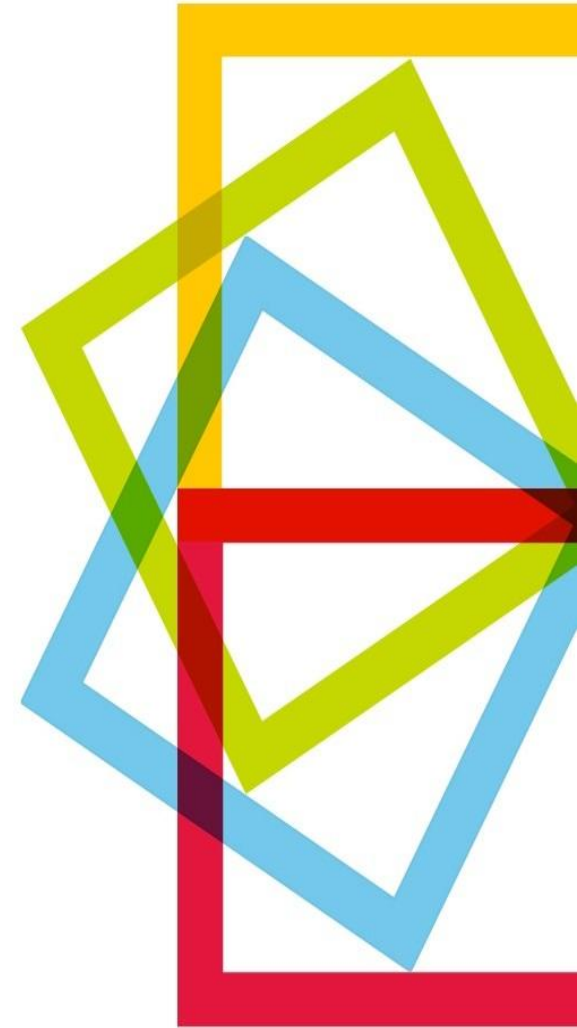


# Re-Thinking The Takaful Model: Sharia-Compliant Insurance & Reinsurance In The GCC In 2015, As Oil Prices Fall

**David Anthony**

**Director – Lead Analyst, FS Insurance  
Standard & Poor's Ratings Services, London**

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# **Agenda** (10 -15 minutes)

- 1. Why Has The Oil Price Fallen, And What Does This Mean For The GCC Region, And Beyond ?**
- 2. How Will This Fall In Oil Revenues Impact The Region's Sharia-Compliant Insurers And Reinsurers ?**
- 3. Mini Case Study: Saudi Arabia**
- 4. Must The Takaful Model Be Re-Thought ?**

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# Why Has The Oil Price Fallen, And What Does This Mean For The MENA Region, And Beyond ? (1)

1. Brent crude **fell 59% in 7 months**: from a high of 115.7 on 23<sup>rd</sup>. June, 2014 to a low of 47.6 on 26<sup>th</sup>. January, 2015
2. Driven down by new production (US shale; Canadian oil sands; Libya; Iraq; Russia), weak demand, strength of US dollar, and sustained OPEC production at >30mbd
3. S&P Forecasts Brent prices at **\$55bbl.** in 2015; **\$65bbl.** in 2016, and **\$80bbl.** from 2017 (WTI prices \$5bbl. lower)
4. GCC Energy Exporter Countries **On Average** Require Just Over **US\$80** Barrel To Achieve Fiscal Break-Even
5. **‘Winners’**: China, Japan, Europe, Egypt, Jordan, Lebanon, Far East – but most governments will likely reduce subsidies or raise tax on oil now that it is ‘cheap’

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# Why Has The Oil Price Fallen, And What Does This Mean For The MENA Region, And Beyond ? (2)

1. **‘Losers’** – Mainly High-Cost / High Spending Oil Producers: Oman, Bahrain, Dubai, Iran, Iraq, Libya, Algeria, Russia, New U.S. Capacity, Venezuela, Kazakhstan, (Malaysia). Also, Beneficiaries of GCC Investment May Suffer Reduced Receipts: Morocco, Tunisia, Sudan, Egypt, etc.
2. Abu Dhabi, Qatar, and Kuwait need oil at **\$75bbl.**, **\$65bbl.** and **\$54bbl.** to balance their current budgets
3. At The Other Extreme Within The GCC, Bahrain, Oman, & Saudi Arabia need oil at **\$130bbl.**, **\$102bbl.**, and **\$103bbl.** respectively to balance their 2015 budgets
4. This will be a *challenge* for Bahrain and Oman – but KSA has around **\$750 bn.** of public foreign assets.

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# How Will Falling Oil Revenues Likely Impact The Region's Sharia-Compliant Insurers & Reinsurers ?

In Practice, Governments Will Cut Back On 'Prestige' Expenditure  
+ Liquidate A Part of Their Foreign Exchange Reserves + Borrow

- As Most GCC Takaful & ReTakaful Companies Are Still Relatively Recent, of Modest U/W Capacity, and Largely Focussed On Retail and/or Compulsory Group Health, Cuts In Govt. Infrastructure Spending Will Have **Modest Impact**
- Any Takaful Insurer Pursuing A '**Fronting**' Strategy Will Lose Inwards Reinsurance Commission On Commercial
- Given The Strong Dollar + GCC Currency Pegs, Spare Parts for European / Japanese **Car Repairs Will Be Cheaper !**
- Capital Markets Have Already Reacted To Falling Oil In 2014, So The Threat In 2015 Is A Hike In **\$ Interest Rates** – Which May Impact **Equities + Property + Borrowing Prices**

# Case Study: Saudi Arabia

KSA WHOLE MARKET	GWP 2011	GWP 2012	GWP 2013	GWP 2014
PRIMARY INS. TOTALS	18,860.9	20,644.3	24,626.4	29,729.2
Inwards Reinsurance	159.6	245.0	420.1	556.2
GRAND TOTALS	19,020.5	20,889.3	25,046.4	30,285.4

- Whole market Sharia Compliant (35 co's)
- GWP up **20.9%** in 2014 (2013: +19.3%)
- GWP: 50% **health**; 25% **motor**; 20% Commercial (Fire/Marine/Eng.); 3% Life
- **55.0% GWP by Top 3**; 78.2% by Top 10
- NWP: Approx. 75% of GWP. (SR23.0bn.)
- **>90% of NWP = Motor + Health**

KSA WHOLE MARKET	CAPITAL End 2011	CAPITAL End 2012	CAPITAL End 2013	CAPITAL End 2014
PRIMARY INS. TOTALS	8,320.3	9,208.8	8,511.8	9,259.1
Inwards Reinsurance	930.0	939.0	821.8	817.4
GRAND TOTALS	9,250.3	10,147.8	9,333.6	10,076.5

- Shareholders' Funds grew by **8.8%** in 2014 to US\$2.5bn., (but were down -7.6% in 2013)
- **15 insurance rights issues** applied for in 2014
- **Top 3: 46.5% of all capital**; Top 10: 57.8%

KSA WHOLE MARKET	Post-tax Net Income 2011	Post-tax Net Income 2012	Post-tax Net Income 2013	Post-tax Net Income 2014
PRIMARY INS. TOTALS	391.6	701.7	-1,208.7	610.0
Inwards Reinsurance	-54.4	9.0	-117.2	-5.3
GRAND TOTAL	337.2	710.6	-1,325.9	604.7

- Sector ROE = **6.9%** overall: *seems OK...*
- **17 co's**: SR1.1bn. profit; **17 co's**: SR0.5bn loss
- Only **12-15 co's** making a 'reasonable' return
- **Top 3 = SR0.9bn. = 81.2%** of total mkt. profits

# Whole Market – KSA Insurance Sector (I)

(Ranked by 2014 GWP)	Gross Written Premiums (GWP)			Total Shareholders' Funds			Comprehensive Post-Tax Net Income		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
TAWUNIYA	5,634.7	5,605.0	6,207.6	2,142.9	1,640.6	2,076.4	358.0	-501.2	435.8
BUPA ARABIA	2,194.3	3,177.5	5,740.5	634.0	767.1	1,051.5	113.9	132.9	305.8
MEDGULF	3,318.0	4,137.5	4,416.0	1,186.2	995.9	1,176.1	201.3	-192.5	180.1
MALATH	558.1	770.9	1,412.8	322.5	291.0	276.2	42.0	-31.6	-14.8
UCA	1,024.1	1,293.0	1,161.8	319.9	236.0	177.6	22.4	-83.5	-58.5
AXA KSA	460.5	775.6	1,040.1	180.4	191.4	207.1	9.6	11.0	15.4
AL RAJHI TAKAFUL	600.9	689.7	944.9	108.8	86.5	103.8	-0.6	-22.3	17.9
TRADE UNION	560.8	877.2	808.5	312.4	269.9	238.3	26.5	-42.4	-31.7
SAICO	567.9	623.9	803.7	78.7	51.7	70.0	14.3	-27.0	18.2
ALLIANZ S.F.	621.2	745.9	725.2	166.9	172.9	184.8	8.9	6.0	11.9
SAUDI UTD. (WALA'A)	234.1	347.2	649.6	175.1	206.8	173.7	20.6	31.6	-33.1
ARABIA	653.9	586.3	644.2	167.1	64.0	63.6	-2.9	-101.8	-1.3

# Whole Market – KSA Insurance Sector (II)

(Ranked by 2014 GWP)	Gross Written Premiums			Total Shareholders' Funds			Comprehensive Post-Tax Net Income		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
ARABIAN SHIELD	331.5	333.3	452.68	234.6	236.8	246.9	4.1	2.2	10.1
WATANIYA	363.9	486.8	433.89	91.9	58.0	68.1	10.9	-33.3	10.1
AMANA	54.1	83.4	391.76	218.0	206.2	126.3	-36.5	-11.8	-80.0
BURUJ	233.5	279.3	379.27	67.2	70.5	90.0	-17.9	3.3	19.5
GULF GENERAL	370.6	370.1	366.89	179.6	185.5	204.6	10.7	5.9	19.1
GULF UNION	417.5	387.5	341.87	154.8	125.6	115.9	5.7	-29.2	-9.9
AL ALAMIYA	248.1	330.9	335.24	137.4	113.1	82.8	0.7	-24.3	-28.9
SALAMA	204.3	218.3	318.97	68.9	27.2	26.4	-16.0	-41.7	-0.8
ACIG	186.8	347.0	297.35	89.9	102.3	110.5	-23.4	12.3	8.3
AL AHLI TAKAFUL	153.5	140.2	251.57	134.4	139.6	165.6	-1.2	5.3	25.9
ACE ARABIA	208.6	249.1	247.67	162.5	174.1	187.0	21.6	11.6	12.9
AL SAGR	327.2	263.1	239.90	282.7	334.0	336.7	28.1	50.6	15.5



# Whole Market – KSA Insurance Sector (III)

(Ranked by 2014 GWP)	Gross Written Premiums			Total Shareholders' Funds			Comprehensive Post-Tax Net Income		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
AL AHLIA	235.6	219.4	238.3	44.5	26.0	181.2	11.8	-18.5	-56.1
SAUDI INDIAN (WAFI'A)	162.5	196.9	213.8	35.4	29.5	29.0	-15.7	-6.6	-0.6
SABB TAKAFUL	222.6	207.2	193.1	334.4	344.6	355.7	8.6	10.2	11.1
SOLIDARITY TAKAFUL	26.3	204.6	186.9	432.9	341.9	279.5	-37.8	-91.0	-61.7
SANAD	182.3	228.0	123.7	106.1	69.2	38.8	-1.0	-36.9	-30.5
ALINMA-TOKIO MARINE	0.3	50.9	92.6	152.0	118.8	87.2	-42.1	-33.2	-31.6
Saudi ENAYA	-	49.7	32.7	356.1	299.6	251.5	-36.9	-57.0	-48.1
AL JAZIRA TAKAFUL TA'AWUNI	-	-	30.2	-	348.4	355.9	-	2.8	6.5
MetLife Alico-ANB	-	-	5.7	-	147.1	120.7	-	-18.1	-26.8
WEQAYA TAKAFUL	286.6	351.0	-	130.6	39.9	-	13.8	-90.7	-
PRIMARY INSURANCE TOTALS	20,644.2	24,626.4	29,729.2	9,208.8	8,511.8	9,259.1	701.6	-1,208.7	610.0
SAUDI RE	245.0	420.1	556.3	939.0	821.8	817.4	8.98	-117.2	-5.34
GRAND TOTALS	20,889.3	25,046.4	30,285.4	10,147.8	9,333.6	10,076.5	710.6	-1,325.9	604.7

# So, Is There A Need To Re-Think The Takaful Model?

- **Takaful Model May Have Some Potential To Create Additional Complexity** – to some extent, management use agency and other fees to allocate profits between policyholders and Shareholders. *Islamic Cooperative model may be better aligned, with both policyholders and shareholders sharing together in a single operating result ?*
- **Probably The Real Problem Is Too Many Small, Start-up Sharia-Compliant Insurers & Reinsurers** – Too Few Large, Well-Established Ones !
- **Commercial Lines** – the distortion of ‘fronting’ apart, small recently-established (takaful) insurers rarely gain access to larger commercial and industrial lines business as it is broker-driven, and brokers frankly want to see a strong rating, meaningful capacity, and good technical know-how.
- **Cheap Capital + Expanding Local Markets Have Made It All Too Easy To Set Up Too Many Small, Marginally Viable (Takaful) Companies** – reduced oil and gas revenues + rising US dollar interest rates may soon change the old, ‘too-rich-to-fail’ GCC insurance landscape...

Perhaps it is the **Business Model** that is at fault, and less the **Takaful/Islamic Cooperative Model** ?

# Standard & Poor's GCC Insurance Ratings (Feb. 2015)

Bahrain	
Hannover ReTakaful B.S.C.	A+/Stable
Mediterranean & Gulf Insurance & Reinsurance Co. B.S.C.	A/Negative
Saudi National Insurance Co.	BBB/Stable
Trust International Insurance & Reinsurance Co. B.S.C.	A-/Stable
Kuwait	
Al-Ahleia Insurance Co. S.A.K.	A-/Stable
Arab Investment and Export Credit Guarantee Corp. (The)	AA/Stable
Gulf Insurance Co. K.S.C.P.	A-/Stable
Kuwait Qatar Insurance Co. K.S.C.	A/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	
Al Khaleej Takaful	BBB/Stable
Doha Bank Assurance Co. LLC	BBB/Stable
Doha Insurance Co. Q.S.C.	A-/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/Positive
Malath Cooperative Insurance & Reinsurance Co.	BBB+/Stable
Mediterranean & Gulf Cooperative Ins. and Reins. Co.	A-/Negative
Stellar Insurance Ltd.	AA-/Stable
Saudi Re for Cooperative Reinsurance Co.	BBB+/Stable
Tawuniya/The Company for Cooperative Insurance	A/Stable
Wataniya Insurance Co.	BBB/Stable
United Arab Emirates	
Abu Dhabi National Insurance Co. (PSC)	A-/Stable
AIG MEA Ltd.	A/Stable
Al Buhaira National Insurance Co. (PSC)	BB/Stable
Al Wathba National Insurance Company PJSC	BBB+/Stable
National General Insurance Co. (PSC)	BBB+/Positive
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
Ras Al-Khaimah National Ins Co.	BBB+/Stable
Salama / Islamic Arab Insurance Co. (P.S.C.)	BBB+/Stable
Takaful Re Ltd.	BBB/Negative

# Thank You

**David Anthony**

Director – Lead Analyst,  
Standard & Poor's Ratings Services, London

Tel: + (44) (0) 207 176 7010 (direct)  
[david.anthony@standardandpoors.com](mailto:david.anthony@standardandpoors.com)

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