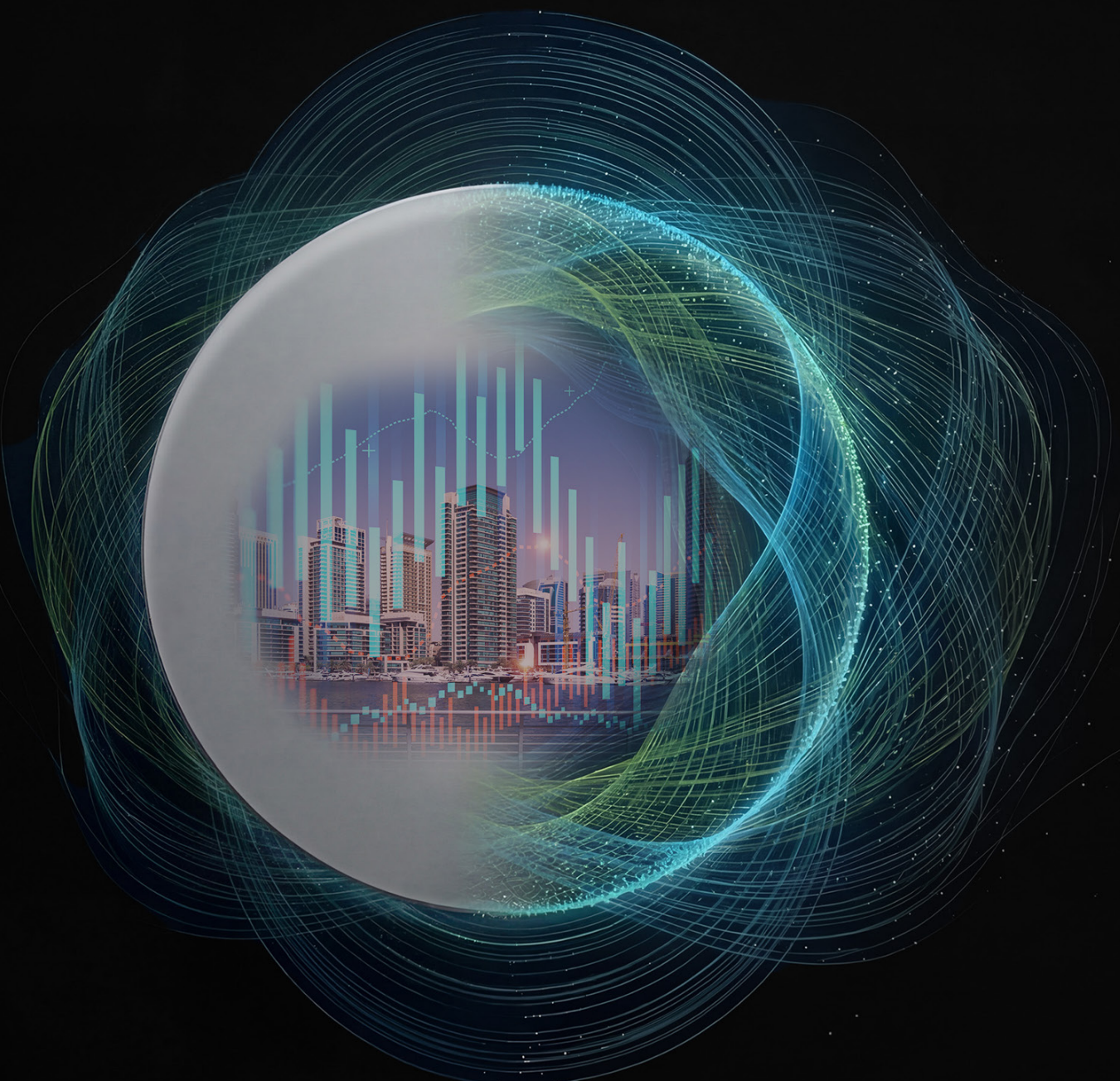


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Middle East Financial Services:
Resilience Redefined



Executive Summary

The Middle East is currently navigating unprecedented circumstances. The ongoing geopolitical tensions has placed stress on financial systems across the Gulf Cooperation Council (GCC), the broader MENA region, and, increasingly, global markets. The Strait of Hormuz, through which approximately 20 million barrels per day of crude oil and one-fifth of global LNG trade transit, has been disrupted, triggering a repricing of energy, credit and geopolitical risk¹.

For financial services institutions operating in the region, the consequences can be multifaceted and non-linear:



Central Banks may need to carefully balance policy objectives while closely monitoring liquidity conditions.



Commercial banks may face credit losses and need to revisit risk frameworks.



Insurers may be confronting war-exclusion triggers and a repricing of marine, aviation, and political risk.



Wealth and asset managers may be looking at wealth outflows, fund reallocations, and uncertain long-term return assumptions.

Implications for Financial Services: Sector-by-sector analysis

The matrix below summarizes potential implications across the short term (up to 12 months) and medium-to-long term (one year and beyond). While it is important to highlight the Middle East financial institutions have demonstrated resilience during recent events, these remain illustrative scenarios derived from analysis of other regional and global tensions and crises.

Country	Short-Term (0-12 months)	Medium to Long-Term (one year and beyond)
Central banks	Rate-hold dilemma; FX defence; reserves drawdown	Structural inflation repricing; Policy credibility risk
Commercial banks	Non-Performing Loans (NPL) spikes	Credit repricing; Environmental, Social, Governance (ESG)/geopolitical risk frameworks; Disaster Recovery (DR) strategy recalibration
Insurance	War-exclusion triggers; marine & aviation premium spikes	Reinsurance retreat; product redesign; new risk pools
Wealth & Asset management	Safe-haven rotation; redemption pressure; AUM decline	Portfolio restructuring; SWF strategic reallocation



Central banks

Central banks across the region and globally are confronting what ING economists have described as a 'genuine dilemma': an oil shock that simultaneously pushes up inflation and depresses growth, making the standard policy toolkit of limited use². With US inflation already running above the Federal Reserve's 2% target and tariff-driven price pressures still feeding through, further energy-cost increases risk entrenching inflation expectations at a time when rates had been expected to ease³.

Short-term implications

- GCC central banks, whose currencies are predominantly pegged to the US dollar, need to operate within a more calibrated monetary policy. Rate decisions made in this region are effectively shadowing the Fed, even as domestic economies may diverge in performance.
- Foreign exchange reserves are under pressure in less-well-capitalized economies such as Jordan and Egypt, where the conflict-driven decline in Suez Canal revenues has removed a critical source of hard currency⁴.
- Safe-haven capital flows are amplifying FX volatility across non-GCC economies, such as Egypt, that has seen inflation drop from 33% in 2024 to 19.7% in 2025⁵, a fragile improvement now at risk from renewed energy cost pressures.

Medium-to-long-term implications

- The credibility of inflation-targeting frameworks in import-dependent economies is at risk if supply-side shocks persist. Central banks may feel compelled to raise rates; however, this only works if the inflation is caused by an increase in demand and not resulting from energy disruption and broken supply chains.
- Central banks may accelerate de-risking strategies, including diversification of reserve assets away from Strait-exposed energy instruments and a renewed focus on CBDC development as a hedge against correspondent banking vulnerabilities.
- For the GCC, the case for deeper monetary integration and common macroprudential frameworks – long discussed under the GCC Monetary Union agenda – is now materially strengthened⁶.
- Central banks and regulators could contemplate tax and quasi-tax levers to preserve stability and fund higher security and fiscal needs. For financial institutions, the main tax effects arise from profit volatility, capital requirements, sanctions compliance, and substance issues.



Commercial banks

Commercial banks operating in the region may face an acute convergence of credit risk, liquidity risk, and operational risk linked to the duration of the current conflict, and ability to contain what is going on within the region.

Short-term implications

- Non-Performing Loan ratios may be rising across sectors most exposed to the conflict such as aviation, maritime logistics, hospitality, tourism, and real estate.
- Trade finance volumes are likely to contract as insurers reprice marine cargo risk and shipping costs surge. Banks providing commodity trade finance to regional importers will therefore face elevated counterparty and collateral risk.
- There is potential for volatile taxable profits from credit-loss provisioning, marking market swings and fee income slowdown. While some systems allow loss, carry-backs/forwards and smoothing cash tax, planning complexity will increase. Further, there is a risk of higher irrecoverable VAT and transaction taxes if payment flows are rerouted, delayed, or cancelled.

Medium-to-long-term implications

- Banks will need to fundamentally reassess their regional credit risk models, incorporating geopolitical scenario analysis and energy transition risk alongside traditional financial metrics. Stress-testing frameworks mandated by the Basel Committee and local regulators will require bespoke calibration for Middle East exposures.
- The conflict is accelerating digital banking adoption in affected markets, driven by the need for remote service delivery. In addition, Disaster Recovery (DR) strategies may need to be revisited, including the physical location of the DR sites (subject to relevant local regulations). Banks that have invested in digital infrastructure are better positioned to retain customer relationships during periods of physical disruption.
- Capital allocation to the region by international banks may shrink, increasing the strategic importance of GCC-headquartered institutions – particularly Saudi, Emirati and Qatari banks – as anchor providers of regional financial intermediation.
- Potential for an increased transfer pricing scrutiny on treasury operations, booking-center arrangements, and shared-service structures between Gulf hubs and neighboring jurisdictions.
- Possibility of incentivized tax regimes for sustainable-finance and infrastructure lending as states pivot to reconstruction.



Insurance

The insurance sector faces the possibility of one of the more immediate financial impacts of the conflict, where a single event can cause a chain reaction. War-exclusion clauses embedded in standard marine, aviation, and property policies are likely to be invoked at scale⁷, while the reinsurance market is also expected to undergo structural repricing of Middle East exposures.

Short-term implications

- Marine hull and cargo insurance premiums have increased significantly as underwriters price Hormuz disruption risk, with war-risk surcharges applied to all vessels transiting the Gulf. Some of Lloyd's syndicates have temporarily withdrawn capacity from high-risk voyages⁸. Additionally, while rapid repricing of marine, aviation, energy, and political-risk lines may raise underwriting income, this might be offset by claim uncertainty and investment volatility, driving uneven taxable results
- Aviation insurance costs for airlines operating in and around the conflict zone have risen sharply. Global Payments, which serves twelve major Middle Eastern airlines, has cited flight disruptions as a direct headwind to its regional revenue, illustrating the cascading commercial consequences of elevated aviation risk⁹.
- The valuations of the investment portfolios which the insurance entities carry are likely to be impacted
- Political risk and trade credit insurance policies covering regional counterparties are being re-evaluated, with likely impact of underwriters tightening terms or even declining to renew.

Medium-to-long-term implications

- The potential retreat of private reinsurance capacity from the region creates an opportunity for GCC sovereign wealth funds and state-backed insurers to step into the void as risk capacity providers, potentially through the creation of regionally governed war-risk pools
- Life and health insurers operating in markets experiencing active conflict will likely face increased claims pressure, rising mortality assumptions, and heightened provisioning requirements
- The conflict is catalyzing regulatory attention on insurance protection gaps across MENA. Regulators in the region are likely to mandate enhanced capital buffers for geopolitical risk exposures, accelerating alignment with IFRS 17 requirements. Also, actuarial models and stress testing scenarios may need to be revisited
- Increased use of captive insurers and fronting arrangements in Gulf hubs to contain costs and access capacity, may trigger more Controlled Foreign Corporation (CFC), transfer pricing, and Permanent Establishment scrutiny.



Wealth and asset management

For wealth and asset managers operating in the Middle East, the conflict may trigger a reassessment of regional allocation, risk premiums, and portfolio construction. The immediate instinct of high-net-worth clients is likely to be a “flight to safety” such as gold, Swiss franc assets, US Treasuries and other traditional safe havens¹⁰.

Short-term implications

- Assets under management for regional wealth platforms may decline as high-net-worth and ultra-high-net-worth clients de-risk portfolios and, in some cases, even seek domicile changes.
- Equity markets in the GCC may experience heightened volatility, with sector rotations away from tourism and real estate towards energy, defense and utilities¹¹.
- Regional fund managers with concentrated exposures to conflict-affected markets such as Lebanon, may face losses and potential scrutiny on valuations.
- Institutions may face volatile taxable profits, heightened compliance costs, and increased scrutiny around cross-border arrangements.

Medium-to-long-term implications

- Sovereign wealth funds may be looking to recalibrate their long-term strategic asset allocation, with greater emphasis on geopolitical resilience, diversification away from Hormuz-dependent revenue streams, and investments in defense, technology, and food security.
- ESG-integrated investment frameworks may come under pressure as energy transition timelines are reassessed in the context of supply-side shocks. Managers may need to navigate a tension between pre-conflict net-zero commitments and the short-term reality of elevated fossil fuel prices.
- The conflict may also accelerate the growth of Islamic finance instruments as risk-sharing and Sukuk-based structures gain relevance in the context of geopolitical uncertainty, particularly for reconstruction financing in post-conflict economies¹².
- Acceleration of funds and manager re-domiciliation into alternative, tax-efficient Gulf hubs, may raise questions on substance, management-and-control tests, and treaty access.
- Possibility of expansion of ESG and “transition” products focused on reconstruction and energy security, with associated tax reliefs or green-taxonomy benefits for qualifying investment vehicles.

Responding to the crisis: Priority actions for Financial Institutions

Against this backdrop, financial institutions must move from reactive risk mitigation to proactive resilience-building. The following actions should be prioritized in the near and medium term.



Immediate priorities (0–6 months)

- Stress-test portfolios against multiple geopolitical scenarios, including a sustained Hormuz closure, an oil price spike, and a credit downgrade.
- Activate crisis management and business continuity protocols, with particular focus on correspondent banking contingencies, digital capabilities, and staff safety in affected locations.
- Establish war-risk monitoring functions that feed directly into credit, treasury and underwriting decision-making, drawing on real-time intelligence from geopolitical risk providers.
- Prioritize scenario planning around profit volatility, review substance arrangements to mitigate PE and transfer pricing risks.
- Engage proactively with regulators (central banks, financial supervisory authorities), to align on any temporary regulatory accommodations and to understand supervisory expectations.



Medium-term strategic responses (6–24 months)

- Recalibrate regional credit risk models and pricing frameworks to embed geopolitical risk as a permanent, structured input rather than a temporary overlay.
- Invest in digital, data & AI, cyber, and cloud infrastructure that enables service continuity regardless of physical disruption while also helping to keep costs down. Companies with resilient digital architecture will be able to demonstrate a measurable competitive advantage.
- Explore strategic partnerships and M&A within the GCC banking and insurance players, as international competitors may reduce their footprints. This is the time when regional champions have the opportunity to expand.
- Engage clients on portfolio resilience and long-term wealth preservation, repositioning the advisory relationship as a source of strategic advantage in uncertain times.

How Deloitte Middle East can help

Deloitte Middle East's Financial Services practice brings together deep sector expertise and network of experts across strategy, risk, regulation, tax, technology, data & AI, and M&A advisory. We are uniquely positioned to support financial institutions navigating this environment across several dimensions:



Geopolitical Risk and Scenario Planning

We work with executive teams to develop data driven, robust, multi-scenario geopolitical risk frameworks translating macro-level conflict dynamics into client-specific financial exposure and strategic analysis.



Regulatory Advisory

Our regulatory Subject Matter Experts (SMEs) support institutions in engaging with supervisory authorities, navigating evolving capital provisioning & stress-testing requirements under conditions of heightened uncertainty strengthening sanctions compliance and financial crime frameworks.



Credit Risk and Impairment Assessment

Deloitte teams provide independent portfolio reviews, sector-specific credit risk modelling, and IFRS 9 impairment assessments calibrated to conflict-affected exposures across banking, insurance, and asset management.



Digital, Cyber and Operational Resilience in conjunction with Cost Optimization

Our technology, data & AI, and cyber teams support financial institutions in strengthening digital infrastructure, securing scalable architecture, and implementing business continuity frameworks that reflect the operational realities of a conflict environment as well as optimizing infrastructure and service delivery costs.



Wealth Strategy and M&A

We advise sovereign wealth funds, family offices and wealth & asset managers on M&A, succession planning, governance, and ESG framework recalibration.



Islamic Banking

Deloitte supports Islamic banks, regulators, and conventional banks with Islamic windows by delivering expert advisory on Sharia-compliant liquidity frameworks, strategic sukuk market development, and integrated governance solutions that balance Sharia principles with regulatory resilience.



Tax Advisory

Our tax experts provide comprehensive advice, linking possible scenarios planning to short- and long-term tax implications.



Post-Conflict Recovery

Deloitte has deep experience in post-conflict economic reconstruction, including financial sector reform, and public-private partnership advisory.



Further Information

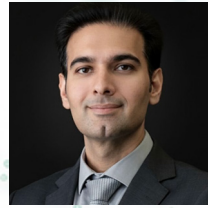
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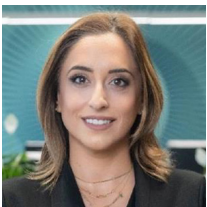
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