Economic revival will drive non-life segment

Dubai's non-life insurance industry is expected to revive from the rebound in the economy, renewed business confidence and a growing and more affluent population.

By Jimmy John

One of the greatest impacts on Dubai's non-life insurance industry came from falling motor rates during the pandemic which became problematic when traffic levels went back up.

Badri Management Consultancy managing director Hatim Maskawala said that this has led to high losses across the sector, which resulted in the profits of listed insurance companies falling from AED1.2bn ($327m) in 1H2021 to AED0.8bn in 1H2022.


Mr Hatim Maskawala

Emirates Insurance Company CEO Jason Light said that the company has seen significant challenges to underwriting profitability across the market, particularly in motor.


Mr Jason Light

"Motor insurance has seen major price falls across all segments as the market adjusted to a post-COVID world of weakening price tariffs, a return to previous traffic levels and thus accident rates as well as repair costs increasing due to global supply chain challenges," he said.

Mr Light said that 2021 was an encouraging investment year for most insurers, which, to some extent, made up for the underwriting shortfall.

"Unfortunately, global investment markets are now performing much more poorly and in 2022 we have a rare combination of both underwriting and investment challenges," he said.

Lessons from the pandemic

Mr Light said that before March 2020, nobody would have anticipated the resilience shown by the industry and the relative success of working from home with all the logistical and IT issues that it would present.

"In our business, and many others, we demonstrated that business is possible in almost any conditions," he said.

Mr Maskawala said that the market has seen an increase in M&A activity with some deals finally going through. "Watania, Noor Takaful and Dar Al Takaful are now one group. Salama and Takaful Emarat have announced a merger and Aman has announced it will sell part of its portfolio to them and stop writing new business," he said.

At the same time, there were companies winding up operations in the market, including RSA and AXA.

"All these changes can be perceived to be an indication of the lower profitability of the sector," said Mr Maskawala.

Mr Light said that the UAE cannot be insulated from the effects of real volatility in the global economy and inflation is a concern in a way that it has not been in decades.

"The industry will need to adjust quickly to a new reserving pattern given how 'baked in' inflation seems to be already," he said.

As an oil-based economy, the UAE has a lot of upside potential even in

difficult times.

"It is clear that the economy is growing well and has revived from the COVID setbacks and unlike in many past economic crises, our domestic clients are doing quite well," he said.

From a reinsurance standpoint, Mr Light said that the market is continuing to harden, largely because of factors that are outside the Middle East, which include poor global CAT performance over the last couple of years with hurricane Ian being the largest and most recent event plus the effects of Russia president Vladimir Putin's invasion of Ukraine on many speciality markets.

"This suggests that reinsurance pricing, even in MENA, will trend upwards over the next year," he said. He said that there will be an upwards effect on pricing where that reinsurance capacity is needed in the property and speciality class.

Regulatory issues

On the regulatory front, Mr Maskawala said that there needs to be stricter implementation of solvency regulations and technical pricing.

"Currently we have companies that are below the required solvency levels, issuing policies at low rates for cashflow. This cashflow-driven underwriting poses a systemic risk to the industry and needs to be curtailed," he said.

Mr Light is of the opinion that the regulator should offer a clear vision of how it sees the industry developing over the next few years.

"Other GCC countries have increased capital requirements to weed out the weaker players and insurers are also required to justify the prices they charge from an actuarial standpoint, especially in classes like motor," he said.

He said that the market regulator in the UAE must also follow some of these principles.

Demographic changes to fuel growth

Mr Light said that the non-life industry in Dubai has a great future.

"The greatest driver of insurance demand is a large population, which will also be an increasingly sophisticated and wealthy one. This, combined with intelligent regulation, will make for a stronger and larger sector," he said.

Mr Maskawala is also hopeful that the situation in the non-life industry will improve, especially with an increase in motor rates, as he feels companies and shareholders are tired of burning capital.

"IFRS17 implementations will be a challenge in the short term but bring in more transparency in the financial results in the long term," he said.