

# **Enhancing The Takaful Proposition: Shariah-Compliant Insurance & The Case of Saudi Arabia**

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# **Agenda** (15 minutes)

- 1. Short Summary of Perceived Strengths & Weaknesses Across The Sharia-Compliant Insurance Sector**
- 2. CASE STUDY: Sharia-Compliant Insurance In The Kingdom of Saudi Arabia**
- 3. Some Conclusions On Both Takaful Generally, And On The Current Situation In Saudi Arabia**

# Standard and Poor's GCC Insurance Ratings

Bahrain	
Hannover ReTakaful B.S.C.	A+/Stable
Mediterranean & Gulf Insurance & Reinsurance Co. B.S.C.	A/Stable
Saudi National Insurance Co.	BBB/Stable
Kuwait	
Al-Ahleia Insurance Co. S.A.K.	BBB+/Stable
Arab Investment and Export Credit Guarantee Corp. (The)	AA/Stable
Gulf Insurance Co. K.S.C.	A-/Stable
Kuwait Qatar Insurance Co. K.S.C.	A/Stable
Kuwait Reinsurance Co. K.S.C.	BBB+/Stable
Warba Ins. Co. K.S.C.	BBB/Stable
Wethaq Takaful Insurance Co. K.S.C. (Closed)	BB/Stable
Oman	
Oman United Insurance Co. S.A.O.G.	BBB/Stable
Qatar	
Doha Bank Assurance Co. LLC	BBB/Stable
Doha Insurance Co. Q.S.C.	BBB+/Stable
Qatar Insurance Co. S.A.Q.	A/Stable
Qatar Insurance Co. International LLC	A/Stable
Q Life & Medical Insurance Co.	A/Stable
Q-Re LLC	A/Stable

Saudi Arabia	
Al Sagr Cooperative Insurance Co.	BBB/Stable
Malath Cooperative Insurance & Reinsurance Co.	BBB+/Stable
Mediterranean & Gulf Cooperative Ins. and Reins. Co.	A-/Stable
Stellar Insurance Ltd.	AA-/Positive
Saudi Re for Cooperative Reinsurance Co.	BBB+/Stable
Tawuniya/The Company for Cooperative Insurance	A/Stable
Wataniya Insurance Co.	BBB/Stable
Weqaya Takaful Insurance & Reinsurance Co.	BBB/Stable
United Arab Emirates	
Abu Dhabi National Insurance Co. (PSC)	A-/Stable
Al Buhaira National Insurance Co. (PSC)	BB/Negative
BEST RE (L) Ltd.	B+/Developing
BEST RE Family (L) Ltd.	B+/Developing
Dubai Islamic Insurance & Reinsurance Co. (Aman)	BBB-/Stable
National General Insurance Co. (PSC)	BBB+/Stable
Noor Takaful Family PJSC	BB+/Stable
Noor Takaful General PJSC	BB+/Stable
Oman Insurance Co. (PSC)	A-/Positive
Orient Insurance P.J.S.C.	A/Stable
Salama/Islamic Arab Insurance Co. (P.S.C.)	BBB+/Negative
Takaful Re Ltd.	BBB/Stable

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# Strengths & Weaknesses of Takaful and Islamic Cooperative Insurance (I)

## Perceived Strengths and Weaknesses Include:

- **Too Many Sharia-compliant Insurers & Reinsurers**
  - More precisely, too few large, well-established Takaful insurers, perhaps too many small, recently established ones? But with takaful companies common, they risk diluting their differentiation
- **Policyholders Prefer Sharia-compliant Insurance**
  - But most (retail) customers are looking for compulsory covers (motor) and many frankly see insurance as little more than a tax! Family takaful may be different...
- **Takaful Insurers Share Their Profits** – a powerful selling point, but currently few profits, and even fewer examples of (significant) profit sharing

# Strengths & Weaknesses of Takaful and Islamic Cooperative Insurance (II)

## Perceived Strengths and Weaknesses Include (cont.):

- **Takaful Accounting Is More Transparent** – ‘yes’ as regards split policyholder and shareholder accounts, but ‘no’ as regards the appropriateness of wakala and mudharaba fees, amortisation of qard hasan, supplementary policyholder liabilities in event of insolvency, etc. The Islamic Cooperative model of Saudi Arabia may be more elegant?
- **Takaful Companies Enjoy Ethical Oversight By A Sharia Board** – the conventional sector not yet competing here, nor are the Islamic Cooperatives in Saudi Arabia – why not?!
- **Enterprise Risk Management (ERM) & Corporate Governance Often Regarded As A Relative Weakness** – possibly, but this probably more the result of recent incorporation and still dominant founder-managers than of business ethics

# Strengths & Weaknesses of Takaful and Islamic Cooperative Insurance (III)

## Perceived Strengths and Weaknesses Include:

- **Sharia-Compliance Forces Insurers Into High Risk Investment Strategies** – in theory no, but in practice, yes, this can be an issue...
- **Banks Prefer A Takaful Insurance Partner** – yes, they usually prefer takaful, but they demand efficiency and security. If successful, they also often prefer to set up their own takaful insurer
- **Takaful Companies ‘Front’ The Risk, While Conventional Reinsurers Carry It** – rather unfair, but in a region with many very large risks (aviation, energy, etc.) prudence makes it necessary that much of the exposure will end up with the big international reinsurers

# WHOLE MARKET : KSA INSURANCE SECTOR (I)

## Companies Above The Regulatory Minimum of SAR 100 million

#	COMPANY (Saudi Riyals Millions)	Shareholders' Funds			Gross Written Premiums			R a n k	Comprehensive Net Inc.		
		2011	2012	2013	2011	2012	2013		2011	2012	2013
1	Tawuniya/CCI	2,049	2,143	1,641	4,431	5,635	5,605	1	432	358	-501
2	MedGulf Coop.	1,174	1,186	996	2,811	3,318	4,138	2	205	173	-190
3	BUPA Arabia	527	634	731	1,993	2,194	3,178	3	30	114	133
4	SABB Takaful	326	334	345	268	223	207	25	6	9	10
5	Solidarity Takaful	471	435	342	0	25	205	27	-84	-35	-91
6	Al Sagr Coop.	255	283	334	235	327	263	21	32	28	51
7	Saudi Enaya Coop.	-	356	300	-	-	50	32	-	-37	-57
8	Malath Coop.	281	323	291	601	558	771	7	18	42	-32
9	Trade Union Coop.	295	312	269	538	561	877	5	18	26	-45
10	Arabian Shield	231	235	237	274	332	293	19	11	4	2
11	United Coop. (UCA)	318	342	236	1,069	1,023	1,293	4	43	45	-84
12	Wala'a Coop.	155	175	207	279	234	347	16=	4	21	31
13	Amana Coop.	255	218	206	290	54	83	30	-66	-37	-12
14	AXA Coop.	171	180	191	428	461	776	6	-16	10	11
15	Khaleeji/Gulf Gen.	169	179	184	878	371	370	14	-28	10	4
16	ACE Arabia	141	163	174	225	209	249	22	13	22	12
17	Allianz S.F. Coop.	158	167	173	684	621	746	8	-0	9	6
18	Al Ahli Takaful	136	134	140	188	154	140	28	-6	-1	5
19	Gulf Union Coop.	149	157	129	329	418	388	13	-63	7	-26
20	Alinma-Tokio Marine	-	152	119	-	0	51	31	-	-49	-33
21	Al Alamiya Coop.	136	137	113	228	248	331	18	-21	1	-23
22	ACIG Coop.	19	90	102	168	187	347	16=	-11	-24	12

Source: Tadawul website.

NOTE: 2013 figures still proforma unaudited.

# WHOLE MARKET : KSA INSURANCE SECTOR (II)

## Companies Below The Regulatory Capital Minimum of SAR 100 million

COMPANY		Shareholders' Funds			Gross Written Premiums				Comprehensive Net Inc.		
		2011	2012	2013	2011	2012	2013		2011	2012	2013
23	Al Rajhi Coop.	109	109	87	493	601	690	9	-33	-1	-22
24	Weqaya Takaful	117	135	71	110	287	351	15	-40	18	-61
25	Buruj Coop.	85	67	71	104	234	279	20	-16	-18	3
26	Sanad Coop.	107	106	69	231	184	228	23	-28	-1	-37
27	Arabia Coop.	174	167	64	565	656	586	11	13	-4	-102
28	Wataniya Ins. Co.	83	92	60	323	364	487	12	-12	9	-32
29	SAICO Coop.	64	79	52	548	568	624	10	-8	14	-25
30	Salama Coop.	85	69	27	219	204	218	25	3	-16	-42
31	Al Ahlia Coop.	33	45	26	258	230	220	24	-5	14	-18
32	Waf'a (S. Indian)	51	35	(No A/C)	94	163 (Q.3: 136)		29	-2	-16	(No A/C)
33	MetLife Alico-ANB	-	-	-	-	-	-	33=	-	-	-
34	Al Jazira Takaful	-	-	-	-	-	-	33=	-	-	-
	TOTAL INSURANCE	8,320	9,239	7,984	18,861	20,640	24,390		389	694	-1,152
35	Saudi Re Coop.	930	939	822	160	245	420		-54	9	-118
	GRAND TOTAL INS. & REINS.	9,250.3	10,177.5	8,805.9	19,020.5	20,885.0	24,809.7	-	334.2	703.2	-1,269.4

Source: Tadawul website.

NOTE: 2013 figures still proforma unaudited.



# What Do The Market Numbers Say?

- **Concentrated Market:** 53% of market Gross Written Premiums written by top 3 companies; and 80% of GWP written by the 10 largest companies (SAR19,444/SAR24,390)
- **The Cake Is Getting Bigger!** 2013 GWP up 19.4% on 2012 to USD6.5 billion – will soon overtake UAE
- **But Few Profits For Policyholders Or Shareholders:** only 12 companies reported an overall profit for 2013, while 23 companies generated losses, some very large
- **Financial Strength Is Reducing:** 2013 capitalisation down 13.6% on 2012 due to losses and heavy provisioning, but most companies still hungry to write more business
- **Is BUPA Doing Something Clever?** - It is big and profitable in the so-called 'crazy' medical market !!

# Conclusions (I): Sharia-Compliant Insurance & Reinsurance In Saudi Arabia

- **Potentially the Perfect Market** – wholly Shariah Compliant
- **Sharia-Compliance Driven More By Government Than By Market** - Top Down Takaful
- **Market Distorted By Too Few Lines of Business** – Current Dominance of Medical and, to lesser extent, Motor Liability may eventually be offset by fire and term life lines encouraged by new Mortgage Law
- **Declining Financial Strength Due To Unprofitable Growth:**  
Price War + actuarial Pricing + New 'Extra-Prudent' Reserving + Zakat  
+ Declining Capitalisation + growth in underwritten and invested exposure  
= Falling Financial Strength (but not yet falling credit ratings).
- **New Mortgage Law** – Will generate Term Life and House & Contents covers, but the lion's share of this will go to the bank-owned bankassurers
- **Zakat** – flat rate of 2.5% is *really* hurting many loss-making companies

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# Conclusions (II): Sharia-Compliant Insurance & Reinsurance In Saudi Arabia

- **Regulation** – Sector change is being driven by regulators and by their regulations. A period of stability may be welcomed?
- **Investments** – Companies can invest in anything they like, as long as it is cash!
- **Too Many Insurers?** – Perhaps. But Market Distorted By A Small Number of Very Large Players
- **Consolidation Must Come** – Regulators want it; market needs it. Some companies have business but no capital; others have capital but no business: *perhaps they should talk to each other!*



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