

# **(Re)Takaful: Evolving Landscape**

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# Main developments

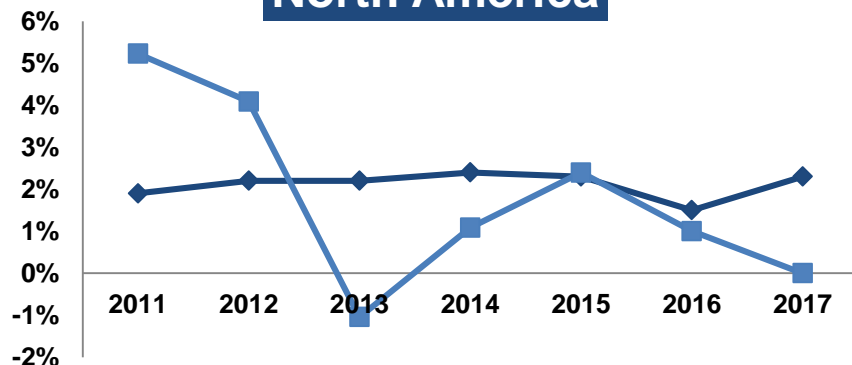
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- Contributions have grown substantially over the past decade
- Enhanced and developing regulatory frameworks
- Not reached the highs of Shari'a compliant banking
- Contrast in market dynamics between Asian and Middle Eastern markets – Rise of takaful in Africa!
- Reduction of retakaful capacity
- More operators generating surpluses, with some distributing profits
- Mutuality: aligning s/h and p/h interests still a concern
- Changes in management and approach
- Elevated levels of economic, political and financial system risks

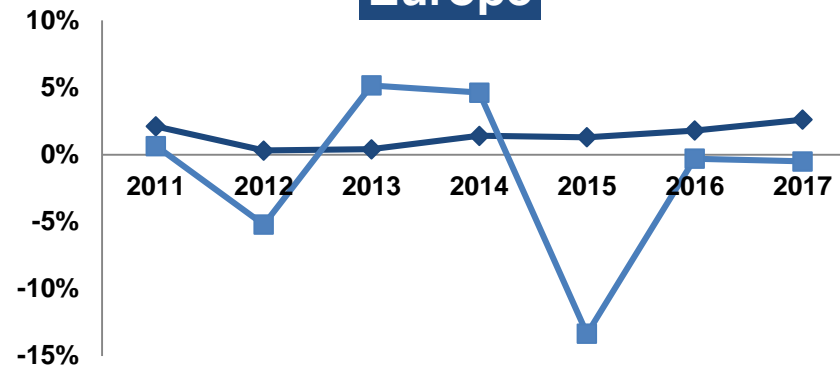
# Growth opportunities tailored for takaful?

## Gross Domestic Product vs Gross Written Premium

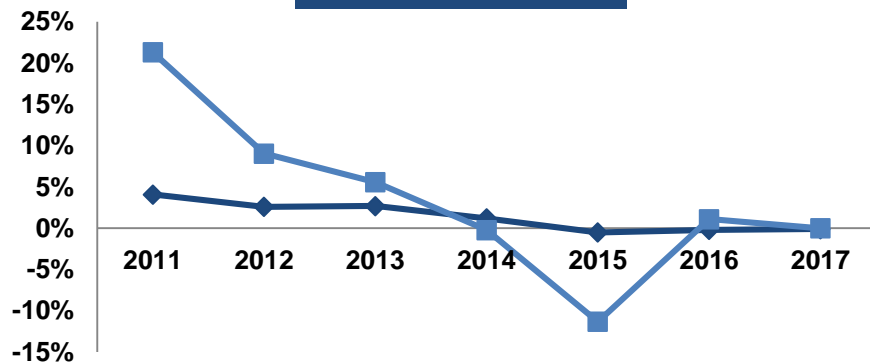
### North America



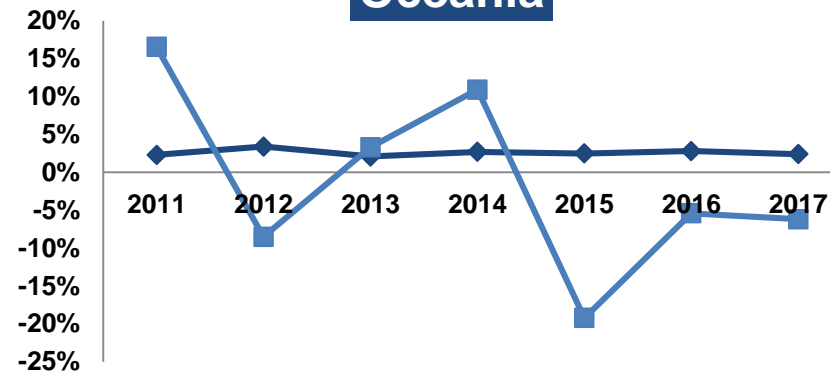
### Europe



### Latin America

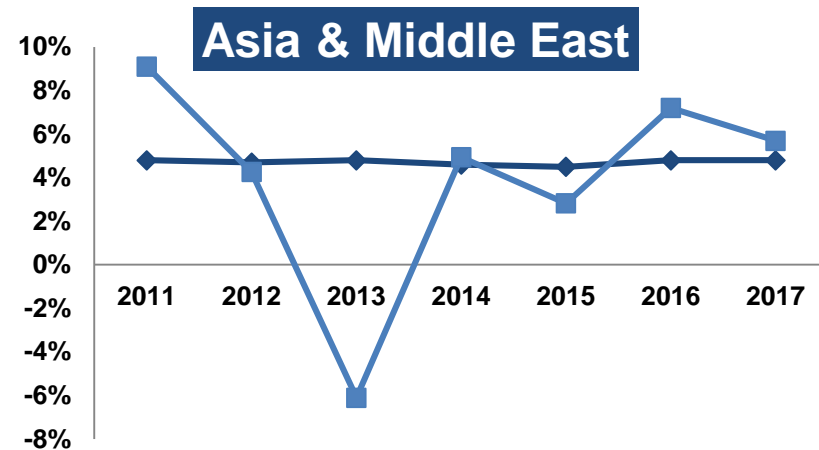


### Oceania



■ Gross Domestic Product ■ Gross Written Premium

# Growth opportunities tailored for takaful?

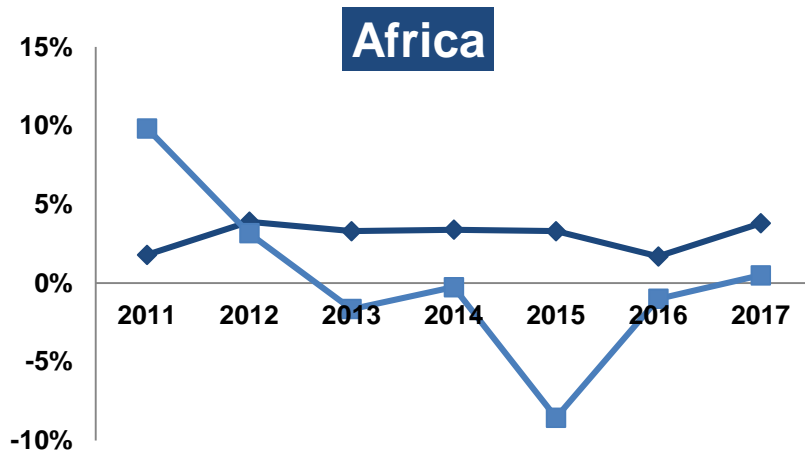


## Opportunities

- Higher economic growth than mature markets
- Low insurance penetration
- Continued introduction of mandatory cover

## Downside

- Elevated country risk
- Volatile and challenging operating environments
- Oil economies
- Economic risk: currency risk, high inflation



■ Gross Domestic Product ■ Gross Written Premium

# UAE Takaful: Growth (GWP)

AED '000s	2013	2014	2015	2016	2017	2018	Growth
ADNT	271,754	295,386	296,842	320,780	373,780	384,452	41%
Arab Scan	75,615	84,545	100,596	166,179	233,971	168,524	123%
Dar Al Tak	106,411	151,379	208,318	298,889	388,782	276,006	159%
AMAN	353,878	393,003	442,765	414,456	380,831	375,823	6%
SALAMA	1,029,543	764,117	933,346	779,711	808,026	1,062,960	3%
Methaq	238,022	225,593	238,301	264,717	408,785	317,141	33%
Watania	129,086	190,901	209,390	200,167	271,228	300,315	133%
NTF	-	88,269	110,345	153,695	263,791	231,561	
NTG	56,581	53,805	72,083	69,882	69,760	100,009	77%
Orient UNB	-	-	-	-	37,723	190,413	
Emarat	81,080	140,847	351,203	502,115	485,099	516,773	537%
<b>Total</b>	<b>2,341,970</b>	<b>2,387,845</b>	<b>2,963,189</b>	<b>3,170,591</b>	<b>3,721,776</b>	<b>3,923,977</b>	<b>68%</b>

Source: AM Best data and research



# UAE Takaful: Profitability (Profit/Loss)

AED '000s	2013	2014	2015	2016	2017	2018	Growth
ADNT	32,574	33,156	38,390	44,527	53,959	63,478	266,084
Arab Scan	50,788	31,066	6,930	30,746	5,991	21,949	147,470
Dar Al Tak	841	4,563	7,141	5,022	10,133	6,714	20,132
AMAN	56,250	612	3,848	21,240	8,820	620	72,510
SALAMA	60,245	36,744	162,840	174,947	37,509	477	323,302
Methaq	2,563	2,118	695	9,330	803	15,406	26,679
Watania	2,397	9,795	41,393	385	7,616	12,343	33,241
NTF	2,936	2,063	5,518	6,457	3,276	1,366	21,616
NTG	1,279	3,877	10,091	940	201	3,249	12,737
Orient UNB	-	-	-	-	6,007	9,222	15,229
Emarat	17,259	7,181	10,216	15,010	17,346	12,958	45,452
<b>Total</b>	<b>47,728</b>	<b>98,371</b>	<b>163,564</b>	<b>85,650</b>	<b>139,647</b>	<b>129,338</b>	<b>70,414</b>

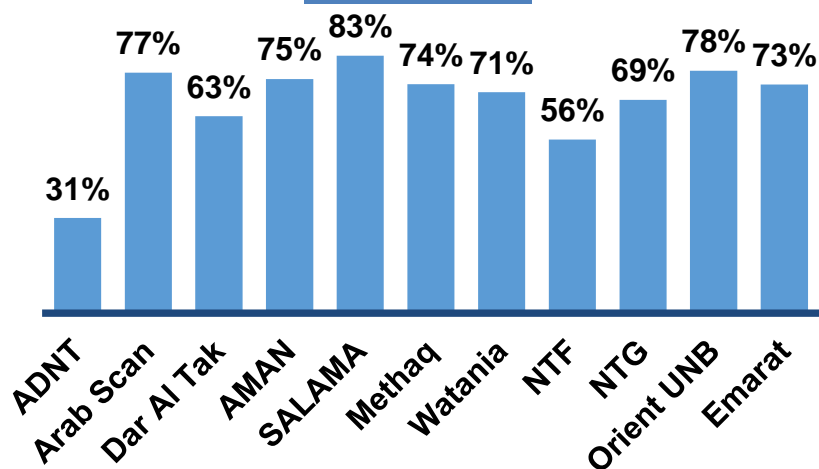
Source: AM Best data and research



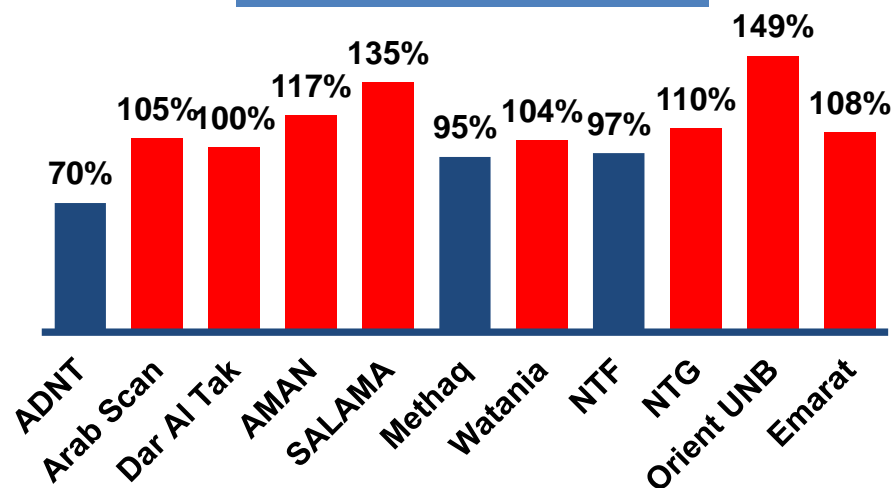


# UAE Takaful: Five-Year Average Key Ratios

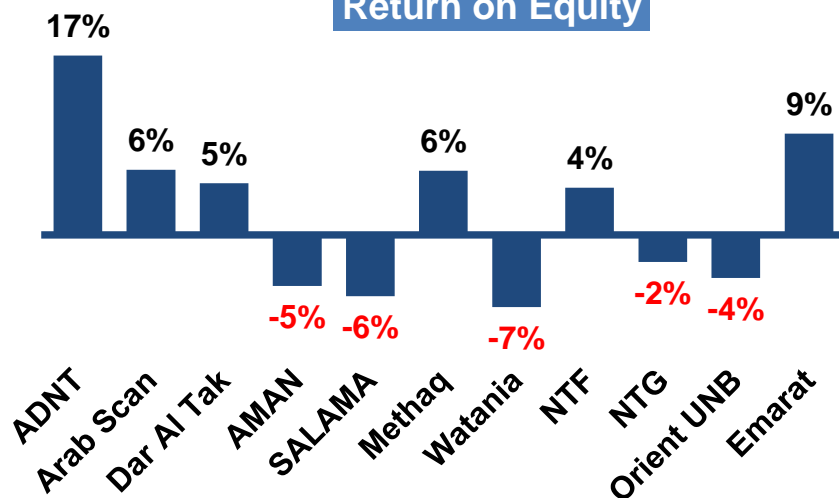
## Loss Ratios



## Non-Life Combined Ratios



## Return on Equity



- Market has underperformed
- High expenses still an issue
- 2018 has shown some signs of improvement
- Return on Equities lagging behind peers
- Dependence on investment income

# UAE Takaful: Change in Shareholders' Equity (Capital & Surplus)

AED '000s	2013	2014	2015	2016	2017	2018	Growth
ADNT	193,375	212,462	240,947	270,923	308,399	339,761	76%
Arab Scan	321,478	322,142	296,769	315,734	294,662	310,877	-3%
Dar Al Tak	53,642	56,444	50,375	55,777	116,092	122,841	129%
AMAN	128,737	133,645	122,625	70,371	84,378	64,224	-50%
SALAMA	1,155,000	1,172,933	959,307	710,584	740,514	724,455	-37%
Methaq	102,043	91,625	72,372	79,930	75,418	83,736	-18%
Watania	129,978	120,183	80,025	79,175	85,077	96,344	-26%
NTF	59,996	62,058	67,576	74,033	109,809	111,176	85%
NTG	70,836	86,959	76,868	75,928	108,629	111,878	58%
Orient UNB	-	-	-	-	195,191	185,969	-5%
Emarat	67,556	74,737	134,953	141,962	148,808	165,031	144%
<b>Total</b>	<b>2,282,641</b>	<b>2,333,188</b>	<b>2,101,817</b>	<b>1,874,417</b>	<b>2,266,977</b>	<b>2,316,292</b>	<b>1%</b>

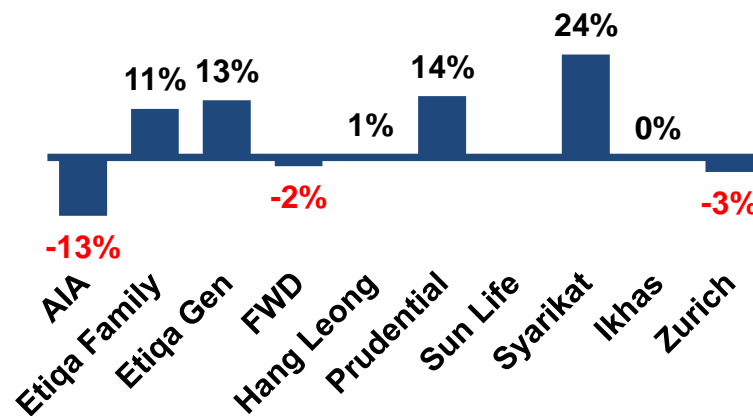
Source: AM Best data and research



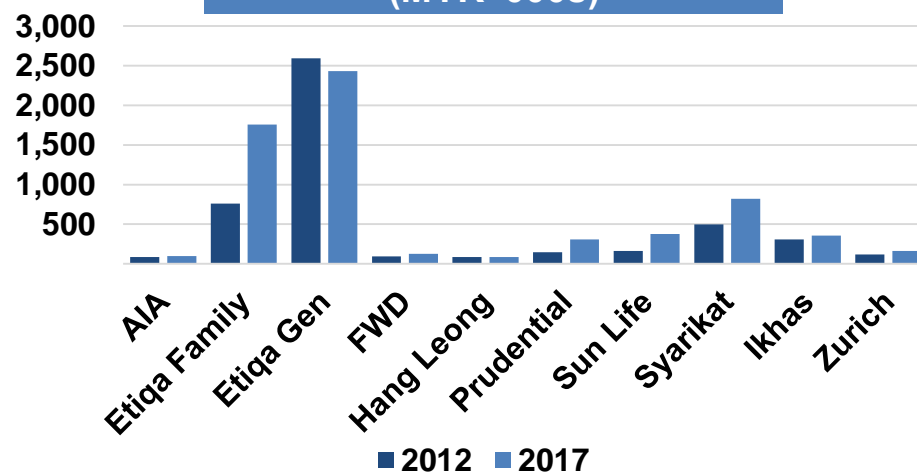
# Malaysia Takaful: Summary

MYR '000s	GWP	NWP	Underwriting Profit/Loss
AIA	629,216	611,565	-16,983
Etiqua Family	1,345,132	1,282,101	267,071
Etiqua Gen	1,105,313	417,014	80,754
FWD	236,414	213,801	15,158
Hang Leong	169,870	133,890	12,326
Prudential	1,578,087	1,526,216	79,825
Sun Life	486,915	428,671	68,445
Syarikat	1,833,798	1,527,130	213,322
Ikhas	647,307	572,979	80,918
Zurich	277,687	257,636	-16,931

Five-Year Average Return on Equity



Change in Shareholders' Equity (MYR '000s)



Source: AM Best data and research



# Rating Issues

## Balance Sheet Strength

- Strength of regulation
- Commitment of shareholders to policyholders
- Permanence of Qard
- Low surplus generation
- Dependence on Qard
- Reserve quality
- Insufficient retakaful capacity

## Business Profile

- Competing with conventional insurers
- Intense pricing competition
- Most have limited profiles
- Limited product differentiation
- Lack of skilled professional

## Operating Performance

- Balance of earnings between shareholders and policyholders
- Wakala fees still relatively high
- Improved surplus generation
- Dependence on Qard
- Over-dependence on investment income

## Enterprise Risk Management

- Varied, with most in its infancy (silo approach)
- Governance and control issues
- Short-term view of managers
- Higher prospective benchmarks
- Managing conflict

# Emerging Challenges

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## Potential Opportunities

**Cyber  
Insurance**

**Climate  
Change**

**ESG**

**IFRS 17**

**InsurTech**

**Casualty  
Catastrophe**



# Environmental, Social, Governance

**A set of metrics used by investors to assess a company's risks—which may not be captured by conventional financial metrics—with the intention of enhancing long-term returns**

## Environmental

- Climate change
- Carbon emissions
- Natural resources
- Pollution and waste
- Environmental opportunities

## Social

- Human capital
- Product liability
- Stakeholder opposition
- Health and safety
- Social opportunities

## Governance

- Corporate governance
- Corporate behavior
- Transparency
- Board composition
- Business ethics

# Environmental, Social, Governance

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Insurers underperform on ESG integration

FINANCIAL TIMES

Swiss Re shifts entire \$130bn portfolio to ethical indices



Natural Disasters Cost Insurers a Record \$144 Billion in 2017: Swiss Re's sigma



Anti-coal petitioners hit out at Generali



Apple, Akamai, Etsy and Swiss Re get together to buy clean power



REUTERS

Munich Re sticks with coal underwriting despite investor pressure



# Environmental, Social, Governance

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**Natural catastrophes and man-made disasters in 2017: a year of record-breaking losses**

**EXPERT  
INVESTOR**

**Generali eyes Sycomore to expand sustainable expertise**

**ARTEMIS**  
[www.artemis.bm](http://www.artemis.bm)

**Swiss Re in first-of-its-kind index-based wind farm weather hedge**



**Zurich Insurance ups 'impact investment' target to \$5 billion**

**TheActuary**

The magazine of the Institute & Faculty of Actuaries

**Europe's largest insurance company ends coverage for coal projects**

Allianz has announced today that it will no longer offer stand-alone insurance coverage for coal power plants following intense pressure from environmental groups.



**Mapfre converts 1 bln eur credit line into sustainable loan**





# Climate Change

## Relationship between global warming and severe weather related events

- Global temperature rise
- Decreased snow cover
- Warming oceans
- Glacial retreats
- Shrinking ice sheets
- Declining Arctic sea ice
- Rising sea levels

## Higher frequency of extreme events



# Climate Change

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## What do the studies say

Four-fold increase in weather-related losses since 1980

1980-2011 – USD 500 billion in losses

Expect the extremes:  
hurricanes, superstorms,  
mega-tornadoes, flooding,  
habitat loss, famine, droughts,  
increased diseases due to  
wetter-weather

## What are insurers doing?

Retreating from near-shore risks

Encouraging more prudent land use

Stronger building codes

Better planning

Policy exclusions

# Cyber Risk

**“the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise”**  
– ISACA IT Risk Framework

**Cyber risk spreads and mutates along with technology – making it hard to model**

## There is more than data loss

- Theft of intellectual property/ commercially sensitive information
- Disruption/ interruption
- Cyber extortion
- Cyber fraud
- Breach of privacy event
- Network failure liabilities
- Reputational loss
- Physical damage
- Investigation and response costs
- Death and bodily injury



# Cyber Risk

- A top five risk in terms of likelihood – World Economic Forum
- Cyber security incidents – 66% increase year on year since 2009
- Estimated cost to global economy – USD 600bn (0.8% of global GDP) – 20% is US (McAfee)
  - Global cyber insurance premium – over USD 3bn
  - US exposure – approx. 75%
  - UAE – Cyber threat; 2nd in ranking
  - Insurance industry exposure – potentially USD 30bn (single event loss)
  - Growth – continues across all industries
  - Issues surrounding silent cyber cover

# Q&A

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