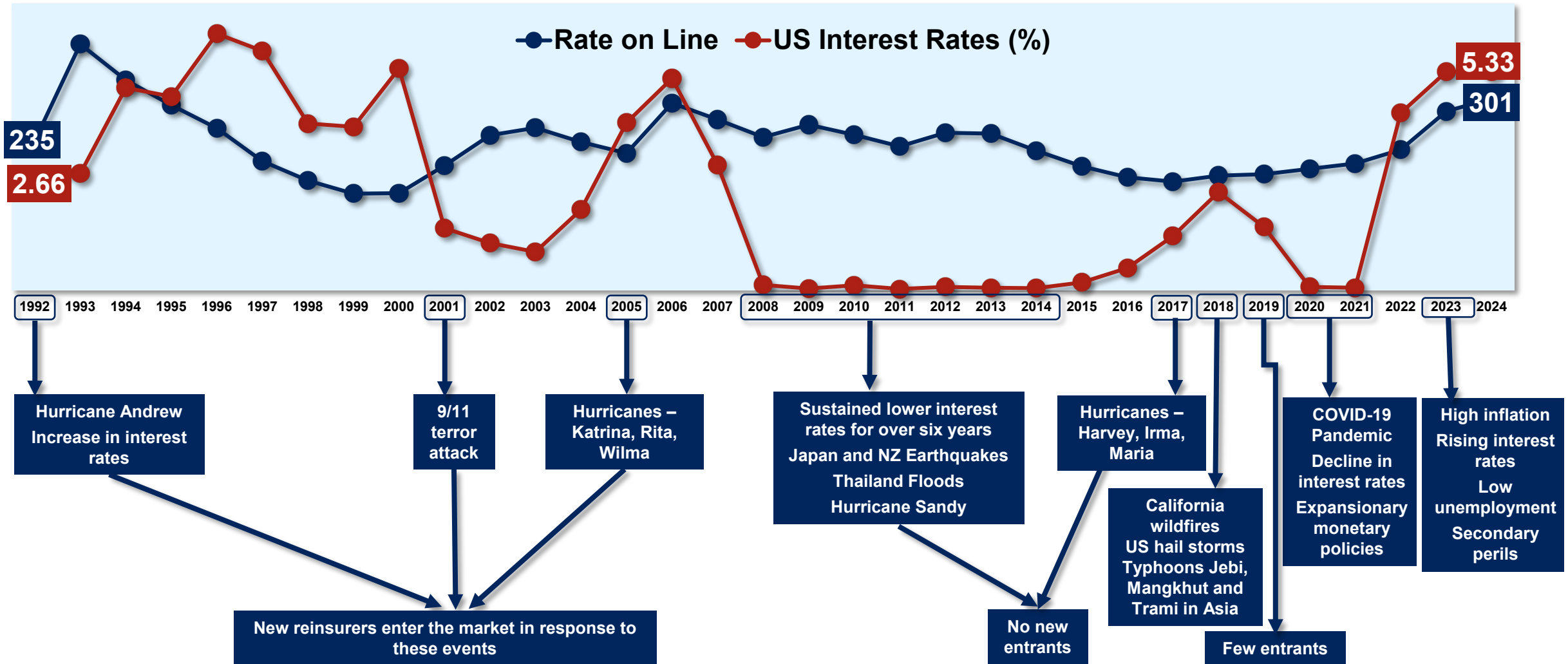
Available Capital –

The class that never was

AM Best's Expectations –

Profits: sustainable for longer than in prior cycles

Why is this Cycle Different?



AM Best's 2024 Market Segment Outlook – Global Non-Life Reinsurance

Outlook – Revised to Positive

- Not just re-pricing but de-risking
- Sustainable underwriting margins
- Capital protection instead of earnings stabilisers
- No capital depletion
- Claims activity driven by secondary perils. Strong demand
- Investor pressure behind underwriting discipline for longer



BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

June 12, 2024

Market Segment Outlook: Global Non-Life Reinsurance

The outlook is moving to Positive from Stable, as reinsurers continue to reap the benefits of higher interest rates

AM Best is revising its outlook for the global non-life reinsurance segment to Positive from Stable, driven primarily by the following factors:

- Improved property reinsurance margins, driven by increased rates and attachment points achieved in 2023. These conditions are unlikely to soften through the 2024 cycle.
- More robust investment income, driven primarily by higher new money yields on fixed-income instruments. A slower drop in rates than originally anticipated should support returns over the short term.
- The segment remains well capitalized, with no new players expected to disrupt current market discipline. Consolidation and a flight to quality are more likely.
- Demand for coverage remains high due to elevated loss frequency in property lines and general economic uncertainty.
- Adverse development reported on US casualty business has been mitigated by strong underwriting gains and redundant property reserves.
- Top performers have been able to raise capital to support growth initiatives.

Margins Continue To Improve; Property Cat Risk Realigns with Primary Carriers

In 2023, non-life reinsurers reported their most favorable year of the past five. The realignment of attachment points in the property reinsurance market allowed reinsurers to limit their losses throughout the year, despite active weather patterns. When combined with healthy increases to rate-of-line, the result was an underwriting margin that hasn't been realized since 2014.

Improved and stabilized underwriting margins followed a strong result in 2023, despite heavy weather-related losses in the U.S. Hurricane season and other events.



Drivers

De-risking

- Realignment of interests
- Shift away from high-frequency layers
- Tighter terms and conditions

Robust Capitalisation

- Hard pricing to last longer
- More efficient capital management
- No capital depletion

No New Class of 2024

- No new company formations despite attractive pricing
- Capital used for opportunistic use or in ILS

Demand for Complex Risk

- Cedents looking to restore risk transfer
- Emerging risks, cyber and AI challenging risk transfer

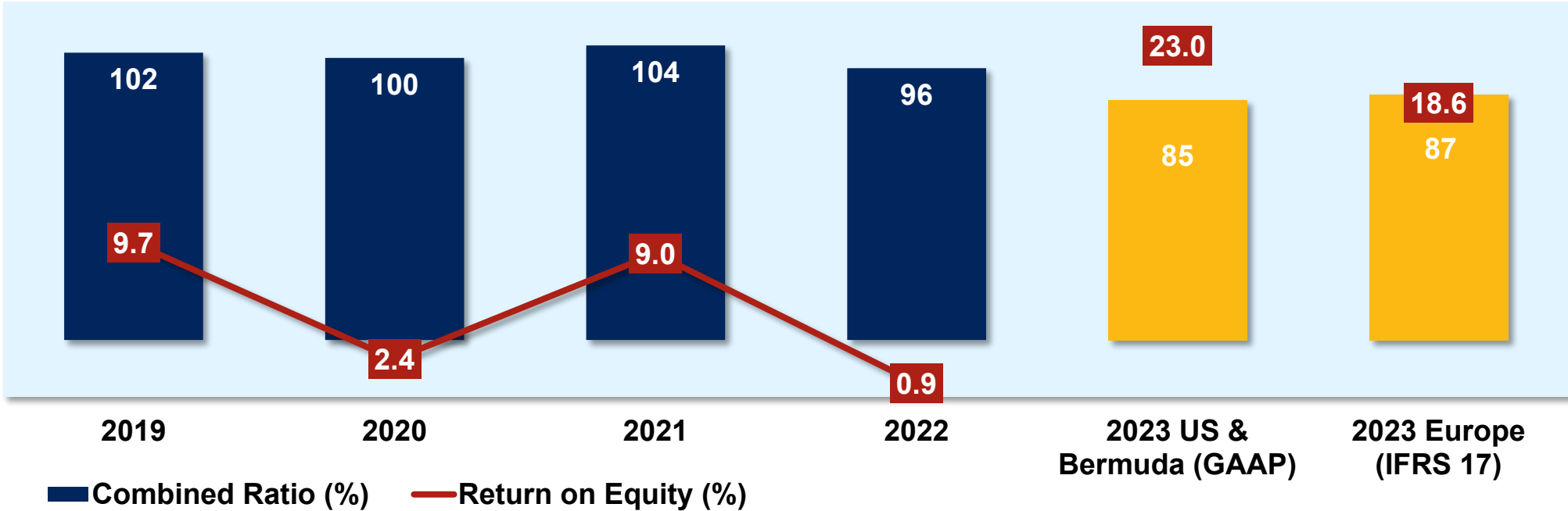
Role of Interest Rates

- Not as impactful as in prior cycles

Return on Equity and Combined Ratio



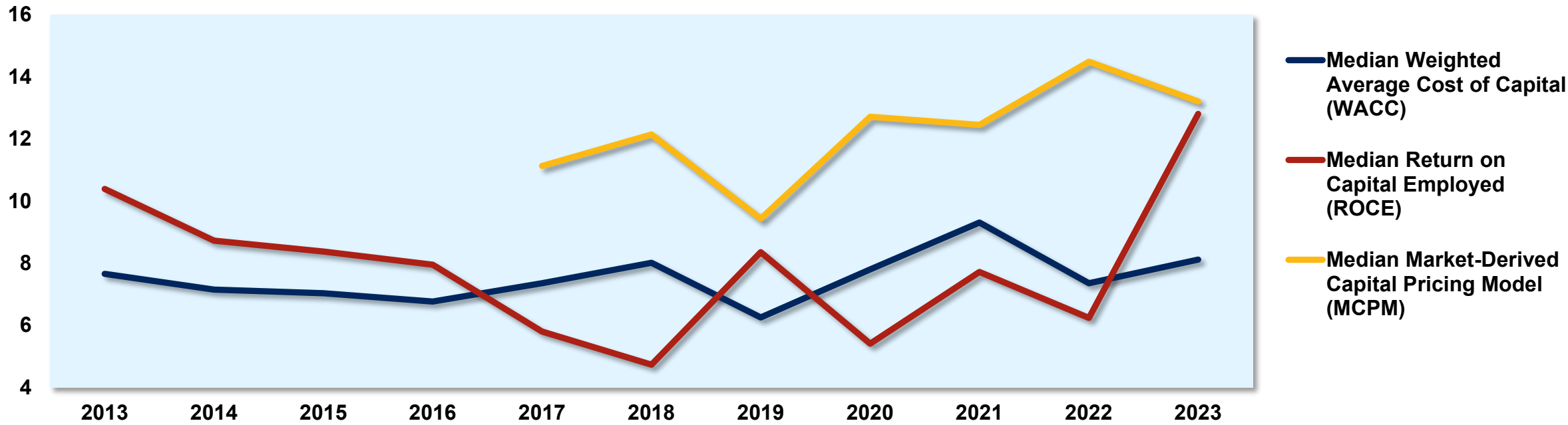
Global Reinsurance Market 2019-2022 with 2023 Split – US & Bermuda (GAAP) and Europe (IFRS 17)



Return on equity and combined ratios are global through to 2022.
 US & Bermuda represents a composite of seven large reinsurers.
 Europe represents composite of large reinsurers that filed under IFRS 17 at year-end 2023.
 Source: AM Best data and research



Cost of Capital and Realignment of Risk



Reinsurers meeting cost of capital

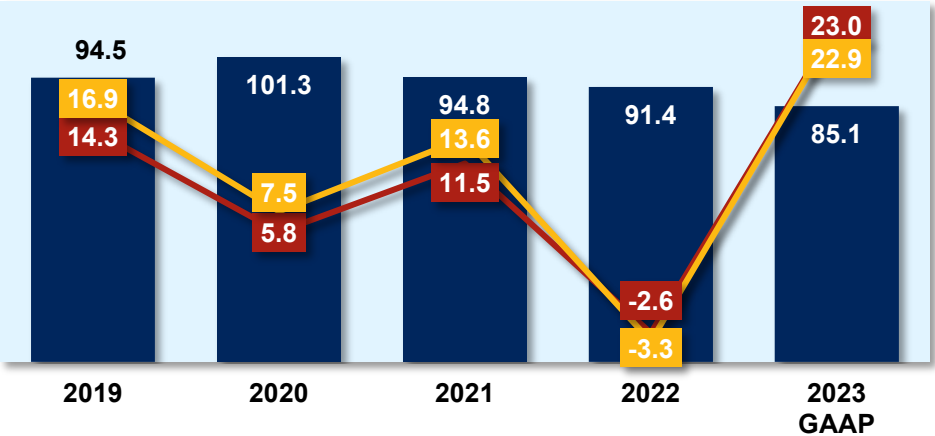


Market-Derived Capital Pricing Model (MCPM) is based on a smaller sample size and has limited years due to availability of data
Source: Bloomberg

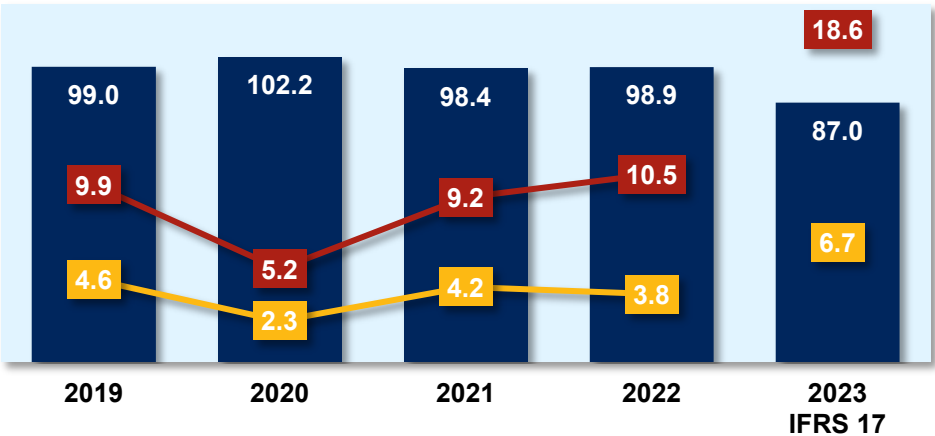


Reinsurers – US & Bermuda, Europe, Lloyd’s and Asia Pacific

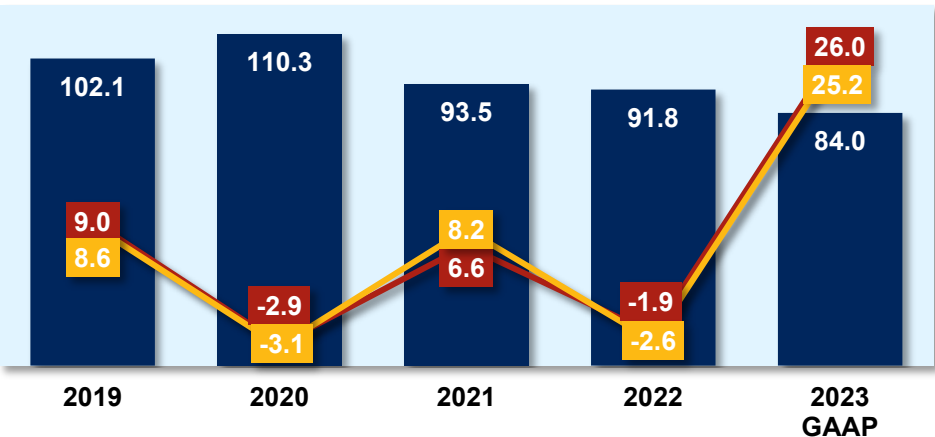
US & Bermuda



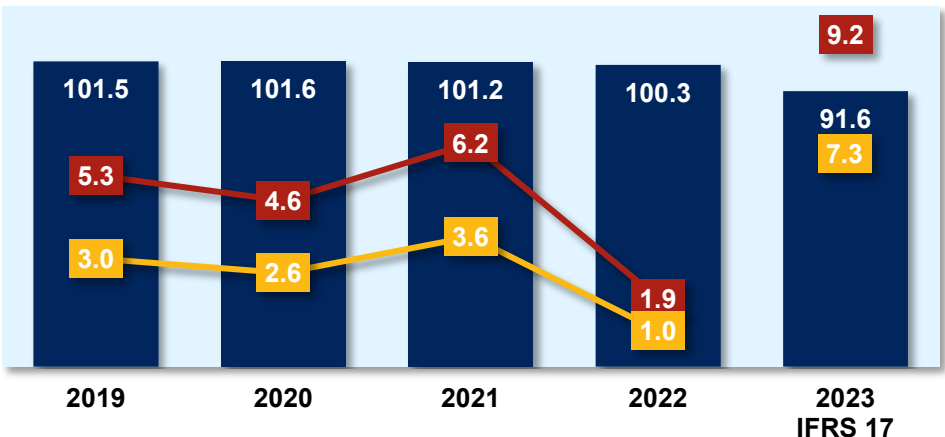
Europe



Lloyd’s



Asia Pacific



Combined Ratio

Return on Equity

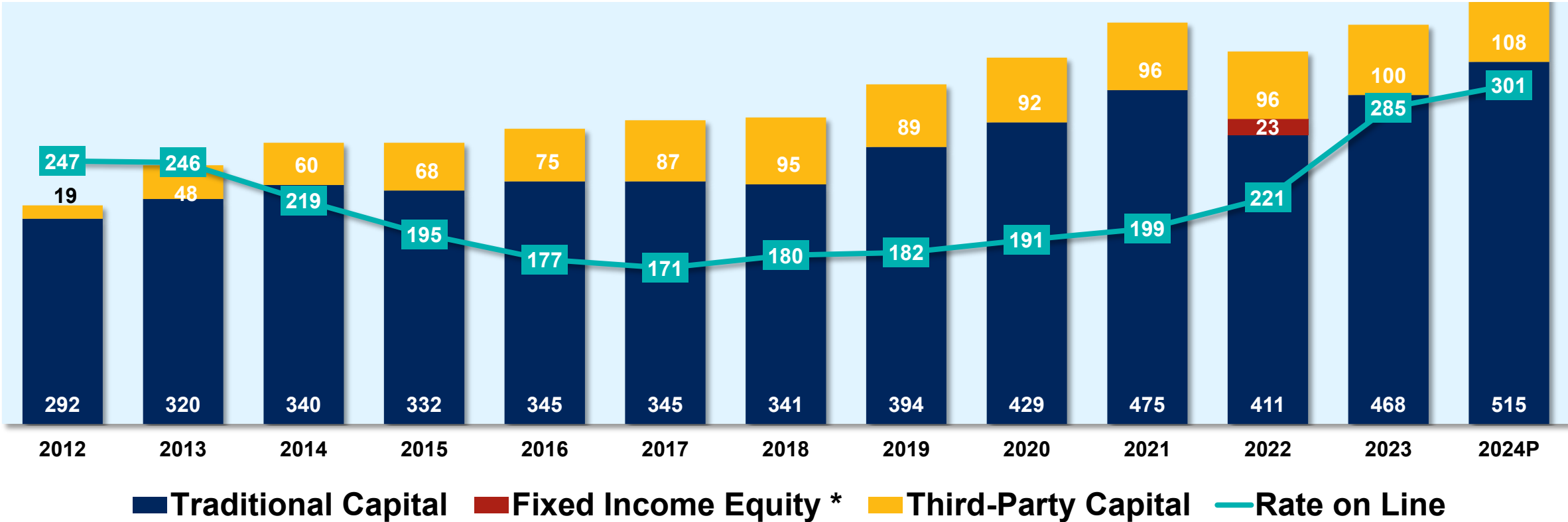
Return on Revenue

Europe IFRS 17 comprises Munich Re, Hannover Re and SCOR.



Global Reinsurance Market Capital

Estimated Dedicated Reinsurance Capital (USD Billions)

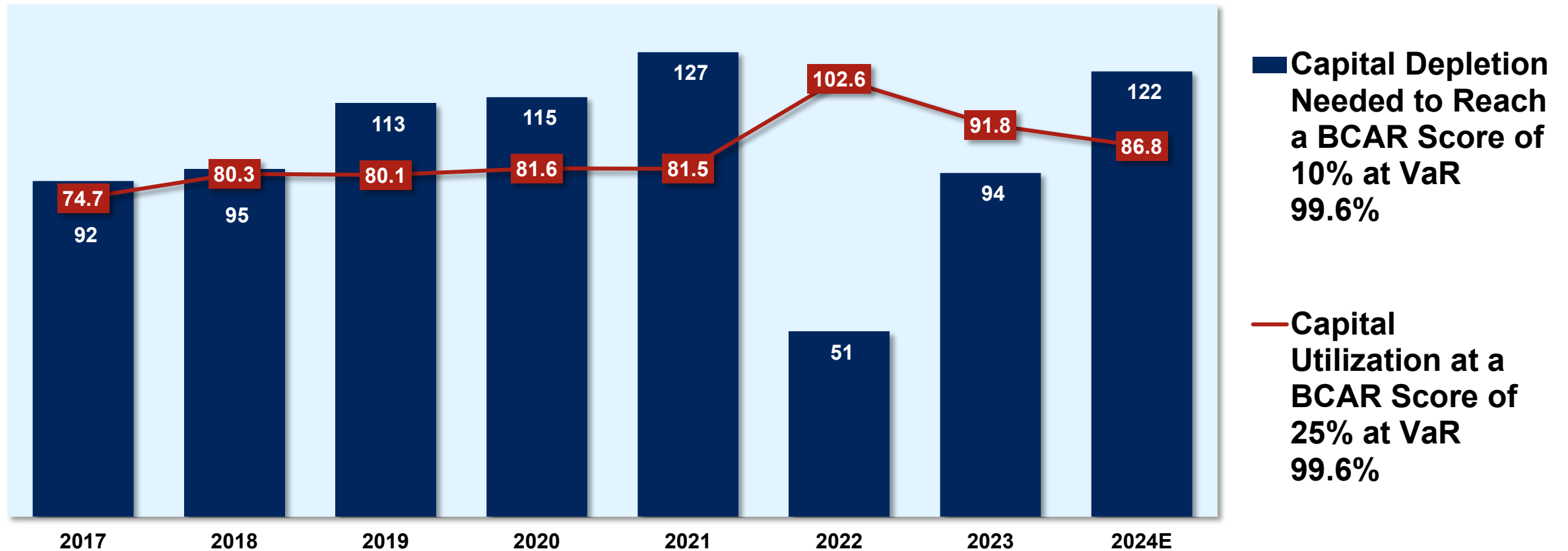


* For reinsurers that have ample cash liquidity to support potential shock losses, the fixed-income equity adjustment captures the amount of capital that AM Best anticipates will be recovered as bonds mature over time.



A Hard Cycle With Excess Capital

Global Reinsurance – Capital Utilization (USD Billions)



Near Term – Potential Concerns



What will the remainder of 2024 be like?



Economic and geopolitical issues



US casualty reserve challenges and social inflation

Longer-Term – Emerging Issues

● **Scrutiny of catastrophe models**

● **Cyber risks**

● **Artificial intelligence**

● **PFAS**

● **Other risks**

AM Best's Expectations – What AM Best Said Last Year

**Underwriting profits –
to continue**



**Disciplined expansion of the reinsurance
segment –
led by major players**



**Inflationary pressures and
high interest rates –
to remain**



**Emerging risks –
slow expansion**



**Rate increases –
to continue at a slower pace**



**Significant new capital / number of new
entrants –
unlikely**



**Renewed appetite for volatile lines of
business –
but with tighter terms and conditions**



**Higher retentions –
here to stay**



AM Best's Expectations – The Next 12 Months

**Underwriting profits –
slight reductions, but still strong**

**Rate movements –
modest declines in strong performing risks
and higher levels of cover**

**Retention levels –
minor movements into working layers**

**Inflationary pressures and interest rates –
Abating and declining, slowly**

**Significant new capital /
number of new entrants –
unlikely**

**Increased use of Alternative Capital to flex
capital needs**

AM Best's Key Themes – Global Reinsurance 2024

Strong results maintained

Payback to investors continues

There is no capacity shortage

Maintaining disciplined allocation

Positive outlook

Sustainable profitability



Q&A

Greg Carter
Managing Director, Analytics
EMEA & Asia Pacific, AM Best

Updates on the MENA Regional Reinsurance Segment

**Mahesh Mistry
Senior Director, Head of Analytics
London, AM Best**



MENA Reinsurance

Headwinds	Tailwinds
<ul style="list-style-type: none">• Elevated country risk; high economic inflation in some countries	<ul style="list-style-type: none">• Benefitting from global pricing conditions and tighter terms and conditions
<ul style="list-style-type: none">• Challenging geopolitical landscape	<ul style="list-style-type: none">• No capacity constraints
<ul style="list-style-type: none">• Higher frequency and severity of losses	<ul style="list-style-type: none">• Steadily improving modelling capabilities

MENA Reinsurers – Steady Decline in Average Credit Quality

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
AM Best-Rated MENA Reinsurers	2	5	7	7	9	9	10	10	10	10	10	11	10	7	6	6	6	6	6	
aa-																				
a+																				
a																				
a-		1	3	3	3	3	3	3	3	3	4	4	1	1	1	1	1	1	1	1
bbb+	1		1	1	2	2	2	2	2	2	1	1	2							
bbb	1	2	1	1	1	1	2	1	1	1	1	1	2	2	1	1	1	1	1	1
bbb-		2	2	2	3	3	3	4	4	4	4	5	5	4	3	2	1	1	1	1
bb+															1	1	1			
bb																	1	1	2	
bb-																1	1	1		
below b+																		1	1	



Challenging Operating Environment – Elevated Country Risk

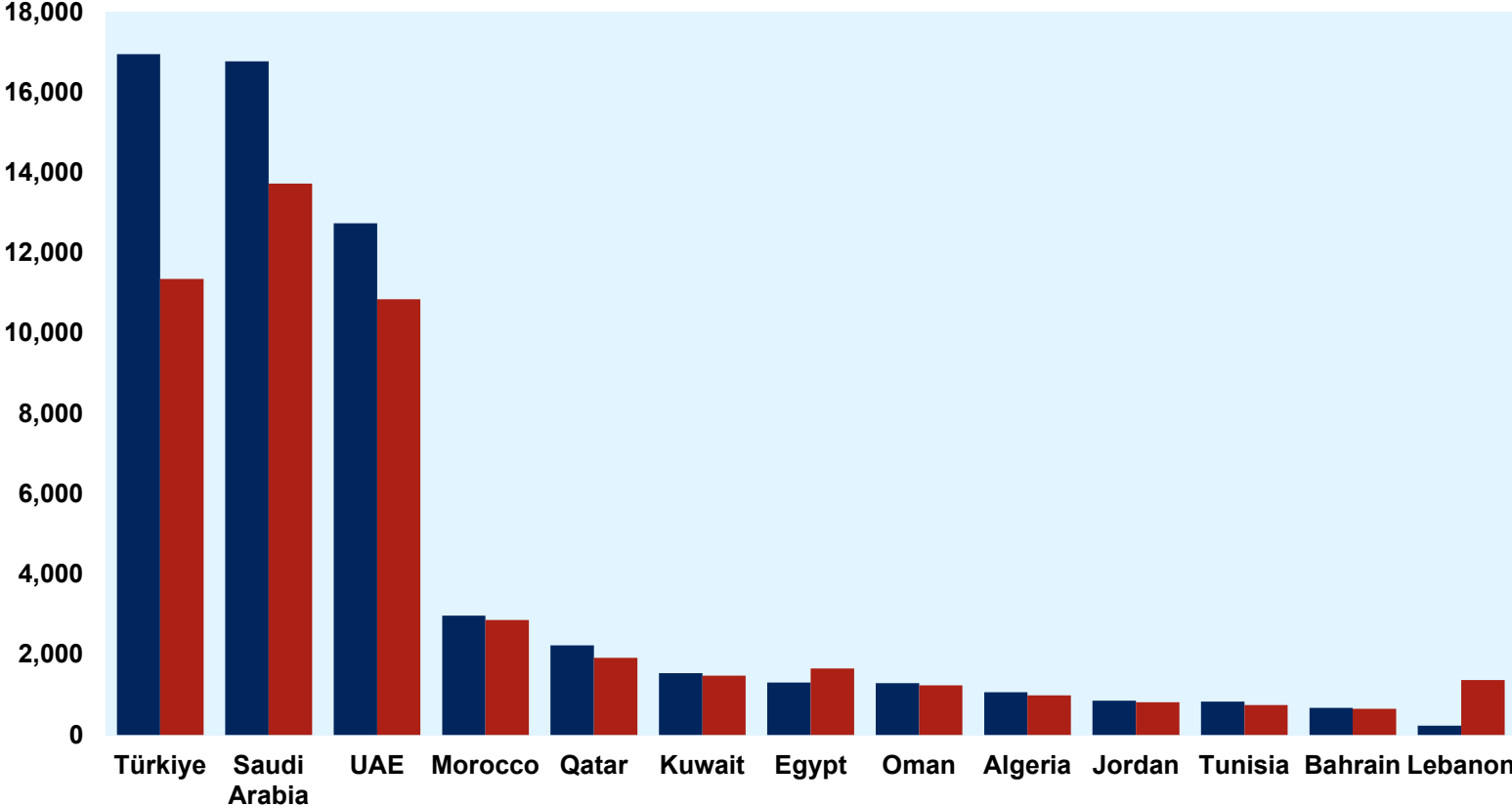
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Economic Risk	Political Risk	Financial System Risk
UAE	CRT-3															Low	Low	Moderate
Qatar	CRT-3															Moderate	Moderate	Moderate
Saudi Arabia	CRT-3															Moderate	Moderate	Moderate
Kuwait	CRT-3															Moderate	Moderate	Moderate
Oman	CRT-3															Moderate	Moderate	High
Bahrain	CRT-3															High	Moderate	High
Morocco	CRT-4															High	High	High
Türkiye	CRT-4															High	High	High
Egypt	CRT-4															High	High	Very High
Algeria	CRT-5															High	High	Very High
Tunisia	CRT-4															Very High	Very High	High
Lebanon	CRT-5															Very High	Very High	Very High

AM Best's Country Risk Tiers: ■ CRT-1 ■ CRT-2 ■ CRT-3 ■ CRT-4 ■ CRT-5

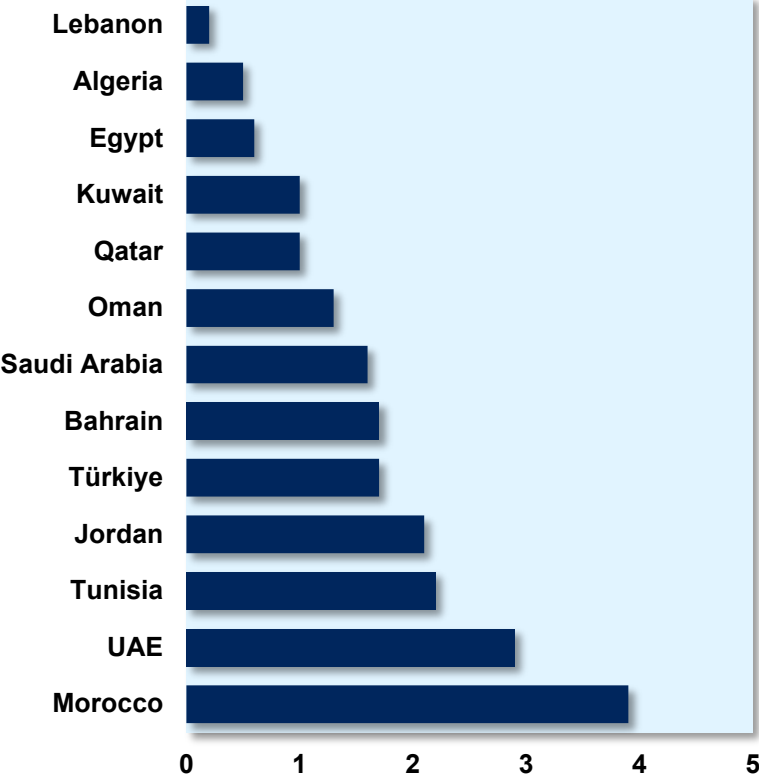


Market Growth and Penetration Offer Opportunities

Premium Volumes (USD millions) ■ 2023 ■ 2022

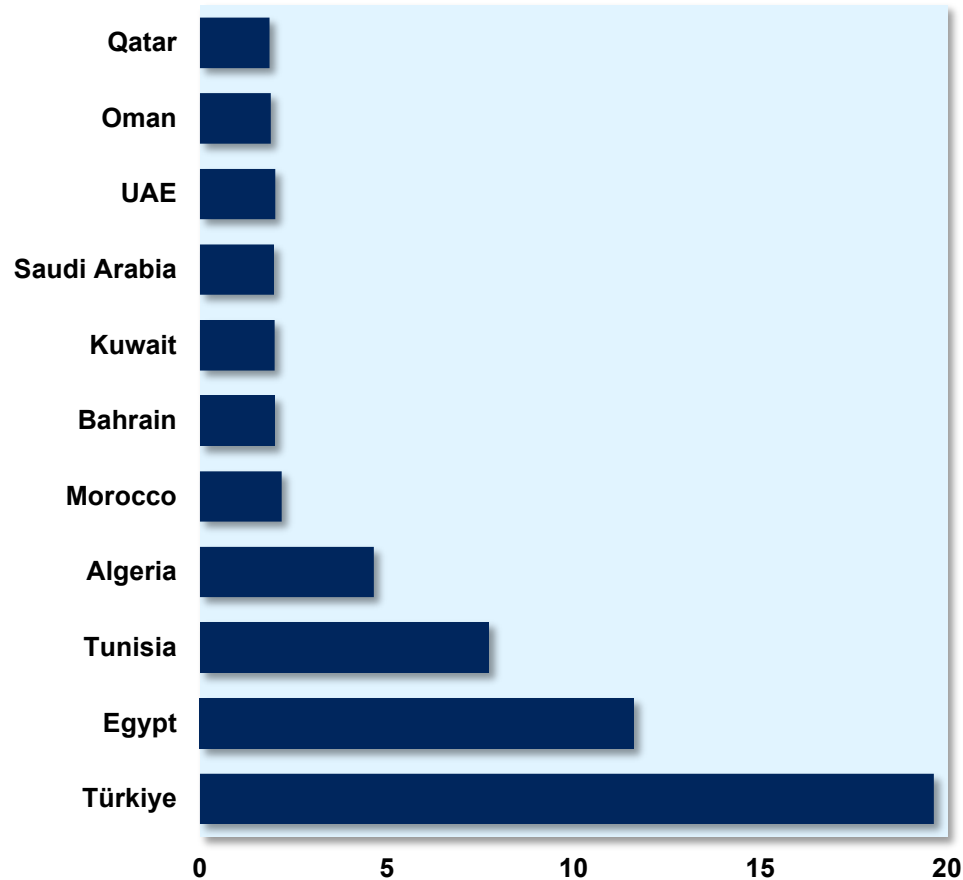


Insurance Penetration (%)



Inflation and Currency Depreciation – A Concern in Non-GCC Markets

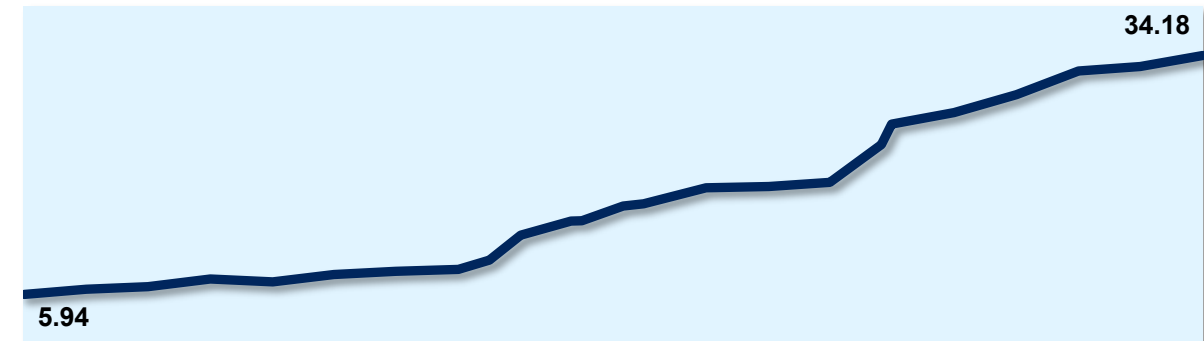
Five-Year Average Inflation (%)



US Dollar to Egyptian Pound (Dec 2019 to Sept 2024)



US Dollar to Turkish Lira (Dec 2019 to Sept 2024)



Market Highlights

- Plentiful capacity from global and regional reinsurers, continued interest from Asian and African insurers
- Primary insurers increasingly writing inward fac
- Improved pricing environment
- Improved modelling availability
- Increased weather-related activity
- Challenging economic landscape, particularly in non-GCC countries

- Retention on large commercial risks remains low for primary insurers
- Regional reinsurers act as “followers”
- Government backed nat-cat schemes gain traction in North Africa
- Growing Takaful sector supported by conventional reinsurance and “retakaful windows”
- Elevated geopolitical tensions

Market Events – Frequency and Severity Increasing

Typhoon Gonu (2015)

Followed Typhoon Phet (2010) in Oman. Est. cost USD 1.1bn

Turkey & Syria Earthquake (2023)

Significant earthquakes and aftershocks, with est. insurance loss of USD 6bn, against an economic loss of USD 45bn

Address Downtown (2015)

Single largest fire loss in the UAE, affected by the cladding and structure of property. Est. cost USD 332m

Morocco Earthquake (2023)

Material earthquake in Morocco, triggered state nat cat cover. Insurance industry loss USD 300m, economic loss USD 7bn

Beirut Port Explosion (2020)

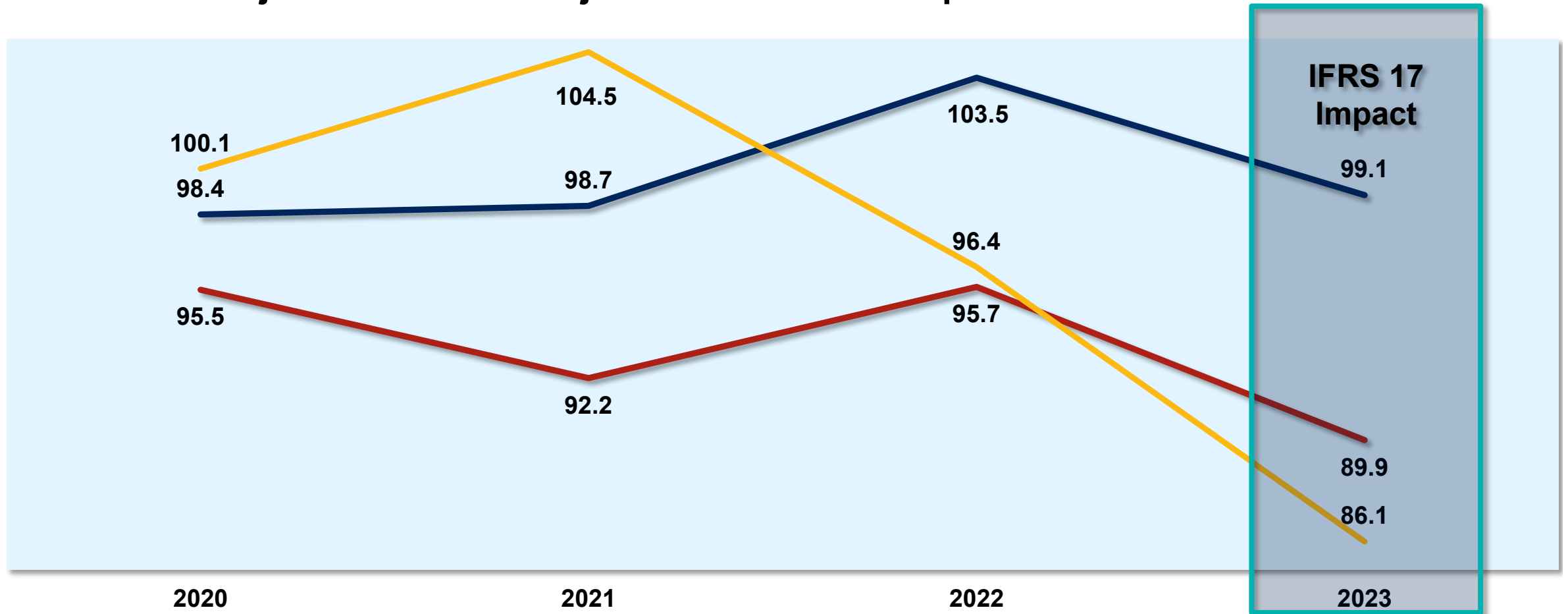
Significant man-made event with ongoing settlements. Insurance cost est. USD 3bn, industry loss in region of USD 15bn

GCC Floods (2024)

Series of floods across UAE, Bahrain and Oman. Est. insurance loss of USD 850m

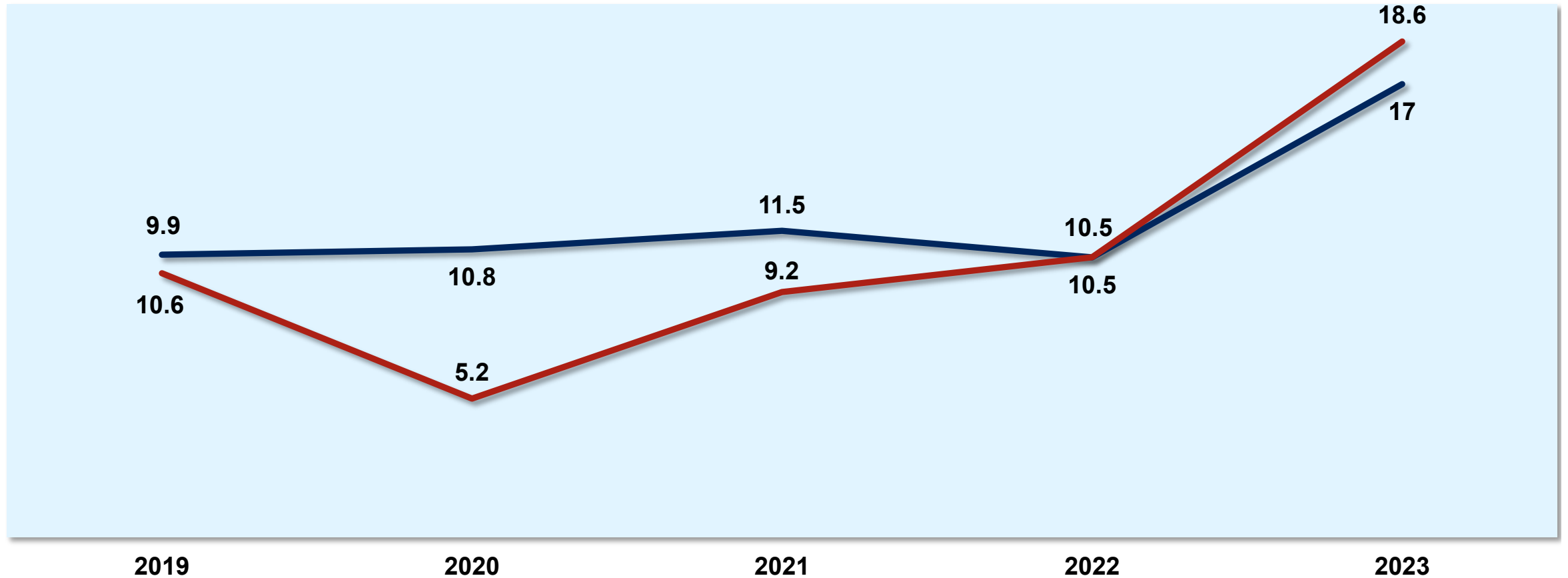
MENA Reinsurers – Combined Ratios (2020-2023) (%)

■ MENA Unadjusted ■ MENA Adjusted ■ Global Composite



MENA Reinsurers – Return on Equity Comparison (2019-2023) (%)

■ MENA Reinsurance Composite ■ European IFRS 17 Reinsurers Composite



MENA Reinsurers – Best’s Credit Rating Methodology (BCRM)

Building Block Drivers under Best’s Credit Rating Methodology (BCRM)

Balance Sheet Strength

- Generally strongest Best’s Capital Adequacy Ratio (BCAR) – subject to volatility
- Quality of assets
- Small asset base
- Country Risk exposures

Operating Performance

- Mixed underwriting performance
- ROEs tend to be dependent on investment income
- Inflation - reserving and pricing trends

Business Profile

- No MENA reinsurer in global top 50
- Concentration to single market or region
- Diversification sometimes hampers performance
- Local market cessions/affiliation

Enterprise Risk Management

- Risk management practices continue to improve and develop
- Elevated risk profiles – volatile and uncertain market environment
- Developing modelling capabilities
- Concentrations still exist

Notes:

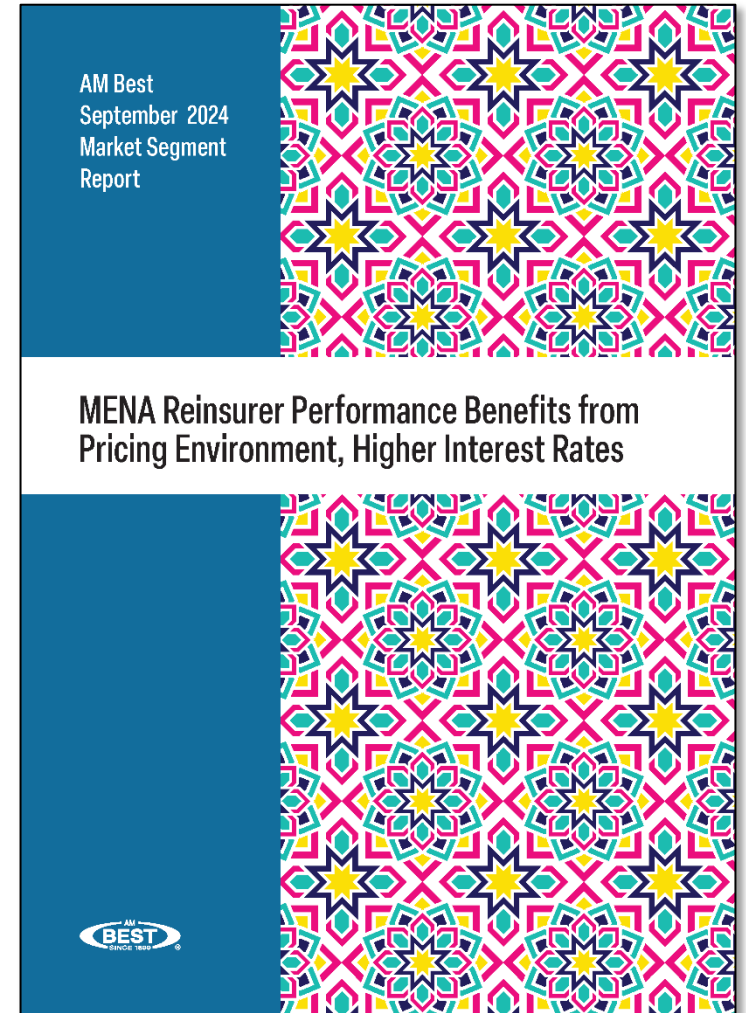
Full details of BCRM and BCAR can be found in “Best’s Credit Rating Methodology” (November 2020)

Key Takeaways

Global reinsurance pricing drives improved conditions in the market

Changing climate trends is an area of focus

Geopolitical tensions continue in the backdrop



AM Best-Rated MENA Reinsurers

Company Name	Country	Best's Long-Term Issuer Credit Rating (ICR)	Best's Financial Strength Rating (FSR)	Best's ICR & FSR Action	Best's ICR & FSR Outlook	Rating Effective Date
Arab Reinsurance Company SAL	Lebanon	bb	B	Upgraded	Stable	30-Aug-24
Compagnie Centrale de Réassurance	Algeria	bbb-	B+	Affirmed	Stable	19-Sep-24
Kuwait Reinsurance Company K.S.C.P.	Kuwait	a-	A-	Affirmed	Positive	18-Jul-24
Milli Reasurans Turk Anonim Sirketi	Turkiye	b-	C+	Upgraded	Stable	06-Nov-24
Société Centrale de Réassurance	Morocco	bbb	B++	Affirmed	Stable	12-Jan-24
Société Tunisienne de Réassurance	Tunisia	bb	B	Affirmed	Negative	05-Jun-24



Q&A

Mahesh Mistry
Senior Director, Head of Analytics
London, AM Best



An Analytical Look at the Major UAE Floods of April 2024

**Emily Thompson
Senior Financial Analyst, AM Best**

Flood Event – United Arab Emirates (UAE)

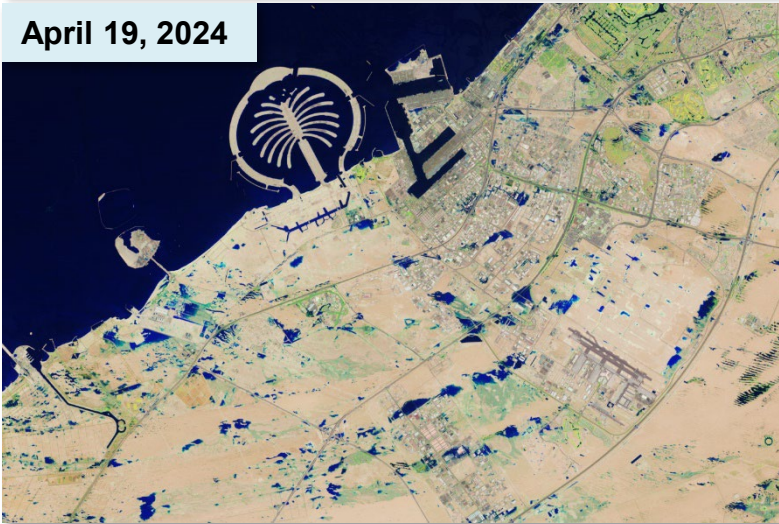
April 3, 2024



**More than 250 mm of rainfall recorded
(twice the yearly average)**

Largest flood event in 75 years since records began (1949)

April 19, 2024

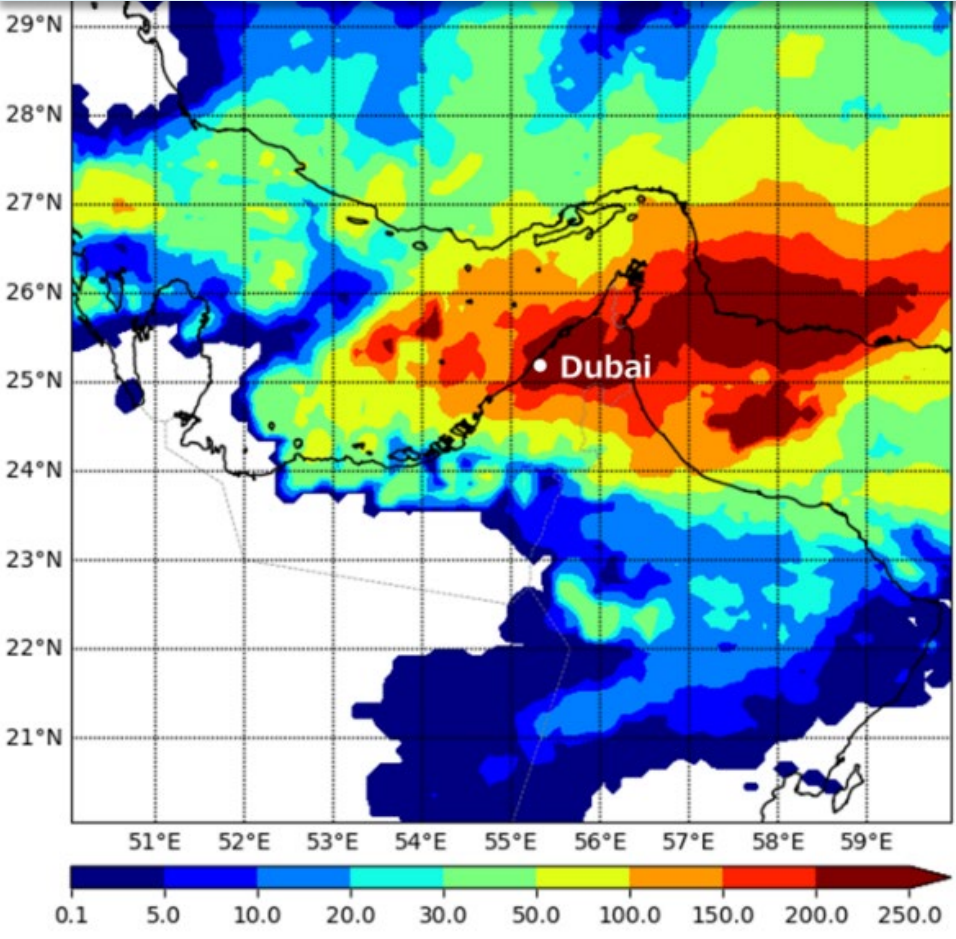


**Total insured loss for the UAE estimated to fall within the
range of USD 1.9 billion – USD 3.4 billion**

**Reduced insurance loss expected relative to economic
loss due to low insurance penetration in the UAE**

Flood Event – Gulf Co-Operation Council (GCC)

April 16, 2024 – daily mean precipitation [mm/day] observed by GSMaP



Rainfall (mm)	
UAE	250
Oman	180
Bahrain	68
Qatar	Low Exposure

Insurance Penetration (%)	
UAE	2.75
Oman	1.50
Bahrain	1.60
Qatar	1.00



Flood Event – United Arab Emirates – Motor

30,000 - 50,000 vehicles were damaged by the floods

Motor losses are predicted to account for 10% of total insured losses

Motor insurance is mandatory in the UAE. It is estimated that 60-65% of all insured vehicles had comprehensive cover at the time of the event

Claims recovery for Comprehensive not Third Party Liability policies



Flood Event – United Arab Emirates – Non-Motor

Property was the line of business most hit by the floods, with engineering also impacted

Non-Motor losses predicted to account for 90% of total insured losses

Most insured properties in the UAE have all-risk policies which cover most natural perils



2024 Flood Events



Event 1 – 11-13 February



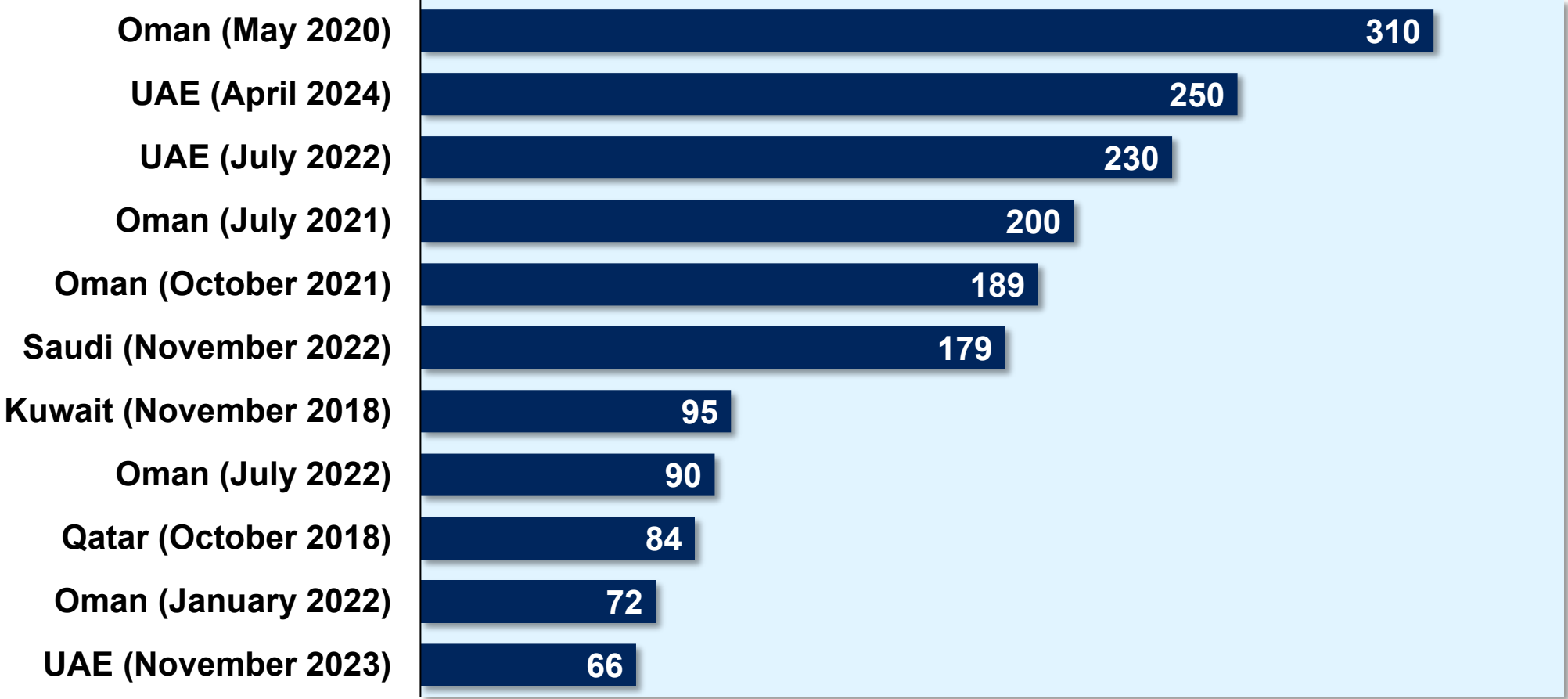
Event 2 – 9-11 March



Event 3 – 14-17 April



Historic GCC Floods – Rainfall (mm)

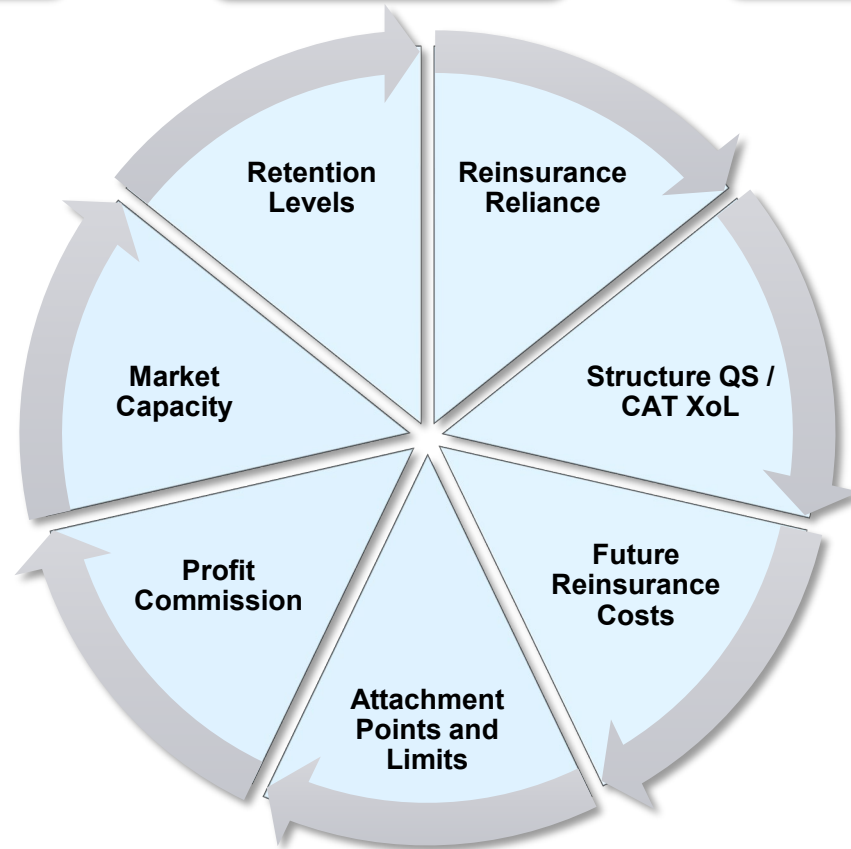


Rating Considerations Following the Floods

AM Best Building Block Considerations for the Floods

Balance Sheet Strength	Operating Performance	Business Profile	Enterprise Risk Management	Issuer Credit Rating
<ul style="list-style-type: none">• Reinsurance – reliance / dependence/ future cost• Liquidity – sufficient short term cash requirement to pay for claims• Capital / solvency• Reserves	<ul style="list-style-type: none">• Claims handling• Reserve development• Fraud• Future commissions impact• Future collections from market peers	<ul style="list-style-type: none">• Portfolio mix• Portfolio concentration• Impacts on rates• Policy wording• Insurance awareness and uptake• Net portfolio changes• Product demand• Change in product requirement	<ul style="list-style-type: none">• Stress testing• Understanding exposure to key perils• Catastrophe modelling capabilities• Risk appetite and tolerances• Risk Accumulation and Exposure Management• Reputational Risk	<p>Rated companies have generally shown resilience</p>

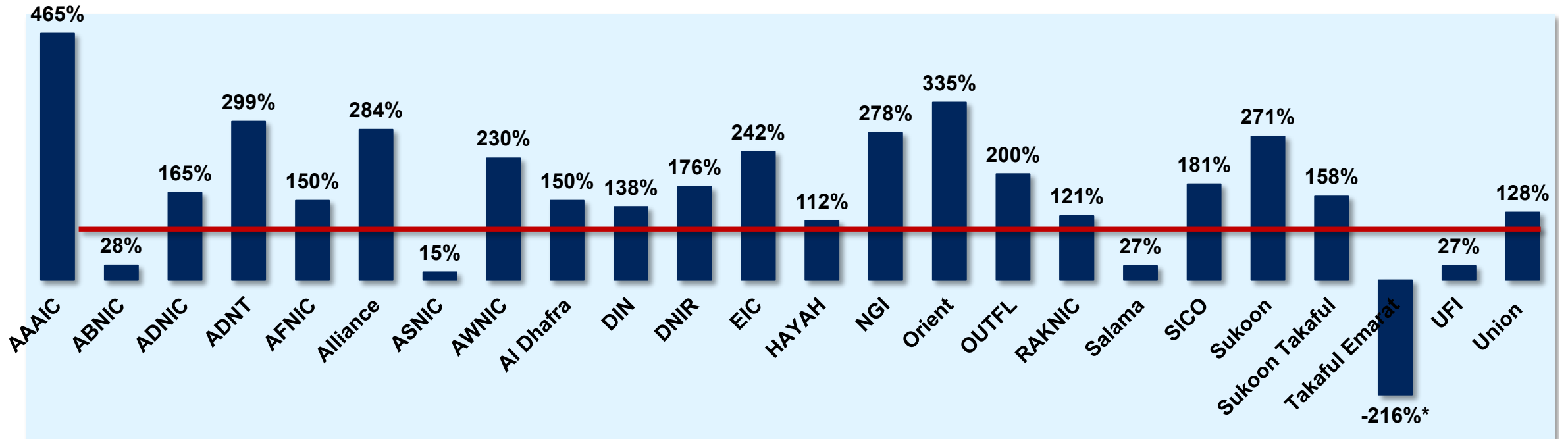
AM Best Building Block Considerations – Reinsurance



AM Best Building Block Considerations – Solvency



Regulatory Solvency Capital Ratio (%) at 30 June 2024



* Pending capital increase

AM Best Building Block Considerations – Performance



Claims Handling

- Vast number of claims to process in a short period of time
- Reputational risk
- Fraud prevention

Reserve Development

- Loss adjusters – limited resources
- How will reserves develop overtime

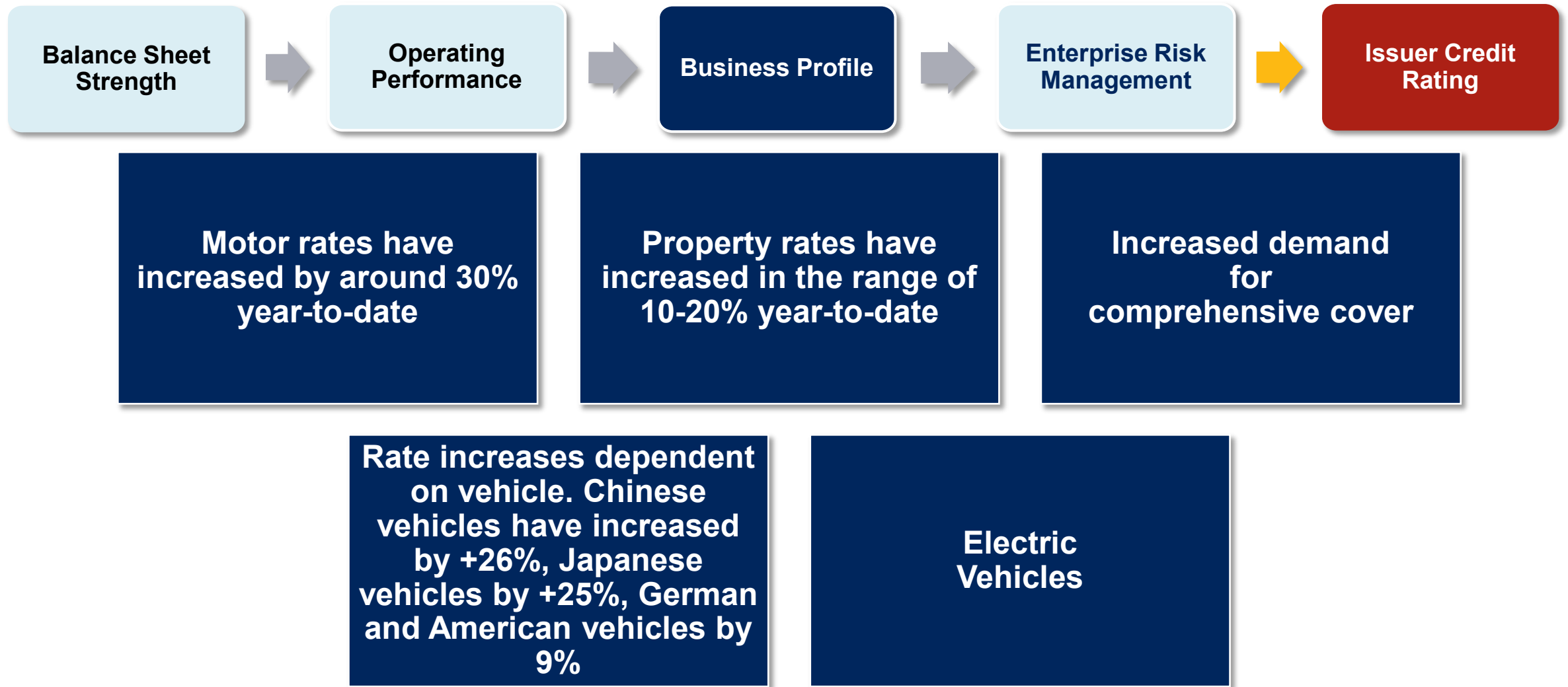
Future collection issues

- Could there be an issue collection from other insurers in the market?
- 13% of insurance premium in the UAE is written by companies whose solvency is below minimum requirements

Commissions

- How will future commissions income impact results

AM Best Building Block Considerations – Rates



AM Best Building Block Considerations – Profiles May Change



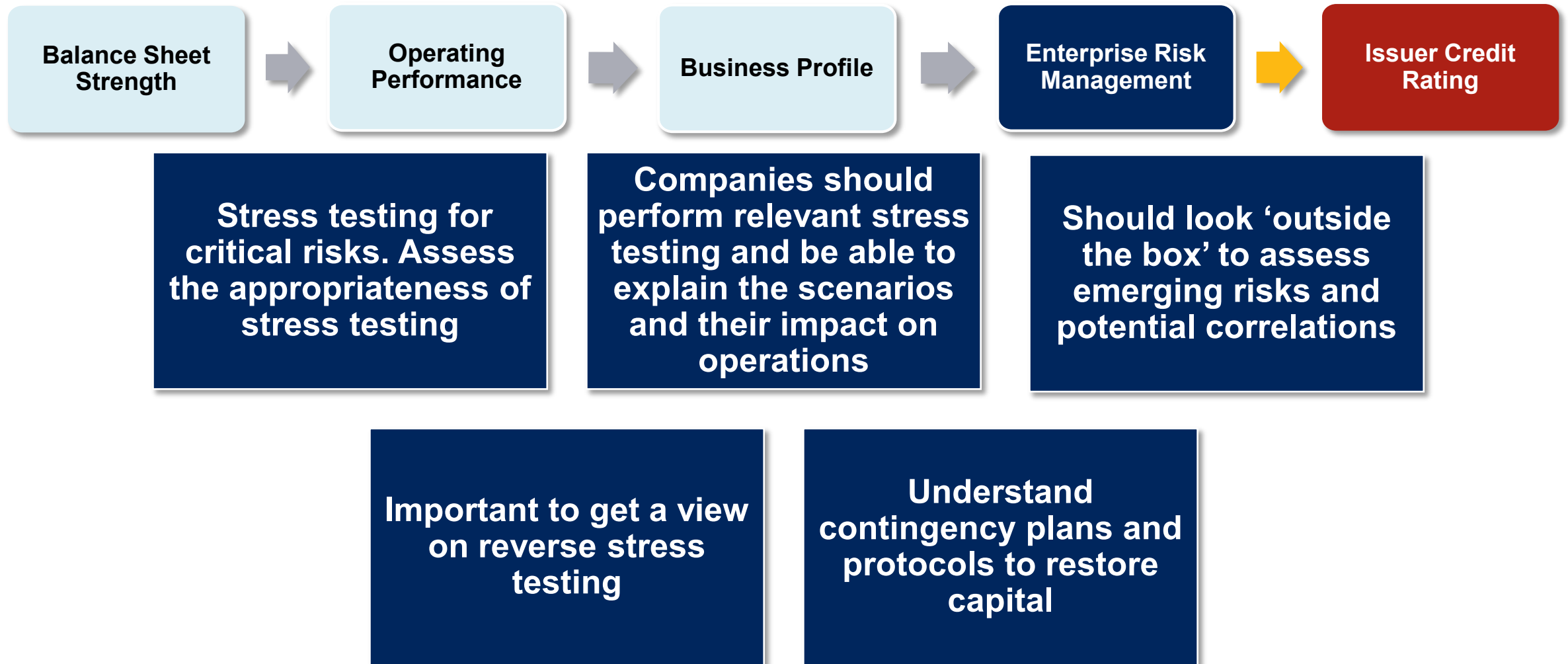
Floods highlight the importance of insurance and increase insurance awareness in the market

- Product demand increases, particularly for personal lines
- Shift in product requirement from third-party liability to comprehensive

Reinsurance costs increase

- Companies may begin to revise their strategy to retain more of the risk
- Portfolios net of reinsurance may change in diversification

AM Best Building Block Considerations – ERM Stress Testing



Prevention for Future Events

Improving Infrastructure – Tasreef Project

 Dubai has approved an AED 30 bn (USD 8.2bn) investment (Tasreef Project) to develop Dubai's rainwater drainage network

 On completion in 2033, the Tasreef project is expected to enhance Dubai's rainwater drainage system by 700% and will cover all areas of the emirates

 The project will ensure readiness for future climate-related challenges

 Improvements will raise the drainage network capacity to more than 20 million cubic metres of water a day, 230 cubic metres per second. The project is a continuation of drainage development launched in 2019 in Dubai

Key Takeaways

Q2 2024 financial results look stable for most UAE listed insurers

The initial net impact to insurers has been minimal, with reinsurers bearing the brunt of the loss

Insured losses could have been greater if insurance penetration was higher

Rated companies to date have shown resilience, but knock on impacts cannot be ruled out

The region is not immune to catastrophe events and future losses cannot be disregarded

Q&A


Emily Thompson
Senior Financial Analyst, AM Best

Agenda



BIA

In collaboration with جمعية التأمين البحرينية
BAHRAIN INSURANCE ASSOCIATION

- 09:30** **Welcome and Introductory Comments**
*Nick Charteris-Black, Managing Director,
Market Development – EMEA*
- 09:40** **Global Reinsurance Update**
*Greg Carter, Managing Director, Analytics
– EMEA & AP*
- 10:05** **Updates on the MENA Regional
Reinsurance Segment**
*Mahesh Mistry, Senior Director, Head of
Analytics - London*
- 10:30** **An Analytical Look at the Major UAE
Floods of April 2024**
Emily Thompson, Senior Financial Analyst
- 11:15** 

- 11:45** **Observations on the Implementation of
IFRS17**
*Shivash Bhagaloo, Managing Partner, Lux
Actuaries & Consultants*
- 12:15** **Best's Credit Rating Methodology (BCRM) in
Action: Mock Rating Committee**
*- Greg Carter, Managing Director, Analytics –
EMEA & AP*
*- Mahesh Mistry, Senior Director, Head of
Analytics – London*
- Emily Thompson, Senior Financial Analyst
- 13:00** **Closing Comments**
*Nick Charteris-Black, Managing Director,
Market Development – EMEA*
- 13:15** **Networking Lunch**

Observations on the Implementation of IFRS 17

Presented by Shivash Bhagaloo,
Managing Partner
Lux Actuaries & Consultants

November 2024

AM Best's Insurance Market Briefing



AGENDA

- 01 Key Financial Movements
- 02 Regional Developments & Observations
- 03 Key Operational Challenges
- 04 4 Key Forecasts
- 05 Questions

01

Key Financial Movements

Key Financial Movements**


Premium Allocation Approach (PAA)

GROSS


Risk Adjustment:  5 - 7% in Liability for Incurred Claims (LIC)

Discounting:  4 - 6% in LIC

Loss Component:  4 - 12% of Liability for Remaining Coverage (LRC)

 5 -  7% in Net Liabilities

REINSURANCE

Risk Adjustment:  5 - 7% in Asset for Incurred Claims (AIC)


Discounting:  4 - 6% in AIC

Loss Recovery Component:  4 - 12% of Asset for Remaining Coverage (ARC)

General Measurement Model (GMM)

GROSS


Risk Adjustment:  5 - 10% in LRC liabilities


Discounting:  10 - 15% in LRC liabilities

CSM:  10 - 20% in LRC liabilities

REINSURANCE

Risk Adjustment:  6 - 14% in ARC assets

Discounting:  5 - 9% in ARC + AIC assets

CSM:  20 - 40% of ARC assets (higher impact due to RI payables)

Key Drivers of Change in Liabilities

01

The introduction of a **Loss Component (LC)** and removal of **Premium Deficiency Reserve (PDR)** increased overall liabilities. This is mainly due to changes in Unit of Account (UoA) calculations, expense allowances and the separation between Gross and RI calculations. The Loss Component forms roughly 4 -12% of the **LRC** (12% for Medical and 5% for Motor). There is however a corresponding **Loss Recovery Component** which offsets the **LC**.

02

The **Risk Adjustment (RA)** impact has largely been offset by the **Discounting** impact under PAA. PAA materiality thresholds are 'generous', which facilitates the calculation for long term P&C policies.

03

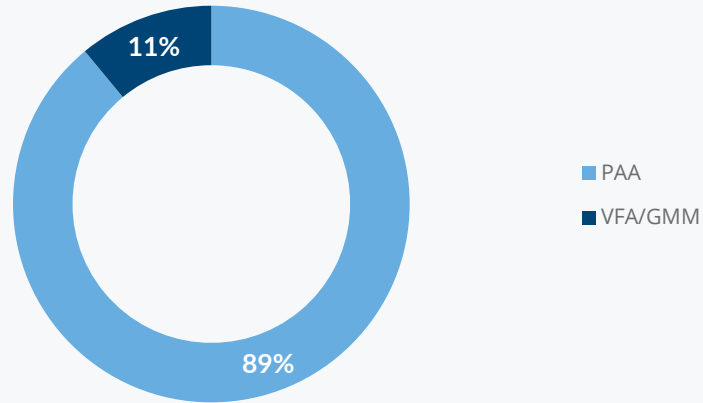
The net impact of booking a **Deferred Acquisition Cost (DAC)** and an **Unearned Commission Income (UCI)** was a **net positive impact** for the companies that were not already doing this.

04

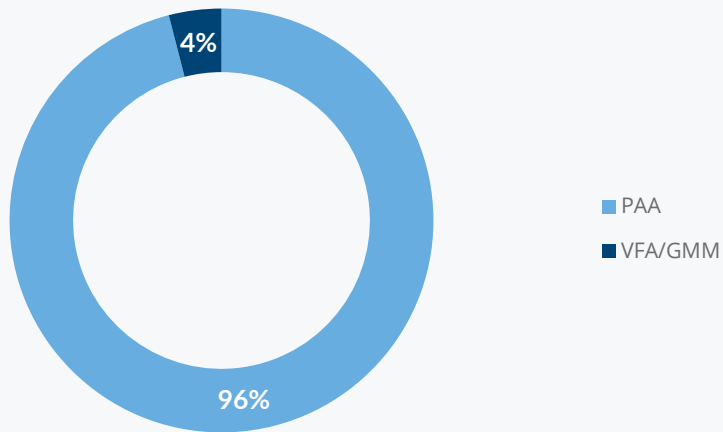
Companies usually allocate 80 - 90% of G&A expenses to **attributable expenses**, which has a marginal positive impact on the **Insurance Service Result**

IFRS 17 Measurement by GWP

GMM/VFA vs PAA split by GWP in UAE



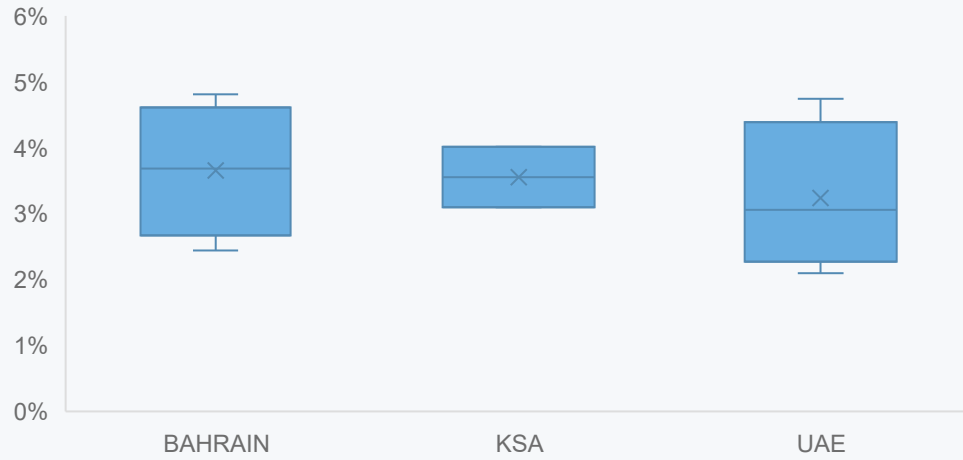
GMM/VFA vs PAA split by GWP in Bahrain



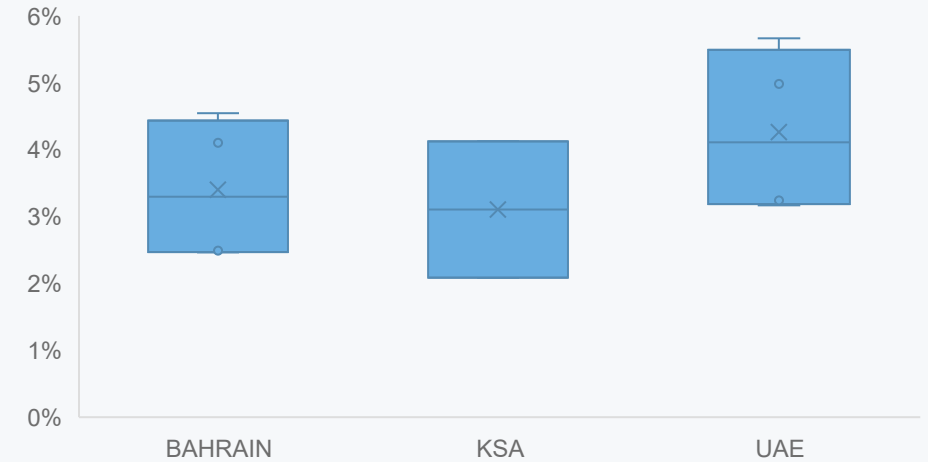
- **SHORT-TERM PRODUCTS**
Direct insurance products are typically less than 1 year, whilst RI contracts can cover more than 1 year but are still valued using PAA
- **KEY LINE OF BUSINESS**
Health & Motor have been impacted by Unit of Account (UoA) calculations
- **IFRS 17 MEASUREMENT**
Generally PAA is used due to 'generous' materiality thresholds and system limitations.

Risk Adjustment & Discounting Impact by Region

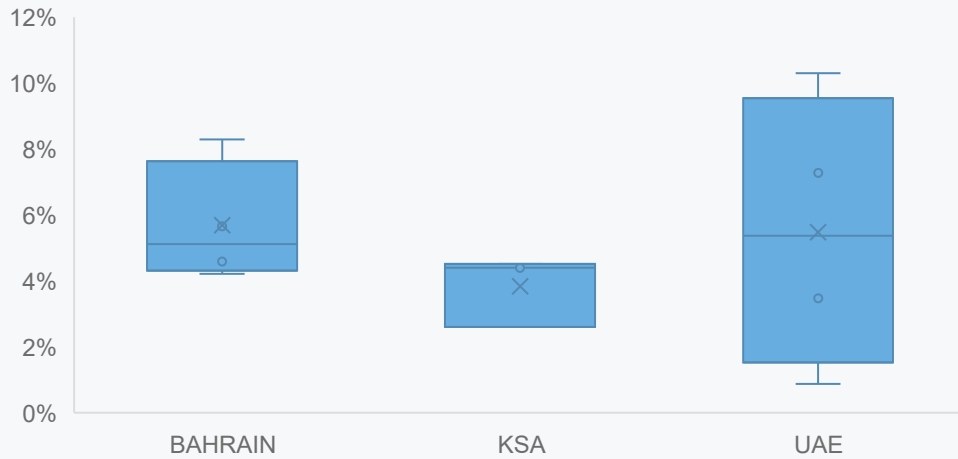
Gross Discounting (% of LIC)



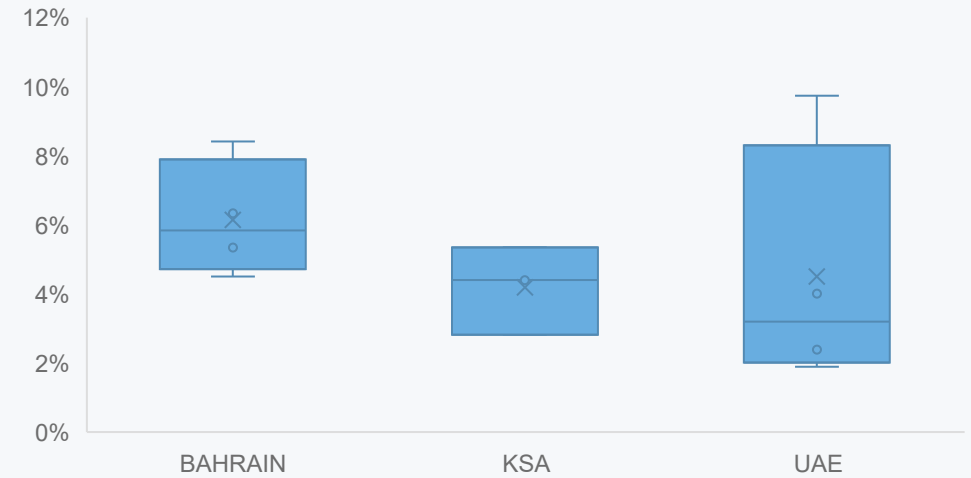
RI Discounting (% of LIC)



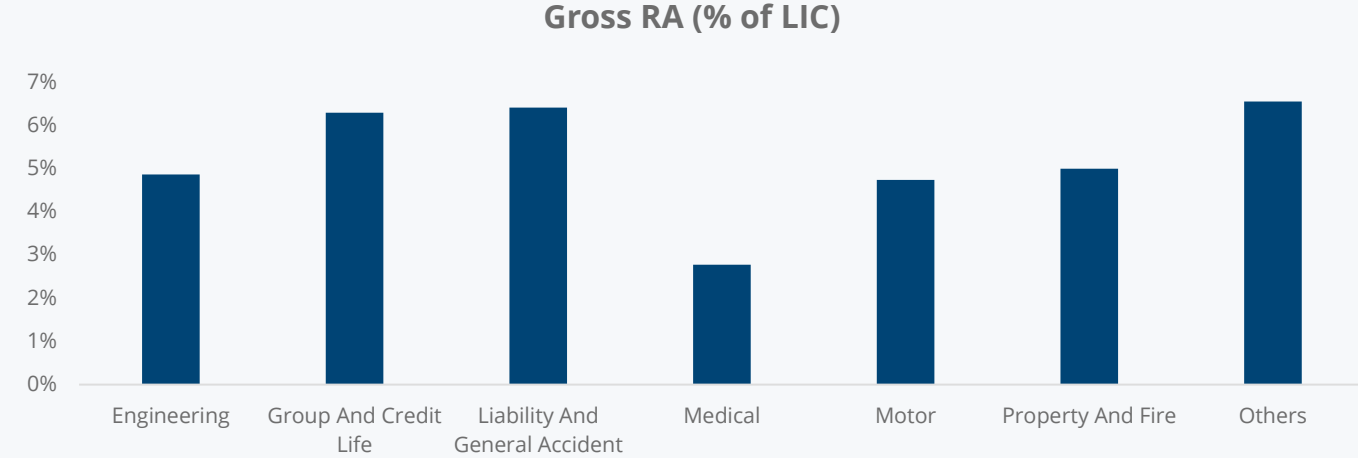
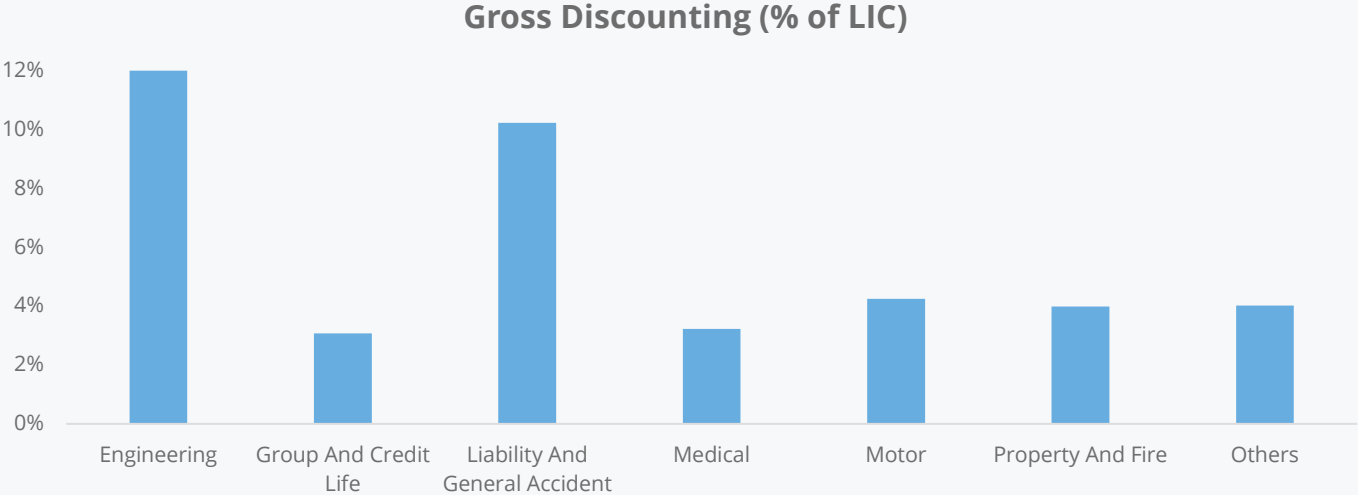
Gross RA (% of LIC)



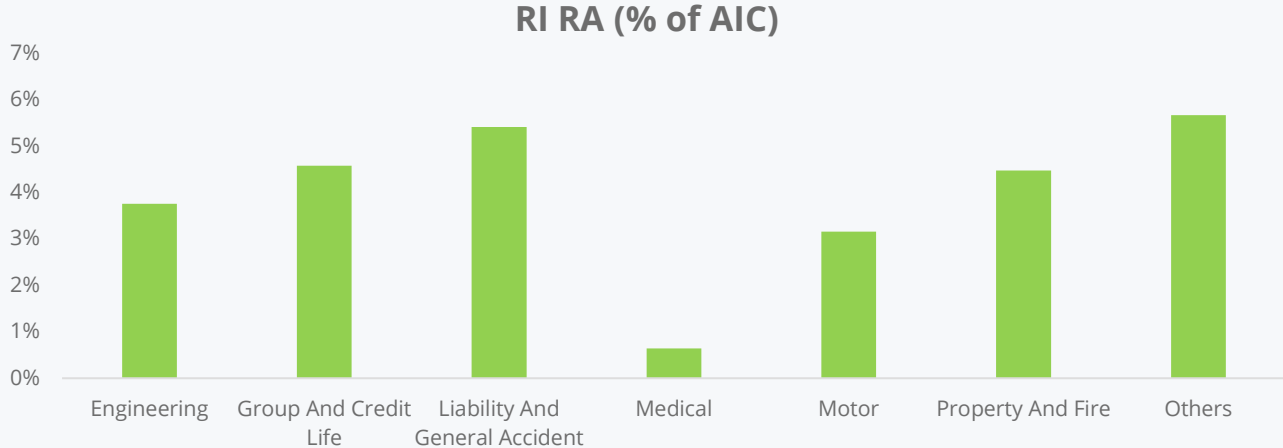
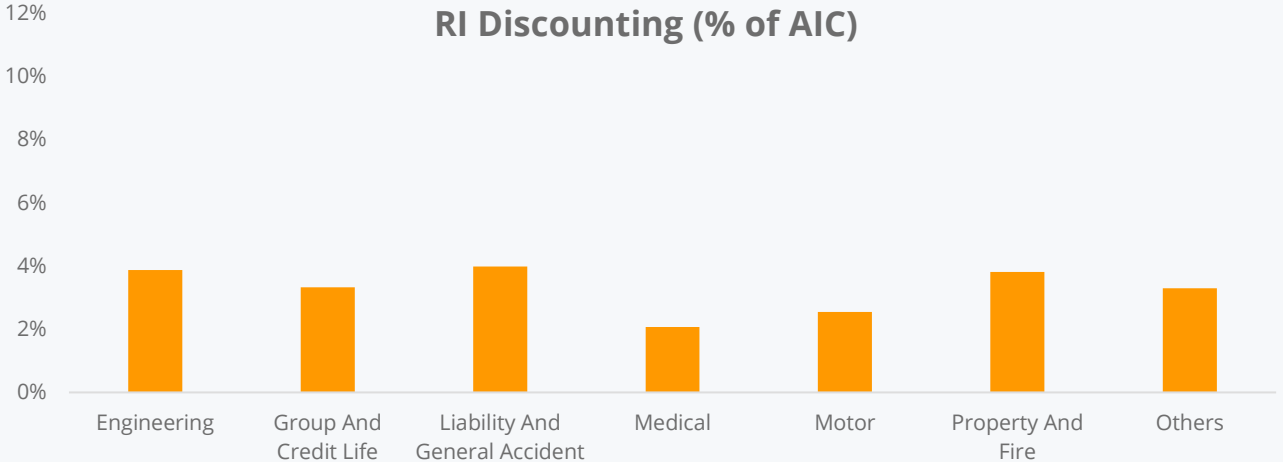
RI RA (% of LIC)



Risk Adjustment & Discounting Impact by Line - Gross



Risk Adjustment & Discounting Impact by Line - RI



Financial Trends* – YTD 2023 Q2 vs YTD 2024 Q2 (Listed)

Country	Insurance Revenue USD M		
	2023	2024	Chng. %
UAE	3,895	4,753	22%
KSA	7,134	8,453	18%
Oman	746	818	10%
Bahrain	296	326	10%
Kuwait	1,596	1,875	18%
Qatar	2,160	2,045	(5%)
Total	15,827	18,239	15%

Country	Net Combined Ratio		
	2023	2024	Chng. %
UAE	96%	97%	1%
KSA	94%	95%	1%
Oman	106%	113%	7%
Bahrain	92%	96%	4%
Kuwait	93%	97%	4%
Qatar	95%	93%	(2%)
Total	95%	96%	1%

Country	Investment Income USD M		
	2023	2024	Chng. %
UAE	214	251	17%
KSA	257	345	34%
Oman	36	38	5%
Bahrain	19	22	19%
Kuwait	135	148	10%
Qatar	185	182	(2%)
Total	846	986	17%

Country	Net Profit after Tax USD M		
	2023	2024	Chng. %
UAE	259	255	(2%)
KSA	471	592	26%
Oman	4	(25)	
Bahrain	27	26	(6%)
Kuwait	159	132	(17%)
Qatar	190	220	16%
Total	1,111	1,200	8%

02

Regional Developments & Observations

Regional Developments & Observations

INCREASED IN CAT LOSSES

Despite the record rainfall, the net impact on UAE insurers is minimal due to significant net profits from reinsurance contracts held. RI rates have started to harden. Finance is also scrutinised on how RI reinstatement premiums are booked.

PROFIT GROWTH

Profits have grown largely due to investment income. UW profits are marginal with Medical being loss making for the majority. Single premium Life insurers observed decreases in year 1 profits. Little new business strain for regular premium policies due to acquisition cost amortisation.

INTEREST RATE MOVEMENTS

Interest rates have been high in 2023 but have reduced during 2024 Q3. The high rates have contributed to a high insurance finance income in 2023, facilitating profits but during Q3 the discounted liabilities have increased.

REGULATORY REQUIREMENTS

Increasing scrutiny of IFRS 17 reporting, mandatory IFRS17 peer review requirements and detailed IFRS 4 to 17 reconciliations, especially CSM walks place increasing pressure on immature systems.

MERGER AND ACQUISITIONS

6 regional M&As were completed or are in process in 2024 (9 in 2023). There is increasing involvement of Actuarial Due Diligence (ADD) advisors due to the complexity of calculations. Notably, IFRS 17 requires using the acquirer's risk profile to determine the target's risk-adjusted valuation



Regional Developments & Observations

CAPITAL REQUIREMENTS

Insurers face increasing raise capital requirements e.g. new MCR & RBC requirements in the KSA.

REINSURANCE RATES

Rising P&C reinsurance rates (Property, Engineering, BI) are leading to an increase in premiums, creating an inflationary impact and impacting IFRS 17 profits. The RI risk of default assumptions may need to be challenged if smaller RI players become opportunistic.

CLAIMS INFLATION

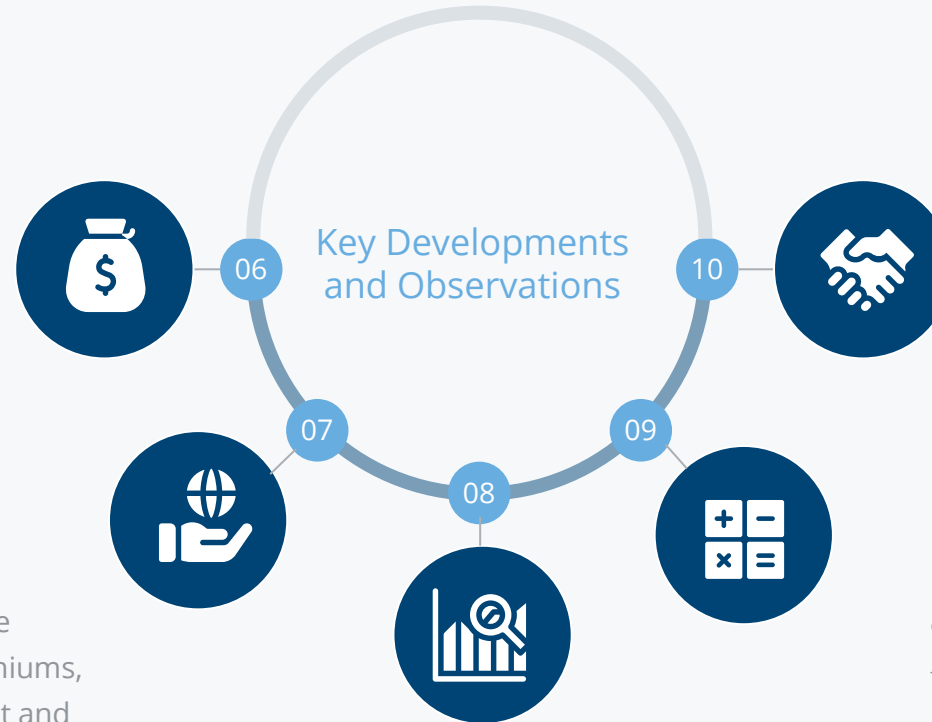
Rising claims inflation has reduced profit margins. Insurers without scale find it difficult to pass these increases on to policyholders and are having to book Loss Components as a result.

MEDICAL AND MOTOR

These 2 lines continue to dominate production. Increasing medical trends are however a regional concern (10-15%) with regional loss ratios in the region of 85-90%.

CORPORATE TAX

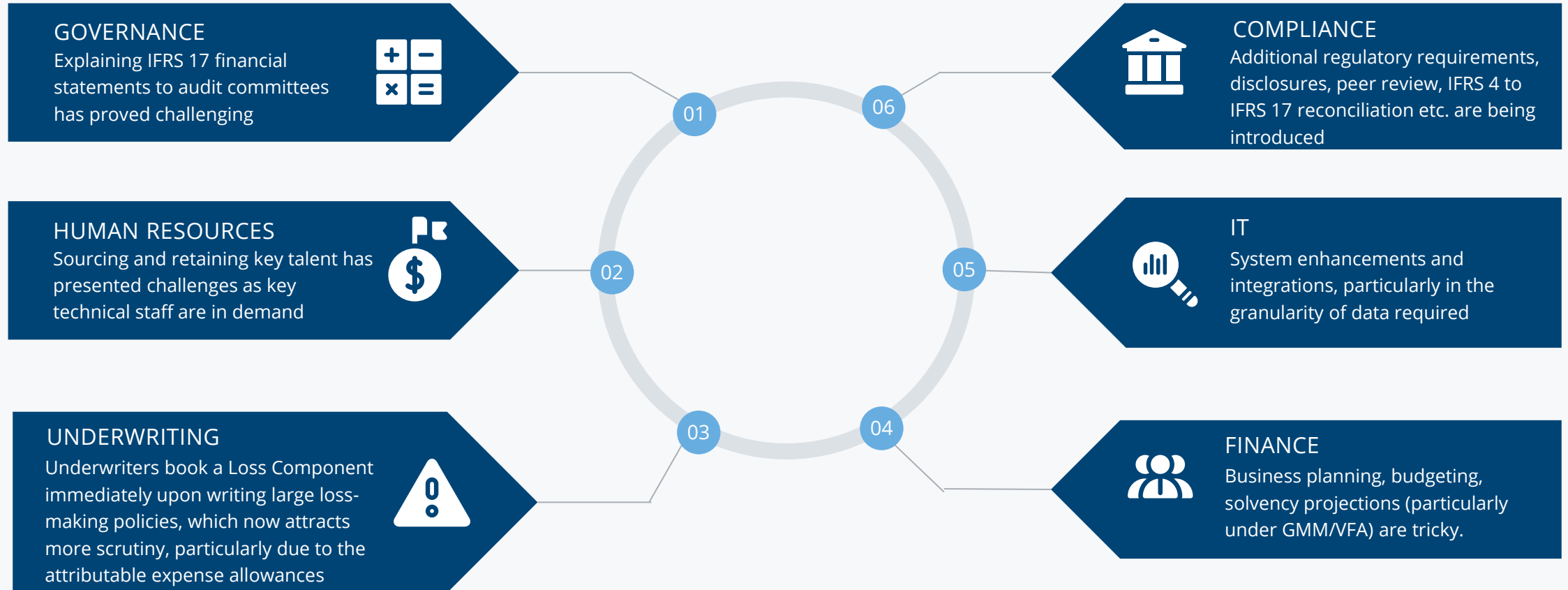
Implementation of UAE corporate tax of 9% in 2024 reduces IFRS 17 profit margins for UAE insurers. The CBUAE and FTA are expected to place the 2024 financial statements under more scrutiny as a result.



03

Key Operational Challenges

Key Operational Challenges



04

4 Key Forecasts

4 Key Forecasts



UNDERWRITING

Profits are expected to increase driven insurers with scale (regionally KSA and UAE). Medical trends are expected to continue to be high (10 - 15%) into 2025 impacting the UWY 2025 cohort. Large/Cat losses are expected to increase in frequency and will impact insurers with historically higher retentions. This is now visible in the net RI expense/income.



INTEREST RATES & BUSINESS GROWTH

Interest rates are expected to reduce further in 2025, increasing discounted provisions and reducing IFRS 17 profitability. This will likely reduce the attractiveness of savings products and increase consumer spending. This will likely increase the subsequent purchase of insurance products (e.g. Credit Life).



TECHNOLOGY

Partnerships with Insurtech and investment in technology are expected to innovate business models, boosting IFRS 17 revenues and profits. Increased distribution through digital platforms and investment in more sophisticated data analytics will facilitate the creation of more granular IFRS 17 portfolios and improve transparency of performance.



INVESTMENT INCOME

Lower asset yields are expected to reduce investment income and negatively impact potential share capital increases. In the event of changes in capital requirements this could increase the likelihood of M&As or write-offs of accumulated losses as alternatives to capital increases.

Questions

*Financial figures are sourced from published financial statements of listed companies

**IFRS 17 ranges of movements are based on Lux internally available data

Shivash Bhagaloo
shivash@luxactuaries.com
www.luxactuaries.com

Best's Credit Rating Methodology (BCRM) in Action: Mock Rating Committee

Greg Carter

Managing Director, Analytics - EMEA & AP, AM Best

Mahesh Mistry

Senior Director, Head of Analytics, London, AM Best

Emily Thompson

Senior Financial Analyst, AM Best

Mock Rating Committee Members

Greg Carter – Managing Director (Committee Chair)

Emily Thompson – Senior Financial Analyst (Lead Analyst)

Mahesh Mistry – Senior Director (Team Leader)

RC Member 4 – Associate Director (Voting Member)

RC Member 5 – Senior Financial Analyst (Voting Member)

RC Member 6 – Financial Analyst (Voting Member)

Rating Committee Quorum & Voting

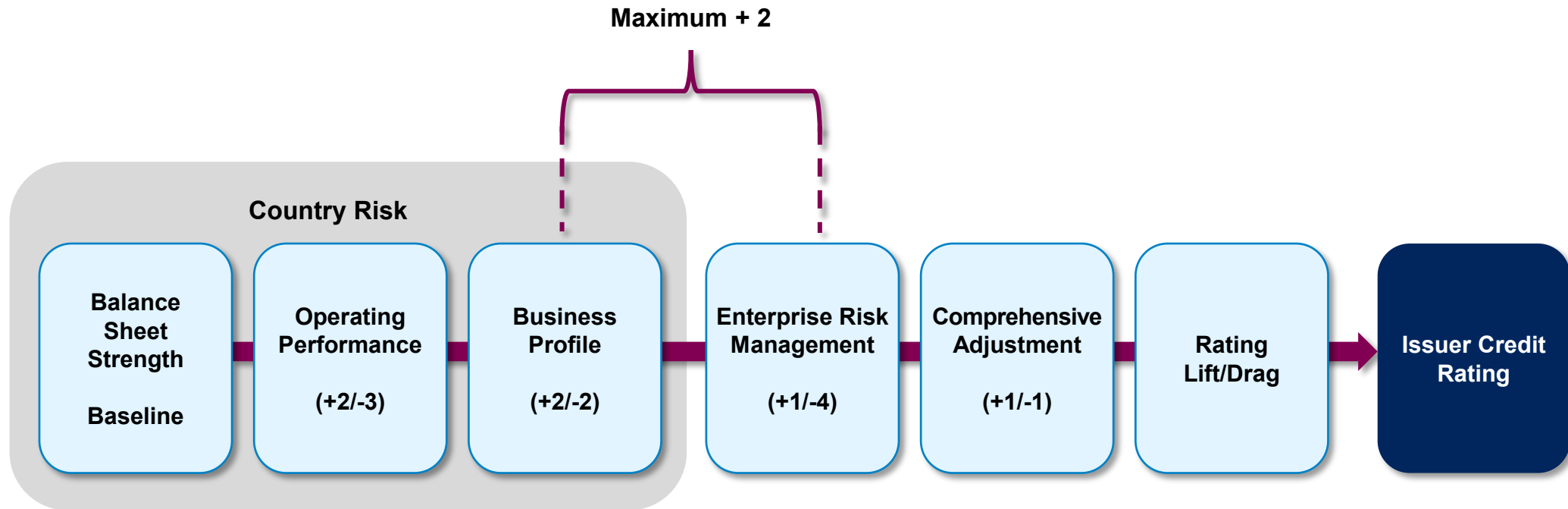
**Voting quorum –
minimum of six
members, including at
least two Directors or
higher**

**Simple majority vote is
acceptable for the
approval of any rating
action**

**Chair can break tie or
refer the decision to a
higher committee**

**Voting members must have
at least 6 months'
experience, passed
compliance requirements
and have no conflicts of
interest**

Best's Credit Rating Methodology – Building Block Assessments

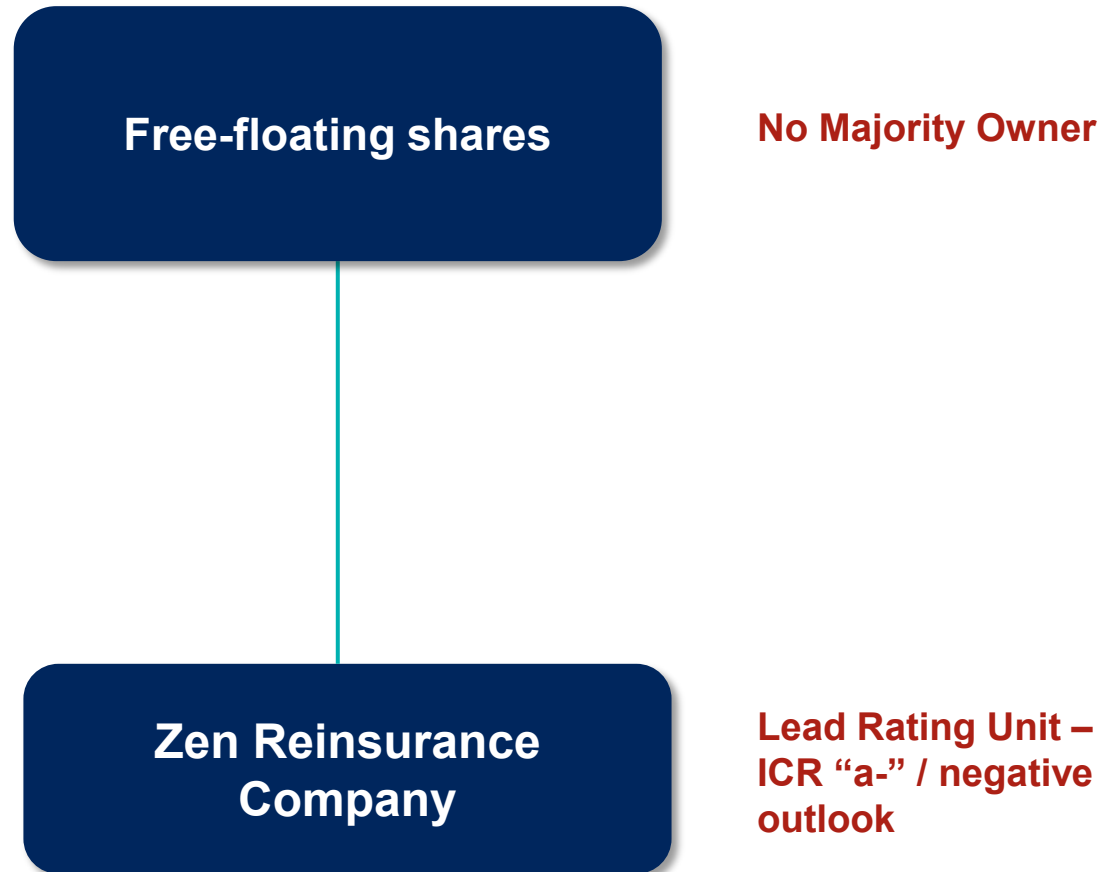


Best's Credit Rating Methodology – Rating Translation Table

Long-Term Issuer Credit Rating	Financial Strength Rating
aaa, aa+	A++
aa, aa-	A+
a+, a	A
a-	A-
bbb+, bbb	B++
bbb-	B+
bb+, bb	B
bb-	B-
b+, b	C++
b-	C+
ccc+, ccc	C
ccc-, cc	C-
c	D

Mock Rating Committee

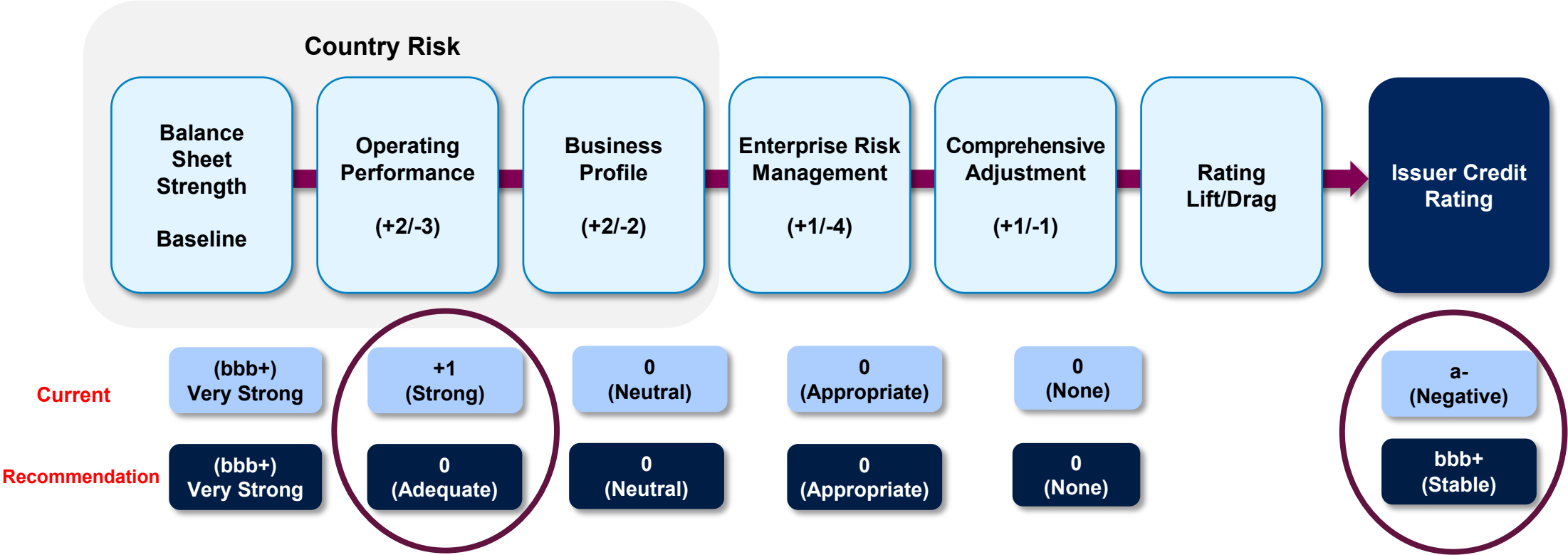
Organizational Structure



Background on Zen Reinsurance Company

- Domiciled in Bahrain
- Country Risk Tier 4, but majority of business in UAE and KSA (CRT3)
- Zen Re established 25 years ago and is a public company
- Strong regional profile, but small globally
- Management have in-depth knowledge and experience of the regional markets

Building Blocks – Zen Reinsurance Company



Introduction to Best's Capital Adequacy Ratio (BCAR)

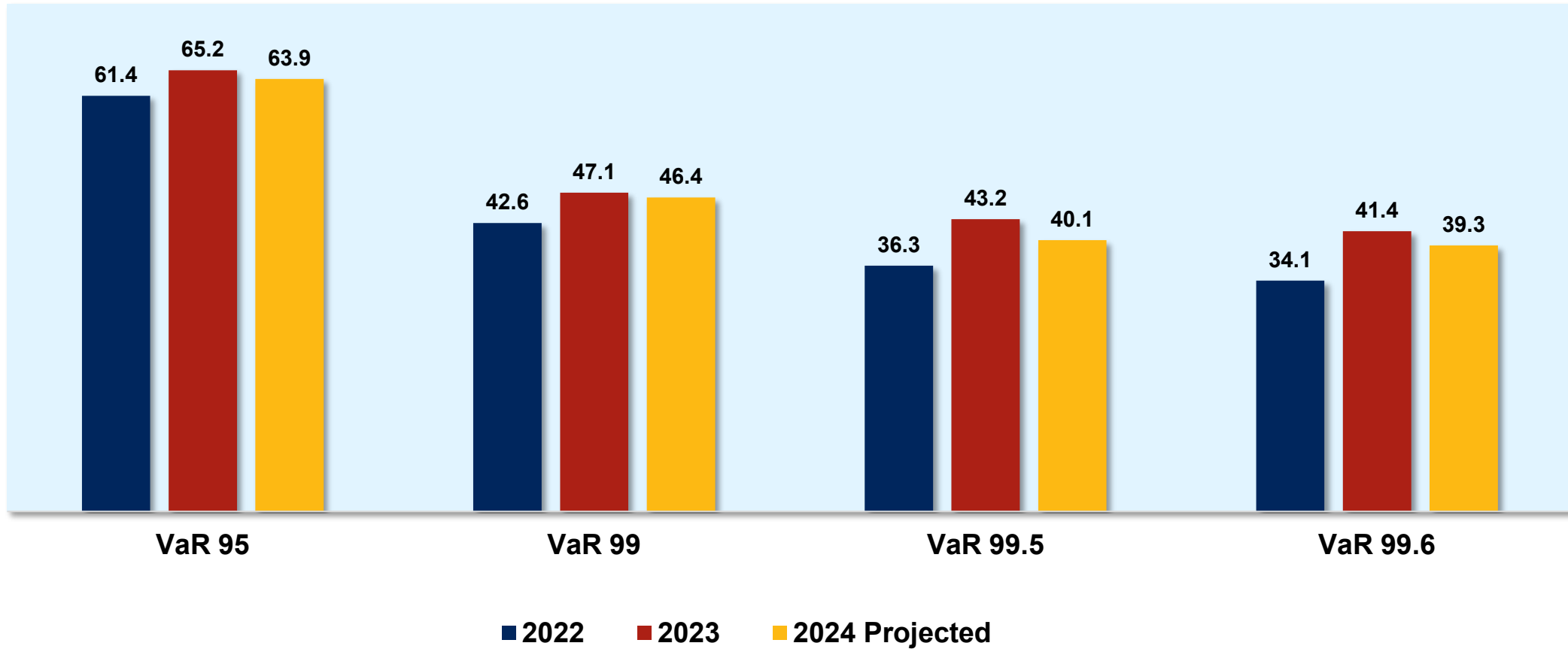
Comprehensive Quantitative Tool

- Evaluates many of the risks to the insurer's balance sheet simultaneously
- Generates an overall estimate of the required level of capital needed to support those risks
- Compares required capital with available capital

Assessment of Balance Sheet Strength

- Key tool in balance sheet strength assessment of insurer
- Also used in Enterprise Risk Management (ERM)
- Not the sole determinant of balance sheet strength
- Not the sole determinant of the rating

Zen Re – BCAR Summary (Scores)



BCAR Guidelines

$$\text{BCAR} = \frac{(\text{Available Capital} - \text{Net Required Capital})}{\text{Available Capital}} \times 100$$

VaR Level (%)	BCAR	BCAR Assessment
99.6	> 25 at 99.6	Strongest
99.6	> 10 at 99.6 & ≤ 25 at 99.6	Very Strong
99.5	> 0 at 99.5 & ≤ 10 at 99.6	Strong
99	> 0 at 99 & ≤ 0 at 99.5	Adequate
95	> 0 at 95 & ≤ 0 at 99	Weak
95	≤ 0 at 95	Very Weak

* Companies with < 20 million USD in capital & surplus cannot qualify in strongest category

Balance Sheet Strength Sub-Component Assessments

Quantitative Components	Assessment
BCAR Assessment	Strongest
Volatility of BCAR	Positive
BCAR Stress Testing	Neutral
Liquidity	Positive
Asset Liability Management	Neutral
Internal Capital Models	N/A
Financial Leverage	N/A
Operating Leverage	N/A

Qualitative Components	Assessment
Quality of Capital	Positive
Quality of Reinsurance	Positive
Reinsurance Dependence	Neutral
Appropriateness of Reins Program	Neutral
Fungibility of Capital	Neutral
Financial Flexibility	Positive
Quality of Assets	Negative
Strength of Reserves	Negative
Regulatory Capital Position	Positive

Rating Unit BSS Assessment = Very Strong



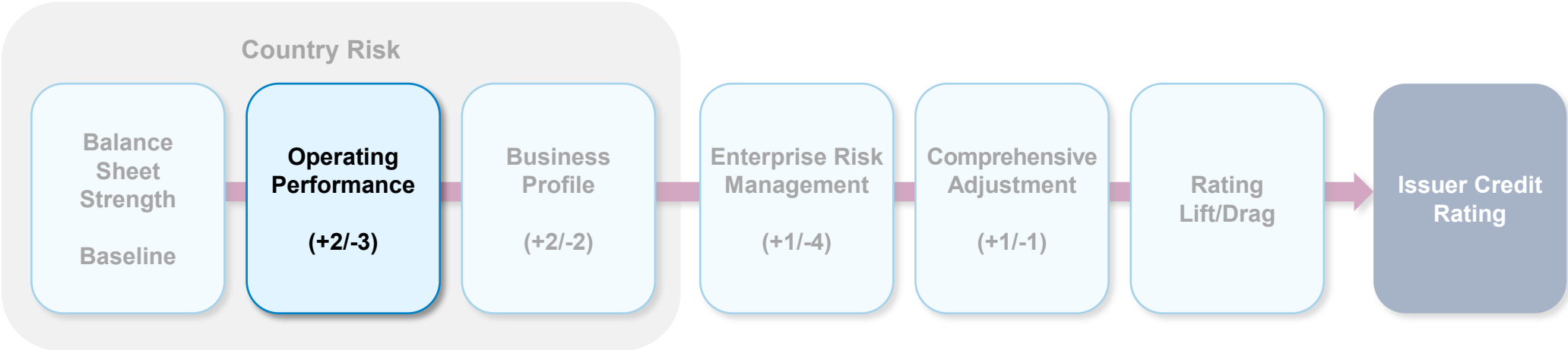
Balance Sheet Strength Assessment

Rating Unit Balance Sheet Assessment	Country Risk Tier					
	CRT-1	CRT-2	CRT-3	CRT-4	CRT-5	
	Strongest	a+/a	a+/a	a/a-	a-/bbb+	bbb+/bbb
	Very Strong	a/a-	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-
	Strong	a-/bbb+	a-/bbb+	bbb+/bbb/bbb-	bbb/bbb-/bb+	bbb-/bb+/bb
	Adequate	bbb+/bbb/bbb-	bbb+/bbb/bbb-	bbb-/bb+/bb	bb/bb-	bb/bb-/b+
	Weak	bb+/bb/bb-	bb+/bb/bb-	bb-/b+/b	b+/b/b-	b/b-/ccc+
Very Weak	b+ and below	b+ and below	b- and below	ccc+ and below	ccc and below	

Balance Sheet Strength Assessment = Very Strong (bbb+) ICR



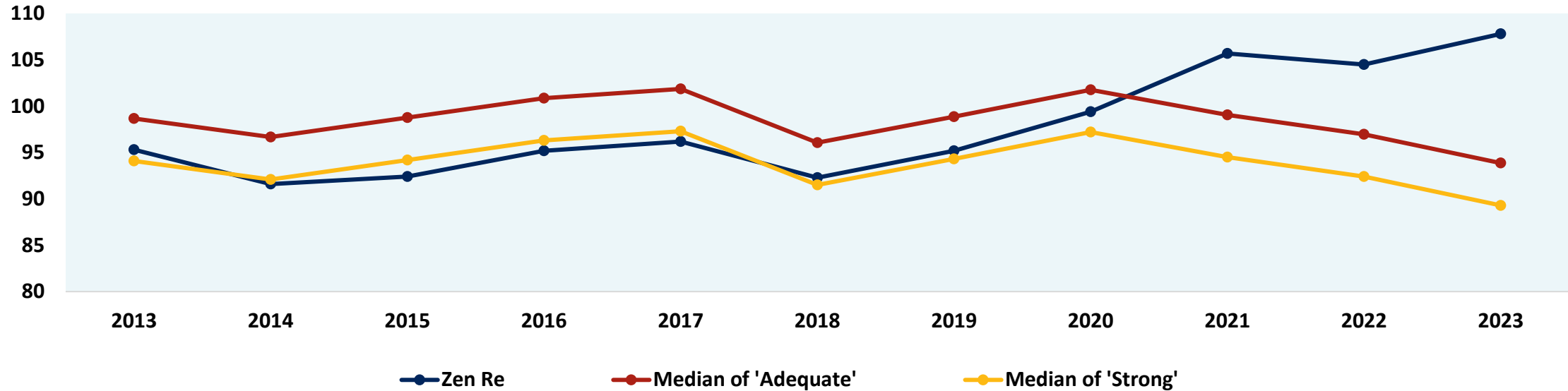
Building Blocks



bbb+
(Very Strong)

Operating Performance

10 Year Combined Ratio Trend



Combined Ratio											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Zen Re	95.3	91.6	92.4	95.2	96.2	92.3	95.2	99.4	105.6	104.5	107.8
Median of 'Adequate'	98.7	96.7	98.8	100.9	101.9	96.1	98.9	101.8	99.1	97.0	93.9
Median of 'Strong'	94.1	92.1	94.2	96.3	97.3	91.5	94.3	97.2	94.5	92.4	89.3



Operating Performance

5-Year Operating Performance Averages as of Year End 2023

	Investment Yield	Total ROR	Total ROE	Loss Ratio	Expense Ratio	Combined Ratio	Operating Ratio
Composite							
Strong	3.4	8.2	6.1	68.6	24.9	93.5	90.1
Adequate	2.0	4.0	4.0	69.1	30.6	98.1	96.1
Zen Re	1.4	5.4	4.9	76.1	26.4	102.5	101.1



Zen Re's Response to Operating Performance Pressure

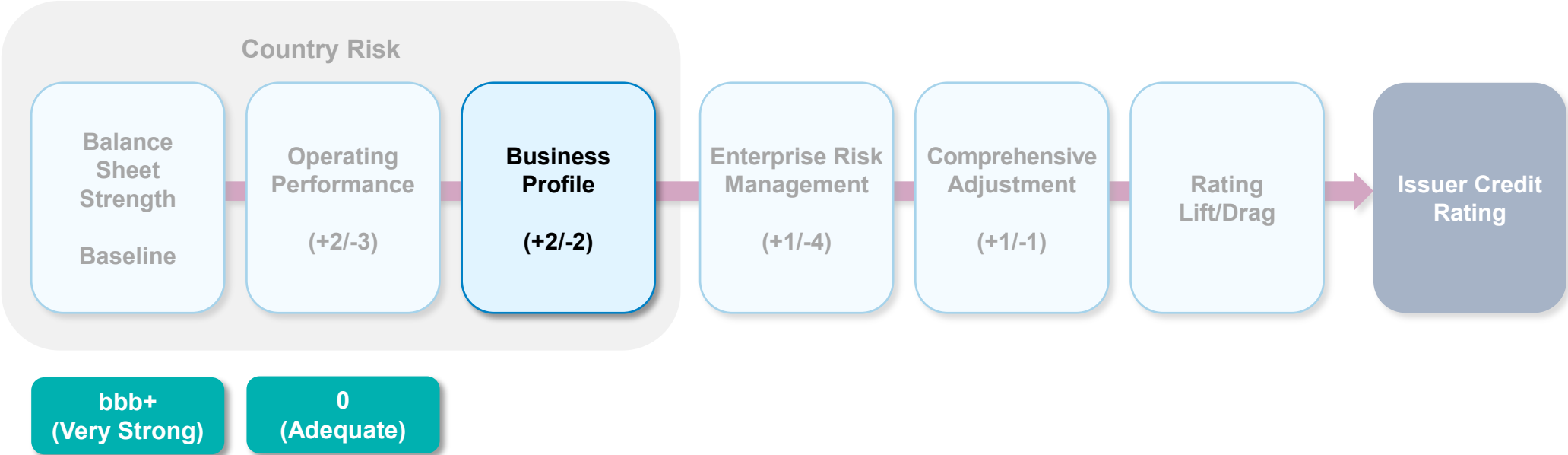
Rate Increases

Tightening Underwriting Guidelines & Reassessing Risk Appetite

Concentration/Exposure Refinement

Optimising retrocession programme

Building Blocks

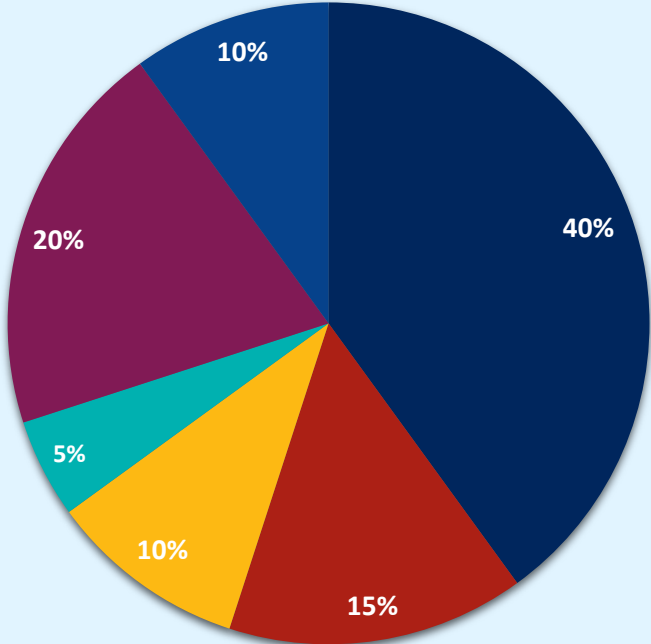


Zen Re – Business Profile

- Zen Re is a composite reinsurer, domiciled in Bahrain
- Book of business based on YE 2023 gross written premium (GWP):
Property & Casualty reinsurance (80%) Life & Health reinsurance (20%)
- Proportional reinsurance accounts for 65% of the book of business, while non-proportional accounts for the remaining 35%
- Although well-diversified geographically regionally, the company is exposed to weather-related events which have increased in frequency in recent years
- Well-established presence in their chosen markets, but small globally
- Strong long-term relationships with brokers and cedents
- Seasoned management team with extensive industry experience
- Targeting further product and geographic diversification outside of core market to drive greater spread of risk

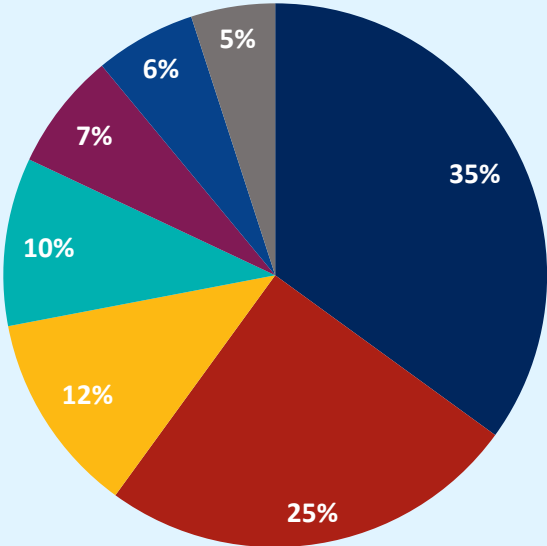
Business Profile

Year End 2023 GWP Split –
Line of Business



- Property
- Motor
- Marine & Aviation
- Liability
- Traditional Life
- Health

Year End 2023 GWP Split –
Geography



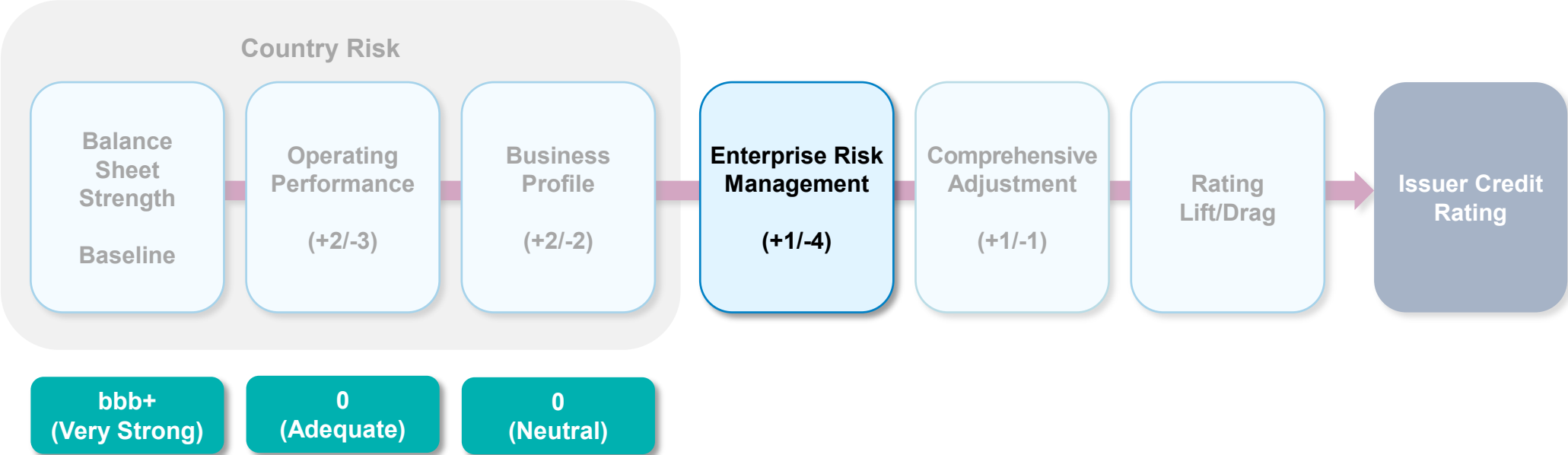
- UAE
- Saudi Arabia
- Qatar
- Bahrain
- Oman
- Kuwait
- Other



Business Profile Sub-Component Assessments

Evaluation	Assessment
Market Position	Neutral
Degree of Competition	Negative
Product/Geographic Concentration	Neutral
Distribution Channels	Positive
Pricing Sophistication/Data Quality	Neutral
Management Quality	Positive
Product Risk	Negative
Regulatory/Event/Market/Country Risks	Neutral
Innovation	Neutral

Building Blocks



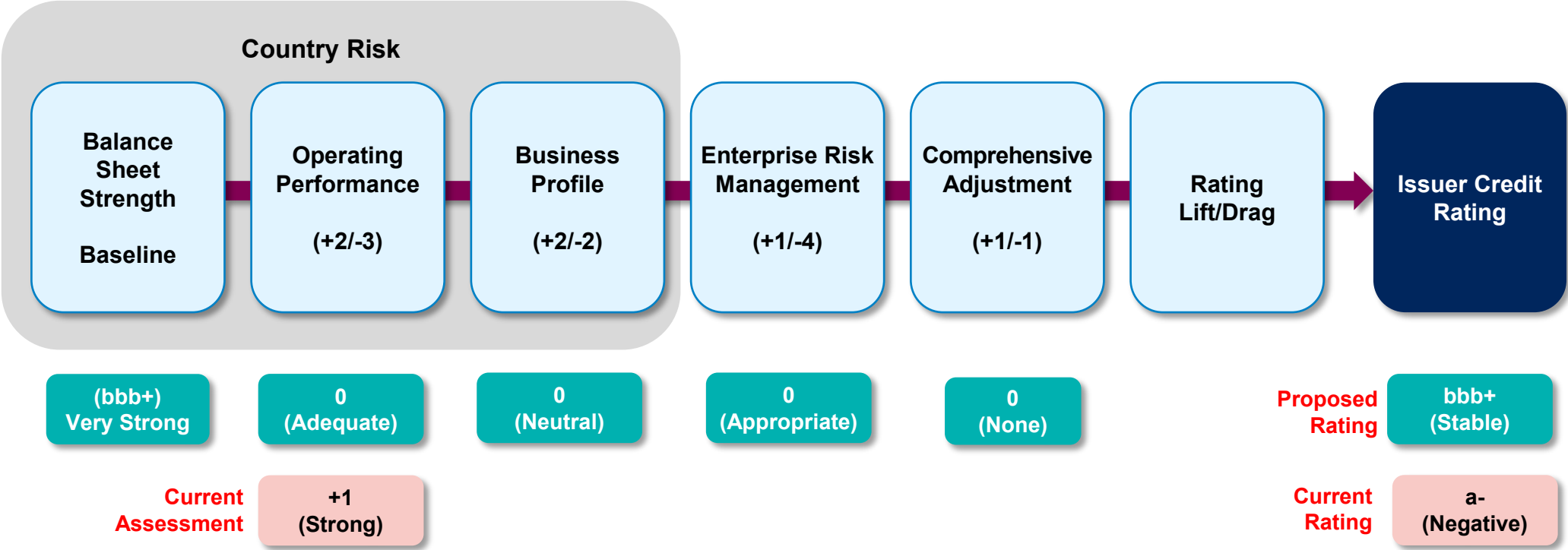
Enterprise Risk Management

Framework Evaluation	Assessment
Risk Appetite & Tolerances	Developed
Stress Testing & Non-Modeled Risk	Evolving
Risk Identification and Reporting	Developed
Risk Management & Controls	Developed
Governance & Risk Culture	Developed

Risk Evaluation (Capability)	Assessment
Product & Underwriting Risk	Appropriate
Reserving Risk	Appropriate
Concentration Risk	Appropriate
Reinsurance Risk	Appropriate
Liquidity & Capital Management	Appropriate
Investment Risk	Appropriate
Legislative/Regulatory/Judicial/Economic	Appropriate
Operational Risk	Appropriate

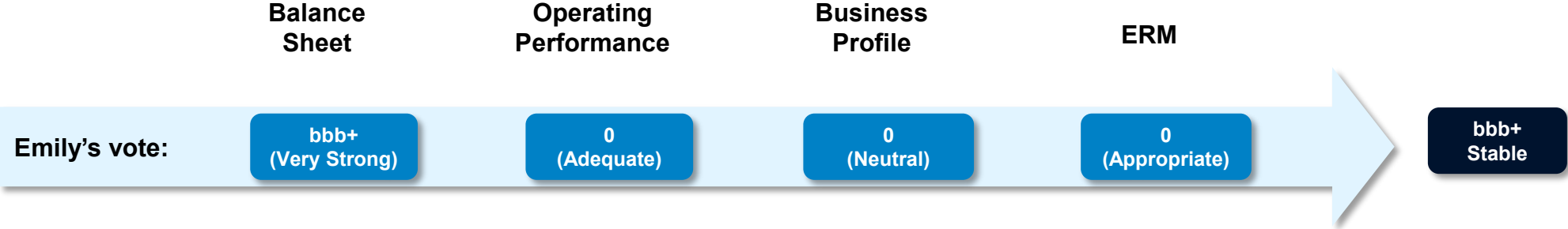


Building Blocks – Final Recommendation



The Committee Vote

Recommendation



Audience Polling

What is Your Vote?

What is your vote on the ICR and outlook for Zen Re?

A

Affirm “a-” and maintain the negative outlook

B

Downgrade to “bbb+” via a change in the Operating Performance Assessment to “Adequate” with a stable outlook

C

Downgrade to “bbb+” via a change in the Operating Performance Assessment to “Adequate” with a negative outlook



The Vote

	Balance Sheet	Operating Performance	Business Profile	ERM	
Emily's vote:	bbb+ (Very Strong)	0 (Adequate)	0 (Neutral)	0 (Appropriate)	bbb+ Stable
Mahesh's vote:	bbb+	0	0	0	bbb+ Stable
RC Member 6:	bbb+	0	0	0	bbb+ Negative
RC Member 5:	bbb+	+1	0	0	a- Negative
RC Member 4:	bbb+	0	0	0	bbb+ Stable
Greg's vote:	bbb+	0	0	0	bbb+ Negative



Decision and Summary

Rating Committee Outcome

- Chair confirms committee outcome based on voting count
- Chair directs committee's attention to outlook statement and rating drivers for any potential revisions
- Analytical team asks for clarifying comments from the committee before close
- Chair completes a vote sheet with comments to document the outcome of the vote and the key parts of the committee discussion

Q&A

Greg Carter

Managing Director, Analytics - EMEA & AP, AM Best

Mahesh Mistry

Senior Director, Head of Analytics, London, AM Best

Emily Thompson

Senior Financial Analyst, AM Best



AM Best's Insurance Market Briefing - Manama



BIA

In collaboration with

جمعية التأمين البحرينية
BAHRAIN INSURANCE ASSOCIATION



18 November 2024