



Evolving Takaful Regulations in GCC

12th International Takaful Summit, London

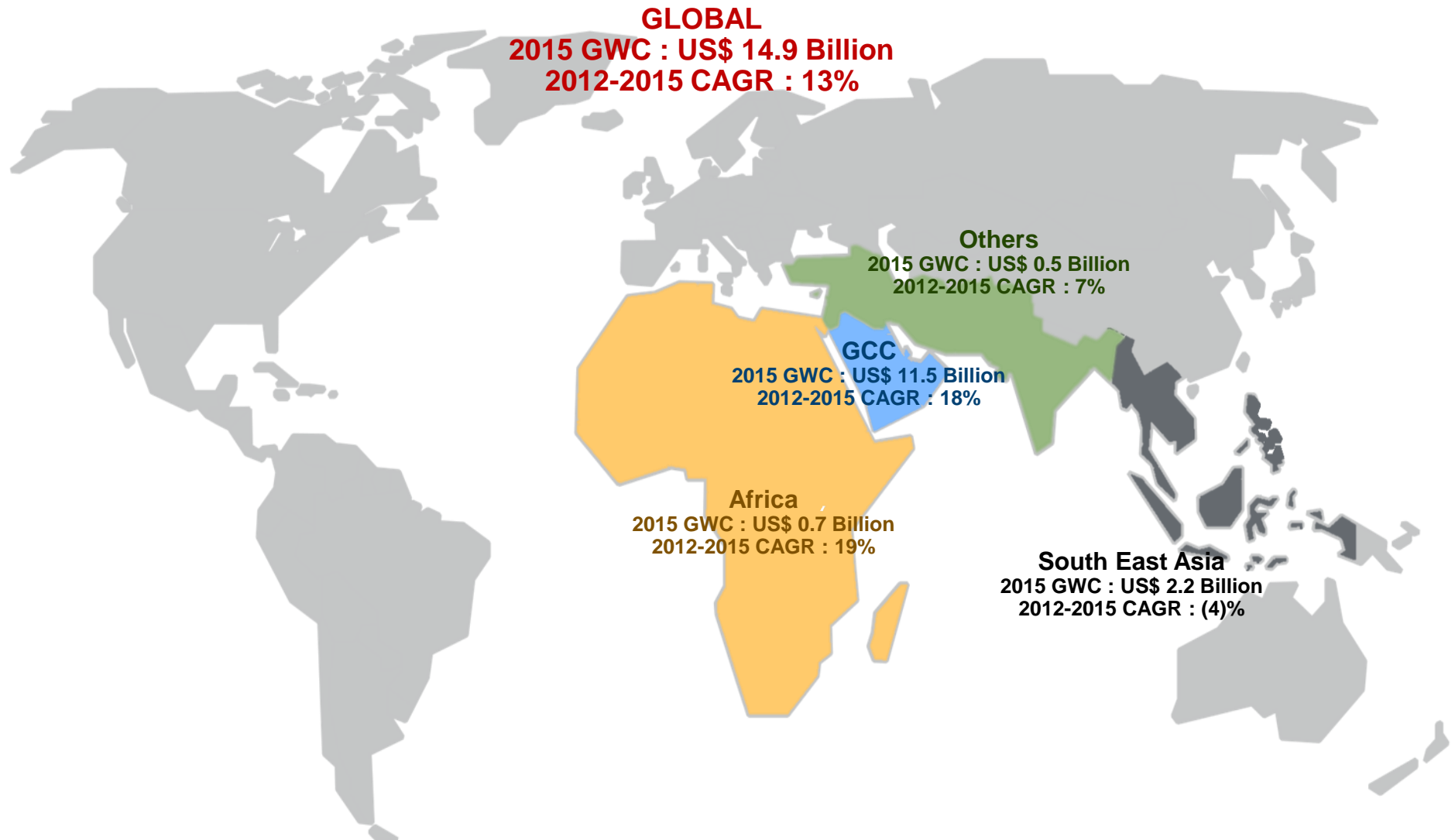
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10th July 2018

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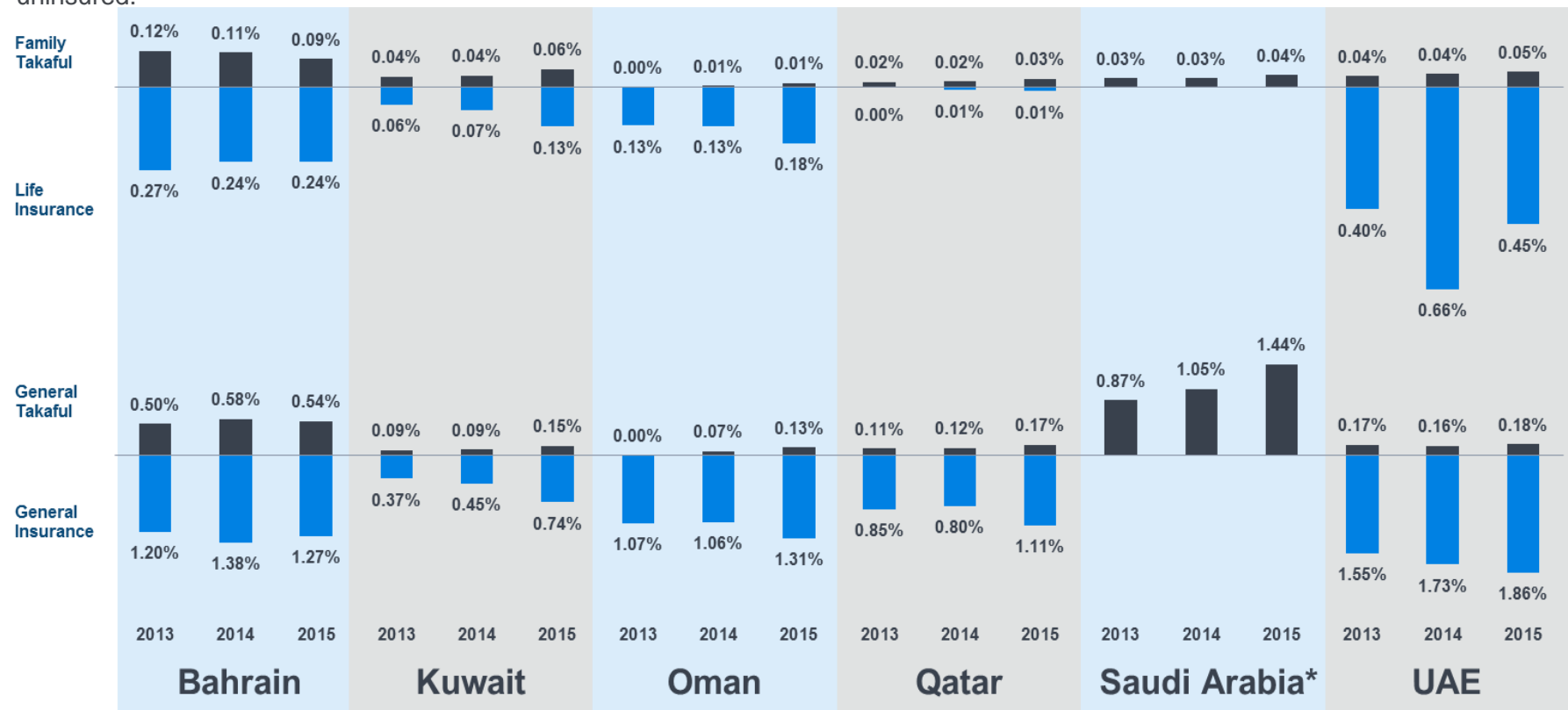
- Takaful Overview
- Regulatory Landscape
- UAE
- KSA
- Other GCC
- Conclusions & Future Outlook

Global Takaful Market



Market Penetration - GCC

- Life insurance and family takaful penetration rates are much lower than that observed for general insurance and general takaful. Similarly, the takaful penetration rates are much lower than the conventional insurance penetration rates.
- Overall, the insurance penetration rate in the GCC is low. The introduction of the compulsory requirements for motor and medical lines had led to the increase in penetration rates witnessed in general takaful. However the family takaful market remains largely underpenetrated
- As most GCC markets are considering the long-term sustainability of some of these state benefits, the lack of takaful market penetration rate, particularly for family takaful, indicates the high potential growth opportunities in these (predominantly Muslim) markets, that are largely uninsured.



*Saudi Arabia is considered as 100% Shariah-compliant in line with the cooperative laws in the country.

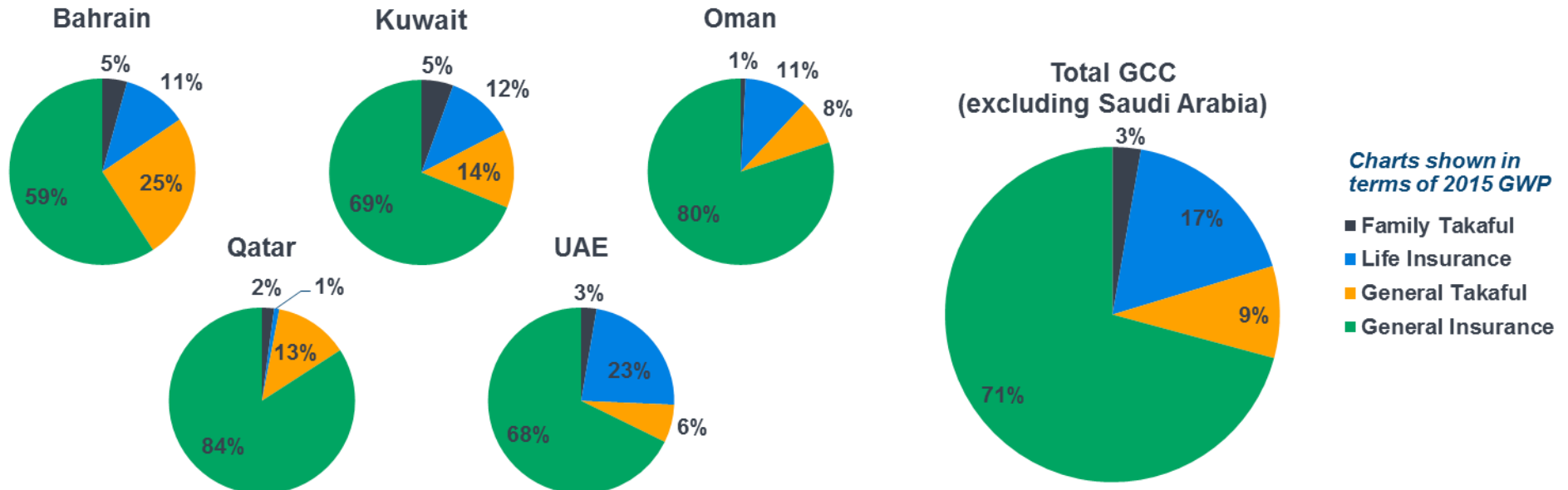
GCC (Excluding Saudi Arabia)

Overview



- For the total GCC market (excluding Saudi Arabia), the takaful market comprises 12% of the total insurance and takaful market, as shown in the graphs below.
- The general takaful dominates the region, with 76% of the total takaful market.
- There are a large number of insurance and takaful companies in operation in the GCC markets (excluding Saudi Arabia), in excess of 200 companies in 2015. The number of conventional insurance companies is significantly higher than the number of takaful companies in this region (circa four times more in total).

Country	Bahrain	Kuwait	Oman	Qatar	UAE	Total
Number of Conventional and Takaful Companies in 2015	36	36	23	13	60	168
Number of Takaful Companies in 2015	6	13	2	6	12	39





Overview of Regulatory Landscape

Overview Of Regulations (1)

Direction of regulation in the Region is towards a **full risk based approach**, while simultaneously encouraging **strong corporate governance** by each company.

Consistent with international standards, some of the key components include, but are not limited to:

- Use of International Financial Reporting Standards (IFRS).
- Solvency standards based on Solvency II and RBC.
- Certification of Technical Provisions by an Actuary.
- Comprehensive financial data reporting with full transparency.
- Enhanced communication via Financial Condition & other Reports.
- Risk based approach to investment management.
- Board of Directors involved in corporate governance.
- Consistency of approach for Takaful and Traditional insurers.

Overview of Regulations (2)

Kingdom of Saudi Arabia - KSA

- Cooperative business model
- Strengthening role of actuaries
- Shariah compliance outside regulatory domain
- 10% surplus to policyholders

KSA - implications

- No differentiation between takaful and conventional – confusing for customers?
- Better consumer protection

UAE

- Revised regulations in 2015, Shariah Oversight Committee
- No windows, and composites can operate but with strict governance to segregate life and non life
- Similar solvency standards as Solvency II
- Restrict foreign players to the market implicitly

UAE - implications

- Improved Shariah compliance & supervision
- Challenge to comply to Solvency II solvency std.
- M&A activities? Help local players grow but limit product development
- Need skilled human resources for implementation/supervision



UAE and KSA

Insurance Authority - UAE



- Regulatory Journey – 2014-18
- Market performance and trends
- Lessons learnt & future challenges

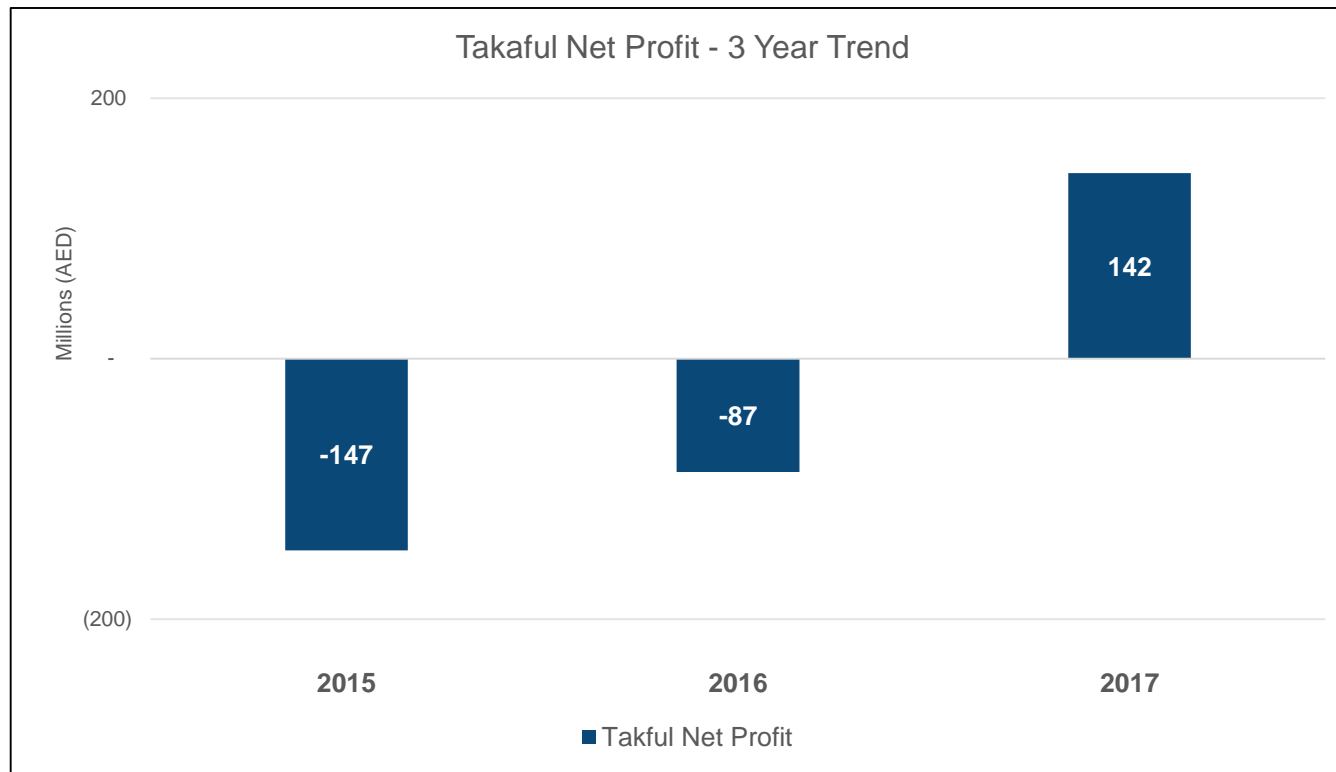
Regulatory Journey

- Federal Law No. 6 of 2007.
- Executive Regulation (Resolution No. 2 of 2009).
- Financial Regulations (No. 25 & 26 of 2014) – December.
- Two-year transition period for technical provisions and investment limits (excl. Real Estate).
- Actuarial Technical provision reports required.
- Financial Regulations fully in force.
- Expect final regulations for Foreign Branch Capital requirements and Life regulations.



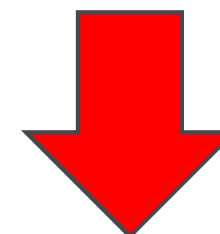
- One-year transition period for organizing books and financial reporting (Sections 5, 6 & 7).
- IA issues new reporting forms (eForms).
- Three-year transition period for Real Estate investments, Solvency Margin & Takaful Assets.
- IA issues Actuarial Regulations & Investment Limit Interpretation circular.

Profitability Trend for Takaful Companies in UAE



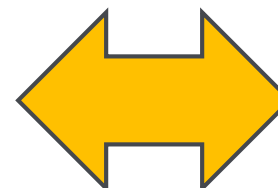
The Key Ratios of Takaful Companies in UAE

Company	Return on Average Equity		Liability to Total Equity		Investment Ratio	
	2017	2016	2017	2016	2017	2016
Abu Dhabi National Takaful	20%	19%	1.99	2.00	9%	8%
Arabian Scandanavian National Insurance	2%	10%	1.03	0.69	11%	45%
Dar Al Takaful	12%	9%	3.79	6.79	3%	4%
Dubai Islamic Insurance & Reinsurance	15%	-34%	19.15	24.42	-3%	-2%
Islamic Arab Insurance	5%	-19%	3.04	3.42	11%	9%
Methaq Takaful Insurance	1%	12%	6.61	4.14	0%	6%
National Takaful	9%	0%	3.77	3.08	3%	9%
Orient UNB Takaful	-6%	NA	0.36	NA	478%	NA
Takaful Emarat	13%	11%	4.65	4.16	5%	7%
Total	7%	-5%	3.18	3.52	6%	9%



The Key Ratios of Takaful Companies in UAE

Company	Retention Ratio		Commissions Ratio		Net Combined Ratio	
	2017	2016	2017	2016	2017	2016
Abu Dhabi National Takaful	89%	46%	9%	9%	62%	63%
Arabian Scandanavian National Insurance	77%	71%	9%	9%	96%	71%
Dar Al Takaful	54%	52%	11%	9%	95%	96%
Dubai Islamic Insurance & Reinsurance	28%	34%	7%	6%	93%	113%
Islamic Arab Insurance	69%	71%	33%	31%	94%	129%
Methaq Takaful Insurance	90%	84%	7%	10%	100%	95%
National Takaful	62%	65%	8%	5%	95%	100%
Orient UNB Takaful	23%	NA	24%	NA	880%	NA
Takaful Emarat	52%	74%	7%	8%	95%	96%
Total	64%	63%	14%	14%	93%	105%



UAE Market Performance & Trends

- Gross written premium in the market grew by 16% with similar growth for both traditional players and Takaful operators.
- Profits grew 46% overall with only 4 out of 30 listed companies achieving a net loss.
- Takaful market returned to profitability as 8 out of 9 operators achieving a net profit in 2017.
- Higher growth and profitability largely due to regulatory interventions:
 - Increase in medical insurance due to mandatory coverage in Dubai.
 - Improvement in pricing for certain lines of business especially motor tariffs.
 - enhanced technical awareness including requirements for a higher level of actuarial input.
- Increased dialogue between IA and Industry through series of consultation papers, workshops, etc.

SAMA - KSA



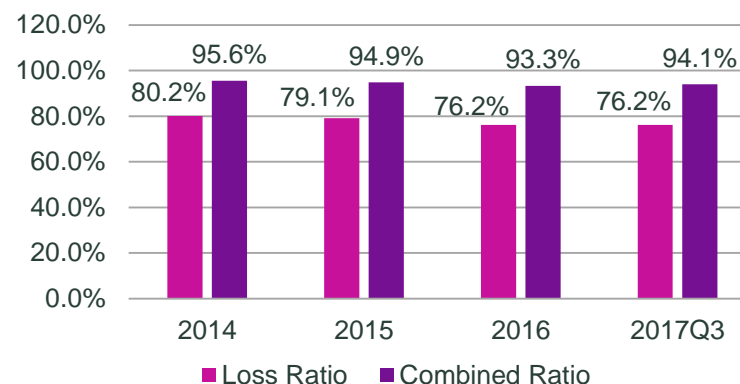
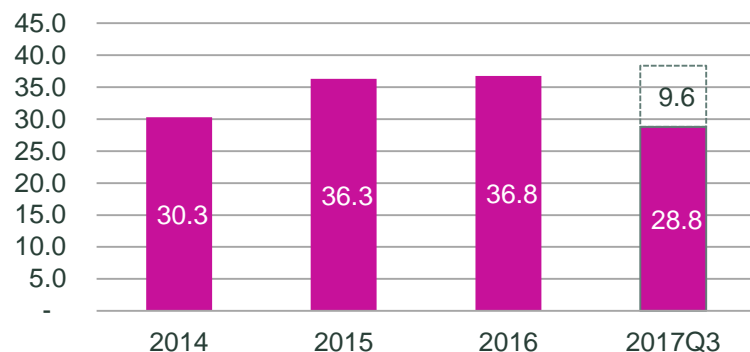
مُؤَسَّسَةُ النِّقْدِ الْعَرَبِيَّةِ
Saudi Arabian Monetary Authority



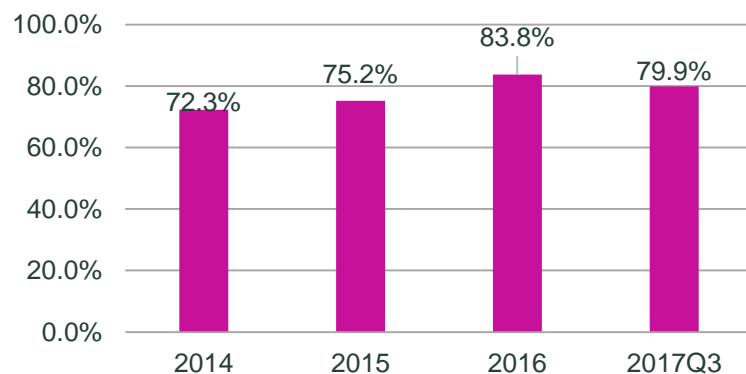
- Market Performance
- Regulatory Journey
- Risk based supervision framework

KSA Market Performance – Milliman Monitor

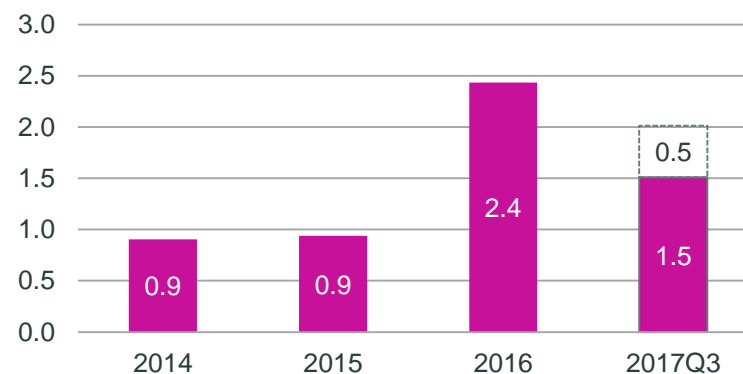
Gross Written Premiums



Retention Rate



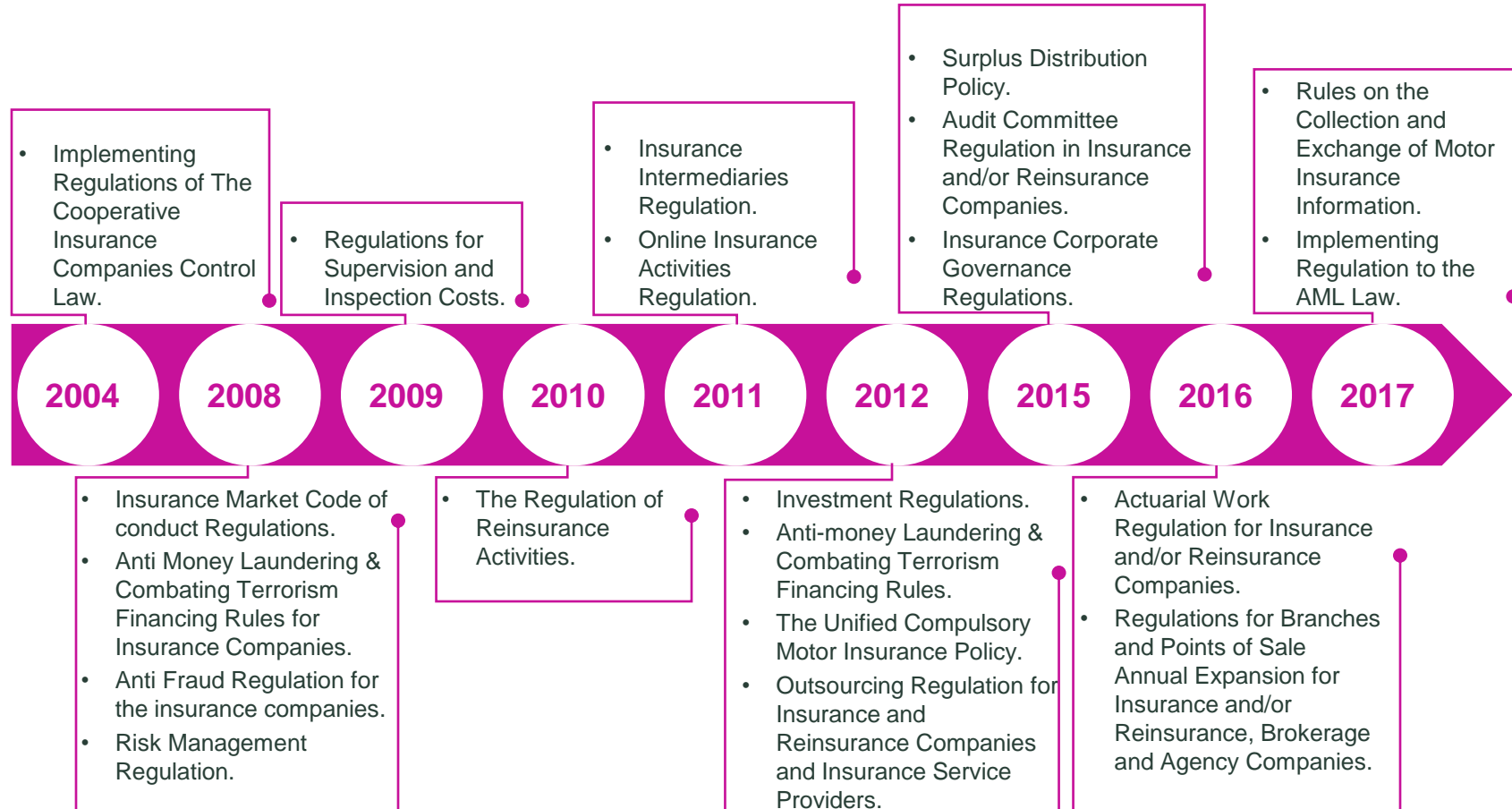
Net Income



KSA Market Performance & Trends

- Gross written premium volumes are quite stable since 2015.
- We expect the profits to be reduced by 16% in 2017.
- We observed a significant increase of the retention rate between 2014 and 2016 from 72.3% to 83.8%.
- Loss Ratios and Combined Ratios have improved between 2014 and 2016. However, in 2017 the Combined Ratio increased from 93.3% in 2016 to 94.1% due to an increase of the Expense Ratio.

Regulatory Journey



Risk Assessment Framework



1. Market, Counterparty Default, Non-life Underwriting, Life Underwriting, Strategic, Operational, Regulatory and AML management, Financial analysis, Risk management, Appointed Actuary, Compliance and Internal audit

2. Includes Board of Directors, Senior management, Operational

Lessons Learnt & Future Challenges - 1

- From a nearly unregulated market to a fully fledged risk based approach within a span of a few years is a remarkable transformation .
- Takaful Industry struggling but getting there with strong regulator guidance:
 - Significant structural issues due to past excesses with Wakala fees and fiduciary challenges for Participant's and Shareholder's Funds.
- Significant technical input including actuarial sign-off and tightening audit standards.
- Technical provisions have strengthened significantly, but Actuarial quality still lagging:
 - Most actuaries are trained in Life insurance, but most of the market is Non-Life.
- Improvements in data quality, but most companies still struggling.
- Auditors role still below par but beginning to tighten up.
- Health landscape settling from initial Fee for service hypes and inflationary pressures.

Lessons Learnt & Future Challenges - 2

Future Challenges:

- Market is crowded with 60 players in UAE. M&A has commenced albeit slow.
- Consumer complaints could lead to further pressures on motor pricing/tariffs.
- Motor pricing in its infancy compared to more mature markets.
- InsurTech: Telematics will be a game changer (see later).
- Medical pricing pressures will continue albeit with tighter health regulations towards value based approach.
- Life Insurance Industry gearing up for major reforms and life insurance penetration impact uncertain.
- Impact of IFRS 17.
- Better quality of management, technical, actuarial and audit standards.



Other GCC

Middle East

	Regulatory updates	Implications / challenges
Bahrain	<ul style="list-style-type: none">• New takaful regulations based on AAOIFI• Can only use combined wakala/mudarabah model	<ul style="list-style-type: none">• Strengthening solvency• Safeguarding participants• Increased focus on domestic operations
Oman	<ul style="list-style-type: none">• Draft takaful regulations in 2015• Higher capital requirements• No windows• Sharia compliant equity index	<ul style="list-style-type: none">• First mover advantage: Al Madina Takaful (conversion) & Takaful Oman Insurance (startup)• Growth and consolidation
Kuwait	<ul style="list-style-type: none">• Draft (separate) law for takaful• Encourage foreign entrants• Increase in capital requirement	<ul style="list-style-type: none">• Competitive market - Stagnant growth / losses• New law may minimise negative market practices
Qatar	<ul style="list-style-type: none">• Developing onshore insurance regulation (may include takaful)• Follow international standards (AAOIFI) / increased capital	<ul style="list-style-type: none">• Consolidation of small players• Growth• Attract foreign players due to level playing field



Looking forward

Market Developments – Insurtech



- Using telematics, a Takaful Operator can:
 - Get live data from a smart phone or connected cars
 - Base their pricing on how the car is being driven
- Favorable results for the society as a whole:
 - In Italy, telematics linked policies have 20% lower frequency than other policies
 - In Singapore, insurers give discounts for not driving on weekends
 - Matches with the government's plan to cut traffic
- This is expected to find a way into the region and the Takaful industry through:
 - Insurers' initiatives
 - Regulatory Support
- For example, SAMA enforced system upgrades to allow for NCDs:
 - From the vision of potentially mandating telematics across KSA.

Market Developments – IFRS 17



- IFRS 17 has been published
 - Next step in setting insurance standards
 - Will replace IFRS 4
 - Effective from 1st January 2021
- Benefits:
 - Further understanding of insurance contract performance
 - Increases transparency in financial information
 - Consistent accounting for insurance contracts
- Challenges:
 - Actuarial expertise along with accounting and risk management
 - Unprecedented processing speed to meet strict auditing timeframes

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

Summary & Conclusions - GCC

- As impact of changes accelerate, we expect “survival of the fittest” may lead to either extinction (insolvency) or assimilation (mergers) of companies in the region, which has already begun.
- Regulators moving towards full risk based approach with no appetite to keep companies surviving if they are not fit for purpose.
- Industry changes and improvements primarily led by regulatory changes and not self regulation.
- Mediocracy of management and lack of technical skills remains a challenge, thus requiring continuing regulatory intervention and risk management enforcement in the foreseeable future.
- Regulators under pressure from consumer complaints in all areas of insurance services triggering intervention (e.g., motor pricing, claims payments, commission abuse, lack of disclosures, etc.).
- Major focus on life regulations

Summary & Conclusions - GCC

- Regulators tilting balance in favor of consumer protection in the event of poor management of insurance companies.
- Broker role still 'selling' rather than 'adding value' leading to regulatory intervention.
- Actuarial input mandated but actuarial quality still below global standards in the region.
- Auditors role fast changing toward global standards and currently lagging behind in the region.
- Deregulated reinsurance market will change in the near future and signs already seen in UAE and KSA.
- Regulators still lack resources and capacity but hiring consultants to meet short term needs.
- Financial and Health regulators working independently BUT this is likely to change in near future.

Summary & Conclusion -Global

Strengthening of regulations to protect policyholders

- Trends towards Risk-Based Capital Framework
- Better corporate governance
- Sound underwriting
- LIFE Framework & Minimum Allocation Rate (Malaysia)
- Regulations on wakalah fees
- Regulations on commissions
- Treatment of qard

Encourage focus & growth

- Splitting of composites
- Allowing windows (Pakistan)
- Spin-off of takaful (Indonesia)
- De-tariffication (Malaysia)
- Focus on non-agency channels
- New regulations in new markets

Global regulations

Implications of IFRS17 (systems, reporting, etc).

How should takaful be treated under IFRS17?

Readiness of takaful industry?

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There is no single source containing quantification of Takaful premiums (or contributions) globally, by region or country. Milliman has estimated the Takaful numbers from company financials, regulatory reports, industry reports and internal estimates, where necessary.



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