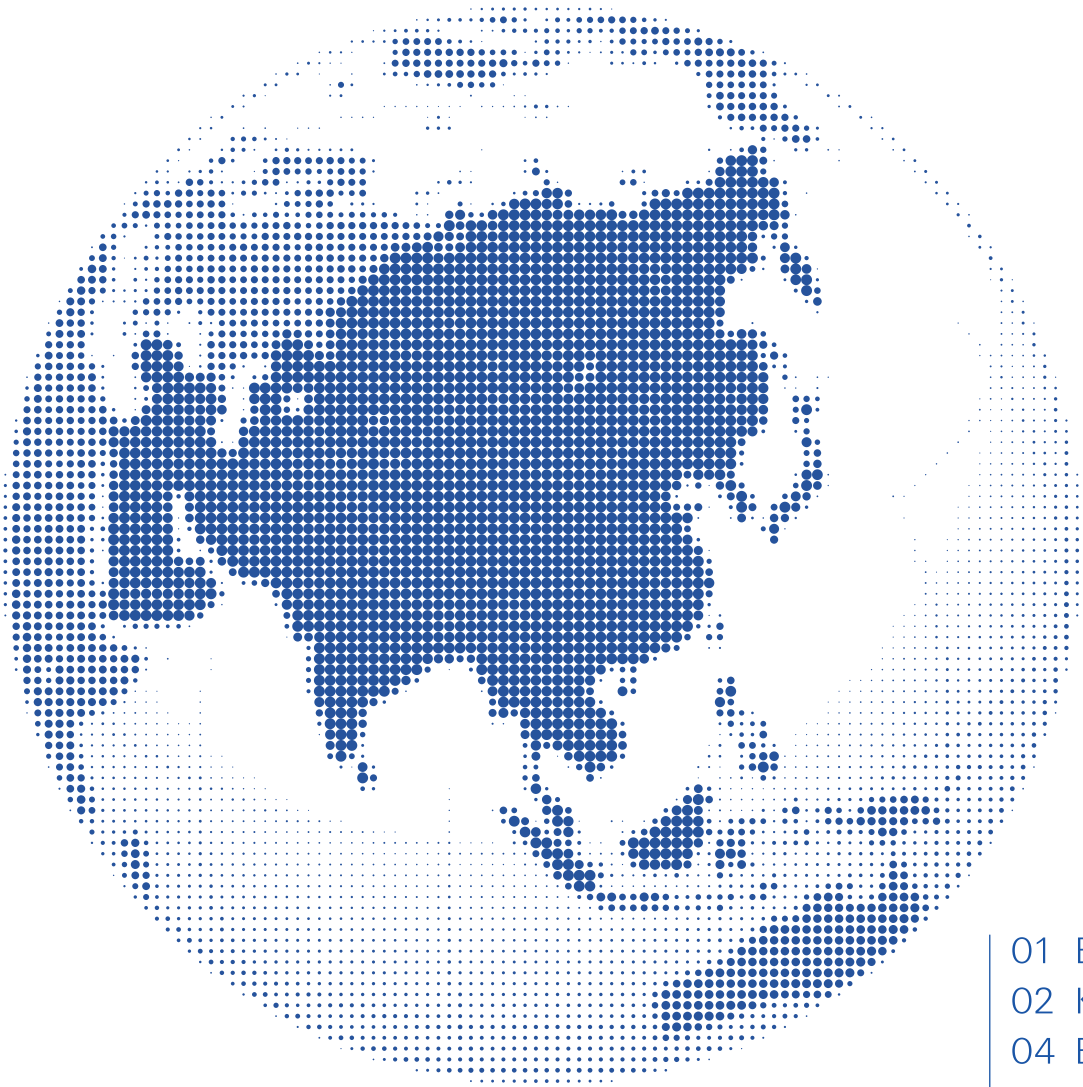
Swiss Re Institute

October 2020

Re/insurance in the Middle East and Pakistan: annual outlook and review



EXECUTIVE SUMMARY AND KEY TAKEAWAYS

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Executive summary

COVID-19 will cause a sharp recession in the Middle East and Pakistan region this year, with recovery starting in 2021.

The coronavirus pandemic has upended economic growth projections. In the Middle East and Pakistan region, we now expect real gross domestic product (GDP) will contract by 7.4% in 2020, down from the 2–3% growth we had forecast last year before the outbreak of COVID-19. The oil-exporting countries in the region face a triple hit to growth: the effects of pandemic loockdowns, the related recessions and also the current low oil prices. Strict government measures to limit the spread of COVID-19 brought economic activity to a standstill in the second quarter of 2020, while oil prices dropped to an almost 20-year low. While we expect the recession to be short-lived, with the recovery starting in mid-2021 supported by fiscal stimulus and higher oil prices, there are risks to the outlook. These include a resurgence in COVID-19 cases, new government lockdown measures in response, and lower-for-longer oil prices should global demand only recover slowly.

Insurance premiums in the region will fall almost 3% in 2020, but claims should be manageable.

The pandemic and recession will negatively impact almost all insurance segments. We expect premium volumes for the region to decline by close to 3% in 2020, primarily due to the sharp drop in economic activity during government-enforced lockdowns, which will depress new business and premium volumes in commercial lines. We expect premium contraction in motor, property and engineering due to lower automobile sales and reduced government spending on infrastructure projects across the region. Meanwhile, low interest rates will dent the attractiveness of life insurance as a savings vehicle. Rising unemployment and a shrinking expatriate population will likely hit group business, particularly annuity and mortality products. Claims resulting from COVID-19 should be manageable for most insurers due to their robust capital buffers. Associated claims in property and casualty (P&C) will likely be concentrated on business interruption (BI), but only a small number of primary insurers and reinsurers in the region write BI cover and most such policies exclude pandemics. We expect health insurance claims to be only moderately affected by the pandemic, except where governments do not cover the costs, as in the case of Dubai. Life claims, too, are likely to be limited.

Both non-life and life premiums will come under pressure as COVID-19 impacts demand, prices, fees and investment returns.

Non-life insurance accounts for more than 80% of all premiums in the Middle East and Pakistan region. It is dominated by compulsory lines of business such as health and motor, which together represent more than 60% of non-life premiums in most countries. We expect non-life premium growth to contract by 3% in 2020, led by P&C, also with a 3% contraction. Health premiums should be flat year-on-year. Life insurance penetration in the region was only about 0.3% of GDP in 2019, a fraction of the 3.2% global average. We expect life premiums to decline by 2.5% in 2020 as COVID-19 negatively impacts demand, prices, fees and investment returns. The economic slowdown and a recent drive by GCC member states to increase local employment will likely hold back medium-term growth, since life insurance demand in the region is traditionally from expatriates. However, structural trends such as rising awareness, smaller families and growth in private sector employment mean the long-term outlook remains positive.

Regulators have supported insurers during COVID-19.

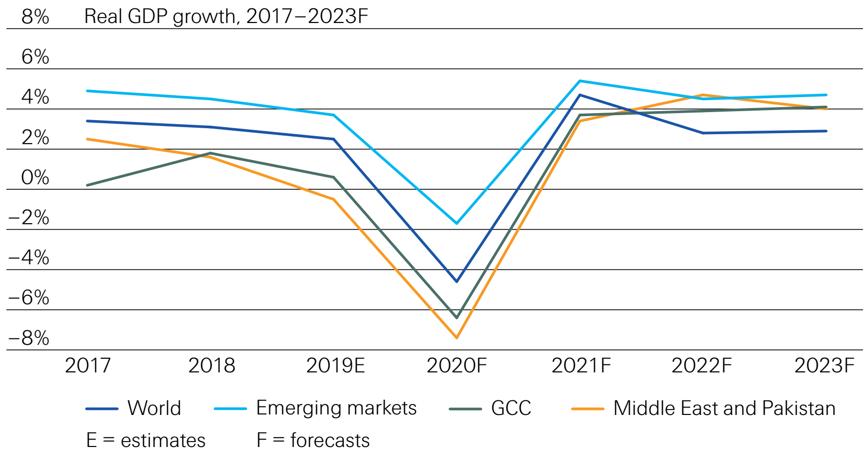
Insurance regulators have responded dynamically to COVID-19, offering extensions to regulatory and reporting requirement deadlines. In general, regulation continues to evolve towards risk-based capital (RBC) approaches, with the UAE and Qatar implementing RBC regimes and other countries expected to follow suit. These should improve insurers' underwriting discipline and profitability. Regulators are working to comply with the IFRS 17 standard on accounting for insurance contracts, and the UAE is also focused on the digitalisation of health data as part of a drive for value-based healthcare.

Reinsurance continues to grow in the region, both conventional and reTakaful.

Reinsurance business has grown modestly since 2000 alongside growth in the primary market, and cession rates are relatively high. Retakaful is picking up on the back of increased demand for Sharia-compliant products. Large commercial risks are largely underwritten by global reinsurers and personal lines more by local and regional players.

Key takeaways

COVID-19 will have a severe impact on GDP growth in the Middle East and Pakistan due to its reliance on hydrocarbon and the present low oil prices.



Source: Oxford Economics, Swiss Re Institute

A sharp drop in economic activity and rise in unemployment due to the COVID-19 crisis will depress insurance premium growth.

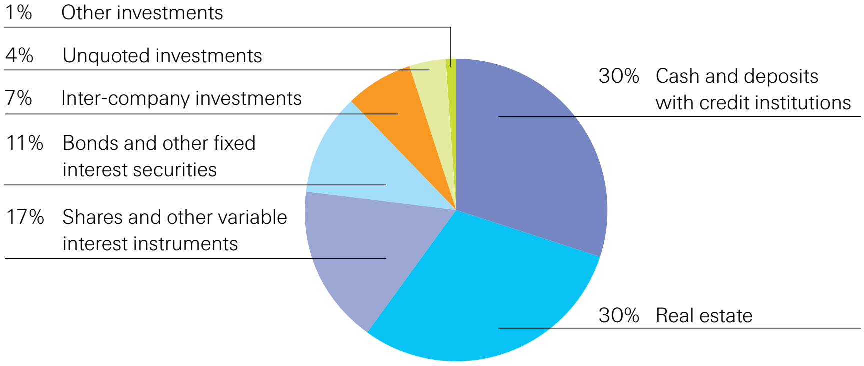
Line of business		Premiums	Claims
Personal lines	Personal motor	Negative	Neutral
	Personal property	Negative	Positive
Commercial lines	Commercial motor	Negative	Neutral
	Commercial property	Negative	Positive
	Liability	Negative	Negative
	Worker's compensation	Very negative	Positive
	Engineering	Negative	Positive
	Credit	Negative	Very negative
	Marine	Very negative	Positive
	Aviation	Very negative	Positive
	Business interruption	Negative	Very negative
	Event cancellation	Negative	Very negative
Mixed	Medical insurance	Negative	Negative
	Other accident & health	Negative	Positive

Positive Neutral Negative Very negative

Source: Swiss Re Institute

Insurers in the Middle East and Pakistan are more exposed to equities and real estate in their asset portfolios than insurers in other markets.

Asset allocation as a percentage of investments in the GCC in 2019/2020



Source: AM Best

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