

26 June 2014

Insurance Sector in Q1 2014

Summary

The report depicts the insurance sector's performance in Saudi Arabia during the first quarter of the year 2014. The report also shows the main insurance indicators as gross premium written, net premium earned, claims incurred and net income for the sector and individual companies.

Sources of data: Tadawul, Albilad Capital research, insurance companies interim filings, SAMA.

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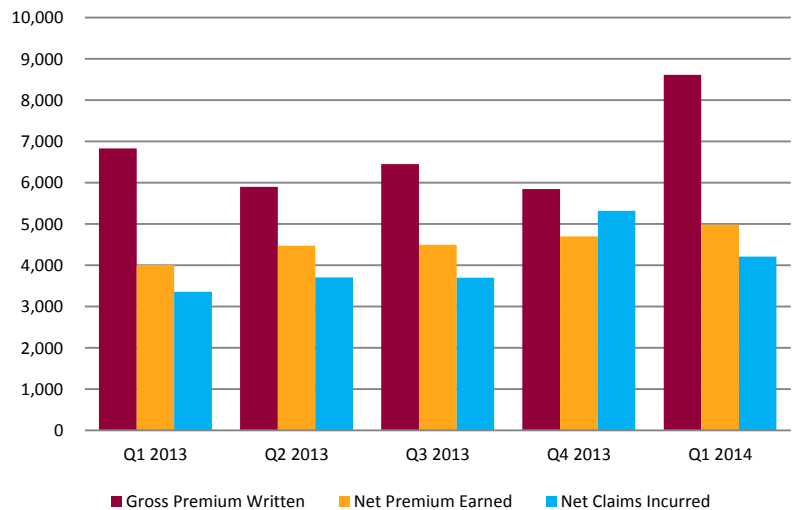
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The Saudi insurance sector showed a double digit growth during the first quarter of 2014. Gross premium written increased by 26%, on the back of the growing medical insurance which constitutes 48% of the aggregate gross premium, to reach SAR 8,615 million.

The five year CAGR for the sector reached 18% due to economic growth, population growth and compulsory nature of some insurance segments. For instance, medical insurance showed a 36% growth due to robust economic growth while vehicle insurance recorded a 17% increase as car sales continue to grow. We forecast that the sector's gross premium written will show a double digit growth of 20% to reach SAR 30 billion by the end of 2014.

Saudi Insurance Sector Development (Million SAR)



* Insurance density is the percentage of total gross premium written to GDP

** Insurance penetration is the total gross premium written per capita

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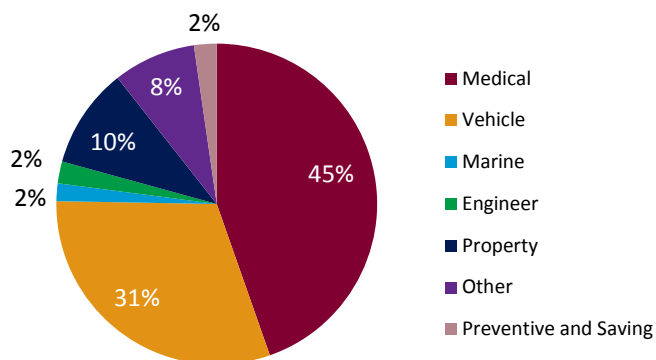
Overview

The number of insurers and reinsurers reached 35 providing some or all of the insurance services. The insurance services are classified into three broad segments including general insurance, medical insurance, and preventive and saving schemes insurance. The general insurance includes vehicles, marine, aviation, energy, engineering, general accidents and premises insurance. Each insurance segment has its own growth drivers, pricing and risk and reward tradeoff. Unlike the international insurance market; whereby preventive and saving schemes insurance constitutes the largest share, the Saudi insurance market is relatively focused on medical insurance. Therefore, we think the following factors are the main sector stimulants:

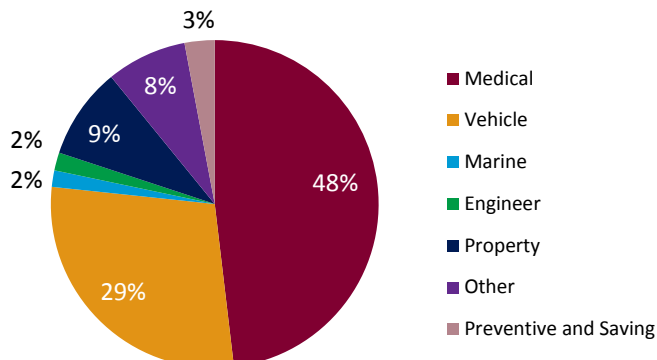
- The compulsory nature of some segments has been leading the sector’s growth. For instance, the compulsory medical insurance in Saudi Arabia, which was applied on expatriates in 2006 and on Saudi private sector employees in 2010, increased the market share of the medical insurance segment. Moreover, the compulsory vehicle insurance law fueled the segment’s growth to acquire the second largest market share in the sector.
- The prevailing low interest rate environment decreased the insurers’ investment income.
- Rising medical costs which squeezed the medical insurers’ profit margins.

During the first quarter of 2014, the medical insurance gross premiums written contributed by 48% to the sector’s aggregate gross premiums compared to 45% during the same quarter of last year. The vehicle insurance segment’s contribution, however, declined from 31% in 2013 first quarter to 29% in 2014 first quarter. The remaining gross premiums were scattered on the other insurance segments.

Insurance Sectors Market Share - Q1 2013



Insurance Sectors Market Share - Q1 2014



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Financial Analysis

In 2014 first quarter, the sector’s gross premium written grew by 26.1% to SAR 8,615 million, compared to 2013 first quarter. However, net premium earned grew at rate of 24% and thus the retention ratio declined by 80 basis points to 57.9%.

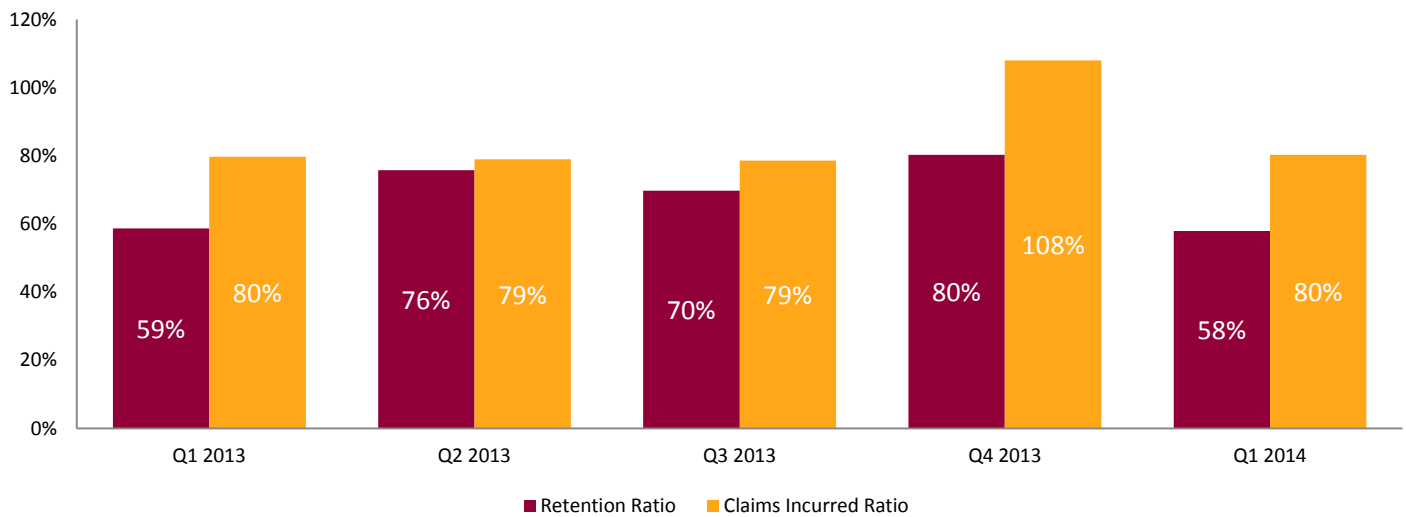
The claims ratio* increased from 79.75% by the end of March 2013 to 80.33% as of end of March 2014 on the back of 25% increase in claims incurred. The expense ratio*, however, declined to 22.29% versus 24.92% in 2013 first quarter. The decline of the expense ratio was erased by the rising claims ratio elevating the combined ratio* to 102.62%, which denotes the sector recorded losses from insurance operations. In fact, the claims incurred by the vehicle and medical segments, which account for 34% and 61% of total claims incurred, increased by 24% and 23% ,respectively. Thus, we forecast that several insurance companies, especially whose accumulated losses are high compared to their paid in capital, will face difficulties in providing insurance services.

The insurance operations’ balance sheet showed a 38.9% increase in investments and due from banks to SAR 11,203 million representing 35% of the sector’s total assets. Accounts receivable increased by 23.8% and stood at SAR 8,326 million constituting 23.8% from total assets, as of March 2014.

The shareholders` balance sheet showed a 1.7% increase in investments and due from banks to reach SAR 8,868 million by the end of first quarter of 2014. Investments and due from bank`s contribution to shareholders` total assets increased to 79% compared to 77% by the end of March 2013. Technical reserves also increased by 36.5% and stood at SAR 25,911 million, accounting for 81% of the total liabilities.

Year	Gross Premium Written		Net Premium Earned		Net Claims Incurred		Retention Ratio	Claims Incurred Ratio
	YoY	YoY	YoY	YoY	YoY	YoY		
Q1 2013	6,830	19%	4,009	18%	3,360	31%	59%	80%
Q2 2013	5,900	19%	4,472	28%	3,703	36%	76%	79%
Q3 2013	6,449	30%	4,500	24%	3,697	40%	70%	79%
Q4 2013	5,849	13%	4,697	17%	5,316	72%	80%	108%
Q1 2014	8,614	26%	4,988	24%	4,212	25%	58%	80%

Quarterly Development of Retention and Claims Incurred Ratios



* See the definitions at the end of this report.

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Financial Analysis

Company	Issued Shares (MN)	Free Floating Shares (MN)	Net Income Q1 2014 (MN SR)	Shareholders' Equity (MN SR)	Market Cap* (SR MN)	12M EPS (SR)	P/BV*	Shareholders Equity to Total Capital
Tawuniya	100.0	53.4	32.8	1,713.1	4,300	(4.90)	17.13	171%
ANB Insurance	17.5	5.3	(18.1)	142.2	1,217	(1.03)	8.12	81%
Jazira Takaful	35.0	10.5	2.9	347.5	2,386	0.08	9.92	99%
Malath Insurance	30.0	30.0	(11.7)	285.9	668	(1.32)	9.52	95%
MEDGULF	100.0	36.5	50.8	1,043.3	3,477	(1.72)	10.43	104%
ALLIANZ SF	20.0	7.0	(5.3)	168.0	1,082	0.20	8.40	84%
SALAMA	10.0	7.0	0.6	28.1	339	(3.86)	2.81	28%
Walaah Insurance	20.0	17.8	(19.2)	193.3	659	(0.40)	9.66	97%
Arabian Shield	20.0	11.0	2.0	237.6	1,193	0.36	11.88	119%
SABB Takaful	34.0	12.3	2.8	346.0	1,430	0.48	10.17	102%
SANAD	20.0	14.2	(13.0)	57.5	304	(2.60)	2.87	29%
SAICO	10.0	6.8	2.8	54.6	502	(2.29)	5.45	55%
Wafa Insurance	10.0	6.9	2.4	31.3	380	(0.83)	3.13	31%
Gulf Union	22.0	15.0	(4.6)	119.0	805	(0.84)	5.41	54%
ATC	16.7	7.4	5.3	144.0	975	0.58	8.64	86%
Al-Ahliya	10.0	8.2	0.3	26.2	559	(1.79)	2.62	26%
ACIG	20.0	12.0	2.3	104.2	494	0.62	5.21	52%
AICC	20.0	12.0	(2.1)	61.3	360	(3.96)	3.06	31%
Trade Union	27.5	18.4	(12.7)	257.5	933	(2.04)	9.36	94%
Sagr Insurance	25.0	17.3	5.6	339.3	1,082	1.84	13.57	136%
U C A	28.0	17.9	2.3	237.8	790	(3.29)	8.49	85%
Saudi Re	100.0	89.8	22.5	839.9	1,215	(0.93)	8.39	84%
Bupa Arabia	40.0	21.1	(20.8)	702.5	3,401	3.26	17.56	176%
Weqaya Takaful	20.0	13.2	(28.5)	8.8	388	(4.50)		4%
Al Rajhi Takaful	20.0	7.6	4.0	90.5	858	(0.59)	4.52	45%
ACE	10.0	6.0	1.8	174.9	710	1.15	17.49	175%
AXA-Cooperative	20.0	9.0	4.3	195.6	908	0.69	9.78	98%
Gulf General	20.0	10.0	7.4	193.0	881	0.46	9.64	96%
Buruj	13.0	6.0	3.1	74.1	742	0.47	5.69	57%
Al Alamiya	20.0	6.0	(16.5)	96.4	3,020	(2.04)	4.81	48%
Solidarity	55.5	34.4	(43.7)	298.2	1,091	(2.53)	5.37	54%
Wataniya	10.0	3.2	5.8	63.5	934	(3.21)	6.34	63%
Amana Insurance	32.0	25.1	(7.8)	193.6	1,015	(0.31)	6.04	60%
Enaya	40.0	16.0	(12.3)	287.2	1,555	(1.41)	7.18	72%
Alinma Tokio M	20.0	6.0	(6.5)	112.3	1,350	(1.64)	5.61	56%
Total	1,016.2	580.1	(45.5)	9,259.1	42,004	(1.24)	9.11	91%

Outstanding shares of insurance sector reached 1.02 billion shares making 8.26% of total outstanding shares in the Saudi Market.

Market Cap.* Reached SR 42 billion making 1.9% of total market cap. of Saudi Market

The sector's aggregate net loss amounted to SR 45.5 million with negative 12M EPS of SR 1.24

By the end of March 2014, the shareholders' equity went below SR 100 million for 11 companies. 4 of these companies made it below SR 50 million.

10 Saudi Banks are main shareholders of 10 insurance companies.

Company	Associate Bank	Ownership
ANB Insurance	Arab National Bank	29.9%
Alinma Tokio M	Alinma Bank	28.7%
Jazira Takaful	Aljazira Bank	30.0%
Wataniya	Saudi Hollandi Bank	20.0%
MEDGULF	Saudi Investment Bank	19.0%
ALLIANZ SF	Banque Saudi Fransi	32.5%
SABB Takaful	Saudi British Bank	32.5%
ATC	National Commercial Bank	29.9%
Al Rajhi Takaful	Al Rajhi Bank	22.5%
Al Alamiya	Riyad Bank	19.9%

* As of 25 June 2014

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Market share

Gross premium written

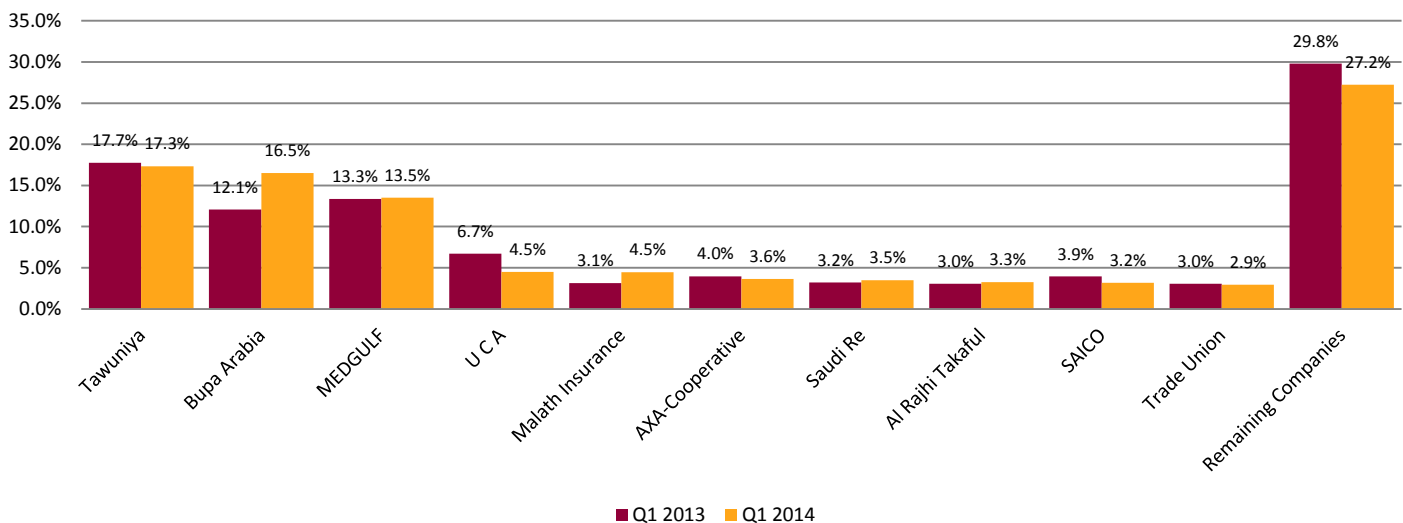
The aggregate sector's gross premium written reached SAR 8,615 million implying a growth rate of 26% compared to the first quarter of last year. Despite showing 23% growth rate and having the highest market share, Tawuniya saw a market share loss from 17.7% to 17.3% compared to a year earlier. On the other hand, BUPA and Medgulf increased their market share to 16.5% and 13.5% compared to 12.1% and 13.3%, respectively, a year earlier. The two companies also showed a growth rate of 72% and 28%, respectively. Al Inma Tokio and Enaya Insurance gross premium written skyrocketed by 1079% and 1078% due to their small size.

Net premium earned

The aggregate sector's net premium written reached SAR 4,988 million implying a growth rate of 24% compared to the first quarter of last year. Tawuniya's market share declined from 28.2% to 27.2% compared to a year earlier. While BUPA and Medgulf increased their market share to 16.1% and 17.7% compared to 14.3% and 13.3%, respectively, a year earlier. Enaya Insurance's and Solidarity Saudi Takaful's gross premium written skyrocketed by 6866% and 572% due to their small size.

Company	2012 Market Share	2013 Market Share	Change
Tawuniya	17.7%	17.3%	(0.4%)
Bupa Arabia	12.1%	16.5%	4.4%
MEDGULF	13.3%	13.5%	0.2%
U C A	6.7%	4.5%	(2.2%)
Malath Insurance	3.1%	4.5%	1.3%
AXA-Cooperative	4.0%	3.6%	(0.3%)
Saudi Re	3.2%	3.5%	0.3%
Al Rajhi Takaful	3.0%	3.3%	0.2%
SAICO	3.9%	3.2%	(0.8%)
Trade Union	3.0%	2.9%	(0.1%)
AICC	2.9%	2.2%	(0.7%)
Walaa Insurance	1.6%	2.1%	0.5%
ALLIANZ SF	2.5%	2.1%	(0.4%)
Wataniya	2.9%	2.0%	(0.9%)
Arabian Shield	1.8%	2.0%	0.2%
Gulf General	2.2%	1.8%	(0.3%)
Gulf Union	2.0%	1.8%	(0.3%)
Amana Insurance	0.6%	1.4%	0.9%
Al-Ahlia	0.7%	1.1%	0.4%
ACIG	1.6%	1.0%	(0.5%)
Buruj	1.2%	1.0%	(0.1%)
ACE	1.8%	1.0%	(0.7%)
SALAMA	0.9%	1.0%	0.1%
ATC	0.6%	1.0%	0.4%
Weqaya Takaful	1.1%	1.0%	(0.2%)
Al Alamiya	1.2%	0.9%	(0.3%)
SANAD	1.2%	0.9%	(0.3%)
WAFA Insurance	0.8%	0.7%	(0.1%)
Sagr Insurance	1.4%	0.6%	(0.8%)
Solidarity	0.3%	0.6%	0.3%
SABB Takaful	0.6%	0.5%	(0.1%)
Alinma Tokio M	0.0%	0.2%	0.2%
Enaya	0.0%	0.2%	0.2%

Insurance Companies Market Share



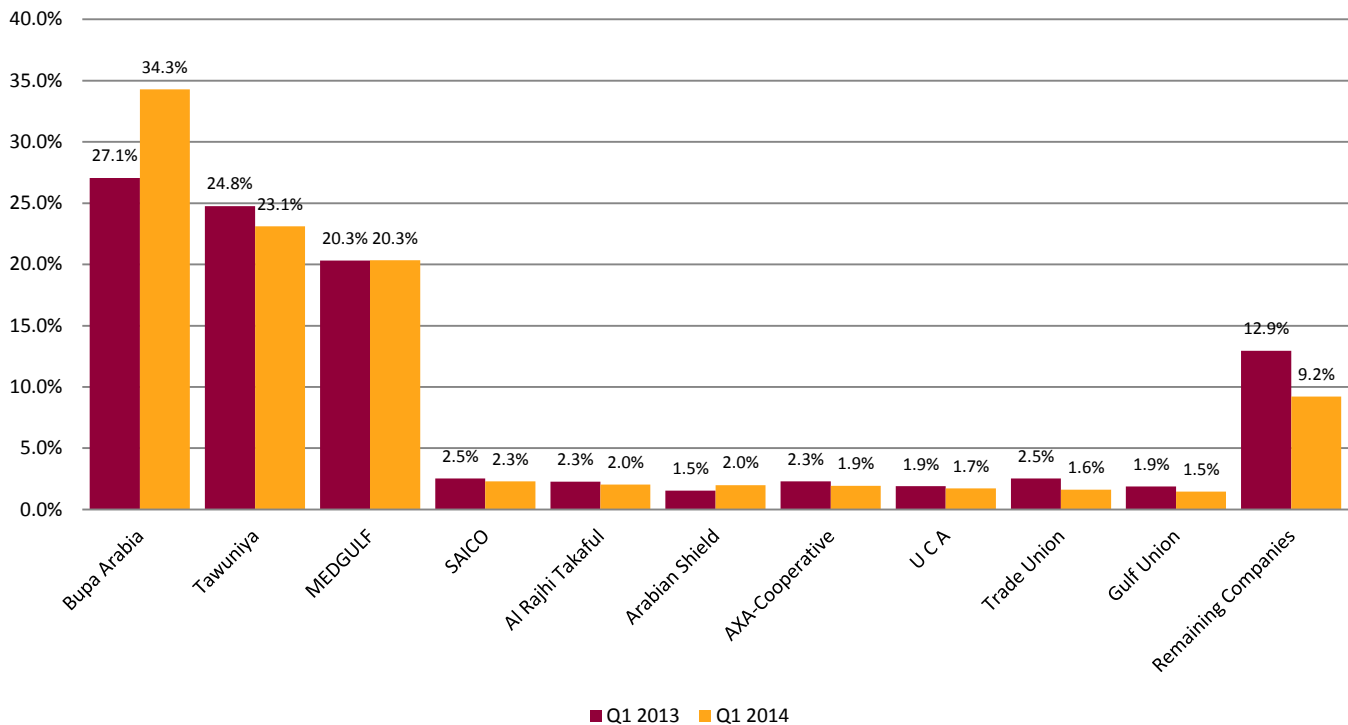
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Insurance Segments : Medical Insurance

In 2014 first quarter, gross premium written advanced by 36% amounting to SAR 4,145 million while net premiums earned leaped by 26%. Thus, the retention ratio decreased to 74% from 79% in 2013 first quarter. Claims ratio declined from 87% to 85% on the back of the relative slowdown in the increase of claims incurred by 23% to reach SAR 2,584 million by end of March 2014. During the first quarter of 2014, Bupa’s market share increased to 34% versus 27% during the same quarter last year. Tawuniya’s market share slightly declined to 23.1%. Medgulf, however, maintained its market share of 20.3%.

Medical Insurance	Gross Premium Written		Net Premium Earned		Net Claims Incurred		Retention Ratio	Claims Incurred Ratio
	YoY	YoY	YoY	YoY	YoY	YoY		
Q1 2013	3,048	2%	2,415	16%	2,102	17%	79%	87%
Q2 2013	3,209	28%	2,726	27%	2,378	32%	85%	87%
Q3 2013	3,631	20%	2,692	17%	2,266	28%	74%	84%
Q4 2013	3,023	5%	2,874	12%	3,302	58%	95%	115%
Q1 2014	4,146	36%	3,050	26%	2,584	23%	74%	85%

Medical Insurance Market Share



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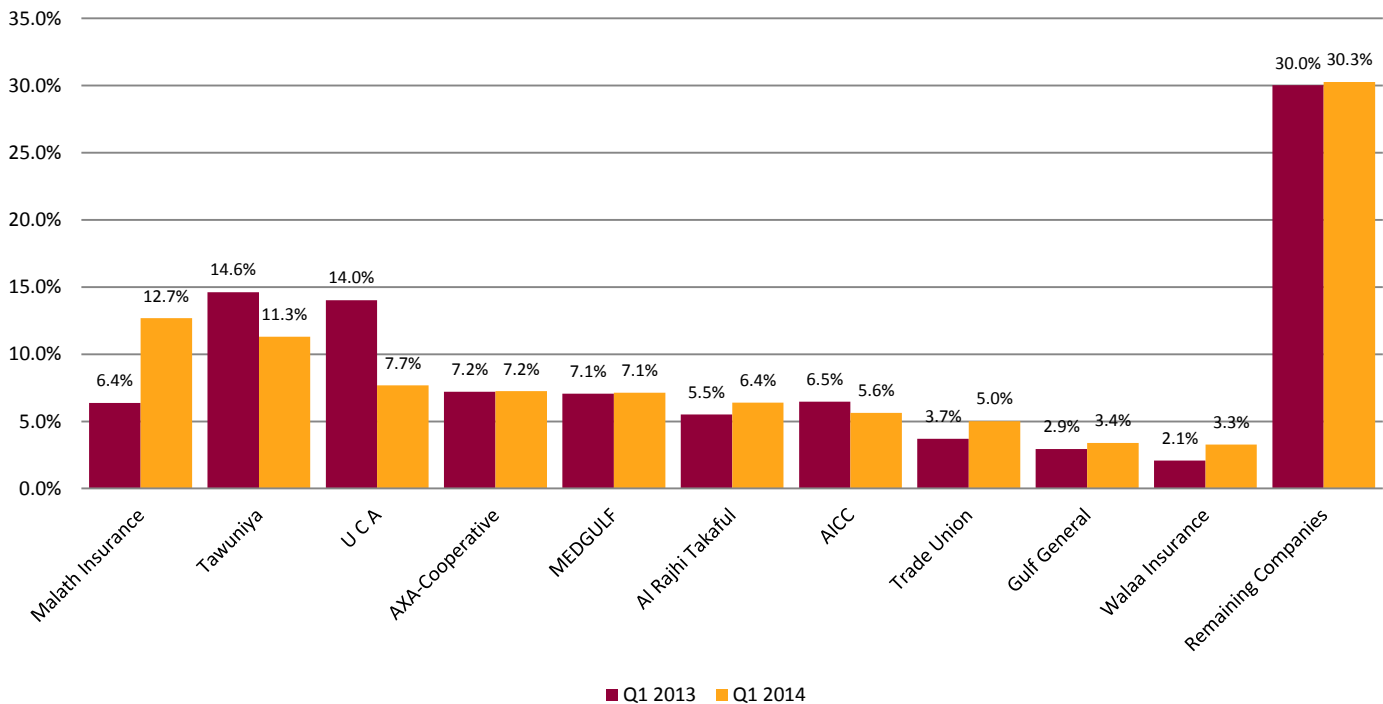
Insurance Segments: Vehicle Insurance

In 2014 first quarter, gross premium written advanced by 17% amounting to SAR 2,459 million while net premiums earned leaped by 23%. Thus, the retention ratio increased to 62% from 59% in 2013 first quarter. Claims ratio slightly escalated from 93% to 94% on the back of the increase in claims incurred by 24% to reach SAR 1,428 million by end of March 2014. Claims incurred reached SAR 5,180 million constituting 32.6% of the aggregate sector claims.

During the first quarter of 2014, Malath's market share increased to 12.7% versus 6.4% during the same quarter last year. Tawuniya's market share declined to 11.3% compared to 14.6% during the same period last year.

Vehicle Insurance	Gross Premium Written		Net Premium Earned		Net Claims Incurred		Retention Ratio	Claims Incurred Ratio
	YoY	YoY	YoY	YoY	YoY	YoY		
Q1 2013	2,094	44%	1,237	27%	1,150	60%	59%	93%
Q2 2013	1,314	19%	1,355	35%	1,213	48%	103%	89%
Q3 2013	1,555	41%	1,409	24%	1,224	40%	91%	87%
Q4 2013	1,391	20%	1,469	36%	1,698	87%	106%	116%
Q1 2014	2,459	17%	1,522	23%	1,429	24%	62%	94%

Vehicle Insurance Market Share



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Definitions

- **Gross premium written:**
The total premiums on policies issued by an insurance company during a specific period of time regardless of what portions have been earned. Written premiums are the amount of premium charged for a policy that has already become effective.
- **Net premium Earned:**
The amount of total premiums collected by an insurance company over a period that have been earned based on the ratio of the time passed on the policies to their effective life and adjusted to reinsurance. This pro-rated amount of paid-in-advance premiums have been "earned" and now belong to the insurer.
- **Claims incurred:**
An estimate of the amount of outstanding liabilities for a policy over a given valuation period. It includes all paid claims during the period plus a reasonable estimate of unpaid liabilities. It is calculated by adding paid claims and unpaid claims minus the estimate of unpaid claims at the end of the prior valuation period.
- **Retention Ratio**
Percentage of net premium earned to gross premium written.
- **Claims Ratio:**
claims owed as a percentage of gross premium written.
- **Earnings Per Share:**
The portion of a company's profit allocated to each outstanding share of common stock.

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Appendix: Gross Premium Written, Net Premium Earned and Net Claims Incurred

Company	Gross Premium Written*			Net Premium Earned			Net Claims Incurred			Retention Ratio		Claims Incurred Ratio	
	Q1 2013	Q1 2014	YoY %	Q1 2013	Q1 2014	YoY %	Q1 2013	Q1 2014	YoY %	Q1 2013	Q1 2014	Q1 2013	Q1 2014
Tawuniya	1,211.3	1,493.7	23%	1,132.2	1,131.3	(0%)	1,083.0	986.5	(9%)	93%	76%	89%	66%
ANB Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-
Jazira Takaful	-	1.1	-	-	0.3	-	-	-	-	-	24%	-	-
Malath Insurance	213.6	383.7	80%	151.0	202.7	34%	123.6	171.0	38%	71%	53%	58%	45%
MEDGULF	911.1	1,163.6	28%	571.7	804.8	41%	488.8	675.7	38%	63%	69%	54%	58%
ALLIANZ SF	169.3	181.0	7%	83.6	102.9	23%	50.2	83.4	66%	49%	57%	30%	46%
SALAMA	60.5	88.0	46%	45.1	53.7	19%	41.9	44.6	7%	75%	61%	69%	51%
Walaa Insurance	109.8	181.1	65%	37.5	49.6	32%	24.7	49.4	100%	34%	27%	23%	27%
Arabian Shield	123.4	169.0	37%	59.2	59.5	0%	49.5	45.3	(9%)	48%	35%	40%	27%
SABB Takaful	41.6	42.5	2%	61.7	53.5	(13%)	4.1	6.3	56%	148%	126%	10%	15%
SANAD	80.9	76.7	(5%)	30.6	45.0	47%	18.6	34.9	88%	38%	59%	23%	45%
SAICO	269.6	271.9	1%	78.9	99.7	26%	66.8	80.3	20%	29%	37%	25%	30%
Wafa Insurance	54.4	61.0	12%	26.5	34.2	29%	16.4	19.9	21%	49%	56%	30%	33%
Gulf Union	138.7	152.8	10%	41.3	54.8	33%	44.8	49.0	10%	30%	36%	32%	32%
ATC	40.8	88.0	116%	8.8	28.7	226%	0.0	1.9	-	22%	33%	0%	2%
Al-Ahlia	48.1	92.2	92%	36.0	56.3	56%	23.3	38.9	67%	75%	61%	48%	42%
ACIG	106.9	90.3	(16%)	37.0	57.5	55%	23.3	41.7	79%	35%	64%	22%	46%
AICC	197.1	186.3	(5%)	111.7	97.8	(12%)	119.7	91.9	(23%)	57%	52%	61%	49%
Trade Union	207.9	253.1	22%	86.5	158.2	83%	67.2	129.4	93%	42%	63%	32%	51%
Sagr Insurance	96.5	51.6	(46%)	72.4	46.5	(36%)	43.1	33.1	(23%)	75%	90%	45%	64%
U C A	457.8	387.7	(15%)	193.3	171.8	(11%)	148.7	144.6	(3%)	42%	44%	32%	37%
Saudi Re	219.1	299.4	37%	70.0	114.9	64%	39.7	95.6	141%	32%	38%	18%	32%
Bupa Arabia	824.7	1,421.3	72%	531.7	881.0	66%	461.8	767.1	66%	64%	62%	56%	54%
Weqaya Takaful	76.0	82.1	8%	72.9	75.7	4%	57.1	81.4	43%	96%	92%	75%	99%
Al Rajhi Takaful	208.3	280.9	35%	113.2	147.0	30%	95.5	120.9	26%	54%	52%	46%	43%
ACE	121.2	89.9	(26%)	25.8	22.5	(13%)	12.8	14.2	11%	21%	25%	11%	16%
AXA-Cooperative	270.3	313.5	16%	147.9	178.4	21%	123.6	150.1	21%	55%	57%	46%	48%
Gulf General	146.8	156.0	6%	42.9	45.9	7%	31.3	30.6	(2%)	29%	29%	21%	20%
Buruj	80.4	89.9	12%	42.4	53.8	27%	28.5	37.5	32%	53%	60%	35%	42%
Al Alamiya	81.2	78.8	(3%)	35.0	38.8	11%	22.3	43.5	95%	43%	49%	27%	55%
Solidarity	22.9	50.5	121%	4.0	26.8	572%	5.0	63.5	1177%	17%	53%	22%	126%
Wataniya	197.9	173.2	(12%)	47.6	57.3	21%	40.1	43.5	9%	24%	33%	20%	25%
Amana Insurance	38.4	122.5	219%	11.1	21.4	93%	5.2	21.4	310%	29%	17%	14%	17%
Enaya	1.7	20.6	1078%	0.1	9.3	-	0.1	9.1	-	8%	45%	8%	44%
Alinma Tokio M	1.8	21.3	1079%	(0.3)	6.6	-	0.0	5.9	-	-15%	31%	2%	28%
Total	6,830.0	8,615.1	26%	4,009.2	4,988.2	24%	3,360.6	4,211.9	25%	59%	58%	49%	49%

* There may be double counting of reinsurance premiums accepted from other insurers or reinsurers

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