KPMG

Future of insurance

Macro trends and financial performance of the insurance sector in Saudi Arabia

KPMG in Saudi Arabia

June 2021

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Introduction

The pandemic impacted Saudi insurance market in 2020 in more than one way. On the one hand, the pandemic and the subsequent movement restrictions and lockdowns contributed to improved financial results of the insurance market; on the other hand, insurance companies were forced to bring digitization on top of the agenda for decision-makers as they seek new ways to do business and accelerate the pace of adopting new technology trends.

We have included in this new edition in our series on the insurance industry with the outcomes of the most recent KPMG 2021 CEO Outlook Global Pulse Survey where 50 insurance CEOs across nine key markets were interviewed. They indicated that business growth resumption and business transformation priorities are on top of their agenda going forward. This also ties in with the global trends that we have noticed, and are shaping the future of the industry – also in the insurance sector of Saudi Arabia.

In 2021 and beyond, the insurance industry is expected to be driven by customer experience, data and technology. Customers increasingly prefer to have contactless interaction with their insurers. hence digitally-advanced insurers will have greater advantage. Moreover, 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.

On the financial performance front, the insurance industry in Saudi Arabia produced some of its best results whereby the top line i.e. Gross Written Premiums (GWP) grew by 3.0% when compared to 2019 and net profit after Zakat and income tax over the twelve months ending 31 December 2020 were 48.3% higher when compared to same period in 2019. The insurance industry's cumulative net profit after Zakat and tax achieved the highest ever amount of SAR 1.5 billion - a growth of SAR 474 million compared to 2019. This represents annualized return on equity of 7.9% in 2020 against 6.1% over the same period in 2019.

The first quarter of 2021 has also yielded an increase of 29% in net income after Zakat and income tax when compared to similar period in 2020 while total assets of the insurance industry have also grown by 7% (SAR 4.5 billion) from December 2020. However, the loss ratio has increased to 83% during Q1 2021 as compared to 80% in Q1 2020.

Health insurance continued to be the largest segment; it achieved 0.8% growth in 2020 and made up about 59.1% of total insurance premiums in 2020. The health insurance market's average loss ratio improved to around 2% from 2019. Overall, the loss ratio for most insurers has remained stable over 2020. The health insurers are cautiously optimistic when it comes to 2021, but are anticipating a downward pull on overall results due to potential impact Article 11 of rules and regulations issued by Council of Cooperative Health Insurance (CCHI) and as patient visits to hospitals start to return to pre-COVID-19 levels.

In the **motor** segment incurred claims were significantly lower in 2020 due to a period of lockdown but this was offset by the two-month extension on motor policies resulting in a broadly neutral or favorable underwriting results compared to 2019.

The impact of COVID-19 is expected to be most severe on the **life and savings** segment of insurers operations. This segment is expected to recover back to 2019 levels in around two years. The primary reasons for this drop compared with other lines of business include the voluntary nature of this product, varying impact on personal versus commercial, and lockdown-induced underwriting and distribution challenges.

The COVID-19 crisis had impacted distribution channels. Insurers are expected to embrace the digital mode of distribution, and customers are moving toward direct or online channels resulting in a shift in the distribution space.

The final section of this publication includes a detailed analysis of the financial performance of the 29 insurance companies in Saudi Arabia under two sections; Tier I and Tier II companies based on the size of GWP. We have performed a detailed analysis of the FY202 results and a high level review of performance of the industry until March 2021. We wish you an insightful read of this report and we look forward to discussing it with you.

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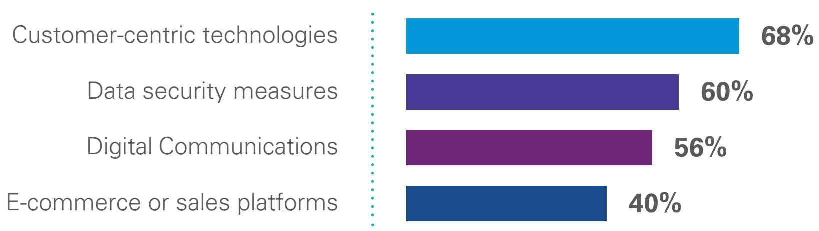
KPMG 2021 CEO Outlook Global Pulse Survey: insurance insights

Digital acceleration priorities

CEOs are planning to invest more in technologies such as:



Customer and technology are key focus areas for insurers.

Long-term impact of the pandemic on insurance companies

76% will build on the use of **digital collaboration** and **communications tools**

76% said **next-generation operating model with digitized operations** has accelerated by a of matter months (up from 39 percent in August 2020)

76% believe **customer engagement** will be done predominantly via **virtual platforms.**

Perspectives from insurance leaders

Economic confidence

Confidence over the 3 year horizon is up for **company, industry and country**. However, prospects for the **global economy** are **12 points lowers** than last year.

62% of insurance CEOs have an appetite for **M&A.**

Top drivers for investment

1. Increase **market share**
2. On-board new **digital technology** to transform the **customer experience/value proposition**
3. Develop **disruptive technologies** that have potential to transform their **operating model**

Macro trends

Throughout Covid-19, the insurance industry - along with all business - has experienced a time of monumental challenge. The impacts of this health emergency have expanded into far-reaching economic and societal issues. It seems clear that as we emerge from this period, it will be into a new reality that will look very different to what existed before.

KPMG insurance professionals around the world have been reflecting intensively on - and widely discussing with clients - the nature of the upheaval taking place and what this means for insurers.

We start by exploring seven key macro themes that we believe are particularly relevant to insurers and which they must respond to in a fundamental way in order to thrive in the new reality.

Some of these themes have been with us for some time but have become greatly accentuated and accelerated in the wake of Covid-19 - such as the need for financial resilience. Others are almost entirely new.

Digital first, digital now is absolutely core and runs across every single macro theme. Covid-19 has shown us the interconnectivity of multiple forces and the response must be digital ways of working and originating business that drive speed, efficiency and a better customer experience.

Insurers have historically lagged other sectors in their digitization efforts - now, we have reached a watershed moment. It is time for insurance to catch up and re-emerge stronger and better.

We believe that investing in capabilities to respond to these trends may pay long-term dividends for an insurer.

1 Digital first, digital now

Digitizing the organization

Customer-led digitization; Covid-19 is accelerating the digitization of business and operating models across the front, middle and back office.

Modern technology infrastructure is critical in order to serve customers and enable employee productivity. Robust cybersecurity and fraud protection is required as risks rise.

Accelerated digital transformation; the significant gap between customer expectations and insurer's abilities is driving insurers to connect their front, middle and back offices. Those who move the fastest will reap the competitive advantage.

Customer-first thinking; direct-to-consumer sales will require significant and rapid upgrades particularly in many parts of personal insurance. Brokers/agents need to be integrated at each step through digital interactions and interfaces.

Data; movement must be seamless and protected through the different gates. Use of internal and external data becomes commonplace (e.g. underwriting).

Technology and infrastructure upgrades; mass movement to modernizing technologies, cloud services and decommissioning legacy systems.

Claims automation; early focus for digitization - anything that can be digitized will be; from first notice of loss/claims submission through to ultimate payment of claims including all interim steps.

Finance will be a strong business partner and play a key role, enabling operations through deep analytics and predictive capabilities.

2 The new reality workforce

Building a versatile and adaptable workforce

There will be divergence of workers into essential and non-essential employees, unprecedented unemployment and office closures. As a consequence, the needs of frontline and knowledge workers must be balanced, and companies need to consider new archetypes combining technology and a flexible workforce.

Remote working becomes more permanent, which brings its own challenges to infrastructure, risks (cyber, privacy, ergonomics at home), productivity, training/skills

Access to talent, with significant opportunities to acquire new talent (e.g. digital, technology and data) to upskill the workforce as organizations will be less reliant on location.

The automation of the workforce will be accelerated, as claims handling, contact centers will be reimagined as more automation is introduced and customers are more comfortable with digital interactions.

3 Ambidextrous business models

Playing across physical, virtual and digital

Insurance organizations need to navigate a rapidly changing workforce, customer behaviors and business environments. Insurers switched from an in-person environment to a virtual model overnight and it's likely that they will continue to oscillate between the two. New core competencies of insurers now include being able to have a rapid response to an uncertain environment will become a new core competency. Businesses that can sense and respond to these new needs will both survive and grow.

Cost, continuity and resiliency, continued strain on operations and the associated costs are forcing a fresh look at operations across-the-board. Continuity and resiliency rating models becomes a core component of transformation efforts.

AI and automation will drive the change and re-thinking of operating models on an end-to-end basis.

Scenario planning becomes the norm for ongoing operations in a combined online/offline organization structure.

4 Building financial resilience

Ensuring freedom to maneuver

Insurers need to maintain sufficient liquidity and capital to continue to operate, and managing cost pressures is a top, immediate concern. Executive committees need to navigate uncertainties, and CFOs are in the midst of the most uncertain, yet critical time for decision-making. Pulling the right levers across liquidity, capital and cost will be critical.

Solvency ratios are impacted as volatility is expected and understood by stakeholders but requires increased modeling on a real-time basis.

Liquidity focus will evolve, with more detailed cash management strategies, removing barriers to trapped cash and capital. There will be an increased use of scenario planning and analyses to gain real- time understanding.

Evolving investment strategies, including closer monitoring of low interest rates, The impact on the valuation of commercial real estate/ loans is essential given the possible shifts in those asset classes.

5 Climate change

Preparing for a future of increased risk

Climate risk as a core business issue, global temperatures are rising creating risk to the global economy, ecology, and human health and well-being. Growing exposures from increased catastrophic weather events (e.g. hurricanes, wildfires) to pandemic risks are rapidly becoming a new reality, challenging the bottom line. Boardroom conversations around ESG are changing, particularly on corporate purpose, stakeholder capitalism, and climate risk and resilience.

Insurance can build socio-economic resilience and enabling economic development and entrepreneurial pathways for achieving climate change goals and targets.

The use of incentives and performance metrics helps **to drive the right focus on ESG issues.**

Mitigation isn't just the right thing - it is also a pathway to profitability; insurers can play a role in adaptation, working with public bodies to build interventions that make societies more resilient to the impact of climate change (e.g. flood defenses, building standards).

New products and business opportunities; there are new risks to insure, including risks related to new industries, such as wind farms and alternative energy facilities. There are also emerging financial risks, such as those involved in carbon trading.

Insurers can move funding into greener investments, and will be challenged by stakeholders if they invest in initiatives deemed not good for the environment.

6 The innovation imperative

Unlocking new competitive advantages

Invest for growth; radical waves of innovation are expected as insurers adapt to current environment. Making the right bets in innovation may help insurers to capture market share and move into new markets. Innovation leaders will leverage this moment to leapfrog ahead of their peers. New ecosystem of innovative firms will be the next wave of insurers.

Innovation at scale as remote working happened so quickly, proving that companies can move faster. The appetite for large-scale, impactful innovation has increased and typical barriers seem to be removed or lessened.

Outsourcing to drive innovation, as insurers looking to cut costs and take advantage of innovative solutions and infrastructure are looking towards insurtechs.

Partnerships will become the norm as access to the latest technologies and new talent will be critical as insurers focus on operational excellence, AI and automation.

Industry performance

FY2020 financial perfromance of insurance firms in Saudi Arabia

Net profit after zakat and tax

↑ 48.3%

YE – 2020: SAR 1,455 million
(YE – 2019: SR 981 million)

Gross written premiums

↑ 3.0%

YE – 2020 SAR 38.26 billion
(YE – 2019 : SAR 37.14 billion)

Total assets

↑ 9.7%

As of YE – 2020 SAR 65.42 billion
(YE – 2019: SAR 59.61 billion)

Total investments

↑ 7.0%

As of YE – 2020 SAR 31.09 billion
(YE – 2019: SAR 29.07 billion)

Loss ratio

↓ 3.1%

YE – 2020: 75.8%
(YE – 2019: 78.9%)

Retention ratio

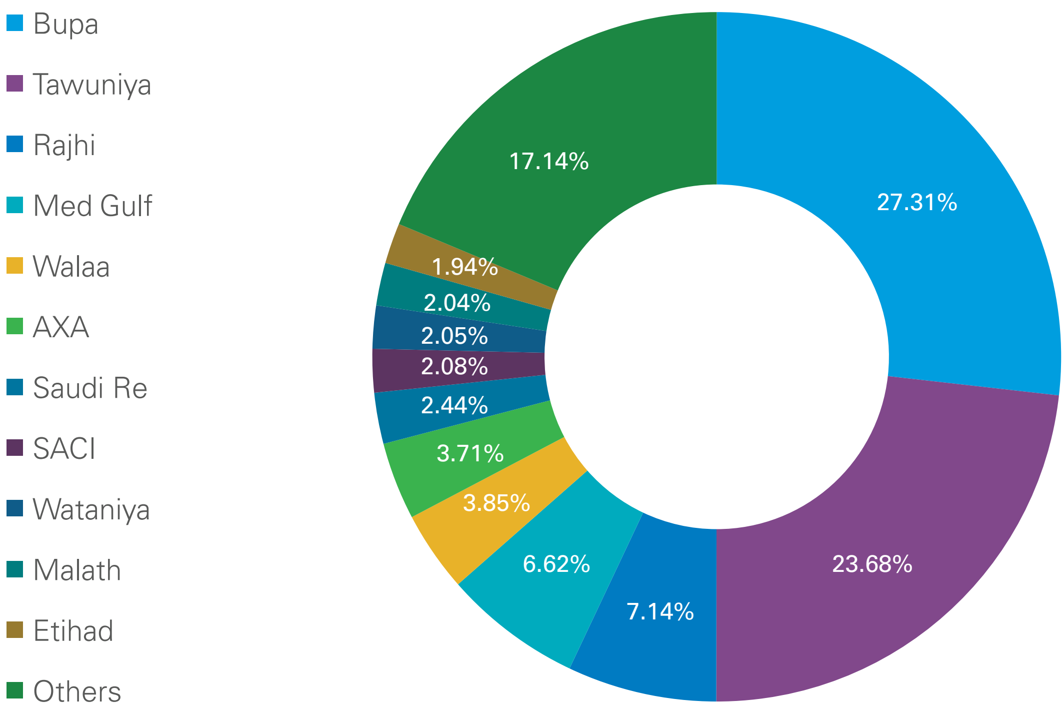
↓ 1.1%

YE – 2020: 83.4%
(YE – 2019: 84.5%)

Industry performance

FY2020 financial performance Gross Written Premium (GWP) market share

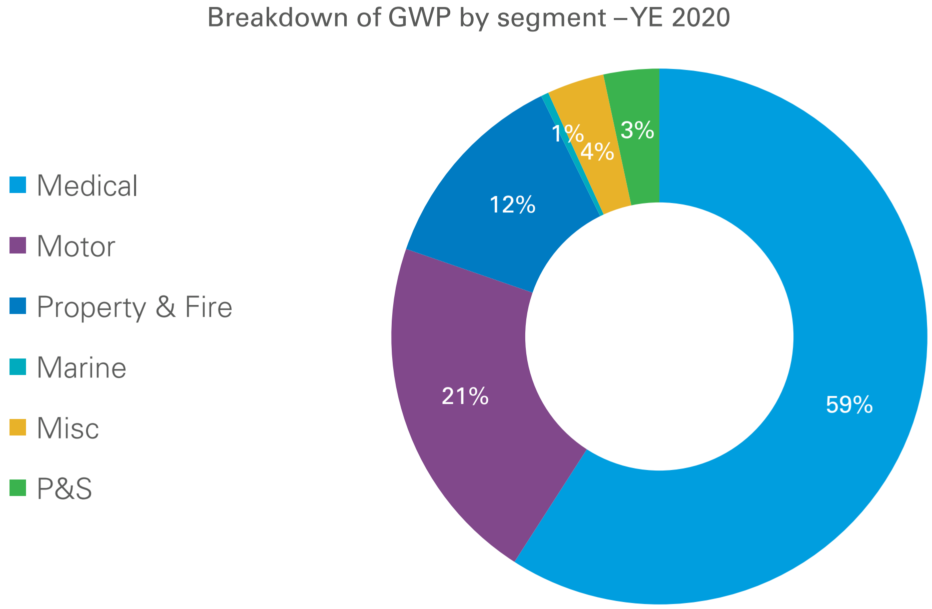
GWP market share Q4 2020

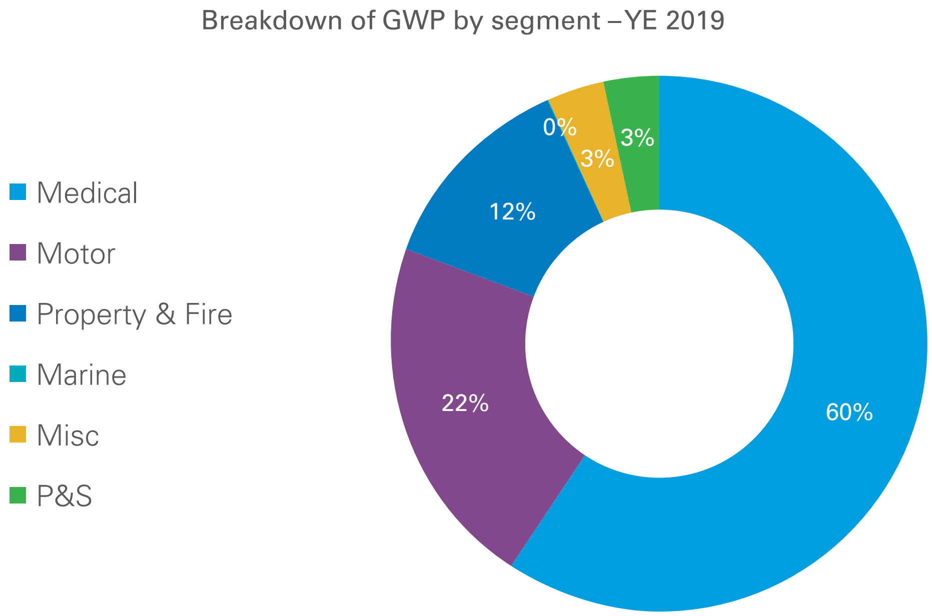


Allianz	1.76%
UCA	1.61%
Gulf Union	1.46%
Arabian Shield	1.44%
ACIG	1.35%
Salama	1.12%
Sagr	0.99%
Arabia	0.91%
Amana	0.86%

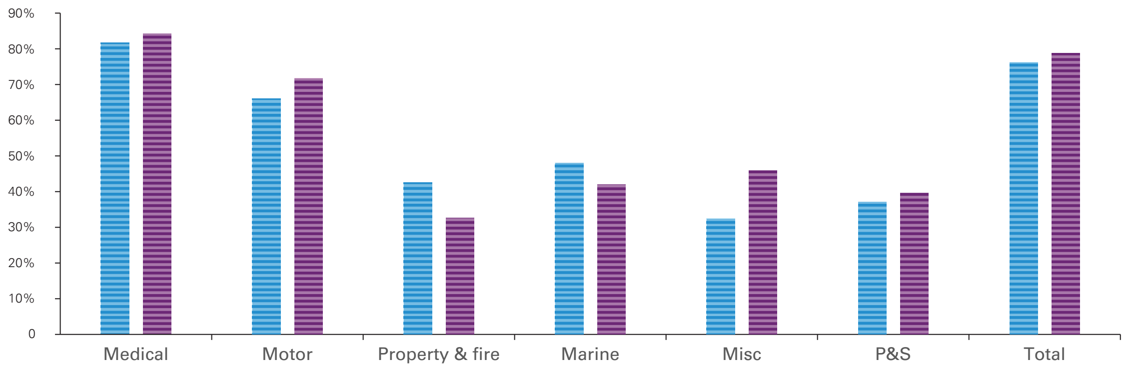
Gulf General	0.84%
Alinma	0.83%
Chubb	0.72%
AlAhli	0.65%
Jazira	0.61%
Buruj	0.53%
SABB	0.53%
Al Alamiya	0.50%
Enaya	0.43%

Breakdown of GWP by segment

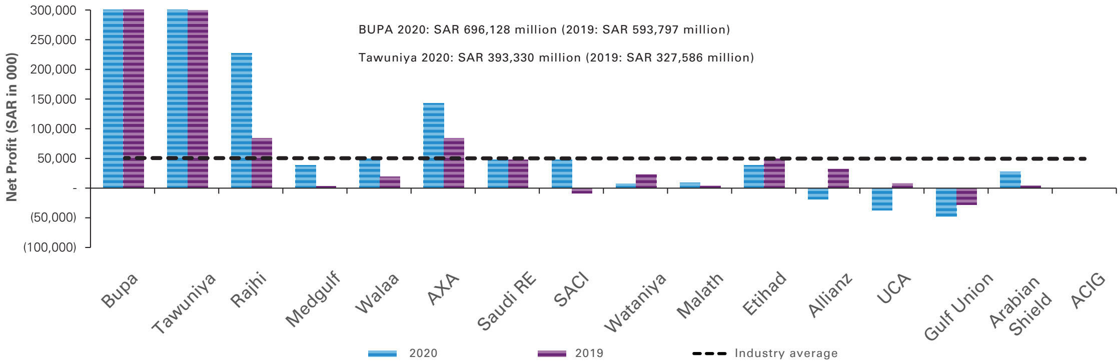




Loss ratios by segment

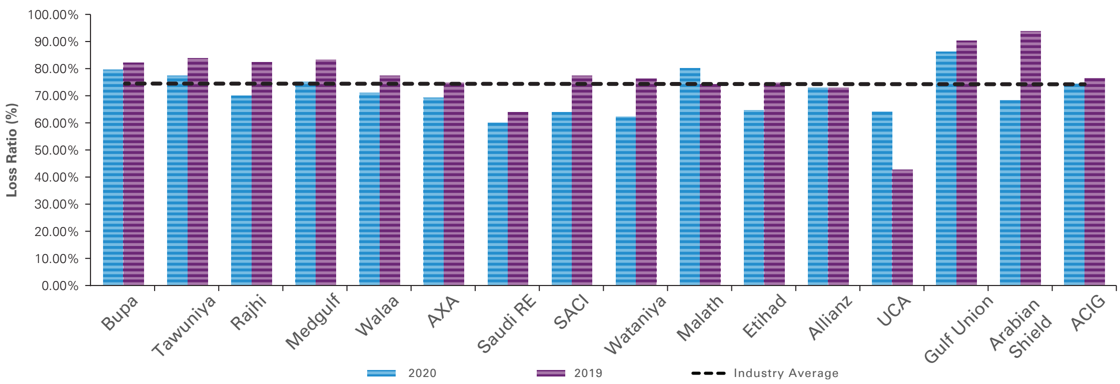


Net income/ (loss) (in SR '000)

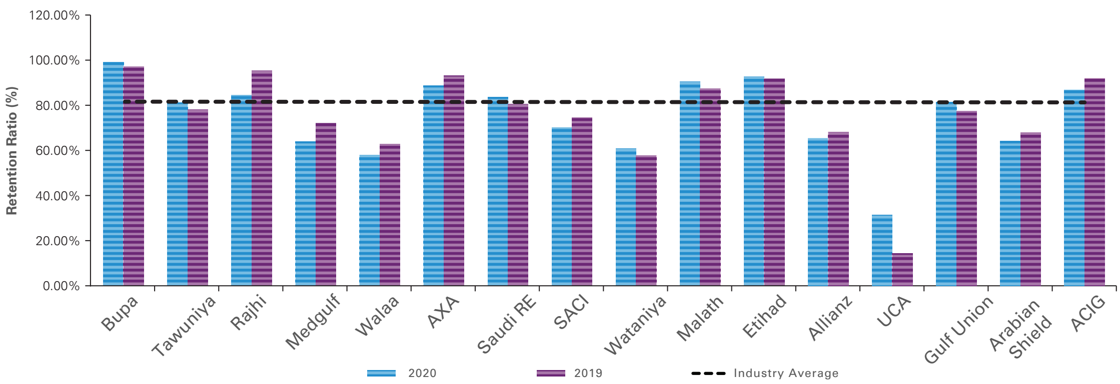


ROE* & ROA* (%)

Loss ratio (%)

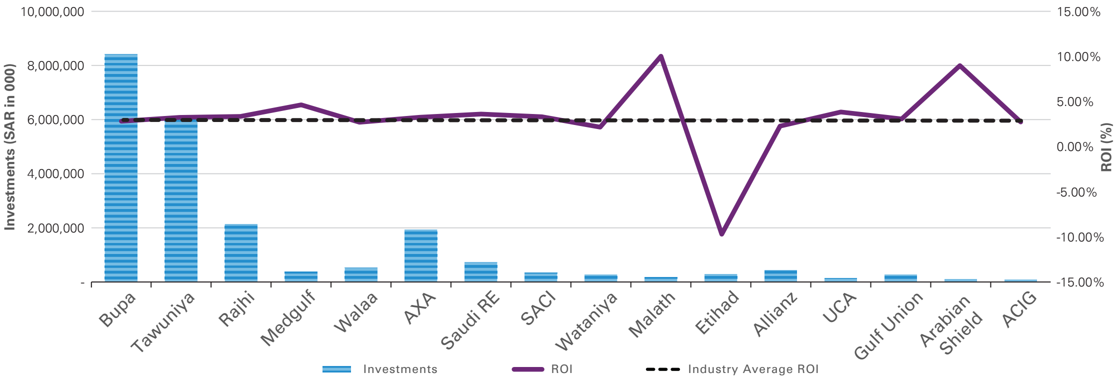


Retention ratio (%)

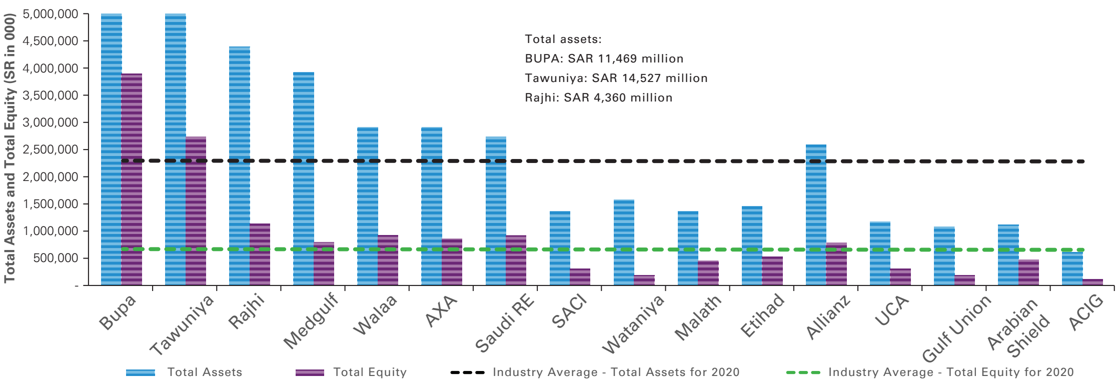


* This report is reflective of the broad range of the insurance market, where information comparison is split between companies with total assets over SR 1 billion and total assets below SR 1 billion.

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



Total assets & Total equity (in SR '000)

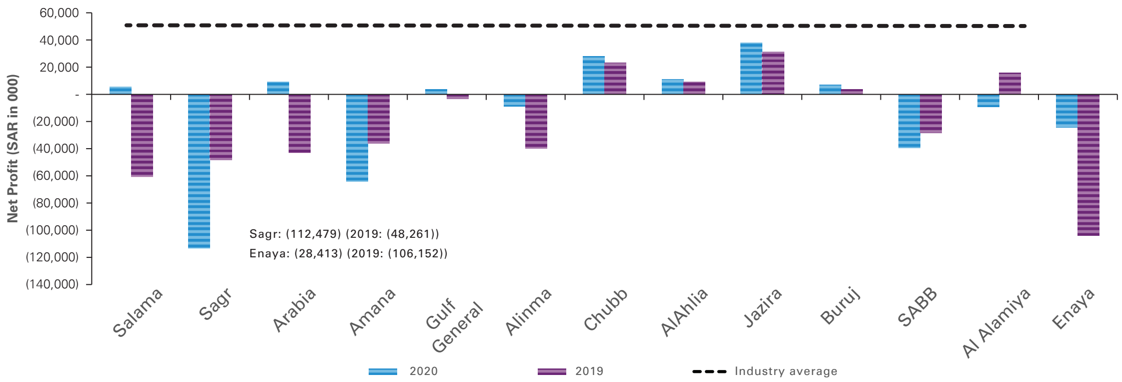


Share price* & P/E*

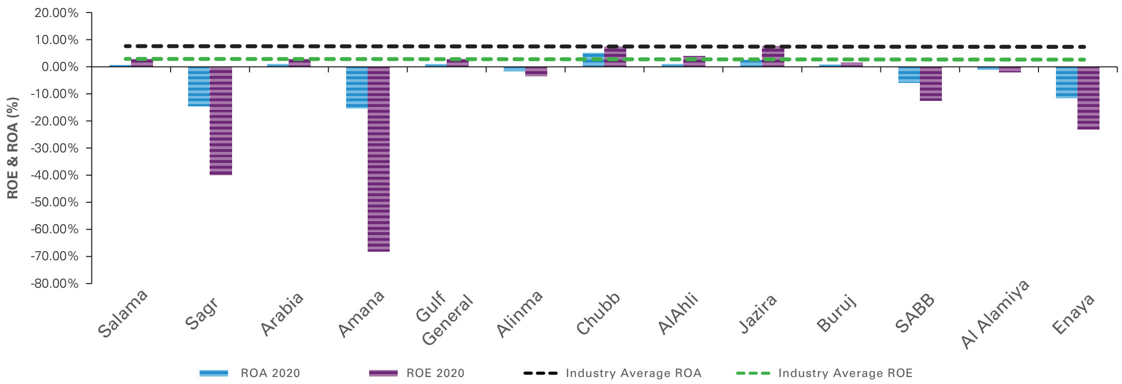
Glossary:

PE ratio is calculated as the closing share price as of 31 December 2020 quoted on Tadawul divided by the EPS. **ROE** is the ratio of net income after zakat and income tax to total equity as of 31 December 2020. **ROA** is the ratio of net income after zakat and income tax to total assets as of 31 December 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 31 December 2020.

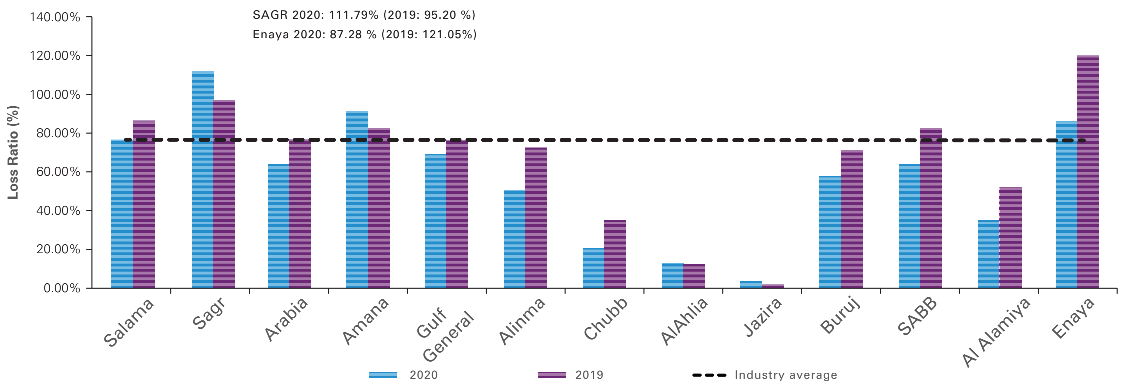
Net income / (loss) (in SR '000)



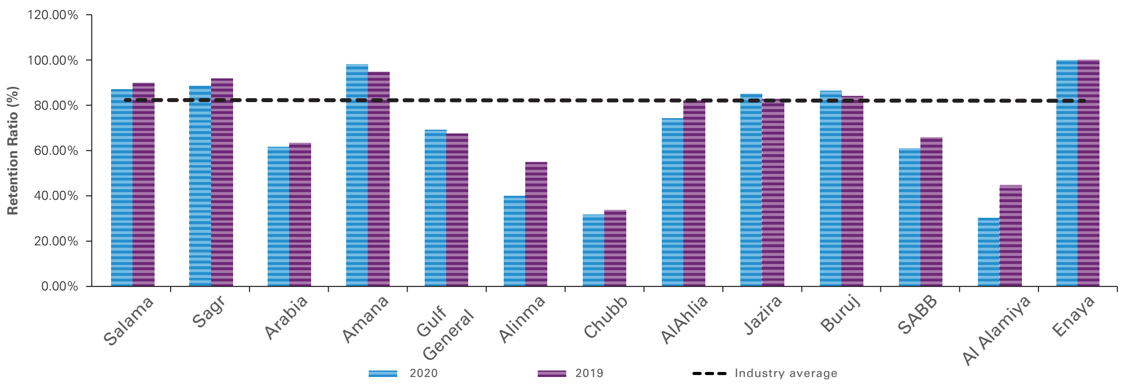
ROE* & ROA* (%)



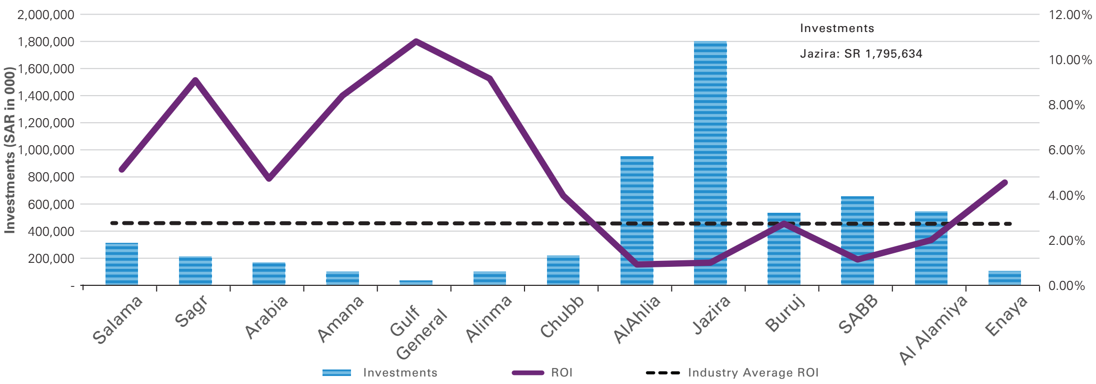
Loss ratio (%)



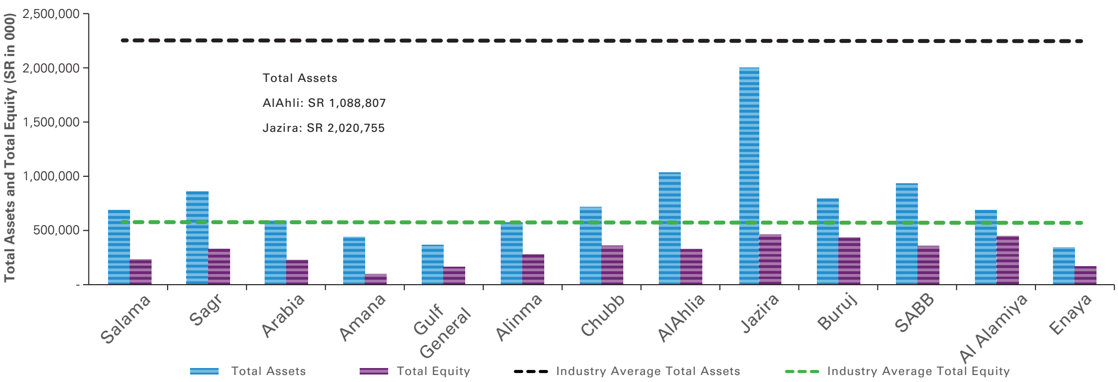
Retention ratio (%)



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



Total assets & total equity (in SR '000)



Share price* & P/E*

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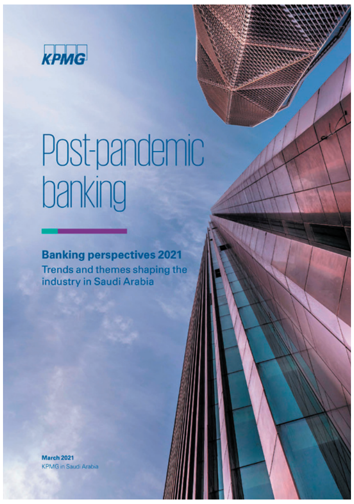
Further reading

In the spotlight



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Read the original report with global macro themes for the insurance industry.

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