GCC Insurance Industry

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ALPEN CAPITAL
Investment Banking

Alpen Capital was awarded the "Best Research House" at the Banker Middle East Industry Awards 2011, 2013, and 2014

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Glossary

Insurance: A mechanism of contractually shifting burdens of pure risks by pooling them

Gross written premium: Total premium written and assumed by an insurer before deductions for reinsurance and ceding commissions for a policy that has already become effective

Insurance penetration: Gross written premium measured as a percentage of gross domestic product

Insurance density: Gross written premium measured per capita

Net written premium: Gross written premium less reinsurance ceded as well as premium losses surplus

Cession rate: The percentage of written premium transferred to a reinsurer by a primary insurer (ceding company)

Retention rate: The percentage of written premium retained by a primary insurer

Net underwriting profit/ (loss): Excess/deficit of premium earned after providing for all expenses directly attributable to underwriting activities, and excluding investment income

Claims ratio: Calculated on the sum of insurance benefits and claims, insurance benefits and claims recovered from reinsurers, and outstanding claims divided by net premium earned

Expense ratio: General and administration expense to gross written premium

Combined ratio: The sum of claims ratio and expense ratio. A combined ratio of less than 100 indicates an underwriting profit

Investment returns: Calculated by dividing gross investment income over investments in securities, affiliates, and property

Commission ratio: Calculated on net commission as a percentage of net written premium

Net written premium to equity: Represents the solvency risk faced by an insurer by comparing written premium with the level of shareholders' capital

Fronting agent: An entity that issues an insurance policy on behalf of a self-insured organization or captive insurer without the transfer of the risk. The self-insured or the captive insurer retains the risk of loss with an indemnity or reinsurance agreement. However, the fronting company (insurer) assumes a credit risk in return for a fee since it is required to honor the obligations imposed by the policy if the self-insurer or the captive insurer fails to indemnify it

Takaful: Follows Islamic religious principles such as bans on interest and pure monetary speculation. Here, risk is pooled among policy holders rather than being borne entirely by the company

Bancassurance: Involves the distribution of insurance products through the banking channel

The Saudi Arabian insurance market has a strong growth potential given its low penetration levels compared to global, mature markets. With the top three companies accounting for more than 50% of the total market share, the insurance industry in Saudi Arabia is concentrated at the top but highly fragmented at the bottom. There has been an active involvement from regulators – the introduction of risk based product pricing has largely balanced the price undercutting that existed amidst the competition in the market. This trend has seen improvement in technical profitability, particularly amongst the players. Consequently, the market is poised to becoming more customer centric with focus shifting to the quality of service.

We perceive e-commerce as an emerging trend going forward with the new generation. The market has witnessed an active flow of foreign investments into larger companies; however, these are governed by the regulatory limits.

Challenges in the industry revolve around improving the technical underwriting capability of insurance companies with the shortage of qualified personnel, not only in the region, but globally as well. Additionally, a significant percentage of the premiums are concentrated with the healthcare sector due to its compulsory nature and being driven by intermediaries and traditional channels of distribution.

We expect the sector to structurally mature going forward, in line with positive regulatory developments and efforts by some players towards attaining greater operational scale and efficiency"

Raeed Abdullah Al Tamimi

Chief Executive Officer

Tawuniya

"We expect the GCC insurance industry continue to grow in the coming years. The ongoing major infrastructure and governmental projects across the region, customer awareness about insurance, technological development and digital capabilities are some of the major growth drivers of the industry. These factors not only provide an opportunity for insurers to grow and develop new sales channel but also increase the switching cost of its consumers. A few more trends like increase in the cost of claims especially in retail lines (motor and medical), global price softening and increase in acquisition cost, digital online services and smart phone apps, have been observed across GCC.

In terms of challenges, currently GCC regulators are coping with the requirements of the international regulators and solvency II requirements impacting the regional insurance companies. We face a few more challenges due to the investment scenario affected by the low interest environment, political instability, reduction in oil prices and the global recession. On a positive note, going forward, the industry will witness consolidation across the region, as a result of increase in competition and the regulatory environment and this will subsequently transform the way the business is being conducted in the region"

Mr. Ali Al Fadala

Senior Deputy Group President and CEO

QIC Group

"I expect that the GCC insurance industry will display strong growth despite the falling oil price in coming years. Some of the factors like increasing the awareness of insurance, further development of the economy and investment in marketing and technology will lead to the growth of the sector. Personal line of business will grow in addition to compulsory insurance requirement.

The industry however faces a few challenges like heavy dependence on foreign reinsurance, low awareness of insurance, dearth of local talent, excessive competition, underdeveloped insurance regulations and economical and political risk. The GCC insurance companies especially in the UAE are very competitive and this unhealthy competition makes it difficult to achieve profit for most of the Insurance companies. Having said that, we expect the new regulations in the UAE to improve the investment classification, financial strength and technical reserves. These factors may consolidate the market and improve the results."

Dr. Abdul Zahra

CEO

National General Insurance Company

"Our outlook for the industry remains cautiously positive. In our view, implementation of compulsory health insurance, solvency requirements, risk based pricing, and other regulatory changes in different jurisdictions have improved market stability and transparency. Another major reason of GCC Insurance Industry's growth is the growing government investment in infrastructure albeit at a slower pace. Pension programs are gradually being broached as the next frontier for the GCC insurance market. As the landscape changes, insurance products like political risk and cyber Insurance will gain center stage.

The GCC Insurance industry faces some challenges namely geopolitical instability in the vicinity, too many weak players and lack of technical expertise. However, improving M&A opportunities, growing insurance awareness and significant uplift in the service standards, are set to aid the growth of the industry.

We have observed a few trends in the recent times such as new channels of distribution like eCommerce and bancassurance, new technology enabling automated claims management and big data analysis improving underwriting profitably and most importantly customer centricity. These developments will have a positive impact on the industry."

Christos Adamantiadis

Chief Executive Officer

Oman Insurance Company

"I believe that insurance industry will continue to grow in the region at a very decent rate. Having said that, insurance penetration continues to remain below the global average, more specifically in the life segment of business.

The key challenge faced by the insurance industry in this region is lack of qualified local talent. There are very few local institutes offering insurance education or training. Another major challenge is the low risk appetite of the insurance companies in this region, given their capital structure. The companies have to look to the west for reinsurance support. However, setting up a regional reinsurance company within GCC will help manage and retain risk in the region, aiding the growth of the sector.

In Oman, opening of Takaful space was one of the major recent trends. I believe that Family Takaful business will have a good growth potential in the long term. Medical Insurance has also shown significant growth during the last 5 years and will continue to grow given that governments are encouraging private health care to compliment public healthcare. Going forward, these trends will back the growth of insurance industry in the region."

O.G Ravishankar

General Manager

Takaful Oman

"The insurance industry continues to evolve and has attractive growth prospects in the region. Despite intense competition, uncertainty around regulatory reforms and fiscal imbalance caused by volatile oil prices, the GCC Insurance industry continues to flourish due to presence of robust growth drivers. The penetration level of insurance in the region, which is well below world average, is envisaged to enhance in coming years. At the same time, insurance density is expected to more than double. Introduction of compulsory health insurance schemes in different jurisdictions has been the major growth driver in the recent years. The M&A activities in the industry are also catching pace due to favorable regulatory reforms. The industry continues to see the trend of intra-regional deals, with business expansion and financial investment being the chief motives.

While the persistent sluggishness in oil prices might put pressure on the GDP growth in the near term, in light of the overall growth drivers, our outlook for the GCC insurance industry remains positive."

Rohit Walia

Executive Chairman

Alpen Capital*

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1. Executive Summary

The scale and growth of the insurance industry is strongly correlated with a country's economy. The GCC insurance industry continues to flourish, driven by increase in disposable income, the presence of expatriates, and the introduction of compulsory medical insurance schemes. Such inherent catalysts offset the impact of intense competition, ambiguity around regulatory reforms, and fiscal imbalance caused by volatile oil prices. The industry is deriving an additional thrust as member nations have started addressing concerns such as less effective solvency legislations, low transparency, product pricing, ambiguous guidelines to regulate the investments of insurers, and a wide range of regulatory discrepancies.

1.1 Scope of the Report

This report is an update to Alpen Capital's GCC Insurance Industry Report dated July 1, 2013 and depicts the current scenario of the GCC insurance industry across its countries, covering the insurance segments of life and non-life. The report also covers the recent trends, growth drivers, and challenges faced by the industry, in addition to presenting an outlook, in terms of premiums until 2020. It profiles some of the select insurance companies in the region, while evaluating their financial and valuation metrics.

1.2 Industry Outlook

- IMF has forecasted the GDP growth rate of 2.3% between 2014 and 2020 and population growth is expected at a CAGR of 2.4% for the same period. Considering the volatility in oil prices and resultant lower growth in premiums for 2015, IMF has forecasted drop in the GDP of the GCC nations for 2015. However, the resulting improvement post 2015 in insurance penetration and density levels (based on historical regression analysis), is likely to bring about growth in GCC insurance premiums for the period 2014-2020 at a CAGR of 18.7% to reach US$ 62.1 billion by 2020. In a conservative case scenario, the GCC insurance industry is expected to reach a size of US$ 49.0 billion by 2020 at a 14.1% CAGR, assuming that the average non-life premium growth across the GCC nations is in line with that in the preceding five years.
- Growing at a CAGR of 20.2% between 2014 and 2020, the non-life insurance segment is likely to outperform the life insurance segment (CAGR of 5.9%), primarily due to its line of compulsory insurance products and encouraging regulatory reforms.
- The insurance penetration in the GCC nations is expected to increase to 3.3% in 2020 from 1.4% in 2014. At the same time, insurance density is expected to more than double.
- In 2014, eight insurers in Saudi Arabia re-capitalized their balance sheet to comply with the regulatory requirements and fuel future growth, leading to an almost 14.0% increase in the Saudi Arabian insurance industry equity to US$ 2.7 billion. Saudi Arabia, the largest country in terms of population, is likely to overtake the UAE as the largest insurance market in the region and drive the growth of the GCC insurance industry between 2015 and 2020.
- Qatar is one of the fastest growing markets and is likely to remain at the third position after the UAE and Saudi Arabia, with a market share forecast of around 10.0% between 2015 and 2020.

1.3 Key Growth Drivers

- The population in the GCC nations is projected to increase at a 2.4% CAGR between 2014 and 2020 to reach 59.2 million, with a high proportion of those aged between 25 and 64[1]. Such large working population, with access to education, media, and new technologies, is expected to push the demand for insurance.
- The ongoing regulatory reforms regarding the minimum capital requirement, reporting requirement, and pricing are likely to drive growth in the insurance industry. Such reforms are already displaying optimism in the GCC insurance markets, which have grown at double-digit growth rates in the last five years.

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[1] Source: International Monetary Fund (IMF) data

- The economic outlook for the GCC is supported by infrastructure expansion through projects such as Dubai Expo 2020 and FIFA World Cup 2022 along with Etihad and Qatari rail projects, which are likely to create demand for insurance-related products.
- The insurance industry is likely to benefit from medical insurance having been made mandatory under law in most GCC nations. Healthcare consumption in the region is rising due to strong population growth and increasing income levels.
- The optimism in the global Takaful arena has trickled down to the GCC region, with the UAE and Saudi Arabia as its key markets. Also, the GCC Takaful market presents a strong growth potential due to low insurance penetration rates (less than 2.0%) in these key markets.

1.4 Key Challenges

- The recent volatility in oil prices is expected to reduce the growth rate of the oil-dependent GCC economy, causing some of the member nations to restrict their spending, mainly towards the infrastructure sector. This could adversely impact the insurance industry in the short to medium term.
- The GCC region currently exhibits low awareness about the benefits of insurance, especially among the locals and the small and medium businesses. The importance of insurance as an effective means of wealth protection, savings, and security is yet to become widely known among the locals.
- The GCC insurance industry remains intensely competitive, marked by the presence of several domestic and international firms. Generally, the top insurance companies in each GCC market account for around 60.0%-70.0% of the country's total premium.
- Insurance regulations in the GCC nations are heterogeneous and range from being developed in some countries to being "under development" in others.
- The investment mix of the GCC-based insurers is skewed towards riskier assets such as equity and real estate, exposing their investment income to market fluctuations and the state of the economy.
- In Saudi Arabia and UAE, the level of consumer trust in insurers is just 52.0%, compared to 73.0% for supermarkets, 71.0% for banks, and 67.0% for pharmaceutical companies according to EY's recently released 2014 Global Consumer Insurance Survey report. In terms of trust in insurance companies, the UAE ranked 13th and Saudi Arabia ranked 18th out of 18 countries surveyed across Europe, Middle East, Africa and India. Insurers may need to fundamentally rethink how they interact with consumers so that they are not easily encouraged to switch insurers when their policy is due for renewal.
- Consolidation is relatively uncommon in the GCC, as most insurance businesses are either family owned or closely held by a limited number of shareholders. They prefer to build their base organically and compete for new business in the market.
- Like other industries, the insurance industry faces a shortage of skilled manpower. This has adversely affected the underwriting and risk-bearing capabilities of companies, while increasing their operating overheads.

1.5 Key Trends

- Over the years, international insurance companies have made strong inroads into the GCC nations, supported by their superior technical expertise, distribution capabilities, customer orientation, and financial strength. An underpenetrated market and low exposure to risk associated with the region are the main factors attracting these entities into the region.
- Insurance companies in the region are making investments to further improve the efficiency of their operations through enhanced data analytics, modeling capabilities, and other digital solutions.
- Having recognized the need for a more robust and systematic risk management process for the future, insurance companies are concentrating on enterprise risk management (ERM), which remains in its development phase in the region.
- Although agents and brokers still remain the main distribution channels for the GCC-based insurers, the use of bancassurance and online distribution in the region has increased in the last few years. These new channels have been gaining good acceptance in the GCC market, with penetration levels in the range of 1.0%-2.0%, thus indicating huge growth potential.

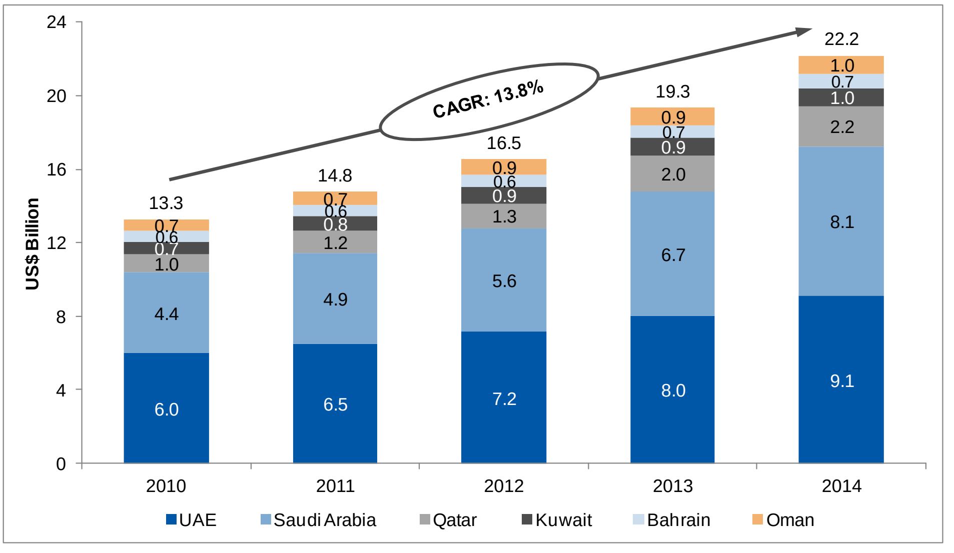
2. The GCC Insurance Industry Overview

The GCC insurance industry continues to grow, despite intense competition, uncertainty around regulatory reforms, and oil price volatility

The GCC insurance industry continues to grow at a steady pace, having registered a fivefold increase in gross written premium (GWP) in the last decade. Total GWP within the region was US$ 13.3 billion in 2010 (see Exhibit 1), which nearly doubled to US$ 22.2 billion in 2014 at a CAGR of 13.8%. Despite intense competition, ambiguity around regulatory reforms, and fiscal imbalance caused by volatile oil prices, the GCC insurance industry continues to flourish due to the presence of several growth drivers such as rising population and rising disposable income due to upbeat economy. The industry growth is further supported by regulatory reforms, which are underway. Regulators across the region are in the process of addressing concerns such as less effective solvency legislations, low transparency, ambiguous guidelines to regulate the investments of insurers, and a range of other regulatory discrepancies.

The UAE and Saudi Arabia are the GCC's two major insurance markets, accounting for more than 70.0% of the total premium collected in 2014. However, Qatar has been the fastest-growing insurance market among the GCC nations, with a CAGR of 22.4% between 2010 and 2014. This growth is supported by the development of the infrastructure and construction sectors in the wake of FIFA World Cup 2022, Qatari Rail, and ongoing government investment in the country's non-oil sectors. For the same period, insurance premiums in Saudi Arabia registered a CAGR of over 16.0%, primarily due to demand for mandatory products in the categories of medical and motor insurance.

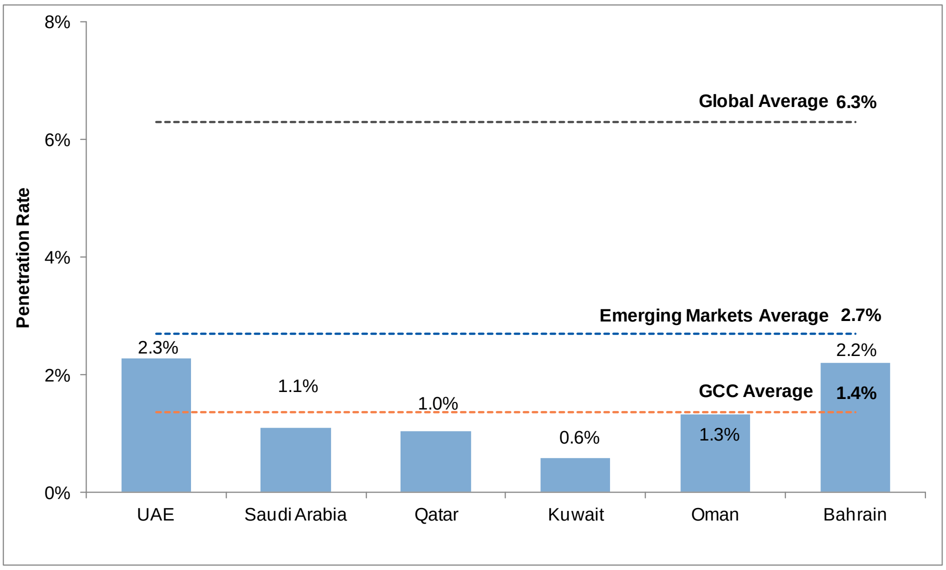
Exhibit 1: Market Size and Growth – GCC Region



Source: Swiss Re

A key characteristic of the GCC insurance market is an unusually low insurance penetration. In 2014, the penetration was merely 1.4% of the region's gross domestic product (GDP), almost a fifth of the global average (see Exhibit 2). However, this gap is narrowing gradually, as the GCC insurance market outpaces regional GDP growth. Moreover, the penetration rate in the GCC nations is half of the emerging markets' penetration rate.

Exhibit 2: Insurance Penetration in the GCC Region – 2014

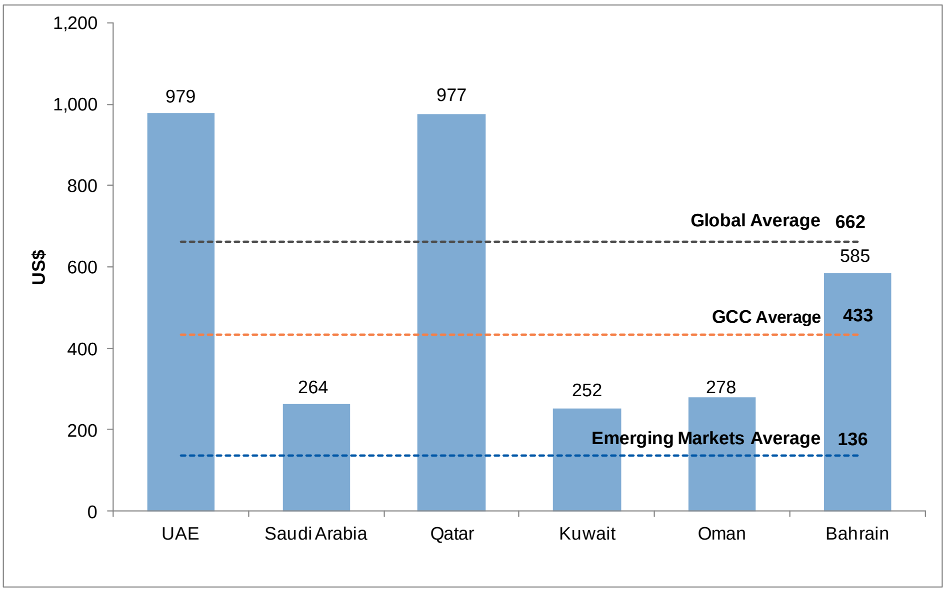


Source: Swiss Re, IMF

The growth pattern of the GCC insurance industry varies significantly across its member nations

Unlike insurance penetration, insurance density among the GCC nations varies significantly as a result of varying GDP per capita that spreads across the range of US$ 20,927 for Oman to US$ 93,990 for Qatar. Accordingly, the growth pattern of the insurance industry differs considerably across the member nations (see Exhibit 3).In 2014, the insurance density in the GCC was US$ 433, up by 11.5% from the previous year. Life insurance density rose to US$ 58 while non-life insurance density increased to US$ 375.

Exhibit 3: Insurance Density in the GCC Region – 2014



Source: Swiss Re, IMF

Life and Non-life Insurance

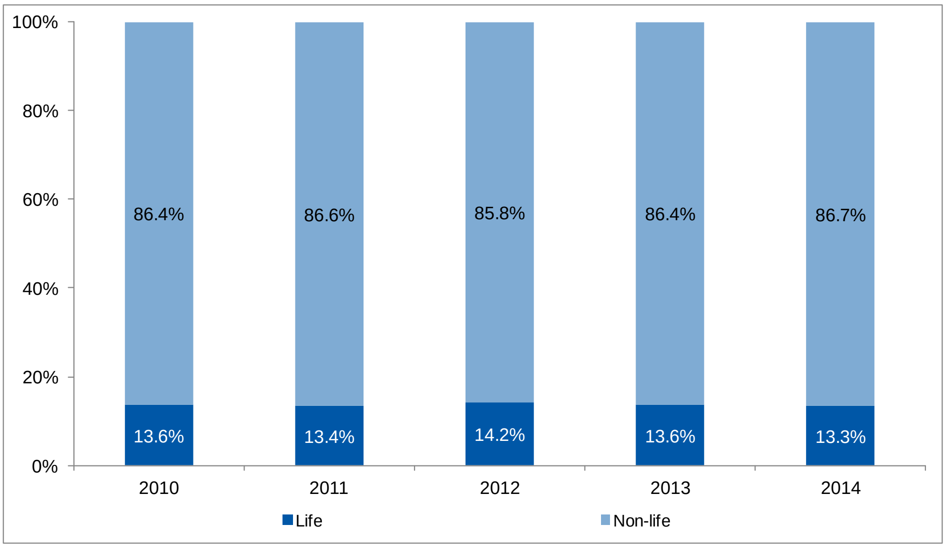
In 2014, the GCC life premiums increased by 12.3% to US$ 3.0 billion compared to the 11.9% growth rate in 2013. The life insurance GWP grew at a CAGR of 13.1% between 2010 and 2014, supported by robust performance in the UAE market (a CAGR of +19.0%).

GWP contribution from the life insurance segment has been almost stagnant over the last five years at around 13.5% (see Exhibit 4). The uptake of life insurance products faces challenges due to low consumer trust, and significant social security and tax benefits. The region is home to the wealthy that can afford to retain risks rather than pay to insure them. Further, life insurance is less popular, given the region's socio-religious landscape.

The life insurance GWP grew at a CAGR of 13.1% between 2010 and 2014, supported by robust performance in the UAE market

The UAE's life insurance segment has the highest insurance penetration rate across the member nations. However, it is underpenetrated compared to the more developed Asian economies such as Taiwan, South Korea, and India[2]. In 2014, growing demand from expatriates and a rising middle class led to a 14.9% increase in the UAE's life insurance GWP. Saudi Arabia, on the other hand, posted only a 7.1% rise in its life insurance GWP, following a drop for four consecutive years. The kingdom's low life insurance GWP, last year, was attributed to the changing preferences of its population towards equity markets that are perceived to deliver higher returns compared to savings products such as unit-linked insurance products. Bahrain's insurance market saw moderate growth, consequent to a slowdown in 2013, when it recorded a drop in family Takaful insurance[3].

Exhibit 4: GWP Percentage of Life and Non-life Insurance Segments in the GCC Region



Source: Swiss Re

The non-life insurance GWP for the GCC region grew at a CAGR of 13.8% between 2010 and 2014, largely due to mandatory insurance levied through regulations. Non-life insurance GWP in Qatar saw significant growth (a CAGR of +23.4%) in the last five years, followed by Oman (a CAGR of +14.6%). Consistently contributing more than 85.0% to the insurance GWP between 2010 and 2014, the non-life insurance segment remains the chief component of the industry.

[2] Source: "World Insurance in 2014", Swiss Re, June 2015
[3] Source: "World Insurance in 2014", Swiss Re, June 2015

The non-life insurance GWP for the GCC region was up, largely due to mandatory insurance levied through regulations

In Saudi Arabia, non-life premiums grew by 18.0% in 2014, supported by a relatively stable economic environment and strong growth in the recently introduced compulsory lines of insurance. The kingdom's premiums written for medical insurance, the largest line of business, were up by 19.0% from their 10.0% growth in 2013, as the minimum limit for health coverage was doubled. Motor premium growth remained strong at 23.0%, although lower than the 31.0% registered in 2013.

Non-life premiums were up by 12.8% in 2014 in the UAE, mainly driven by strong growth in medical insurance premiums, the fastest growing line of business in the country. Other GCC nations including Oman, Qatar, and Bahrain also posted robust growth in the non-life insurance segment.

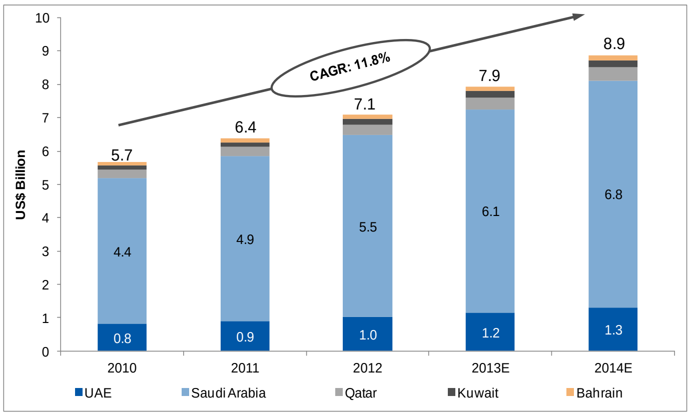
Takaful Insurance

As an alternative to conventional insurance, Takaful insurance adheres to the tenets of Sharia law. Under Takaful insurance, policyholders mutually insure each other, thus acting as both the insured as well as the insurer. In the GCC, Takaful insurers adopt the mudarabah model, the wakala model, or the hybrid model, which is a combination of the two. The mudarabah model is based on the principle of sharing the risks associated with a policy as well as the profits from the invested premiums between the Takaful operator and the policyholder. Under the wakala model, the Takaful operator only acts as an agent or a trustee (known as a wakeel) for the policyholders, with his role confined to managing the fund for an upfront fee (fund management and performance incentive fee). The underwriting results belong solely to the policyholders, with no share allocated to the Takaful operators.

Regulations governing the Takaful market vary across the GCC nations

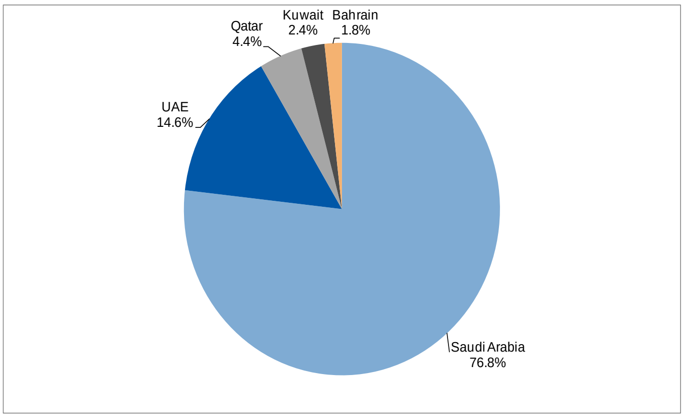
GWP within the GCC Takaful market expected to grow at a 11.8% CAGR between 2010 and 2014 to reach an estimated US$ 8.9 billion[4] (see Exhibit 5), accounting for around 63.0% of the US$ 14.0 billion global Takaful market. Saudi Arabia constitutes around 77.0% of the region's Takaful market (see Exhibit 6).

Exhibit 5: Size and Breakdown of the GCC Takaful Market



Source: "Global Takaful Insights 2014: Market Updates", E&Y, September 2014
Note: 1) Data for Oman is not available 2) E – Estimate

Exhibit 6: GCC Takaful Insurance Contribution – 2013E

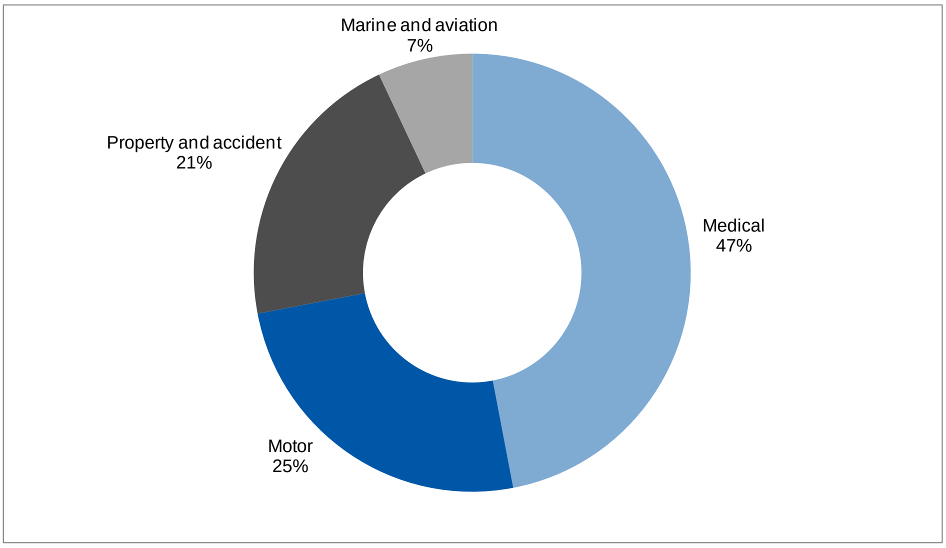


Source: "Global Takaful Insights 2014: Market Updates", E&Y, September 2014

[4] Source: "Global Takaful Insights 2014: Market Updates", E&Y, September 2014

Medical insurance remains the key Takaful business line due to mandatory insurance regulations in several GCC nations. Medical business lines are followed by the motor insurance segment, in terms of popularity (see Exhibit 7). The available data for the MENA region can be considered as a proxy for the GCC data, as the GCC is a major contributor to the Takaful market of the broader MENA region.

Exhibit 7: Key Takaful Business Lines in the MENA Region – 2011E



Source: "Global Takaful Insights 2013", E&Y, October 2014
Note: 2011 is the latest year for which relevant data is available.

Saudi Arabian Takaful insurers operate on the basis of the mudarabah model whereas the wakala model is more popular in the UAE

The regulatory framework for Takaful insurance varies substantially between the member nations of the GCC. While Saudi Arabian companies operate on the basis of the mudarabah model, wakala is the most widely used in the UAE. Some GCC regulators have specified the use of one or both the models. In the UAE, Takaful insurers are required to base their operations on either a pure wakala model or a combination of the mudarabah and wakala models. Takaful operators in Bahrain are allowed to adopt only a combination of the mudarabah and wakala models. The autonomous financial hubs of Dubai International Financial Center (DIFC) and the Qatar Financial Center (QFC) do not specify any model to the Takaful operators regulated by them.

Specific regulations pertaining to the Takaful market are in place in Saudi Arabia, the UAE, Bahrain, and the financial hubs of DIFC and QFC. Recognizing the growth potential of the Takaful market, governments across the region have been proactively introducing several legislations in the recent years. Saudi Arabia has implemented common regulations for both the conventional and Takaful firms. The kingdom's regulator, Saudi Arabian Monetary Agency (SAMA), issued legislations in 2013 requiring the insurance companies (including Takaful firms) to base their reserve on actuarial studies.

In early 2015, the Central Bank of Bahrain (CBB) introduced new regulations that laid down stringent solvency requirements for Takaful companies, providing increased protection to policyholders. The UAE also introduced a series of regulations (for both conventional and Takaful insurers) in early 2015, mainly focused on tightening asset-liability management and corporate governance for insurers. Kuwait's new insurance law, which is likely to be implemented by the end of this year, lays down detailed rules for the Takaful segment.

Oman is in the process of finalizing specific regulations pertaining to its Takaful market since 2011, when it lifted the restrictions on the Islamic finance sector. The Omani Takaful market gained further momentum in late 2013, when two Takaful IPOs, Al Madina Takaful and Takaful Oman Insurance, were launched. Under the Takaful Insurance Law developed by Oman's insurance regulator, Capital Market Authority (CMA), Takaful insurers need to be publicly listed and hold a minimum capital of OMR 10.0 million (US$ 26.0 million). The draft, which was cleared by the country's State Council in February 2015, is likely to receive final approvals in the near future.

Although the GCC Takaful market has confirmed robust growth in the past decade, it is still in its infancy in most of the GCC nations. An overcrowded marketplace is a key challenge faced by the GCC Takaful operators. Over 70 Takaful insurers in the region compete for approximately US$ 9.0 billion worth of premium, of which, Saudi Arabia accounts for nearly 77.0%[5].

Takaful companies are required to follow the AAOIFI guidelines, apart from adhering to the general regulations

Takaful operators also need to adhere to the stringent insurance governance requirements laid down by the regulators of the member nations. In addition to complying with the governance requirements applicable to conventional insurers, Takaful companies are expected to adopt the guidelines of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The AAOIFI guidelines may be supplemented with additional requirements in some GCC nations. Adherence to strict governance and the recent regulatory changes in some GCC nations entails additional cost for the region's Takaful operators. Such costs are likely to shrink the profit margins of the region's Takaful market in the future, which is already under pressure due to its small scale compared to conventional insurance companies in the region.

Since Takaful products are not differentiated in the market, the operators target the same customer base as that of the conventional insurance companies, mainly in the intensely competitive motor insurance market[6]. To achieve scale, Takaful insurers of the GCC region need to modify and create niche product offerings. Islamic banking, which has a strong presence in the GCC nations, is likely to assist Takaful operators to reach their target customers through the bancatakaful distribution channel (an Islamic variant of bancassurance).

Reinsurance

The capitalization of the local reinsurers is higher than the risks they underwrite

The GCC reinsurance market constitutes both international as well as local companies. Supported by their understanding of the local requirements and their personal relationships, domestic reinsurers cover life and non-life insurance segments, in addition to offering re-Takaful (Sharia-compliant reinsurance) coverage. Local companies generally enjoy higher capitalization compared to the risks they underwrite. However, they face significant concentration risk due to their limited geographical coverage in the region as well as narrow product lines. International entities offer regular reinsurance, often as the lead reinsurer in partnership with local companies. They also offer expertise and capital support to local entities, who serve as fronting agents.

The use of reinsurance in the GCC is significant, with premium cession rates by insurers often at an average of 37.0%[7] compared to around 10.0% for some of the prominent global insurers[8]. Nevertheless, the GCC insurance industry has seen an increasing

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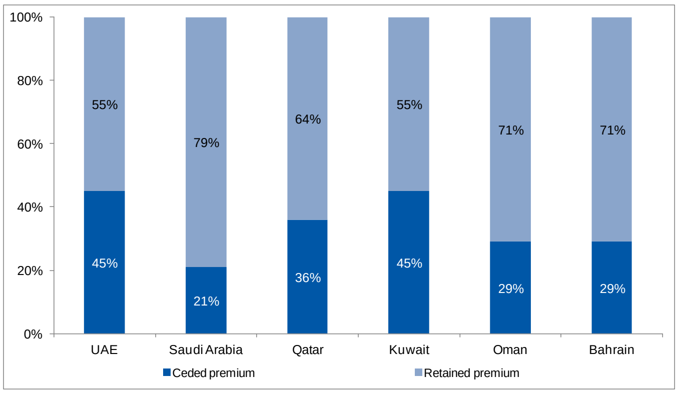
[5] Source: "GCC takaful firms set for shake-out", Khaleej Times, July 2015
[6] Source: "Consolidations loom as UAE takaful firms feel the pinch", The National, April 2015 and "Global takaful markets: In need of a rejig", Middle East Insurance Review, June 2015
[7] Source: MENA Reinsurance Barometer 2014
[8] Source: Swiss Re and Guy Carpenter

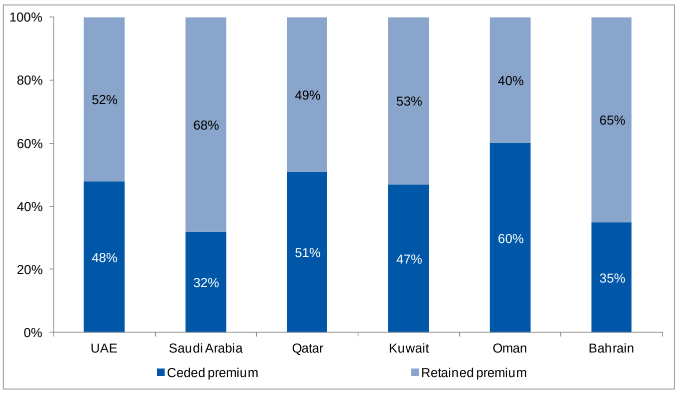
retention rate over the years (see Exhibit 8), primarily because of above-average growth in the non-life insurance segment such as motor and medical insurance. These product lines demonstrate significantly lower cession rates than the more volatile commercial segments of business. Moreover, the local insurers are engaging in claims management, which was performed by the reinsurers in the region until now.

Exhibit 8: Proportion of Non-life Insurance Premium Ceded in the GCC Nations (2013)



Source: MENA Reinsurance Barometer 2014

Exhibit 9: Proportion of Non-life Insurance Premium Ceded in the GCC Nations (2011)



Source: GCC Reinsurance Barometer 2012

Historically, insurers in the region have held moderate levels of net underwriting risk on their balance sheet, relative to the capitalization levels. Domestic insurers turn to reinsurers, as they are exposed to the potentially high claims from hydrocarbon-related projects on their portfolio as well as lack of adequate special insurance skills required to effectively underwrite such risks. Owing to their reliance on reinsurance, driven by abundant reinsurance capacity, local entities operate on a direct insurance business model based on commission and investment income.

The region is an attractive destination for global reinsurers, despite over capacity in its individual markets

The primary reinsurance rates in the GCC region continued to drop in 2014. Increased competition could lead to further pressure on the already declining reinsurance rates. Reinsurers still find this region attractive, as it offers geographic diversification despite challenges like over capacity in their individual markets, perceived low pricing, and the fact that the region represented less than 0.5% of the global GWP in 2014[9]. The region's reinsurance capacity is expected to increase further, driven by a large number of infrastructure projects, limited exposure to catastrophe risk, and the scope for increased insurance penetration. Fundamentally, the GCC nations offer plenty of reinsurance opportunities, as the penetration of its non-life insurance segment is low; its life insurance segment is at a nascent stage; and its demographics are highly favorable.

The GCC region's fundamentals that include its abundant hydrocarbon wealth, and large-scale infrastructure investments augur well for the prospects of insurers. Indirectly, this will result in positive sentiments for reinsurance segment. The demand for reinsurance is likely to remain higher in commercial lines due to the relatively unpredictable nature of their claims compared to motor and medical insurance lines, where loss ratios typically follow a low-risk-high-frequency pattern. International reinsurers are likely to remain the core provider of capacity to the GCC over the longer term, although reinsurance rate reductions and the easing of terms and conditions could increase profitability pressures. However,

[9] Source: "World Insurance in 2014", Swiss Re, June 2015

underwriting loss ratio for many reinsurance companies in the region is generally healthy, given the favorable claims environment.

Reinsurance in the areas of family Takaful as well as engineering, construction, and energy within the commercial segment is expected to remain more attractive to the entities in the region. These reinsurance lines along with marine cargo and casualty are the most profitable. However, the GCC reinsurance space also faces challenges in the form of limited risk selection in view of factors such as mandatory medical insurance in the region. A downward pressure on reinsurance rates is expected in the UAE, Qatar, and Oman, although reinsurers in Bahrain and Saudi Arabia are better placed to bring about reinsurance rate increase in 2015[10].

Conclusion

The GCC insurance industry is currently in its transition phase

The GCC is witnessing a rise in demand for insurance due to factors such as population growth and increasing disposable income levels due to upbeat economy. The region is particularly attractive due to its low insurance penetration and the presence of expatriates. Increased state spending towards non-oil sectors, across the GCC nations, is proving advantageous to the insurance industry as corporates seek cover for their multi-billion dollar projects and equipment. Mandatory insurance segments such as medical and motor are among the fast growing segments in the industry. Takaful insurance is also an emerging segment that presents significant growth potential.

Currently, the GCC insurance industry is transitioning from being a protected industry into a globally competitive sector. As governments acknowledge the importance of an efficient and stringent regulatory requirement to foster growth, the industry is witnessing several reforms, with Saudi Arabia, the UAE, and Qatar currently going through a period of regulatory transition[11]. The existing laws related to the Solvency II Directive[12] and corporate governance as well as other financial regulations are being evaluated across the member nations, with new guidelines being issued. Simultaneously, insurers in the region need to make the necessary changes to capitalize on the opportunity and remain competitive amid an evolving landscape.

Governments across the GCC have undertaken various regulatory reforms to combat challenges such as slowdown in profitability

With an aim to further the growth of the industry, while protecting the interests of the policyholders, governments across the GCC have undertaken various regulatory reforms to combat challenges such as slowdown in profitability and premium growth resulting from intense competition. Overall profitability of the insurance industry has been weak since 2010 due to low investment yields and negative underwriting results. The underwriting profitability across major markets deteriorated in 2014, as the combined ratio rose to above 100.0%. In line with poor financial performance, the capitalization is also challenged by the increasing capital requirements, as the industry is exposed to lower pricing and riskier assets. Although premium rates are at the bottom in most markets, a favorable economy coupled with regulatory reforms should provide some support for GWP growth.

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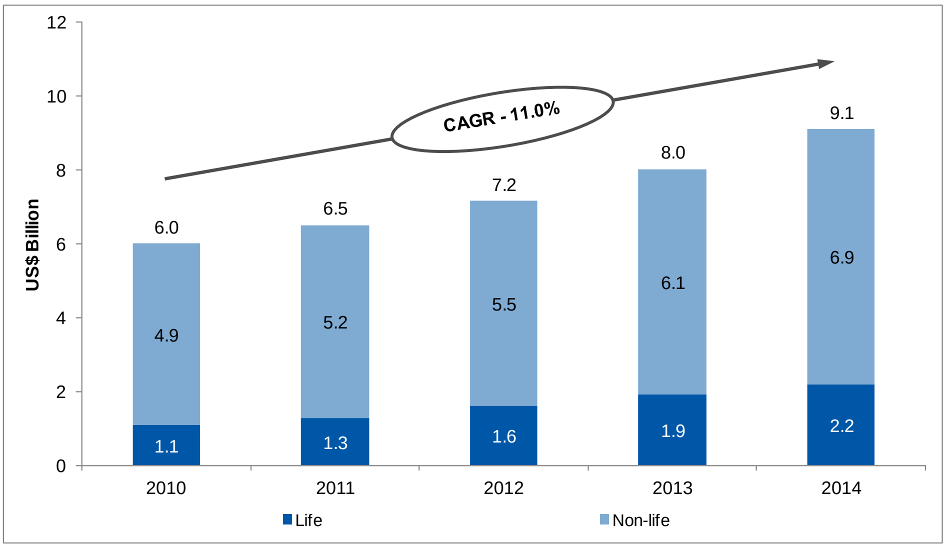
[10] Source: "Reinsurance rates in GCC to soften in 2014", Gulf News, March 2014
[11] Source: "UAE fastest growing GCC insurance market with 17% growth rate", Khaleej Times, November 2014
[12] Note: The Solvency II Directive is an EU directive that defines the amount of capital that insurance companies in the EU must hold to reduce the risk of insolvency. This Directive is planned to come into effect on 1 January 2016, after an EU Parliament vote on the Omnibus II Directive in late 2014.

2.1 The UAE Insurance Market

The UAE is the largest and the most advanced insurance market in the region

The UAE insurance industry registered a sturdy CAGR of 11.0% from 2010 to 2014, supported by a stable economy and the ongoing favorable legislative reforms in the market (see Exhibit 10). As the largest and the most advanced insurance market in the GCC, it accounted for 40.9% of the region's GWP in 2014[13]. Demand for compulsory insurance products, an increasing expatriate population, and a rising middle class segment were the key drivers of such GWP growth.

Exhibit 10: Growth and Composition of the UAE Insurance Industry



Source: Swiss Re, Insurance Authority

Non-life insurance segment accounted for 75.8% of the total GWP in the UAE in 2014

Life insurance GWP reached US$ 2.2 billion in 2014, having grown at a healthy CAGR of 19.0% since 2010; primarily due to demand from the wealthy expatriate community that forms around 80% of the UAE population[14]. The life insurance density in the UAE reached US$ 237 in 2014 (see Exhibit 11), up from US$ 212 in 2013. Large international life insurers help mobilize the savings of such expatriates, who prefer to build a savings pool in their respective home countries. As the UAE also offers social security like other GCC nations, alleviating the need of life insurance among its citizens, the life insurance segment receives the bulk of its premiums from expatriates. Also, expatriates prefer to purchase insurance from the companies from their home countries operating in the UAE. Therefore, the share of foreign insurance companies in the Emirati life insurance segment amounted to 81.4% while that of national insurance companies was 18.6% in 2014[15].

Non-life insurance GWP stood at US$ 6.9 billion, registering a CAGR of 8.9% between 2010 and 2014, slower than that of the life insurance segment. However, the non-life insurance segment accounted for a hefty 75.8% share of the UAE's total GWP in 2014. Like other GCC countries, the UAE's non-life insurance segment is fragmented, with its leading companies being smaller in terms of premiums compared to their international counterparts. Also, the retention rate is low. Segments such as motor insurance yield minimal to no returns due to premium price pressures. Compulsory medical insurance for

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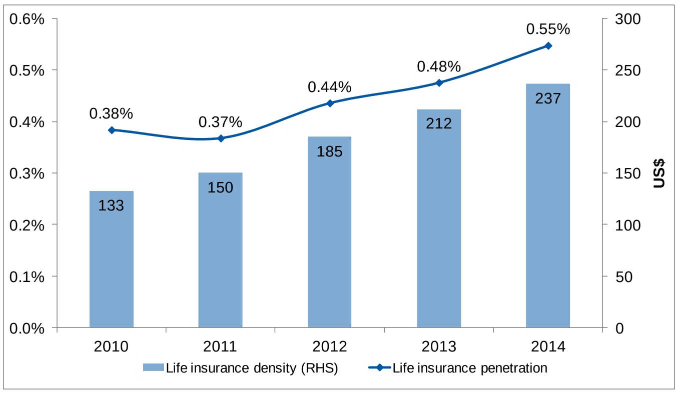
[13] Source: "World Insurance in 2014", Swiss Re, June 2015
[14] Source: "Labor Migration in the United Arab Emirates: Challenges and Responses", Migration Policy, September 2013
[15] Source: 2014 Annual Report, The UAE Insurance Authority

expatriate workers generally accounts for almost half of the total GWP. Expatriates are the largest resource group across income levels in the UAE.

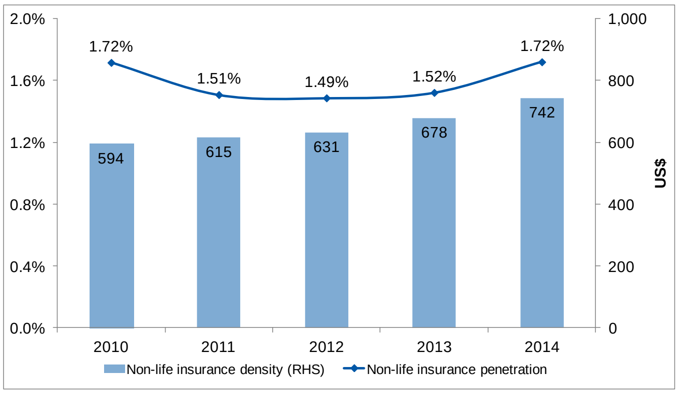
The non-life insurance density in the UAE reached US$ 742 in 2014 (see Exhibit 12) at a y-o-y growth of 9.6% due to demand for insurance products that are mandatory under law. This trend is likely to continue in the near future. This is because Dubai, one of the largest emirates in the UAE with a population of around 3.0 million, has made medical coverage mandatory for its residents and visitors under Dubai Health Authority's (DHA) medical insurance law enacted in November 2013. Accordingly, compulsory medical insurance was rolled out in 2014 and is expected to provide coverage for all the residents of Dubai by 2016, taking the number of covered individuals in the medical insurance market from 1.5 million to 4.0 million[16].

Exhibit 11: Life Insurance Density and Penetration in the UAE



Source: Swiss Re, IMF

Exhibit 12: Non-Life Insurance Density and Penetration in the UAE



Source: Swiss Re, IMF

By end-2014, there were 60 insurance companies in the UAE market, 34 of which were locally owned and 26 were foreign. Also, 13 of the total insurance companies were composite insurers, 37 were engaged in non-life insurance, and 10 offered life insurance[17]. The number of local Takaful companies stood at 11. Further, there were 168 brokers, 18 agents, and 127 other entities that facilitate insurance operations in the UAE[18].

By end-2014, there were 60 insurance companies in the UAE market, 34 of which were locally owned and 26 were foreign

Overall, the 29 listed insurers posted a net underwriting deficit in 2014 in terms of performance, with an average combined ratio[19] of 102.2% over that of 97.4% in 2013, and return on equity (RoE) of 5.6% over 10% in the previous year[20]. Abu Dhabi National Insurance Company (ADNIC), the second-largest insurer with a 17.0% market share, posted underwriting losses and a net deficit for 2014, pulling down the average combined ratio. Excluding ADNIC, the combined ratio of the listed companies stood at 96.4% and their RoE at 7.8%, similar to the 2013 levels. Consolidated net profit of the listed insurance companies, including ADNIC, fell by nearly a quarter last year to US$ 239.0 million from US$ 323.0 million in 2013 due to the intensely competitive market for the high-volume medical and motor lines.

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[16] Source: "All Bases Covered", The Business Year, December 2014
[17] Source: "UAE: Insurance Authority improving regulatory framework to upgrade industry", Insurance Research Center, July 2015
[18] Source: 2014 Annual Report, The UAE Insurance Authority
[19] Note: A combined ratio over 100.0% represents a loss, and under 100.0% a profit, as it measures claims and expenses to premium income.
[20] Source: "UAE insurance sector performance seen recovering", Gulf News, May 2015

In order to restore profitability and to address ongoing industry challenges, the UAE Insurance Authority is making continuous efforts to amend the laws within the insurance market, in line with international standards. The new regulations released in early 2015, which were under review for almost three years, are comprehensive and apply to both traditional and Takaful insurance companies operating in the UAE. The new financial policies are in line with the "Draft Combined Regulations" issued by the UAE Insurance Authority in December 2013, setting out the regulatory requirements related to investment limits as well as capital, solvency, technical provisions, record keeping, and accounting requirements. The Authority believes these regulations are a significant step forward in developing the local market, while protecting the rights of policyholders and shareholders. If implemented and enforced as planned over the next three years, these regulations are expected to bring about greater transparency in the market.

The UAE's new insurance regulations are seen as a move towards a risk-based approach to governing the market

Under these new rules, the smaller companies in the industry are likely to struggle to change their present business model, without adversely impacting their profit margins. Larger entities are accordingly expected to consider acquisitions as part of their business strategies over the next three years[21]. These financial regulations therefore mark a new era in the insurance regulation in the UAE and are a move towards a more complex and risk-based approach to regulating the market.

Capital, Solvency Margin, and Minimum Guarantee Fund

The minimum capital requirements remain at AED 100.0 million (US$ 27.2 million) for insurers and AED 250.0 million (US$ 68.1 million) for reinsurers. In addition, the financial regulations now require that insurers:

- ✓ Maintain a minimum guarantee fund, which is not less than a third of the solvency capital requirement.
- ✓ Calculate their solvency margin using the template developed and amended by the UAE Insurance Authority.
- ✓ Consider underwriting risk, market and liquidity (investment) risk, credit risk, and operational risk under their solvency capital requirement.
- ✓ Comply with the requirements related to the solvency margin and minimum guarantee fund by January 29, 2018. They are expected to notify the Insurance Authority immediately in the event of non-compliance with the minimum capital and solvency capital requirement or minimum guarantee fund.

These requirements are broadly in line with the proposals under Europe's Solvency II Directive, which also states that the guarantee fund should constitute a third of the requisite solvency margin. The Authority has released a pro-forma solvency template and e-Forms as well as respective guidelines in September 2015.

Investment of policyholder rights and insurer's assets

The financial regulations are aimed at ensuring that insurers' assets are diversified and within the stipulated exposure limits

The financial regulations impose a broad obligation on insurers to ensure that "all assets, in particular those covering minimum capital requirement, minimum guarantee fund and the solvency capital requirement, shall be invested in such a manner to ensure the security, quality, liquidity and profitability of the portfolio as a whole". Insurers are required to ensure that their assets are diversified and in compliance with the new limits regarding aggregate exposures in individual asset classes and sub-limits for exposures to a single counterparty. These regulations set out specific restrictions on investments, which are as follows:

- ✓ Total investment limit for equity instruments in listed and non-listed companies in the UAE is 30.0%, with a maximum of 10.0% per single stock, fund, or instrument.

[21] Source: "The wait is over: the UAE Insurance Authority's new Financial Regulations", HFW Research, April, 2015

- ✓ Maximum 30.0% of the insurers' assets should be invested in real estate.
- ✓ A cap of 20.0% of the insurers' funds is levied on their foreign equity investments, with a maximum of 10.0% exposure to a single counterparty.
- ✓ Although insurers are allowed to allocate up to 100.0% of their funds in government securities or instruments issued by any emirate, a maximum of 25.0% is permissible per security or instrument.
- ✓ Insurers are required to deposit a minimum of 5.0% with banks in the UAE, either as a balance in current account or as demand or term deposits with banks, and can allocate up to 50.0% of that amount to any of the above.
- ✓ The limit to invest in loans secured by life policies issued by the other companies is set at 30.0% for insurers. They are allowed to allocate up to 1.0% in financial derivatives, up to 30.0% in secured loans and deposits with non-lenders, and another 10.0% in other invested assets.

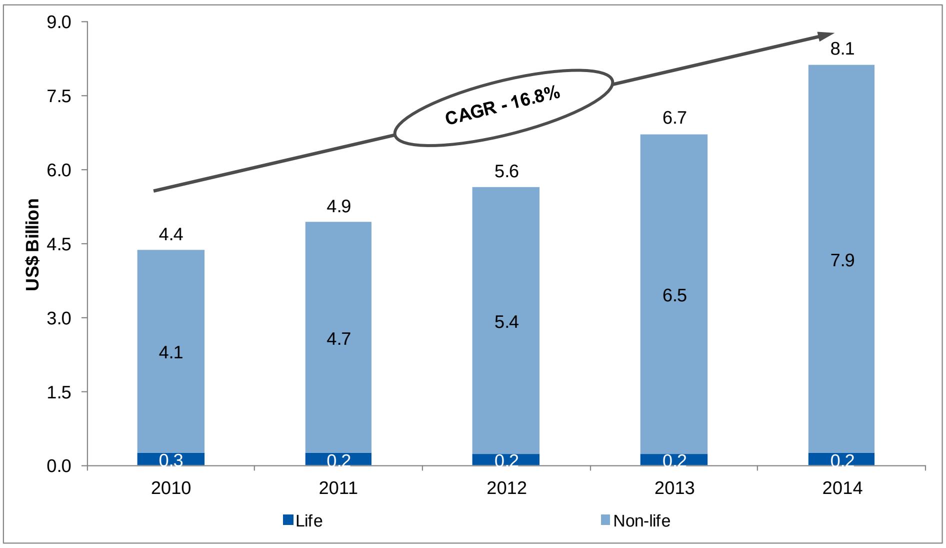
The Authority is also in the process of finalizing regulations governing bancassurance and the actuarial profession as well as amending the Insurance Authority Establishment Law and the motor insurance policies.

2.2 The Saudi Arabian Insurance Market

Stringent regulations and favorable demographics are the main catalysts for the growth of the Saudi Arabian insurance industry

The Saudi Arabian insurance industry continues to grow, despite oil price volatility that began in H2 2014 due to excess supply in the global markets, affecting its economic performance and causing fiscal imbalance. The industry has grown multifold since the introduction of Supervision of Cooperative Insurance Companies (the Insurance Law) in 2003 and the Insurance Implementation Regulations in early 2004. Stringent and effective regulations introduced by SAMA and favorable demographics remain the major catalysts for the Saudi Arabian insurance industry. The kingdom's insurance industry is the second largest in the GCC, after the UAE. Its GWP reached US$ 8.1 billion in 2014 to register a y-o-y growth of 20.8%[22]. The GWP grew at a healthy CAGR of 16.8% during 2010 to 2014.

Exhibit 13: Growth and Composition of the Saudi Arabian Insurance Industry



Source: Swiss Re

[22] Source: "World Insurance in 2014", Swiss Re, June 2015

The overall insurance penetration (life and non-life) in Saudi Arabia was 1.1% in 2014 (see Exhibit 14 and 15). However, the insurance density was US$ 264, significantly below the GCC average of US$ 433, indicating a lower premium size.

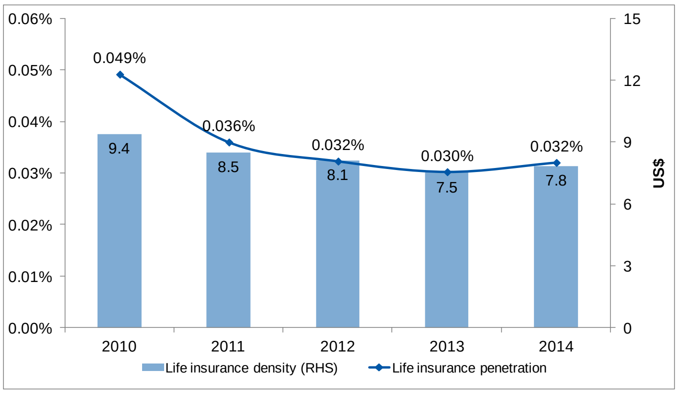
Life insurance penetration is only 0.03% in 2014, the lowest across the GCC region. Over the last five years, life insurance density has decreased to reach US$ 8 in 2014 from US$ 9 in 2010 as well as the life insurance penetration declined to 0.03% in 2014 from 0.05% in 2010 (see Exhibit 14). The key reasons for the decline include adequate social security benefits provided by the government, a culture of strong family bonding, and lack of awareness. This trend is expected even in the near term, as the government continues to extend social benefits. As a result, the non-life insurance segment is likely to remain the key growth driver for the Saudi Arabian insurance industry for the next few years.

The non-life insurance segment is expected to remain the growth driver of the Saudi Arabian insurance industry

The non-life insurance segment continued to dominate the Saudi Arabian insurance industry in 2014, with its 97.0% contribution to the total GWP. The penetration of non-life insurance in the kingdom was 1.1% in 2014, which, although higher than that of the life insurance segment, is lower than the GCC average of 1.4%. Non-life insurance density reached US$ 256 in 2014 at a y-o-y growth of 18.2%, backed by strong demand for compulsory insurance products (see Exhibit 15). The legislations introduced by SAMA remain the key growth drivers for the industry.

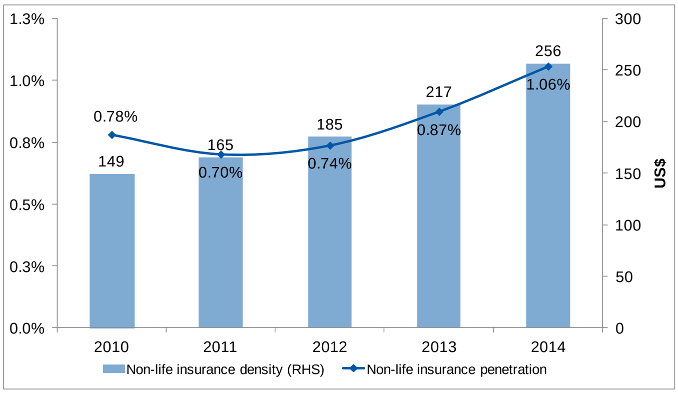
Product lines such as medical and motor insurance that are made mandatory by law are the fastest growing sub-segments within the non-life insurance segment, exhibiting a GWP growth of 21.9% and 26.3% in 2014, respectively. Both the sub-segments accounted for more than 75.0% of the total GWP in the year[23]. In the same year, Health Insurance Council announced its decision to make it mandatory for employers in the private sector to provide medical insurance to the families of their expatriate employees. The Council also doubled the minimum limit for coverage. In general, except aviation insurance GWP, the remaining sub-segments posted rapid growth in 2014.

Exhibit 14: Life Insurance Density and Penetration in Saudi Arabia



Source: Swiss Re, IMF

Exhibit 15: Non-Life Insurance Density and Penetration in Saudi Arabia



Source: Swiss Re, IMF

There were 35 insurance companies operating in the Saudi Arabian insurance industry in 2014, including one re-insurer. Also, there were 80 brokers, 82 agents, and 35 other entities that facilitate insurance operations, up from only one state-owned insurance

[23] Source: SAMA Insurance Annual Report – 2014

company in 2003[24]. The industry remained largely dominated by the top three companies including Tawuniya, Bupa Arabia, and MedGulf that collectively generated more than 54.0% of the total GWP in 2014[25]. Retention ratio across the industry increased to 79.8% in 2014 compared with 76.2% in the previous year, indicating lower reliance on the reinsurance market. However, retention ratio across the sub-segments varied significantly, ranging from above 90.0% for the medical and motor segments to as low as 2.0% for the energy sub-segment.

The Saudi Arabian insurance industry exhibited lower reliance on the reinsurance market in 2014, with its retention ratio at 79.8%

The insurance industry in Saudi Arabia recovered substantially in 2014, following its weak performance in the previous year. Insurance companies faced major challenges in 2013, including a decline in the underwriting profits coupled with a drop in the solvency margin ratio. Following the intervention and measures undertaken by SAMA, most entities reported underwriting profits from core insurance activities in 2014, recovering from the negative levels in 2013[26]. Net profit for the industry stood at US$ 0.2 billion in 2014 compared with a loss of US$ 0.4 billion in 2013.

The Saudi Arabian insurance industry is still witnessing regulatory developments aimed at sustaining its recovery. SAMA has issued several guidance notes and new regulations related to underwriting practices, reserving, actuarial-backed pricing, and solvency requirements in the last two years.

- ✓ Recognizing the need for insurance companies to raise their solvency margins and return to the required levels after a weak performance in 2013, SAMA advised them to calculate their reserves on actuarial basis. It also called on actuaries to adopt proper technical standards when assigning provisions and setting prices. Eight insurers thus re-capitalized in 2014, resulting in an almost 14.0% increase in the overall industry equity to US$ 2.7 billion[27].
- ✓ In order to combat the competitive pressures on pricing, SAMA launched a pricing mechanism in late 2013. Under this mechanism, a price floor is set by an insurance actuary, who assesses the technical aspects and the products' expected claims along with the risks. SAMA thus made it mandatory for all insurance companies to apply only the price premiums that are determined by the actuary. Like other GCC nations, until recently, the premium rates in Saudi Arabia were based on competitiveness decisions amid a crowded market. The newly implemented actuarial-led reserve setting, monitoring, and reporting (in order to enhance the reserve adequacy and provide a benchmark for insurers in price setting) is expected to benefit the industry as a whole.
- ✓ SAMA issued a draft of Insurance Corporate Governance Regulation in June 2014 as a step towards higher standards of governance in the insurance industry in the region. Insurance companies are required to set up internal controls and procedures to monitor compliance with this as well as other related regulations. They are also expected to maintain adequate records to demonstrate compliance with the regulation set by SAMA and other authorities.
- ✓ SAMA introduced mandatory third-party motor insurance and medical insurance requirements in 2001 and 2006, respectively. In 2014, another mandatory insurance was launched for all high-risk facilities, manufacturing facilities as well as crowded places as defined by the authority. The regulator has also announced plans to introduce compulsory third-party liability cover for entities that conduct hazardous activities in residential areas.

The Insurance Corporate Governance Regulation is seen as a step towards higher governance standards in the industry across Saudi Arabia

[24] Source: SAMA Financial Stability Report – 2015
[25] Source: SAMA Insurance Annual Report – 2014
[26] Source: SAMA Financial Stability Report – 2015
[27] Source: "Saudi Arabia's fast-growing insurance market has untapped potential", Moody's Investor Service, April 2015

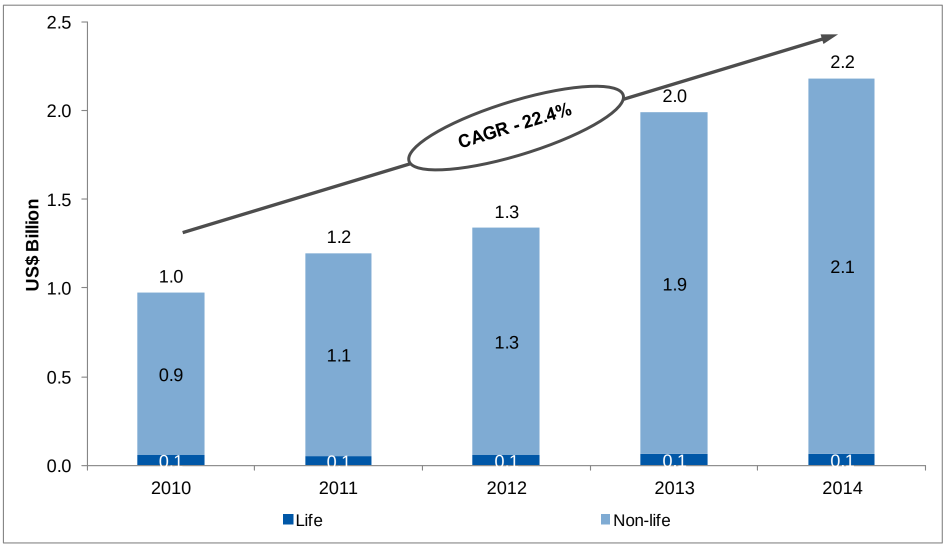
- ✓ To avoid conflicts in the implementation of law, the regulator is aiming to increase co-ordination between itself and the Council of Cooperative Health Insurance in order to enhance the operational efficiency and promote stability in the insurance market.

2.3 The Qatari Insurance Market

Infrastructure development is keeping Qatar's insurance market on a solid growth track

Qatar is the fastest growing insurance market in the GCC, displaying a CAGR of 22.4% between 2010 and 2014 (see Exhibit 16). The country's insurance industry recorded premiums to the tune of US$ 2.2 billion in 2014, amounting to approximately 10% of the premiums written in the GCC, making it the third-largest insurance market in the region. Infrastructure and construction development, driven by FIFA World Cup 2022 and the government's ongoing investment in the non-oil sectors, is keeping Qatar's insurance market on a solid growth track.

Exhibit 16: Growth and Composition of the Qatari Insurance Industry



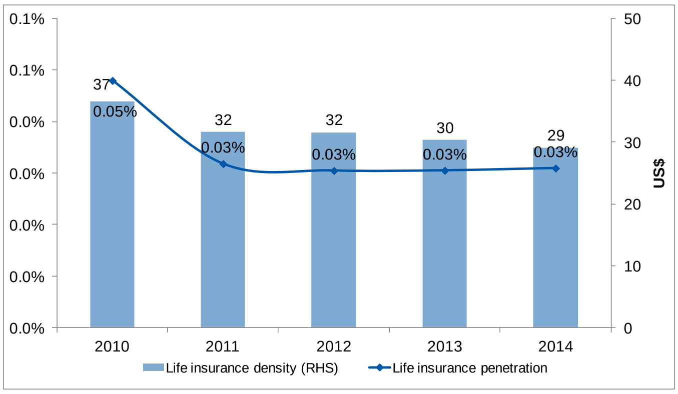
Source: Swiss Re

While remaining at 0.03% since 2011, life insurance penetration has been stable in Qatar over the last couple of years. However, life insurance density has decreased to reach US$ 29 in 2014 from US$ 37 in 2010 (see Exhibit 17). This segment is dominated by large international insurance companies that provide protection and wealth/savings solutions to expatriates. The local population does not actively seek life insurance solutions due to high social spending by the government and the socio-religious beliefs.

Medical insurance has been witnessing higher demand in Qatar since 2014

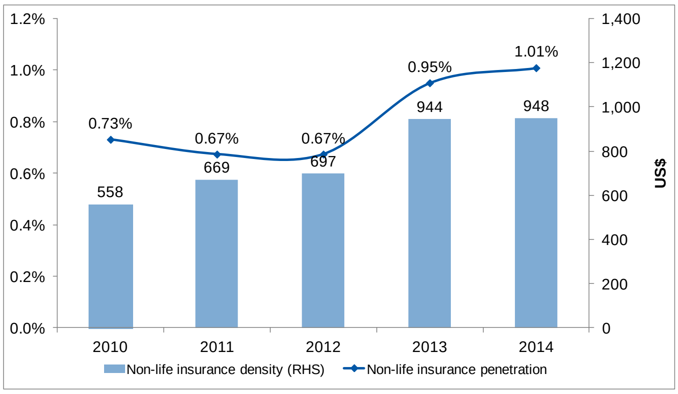
Within the country's non-life insurance segment, the sub-segments of energy, marine, and construction insurance are prominent and are expected to remain so in the future, considering its established hydrocarbons sector. As third-party motor insurance is mandatory by law, the motor insurance segment accounts for a large portion of the non-life insurance market. It is also the most competitive business line, characterized by low margins of the service providers. Medical insurance has been gaining ground gradually since 2014, when the Supreme Council of Health implemented a compulsory medical insurance program for all nationals, expatriates, and visitors in Qatar. This segment has been driving non-life insurance penetration in the country over the last two years. With favorable regulatory environment, non-life insurance density increased to US$ 948 in 2014 up from US$ 558 in 2010 (see Exhibit 18).

Exhibit 17: Life Insurance Density and Penetration in Qatar



Source: Swiss Re, IMF

Exhibit 18: Non-Life Insurance Density and Penetration in Qatar



Source: Swiss Re, IMF

All Qatari insurance companies benefit from strong capitalization levels and diversified asset portfolios, in addition to relatively low to non-existent levels of financial borrowing. Although the largest national insurers are the most profitable, they are often exposed to high underwriting risk associated with the engineering and energy lines. With more than 40.0% market share in 2014, Qatar Insurance Company is the leader among the six prominent insurance providers in the country, followed by Qatar General Insurance and Reinsurance (QGRI) that held around 18.0% of the market. However, no player leads the market in terms of profitability. While large national companies registered positive returns during 2014, resulting from underwriting energy and infrastructure projects, the pricing pressure within the rest of the market resulted in poor underwriting performance for several smaller entities.

Regulatory changes are among the most anticipated in the market, especially since the Qatar Central Bank (QCB) Law of 2012 was passed, providing the QCB with the objective of ensuring stability in the banking and financial services sector. Building on this law, three regulators – the QCB, the Qatar Financial Centre Regulatory Authority (QFCRA), and the Qatar Financial Markets Authority – launched the Strategic Plan for Financial Sector Regulation in 2013.

Qatar is improving its insurance regulatory landscape in line with its plans to become a global financial center

With plans to emerge as a global financial center, Qatar is undertaking steps to improve the regulatory environment in its insurance industry and meet international standards as well as facilitate innovation. Significant changes are expected, following the QCB introduction of a regulatory framework for insurers, which is likely to be based on the global insurance regulations. The QFCRA is also continuing its efforts to adopt international practices. Accordingly, amendments to the QFCRA Prudential Insurance Rulebook were put into effect from January 1, 2015. For most insurers, the current wave of change is expected to present challenges to their business models, and their method of communicating with their stakeholders.

Qatar commenced the phased roll-out of compulsory medical insurance in 2013 through a five-phased implementation plan called “Seha” (which is “health” in Arabic), with its completion target set in 2015. However, as per the latest information released in February 2015, the estimated timeline for the completion is delayed by at least 18 months due to the implementation challenges faced by National Health Insurance Company (NHIC). The plan is now expected to be completed by end-2016[28].

Under the new regulations, Qataris can use their medical insurance at a network of around 190 private hospitals

The Seha plan requires mandatory medical insurance for all the Qatari residents and visitors. Under this new law, the government will pay for the healthcare for Qatari nationals, while employers (or sponsors) are required to cover the insurance premiums for non-nationals. Citizens will be automatically enrolled under Seha, using their Qatari identification. Earlier, Qataris were entitled to free medical care only at government hospitals. The new scheme will now enable the citizens to use their medical insurance at a network of around 190 private hospitals.

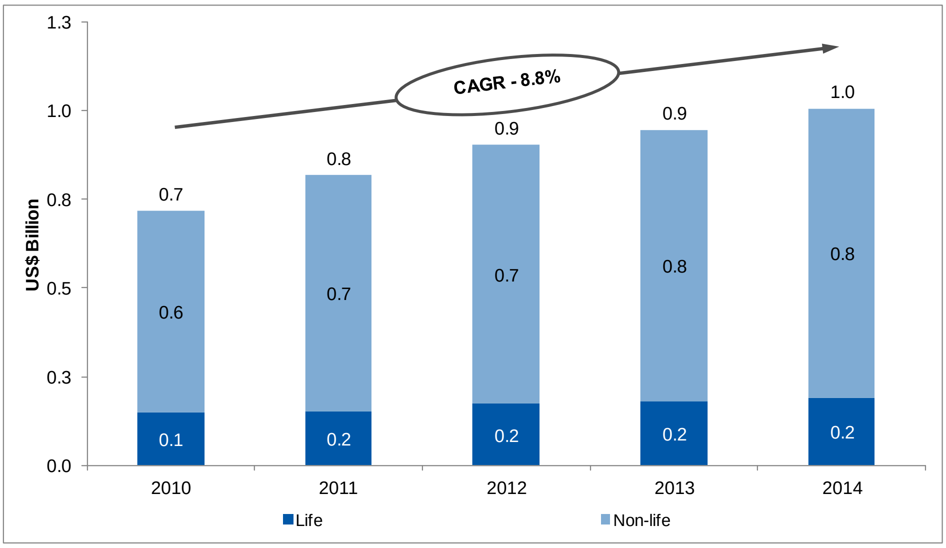
Under the law, commercial insurers will only be able to provide cover that is over and above the mandated minimum Seha plan. In other words, in the future, employers are expected to operate two policies, the NHIC Seha plan and any top-up cover required to match their current benefit offerings. While commercial medical insurance companies have been actively seeking permission to offer the compulsory plan, currently any such change appears unlikely[29]. As per the original timelines, insurers were given a one-year grace period (until April 30, 2015) by the Supreme Council of Health (SCH) to align their products with the new arrangements, without duplicating the cover available through Seha. Also, the provision of medical insurance by employers for their expatriate employees is likely to eventually become mandatory by law. As such provision is currently optional, several expatriates are yet to be covered for healthcare and rely on government-funded hospitals and clinics for treatment.

2.4 The Kuwaiti Insurance Market

Over the last five years, the Kuwaiti insurance industry has posted high single-digit growth in its GWP

Kuwait is among the smaller insurance markets in the GCC region. Over the last five years, the country's insurance industry has posted high single-digit growth in its GWP to reach US$ 1.0 billion in 2014 (see Exhibit 19).

Exhibit 19: Growth and Composition of the Kuwaiti Insurance Industry



Source: Swiss Re

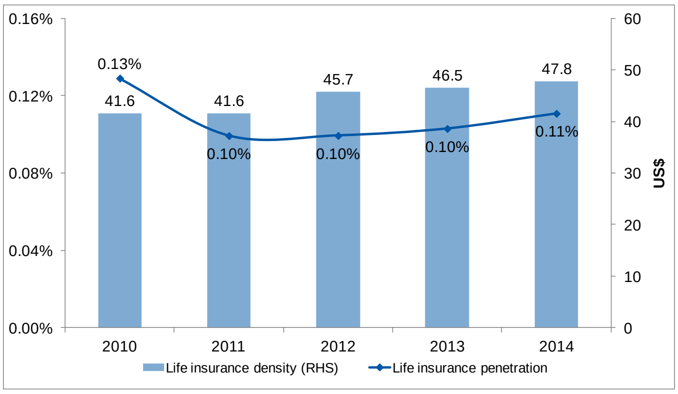
[28] Source: "Qatar delays rolling out nationwide health insurance scheme for expats", Doha News, February 12, 2015
[29] Source: "Qatar Compulsory Health Insurance – Are You Ready?", Mercer Insights, 2014

The life insurance segment accounted for 19.0% of the Kuwaiti insurance industry's GWP in 2014, having grown at a CAGR of 6.4% since 2010. Life insurance density remained at US$ 48 in 2014, marginally up from its 2013 level (see Exhibit 20). Of the various channels, life insurance distributed through brokers accounted for more than 40.0% of the segment's GWP in 2014[30]. Takaful insurance is yet a nascent segment in the Kuwaiti market and is expected to remain so in the near future. This market, however, displays growth potential in the wake of a need for such insurance in the life and casualty insurance segments.

Motor insurance was the largest non-life insurance segment in 2014

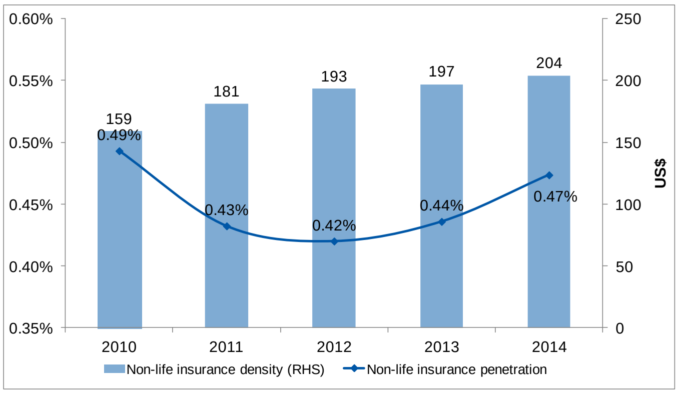
The non-life insurance segment accounted for 81.0% of the Kuwaiti insurance industry's GWP in 2014, having grown at a CAGR of 9.4% since 2010. Non-life insurance density increased to US$ 204 in 2014, up from the 2013 level of US$ 197 (see Exhibit 21). Within the non-life insurance segment, motor insurance was the largest category in terms of GWP in 2014, accounting for more than 35.0% of the total non-life insurance premium. Agencies and direct marketing were the main channels of distribution for non-life products in Kuwait. Growth in the non-life insurance segment can be attributed to increased construction activity and mandatory motor insurance.

Exhibit 20: Life Insurance Density and Penetration in Kuwait



Source: Swiss Re, IMF

Exhibit 21: Non-Life Insurance Density and Penetration in Kuwait



Source: Swiss Re, IMF

Kuwait faces challenges in the form of absence of an independent body to regulate its insurance market

The Kuwaiti insurance market comprised 26 domestic operators as of 2013, six Arab and four foreign insurers. The domestic operators generated 89.0% of the total GWP in 2013. While on one hand the industry is seeing steady GWP growth, on the other hand, increasing competition is making it challenging for weaker companies to survive. In 2013, seven of the market's 36 insurers recorded a 75.0% or more drop in their capital[31]. Al-Ittihad Al-Watani Insurance's license was revoked in 2011 and Ain Takaful was liquidated in 2014, both due to their weak performance in the previous years. The industry also needs a higher as well as standard capital requirement for new entities, as the existing figure ranges from above KWD 18.0 million (US$ 59.5 million) to less than KWD 5.0 million (US$ 16.5 million).

Kuwait is awaiting the formation of an independent body to monitor the local insurance market, develop regulatory controls, and ensure their implementation. The country plans to modernize its insurance regulations as part of the government's efforts to turn Kuwait into a financial hub. Currently, it faces uncertain regulatory environment due to lack of an

[30] Source: Ministry of Commerce and Trade Annual Report, 2014
[31] Source: "Market needs a stronger foundation", MENA Insurance Club

independent insurance regulator. The country's parliament is reviewing the draft of the new insurance law since it was first circulated in 2006. In the interim, the country's Ministry of Commerce and Industry (MoCI) oversees the insurance industry along with its core responsibility of managing the commerce activities for the nation. The MoCI has introduced following regulations to cope with the market developments, which the existing insurance law, incorporated in 1960, is yet to address.

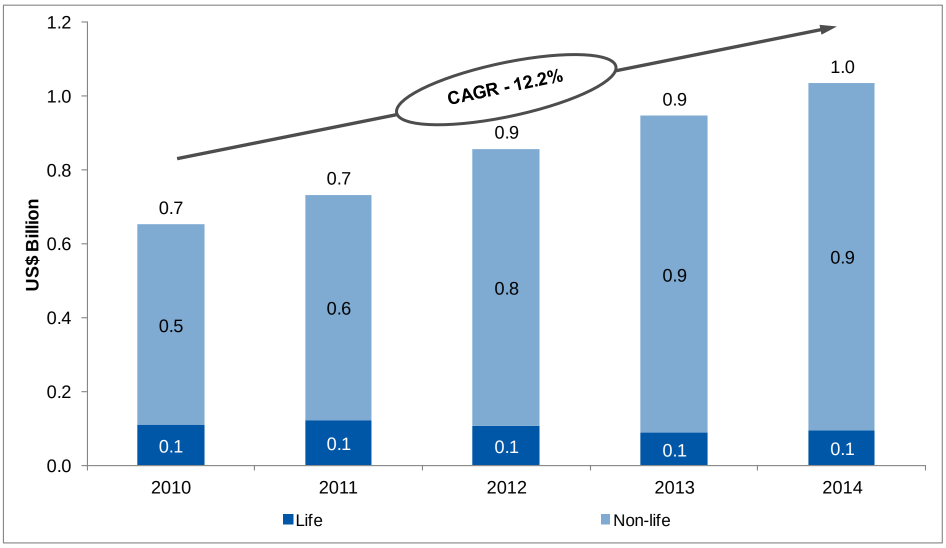
- ✓ The minimum capital requirement for entrants and the existing branches of international insurance companies is increased.
- ✓ MoCI announced a decision in early April 2015 exempting international insurance companies operating in Kuwait from certain requirements for setting up insurance and reinsurance companies in the country. Under this ruling, international insurers operating in Kuwait are not required to set up a stockholding company with a capital of KWD 5.0 million (US$ 16.5 million) for non-life and life operations, and KWD 15.0 million (US$ 49.5 million) for reinsurance business.
- ✓ The ministerial decision also outlines other regulations for international insurance companies that have branches in Kuwait. Among these is the need to furnish proof that they are registered and licensed in the country in which they are headquartered, and prove, on a yearly basis, that the license in their home country remains valid.
- ✓ The branches of international insurance companies are required to submit financial information to the ministry, including their annual profit and loss accounts. The annual financial results must be published in two local daily newspapers, in Arabic and English.
- ✓ In June 2014, the National Assembly approved a medical insurance scheme for retirees, which is considered as the first step towards universal medical insurance for all segments of the Kuwaiti society.

2.5 The Omani Insurance Market

Mandatory insurance covers have increased market awareness and product diversification in Oman

Oman's insurance industry has grown at an average rate of 12.2% annually over the past five years with its total GWP reaching the mark of US$ 1.0 billion in 2014 (see Exhibit 22).

Exhibit 22: Growth and Composition of the Omani Insurance Industry

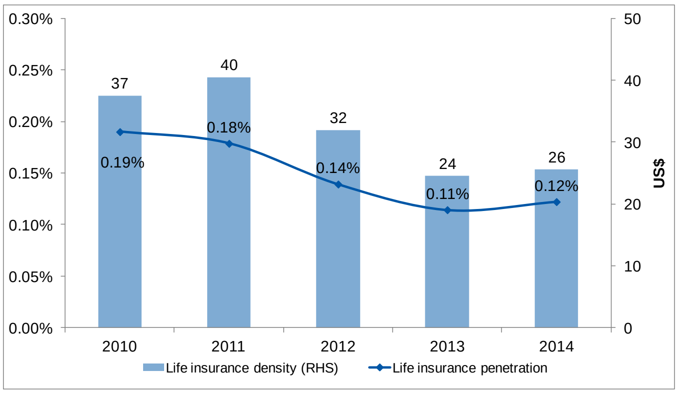


Source: Swiss Re

Emerging insurance segments such as engineering, construction, medical, and real estate have experienced strong growth in the recent past. The introduction of mandatory insurance covers such as medical, third-party motor liability as well as the launch of two Takaful companies has increased market awareness and the diversification of insurance products.

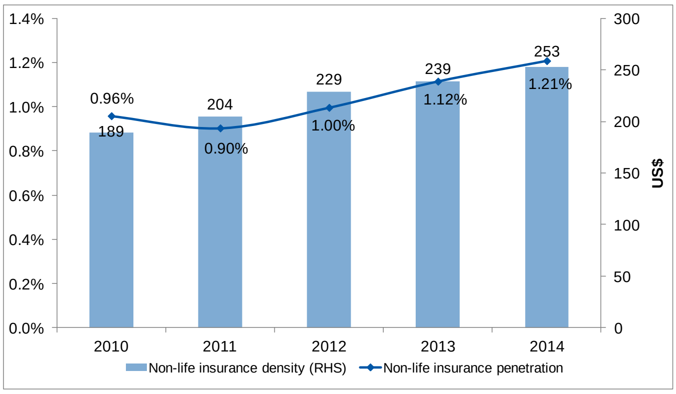
In 2014, insurance penetration was about 1.33% (life insurance penetration was 0.12% and non-life insurance penetration was 1.21%) in Oman (see Exhibit 23 and 24), in line with the GCC average, although below the global average of 6.5%. Similarly, insurance density was less than OMR 100 (US$ 253) in Oman compared to the GCC average of OMR 141 (US$ 433) and the global average of OMR 252 (US$ 662) per head in 2014[32].

Exhibit 23: Life Insurance Density and Penetration in Oman



Source: Swiss Re, IMF

Exhibit 24: Non-Life Insurance Density and Penetration in Oman



Source: Swiss Re, IMF

The GWP from the life insurance segment has remained largely flat over the last five years. Rising education level and general awareness may bolster the growth for the segment in the near future. Overall insurance industry growth is mainly attributed to the mandatory motor coverage as well as the measures undertaken by the regulator – the CMA, to increase insurance awareness, following the recent natural disasters such as cyclones Phet and Gonu in June 2010 and June 2007, respectively. Within the non-life segment, the share of motor insurance was around 40.0% in 2014, while that of medical insurance was about 20.0%. In the recent years, medical insurance in Oman has received a boost from the corporates. In April 2015, the Omani Ministry of Health made medical insurance policy for employees mandatory, and also made it a supporting document for visa clearances for new staff. The new regulation is expected to be implemented step-by-step in the next five years[33].

The Omani medical insurance segment is witnessing an increased demand from corporates

Oman's insurance industry comprises 23 insurance companies, including a re-insurer. Two of these entities are Takaful companies, which started operations in 2014[34]. Most of the insurance firms in Oman are relatively small, with a minimal market share, which is evident from the fact that the top five insurers garnered majority of the annual premiums in 2014. Such small-scale operators have to forgo a large portion of their GWP as outward reinsurance. Any significant changes in the structure of the Omani insurance market, in terms of each insurer's market share, are unlikely over the short-to-medium term. As a result, retention ratios will continue to remain low for the foreseeable future.

[32] Source: Central Bank of Oman
[33] Source: "Mandatory health insurance soon", Oman Observer, April 2015
[34] Source: The CMA

Since taking control of the insurance industry in 2004, the CMA has issued several laws and regulations to adopt the global best practices, while addressing the needs of the local market. The amendment to the Insurance Companies' Law that was introduced in August 2014 had been under discussion since at least 2012. The CMA thus worked to ensure that the industry was prepared for the changes prior to the introduction of the law.

New insurance regulations are aimed at enhancing risk management, transparency, and corporate governance in Oman

The CMA raised the minimum paid-up capital requirement for underwriters to OMR 10.0 million (US$ 25.9 million) from OMR 5.0 million (US$ 12.9 million). The minimum requirement to list a certain percentage of insurers' shares on the Muscat Securities Market (MSM) – the stock exchange, was also increased. Local companies need to institute these changes over a period of three years. These new requirements are aimed at restructuring and boosting risk management, transparency, and corporate governance within the industry. By the end of the second quarter of 2014, only five primary insurance groups, Al Ahlia Insurance, Oman United Insurance, Dhofar Insurance, National Life Insurance, and Al Madina Takaful held the new capital requirement of OMR 10.0 million (US$ 25.9 million) or more[35].

In line with the other key requirements, a large number of local insurance companies plan to sell their shares on the MSM before 2017. As of August 2014, the only listed underwriters were Dhofar Insurance, Oman United Insurance, Al Madina Takaful, and Takaful Oman. The remaining eight national firms, including seven primary insurers and the country's sole reinsurance underwriter, Oman Reinsurance Company (Oman Re), are required to carry out an initial public offering of at least 40.0% of their capital by mid-2017[36]. The companies likely to get listed on the exchange include Al Ahlia Insurance, Muscat Insurance, Muscat Life Insurance, National Life Insurance, Oman and Qatar Insurance, Falcon Insurance, Vision Insurance, and Oman Re. An increase in the capital market activity should boost investment opportunities for retail investors, a key focus area for the CMA.

With the approval of the draft Takaful Insurance Law, Oman's Takaful legislation was further strengthened in February 2015

Simultaneously, the Oman Insurance Association (OIA), an industry body that has more than 40 domestic members, including insurance companies and other insurance ancillary companies, launched a two-year strategy in January 2014 to develop the country's insurance industry. The plan focuses on key areas such as enhanced customer service, increased communication among the industry stakeholders, efficient deployment of technology, and development of local talent.

Oman launched an extensive Islamic banking framework at the end of 2012. The country's Takaful legislation further gained strength in February 2015, when the Upper House or the State Council approved the draft Takaful Insurance Law. The draft includes 58 classified subjects arranged in eight chapters, covering every aspect of the Takaful market. The new laws are expected to encourage investment into the country's Takaful industry. In order to benefit from the demand generated through the encouraging regulations, Oman's eighth largest insurer, Al Madina Takaful, converted itself from a conventional insurer to a Takaful company in January 2014.

The CMA has also unveiled a draft regulation for insurance brokerage firms to expand their role in the market. Once finalized, the new regulation is likely to become an executive rule before the end of this year. Feedback on the draft regulation is currently being sought from insurance brokers in Oman. Highlights of the new regulation include the management of credit facilities between the client and the brokerage firm, minimum capital requirements, and the separation of direct brokerage businesses from reinsurance businesses.

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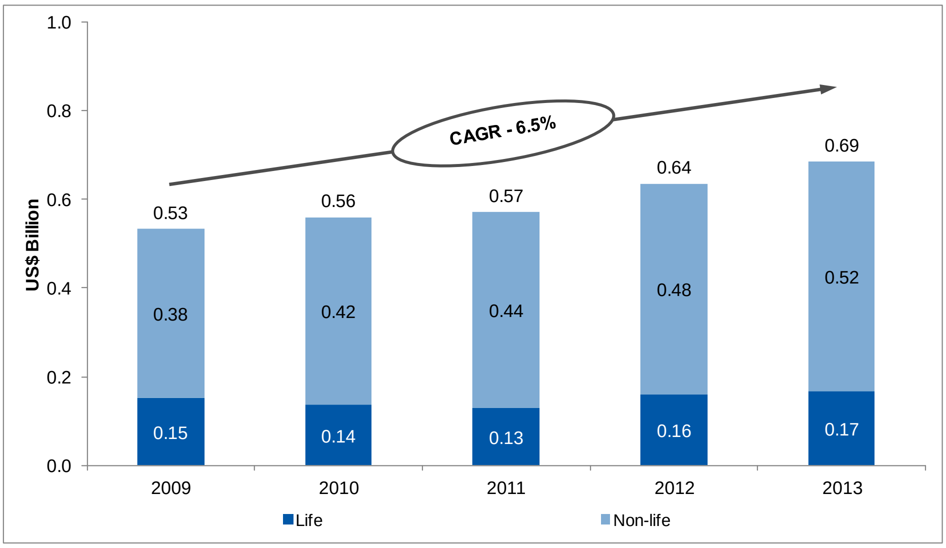
[35] Source: The CMA
[36] Source: "Recent changes herald the beginning of a new phase", Oxford Business Group, January 2015

2.6 The Bahraini Insurance Market

Bahrain remains one of the favorite GCC nations among foreign players due to free movement of capital and 100% ownership

Although the smallest in the GCC, the Bahraini insurance industry is well-developed and highly regulated. The industry grew at a CAGR of 6.5% from 2009 to 2013 and reached US$ 0.7 billion, driven by an increase in infrastructure projects as well as the implementation of mandatory third-party motor liability insurance in 2012 and medical insurance in 2013 (see Exhibit 25). The new law requires all employers in Bahrain to provide medical insurance to their employees. The Bahraini insurance market is estimated to have grown around 10.0% in 2014[37].

Exhibit 25: Growth and Composition of the Bahraini Insurance Industry



Source: Swiss Re, Central Bank of Bahrain

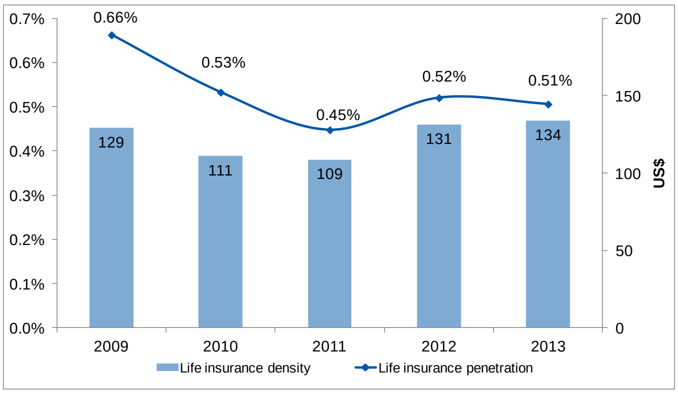
Bahrain exhibited the highest insurance penetration rate in the GCC at 2.1% in 2013, resulting from a comparatively long insurance industry history and clear regulations in the industry. Several international entities have set up their branch in Bahrain due to its regulatory regime that allows for free movement of capital and 100% foreign ownership as well as the availability of a highly skilled workforce.

The GWP of the life insurance segment grew at a CAGR of 7.1% from 2009 to 2013 to reach US$ 166.5 million. The life insurance premiums represented 24.2% of the total premiums written in 2013. Overall, the life insurance penetration remained at 0.5% in the year (see Exhibit 26).

The GWP of the non-life insurance segment grew at a CAGR of 8.0% from 2009 to 2013 to reach US$ 518.8 million. Motor insurance, representing almost 26.2% of the premiums in the market in 2013, remains the primary source of revenue and claims within the non-life insurance segment. On a consolidated basis, the premiums from fire, property, and liability insurance lines accounted for 18.2% of the total premium in 2013.

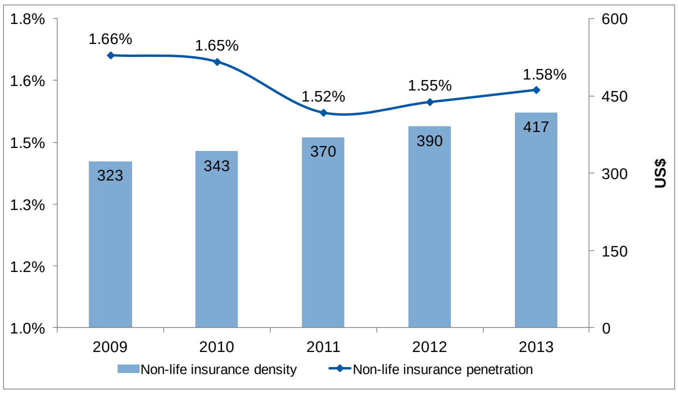
[37] Source: "Bahrain: Insurance sector estimated to have grown by 10% in 2014", Insurance Research Center, January 2015

Exhibit 26: Life Insurance Density and Penetration in Bahrain



Source: Swiss Re, IMF

Exhibit 27: Non-Life Insurance Density and Penetration in Bahrain



Source: Swiss Re, IMF

Bahrain has an active Takaful market, which is one of the fastest growing segments of the industry

By end-2013, Bahrain's insurance market comprised 25 domestic entities and 11 foreign companies. The domestic entities included 14 conventional insurance firms, 6 Takaful firms, 2 reinsurance firms, 2 re-Takaful firms, and 1 captive[38], while international firms comprised 8 conventional insurance companies and 3 reinsurance entities. In addition, the Bahraini insurance industry also includes a substantial number of firms that offer ancillary insurance services.

Along with conventional insurance, Bahrain has an active Takaful (including re-Takaful) market, which is one of the fastest growing segments of the industry. The Bahraini Takaful insurance segment grew at a CAGR of 15.0% between 2009 and 2013[39], accounting for 22.0% of the country's total GWP in 2013. Growth of the Takaful market during the period was supported by strong performance across the areas of life, personal accident, and medical insurance.

In 2014, Central Bank of Bahrain (CBB) issued amendments to its rulebook that focused mainly on the Takaful and re-Takaful markets. A new regulatory framework for the Takaful segment is expected to attract more companies to this market, thus boosting competition among operators. The new operational and solvency framework for the Takaful and re-Takaful segments has tightened the requirements to ensure that firms are able to generate capital surplus through operational efficiencies.

Key changes impacting the Takaful and the re-Takaful markets include:

- ✓ Assessment of the solvency requirements at the firm level rather than the Takaful fund level
- ✓ Requirement for firms to inject capital and notify the CBB in the event that their capital falls below the minimum capital requirement
- ✓ Ban on the performance fees and the variable wakala fees for Takaful operators

Along with these regulations, the CBB is also working towards standardizing the terminology that insurers use in motor third-party insurance policies. The officials are finalizing the content of the policy, which the regulator expects the insurance companies to soon adopt.

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[38] Note: Captive means serving a single company exclusively
[39] Source: CBB

3. The GCC Insurance Industry Outlook

The GCC insurance industry has been growing at a double-digit CAGR, despite a challenging 2014

The scale and growth of the insurance industry is strongly correlated with a country's economy. Despite a challenging 2014, the GCC insurance industry continues to grow at a double-digit CAGR, backed by increased awareness and favorable regulatory changes in most of the GCC nations. The industry is thus expected to continue to grow in the upcoming period, driven by government spending on infrastructure and a gradual increase in insurance penetration level in the region. However, the persistent sluggishness in oil prices might put pressure on the GDP in the near term, creating challenges for its growth. In light of all these facts, the outlook for the GCC insurance industry is cautiously positive in the near to medium term.

3.1 Forecasting Methodology

We have followed the same forecasting methodology used in Alpen Capital's earlier publication on the insurance industry in July 2013 for the projection of the GWP of non-life insurance segment. The GWP of non-life insurance segment in each member country was calculated using statistical techniques that enabled us to combine the impact of the historical relationship between key industry determinants and their expected future trend.

We have changed our forecasting methodology for the GWP of the life insurance segment. The revised method involves life insurance density forecast considering inflation and population growth as two key variables.

Our projections for the GCC insurance industry are based on the following:

- The IMF forecasts for population, inflation, and per capita income for the GCC nations (last updated October 2015)
- Historical country-wise GWP data provided in the annual issues of Swiss Re (last updated in June 2015)

The insurance penetration and density have been derived on the basis of these parameters.

Note: In October 2015, IMF figures indicating the UAE population and GDP per capita prior to 2010 were revised. Consequently, our forecast assumptions have changed compared to those in the previous report.

3.2 Key Assumptions

Population

The region's population is expected to grow at a CAGR of 2.4% to reach 59.2 million in 2020 from 51.3 million in 2014. The number of nationals is growing at a healthy pace due to higher life expectancy and birth rates. Such growth is also supported by a huge pool of expatriates, who are drawn to the GCC region for employment.

GDP

The region's GDP at current prices, are expected to increase at a CAGR of 2.3% between 2014 and 2020. However, as population growth surpasses GDP growth, GDP per capita at current prices expected to contract by 0.1% during the same period. Further, its GDP growth is expected to decline in 2015 by 16.0% y-o-y, before surging to 2.6% y-o-y in 2016.

The IMF amended the economic outlook of the GCC in October 2015, primarily reflecting downward revisions sue to subdued oil prices arising from imbalance in demand and supply. With diversification to non-oil sectors still at a nascent stage of implementation, oil still dominates revenue generation in the region. The GCC's economic growth is expected to decline, as it continues to face the impact of falling oil prices along with policy initiatives in the form of reduced subsidies, and a high possibility of introducing corporate tax, especially in 2015. The GCC nations could curtail their state spending in case of a further drop in oil prices or an extended weakness, adversely affecting their economic growth rates.

Inflation

The region's average inflation rate is expected to range from 2.5% to 3.5% during the forecast period. Of late, Inflation continues to be at one of the lowest levels and within the government's control in the GCC, although it has risen across some specific product categories. Moreover, since most of the currencies in the GCC are pegged to the US Dollar, rising Dollar rates in 2015 have capped inflation. In addition, since fuel prices are managed by the government, inflation is not expected to head downwards with declining oil prices.

3.3 Market Forecast

The actual GWP for 2013 and 2014 was US$ 19.3 billion and US$ 22.2 billion, respectively, in line with the estimates presented in Alpen Capital's GCC Insurance Industry Report published in July 2013, with less than 3.0% variation in these figures. However, individual country forecasts exhibited mixed results. Qatar's GWP rose significantly at an average rate of 38.1% in the last two years due to the introduction of mandatory medical insurance. Such robust growth, driven by regulatory changes, was not incorporated in our forecast. Like Qatar, Oman has also outperformed our estimates, largely due to favorable legislative changes. An uncertain regulatory environment in Kuwait's insurance industry was reflected in its performance, wherein GWP declined at an average rate of 7.0% in the last two years. Since Qatar, Oman, and Kuwait are small markets in the GCC region, their impact on the overall GCC insurance industry forecast is negligible.

In this report, the five-year country-wise growth forecasts for the insurance market are revised on the basis of the 2013 and 2014 GWP figures. Further, the IMF outlook on economic growth for the GCC region is on a downward slope based on the persistent weakness in the oil prices. Therefore, the overall GCC insurance industry projections for 2015 and 2017 are revised compared to Alpen Capital's GCC Insurance Industry Report dated July 1, 2013. However, the growth story for the GCC insurance industry remains intact for the long term.

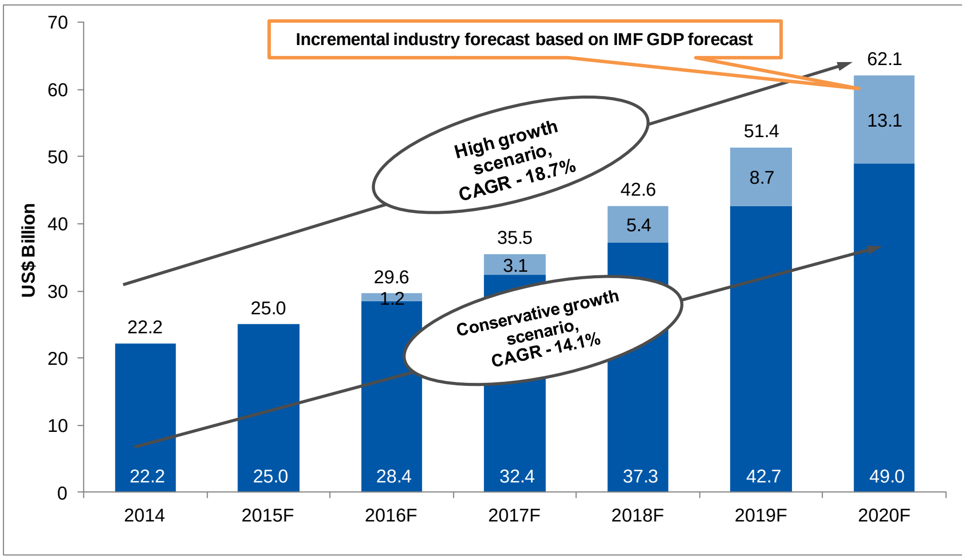
The outlook for the GCC's life insurance segment is stable whereas that for its non-life insurance segment is strong

The outlook for the region's life insurance segment is stable. Low penetration rates and increasing awareness will help drive demand, albeit at an elevated level. A high proportion of the working age population is expected to create demand for products under the categories of savings, protection, and retirement. Further, increased acceptance and penetration of Sharia-compliant products such as family Takaful will support the growth of the life insurance segment.

The outlook for the non-life insurance segment remains robust, backed by the introduction of mandatory lines, spending on infrastructure and construction projects, and improving regulatory regimes. Medical insurance is expected to see significant growth, as governments implement or extend laws on compulsory medical insurance coverage in markets such as Saudi Arabia, Qatar, and the UAE.

In a conservative case scenario, the GCC insurance industry is expected to reach a size of US$ 49.0 billion by 2020 at a 14.1% CAGR

Exhibit 28: Expected Growth of the GCC Insurance Industry – High-growth and Conservative Case Scenarios



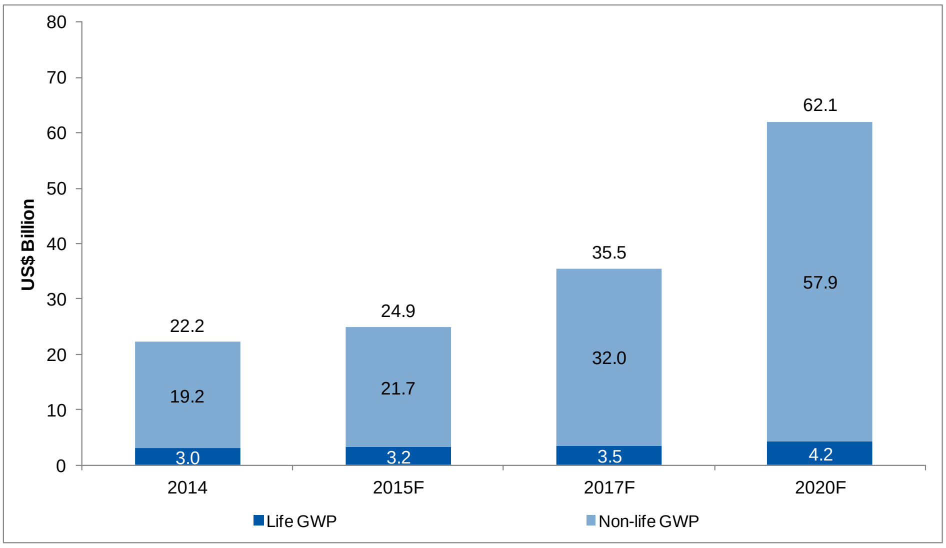
Source: Swiss Re, Alpen Capital
Note: F=Forecast

Based on the assumptions mentioned in section 3.2, the insurance industry in the GCC is projected to grow at a CAGR of 18.7% between 2014 and 2020 to reach a size of US$ 62.1 billion across the life and non-life insurance segments. However, as the downside risk associated with the current oil price volatility persists, our conservative case forecast considers the average non-life premium growth across the GCC nations to fall in line with that in the preceding five years. With this trend analysis, the GCC insurance industry is expected to reach a size of US$ 49.0 billion by 2020 at a 14.1% CAGR. The resultant GWP of the industry could drop by 26.7% relative to our IMF-based forecast.

Life and non-life segment forecast

The life insurance segment is expected to grow at an annual average rate of less than 6.0% between 2014 and 2020 to reach US$ 4.2 billion by 2020. However, the non-life segment is forecasted to expand faster at a rate of 20.7% annually, thus increasing its share in the regional market from 86.6% in 2014 to 93.3% in 2020. With such robust growth, the GWP from non-life insurance segment is expected to triple to reach US$ 57.9 billion in 2020. The mandatory insurance lines lend a strong impetus to the non-life insurance segment.

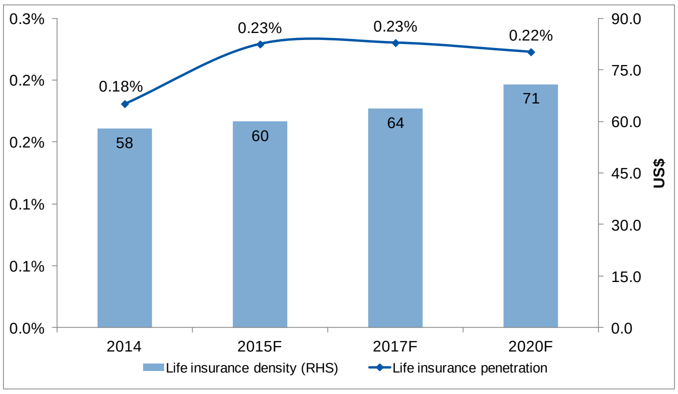
Exhibit 29: Expected Composition of the GCC Insurance Industry



Source: Swiss Re, Alpen Capital
Note: F=Forecast

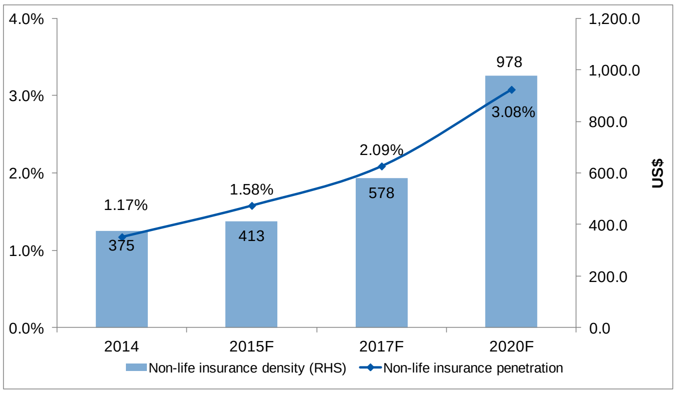
Overall insurance penetration in the GCC is expected to improve from 1.4% in 2014 to 3.3% in 2020 (see Exhibit 30 and 31), as industry growth comfortably exceeds the pace of GDP expansion. Non-life insurance penetration, which is likely to surge from 1.2% to 3.1% during the period, is seen as the main driving factor.

Exhibit 30: Expected Life Insurance Density and Penetration in the GCC



Source: Swiss Re, Alpen Capital
Note: F=Forecast

Exhibit 31: Expected Non-life Insurance Density and Penetration in the GCC



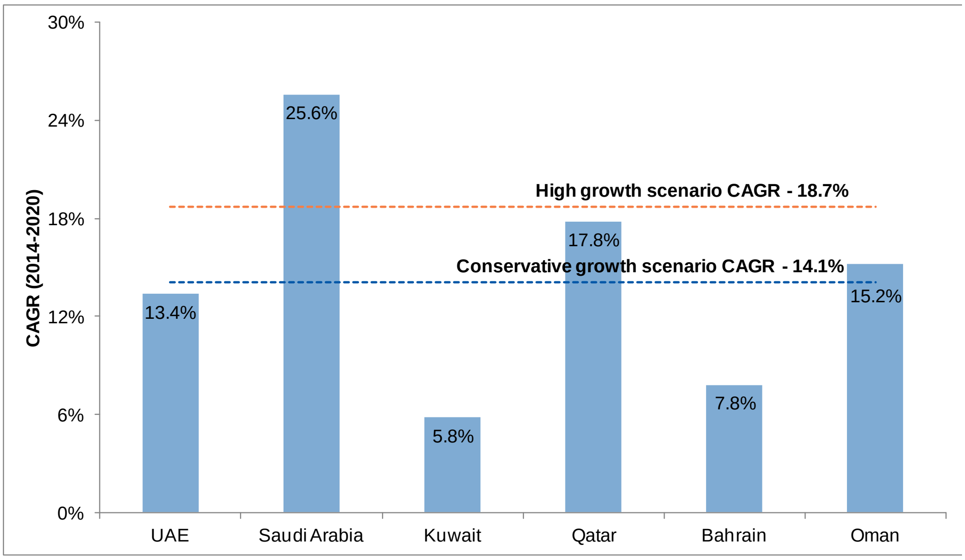
Source: Swiss Re, Alpen Capital
Note: F=Forecast

By 2020, insurance density in the GCC nations is anticipated to triple from its 2014 levels, as increased number of individuals and businesses seek insurance cover to meet the requirements by law. Density for the non-life insurance segment is likely to increase from US$ 375 in 2014 to US$ 978 in 2020 (see Exhibit 31) across the region.

The Saudi Arabian insurance industry is expected to remain dominant in the region from 2015 to 2020

During the forecasted period, Saudi Arabia is expected to register robust growth of 25.6%, with Kuwait posting the slowest growth at 5.8% amid its macroeconomic landscape (see Exhibit 32). Although small, Oman's insurance industry is likely to experience double-digit growth rate, in line with the UAE, Saudi Arabia and Qatar.

Exhibit 32: Expected Country-wise Growth of the Insurance Industry

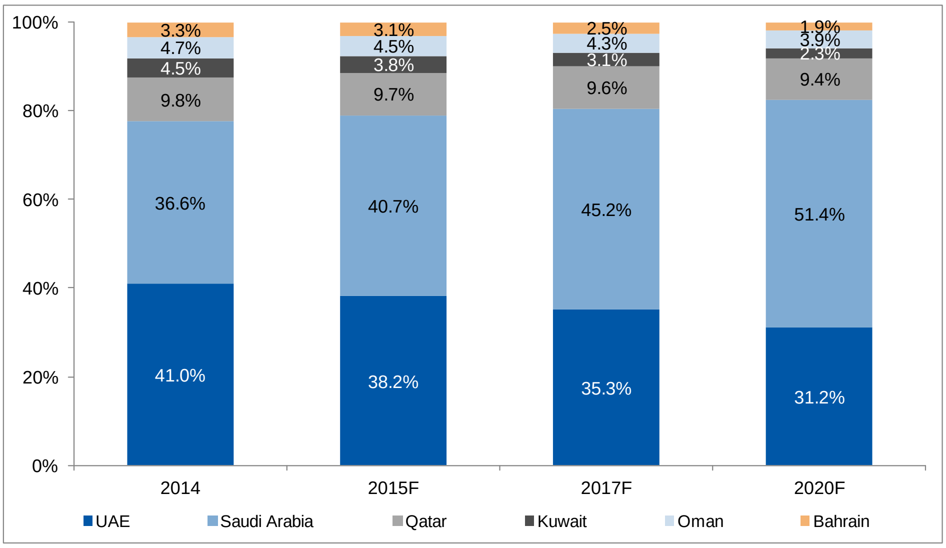


Source: Swiss Re, Alpen Capital

The small Omani insurance industry is also likely to register double-digit growth rate, similar to its peers

Between 2015 and 2020, the Saudi Arabian insurance industry is likely to remain dominant in the region, accounting for more than 50.0% of the GCC insurance industry in 2020 (see Exhibit 32). The growth of the kingdom's insurance market is largely fueled by its high population and stringent enforcement of favorable laws by SAMA. With its market share at 38.2% in 2015, the UAE is likely to shift from its leading position to become the second-largest market in the region. Also, the share of the UAE insurance market is expected to decline sharply to 31.2% by 2020 from 41.0% in 2014. Qatar is expected to remain at the third position, with a market share of around 10.0% during the forecasted period.

Exhibit 33: Expected Country-wise Composition of the GCC Insurance Industry



Source: Swiss Re, Alpen Capital

4. Growth Drivers

Favourable Demographics

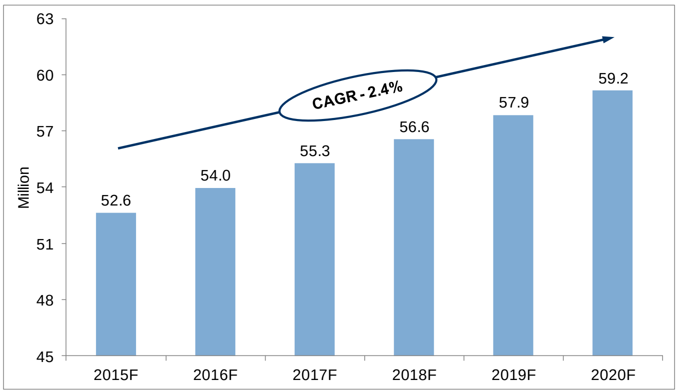
Demographics play an important role in insurance demand generation. The GCC population constitutes two key segments, a large expatriate base and a significant number of the young and the working. Both of these are expected to considerably impact the demand for long-term collective savings schemes products in the life and non-life insurance segments. Further, demand for insurance products is likely to grow with a changing landscape in the form of increasing urbanization, presenting the need to develop products that suit the changing lifestyle and demands.

An expanding consumer base of the GCC is likely to translate into higher demand for insurance

The GCC nations have seen strong population growth over the last few years, from 45.2 million in 2010 to 51.3 million in 2014 at a CAGR of 3.2%[40]. The number of nationals is growing at a healthy pace due to higher life expectancy and birth rates. The population in the GCC is projected to further record an annualized growth of 2.4% between 2015 and 2020 to 59.2 million (see Exhibit 34). Rising population results in an expanding consumer base that benefits the insurance industry.

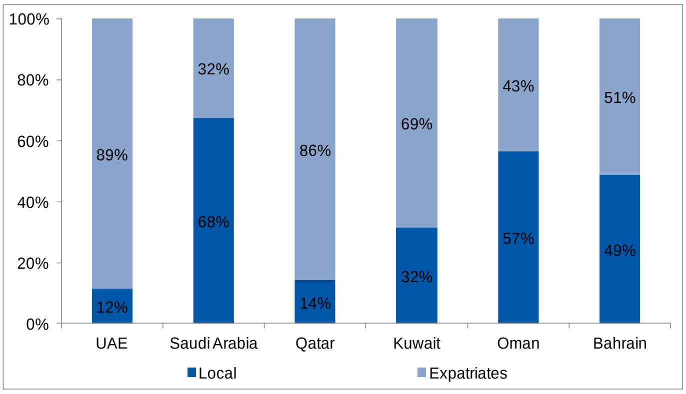
The region's population growth is also supported by its huge pool of expatriates (see Exhibit 35), who are drawn to the GCC for employment. The high inflow of expatriates is reflected in the composition of the GCC labor force. Expatriates occupy positions ranging from low-paying, low-skilled construction jobs to highly professional and specialized jobs. New regulations in most of the countries in the GCC require mandatory medical insurance for expatriates. Over the last couple of years, the medical insurance segment has become a major component of the overall insurance industry in the region. An increasing expatriate population thus translates into higher demand for the insurance industry.

Exhibit 34: GCC Population Forecast



Source: IMF, October 2015

Exhibit 35: Proportion of Expatriates in the GCC Nations



Source: Respective National Institutes of Statistics

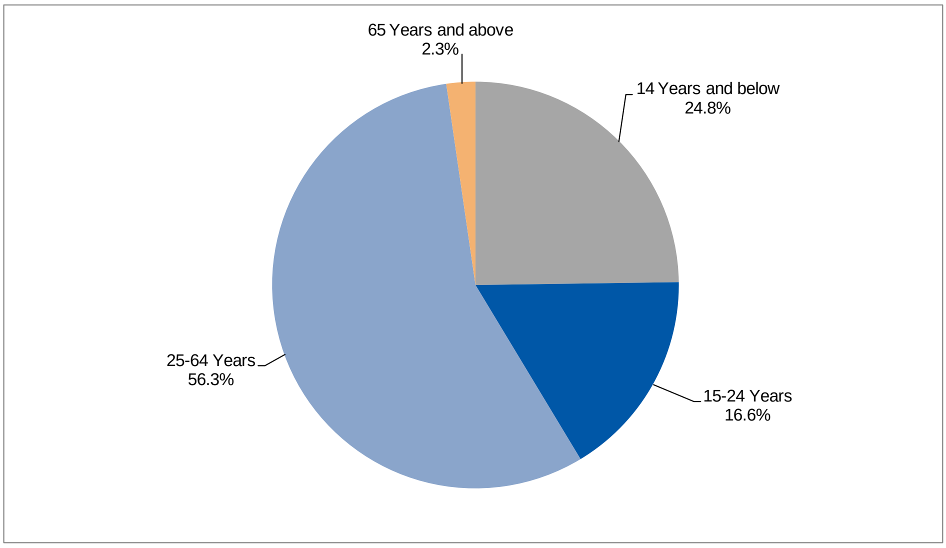
Note: Figures pertain to different periods among the member nations. Oman data is for 2014, that for Saudi Arabia is for 2013, Bahrain data is for 2011, and data for Kuwait, the UAE, and Qatar is for 2010.

Almost 57% of the GCC population comprises the young and the working

The region's 56.3% population is aged between 25 and 64 years (see Exhibit 36), mainly comprising the young population. Such large young population, with access to education, media, and advanced technologies, is expected to push the demand for financial products such as insurance.

[40] Source: IMF

Exhibit 36: Composition of the Population in the GCC – 2013



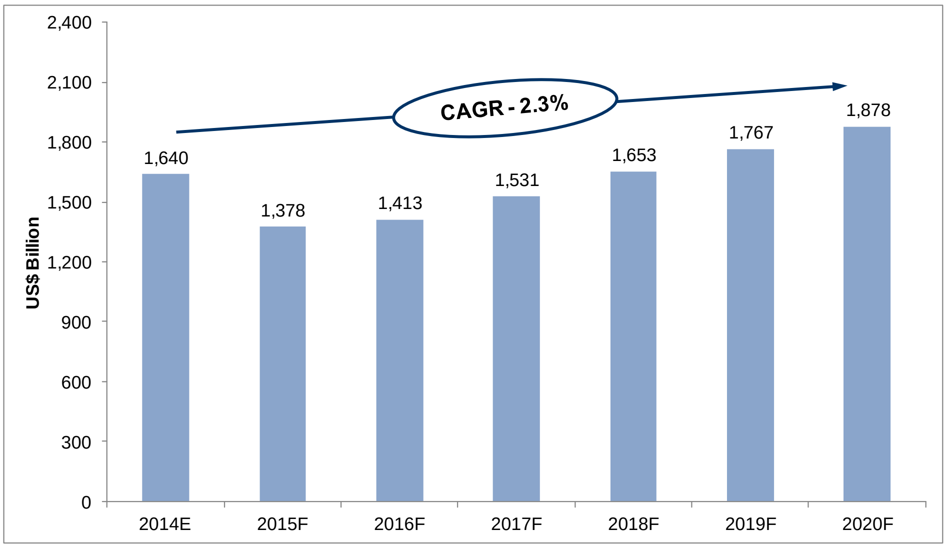
Source: UNESCO

Stable GDP Outlook Driven By Infrastructure Development

Stable fundamentals and cash reserves support the growth of the rich GCC nations

The wealthy GCC nations continue to grow, supported by their cash reserves and strengthening fundamentals such as economic diversification and infrastructure development in the long-term. Over the forecasted period, despite a sharp decline in oil prices, GDP at current prices in the GCC region is projected to grow at a CAGR of 2.3% during the forecast period[41], with subdued inflation.

Exhibit 37: GDP, at Current Prices of the GCC, 2010-2020F



Source: IMF, October 2015

Note: E=Estimate, F=Forecast

[41] Source: IMF, October 2015

The insurance industry is highly correlated with the economic outlook, creating demand for insurance-related products

The insurance industry is highly correlated with the economic outlook, creating demand for insurance-related products. The GCC nations are making rapid progress in implementing their strategy to diversify from the hydrocarbon sector, resulting in increased activity in other sectors such as manufacturing and services. Growth across such sectors is presenting significant opportunities for insurers.

The UAE and Qatar have a robust pipeline of infrastructure expansion projects, including Dubai Expo 2020, FIFA World Cup 2022, Etihad Rail, and Qatari Rail. Nearly US$ 74.6 billion worth of transport projects in Qatar are currently under construction or in their planning stage. Saudi Arabia has planned around US$ 180.0 billion worth of transport infrastructure projects between 2015 and 2019[42]. Moreover, the construction industry in Oman is expected to remain in swing due to an increase in infrastructure projects planned by the government, along with many tourism projects as well as the construction of private commercial buildings.

Of late, faced with large oil revenue losses, most GCC nations are expected to rely on their accumulated financial buffers and the available funds to counter some of the impact on their growth while gradually slowing their fiscal spending on infrastructure. Further, additional government funding is likely to be required to manage the fiscal positions of most oil exporters, as a result of the sharply declining oil prices in 2015. This is expected to enable them to share the now-reduced oil wealth equitably with the future generations and rebuild buffers for dealing with oil price volatility.

Regulatory Reforms to Boost Growth

Over the last two years, most GCC insurance markets have witnessed multiple regulatory changes, with several new regulations in the areas of minimum capital requirement, reserve calculations, internal audits, and reporting requirements. Companies must maintain adequate records to demonstrate compliance with these regulations as well as with the related laws.

These regulatory reforms are likely to drive growth in the insurance industry, as evident from the buoyancy in the Saudi Arabian insurance market. SAMA has made medical and motor third-party insurance compulsory. Also, prudent actuarial reserve modeling, introduced by the regulator in 2013, has boosted the growth of the industry. Similarly, other markets such as the UAE and Qatar are also likely to see growth, consequent to new regulations and reforms. Additionally, the resulting operating stringencies may pave a way for potential mergers in the industry .

Demand for Medical Insurance

Medical insurance premiums have registered double-digit growth in recent years

In the long term, employers across the region are expected to seek creative solutions to manage their exposure to the rapidly rising medical insurance costs. Medical insurance premiums have seen a double-digit increase in the GCC in recent years, with this trend likely to continue. The increases are driven by the health needs of the population, which is consuming more services from the growing health sector. The GCC healthcare market is projected to grow annually at 12.1% to nearly US$ 70.0 billion by 2018 from an estimated US$ 40.0 billion in 2013[43]. The region is seeing a surge in healthcare consumption due to strong population growth and higher income levels coupled with increasingly sedentary

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[42] Source: “GCC Construction Industry Report”, Alpen Capital, June 2015
[43] Source: “Qatar Compulsory Health Insurance – Are You Ready?”, Mercer Insights, 2014

and unhealthy lifestyles, leading to the prevalence of chronic diseases such as diabetes. The GCC region is home to a significant number of unfit young adults (aged 15-29) and women in the world[44], in addition to being the second-largest base of unfit adults. Thus, strong growth in the healthcare sector coupled with mandatory medical insurance under law is expected to favor the insurance industry.

Takaful Insurance Segment to Gain Ground

This segment of the insurance industry is receiving a push from the positive outlook for the global Islamic banking and finance sector. The recent decade has seen a double-digit growth of Islamic banking assets world over, resulting in a simultaneous expansion of the global Takaful market. Continued growth in the estimated US$ 2.0 trillion global Islamic finance markets is expected to translate into positive sentiment across the Takaful markets of the world. Having recorded around 14.0% y-o-y growth in 2014, the global Takaful industry is expected to exceed US$ 20.0 billion by 2017[45].

The optimism in the global Takaful arena has trickled down to the GCC region, with the UAE and Saudi Arabia as its key markets. The GCC Takaful market also presents a strong growth potential due to low insurance penetration rates (less than 2%) in its key markets. While the Takaful segment of the region is expected to continue to grow for the next five years, the extent of its growth is dependent on the performance of the GCC's economy.

Potential for the Growth of the Micro Insurance Segment

Micro insurance demand in the industry is expected to rise due to favorable government regulations and current low penetration

The rapidly growing small and medium enterprises (SME) sector in the region presents a key opportunity for the insurers in the industry. Generally, these firms are run by the younger, more entrepreneurial-minded generation that is more open towards insurance as a means to protect its newly created assets compared to their established counterparts, . Further, thousands of low-skilled workers are also expected to create demand for micro insurance. Currently, micro insurance development in the GCC is relatively muted. Considering its low insurance penetration, micro insurance demand in the industry may increase, given the encouragement from the government. Globally, micro insurance represents the most promising area of product development. The total value of the global micro insurance market exceeded US$ 40.0 billion in 2013[46], with the MENA region accounting for less than 5.0% of it. The micro insurance portfolio of the MENA region is expected to grow by 15.0% in 2015[47].

[44] Source: World Health Organization
[45] Source: Global Takaful Insights 2014, E&Y
[46] Source: Swiss Re
[47] Source: responsAbility Microfinance Market Outlook 2015, November 2014

5. Challenges

Volatility in Oil Prices

The oil & gas sector is a major contributor to the region's GDP, accounting for an average 80.0%-85.0% for the last three years[48]. Revenue from this sector is diverted towards the development of industries such as healthcare, education, infrastructure, and tourism. Thus, the region is witnessing a healthy pipeline of infrastructure and other development projects announced by various GCC governments and these projects are a key growth driver for the region's insurance industry, mainly for its commercial lines segment. The GCC governments seek a stable and high oil price to fund their infrastructure projects. However, oil prices have declined significantly during the last one year due to excess supply of oil over demand, globally. The price of Brent crude oil dropped sharply from US$ 115 per barrel in June 2014 to less than US$ 50 per barrel in September 2015[49].

Continued volatility in oil prices could slow down the GCC economy, causing some of the member nations to restrict their spending. States could particularly curtail their spending towards infrastructure sector, impacting the insurance industry performance. GCC nations such as Saudi Arabia and the UAE are expected to combat the falling oil prices with the strong currency reserves they have built over the years. On the other hand, the impact of low oil prices is expected to be more intense for the GCC nations that do not have such cushion available. As a result, while projects such as Dubai Expo 2020, Etihad Rail, and Qatari Rail are expected to continue as planned, several other projects are likely to be abandoned. Projects worth US$ 200.0 billion have been called off in Abu Dhabi, as oil majors seek to curtail their capital expenditure[50].

Moreover, the region's stock market may remain under pressure until the oil prices stabilize in the long term. This could result in low investment returns for insurers, given their high exposure to the equity markets[51].

Low Popularity of Insurance Products and Lack of Awareness

The GCC population purchases insurance only as a legal requirement rather than as a tool for risk mitigation

Despite high per capita income, the popularity and penetration of insurance products in the GCC nations is less compared to that in the advanced countries. The healthy growth of the region's insurance industry in the last couple of years was mainly due to certain types of insurance (such as medical and motor insurance) mandatorily required by law in some countries instead of the rising popularity of insurance products. The GCC population does not use insurance products as a tool for mitigating risk.

GCC nationals mainly rely on family or state resources for life cover and old-age care, thus dampening the demand for life insurance products. Further, the conventional life insurance products are yet to gain acceptance among GCC nationals owing to socio-religious beliefs. Although the GCC region is the largest market for Takaful insurance, this segment of the industry is yet to flourish in the member nations, mainly due to regulatory hurdles and inadequate product offerings.

In general, awareness within the region about the benefits of insurance products is low. For example, the penetration of home and content insurance in the region is low compared to the mature markets due to less awareness among the GCC nationals as well as Asian

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[48] Source: "The Long Term Impact Of Low Cheap Oil On The GCC", Gulf Business, May 2015
[49] Source: "Current Oil Price Slump Far From Over", Oilprice.com, June 2015
[50] Source: "Impact of lower oil prices on Middle Eastern projects – are you at risk of litigation?", March 2015
[51] Source: "'New normal' oil price and its impact on the Equities Market", Actuarial Post, December 2014

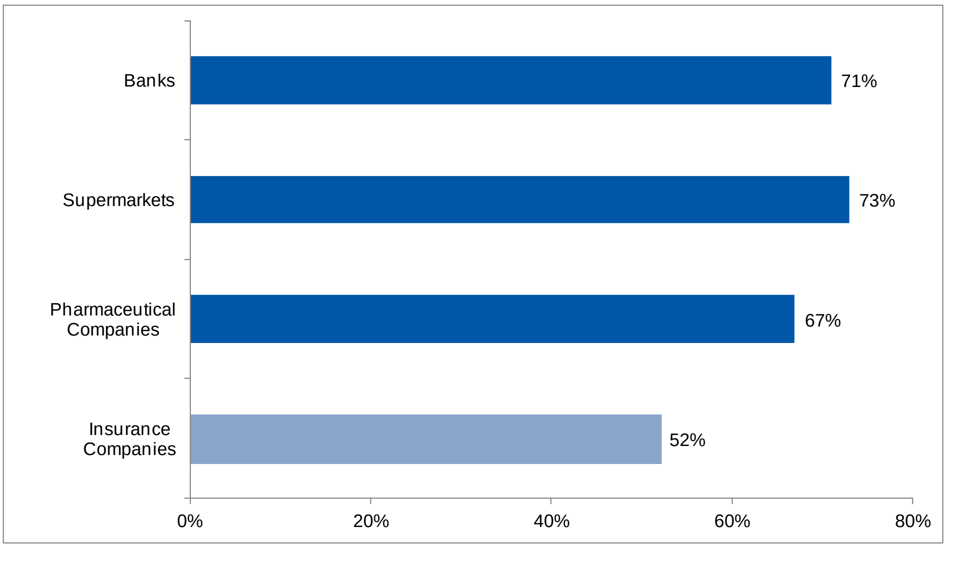
expatriates. Only 6.0% of the UAE residents hold home insurance compared to around 76.0% in the UK[52]. On the other hand, Western expatriates, who are more aware of home and content insurance products, do not readily purchase them owing to the transient nature of their stay in the region.

Low Level of Customer Trust

According to E&Y's Global Consumer Insurance Survey 2014 that covered approximately 24,000 individual consumers in 30 countries[53], including 1,100 consumers in Saudi Arabia and the UAE[54], the level of trust between consumers and insurers in the UAE and Saudi Arabia is lower than that in case of supermarkets, banks, and pharmaceutical companies (see Exhibit 38). According to the survey, the UAE and Saudi Arabia rank 13th and 18th, respectively, in terms of trust in insurance companies[55]. The survey indicated that 32.0% and 49.0% of the consumers in the UAE and Saudi Arabia, respectively, are likely to change their insurers in the next one year, compared to the global average of 23.0%.

Currently, the region's insurers are more focused on attracting new clients, paying less attention to the quality of their service and customer retention. Resultantly, consumers tend to change their insurers, when their policies are up for renewal. Thus, the region's insurers need to engage with their consumers more to rebuild trust and develop a long-lasting relationship with them. Also, insurers are required to use modern and effective communication tools such as e-mails and mobile applications that facilitate ease of communication with their consumers.

Exhibit 38: Level of Consumer Trust by Business Type in the UAE and Saudi Arabia



Source: "2014 Global Consumer Insurance Survey", E&Y

[52] Source: "Dubai Marina Blaze Pushes Case For Home Insurance In The UAE", Gulf Business, February 2015 (Alpen Capital does not have ranking data for each country, provided in E&Y Global Consumer Insurance Survey, 2014. Hence, we have taken this data from this news article.)
[53] Note: E&Y selected combination of matured and developing countries in this survey. The matured markets include US, Canada, UK, France, Germany, Belgium, Italy, Spain, Netherlands, Ireland, Norway, Sweden, Denmark, Finland, South Africa, Japan, Hong Kong, Singapore, South Korea, and Australia. The developing markets include Turkey, Poland, China, India, Indonesia, Malaysia, Saudi Arabia, UAE, Brazil, and Mexico.
[54] Source: "Reimagining customer relationships - Key findings from the EY Global Consumer Insurance Survey 2014", September 2014
[55] Source: "Customers in Saudi Arabia and UAE trust insurers less than banks", Gulf Base, December 2014

Intense Competition

The GCC insurance landscape is intensely competitive due to the presence of several local and international entities

The GCC insurance industry is intensely competitive, marked by the presence of several domestic and international firms. Although the entry of new entities in the market has slowed down in recent years, competition in the industry continues to rise, particularly in the motor and medical insurance segments. Generally, the top insurance companies in each GCC nation account for around 60.0%-70.0% of its total premium, with several smaller entities competing for the remaining share.

International entities further add to the competition in the region. Individual agents market those products of international insurance companies to consumers that do not require any license to sell and in turn, earn competitive premiums. Also, the cost of operations of international insurance companies is low, as they are exempt from the need to comply with the capital requirements.

Price-sensitive competition is thus rife within the GCC insurance markets with several insurance companies determining their premiums based on the price of their competitors' products rather than risk-based underwriting. This has resulted into lower profits for most of the region's insurance companies in the recent years.

To address declining profitability and enhance the credit profile of insurers, most of the member nations have resorted to regulatory changes such as introducing a minimum capital requirement and actuarial-led reserve setting. Insurance companies, however, are likely to incur additional costs of monitoring, managing, and reporting, as part of compliance with the new regulations.

Lack of Homogeneous Regulations

Regulations within the individual insurance markets in the region are different

Insurance regulations in the GCC nations are highly heterogeneous and also range from being relatively effective in countries such as Bahrain and Saudi Arabia to being less effective in Kuwait. For instance, regulations in the UAE require a fixed minimum capital level for all insurance companies, while Bahrain has enforced a risk-based solvency test for insurers. Further, the UAE has passed regulations regarding the allocation of insurers' investments among various asset classes, which is missing in other GCC nations. Thus, the GCC regulators need to work towards making the regulatory framework in the region homogeneous, which may help them bring their insurance legislation in line with the globally acceptable regulations.

The region also needs new regulations reflecting the international best practices to help the industry grow further. Moreover, the global insurance industry is experiencing dramatic changes as reserve and capital regulations transition from the traditional to a principles-based approach, adding to the challenges of the GCC regulators. Key shortcomings in the region's regulations in the past include lack of solvency legislations, insufficient minimum capital requirements, and lack of transparency. Most of the GCC nations have proactively amended their insurance regulations in the last two years to address these challenges. Such regulations lay down stringent rules regarding pricing, reserves, and solvency. However, despite the challenging operating environment, new insurers have established their operations in the GCC region over the last 12 months.

Demand for more advanced insurance products has increased in the past few years

Further, with rapid growth in the markets across the region, demand for more advanced insurance products and services has increased in the past few years. To be able to meet such changing market demands, the region's smaller insurance firms need to further improve their technical expertise, competitive rates, and underwriting capability.

High Exposure to Risky Assets

The investment mix of the GCC-based insurers is highly skewed towards risky assets such as equity and real estate, exposing their investment income to market anomalies and economic downturn. The low interest rate environment in the region generates low returns on relatively risk-free assets such as sukuk and conventional bonds compared to equity and real estate. As a result, risk-free assets are a less attractive investment option for the region's insurers. Further, since several insurers across the GCC nations suffer from poor underwriting performance, they often have to rely on riskier investment vehicles to enhance their profitability.

While, traditionally, return from the region's equity market has been fluctuating owing to the relatively small-size of the market, it has been volatilie since early 2015 due to uncertainties in the global financial markets. Additionally, valuation and liquidity are the main risks associated with investment in real estate. Such investments also erode the balance sheet of insurers, as real estate assets are often recorded at market value, which is often volatile and highly dependent on the occupancy rates as well as the region's economic health.

To counter the risk associated with over exposure to risky assets, the UAE introduced a regulation in February 2015 capping the investments made into a particular asset class, including equity and real estate. Such regulations are also required in other GCC nations for improvement in the asset quality of insurance companies and mitigating the risk of volatile investment income.

Delays in Consolidation

Insurance regulators in all the GCC member nations see consolidation as an approach to improve industry-wide profitability and ease competition. Of late, factors such as the enactment of the mortgage law as well as easy access to funding through re-capitalization and additional stock issuances have kept consolidation in the GCC insurance industry at bay. Despite their sluggish financial performance in the last two to three years, no insurance company in the second-largest insurance market of Saudi Arabia has formally approached SAMA to seek approval for any form of M&A. Small insurance companies are creating a standing for themselves by offering specialized insurance products. Also, small companies are reluctant to turn to consolidation, as it holds the potential to render certain senior management positions redundant.

Soaring valuations and limited market share are discouraging consolidation in the industry

Generally, consolidation is relatively uncommon in the GCC nations, as most businesses are family owned. Such firms rarely consider mergers and instead prefer to build their base by steadily acquiring new business. Many family-owned firms are also opposed to the idea of trading their shares in the capital market, which requires them to dilute their influence and formalize management structures.

Further, the top insurers see little advantage in purchasing inefficient small insurers with limited market share at premium valuations. Consolidation in the industry appears unlikely in the near term owing to soaring valuations further made unattractive by a limited market share. On the other hand, investors selling their stake in small insurance companies at steep discounts also appears to be a remote possibility.

Dearth of Local Talent

The GCC insurance industry faces a severe dearth of local talent, particularly at the mid-management level. Firstly, employers in the industry face tough competition from the lucrative government jobs that successfully lure the local talent. Further, the availability of skilled local talent is less, as there are limited insurance programs on offer at the GCC universities. Also, considering the complexities associated with insurance studies (mainly related to actuarial studies), the GCC nationals prefer other areas as their career option. As a result, insurers are increasingly relying on expatriates to fill openings across areas such as underwriting, pricing, risk management, and product development.

Insurers face increased overhead expenses, stemming from a higher employee acquisition cost and salary expenses

Moreover, insurers in the region try to poach the key employees of their competitors. In addition to discouraging investment in talent development, this has translated into a higher attrition rate and salary inflation in the industry[56]. Insurers thus face increased overhead expenses stemming from a higher employee acquisition cost and salary expenses. Consequently, the underwriting and risk-bearing capabilities of insurers are adversely affected, with most of them relying heavily on reinsurers to cover risk. High dependence on reinsurers results in increasing the counterparty risks as well as the legal complexities associated with recovering reinsured claims. Several local insurers are also exposed to the fluctuations in the global reinsurance market due to their reliance on international entities. Thus, in order to compete regionally and internationally, the GCC insurance market needs to develop a local talent pool capable of designing and pricing the insurance products.

SAMA has already announced plans to build its local talent pool to accelerate the growth of the Saudi Arabian insurance industry. Creating a healthy work environment within the industry and introducing programs to develop the required skill set among the available talent are also becoming necessary.

[56] Source: "Addressing the Insurance Talent Shortage in the Arab World – A Human Resources Challenge", Arab Reinsurance Company, Moebius Newsletter, January 2014

6. Trends

Increasing Presence of International Insurance Companies

Low catastrophe exposure and potential for market penetration are attracting international players to the GCC insurance industry

Over the years, international insurance companies have made strong inroads into the GCC insurance industry. An underpenetrated market and low exposure to catastrophe associated with the region are the main factors attracting foreign insurance companies into the region. Also, a high and growing expatriate population, with a preference towards purchasing insurance products offered by entities from their home nations, is further luring foreign insurers towards the GCC region. International insurance companies operate in the GCC region by holding a minority stake in the local firm, by entering into a joint venture with a local firm, or by establishing a subsidiary company.

Some of the key competitive advantages enjoyed by international insurers include technical expertise, superior financial strength, a broad product portfolio, long customer service experience, and distribution know-how. International entities have become a preferred choice in the commercial lines business due to their ability to offer specialty products (for example, professional indemnity insurance). Going forward, the market is likely to see the entry of more international insurance companies, mainly through the acquisitions. However, international insurance companies are likely to face stiff competition from the regional insurers, particularly those that have grown in scale and expertise over the years.

Regulatory Changes Aimed at Consolidation

Over the past few years, most of the GCC nations have introduced regulations aimed at encouraging consolidation in their over-crowded and fragmented insurance industry. While SAMA has announced stringent regulatory requirements pertaining to pricing and solvency, Oman's CMA has doubled the minimum paid-up capital for insurers to OMR 10.0 million. Further, the UAE insurance industry has also seen new regulations such as higher capital requirements for brokers and stricter asset-liability management for insurers. Some of the new regulations, particularly those pertaining to increased capital requirement and solvency, may become a limiting factor for the region's smaller insurers. Such companies could consider the M&A route as a lucrative option to sustain and grow in scale.

In addition to stringent minimum capital requirement, the regulators' policy of restricting new entities to enter the region's insurance industry is also likely to stimulate consolidation in the market in the future. While Saudi Arabia has introduced limitations on the grant of insurance license to new entities, the UAE is continuing with its policy of not granting any new licenses, except to companies owned by local governments. Thus, any new player aspiring to enter these markets needs to resort to the M&A route.

Increasing Focus on Enterprise Risk Management (ERM)

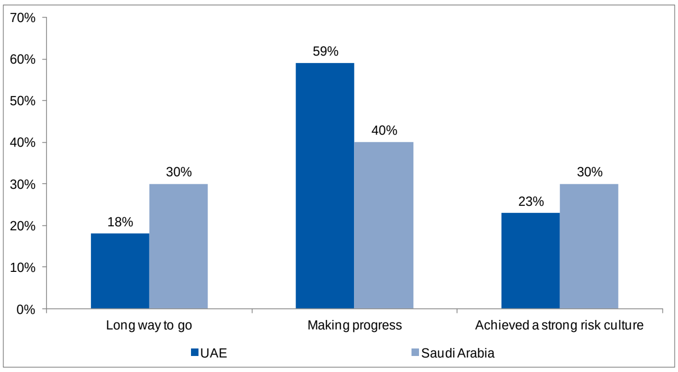
Although ERM is still in its infancy in the GCC region, several insurers are realizing the need for a robust ERM for long-term sustainability in the industry. A change in the regulatory landscape coupled with pressure from the credit rating agencies is pushing the region's insurers to develop strong risk management systems. Credit rating agencies demand that insurers set up ERM systems in their organization as a compliance requirement while rating them. An insurance firm with a weak risk management framework is rated below its potential by these agencies.

Awareness about ERM as a business enabler is increasing across the region

While the awareness of ERM as a business enabler has improved across the GCC nations, most insurers feel the need to enhance their overall risk management system. ERM is more effective when integrated with the key business domains, including capital management, reinsurance strategy, and risk-based underwriting. Further, risk management needs to be implemented at the operational level and embedded in the day-to-day activities of the insurers.

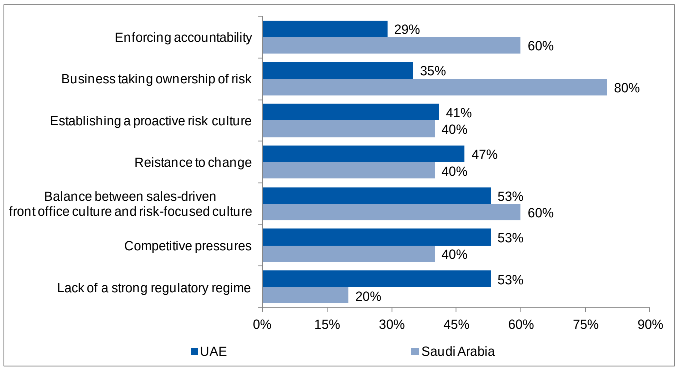
According to a survey[57] conducted in April 2015, 82.0% and 70.0% insurers in the UAE and Saudi Arabia, respectively, believed that they have either achieved or are making progress toward implementing robust risk management framework in their organization (see Exhibit 39). The survey also suggested that 41.0% of these insurers recognized the need to improve their overall risk culture. While businesses taking the ownership of risk was a major challenge perceived by Saudi Arabia's insurers towards strengthening the risk, insurers in the UAE saw the lack of a regulatory regime and competitive pressure as key issues (see Exhibit 40). However, the new regulations in the UAE announced in February 2015 address most of the challenges of the insurers.

Exhibit 39: Insurance Companies at Different Stages of ERM Adoption



Source: "MENA Insurance Enterprise Risk Management Survey", E&Y and Munich Re, April 2015

Exhibit 40: Key Challenges Towards ERM Implementation



Source: "MENA Insurance Enterprise Risk Management Survey", E&Y and Munich Re, April 2015

The survey further suggested that currently a majority of insurance firms across the UAE and Saudi Arabia pursue manual reporting and calculation of risk management metrics. This provides an enormous opportunity for them to automate their risk management systems in the future. About 44.0% of the survey participants seek to augment their risk management capabilities by improving their IT systems.

Emergence of Bancassurance

Bancassurance is still at a nascent stage in the GCC, although its use has increased in the last few years

Bancassurance is still in its early stage in the GCC region and has a mere 1.0%-2.0% penetration compared to 8.0%-15.0% in the mature markets[58]; indicating huge untapped potential. Although agents and brokers still remain the main distribution channels for the GCC-based insurers, the use of bancassurance in the region has increased in the last few years. Bancassurance was pioneered in the GCC region by foreign insurance companies

[57] Note: "MENA Insurance Enterprise Risk Management Survey" was conducted jointly by E&Y and Munich Re and released in April 2015. The survey covered 30% of all the licensed insurers from the UAE and Saudi Arabia.
[58] Source: "Robust Bancassurance Framework Vital in Diversifying Oil-Based GCC Economies, Yet Penetration is Low", Corecommunique, February 2015

and multinational banks. However, currently, local insurers also view bancassurance as a cost-effective way of accessing a large customer base that its banking partners maintain. Bancassurance also opens up an additional revenue stream for banks and enhances their competitiveness. Insurance companies are primarily looking at selling protection products as add-ons to the banking products such as mortgage and personal loans.

A Move Towards Digitalization and Customization

Customization is emerging as a tool to increase brand awareness and counter competition

Digitization across the insurance industry is receiving thrust from factors such as changing customer preferences, high competition, increasing adoption of cloud computing, mobile technologies, analytics, and social media. The need for improved operational efficiencies and better customer experience are the main drivers for digitalization.

Traditionally, the established insurance companies have been slow to adopt digital tools and business models, relative to other industries. However, the young generation is demanding sophisticated services from these traditional insurance companies. As a result, insurance companies face the need to upgrade their systems and turn to digitization. Further, robust data analytics and predictive modeling are likely to help insurers identify new opportunities, optimize claims outcomes, and reduce claims fraud. Another emerging trend in the GCC region is the customization of insurance solutions catering to individual needs to increase brand awareness. Such customization is required to counter competition and new entrants that bring about changes in the market with fresh models and approaches. According to Bain's recent survey of more than 158,000 consumers in 18 countries, the share of digitally active customers constitute between 35.0% and 70.0% of the total insurance clients currently. About 79.0% of the total consumers surveyed expressed interest in turning towards the digital channel for insurance interactions over the next few years[59].

Subsequently, companies in the GCC insurance industry are increasing their investments towards enhanced data analytics, modeling capabilities, and other digital solutions. Such solutions improve customer connectivity by improving distribution and customer service. Insurance companies aim at enhancing the overall customer experience by developing advanced analytics capabilities to gain a deeper understanding of clients' priorities. Cost reductions and improved efficiencies by reducing error rates and rework have drawn some insurance companies towards digitization.

In the GCC, digitization of products in the areas of motor, medical, and term life insurance is more common. For example, Bahrain Kuwait Insurance Company launched an online marketplace for selling personal insurance products in 2014 and is expected to start offering online renewal of motor insurance this year. Further, the company is also planning to launch mobile apps for its online solutions.

Although digitization is gradually gaining ground in the GCC, agents and claims representatives are still required in case of complex products and transactions. It is proven that clients who rely on both digital as well as physical insurance solutions are capable of displaying higher trust and loyalty. Bain & Company predicts a higher Net Promoter Score[SM] (their measure of loyalty) for insurance companies from their customers that use both digital and physical channels.

[59] Source: "Leading a Digical® transformation in insurance", Bain & Company, November 2014

Emphasis on Risk-based Pricing Model

With regulatory reforms on the cards, the GCC insurance industry is required to adapt to a fast-evolving regulatory and governance landscape. The industry is undertaking measures to alter its regulations, with a view to emerge as a global financial center to provide necessary support for innovative solutions as well as infrastructure and regulatory environment that meet international standards. This includes a move towards a risk-based environment in terms of capital, governance, and reporting. Insurance industry companies foresee broad changes over the next few years, with implications on underlying systems and processes.

In late 2014, the UAE Insurance Authority issued financial regulations for conventional as well as Takaful insurance companies. Under these new standards, both conventional and Takaful insurers are required to maintain a standardized risk-based solvency template that includes capital calculations and establish a risk management function as well as a more-structured investment portfolio. In Saudi Arabia, SAMA has asked companies to adopt risk-based pricing, based on actuarial reserve. This new set of rules is likely to have a long-term positive impact on the industry.

Credit Rating from External Agencies

Insurers aim to enhance their bargaining power with various third-parties by receiving credit ratings from external agencies

In the last couple of years, several large insurance firms in the region turned to global credit rating agencies such as A.M. Best, Standard & Poor's, and Moody's to receive ratings. An external agency rating provides insurers with greater power to bargain with various third-parties including reinsurers, banks, and prospective acquirers. However, the ratings process is complex and requires insurers to furnish a well-articulated business plan, strategy (such as investment, risk management, and catastrophic), and information systems. Small and medium-sized insurance firms do not have the resources, including the funds and expertise, required to fulfill such requirements. Lack of a third-party rating leaves smaller firms with a weaker bargaining power compared to the large insurers of the region.

7. Merger and Acquisition (M&A) Activities

The industry continued to witness the trend of intra-regional deals, with business expansion and financial investment being the chief motives

The M&A space of the GCC insurance industry saw a positive start to 2015, with as many as nine deals already signed and/or completed as of September 2015 compared with a total of ten deals at the end of last year. M&A activities are catching pace due to favorable regulatory reforms. The trend of intra-regional deals continued in the industry, with business expansion and financial investment being the chief motives. The region also saw some cross-border acquisitions, including those by foreign companies aiming to strengthen their foothold in the region and those by local entities scouting for strategic inorganic growth opportunities overseas. M&A activity in the Takaful insurance market was particularly high due to the healthy outlook, with several such companies becoming attractive targets for entities offering conventional insurance.

Despite an uptake in M&A activity, consolidation in the GCC insurance the industry still faces challenges. Family conglomerates hesitate to make a sale to the rivals, hindering transactions. Also, there is a challenge related to due diligence because of inadequate information provided by the target company, making it difficult for buyers to accurately gauge the risk profile of the target.

Exhibit 41: Major M&A Deals in the GCC Insurance Industry

Acquirer	Acquirer's Country	Target Company	Target's Country	Year	Consideration (US$ Million)
Qatar Holding LLC*	Qatar	Qatar Insurance Company	Qatar	2013	264.6
ORIX Corporation*	Japan	Mediterranean & Gulf Insurance & Reinsurance Company	Bahrain	2013	200.0
The National Bank of Ras Al-Khaimah	UAE	Ras Al Khaimah National Insurance Company	UAE	2015	86.4
Social Insurance Organization	Bahrain	National Bank of Bahrain	Bahrain	2014	74.4
Al-Ahleia Insurance Company	Kuwait	Kuwait Reinsurance Company	Kuwait	2015	60.7
General Organization for Social Insurance	Saudi Arabia	Cooperative Real Estate Investment Company	Saudi Arabia	2013	46.1
Gulf Insurance Group*	Kuwait	Algerian Insurance Company	Algeria	2014	25.0
Kuwait International Bank	Kuwait	Ritaj Takaful Insurance Company	Kuwait	2013	13.1
Social Insurance Organization	Bahrain	Ahli United Bank	Bahrain	2014	11.4
Dimah Capital Investment Company	Kuwait	T'azur Takaful Insurance Company	Kuwait	2015	7.6
Bahrain Kuwait Insurance Company	Bahrain	Takaful International Company	Bahrain	2015	6.5
Al Madina Insurance Company	Oman	National Takaful Company (Watania)	UAE	2014	4.9
Arab Insurance Group*	Bahrain	Takaful Re Limited	UAE	2015	NA
Al Madina Insurance Company *	Oman	Vision Insurance Company	Oman	2015	NA
Al Wathba National Insurance Company	UAE	Vision Capital Brokerage Company	UAE	2015	NA
Al Wajeez Development Company	UAE	ACE Arabia Cooperative Insurance	Saudi Arabia	2014	NA
Qatar Insurance Company	Qatar	Antares Holdings Limited	UK	2014	NA
Ebix Singapore Pte Limited	Singapore	Qatar Insurance Services	Qatar	2013	NA

Source: Zawya

*Note: * Deals pending completion (as on September 23, 2015)*

8. Financial and Valuation Analysis

8.1 Financial Performance[60]

For evaluating the financial performance of the insurance industry in the GCC, 18 conventional insurance and Takaful companies were shortlisted to compile a representative sample (see Exhibit 42). Of the selected companies, eight are UAE-based, , three are from Saudi Arabia and Qatar each, two from Oman and one each from Kuwait and Bahrain. In terms of GWP, Qatar Insurance Company led the sample, with US$ 1,541.8 million in 2014 in terms of GWP. Al Ahlia Insurance Company from Bahrain recorded the lowest GWP in the selected sample. The median GWP in the sample stood at US$ 160.0 million while the average stood at US$ 329.8 million.

Exhibit 42: Sample Insurance Companies Selected

Name of Company	Country	Ticker	GWP (US$ Million) – 2014
Qatar Insurance Company	Qatar	QATI	1,541.8
Oman Insurance Company	UAE	OIC	884.8
Abu Dhabi National Insurance Company	UAE	ADNIC	716.3
Gulf Insurance Company	Kuwait	GINS	592.5
Orient Insurance Company	UAE	ORIENT	490.7
Emirates Insurance Company	UAE	EIC	228.7
Saudi Arabian Cooperative Insurance Company	Saudi Arabia	SAICO	214.2
Qatar General Insurance and Reinsurance Company	Qatar	QGRI	169.3
Dhofar Insurance Company	Oman	DICS	166.5
Al Buhaira National Insurance Company	UAE	ABNIC	153.4
Doha Insurance Company	Qatar	DOHI	146.6
National General Insurance Company	UAE	NGI	122.7
Arabian Shield Cooperative Insurance Company	Saudi Arabia	SHIELD	120.7
Oman United Insurance Company	Oman	OUIS	107.4
Al Sagr National Insurance Company PSC	UAE	ASNIC	106.2
Ras Al Khaimah National Insurance Company	UAE	RAKNIC	80.5
ACE Arabia Cooperative Insurance	Saudi Arabia	ACE	66.0
Al Ahlia Insurance Company BSC	Bahrain	AHLIA	28.6

Source: Zawya

[60] Note: Some peers were changed while analyzing the financial performance compared with the previous report published in July 1, 2013. As a result, this data is not comparable to the previous report. Discussion of all the financials under this section pertains to these sample companies only.

GWP – Up

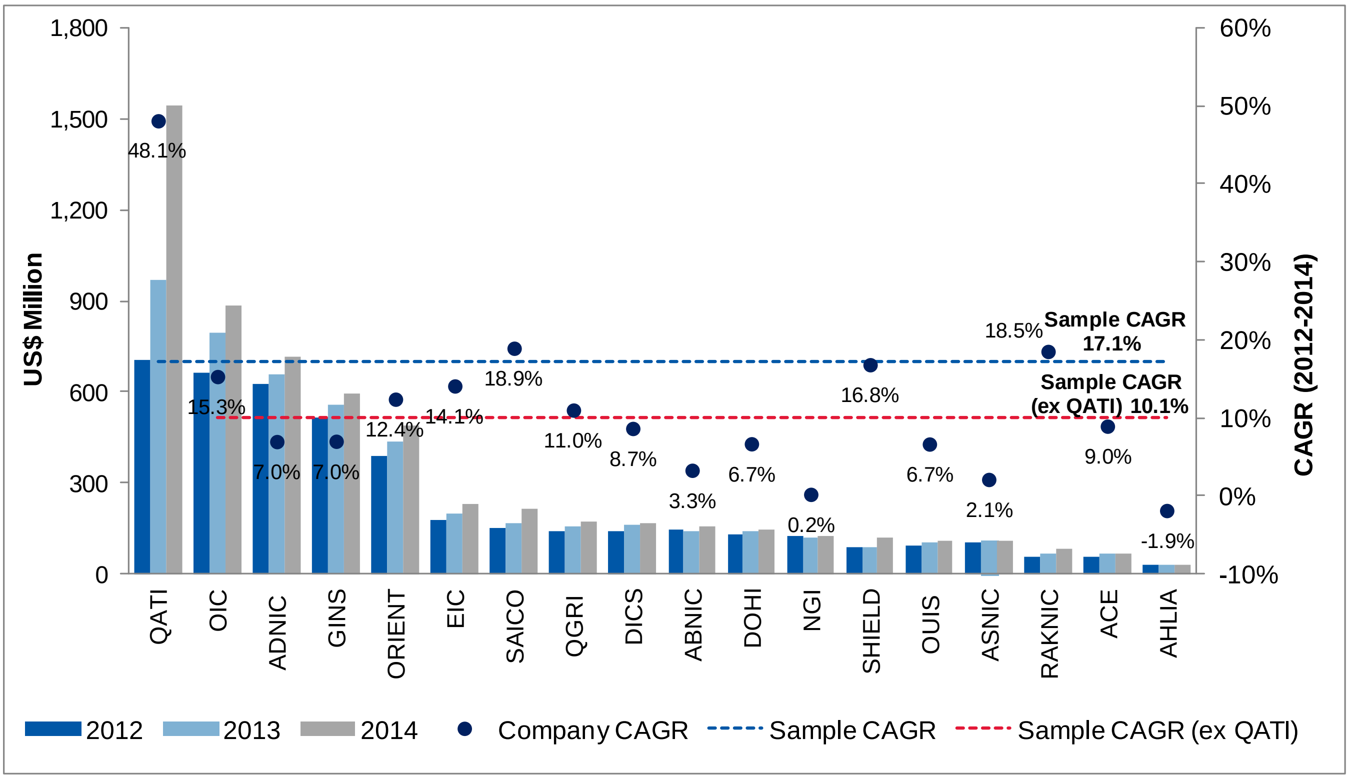
Total GWP of the companies under review registered a robust CAGR of 17.1% between 2012 and 2014 (see Exhibit 43), in line with the GCC insurance industry growth rate of 15.8% during the same period. As the GCC insurance industry is concentrated, scale of operations is the key factor in bringing about double-digit GWP growth. Large entities such as QATI, OIC, ORIENT, EIC, and SAICO, with GWP more than US$ 200.0 million, continue to record double-digit growth whereas smaller companies display single-digit growth rates.

Total GWP of the companies under review depicted a robust CAGR of 17.1% between 2012 and 2014

Qatar Insurance Company (QATI) was the outperformer, with its GWP doubled from US$ 702.7 million in 2012 to US$ 1,541.8 million in 2014 (a CAGR of 48.1%). Such growth was fueled by the acquisition of Antares Holdings Limited (a prominent specialist insurer and reinsurer in the Lloyd's market[61] with GWP of GBP 245.6 million (US$ 375.8 million) in 2013), completed in Q2 2014. Excluding QATI, the sample posted a CAGR of 10.1%.

Among the underperformers, Al Ahlia Insurance Company of Bahrain recorded negative growth whereas UAE-based National General Insurance (NGI) Company maintained flat GWP over the last three years. Insurers are optimistic about future growth in the market, considering the presence of catalysts such as increasing population, GDP growth, and an underpenetrated market.

Exhibit 43: Gross Written Insurance Premium – 2012 to 2014



Source: Zawya

[61] Note: London-based Lloyd's market is a corporate entity governed by the Lloyd's Act of 1871 and subsequent Acts of Parliament. It is not a company but an insurance market of members.

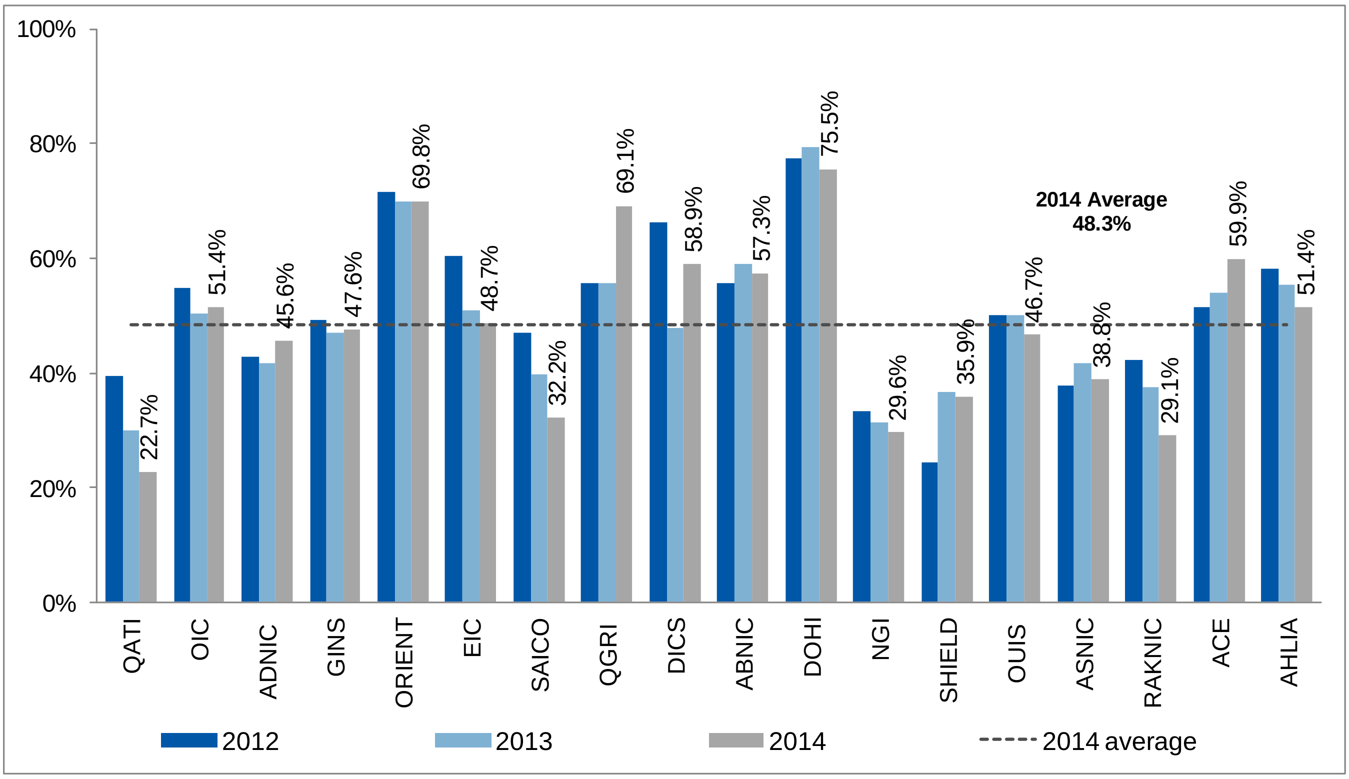
Cession Rate – Up

The cession rate is an indicator of the risk transferred to the reinsurer. The GCC region has been seeing cession rate in the range of 45.0%-50.0% over the last decade, highlighting its weak risk retention capability in a fragmented market coupled with low capital levels in the industry. The average cession rate across the sample was 48.3% in 2014, down from 51.0% in 2012 (see Exhibit 44) whereas cession rate across the industry was less than 40.0% in 2014. The top three global companies maintained a cession rate of less than 10.0% in 2014. Improved risk management could enable insurance companies to increase retention rates and offer more value to their clients and investors.

Cession rate has remained in the range of 45%-50% in the region over the last decade

QATI led the sample with the lowest cession rate of 22.7% in 2014, indicating dramatic improvement between 2012 and 2014. The acquisition of Antares Holdings Limited has positively impacted QATI's performance. Islamic insurance companies such as SAICO and SHIELD ceded lower premium to reinsurers compared to the conventional insurance entities due to regulatory requirements and few re-Takaful opportunities. Retention rates are expected to improve in the future, as local insurance companies gain financial strength and enhance their risk management ability in addition to the introduction of regulations specifically addressing retention rates.

Exhibit 44: Cession Rate – 2012 to 2014



Source: Zawya

Net underwriting profit – Down

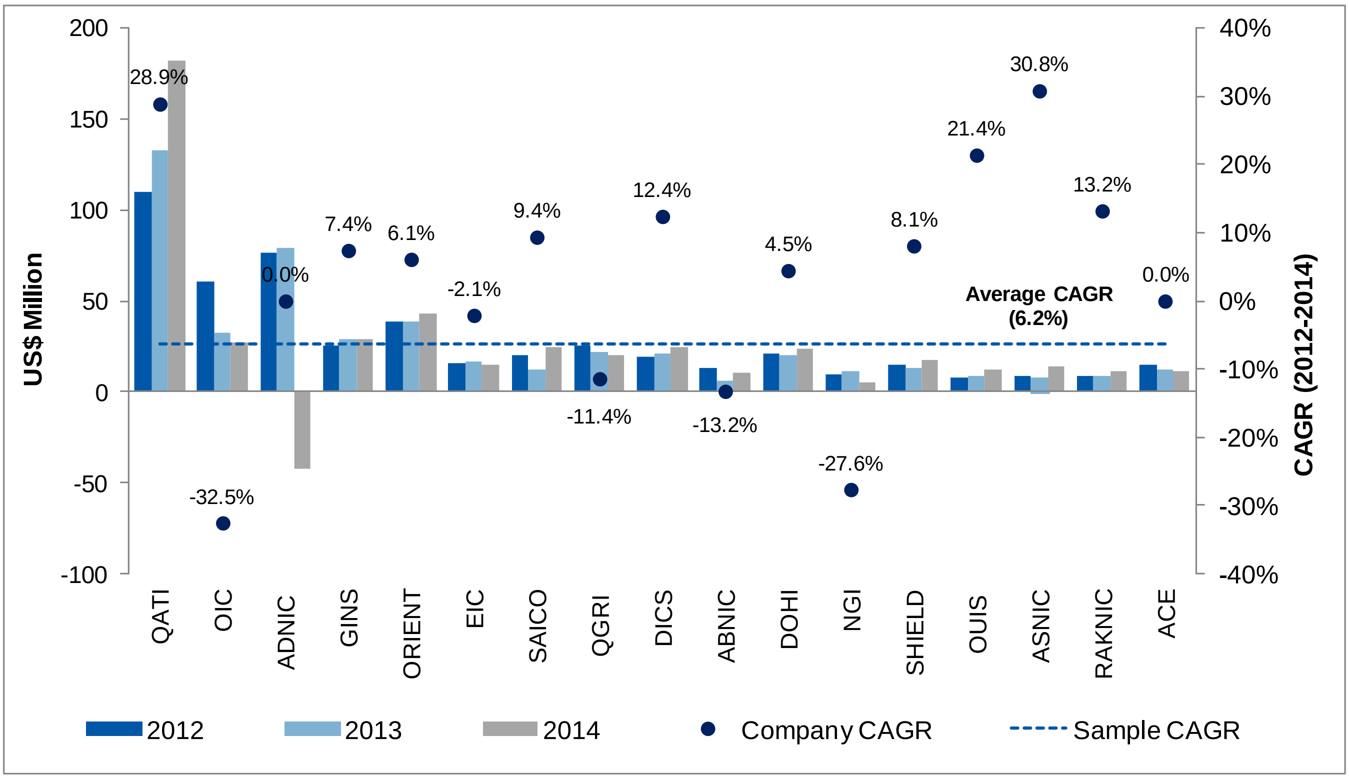
The GCC insurance industry has seen testing dynamics over the last three years. With a significant increase in the claims outstanding and catastrophic events, most companies are seeking product diversification. Intense competition in the region continues to put pressure on pricing as most insurance companies seek volume growth and focus less on pricing. Declining profit and the resultant drop in reserves led to the recapitalization of the balance sheet for many insurance companies in 2014 to meet the minimum capital and solvency standards. In order to combat the pricing-based competition, most authorities have introduced new laws pertaining to a risk-based pricing model.

Net underwriting profit across the sample saw a 9.2% y-o-y decline in 2014, following a 3.1% contraction in the previous year, leading to negative average annual growth of 6.2% between 2012 and 2014 (see Exhibit 45).

Net underwriting profit of the companies saw a negative average annual growth of 6.2% between 2012 and 2014

Six companies posted negative growth in their net underwriting profit in 2014 compared with the previous year and two companies were at similar levels of 2013. The remaining entities posted double-digit growth in 2014. Net underwriting profit of ADNIC, NGI, and OIC was the worst hit during this period. ADNIC reported loss of US$ 42.6 million in 2014 compared with profits of US$ 79.1 million and US$ 76.0 million in 2013 and 2012, respectively. Net underwriting profit of ASNIC, QATI, and OUIS experienced a healthy CAGR of 30.8%, 28.9%, and 21.4%, respectively, between 2012 and 2014, primarily on the back of higher volume of business due to higher GWP.

Exhibit 45: Net Underwriting Profit – 2012 to 2014



Source: Zawya

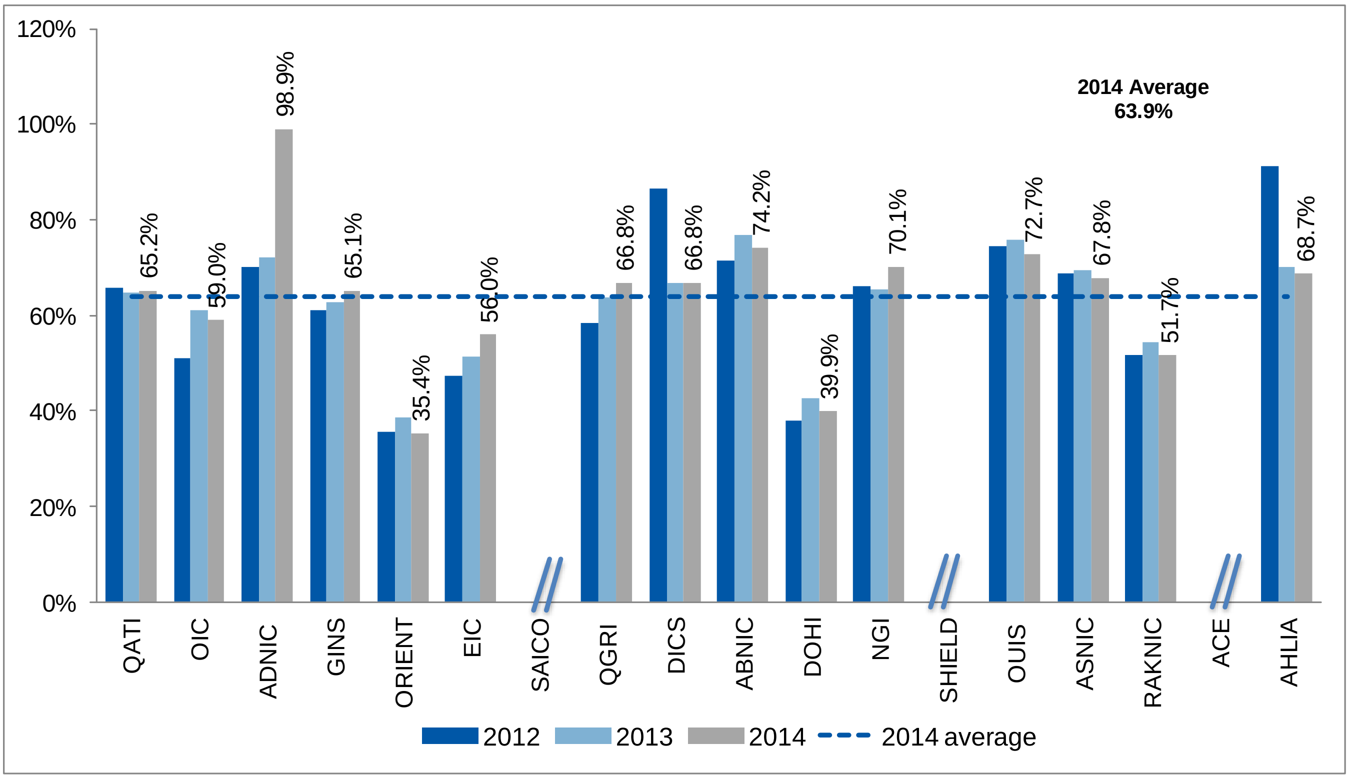
Claims Ratio - Up

In 2014, ADNIC registered the maximum claims ratio of 98.9% across the chosen companies under review

The claims ratio of an insurance company for a particular period is the ratio of the claims incurred by it to the actual premium it underwrites. A higher claims ratio is an indicator of losses for the company. Claims ratio, like gross profit ratio, measures an insurance company's profitability.

Average claims ratio of the sample increased from 62.6% in 2012 to 63.9% in 2014 (see Exhibit 46). In 2014, ADNIC reported the maximum claims ratio of 98.9%, as a result of significant losses generated from its property, marine, and aviation segments. DOHI and ORIENT reported the lowest claims ratio of 39.9% and 35.4% in 2014, respectively.

Exhibit 46: Claims Ratio – 2012 to 2014



Source: Zawya

Note: Data for SHIELD, SAICO, and ACE is unavailable.

Combined Ratio - Up

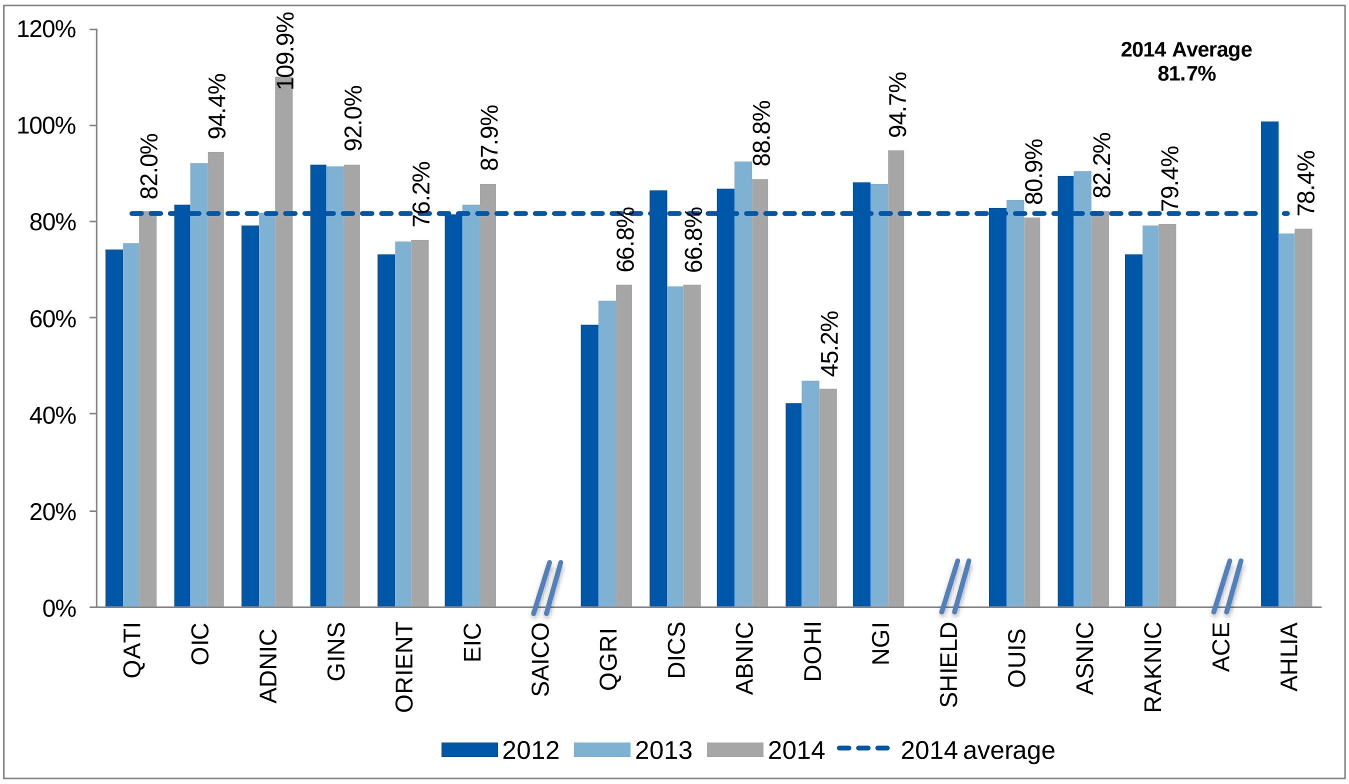
Combined ratio, which is a combination of claims ratio and expense ratio, illustrates the operating profitability of the insurer, excluding the investment income.

Average combined ratio of the companies grew from 79.4% in 2012 to 81.7% in 2014

Average combined ratio of the sample rose from 79.4% in 2012 to 81.7% in 2014 (see Exhibit 47), suggesting an increase in claims and expenses incurred during the period. DOHI is the only company to consistently maintain a combined ratio of less than 50% between 2012 and 2014. The ratio for DOHI was 45.2% in 2014, lowest among the selected group of 18 companies. AHLIA improved its ratio from 100.9% in 2012 to 78.4% in 2014, registering a decline of 22.4%. In general, operational inefficiencies coupled with intense competition resulted in an increase in the expense ratio for the companies in the GCC region.

On the other hand, ADNIC posted the highest combined ratio of 109.9% in 2014, up from 81.7% in 2013 due to losses in its non-life business segments.

Exhibit 47: Combined Ratio – 2012 to 2014



Source: Zawya

Note: Data for SHIELD, SAICO, and ACE is unavailable.

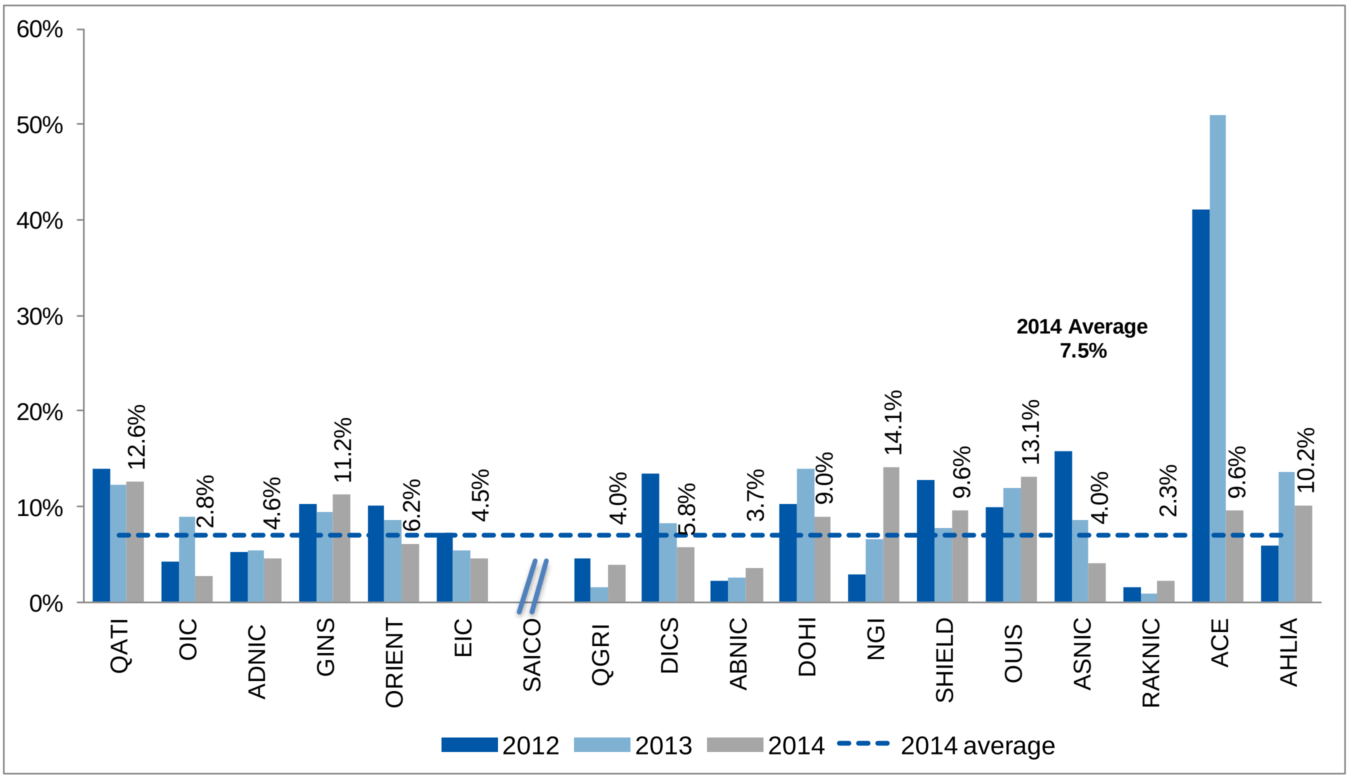
Investment Return

Regulators require that insurers do not rely on new premiums to pay for claims and benefits underwritten in the past. Insurance companies therefore invest premiums and profits to cover future claims or benefits, administrative expenses, and profits for distribution to shareholders.

Average investment return has depicted a volatile trend during the last three years

Most GCC insurance companies rely heavily on investment income due to non-profitable core business. In a low-interest rate environment, GCC insurance companies continue to invest in risky asset classes such as real estate and equity for generating higher returns. The sample under review displayed volatility in its average investment return for the last three years. The return dropped to 7.5% in 2014 (see Exhibit 48), following growth to 12.0% in 2013 from 10.1% in 2012. This volatility is expected to continue, considering the nature of the insurers' investment portfolio that includes higher real estate and equity assets compared to debt securities.

Exhibit 48: Investment Return – 2012 to 2014



Source: Zawya

Notes: (1) Data for SAICO is unavailable

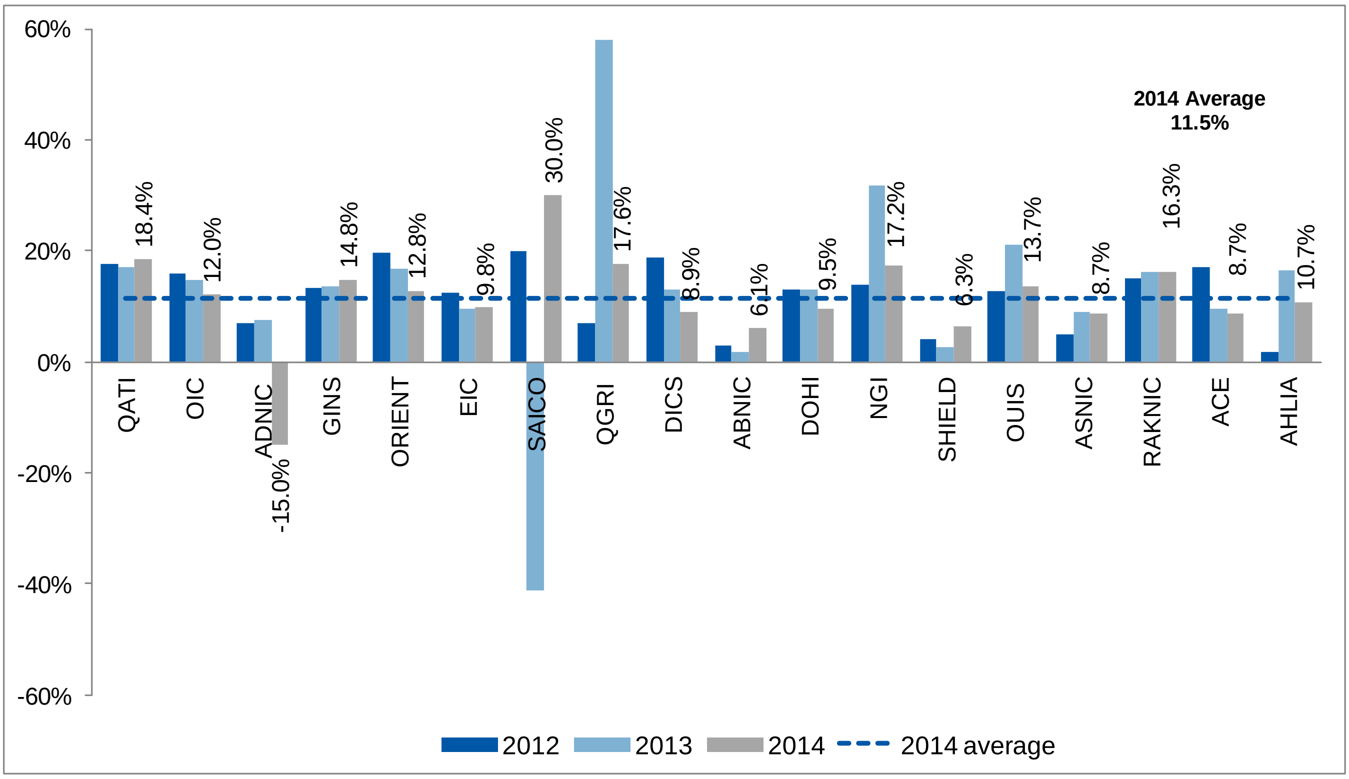
(2) Investment return has been calculated using normalized financials sourced from Zawya

Return on Average Equity

During the period under review, most companies within the sample, except SAICO, QGRI, NGI, SHIELD, and ADNIC, reported stable return on average equity. As the bottomline remained volatile due to competition, the returns of these companies experienced uncertainties, backed by fluctuations in premium underwriting. However, insurance companies such as QATI, OIC, RAKNIC, and GINS continued to generate stable returns.

ADNIC reported negative returns in 2014. SAICO and ADNIC were placed at two extreme ends, with the maximum and minimum return on average equity of 30.0% and 15.0%, respectively, in 2014 (see Exhibit 49).

Exhibit 49: Return on Average Equity – 2012 to 2014

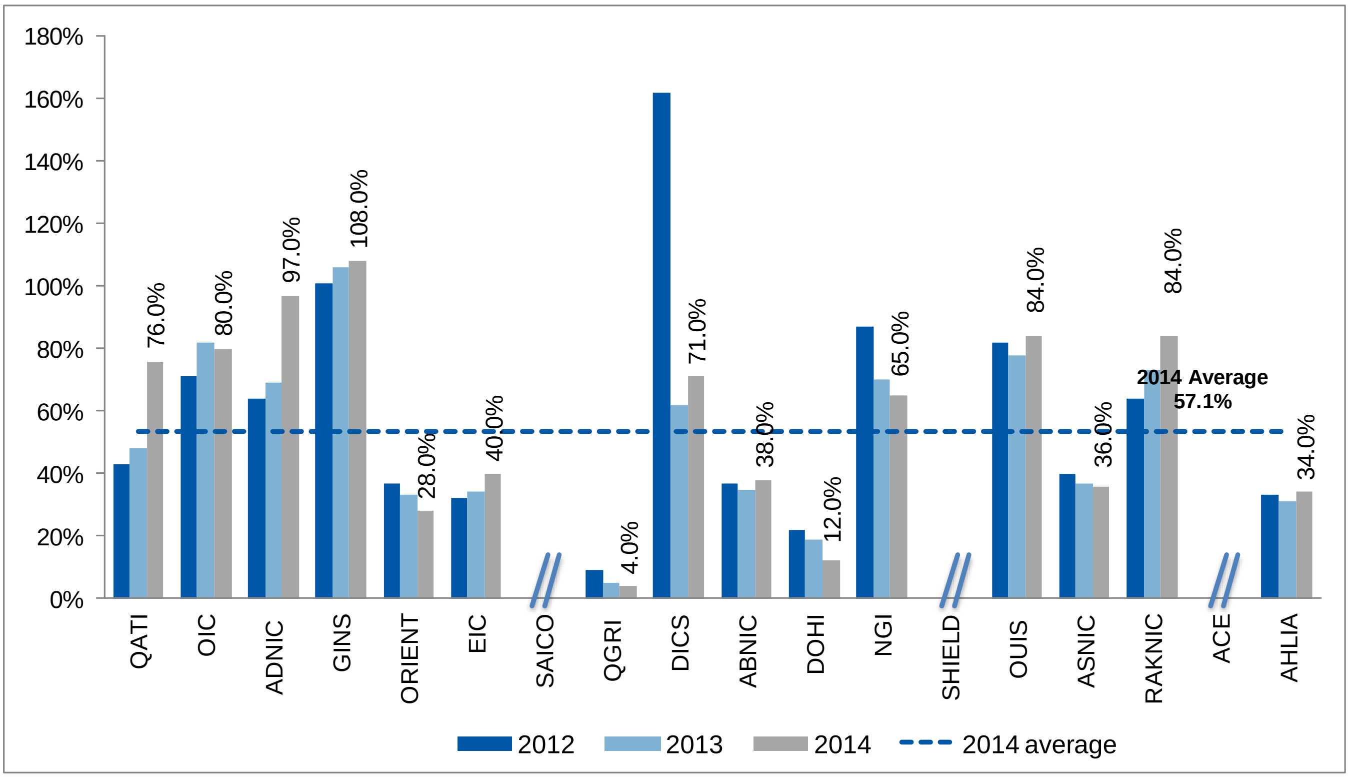


Source: Zawya

Net Premium Written to Equity

For the companies under review, net written premium to equity ratio declined from 58.9% in 2012 to 57.1% in 2014 (see Exhibit 50). GINS posted a ratio of 108.0%, indicating the highest risk across the sample, with QGRI has the lowest ratio at 4.0%.

Exhibit 50: Net Premium Written to Equity– 2012 to 2014



Source: Zawya

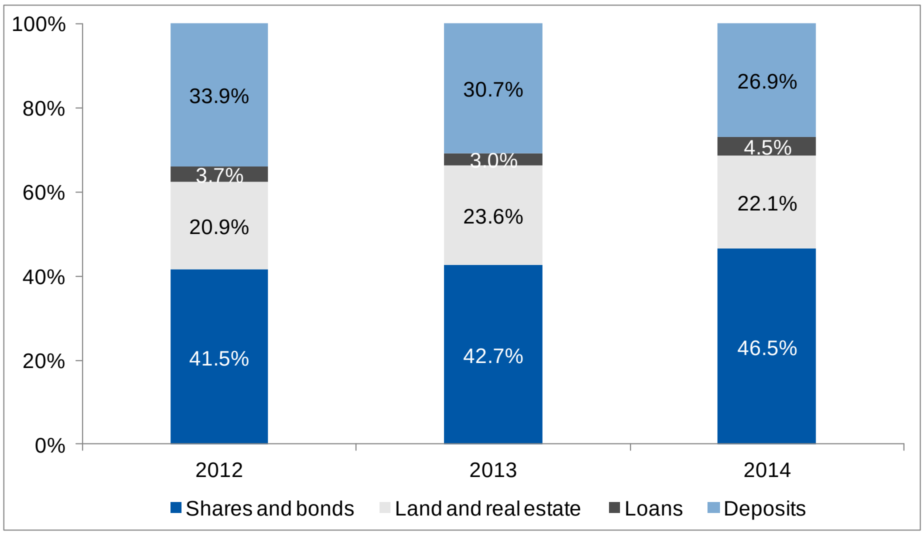
8.2 Investment Mix Analysis

In 2014, the average allocation of the selected insurance companies towards the two asset classes of shares and bonds and real estate was 46.5% and 22.1% of the total investment assets, respectively

The insurance companies in the region prefer to invest in the asset classes of shares and bonds as well as land and real estate compared to others due to higher return expectation as well as limited other investment options. Our analysis is focused on the investment mix under the land and real estate asset class. Generally, under this asset class, insurance companies invest in direct real estate, private real estate funds, or/and listed property or real estate investment trusts (REITs).

As of December 2014, the assets under management (AUM) of the chosen 18 insurance companies allocated to the real estate asset class amounted to US$ 2.2 billion of the total AUM of US$ 10.1 billion. The average allocation of these insurance companies towards the real estate asset class was 22.1% of the total AUM. All insurance companies, except QGRI, have invested less than US$ 300.0 million (ranging from US$ 0.9 million for GINS to US$ 258.3 million for ABNIC) in this asset class, in terms of absolute investment allocation. QGRI has invested more than US$ 1.3 billion in real estate, demonstrating the ability to build and maintain expansive real estate portfolios.

Exhibit 51: Investment Mix of the Select Insurance Companies



Source: ZAWYA

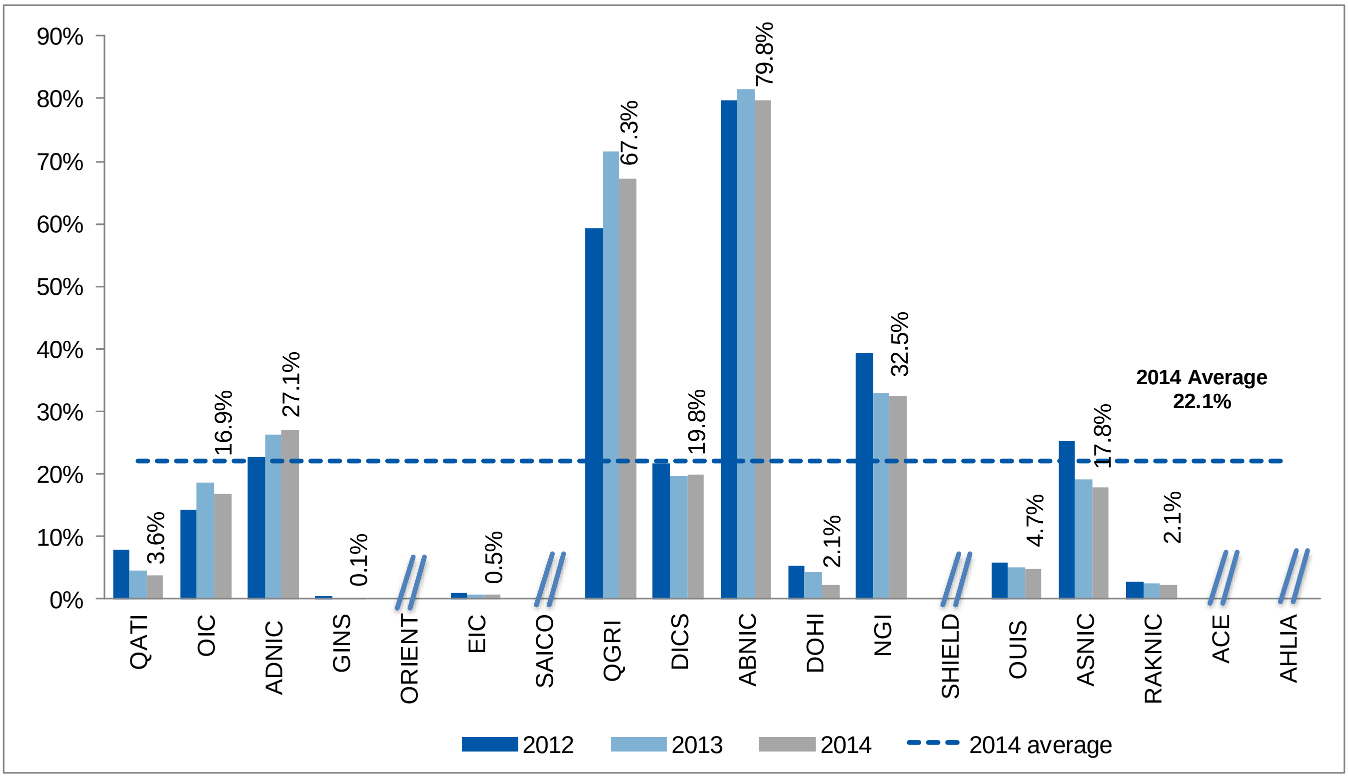
Note: 1) Deposits constitute cash and cash equivalents, including time deposits, statutory deposits, and bank deposits

2) Shares and bonds include investment in affiliates

QGRI, ADNIC, and OIC have substantially increased their allocation towards the real estate asset class during the last three years. The percentage of real estate investments in ABNIC's portfolio is the highest while that in case of EIC and GINS is the lowest (see Exhibit 52). AHLIA and ORIENT have no investment in the real estate asset class.

With such continuous investment allocation towards this asset class, QGRI's real estate investments reached 67.3% in 2014 from 59.2% in 2012 of its total investments. QATI is the only company that has been decreasing its investment allocation to the real estate asset class over the last three years. As a result, the ratio of real estate as a percentage of total investments for QATI declined from 7.8% in 2012 to 3.6% in 2014. All the remaining companies maintained range-bound percentage allocation to real estate in the last three years.

Exhibit 52: Real Estate as a Percentage of Total Investment – 2012 to 2014



Source: Zawya

Note: Data for SHIELD, SAICO, and ACE is unavailable. As ORIENT and AHLIA have no investment in real estate asset class, they are excluded from the average calculation

8.3 Comparative Financial Performance

Exhibit 53: Financial Performance of Selected Insurance Companies in the GCC, 2012-2014

Company Name	Market Cap (US$ Million), as onSeptember 27, 2015	GWP (2-year CAGR)	Net Underwriting Profit (2-year CAGR)	Net Income (2-year CAGR)	Cession Rate (3-year avg. %)	ROE (3-year avg. %)
Qatar Insurance Company	4,766.4	48.1%	28.9%	28.1%	30.7%	17.7%
Oman Insurance Company	300.5	15.3%	-32.5%	-3.1%	52.2%	14.2%
Abu Dhabi National Insurance	322.6	7.0%	NM	NM	43.4%	-0.2%
Gulf Insurance Company	371.2	7.0%	7.4%	11.4%	48.0%	13.8%
Orient Insurance Company	NA	12.4%	6.1%	7.2%	70.4%	16.4%
Emirates Insurance Company	249.9	14.1%	-2.1%	2.4%	53.3%	10.6%
Saudi Arabian Cooperative Insurance Company	118.3	18.9%	9.4%	10.8%	39.6%	2.9%
Qatar General Insurance and Reinsurance Company	1,212.2	11.0%	-11.4%	129.3%	60.1%	27.5%
Dhofar Insurance Company	109.1	8.7%	12.4%	-24.8%	57.7%	13.6%
Al Buhaira National Insurance Company	170.2	3.3%	-13.2%	49.4%	57.3%	3.5%
Doha Insurance Company	329.5	6.7%	4.5%	13.2%	77.4%	11.8%
National General Insurance Company	155.1	0.2%	-27.6%	31.0%	31.4%	21.0%
Arabian Shield Cooperative Insurance Company	130.1	16.8%	8.1%	31.9%	32.3%	4.4%
Oman United Insurance Company	59.7	6.7%	21.4%	16.2%	49.0%	15.8%
Al Sagr National Insurance Company PSC	284.9	2.1%	30.8%	38.7%	39.4%	7.5%
Ras Al Khaimah National Insurance Company	122.7	18.5%	13.2%	16.0%	36.3%	15.9%
ACE Arabia Cooperative Insurance	149.3	9.0%	-13.2%	-27.8%	55.1%	11.8%
Al Ahlia Insurance Company BSC	50.8	-1.9%	NM	166.8%	55.0%	9.7%
Selected Peer Data						
High			30.8%	166.8%	77.4%	27.5%
Low			-32.5%	-27.8%	30.7%	-0.2%
Average			2.6%	29.2%	49.4%	12.1%
Median			6.8%	16.0%	50.6%	12.7%

Source: Zawya

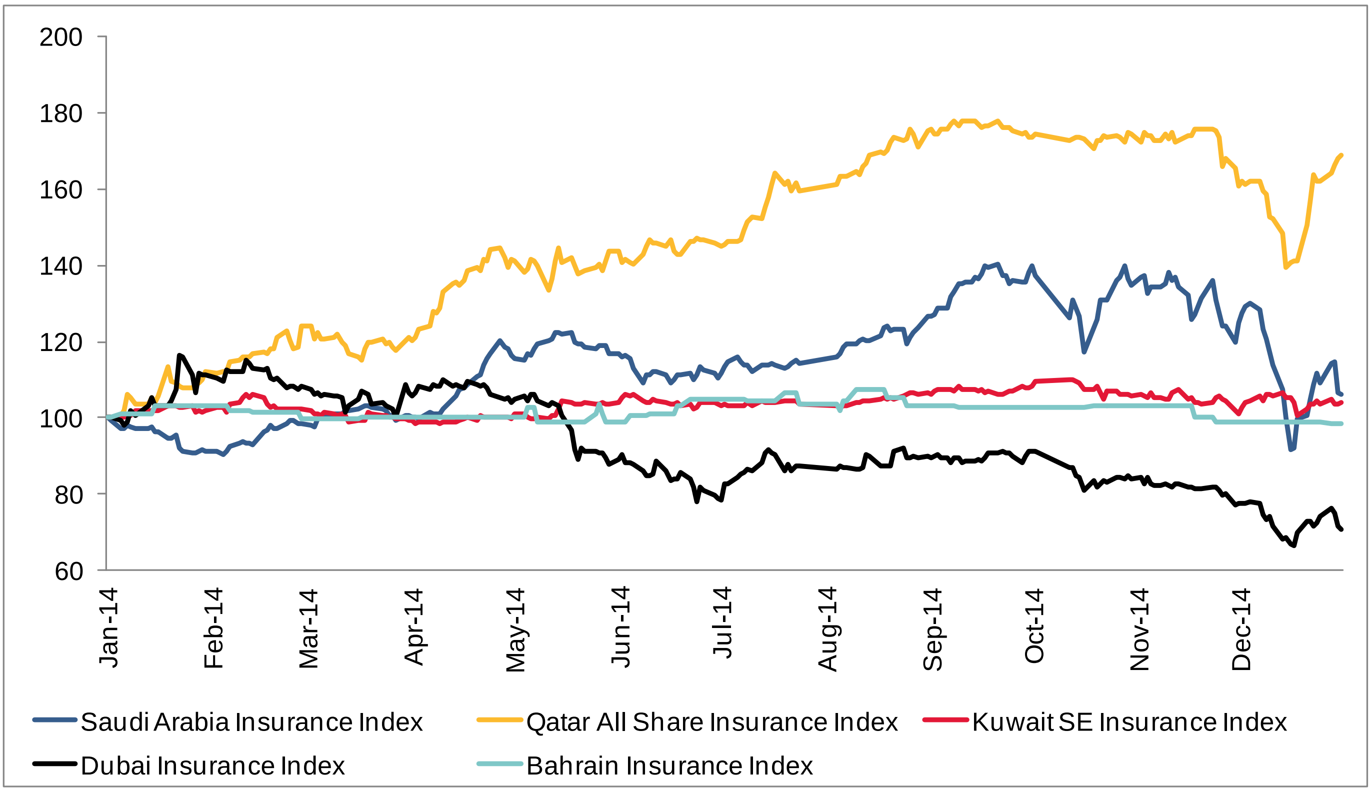
Note: NA: Not applicable, NM: Not meaningful

8.4 Valuation Analysis

Qatar All Shares Insurance Index was a winner in 2014, rising by more than 60% on an absolute basis

In 2014, insurance indices across the GCC region delivered a mixed performance (see Exhibit 54). Qatar All Shares Insurance Index was a winner in 2014, rising by more than 60% on an absolute basis. Despite posting losses in Q1 2014, Saudi Arabia Insurance Index also exhibited positive momentum, registering a return of 6.1% in 2014, backed by the regulatory reforms suggested by SAMA. The Kuwaiti and Bahraini insurance market remained largely stable in 2014 whereas Dubai Insurance Index dropped significantly in H2 2014, following the fall of oil prices due to weakening oil demand. The index posted negative return of 29.4% in 2014.

Exhibit 54: Insurance Index Performance – 2014



Source: Zawya

Valuation – Comparative Analysis of Selected Companies in the GCC

ASNIC and ABNIC traded above the regional average, indicating positive investor sentiment towards the industry

Average P/E ratio of the GCC insurance companies stood at 10.9x at the end of 2014 (see Exhibit 55). While calculating the average P/E multiples, we have excluded Arabian Shield Cooperative Insurance Company and ACE Arabia Cooperative Insurance, as these are outliers, with P/E ratio of 67.8x and 41.1x, respectively. These Saudi Arabian companies traded higher based on positive outlook for their Takaful insurance products. The stocks of Qatar-based insurance companies, QATI and DOHI traded above the GCC average. ASNIC and ABNIC also traded above the regional average, indicating positive investor sentiments towards the industry.

Average P/B ratio of the GCC insurers under review was 1.5x at the end of 2014. Most of the insurers were valued at a P/B ratio around 1.0x to 1.5x, except Takaful companies, which traded at a higher multiple due to better growth prospects.

The companies traded at an average market capitalization to GWP multiple of 1.3x at the end of 2014. The multiple of Qatar-based insurance companies was higher than the regional average, reflecting high growth potential of these companies, as perceived by investors. The companies in Saudi Arabia, Kuwait, and Oman traded at a lower multiple compared to most of their peers from the GCC region.

Exhibit 55: Valuation Analysis of Selected Insurance Companies in the GCC (as on December 31, 2014)

Company Name	P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
Qatar Insurance Company	14.5	2.6	2.6
Oman Insurance Company	5.6	0.6	0.4
Abu Dhabi National Insurance Company	NM	1.4	0.9
Gulf Insurance Company	9.0	1.3	0.6
Orient Insurance Company	NA	NA	NA
Emirates Insurance Company	8.8	0.8	1.1
Saudi Arabian Cooperative Insurance Company	18.4	4.8	0.4
Qatar General Insurance and Reinsurance Company	4.4	0.7	6.6
Dhofar Insurance Company	13.5	1.2	0.7
Al Buhaira National Insurance Company	16.2	0.9	1.1
Doha Insurance Company	14.8	1.4	2.7
National General Insurance Company	7.6	1.2	1.3
Arabian Shield Cooperative Insurance Company	67.8	2.8	1.5
Oman United Insurance Company	7.8	1.1	0.7
Al Sagr National Insurance Company PSC	NA	NA	NA
Ras Al Khaimah National Insurance Company	11.1	1.7	1.4
ACE Arabia Cooperative Insurance	41.1	2.8	2.1
Al Ahlia Insurance Company BSC	10.0	1.1	1.6
Selected Peer Data			
High	67.8	4.8	6.6
Low	4.4	0.7	0.4
Average	10.9	1.5	1.3
Median	10.0	1.2	1.1

Source: Bloomberg

Note: P/E is after unusual items; NM – Not meaningful; NA – Not applicable; values in red are below the GCC average, those in green are at par with or above the GCC average, and the numbers in black are excluded from the calculation of the GCC average and median as these companies are outliers.

Country Profiles

UAE

Key Growth Drivers

- **Growing population:** An expanding population base comprising a large pool of wealthy expatriates is expected to remain the major driver for the insurance industry. IMF forecasts the UAE population to grow at a CAGR of 3.0% between 2014 and 2020.
- **Rise in auto premiums:** Having increased by more than 20% in the first half of 2015, auto premiums are likely to further rise by more than 50% by early 2016*. As auto insurance accounts for about 40.0% of the total non-life insurance market in the UAE, higher premiums are expected to drive growth.
- **Compulsory medical insurance in Dubai:** Health insurance is likely to be extended to all the residents of Dubai by June 2016 under the compulsory medical insurance scheme, taking the total number of individuals covered from 1.5 million to 4.0 million. This is likely to benefit the non-life insurance segment.
- **Upcoming infrastructure projects:** Major infrastructure growth is underway because of projects such as Dubai and Abu Dhabi Metro, Etihad Rail, and World Expo 2020, lending a boost to the non-life insurance segment.

Recent Industry Developments

- In August 2015, the UAE Cabinet granted composite insurance companies one more year, starting from 28 August 2015, to separate their life and non-life insurance businesses. This will allow them to smoothly separate their composite business into distinct life and non-life insurance operations.
- In August 2015, the Dubai Financial Services Authority (DFSA) and the Australian Prudential Regulation Authority (APRA) signed an agreement to share information and jointly supervise financial institutions.
- In July 2015, the UAE's Insurance Authority entered into a tie-up with the Chartered Insurance Institute (CII) of London to set up a specialized institute as part of its plans to strengthen talent in the Emirati insurance industry.
- Oman Insurance Company launched the product, 'Business 360', in the UAE in early 2015 to meet the SME insurance requirements. This pre-underwritten, multi-line solution is a first in the country.

* Source: Middle East Insurance Review eDaily

Macro-economic Indicators

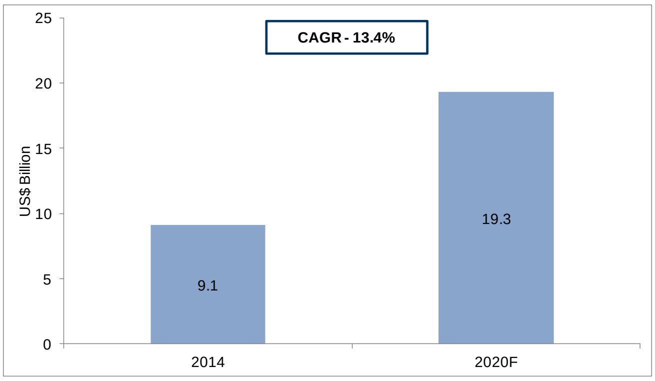
Indicators	Unit	2014	2015F	2020F
GDP per capita, at current prices	US$	42,944	35,392	42,330
GDP growth, at current prices	%	3.2%	-15.1%	7.0%
Population	mn	9.3	9.6	11.1
Insurance penetration	%	2.3%	2.8%	4.1%
Insurance density	US$	979	994	1,745
Inflation	%	2.3%	3.7%	3.4%

Source: IMF, October 2015, Alpen Capital
Note: F – Forecast

Profiled Players

Company	Type
Abu Dhabi National Insurance Company	Non-life
Al Sagr Insurance National Insurance Company	Non-life
Emirates Insurance Company	Non-life
National General Insurance Company	Life and non-life
Oman Insurance Company	Life and non-life
Orient Insurance Company	Life and non-life
Ras Al Khaimah National Insurance Company	Non-life

The UAE Insurance Industry Growth – 2014 to 2020



Source: Alpen Capital

Saudi Arabia

Key Growth Drivers

- **Growing population:** Population growth coupled with increase in awareness is expected to drive the demand for insurance. IMF estimates the country's population to grow at a CAGR of 2.0% between 2014 and 2020.
- **Regulatory reforms:** New laws and regulations are likely to drive the growth of the insurance industry. Saudi Arabian Monetary Agency (SAMA) has successfully formulated effective and stringent reforms for this industry.
- **Compulsory lines of insurance:** Made compulsory by law, the medical and motor insurance segments are, by far, the fastest growing lines of this industry in the kingdom. Further, medical insurance is also made mandatory for expatriate employees and their families residing in Saudi Arabia. This is likely to add to the demand in the non-life insurance segment.
- **Construction and infrastructure development:** As per MEED, Saudi Arabia has a long pipeline of construction and development projects, presenting the potential for an increase in the demand for commercial insurance in the country.

Recent Industry Developments

- In July 2015, the Council of Cooperative Health Insurance endorsed an optional visitor health insurance system to obtain medical insurance during a visit to the country, with treatment coverage of up to SAR 100,000 (US$ 26,660)*.
- Bupa Arabia, one of the largest insurers in the country, launched two insurance products catering to the population categories of singles and pregnant women in August 2015. It is designed for individuals between the ages of 18 and 50, who are single, divorced or have survived their spouses.
- In April 2015, the SAMA approved the surplus distribution policy for insurance and reinsurance operations, which lays down rules for the distribution of surplus to policyholders, as per the Law on Supervision of Cooperative Insurance Companies.
- In January 2015, insurers operating in Saudi Arabia increased the auto accident deductible imposed on car owners by four times, reaching SAR 5,000 (US$ 1,333)* from SAR 1,000 (US$ 267)* previously, in a move to cut losses in their motor insurance business.

Macro-economic Indicators

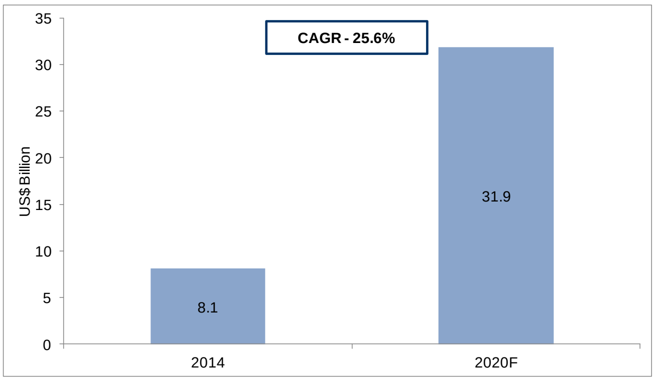
Indicators	Unit	2014	2015F	2020F
GDP per capita, at current prices	US$	24,252	20,139	24,488
GDP growth, at current prices	%	0.3%	-15.3%	6.1%
Population	mn	30.8	31.4	34.7
Insurance penetration	%	1.1%	1.6%	3.8%
Insurance density	US$	264	323	920
Inflation	%	2.7%	2.1%	2.9%

Source: IMF, October 2015, Alpen Capital
Note: F – Forecast

Profiled Players

Company	Type
United Cooperative Assurance Company	Non-life
The Company for Cooperative Insurance (Al Tawuniya)	Non-life
Mediterranean & Gulf Cooperative Insurance & Reinsurance Company	Non-life

The Saudi Arabian Insurance Industry Growth – 2014 to 2020



Source: Alpen Capital

* Exchange rate of 3.751 as of July 31, 2015

Qatar

Key Growth Drivers

- **Population growth:** The IMF estimates the Qatari population to grow at a 3.9% CAGR between 2014 and 2020. As per the latest data from the embassies in Qatar, non-Qataris form around 88.0% of the total population and are expected to seek compulsory insurance during their stay in the country. Moreover, about 90.0% of the population lives in urban areas such as Doha, where insurance awareness is high. Such demographics create an environment conducive for the growth of the insurance industry.
- **Highest per capita income:** Qatar is the richest economy in the world in terms of GDP per capita. The IMF expects the country's GDP per capita, at current prices, to grow at a CAGR of 0.2% between 2014 and 2020. A stable economic outlook, huge fiscal surplus, and high disposable income are likely to aid the growth of the industry.
- **Infrastructure boom in Qatar:** As per MEED, the country holds an estimated long pipeline worth US$ 100.0 billion of various infrastructure, energy, and logistics projects, due to the World Cup event in 2022. Such projects are likely to demand a variety of insurance services. Among the prominent ones is the under-construction Qatar rail project that received insurance coverage from a consortium of six domestic insurers, led by Qatar Insurance Company.

Recent Industry Developments

- In July 2015, the General Directorate of Traffic opened two new offices at Qatar Insurance Company and Bima Insurance to investigate accidents. The move is aimed at saving vehicle owners' time by eliminating the need to visit the investigation department of the Directorate or any other traffic departments.
- In March 2015, Lloyd's of London announced its ten-year international expansion strategy, under which, it has selected Qatar and the UAE (Dubai) as its pilot markets. Lloyd plans to expand its presence in Asia and the Middle East by 2025.
- In 2014, Qatari regulators announced plans to introduce a major reform, including the establishment of a deposit insurance framework that will include a Sharia-compliant scheme, aimed to be implemented by 2016.

Macro-economic Indicators

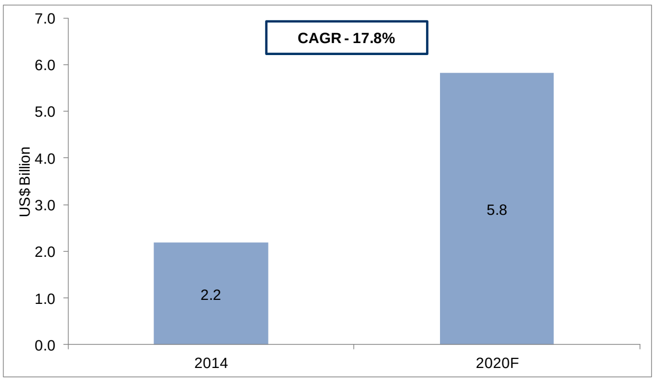
Indicators	Unit	2014	2015F	2020F
GDP per capita, at current prices	US$	93,990	78,829	95,310
GDP growth, at current prices	%	4.1%	-8.6%	6.5%
Population	mn	2.2	2.4	2.8
Insurance penetration	%	1.0%	1.3%	2.2%
Insurance density	US$	977	996	2,078
Inflation	%	3.0%	1.6%	2.3%

Source: IMF, October 2015, Alpen Capital
Note: F – Forecast

Profiled Players

Company	Type
Qatar Insurance Company	Non-life
Doha Insurance Company	Non-life
Al Koot Insurance & Reinsurance Company	Non-life

The Qatari Insurance Industry Growth – 2014 to 2020



Source: Alpen Capital

Kuwait

Key Growth Drivers

- **Population growth:** The country's growing young and diversified population is likely to fuel the demand for insurance. The IMF expects the Kuwaiti population to grow at a 2.8% CAGR between 2014 and 2020 to reach 4.7 million.
- **Economic growth:** Kuwait's economy is expected to grow in the long run with plans of diversification, industrialization, and privatization, despite the current oil price volatility. Such economic development is expected to increase the GDP and the spending power of the consumers, benefitting the insurance industry. Although the regulatory climate within the country's insurance industry is still gaining clarity, the number of premiums continue to increase.
- **Increased in awareness:** Insurance awareness in the country is likely to increase, backed by a rise in the education levels and government initiatives favoring the use of insurance products. Consequently, although the life segment may see some growth, the non-life segment is expected to grow rapidly.
- **Compulsory motor insurance:** Motor insurance, made mandatory by law, is the leading category under the non-life insurance segment. As a result, motor insurance is expected to remain one of the key growth drivers for the insurance industry.

Recent Industry Developments

- In early 2015, First Takaful Insurance launched a five-year strategic plan to increase its market share, without compromising on the quality of underwriting, by expanding its sales channels and focusing on customer service. It is part of the company's rebranding exercise as well as its restructuring initiatives to deal with the accumulated losses.
- In mid-2014, the Kuwaiti parliament's legislative committee accepted the proposal of implementing compulsory health insurance for visitors. Also, the Kuwaiti National Assembly approved the health insurance scheme for retirees.
- In May 2014, Gulf Insurance Company signed an agreement with Kuwait Occupational Standards, Assessment and Certification (KOSAC), under the Minister of Social Affairs and Labor, to become part of KOSAC's workshops for improving awareness about insurance as a profession in the country.

Macro-economic Indicators

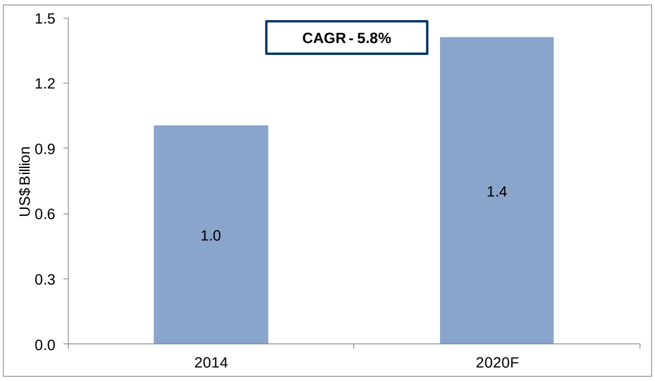
Indicators	Unit	2014	2015F	2020F
GDP per capita, at current prices	US$	43,168	29,983	37,856
GDP growth, at current prices	%	-1.8%	-28.6%	6.5%
Population	mn	4.0	4.1	4.7
Insurance penetration	%	0.6%	0.8%	0.8%
Insurance density	US$	252	229	300
Inflation	%	2.9%	3.3%	3.6%

Source: IMF, October 2015, Alpen Capital
Note: F – Forecast

Profiled Players

Company	Type
Gulf Insurance Company	Life and non-life

The Kuwaiti Insurance Industry Growth – 2014 to 2020



Source: Alpen Capital

Oman

Key Growth Drivers

- **Population:** According to the IMF, Oman's population is expected to grow at a CAGR of 3.1% between 2014 and 2020 compared to the world average of less than 1.2%. This growth is attributed to an increase in the expatriate workforce required to support the ongoing development in the country.
- **Regulatory reforms:** In early 2015, Oman's regulatory authority, the Capital Market Authority, announced several reforms such as increase in minimum capital requirement and those related to listing on the stock market, among others. These reforms are likely to enhance transparency, corporate governance, and operating standards, providing a major boost to the insurance industry.
- **Growth in non-life segment:** The insurance industry in Oman is likely to receive a major boost from the non-life segment, especially basic lines such as medical and motor, which accounted for most of the total premiums in 2014.
- **The Takaful Law:** The State Council (Oman's upper house) approved a draft law for Oman's Takaful insurance market in mid-February 2015. The Takaful law is part of a series of regulations introduced to monitor and boost the country's nascent Takaful insurance segment.

Recent Industry Developments

- In July 2015, AXA Gulf and Bank Muscat signed a ten-year agreement to offer bancassurance products covering life protection, investment, and savings to the bank's customers. Bank Muscat's customers will be able to purchase insurance products, following their phased roll-out across the bank's 140 branch network, providing access to AXA advisors.
- In mid-2015, Al Anwar Holding announced plans to float an initial public offering of its subsidiary, Falcon Insurance, on the Muscat Securities Market (MSM). This move is subject to approval by regulators and shareholders.
- Oman Insurance Company's marine cargo covers will be available on Dubai Trade's unique online insurance platform Tradeshield, following the signing of a new partnership agreement between the two entities in March 2015.

Macro-economic Indicators

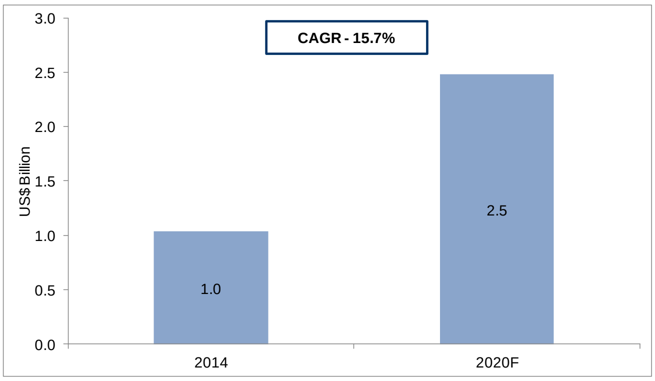
Indicators	Unit	2014	2015F	2020F
GDP per capita, at current prices	US$	20,927	15,672	16,622
GDP growth, at current prices	%	1.0%	-22.6%	3.2%
Population	mn	3.7	3.8	4.5
Insurance penetration	%	1.3%	1.8%	3.3%
Insurance density	US$	279	289	541
Inflation	%	1.0%	0.4%	2.8%

Source: IMF, October 2015, Alpen Capital
Note: F – Forecast

Profiled Players

Company	Type
Oman United Insurance Company	Life and non-life
National Life & General Insurance Company	Life and non-life
Takaful Oman Insurance	Life and non-life

The Omani Insurance Industry Growth – 2014 to 2020



Source: Alpen Capital

Bahrain

Key Growth Drivers

- **Population growth:** Population growth, supported by a rising expatriate workforce, is likely to remain the key driver of the Bahraini insurance industry. Based on the IMF data, Bahrain's population is expected to grow at a 2.0% CAGR between 2014 and 2020.
- **Increase in disposable income:** Bahrain's GDP, at current prices, is projected to grow at a 3.0% CAGR between 2014 and 2020, as per the IMF. Rising disposable incomes of the consumers are likely to increase the discretionary spending on insurance products.
- **Government initiatives:** Despite its small size, the Bahraini insurance industry is well developed and highly regulated. The Bahraini insurance regulatory authority is undertaking several initiatives to improve the country's insurance industry. Support from the regulator thus continues to play a vital role in the growth of the insurance industry.
- **Compulsory medical cover:** With the country being home to a large population of non-nationals, the new ruling that makes insurance mandatory for expatriates can strongly boost demand for health insurance products.

Recent Industry Developments

- In April 2015, Bahrain Kuwait Insurance Company acquired an additional 10.8% stake in the local Takaful International Company, becoming its fifth-largest shareholder, accounting for 40.9% of the company's shares. In January 2015, A.M. Best affirmed the financial strength rating of B++ and the issuer credit rating of "BBB" for Takaful International Company. The entity's outlook remains stable.
- In March 2015, Bahrain Insurance Association conducted an "Insurance Awareness Week" aimed at increasing public awareness on various insurance products such as medical and life insurance, among others.
- In 2014, Central Bank of Bahrain (CBB) issued amendments to its rulebook that focused mainly on the Takaful and re-Takaful sectors. A new regulatory framework for the Takaful sector is expected to attract more players to this market, thus boosting competition among operators.

Macro-economic Indicators

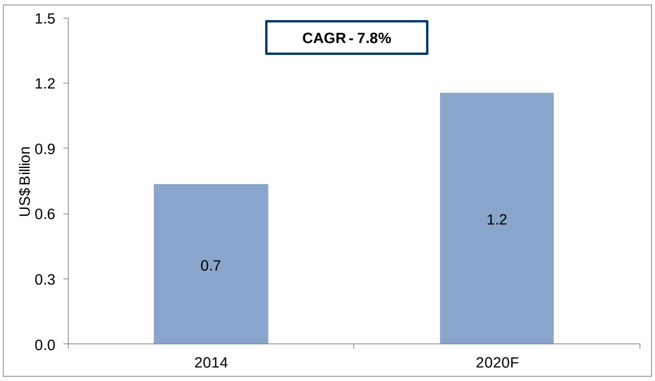
Indicators	Unit	2014	2015F	2020F
GDP per capita, at current prices	US$	26,701	23,899	28,374
GDP growth, at current prices	%	3.0%	-8.7%	5.4%
Population	mn	1.27	1.29	1.43
Insurance penetration	%	2.2%	2.5%	2.9%
Insurance density	US$	585	591	817
Inflation	%	2.5%	2.1%	1.7%

Source: IMF, October 2015, Alpen Capital
Note: F – Forecast

Profiled Players

Company	Type
Bahrain Kuwait Insurance Company	Life and non-life
Takaful International Company	Life and non-life

The Bahraini Insurance Industry Growth – 2014 to 2020



Source: Alpen Capital

Company Profiles

Abu Dhabi National Insurance Company PSC (Publicly Listed) UAE

Company Description

Abu Dhabi National Insurance Company PSC (ADNIC) is engaged in the insurance business for individual and corporate. The company provides insurance solutions as well as claims management services to the UAE and the greater MENA markets. ADNIC has set up a dedicated team of over 400 insurance professionals at its headquarters in Abu Dhabi, UAE and is listed on Abu Dhabi Securities Exchange.

Business Segments/Product Portfolio

The company's solutions are divided into two main categories - individual insurance and corporate insurance.

- **Individual insurance:** This includes insurance for home, life, medical, motor, personal watercraft, personal accidents, and travel.
- **Corporate insurance:** Under this business, the company offers aviation, engineering and construction, energy, marine cargo, marine hull, motor fleet, property, liabilities, financial lines, travel, and life insurance.
- ADNIC also offers **reinsurance solutions** and **affinity programs** to select communities.

Key Strengths

- One of the leading players in terms of GWP and provider of risk underwriting solutions in the UAE.
- Strong capitalization base with zero debt.

Recent Developments/Future Plans

- The company posted a 9.4% y-o-y decline in GWP to US$ 381.6 million in H1 2015, mainly due to lower demand in the consumer segment. The company thus reported net underwriting loss of US$ 67.4 million reflecting the servicing of the run-off loss making portfolio. As a result, the company reported net loss of US$ 81.3 million over US$ 28.4 million net profit in the previous year.
- In June 2015, ADNIC signed a housing finance partnership with Emirates Development Bank to provide comprehensive insurance policies to the bank's housing finance customers.
- In January 2015, ADNIC announced its plans to open new sales and service offices, improve the profitability of each business line, and launch new mobile applications to enhance customer service.
- In October 2014, the company entered into a partnership with third-party administrators including NextCare, NAS, MSH International, and FMC UAE Network.

Current Price (US$)	0.84

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	ADNIC UH
52 week high/ low (US$)	1.88/0.84
Market Cap (US$ mn)	316.5
Enterprise value (US$ mn)	447.0
Shares outstanding (mn)	375.0

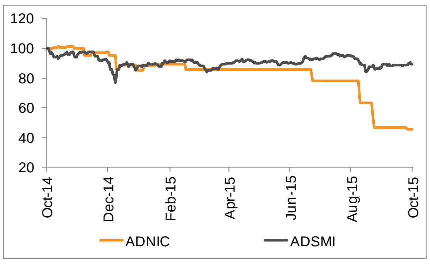
Source: Bloomberg

Average Daily Turnover ('000)

	AED	US$
3M	12.9	3.5
6M	6.6	1.8

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
NM	1.39	0.86

Source: Bloomberg

Shareholding Structure	
Abu Dhabi Investment Council	23.80%
HE Otaiba Bin Khalaf Bin Ahmad Al Otaiba	10.11%
HH Sheikh Tahnoun Bin Mohammed Al Nahyan	5.30%
Al Dhabi Investment PJSC	5.12%
Public	55.67%
Total	**100.00%**

Source: Abu Dhabi Stock Exchange, as on October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	625.9	655.2	716.3	*4.7*	*9.3*
Net Written Premium	316.8	396.2	430.9	*25.1*	*8.6*
Net Underwriting Profit / (Loss)	74.8	72.3	-42.6	*-3.3*	*NM*
Margin (%)	12.0	11.0	-5.9		
Net Profit / (Loss) for the Year	43.1	42.5	-76.3	*-1.4*	*NM*
Margin (%)	6.9	6.5	-10.7		
Return on Equity (%)	6.9	7.4	-17.2		
Return on Assets (%)	3.5	3.3	-5.1		

Key Comments

- *Over the last three years (FY2012 to FY2014), GWP rose at a CAGR of 7.0% whereas NWP grew at a CAGR of 16.6%, indicating increase in retention rate. Accordingly, the cession rate declined to 39.8% in FY2014 compared with 49.4% in FY2012. While GWP and NWP improved, net underwriting profit (NUP) margin and net profit (NP) margin declined sharply to register their worst performance in FY2014, largely due to incremental outstanding claims that increased fivefold from their FY2012 level.*
- *GWP rose by 9.3% y-o-y to US$ 716.3 million in FY2014 owing to growth in the company's commercial lines portfolio. NWP increased by 9.2% y-o-y to US$ 430.9 million. The company reported net underwriting loss of US$ 42.6 million in FY2014 against NUP of US$ 72.3 million in FY2013 due to higher insurance claims and increased underwriting costs. These incremental claims were related to the property, marine, and aviation lines of its business. Further, ADNIC registered net loss of US$ 76.3 million in FY2014 over net profit of US$ 42.5 million in FY2013. As a result, ROE and ROA ratios are not comparable between FY2014 and FY2013.*

Source: Zawya, Company documents

Al Koot Insurance & Reinsurance Company QSC (Government) Qatar

Company Description

Incorporated in 2003, Al Koot Insurance & Reinsurance Company QSC (Al Koot), a wholly-owned subsidiary of Gulf International Services (GIS), provides insurance and reinsurance services to the construction, energy, marine, and medical segments. Prior to its acquisition by GIS, Al Koot was the subsidiary and captive insurance company of Qatar Petroleum (QP). The company continues to offer its services to QP even after its acquisition.

Business Segments/Product Portfolio

Al Koot offers three types of services, namely, captive insurance and reinsurance, risk management services, and medical insurance.

- **Captive insurance and reinsurance:** Under this segment, the company's main function is to underwrite different classes of insurance such as energy, construction, and marine. Al Koot mainly works for QP and its group companies to provide insurance services.
- **Risk management services:** Through this business, Al Koot operates as the risk manager for QP and its group companies. The company provides guidance on risk management, reviews contracts, and offers project-specific and detailed insurance advice, in addition to other ancillary services.
- **Medical insurance:** Al Koot offers group life and personal accident coverage to corporate clients. In 2007, it launched Al Koot Global Care Plan, an innovative comprehensive medical insurance scheme, specially designed for the oil, gas, and utilities sectors.

Key Strengths

- Enhanced set of underwriting processes and structures for multinational insurance programs.
- Specialization in providing premier risk and insurance services to the energy sector.
- A wide-range of alternative market insurance products and risk management solutions.

Recent Developments/Future Plans

- Al Koot recorded a 4.0% y-o-y growth in gross insurance revenue to QAR 735.5 million (US$ 202.0 million)* in FY2014, mainly driven by 17.6% y-o-y growth in the medical line of business, which accounted for approximately 42% of its annual revenue. The company displayed a moderate 5.5% y-o-y growth in profit to QAR 161.8 million (US$ 45.0 million)*.
- Al Koot's contracts are signed prior to the plunge in oil prices and are fixed in nature. These contracts will be renewed between 2017 and 2021. Hence, the company is immune from current ongoing volatility in the oil prices.

* Exchange rate of 0.2746 as of December 31, 2014

Al Sagr National Insurance Company PSC (Publicly Listed) UAE

Company Description

Incorporated in 1979, Al Sagr National Insurance Company PSC (ASNIC) is engaged in the business of underwriting various insurance products in the UAE and the company is listed on Dubai Financial Market exchange. ASNIC invests in financial securities and investment properties. Headquartered in Dubai, the company has operations in Sharjah, Abu Dhabi, Al Ain, Ras Al Khaimah, and Ajman in the UAE through branch offices. It also has presence in Saudi Arabia and Jordan through subsidiary companies such as Al Sagr Cooperative Insurance Company and Jordan Emirates Insurance Company, respectively.

Business Segments/Product Portfolio

Underwriting of general insurance and investments are the two major segments:

- **General insurance:** Under this business, the company offers:
  - Property insurance, comprising products that provide coverage for losses by fire, burglary, and other allied perils as well as householder's comprehensive insurance, among others
  - Engineering insurance solutions that include building and civil engineering projects, contractor plant and machinery, electronic equipment, and machinery breakdown
  - Liability insurance, covering productions such as workman's compensation, public liability, products liability and professional liability
  - Marine hull and marine cargo insurance that offers loss coverage for hull and machinery as well as cargo in transit
  - Medical, motor life, and travel insurance solutions
- **Investments and treasury:** The company invests in marketable equity securities, fixed deposits, and investment-properties in sectors such as real estate, equity securities, manufacturing, prefab houses, air-conditioning systems, and others.

Key Strengths

- One of the leading insurance companies in the UAE, based on GWP.
- Strong support from regional and international reinsurers and reinsurance brokers.
- Sound financial position from its captive investments with steady growth of assets every year.

Recent Developments/Future Plans

- ASNIC registered a 6.4% y-o-y growth in GWP to US$ 60.9 million in H1 2015. However, the company reported net underwriting loss for H1 2015 to US$ 1.3 million compared to net underwriting profit of US$ 3.4 million in the previous year.
- In August 2014, A.M. Best assigned its B++ (Good) financial strength ratings.

Current Price (US$)	*4.55*

Price as on April 12, 2015 (Last trading day)

Stock Details	
Bloomberg ticker	*ASNIC UH*
52 week high/ low (US$)	NA
Market Cap (US$ mn)	284.9
Enterprise value (US$ mn)	258.2
Shares outstanding (mn)	230.0

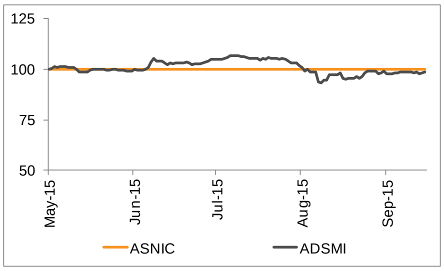
Source: Bloomberg

Average Daily Turnover ('000)

	AED	US$
3M	NA	NA
6M	NA	NA

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
NA	NA	1.51

Source: Bloomberg

Shareholding Structure	
Gulf General Investment Company	49.56%
Dr Abdullah Omran Taryam	9.47%
Near East Investment Company	8.75%
Enmaa Al Emirate for General Trading	7.50%
Ayman Mohammed Yusri Mahmoud Salman Al-Dowaik	5.00%
Mr Amjad Mohammed Yosri Mahmoud Salman Al-Dowaik	5.00%
Public	14.72%
Total	**100.00%**

Source: Dubai Financial Market Exchange, as on October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	101.8	107.0	106.2	*5.1*	*-0.8*
Net Written Premium	63.4	62.5	65.0	*-1.4*	*4.0*
Net Underwriting Profit / (Loss)	8.4	7.8	14.3	*-7.1*	*83.4*
Margin (%)	8.3	7.3	13.4		
Net Profit / (Loss) for the Year	7.9	14.6	15.3	*84.8*	*4.7*
Margin (%)	7.8	13.6	14.4		
Return on Equity (%)	4.9	8.6	8.5		
Return on Assets (%)	2.5	4.2	4.0		

Key Comments

- *While GWP grew slightly at a CAGR of 2.1% over the last three years, NP margin nearly doubled in FY2013 due to reduction in SG&A and unrealized investment loss. Further, the NUP margin nearly doubled to 13.4 in FY2014 compared to 8.3 in FY2013. This improvement is largely attributed to reduction in general underwriting expenses as well as a drop in insurance claims. Average retention ratio remained at 60.6% between FY2012 and FY2014.*
- *GWP decreased marginally by 0.8% y-o-y to US$ 106.2 million in FY2014. Geographically, ASNIC holds a wide network of franchises within the UAE, in addition to presence in Jordan that represented around 12.0% of GWP in FY2014. However, NWP grew by 4.0% y-o-y to US$ 65.0 million due to decrease in the insurance premium ceded. NUP surged significantly by 83.4% y-o-y to US$ 14.3 million between FY2012 and FY2014, mainly due to reduced insurance claims. Net profit increased by 4.7% y-o-y to US$ 15.3 million in FY2014.*

Source: Zawya, Company documents

Bahrain Kuwait Insurance Company BSC (Publicly Listed) — Bahrain

Company Description

Established in 1975, Bahrain Kuwait Insurance Company BSC (BKIC) is a leading insurance entity in Bahrain in terms of GWP and net profits. BKIC is also the only firm to operate as a national insurance company both in Bahrain and Kuwait due to its Bahraini and Kuwaiti shareholders. BKIC is a subsidiary of Gulf Insurance Group and is listed on both the Kuwait Stock Exchange as well as the Bahrain Stock Exchange. BKIC is one of the founder members for two companies in Bahrain, namely, United Insurance Company and Gulf Assist.

Business Segments/Product Portfolio

BKIC provides insurance solutions under the following categories:

- Travel insurance coverage for individual and family.
- Home insurance coverage for building, jewelry, and 24-hour emergency services.
- Motor insurance that covers third-party liability, accident collision or overturning, fire, external explosion and self-ignition, lightening, theft, impact of dropped or flying objects, and damage during transit.
- Domestic help insurance includes accident coverage for the domestic help hire.
- Medical insurance offers plans such as the basic health plan, Shefa'a health insurance, and critical health plan, Amal.
- Other products include individual and corporate insurance which provides coverage for property and casualty, engineering, liability, auto, marine, and life.

Key Strengths

- An industry leader in Bahrain since 2008.
- Top-notch ratings in the form of "A-" (Excellent) assigned by A.M. Best.
- Continuous improvement in services through new ventures

Recent Developments/Future Plans

- BKIC posted a 5.8% y-o-y decrease in GWP in H1 2015 due to the depreciation of the Kuwaiti Dinar. However, the NUP remained stable with US$ 3.5 million for H1 2015. Net profit fell by 33.1% y-o-y to US$ 4.6 million compared to US$ 6.9 million in H1 2014.
- In April 2015, BKIC purchased 10.8% stake in Takaful International, the largest Islamic insurance firm in Bahrain, for BHD 573,112 (US$ 1.5 million). Later in the month, BKIC raised its stake to 40.9% with investment of BHD 2 million (US$ 5 million).

Current Price (US$)	1.60

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	BKIC BI
52 week high/ low (US$)	1.83/1.47
Market Cap (US$ mn)	113.7
Enterprise value (US$ mn)	47.7
Shares outstanding (mn)	71.5

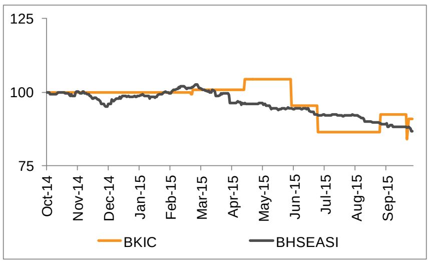
Source: Bloomberg

Average Daily Turnover ('000)

	BHD	US$
3M	0.5	1.4
6M	0.8	2.1

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
NA	NA	1.09

Source: Bloomberg

Shareholding Structure	
Gulf Insurance Group KSCP	56.12%
Warba Insurance Company KSC	13.33%
BBK BSC	6.82%
Public	23.73%
Total	**100.00%**

Source: Bahrain Bourse, as on October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	92.8	101.3	105.5	*9.2*	*4.2*
Net Written Premium	31.7	37.5	39.9	*18.3*	*6.6*
Net Underwriting Profit / (Loss)	10.5	8.8	7.8	*-16.2*	*-10.9*
Margin (%)	11.3	8.7	7.4		
Net Profit / (Loss) for the Year	11.2	9.8	11.2	*-12.5*	*14.5*
Margin (%)	12.1	9.7	10.7		
Return on Equity (%)	13.6	11.1	12.1		
Return on Assets (%)	4.8	3.8	4.0		

Key Comments

- *Although GWP grew at a rate of 9.2% and 4.2% in FY2013 and FY2014, respectively, margins continue to decline due to increase in unearned premium. According to A.M.Best, the company's net income has traditionally received stable returns from its investments, which are based on a conservative strategy and comprise cash as well as short-term deposits.*
- *GWP rose by 4.2% y-o-y to US$ 105.5 million in FY2014 as a result of increase in premium from medical and property insurance products under the company's fire and general segment. However, the company's management has highlighted a challenging climate in the region, contributed mainly by severe price competition. Such a situation is particularly prevalent in the high loss ratio classes of motor and medical insurance, where loss ratios sometimes exceed 100%. NWP grew by 6.6% y-o-y to US$ 39.9 million in FY2014. NUP decreased by 10.9% y-o-y to US$ 7.8 million in FY2014, mainly due to increased insurance claims. Despite decrease in NUP, net profit jumped by 14.5% y-o-y to US$ 11.2 million in FY2014 on account of increase in investment income. Margin expansion led to improvement in the return ratios of ROE and ROA in FY2014.*

Source: Zawya, Company documents

Doha Insurance Company QSC (Publicly Listed) — Qatar

Company Description

Incorporated in 1999, Doha Insurance Company QSC (DIC) offers insurance and reinsurance to the Qatari market. Under the personal line, the company's product portfolio includes car insurance, yacht insurance, travel insurance, road assistance, and automotive warranty. The company's business lines include aviation, engineering, fire, health, marine, motor, and travel insurance. DIC also operates a Takaful branch under the "Doha Takaful" brand, established in 2006, to conduct insurance and reinsurance activities.

Business Segments/Product Portfolio

DIC operates through two segments, personal insurance and corporate insurance.

- **Personal:** Under this segment, the company offers cover for travel, motor – compulsory insurance and comprehensive insurance, and yacht – third-party liability, personal accident, and comprehensive cover.
- **Corporate:** Under this segment, it offers aviation, engineering, fire, health, marine, motor, and travel insurance.
  - Aviation insurance includes hull and machinery cover.
  - Engineering insurance deals with heavy machineries and equipment. It includes various plans such as contractor's all risks, erection all risks, machinery breakdown, and contractor's plant and machinery, etc.
  - Fire insurance covers a wide range of properties such as residential, industrial, commercial, and small, medium and large enterprises.
  - Marine insurance offers cover for cargo, hull, and machinery.
  - Motor insurance covers third-party liability, buses, and commercial vehicles, among others.

Key Strengths

- Top-notch ratings such as "A-" (Excellent) by A.M. Best and "A-" by Standard & Poor's, reflecting stable outlook.
- Well-qualified and experienced insurance professionals as well as senior executives.

Recent Developments/Future Plans

- DIC registered a 5.2% y-o-y increase in GWP to US$ 86.5 million in H1 2015. NUP declined by 2.7% y-o-y to US$ 12.9 million. Net profit decreased by 17.5% y-o-y to US$ 12.2 million.
- In February 2015, the company announced that it was expecting approvals from Dubai International Financial Centre to set up a wholly-owned reinsurance subsidiary, MENA Re Underwriters Limited, by end-2015.

Current Price (US$)	6.64

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	DOHI QD
52 week high/ low (US$)	9.79/6.27
Market Cap (US$ mn)	332.0
Enterprise value (US$ mn)	261.8
Shares outstanding (mn)	50.0

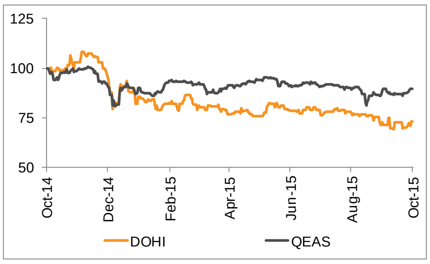
Source: Bloomberg

Average Daily Turnover ('000)

	QAR	US$
3M	183	50
6M	373	102

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
14.80	1.35	2.72

Source: Bloomberg

Shareholding Structure	
Armed Forces Investment Fund – Qatar	1.21%
Hasan Jassem Darwish Fakhroo	0.64%
Sheikh Jabor Bin Hamad Bin Jasim Al Thani	0.41%
Public	97.74%
Total	**100.00%**

Source: Zawya, as on October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	128.7	141.9	146.6	*10.3*	*3.3*
Net Written Premium	29.2	29.2	35.9	*0.0*	*23.0*
Net Underwriting Profit / (Loss)	21.4	19.8	23.3	*-7.5*	*17.5*
Margin (%)	16.6	14.0	15.9		
Net Profit / (Loss) for the Year	16.6	18.4	21.2	*10.8*	*15.3*
Margin (%)	12.9	13.0	14.5		
Return on Equity (%)	12.5	12.2	7.2		
Return on Assets (%)	4.4	5.1	4.6		

Key Comments

- *DIC's operating performance remained steady, with GWP growth at a CAGR of 6.7% between FY2012 and FY2014 and net underlying profit rising at a rate of 4.3%.*
- *GWP grew by 3.3% y-o-y to US$ 146.6 million in FY2014, mainly due to increase in premium from fire and general accident insurance products. NWP increased by 23.0% y-o-y to US$ 35.9 million due to decline in the premium ceded to reinsurers. NUP surged by 17.5% y-o-y to US$ 23.3 million in FY2014 due to increase in insurance benefits and claims recovered from reinsurers. Net profit rose by 15.3% y-o-y to US$ 21.2 million in FY2014 on account of significant increase in investment income. As the company raised capital in FY2014, its shareholders' equity almost doubled during the year. This resulted in a plunge in ROE in FY2014.*

Source: Zawya, Company documents

Emirates Insurance Company PSC (Publicly Listed) UAE

Company Description

Incorporated in 1982, Emirates Insurance Company PSC (EIC) provides non-life insurance solutions in the UAE. EIC distributes its products through brokers as well as directly to corporate clients, individuals, and other insurance firms. The company also invests in financial assets and properties. Emirates International, established in 2012, is the reinsurance division of the company and is based in Dubai. The reinsurance division focuses on inward facultative business across the Afro-Asia areas. EIC is listed on the Abu Dhabi Securities Exchange.

Business Segments/Product Portfolio

EIC operates through two main segments, commercial and individual:

- **Commercial:** Under this segment, the company offers underwriting services related to property, engineering, employee benefit, motor, financial, liability, package, marine & aviation, oil & gas, and terrorism/political violence covers.
- **Individual:** Through this segment, the company provides underwriting services related to motor, home, domestic help, yacht and pleasure craft as well as international and domestic healthcare.

EIC's reinsurance division covers the segments of:

- International energy, marine and non-marine treaty, property and engineering facultative

Key Strengths

- Strong footprint in the UAE insurance industry.
- Reinsurance partnerships with leading reinsurers such as Swiss Re, Mitsui Sumitomo, Arig, and Lloyd's.
- Assigned "A-" ratings with stable outlook by Standard's & Poor's as well as "A-"(Excellent) and issuer credit rating of "A-" by A.M. Best with stable outlook.

Recent Developments/Future Plans

- In July 2015, A.M. Best affirmed EIC's financial strength rating of "A-"(Excellent) and issuer credit rating of "A-" with stable outlook. The ratings reflect the company's strong risk-adjusted capitalization, wide presence in the UAE, and consistent profitability.
- The company reported a 24.5% y-o-y growth in GWP to US$ 160.5 million in H1 2015 due to strong growth in all non-motor business lines. However, NUP grew by 5.6% y-o-y to US$ 9.8 million during the same period. Further, net profit declined by 7.6% y-o-y to US$ 22.4 million due to decrease in other income.

Current Price (US$)	1.85

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	EIC UH
52 week high/ low (US$)	2.09/1.85
Market Cap (US$ mn)	249.9
Enterprise value (US$ mn)	225.3
Shares outstanding (mn)	135.0

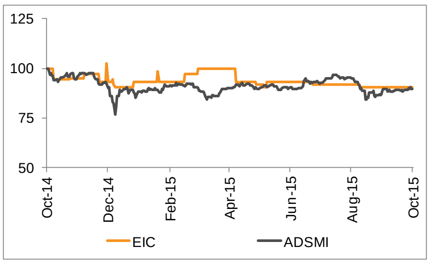
Source: Bloomberg

Average Daily Turnover ('000)

	AED	US$
3M	3.6	1.0
6M	98.4	26.8

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
8.83	0.84	1.09

Source: Bloomberg

Shareholding Structure	
Al Mazroui Group	14.82%
Al Dhabi Investment PJSC	12.81%
Abu Dhabi Investment Council	11.81%
Public	60.56%
Total	**100.00%**

Source: Abu Dhabi Exchange, as on October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	175.7	196.3	228.7	*11.7*	*16.5*
Net Written Premium	70.2	94.5	120.7	*34.6*	*27.7*
Net Underwriting Profit / (Loss)	15.3	16.5	14.6	*7.8*	*-11.4*
Margin (%)	8.7	8.4	6.4		
Net Profit / (Loss) for the Year	26.8	23.3	28.1	*-13.1*	*20.6*
Margin (%)	15.3	11.9	12.3		
Return on Equity (%)	12.5	8.4	9.4		
Return on Assets (%)	6.1	4.5	5.1		

Key Comments

- *Between FY2012 and FY2014, EIC's GWP rose at a CAGR of 14.1%, supported by rapid expansion of EIC International and the motor insurance line of the company's business. Retention ratio indicated significant improvement in FY2014 to 52.8% compared with 40.0% in FY2012. Abu Dhabi and Dubai were the two key markets for EIC in the UAE, accounting for more than 60.0% of the company's GWP in the last three years.*
- *GWP grew significantly by 16.5% y-o-y to US$ 228.7 million in FY2014 due to growth across business lines. NWP increased by 27.7% y-o-y to US$ 120.7 million. High operating and commission expenses along with increased insurance claims resulted in an 11.4% y-o-y fall in NUP to US$ 14.6 million in FY2014. Net profit increased by 20.6% y-o-y to US$ 28.1 million in FY2014 due to higher net investment income. ROE increased by 100 bps led by a rise in investment income in FY2014.*

Source: Zawya, Company documents

Gulf Insurance Group KSCP (Publicly Listed) — Kuwait

Company Description

Gulf Insurance Group KSCP (GIG), also known as Gulf Insurance & Reinsurance Company (GIRI), provides both life and non-life insurance solutions in the MENA region. Along with traditional insurance, GIG also offers Takaful products. Based in Safat, Kuwait and established in 1962, GIG is a leading player in the country in terms of GWP, both in the life and non-life insurance markets. The company also has presence in Saudi Arabia, the UAE, Bahrain, Egypt, Jordan, Lebanon, Iraq, Syria, and Algeria through its more than 12 affiliates and subsidiaries. Arab Misr Insurance Group, Fajr Al Gulf Insurance and Reinsurance Company, and Arab Orient Insurance Company are its prominent subsidiaries, ones with more than 90% holdings.

Business Segments/Product Portfolio

The company classifies its insurance offerings under five segments as below:

- **Life and health:** Under this segment, GIG offers insurance products to individuals and groups.
- **Motor:** It offers cover for third-party liability and personal accident, among others.
- **Property and casualty:** GIG provides underwriting for segments such as engineering, liabilities, property, and money.
- **Marine and aviation:** The company provides marine hull and cargo insurance and aviation-related solutions through this segment.
- **Takaful insurance:** Since 2008, GIG has also been offering Takaful insurance for medical, travel, motor, marine, and property & casualty segments.

Key Strengths

- Long presence in the insurance industry in Kuwait.
- Top-notch "A-" (Excellent) financial strength and credit ratings by A.M. Best and "A-" (Stable) by Standards & Poor's.

Recent Developments/Future Plans

- GIG registered a 3.8% y-o-y growth in GWP to US$ 286.2 million in H1 2015. Net profit increased by 23.4% y-o-y to US$ 24.8 million, with earnings per share (EPS) at US$ 0.17.
- In early 2015, the company increased its paid-up capital by KWD 3 million (US$ 10.3 million) to reach KWD 15 million (US$ 50.7 million).
- In July 2014, GIG set up a joint venture with Algerian Gulf Insurance Company, a life insurance company in Algeria, for around US$12.7 million.

Current Price (US$)	1.98

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	GINS KK
52 week high/ low (US$)	2.12/1.82
Market Cap (US$ mn)	371.5
Enterprise value (US$ mn)	369.4
Shares outstanding (mn)	187.0

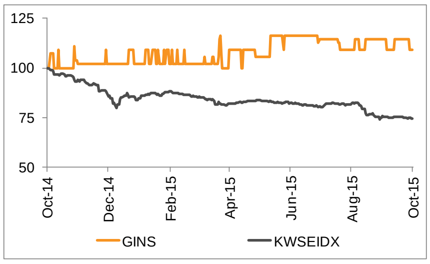
Source: Bloomberg

Average Daily Turnover ('000)

	KWD	US$
3M	356	1,178
6M	246	812

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
9.03	1.28	0.62

Source: Bloomberg

Shareholding Structure	
Fairfax Financial Holdings Limited	41.43%
Kuwait Projects Company Holding KSCP	38.77%
Overland Real Estate Company	5.27%
Public	14.53%
Total	**100.00%**

Source: Kuwait Stock Exchange, as on October 8, 2015

Financial Performance

US$ Million	2012	2013	2014	Y-o-Y Change (%) 2013	Y-o-Y Change (%) 2014
Gross Written Premium	517.3	556.9	592.5	*7.7*	*6.4*
Net Written Premium	262.2	295.5	310.3	*12.7*	*5.0*
Net Underwriting Profit / (Loss)	25.0	28.8	28.9	*15.2*	*0.4*
Margin (%)	4.8	5.2	4.9		
Net Profit / (Loss) for the Year	33.0	36.2	40.9	*9.7*	*13.2*
Margin (%)	6.4	6.5	6.9		
Return on Equity (%)	13.4	13.0	14.3		
Return on Assets (%)	3.1	3.2	3.5		

Key Comments

- *GIG's operating performance grew at a steady pace during the last three years. Average retention ratio remained at 52.0% between FY2012 and FY2014.*
- *GWP increased by 6.4% y-o-y to US$ 592.5 million in FY2014 as a result of rise in premium, mainly from the motor and medical insurance products. NWP grew by 5.0% y-o-y to US$ 310.3 million during the same year. NUP hiked slightly by 0.4% y-o-y to US$ 28.9 million in FY2014, mainly due to higher insurance claims. Consequently, NUP margin declined to 4.9%. Despite lower NUP, net profit was up 13.2% y-o-y to US$ 40.9 million in FY2014 due to increase in investment income.*

Source: Zawya, Company documents

ALPEN CAPITAL

National General Insurance Company PSC (Publicly Listed) UAE

Company Description

Headquartered in Dubai, National General Insurance Company PSC (NGIC) underwrites life and general insurance products in the UAE and is listed on the Dubai Stock Exchange. The company offers a wide range of insurance products to individuals and corporates. In 1996, NGIC became an associate member of Emirates NBD Bank, a leading financial institution. The company's reinsurance partners include Hannover Re, Generali, CCR, and SCOR.

Business Segments/Product Portfolio

Individual and corporate are the two major categories into which the company divides its offerings.

- **Individual:** The company offers life, medical, motor vehicle, travel, and personal accident products. Under life insurance, NGIC also provides savings and investment plans along with personal accident and mortgage coverage.
- **Corporate:** Through this segment**,** NGIC offers various insurance plans in the areas of property, engineering, casualty, and others. Within these, the company's variety of underwriting solutions are further categorized into fire, machinery breakdown, marine, credit, products, and public liability.

Key Strengths

- Strong backing from financially sound shareholders.
- Top-notch ratings such as "A-" (Excellent) by A.M. Best and "BBB+" (positive outlook) by Standard & Poor's.
- Track record of more than 20.0% dividend disbursement in the last ten years.

Recent Developments/Future Plans

- NGIC experienced an 18.9% y-o-y fall in GWP to US$ 61.1 million in H1 2015. NUP also dropped by 18.8% y-o-y to US$ 1.2 million during the same period. Moreover, net profit declined significantly by 58.7% y-o-y to US$ 4.5 million owing to lower net interest and other income as well as net loss from investment securities.
- In April 2014, Standard & Poor's revised its outlook on NGIC from stable to positive and affirmed its counterparty credit and insurer financial strength ratings of "BBB+". This revision reflects the company's strong capital adequacy, gradual de-risking in the investment portfolio, and solid liquidity.

Current Price (US$)	1.03

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	NGI UH
52 week high/ low (US$)	1.09/0.90
Market Cap (US$ mn)	155.1
Enterprise value (US$ mn)	109.3
Shares outstanding (mn)	150.0

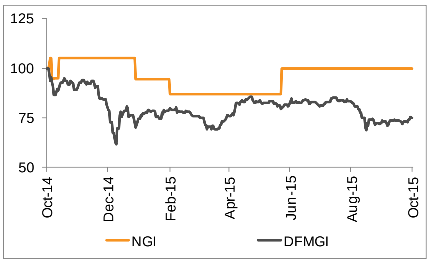
Source: Bloomberg

Average Daily Turnover ('000)

	AED	US$
3M	NA	NA
6M	0.4	0.1

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
7.55	1.24	1.33

Source: Bloomberg

Shareholding Structure	
Emirates NBD PJSC	36.72%
Commercial Bank of Dubai PSC	17.75%
Mohammed Saleh Ali Naqi Al Zarouni	10.95%
Dubai Investments PJSC	8.46%
Mohammed Omar Ali Bin Haidar	8.34%
HH Sheikh Mana Khalifa Saeed Al Makhtoum	5.00%
Public	12.78%
Total	**100.00%**

Source: Dubai Financial Market Exchange, as on October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	122.2	121.3	122.7	*-0.7*	*1.1*
Net Written Premium	81.5	83.2	86.5	*2.1*	*3.9*
Net Underwriting Profit / (Loss)	9.7	10.9	5.1	*12.4*	*-53.1*
Margin (%)	7.9	9.0	4.2		
Net Profit / (Loss) for the Year	12.6	34.1	21.7	*170.6*	*-36.3*
Margin (%)	10.3	28.1	17.7		
Return on Equity (%)	13.4	28.5	16.4		
Return on Assets (%)	5.4	13.3	8.2		

Key Comments

- *NGIC continued to demonstrate stable operating performance, except in FY2013, when its results were inflated due to the realization of capital gains through asset sales. The company is likely to continue delivering inflated results, as it is planning the gradual divestment of some of its high-risk investments, particularly real estate.*
- *GWP rose by 1.1% y-o-y to US$ 122.7 million in FY2014 due to marginal growth in its general insurance business. NWP increased by 3.9% y-o-y to US$ 86.5 million. NUP decreased by 53.1% y-o-y to US$ 5.1 million during the same year due to higher insurance claims and the commission paid. Further, net profit decreased by 36.3% y-o-y to US$ 21.7 million in FY2014 on account of lower investment income. Consequently, ROE and ROA declined sharply in FY2014.*

Source: Zawya, Company documents

National Life & General Insurance Company (Private) Oman

Company Description

Founded in 1983, National Life & General Insurance Company (NLG) provides a comprehensive range of life and general insurance products and services to individuals and corporates in Oman. The company offers customized products to suit the local market, along with a wide variety of additional coverage for higher financial security. NLG operates branches in Muscat, Nizwa, Sohar, Salalah, Sur, and Dubai. Its products are also offered through its bancassurance partners that include Bank Muscat SAOG and Oman Arab Bank as well as a wide network of individual and group medical providers. NLG is the subsidiary of Oman International Development and Investment Company and Bank of Muscat that own 97.93% and 2.06% stake in the company, respectively.

Business Segments/Product Portfolio

NLG's insurance products are categorized into the following two segments:

- **Life:** The company's personal line products are classified as savings, endowment, and term assurance plans whereas its group insurance products include group life, group medical, workmen's compensation, and group credit life.
- **General:** Under this segment, NLG offers coverage for car, home, travel, motor vehicles, and factory, among others.

Key Strengths

- One of the leading players in Oman's insurance industry in terms of GWP.
- A wide range of products.
- Strong strategic bancassurance partnership with Bank Muscat SAOG, a market leader in Oman's banking industry.
- Stable operations and firm market standing through a sturdy investment base of OMR 11.0 million (US$ 28.5 million)*.
- Sound financial strength rating of "B++" (Good) from A.M. Best.
- An international quality rating of ISO 9001:2008 from British Standards Institution (BSI).

Recent Developments/Future Plans

- In April 2015, NLG announced its collaboration with Oman Data Park Partners, a co-location and managed services provider, to ensure the smooth functioning of its IT network through the latter's managed disaster recovery hosting solutions.
- In April 2015, A.M. Best affirmed the financial strength rating of "B++" Good and the issuer credit rating of BBB for NLG, reflecting stable outlook.
- In March 2014, NLG announced the launch of innovative and low-cost insurance products to access loans from financial institutions.

*Exchange rate of 2.5974 as of July 12, 2015

Oman Insurance Company PSC (Publicly Listed) UAE

Company Description

Established in 1975, Oman Insurance Company PSC (OIC) provides insurance solutions in the Middle East through its wide range of general, life, and health insurance products to individuals and commercial enterprises. The company has presence in the UAE, Oman, and Qatar, with subsidiaries in Turkey and Iraq. OIC uses a multi-distribution channel to engage with its customers through multiple branches, a network of agents, international and local brokers, bancassurance and consumer call center.

Business Segments/Product Portfolio

General insurance, life and medical insurance, and investments are the three operating segments of the company. The company offers insurance to individuals and corporate as below:

- **Individuals:** OIC provides life, health, motor, and personal lines of insurance for individuals.
- **Corporates:** The company offers group life, medical, and personal accident insurance as well as marine and engineering solutions.
- **Investments:** OIC also invests in financial and non-financial instruments, bank deposits as well as manages treasury related functions for the group.

Key Strengths

- One of the leading players, based on the GWP, in the UAE insurance industry.
- Tailor-made insurance solutions.
- Tie-up with leading reinsurers such as Swiss Re, Munich Re, Allianz, and Arig.
- Top-notch ratings of “A” (Excellent) by A. M. Best and “A-“ by Standard & Poor's.

Recent Developments/Future Plans

- OIC reported GWP and NUP amounted to US$ 492.6 million and US$ 8.5 million in H1 2015 which was similar to the previous year’s performance. Net profit declined by 28.9% y-o-y to US$ 22.6 million.
- In May 2015, the company signed a corporate pension plan agreement with Aircrew Protection International to offer life and investment plans to airline pilots.
- In April 2015, OIC appointed GlobMed Gulf as its third-party administrator to improvise its health insurance services and improve customer service in the UAE.
- As part of its learning and development strategy, OIC launched a comprehensive training program for its employees in August 2015. This course includes in-house training sessions with visiting insurance industry experts, online material access, and mock exams.

Current Price (US$)	0.65

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	OIC UH
52 week high/ low (US$)	1.03/0.65
Market Cap (US$ mn)	300.5
Enterprise value (US$ mn)	246.9
Shares outstanding (mn)	461.9

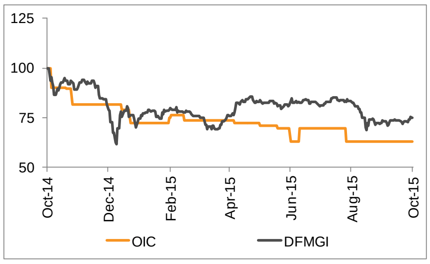
Source: Bloomberg

Average Daily Turnover (‘000)

	AED	US$
3M	5.1	1.4
6M	13.0	3.5

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
5.61	0.65	0.39

Source: Bloomberg

Shareholding Structure	
Mashreq Bank PSC	63.65%
Public	36.35%
Total	**100.00%**

Source: Dubai Financial Market Exchange, as on October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	637.5	794.9	884.5	*24.7*	*11.3*
Net Written Premium	320.1	394.3	429.8	*23.2*	*9.0*
Net Underwriting Profit / (Loss)	91.4	32.4	27.5	*-64.6*	*-15.3*
Margin (%)	14.3	4.1	3.1		
Net Profit / (Loss) for the Year	29.4	66.0	61.2	*124.5*	*-7.3*
Margin (%)	4.6	8.3	6.9		
Return on Equity (%)	15.6	13.7	11.4		
Return on Assets (%)	5.2	4.7	3.7		

Key Comments

- *Following a change in its management in FY2012, OIC's performance has improved noticeably.*
- *GWP saw an 11.3% y-o-y increase to US$ 884.5 million in FY2014 on account of a rise in premium income from life assurance and medical insurance businesses. NWP grew by 9.0% y-o-y to US$ 429.8 million. These robust underwriting results helped offset lower investment gains as a result of a sluggish performance of the local real estate sector. Increased insurance claims and higher commission expense led to a decrease of 15.3% y-o-y in NUP to US$ 27.5 million in FY2014. Net profit fell by 7.3% y-o-y to US$ 61.2 million in FY2014 owing to decrease in investment income and higher other expenses. OIC's combined ratio (excluding life and healthcare) reached 88% in FY2014, up from 96% in FY2013, primarily due to an increase in the company's cost efficiency.*

Source: Zawya, Company documents

Oman United Insurance Company SAOG (Publicly Listed) — Oman

Company Description

Headquartered in Ruwi, Oman United Insurance Company SAOG (OUIC) underwrites life, general, and medical insurance products, while providing motor vehicles repair and maintenance services through its auto services division in Oman. Since 1986, the company has been offering personal, small business, corporate, life, and medical insurance, in addition to bancassurance plans to corporates, individuals, and affinity groups.

Business Segments/Product Portfolio

General insurance and life insurance are the two business segments of the company.

- **General:** This segment is further classified into personal insurance, small business insurance, and corporate insurance. OUIC offers personal insurance coverage for car, boat, home, domestic help, accident, and travel. Its products for small businesses include shop, office, hotel, and tradesman insurance. The company also offers corporate insurance products to property owners, auto dealerships, contractors, clinics and medical facilities, marine and transit as well as other fields and enterprises.
- **Life:** Under its life and medical insurance products, the company offers term and whole life policies, and out-patient and in-patient coverage to corporate groups.

Key Strengths

- Market leader in the Omani bancassurance segment in terms of issuing policies related to life, home, and auto.
- Customized insurance solutions provider for corporates.
- Affirmed ratings by Standard & Poor's of "BBB" with a stable outlook.

Recent Developments/Future Plans

- OUIC registered a 7.7% y-o-y decline in GWP to US$ 58.2 million in H1 2015. However, NUP remained flat at US$ 7.7 million, mainly due to a fall in the outstanding claims for this period. Moreover, net profit increased by 17.7% y-o-y to US$ 8.3 million fueled by the surge in investment income.
- In February 2015, OUIC's board recommended cash dividends of 22.0% to the shareholders.
- In June 2014, the company was the top winner of the AIWA Award for the Best Performing Companies under the mid-cap segment for its remarkable performance during 2013.

Current Price (US$)	0.64

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	OUIS OM
52 week high/ low (US$)	1.17/0.59
Market Cap (US$ mn)	64.4
Enterprise value (US$ mn)	65.9
Shares outstanding (mn)	100.0

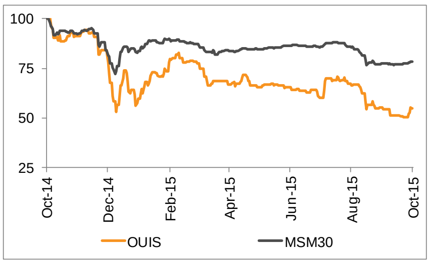
Source: Bloomberg

Average Daily Turnover ('000)

	OMR	US$
3M	66.3	172.2
6M	53.9	139.9

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
7.81	1.08	0.68

Source: Bloomberg

Shareholding Structure	
HE Salim Bin Nasser Al Busaidi and family	35.00%
Public	65.00%
Total	**100.00%**

Source: Zawya, as on October 8, 2015

Financial Performance

US$ Million	2012	2013	2014	Y-o-Y Change (%) 2013	Y-o-Y Change (%) 2014
Gross Written Premium	94.4	104.8	107.4	*11.0*	*2.5*
Net Written Premium	47.1	52.3	57.3	*11.0*	*9.6*
Net Underwriting Profit / (Loss)	8.1	9.1	11.9	*12.3*	*31.4*
Margin (%)	8.6	8.7	11.1		
Net Profit / (Loss) for the Year	6.9	13.0	9.3	*88.4*	*-28.9*
Margin (%)	7.3	12.5	8.6		
Return on Equity (%)	12.0	19.4	13.7		
Return on Assets (%)	3.1	5.5	3.7		

Key Comments

- *The operating performance of OUIC remained steady, with its GWP growing at a CAGR of 6.7% between FY2012 and FY2014 and its NUP surging at a rate of 16.1%. Retention ratio for FY2014 reached 53.4% after remaining constant at 49.8% in FY2012 and FY2013.*
- *GWP grew by 2.5% y-o-y to US$ 107.4 million in FY2014, reflecting growth in the medical and life insurance premium. NWP increased by 9.6% y-o-y to US$ 57.3 million. NUP surged by 31.4% y-o-y to US$ 11.9 million during the same year. Net profit declined by 28.9% y-o-y to US$ 9.3 million in FY2014 due to a significant drop in investment income. Accordingly, ROE and ROA were remarkably lower in FY2014.*

Source: Zawya, Company documents

ALPEN CAPITAL

Orient Insurance Company PJSC (Publicly Listed) UAE

Company Description

Incorporated in 1980, Orient Insurance Company PJSC (OIC) primarily provides short-term general and life insurance contracts to commercial enterprises and individuals, in addition to long-term life insurance contracts. The company also holds investment securities. This Dubai-based entity operates a branch in Oman, in addition to its presence in Syria, Egypt, Sri Lanka, and Turkey through subsidiary companies.

Business Segments/Product Portfolio

Commercial insurance, personal insurance, and investment are the three operating segments of the company.

- **Commercial:** The company offers for property, engineering, public and product liability, marine, money, fidelity guarantee, gold plus jewelers block, contingency, workmen's compensation, group life, credit life/credit shield, group medical, motor, medical, hotel plus, strata and professional indemnity insurance.
- **Personal:** Under this segment, the company's business includes life, motor, householder's comprehensive, personal accident, medical, travel, family guard, education, and critical illness.
- **Investment:** This segment undertakes investment in equity and fixed-income securities as well as cash management for the company's own account.

Key Strengths

- Strong capital base and a well-diversified product range.
- Top-notch ratings in the form of "A" (Excellent) by A.M. Best and "A" by Standard & Poor's.
- Strong support from top-ranking European reinsurers led by Swiss Re.

Recent Developments/Future Plans

- The company's GWP grew by 28.6% y-o-y to US$ 329.4 million in H1 2015, with NUP up by 14.0% y-o-y to US$ 31.0 million. Net profit jumped by 10.2% y-o-y to US$ 50.0 million.
- In August 2014, OIC entered into a bancassurance partnership with Union National Bank (UNB) to distribute insurance products through UNB branches across the UAE.

Current Price (US$)	NA

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	ORIENT UH
52 week high/ low (US$)	NA
Market Cap (US$ mn)	NA
Enterprise value (US$ mn)	NA
Shares outstanding (mn)	5.0

Source: Bloomberg

Average Daily Turnover ('000)

	AED	US$
3M	NA	NA
6M	NA	NA

Source: Bloomberg

Share Price Chart

No shares traded

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
NA	NA	NA

Source: Bloomberg

Shareholding Structure	
Al-Futtaim Group	100.00%
Public	0.00%
Total	**100.00%**

Source: Dubai Financial Market Exchange, as on October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	388.3	434.7	490.7	*11.9*	*12.9*
Net Written Premium	120.1	144.6	167.1	*20.4*	*15.5*
Net Underwriting Profit / (Loss)	38.3	38.2	43.0	*-0.3*	*12.5*
Margin (%)	9.9	8.8	8.8		
Net Profit / (Loss) for the Year	58.4	64.2	67.2	*9.9*	*4.6*
Margin (%)	15.0	14.8	13.7		
Return on Equity (%)	18.2	14.5	11.1		
Return on Assets (%)	7.5	6.9	5.7		

Key Comments

- *OIC has consistently reported sound financial results over the past three years. Profitability is driven by the company's robust underwriting performance, with combined ratio maintained below 70%. However, OIC has material exposure to a single equity investment that represents approximately a third of the company's asset allocation, adding volatility to its investment income.*
- *GWP grew by 12.9% y-o-y to US$ 490.7 million in FY2014, reflecting growth in both the general and life insurance segments. NWP increased by 15.5% y-o-y to US$ 167.1 million. NUP grew by 12.5% y-o-y to US$ 43.0 million during the same year. Net profit rose by 4.6% y-o-y to US$ 67.2 million in FY2014 due to a decline in investment income.*

Source: Zawya, Company documents

Qatar Insurance Company SAQ (Publicly Listed) — Qatar

Company Description

Established in 1964, Qatar Insurance Company SAQ (QIC) is a diversified group that offers insurance, specialty insurance, reinsurance (through Qatar Re), asset management, and real estate advisory services. Based in Doha, the company has operations in Qatar, Dubai, Abu Dhabi, Kuwait, Muscat, Singapore, London, Zurich, Bermuda, and Malta. In June 2014, QIC completed the acquisition of UK-based Antares Holdings Limited, a leading specialist insurance and reinsurance group.

Business Segments/Product Portfolio

QIC operates through five business segments.

- **Domestic:** Under this segment, the company caters to personal (motor, home, and travel) and commercial lines (energy, marine & aviation, medical, motor, and property & commercial).
- **Reinsurance:** Through this segment, the company caters to the areas of agriculture, credit & surety, energy, marine & aviation, motor, property and structured finance, among others.
- **Specialty:** Under this business, QIC offers insurance coverage in the areas of aviation, financial institutions, marine, political and financial risk, professional indemnity, property excess of loss, and terrorism.
- **Life and medical:** Here, the company provides coverage for group life, credit life, mortgage life, and group medical.
- **Advisory and asset under management services:** Under this segment, the company offers financial advisory and investment management services in the categories of proprietary asset management, third-party asset management and collateralized reinsurance (CATCO).

Key Strengths

- A well-diversified business across geographies.
- Top-notch ratings include “A” (Excellent) by A.M. Best and “A” (Strong) by Standard & Poor’s.

Recent Developments/Future Plans

- QIC strengthened its distribution channels through the upgrade of its digital platform that offers on-demand and interactive experience to consumers.
- QIC recorded 18.7% y-o-y growth in GWP to US$ 1.0 billion in H1 2015. However, net profit declined by 9.5% y-o-y to QAR US$ 158.6 million during the same period.
- In May 2015, the company won the bid to offer insurance coverage to both Hamad International Airport and Doha International Airport.

Current Price (US$)	26.82

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	QATI QD
52 week high/ low (US$)	29.13/18.17
Market Cap (US$ mn)	4,765.2
Enterprise value (US$ mn)	4,191.6
Shares outstanding (mn)	184.6

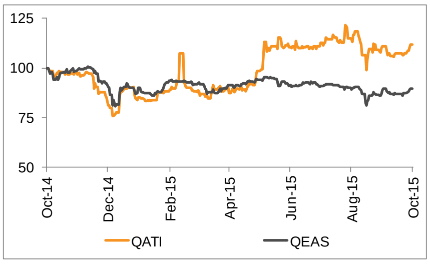
Source: Bloomberg

Average Daily Turnover (‘000)

	QAR	US$
3M	6,938	1,905
6M	15,389	4,226

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
14.52	2.55	2.59

Source: Bloomberg

Shareholding Structure	
Government of Qatar	13.59%
Burooq Trading Company	5.00%
HH Sheikh Khalifa Hamad Thani	4.94%
HE Yousef Hussain Kamal	4.53%
HH Sheikh Khalid Bin Mohammed Bin Ali Al-Thani	2.24%
Jasem Mohammed Ibrahim Jaidah	1.40%
Public	68.30%
Total	**100.00%**

Source: Zawya, as on October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	702.7	970.0	1,541.8	*38.0*	*59.0*
Net Written Premium	426.0	678.6	1,192.0	*59.3*	*75.6*
Net Underwriting Profit / (Loss)	109.8	132.5	182.3	*20.7*	*37.6*
Margin (%)	15.6	13.7	11.8		
Net Profit / (Loss) for the Year	167.6	206.8	275.2	*23.4*	*33.1*
Margin (%)	23.9	21.3	17.9		
Return on Equity (%)	16.9	14.5	17.6		
Return on Assets (%)	7.4	6.5	6.2		

Key Comments

- *QIC has a track record of reporting strong operational performance, delivering a three-year average return on equity of 16.4%. Underwriting results remained impressive in FY2013, with combined ratio of 93%, reflecting strong performance in the domestic market. However, its profitability dampened by unfavorable reserve developments on losses in the previous years and high costs of expansion at Qatar Re.*
- *QIC expanded inorganically in FY2014, which also helped bring in geographical diversification.*
- *GWP grew by 59.0% y-o-y to US$ 1,541.8 million in FY2014 due to strong growth in the insurance underwriting business, led by synergies from the acquisition of Antares Holdings Limited in FY2014 and the expansion of Qatar Re operations. Thus, QIC enjoys a dominant position in the Qatari market and has a global reach, with more than 65% of its GWP generated from international markets. NWP increased by 75.6% y-o-y to US$ 1,192.0 million. Despite significant growth in GWP in FY2014, NUP surged only by 37.6% y-o-y to US$ 182.3 million in FY2014 due to increase in outstanding claims and net commission expense. Net profit rose by 33.1% y-o-y to US$ 275.2 million in FY2014 due to higher investment income and advisory fee income, partially offset by higher operating and administrative expenses.*

Source: Zawya, Company documents

Ras Al Khaimah National Insurance Company PSC (Publicly Listed) UAE

Company Description

Ras Al Khaimah National Insurance Company PSC (RAKNIC), incorporated in 1974 and headquartered in Ras Al Khaimah, operates various classes of insurance business in the UAE. RAKNIC is listed on the Abu Dhabi Securities Exchange. The company is a founding member of the Arab War Risk Insurance Syndicate (AWRIS) and the Emirates Insurance Association. The company also maintains membership of the General Arab Insurance Federation (GAIF) and the Federation of Afro Asian Insurers and Reinsurers (FAIR).

Business Segments/Product Portfolio

The company offers the following insurance services to its customers.

- **Corporate:** RAKNIC offers corporate insurance products in the areas of group health, engineering, property, marine, and medical.
- **Personal:** Under its personal line, the company offers home, life, motor, and travel insurance products.
- **Investment:** The company makes investments in financial instruments and properties.

Key Strengths

- Long presence in the general insurance market in the UAE.
- Zero debt on the balance sheet.
- Strong operating performance and liquidity position.
- Top-notch counterparty credit and insurer financial strength ratings of "BBB+" by Standard & Poor's.

Recent Developments/Future Plans

- RAKNIC registered a 34.5% y-o-y increase in GWP to US$ 56.1 million in H1 2015. NUP increased by 279.8% y-o-y to US$ 5.7 million. Also, net profit increased by 233.3% y-o-y to US$ 5.4 million owing to higher administrative expenses and a drop in its investment income.
- In May 2015, RAK Bank acquired 79.23% in RAKNIC to grow the business collectively and jointly develop a wide range of insurance products over time.
- In January 2015, Standard & Poor's assigned its 'BBB+' counterparty credit and insurer financial strength ratings to RAKNIC, with stable outlook.

Current Price (US$)	1.12

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	RAKNIC UH
52 week high/ low (US$)	1.12/0.98
Market Cap (US$ mn)	122.8
Enterprise value (US$ mn)	54.8
Shares outstanding (mn)	110.0

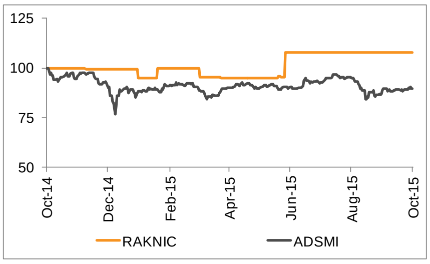
Source: Bloomberg

Average Daily Turnover ('000)

	AED	US$
3M	NA	NA
6M	2,481	676

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
11.12	1.66	1.41

Source: Bloomberg

Shareholding Structure	
The National Bank of Ras Al-Khaimah PSC	79.23%
Ahmad Issa Ahmad Al Naeem	12.76%
Public	8.01%
Total	**100.00%**

Source: Abu Dhabi Stock Exchange, as on October 27, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	57.2	68.2	80.5	*19.2*	*17.9*
Net Written Premium	33.6	42.7	57.1	*27.1*	*33.7*
Net Underwriting Profit / (Loss)	8.7	8.6	11.1	*-1.1*	*29.8*
Margin (%)	15.2	12.6	13.8		
Net Profit / (Loss) for the Year	7.7	8.9	10.3	*-3.1*	*15.3*
Margin (%)	13.5	13.1	12.8		
Return on Equity (%)	14.7	15.3	15.2		
Return on Assets (%)	6.5	6.9	7.2		

Key Comments

- *RAKNIC's GWP has grown rapidly over three years at a CAGR of 18.6%, in line with the average growth rates within the UAE insurance industry. Despite competition, the company has maintained its margins, led by increase in its retention ratio that rose to 70.9% in FY2014 from 58.7% in FY2012.*
- *GWP was up by 17.9% y-o-y to US$ 80.5 million in FY2014, mainly due to growth in the group life and medical insurance business. NWP surged by 33.7% y-o-y to US$ 57.1 million led by a drop in the insurance premium ceded to reinsurers. NUP rose by 29.8% y-o-y to US$ 11.1 million during the same period due to an increase in the insurance claims paid and a rise in general underwriting expenses. Net profit surged by only 15.3% y-o-y to US$ 10.3 million in FY2014, reflecting a significant rise in unallocated general and administrative expenses.*

Source: Zawya, Company documents

Takaful International Company BSC (Publicly Listed) Bahrain

Company Description

Established in 1989, Takaful International Company BSC (TIC) is the first and the largest Islamic insurance company in Bahrain. It offers insurance products and services to both individual and corporate customers. TIC's diversified range of insurance products and services includes e-Takaful, Takaful hotline, motor Takaful, family Takaful and healthcare, and general Takaful. The company also has presence in Qatar since 2011.

Business Segments/Product Portfolio

TIC distinguishes its insurance products into personal and corporate insurances.

- **Personal:** TIC offers motor insurance, family Takaful and health care plans, and property and casualty insurance. This segment mainly includes third-party insurance.
- **Corporate:** The company's corporate products are motor fleet insurance, family Takaful, health care plans, and general Takaful, among others.
- The company also offers its products in the form of e-Takaful and as mobile Takaful services.

Key Strengths

- Largest Islamic insurance company in Bahrain.
- A wide range of insurance products.

Recent Developments/Future Plans

- TIC entered into an agreement with Copart Bahrain Auctions WLL in June 2015, an online auctioneer of automobile salvage, to regulate through an auction, the disposal of the cars damaged from traffic accidents.
- The company reported a 1.9% y-o-y decline in GWP to US$ 31.8 million in H1 2015. NUP declined by 8.8% y-o-y to US$ 4.1 million during the same period. Net profit increased by 73.0% y-o-y to US$ 0.5 million.
- In April 2015, BKIC picked up 10.8% stake in Takaful International, one of the largest Islamic insurance firm in Bahrain, for BHD 0.6 million (US$ 1.5 million). Later in the month, BKIC raised its stake to 40.9% with an investment of BHD 2 million (US$ 5.0 million).

Current Price (US$)	0.26

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	TAKAFUL BI
52 week high/ low (US$)	0.26/0.22
Market Cap (US$ mn)	16.6
Enterprise value (US$ mn)	15.5
Shares outstanding (mn)	62.5

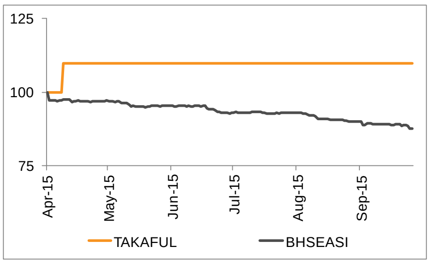
Source: Bloomberg

Average Daily Turnover ('000)

	BHD	US$
3M	NA	NA
6M	NA	NA

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
NM	0.84	0.29

Source: Bloomberg

Shareholding Structure	
Bahrain Kuwait Insurance Company BSC	40.90%
Bahrain Islamic Bank	22.75%
Al Amana Alama- State of Kuwait	8.40%
International Investment Group	6.39%
Public	21.56%
Total	**100.00%**

Source: Bahrain Bourse, as on October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	48.1	53.7	55.2	*11.6*	*2.7*
Net Written Premium	22.8	26.9	28.8	*18.0*	*7.1*
Net Underwriting Profit / (Loss)	9.7	9.5	5.1	*-2.1*	*-46.3*
Margin (%)	20.2	17.7	9.2		
Net Profit / (Loss) for the Year	0.5	0.6	-2.2	*20.0*	*NM*
Margin (%)	1.0	1.1	-4.1		
Return on Equity (%)	2.8	3.1	-13.6		
Return on Assets (%)	0.6	0.7	-2.4		

Key Comments

- *TIC is the largest Takaful operator and among the top five largest insurers, in terms of GWP, in Bahrain. Although TIC has delivered a modest return on shareholders' equity in recent years, it has consistently reported underwriting profits. However, the level of underwriting profitability is on a declining trend.*
- *GWP surged by 2.7% y-o-y to US$ 55.2 million in FY2014, mainly as a result of increase in premium from medical insurance products. NWP grew by 7.1% y-o-y to US$ 28.8 million for the same year. NUP declined by 46.3% y-o-y due to increase in Takaful expenses. The company reported net loss of US$ 2.2 million in FY2014 over net profit of US$ 0.6 million in FY2013 as a result of higher Takaful expenses.*

Source: Zawya, Company documents

Takaful Oman Insurance SAOG (Publicly Listed) Oman

Company Description

Muscat-based Takaful Oman Insurance SAOG (Takaful Oman) is primarily engaged in family and general Takaful insurance businesses in Oman. Having commenced its operations in June 2014, the company deploys the wakala model for underwriting activities. Takaful Oman also undertakes re-Takaful business and services. The company is listed on Muscat Stock Exchange. Takaful Oman has adopted hybrid business model for its operations and pays upfront Wakala fees to compensate for SG&A expenses.

Business Segments/Product Portfolio

General Takaful and family Takaful are the two primary business segments of the company.

- **General Takaful:** Under this segment, the company offers several Takaful plans such as motor insurance, property all risk, machinery breakdown, erection all risk, personal accident, workmen's compensation, contractor's plant, and equipment Takaful products and marine cargo, among others.
- **Family Takaful:** Under this segment, the company's offerings include group family Takaful plan (Group Life), group health Takaful plan (Group Medical), and group creditor Takaful plan (Group Credit Life).

Key Strengths

- One of the first companies to offer Takaful products in Oman.
- Established group of promoters with expertise in the general insurance and Takaful sectors.

Recent Developments/Future Plans

- The company recorded a 76x growth in GWP to US$ 10.0 million and a 57x increase in deficit from Takaful operations, after wakala fee, to US$ 1.4 million in H1 2015. During the same period, the company reported net deficit of US$ 1.4 million compared to net deficit of US$ 0.03 million in H1 2014.
- In June 2015, the company launched a smart mobile application named Takaful Oman for the convenience of its insurance users across the country.
- In April, 2015, Takaful Oman opened its branch in Sohar, Oman.
- The management aims to achieve 6% market share by its fifth year of operation, according to the company's 2014 annual report.

Current Price (US$)	0.28

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	TAOI OM
52 week high/ low (US$)	0.31/0.23
Market Cap (US$ mn)	10.8
Enterprise value (US$ mn)	11.8
Shares outstanding (mn)	100.0

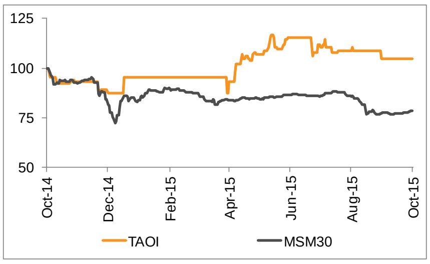
Source: Bloomberg

Average Daily Turnover ('000)

	OMR	US$
3M	1.9	5.0
6M	4.6	12.0

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
NM	1.03	18.69

Source: Bloomberg

Shareholding Structure	
T'azur Takaful Insurance	15.00%
Al Khonji Holding LLC	13.50%
National Investment Funds	10.00%
Oman Investment Corporation	10.00%
Oman National Investment	10.00%
Bank Muscat SAOG	5.00%
National Bank of Oman SAOG	5.00%
Public	31.50%
Total	**100.00%**

Source: Zawya, as on October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	NA	NA	1.5		
Net Written Premium	NA	NA	0.5		
Net Underwriting Profit / (Loss)	NA	NA	-0.5		
Margin (%)	NA	NA	-35.1		
Net Profit / (Loss) for the Year	NA	NA	-1.3		
Margin (%)	NA	NA	-89.1		
Return on Equity (%)	NA	NA	-6.0		
Return on Assets (%)	NA	NA	-5.5		

Key Comments

- *Historical data is unavailable.*

Source: Zawya

The Company for Cooperative Insurance (Publicly Listed) — Saudi Arabia

Company Description

Established in 1986, the Company for Cooperative Insurance (Tawuniya) undertakes cooperative insurance operations and related activities such as Islamic reinsurance or agency activities in Saudi Arabia. Tawuniya provides insurance solutions to both individual and corporate clients. Headquartered in Riyadh, the company operates through more than 100 regional and sales offices in the kingdom. Formerly known as National Company for Cooperative Insurance, Tawuniya was renamed in 2004 as the Company for Cooperative Insurance.

Business Segments/Product Portfolio

The company divides its insurance products into personal and corporate insurance.

- **Personal:** The company offers insurance under the categories of motor, medical and Takaful as well as property and casualty insurance such as home, travel, medical malpractice and accident. These products include third-party only, third-party, and limited own damage, comprehensive, and Shariah-compliant insurance.
- **Corporate:** The corporate products include motor fleet insurance, family and general Takaful as well as health care plans. Also, this segment offers property, engineering, marine, aviation, energy, and general accidents insurance products.

Key Strengths

- Market leader in the Saudi Arabian insurance sector.
- A comprehensive range of insurance products and multiple distribution channels.
- Top-notch credit rating of “A” and Stable outlook by Standards & Poor’s.

Recent Developments/Future Plans

- In June 2015, the company entered into a partnership with UBER Company to offer free airport transportation to its travel insurance clients, as part of the its marketing campaign.
- Tawuniya delivered a 11.3% y-o-y growth in GWP at US$ 882.1 million in H1 2015 whereas net surplus increased magnificently by 79.0% y-o-y to US$ 5.7 million due to increase in investment income.
- In February 2015, Tawuniya opened a new sales office near the western Ring Road in Riyadh City to cater to Western Orayjah District.

Current Price (US$)	24.24

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	TAWUNIYA AB
52 week high/ low (US$)	29.08/12.28
Market Cap (US$ mn)	2,424.4
Enterprise value (US$ mn)	2,510.4
Shares outstanding (mn)	100.0

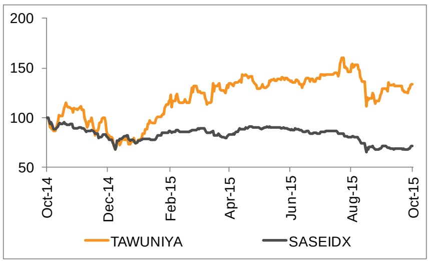
Source: Bloomberg

Average Daily Turnover (‘000)

	SAR	US$
3M	25,555	6,815
6M	28,390	7,570

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
8.92	2.41	1.38

Source: Bloomberg

Shareholding Structure	
Public Pension Agency	23.70%
General Organization for Social Insurance - Saudi Arabia	22.83%
Public	53.47%
Total	**100.00%**

Source: Saudi Stock Exchange, as of October 8, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	1,502.2	1,494.7	1,654.7	*-0.5*	*10.7*
Net Written Premium	1,199.9	1,237.7	1,410.7	*3.2*	*14.0*
Net Underwriting Profit / (Loss)	162.1	-108.5	218.6	*NM*	*NM*
Margin (%)	10.8	-7.3	13.2		
Net Profit / (Loss) for the Year	85.2	-157.6	149.3	*NM*	*NM*
Margin (%)	5.7	-10.5	9.0		
Return on Equity (%)	14.9	-36.0	27.0		
Return on Assets (%)	3.9	-5.9	5.6		

Key Comments

- *Like other players in the Saudi Arabian insurance industry, Tawuniya faced challenges in FY2013 in the form of intense competition and the need to comply with new technical reserve calculations, under revised regulations.*
- *GWP rose by 10.7% y-o-y to US$ 1,654.5 million in FY2014 owing to higher premium income from medical insurance products. NWP increased by 14.0% y-o-y to US$ 1,410.7 million. Higher GWP resulted in a significant surge in NUP, which stood at US$ 218.6 million in FY2014 over loss of US$ 108.5 million last year. Net profit was US$ 149.3 million in FY2014 compared with net loss of US$157.6 million in FY2013. The claims control strategy implemented by Tawuniya led to a sharp decline in the net claims for FY2014.*

Source: Zawya, Company documents

The Med & Gulf Coop Ins. & Reins. SJSC (Publicly Listed) Saudi Arabia

Company Description

The Mediterranean & Gulf Cooperative Insurance & Reinsurance Company SJSC (MedGulf), started in 1980, offers insurance and reinsurance products and services in the Middle East. The company also provides risk management and administration services in the Middle East, in addition to operating as a third-party administrator as well as managing and servicing its medical insurance portfolio. MedGulf is headquartered in Riyadh and operates in Saudi Arabia, Lebanon, Bahrain, the UAE, Jordan, Turkey, and the UK. The company is listed on the Tadawul Stock Exchange since 2007.

Business Segments/Product Portfolio

Medical, motor, and others are the three operating segments of the company, which contributed 67.3%, 15.5%, and 17.1%, respectively, to its GWP in FY2014.

- The company primarily offers insurance products in the areas of aviation, banker's blanket bond, burglary, contractor's all risks, credit, credit life, marine cargo and hull, employer's liability insurance, fidelity guarantee, medical, money, motor, personal accident, product liability, professional liability, property all risk, public liability, and workmen's compensation.
- In addition to direct insurance, the company also provides services in the areas of risk management, reinsurance, and third-party administration.

Key Strengths

- A well-diversified business.
- Support from leading reinsurers such as Swiss Re, Munich Re, and Lloyd's.
- An extensive distribution network.
- Third-largest insurer in Saudi Arabia.

Recent Developments/Future Plans

- In August 2015, A.M. Best downgraded the company's financial strength rating to "B++" (Good) from "A" (Excellent) and credit rating to "BBB+" from "A-", projecting a negative outlook for MedGulf. The deterioration in the capital along with major underwriting losses in H1 2015 has led to this downgrade in ratings.
- MedGulf saw a 7.3% y-o-y increase in GWP to US$ 710.5 million in H1 2015. However, the company reported net loss of US$ 49.9 million during the same period compared to net profit of US$ 27.4 million in previous year.

Current Price (US$)	7.60

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	MEDGULF AB
52 week high/ low (US$)	20.82/6.15
Market Cap (US$ mn)	760.0
Enterprise value (US$ mn)	1,043.4
Shares outstanding (mn)	100.0

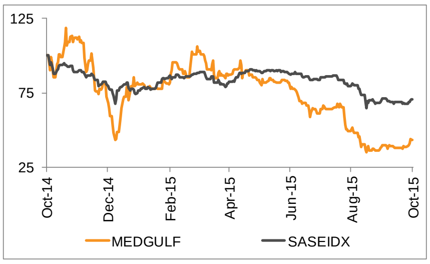
Source: Bloomberg

Average Daily Turnover ('000)

	SAR	US$
3M	60,517	16,130
6M	50,514	13,470

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
25.95	4.26	0.58

Source: Bloomberg

Shareholding Structure	
The Mediterranean & Gulf Insurance & Reinsurance Company BSC	40.50%
The Saudi Investment Bank	19.00%
Mr Saleh Ali Saoud Al-Sagri	1.50%
Public	39.00%
Total	**100.00%**

Source: Saudi Stock Exchange, as on October 8, 2015

Financial Performance

US$ Million	2012	2013	2014	Y-o-Y Change (%) 2013	Y-o-Y Change (%) 2014
Gross Written Premium	884.6	1,103.3	1,177.0	*24.7*	*6.7*
Net Written Premium	640.4	771.3	852.4	*20.4*	*10.5*
Net Underwriting Profit / (Loss)	101.6	-15.3	110.9	*NM*	*NM*
Margin (%)	11.5	-1.1	9.5		
Net Profit / (Loss) for the Year	53.7	-51.3	51.6	*NM*	*NM*
Margin (%)	9.4	-4.7	4.4		
Return on Equity (%)	16.9	-19.3	16.5		
Return on Assets (%)	4.6	-3.4	3.5		

Key Comments

- *While the GWP growth in FY2013 was around 24.7%, NP margin and NUP margin declined drastically. Excluding FY2013, the operating performance for FY2012 and FY2014 remained strong, with ROE hovering around 16.0%.*
- *The company saw a 6.7% y-o-y growth in GWP to US$ 1,177.0 million in FY2014 due to increased premium income from the motor insurance products. The group's main lines of business are medical and motor insurance, which accounted for approximately 65% and 15% of GWP, respectively, in FY2014. NWP surged by 10.5% y-o-y to US$ 852.4 million in FY2014. Increase in net premiums earned resulted in a NUP of US$ 110.9 million in FY2014. Accordingly, net profit was US$ 51.6 million in FY2014. Robust performance lifted the ratios of ROE and ROA in FY2014.*

Source: Zawya, Company documents

United Cooperative Assurance Co. SJSC (Publicly Listed) Saudi Arabia

Company Description

United Cooperative Assurance Company SJSC (UCA), incorporated in 2008, offers insurance, reinsurance, and related products in Saudi Arabia. Headquartered in Jeddah, the company is licensed for insurance lines such as property, casualty and accident, liability, corporate medical, marine cargo and hull, aviation, engineering and energy insurance. The company is listed on Tadawul stock exchange since May 2008.

Business Segments/Product Portfolio

Medical insurance, motor insurance, and others are the three operating segments of the company.

- **Medical insurance:** This segment includes insurance products that cover medical costs, medicines, medical services, and supplies.
- **Motor insurance:** Through this segment, UCA provides coverage for accident loss or damage related to motor vehicles, in addition to offering third-party liability insurance.
- **Others:** The company also offers insurance solutions in the areas of aviation, energy, engineering, general accident, motor, property, and trade credit insurance.

Key Strengths

- One of the leading players in the insurance industry in Saudi Arabia.
- A broad range of products.
- A diversified customer base.
- UCA Insurance Company, the parent company of UCA, has 25 years of operating history in the Saudi Arabian insurance market.

Recent Developments/Future Plans

- UCA reported a 4.7% y-o-y growth in GWP to US$ 162.0 million in H1 2015. However, the company reported an increase of 145.1% y-o-y in NUP to US$ 22.7 million during the same period due to lower insurance claims. Net profit was US$ 6.4 million compared to net loss of US$ 4.1 million in the previous year.
- In February 2015, UCA's board approved the capital increase through its rights issue. The company plans to raise a capital of SAR 210.0 million (US$ 55.9 million)*, which is expected to support its solvency and future growth.

Current Price (US$)	3.51

Price as on October 8, 2015

Stock Details	
Bloomberg ticker	UCA AB
52 week high/ low (US$)	6.59/3.01
Market Cap (US$ mn)	171.8
Enterprise value (US$ mn)	60.6
Shares outstanding (mn)	49.0

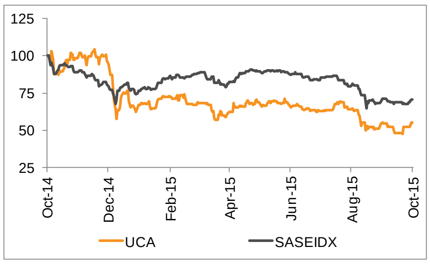
Source: Bloomberg

Average Daily Turnover ('000)

	SAR	US$
3M	5,445	1,452
6M	9,283	2,465

Source: Bloomberg

Share Price Chart



Source: Bloomberg

Valuation Multiples – 2014

P/E Ratio (x)	P/B Ratio (x)	Market Cap /GWP
NA	3.17	0.52

Source: Bloomberg

Shareholding Structure	
UCA Insurance Company	32.50%
Public	67.50%
Total	**100.00%**

Source: Saudi Stock Exchange, as on September 27, 2015

*Exchange rate of 3.7515 as of February 28, 2015

Financial Performance					
US$ Million	**2012**	**2013**	**2014**	**Y-o-Y Change (%) 2013**	**Y-o-Y Change (%) 2014**
Gross Written Premium	272.7	344.8	310.5	*26.4*	*-9.9*
Net Written Premium	196.3	232.9	212.2	*18.6*	*-8.9*
Net Underwriting Profit / (Loss)	38.9	3.6	4.8	*-90.7*	*32.5*
Margin (%)	14.3	1.0	1.5		
Net Profit / (Loss) for the Year	14.2	-20.9	-21.4	*NM*	*NM*
Margin (%)	5.2	-6.1	-6.9		
Return on Equity (%)	15.5	-33.1	-52.4		
Return on Assets (%)	5.1	-5.8	-5.8		

Key Comments

- *Overall the financial performance remained volatile in the last three years. While GWP growth is intact, margins remained under pressure since FY2013 and operations are loss making at net profit level. While underwriting performance remained positive; NUP margin stands at as little as 1.5% in FY2014 compared to 14.3% in FY2012 due to decrease in retention ratio to 68.3% in FY2014 compared to 72.0% in FY2012.*
- *GWP declined by 9.9% y-o-y to US$ 310.5 million in FY2014 due to a drop in premium income from motor insurance and others segments. NWP decreased by 8.9% y-o-y to US$ 212.2 million. Lower net insurance claims led to a 32.5% y-o-y growth in NUP to US$ 4.8 million during the same period. Net loss for the year increased by 2.6% y-o-y to US$ 21.4 million in FY2014.*

Source: Zawya, Company documents

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