



December 5<sup>th</sup>, 2015

## Insurance Sector Surviving the Subdued Macroeconomic Backdrop

The economic backdrop of the country has been weakened by regional tumults as well as by local political and security instabilities since 2011. Key sectors of the economy such as construction, real estate and tourism have all suffered from sizeable setbacks. GDP growth is expected to hover around 0.5% in 2015 far away from the range of 8-10% witnessed back in the period 2007-2010.

The private sector has also taken a hard-hit. The BLOM Lebanon Purchasing Managers' Index (PMI), tracking the performance of the private sector in Lebanon, reached its lowest level in fifteen months to reach 46.9 in November, below the 50-points mark separating economic expansion from economic contraction.

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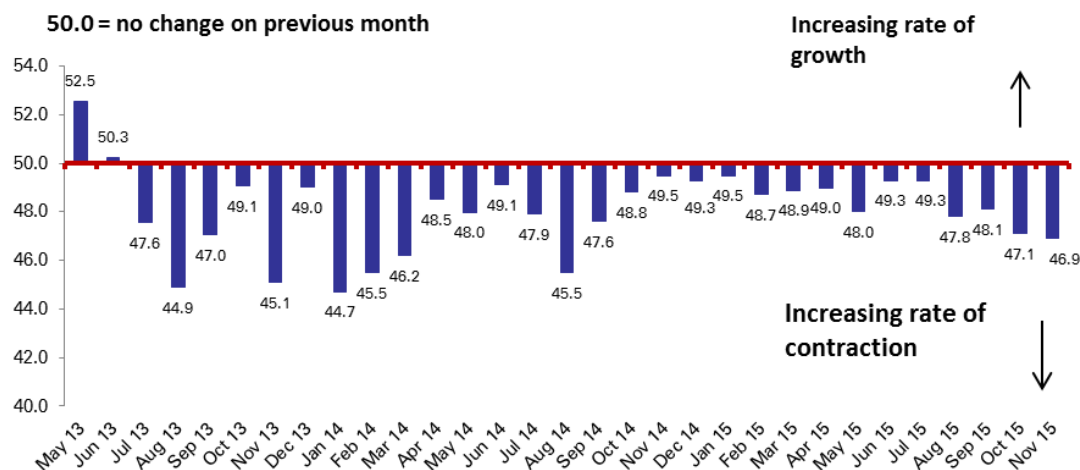
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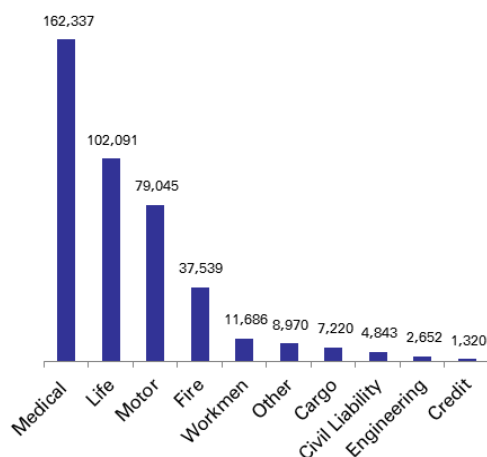
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## BLOM Lebanon PMI, Historical Values

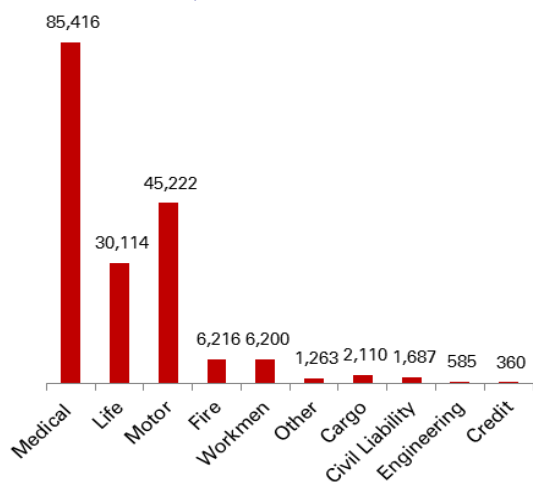


Source: Markit, Blominvest Research Department

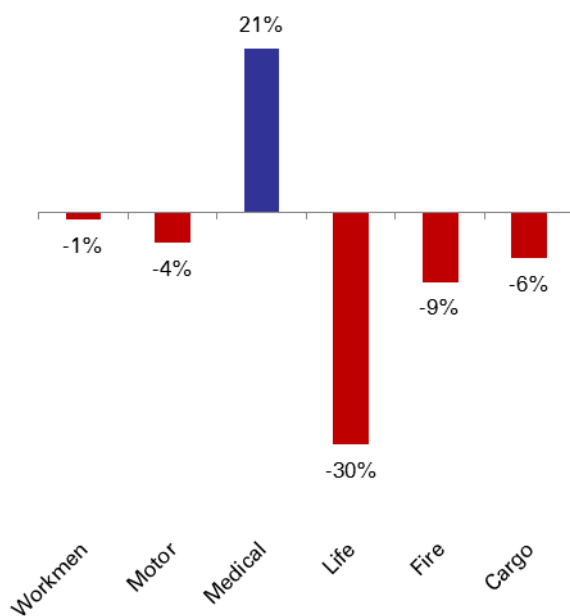
Premium Division by Line of Business, In 000 USD



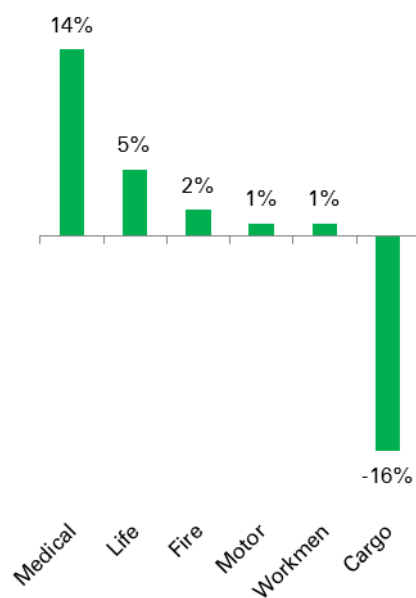
Claims Division by Line of Business, In 000 USD



Year-to-date Growth of Premiums in the main Lines of Business



Year-to-date Growth of Premiums in the main Lines of Business



Source: ACAL Q1 2015 Report

The Lebanese insurance sector managed to outperform other sectors of the economy. In fact, many elements play in favor of the sector in Lebanon. First, the bancassurance model is widely spread in Lebanon, whereby commercial banks are also the owners of insurance companies. The bancassurance model allows the bank-owned insurance companies to generate premiums easier by counting on its large customer network, especially since bank products such as loans often require an insurance coverage, to leverage on the fact that the customer's trust in the bank will extend to the insurance arm. The customer also benefits from tailored, credible and convenient insurance products. Second, private insurance companies step-in with the provision of medical coverage services in the context of a precarious social security system in the country.

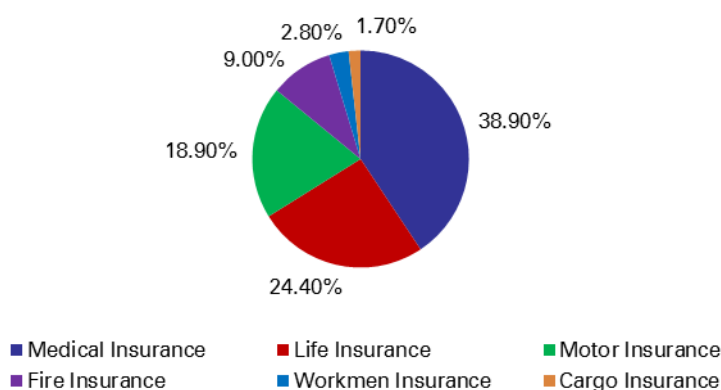
The insurance sector is one of the most developed in the Arab region. According to Swiss Re, a global reinsurance company, in 2014, Lebanon ranked third in the Arab world in terms of insurance density or premiums per capita with a value of \$308M, only surpassed by Qatar and the UAE. More to the point, Lebanon ranked first in the Arab world in terms of insurance penetration, as premiums represented 3.3% of GDP.

Despite the challenging economic environment, the insurance sector managed to grow in the first three months of 2015. According to the Association des Compagnies d'assurances au Liban (ACAL), the insurance sector grew by 6% in the first three months of 2015, the same growth rate registered in the same period last year. The market's growth is mainly due to the 7% progression in the non-life segment of the market and the 5% growth in the life segment. The life segment is still below potential in Lebanon and this is also shown through the fact that in 2014 the life insurance density was estimated at \$88 while the non-life insurance density was higher at \$220.

### Total Written Premiums: Non-Life Share Still Dominant

According to ACAL, total gross written premiums grew by 6% since year-start to \$417.70M in the first quarter of 2015 (Q1 2015). Non-life insurance premiums still account for the largest bulk of 75.6% in total premiums as opposed to 24.4% for life insurance premiums. Medical and life insurance premiums were the main growth drivers for overall written premiums in Q1 2015.

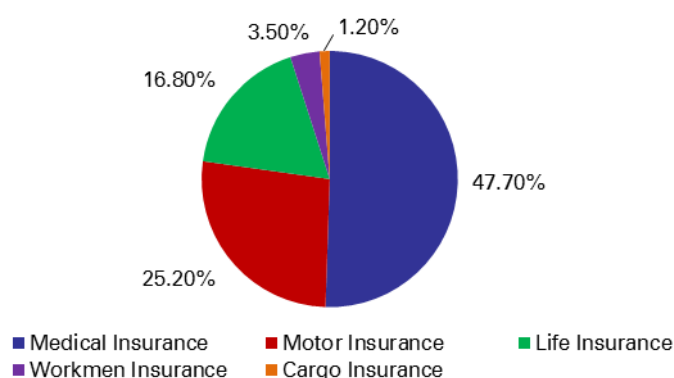
### Composition of Premiums



### Total indemnities: Medical Insurance registers the only and biggest Increase

Total indemnities paid to beneficiaries declined by 1% since year start to reach \$179.17M in Q1 2015. The highest claims are recorded in the segments of medical insurance and motor insurance which account for 47.7% and 25.2% of total paid indemnities, respectively. Claims paid by insurance companies to beneficiaries decreased in all lines of business, life insurance, motor insurance, fire insurance, workmen insurance and cargo insurance, with the exception of medical insurance where claims surged by 21% since year-start.

#### Composition of Indemnities



Source: ACAL Q1 2015 Report

### Medical Insurance: Filling the Void of Lebanon's Social Security System

Due to the deficiencies of the National Social Security system, medical insurance is a highly sought after safety net. The National Social Security Fund needs reforming and is suffering from a chronic deficit which accumulated to \$542.98M at the end of 2011. In Q1 2015, medical premiums represented the largest share of 38.9% in total written premiums and accounted for a little over half of non-life premiums with a share of 51.4% in the total. Medical insurance premiums recorded the largest y-t-d growth of 14% and totaled \$162.34M in Q1 2015. The value of premiums rose despite the 6% y-t-d drop in the number of issued medical insurance contracts to 221,827 contracts which alludes to the fact that the although there fewer issued contracts, their value was higher.

For expatriates' medical insurance premiums, growth was mainly linked to volume rather than value. Expatriates' medical insurance, designed to cover Lebanese living abroad, witnessed a notable growth in Q1 2015 with premiums rising by 4% y-t-d to \$3.08M. However, the average expat premium per contract declined by 2% since year start to reach \$73 but the number of issued contracts grew by 6%.

In Q1 2015, the medical line of business did not offer Lebanese insurance companies the most ideal performance. Medical claims grew at a faster pace than medical premiums. According to ACAL's Q1 2015 report, the disbursed medical claims grew by 21% since year-start to \$85.42M, lower than the 14% growth registered by medical premiums. Moreover, the net income from the medical related investments plunged by 20% y-t-d to \$1.89M.

### Motor Insurance, Subdued Growth on Account of Slow Car Sector

Motor insurance is the second largest premium generator in the non-life segment with a share of 18.9% in the total. Motor insurance premiums registered a marginal y-t-d growth of 1% to \$79.04M while total motor claims fell by 4% since year start to \$45.22M. Since they represent the second biggest share of 25.2% in total claims, the lower motor insurance claims contributed to the overall decline in the claims paid by insurance companies to beneficiaries.

The marginal growth in motor insurance premiums and claims can be explained by the subdued growth in the car sector. The tough economic times have pushed consumers towards small cars with a low-price tag which has eaten away a chunk of the importers' profits. Moreover, the Central Bank of Lebanon has recently introduced tighter restrictions on retail loans and imposed a 25% down payment on car loans in particular. Accordingly, figures from the Central Bank point to a 6.67% year-to-date decline in cars loans to \$1.4B by July 2015.

According to the Association of Lebanese Car Importers, the marginal increase seen in new car registrations is deemed insufficient when put against the efforts put in by the importers. Aside from the endeavors of aggressive marketing and after-sale services led by the importers for the past few years, the year 2015 called for exceptional price reductions for new cars. In spite of the reduction, the number of newly registered cars grew only by a marginal 2% year-on-year in the first ten months of 2015.

### Life Insurance, Underdeveloped Segment

Demand towards life insurance is under-developed in Lebanon compared to life insurance. In addition to being undersized, life insurance saw its share in total written premiums drop from 29.3% in Q1 2014 to 24.4% in Q1 2015. The life-related premiums totaled \$102.09M in Q1 2015, growing by 5% in Q1 2015 below the non-life's 7% y-t-d growth. The premiums for savings account for the largest share of life insurance's turnover with a share of 55.6%, leaving a 44.4% share for premiums for protection.

While life premiums grew in Q1 2015, claims paid to life insurance beneficiaries recorded the largest double-digit drop amongst the different insurance businesses. Life related claims slumped by 30% since year-start to \$30.11M in Q1 2015.

Although life-insurance still doesn't occupy a large share in the sector, it benefits from the fact that it is a condition for receiving certain banking products. In Lebanon, housing loans, which represent 61% of total individual loans, can only be granted if the beneficiary obtains a life-insurance policy covering the outstanding loan amount. According to ACAL, the net income from the life related investments are mostly behind the overall upturn in the sector's net investment income. In Q1 2015, total net investment income in the sector grew by 4% since year start with the net income from the life related investments rising by 9% y-t-d to \$22.39M.

### Cargo Insurance, Pronounced Downturn in Q1 2015

Cargo insurance recorded declines in the value of premiums, number of issued contracts, value of disbursed claims and the average premium per contract in the first three months of 2015. According to ACAL, the premiums collected from cargo insurance recorded a double-digit drop of 16% since year-start to \$7.22M in Q1 2015. The number of cargo insurance contracts declined by 5% year-to-date to 16,120 and the average premium per contract fell by 12% to \$448.

Since the value of the insurance premium is proportionate to the value of the underlying insured product, the decline seen in the cargo line of business can be explained by the fact that energy prices are down and that energy imports represent a sizeable share in Lebanon's total imports. According to Lebanese customs, imports of mineral products posted a substantial drop of 49% year-on-year (y-o-y) to \$736.45M in Q1 2015.

Overall, the insurance sector is surviving the challenging operating environment thanks to the vast know-how in the sector and the bancassurance model. The released figures for 2015 also show how developed and demanded medical insurance is, which is why it remains the top premium generator for the insurance companies. However, the first months of 2015 also show that certain lines of business in the insurance sector can reflect general economic setbacks such as in the car sector which is suffering from the lower purchasing power of consumers.

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