

IN FOCUS: A BURGEONING MIDDLE EAST MEDICAL INSURANCE MARKET



VISION & PLANNING

Social and economic change is well underway in the Middle-East, and the insurance landscape is witnessing a paradigm shift. Some governments across the region have made it their priority to improve the lives of their residents, as well as to develop their infrastructure models to be amongst the best in the world. UAE's Vision 2021 and Saudi Arabia's Vision 2030 are excellent examples of the level of planning and investment committed to ensuring key policy objectives will be met, and an integral part of this impacts the health provider and payor space.

With low oil prices and changing economic winds, governments are increasingly looking to shift the burden of high healthcare expenditure from the public to the private sector. Many years of unlimited state-funded healthcare appear to be coming to an end, as governments realise that these spiraling costs are simply unaffordable in the future.

THE MARKET

Countries in the Middle East exhibit a wide wealth gap by GDP per capita, ranging from extreme wealth to relative poverty. As a result, we see a very different set of healthcare provider and payor systems across the region. In countries where compulsory medical insurance has not yet been mandated for a particular segment of the population, insurance penetration rates tend to be in the low single-digits.

Market participants comprise both public and private insurance carriers, as well as participation from domestic and foreign carriers. A distinct parallel (Re)Takaful market has also developed to offer (re)insurance solutions that comply with Islamic requirements.

Health insurance is one of the most significant lines of business in a number of markets, for example in Saudi Arabia, health represents approximately 50% of all insurance business. Strong growth is expected as mandatory roll-outs are implemented and individuals continue to be concerned about the increasing costs of medical treatment.

EXPAT POPULATION

A specific feature of the region is the presence of a relatively high expat population, with the UAE having the highest proportion of expats at just under 90%. The expat population has influenced the evolution of the market as well as product design features such as benefit cover and extending eligible treatment territories to an individual's home country.

EXPAT POPULATIONS IN THE MIDDLE-EAST

DATA SOURCE: UNITED NATIONS 2017 INTERNATIONAL MIGRATION REPORT

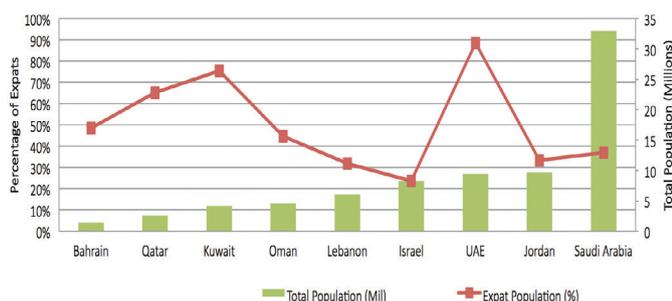


Exhibit: % expats of population for key MENA territories

MANDATORY HEALTH INSURANCE

Saudi Arabia was the first country to implement mandatory health insurance for expats but is now looking to introduce compulsory health insurance for Saudi nationals as well. This will result in a vast pool of Saudi citizens requiring coverage, a move eagerly awaited by insurers.



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In UAE, Abu Dhabi was the first Emirate to introduce mandatory health insurance back in 2007, stipulating that employers must provide coverage for expats and their spouse and children.

Dubai followed with mandatory health insurance for all residents, implementing a three-stage roll-out that completed in April 2017. This stipulated that all registered employers must provide their employees with health insurance that conforms to a minimum prescribed set of benefits. The obligation also extends to dependents of sponsors including domestic workers.

Oman is set to be the next territory to introduce mandatory health insurance, with implementation expected during 2018. This will offer insurers an additional collective pool of approximately 4m lives, as currently it is estimated that about 10% of Omanis and expats in the private sector have health insurance.

Other neighbouring countries contemplating introducing mandatory health insurance include Qatar and Kuwait.

PRODUCTS & PRICING

The development of the medical insurance market in the region has come with challenges for some insurers. These include the lack of sufficient credible data to price products and having the required actuarial skill set to understand how medical inflation and claims utilization trend drives overall loss ratios. Reinsurers have a vital role to play in providing technical assistance to insurers and offering appropriate risk management solutions such as an excess of loss protection to reduce the volatility of the underlying portfolio.

Actuaries can add value by tapping into rich data sets and identifying key risk drivers that have perhaps been recorded, but not necessarily used for premium rating, e.g., nationality or type of industry for group risks. There is evidence of irrational pricing across the market, with much of this reflecting a lack of understanding of the underlying risk, rather than merely due to competitive pricing pressure.

Products are typically structured around the level of access to hospital networks, with more expensive products opening up access to the higher-cost flagship hospitals. Products tend to include cover for inpatient, outpatient and maternity care, with richer benefits often extending to optical, dental, hearing and psychiatric care. A unique feature of product design is the high utilization of outpatient care and the absence of sub-limits. The frequency of outpatient claims is significantly higher than for inpatient claims, albeit with much lower average claims costs. Most other medical insurance markets reflect a very different dynamic between inpatient and outpatient claims utilisation, with more limited outpatient benefit cover.

OUTLOOK

With increasing health care problems facing the region, such as the obesity and diabetes epidemic in the UAE and Saudi Arabia, there will be an opportunity for insurers to develop robust wellness and preventative solutions within medical insurance products. This will be a welcome development for all, as individual health needs will be better addressed by insurers and respective governments will come closer to meeting their key policy objectives.

InsurTech-related innovation also offers significant opportunities to improve product design, disrupt distribution and improve data analytics, thereby establishing a competitive advantage for insurers. Product innovation has historically been limited and in the pursuit to better meet the needs of insureds, it is anticipated that technology will be a key enabler supporting the delivery of much-needed preventative and wellness solutions.

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