

Risks and capitalisation of insurers in MENA a rating agency perspective

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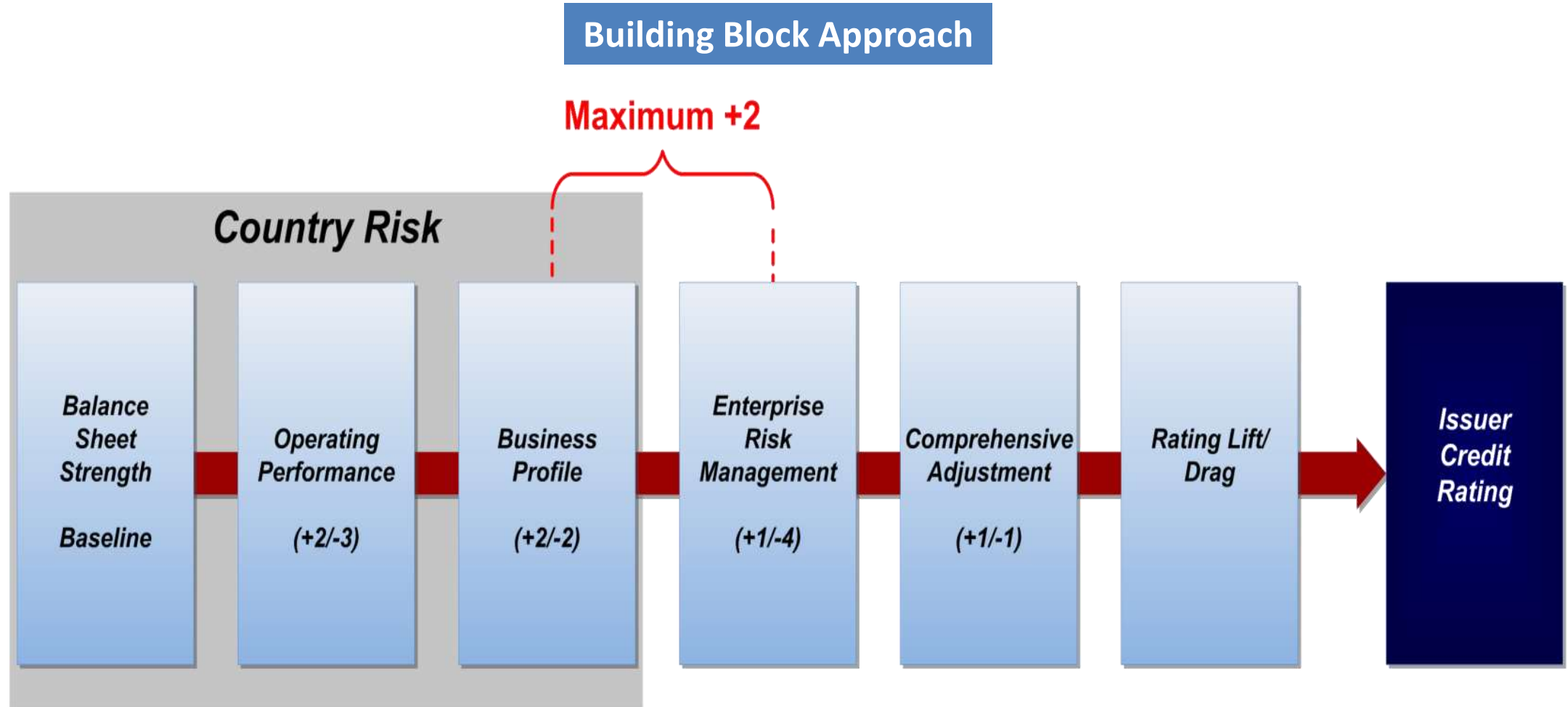


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A.M. Best's Rating Process



Balance Sheet Strength: BCAR Scores

Updated BCAR Formula

$$\text{BCAR} = \frac{(\text{Available Capital} - \text{Net Required Capital})}{\text{Available Capital}} \times 100$$

Four scores corresponding to the 95%, 99%, 99.5% and 99.6% confidence level; translates to a BCAR assessment

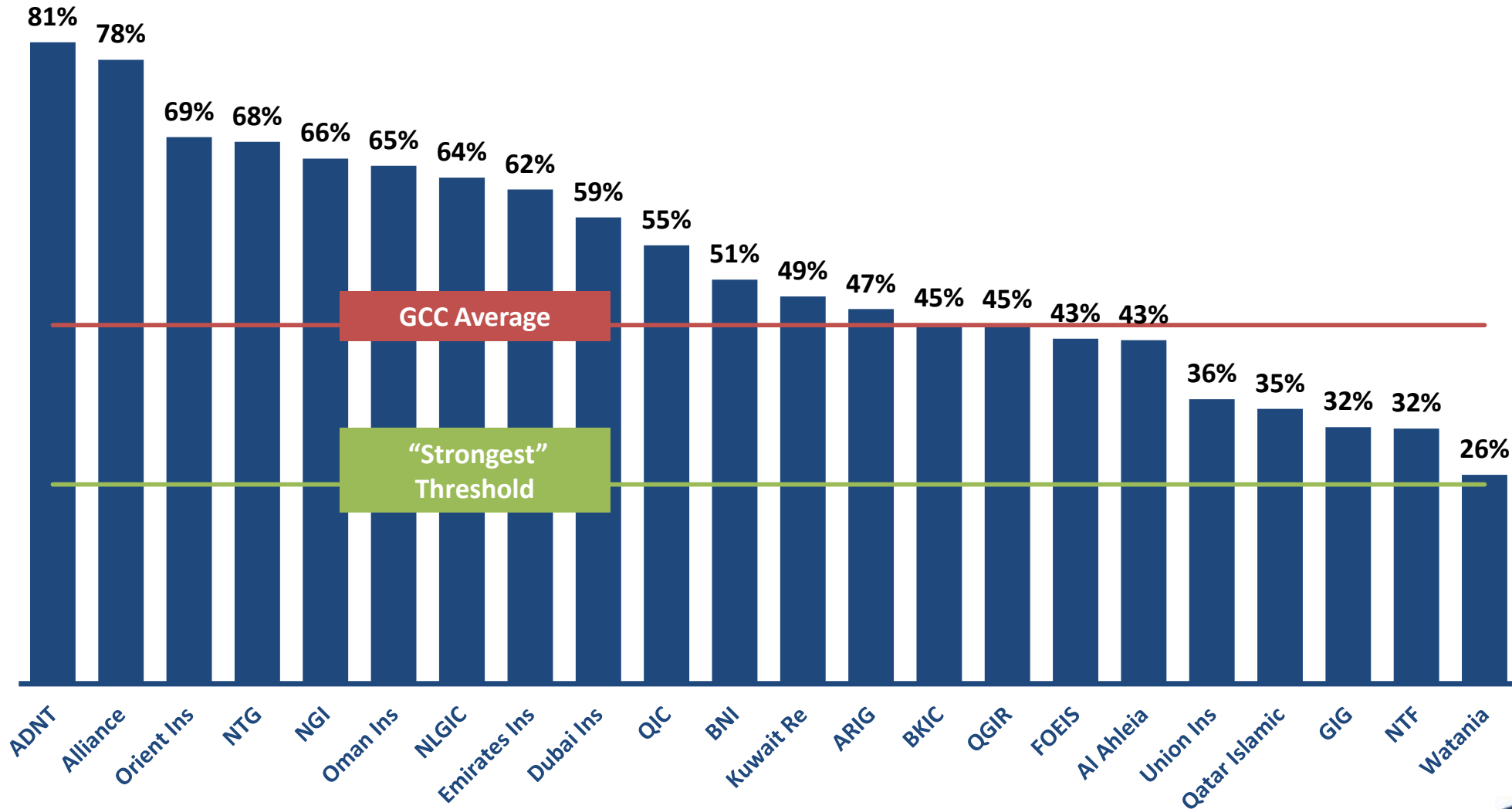
VaR Level (%)	BCAR	BCAR Assessment
99.6	> 25 at 99.6	Strongest
99.6	> 10 at 99.6 & ≤ 25 at 99.6	Very Strong
99.5	> 0 at 99.5 & ≤ 10 at 99.6	Strong
99	> 0 at 99 & ≤ 0 at 99.5	Adequate
95	> 0 at 95 & ≤ 0 at 99	Weak
95	≤ 0 at 95	Very Weak

Balance Sheet Strength: The Baseline Assessment

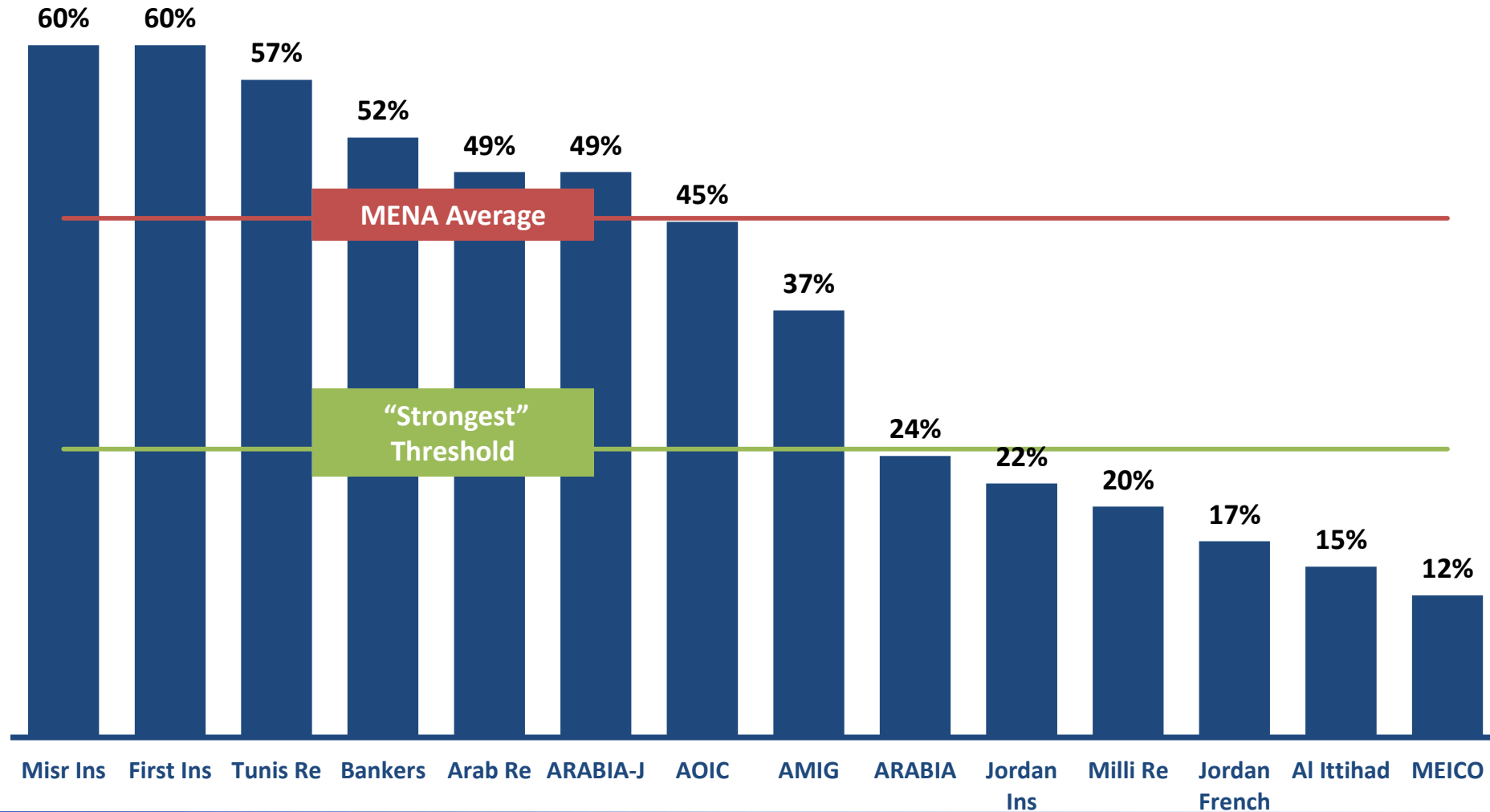
Overall Balance Sheet Strength Assessment

Combined Balance Sheet Assessment (Rating Unit / Holding Company)	Country Risk Tier				
	CRT-1	CRT-2	CRT-3	CRT-4	CRT-5
Strongest	a+/a	a+/a	a/a-	a-/bbb+	bbb+/bbb
Very Strong	a/a-	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-
Strong	a-/bbb+	a-/bbb+	bbb+/bbb/bbb-	bbb/bbb-/bb+	bbb-/bb+/bb
Adequate	bbb+/bbb/bbb-	bbb+/bbb/bbb-	bbb-/bb+/bb	bb+/bb/bb-	bb-/b+/b
Weak	bb+/bb/bb-	bb+/bb/bb-	bb-/b+/b	b+/b/b-	b/b-/ccc+
Very Weak	b+ and below	b+ and below	b- and below	ccc+ and below	ccc and below

Balance Sheet strength: GCC BCAR scores @ 99.6% (1-in-250) (as at September 30, 2018)

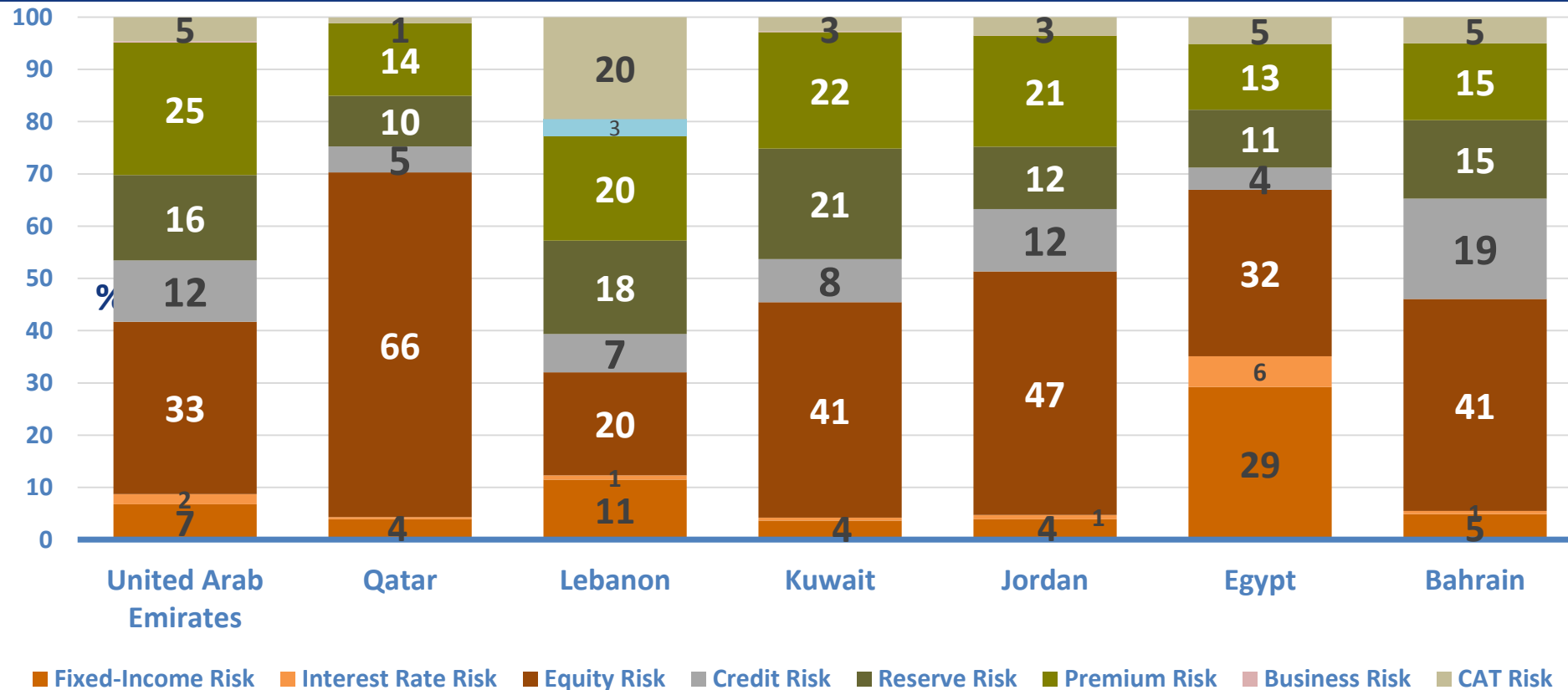


Balance Sheet strength: rest of MENA BCAR scores @ 99.6% (1-in-250) (as at September 30, 2018)



Balance Sheet strength: breakdown of Capital requirements

(as at September 30, 2018)



- Investment risk (equity and real estate) is the main driver of capital requirements
- Asset charges incorporate CIC and concentration risk factors

Balance Sheet Strength: Relationship of BCAR to Balance Sheet Strength

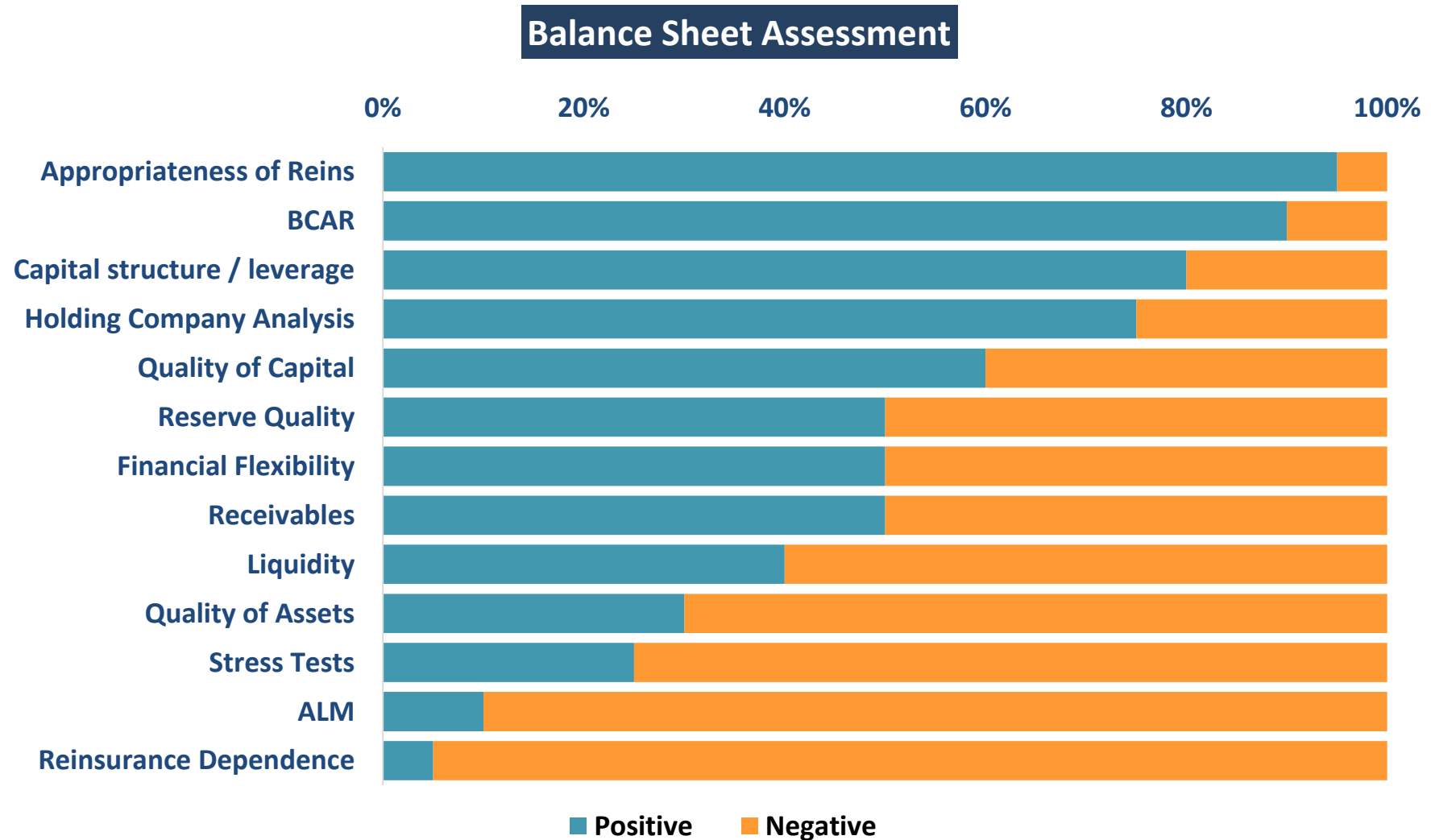
(as at September 30, 2018)

BCAR <i>Assessment</i>	Balance Sheet Assessment					
	Strongest	Very Strong	Strong	Adequate	Weak	Very Weak
Strongest	-	67%	16%	-	-	-
Very Strong	-	2%	8%	-	-	-
Strong	-	-	6%	-	-	-
Adequate	-	-	-	-	-	-
Weak	-	-	-	-	-	-
Very Weak	-	-	-	-	-	-

Most rated companies have “strongest” BCARs,
with “Very Strong” balance sheet assessment

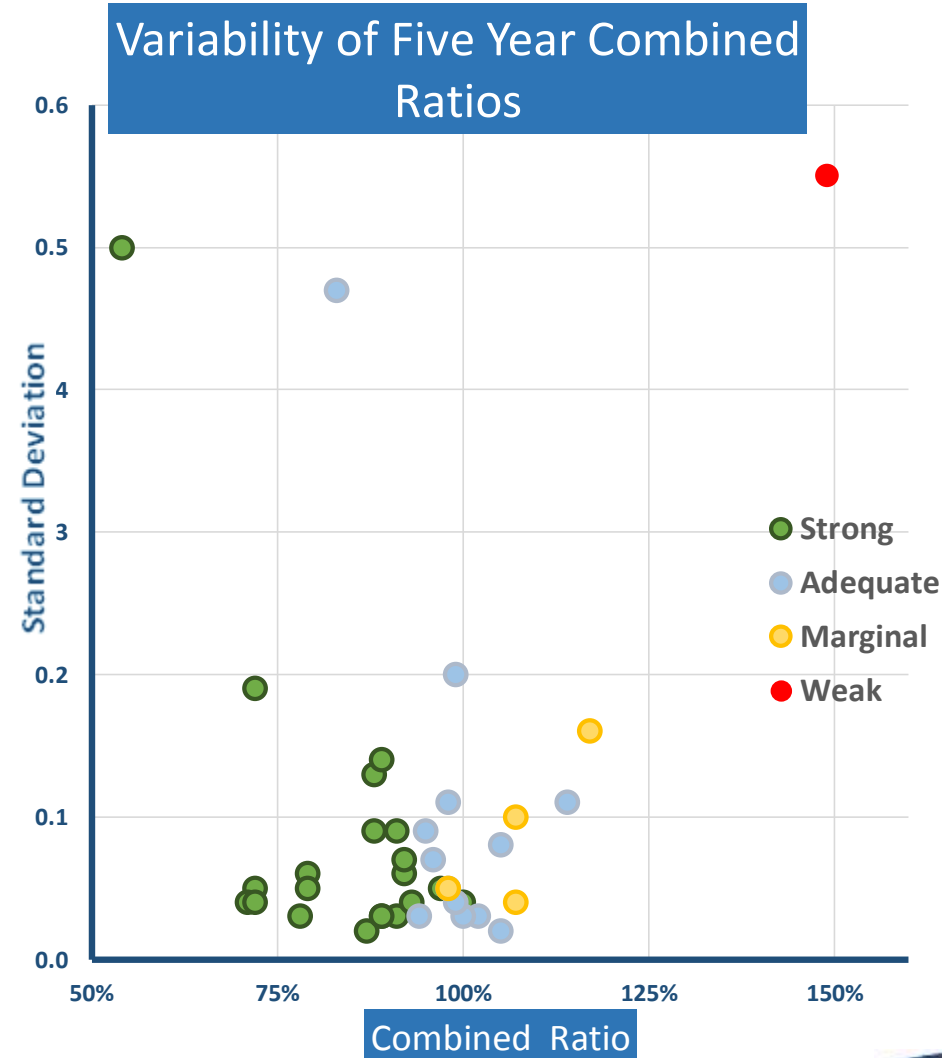
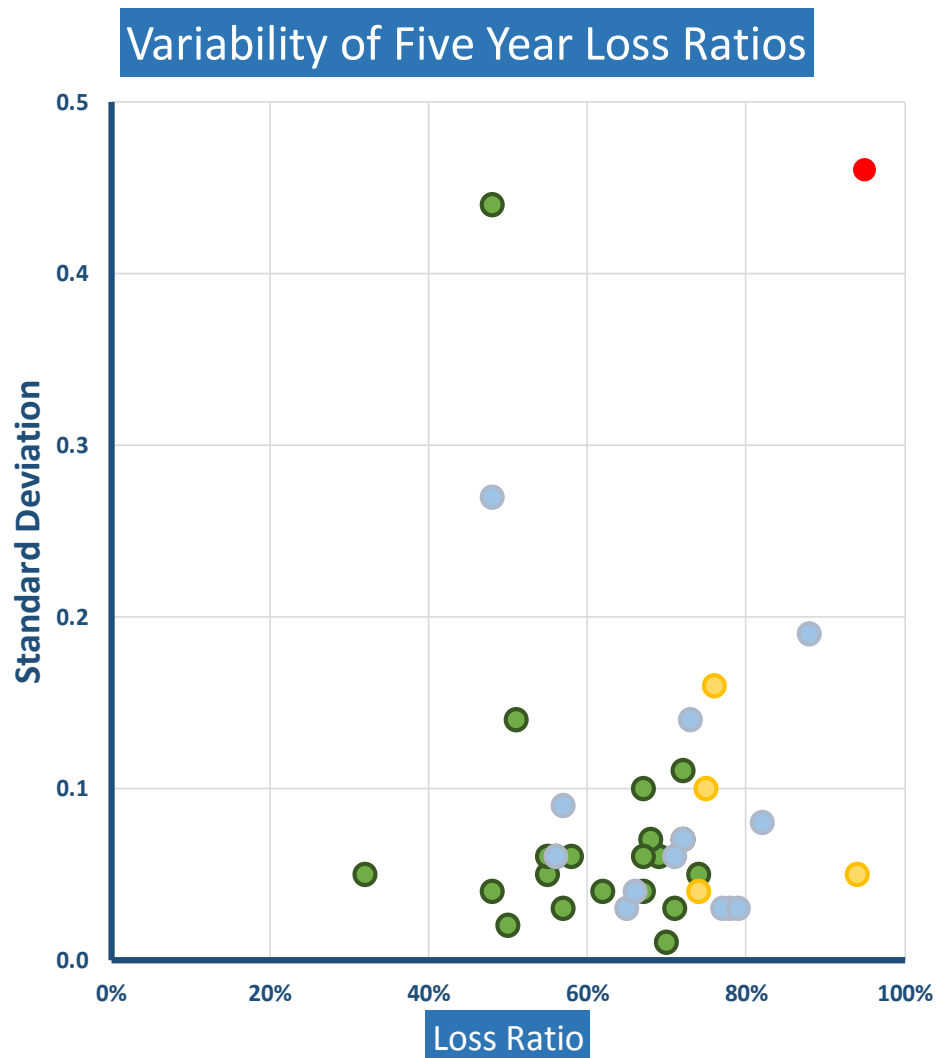
Balance Sheet Strength: Summary

(as at September 30, 2018)



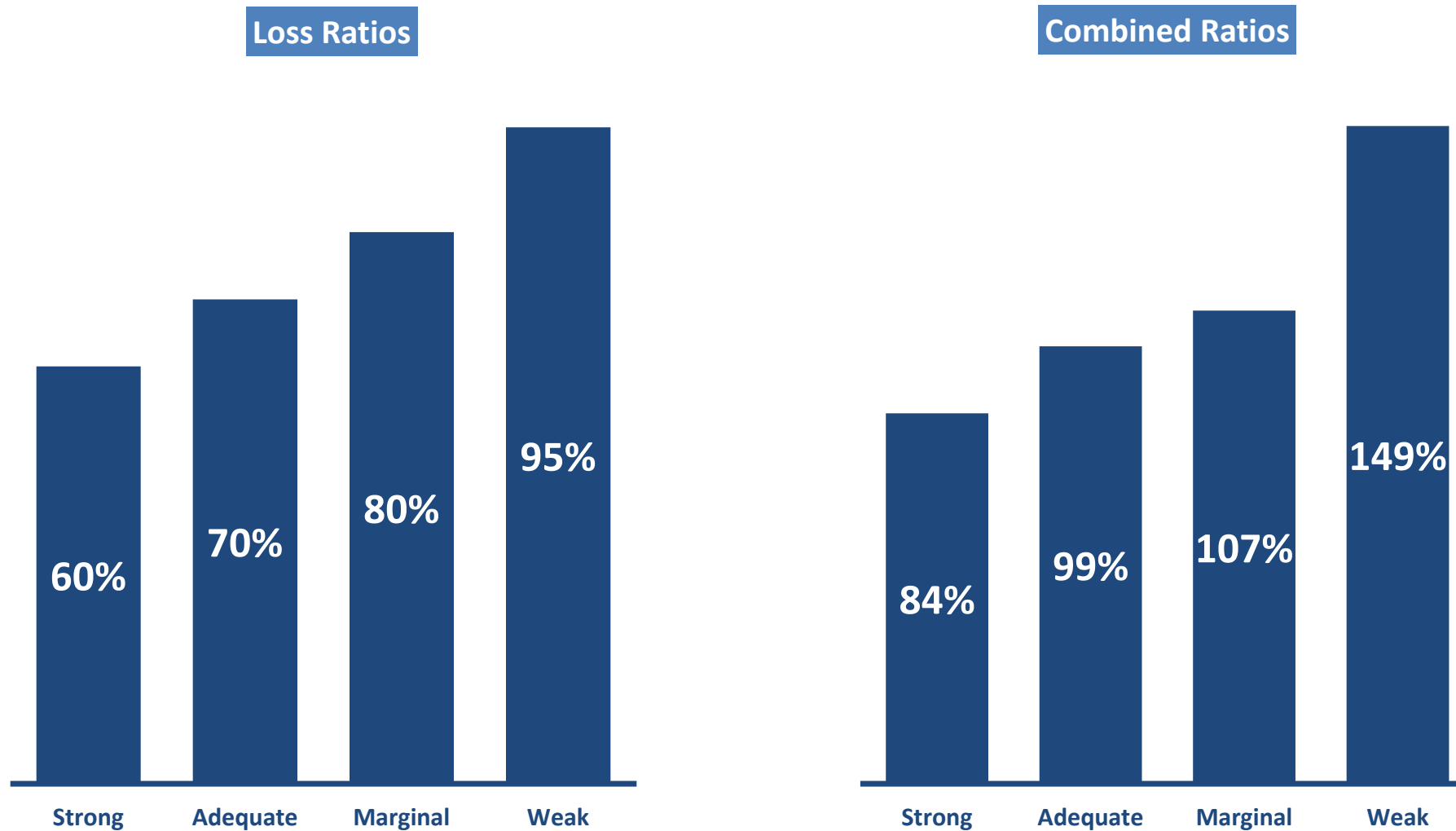
Operating Performance: Technical ratios and volatility in MENA

(as at September 30, 2018)



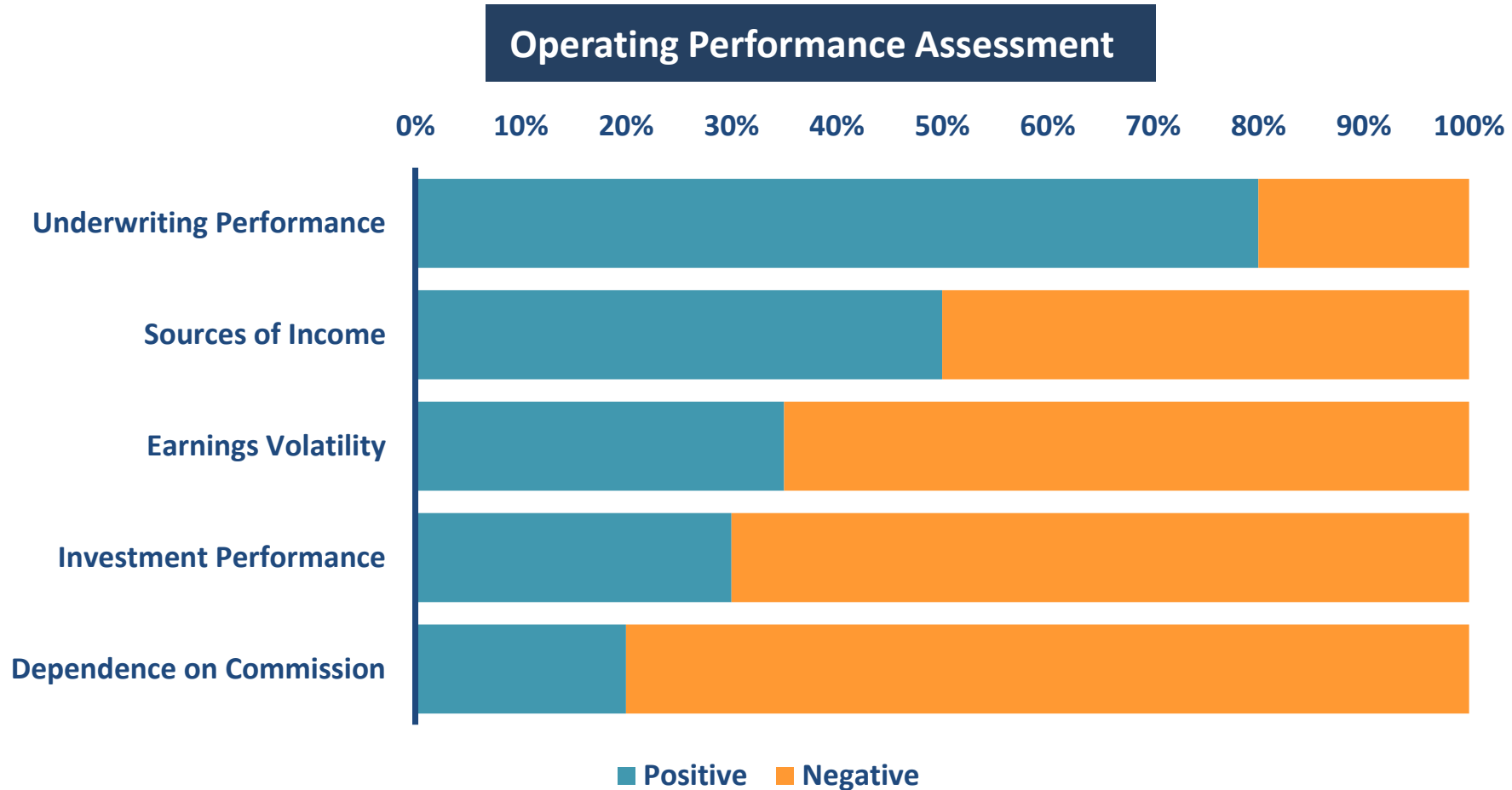
Operating performance: Technical Ratios in MENA

(as at September 30, 2018)



Summary of operating performance in MENA

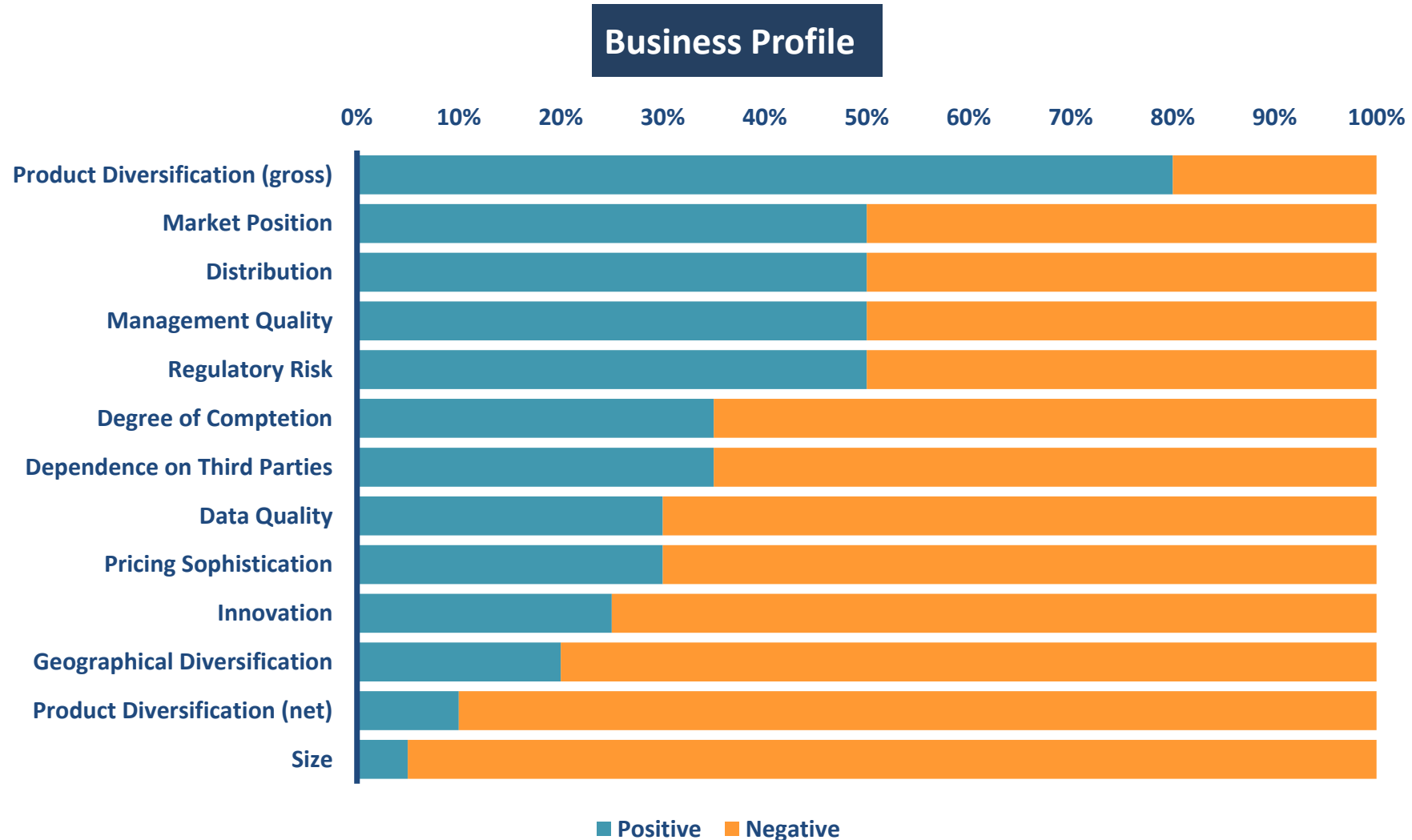
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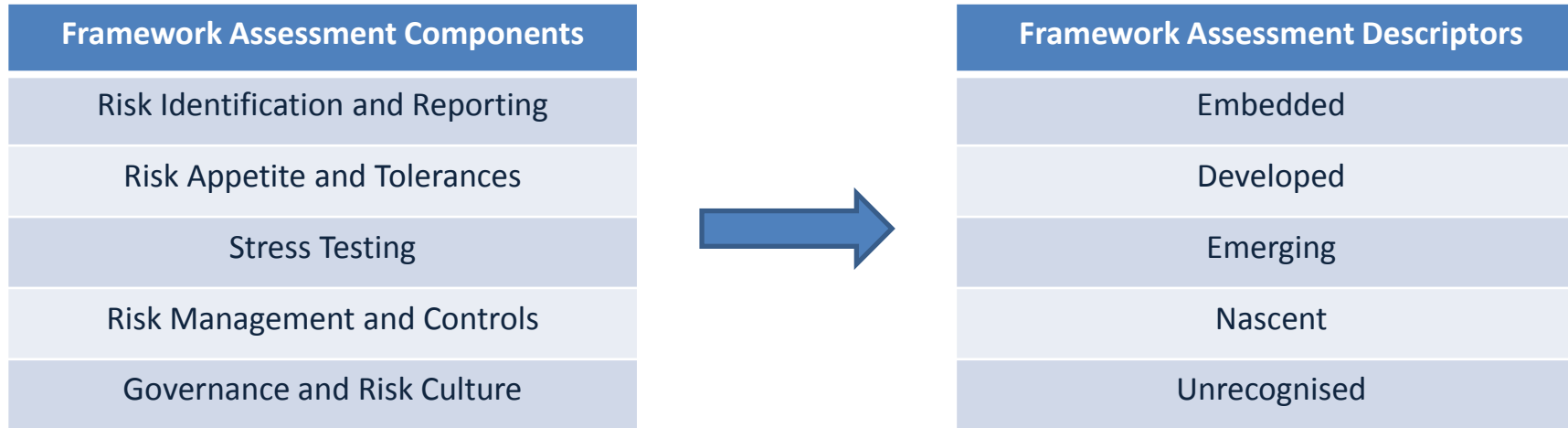
Operating performance assessed against appropriate benchmarks

Summary of business profile in MENA

(as at September 30, 2018)



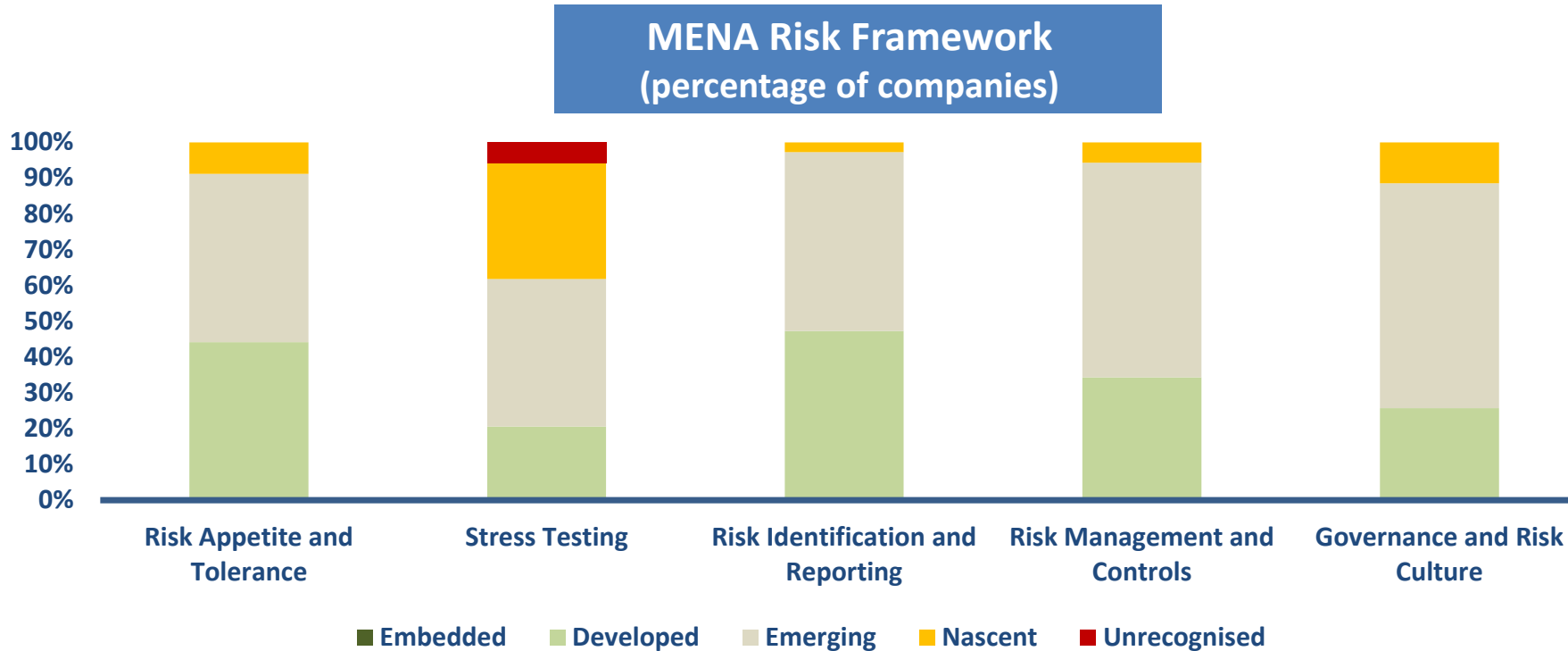
Enterprise Risk Management (ERM)



Assessment of Capabilities Relative to Profile	
Product and Underwriting Risk	Investment Risk
Reserving risk	Legislative/Regulatory/Judicial/ Economic Risk
Concentration Risk	Operational Risk
Reinsurance Risk	Liquidity and Capital Management Risk

ERM: risk framework in MENA

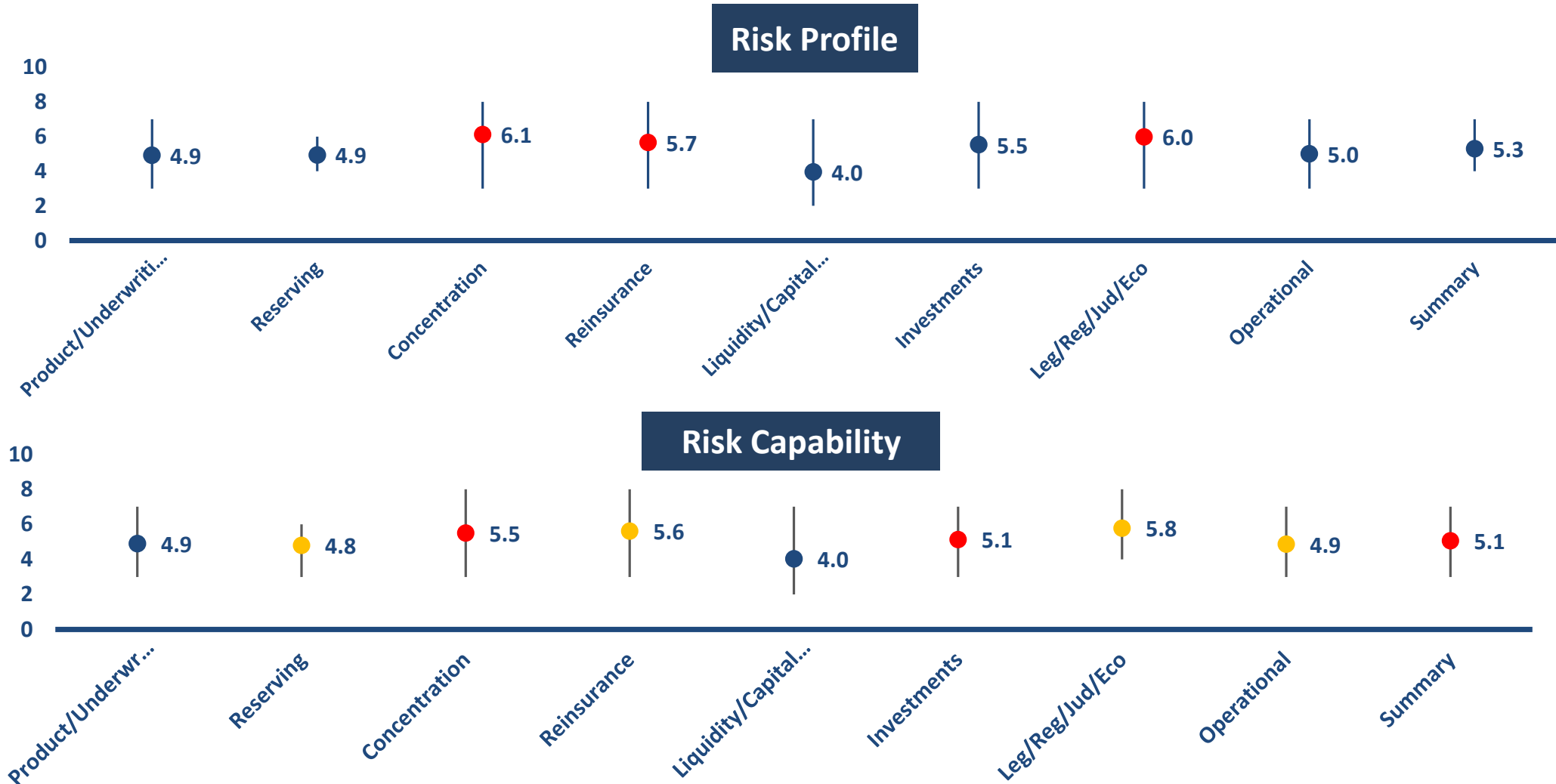
(as at September 30, 2018)



- Lack of robust ERM framework is a negative rating factor
- Most frameworks within the “emerging” phase
- No frameworks viewed as embedded
- Failure to demonstrate improvements (relative to benchmark) may result in greater pressure on the building block assessment

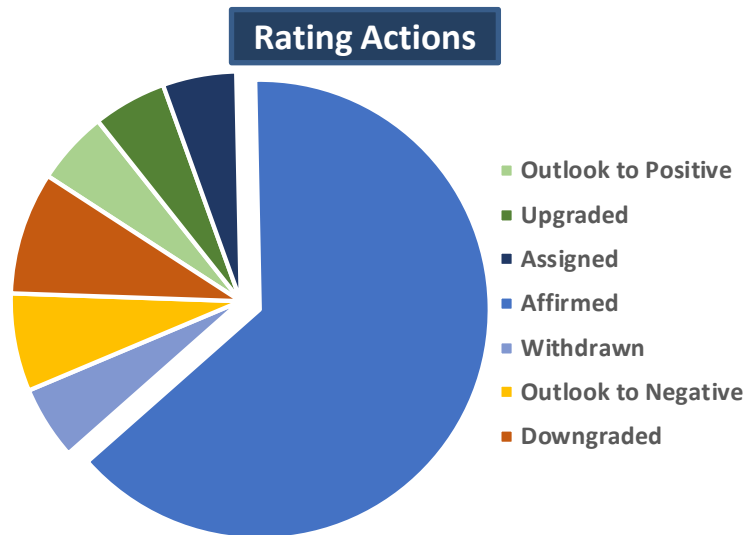
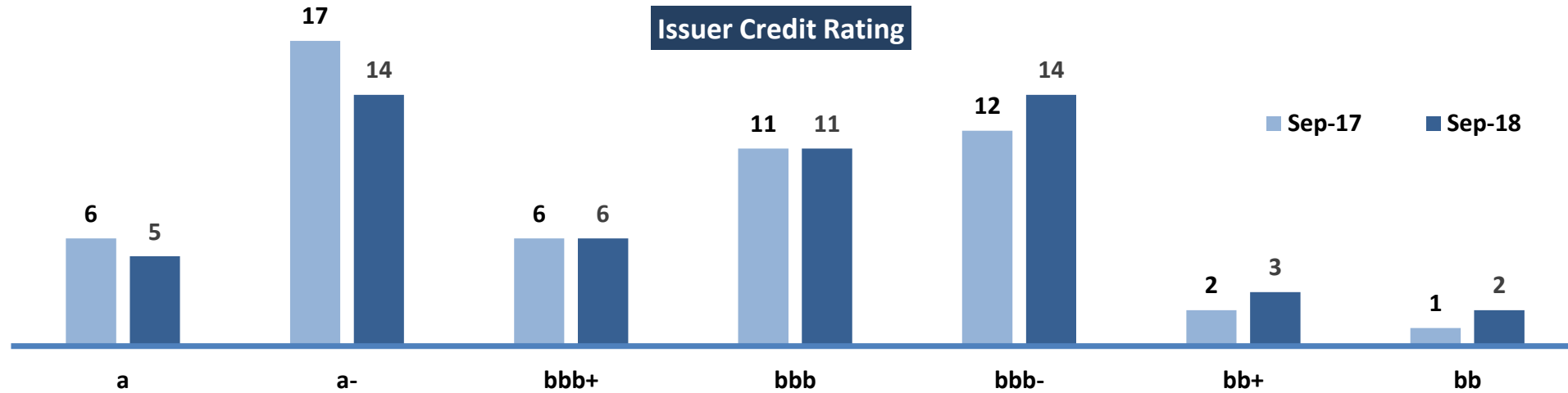
Risk Profile vs Risk Capability in MENA

(as at September 30, 2018)



Distribution of Ratings – MENA

(as at September 30, 2018)



Upgrades / Positive Actions

Improved capitalisation and / or operating performance

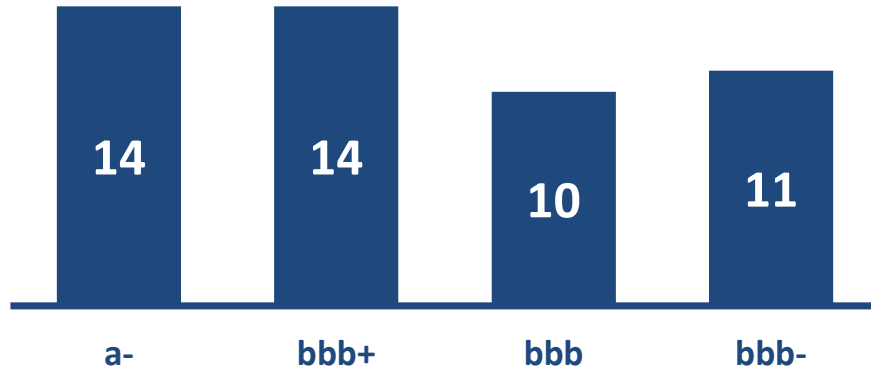
Downgrades / Negative Actions:

Weak technical performance, governance issues and / or reducing business profile

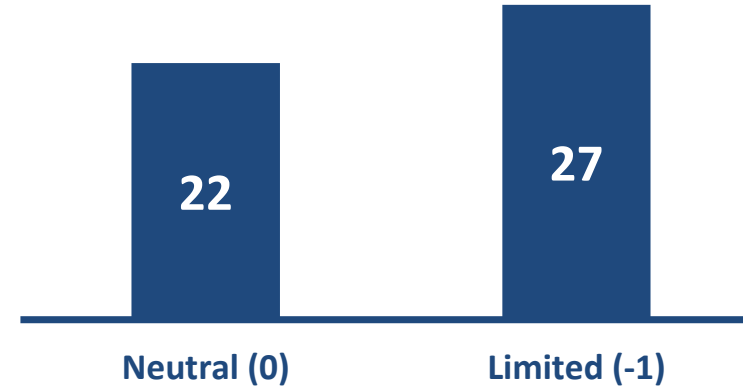
Building Blocks – Evaluation by Company Count

(as at September 30, 2018)

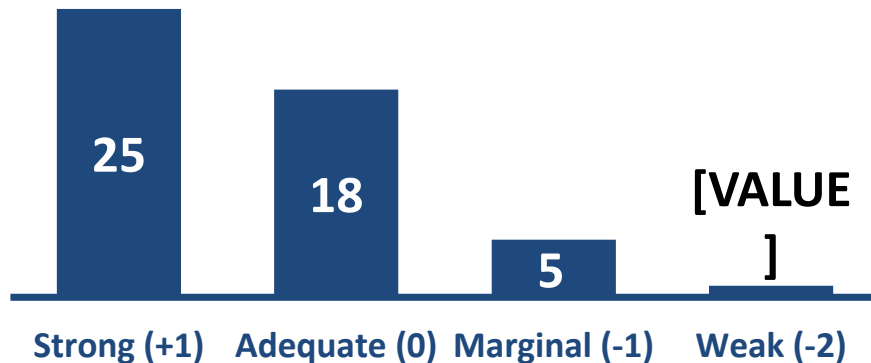
Balance Sheet Strength



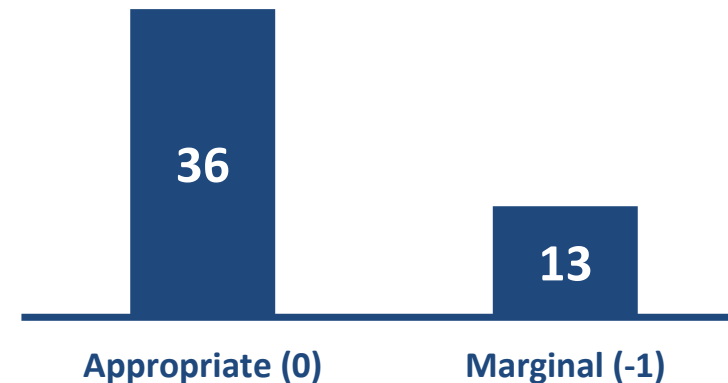
Business Profile



Operating Performance



Enterprise Risk Management



Final Thoughts

- **Governance**

- Restatements
- Write down of assets
- Reserve strengthening
- Fraud

- **Regulation**

- Short-term volatility
- Longer-term stability
- Stronger solvency regimes

- **Volatility**

- High asset risk
- Fluctuations in operating performance
- Buffers required in RAC

- **ERM**

- Improved basic structures
- Lack of effective utilisation
- Higher prospective benchmarks