Industry braces itself for tougher times ahead

Urgent reforms are needed to keep Jordan’s insurance market, already suffering from losses, from slipping into chaos. The overall socio-political situation – including regulatory uncertainty – is creating further challenges, and players are seeking to weather the storm at this critical stage.

> By Osama Noor
Jordan's tough economic situation along with the overall uncertainty on the political front in recent times have added to the problems facing the insurance industry. Arab Spring symptoms, including demonstrations calling for policy reforms, have persisted for the past three years. The government has responded by taking measures to cut public spending, including the decision to scrap several independent agencies, such as the Insurance Commission (IC).

Floating the motor TPL tariff is believed to have been deferred more than once for the same reason as the government is probably unwilling to raise public discontent by liberalising motor TPL prices.

The market continues to struggle with the same issues, and there are no signs that these will be resolved in the short run, noted Mr Imad Abdel Khaleq, Managing Director of Jordan Insurance Co (JIC). “Market GWP increased by only 2% year-on-year until the end of August 2013, a notable drop from previous years’ growth rates.”

In 2012, seven operators reported losses, while the financial standings of others worsened this year, pointed out Mr Isam Abdelkhalilq, CEO of Arab Orient Insurance Co (AOIC). “These seven companies should exit the market. It is unlikely that they can recover after losing their credibility and image.

Besides, most of them already had their second chance and failed.”

The collapse of an insurer affects the rest of the market, said Dr Ali Al Wazani, CEO of First Insurance Co (FIC). “Insurers have mutual financial transactions and are unlikely to recover the debts from collapsed players. Also, reinsurers will be cautious when dealing with the market.”

Exit sooner rather than later

However, troubled companies which have no option but to exit should leave at the proper time to limit damages instead of causing more troubles to all parties, noted Dr Al Wazani. “I expect more companies to be forced to exit the sector every year in the coming five to six years. The sooner this happens, the better, to limit damages.”

Special attention should be given to liability covers as the third party is the one who incurs losses and has no say in which insurer is covering him. “It is not affecting the policyholder as much as the third parties,” he said.

Over the past 20 years, an insurer has been collapsing every three to five years, said Mr Isam. “This shows that the whole system needs to be reconsidered. One of the troubled companies used to be among the market’s top five income generators.”

Plans by the IC to strengthen solvency margin requirements could indirectly force insurers to raise their capitalisation or exit the market. “And this could be a solution to avoid the socio-political ramifications at the current phase,” he added.

Dr Al Wazani supports doubling the solvency margin to 300%, but said a clear action plan for violations should be laid out. “So far, violations have been handled on a case-by-case basis, and intervention comes rather late. One of the operators had a less than 150% solvency margin ratio for four years before being suspended. Presently, many of the market operators fail to meet this standard, but continue to write business. The IC should take firm action against the violating companies, otherwise we will continue to see companies collapsing.”

Unsettled regulatory status

The IC’s status has been uncertain for more than two years, and this is believed to have affected its overall stability and performance. Last year, the government announced its plan to scrap the IC, along with several other independent governmental bodies, to improve the state’s performance and cut public spending. Later, the plan was changed to merge the IC with the Ministry of Industry and Trade.

This uncertainty is putting the IC in a tough situation, and adds to the pressure caused by the overall socio-political conditions, said Mr Isam. “But the IC should not succumb as it has to fulfil its mission in preserving the soundness of the sector. It should not seek to satisfy the public opinion at the expense of making the right decision.”

Still, the present market status questions the validity of the whole system, including the IC’s methodology, he pointed out. “Though it has been operating for over 10 years, the market remains oversaturated with several weak insurers, there is no insurance institute or earthquake pool, and the motor TPL issue remains unresolved. All

Insurance sector development

<table>
<thead>
<tr>
<th>Figures in JOD million</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total investments</td>
<td>479.6</td>
<td>484.6</td>
<td>473.9</td>
<td>453.8</td>
<td>488.6</td>
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<tr>
<td>Total assets</td>
<td>678.0</td>
<td>695.5</td>
<td>718.7</td>
<td>719</td>
<td>746</td>
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<tr>
<td>Shareholders’ equity</td>
<td>355.4</td>
<td>359.1</td>
<td>353.6</td>
<td>314.8</td>
<td>306.4</td>
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<tr>
<td>Gross written premiums</td>
<td>333.0</td>
<td>365.2</td>
<td>408.6</td>
<td>432.1</td>
<td>466.5</td>
</tr>
<tr>
<td>Paid claims</td>
<td>219</td>
<td>263</td>
<td>282.1</td>
<td>339.5</td>
<td>335</td>
</tr>
<tr>
<td>Net profit before tax</td>
<td>22.6</td>
<td>7.3</td>
<td>15.9</td>
<td>-8.6</td>
<td>5.6</td>
</tr>
<tr>
<td>Solvency margin (%)</td>
<td>311.8</td>
<td>293.5</td>
<td>280.9</td>
<td>223.2</td>
<td>233.5</td>
</tr>
<tr>
<td>Loss ratio (general lines) (%)</td>
<td>82.9</td>
<td>89.0</td>
<td>85.4</td>
<td>95.8</td>
<td>96.6</td>
</tr>
</tbody>
</table>

Source: IC
this in a sector which dates back to almost 80 years. Intervention is needed before it is too late.”

**Changing market landscape**
The number of licensed operators has dropped to 27, after Gerassa Insurance exited the market at the beginning of this year. Another two insurers – Arab German Insurance and Al Barakah Takaful – have had their licences suspended for over a year now. Both operators are now undergoing restructuring to correct their financial positions.

Despite these developments, the quality of business is questionable, said Mr Imad. “Our market share is not expected to grow notably though the number of players has dropped. This is because the quality of the suspended companies’ business is not rewarding. Actually, that was the reason behind their failure in the first place, as their business was highly concentrated in motor.”

Mr Imad Abdel Khaleq, Managing Director, Jordan Insurance Co

Mr Isam added: “AOIC has over JOD20 million in capital, the largest GWP and is affiliated with a bank, but still has to invest JOD25 million to obtain the life licence. Yet, some composite players do not even use their life licences.”

Another negative impact is that the high capital requirement makes returns look scanty regardless of their size, added Dr Al Wazani. “Returns on capital – along with shareholders’ equity – hover around 1%, which pushes investors away.”

M&As opportunities are few in Jordan, said Mr Isam. “There are few acquisitions available for those interested in entering the life market and don’t wish to pump in large capital. We will consider this option if the price is right. Otherwise, serious investors would prefer a new setup.”

The IC should provide incentives to encourage M&As, such as tax incentives, said Mr Imad. “This should be considered to help smaller players merge to create stronger insurance entities.”

**Operators share responsibility too**
Companies’ management have a responsibility as well, said Mr Isam. “The people in charge should meet certain qualifications to protect the profession.”

“Managements are cutting back mainly from investing in human capital, research and development due to profitability constraints,” added Dr Al Wazani.

Management shapes companies’ strategies and goals regardless of regulatory constraints, said Mr Imad. “For instance, we are keen on preserving our high standards and rating, and this requires the support of the Board and management in preserving sound underwriting policies and not to pursue short-term returns. Unfortunately, this is rarely followed in our markets.”

This sector needs only 10 strong providers, noted Mr Isam. “To change public perception, the law must force insurers to branch out as currently only around five operators have branches. People trust banks more because they see them everywhere.”

**Prohibitive capital requirements**
Another unresolved issue is the size of capital, which should be commensurate with written premiums, opined Dr Al Wazani. “In general, the sector’s GWP is not proportionate with market capitalisation. This is obvious in the life segment where premiums stand at around JOD40 million (US$56.5 million), and hinders investors from injecting the minimum capital of JOD25 million to establish a new life operation.”

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**New challenges**
A variety of factors have been influencing Jordan’s demographic and socioeconomic map over the past couple of years. Among them is the Syrian crisis, which has led to Jordan’s population increasing by about one
Country profile – Jordan

compared to less than 5% five years ago, noted Dr Al Wazani. “Takaful operators are growing at a faster pace compared to other insurers. It has to do with the quality of services as our strategy is based on providing quality services to all market segments. And this is what has differentiated us. After all, being a good provider serves the image of takaful.”

Jordan has two takaful providers, Islamic Insurance Co, established in 1996, and FIC, the country’s newest operator, licensed in 2007. Both are among the five largest insurers in terms of premium income. Takaful market contributions in 2012 reached JOD40 million, up from JOD30 million in the preceding year, a 33% increase compared to the overall market growth of 7.5%.

Expectations for 2013

It is not going to be a good year for the market, even though the demand for insurance is increasing, especially for political violence covers, said Dr Al Wazani. “There will be a few winners in the market, but these are not considered so when compared to other sectors. We ought to compare ourselves with other financial institutions, like banks.”

The market growth in the first half of 2013 did not exceed 2.5% and is the lowest since 1999, he said. “In addition, in 2012, the market’s loss ratio was the highest in 10 years. Last year was also the lowest in premium growth and the highest in paid claims. This will be reflected in the market loss ratio.”

Growth is not expected to be achieved from introducing new products or services this year, said Mr Isam. “Besides, the prices of new business or renewals have been slashed because of negotiations, and intermediaries are also squeezing the rates. The socio-economic situation is forcing insurers to respond to that pressure and reduce the rates sometimes. This year’s market growth will not be higher than 5%.”

– Mr Isam Abdelkhaliq, CEO, Arab Orient Insurance Co

Takaful outperforming conventional

Takaful is gaining ground in Jordan as its contributions currently account for around 10% of the market GWP compared to less than 5% five years ago, noted Dr Al Wazani. “Takaful operators are growing at a faster pace compared to other insurers. It has to do with the quality of services as our strategy is based on providing quality services to all market segments. And this is what has differentiated us. After all, being a good provider serves the image of takaful.”

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Market GWP and claims

<table>
<thead>
<tr>
<th></th>
<th>IH 2013 (JOD’000)</th>
<th>IH 2012 (JOD’000)</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-life</td>
<td>153,808</td>
<td>150,333</td>
<td>2.3</td>
</tr>
<tr>
<td>Medical</td>
<td>73,949</td>
<td>70,060</td>
<td>5.6</td>
</tr>
<tr>
<td>Life</td>
<td>25,751</td>
<td>24,178</td>
<td>6.5</td>
</tr>
<tr>
<td>Total GWP</td>
<td>253,508</td>
<td>244,572</td>
<td>3.7</td>
</tr>
<tr>
<td>Paid claims</td>
<td>159,318</td>
<td>174,186</td>
<td>-8.5</td>
</tr>
</tbody>
</table>

Source: Jordan Insurance Federation (JOIF)

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– Mr Isam Abdelkhaliq, CEO, Arab Orient Insurance Co
The future could still be promising
The coming year might see the situation change for the better if certain conditions are met, said Mr Isam. “Firstly, the motor TPL issue needs to be resolved by floating rates in any form. Secondly, increasing the solvency margin ratio should force insurers to increase capital and push underperformers to exit the market. Thirdly, M&As will be good for the market.”

He added that the economic situation could improve once the Syrian issue is resolved. “This will benefit Jordan as it will be the gateway to rebuilding Syria. On a positive note, foreign direct investments are coming back slowly but surely; solar and nuclear energy as well as sewerage and road projects are in the pipeline.”

Mr Isam also hopes for government intervention to boost the market. “I am optimistic that the government will intervene by taking the right decisions and coming up with a roadmap for successful players to grow the sector, which is an indispensable pillar in securing Jordan’s economy.”

“I expect more companies to be forced to exit the sector every year in the coming five to six years. The sooner this happens, the better, to limit damages.”

Dr Ali Al Wazani, CEO, First Insurance Co