SHMACONSULTING

INSURANCE INDUSTRY KUWAIT 2023

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VISION

To nurture the lives of people everywhere and drive success by improving the decisions they make.

MISSION

To bring the future in favour of people by partnering, simplifying and improving more lives every day.

VALUES

People First | Learn & Grow | Excel & Innovate
Integrity & Trust | Belong & Inspire

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ABOUT US

SHMA is a consulting firm which provides a large scale of services to its clientele, aimed to simplify complexity, support your decision-making processes, and to give you a competitive advantage over your competitors. Our employees have extensive experience with particular focus on regions, including but not limited to: UAE, Saudi Arabia, Bahrain, Qatar, Egypt, Senegal, Turkey, Pakistan and Sri Lanka. We employ experts in the field of consulting, with specific experience for each project as needed.

We achieved our success because of how successfully we integrate with our clients. One complaint many people have about consultants is that they can be disruptive. Employees fear external consultants coming in and destroying the workflow. Our clients face no such issues.

SHMA embodies years of cumulative experience in providing solutions for Capital Modeling, Enterprise Risk Management, Business Intelligence and Strategy, and Employee Benefits Planning and Valuation as per IFRS / US GAAP. All our services are case specific, focusing on the individual needs of the client.

We provide a range of services to our valued business partners across the globe including Europe, the Middle East, Southeast Asia and the Far East. Our specialty services include Financial Reporting, Product and Business Development and Enterprise Risk Management. In addition, our firm provides expert personnel outsourcing for allowing organizations to engage in full-time consulting for long-term cost effectiveness.

Our Services

LIFE INSURANCE

- IFRS, statutory & embedded valuations
- Product development, pricing & reserving
- Experience studies
- Advising on agency & broker compensation structures, reinsurance arrangements, underwriting policies and capital adequacy

RETIREMENT BENEFITS

- Valuations for financial reporting
- Advise on benefit design and cost benefit analysis
- Pension benefits administration
- Benefit communication material
- Provident fund maintenance software and audit of retirement schemes and funds

GENERAL INSURANCE

- Actuarial reserving and certifications
- Underwriting and pricing solutions
- Data and predictive analytics
- Advising on reinsurance arrangements, underwriting and claims practices
- Profitability and capital adequacy analysis

ERM AND CAPITAL MODELING

- ERM Framework and risk management policies and procedures
- Risk identification tools and training
- Risk measurement and quantification by using a capital model
- Asset liability management policy
- Advising on risk appetite and controls

LIMITATIONS AND DISCLAIMERS

- The data used for the preparation of this Report has been collected from the Bourse Kuwait Stock Exchange. The data was extracted from the financial statements of the listed companies. Reliance is placed on the figures provided in the Company's Financial Reports. SHMA will accept no liability for loss directly or indirectly from your use of this document.

- For those takaful companies where the breakup of the items between policyholder and shareholder is not provided in the main statement of financial position, the accompanying notes have been used to acquire the split. The balance sheet figures in the main statement can be slightly different than the amounts in the notes. However, the difference is immaterial and has no impact on our analysis. For takaful companies, the net profit/(loss) shown in the report is related to the shareholder only.

- This Industry Report is intended to provide general information only; we are not providing actuarial, investing, accounting, business, financial, legal, tax, or other professional advice or services through it. This research is not intended to replace professional advice or services, nor should it be used to make any decisions or take any actions that may damage your finances or business.

- The content of this Industry Report published by SHMA provides information to the general public and the insurance sector. The objective of this Report is to use our professional research and experience to bring compliance and information sharing to the industry.

- We have used 8 listed companies in our analysis which includes 2 Takaful and 6 Conventional Insurance companies.

INDUSTRY HIGHLIGHTS

- Kuwait's Insurance Regulatory Unit (IRU) has launched a digital platform called "Beema". The new solution allows private vehicle and motorcycle owners to underwrite or renew their compulsory motor third-party liability (TPL) insurance policy online.

- Fairfax Financial Holdings has received regulatory approval for the acquisition of a 46.32% stake in Gulf Insurance Group (GIG). This shareholding was acquired from the investment company Kuwait Projects Company (KIPCO). The transaction is worth 256.5 million KWD (832 million USD). Fairfax's stake in GIG thus goes from 43.69% to 90.01%.

- The Kuwaiti Insurance Regulatory Unit (IRU) has published a list of penalties to be imposed on market players who fail to comply with the law. The decision is aimed at insurance companies, reinsurance companies, takaful, brokers and insurance pools found guilty of violation.

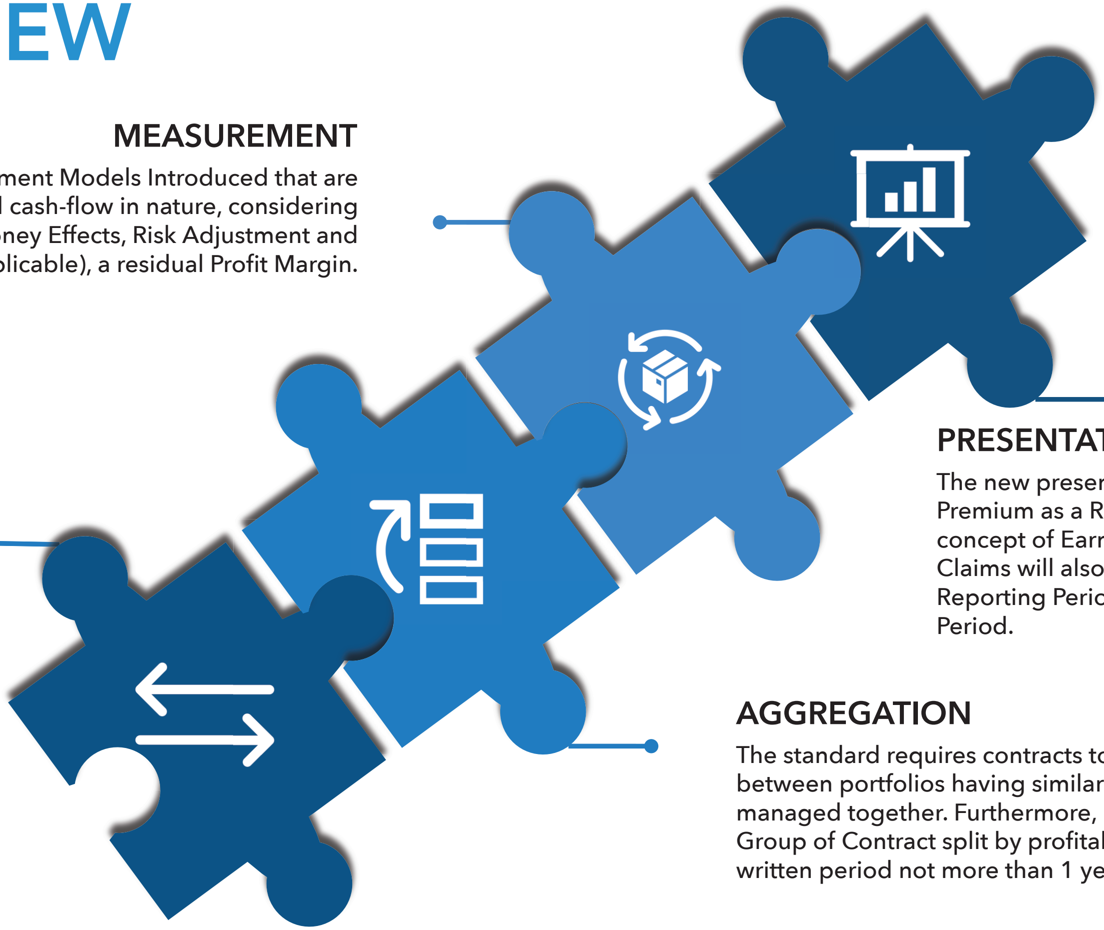
- Kuwait's Insurance Regulatory Unit (IRU) is currently working on a project to digitize mandatory motor third party liability policies. As a first step, the regulator intends to issue the policies online, paving the way for a future linkage with the Ministry of Interior's vehicle registration system.

- The Kuwaiti insurance market is expected to grow by 6.4% per year, to reach 2.4 billion USD in 2028, according to Alpen Capital. The average annual growth rate over the period 2023-2028 is estimated at 6.7% for the non-life business and 4.5% for life insurance.

- AM Best has confirmed Kuwait Re's "A-" (Excellent) financial strength and "a-" (Excellent) long-term credit ratings. The outlook for both ratings remains stable. The rating reflects the company's strong balance sheet, adequate operating performance, neutral business profile, and appropriate Enterprise Risk Management.

- Gulf Insurance Group's (GIG) Ordinary General Meeting was held on 15 May, 2023. The Company's shareholders approved the Board of Directors' proposal for the distribution of a dividend amounting to 15.3 million KWD (49.9 million USD) for the year 2022.

IFRS 17 – OVERVIEW



MEASUREMENT

New Measurement Models Introduced that are largely projected cash-flow in nature, considering Time Value of Money Effects, Risk Adjustment and (where applicable), a residual Profit Margin.

INSURANCE & NON-INSURANCE COMPONENTS

The standard has very specific definitions to segment between insurance and non-insurance components and requires separation in some cases.

PRESENTATION

The new presentation style removes the Written Premium as a Revenue item and goes with the concept of Earned Revenue. Other items as Incurred Claims will also distinguish Incurrence during Reporting Period and those before Reporting Period.

AGGREGATION

The standard requires contracts to be segmented between portfolios having similar risks and managed together. Furthermore, it also requires a Group of Contract split by profitability and under-written period not more than 1 year apart.

INCOME STATEMENT - ILLUSTRATION

IFRS-4 P&L	AMOUNT
Gross Premium	xx
Premiums Ceded to Reinsurers	(xx)
Change in NET UPR	(xx)
Net Earned Premium	xx
Investment Income	xx
Total Revenue	**xx**
Net Claims Benefits & Expenses	(xx)
Claims and Expenses Ceded to Reinsurers	(xx)
Acquisition Cost Amortization	(xx)
Change in Insurance Contract Liabilities (Net)	(xx)
Total Expenses	**(xx)**
Profit Before Tax	**xx**

IFRS-17 P&L	AMOUNT	
Insurance Revenue	**xx**	GMM LFRC Release
Expected Claims & Expenses	xx	
Expected Acquisition Cost	xx	
CSM Release	xx	
Premium Experience Adjustments	xx	
Risk Adjustment Release from LFRC	xx	
PAA Revenue	xx	PAA Revenue Only (Earned Premium)
Insurance Expense	**(xx)**	
Actual Claims & Expenses	(xx)	Relating to Claims Incurred in Reporting Period Only
Actual Acquisition Cost	(xx)	
Changes in Prior Year Estimates	(xx)	Past Loss Estimate Changes (Loss Date Before Opening)
Onerous Contracts Impact and Reversal	(xx)	Loss Component Movement
Insurance Service Result	**xx**	
Net Reinsurance Result	**xx**	Net Reinsurance Recoveries
Finance Expense from Insurance Contracts	(xx)	Movement in Liability Due to Discount Rate Roll-forward
Finance Income from Reinsurance Contracts	xx	
Total Finance Expense	**(xx)**	
Investment Income	**xx**	
Other Expenses (Income)	xx	Unattributable Expenses
Profit Before Tax	**xx**	

IFRS - 17 has revamped the way (Re)insurance results are presented in the income statement. Some of the notable features are the actual vs expected style of presenting claims and expenses as well as separately presenting effects of discount rate unwinding.

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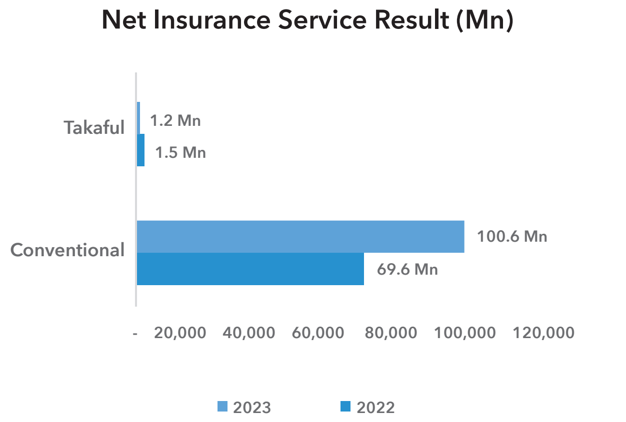
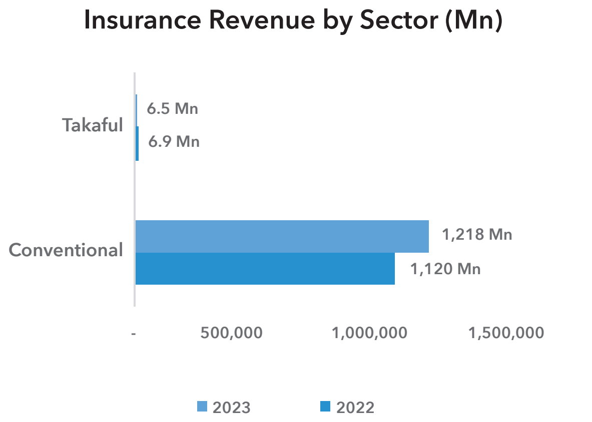
PERFORMANCE HIGHLIGHTS

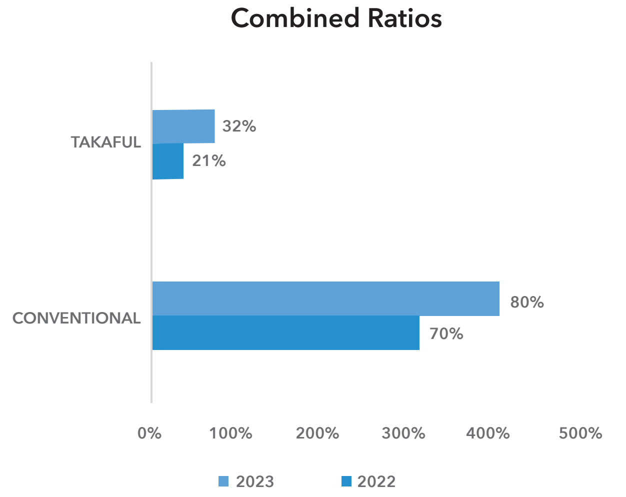


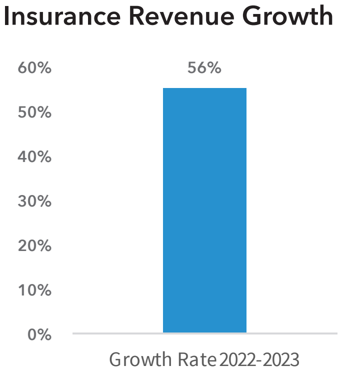


Total Insurance Revenue

KD 1,225 Mn

▲ 8.6 %





Total Profit / (Loss)

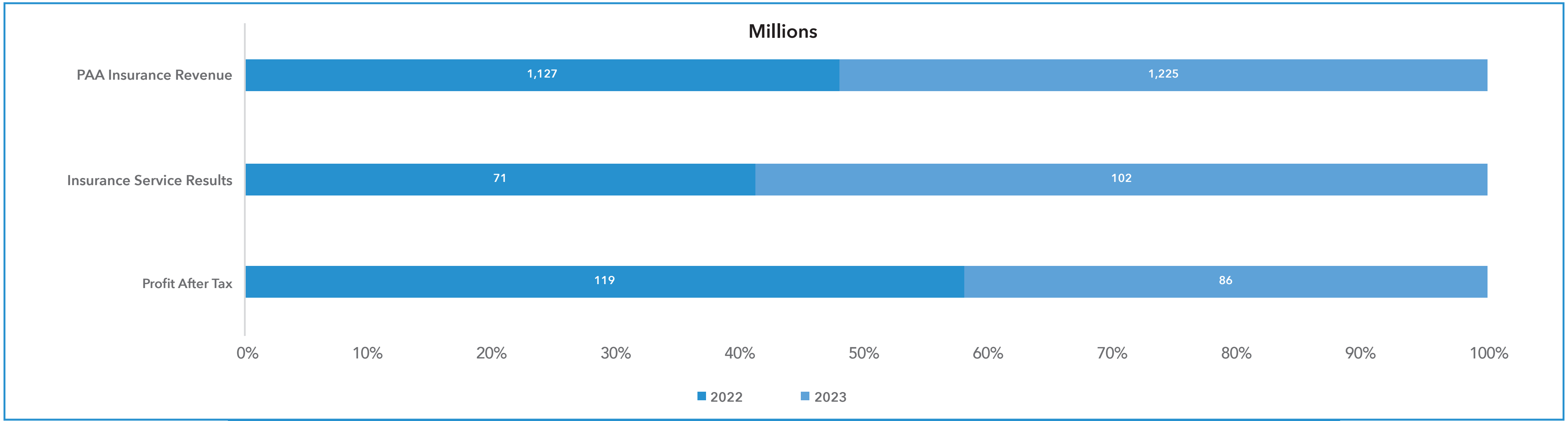
KD 86.31 Mn

Total Assets

KD 2,251 Mn

▲ 5.3%

AGGREGATE PERFORMANCE

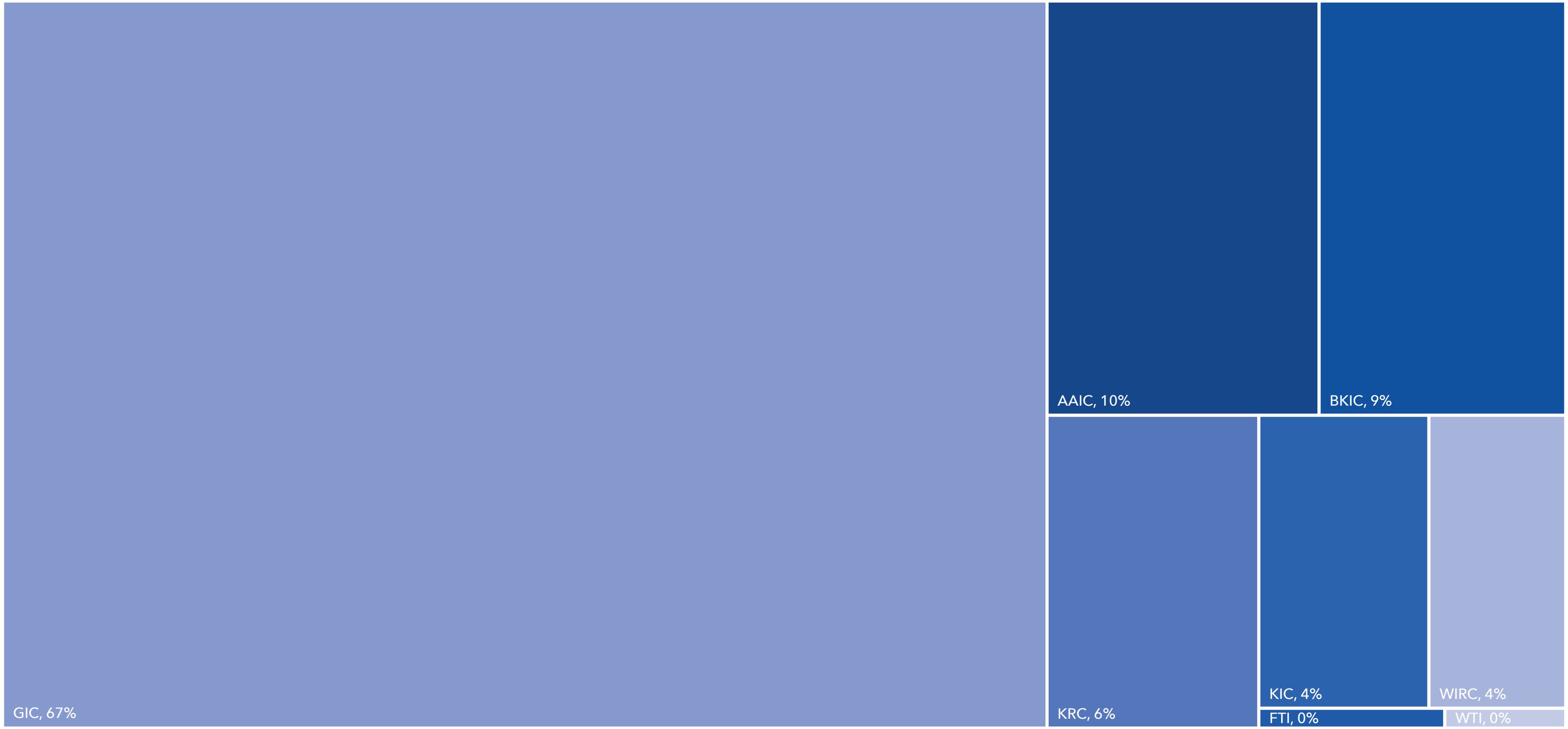


Profit after tax decreased from KD 119 million (2022) to KD 86 million (2023). This indicates a deterioration in underwriting performance, meaning the company may have experienced higher claim payouts relative to the premiums collected.

Insurance service results increased by 43% from KD 71 million (2022) to KD 102 million (2023), indicating a potential increase in expenses or claim payouts that impacted their profitability.

Insurance's revenue grew from KD 1,127 million (2022) to KD 1,225 million (2023), indicating successful customer acquisition, increased sales of insurance products, or potentially higher premiums charged. The revenue growth reflects positive business performance and potential market expansion for the year-end of 2023.

MARKET SHARE PROPORTION



INSURANCE REVENUE AND RANKINGS

Revenue: KD 818,298 Mn.
Growth: 7%
Rank: 1st

Revenue: KD 121,420 Mn.
Growth: 16%
Rank: 2nd

GWP: KD 109,988 Mn
Growth: 8%
Rank: 3rd

GWP: KD 71,398 Mn
Growth: 22%
Rank: 4th

INSURANCE REVENUE AND RANKINGS

Revenue: KD 53,754 Mn
Growth: 6%
Rank: 5th

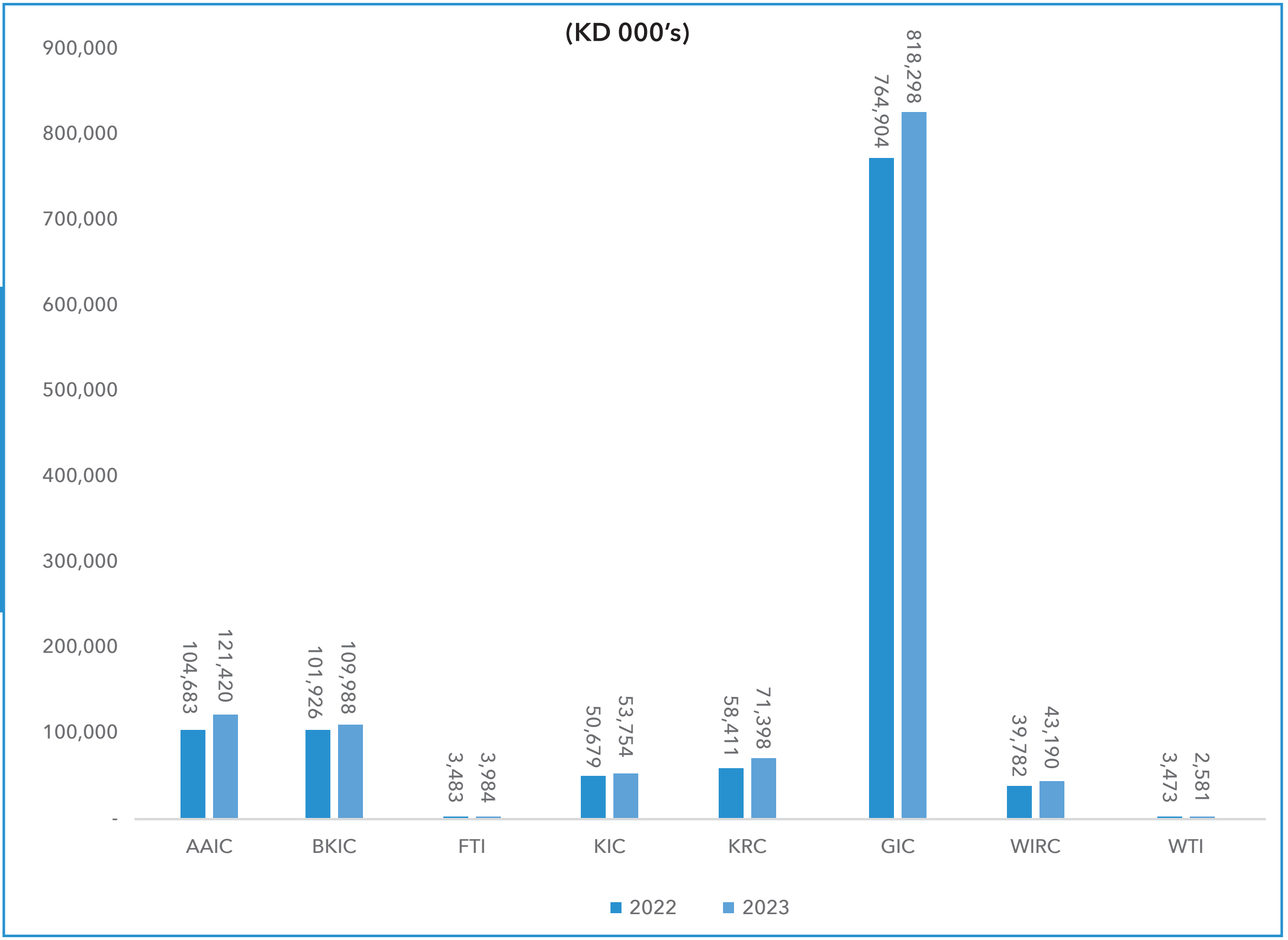
Revenue: KD 43,190 Mn
Growth: 9%
Rank: 6th

GWP: KD 3,984 Mn
Growth: 14%
Rank: 7th

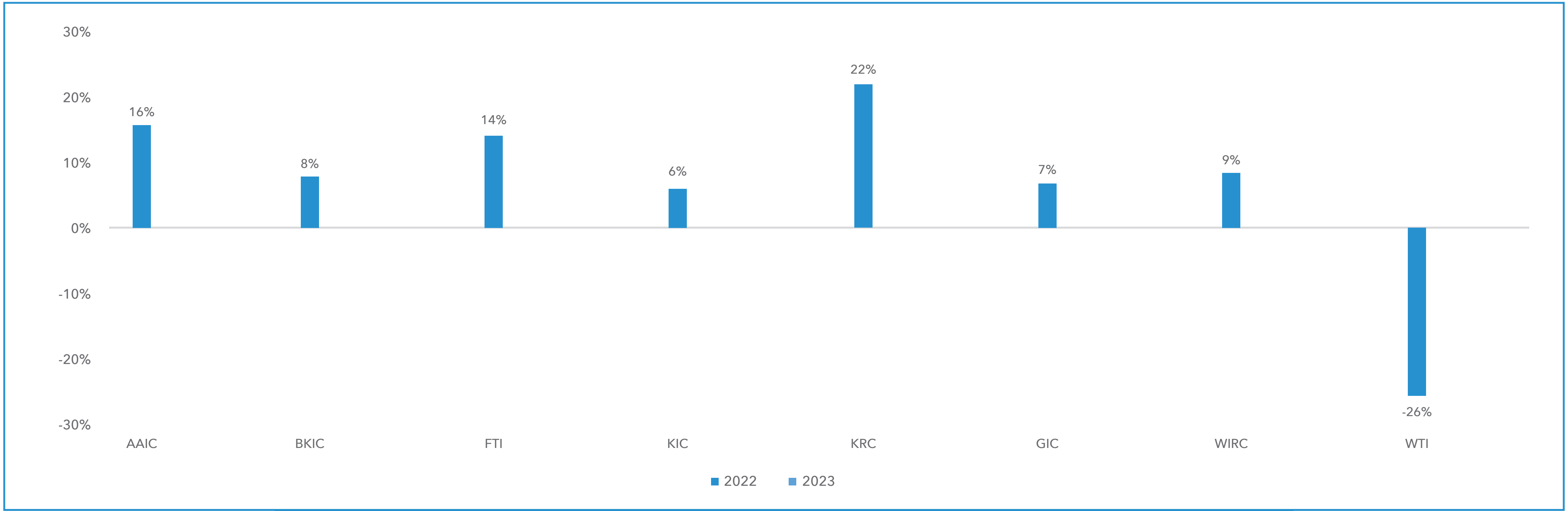
GWP: KD 2,581 Mn
Growth: -26%
Rank: 8th

INSURANCE REVENUE

For the year 2023, there is a noticeable trend of growth, indicating a healthy and expanding insurance market in the region with GIC exhibiting a considerable increase in revenue over the two years, reflecting robust growth and effective market penetration strategies. Similarly, companies like AAIC, FTI, and KRC also experienced an increase in revenue from 2022 to 2023, signaling strong performance and possibly successful strategic initiatives in the insurance sector. However, it's worth noting that not all companies saw growth; for instance, WTI experienced a decrease from KD 3,473 million in 2022 to KD 2,581 million in 2023.



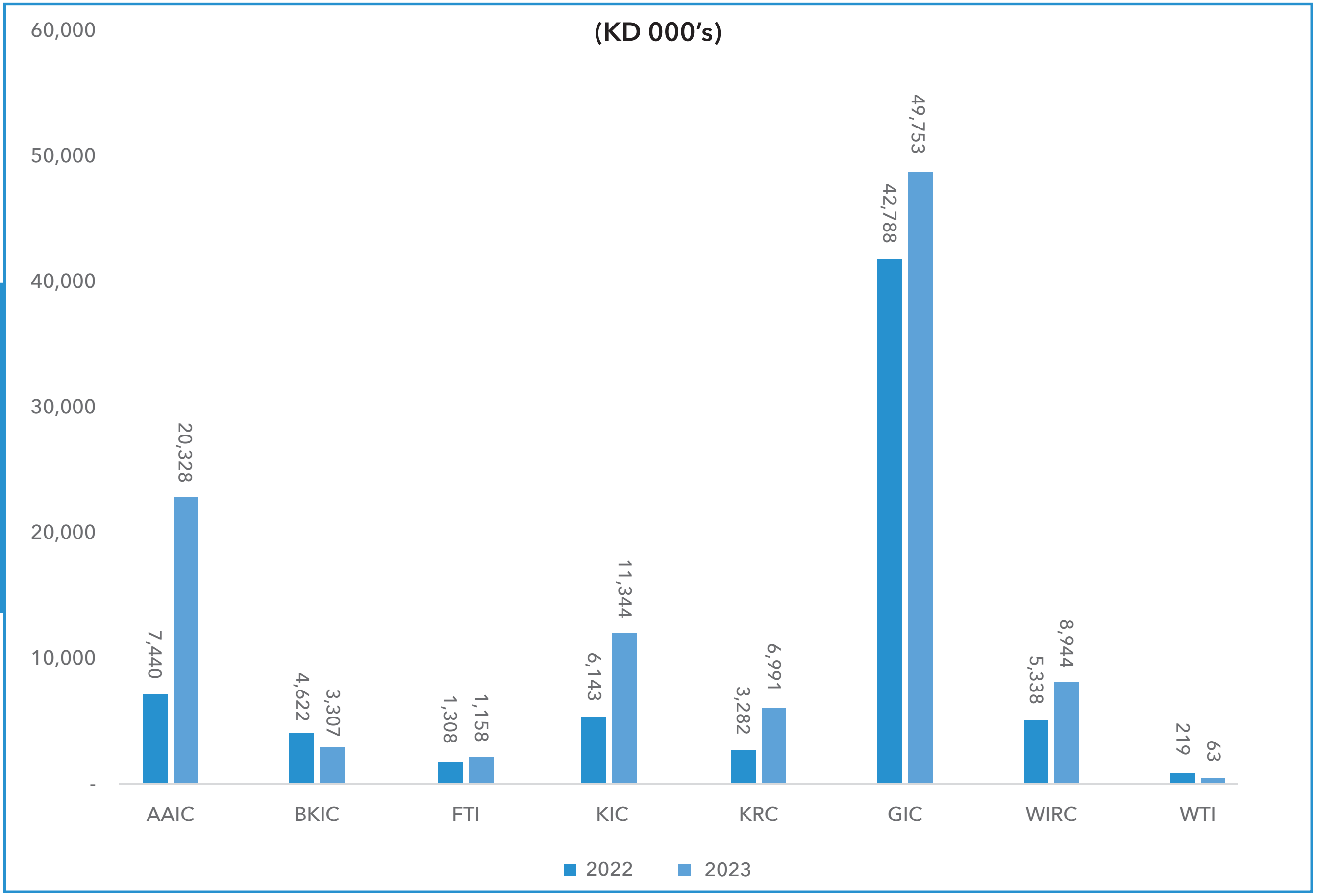
INSURANCE REVENUE RESULTS – MOVEMENT



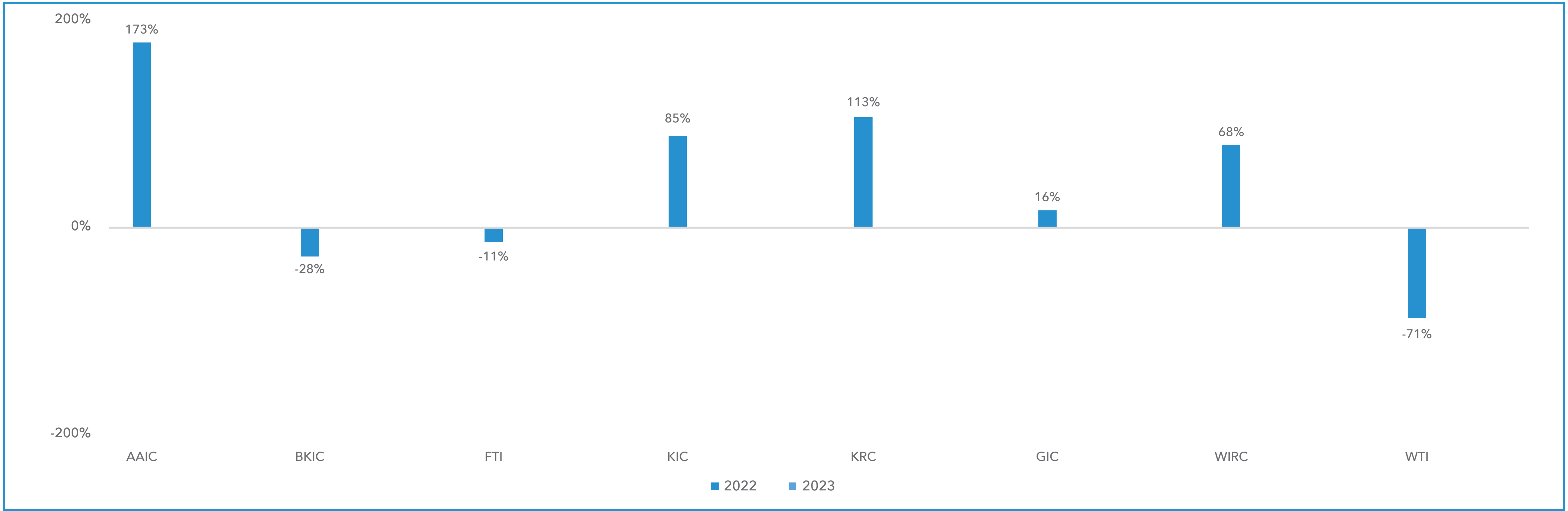
Across the board, there's a mix of positive and negative growth rates. Companies like KRC, AAIC, and FTI exhibit substantial growth rates, indicating strong performance and potentially successful strategies in the Kuwaiti insurance market. Conversely, WTI experiences a significant decline in revenue, reflecting challenges or difficulties faced by the company during the year 2023. The positive growth rates for most companies suggest a growing insurance market in Kuwait, potentially driven by factors such as increased demand for insurance products or successful market penetration strategies.

NET INSURANCE SERVICE RESULTS

In 2023, AAIC experienced a notable increase in its service results from KD 7,440 million to KD 20,328 million, indicating improved operational efficiency or potentially better risk management practices. Similarly, KIC, KRC, GIC, and WIRC also show improvement in their service results in 2023, indicating growth and successful operations or market strategies. In contrast, BKIC, FTI, and WTI witnessed a significant decrease in their service results, suggesting challenges in underwriting profitability or increased operational costs. The overall trend points to a dynamic landscape within Kuwait's insurance sector, where companies are navigating through different levels of performance and responding to various market conditions.



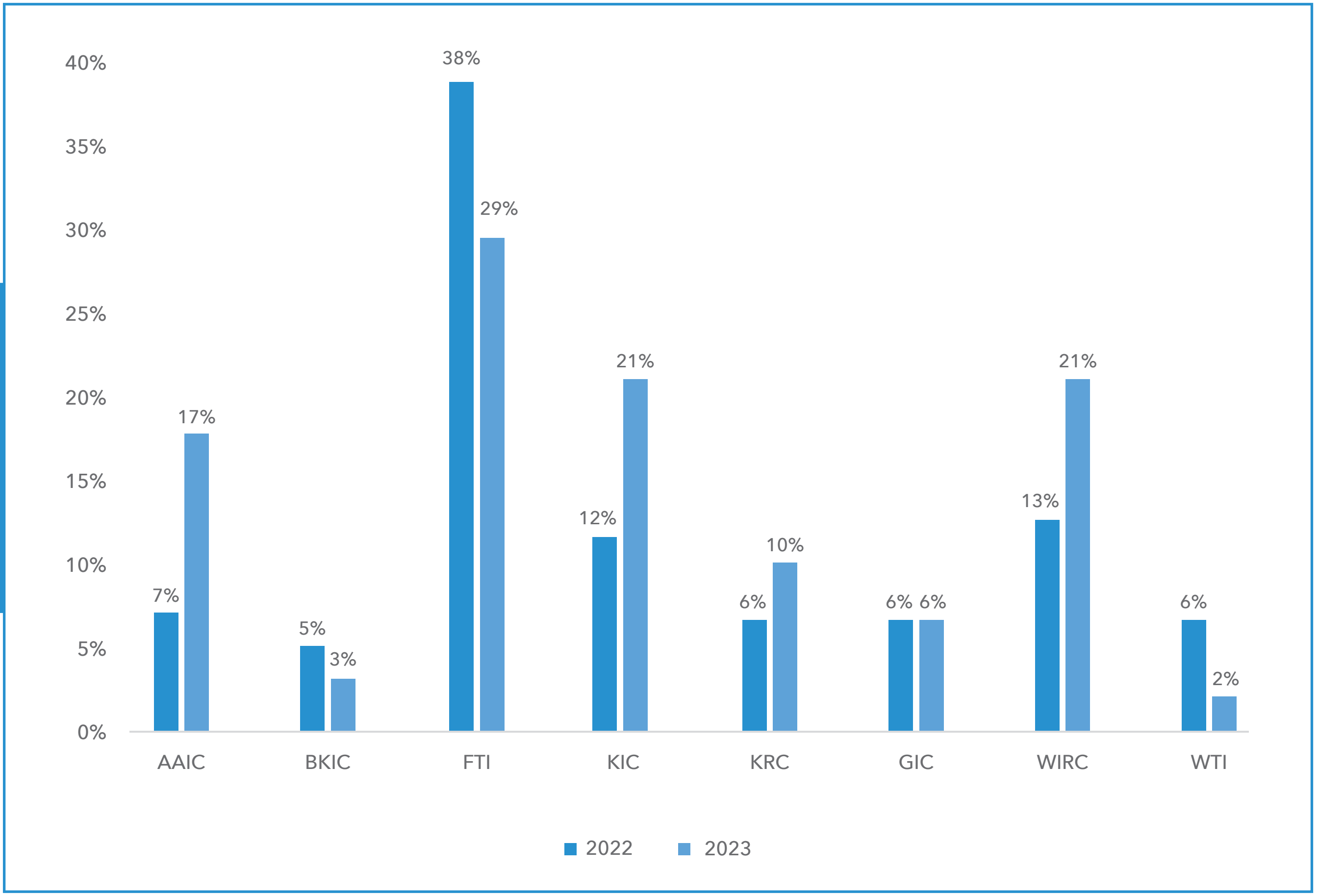
INSURANCE SERVICE RESULTS – MOVEMENT



For the year 2023, the growth rates exhibit a wide range of outcomes across the companies. AAIC and KRC stand out with remarkably high growth rates of 173% and 113%, respectively, indicating substantial improvements in their insurance service results and potentially successful strategies or market expansions. Conversely, BKIC, FTI, and WTI experience negative growth rates, signifying declines in their insurance service results during the year 2023. These negative growth rates could be attributed to various factors such as market challenges, operational issues, or strategic shifts.

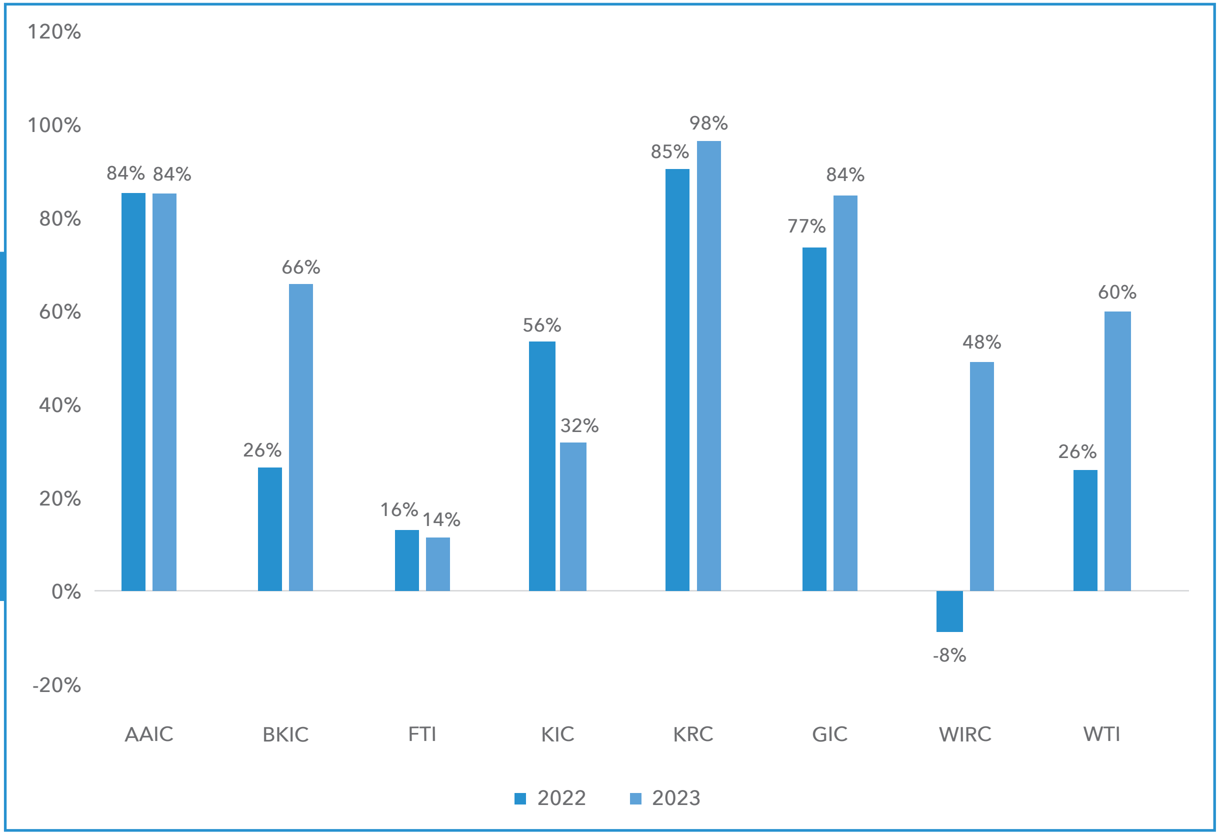
INSURANCE SERVICE RATIO

The insurance service ratio reflects the proportion of insurance services provided compared to other activities within a company. Across the companies, there are varied shifts in their insurance service ratios from 2022 to 2023. Some companies, such as AAIC, KIC, KRC, and WIRC, experience an increase in their insurance service ratios, indicating a higher focus or contribution of insurance services to their overall operations. Conversely, companies like BKIC, FTI, and WTI see a decrease in their insurance service ratios, suggesting a reduced emphasis or contribution of insurance services relative to other activities. GIC maintained a steady service ratio of 6% across both years, reflecting consistency in its operational performance relative to revenue.



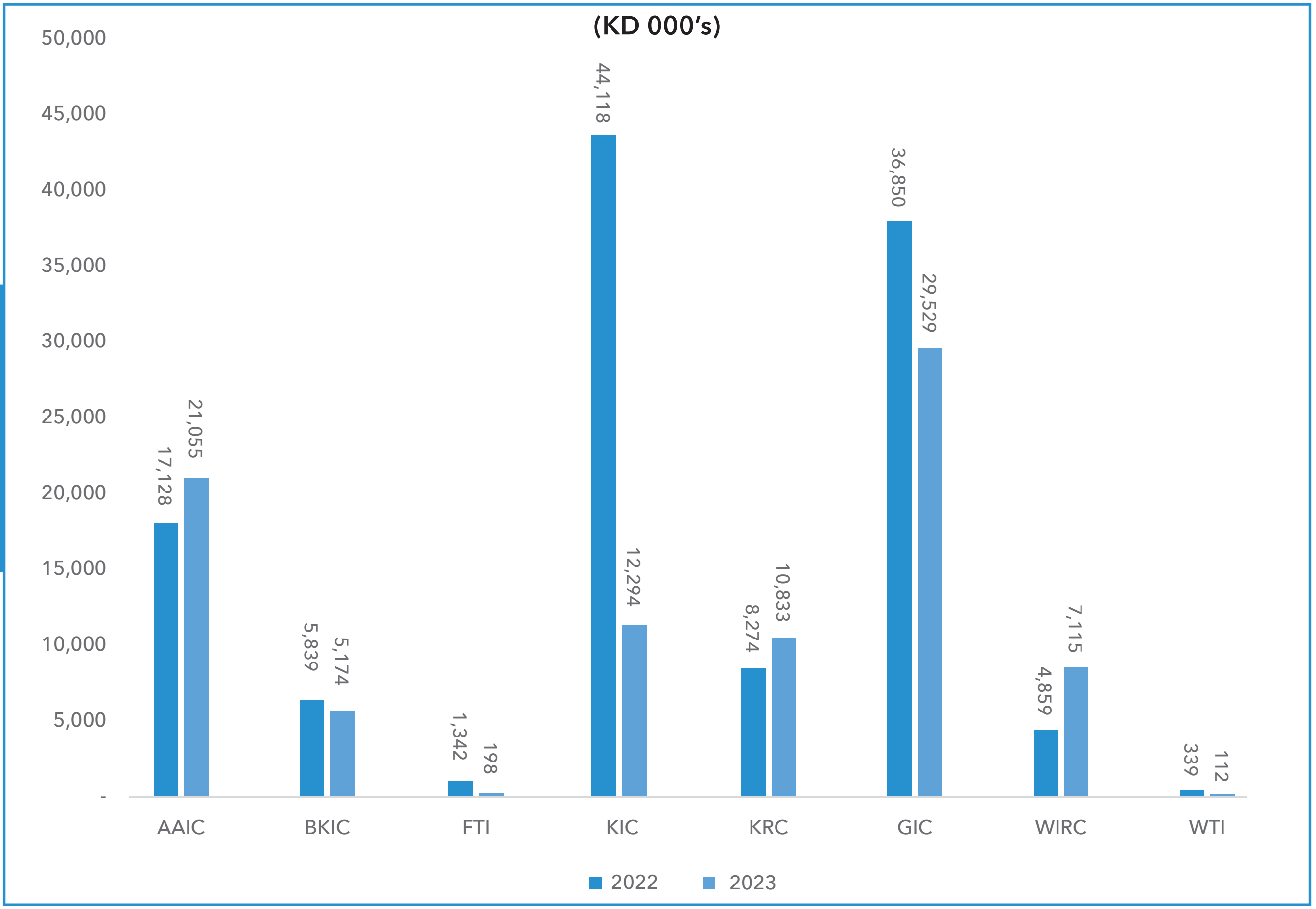
COMBINED RATIO

The combined ratio is a measure used in the insurance industry to assess the profitability of underwriting activities, calculated by summing the loss ratio and the expense ratio. There are varied trends in combined ratios from 2022 to 2023. Companies like AAIC and FTI maintain relatively stable combined ratios, indicating consistent underwriting performance. However, BKIC, KRC, GIC, and WTI show improvements in their combined ratios, suggesting challenges in maintaining underwriting profitability or increased operational costs relative to premium income. Conversely, KIC witnessed a decrease in its combined ratio, potentially indicating efforts to enhance operational efficiency or claims management.

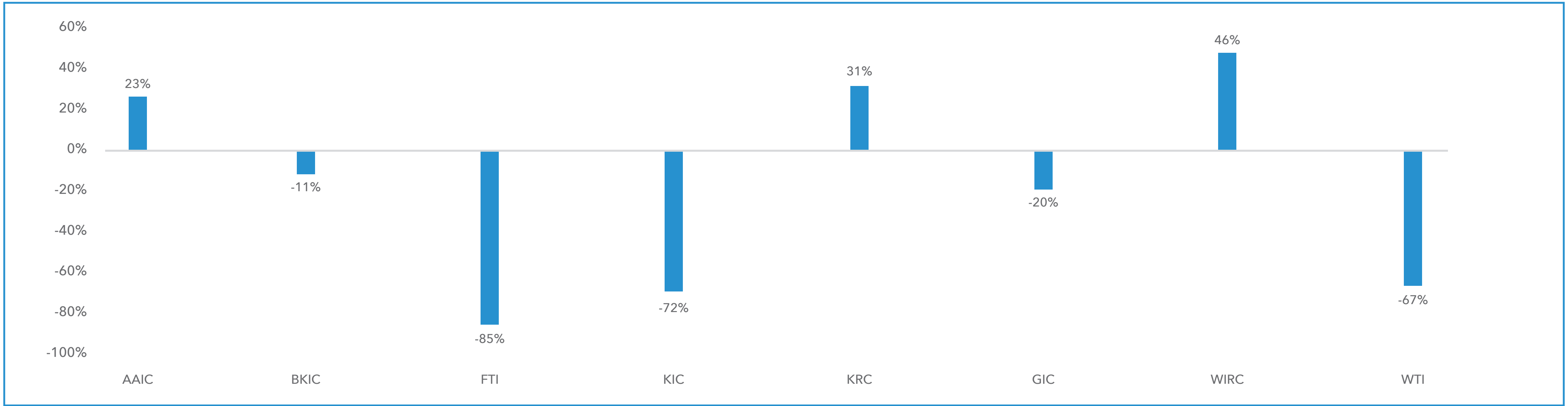


NET PROFIT/LOSS (AFTER TAX)

For the year 2023, the total net profit of the companies in Kuwait shows a major loss of 32 million, from KD 118,750 million in 2022 to KD 86,310 million in 2023. AAIC, KRC, and WIRC demonstrate an increase in their profit after tax from 2022 to 2023, indicating improved financial performance during this period. This growth in profitability could be attributed to various factors such as increased revenue, effective cost management, or favorable market conditions. However, companies like FTI, KIC, GIC, and WTI experience a decrease in their profit after tax, suggesting challenges or difficulties faced in maintaining or improving profitability.

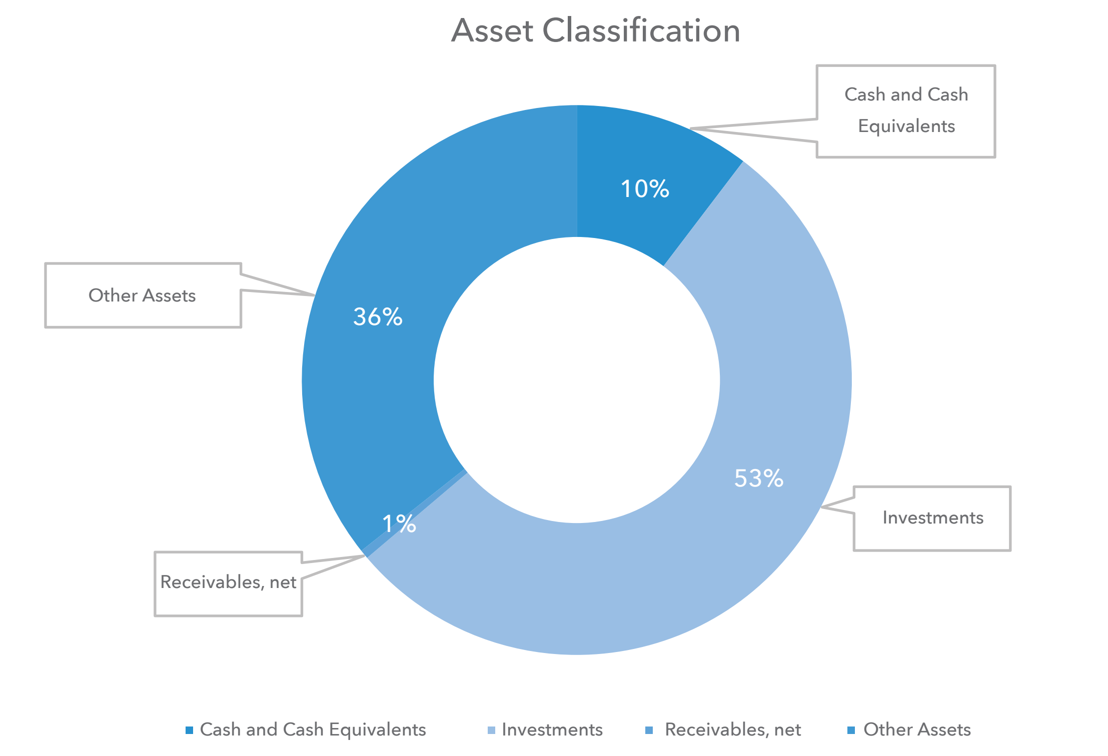


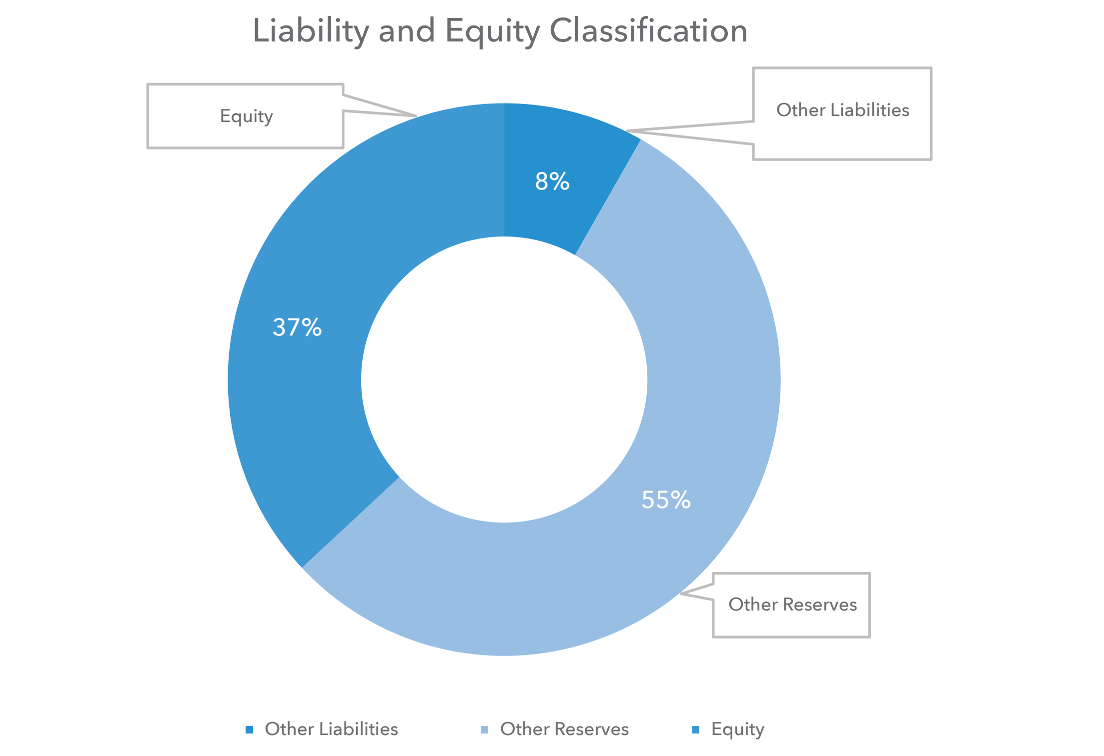
NET PROFIT/(LOSS) (AFTER TAX) - MOVEMENT



In 2023, WIRC, AAIC, and KRC stand out with positive growth rates of 46%, 23%, and 31%, respectively, reflecting an increase in their profit after tax during this period. This growth could be attributed to factors such as revenue growth, effective cost management, or strategic initiatives. Conversely, several companies experience negative growth rates, indicating declines in their profit after tax. FTI and KIC demonstrate significant decreases of 85% and 72%, respectively, suggesting substantial challenges or issues impacting their financial performance.

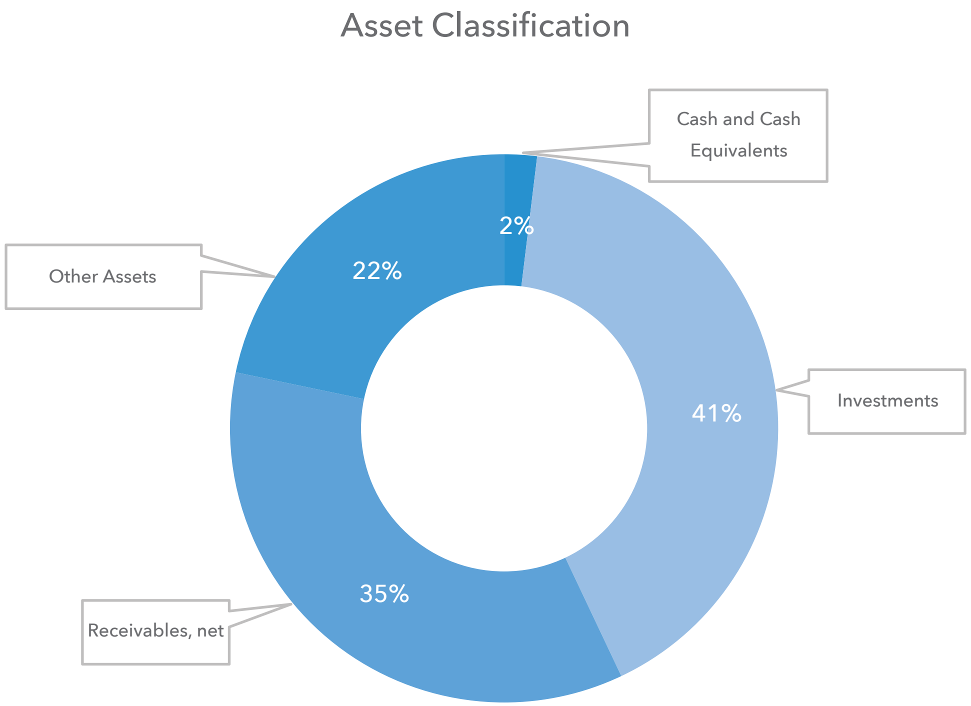
ASSET/ LIABILITY AND EQUITY CLASSIFICATION - CONVENTIONAL

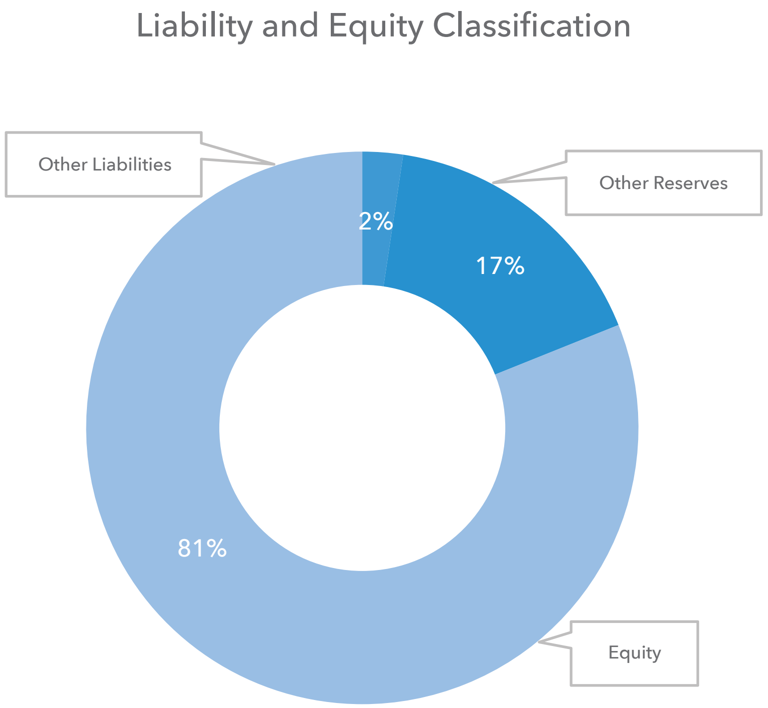




About 53% of conventional assets relate to investments, 10% to Cash and Cash equivalents, 1% to Receivables, and 36% to other assets. Liabilities of conventional companies consist of 8% of other liabilities, and 55% of other reserves, and the equity of total conventional business is about 37%.

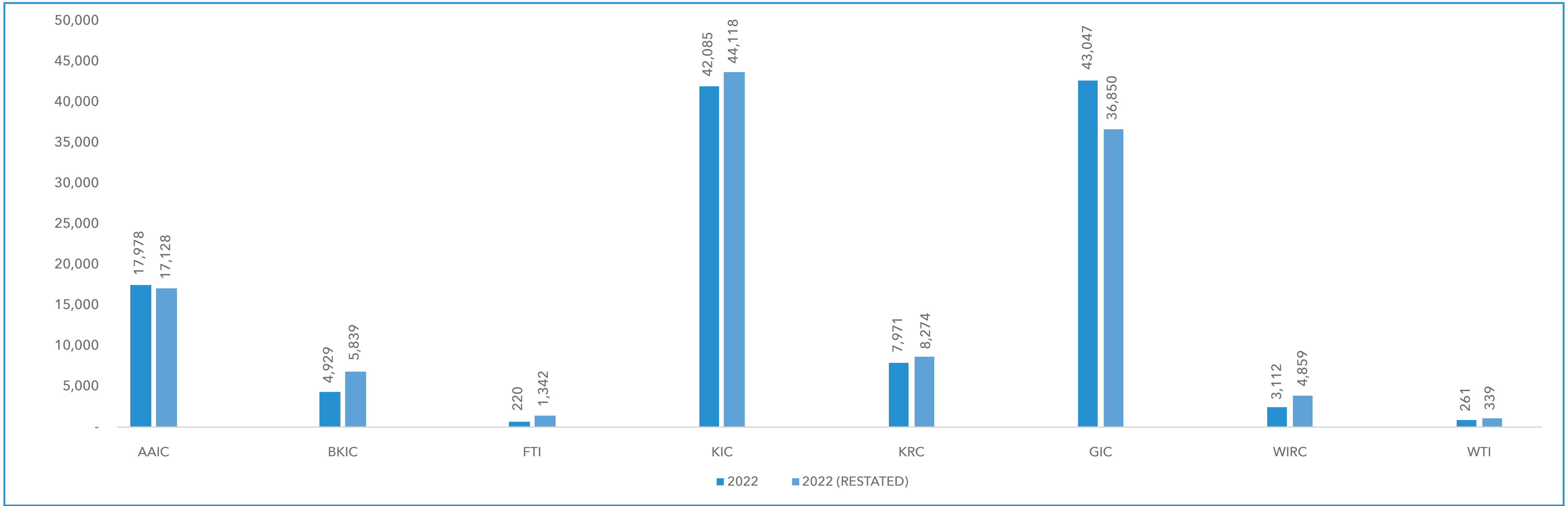
ASSET/ LIABILITY AND EQUITY CLASSIFICATION - TAKAFUL





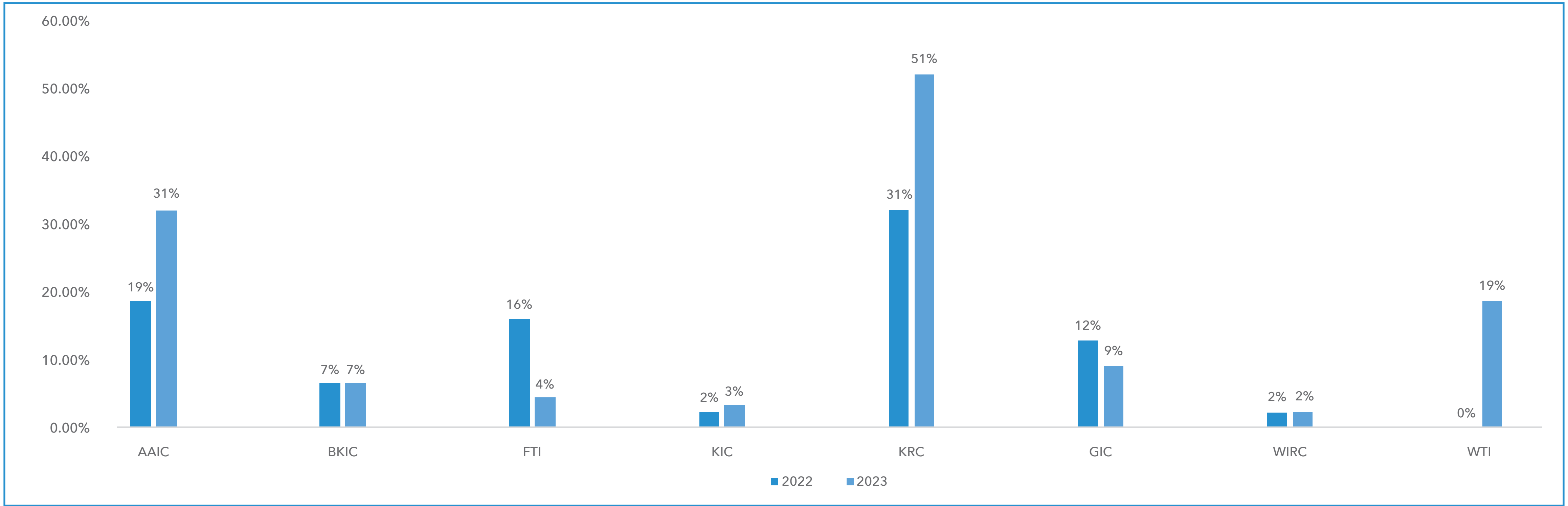
About 41% of conventional assets relate to investments, 2% to Cash and Cash equivalents, 35% to Receivables, and 22% to other assets. Liabilities of conventional companies consist of 2% of other liabilities, and 17% of other reserves, and the equity of total conventional business is about 81%.

PROFIT TRANSITION (2022)



The Profit Transition analysis compares 2022 profits reported under IFRS 4 last year with restated 2022 profits based on IFRS 17 financials published this year, offering insights into the impact of the accounting standard transition on reported profits. Some companies, like BKIC, FTI, KIC, KRC, and WIRC, experienced an increase in profit transition after the implementation of IFRS 17 compared to their initial reported figures. This suggests that the implementation of IFRS 17 may have led to adjustments or reclassification of certain items that positively impacted their reported profits. Conversely, companies like GIC demonstrated a decrease in profit transition after the implementation of IFRS 17, indicating potential adjustments or reclassifications that negatively impacted their reported profits.

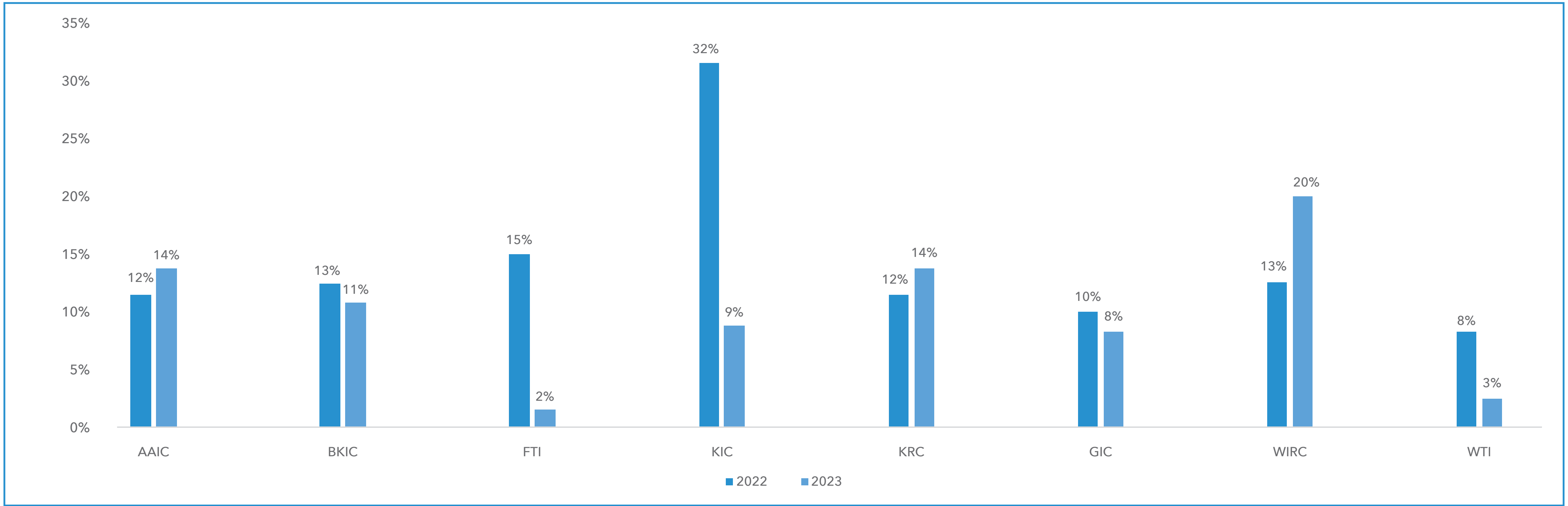
RISK ADJUSTMENT AS % OF LIC



In the context of all IFRS 17 models, risk adjustment holds significant importance within the balance sheet. It is defined as the compensation that an entity deems necessary to account for the uncertainty surrounding the amount and timing of cash flows resulting from non-financial risk, specifically as the entity fulfills its insurance contracts. Risk adjustment plays a vital role in recognizing and addressing uncertainties related to insurance obligations in the financial reporting process.

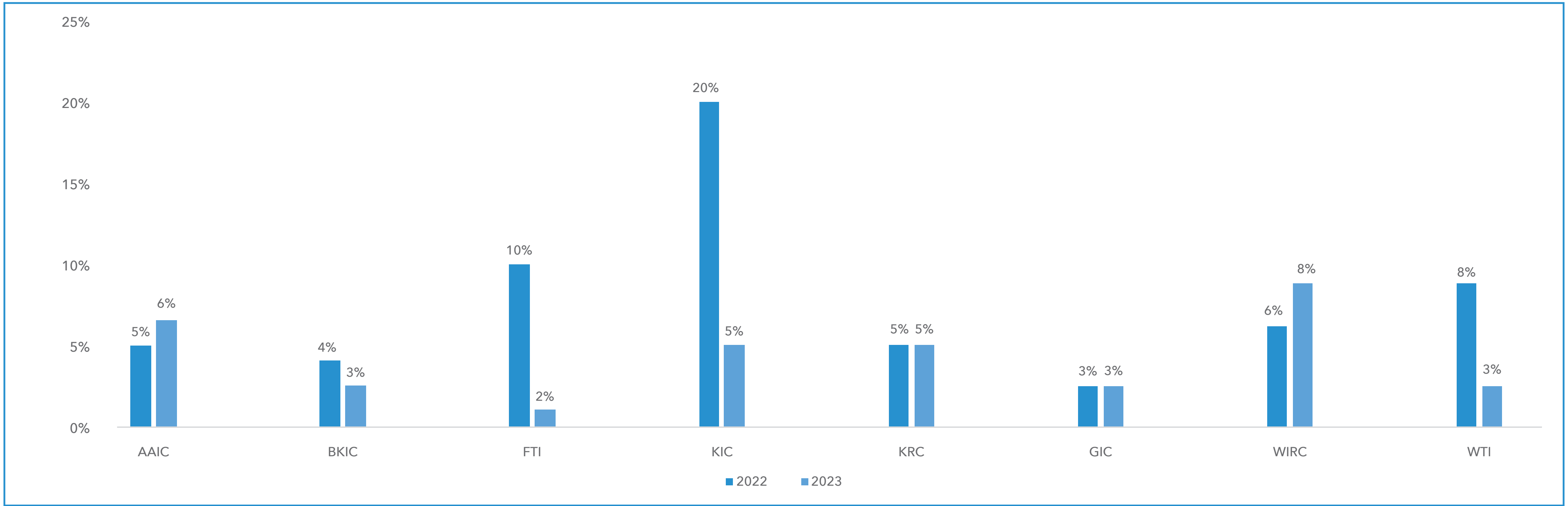
The analysis reveals that the weighted average proportion of risk adjustment in LIC as of December 31, 2023, is calculated to be 16%. AAIC and KRC exhibit the highest ratios of 31%, and 51% respectively, indicating their strong financial position, while WIRC and KIC display the lowest ratios at 2%, and 3% respectively, suggesting comparatively weaker financial standing.

RETURN ON EQUITY (ROE)



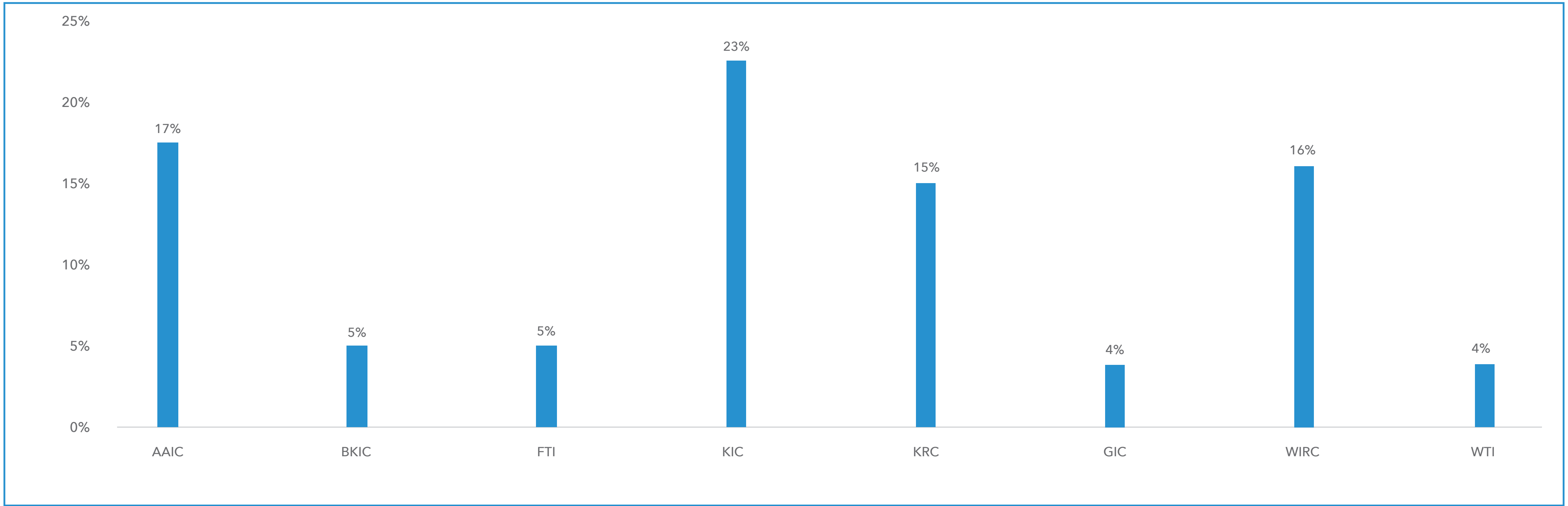
ROE is a financial ratio that measures the rate of return earned on the shareholder's equity investment in the company. It indicates how effectively a company is using its shareholders' equity to generate profits. KIC had the highest ROE in 2022 of about 32% which further fell to 9% in 2023 indicating that the company is generating less profit with its shareholders' equity compared to previous periods. AAIC, KRC, and WIRC displayed an increase in their ROE figures in 2023, indicating that they are more profitable and efficient in generating profits from shareholder equity. The aggregate Return on Equity (ROE) across all companies exhibited a decline from 14% in 2022 to 10% in 2023, indicating a concerning trend regarding the collective performance of these companies.

RETURN ON ASSETS (ROA)



Return on Assets (ROA) is an indicator of how profitable a company is relative to its total assets. Comparing profits to revenue is a useful operational metric but comparing them to the resources a company used to earn them cuts to the very feasibility of that company's existence. WIRC was able to earn the highest return on assets of around 8% in 2023, while FTI earned the lowest return on assets of 2% at the year-end of 2023. The aggregate Return on Assets (ROA) across all companies exhibited a decline from 8% in 2022 to 4% in 2023, indicating reduced profitability and efficiency in utilizing assets.

NET PROFIT MARGINS



The net profit margin is a financial metric that refers to the percentage of revenue that each insurance company retains as profit after deducting all expenses. KIC had the highest net margin of 23 %, indicating efficient expense management and strong profitability from its insurance activities. The lowest net margin was for GIC and WTI both at 4% signaling potential difficulties in expense control or profitability.

APPENDIX A: LISTED INSURANCE COMPANIES IN KUWAIT USED IN OUR REPORT

Company Name	Symbol	Conventional / Takaful
Al Ahelia Insurance Company	AAIC	Conventional
Bahrain Kuwait Insurance Company	BKIC	Conventional
Gulf Insurance Company	GIC	Conventional
Warba Insurance Reinsurance Company	WIRC	Conventional
Kuwait Insurance Company	KIC	Conventional
First Takaful Insurance Company	FTI	Takaful
Wethaq Takaful Insurance Company	WTI	Takaful

OUR TEAM

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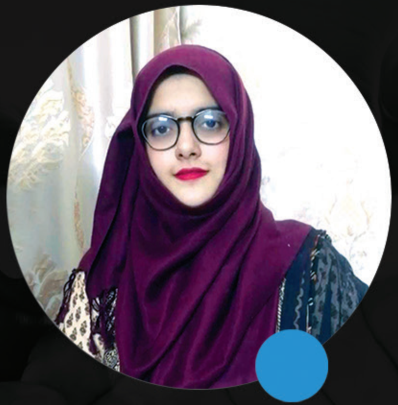
Senior Consultant



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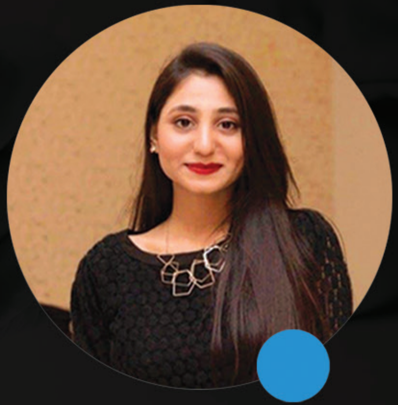
Data & Research Trainee



HIBA IBAD
Data & Research Analyst

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Feedback

SHMA is proud to present Insurance Industry Analysis - Kuwait for the year-end of 2023. We have a dedicated and talented pool of individuals to bring you industry insights in the form of this report.

We welcome your feedback on the analysis presented in this report.

About Us

SHMA has been providing actuarial services to insurance companies since 1990 and to companies in the GCC (starting with the UAE) since early 1997.

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THANK YOU