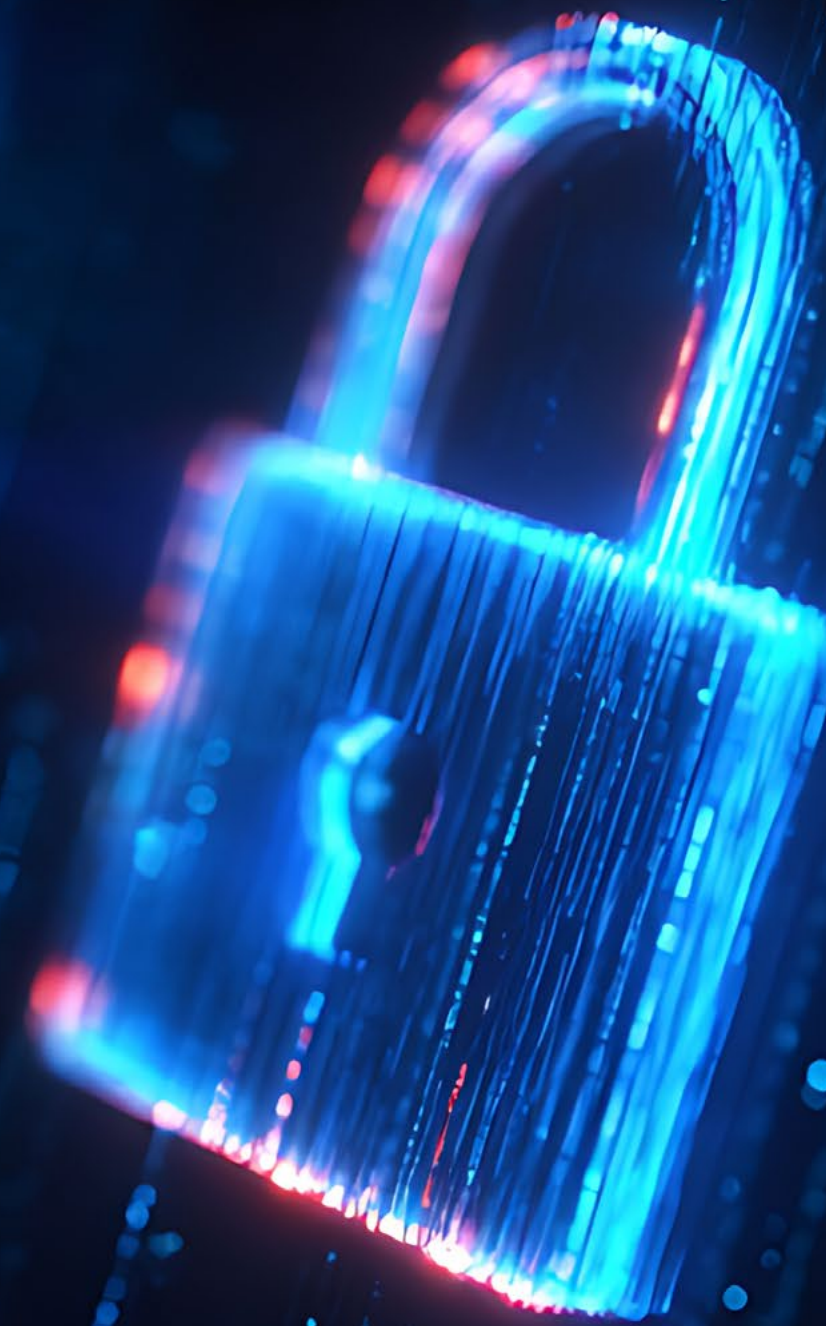


# Rethinking asset insurance in the Gulf



*When the cost environment shifts faster than insurance policies are reviewed, balance sheet resilience becomes an open question.*

Resilience in the Gulf context has always been understood in strategic terms: diversification, long-term infrastructure investment, and the forward-looking commitments embedded in national visions across the region. But the convergence of forces now reshaping the Middle East—including recent geopolitical tensions, disruptions to shipping through the Strait of Hormuz, tariff-driven commodity inflation, and significant oil price volatility—is creating a risk that deserves greater attention than it is currently receiving: a quietly widening gap in property, plant, and equipment insurance coverage.

For large asset-heavy organizations focused on operational continuity, this sits at the core of what asset resilience actually means. The mechanism is straightforward: insurance is only as good as the replacement cost estimate underpinning it, a calculation based on prevailing costs for materials, labor, and equipment at a point in time. When these conditions shift meaningfully across all three dimensions simultaneously, policies written even six months ago may no longer accurately reflect the true cost of reinstatement. The exposure is not abstract.

 **Buildings, machinery, and equipment: A triple exposure**

The insurance adequacy challenge facing Gulf businesses is not limited to buildings and structures. Machinery, industrial equipment, and specialist plants are often among the highest-value assets on a fixed asset register, and they carry their own distinct reinstatement risk.

US tariffs have introduced significant cost pressure across the global machinery and equipment supply chain. The International Energy Agency has noted that cost pressures on oil and gas and large engineering projects now include the effects of higher tariffs on imported steel and aluminum—the primary raw materials used in industrial equipment manufacturing. The World Economic Forum further observes that higher energy costs are feeding directly into production costs for steel, chemicals, and electronics, with costs passed through to equipment buyers. Meanwhile, disruptions to shipping through the Strait of Hormuz have contributed to sharp surges in crude oil prices, with aluminum and other industrial materials following suit.

For businesses operating processing facilities, manufacturing plants, or energy infrastructure across the Gulf, the replacement cost of key equipment items may have moved materially since the last valuation was conducted. A resilient organization accounts for this. One that does not may find that its insurance program, however carefully structured, does not deliver the recovery it was designed to provide.

 **A softening market and the question of adequacy**

According to Marsh's Global Insurance Market Index, commercial insurance rates in the Middle East region fell by 10% in the fourth quarter of 2025. For risk managers, this looks encouraging. But a softening premium is only beneficial if the sum insured remains accurate across all asset classes.

Underinsurance can trigger proportionate claim reductions through average clauses, meaning recovery is reduced in direct proportion to any shortfall, regardless of premium paid.

Where machinery and equipment valuations are based on historic purchase cost or book value rather than current replacement cost, the gap can be substantial. In a period defined by disruption, the moment when insurance is most likely to be called upon is also the moment when an undetected shortfall can come as a surprise.



 **A moment for appropriate and proactive review**

Strong economic expansion, population inflows, and rising infrastructure activity are fueling insurance uptake across the Gulf. This is a good moment for appropriate and proactive reassessment rather than a reactive one. For decision-makers, the question is not whether assets are insured—most are. The question is whether the sums insured reflect the world as it stands today.

A common misconception in the property insurance market is the use of market value as the basis for determining a property's sum insured. Market value typically reflects both the building and the underlying land, whereas land does not need to be replaced following a loss event. For insurance purposes, the appropriate basis is the replacement cost of the improvements only, including demolition, debris removal, professional fees, and reconstruction costs. Reliance on market value can result in overinsurance, causing policyholders to pay unnecessarily high premiums without receiving any additional benefit in the event of a claim.

The compounding effects of tariffs, disruptions to shipping through the Strait of Hormuz, energy-linked cost inflation, and market volatility have collectively shifted the replacement cost environment for buildings, machinery, and equipment in ways that a standard annual index adjustment is unlikely to have captured.

In light of this, it is increasingly important to proactively assess the sum insured. An accurate replacement cost assessment helps ensure adequate and cost-effective coverage. In a period of compounding cost pressures, this proactive review can make the difference between building resilience or allowing it to be quietly eroded. ●

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In a period of compounding cost pressures, proactive assessment of the sum insured is increasingly important

**Endnotes**

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