

Is there room for a new regional reinsurer?

With capacity migrating and several reinsurers shutting their business in the region over the years, there is an obvious gap that needs to be filled. Some market watchers have raised the prospect of setting up a new reinsurer to cater to the region's needs. However, is there room for such a newcomer?

By Osama Noor



There is a need to fill the gap caused by the shrinking reinsurance capacity and to help some insurers overcome difficulties in seeking reinsurance protection, “however, it is not going to be easy to establish a new regional reinsurer”, said Kuwait Re COO Mohammad Tabtabaei.

The cost is high and profitability would be for the long-run, he added. “The nature of business is for the long haul where it takes time to build and entrench a successful brand. Investors in this project should have a long-term strategy to achieve their goals. It could be a 10-year plan which takes lots of work and patience. It all boils down to the willingness of investors to adopt a long-term strategy,” said Mr Tabtabaei.

More importantly is the need to achieve sustainability, he added. “Several big reinsurers entered with substantial capacity but failed to stay in the market,” he said.

Launching a new regional reinsurance company will not be a game changer unless it serves a very specific purpose such as covering Nat CAT risks or it functions like a terrorism pool, etc, said Marsh CEO Middle East and Africa Christos Adamantiadis. “Otherwise, I don’t see a national or regional reinsurer really changing the dynamics of the market.”

He added that eventually such a reinsurer will have to access global capacity to cover risks. “At that point, international providers will impose their own terms. Therefore, it is unlikely that such a project will fundamentally change the market equation unless it is established to cover a very specific set of risks,” Mr Adamantiadis said.

Is reinsurance business still attractive?

The reinsurance business is long tail, non-speculative, highly regulated and requires capital-intensive investment. The expected average return on equity, based on successful experiences, is in the range of 7% to 12%, said Oman Re COO Khalid Nouri. “One of the key success factors being international diversification of exposure and lines of business. Therefore, reinsurance business remains an attractive line of business for regional heavyweight investors with a vision beyond the regional reinsurance market. New investments in the field should learn from the

experience of regional reinsurance companies and avoid duplicating the same business models,” Mr Nouri said.

Achieving sufficient returns, diversification and scale from regional reinsurance market activity alone has proved a considerable challenge for a number of regional reinsurers established in the past, said AM Best financial analyst Emily Thompson. “Achieving a harmonious balance of size, diversification and underwriting profitability would be critical to the success of any newly established regional reinsurer to meet the cost of capital and satisfy shareholder expectations.”

She added that there would be continued presence of regional and international reinsurance capacity, and the limited market-wide premium volumes would present hurdles to the successful and sustainable establishment of new market entrants in the region.

The need for committed and diversified capacity

The increase in prices along with the abundance of opportunities and smaller number of players, are all factors that justify setting up a regional reinsurance operation, said Chedid Re executive director Joe Asmar.

“There is a gap in the region because of reduced capacity, but more significantly, there is a need for a fully dedicated capacity in the region,” he said. “The existing reinsurers deploy their capacities in different regions whereas our region has its own peculiarities which require a special attention. Therefore, there is a need for a dedicated, indigenous reinsurer who understands the region.”

Still, to succeed and make a difference it is very important to have a strong capacity and ‘A’ rating for the regional reinsurer to write in all lines and offer more diversified services, he emphasised, adding that it is also important to have well-rounded professionals capable of writing in all lines of business.

Encouraging environment for establishing a regional reinsurer

With several capacity providers leaving the arena, along with some other regional players’ strength taking a hit, there is a clear shortage in reinsurance capacity in the

REINSURANCE

MENA reinsurers – Investment yield and return on equity, 2017-2019

Company Name	Country	Investment yield (%)				Return on equity (%)			
		2019	2018	2017	3yr Avg	2019	2018	2017	3yr Avg
Arab Reinsurance Company	Lebanon	7.4	5.9	5.6	6.3	-3.1	5.3%	4.4	2.2
Arab Insurance Group	Bahrain	3.4	1.3	2.8	2.5	8.7	-23.0	3.2	-3.7
Compagnie Centrale de Réassurance	Algeria	4.6	4.2	3.5	4.1	8.3	9.0	9.2	8.8
Hannover ReTakaful	Bahrain	7.0	0.6	2.3	3.3	14.9	2.0	0.4	5.8
Kuwait Reinsurance Company	Kuwait	3.9	3.3	2.8	3.3	9.3	7.1	6.9	7.8
Milli Reasurans Turk Anonim Sirketi	Turkey	16.2	15.7	12.1	14.6	10.5	13.1	12.1	11.9
Oman Reinsurance Company	Oman	4.0	1.5	2.4	2.6	3.6	3.0	0.4	2.3
Saudi Reinsurance Company	Saudi Arabia	2.4	0.7	3.9	2.3	5.3	0.1	3.1	2.8
Société Centrale de Réassurance	Morocco	2.8	2.6	4.3	3.2	11.3	11.8	20.2	14.4
Societe Tunisienne de Réassurance	Tunisia	8.7	8.1	6.8	7.9	5.8	8.7	6.4	7.0
Trust International Insurance & Reinsurance	Bahrain	NA	1.1	2.0	1.6	NA	-11.7	1.2	-5.2

Source: Best's Financial Suite - Global, AM Best data and research

region, according to ACE Holding CEO Yolla El-Khoury. “Reinsurers have lost the appetite for writing proportional treaties and this is a growing trend that will further materialise in the coming four to six years. This will pose a serious challenge for local insurers, especially those which lack sufficient capacity to stay in the market to rely only on XoL business. They need to have high capacity, high retentions and high capital to survive with only XoL arrangements,” she said, noting a new regional reinsurer could take advantage of this new market reality, especially that they are not exposed to international exposure such as natural disasters and others.

Yet she emphasised that returns and profitability of the proposed regional reinsurer will be based on prudent underwriting, proper risk evaluation and precise actuarial pricing. “Having a strong team with experienced actuaries who know the market and understand the risk is a must, too. In general, it is a long-term project that might take five to six years to take shape.”

Compulsory cession

In order for a new regional reinsurance company to succeed, some experts suggested involving the state as a shareholder/co-founder and enforcing compulsory cession to help the newcomer take off.

Compulsory cession is not what drives growth, said Mr Asmar. “More importantly is having a clear strategy for the future and efficient management. Even the ownership formula is open to discussion but still profitability is the main consideration. The private sector possesses sufficient financial and technical capacities to handle such a project. But again, the issue depends on setting the right strategies and plans.”

Investing in existing operators

Alternatively, the acquisition of an established, successful international reinsurance company will save time and money to build the international portfolio and will allow for a valuable knowledge transfer to the region, Mr Nouri said.

“There will always be room for a new reinsurer in the region, but we personally believe that the establishment of an additional regional reinsurer focusing on the regional reinsurance market will not make a difference and will not materially change the current market conditions. In our opinion, the fundamental challenges faced by regional insurers is their over-dependency on the reinsurance support and reinsurance commission for their financial results.”

Last year, the management of Arab Insurance Group (Arig) took the decision to cease operations and put the company into run-off after 40 years in the market. Professionals in the Arab world lamented the decision as it put an end to a legacy which should be built on. “If there are resources available, why not save Arig and its brand rather than establishing a new company? Investing in companies which are facing problems instead of setting up a new company is also an option,” said Mr Tabtabaei.

He believes that it is too early to decide on establishing a new regional reinsurance company at this stage because the market remains under enormous pressure. “Seeking to establish a new reinsurer because of market hardening is not necessarily the right move because prices and markets go through cycles. Alternatively, the prudent approach will be to opt for regional insurers who have demonstrated consistent performance as preferred choice to strengthen regional market,” he said.

Providers should adjust

In the context of a hard reinsurance market cycle, low interest rates and implementation of IFRS17, regional insurance companies must focus on adoption of ERM practices, enhancing the solvency margin at international standards (Solvency II), concluding beneficial M&A allowing them to gain market share and benefiting from economy of scale, said Mr Nouri. He also calls upon providers to compete on value-added services rather than competing on pricing, and improve their technical profitability while gradually increasing their retention to reduce dependency on reinsurance.

“As a shorter-term mechanism for building the regional reinsurance capacities, regional insurance and reinsurance players might consider risk mutualisation and pooling among the various participants allowing efficient capital utilisation,” he said.

Can regulators help?

Regulators in the region can help by creating a discipline for the markets and support regional players, said Mr Tabtabaei.

“The regulators in the GCC region can grant easier access for regional reinsurers to serve the local markets. One way could be in the form of offering tax. This would help increase flow of trade and business between various economic sectors in the region,” he said. 