June 7, 2012

MENA Insurers and Reinsurers Show Resilience Despite Regional Developments

Ratings Have Held Steady After the Arab Spring.

Insurers and reinsurers in the Middle East and North Africa (MENA) region have shown resilience in the past year, with all A.M. Best-rated entities continuing to maintain secure ratings.

Analysis of the distribution of ratings over the past 12 months shows that despite the continuing uncertainty in MENA territories after the Arab Spring of 2011, there has been no dramatic downward shift in ratings. This is based on A.M. Best's ratings of insurers and reinsurers in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, Turkey and the United Arab Emirates (UAE).

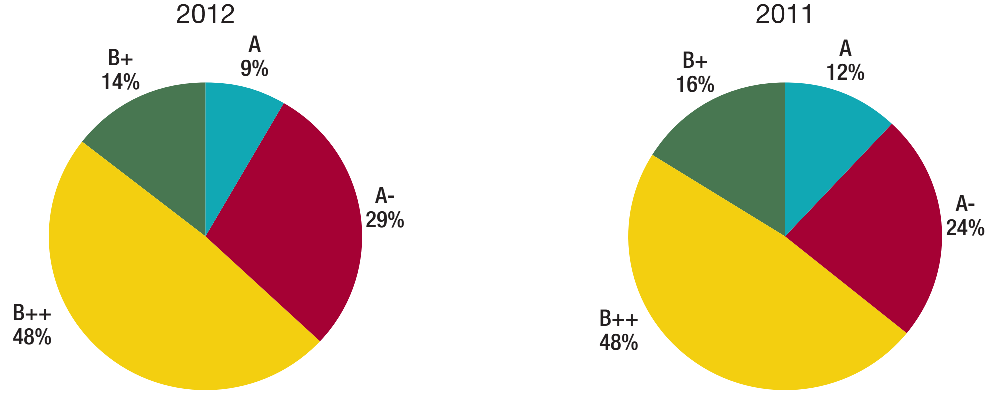
Exhibits 1 and **2** show that on May 31, 2012 and May 31, 2011, all companies had "Secure" Best's Ratings (i.e., Financial Strength Rating [FSR] of B+ or higher, which corresponds to an Issuer Credit Rating [ICR] of bbb- or higher). No company achieved the highest FSRs of A++ or A+, equating to ICRs of aaa, aa+, aa or aa-, which is unsurprising, given that these countries' insurance markets are in relatively early stages of development.

During the past 12 months, the number of A.M. Best-rated entities in MENA territories has grown significantly, from 25 (re)insurers to 35, representing a 40% increase. The percentage of companies with an FSR of A fell from 12% on May 31, 2011, to 9% a year later, although in absolute terms it remained constant. In both years, three companies have maintained this rating – Abu Dhabi National Insurance Co., Arab Orient Insurance Co. and Oman Insurance Co., which are all domiciled in the UAE.

In general, FSRs and ICRs have remained unchanged over the 12-month period, indicative of the challenging operating environment stemming from the global slowdown of financial markets and the Arab Spring. However, outlooks on some companies have been revised downward to stable or negative.

Exhibit 1

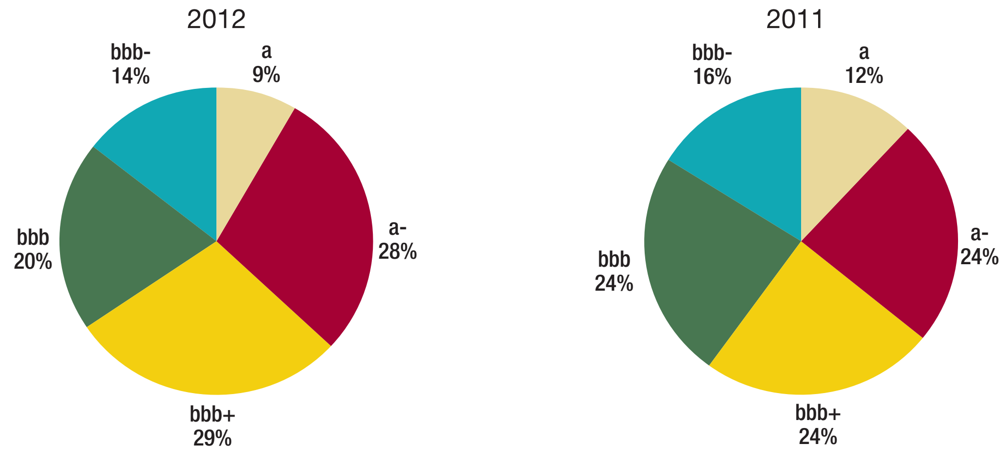
Middle East & North Africa – Best's Financial Strength Ratings Distribution (2011-2012)



Source: A.M. Best Co.

Researcher & Writer
Yvette Essen

Exhibit 2
Middle East & North Africa – Best's Issuer Credit Ratings Distribution (2011-2012)



Source: A.M. Best Co.

Exhibit 3 shows that the FSR outlook for MENA insurers and reinsurers is broadly stable (for 80% of rated companies), although there is a heavier weighting toward negative outlooks (14%) than positive (6%). In general, rated companies are more than adequately capitalised to face market challenges and absorb market deficiencies to a certain level.

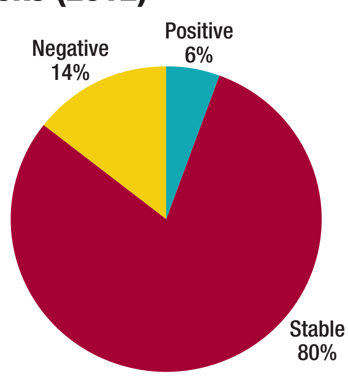
A.M. Best's MENA Country Risks Tiers

A.M. Best's country risk criteria entail an evaluation of economic, political and financial-system risks. Countries fall into one of five tiers, ranging from Country Risk Tier 1 (CRT-1), denoting a stable environment with the least amount of risk, to Country Risk Tier 5 (CRT-5) for countries that pose the most risk and the greatest challenge to an insurer's financial stability, strength and performance. CRTs do not act as a cap on a rating.

Exhibit 4 shows that countries within the Gulf Cooperation Council (GCC) – the UAE, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait – all continue to have an A.M. Best CRT-3. Compared with other emerging market economies, this is at the higher end of the scale

In the past year, Egypt – which in February 2011 experienced social unrest

Exhibit 3
Middle East & North Africa – A.M. Best Financial Strength Rating Outlooks (2012)



Source: A.M. Best Co.

Exhibit 4
Middle East & North Africa – Country Risk Tiers

Country	Country Risk Tier
Bahrain	CRT-3
Kuwait	CRT-3
Oman	CRT-3
Qatar	CRT-3
Saudi Arabia	CRT-3
United Arab Emirates	CRT-3
Jordan	CRT-4
Morocco	CRT-4
Tunisia	CRT-4
Turkey	CRT-4
Algeria	CRT-5
Egypt	CRT-5
Lebanon	CRT-5
Libya	CRT-5

Source: A.M. Best Co.

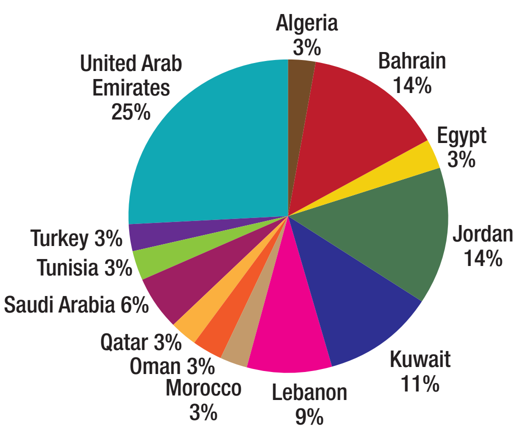
resulting in long-serving president Hosni Mubarak being removed from office – has fallen one tier, from CRT-4 to CRT-5. A.M. Best expects political uncertainty associated with the revolution and the building of a new political system to weigh heavily on the Egyptian economy in 2012.

Last year, A.M. Best analysed the economic impact of the Arab Spring protests and the implications on country risk assessments and medium-term projections of premium growth in the MENA countries. Details can be found in the special report *Middle East & North Africa – Country Risk Issue Review*, published Nov. 28, 2011, and the Best's Briefing *Rating Implications of Recent Unrest in the MENA Region,* published March 3, 2011.

Increased Ratings Demand

Insurance markets in certain countries are evolving quickly, and regulatory pressures are mounting in countries such as Saudi Arabia and Kuwait for companies to consider being rated.

Exhibit 5
Middle East & North Africa – A.M. Best Ratings Distribution by Country (2012)



Source: A.M. Best Co.

For example, there are minimum FSR ratings for local and foreign reinsurers used by Saudi insurance companies (See A.M. Best's special report *Saudi Arabia – Market Review,* published March 12, 2012). In the past 12 months, A.M. Best has published ratings in Saudi Arabia for the first time for Arabia Insurance Cooperative and Trade Union Cooperative Insurance Co. Ratings in Saudi Arabia now represent 6% of A.M. Best's ratings in the MENA region (see **Exhibit 5**). The UAE continues to represent the majority of ratings, with nine rated companies, representing 26% of A.M. Best rated companies in the MENA region.

While some companies have obtained initial ratings, others have sought ratings for their subsidiaries. A number of the newly rated entities are affiliated with insurers that have already been rated. For example, Gulf Insurance Co. in Kuwait majority owns the recently rated Bahrain Kuwait Insurance Co. (domiciled in Bahrain), Arab Misr Insurance Group (Egypt) and Gulf Life Insurance (Kuwait). Arabia Insurance is the main shareholder of General Arabia Insurance Co. (Jordan) and Arabia Insurance Cooperative (Saudi Arabia).

All of the companies that A.M. Best has rated for the first time in the past 12 months have been direct insurers. Direct insurers may be following the lead of regional reinsurers, most of which have sought third-party opinions of their financial strength. Furthermore, primary insurers' pursuit of ratings is driven by factors such as the increasing use of brokers providing access to large commercial projects; regulatory requirements; and the desire to gain a competitive advantage in fragmented markets.

Furthermore, few reinsurance companies have been formed in the past few years. This contrasts with 2008, when there were several new reinsurance start-ups in the MENA region as opportunities in the market attracted new entrants.

A.M. Best's special report *Middle East & North Africa – Reinsurance Market Review* (published Sept. 26, 2011) stated that opportunities that were first apparent for reinsurers have not quite materialised, with start-ups finding it difficult to achieve their initial business plans. This was in part a consequence of the changing economic environment, as well as intense competition among reinsurers, including those based elsewhere.

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