

Robust Lebanese Insurance Sector despite Economic and Political Challenges



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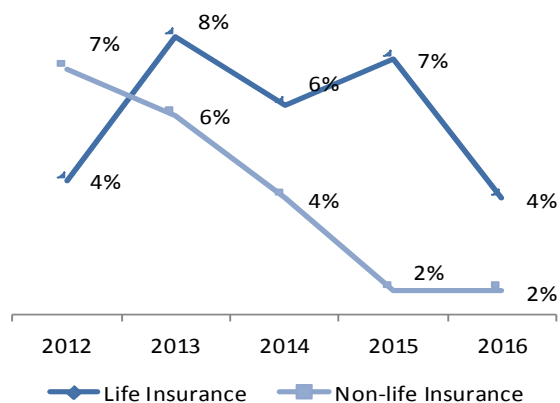
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Evolution of Life and Non-life Insurance



Source: ACAL

Top 10 Companies in Terms of Insurance Premiums

Company Name	Total Premiums in 2016 (\$M)
ALLIANZ SNA	131.1
METLIFE	122.63
BANKERS	117.53
MEDGULF	115.83
LIA	105.79
AROPE	98.92
AXA ME	96.85
LIBANO SUISSE	80.70
BANCASSURANCE	76.03
FIDELITY	73.02

Source: Al- Bayan Magazine

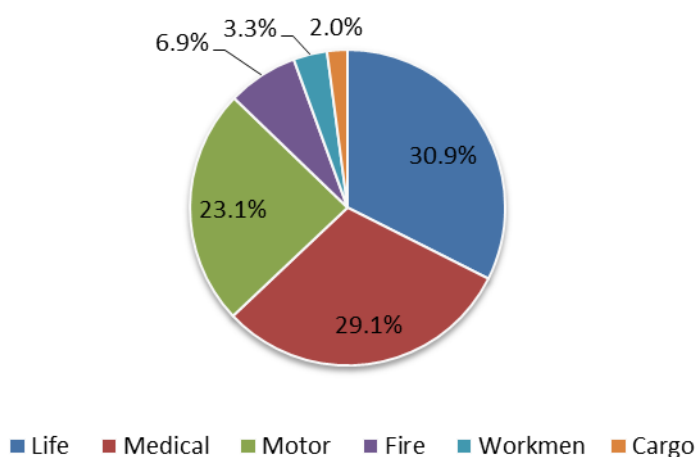
As one of the most competitive economic sectors in Lebanon, the insurance sector has been posting profits, challenging the country's both economic and political conditions. In fact, the insurance market in Lebanon is characterized by its small size and competitive landscape with over 50 companies, including several international and regional businesses. New entrants cannot make it easily due to solvency requirements and an already crowded marketplace. However, the sector is still suffering from an unclear regulatory frame with several laws held at the legislative level reducing the industry's effectiveness.

The market players are competing essentially on prices, hence hindering the innovation and differentiation in insurance services as well as leading to thinner margins and lower capabilities to invest in sustainable growth. Moreover, the pricing war is affecting the growth potential as the market is focusing on a number of lines that have been historically popular or compulsory.

Lebanon is well positioned in terms of insurance penetration, where it ranked 42nd globally and 1st in the MENA region in 2015, according to the latest report published by Swiss Re, a leading global reinsurer. Lebanon's insurance sector outperformed its peers in Bahrain (51st), UAE (54th), and Jordan (59th). Moreover, the country's 2015 market penetration rate was estimated by Swiss Re at 3.42% of the Gross Domestic Product (GDP) standing higher than 2014's figure of 3.3%. In details, 2015 insurance penetration rate for non-life business was 2.40%, while that of the life segment grasped the remaining 1.02%.

Although the regional spillovers and economic challenges had their impact on Lebanon, the insurance sector continued to register a decent growth. According to ACAL, total premiums rose by an annual 3% in each of 2015 and 2016. Premiums reached \$1.56B by 2016 compared to \$1.52B in 2015. In addition, the Business Monitor International (BMI) expects a 3.8% increase in total life premiums to attain \$487M and a 6.8% rise in overall non-life premiums to \$1.17B by the end of 2017. On the claims level, total indemnities paid to beneficiaries reached \$880.82M, jumping by 7% in 2016 compared to the same period in 2015.

Breakdown of Insurance Premiums in 2016



Source: ACAL

Life Insurance: Gaining Ground in Premiums

Moreover, despite the fact that life insurance isn't a legal requirement as motor and medical insurance, the growing awareness for saving and protection among the population steered the growth in life insurance premiums. In truth, life insurance's share of total premiums increased from 29.3% in 2014 to 30.4% in 2015 and 30.9% in 2016. Moreover, Lebanon ranks among the top countries in terms of life insurance share of total premiums in 2016 among the MENA region.

According to ACAL statistics, total premiums for life insurance increased by 4% y-o-y to reach \$481M during 2016, with 81.1% of contracts relating to life protection but contributing to 38% only of total value. Meanwhile, the remaining 18.9% of agreements came from savings insurance, constituting 62% of total life premiums.

According to Al-Bayan Magazine, the top life insurers, METLIFE ranked first with \$87M in life premiums and was followed by BANCASSURANCE in the second place with \$76M. Allianz tracked with \$68M of life premiums, while ADIR and LIA ranked fourth and fifth with respective \$45M and \$44M. AROPE insurance ranked 6th with \$99M.

Non-life Insurance: Slacking Growth

As for the non-life sector, it kept on showing strength yet at a decelerating rate in the past few years. The non-life insurance businesses showed a 2% yearly improvement during the year 2016, representing 69.1% of total premiums compared to 69.6% in 2015, with medical insurance and motor insurance leading sub-sectors.

Medical insurance, which accounts for 42.1% of the non-life sector and 29.1% of the total sector, witnessed growths in both premiums and claims partly on the back of the healthcare cost inflation as well as the demographics of the population. In fact, average prices for health rose by a yearly 0.40% in 2016 when compared to the previous year. In parallel, premiums reached \$440.74M million in 2016, rising by an annual 3%, resulting of respective 11.0% and 5% yearly increases in medical premiums for residents and expatriates.

The motor insurance sector remained resilient despite the fall in the number of new registered cars as well as the change in consumers' preferences. In fact, the tough economic conditions have led consumers to shift into compact, low price cars, according to new cars' importers. However, the 4% rise in the motor insurance premiums can be partly justified by an increasing demand for used cars, which require a higher insurance rate. The growth in the mentioned line of business can be mainly attributed to the 3% rise in non-compulsory motor premiums, accounting for 82% of total motor premiums to \$297.33M and compulsory premiums which rose by an annual 5% to \$63.48M. As for claims, total paid claims for 2016 rose 10% to \$199.81M contributing to 27.6% of total claims in the sector, the second highest contribution after medical insurance in the non-life sector.

As for the remaining sub-categories of non-life insurance, the economy's sluggish performance weighed down on their premiums. Fire insurance, grasping 10% of the nonlife market share, was the best performer but with a marginal decline of 1% in premiums in the year 2016. Workmen insurance witnessed no change in premiums yet a 7% rise in total paid claims to \$32.12M. As for cargo insurance, it recorded an 11% plunge in premiums; nonetheless, the number of issued contracts grew by 3% on the back of higher trade value and volume in 2016.

MEDGULF maintained its leading position and topped the list of non-life insurers in 2016 with approximately \$103M worth of non-life premiums and was tracked by BANKERS in the second place with \$100M. AXA ME came third with total non-life premiums of \$81M, while LIBANO SUISSE and FIDELITY ranked fourth and fifth with respective \$74M and \$68M.

On a different note, according to AROPE sources, the main challenges facing the insurance industry are mainly the global compliance regulations such as the FATCA and GATCA as well as the weak regulatory framework. In fact, it is believed that the laws do not respond to the modern market requirements and needs. However, to maintain its position in the market and compete with market players, AROPE's strategy is to increase its distribution channels and focus on innovative products.

Lebanon's insurance sector succeeded in defying the economic challenges the country has been facing. The industry still has several opportunities to grasp, especially in the health and life segments.

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