

Improving political violence insurance penetration in the Middle East



Beirut: even in the more developed Middle Eastern markets such as Lebanon, political violence insurance remains very under-used
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Technology offers underwriters the chance to tap into a largely undeveloped market



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Re/insurance penetration across the Middle East remains markedly lower than other regions. Even in the more developed markets such as Lebanon, it remains in the low single digits with political violence penetration also very weak.

As terrorism and political violence rates continue to fall in the more established markets such as the US and Europe, more and more carriers have turned to the Middle East as a source of new premium. So why are penetration rates barely moving? And why is political violence re/insurance among the region's small to medium-sized enterprises (SMEs), which in many countries such as Egypt and Bahrain contribute to the majority of their GDP, almost non-existent?

There are a myriad of reasons why small businesses across the world are yet to purchase political

violence cover: some of these enterprises are unaware they do not have the cover within their buildings insurance and others do not see themselves to be particularly at risk. This is despite past events showing us unrest can quickly escalate, with the smallest of businesses often suffering the most. Perhaps the most prominent reason why many businesses do not purchase cover, like most things, comes down to cost. The products available are often too expensive for the vast majority of SMEs.

Labour-intensive business

Terrorism and political violence re/insurance is a labour-intensive class of business to transact. The same level of research into a risk is required whether it is a major corporate HQ or a small family-run restaurant; disciplined underwriting, aggregation control and compliance is still required, not to mention the acquisition costs associated with bringing a risk to the Lloyd's market. These operational costs that govern the rates result in minimum premium re-

quirements often disproportionate to that which an SME business can afford to spend.

Even for a region with the political instability and volatility such as the Middle East has experienced, the penetration of the product among smaller businesses is still extremely low and the main issue preventing this steady trickle of SME enquiries from becoming a flood is the price.

For most re/insurers, SMEs do not represent a particularly attractive segment to target. It takes both Lloyd's underwriters and brokers too much time for too little premium. Yet the expertise in this class means they are best placed to offer this product providing the process can be made more efficient while retaining the levels of underwriting discipline, management information and due diligence that underpin each policy. These high operational costs remove any margin in the smaller accounts, meaning industry focus has remained on the higher-profile, high-paying insureds. This is the same pool of

clients for which most re/insurers and brokers compete on year on year, leaving a significant tranche of these economies unnoticed.

By working with local carriers to enhance their understanding of their exposures, mapping blast zones and improving understanding and awareness of the threat, Lloyd's can become the market of choice for SMEs across the region but only if we reduce costs. A more cost-effective product for SME businesses that can be transacted quickly and efficiently can make political violence cover accessible to smaller enterprises across the Middle East. This will open up a largely untapped market and provide cover which is arguably growing ever-more important. Technology can help underwriters achieve this.

Online platforms

In Europe and North America, the difficulties of transacting high-volume, low-premium terrorism and political violence business is being addressed by a growing number of online quote-to-bind

platforms: risk details are reviewed, aggregation modelling run, pricing and documentation generated, all automatically. However, there is not yet a platform fit for purpose for addressing exposures emanating in the Middle East where the perceived threat level can vary dramatically within a matter of miles and address systems are less standardised, all of which hinders existing systems' ability to accurately automate the aggregation modelling process.

Technology has opened up new markets in other sectors. Increasing political violence insurance penetration among SMEs in the Middle East has, until now, proven impossible due to the time and cost required to transact business. Increases in the sophistication of quote-to-bind technology will arrive and when this happens it will reduce both and in doing so, pave the way to make cover accessible to businesses across the region. ■

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