Country Profile – UAE

# Sailing in rough waters

The UAE insurance sector is expected to weather the COVID-19 storm this year despite the economic contraction, which is creating a deeper impact than earlier projected. Insurers need to brace themselves for possible complications in the coming year.

By Osama Noor

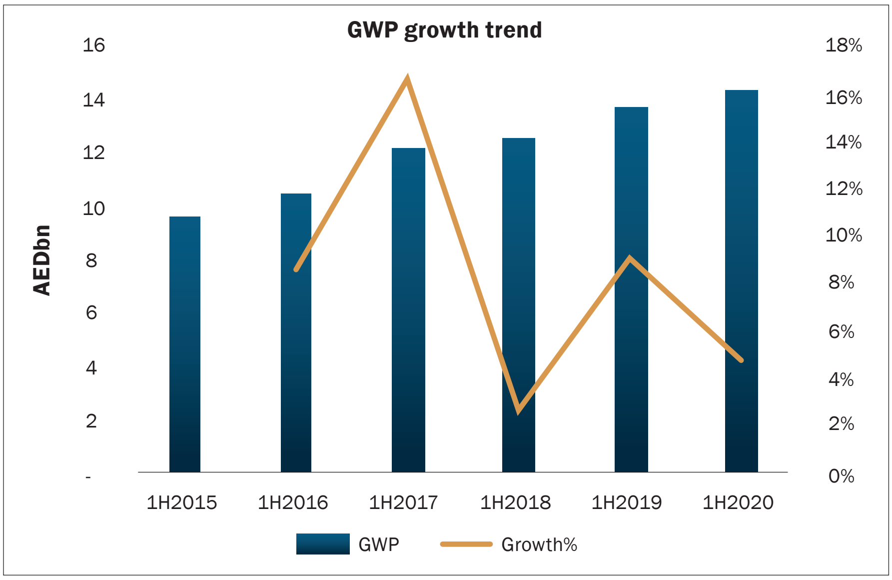
The UAE economy will suffer a notable contraction this year because of the pandemic. The UAE Central Bank recently projected that the country's GDP will contract by 5.2% in 2020 as a result of the COVID-19 lockdown measures.

"As a regional trade, tourism and transportation hub, the UAE economy was hit by the general ban on travel, while manufacturing production shrank due to supply chain disruptions, limited export opportunities and subdued domestic demand," the Bank said in its second-quarter economic review released in September. The Bank pointed out that GDP has contracted by 7.8% y-o-y in the second quarter of 2020 following a 0.8% decline in the first quarter. Non-oil GDP fell by 9.3% in the second quarter against the 2.7% drop in the previous quarter.

The Bank also expects further fallouts from reduced global oil demand and from the pandemic's impact on the tourism, hospitality and retail sectors. Against this backdrop, the insurance sector has pulled off a commendable feat by registering growth in the first half of the year.

GWP generated by the listed insurers amounted to AED14.3bn ($3.9bn) in the first half of 2020, representing a growth of 5% from the corresponding period in the previous year, according to a market report by Badri Management Consultancy. Out of the 29 listed insurers, 15 companies saw an increase in premiums while the remaining players recorded a decline.

The growth in top line was accompanied by total profit of AED945m in 1H2020, against AED985m achieved in 1H2019, showing a decline of 4%. Four of the listed insurers posted losses in 1H2020, compared to one insurer which slipped into the red in 1H2019.




Source: Badri Consultancy Management

The lockdown measures the UAE authorities have taken to limit the impact of the pandemic worked to the advantage of insurers as the sector saw a reduction in claims, although investment income came under pressure. "While the weighted average loss and combined ratio reflect a favourable declining trend, the adverse impact of the pandemic is evident from the investment income, which has observed a sharp decline from 12% to 6% during the period," the Badri report said.

Compared to other markets in the region, there was a decrease in the profits of listed UAE insurers in the first half of the year but the signs suggest that the sector will report satisfactory results at year-end, said Badri Consultancy Management managing director Hatim Maskawala.


Mr Hatim Maskawala

"I feel insurers were cautious and did not release all the profits brought about by COVID-19-related lockdowns (for fear of a backlash on medical claims). Now, as claims from the lockdown-related months have developed with no major backlash and with improved investment markets, I am expecting increased profitability for the third and fourth quarters."

However, he noted that one factor which might affect profitability is the fact that (historically) the third quarter generally used to see lower claims due to people travelling on vacation. "This year due to travel restrictions, this will not happen. That said the frequency of claims in 3Q is still lower due to partial work from home and online schooling."

## Competition on the rise

In April, the UAE Insurance Authority (IA) permitted insurers to grant vehicle owners a discount of 50% for medical workers, employees of the army, police, civil defence, people over the age of 60, as well as insurance applicants with accident-free records. The IA recently revealed that the average motor insurance premium has decreased by 15.6% during the past few months.

Besides the discount impact, competition has played a role in reducing rates, whether for motor or other lines. "Providers are not immune to the financial pressures and other changes brought on by the pandemic and we have certainly seen competition intensify, especially within certain business lines such as individual motor insurance," said Islamic Arab Insurance Co (SALAMA) CEO Parvaiz Siddiq.


Mr Parvaiz Siddiq

He added that his company has continued to focus on offering the right products and maintaining high standards. "For us, it is key to not compromise on these fundamental elements for short-term gains."

## Slower growth for takaful

By the first half of 2020, gross written contributions (GWC) in the UAE takaful sector fell by 1% to around AED2bn, according to Badri. There are nine takaful providers in the country – all are listed – and together they control around 15% of the market GWP.

Takaful in the UAE witnessed notable developments, including growth, which some players have demonstrated in terms of profitability and top line.

A major development was the acquisition of both arms of Noor Takaful, general and family, by Dar Al Takaful, which was concluded in July. The acquisition deal, worth AED215m, was entered into before the outbreak of COVID-19. Aside from consolidating the marketplace, the deal is an encouraging step as it was concluded amidst the pandemic.

Takaful providers need to raise the bar in terms of their offerings to customers, particularly with regard to digital offerings, said Mr Siddiq. "In this way, we are no different than any other large multi-national insurer."

Takaful operators hold some key differentiators which are proving to be increasingly attractive to customers. Mr Siddiq said, "Customers are increasingly recognising the benefits of takaful, in terms of the overarching ethos of fairness and transparency, as well as, for example, the clear demarcation of risk sharing rather than risk transfer as seen in conventional insurance. There are also additional benefits such as takaful's ability to distribute surplus back to its policyholders. In times of such financial turmoil, customers welcome our ability to support them in this way and we were delighted to lighten their financial load when we returned AED11.5m of surplus to eligible

| Line of business | GWP (AED'000) | | Change % | % of GWP (2018) | Paid claims 2018 (AED'000) | % of gross paid claims 2018 |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | | | | |
| Fire | 2,688,562 | 2,861,486 | -6% | 6% | 1,562,389 | 5% |
| Marine & aviation | 1,326,817 | 1,235,902 | 7% | 3% | 695,793 | 2% |
| Motor and transportation | 6,713,005 | 7,548,004 | -11% | 15% | 4,311,039 | 15% |
| Engineering & energy | 2,345,795 | 2,208,328 | 6% | 5% | 2,969,735 | 10% |
| Other | 2,050,489 | 1,822,507 | 13% | 5% | 533,354 | 2% |
| Total property & liability | 15,124,668 | 15,676,227 | -4% | 35% | 10,072,310 | 34% |
| Health insurance | 19,083,079 | 19,392,488 | -2% | 44% | 15,133,458 | 51% |
| Persons & fund accumulation | 9,510,676 | 9,755,514 | -3% | 22% | 4,208,048 | 14% |
| Total all classes | 43,718,423 | 44,824,229 | -2% | 100% | 29,413,816 | 100% |

Source: UAE Insurance Authority

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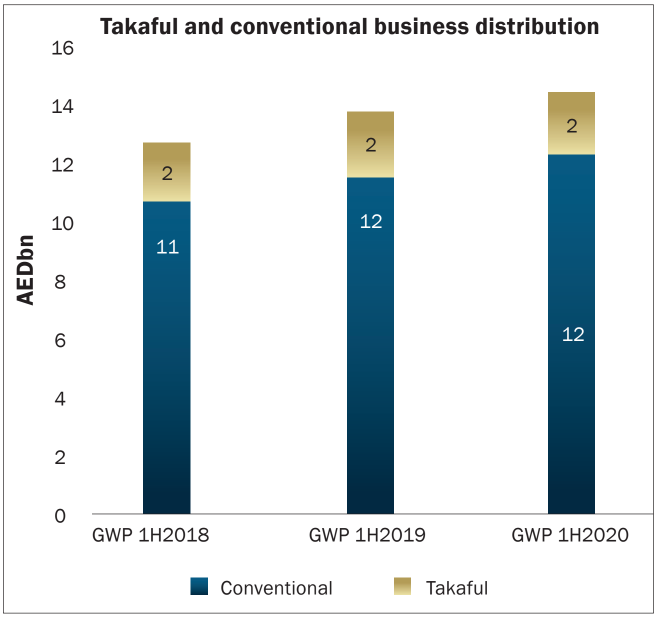


Source: Badri Consultancy Management

credit life policyholders in August this year."

## Improving underwriting strategies

Despite the positive outcome for the sector, there remains much to do for insurers looking to optimise their returns, said Mr Maskawala. He added that motor and medical, the main lines for many insurers, are price-sensitive and a majority of companies try to increase their volumes by concentrating on price. "However, insurers should look at the full value chain of insurance and target profitable pockets. This can be achieved when insurers move away from a flat pricing structure to increasing the number of rating variables and targeting customers who are better risks. While this might sound basic, the tendency in this market is to go for flat prices or simple pricing. It is time to move away from this approach."

In addition, he called for further optimisation of claims processes. "For example, in medical, several insurers outsource claims management to TPAs and assume their job is done. They should have the ability to monitor the processes of the TPA and also keep a control and a close eye on the payouts. They should have their own staff review the payments – both at the approval level and then at the analytical level. There are large savings to be achieved by investing time on fraud, waste and abuse monitoring."

For non-motor and non-medical lines, he recommended improving profitability by optimising reinsurance. "Due to the lack of expertise, providers reinsure heavily despite having excess capital. Insurers in the UAE now need to reconsider their reinsurance strategies to retain some of the large portions of profits which are currently being ceded to reinsurance companies."

The retention ratio of the industry continues to decline, averaging 52% in 2019, as companies are getting increasingly cautious about retaining risk given the prevailing economic uncertainty.

## Digitisation challenges

Insurers have had to limit physical touchpoints due to the pandemic, particularly during the sales and claims processes, said Mr Siddiq. "Traditionally, many policyholders have preferred a face-to-face interaction, so we have focused on ensuring our technologies replicate this personal service and accessibility for both policyholders and our channels to market."

In terms of processes, the increased use of digital channels potentially creates issues for insurers, he noted. "Whether it is rethinking legacy technology or how best to adapt products online, the accelerated pace of digitisation has created challenges for our industry. For example, some over-the-counter products are relatively easy to adapt, however, the complexities of long-term products like life insurance are more difficult to translate into a digital-first proposition."

For SALAMA, its technology-driven solutions have helped serve customers and partners seamlessly during the pandemic. "Streamlining our functions to ensure we remain accessible to clients and maintaining our ability to make quick decisions on claims were necessary," Mr Siddiq said.

SALAMA's net profit in 1H2020 grew to AED47m from AED33.33m in the corresponding period in the past year, with GWC reaching AED695m from AED650m, recording a 7% increase.

## Looking ahead

Insurers are looking at how to optimise their business in the new normal and beyond, said Mr Siddiq, "in particular with a focus on technology and digital offerings".

Citing telemedicine as an example, he noted how it has gained a following. "We believe this will grow even further in the coming years, offering customers a quick and convenient way of accessing expert advice from the comfort and safety of their homes."

The potential for takaful remains positive, he noted. "In recent years, we have seen customers, regardless of Islamic/non-Islamic preference, see shariah-compliance as a value-add and we believe this trend will continue, providing SALAMA with exciting long-term growth potential."

In terms of profitability, 2020 will be a good year for the industry, said Mr Maskawala. "The industry will benefit from lower payouts due to COVID-19-related lockdowns. This has put a pressure on prices and the impact will come in 2021 when claims start to revert to normal levels with lower average premiums. There have been more acquisitions, for the purpose of licences, than mergers in the UAE market," he said.

"The solvency ratio of insurers also varies drastically within the market, with some insurers barely meeting the regulatory threshold and others holding over 100% excess capital. Therefore, not immediately but in the coming years, we may see mergers once profitability starts drying out and companies look at other avenues to generate return on capital and growth."

Overall, the insurance sector in the UAE is among the few markets that has shown fast recovery and demonstrated agility in dealing with the fallout from the pandemic. However, learning from previous cycles, insurers should be prepared for a seemingly tough 2021.