Market Review
February 15, 2017

Stability Returns to Saudi Insurers but Growth Prospects Remain Cloudy

"Regulatory intervention and underwriting discipline have improved market performance; however, prospective challenges remain to achieve top line growth"

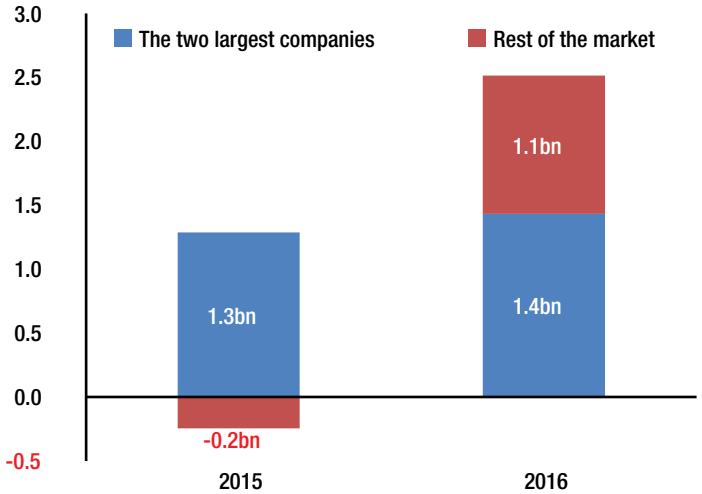
After a period of underwriting volatility, the Saudi insurance market appears to have finally turned the corner. Preliminary disclosures by national insurers in the Kingdom of Saudi Arabia have generally exhibited a marked improvement in operating performance in 2016, with the market more than doubling its profits during the year.

However, despite the improvements in performance, there remains concern regarding overall market growth. The Saudi insurance market grew at a modest 1% in 2016. Growth was primarily derived from rate increases in motor insurance, with gross premiums increasing by approximately 12% in 2016. However, fiscal pressures on public spending driven by persistently low oil prices, reduced demand for property and engineering insurance, which declined by approximately 9% in the year. With no further rate increases in motor and medical insurance anticipated in 2017, the market is likely to see a period of stagnation as pressures persist on property and engineering business lines.

Profitability Rises

As **Exhibit 1** shows, market profit (before zakat) for 2016 was healthy at SAR 2.5 billion (USD 671 million) –more than double 2015's profits of SAR 1.0 billion (USD 278 million). Market profit for 2015 was primarily driven by the strong operating performance of market leaders, while the rest of the market generally produced weak earnings (and many companies generated operating losses). By contrast, A.M. Best has noted a marked turnaround in 2016, with the vast majority of insurers generating positive operating results. In 2015, the two largest companies by gross premium revenue (Tawuniya and BUPA) represented 123% of total market profits, indicative of the fact that few other companies in the market reported significant profits during that year. By

Exhibit 1
Saudi Arabia – National Insurers – Net Profit (2015-16)
(SAR billions)



Note: The two largest companies are The Company for Cooperative Insurance (Tawuniya) and BUPA Arabia for Cooperative Insurance Company.
Numbers have been rounded up.
Source: Tadawul, A.M. Best data and research.

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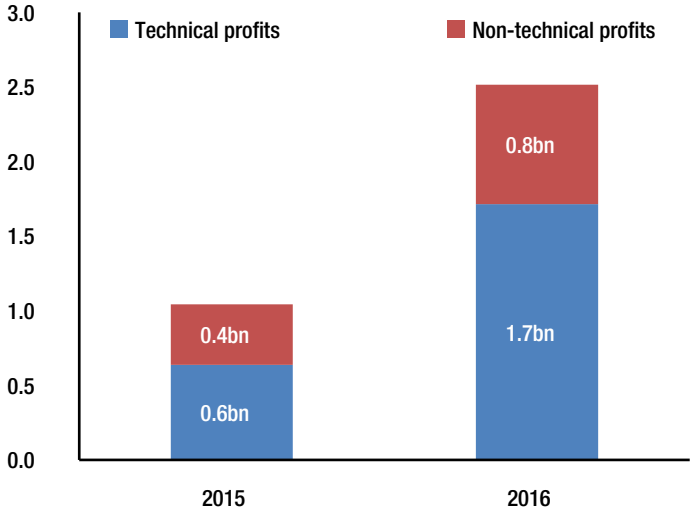
comparison, in 2016, the two biggest companies despite improving profitability only contributed 57% of total market profits, implying that the rest of the market has experienced a significant recovery. Of the 33 primary insurers in the country, 27 showed an operating profit in 2016, compared to 19 in 2015.

Additionally, as seen in **Exhibit 2**, increases in operating profitability largely stem from the "core" insurance operations of companies, reflective of the overall improvements in underwriting discipline across the market. Despite total investment returns increasing from SAR 400 million in 2015 to SAR 800 million in 2016, profits from technical operations increased from SAR 600 million in 2015 to SAR 1.7 billion in 2016.

Exhibit 2

Saudi Arabia – National Insurers – Sources of Profit (2015-16)

(SAR billions)



Source: Tadawul, A.M. Best data and research.

Whilst the profitability for the market can be traced back to improvements in underwriting discipline of market participants, 2016 earnings for some insurers are likely to also include benefits of reserve releases. With the regulator, the Saudi Arabian Monetary Authority (SAMA), implementing actuarial reserving practices in 2014, and evidence of increased reserve prudency in 2015, many insurers have felt over-reserved as at year-end 2015. As loss experience in 2016 has been substantially better than expected (driven mainly by improved premium rates), many insurers would have seen material levels of reserve releases during the year, augmenting their technical income.

Regulator key to improvements

Whilst insurance managers will no doubt pat themselves on the back for the strong results, A.M. Best believes that a significant driver of improved earnings is the active role played by SAMA. The impact of SAMA's interventions is most acutely felt across the three key lines of business: motor, health and property.

The introduction of actuarial pricing and reserving on motor and medical business lines in 2014, whilst leading to short-term losses, helped significantly improve discipline and profitability in the market. In the case of motor insurance, rates have more than tripled since the introduction of actuarial input, leading to an abatement of the price wars that had previously wreaked havoc in the Saudi market. Both motor and medical business lines are now profitable, if at times marginally so.

In 2016, the regulator also implemented uniform guidelines on deductibles and rates for property insurance, which further reduced price competition. Whilst the market remains competitive, the pressure is now on quality of service and distribution networks, rather than price competition.

Winners and Losers

Whilst the Saudi insurance market grew at a modest rate in 2016, individual insurers across the market had contrasting fortunes and many underwent significant growth or reduction in gross premium during the year (see **Exhibit 3**). This has led to significant movement in the leadership rankings in the country (based on gross premium revenue). The changing market profile were driven by contrasting strategies, with some insurers seeking to actively manage their portfolios through improved risk selection following regulatory intervention and by reducing underperforming contracts, whilst other companies have sought growth through size and scale.

Exhibit 3

Saudi Arabia – National Insurers – Market Movement and Net Profit (2015-16)

(SAR millions)

Company	Gross Written Premiums 2016	Change in ranking	Net Profit Before Zakat		Profit Increase/ Decrease	Return on Revenue
			2015	2016		
The Company for Cooperative Insurance (Tawuniya)	8,055,135	–	642,303	800,947	↑	9.9%
BUPA Arabia for Cooperative Insurance Co.	7,938,630	–	645,077	630,705	↓	7.9%
Mediterranean and Gulf Cooperative Insurance and Reinsurance Co.	3,194,334	–	(261,267)	67,611	↑	2.1%
Total Top Tier:	**19,188,099**		**1,026,113**	**1,499,263**		**7.8%**
Malath Cooperative Insurance and Reinsurance Co.	2,167,856	–	(1,883)	(150,174)	↓	-6.9%
Al Rajhi Company for Cooperative Insurance	1,948,650	–	42,542	99,027	↑	5.1%
AXA Cooperative Insurance Co.	1,153,974	▲	27,855	42,677	↑	3.7%
Saudi United Cooperative Insurance Co.	1,016,608	▲	(56,265)	117,318	↑	11.5%
Trade Union Cooperative Insurance Co.	954,483	▲	25,740	44,963	↑	4.7%
Allianz Saudi Fransi Cooperative Insurance Co.	836,272	▲	23,836	24,430	↑	2.9%
United Cooperative Assurance Co.	819,595	▼	(52,975)	99,768	↑	12.2%
Saudi Arabian Cooperative Insurance Co.	801,806	▼	36,804	58,172	↑	7.3%
Arabian Shield Cooperative Insurance Co.	754,470	▲	41,292	80,950	↑	10.7%
Salama Cooperative Insurance Co.	571,353	▲	3,078	30,350	↑	5.3%
Saudi Indian Company for Co-operative Insurance	550,807	▲	(63,015)	59,657	↑	10.8%
Allied Cooperative Insurance Group	510,618	▼	11,133	8,344	↓	1.6%
Wataniya Insurance Co.	507,708	▲	(10,862)	38,745	↑	7.6%
Buruj Cooperative Insurance Co.	437,566	▲	33,193	90,969	↑	20.8%
ARABIA Insurance Cooperative Co.	419,101	▼	(10,410)	8,447	↑	2.0%
AlAhli Takaful Co.	356,279	▲	34,404	33,337	↓	9.4%
Alinma Tokio Marine Co.	321,888	▲	(21,912)	(17,437)	↑	-5.4%
Total Middle Tier:	**14,129,034**		**62,555**	**669,543**		**4.7%**
Al Alamiya for Cooperative Insurance Co.	310,751	▼	27,276	46,346	↑	14.9%
Gulf Union Cooperative Insurance Co.	277,376	▲	12,358	24,965	↑	9.0%
Solidarity Saudi Takaful Co	262,447	▲	(51,508)	43,561	↑	16.6%
Gulf General Cooperative Insurance Co.	255,152	▼	(27,396)	24,908	↑	9.8%
Chubb Arabia Cooperative Insurance Co.	214,847	–	13,941	37,303	↑	17.4%
MetLife, American International Group and Arab National Bank Cooperative Insurance Co.	208,090	▲	(31,498)	(21,855)	↑	-10.5%
SABB Takaful	194,368	▲	3,640	11,855	↑	6.1%
Al Sagr Co-operative Insurance Co.	176,014	▼	104,078	166,475	↑	94.6%
Amana Cooperative Insurance Co.	169,866	▼	(12,772)	23,239	↑	13.7%
Al-Ahlia Insurance Company for Cooperative Insurance	167,142	▼	(53,944)	(21,099)	↑	-12.6%
Saudi Enaya Cooperative Insurance Co.	128,825	▲	(51,996)	(25,824)	↑	-20.0%
AlJazira Takaful Taawuni Co.	76,166	▼	17,661	25,919	↑	34.0%
Sanad Cooperative Insurance Co.	48	–	5,025	(8,324)	↓	
Total Lower Tier:	**2,441,092**		**(45,135)**	**327,469**		**13.4%**
Total	**35,758,225**		**1,043,533**	**2,496,275**		**7.0%**

Source: Tadawul, A.M. Best data and research.

Some of the biggest movements came in the mid-tier segment of the market, with Salama Cooperative and Alimna Tokio Marine both gaining eight places to reach 13th and 20th respectively. On the other hand, Al Sagr Cooperative dropped 19 places to 28th, whilst Amana Cooperative dropped 10 places to 19th in the market. Despite movements in the mid-tier segment, the two largest companies increased their dominance in the market, with their share of total gross premiums increasing from 42% in 2015 to 45% in 2016. At the same time, Medgulf, the third largest insurer in the market lost ground as its internal restructuring and regulatory intervention has meant that the company was unable to write significant volumes of business for long periods. Going forward, A.M. Best expects further market movements to take place in the mid-tier segments, as companies seek to find the balance between active portfolio management and economies of scale.

Outlook for 2017

Whilst market discipline has improved, A.M. Best expects the Saudi insurance market to remain fiercely competitive. As noted, continued low oil prices are likely to dampen insurance growth prospects in the Kingdom in 2017. However, A.M. Best notes that there are opportunities for insurers to grow their portfolios. The Saudi motor market continues to suffer from chronically high levels of uninsured vehicles (estimated to be as high as 55%), and represent a potentially large untapped market. The motor vehicle authority has initiated discussions on changing car registration from once every three years to an annual basis. This will reduce the number of uninsured cars as many owners tend to insure only when renewing their registrations.

Furthermore, efforts by the Kingdom to diversify its economy away from oil dependence could allow insurers to write new and different lines of business. Whilst this is unlikely to result in short-term gains, it does present opportunities for long-term growth and diversification.

Overall, A.M. Best expects Saudi insurers to display a stable level of earnings in the future. However, technical profitability is likely to come under pressure as the focus on service quality increases, possibly leading to higher expense costs. Additionally, increased strain is likely to arise as SAMA clamps down on late claim payments made by insurers. In the past, companies have had their motor licences withdrawn for several months as they were deemed to be slow payers. This could result in a one-off impact as companies try to process old claims, whilst in the longer term, reducing claims processing and checking times could increase the risk of fraudulent claims being paid out.

Despite the challenges, the Saudi insurance market has turned a corner in terms of profitability. However, premium growth may be more challenging in the year ahead.

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