



# The New Saudi Arabian Insurance Law: IPO, Valuation, and Asset Management

---

June 2004

1<sup>st</sup> Saudi Insurance Forum

# Contents

---

- Section I: The IPO Process
- Section II: Valuation
- Section III: Costs
- Section IV: Asset Management For Insurance Companies

## Before Getting Started You Will Need to ...

---

- Appoint your advisors:
  - financial advisors
  - legal advisor
  - actuary
  - accountant

## Your Financial Advisor Will ...

---

- Assist in Restructuring:
  - Legal and financial restructuring: Saudi incorporation / Capital Structure
  - Management restructuring
  - Business restructuring: mergers/acquisitions – agents/brokers
  - Shareholder restructuring
  - Formalizing an independent BOD
- Assist with the appointment of other advisors

## Your Financial Advisor Will ...

---

- Co-ordinate the activities of advisors once they are on board
- Advise on the pricing of the shares
- Advise on the best method, size, and timing of the offering
- Act as an interface with the market and potential investors
- Assess current market conditions and provide vital feedback on investors' likely response to the issue
- Publish initial coverage research report on the company
- Actively market the shares to potential investors

## Your Financial Advisor Will ...

---

- Put in place market-related arrangements such as:
  - placing agreements
  - stabilization plans
- Continue to work with you after the flotation to maintain shares' liquidity and profile in the after-market

## Your Legal Advisor Will ...

---

- Perform Legal Due Diligence
- Oversee the changes to the company's articles of association and directors' contracts
- Draft prospectus
- Prepare 'verification' questions, which are used to confirm that every single statement in the prospectus can be justified as fact
- Draw share option schemes for staff, to be introduced with the flotation, if needed

## Other Advisors Will ...

---

### **Actuary:**

- Evaluate current insurance portfolio and provisions
- Issue certificate of solvency

### **Reporting Accountant:**

- Perform accounting due diligence
- Prepare a report on projected working capital position over the 12 to 18 months following the flotation

### **Other Advisors:**

- For example, a public relations consultants to maximize the degree of positive awareness of your company and its products or services among both the general public and the professional investment community.

# Timeline

Task	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
<b>Initial Setup and Due Diligence</b>																			
Perform due diligence																			
Application for listing and registration of shares																			
Appoint legal advisor, auditor and actuary																			
<b>Documentation</b>																			
Write the prospectus																			
Write the initial coverage research report																			
<b>Marketing, Distribution and Closing</b>																			
Financial analysts' meeting and road show																			
Generate public interest in the offering																			
Set subscription instructions, terms and timeline																			
<b>Subscription</b>																			
Invitation for subscription																			
Subscription period																			
Allocation																			
Listing																			
<b>Post IPO support</b>																			
Set up investor relations department																			
Maintaining research coverage																			

## New Issues Encountered as a Public Company

---

- Timely and accurate financial reporting to the public
- Obligation to disclose major developments particularly price sensitive information
- Approval of major transaction (e.g. M&A) and disclosure
- Dealing restrictions on insiders in contact with price-sensitive information
- Directors' responsibility to fulfill ongoing listing requirements
- Ongoing costs of listing (e.g. advisors, exchange, investor relations)

## The Valuation Process

---

- Understanding the business
  - Attractiveness of the industry
  - Competitive position within the industry
  - Competitive strategy
  - Execution of the strategy
- Forecasting company financial performance

*Converting Forecasts into Valuation*

- Using the appropriate valuation model
  - Embedded value method
  - Relative valuation models (e.g. P/E, P/BV, P/Net Premiums)
  - Modified embedded value method

# Worldwide Industry Averages

Company	P/E Ratio			Price
	2003A	2004e	2005e	2003A
<b><u>Diversified</u></b>				
Ace Ltd.	9.90	7.80	7.60	1.40
AIG	18.70	16.20	14.40	2.67
Assurant, Inc	10.70	9.50	8.50	1.02
Axis	8.50	8.50	8.20	1.67
Berkshire Hathaway	25.00	23.90	22.40	1.75
Cincinnati Financial	17.90	15.70	14.90	1.16
Hartford Fncl.	12.50	10.00	8.90	1.80
St. Paul Travelers	10.40	9.00	8.20	1.44
XL Capital	35.10	8.10	7.20	1.59
<b>Average</b>	<b>16.50</b>	<b>12.10</b>	<b>11.10</b>	<b>1.61</b>
<b><u>Reinsurance</u></b>				
Aspen Re	9.30	8.00	7.00	1.31
Everest Re	9.80	7.60	6.70	1.42
IPC Holdings	7.20	7.60	7.80	1.14
Max Re Capital	8.40	7.20	6.90	1.21
Odyssey Re Holdings	13.70	11.00	10.10	1.16
PartnerRe	8.40	7.20	7.10	1.30
Renaissance Re	7.20	7.70	7.90	1.74
Montpelier Re	5.90	7.20	7.90	1.43
Arch Capital Group	9.80	8.10	7.40	1.38
Transatlantic Holdings	15.30	12.90	11.80	1.87
Platinum Underwriters	10.20	8.70	7.90	1.17
Endurance Speciality	8.70	7.50	7.00	1.34
<b>Average</b>	<b>9.50</b>	<b>8.40</b>	<b>8.10</b>	<b>1.37</b>

Source: Morgan Stanley

Date: May 28<sup>th</sup> 2004

## Cost of Going Public

---

- Total costs of listing vary widely depending on:
  - Market conditions
  - Company circumstances
  - Size of offering
- Total costs tend to range between 4% and 10% of the total proceeds of the offering
- Costs maybe higher for small offerings as some of the fees, such as accountant fees, tend to be fixed irrespective of the offering size

Section VI

# Asset Management for Insurance Companies

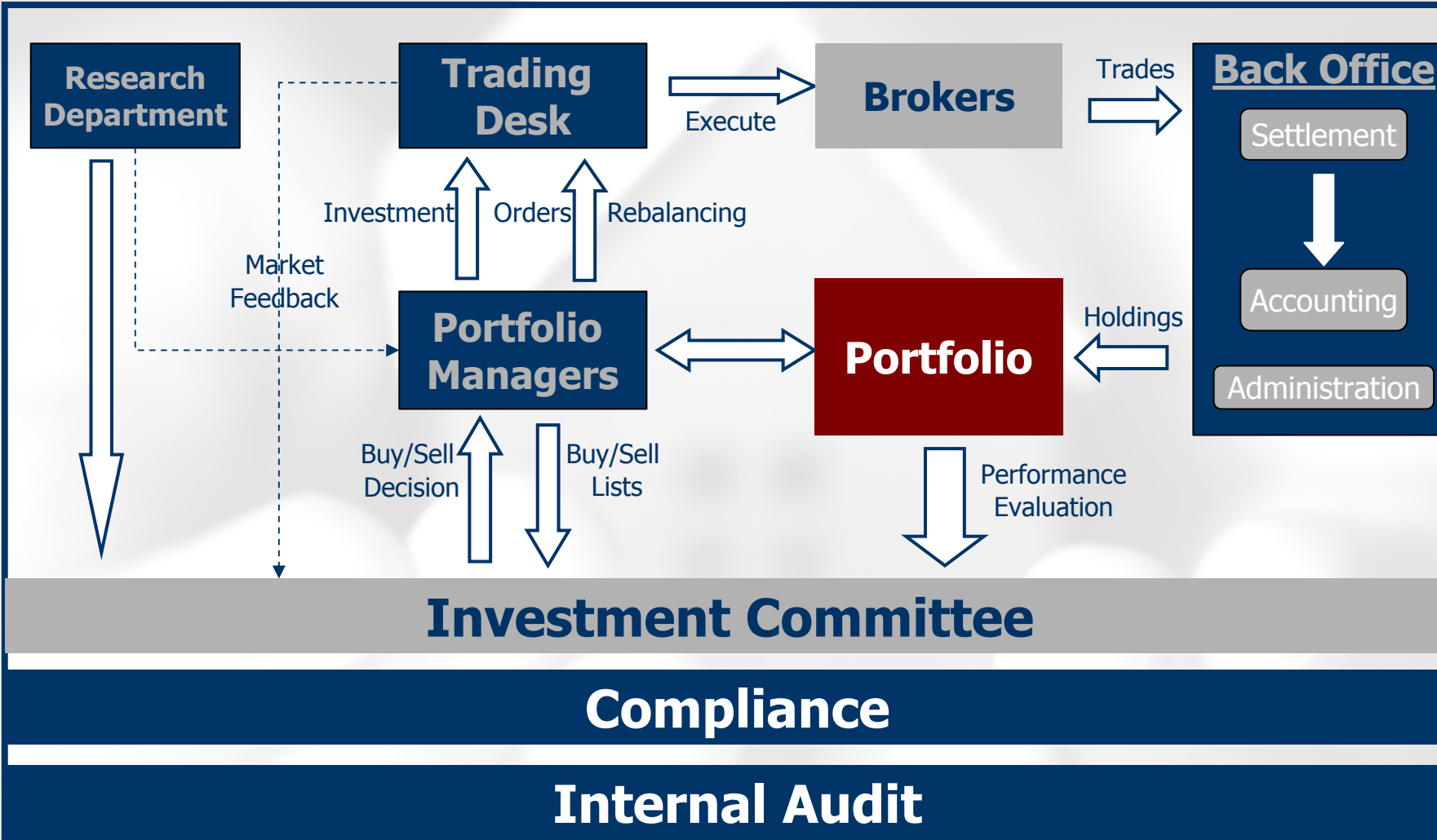
---

## Investment Income

---

- Investment income accounts for approximately 50% of pre tax income in most insurance companies in the Arab World
- Investment income accounts for 11% of NCCI surplus for 2003
- Investment income is negligible for most other insurance companies operating in Saudi Arabia from Bahrain

# In-house vs. Out-sourcing



# Establishing Investment Guidelines

## Investment Policy

- Rate of return objective
- Risk tolerance
- Liquidity requirements
- Diversification requirements

## Investment Strategy

- Active vs. passive management
- In-house vs. external management
- Asset Allocation
- Choice of sector and quality
- Maturity spacing

## Investment Guidelines

- SAMA Guidelines
- Investment Policy
- Investment Strategy

## Portfolio Management

# Selection and Monitoring of Asset Managers

---

- Criteria for selecting asset managers
- Monitoring of Manager performance
- Insuring performance measurement based on recognized standards
- Insuring compliance with SAMA guidelines

# SAMA Guidelines

---

- Minimum 50% in Saudi Rials
- Maximum 20% outside Saudi Arabia
- Maximum 50% in one asset class
- No investment in financial derivatives unless:
  - Listed on a major exchange
  - Good reputation of counterparty
  - Prior approval of SAMA

# SAMA Guidelines

<b>Asset Class</b>	<b>General Insurance</b>	<b>Life Insurance and Savings</b>
Deposits with local banks	20% Minimum	10% Minimum
Saudi Government Bonds	20% Minimum	10% Minimum
Investment funds in Saudi Rials	10% Maximum	15% Maximum
Investment funds in Foreign Currencies	10% Maximum	10% Maximum
Foreign Government Bonds	5% Maximum	5% Maximum
Local corporate bonds	5% Maximum	5% Maximum
Foreign corporate bonds	5% Maximum	5% Maximum
Stocks	15% Maximum	15% Maximum
Real estate in the Kingdom	---	5% Maximum
Secured Loans	---	5% Maximum
Loans for policy holders	---	5% Maximum
Other investments	15% Maximum	15% Maximum

## Returns from Different Asset Classes

<b>Asset Class</b>	<b>Weight</b>	<b>Performance</b>	<b>Attribution</b>
Government Bonds	30%	6.8%	2.0%
Deposits with local banks	30%	2.2%	0.6%
Investment Funds in SAR - Equity	10%	54.6%	5.5%
Investment Funds in USD - Balanced	10%	2.7%	0.3%
Stocks - Indexed	15%	33.1%	5.0%
Foreign Government bonds	5%	6.7%	0.3%
<b>Total Effect</b>			<b>13.7%</b>

\* Calculations based on annualized 5 yrs data

the end ...  
... thanks for listening

---