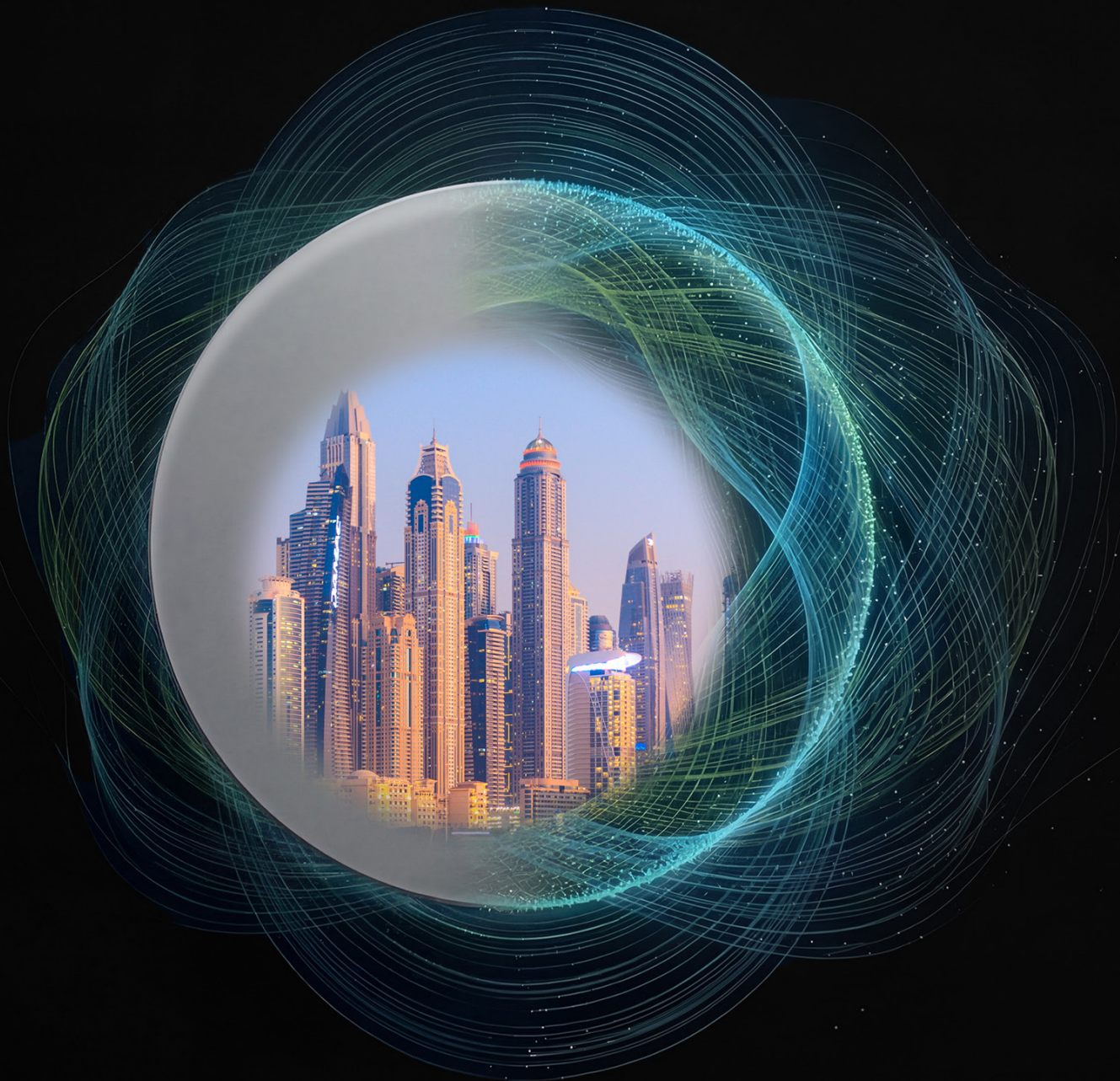


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From risk to repricing:  
The next phase of the GCC  
insurance cycle  
Resilience Redefined

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مئة عام  
Years in the Middle East

# How geopolitical shock may reshape motor and medical insurance in the region



## Executive summary

The current geopolitical situation represents a notable disruption for the Middle East, but its implications for insurers in the region are unlikely to be driven by direct exposure to war-related losses in core retail lines. Instead, its impact will be felt through second-order economic, demographic, and inflationary effects that are already beginning to reshape the insurance cycle.

In the near term, insurers may experience a counterintuitive improvement in underwriting performance. Reduced mobility, softer economic activity, and potential outward population flows are likely to suppress claim frequency in motor portfolios and moderate utilization in medical insurance, creating a temporary uplift in loss ratios.

This improvement is unlikely to persist. As the economic effects of the conflict deepen, insurers are expected to face a gradual erosion in premium volumes, particularly in employer-driven medical segments and motor portfolios linked to workforce and consumption trends.

Over the longer term, inflation is expected to become the dominant force. Post-COVID experience has shown how supply chain disruption, labor cost increases, and healthcare inflation can materially increase claims severity across both lines of business. This will expose structural pricing gaps and place sustained pressure on margins.

For insurers and regulators alike, the emerging environment requires a shift in focus: going from managing immediate disruption to anticipating and responding to a new phase of the insurance cycle. The current improvement in performance should not be mistaken for structural strength. Instead, it may represent a temporary inflection point before inflation, volume pressures, and capital dynamics drive a broader repricing of risk across the market.





## From direct risk to indirect impact

Geopolitical conflicts have historically had limited direct impact on core retail insurance lines such as motor and medical insurance in the GCC. However, their indirect effects - transmitted through economic conditions, demographic shifts, and cost inflation - are often far more consequential for insurers' financial performance.

In the UAE and Saudi Arabia, where motor and health insurance together account for most non-life premiums, these indirect channels are particularly important. Slower economic growth, reduced business confidence, and shifts in expatriate workforce dynamics can materially affect both exposure levels and demand for insurance. At the same time, supply chain disruption and inflationary pressure are expected to influence claims costs, while heightened financial market volatility affects investment performance.

Crucially, these effects do not emerge simultaneously. Instead, they unfold in phases, creating a risk of false profitability, where short-term improvements in loss ratios mask underlying deterioration in exposure and future claims costs.

Given the uncertainty surrounding the trajectory of the conflict, a scenario-based perspective is essential. A short, contained disruption may result in only temporary effects, with a brief improvement in underwriting performance followed by a return to pre-conflict trends. A more prolonged period of regional tension is likely to create sustained economic drag, gradually weakening premium growth while increasing cost pressures. In a more severe escalation scenario, broader disruption to supply chains, inflation, and financial markets could place simultaneous pressure on underwriting margins, investment income, and capital positions.

Across all scenarios, the direction of travel is consistent. The next phase of the GCC insurance cycle will not be triggered by direct losses from conflict, but by the industry's delayed response to inflation and shifting exposure dynamics.



## From short-term relief to structural pressure

In the immediate aftermath of a geopolitical shock, insurance performance can move in counterintuitive ways. In both the UAE and Saudi Arabia, the near-term impact of the Iran war is likely to be characterized by a temporary improvement in underwriting outcomes.

In motor insurance, reduced mobility and softer economic activity typically translate into lower claim frequency. Similar patterns were observed during the COVID-19 period, when many markets experienced double-digit reductions in motor claims during periods of restricted movement.

In medical insurance, elective procedures are often deferred during periods of uncertainty, while outward population flows (particularly among expatriate workers) can reduce the insured base.

Together, these factors can suppress utilization and create a short-term improvement in loss ratios.

This creates a risk of misinterpretation. Improved underwriting performance may be perceived as a sign of resilience, when in reality, it reflects temporary reductions in exposure and utilization rather than structural strength.

As the economic effects of the conflict deepen, pressure on premium volumes is likely to emerge. In the UAE, where medical insurance is closely tied to employment, slower workforce growth can directly reduce policy volumes. In Saudi Arabia, while mandatory health coverage provides some resilience, demand remains sensitive to employer dynamics and broader economic conditions. Motor portfolios in both markets are similarly exposed to vehicle sales, fleet growth, and consumption trends.

This environment creates a structural risk: insurers that prioritize volume retention over pricing discipline may lock in underpriced risk just as claims inflation begins to accelerate. Over the medium term, this tension between growth and discipline is likely to delay necessary pricing adjustments, especially in competitive segments, setting the stage for margin pressure.



## Inflation, claims severity, and the repricing imperative

It is in the longer term that the most significant impact is likely to emerge. As demonstrated in the post-COVID period, inflation in both motor and medical lines tends to materialize with a lag but can be persistent once established.

In motor insurance, global supply chain disruption has shown how spare parts and repair costs can increase sharply, with some markets experiencing inflation of 15–20% in parts and labor over relatively short periods. Even where claim frequency remains stable, rising severity can materially erode margins. Longer repair times, supply constraints, and volatility in used vehicle prices can further amplify these effects.

Medical insurance is even more structurally exposed to inflationary pressure. Healthcare cost trends in the Middle East have consistently exceeded general inflation, often reaching 8–10% annually. Provider pricing, pharmaceutical costs for imported drugs, and the increasing prevalence of high-cost treatments all contribute to sustained upward pressure on claims.

Unlike motor insurance, where pricing adjustments can be implemented relatively quickly, medical insurance faces structural and regulatory constraints that slow repricing. This increases the risk of sustained margin compression, especially where pricing cycles lag behind cost trends.

Inflation in these lines is not cyclical but cumulative. Delays in repricing do not simply defer impact, they compound it. The result is a widening gap between claims costs and earned premiums, which cannot be absorbed indefinitely without corrective pricing action.

This is the point at which the cycle shifts. What begins as a period of apparent resilience transitions into one of structural pressure, ultimately requiring repricing across both motor and medical portfolios.



## Capital, credit risk, and consolidation dynamics

Beyond underwriting, the evolving environment is expected to place increasing pressure on insurers' balance sheets.

In the near term, financial market volatility may impact investment portfolios, specifically through unrealized losses on fixed income and equity holdings. Over time, however, higher interest rates - elevated across the GCC since 2022 - are likely to support improved investment yields as portfolios are reinvested. This creates a familiar tension between short-term volatility and longer-term income benefits.

A secondary but important consideration is credit risk. While retail lines such as motor and medical carry limited direct credit exposure, insurers in both the UAE and Saudi Arabia often maintain exposures to corporate counterparties through premium receivables, reinsurance recoverables, and investment assets. In a prolonged downturn scenario, deterioration in corporate credit quality could lead to increased counterparty risk and higher expected credit losses. While unlikely to be a primary driver of performance, this risk is asymmetric and may become material in downside scenarios.

At the same time, the current environment is likely to delay momentum in merger and acquisition activity. Uncertainty, valuation gaps, and capital preservation priorities may lead insurers to defer transactions. However, the structural drivers of consolidation remain intact. In Saudi Arabia in particular, the market remains relatively fragmented, and sustained margin pressure may accelerate consolidation once conditions stabilize.





## Strategic imperatives for insurers and regulators

Against this backdrop, insurers and regulators face a critical inflection point.

For insurers, the priority is clear: Act before the full impact of inflation is realized. This requires strengthening pricing discipline, reassessing reserving assumptions, and actively managing exposure to claims inflation across both motor and medical portfolios. Insurers that delay action risk entering the next phase of the cycle with structurally inadequate pricing, weakened margins, and reduced strategic flexibility.

For regulators, the challenge lies in balancing market stability with the need for pricing adequacy. Ensuring that insurers can respond to inflationary pressures, while also maintaining solvency and protecting policyholders, will be critical to sustaining long-term market resilience.

The next phase of the GCC insurance cycle will not be defined by direct exposure to conflict, but by the industry's ability to anticipate and respond to repricing pressures. Those that act early will be best positioned to navigate the transition from temporary resilience to structural change. They will emerge stronger in a more demanding operating environment.

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