

Kuwait Insurance Industry

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Analysts

Ahmed Amin

a.amin@capstandards.com
 +965 22258822 ext.516

Victoria Monteiro

v.monteiro@capstandards.com
 +965 22258822 ext.514

Capital Standards (CSR)

Al Nassar Tower, 11th Floor,
 Fahad Al-Salem St., Kuwait City
 P.O.Box 26620, Safat, 13127 Kuwait
 Office: +965 2225 8822
 Email: services@capstandards.com
 Website: www.capstandards.com

Summary

The insurance industry in Kuwait is operated by large market players. The number of insurance companies in Kuwait is relatively small despite the fact that the entry barriers are no specifically higher than it is in other industries. The reason behind this may be that the regulators do not obligate the people to own insurance similar to many of the developed nations. Car insurance will be the only exception to that rule.

The insurance industry in Kuwait is characterized by low trading activities and little investment interest from traders and dealers. Insurance Companies in Kuwait undertake the operations of general, life insurance and reinsurance companies simultaneously. Insurance companies are also involved in investment activities of excess funds in specialized portfolios.

The following are the list of companies that make up the insurance sector in Kuwait in order of their market capitalization:

Name	Market Capitalization (KWD)
Kuwait Insurance Company	75,675,600
Gulf Insurance Company	72,949,500
Al-Ahlia Insurance Company	70,409,211
Warba Insurance	50,972,678
First Takaful Insurance Company	45,000,000
Kuwait Reinsurance Company	25,088,049
Wethaq Insurance Company	9,150,750

Key Observations

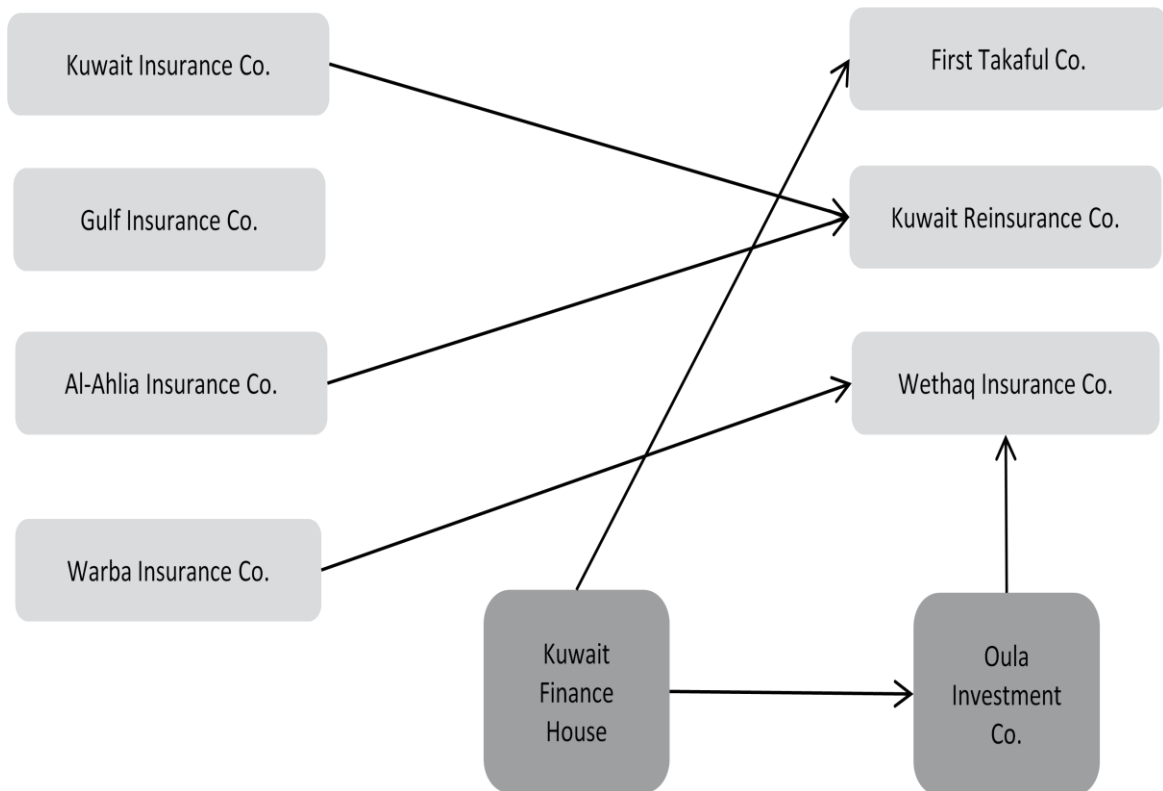
- The insurance sector is the least active amongst all sectors in Kuwait.
- The insurance sector in Kuwait has lagged the insurance sectors in the rest of the GCC countries.
- The index has had many days of no trading (8% of the days in the past 5 years have had no trading, and 27% of the trading days have had less than 3 deals per day).
- The insurance company's lack of correlation with the national and international markets has led to little affection by the financial crisis.
- The lack of regulatory requirement of insurance, and the religious restrictions have limited the potential of this industry.
- The privatization of health care industry will dramatically enhance the growth of the insurance industry.

Corporate Structure & Corporate Governance

The table below shows the Intersections in ownership amongst insurance companies in Kuwait.

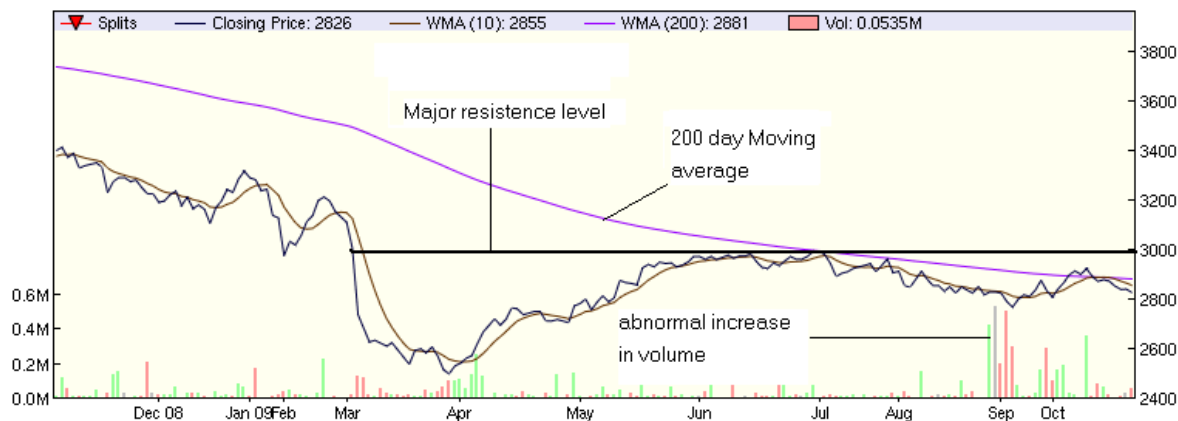
Company	Ownership	Percentage
Kuwait Insurance Company	Kuwait Reinsurance Company	5.1%
Al-Ahlia Insurance Company	Kuwait Reinsurance Company	26.34%
Warba Insurance Company	Wethaq Insurance Company	6.5%

The corporate governance structure of Kuwaiti insurance companies is very complex. The companies are mainly held by other entities and major shareholders. This partially explains the correlations between the performances of the companies within the index. Moreover, many insurance companies own interest in smaller insurance companies in the index. Add to that, there are indirect ownerships that are unaccounted for in this report.



Technical Analysis/Index Behavior

The graph below shows the Insurance Industry index performance from October 28st, 2008, to October 2st 2009.



1. The 30-day moving average penetrated the 200-day Moving average downwards in September 2008 (amidst the start of the financial crisis). This signaled a huge drop in the index.
2. There is a major level of resistance in the index at 3000 points. The penetration of that line will likely be the start of a long term rally in the index.
3. The volume activity is noticeably rising. This adds value and validation to the index movements.

Credit Ratings

The following are the ratings assigned to the insurance companies in Kuwait by the international rating agencies.

Company	Rating	Rating Agency
Gulf Insurance Company	BBB+	Standard and Poor's
Kuwait Reinsurance Company	BBB	Standard and Poor's
Wethaq Takaful Insurance Company	BB+	Standard and Poor's

Financial Performance

Capital Structure¹

KWD 000's	Al Ahlia	Gulf	Kuwait	Reinsurance	Warba	First Takaful	Wethaq Takaful
Total Assets	145,276	255,497	115,900	66,851	78,318	11,782	19,877
Debt	42,984	83,374	7,457	2,265	17,914	0	2,386
Equity	74,258	126,399	14,521	4,242	35,925	11,636	15,965
Debt to Equity (x)	0.58	0.66	0.51	0.53	0.50	0	0.15

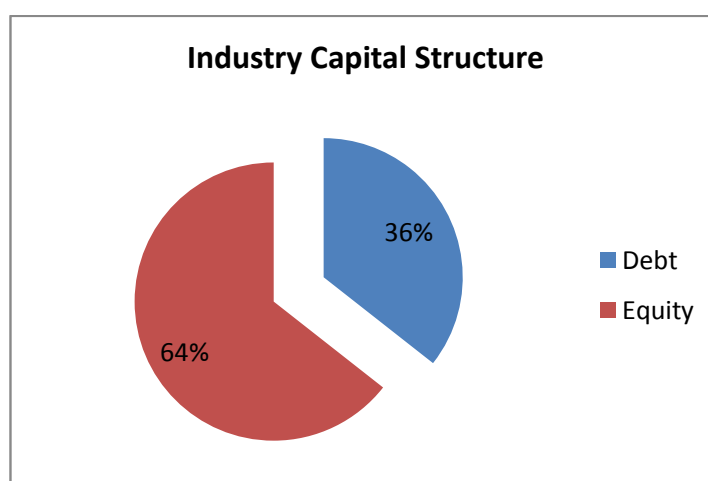
¹ This section measures interest earning debt, not all liabilities

Total Liabilities Structure

Amounts in KWD	Al Ahlia	Gulf	Kuwait	Reinsurance	Warba	First Takaful	Wethaq Takaful
Insurance liabilities	39,090,472	100,078,048	-	-	-	-	-
Insurance payables	4,843,317	31,752,907	-	-	17,914	-	-
Technical reserves	-	-	61,728,123	26408	-	-	-
Other credit balances	8,790,892	16397061	8,650,948	1,977	18,010	-	69
Re-takaful	-	-	-	-	-	-	2,485
Term loan	22,500,000	-	-	-	-	-	-
Trading & other payables	-	-	7,886,048	-	-	147	724
Bank overdraft	3,119,866	4,126,461	-	2,265	-	-	-
Total Liabilities	78,344,547	152,354,477	78,265,119	30,650	35,924	147	3,278

Cash Flow Performance

KWD 000's	Al Ahlia	Gulf	Kuwait	Reinsurance	Warba	First Takaful	Wethaq Takaful
Total Revenues	27,874	85,708	26,952	16,313	23,026	6,848	4,666
Net Income	-3,816	3,607	2,946	1,116	2,424	268	-2,639
Operating CF	220	6,465	1,315	2,014	-1,393	-139	-1,261
Investing CF	9,380	-2,882	13,788	4,375	4,201	1,989	1,925
Financing CF	-13770	-11,525	-16,036	-4,048	-2,978	-1,795	-510



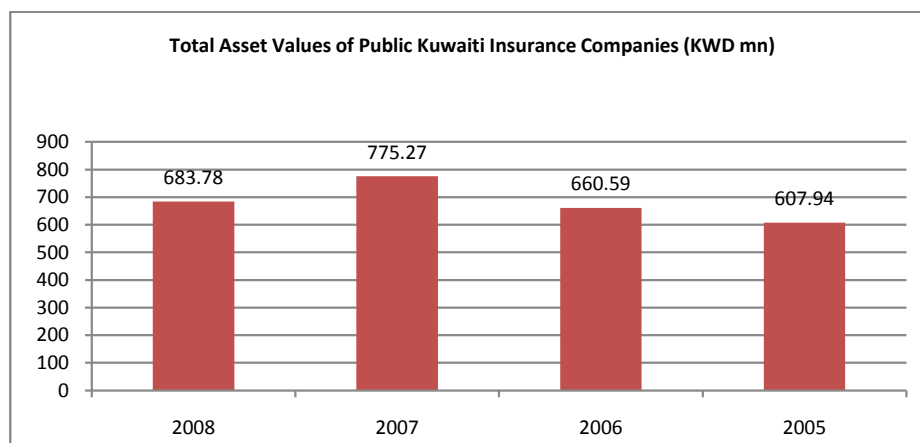
Effects of the Financial Crisis on the Kuwait Insurance Sector

The Kuwait Insurance sector, along with the other sectors and the country's economy, was affected by the global economic crisis, with premiums having dipped by 10% - 20% in FY 2008. In Q1 2009, Kuwaiti Insurance firms recorded a sharp decline in profits as compared to Q1 2008. Like most companies in Kuwait, the insurance companies too were heavily invested in local equities. The decline and volatility in the Kuwait Stock Exchange had a significant impact on the balance sheets of the Kuwaiti Insurance companies. The total asset value of the listed Kuwaiti Insurance companies dropped by 11.8% in FY 2008.

Comparison between insurance sectors in Kuwait, Bahrain and Qatar

	Kuwait	Bahrain	Qatar
Number of companies	7	5	5
Total Market Capitalization KWD	349,245,788	155,295,537	604,094,190
Total Assets 2008 KWD	693,501,000	474,848,271	776,702,277
Total liabilities 2008 KWD	309,034,142	329,922,681	307,219,711
% of total market capitalization in insurance	1.0%	3.2%	2.3%

The insurance sector performances in Kuwait and Bahrain and Qatar vary significantly. The Qatari insurance sector outperforms Kuwait's and Bahrain's in terms of the total assets and total market capitalizations. However, insurance plays the largest role in the Bahraini market as compared to Kuwait and Qatar. The number of companies is similar in all three markets.



The big player in the industry; Gulf Insurance Company (GIC) was able to reduce the impact of the financial crisis due to their focus strategy on the core business and their balanced geographical diversification. Even though GIC witnessed a decline in its returns, it was able to maintain constant growth rates in its operating revenue.

The Kuwaiti Insurance sector has tremendous potential due to the country's strong economic structure, growing population and increased awareness of risk management. However, to maintain its current market position and survive in the challenging financial environment, the Kuwaiti insurance companies should look at restructuring their portfolio through diversification to minimize risks, and consider mergers & acquisitions to benefit from synergies and strengthen their positions.

Industry Overview

Correlations between stock prices within the insurance sector

	Ahlia	Reinsurance	Wethaq	First Takaful	Gulf	Warba	Kuwait
Ahlia	1.00	0.08	0.07	0.03	0.12	0.05	0.09
Reinsurance	0.08	1.00	0.05	0.07	0.11	0.13	0.19
Wethaq	0.07	0.05	1.00	0.10	0.04	0.08	0.11
First	0.03	0.07	0.10	1.00	0.00	0.11	0.11
Gulf	0.12	0.11	0.04	0.00	1.00	0.17	0.16
Warba	0.05	0.13	0.08	0.11	0.17	1.00	0.23
Kuwait	0.09	0.19	0.11	0.11	0.16	0.23	1.00

As mentioned earlier, an interactive, complex ownership structure has led to similar price performances of the insurance companies in Kuwait. Overall, insurance is a very stable industry in Kuwait. The reason behind this can be attributed to the religious or cultural barriers that deter the companies from performing like their investment and real estate counterparties.

The Kuwait Insurance industry is lagging behind as compared to its GCC neighbors like UAE and Saudi Arabia, and is fragmented with a small number of players. These players either operate as a conventional insurance players or Takaful insurance companies. Gulf Insurance Company, Kuwait Insurance Company and Al-Ahlia Insurance Company are some of the prominent players in the conventional insurance industry. Among the Takaful Insurance players, companies like First Takaful Insurance Company and Wethaq Takaful Insurance Company are listed on KSE. Also, foreign players such as New India Insurance Company, Oriental Insurance Company, and American Insurance Company are present in the Kuwait Insurance Industry.

The reason behind the insurance sector's slow growth in Kuwait can be attributed to:

- The relative unfamiliarity of the public to the concepts and details of insurance industry in general,
- The religious views against insurance
- The lack of law enforcement to require the public to purchase health and life insurance.

The industry is dominated by the conventional insurance companies with a market share of 85%, while the Takaful insurance companies have a market share of only 7%. However, the rising demand for Sharia-compliant products and the overall growth in Islamic services, will likely contribute to the growth of Takaful market in the near future.

Sector Comparison

	Banking	Investment	Real Estate	Services	Non-Kuwaiti	Food	Industry	Insurance
Index Volatility	24%	30%	27%	18%	20%	23%	22%	12%
Average Daily Volume	24,598,968	127,408,826	85,674,870	87,018,390	24,389,303	4,029,386	22,961,729	366,715
Beta	0.82	0.96	0.89	0.92	0.82	0.81	0.91	0.62
2005-2009 Return %	14%	-57%	-53%	-17%	-2%	5%	-5%	8%
Average % Share of Volume	7%	34%	23%	23%	6%	1%	6%	0%

Several observations can be drawn from this table:

1. The insurance sector has the lowest volatility amongst all sectors.
2. The insurance sector has the lowest average daily volume.
3. The insurance sector has the lowest correlation with the general market index (Beta).
4. The low volatility of the insurance has helped the index returns to have relatively lower losses during the financial crisis.
5. The insurance sector has infinitesimal portion of the aggregate daily volume of trades in Kuwait Stock Exchange.
6. The index has frequently had 'no trade' days'; in which no single transaction has occurred on the companies in the index.
7. The insurance sector has the second lowest number of listed companies, after the food and beverages sector.
8. There is no consistent debt structure shared between insurance companies in Kuwait. The industry remains more reliant on debt than it is on equity. However, the structure of debt and liabilities vary according to the company. The Islamic insurance companies also have unique debt structures.
9. The companies' overall reliance on debt increases the overall risk of the industry.

Conclusion

- The insurance industry characterized by low activity and lack of interest from investors and customers alike.
- The index has by far the lowest activity levels, the most days with no trading and lowest number of trades amongst all indices in Kuwait.
- The legal environment does not require individuals to purchase life or health insurance for any reason.

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