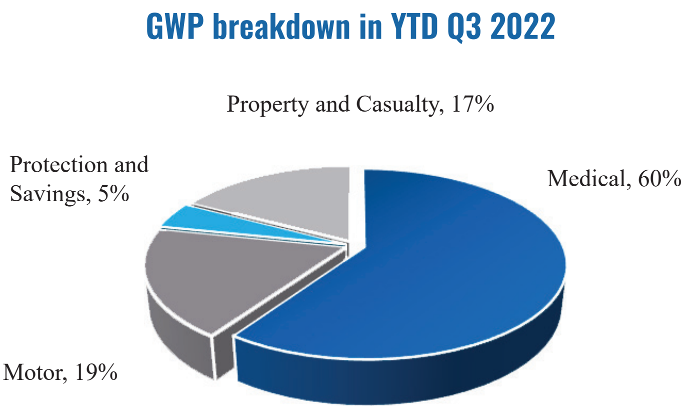
KSA Motor Industry Segment Wise Analysis

2021 was one of the worst years for profitability in the KSA Insurance sector and 2022 continues to be challenging, particularly for smaller motor underwriters. Compared with the same period last year, the insurance industry in the Kingdom of Saudi Arabia has witnessed a drop in profitability for the first three quarters of 2022.

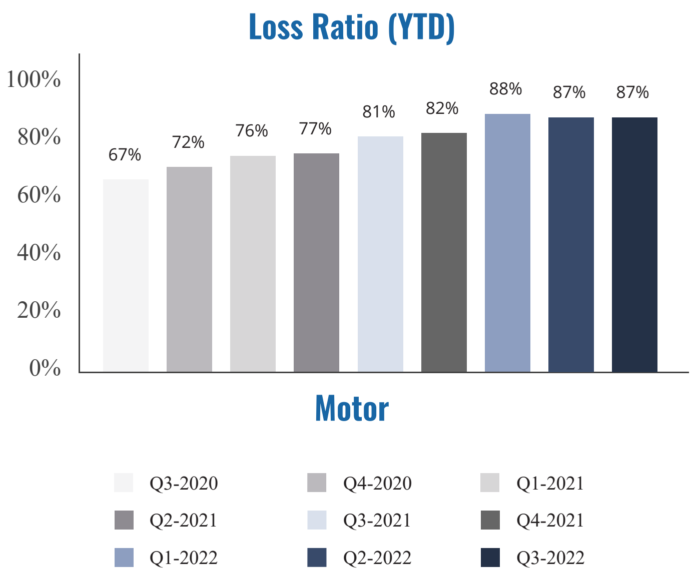
The article will provide insights through statistical analysis over the distribution of motor segments based on their loss ratio and underwriting profitability.

For YTD Q3-2022, overall GWP totalled SAR 40.2 billion, an increase of 26% compared to the same period last year. With GWP of SAR 30 billion, the Motor line of business constitutes 19% of the total GWP of the KSA insurance industry.

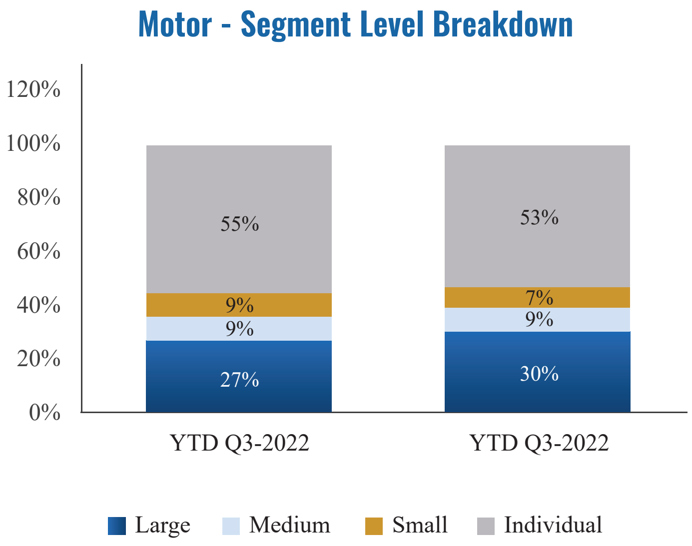


For the 27 listed companies analyzed, Motor GWP has grown by 20% however underwriting profits have plummeted by 139%.

The loss ratio has risen steadily over the last 9 quarters. The Motor loss ratio of 87% is considerably higher than other lines (with an average of 84% for Medical & 34% for P&C). This has been driven by strong levels of price competition, particularly for the Third Party Retail segment.



Larger players have performed slightly better but they have also suffered large drops in profitability. The weighted average loss ratio for the top 5 companies is 85% for the first three quarters of 2022 (compared with 70% for the same period last year) and the weighted average loss ratio for other companies is 89% for the first three quarters of 2022 (compared with 85% for the same period last year).



SEGMENT LEVEL BREAKDOWN OF KSA MOTOR INDUSTRY

Segmental analysis is based on published financials. The majority of business relates to individual policies constituting 55% of the total GWP or SAR 4.09 billion.

Large corporate accounts are also a significant segment constituting 27% of the total GWP or SAR 1.99 billion.

The remaining 18% or SAR 1.287 billion relates to the SME market.

The market is heavily driven by individual businesses and the growth in aggregator channels has accelerated growth as even smaller players are able to attract significant volumes increasing their top line rapidly.

This has led to high concentrations of unprofitable business for a number of smaller companies for this price sensitive individual retail segment. The theme of this article is to have the high-level analysis that how the diversification in the segments can help the companies to improve their existing positions.

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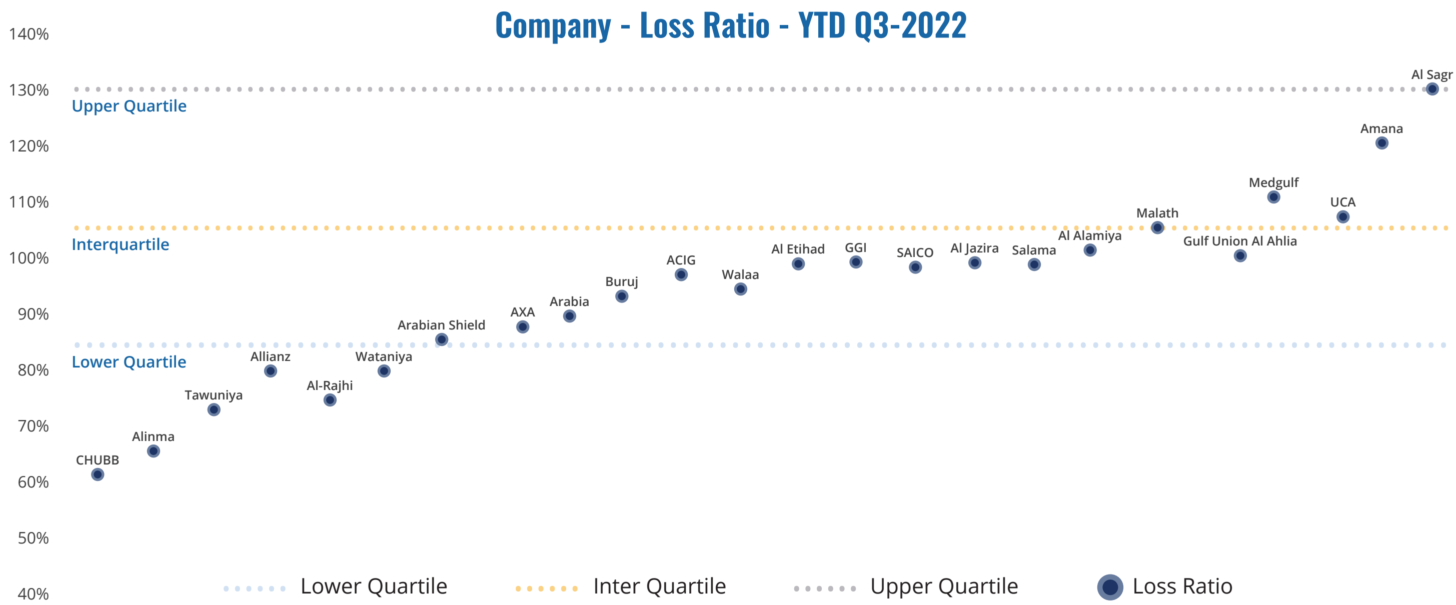
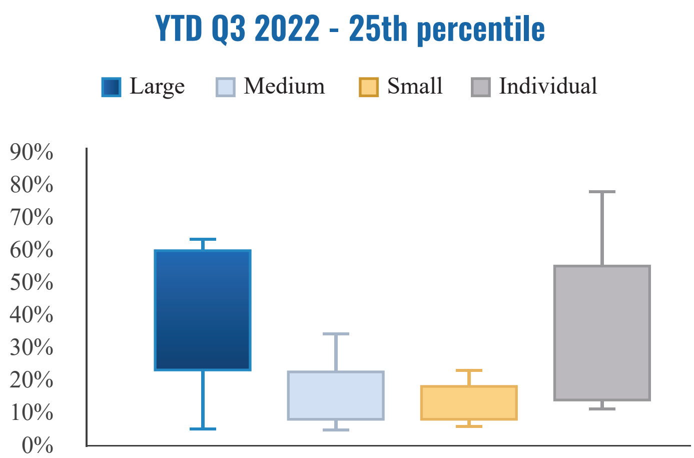
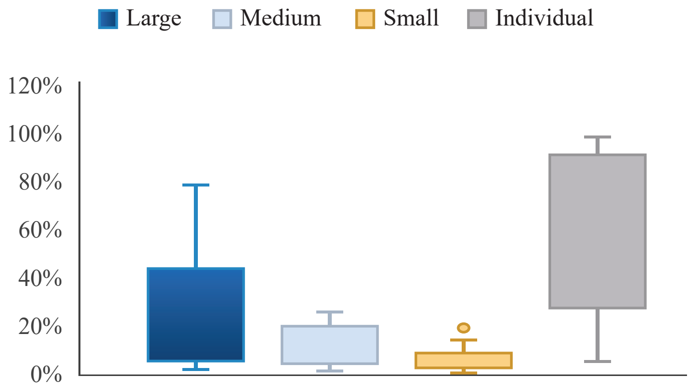


Loss ratios for the majority of the market are considerably higher than the levels needed for profitability once we take expenses and commissions into account.

We have analysed the market by categorizing the segment into Large, Medium, Small, and Individual policies. For the first three quarters of 2022, the best performing companies (25th percentile for loss ratios) have a loss ratio of under 83%. These companies have a significant proportion of large corporate business constituting an average 38% (44% Excluding Tawuniya as an outlier) of the portfolio. For every SAR 1 written for individual business on average SAR 0.67 is written for corporate business. Large and corporate accounts pull down the expenses for the company as compared to other segments, there remains a considerable margin to cover the incurred losses along with a



YTD Q3 2022 - interquartile range

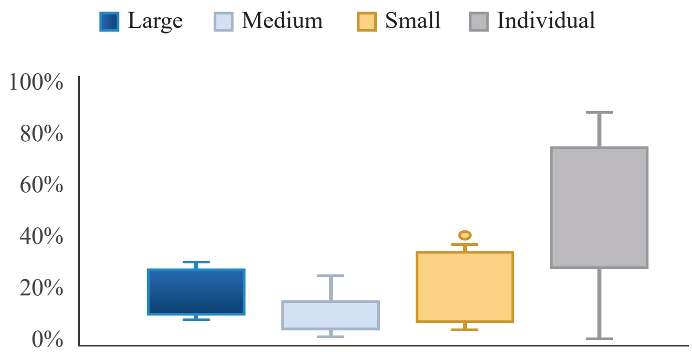


The worst performing companies with above 75th percentile have extremely high loss ratios ranging between 107% to 131%. For every SAR 1 written for individual business on average SAR 0.20 is written for corporate business. Compared to the above two cohorts, it is obvious from the graph at the right that the companies with the heavy individual segment are making much larger losses. This cohort also have a prominent portion in the small SME segment compared to other cohorts we have seen above with an average of 23%. The companies with a significant portion in the small and individual segments which are extremely price sensitive have been in a very competitive market with underpricing leading to large losses.

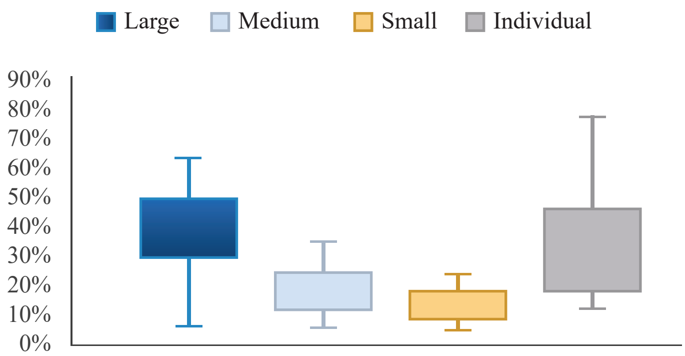
significantly higher earned premium. The next major segment of this cohort of percentile is an individual segment with an average 34% of the portfolio (25% Excluding Tawuniya as an outlier). Due to the heavy large segment, this cohort shows good performance than the others, however, small and medium segments are the least tapped in this cohort.

Companies in the middle 50th to 75th percentile band have loss ratios ranging from 83%-103%. It is clear that they are more heavily dependent on the performance of individual business constituting around 60% of their total business. For every SAR 1 written for individual business on average SAR 0.50 is written for corporate business. Individual business has suffered from heavy price competition and whilst prices have risen sharply in recent quarters, the heavy volumes written earlier in the year have led to significant losses.

YTD Q3 2022 - 75th percentile above



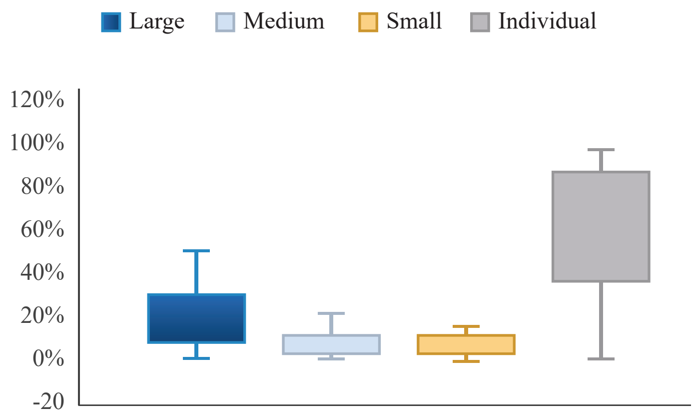
YTD Q3 2022 - Profit Making



BREAKDOWN OF MOTOR SEGMENTS – BASIS OF UNDERWRITING PROFITABILITY

The underwriting profitability margin for the KSA Insurance sector ranged from -50% to 21%. Profitable companies have a more even business mix distributed between large and individual segments with average of 37% (41% excluding Tawuniya) and 34% (28% excluding Tawuniya). Therefore losses in the unprofitable individual segment have to an extent been offset by better performance in the corporate segment.

YTD Q3 2022 - Loss Making



In contrast, loss making companies were more exposed to individual segments with an average of 69% (excluding Amana and SAICO as outliers) compared to the large segment which is only 22% on average. The heavy reliance on the individual segment and less diversification towards the other segments implies the tendency of a loss-making motor segment.

In conclusion individual business has driven the very high level of losses in motor for 2022 and those companies with more diversified books have had relatively better results. However market rates have risen over recent quarters and there are signs that profitability will gradually improve. Furthermore, whilst it has been difficult for smaller players to build diversified portfolios with the recent level of mergers in the market, there may be more opportunities for the insurers after merger to benefit from greater scale and capital to pick up corporate business enabling them to better balance their portfolios reducing exposure to any one segment.

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