

# In the face of uncertainty



Amman, Jordan

Jordan's insurance sector has been resilient in dealing with the COVID-19 implications, but uncertainty hangs over businesses in the long run in a country already facing serious economic challenges.

By **Osama Noor**

Since the government declared a state of emergency in March, in the face of COVID-19, businesses have shut down, the movement of people has been restricted and borders closed to curb the spread of the virus. These measures have impacted the economy, and are slowing down commercial activities, consequently putting pressure on the insurance business, said Jordan Insurance Federation (JIF) chairman Majed Smairat. "We hail the government's efforts in combating the coronavirus, and we are proud that Jordan is among the leading countries taking proactive and strict measures in that regard. Protecting lives is the main priority at the moment," he said.



Mr Majed Smairat

However, the slowdown in business activities has weakened the insurance sector's business in the current period, he said. "Presently, insurers are coping with the new situation and managing their operations, but the volume of business is expected to decline in the long run, and the sector will face difficulties in collecting premiums. Meanwhile, insurers continue to bear their usual expenses. Hence, these developments could negatively affect companies' profitability if this pandemic lasts longer."

The impact of the pandemic on the economy has affected all sectors globally, and the biggest challenge is to deal with the post-coronavirus era, when a global recession is expected, he said. "Going forward, generating new business will be challenging in light of the current crisis."

The default of payments and debts is expected, and growing the business would be extremely challenging, said Al-Nisr Al-Arabi Insurance vice

## COUNTRY PROFILE – JORDAN

## Performance by line of business 2018-2019

JOD m	GWP				Paid claims			
	2019*	2018	% change	% of GWP 2019	2019*	2018	% change	% of paid claims 2019
Motor	235.01	227.50	3.30	38.24	235.24	242.08	-2.83	49.66
Medical	187.57	182.38	2.85	30.52	161.53	159.46	1.30	34.10
Fire and property	68.05	70.03	-2.83	11.07	27.54	19.74	39.51	5.81
Marine and transport	16.03	17.80	-9.94	2.61	7.61	5.39	41.19	1.61
General classes	12.14	12.69	-4.33	1.98	2.54	2.89	-12.11	0.54
Liability	7.23	6.49	11.40	1.18	0.71	0.82	-13.41	0.15
Aviation	1.76	1.95	-9.74	0.29	0.04	0.01	300.00	0.01
Credit & Suretyship	0.95	0.89	6.74	0.15	1.80	2.28	-21.05	0.38
<b>Total non-life</b>	<b>528.74</b>	<b>519.73</b>	<b>1.73</b>	<b>86.05</b>	<b>437.01</b>	<b>432.67</b>	<b>1.00</b>	<b>92.25</b>
Life	68.36	65.49	4.38	11.12	36.70	42.50	-13.65	7.75
Investment-linked	14.96	19.00	-21.26	2.43	0.00	0.50	-100.00	0.00
Annuities	2.43	1.59	52.83	0.40	0.00	3.20	-100.00	0.00
<b>Total life</b>	<b>85.75</b>	<b>86.08</b>	<b>-0.38</b>	<b>13.95</b>	<b>36.70</b>	<b>46.20</b>	<b>-20.56</b>	<b>7.75</b>
<b>Gross total</b>	<b>614.49</b>	<b>605.81</b>	<b>1.43</b>		<b>473.71</b>	<b>478.87</b>	<b>-1.08</b>	

\* Preliminary results

Source: Ministry of Industry, Trade &amp; Supply

chairman and general manager Yacoub Sabella. “This is true for all branches of business. Therefore, the biggest challenge for insurers is to preserve their cash flow and try to collect as much debts as possible.”

He noted that insurers’ fixed costs are concentrated in employee-related and commissions expenses, which account for more than 80% of gross expenses. “Regardless of growth in business, we still need to pay those expenses.”



Mr Yacoub Sabella

### Short- vs long-term impact

The reduced traffic on the roads, a consequence of commercial activities coming to a standstill, would be reflected positively in the results of insurers in the short run, said Mr Sabella.

“This would benefit insurers from a risk point of view, where the rate of accidents has declined sharply resulting in enhanced loss ratios. Motor insurance, for example, is expected to register around 20% loss ratio on the back of having very low accidents in the past couple of months,” he said.

Motor is the largest line of business in Jordan, covering almost 40% of the market’s GWP. Al-Nisr does not write motor but, for some insurers, it accounts for over 60% of their business. Therefore, the results for the sector in the first half is expected to be positive, considering the healthy loss ratio and hefty weightage

motor has on the overall market portfolio.

In the long run, the economic impact of this crisis is expected to be harsher than that of any previous financial crises, said Mr Sabella. “The insurance sector might currently benefit from the lower risks, but the negative implications which we might witness in the coming six to 12 months may negate the benefits generated today. In the medium-to-long run, we hope for this to be neutral, but the upcoming period is definitely shrouded in uncertainty. We are unable to identify the precise risks ahead, and it remains too early to make a prediction on how things would evolve.”

From a global perspective, the insurance sector is expected to suffer from the cancellation of events, business interruption and consequential losses. Nonetheless, there is a lack of concentration of such risks in the short term in Jordan, said Mr Sabella. “Moreover, such risks are largely reinsured, with only a small share retained,” he said.

From an investment viewpoint, the impact varies from one company to another, he said. “But overall, insurers in Jordan have very limited exposure to international equities where most insurers’ investments are concentrated in cash deposits or bonds, which pose reasonable risks at the moment.”

Yet, it is expected for insurers’ investment income to decline, given the overall impact of the coronavirus on financial markets and other economic activities, and consequently affect their profitability in the medium-to-long term.

# COUNTRY PROFILE – JORDAN

## Top 5 insurers by GWP 2019-2018

Rank	Company	2019* (JOD)	2018 (JOD)	% change	Market share (%)
1	Gulf Insurance Group (gig)	85,695,019	85,232,935	0.54	13.95
2	Jordan Insurance	59,050,317	60,013,704	-1.61	9.61
3	Solidarity-First Insurance	46,365,752	42,115,802	10.09	7.55
4	Al-Nisr Al-Arabi	44,792,214	43,013,186	4.14	7.29
5	Middle East Insurance	41,174,086	40,679,648	1.22	6.70
	Total GWP of top 5	277,077,388	271,055,275	2.22	45.09
	Total market GWP	614,492,222	605,812,324	1.43	100.00

Note: premiums generated in Jordan (excluding offshore operations)

\* Preliminary results

Source: Jordan Insurance Federation and Ministry of Industry, Trade & Supply

### Medical insurance: Highly sought after, but most vulnerable

On the back of the virus outbreak, the demand for medical and laboratory testing has increased, keeping medical insurance business active, said Mr Smairat. “Unlike other lines, the cost for medical insurance continues to surge as there has been a notable increase in the size of claims. Insurers are monitoring costs and arranging with reinsurers to adjust underwriting terms if necessary.”

He added that the federation is coordinating with various stakeholders, including healthcare service providers and clients, to curb unjustified increase in the use of medical insurance. “The misuse of medical insurance would lead to increased prices and stricter terms in the future. This is the message we relay to stakeholders.”

However, and unlike some of the regional markets, insurers are not obliged to cover the virus tests or treatment of infected persons under their medical insurance policies. “Testing and treatment are being handled by the Ministry of Health. In general, pandemics are excluded from coverage, and the government in Jordan is exclusively handling the pandemic cases,” said Mr Sabella, adding that insurers would continue to cover other health issues.

### Change in direction of medical insurance

Medical insurance controls almost one third of the market GWP with premiums reaching almost JOD188m (\$265.2m) in the past year, representing a 3% growth over 2018. Out of the market’s 24 active providers, 23 insurers write medical insurance covering around 700,000 individuals in 2018, while another 155,000 individuals were covered by private funds which TPAs manage, according to the Ministry of Industry Trade & Supply statistics.

Between 2009 and 2018, the average growth of medical insurance was 11% compared to 5.8% for general insurance lines. However, in 2019, this line of business registered a growth rate of 2.8%, which could largely be attributed to the slowdown in economic activities as 92% of medical insurance business comes from corporates. “Individual medical insurance represents a very

marginal size of the overall business. Therefore, with a lack of growth in new businesses and sluggish economy, medical insurance would see a slower pace of growth,” said Mr Sabella.

Paid claims for medical insurance reached JOD161.5m in 2019 against JOD159.5m in the previous year, and JOD160m in 2017. In 2018, the loss ratio for medical insurance reached 85.7%, down from 94% and 91% in 2017 and 2016, respectively.

The profitability of medical insurance in general has been improving, he noted. “Pricing of medical insurance has become more disciplined, and losses suffered in 2017 and 2018 are taking a different direction now. This is mainly driven by reinsurers as they have incurred considerable losses from this line in the MENA region over the past five years. Some reinsurers have pulled out from the market, diminishing reinsurance offerings in general. Therefore, underwriting and pricing have been enhanced, which would be reflected positively on the profitability of this line.”

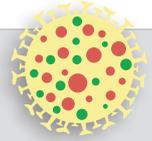
### Tough business conditions in 2019

The growth in 2019 was subdued, with GWP increasing by only 1.4% to JOD614.5m from JOD605.8m in the preceding year. In 2018 and 2017, the market growth was almost 2%, while it hovered around 6% in 2016 and 2015.

The unstable socioeconomic conditions over the past few years, in the region generally and in Jordan in particular, have created massive economic challenges, said Mr Smairat. “There has been a sharp decline in commercial activities due to the unstable regional conditions. Jordan’s borders with Iraq and Syria have been closed for some time now, hindering the progress of important insurance lines such as marine.”

Marine and transport insurance businesses dropped by 9.9% in 2019 to JOD16.03m. This line has not witnessed growth in premiums as far back as 2014.

The lack of new investments and government-sponsored construction projects has also negatively affected the growth of other lines such as fire and property, he added. “Besides, the slowdown in economic growth has contributed in putting pressure



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**Mr Majed Smairat**

on individuals’ disposable incomes, curbing their spending on items like insurance as they focus on their basic needs.”

On a positive note, preliminary results show that profits for the sector have increased by 43% in 2019, reaching around JOD22m from JOD15.7m in the previous year.

### Life facing the same stress

The growth in life insurance was also muted in 2019 with market premiums remaining roughly unchanged at around JOD86m and accounting for 14% of the market premium income. “Life insurance faces the same impediments where slower economic growth affects individuals’ ability to purchase personal insurance covers,” said Mr Sabella.

Al-Nisr controls 22% of the life market in Jordan, and its life portfolio grew by around 9% in 2019, while overall GWP grew by 4%. “The growth in our life business comes from individual business and is attributed to our active sales force. There are opportunities for personal lines in Jordan, but it requires more effort,” he said.

As for online sales, he said insurers have not yet reached a stage where insurance would be offered through virtual channels. “We are still far from that stage. Our society is still conservative about buying life insurance online. It works for simple products such as travel insurance, but not so much for life insurance products.”

### Looking ahead

The insurance sector’s results for the first quarter of this year are yet to be released, but some insurers have been announcing impressive growth in profits. According to market watchers, the long-term implications of the virus would affect the insurers’ allowance for receivables. However, the strong capitalisation base for insurers would support them to overcome this challenge.

“The most important thing nowadays is to maintain continuous communication with the staff. Showing support and providing employees with a sense of security is critical now. We have paid full salaries for the past two months, and have taken a decision not to retrench employees, even for those who have ended their contracts. We have a strong financial position and

### Relief efforts

To support the government’s efforts in combating the spread of COVID-19, the Jordan Insurance Federation has donated JOD250,000 to the Ministry of Health (MOH), of which JOD200,000 came from insurers while the federation provided the remainder. Moreover, several insurers have contributed to the Himmat Watan (A Nation’s Effort) fund which was established as a COVID-19 relief effort. Arab Orient Insurance Co, First Insurance, Jordan French Insurance Company, Jordan Insurance, Islamic Insurance and Middle East Insurance Co, each has extended JOD100,000 to the fund.

The federation is organising awareness campaigns in coordination with the MOH, said Mr Smairat. “We are also arranging with the reinsurers to monitor costs and adjust underwriting conditions in line with the new situation. The federation is also coordinating with the healthcare service providers to ensure the smooth process of health insurance and to monitor cost indicators.”

He noted that the main priority at the moment is protecting the public and safeguarding the health of people. “Safety is the main concern now and, as an industry, we are doing whatever is necessary to overcome this challenging phase.”

sufficient funds to weather the storm,” said Mr Sabella.

He noted that insurers in general are committed to paying their staff salaries in full. “Overall, I think the results of the first quarter have been very positive, and many insurers have achieved sufficient profits due to the reduction in risk on the back of the nationwide closure. I can say this was a gift to the market.”

Yet, uncertainty remains high in the long run, he said. “We will do our best to adapt to the new conditions.”

The insurance sector, like other economic sectors in Jordan and across the world, will feel the same pressure, said Mr Smairat. “Going forward, growing business is going to be tough.”

As for the post-COVID-19 future, despite their ability to offer innovative covers, insurers will find it difficult to develop new businesses. “In light of the current crisis, it is difficult to find and develop unconventional insurance business, especially since there are traditional lines that have been negatively affected; therefore the new and specialty lines will be very limited in demand.”

The positive outcome for the previous months might be considered a short-lived victory for the sector, considering the favourable loss ratios and low risk exposure. Nevertheless, growth is not expected to be paralysed as the industry in Jordan has the necessary elements of strength to overcome this phase.■