MIDDLE EASTERN ENERGY INSURANCE MARKET: POISED FOR CONTINUED GROWTH

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MIDDLE EASTERN ENERGY INSURANCE MARKET

The Middle East has a significant and growing insurance market characterized by a complex mix of international reinsurers, regional carriers, and a broad range of coverholders and managing general agents (MGAs). Primarily focused in the United Arab Emirates (UAE) and Dubai's International Financial Centre (DIFC), the past 10 years has seen sustained development of the industry, with international carriers pouring in to complement the long-established domestic carriers.

Oil, gas, and petrochemical capacity (under the banner of energy) has been the axis of considerable regional growth and has helped promote the Middle East as an insurance hub of global significance – mirroring the role that the Gulf Cooperation Council (GCC) and broader region play in the global geopolitics of oil and gas.

The Middle East has been a source of insurance capacity for more than 25 years. Initially, Bahrain was the region's reinsurance hub with key players such as Arab Insurance Group (Arig) and Trust Re offering capacity for international risks. Alongside Bahrain, Qatar and the UAE then became increasingly important, with national insurance companies such as Qatar Insurance Company (QIC) and Abu Dhabi National Insurance Company (ADNIC) providing capacity for largely regional risks.

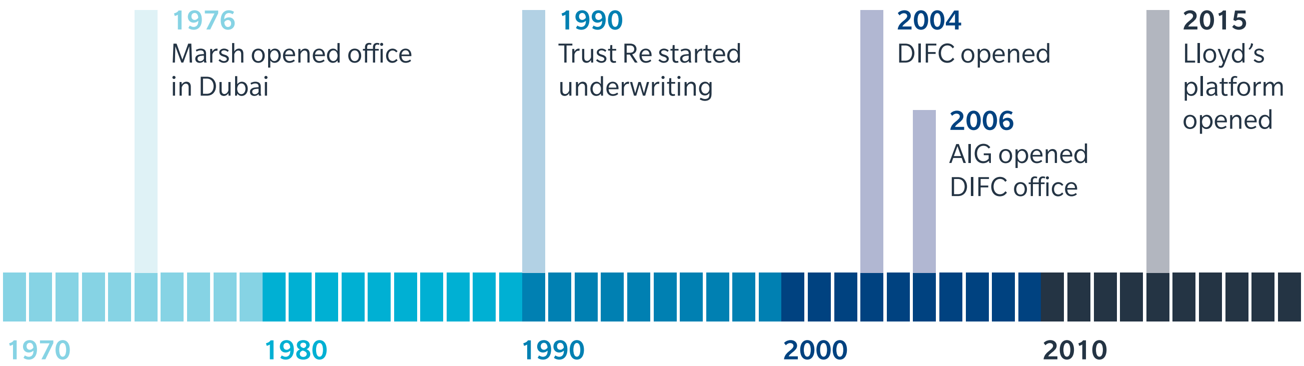
The increasing footprint of these markets for regional and international energy risks has demonstrated the potential of the Middle East to the international markets and helped stimulate regional growth.

The viability of regional carriers began to divert premium away from the more traditional hubs in London/Europe, and, as a result, the international markets have sought to set a more proactive strategy for the region by considering regionalizing underwriting authority.

Aligned to the visionary leadership of the UAE, the opening of the DIFC became the focus for international investment and a catalyst for consistent growth.

Set against this backdrop, the Middle Eastern energy market has developed into a multi-faceted access point for a huge breadth of underwriting talent and capacity providers from across the globe.

There remains significant variation in the appetite and capacity profiles of the carriers. Broadly, the market can be divided into three categories:



INTERNATIONAL CARRIERS: RE/INSURERS HEADQUARTERED OUTSIDE THE REGION

Representing the largest overall proportion of capacity in the region, these are companies that have located regional headquarters in the Middle East, while their head offices are located outside of the region in North America, Europe, or Asia.

The average capacity size for the international markets is now well in excess of US$100 million and growing.

Weighted towards the downstream, power, and construction sectors of the energy industry, these markets represent the bulk of leading capacity providers. The average capacity size for the international markets is now well in excess of US$100 million and growing. Levels of delegated underwriting authority and on-the-ground decision making varies; the most effective carriers have invested in experienced underwriting, claims, and engineering resources that are empowered to develop and execute regional strategies to focus on the clients based in the GCC and the broader Middle East and North Africa (MENA) region.

Territorially there is also variety between carriers with definitions of MENA stretched beyond the GCC into North Africa, Eastern Mediterranean countries including Turkey, Central Asia, Pakistan, India, and Sub-Saharan Africa. Peer review systems ensure that competing in the Middle East market does not push international carriers too far from their global pricing models.

The decision for Lloyd's of London to locate its regional platform in the DIFC cemented the status of Dubai as a hub for international companies to set up regional headquarters. While the Lloyd's platform in Dubai is not purely focused on energy, it has a vital role in strengthening the credentials of the Middle Eastern energy market.

Key Carriers: AIG, Liberty, Allianz, XL Catlin, Swiss Re, Zurich, and HDI.

"INDIGENOUS" CAPACITY: REGIONALLY HEADQUARTERED INSURERS

Although smaller in the total available capacity, the carriers in this category represent one of the most unique and compelling elements of the Middle East energy market. These regionally headquartered markets or "indigenous" carriers encompass a large variety of appetites and capabilities and their interaction and competition with the International market has become the market's defining feature. While long-established in the region, these markets have seen significant changes in recent years. Through continued investment in talent and a strong ambition to become recognized alongside international markets, these companies have grown in prominence and importance. Traditionally characterized by modest capacity size and lower security ratings than their international counterparts, many regional market players have transformed their profiles in the past five years with capacity size on par, if not higher, than many Lloyd's syndicates, with upgraded ratings to match.

With a broad remit within the energy sector that encompasses exploration and production, refining, petrochemicals, and power, these insurers have seen their geographical capabilities grow considerably with many now offering almost worldwide (but often excluding US, Canada, North Sea, and Japan) capacity. We expect these insurers will continue to grow in prominence.

Key Carriers: Oman Insurance, Qatar Re, Trust Re, Kuwait Re, ADNIC, and Emirates.

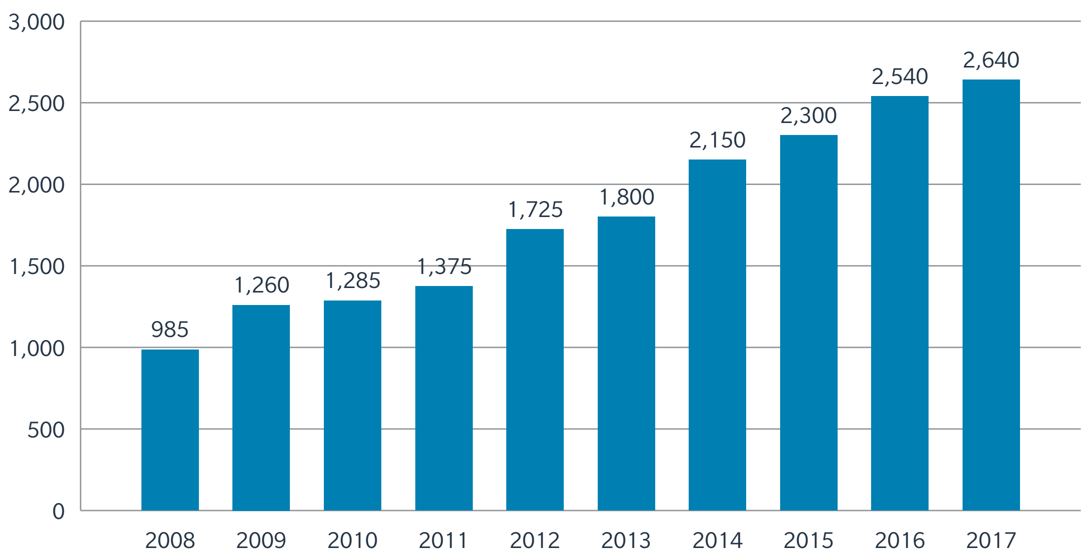
MANAGING GENERAL AGENTS (MGAs)

In contrast to the traditional model of highly specialized MGAs seen elsewhere in the world, Dubai and the DIFC have proven to be a hub for the development of MGAs that target broad portfolios, including regional energy clients, and utilize a huge variety of supporting capacities.

The use of traditional Lloyd's syndicates is common, as many view the delegated authority and business model of the MGA to be an attractive alternative to setting up a fully-fledged branch office. We have also seen security from South America and China attracted to the region in support of locally based MGAs.

Key Carriers: Malakite, Elseco, and Visionary.

QUOTA SHARE DOWNSTREAM ENERGY CAPACITY IN MIDDLE EAST
10-YEAR GROWTH



CHALLENGING PRE-CONCEPTIONS – A MARKET RICH IN DIVERSITY

The Middle Eastern energy market is often wrongly characterized as narrow in scope and not up to international standards in terms of its sophistication and underwriting capabilities. However, Marsh has continually sought to challenge this, and, through the use of our global placement and local resourcing, has been able to deliver tailored insurance solutions that blend capacity from multiple hubs but often rooted in the Middle East-based energy insurance market.

Some of the strengths of the Middle Eastern insurance market includes:

- **Gender Equality:** The Middle Eastern energy insurance market is leading the way for gender equality in what is still a male-dominated industry. With over US$850 million of capacity in the region controlled by female decision makers, this is a step towards a more balanced industry.
- **Cultural Diversity:** Reflective of the mix of nationalities, races, ages, and cultures that make up the GCC today, the market draws much of its strength from its ability to cross cultural barriers. It echoes the ethos of the trading hubs that initially defined the ports of the Gulf and helped give the region its global strategic importance.
- **Strong Financial Rating:** Improving security ratings has been a common trend, with recent security upgrades to S&P A- for many of the regional insurers including Trust Re and Arig in Bahrain, Emirates Insurance in the UAE, and IGI in Jordan, to name a few.
- **Claims Leadership:** There has been a renewed focus on claims servicing and advocacy. Trust Re and IGI hiring internationally recognized claims leaders from brokers and adjusters shows the commitment to ensure that the historical reputational issues derived from slow claims payments in the region remain a feature of the past.

RECENT TRENDS – CEMENTING A LONG-TERM FUTURE

The region continues to see investment from international companies seeking to establish a foothold in a region that is growing in autonomy and confidence. Despite the implications of both a lower-for-longer oil price and prolonged soft market conditions, the Middle East energy insurance market has continued to grow. Whether through the increased capacities and authorities of the established markets or through the new market entrants, this is reinforcing the Middle East's position for the long term.

The arrival of Berkshire Hathaway Specialty, and Alessandro Cerase returning to the region to head up its office, is a positive sign of the confidence in the region. Meanwhile, the recent launch of Chaucer MENA indicates that Lloyd's syndicates are seeking to grow their client bases through regionally located resources. The start-up of Malakite, a MGA writing on behalf of Starstone and other Lloyd's syndicates, is a demonstration of the variety of strategies that international companies are seeking to deploy for Middle Eastern business.

The profile of the underwriting expertise and experience within the regional carriers is also changing, becoming more international. For example, most recently, Christopher Wildee was appointed as the Head of Commercial lines at Oman Insurance, moving across from Aspen in London where he headed up the marine and energy team.

The influence of the regionally based insurers is also growing outside of the region – not just in terms of their underwriting capabilities but in terms of their physical footprint. IGI Jordan has now been long established in London and Qatar Re and ADNIC now both have representative offices in London with plans being mooted for similar arrangements from several insurance companies in Bahrain, UAE, and Egypt.

Marsh's continued investment in our Dubai Energy Hub and in developing energy expertise in region goes hand in hand with our long-term view of the Middle East as a complex and vibrant market for energy risks, which is poised to continue growing. This view is mirrored by the Vision strategies of the GCC leadership.

THE INSURANCE MARKET IN PROFILE

As the energy insurance market in the region continues to grow, mature, and attract new players, Marsh will continue to monitor what this will mean for energy organizations in the region and beyond. Below, we examine recent developments for key markets and players making up the Middle Eastern energy insurance market.

INTERNATIONAL CARRIERS

AIG – AIG Dubai is positioned as one of the insurer's global hubs for energy business and its recent reorganization has given Dubai responsibility for Russia and the Commonwealth of Independent States (CIS). It continues to be the largest capacity provider in the region and a well-established pillar of the market. AIG has been through significant changes globally and regionally but has remained strong in property, energy, and engineered risk markets.

Allianz Risk Transfer – While strong in energy construction, its operations in the DIFC have not yet found the formula to grow an operational energy presence to match its stated ambitions. However, on the larger capacity risks, Allianz continues to be a key player, whether underwriting through Dubai or London.

Asia Capital Re – The DIFC branch of this Singaporean-based reinsurer targets property, energy, and construction from a facultative perspective with consistent underwriting and focus on quality refining and petrochemical risks.

Aspen Re – The recently opened facultative arm of Aspen's treaty business is focused on high-quality refining and petrochemicals and construction. Its Dubai office is the only Aspen Re branch office writing facultative energy business.

Berkshire Hathaway Specialty – Alessandro Cerase recently returned to Dubai to set up the branch of Berkshire Hathaway Specialty targeting property, energy, and construction within MENA. With the strongest security rating (S&P AA+) of all the international markets and a relatively small current footprint, it will be looking for steady growth through 2018 and beyond.

Chubb – The major insurer's Bahraini-based branch office with DIFC energy underwriting with downstream energy and casualty focus has a large capacity (US$200 million) and strong financial rating (S&P A+). This supports its robust GCC presence.

General Insurance Corporation (GIC) of India – This branch office of the largest domestic Indian reinsurer offers stable and consistent underwriting with modest capacities being deployed for MENA risks across both upstream and downstream.

Hannover Re – Based in Bahrain like its direct sister company, and with an office focused mainly on treaty reinsurance business, Hannover Re looks to participate in the larger risks in the region that require layering, as well as on quota share.

HDI Global – Having established a regional office approximately five years ago in Bahrain, HDI Global's team has developed to reflect growth, along with a model focusing on large/complex/highly engineered risks. With a territorial scope focused on GCC, India, and Pakistan, and accessing HDI Global capacity, HDI has clear ambitions to become a recognized leader for large energy risks in the region.

Korean Re – The reinsurer has recently opened its fully-fledged branch office in the DIFC to expand its regional footprint in property, energy, and construction. With Thana Narayan (formerly of Gulf Re) now on board, Korean Re will be looking to grow its portfolio on quota share energy risks.

Liberty Specialty Markets – A long-standing cornerstone of the DIFC market with energy being a key component, Liberty has had a consistent focus on leading downstream energy, construction, and power in the GCC, as well as in North Africa. A multiline offering including casualty and political violence, in addition to the willingness to cross-sell has proven to be a catalyst for growth.

New India – The Dubai-based branch of the Indian insurer offers conservative and selective underwriting for upstream and downstream energy.

Munich Re Syndicate – This is a branch office of the Lloyd's syndicate 457 focusing on marine, upstream energy, and political violence. They moved onto the Lloyd's platform having been one of the first Lloyd's syndicates as Watkins, to open an office in the DIFC.

Samsung Fire & Marine – This representative office facilitating underwriting decisions made in Seoul and Singapore will look to quote and lead excess layers, as well as having targeted growth in its quota share energy portfolio for high-quality risks.

Swiss Re Corporate Solutions – Swiss Re opened its DIFC office in 2012 and has grown its regional footprint rapidly by providing strong support capacity to the region's longer established leaders. The company recently moved to take targeted lead positions where viable, while maintaining high standards around underwriting discipline.

Talbot MENA – This long-standing Lloyd's syndicate has a broad and consistent offering for downstream and upstream energy. AIG's recent purchase of Validus (Talbot's owner) may change its positioning for energy risks. It has a broad multiline offering and is a market leader in marine and political violence.

XL Catlin – Having opened in the DIFC two years ago, its underwriting on the ground has been being strengthened by the arrival of Nicola Harris, joining XL Catlin from Allianz in Dubai. We expect the company's focus in the DIFC to continue to be the MENA region.

Zurich Insurance – This key regional leader for upstream and power risks is now moving back into downstream energy after a brief hiatus. The appointment of Rob Kuchinski, based in London, as the Head of Global Property and Energy has broadened its regional appetite.

"INDIGENOUS" CAPACITY

ADNIC – One year ago, the company broadened its geographical risk appetite to a near global approach. It has a clear growth strategy supported by the opening of a London contact office managed by a seasoned professional.

Africa Re – This is the largest domestic African reinsurance group with multiple platforms across the continent. While it is focused on MENA business, it has the ability and appetite to write a broader portfolio.

Al Ahleia – A major local player in the Kuwaiti local market and the owner of Kuwait Re, the insurer is looking to grow under its own brand, writing mainly GCC-based energy accounts.

Al Koot – To help with its growth following the Qatari market opening, the company, previously known as QS captive, wants to expand internationally by leveraging its A- rating (S&P). Al Koot recently hired Kumar Rajan (formerly of Gulf Re) to lead its growth, managing a modest but growing capacity.

Arig – Boosted by a positive rating upgrade from S&P last year (A-) this Bahraini-based historic founder of the Middle Eastern energy market is looking to expand.

Emirates Insurance – International underwriting is managed by Dermot Dick from the insurer's Dubai office. It has a broad MENA and "Afro-Asia" territorial scope with upstream, downstream, and construction capabilities. An S&P rating upgrade in 2016 underlined its credentials.

Gulf Re – One of the first Dubai-based regional reinsurers, Gulf Re's profile has changed dramatically and is now positioned to selectively accept energy risk on an excess basis with Arch Re paper.

IGI – Established in Jordan but now a Dubai incorporated company, IGI have underwriting hubs in London, Dubai, Morocco, and Malaysia and have a broad offering over the specialty lines. Often seen a niche player in the energy sector they can deploy capacity as lead or follow on both upstream and downstream risks.

Kuwait Re – Following the appointment of Hassan Yousif as Head of Energy, Kuwait Re's appetite and capacity has grown across both upstream and downstream, increasing its territorial scope.

MISR – This year, MISR opened it DIFC branch office as the first part of its expansion plans. Its underwriting center remains in Cairo, Egypt, where a large team supports a diverse energy portfolio. It faces challenges around its security rating, which is driven by Egypt's sovereign rating.

Oman Insurance – This insurer has become a pacesetter for the regional market in terms of its breadth of territorial scope and underwriting appetite. As one of the first regional carriers to secure a near-global treaty, it has developed a large and varied energy portfolio. The arrival of Christopher Wildee as Head of Commercial Lines and the company's recently increased capacity demonstrates its intent.

Orient Insurance – Strongly rated (S&P A), Orient Insurance has a broad underwriting remit that is constrained only by a conservative underwriting philosophy and a modest capacity size.

Qatar Insurance Company (QIC) – As the leading insurance company in Qatar, QIC always had ambitious growth plans. The acquisition of Antares Syndicate at Lloyd's and the creation of Qatar Re have demonstrated the risk diversification strategy of QIC. Building on its energy expertise and leading much of the Qatari energy business, QIC is looking to write more of the GCC energy business under its own brand and capacity.

Qatar Re – A newcomer to the DIFC with global scope and US$200 million of energy capacity for both upstream and downstream, the reinsurer offers the full suite of capabilities from leading underwriting to risk engineering. Qatar Re has, however, recently withdrawn from US energy business.

Trust Re – One of the flag-bearers for the regional energy market with more than 25 years of experience, Trust Re has a broad offering across MENA, Africa, Asia, and parts of Europe. Energy underwriting has been a core competence for the company and has helped it grow to a now multiline reinsurer. The hiring of John Matthews (from Matthews Daniel) as the Head of Claims shows a commitment to ensure claims process is managed to international standards.

MANAGING AGENTS

ARMA Underwriting – Mike Rafter (formerly of Oman Insurance) created this MGA and brought in Sourav Dey to run energy underwriting. It has modest downstream capacity from Hiscox, but it is expected that this will be expanded out with other supporting carriers through 2018/19.

Elseco – A leading player in the space industry, Elseco has recently looked to diversify and grow in the energy sector, hiring Matthew Holmes (formerly of Beazley) to lead its energy development. Holmes is a recognized upstream leader and is based in London. Elseco represents a newer model in which the MGA is in Dubai, but the key underwriter sits in London. Elseco also leveraged its Space relationships by syndicating capacity from several different countries, including China and Brazil.

Malakite – Founded in 2016 by Giles Hussey (formerly of Swiss Re), Malakite is a Lloyd's focused MGA with Starstone as a part owner/key partner. With full delegated authority for downstream energy and referral capacity for upstream risks, it has seen steady growth through 2017 and has an attractive pool of Lloyd's backers including Aspen, Apollo, and Arch.

MENA Re – Underwriting property risks on behalf of Doha Insurance Company, which can include fertilizer plants, it is headed up by Sanjeev Badyal (formerly of Allianz).

Visionary – Conceived as an agency to bring Lloyd's capacity to the region for political risks, it expanded into energy under the stewardship of its previous owner, Ironshore. After Liberty's purchase of Ironshore, Visionary's direction has moved away from regional energy risks.

NOTES

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