

# Capital Analysis of Takaful Companies

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# Agenda

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- **S&P's approach to capitalization**
  - Capital Adequacy
  - Reinsurance
  - Reserves
- **Issues particular to takaful companies**
  - Qard Hassan
  - Investments and Concentrations
- **Capital for takaful companies – the future**
- **Appendix**

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# S&P's Approach to Capitalization

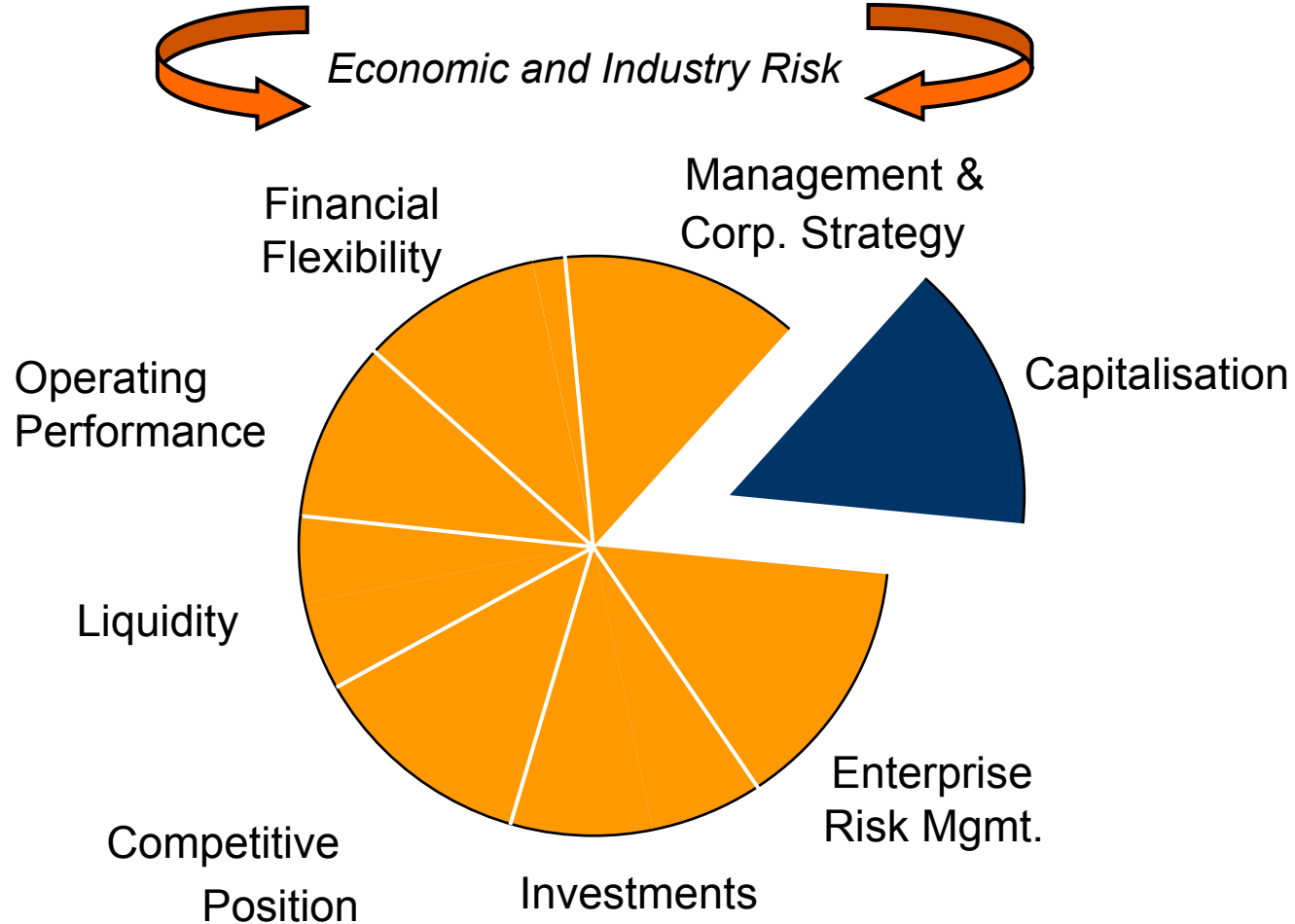
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# S&P's Approach to Capitalization

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- **S&P analyzes capitalization by breaking it down into three key areas:**
  - Capital Adequacy
  - Reinsurance
  - Reserves
- **S&P makes qualitative and quantitative assessments to derive a complete picture of an insurer's capital position.**

# Where does the capital model fit in to our overall analysis?



# **S&P's Approach to Capitalization - Capital Adequacy**

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- **Assessed using Standard & Poor's risk-based capital model**

## **What it does:**

- ✓ **Provides a consistent framework to assess capital adequacy**
- ✓ **Tool to gain insight into an insurer's risk profile**
- ✓ **Identify potential risk concentrations**
- ✓ **Assess quantum and quality of capital**

## **What is does not do:**

- ✗ **Define the rating outcome**

# S&P Ratings vs Capital Adequacy vs Capitalization

- Takaful Insurers**

	<b>S&amp;P Rating</b>	<b>Capital Adequacy</b>	<b>Capitalization</b>
Hannover Retakaful	A/Stable	Extremely Strong	Strong
Takaful Re	BBB/Stable	Extremely Strong	Strong
BEST Re	BBB+/Stable	Very Strong	Strong
Saudi Re	BBB+/Stable	Extremely Strong	Strong
Takaful International	BBB/Stable	Good	Good
First Takaful	BBB-/Watch Neg	Good	Good
Wethaq Takaful	BB/Negative	Good	Good
Malath	BBB/Stable	Extremely Strong	Strong
Tawuniya	A/Negative	Good	Good
Aman	BBB/Negative	Good	Good
Salama*	BBB+/Stable	Extremely Strong	Strong
Tokio Marine Retakaful	AA/Stable	Guaranteed by Parent	

\* Includes BEST Re;

Source: RatingsDirect.com

# Public Ratings vs Capital Adequacy vs Capitalization

- Capitalization alone does not determine a rating

## Selection of Conventional Gulf Insurers

	Public Rating	Capital Adequacy	Capitalization
Al Buhaira Nat Ins Co	BBB/Negative	Extremely Strong	Strong
Arab Orient	A-/Stable	Extremely Strong	Strong
Bahrain Kuwait Ins Co	BBB/Stable	Strong	Strong
Bahrain National Ins Co	BBB+/Stable	Strong	Strong
Doha Insurance Co	BBB+/Stable	Extremely Strong	Strong
Oman Insurance	BBB+/W. Neg	Good	Good
Qatar Insurance Company	A/Stable	Extremely Strong	Very Strong

Source: RatingsDirect.com

# **S&P's Approach to Capitalization - Capital Adequacy**

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- **Composition of capital is an important factor in our analysis**
- **Asset quality**
- **Impact of takaful fund surplus/deficit**
- **Modelling**

# S&P's Approach to Capitalization - Reinsurance

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- **How is reinsurance used**
- **Counterparty Risk and the Sharia Perspective**
- **Concentrations**
- **Catastrophe exposure**

# S&P's Approach to Capitalization - Reserves

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- **Assessment of approach to reserving**
- **Independent actuarial support**
- **Regulatory view – reserves pay claims**
- **Claims tail and liability issues.**
- **Not significantly different for takaful insurers and conventional peers in the Gulf region.**

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# Issues for Takaful Companies

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## **Qard Hassan (Beneficial Loan)**

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- **An essential component of every takaful company**
- **An interest free loan facility from the shareholder funds to the takaful fund in the event of any deficit.**
- **Repayable out of future surpluses in the takaful fund.**
- **Note that fund deficits are entirely the responsibility of the takaful fund members**

# Concentrations

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- **The capital model and our qualitative analysis adjust for concentrations. For takaful companies, these are commonly:**
  - Investment related eg. an asset or counterparty concentration
  - Business related eg. premiums are focused on one line of business or from one / a small number of clients

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# The Future

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# The Future: takaful insurers and capital

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- **We expect capitalization to remain a relative strength to ratings for existing rated takaful companies in the medium term**
- **We believe capital adequacy will be maintained at current levels but may be volatile as it impacted by rapid business growth and a bias to unrated equity-type investments.**
- **We expect primary takaful writers to seek a greater level of Sharia compliant reinsurance capacity over time**
- **Reserves will remain consistent with short-tail risks and low levels of liability business.**

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# Appendix

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- **Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, 7 June 2010** 
- **Standard & Poor's Capital Model v.3 EMEA Region** 
- **Industry Report Card: Continued Development Of Insurance In Gulf Cooperative Council Region May Be Held Back By Earning And Asset Risks, 17 May 2010** 
- **Standard & Poor's Approach To Rating Takaful And Retakaful (Islamic Re/Insurance) Companies, 30 March 2009** 



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