

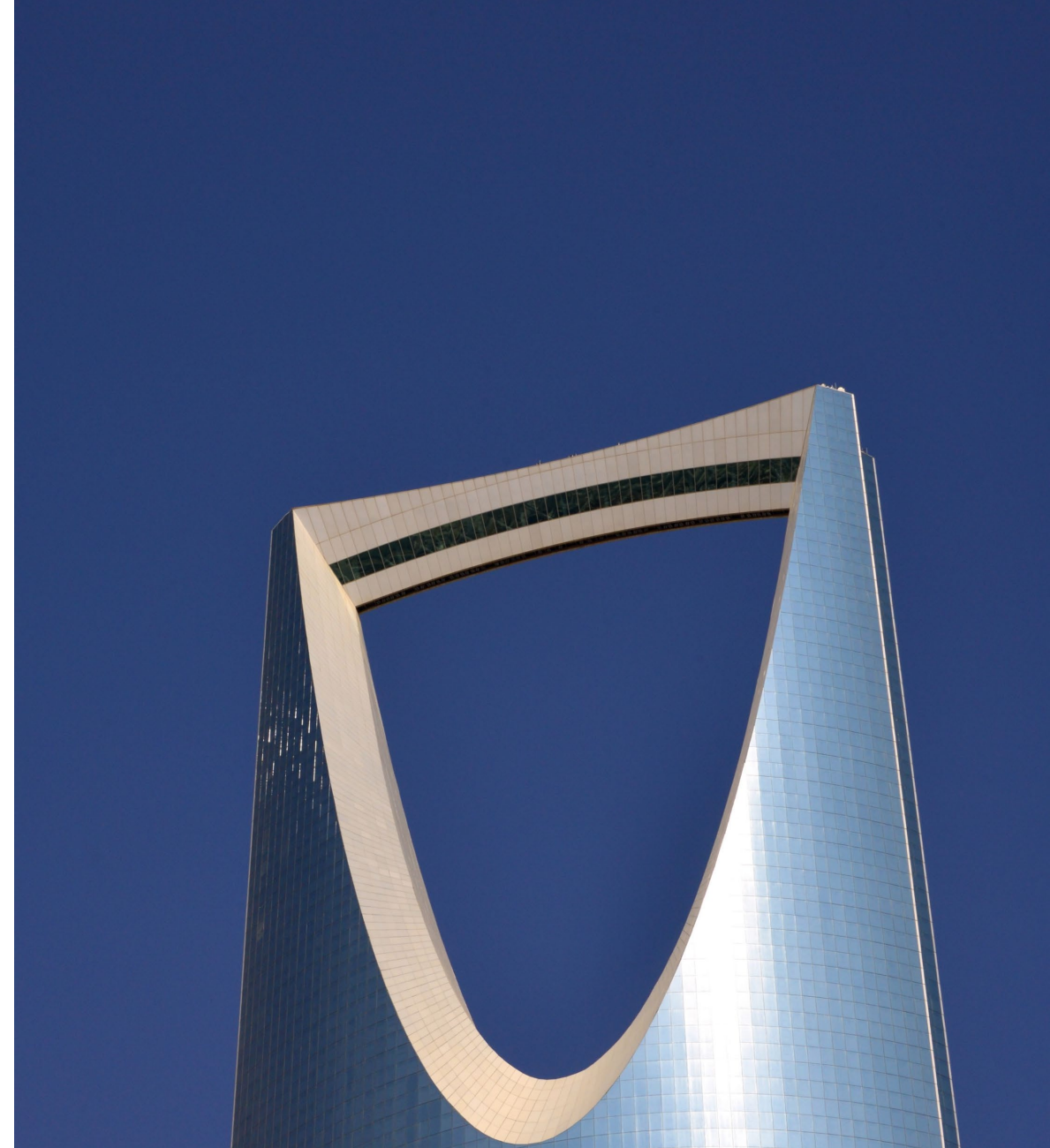
# Saudi Insurers Must Maintain Underwriting Discipline In 2025

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Associate Director

Insurance Ratings

Dec. 10, 2024



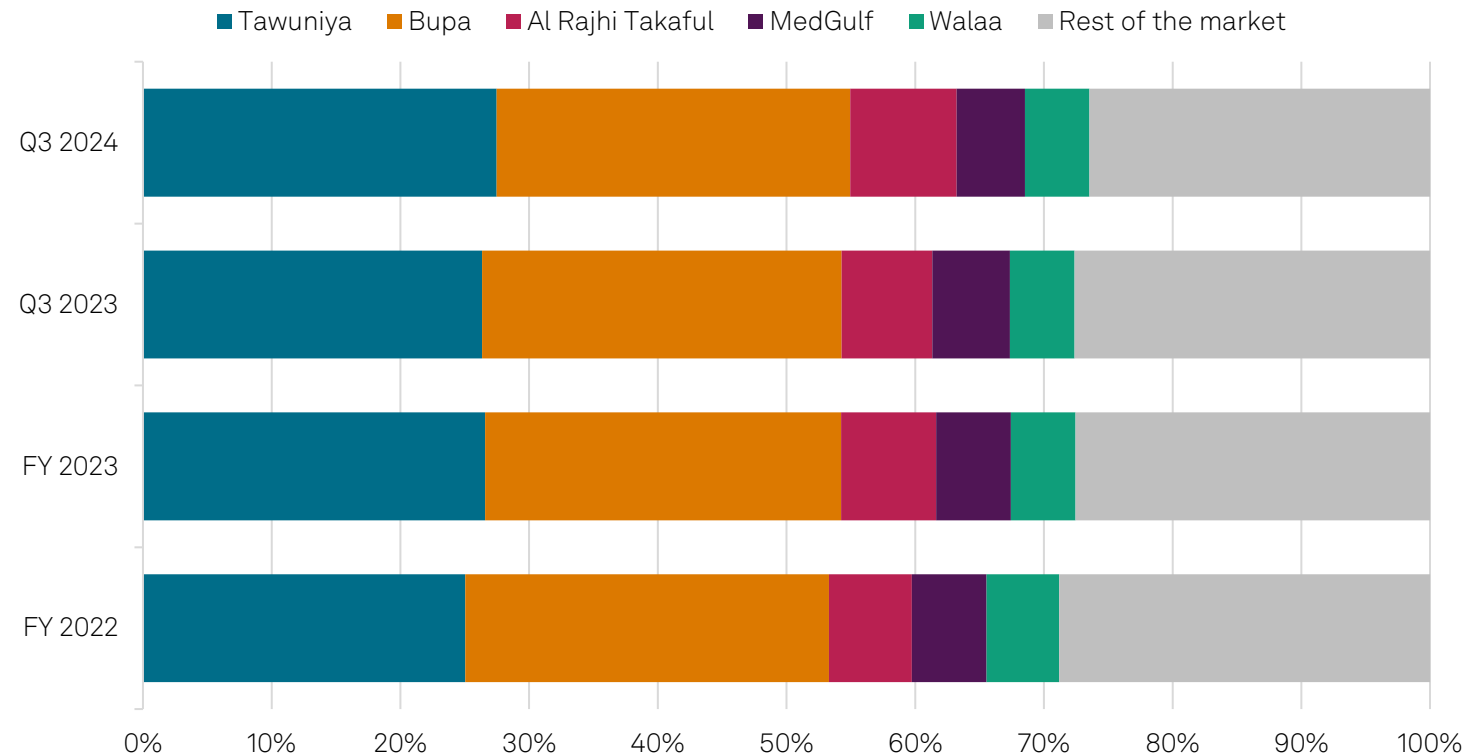
# Key Takeaways

- We expect our ratings on Saudi insurers will remain stable in 2025. This is in line with our ratings outlook, which is stable for all rated insurers in Saudi Arabia.
- We forecast that top-line growth in the sector will moderate to about 10%-15% in 2025, after strong growth since 2022 and a 17% increase in insurance revenue in third-quarter 2024, compared with third-quarter 2023.
- The sector's net profits increased in third-quarter 2024, compared with the same period last year. Larger players account for a higher share of these profits, while smaller companies' profits are decreasing.
- Stiffer competition, particularly in motor third-party liability, and further declines in interest rates could exert pressure on insurers' earnings and capital adequacy in 2025, with investment returns making up nearly two-thirds of insurers' net profits in third-quarters 2023 and 2024 (investment returns in third-quarter 2024 exclude Al Rajhi Takaful's fair value gains on unit-linked investments and Saudi Re's one-off gain on sale of its investment in an equity accounted investee).
- Due to increasing regulatory requirements and some insurers' inability to meet their minimum capital requirements, we expect M&A activity will continue in 2025. Eight players are currently engaged in discussions.
- Despite geopolitical tensions, our base-case scenario assumes that the Israel-Hamas war will remain contained.

# Two Companies Generate The Majority Of The Market's Insurance Revenue

The concentration in the Saudi insurance market is significant

Insurance revenue breakdown by company



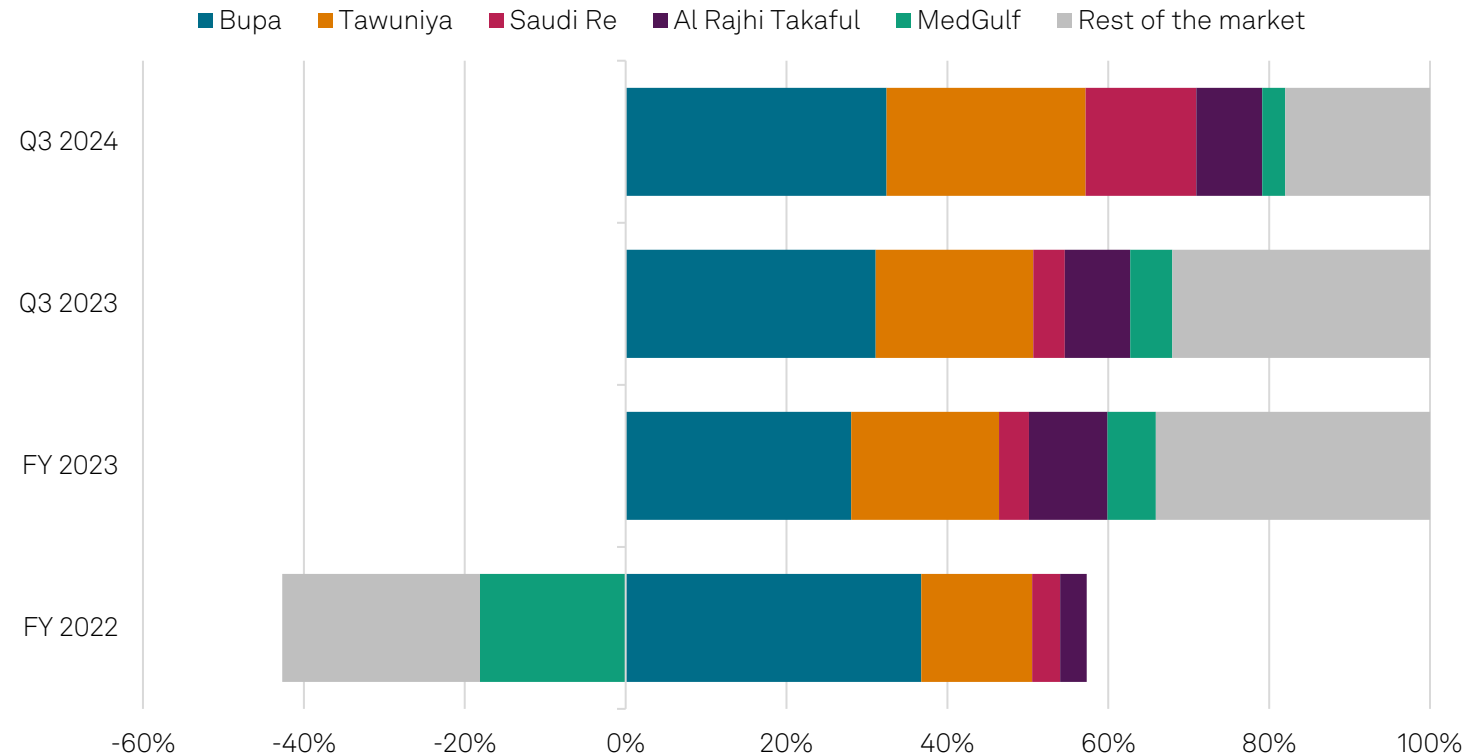
FY ends Dec. 31. FY--Financial year. Source: S&P Global Ratings.

- The largest insurers are increasingly controlling the market.
- Bupa and Tawuniya, the two largest Saudi insurers, accounted for more than 50% of the market's insurance revenue in third-quarter 2024.
- The five largest insurers generated almost three-quarters of the market's insurance revenue in third-quarter 2024, about 1% more than in third-quarter 2023.

# The Largest Players Generate More Than 50% Of Profits

## Bupa and Tawuniya accounted for most profits in third-quarter 2024

Profit breakdown by company



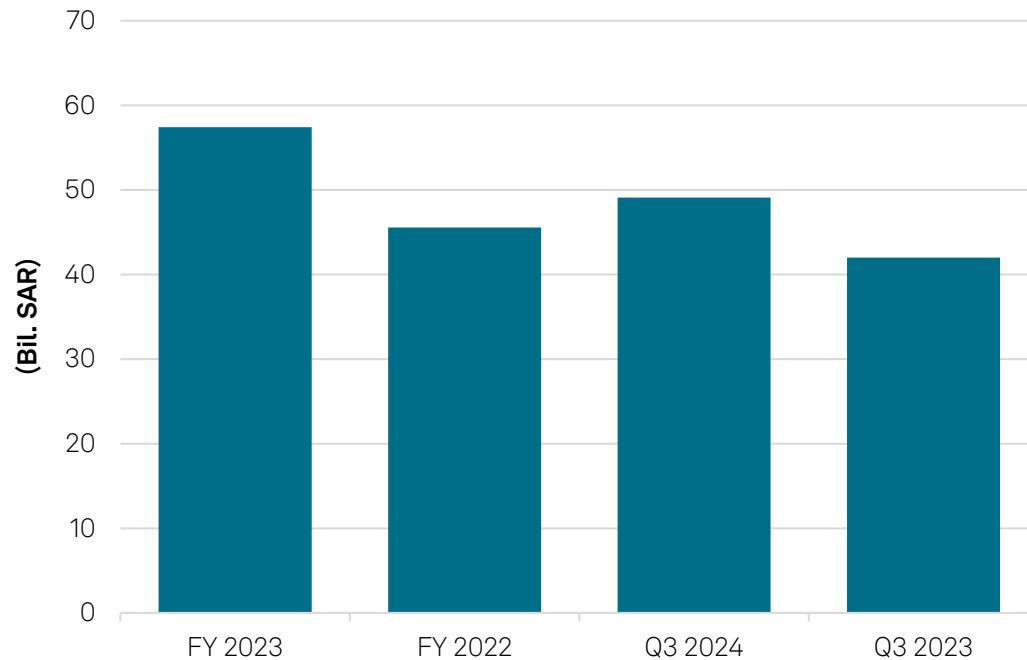
FY ends Dec. 31. FY--Financial year. Source: S&P Global Ratings.

- 2023 was an exceptional year, with all entities reporting a net profit. The 21 smaller companies accounted for one-third of profits.
- Due to changing dynamics and intensifying competition in 2024, the five largest companies now account for about 80% of total profits, while the remaining 21 only contributed 20%. In comparison, the five largest companies contributed 68% of total profits in third-quarter 2023.
- While the five largest companies' share of revenues did not increase materially between third-quarter 2023 and third-quarter 2024, their share of profits rose significantly. Accordingly, the remaining insurers' profits declined sharply.

# Medical And Motor Lines Account For Over 80% Of Insurance Revenue

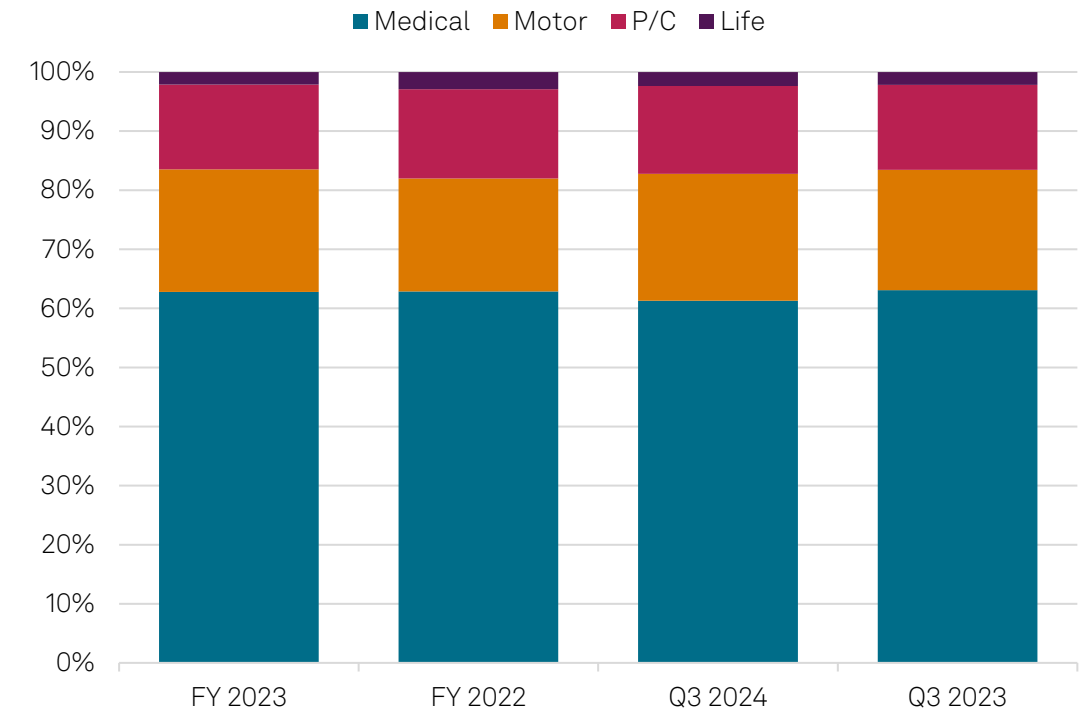
The sector's operating performance therefore depends on disciplined underwriting in both lines

## Saudi insurers' total insurance revenue



FY ends Dec. 31. FY--Financial year. SAR--Saudi riyal. Source: S&P Global Ratings.

## Breakdown of insurance revenue

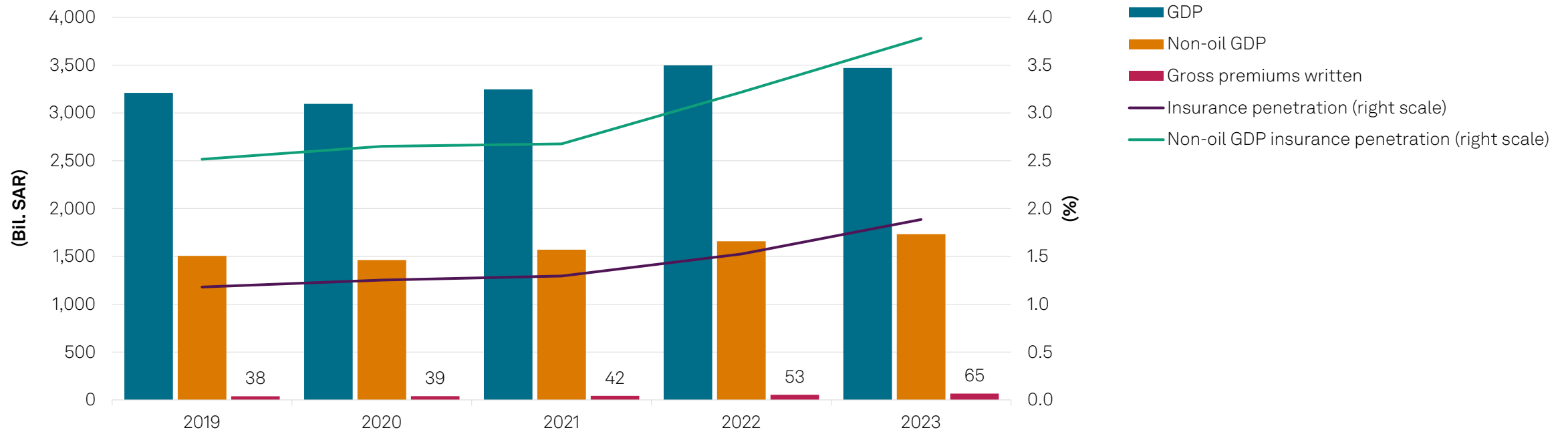


FY ends Dec. 31. FY--Financial year. P/C--Property/casualty. Source: S&P Global Ratings.

# Insurance Penetration Remains Low But Has Increased Over Recent Years

- We expect insurance penetration will continue to increase, thanks to the market's prospective growth potential.
- Insurance penetration relative to non-oil GDP shows more depth in the insurance market.

## Insurance penetration

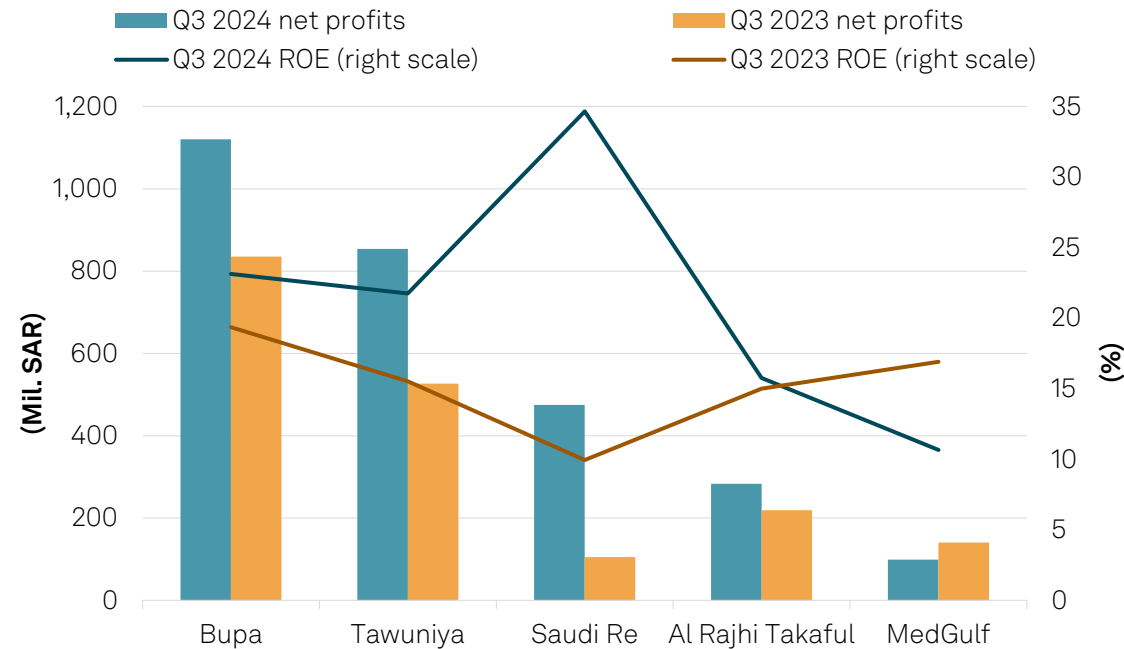


Non-oil GDP excludes government activities. SAR--Saudi riyal. Sources: Saudi Insurance Authority and Saudi General Authority for Statistics.

# Higher Net Profits Are Not Evenly Distributed

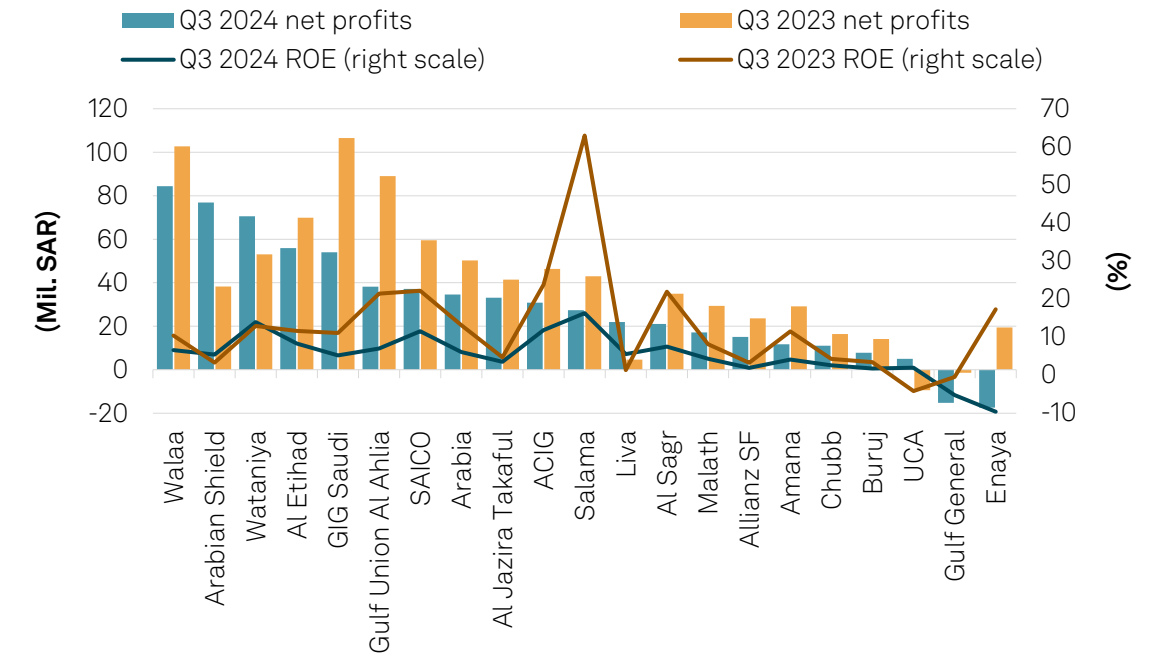
- The five largest companies accounted for about 80% of total net profits in third-quarter 2024.
- 18 companies reported a decline in net profits in third-quarter 2024, compared with the same period in 2023.

## Top 5 insurers' third-quarter profitability



ROE--Return on equity. SAR--Saudi riyal. Q2 2022 total equity is based on IFRS 4 reporting. Source: S&P Global Ratings.

## Remaining 21 insurers' third-quarter profitability

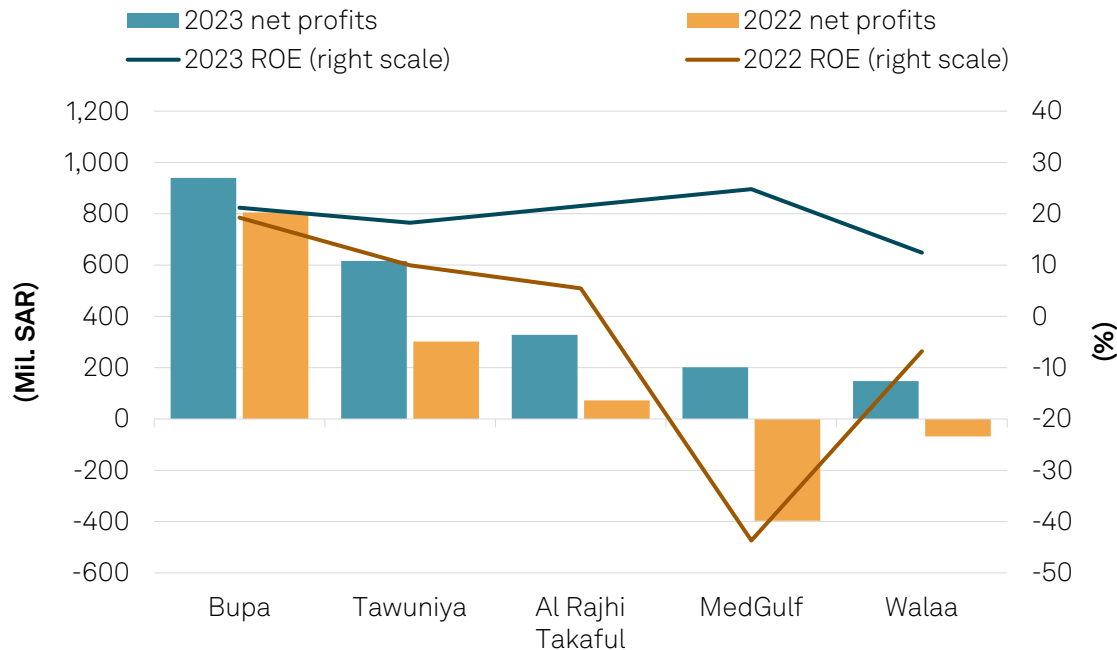


ROE--Return on equity. SAR--Saudi riyal. Q2 2022 total equity is based on IFRS 4 reporting. Source: S&P Global Ratings.

# All Companies Recorded Net Profits In 2023

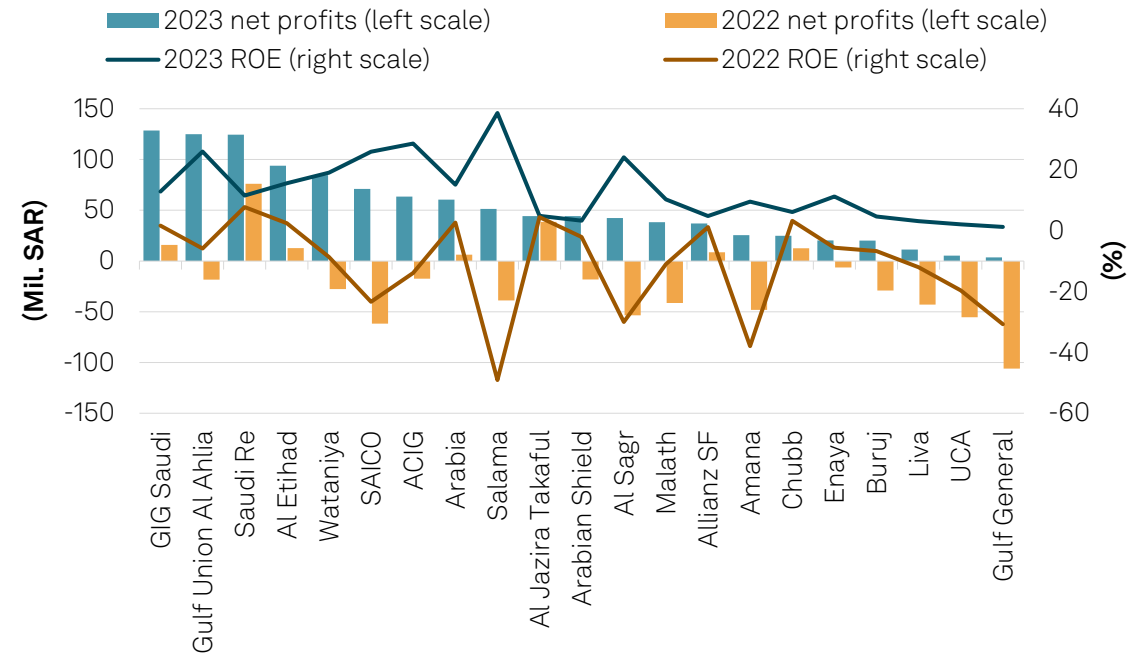
- 17 companies reported a double-digit return on equity in 2023, with underwriting and investment activities contributing to net profits.

## Top 5 insurers' full-year profitability



ROE--Return on equity. SAR--Saudi riyal. Source: S&P Global Ratings.

## Remaining 21 insurers' full-year profitability



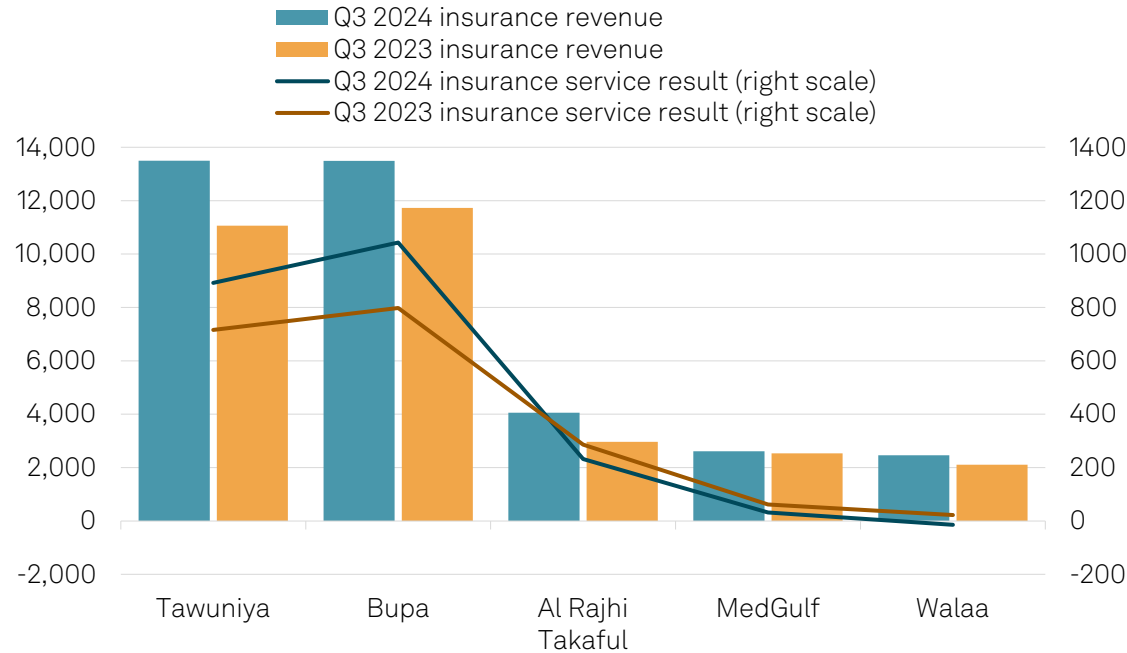
ROE--Return on equity. SAR--Saudi riyal. Source: S&P Global Ratings.



# Growth Continued, Some Players' Operating Performance Deteriorated

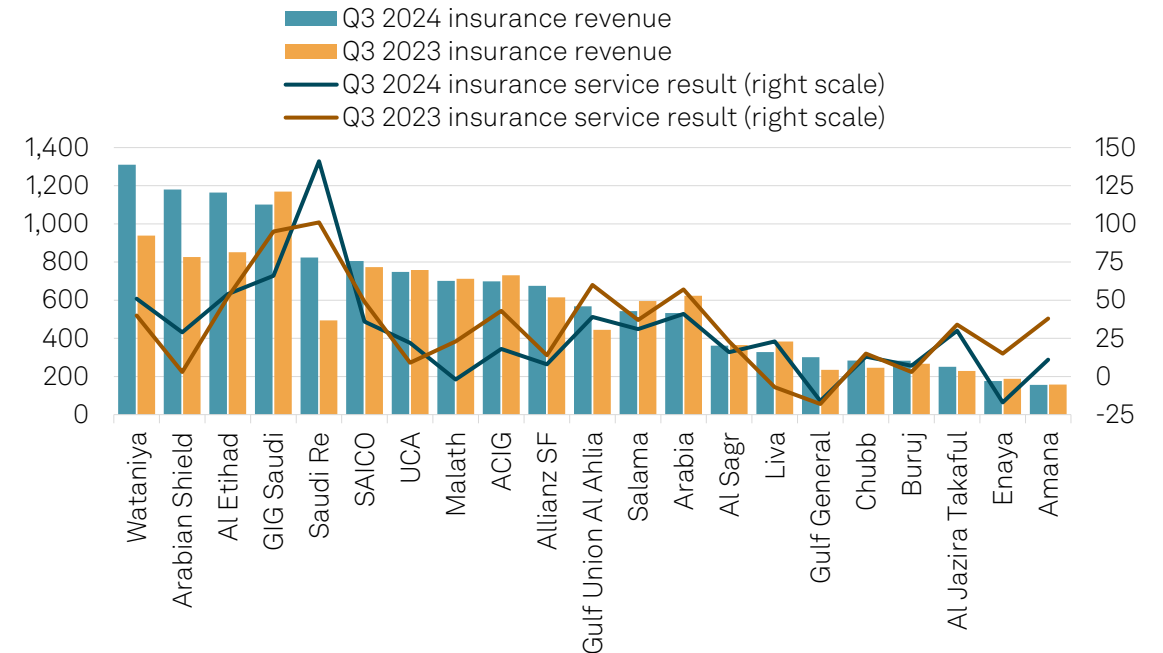
- Tawuniya and Bupa continue to lead the market in terms of insurance revenue and insurance service result.
- 16 companies' insurance service result deteriorated in third-quarter 2024, compared with third-quarter 2023.

**Top 5 insurers' third-quarter insurance revenue**  
(Mil. Sar)



SAR--Saudi riyal. Source: S&P Global Ratings.

**Remaining 21 insurers' third-quarter insurance revenue**  
(Mil. SAR)

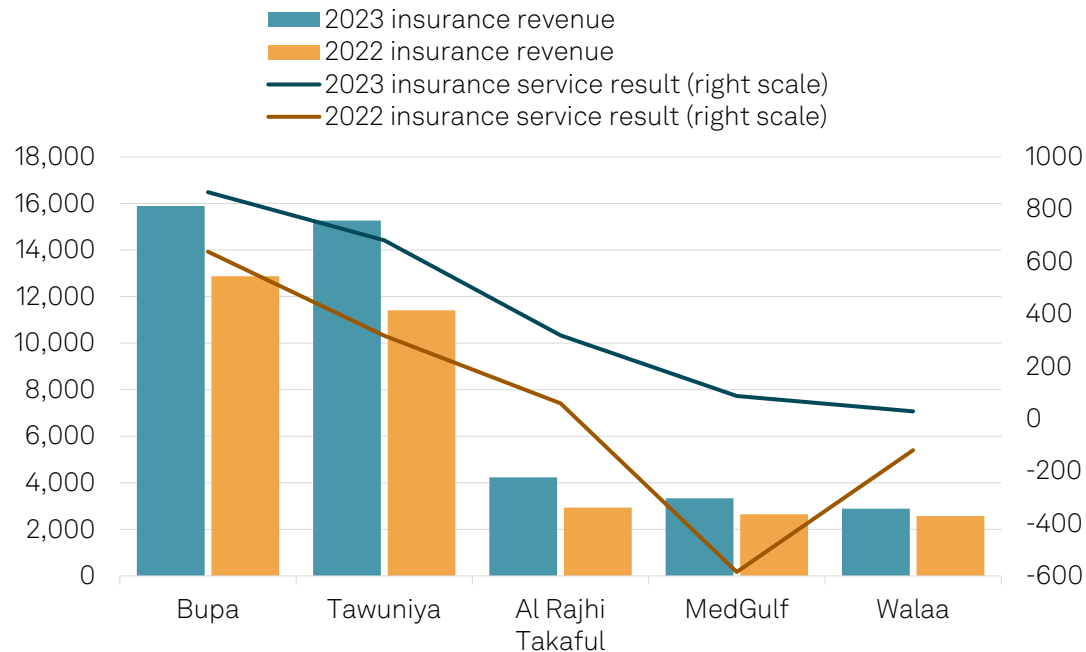


SAR--Saudi riyal. Source: S&P Global Ratings.

# Rate Adjustments Over 2022-2023 Spurred Growth And Technical Performance

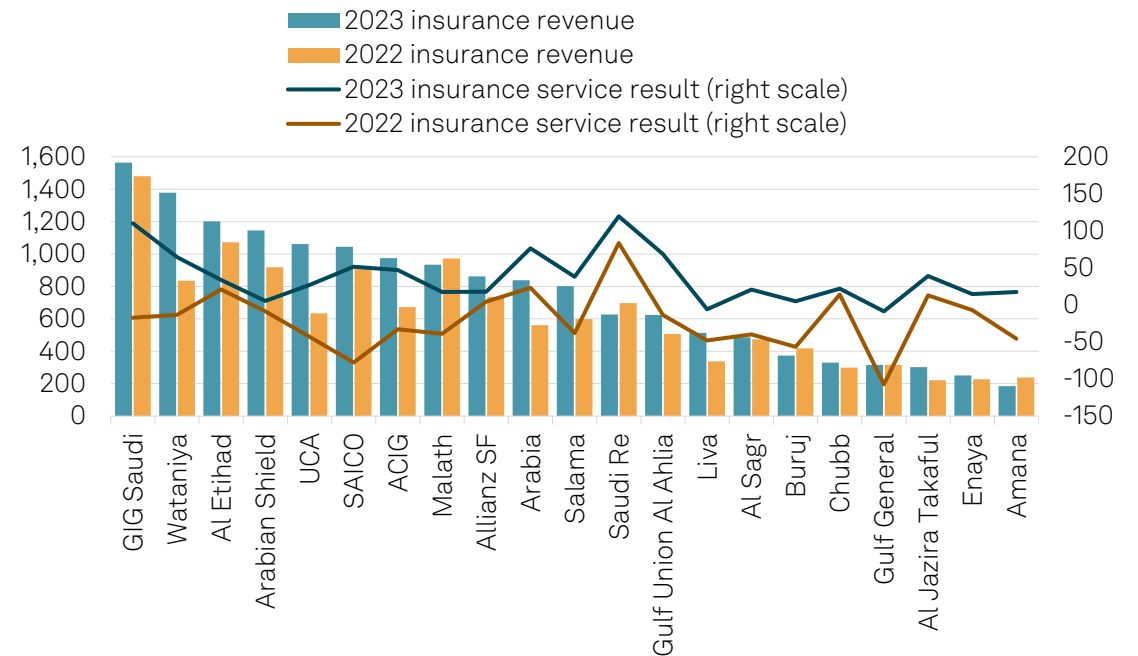
- The market saw a substantial turnaround in technical performance, with all companies recording an improvement in their 2023 insurance service result, relative to 2022.

Top 5 insurers' full-year insurance revenue (Mil. SAR)



SAR--Saudi riyal. Source: S&P Global Ratings.

Remaining 21 insurers' full-year insurance revenue (Mil. SAR)

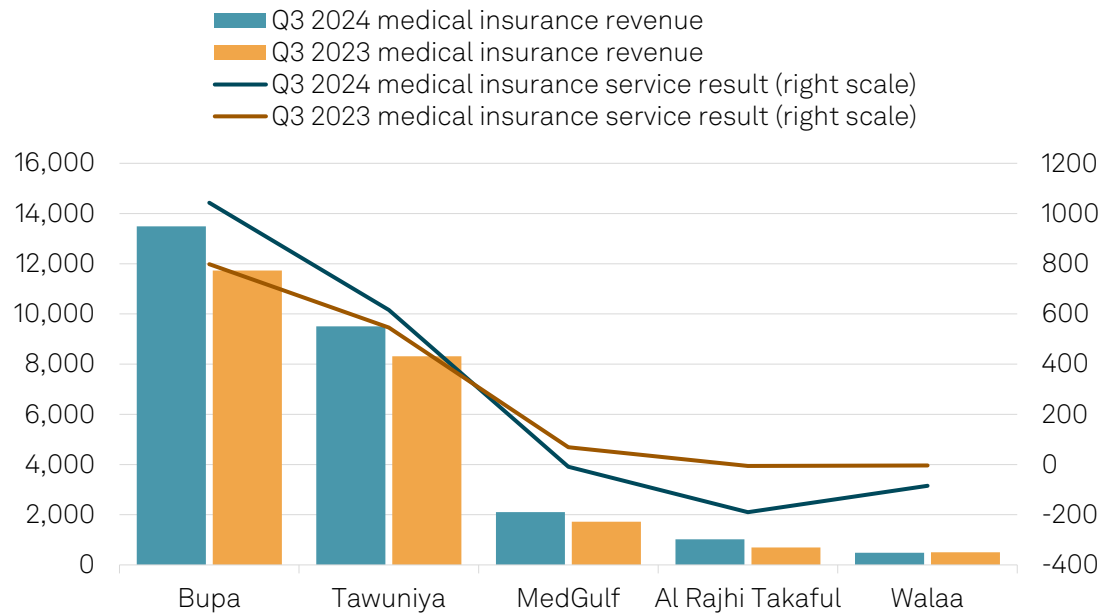


SAR--Saudi riyal. Source: S&P Global Ratings.

# Medical Performance Has Weakened Since 2023

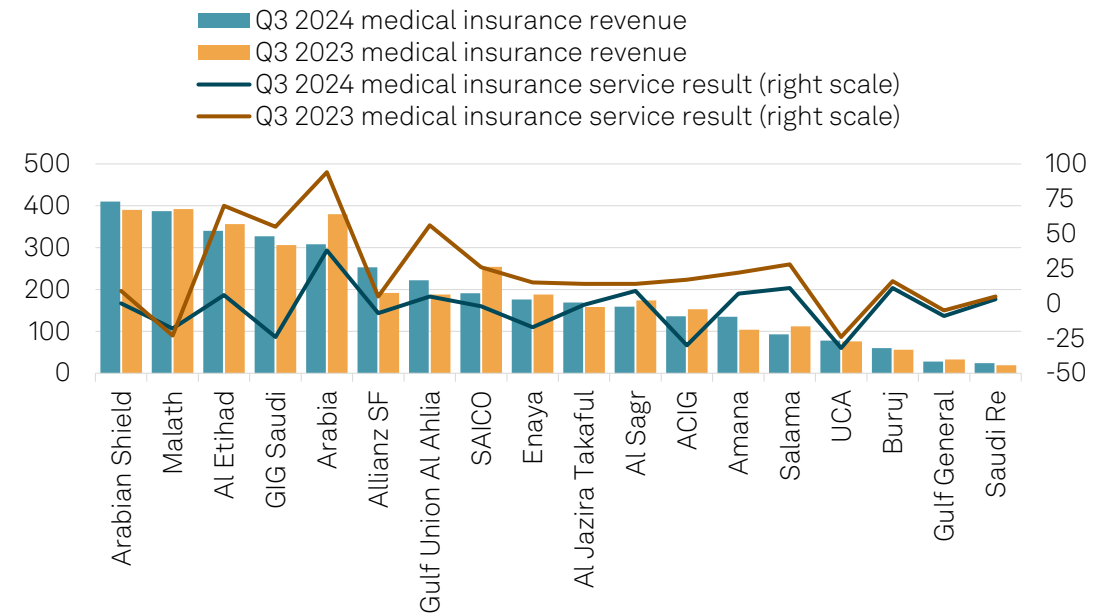
- While medical insurance revenue increased by 14% in third-quarter 2024, the insurance service result deteriorated for all companies, compared with third-quarter 2023, except Bupa, Tawuniya, and Malath.

Top 5 medical insurers' third-quarter insurance revenue (Mil. SAR)



SAR--Saudi riyal. Source: S&P Global Ratings.

Remaining 18 medical insurers' third-quarter insurance revenue (Mil. SAR)

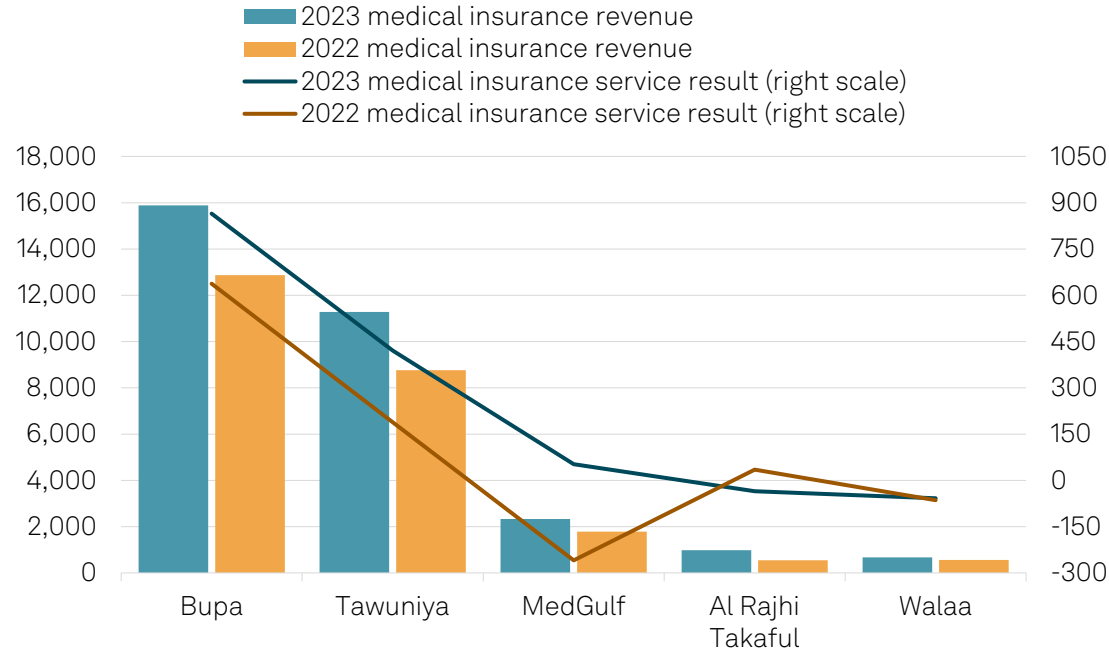


Al Jazira Takaful's non-life insurance revenue assumed in medical, as no further breakdown was available in the financial statements. SAR--Saudi riyal. Source: S&P Global Ratings.

# Most Medical Writers' Operating Performance Improved In 2023

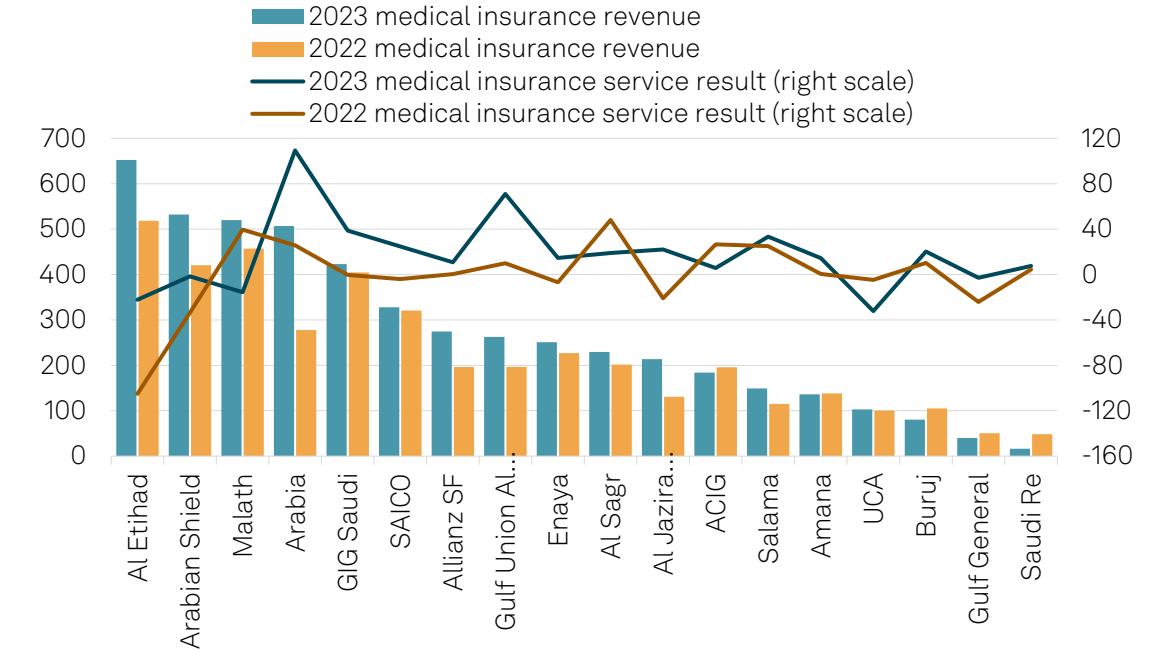
- Bupa and Tawuniya control 75% of Saudi Arabia's medical insurance market. Medical insurance constitutes the largest line of business in the Saudi insurance sector.

**Top 5 medical insurers' full-year insurance revenue (Mil. SAR)**



SAR--Saudi riyal. Source: S&P Global Ratings.

**Remaining 18 medical insurers' full-year insurance revenue (Mil. SAR)**

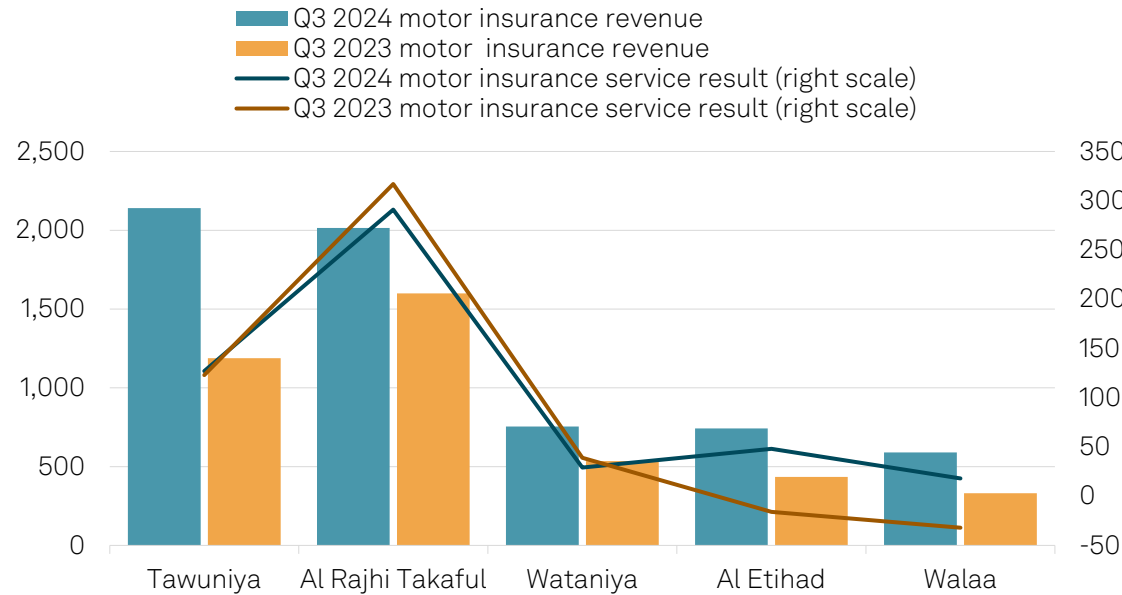


Al Jazira Takaful's non-life insurance revenue assumed in medical, as no further breakdown was available in the financial statements. SAR--Saudi riyal. Source: S&P Global Ratings.

# Motor Continued To Drive Growth

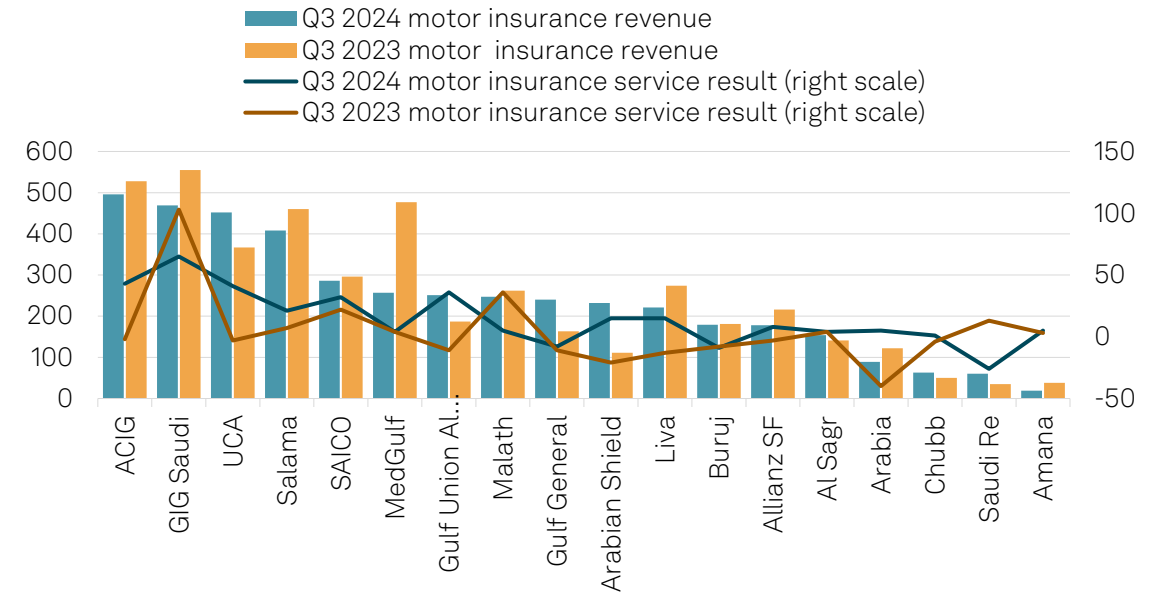
- Operating performance improved for all but five motor writers in third-quarter 2024.
- Despite this positive performance, motor premiums declined by 2.5% in third-quarter 2024, compared with third-quarter 2023, while price competition intensified.

Top 5 motor insurers' third-quarter insurance revenue (Mil. SAR)



SAR--Saudi riyal. Source: S&P Global Ratings.

Remaining 18 motor insurers' third-quarter insurance revenue (Mil. SAR)

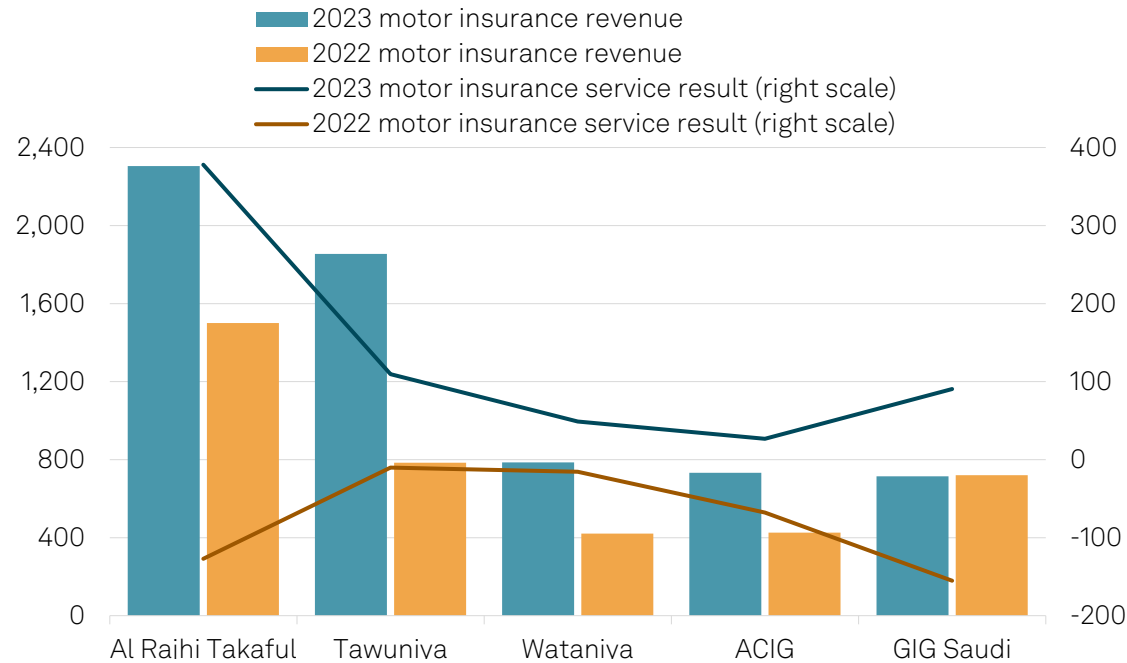


SAR--Saudi riyal. Source: S&P Global Ratings.

# Motor Lines Recorded The Highest Growth Rates In 2023

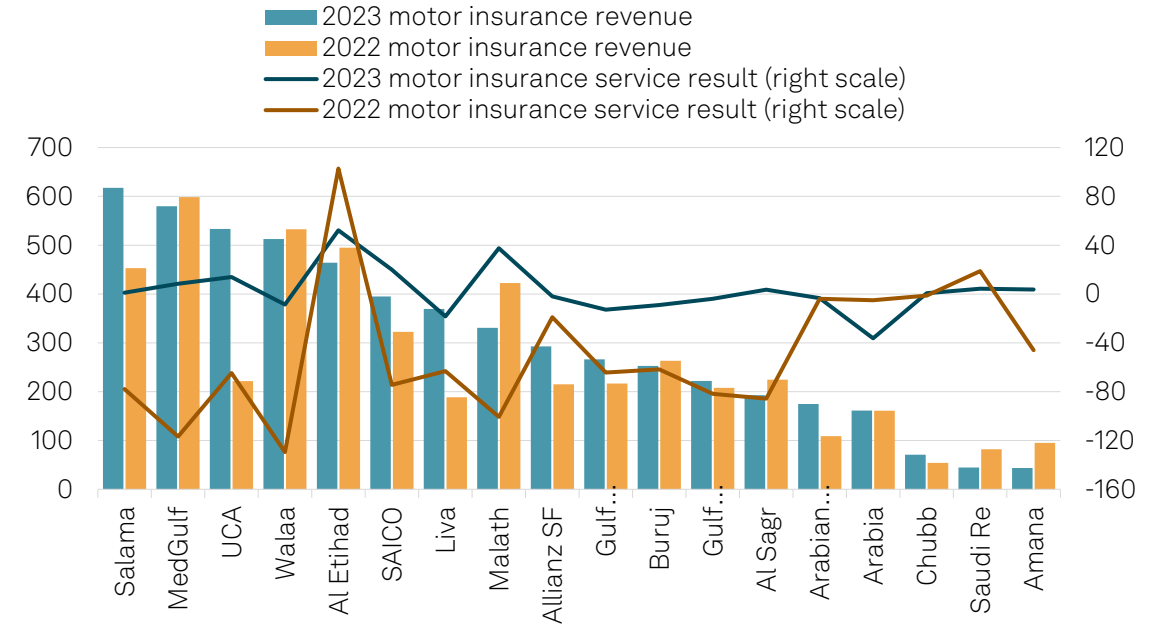
- Rate adjustments and new business, notably leasing, were key growth drivers in 2023.
- Tawuniya and UCA more than doubled their motor revenue, while five other companies' revenue increased by more than 50%.

**Top 5 motor insurers' full-year insurance revenue**  
(Mil. SAR)



SAR--Saudi riyal. Source: S&P Global Ratings.

**Remaining 18 motor insurers' full-year insurance revenue**  
(Mil. SAR)

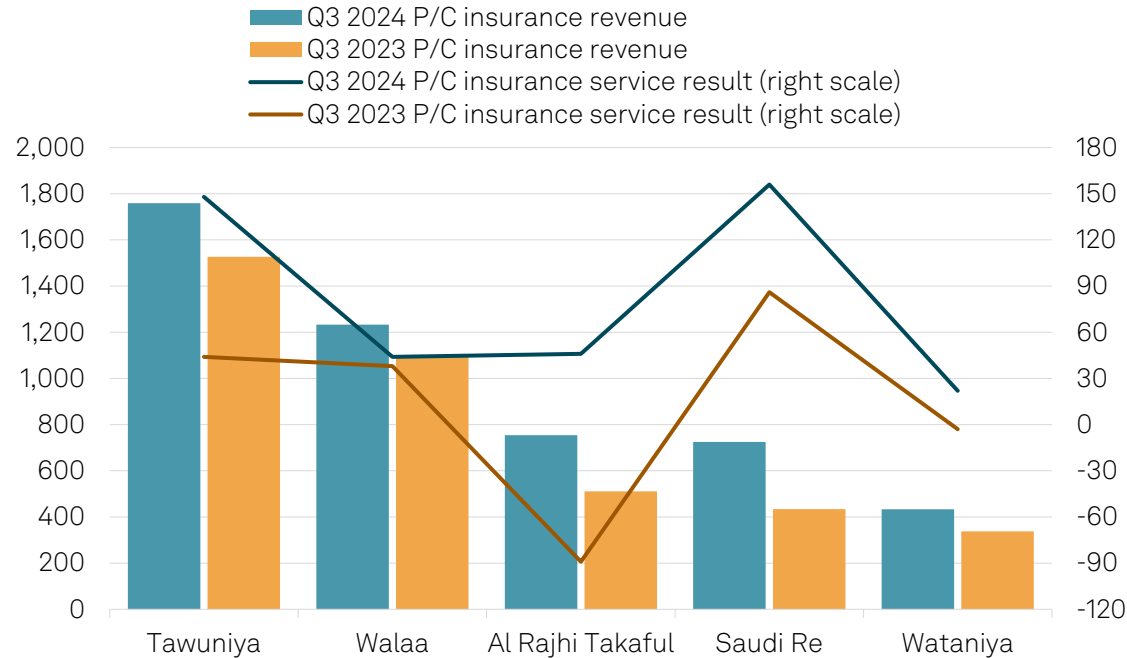


SAR--Saudi riyal. Source: S&P Global Ratings.

# P/C Lines' Growth Continued

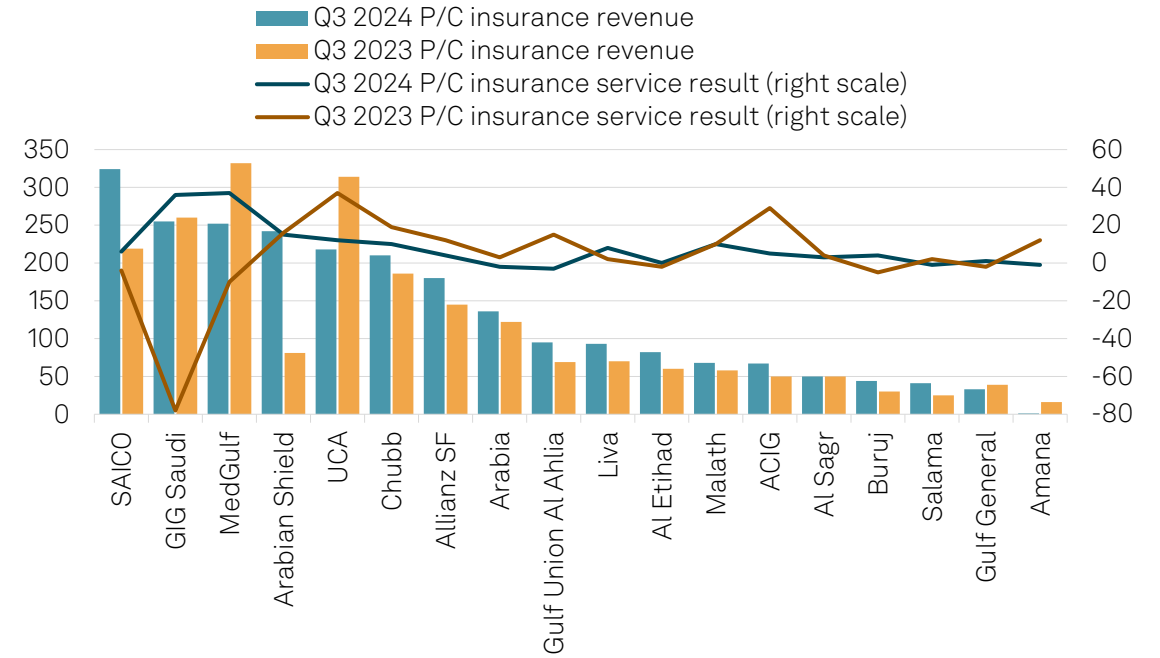
- With a few exceptions, most companies were profitable in third-quarter 2024.
- Insurers typically cede a significant portion of the P/C business to international reinsurance markets.

**Top 5 P/C insurers' third-quarter insurance revenue**  
(Mil. SAR)



P/C--Property/casualty. SAR--Saudi riyal. Source: S&P Global Ratings.

**Remaining 18 P/C insurers' third-quarter insurance revenue**  
(Mil. SAR)

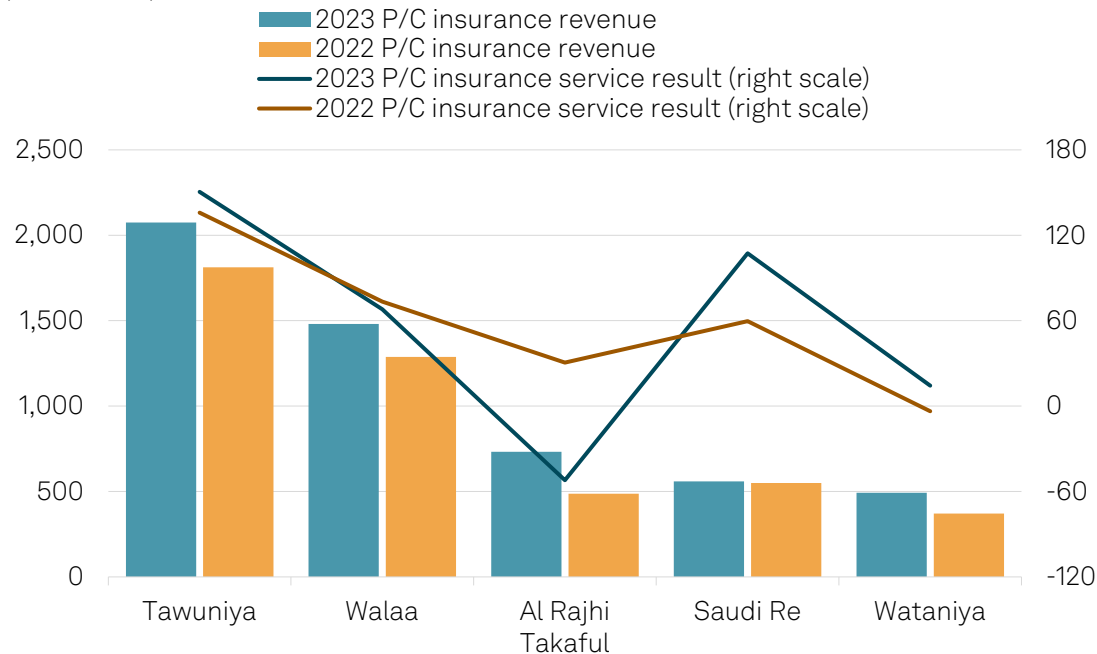


P/C--Property/casualty. SAR--Saudi riyal. Source: S&P Global Ratings.

# P/C Lines Do Not Contribute Materially To The Market's Revenue

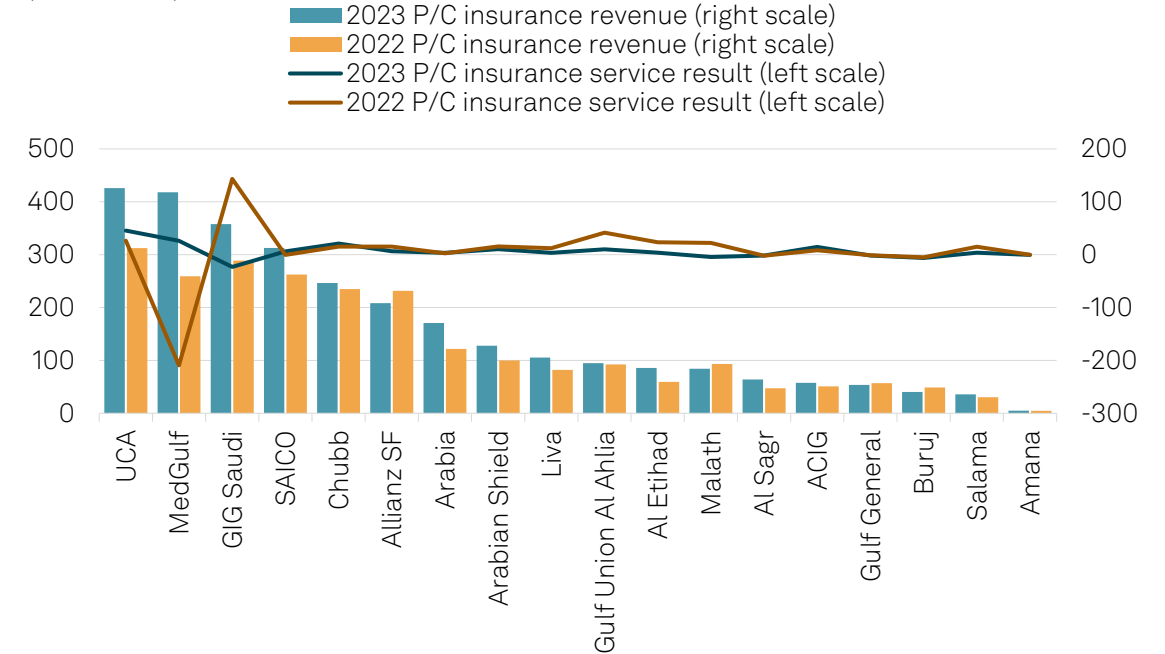
- Property, energy, and engineering are the key P/C lines written in Saudi Arabia.
- Only Tawuniya and Walaa generate more than Saudi riyal (SAR) 1 billion in P/C revenue.

**Top 5 P/C insurers' full-year insurance revenue**  
(Mil. SAR)



P/C--Property/casualty. SAR--Saudi riyal. Source: S&P Global Ratings.

**Remaining 18 P/C insurers' full-year insurance revenue**  
(Mil. SAR)



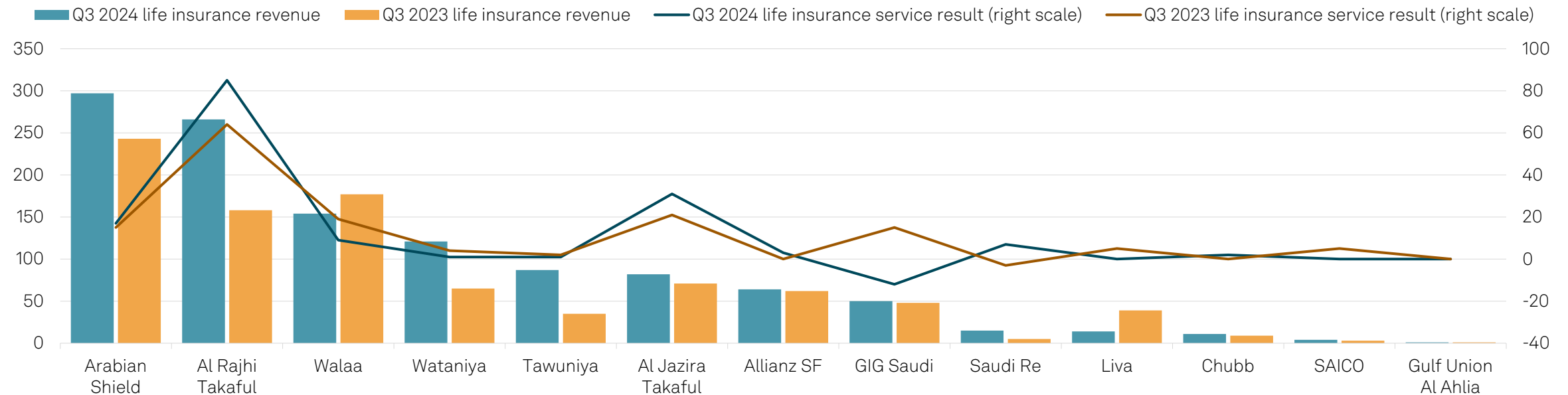
P/C--Property/casualty. SAR--Saudi riyal. Source: S&P Global Ratings.



# Life Business Continued To Exhibit Strong Growth

- The strong growth results from a low revenue base.
- The profits are concentrated, with three players accounting for 93% of the insurance service result.

## Life insurers' third-quarter insurance revenue (Mil. SAR)

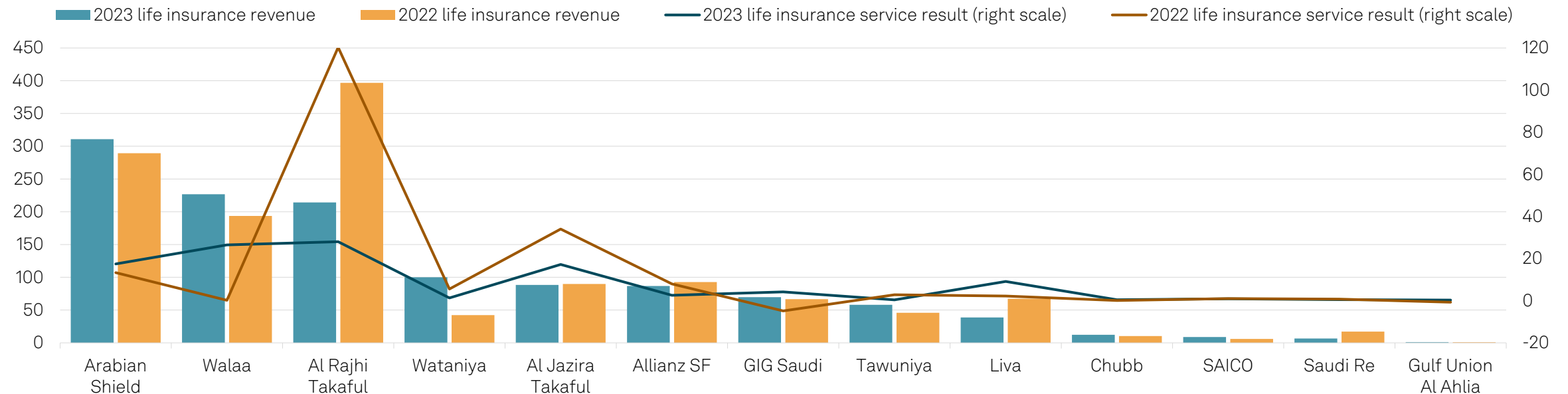


SAR--Saudi riyal. Source: S&P Global Ratings

# Life Insurance Is Still At An Early Stage

- Life was a profitable line of business for all insurers in 2023.
- Yet it remains very small relative to other lines and only accounted for 2% of the market's insurance revenue in third-quarter 2024.

## Life insurers' full-year insurance revenue (Mil. SAR)



SAR--Saudi riyal. Source: S&P Global Ratings

# Main Rating Actions And Peer Comparison

# Timeline Of Rating Actions On Saudi Insurers

- Dec. 16, 2022**  
Saudi Re assigned 'A-' rating
- March 17, 2023**  
Saudi sovereign rating raised to 'A/A-1' from 'A-/A-2'
- Oct. 18, 2023**  
Al Rajhi Takaful assigned 'A-', 'ksaAAA' ratings
- Nov. 15, 2023**  
Our new insurer risk-based capital adequacy criteria are published
- Dec. 19, 2023**  
Tawuniya rating raised to 'A' from 'A-', following new risk-based capital adequacy criteria
- Jan. 24, 2024**  
Wataniya rating raised to 'BBB+' from 'BBB'
- May 6, 2024**  
GIG Saudi assigned 'A-', 'ksaAAA' ratings
- June 13, 2024**  
GIG Saudi outlook revised to positive from stable following similar action on parent
- Sept. 13, 2024**  
Saudi sovereign outlook revised to positive from stable

Source: S&P Global Ratings.

# Peer Comparison | Key Rating Components

	Al Rajhi Takaful	GIG Saudi	Saudi Re	Tawuniya	Walaa	Wataniya
<b>Business risk</b>	<b>Strong</b>	<b>Satisfactory</b>	<b>Satisfactory</b>	<b>Strong</b>	<b>Satisfactory</b>	<b>Fair</b>
Competitive position	Strong	Satisfactory	Satisfactory	Strong	Satisfactory	Fair
IICRA	Intermediate	Intermediate	Intermediate	Intermediate	Intermediate	Intermediate
<b>Financial risk</b>	<b>Satisfactory</b>	<b>Very strong</b>	<b>Strong</b>	<b>Very strong</b>	<b>Very strong</b>	<b>Strong</b>
Capital and earnings	Satisfactory	Very strong	Strong	Very strong	Very strong	Strong
Risk exposure	Moderately low	Moderately low	Moderately low	Moderately low	Moderately low	Moderately low
Funding structure	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
<b>Anchor</b>	<b>a-</b>	<b>a-</b>	<b>a-</b>	<b>a</b>	<b>a-</b>	<b>bbb+</b>
<b>Modifiers</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Governance	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Liquidity	Adequate	Exceptional	Adequate	Exceptional	Exceptional	Adequate
CRA	0	0	0	0	0	0
<b>Support</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Group support	0	0	0	0	0	0
Government support	0	0	0	0	0	0
<b>FSR</b>	<b>A-</b>	<b>A-</b>	<b>A-</b>	<b>A</b>	<b>A-</b>	<b>BBB+</b>
<b>Outlook</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>

CRA--Comparable ratings analysis. IICRA--Insurance Industry and Country Risk Assessment. FSR--Financial strength rating. Source: S&P Global Ratings.

# Appendix

# Saudi Insurance Companies

Abbreviated name	Legal name
ACIG	Allied Cooperative Insurance Group
Al Etihad	Al-Etihad Cooperative Insurance Company
Al Jazira Takaful	Aljazira Takaful Taawuni Company
Al Rajhi Takaful	Al Rajhi Company for Cooperative Insurance
Al Sagr	Al Sagr Cooperative Insurance Company
Allianz SF	Allianz Saudi Fransi Cooperative Insurance Company
Amana	Amana Cooperative Insurance Company
Arabia	Arabia Insurance Cooperative Company
Arabian Shield	Arabian Shield Cooperative Insurance Company
Bupa	Bupa Arabia for Cooperative Insurance Company
Buruj	Buruj Cooperative Insurance Company
Chubb	Chubb Arabia Cooperative Insurance Company
Enaya	Saudi Enaya Cooperative Insurance Company

# Saudi Insurance Companies

Abbreviated name	Legal name
GIG Saudi	Gulf Insurance Group
Gulf General	Gulf General Cooperative Insurance Company
Gulf Union	Gulf Union Al Ahlia Cooperative Insurance Company
Liva	Liva Insurance Company (formerly known as Al Alamiya for Cooperative Insurance Company)
Malath	Malath Cooperative Insurance Company
MedGulf	The Mediterranean & Gulf Cooperative Insurance and Reinsurance Company
SAICO	Saudi Arabian Cooperative Insurance Company
Salama	Salama Cooperative Insurance Company
Saudi Re	Saudi Reinsurance Company
Tawuniya	The Company for Cooperative Insurance
UCA	United Cooperative Assurance Company
Walaa	Walaa Cooperative Insurance Company
Wataniya	Wataniya Insurance Company



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