



Insurance Follows Banking in Growth

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Lebanon's insurance sector expanded by 8.1% in 2009 attributable to the rise in non-life premiums

Non-life premiums account for 75% and grew by 22% compensating for a drop in life insurance premiums

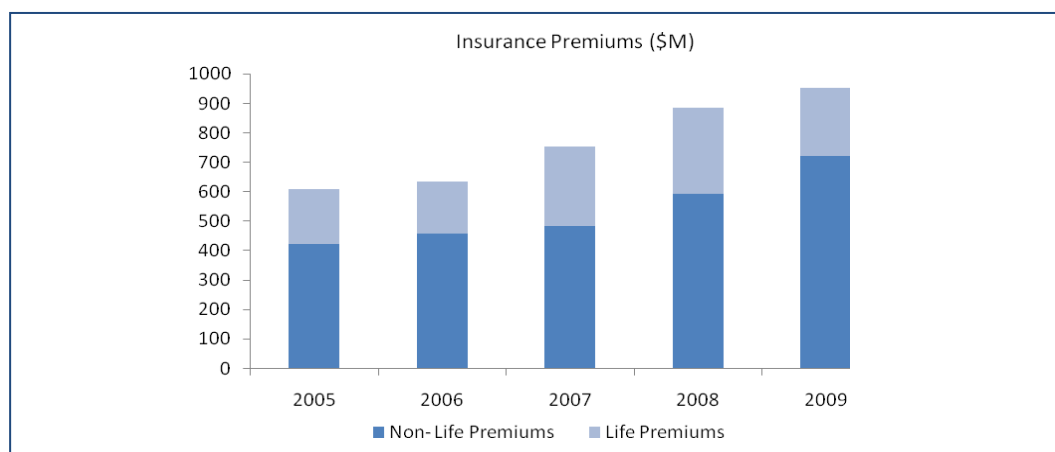
Lebanon's insurance penetration rate at 3.1% of GDP is highest in MENA but market size still lags behind U.A.E. and Saudi Arabia

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Source: CAS

Both banking and insurance sectors in Lebanon played a major role in the recovery of the domestic economy that suffered from a civil war and political instability in the past three decades. In fact, the insurance sector started to witness significant growth since the year 2007 backed by a relatively stable political situation that raised Lebanese citizen and foreign investors' confidence in the country. Worth pointing out that according to Lebanon's insurance association, ACAL, there are 54 international and local insurers operating in Lebanon, with AIG acting as the major international player in the market.

In terms of growth, the insurance sector in Lebanon, similar to the banking sector, defied the odds and managed to weather the financial crisis that hit the world in 2008, by recording significant growth between 2008 and 2009. According to a study released by Swiss Re. Lebanon's insurance sector, measured by total premiums, expanded by 8.1% in 2009 in line with the growth in the local economy to reach \$952M. This value was lower than the \$1,076M worth of premiums forecasted by Business Monitor International (BMI) at end of December 2009. The latter expects total premiums to attain \$1,616M in 2013 and grow at a compounded annual rate (CAGR) of 11% by that year. Nevertheless, the aforementioned forecast is subject to adjustments as the Business Monitor International missed its 2009 estimates. In fact, BMI forecasted a 22% increase in the life insurance premiums to \$351M while in reality they have declined following the bankruptcy of AIG during the global financial crisis end 2008, which had a major impact on the abovementioned segment in Lebanon.

The progress in the insurance sector last year was mainly attributable to the rise in non-life premiums that largely offset the decline in the life premium segment. In fine points, non-life premiums, which account for the large portion of premiums with a stake of 75.6%, advanced on a yearly basis by 22% to attain \$720M in 2009 after a 23% increase in 2008. This increase compensated the 20% fall in the life insurance segment that reached \$232M in 2009, well below the \$351M estimated by BMI.

With respect to market penetration rate that measures total premiums as a percentage of Gross Domestic Product (GDP), Lebanon's insurance penetration rate hit 3.1% in 2009 slightly up from 3% in 2008. In more details insurance penetration rate for non-life business was 2.3% last year, while the life segment business seized the remaining 0.8%. In terms of insurance density characterized as total premiums per capita, it reached \$225.5 in 2009 relative to \$215.7 in 2008.

On a comparative scale, the market size of the Lebanese insurance sector remains relatively small compared to other regional countries, as it accounted for 5% of the MENA region in 2009, versus 27.6% for the UAE and 21% for Saudi Arabia. Nevertheless, Lebanon maintained its first place in the MENA region for the fifth consecutive year in terms of insurance penetration rate, and ranked 48th worldwide, ahead of the UAE (ranked 55) and Qatar (ranked 83), according to the "World Insurance in 2009" report published by Swiss Re. This indicates that the insurance sector in Lebanon is at a more mature state compared to the region. Moreover, in terms of insurance density, Lebanon is well positioned among the MENA countries (ranked 4th) and capturing the 51st place globally, behind Qatar (ranked 38th globally) and ahead of Oman (ranked 52nd globally). Nevertheless, Lebanon's insurance sector ranked 64th globally in terms of total premiums, and 4th in the MENA region, lagging behind the UAE (45th) and Saudi Arabia (48th) and ahead of Qatar (72nd) and Jordan (84th).

Finally, what characterizes the insurance sector in Lebanon compared to the MENA region is its liberal regulatory environment supported by the country's open market economy, a sign of sector overall development and future growth. Furthermore, although new regulations were set lately to modernize and develop the insurance sector in the country i.e. requirement of capital increase, the size of the sector remains small compared to the region and vulnerable to political shocks.

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