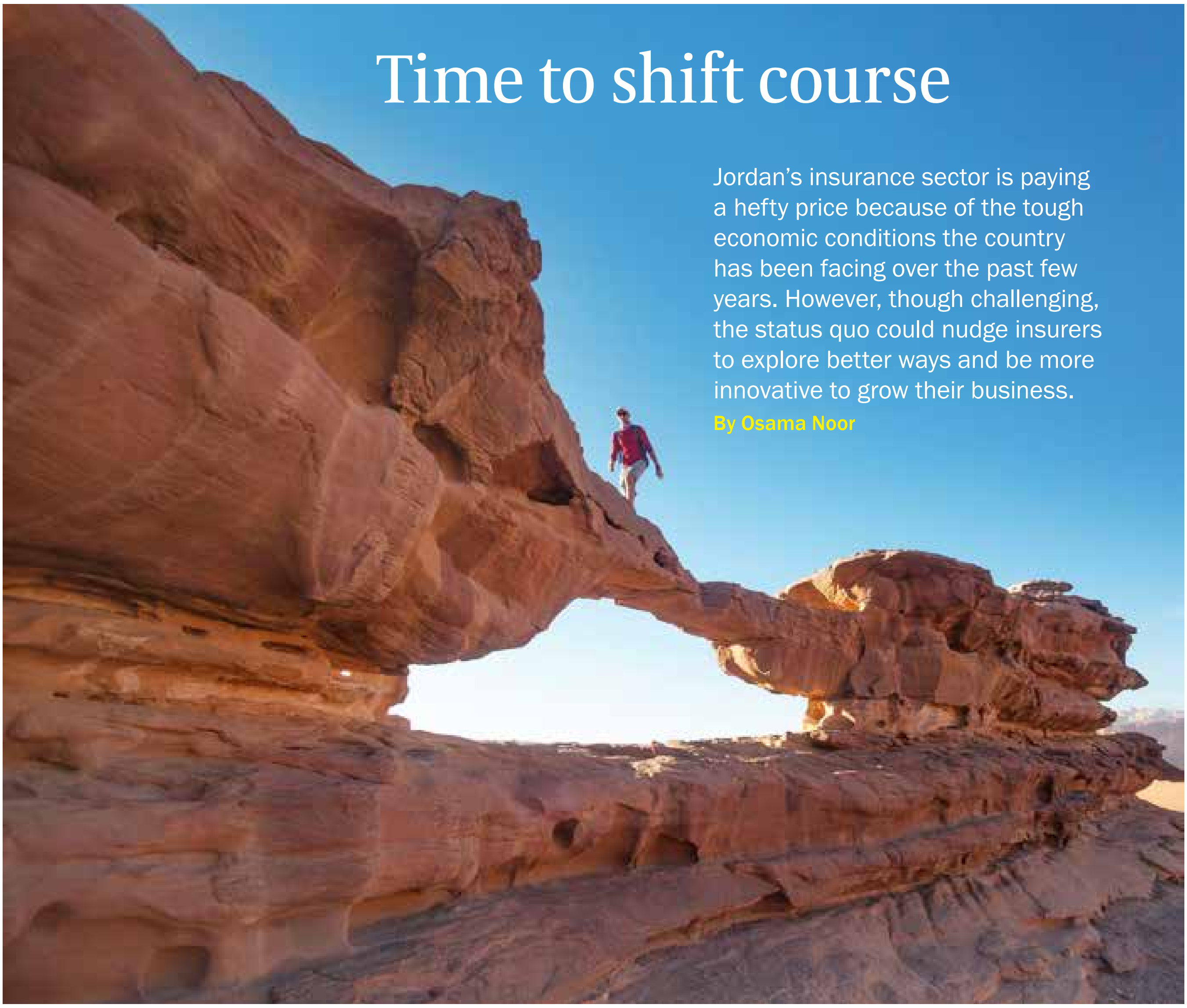


# Time to shift course

Jordan's insurance sector is paying a hefty price because of the tough economic conditions the country has been facing over the past few years. However, though challenging, the status quo could nudge insurers to explore better ways and be more innovative to grow their business.

By Osama Noor

Jordan has been witnessing slower economic growth over the past few years. The instability in its neighbouring countries is putting great pressure on growth, and almost all sectors of the economy are suffering. One of the main reasons is due to the closure of borders with Iraq and Syria, where transit of goods and commodities used to play a key role in supporting Jordan's businesses.

Moreover, the country has been hosting a large number of Syrian refugees, over one million according to official statistics, which has placed further pressures on the country's already limited natural and economic resources.

The International Monetary Fund (IMF) projects that the economy has grown by 2.3% in 2018, below previous predictions of 2.5%. The outlook for 2019 is expected to be at 2.2% growth rate, slightly below that of the preceding year.

The dreary economic outlook has weighed down the growth of the insurance business in Jordan. In 2018, GWP grew by 2.1% to JOD607m ($856m), scoring almost the same growth rate achieved in 2017, nonetheless notably below the almost 6% and 5% growth rates registered in 2016 and 2015, respectively.

However, Dr Ali Al-Wazani, CEO of gig-Jordan observes that the insurance sector is more dynamic than before as a result of the increased stress businesses are facing. "Dwindling sources of income, modest growth rates and the constant increase in operational costs are all affecting growth. Yet, the accumulation of these factors is pushing companies to search for ways to overcome these challenges. Insurers are forced to explore new sectors to achieve growth," he said.

Profit margins are diminishing as a result of tough competition. "Insurers today need to double their effort to gain even lesser returns than they used to generate in previous years," said Mr Imad Abdel Khaleq, CEO of Jordan Insurance Co (JIC).

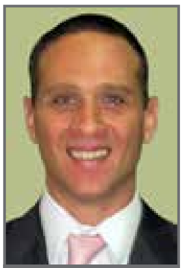
## Facing challenges with efficiency

Operational costs are on the rise; therefore, developing the internal efficiency within the organisation to increase productivity without having to increase staff is a necessity now, said Dr Al-Wazani. "Moreover, there is a need to revisit the employment hierarchies to be more efficient, flexible and concise to reduce operational costs. A main solution is seeking IT to reduce costs," he said.

Preserving clientele is the main strategy at the moment for insurers to overcome this challenging period, pointed


Dr Ali Al-Wazani


Mr Imad Abdel Khaleq


Mr Yacoub Sabella

**Key market indicators 2017-2018**

| JOD m | 2018 | 2017 | % change |
|---|---|---|---|
| GWP | 606.0 | 593.0 | 2.19 |
| Gross claims paid | 462.3 | 445.7 | 3.72 |
| Net profit | 18.5 | 2.9 | 544.60 |
| Market capitalisation | 266.5 | 265.4 | 0.41 |

Source: Jordan Insurance Federation

out Mr Abdel Khaleq. His company has decided to drop targets for top line for the sake of sustaining profitability. "This is the most practical measure especially considering that investment returns are not rewarding at the moment. We have cut down budgets and decided to walk away from several loss-making accounts."

Mr Yacoub Sabella, general manager of Al-Nisr Al-Arabi Insurance Co said innovation in products and services is the way forward for insurers to overcome the challenging economic conditions.

## Medical: On the way to maturity?

Medical insurance is one of the fastest-growing lines and controls around one third of the market premium income. In 2018, medical insurance grew by 8% to JOD182m. General lines of business – controlling around 86% of the market in 2018 – saw a setback in growth, while medical insurance was one of the few lines which managed to grow.

Generally, medical business has always been problematic, with intense competition in pricing – sometimes reaching an unhealthy level – in the past few years. The status is changing, however, said Dr Al-Wazani. "The market is maturing in terms of pricing for lines which have direct impact on the bottom line and has high retention rate, such as medical. In the previous years, margins were in a better shape, which gave a company the ability to service losing accounts for a year or two. Nowadays, it is unaffordable. Slim profit margins have pushed for price correction, which is a sign of maturity for this line."

## Motor, standing still

Motor is the largest line of business as it dominates around 40% of the market premiums. In 2018, motor premiums dropped by 2.1% to JOD228m from JOD233m in the previous year. JIC last year resorted to increasing its comprehensive motor covers by up to 30%. "We did our research and increased the rates on certain segments which are loss making," said Mr Abdel Khaleq.

He added that the results of motor TPL are alarming with loss ratio exceeding 130% and the number and severity of accidents are increasing significantly. "It has been eroding profits generated by other lines and is exhausting companies' balance sheets."

Motor insurance will continue to face the same challenges in the short term, said Dr Al-Wazani. "Hopefully in the coming period, the central bank would show more understanding than the previous regulators and change the present status."

He noted that insurers should have the freedom to underwrite motor business. "Presently, companies have no say in writing motor TPL. As insurers, we will accept the authorities' decisions in setting the limits of indemnity, the terms of the document and other provisions. However, we should have a free hand in deciding on the quality of business we write and set the price adequately."

## Technology and distribution

Dr Al-Wazani reiterated that the pressure on the sector to innovate and use new tools is mounting. He said that insurers can consider modern techniques such as electronic collection methods. "An example is the use of e-billing. Insurers have many transactions which can be conducted easily using the electronic platform, which the central bank has launched in 2014. People are receptive to using the electronic payment system, and this will increase the efficiency of collection and reduce its costs."

For Mr Abdel Khaleq, selling through the use of technology still lags behind in the region. "The public is more interested in direct channels. It will take time to change people's mindset."

He added that bancassurance is developing slowly as well. "This is also due to public mentality which still prefers face-to-face selling techniques." However, he said, comparison sites might have strong ground to succeed in the future given the widespread of internet usage in Jordan.

Mr Sabella believes that technology helps improve productivity and reduce operational costs. "This helps improve profitability. Technology is also becoming much more important for client servicing and improving the customer experience, not only in claims management, but also in the sales process of insurance products," he said.

## Regulation in transition stage

The insurance sector is presently regulated by the Insurance Administration (IA) under the Ministry of Industry and Trade, which took over the task of overseeing the sector following the scrapping of the

**Top five insurers by GWP in 2018**

| JOD m | 2018 | 2017 | % change | Market share (%) |
|---|---|---|---|---|
| gig Jordan | 85.23 | 95.43 | -10.69 | 14.06 |
| Jordan Insurance Co | 60.08 | 63.77 | -5.79 | 9.91 |
| Al Nisr Al-Arabi | 43.01 | 34.64 | 24.16 | 7.10 |
| Solidarity Insurance Co | 42.12 | 39.64 | 6.26 | 6.95 |
| Middle East Insurance Co | 40.68 | 41.18 | -1.21 | 6.71 |
| Total | 271.12 | 274.66 | -1.29 | 44.74 |

Source: Jordan Insurance Federation

# Country Profile – Jordan

### GWP by line of business 2015-2018

| JOD m | 2018 | 2017 | % change | 2016 | % change | 2015 | % change | 2014 | % change |
|---|---|---|---|---|---|---|---|---|---|
| Motor | 228.18 | 232.97 | -2.06 | 225.18 | 3.46 | 221.88 | 1.49 | 212.53 | 4.40 |
| Medical | 182.16 | 168.89 | 7.86 | 171.5 | -1.52 | 154.4 | 11.08 | 141.67 | 8.99 |
| Property | 70.01 | 73.2 | -4.36 | 74.75 | -2.07 | 69.51 | 7.54 | 69.12 | 0.56 |
| Marine & transport | 17.78 | 18.03 | -1.39 | 20.56 | -12.31 | 22.51 | -8.66 | 25.49 | -11.69 |
| General classes | 12.52 | 11.73 | 6.73 | 11.13 | 5.39 | 11.05 | 0.72 | 13.27 | -16.73 |
| Liability | 6.94 | 7.21 | -3.74 | 6.66 | 8.26 | 7.43 | -10.36 | 6.67 | 11.39 |
| Aviation | 1.95 | 1.11 | 75.68 | 1.56 | -28.85 | 1.57 | -0.64 | 3.24 | -51.54 |
| Credit and surety | 0.95 | 1.13 | -15.93 | 1.02 | 10.78 | 0.98 | 4.08 | 0.7 | 40.00 |
| Total non-life | 520.49 | 514.27 | 1.21 | 512.36 | 0.37 | 489.33 | 4.71 | 472.69 | 3.52 |
| Life | 86.20 | 79.80 | 8.020 | 70.58 | 13.06 | 61.04 | 15.63 | 53.10 | 14.95 |
| Total | 606.69 | 594.07 | 2.12 | 582.94 | 1.91 | 550.37 | 5.92 | 525.79 | 4.67 |

Source: Insurance Administration (IA)

independent Insurance Commission (IC) by virtue of the restructuring of Institutions and Government Departments Law No. 17 in 2014. The IA is presently in the process of handing over the task of supervising and regulating the insurance sector to the Central Bank of Jordan (CBJ). The process is expected to be completed within this year.

Mr Abdel Khaleq said shutting down the IC was a big drawback. "There is a need for an independent, specialised insurance regulatory body."

However, the CBJ is expected to raise the standards of the industry, he said. "The CBJ is very stringent and this can be seen in the highly-regulated banking sector. However, this will pose challenges to insurers as the CBJ will impose more ERM and corporate governance requirements, in addition to the typical regulatory challenges such as implementing the IFRS 17 standards in the coming period."

JIC has finalised the implementation of IFRS 9 and is presently preparing for IFRS 17, said Mr Abdel Khaleq. "We have done the gap analysis. The IFRS 17 requires early preparations especially for our branch in the UAE."

Dr Al-Wazani said companies need to be prepared for the implementation of IFRS 17 standards where they need to be flexible with their structures so that the departments related to this standard, such as the actuarial teams and ERM executives, are more efficient and equipped with the necessary expertise and know-how.

## M&A is a necessity

Dr Al-Wazani said with thin profit margins, M&A will present itself on the agenda of boards as a viable solution for companies to sustain business and achieve reasonable returns. "Limited top line growth, shrinking revenues, increased operational costs and regulatory challenges are all circumstances pushing for M&A, and if supported by regulatory incentives, consolidation could materialise in the future."

There are 24 providers in Jordan, which is a large number considering the relatively small market size, said Mr Abdel Khaleq. "Consolidation needs to be imposed and the regulator should provide attractive incentives to entice companies to take the M&A route. The market is overcrowded and there is a need to create large, well-capitalised entities capable of serving clients efficiently and offering quality services," he said.

However, Mr Sabella does not see that M&A is a solution, "since it doesn't solve the underlying issues and causes".

## Sustaining market leadership

In 2018, gig-Jordan was ranked as the market leader in terms of premium income, with 15% market share, and profitability as it generated JOD4.3m in net profit, representing around 19% of the market net profit. "gig looks to sustain market leadership in top and bottom lines, but more essentially we want to lead the market in other elements which are of no less importance such as being the employer of choice, customer experience and satisfaction, product development and innovation and technology," said Dr Al-Wazani.

He said the company looks to achieve double-digit ROE and further improving the outlook of the solvency margin in the coming years. "As a market leader, we have the size which helps us to draw a healthy practice and not to succumb to unprofessional competition."

### GWP by line of business first two months 2018, 2019

| JOD m | 1 Jan - 28 Feb | | |
|---|---|---|---|
| | 2019* | 2018* | % change |
| Motor | 35.76 | 35.3 | 1.30 |
| Medical | 44.69 | 43.24 | 3.35 |
| Property | 12.37 | 13.68 | -9.58 |
| Marine & transport | 2.83 | 3.35 | -15.52 |
| General classes | 2.54 | 2.63 | -3.42 |
| Liability | 1.67 | 1.28 | 30.47 |
| Aviation | 0.03 | 0.07 | -57.14 |
| Credit and surety | 0.14 | 0.13 | 7.69 |
| Total non-life | 100.03 | 99.68 | 0.35 |
| Life | 17.40 | 18.70 | -6.95 |
| Total | 117.43 | 118.38 | -0.80 |

* preliminary figures

Source: Insurance Administration (IA)

## Life in Jordan needs more incentives

Life business has been growing steadily in Jordan for the past five years at least. Yet it remains below expectation and requires a boost to reach a satisfactory level.

Life business controls 14,2% of the market GWP with premium income of JOD86.19m in 2018, up from JOD79.8m in the previous year. This is an 8% increase, which is around four times the growth of total market GWP.

Life protection accounts for 76% of the market's life portfolio, unit-linked with 22%, and the remainder coming from annuities. There is only one specialised life provider in Jordan, which is MetLife. The growth in unit-linked products between 2017 and 2018 reached 38.6% and it is believed to have been a major contributer for growth in life business, said Mr Yacoub Sabella, general manager of Al-Nisr Al-Arabi Insurance Co.

MetLife has been promoting unit-linked products and this has coincided with the strong performance of the international stock markets, he said. "It remains to be seen how this trend will play out."

He added that the growth in individual life sales has also increased total growth in the life business. "Additionally, growth in loan portfolios of banks have led to an organic increase in borrowers schemes," he added.

A positive trend in the life business in Jordan is that it has been growing despite the challenges the economy and the sector have been facing over the years, as it grew from JOD47.4m in 2013 to over JOD86m in 2018. More importantly, the life portfolio has expanded from making up 9.6% of the market GWP to slightly more than 14%.

Tough economic conditions and stifled growth in individual disposable income have limited growth prospects for the sector as a whole. As such, there is a need to support and encourage life business in particular since it is the most profitable business and remains immune from unhealthy price competition. For too long, companies have called for tax breaks to encourage people to buy life insurance, and now it is more important than ever to do so. To some experts, there is hope for this to take shape or other incentives to be introduced with the central bank taking over the tasks of regulating the market in the near future.

### Life premiums 2017-2018

| JOD m | 2018 | 2017 | % change |
|---|---|---|---|
| Life protection | 65.22 | 64.46 | 1.18 |
| Investment linked assurance | 18.94 | 13.67 | 38.55 |
| Annuities | 2.03 | 1.69 | 20.12 |
| Total life premiums | 86.19 | 79.82 | 7.98 |

Source: Insurance Administration (IA)

### Life premiums for first two months 2018, 2019

| JOD m | 1 Jan - 28 Feb | | |
|---|---|---|---|
| | 2019* | 2018* | % change |
| Life protection | 15.38 | 14.73 | 4.41 |
| Investment linked assurance | 1.77 | 3.71 | -52.29 |
| Annuities | 0.24 | 0.26 | -7.69 |
| Total life premiums | 17.39 | 18.7 | -7.01 |

* preliminary figures

Source: Insurance Administration (IA)

### Finding market niches

The biggest success JIC has accomplished over the past three years was delving into the microinsurance sphere, said Mr Abdel Khaleq. "We are pioneers in this area as we have initiated microinsurance fund for women and then expanded to covering spouses. Our offerings started with life microinsurance products and have now expanded to medical."

He added that microinsurance operations are more profitable than general lines. "Despite the small size of premiums, they are profitable and, one day when volumes build up, they will overtake the traditional lines. It is a promising business, and we have a dedicated microinsurance department to grow the business coming from this channel."

Life insurance, especially credit, is another area where JIC has given special attention as it currently accounts for around half of the company's portfolio. "Life is a profitable line and we are the leaders in terms of the size of premiums."

### Rocky road ahead for the market

The latest results the IA has issued reveal slower growth for GWP until the end of February 2019 as the market reached JOD117.4m from JOD118.4m in the same period of the past year. Life business for the same period has also dropped by 7%. In general, challenges exist and growth could be capped in the coming period, though it would be imprecise to judge the whole year based on the outcomes of the first two months.

Dr Al-Wazani predicts a challenging year ahead especially with liquidity putting extra burden on insurers. "The liquidity issue is a main problem which has emerged in the past few years. Clients' ability to meet their commitments is diminishing, affecting the capability of an insurance company to continue in business."

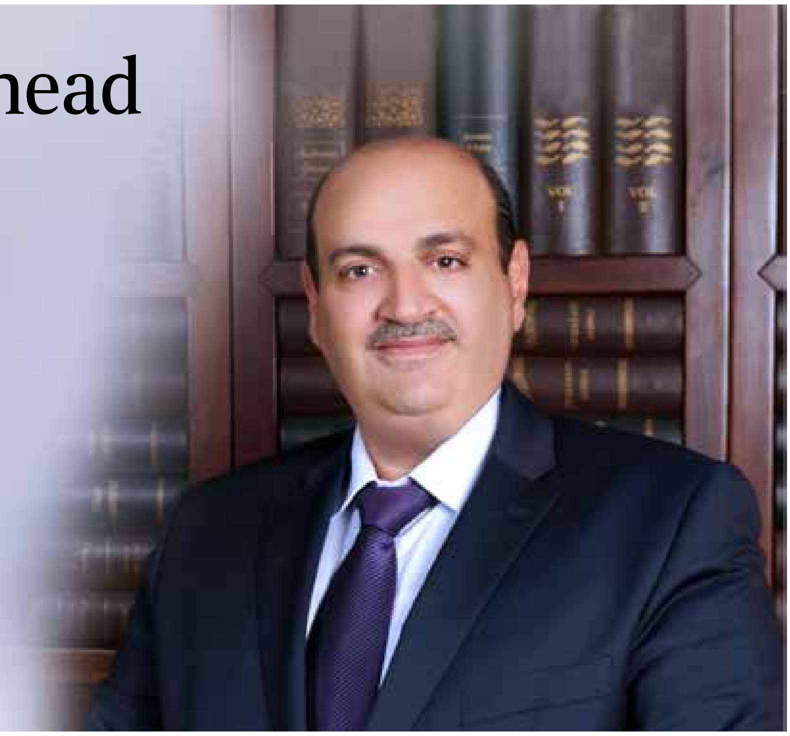
Largely, market growth will remain in the same range within the past couple of years. "Hopefully the economic conditions will improve and be reflected positively on the sector."

Mr Sabella does not see the insurance sector making a real progress in the next period without an improvement in the underlying economy and renewed investment appetite in the country.

For Mr Abdel Khaleq, it all depends on the overall political conditions. "Presently, marine and construction businesses are stagnant. Jordan has a bright future if economic and political conditions improve. Though this year might not see significant growth given the unstable surrounding with conflicts in Syria and Iraq, I am still optimistic that Jordan will preserve its status as an oasis of stability in a disrupted region. Hopefully this will continue and the country will prosper."

COUNTRY PROFILE – JORDAN

# Fruitful term ahead for the sector



The **Jordan Insurance Federation** (JIF) foresees a rewarding stage ahead with a new insurance law in the making and the sector's regulatory tasks to be transferred to the Central Bank of Jordan. **Mr Majed Smairat**, newly re-elected chairman of the JIF, sheds light on the sector's recent developments and the Federation's major future initiatives.

### What is your assessment of the performance of Jordan's insurance market in 2018?

For 2018, the preliminary financial statements of insurers show an increase in GWP by 2.2% to JOD606m ($856m) compared to JOD593m in 2017. Gross paid claims increased by 3.7% to JOD462m. The increase in paid claims came mainly from marine, motor and credit insurance branches.

Twenty-three insurers out of the market's 24 have reported net profit of JOD14.8m in 2018 against JOD3.4m in the previous year, an increase of 335%. These are preliminary results; the final consolidated results for the sector will be issued after the release of the results from the remaining insurer.

### Following your re-election as chairman of the Federation for the term 2019-2021, what are the most important goals you aspire to achieve in the coming period?

Continuing for another two years would enable the board to complete the projects we have started since we were first elected in 2017 and follow up on developments related to initiatives that have been launched since then.

Probably the most important project the board will be undertaking is to continue discussions which we have initiated recently with the Economy and Investment Committee at the parliament on finalising the insurance regulations law.

We will complete the discussions on all articles of the draft law and submit our observations before proceeding with the ratification procedures of the law.

Once promulgated in the Official Gazette, the draft law will constitute a qualitative leap forward for the insurance sector through the transfer of regulatory tasks over the sector from the Insurance Administration at the Ministry of Industry and Trade to the Central Bank of Jordan. The ensuing results of this move would include the issuance of new instructions and regulations as well as the amendment of the existing ones to organise the sector's businesses.

The bill will pose challenges for the sector to implement new standards which include the separation of ownership of insurance companies from the executive management, in addition to applying corporate governance instructions which are currently imposed on banks – considered stringent to a certain extent compared to those applied by insurers and other financial entities.

Additionally, the JIF board will continue to communicate with the Federation's members to take note of their observations and suggestions in regard to future projects during the next term. Among the most important projects include amending the Federation's bylaws to strengthen the role of the JIF and increase coordination with insurance-related entities and further enhance coordination with relevant institutional bodies.

Another important initiative the board will be working on is launching the electronic linkage with the Ministry of Health to exchange reports of medical committees pertaining to motor accident injuries. The current mechanism of issuing reports drains insurance companies' capacities as a result of exaggeration of disabilities in these reports, with some cases citing injuries which existed prior to the accidents. Establishing this e-linkage will be a qualitative leap for the sector to address the problem insurance companies have been suffering from for a long time and one of the main reasons for losses in motor TPL insurance.

Enhancement of training programmes and complimentary workshops for insurance professionals are among the JIF's goals, too. This is to improve employees' ability and efficiency and thereby improving the level of services offered to citizens, enhance professional certificates, and facilitate the exchange of expertise

> **"Companies need to expand microinsurance offerings and design insurance products aimed at insuring homes and small businesses ... so as to increase the scope of insured, which would subsequently increase the size of premiums and insurance penetration."**

among the sector's employees.

The JIF plans as well to urge the government to allow insurers to conduct prudent underwriting for motor TPL and have the freedom to set the adequate price.

The Board also plans to work on developing the internal regulations of the Federation, enhancing the institutional governance, transparency and developing its cadres.

### What can insurers do to achieve growth under the current economic conditions?

The Middle East region in general, and Jordan in particular, has witnessed economic challenges in recent years. Jordan continues to suffer from the decline of economic activities due to the drop in trade exchange with Arab countries such as Iraq and Syria as a consequence to instability these countries are witnessing.

This has led to a reduction in marine insurance business. Moreover, the limited investments implemented by the state in recent years because of the lack of budget, has led to a decline in construction insurance covers as well. All these challenges, in addition to the economic slowdown, have contributed to reduce the citizens' purchasing power, forcing them to focus on the basic requirements, where insurance is not at the top of their priorities.

With all these circumstances, insurance companies are required to develop solutions that meet the needs of the local market, and create innovative insurance products and services at affordable rates.

Companies need to expand microinsurance offerings and design insurance products aimed at insuring homes and small businesses, as their coverage remains below the targeted level, so as to increase the scope of insured, which would subsequently increase the size of premiums and insurance penetration.

In parallel, the government, represented by the insurance supervisory bodies, is required to introduce new compulsory insurance, such as professional liability insurance for doctors, engineers and various professions. Moreover, there is a need to impose compulsory insurance against risks related to natural disasters and earthquakes to protect the national economy and assets. All these moves have the potential to increase the contribution of insurance to the country's GDP as it is still modest at 2%, while insurance density is at around $80.

### What are the chances for M&A in the coming period? How can this trend be encouraged?

The market currently includes 24 insurance providers, a large number compared to the relatively modest size of the insurance market of JOD600m.

Following the decisions of the Economic Committee of the government in 1988, several mergers took place among insurance companies at the time. Subsequently, there was only one successful merger that took place between Yarmouk Insurance Co and First Insurance Co around three years ago, which resulted in Solidarity Insurance Co, one of the successful players in Jordan. Solidarity benefited from the merger thanks to the Prime Minister's decision issued in the Official Gazette on 16/10/2017, which granted companies resulting from the merger of insurance companies a three-year exemption of income tax and annual fees. The merged company also receives exemption from paying the ownership transfer and capital raising fees.

I believe that in the near future, following the transfer of regulating the sector to the CBJ, there will be mergers between some insurance companies. This would be a healthy route which the JIF encourages in order to create large insurance entities capable of competing efficiently and increasing the market retention rates, which will be reflected positively on the market and strengthen the ability to negotiate with reinsurers, invest more in developing the human element, market studies to identify potential developments and future business opportunities.

### What are your expectations for the market this year?

It is still early to judge market results for 2019, but the sector has not seen any strategic decisions affecting the progress of the legislation or the introduction of new mandatory covers. Hence, the market is expected to grow modestly according to what has been seen in recent years, with no more than 5% growth rate. However, I expect a decline in the profitability of the sector for 2019 compared to 2018 based on the indicators of the first quarter of this year, not to mention the tightening of regulators and actuaries with insurance companies to increase technical reserves, which will negatively affect the profitability of the sector. Moreover, the speed up in issuing court rulings for cases brought against insurers in 2018, which is continuing in 2019, has forced insurance companies to use their bank deposits or liquidate assets to be able to meet their obligations.