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Market Segment Outlook: Gulf Cooperation Council Insurance

The importance of risk management controls, effective risk mitigation and governance has been highlighted following greater incidences of weather-related losses and large loss events.

AM Best is maintaining its outlook for the insurance markets of the Gulf Cooperation Council (GCC) at Stable. The GCC comprises Bahrain, Kuwait, Oman, Qatar, the Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE).

Positive factors driving the segment outlook include:

- Current economic conditions remain resilient to regional geopolitical tensions; albeit should there be an escalation, the GCC could be adversely impacted by second order effects.
- Opportunities for insurance sector growth remain plentiful as new products and increased insurable risks remain an important feature of the market.
- Mergers and acquisitions (M&A) continue to be a feature of the GCC market, with an increase in cross-market transactions bringing geographical diversification and economies of scale for those that successfully execute such transactions.
- Increasing regulatory scrutiny leading to growing focus on risk management and corporate governance.

Near-term headwinds for the segment include:

- Elevated oil price fluctuation brings potential economic uncertainty, particularly for those GCC countries with higher dependence on the hydrocarbon sector, as well as those with higher breakeven oil prices.
- Markets of the GCC remain highly saturated, with intense competition driving pricing pressure and threatening technical margins.
- Reliance on reinsurance leaves insurance companies profit margins vulnerable to changes in regional reinsurance market conditions.

Opportunities for Insurance Sector Growth are Plentiful

AM Best expects growth in the GCC insurance market as a byproduct of the stable economic conditions in the region directly contributing to the increasing demand for insurance, forecast population growth, expansion of mandatory schemes, and innovative new insurance solutions (see GCC Economies Remain Buoyant Despite Oil Price Fluctuations box).

A substantial proportion of commercial property and engineering risks underwritten in the GCC is linked to government-backed initiatives, notably in the tourism and renewable energy sectors as countries target net-zero emissions goals.

The implementation and development of long-awaited mandatory insurance schemes in several markets across the GCC promises a boost to new insurance revenue to the market.

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In recent years, the UAE has introduced a number of mandatory insurance schemes in Dubai, Abu Dhabi and the Northern Emirates, with innovative new products under development to serve the growing population. Similar initiatives to provide health insurance for foreign workers are expected to be rolled out in Qatar, Oman, and Bahrain – although AM Best notes implementation dates continue to be pushed out.

Additionally, the introduction of mandatory cessions in certain markets, is increasing opportunities for premium to remain in the local market. From 1st January 2025 local insurers in Saudi Arabia are required to offer at least 30% of their reinsurance cession to domestic reinsurers, before approaching international reinsurers for placement.

These initiatives, often resulting from the collaboration between the insurance industry and governments, create opportunities for insurers and increase insurance penetration.

GCC Economies Remain Buoyant Despite Oil Price Fluctuations

Wary of global commitments by countries to reduce their dependence on petrochemicals, most governments in the GCC have started to diversify their economies away from hydrocarbons.

According to the IMF, the non-oil sector – which includes tourism, construction, and financial services – is expected to fuel economic growth in the future. Notably, in the UAE, the non-oil sector already contributes a greater share of the local economy GDP than the hydrocarbon sector.

While efforts have been taken to diversify revenue streams, most members of the GCC remain heavily reliant on hydrocarbon activity to support economic growth and fiscal spending power.

Steady oil prices have allowed GCC countries to outpace global economic growth in recent years. However, trade tensions following the announcement of US reciprocal tariffs, combined with OPEC+ output hikes and weakening Chinese consumption have resulted in fluctuations in oil prices which bring elevated economic uncertainty, particularly for those GCC countries with higher breakeven prices and greater dependence on the hydrocarbon sector.

AM Best will continue to monitor the situation closely as it views increased economic activity and greater governmental fiscal manoeuvrability as positives for the region's insurance markets.

Market Consolidation and Cross-Country M&A Transactions Continue to Feature

In recent years, consolidation has affected the composition of the insurance markets across the GCC. M&A activity does not appear to be slowing down - for either conventional or takaful players - with an increase in cross-country transactions taking place as companies identify attractive opportunities in other GCC countries, often led by regulatory changes and increased premium prospects.

AM Best expects further consolidation during 2025 given the pressures on small- and mid-tier players from increased regulatory and capital requirements, rising operating costs and weak technical performance. At the same time, M&A could be an opportunistic play for companies seeking to expand their geographical presence and product offering.

Consolidation within the GCC is viewed by AM Best as a tailwind for these markets, promoting knowledge sharing, greater geographic diversification, and market discipline. Successfully executed transactions provide acquirers with greater operational scale, increased diversification, and enhanced

market positions. However, extensive re-underwriting of acquired portfolios may be required before potential performance benefits can be realised.

Active Regulatory Environment

Increasing regulatory oversight and intervention – a key theme across all GCC countries – is spurring market discipline and improving insurers controls to their risk exposures.

The importance of risk management controls, effective risk mitigation and governance has been highlighted following greater incidences of weather-related losses and single large loss events.

While regulation varies across the GCC, enhanced market oversight and regulatory intervention are key themes taken to create greater market discipline. Moreover, regulators have increased focus on the formalisation of governance practices, in line with international best practices, which includes new requirements for Own Risk and Solvency Assessments (ORSA).

Regulators are demonstrating their ability to guide companies through changing market conditions, noted by tariff changes on mandatory lines of business and updates to minimum capital requirements. However, leniency towards companies persistently failing to meet minimum solvency requirements remains an ongoing concern.

Although increased regulatory activity is a strong tailwind for the market, the additional costs related to compliance and labour (particularly of specialised risk and actuarial professionals) required to keep pace with developing regulatory requirements can be a financial burden, particularly for small and mid-sized insurers.

Competition Persistently Pressurises Rates

Despite an increase in regulatory interventions on tariffed lines of business, the highly competitive and fragmented nature of insurance markets in the GCC fuels widespread pricing pressure, to retain market share and secure limited insurance revenues.

Regulators have been prompted to take action on pricing, for example, the Central Bank of the UAE, redefined discounts on third-party liability motor premiums, most importantly no longer permitting 50% discounts that were introduced during the COVID-19 pandemic. Additionally, other regulators have issued guidance circulars, which emphasise the need for pricing adequacy and highlight when it is appropriate to grant discounts or deviate from tariffs.

In 2024, severe weather events and regulatory actions have encouraged a return to stricter underwriting guidelines, particularly for personal lines, with markets such as the UAE experiencing a trend of material rate increases across most lines of business. While this pattern has been observed, it is not unanimous across all companies. For insurers with limited liquidity, the race for greater scale and top line growth continues, particularly within the most competitive lines – motor and medical – which make up the majority of retained insurance revenue in the region.

Although the importance of ensuring rate adequacy and technical underwriting profits appears at the forefront of strategic decision making, market discipline remains imperative to prevent a U-turn to simply chasing top-line growth, particularly when operating costs are rising and liquidity is being squeezed.

Insurers are Dependent on Reinsurance Market Conditions

Given insurers' generally high dependence on reinsurance, changes in reinsurance market conditions and pricing can materialise as a significant headwind for insurance companies. Insurers in the region are heavily reliant on reinsurance capacity to execute their business strategies, typically, to support participation on large-scale government-related contracts, for commercial property and engineering projects. With insufficient capital to support these risks independently, GCC insurers typically cede a sizeable proportion of premiums to the international reinsurance market and benefit from the sizeable inward reinsurance commissions received.

While the availability of reinsurance capacity has remained copious in recent years, dependence on the sector has been noted amid the increased frequency and severity of weather-related losses—namely hail, cyclone, and flooding—experienced in many territories across the GCC. Heavy rains in 2024 demonstrated the effectiveness of the reinsurance programmes in place given the relatively immaterial impact on year-end 2024 profitability.

Although reinsurance capacity has remained following the large losses in 2024, changes have been observed in reinsurance renewals including to costs, reinsurance structures, attachment points, inwards commissions and terms and conditions. AM Best expects to see a greater emphasis on risk selection and management from direct players with such exposures.

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GUIDE TO BEST’S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best’s Market Segment Outlook can be Positive, Negative, or Stable.

Best’s Market Segment Outlook	
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