Kempinski Central Avenue, Dubai

AM Best's
Insurance Market Briefing - Dubai

20 November 2024

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Nick Charteris-Black
Managing Director,
Market Development – EMEA

20 November 2024

Agenda

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 **CEO Panel**

Moderator:
Vasilis Katsipis, General Manager, Market Development, MENASCA, AM Best

Panellists:
- *Abdellatif Abuqurah, Chief Executive Officer, Dubai Insurance*
- *Jason Light, Chief Executive Officer, Emirates Insurance*
- *Ahmed Rajab, Chief Executive Officer, SHIELDS Reinsurance Brokers*

13:30 **Closing Comments**
Nick Charteris-Black, Managing Director, Market Development – EMEA

13:35 **Networking Lunch**

Disclaimer

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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

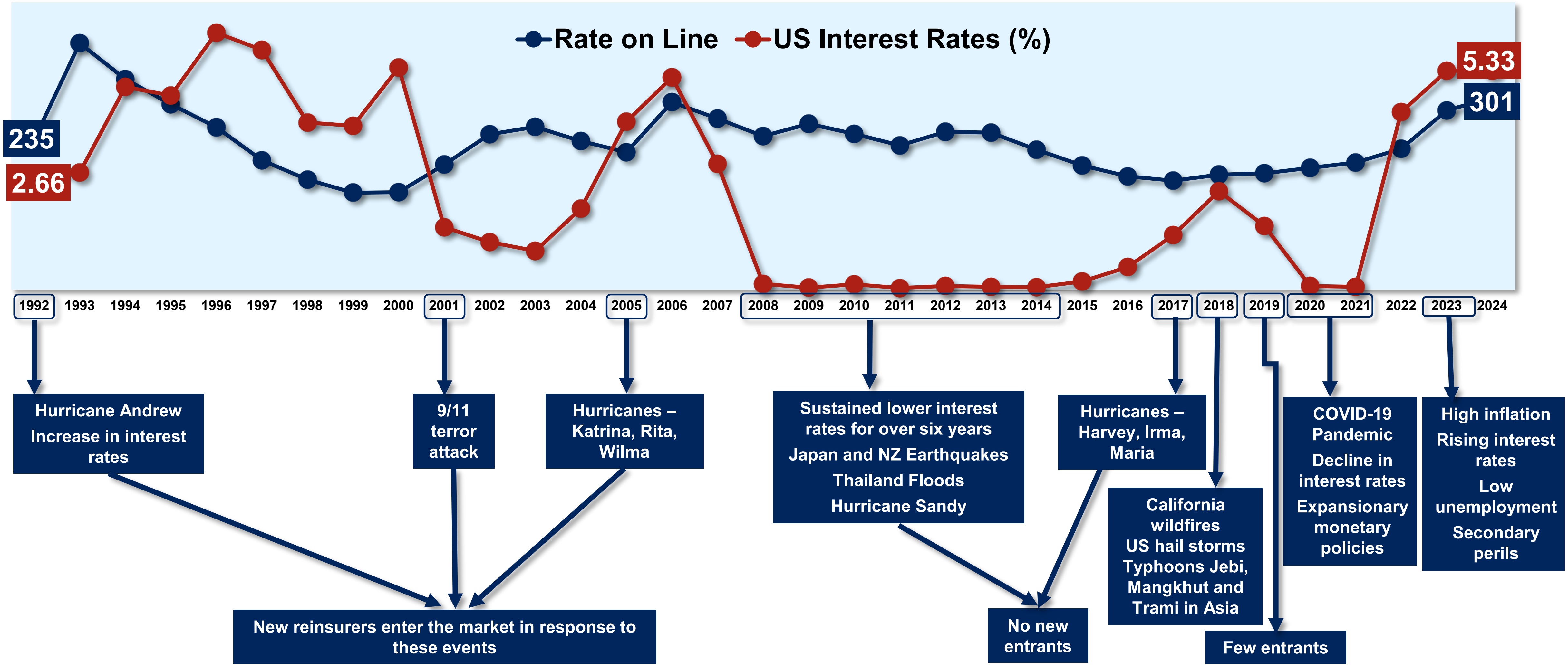
Outlook –
Positive: a distinct type of hard cycle

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?



Sources: Estimates by Guy Carpenter and AM Best

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

AM BEST SINCE 1899 — 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-on-line, the result was an underwriting margin that hasn't been realized since 2014.

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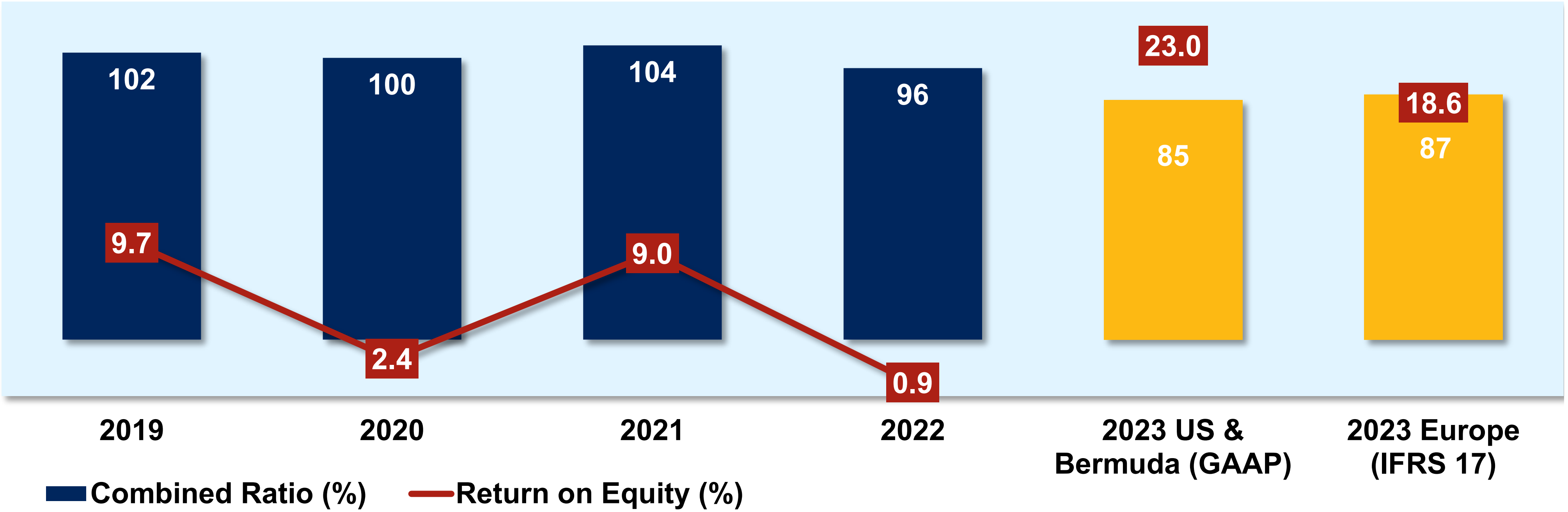
Drivers

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

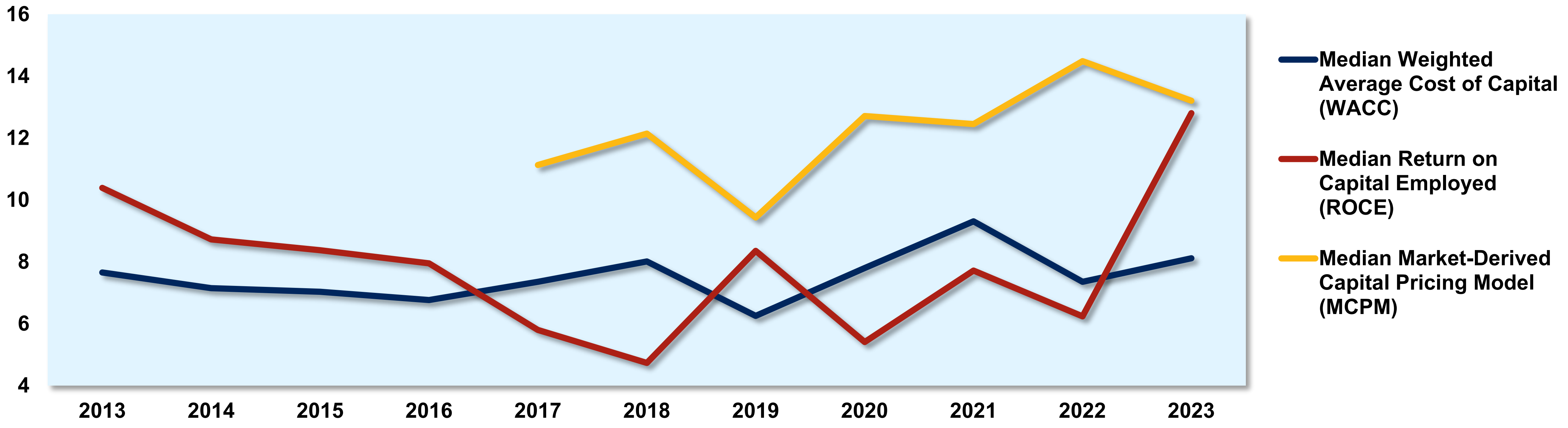
Tighter terms and conditions → Shift away from high-frequency layers → Higher profits

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

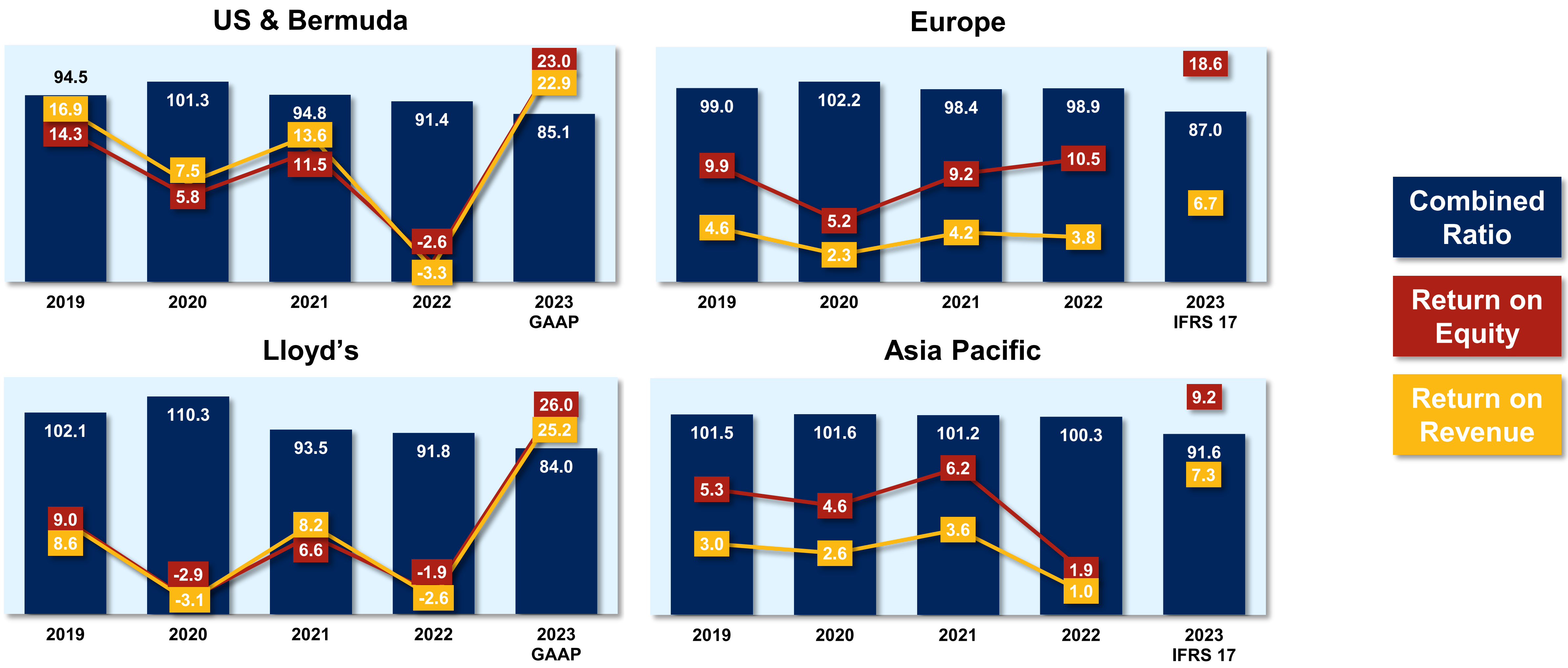
Cost of Capital and Realignment of Risk



Reinsurers meeting cost of capital

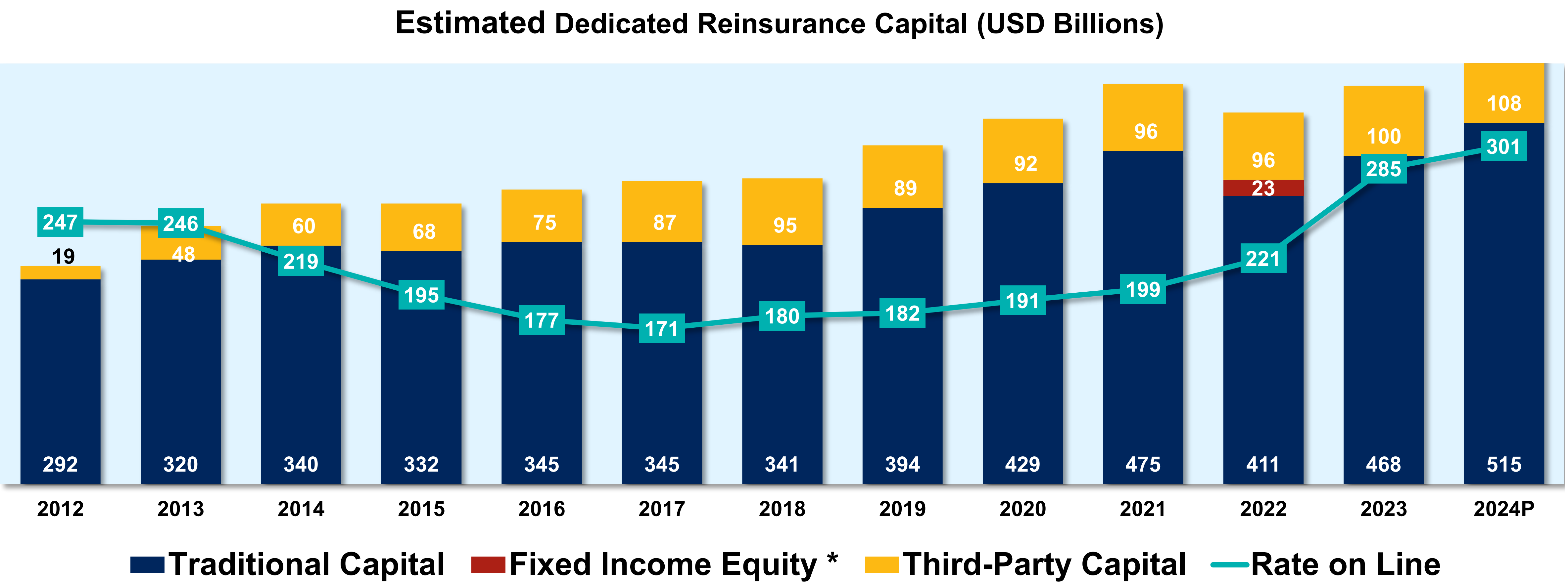
Market-Derived Capital Pricing Model (MCPM) is based on a smaller sample size and has limited years due to availability of data
Source: Bloomberg

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



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

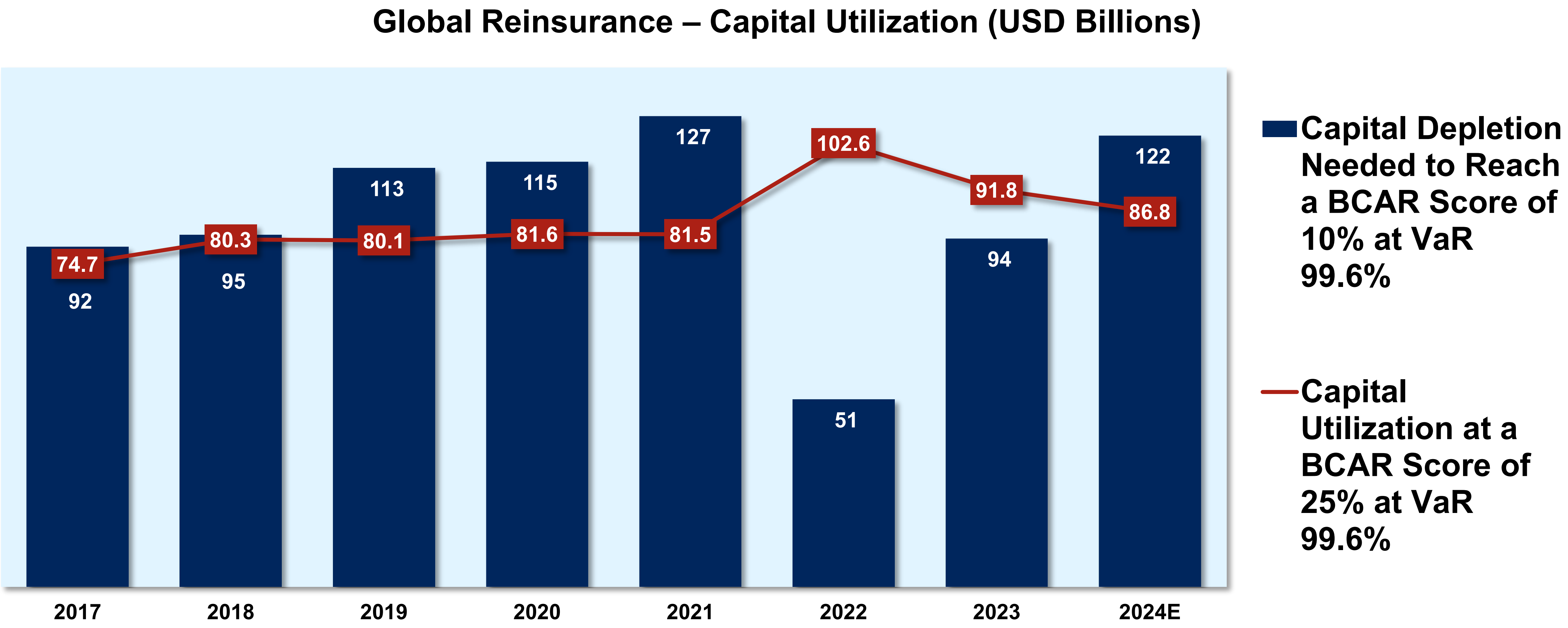
Global Reinsurance Market Capital



* 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.

Sources: Guy Carpenter and AM Best

A Hard Cycle With Excess Capital



Source: AM Best data and research

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	Rate increases – to continue at a slower pace
Disciplined expansion of the reinsurance segment – led by major players	Significant new capital / number of new entrants – unlikely
Inflationary pressures and high interest rates – to remain	Renewed appetite for volatile lines of business – but with tighter terms and conditions
Emerging risks – slow expansion	Higher retentions – here to stay

AM Best's Expectations – The Next 12 Months

Underwriting profits –
slight reductions, but still strong

Inflationary pressures and interest rates –
Abating and declining, slowly

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

Significant new capital /
number of new entrants –
unlikely

Retention levels –
minor movements into working layers

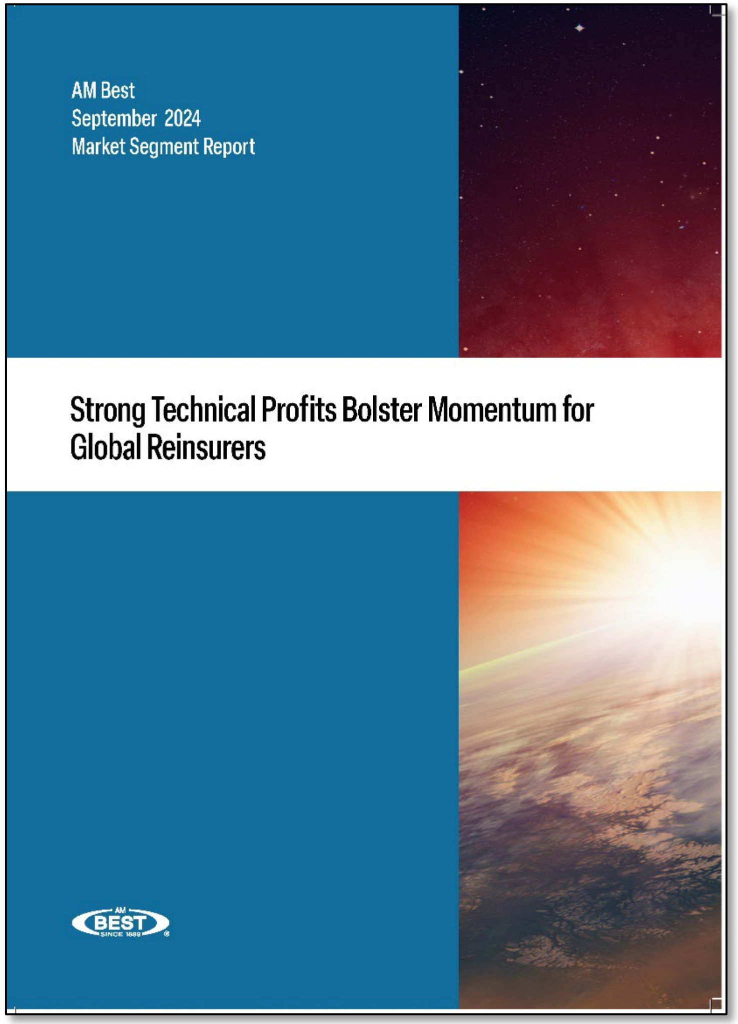
Increased use of Alternative Capital to flex capital needs

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
• Elevated country risk; high economic inflation in some countries	• Benefitting from global pricing conditions and tighter terms and conditions
• Challenging geopolitical landscape	• No capacity constraints
• Higher frequency and severity of losses	• 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
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
bbb-		2	2	2	3	3	3	4	4	4	4	5	5	4	**3**	**2**	**1**	1	1
bb+															1	1	1		
bb																	1	1	2
bb-																1	1	1	
below b+																		1	1

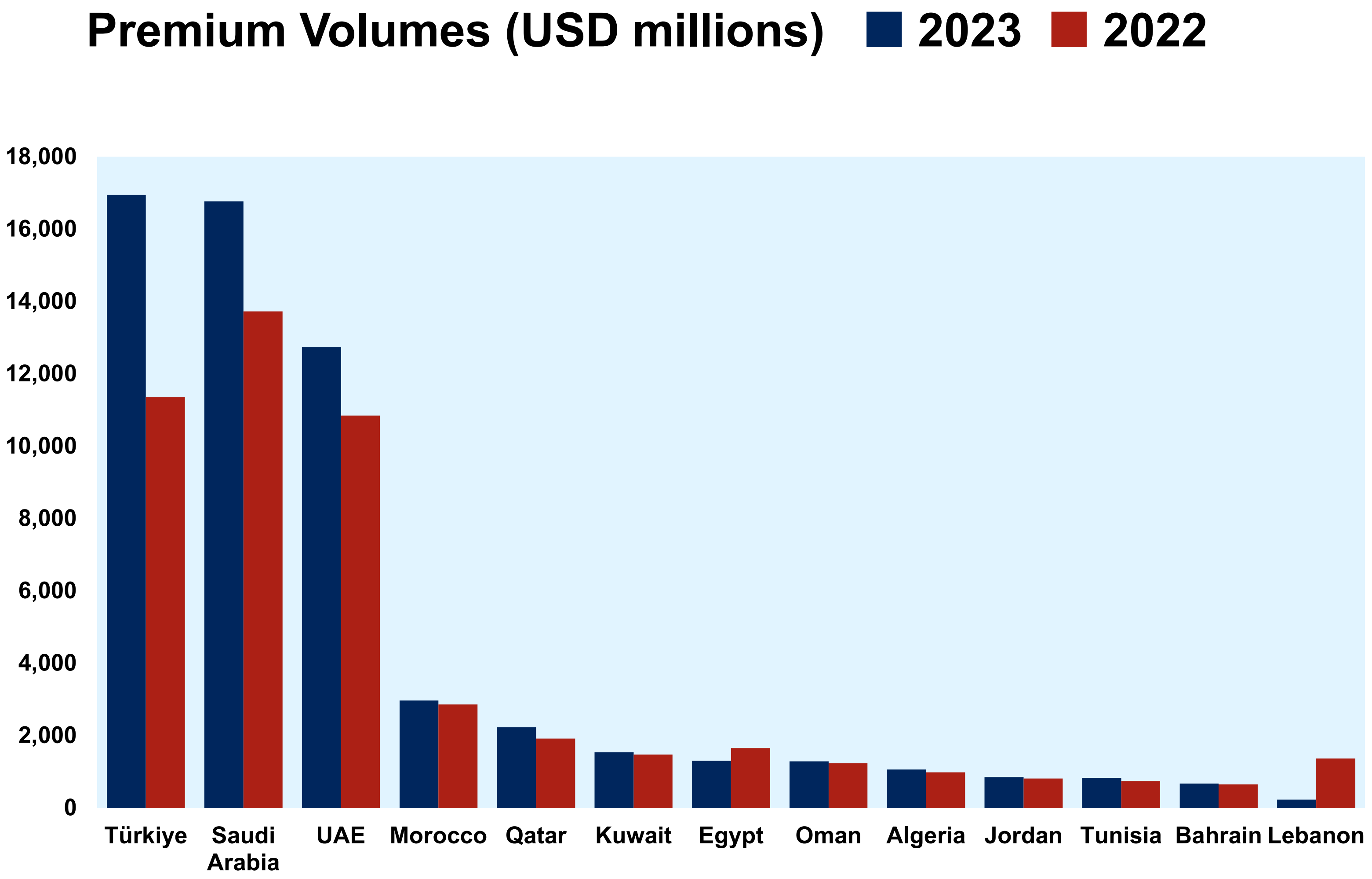
Challenging Operating Environment – Elevated Country Risk

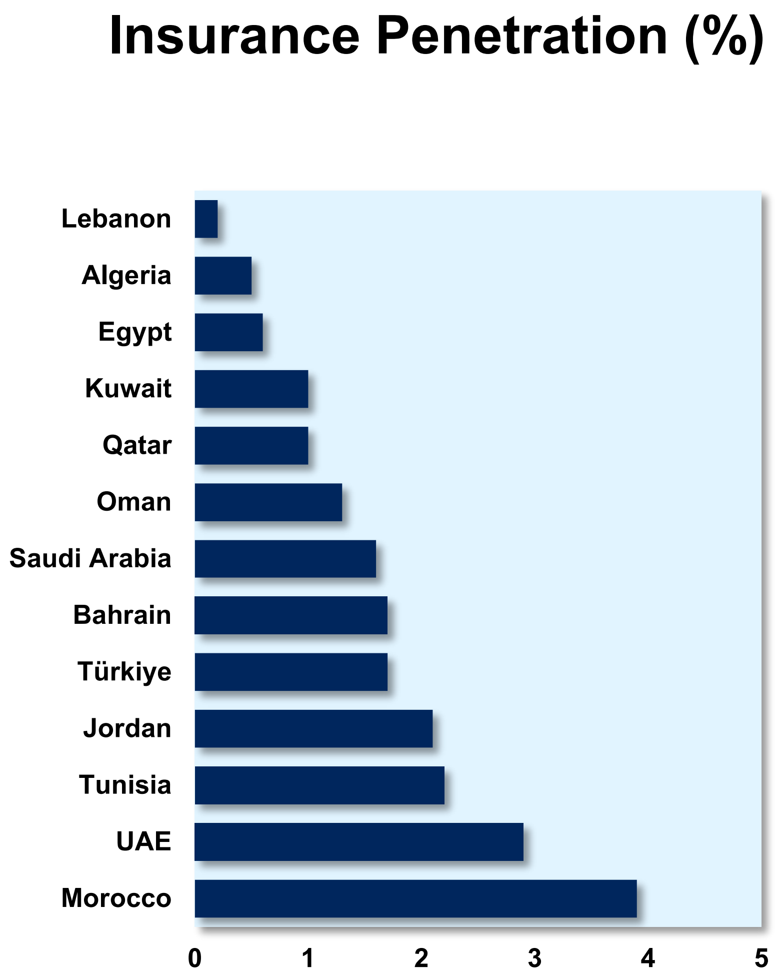
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Economic Risk	Political Risk	Financial System Risk
UAE																Low	Low	Moderate
Qatar																Moderate	Moderate	Moderate
Saudi Arabia																Moderate	Moderate	Moderate
Kuwait																Moderate	Moderate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

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

Visit AM Best's Country Risk Information pages for further details.

Market Growth and Penetration Offer Opportunities

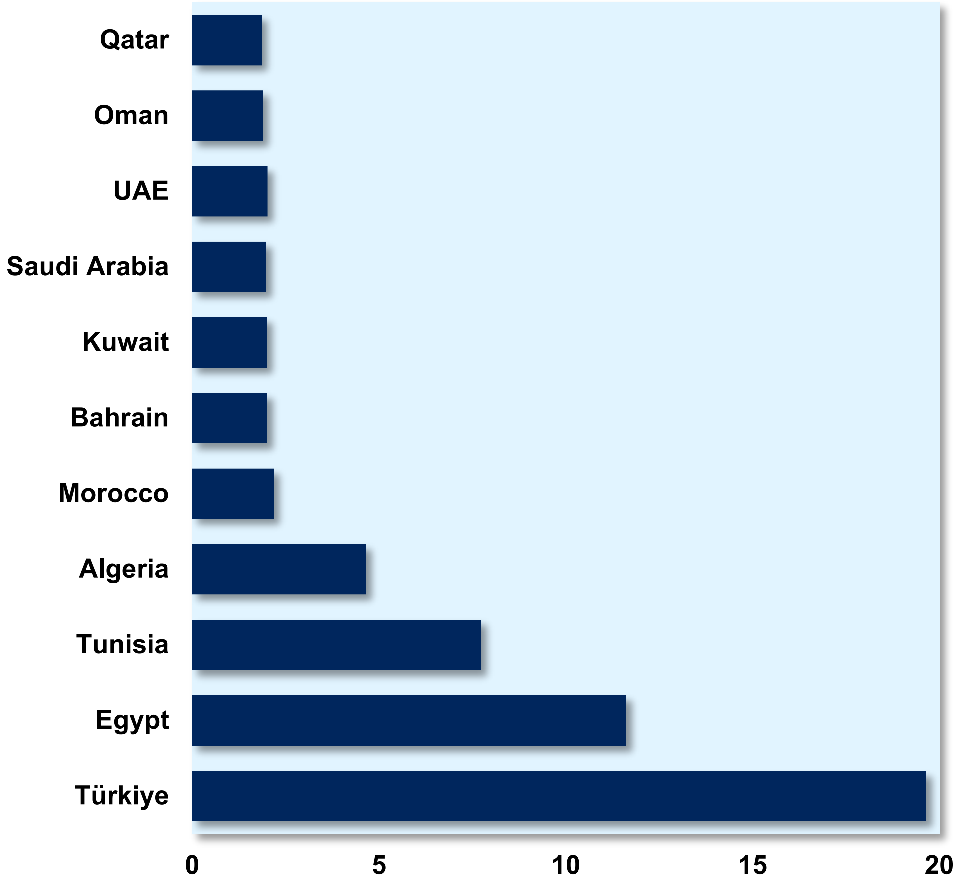




Source: Swiss Re Sigma World Insurance

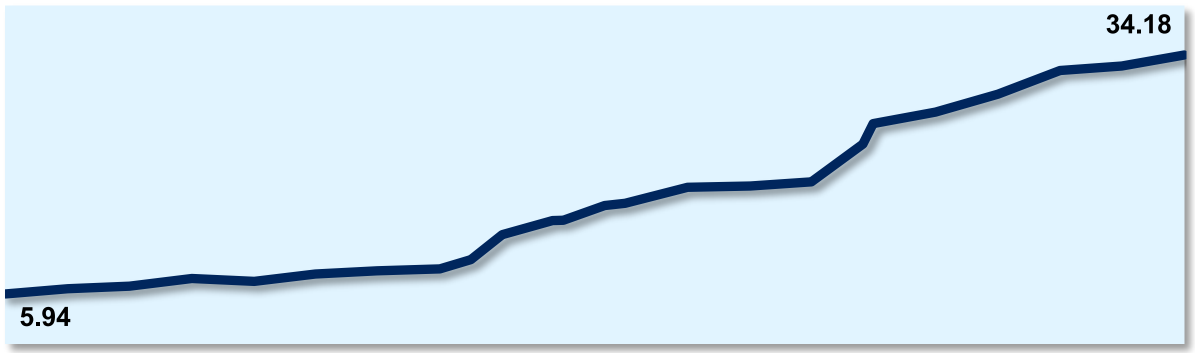
Inflation and Currency Depreciation – A Concern in Non-GCC Markets

Five-Year Average Inflation (%)



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

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



Sources: International Monetary Fund, World Economic Outlook Database, October 2024, Treasury Reporting Rates of Exchange, retrieved from Fiscal Data

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

Address Downtown (2015)

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

Beirut Port Explosion (2020)

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

Turkey & Syria Earthquake (2023)

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

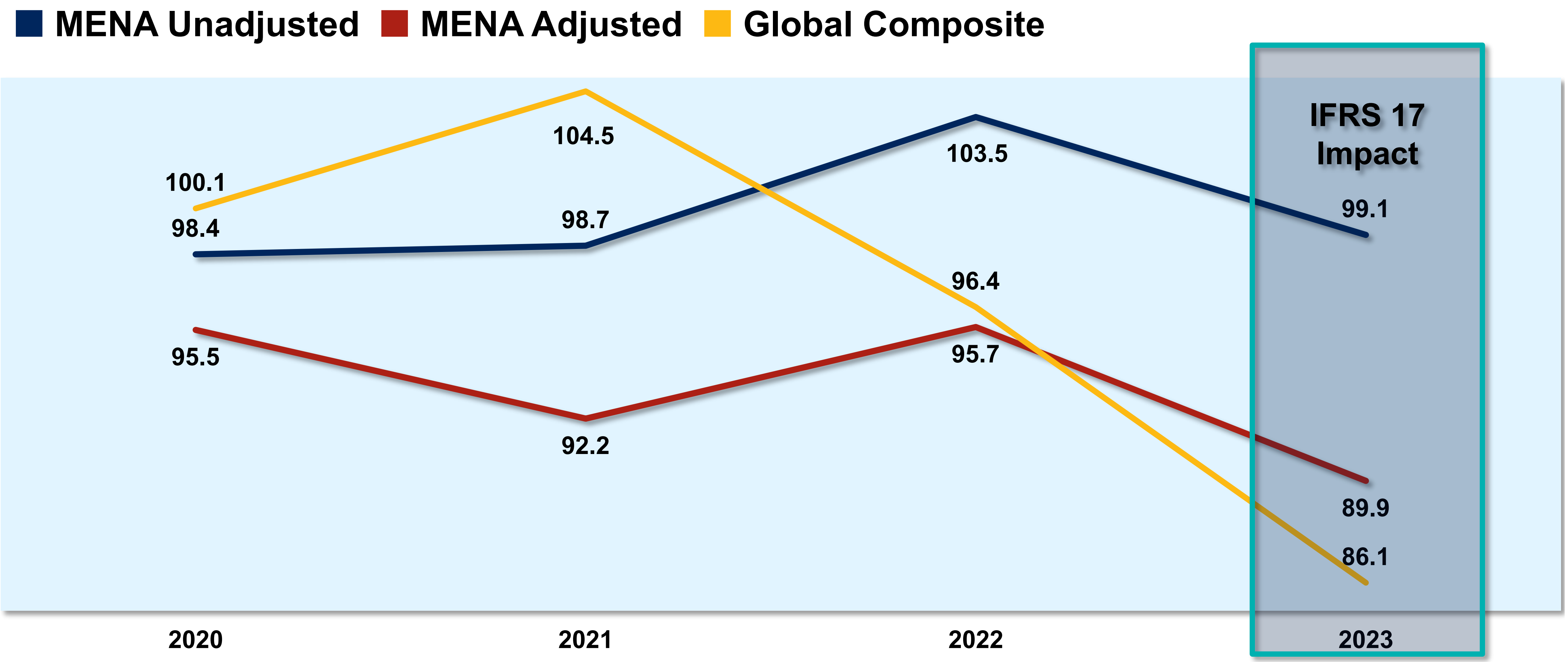
Morocco Earthquake (2023)

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

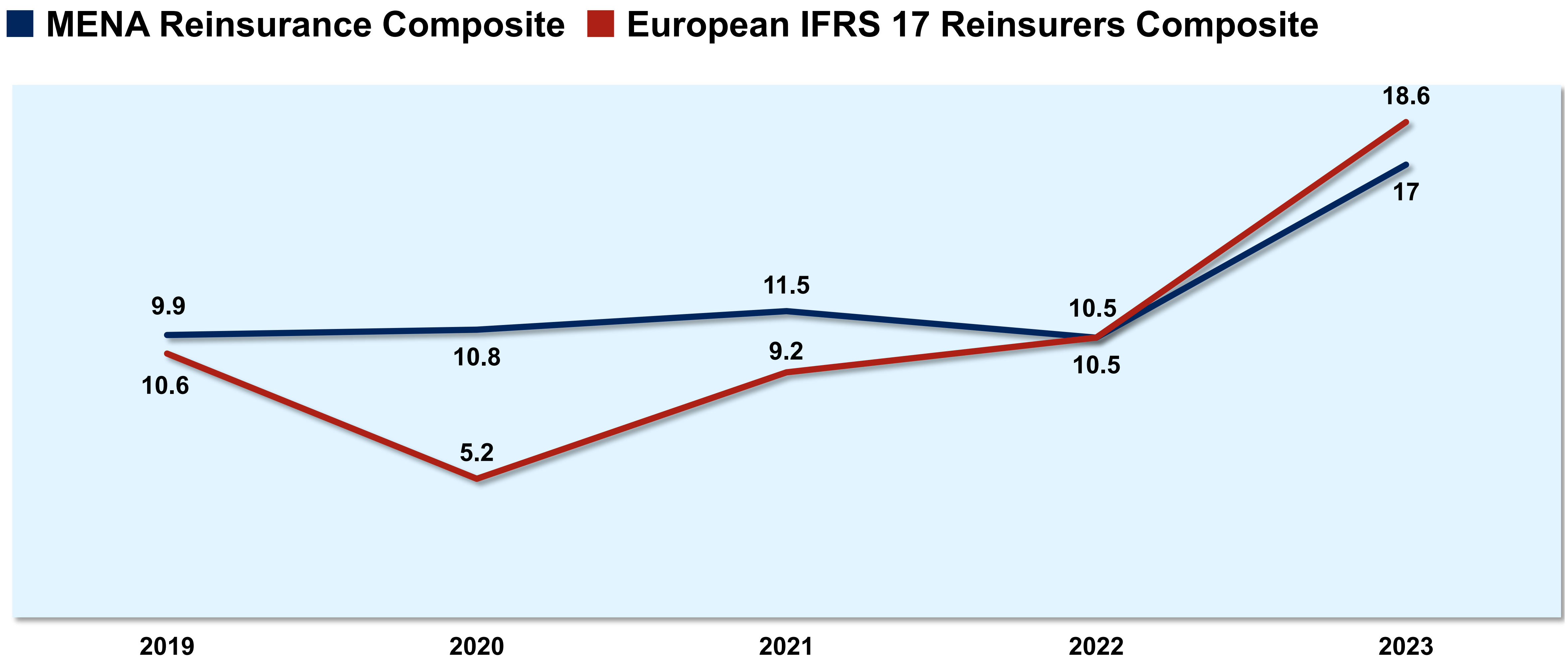
GCC Floods (2024)

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

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



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



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

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

Balance Sheet Strength	Operating Performance	Business Profile	Enterprise Risk Management
• Generally strongest Best's Capital Adequacy Ratio (BCAR) – subject to volatility	• Mixed underwriting performance	• No MENA reinsurer in global top 50	• Risk management practices continue to improve and develop
• Quality of assets	• ROEs tend to be dependent on investment income	• Concentration to single market or region	• Elevated risk profiles – volatile and uncertain market environment
• Small asset base	• Inflation - reserving and pricing trends	• Diversification sometimes hampers performance	• Developing modelling capabilities
• Country Risk exposures		• Local market cessions/affiliation	• Concentrations still exist

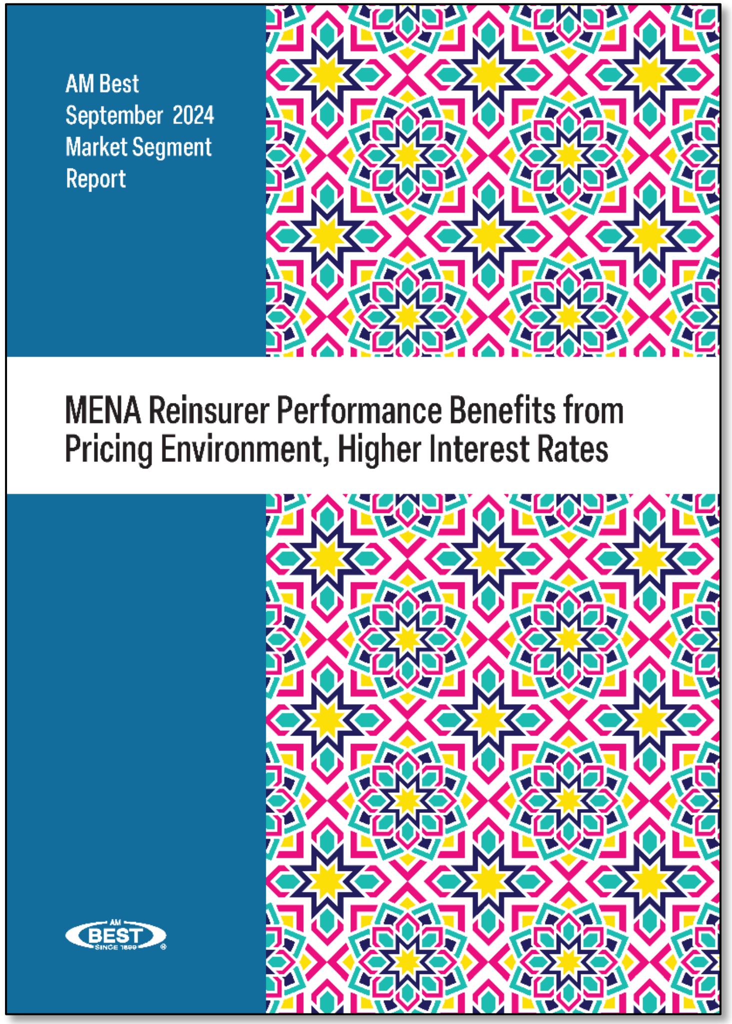
Notes:
Full details of BCRM and BCAR can be found in "Best's Credit Rating Methodology" (November 2020)

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

AM Best ratings correct as of November 13, 2024

Q&A

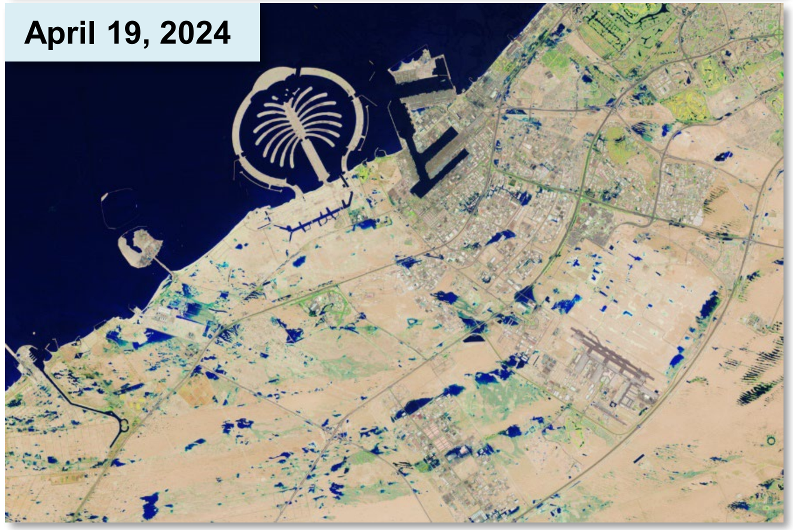
Mahesh Mistry
Senior Director, Head of Analytics
London, AM Best

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


April 19, 2024

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

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

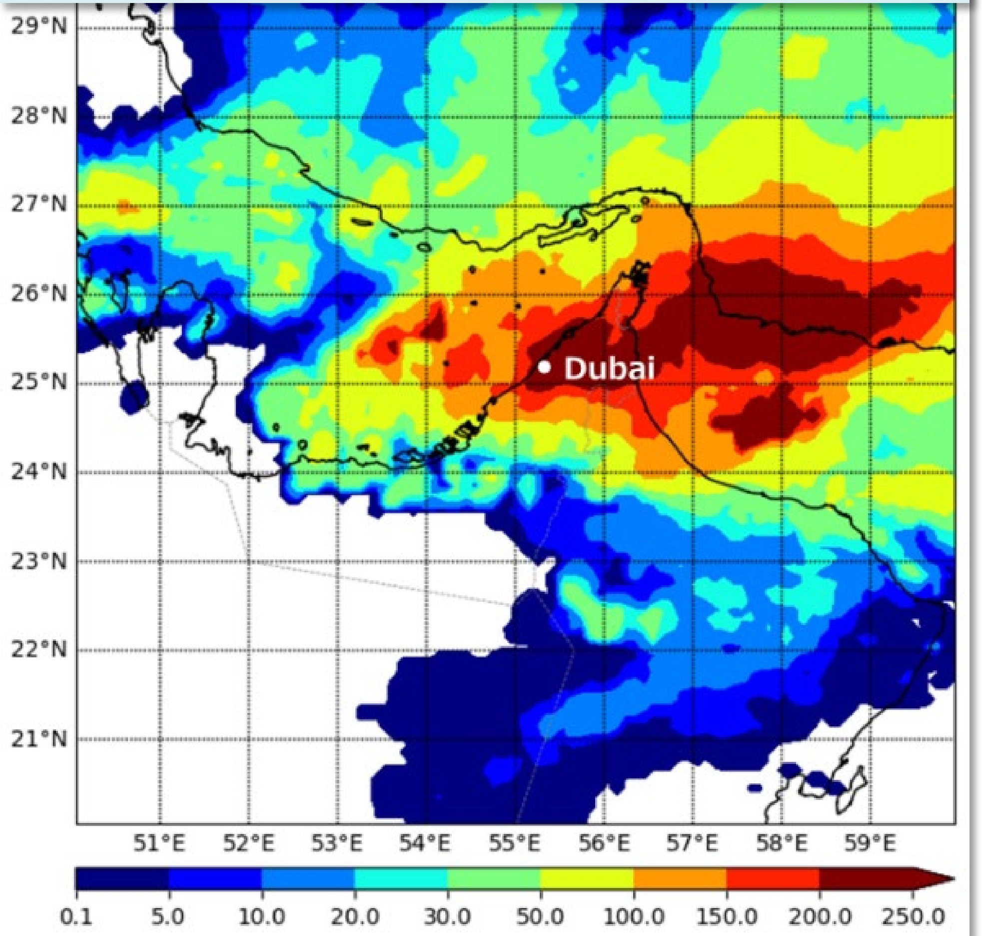
Total insured loss for the UAE estimated to fall within the range of USD 1.9 billion – USD 3.4 billion

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

Image: NASA Earth Observatory

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

Image: JAXA Climate Rainfall Watch (GSMaP)

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

Image: Sergey/Adobe Stock Library

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

Image: Sergey/Adobe Stock Library

2024 Flood Events

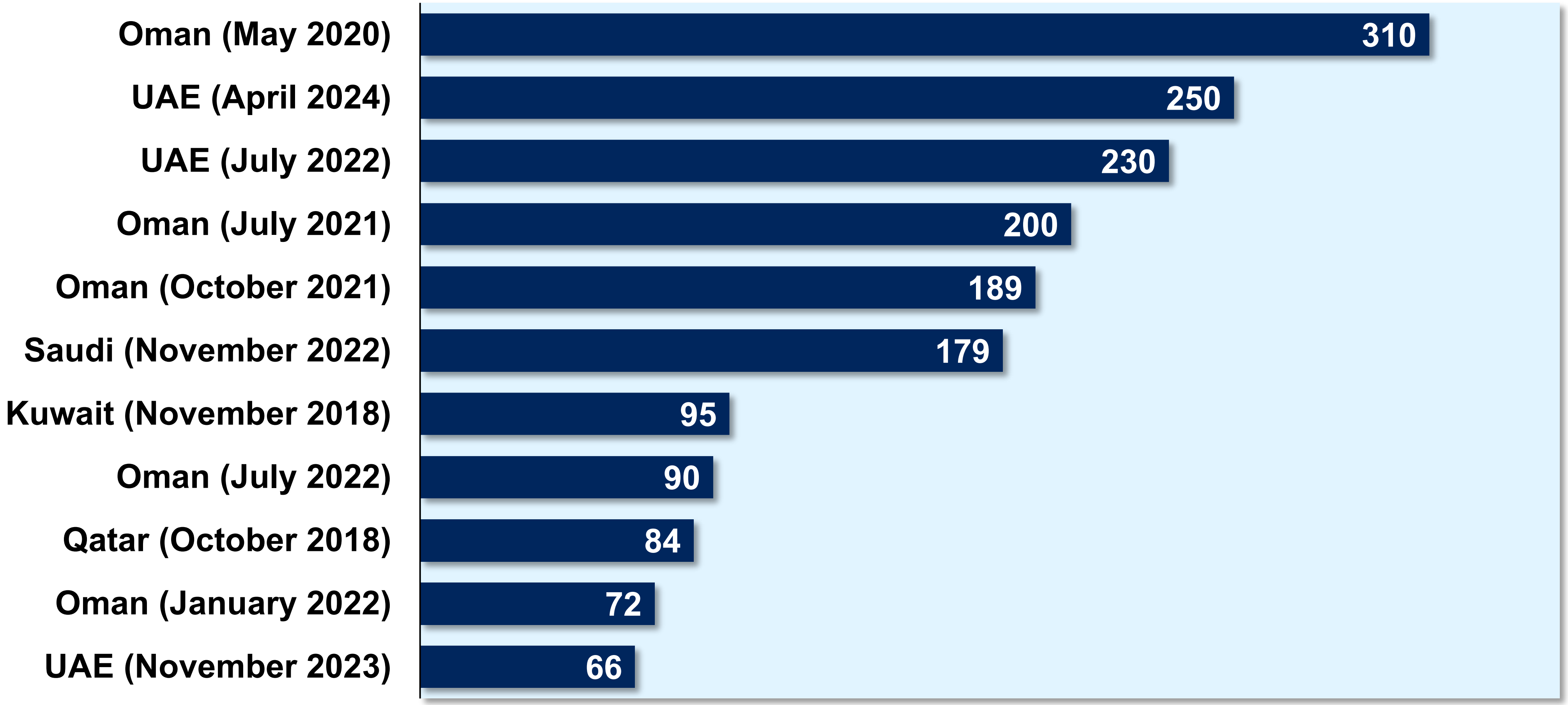
Event 1 – 11-13 February

Event 2 – 9-11 March

Event 3 – 14-17 April

Images: Sergey/Adobe Stock Library

Historic GCC Floods – Rainfall (mm)



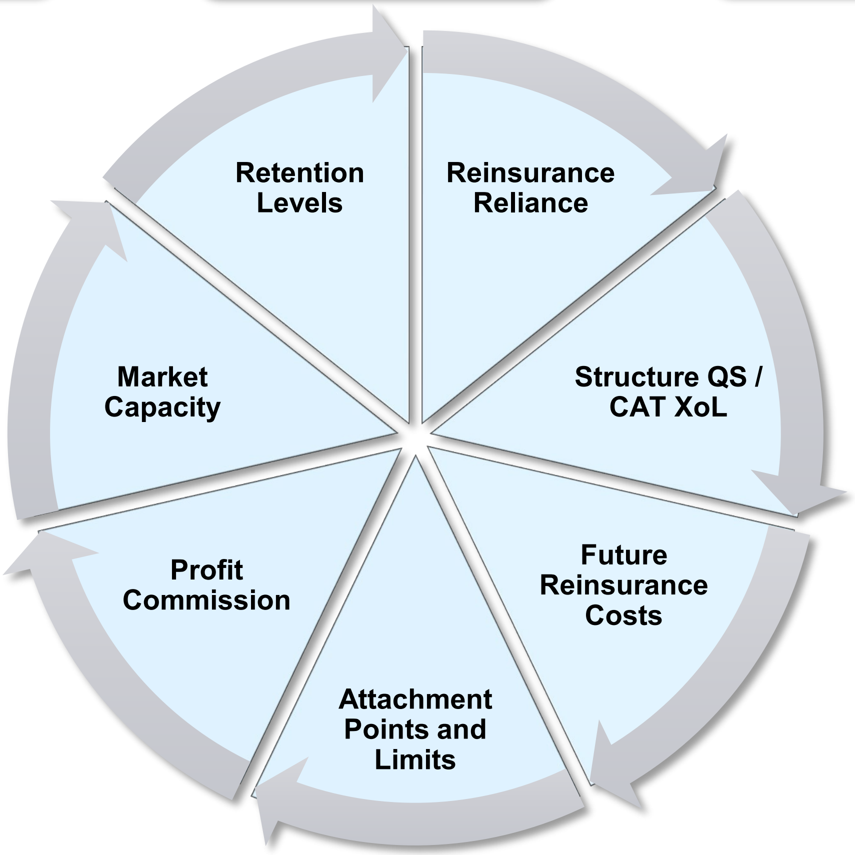
Rating Considerations Following the Floods

AM Best Building Block Considerations for the Floods

Balance Sheet Strength	Operating Performance	Business Profile	Enterprise Risk Management	Issuer Credit Rating
• Reinsurance – reliance / dependence/ future cost • Liquidity – sufficient short term cash requirement to pay for claims • Capital / solvency • Reserves	• Claims handling • Reserve development • Fraud • Future commissions impact • Future collections from market peers	• Portfolio mix • Portfolio concentration • Impacts on rates • Policy wording • Insurance awareness and uptake • Net portfolio changes • Product demand • Change in product requirement	• Stress testing • Understanding exposure to key perils • Catastrophe modelling capabilities • Risk appetite and tolerances • Risk Accumulation and Exposure Management • Reputational Risk	**Rated companies have generally shown resilience**

AM Best Building Block Considerations – Reinsurance

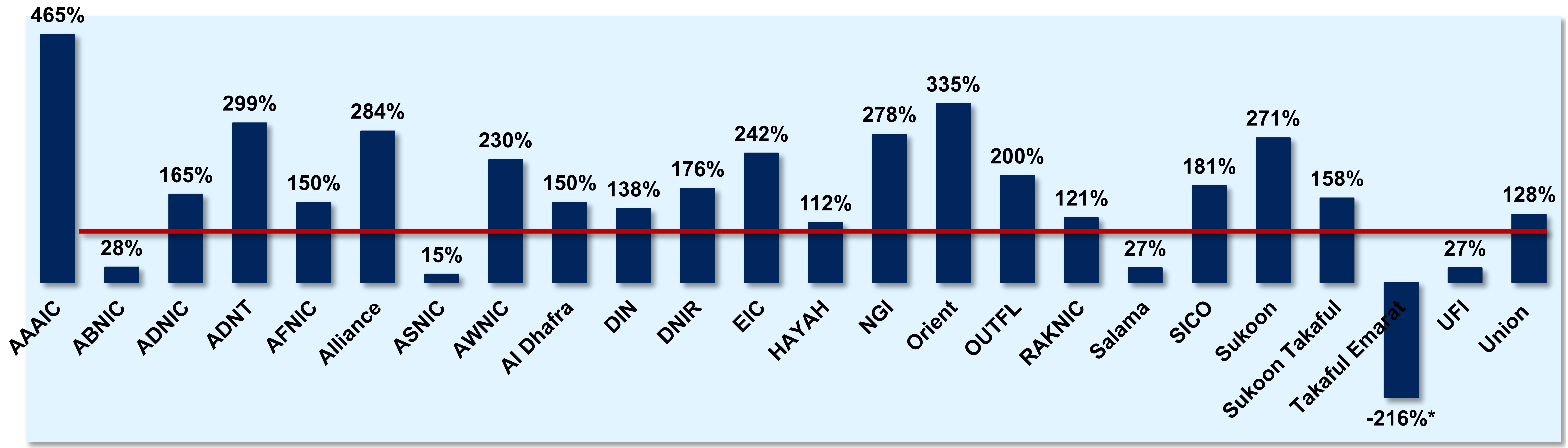
Balance Sheet Strength → Operating Performance → Business Profile → Enterprise Risk Management → Issuer Credit Rating



AM Best Building Block Considerations – Solvency

Balance Sheet Strength → **Operating Performance** → **Business Profile** → **Enterprise Risk Management** → **Issuer Credit Rating**

Regulatory Solvency Capital Ratio (%) at 30 June 2024



* Pending capital increase

AM Best Building Block Considerations – Performance

Balance Sheet Strength → **Operating Performance** → Business Profile → Enterprise Risk Management → Issuer Credit Rating

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

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AM Best Building Block Considerations – Rates

Balance Sheet Strength → Operating Performance → Business Profile → Enterprise Risk Management → Issuer Credit Rating

Motor rates have increased by around 30% year-to-date

Property rates have increased in the range of 10-20% year-to-date

Increased demand for comprehensive cover

Rate increases dependent on vehicle. Chinese vehicles have increased by +26%, Japanese vehicles by +25%, German and American vehicles by 9%

Electric Vehicles

AM Best Building Block Considerations – Profiles May Change

Balance Sheet Strength → Operating Performance → **Business Profile** → Enterprise Risk Management → Issuer Credit Rating

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

Balance Sheet Strength → Operating Performance → Business Profile → Enterprise Risk Management → Issuer Credit Rating

Stress testing for critical risks. Assess the appropriateness of stress testing

Companies should perform relevant stress testing and be able to explain the scenarios and their impact on operations

Should look 'outside the box' to assess emerging risks and potential correlations

Important to get a view on reverse stress testing

Understand contingency plans and protocols to restore capital

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

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Moderator:
Vasilis Katsipis, General Manager, Market Development, MENASCA, AM Best

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- *Jason Light, Chief Executive Officer, Emirates Insurance*
- *Ahmed Rajab, Chief Executive Officer, SHIELDS Reinsurance Brokers*

13:30 Closing Comments
Nick Charteris-Black, Managing Director, Market Development – EMEA

13:35 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

LUX
ACTUARIES & CONSULTANTS

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**.

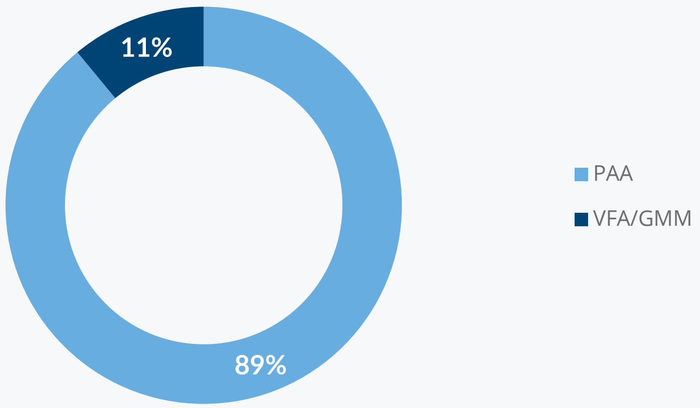
02 The **Risk Adjustment (RA)** impact has largely been offset by the **Discounting** impact under PAA. PAA materiality thresholds are 'generous', which facilitates the calculation for long term P&C policies.

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.

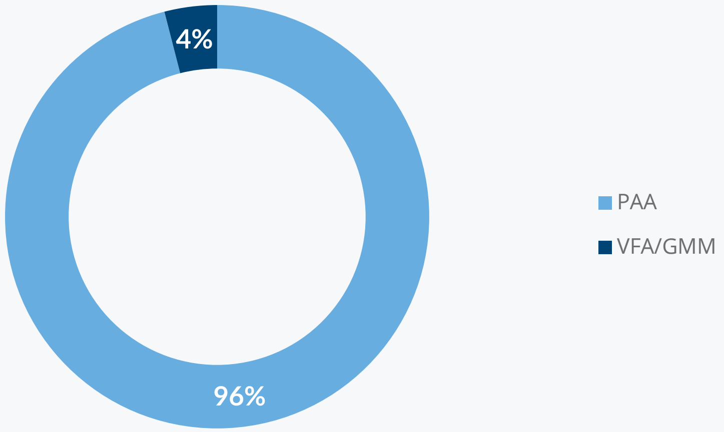
04 Companies usually allocate 80 - 90% of G&A expenses to **attributable expenses**, which has a marginal positive impact on the **Insurance Service Result**

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

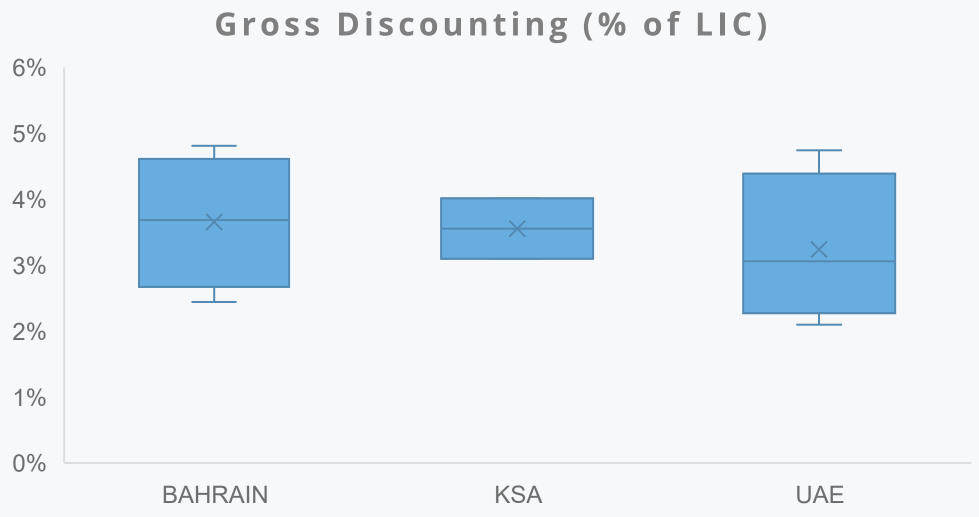
KEY LINE OF BUSINESS

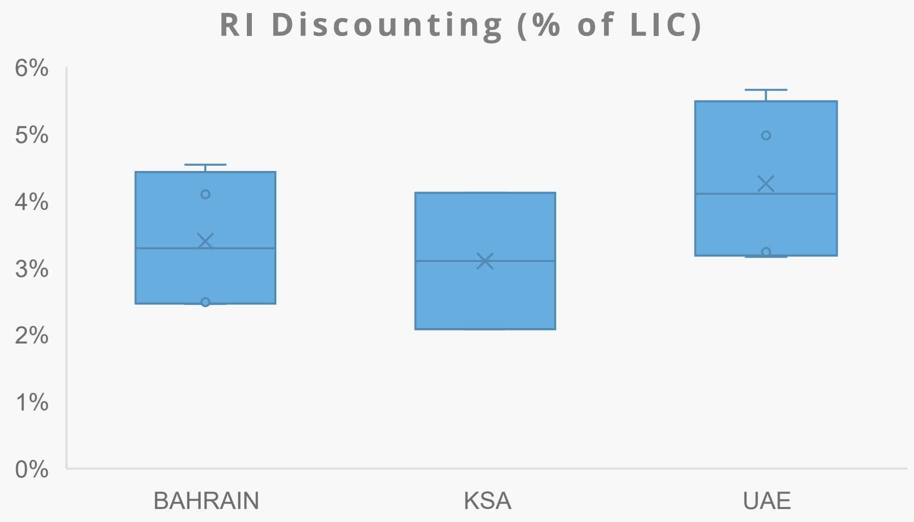
Health & Motor have been impacted by Unit of Account (UoA) calculations

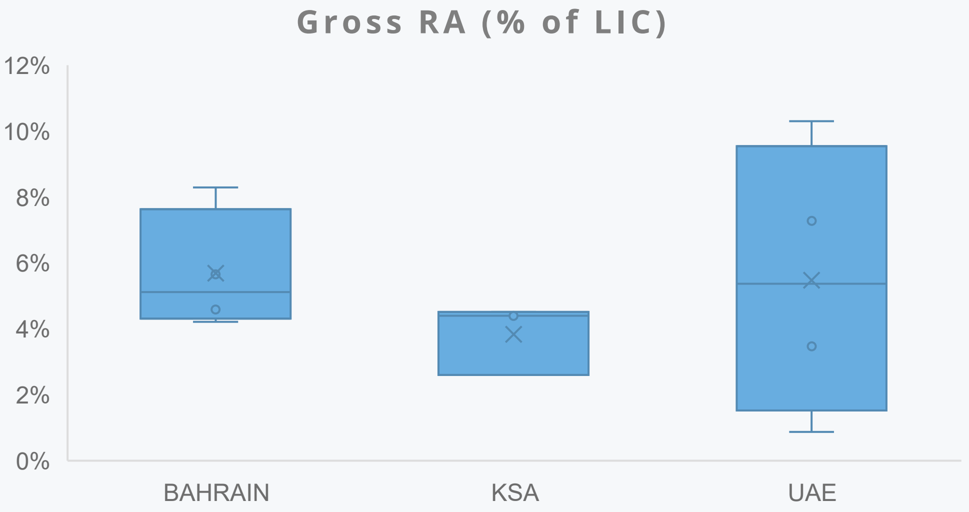
IFRS 17 MEASUREMENT

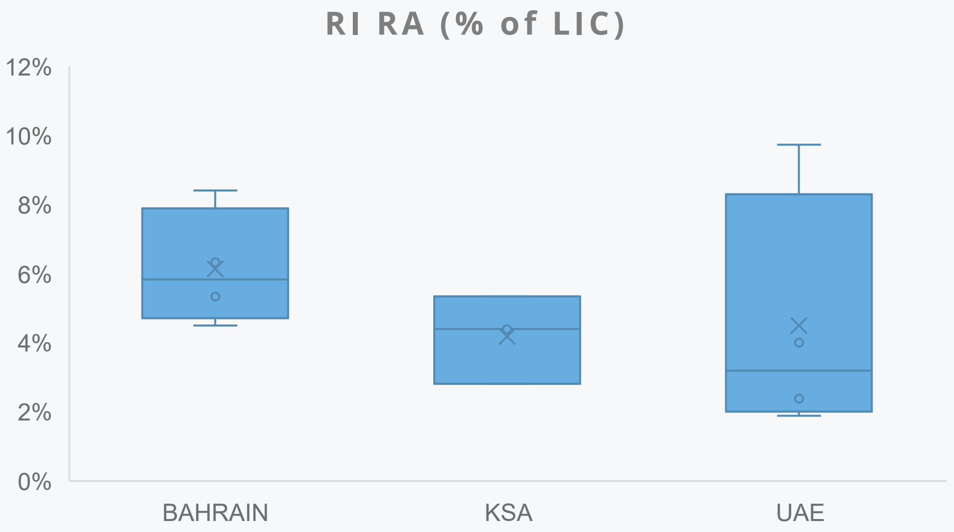
Generally PAA is used due to 'generous' materiality thresholds and system limitations.

Risk Adjustment & Discounting Impact by Region

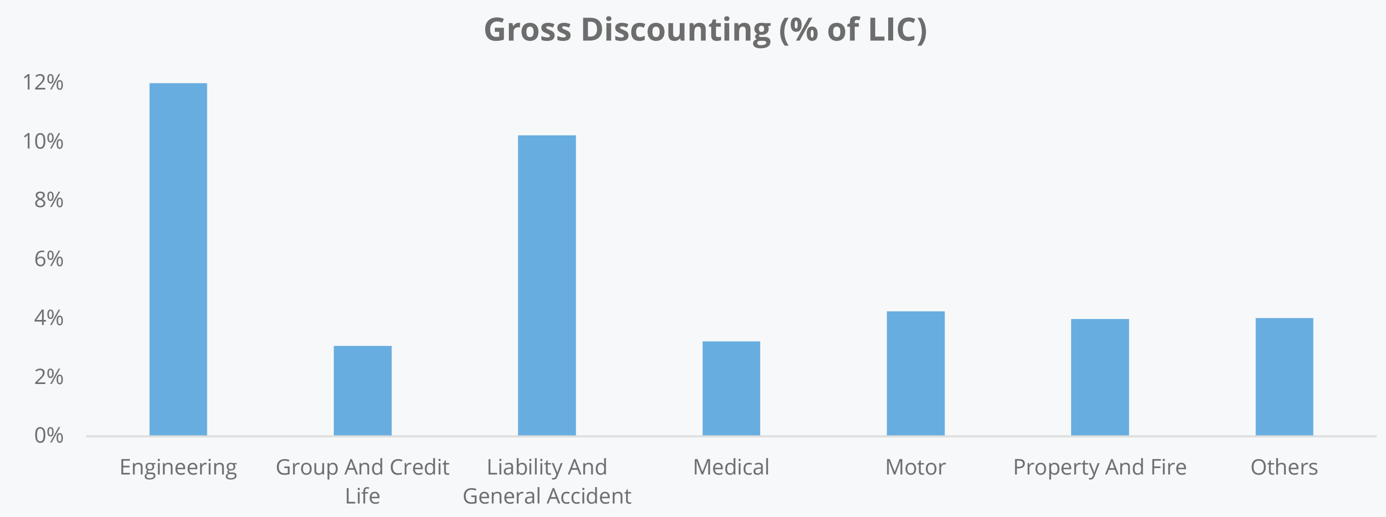


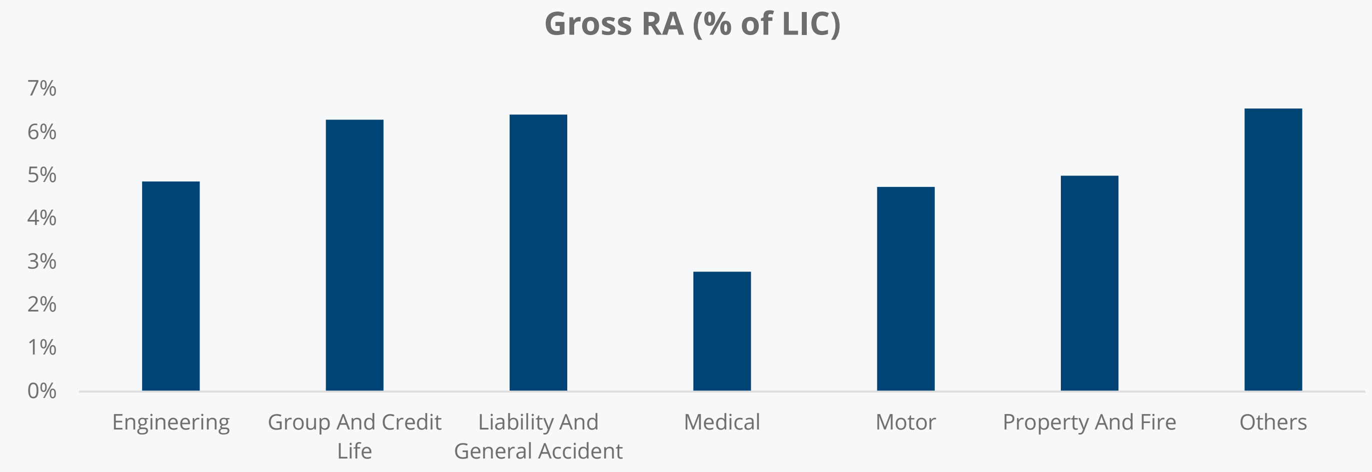




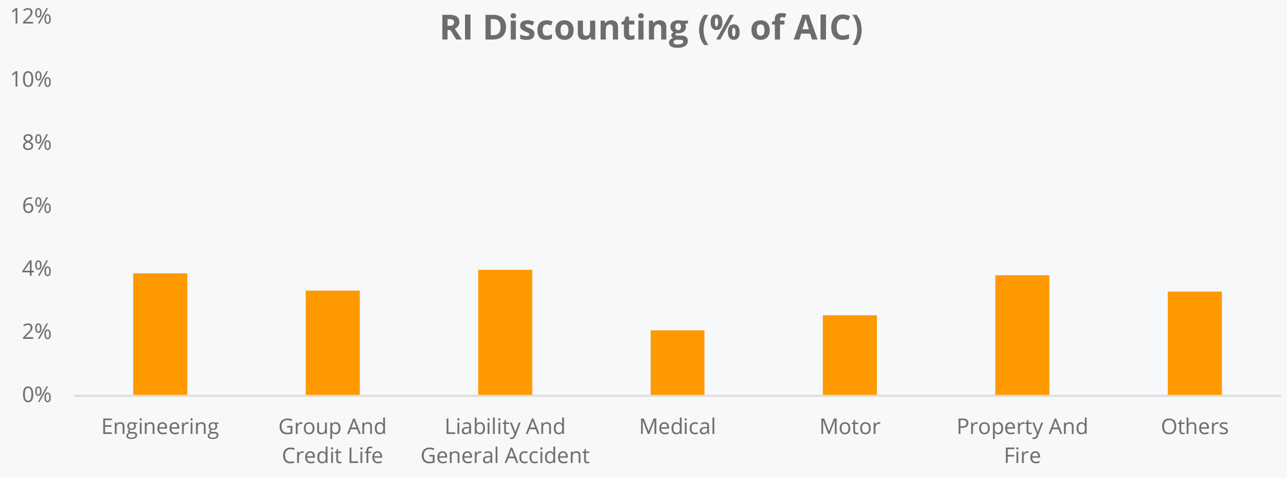


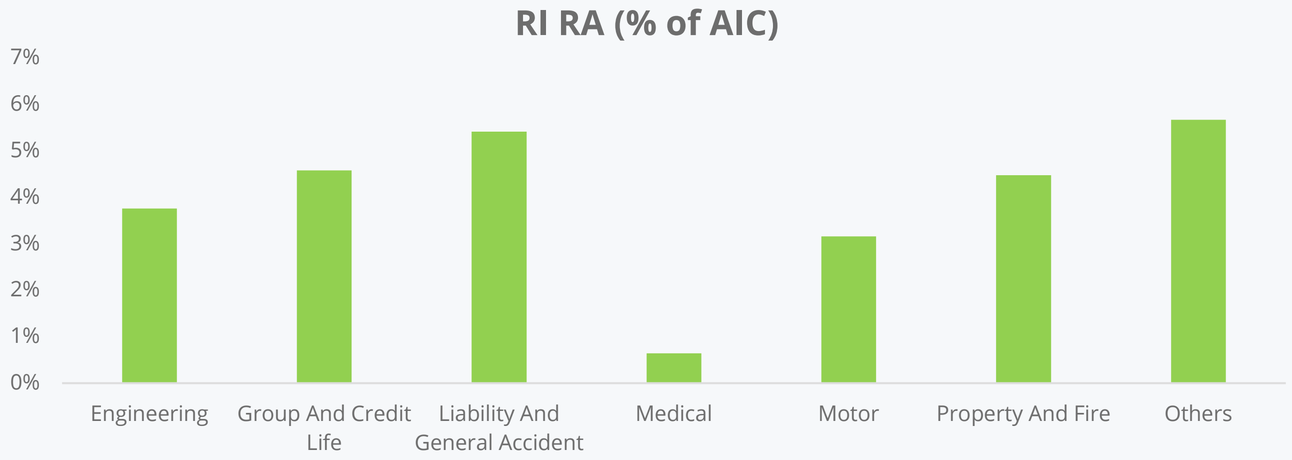
Risk Adjustment & Discounting Impact by Line - Gross





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

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.

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.

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.

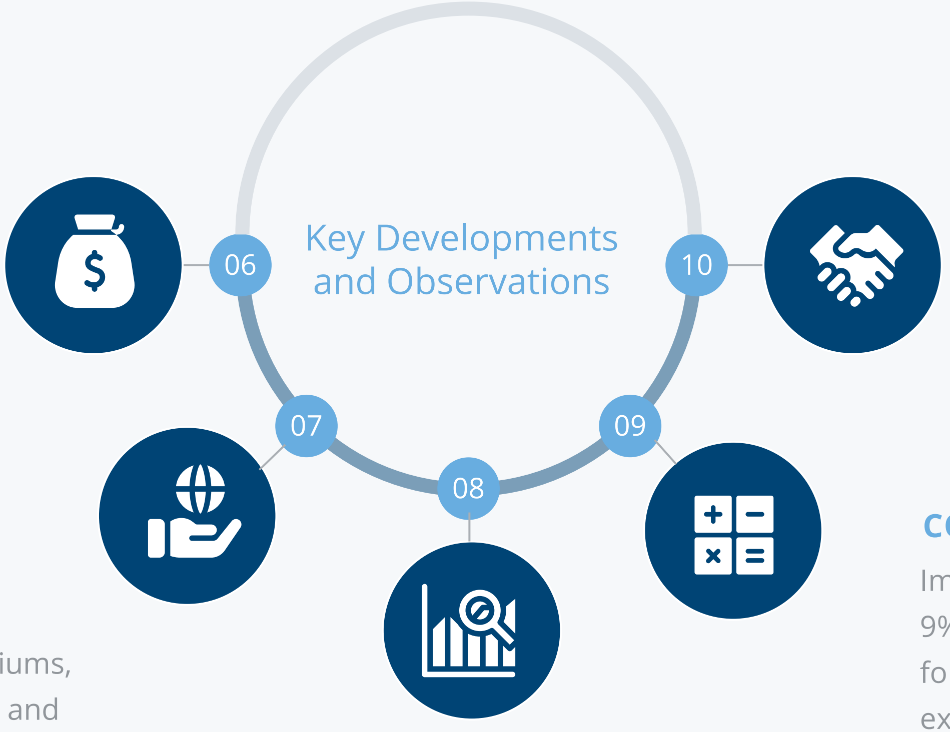
REGULATORY REQUIREMENTS

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.

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.

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%.

03

Key Operational Challenges

Key Operational Challenges

01 GOVERNANCE
Explaining IFRS 17 financial statements to audit committees has proved challenging

02 HUMAN RESOURCES
Sourcing and retaining key talent has presented challenges as key technical staff are in demand

03 UNDERWRITING
Underwriters book a Loss Component immediately upon writing large loss-making policies, which now attracts more scrutiny, particularly due to the attributable expense allowances

04 FINANCE
Business planning, budgeting, solvency projections (particularly under GMM/VFA) are tricky.

05 IT
System enhancements and integrations, particularly in the granularity of data required

06 COMPLIANCE
Additional regulatory requirements, disclosures, peer review, IFRS 4 to IFRS 17 reconciliation etc. are being introduced

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

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Introducing Today's Panel

Moderator

Vasilis Katsipis
General Manager, Market Development, MENASCA

AM Best

Panellists:

Abdellatif Abuqurah
Chief Executive Officer

Dubai Insurance

Jason Light
Chief Executive Officer

Emirates Insurance

Ahmed Rajab
Chief Executive Officer

SHIELDS Reinsurance Brokers

Q&A

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Insurance Market Briefing - Dubai

20 November 2024