

Insurance is key to fostering economic growth and investment in the Middle East and North Africa region

Zurich, May 28, 2013 – Insurance can promote economic development, create jobs and boost trade across the Middle East and North Africa (MENA) region, according to “The Role of Insurance in MENA” – a new report from Zurich Insurance Group (Zurich) launched at the World Economic Forum, MENA summit, held in Jordan from May 24-26.

Though the MENA region has made considerable progress over the last decade, with some of the lowest insurance penetration rates in the world, there is still large growth potential in the insurance sector. However, insurance can help to transform the MENA economies to address many of the economic and social challenges facing the region, including helping nations to diversify and modernize their economies to create sufficient employment opportunities for the young.

- Insurance allows individuals and their families to protect their hard-earned assets, which provides economic stability for all classes of society.
- By providing risk transfer possibilities and facilitating capital formation, insurers also promote economic development.
- Insurance provides essential coverage to businesses that promotes trade and economic activity.
- Furthermore, by insuring trade and foreign direct investments, insurance contributes to sustainable growth across all market sectors.

Saad Mered, CEO General Insurance Middle East & Africa, Zurich Insurance Group commented: “The role of insurance in emerging economies is often not well understood and underestimated. For these fast growing countries, insurance supports the pace of economic development and protects quality of life. It safeguards and rebuilds the foundations of economic activity after unexpected loss, like in the wake of natural catastrophes. Insurance can also play an important part in funding retirement solutions. It not only provides long-term savings vehicles, but also addresses risks that might affect the ability to save (i.e. disability) or living longer than expected (i.e. longevity risk) on one’s savings. In addition, given the long-term nature of their liabilities, insurers are ideally suited to provide finance for growth enhancing long-term investments. Finally,

the insurance industry is a dynamic services sector which creates employment and entrepreneurship opportunities at all levels and in adjacent services sector.”

The role of insurance

Insurance performs three core economic functions:

Risk transfer – insurance provides an efficient mechanism of risk transfer by pooling the risks of a large number of individuals (such as the family home being destroyed) based on the law of large numbers.

Risk management – by charging a premium that reflects the underlying risk, insurance provides a signal for efficient risk mitigation. Insurers also provide risk management advice and services to companies and individuals.

Capital formation – by collecting large pools of capital that are invested in capital markets, insurers foster capital formation that is available to fund long-term investments.

Through these functions, insurance enhances welfare, promotes economic activity and protects and supports the growing middle class in the MENA region.

Insurance penetration

Despite this, the MENA region has some of the lowest insurance penetration rates in the world. The average insurance penetration rate across the MENA region is 1.5%, which is almost four times lower than Singapore and almost eight times lower than the UK.

Against this backdrop, wider use of insurance in the MENA region would greatly speed up the region’s continued economic progress.

What the MENA region needs to do to enable insurance to grow

A concerted effort by policymakers, regulators and market participants is needed to address a number of market and regulatory challenges to enable insurance to grow in the region.

This includes:

Financial literacy – there is a widespread lack of financial literacy and a low-level of awareness about insurance products and their beneficial effects. Financial education is crucial to overcome this, and the public and private sectors should cooperate to broaden awareness.

Micro-insurance – insurance can be too expensive for the poorest part of the population. Insurers can tailor the products to reduce the thresholds for efficient insurance by

simplifying policy terms and collecting payments in highly scalable ways (such as via mobile phones). Such tailored products can serve the needs of low-income households.

Regulation – Regulatory standards in the MENA region are relatively vague and less detailed and sophisticated than in developed countries. This can enhance the risk and screening costs for customers, allowing insurers with poorly developed risk management systems and poor reserves to enter the market. Therefore there is an urgent need to strengthen the regulatory framework and its enforcement.

In conclusion, insurance can play a crucial role in addressing the key challenges of the MENA region by protecting the assets of individuals, families and businesses and promoting economic development. However, a lack of trust and awareness by consumers is a major impediment for insurance in playing this role. On one hand, the insurance sector needs to develop affordable and tailored products for emerging markets that enable consumers to build up trust in the sector. On the other, it is vital for many countries of the MENA region to ensure that the right regulatory infrastructure exists to allow the sector to deliver the economic and social benefits that it is able to.

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