Market Review
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Underwriting profitability challenges could lead some insurers to exit.

Oman's Market Offers Opportunities; Fierce Competition Remains

Continued growth is forecasted for Oman's insurance market, but new Takaful licensing regulation is expected to generate additional competition for an already crowded market. Over the long term, A.M. Best expects that underwriting profitability challenges could lead some insurers to exit, while larger insurers will maintain their leading positions.

Oman's insurance market has grown rapidly in recent years and continues to offer growth opportunities. However, the introduction of new companies, branches and subsidiaries has caused market profitability to decline at the same time. Oman's insurance market is modest, even by Gulf Cooperation Council (GCC) standards, where it ranks as the fifth largest with total premium in 2011 reaching OMR 282 million (USD 733 million). The insurance sector is similar in size to that of Qatar, Bahrain and Kuwait; but significantly smaller than that of the United Arab Emirates (UAE) and Saudi Arabia, both of which benefit from economies driven by much higher oil reserves, more advanced financial markets and greater population. (see **Exhibit 1**).

As with other GCC countries, the Omani insurance market has strengthened with gross premiums

Exhibit 1

Gulf Cooperation Council Countries – Key Facts (2011)

(USD Millions)

Country	Insurance Premiums Life	Insurance Premiums Non-Life	Insurance Premiums Total	Population (Millions)	Gross Domestic Product (USD Billions)	Premium Penetration (% of GDP) Life	Premium Penetration (% of GDP) Non-Life	Premium Penetration (% of GDP) Total	No. of Companies* Insurers	No. of Companies* Reinsurers
Bahrain	$130	$442	$572	1.1	$25.9	0.5%	1.7%	2.2%	30	7
Kuwait	153	666	819	3.7	161.0	0.1	0.4	0.5	32	2
Oman	121	612	733	3.1	72.7	0.2	0.8	1.0	22	1
Qatar	54	997	1,050	1.8	173.5	0.0	0.6	0.6	26	1
Saudi Arabia	241	4,693	4,934	28.2	597.1	0.0	0.8	0.8	32	1
United Arab Emirates	1,278	5,236	6,514	5.4	342.0	0.4	1.5	1.9	61	1

*2012
Sources: International Monetary Fund: World Economic Outlook Database, October 2012: Swiss Re Sigma No. 3/2012; A.M. Best research

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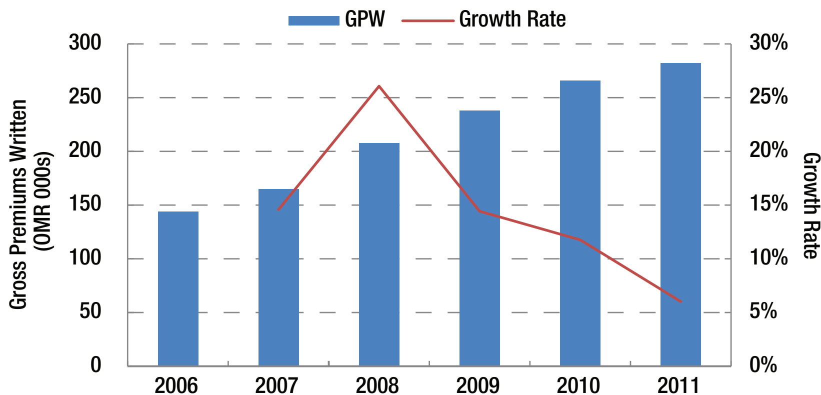
Exhibit 2
Oman Life and Non-Life – Gross Premium Development (2006-2011)



Sources: A.M. Best research, Swiss Re Sigma reports

written (GPW) nearly doubling from OMR 144 million in 2006 to OMR 282 million in 2011, albeit from a low premium base (see **Exhibit 2**). From 2007 to 2010, GPW annual percentage growth was in double digits, however, its pace declined in 2011 to a more modest 6% rise.

Despite this slowdown, the Omani insurance market is well-positioned to grow as revenues from the energy sector continue to finance infrastructure projects. Oman's economic growth has increased since 2009, averaging 4% to 5%, with gross domestic product (GDP) expected to rise by 3.9% in 2013. Major construction projects include a regional maritime transit-trading hub and tourist attraction in Duqm. In addition to the insurance market benefiting from infrastructure development, medical health care is expanding and is likely to grow further over the short-to-medium term.

Significant downside risks for insurance growth include Oman's slowing economy and the dependence on the state-owned energy sector. As with the other GCC countries, social unrest in the region could present a risk to growth.

Competition Increases, Despite Small Market Size

Despite the low total premium volume, the Omani insurance market is fragmented with 22 active insurers, half of which are local companies. The remainder comprise regional and international companies – including AXA, Zurich and Chartis – with partnerships or branches within the country. In February 2010, RSA purchased Al Ahlia Insurance Co., which at the time was the country's third largest insurer. In addition, Oman has a domestic reinsurer – Oman Reinsurance Co., formed in 2008 – which does not benefit from compulsory cessions but competes for business in the open market.

Therefore, an increasing number of insurers are chasing a modest premium base, with new entrants in recent years aiming to take advantage of the market growth. However, the more recent market entrants may find it difficult to generate sufficient economies of scale to service capital levels and meet shareholder return-on-equity requirements. Meanwhile, the leading Omani insurers continue to produce sound, sustainable results.

Dhofar Insurance Co. is the largest insurer with a market share of almost 20%. The four largest insurers – Dhofar, National Life & General Insurance Co., Al Ahlia Insurance Co. and Oman United Insurance Co. – collectively underwrite more than 50% of the market's premium, demonstrating the local companies' strength.

The pending introduction of Takaful licensing regulation by the insurance regulator – the Capital Market Authority (CMA) – is likely to create further interest from new entrants, or result in existing companies establishing Takaful windows. While this is seen as a positive regulatory development, A.M. Best expects an influx of fresh capital

trying to service a small market to result in a more saturated one, unless Takaful offerings – three of which have already received initial approval – can open up a previously untapped market and increase overall insurance penetration.

As observed in other GCC markets, Takaful operators are likely to compete directly with their conventional counterparts. Pricing pressures occur when companies aim to generate volume to capture market share in the absence of brand recognition or should demand for insurance fail to increase. New entrants are under pressure to satisfy their shareholders' return-on-equity requirements. Competition is likely to become more pronounced, at a time when technical profit margins are already at low levels.

While the introduction of Takaful operators and windows is anticipated, it is unlikely that the market will sustain this number of companies in the long run. A.M. Best expects increased competition will place pressure on some of the smaller insurers' profitability, which may cause them to withdraw from the market altogether. Other companies are expected to continue to operate but focus on niche areas. While consolidation would appear logical for a crowded market, mergers and acquisitions in the region tend to be infrequent, given in part the disparity between buyers' and sellers' expectations. In the GCC, sales of companies have tended to be to international players, as opposed to mergers with domestic insurers.

Regulatory Developments Positive

A.M. Best has seen the CMA take a more active role in setting regulatory standards by introducing new policies and moving toward the adoption of international best practices. It has restricted investment activities of insurers and reinsurers, and has established legislation governing the use of external reinsurers. Regulatory controls are in place to take action against companies that have breached disclosure or regulatory requirements.

The CMA is commissioned to liberalise the insurance sector; therefore, enhancing competition and the introduction of new products and structures to the market. The CMA regulates the insurance market in accordance with the Insurance Companies Law (Royal Decree 12/79). This legislation is relatively old, predating the development of the commercial Takaful market, and therefore, no explicit regulation of this sector exists. Oman is updating its legislation, with a new insurance law and specific Takaful regulation being finalised. This will introduce Takaful licensing in conjunction with best practices and standards consistent with the Islamic Financial Services Board (IFSB).

Developments by Line of Business

Oman's insurance sector is dominated by non-life risks, with GPW rising from OMR 118 million in 2006, to OMR 237 million in 2011, according to CMA data. Life premiums have grown at a marginally lower rate, from OMR 26 million in 2006, compared with OMR 45 million in 2011. Faster growth rates in the life market could have been anticipated given the relatively low penetration of life insurance. However, low insurance awareness among the population, combined with the insurers' focus on group life business, has resulted in non-life products dominating the market.

Traditional individual life products contribute a mere 3% of overall premiums, indicating a lack of awareness and the market's need for life-savings and protection products (see **Exhibit 3**). Group life products consist primarily of annual renewal contracts, with credit life linked to loan contracts and enforced by banks. As such, premium rates are generally determined by an international partner who would normally assume the larger portion of the risk with the local company or branch only retaining a small portion.

Exhibit 3
Oman Life and Non-Life – Premium by Segment and Retention Levels (2011)
(OMR 000s)

Product Line	Gross Premium Written (GPW)	% of Total GPW	Net Premium Written (NPW)	% of Total NPW	Retention Ratio
Motor	114,926	40.8%	89,722	63.2%	78.1%
Property	33,113	11.8	2,703	1.9	8.2
Medical	32,681	11.6	13,275	9.4	40.6
Group Life	27,694	9.8	9,892	7.0	35.7
Engineering	23,362	8.3	6,219	4.4	26.6
Other	19,898	7.1	5,966	4.2	30.0
Marine	13,012	4.6	3,552	2.5	27.3
Liability	8,551	3.0	2,826	2.0	33.0
Life Individual	8,492	3.0	7,705	5.4	90.7
Total	**281,730***	**100.0%**	**141,860**	**100.0%**	**50.4%**

*May not add due to rounding.
Sources: Capital Market Authority, Oman; A.M. Best research

A.M. Best expects Omani insurance premiums will continue to be generated primarily from non-life lines in the coming years. Motor – the main line of business accounting for 41% of GPW in 2011 – is an open market product with no tariff or controls imposed by the CMA, and as a result, is the most competitive. This is reflected in companies' top-line growth with low technical profitability or, in many cases, technical losses. On a net basis, motor contributed 63% of total net premium written (NPW) in 2011. In comparison, other business lines were heavily reinsured into the international market.

Medical business has seen material growth in recent years to represent almost 12% of total GPW. However, because medical is not currently compulsory and there is a lack of regulation for universal cover, demand for this product is low compared to that of regional peers. Despite the limited number of companies offering medical products, insurers continue to struggle to break even and underwriting conditions are challenging given the market's high level of medical claims inflation. The introduction of compulsory medical cover is still under discussion, and depending on the form this eventually takes, may increase demand in the short-to-medium term.

Property and engineering risks collectively contribute 20% of GPW. However, on a net basis, they represent just over 6% of retained premiums. This is in line with low retention ratios across the GCC, particularly for domestic insurers.

Retention levels vary considerably per line of business, ranging from 8% for large risks, to 91% for individual life, with overall levels of 50%. Local established players have much lower levels of retention than those of foreign companies with a branch presence.

Whilst the quality of reinsurers used by Omani companies is good – as per local requirements – there remains material counterparty credit risk for the primary insurer, given the significant proportion of business ceded. This can be magnified in the event of catastrophes, which despite common belief do occur, especially in the form of windstorm.

Oman's Catastrophe Exposures

The GCC has generally been viewed as a benign region for catastrophes, although recent storms in Oman have highlighted the uncertainty regarding natural hazards and the country's changing awareness of such risks.

In the past few years, Oman has been exposed to cyclones from the Arabian Sea, including Gonu in 2007 and Phet in 2010. Cyclone Gonu, perceived to be the worse tropical storm in Oman on record, caused heavy flooding. As a result, many local insurers and reinsurers produced unfavourable results from their Omani exposures. Subsequently, some reinsurers withdrew capacity to manage their prospective exposures. Local insurers generally have a weak understanding of catastrophe cover, with most dependent on assistance and protection provided by third parties, mainly international brokers or lead reinsurers. Many insurers paid motor-related claims relating to Cyclone Gonu, while a significant proportion of property and engineering risks were ceded into the international market.

The developments and uncertainty regarding catastrophe risks in Oman is of concern, especially with the frequency of such events seemingly increasing, combined with higher aggregate sums insured. It is of material importance for domestic participants to understand their aggregate exposures and concentration to ensure their capital base is adequately protected to cover catastrophe risk, including the counterparty credit risk associated with their reinsurers.

Ratings Issues for Omani Insurers

The Omani insurance market continues to be fragmented and fraught with intense competition. Despite good market opportunities and continued growth over the short-to-medium term, an anticipated increase in new entrants after the introduction of new Takaful licensing regulation is expected to further crowd the market and create a more challenging operating environment.

As with other GCC insurance markets, insurers' enterprise risk management (ERM) is at a developmental stage. In some instances, ERM can lack internal control over key management functions, for example investment risk management.

In the short term, low investment yields are anticipated and there is greater pressure on insurers to deliver improved underwriting results. This poses an interesting challenge for insurance companies, and fresh capital will likely increase competitive pricing pressures.

Prudent underwriting is important in order to establish a sound franchise in the market. However, like other insurance markets in the GCC, the Omani insurance market is, to an extent, constrained by its skill base.

In addition, for Omani insurers, the country's exposure to natural catastrophes is one of the most significant risks. It is therefore important for companies to improve their understanding of this risk and any potential implications this can have on their profiles.

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