Industry under pressure

Challenges grew over the past year for Jordan's insurance players and profitability of the sector dropped sharply on the back of tough economic conditions. Concurrently, unhealthy competition continues to add pressure.

By Osama Noor

Amman, Jordan

Jordan has remained an oasis of stability and security for the last seven years despite the turbulent neighbouring environment in the wake of the Arab Spring since 2011. However, the kingdom has not been spared from the effects of the political turmoil as it continues to take in hundreds of thousands of refugees from neighbouring countries.

Last year, the number of Syrian refugees is estimated to have grown to over 1.3m, representing around 20% of the country's population. This has created additional stress on the kingdom's limited resources.

Mr Majed Smairat

Jordan is situated in the heart of a tumultuous region with conflicts going on in neighbouring Syria and instability shaking Iraq, not to mention the unsteady socio-political conditions in other surrounding countries, said Mr Majed Smairat, chairman of Jordan Insurance Federation (JIF). "Jordan's borders with Iraq and Syria have been closed for several years, which stagnated commercial and trade activities in the country. For insurers, this is reflected in the drop in marine and transportation premiums," he said.

Other lines, including engineering and property in general, have also suffered from the slow economic development. "The economy in general has not been doing well," he said. "Investments, from within and foreign, have been taking a shy stand. Despite Jordan's overall stable and secured conditions, investors take a broader regional perspective when considering doing business here."

According to a World Bank report, Jordan's economy remains in a low-growth mode with GDP registering a 2.1% increase in 2017. The report suggests that improvements in tourism, mining and quarrying are expected to have driven a tepid improvement in growth in the past year, but the economy remains burdened by ongoing uncertainty in Syria, slow revival of economic cooperation with Iraq, and an economic slowdown in the GCC.

Profitability hit in 2017

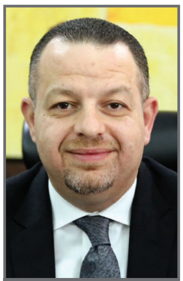
According to the preliminary data accumulated by JIF, GWP for the sector's 24 operators reached JOD594m ($838m) in 2017, achieving almost a 2% increase from the preceding year – a notable drop from the 6% growth rate achieved in 2016 and the lowest since 2013. Most of the business, around 87%, came from non-life. Net profit for the sector plunged 85% y-o-y to only JOD3.9m in 2017 from JOD26.7 million.

Table 1: Insurance penetration & density

	2016	2015	2014	2013
Insurance penetration (%)	2.16	2.07	2.06	2.06
Insurance density (JOD)*	59.4	57.7	75.4	75.2

*Density decreased significantly in 2015 due to the release of Jordan 2015 population census which, unlike previous years, included Syrian refugees

Source: Insurance Directorate, Ministry of Industry, Trade & Supply



Mr Ala'a Abdel-Jawad

The severe drop in profit could largely be attributed to the notable losses one of the major players has registered in 2017, but generally the sector's results look gloomy, said CEO of Solidarity First Insurance Co, Ala'a Abdel-Jawad. "Profit margins for the majority of players are meagre and do not match up to the shareholders' aspirations."

It is usually a handful of insurers that generate the bulk of profits while others report modest outcomes, or even losses. In the best cases, ROE hovers around 3%. Last year, the top five providers in terms of profitability racked up JOD12m (Table 5).

Counterproductive competition

The industry is focused on generating a larger market share and attention towards achieving healthy bottom lines has diminished, said Mr Abdel-Jawad. He attributed this practice to the challenging economic situation that has curbed development projects, thereby negatively affecting growth in major profitable lines such as engineering.

"This, along with the tough geopolitical condition the country is witnessing, has thrust players into a situation of cutthroat competition to generate income to cover their expenses," he said. "Such competition has escalated in

Table 2: Key indicators of the insurance industry

JODm	2017*	2016	% change	2015	% change	2014	% change	2013	% change
GWP									
Non-life	513.9	512.4	0.29%	489.3	4.72%	472.7	3.51%	445.1	6.20%
Life	79.6	70.6	12.75%	61.0	15.74%	53.1	14.88%	47.4	12.03%
Total	593.5	583.0	1.80%	550.3	5.94%	525.8	4.66%	492.5	6.76%
Paid claims									
Non-life	416.0	410.2	1.41%	344.6	19.04%	344.4	0.06%	292.6	17.70%
Life	33.1	36.7	-9.81%	27.2	34.93%	28.5	-4.56%	24.5	16.33%
Total	449.1	446.9	0.49%	371.8	20.20%	372.9	-0.29%	317.1	17.60%

* Figures for 2017 are provisional

Source: Insurance Directorate, Ministry of Industry, Trade & Supply

Country Profile – Jordan

Table 3: Performance by line of business in 1Q 2018

(JODm)	1Q 2018*	1Q 2017*	% change	% of GWP (2018)
GWP				
Medical	65.71	65.29	0.64	36.93
Motor	55.10	59.97	-8.12	30.97
Fire and other property	20.07	21.55	-6.87	11.28
Marine & transport	4.74	5.26	-9.89	2.66
Liability	1.86	1.79	3.91	1.05
Credit and Surety Ship	0.20	0.30	-33.33	0.11
Aviation	0.09	0.29	-68.97	0.05
Other general lines	3.65	3.32	9.94	2.05
Total non-life premiums	151.42	157.77	-4.02	85.10
Life premiums	26.52	22.76	16.52	14.90
Total GWP	177.94	180.53	-1.43	100.00
Paid claims				
Non-life	113.80	110.10	3.36	
Life	9.20	8.30	10.84	
Total	123.00	118.40	3.89	

Source: Insurance Directorate, Ministry of Industry, Trade & Supply

historically loss-making lines such as motor and medical."

Reinsurers are not helping to ease the pressure, added Mr Abdel-Jawad. "Despite the low prices insurers offer, they still find reinsurers who are willing to cover risks. However, reinsurers cherry-pick profitable business, such as engineering and marine, underwriting them on a proportional basis, while other loss-making lines, like motor and medical, are covered by XoL policies, leaving direct providers to shoulder the burden of losses. Simply put, reinsurers take the good business and leave the bad ones to insurers."

Motor is a major dilemma

As motor makes up the lion's share of the market GWP, its results have been largely affecting the sector's profitability, said Mr Smairat. Motor third-party liability (TPL) insurance is the biggest concern for insurers, where prices and terms are set by the government and are way beneath technical standards, he said.

"Actuarial studies have shown that the price of motor TPL should be twice what is currently offered. Therefore, the pressure is immense, especially since motor accounts for around 37% of the market premiums."

For too long, the sector has been lobbying to liberalise the tariff and give insurers the right to set prices. Cumulative losses suffered by insurers in this class of business have exceeded JOD250m since 2000, said Mr Maher Al-Hussein, director general of JIF. Therefore, it is necessary to create a different arrangement that would help insurers write a profitable business and serve clients more efficiently.


Mr Maher Al-Hussein

Smartphone applications for taxis brought additional challenges to insurers, said Mr Smairat. "Around 40,000 private cars operate as taxis and pay lower rates because they are licensed as private vehicles. The lost premium income from this category is up to JOD3.5m."

He added that the unrealised premiums is not the only issue here. "Those drivers are not qualified, nor licensed, to deal with offering transportation as a service. Therefore, the risk is higher for insurers. It is, therefore, a matter of liability as well."

Mr Smairat said the Federation would file a case at the High Court of Justice to challenge the constitutionality of the decrees issued by the Ministry of Transport which has opened the door to smartphone taxi apps.

Life preserves momentum

Life insurance has maintained its double-digit growth trend over the past four years, but it still accounts for only 13% of the market share. The lack of awareness, limited individual income and poor government incentives are the major obstacles in growing life business in Jordan.

Life insurance is a reflection of the underlying economy and the disposable income of individuals, said Mr Yacoub Sabella, general manager of Al-Nisr Al Arabi Insurance Co. "Of course, insurance companies can work to increase awareness of life insurance, but we must also rely on the government to introduce measures that will stimulate the economy and create a higher standard of living," he said. "Tax incentives to increase the savings ratios of individuals through long-term life insurance products is an important catalyst for the well-being of an economy and for the insurance sector."


Mr Yacoub Sabella

Lagging behind in technology

The regional insurance industry lags behind when it comes to harnessing technology, but the case is more acute in Jordan, according to Mr Abdel-Jawad. "The share of business coming from the online channel is close to nothing," he said. "Companies still believe that they need to put in a big investment when taking the FinTech path. They also consider documentation a major issue where insurance specificities require proper records especially for underwriting purposes. However, cost-wise, investing in technology does not require a huge investment upfront. It will also lead to substantial savings on administrative cost. Above all, it is a must-do to be able to speak the language of the future."

To Mr Sabella, without investment in technology,

Table 4: Top five insurers by GWP in 2017*

Company	GWP (JODm)	Market share (%)
Arab Orient, gig	95.4	16.0
Jordan Insurance	63.8	10.7
Middle East Insurance	41.2	6.9
Solidarity First Insurance	39.6	6.7
Al Nisr Al-Arabi	34.6	5.8
Total	274.6	46.1

*preliminary data Source: Jordan Insurance Federation

Table 5: Top five insurers by net profit after tax in 2017*

Company	Net profit after tax (JODm)	Market share (%)
MetLife Jordan	4.2	107.7
Solidarity First Insurance	2.5	63.8
Islamic Insurance	2.0	50.8
Al Nisr Al-Arabi	2.0	50.8
Jordan French Insurance	1.3	33.4
Total	12.0	

*preliminary data Source: Jordan Insurance Federation

growth in life insurance will not only be very costly, it may even be impossible. "In the world that we live in, it is no longer possible to rely on antiquated ways of distributing life insurance and connecting effectively with a sales force. Clients are also becoming more demanding, and their needs more complicated. Clients expect to be able to connect with their insurance providers easily and at their convenience."

The absence of a suitable regulatory framework to boost technology adoption and help insurers expand their offerings is one major challenge, said Mr Abdel-Jawad.

Takaful making progress

In 2017, takaful operations grew at a faster pace than the sector as a whole, by 3.4% to JOD63m or 10.6% of the market GWP. "It is a niche market with a notable increased need for Islamic financial products and takaful in the market," said Mr Abdel-Jawad whose company is one of the kingdom's two takaful providers. "Takaful operators are strengthening their presence in terms of size, and they are among the most solvent companies in the market," he said.

Solidarity First is the market's fourth-largest player in terms of GWP, the second-largest capitalised company and enjoys the highest financial strength rating in the market for 2017 by A.M. Best. The other takaful operator is the Islamic Insurance Co. Together, they are among the top-five most profitable companies in the past year.

The word in the market is that one of the conventional players is in the process of converting to a takaful operator.

New regulatory setting

The Insurance Commission (IC) of Jordan, the first independent insurance regulatory body in MENA, was abolished in 2014 along with other governmental bodies in a bid to cut down public spending. Following that, the Ministry of Trade and Industry (MoTI) took over the role of regulating the sector.

In 2016, it was decided that the Central Bank of Jordan (CBJ) should oversee the sector from 2017. The move has been delayed and is expected to take effect by the end of this year.

Scrapping the IC was a big drawback, said Mr Abdel-Jawad. "Yet, it is a very positive development for the sector to be under the umbrella of the CBJ, which has proved its astuteness in regulating the banking sector especially during the various financial crises. Greater efforts would be required from insurers to comply with CBJ's regulations, but this is positive for the long run."


Dr Ali Al Wazani

Putting the sector's supervision under the CBJ's umbrella is a long-awaited milestone and the draft law is now pending parliamentary approval, said Dr Ali Al Wazani, CEO of Arab Orient, gig, Jordan.

2018: challenges remain

GWP has reached JOD178m in first quarter of this year, down by 1.4% from the same period in 2017, according to statistics from JIF. Paid claims, on the other hand increased by 3.9% to JOD123m (Table 3).

Net profit after tax for 23 insurers took an encouraging uptrend as it reached JOD7m, up by 193.6%.

Jordan's insurance industry has witnessed better underwriting behaviour following the negative results of 2017 in general, said Dr Al Wazani. "Companies are more sensitive to combined ratios than before. The pressure over expense ratio is becoming very critical especially in light of the increasing regulatory requirements and infrastructure enhancement particularly in the technology and information security side."

Despite the satisfactory results of the first quarter, Mr Smairat believes the pressure on rates will continue in 2018. "The geopolitical condition continues to put a strain on the industry. Therefore, the industry is witnessing fierce and indiscriminate competition which is dragging prices down to unprecedented levels. We are losing a sizeable amount of premiums due to the slashing of rates because of fierce competition."

"After the negative results over the past year, the sector should work towards making the correct moves, going after the quality of business rather than the size of business. Technical results are what matter."

For a country located in a troubled region and facing challenges, the prudent and balanced policies Jordan's leaders have adopted may well help the industry overcome the challenges it faces, said Mr Abdel-Jawad.