Challenges & Opportunities for Takaful in the GCC

THE INTERNATIONAL TAKAFUL SUMMIT

13th International Takaful Summit

Safder Jaffer

9th July 2019

Milliman

Agenda

Takaful Market in the UAE

2018

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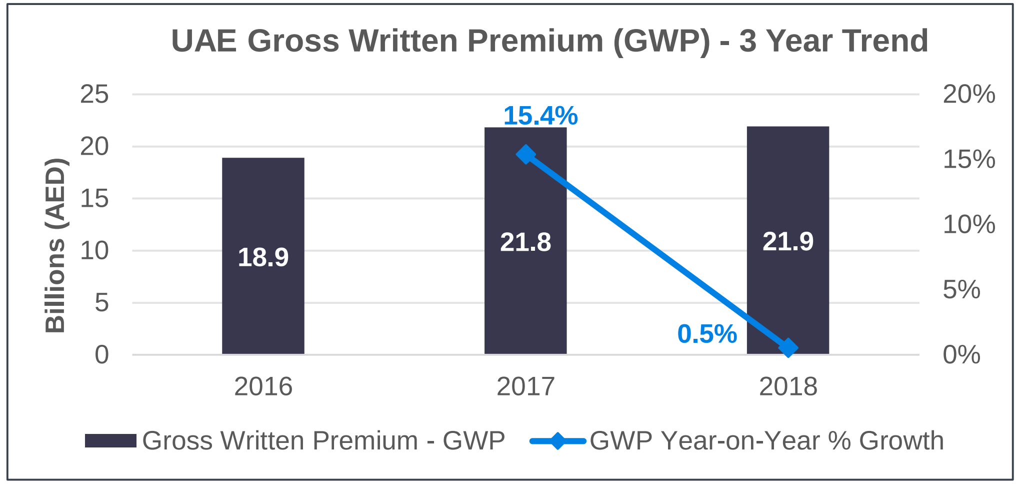
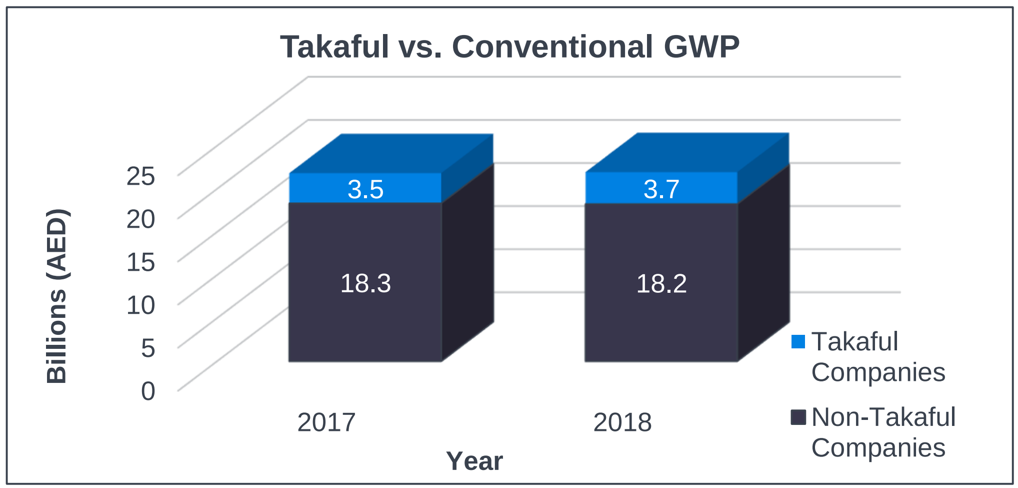
Growth of UAE Market (Takaful vs Conventional)

- 9 out of the 30 listed insurance companies in the UAE are takaful operators.
- Takaful accounted to 17% of the total gross written premiums in 2018.
- There is an opportunity to increase penetration.

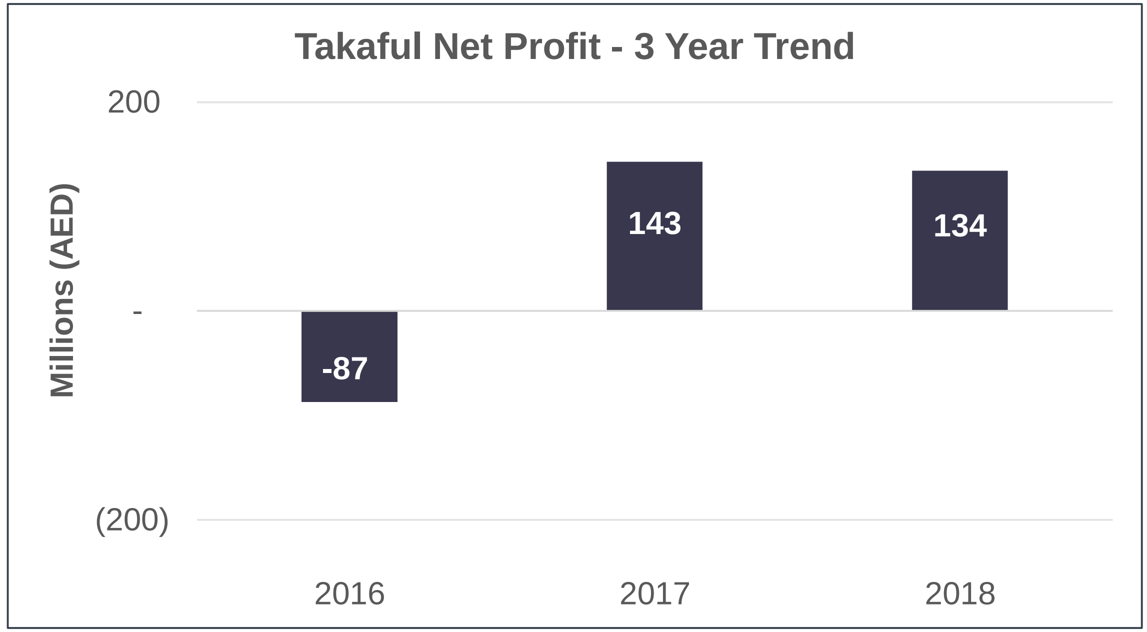




Source: listed companies published financials

Profitability Trend for Takaful Companies in UAE

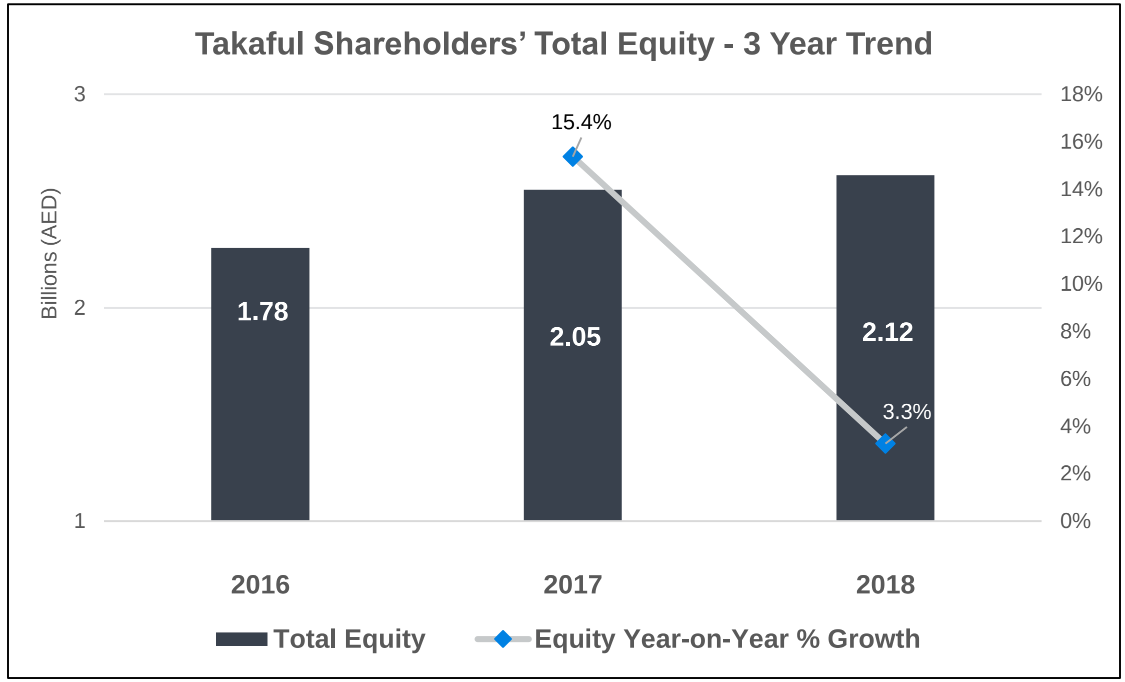
- Profitability in the UAE market increased in 2017 due to the introduction of unified motor policy.
- The Insurance Authority have set minimum and maximum rates for compulsory motor insurance policies.



Source: listed companies published financials

Total Shareholders' Equity for Takaful Companies in UAE

- Shareholder's equity growth has been stable over the recent years.
- Opportunity for Takaful operators for Mergers and Acquisitions.



Source: listed companies published financials

The Key Ratios of some Takaful Companies in UAE

Company	Return on Average Equity		Liability to Total Equity		Investment Return	
	2018	2017	2018	2017	2018	2017
Abu Dhabi National Takaful	20%	20%	1.82	1.99	14%	9%
Arabian Scandanavian National Insurance	7%	2%	0.85	1.03	9%	11%
Dar Al Takaful	6%	12%	2.79	3.79	1%	3%
Methaq Takaful	19%	1%	6.45	6.61	1%	1%
National Takaful - Watania	14%	9%	3.17	3.77	3%	3%
Orient UNB Takaful	-5%	-6%	1.58	0.28	19%	478%
Takaful Emarat	9%	13%	5.29	4.65	12%	5%
Total	**10%**	**9%**	**2.47**	**2.39**	**6%**	**5%**

Orient UNB Takaful is the only loss making Takaful Company. This is understandable considering it is in its second year of operations.

The Key Ratios of some Takaful Companies in UAE

Company	Retention Ratio		Commissions Ratio		Net Combined Ratio	
	2018	2017	2018	2017	2018	2017
Abu Dhabi National Takaful	55%	89%	6%	9%	60%	62%
Arabian Scandanavian National Insurance	76%	77%	13%	9%	86%	96%
Dar Al Takaful	55%	53%	13%	11%	96%	95%
Methaq Takaful	51%	90%	16%	7%	95%	100%
National Takaful - Watania	62%	62%	9%	8%	93%	95%
Orient UNB Takaful	29%	23%	15%	24%	126%	880%
Takaful Emarat	46%	52%	6%	7%	95%	95%
Total	**52%**	**68%**	**10%**	**9%**	**90%**	**93%**

Takaful Market in the KSA

2018

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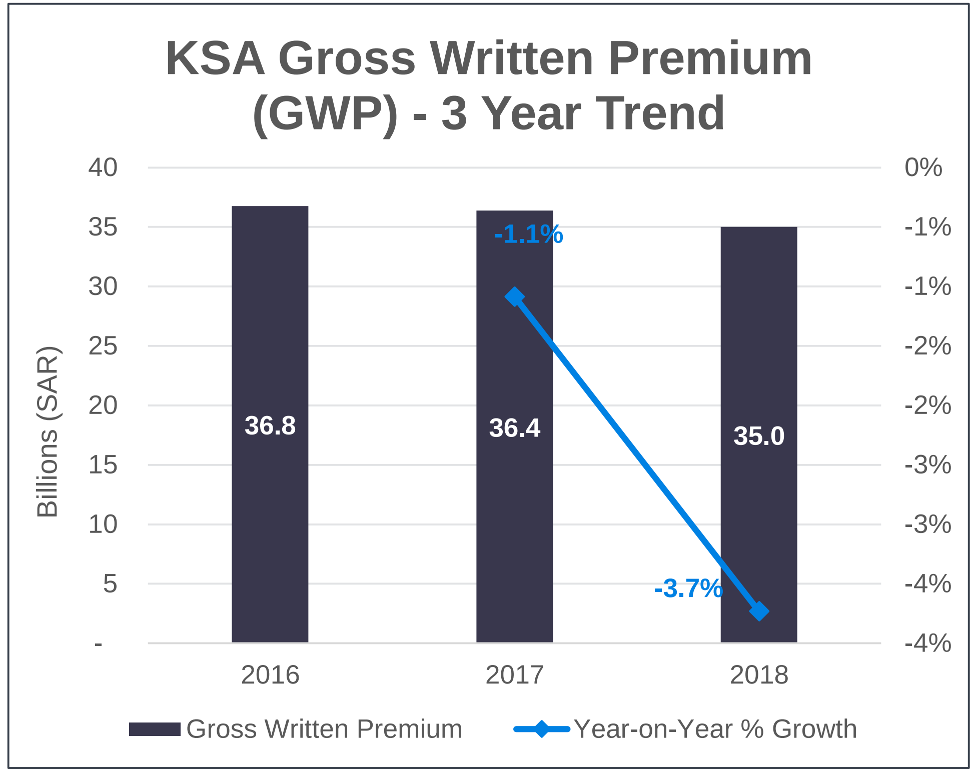
Growth of KSA Market

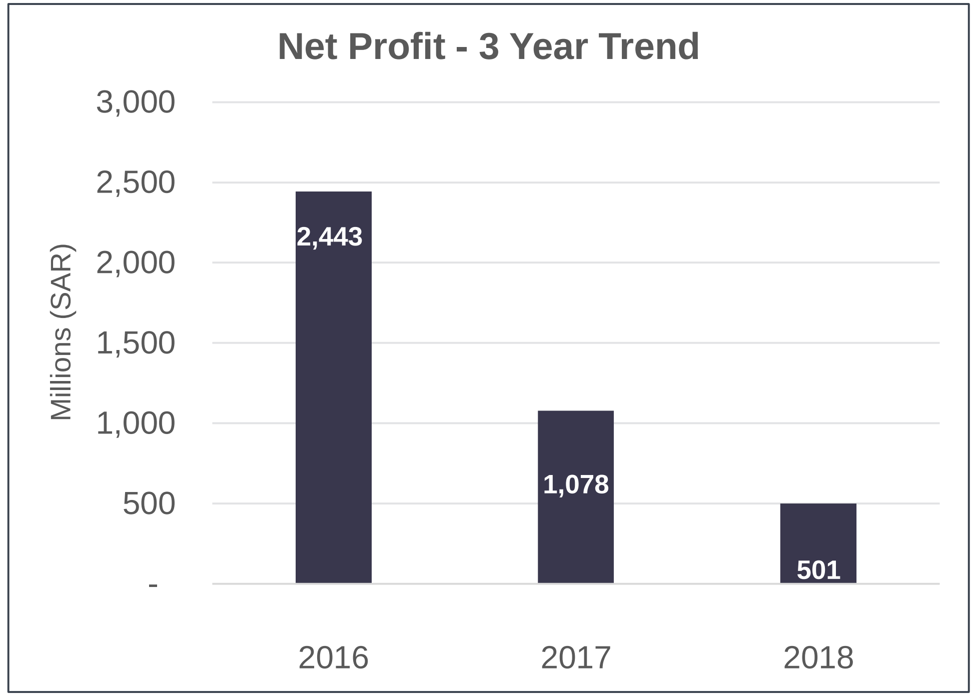
- 33 insurance companies in Saudi Arabia.
- All operating under the Cooperative model.
- Family Takaful constitutes less than 5% of the total business.
- Recent Saudi laws imposed additional visa fees for expatriates which decreased the number of expats and, thus, slowed down the medical business. in addition motor premiums have seen decline.



Source: Tadawul.com.sa

Profitability of KSA Market

- The Saudi market is undergoing fierce competition, thus leading to lower rates and reduced profitability.



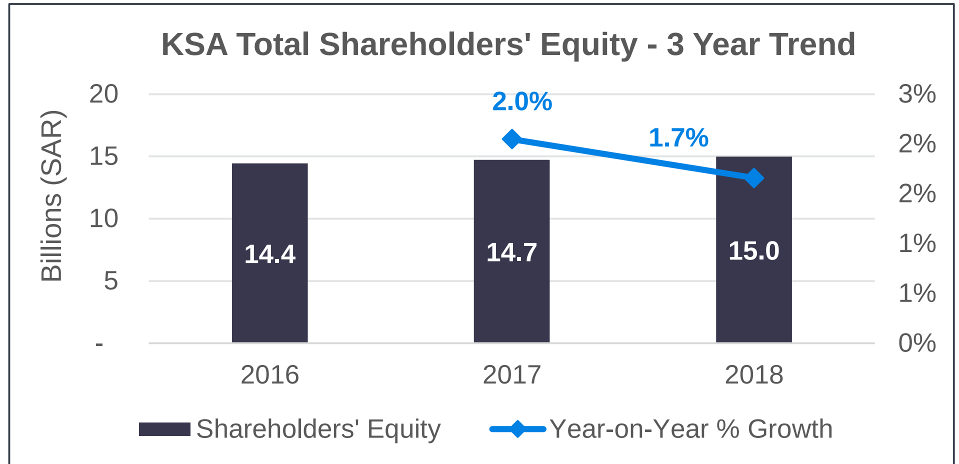
Source: Tadawul.com.sa

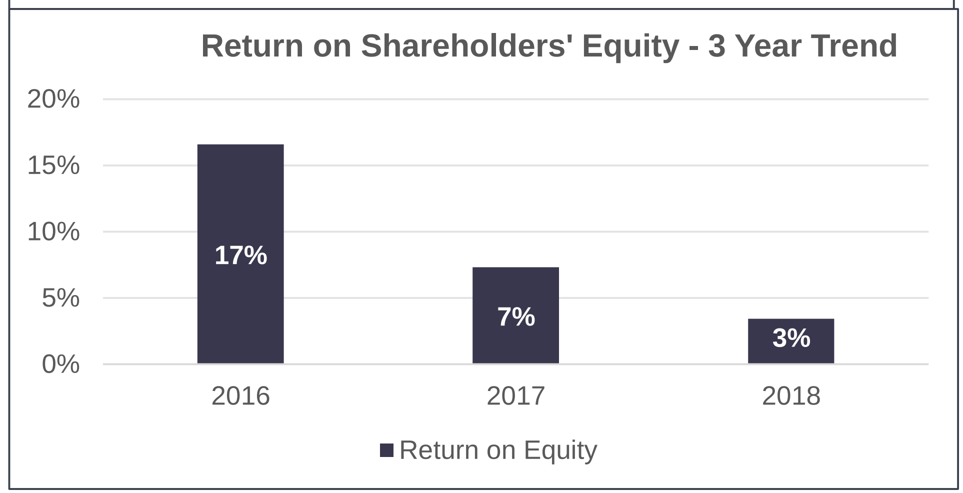
Top and Bottom Line of All Insurance Companies in KSA

Insurance Company	GWP		Net Profit		Profit Ratio	
	2018	2017	2018	2017	2018	2017
Bupa Arabia	8,567	7,733	525	501	6%	6%
Tawuniya	7,641	8,407	(213)	(147)	-3%	-2%
AlRajhi Takaful	2,974	3,193	185	183	6%	6%
MEDGULF	2,069	2,666	(205)	(388)	-10%	-15%
AXA Cooperative	1,446	1,499	76	60	5%	4%
Walaa	1,105	1,102	100	165	9%	15%
SAICO	950	805	(13)	52	-1%	6%
Trade Union	930	831	88	67	9%	8%
Allianz SF	871	926	37	35	4%	4%
SALAMA	735	751	16	65	2%	9%
Malath Insurance	729	727	16	(17)	2%	-2%
Saudi Re	722	942	14	39	2%	4%
Wataniya	712	579	20	45	3%	8%
Arabian Shield	625	593	34	108	5%	18%
ACIG	500	430	2	18	0%	4%
U C A	392	581	(60)	31	-15%	5%
Alinma Tokio M	354	270	(37)	(9)	-11%	-3%
AICC	351	314	3	16	1%	5%
Sagr Insurance	350	329	1	21	0%	6%
ATC	338	353	10	39	3%	11%
Gulf Union	328	360	6	27	2%	8%
Buruj	320	512	72	98	23%	19%
Al Alamiya	294	263	30	44	10%	17%
Gulf General	265	186	(25)	20	-9%	11%
Solidarity	246	136	(60)	38	-24%	28%
CHUBB	234	220	44	38	19%	17%
Al-Ahlia	173	183	16	10	9%	6%
METLIFE AIG ANB	169	355	(22)	(58)	-13%	-16%
SABB Takaful	140	196	1	(5)	1%	-3%
Enaya	138	275	(100)	(17)	-72%	-6%
Amana Insurance	137	72	(20)	1	-15%	1%
WAFA Insurance	112	500	(76)	(33)	-68%	-7%
Jazira Takaful	101	86	32	31	31%	36%
Total	**35,017**	**36,374**	**501**	**1,078**	**1%**	**3%**

Shareholders' Equity for Insurance Companies in KSA

- Constant growth in Shareholder Equity
- Similar to UAE, a number of companies are considering M&A opportunities.





Source: Tadawul.com.sa

Insights on GCC

Future Outlook in GCC

OPPORTUNITIES
▪ Largely underpenetrated markets. ▪ Mandatory motor and medical insurance has facilitated growth. ▪ Opportunities in family takaful & retirement space. ▪ Development of robust regulations and corporate governance. ▪ Opportunity for consolidation. ▪ Presence of many global Retakaful operators but local retakaful has almost collapsed. ▪ Governments focus beyond oil and gas industry. ▪ Product Innovation through Insurtech.

Future Outlook in GCC

CHALLENGES
▪ Intense competition. ▪ Little Unique value proposition ▪ Lack of long-term view on profitability by shareholders. ▪ Products are complicated (e.g., unit-linked) and mimic conventional. ▪ Low interest rate environment. ▪ Perpetual qard, high wakalah fees. ▪ Heavy dependence on retakaful. ▪ Lack of expertise and skilled human resources in the market.

Latest Development

Market Developments – IFRS 17

- IFRS 17 delayed by one year:
  - Effective from 1st January 2022.
- Benefits:
  - Further understanding of insurance contract performance.
  - Increases transparency in financial information.
  - Consistent accounting for insurance contracts.
- Challenges:
  - Treatment of Takaful Model.
  - Lack of adequate knowledge and expertise.
  - Unprecedented processing speed and hence complex system requirements to meet strict auditing timeframes.
  - High cost of implementation.

Conclusion: All companies should brace for the challenges by preparing in advance.

IFRS 17 Implementation Plan - Regulator wise

Insurance Authority (IA), UAE
(Circular no 50 of 2018)

Phase 1 - Gap Analysis and Impact Assessment – Report submitted to IA with Implementation Roadmap by **15th March 2019**.

Phase 2 – Design - Design internal rules and processes to cope with IFRS 17. Companies to submit Quarterly progress reports to IA within 15 days after the end of each quarter in 2019 and 2020.

Phase 3 – Implementation - Implement the new systems and processes for compliance with the IFRS 17 requirements and perform a quarterly evaluation of the results.

Qatar Central Bank (QCB), Qatar
(QCB Circular No. 702)

Phase 1 - Gap Analysis and Impact Assessment – Report submitted to QCB with Implementation Roadmap, financial costing impacts by **30th May 2019**.

Phase 2 – Design - QCB has not yet published a circular for requirements in this phase, however the companies have started planning to prepare the designs for processes to cope with IFRS 17 requirements.

Phase 3 Implementation - QCB has not yet published a circular for requirements in this phase.

Capital Market Authority (CMA),Oman (Circular E/10/2018, E/11/2018, E/4/2019)

Phase 1 - Gap Analysis and Impact Assessment – Report to be submitted to CMA with Implementation Roadmap by **30th September 2019**.

Phase 2 – Design - Design internal rules and processes to cope with IFRS 17 and provide a **detailed plan with timelines** for its implementation. The proposed date for this phase is **30th June 2020**.

Phase 3 – Implementation - The proposed timeline for completing the implementation is **31st December 2021**. The companies are required to update CMA with the progress of the detailed plan submitted during the second phase semi-annually.

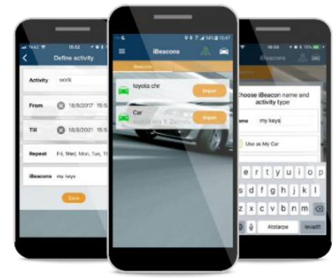
Saudi Arabian Monetary Authority (SAMA), Saudi Arabia
(Circular 201812/172)

Phase 1 - Gap Analysis and Impact Assessment – Reports submitted to SAMA by **31st March 2019,** along with Gap Analysis template in MS Excel provided.

Phase 2 - Design SAMA will set the timeline for this phase of solution design taking into consideration any developments issued by Saudi Organization for Certified Public Accountants (SOCPA) in this regard.

Phase 3 – Implementation - SAMA has divided this phase into 2 parts and requires the **implementation plan** to be phase 3 and the implementation & **dry runs** as phase 4. No timelines set by SAMA till now for this phase.

Market Developments – Other



Telematics:

- Insurers and regulators in the GCC have been studying new types of motor insurance products. Some large Takaful players have taken the lead in this space.
- For example, the UAE Insurance Authority is currently studying “Pay-as-you-go” motor insurance policy which its premium based on the kilometers driven. Also, other products under development are priced based on the actual driving behavior

Health Insurance:

- The Dubai health insurance industry progressed towards implementation of a Diagnosis Related Grouper (DRG) reimbursement system for in-patient services, with a shadow billing process now in place.
- As of January 2019, all private companies in Saudi Arabia are required to provide health insurance to its Saudi, Non-Saudi employees and their dependents compared to the previous law which did not extend to all Saudis working in the private sector. The new regulation expected to 2M people to the current pool of insureds.
- Major regulatory reforms in the health sector across GCC.

Questions?

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