



Insurance pulse

**Market trends and industry performance based
on latest available financial information**



Introduction

IFRS 17

IFRS 17 will be applicable in the Kingdom from 1 January 2023 and currently insurance companies are in the implementation and audit phase of the dry-runs for Saudi Central Bank (SAMA) submission. While these dry-runs are underway, some of the common challenges for insurance companies are the extraction of data from the current systems for input into IFRS 17 models include the following; classification of the surplus distribution payable under liabilities for incurred claims (LIC), treatment of value-added tax (VAT) on premium receivables under the premium allocation approach (PAA) model for calculation of liability for remaining coverage (LRC), allocation of attributable and non-attributable expenses and periodic assessment of PAA eligibility under the requirements of IFRS 17.

The results of these dry-runs, the related audit observations and learnings will lay the foundation of the quantitative disclosures relating to the impacts of adoption of IFRS 17 and IFRS 9 in the annual financial statements for the year ending 31 December 2022, as required under IAS 8, and the successful implementation of IFRS 17 in the Kingdom from 1 January 2023.

Mergers and acquisitions

Based on Tadawul announcements, two mergers in the sector were completed in 2022 along with another four companies that expressed their intentions to do so in two MOUs. At present, thirteen insurance companies have been flagged on Tadawul to have accumulated losses in excess of 20% of their share capital and SAMA's encouragement toward M&A transactions can shepherd these companies towards stability.

Digitalization

The boost in the digital transformation in the last two-and-a-half years has in the insurance sector been most visible in the way companies now interact with their customers through digital channels. Digitalization has become the norm, with its benefits now widely recognized by the industry. In parallel, and as a result of insurance firms collecting more data through digitalization, they have increased their focus on building a stronger cybersecurity and data privacy infrastructure.

Financial performance

Insurance companies in Saudi Arabia have attained continuous growth in the top line in recent years and the momentum continued in 2022 wherein the aggregate gross premium by the end of Q3,2022 amounted to SAR39.82 billion, showing an increase of 26.8% in gross written premium (GWP) as compared to Q3 2021. The growth was reported in most categories, with the motor and medical segments continuing to be the biggest contributors constituting in aggregate 78% and 66% of GWPs and net underwriting income respectively of the insurance industry for the period ended 30 September 2022. Similar trend is expected for the full year of 2022.

The volatility in the insurance market comparative results which were visible till the first half of 2022 have settled now in terms of the loss ratios and the net profit after Zakat and tax. The loss ratios and net profit after zakat and tax stand at 81.79% and SAR 566.12 million as of Q3 2022 compared to 81.36% and SAR533.84 million as of Q3 2021 respectively.

The total assets and total equity of the insurance industry stood at SAR79.02 billion and SAR19.08 billion respectively, showing an increase of 20% and 4.8% as compared to 31 December 2021. This represented annualized return on equity of 3.96% as of Q3 2022 as compared to 3.91% as of 31 December 2021 and annualized return on assets of 0.96% as of Q3 2022 as compared to 1.08% as of 31 December 2021.

A detailed breakdown and analysis of the financial performance of 27 insurance companies in Saudi Arabia in the third quarter of 2022 can be found in the following pages, divided over Tier I and Tier II on the basis of total assets. We hope you find this edition insightful for your organization.

Ovais Shahab

Head of Financial Services

Salman Chaudhry

Senior Director, Insurance Lead

Technology risk assurance for IFRS17 compliance

IFRS 17 is the first comprehensive international accounting standard for insurance contracts issued by a company, including the reinsurance contracts leading to a transformative effect on insurers' financial reporting.

The changes introduced by the new standard are multifold including revenue recognition that leads to change in current IT systems, processes, data and reporting requirements. The majority of Saudi insurance establishments are currently in implementation and dry run phase, and considered one of the following approaches in the past couple of years in the transformation journey; existing IT architecture upliftment, IT architecture overhaul, or a hybrid IT upliftment.

Organizations also realize that IFRS 17 program delays can result in limited time for management to test functionality before release. It is recommended to be ready with a fall back tactical solution to fill gaps wherever necessary meaning manual workarounds or control gaps till the final go live date.

It is imperative for second line of defense including technology auditors or responsible assurance teams to identify and review at least the following; new automated data transfer controls and reports, security of new data warehouses and data lakes, calculation logics, completeness and accuracy of data flows to ledger or reporting systems. Delivery of new systems can present many risks, requiring continuous engagement with IFRS 17 project teams.



Management teams, program assurance teams or internal auditors should ensure that they are agile during this transition journey and clear communication channels are established along with accurate and timely reporting to those charged with governance.

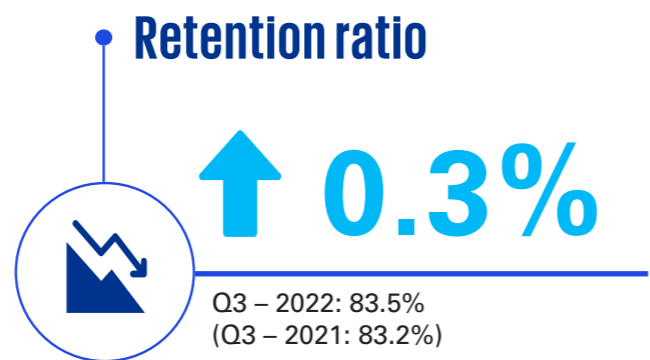
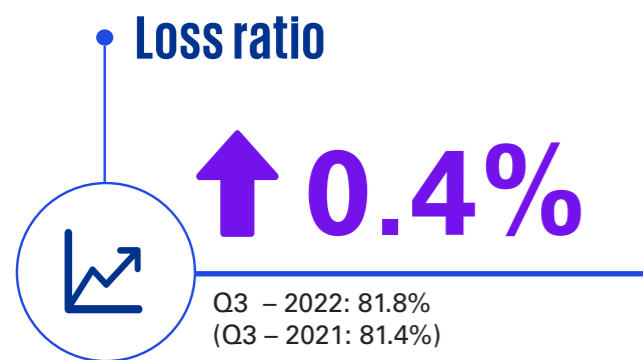
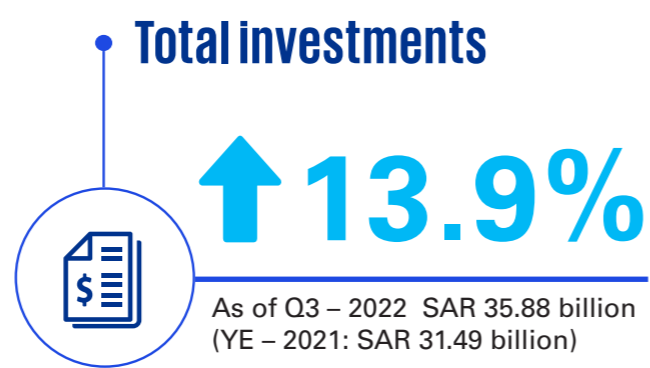
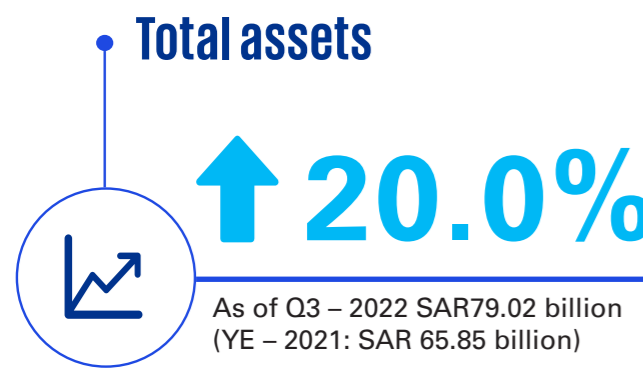
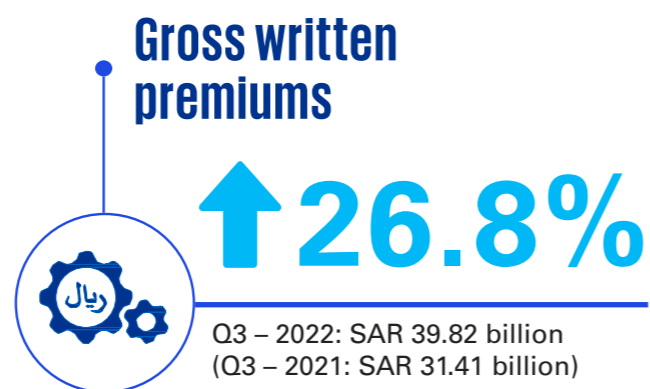
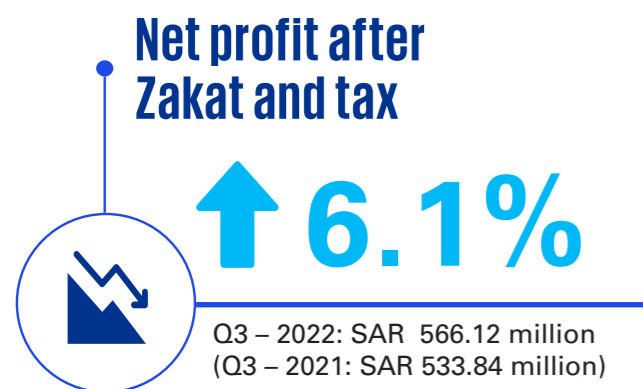
The management may want to invest on real time system assessment or pre-implementation review during the implementation phase, worthwhile effort to bring out any issues during the development and testing stages that allows management to respond more timely to project and control issues.

Lastly, it is important to place a post-implementation review focused on controls with an impact on company's internal control over financial reporting will aide to the confidence of the management and also identify any issues post go live date.

Dheeraj Sachdeva

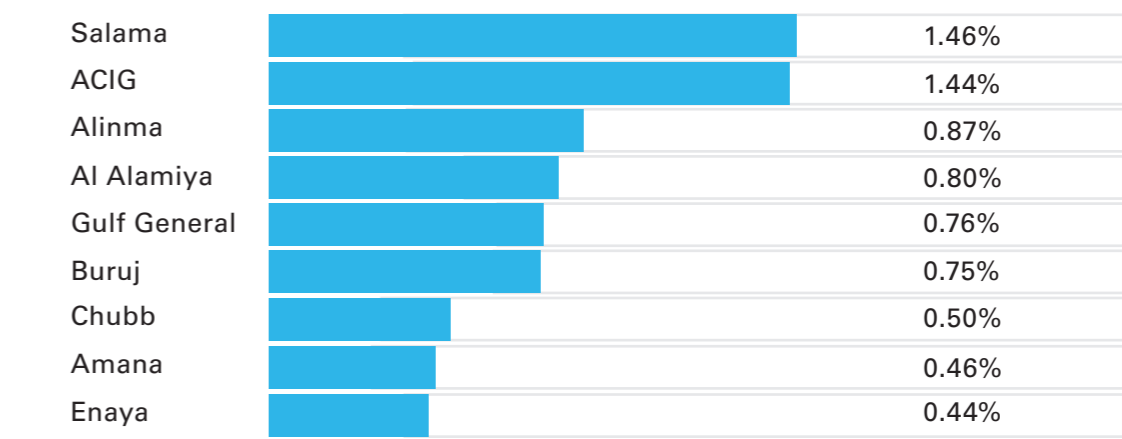
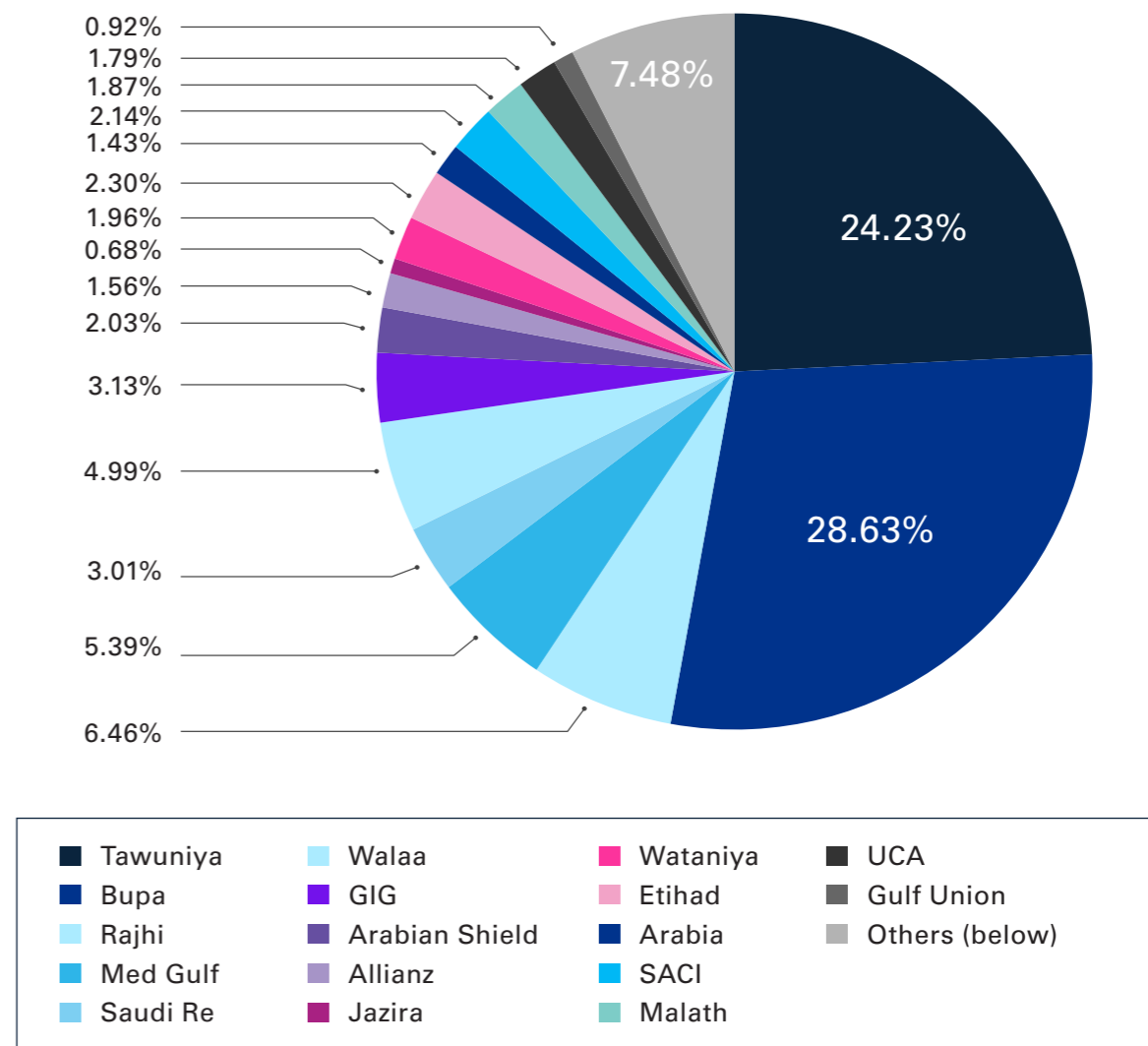
IT Audit Director

1 Q3 2022 – Nine months financial performance



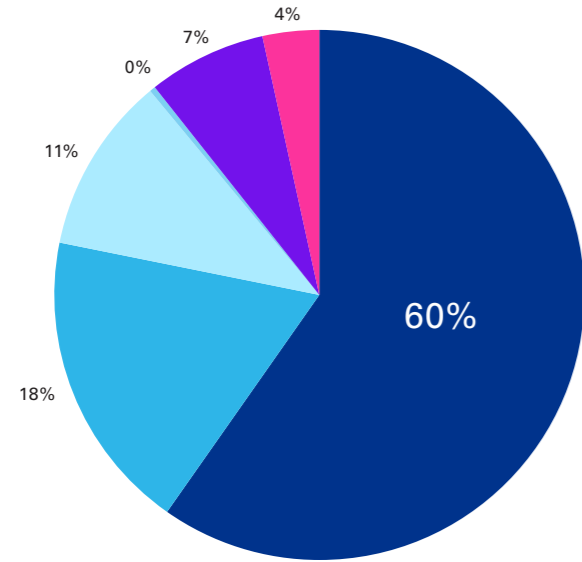
2 GWP market share

GWP market share Q3 2022

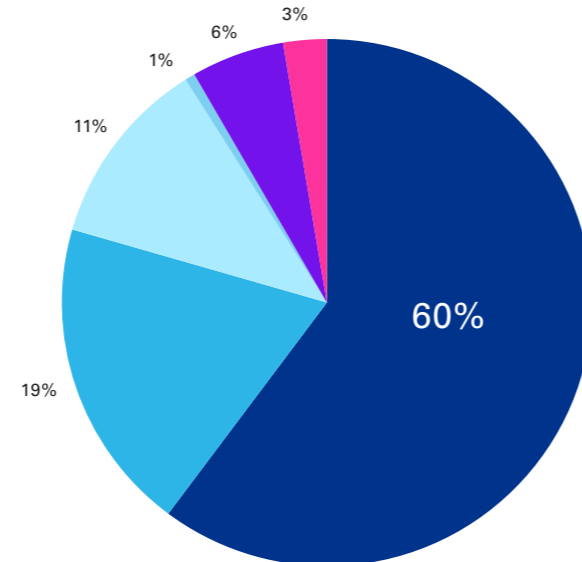


3 GWP per segment

Q3 2022

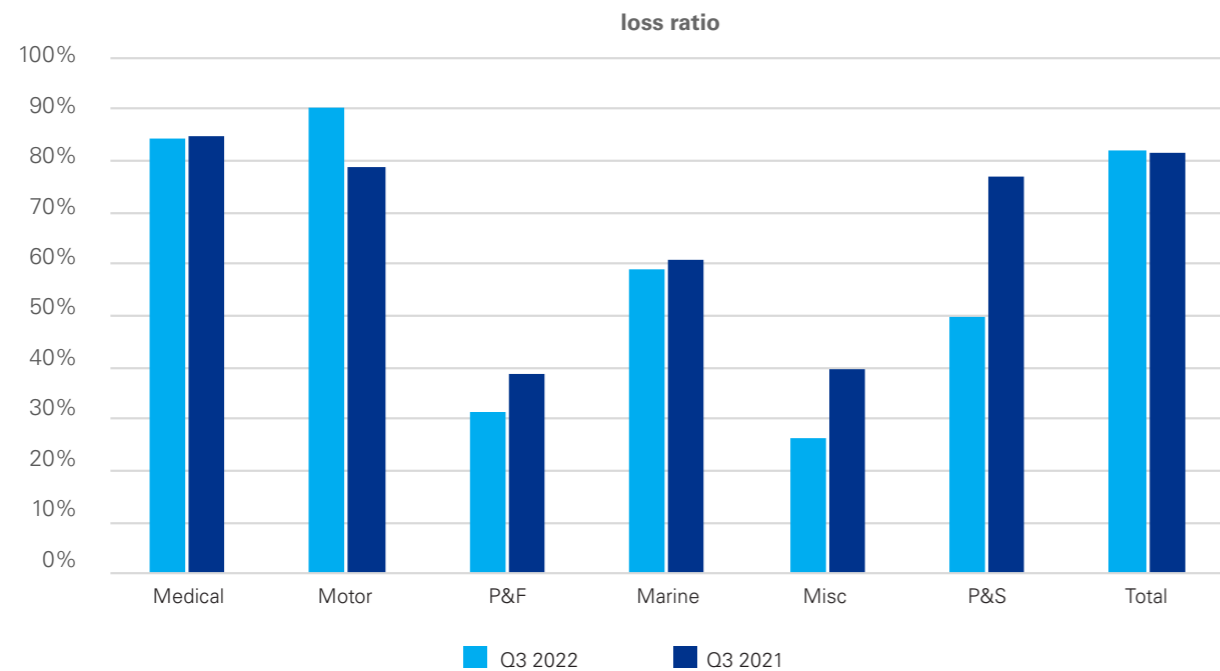


Q3 2021



Medical Motor Marine Property & Fire Miscellaneous Protection & Savings

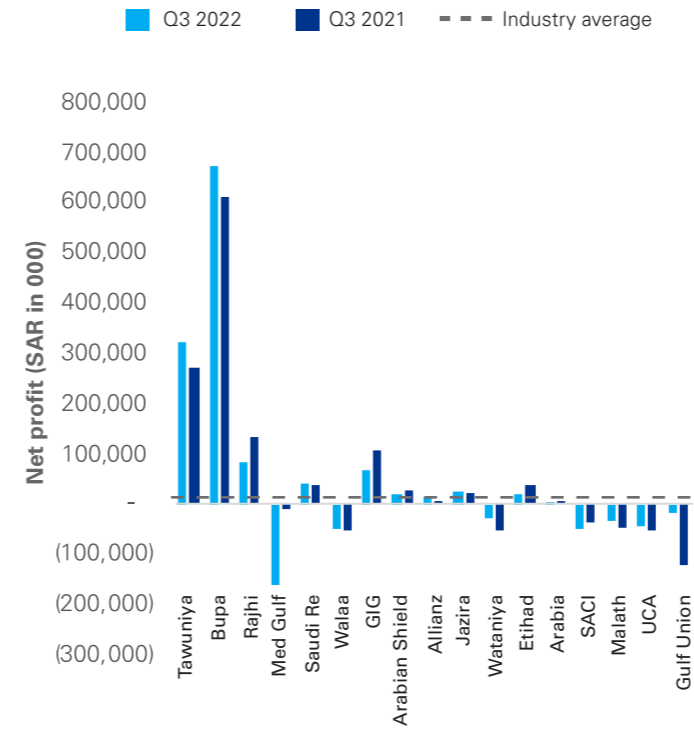
4 Loss ratios per segment



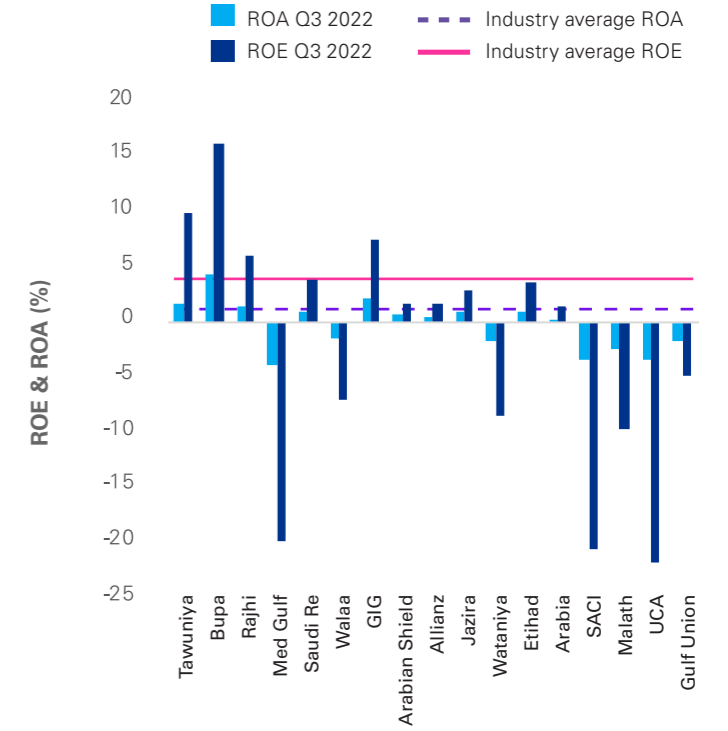
Q3 2022 Q3 2021

5 Tier I insurance companies*

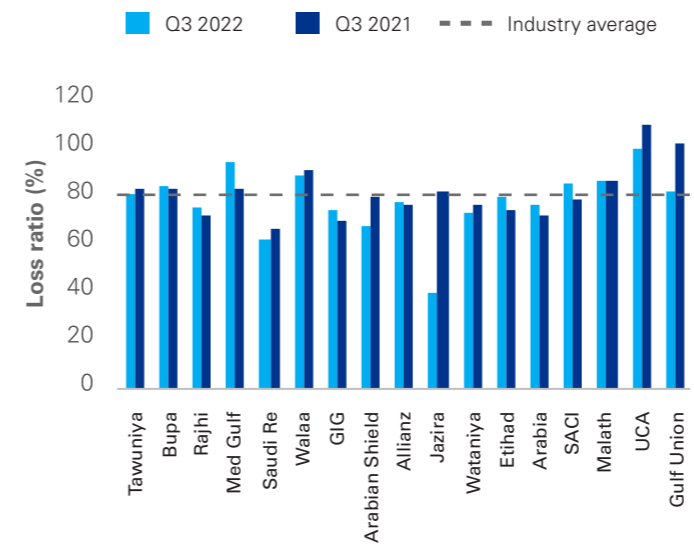
Net income/ (loss) (in SAR '000)



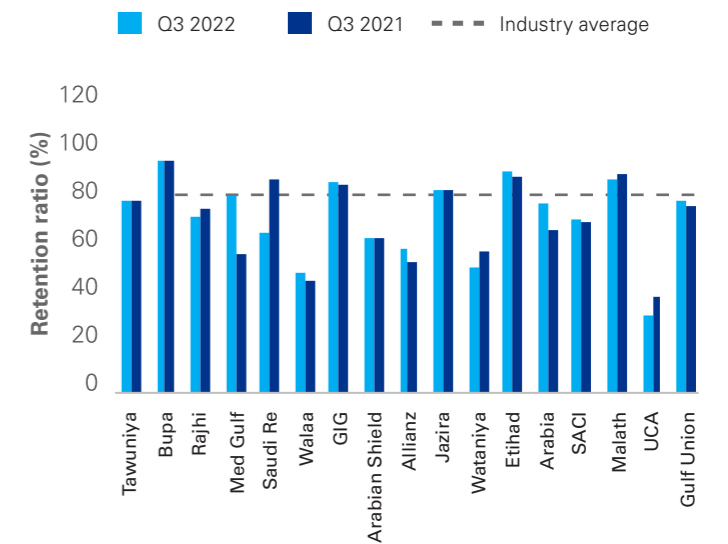
ROE & ROA



Loss ratio



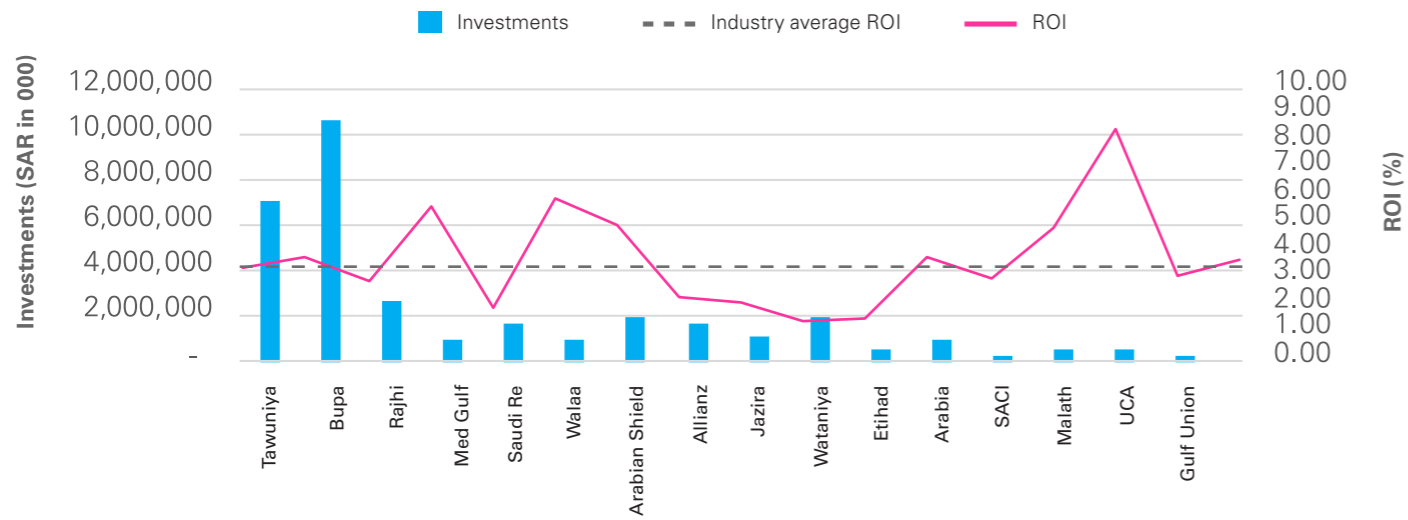
Retention ratio



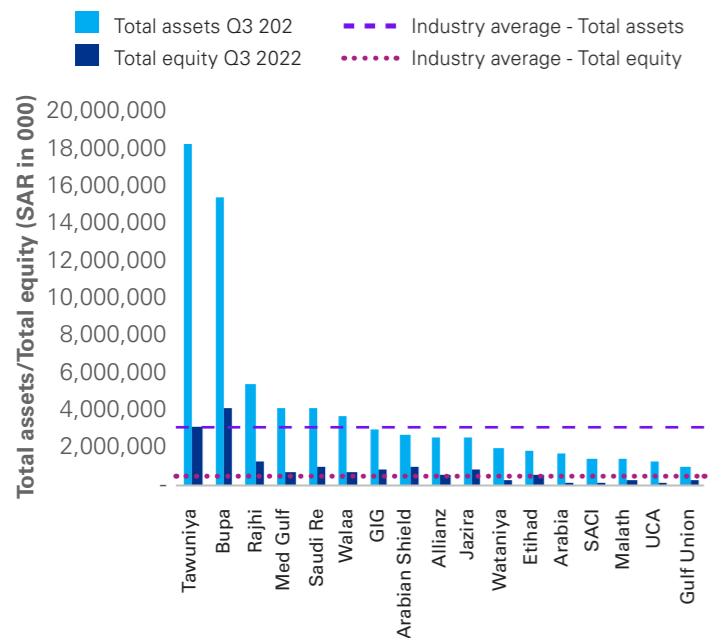
* This report is reflective of the broad range of the insurance market, where information comparison is split between companies with total assets over SAR1 billion and total assets below SAR1 billion.

6 Tier I insurance companies

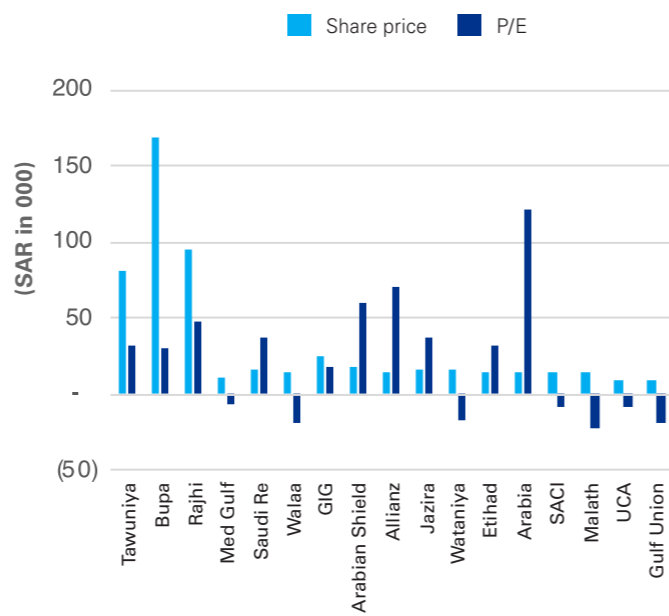
Investments & ROI



Total assets & Total equity

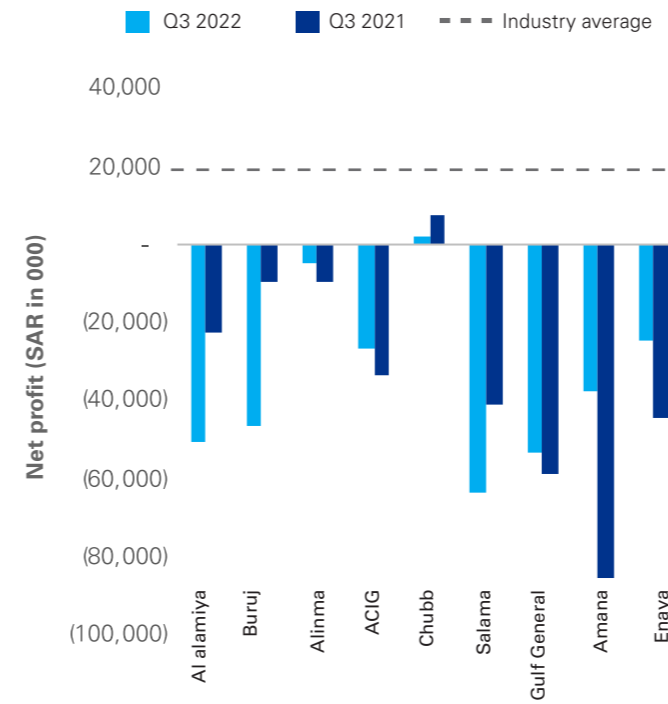


Share price & P/E

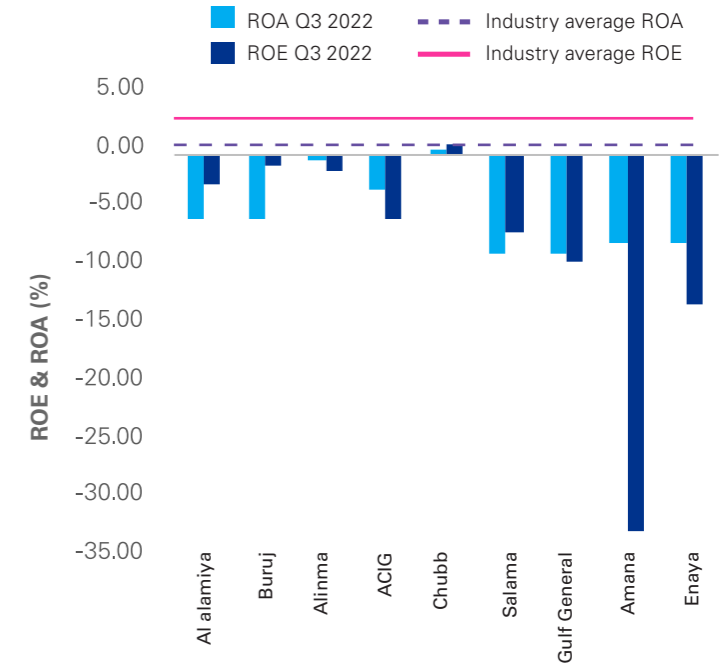


7 Tier II insurance companies*

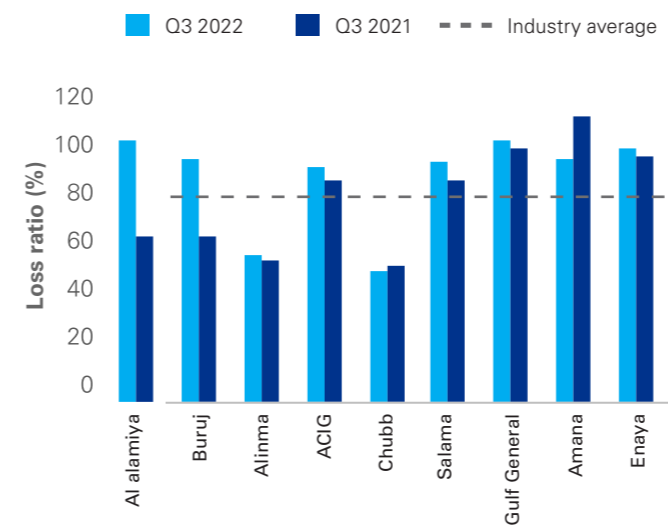
Net income/ (loss)



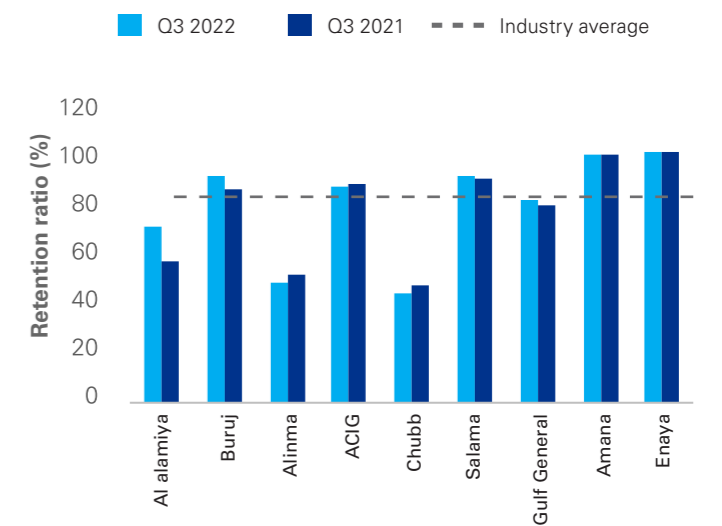
ROE & ROA



Loss ratio



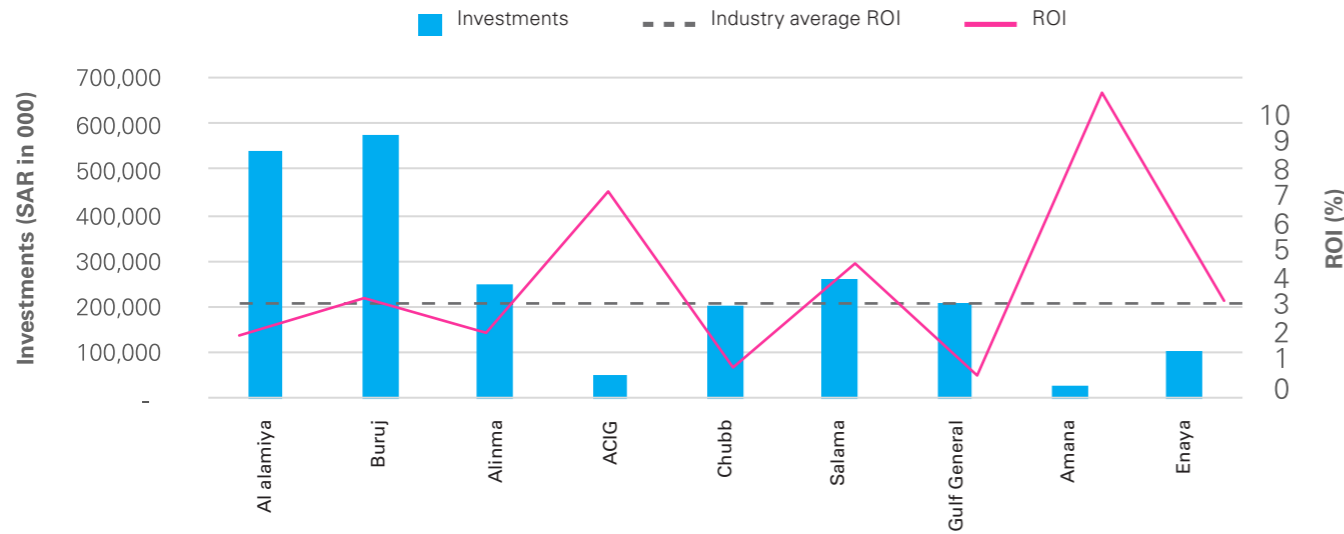
Retention ratio



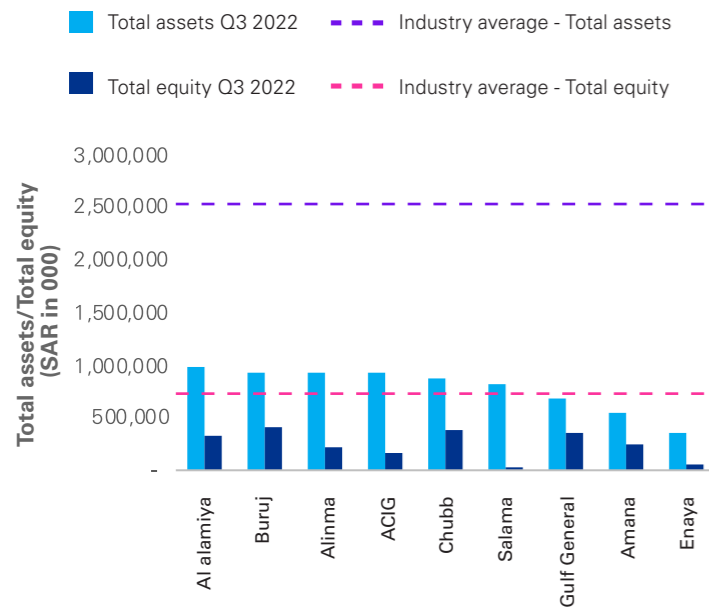
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6 Tier II insurance companies

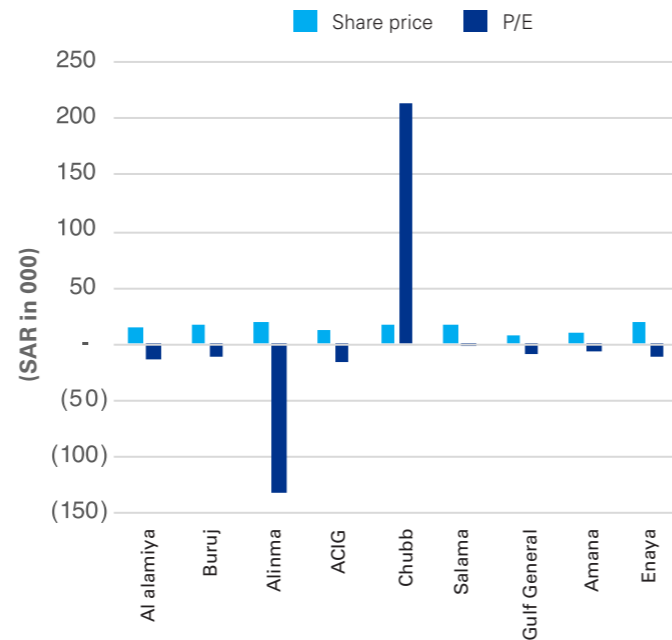
Investments & ROI



Total assets & Total equity



Share price & P/E



Glossary

PE ratio is calculated as the closing share price as of 30 September 2022 quoted on Tadawul divided by the EPS. **ROE** is the ratio of net income after zakat and income tax to total equity as of 30 September 2022. **ROA** is the ratio of net income after zakat and income tax to total assets as of 30 September 2022. **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 2022.

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