A lucrative market


Rima Mrad and **Nadim Bardawil** of **BSA** discuss the main factors contributing to the growth of the Middle Eastern (re)insurance market

The insurance and reinsurance industry in the Middle East region is witnessing growth at a noticeable rate. The insurance legislations in many Middle Eastern countries are being reviewed or have recently been reviewed with the objective of enhancing the licensing process and its contribution to the national GDP.

From an international perspective, the main emerging reinsurance markets are the Middle East, Latin America and Asia. While Latin American markets are still facing several regulatory and security challenges and Asian markets are highly competitive with the presence of strong and well established local reinsurers, the Middle Eastern market presents the most favourable operational conditions.

Analysis of growth factors in the Middle East

The Middle Eastern insurance and reinsurance market is emerging for different reasons, including: favourable demographic profiles (young and growing population) particularly in the GCC; growing demand for insurance products; increased awareness and sophistication of customers; rising income; low insurance penetration rates mainly in personal lines; and advanced interest in Islamic products/takaful innovation.

The past and future trends reported in the United Nation's Human Development Index (HDI) can help us assess whether the reasons above are present in Middle Eastern countries. The HDI provides a composite measure of the three dimensions of human development, which are: living a long, healthy life; being educated; and having a decent standard of living.

Most of the countries in the Middle East rank among either the high or very high countries in terms of human development as per the HDI figures of 2013. Despite this, we note that the rate of insurance penetration in the Middle East has not increased exponentially with the rise of the region's standings on the UN's HDI.

Local vs international reinsurers

There are currently a limited number of local reinsurers in the Middle Eastern market. The GCC has the most local reinsurance companies among the other Middle Eastern countries as the others are still recovering from the effects of the Arab Spring or struggling with internal political and religious disputes.

Local insurance firms in the Middle East tend to have low retention and rely on reinsurers for risk sharing and support. As the regulatory landscape changes, local insurers are continuing to adapt their business models while lobbying for consumer confidence; factors which have lead them to reinsure a significant portion of their business with reinsurance companies.

In light of the large appetite for reinsurance, international reinsurance companies have changed their approach and strategy to increasing their market share in the Middle East over the last years. Reinsurers have become convinced of the strategic advantage of utilising local companies to maintain relationships and develop their business in this part of the world.

The factors described above show quite favourable expansion opportunities for reinsurance companies in the Middle East, particularly amid the following changes: favourable regulatory environments (opening of Middle Eastern markets and general trend towards modernisation of applicable regulations); growth of compulsory medical insurance; and move towards privatisation programmes.

Reinsurers can also benefit from the relatively new and evolving regulatory framework in most Middle Eastern jurisdictions, which will allow them to adapt their internal systems and controls locally over time as the regulation changes. As international reinsurers look to establish a presence in the Middle East, they must understand the regional regulatory framework as well as be aware of the risk exposure in order to be able to successfully enter this lucrative and growing market. ■