

The Struggle of Retakaful: Finding the Key Ingredients for Success

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Global Reinsurance Outlook

Headwinds

Intense competition

Unabated interest from third-party capital

Excess capacity hinders improvement

Potential for increased inflation

Reserve release declines

Earnings under pressure

Tailwinds

Cession rates increasing

Cat losses temporarily stabilise rates

Favourable reserve development

Strong risk-adjusted capital

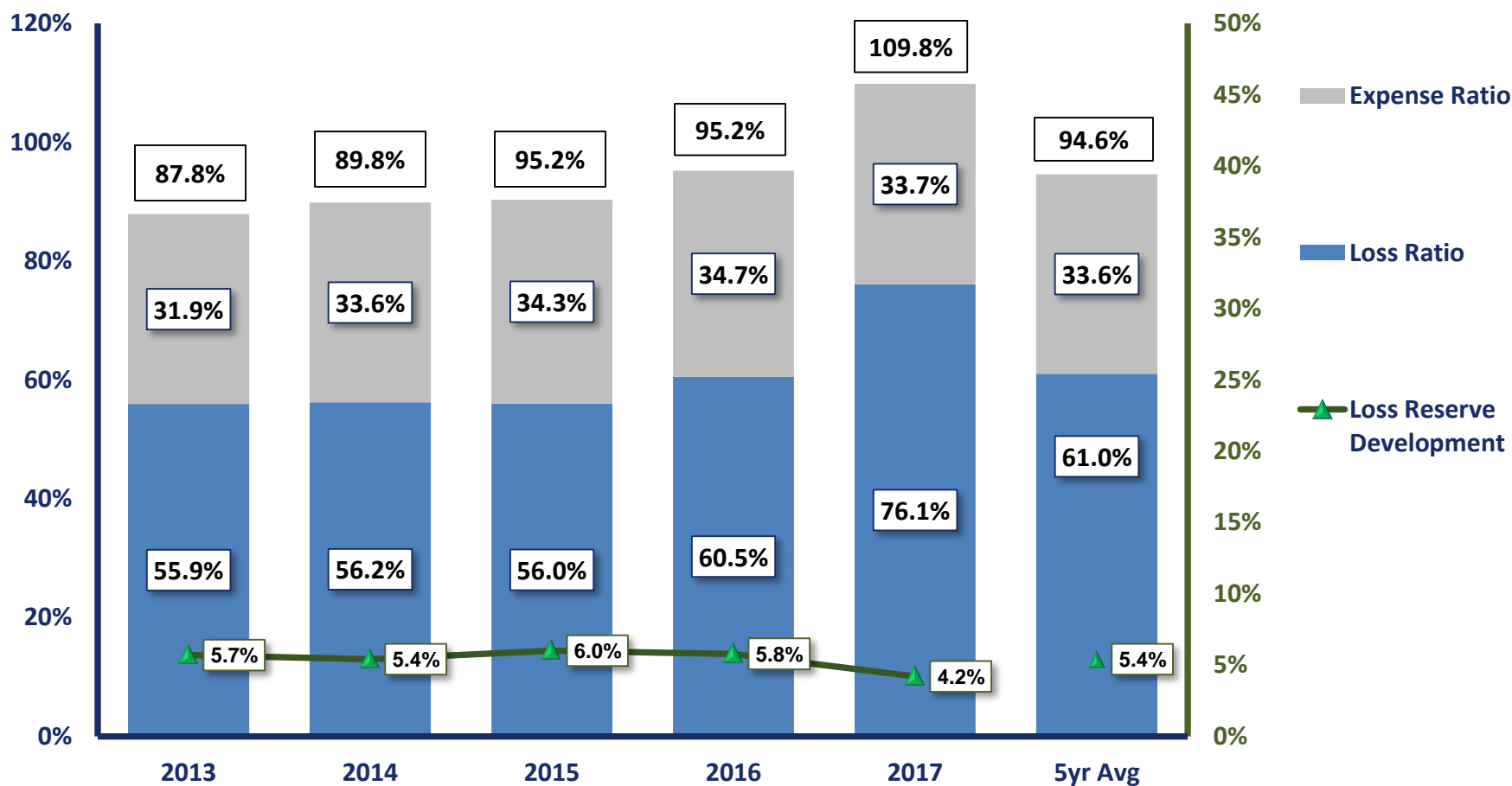
Increase in interest rates

M&A

Although capitalisation remains strong and rate deterioration has halted, pressure on margins continues. Over the medium term, returns for some reinsurers will fall short on a risk-adjusted basis.

Maintain negative outlook.

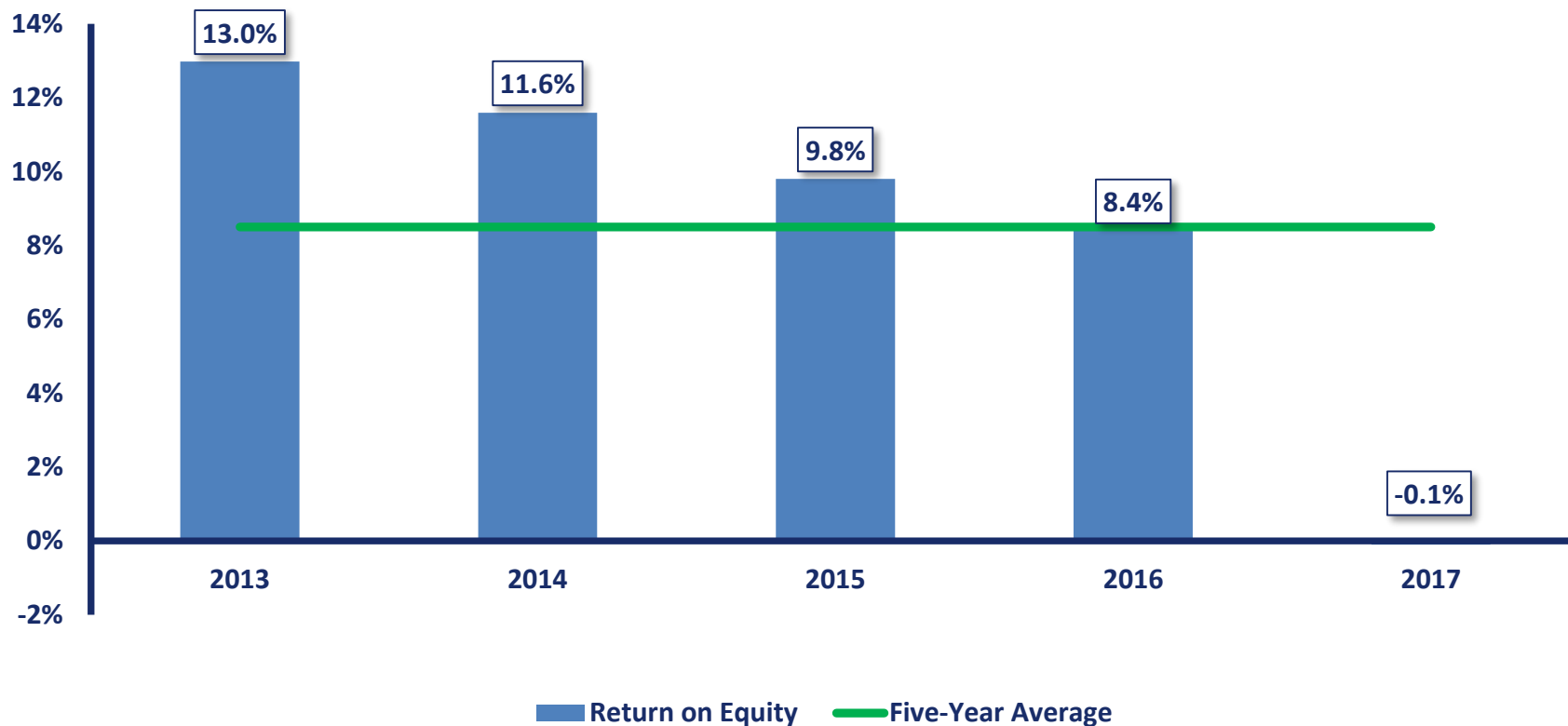
Global Market Combined Ratio



Source: A.M. Best data and research

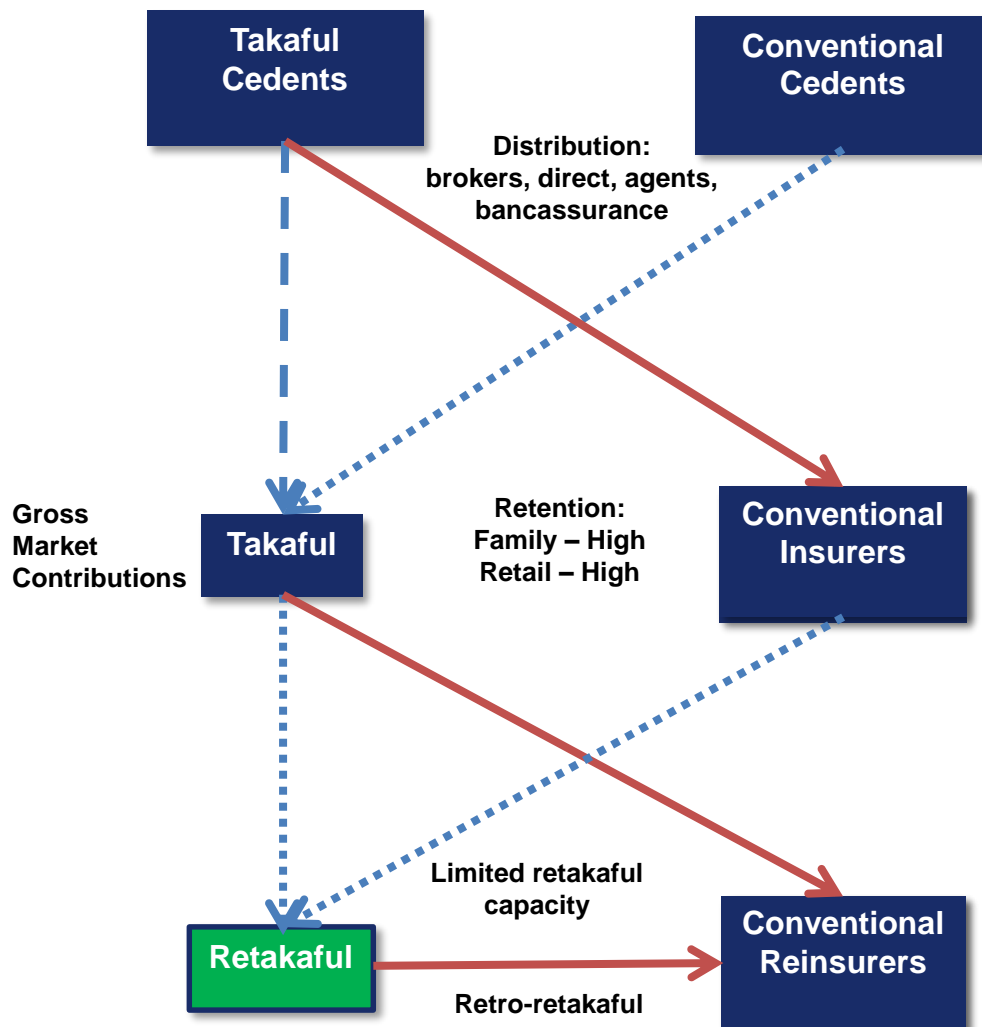


Global Return on Equity



Source: A.M. Best data and research

Flow of Contributions – What's left for retakaful?



Composition of takaful operators (%)

■ Family Takaful ■ General Takaful

Malaysia



GCC



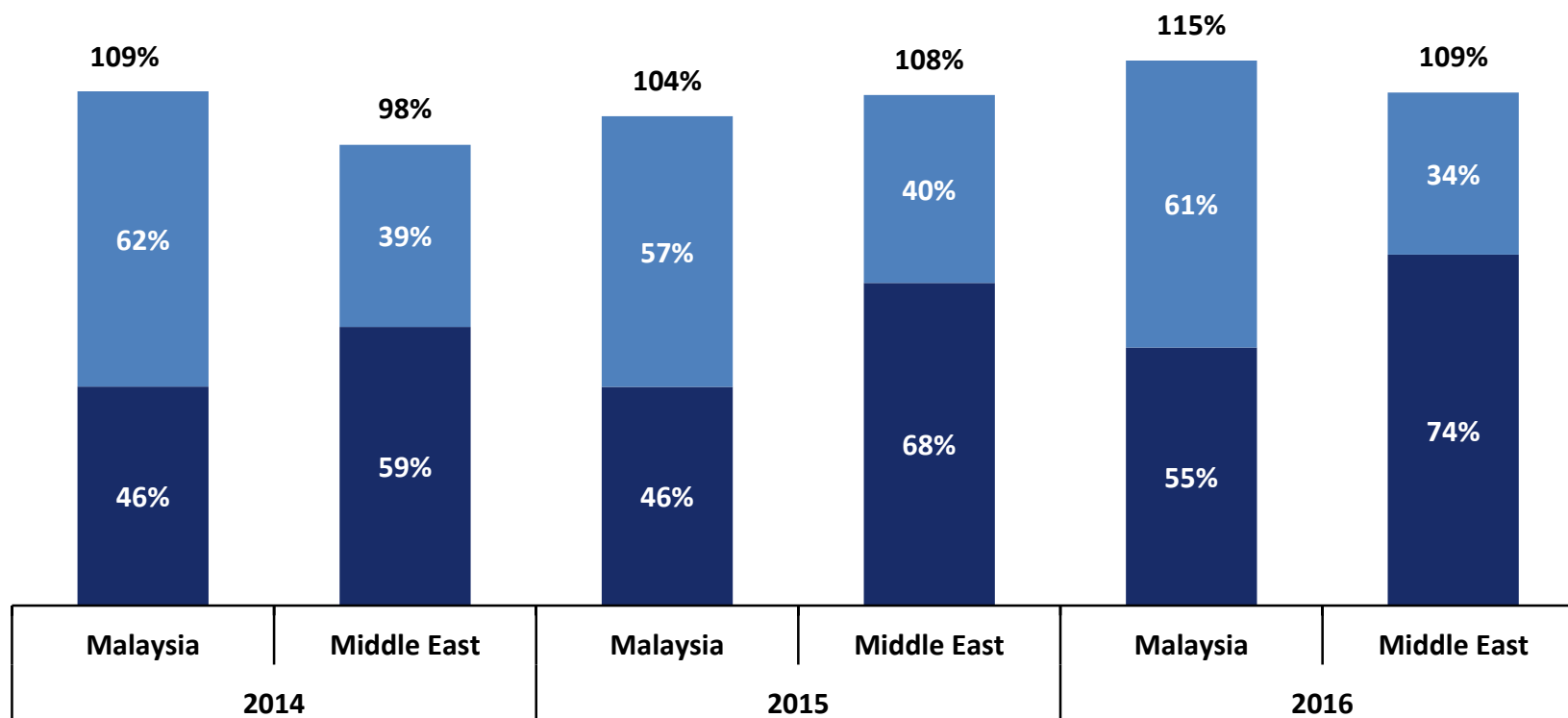
Note: Majority of non-life business in the GCC is motor and medical.

Source: A.M. Best Research



Primary Takaful – Underperforms

Middle East and Malaysia – General Takaful Business Performance (2014-16)
Showing Loss, Expense and Combined Ratios



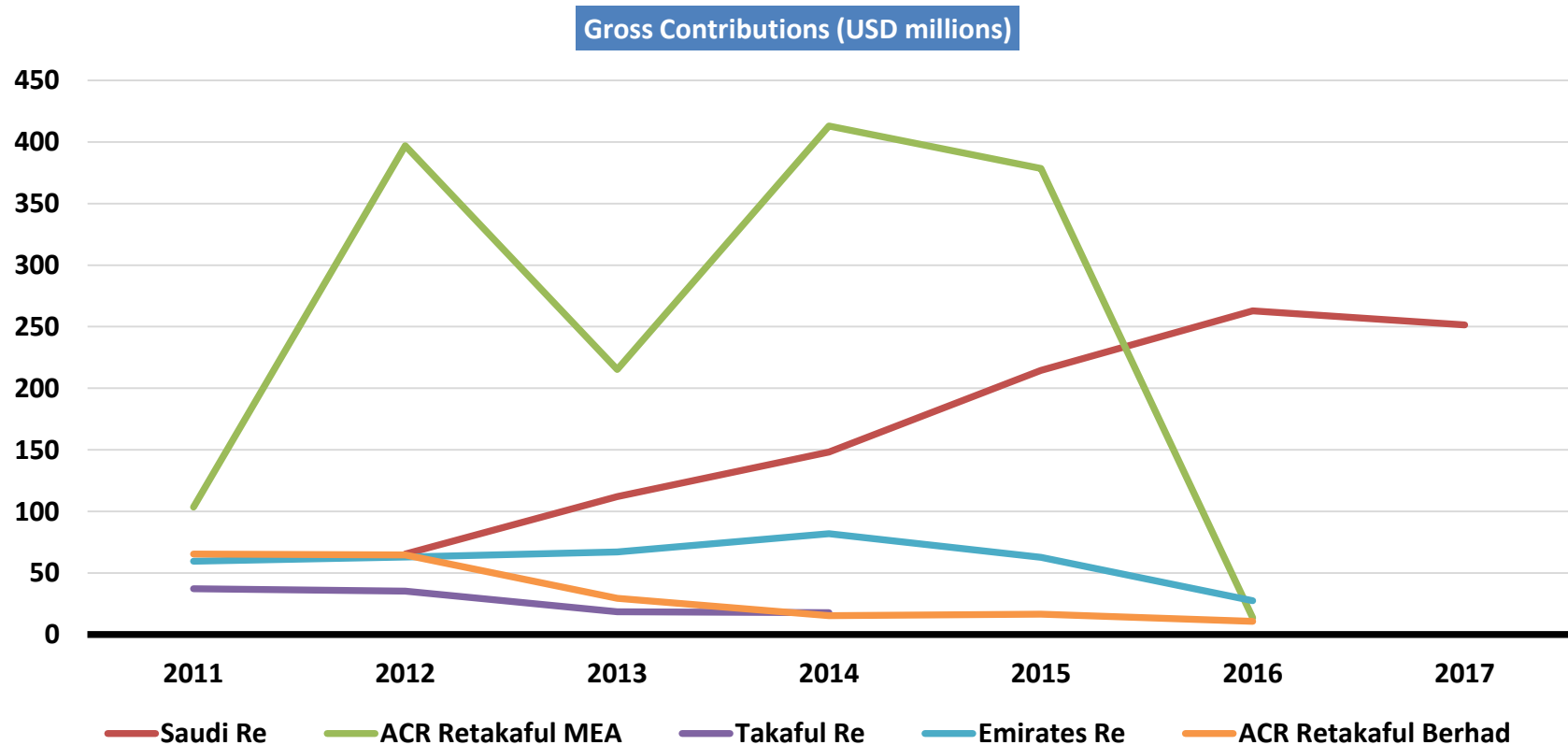
Source: A.M. Best data and research

■ Loss Ratio

■ Expense Ratio

Retakaful – Declining Profiles

Many retakaful operators have been unable to gain traction in a highly competitive reinsurance market

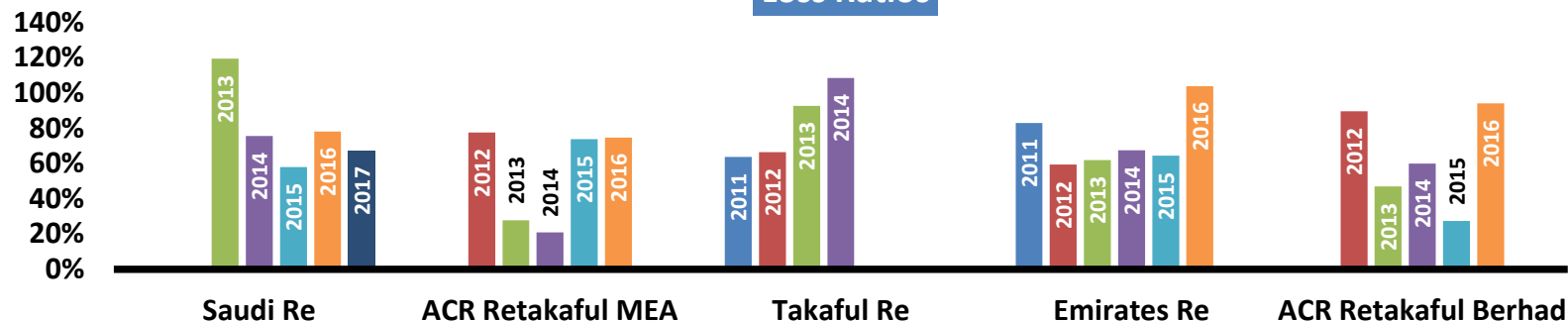


Source: A.M. Best data and research

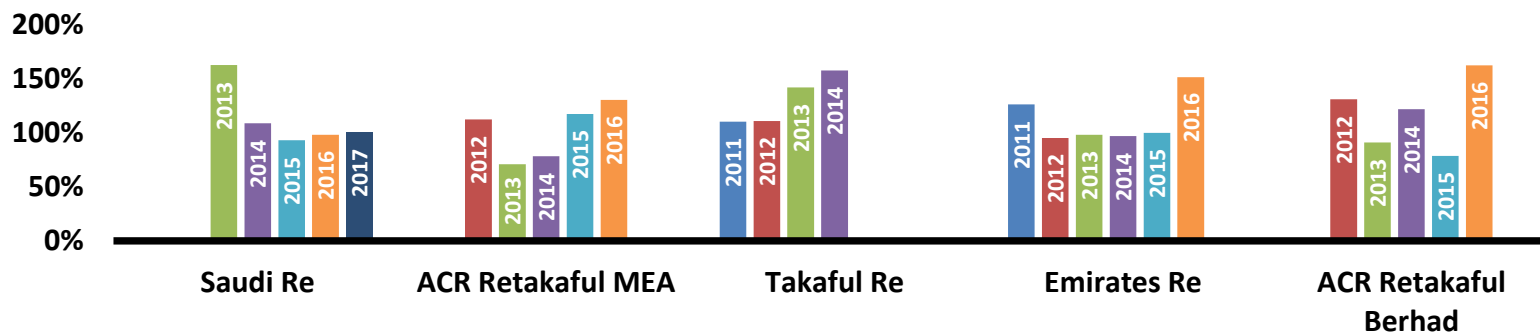
Retakaful – Weak Underwriting Performance

Struggle to balance profitability and scale remains a key concern

Loss Ratios

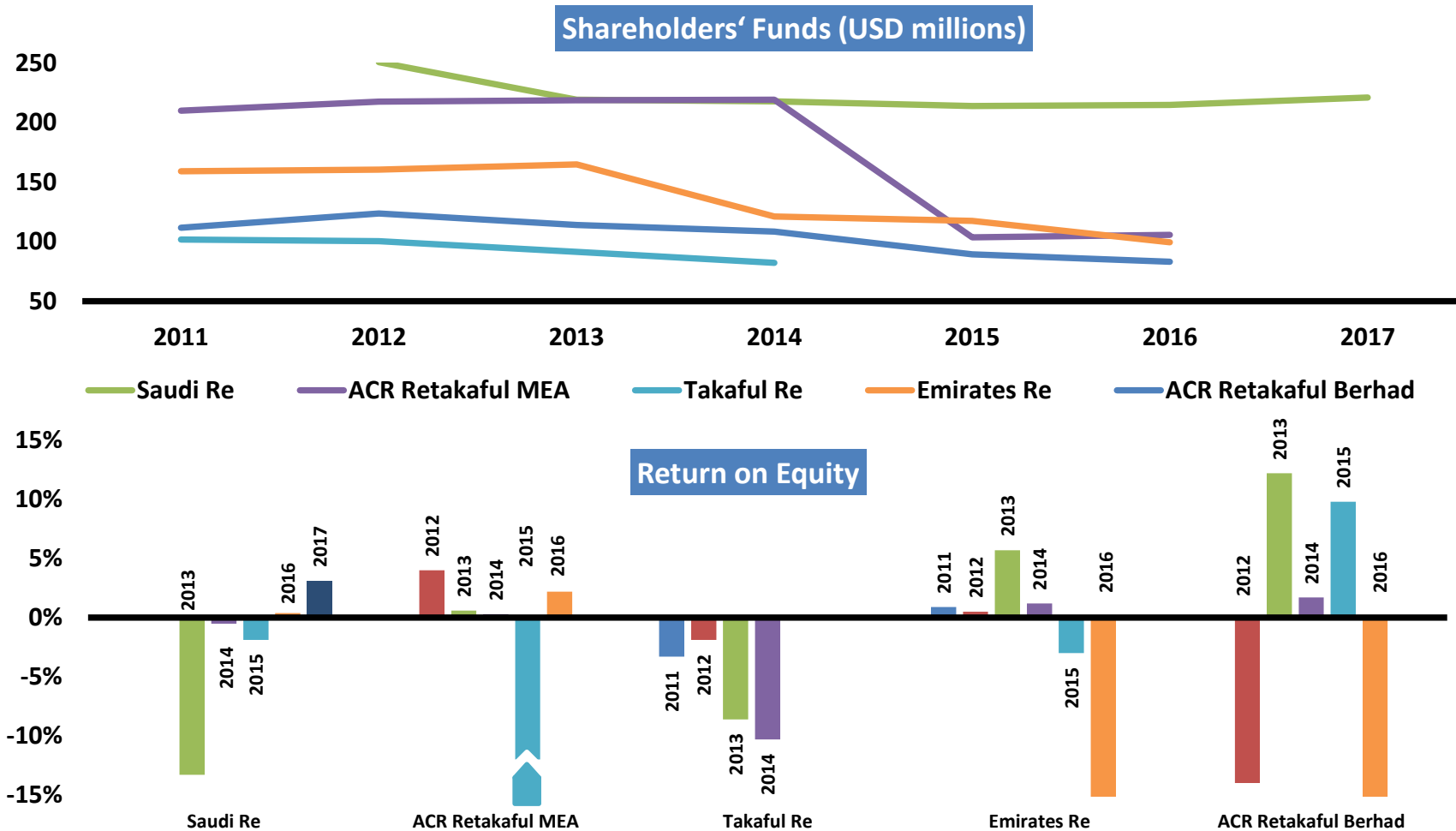


Combined Ratios



Retakaful – Significant capital erosion over time

Reduction in shareholder wealth emphasises reduced commitment to the market



There are exceptions!

Hannover Retakaful shows enhanced shareholders' value

- Controlled growth
- High net retention
- Good overall underwriting performance
- Positive net income
- Sound return on equity

Hannover Retakaful	2012	2013	2014	2015	2016	2017
GWC	124,402	135,933	205,352	184,750	160,861	171,364
NWC	123,463	127,367	201,134	177,822	152,774	164,829
Retention	99%	94%	98%	96%	95%	96%
U/W Profit	12,952	-6,926	-5,686	5,508	15,447	10,302
Investment Income	9,461	1,287	7,727	1,441	5,874	7,793
Net Income	17,952	12,867	19,012	7,311	10,904	19,723
Capital & Surplus	108,938	122,732	147,794	161,794	175,878	170,677
Return on Equity	---	17%	11%	8%	22%	15%

Key Challenges

Key Challenges Facing Retakaful Operators

Inferior Credit Ratings	Weak Performance of Takaful Market
Limited Capacity	Following Market
Extension of Global Groups	Market Exits and Restructures
Regulation	Value to the Market
Governance	Scale Vs Profitability
Availability of Business	Surplus Generation

Final Thoughts

Is there space for retakaful?

- Diversity of insurance sector
- Existence of pure/standalone retakaful model
- Retakaful for conventional reinsurers