MARKET PROFILE - OMAN

Sustaining success in tough times

Listed insurers in Oman have achieved satisfactory results in the past year, demonstrating impressive resilience amidst the unprecedented COVID-19 crisis. The increase in profitability indicates the sound foundation of industry players; however, competition, along with the macroeconomic challenges, will remain in the coming period.

By Osama Noor

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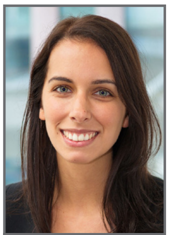
GWP for Oman's 10 listed insurers reached OMR386.7m ($1bn) in 2020, showing a 4% drop compared to the previous year, whereas net profit soared by almost 37% to OMR35m from OMR25.5m, reaching almost the total profit the market's 20 insurers have generated in 2019, according to preliminary data published by the Muscat Securities Market (MSM).

GWP and net profit of listed insurance companies in 2020 (unaudited)

OMR	GWP			Net profit		
	2020	2019	Change %	2020	2019	Change %
National Life & General Insurance Co	134,029,000	148,599,000	-9.80%	15,010,000	10,202,000	47.13%
Dhofar Insurance Co	48,495,408	45,632,470	6.27%	3,545,551	2,706,246	31.01%
Al-Madina Insurance Co	39,598,785	38,912,525	1.76%	1,694,181	1,188,778	42.51%
Oman Qatar Insurance Co	31,281,073	28,942,148	8.08%	2,120,415	1,295,120	63.72%
Oman United Insurance Co	30,908,179	31,160,027	-0.81%	4,249,029	3,404,393	24.81%
Takaful Oman Insurance Co	25,412,101	25,254,873	0.62%	1,011,834	210,921	379.72%
Vision Insurance Co	22,847,816	25,643,875	-10.90%	1,188,346	1,219,780	-2.58%
Al-Ahlia Insurance Co	19,086,004	23,943,836	-20.29%	4,389,840	4,111,455	6.77%
Arabia Falcon Insurance Co	18,285,838	16,904,632	8.17%	1,576,379	1,122,144	40.48%
Muscat Insurance Co	16,817,950	18,450,316	-8.85%	352,615	-748,165	
Total	386,762,154	403,443,702	-4.13%	34,785,575	25,460,837	36.62%

Source: Muscat Securities Market (MSM)


Ms Jessica Botelho-Young

Many of the GCC markets are likely to see muted growth in top line and increased profitability in 2020, noted AM Best associate director Jessica Botelho-Young. "The decline in top line is consistent with AM Best's expectations. The slower pace of growth in premiums in the GCC markets is likely a result of the slowdown in economic activity in the region. This is clear in Oman as the decline in government spending, along with stiff competition, puts pressure on the market's performance. Therefore, it is expected that most players have maintained their current level of premium income or seen a slight decline in 2020."

She added that underwriting results are expected to have improved in the past year because of the lockdown, which led to favourable claims experience in motor claims and medical expenses.

Motor and medical businesses account for around 65% of the market GWP, while their paid claims command over 70% of the market's consolidated paid claims.

Exceptional results in 2020


Mr Mohammed Ali Londe

Despite the decline in premiums resulting from the stiff competition and macroeconomic headwinds that have been exacerbated by the coronavirus pandemic, Moody's expects the Omani insurance sector to report exceptionally good results in 2020, said Moody's vice president and senior analyst Mohammed Ali Londe.

"This is largely the result of one-off improvements in underwriting and continued higher investment income," he said. "For the first nine months of 2020 the market has already outpaced its year-end 2019 net profit by around 50%. Loss ratios fell by 9% on average, reflecting the concentration to medical and motor. In both lines of business, loss frequency went down thanks to the lockdown. At the same time, investment income which constituted over 40% of the market's net profit has benefitted from an increase in fixed income and deposits in 2020."

Expatriates leaving Oman, reduced economic activity due to the pandemic and the shutting down of tourism are some major reasons for the drop in GWP, besides the

Income of top five listed insurers 2019-2020 (unaudited)

OMR	Underwriting income			Investment income		
	2020	2019	Change %	2020	2019	Change %
National Life & General Insurance Co	26,439,000	20,112,000	31.46%	4,590,000	4,232,000	8.46%
Dhofar Insurance Co	8,605,539	7,604,326	13.17%	3,185,073	2,470,461	28.93%
Al-Madina Insurance Co	5,478,672	4,621,173	18.56%	1,059,215	1,012,545	4.61%
Oman Qatar Insurance Co	2,779,867	2,862,155	-2.88%	1,905,433	1,335,927	42.63%
Oman United Insurance Co	7,900,591	8,023,507	-1.53%	2,472,277	1,289,114	91.78%
Total	51,203,669	43,223,161	18.46%	13,211,998	10,340,047	27.78%

Source: Muscat Securities Market

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decline in sales of vehicles and motor insurance, said Badri Consultancy managing director Hatim Maskawala.


Mr Hatim Maskawala

However, he added that the significant reduction in motor accidents over the years after rigorous approach towards traffic rules, coupled with the reduced frequency of accidents due to lockdowns, have played a strong role in lifting up profitability.

Investments support profitability

In 2020, investment income for the top five listed insurers grew by almost 28% to OMR13m from OMR10m, against 18% growth in their underwriting income.

According to the Capital Market Authority's (CMA) 2019 annual report, general and life deposits represent over 63% of insurers' total investments, while real estate stands at 4%, government and government-guaranteed bonds at 13.5% and shares in national and other companies at 7%. This seems to have helped companies prop up their income especially since the COVID-19 crisis has worsen the investment environment in general.

In the GCC markets, insurers tend to take more asset risks rather than underwriting risks, with their investment portfolio concentrated in real estate or a limited number of equities, noted Ms Botelho-Young. "Oman, however, tends to be different, with the majority of the holdings in cash or time deposits. Therefore, the results are less volatile. It is likely that some companies have decided to relocate their asset mix in 2020 considering the overall uncertainty," she said.

"With higher holdings in low risk time deposits the impact is that the yields are lower but less volatile when compared to the volatility in investment yields that we see for some peers in neighbouring countries," she noted.

Mr Maskawala said that the heavy reliance on bank deposits as an investment is generally observed amongst insurers in Oman. "Due to its low-risk nature, the investment returns did not take as bad a hit, with less than 5% reduction in interest rate on OMR deposits recorded."

Total investments for insurance companies 2018-2019 (OMR million)

Investment Type	2019	2018	Change %	% of total investment (2019)
Real estate	27.173	23.515	16%	4.4%
Government bonds	77.515	64.857	20%	12.4%
Government-guaranteed bonds	7.246	5.978	21%	1.2%
Corporate bonds	68.196	64.874	5%	10.9%
Shares in national companies	28.494	31.694	--10%	4.6%
Shares in other companies	14.601	13.466	8%	2.3%
Secured by life assurance policies	0.859	0.918	-6%	0.1%
Other security	5.396	11.873	-55%	0.9%
Deposit (General)	290.023	302.903	-4%	46.5%
Deposit (Life)	104.623	98.006	7%	16.8%
Total	624.126	618.064	1%	100%

Source: Capital Market Authority (CMA)

Volatility remains

The investment losses through other comprehensive income further deteriorated in 2020, driven by the capital market's deterioration, with the MSM capital market index falling by around 8% during 2020, having already fallen a similar 8% in 2019, said Mr Londe.

"Furthermore, we see continued volatility in the capital market in 2021, which until February 2021 has fallen a further 2.6%. This will continue to pressure insurers' income and capital. Moreover, we expect that in 2021 the continued competitive pricing pressures will erode the one-off underwriting gains that were seen in 2020. However, on the investments front, new regulations from the CMA will aid insurers to counter some of the investment volatility and liquidity challenges with the guidelines aimed at improving the management of markets," he said.

Last December, the CMA issued asset investment regulation for insurance firms which has been revised in a manner that allows more ability in engaging positively with developments in global markets and responding to opportunities and demands of the current stage. The CMA intended for the new regulation to be sufficiently flexible to help insurers upgrade their performance, maximise economic benefits from the local market and stimulate economic activity in Oman. The new requirements stipulate that investments of insurers in banking deposits and investment agencies at banks and financial establishments, government bonds and sukuk should not be less than 30% of total investments.

Among other provisions, the regulation permits companies to invest in the shares of joint stock companies, investment funds and companies not listed on the market provided that investment should not exceed 40% of total investments.

The regulation will also allow for investment in guaranteed loans with life insurance and real estate policies provided these should not exceed 20% of the total investments of insurance companies.

Challenges of the day

High dependency on hydrocarbons is the biggest challenge facing the economy and will place further pressure on the growth prospects of the insurance industry, said Ms Botelho-Young. "Volatility in oil prices has been affecting the economies of the GCC states. There has been a rebound in oil prices as crude oil price crossed $60 p/b in recent months against $40 p/b last year, indicating a positive trend. But at the same time, Oman's fiscal breakeven oil price stands at $80 p/b, indicating a considerable gap in place that has negative implications for economic and fiscal consideration."

She added that a reduction in the government's spending on infrastructure projects would hinder the insurance industry's growth. Overall, she said, Oman is in a tougher position compared to its wealthier neighbours and the recovery is expected to be slower.

Similar to other GCC markets, stiff competition is a

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major challenge in the Omani insurance market, and this has been exacerbated by the coronavirus pandemic, said Mr Londe. "However, opportunities remain stemming from the low insurance penetration in Oman in addition to increased awareness and demand for health insurance post-pandemic. All of these at a time when medical insurance is being made compulsory is a key growth potential for the Omani insurance and takaful sector. Growth potential also exists in other lines, notably through cross-selling, given the low insurance penetration rate in the country, as well as high per-capita income levels," he said.

Compulsory healthcare to boost premium growth

Healthcare insurance has witnessed a steady growth at an annual rate of 31% over the past seven years, with gross premiums for health insurance exceeding OMR170m in 2019, topping the size of motor insurance which remained the largest insurance branch until 2017.

The implementation of mandatory healthcare insurance has been on the cards for at least three years and the market has been eagerly waiting for this development as it will create a new source of premium income for insurers. Yet, it is doubtful that the government will make this move in the midst of the pandemic.

Mandatory insurance lines have the potential to accelerate GWP growth above the GDP, and drive insurance premium growth. However, in an environment where businesses are suffering because of the pandemic, the implementation of mandatory healthcare insurance is less likely to happen. Most of the local governments are going to think twice before introducing a compulsory cover which employers have to pay for, according to AM Best.

Is there a need for consolidation?

In terms of M&A, there was only one deal since 2017 which combined two insurers: Falcon and Arabia, now called Arabia Falcon Insurance Co (AFIC). In the same year, seven operators went public in line with the CMA stipulations, a move which leveraged transparency and added confidence in the insurance market but did not push M&A any further.

According to AM Best, the problem is not in the number of players as much as their specialisation, where all players are running after the same lines of business and duplicating themselves. "Looking at the statistics of the listed players, they have been able to generate profitable underwriting results. This could indicate that competition might not lead to deterioration in the profit metrics," said Ms Botelho-Young.

There has already been quite a few M&A activities in the market in recent years and the region has seen quite a lot of M&A activity in the financial services industry, said Mr Maskawala. "There are still some small players and with the growing competition and move towards economies of scale on digitisation initiatives and compliance requirements, I do expect more consolidation in this market as well," he said.

Discipline and digitalisation

Insurers should improve their underwriting discipline in order to curb the negative impacts of competition, said Ms Botelho-Young. "They need to ensure that policies are priced correctly to improve underwriting profitability."

Agreeing, Mr Maskawala noted that motor tariffs have dropped significantly in the market (due to COVID-19) to levels that may not be sustainable once the normal traffic resumes. "Underwriting is expected to gain importance going forward with an increasing need for a pricing mechanism in place."

Another area of focus is digitalisation, added Ms Botelho-Young. "Companies with enhanced ability to access their clients through apps and innovative means will be in a better position to retain existing clients and attract new ones."

The pandemic has changed the marketplace significantly, according to Mr Maskawala. "Online distribution channels are gaining increasing importance. In mid-2020, the first insurance aggregator platform in Oman was launched. In addition, now there is an increased focus on digitisation of claims processes and move towards InsurTech."