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A changing climate for regional reinsurance

Modelling a data-powered, risk-informed future for our industry against environmental odds

By Joe Asmar   Wed 20 Nov 2024

Only a few months after the COP28 convention in Dubai stressed the urgency of climate action in the GCC, the region experienced severe rainstorms and floods of unprecedented scale and impact. On April 15 alone, rainfall in Dubai exceeded the emirate's daily records of the previous 75 years, while Al Ain's surpassed the UAE's yearly average.

Alongside policymakers, the regional (re)insurance industry had been gearing up for the growing odds of extreme weather events related to climate change. But no amount of contingency and risk planning could have prepared it for their magnitude and collateral damage.

Public infrastructure, private property, and people were all deeply affected by the April 2024 floods; insured losses were estimated to be more then $3 billion, predominantly in the property and motor insurance segments. Their severity has highlighted the progress, opportunities – and admittedly, gaps –of (re)insurers in policy design, pricing, and predictive modelling. At the onset of the April 2024 floods, UAE authorities immediately and successfully implemented great, exceptional measures to address damages and mitigate their impact.

The agility of GCC insurance providers was also nothing short of praiseworthy. Many companies quickly mobilised to assist policyholders, facilitating claims processes, providing support services, and at that, cementing their credibility and customer trust. But the sheer volume of claims has also exposed vulnerabilities in claims processing systems.

Faced with an influx of claims, some insurers experienced delays associated with their inadequate infrastructure. These delays have highlighted the need for improved digital tools and streamlined processes that enable them to handle large-scale disaster claims efficiently and effectively.

Other, longer-term challenges arise around insurer-reinsurer risk transfer dynamics. Backed by robust reinsurance programs, many GCC insurers had heavily relied on excess-of-loss protection to absorb costly claims without substantially eroding their profitability. But in a changing climate, reinsurers are expected to raise their premiums and impose stricter policy terms – effectively rendering reinsurance more expensive andselective in the region. Global credit rating assessments validate this ‘new normal’, expecting the April 2024 events to increase claims and reinsurance costs for GCC insurers.

Already grappling with increased natural catastrophe claims and costs worldwide, reinsurers have responded to these storms with caution, adjusting pricing and terms for the Middle Eastern market.

Technical amendments have included higher premiums and retention levels, capacity changes, and lower event limits for better risk management and sustainable coverage.

Insurers must now retain a greater portion of risk on both proportional and non-proportional structures. In tandem, reinsurers are reevaluating their capacity, particularly for secondary perils like floods, ensuring that their exposure aligns with their revised risk appetite. In this direction, they are adopting more vigilant underwriting of risks linked to climate-driven disasters, and ultimately, reducing their coverage for such risks. They are also imposing more restrictive conditions on flood coverage, including higher deductibles and tighter exclusions.

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In a highly competitive and price-sensitive landscape, smaller insurers will bear the brunt of rising reinsurance restrictions and costs, with considerable pressures on their bottom line and capital adequacy. At the same time, reinsurers' reduced appetite for flood risk in the MENA region has turned their focus to granular risk assessments and flood mapping technology.

It has equally translated into a more conservative approach to taking on clients, disadvantaging, for instance, insurers that do not hold diversified portfolios. Moreover, low insurance penetrationin parts of the GCC means that total economic losses will continue to outpace insured losses, further straining the capacity of insurers.

But beyond these short-to-medium-term challenges, climate-related events in the region form an opportunity to chart a sustainable growth path for the regional (re)insurance sector.

With more skin in the game and more at stake, GCC insurers have not only a vested interest, but also a mandate to adopt more robust risk mitigation and transparent data reporting practices. Now faced with the realisation that historical data can only do so much, reinsurers are also ramping up their flood risk models for the MENA region, placing greater focus on predictive accuracy.

Both reinsurers and insurers are compelled to adopt a more technical and data-driven approach to risk management, underwriting, and capital adequacy. By integrating advanced modelling techniques and enhancing collaboration, our industrycan better navigate challenges posed by climate-risks, improving its overall resilience in the face of future natural catastrophes.