ASSET MANAGEMENT

GCC insurers step up as strategic investors

With over US$30bn in invested assets across the UAE and the KSA, insurers are central to economic growth according to Badri Management Consultancy's Mr Hasham Piperdy.

Insurers are important institutional investors in the GCC. In the largest markets of the KSA and UAE, balance sheet assets totalled over $40bn for listed onshore insurers at the end of 2024. Of this, around $30bn were classified as investments, at that date.

With pressure on underwriting results, investment returns have taken on greater prominence and had a disproportionate impact on results over recent periods. During 2024, investment income contributed around $1.4bn to the bottom line for listed KSA and listed onshore UAE insurers. To put this into context, profits (pre-tax and zakat) stood at around $1.7bn for the same companies.

As the GCC insurance market further develops, there is significant potential for insurers to play an even more prominent important role as strategic investors in the wider economy. In KSA, the upcoming changes to risk-based capital (anticipated from 2027) will provide more flexibility for insurers to invest in a wider range of assets whilst optimising their capital positions, perhaps in a similar manner to what is observed in the UAE.

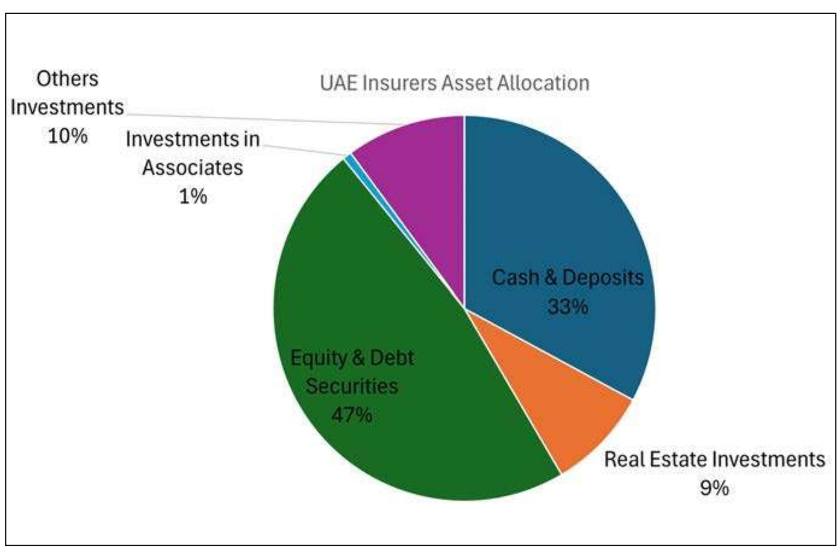
Asset allocation

There continues to be a wide range of diversified strategies amongst UAE insurers whereas KSA insurers still hold significant amounts in cash/deposits. Liquidity risk and general loss aversion over short term horizons weigh heavily on strategy.

UAE asset allocation

In aggregate, UAE insurers only have around 30% in cash with the remainder invested in a wide mix of assets. As of December 2024, there was a total of AED73bn ($20 bn) in invested assets. This is quite similar compared to the position three years ago reflecting the maturity of the market.

The UAE has a risk-based capital regime with insurers having significant investment freedom but being subject to market risk capital charges.

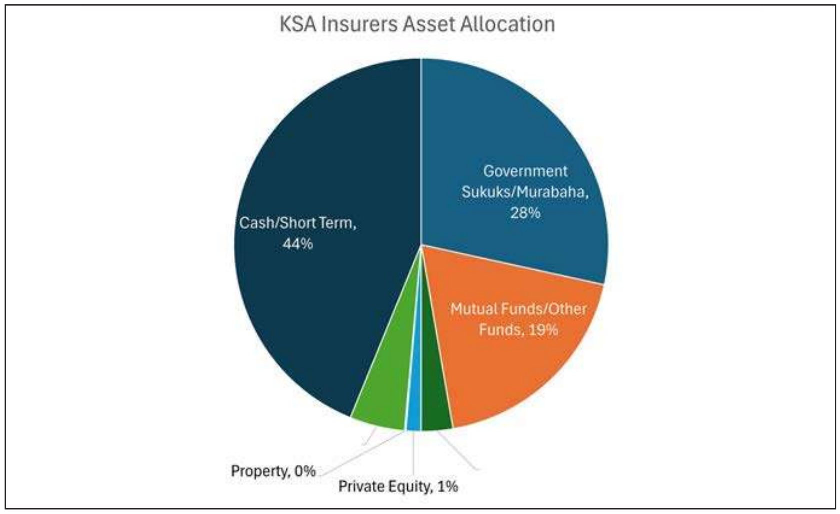


KSA asset allocation

In the KSA, as of December 2024, there were investments of SAR62bn ($17 bn). Remarkably, this represents an increase of nearly SAR30bn or 100% growth over the last 3 years. The KSA insurance market is undergoing a period of rapid growth in line with expansion in the economy and this is clearly reflected in the level of invested assets.

However, despite the significant growth in the market, cash and term deposits continue to dominate strategic asset allocations and comprise nearly 45% of investments. This may be considered conservative, particularly when there is free surplus due to high solvency levels for many companies. Some insurers are observed to hold over 80% in cash and deposits which at face value suggests there is significant potential to diversify and drive better returns.

Government sukuk and murabaha investments make up around 30% of the invested assets. This seems to be the case regardless of size of the insurer.



Recent performance

During 2024, investment returns averaged around 5% for the year in both markets. However, this does not tell the whole story as greater variation was observed in UAE with investment returns ranging from 3% to 11% whereas in the KSA returns were in a tighter range from around 4% to 6% reflecting the much higher cash allocations.

Drivers of investment strategy

Regulatory capital

As with other markets, GCC insurers are subject to many regulatory constraints and controls around investment strategy. This is naturally appropriate as the objectives are primarily to ensure capital adequacy and security of policyholder benefits.

In the KSA, there are regulatory constraints driving asset allocation with strict rules on admissible assets for regulatory solvency including minimum and maximum thresholds for some asset classes. However, there is still significant potential for diversification into alternate asset classes to provide higher longer-term returns relative to cash especially for insurers with high regulatory solvency ratios.

UAE insurers arguably have more flexibility and this is seen in their more diverse asset allocation. Whilst risk-based capital charges apply, all else equal, a more diversified portfolio also often leads to reduced regulatory capital requirements.

Shariah compliance

Shariah compliance is of paramount importance for GCC insurers and underpins investment strategies.

Asset liability management

Investment strategies must consider returns that reasonably match the liability side of the balance sheet and SAAs should ideally be tailored on the insurer's own liability profile. Whilst ALM assessments are required annually by the Central Bank of the UAE and the Insurance Authority of the KSA, absolute return targets without any reference to the insurers' liabilities are still not uncommon mandates for investment managers. Many insurers are overweight in cash despite sufficient headroom with regulatory solvency.

IFRS17 accounting standard

The introduction of IFRS17 has introduced discounting of liabilities and yield curve risk. We have observed increased interest in hedging against adverse shifts in the yield curve which seem to occur with increasing frequency of late.

Looking ahead

I foresee significant changes in strategy for KSA insurers in advance of the change to the new risk-based capital framework coming into force and many insurers are currently reviewing their investment strategies. Insurers with diversified strategies can potentially benefit from more optimised regulatory capital levels.

Given the fast-paced development of the economy under Vision 2030, investment grade corporate bonds/sukuks and shariah-compliant private credit will likely attract more capital from insurers as these are often seen as reasonable matches for insurance liabilities and provide a yield pickup relative to government sukuks. These asset classes will also be attractive given the fact that liabilities are now subject to yield-curve risk under IFRS17 and risk-based capital charges will also apply.

The explosive growth in the life insurance market over the last two years in the KSA and also the anticipated growth in pension products in both the KSA and the UAE can also drive significant demand for target date funds.

Insurance is the chief enabler for economic growth as it underwrites key risks to ensure domestic businesses flourish and projects are successful. As the size of the insurance market continues to grow, insurers can also leverage investment strategy to support the growth in the economy through strategic investments in quoted equities and private markets (equity and debt).

Note: This article is presented as general information and should not be construed as financial or investment advice.

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