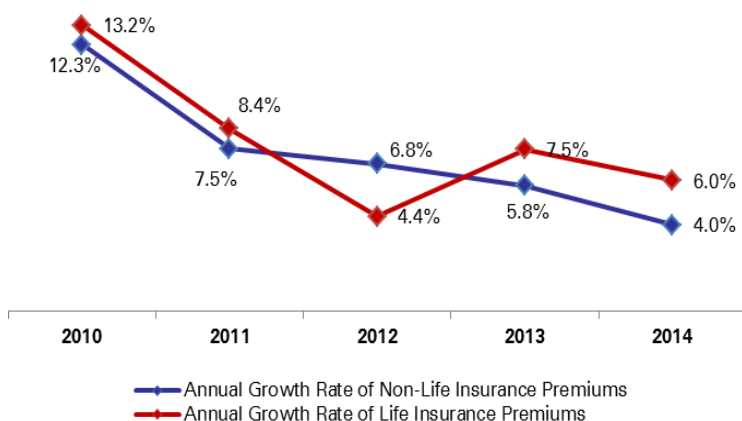


Lebanese Insurance Sector: Robust Performance in 2014 in the Face of Economic Slowdown



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Evolution of Life and Non-Life Insurance Premiums



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Source: Al Bayan Economic Magazine, ACAL

In our time, the term insurance is going beyond the simple definition of protection or guarantee for a particular loss in return for a specific premium. In fact, insurance proved its status as one of the rising industries with substantial economic contribution as global insurance penetration reached 6.28% of the world's Gross Domestic Product (GDP) in 2013. At the regional level, insurance penetration in the advanced Asian markets was the biggest at 11.55% of their GDP versus the slightest stake of 1.51% of the Middle East and Central Asia's combined GDP. However, the top 3 countries in terms of insurance penetration were: Taiwan (17.6% of GDP), South Africa (15.4% of GDP) and Hong Kong (13.2% of GDP). As for the lowest insurance penetration rates, Egypt, Nigeria and Kuwait posted the worst economic contributions of insurance to GDP at 0.7%, 0.6% and 0.5%, respectively.

Top 10 Companies in Terms of Total Insurance Premiums

Rank	Company	2014 Total Insurance Premiums (In \$M)	Yearly Growth Rate
1	MEDGULF	123.94	-3.0%
2	BANKERS	122.89	26.9%
3	ALLIANZ SNA	116.08	4.5%
4	AXA M.E.	109.25	5.3%
5	METLIFE	108.55	6.0%
6	AROPE	96.70	-3.1%
7	LIA	96.14	7.8%
8	LIBANO SUISSE	78.85	0.8%
9	FIDELITY	66.01	7.1%
10	BANCASSURANCE	60.56	11.8%

Source: Al Bayan Economic Magazine

When it comes to the Lebanese insurance sector, the 75-year-old industry managed to strengthen its standing over the time despite the ongoing political and security hurdles. In this context, the insurance penetration rate reached 3.2% of GDP in 2013 compared to 2.6% of GDP in 2003. However, Lebanon ranked 65th globally and 5th in the MENA region in terms of insurance penetration rate¹ compared to respective previous ranks of 48th and 2nd in 2012. This is mainly explained by the relatively higher progress of several countries of which Portugal, Ukraine and Philippines.

¹ According to the latest report published by Swiss Re (Sigma 3/2014 - World insurance in 2013)

Regarding insurance density², the Lebanese sector seemed to uphold its expansion path. Correspondingly, each resident almost spent \$341 in 2013 compared to \$302 in 2012. This reveals an improving population's awareness of the primordial need of insurance protection that used to be considered as a secondary necessity. The breakdown showed that 68% of that payment was destined to the non-life sector, while the remaining 32% were intended for the life business. It was noticeable that Switzerland stood first with an insurance density of \$7,701 per capita, which is almost 23 times the Lebanese density. Furthermore, Lebanon's insurance density ranked 50th globally and captured the 5th place among the MENA countries, just behind Bahrain (ranked 37th globally) and ahead of Kuwait (ranked 51st globally).

In absolute terms, the insurance industry performance improved in 2014 despite the ongoing developments on the political and security fronts. Accordingly, total insurance premiums (life and non-life) rose by 4.5% y-o-y to \$1.48B, almost threefold 2003's level of \$520M. Similarly, total indemnities increased 3.3% y-o-y to \$754.4M; while net investment income remained almost steady at \$125.5M in 2014, up from \$123.5M a year earlier.

The high degree of competitiveness that characterizes the Lebanese insurance sector endured in 2014. Noting that the sector counts over 50 companies with several international and regional businesses, numerous companies were adopting aggressive pricing strategies. Other companies were betting on their excellence in customer service, better interest rates for investment plans and loyalty programs. In 2014, MEDGULF grasped the lion share of 8.4% (or \$123.94M) of total insurance premiums followed by BANKERS and ALLIANZ SNA with shares of 8.3% and 7.8%, respectively.

Life insurance business³ is gaining more and more ground over time despite the continuous dominance of non-life premiums. In more details, 2013 insurance penetration rate for non-life business was 2.2%, while life segment grasped the remaining 1.0%. As for 2014, insurance premiums for the life segment added a yearly 6% to \$433.4M, while non-life premiums inched up 4% y-o-y to \$1.05B. Accordingly, non-life premiums almost constituted 70.7% of the total, while the life segment contributed to the remaining 29.3%.

Top 10 Companies in Terms of Life Insurance Premiums

Rank	Company	2014 Non-Life Insurance Premiums (In \$M)	Yearly Growth Rate
1	METLIFE	78.35	4.4%
2	BANCASSURANCE	60.56	11.8%
3	ALLIANZ SNA	58.15	4.5%
4	AROPE	41.10	-5.4%
5	LIA	40.32	-2.6%
6	ADIR	35.66	5.3%
7	SOGECAP LIBAN	28.75	8.3%
8	BANKERS	16.30	53.8%
9	CLA	13.19	13.1%
10	AXA M.E.	11.33	25.6%

Source: Al Bayan Economic Magazine

While life Insurance Activity Were Heading in the Right Direction during 2014...

Despite the existing cultural resistance, the social and financial factors, the growing awareness for savings' importance and future protection allowed the continuous steady progress of life insurance in Lebanon. This was represented by an increase in the number of licensed companies to carry-out life insurance operations under Lebanese Law to 34 establishments, of which 2 foreign entities. According to the Association of Insurance Companies in Lebanon (ACAL), total premiums for life insurance increased near 6% y-o-y to reach \$443.7M as at December 2014. This

² Insurance density is characterized as total premiums per capita (total premiums/population)

³ The concept of Life insurance concept consists on protecting the beneficiary's deteriorated financial situation following the death of the insured.

rise is partly attributed for life insurance standing as a major condition for banks to grant loans especially housing loans.

The concept of Bancassurance was majorly behind the progress of life insurance business during the last few years. In reality, several insurance companies are bank-owned which is giving them a competitive advantage on not bank-owned companies. In details, insurance entities can substantially benefit from the branches that are supplementary Point of Sales (POS) widening geographic sales scope. In addition, banks tend to force their customers to buy life insurance policies when granting some types of loans such as housing advances. Accordingly, Bancassurance products allowed customers to simplify the management of their financial needs on one hand, and fastened the companies' ability to promote their products and boost their insurance premiums on the other hand.

On a separate note, the top 3 insurance companies providing life insurance services in 2014 were respectively METLIFE (\$78.35M), BANCASSURANCE (\$60.56M) and ALLIANZ SNA (\$58.15M). Those 3 companies grasped 44.4% of total life premiums in 2014 with BANCASSURANCE revealing the biggest yearly increase among them at 11.8%.

...Non-life Premiums Grew at a Slowing Pace.

The upward trend kept on characterizing the non-life insurance business, yet at a slower pace. Several reasons were behind the sluggish performance of insurance companies mainly the Arab Spring that emerged in 2011 and its spillovers on the local scene. In addition, the retreating construction activity during the past 5 years and the ongoing rise in insurance premiums pushed non-wealthy customers to downgrade their medical insurance or refrain from renewing the existing insurance contracts. Furthermore, the fierce competition in the market from illegal local and foreign insurers also hindered the sector's performance in 2014.

Top 10 Companies in Terms of Non-Life Insurance Premiums

Rank	Company	2014 Non-Life Insurance Premiums (In \$M)	Yearly Growth Rate
1	MEDGULF	114.44	-1.1%
2	BANKERS	106.59	23.6%
3	AXA M.E.	97.92	3.3%
4	LIBANO SUISSE	72.35	0.2%
5	FIDELITY	60.63	7.4%
6	ALLIANZ SNA	57.93	4.5%
7	LIA	55.82	16.8%
8	AROPE	55.60	-1.2%
9	ALMASHREK	38.30	-0.1%
10	METLIFE ALICO (NON LIFE)	30.20	10.5%

Source: Al Bayan Economic Magazine

In fact, insurance companies in Lebanon recorded a 4% yearly growth in the number of non-life insurance premiums during 2014. However, and even though the value of non-life insurance premiums stood at \$1.05B in 2014 and knocked out the \$1.00B mark for the first time in their history, yet the annual progress kept on retreating. In fact, 2014's growth rate was the slowest in the last 5 years mainly after 2010, when the value of non-life insurance premiums edged up by 12.3% y-o-y.

As for the breakdown in terms of value of non-life insurance premiums, the top 3 companies were respectively MEDGULF (\$114.44M), BANKERS (\$106.59M) and AXA M.E (\$97.92M). Worth mentioning that the top 10 companies in terms of non-life insurance premiums grasped almost 66.7% of total market value given that the total number of companies is 45. As for 2014's best performers, they were LIBERTY (+43.2% y-o-y), ALIG (+26.1% y-o-y) and CUMBERLAND (+25.2%). The report also disclosed that the worst performers in 2014 were AL BAHRIYA (-24.7%), UNION NATIONALE (-19.1%) and SECURITE (-16.7%).

Medical insurance, which almost accounts for 41.9% of the non-life sector and 29.7% of the total sector, witnessed growths in both premiums and claims. Accordingly, premiums reached

\$438.87M by 2014, rising by an annual 6%, and resulting of respective 6.0% and 3.0% respective annual increases in premiums of medical and expatriates' accounts. In addition, medical insurance took up to 53.6% of total claims by the end of 2014 to \$306.28M.

Motor insurance in Lebanon rose by 3% y-o-y to settle at \$347.85M or 33.3% of the non-life business and 23.5% of the total insurance sector. The growth in the mentioned line of business was mainly attributable to the rise in motor non-compulsory premiums (accounting for 75.0% of total motor premiums) by 2% y-o-y to \$287.72M that outpaced the 9% yearly jump in the compulsory segment to \$61.14M. As for claims, total paid claims up to December 2014 slipped 1% to \$185.85M.

As for the remaining sub-categories of non-life insurance premiums, they mostly revealed a positive growth, yet with diverse trends for their claims. Fire insurance, the best performer amongst the sub-divisions, revealed an 8% annual progress to \$110.43M (or 10.5% of total non-life premiums and 1.7% of total insurance premiums) along with a 40% slump in claims to \$25.75M. As for workmen insurance, a 2% yearly rise in premiums was noted to \$40.85M hand in hand with a 13% y-o-y jump in claims to \$26.04M. Cargo insurance premiums steadied at \$35.76M with a 16% increase in claims to \$9.39M, while engineering insurance premiums fell 26% y-o-y to \$7.69M in 2014 along with a similar downturn in the paid claims to \$2.15M. The latter's drop is partly associated to the slowing real estate activity in the past few years.

As a final point, the continuous domestic and regional developments failed to disrupt the sector's ongoing growth, yet they slowed down its pace. However, the slackening progress can also be partly due to a possible saturation in the Lebanese market given the relatively small population and the parallel proliferation of insurance companies. In addition, growth of the life insurance business is becoming more and more challenging on both actual and new clients given the substantial lack of awareness. In specific, the majority of the first category bought life insurance policies as one of their bank's requirements to grant them a loan. This means that promoting life insurance products to this type of clients requires the same effort needed for new ones. Accordingly, promoting life insurance through raising awareness and developing pension funds and capital markets becomes of utmost importance.

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