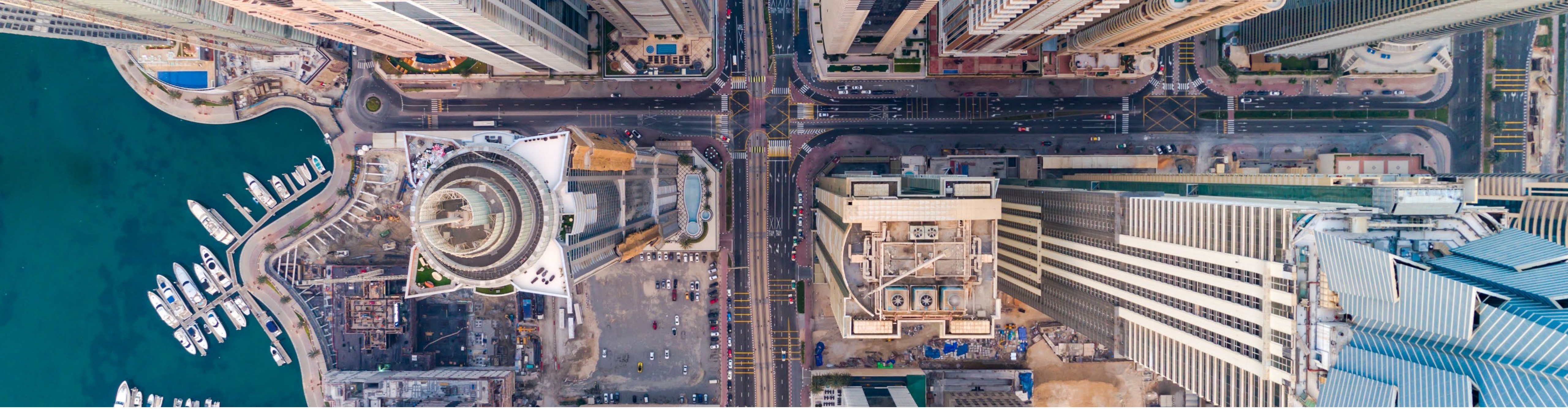

GCC Insurers' Growth Prospects Could Slow In Some Markets

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March 3, 2025

S&P Global
Ratings

This report does not constitute a rating action

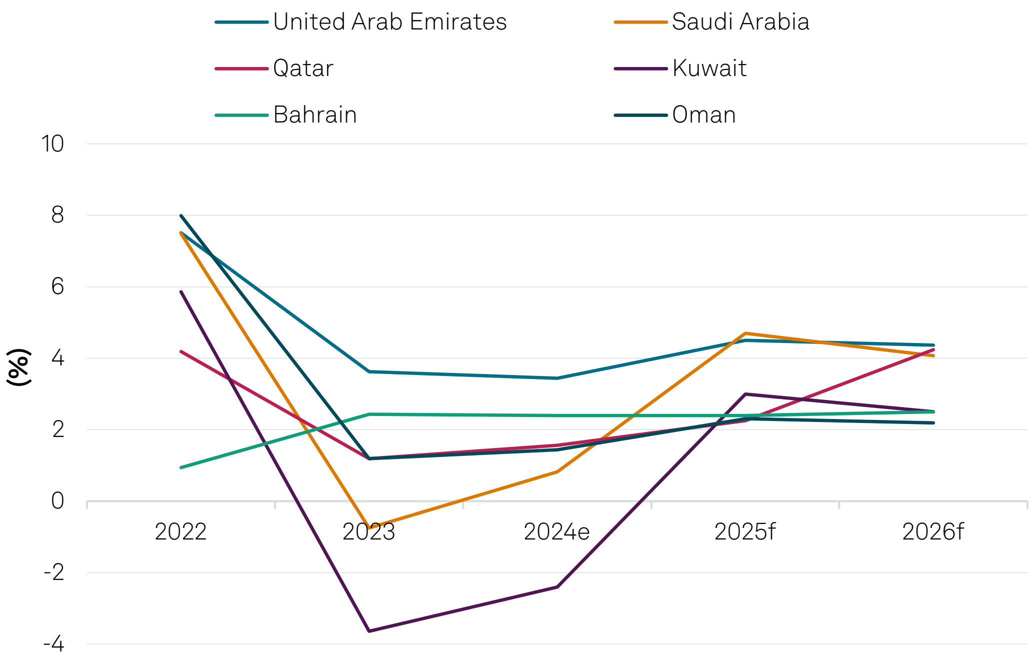
Key Takeaways

- Despite ongoing geopolitical tensions and global trade disputes, we forecast that economic conditions in the Gulf Cooperation Council (GCC) region will remain favorable in 2025. We expect economic expansion, population growth, and mandatory insurance schemes will increase insurance demand in most GCC countries this year.
- Overall satisfactory underwriting results and relatively high interest rates will support earnings. Yet increasing competition and volatile equity markets could weigh on bottom line results. The size and profitability gaps between large and small companies will likely continue to widen.
- Although we forecast that credit conditions of highly rated insurers in our portfolio will remain stable, we anticipate that the credit strength of some smaller and midsize insurers could continue to weaken. This is because ongoing top-line growth, weak earnings, and high operating costs could impair these players' capital and solvency buffers.
- Particularly in the United Arab Emirates (UAE), we also see a higher risk of regulatory intervention for companies that will operate below minimum solvency capital requirements in 2025 and that are unable to restore their capital position.

Economic Conditions | Stable Growth Over 2025-2026

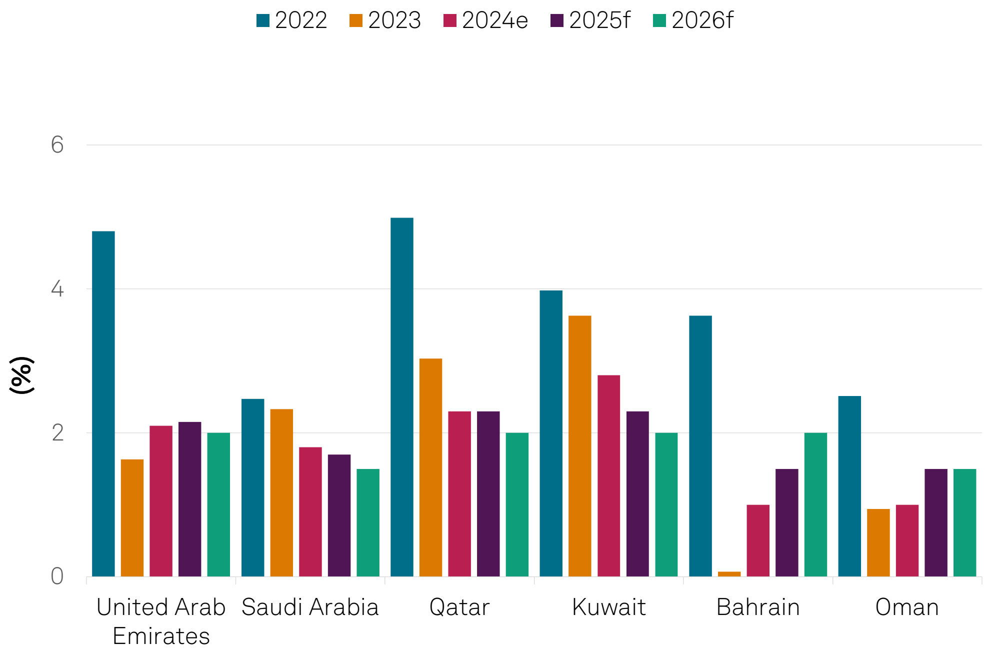
- Even though we have lowered our average Brent oil price assumptions to $75 from $80 for 2025 and 2026, we expect stable economic growth in the GCC region. This will support further infrastructure developments, population growth, and ongoing insurance demand.
- Average inflation in the GCC region is trending toward 2%, compared with about 4% in 2022. We therefore expect that claim cost growth and premium rates for motor and other property/casualty (P/C) insurers in some markets will moderate.

GDP growth



Data as of Jan. 30, 2025. e--Estimate. f--Forecast. Source: S&P Global Ratings.

Consumer price index growth

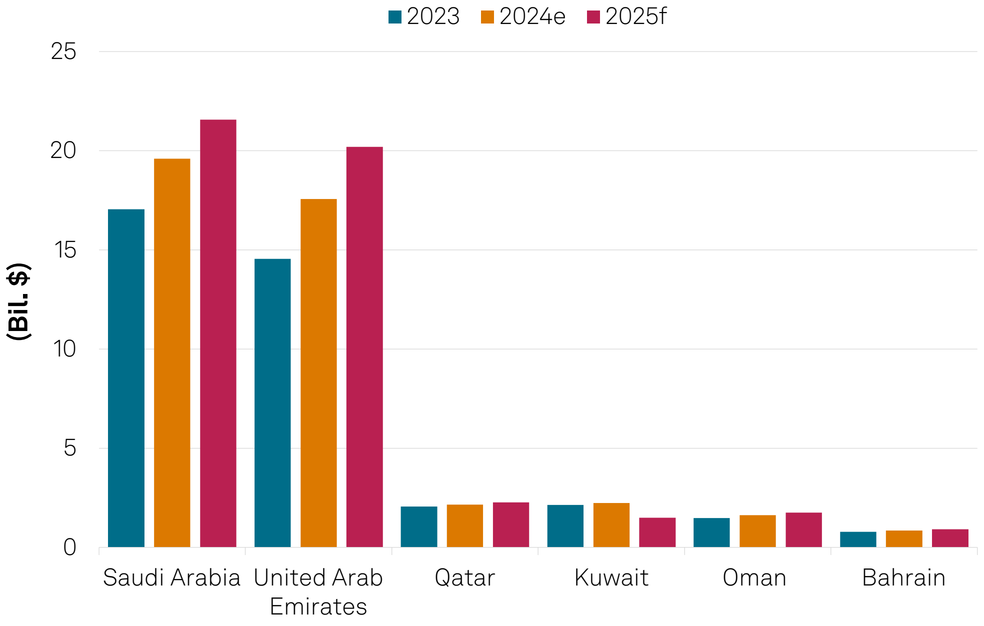


Data as of Jan. 30, 2025. e--Estimate. f--Forecast. Source: S&P Global Ratings.

Top-Line Growth | Prospects Remain Favorable

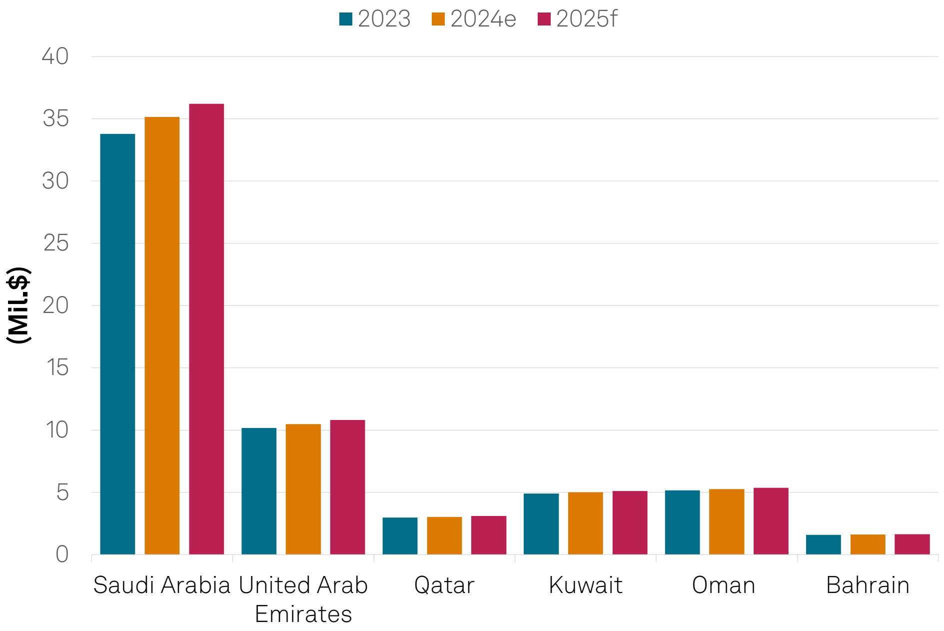
- Ongoing infrastructure developments, the introduction of mandatory insurance schemes, population growth, and rate adjustments have been key growth drivers, particularly in Saudi Arabia and the UAE, where the size of insurance markets doubled over 2020-2025.
- We project top-line growth of about 5%-15% in most GCC insurance markets in 2025. Rate increases after the floods in April 2024 could spur growth in the UAE in 2025, while the insurance market in Kuwait will decrease after the discontinuation of a large medical scheme.

Saudi Arabia and the UAE show the fastest growth rates



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

Population growth contributes to an increase in insurance demand



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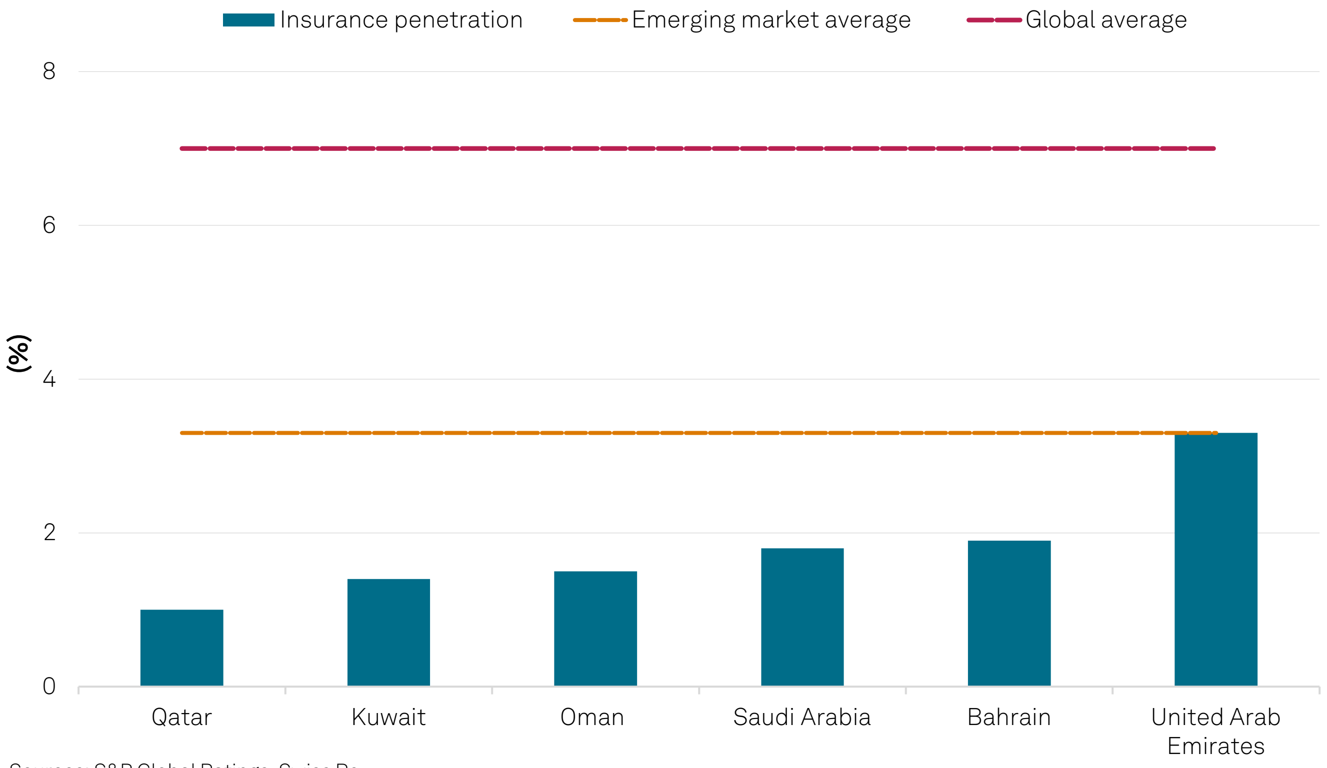
Insurance Penetration | Most GCC Markets Remain Underdeveloped

Insurance penetration in 2024, relative to other emerging and developed markets



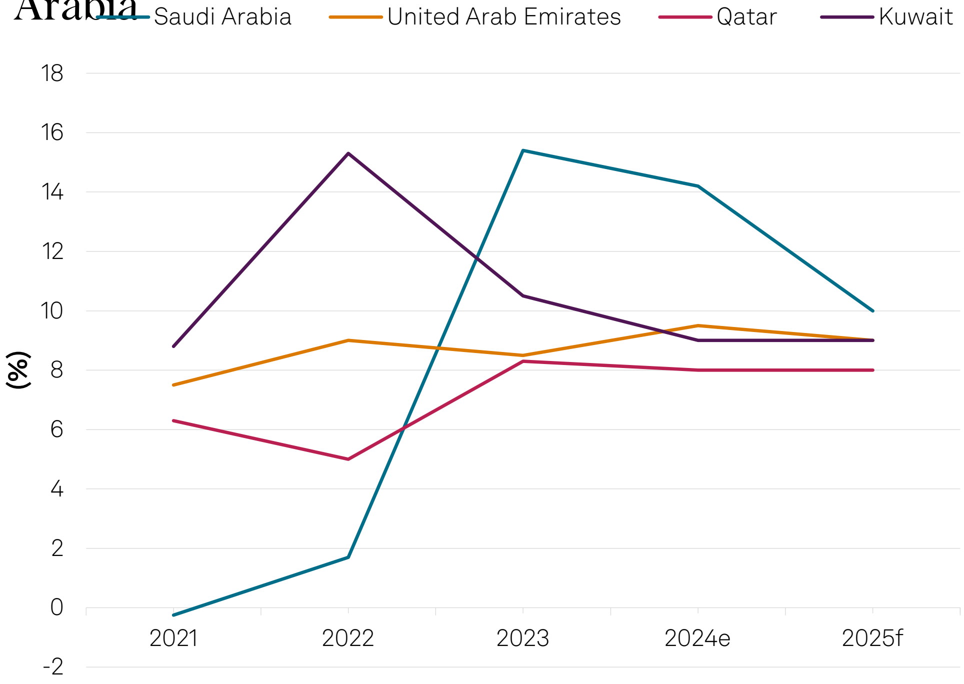
Sources: S&P Global Ratings, Swiss Re.

- Apart from the UAE, insurance penetration--measured by gross written premiums divided by GDP--remains relatively low in GCC countries, compared with other regions.
- However, GDP data in the GCC region captures the high income from the oil and gas sector, meaning insurance penetration ratios are distorted.
- Growth potential is significant, particularly in the long-term life and savings sector.
- The long-term life and savings business represents only 5% of total premium income in Saudi Arabia and Qatar.

Profitability | Satisfactory Though Unevenly Distributed

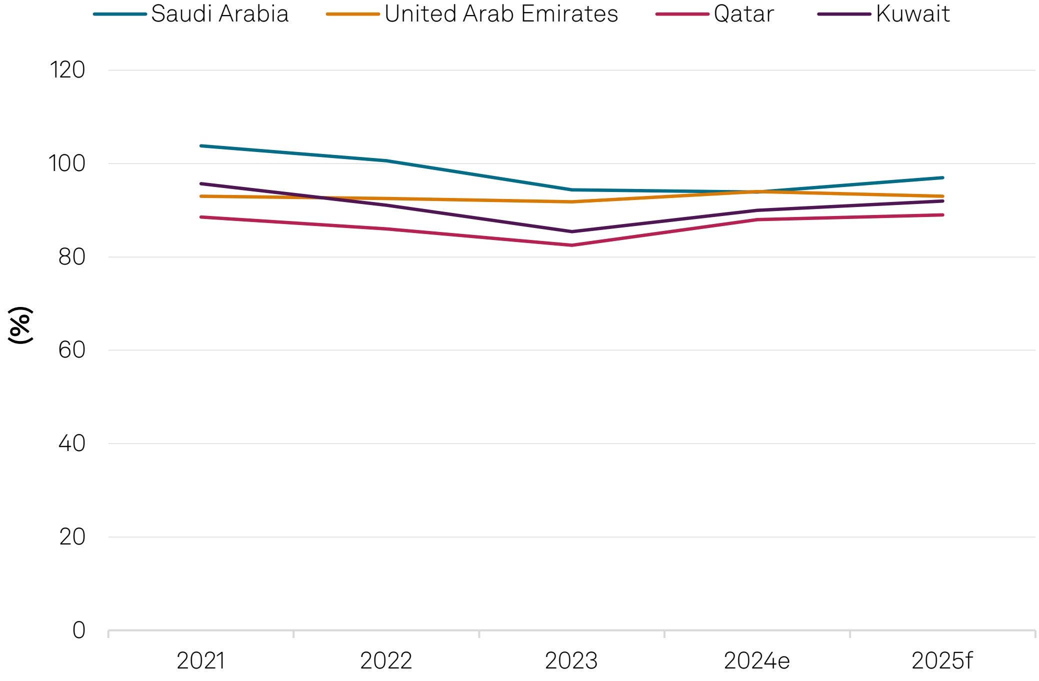
- We project that 2025 will be another profitable year for GCC insurers. However, a potential increase in capital market volatility and increasing competition, particularly in Saudi Arabia, could weigh on earnings in 2025.
- Earnings distribution is becoming increasingly uneven, particularly in Saudi Arabia and the UAE. The five most profitable listed insurers in the UAE generated about 81% of total earnings as of December 2024, while the top five listed insurers in Saudi Arabia accounted for about 82% as of third-quarter 2024.

Return on equity (ROE) has been most volatile in Saudi Arabia



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

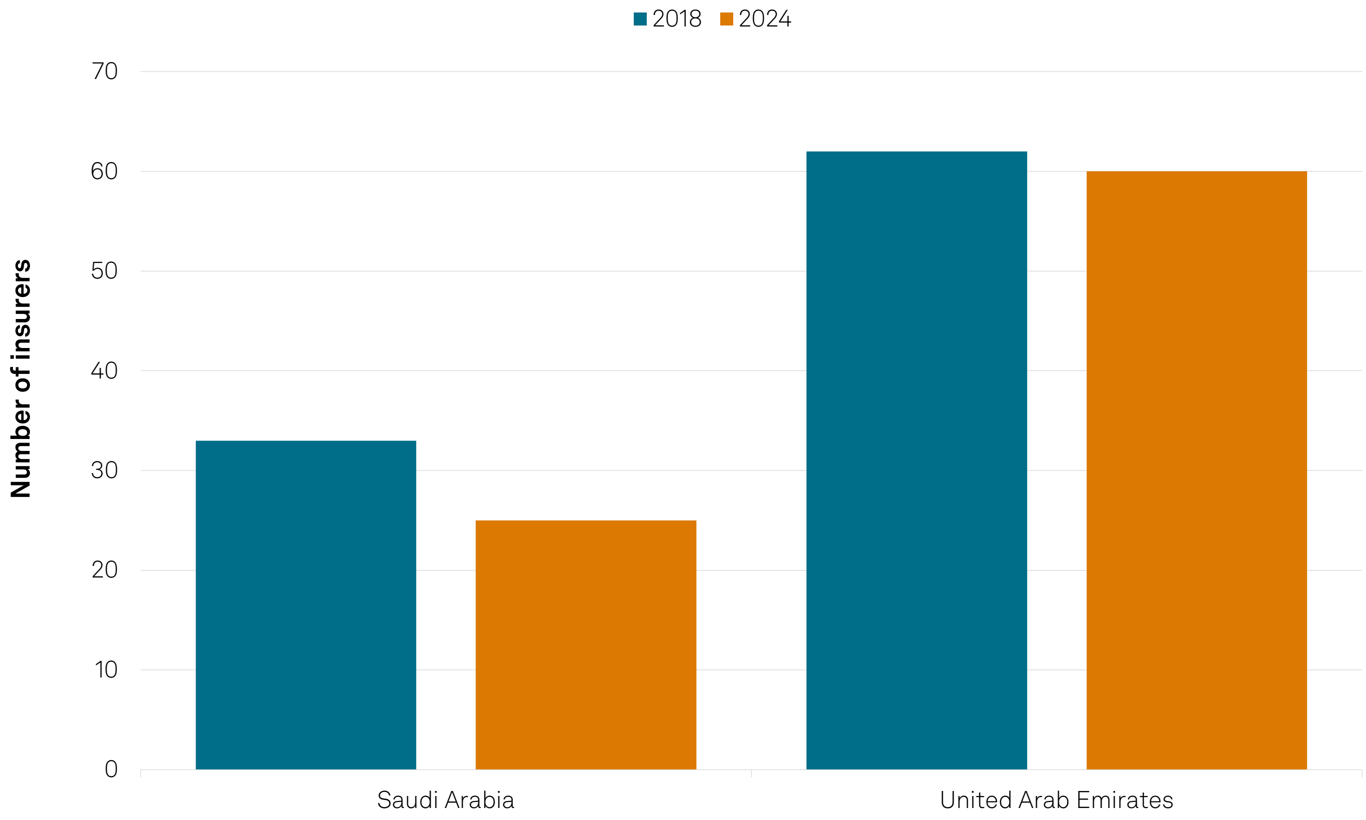
Overall combined ratios remain profitable



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

Consolidation | Stricter Regulations Will Spur Merger Activity

Consolidation in the insurance sector in the UAE lags Saudi Arabia



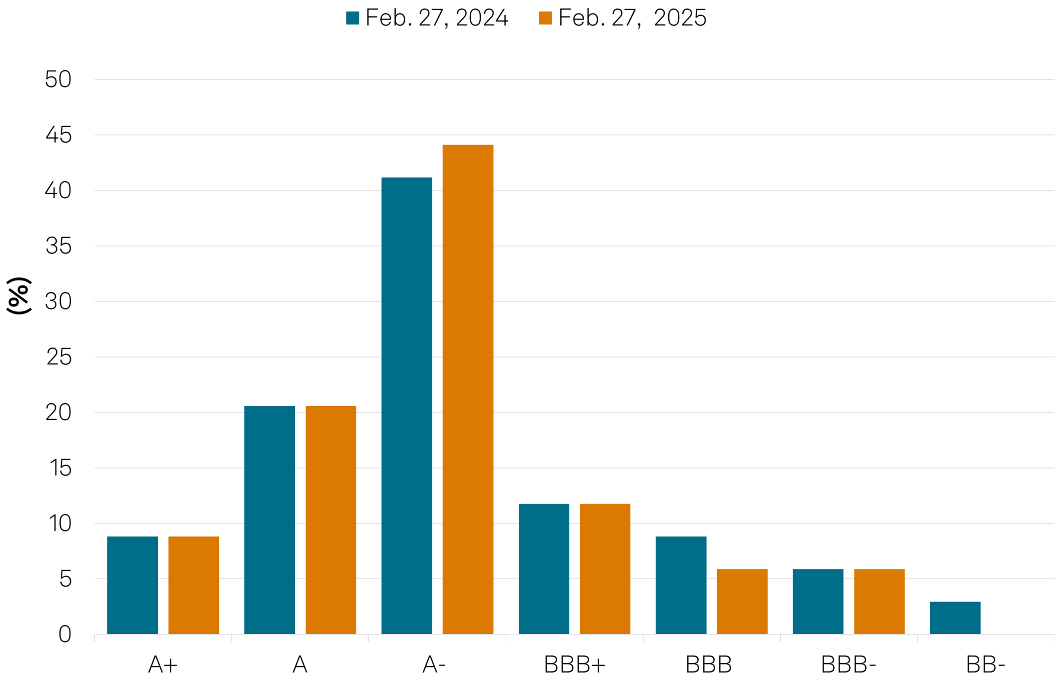
Source: S&P Global Ratings.

- Stiff competition, weak capital buffers, and regulatory incentives have contributed to consolidation in Saudi Arabia since 2018.
- We could see a similar trend in the UAE, where about 20%-25% of listed insurers operate below minimum solvency capital requirements.
- We therefore project further capital needs and consolidation in 2025 and see a heightened risk of regulatory intervention if insurers are unable to restore their capital buffers.

Credit Ratings | Outlooks Are Largely Stable

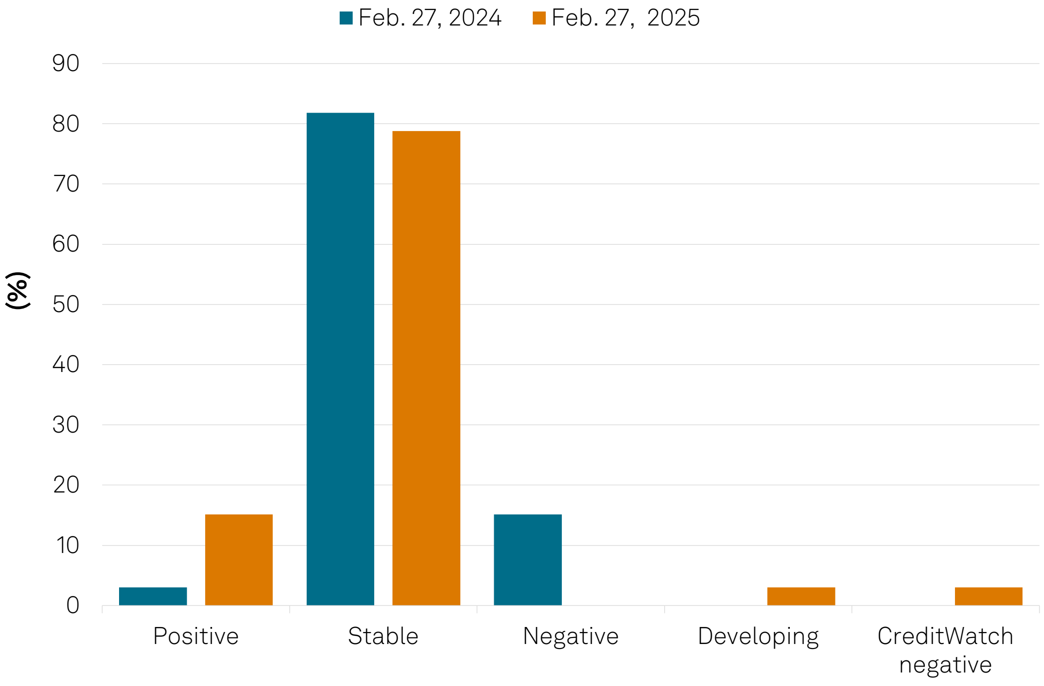
- The rating outlooks on insurers in our portfolio, which typically comprises market-leading insurers, are mainly stable, supported by robust earnings and capitalization. About 90% of rated insurers hold capital at the highest level, as per our risk-based capital adequacy model.
- That said, we expect some rated and not rated smaller and midsize insurers could face headwinds in 2025 if competition further intensifies. This could widen the gap between top-tier and lower-tier insurers.

GCC insurers--ratings distribution



Data for Bahrain and Oman is not available. Source: S&P Global Ratings.

GCC insurers--outlook distribution



Data for Bahrain and Oman is not available. Source: S&P Global Ratings.

Country-Specific Trends

Saudi Arabia | Rapidly growing market with increasing concentration at the top

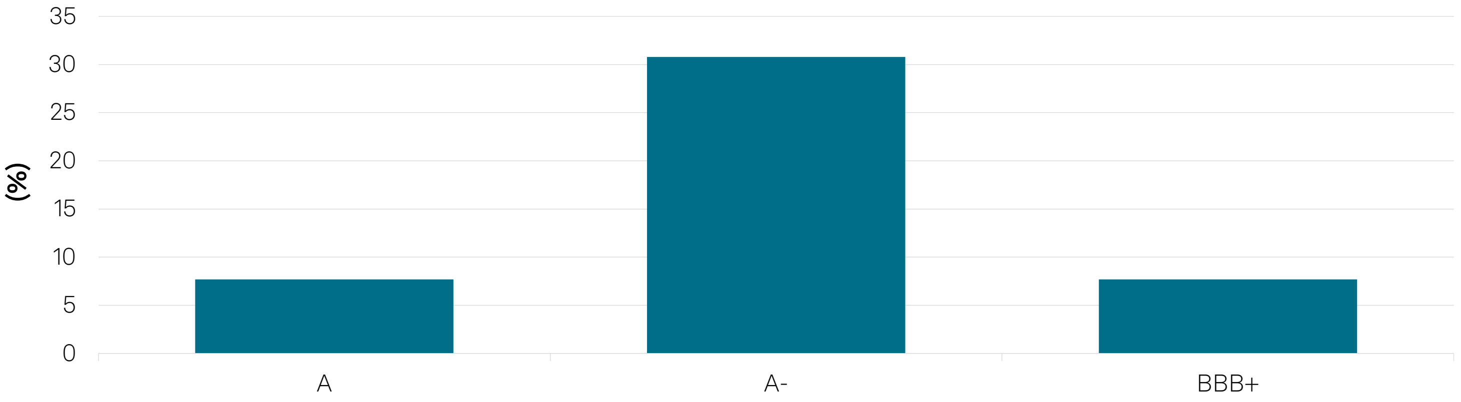
Tailwinds

- Premium growth in recent years has been substantial, thanks to rapid economic expansion, rate adjustments, and the adoption of new mandatory covers.
- The volatility of investment portfolios is relatively low, thanks to the primarily fixed-income composition.
- Further consolidation and capital raising among midsize and smaller players could strengthen companies

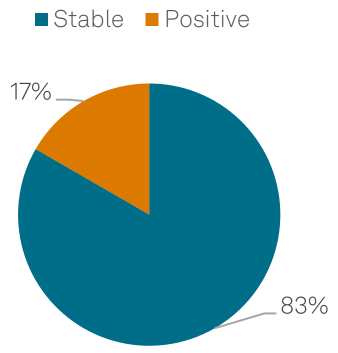
Headwinds

- The insurance market is highly concentrated, with the top five players generating about 70%-75% of total revenues and earnings, leaving the remaining 21 insurers with low margins.
- Intense competition in motor and medical lines causes a cyclical pricing environment.

Insurance ratings in Saudi Arabia as of Feb. 27, 2025



Outlook distribution in Saudi Arabia as of Feb. 27, 2025



UAE | Higher reinsurance costs will spur premium growth

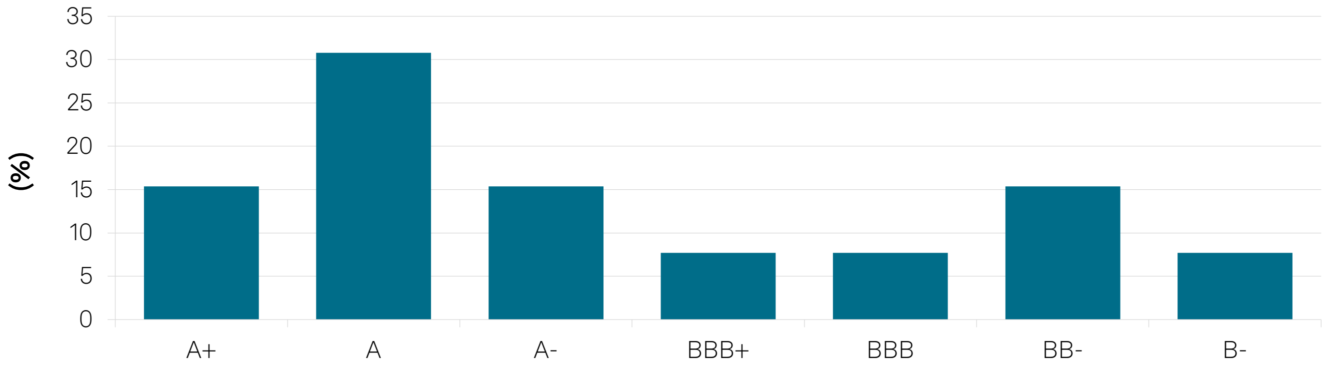
Tailwinds

- Rate increases will spur premium growth in the P/C sector.
- Overall underwriting performance is profitable, supported by rate adjustments and reinsurance commissions.
- A lack of new license issuances and the dominance of large players create high operational and regulatory barriers to entry.

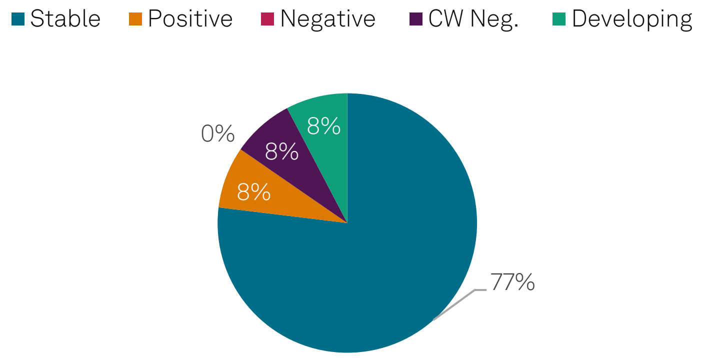
Headwinds

- The increase in reinsurance costs could weigh on earnings, particularly those of smaller and midsize players.
- About one-quarter of listed insurers operate below or only slightly above minimum solvency capital requirements. We therefore see a heightened risk of regulatory intervention.
- Insurers have a material, although declining, exposure to high-risk assets, which could lead to capital and earnings volatility.

Insurance ratings in the UAE as of Feb. 27, 2025



Outlook distribution in the UAE as of Feb. 27, 2025



Qatar | Highly profitable market, yet growth remains modest

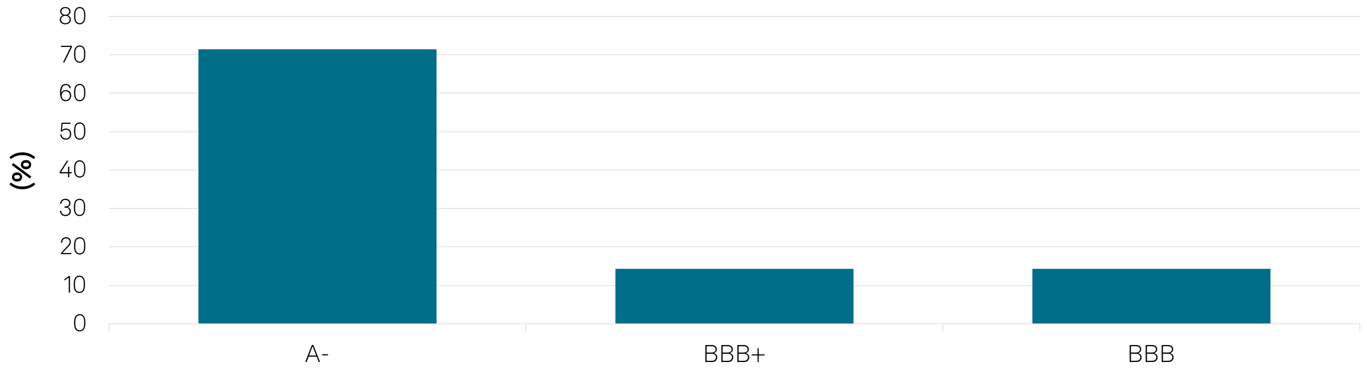
Tailwinds

- High barriers to entry limit the threat of new entrants and constrain competition.
- Exposure to natural catastrophes and potential earnings volatility from weather events is relatively low.
- Profitability metrics, particularly underwriting performance and ROE, outperform those of other GCC insurers.

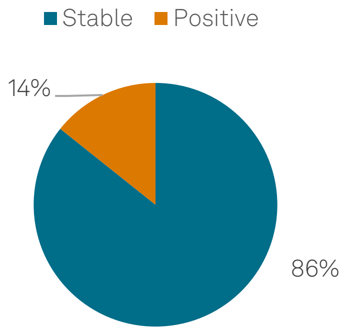
Headwinds

- Exposure to equity and real estate assets is high and could cause earnings and capital volatility.
- In the absence of new government-driven insurance schemes, growth prospects are modest.

Insurance ratings in Qatar as of Feb. 27, 2025



Outlook distribution in Qatar as of Feb. 27, 2025



Kuwait | Infrastructure projects remain a key growth driver

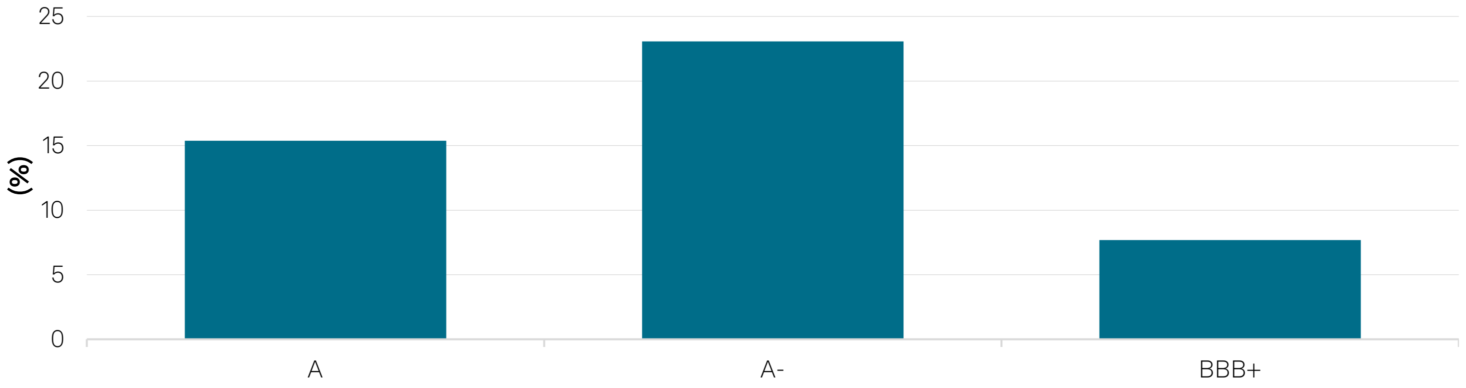
Tailwinds

- Ongoing infrastructure prospects contribute to stable growth prospects of about 7%-10% per year, excluding the effects that the discontinuation of the Afya scheme should have in 2025.
- Large listed players tend to exhibit robust risk-based capitalization and their potential for earnings generation is usually high.

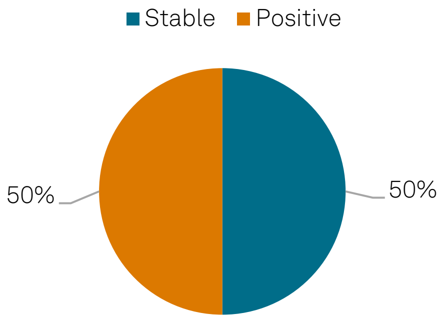
Headwinds

- Economic risks are elevated, given the complexity of Kuwait's fiscal and institutional arrangements and their effects on public finance.
- The insurance market is overcrowded, which leads to intense competition in motor lines and some other lines among smaller players, particularly those that provide Sharia-compliant insurance services.

Insurance ratings in Kuwait as of Feb. 27, 2025



Outlook distribution in Kuwait as of Feb. 27, 2025



Related Research

- Saudi Insurers Must Maintain Underwriting Discipline In 2025, Dec. 10, 2024
- European Insurance Outlook 2025: Holding Up Well, Nov. 21, 2024

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