

Next in insurance

Key trends shaping the future of the Middle East Insurance Industry



Looking beyond COVID-19 and IFRS 17...

COVID-19 turned out to be a blessing in disguise as far as the regional insurance industry is concerned, as insurers were forced to undergo a rapid transformation. From demographic changes to rapidly evolving customer needs and expectations, coupled with a dynamic shift in the buying behaviour towards online channels, insurers took the opportunity to rethink their long-term strategies. Notions of trust and societal purpose played a greater role in the industry than ever before, needless to mention the urgent need to embark on the digital transformation.

The events of 2020 led to unprecedented disruption in the industry. Insurers in the region were not only met with escalating obligations to policyholders, including increased life and health claims, but also went above and beyond in playing their role for the larger purpose e.g. offering free insurance to first responders, premium holidays, and policy term extensions. Insurance industry proved its relevance in a time of extreme crisis, not only as an essential economic player but also as a provider of protection and peace of mind for businesses and individuals around the world.

Having said this, there has been a major strain on the profitability and balance sheets of a number of insurers, which is very evident in the recent consolidation trends in the regional insurance industry. Not only are we witnessing a number of global insurers leaving the market, being taken over by their regional counterparts, there has been heightened deals (M&A) activity in the region, which is quite unprecedented, by a number of measures.

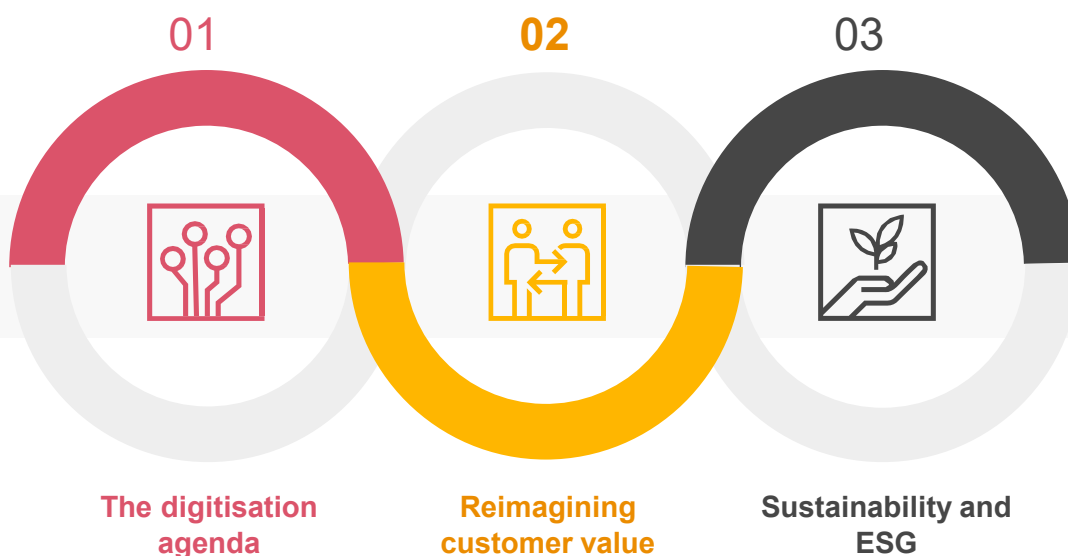
GCC economies to grow at 6.4% in 2022 compared to its growth rate of 2.7% in 2021¹



A silver lining for the Middle East region has been the recent spurt in oil prices due to the ongoing geo-political crisis, which has resulted in continued government spending on the infrastructural development agenda. Insurers are now altering their pricing to offset losses and manage volatility, hardening global reinsurance prices and increasing interest rates - trends which are being witnessed globally.

At PwC Middle East, we recognise now is the time to assess where the industry is heading and determine what long-term changes are needed for the industry to serve a higher purpose in a fast-changing and uncertain world.

Three trends affecting the future of insurance



¹ Zawya, GCC economies to grow at 6.4% in 2022: IMF, <https://www.zawya.com/en/economy/gcc/gcc-economies-to-grow-at-64-in-2022-imf-kjm1k3lr>

The digitisation agenda

01

Automation and AI are already changing the way insurers interact with consumers across the value chain—from product design to underwriting, pricing and claims. Recent advancements in the digitisation of client interactions include the growing use of bionic advisers that integrate human and digital client experiences. Technology has made it possible for life insurers to predict and intervene in health events based on a simulated digital twin of a customer.

Furthermore, the industry is edging closer to broader adoption of similar scenarios that can be applied to insurance products across coverage lines, with data inputs from smart-home sensors, vehicle telematics data, factory and warehouse sensors, and a growing number of devices with IOT technology.

IT investment in the Middle East and North Africa region amounted to \$172 billion in 2022, up 1.2 percent from 2021²

This gives the industry the perfect opportunity to capitalise on the rapid digital transformation. Some firms in the region have already adopted technology to make this happen. For instance, some of the insurers adopt AI using NLP (natural language processing) to extract data from documents and issue motor policies in less than one minute for the first time ever in the region.

In order to thrive in the current industry landscape, insurers must embrace the digital revolution. The digital world will reward those who can innovate and adapt quickly, and insurers need to be on the offensive with the right strategy, capabilities and urgency needed to win.



² Zawya, Mena IT spending to reach \$173bln in 2022: Gartner, <https://www.zawya.com/en/business/technology-and-telecom/mena-it-spending-to-reach-173bln-in-2022-gartner-yc30fvdK>

Reimagining customer value

02

Customers today aren't simply looking for financial protection. They want personalised solutions presented in the context of their day-to-day lives, be it while buying a car, planning for retirement or starting a business. Embracing end-to-end digitalisation across the insurance value chain, with a purpose-driven approach, is a conclusive step toward creating a seamless and value driven customer experience - presenting a massive opportunity for insurers. According to Gartner, in a recent CIO survey, 58% of insurance respondents reported that the pandemic has sparked an increase in funding of digital innovation through to 2025³.

The Insurtech phenomenon is a great example of addressing customer needs in real time by utilising data and new technologies to create tailored experiences and products. While Insurtech is still at an early stage in the UAE, there are promising examples of insurers and start-ups working together to use new technologies for the benefit of customers. Insurtech accelerators have also started to widely pick up in the Kingdom of Saudi Arabia coupled with the penetration of insurance aggregators in the game taking almost 10% of the insurance market share.

To remain competitive, insurers must reimagine how they serve customers, provide advice, and capitalise on new partnerships and innovative engagements in order to create sustainable business models that drive growth and enhance the customer experience.



Sustainability and ESG

03

The growing threat of climate change poses systemic physical and transition risks, with direct implications for the insurance industry. To protect against and prevent these risks, insurers will need to develop a deeper understanding of them in their portfolios, rebuild their risk models and pricing assumptions, create new climate related products and services, work with organisations to help them mitigate climate risks and embed the new IFRS17 accounting and reporting standards to reflect the real economic value of the risk carrier.

Across the GCC region, adoption of ESG requirements is largely optional at this stage, but the development of requirements remains ongoing. Out of the major insurers in the region, only half are disclosing ESG information, yet regional insurers are developing ESG practices and increasing maturity in ESG reporting, with key best practices emerging. Although the industry as a whole is at an early stage of understanding the ESG implications and ESG integration; insurers are increasingly looking at ways to integrate long term sustainability not only for shareholders, but also focusing on leaving a positive influence on society and the environment.



³ Gartner, Top Trends in Insurtechs for 2025, <https://emtemp.gcom.cloud/ngw/globalassets/en/information-technology/documents/trends/736127-top-trends-in-insurtechs-for-2025.pdf>

Adaptive ways to reimagine your business



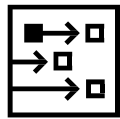
Continued adoption of digital in the front; middle and back offices



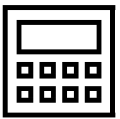
Consolidation and heightened M&A activity



Increasing regulatory supervision – capital & solvency



Differentiated products with enhanced features



Changing structures due to IFRS17 & direct/indirect taxes

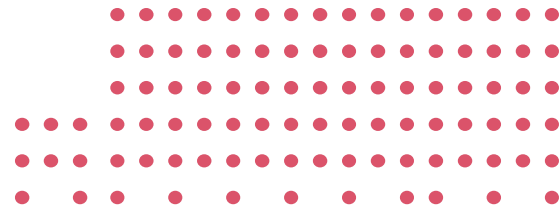


Enhanced focus on core insurance competency - whilst reimagining non-core activities



Focus on sustainability and ESG

In Conclusion



In conclusion, we expect to see more consolidation and M&A activity in the regional insurance industry as regulators continue to tighten their supervision regime particularly around capitalisation and solvency.

We expect more product differentiation, with new products and features to be introduced in the market. We expect the insurers to focus on their core insurance competencies and get rid of anything that is non-core – this is not optional anymore, given the insurers' pursuit for better profitability. We expect standards like IFRS17 and new direct/indirect tax regimes to fundamentally transform how insurers operate, including their corporate structures and accounting policies.

But most important of all, we expect the insurers to continue transforming how they serve and manage their customers.

Last few years have been an exhilarating and challenging time for an industry that is traditionally risk-averse and slow to change. As we look to 2025 and beyond, insurers must harness the momentum they have gained to meet a host of new difficulties. These include macroeconomic and structural headwinds, increased requirements regarding climate risk and social purpose and the exponential growth in digital innovation. Regardless of how insurers capitalise on these trends, they will need to reassess the future and reimagine their place in the world.

Get in touch



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