



IIRA Issues Shari’ah Compliance and Fiduciary Rating of “SCFR (ksa) 1” on the National Scale and assesses SCFR (Global) at ‘High’ for Al Rajhi Takaful (ART)

Manama: November 09, 2021: Islamic International Rating Agency (“IIRA”) has assessed the Shari’ah Compliance and Fiduciary Rating of Al Rajhi Takaful at “SCFR (ksa) 1” on the national scale, denoting “No material deviations from the national regulatory framework and/or sector norms, and “SCFR (Global) High” on the global scale, indicating, “High level of conformance to global standards in terms of fulfilling fiduciary obligations of Shari’ah compliant Finance”.

Operating in the Kingdom of Saudi Arabia (KSA), Al Rajhi Takaful is a Saudi Joint Stock Company (“JSC”) and majority-owned by Al Rajhi Group (26.5% by Al Rajhi Takaful – Bahrain & 22.5% by Al Rajhi Bank). The Company’s principal business includes motor, medical, protection & savings, and marine insurance, whereby motor represents up to 70% of total contributions, followed by general & health. The Company has grown steadily, posting 6.3% growth in total gross contribution in 2020. The Company is the 3rd largest player in the Saudi insurance market with a 7.03% share in terms of gross contribution written.

Saudi Central Bank regulates the insurance sector under the cooperative insurance model. The regulation asserts compliance with Shari’ah principles; however, specific guidance with regards to takaful principles as outlined by global standard-setting bodies, is not clearly evidenced. Accordingly, ART’s assessment has been carried out in relation to applicable laws and regulations in KSA and on the doctrine implemented by the Company to achieve the objectives of cooperative insurance in line with Shari’ah principles, articulated as international best practices.

Despite the absence of any regulatory requirement for instituting a Shari’ah Supervisory Board and Shari’ah internal control mechanism, ART has established an independent Shari’ah committee, vested with broad powers and responsibilities to ensure compliance with Shari’ah in the Company’s operations and present its opinion to the general assembly. Besides, Shari’ah internal control systems have also been adequately laid out, aiming to enable compliance with Shari’ah and effectively implement Shari’ah Committees’ decisions. The voluntary implementation of the internal Shari’ah governance framework is viewed as a positive indicator in supervising the Company’s operation objectively and providing assurance and protecting stakeholders’ rights.

The takaful model instituted and principle underlying policyholders’ contributions are in line with accepted principles of takaful. The deployment of investable assets is also in accordance with Shari’ah. While re-takaful arrangements have mainly been executed with re-takaful windows of international re-insurers, certain arrangements with conventional re-insurers have been made with the consent of the Shari’ah Committee, on a need basis. The mechanism deployed for distribution of surplus to policyholders is approved by the Shari’ah Committee, and underlines the commitment of sharing such

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surplus with shareholders. While justifiable as an incentive for superior performance under the concept of Ju'alah, the high proportion of such surplus passed to the Company may still be considered less than optimal, under AAOIFI guidance and the substance of the relevant standard. IIRA has noted the efforts of the management in instituting the concept of surplus sharing with policyholders through active engagement with regulatory authorities.

Broadly, the corporate governance framework of ART complies with local regulation; representation of policyholders as recommended in line with international best practices for Takaful is not as yet incorporated. As required, the Company disseminates adequate financial and corporate governance information through the reports available in the public domain; though not compulsory under local regulation, publishing the Shari'ah Committee report will supplement information being provided to stakeholders.

Al Rajhi Takaful delivers on its fiduciary responsibility. The Company's financial performance has remained above par with strong surplus generation, on the back of superior underwriting performance and managed expenses.

Scope of the Rating

This rating is an independent assessment & opinion on the Shari'ah Governance & Compliance framework as implemented by the Al Rajhi Takaful Company. The rating encapsulates areas of coverage laid out in Governance Standard for Islamic Financial Institutions 10 (GSIFI 10), developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Besides Shari'ah standards issued by AAOIFI, prudential standards published by the Islamic Financial Services Board (IFSB) for Islamic insurance (Takaful) have been taken as a reference benchmark. The national scale rating does not account for deviations from global standards that are not enabled in the jurisdiction of domicile, whereas the Global scale allows for comparison on a worldwide basis.

For further information on this rating announcement, please contact us via e-mail at iira@iirating.com.