GCC Insurers In 2023:

Strong Growth And Lackluster Earnings Could Squeeze Capital Buffers

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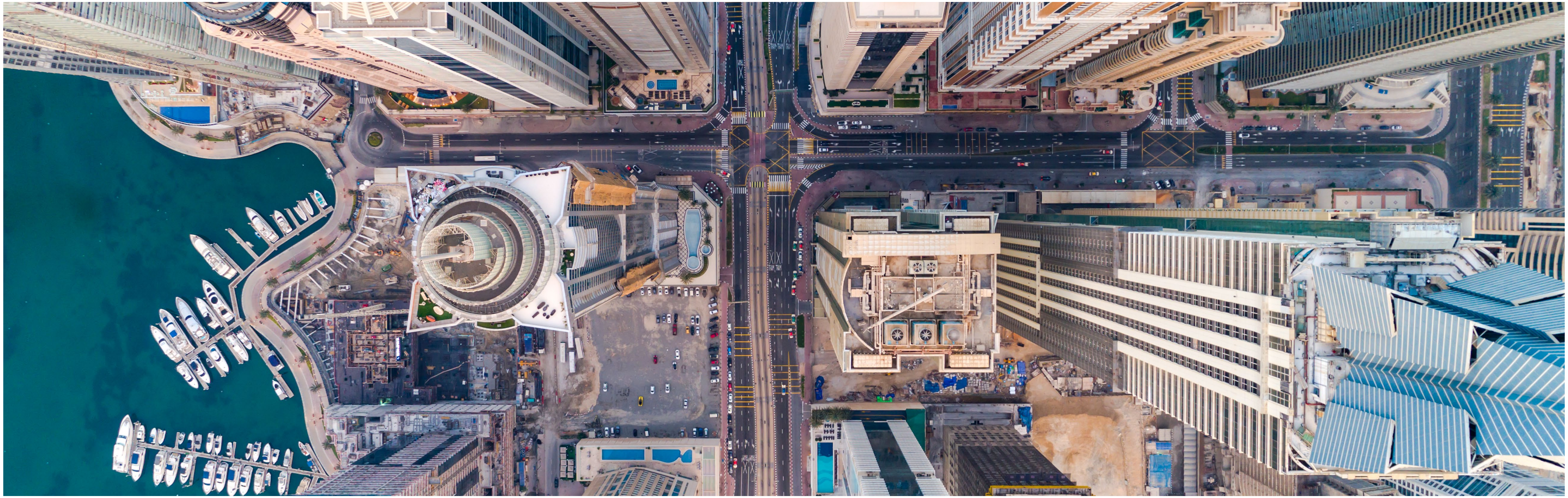
March 1, 2023



S&P Global
Ratings

This report does not constitute a rating action

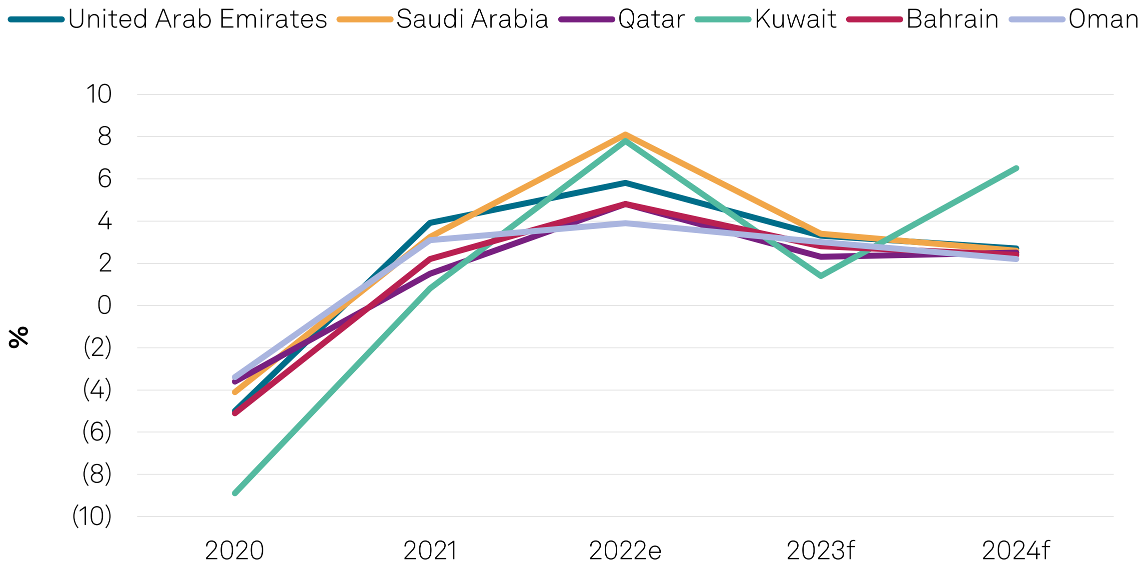
Key Takeaways

- Gulf Cooperation Council (GCC) insurers are reaping the benefits of ongoing economic growth in the region. The expansion of infrastructure investment and medical insurance covers will continue to spur premiums in 2023, albeit at a slower pace than in 2022.
- Although premium incomes rose, profitability declined in most GCC markets in 2022. For 2023, we expect a modest uptick in earnings if insurers continue to reprice underperforming business. Higher investment returns following an increase in interest rates should also support earnings, in our view.
- The combination of strong premium growth, relatively modest earnings, and ongoing high costs to meet new accounting standards and other regulatory demands will likely squeeze capital and solvency buffers. As markets become increasingly fragmented, we expect many small and midsize insurers will feel these effects the most.
- While we expect the ratings on larger and higher-rated insurers in our portfolio to remain broadly stable, the credit strength of many smaller to midsize players could weaken, leading to further capital raising and consolidation in the sector.

Economic Growth | Supported By Higher Oil And Gas Prices

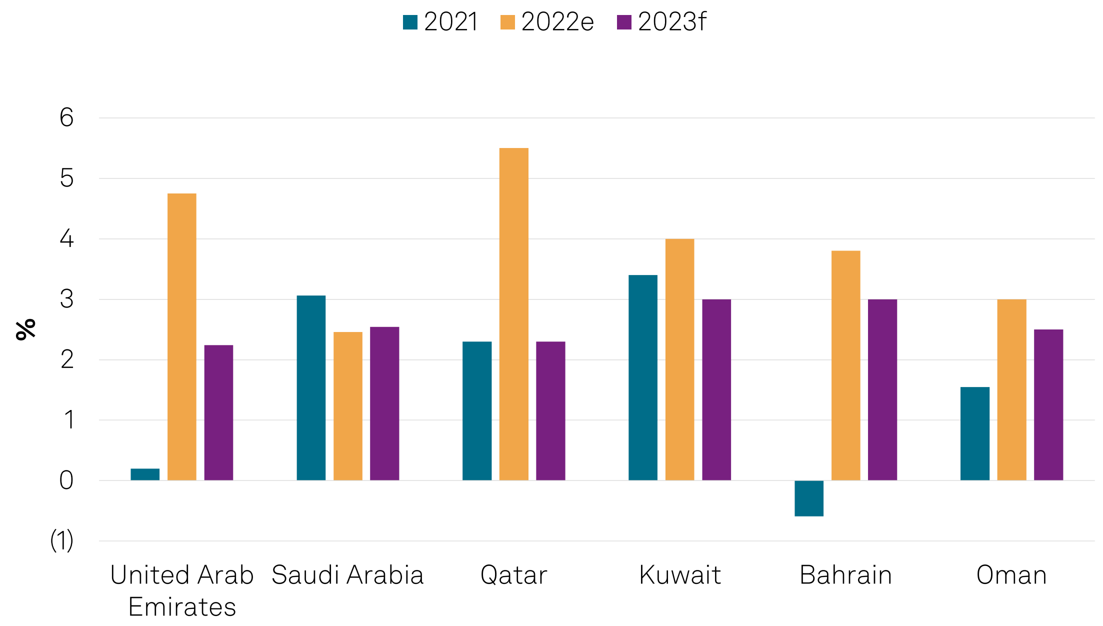
- We assume an average Brent oil price of $85 for 2023, supporting economic growth in the region. We therefore expect that insurers will benefit from favorable economic conditions and an expansion of infrastructure projects, leading to higher gross written premiums (GWP).
- Average inflation in the GCC will likely return to below 3% from over 4% in 2022. Combined with easing pressure on supply chains, this should moderate claims costs for motor and other property/casualty (P/C) lines, in our view.

Gross Domestic Product (GDP) Growth



e-- Estimate. f--Forecast. Source: S&P Global Ratings. SRI publication from Dec. 13, 2022

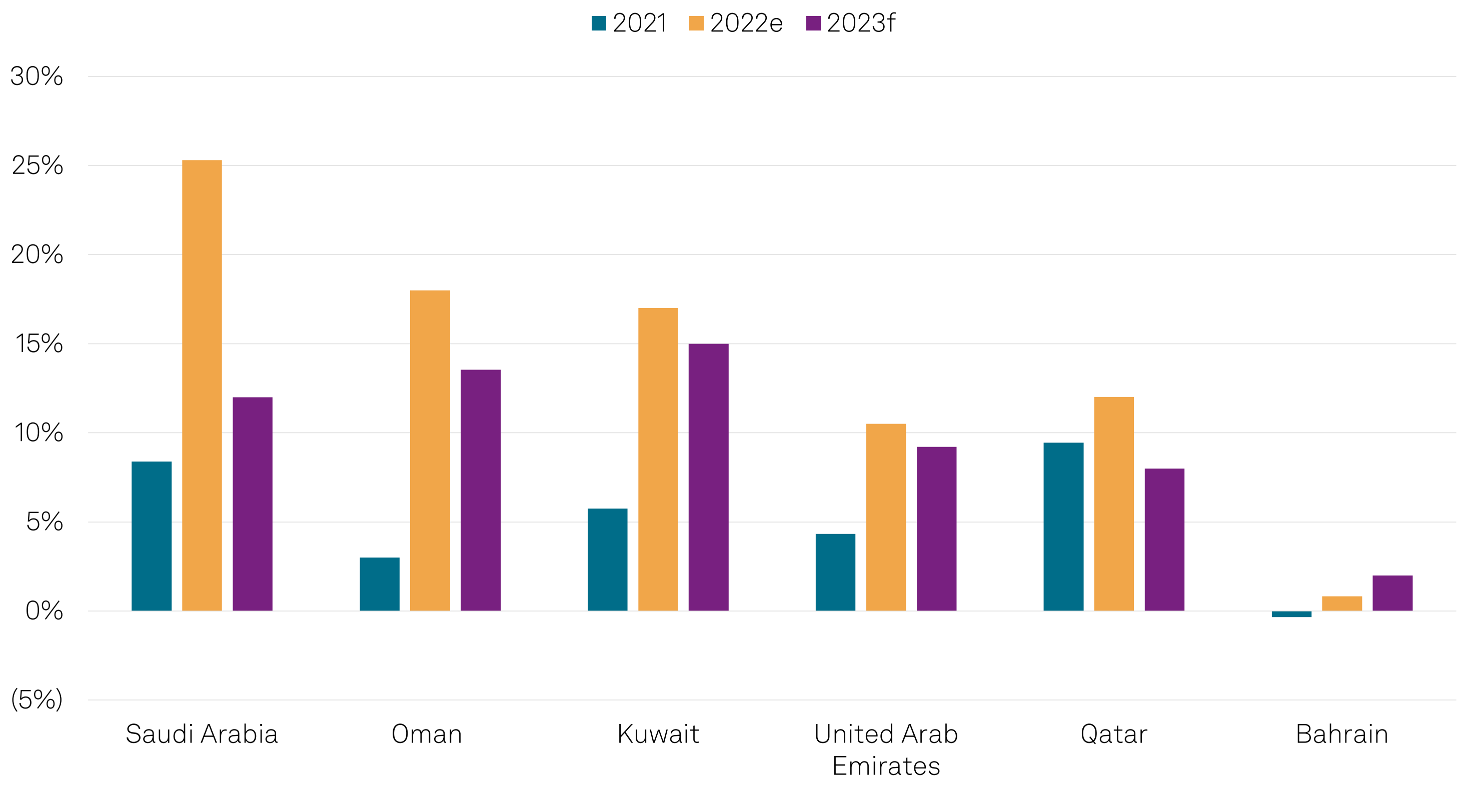
Consumer Price Index (CPI) Growth



e-- Estimate. f--Forecast. Source: S&P Global Ratings. SRI publication from Dec. 13, 2022

Gross Written Premiums | Growth Prospects Remain Favorable

New Mandatory Medical Covers Will Remain A Key Growth Driver

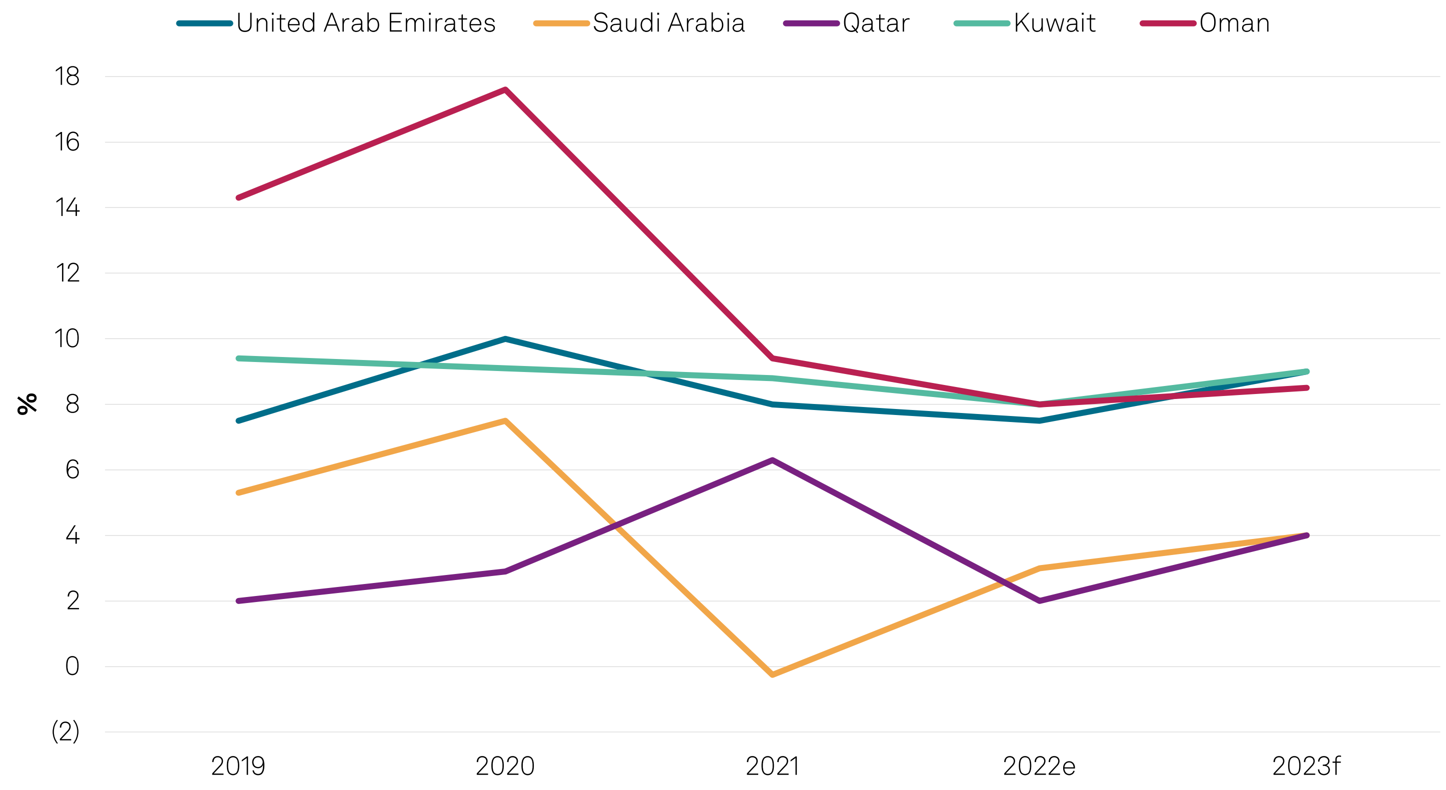


e--Estimate. f--Forecast. Source: S&P Global Ratings estimate.

- Most GCC insurance markets experienced strong growth in 2022, as economies continued to recover from the COVID-19-related slowdown in previous years.
- The introduction of new medical covers, and some inflation-related tariff adjustments were among the key growth drivers in 2022.
- We expect authorities in the region will continue to encourage the development of the insurance sector by introducing new mandatory covers and that GCC markets will continue to expand at a moderate pace in 2023.
- However, we expect to see a slowdown in GWP growth to a more sustainable level than that in 2022.

Profitability | Increasing Fragmentation But Satisfactory Overall

Return On Equity Will Likely Improve In 2023

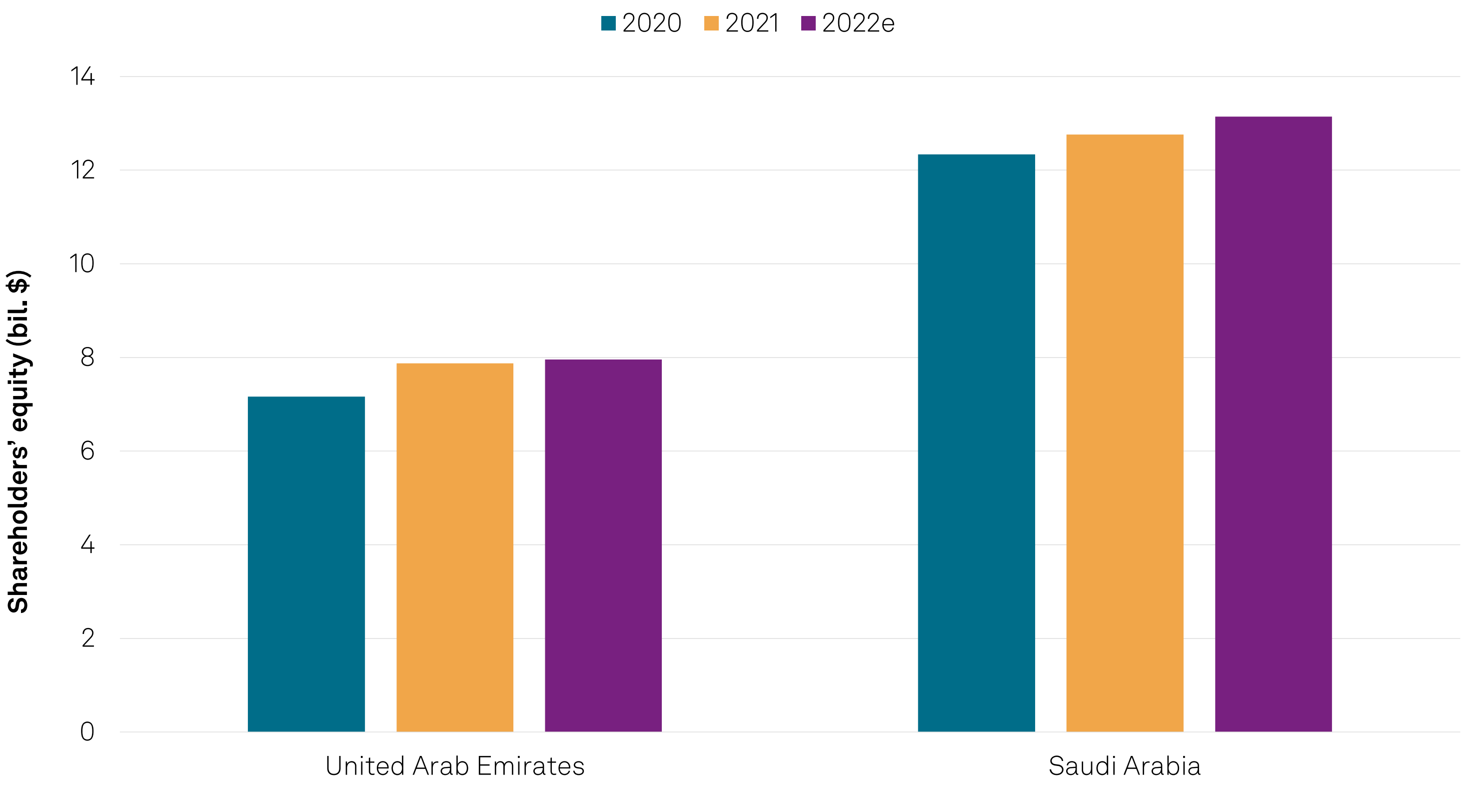


e--Estimate. f--Forecast. Source: S&P Global Ratings estimate. Data for Bahrain is not available.

- Many insurers in markets like Saudi Arabia and Kuwait have generated underwriting losses in recent years, with the top three largest companies generating almost all of the profits.
- We expect the high competition in most markets to ease somewhat in 2023. We believe that total net earnings could show a modest uptick if insurers continue to reprice underperforming motor and medical accounts. In addition, higher interest rates will boost investment returns.
- While insurers in most GCC markets will continue to achieve net combined ratios between 90%-95%, we expect underwriting results and overall profitability in Saudi Arabia to improve, but to remain relatively weaker compared with other markets.

Capital Levels | Relatively Flat Despite Strong Premium Growth

Total Shareholders' Equity Of All Insurers In The Two Largest GCC Markets



e--Estimate. Source: S&P Global Ratings.

- The two largest markets in the region saw double-digit business growth in 2022, though total shareholders' equity only grew by about 3% in Saudi Arabia while remaining flat in the UAE during that time.
- We expect GWP growth will continue to outpace the build-up of capital in most markets in 2023. This will particularly be the case for many smaller and midsize insurers if they do not manage to increase their earnings.
- We do not expect significant shifts in capital buffers for our (mainly larger and highly rated) portfolio, thanks to relatively stable business profiles and earning prospects.

Key Risks In 2023 | High Competition And Claims Costs Top The List

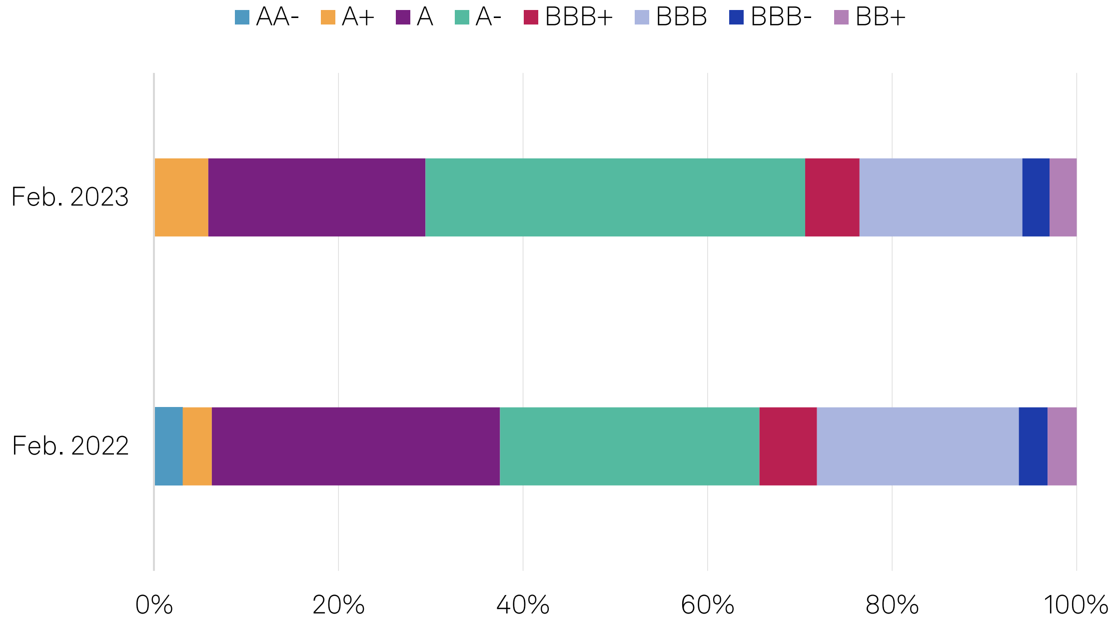
Risk factor	Description	Risk level
Insurance and reserving risk	High price competition and an increase in motor and medical claims, exceeding pre-pandemic levels, amplified margin pressure in 2022. Although some insurers in the region have started to increase their rates for underperforming motor and medical business, ongoing high competition and an increase in business volumes could spur higher claims costs and reserving needs in 2023.	Elevated
Asset risk	An expected pick up in default rates and ongoing volatility in capital markets could lead to investment losses for insurers that are heavily exposed to equities and bonds. With a rapid increase in inflation, however, the U.S. Federal Reserve and consequently GCC central banks hiked interest rates in 2022 and early 2023. As a result, insurers will benefit from higher yields on their cash and fixed deposits. This could also prompt some to de-risk their investment portfolios.	Moderate
Regulatory/accounting changes	New regulations with higher minimum capital requirements (particularly in Saudi Arabia) and a move to International Financial Reporting Standards (IFRS 17 and IFRS9) will lead to material changes in financial reporting and business strategies and consequently rising operational costs. The switch in accounting standards could lead to lower earnings for some insurers. The need to update processes and IT systems will also result in additional costs in 2023. We expect that smaller companies, and those with outdated systems, will likely face a higher financial burden for compliance.	Moderate
Financing conditions	Rising interest rates and higher capital market volatility have increased the cost of refinancing.	Moderate
Cyber risk	Insurers face an increasing risk of attacks and must protect policyholder data and privacy or face reputational or financial damage.	Moderate
Decline in reinsurance capacity	A further increase in reinsurance rates or difficulties placing certain facultative risks could create top- and bottom-line challenges for some primary insurers.	Very low

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

Ratings | Largely Stable Credit Quality

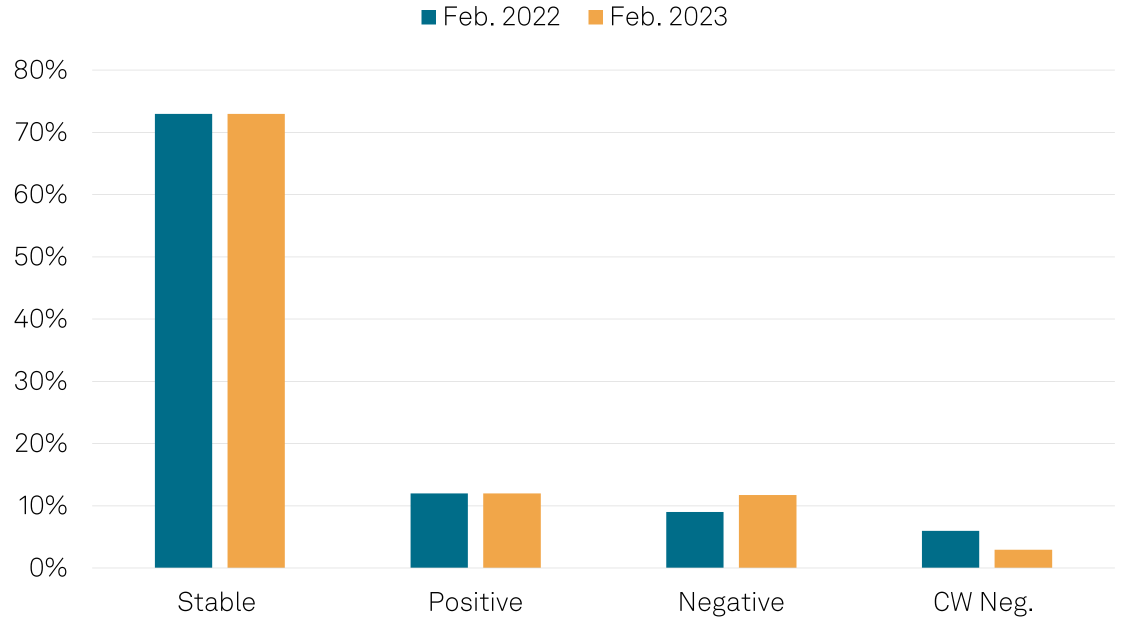
- We expect ratings to remain stable overall, supported by relatively robust capital buffers.
- That said, the credit conditions for some unrated, smaller-to-midsize insurers could weaken in 2023, driven by strong premium growth, higher claims frequency, and regulatory/compliance costs, which would require further capital raising and consolidation in the sector.

GCC Insurers Rating Distribution



Data as of Feb. 28, 2023. Data includes ratings of group subsidiaries. Source: S&P Global Ratings.

GCC Insurers Outlook Distribution



Data as of Feb. 28, 2023. Data includes outlooks of group subsidiaries. CW--CreditWatch. Source: S&P Global Ratings.

Country-Specific Trends

Saudi Arabia, The UAE, Kuwait, Qatar, Oman, and Bahrain

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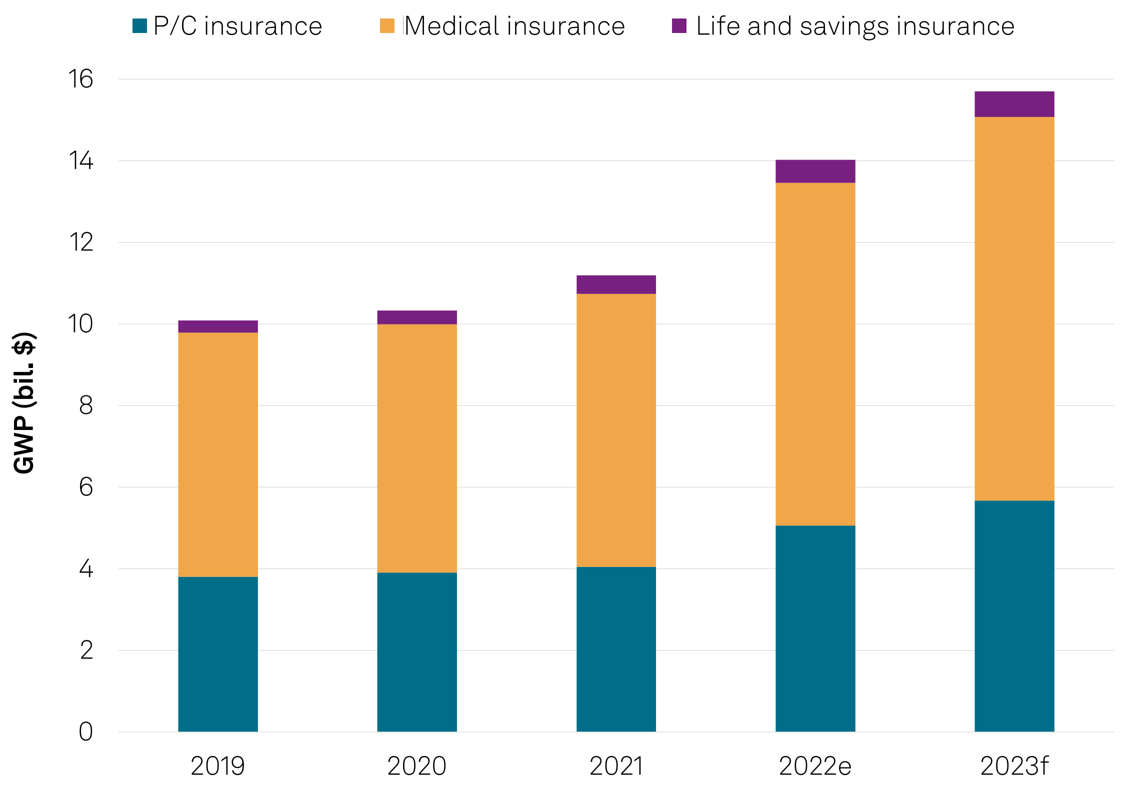
Saudi Arabia | Premium Growth Trend Remains Favorable

- We estimate that Saudi Arabia became the largest insurance sector in the region in 2022, thanks to the strong increase in GWP. This was backed by the Kingdom's rapid economic recovery, the expansion of mandatory medical covers, the introduction of the inherent defects insurance (IGI) scheme, and other initiatives.
- Underwriting profitability remained weak in 2022, with about two-thirds of insurers reporting underwriting losses. An increase in motor and medical claims to pre-pandemic levels, coupled with high competition and claims inflation, were among the key drivers of the sector's weak performance.
- We project some improvements in underwriting results in 2023, as we expect insurers to continue to reprice underperforming accounts. Nevertheless, the net combined ratio will remain weaker than in other GCC markets. That said, we believe that higher yields on cash and fixed deposits, which are the main investment instruments for Saudi insurers, will support earnings overall.
- Over the past five to six years, the number of active insurers in the Kingdom reduced by almost 20%--to 28 from 34. We expect this consolidation trend to continue in 2023.

GWP Distribution In Saudi Arabia For 2019-2023f



e--Estimate. f--Forecast. GWP--Gross written premium. P/C--Property/casualty. Sources: Saudi Central Bank (SAMA), S&P Global Ratings estimate/forecast.

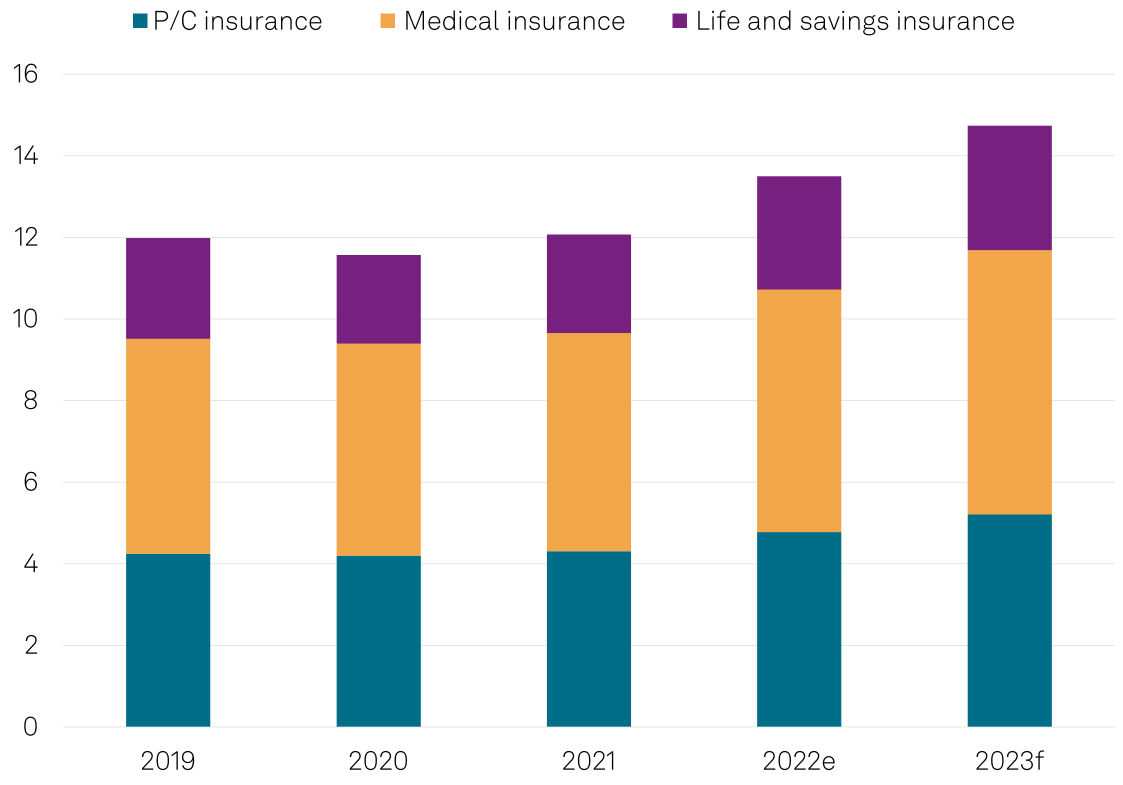
United Arab Emirates | Higher Expenses Weigh On Earnings

Favorable economic conditions, higher oil prices, a relaxation of visa requirements, and other positive structural changes over recent years have spurred growth in the sector. The repricing of loss-making motor and medical accounts was also a factor that drove growth in 2022. Ongoing economic growth and local authorities' plans to extend mandatory health insurance cover to the Northern Emirates in early 2023 will support premium growth in the UAE, in our view.

We estimate that overall underwriting results declined in 2022 mainly driven by higher operating costs and expected lower reinsurance commission income. As a result, we estimate an increase in the market's net combined (loss and expense) ratio to about 93% in 2022 from around 90% in 2021. While we expect the combined ratio to settle at around 93% and higher interest rates to support earnings, operational costs relating to the implementation of IFRS17, as well as the introduction of a 9% corporate tax on net profits from June 1, 2023, will likely weigh on earnings.

We observed some mergers among underperforming Takaful players in the UAE in 2022. We believe that high competition and the need for scale to dilute high costs will likely lead to further consolidation among Takaful and conventional insurers in 2023.

GWP Distribution In The UAE For 2019-2023f

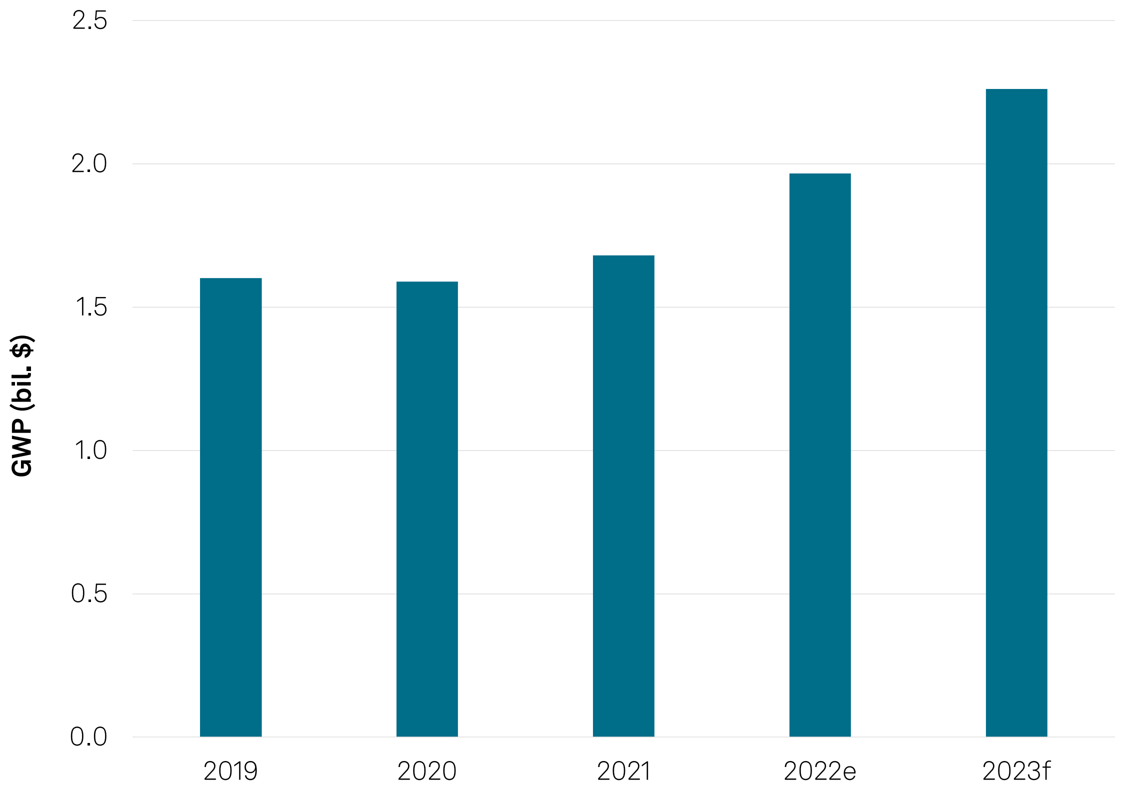


e--Estimate. f--Forecast. GWP--Gross written premium. P/C--Property/casualty. Sources: UAE Insurance Authority, S&P Global Ratings estimate/forecast.

Kuwait | New Regulations Will Strengthen Discipline

- We estimate that GWP in Kuwait grew by about 15%-20% in 2022. This mainly followed the introduction of a new mandatory medical scheme for expatriates and an increase in premiums from the existing medical cover for local retirees (AFYA), as the number of members in this scheme expanded.
- The Kuwaiti insurance sector will likely continue to grow by 15%-20%, mainly because of further expansion of mandatory medical insurance for both expatriates and local retirees. We expect the overall combined ratio for the market to remain in between 94%-96% in 2023.
- Kuwait's institutional framework is still developing, but we note some meaningful improvements in recent years. A new independent regulator--the insurance regulatory unit (IRU)--was set up in 2021 and new risk-based regulations were published in the same year. We expect these regulations to be fully implemented over the next few years, supporting better governance standards and underwriting discipline, particularly among many of the unlisted insurers, in our view.

GWP In Kuwait For 2019-2023f

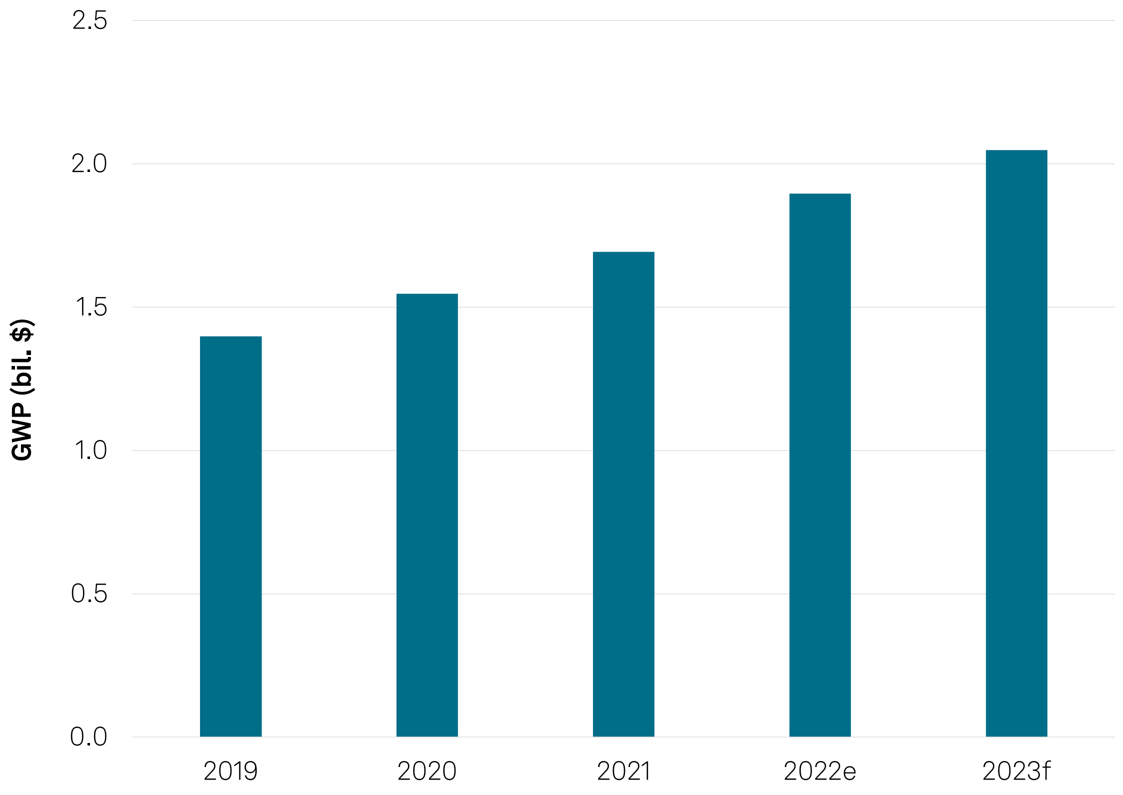


Breakdown by line of business is not available. e--Estimate. f--Forecast. GWP--Gross written premium.
Sources: S&P Global Ratings.

Qatar | Mandatory Medical Scheme Will Fuel Growth

- Qatar's compulsory health insurance law was expected to take effect in May 2022, but has been delayed several times. Under the law, all foreign visitors, residents, and workers in the country will have to hold medical insurance for the entire duration of their stay, unless they are exempt.
- As of Feb. 1, 2023, the first phase was implemented, requiring visitors to purchase a health policy at a premium starting from Qatari riyal (QAR) 50 ($14). In our view, this will not be a material contributor to premium growth.
- The larger part of the scheme could generate QAR1 billion-QAR1.5 billion in additional GWP in the coming years. We have not incorporated this in our growth forecast for 2023, since pricing and the table of benefits for policyholders have not been disclosed. When implemented, the sector will likely see a spike of new business, leading to 15%-20% in additional premium growth above our current base-case.
- We estimate a net combined ratio for the industry of about 86% in 2022, with most listed companies returning strong technical profits. In 2023, we estimate a combined ratio of 90%-93%, as the portion of medical business, which tends to have lower profit margins, expands.

GWP In Qatar For 2019-2023f

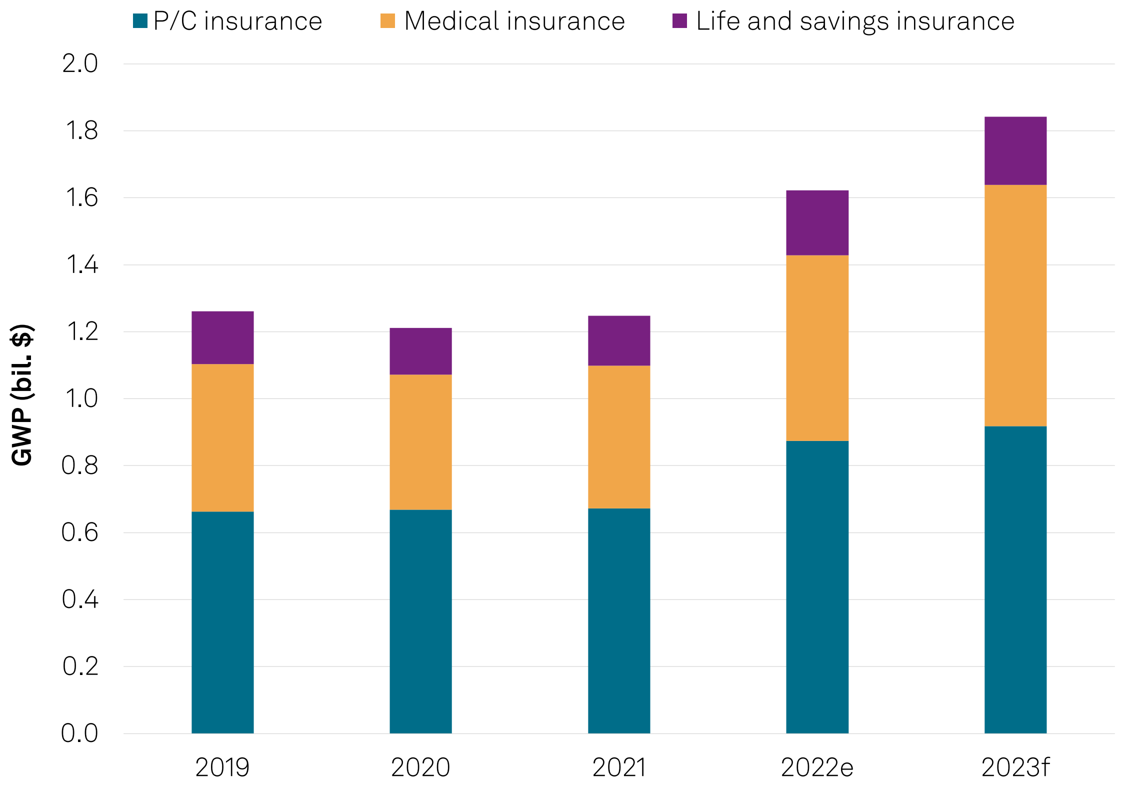


Breakdown by line of business is not available. Data does not include GWP from Qatar Insurance Co.'s international business. e--Estimate. f--Forecast. GWP--Gross written premium. Source: S&P Global Ratings.

Oman | New Medical Scheme Will Support Growth In 2023

- Listed insurers in Oman recorded strong GWP growth of about 30% in 2022. That said, most of this increase was due to a large M&A transaction where one local player acquired regional business of a large foreign insurance group. We estimate that the overall market (consisting of listed and unlisted insurers) grew by around 15%-20% in 2022. For 2023, we project the overall market to grow by 10%-15%, supported by the rollout of a new mandatory medical scheme for the private sector (Dhamani).
- Profitability remained broadly stable in 2022, primarily driven by investment income, while underwriting performance remains breakeven.
- Looking ahead, we anticipate that the market will remain profitable, though underwriting margins may remain under pressure. With higher interest rates, investment income from bank deposits will likely improve and support overall earnings.

GWP Distribution In Oman For 2019-2023f

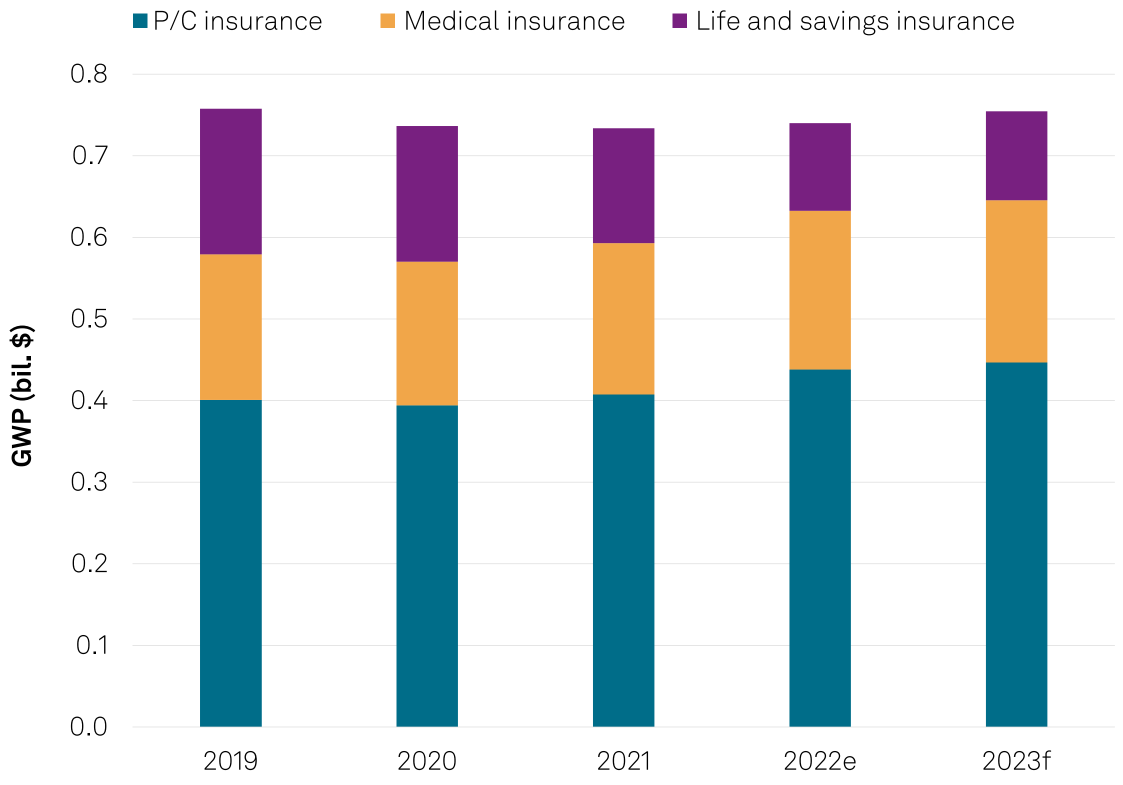


e--Estimate. f--Forecast. GWP--Gross written premium. P/C--Property/casualty. Source: Oman Central Bank, S&P Global Ratings.

Bahrain | Investment Income Will Likely Support Earnings

- The Bahraini insurance market grew by a modest 1% during the first nine months of 2022 compared with the same period in 2021. While P/C lines continued to grow, long-term life business declined by 24%. The first phase of a new mandatory health insurance program for expatriates will be implemented early next year and will be a key growth driver in 2023, as in many other GCC markets.
- Profitability deteriorated by almost 50% in Q3 2022 compared with Q3 2021. We note that at Q3 2022, Bahraini insurers generated an underwriting loss, while profitability was solely driven by investment results.
- With 36 licensed insurers, competition in the small Bahraini market remains high. We anticipate that the market will remain profitable, but underwriting margins could still face pressure. With higher interest rates, investment income will likely improve and support earnings overall.

GWP Distribution In Bahrain For 2019-2023f



e--Estimate. f--Forecast. GWP--Gross written premium. P/C--Property/casualty. Sources: Bahrain Central Bank, S&P Global Ratings estimate/forecast.

Related Research

- Global Insurance Markets: Inflation Bites, Nov. 30, 2022
- EMEA Insurance Outlook 2023: In The Midst Of The Perfect Storm, Nov. 15, 2022

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