

# **Bupa Arabia FY 2020 Earnings Conference Call and Webcast**

April 15<sup>th</sup>, 2021

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## Company Overview

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Appendix – PDR & DAC Examples

Abbreviations & Glossary

# Strategic Framework

We consistently strive to reflect what we stand for in everything we do



## Our Purpose

Helping people live *longer, healthier, happier lives*

## Our vision

The most trusted health insurer in KSA

## Our ambition

To accelerate Bupa Arabia's growth trajectory

## Our pillars

### Passionate about Our customers

Cementing our partnerships with key customers

Pursuing breakthrough differentiation and innovation in product and service offerings

Harnessing digitalization in customer service, claims management and operational efficiencies

Developing new distribution channels while delivering on a seamless customer experience

### People make the difference

Attracting, developing and retaining outstanding people and leaders

Taking responsibility and accountability

Creating safe and healthy workplaces

Celebrating diversity and inclusion

### Strong and sustainable performance

Driving net customer growth, revenue and profit

Protecting and growing our core customer base

Enhancing robust risk management and controls

Embedding corporate responsibility and sustainability to create shared value

Keeping data safe

## Our values

Accountable



Caring



Courageous



Authentic



Open



Passionate



Extraordinary



# Board of Directors

*Our Board plays a vital part in setting the cultural tone to put customers first*



**David Martin Fletcher**  
Vice-Chairman



**Eng. Loay Hisham Nazer**  
Chairman



**Martin Houston**  
Board Member



**Dr. Abdulla Elyas**  
Board Member - Independent



**Huda M. Bin Ghoson**  
Board Member - Independent



**Zaid Algwaiz**  
Board Member - Independent



**Nader Ashoor**  
Board Member



**Nigel Sullivan**  
Board Member



**Tal Hisham Nazer**  
Board Member

# Chief Executive Team

*Solid team to deliver on Bupa Arabia's purpose, vision and mission*



**Tal Nazer**  
Chief Executive Officer  
(CEO)



**Nader Ashoor**  
Chief Financial Officer  
(CFO)



**Tabish Mushtaq**  
Chief Risk Officer  
(CRO)



**Ali Sheneamer**  
Chief Business Development Officer  
(CBDO)



**Tariq Alamoudi**  
Chief Human Resources Officer  
(CHRO)



**Mohamed El Missaoui**  
Chief Operations Officer  
(COO)



**Atef Mufti**  
Chief Sales Officer  
(CSO)

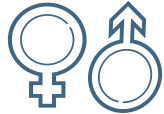
# Bupa Arabia at a Glance

Robust profitability growth & significant value creation for shareholders



24+ Years of Experience

with



1,800 Employees

serving



3m+ Members

within



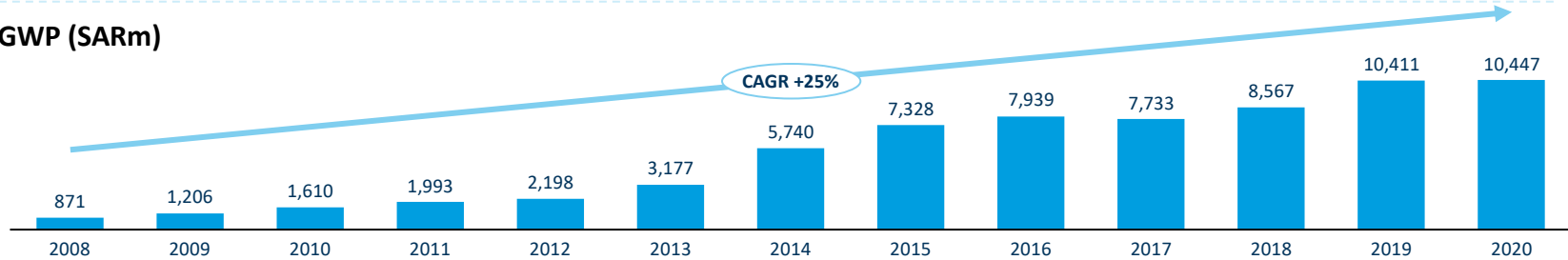
1,450 Providers

in

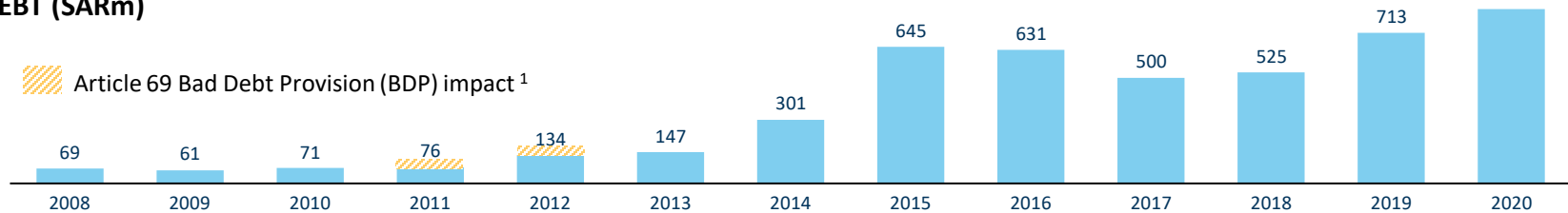


Saudi Arabia

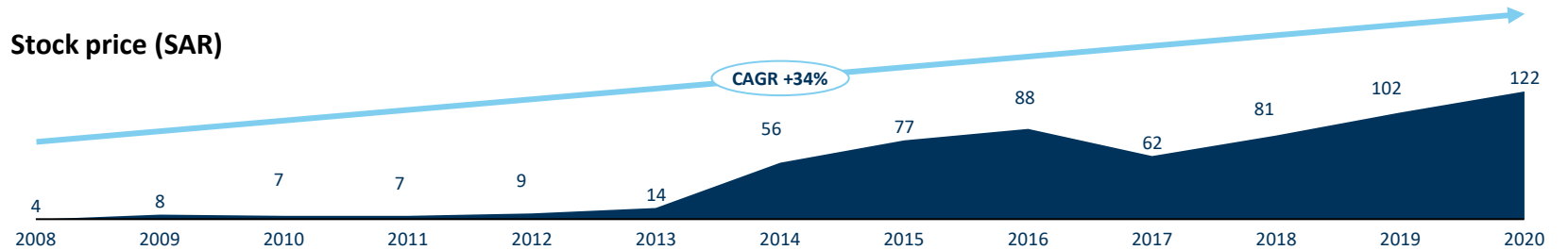
## GWP (SARm)



## EBT (SARm)



## Stock price (SAR)



Note: Impact of increase in capital; by 400m SAR in 2015 and 2018; on the stock price have been reflected retrospectively

<sup>1</sup> Profit fluctuation in 2011 and 2012 is due to BDP treatment in line with interpretation of Article 69, where a BDP provision of SR34mn was taken in 2011 and BDP recovery of SR20mn was made in 2012

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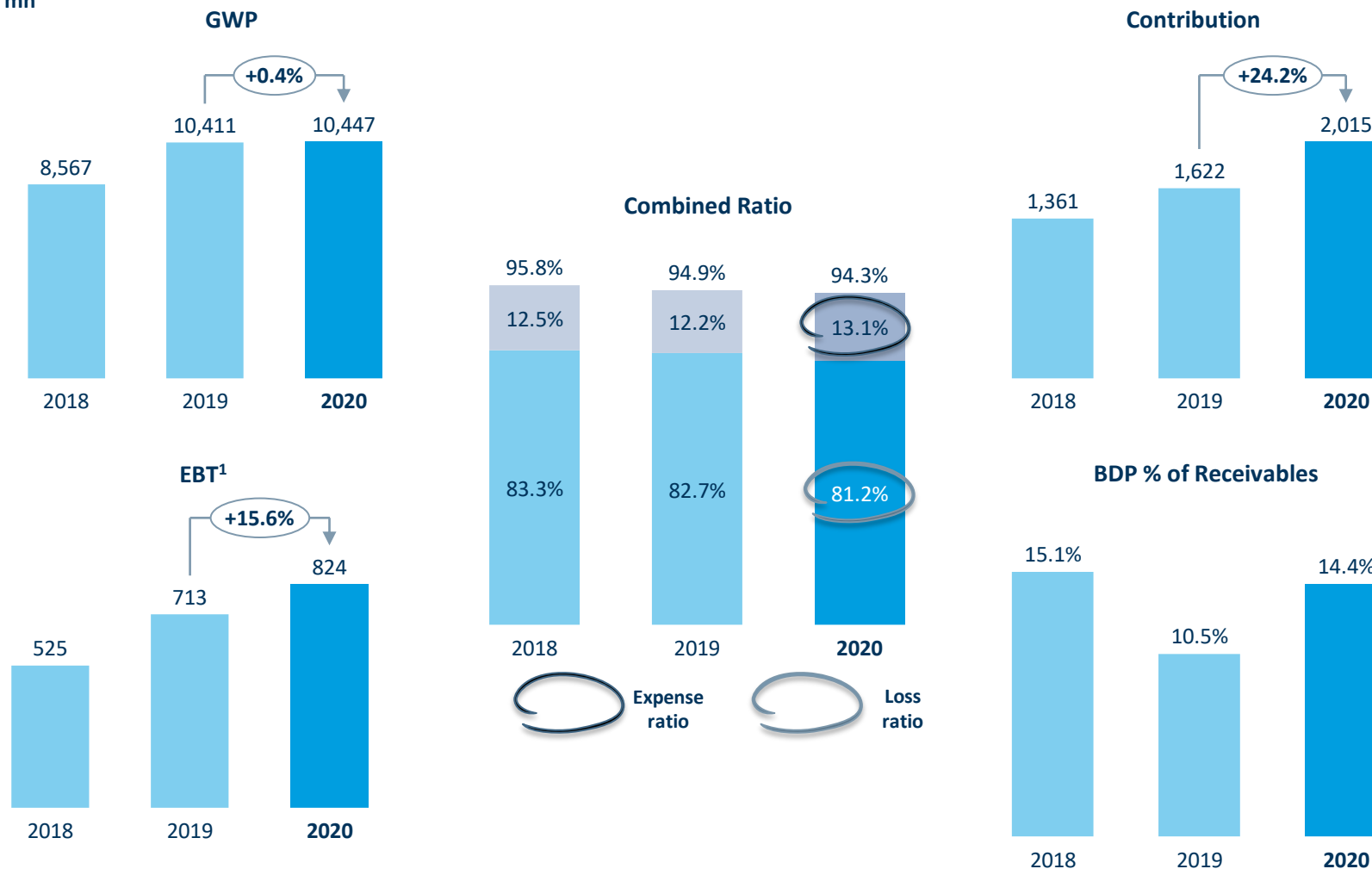


# KPIs

2020 earnings grew by c.16% YoY as a result of favorable loss ratio



SR mn



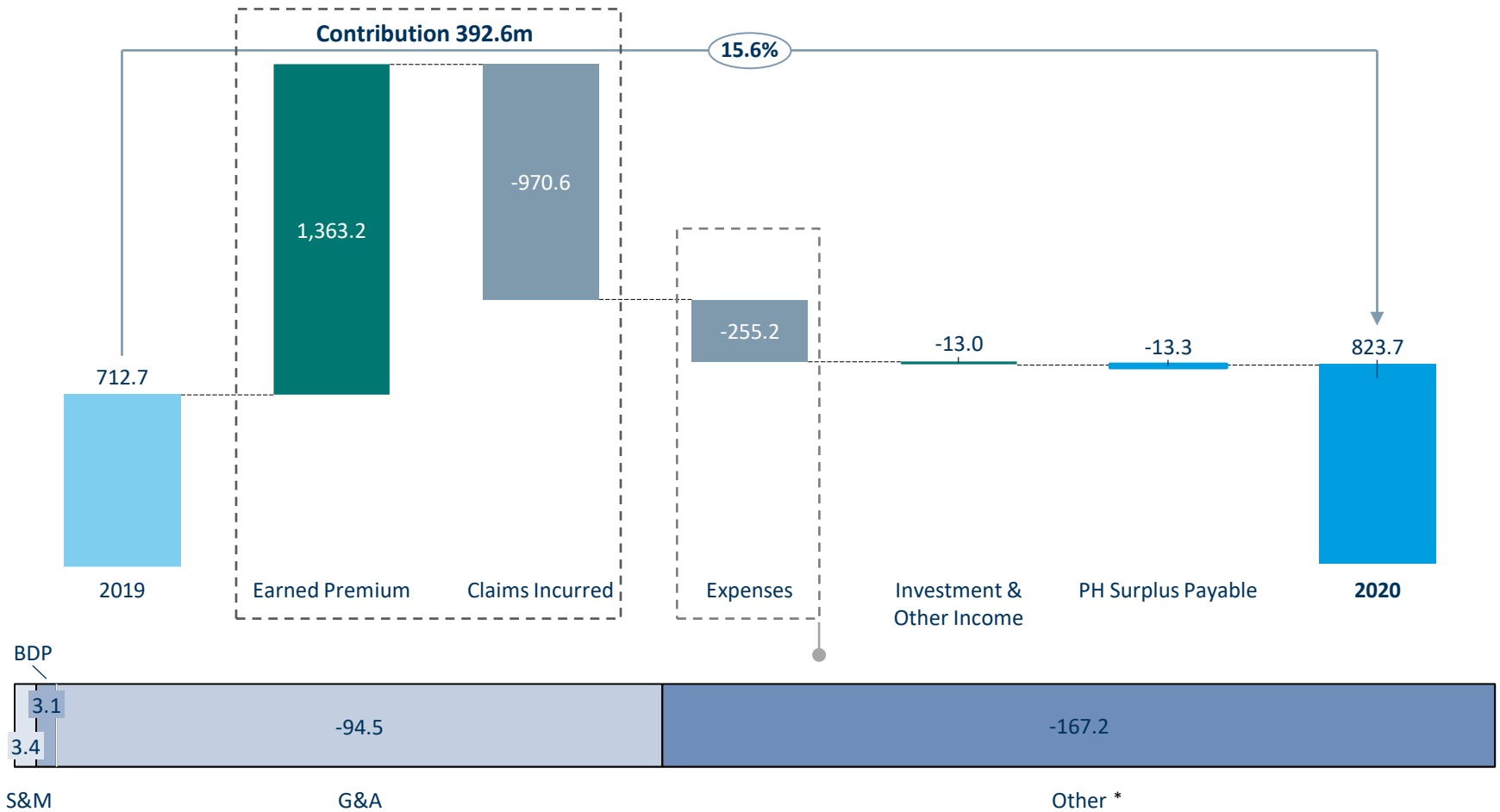
<sup>1</sup>Earnings Before Taxes and Zakat or EBT represent net income attributed to the shareholders

# EBT

EBT on the rise through favorable contribution driven predominantly by healthy loss ratio



SR mn



<sup>1</sup>PH: Policyholders' share of surplus from insurance operation

\*Other represents policy acquisition cost (internal & external commission)

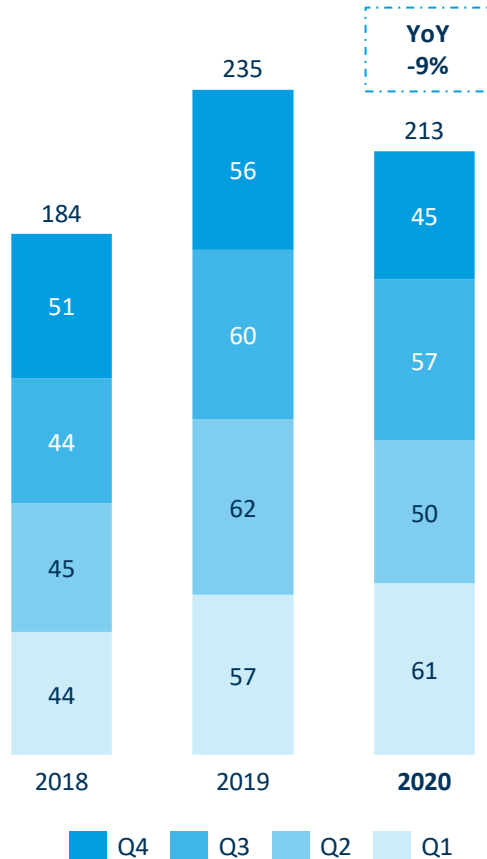
# Investment Portfolio and Results

Resilient investment income through increased duration & further diversification

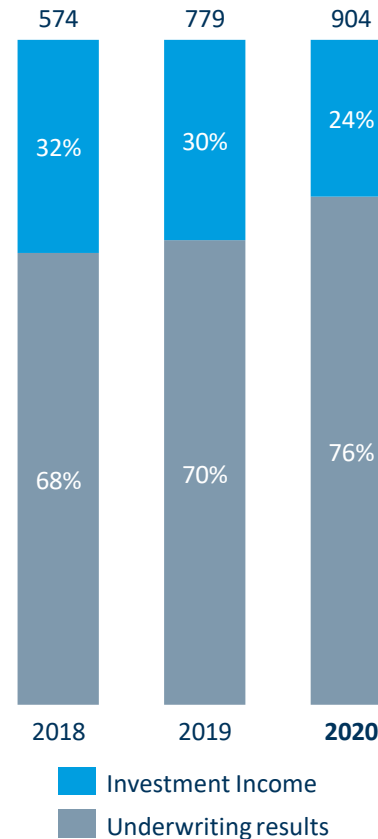


SR mn

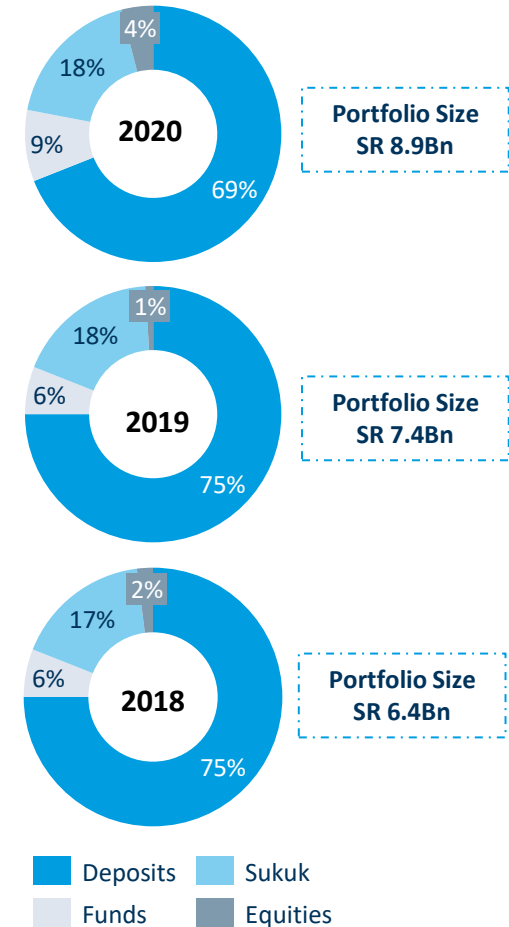
## Investment Income



## Income Breakdown<sup>1</sup>



## Asset Allocation



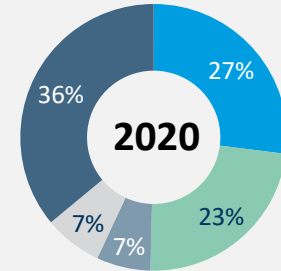
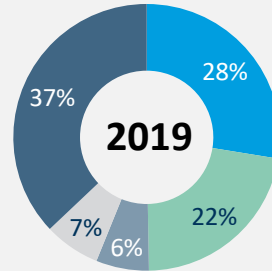
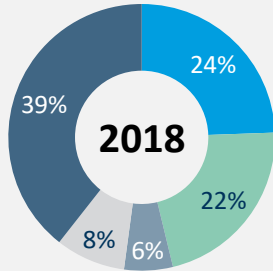
<sup>1</sup>Income breakdown represents net income attributed to the shareholders and policyholders

# Market Share and Positioning

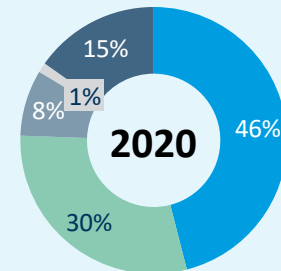
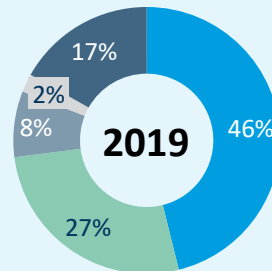
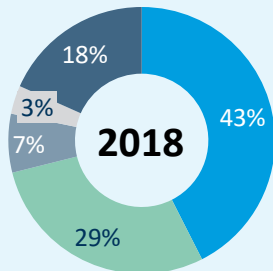
Bupa Arabia continues to lead the Saudi total & health insurance market in 2020



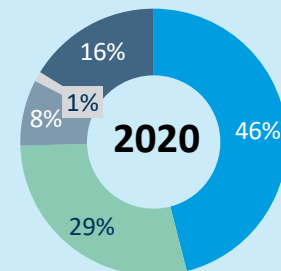
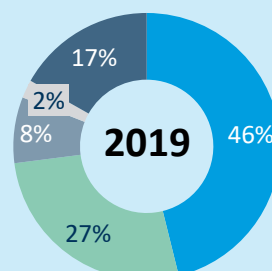
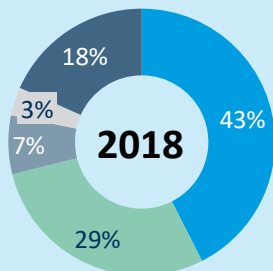
**Total Insurance Market Share (GWP basis)**



**Health Insurance Market Share – With Umrah (GWP basis)**



**Health Insurance Market Share - Without Umrah (GWP basis)**



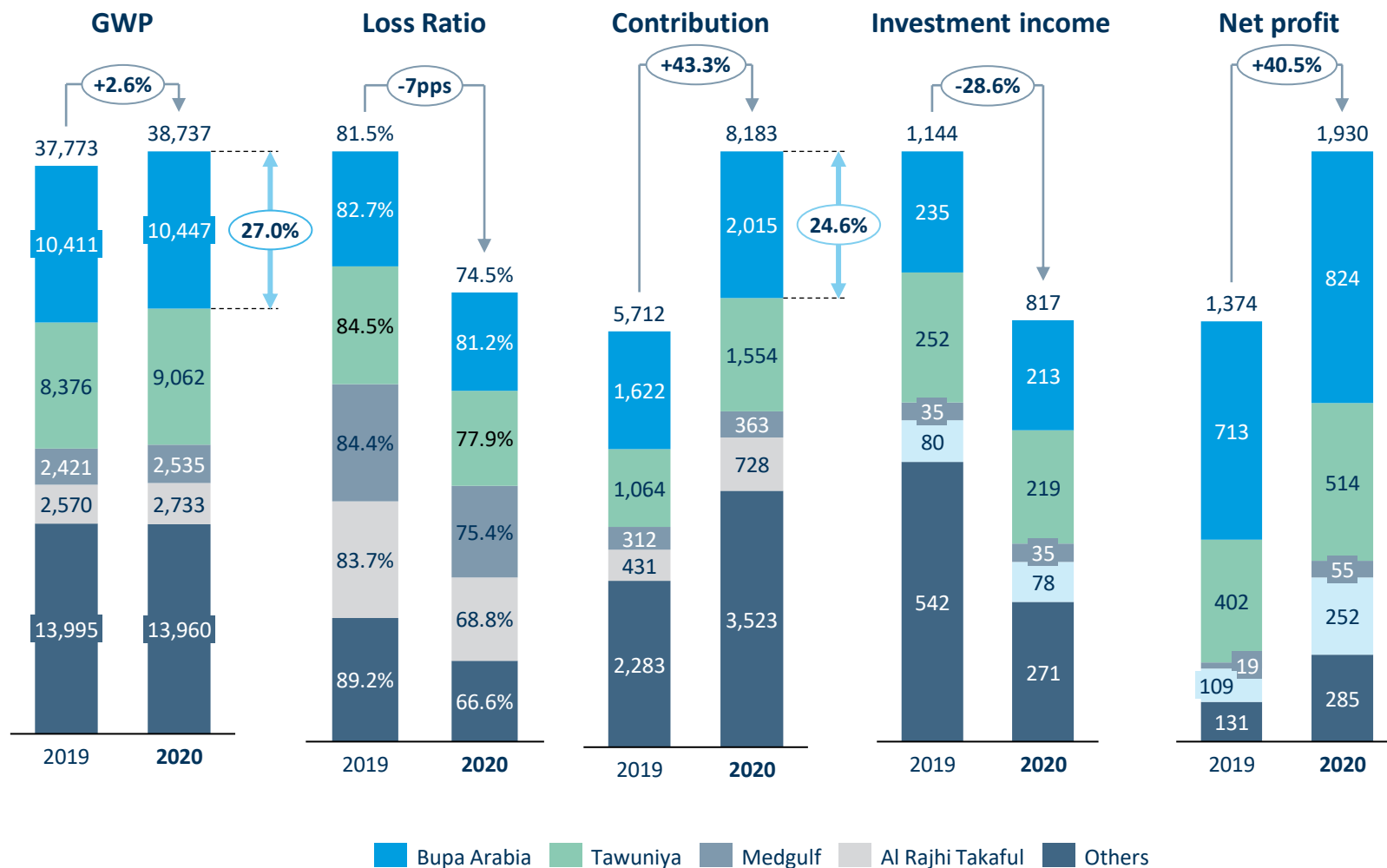
Source: respective insurance companies' filings, and others are based on estimates

# Total Insurance Market

Lockdown due to covid-19 contributed to healthy loss ratio, contribution and net profit



SR mn



Source: respective insurance companies' filings

# Non-Health Insurance Market

Improved LR in both motor and other segments resulted in significant contribution growth

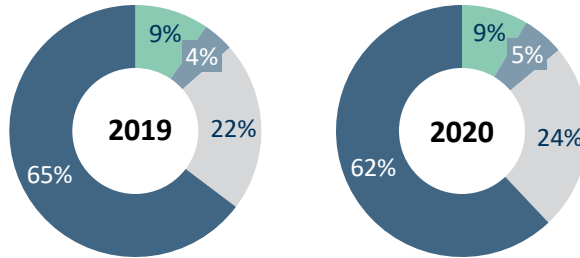


SR mn

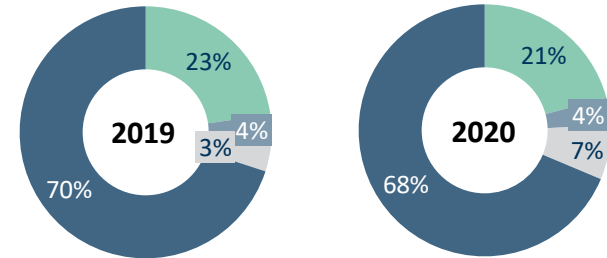
## Motor Segment

## Other Segments<sup>1</sup>

Market Share



Market Share



### GWP

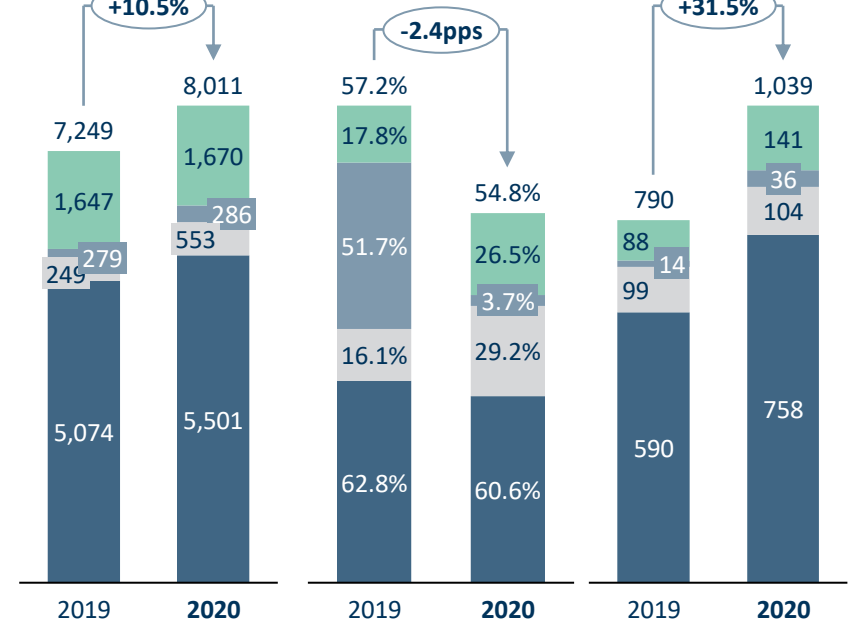
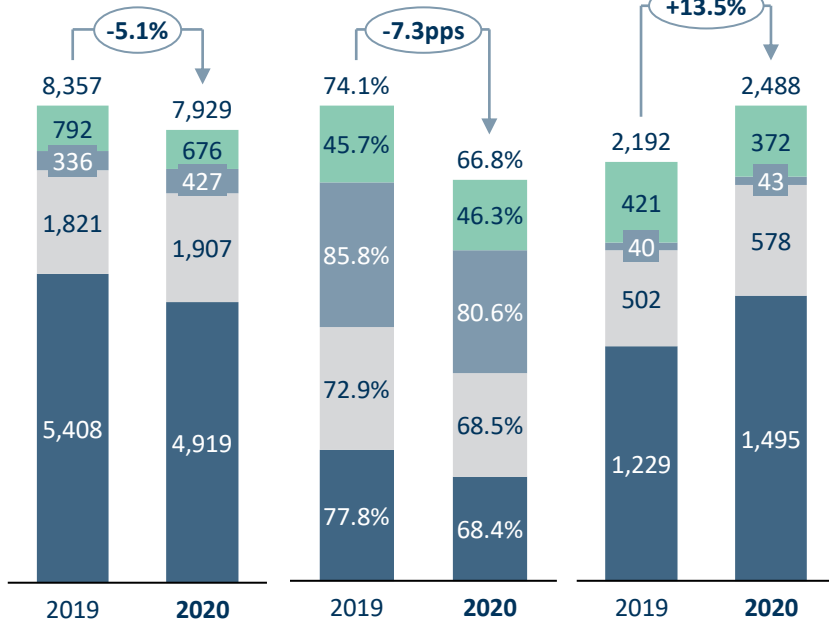
### Loss Ratio

### Contribution

### GWP

### Loss Ratio

### Contribution



FY 2020 Webcast

Tawuniya Medgulf Al Rajhi Takaful Others

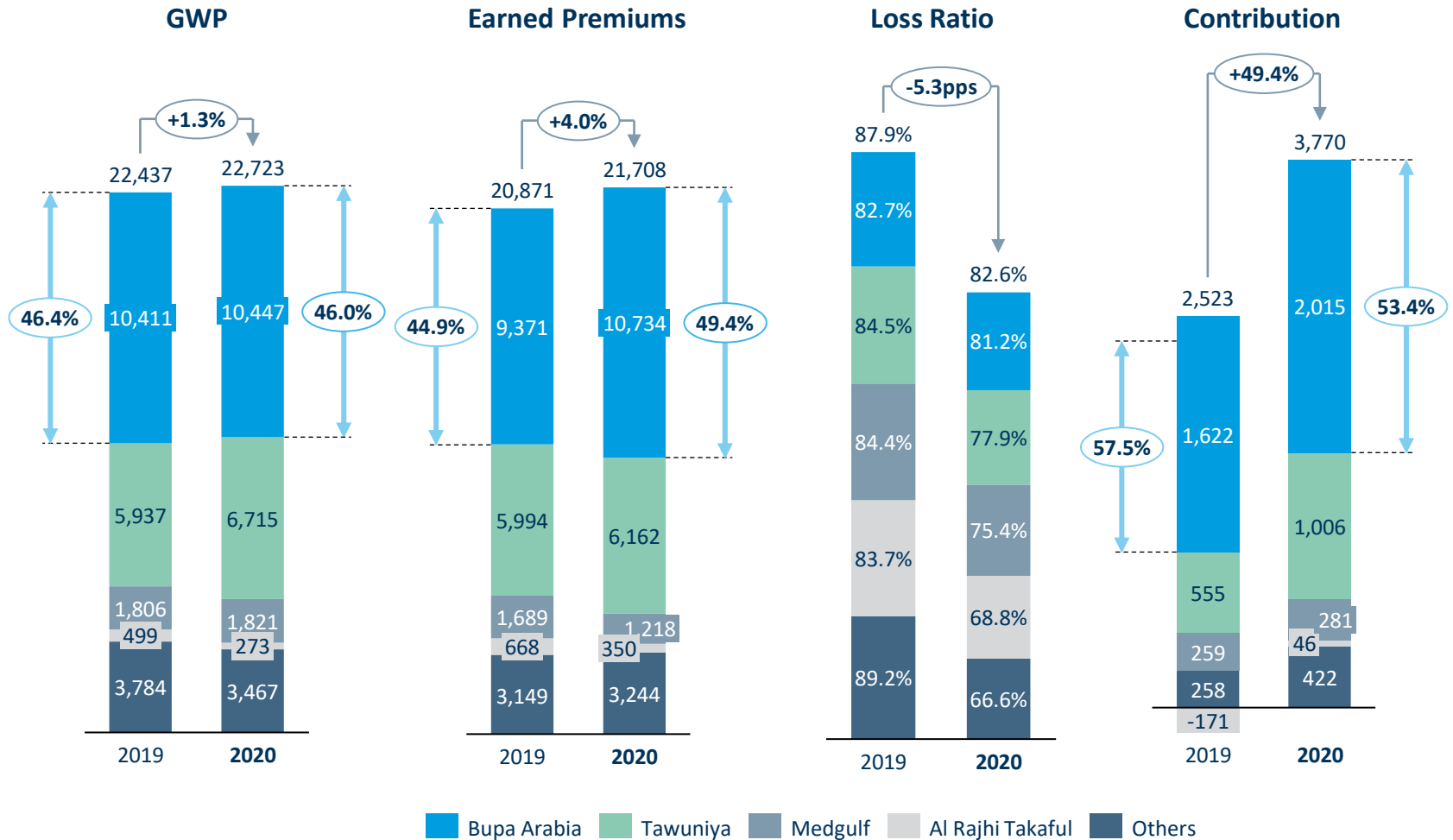
<sup>1</sup> Other segments include mainly Life, Marine, P&C and others

# Health Insurance Market

Large players driving GWP growth, yet loss ratio improvement is at industry level



SR mn



Source: respective insurance companies' filings

## FY 2020 Webcast

Note: Tawuniya 9m 2020 Medical insurance results are inclusive of Umrah product.

INTERNAL

# Health Insurance Market - GWP Segmentation

Bupa Arabia continues to be the preferred health insurer for corporates and SMEs



SR mn

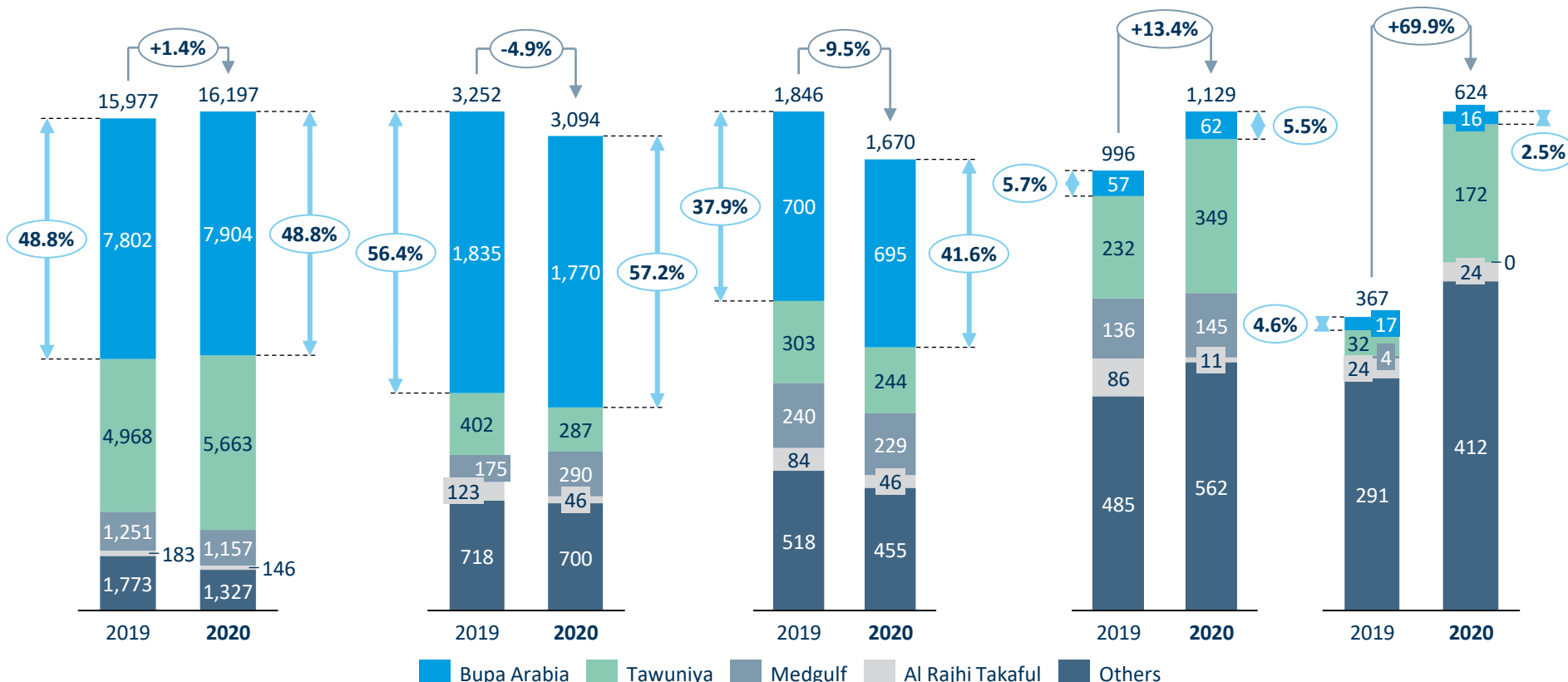
## Corporates<sup>1</sup>

## Medium Enterprises<sup>2</sup>

## Small Enterprises<sup>3</sup>

## Micro Enterprises<sup>4</sup>

## Individuals/Retail



1) Corporates: Number of Employees > 249

2) Medium: Number of Employees 50 – 249

3) Small: Number of Employees 6 – 49

4) Micro: Number of Employees 1 – 5

Source: respective insurance companies' filing

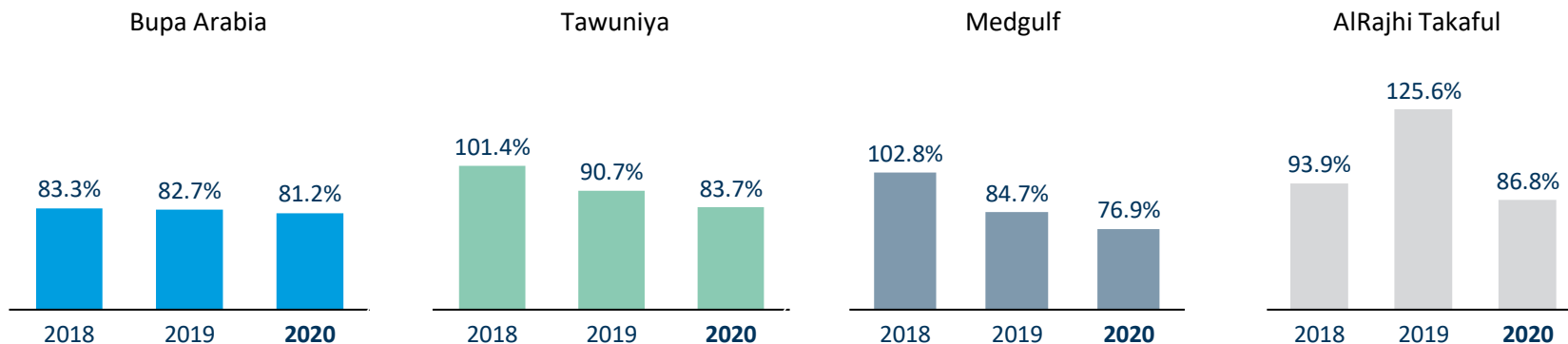


# Loss Ratio and Technical Reserves

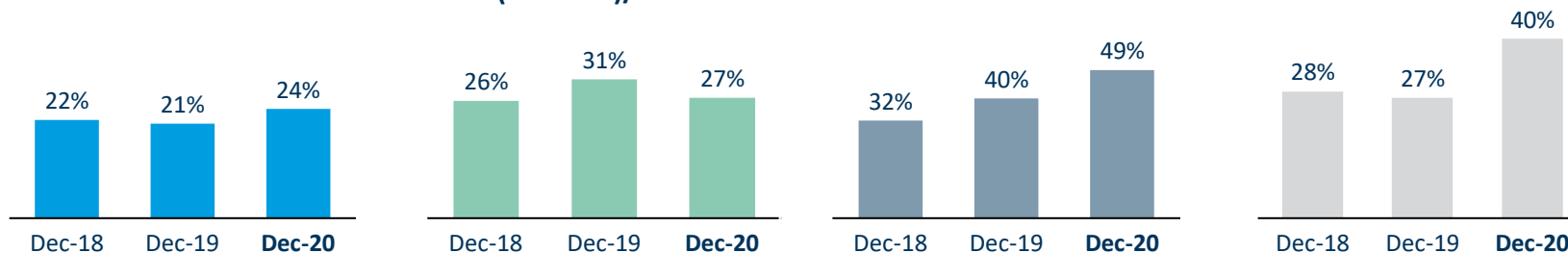
Bupa Arabia reports healthy LR and a slight increase in reserves ratio mainly driven by PDRs



## Loss Ratio – Health Insurance Market

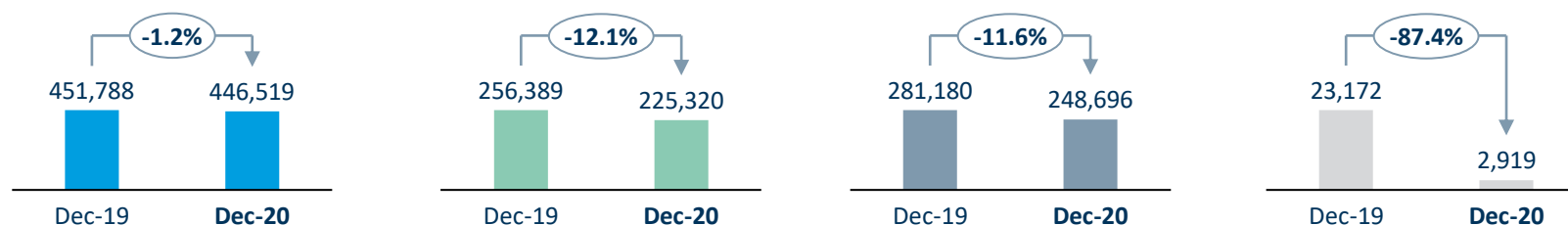


## OCP (reserves)/TTM Claims – Health Insurance Market



## Outstanding Claims <sup>2</sup>

In SAR 000'



### FY 2020 Webcast

Source: respective insurance companies' filings

<sup>1</sup>Inclusive of Premium Deficiency Reserves

<sup>2</sup>Outstanding claims represent claims received from hospitals but not settled yet

INTERNAL

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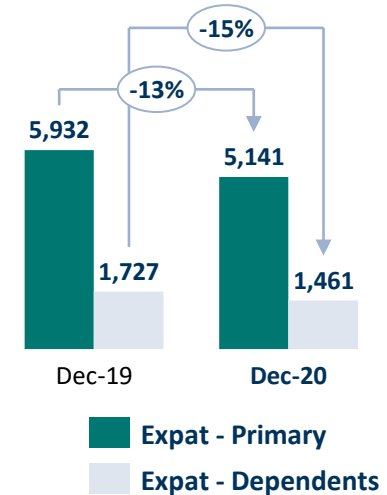
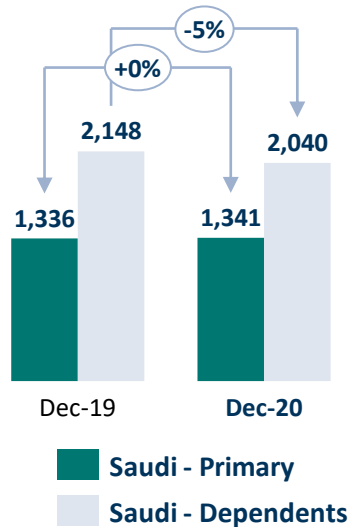
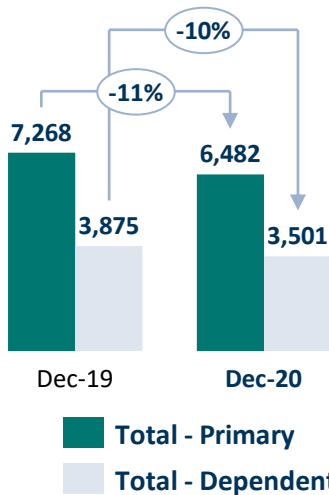
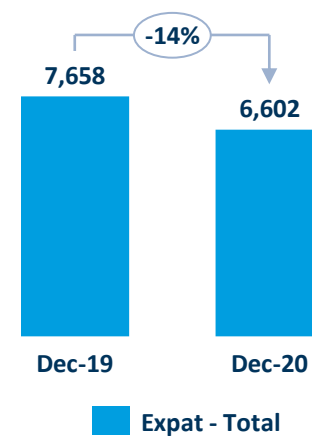
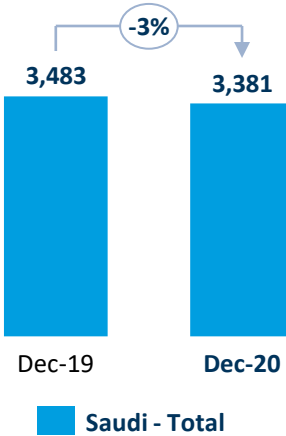
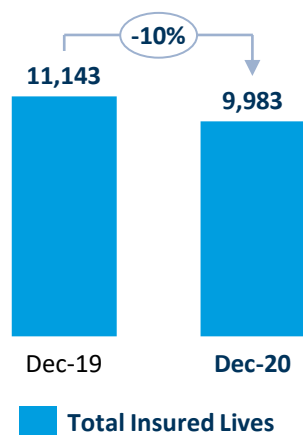
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# Saudi Health Insurance Market Trends (1/2)

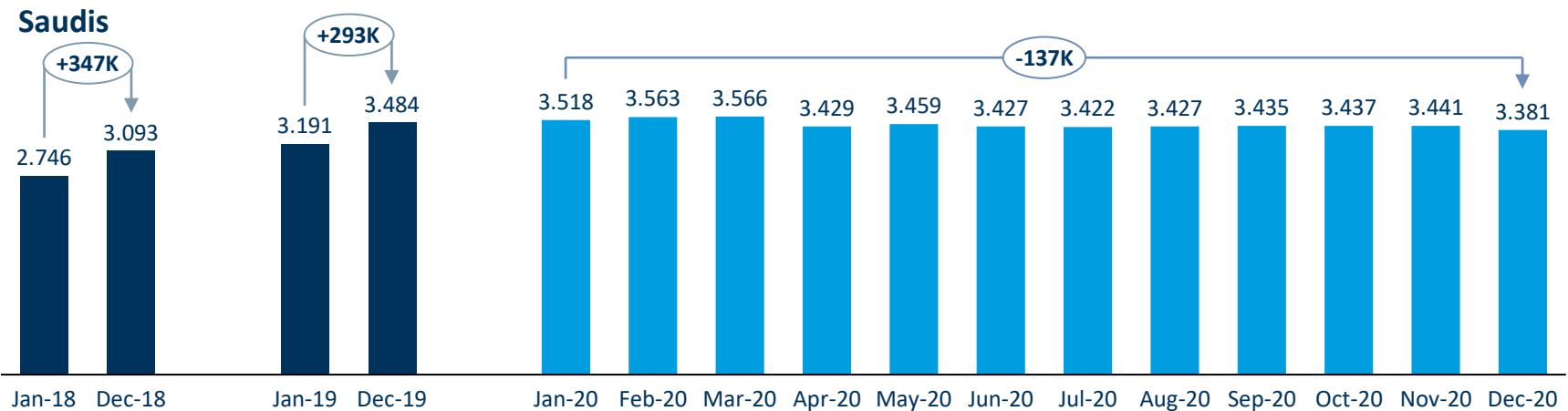
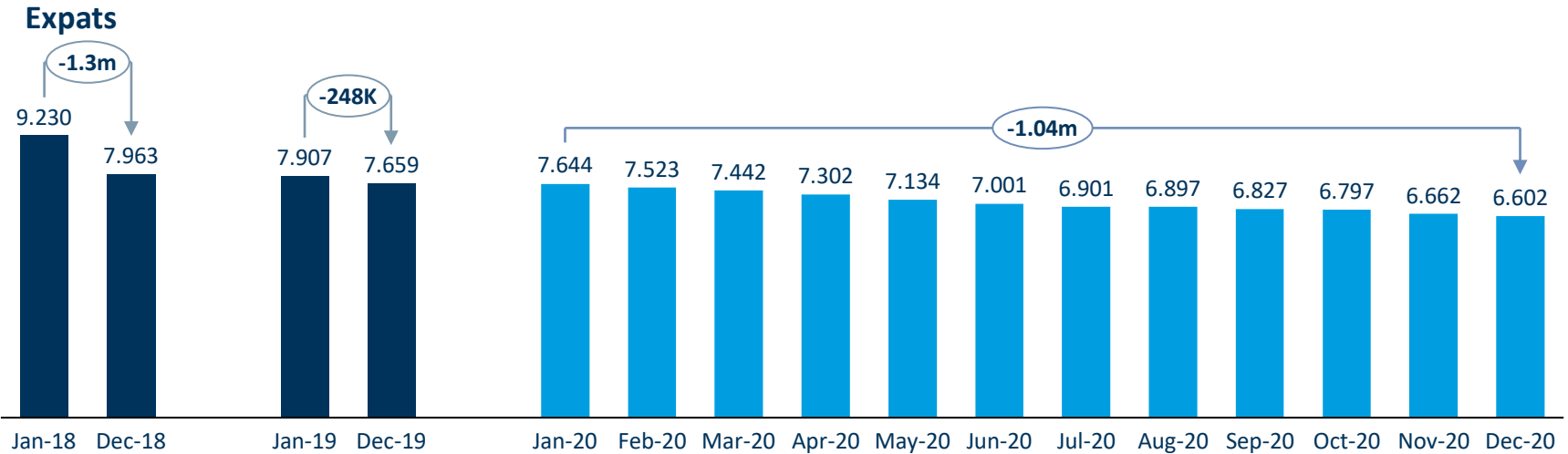
Insured lives decreased by 10% (c.1.16m) YoY driven by expats departure



Source: Stats.gov.sa, GOSI, MoL, CCHI, and Bupa Arabia estimates

# Saudi Health Insurance Market Trends (2/2)

FY20 drop in expats insured lives resembled the exodus levels witnessed in FY18

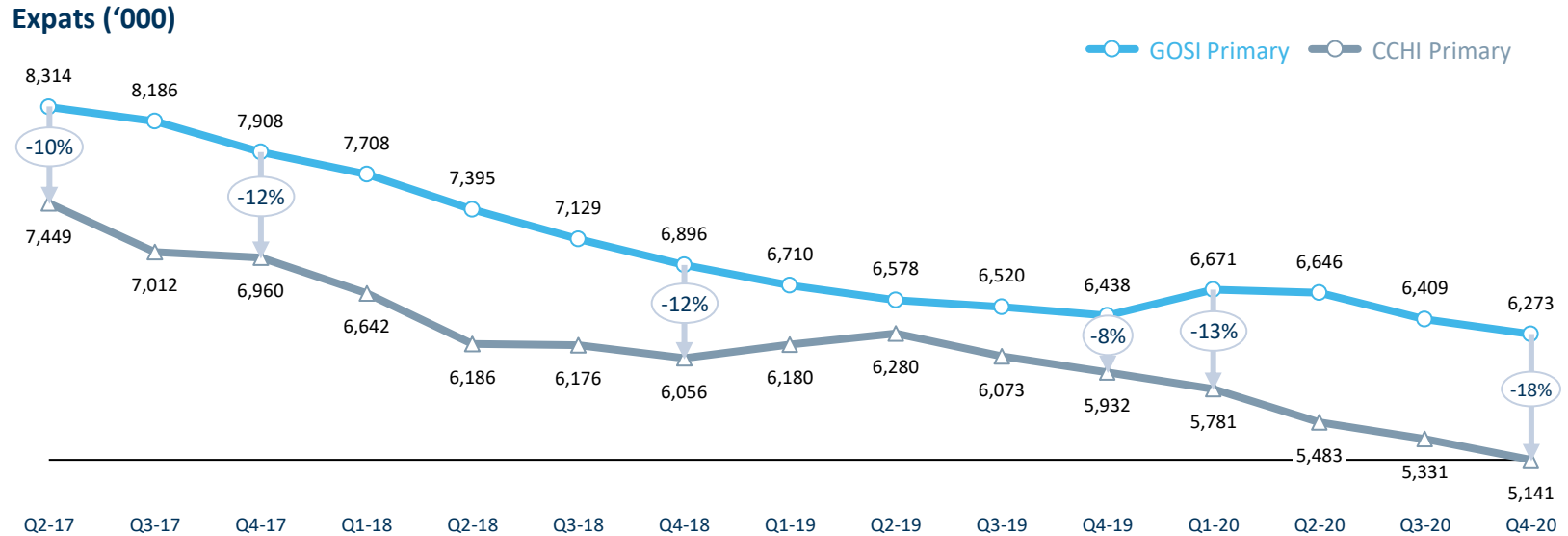
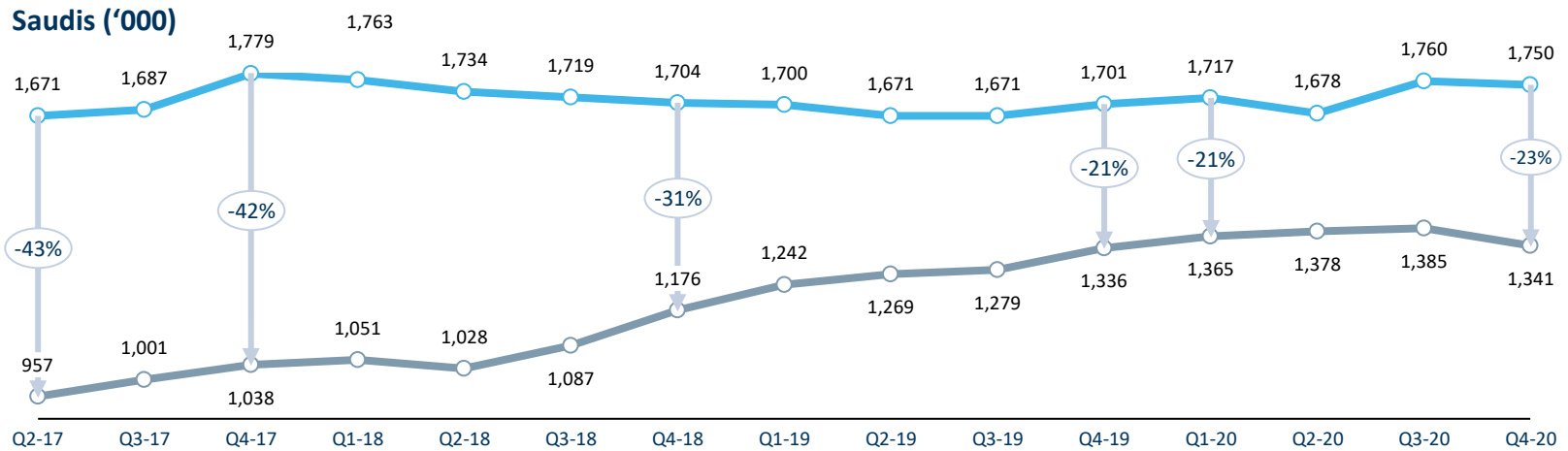


<sup>1</sup>Inclusive of c.200k lives from SEC's population that were uploaded into CCHI portal ahead of the start date of their insurance contract (Jan 2019)

Source: CCHI website

# Gap & Enforcement Explained

Gaps remain in the private sector with ~ 375k primary Saudis without PMI

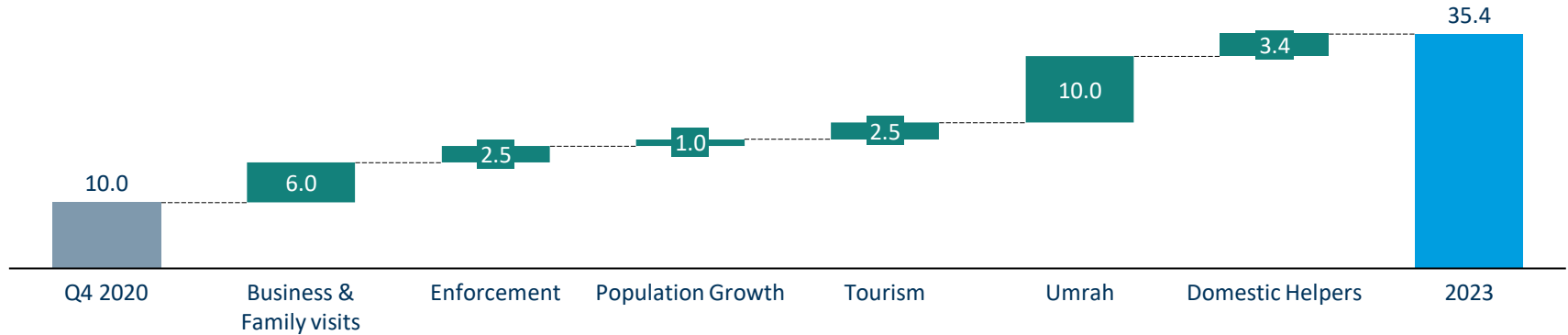


# Future Growth Opportunities in Health Insurance

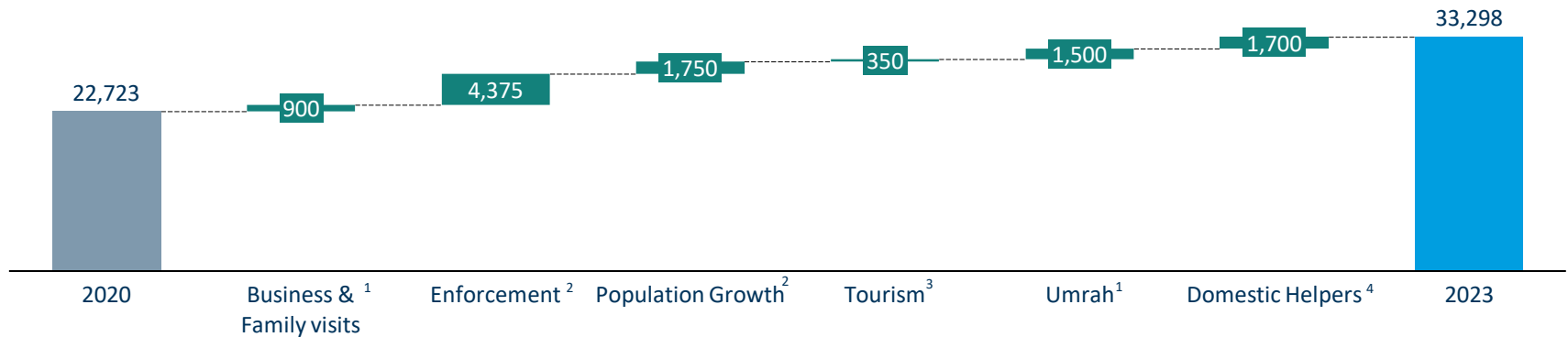
Potential addition of c.25m lives to the private healthcare sector by 2023



## Expected contributors to lead the health insurance growth by 2023



## Total Expected Health GWP (SAR mn)



- 1) GWP/life 100-200 SAR
- 2) GWP/life 1500-2000 SAR
- 3) GWP/life 140 SAR
- 4) GWP/life 400-600 SAR

Source: CCHI data & Bupa estimates

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# Business Highlights



## CCHI Renewal License

Bupa Arabia announced the renewal of health insurance license from CCHI for one year that starts on 15 February 2021 and ends on 15 February 2022



## GAZT Settlement

Bupa Arabia announced that it has reached a final settlement agreement with GAZT for all assessed zakat and income/withholding tax differences for the years 2008 through 2016, and 2018.



## NCB

Bupa Arabia has been awarded as the health insurance provider for the national commercial bank (related party)



## Bupa Arabia Mobile App

The new Bupa Arabia mobile APP will allow members to view their membership details, coverage, hospitals network, Pre-Authorization and claim history



## Sabic Renewal

Bupa Arabia renewed its contract as the health insurance provider for SABIC to provide health insurance for SABIC employees and their families



## BIOL increased ownership

Bupa Investment Oversees Limited (BIOL) increased its total ownership in Bupa Arabia from 39.25% to 43.25%











## Shares reclassification

Bupa Arabia reclassified Bupa Investment Oversees Limited (BIOL) 39.25% stake as a strategic investor on Tadawul - creating additional room for foreign investment



# Other Regulatory Highlights

	<b>Article 11</b>	<p>CCHI recently issued Circular 895, regarding the enforcement of Article 11 of the Cooperative Health Insurance Law, requesting medical insurance companies, effective 1/1/2021, to include all accredited government healthcare providers in their medical network while complying with the approved financial compensation structure</p>
	<b>SAMA</b>	<p>The Saudi Arabian Monetary Authority (SAMA) has changed its name to the Central Bank of Saudi Arabia but will continue to use the abbreviation “SAMA”</p>
	<b>MoH</b>	<p>The Ministry of Health announced that the COVID-19 vaccine will be given for free for all citizens and residents</p>
	<b>E-Invoicing</b>	<p>The General Authority of Zakat and Tax has published a draft of the Electronic Invoicing (‘E-Invoicing’) Regulations aiming to reduce the administrative burdens on taxpayers, increase the level of tax compliance, minimise hidden transactions and reduce anti-commercial concealment</p>
	<b>CMA &amp; MoC</b>	<p>With reference to the Royal Decree No. (15016) dated 03/16/1442 AH regarding the suspension of some provisions of the Companies Law regarding listed joint stock companies, notably the re-appointment of an auditor whose term of appointment has reached five continuous years for two additional years maximum, if the total period does not exceed seven continuous years</p>
	<b>CCHI</b>	<p>CCHI and NHIC have partnered to launch a unified electronic services platform led by the Sehati Company called NPHIS (National Platform for Health and Insurance Exchange Services) aiming to standardize transactions between healthcare providers and insurance using latest technologies</p>
	<b>Premium Deficiency Reserves</b>	<p>SAMA Circular dated 20/07/2020 requesting insurance companies to consider additional reporting requirements in relation to “the impact of deferral of Medical claims to future periods” for Q2 2020 onwards and until further notice</p>
	<b>15% VAT</b>	<p>The Ministry of Finance on 10 May 2020 announced an increase to the value added tax (VAT) rate to 15% (from the current rate of 5%) effective 1 July 2020</p>

# Achievements & Awards

**Brand Finance**<sup>®</sup>

## Brand Finance 2021 Ranking

- The strongest brand in Saudi Arabia in 2020 and 2021

**Forbes**

## Forbes List 2021

- Tal Nazer ranked as one of the top 100 CEO in the Middle East 2021
- Bupa Arabia is the most valuable insurance company in the Middle East
- Bupa Arabia ranked #66 in the Middle East's top 100 companies in 2020

**International Business** MAGAZINE

## International Business Magazine Awards 2021

- Health Insurance company of the year 2020 and 2021 - Saudi Arabia



## 7<sup>th</sup> Middle East Insurance Industry Awards

- Best Health Insurance Company of the year 2020



## Global Business Outlook Awards

- Best Healthcare Insurance Service Provider - Saudi Arabia 2020
- Best Digital Innovation in the Insurance Sector - Saudi Arabia 2020



## International Finance Magazine Awards

- Best Health Insurance Company – Saudi Arabia 2020
- Best Investor Relations Insurance Company – Saudi Arabia 2020



## The 3rd Annual Cosmopolitan The Daily Business Awards 2020

- Best Insurance Company - Saudi Arabia 2020



## Kingdom's Top 20 Most Talked About Brands

- Ranked #8

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# Comprehensive Regulatory Updates

Newly introduced Article 11, NPHIES & updated Vaccine list are expected to impact the insurance industry



## Article 11

CCHI recently issued **Circular 895**, dated 17/12/2020, regarding the enforcement of Article 11 of the Cooperative Health Insurance Law, requesting medical insurance companies, **effective 1/1/2021**, to include all accredited government healthcare providers in their medical network while complying with the **approved financial compensation structure**.

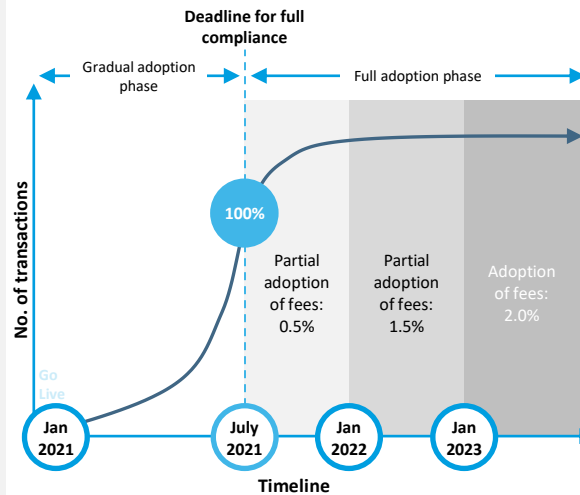
Segment	Impact on Saudi Rates
High-End	1.4%*
Medium	11.6%
Low-End	90.1%
Overall	19.8%
<b>Expected Increase on current Expts Rate</b>	<b>2.5%</b>

*Disclaimer: \*Article 11 impact on Saudi rates in high-end segment may reach higher than 2% subject to public providers' readiness and full enrolment into the private healthcare networks*



## NPHIES

CCHI and NHIC have partnered to launch a unified electronic services platform led by the Sehati Company called NPHIS (National Platform for Health and Insurance Exchange Services), aiming to **standardize transactions between healthcare providers and insurance companies** (with equally shared fees, changing between 0.5%-2%).



## Updated Vaccine List

Ministry of Health has **updated the basic list of vaccines**, as a result all insurers should cover those newly added vaccines, which projects an impact of 0.5% on the health industry claims.

**National Immunization Schedule**

دول التطعيمات الوطنية للتأمين

Ministry of Health

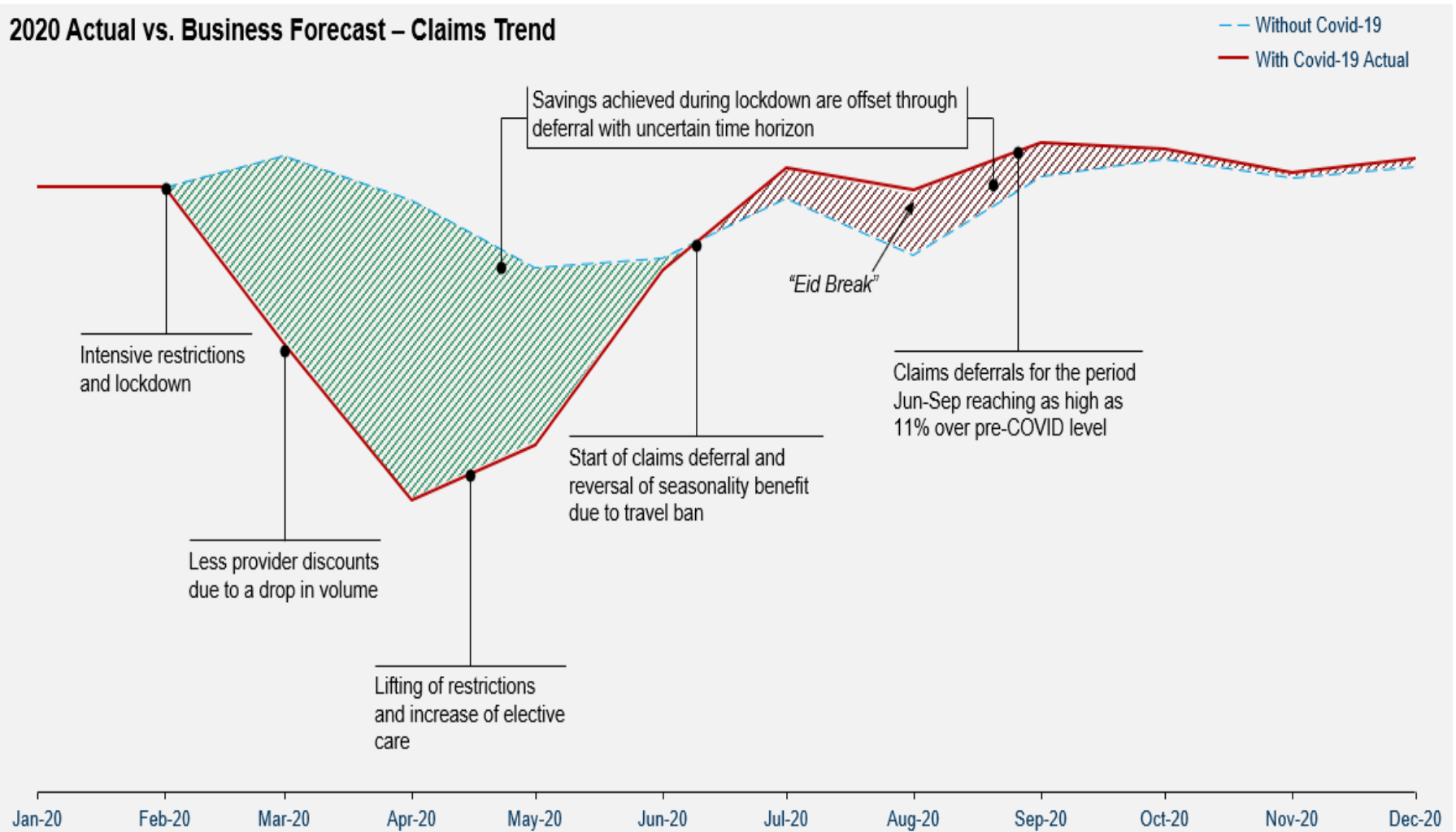
Table with columns for Vaccine Name, Age Group, and Schedule.

# Claims Behavior with COVID-19

*On annualized basis, short-term drop-in claims due to intensive restrictions will be offset by deferrals over a prolonged period to extend beyond Dec2020*



## 2020 Actual vs. Business Forecast – Claims Trend



Source(s): Bupa Arabia Analysis

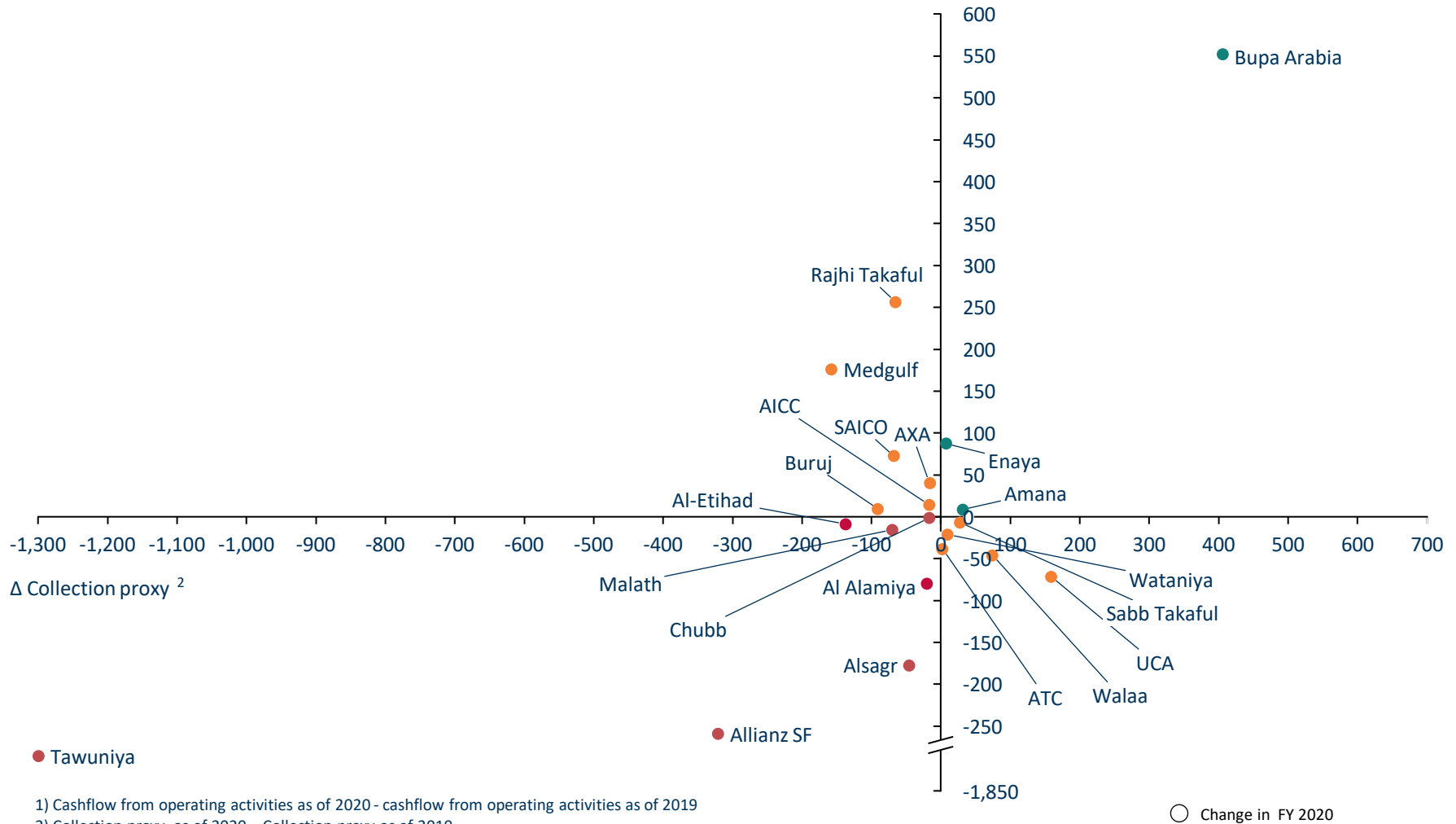
# Insurance Sector's Collection and Cashflow Analysis

Majority of the insurance companies struggling with weaker collections highly impacting their cash flow from operating activities and suggesting higher credit risk



SARm

Δ Cashflow from Operating Activities<sup>1</sup>



1) Cashflow from operating activities as of 2020 - cashflow from operating activities as of 2019

2) Collection proxy as of 2020 – Collection proxy as of 2019

# Questions & Answers

## Speakers:

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# Premium Deficiency Reserve (PDR) and Deferred Acquisition Cost (DAC) Accounting Standards



**PDR** is a regulatory requirement (US GAAP and other regulations) set to cover the additional emerging losses when the Unearned Premium Reserve (UPR) is deemed not sufficient to cover the unexpired policies' reserve runoff.

**Reference:** ASC 944-60-25-4 (formerly FAS 60 – Par. 33) “A premium deficiency shall be recognized if the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums.”

**DAC** corresponds to the acquisition costs related to the insurers' written premiums which are expended over the term of the policy as premiums are earned. The unearned portion of DAC is capitalized and recognized as an asset on the insurer's balance sheet.

Below are sample calculations:

## Balance sheet impact (GAAP)

Scenario	Unearned premiums	PV total expected costs	DAC	Expected profit/(loss)	Premium deficiency
A	\$10,000	\$7,391	\$2,500	\$109	\$0
B	\$10,000	\$9,701	\$2,500	(\$2,201)	\$2,201
C	\$10,000	\$12,010	\$2,500	(\$4,510)	\$4,510

- $PDR = \text{Unearned premiums} - \text{PV expected costs} - \text{DAC}$ ; when loss is expected on a particular policy

## Calculating premium deficiency (GAAP)

Scenario	DAC balance	Premium deficiency	New DAC balance	PDR liability
A	\$2,500	\$0	\$2,500	-
B	\$2,500	\$2,201	\$299	-
C	\$2,500	\$4,510	-	\$2,010

- If  $\text{DAC balance} > \text{Premium deficiency}$ , then  $\text{New DAC} = \text{DAC balance} - \text{Premium deficiency}$
- If  $\text{DAC balance} < \text{Premium deficiency}$ , then  $\text{PDR liability} = \text{Premium deficiency} - \text{DAC}$

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<b>BDP</b>	Bad Debt Provision
<b>CCHI</b>	Council Of Cooperative Health Insurance
<b>CMA</b>	Capital Market Authority
<b>CMT</b>	Crisis Management Team
<b>CR</b>	Commercial Registration
<b>EBT</b>	Earnings Before Tax
<b>G&amp;A</b>	General And Administrative Expenses
<b>GAZT</b>	General Authority for Zakat and Tax
<b>GOSI</b>	General Organization for Social Insurance
<b>GWP</b>	Gross Written Premium
<b>IFM</b>	International Finance Magazine
<b>KPI</b>	Key Performance Indicator
<b>MoC</b>	Ministry of Commerce
<b>MOE</b>	Ministry of Education
<b>MoH</b>	Ministry of Health
<b>MOL</b>	Ministry of Labor
<b>NEP</b>	Net Earned Premiums
<b>NHIC</b>	National Center for Health Information
<b>OCP</b>	Outstanding Claims Provision (Known As Technical Reserve)
<b>PPS</b>	Percentage Points
<b>Q</b>	Quarter
<b>SAMA</b>	Saudi Arabian Monetary Agency
<b>S&amp;M</b>	Selling And Marketing Expenses
<b>SME</b>	Small & Medium Enterprises
<b>TTM</b>	Trailing Twelve Months
<b>YoY</b>	Year on Year

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# Glossary of terms

## Understanding our Financial Statements

A customer buys a one-year medical insurance policy for SR 5,000 on July 1, 2020. The coverage ends on June 30, 2021. The annual reporting period for the business in this example is for the year ended December 31, 2020.

A	Gross written premium (GWP)	5,000		When a customer buys a health insurance policy on July 1, the total premium for the duration of the contract assuming no additions or deletion is SR 5,000. This amount is classified as Gross Written Premium (GWP). Market share is measured using GWP.
B	Premiums ceded to reinsurers	-50	A*Reinsurance rate	The portion of risk that is transferred to a reinsurance company in exchange for a stated premium. In this case the reinsurer has been paid SR 50 and will be responsible for a specified risk according to the agreement with the reinsurer (reinsurance is mandatory per SAMA regulations)
C	Net written premium (NWP)	4950	A-B	The total value of the written premium that will be earned by the insurer during the duration of the contract (12 months) between July 1, 2020 and June 30, 2021
D	Unearned premium (UEP)	2475	C*50%	The portion of the premium that has not been earned in the reporting period and is recorded as a liability on the insurer's balance sheet. Since the contract was written on 1 July 2020, only half of the premium is earned in 2020
E	Net earned premium (NEP)	2475	C*50%	The net earned portion represents the expired i.e. completed amount of the net written premium; The portion of the total premium that was exposed to a potential claim loss during the completed period. If a customer is enrolled mid-year, as is the case in this example, then half of the exposure will be in the year he enrolled (2020 ) and half will be reflected in the year after (2021)

# Glossary of terms



F	Gross claims paid	1825		<p>The actual amount of all paid claims on behalf of the customers. There are two types of claims;</p> <ol style="list-style-type: none"> <li>1. Provider claims on direct billing and to be refunded to the customer</li> <li>2. Reimbursement claims requested by the member</li> </ol> <p>A claim is a request for payment received by the insurer to pay for services that were provided by a health care professional to an insured member. A claim may be sent by a medical provider at which the treatment was offered as a provider claim, or directly submitted by the insured member as a reimbursement claim.</p>
G	Reinsurance share	-25	F*%	<p>The portion of claims the reinsurers are responsible for in exchange for certain premium (as mentioned in Reinsurance ceded -B)</p>
H	Net claims paid	1800	F-G	<p>Net amounts paid for claims requests after deducting the reinsurer's share</p>
I	Outstanding claims provision (OCP)	200	Based on actuarial estimates	<p>The outstanding claims provision includes the "Incurred But Not Reported" claims (IBNR), which is defined as all claims that have taken place but have not been reported yet, either because the claim was not yet received by the insurer, or it has been received but not yet processed or paid by the insurer. This is also referred to as an insurer's claims reserve, and is recorded as a liability on the insurer's balance sheet. Before final payment to providers, the insurer adjudicates the claims. This is the process by which the claim is compared to the patient's health plan benefits to verify that the required information is available to process the claim, that the claim is not a duplicate, that the insurer's rules and procedures have been followed, and that the procedures performed or the services provided are for covered benefits</p>

# Glossary of terms

J	Net claims incurred	2000	H+I	All payment requests received from hospitals or members to pay for a certain service or projected to be received for the duration of the earned portion of the contract (July 1, 2020 to Dec 31, 2020)
K	Underwriting result (Contribution)	475	E-J	The surplus of net earned premium less net claims incurred is the contribution. It measures profitability of the policy before accounting for overhead costs.
L	Costs and expenses	250		Includes selling & marketing, general & administration expenses, and regulatory levies, etc.
M	Underlying trading results	725	K-L (excluding non-recurring item)	The total profit excluding one-time charges and investment income
N	Surplus from insurance operations	225	K-L	The excess amounts from the earned premium less the medical costs and all expenses (including non-recurring items) plus other income (i.e. insurance operations, investment income and all other sundry income)
O	Distribution of surplus (Cooperative Distribution)	22.5	N*10%	The SAMA regulatory required surplus to be distributed to policyholders is 10% of the surplus from insurance operations and the full surplus is distributed as follows: <ul style="list-style-type: none"> <li>• Transfer to Policyholders' payables 10%</li> <li>• Transfer to Shareholders' operation 90%</li> </ul>
<b>Ratios</b>				
	Loss ratio (LR)	81%	J/E	The net claims incurred divided by the net earned premium. It measures the % of medical claims cost versus the earned portion of all policyholders
	Expense ratio	10%	L/E	The operating expenses divided by the net earned premium
	Combined ratio	91%	(J+L)/E	The loss ratio plus the expense ratio. It is a proxy for the surplus from insurance operations

# Glossary of terms



## Understanding Bupa Arabia's Balance Sheet

Goodwill	Goodwill represents the intangible asset which resulted from the Bupa Arabia purchase of the Saudi Health insurance portfolio from Bupa Middle East Limited E.C. in accordance with the assessment by SAMA and the prescribed SAMA guidelines of 2008. The insurance portfolio transfer agreement was completed during 2009
Fixed Assets	Fixed assets include the company's investment in new retail outlets, IT, and fixtures, equipment, machinery, etc.
Cash & Investments	All cash in the banks, investments, and statutory deposits
Working Capital	The working capital represents the operating liquidity available to the organization. The current assets include the receivables, net of bad debt provision, deferred acquisition costs, and other pre-paid expenses. The current liabilities include the technical reserves of outstanding claims provision (OCP) and unearned premium (UEP) and other accrued liabilities. Unlike many businesses, working capital is not favourable in an insurance business. This is because the premium is usually received before the claims liabilities are incurred and ultimately paid
Equity	Shareholders' equity represents the paid up capital, plus retained earnings, statutory reserve, and is net of accumulated Zakat/Income tax charges since inception
Borrowings	Generally speaking, insurance companies do not need the support of bank borrowings due to the favourable funding of working capital by customers

# THANK YOU



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