

The Future of Finance



Embedding Resilience: Opportunities for the Global Insurance Industry



In partnership
with Asia House

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CEO's Message

The global insurance industry plays a crucial role in embedding resilience within the global economy. Insurance is not only critical in protecting investments in key sectors, but also in providing protection against emerging risks, including climate change and cyberattacks. The Los Angeles wildfires at the beginning of 2025 and Dubai floods in 2024, were timely reminders of the increasingly vital role insurance will play in our futures.

There are significant opportunities for insurers and reinsurers as the sector seeks to narrow the large gap between insured and uninsured assets, which risks holding back much needed investment across the world. However, insurers will need to be nimble to harness advances in technology such as AI to stay competitive and remain focused on the changing needs of cost-conscious customers.

Against this backdrop, DIFC is well positioned to broaden and deepen its role as the region's leading insurance hub, with progressive and proportionate rules that welcome financial operators from across the world. Over 125 insurance and reinsurance entities call DIFC their home, with gross written premiums for 2024 surging by 35 per cent to reach a record high of USD 3.5bn. DIFC's proven and stable environment for financial services firms and the UAE's visionary leadership have helped Dubai position itself as a strong base for insurance firms to capitalise on the numerous industry opportunities discussed in this report.

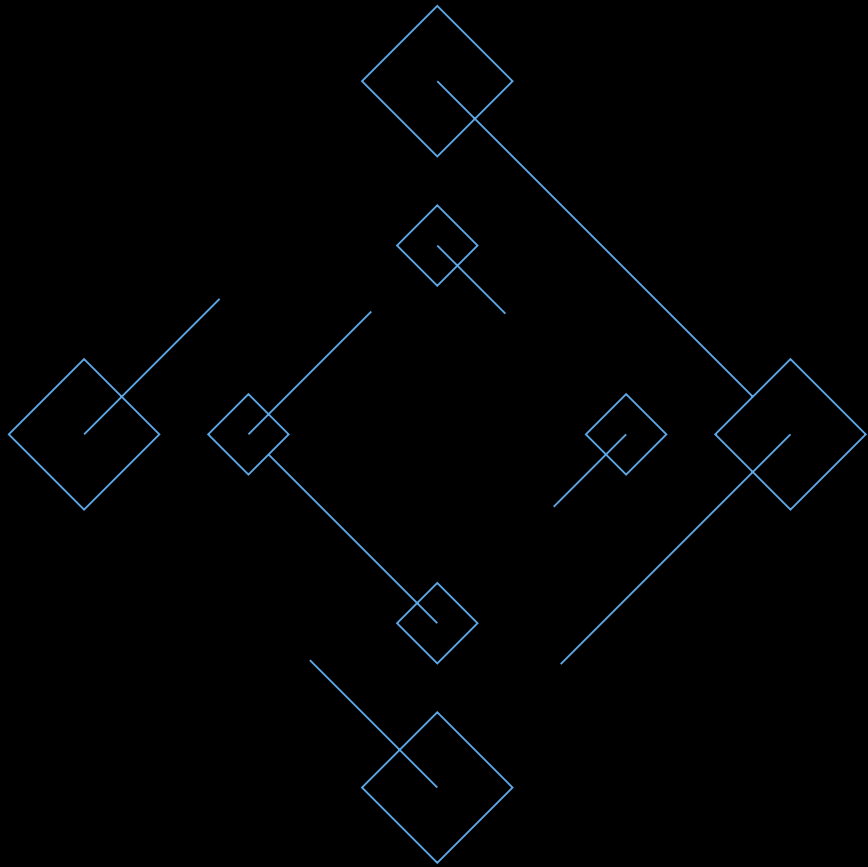
With our research partner, Asia House, we are pleased to share this second report in our Future of Finance series. It is informed by network-based research, a roundtable held at DIFC at the end of 2024 bringing together senior financial services leaders, and interviews with leading organisations such as Lloyd's, Korean Re, and Zurich Insurance.

This report looks in detail at the opportunities and challenges insurers and reinsurers will face in the future, and throws a spotlight on the potential for growth, not just globally, but across the region. Released during the 2025 Dubai World Insurance Congress (DWIC), this report is the latest episode in DIFC's commitment to supporting the global insurance sector as it navigates a complex and evolving landscape. We invite you to explore and consider this report's findings and insights, and look forward to hearing your thoughts on how we can help the sector continue to thrive and grow for years to come.

Arif Amiri
Chief Executive Officer
DIFC Authority



Executive summary



The USD 8trn global insurance industry is growing, spurred on by strong demand for its capacity to make economies and businesses more resilient to extreme weather events and cyberattacks, both of which are growing in frequency and severity. This boom is echoed in the Middle East, where the sector has been buoyed by a need for insurance to safeguard capital flows into the region's growing construction and energy mega-projects.

Across the globe, insurers are being tested by the very trends that are stimulating the sector's growth: the impact of climate change – both on their customers and on themselves – and ever more sophisticated and frequent cyber-attacks on companies. These twin trends together pose large and increasing risks to global economic resilience. However, because they are largely uninsured for cost reasons, they also represent an opportunity for the sector, including in providing resilience and advisory services to help companies transition to a net-zero economy and manage cyber risks.

Industry is now calling on governments to help it plug these protection gaps by broadening the availability of affordable insurance, critical for encouraging investment to drive economic growth.

Global demographic changes are also uncovering opportunities for the industry. For example, greying populations will create

opportunities for insurers in health and retirement products. The industry should also adapt to generational change. The next generation of young people may be entirely different consumers, leading to changes in insurance products required.

The Middle East insurance sector is thriving and well-positioned to continue expanding on the back of heavy regional investment in mega tourism, retail and infrastructure projects aimed at diversifying economies away from fossil fuel production. Dubai, for example, was ranked first globally for greenfield foreign direct investment (FDI) projects in tourism in the first half of 2024. Middle East consumers' awareness and uptake of insurance products is also growing.

In part due to a favourable regulatory environment, Dubai International Financial Centre (DIFC) is attracting more captive insurers, InsurTechs, and building on its role as a global hub for managing general agents (MGAs). More MGAs will strengthen the local insurance market, increase choice of products, and widen the use of insurance. The 2024 Dubai floods were a stark reminder that, just as in the rest of the world, more frequent extreme weather events in the Gulf will bring both new challenges and opportunities for the local insurance industry to adapt and innovate.

Insurers are exploring how artificial intelligence (AI) can streamline claims processing, customisation and distribution of products and services. InsurTechs, once seen as a potential competitor, are shifting to collaboration with incumbents to mitigate regulatory and investment costs. Web3 and crypto assets, meanwhile, offer insurance growth opportunities as decentralised finance emerges as a key global finance trend.

Insurers must contend with new regulations. Along with stricter capital and data privacy rules, they must meet demands for greater balance sheet transparency under new accounting requirements. While this is creating pressure to become more efficient at managing costs, it is also strengthening public trust in the sector, which is helping to attract investment.

Key findings

Insuring against the impact of climate change is becoming more costly and is prompting insurers in some disaster-prone locations, such as Florida and California, to stop offering cover.

The cost of mitigating cyberattacks and disruptive IT outages continues to mount as cybercrime becomes more widespread, but the risk this poses to companies and supply chains is largely uninsured due to cost, undermining global economic resilience.

The global insurance industry is increasingly pressuring governments across the world to play a role in plugging significant protection gaps in climate change and cyber risk insurance.

The Gulf insurance and reinsurance sector is primed for growth with a strong pipeline of mega-projects in tourism, retail, infrastructure and green energy.

Globally, the industry is still working out how best to exploit the benefits of AI and scale up existing applications. But the benefits of doing so are potentially huge. AI could allow insurers to tailor products to make them more attractive, in turn plugging gaps in coverage, and to improve the accuracy of underwriting, underpinning profitability and keeping cover affordable for customers.

Early expectations that InsurTechs would take business away from established insurers and reshape markets have not yet materialised, with regulatory costs and dwindling venture capital cash now forcing them to change tack and focus on supplying technology and teaming up with insurers.

Insurers everywhere face more scrutiny and regulation. While this is adding costs, it is also improving investor and consumer confidence in the sector.



Opportunities for insurers and reinsurers

Gulf mega-projects will create a large pipeline for insurance coverage. For example, the UAE's *Tourism Strategy 2031* aims to attract USD 27bn in investments by 2031, with ongoing and planned construction projects totalling USD 772bn.

The transition to net-zero economies and related clean energy projects in the Gulf and elsewhere will create growth opportunities for insurers over the next few decades.

The build-up of local reinsurance capacity in the UAE and the Gulf as a whole will strengthen the region's role as a reinsurance hub and improve its relatively low insurance penetration rate.

Partnerships between industry and governments to create backstops, or pools of insurance, would help to make affordable home insurance available in areas at high risk of extreme weather events, thus helping to avoid economic damage to the tax base.

Insurers and reinsurers have opportunities to offer resilience services to help customers better prepare to respond when risks such as extreme weather or cyberattacks materialise.

Parametric insurance, an innovative form of coverage with pre-agreed terms that pays out quickly following pre-set trigger events (e.g. hurricanes or floods), will supplement, but not replace, traditional insurance coverage.

This will improve affordability and help close protection gaps in climate- and cyber-related insurance.

Captive, or in-house insurance arms at companies, will continue growing in regions such as the Gulf, particularly in relation to large property investments. The Middle East's insurance sector could benefit as captives based elsewhere relocate them to the Gulf to take advantage of DIFC's captive-friendly regulations.

Managing general agents (MGAs) provide international insurers and reinsurers with growth opportunities in underserved or less mature markets, and remain a key growth area in the Gulf.

Demographic changes, including people living longer will create growth opportunities for insurers, particularly in retirement savings and pensions.

Greater use of AI offers insurers further ways to cut the cost of distributing products and to tailor products to the needs of individual customers.

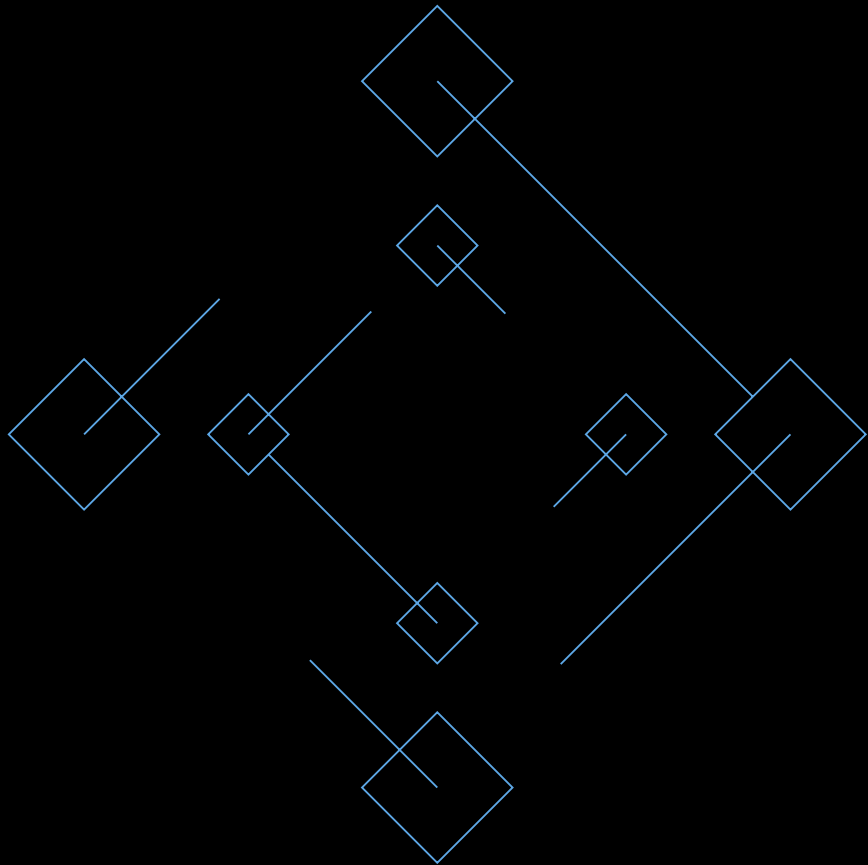
New types of insurance products will be needed for electric vehicles (EVs) and self-drive autos, but insurers will need to be nimble to compete as automakers in China enter the EV car insurance market to help drive sales and capture market share. This trend could

happen in other geographies.

InsurTechs can offset a decline in venture capital funding by shifting to a more collaborative strategy with incumbent insurers, becoming a provider of technology rather than seeking to compete in the consumer sector. InsurTechs could face competition from more generic tech companies eyeing the space unless they move quickly.

Takaful insurance – a form of coverage based on Sharia Law – presents a growth opportunity in parts of the Gulf, where more traditional insurers are offering it in parallel with existing products. This offers a cheaper alternative to setting up new, standalone takaful insurers that require fresh capital.

Introduction



The future of insurance is one of expansion. The industry is working to bolster the ability of customers to withstand extreme weather events, recover faster from cyberattacks and meet net-zero carbon targets. Technology will play a key role in meeting this requirement. At the same time, the Gulf's insurance sector is primed for growth on the back of a strong pipeline of mega-projects. Demographics will also impact the future of insurance. Fewer childbirths and an ageing population that is living longer, will increase demand for retirement, savings and health insurance products. Simultaneously, the growing number of digital natives and their changing consumer habits will mean the global insurance industry will have to be nimble to respond to evolving preferences.

This report explores these trends in greater detail to highlight opportunities for the global and Gulf insurance industry, and to outline ways the sector is already positioning itself to embed more resilience in the global economy.

The global insurance industry is set for above-trend growth, with premiums forecast to rise 2.6 per cent on average in real terms in 2025 and 2026.¹

But insurers will be forced to navigate an uncertain economic landscape and a potential string of short-term shocks, including conflict, extreme weather events, cyber warfare and social and political

polarisation. These challenges will make it harder for them to manage net-zero transitions and mitigate rising cybercrime – both of which are critical for underpinning long-term investment, growth and resilience. This report will take a detailed look at how insurers are responding to extreme weather events and cyberattacks in particular.

Currently only large businesses can afford cyber risk insurance, with many small and medium-sized enterprises (SMEs) poorly covered or uninsured due to high costs. Some insurers are withdrawing from flood and wildfire blackspots altogether due to the rising cost of covering losses, leading to industry calls for governments globally to play a bigger role in plugging protection gaps in climate change and cyber risk coverage.

In terms of technology, the report examines the growing role of generative AI and how InsurTechs are pivoting towards collaborating, rather than competing, with mainstream insurers, leaving them vulnerable to competition from more generic tech companies. It also looks at how the insurance sector is dealing with tighter regulation, scrutiny and accounting requirements, adding to operational costs that can create barriers to entry for potential new competitors.

Zooming in on the Middle East, the report explores how DIFC is helping to cement Dubai's role as an insurance hub via

innovative regulations designed to attract more captive insurers and managing general agents (MGAs). Gross written premiums (GWP) underwritten out of DIFC reached USD 3.5bn in 2024, up 35 per cent from USD 2.6bn in 2023. Insurance for Web3 and crypto assets is another growth opportunity that the emirate is already supporting by offering legal certainty to underpin investment.

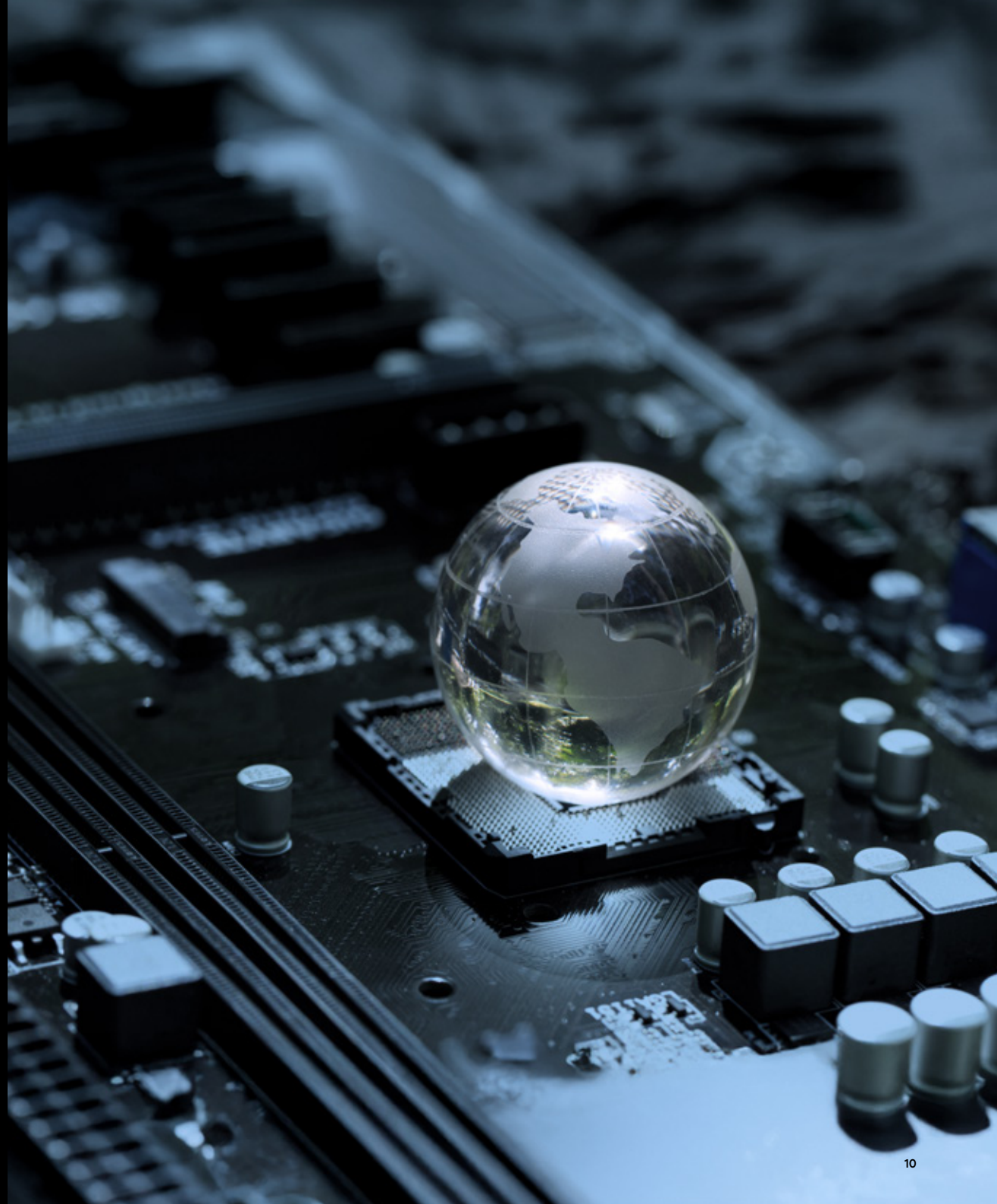
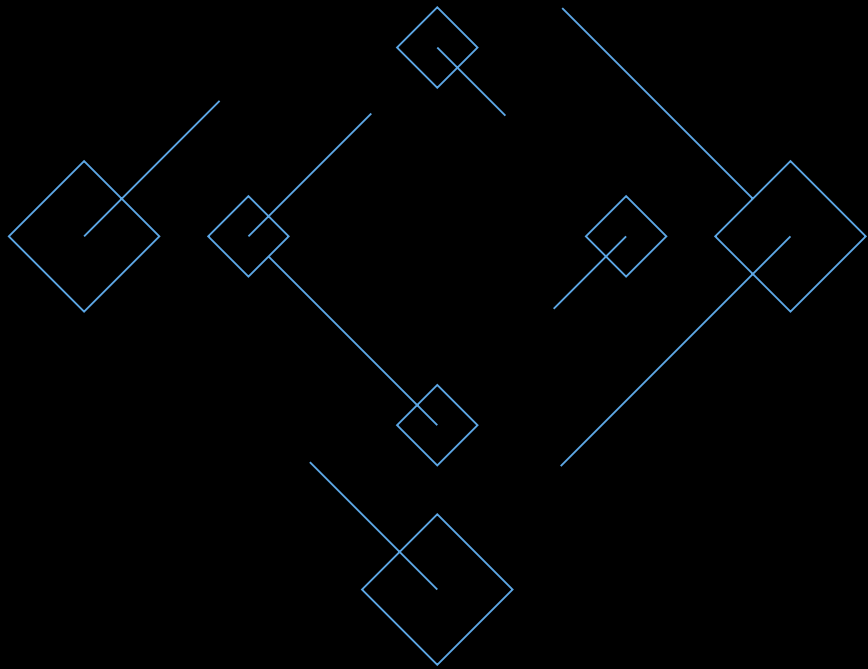
The World Economic Forum forecasts that the "silver" population – those aged 65 and over – will double by 2050 to 1.6 billion or 16 per cent of the global population. This segment promises growth opportunities in health insurance and retirement plans already seen in regions such as the Gulf.²

Insurers that move fast to offer better and more affordable products will reap rewards by attracting some of the cost-conscious small businesses in the UK, the US and elsewhere that are ditching expensive insurance, and bigger companies that are considering in-house insurance arms as a potential way of making savings.

This is the second report in the Future of Finance series. Its findings are informed by a private, in-person roundtable held at DIFC in November 2024. Attended by 24 senior finance and business leaders, the roundtable offered a forum for candid discussions about the opportunities and challenges shaping the future of finance. While these discussions

were of inestimable value, no comments from the roundtable are attributed to any individual or organisation. Insights from the roundtable have been augmented by network- and desk-based research, along with interviews with industry experts, among them **Andy Woodward**, Regional Head Middle East & Turkey, Lloyd's, **Peter Englund**, Senior Executive Officer – Middle East, Zurich Insurance, **Jeongwan Oh**, SEO – DIFC Branch of Korean Re.

1. Climate change and cyber risk: Two big growth opportunities



1.1 Plugging global protection gaps

Climate change and cyber risk are largely uninsured in many parts of the world, creating wide protection gaps that offer potentially large growth opportunities for insurers and reinsurers. Better coverage would also encourage more investment in property and other assets to increase growth.³ PwC expects the total global insurance protection gap – the difference between actual and insured losses across all types of risks – to widen at an accelerating pace to USD 1.86trn in 2025, up from USD 1.4trn in 2020,⁴ with almost half of the total in the less-insured Asia-Pacific region.

This coverage gap is putting pressure on insurers to do more to improve customer resilience and help tackle economic and social inequality by making insurance more affordable. McKinsey notes that bridging protection gaps will require more creative approaches, such as offering more customised products.⁵

Insurers' penetration of economies – the volume of premiums as a percentage of GDP – varies widely across the world. There are significant growth opportunities in populous countries such as China, as well as regions such as the Gulf that currently account for only a modest portion of the global insurance market. According to the International Association of Insurance Supervisors (IAIS), a global regulatory body, the US accounted for 40 per cent of the total premiums in 2024,

followed by China, the world's second-largest economy, at just 7.8 per cent.

Technology will play a role in plugging protection gaps. A deepening push into generative AI, automation and big data analytics will cut distribution costs and allow insurers to create more tailored, attractive products to encourage increased uptake. While insurance is a traditionally slow-moving industry, the COVID-19 pandemic forced an accelerated response to a changing market. InsurTechs or start-ups that use AI and data to provide insurance products and services have also put pressure on incumbents to adapt, although they have not proved as disruptive a force as expected. Instead, InsurTechs are increasingly turning to helping incumbent insurers become more efficient in their products and services, again contributing to wider availability of coverage.



1.2 The climate change protection gap widens at pace

Climate change poses challenges to the global economy as extreme weather events become more unpredictable, frequent and costly. Rising coverage costs have made insurance unaffordable – or in some cases unobtainable – in regions prone to climate-related disasters. The challenge is significant, but there are solutions to close the protection gap, including public-private partnerships, and better preparation by companies and households to reduce losses.

The 2025 Los Angeles wildfires destroyed more than 16,000 buildings in one of the US' most expensive property markets. The disaster was the latest in a string of ever more extreme climate-linked catastrophes and yet another sign that the insurance sector must evolve to retain customers. AccuWeather has predicted total damage and economic losses of USD 250bn to USD 275bn, though actual losses covered by insurance will be lower, estimated at about USD 75bn by the University of California LA.⁶

Insurers had already begun refusing to provide property cover in US wildfire zones. Consumers in California and Florida, states more prone to natural disasters and extreme weather, have seen home insurance premiums rise by more than 31 per cent since 2019, according to McKinsey. This is putting heavy pressure on policy affordability, a trend also seen in Australia. In the US, Federal Reserve Chairman Jerome Powell

told Congress in February 2025 that a growing protection crisis in the insurance industry may make it more difficult for people to obtain mortgages in coming decades as banks and insurers pull out of coastal and fire-prone regions.⁷ Without affordable insurance for households and real estate, developers could shy away from investing in new housing and retail projects.

Extreme weather events in the Gulf could also increase future reinsurance costs.⁸ Floods in March and April 2024 that followed a 48-hour downpour equivalent to twice the yearly average rainfall left parts of Dubai under water. The market loss was estimated at USD 2bn to USD 4bn, with the impact on local insurers manageable largely because of the relatively low insurance coverage penetration.⁹

Gallagher Re says that worldwide insured losses from natural disasters reached USD 154bn in 2024, well above the 10-year average of USD 121bn. According to McKinsey, the global protection gap for natural catastrophes grew to USD 262bn in 2023, up from USD 181bn the year before.¹⁰

Some insurers and reinsurers are seeking opportunities to offer resilience services and insurance products designed to help customers plan for and respond faster to extreme weather events. Partnerships between government and commercial



insurers to offer backstops or build up pools of insurance are potential solutions already being pursued in countries such as the US and the UK to avoid insurance blackspots due to floods.

However, such schemes are unlikely to be enough on their own. Global policymakers are seeking more comprehensive solutions that do not burden government coffers or taxpayers at a time when many countries are grappling with big public deficits, higher interest rates and lingering inflation.

Greater investment in risk reduction and adaptation is one option for plugging insurance gaps, with the Organisation for Economic Co-operation and Development (OECD) suggesting enforcing stricter rules for fire-resistant materials and enhancing data-sharing between insurers and public agencies on wildfire risks, with lower premiums, for example, offered to properties with fire-resistant features.

Asia presents a climate insurance growth opportunity. The Asian Development Bank says that APAC, which accounts for 60 per cent of global greenhouse gas emissions, urgently needs to close the climate-related insurance gap with solutions such as green bonds to reduce carbon emissions, parametric insurance, and public-private partnerships.¹¹ Public-private partnerships could also become essential in the Middle East to create pools of

insurance to cover natural disasters and plug the protection gap, according to Mario Nahas, Senior Executive Officer, MNK Re DIFC.¹²

The European Central Bank has said only a quarter of losses from extreme weather and climate events are currently covered by insurance in the European Union (EU). The European Insurance and Occupational Pensions Authority (EIOPA), the EU's insurance regulator, has already required insurers to hold more capital to cover natural disaster risks and is urging the EU to fund a public-private partnership to provide reinsurance for natural catastrophe risks.¹³



1.3 Cybersecurity and technological disruption

Cyber hacks and outages have become an altogether too common reality for companies, often resulting in expensive economic disruption, anxiety and damage to brands.¹⁴ This section looks at how varying global protection gaps present large growth opportunities for cyber insurance, and how the emergence of parametric insurance could offer one solution to counter the rising cost of such coverage.

The global cost of cybercrime is projected to reach nearly USD 24trn by 2027, up from USD 8trn in 2022, according to Marsh McLennan and Zurich Insurance.¹⁵ Reinsurer Munich Re said the value of the global cyber insurance market reached USD 14bn in 2023, and is forecast to grow to nearly USD 29bn in 2027.

Swiss Re estimates that market premiums for cyber insurance will rise 8 per cent to USD 16.6bn in 2025, with the US accounting for 70 per cent of the total, followed by Europe at 19 per cent and APAC at just 8 per cent. The discrepancies reflect the varying cyber market maturity levels across the world, and highlight the untapped cyber market growth potential in many economies in Europe and APAC, particularly among SMEs.¹⁶

The protection gap for cyber risks is an estimated 90 per cent, indicating significant growth potential as concerns around large systemic cyber losses intensify in the wake of generative AI adoption, attacks on critical

infrastructure and the threat of cyber warfare.¹⁷ Juniper Research has forecast that costs from attacks on software supply chains alone are estimated to grow from USD 46bn in 2023 to USD 60bn in 2025.

Outages at cloud operations can only be insured against up to a certain level of financial loss, while hits to critical infrastructure are generally considered to be uninsurable. Many SMEs are underinsured or uninsured for cyber risks due to the expense, making them vulnerable to lengthy recovery times from outages or cyberattacks at a time when cybercrime is on the increase.

The spread of AI means cyberattacks are likely to become increasingly automated and personalised, though AI can also be used to strengthen defences. There are also concerns that in coming years quantum computing could become powerful enough to break encryption keys that protect data held by companies.

Ransomware will for now continue to be the dominant cybersecurity risk and the principal loss driver for cyber insurance. Chainalysis says that ransomware payments alone reached USD 1.1bn in 2023. Munich Re also expects a sharp increase in compromised business emails and communications.

Attacks on software and hardware supply chains and digital services are likely to



increase in frequency and severity. As with extreme weather events, collaboration between insurers and the public sector could offer solutions for mitigating cybercrime costs that are outpacing the ability of traditional insurance and risk management to fully mitigate.

Cyber insurance largely caters for big companies with deep pockets, while SMEs must often bear cyber risks on their own. Cyber insurance for individuals is also seen as a potential growth market, beyond the current focus on high-net worth individuals. However, barriers exist, including profitability, given that premiums are traditionally lower in the retail end of the market.

Parametric solutions can help cover cyber risks. For example, if a company took out a parametric policy to cover the impact of cloud downtime and there was an outage that exceeded the pre-agreed threshold, it would receive a payout faster than would be possible under the traditional loss adjustment route, helping it recover faster. Payouts under parametric insurance, however, are typically lower than under traditional, more expensive loss-related insurance.

Insurers are already moving into the parametric cyber market, with the first-ever catastrophe bond worth USD 13.75mn issued in April 2024 by Hannover Re to cover major US cloud outages based on parametric

triggers. Parametrix launched parametric cyber insurance for cloud downtime in November last year, underwritten by Lloyd's of London syndicates.



Interview with Andy Woodward, Regional Manager Middle East & Turkey at Lloyd's



Andy started his career in 1983 with General Accident in the UK.

He has been in the insurance business for more than 35 years in a variety of senior technical and business development roles. Having worked in the UK, Japan and the Netherlands Antilles, in 1994 he came to the Middle East region; initially in Saudi Arabia, and subsequently Egypt, Oman and for the last thirteen years the UAE.

Since arriving in the Middle East in 1994, Andy has worked for both multinational (RSA) and local insurance companies in four countries (most recently as Chief Underwriting Officer and then EVP Business Development for Abu Dhabi National Insurance Company), which has given him an in-depth knowledge and understanding of the regional industry and the market.

Andy joined Lloyd's in April 2020, responsible for business development in the region. Based in the Dubai International Financial Centre, Andy is responsible for developing and implementing Lloyd's business and market development strategy across the broader Middle East region as well as managing the operations of the Dubai platform.

He holds an BA in English Literature from King's College London. He is also a Fellow of the Chartered Insurance Institute of the United Kingdom.

→ What are the key trends that will shape the global insurance industry over the next one to three years?

The insurance industry can provide customers with continuity and confidence in times of instability. As we look ahead, it's important to take stock of where we are today, and recognise the significant change brought about by the 2024 agenda.

From widespread elections and persistent conflict in Ukraine and the Middle East to paradigm-shifting evolutions in technology and social engineering used on a scale not seen before. Meanwhile, the climate crisis continues to escalate. It's fair to say the global outlook remains increasingly fractured.

In the coming years, we're keeping a close eye on a few trends that may drive change across the industry:

Geopolitics: It's widely agreed that geopolitical change and ongoing conflict will impact insurers, driving volatility for businesses and global markets.

Technology: Advances in technology, especially AI, will likely influence our industry, as it has many others. From enhanced risk assessment to improved customer service.

Climate: The frequency and severity of climate-related events, such as floods, wildfires, and hurricanes, are expected to rise. Insurers should continue to monitor weather perils carefully and make informed, data-based decisions to support customers.

→ How does the Middle East's insurance market differ from global markets? What is its outlook and what are the growth opportunities for the region's insurance sector?

The Middle East's insurance market has several unique characteristics that differentiate it from global markets. Firstly, the market is relatively young, as are most of the countries in the Middle East.

Insurance initially took off slowly here, but in the last few years we have seen significant growth in both personal and commercial lines right across the region. Governments recognise the vital role insurance plays in diversifying their economies and supporting resilience-building across society.

In most of the Gulf countries, the industry has traditionally been heavily dependent on imported expatriate talent. This is still the case, but much less so as governments across the region look to provide career opportunities for their young and fast-growing populations. The industry recognises both the challenge and opportunity this fundamental change creates.

Young, fast-growing, tech-savvy populations, strong regional economies making huge investments in infrastructure and new technologies are creating exciting growth in the industry. Most are reporting strong double-digit year-on-year growth and this looks set to continue. Reinforcing this is the growth of DIFC in the UAE as a regional financial services hub.

→ **How will AI impact the global insurance industry and key functions within it such as, underwriting, claims management and risk assessment?**

At Lloyd's, we believe that AI will have – and is already having – far-reaching impacts on the industry and its customers. We're seeing AI support new levels of risk understanding and accuracy, supporting enhanced modelling, forecasting capabilities and data analysis and processing. But the impacts and uses of AI continue to evolve all the time, so we approach it with an element of humility.

We're approaching the use of AI across three broad categories:

- Changing how we operate
- Changing how we underwrite
- Changing what we underwrite

Additionally, through our research platform, Lloyd's Futureset, we're also working to understand how GenAI may impact the threat landscape, with a particular focus on the potential impact and use of GenAI from a cyber perspective.

Read our latest report: [Generative AI: Transforming the cyber landscape - Lloyd's](#)

→ **What role are InsurTech companies playing in driving innovation in the industry?**

Lloyd's has an ambitious agenda when it comes to supporting innovation. We do this through our underwriting, but also through global initiatives like the Lloyd's Lab and its InsurTechh accelerator programme.

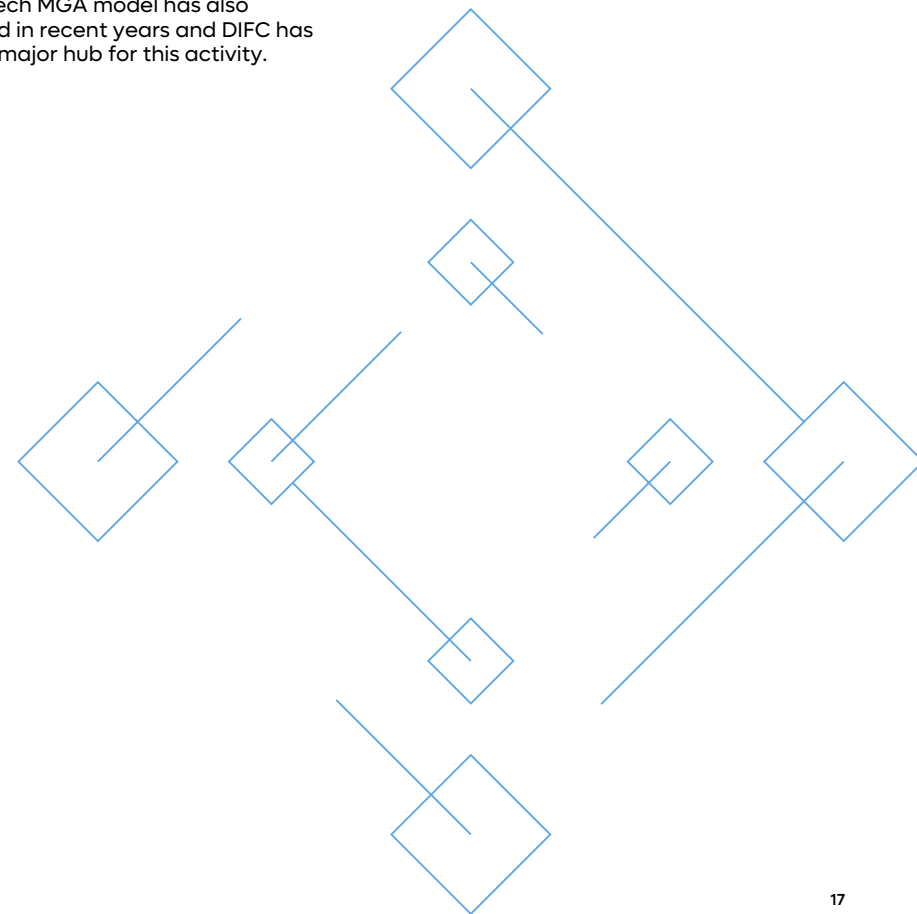
Every six months we receive about 200 applications from new insurance businesses for 10 places to work with the insurers and brokers in the market. Each applicant has the ambition of developing something new to enhance the way that the Lloyd's market does business.

It's a fantastic platform for innovation and our alumni have developed products which address emerging risks, ranging from carbon credits to cyber-attacks to wildfire modelling through satellite imagery.

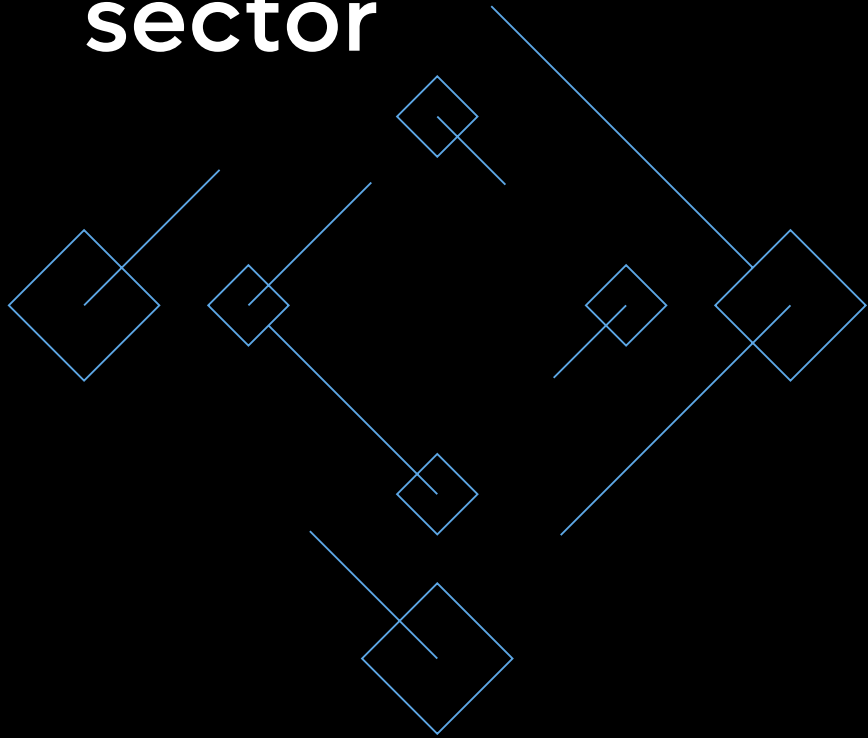
Most of those solutions end up utilising applications like parametric triggers, monitoring technology and AI-based underwriting to speed up and often provide a more evolved service than traditional insurance.

InsurTechs look for gaps in the traditional insurance market and can play a role in creating better products, better processes and in turn, better-protected customers.

The InsurTech MGA model has also proliferated in recent years and DIFC has become a major hub for this activity.



2. The Gulf's expanding insurance and reinsurance sector



Growth opportunities for insurers in the Gulf are plentiful. The largest lie in insuring mega-projects and associated investment across tourism, property and infrastructure in one of the least penetrated insurance markets in the world; in helping companies and households mitigate increasingly frequent extreme weather events; and in auto and health insurance, which are now mandatory in the UAE. The main challenges include the need to enlarge the home-grown reinsurance sector and staying profitable while keeping cover affordable and absorbing the cost of stricter global capital and accounting requirements. This section examines these opportunities and challenges, and explores how the Gulf can be a future driver of growth within global insurance markets.

As governments across the Gulf back major investments in infrastructure, tourism and renewable energy, including solar farms, to diversify their economies, there too will be increased demand for property insurance. Swiss Re also expects the demand for motor insurance to contribute to growth in the Gulf's insurance market.

The Gulf insurance sector overall is seeing large investments from international brokers as well as reinsurers and insurers returning to the market, adding to the significant capacity available. The region's insurance market is poised for growth throughout 2025, aided by digital innovation, regulatory changes and

increasing demand for tailored products, according to Gallagher Re.¹⁸ Gulf economic growth exceeding the global average is also underpinning the insurance sector expansion.

DIFC is already one of the largest insurance hubs in the Middle East, with gross written premiums of nearly USD 3.5bn in 2024. While this is modest compared with centres such as London and New York, it underscores the fact that the Gulf is one of the least penetrated insurance markets in the world and highlights the potential for growth, particularly as the pipeline of mega-projects expands. DIFC has pursued a policy of openness by encouraging a broad range of players to join its ecosystem and make it their regional base, benefiting from English common law. Growth is also fuelled by expansion in the UAE's and DIFC's banking and asset management sector, which is fostering demand for insurance.

Like their counterparts in major global financial centres, insurers in the Gulf have faced stricter regulatory requirements imposed in the wake of the global financial crisis of 2007-09. While the increase in regulatory scrutiny and requirements, such as the introduction of international IFRS 17 accounting rules for insurers (see Section 5.3), has increased the compliance burden on insurers, it has also strengthened market and consumer confidence in the sector, which has helped to attract international capital and retail insurance purchases. Tougher regulation

requiring insurers to hold more capital reserves to withstand market shocks could also prompt takeovers and mergers as firms seek to improve resilience and economies of scale.¹⁹

Climate change is becoming a bigger focus as the frequency of storms, fires and floods increases across the globe. As such catastrophes become more frequent, they may push up reinsurance prices and lead to greater volatility in how insurers perform financially.²⁰

Solutions include encouraging domestic reinsurers to scale up and drive efficiencies to compete better with foreign firms. The new global IFRS 17 accounting standards could help domestic reinsurers attract more capital by offering greater financial transparency and therefore comfort to investors.²¹

Captive or in-house insurance operations are growing in number in the UAE. With specific rules for this market segment being introduced by many countries, including some US states, Bermuda and the Cayman Islands, growth in the size and number of captive insurers in the Gulf looks set to continue. The Dubai Financial Services Authority (DFSA) revised its solvency rules for captives in 2001 to make them more proportionate for their business model and thereby increase Dubai's attractiveness as a base.²²

Captives have become a more viable option for companies as premiums climb, but the competition among jurisdictions to attract captives is increasing, with UK regulators consulting on their first set of rules to encourage onshoring of overseas captive insurance activity at UK companies. France has also moved into the market. Some 8,000 captives worldwide wrote USD 50bn in premiums in 2024 – still a small fraction of the wider insurance market, but with strong potential for growth.²³

The UAE boasts the largest number of captives in the Middle East, serving oil, gas, mining, water and property companies, and typically with an external manager. There are about 13 captives in total in the UAE, Qatar and Bahrain, nearly all managed by Marsh. Some Middle East companies use captives located outside the region, pointing to further growth opportunities in relocating this activity to Dubai. The huge investment in Middle East property construction will also offer additional opportunities to set up captives.

Dubai has also become a global hub for Managing General Agents (MGAs), a type of broker that is allowed to underwrite contracts on behalf of an insurer or reinsurer, thus giving a foreign insurer or reinsurer a springboard into a market without the costs of opening its own subsidiary or branch.

Dubai has seen a surge in MGAs as reinsurers seek to enhance their UAE presence. They now account for more than 40 per cent of DIFC's insurance sector and have boosted growth in premiums and offered customers more innovative insurance tailored to local needs. For example, MGA Rokstone expanded into Dubai in November 2024 while Nexus Underwriting announced in January 2025 that it would acquire Arma Fusion Limited, a Dubai-based specialty MGA.

MGAs, however, face differing regulatory demands across the Middle East and globally, with the UK, for example, now requiring more reporting on writing contracts on behalf of insurers based outside the country. Faced with potentially higher regulatory costs, some MGAs may opt to convert into fully-fledged insurers.

The UAE insurance market is primed for further growth. The UAE introduced mandatory health insurance for private sector employers in 2025, creating another growth opportunity for the sector. The 2023 creation of Sanadak, the first ombudsman for resolving financial and insurance disputes in the Middle East, will also reinforce confidence and trust among consumers and encourage them to buy more insurance.

Capacity in retakaful, or Islamic reinsurance, has lagged market demand for many years, with operators hampered in part by a lack

of international standards to underpin consumer confidence and investment. While operational challenges have troubled retakaful operators in the past, the appetite for such products remains strong, and opportunities are plentiful for dynamic market participants. Conventional reinsurers have begun leveraging their existing operations to offer retakaful, thus avoiding hurdles experienced by standalone operators that lacked economies of scale, or found it difficult to meet high capital requirements.



Interview with Peter Englund, Senior Executive Officer - Middle East, Zurich Insurance



Peter is based in Dubai's DIFC, where he heads Zurich Insurance's regional commercial activities across the Middle East. He actively mentors start-ups and InsurTech companies, frequently speaks at industry events and is dedicated to nurturing local Middle East talent through lectures and mentorship.

Peter holds a bachelor's degree in finance from the Stockholm School of Business and a master's degree from the KTH Royal Institute of Technology, Stockholm.

→ **What are the key trends that will shape the global insurance industry over the next one to three years?**

As we speak, 2024 saw another year of record catastrophe (cat) losses,

exceeding USD 140bn worth of insured cat losses globally. Climate change and sustainability has undoubtedly been a key driver of this. Assuming climate change is a key factor in this emerging new normal, it's fair to say that it will remain a future focus for the insurance industry. This applies both in terms of providing preventive services to mitigate the impact and in developing new products and services.

When discussing climate change and cat losses, we often refer to the protection gap. This gap is also highly prevalent in cyber risks. In fact, the cyber security protection gap is even more pronounced. I anticipate an increased focus on cyber insurance in the coming years, with the industry working to close this growing protection gap.

Other key trends include digital transformation and tech. AI will play a greater role in personalised insurance products. Additionally, within our region, we are seeing meaningful regulatory changes as well, not only here at DIFC but also elsewhere in neighbouring countries such as Saudi Arabia. This is another major trend worth monitoring.

→ **How can the Middle East help narrow the protection gap in cyber risk and climate-related insurance?**

These are two major topics, and it's important to examine them individually. When it comes to cat losses, the protection gap is about 60 per cent, meaning, roughly 40 per cent of these losses are insured. The Middle East protection gap is even greater than that.

The insurance and reinsurance sectors must ensure that their products remain relevant and bring value to our customers. One way to achieve this is through creative, innovative products like parametric insurance. Public-private partnerships also play a critical role, as does education and regulatory initiatives.

→ **Aside from cyber and climate-related risks, what other emerging risks should insurers prepare for over the next five years?**

While cyber and climate risks are certainly primary concerns, as Zurich outlines in our global risk report, growing geopolitical tensions are another emerging risk for insurers to consider. So, we may see insurers and reinsurers changing emphasis from being product-oriented to also offering various resiliency services.

→ **Where are the main wholesale and retail growth opportunities for both insurers and reinsurers in Dubai and wider Middle East?**

From a retail standpoint, the most significant opportunities lie in the larger, more populous Middle Eastern markets. Saudi Arabia and Egypt stand out due to their sizable populations, but the UAE, as our home market, also remains highly important. Regulatory changes are creating new opportunities, including in the health insurance. There is also a growing awareness and demand for life insurance products on the retail side.

On the wholesale side, the emphasis is on markets with strong fundamentals and high growth potential. Saudi Arabia and the UAE are two such markets. Saudi Arabia, in particular, has experienced spectacular growth in recent years, and I expect the market to double in size leading up to 2030. There is an underlying strong demand for energy and construction capacity. This also applies to more established places like DIFC, which has a significant role to play. The growth coming out of DIFC will be significantly impacted by the growth we have seen and will see in both the UAE and Saudi Arabia.

→ **How will the importance and role of MGAs and captive insurers develop in the UAE?**

We have seen a significant increase in new capacity within DIFC, with much of this being in the form of MGAs. When

it comes to closing the protection gap, getting access to more specialised products will be easier with these MGAs in place, underwriting everything from political violence to renewable energy.

Captive insurers, on the other hand, often emerge from financial and risk management considerations among large corporations. Growing adoption of captive insurance shows our market is becoming more advanced and sophisticated, which is very positive for clients, the region, and financial centres like DIFC.

→ **What do you see as the most promising opportunities for AI in insurance? How could AI and other forms of digitisation benefit the Middle East insurance market?**

It will revolutionise the way we distribute products and how we communicate with clients. AI will also improve operational efficiency, enabling faster responses and more value for customers. For example, as a large multinational insurer, we may have a master policy in the UK, but may have a subsidiary being covered under local policy in, say, the UAE or Saudi Arabia. With AI and blockchain, we can reduce discrepancies and enhance contract certainty in a way that is good for us and the client. AI can also enhance risk assessment benefiting underwriters.

→ **Do you foresee regulatory divergence impacting the implementation of AI in cross-border insurance operations?**

If we look at cross-border operations, the general trend within the GCC appears to be moving towards a more protectionist approach compared to what we've seen previously. Regulators are keen to ensure that insurance business generated within a country is also serviced within that country. Various regulatory tools can be employed to encourage this.

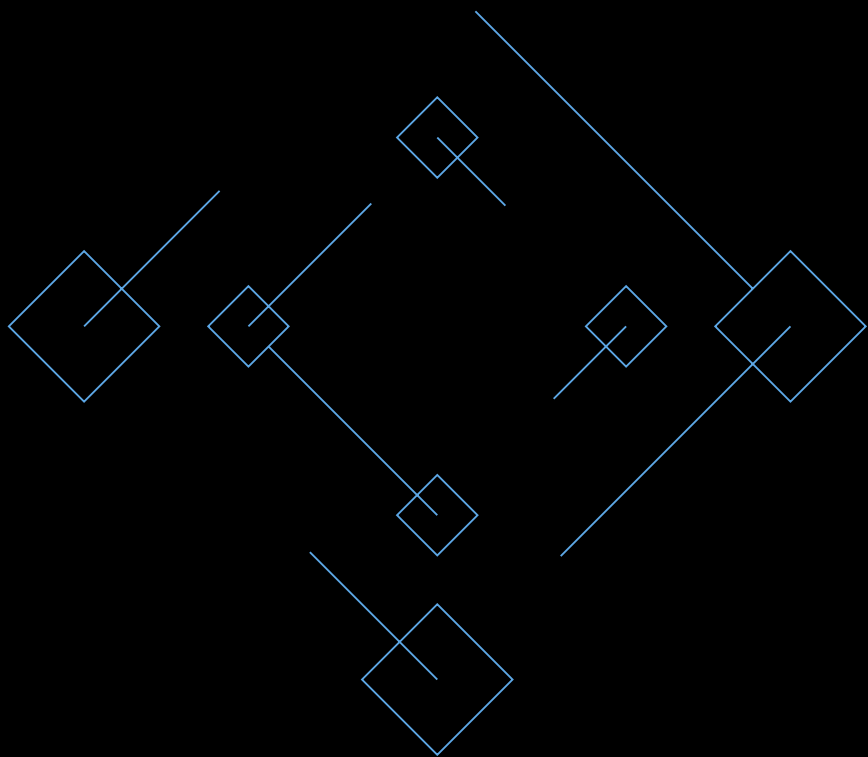
Again, AI will play a role in improving cross-border operational efficiency, particularly in standardising and streamlining international insurance programmes. While regulatory divergence may create challenges, AI can help insurers navigate these complexities by ensuring compliance and operational consistency across jurisdictions.

→ **The UAE introduced mandatory health insurance in 2025. What impact will this have on the market?**

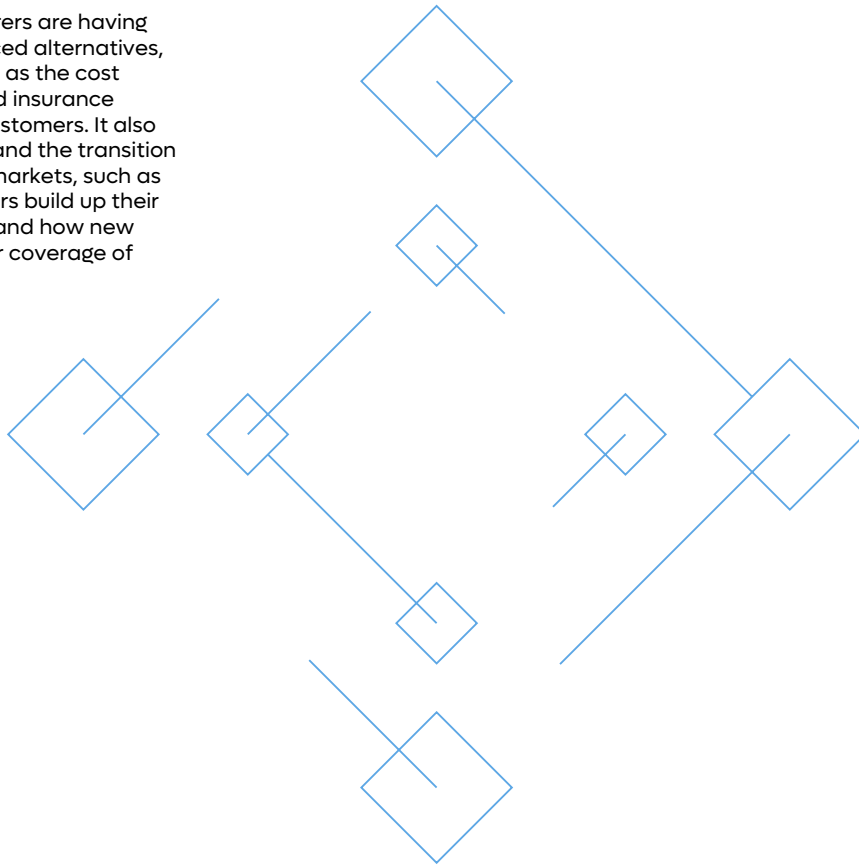
Mandatory health insurance will lead to increased market penetration, addressing the currently low insurance uptake in the UAE and other GCC countries, at least compared to maturer markets. Additionally, we can expect more competition among insurers who

are eyeing this space, given that many providers are already heavily reliant on health insurance as a core product. Overall, we will see more market participation, growing competition, and greater regulatory compliance.

3. Evolving insurance products and services



This section looks at how insurers are having to consider offering lower-priced alternatives, such as parametric insurance, as the cost of cyber- and weather-related insurance becomes too high for some customers. It also looks at how climate change and the transition to net zero are creating new markets, such as in products that help customers build up their resilience to weather events, and how new opportunities are emerging for coverage of Web3 and crypto assets.



3.1 The rise of parametric insurance

Parametric policies cover the probability of a predefined event, such as an extreme flood destroying a crop, with set payouts made, rather than actual losses covered. The policy pays out when pre-agreed 'triggers' are met or exceeded. These triggers are verified by a third party.

As the cost of insuring against natural disasters and cybercrime becomes prohibitive for some customers, more insurers are offering parametric insurance as a cheaper alternative to provide basic cover.

Parametric insurance has been available since the early 1990s and Allied Market Research estimates that the niche sector was worth USD 11.7bn globally in 2021.

With the earnings of reinsurers under strain for several years due to heavy losses from natural catastrophes, some have turned to parametric solutions to manage some of their risks in an alternative way, with the perceived objectivity, transparency and certainty of claim settlement part of the attraction.²⁴ Critics say that payouts can be well short of actual losses suffered, even if paid more quickly than under traditional claims processes.

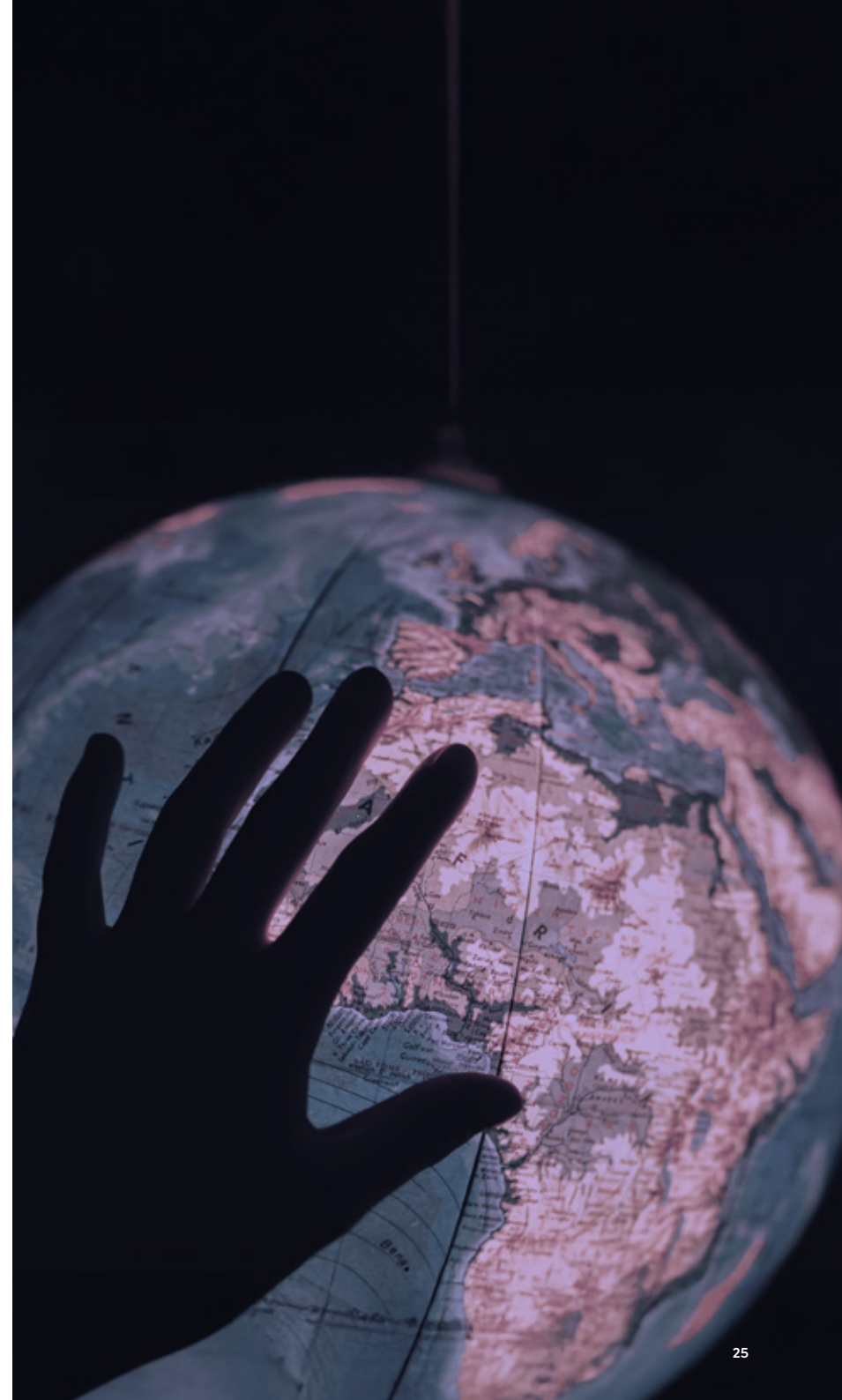
Parametric solutions could supplement climate cover given that greater insurability of climate risk is key to improving global economic resilience, and even a small slice of the uninsured market would reap sizeable

growth opportunities.

Recent years have seen increased activity in the parametric insurance space. The United Nations Development Programme (UNDP) and Italian insurer Generali say parametric insurance could help to close a climate-related protection gap estimated at USD 1.8trn in a more cost-effective way. Such cover could mean faster recovery from disasters, and supplement traditional, indemnity-based insurance. The UNDP cautioned however that governments would have to play a role through supportive regulations and policies that allow parametric insurance to grow.²⁵

More parametric products are coming to the market, with Beazley and Arbol unveiling US policies in 2023 to cover low and excess rainfall or wind speed. In 2023, the United Nations Children's Fund (UNICEF) announced a three-year USD 100mn parametric cyclone insurance programme to protect vulnerable children from the impact of climate change.

In 2024, Rokstone teamed up with NormanMax, a Lloyd's of London syndicate, to launch parametric products covering earthquakes and hurricanes, with floods expected to be added in 2025. NormanMax believes a global parametric insurance revolution has begun, but others are less convinced such products can be meaningful substitutes for loss compensation-style policies in the immediate future.



3.2 Web3 & crypto assets risks

The crypto assets sector, which includes bitcoin, has grown in fits and starts, partly due to regulatory hostility in certain parts of the world (e.g. Europe), price volatility and hacking attacks that have resulted in billions of dollars in losses. The crypto insurance market is still in its infancy but could become a growth opportunity as demand for digital assets grows. Policies are now available from some insurers to cover theft or hacking of crypto holdings kept in digital wallets. The lack of historical data for underwriters remains a challenge for pricing premiums, as does the largely unregulated nature of a sector that typically falls outside financial services compensation regimes. Insurance for crypto assets is also expensive.

As with crypto assets, Web3 activities on decentralised blockchain platforms are nearly all uninsured, presenting potential growth opportunities for insurers once legal and regulatory uncertainties are dealt with. Parts of the sector are being regulated for the first time in jurisdictions such as the EU, which will give consumers greater certainty and potentially encourage more insurers to step forward with more affordable cover.

As the UAE emerges as a global crypto hub, the development of crypto insurance can help mitigate against associated risks in the sector. Enhancing the sector's resilience could

encourage increased uptake and assist the sector to move further into the mainstream. DIFC is seen by the crypto industry as a growing and friendly global crypto hub. It offers AI, FinTech and innovation licences, and introduced its first comprehensive digital assets law in 2024. Dubai's AI Campus aims to generate up to 3,000 jobs in the AI and Web3 space by 2028, creating a potential pipeline for insurance opportunities in what is still a relatively new sector in the emirate. Relm Insurance, a leading specialty insurance carrier for digital assets, Web3 and AI has also expanded into DIFC.



3.3 Transition from fossil fuels to net zero

Companies and economies across the world face public and legal pressure to cut their carbon emissions as governments set net-zero targets. The effects of this transition, including on valuations of company assets and liabilities, will require insurers to adapt their offerings.

Net-zero commitments will result in governments and companies across the globe investing billions of dollars each year in renewable energy projects and low-carbon technologies, offering large growth opportunities for insurers that can adapt pricing models to reflect longer term risks, and offer contracts that extend beyond the traditional one-year renewal cycle.

The complexity of this transition challenge, which comes at a time when insurers themselves have committed to their own net-zero targets, is growing as some companies opt to delay their net-zero deadlines, impacting overall underwriting.

The UAE has committed to achieving a net-zero economy by 2050, creating an investment “gold rush” that includes USD 50bn in green energy projects, all of which will need insuring.

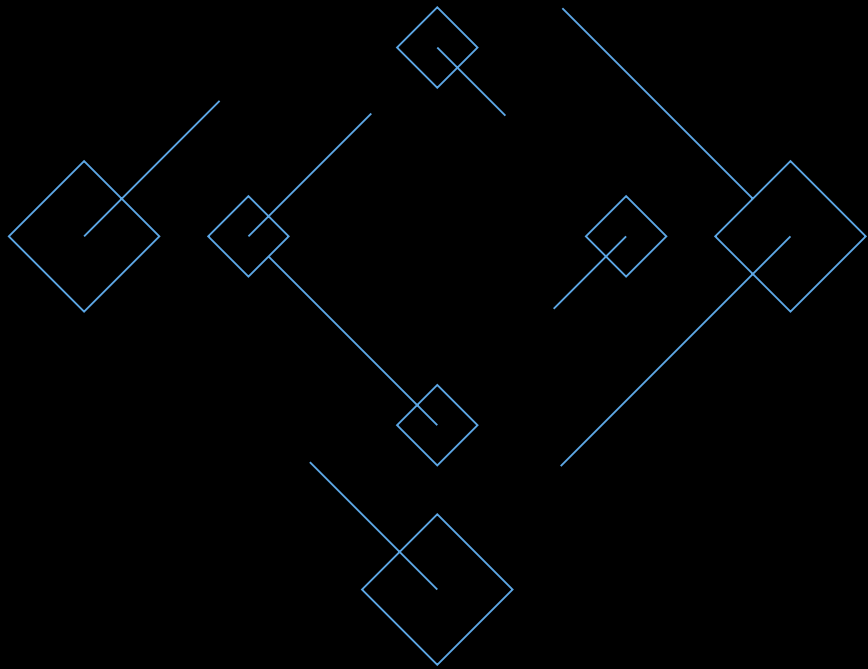
Products in the vehicle insurance sector are also evolving due to the growing use of electric cars as part of wider efforts to cut carbon emissions. The rise of partially automated vehicles, an

increase in shared transport options such as ride-hailing and the use of electric bicycles also offer insurance growth opportunities. These trends will likely create a new vehicle insurance market requiring changes in underwriting capabilities to reflect fewer but costlier claims, greater availability of data from telematics and elsewhere and changing distribution channels for products. The higher frequency of extreme weather events in the Gulf has led to an increase in demand for comprehensive insurance for autos. This, coupled with greater levels of underlying risk, should result in higher insurance premiums going forward.

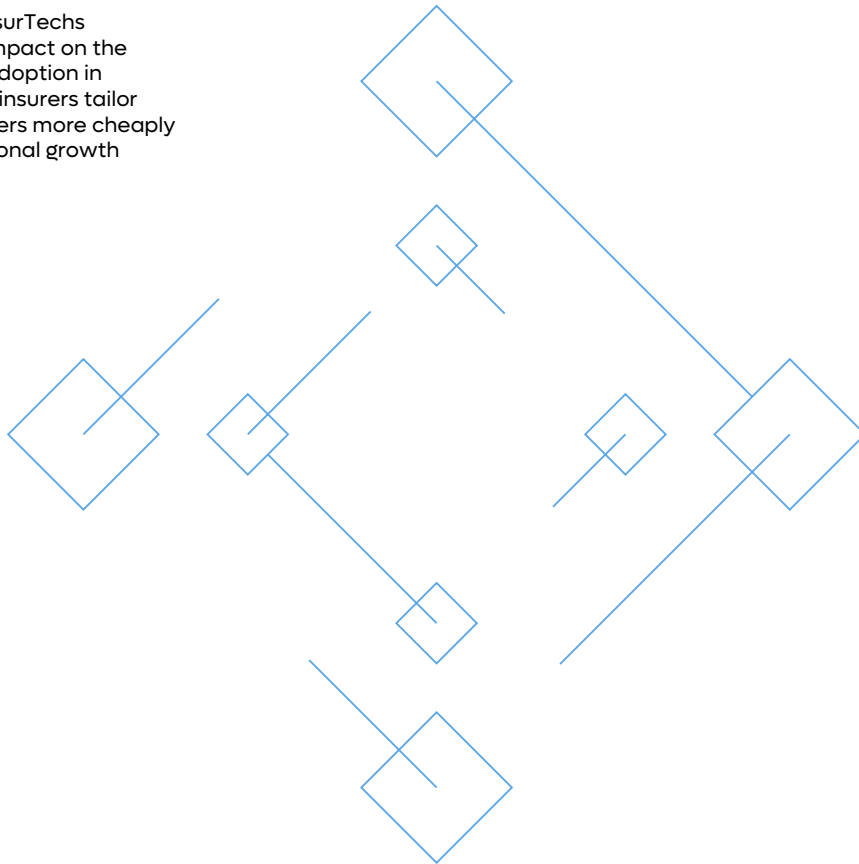
China is another example of how the new energy vehicle boom is changing traditional insurance markets. It lifted premium volumes to more than 100bn yuan (USD 13.8bn) in 2023, or about 11.5 per cent of total motor business, with a higher frequency of claims and repair costs challenging small and medium-sized insurers due to their lack of scale and data analytics capabilities. Automakers in China have entered the insurance sector to help drive auto sales, in some cases partnering with domestic auto insurers.²⁶



4. Digital transformation and opportunities for global insurance



This section looks at AI and InsurTechs and explores their potential impact on the insurance sector. Greater AI adoption in particular is expected to help insurers tailor products to individual customers more cheaply and efficiently, offering additional growth opportunities.



4.1 AI and its impact on global insurance

Traditional insurers have made rapid advancements in their digital capabilities in areas such as distribution, operations and claims, according to PwC, but they still lack speed and agility due to inherent complexities such as legacy systems and traditionally siloed operations. PwC says insurers have thus far largely invested in digital capabilities to make existing operations more efficient, rather than to increase competitiveness, such as by creating new products or new ways of connecting to customers.

AI, machine learning and big data analytics can help insurers and actuaries better assess risks so they can improve the accuracy of underwriting and pricing products. The technologies also help to streamline claims processing by reducing human intervention, and to customise and personalise insurance products. For example, predictive analytics might spot customer trends and behaviour patterns that human underwriters could miss. Greater use of AI will also help insurers identify fraud more quickly and thus reduce losses.

Insurers are now seeking to broaden the use of AI to improve growth. In 2024, Lloyd's of London syndicate Hiscox and Google announced they would collaborate in AI. New York-based InsurTech Planck, meanwhile, is offering GenAI applications to smaller insurers to make underwriting more efficient and

accurate through the use of bigger datasets.

The increasing use of AI will make an already competitive global race to recruit and retain talent even tougher, given the growing demand for AI expertise across many economic sectors.

Another potential growth opportunity being looked at by InsurTechs is the use of AI agents, software systems that use AI to handle mundane tasks currently handled by humans, such as checking an insurer's incoming emails or sending out notifications to customers. AI could also assist InsurTechs better compete with incumbent insurers, particularly if they leverage AI to innovate and reduce regulatory costs.



4.2 InsurTechs evolve from competitors to partners

InsurTechs use technology to improve and automate insurance services and products. Initially seen as straight-out rivals seeking to disrupt and even replace mainstream insurers, they are increasingly partnering with the firms they sought to displace to benefit from their customer reach and avoid hefty regulatory costs at a time when investment in the sector has slowed.

Venture capital funds invested more than USD 10bn in InsurTechs in 2021, but since then the VC industry has grown more cautious, deterred by much higher interest rates and past difficulties exiting investments as start-ups with high valuations often failed to live up to early expectations.

Total global InsurTech funding fell 5.6 per cent to USD 4.25bn in 2024 – the lowest amount since 2018 – from USD 4.51bn in 2023, while the number of deals in the sector fell to 344 from 422. In the wake of this fall, the sector engaged in mass layoffs and asset selling, making the InsurTechs that survived more sustainable.²⁷ AI-enabled InsurTechs, however, raised USD 5mn more than their non-AI counterparts in the sector. In the third quarter of 2023, 63.4 per cent of InsurTechs that raised new money were AI-focused.

InsurTechs typically do not have deep enough pockets to compete with the large advertising

budgets of traditional insurers, nor do they have troves of market data going back years to help them accurately price products. With VC capital harder to obtain, many InsurTechs are teaming up with traditional insurers, sometimes offering a minority stake in return for a stable, long-term outlet for their technology. This marks a shift from the original B2C model to a B2B model, according to ThingCo, a UK telematics InsurTech that has teamed up with the financial arm of carmaker Toyota.

Other examples include Tokio Marine HCC International partnering in 2025 with InsurTech Optalitix to enhance its London market underwriting and pricing systems. Over the next two years, all TMHCCI's pricing models for its London market division will be transitioned to the Optalitix underwriting platform, marking a major shift towards a more data-driven process that gives underwriters access to real-time data to improve accuracy.

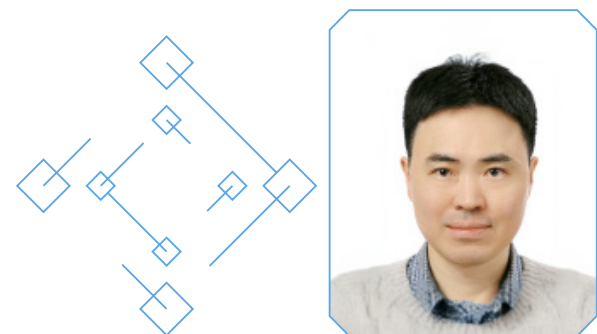
The InsurTechs that have so far established themselves in DIFC focus on servicing existing insurers, such as by helping with regulations, rather than distributing their own insurance products. This mirrors the business model increasingly favoured by InsurTechs globally.

In 2023, Lloyd's of London insurance market's

Lab for accelerating the development of InsurTechs signed a memorandum of understanding with the Dubai Department of Economy and Tourism to increase growth opportunities for InsurTechs in the region. This will offer Dubai, a growing insurance hub, access to global expertise to help attract more InsurTechs to the emirate.

The InsurTechs may soon face new competition. More generic technology and cloud companies such as Salesforce and digital workflow company ServiceNow are also looking to expand into the insurance market as insurers become more accustomed to working with external tech partners. In February 2025, ServiceNow appointed Nigel Walsh, former head of global insurance for Google Cloud, as the new head of its global insurance division to develop business in the sector.

Interview with Jeongwan Oh, SEO – DIFC Branch of Korean Re



Jeongwan Oh has been SEO of Korean Re's DIFC branch since July 2024. He has worked at the company since 2008, and has garnered considerable cross-sector experience including with cargo, aviation and marine hull accounts.

Jeongwan has a BSc in Economics from Korea University and has completed a graduate programme in Public Administration at Seoul National University.

→ What are the key trends that will shape the global insurance industry over the next one to three years?

The key trends I am watching closely include climate change, cyber risks and AI adoption. Mounting geopolitical tensions

and developments will also play a crucial role in shaping market dynamics. US-China tensions are certainly significant, but there are also regional concerns, such as Russia-related sanctions and Taiwan-China tensions.

These geopolitical issues are certain to have an impact on the insurance market.

→ How can we narrow the protection gap in cyber risk and climate-related insurance?

To reduce the protection gap, it's essential to improve risk prediction capabilities. In the case of climate-related insurance, refining catastrophe (cat) modelling is critical. Developing advanced modelling tools and ensuring precise data are key to minimising gaps. When data is insufficient, insurers and reinsurers must take a conservative underwriting approach, which can lead to unnecessary risk accumulation.

Reinsurers prefer treaties backed by well-developed data. Robust data enables more competitive pricing, benefiting both ceding companies and reinsurers. Historically, the GCC (Gulf Cooperation Council) was considered a cat-modelling free zone, but after recent events such as last year's major floods in the UAE, cat modelling discussions are becoming more relevant to the region.

Parametric insurance is another emerging solution that can help address protection gaps. Unlike traditional indemnity insurance, parametric insurance is based on predefined triggers, such as weather events. We are not yet very active in this area. However, it is gaining traction and is something to watch for the future.

→ Aside from cyber and climate are there other emerging risks insurers should be preparing for?

Yes, there are also emerging risks such as cyber liabilities linked to AI, autonomous vehicles and robotics. ESG (Environmental, Social, and Governance) risks and energy transition risks are also gaining attention and will require insurers to adapt.

→ What are the largest growth opportunities for insurers and reinsurers in Asia and the Middle East?

It's clear that many Asian countries, with their rapid economic growth and relatively low insurance penetration, present significant opportunities. In particular, the increasing frequency of typhoon-related losses is driving demand for better coverage, and well-developed catastrophe (cat) modelling data will be essential to addressing these risks effectively. Additionally, the ageing

population across Asia is contributing to a steady rise in demand for health insurance products.

In the UAE and GCC, mega infrastructure projects, especially in Saudi Arabia, are driving growth in the engineering sectors. The property insurance market is expected to follow suit. Additionally, as Middle Eastern countries shift their focus from upstream to downstream energy sectors, growth opportunities in downstream energy-related insurance will emerge. The renewable energy sector is also attracting significant investment, creating further opportunities for insurers. Casualty insurance, including liability and political violence coverage, is also experiencing steady growth.

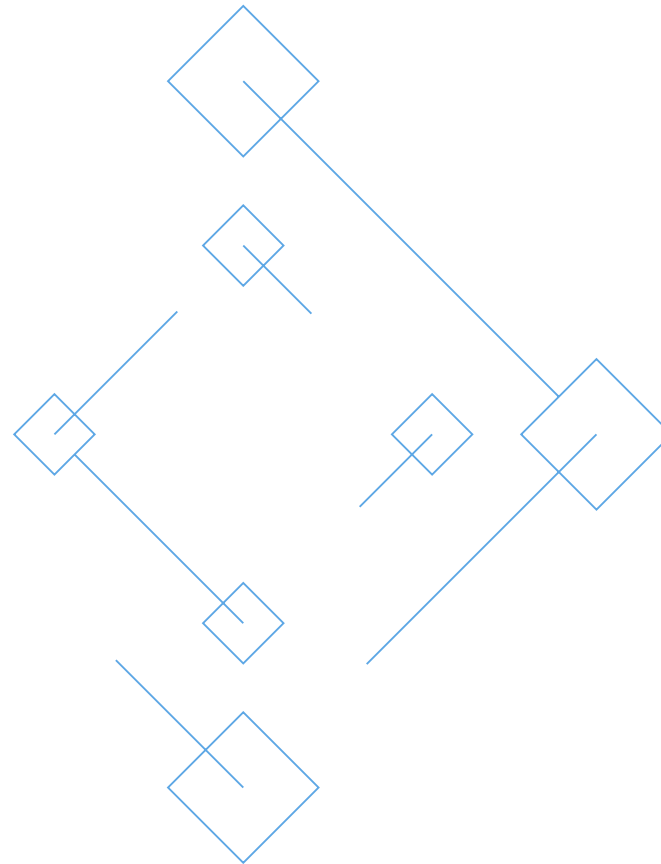
→ What impact do you think mandatory health insurance in the UAE from 2025 will have on the insurance market?

Mandatory health insurance will likely lead to a significant increase in policyholders, driving premium growth. It will also provide insurers with more data, enabling refined pricing models. However, increased competition involving aggressive pricing strategies could raise concerns about profitability for insurers and reinsurers.

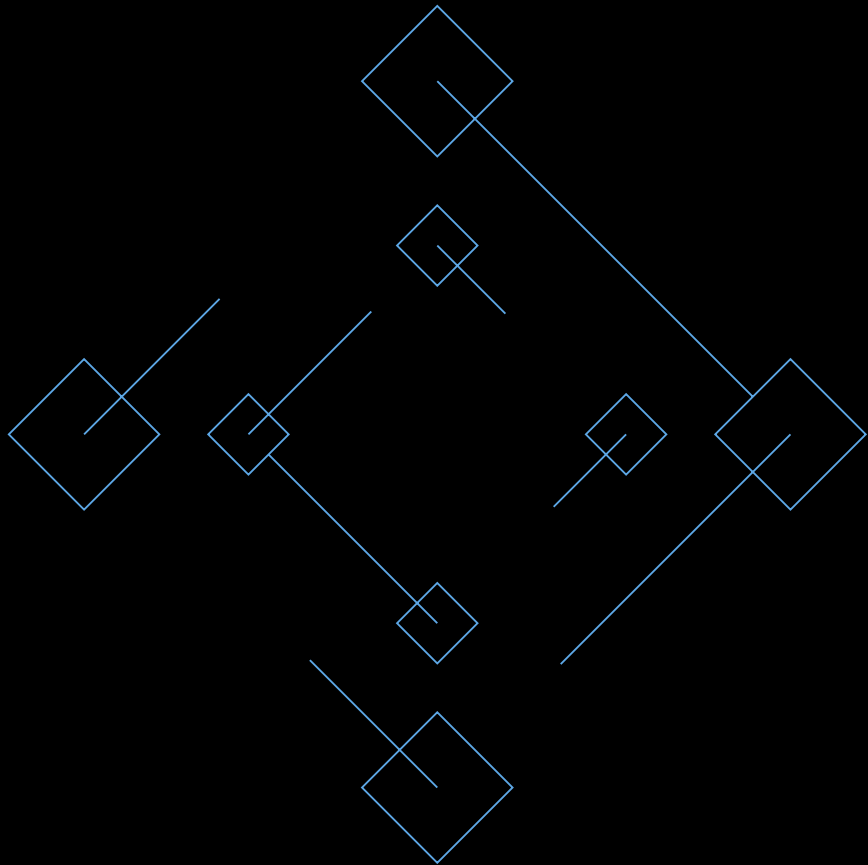
→ **Finally, AI and digitisation are revolutionising the financial services sector. What impact do you expect AI to have on the reinsurance market?**

AI holds immense potential for reinsurance, especially in automating administrative tasks and enhancing risk assessment, processing and threat detection. AI can improve catastrophe modelling, enabling faster, more accurate risk evaluations. This will not only enhance underwriting accuracy but also optimise resource allocation, allowing human expertise to focus on higher-value decision-making. However, data privacy and information security remain key challenges that must be addressed before AI can be fully integrated into reinsurance operations.

AI has the potential to improve data quality as well. It can enhance data processing, increase accuracy and provide valuable insights that support more reliable modelling.



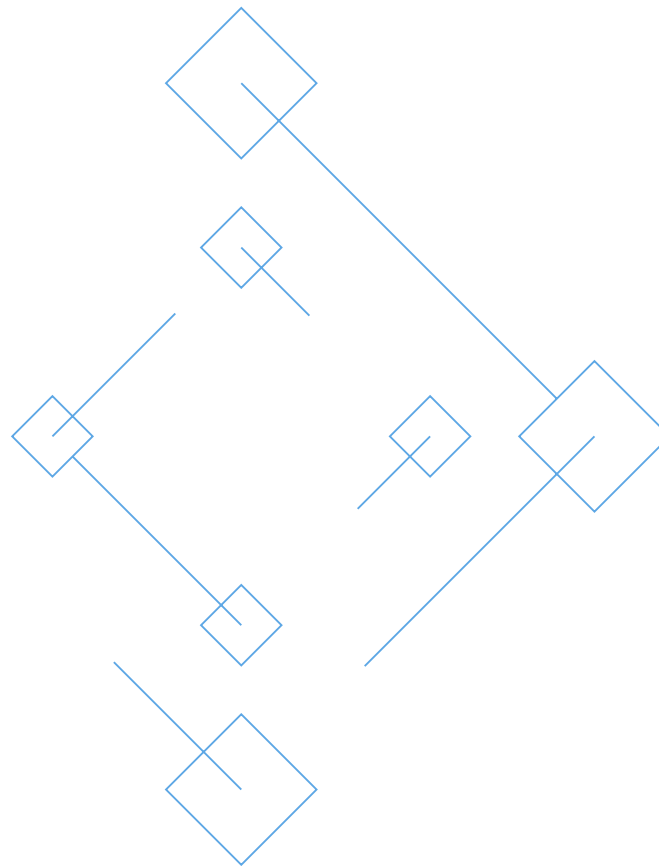
5. Regulation and governance issues



This section examines capital and accounting rules for insurers that have been rolled out in the Gulf and elsewhere in the world. While these increase the regulatory burden on insurers, they also help improve trust and transparency in the sector, thereby attracting potential customers and investors.

The insurance sector has previously escaped the more intrusive type of regulation and supervision that banks have faced. Since the global financial crisis of 2007-09, assets at insurers and investment funds have grown sharply.

Worries among regulators about risks going unchecked have led to significant reforms, meaning if insurers want to attract international capital for expansion, or operate cross-border, they will have to comply with new capital and accounting rules to reassure authorities, investors and customers that they can remain solvent. The additional regulatory costs will put pressure on some insurers to become more efficient, and could also trigger mergers and takeovers in the sector to improve economies of scale. Tougher data privacy requirements are also bumping up compliance costs for insurers. This section looks at some of the new regulations and their impact on global insurance.

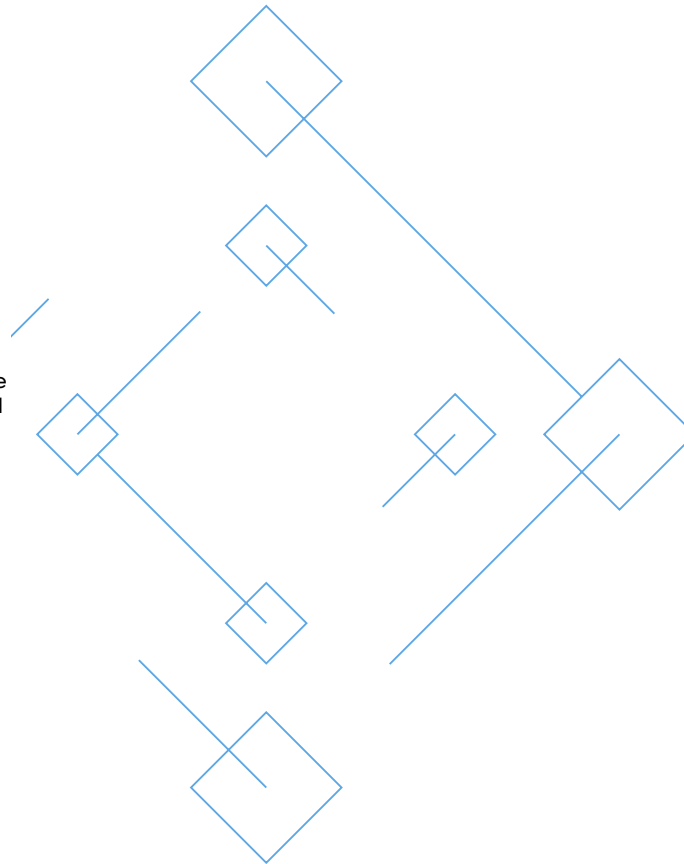


5.1 EU's global hopes for Solvency II

In 2009, the EU approved a set of rules known as Solvency II which were designed to harmonise how much capital insurers and reinsurers across the 27-member state bloc must hold, reinforcing policyholder protection. Solvency II, which replaced basic rules introduced in 1973, came into force in 2016. It sets out how an insurer must calculate its solvency capital requirement – or SCR – to ensure it can meet its obligations to policyholders over the following 12 months.

The EU had hoped that other jurisdictions would cut and paste Solvency II into their own laws, but the US still applies its own rules. Some jurisdictions, including the DFSA, have adopted Solvency II-like systems.

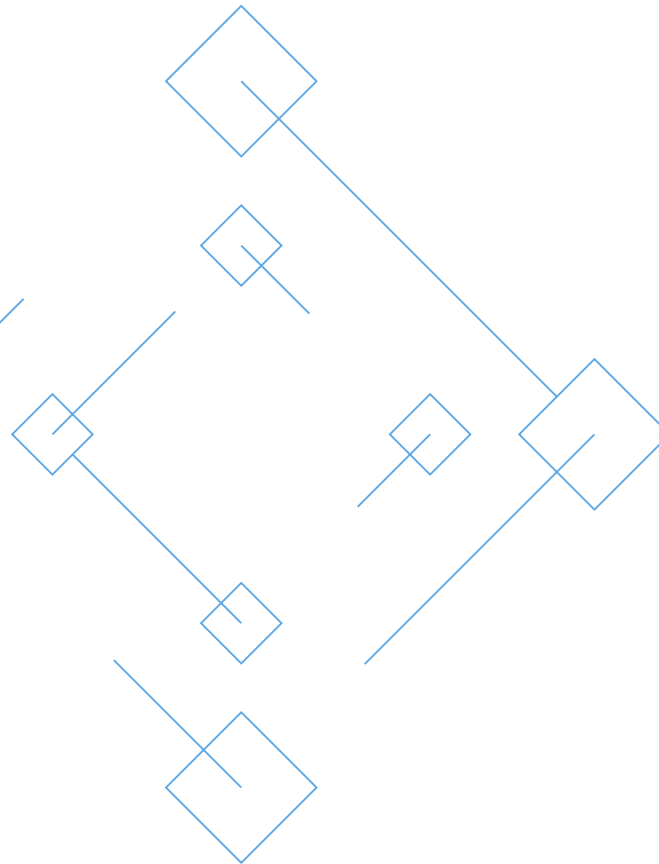
Solvency II has faced criticism for being too burdensome and for making it harder for insurers to invest in assets such as infrastructure, which is seen as critical to helping the EU meet its net-zero climate targets by 2050. After the UK left the EU in 2020, it decided to reform the Solvency II rules it had enforced as an EU member to release billions of pounds in capital for investment in infrastructure and clean energy. The EU has since reformed Solvency II in a similar way.



5.2 First international capital standard

The G20's Financial Stability Board (FSB) asked the International Association of Insurance Supervisors (IAIS), a global umbrella body for insurance regulators from across the world, including the DFSA, to draft new minimum capital rules for large insurers. The Insurance Capital Standard – or ICS – was adopted by the IAIS at its annual general meeting in December 2024, with members committing to following rules agreed by the regulatory body.

ICS aims to give regulators common tools for supervising insurers, but it has faced resistance in the US, an IAIS member. US insurance regulators say they will not apply the standard, citing concerns about its reliance on a market-based valuation of assets and a lack of recognition of differences between the US and other jurisdictions. As a compromise, the IAIS agreed, subject to further amendments, that a new US aggregation method for insurers to calculate their capital provides a comparable outcome to ICS. Insurers in the EU say ICS will have little impact on them given its similarities to Solvency II, which they comply with already.



5.3 New accounting rules improve transparency

Insurers and reinsurers have for years faced divergent national accounting rules, which has raised concerns among investors about balance sheets opacity. In response, the International Accounting Standards Board (IASB) – whose bookkeeping rules are used in more than 100 countries, including Dubai, the EU and the UK, though not the US – agreed to introduce a set of more stringent accounting requirements that would apply in every IASB jurisdiction.

International Financial Reporting Standard (IFRS) 17, which came into force in January 2023, is the first comprehensive global accounting standard for insurance contracts. All companies listed on the Dubai Financial Market are required to publish financial statements that comply with IASB accounting rules and must therefore apply IFRS 17.

The new accounting standard requires insurers to use current estimates for their insurance liabilities. This offers clarity on how they generate profits and on the composition of their assets and liabilities. The insights it offers into insurer balance sheets will make it easier for investors to compare firms from different parts of the world. EY says the benefits will take several years to emerge, as comparability increases, market practices converge and the effect of modifications allowed during the transition fades.

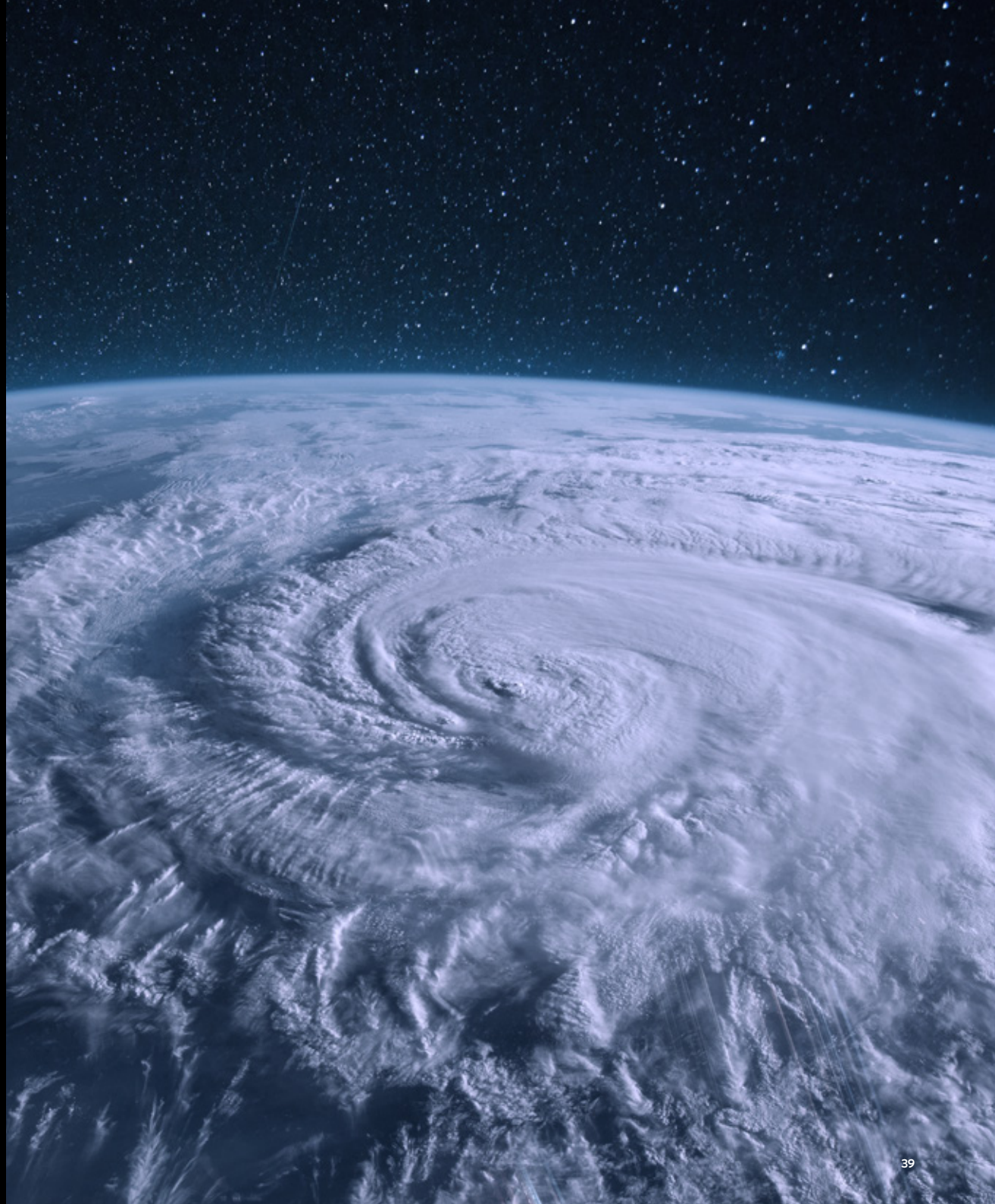
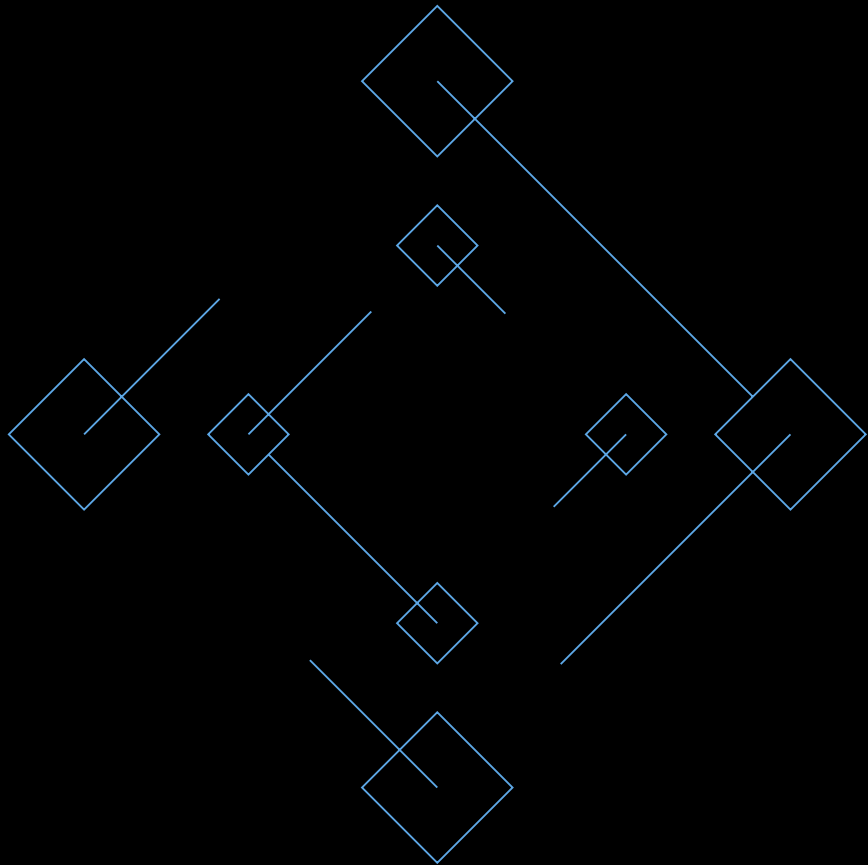
IFRS 17 is already having some impact, however. The shift of focus to revenue from premiums written, for instance, has reordered closely watched annual rankings of top reinsurers from AM Best. However, the US has not changed its own Generally Accepted Accounting Principles (GAAP) accounting rules to reflect IFRS 17, and therefore there are differences in how US insurers and non-US insurers measure and report on their liabilities. US GAAP uses a net premium valuation approach that excludes most expenses, while IFRS 17 uses a gross premium valuation that includes all direct expenses.

AM Best says that the shift to IFRS 17 has affected listed insurers in the UAE, and that the cost of implementing the new rules might place further strain on some companies, helping to drive takeover activity. However, the benefits of applying IFRS 17 – such as the increased appeal to investors of greater balance sheet transparency – are ultimately expected to outweigh the initial costs of the switchover.



Policies

Conclusion



This report highlights a host of reasons the global insurance industry is primed for growth for many years to come. Given the lengthy roster of risks facing the world today, the sector's critical role in embedding resilience in the global economy will be crucial for maintaining investment and growth. But the industry is having to up its game as it helps to marshal a complex transition to a net-zero economy, while at the same time finding ways to stop affordability issues from widening already huge gaps in protection from extreme weather events and cybercrime.

Insurers will have to juggle this complex set of challenges, including a political backlash in some countries against climate policies, while adapting to the impact of net-zero targets on their own assets and liabilities, potentially affecting both future profitability and business strategy. The potential rewards, however, are substantial for those insurers nimble and innovative enough to keep offering affordable and flexible cover.

The extent to which governments will be willing and able to team up with insurers to help plug protection gaps and keep insurance on homes and other property affordable in the future is unclear, but the consequences of doing nothing could be severe: from the creation of investment blackspots to increased social polarisation.

Greater use of parametric insurance will help ease the cover crunch for cyber and extreme weather events, but only at the margins – at least for now.

There are also rewards for insurers that can harness the full potential of generative AI to take the technology to the next level and transform operations to design and market better-tailored products directly to customers, in collaboration with cutting-edge technology from InsurTechs.

Web3 and crypto assets hold promise for growth opportunities once it becomes clear what exactly are the insurable risks, and whether they can be covered in an affordable way for companies and individuals, while still being profitable for insurers.



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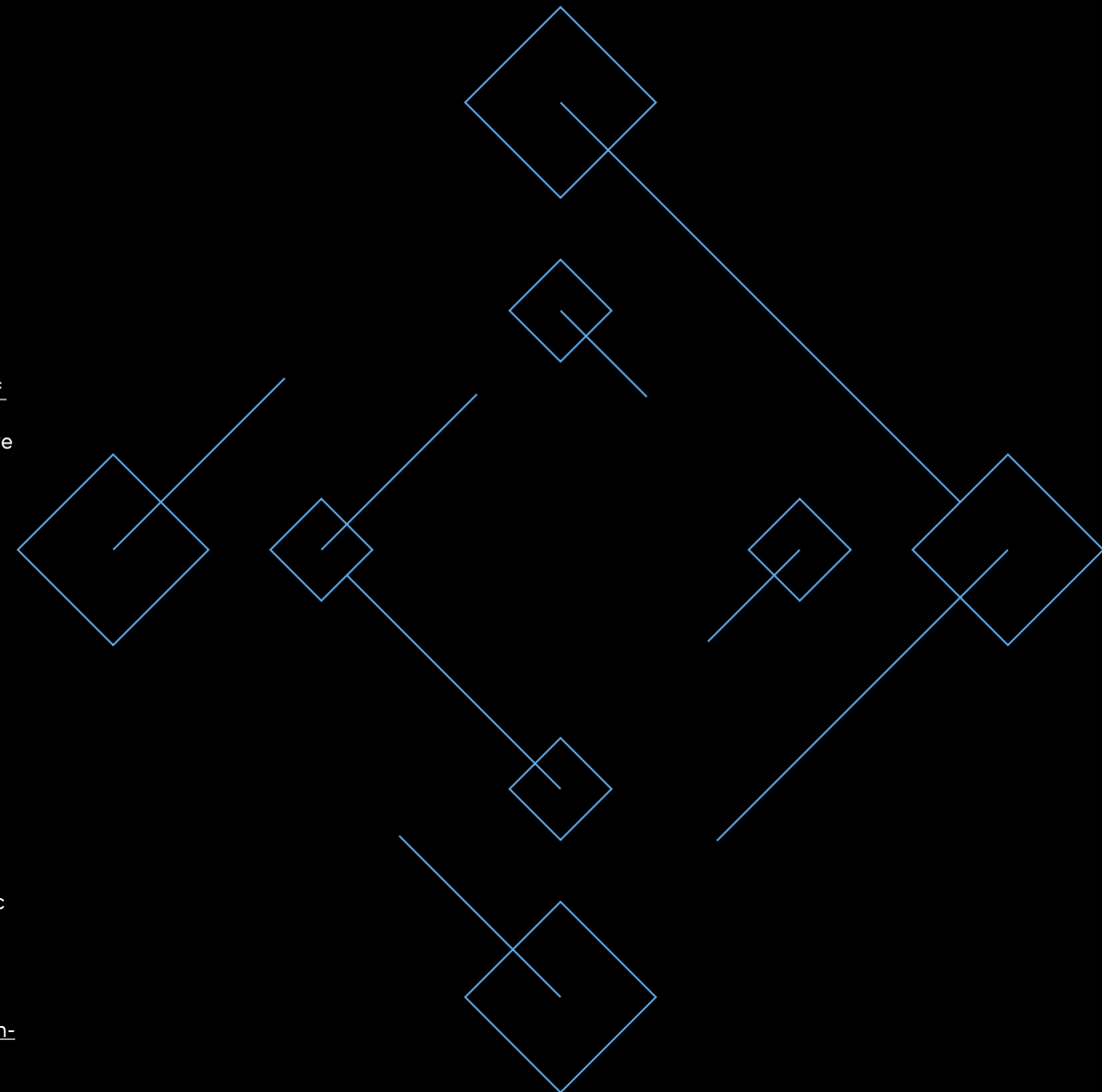
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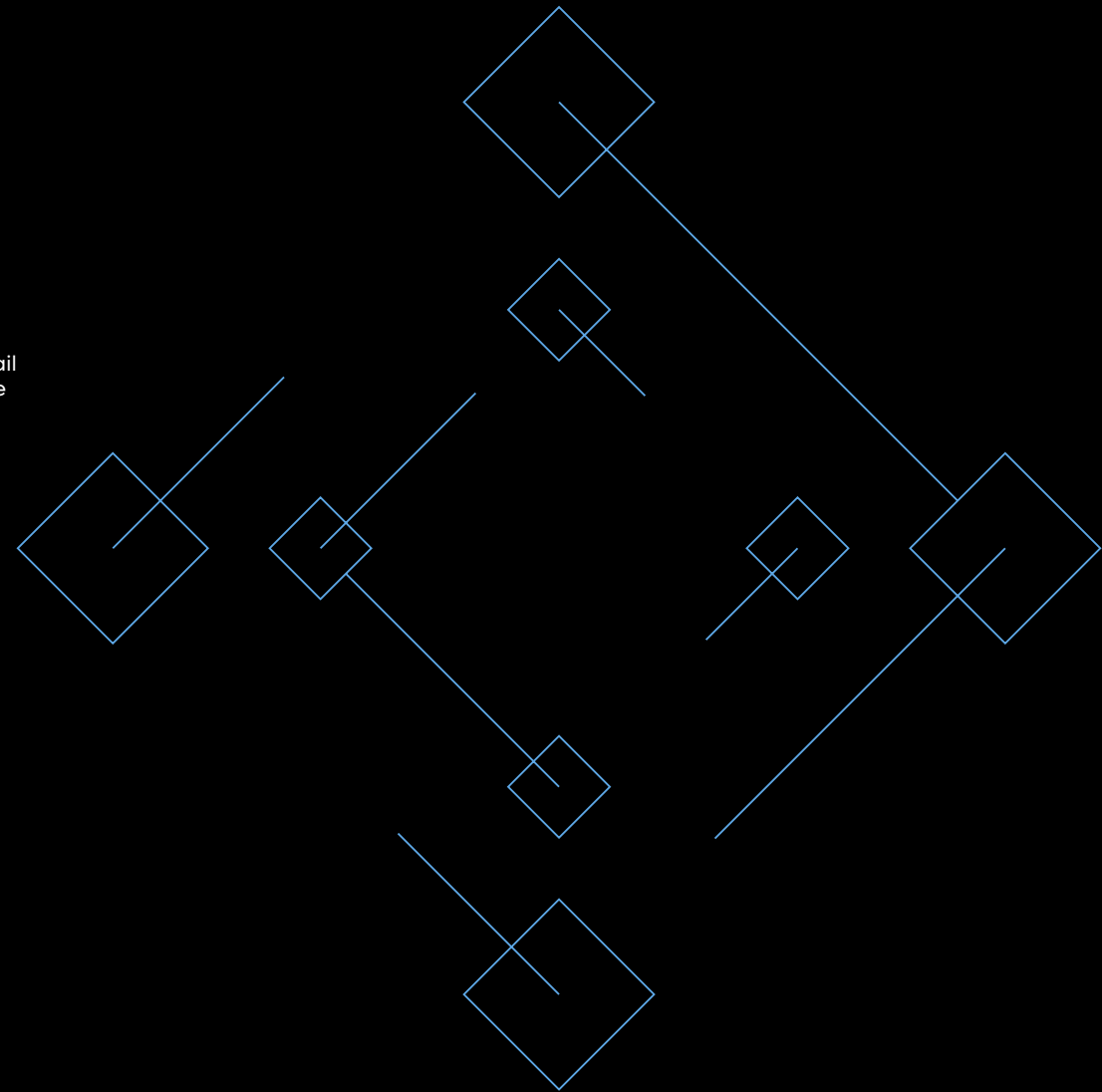
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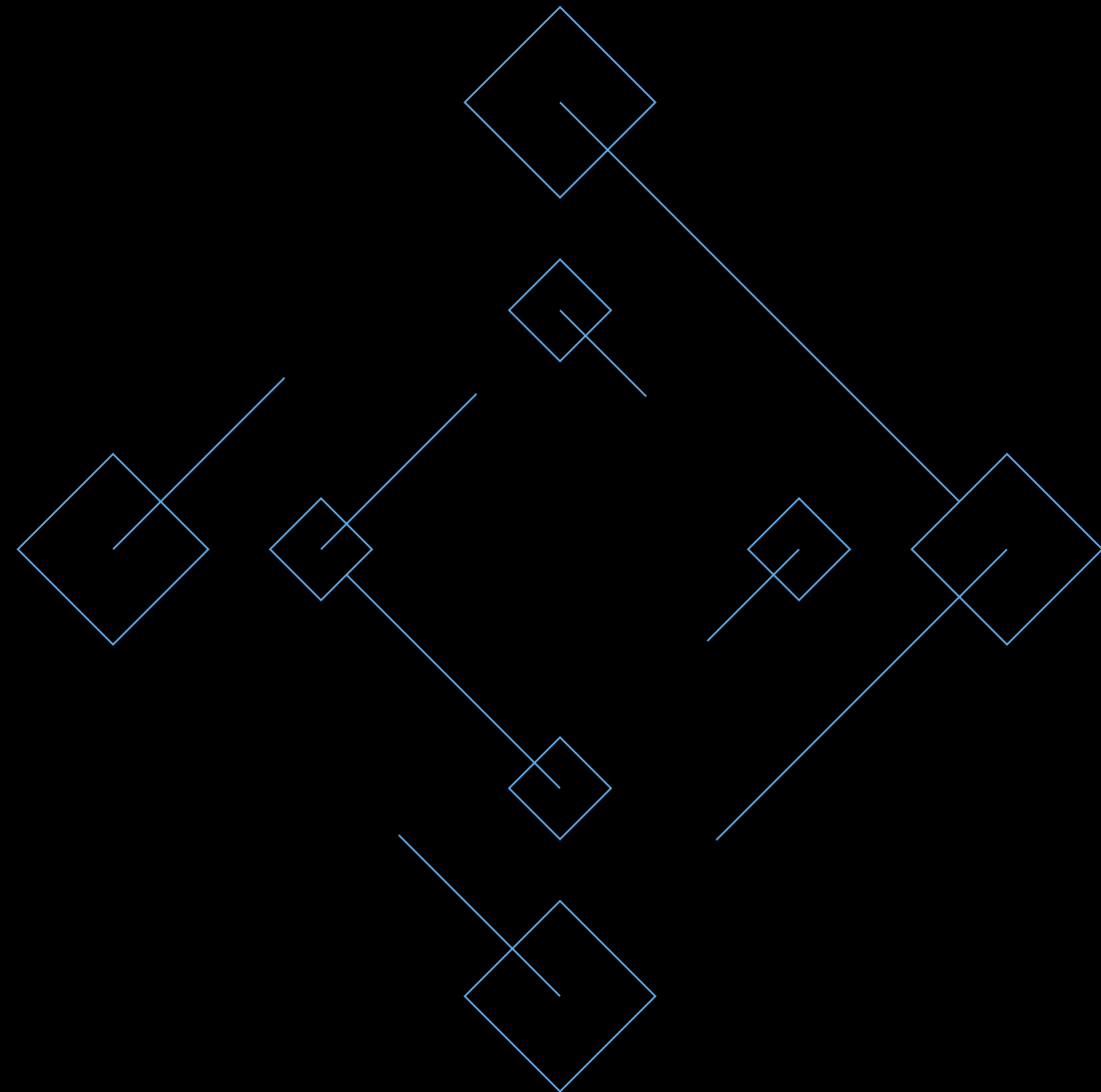
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