

MENA INSURANCE MARKET COST OUTLOOK Q2/2022





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In 2022 we are seeing extraordinary global inflationary pressures. Current inflation levels are being driven by a surge in oil and gas prices, sharp increases in critical construction materials and the compounding effects of the Russia -Ukraine conflict.

In the MENA region National Oil companies benefit from increasing oil prices, thereby offsetting inflationary pressures. However due to a reliance on imports the region is susceptible to supply chain pressures. This is impacting the insurance industry by increasing repair costs and associated time-scales.

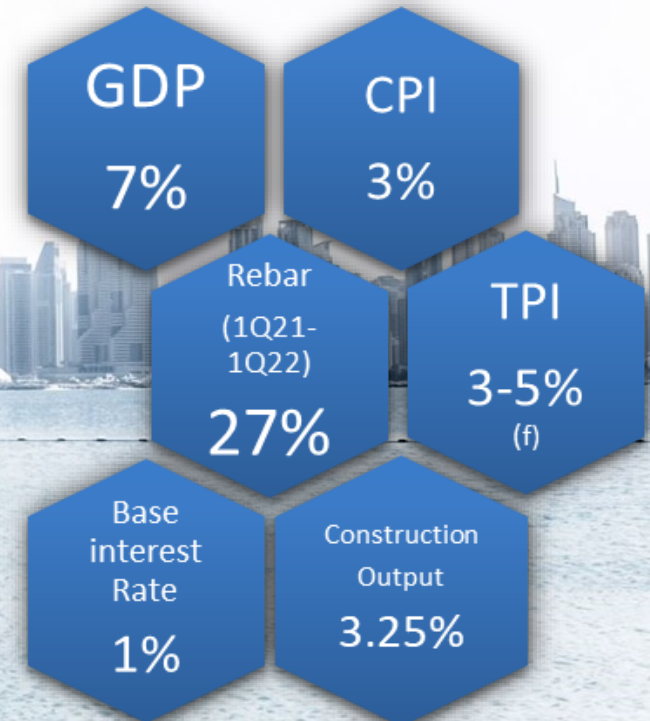
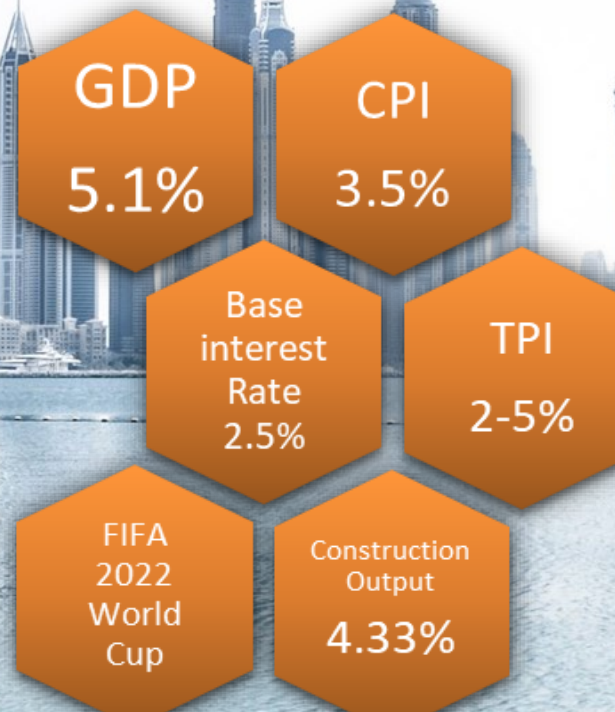
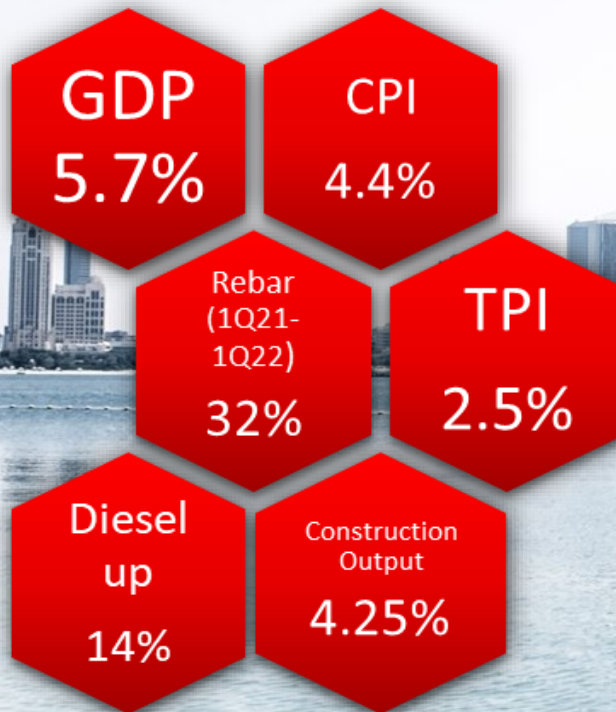
MARKET SNAPSHOT



UAE

Qatar

Saudi Arabia



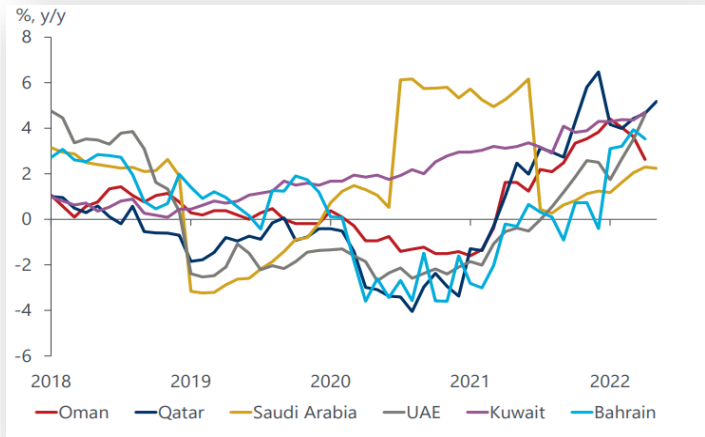
Introduction

The Covid pandemic caused disruptions to global economic activity. However, 2021 saw a recovery of activity within the MENA region.

The next challenge to hit the global economy is a steep rise in inflation fuelled by rising oil and gas prices, material shortages and supply chain pressures. This has been further magnified by Russia’s invasion of Ukraine, exacerbating increases in commodity and energy prices.ⁱ

In the MENA region, although inflation remains lower than most advanced and emerging economies, it is now trending upwards. **Figure 1.** highlights year-on-year regional inflation. This is now higher than it has been for a decade.

Figure 1: Y/Y GCC



Construction output

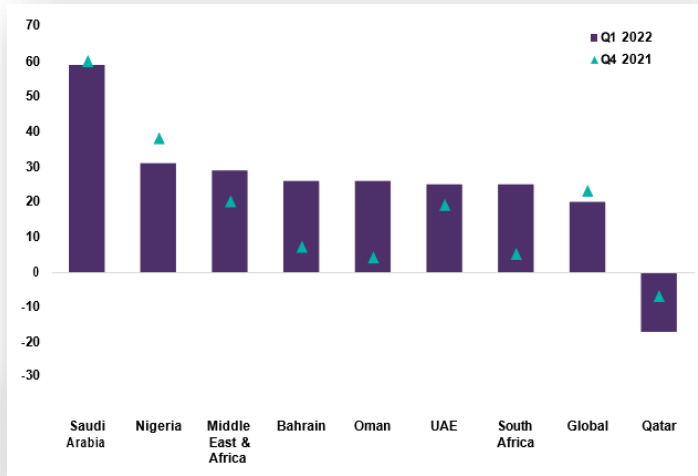
MENA construction activity increased throughout 2021 and is forecast to continue. This is attributable to significant government spending through 2022.

Figure 2: Key Government-backed regional initiatives

Region	Project
KSA – Vision 2030	NEOM Project, \$500bn
	The Red Sea Project, ‘gigaproject’ \$8bn
	AMMALA, \$2.7m
UAE – Vision 2030	UAE Energy Strategy 2050
	RAK Energy Efficiency & Renewable Strategy 2040.

Construction activity increased across the region during Q1, with Saudi Arabia showing the strongest activity. At the weaker end, Qatar remains in negative territory despite the final run up to the FIFA World Cup.

Figure 3: RICS Global Construction Monitor Q1/2022ⁱⁱⁱ



In terms of projects, Saudi Arabia also shows the strongest activity across the region. Combined with the UAE, both of the regions account for **1,212 projects** worth circa **\$306bn**.^{iv}

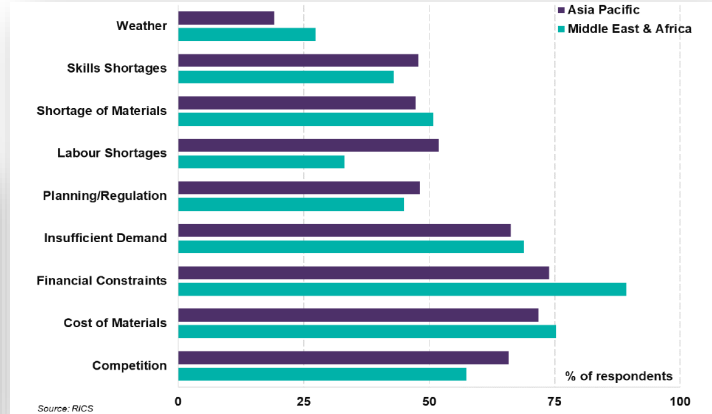
There is also a significant Net-Zero trend across the region bolstering the construction activity.

UAE construction activity is currently forecast to grow **4.2%** for 2022 despite the challenging financial pressures. However, supply chains challenges and materials pricing might negatively impact this.

According to RICS Global Construction Monitor (**Figure 4**) the three largest factors holding back activity in the region are:

1. Financial Constraints: partly linked to delayed payments, cashflow and funding requirements. Contractors and suppliers report constant challenges around prompt payments.
2. Cost of materials
3. Insufficient demand

Figure 4: Key factors facing Construction Activity.^v



Labour

Labour shortages across the MENA region less of a concern compared with Asia Pacific, European and the US.

Nonetheless, the region continues to employ high volumes of expatriate construction workers and with Covid-19 still lingering many are yet to return and consequently poses a risk of skilled labour shortages.

Tender Prices

Figure 5 shows current 2022 forecast construction Tender Price Indices (TPI).

Figure 5: Industry TPI Reports

Region	Forecast %
UAE	2%-5%
KSA	5%
Qatar	2%
Egypt	4% - 9%

Regionally and globally, large project contractors are now becoming reluctant and, in some cases, refusing to provide fixed price lump sum offers. We are seeing insistence on the inclusion of fluctuation clauses being inserted into construction contracts.

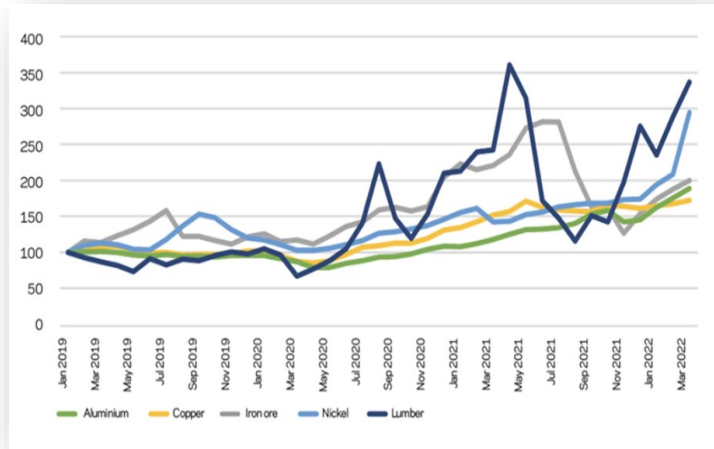
In Saudi Arabia continuation of significant investment and projects breaking ground are likely to put added strain through the regional supply chain. However, many of these projects span several years. If contractors are to shoulder the risk of price increases, and inflate their risk tender pricing conservatively as a consequence, this could further inflate prices.

The impact will be partly dependent on how procurement strategies respond to inflation, especially for the large, long-term projects

Material prices

Material inflation has become a key facet of construction industry news, with notable the increases in commodity prices. Most affected are metal products (especially rebar), timber, cement and bricks.

Figure 6: World Bank Commodities Index. ^{vi}



Oil prices in Q1 2022 averaged at \$98* per barrel (OPEC Oil Price), sharply up on the previous quarter and the highest in over a decade. Emirates NBD Research global benchmark (Brent) forecast for 2022 is \$112**/ barrel. ^{vii}

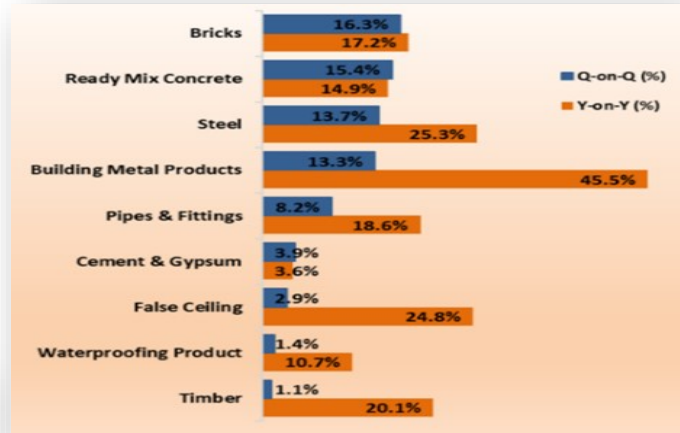
In March 2022, Emirates Steel Arkan Group had announced a **20%** increase in their domestic rebar prices. They also confirmed that scrap prices had surged by **29%** in the previous month. ^{viii}

Copper is up **12%** on years 2021 – 2022. Steel rebar is up **32.6%** year on year and UAE steel prices have risen sharply. MEstel indicates rebar prices increases of **27%** (from \$655 to \$865 per ton) in the UAE. ^{ix}

The Dubai Construction Material Price Index (CMPI) in **Figure 7** shows materials experiencing sharp cost increases comparing:

- 2021 to 2022 (Year-On-Year); and
- Q1 and Q2 (Quarter-By-Quarter)

Figure 7: Dubai CMPI y/y Material increases

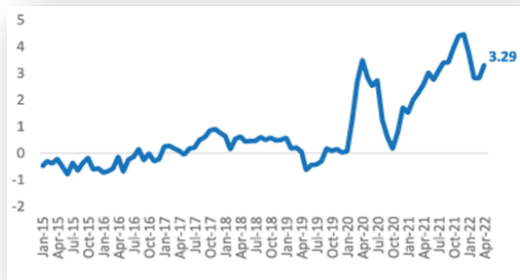


We anticipate that in the short term, valuing risk will remain challenging for risk managers and insurers, due to market volatility .

Supply Chain

Lead times on equipment have dramatically changed since the start of 2022. Suppliers have seen the knock-on effect of material shortages, delays and price hikes throughout the supply chain, which is leading to prolonged lead times and reduced order commitments from suppliers for new projects / orders. Time pressures are often a key driver with the MENA region and increased delays are likely to have knock-on effects. **Figure 8** shows the sharp increase in the Global Supply Chain Pressure Index.

Figure 8: Federal Reserve Bank of New York, Global Supply Chain Pressure Index (GSCPI) ^{xi}



Impact of inflation on insurers

For insurers in the MENA region, the impact and volatility of inflation, construction costs, material and labour shortages and longer lead times makes valuing values at risk and potential loss scenarios challenging: what was accurate three (3) months ago, may no longer be. Keeping abreast of market rates is imperative when assessing risk and claims exposures.

With supply chains under pressure from material supply shortages, congestion and delays in shipping and labour shortages, impacts are also affecting the reinstatement costs in the aftermath of a loss.

There is also a certain inevitability that, in line with inflation, claims values are likely to increase as a result. But what may not be fully appreciated is that longer re-instatement periods may have a greater financial impact than labour or material unit price increases. The longer periods affect physical damage claims as well as time element exposures such as business interruption or delay in start-up.

With increased uncertainty on project pricing, there is increased in use of fluctuation clauses and amendments in contracts, there is a risk that projects may be under insured.

With so many variables and volatility affecting insurers’ reserving and reinstatement exposures, a proactive and expert-led approach to claims’ assessment is vital.

A LOOK AHEAD... The next 12 months

Regional material price increases and continued supply chain pressures are likely to cause uncertainty. The Ukraine situation, and associated sanctions, may add to this.

Inflation is likely to continue to increase in the near term and therefore is likely to lead to upward pressures on insurance claims values and adequacy of sums insured.

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- x. Dubai Chamber Data Management Division 'The Construction Material Price Index (CMPI), a quarterly publication of the Dubai Chamber'. Q1/22, Issue No. 45
- xi. Federal Reserve Bank of New York, Global Supply Chain Pressure Index (GSCPI)

General Sample of Sources include: Global Data's Construction Intelligence Centre (CIC), World Bank, IMF, OECD,

Country specific sources:

Emirates National Bank, Dubai Chamber of Commerce, Dubai Economic Research Department, National statistics offices, and industry specific associations and publications.

