

# Developments in the Takaful Sector: A rating agency perspective

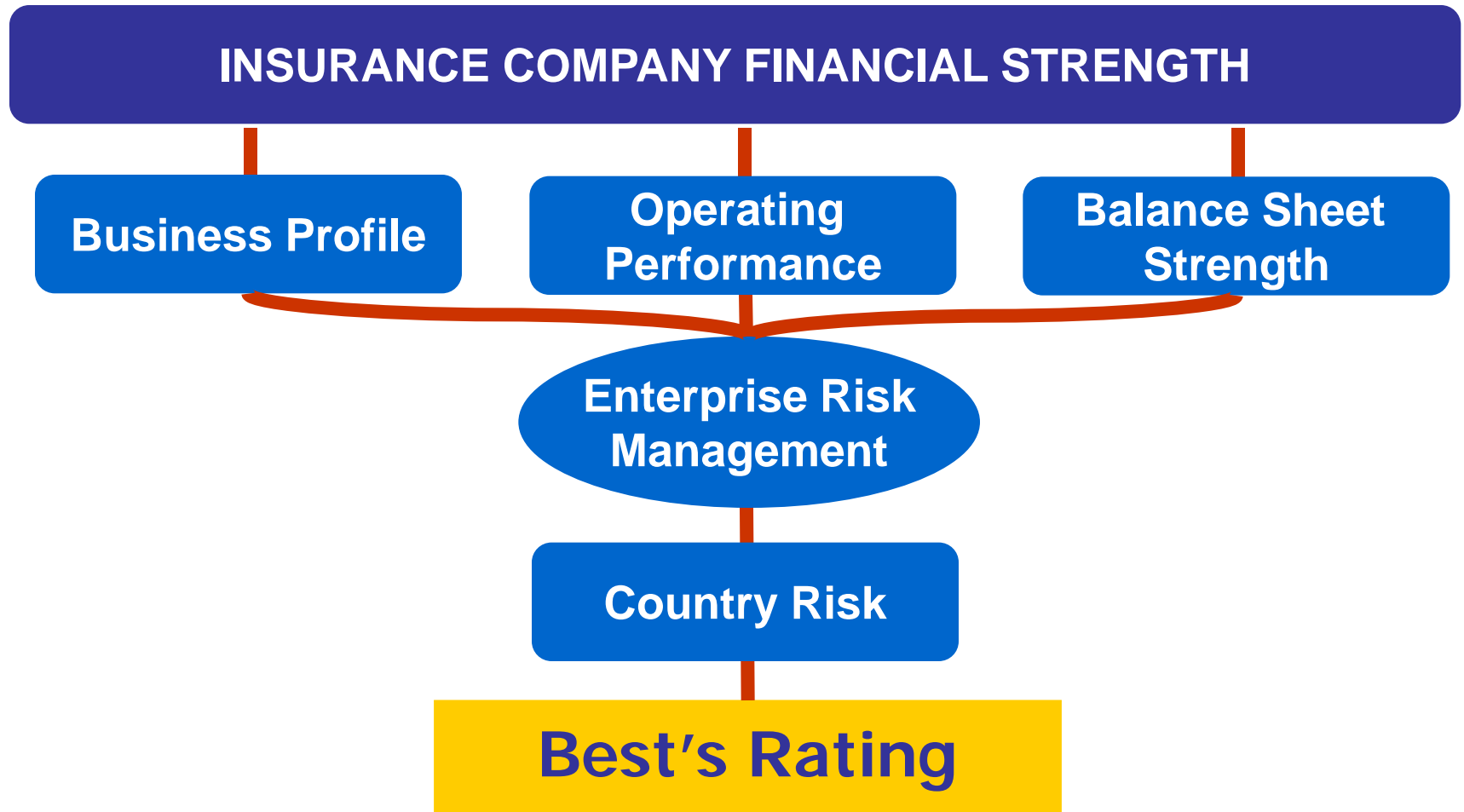
12 July 2011

Vasilis Katsipis,  
General Manager, Analytics  
A.M.Best Europe – Ratings Services Ltd.

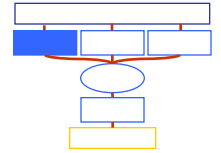


# Financial Strength Ratings

An opinion as to an insurer's financial strength and ability to meet its ongoing obligations to policyholders



# Improving business profile

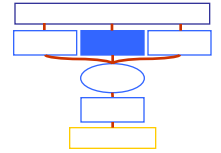


- ↑ Strong premium growth in both nascent and mature takaful markets
- ↑ Family business growing faster than general insurance
- Demand for re-takaful remains low
- ↓ Recent start-ups finding it difficult to meet business plans
- ↓ In most cases takaful companies compete on price rather than differentiated value proposition

Positive rating implications for companies with either:

- Differentiated value propositions or
- Well established operators

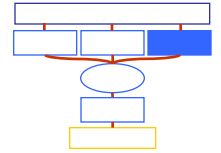
# Financial performance improves but varies significantly between operators



- ↑ Family takaful very profitable
- Profitability of GI takaful depends on market and operator expertise
- Good but volatile investment performance
- ↓ Many of the recent entrants find it difficult to deliver technical profits
- ↓ In most cases underwriting profits are delivered to shareholders with minimal retention in Takaful Fund

Technical profitability will remain the most important driver for the rating of many takaful companies

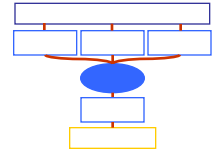
# Very strong capitalisation



- ↑ Strong risk adjusted capitalisation for most takaful companies as a whole
- ↓ Capitalisation of Takaful Funds kept low in most cases especially among new operators

Building up of sufficient capital resources within the Takaful fund is imperative for a secure rating

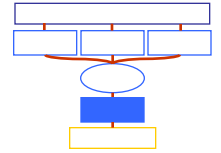
# Weak ERM



- ⬆ Increased activity in establishing elements of risk management
- ⬇ ERM still at a nascent stage

Developments underway unlikely to have positive impact on ratings in the next 2 years

# Improving country risk



- ⬆ Rebound of most economies in which Takaful business is contracted
- ⬆ Increased regulatory activity in order to define specific capital and process requirements for Takaful operators
- ⬆ Many operators / markets considering implementation of IFRS accounting
- ⬇ In many markets seniority of policyholder claims remains unclear and untested

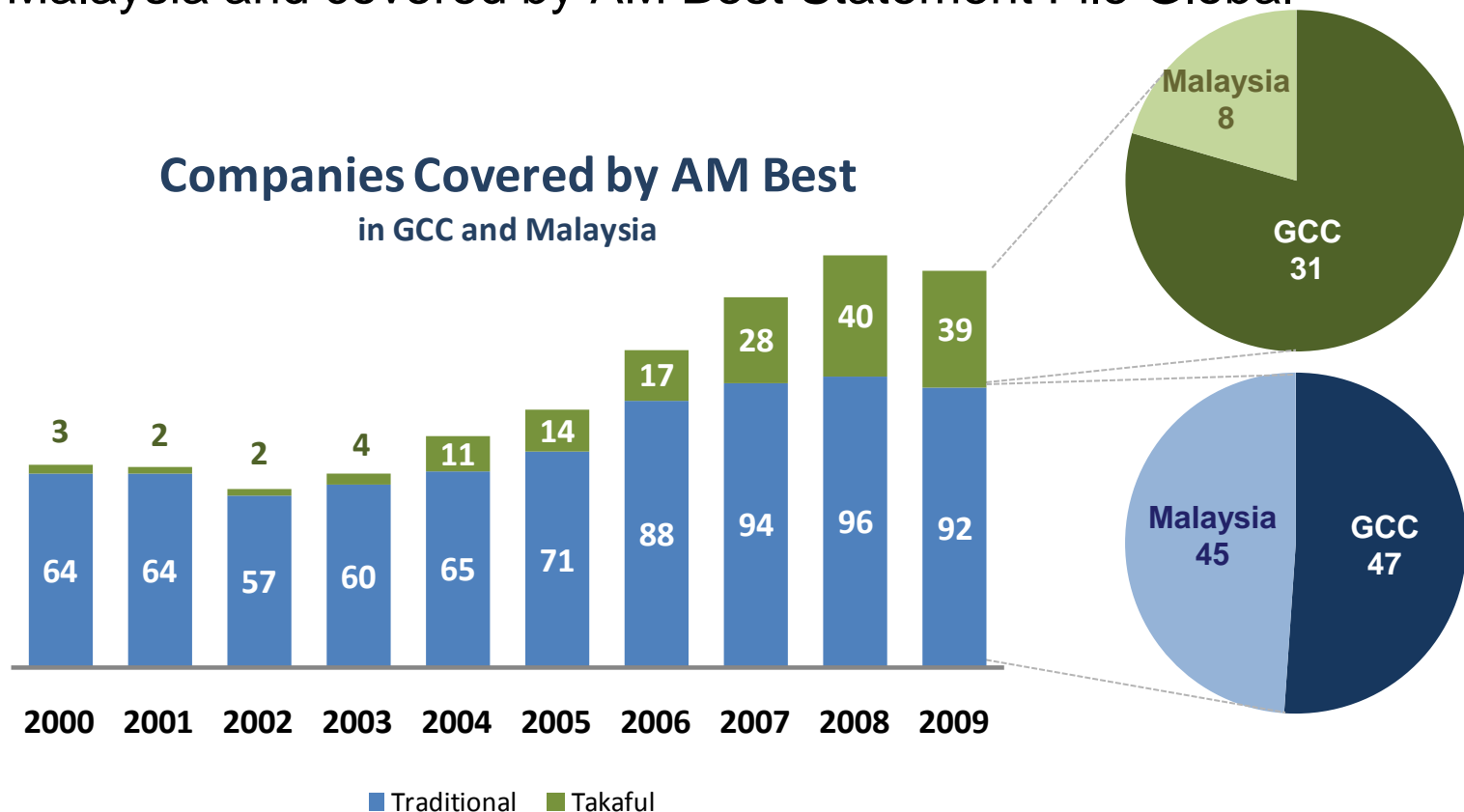
Improving country risk for most Takaful companies

# APPENDICES



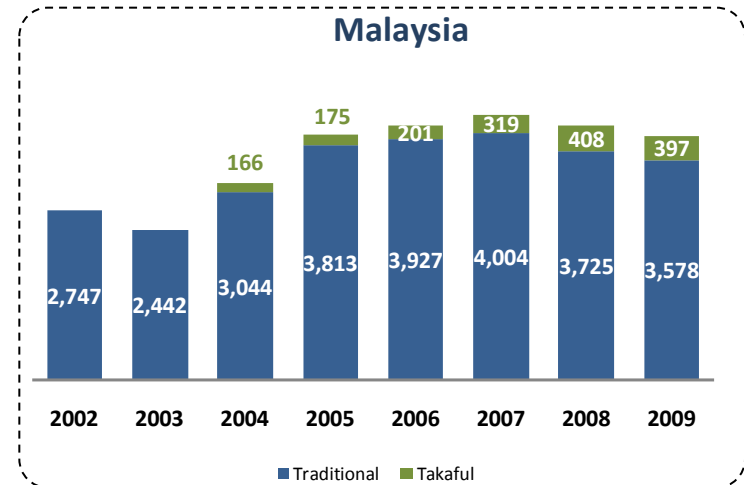
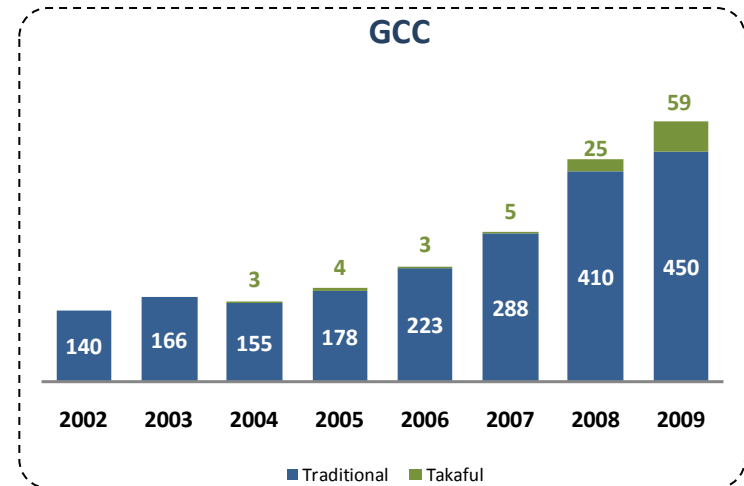
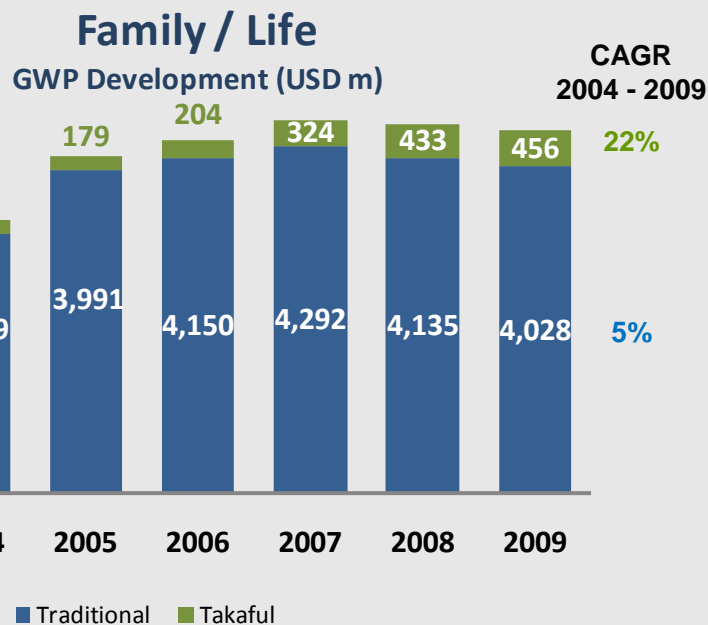
# Basis of trend analysis

- Analysis of trends based on companies operating in the GCC and Malaysia and covered by AM Best Statement File Global



# Family Takaful premium development:

## Growing faster than market



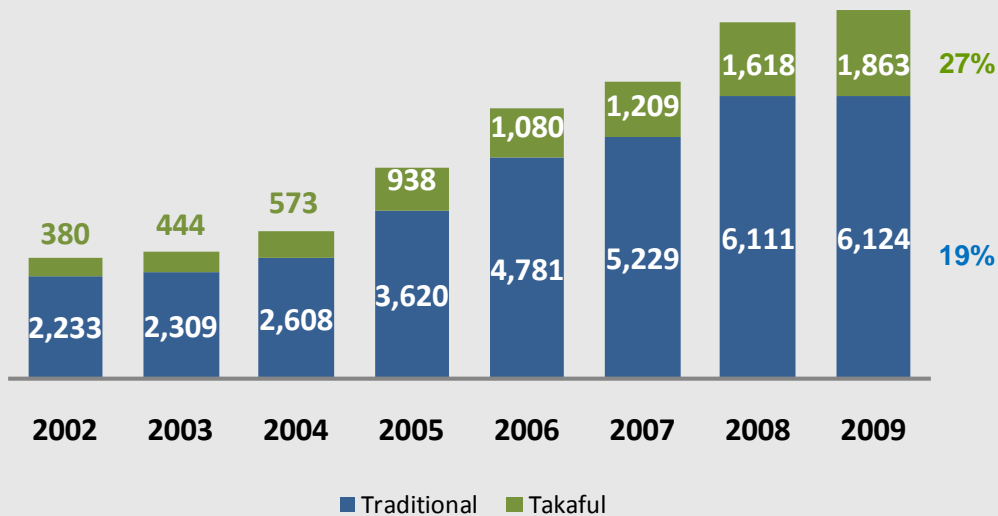
# GI Takaful Premium development:

## Takaful operators growing at rates closer to the market

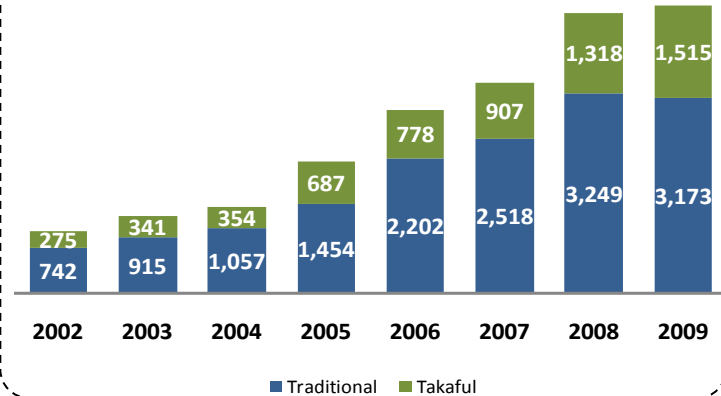
### General Insurance

GWP Development (USD m)

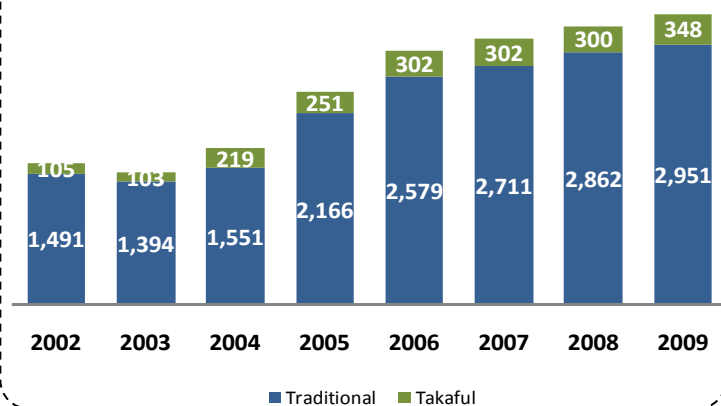
CAGR  
2004 - 2009



### GCC



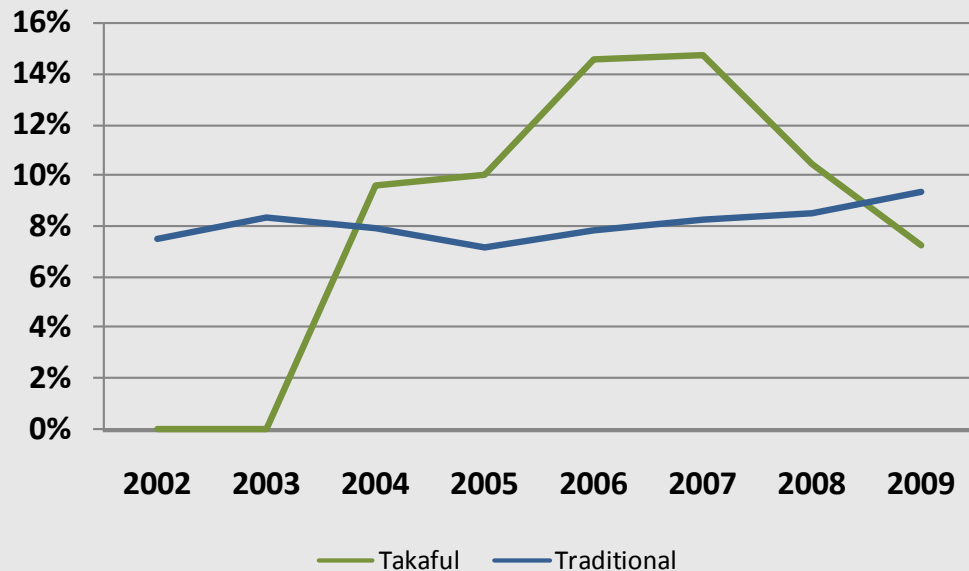
### Malaysia



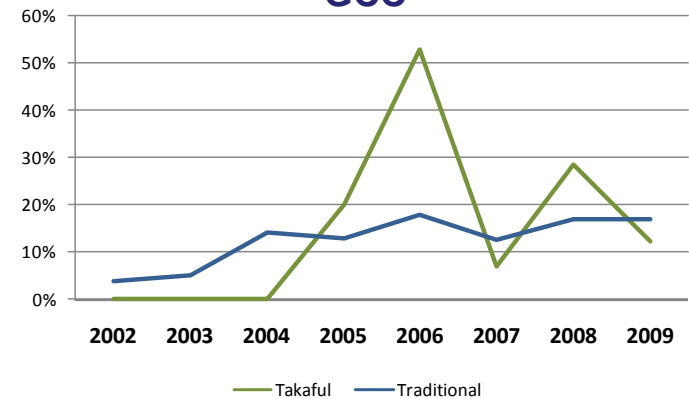
# Family Takaful:

## More profitable than traditional life insurance

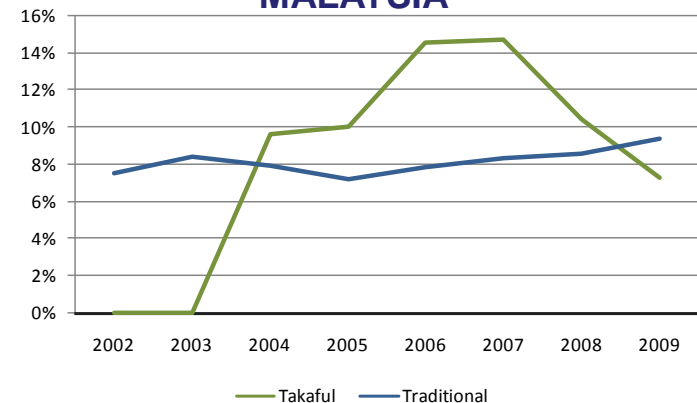
### Return on Family / Life Premiums



### GCC



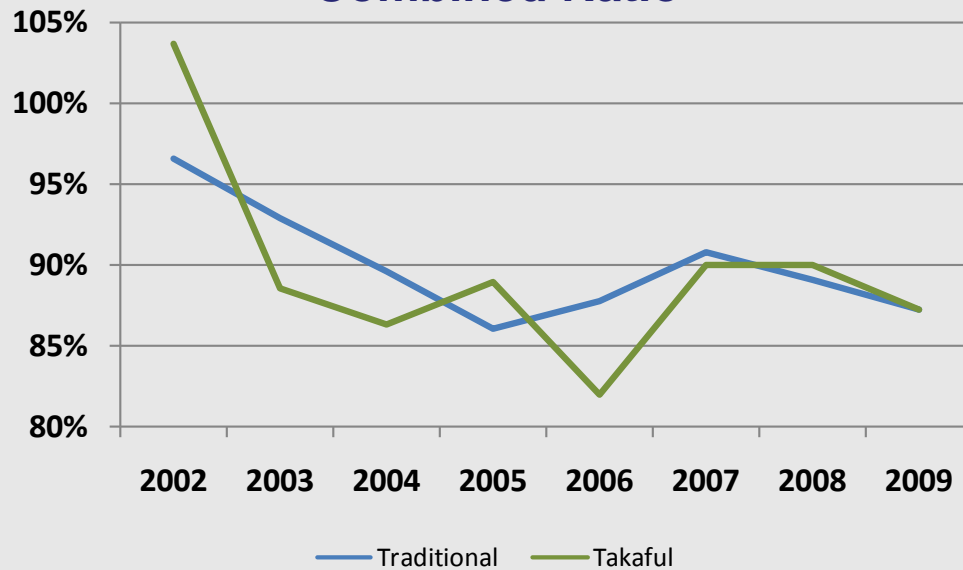
### MALAYSIA



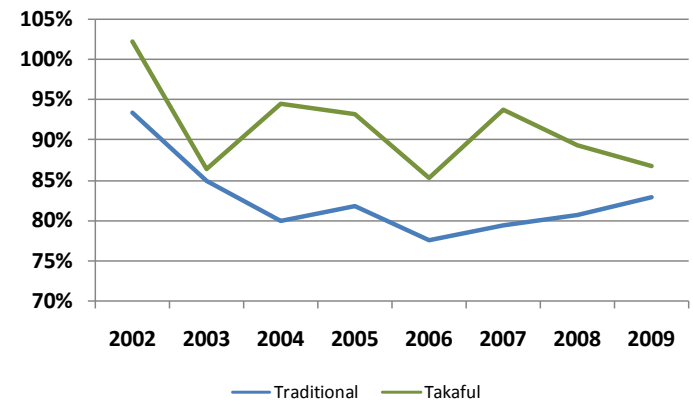
# GI Takaful profitability:

Competition for limited business drives profitability down

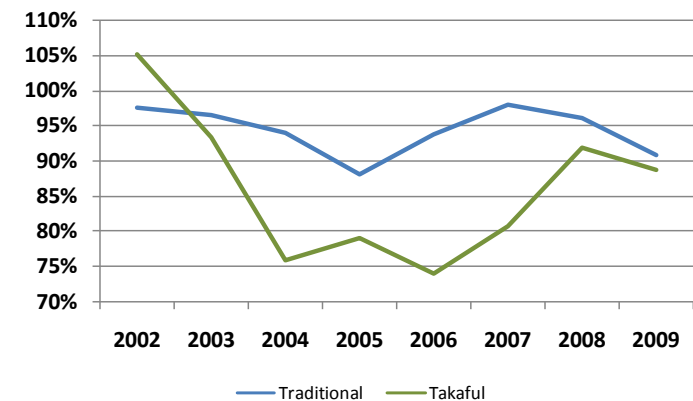
## Combined Ratio



## GCC

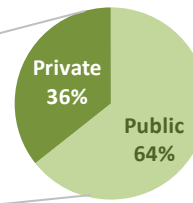
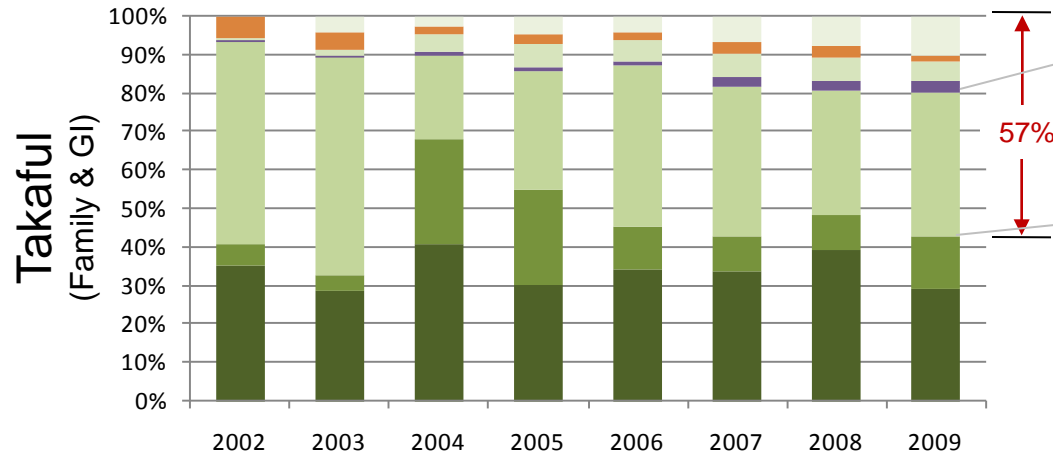


## MALAYSIA

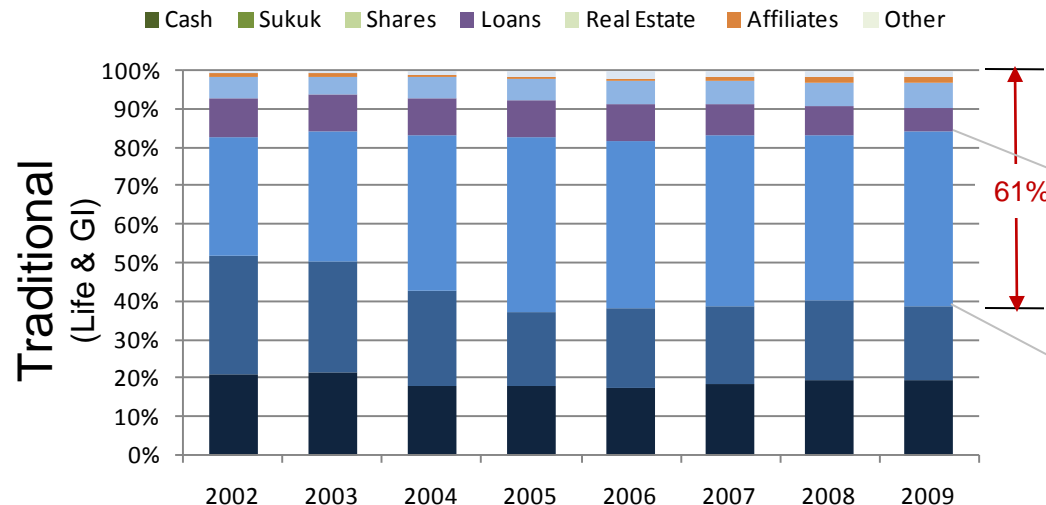


# Investments:

Asset mix line with market but with higher exposure to private equity and higher concentration. Results in volatile investment performance

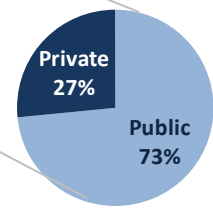
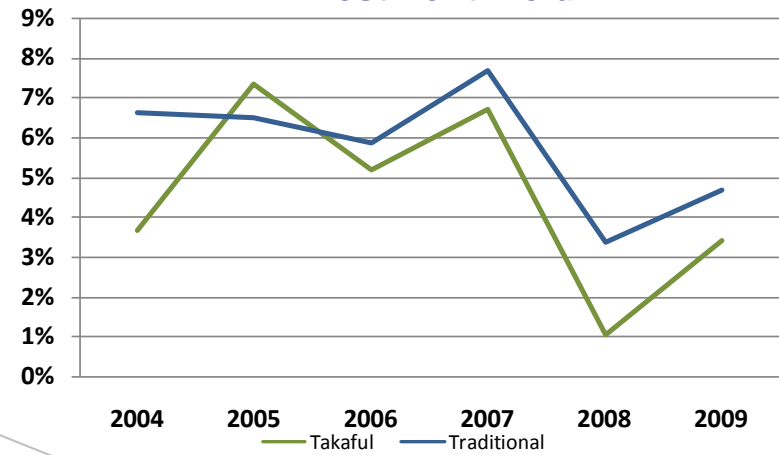


57%



61%

## Investment Yield

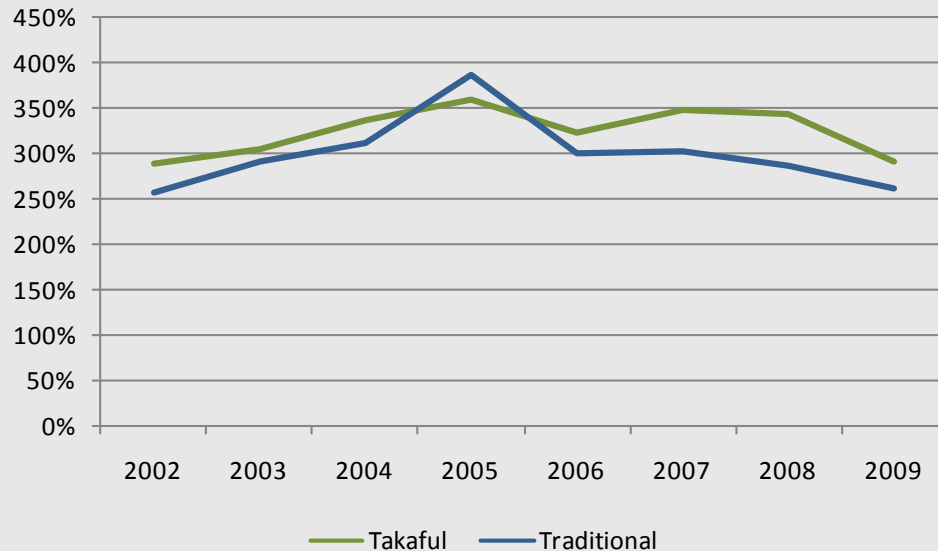


■ Cash ■ Bonds ■ Shares ■ Loans ■ Real Estate ■ Affiliates ■ Other

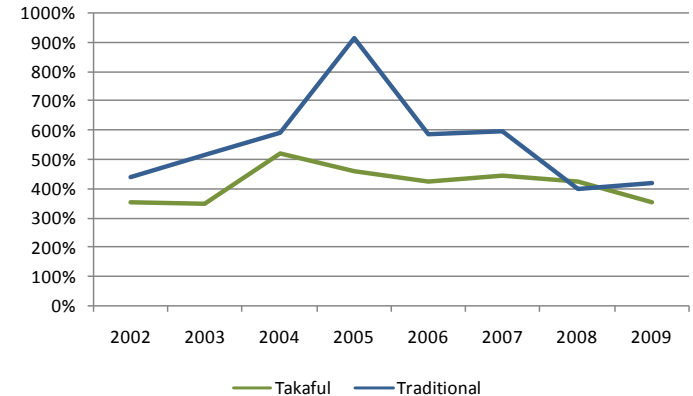
# Capitalisation:

Overall strongly capitalised – start-ups better capitalised than established operators

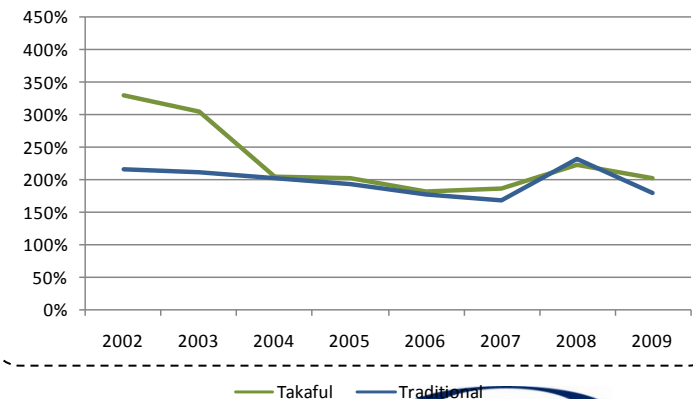
## Risk Adjusted Capitalisation Based on AM Best Capital Adequacy Ratio



## GCC



## MALAYSIA



© AM Best Company (AMB) and/or its licensors and affiliates. All rights reserved. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT AMB's PRIOR WRITTEN CONSENT. All information contained herein is obtained by AMB from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall AMB have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of AMB or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if AMB is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser. Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. Credit ratings do not address any other risk, including but not limited to, liquidity risk, market value risk or price volatility of rated securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY AMB IN ANY FORM OR MANNER WHATSOEVER. Each credit rating or other opinion must be weighed solely as one factor in any investment or purchasing decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security or other financial obligation and of each issuer and guarantor of, and each provider of credit support for, each security or other financial obligation that it may consider purchasing, holding or selling.

