

A blurred background image of an office desk. On the desk, there is a laptop, a stack of books and notebooks, a pen, and a smartphone. The scene is lit with soft, natural light from a window in the background.

# **Bupa Arabia Q2 2018 Earnings Conference Call and Webcast**

August 30, 2018

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# Chief Executive Team

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



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



**Ali F. Hamdan**  
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)



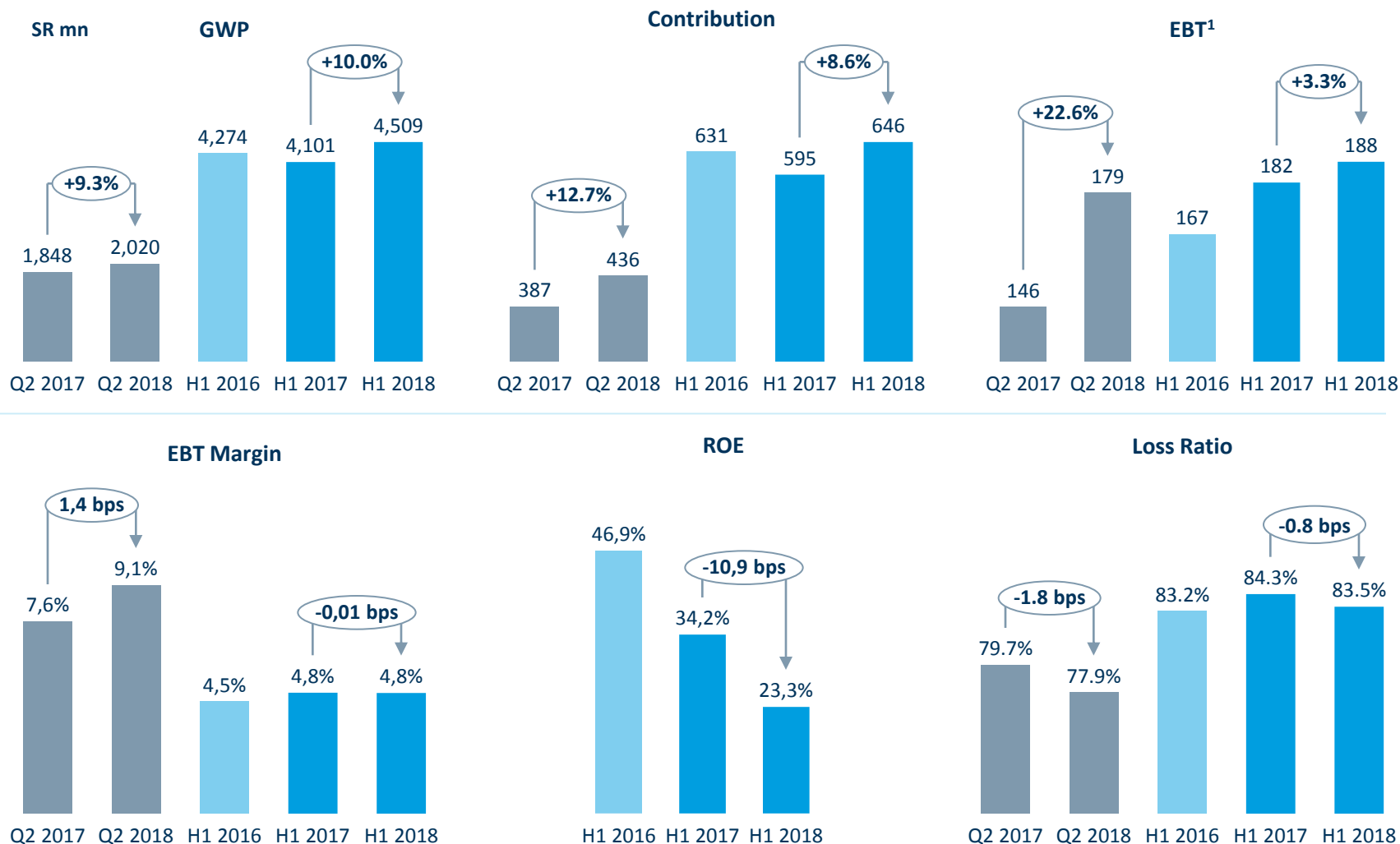
**Atef Mufti**  
Chief Sales Officer  
(CSO)

\*Today's speakers

- Financial Performance
- Market Outlook
- Other Highlights
- Abbreviations & Glossary

# KPIs (1/2)

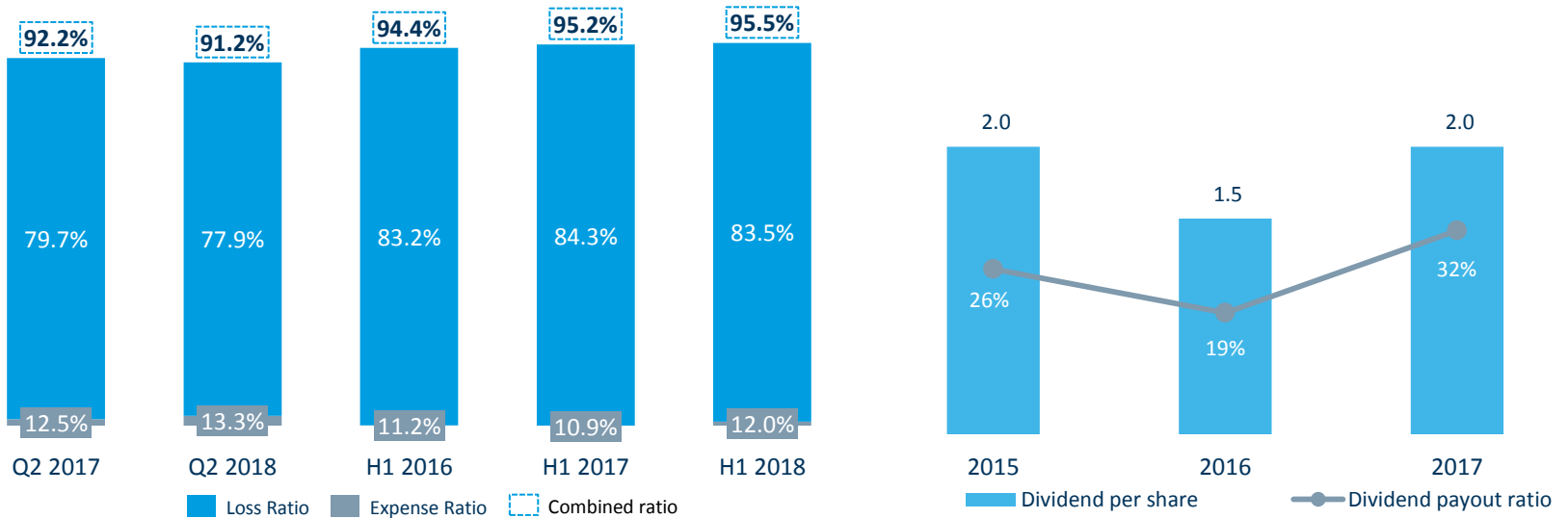
## H1 2018 reports healthy GWP, contribution and loss ratio



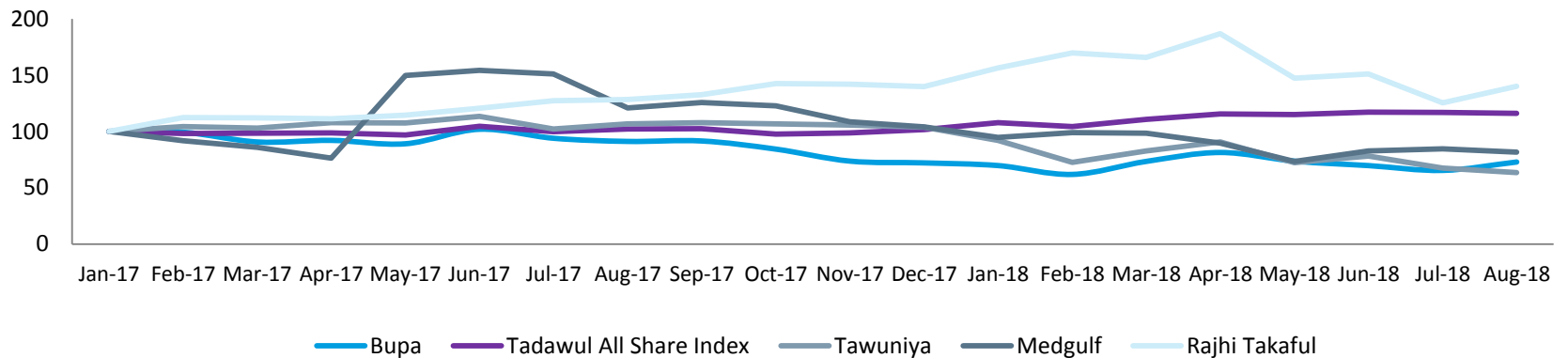
<sup>1</sup>Earnings Before Taxes and Zakat or EBT represent net income attributed to the shareholders

# KPIs (2/2)

Stable combined ratio YoY and higher dividend payout



Share Performance Against TASI (100 basis point)

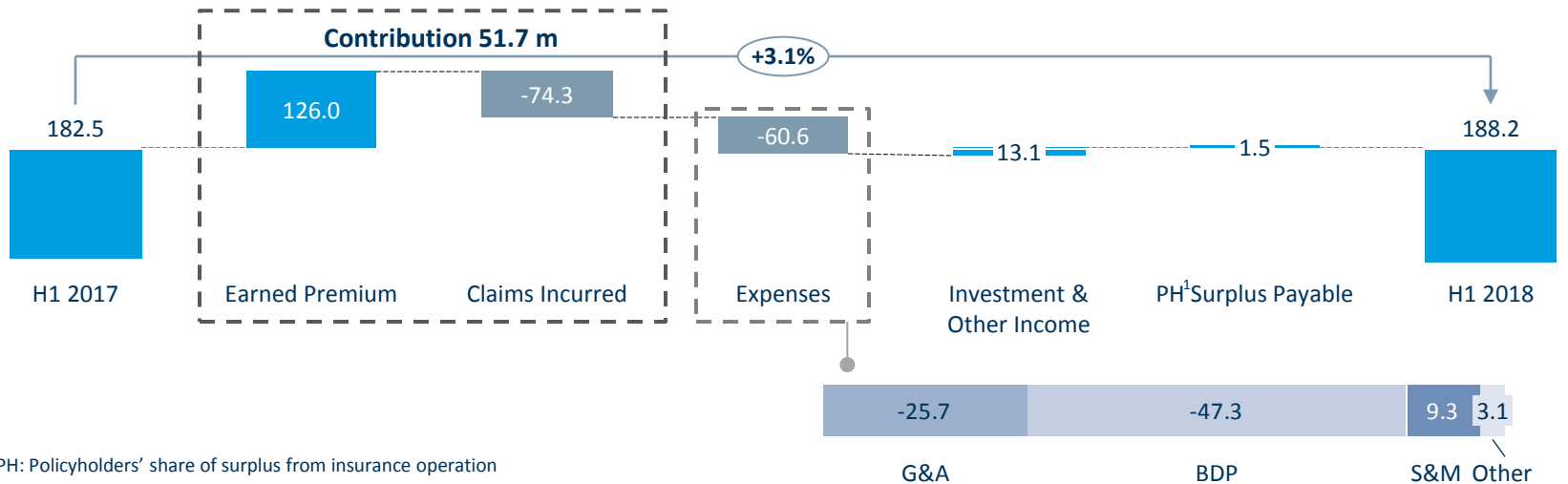
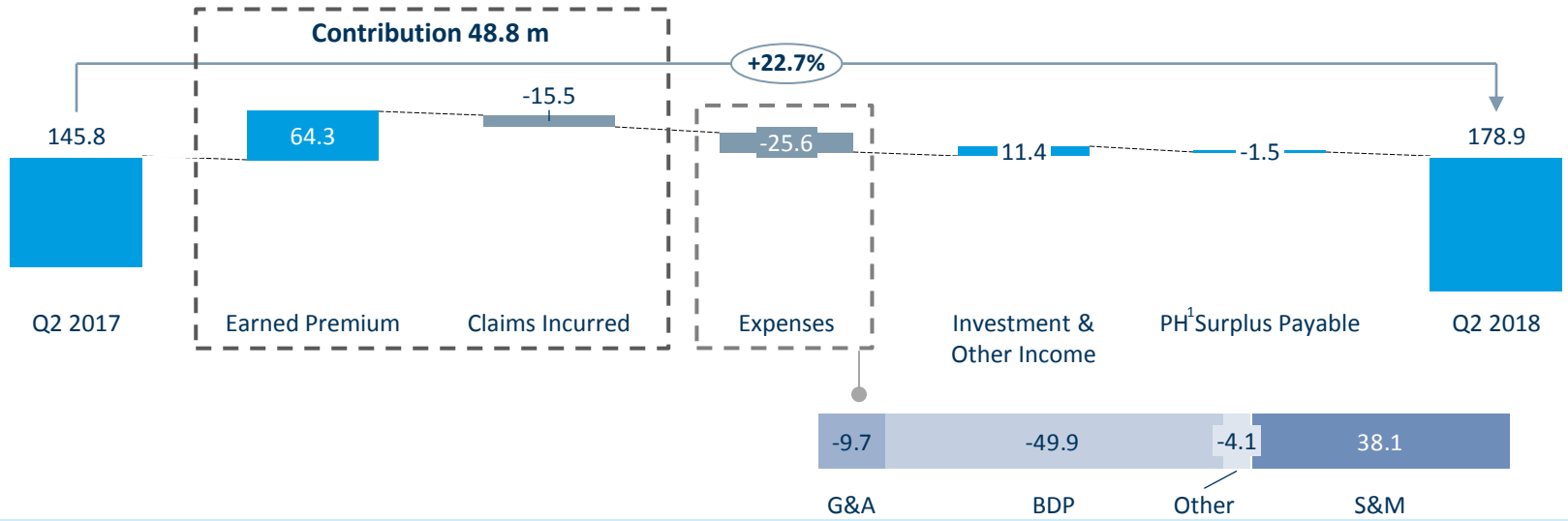


Source: Tadawul & Argaam.com

Note: Share prices for Aug 18 are as of 7 August 2018

# EBT SR m

## EBT on the rise through favorable contribution and investment income



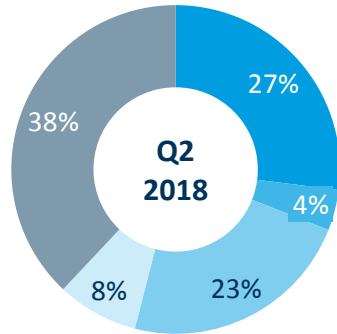
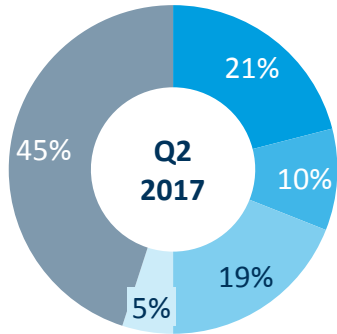
<sup>1</sup>PH: Policyholders' share of surplus from insurance operation

# Market Share and Positioning

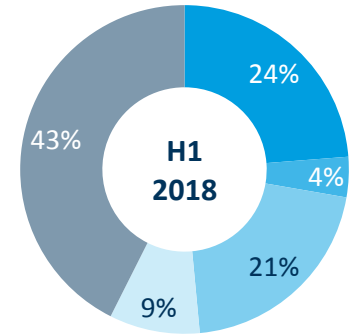
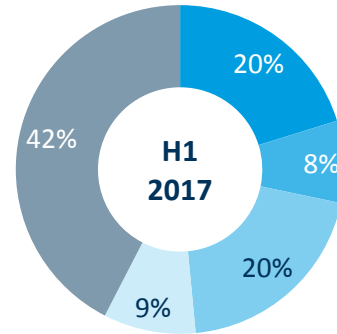
*Bupa Arabia is leading the Saudi health insurance market as of H1 2018*



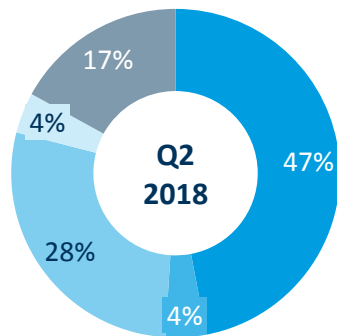
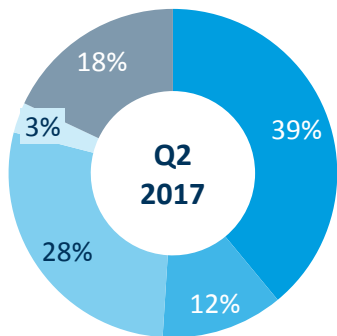
**Total Insurance Market Share**



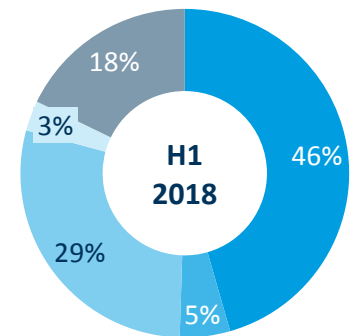
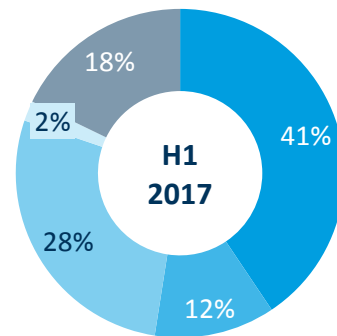
**Total Insurance Market Share**



**Health Insurance Market Share**



**Health Insurance Market Share**



■ Bupa 
 ■ Medgulf 
 ■ Tawuniya 
 ■ Al Rajhi Takaful 
 ■ Others

Source: respective insurance companies' filings, and Bupa Arabia estimates

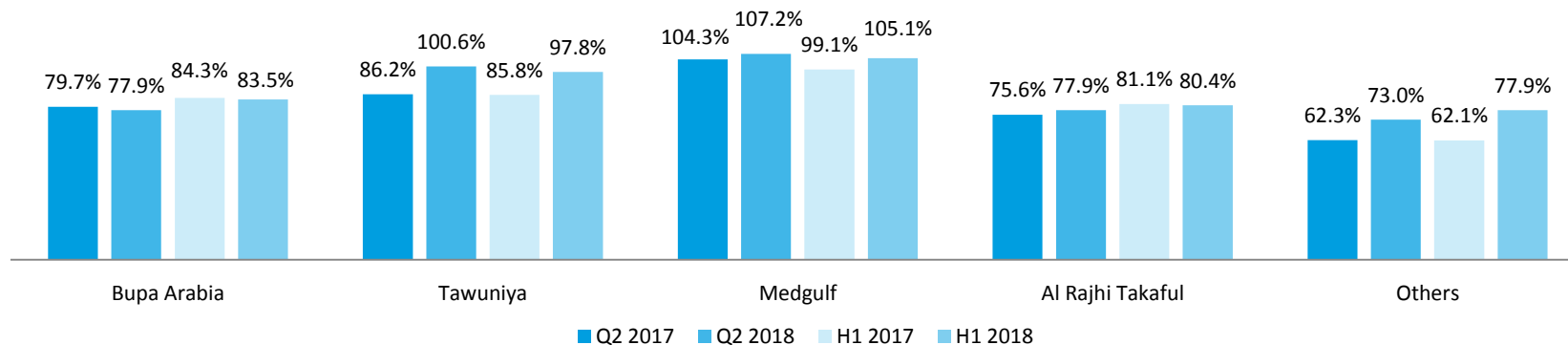


# Loss Ratio and Technical Reserves

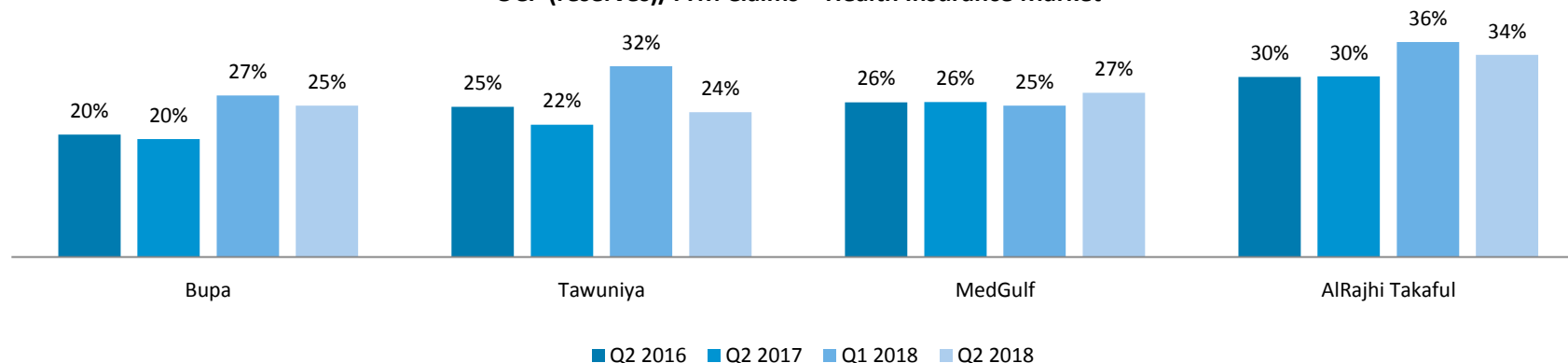
*Bupa Arabia reports favorable loss ratios and reserve profile*



Loss Ratio – Health Insurance Market



OCP (reserves)/TTM Claims – Health Insurance Market



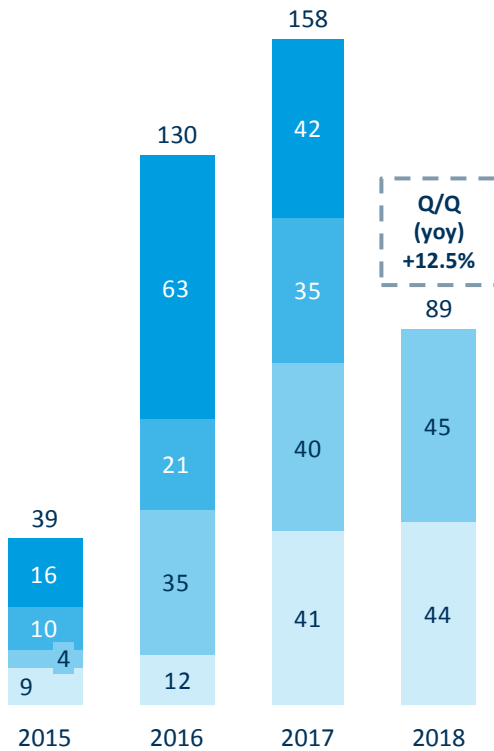
Source: respective insurance companies' filings, and Bupa Arabia estimates

# Investment Portfolio and Results

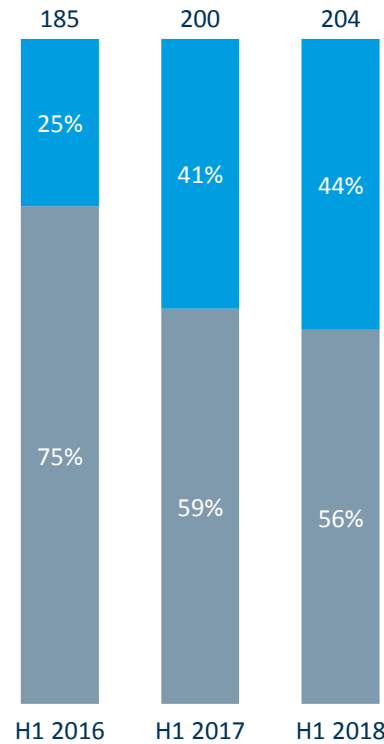
Improved investment income through further portfolio diversification and local equity performance



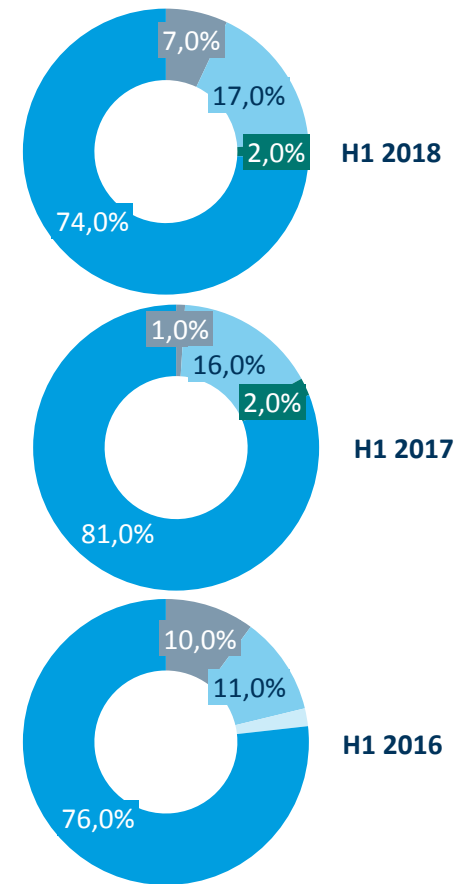
### Investment Income



### Income Breakdown



### Asset Allocation



■ Q4 ■ Q3 ■ Q2 ■ Q1

■ Investment Income  
■ Underwriting results

■ Funds ■ Equities  
■ Sukuk ■ Deposit

# Agenda

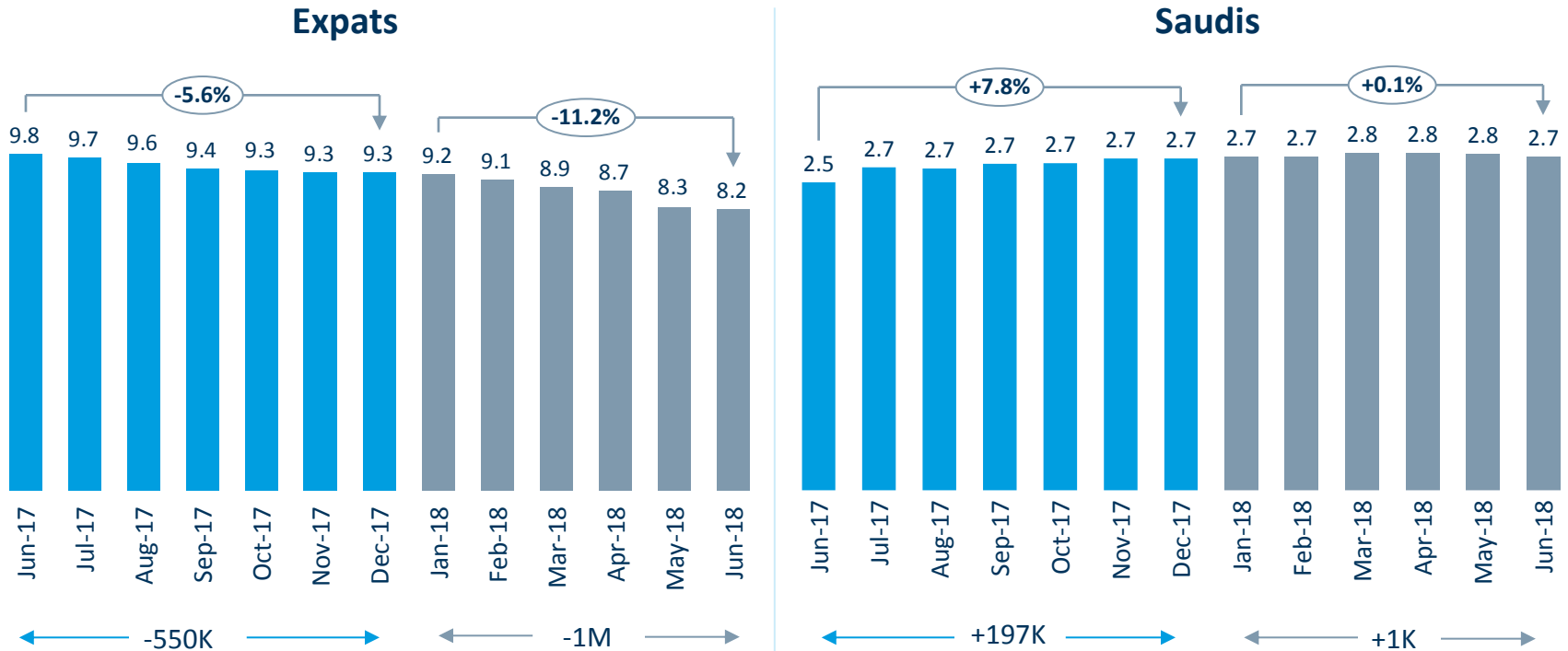
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- Financial Performance
- **Market Outlook**
- Other Highlights
- Abbreviations & Glossary

# Trends of Expats and Saudis in The Saudi Insured Market

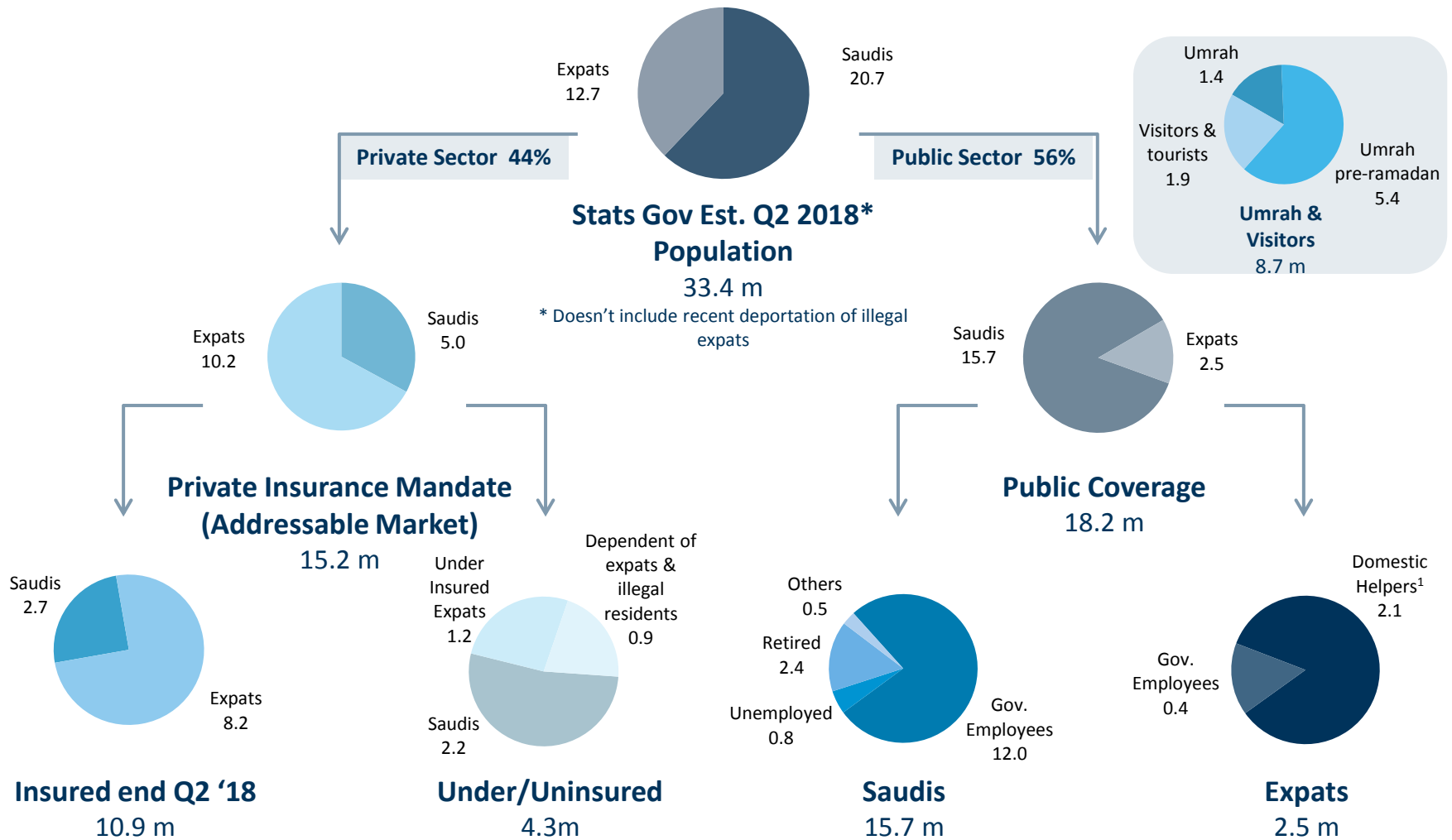
## Expats continued to depart from the insured market at higher rates in 2018



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

# How We See The Health Insurance Market Today (1/2)

## Market provides promising growth opportunity subject to enforcement

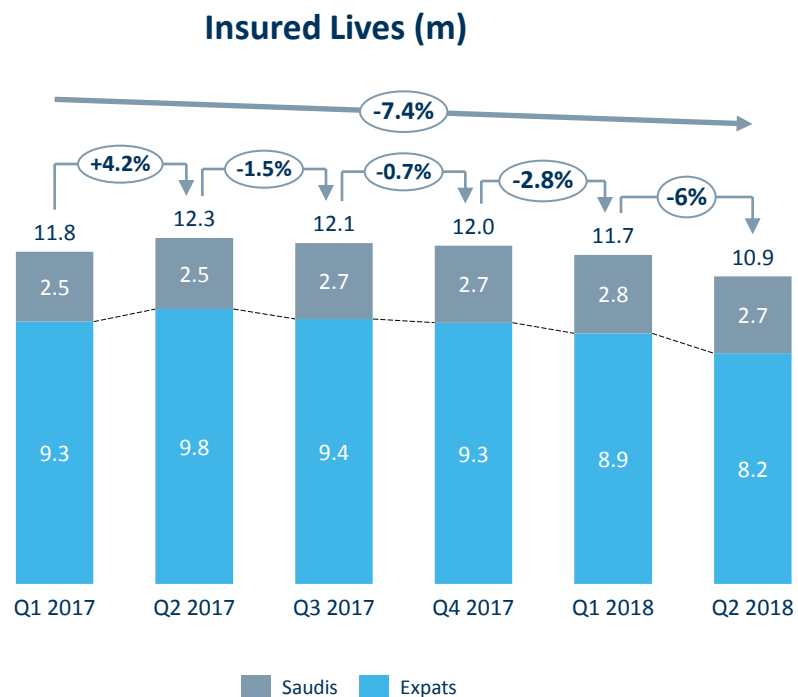
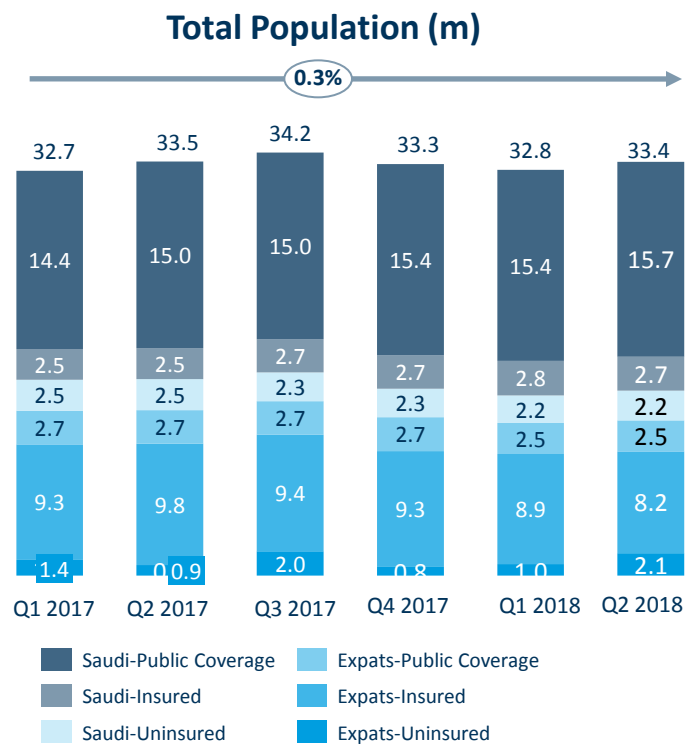


Source: Stats.gov.sa, GOSI, MoL, CCHI, and Bupa Arabia estimates

<sup>1</sup> Not under public coverage but also not under private insurance mandate

# How We See The Health Insurance Market Today (2/2)

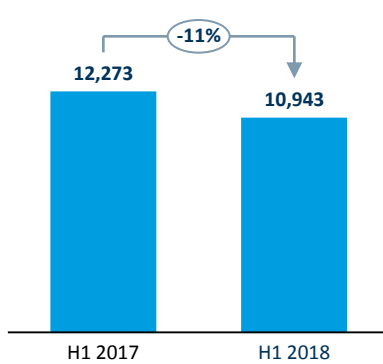
*Slight growth in the Saudi insured lives surpassed by expats departure*



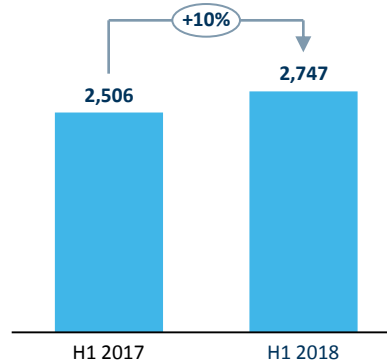
Source: Stats.gov.sa, GOSI, MoL, CCHI, and Bupa Arabia estimates

# Saudi Health Insurance Market Trends (1/2)

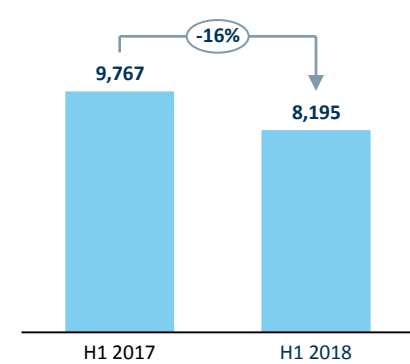
*Expats departure outweighed the inclusion of Saudis into the health insurance market*



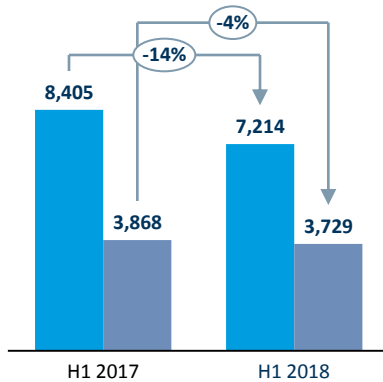
Total Insured Lives



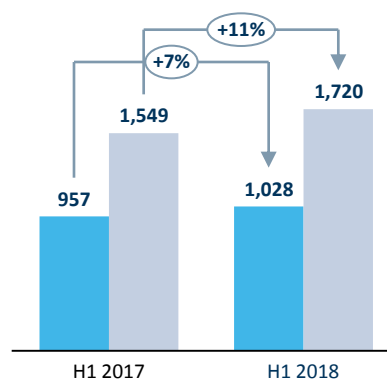
Saudi - Total



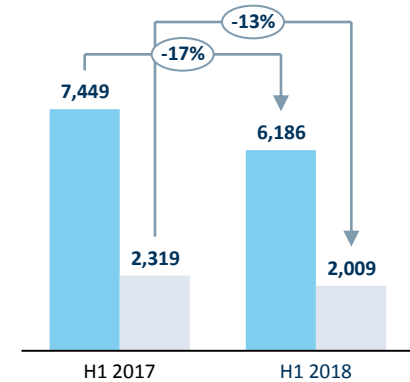
Expat - Total



Total - Primary  
Total - Dependents



Saudi - Primary  
Saudi - Dependents



Expat - Primary  
Expat - Dependents

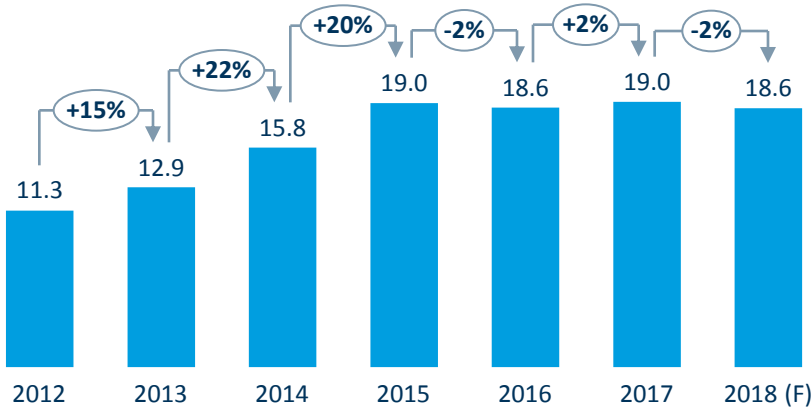
Source: Stats.gov.sa, GOSI, MoL, CCHI, and Bupa Arabia estimates

# Saudi Health Insurance Market Trends (2/2)

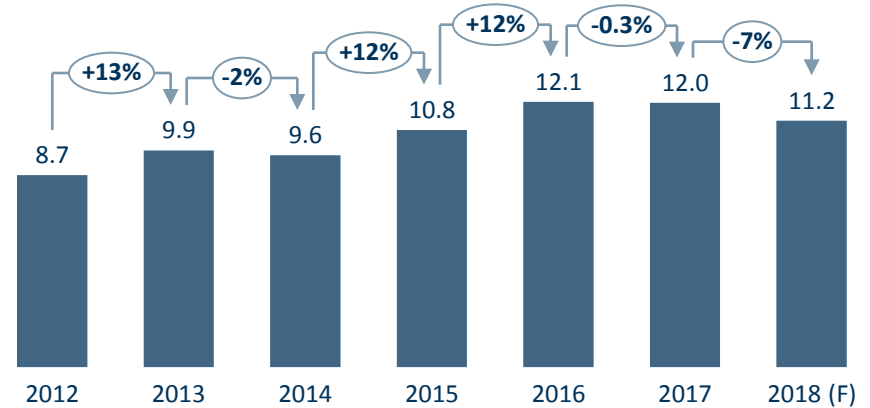
*CCHI's new ToB<sup>1</sup> impact to be washed away by expats departure*



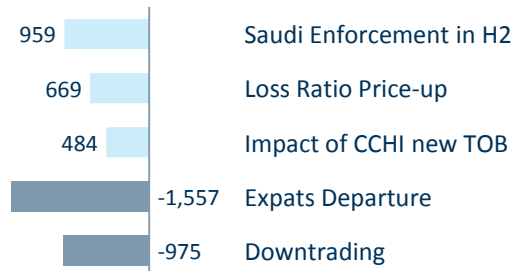
**Total Health GWP (bn)**



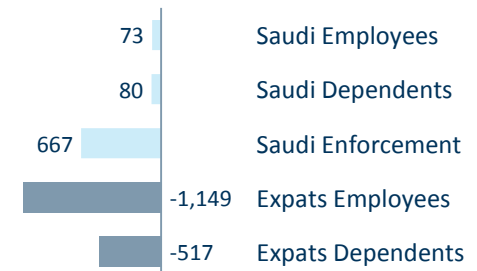
**Total Insured Lives (m)**



**2018 Market Drivers/  
Key Assumptions (m)**



**2018 Market Drivers/  
Key Assumptions (000')**



F= forecast

<sup>1</sup>CCHI updated TOB starting July 2018 to include organ transplantation, Alzheimer's disease, Autism, Heart valves, and Neonatal Early screening

Source : CCHI Annual Reports & Bupa Arabia estimates



# Agenda

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- Financial Performance
- Market Outlook
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# Other Highlights

- 1



Bupa Group

Bupa Group increased its stake in Bupa Arabia by 5% from 34.25% to 39.25%
  
- 2



MOH Contracts

Cancellation of MOH contracts limited to medical facilities affiliated with the ministry with discussion underway to restore relationship
  
- 3



Foreign Ownership

Foreign ownership limit increased exceptionally to 60% allowing for Bupa Arabia's stock inclusion in the Emerging Markets indices
  
- 4



400 m Capital Increase

Bupa Arabia's BOD has recently recommended an increase in the capital of the company through issuing of 1 bonus share for every 2 shares held<sup>1</sup>

<sup>1</sup>The proposed increase in capital will only be initiated once all necessary approvals are received from all the required official authorities, as well as subject thereafter to the approval from the shareholders in the Extraordinary General Assembly Meeting (EGM)

# Agenda

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# Abbreviations

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<b>BDP</b>	Bad debt provision
<b>BOD</b>	Board of Directors
<b>Bps</b>	Basis points
<b>DAC</b>	Deferred acquisition costs
<b>EBT</b>	Earnings before tax
<b>EGM</b>	Extraordinary general assembly meeting
<b>FVIS</b>	Fair value through income statement
<b>G&amp;A</b>	General and administrative expenses
<b>GWP</b>	Gross written premium
<b>KPI</b>	Key performance indicator
<b>NEP</b>	Net earned premiums
<b>OCP</b>	Outstanding claims provision (known as technical reserve)
<b>ROE</b>	Return on equity
<b>S&amp;M</b>	Selling and marketing expenses

# Glossary of terms

## Understanding our Financial Statements

A customer buys a one-year medical insurance policy for SR 5,000 on July 1, 2017. The coverage ends on June 30, 2018. The annual reporting period for the business in this example is for the year ended December 31, 2017.

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, 2017 and June 30, 2018
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 2017, only half of the premium is earned in 2017
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 (2017) and half will be reflected in the year after (2018)

# 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, 2017 to Dec 31, 2017)
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
	Return on Equity (ROE)			ROE is trailing twelve months net income after tax / average equity

# Glossary of terms

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## 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

## **Bupa Arabia**

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