NEWSLETTER
LIFE AND PENSIONS

THE GENEVA ASSOCIATION

No. 54 March 2014

Life Insurance in the Middle East—a Burgeoning Market

By Kai-Uwe Schanz[+]

Since the beginning of this century, the countries of the Gulf Co-operation Council (GCC), i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE), have recorded some of the world's highest economic growth rates. Governments are capitalising on their hydrocarbon wealth by pursuing a number of far-sighted economic diversification strategies, with a focus on trade, tourism, education and manufacturing. Against this backdrop, the insurance industry in the region has also experienced rapid growth, at a compound annual growth rate (CAGR) in US$ of 12 per cent since 2008. An important driver of premium growth has been the implementation of compulsory health insurance schemes, for example, in Saudi Arabia, where this line of business now accounts for more than 50 per cent of the total market. According to Swiss Re, gross written premiums in life and non-life business amounted to US$16.3bn in 2012. The UAE and Saudi Arabia constitute the lion's share of the regional market, with almost 80 per cent of premiums.

Life insurance still at an embryonic stage of development

Although the Gulf countries' residents boast some of the world's highest per capita income levels, most people have so far abstained from purchasing life insurance. The reasons for the limited take-up of life insurance include religious reservations, generous social security systems, the limited purchasing power of blue-collar expatriates and the fact that most affluent white-coloured expatriates prefer to deal with insurers based in their respective home countries.

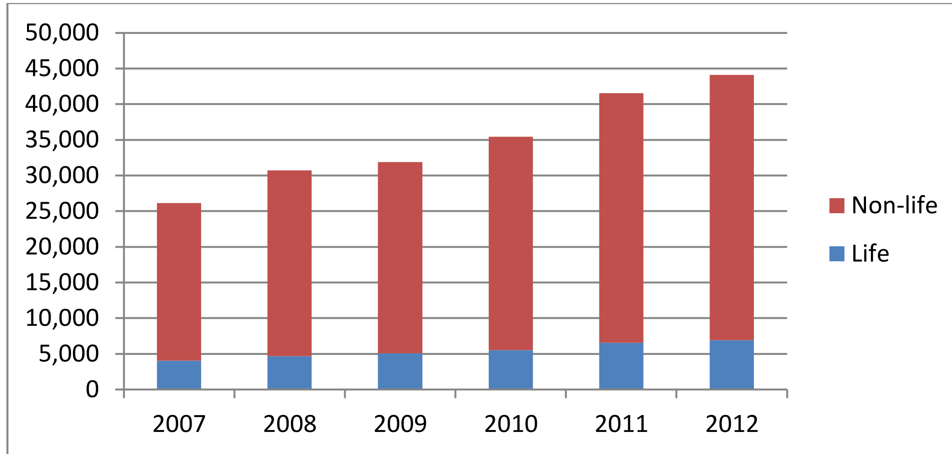
Many scholars of Islam criticise conventional insurance as exploitative. They point out that paying money with no guarantee of benefit involves high ambiguity and risk, which could be considered a form of gambling. In addition, governments in the Gulf region usually fund the welfare of their citizens without having to impose many financial obligations upon them. Nationals are automatically provided with extensive state support, including medical care, sickness cover, pensions, and disability benefits. In the wake of the "Arab Spring" some governments have further alimented their already lavishly funded "cradle-to-grave" protection schemes for their citizens. Another reason for the poor take-up of life insurance in the region is that those who would be in most need of it usually lack the means to purchase cover: blue-collar expatriates who, in a number of Gulf countries, account for the majority of the population. As far as white-collar expatriates are concerned, these people generally prefer to purchase life insurance from trusted carriers in their home countries.

Against this backdrop, the life segment contributes only 13 per cent to the overall insurance market in the Gulf, just marginally up from 12 per cent in 2008. As a result, life insurance penetration (premiums as a share of GDP) in 2012 was a minuscule 0.1 per cent and life insurance density (premium spend per capita) was US$49.2. The most striking example is Qatar, the world's wealthiest country measured by income per capita which comes close to US$100,000. Per-capita spending on life insurance in 2012 amounted to as little as US$31 and life insurance penetration stood at 0.04 per cent, the world's lowest level. Therefore, life insurance premiums in the Gulf region amount to just US$2bn. This compares with global life insurance premiums of US$2.6tn, accounting for 57 per cent of the world's insurance business, according to Swiss Re.

The wider Middle East North Africa (MENA) region, including Turkey and Iran, exhibits marginally higher take-up rates of life insurance, generating an overall volume of close to US$7bn in 2012 (Figure 1). The life segment's share of total premiums stood at 16 per cent and has grown over the past few years as life premiums expanded slightly faster than the non-life market (at an annual average real rate of 9.1 per cent as compared with 7.6 per cent; see Figures 2 and 3).

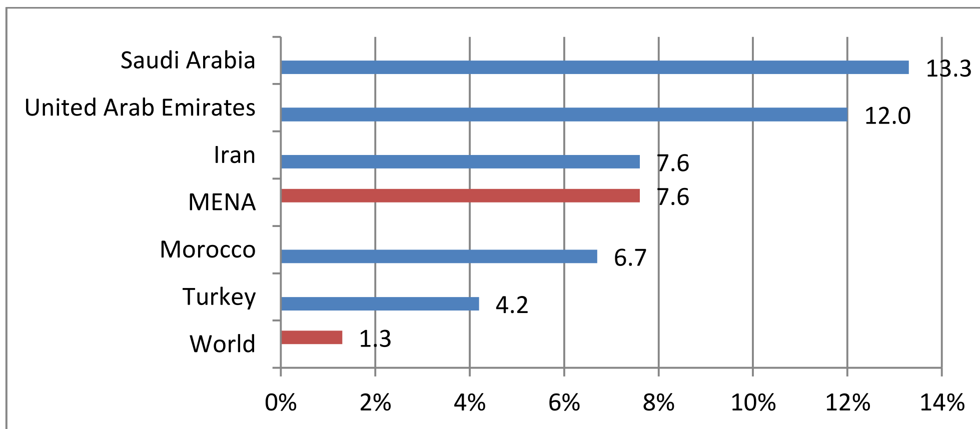
[+] Special Advisor, The Geneva Association and Chairman MultaQa Qatar, Doha, Qatar.

Figure 1. MENA insurance premiums by type (2007–2012, non-life versus life, in US$bn)



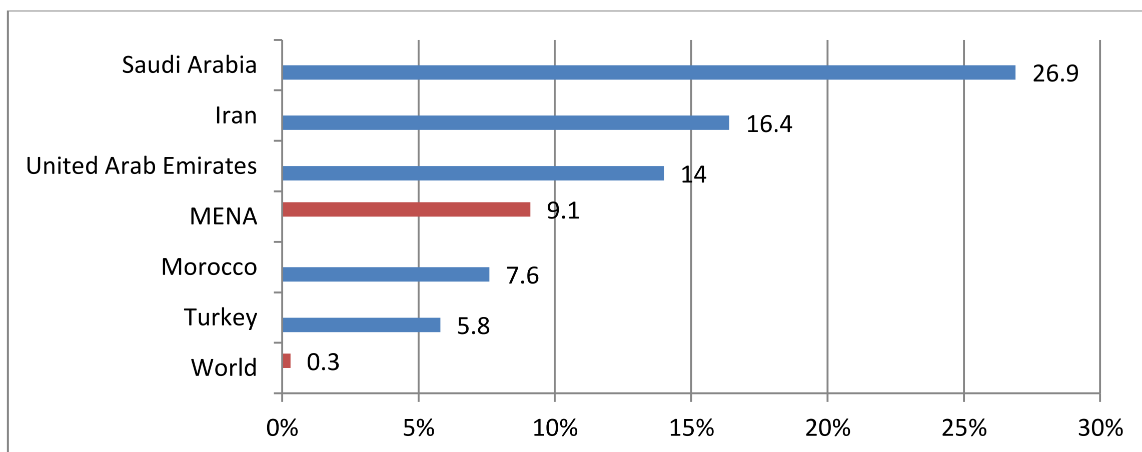
Source: Swiss Re, *sigma*; QFC Authority, 2013 MENA Reinsurance Barometer.

Figure 2. Non-life real premium growth in % (2007-2012, annual averages)



Source: Swiss Re, *sigma*; QFC Authority, 2013 MENA Reinsurance Barometer

Figure 3. Life real premium growth in % (2007-2012, annual averages)



Source: Source: Swiss Re, *sigma*; QFC Authority, 2013 MENA Reinsurance Barometer

Takaful as a potential game changer

The development of life insurance products which are compliant with Islamic principles is increasingly affecting the insurance market dynamics in the MENA region. Takaful insurance has its roots in the Islamic principle of *al-takaful* (solidarity) and follows the concepts of mutualisation and risk-sharing. Profit generation is not the ultimate aim, but rather risk pooling for the benefit of the society. Under a takaful contract, a group of participants agrees among themselves to support one another collectively against a defined loss. They contribute a sum of money as a *tabarru'* (donation) into a common fund, which will be used to cover any defined losses. In family (life) takaful, the participant's contribution is typically divided into two portions, one forming part of the takaful pool to cover mortality and disability risk, and the other representing a personal investment account. The plans include education, mortgage, health and riders. Beneficiaries will receive benefits arising from death or permanent disability as well as investment profits which are distributed upon claim, maturity or early surrender. In addition to individual solutions group family takaful is gaining in popularity. It caters to the needs of employers, clubs, associations and societies.

The takaful market in the Gulf region, measured in terms of gross contributions, was estimated at about 35 per cent of the total, with strong rates of expansion over the past 10 years. Family Takaful has been the fastest growing segment. There is a broad consensus that the takaful industry has proven an important means of increasing acceptance and awareness of (life) insurance in the Gulf. Also in other parts of the Muslim world, e.g. in Malaysia and Indonesia, takaful insurance is playing an increasingly important role.

In the area of family takaful in particular, there is significant scope for differentiation against conventional insurance products, which regional insurance executives widely consider the key success factor in competition. Therefore, this segment is believed to continue outgrowing the overall market even though previous double-digit expansion rates are expected to decrease over the next few years. Future growth is likely to be driven by advances in product development, the removal of regulatory gaps and distribution synergies with Islamic banks, which have developed a strong footprint in the region, through the Bancatakaful channel, the Islamic variant of Bancassurance.

Trend towards protection products

From a fundamental perspective, demand for life insurance is set to increase with rising levels of wealth as individuals become more aware of the need for financial security—and have the means to pay for it. Against this backdrop, the region's economic fundamentals and outlook augur well for life insurance. This is particularly true for protection products such as mortality and morbidity risk insurance in light of lifestyle changes such as growing levels of obesity. The protection gap in the Middle East is huge and consumer awareness of underinsurance is on the rise.

At the same time, the risk life segment appears increasingly attractive for insurers because profitability is less sensitive to interest rates than that of savings products with guaranteed yields. In addition, the data foundations of underwriting are much stronger than in non-life insurance. Mortality tables are widely available whereas in non-life insurance there is a chronic lack of historic data to underpin underwriting decisions, with the lack of natural catastrophe models being the most acute deficiency. It is therefore no surprise that life insurance in the Middle East has long been more profitable than non-life business.

Socio-economic changes

The citizens of the GCC countries benefit from extensive cradle-to-grave welfare and social security systems—a powerful disincentive to purchase life insurance. However, it is unlikely that these schemes will survive into the post-hydrocarbon era, which could dawn sooner than expected, not least because of growing uncertainties about the impact of shale oil and gas and the impending energy autarky of the U.S. Fiscal positions in the region could come under pressure and far-sighted individuals have already started thinking of making their own provisions for financial and old-age security. Governments, too, seem to be aware of the long-term need for a fundamental

revamp of the current social security structures. Compulsory health insurance could be considered as a "field for experimentation". Saudi Arabia is a case in point. Mandatory health insurance for foreign workers was introduced in 2005, and in 2008 this requirement was extended to nationals working in the private sector. Workers in Saudi Arabia have learned that risk protection is no longer free of charge.

Increasing population base

It is obvious that population growth is a major driver of insurance demand—and another positive fundamental of the Middle Eastern region. The International Monetary Fund (*World Economic Outlook October 2013*) expects the population base of the six GCC countries to increase to 50 million in 2017, an increase of more than a third within just 10 years. Higher life expectancy and a continued influx of expatriate workers are the major factors contributing to population growth in the region. Foreigners now account for up to 90 per cent of the population in the UAE, Kuwait and Qatar. An expanding population, with a high share of foreigners, many of whom are familiar with the concept of insurance, offers a major window of opportunity for the region's insurance industry. However, companies need to work hard to capture this potential: As mentioned before, the expatriate community still demonstrates a strong preference for insurers in their home countries to those in the resident countries. Regional insurers, therefore, need to step up their game, e.g. in terms of brand building, product offerings, services and distribution. They may also want to consider alliances with global heavyweights operating in the region in order to tap into the potential offered by affluent expatriates from mature markets.

Summary and outlook

Life insurance in the Middle East is still a marginal concept. This state of affairs not only reflects exogenous factors such as lavish government-sponsored benefits for the indigenous population; it is also a result of many regional insurers' inability to cater to the needs of the three relevant customer segments: Local citizens, blue-collar expatriates and white-collar expatriates. In light of current penetration levels which are among the world's lowest the potential is enormous. However, tapping into it requires insurers to be more proactive in the areas of family takaful, microinsurance (credit life, in particular), brand building, product development and distribution.

If regional insurers prove to be up to these challenges and the current cradle-to-grave welfare schemes are scaled back, life insurance markets in the region could multiply within a few years. The wider MENA region's income per capita is comparable with the global average. If life insurance penetration in the Middle East were to catch up with the global average, the current premium volume of US$7bn would skyrocket to more than US$100bn. Of course, this is a bold scenario based on simple arithmetic— but it does illustrate the potential.