Insurers likely to ditch legacy systems for the cloud

Challenges and opportunities abound in MENA for (re)insurers and the solution may lie in innovation and digitalisation, says **Chedid Re**'s **Mr Joe Asmar**.

The MENA (re)insurance market has shown strong resilience in dealing with a challenging global economy, geopolitical instability and the pandemic. The region has maintained strong direct insurance market growth despite a low insurance penetration. Life and non-life premiums, as well as assets, are relatively low.

Factors constraining the development of the industry include the absence of mandatory insurance in major areas, the predominant presence of the government in some countries, gaps in regulation and supervision, lack of suitably skilled people and the absence of products conforming with cultural and religious preferences, especially for life insurance.

Globally, demanding customers, new competitors and a changing set of challenges are transforming the insurance industry. Carriers in the MENA region have started to deploy digitalisation in their operations but with the disruption from COVID-19, timelines for adoption have significantly accelerated.

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Shift to the cloud

Carriers in MENA are likely to move more to the cloud as they will continue to modernise legacy systems. Cloud computing will become an integral part of their technology environment and business platform strategies.

MENA insurers are looking at developing applications virtually as a faster alternative to 'on premises' deployments. Evolving technologies such as telematics monitoring, cognitive applications and advanced analytics require newer technology capabilities that are scalable and flexible. This is due to the amount of data generated and the processing power needed to leverage it. MENA insurers can gain a competitive advantage by drawing timely insights from data in a cost-effective manner. When replacing onsite legacy systems, carriers will migrate to the cloud and potentially add new functionality such as AI or deploy new applications.

Changing employee demographics

Insurers must adjust to a more flexible and virtual workforce. They need to adapt and invest in new capabilities to attract younger and more tech-savvy individuals into the industry. There is a need to train employees with institutional knowledge and industry experience to mentor new employees.

Carriers have been slow with innovative product development. Yet there is a need for better products because of rapid, fundamental changes in society, the economy and technology. These disruptions are prompting demand for mixed coverages encompassing malpractice, product, auto, liabilities, cyber and for new product lines.

The players in MENA will have to modernise and personalise policies with swifter rollouts and employ better data tracking and analysis. Consumers want more control over their specific coverage.

(Re)insurers should consider accelerating product development by backing InsurTechs that offer new, more relevant coverages, capabilities and platforms, relieved from the usual policy categories or annual commitments. Personal lines, life, homeowners, auto and small to middle commercial markets are lines to be developed.

Players need to be agile and take advantage of new technologies, data sets, design services and solutions. The transformation of operating platforms will be achieved through collaborative initiatives and ecosystems.

Cyber insurance market needs to mature

The initial expectation was that cyber insurance as a new line of business would contribute to high organic growth in MENA. Cyber insurance did not meet expectations and it remains a niche market that needs to mature. Players will continue writing cyber risks with extreme caution because of the difficult challenges in modelling along with the threat of cyber attacks. Carriers should continue to refine cyber coverages by working on underwriting and pricing. They must work to make coverage explicit through clear revisions of the policy wording, terms, conditions and respective endorsements.

Takaful has been sluggish in the region. The underperformance is related mainly to products and services with no genuine differentiation. It does not fulfil the criteria for mutuality given the conflicting interests of policyholders and shareholders. This lack of a unique selling point has forced many takaful companies to engage in fierce price competition. Innovative products and services should be developed to meet expectations and attract new clients.

M&A activities continue to persist in the region. Many companies are sourcing potential opportunities for growth, distribution, product mix, modernisation, economies of scale as well as geographical diversification. They must consider InsurTech investments that have a more innovative culture and approach. More InsurTechs are expected to come to the market as private equity and venture capital investors seek to liquidate maturing InsurTechs investments and as InsurTechs look to consolidate.

Readiness for IFRS17

Another consideration for (re)insurers is the broadening of local regulatory requirements. These requirements relate to market conduct oversight, compliance, capital adequacy, staff and product approval. Players will have to invest more to meet regulatory requirements in addition to recruiting dedicated staff and investing in new clearance systems.

Significant changes to insurance accounting are expected with IFRS17, designed to enable consistent, principles-based accounting for insurance contracts. The new standard requires insurance liabilities to be measured at the current fulfilment value. It provides a more uniform measurement and presentation approach for all insurance contracts. (Re)insurers need to comply fully with these changes and review the suitability of their information systems. They must ensure their staff are trained to fulfil the requirements.

There are many challenges for the insurance sector as well as opportunities to improve the competitive position, continuity and profitability of the various carriers. (Re)insurers need to deal with the challenges of technology, mergers and acquisitions, talent and product development. The most important factor is the level of commitment of each carrier and its ability to adapt quickly to the rapidly changing economy and society.

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