

Sharia-Compliant Insurance & Reinsurance In The GCC In 2016, As Oil Prices Remain Low

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Agenda

- 1. Why Has The Oil Price Continued To Fall, And What Does This Mean For GCC Insurers Generally ?**
- 2. How Will The Fall In Oil Revenues Impact The Region's Sharia-Compliant Insurers & Reinsurers In Particular ?**
- 3. FOCUS: Saudi Arabia & UAE Insurance Sectors**
- 4. Conclusions: Some Thoughts On Takaful and Islamic Cooperative Insurance**

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

1. Brent crude: from a high of **\$115.7** on 23rd. June, 2014 to **\$36.6** by end 2015, and approximately **\$33** today - so down today by **71.5%** relative to June 2014
2. Driven down by new production (US shale; Canadian oil sands; Libya; Iraq; Russia; Iran), weak demand (China + EU + mild Winter), strength of US dollar, and sustained OPEC production at >30mbd
3. S&P Currently Forecasts Brent prices at an average of **\$40bbl.** in 2016; **\$45bbl.** in 2017, and **\$50bbl.** from 2018 (WTI prices the same)
4. GCC Energy Exporter Countries *On Average* Required Around **\$80** Barrel To Achieve Fiscal Break-Even
5. **‘Winners’**: China, Japan, Europe, Egypt, Jordan, Lebanon, Far East – but most governments are reducing subsidies and/or raising tax on oil now that it is ‘cheap’ – so limited benefit to retail consumers

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 Suffering Reduced Receipts: Morocco, Tunisia, Sudan, Egypt, etc. Low cost, high expenditure countries also suffer, e.g. Saudi Arabia
2. Recent Rating Actions on **Oman** (BBB-/Stable/A-3); **Bahrain** (BB/Stable/B); and Most Notably **Saudi Arabia** (A-/Stable/A-2) – but we have ‘rated to certainty’ with stable outlooks !
3. Recent agreement between Qatar, Russia, KSA & Venezuela **not** expected to raise oil prices: conditional on others agreeing too – while KSA and Russia continue to produce oil at record levels
4. If China & EU economies improve, upwards pressure may grow...

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 Only A **Modest Impact In Near-Term**
- Any Takaful Insurer Pursuing A '**Fronting**' Strategy May Lose Inwards Reinsurance Commission On Commercial Business Ceded
- Given The Strong Dollar + GCC Currency Pegs, Spare Parts for European / Japanese **Car Repairs Could Become Cheaper ...**
- Capital Markets Have Already Reacted To Falling Oil In 2014 And To The Small Rise In **\$ Interest Rates** – Suggesting The Biggest Impact May Be On Insurers Investing In Higher Risk Assets: **Equities + Property**

GCC Stock Markets Overview (1)

GCC Stock Markets Overview			
	Most Recent	6 Months % change	1 Year % change
Saudi Arabia (TASI)	5,866.95	-28.3%	-37.5%
Abu Dhabi (ADI)	4,185.84	-7.2%	-9.9%
Dubai (DFMGI)	3,084.10	-19.2%	-19.8%
Qatar (QE Index)	9,907.96	-14.6%	-20.7%
Bahrain (BASI)	1,171.78	-11.7%	-19.5%
Kuwait (KSE)	5,140.96	-17.0%	-22.8%
Oman (MSM 30)	5,419.32	-12.5%	-19.0%

GCC Stock Market Overview (2)

Insurance Sector Share Performance

Insurance Sector Share Performance		
	6 Month	1 Year
	Change	Change
Saudi Arabia	-30.4%	-35.0%
Abu Dhabi	-12.5%	-25.0%
Dubai	-19.8%	-17.4%
Qatar	N/A	N/A
Bahrain	-6.6%	-17.4%
Kuwait	7.3%	6.9%
Oman	-10.2%	-20.0%

FOCUS: Kingdom of Saudi Arabia Insurance Sector

KSA WHOLE MARKET	GWP 2012	GWP 2013	GWP 2014	GWP 2015
PRIMARY INS. TOTALS	20,644.3	24,626.4	29,821.5	35,563.7
Inwards Reinsurance	245.0	420.1	556.3	804.8
GRAND TOTALS	20,889.3	25,046.4	30,377.8	36,368.5

- KSA: 50% of Global Sharia Compliant GWP !
- GWP in 2015: Up **19.7%** in 2015 (2014: +21.2%)
- NWP in 2015: Up **24.0%** at SAR29,195.9 million
- GWP: approx. 50% **health**; 25% **motor**; 20% Commercial (Fire/Marine/Eng.); 4% **Life**
- GWP: **52.0% by Top 3**; 74.3% by Top 10
- KSA: **US\$1bn.** of projects planned / underway

KSA WHOLE MARKET	CAPITAL End 2012	CAPITAL End 2013	CAPITAL End 2014	CAPITAL End 2015
PRIMARY INS. TOTALS	9,208.8	8,511.8	9,259.1	11,623.5
Inwards Reinsurance	939.0	821.8	817.4	802.1
GRAND TOTALS	10,147.8	9,333.6	10,076.5	12,425.6

- Insurance Shareholders' Funds Rose **25.5%** to SAR11.6bn. (US\$3.1 bn.) in 2015, up from SAR9.3 bn. at the start of the year – but more by 11 rights issues than by retained earnings
- Top 3: **42.1% of all capital**; Top 10: **57.6%**

KSA WHOLE MARKET	Post-tax Net Income 2012	Post-tax Net Income 2013	Post-tax Net Income 2014	Post-tax Net Income 2015
PRIMARY INS. TOTALS	701.7	-1,208.7	563.3	598.8
Inwards Reinsurance	9.0	-117.2	-4.3	-15.3
GRAND TOTAL	710.6	-1,325.9	559.0	583.5

- Sector pretax ROE = **10.0%** in 2015 – not bad!
- Post-Tax Comprehensive Net Income rose **6.1%** to SAR597.8 mm. in 2015 (2014: SAR563.3mm.)
- **16** / 35 cos loss-making in 2015 (2014: **13** / 35)

FOCUS: UAE (Listed) Insurance Sector (29 cos out of 61)

<u>UAE LISTED MARKET</u>	<u>GWP 2014</u>	<u>GWP 2015</u>
CONVENTIONAL INS. TOTALS	13,666.3	14,312.4
TAKAFUL INS. TOTALS	2,180.5	2,807.1
GRAND TOTAL	15,846.5	17,119.5

- Overall listed sector GWP grew by **8%** in 2015
- Takaful sector GWP grew by **29%** in 2015
- Takaful now represents **16%** of listed market GWP, up from **14%**
- Takaful cos gaining good foothold in **medical**
- Rest of GCC (excluding KSA) = approx. **15%** of global Sharia-compliant insurance sector

<u>UAE LISTED MARKET</u>	<u>CAPITAL 2014</u>	<u>CAPITAL 2015</u>
CONVENTIONAL INS. TOTALS	14,494.5	13,707.8
TAKAFUL INS. TOTALS	2,184.1	1,982.7
GRAND TOTAL	16,678.7	15,690.5

- Takaful sector data comprises **8** companies, of which **3** are below the new minimum solvency level of **AED100mm.**, and two others are not far above that level...
- Takaful Emarat had new capital injected to restore the regulatory margin

<u>UAE LISTED MARKET</u>	<u>Net Profit 2014</u>	<u>Net Profit 2015</u>
CONVENTIONAL INS. TOTALS	753.7	39.2
TAKAFUL INS. TOTALS	105.6	-145.5
GRAND TOTAL	859.3	-106.2

- Net operating results of **AED381mm.** in 2015 turned into a post-tax deficit of AED(106mm)
- **13/29** companies produced losses in 2015, twice as many as in 2014
- The UAE takaful sector particularly badly hit in 2015 – due to larger investment losses

Whole Market – KSA Insurance Sector (I)

(Ranked by 2015 GWP)	Gross Written Premiums (GWP)			Total Shareholders' Funds			Comprehensive Post-Tax Net Income		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
TAWUNIYA	5,605.0	6,207.6	7,545.3	1,640.6	2,076.4	2,309.1	-501.2	435.8	377.7
BUPA ARABIA	3,177.5	5,740.5	7,328.0	767.1	1,051.5	1,666.5	132.9	305.8	618.5
MEDGULF	4,137.5	4,416.0	4,001.9	995.9	1,176.1	912.1	-192.5	180.1	-263.9
MALATH	770.9	1,412.8	1,863.5	291.0	276.2	258.4	-31.6	-14.8	-17.8
AL RAJHI TAKAFUL	689.7	944.9	1,361.9	86.5	103.8	340.5	-22.3	15.6	38.5
UCA	1,293.0	1,165.2	1,217.7	236.0	177.6	294.2	-83.5	-82.8	-64.2
AXA KSA	775.6	1,040.1	1,128.2	191.4	207.1	468.5	11.0	15.4	18.5
SAICO	623.9	803.8	888.2	51.7	70.0	247.3	-27.0	18.2	32.1
AL SAGR	263.1	239.9	863.8	334.0	336.7	407.0	50.6	12.5	85.9
TRADE UNION	877.2	808.5	846.0	270.0	239.2	252.5	-42.4	-30.8	13.3
ALLIANZ S.F.	745.9	725.1	803.2	172.9	184.8	200.9	6.0	11.9	17.7
SAUDI UTD. (WALA'A)	347.2	649.6	753.0	206.8	173.7	322.7	31.6	-33.1	-44.2

Whole Market – KSA Insurance Sector (II)

(Ranked by 2015 GWP)	Gross Written Premiums			Total Shareholders' Funds			Comprehensive Post-Tax Net Income		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
ARABIA	586.3	644.3	653.9	64.0	63.6	237.8	-101.8	-0.5	-17.8
ACIG	347.0	297.4	549.4	102.3	110.5	117.0	12.3	8.3	6.4
ARABIAN SHIELD	333.3	452.7	531.2	236.8	246.9	279.7	2.2	10.1	32.8
SAUDI INDIAN (WAFI'A)	196.9	213.8	521.7	29.5	29.0	69.2	-6.6	-0.6	-60.5
WATANIA	486.8	433.9	518.7	58.0	68.1	55.6	-33.3	10.1	-12.6
BURUJ	279.3	379.3	447.0	70.5	90.0	233.0	3.3	19.5	27.8
AMANA	83.4	391.8	414.0	206.2	126.3	111.3	-11.8	-80.0	-15.0
AL ALAMIYA	330.9	335.2	402.0	113.1	82.8	292.5	-24.3	-28.9	26.4
SALAMA / SAUDI IAIC	218.3	319.0	391.7	27.2	26.4	171.9	-41.8	-0.8	8.3
AL AHLI TAKAFUL	140.2	340.5	361.0	139.6	165.6	194.2	5.3	25.9	28.6
GULF GENERAL	370.1	366.9	351.9	185.5	204.6	176.3	5.9	22.7	-31.9
SOLIDARITY	204.6	186.9	303.4	341.9	279.5	203.4	-91.0	-61.7	-75.1

Whole Market – KSA Insurance Sector (III)

(Ranked by 2015 GWP)	Gross Written Premiums			Total Shareholders' Funds			Comprehensive Post-Tax Net Income		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
ACE ARABIA	249.1	247.7	268.7	174.1	187.0	196.1	11.6	12.9	9.1
AL AHLIA	219.4	238.3	259.7	26.0	181.2	121.1	-18.5	-56.1	-60.1
GULF UNION	387.5	341.9	224.9	125.6	115.9	126.9	-29.2	-9.9	11.0
ALINMA-TOKIO MAR.	50.9	92.6	220.4	118.8	87.2	312.1	-33.2	-31.6	-22.6
SABB TAKAFUL	207.2	193.1	202.2	344.6	355.7	355.1	10.2	17.0	3.6
MetLife Alico-ANB	-	5.7	144.7	147.1	120.7	88.6	-18.1	-26.9	-32.1
Al Jazira Takaful Ta'awuni	-	30.2	71.1	348.4	354.9	371.7	2.9	9.3	16.9
Saudi ENAYA	49.7	32.7	70.9	299.6	251.5	200.3	-57.0	-48.1	-51.2
SANAD	228.0	123.7	0.1	69.2	38.8	30.3	-36.9	-30.5	-5.3
WEQAYA	351.0	-	-	39.9	-	-	-90.7	-31.1	-
INSURANCE TOTALS	24,626.4	29,821.5	35,563.7	8,511.8	9,259.1	11,623.5	-1208.7	563.3	598.8
SAUDI RE	420.1	556.3	804.8	821.8	817.4	802.1	-117.2	-4.3	-15.3
GRAND TOTALS	25,046.4	30,377.8	36,368.5	9,333.6	10,076.5	12,425.6	-1325.9	559.0	583.5

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

- **Takaful Model Can Create Complexity** – managers can use agency and other fees to allocate profits between Policyholders and Shareholders, while fees can encourage over-trading. In the *Islamic Cooperative model*, policyholders and shareholders share in the same outcome – the operating result (usually split 90/10).
- **Takaful Accounting** – can be opaque. True expenses? A recent example had Shareholders Funds on page 3 of 100, Qard Hasan of 14 and, on page 11 of notes, a Takaful Fund deficit of -36. So economic net assets only 50% of published equity.
- **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 of necessity require of insurers a strong rating, meaningful capacity, and good technical know-how.
- **Cheap Capital + Expanding Local Markets Have Made It Too Easy To Set Up Too Many Small, Marginally Viable (Takaful) Companies** – reducing oil and gas revenues may change the old, ‘too-rich-to-fail’ GCC insurance landscape.

CONCLUSION: There are still too few large, well-established Takaful & Islamic Cooperative Insurers and Reinsurers !

Standard & Poor's GCC Insurance Ratings (22 Feb. 2016)

BAHRAIN (BB/Stable/B)	
Hannover ReTakaful B.S.C.	A+/Negative
Mediterranean & Gulf Insurance & Reinsurance Co. B.S.C.	A-/Stable
Saudi National Insurance Co.	BBB/Stable
Trust International Insurance & Reinsurance Co. B.S.C.	A-/Stable
KUWAIT (AA/Stable/A-1+)	
Al-Ahleia Insurance Co. S.A.K.	A-/Stable
Arab Investment and Export Credit Guarantee Corp. (The)	AA/Negative
Gulf Insurance Co. K.S.C.P.	BBB+/Stable
Kuwait Qatar Insurance Co. K.S.C.	A/Stable
Warba Ins. Co. K.S.C.	BBB/Positive
Wethaq Takaful Insurance Co. K.S.C. (Closed)	BB/Stable
OMAN (BBB-/Stable/A-3)	
Oman United Insurance Co. S.A.O.G.	BBB/Stable
QATAR (AA/Stable/A-1+)	
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 (A-/Stable/A-2)	
Al Sagr Cooperative Insurance Co.	BBB/Positive
Malath Cooperative Insurance & Reinsurance Co.	BBB+/Negative
Mediterranean & Gulf Cooperative Ins. and Reins. Co.	BBB+/Stable
Stellar Insurance Ltd.	A-/Stable
Saudi Re for Cooperative Reinsurance Co.	BBB+/Stable
Tawuniya/The Company for Cooperative Insurance	A/Stable
Wataniya Insurance Co.	BBB/Negative
United Arab Emirates (Abu Dhabi: AA/Stable/A-1+)	
Abu Dhabi National Insurance Co. (PSC)	A-/CW Neg
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

Thank You

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