BADRI MANAGEMENT CONSULTANCY
ACTUARIES | RISK MANAGERS
PROFIT OPTIMIZATION PARTNERS


# Performance Analysis of UAE Listed Insurance Companies for Three Quarters ended Sept 30, 2016

December 2016

# Contents

# Introduction

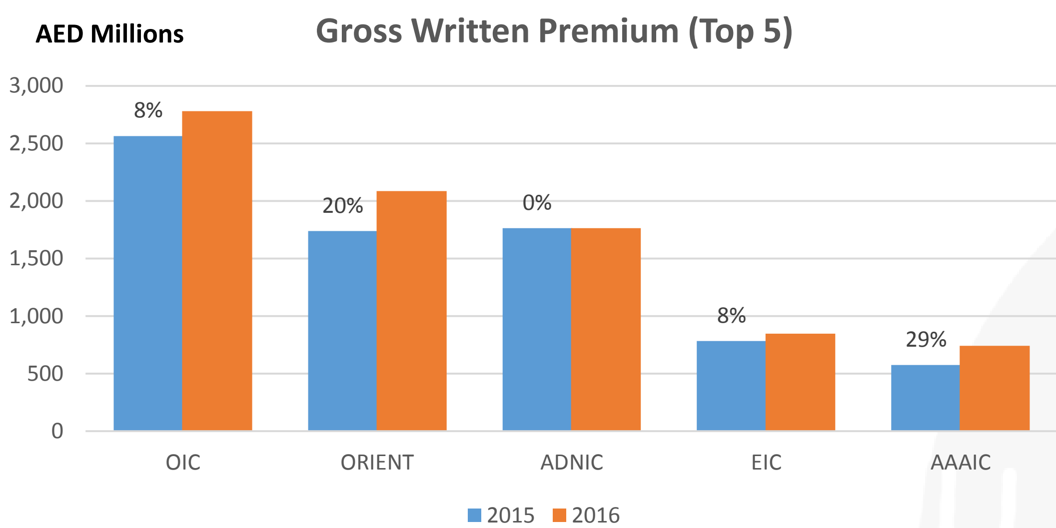
- We have undertaken an analysis of the Key Performance Indicators (KPIs) of the ***Listed Insurance Companies*** of UAE for the first nine months ended September 30, 2016. The data has been extracted from third quarter 2016 financial statements of those companies which were publicly available. While we have tried to ensure accuracy in the data input and evaluation process, in view of the natural scope for human and/or mechanical error, either at input or during analysis, we accept no liability whatsoever for any loss or damage resulting from errors, inaccuracies or omissions affecting any part of this publication. If you come across an error or have a query, do write to us.

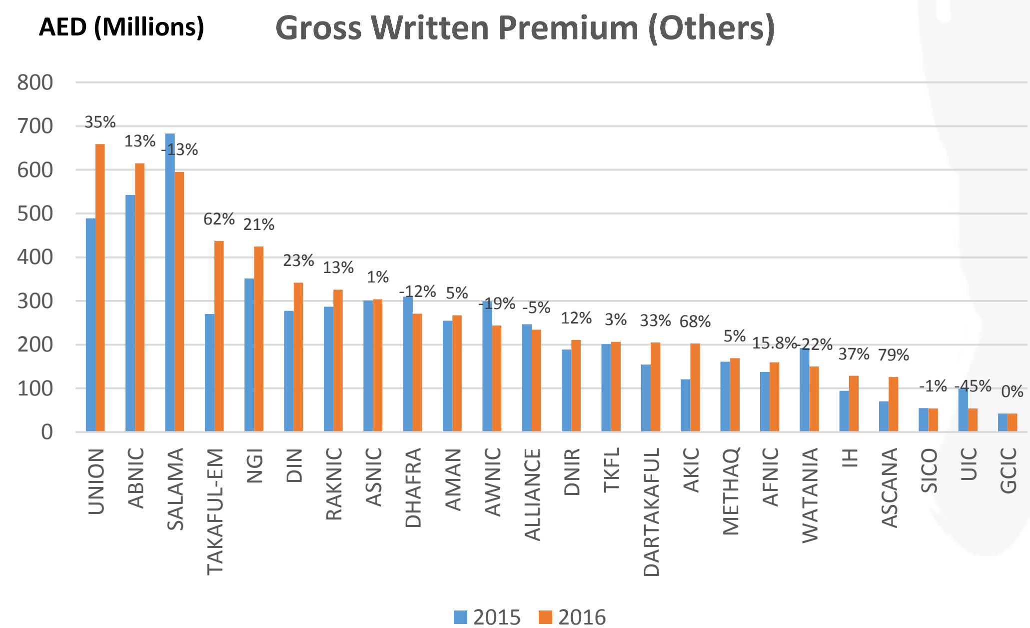
- In certain cases we needed to combine certain items together for comparison purposes. E.g. Where XOL Reinsurance Premium has been shown separately we have added it to Reinsurance Premium expense and deducted from Net Earned Premium.

- The list of companies used is shown below:

| Sr. No. | Symbol | Name | Market | Sr. No. | Symbol | Name | Market | Sr. No. | Symbol | Name | Market |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | AAAIC | Al Ain Al Ahlia Insurance Co. | ADX | 11 | DARTAKAFUL | Dar al Takaful (Takaful House) | DFM | 21 | ORIENT | Orient Insurance PJSC | DFM |
| 2 | ABNIC | Al Buhaira National Insurance Company | ADX | 12 | DHAFRA | Al Dhafra Insurance Co. | ADX | 22 | RAKNIC | Ras Al Khaimah National Insurance Co. | ADX |
| 3 | ADNIC | Abu Dhabi National Insurance Co. | ADX | 13 | DIN | Dubai Insurance Co , PSC | DFM | 23 | SALAMA | Islamic Arab Insurance Company | DFM |
| 4 | AFNIC | Al Fujairah National Insurance Co. | ADX | 14 | DNIR | Dubai National Insurance & Reinsurance Co. | DFM | 24 | SICO | Sharjah Insurance Company | ADX |
| 5 | AKIC | Al Khazna Insurance Co. | ADX | 15 | EIC | Emirates Insurance Co. | ADX | 25 | TAKAFUL-EM | Takaful Emarat (PSC) | DFM |
| 6 | ALLIANCE | Alliance Insurance | DFM | 16 | GCIC | Green Crescent Insurance Company | ADX | 26 | TKFL | Abu Dhabi National Takaful Co. PJSC | ADX |
| 7 | AMAN | Dubai Islamic Insurance and Reinsurance Co. | DFM | 17 | IH | Insurance House P.S.C | ADX | 27 | UIC | United Insurance Co. | ADX |
| 8 | ASCANA | Arabian Scandinavian Insurance Co. | DFM | 18 | METHAQ | Methaq Takaful Insurance Co. | ADX | 28 | UNION | Union Insurance Company | ADX |
| 9 | ASNIC | Al Sagr National Insurance Company | DFM | 19 | NGI | National General Insurance Company | DFM | 29 | WATANIA | National Takaful Company | ADX |
| 10 | AWNIC | Al Wathba National Insurance Co | ADX | 20 | OIC | Oman Insurance Company (P.S.C. | DFM | | | | |

# Gross Written Premium



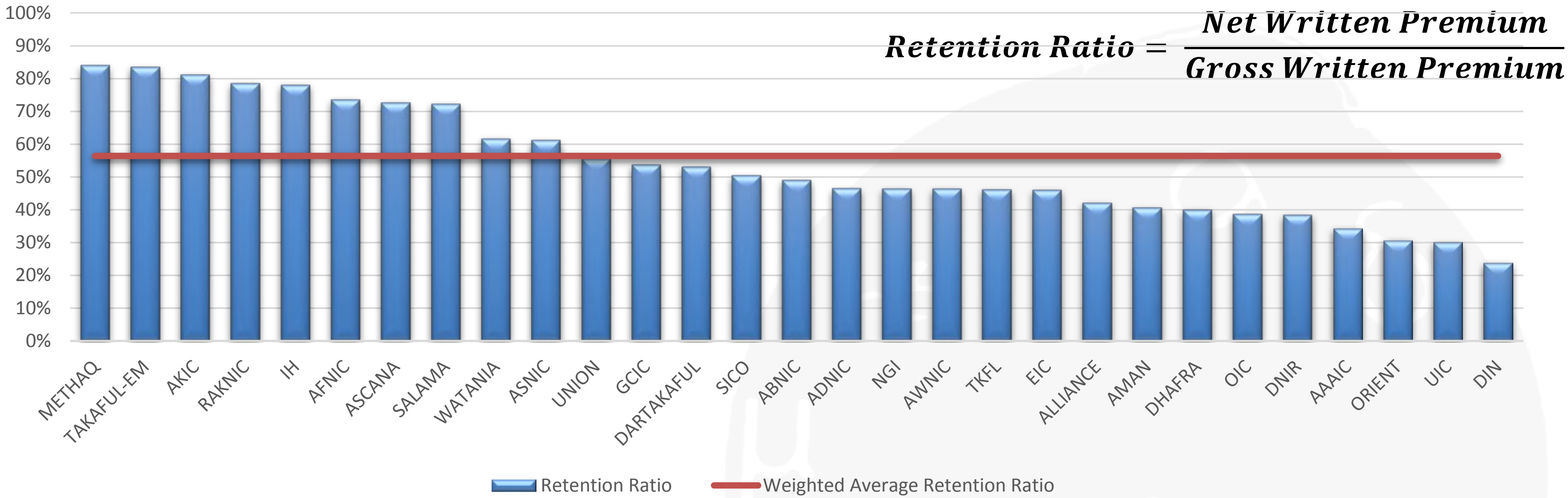

- Total Gross premiums written by the listed insurance companies, in the first nine months of 2016 amounted to **AED 14.7 billion**, as compared to the premium written in the corresponding period of 2015 of **AED 13.4 billion**, which shows a growth of 9.8%.

- The top 5 companies had a combined premium of **AED 8.2 billion** for first nine months of 2016 as compared to **AED 7.4 billion** for 2015; their market share in 2016 remained around 56% as in 2015.

- The highest growth over the first nine months of 2016 was shown by ASCANA with an increase of **79%** in premiums compared to the first nine months of 2015. The biggest decline over the same period was shown by UIC with a decrease of **45%** compared to the corresponding period in 2015.

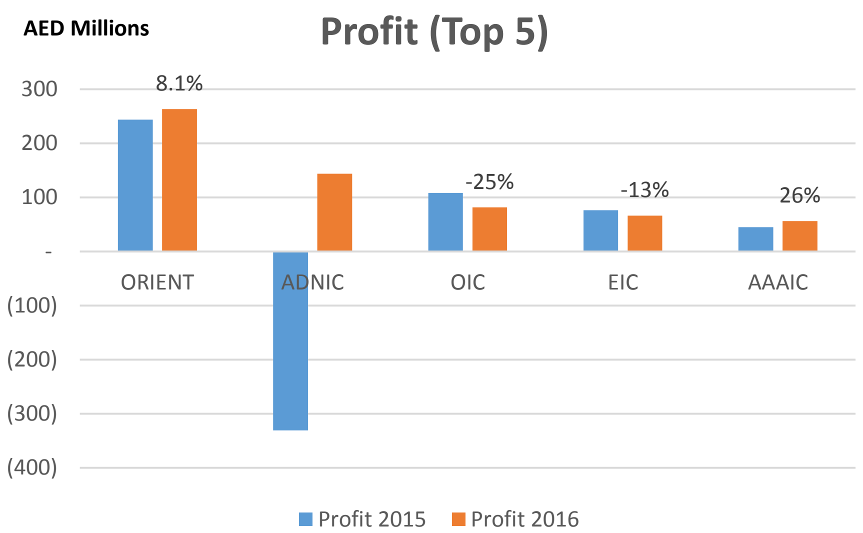
- Overall, of the 29 listed companies, 19 recorded a growth in first nine months premium volumes as compared to the previous year, while 10 companies saw premiums plummet.

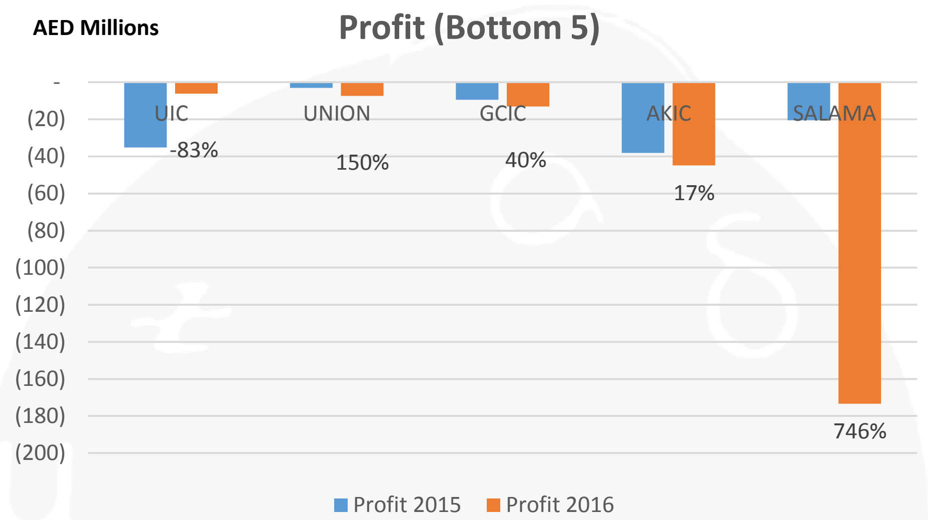
# Retention Ratio

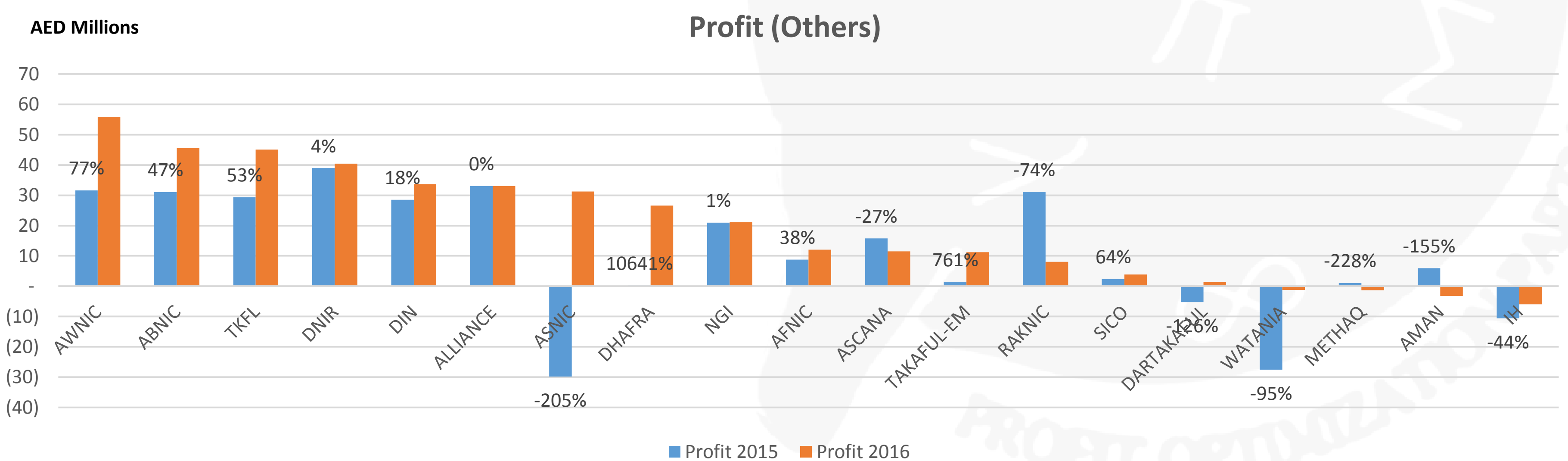



- The highest retention ratio for the nine months of 2016 of 84% is reflected by METHAQ, whereas the lowest retention ratio of 24% is reflected by DIN. The weighted average retention ratio for listed companies was at **56% (2015 Q3: 57%)**.
- Although there may be exceptions, Retention ratios are generally reflective of the lines of business being underwritten; Motor and Medical generally tend to have high retention ratios, while commercial lines such as Aviation, Engineering and Fire tend to have lower retentions. Also, since this analysis does not segregate life and non-life business, the companies writing higher volumes of life, especially IL and PA, would also tend to show higher retention levels.
- For example, consider METHAQ, Takaful-EM and AKIC; most of the METHAQ premium volumes come from Motor and Medical, all of Takaful-EM premium comes from Medical and Life, while almost all of AKIC business in the period is coming from Motor, Medical, EB and PA.

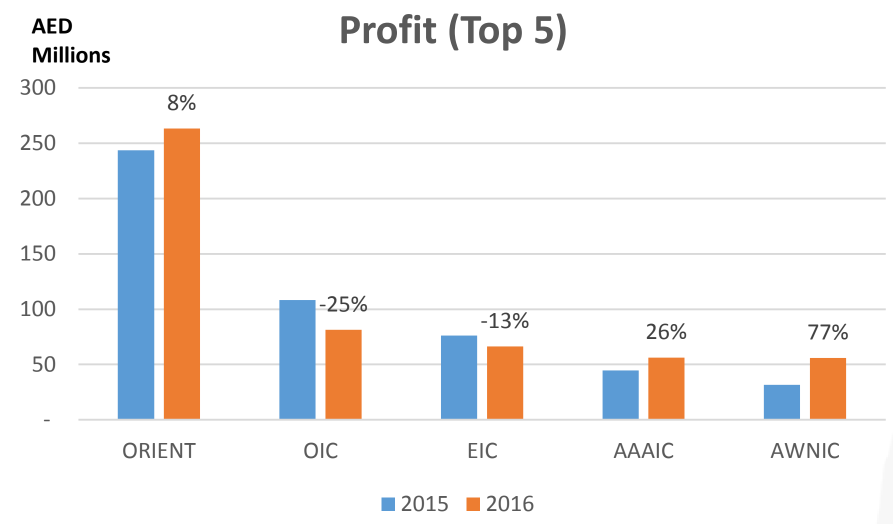
# Profit (Before Tax) for the nine months period ended 2016

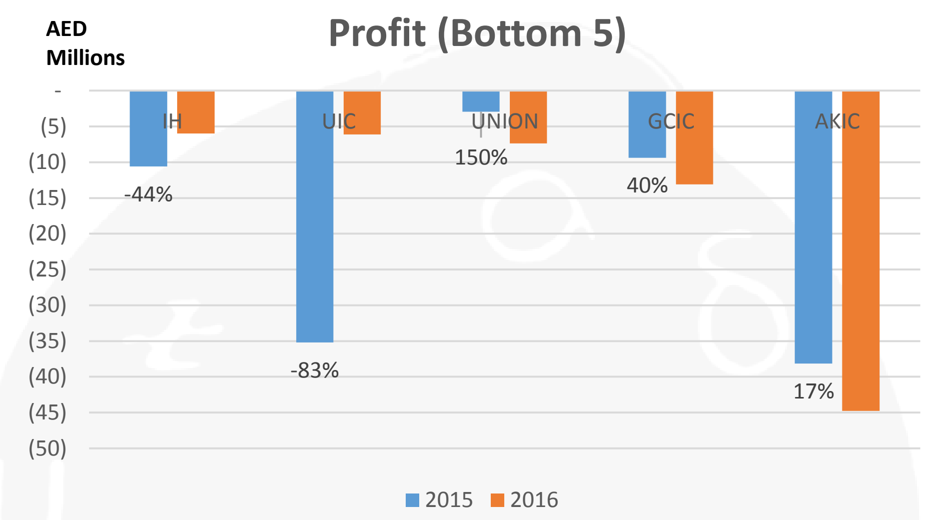


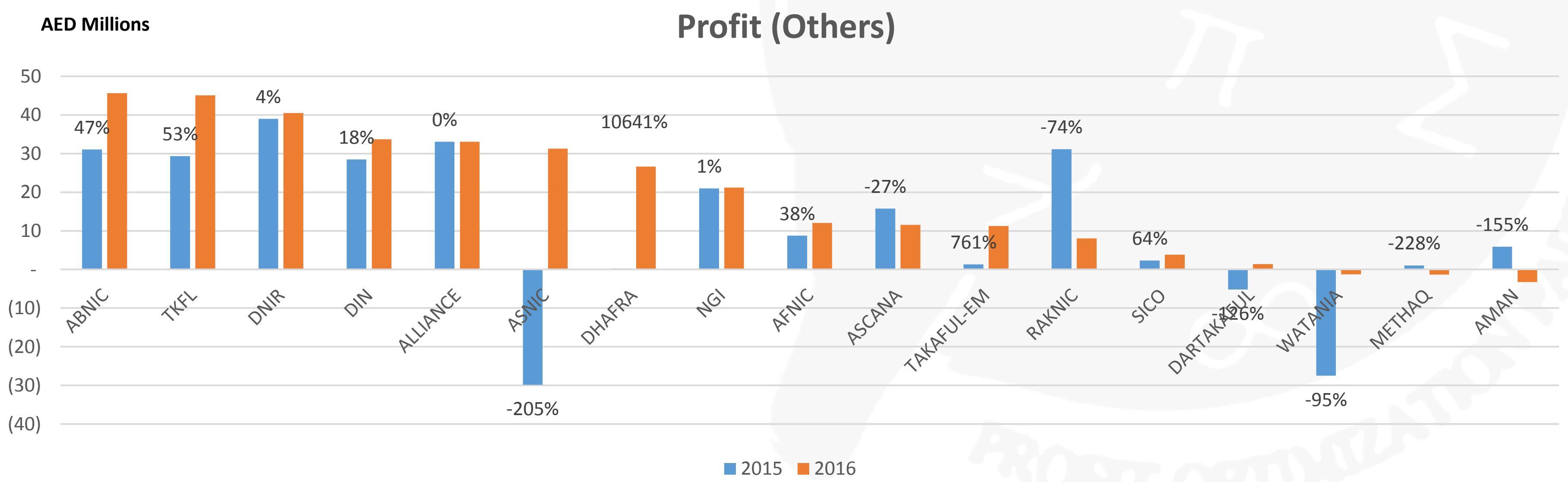



# Profit (Before Tax) without ADNIC and SALAMA for the nine months period ended 2016



# Profit for the period

- Total profit generated for the first nine months of 2016 amounted to **AED 735 million** compared to the profit of the corresponding period of 2015 of **AED 242 million** (restated) which shows an increase of around **204%**.

- Profit without ADNIC and SALAMA turns to be **AED 765 million** for first nine months of 2016 in as compared to the corresponding period profit **AED 593 million** and the growth rate is around **29%**.

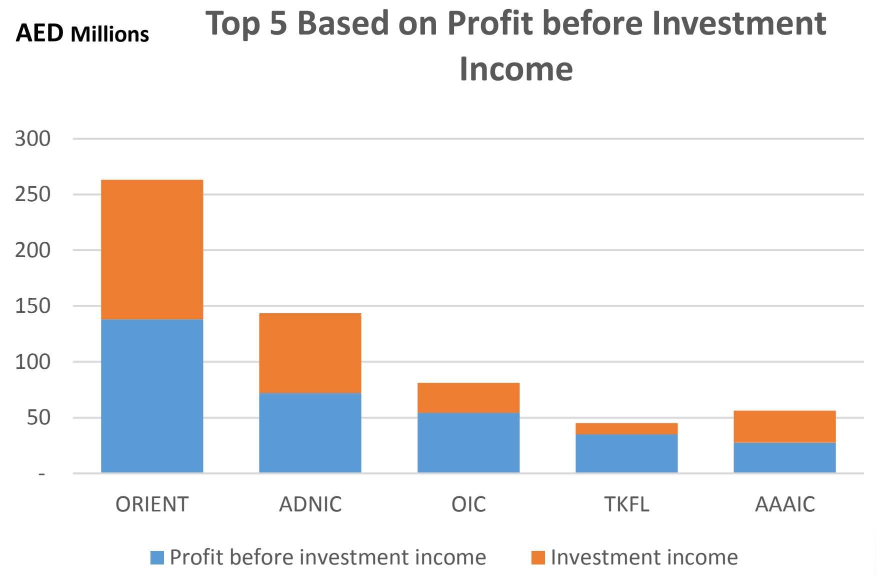
- Two companies displayed contrasting change in fortunes as compared to the corresponding period last year, which effects the numbers significantly due to the scale of volumes of both. ADNIC registered a profit of AED 144 million, moving from a loss of AED 331 million, while SALAMA posted a loss of AED 173 million, from a loss of AED 20 million in the previous period.

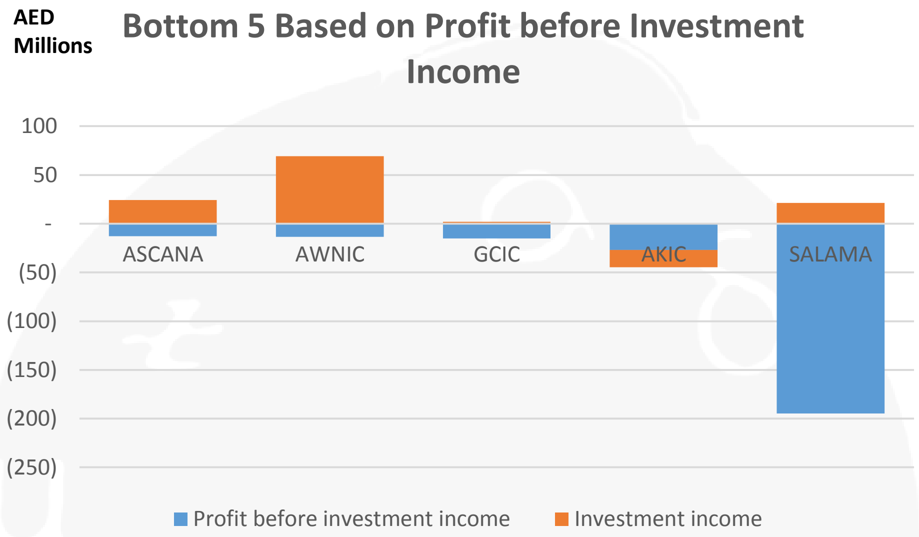
- 9 out of the 29 companies posted losses, as compared to only 10 companies being loss making in the corresponding period in 2015. Seven companies booked a loss during both periods.

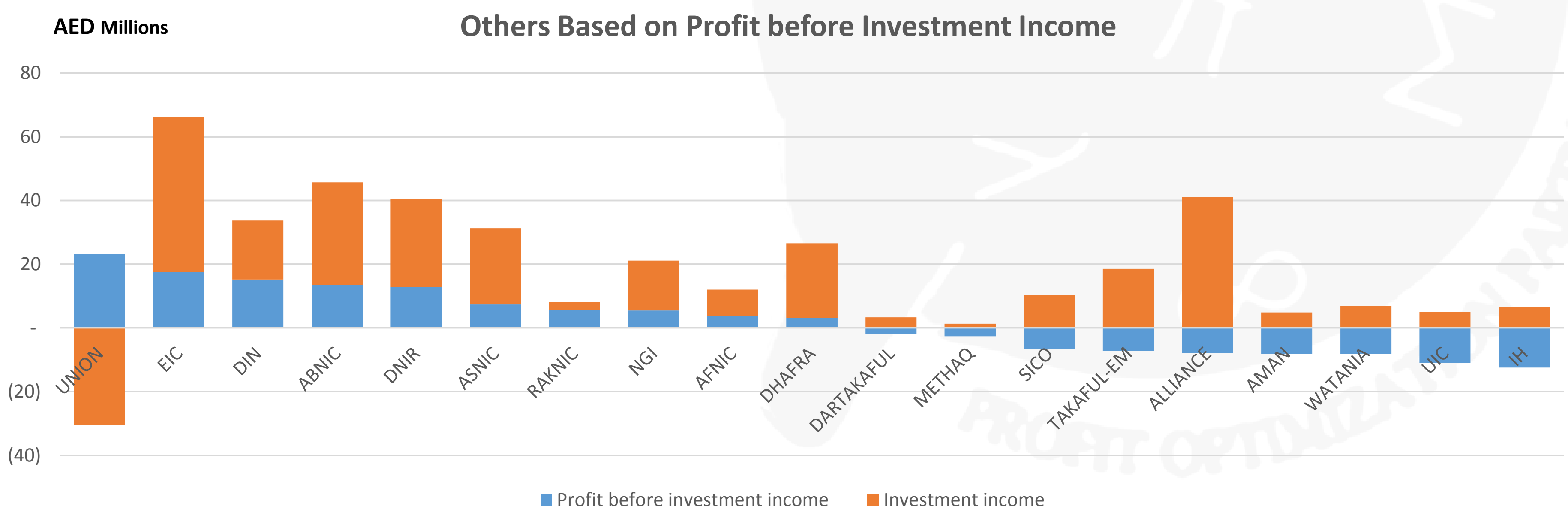
- Although the industry displayed an increase of 204% in profit from previous period, 10 of the 29 companies had a worse result compared to 2015. This may in part be due to reserving requirements of the new Financial regulations, as companies look to align their reserves before the end of 2016, and this strain of profitability may continue till year end.

- ORIENT booked the highest profit during the period of **AED 263 million** (2015: **AED 243 million**), while SALAMA booked the highest loss.

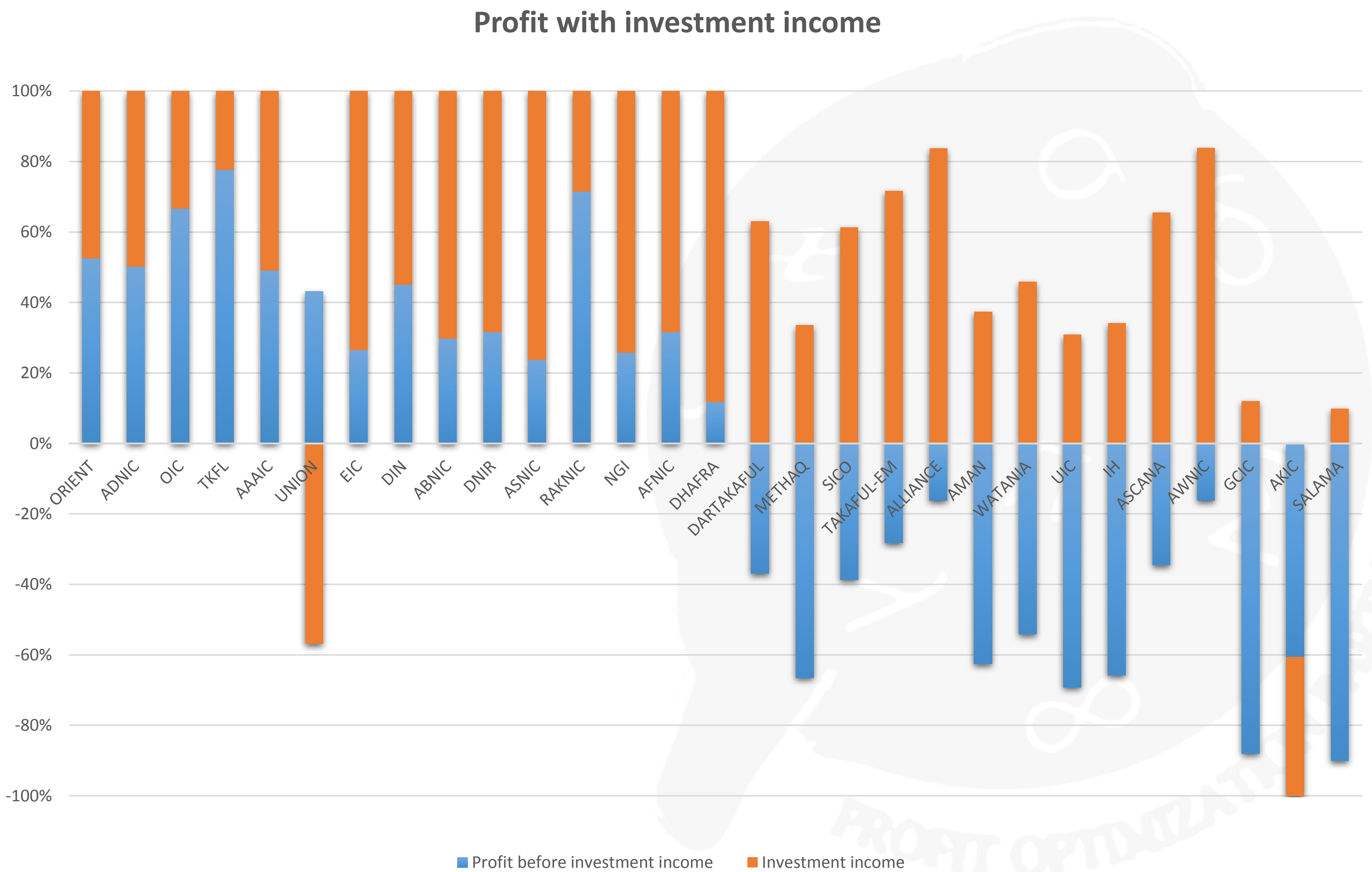
# Profit Before and After Investment Income



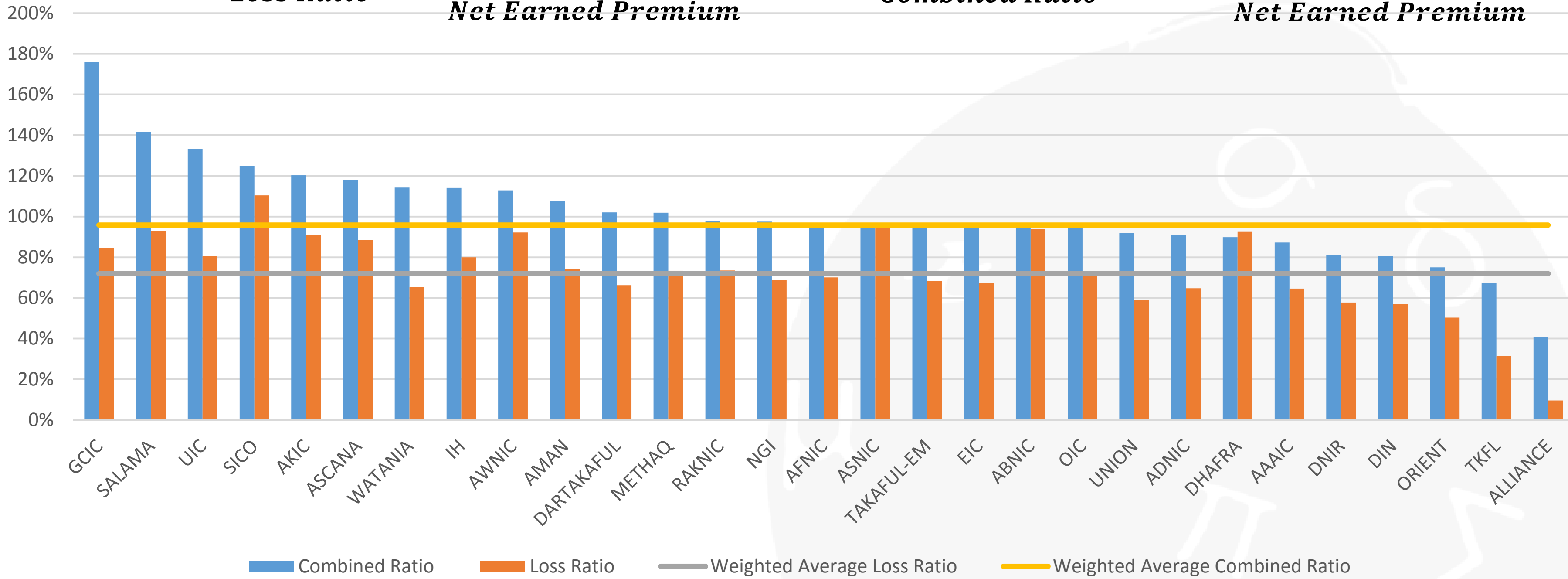



# Profit Composition Before and After Investment Income



# Loss and Combined Ratio

$$Loss\ Ratio = \frac{Net\ Incurred\ Claims\ (NIC)}{Net\ Earned\ Premium} \qquad Combined\ Ratio = \frac{(NIC + Net\ Commision + Expenses)}{Net\ Earned\ Premium}$$




- Weighted Average loss ratio was **72**% and weighted average combined ratio was **96%**.
- The highest combined ratio for the nine months of 2016 of **176%** is reflected by GCIC and the lowest combined ratio is of ALLIANCE at **41%.**
- For Takaful companies we have consolidated the Policyholders and Shareholders P&L for comparative purposes.
- A company is deemed to be profitable from an underwriting perspective if the Combined Ratio is below 100%. Six companies that are making underwriting losses are still booking overall profit due to investment income. Insurance companies need to concentrate on underwriting profits as that is their primary function. The new pricing regulations are a step in that direction.

# Premium Benchmarked on the basis of Profitability

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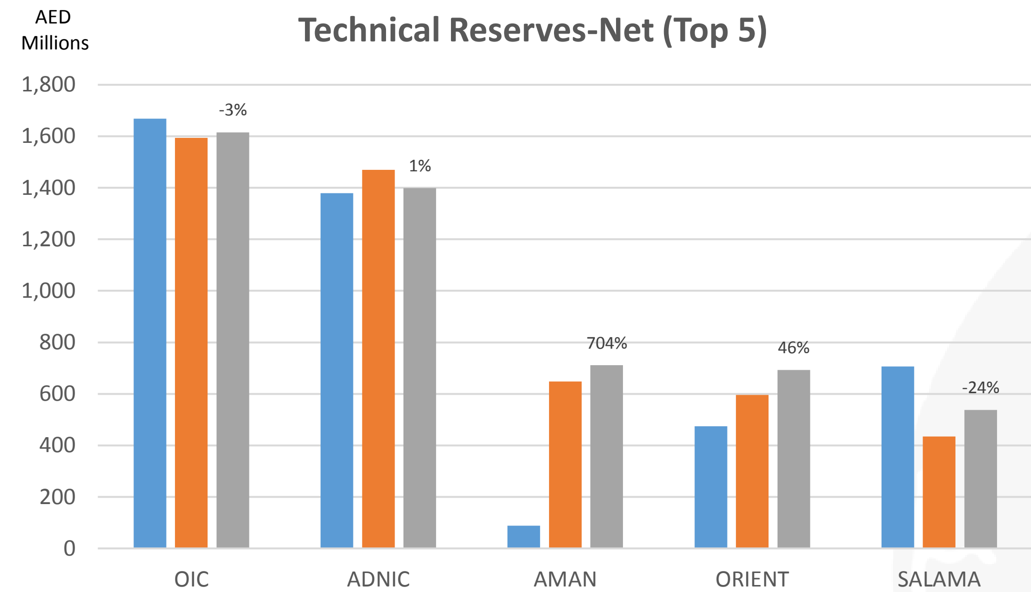
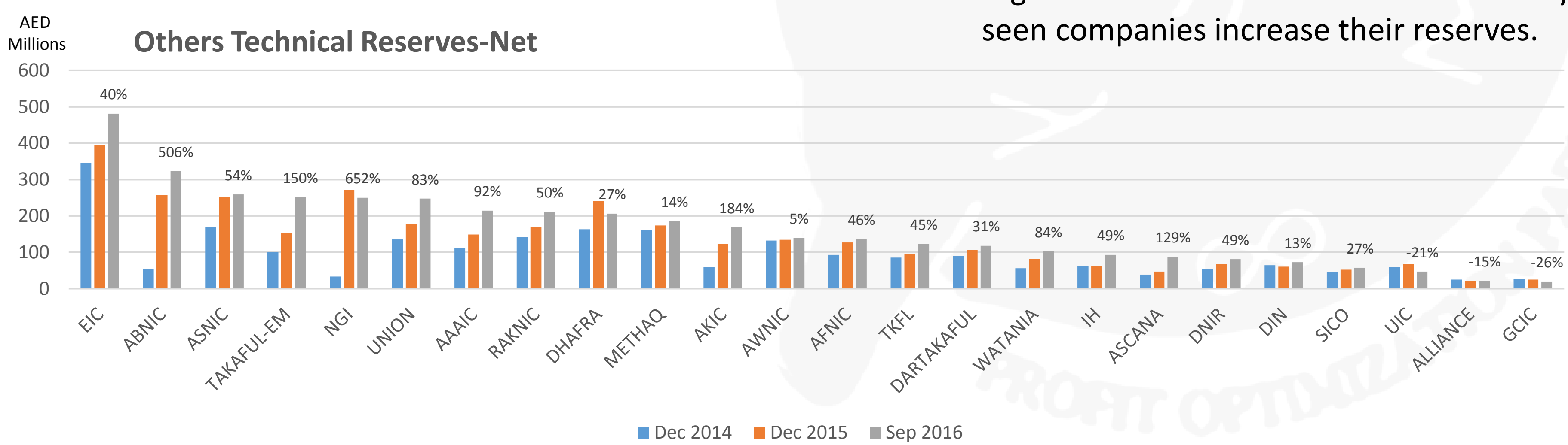
| Company | Ranking | | Indic |
|---|---|---|---|
| | Gross Premium | Profit | |
| OIC | 1 | 3 | ↓ |
| ORIENT | 2 | 1 | ↑ |
| ADNIC | 3 | 2 | ↑ |
| EIC | 4 | 4 | → |
| AAAIC | 5 | 5 | → |
| UNION | 6 | 26 | ↓ |
| ABNIC | 7 | 7 | → |
| SALAMA | 8 | 29 | ↓ |
| TAKAFUL-EM | 9 | 17 | ↓ |
| NGI | 10 | 14 | ↓ |
| DIN | 11 | 10 | ↑ |
| RAKNIC | 12 | 18 | ↓ |
| ASNIC | 13 | 12 | ↑ |
| TKFL | 14 | 8 | ↑ |

| Company | Ranking | | Indic |
|---|---|---|---|
| | Gross Premium | Profit | |
| DHAFRA | 15 | 13 | ↑ |
| AMAN | 16 | 23 | ↓ |
| AWNIC | 17 | 6 | ↑ |
| ALLIANCE | 18 | 11 | ↑ |
| DNIR | 19 | 9 | ↑ |
| DARTAKAFUL | 20 | 20 | → |
| AKIC | 21 | 28 | ↓ |
| METHAQ | 22 | 22 | → |
| AFNIC | 23 | 15 | ↑ |
| WATANIA | 24 | 21 | ↑ |
| IH | 25 | 24 | ↑ |
| ASCANA | 26 | 16 | ↑ |
| SICO | 27 | 19 | ↑ |
| UIC | 28 | 25 | ↑ |
| GCIC | 29 | 27 | ↑ |

Of the top 10 companies by Premium volume, 5 have a lower rank when benchmarked on the basis of profitability. UNION and SALAMA especially would languish right at the bottom of that stack. On the flip side, OIC, Orient, ADNIC,EIC and AAAIC seem to have built up large and profitable books of business. ADNIC's results have been volatile year on year, although during this period, it is right up there on both counts. It is noteworthy that although the order is skewed, the top five companies by premium volume are also the top 5 by profits

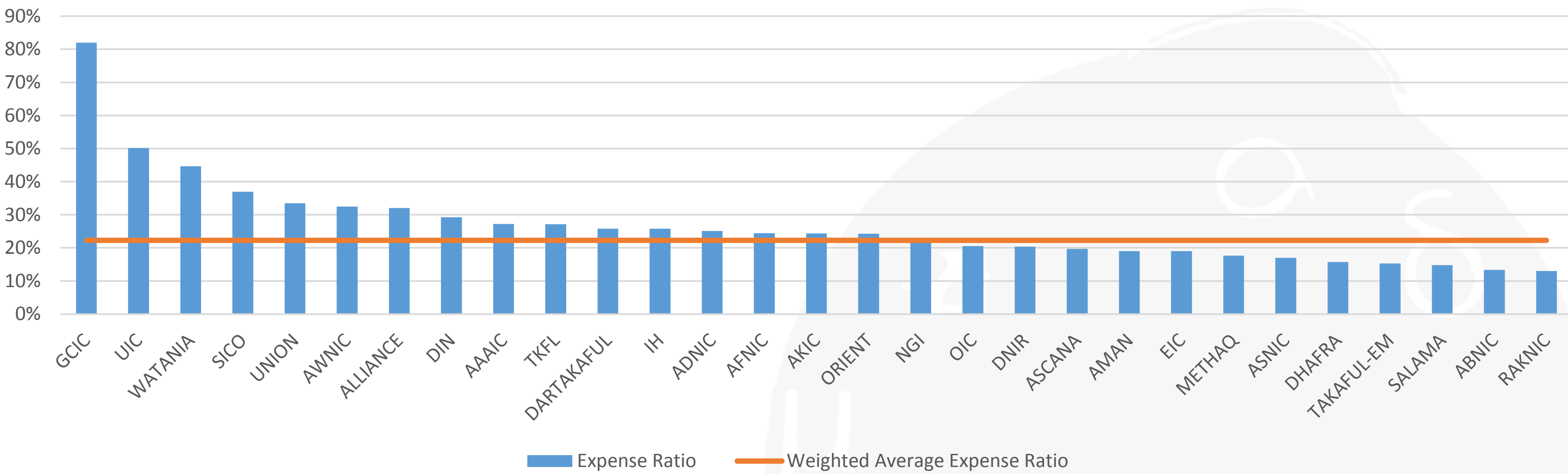
# Technical Provisions




- Total net reserves as at Sep-16 grew by 10% as compared to the net reserves as at Dec-15
- OIC in terms of booking technical provisions retain their rank, and though the sequence is slightly changed nine out of top 10 companies remain the same.
- For companies which have restated their prior years, the impact of change in reserves may have been neutralized due to the opening reserves being in accordance with the new regulations also.
- We expect this trend to continue as the deadline for compliance with the new regulations comes closer and have already seen companies increase their reserves.

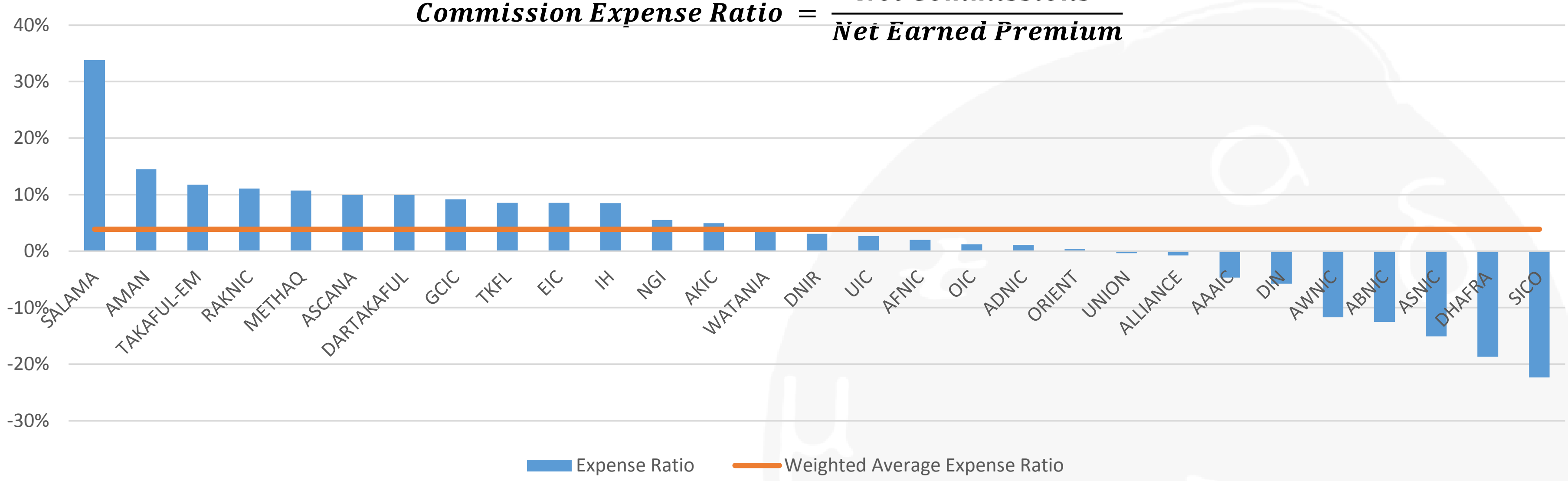
# G&A Expense Ratio




- The highest expense ratio for the first nine months ended Sep 30, 2016 of **82%** is reflected by GCIC, whereas the lowest expense ratio of **13%** is reflected by RAKNIC. Weighted Average expense ratio was at **22%**.
- As may be expected, larger companies that have business scale have lower expense ratio, as they have sufficient business to absorb the cost base.
- The expense ratios have been calculated as a ratio of general and admin expenses to net earned premium. For Takaful companies we have used the same for comparative purposes and ignored the wakala fees (as wakala fees is a positive in one account and a negative in the other).

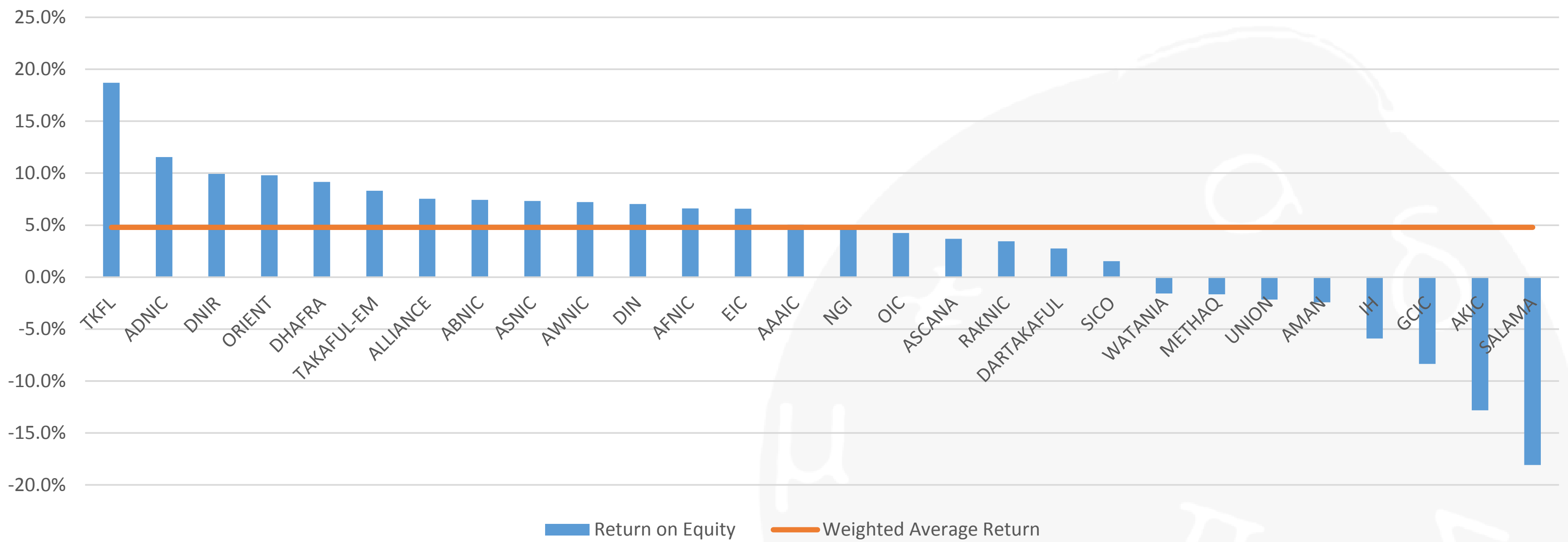
# Commission Expense Ratio

$$\textbf{Commission Expense Ratio} = \frac{\textbf{Net Commissions}}{\textbf{Net Earned Premium}}$$




- The highest commission expense ratio Sep 30, 2016 of **34%** is reflected by SALAMA, whereas the lowest expense ratio of **-22%** is reflected by SICO. Weighted Average expense ratio was at **2%**.
- The commission expense considered is the net commission (commissions paid less commissions earned); a negative ratio signifies that the commissions earned outweigh the commissions paid. In UAE market, it is common practice for companies to cede out large proportion of commercial lines business and benefit from the reinsurance commissions, which is also evidenced by the low net commission ratio. It is felt that there is an inherent need to optimize reinsurance arrangements so that companies can benefit from underwriting profitable business without passing the risk and reward to reinsurers and just acting as fronting partners; at the same time not effecting their solvency position.

# Return on Equity




- The highest return on equity for first nine months 2016 of **19%** is shown by TKFL, whereas the lowest return on equity of **-18%** is reflected by **SALAMA**.
- Weighted average return on equity was at **4.8%**.
- The return on equity have been calculated as a ratio of net profit to total shareholder's equity as at the end of 2015.
- We have excluded the outlier UIC **(ROE -332%)** from the above.

# Conclusion

- Total premiums written, by the listed insurance companies, in the nine months of 2016 amounted to **AED 14.7 billion**, as compared to the premium written in the corresponding period of 2015 of **AED 13.4 billion** which shows a growth of 9.8%. The average premium retention ratio was at 56%.

- Average loss ratio for all companies analyzed was 72% and average combined ratio was at 96%.

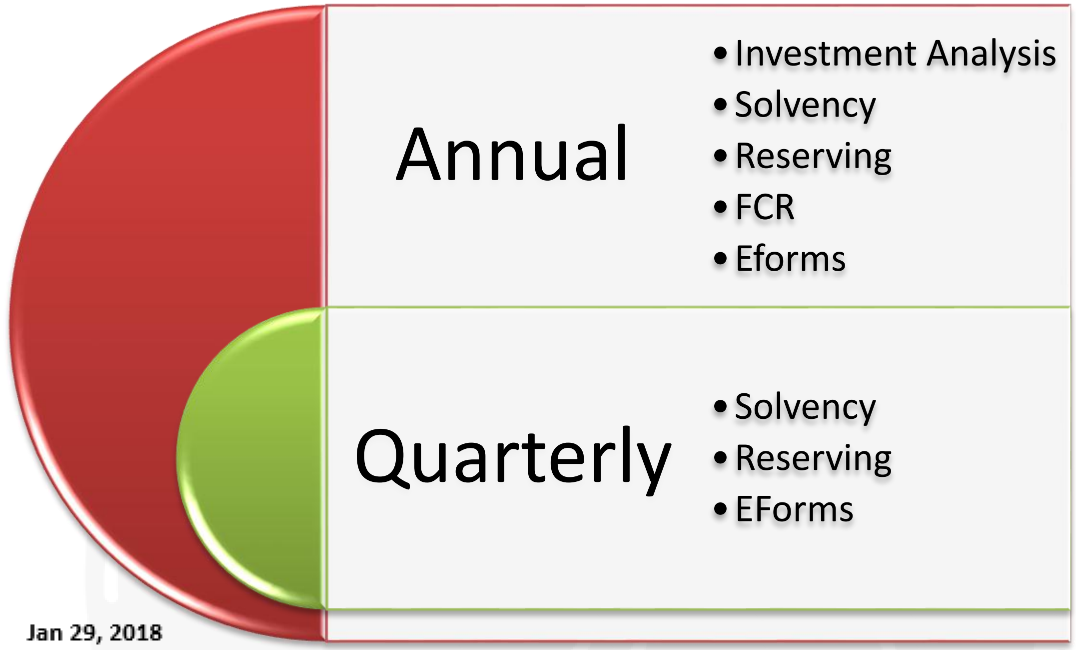
- Total profit generated for the first nine months of 2016 amounted to **AED 735 million** compared to the profit of the corresponding period of 2015 of **AED 242 million** (restated) which shows an increase of around **204%**.

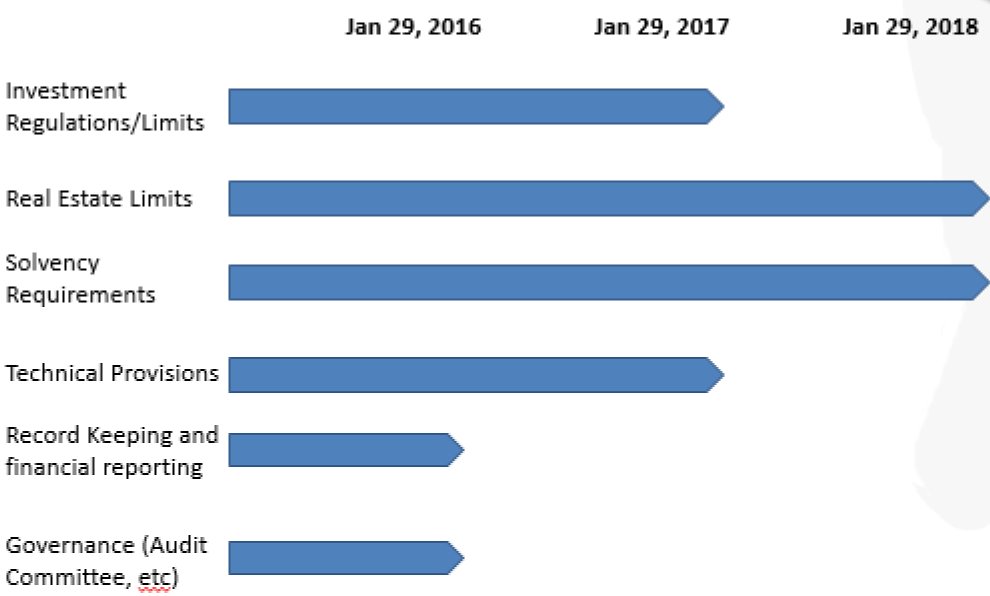
- Profit without ADNIC and SALAMA turns to be **AED 765 million** for first nine months of 2016 in as compared to the corresponding period profit **AED 593 million** and the growth rate is around **29%**.

- Weighted average return on equity was at **4.8%**.

# Actuarial Requirements

The new Financial Regulations make it mandatory for insurance companies (including branches) to assign a registered actuary. On the right you can see the areas which require actuarial validation and the time lines are shown below:




As per Circulars 4 and 9 of 2016 from Insurance Authority, all the companies had to provide Actuarial Reserving Certification. As per Circular 11 and 21 of 2016, all the companies have to perform a pricing review for all the non-life lines of business.

We are currently working with many companies in helping them implement these regulations.

# Other support that we can provide

Developing ERM Framework

Analytics and Dashboards

Automation of E-forms

Motor / Medical – Pricing and Portfolio Optimization

Optimizing Use of Capital

Capital Modelling and Stress Testing


We are sharing this analysis with our customers and other industry professionals and would appreciate any feedback that you might have.

Also do let us know what other analysis / research reports would be of interest to you.

## CONTACT

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