INSURANCE – GENERAL

Motor industry trends and benchmarks

Badri Management Consultancy's Mr Omar Khan and Ms Mahnoor Mir offer insights into how the motor insurance industry in the UAE has been affected by regulatory developments and pandemic-driven changes and what they mean for the sector.


Mr Omar Khan

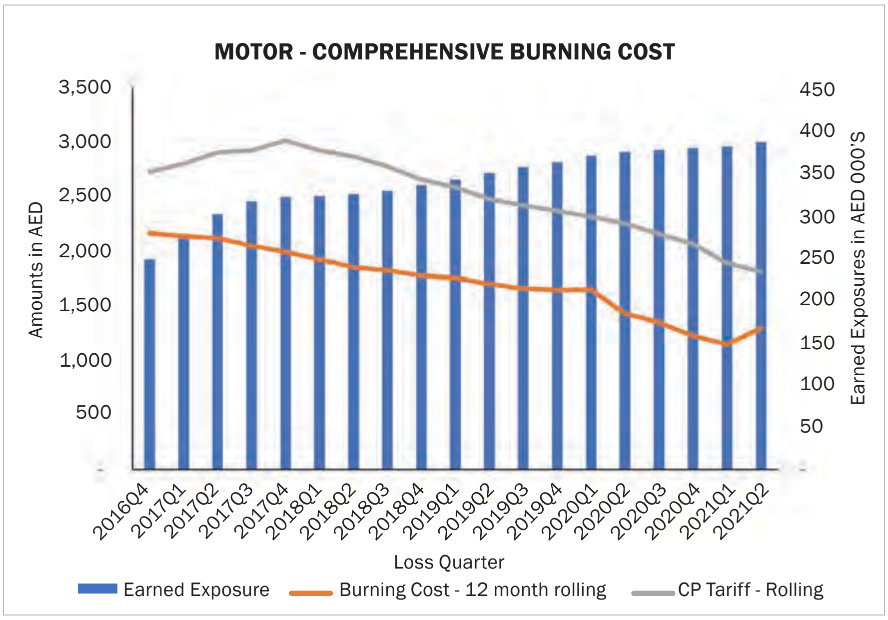

Ms Mahnoor Mir

Over the past five years, the motor insurance industry in the UAE has found itself at the mercy of an economic and regulatory landscape that puts it constantly on the brink of change. In 2017, the unified motor policy was introduced to combat rising discounts threatening the profitability of motor insurers.

Over the past couple of years, the pandemic, digitalisation and changing consumer attitudes have worked together to usher in a new era for the motor insurance industry. We look at the impact on motor tariffs and some performance indicators of this ever-changing external landscape in the UAE - and discuss what direction the market may take.

Tariffs

In the face of falling tariffs, the Insurance Authority imposed new minimum and maximum tariffs in 2017 as part of the unified motor policy that led to a surge in average premiums charged for both comprehensive and third-party segments. However, the increase in premiums was not sustained beyond 2017 as competition forced rates to fall in the years leading up to the onset of the pandemic. Between 4Q2016 and 2Q2021, the average tariffs for both comprehensive and third-party segments fell by 40%. A graph for the comprehensive segment has been presented here but trends for both segments are similar.



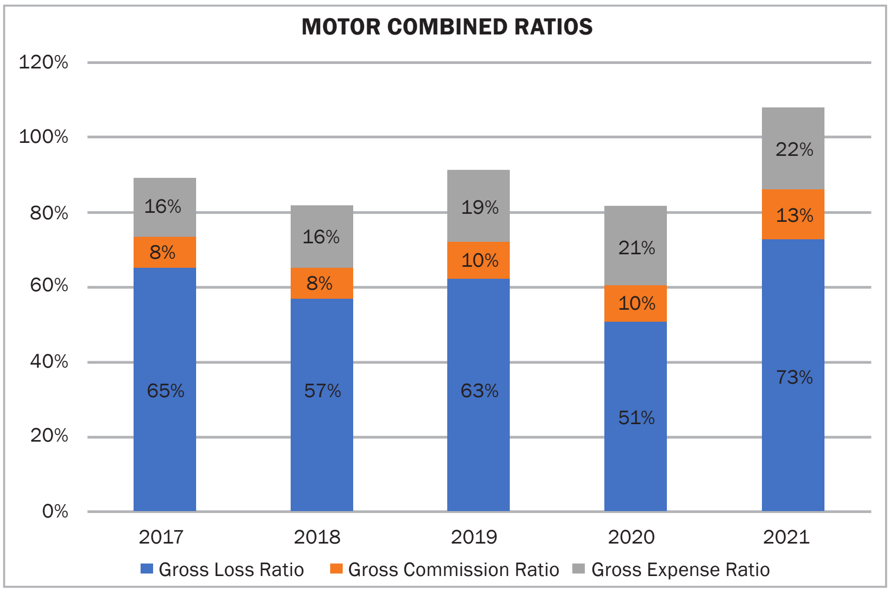
The pandemic prompted lockdowns and with that came discounts to encourage sales and the period saw even sharper drops in premiums that continued into 2021. Despite the restoration to pre-pandemic mobility levels, 2021 saw the highest proportion (~40%) of vehicles falling in the range of 40%-50% discount compared to previous years.

The pandemic-ridden quarters were also accompanied by falling claims alongside lower tariffs. The exposure remained relatively consistent leading to falling burning cost during 2020. Burning cost started rising again after 1Q2021 as lockdowns were lifted and the economy opened up leading to soaring claims costs.

Performance analysis

As insurers responded to the changing regulatory and economic landscape by altering tariffs, their reverberations were observed in the loss and combined ratios.

An analysis of the UAE market's combined ratios from 2017 to 2021 for the motor segment reveals fluctuation over the years. Loss ratios first started falling in 2017 as premiums increased in response to the unified motor policy. This period was impacted by stricter implementation of traffic laws through police fines, traffic cameras and other technology which led



to a decrease in the number of road accidents. The minimum tariffs as per regulation were not sustained in 2018 and 2019 but the increased awareness of road safety played its part in maintaining the loss ratios at a lower rate.

The year 2020 witnessed the lowest loss ratios over the five-year period from 2017 to 2021. Due to reduced mobility during pandemic-induced lockdowns, loss ratios fell considerably. The impact was most profound in the second quarter of 2020 as the pandemic was at its peak and loss ratios reached levels as low as 34% overall for the motor segment.

Last year saw a return to pre-COVID levels – loss ratios in 2021 appear to have increased well beyond pre-COVID levels with the lifting of lockdowns and resumption of normal traffic levels.

A similar increasing trend in loss ratios has also been observed for other markets in the region. Based on analysis derived from some Saudi-based insurance companies, loss ratios in 2021 have increased by 20 percentage points since 2020 & by 12 percentage points since 2017 and are higher than the levels seen before COVID-19. Combined ratios indicate unprofitable motor portfolios and appear to lie in the same range as UAE for 2021.

Commissions are another area of interest in this segment. With the changes in consumer behaviour brought about by digitalisation, the market has also been ripe for changes in distribution channels. While brokers remain the primary insurance intermediaries in this region with at least half of the market, the mode of distribution for brokers has also experienced shifts with either the advent of online portals or tie ups with aggregators. This impacts commission rates.

While digitalisation is expected to increase cost efficiency, its impact on commission rates is not straightforward. In the case of the UAE market, motor commission rates are on the rise. One reason for the latter is the fact that aggregators have to make sales through licensed brokers, so the commission rates include a share for both. Another reason, as revealed by market sources, is that a share of the higher commissions is being returned as rebates to customers.

Looking ahead

While analysts and commentators are fond of claiming that numbers are returning to pre-COVID levels, the insurance landscape has been disrupted entirely by COVID-19. The digitalisation that was expected to manifest at least a decade from now has been fast tracked by COVID-19. Consumers who spent a year amidst lockdowns and grew accustomed to shopping online are also more open to buying insurance online now. The latter has led to a growing need for aggregators. Currently, over 15% of insurance is sold through aggregators and of this, around 90% is motor insurance.

With information about a myriad of insurance products available via aggregators, average consumers are becoming more aware of their insurance needs so insurance companies need to be prepared for more intelligent consumers.

The current outlook of the motor insurance market looks dismal with consistently falling tariffs and thinning margins. Loss ratios are higher than they have ever been, and this trend is likely to continue unless a concerted effort by all stakeholders, primarily insurance companies and regulators, compels premiums to rise to sustainable levels.

Mr Omar Khan is AIA ASA – manager and Ms Mahnoor Mir is senior actuarial analyst at Badri Management Consultancy.