World Bank Technical Note: The Insurance Sector: A Market & Risk Based Review

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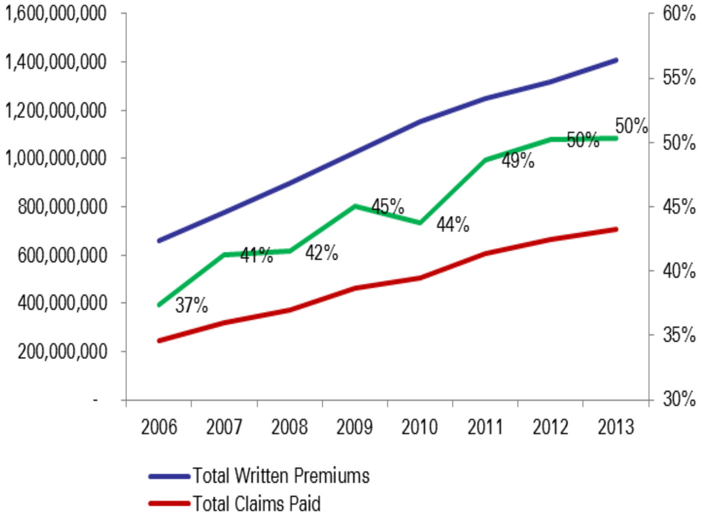
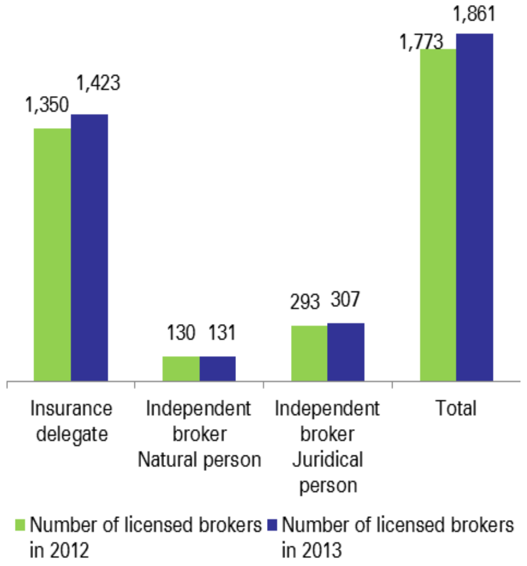
Historical Premiums and Claims



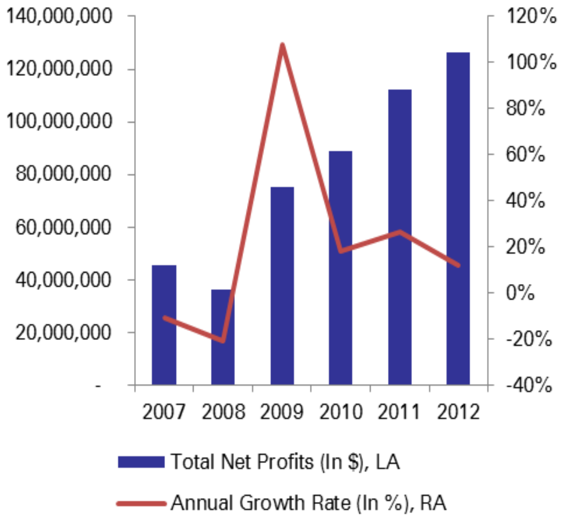
Source: Insurance Control Commission (ICC)

Number of Licensed Brokers 2012 – 2013



Source: Insurance Control Commission (ICC)

Total Net Profits of the Insurance Sector



In a technical note entitled "The Insurance Sector: A Market & Risk Based Review", the World Bank scrolls through the main features of the Lebanese insurance sector to finally identify key challenges and recommendations for success. The following reviews performance indicators in light of the World Bank's findings.

The sector is not quite in a nascent or mature state but rather in a developing stage with insurance penetration [1] and insurance density [2] standing at 3.2% and $355 in 2013 up from 2.89% and $301 in 2012, respectively. The Lebanese insurance sector is one of the strongest in the region[3], despite the gap that remains when its performance is benchmarked against fully developed markets. Data from 2012 shows that the Lebanese insurance sector recorded a double digit growth of 15.99% in both life and non-life premiums, outperforming Cyprus' 15.29%, Egypt's 11.51%, Jordan's 9.75% and Morocco's 7.90%.

In 2013, total gross written premiums increased by 9% year-on-year to $1.42B but were outpaced by the 11% annual growth in total indemnities paid to $733.7M. Accordingly, the ratio of total indemnities paid to total gross written premiums reached 52% in 2013 compared to 51% in 2012.

2013 figures are consistent with the World Bank's observation stating that growth in the sector remains driven by the non-life segment. In 2013 and out of 52 licensed insurance companies, only 5 strictly offer life insurance as opposed to 16 for non-life services and 31 for mixed services. The non-life segment represented 70.8% of total written premiums in 2013 while life insurance contributed to only 29% of total premiums. As for medical and motor insurance, they each contributed to 29% and 23.9% of total premiums, respectively. Similarly life insurance represented 22% of total claims while medical and motor each represented 40% and 25.7%, respectively.

In fact, there has been a notable rise in motor and medical insurance products. The World Bank states that in an attempt to bring in more premiums, the insurers are promoting new motor products offering more comprehensive protection and sold as multiyear single premium products on cars purchased with loans. Both motor and medical insurance have witnessed increased utilization especially since they entail less need for reinsurance and have relatively easy and manageable risk profiles.

According to the World Bank, the insurers have focused on simpler risk products in recent years (Medical, Life, and Motor) which make the market reactive rather than innovative, meeting demand rather than creating a fresh one. Yet, this "safe approach" has allowed the market to sustain a stable growth.

Although growth in the non-life segment is substantial, there exists more room for development particularly in compulsory insurance. The World Bank found that there is interest in adding more obligatory insurances other than motor and workers' compensation insurance for foreign workers. In their latest newsletter, ACAL noted that based on a proposal by the National Bureau for Compulsory Insurance, efforts will soon be poured in order to implement and structure compulsory motor insurance against material damages.

Since 2003 until today, the motor compulsory policy only included coverage for bodily injury. In 2012, the new traffic law stated that aside from coverage against bodily injury, the motor compulsory policy will include coverage for material damage. The issue is that while the law has been passed, no implementation mechanism was put in place. When implementation is due, insurance companies will have to revise and adjust their pricing structure.

For now, ACAL's Q4 2013 figures marked a reversal in the compulsory line's year-to-date performance from a 9% downturn in the first nine months of the year to a growth of 1% for the full year. Motor premiums for compulsory coverage were reported at $18.7M in Q4 2013, the highest quarterly underwriting in compulsory motor insurance in eight quarters.

According to ACAL, premiums for the fire line of business received a positive boost given the implementation of the government mandate for all industrial establishments to be endowed with a fire policy. In fact, total fire premiums exceeded $102M in 2013.

[1] Insurance Penetration: Total insurance premiums in percentage of GDP
[2] Insurance Density: Total insurance premium over total population
[3] Mainly the region composed of the Arab Forum of Insurance Regulatory Commissions (AFIRC)

On the downside, the challenging operating environment in 2013 adversely affected construction and development sectors which in turn weakened related insurance business lines. Engineering premiums declined by 6% in 2013 to reach $10.5M, the only sector to have posted a downturn during the year.

On a broader note, although collected premiums did not match the double-digit growth rates recorded in the period 2007-2010, the Lebanese insurance sector pulled through a tough year with a solid performance across the board.

Future Prospects and World Bank Recommendations

According to the World Bank, measures of competition such as the Herfindahl Index[4] point to a low concentration of insurance firms in Lebanon and thus to intense levels of competition. The low concentration of firms is due to the nature of the insurers' operations and ownership (mainly small family owned insurers). An environment with low concentration usually implies low profitability and price-wars which can undermine the financial stability of the sector.

Therefore, sector participants are in favor of reducing the number of insurers. However, there seems to be little consensus over the adequate number of companies, ranging from 10 to 35 according to data collected by the World Bank. The idea of consolidation is present on the market but has not yet occurred in Lebanon.

Lowering the number of insurance companies might not be the only way to promote further development in the sector. Amending the insurance law and modernizing it in order to adopt a more risk based approach and providing proportionality in regulation and supervision is likely to offer the sector a path forward.

The World Bank identifies several gateways to success for the Lebanese insurance sector: Developing new products, entering new markets, adopting new regulations tailored proportionally to the needs of small and large insurers as well as implementing investment and operational risk rules consistent with the nature, scale and complexity of insurers. Once risk regulations take into account the breakdown between small and large insurers, insurers with a simple business model can carry on with the same system without hindering the course of action for insurers seeking more complex risk. Finally, enhancing technical skills and improving the understanding of price related data for current and future products can take the sector to another level.

While the World Bank regarded low insurance awareness as a major setback to the sector's development it also states that the development of the Bancassurance model has improved insurance awareness and extended insurance's reach into the less served areas outside the capital Beirut. Several distribution channels are used including agents, brokers, direct sales and bancassurance. Distribution is concentrated in the capital and Mount Lebanon but services such as Liban Post are allowing insurance services to reach other parts of the country. Brokers and agents need to be licensed under the insurance law but compliance and follow up is lacking due to limited resources.

Finally, all of these endeavors must be implemented in partnership with the government and the Insurance Control Commission (ICC) in order to refine the internal risk rating systems.

[4] Sum of the squared market shares of the largest companies on the market

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