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The year 2018 proved to be a challenging year for the Lebanese economy. Regional geopolitical turmoil and economic uncertainties increased pressure on the insurance sector. Stagnation in most of the sectors of the national economy is reflected in slower growth in premiums written by Lebanese insurers, and higher strain on profit margins. In this report, we will review in the first section the Lebanese Insurance Sector's performance in 2018, and discuss in the second section the upcoming years forecast based on FitchSolution report : "Lebanon, Insurance Report, Includes 5-year forecast to 2023".

I. Key Metrics in the Insurance Sector

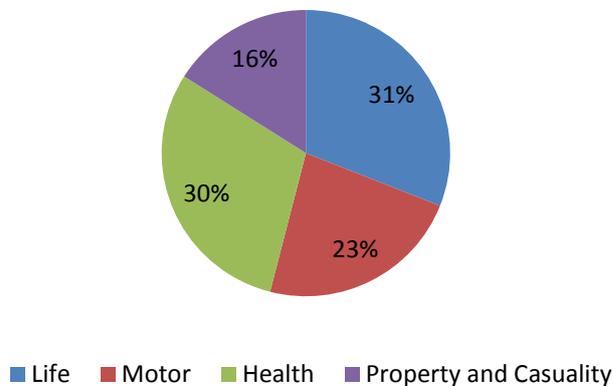
The insurance market in Lebanon is characterized by its small size and competitive landscape with over 50 companies, including several international and regional businesses According to the ICC, gross written premiums reached \$1.68B in 2018, up by 3.22% from the previous year. Over the past 5 years, total gross written premiums (GwP) rose by an average of 3.64% where gross life and non-life written premiums increased by an average of 5.27% and 2.95%, respectively. According to the ICC report, Lebanon's gross non-life premiums make up the highest share of total gross written premiums grasping 69% of the total in 2018, while gross life premiums grasped the remaining 31% of the total.

Top 10 Companies in Terms of Insurance Premiums

Company Name	Total Premiums in 2018 (\$M)
ALLIANZ SNA	145.81
BANKERS	122.65
ALICO	120.17
LIA	114.07
AXA	107.8
Fidelity	105.82
Arope	96.44
Medgulf	86.59
Bancassurance	83.4
ADIR	77.19

Source: ICC

Breakdown of Insurance Premiums in 2018



Source: ICC

Gross Claims Settled

With regards to claims settled, they reached \$949.02M in 2018 across all business lines. With that, the value of gross claims settled would have decreased by a yearly 1.27% in 2018, recording a first downtick in the past 3 years (7.58% in 2017, 7.72% in 2016 and 10.22% in 2015).

Gross claims settled in the health and life insurance segments together account for more than half the total claims settled in 2018. Gross claims settled in the health insurance segment reached \$362.23M in 2018 up by 5.02% compared to 2017 and accounting for 38% of total gross claims settled. Second in line to the claims settled in the health segment are the claims settled in the life insurance segment as they declined yearly by 3.85% to \$289.22M in 2018 and therefore accounted for 30% of total gross claims settled. Claims settled in the motor insurance line decreased by an annual 0.41% to \$207.57M in 2018 and accounted for 22% of the total. The smallest category of settled claims is accounted for by the Property & Casualty segment; claims settled in that line of business amounted to \$90M in 2018, down by 15.93% from the previous year.

The ratio of gross claims settled to gross premiums indicates a widening of profit margins for insurance companies. According to the ICC figures, the value of gross claims settled represented 57% of the gross premiums received in 2018 compared to 59% in 2017 and 58% in 2016. In fact, this ratio remained somewhat stable for "Motor Insurance" (55%) and "Health Insurance" (71%) while "Property and Casualty" and "Life insurance" segment went from 39% and 60% in 2017 to 33% and 56% in 2018.

1. Premiums in the Life Insurance segment

The Association des Compagnies d'Assurances au Liban (ACAL) classifies the product offerings of life insurers in three ways: pure protection products, products that combine projection with savings, and products that combine protection with unit-linked savings. The Lebanese life insurance market is dominated by pure protection products, which account for nearly 80% of the in-force policies. Products which combine protection with savings are also popular, while at present unit-linked products make up a relatively small share of the market - a reflection of an unsophisticated investment market.

Premiums in the life insurance segment have grown in 2018. According to the ICC figures, the value of life insurance premiums totaled \$519.11M in 2018, up by 4.17% year-on-year. Although, that growth is higher than last year (3.97%), it remains lower than previous years: 8.20% in 2015 and 4.74% in 2016. In fact, the growth in the life insurance during the previous years and the first quarter of 2018 can be attributed to BDL subsidized housing loans which require life insurance.

According to ICC, BANCASSURANCE ranked first with \$83.40M in life premiums and was followed by ALICO in the second place with \$83.24M. SNA tracked with \$67.91M of life premiums, while LIA and ADIR ranked fourth and fifth with respective \$54.98M and \$52.40M. AROPE insurance ranked 6th with \$36.19M.

2. Premiums in the Non-life Life Insurance segment

The products offering in Lebanon's non-life market is relatively diverse, benefiting from the presence of major regional and multinational providers. Product lines include travel, health, motor, property, worker's compensation, employer liability, financial liability, marine, engineering and fire cover. However, the sector is dominated by the medical health insurance with a share of 44.09% of total non-life premiums. It is followed by motor vehicle with a share of 32.71%. In these segments, there are varying grades of cover available ranging from basic compulsory (in the motor segment) through to comprehensive covers with a series of added value benefits. Some insurers also provide products covering more unique risks in Lebanon, including political violence and expatriate covers. The value of non-life insurance premiums totaled \$1.16B in 2018, up by 2.81% year-on-year.

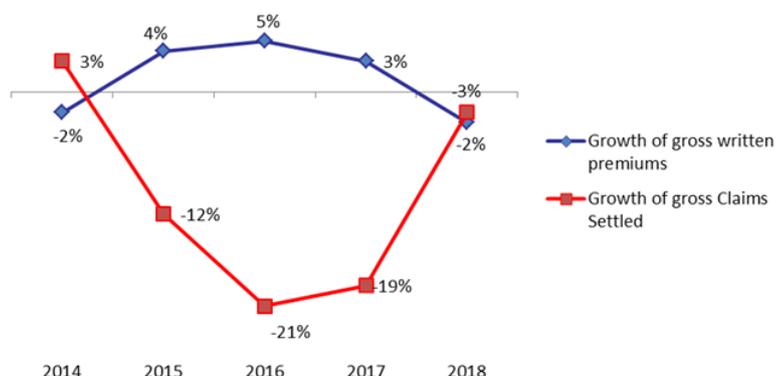
BANKERS topped the list of non-life insurers in 2018 with approximately \$109.04M worth of non-life premiums and was tracked by Fidelity in the second place with \$97.90M. AXA came third with total non-life premiums of \$83.74M, while Medgulf and SNA ranked fourth and fifth with respective \$79.96M and \$77.90M.

a) Medical Health Insurance

The importance of medical health insurance as a sub-sector, given the ageing of the Lebanese population and the rising costs associated to healthcare, underpins the sector's ability to sustain growth in premiums over the coming years. As such, health insurance premiums reached USD 511M in 2018 rising yearly by 6.92%.

Medgulf topped the list of Health insurers in 2018 with approximately \$57.98M worth of Health premiums and was followed by Bankers in the second place with \$56.91M. GMI came third with total health premiums of \$49.29M, while SNA and AXA ranked fourth and fifth with respective \$47.44M and \$47.12M. Fidelity insurance ranked 6th with \$46.78M.

Growth Patterns for Medical Health Business



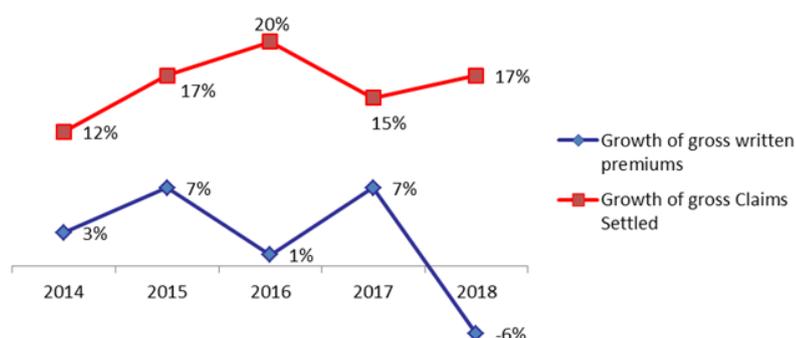
Source: ICC

b) Motor Insurance

Motor insurance is the second largest premium generator in the non-life segment with a share of 32.71% total non-life premiums. Motor insurance premiums registered a marginal y-o-y growth of 0.43% to \$379.11M in 2018 while total motor claims decreased by 0.41% during 2018 to \$207.57M. The marginal growth in motor insurance premiums 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. In fact, According to the Association of Lebanese Car Importers (AIA), the total number of registered new commercial and passenger cars deteriorated by an annual 11.46% to stand at 35,301 by the end of 2018 due mainly to an increase in interest rates.

Fidelity ranked first with \$39.64M in Motor insurance and was followed by Bankers in the second place with \$32.93M. Arope tracked with \$28.89M of motors premiums, while Mashrek and LIA ranked fourth and fifth with respective \$21.22M and \$20.02M. AXA insurance ranked 6th with \$17.34M.

Growth Patterns for Motor Business



Source: ICC

As for the remaining sub-categories of non-life insurance, the economy's sluggish performance weighed down on their premiums. Property and Casualty insurance premiums (grasping a share of 23.20% total non-life premiums) recorded a marginal y-o-y decline of 1.12% to \$268.94M in 2018.

On a different note, according to AROPE sources, the performance's sector in 2018 was affected by the Central Bank decision in 2017 concerning the BancAssurance Model. In details, the Central Bank of Lebanon issued a circular in 2017 prohibiting the promotion of insurance products through the banks. The BDL called on Lebanese banks not to engage in or market any insurance and re-insurance activities and not to allow any brokers or insurance representatives on the banks' premises. It also noted that by law, banks are allowed to practice only banking activities and only insurance and re-insurance bodies authorized by the Ministry of Economy and Trade are allowed to market for and conduct insurance practices. Worth mentioning that the Central Bank's notification is not a restriction on the bancassurance model in itself. The bancassurance model is valid and allows banks to own insurance companies; it simply stipulates that the insurance activities of these companies cannot be promoted through the banks' media outlets or on the banks' premises.

To maintain its position in the market and compete with market players, AROPE's strategy is to focus on innovative products. In details, the company is offering the "PAY ONLINE" service so the insured can settle any existing policies online anytime and anywhere through connected PCs, tablets or mobiles. Moreover, the company is working on different digital services to be launched soon.

II. Industry Forecast

1. Life Premiums Forecast

Lebanon's life insurance market continues to face substantial obstacles due to low average income levels and high unemployment rates in the country, as well as cultural barriers, leading to a low demand for life protection products. According to Fitch report, growth prospects for the life insurance market remain modest over the medium term, though there is chance for improvement as providers expand product ranges and distribution channels in order to reach more first time consumers. As result, the life insurance segment is expected to grow by 3.7% in 2019 with an expected inflation rate of 5% therefore the life market will decrease slightly in real terms. Worth mentioning that Fitch estimated an increase of 8.8% in life insurance segment in 2018 while the actual rate is 4.17% as discussed in the previous section.

Demographic trend plays an important role in the life insurance market growth. In fact, an increase in demand for life insurance is expected in the upcoming years since the number of people aged 75-plus should rise from about 224,900 in 2018 to 249,000 in 2023. Moreover, an important share of the Lebanese population remains in the working age phase which means that more of the population will be able to work and will therefore invest in retirement plans and purchase life cover.

However, economic and social situation remain the biggest threat for life insurance. In details, according to the World Bank, around a quarter of the population lives below the poverty line and the number are rising due to the large influx of Syrian refugees. In addition, the country is witnessing limited economic growth as investors are cautious about political issues and a weak business environment.

LIFE PREMIUMS (LEBANON 2016-2023)								
Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
Gross life premiums written, LBPbn	735.46	759.45	826.58	856.93	882.32	910.61	938.50	967.58
Gross life premiums written, LBP, % y-o-y	5.2	3.3	8.8	3.7	3.0	3.2	3.1	3.1
Gross life premiums written, % of GDP	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.8
Gross life premiums written, % of gross premiums written	31.1	33.0	33.3	32.6	32.0	31.3	30.5	29.7
Gross life premiums written, USDmn	486.4	502.6	543.3	556.4	567.4	580.0	590.2	601.0
Gross life premiums written, USD, % y-o-y	4.9	3.3	8.1	2.4	2.0	2.2	1.8	1.8

e/f = Fitch Solutions estimate/forecast. Source: Insurance Control Commission Lebanon, Fitch Solutions

2. Non-Life Premiums Forecast

The non-life segment in Lebanon will continue to dominate the country's insurance market, accounting for a significant majority of written premiums - due to the strength of the health and motor lines. In fact, this can be linked to the structural constraints in the market, including low average income rates, which mean that for the vast majority of consumers the focus will remain on basic affordable product and limit demand for more sophisticated product lines.

According to FitchSolution report, the growth outlook for the non-life sector is more positive than for the smaller life insurance market, and written premiums are expected to grow steadily throughout the forecast period (2019 to 2023), In details, total non-life premiums written are forecast to increase by 6.7% in 2019 to reach USD 1.1B noting that the growth estimation for this segment was 7.4% in 2018.

The non-life market faces economic issues. First, the lack of economies of scale among smaller providers in the fragmented competitive landscape hampers pricing power. Second, low capitalization levels among some firms is a risk, particularly in light of fluctuating claims costs.

Over the last few years, the gross loss ratio has fluctuated in the non-life sector:

Increasing from 49% in 2008 to a peak of 59.5% in 2013, before improving slightly to around 54% in 2014 and 2015 and then rising again to 58.7% in 2017. The growth in claims is due to the impact of the ageing demographic on health claims, but the expansion of insurance volumes and cost control has enabled the reduction of the loss ratio. However, the fragmented nature of the market causes lack of pricing power, particularly in the motor insurance sub-sector, which has restricted companies' ability to pass on the costs of claims to customers as well as their ability to control costs.

NON-LIFE PREMIUMS (LEBANON 2016-2023)								
Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
Gross non-life premiums written, LBPbn	1,631.36	1,542.28	1,656.73	1,768.03	1,878.53	1,997.78	2,134.06	2,287.10
Gross non-life premiums written, LBP, % y-o-y	2.7	-5.5	7.4	6.7	6.2	6.3	6.8	7.2
Gross non-life premiums written, % of GDP	2.1	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Gross non-life premiums written, % of gross premiums written	68.9	67.0	66.7	67.4	68.0	68.7	69.5	70.3
Gross non-life premiums written, USDmn	1,078.8	1,020.6	1,089.0	1,148.1	1,208.1	1,272.5	1,342.2	1,420.6
Gross non-life premiums written, USD, % y-o-y	2.4	-5.4	6.7	5.4	5.2	5.3	5.5	5.8

e/f = Fitch Solutions estimate/forecast. Source: Insurance Control Commission Lebanon, Fitch Solutions

Health insurance will remain in demand due to the inadequacy of the National Social Security Fund.

The performance of the sector depends mainly on the rising cost of medical care, the pricing power of the insurers, the weak public healthcare system and its limited spending capacity and most importantly the ageing population. In this context, FitchSolution forecasts growth in the health insurance market of 9.1% in 2019 to reach \$526M while according to Blominvest, we estimate the growth in this sector to be the same as 2018 (6.92%) given the difficult economic conditions.

The short-term outlook for new vehicle sales in Lebanon remains relatively weak, particularly in the passenger cars segment.

This is due to ongoing austerity measures, which have led to higher taxes, as well as rising inflation, which is eating into consumers' purchasing power. Fitch estimates the growth in the motor segment to be 4.7% to a total of \$346.4M in 2019. According to Blominvest, we have a different opinion and believe that the growth in this segment will be the same or even lower than 2018 (0.43%) noting that we still have high interest rates and the number of new registered "commercial" and "passenger" cars recorded a 21.16% annual drop to settle at 8,601 cars by April 2019, according to the Association of Lebanese Car Importers (AIA).

Lebanon's insurance sector succeeded in defying the economic challenges the country has been facing.

The industry is well established and competitive especially in the motor and health insurance. Moreover, the market is open to cooperate by regional and global multinational groups. However, the industry is still facing many obstacles. Structural challenges such as low income level restrain the growth of life insurance. As for the motor sector, it has low profitability while claims costs are increasing. Political uncertainties and economic deterioration remain the biggest threat leading to investor's capital outflow.

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