P/C Insurers In Emerging Markets
Risks remain as the economic recovery slows

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S&P Global
Ratings

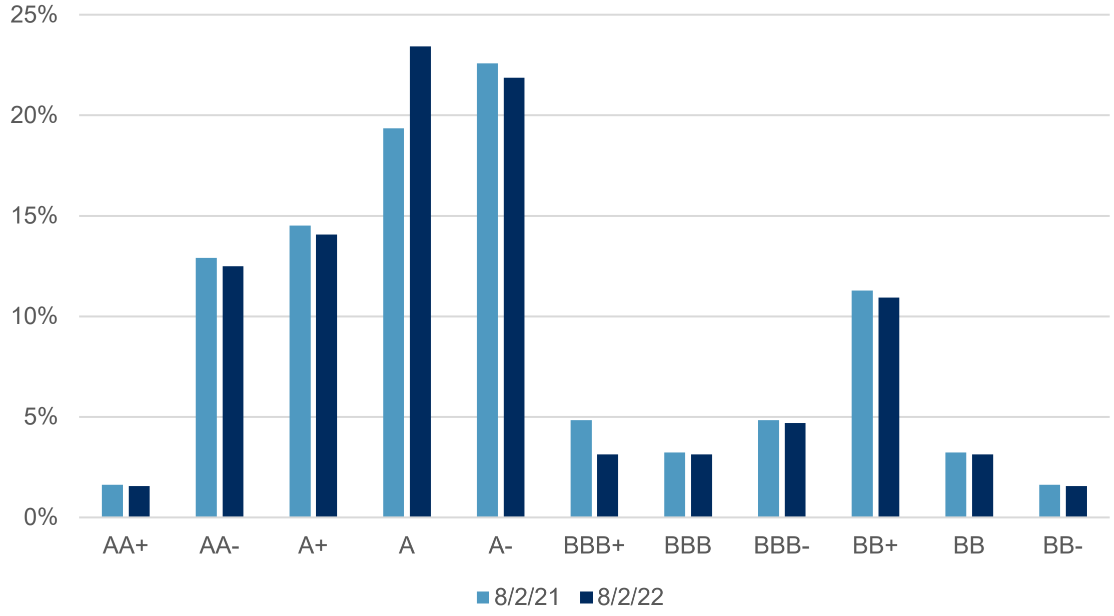
Key Takeaways

- Profitable earnings and robust capital buffers continue to support our ratings on property/casualty (P/C) insurers in emerging markets. However, persistent inflationary pressures, tightening financing conditions, and slower economic growth in China and other markets will likely limit operating conditions for P/C insurers in emerging markets.
- While higher inflation will likely support an increase in premium rates for P/C insurers as risks are being repriced, an increase in claim costs, particularly in motor and property lines, and potential reserving shortfalls for longer-tail lines will likely constrain underwriting results in the short term.
- Higher interest rates will gradually support investment results. However, we expect more volatile capital markets will lead to some revaluation losses.
- At the same time, new regulatory developments will continue to enhance risk awareness and policyholder protection, but the implementation of more sophisticated requirements comes at a cost. New regulations with higher capital requirements may prompt capital raising. For some, reevaluation of business models could lead to consolidation.

Ratings | Broadly Stable But Some Markets See Weakening Trends

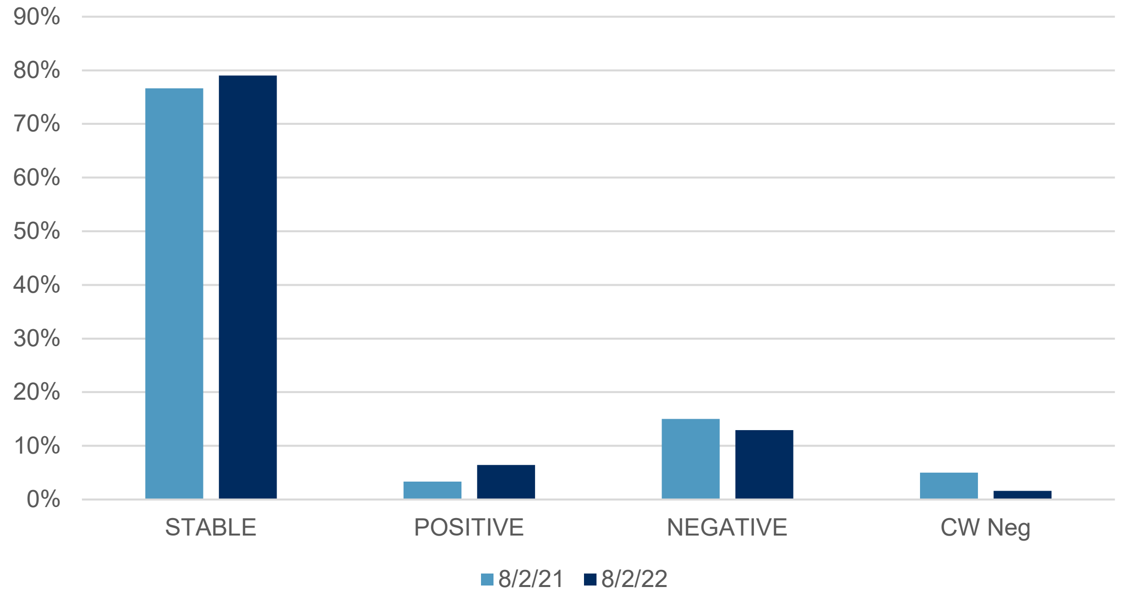
- For our rated portfolio, which typically comprises market-leading insurers, we see overall stable ratings facilitated by relatively robust capital buffers.
- That said, the P/C sectors in China, Colombia, and Turkey continue to display negative credit trends. This is mainly driven by relatively weak underwriting results in China and Colombia and weaker credit quality of the Turkish sovereign.

Rating Distribution Of P/C Insurers In Emerging Markets



Data as of August 2, 2022. Source: S&P Global Ratings. Data includes ratings of group subsidiaries.

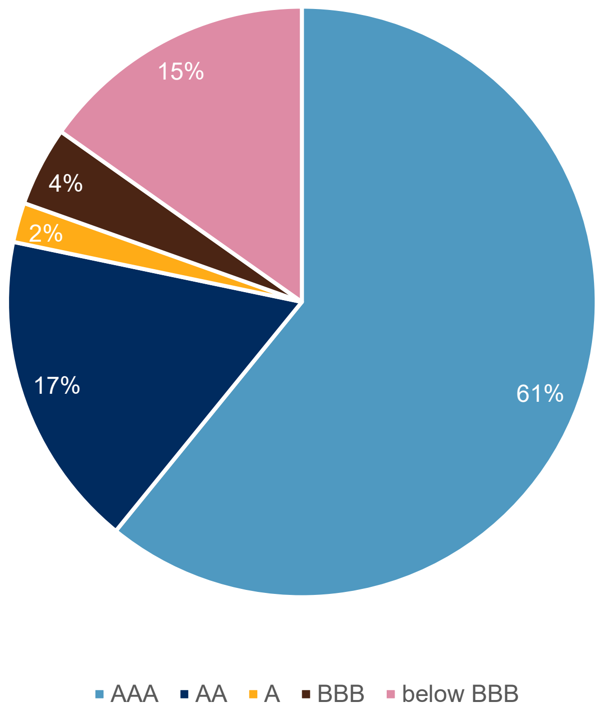
Outlook Distribution Of P/C Insurers In Emerging Markets



Data as of August 2, 2022. Source: S&P Global Ratings. Data includes outlooks of group subsidiaries.

Capital Adequacy | Remains A Key Rating Strength For Many

Rated Insurers In Major Emerging Markets Display Robust Capital Buffers



Source: S&P Global Ratings estimate as of 31 Dec. 2021.

- About 80% of our rated insurers in emerging markets maintained capital adequacy at or above the 'A' confidence level in our capital model in 2021, thanks to a build-up in earnings in previous years.
- The overall size of capital remains relatively small for insurers in most emerging markets, making capital buffers potentially more vulnerable to large single losses.
- Despite relatively robust capitalization, we note that our ratings in emerging markets in Latin America and South Africa are, in some cases, limited by the respective sovereign rating.
- We anticipate capital buffers will remain robust in 2022 and 2023. However, cushions could narrow if capital market volatility leading to lower asset valuations persists, competition remains high, and insurers are unable to adjust their rates for inflation.

Economic Conditions | Growth Will Ease In 2022 and 2023

Geopolitical Uncertainty, Inflation, And China's Zero Covid Policy Will Hit Growth

Real GDP growth in %						CPI	
Country	**2019**	**2020**	**2021**	**2022f**	**2023f**	**2022f**	**2023f**
Emerging Asia							
China	6.0	2.2	8.1	3.3	5.4	2.3	2.5
India*	3.7	-6.6	8.7	7.3	6.5	6.8	5.0
Indonesia	5.0	-2.1	3.7	5.1	5.0	4.1	4.0
Malaysia	4.4	-5.6	3.1	6.1	5.0	2.9	2.2
Philippines	6.1	-9.5	5.6	6.5	6.6	4.6	3.7
Thailand	2.2	-6.2	1.5	3.2	4.2	6.0	2.3
EMEA							
Poland	4.8	-2.1	5.8	4.5	2.1	12.0	10.0
Saudi Arabia	0.3	-4.1	3.2	7.4	3.1	2.8	2.6
South Africa	0.3	-6.3	4.9	2.2	1.5	6.1	5.0
Turkey	0.9	1.8	11.2	3.5	1.7	68.6	23.1
UAE	3.4	-6.1	2.3	3.8	2.8	3.1	2.2
Latin America							
Argentina	-2.0	-9.9	10.3	3.3	1.8	62.0	59.0
Brazil	1.2	-4.2	4.9	1.2	1.4	10.5	5.0
Colombia	3.3	-7.0	10.7	4.6	2.7	9.0	4.1
Mexico	-0.2	-8.3	5.0	1.7	2.2	7.4	4.1

Source: S&P Global Ratings, "Economic Outlook Emerging Markets Q3 2022," published Jun. 28, 2022. CPI – Consumer price inflation.
**For India, 2021 is fiscal year 2022 (year ended Mar. 31, 2022), 2022 is fiscal-year 2023 (year ending Mar. 31, 2023) and so forth.*

- Following a sharp rebound in GDP growth in 2021, we expect heightened geopolitical risk and lingering COVID-19 lockdowns in China, combined with persistently high inflation, and market volatility likely to lead to slower economic growth in 2022 and 2023.
- Higher domestic inflation and increasing interest rates in the U.S. will continue to pressure central banks in emerging markets to increase rates to restrain inflation and prevent capital outflows. This could weigh on financing conditions in some markets. We now expect interest rates in the U.S. to increase above 3.5% by mid-2023.
- That said, higher oil and commodity prices positively contribute to GDP growth in net energy-exporting economies such as Saudi Arabia, UAE, Indonesia, and Malaysia, and could support an increase in insurance demand in these markets.

Profitability | Competition And Market Volatility May Hurt Earnings

Emerging Market Insurers Are Set To Grow But Earnings Could Be More Volatile

Country	GWP growth in 2021	GWP growth in 2022f	GWP growth in 2023f	Net combined ratio in 2021	Net combined ratio in 2022f	Net combined ratio in 2023f	ROE in 2021	ROE in 2022f	ROE in 2023f
Emerging Asia									
China	1%	6%	6%	101%	101%	100%	8%	7%	7%
India	9%	12%	13%	118%	116%	115%	3%	3%	4%
Indonesia	4%	6%	7%	98%	97%	96%	8%	9%	9%
Malaysia	2%	3%	3%	86%	87%	86%	12%	12%	12%
Philippines	29%	10%	8%	97%	97%	98%	5%	5%	4%
Thailand	4%	5%	5%	104%	102%	97%	0%	0%	6%
EMEA									
Poland	10%	7%	5%	93%	94%	95%	13%	13%	13%
Saudi Arabia	8%	10%	5%	103%	104%	99%	0%	2%	5%
South Africa	9%	7%	6%	97%	95%	93%	10%	15%	18%
Turkey	28%	22%	21%	108%	105%	105%	20%	21%	21%
United Arab Emirates	7%	4%	4%	93%	94%	94%	11%	8%	9%
LatAm									
Argentina	48%	60%	55%	90%	100%	100%	4%	-5%	-2%
Brazil	14%	8%	6%	97%	96%	95%	9%	16%	17%
Colombia	17%	13%	9%	104%	104%	103%	5%	7%	9%
Mexico	8%	8%	7%	94%	95%	94%	N/A	N/A	N/A

*Source: S&P Global Ratings. GPW growth projections in local currency. *GPW for Argentina is in nominal terms and net combined ratio and ROE are adjusted for inflation. For India, 2021 is fiscal year 2022 (year ended Mar. 31, 2022), 2022 is fiscal-year 2023 (year ending Mar. 31, 2023) and so forth. 2021 data for Philippines, Indonesia and India reflects estimates.*

- Growth in gross premiums written (GPW) in 2022 will be supported by inflation-related rate adjustments, but we expect growth in real terms to be modest for P/C insurers in emerging markets in 2022. Growth will likely diverge in each market, depending on the stage of economic recovery.
- Higher inflation could constrain earnings in the short run due to an increase in claim costs, particularly in motor and property and if insurers do not sufficiently adjust their rates.
- Higher interest rates will gradually support investment results, but market volatility and higher operational costs, as new regulation and accounting standards are implemented, could put additional pressure on earnings in 2022.
- We expect difficult operating conditions in 2023 but we could see some modest improvement in earnings, supported by a recovery in underwriting results and higher investment returns, as a result of rising yields.

Structural Risks | Risk Levels And Trends

Risk Factor	Descriptor	Risk level and trend – emerging Asia	Risk level and trend – emerging EMEA	Risk level and trend – Latin America
Asset risk	Equity and bond market drops impact insurers' balance sheets and investment returns. A pickup in defaults in private equity and private debt may take its toll. However, higher interest rates support investment returns and prompt some insurers to derisk their asset portfolio.	Elevated – Worsening	Moderate - Worsening	Moderate - Worsening
Insurance claims	Higher inflation leading to an increase in claim costs, mainly in motor and property lines, if insurers are unable to adjust their rates.	Elevated – Unchanged	Moderate - Worsening	Moderate - Worsening
Insurance top line	Macroeconomic risks impact GDP, and subsequently insurers' top lines in some segments.	Moderate – Worsening	Moderate - Worsening	Elevated - Worsening
Financing conditions	Rising interest rates and higher capital market volatility have increased the cost of refinancing.	Moderate – Unchanged	Moderate - Worsening	Low – Worsening
Sovereign risk	Although some sovereigns in emerging markets benefit from higher commodity prices, a slowdown in growth, high inflation, and fiscal consolidation continue to present some challenges.	Moderate – Unchanged	Moderate – Unchanged	Moderate – Unchanged
Climate transition	Risks to capital and earnings persist for those with concentrations in industries exposed to the transition.	Moderate – Worsening	Moderate – Worsening	Moderate – Worsening
Cyber risk	Insurers face increasing attacks and must protect policyholder data and privacy or risk reputational or financial damage.	Moderate – Worsening	Moderate – Worsening	Moderate – Worsening

Risk levels: 1. Very low; 2. Moderate; 3. Elevated; 4. High; 5. Very high

Regulatory And Accounting Updates Will Add To Operational Costs

Insurers in emerging markets face several regulatory- and accounting-related changes, which could lead to material changes in business and investment strategies and consequently rising operational costs over the medium term.

Accounting changes

The move to International Financial Reporting Standards (IFRS 17) from January 2023 will be a fundamental change. We expect it will improve comparability and consistency by moving insurers' balance sheets to a market-consistent basis and removing the mismatch of market values for assets and booking values for liabilities.

Risk-based regulations

Regulations in emerging markets are at a different stage of development and maturity. While regulatory frameworks, for example, in South Africa and Mexico are considered as relatively sophisticated and mature, regulators in Malaysia and the United Arab Emirates only fully adopted risk-based regulations in 2018. Other markets are still implementing different phases of risk-based regulations. For example, China introduced the second phase of a risk-based capital framework (China Risk-Oriented Solvency System – C-ROSS) in December 2021.

Impact on insurers

While these changes continue to enhance risk awareness, policyholder protection, and transparency, they come at a cost. The need to update processes and information technology systems will likely lead to higher expenses in 2022 and 2023. Insurers with limited economies of scale may find it increasingly difficult to dilute their costs.

Country-Specific Trends

Emerging Asia: China, India, Indonesia, Malaysia, Philippines, and Thailand

S&P Global Ratings

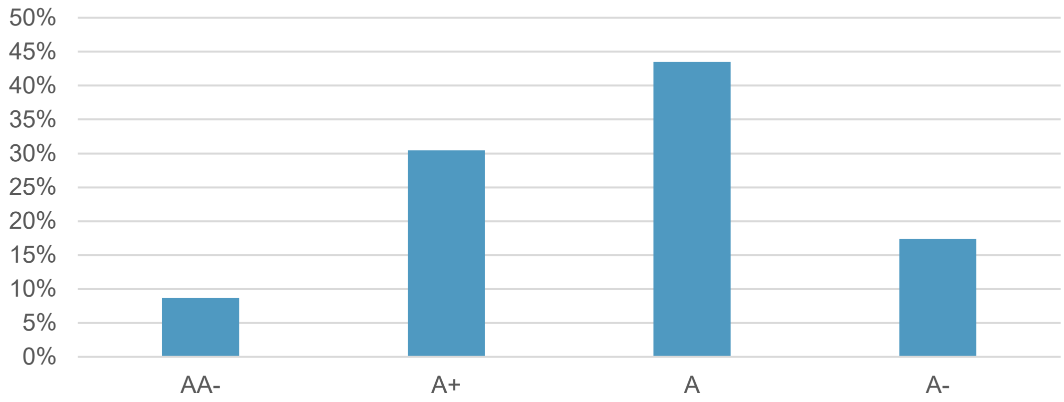
Emerging Asia | Diverging Pace Of Growth Recovery

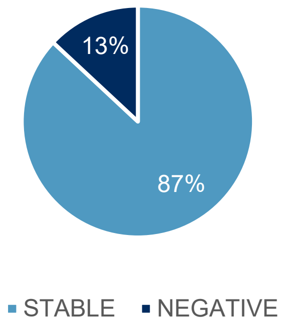
Despite the headwinds (global slowdown, geopolitical tensions), APAC's inherent growth prospects remain broadly favorable. We expect economic growth in 2022-2023 for India, Indonesia, and the Philippines to be led by domestic demand.

Meanwhile, China's ongoing pursuit of a zero COVID-19 policy is dampening growth. The occasional localized lockdown could dent insurance sales activities.

For India, economic growth prospects remain broadly favorable, underpinned by healthy domestic demand. This is owing to resumption in trade and business activities amid macroeconomic challenges and inflationary pressures. That said, a favorable monsoon forecast and a rebound in contact-based services (with an improving vaccination rate) remain supportive for the sector.

Rating And Outlook Distribution For P/C Insurers In Emerging Asia





Source: S&P Global Ratings. Data as of August 2, 2022.

China | Subdued Underwriting And Elevated Asset Risk Hit Earnings

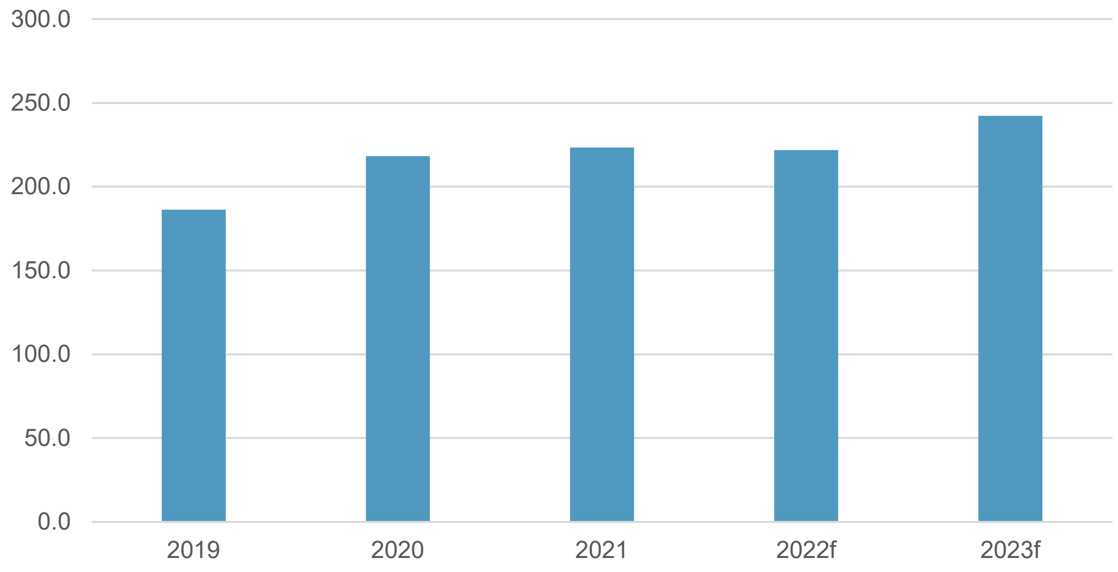
- Market participants' diversification toward nonmotor lines and China's longer-term growth prospects should still support the sector's revenue growth. For the first half of 2022, the nonmotor insurance business accounted for approximately 49.4% of total GPW (2021: 43.2%).

- That said, insurers' still-limited underwriting expertise and technical pricing constrain their ability to underwrite nonmotor coverage profitably, particularly for commercial business lines. Increasing frequency of natural catastrophes could also introduce volatility in underwriting profits in the property and agriculture lines of businesses. China's P/C insurance sector will likely continue to face underwriting losses over the next two years. This follows the lower motor insurance premium rate associated with comprehensive motor insurance reform and nonmotor insurance segment's competitive pricing.

- The sector's growing exposure to high-risk assets, aiming to boost investment income to compensate underwriting pressure, will also lead to earnings volatility and narrowing capital buffers, in our view.

Key risks affecting P/C insurers:
- Exposure to high-risk assets
- Subdued technical results
- Government policy and regulatory risks

Non-Life GPW In China For 2019-2023f (Bil. US$)



GPW--Gross premiums written in foreign currency. e--Estimate. f--Forecast. Exchange rates from "Economic Outlook Emerging Markets Q3 2022," published Jun. 28, 2022. Source: S&P Global Ratings.

India | Premiums Grow While Underwriting Results Remain Weak

- For India's P/C sector, we expect gross premium growth will return to 12%-15% (in local currency) over the next two years. This reflects increased awareness and demand for protection (health, cyber), benefitting from a resumption in business activity and rate revisions within the fire and motor lines.

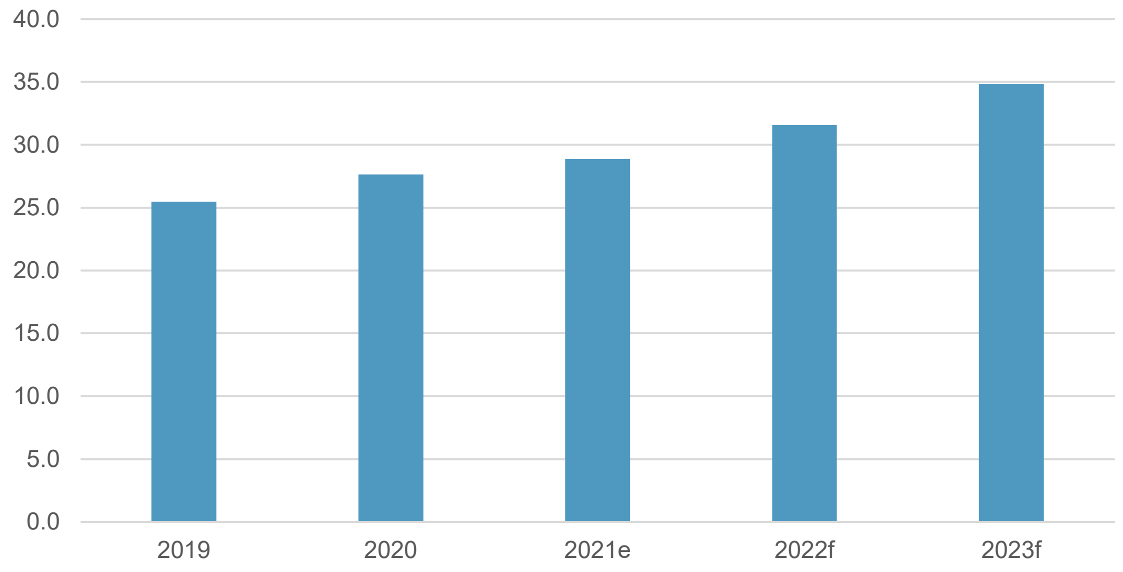
- We expect the sector's profitability to remain pressured by weak underwriting performance (combined ratio above 115%) and moderate investment returns through fiscal-year 2023 (ending March 31, 2023). Sustained losses in motor-third party and group health lines, mainly due to inadequate risk pricing continue to drag on the sector's weak technical results over the medium term.

- While lower earnings could dent capital cushions, we anticipate solvency margins for insurers to remain healthy. This reflects relatively better underwriting prudence, lower investment market sensitivities, and improving risk management for several private insurers. However, the divergence in solvency for private vs public insurers persists.

- Tough macroeconomic conditions, inflationary pressures, and uncertainties related to COVID-19 resurgence continue to challenge market dynamics.

Key risks affecting P/C insurers
- Weak technical results
- Investment performance risk
- Exposure to high-risk assets

Non-Life GPW In India For 2019-2023f (Bil. US$)



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Indonesia | Pressured Earnings Amid Gradual Economic Recovery

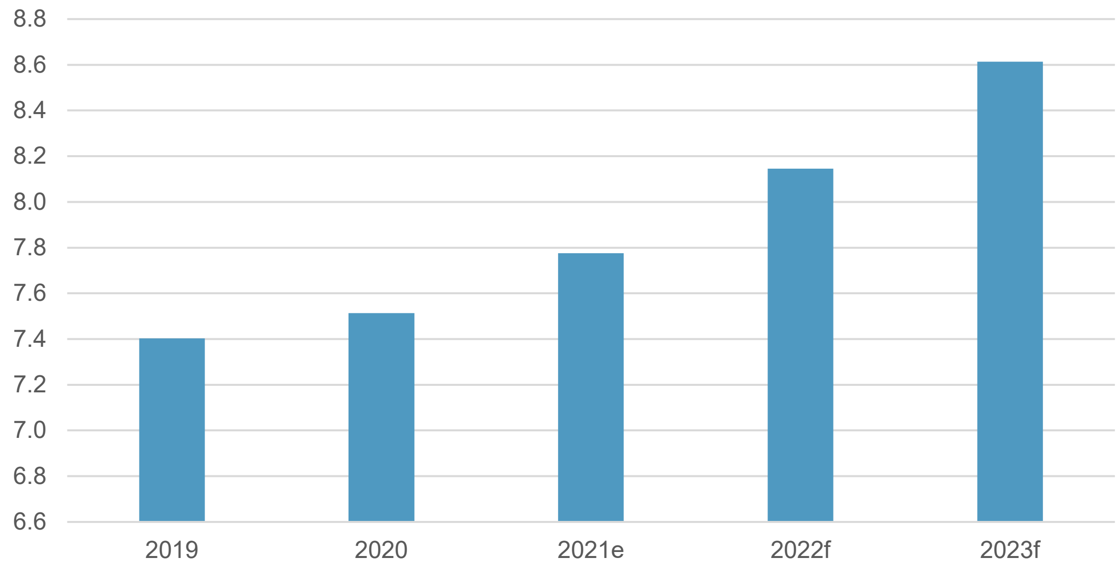
- P/C sector premium growth rates will be in the mid-single digits, lower than prior years as economic conditions gradually recover. The 4%-7% premium growth (in local currency) will likely be driven by its major segments: property, credit, motor (partially benefiting from government policy and infrastructure push), and health owing to improved awareness.

- Sector profitability will remain pressured by higher payouts within key lines like motor as movement restrictions ease and business activities resume; and credit lines reflecting moderate increase in credit defaults particularly from small and midsize borrowers through 2023. Sustained intense competition and weak underwriting results could lead contraction in capital cushions for many P/C insurers.

- Despite being natural disaster-prone, Indonesia's insured catastrophe claims remains low. This reflects underinsured risks and a massive opportunity for insurers with sophisticated understanding of risks to bridge this gap. We expect the catastrophe risk coverage to gradually improve owing to the government's increased focus on financial management of disasters and expansion of insurance coverage for state assets.

Key risks affecting P/C insurers
- Intense competitive environment
- Macroeconomic risks
- Exposure to physical and external risks

Non-Life GPW In Indonesia For 2019-2023f (Bil. US$)



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Malaysia | Strong Economic Recovery Prospects Support GPW

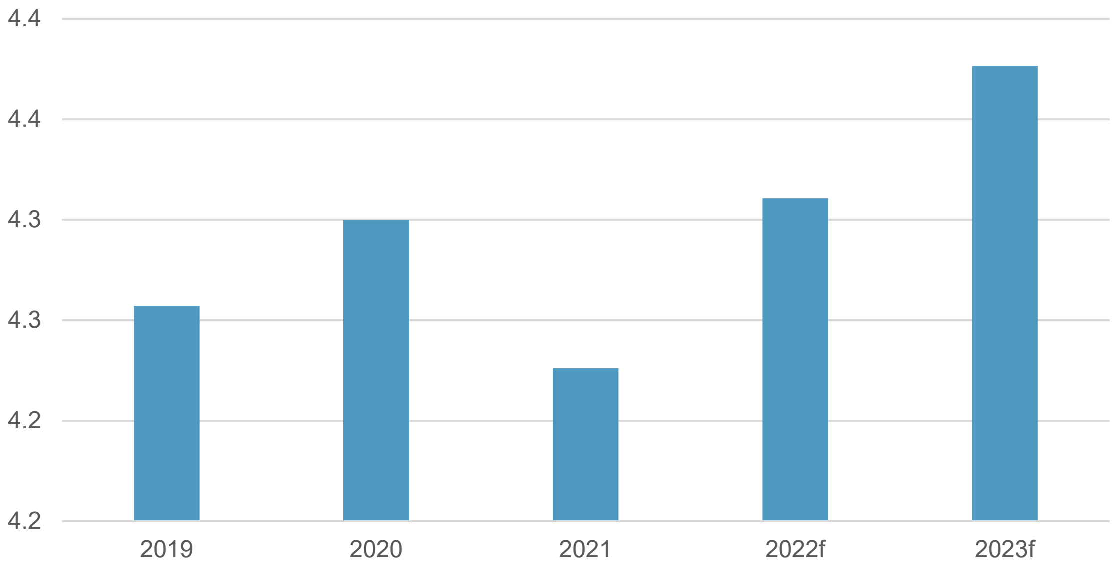
- Premium growth will remain modest, reflecting intense competition within key segments partially supported by improving economic recovery, due to resumption in business activities after the pandemic-driven slowdown. We estimate GPW growth in the P/C sector of about 2%-3% (in local currency) over the next two years.

- Significant underinsurance of flood risk within Malaysia typically results in flood claims cost being passed to the government rather than generating insured losses. Increasing frequency of financial losses from floods much like the pandemic serves as a catalyst in raising insurance protection awareness (particularly within small and midsize enterprises and low-income segments) which in turn stimulates demand for P/C insurance lines.

- Government initiatives to increase financial literacy and the ongoing detarification efforts in motor and property insurance, which allow risk-based pricing, will support growth and maintain strong sector profitability in the longer term.

Key risks affecting P/C insurers
- Intense competitive environment
- Macroeconomic risks
- Government policy and regulatory risks

Non-Life GWP In Malaysia For 2019-2023f (Bil. US$)



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Philippines | Insurers To Focus On Capital And Catastrophes

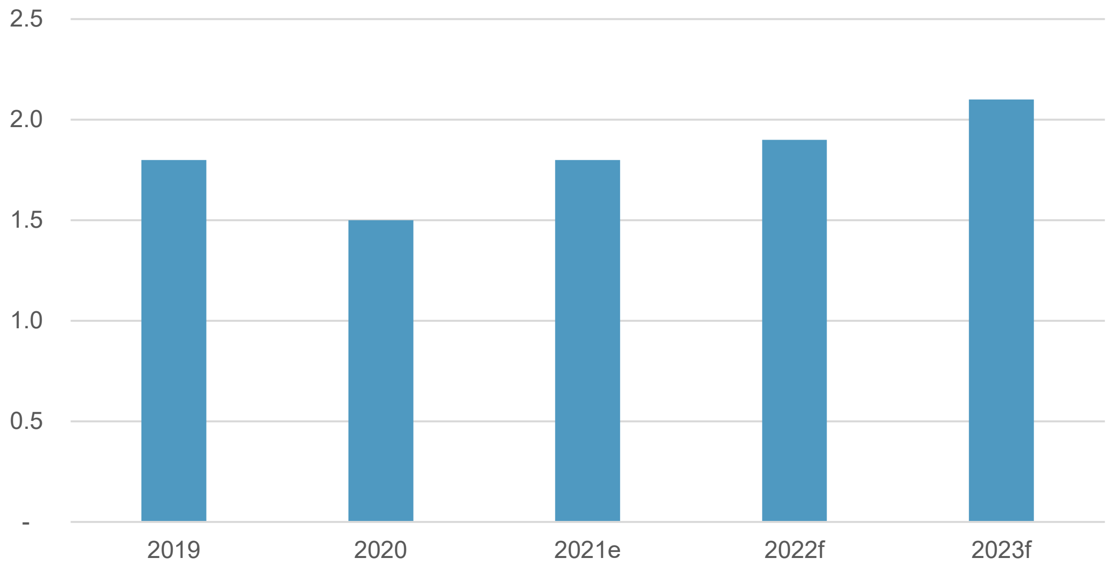
- With the Philippines recovering rapidly post COVID-19, we expect premium growth of about 8%-10% (in local currency) over the next two years. Key business lines include fire, motor, etc. Nonetheless, higher energy inflation could affect household discretionary spending and put a dampener on premium growth.

- The fast approaching (end-2022) timeline for insurers to meet regulatory minimum capital requirements might add pressures to smaller players with limited earnings and weak capital cushions, as they need to meet the upcoming requirements. This could result in some market consolidation in the medium term.

- Philippines is catastrophe-prone. The sector's profitability is sensitive to unmodelled catastrophe events and reinsurance costs. That said, we believe these risks are partially offset by rate revisions and the government's push for more infrastructures to be insured.

Key risks affecting P/C insurers:
- Macroeconomic risks
- Government policy and regulatory risks
- Exposure to physical and external risks

Non-Life GPW In Philippines For 2019-2023f (Bil. US$)



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Thailand | Inadequate Pricing Becomes Costly To The Industry

- We expect government-led stimulus initiatives and commitments toward national projects to support modest GPW growth of 4%-5% (in local currency) in the P/C sector over the next two years. With pandemic-related travel restrictions removed from July 2022, Thailand's tourist-dependent economy is set to increase its recovery pace.

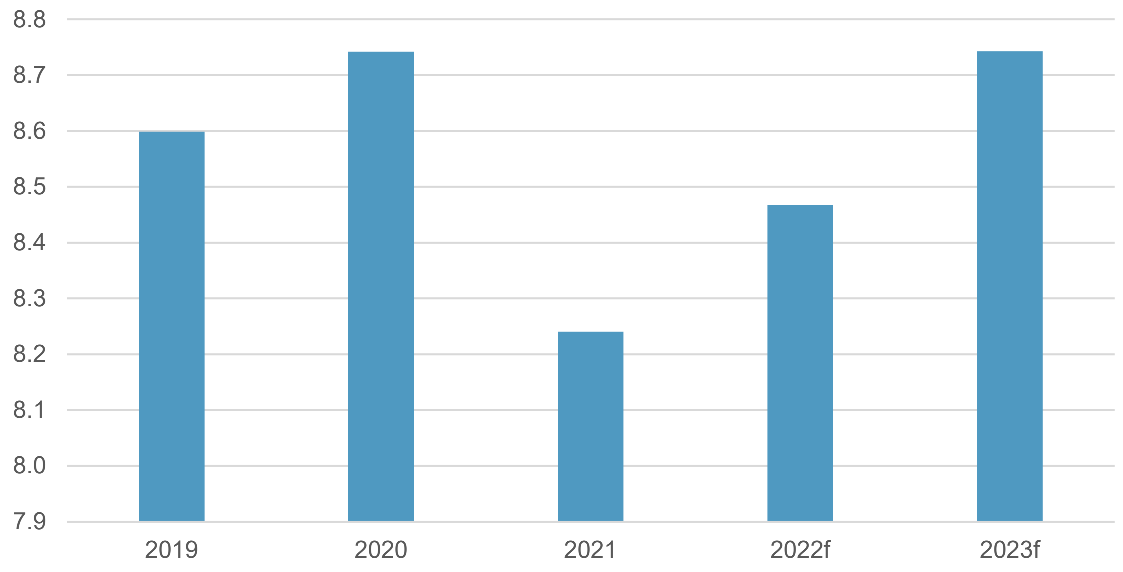
- However, inadequate pricing of COVID insurance, coupled with the surge in claims, has been a costly lesson for the P/C insurers that sold substantial numbers of such policies.

- As of March 2022, total claims paid out amounted to about Thai baht 60 billion (US$1.8 billion). The substantial COVID claims paid out, offset by reduced motor insurance claims, weakened the sector's profitability and capitalization.

- Thailand's fragmented P/C sector could see consolidation and introduction of more foreign companies or joint ventures. This comes as the regulator revoked licenses of four P/C insurers so far, while another P/C insurer is working on its recovery plan to restore its solvency position.

Key risks affecting P/C insurers:
- Macroeconomic risks
- Government policy and regulatory risks
- Exposure to physical and external risks

Non-Life GPW In Thailand For 2019-2023f (Bil. US$)



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Country-Specific Trends

EMEA - Poland, Saudi Arabia, South Africa, Turkey, and United Arab Emirates

S&P Global Ratings

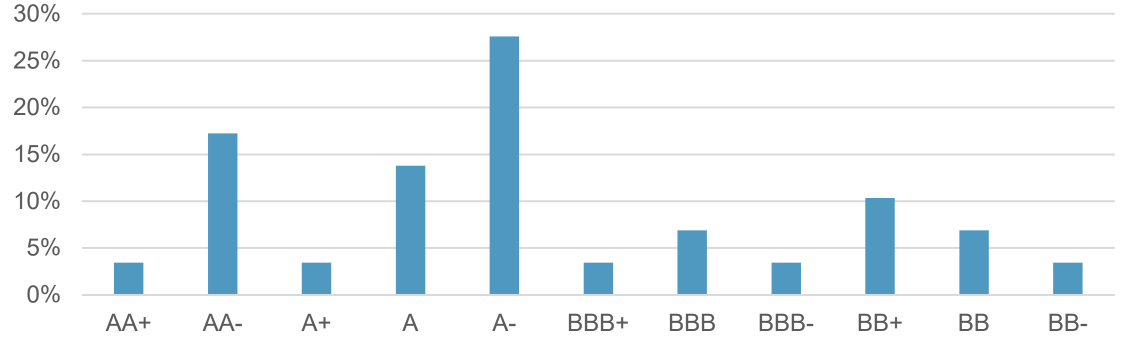
EMEA | Growth Prospects Remain Moderate In Most Markets

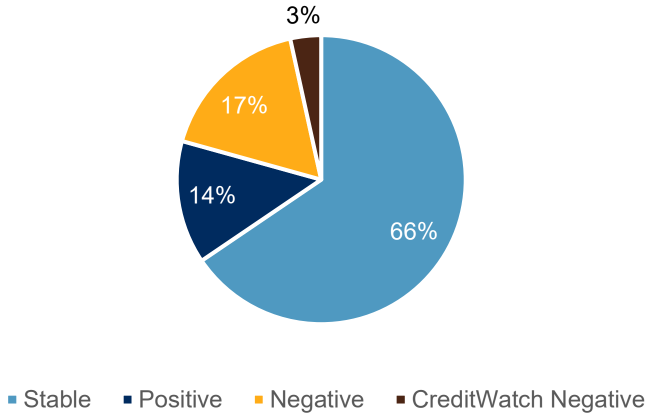
High energy and food prices continue to fuel inflation and consequently a slowdown in economic growth, particularly in Poland and Turkey. On the other hand, the commodity price rally is benefiting net exporters and insurers in countries such as Saudi Arabia and UAE (oil) and South Africa (iron ore, platinum, and gold).

GPW growth in 2022 will be supported by inflation-related rate adjustments and recovering economic activity. We expect capital buffers of rated insurers in emerging EMEA to sustain some expected earnings volatility, arising from an increase in claims frequency and costs (mainly in motor lines) and weaker investment returns, driven by volatility in capital markets.

Following several positive rating actions on insurers in South Africa, Saudi Arabia, and the UAE over the past year, we do not foresee any further material rating actions in 2022. However, about 14% of our ratings have a positive outlook, mainly in South Africa following our revision of the outlook on the sovereign rating to positive from stable in May 2022. At the same time, 14% of our ratings still have a negative outlook, driven by subsidiaries of international groups where the parent carries a negative outlook.

Rating And Outlook Distribution For P/C Insurers In EMEA





Source: S&P Global Ratings. Data as of August 2, 2022.

Poland | Solid Fundamentals Support Stable Developments

- Polish non-life insurers have solid capital positions, conservative investment portfolios, and strong performance with good reinsurance protection. This positions the market well to weather moderating growth, elevated inflation, and tighter monetary conditions in Poland.

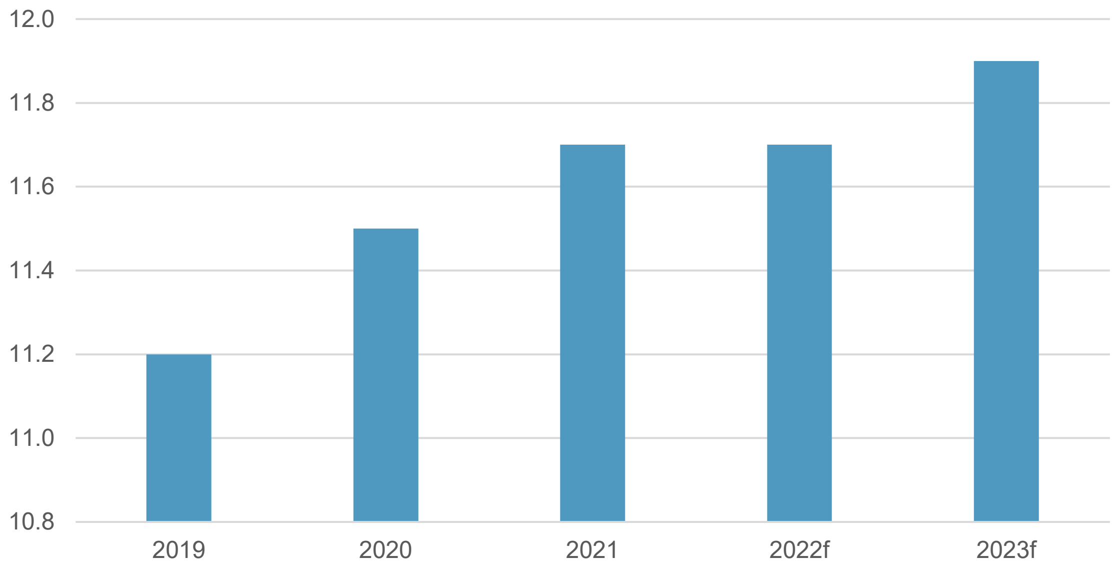
- In 2021 non-life sector GWP growth was 10% in local currency (about 2% in US$). We expect slightly slower growth in 2022, as the sector is observing slightly higher competition in motor lines. However, we believe that continued claims inflation, FX movements, and rising operating cost pressures will lead to some premium increases in the motor line. We expect that nonmotor lines will continue to show strong growth which should support the sector's 5%-8% revenue growth in 2022.

- In the last 12 months, the Polish central bank increased interest rates to 6% from almost 0%. We do not expect that increased rates will materially affect the sector's 2022 investment results. However, in the longer term, insurers will benefit from higher investment returns. We believe that Polish insurers' exposure to market volatility is comparably modest, since about 15% of invested assets are in equities and real estate.

- Overall, we expect that the sector to deliver solid combined ratio of about 94% and ROE of about 13% in 2022 .

Key risks affecting P/C insurers:
- Intense competitive environment
- Macroeconomic risks
- Investment performance risk

Non-Life GPW In Poland For 2019-2023f (Bil. US$)



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Saudi Arabia | Intense Competition Pressures Underwriting Results

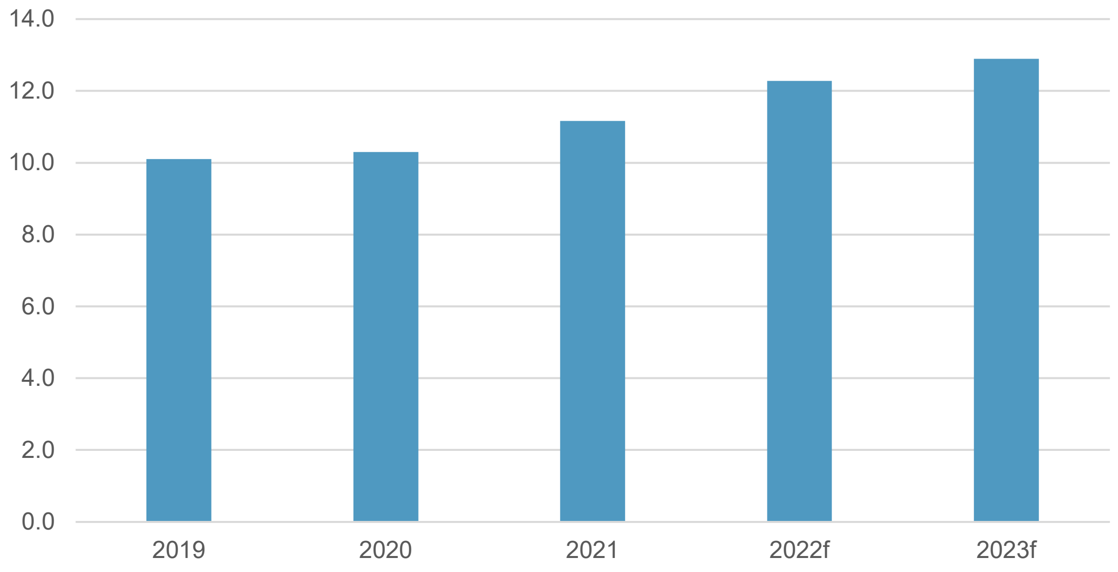
- GPW growth in 2022 will likely be driven by more favorable economic conditions, due to higher oil prices, and introduction of additional covers. At the same time, we expect motor business to remain under pressure due to intense competition and lower rates. Overall, we therefore anticipate GPW to grow about 5%-10% in 2022.

- We expect 2022 will be another difficult year and require insurers to reassess their pricing strategy, particularly for motor business. We expect underwriting performance to remain under pressure with the net combined ratio remaining at 99%-104% in 2022, compared with 104% in 2021 that the industry reported and 105% in the first-quarter 2022. On a positive note, we expect investment income to improve and support overall earnings as interest rates continue to rise.

- Unlike in some other emerging markets, Saudi insurers' investment risk is relatively low, as most assets are held in fixed deposits or money market instruments at securely rated banks. Higher minimum capital requirements will help to further accelerate M&A activity this year, particularly among the smaller and loss-making insurers.

Key risks affecting P/C insurers:
- Macroeconomic risks
- Intense competitive environment

Non-Life GPW In Saudi Arabia For 2019-2023f (Bil. US$)



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South Africa | Macroeconomic Conditions Will Dictate Growth

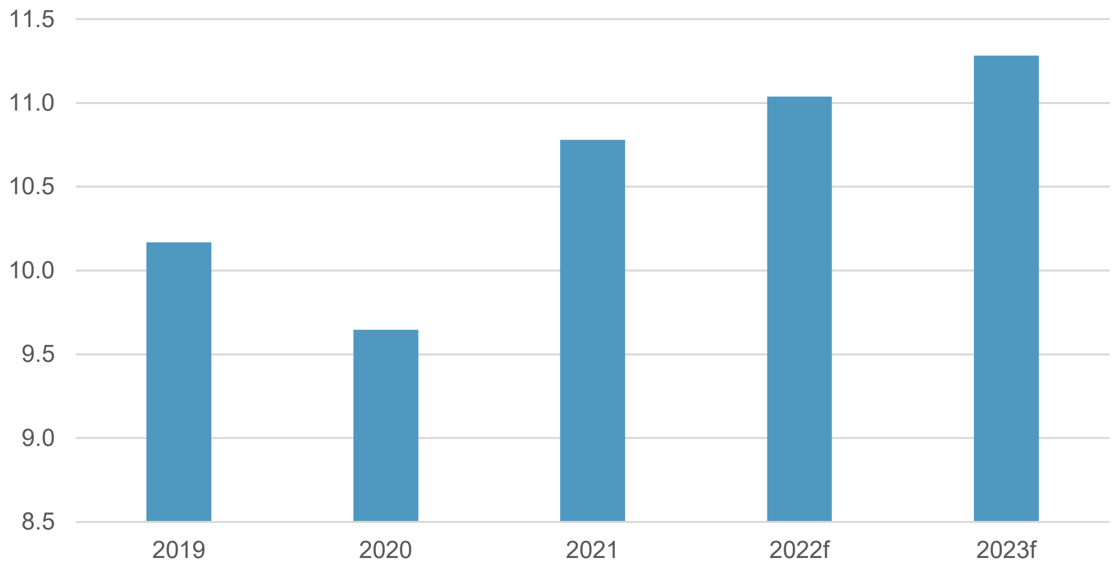
- In our view, the P/C sector premium growth rate will be in the mid-single digits, lower than in 2021 following the post-lockdown recovery. We expect growth will remain constrained by a relatively weak domestic economy.

- The 5%-7% premium growth will likely be driven by its major segments via property and motor, as well as select specialist lines in the form of engineering. We expect the combined ratio will remain at about 95% in 2022. Reserves for contingent business interruption (CBI) claims were mostly already reserved in 2020-2021. As such, we do not expect material additions to reserves at an industry level. Recent flooding damages in Eastern parts of the country will be protected via reinsurance arrangements.

- P/C products expose insurers in South Africa to moderate risk. Given the concentration of motor (over 50% of net premiums), this raises the susceptibility of the industry to natural catastrophe events from hailstorms, and recent flooding damages in KwaZulu-Natal.

Key risks affecting P/C insurers:
- Macroeconomic risks
- Muted premium growth prospects
- Intense competitive environment

Non-Life GPW In South Africa For 2019-2023f (Bil. US$)



GPW--Gross premiums written in foreign currency. e--Estimate. f--Forecast. Exchange rates from "Economic Outlook Emerging Markets Q3 2022," published Jun. 28. Sources: S&P Global Ratings.

Turkey | Elevated Inflation Will Put A Drag On Underwriting Results

- With motor insurance representing about half of the non-life premiums in Turkey, its performance is key for the overall industry. Given expected inflation of more than 68% at the most recent reading in 2022, we anticipate GPW will remain flat or post a decline in real terms.

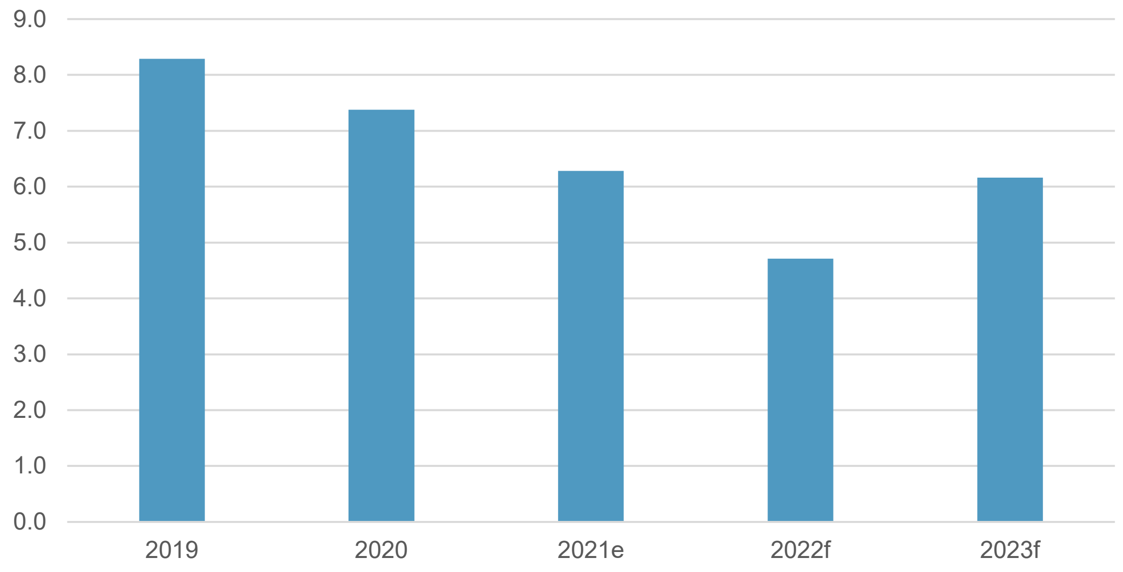
- Turkey is one of the world's most earthquake and natural catastrophe-prone countries. The heightened exposure to this type of cover exposes insurers to major potential losses.

- We understand that due to the very high inflation, insurers need to adjust their motor rates several times per month to minimize potential losses that may arise due to a fluctuation in prices for spare parts and foreign currency exchange rates.

- Prospectively, we anticipate the industry's net combined ratios will remain above break-even for 2022 and 2023, given the high inflation being reported and its impact on claims cost. Moreover, the volatility and devaluation of the local currency will continue to strain profitability, particularly in motor, given that spare car parts are priced in hard currencies.

Key risks affecting P/C insurers:
- Macroeconomic risks
- Weak technical results
- Government policy and regulation

Non-Life GPW In Turkey For 2019-2023f (Bil. US$)



GPW--Gross premiums written in foreign currency. e--Estimate. f--Forecast. Exchange rates from "Economic Outlook Emerging Markets Q3 2022," published Jun. 28. Sources: S&P Global Ratings.

United Arab Emirates | Satisfactory Earnings Despite Competition

- We forecast GPW growth of about 5% in 2022, supported by ongoing infrastructure spending and an expected increase in visitors and residents thanks to new visa programs that aim to attract highly qualified expatriates.

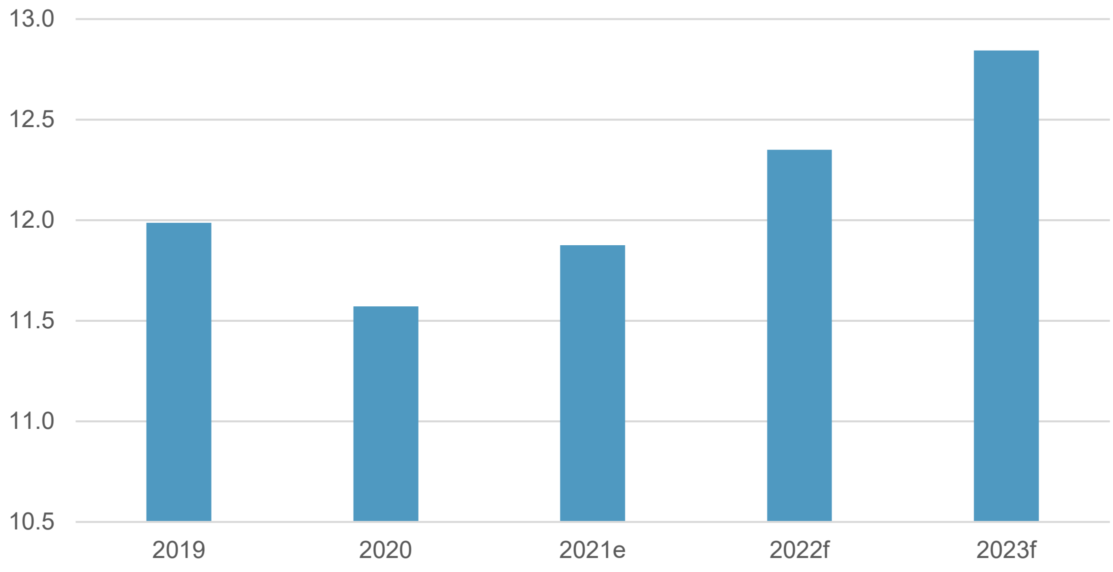
- An increase in mobility and resumption of nonessential medical services led to an increase in claims frequency in 2021, which we expect will continue in 2022. Combined with a decline in motor rates by up to 50% in recent years, we expect weaker operating performance with a net combined ratio of about 92%-93% in 2022, compared with about 91% in 2021.

- We believe that UAE-based insurers will benefit from higher investment returns on cash and fixed deposits, as interest rates rise, given the UAE's currency peg with the U.S. dollar. However, UAE insurers remain exposed to capital market volatility, since on average about 50% of their total investments are allocated in high-risk assets, such as equities and real estate.

- Rated insurers in the UAE are typically very well capitalized, with substantial excess capital above capital needs. This distorts somewhat the sector's ROE, which we forecast at about 8% in 2022.

Key risks affecting P/C insurers:
- Intense competitive environment
- Exposure to high-risk assets

Non-Life GPW In UAE For 2019-2023f (Bil. US$)



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Country-Specific Trends

Latin America – Argentina, Brazil, Colombia, and Mexico

S&P Global Ratings

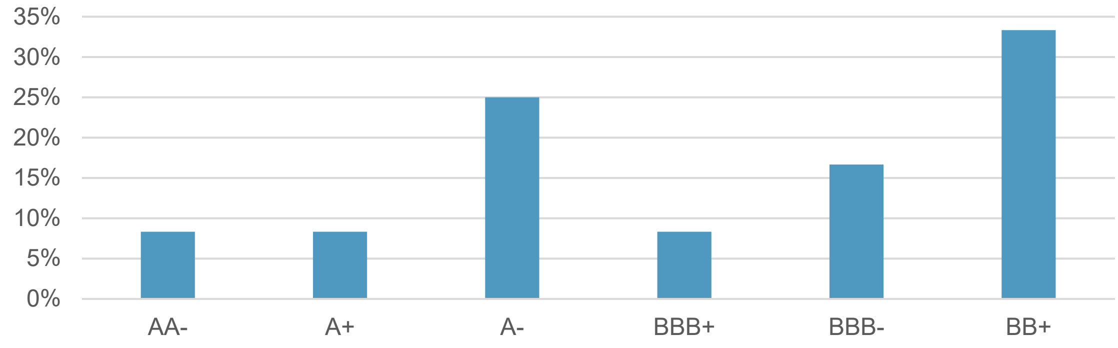
Latin America | Healthy Capitalization Will Cushion Economic Risks

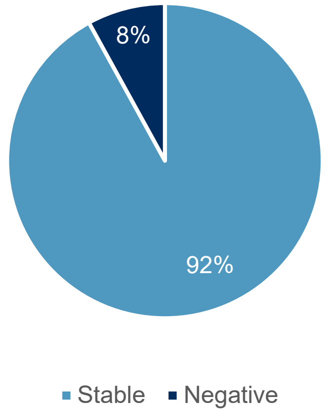
Most of the major Latin American economies have performed better than expected. However, there are clear downside risks to our baseline GDP growth projections, including a weaker-than-expected U.S. economy, more supply-chain disruptions, high inflation, and low policy predictability in the region.

We expect insurers will remain supported by their healthy balance sheets, sound capitalization, and adequate liquidity. Maintaining prudent underwriting standards and strict cost containment measures should somewhat cushion them from pressure on profitability. A key challenge will be adjusting pricing strategies to release pressure on technical results while retaining customers and accessing new ones. We also expect insurers in the region to maintain conservative investment policies to offset the negative effects of potentially high financial market volatility.

However, we should be alert to a possible rapid adjustment in U.S. yields. This could affect financing conditions for the issuers that insurers are exposed to through their investments. Such an abrupt adjustment could result in downgrades and defaults, depressing insurers' profits and capital.

Rating And Outlook Distribution For Latin American P/C Insurers





Source: S&P Global Ratings. Data as of August 2, 2022.

Argentina | Difficult Business Conditions Persist

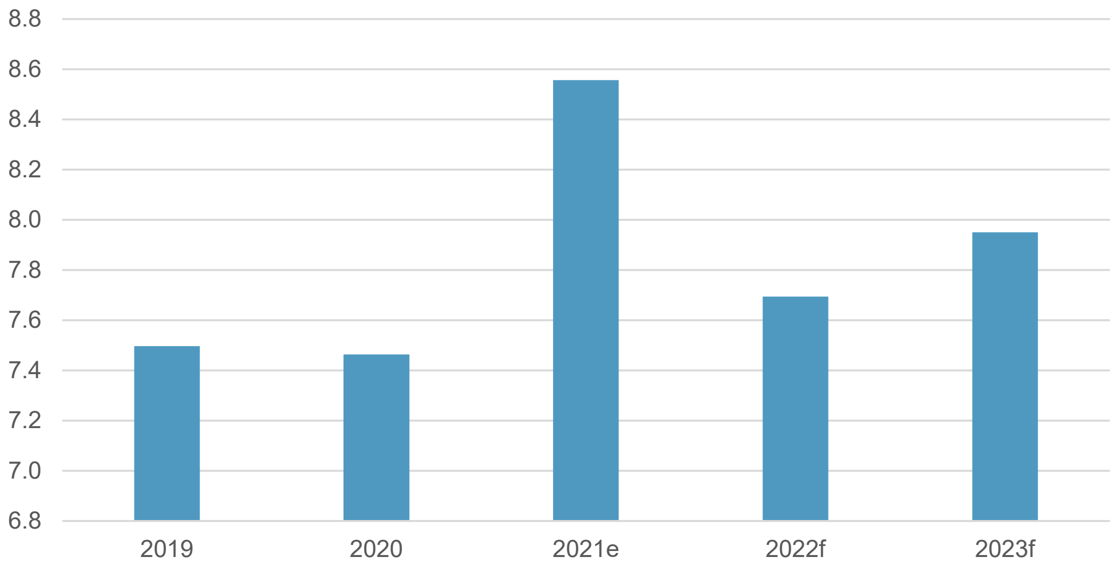
- Argentina's economy remains under stress with high inflation of about 52.5%, and we expect GWP will grow by about 60% on a nominal basis in 2022. However, the high inflation also causes some uncertainties in pricing and reserving, in our view.

- As of June 2021 (fiscal year-end), the sector's combined ratio and ROE reached about 90% and 3.8%, respectively, in real terms. As of June 2022, we expect the market to report a combined ratio of 100% and ROE of -4.5%. Given the challenging economic scenario, we expect insurers will focus on retaining customers and premium collection.

- Despite the uncertainties, we forecast operating performance will also break-even in 2023, with a combined ratio of around 100% and ROE of around -2%, in real terms. As a result, bottom-line results will mainly benefit from investment income, reflecting the increase in interest rates.

Key risks affecting P/C insurers:
- Macroeconomic risks
- Muted premium growth
- Investment performance risk

Non-Life GPW In Argentina For 2019-2023f (Bil. US$)



GPW--Gross premiums written in foreign currency. e--Estimate. f--Forecast. Exchange rates from "Economic Outlook Emerging Markets Q3 2022," published Jun. 28. Sources: S&P Global Ratings.

Brazil | Volatile Economy Could Hit Earnings

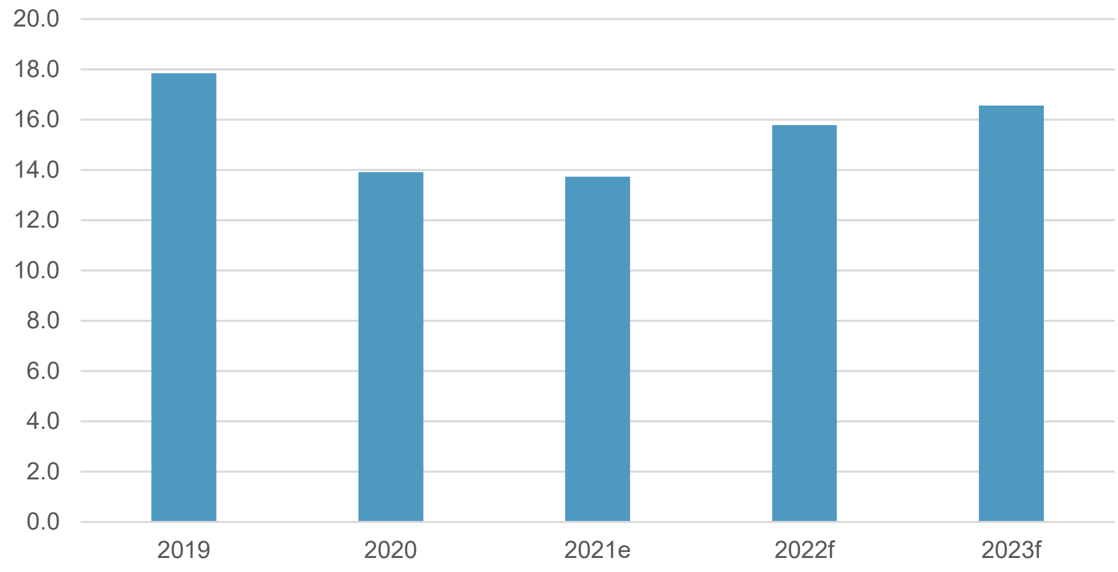
- We forecast Brazilian insurers' GPW will grow by about 8% in 2022 but expect inflation of about 10.5%, which means that the market will shrink in nominal terms. Despite the difficult economic environment, we believe that GPW surety and agriculture insurance will positively contribute to growth.

- That said, higher interest rates should enhance profitability despite our expectation of still weak economic conditions next year. We forecast Brazilian insurers' profitability will recover in 2022 after weaker-than-usual earnings in 2021. We expect the combined ratio to settle at about 95% in 2022.

- Rising interest rates could somewhat mitigate the effects of high unemployment ,and low GDP growth could also curb profits. As a result, we anticipate ROE will reach about 16% this year.

Key risks affecting P/C insurers:
- Macroeconomic risks
- Muted premium growth prospects

Non-Life GPW In Brazil For 2019-2023f (Bil. US$)



GPW--Gross premiums written in foreign currency. e--Estimate. f--Forecast. Exchange rates from "Economic Outlook Emerging Markets Q3 2022," published Jun. 28. Sources: S&P Global Ratings.

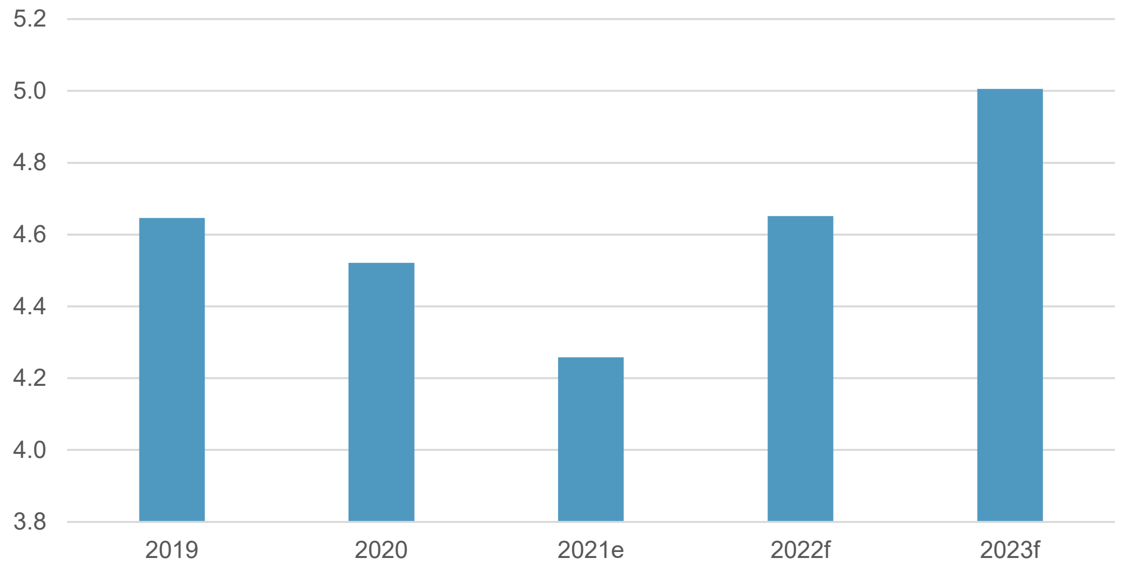
Colombia | Economic Recovery Will Support Growth And Earnings

- GPW grew by about 13% in 2021 thanks to the economic recovery and fewer movement restrictions. Growth was supported by motor insurance after a pickup in car sales. In our view, inadequate public health care, along with shifts in insurance consumer preferences due to the pandemic, will introduce growth opportunities that lead to GPW growth of about 13% in 2022 on a nominal basis. In addition, local regulatory initiatives in place--including the introduction of agricultural insurance--will boost growth in the P/C sector in the next few years.

- Although the sector is not significantly exposed to natural catastrophe or other large unpredictable claims, it is still characterized by consistent underwriting losses and heavy reliance on investment gains to achieve overall profitable earnings. We do not expect this trend will change in 2022 and forecast that high competition and acquisition costs will continue to weigh on operating performance and result in a combined ratio of about 103.5% and ROE of 7%.

Key risks affecting P/C insurers:
- Weak technical results
- Macroeconomic risks
- Intense competitive environment

Non-Life GPW In Columbia For 2019-2023f (Bil. US$)



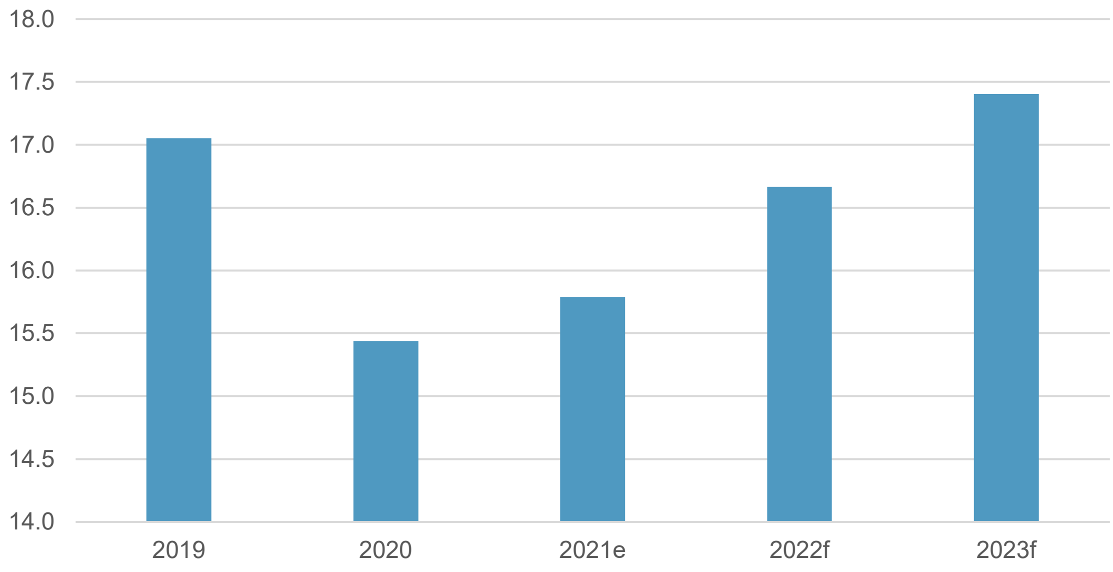
GPW--Gross premiums written in foreign currency. e--Estimate. f--Forecast. Exchange rates from "Economic Outlook Emerging Markets Q3 2022," published Jun. 28. Sources: S&P Global Ratings.

Mexico | Increasing Claims Frequency Will Weigh On Profits

- Following GDP growth of about 8% in 2021, we expect that supply chain disruptions and the weak investment outlook will slow the economic recovery. A weaker-than-expected U.S. economy is a key risk to the region and has increased in recent months. That said, we still expect the Mexican insurance market's growth to be about 8.4% in 2022, in nominal terms, supported by more demand for accident and health-related covers.
- The pandemic is the most expensive catastrophic event in Mexico of all time. A key factor will be the large number of claims (related to COVID-19) that have occurred but haven't yet been reported to insurers, which could potentially increase outstanding claims.
- Therefore, technical results will remain under pressure this year, although we expect the sector to maintain good capitalization. Mexican insurers' investment portfolios are highly exposed to government securities, so in our view, rising interest rates in the country will support investment income and mitigate pressure on technical results.

Key risks affecting P/C insurers:
- Macroeconomic risks
- Muted premium growth prospects
- Investment performance risk

Non-Life GPW In Mexico For 2019-2023f (Bil. US$)



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Appendix

S&P Global
Ratings

List Of Key Regulatory Updates

Country	Key regulatory changes	Potential impact
China	The regulator introduced the second phase of a risk-based capital framework (China Risk-Oriented Solvency System – C-ROSS) in December 2021. This phase aims to refine the risk weightings and incorporate learnings since the initial launch of the C-ROSS framework in January 2015. The regulator also emphasizes using "look-through" measures to assess required capital for insurers' investment portfolios.	Enhancing insurers' risk awareness and deepening their understanding of risk. Direct impact: Insurers' regulatory solvency ratios will likely decline. The implementation of Phase II will be from Q1 2022, while insurers can apply for up to three years to transition.
India	In its 2022-2023 budget, the finance ministry announced a capital infusion for ailing public-sector general insurers, earmarked funds for development of agriculture sector and health care services within India. The FDI limit in insurance was increased to 74% from 49%, at the Union Budget (February 2021). In 2022, the regulator proposed growth targets to improve insurance penetration over the long term.	Market liberalization and funding efforts will help in gradually increasing penetration, improving underwriting performance, and adopting better risk management practices while sustaining sound solvency levels over the longer term. Recent regulatory push with growth targets to further boost sector's growth.
Indonesia	From January 2020, under the new regulations, foreign companies that have already exceeded 80% ownership limit can increase capital in line with their existing ownership percentage, up to 85%. Thus, the foreign holding need not be reduced.	While there have been multiple changes related to FDI regulations, the objective is to seek advantage and support from these investments toward development of the Indonesian insurance sector.
Malaysia	After enhancing the risk-based capital framework in 2018, the regulator has been focusing on areas such as phased detarification of motor and fire insurance, compliance, and governance. The implementation of lowered foreign ownership for insurance companies (to 70% from 100%) remains uncertain.	Detarification encourages risk-based pricing which helps to improve profitability of motor and fire insurance in the long run, however ,it could add to competitive pressure on insurers. Lower foreign ownership aims to develop the domestic market and retain capital.
Philippines	Effective 2018, the Insurance Commission has issued a staged implementation of several regulations related to stringent reserving standards, risk-based capital requirements, and a new risk-based capital regime (through 2022).	The phased implementation aims to allow small and midsize players to gradually strengthen their capital buffers. We anticipate consolidation within this fragmented market as insurers attempt to meet the set capital thresholds.
Saudi Arabia	Primary and reinsurers will need to increase their minimum capital to Saudi riyal 300 million over the next three years. The focus on conduct regulation is growing.	M&A activity is increasing and there is likely to be more consolidation as the minimum capital requirements increase.
Thailand	In 2019, the regulator started to implement the new risk-based capital framework in phases with the aim to align with Solvency II principles. Under the relaxation of foreign ownership for insurance companies since 2017, AIG Thailand became the first 100% foreign-owned insurance company approved by Thailand Ministry of Finance in 2021.	Larger and more established insurers are generally well prepared for the new solvency regime. The phased implementation is to allow small and midsize players to gradually strengthen their capital buffers. Allowance of higher foreign ownership is expected to increase access to both foreign capital and expertise.
United Arab Emirates	Following the introduction of more sophisticated risk-based regulations in recent years, the regulator is now focusing more on matters relating to anti-money laundering, compliance, and governance.	Higher cost to meet compliance requirements but will likely improve governance and transparency in the sector.

Related Research

- EMEA Insurance Mid-Year Outlook 2022: In The Eye Of The Perfect Storm, July 11, 2022
- Credit Conditions Emerging Markets Q3 2022: Risks Accumulate As Conflict Lingers, June 28, 2022
- Credit Conditions Asia-Pacific Q3 2022: Costs Heighten, China Growth Tightens, June 28, 2022
- Economic Research: Economic Outlook Emerging Markets Q3 2022: Testing Times Ahead For Emerging Market Resilience, June 28, 2022
- Sector Roundup Asia-Pacific Q2 2022: Recovery Stalling, Not Yet Falling, April 4, 2022
- GCC Insurers In 2022: More Capital Market Volatility And Intense Competition Point To Earnings Headwinds, March 2, 2022
- Economic Headwinds Will Limit Latin American Insurers' Growth Prospects And Profitability This Year, Feb. 3, 2022
- Global Insurance Markets: Alive And Kicking, Dec. 7, 2021
- EMEA Insurance Outlook 2022 Sector: Fighting Fit For 2022, Nov. 16, 2021

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