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MANAGEMENT CONSULTANCY
ACTUARIES | RISK MANAGERS

Performance Analysis of UAE Listed Insurance Companies for Half Year ended June 30, 2016

September 2016

Contents

Introduction

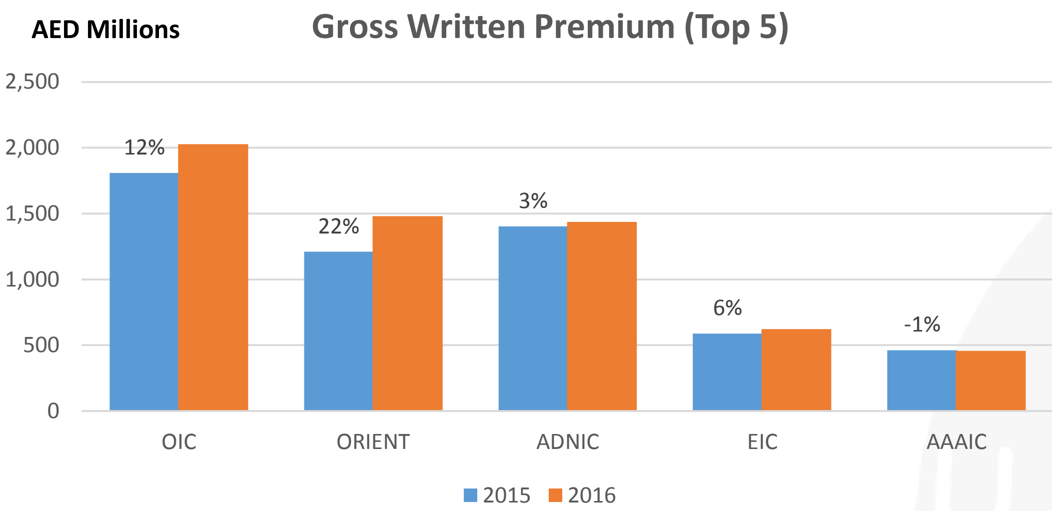
- We have undertaken an analysis of the Key Performance Indicators (KPIs) of the ***Listed Insurance Companies*** of UAE for the half year ended June 30, 2016. The data has been extracted from second quarter 2016 financial statements of those companies which were publicly available. While we have tried 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.

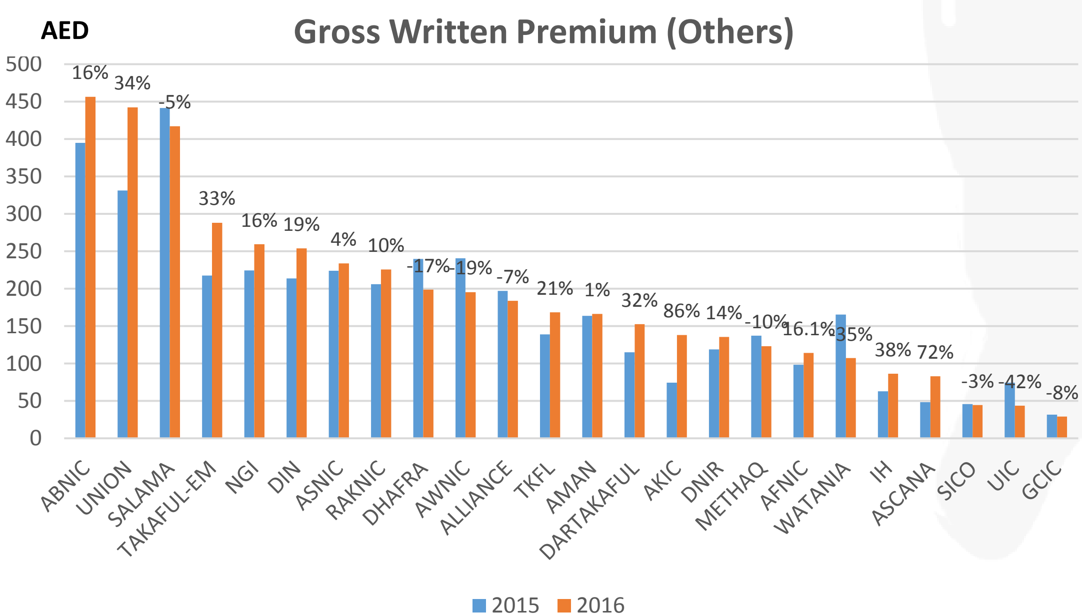
- In certain cases we needed to combine certain items together for comparison purposes. E.g. Where XOL Reinsurance Premium has been shown separately we have added it to Reinsurance Premium expense and deducted from Net Earned Premium.

- 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 six months of 2016 amounted to **AED 10.6 billion**, as compared to the premium written in the corresponding period of 2015 of **AED 9.7 billion**, which shows a growth of 9.2%.

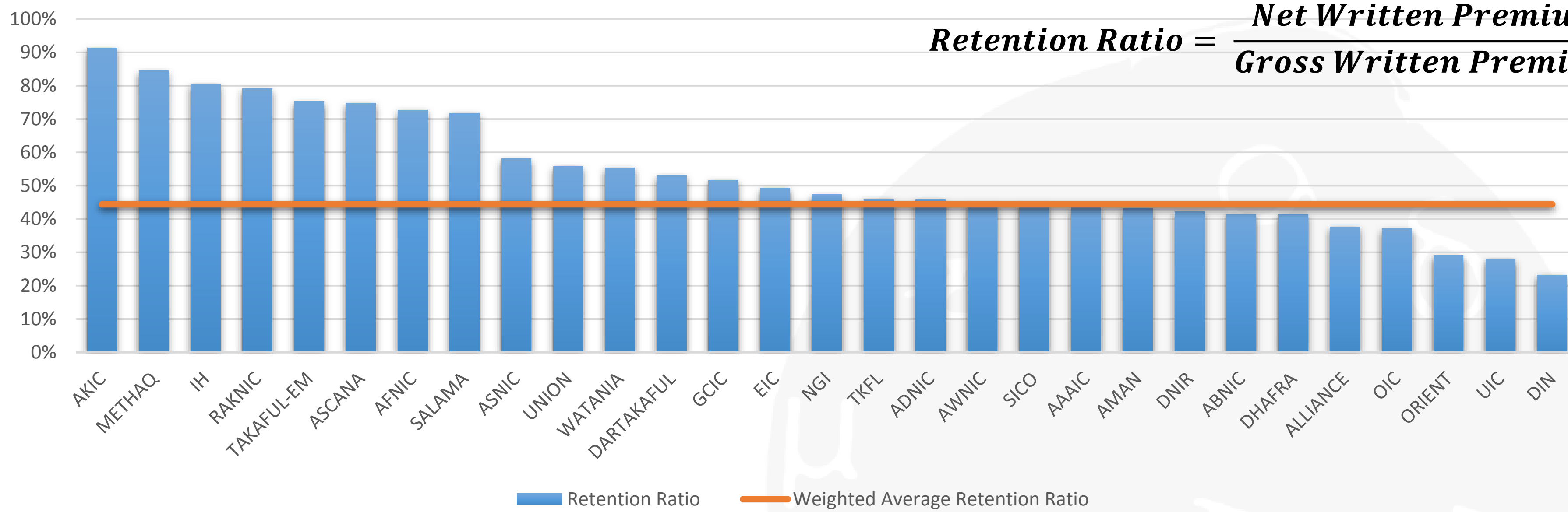
- The top 5 companies had a combined premium of **AED 6.0 billion** for six months of 2016 as compared to **AED 5.5 billion** for H1-2015; their market share in H1-2016 remained around 57% as in H1-2015.

- The highest growth over the first half of 2016 was shown by AKIC with an increase of **86%** in premiums compared to the first half of 2015. The biggest decline over the same period was shown by UIC with a decrease of **42%** compared to the corresponding period in 2015.

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

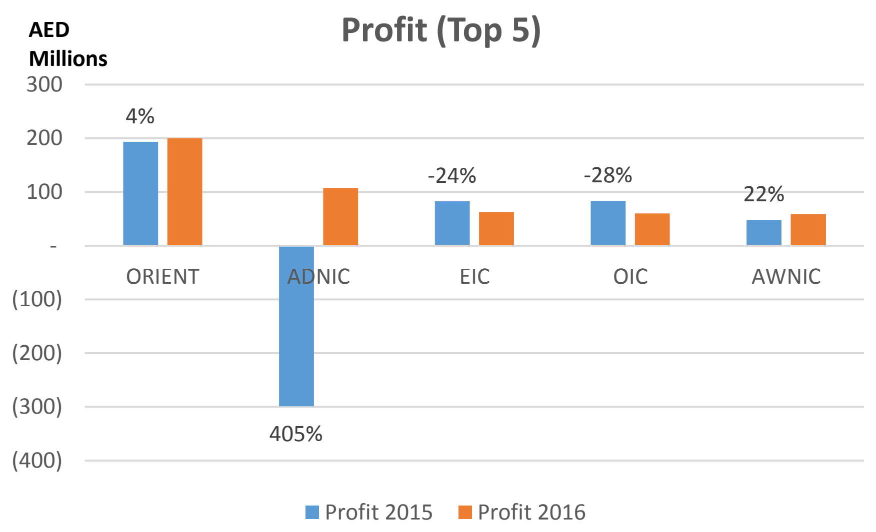
Retention Ratio

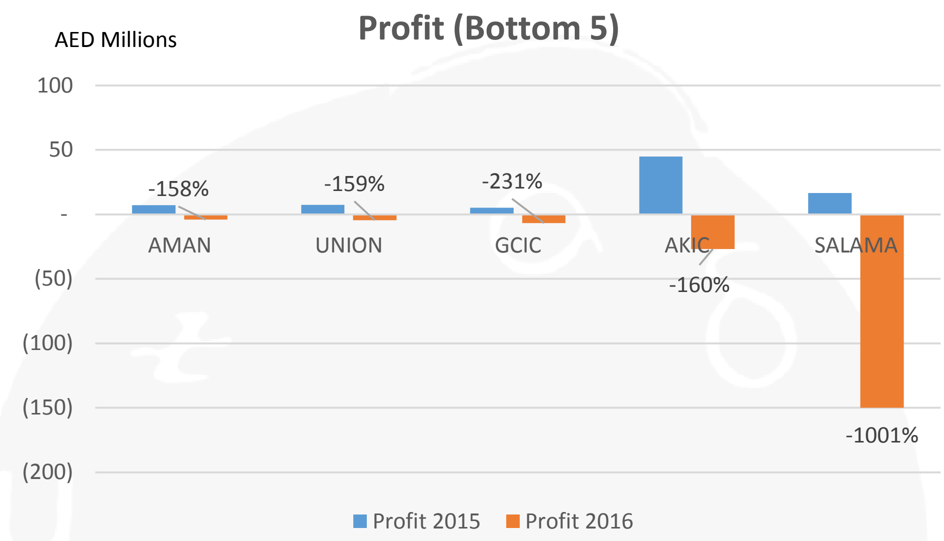
$$\textit{Retention Ratio} = \frac{\textit{Net Written Premium}}{\textit{Gross Written Premium}}$$

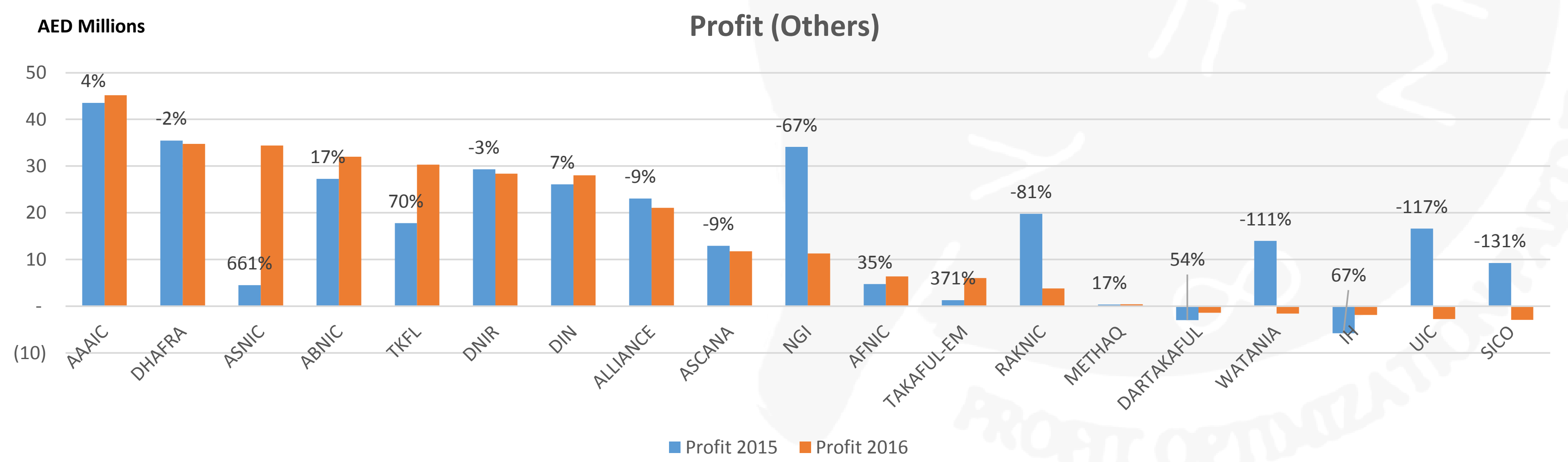


- The highest retention ratio for the six months of 2016 of 91% is reflected by AKIC, whereas the lowest retention ratio of 23% is reflected by DIN. The weighted average retention ratio for listed companies was at **46%**.
- Although there may be exceptions, Retention ratios are generally reflective 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 the two companies with the highest retention ratios; 93% of AKIC H1-2016 premium volumes come from Motor, Medical, EB and PA, while almost all of Methaq business in the period is coming from Motor and Medical.

Profit (Before Tax) for the period 2016







Profit for the period

- Total profit generated for the first half of 2016 amounted to **AED 581 million** compared to the profit of the corresponding period of 2015 of **AED 501 million** which shows an increase of around **16%**.

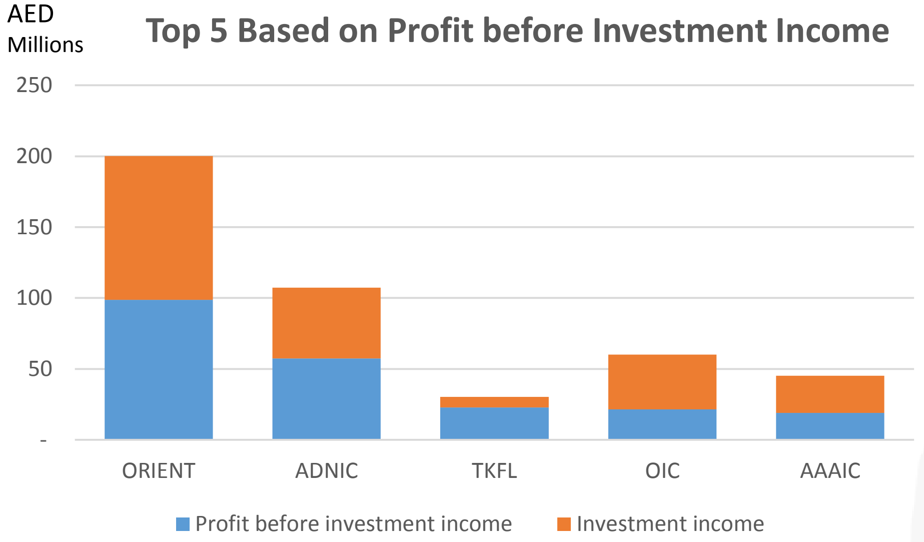
- Two companies displayed contrasting change in fortunes as compared to the corresponding period last year, which effects the numbers significantly due to the scale of volumes of both. ADNIC registered a profit of AED 107 million in H1-2016, moving from a loss of AED 299 million in H1-2015, while SALAMA posted a loss of AED 150 million in H1-2016, from a profit of AED 17 million in the previous period.

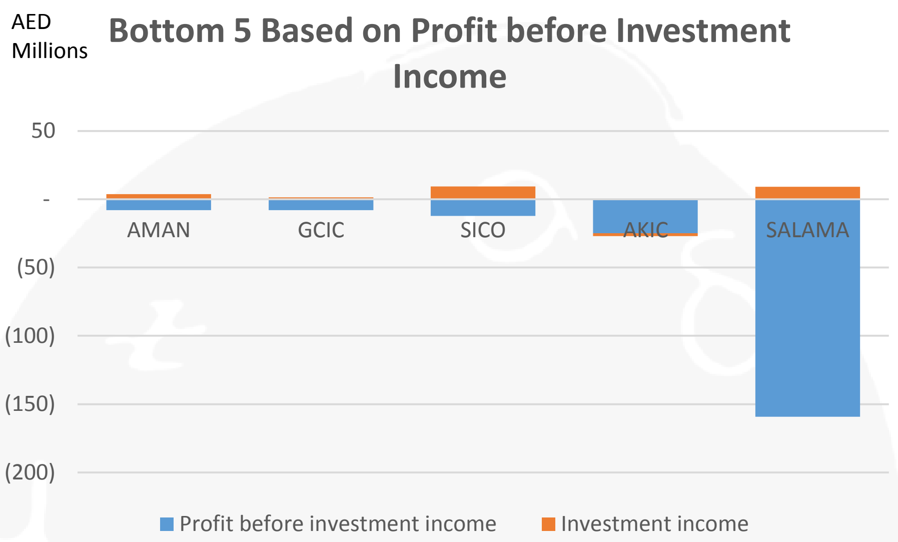
- 10 out of the 29 companies posted losses in H1-2016, as compared to only 3 companies being loss making in the corresponding period in 2015. IH and DARTAKAFUL are the only two companies to book a loss during both periods. AKIC business volumes increased 86% over the previous period, but from a AED 45 million profit in H1-2015, they moved to a loss of AED 26 million.

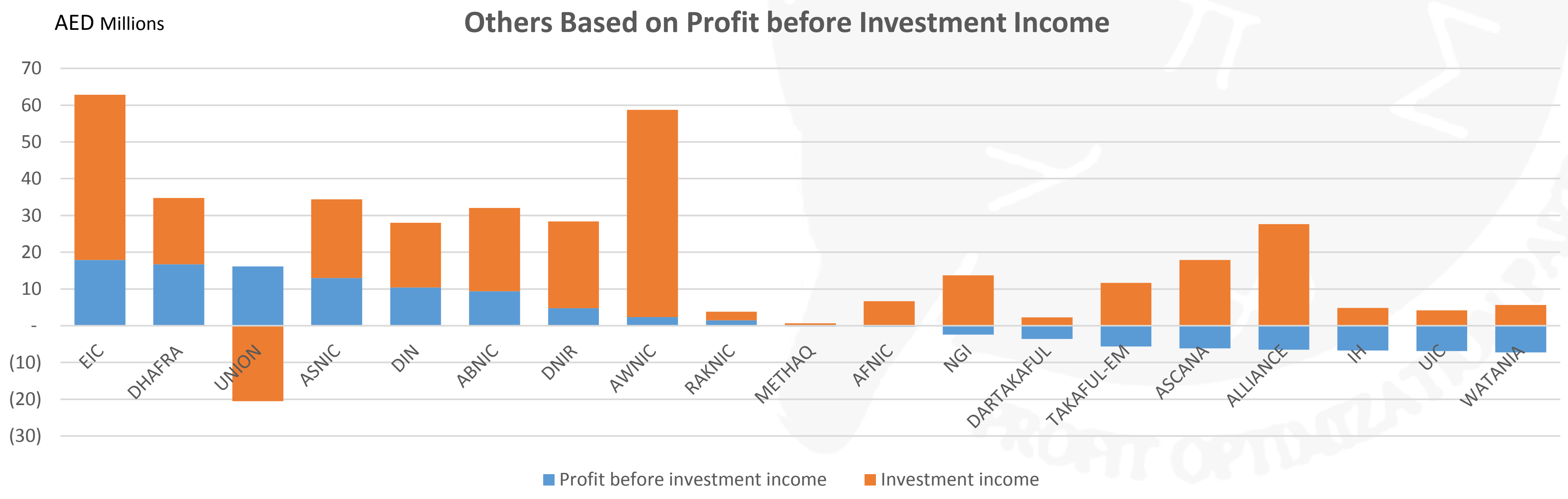
- Although the industry displayed an increase of 16% in profit from previous period, 16 of the 29 companies had a worse result compared to H1-2015. This may in part be due to reserving requirements of the new Financial regulations, as companies look to align their reserves before the end of 2016, and this strain of profitability may continue till year end.

- ORIENT booked the highest profit during the period of **AED 200 million** (H1-2015: **AED 193 million**), while SALAMA booked the highest loss.

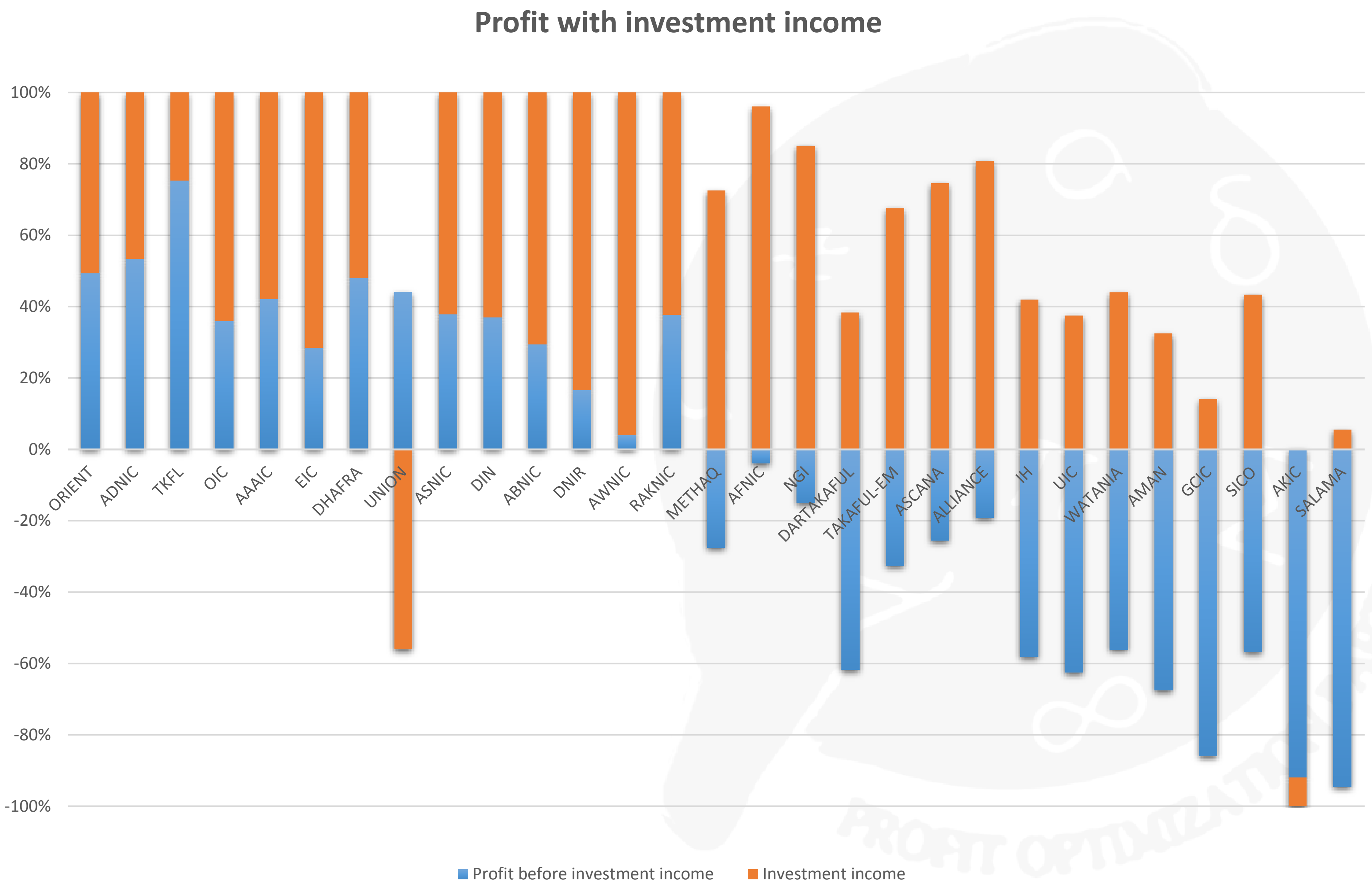
Profit Before and After Investment Income







Profit Composition Before and After Investment Income



Premium Benchmarked on the basis of Profitability

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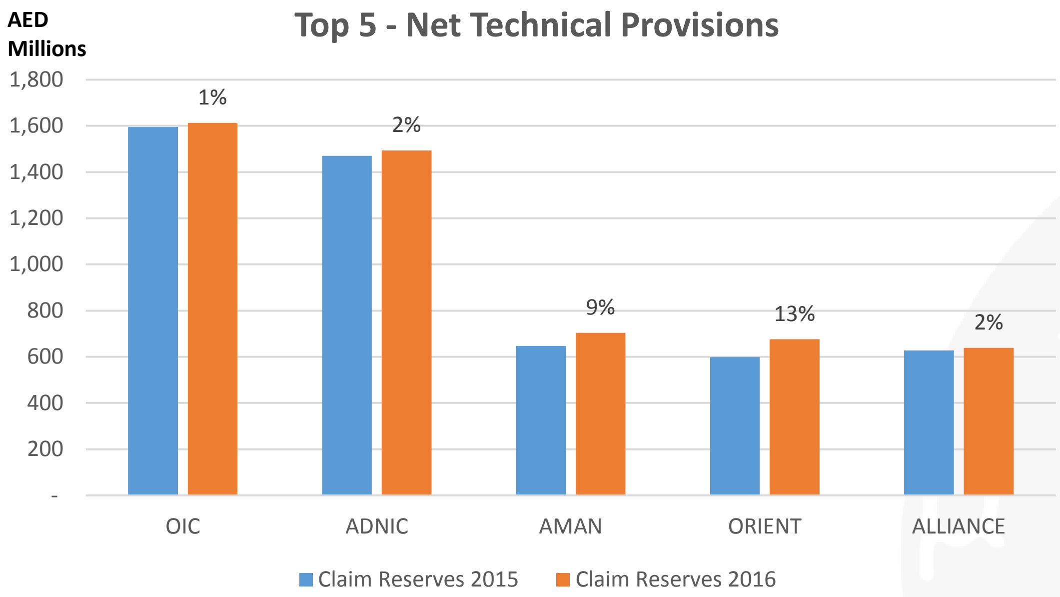
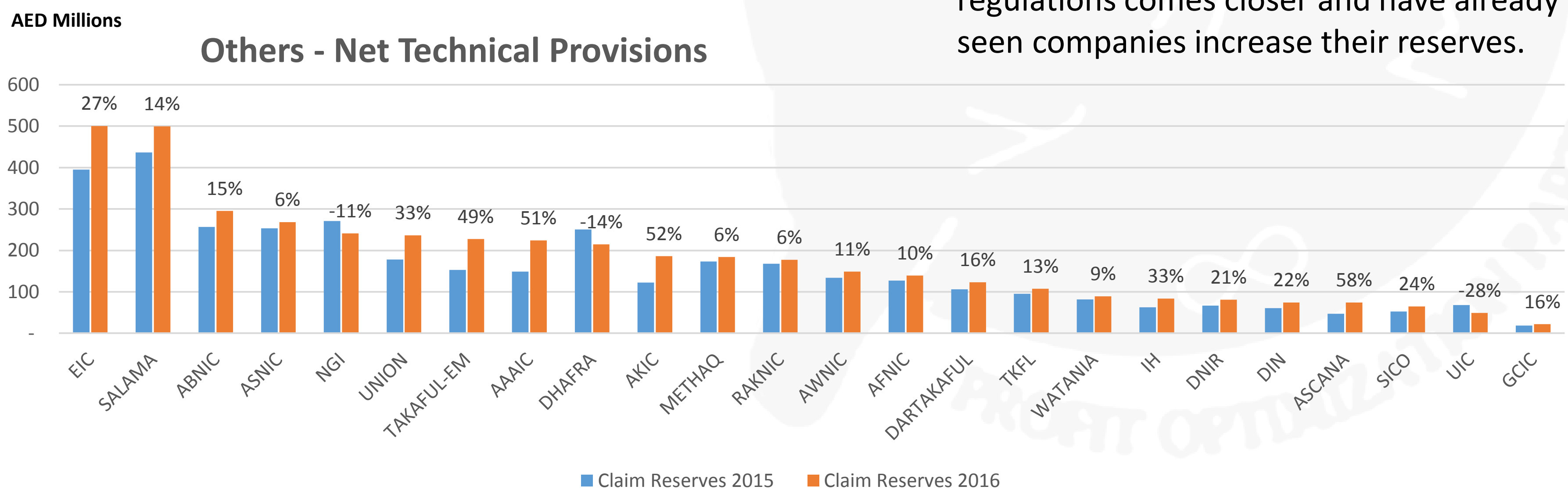
Company/ Branch	Ranking		Indic
	Gross Premium	Profit	
OIC	1	4	↓
ORIENT	2	1	↑
ADNIC	3	2	↑
EIC	4	3	↑
AAAIC	5	6	↓
ABNIC	6	9	↓
UNION	7	26	↓
SALAMA	8	29	↓
TAKAFUL-EM	9	17	↓
NGI	10	15	↓
DIN	11	12	↓
ASNIC	12	8	↑
RAKNIC	13	18	↓
DHAFRA	14	7	↑

Company/ Branch	Ranking		Indic
	Gross Premium	Profit	
AWNIC	15	5	↑
ALLIANCE	16	13	↑
TKFL	17	10	↑
AMAN	18	25	↓
DARTAKAFUL	19	20	↓
AKIC	20	28	↓
DNIR	21	11	↑
METHAQ	22	19	↑
AFNIC	23	16	↑
WATANIA	24	21	↑
IH	25	22	↑
ASCANA	26	14	↑
SICO	27	24	↑
UIC	28	23	↑
GCIC	29	27	↑

Of the top 10 companies by Premium volume, 7 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, Orient and EIC 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 four companies by premium volume are also the top 4 by profits

Technical Provisions

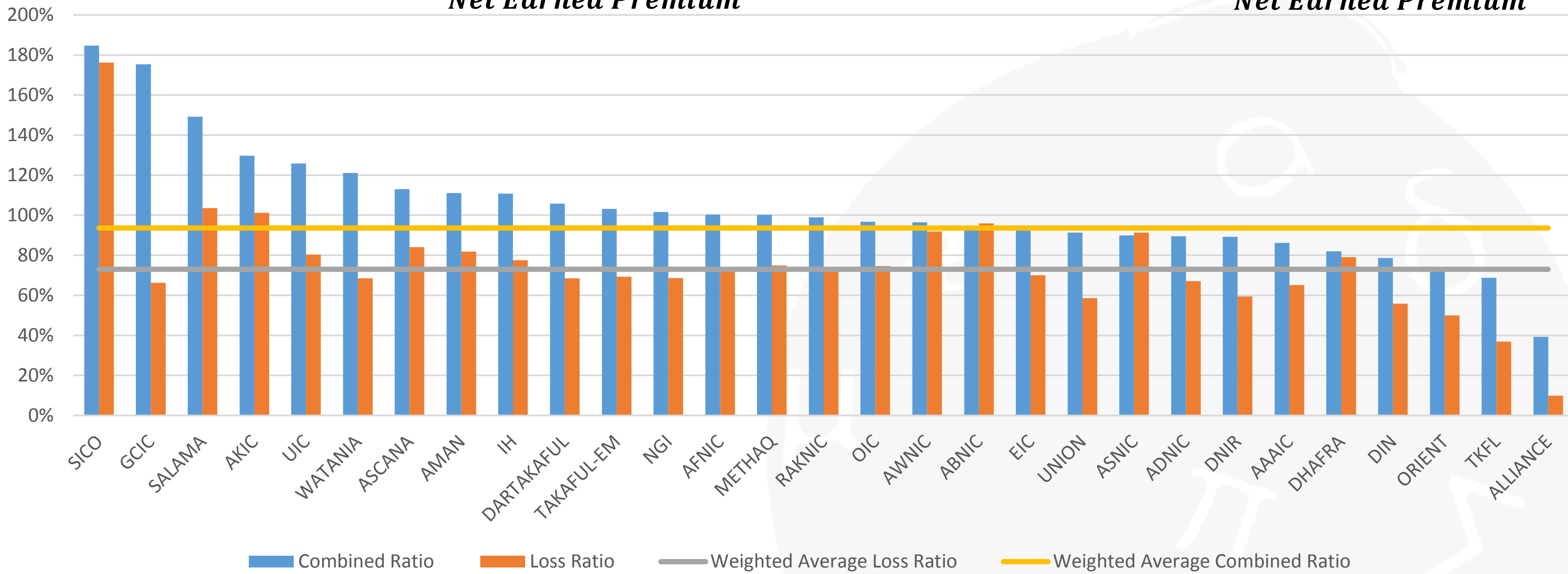




- Total net reserves as at Jun-16 grew by 9% as compared to the net reserves as at Dec-15
- The top 3 companies in terms of booking technical provisions retain their ranks, and though the sequence is slightly changed, the top 10 companies also remain the same.
- For companies which have restated their 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.

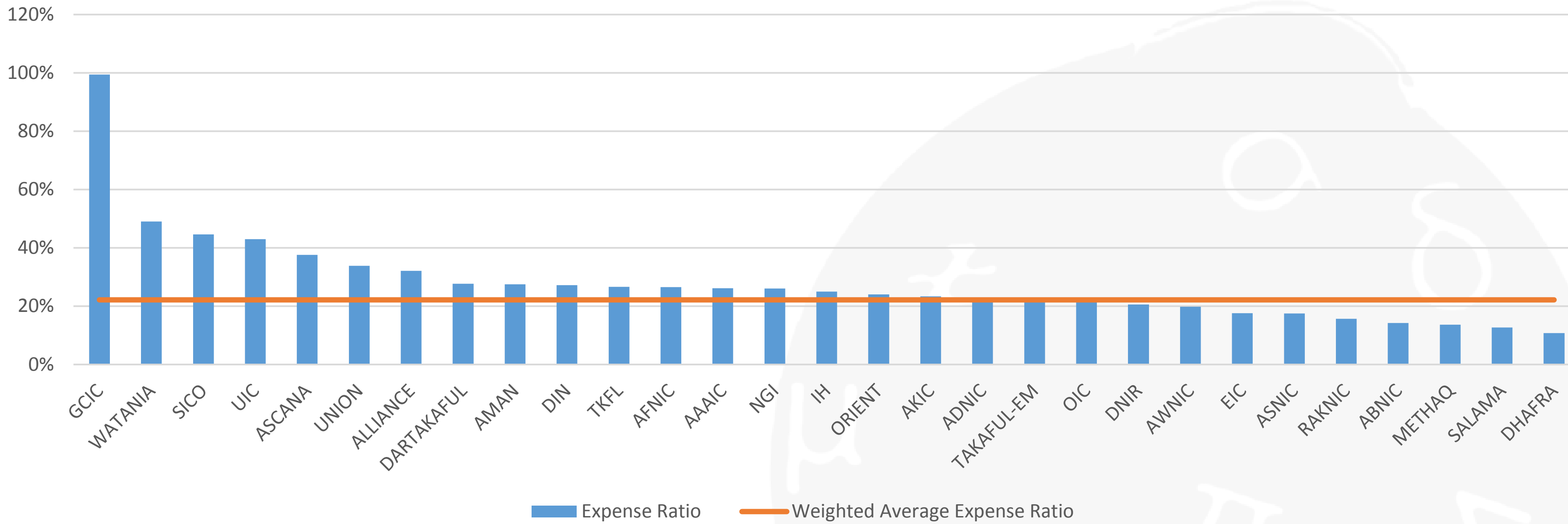
Loss and Combined Ratio

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



- Weighted Average loss ratio was **73**% and weighed average combined ratio was **98%**.
- The highest combined ratio for the year 2015 of **185%** is reflected by SICO and the lowest combined ratio is of ALLIANCE at **39%.**
- 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%. 5 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.

G&A Expense Ratio



- The highest expense ratio for the six months ended June 30, 2016 of **99%** is reflected by GCIC, whereas the lowest expense ratio of **11%** is reflected by DHAFRA. 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

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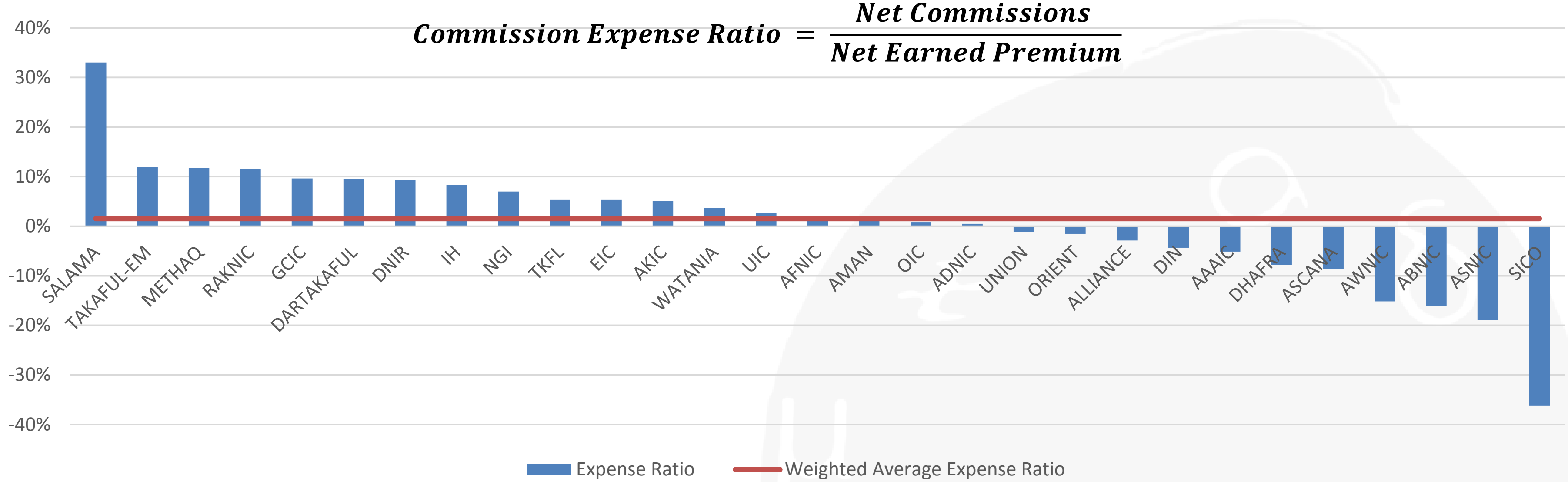
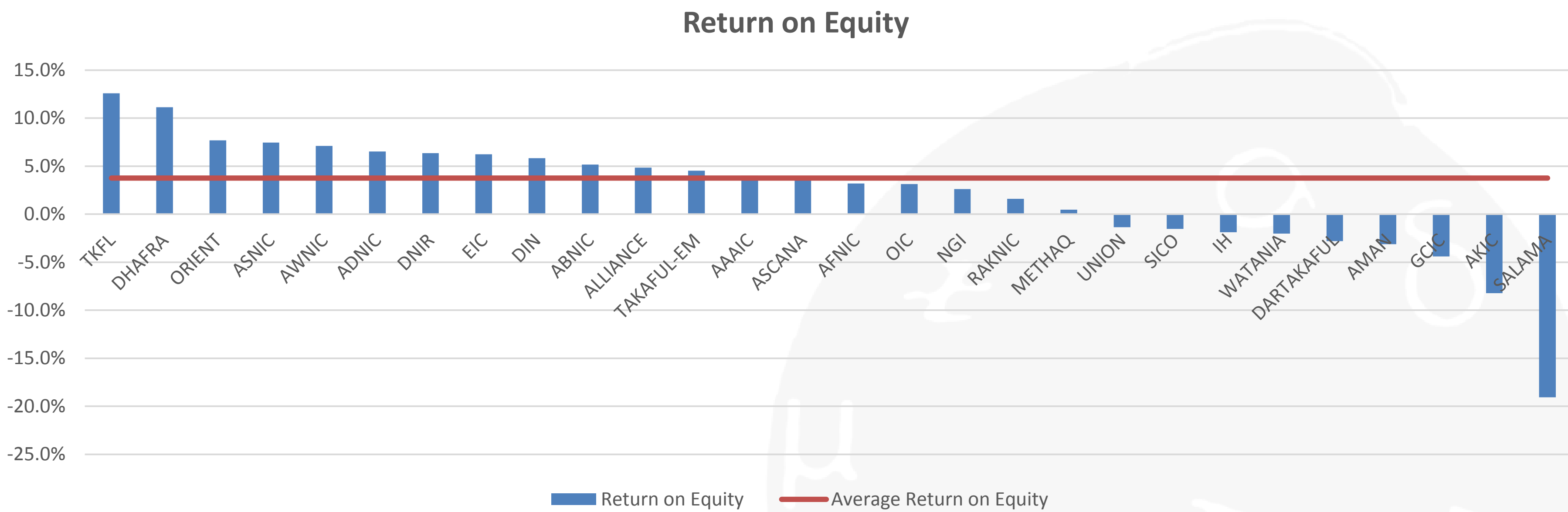
$$\textit{Commission Expense Ratio} = \frac{\textit{Net Commissions}}{\textit{Net Earned Premium}}$$



- The highest commission expense ratio June 30, 2016 of **33%** is reflected by SALAMA, whereas the lowest expense ratio of **(36)%** is reflected by SICO. Weighted Average expense ratio was at **1.5%**.
- 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 year 2016 of **13%** is shown by TKFL, whereas the lowest return on equity of **-19%** is reflected by **SALAMA**.
- Weighted average return on equity was at **3.7%**.
- The return on equity have been calculated as a ratio of net profit to total shareholder's equity as at the beginning of 2016.
- We have excluded the outlier UIC **(ROE -77%)** for our analysis purpose to keep market average in line.

Conclusion

- Total premiums written, by the listed insurance companies, in the six months of 2016 amounted to **AED 10.6 billion**, as compared to the premium written in the corresponding period of 2015 of **AED 9.7 billion** which shows a growth of 9.2%. The average premium retention ratio was at 46%.

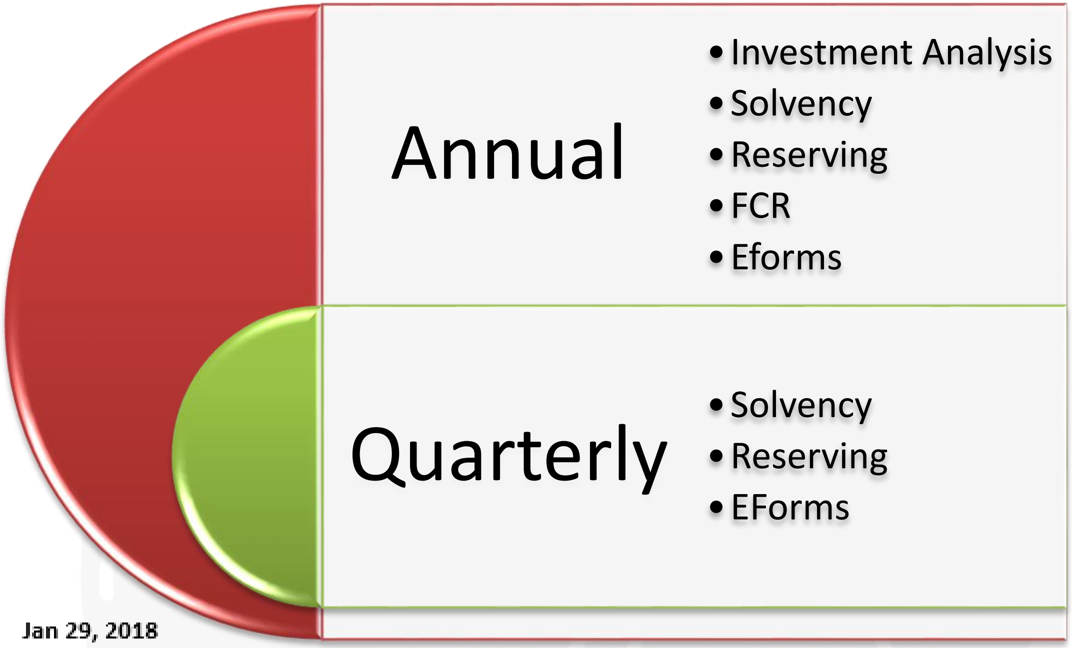
- Average loss ratio for all companies analyzed was 73% and average combined ratio was at 98%.

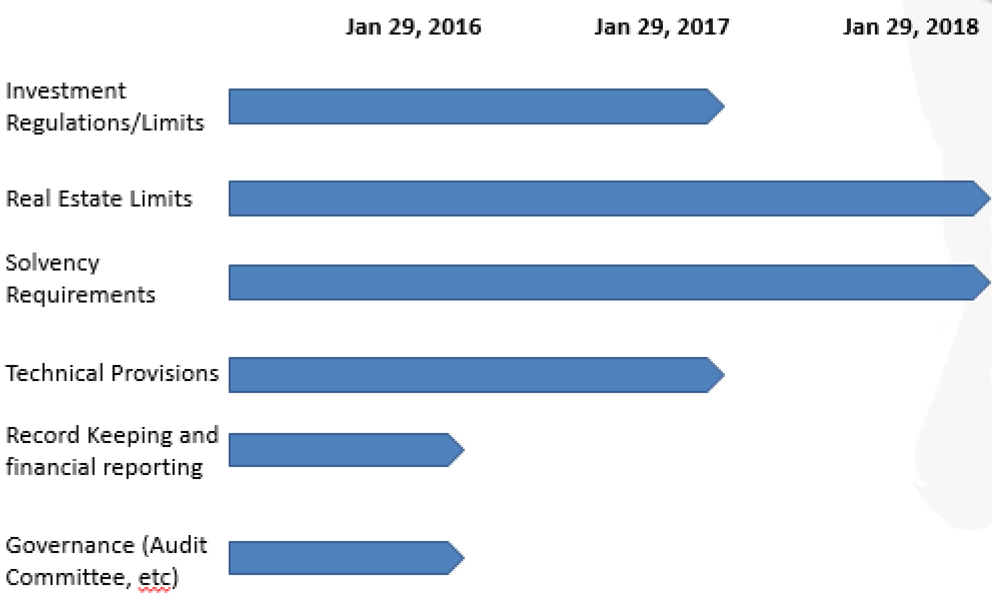
- Total profit/loss generated for the six months of 2016 amounted to **AED 581 million** compared to the profit of the corresponding period of 2015 of **AED 501 million** which shows a increase of **16**%.

- The weighted average return on equity was 3.7%.

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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