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The Saudi Arabian Insurance Sector in 2012: NAVIGATING the TAKAFUL – ISLAMIC COOPERATIVE DYNAMIC

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Agenda

- **A Brief Statistical Analysis of Sharia Compliant Cooperative and Takaful Insurance In The Middle East**
- **Overview of Insurance In The Kingdom of Saudi Arabia**
- **The Islamic Cooperative – Takaful Dynamic in the KSA**
- **Questions?**

STATISTICAL ANALYSIS of SHARIA COMPLIANT COOPERATIVE & TAKAFUL INSURANCE IN THE GCC

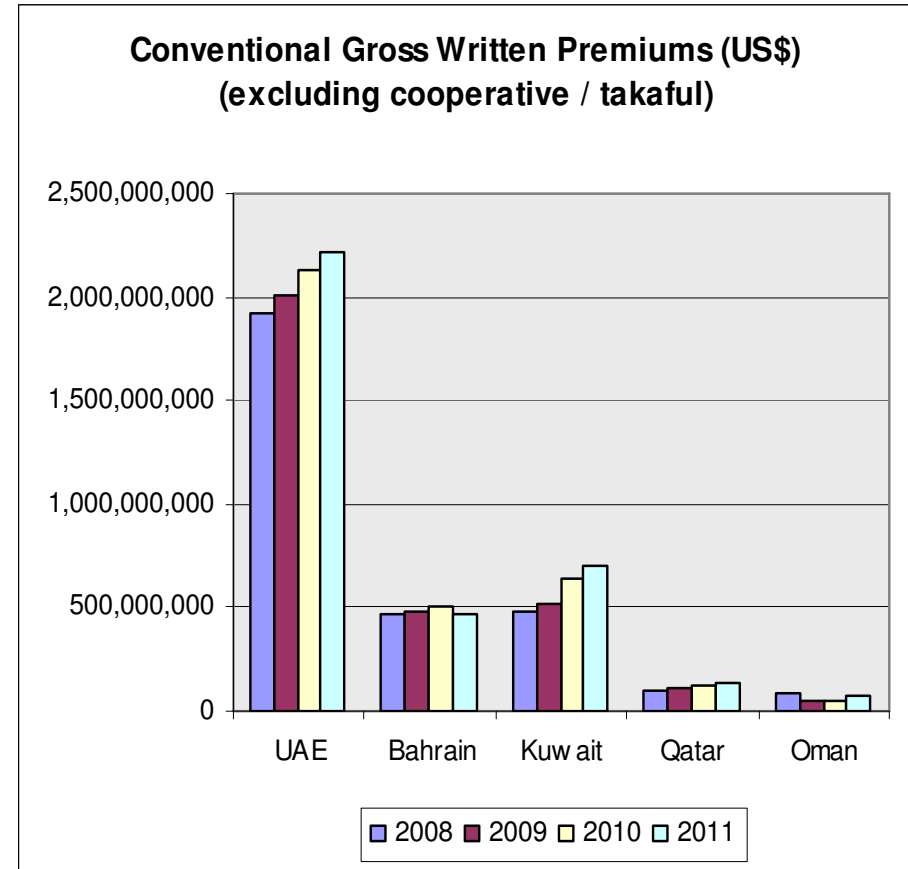
Standard & Poor's GCC Insurance Ratings Coverage (as of 12th. June, 2012)

BAHRAIN	ICR/Outlook	KINGDOM of SAUDI ARABIA	ICR/Outlook
Bahrain National Insurance Co. BSC	BBB/Negative	Al Sagr Cooperative Insurance Co.	BBB/Stable
Hannover ReTakaful B.S.C.	A/Stable	Malath Cooperative Insurance & Reinsurance Co.	BBB/Positive
Saudi National Insurance Co.	BBB/Stable	Mediterranean & Gulf Coop. Insurance & Reins. Co.	A-/Stable
Takaful International Co. BSC	BBB/Negative	Saudi Re for Cooperative Reinsurance Co.	BBB+/Stable
Trust International Insurance & Reins. Co.	BBB+/Stable	Stellar Insurance Ltd. (Bermuda)	AA-/Stable
HASHEMITE KINGDOM of JORDAN		Tawuniya/The Company for Cooperative Insurance	A/Stable
Euro Arab Insurance Group P.S.C.	BB/Negative	Wataniya Insurance Co.	BBB/Stable
International General Insurance Co Ltd	BBB+/Stable	Weqaya Takaful Insurance & Reinsurance Co.	BBB/Stable
KUWAIT		UNITED ARAB EMIRATES	
Al-Ahleia Insurance Co. S.A.K.	BBB+/Stable	Abu Dhabi National Insurance Co. (PSC)	A-/Positive
Arab Investment & Export Credit G'tee. Corp	AA/Stable	Al Buhaira National Insurance Co. (PSC)	BB+/Stable
Gulf Insurance Co. K.S.C.	A-/Stable	Arab Orient Insurance Co. (PSC)	A/Stable
Kuwait Reinsurance Co. K.S.C.	BBB+/Stable	BEST RE (L.) Limited	A-/Stable
Wethaq Takaful Insurance Co. K.S.C. (Closed)	BB/Stable	BEST RE Family (L.) Limited	A-/Stable
OMAN		Dubai Islamic Insurance & Reinsurance Co. (Aman)	BBB-/Stable
Oman United Insurance Co. S.A.O.G.	BBB-/Stable	National General Insurance Co. (PSC)	BBB+/Stable
QATAR		Noor Takaful Family PJSC	BB+/Stable
Doha Bank Assurance Co. LLC	BBB/Stable	Noor Takaful General PJSC	BB+/Stable
Doha Insurance Co. Q.S.C.	BBB+/Stable	Oman Insurance Co. (PSC)	BBB+/Stable
Qatar Insurance Co. S.A.Q.	A/Stable	Salama/Islamic Arab Insurance Co. (P.S.C.)	A-/Stable
QIC International LLC	A/Stable	Takaful Re Ltd.	BBB/Stable
Q-Re LLC	A/Stable		

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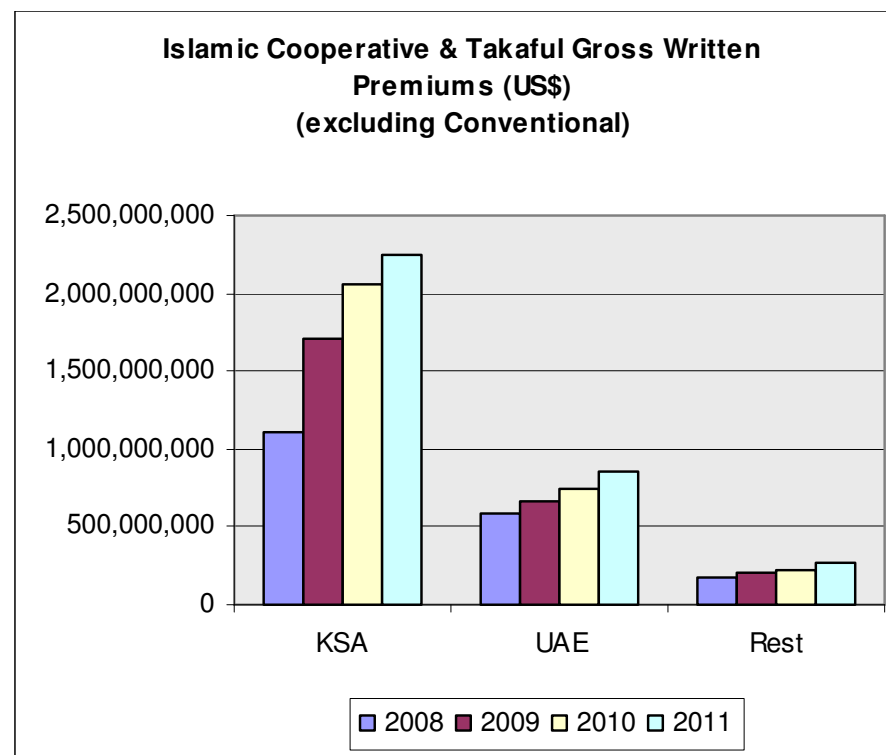
Conventional Insurance by Country

- **Largest non-explicitly Islamic insurance market is in the UAE**
- **Bahrain and Kuwait are next with more or less similar sizes, though Bahrain is flat while Kuwait is growing**
- **Kuwait experienced higher growth rates in 2010 and 2011 as opposed to no growth in Bahrain**
- **Compared to the other 3 markets, Qatar and Oman are smallest in term of premiums written**

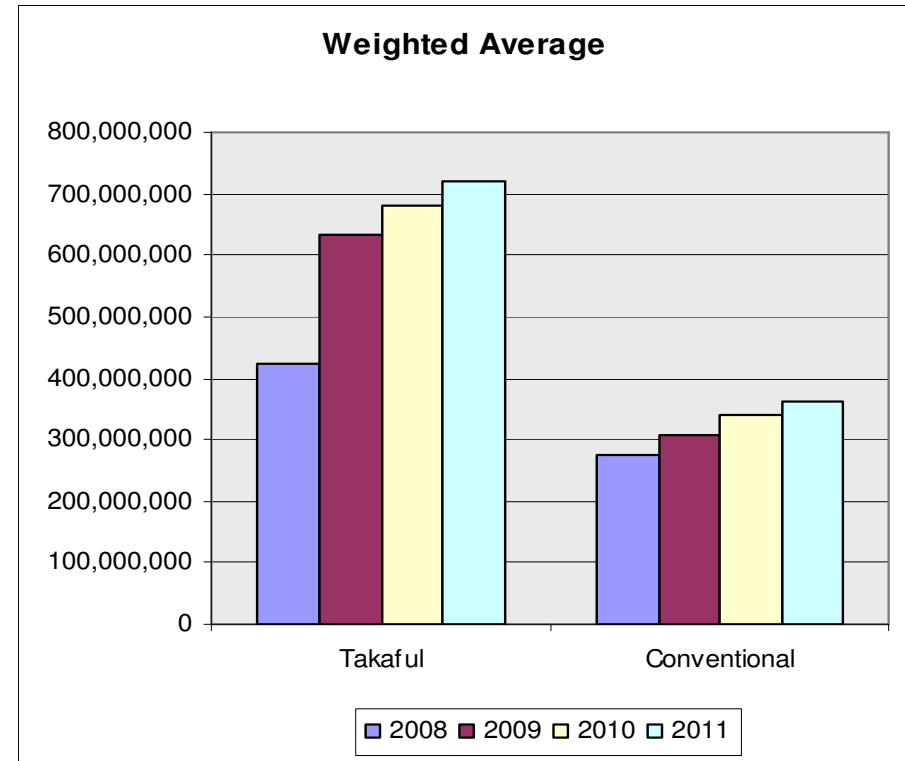
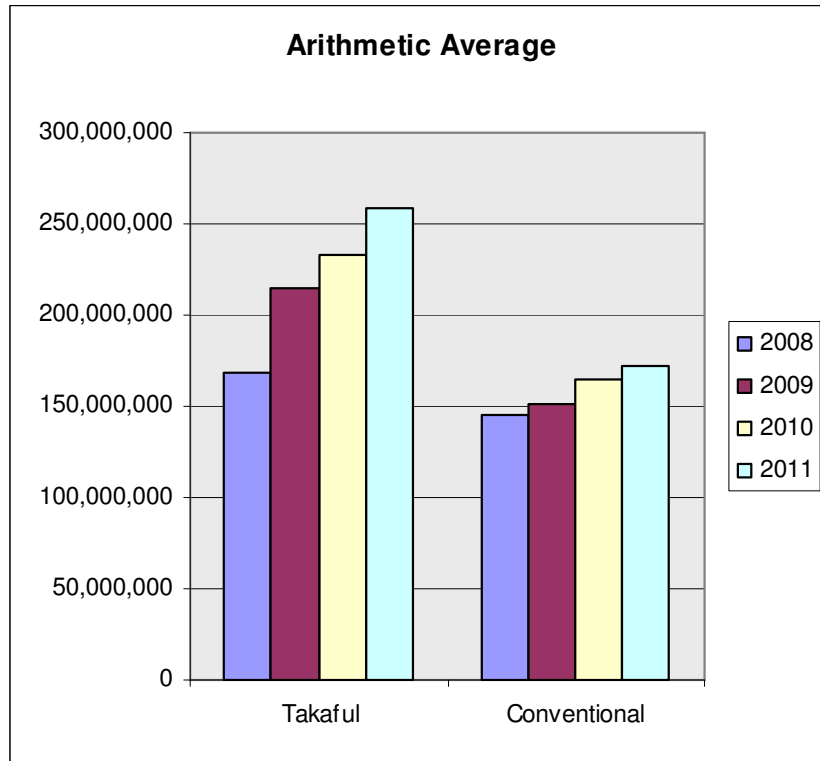


Explicitly Sharia Compliant Cooperative / Takaful Insurance by Country

- Largest market by far is the KSA, where gross premiums have doubled between 2008 – 2011
- Next in size comes UAE where takaful insurance has experienced a growth rate of about 50% between 2008 – 2011
- 'Rest' consist of Bahrain, Kuwait, and Qatar

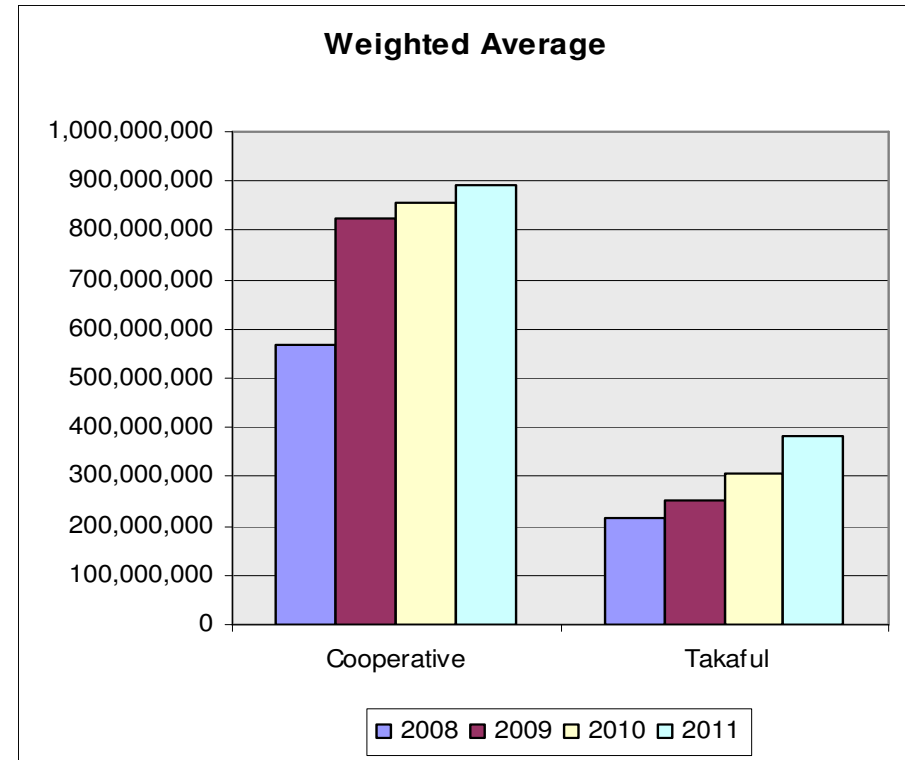
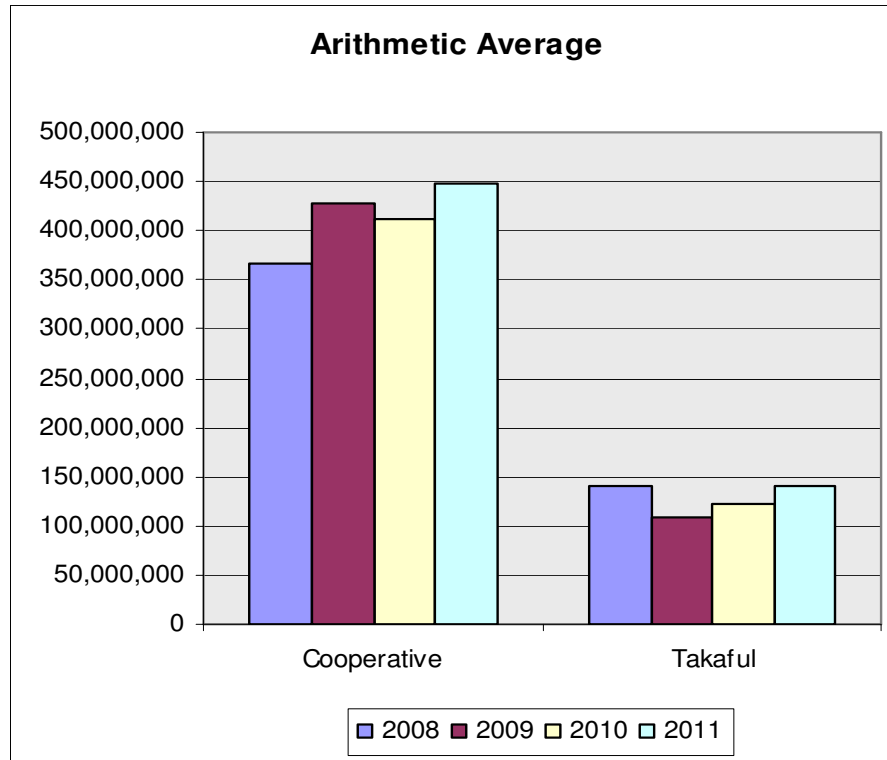


Conventional Insurance v. Takaful In The GCC Region



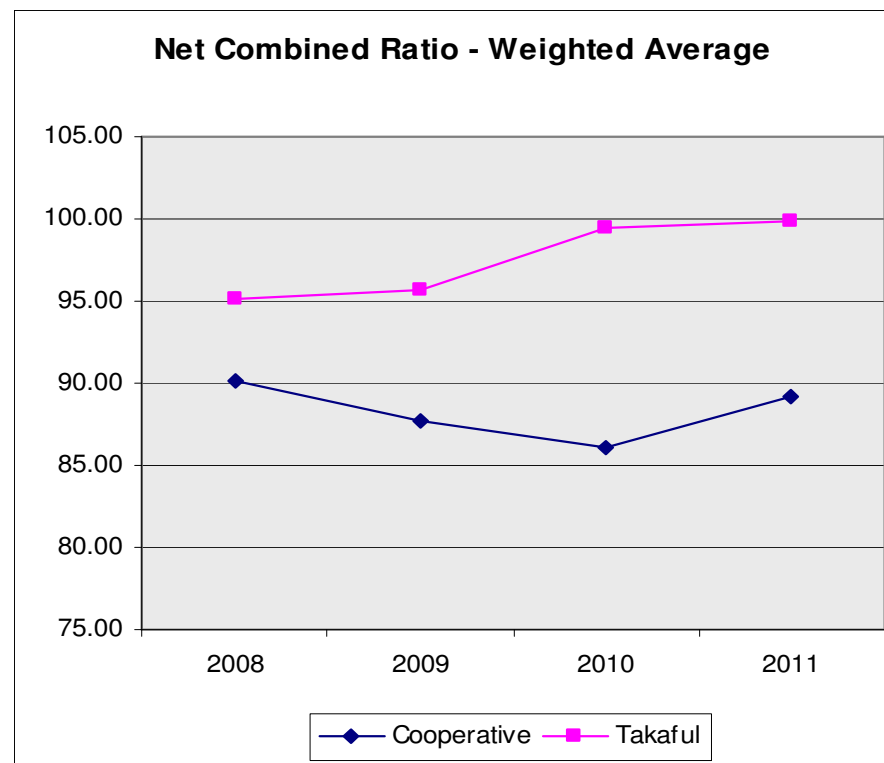
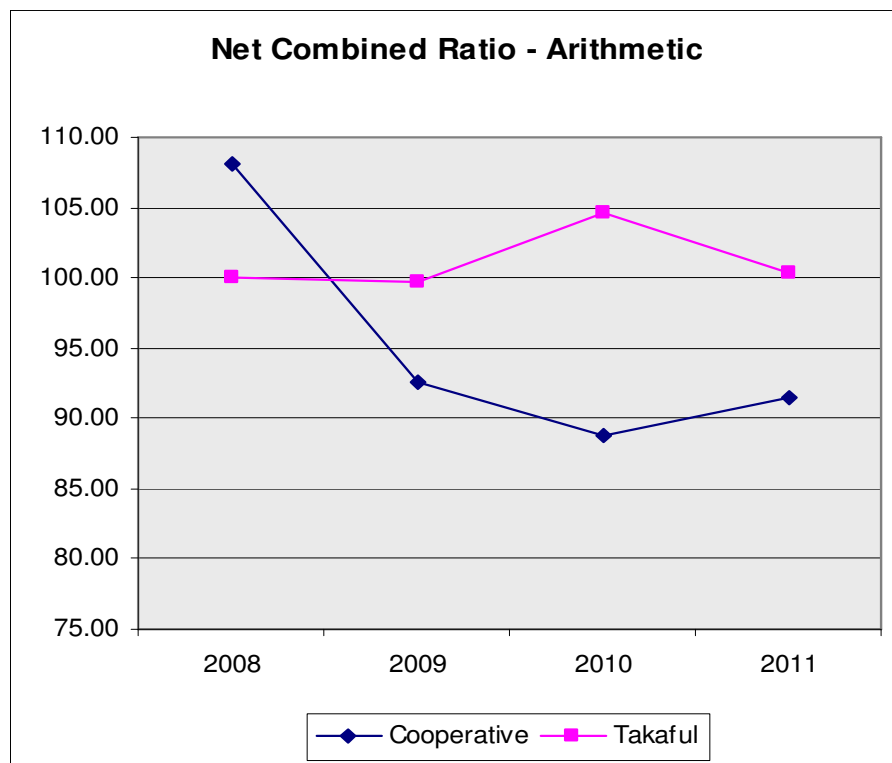
- Both conventional and Cooperative/Takaful markets are dominated by big players
- Cooperative/Takaful companies have shown higher growth rates when compared with conventional ones

Islamic Cooperative Insurance v. Takaful



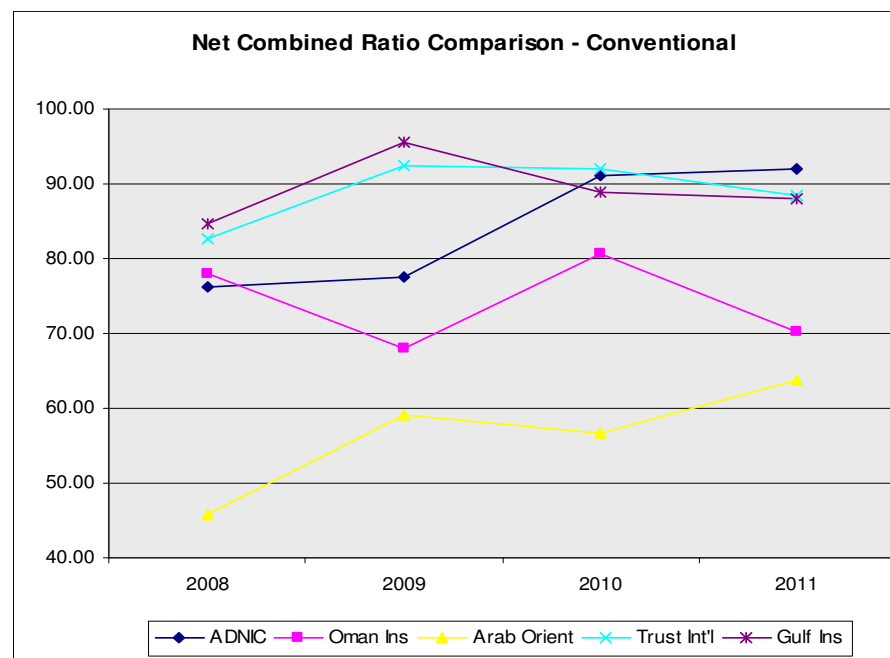
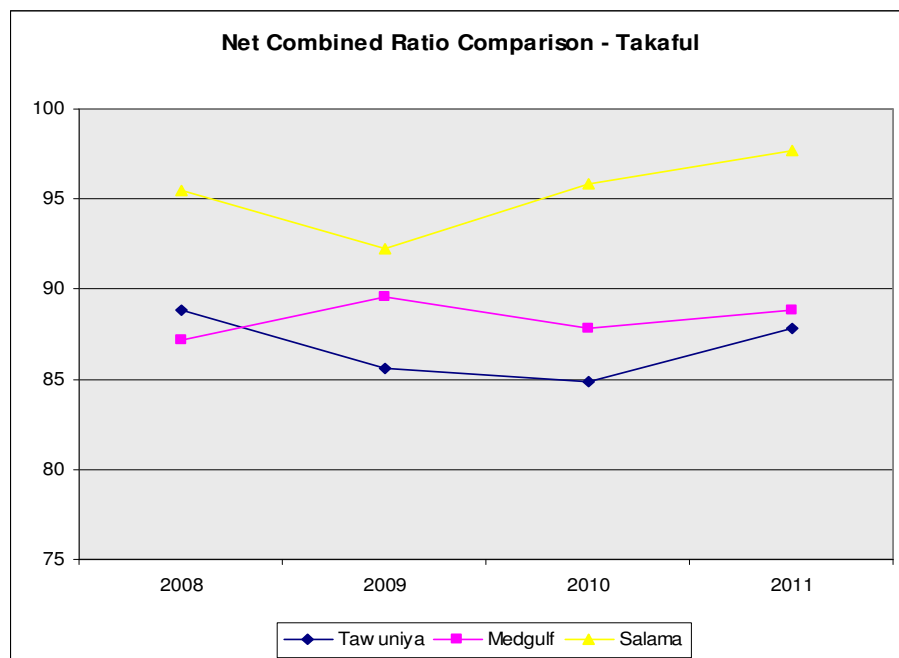
- Both Cooperative and Takaful markets are dominated by big players
- Large insurers have grown faster than smaller players in both markets making them highly concentrated

Islamic Cooperative Insurance v. Takaful



- **Cooperative insurers are more profitable than Takaful insurers**
- **Apart from year 2008, Net Combined Ratios have been fairly consistent and not volatile in both markets for the past 4 years**

Company Comparison: Tawuniya + MedGulf KSA + Salama



- The large conventional and Takaful players in the GCC market have been profitable in the past 4 years
- The degree of profitability is somehow similar for large insurers with conventional insurers having slightly better Net Combined Ratios over the 2008-2011 period

Focus on Some of the More Unusual Features of the Saudi Arabian Insurance Sector

Insurers/Reinsurers In Saudi Arabia As of July 2012 (SAR Millions)

COMPANY	Shareholders' Funds 2011	2011 GWP (estimated)	2011 Net Inc.	COMPANY	Shareholders' Funds 2011	2011 GWP (estimated)	2011 Net Inc.
Tawuniya/CCI	2,048.9	4,431.2	439.1	Waf'a (S. Indian)	51.1	93.9	(4.5)
MedGulf Coop.	1,173.5	2,811.1	206.8	Arabia Coop.	173.8	565.1	17.3
BUPA Arabia	526.5	1,993.3	29.6	Trade Union Coop.	294.5	538.1	21.0
Malath Coop.	280.5	600.9	14.1	ACE Arabia	140.9	-	(4.3)
SAICO Coop.	64.4	548.4	(7.8)	United Coop. (UCA)	317.6	1,069.0	42.8
Allianz S.F. Coop.	158.0	683.7	1.6	Al Alamiya Coop.	136.3	-	(3.3)
Gulf Union Coop.	149.1	328.8	(63.0)	Weqaya Takaful	116.8	110.1	(42.1)
SABB Takaful	326.2	267.9	5.5	Khaleeji/Gulf Gen.	133.6	-	(63.7)
AXA Coop.	170.5	427.8	(24.8)	Buruj Coop.	85.1	104.3	(18.3)
Al Ahlia Coop.	32.7	257.7	(5.8)	Amana Coop.	254.5	289.8	(61.0)
Al Sagr Coop.	254.9	234.7	32.0	Solidarity Takaful	470.7	0.1	(84.3)
(Arabian) Shield	230.6	274.2	11.2	Wataniya Ins. Co.	83.4	322.6	(10.3)
Al Rajhi Coop.	109.3	493.3	(32.9)	Tokio Marine S.A.	-	under formation	-
Sanad Coop.	107.1	231.3	(30.1)	ANB-AIG	-	under formation	-
Wala'a Coop.	154.5	278.6	4.6	Al Jazira Takaful	-	under formation	-
Al Ahli Takaful	135.6	188.0	(5.8)	Saudi Enaya Coop.	-	under formation	-
Salama Coop.	85.0	218.7	2.3	TOTAL INS.	8,284.7	17,531.0	363.7
ACIG Coop.	19.1	168.4	(2.2)	Saudi Re Coop.	930.0	159.6	(54.4)

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Some Positive Features of the KSA Insurance Sector

- **BIG MARKET**: Already US\$5bn. premiums in 2011; + 15% p.a. expected
- **LOTS of PEOPLE**: 19.5 million Saudis; some 8 million Foreigners
- **EFFECTIVE REGULATION**: SAMA (ins.) + CCHI (medical) + CMA (capital)
- **COMPULSORY BAD & DOUBTFUL DEBT PROVISIONS**: All premiums >90 days from contract inception must be fully reserved as B&DD...
- **POTENTIAL for GROWTH**
 - **Domestic Workers' Medical**: Possible requirement for compulsory medical cover
 - **Medical for Saudi Nationals**: Already a reality for many Saudis!
 - **New Mortgage Law**: 2nd. July, 2012 – creating a need for term life and fire covers?
 - **Access to Aramco/Sabir**: good business if you can get it!
 - **Manafeth**: Tawuniya's secret weapon, but may be pooled !

Some Less Positive Features of the KSA Insurance Sector...

- **START-UP COSTS:** With 1- 2 years before commencing underwriting, fixed costs and early operational expenses can be crippling, and can easily consume 50% of shareholders' funds for those companies at the regulatory minimum of SAR100mm., while even a capital increase can take time...
- **ZAKAT:** Fixed rate zakat at 2.5% on 'zakatable' assets can prove punitive when levied before profits are being made, and while cash yields are 0.7%
- **STAFFING:** Insurance is booming in the region – but this has led to skilled staff shortages, and instability. >30% 'Saudisation' ratio is a further complication
- **TOO MANY INSURERS / TOO LITTLE CONSOLIDATION:** Expensive insurance stock listed on Tadawul is a disincentive to would-be consolidators

The Cooperative – Takaful Dynamic in Saudi Arabia

The Cooperative – Takaful Insurance Dynamic in Saudi Arabia

What Does 'Cooperative' Mean In Terms of Insurance in the KSA?

- **SHARIA-COMPLIANCE:** Few seem to question this, at least not for non-life business...
- **PROFIT-SHARING WITH POLICYHOLDERS:** At least 10% of Operating Profits must go to policyholders (but losses are 100% for the shareholders)
- **CLEAR, STANDARDISED ACCOUNTING:** But without the complication of wakala and/or mudharaba fees, etc. - nor the potential uncertainty of the qard hasan...

The Cooperative – Takaful Insurance Dynamic in Saudi Arabia

What Does 'Takaful' Mean In Terms of Insurance in the KSA?

- **A SHARIA BOARD:** May only comprise one person but can nonetheless be a potent differentiating factor
- **BRANDING:** Not only the company name but also the literature, the publicity, and the products can all use the word 'takaful'
- **A COMPETITIVE ADVANTAGE:** The word 'Takaful' has a resonance in the retail sector, particularly on the life (family takaful...) side

The Curious Case of Solidarity Saudi Takaful Co., Riyadh

Uniquely, Solidarity has been given a waiver by SAMA to operate in a slightly different way to the Islamic Cooperative insurance norm:

- As with all other KSA insurers, at least 10% of any Operating Profit must be returned to policyholders, either as cash or as a discount on policy renewal

Of the residual balance of 90%:

- Shareholders can deduct a fee up to the equivalent of 5% of GWP

If some undistributed balance still remains:

- 10% of the residual amount can be credited to shareholders as a 'Performance Incentive'

If there is *still* some undistributed balance:

- A further amount not exceeding the equivalent of 5% of Gross Premiums can be credited to shareholders as a further fee for managing the operations and investments on behalf of policyholders

Some Conclusions

- 1. GROWTH: Much of The Growth In Sharia-compliant Insurance In The GCC Region Relates To Cooperative Insurance In Saudi Arabia, Mainly Medical**
- 2. PROFITABILITY: Insurer Profitability In The Region Is More A Function of Size And Maturity Than of Mode of Operation (But Captive Business Helps Too!)**
- 3. KSA: There Is Still A Lot of Change Going On Within The KSA Insurance Sector But It Is An Attractive - Or Potentially Attractive! - Market For At Least HALF The Companies Already There...**
- 4. TAKAFUL: ALL Insurers In The KSA Are Sharia Compliant - But Some Half Dozen Would Prefer To Be Explicitly Takaful, If This Were Made Possible...**
- 5. KSA TAKAFUL: The Curious Case of Solidarity Saudi Takaful Shows That The Door Remains Ajar To Takaful Insurance In The KSA, With SAMA Prepared To Use The Language of Takaful Even If Islamic Cooperative Concepts Continue To Dominate**



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