

# 2018 Insurance Market Briefing – MENA



October 2018

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# **Welcome**

**Dr Roger Sellek  
Chief Executive Officer –  
EMEA & Asia Pacific**

**Nick Charteris-Black  
Managing Director,  
Market Development – EMEA**



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# **Global and Regional Reinsurance Update and Trends**

**Greg Carter,  
Managing Director,  
Analytics – EMEA**

## Discussion Outline

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**Global Reinsurance Results and Trends**

**Global Reinsurance Market Capacity**

**Global Reinsurance Market Evolution**

**Global Reinsurance Sector Outlook**

# Segment Outlook – Global Reinsurance

Headwinds	Tailwinds
Intense competition	Cession rates increasing
Increasing interest from third-party capital	Cat losses temporarily stabilise rates
Earnings stabilise but remain under pressure	Favourable reserve development, but waning
Excess capacity hinders further improvement	Strong risk-adjusted capital
Potential for increased inflation	Increase in interest rates
	M&A

Although capitalisation remains strong and rate deterioration temporarily halted, pressure on margins continues. Over the intermediate term, returns for some reinsurers will fall short on a risk-adjusted basis. Maintain negative market outlook.

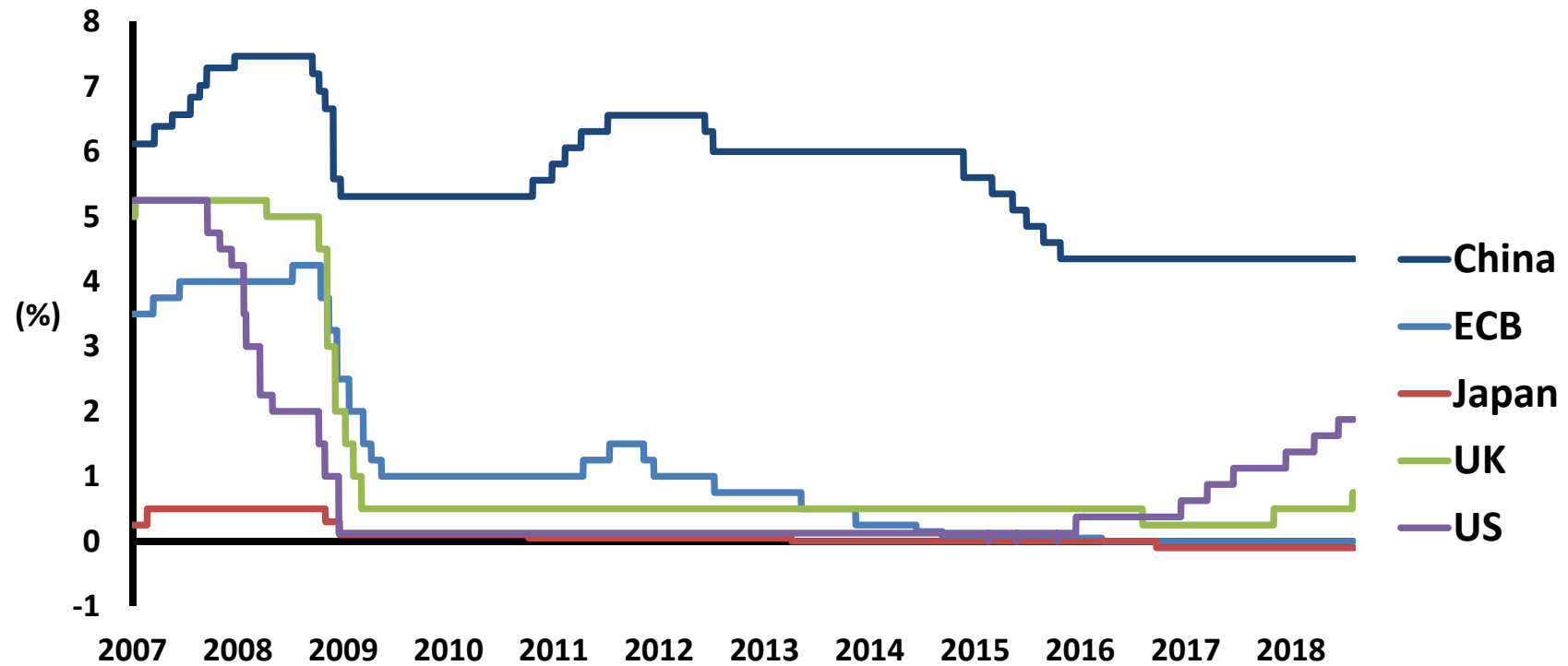
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# Global Reinsurance Results and Trends

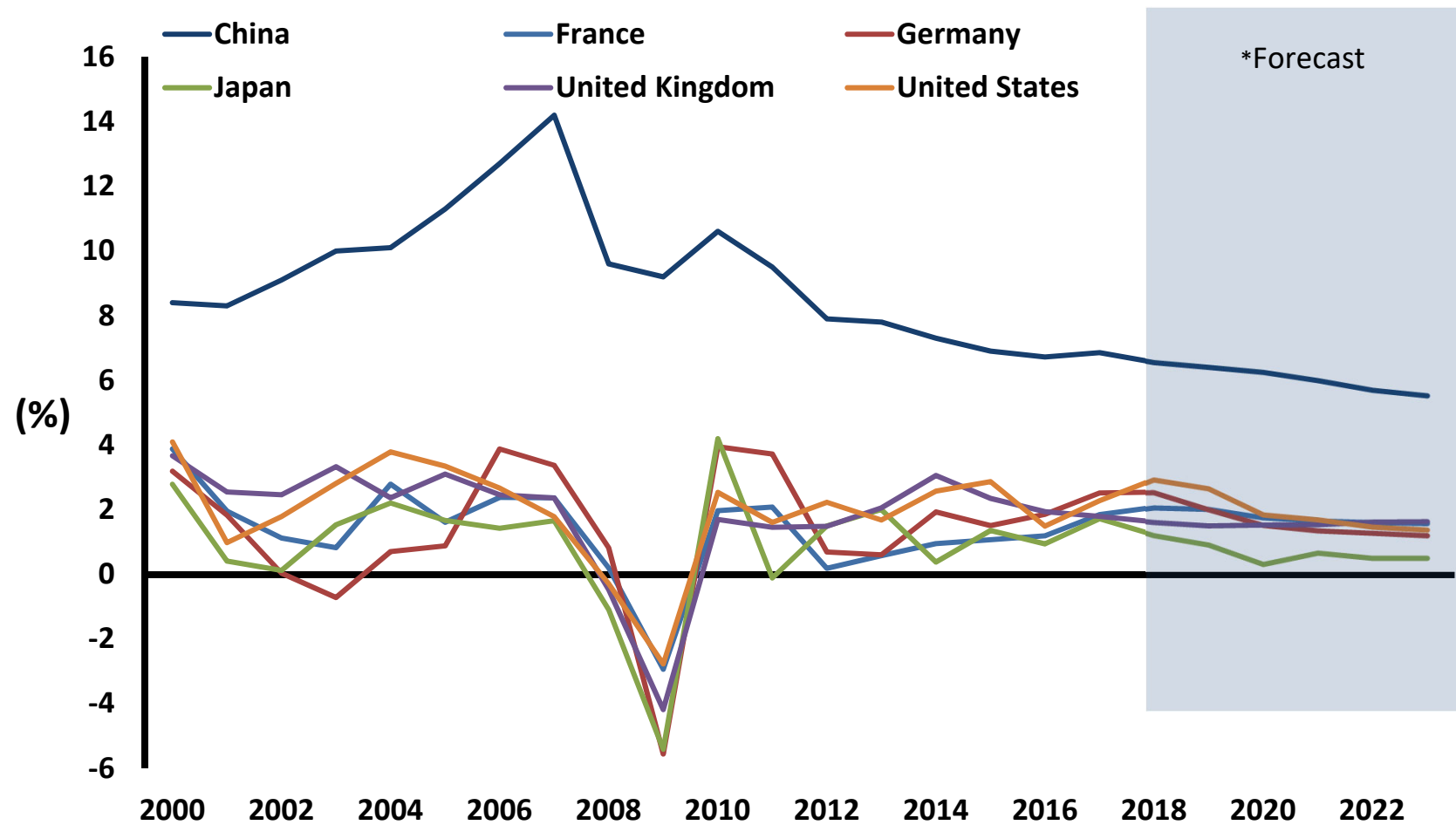




# Central Bank Base Lending Rates



# Global GDP Growth – Major Economies



# Global Reinsurance Market Trends

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**2017 represented the most significant year for catastrophe losses since 2011**

**Hurricanes Harvey, Irma, Maria combined with Earthquake in Mexico and Wildfire in California produced industry losses in the range of USD 80 to 100 billion**

**Despite timing of these events, negative reserve surprises have been limited thus far**

# Global Reinsurance Market Trends

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**Overall 2017 catastrophes amounted to an earnings event as rated balance sheets emerged flat for the year**

**Alternative capital did participate in the events in a meaningful way resulting in collateral locks prior and through the 1/1 and mid year renewal periods**

**Alternative capital investors were NOT hindered by the losses and brought additional capacity to the market for the renewals**

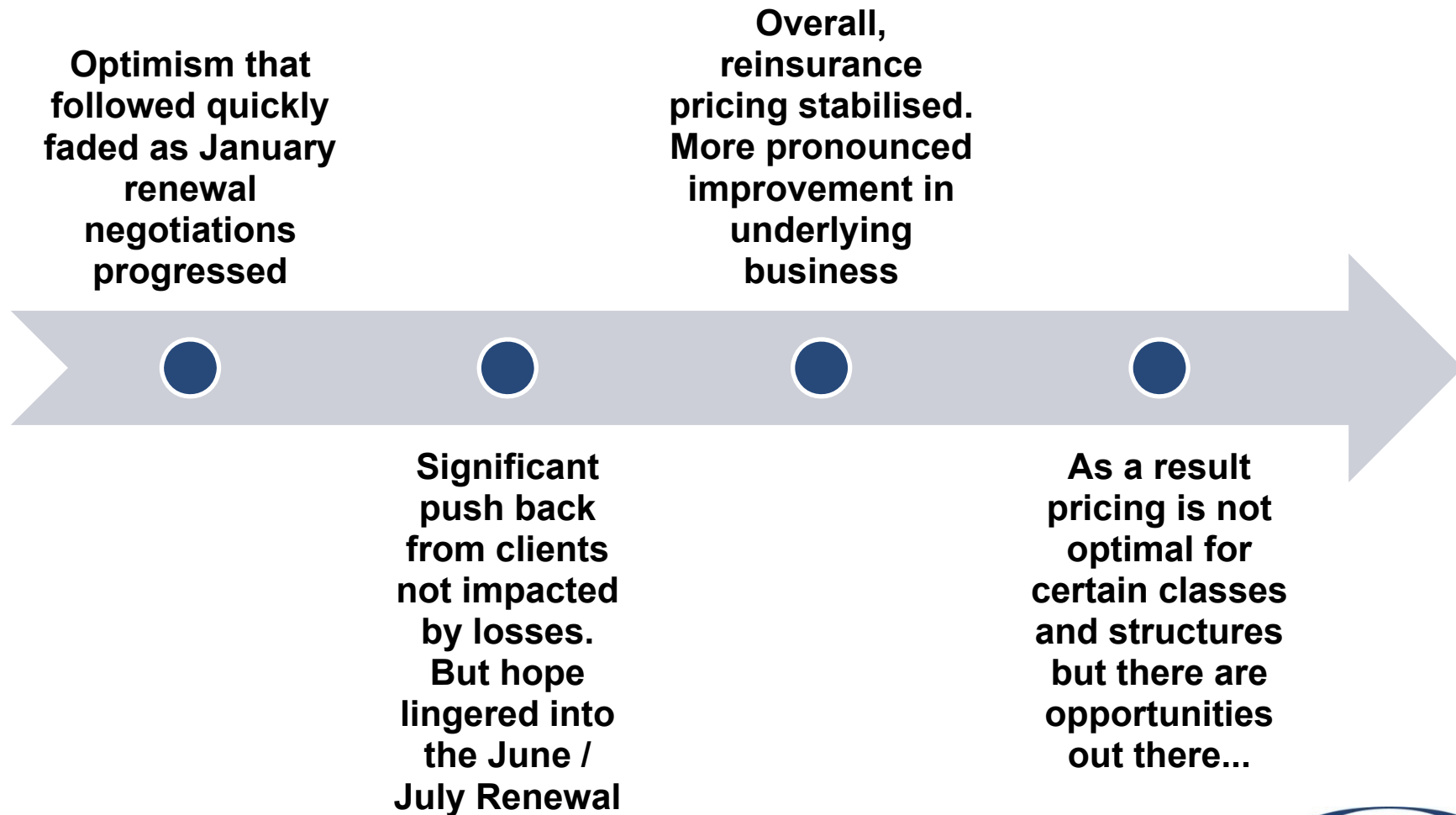
# Total Economic and Insured Losses (USD billions)

	2017	2016	Annual Change (%)	10-Year Average	% of 10-Year Average Economic Losses
<b>Economic Losses</b>					
Natural Catastrophe	300	178	69%	178	
Man-made	6	10	-42%	12	
<b>Total</b>	<b>306</b>	<b>188</b>	<b>63%</b>	<b>190</b>	
<b>Insured Losses</b>					
Natural Catastrophe	131	56	133%	51	29%
Man-made	5	8	-45%	7	58%
<b>Total</b>	<b>136</b>	<b>65</b>	<b>110%</b>	<b>58</b>	<b>31%</b>

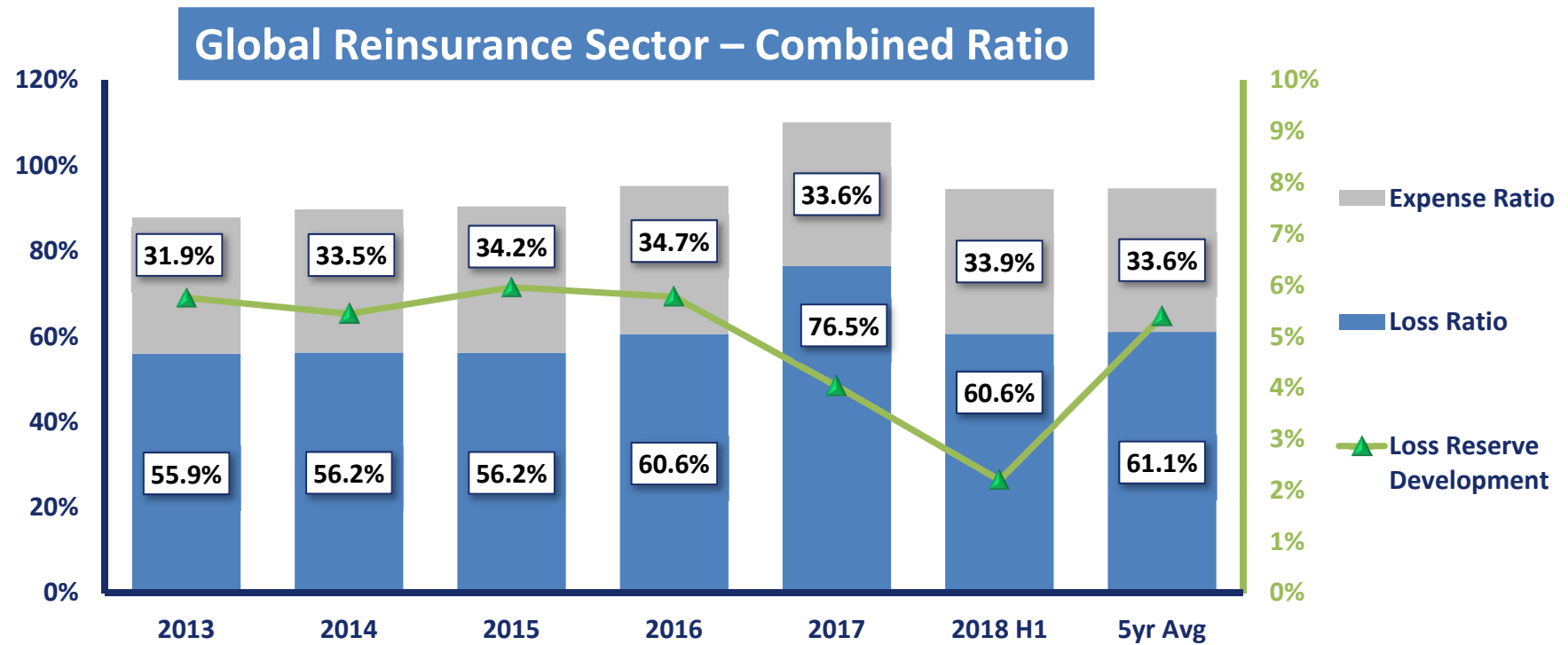
Source: Swiss Re Institute

# Global Reinsurance Market Trends

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# Global Reinsurance Market Trends

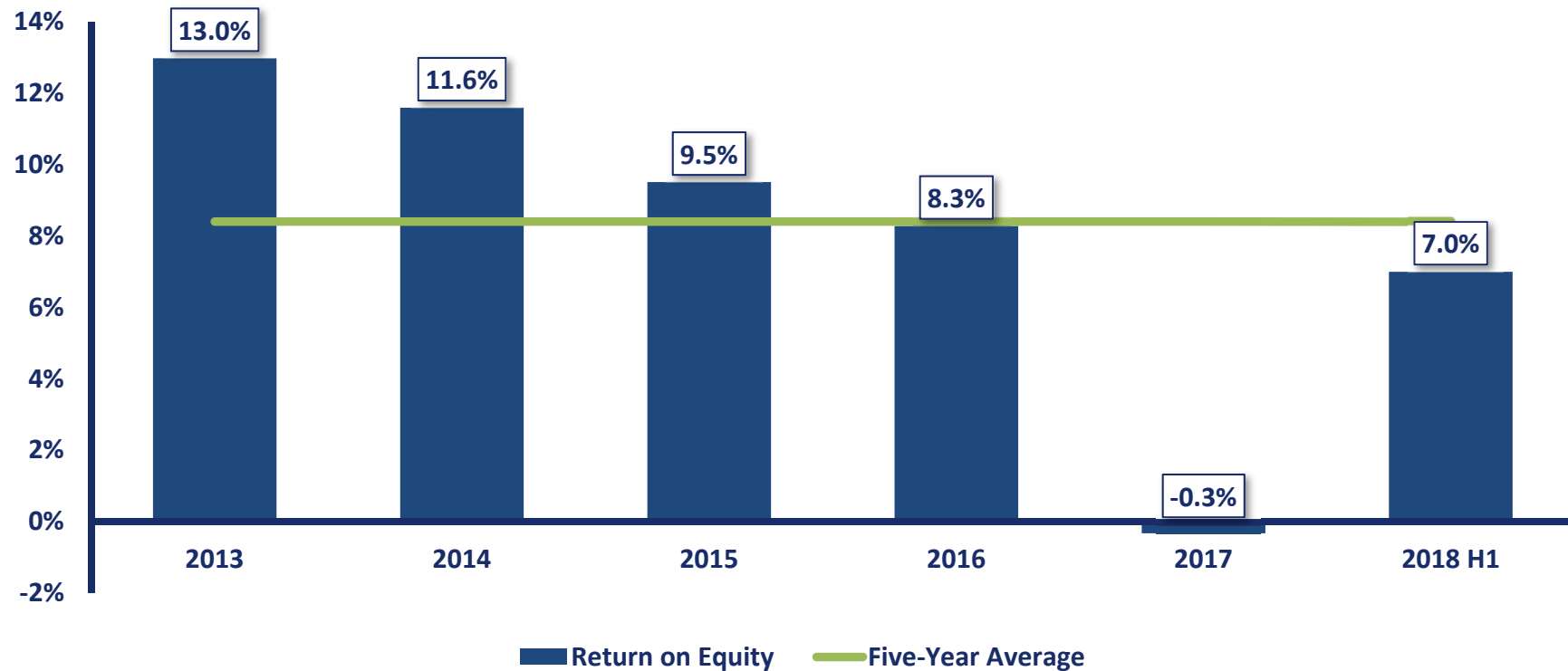


Source: A.M. Best data and research



# Global Reinsurance Market Trends

## Return on Equity (2013 to present) and Five-Year Average



Source: A.M. Best data and research

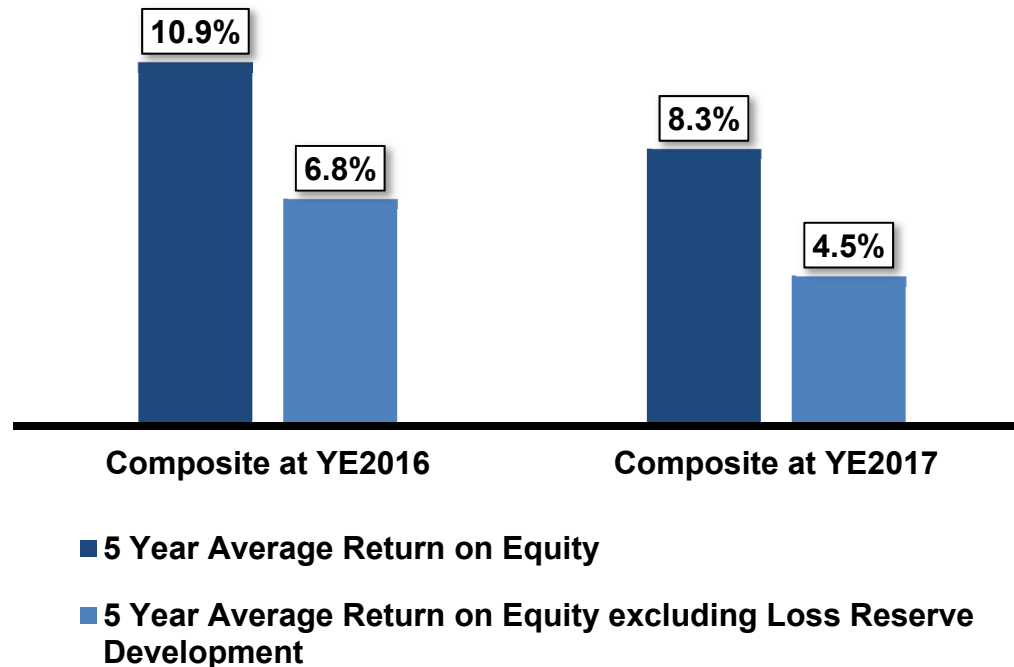




# Global Reinsurance Market Trends

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## Global Reinsurance Market 5 Year Average Return on Equity Less Reserve Development



Source: A.M. Best data and research

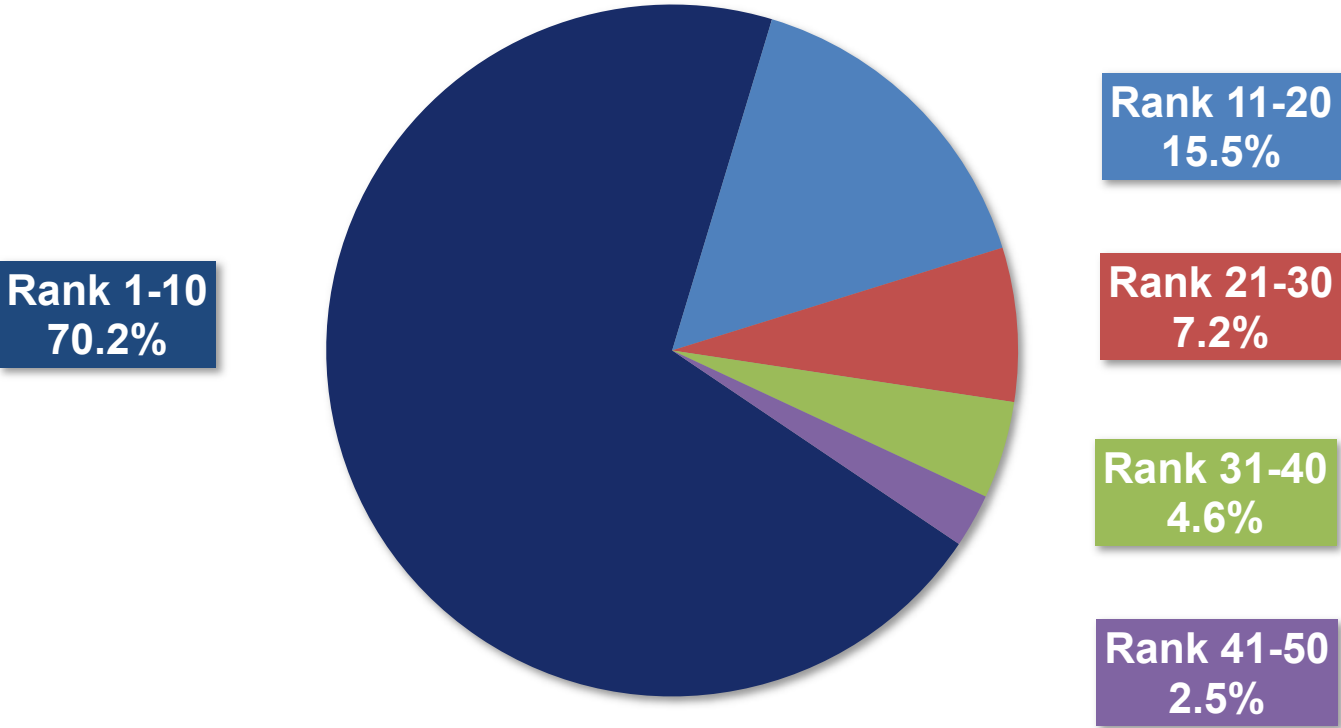


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# Global Reinsurance Market Capacity

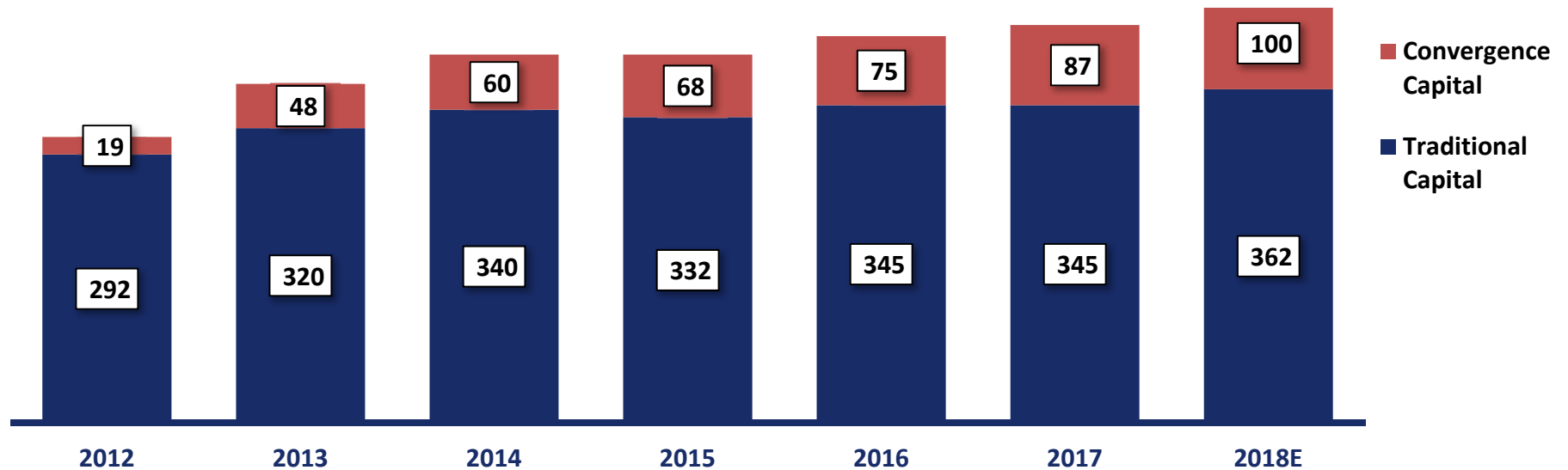
# Global Reinsurance Market Capacity

Life and Non-Life Reinsurance GPW Distribution by Ranking



# Global Reinsurance Market Capital

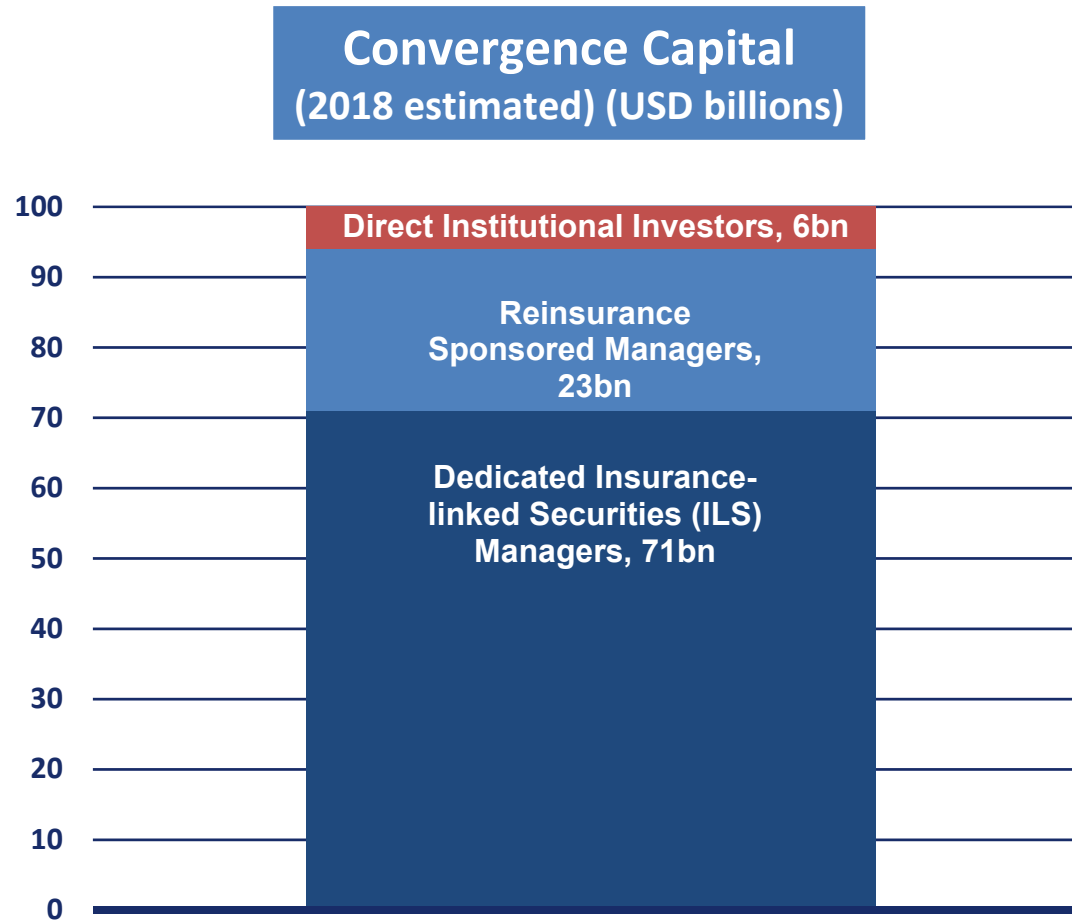
## Estimate for Total Dedicated Reinsurance Capital (USD billions)



Notes and Sources: Estimates by Guy Carpenter and A.M. Best



# Global Reinsurance Market Capital



Notes and Sources: Estimates by Guy Carpenter and A.M. Best



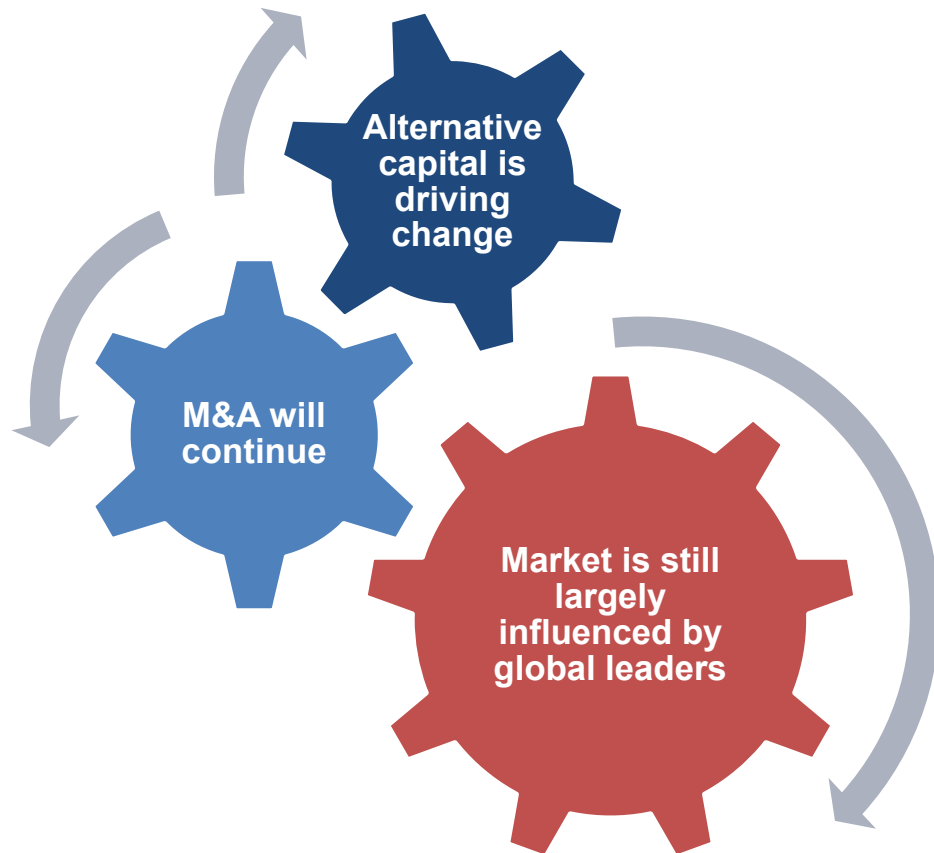
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# Global Market Evolution



# Alternative Capital

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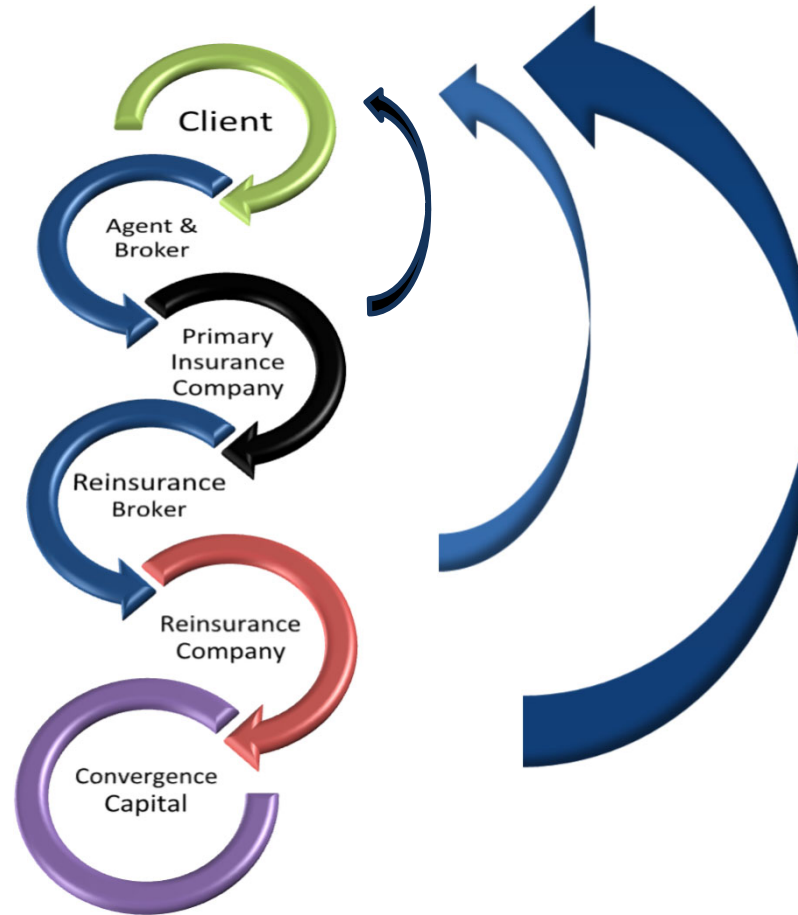
**Alternative capital is driving a great deal of structural change in the market**

**However, the market continues to be heavily influenced by the global reinsurance leaders**

# The Drive for Efficiency

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**The market will continue to become more efficient as all players strive to become closer to the client**





# Segment Outlook – Global Reinsurance

Headwinds	Tailwinds
Intense competition	Cession rates increasing
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Excess capacity hinders further improvement	Strong risk-adjusted capital
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	M&A

Although capitalisation remains strong and rate deterioration temporarily halted, pressure on margins continues. Over the intermediate term, returns for some reinsurers will fall short on a risk-adjusted basis. Maintain negative market outlook.

# Middle East & North Africa

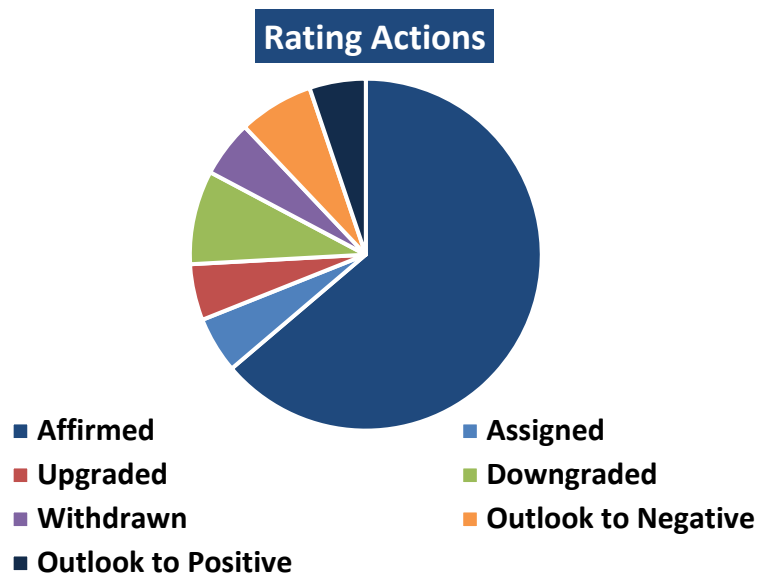
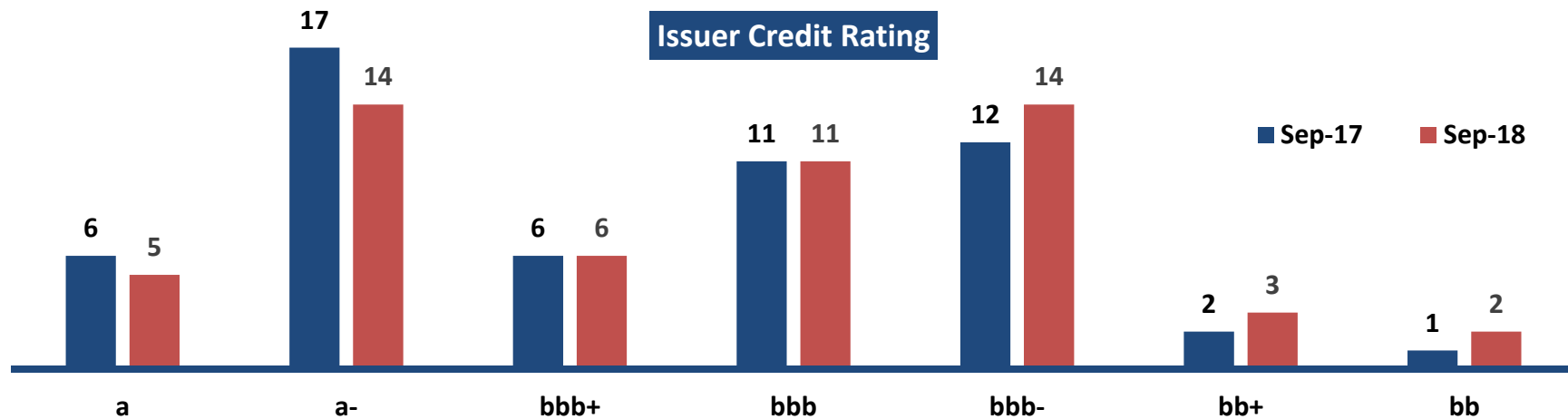
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Headwinds	Tailwinds
Overcapacity	Growth potential
Recent large losses	Limited Nat Cat exposure
Dependence on global players for capacity and expertise	Regulatory changes
Limited scale & diversification	

# Rating Trends in the MENA Region

**Mahesh Mistry,  
Senior Director, Analytics**

# Distribution of Ratings – MENA



## Upgrades / Positive Actions

Improved capitalisation and / or operating performance

## Downgrades / Negative Actions:

Weak technical performance, governance issues and / or reducing business profile

# GCC Segment Outlook - Negative



Non-GCC

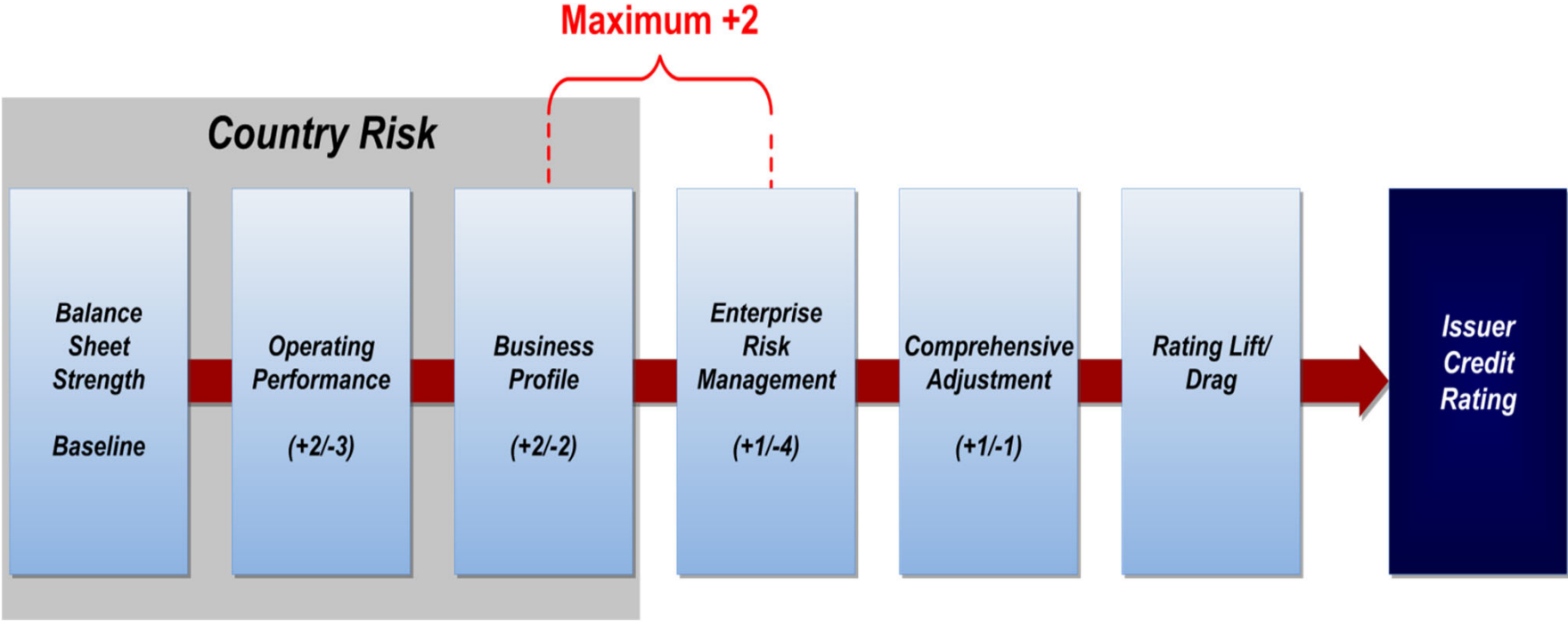


**VAT**



# A.M. Best's Rating Process

## Building Block Approach



# BCRM Building Blocks

<b>Balance Sheet Strength</b> <i>Baseline</i>	<b>Operating Performance</b> <i>(+2/-3)</i>	<b>Business Profile</b> <i>(+2/-2)</i>	<b>Enterprise Risk Management</b> <i>(+1/-4)</i>
<b>Assessment</b>	<b>Assessment</b>	<b>Assessment</b>	<b>Assessment</b>
Strongest	Very Strong +2	Very Favorable +2	Very Strong +1
Very Strong	Strong +1	Favorable +1	Appropriate 0
Strong	Adequate 0	Neutral 0	Marginal -1
Adequate	Marginal -1	Limited -1	Weak -2
Weak	Weak -2	Very Limited -2	Very Weak -3/4
Very Weak	Very Weak -3		

## Country Risk – Downward Pressure Persists

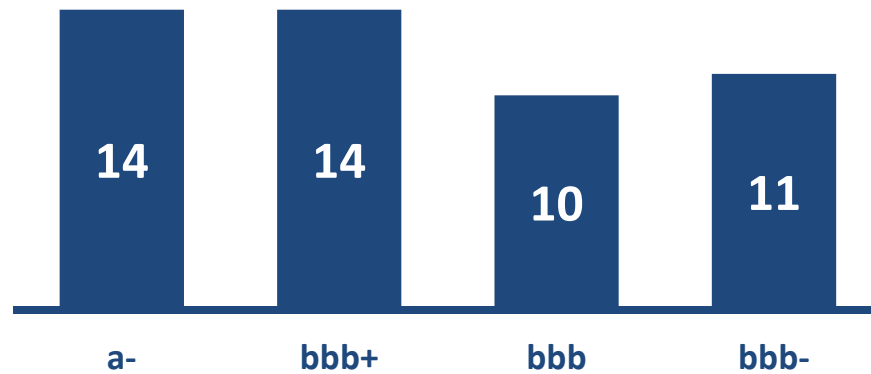
Country	CRT	Economic Risk	Political Risk	Financial System Risk	Movement
UAE	3	Moderate	Moderate	Low	
Qatar	3	Low	Moderate	Moderate	
Saudi Arabia	3	Low	Moderate	Moderate	
Kuwait	3	Moderate	High	Moderate	
Oman	4	Moderate	High	High	Down to CRT-4 in 2018
Bahrain	4	High	Moderate	Moderate	Down to CRT-4 in 2015
Turkey	4	Moderate	High	High	
Morocco	4	High	High	High	
Jordan	4	High	High	Very High	
Tunisia	4	High	High	Very High	
Lebanon	5	High	Very High	Very High	
Egypt	5	High	Very High	Very High	Down to CRT-5 in 2011
Algeria	5	High	Very High	Very High	



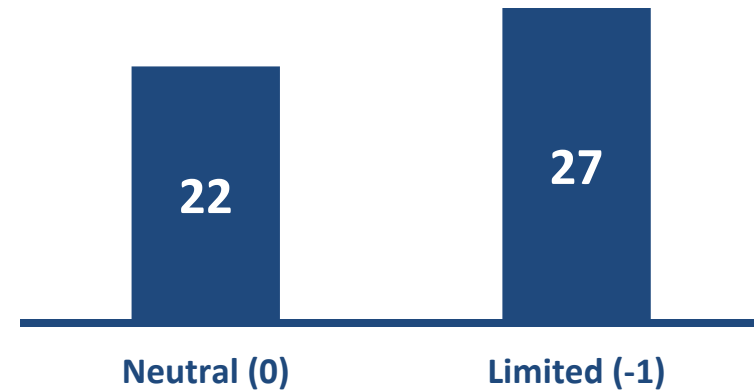
# Building Blocks – Evaluation by Company Count

(as at September 30, 2018)

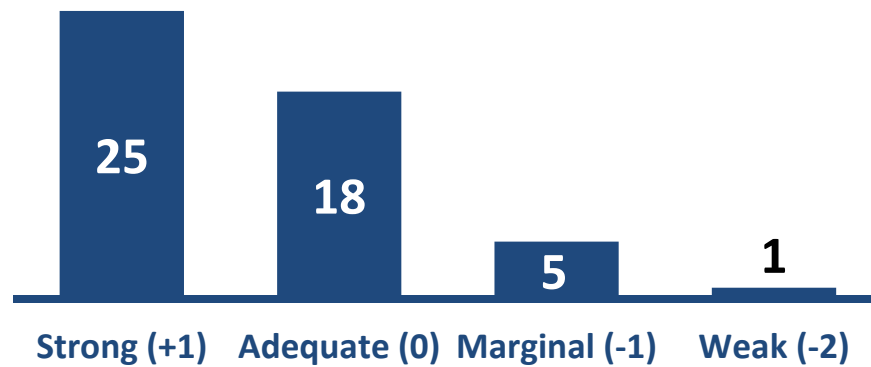
Balance Sheet Strength



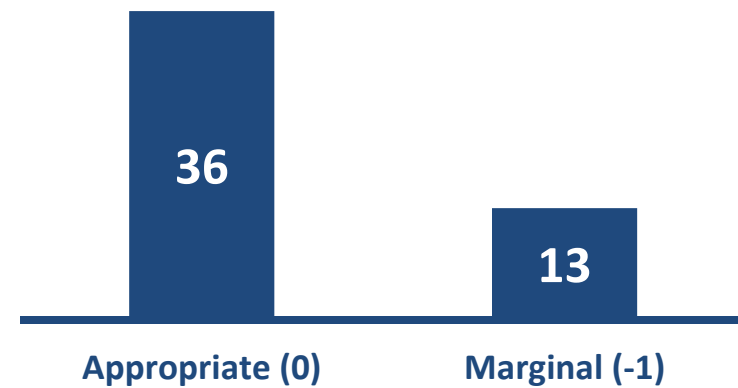
Business Profile



Operating Performance



Enterprise Risk Management



# Balance Sheet Strength: The Baseline Assessment

## Overall Balance Sheet Strength Assessment

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

# Balance Sheet Strength: BCAR Scores

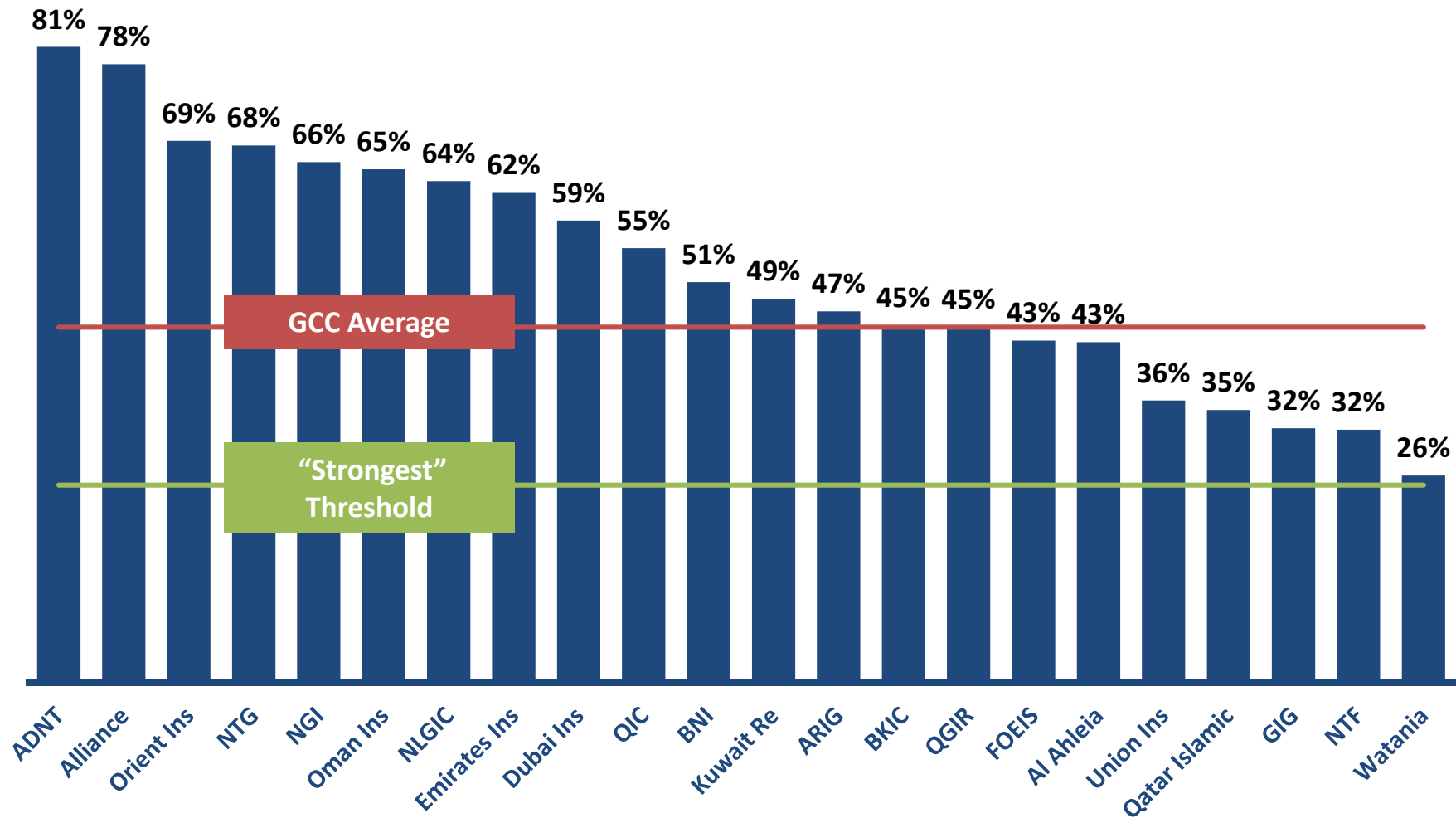
## Updated BCAR Formula

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

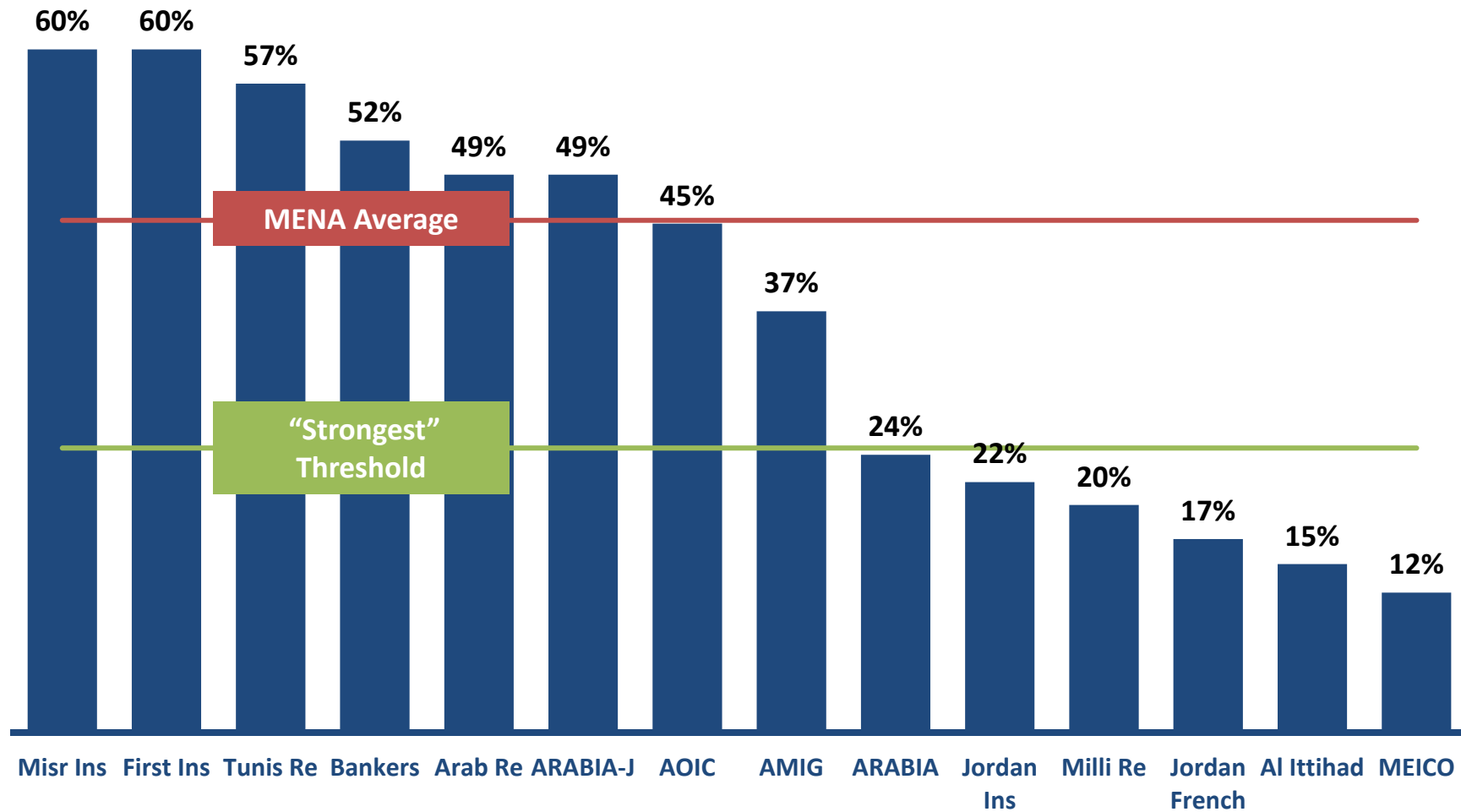
Four scores corresponding to the 95%, 99%, 99.5% and 99.6% confidence level;  
translates to a BCAR assessment

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

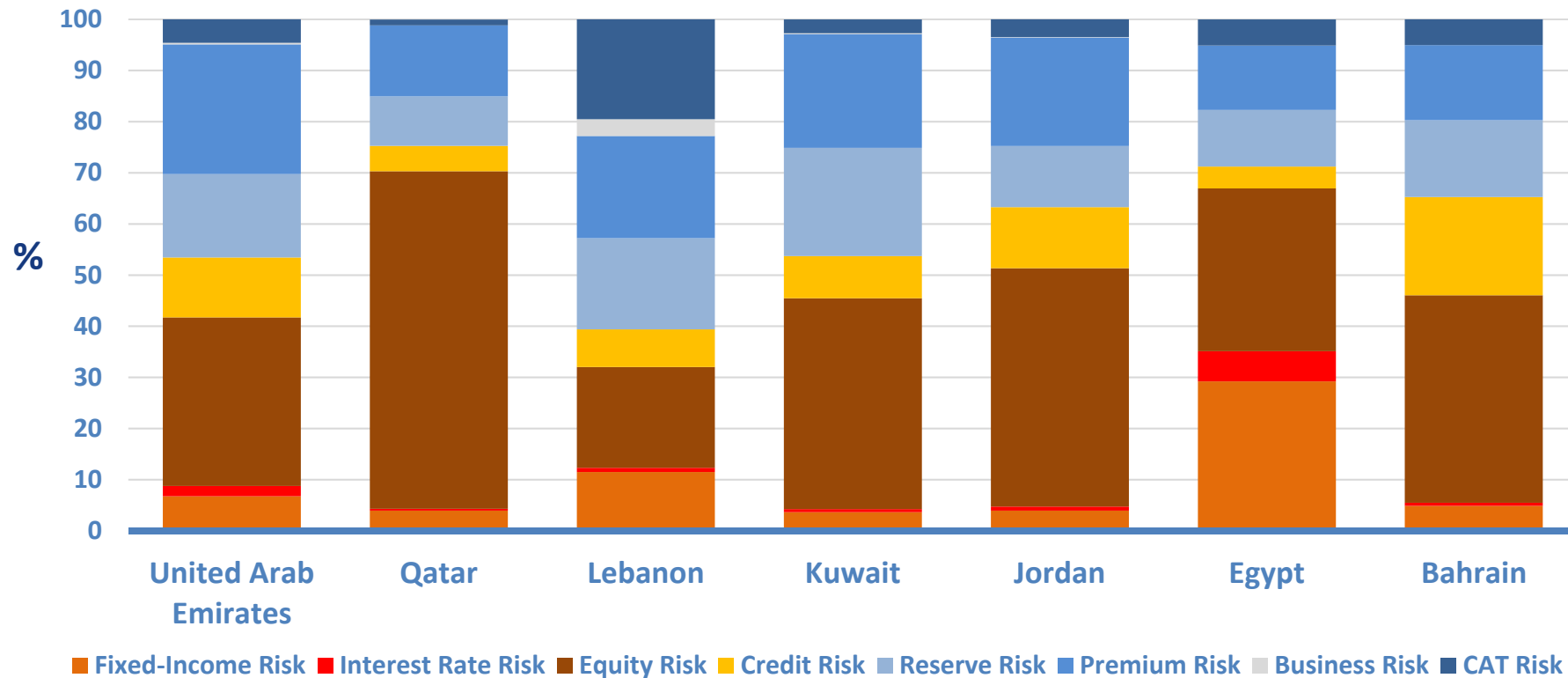
# Balance Sheet Strength: GCC BCAR Scores @ 99.6% (1-in-250)



# Balance Sheet Strength: Rest of MENA BCAR Scores @ 99.6% (1-in-250)



# Balance Sheet Strength: Breakdown of Capital Requirements



- Investment risk (equity and real estate) is the main driver of capital requirements
- Asset charges incorporate CIC and concentration risk factors

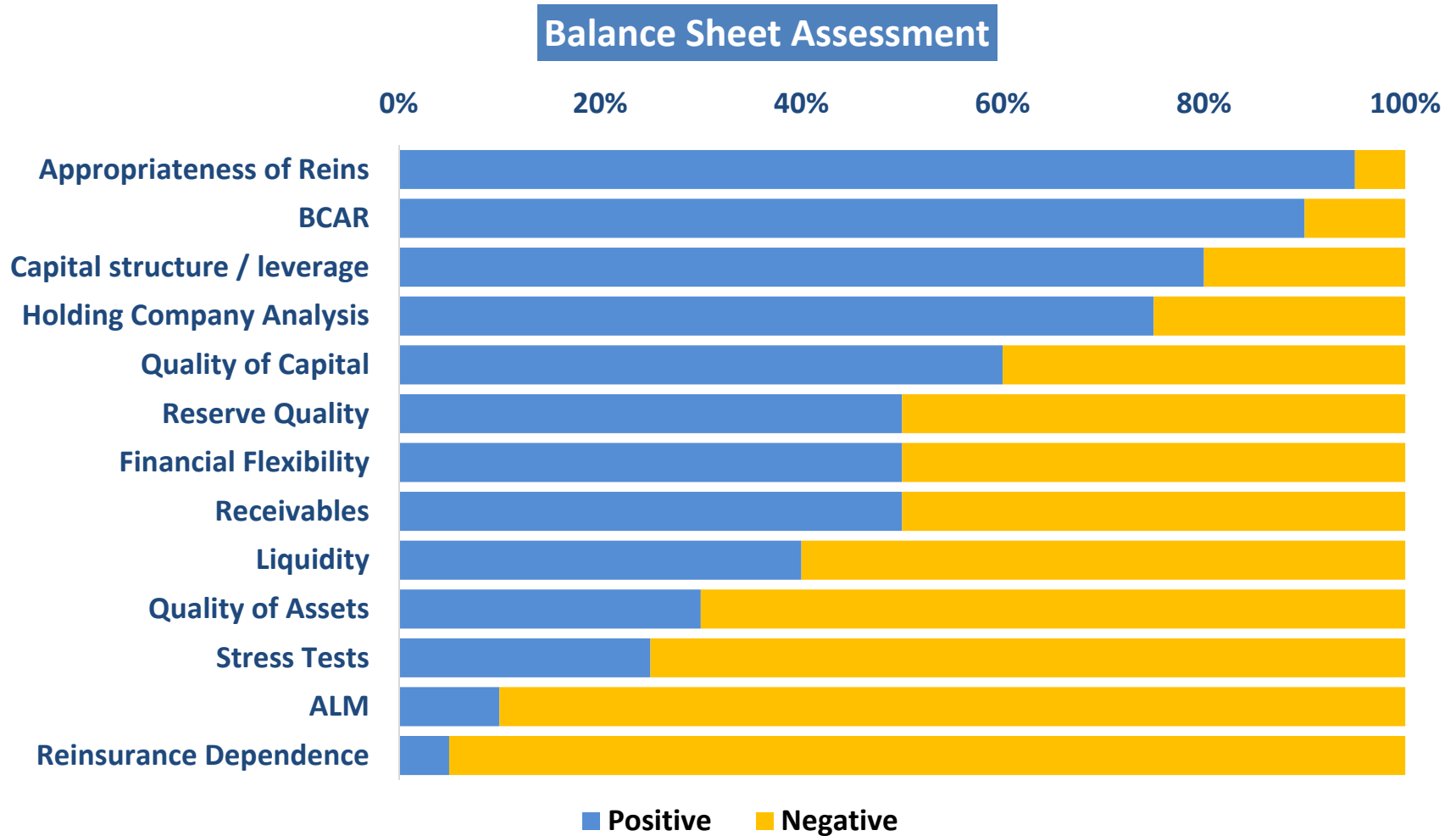
# Balance Sheet Strength: Relationship of BCAR to Balance Sheet Strength

BCAR <i>Assessment</i>	Balance Sheet Assessment					
	Strongest	Very Strong	Strong	Adequate	Weak	Very Weak
<b>Strongest</b>	-	67%	16%	-	-	-
<b>Very Strong</b>	-	2%	8%	-	-	-
<b>Strong</b>	-	-	6%	-	-	-
<b>Adequate</b>	-	-	-	-	-	-
<b>Weak</b>	-	-	-	-	-	-
<b>Very Weak</b>	-	-	-	-	-	-

Most rated companies have “strongest” BCARs,  
with “Very Strong” balance sheet assessment



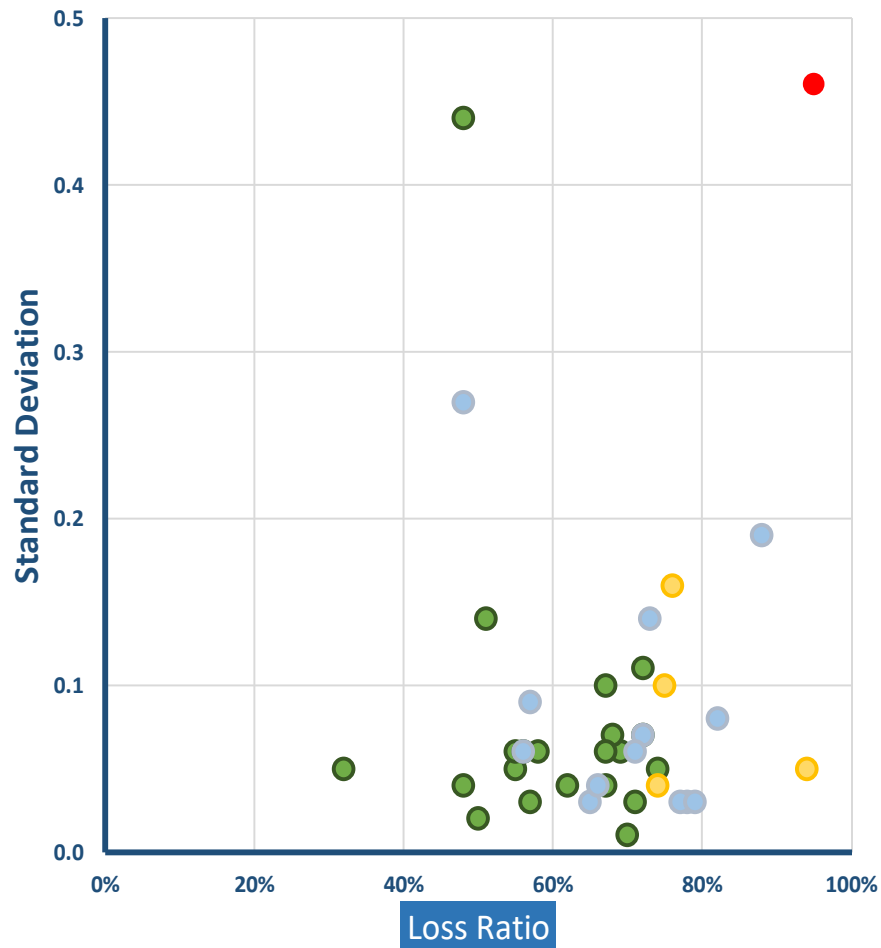
# Balance Sheet Strength: Summary



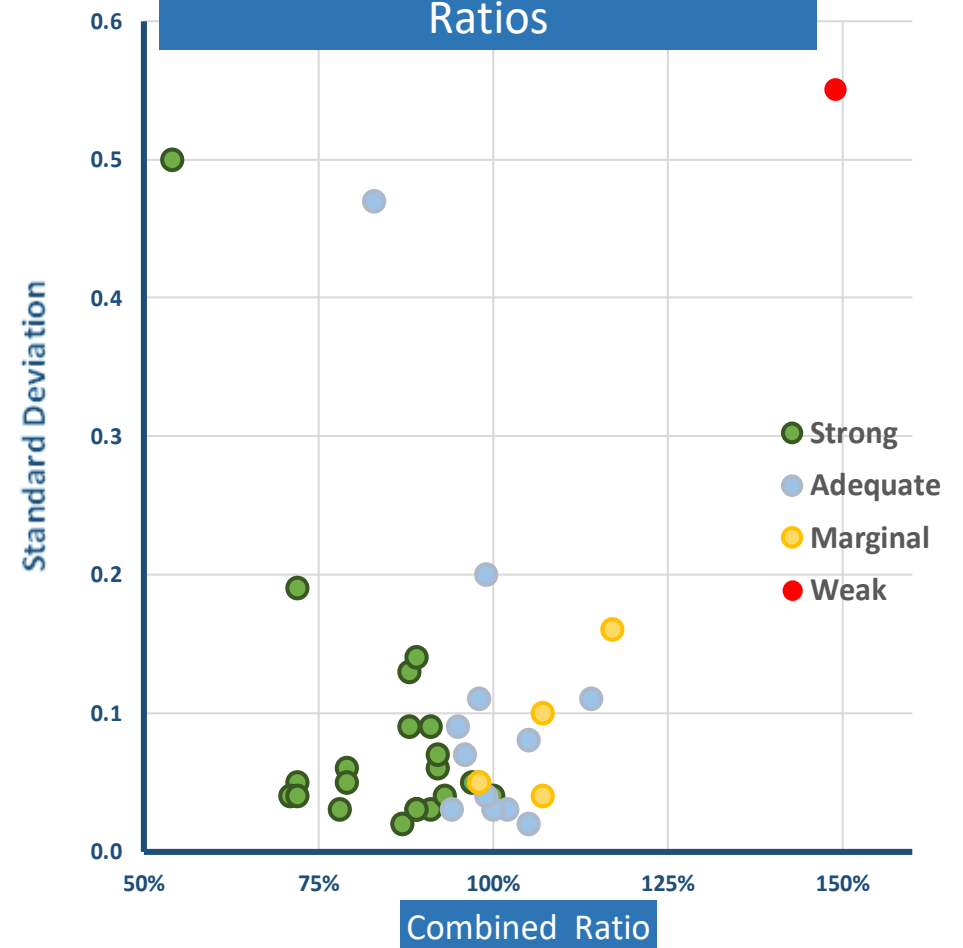


# Operating Performance: Technical Ratios and Volatility

Variability of Five Year Loss Ratios

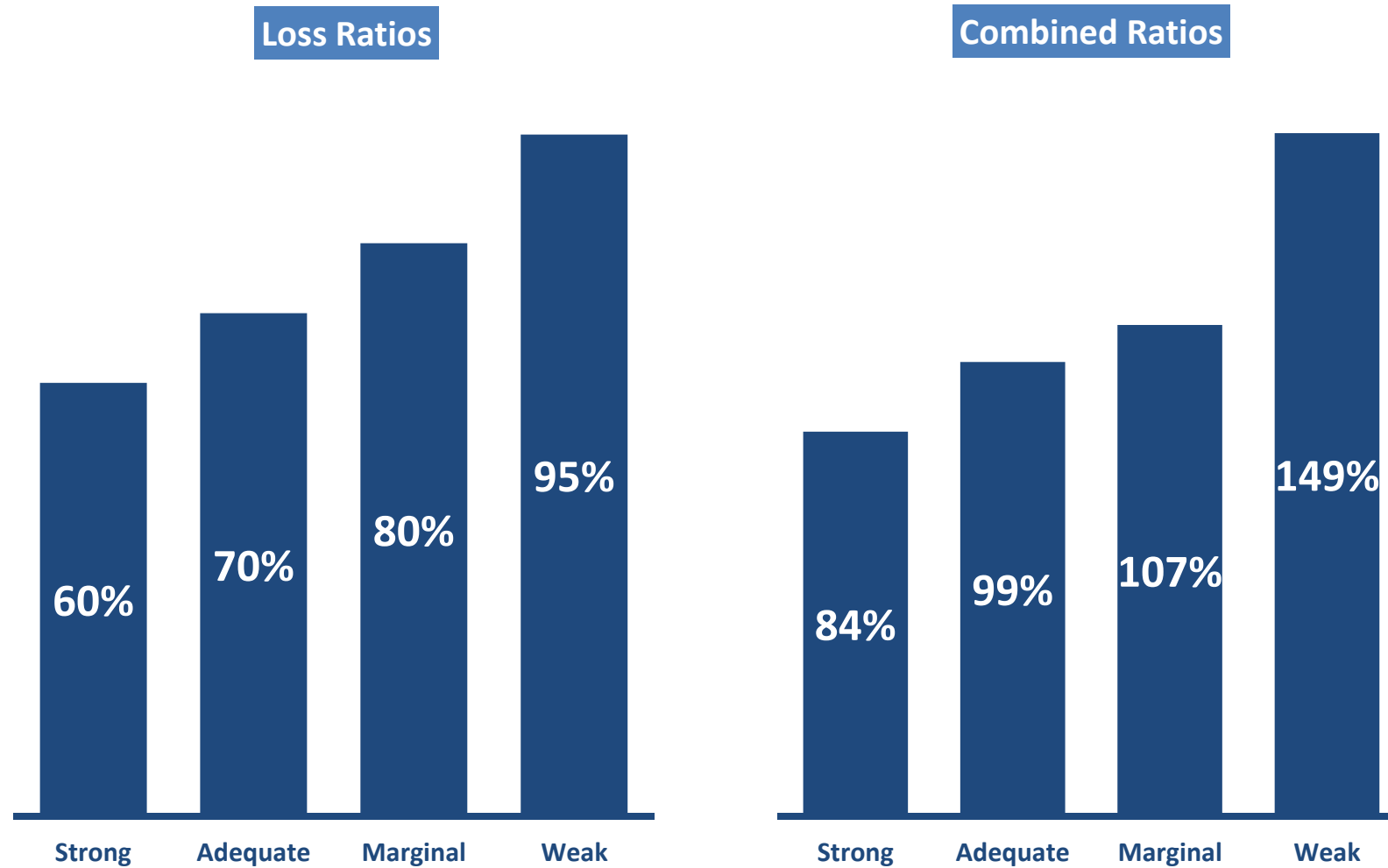


Variability of Five Year Combined Ratios



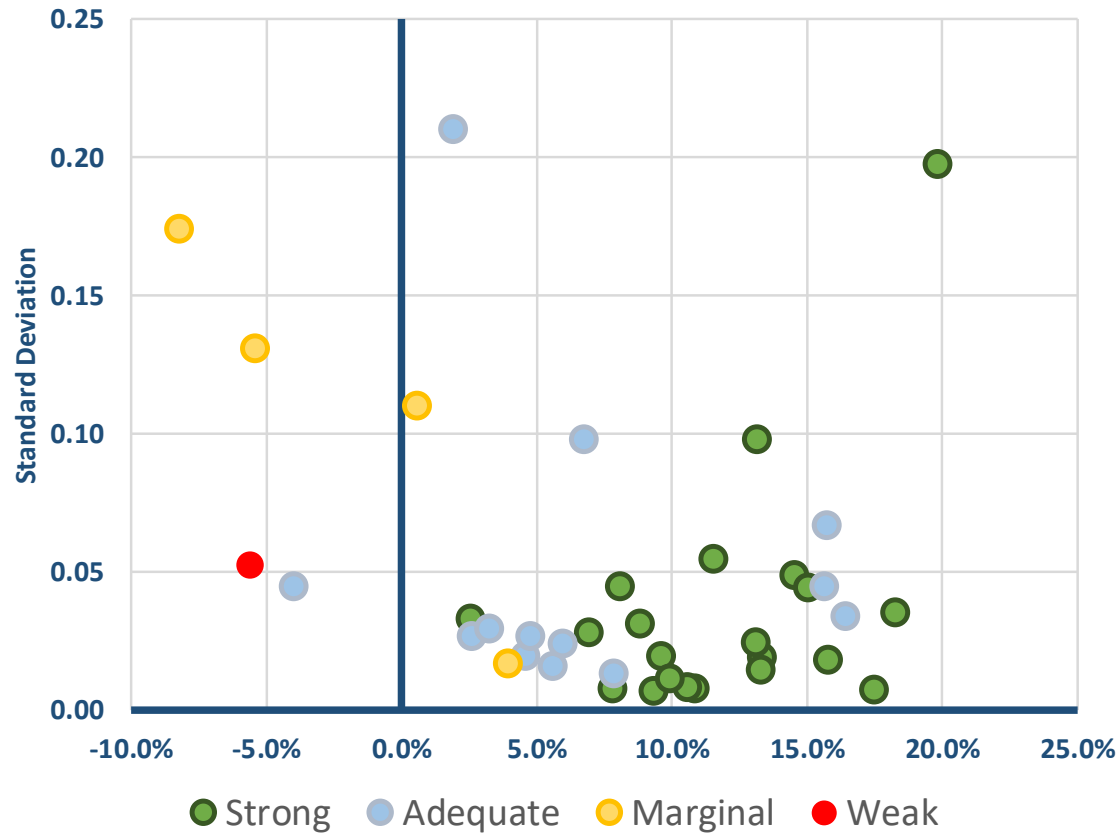
# Operating Performance: Technical Ratios

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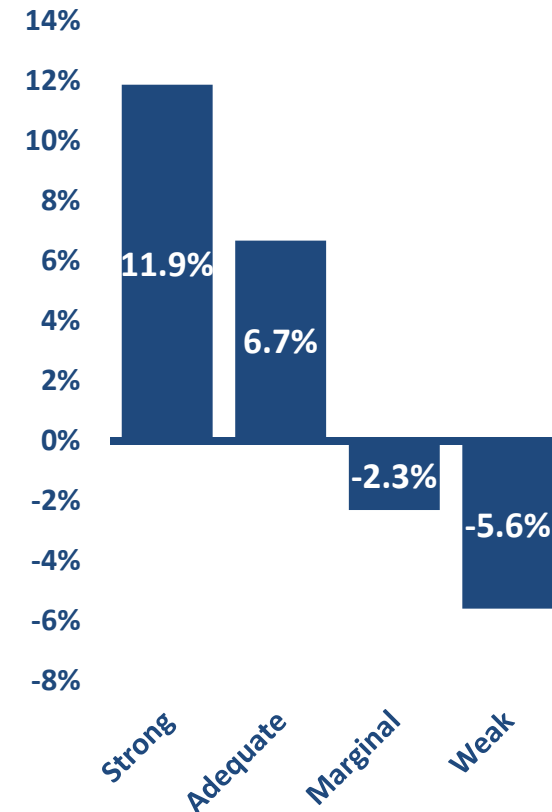


# Operating Performance: Return on Equity

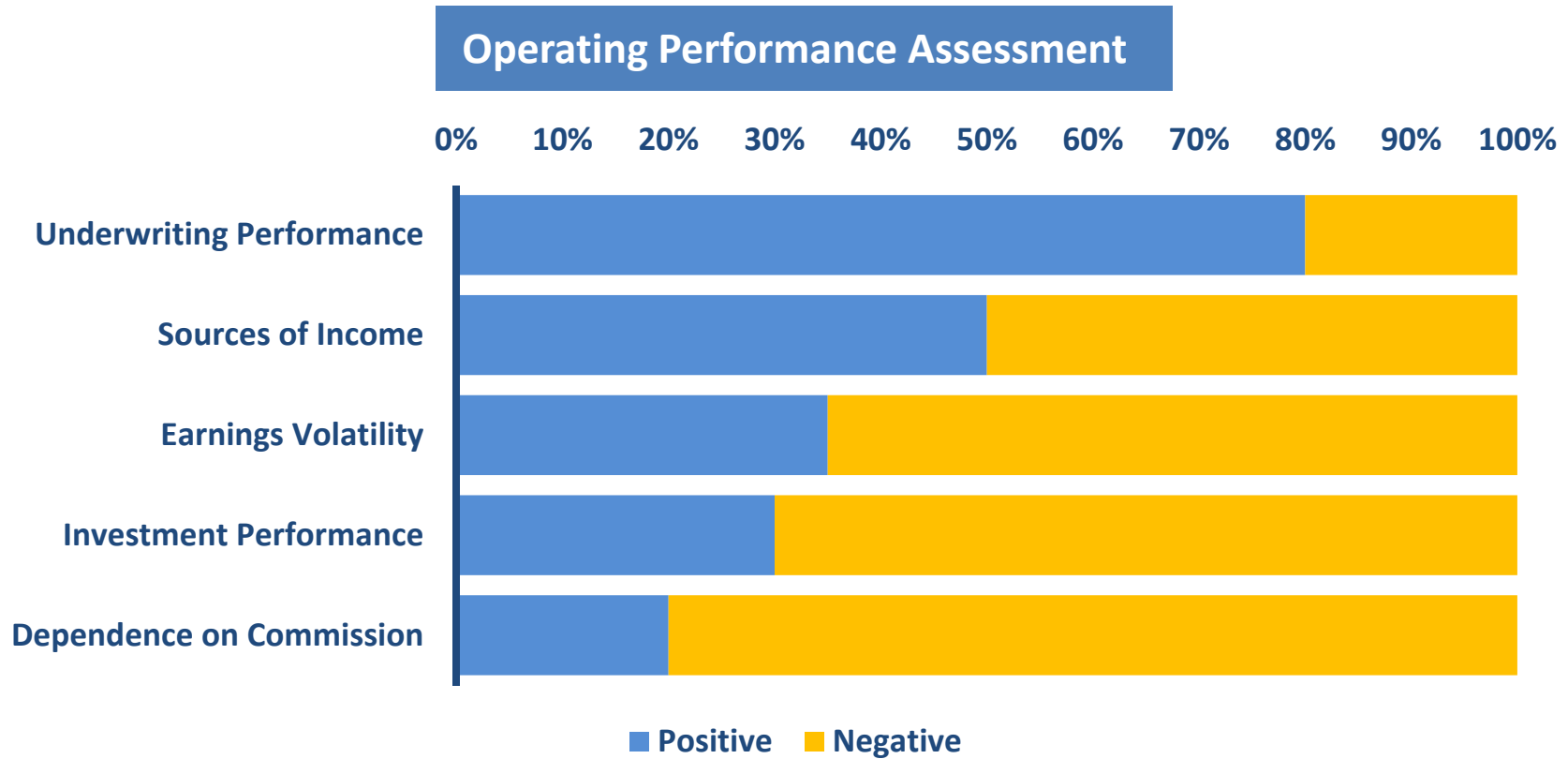
Volatility of Earnings



Average Return on Equity

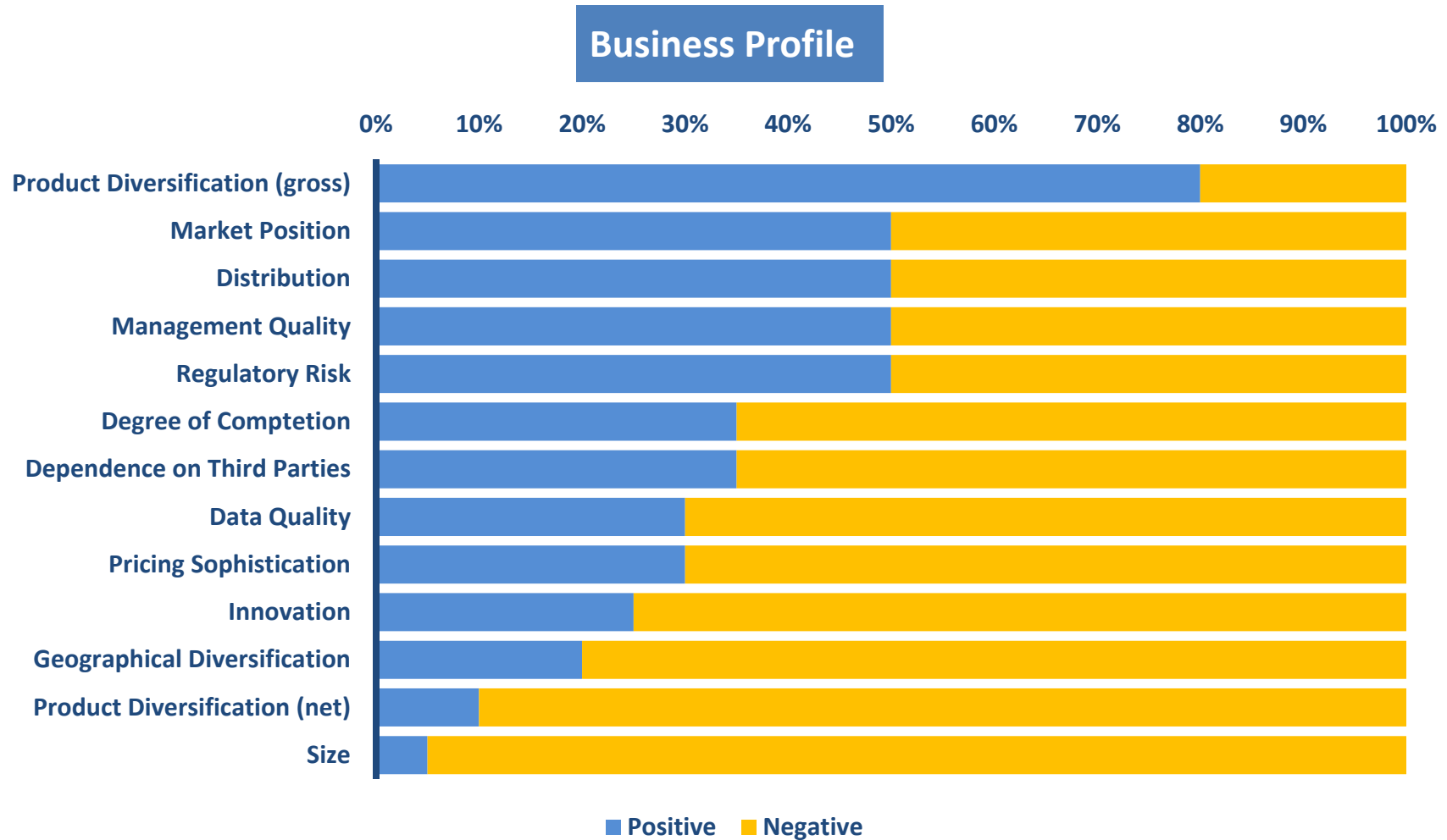


# Operating Performance: Summary

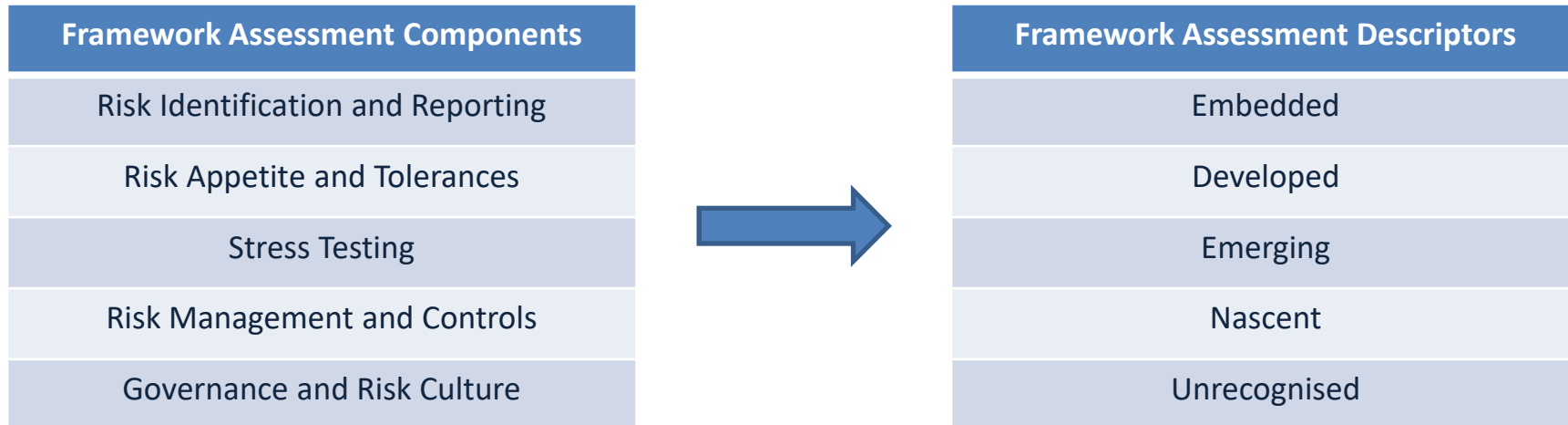


**Operating performance assessed against appropriate benchmarks**

# Business Profile: Summary

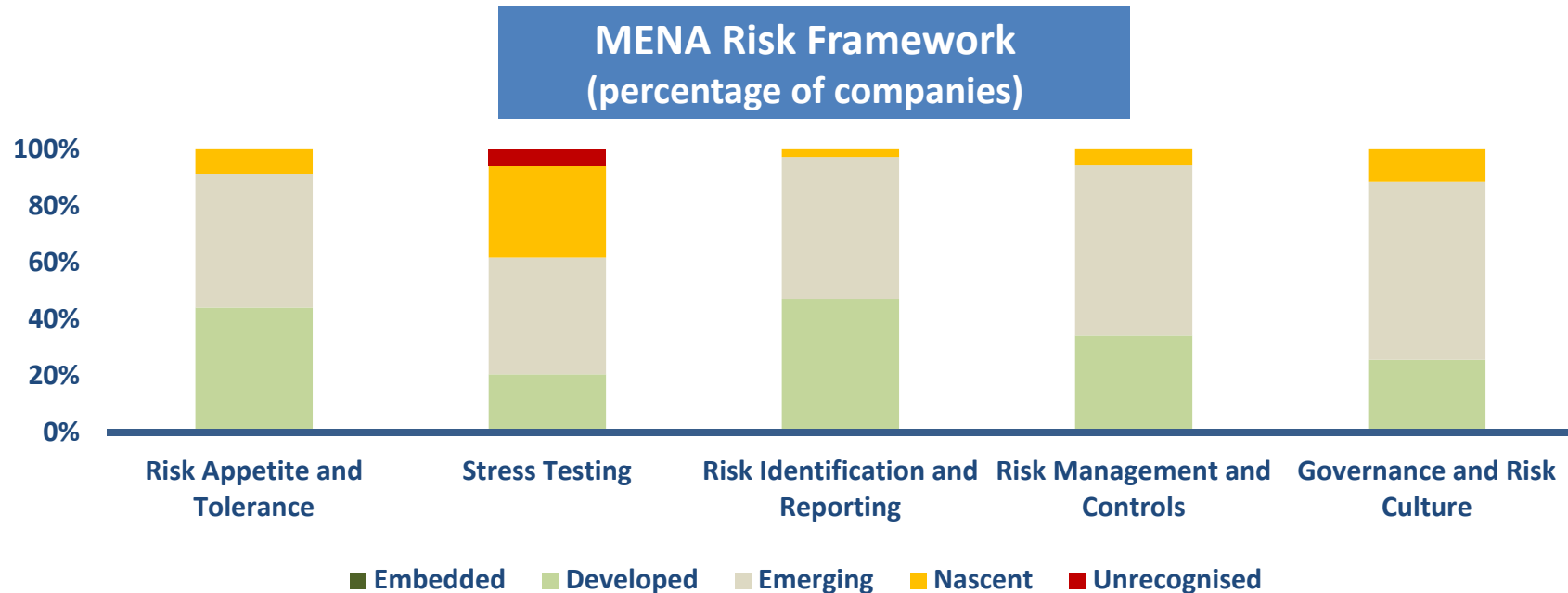


# Enterprise Risk Management (ERM)



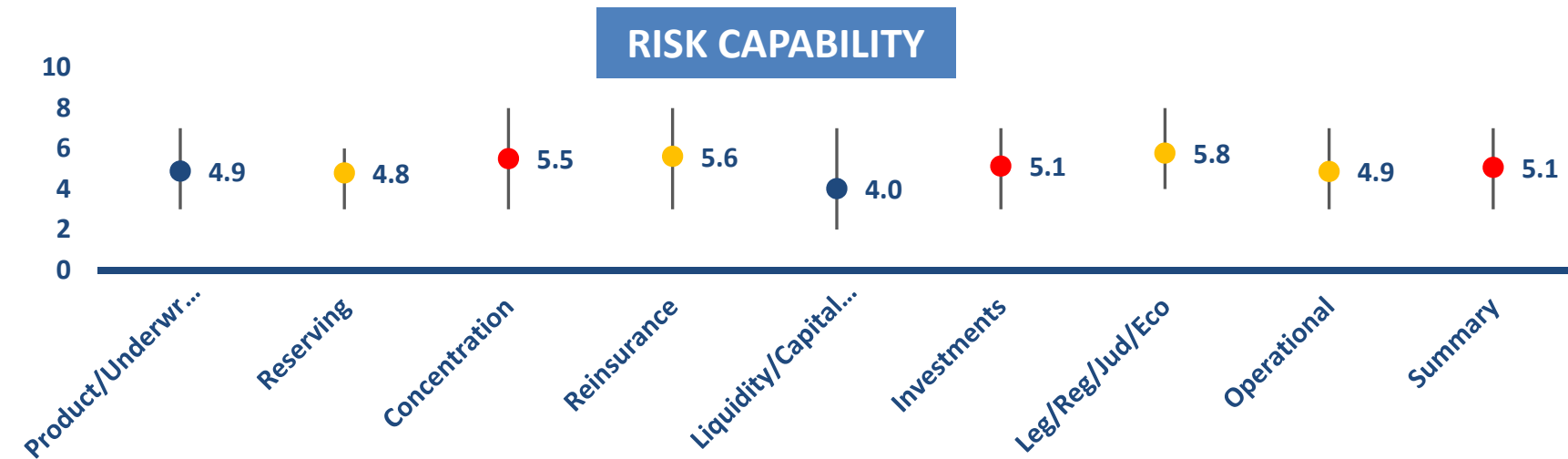
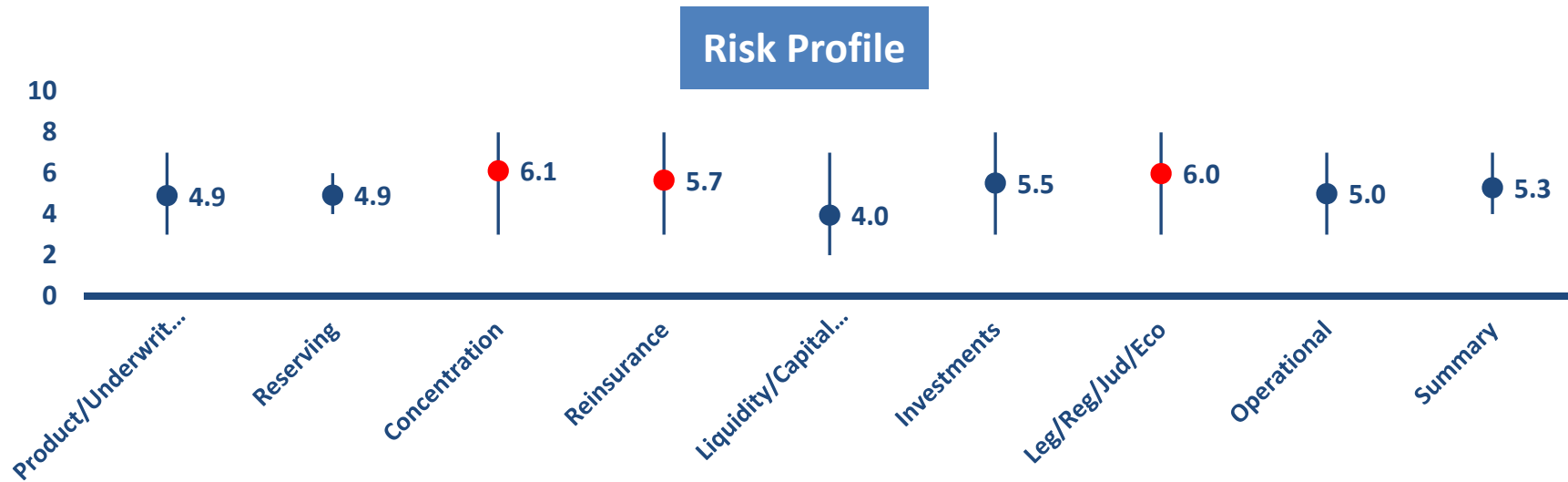
Assessment of Capabilities Relative to Profile	
Product and Underwriting Risk	Investment Risk
Reserving risk	Legislative/Regulatory/Judicial/ Economic Risk
Concentration Risk	Operational Risk
Reinsurance Risk	Liquidity and Capital Management Risk

# ERM: Risk Framework



- Lack of robust ERM framework is a negative rating factor
- Most frameworks within the “emerging” phase
- No frameworks viewed as embedded
- Failure to demonstrate improvements (relative to benchmark) may result in greater pressure on the building block assessment

# Risk Profile vs Risk Capability





# Final Thoughts

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- **Governance**

- Restatements
- Write down of assets
- Reserve strengthening
- Fraud

- **Regulation**

- Short-term volatility
- Longer-term stability
- Stronger solvency regimes

- **Volatility**

- High asset risk
- Fluctuations in operating performance
- Buffers required in RAC

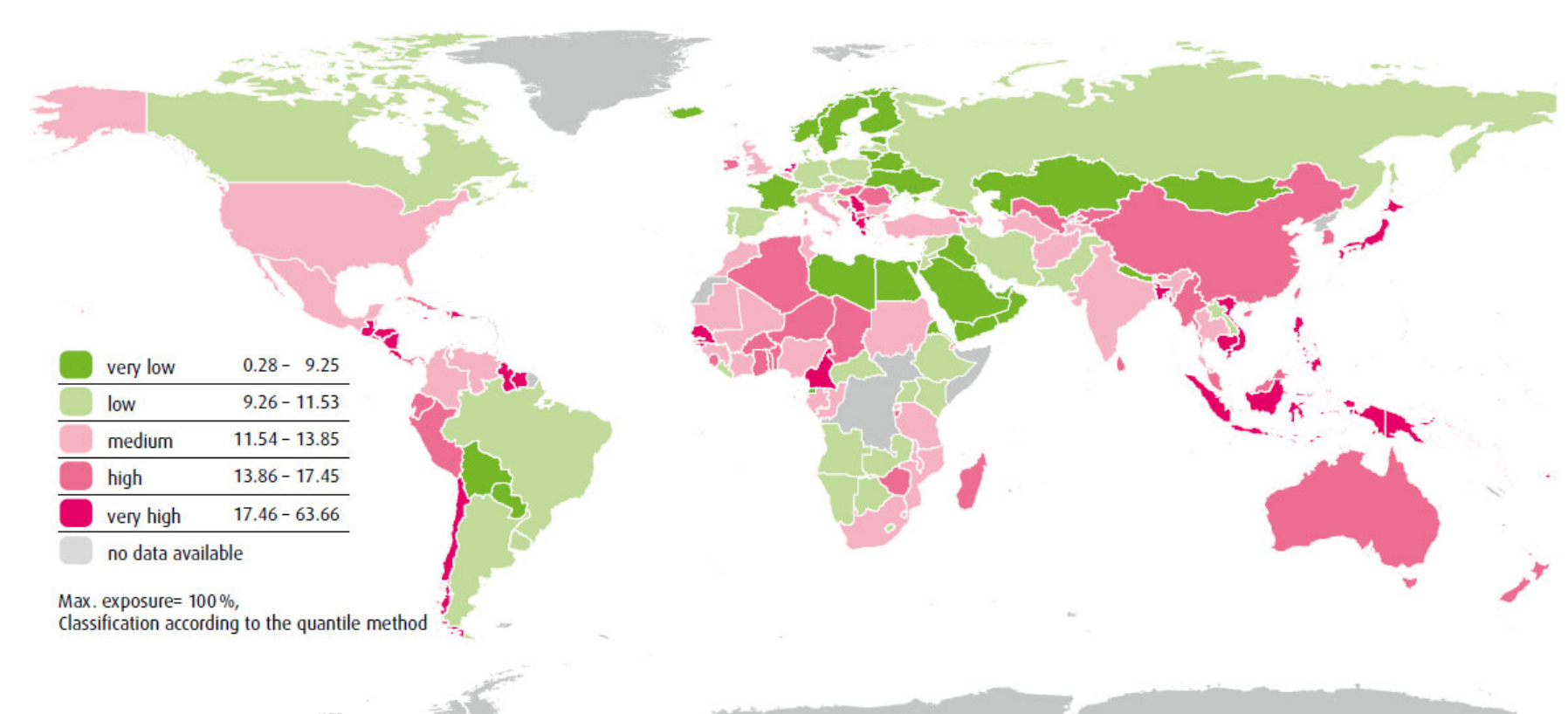
- **ERM**

- Improved basic structures
- Lack of effective utilisation
- Higher prospective benchmarks

# **Catastrophe Events in the GCC**

**Vasilis Katsipis,  
General Manager, Market  
Development – MENA, SCA**

# WorldRiskReport 2017: Exposure to natural catastrophes



Source: United Nations University

# WorldRiskReport 2017: GCC among the countries with lowest RiskIndex

Rank	Country	WorldRiskIndex	Exposure	Vulnerability	Susceptibility	Lack of coping capacities	Lack of adaptive capacities
135 .	United Kingdom	3.60%	11.60%	31.08 %	16.46 %	46.82 %	29.95 %
136 .	Slovakia	3.56%	10.21%	34.85 %	14.25 %	55.25 %	35.05 %
137 .	Czech Republic	3.52%	10.82%	32.50 %	14.87 %	50.32 %	32.31 %
<b>138 .</b>	<b>Kuwait</b>	<b>3.46 %</b>	<b>9.04 %</b>	<b>38.24%</b>	<b>12.02 %</b>	<b>64.93%</b>	<b>37.77%</b>
139 .	Latvia	3.43 %	6.26%	37.10%	20.76%	55.43%	35.11%
140 .	Poland	3.35 %	9.79%	34.22 %	17.22%	53.72 %	31.71 %
141 .	Belgium	3.33 %	11.66 %	28.54 %	15.60 %	40.40 %	29.64 %
142 .	Spain	3.23 %	10.23 %	31.53 %	15.95 %	50.00 %	28.65 %
143 .	Belarus	3.19 %	8.46 %	37.68 %	16.77 %	60.92 %	35.33 %
144 .	Canada	3.13 %	10.25 %	30.55 %	14.85 %	45.91 %	30.90 %
145 .	Ukraine	3.10 %	7.50 %	41.34 %	19.00 %	61.99 %	43.03 %
146 .	Germany	3.09 %	11.41 %	27.13 %	15.11 %	37.69 %	28.57 %
147 .	Mongolia	3.08 %	6.52 %	47.17 %	32.32 %	65.48 %	43.73 %
148 .	Lithuania	3.06 %	8.88 %	34.49 %	18.99 %	50.36 %	34.13 %
149 .	Denmark	2.99 %	10.87 %	27.54 %	14.92 %	39.47 %	28.23 %
150 .	Cyprus	2.76 %	7.44 %	37.04 %	14.46 %	57.74 %	38.91 %
151 .	France	2.73 %	9.25 %	29.47 %	16.17 %	43.22 %	29.03 %
<b>152 .</b>	<b>Oman</b>	<b>2.72 %</b>	<b>6.41 %</b>	<b>42.37%</b>	<b>16.44 %</b>	<b>63.53%</b>	<b>47.14%</b>
153 .	Seychelles	2.56 %	5.99 %	42.77%	21.60 %	63.23%	43.47%
154 .	Luxembourg	2.55 %	9.12 %	27.95 %	12.32 %	41.17 %	30.36 %
155 .	Switzerland	2.50 %	9.56 %	26.19 %	14.37 %	37.60 %	26.60 %
156 .	Estonia	2.45 %	7.23 %	33.83 %	18.01%	51.38 %	32.10 %
157 .	Israel	2.40 %	6.41 %	37.42 %	19.08%	58.65 %	34.54 %
158 .	Singapore	2.36 %	7.82 %	30.14 %	14.16 %	48.83 %	27.43 %
159 .	Egypt	2.30 %	4.72 %	48.75 %	21.62 %	76.91 %	47.72 %
160 .	Norway	2.29 %	8.58 %	26.64 %	14.04 %	39.08 %	26.78 %
161 .	Finland	2.25 %	8.19 %	27.43 %	15.45 %	38.99 %	27.86 %
162 .	Sweden	2.19 %	7.97 %	27.47 %	15.08 %	40.36 %	26.96 %
<b>163 .</b>	<b>United Arab Emirates</b>	<b>1.98 %</b>	<b>5.93 %</b>	<b>33.37 %</b>	<b>10.39 %</b>	<b>58.29%</b>	<b>33.44 %</b>
<b>164 .</b>	<b>Bahrain</b>	<b>1.77 %</b>	<b>4.27 %</b>	<b>41.41 %</b>	<b>13.28 %</b>	<b>65.68%</b>	<b>0.4528</b>
165 .	Kiribati	1.76 %	3.05 %	57.69 %	42.18 %	83.19 %	0.4769
166 .	Iceland	1.54 %	5.67 %	27.19 %	14.68 %	41.67 %	25.23 %
167 .	Grenada	1.44 %	3.13 %	46.12 %	24.86 %	69.20 %	44.28 %
168 .	Barbados	1.21 %	3.46 %	34.99 %	16.53 %	49.96 %	38.49 %
<b>169 .</b>	<b>Saudi Arabia</b>	<b>1.21%</b>	<b>2.93%</b>	<b>41.14%</b>	<b>0.1608</b>	<b>68.49%</b>	<b>38.85%</b>
170 .	Malta	0.0061	0.0165	37.10%	0.1503	57.10%	39.17%
<b>171 .</b>	<b>Qatar</b>	<b>0.09 %</b>	<b>0.28 %</b>	<b>32.25 %</b>	<b>9.36 %</b>	<b>49.03 %</b>	<b>38.36%</b>

Source: United Nations University



# Risk index could improve further with upgrade of capabilities

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Country	WorldRisk Index	Exposure	Vulnerability	Susceptibility	Lack of coping capacities	Lack of adaptive capacities
Kuwait	3.46%	9.04%	38.24%	12.02%	64.93%	37.77%
Oman	2.72%	6.41%	42.37%	16.44%	63.53%	47.14%
United Arab Emirates	1.98%	5.93%	33.37%	10.39%	58.29%	33.44%
Bahrain	1.77%	4.27%	41.41%	13.28%	65.68%	45.28%
Saudi Arabia	1.21%	2.93%	41.14%	16.08%	68.49%	38.85%
Qatar	0.09%	0.28%	32.25%	9.36%	49.03%	38.36%

Source: United Nations University

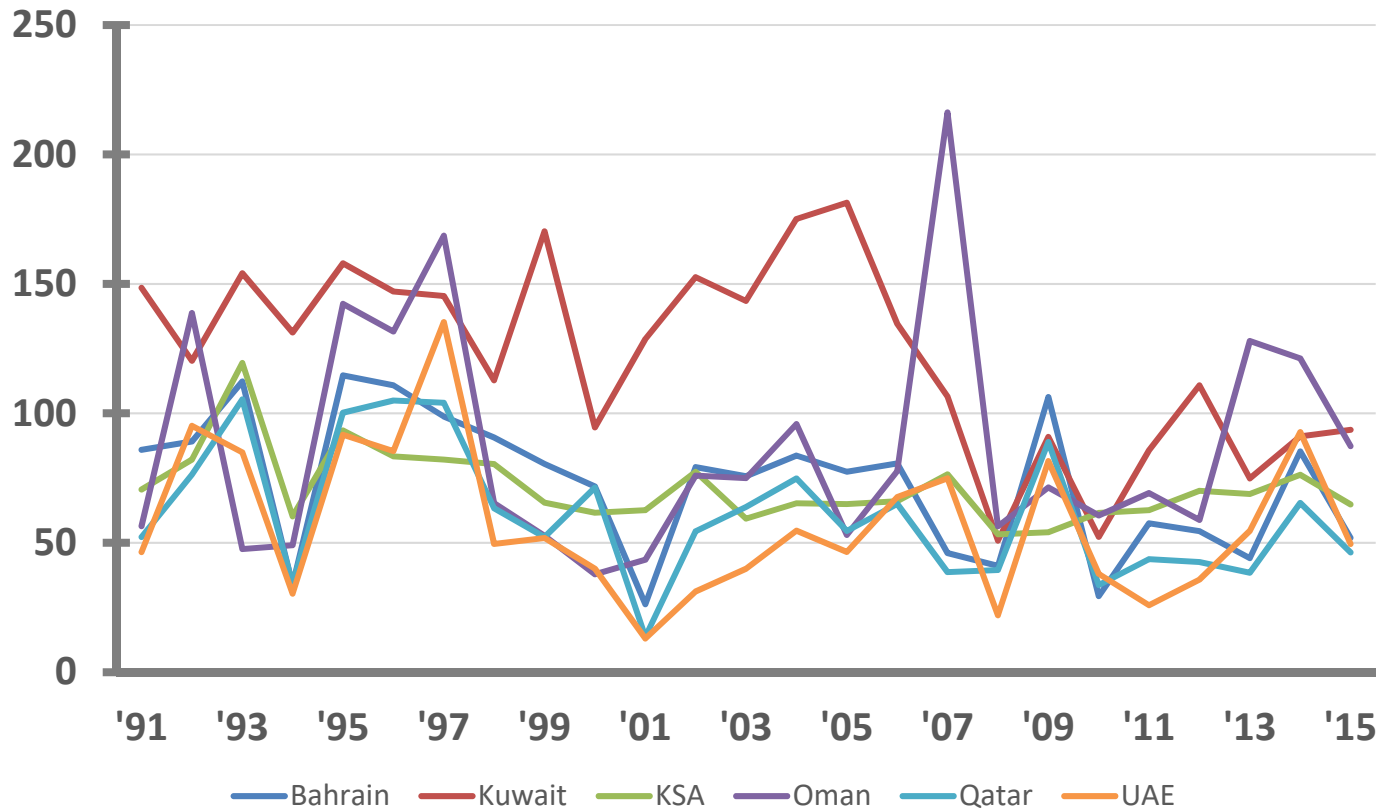
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# The End



# Precipitation in GCC below historical highs

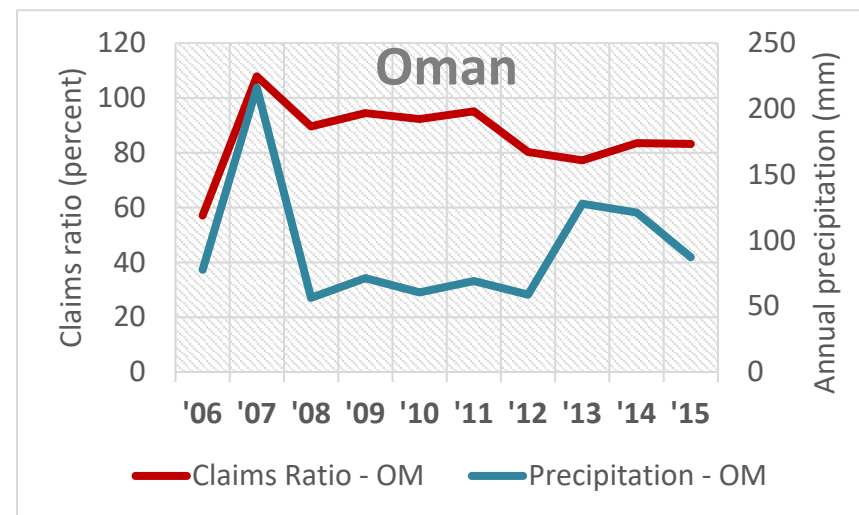
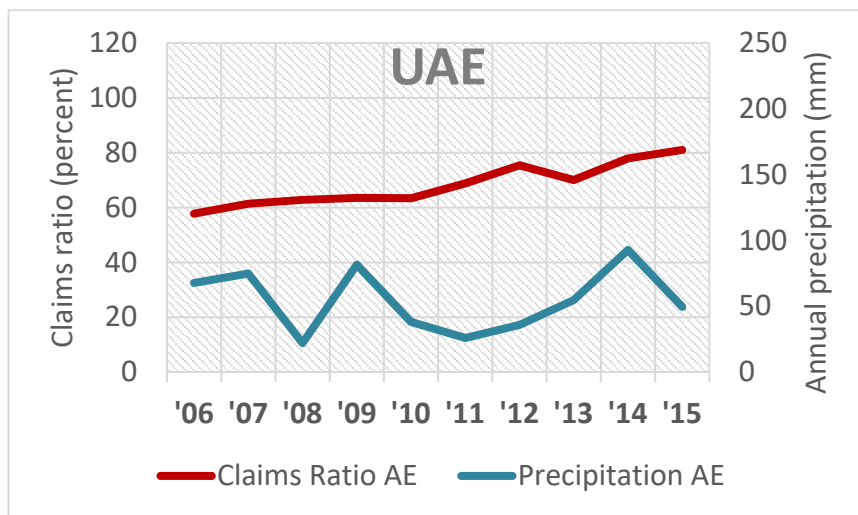
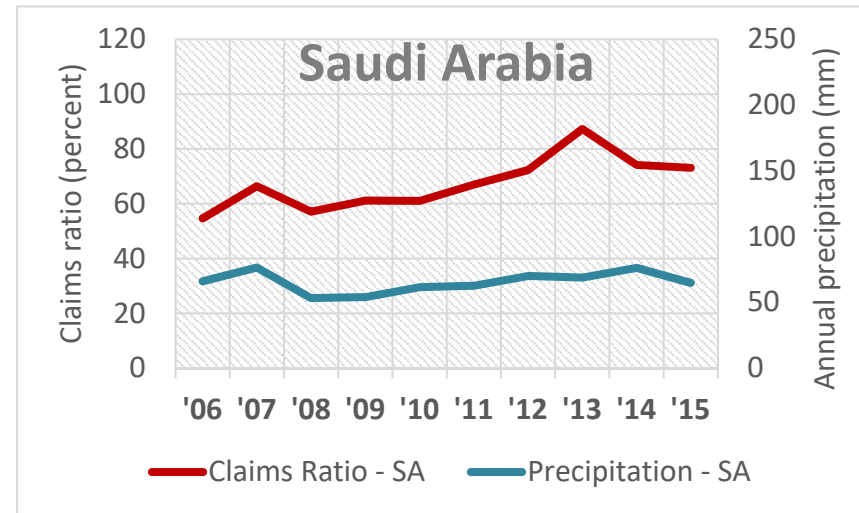
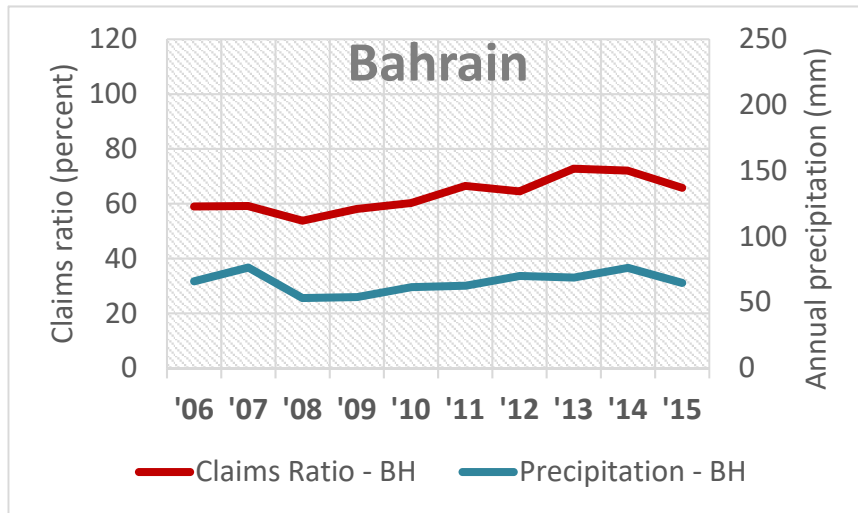
## Annual precipitation in the GCC (mm)



Source: The World Bank Group

- Most markets have had relatively benign weather conditions in recent years
- Most recent floods are below historical precipitation patterns
- Only exception is the Cyclone Gonu impacting Oman in 2007

# Relationship between weather events and insurance profitability not immediately evident



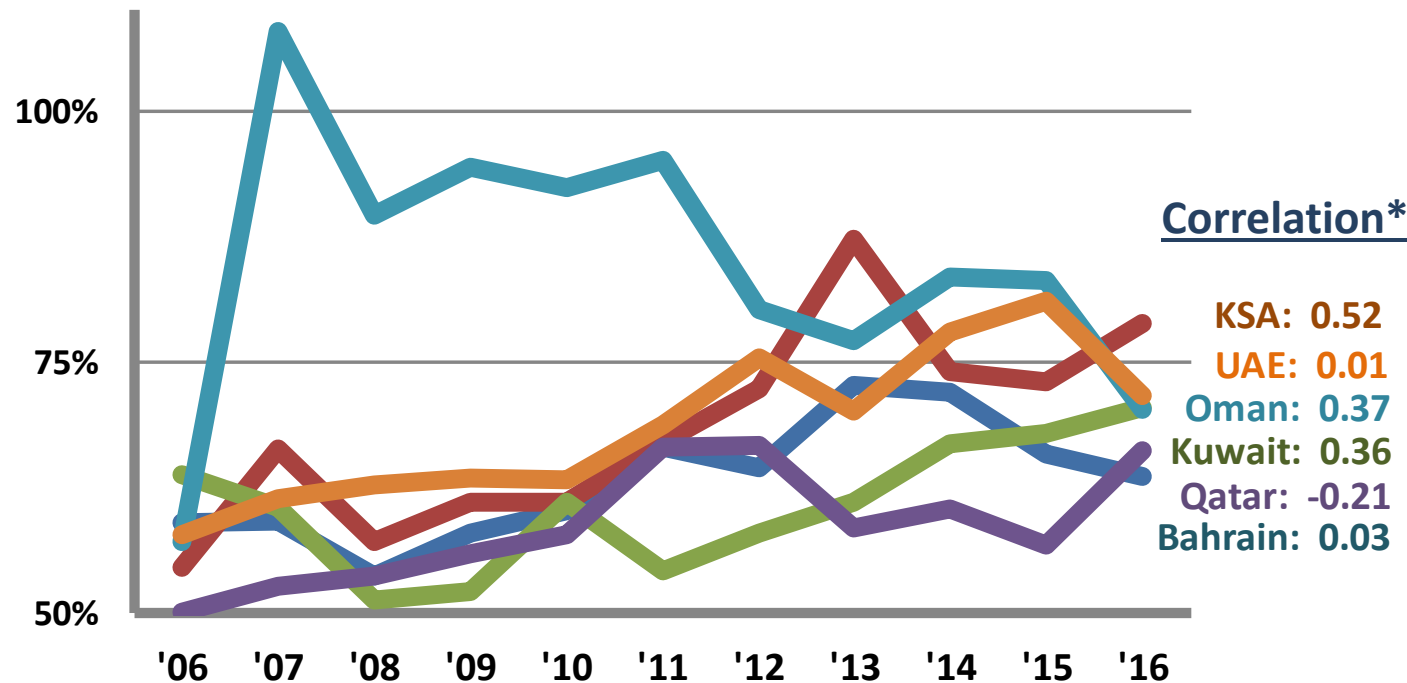
Sources: The World Bank Group & A.M. Best's Statement File - Global





# In many GCC markets decline in technical profitability is unrelated to weather events

## GCC claims ratio and correlation to precipitation

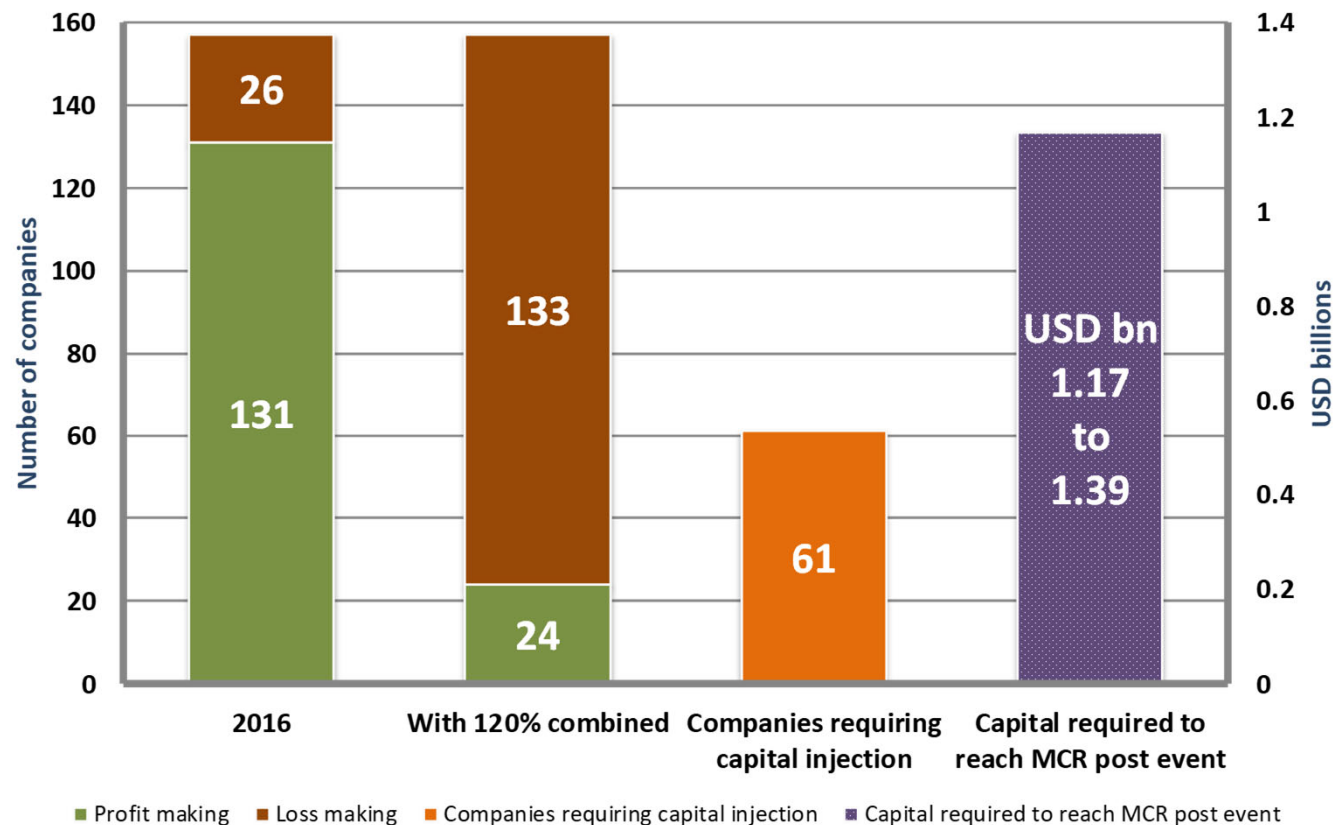


- Great variations among GCC markets
- KSA, Oman and Kuwait with the greatest correlation
- Bahrain, Qatar and UAE with no correlation

\*Correlation coefficient (ranges from -1 to 1). Positive numbers indicate positive correlation

# A region-wide cat event would have severe impact on the industry

## Impact of cat event with severity similar to Gonu\*



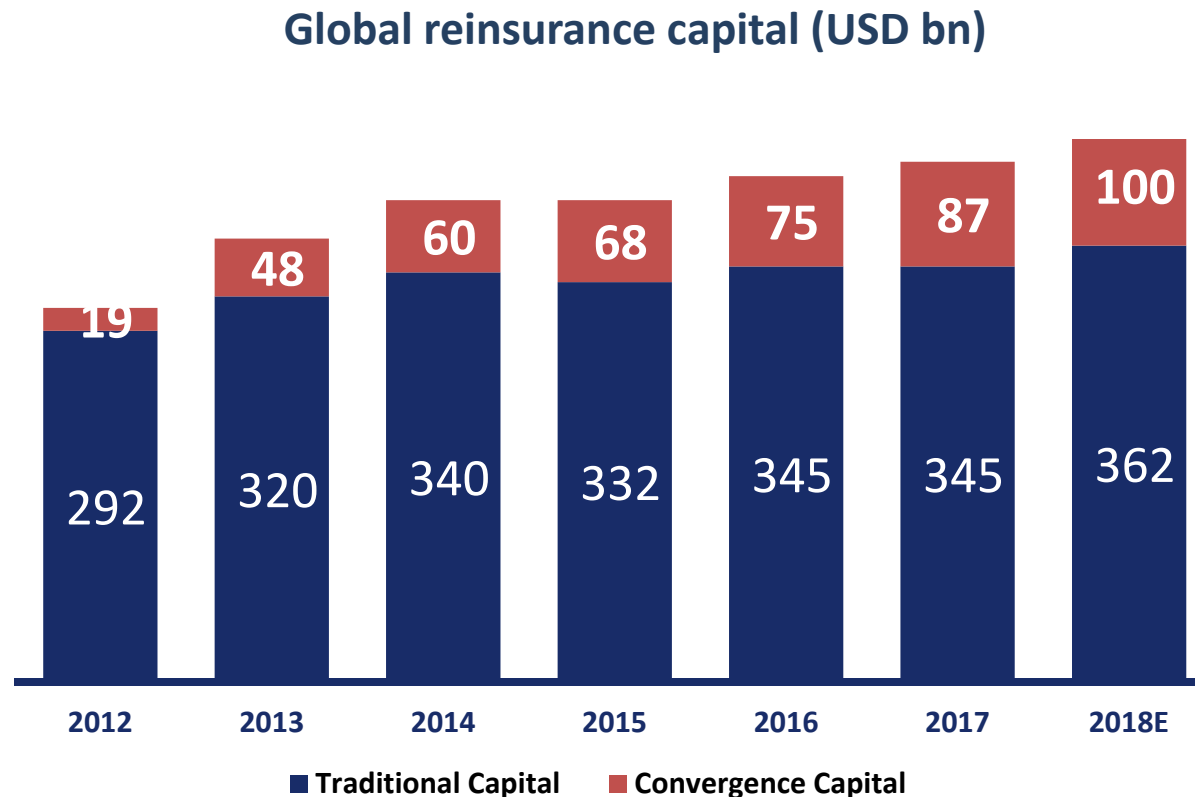
- An event with the same severity as Gonu would result in a third of all companies requiring recapitalisation
- Total capital injection could amount to USD 1.38 billions
- Assuming no reinsurers default and no decline in investment values

\* Single event resulting in non-life combined ratio of 120%

Source: A.M. Best's Statement File - Global



# Thankfully global reinsurance capacity remains unchanged ...

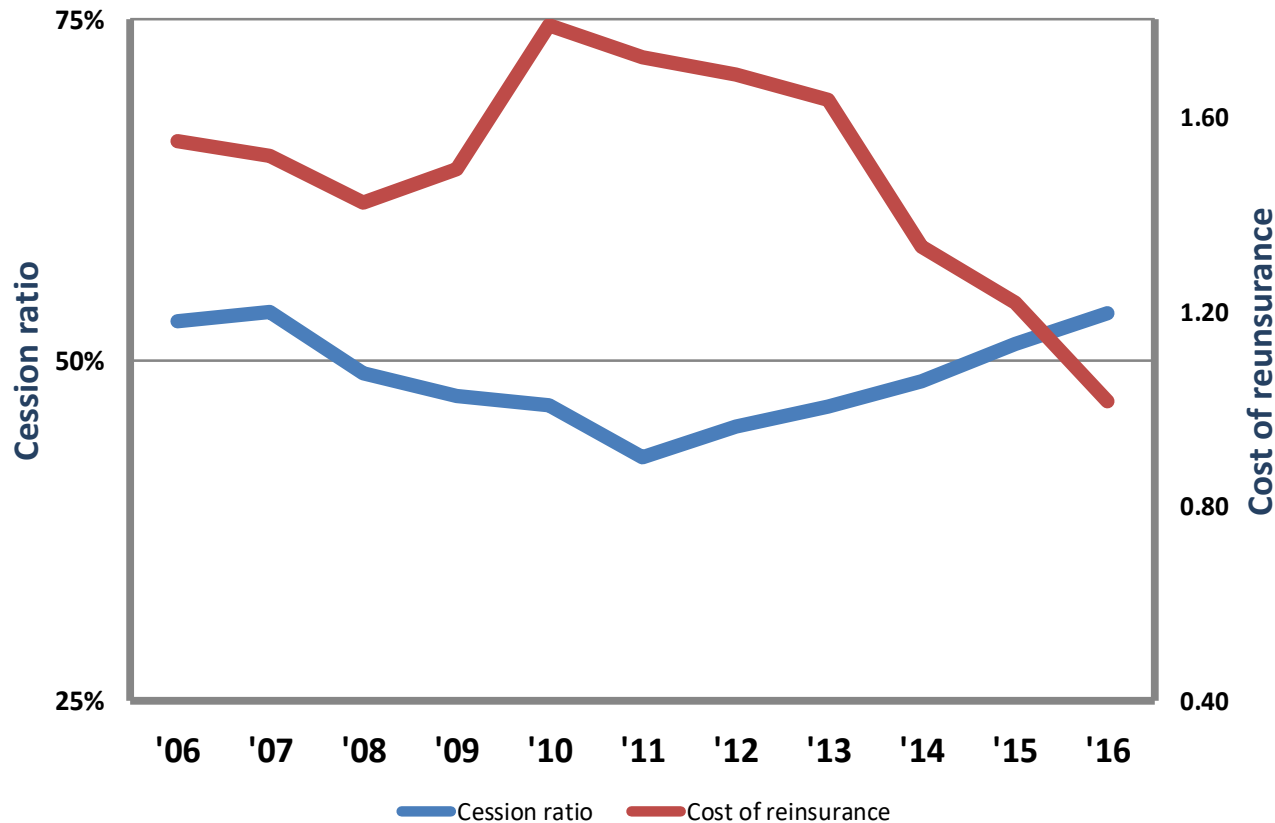


Source: Guy Carpenter and A.M. Best

- Cat events of 2017 were an earnings event for major reinsurers
- Providers of convergence capacity re-loaded post the cat events
- Global reinsurance capacity remains unchanged despite major cat events of 2017

# ... which is good for GCC insurers given high reinsurance dependence

Reinsurance cessions and “cost” of reinsurance\* in the UAE



\*Cost of reinsurance = ceded premiums / ceded claims reserves

- Markets have benefited from what seems to be cheap reinsurance capacity
- After years of decline, cession ratio is back above 50%
- Questions:
  - a. Has counterparty risk remained stable throughout the period?
  - b. Is reinsurance buying linked to risk appetite?

Source: A.M. Best's Statement File - Global

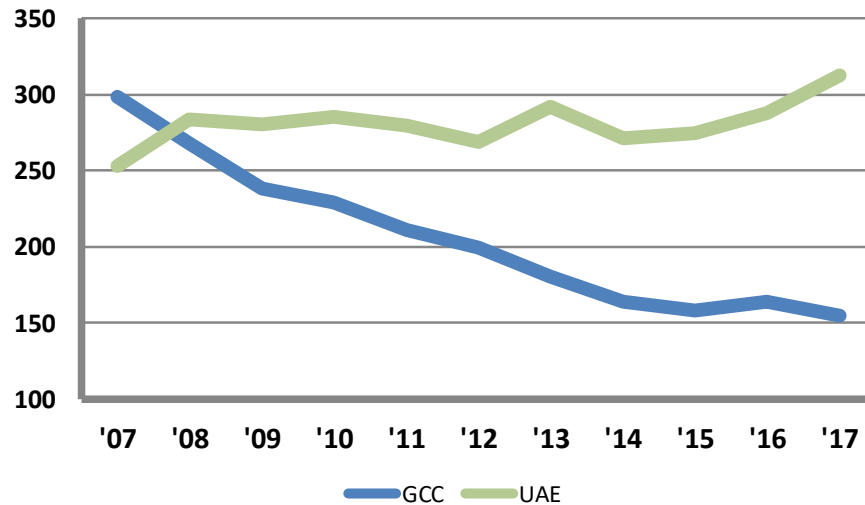


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**Cat losses need not be  
caused by natural  
events**

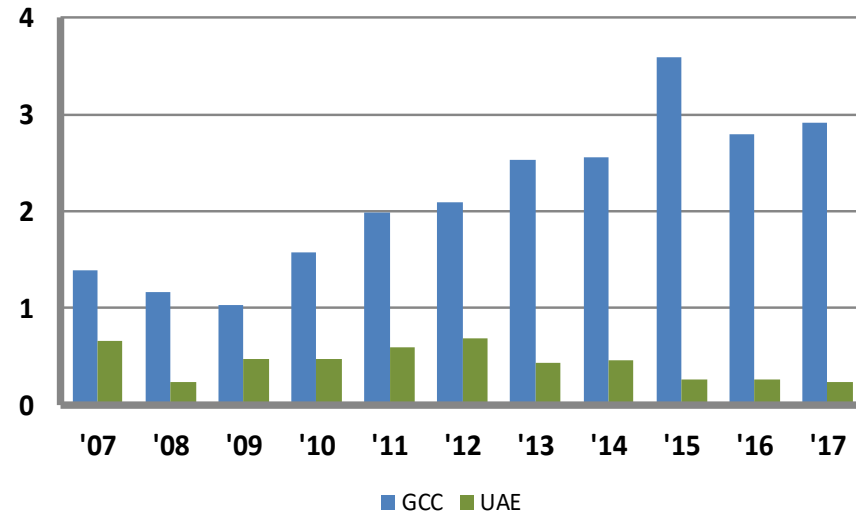
# Outstanding balances: a hidden source of catastrophic losses

Days premiums remain outstanding



- The UAE is the GCC market with the highest level of premiums outstanding
- Improvement in remaining GCC countries is driven mainly by KSA
- Are all these amounts recoverable?

Cash flow generated

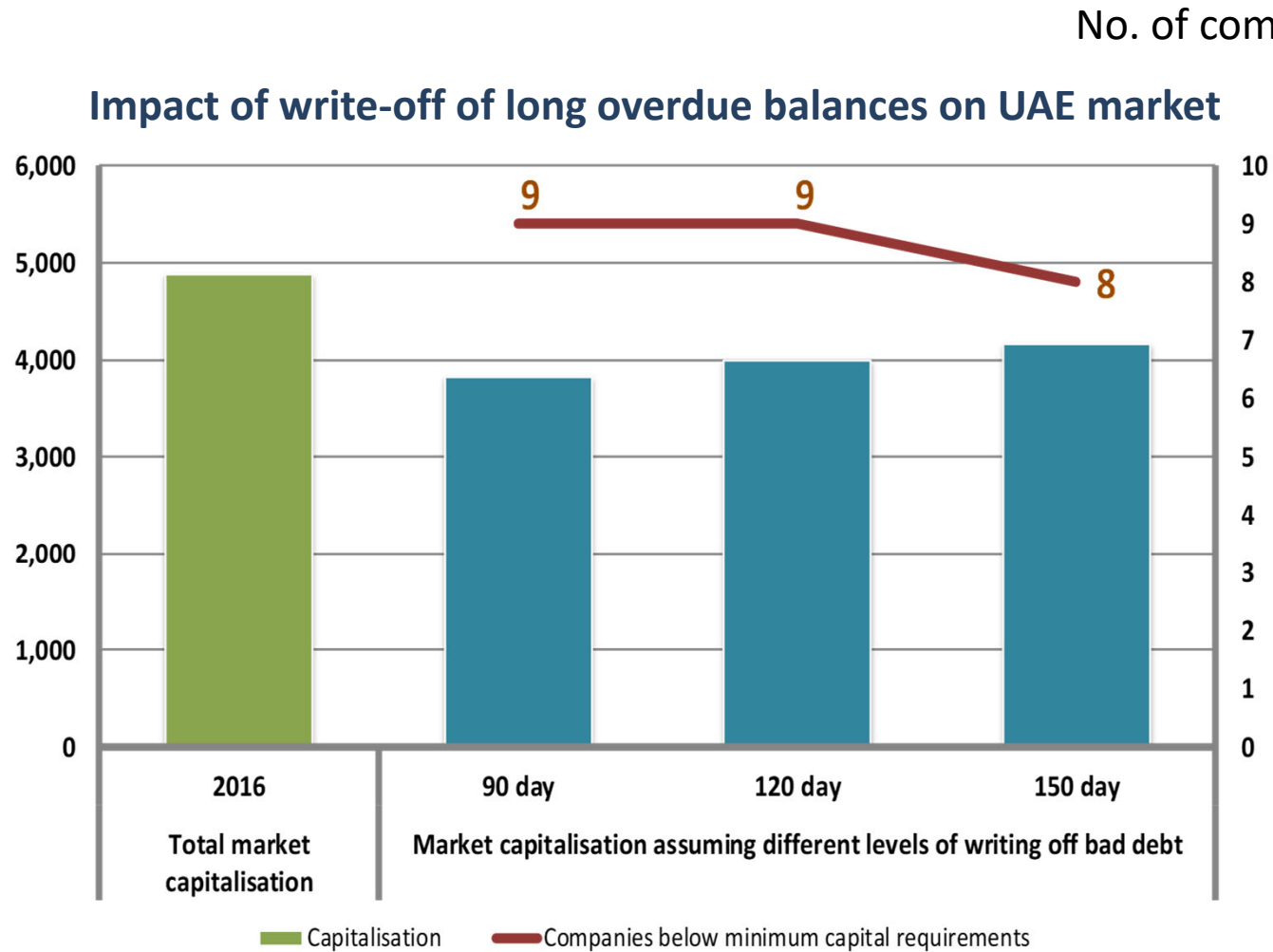


- Late payments impact cash flow
- 10 years ago the UAE accounted for almost half of the cash flow of the GCC insurance industry. In 2017 it was below 10%
- What would happen if outstanding balances were written off?

Source: A.M. Best's Statement File - Global



# Writing off outstanding balances will be more severe than a Gону-like nat-cat for the UAE market

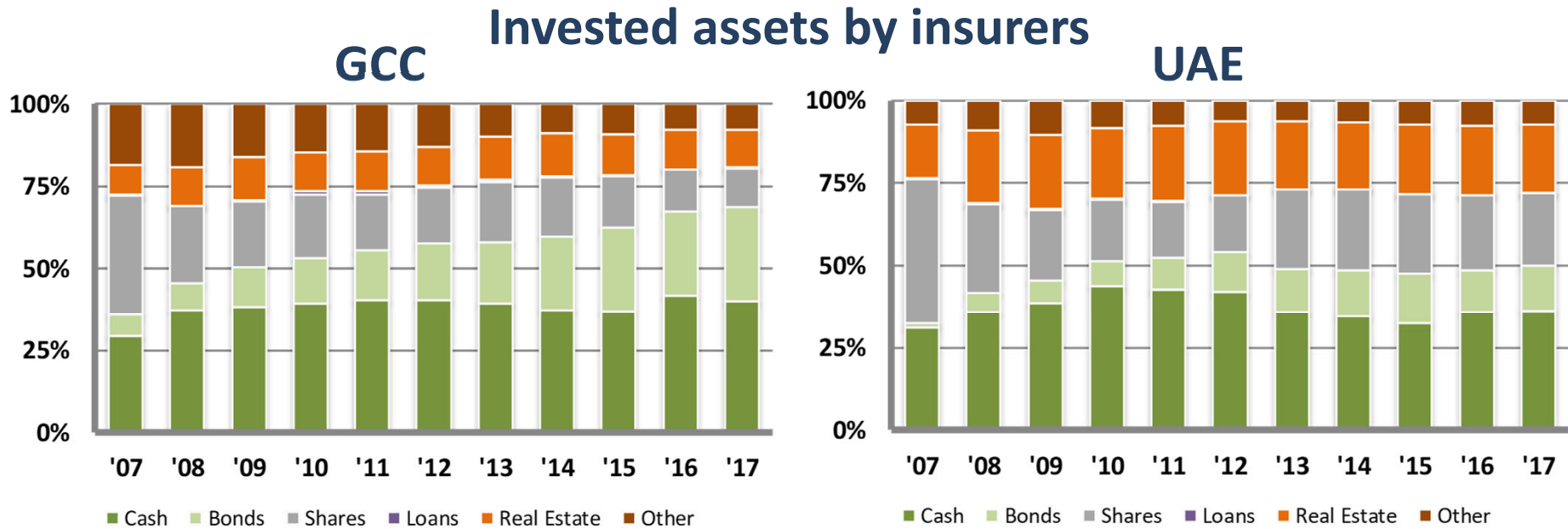


- Adopting a more prudent approach to writing off long outstanding balances would have severe impact on market capitalisation
- Depending on limits adopted there would be a 15% - 22% decline in market capitalisation
- 8-9 companies (out of 31 publishing accounts) will need recapitalisation

Source: A.M. Best's Statement File - Global



# Shares and real estate another possible source of catastrophic losses



- Significant de-risking of investment portfolios in the GCC over the last decade

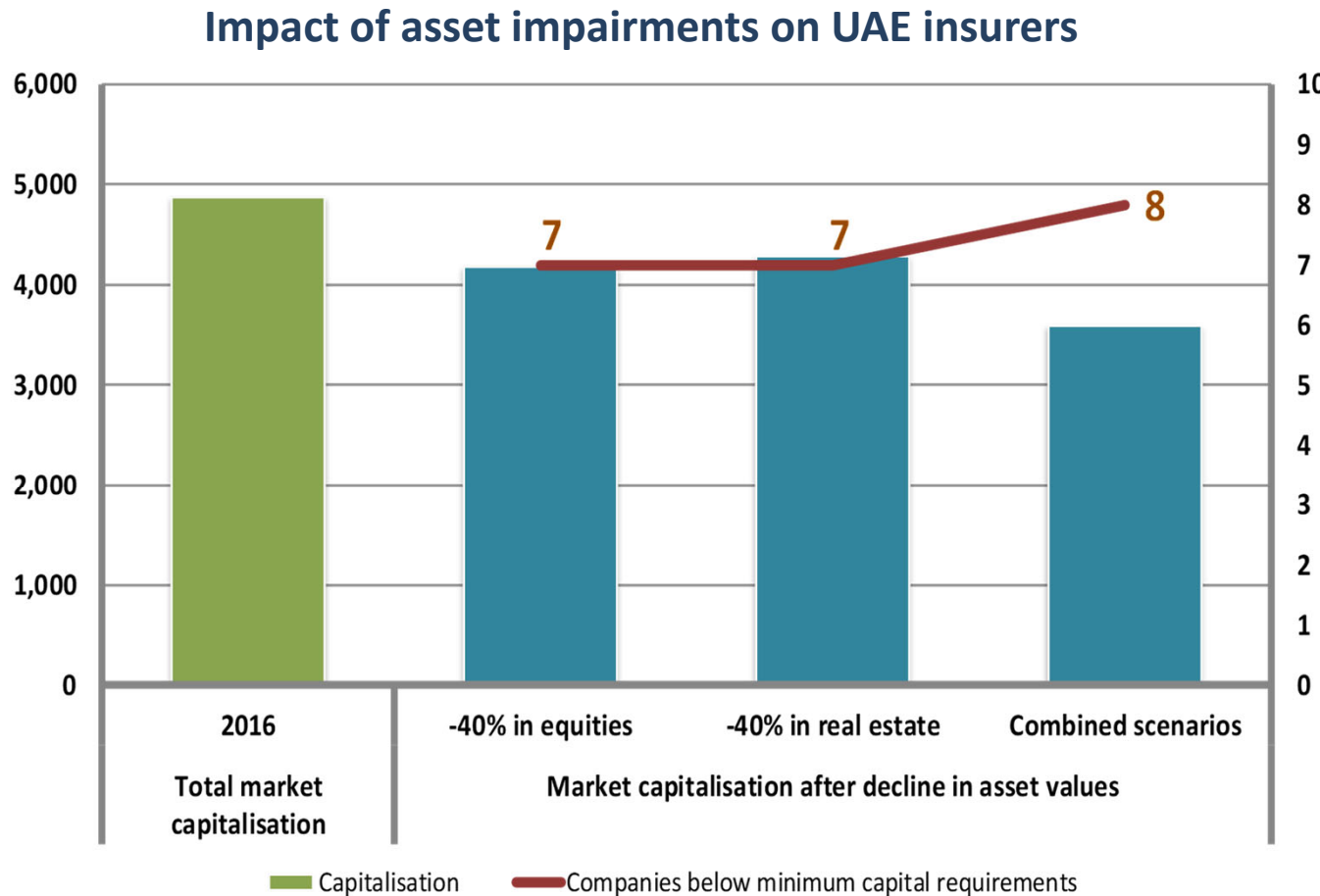
- UAE companies continue to take more investment risk than their counterparts in other GCC markets
- High correlation between shares and real estate

Source: A.M. Best's Statement File - Global





# A scenario similar to the 2009 crisis results in higher losses than a Gonu-like nat-cat event



- Market remains vulnerable to investment write downs
- There is high correlation between local stocks and real estate values
- A scenario similar to the one experienced in 2008-2010 would result in a 15% - 26% loss of shareholder equity in the UAE market
- 7-8 companies needing recapitalisation

Source: A.M. Best's Statement File - Global



## Conclusion

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- GCC has low levels of nat-cat exposure
- Recent weather-related cat events are below historical highs
- Man made events more than compensate for the lack of nat cat
- Insurers need to re-examine their risk appetite and strengthen their ERM practices

# Future 2018 Insurance Market Briefings

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**A.M. Best's Market Briefing 2018 at the  
15<sup>th</sup> Singapore International  
Reinsurance Conference**  
14:00 – 15:00 SGT

**Tuesday 30 October, 2018:**

**A.M. Best Suite – Heliconia Jr Ballroom**  
Sands Expo & Convention Centre,  
Marina Bay Sands, Singapore



**2018 Insurance Market Briefing – Europe**  
08:30 – 13:00 GMT, followed by lunch  
**Methodology Review Seminar**  
14:00 – 16:00 GMT

**Tuesday 6 November, 2018:**

**etc. venues St Paul's, London**  
200 Aldersgate, London, EC1A 4HD