KPMG

Insurance Pulse Quarterly Saudi Arabia

Market insights

Trends to watch in 2021, Covid-19 as catalyst for digitalization in the insurance industry, the road to IFRS 17

Q3'20 financial performance

Analysis of the financial performance of Saudi listed insurance companies for nine months in 2020

Volume 2

The Insurance Pulse Quarterly provides an overview of the major developments shaping the insurance industry in Saudi Arabia– an engaging compilation of performance metrics and key trends from the industry

KPMG in Saudi Arabia
January 2021

Insurance Pulse Quarterly

Market insights

Pandemic catalyzes significant shift in the insurance industry

The COVID-19 pandemic has triggered disruption in the world economies and most industries. However, steps taken by the government of Saudi Arabia by providing relief to insurers of their obligations and opting to pay itself for the treatment of all COVID-19 patients including citizens, residents together with two-month extensions in motor insurance policies has not only impacted favorably to the insurers, but also the policy holders.

Financial performance

The insurance industry in Saudi Arabia reported a growth of 2.7% in terms of gross written premiums and 96.1% in net profit after zakat and income tax over nine months ending 30 September 2020 when compared with the similar period in 2019.

Focusing on the overall performance for the nine months period, the insurance industry's cumulative net profit after zakat and tax reached to the highest ever amount of SAR 1.32 billion in the nine months reporting a growth of SR 648 million. This represents annualized return on equity of 9.69% against 4.04% compared to same period of 2019. Medical and motor insurance continued to be the highest contributor of GWP. In addition:

- Insurers have reported growth in gross earned premium in most classes of business.
- Gross incurred claims were significantly lower in motor due to a period of lockdown and medical insurance due to postponement of the elective medical procedures.
- Investment income has reported a decline due to concentration in Morabaha placements that is adversely impacted by reduced interest rates since last year.

These results were duly adjusted for the one-off Premium Deficiency Reserves (PDR) created by the insurers in anticipation of claims arising out of delayed elective medical procedures.

The positive trend is expected to continue during Q4'2020 and industry is likely to close the financial year on a high. There were no disruptions in business during the last quarter, the extended period of motor insurance has partly been absorbed and medical treatments are coming back to normal. Accordingly, insurance companies are likely to revisit the need of maintaining an adequate PDR.

The overall financial turnaround of the insurance industry in 2020 is a cumulation of government support, persistent efforts by the Saudi Central Bank diligent efforts by insurance companies during unusual times to enhance operational resilience. We have not only observed attempts for a *strategy refresh*, but also increased focus on internal capabilities and sustaining margins; attempting to foster M&A activities.

> As the pandemic unfolded, we observed that leading insurers are those that foster a culture of innovation and manage agile operating platforms. These firms were able to spot opportunities, and use their collaborative working platforms to rapidly capitalize on them.
>
> **Khalil Ibrahim Al Sedais**
> Office Managing Partner – Riyadh
> KPMG in Saudi Arabia

Trends to watch in 2021

The insurance industry will be driven by customer experience, data and technology. Customers increasingly prefer to interact digitally with their insurers, hence digitally-advanced insurers will have greater advantage. On the regulatory front, companies will be expected to enhance their resilience to business risks and remain compliant with evolving requirements in protecting policyholders and shareholders' interest.

The road to IFRS 17 for the insurance industry

On the IFRS 17 front, the Saudi Central Bank remains actively engaged with the market and has moved into the third phase of the implementation plan. We have summarized in this section some of the common challenges in the implementation plan.

> There is a lot to do between now and 1 January 2023. Insurers need to make sure they have appropriate data, robust and tested systems in place, and a comprehensive transition plan. It is time to implement the most significant accounting change in the insurance industry.
>
> **Ovais Shahab**
> Head of Financial Services
> KPMG in Saudi Arabia

❑ Inception date

The insurance liability needs to be calculated from the moment of the business combination for those portfolios acquired.

❑ Frequency of review on assumptions and methodology used

Assumptions will need to be updated at each reporting date (more frequently than yearly when financial statements are prepared for reporting).

❑ Existence of onerous contracts

Losses on onerous contracts under the new standard have to be accounted for at inception to eliminate the potential impact of compensating the loss-making contracts with the profitable ones.

❑ Interaction with IFRS 9 (accounting for financial instruments)

The transition to the new accounting standard IFRS 9 is likely to have a significant impact on the decisions to be made for IFRS17 and may result in accounting mismatch issues. For example, IFRS17 allows an accounting policy choice to recognize changes in discount rate in profit or loss or statement of other comprehensive income (OCI). A mismatch can occur if an entity chooses to recognize changes in discount rate in the profit or loss and measures investments at future value of other comprehensive income (FVOCI).

❑ Changes to the performance measures in stakeholder reporting

KPIs and external performance measures with stakeholders will have to be adapted and properly communicated to accommodate the new measurement method.

In the following pages, we have analyzed the financial performance of 32 insurance companies in Saudi Arabia under two sections; Tier I and Tier II companies based on the size of Gross Written Premiums.

We wish you an insightful read of this second edition of our Insurance Pulse Quarterly and we look forward to discussing it with you.

Insurance Pulse Quarterly

Q3 2020- Nine Months financial performance

Net profit after zakat and tax

96.1%

Q3 – 2020 net income SAR 1,323 million
(Q3 – 2019: SR 675 million)

Gross written premiums

2.7%

Q3 – 2020 SAR 30.26 billion
(Q3 – 2019: SAR 29.47 billion)

Total assets

9.8%

As of Q3 – 2020 SAR 66.43 billion
(YE – 2019: SAR 60.52 billion)

Total investments

6.9%

As of Q3 – 2020 SAR 31.28 billion
(YE – 2019: SAR 29.26 billion)

Loss ratio

9.5%

Q3 – 2020 64.7%
(Q3 – 2019: 74.2%)

Retention ratio

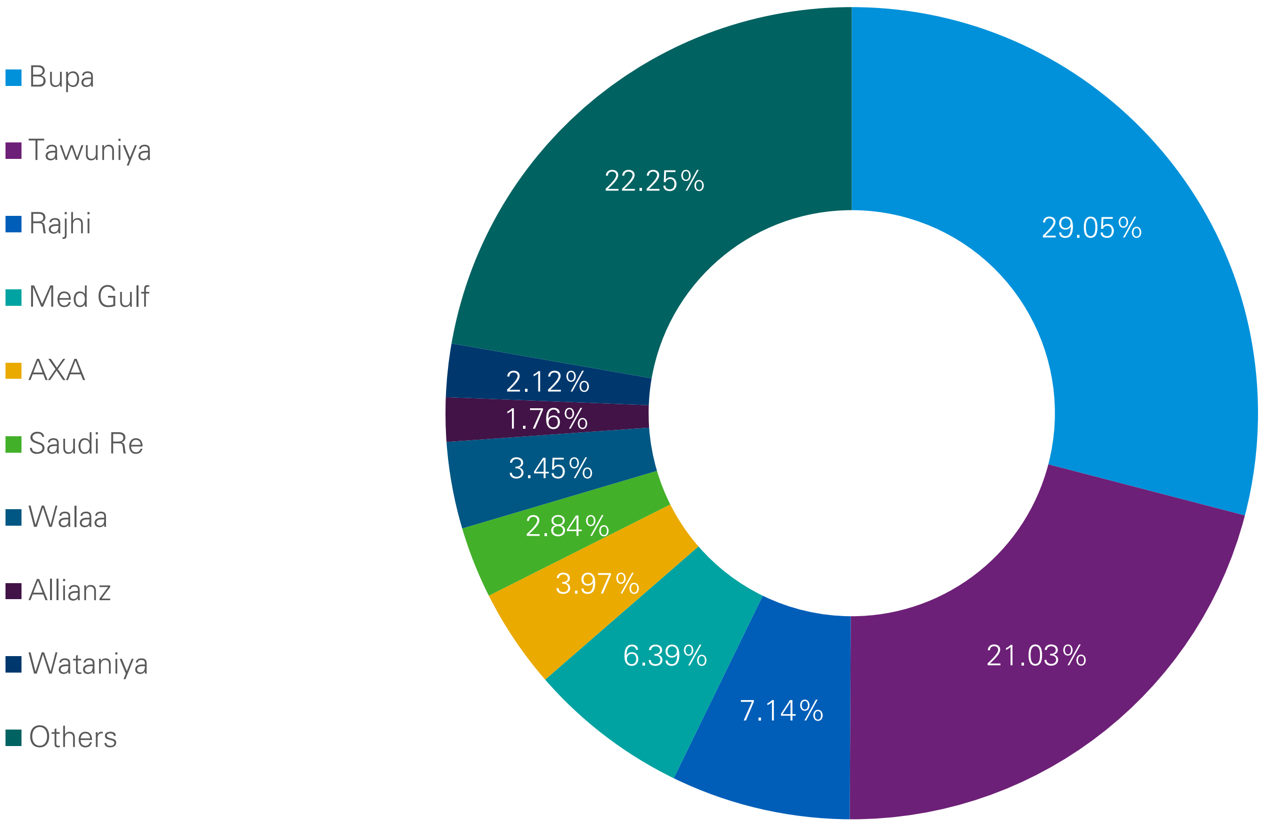
2.9%

Q3 – 2020 75.3%
(Q3 – 2019: 78.2%)

Insurance Pulse Quarterly

Q3 2020- Nine Months financial performance
Gross Written Premium (GWP) market share

GWP market share Q3 2020



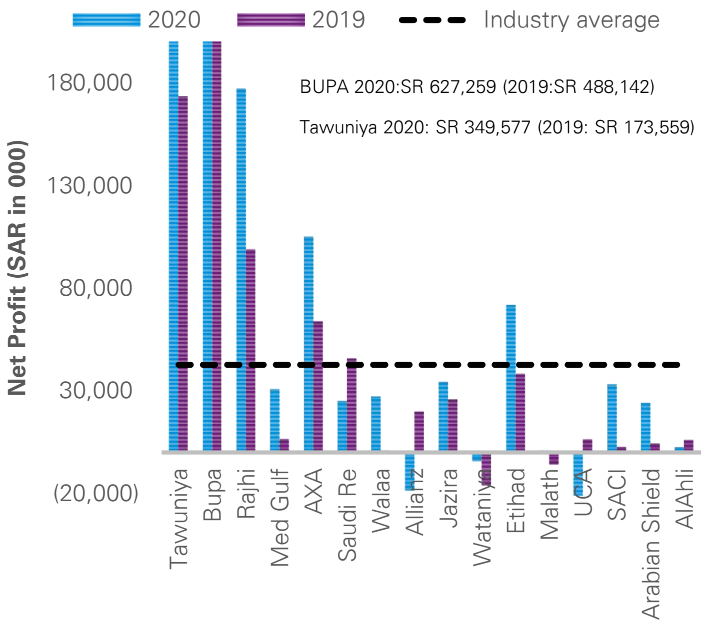
SACI	2.20%
Malath	2.04%
UCA	1.71%
Etihad	1.69%
Arabian Shield	1.41%
Gulf Union	1.27%
ACIG	1.24%
Salama	1.12%
Sagr	1.00%
Arabia	0.94%
Solidarity	0.93%

Amana	0.90%
Alinma	0.88%
Gulf General	0.80%
Al Ahli	0.62%
Chubb	0.62%
Buruj	0.59%
Jazira	0.49%
AlAhlia	0.46%
SABB	0.46%
Al Alamiya	0.45%
Enaya	0.44%

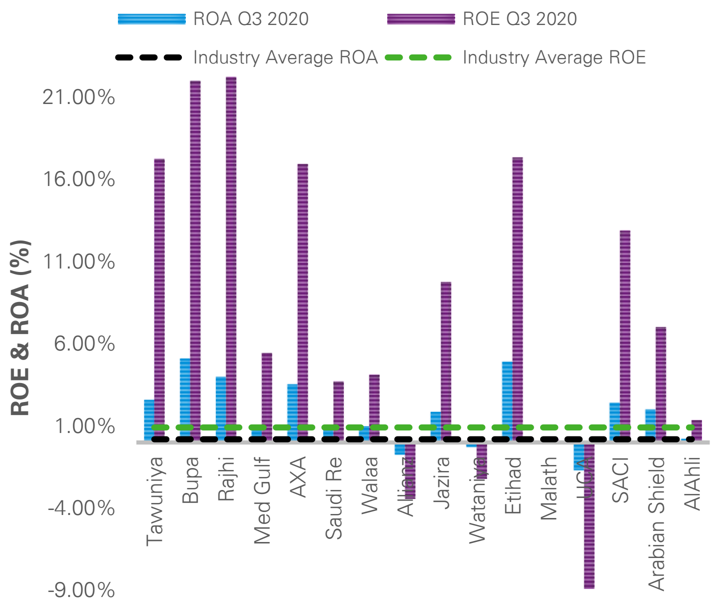
Insurance Pulse Quarterly

Q3 2020- Nine Months financial performance
TIER – I Insurance companies

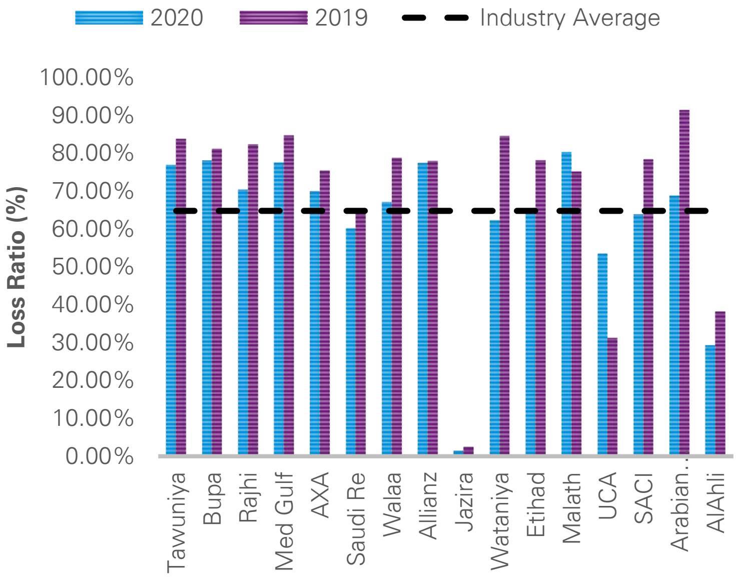
Net income/ (loss) (in SR '000)



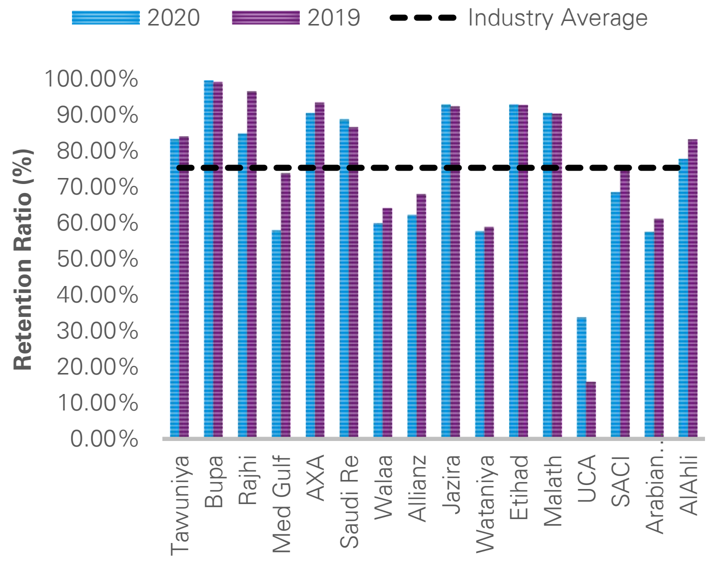
ROE* & ROA* (%)



Loss ratio (%)



Retention ratio (%)

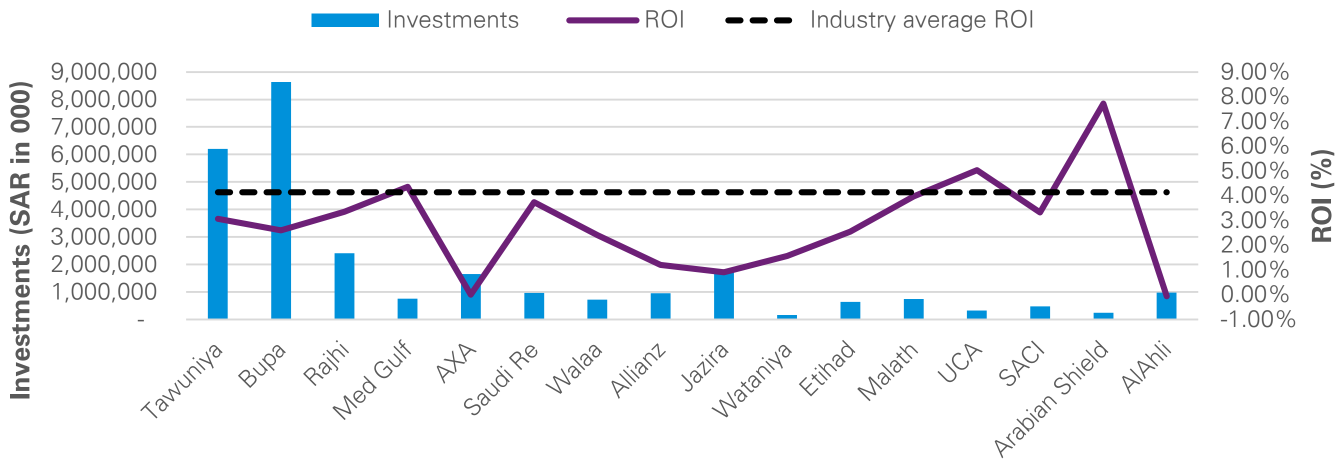


**** This report is reflective of the broad range of the insurance market, where information comparison is split between companies with total assets over SR 1 billion and total assets below SR 1 billion.***

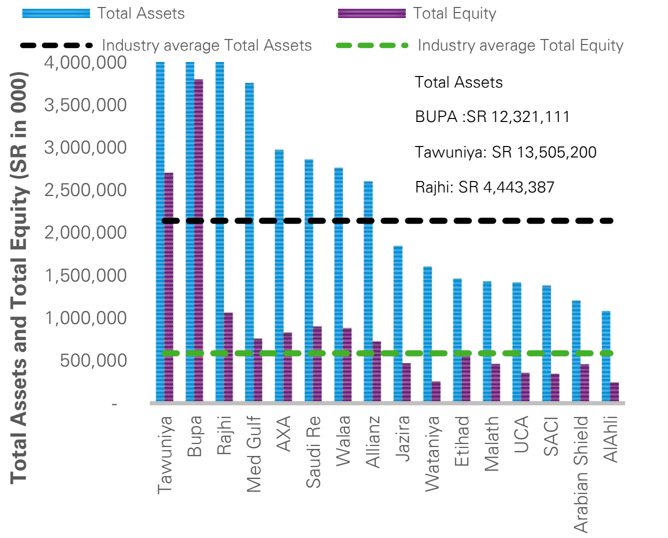
Insurance Pulse Quarterly

Q3 2020- Nine Months financial performance
TIER – I Insurance companies

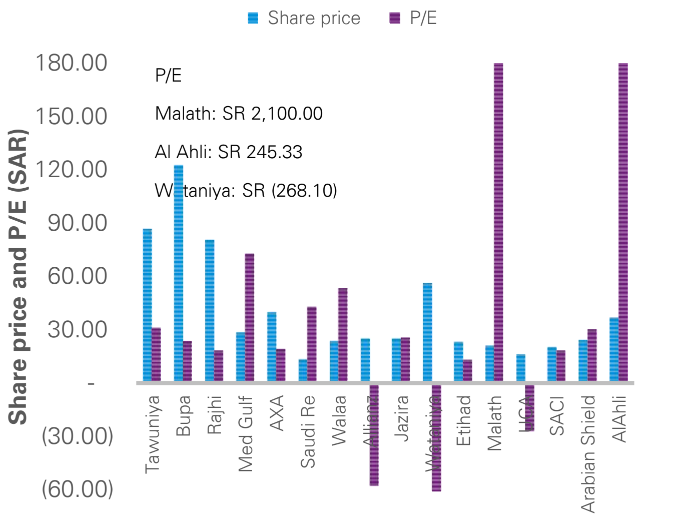
Investments (in SR '000) & ROI* (%)



Total Assets & Total Equity (in SR '000)



Share price* & P/E*



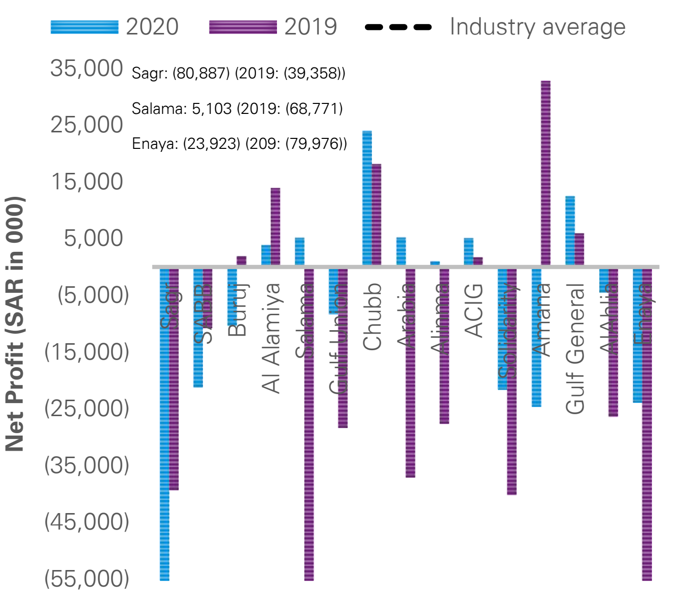
Glossary:

PE ratio is calculated as the closing share price as of 30 September 2020 quoted on Tadawul divided by the EPS. **ROE** is the ratio of net income after zakat and income tax prorated to twelve months to total equity as of 30 September 2020. **ROA** is the ratio of net income after zakat and income tax prorated to twelve months to total assets as of 30 September 2020. **Retention Ratio** is calculated netting reinsurance premium only from gross written premium. **Loss ratio** is calculated by dividing net claims incurred to net earned premium. **ROI** is the ratio of investment income tax prorated to twelve months to total investments as of 30 September 2020.

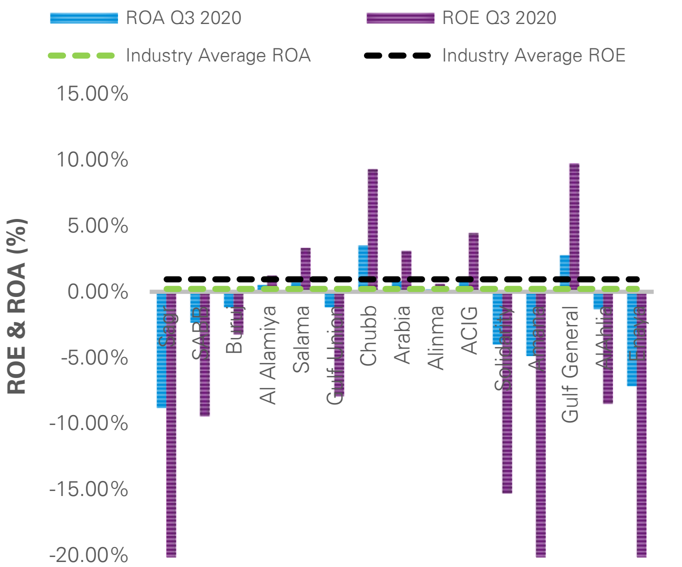
Insurance Pulse Quarterly

Q3 2020- Nine Months financial performance
TIER – II Insurance companies

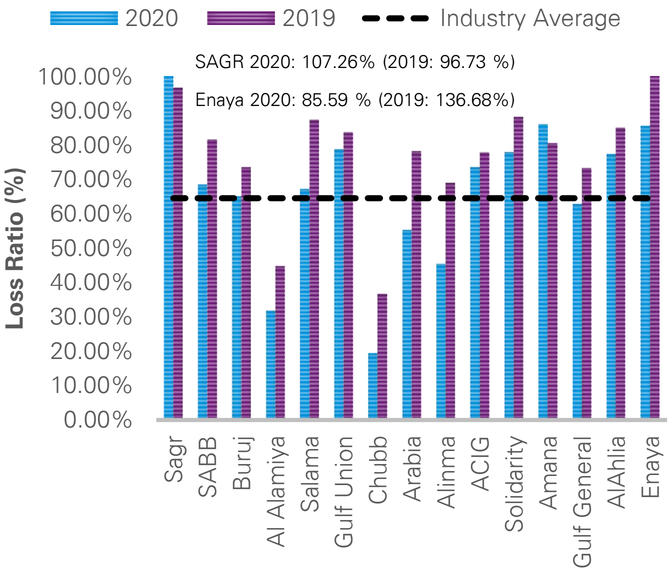
Net income / (loss) (in SR '000)



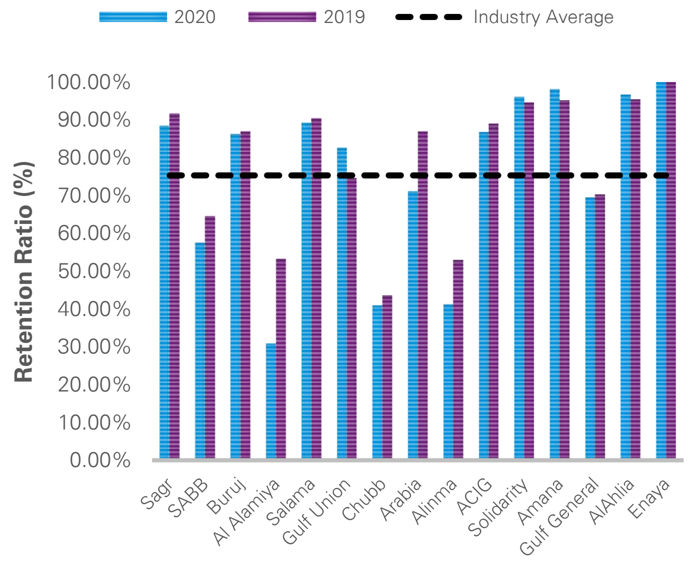
ROE* & ROA* (%)



Loss ratio (%)



Retention ratio (%)

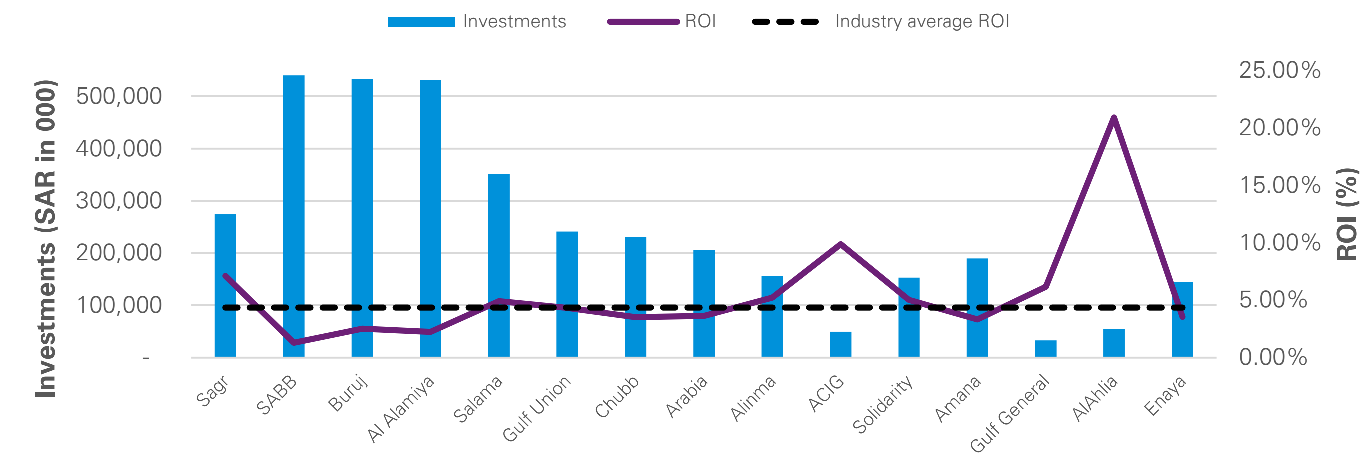


KPMG

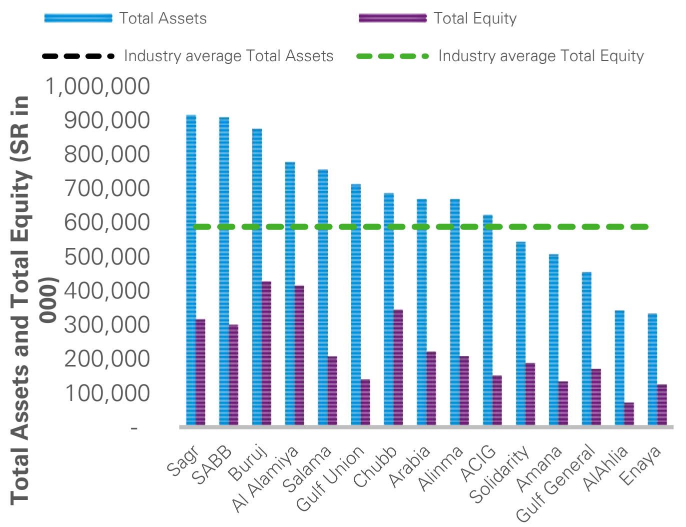
Insurance Pulse Quarterly

Q3 2020- Nine Months financial performance
TIER – II Insurance companies

Investments (in SR '000) & ROI* (%)



Total assets & total equity (in SR '000)



Share price* & P/E*

Glossary:

PE ratio is calculated as the closing share price as of 30 September 2020 quoted on Tadawul divided by the EPS. **ROE** is the ratio of net income after zakat and income tax prorated to twelve months to total equity as of 30 September 2020. **ROA** is the ratio of net income after zakat and income tax prorated to twelve months to total assets as of 30 September 2020. **Retention Ratio** is calculated netting reinsurance premium only from gross written premium. **Loss ratio** is calculated by dividing net claims incurred to net earned premium. **ROI** is the ratio of investment income to total investments as of 30 September 2020.

Insurance Pulse Quarterly

Further reading

In the spotlight

New reality for insurance

Stay tuned for our regular thought leadership on the financial services industry. Aside from publication, you can find a selection of publications on insurance, asset management and Islamic Finance.

The report explores forward-looking perspectives, including post Covid-19 scenarios around fintech and reporting priorities

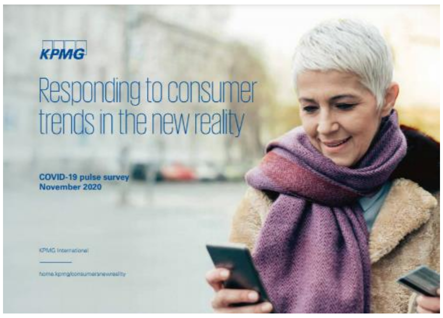
Seven macro trends that are shaping the insurance industry

From the global desk

Frontiers in Finance

Market insights and forward-looking perspectives for financial services leaders and professionals

Insurance: Consumer trends in the new reality



Insurance relies heavily on data sharing, which, insurers, have not made full use of yet. This presents the potential for significant disruption in the sector.

KPMG contacts:

Khalil Ibrahim Al Sedais
Office Managing Partner - Riyadh
KPMG in Saudi Arabia
T: +966 50004 4188
E: ksedais@kpmg.com

Ovais Shahab
Head of Financial Services
KPMG in Saudi Arabia
T: +966 50979 1636
E: oshahab@kpmg.com

Salman Chaudhry
Director, Insurance Lead
KPMG in Saudi Arabia
T: +966 504381 897
E:\schaudhry1@Kpmg.Com

Contributors:

Muhammad Moiz, Senior Manager, Financial Services
Shahzaib Zia, Manager, Financial Services
Peter Bannink, Manager, Thought Leadership Lead
Mustafa Arif, Supervisor, Audit

kpmg.com/sa

Disclaimer

This report is solely for information purposes and prepared based on financial numbers as reported in the published financial statements of the respective insurance companies as available on Tadawul, while the average share price is based on 3 months closing prices quoted on Tadawul. Accordingly, KPMG does not and shall not assume any responsibility for the information presented herein or the nature and extent of use of this report.