

CAPITALISATION & THE RATING ANALYSIS OF (Re)TAKAFUL INSURERS

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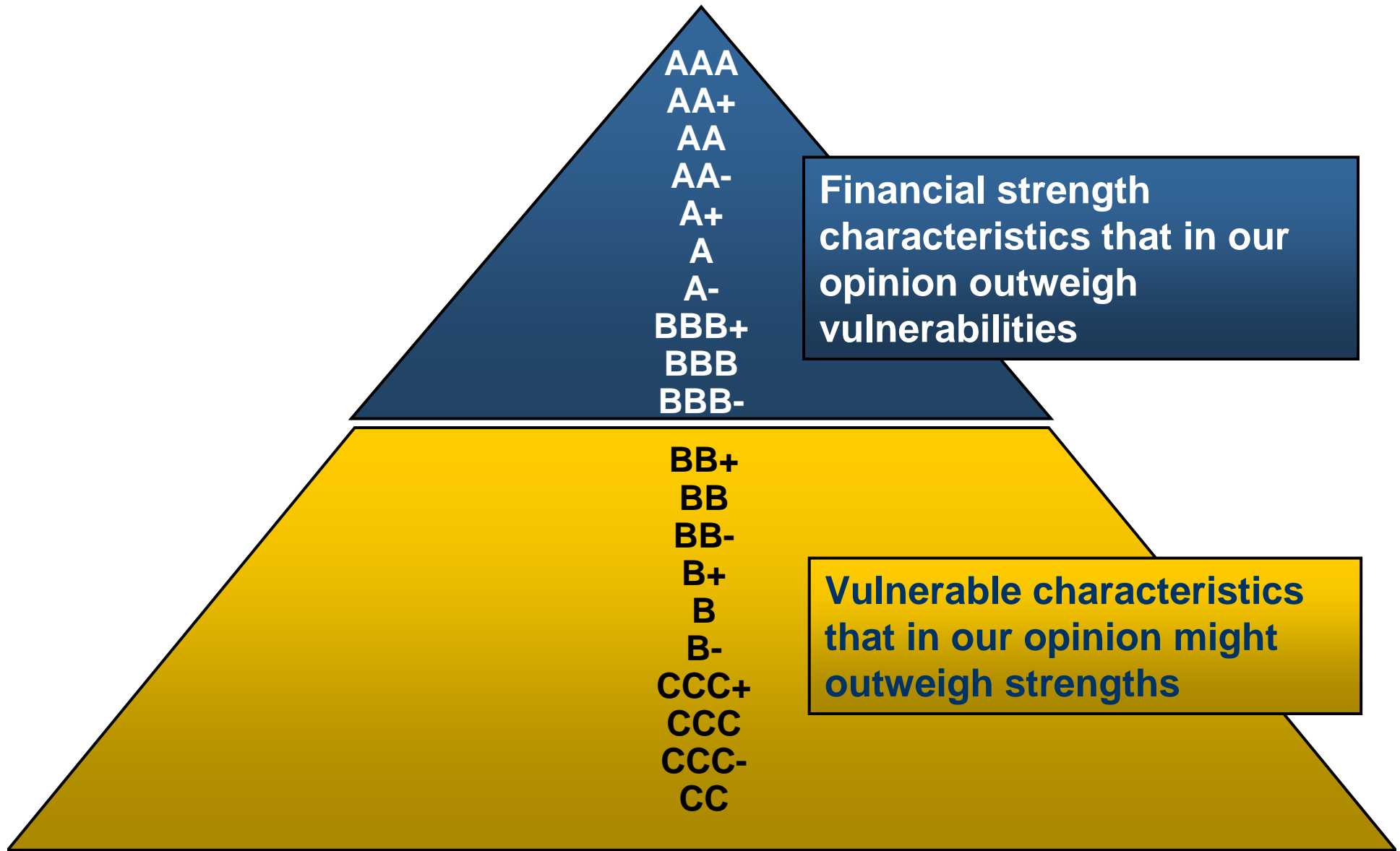
Financial Institutions Ratings, Standard & Poor's

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AGENDA

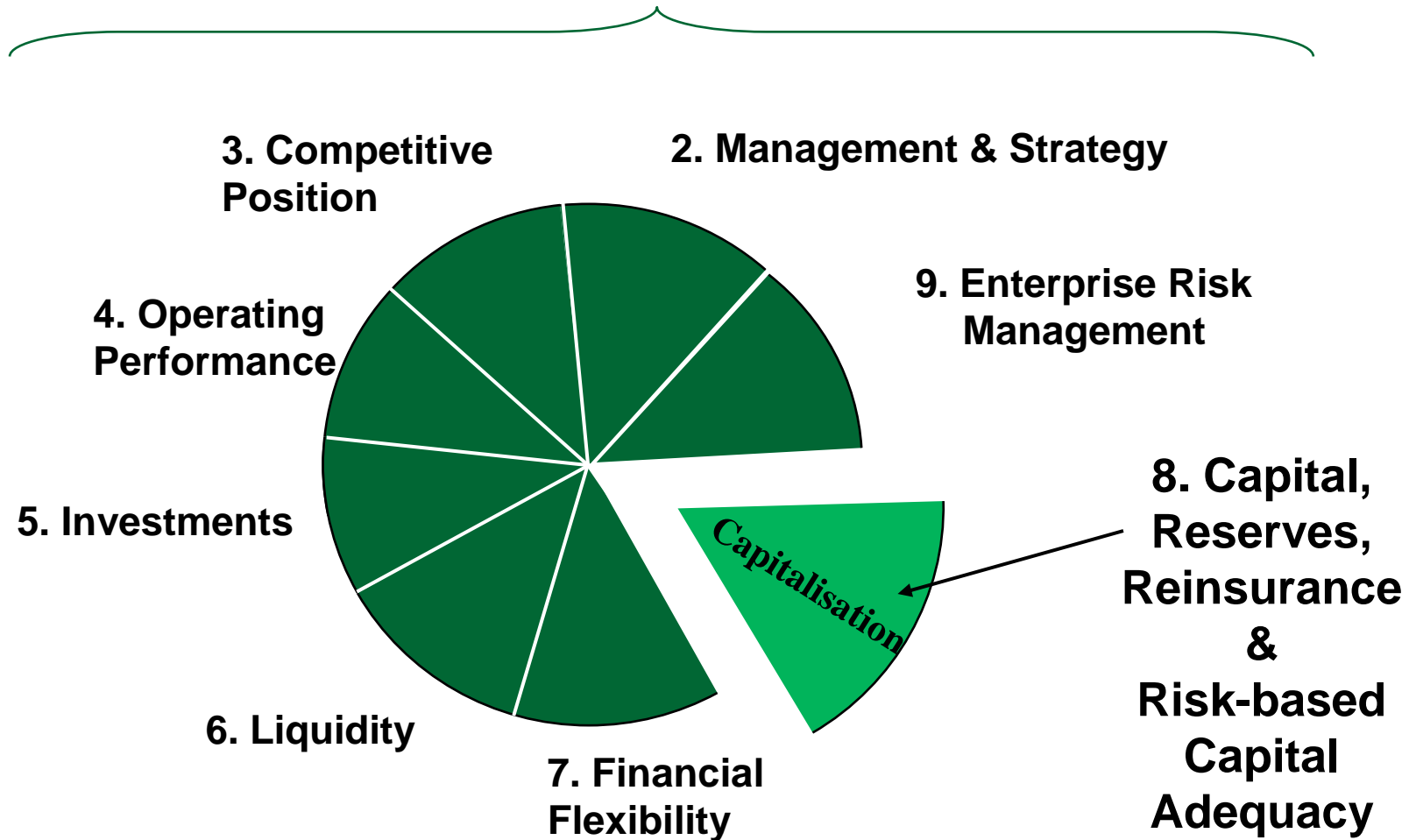
- **Analysing & Rating Takaful Companies**
- **The Role of Capitalisation in Takaful Analysis**
- **Conclusions**

Standard & Poor's Long-Term Rating Scale



Analysis of Insurance, Reinsurance & (Re)Takaful Companies

1. Economic & Industry Risk



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TAKAFUL: KEY ANALYTICAL ISSUES

- Financial strength of the legal structure (incl. capitalisation)**
- Quality of Management & Appropriateness of Strategies (incl. investments)**
- Robustness of the competitive position (critical mass)**
- Transparency of the financial reporting mechanisms**
- Nature of the risk control processes (ERM...)**

Capitalisation: Capital + Reserves + Reinsurance + Risk-Based Model

1. **CAPITAL:** How much paid up? Quality of capital?

2. **RESERVES:** Are they adequate?

3. **REINSURANCE:** How much cover? Appropriateness?

Does the usage create dependence?

4. **RISK-BASED CAPITAL MODELLING:**

= **Capital / Required Capital (at various levels of certainty)**

- **MARKET RISKS:** re Equities, Property, Interest-Rate Movements, etc.
- **CREDIT RISKS:** re Bank Exposure, Receivables,
- **CATASTROPHE RISKS:** 1 in 250 year net aggregate loss

QARD HASSAN (BENEFICIAL LOAN)

Technically, policyholder fund deficits are the responsibility of the takaful fund members, but:

- The Qard Hassan is an essential component of takaful**
- An interest free loan facility from the shareholders to the takaful fund in the event of any deficit.**
- Repayable out of future surpluses in the takaful fund.**

We therefore have to consider the likelihood of losses on the policyholder fund, and assess the ability of shareholder a/c to provide the beneficial loan. Also, we assess the adequacy of earnings on the policyholder a/c to assess ability to repay the qard hassan – as well as assessing ability to build capital by means of retained earnings over time

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Comparison of Takaful & Traditional Income Statements

<u>Fonds des assurés/Compte Technique</u>	Takaful	Trad
Primes d'assurance	100	100
Primes cédées aux réassureurs (Quote-Part 50%) (b)	-50	-50
Primes nettes	50	50
Charge des sinistres (ratio brut Sinistre sur Prime = 50%)	-50	-50
Sinistres à la charge des réassureurs	25	25
Charge nette des sinistres	-25	-25
Frais d'acquisition (ex. 10% des primes brutes)	-10	-10
Frais d'administration (ex. 15% des primes)		-15
Solde de souscription	15	0
Chargement Wakala (ex. 20% des primes)	-20	
Profit ou Perte des opérations d'assurance	-5	0
Revenus des placements nets de frais de gestion alloués	5	4
Chargement Madarabah (ex. 20% des revenus)	-1	
Résultat du fonds des assurés (Takaful) / Résultat Technique (Trad)	-1	4
<u>Fonds des actionnaires/Compte non technique</u>		
Revenu des placements des actionnaires / Revenus des placements	10	15
Revenus des placements alloués au compte technique		-4
Résultat technique		4
Chargement Wakala	20	
Chargement Mudarabah	1	
Frais d'administration (ex. 15% des primes)	-15	
Provision pour Qard Hassan	-1	
Résultat de l'exercice (net actionnaire)	15	15

(Re)TAKAFUL: SUMMARY

- **(Re)Takaful is now part of the established global (re)insurance markets**
- **Potential is immense, and in our opinion goes well beyond just retail lines**
- **We believe that takaful principles can promote good corporate governance, sound reserving, and openness between insurer and insured**

BUT

- **Many Takaful companies have a tendency to invest too heavily in equities, which brings volatility and potentially reduces financial strength**
- **The wakala fee-based model (common in GCC) in our opinion risks encouraging ‘over-trading’, with the agent/shareholder unduly emphasising premium growth in order to maximise fee income, and sometimes then becoming overly-reliant on reinsurance**
- **To-date, we observe that only a small number of takaful companies are distributing profits to policyholders (or discounting the cost of renewals)**

Standard & Poor's GCC Insurance Ratings Coverage: 1 of 3

Bahrain Kuwait Insurance Co. BSC	Bahrain	BBB	Stable
Bahrain National Insurance Co. BSC	Bahrain	BBB+	Stable
Hannover ReTakaful B.S.C.	Bahrain	A	Stable
Takaful International Co. B.S.C	Bahrain	BBB	Stable
Trust Intl. Ins & Reins Co. B.S.C. (Trust Re)	Bahrain	BBB	Positive
Intl. General Ins. Co. Ltd. (I.G.I. Jordan)	(Bermuda)	BBB+	Stable
Euro Arab Ins. Group P.S.C.	Jordan	BB+	Stable
Al-Ahleia Insurance Co. S.A.K.	Kuwait	BBB+	Negative
Gulf Insurance Co. K.S.C.	Kuwait	BBB+	Stable
Arab Investment & Export Credit G'tee Corp.	Kuwait	AA-	Stable
Kuwait Insurance Co. S.A.K. (Unsolicited)	Kuwait	BBpi	-
Kuwait Reinsurance Co. K.S.C.	Kuwait	BBB	Positive
Wethaq Takaful Insurance Co. K.S.C.	Kuwait	BBB-	Stable
Warba Ins. Co. K.S.C. (Unsolicited)	Kuwait	BBBpi	-

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Standard & Poor's GCC Insurance Ratings Coverage: 2 of 3

Societe Centrale de Reassurance	Morocco	BBB	Stable
Oman United Insurance Co. S.A.O.G.	Oman	BBB	Stable
Al Khaleej Ins. & Reins. Co. (Unsolicited)	Qatar	BBBpi	-
Doha Insurance Co. Q.S.C.	Qatar	BBB	Stable
Qatar General Ins. & Reins. Co. (Unsolicited)	Qatar	BBBpi	-
Qatar Insurance Co. S.A.Q.	Qatar	A	Stable
Qatar Insurance Co. International	Qatar	A	Stable
Malath Coop. Ins & Reins. Co.	KSA	BBB	Stable
Stellar Ins. Ltd. (Saudi Aramco captive)	(Bermuda)	AA-	Stable
Saudi Re for Coop. Reins. Co.	KSA	BBB+	Stable
Tawuniya/The Company for Cooperative Ins.	KSA	A	Negative
Arab Union Reinsurance Co.	Syria	BB	Stable
B.E.S.T. Reinsurance Co.	Tunisia	BBB+	Stable
Milli Re (Turkish local scale rating)	Turkey	Tr A+	-

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Standard & Poor's GCC Insurance Ratings Coverage: 3 of 3

Abu Dhabi National Insurance Co. (PSC)	UAE	A-	Stable
Al Ain Ahlia Ins. Co. (Unsolicited)	UAE	BBBpi	-
Al Buhaira National Insurance Co. (PSC)	UAE	BBB	Negative
Al Dhafra Ins. Co. P.S.C. (Unsolicited)	UAE	BBBpi	-
Al Sagr National Ins. Co. (Unsolicited)	UAE	BBBpi	-
Arab Orient Insurance Co. (PSC)	UAE	A	C/W Neg.
Dubai Islamic Ins. & Reins. Co. ('Aman')	UAE	BBB	Negative
Emirates Insurance Co. (PSC)	UAE	BBB+	Negative
National General Ins. Co. (PSC)	UAE	BBB	Stable
Oman Insurance Co. (PSC)	UAE	A-	C/W Neg.
Ras Al Khaimah Nat Ins Co. (Unsolicited)	UAE	BBBpi	-
Salama/Islamic Arab Ins. Co. (P.S.C.)	UAE	BBB+	Stable
Takaful Re Ltd.	UAE	BBB	Stable

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