Q3

OMANI LISTED INSURANCE COMPANIES PERFORMANCE ANALYSIS FOR NINE MONTH PERIOD OF 2020

7th DECEMBER 2020

GLAD TIDINGS

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The **award** is a reflection of the trust and loyalty of our esteemed clients, and the hard work and dedication of all our people at Badri.

Apart from excellence in core actuarial services, Badri has raised the bar in providing industry insights with market specific reports, trainings, newsletters, and data analytics with an aim to benefit the insurance industry at large.

Thank you Middle East Insurance Review and the judges for acknowledging all the efforts put in behind the scenes.

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Badri Management Consultancy is the fastest growing Actuarial Consulting Firm in the Middle East, recognized for its collaborative approach to working with its clients as Profit Optimizing Partners. We are serving as Appointed Actuary for over 20 companies in the GCC. In addition, we are providing other services including IFRS17 Implementations, Development of ERM Framework, Specialized services for Medical Insurance and TPAs, Business Intelligence solutions and End of Service Benefits Valuations.

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Solution architects strengthening our partners to optimize performance

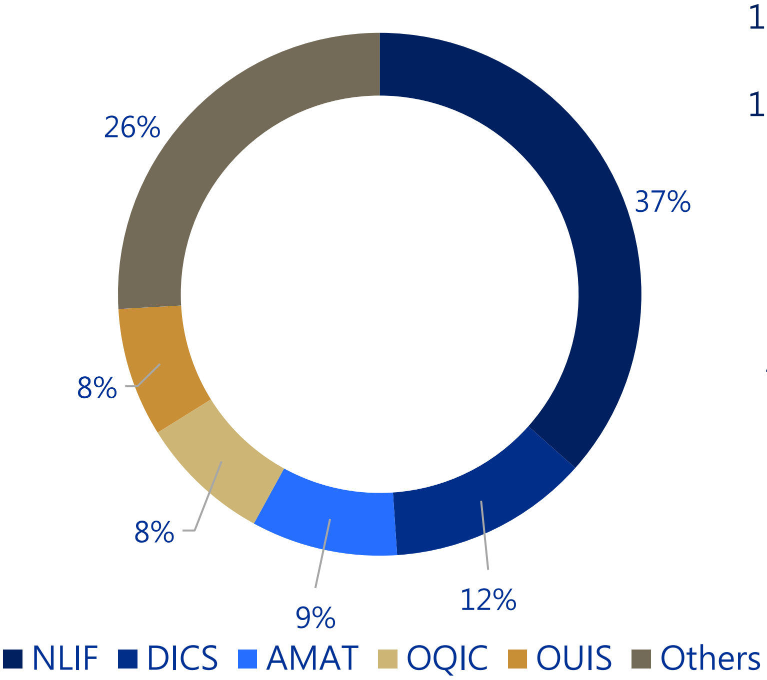
MISSION

We help our clients be the best version of themselves by fostering partnerships, challenging norms and providing cutting edge solutions. We inspire our people to constantly evolve and chase excellence with integrity in a diverse, exciting and growth-oriented culture.

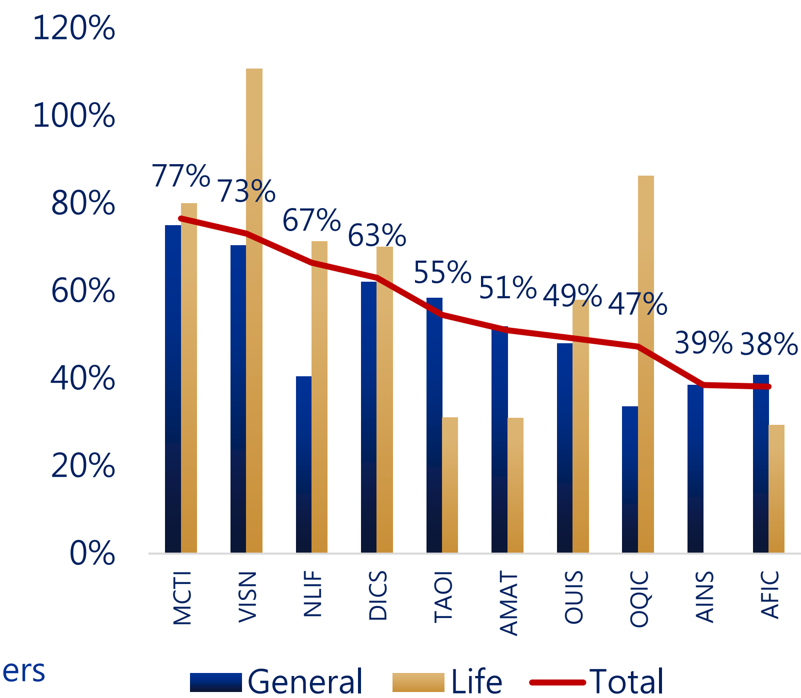
content

Summary of 2020-Q3

Market Share



Business Segment wise Loss Ratio



Business Written RO 309mn By Listed Companies

Listed Companies Exhibited 52% Profit Growth

Industry Combined Ratio 87%

Insurance Receivables to GWP 35%

Listed Companies Recorded Profit RO 35mn

Highest GWP Growth 6% By DICS

Highest ROE 33% By NLIF

A Look At 2019-Q3

Highest Gross Written Premium NLIF Contributes to **37%** of the business share for Q3-2019.

RO **113** mn

RO **22.7** mn

Profits Recorded in Q3-2019

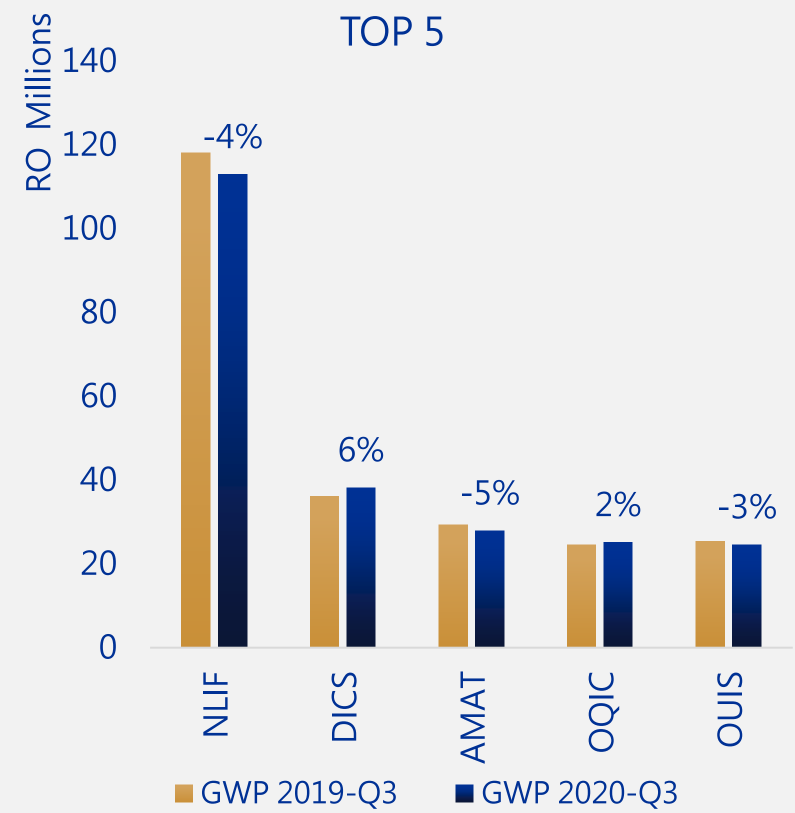
Net Technical Reserves booked by Companies

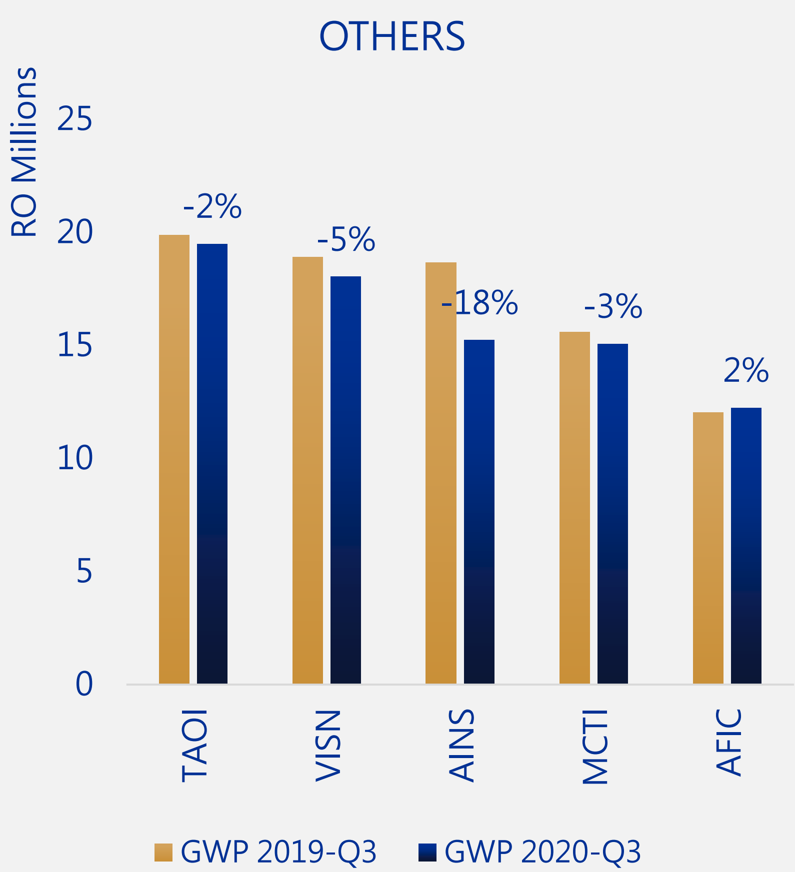
RO **217.7** mn

RO **319** mn

Gross Written Premium of Listed Companies

Gross Written Premiums





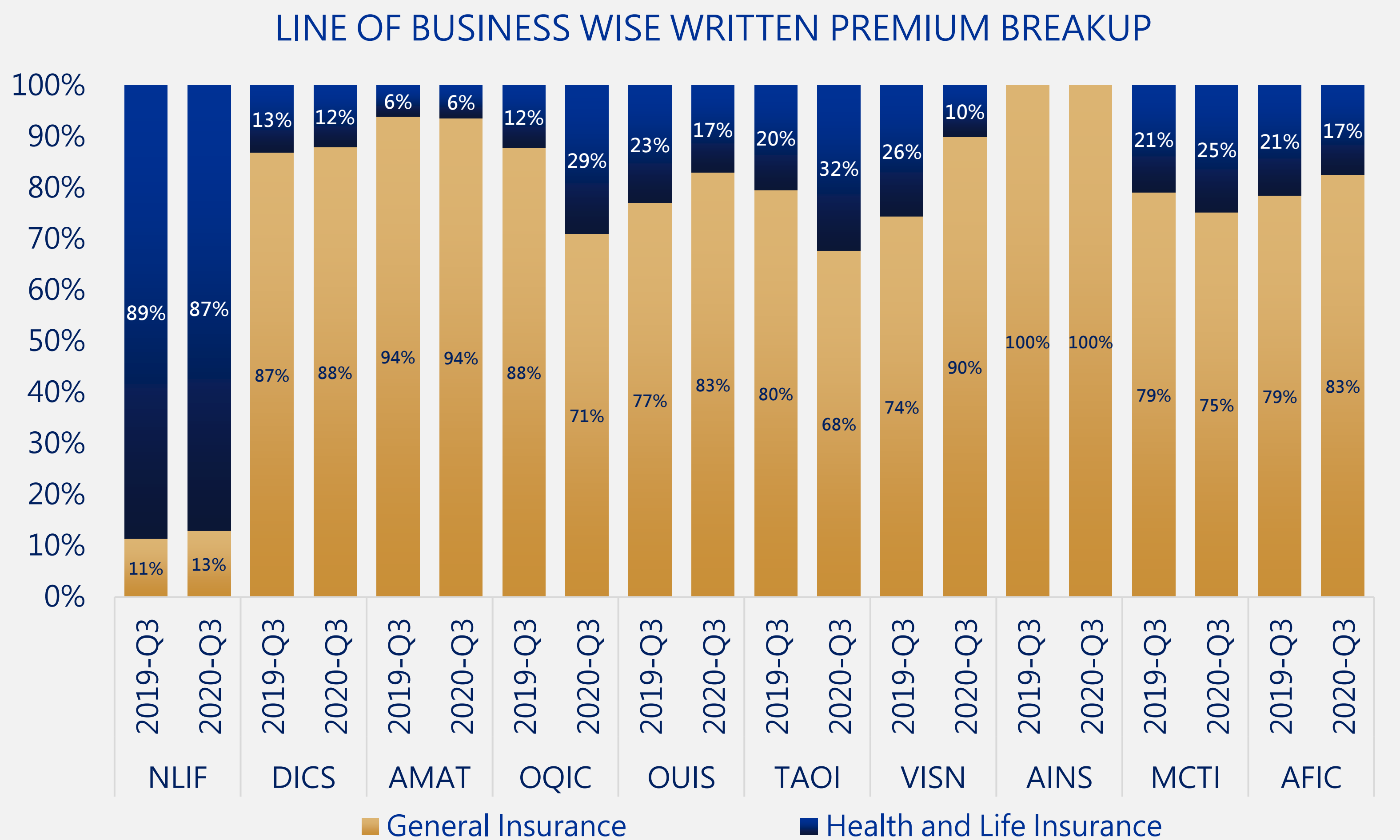
The insurance companies in the Sultanate observed a drop in business with total Gross written premium of about RO 309 million, depicting a decline of 3% from YTD 2019-Q3. DICS, OQIC and AFIC observed a growth in premiums when compared to last year.

The TOP 5 insurers in terms of GWP amounted to RO 229 million, hence contributing 74% of overall market.

NLIF being the market leader in Health and Life Insurance secures top rank and contributed 37% share in insurance sector for the nine months ended 2020. NLIF's premium of RO 113 million includes RO 59 million from overseas subsidiaries which is about 52% of their total business. However, as the consolidated numbers are reported, we have used the consolidated financials statements.

DICS exhibited the highest GWP growth rate of 6%, while AINS observed the largest decline of 18%.

Gross Written Premiums



The business for NLIF is concentrated in Health and Life Insurance which comprises 87% of the total gross premiums of the Company for nine months ended 2020.

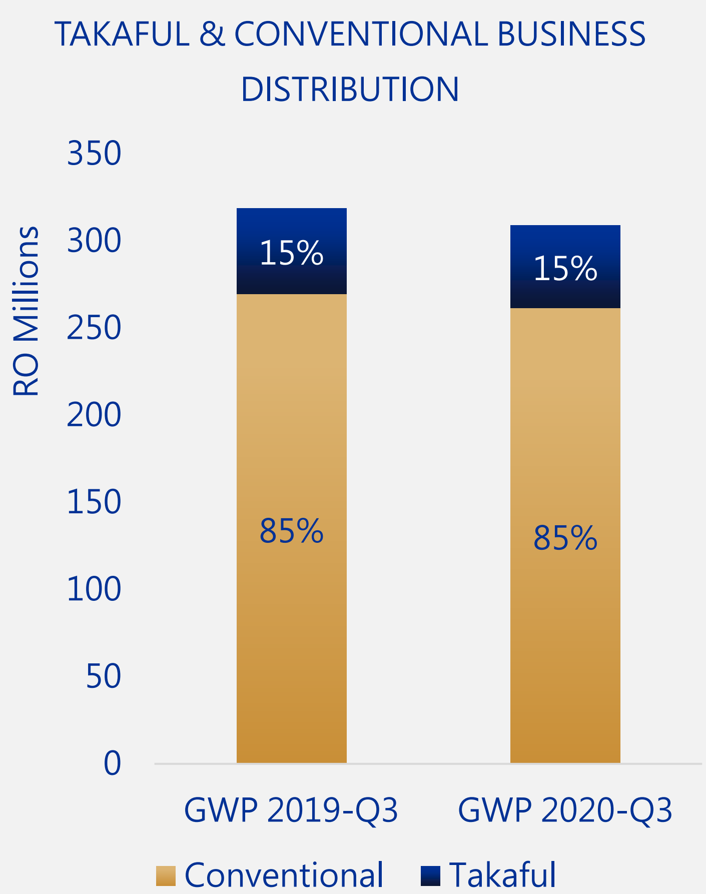
Excluding NLIF, the companies operating in Oman concentrate predominantly in Non-Life Insurance Business. 84% of the GWP excluding NLIF is attributable to Non-Life Insurance, while as a percentage of the overall market including NLIF, this works out to 58% for nine months ended 2020. The ratios have remained consistent with the previous period.

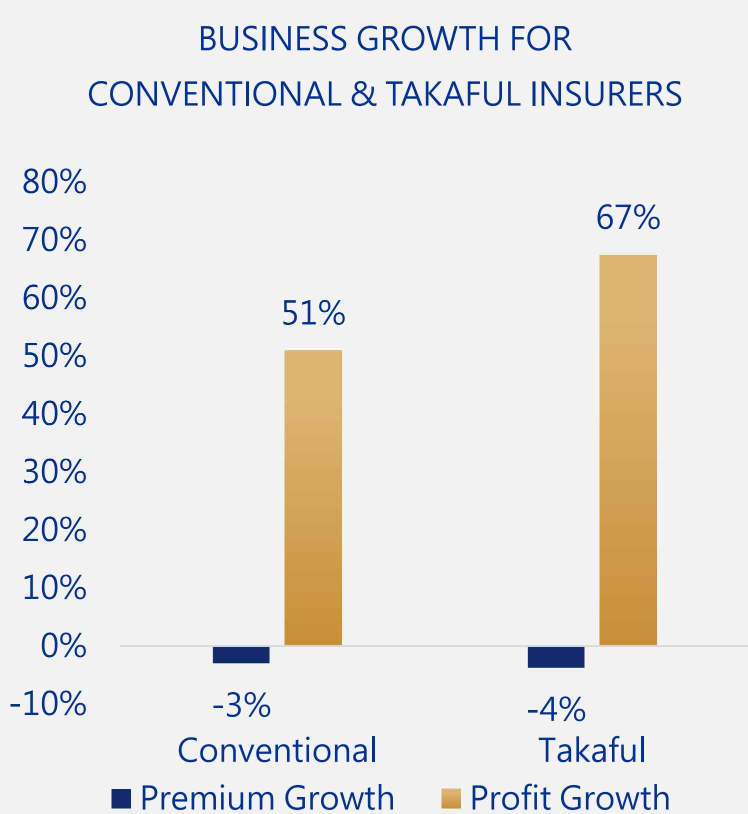
For AINS, segmental information was not available and thus all amounts have been allotted to Non-Life insurance business only. Furthermore, for OUIS, the segmental information was only available on net basis and hence historical retention ratios were used to estimate the gross amounts.

Non-Life and Life segments each have exhibited a decline of 3% in GWP as compared to the corresponding period of 2019, resulting in an overall drop of 3% in written business of Oman Insurance Industry.

The above graph is sorted with respect to gross written premium in descending order.

Conventional Vs Takaful



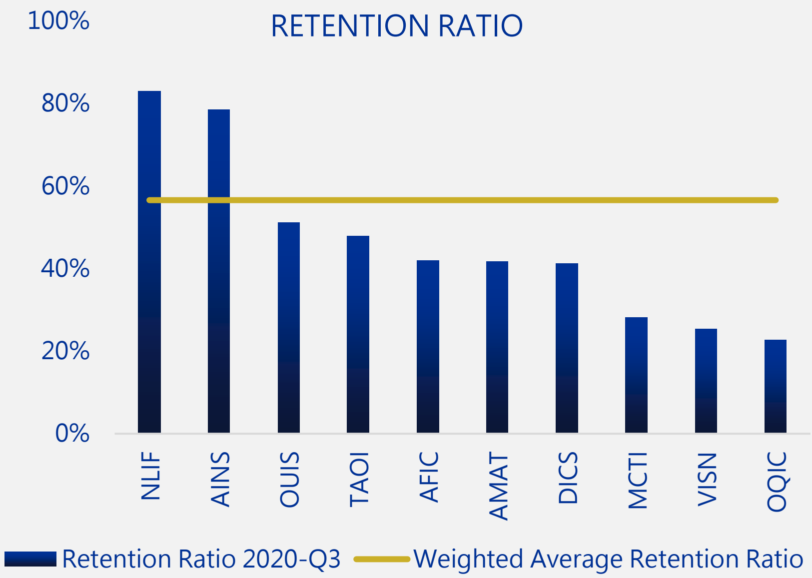


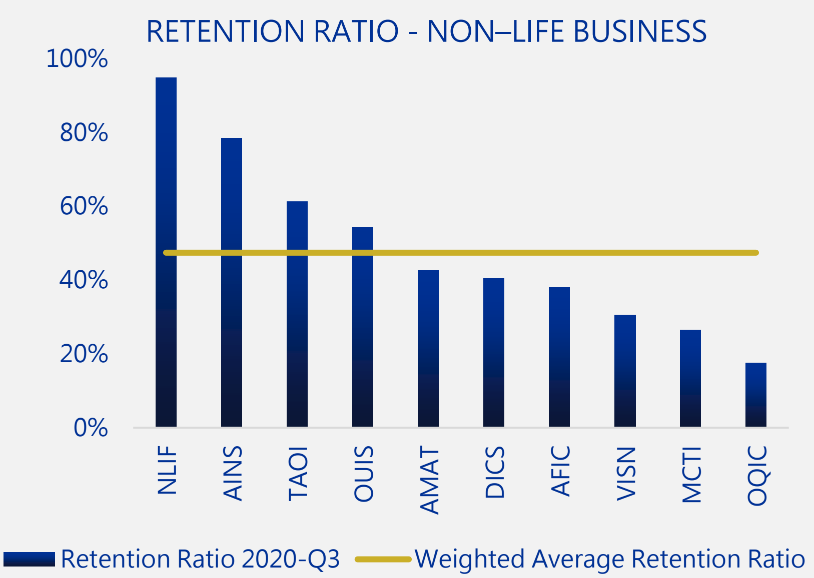
In the Sultanate of Oman, out of 10 listed insurance companies, only 2 operate as Takaful Insurers, contributing 15% of the total written business in 2020-Q3 which is consistent with 2019-Q3.

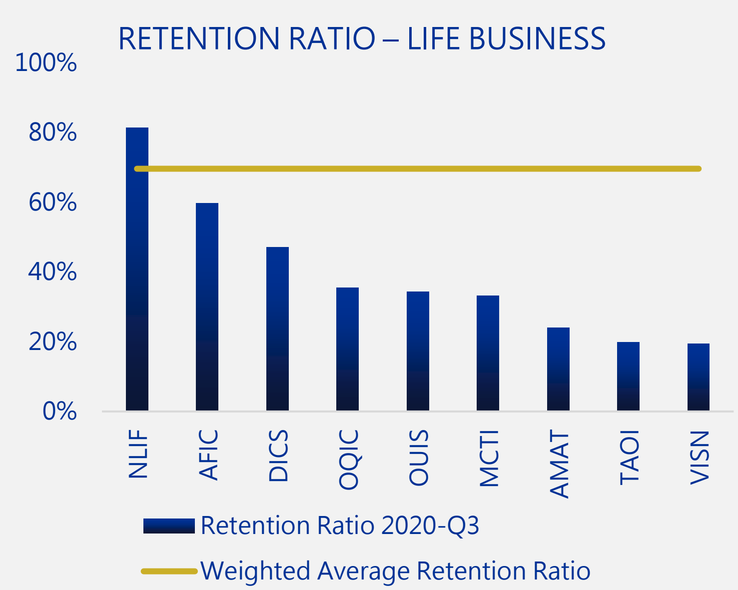
When comparing premiums with the corresponding period of 2019, Takaful insurers exhibited a decline of 4% whereas the Conventional insurers observed a decline of 3% in 2020-Q3.

The profit growth of Conventional insurers is influenced by NLIF, which recorded a growth of 91% in profits whereas on the Takaful front, both TAOI and AMAT exhibited a high profit growth of 132% and 47% respectively.

Retention Ratio







The retention ratios have been calculated as a ratio of net written premiums to gross written premiums.

The weighted average retention ratio for YTD 2020-Q3 stood at 57% for the companies in the Sultanate with NLIF reflecting highest retention of 83% while OQIC depicting the lowest retention of 23%.

Although there may be exceptions, retention ratios are generally reflective of 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 retention.

Life business shows higher retention levels than Non-Life business.

The weighted Average Retention ratio for Non-Life stood at 47% for 2020-Q3 in contrast with Life business retention ratio which is computed as 70%.

A further segmented analysis on a line of business is not performed due to limited information being available.

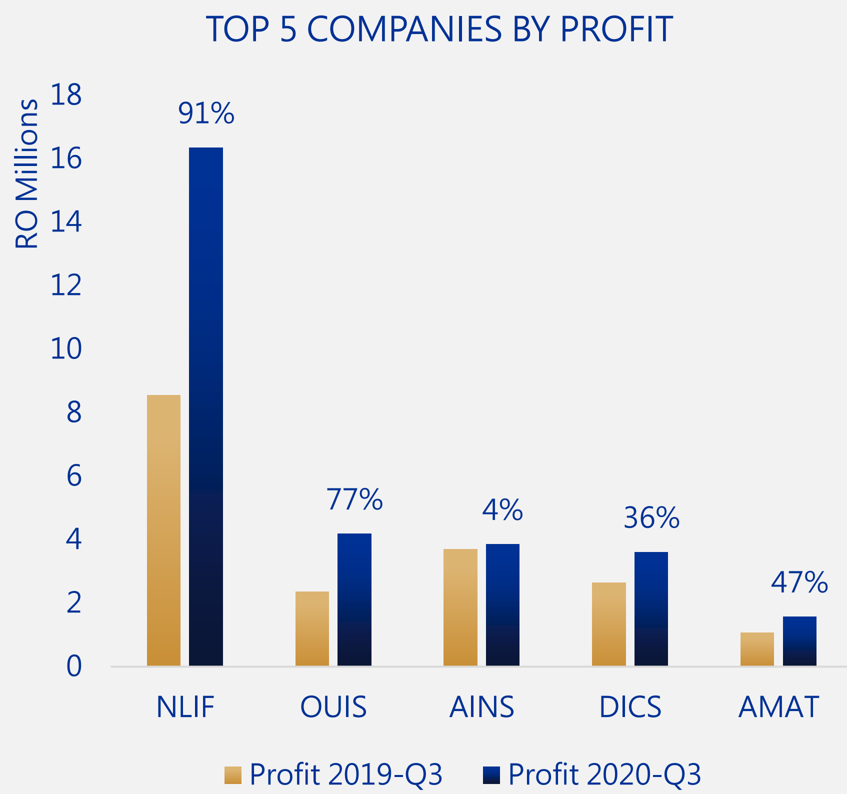
Profit Before Tax

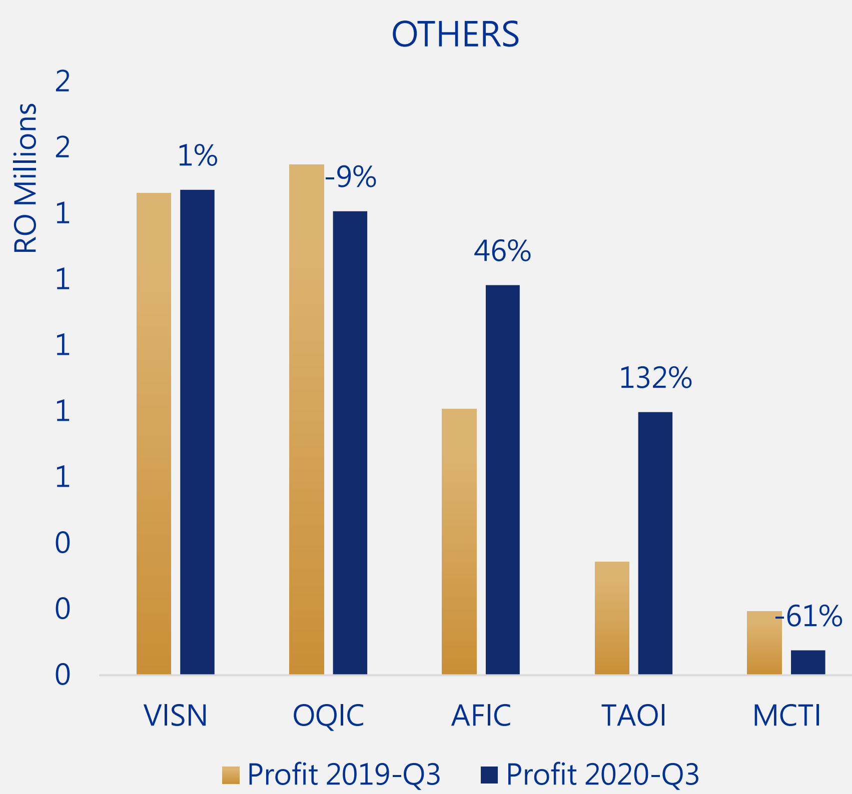
The Insurance companies in the Sultanate of Oman have shown a profit growth of 52%, where the total profit amounted to RO 35 Million for 2020-Q3 (2019-Q3: RO 23 Million). It is worth mentioning that the profit growth drops to 28% (from 52%) for 2020-Q3 if NLIF is excluded from this analysis.

NLIF booked the highest profit amounting to RO 16.4 Million, which is an increase of 91% from 2019-Q3 (RO 8.6 Million). NLIF makes up 47% of the total profit of the companies in the Sultanate for 2020-Q3. Having said that, it should also be noted that out of the RO 16.4 Million, 84% (RO 13.7 Million) of the profits are from business within Oman.

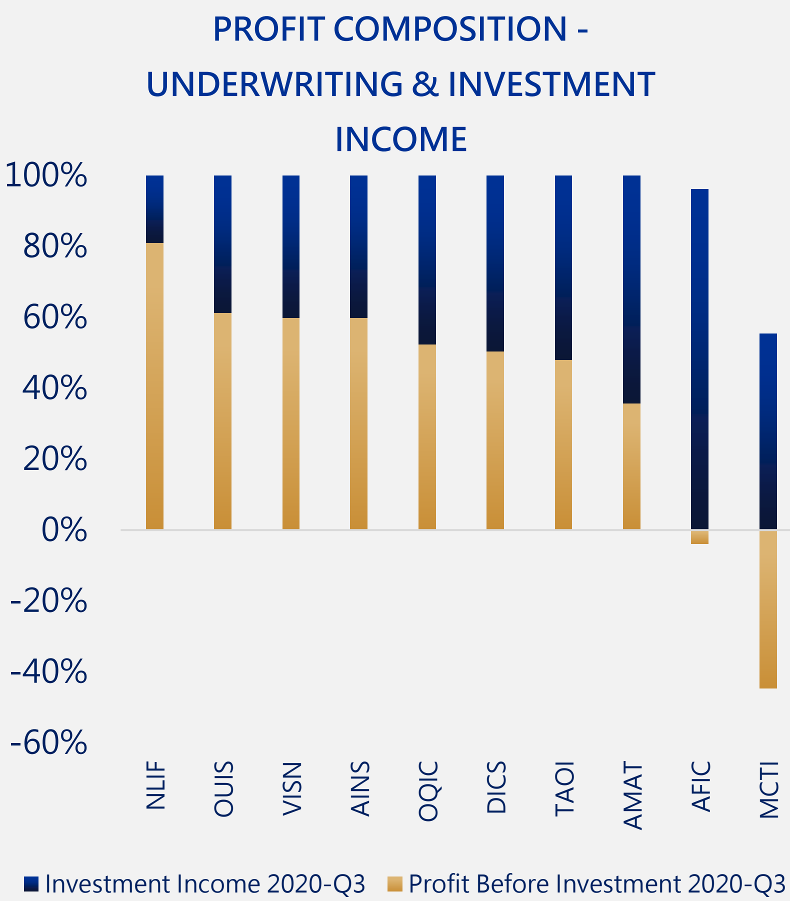
The highest profit growth was recorded by TAOI of about 132% while the largest decline of 61% for the period was recorded by MCTI. Nevertheless, MCTI has managed to record a profit in 2020-Q3 after incurring losses since year-end 2019 up to 2020-H1 as shown in our past performance analysis reports.

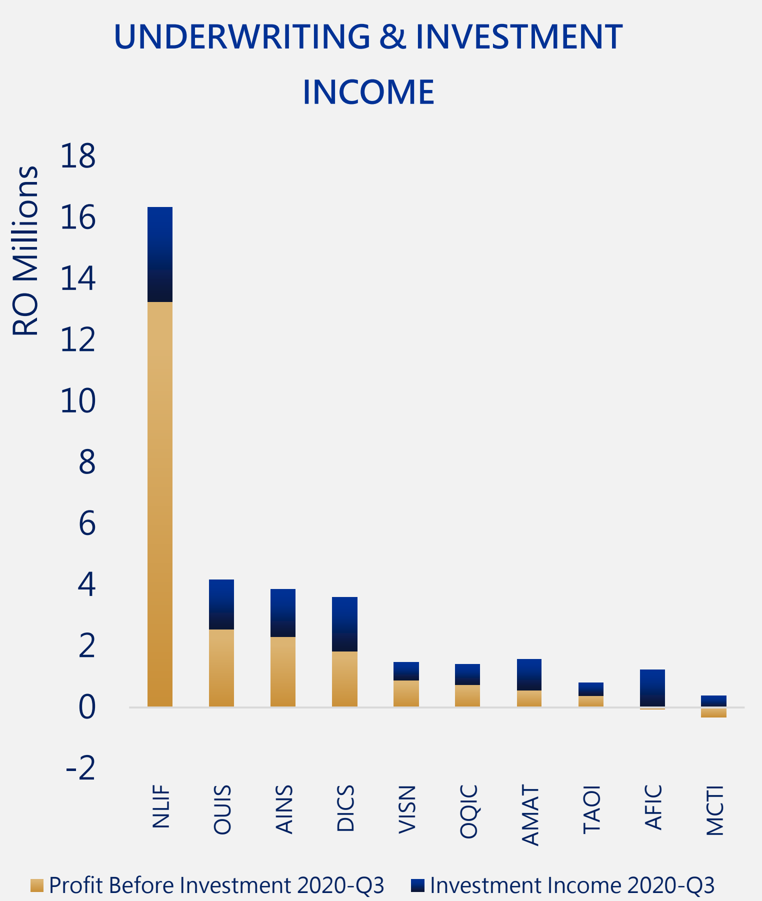
For Takaful companies, net profits before tax on policyholder and shareholder accounts are consolidated for comparative purpose.





Profit Before Tax





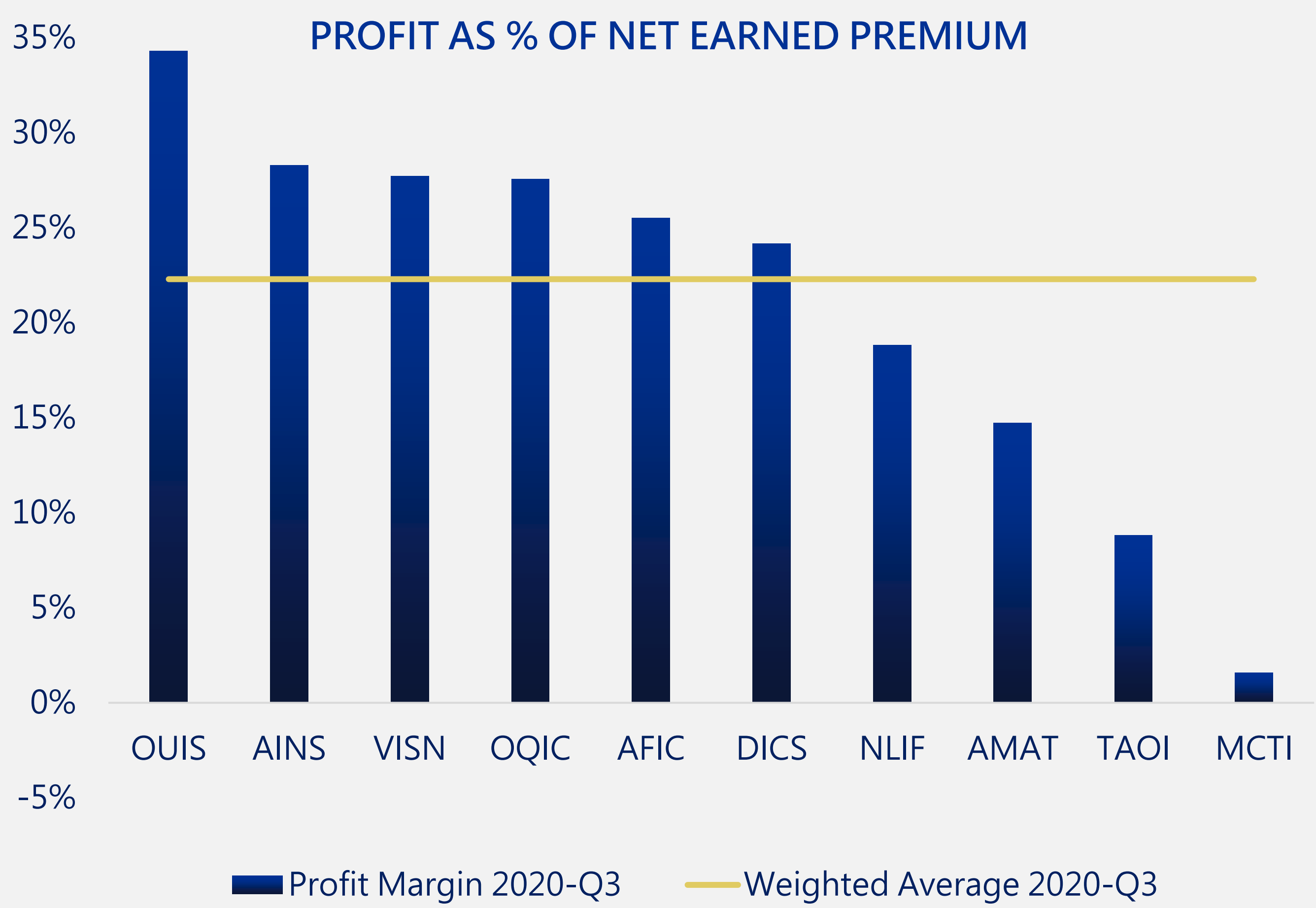
Investment Income has contributed in generating profits for all the listed Companies performing in Oman.

MCTI and AFIC recorded a loss on underwriting activities which was offset by the investment income.

Overall, four companies have investment income which is higher than the underwriting profits. This shows the importance of investment income in the industry when the primary profit source of insurance companies is expected to be from underwriting.

The analysis presented here is sorted by Profit before investment income.

Profit as a Percentage of Net Earned Premium

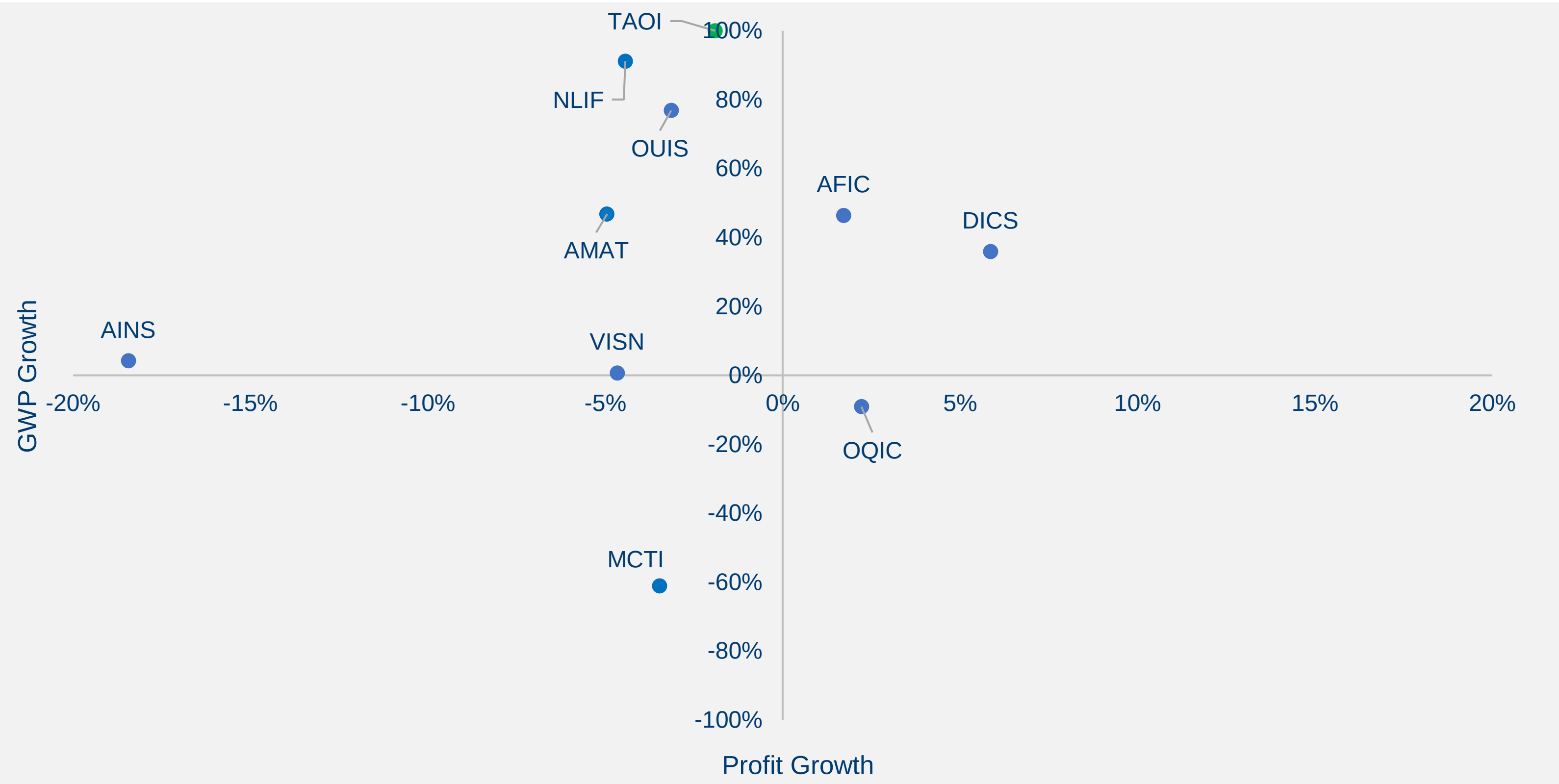


The above graph illustrates the Profit Margin [bottom line profit/(deficit) as a proportion of net earned premium] for the insurance companies in the Sultanate for YTD 2020-Q3.

The Profit Margin of the Oman Insurance Industry stands at around 21% for 2020-Q3.

As depicted, OUIS has the highest profit margin, followed by AINS.

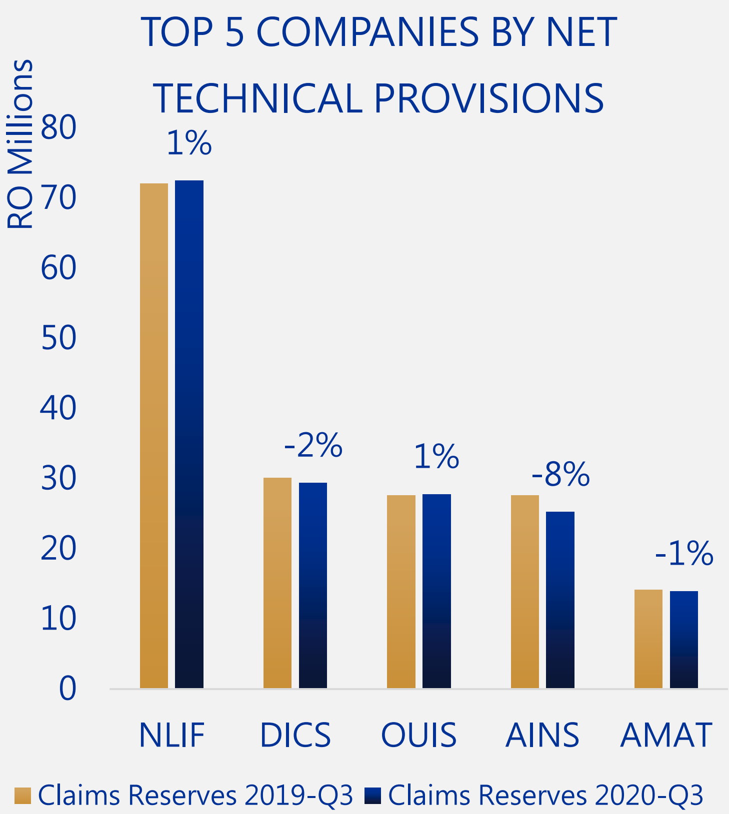
Premiums and Profit Analysis

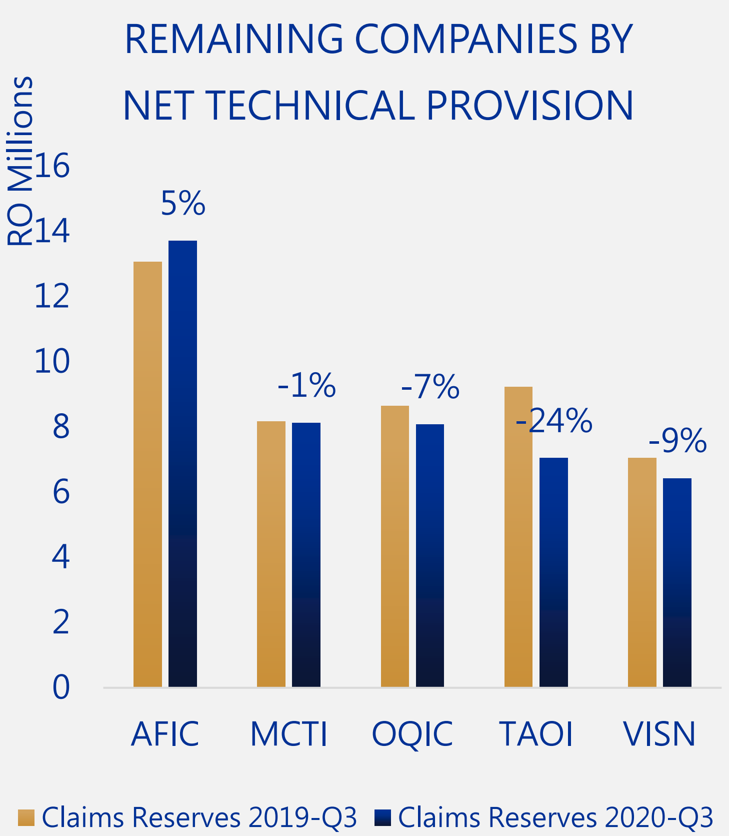


A summary of premium and profitability growth in 2020-Q3 from the corresponding period of 2019 is presented. Companies exhibiting premium and profitability growth rate outside of the +-20% and +-100% range are capped, respectively.

Company	Ranking		Indic.
	Gross Premium	Profit	
NLIF	1	1	
DICS	2	4	
AMAT	3	5	
OQIC	4	7	
OUIS	5	2	
TAOI	6	9	
VISN	7	6	
AINS	8	3	
MCTI	9	10	
AFIC	10	8	

Net Technical Provisions

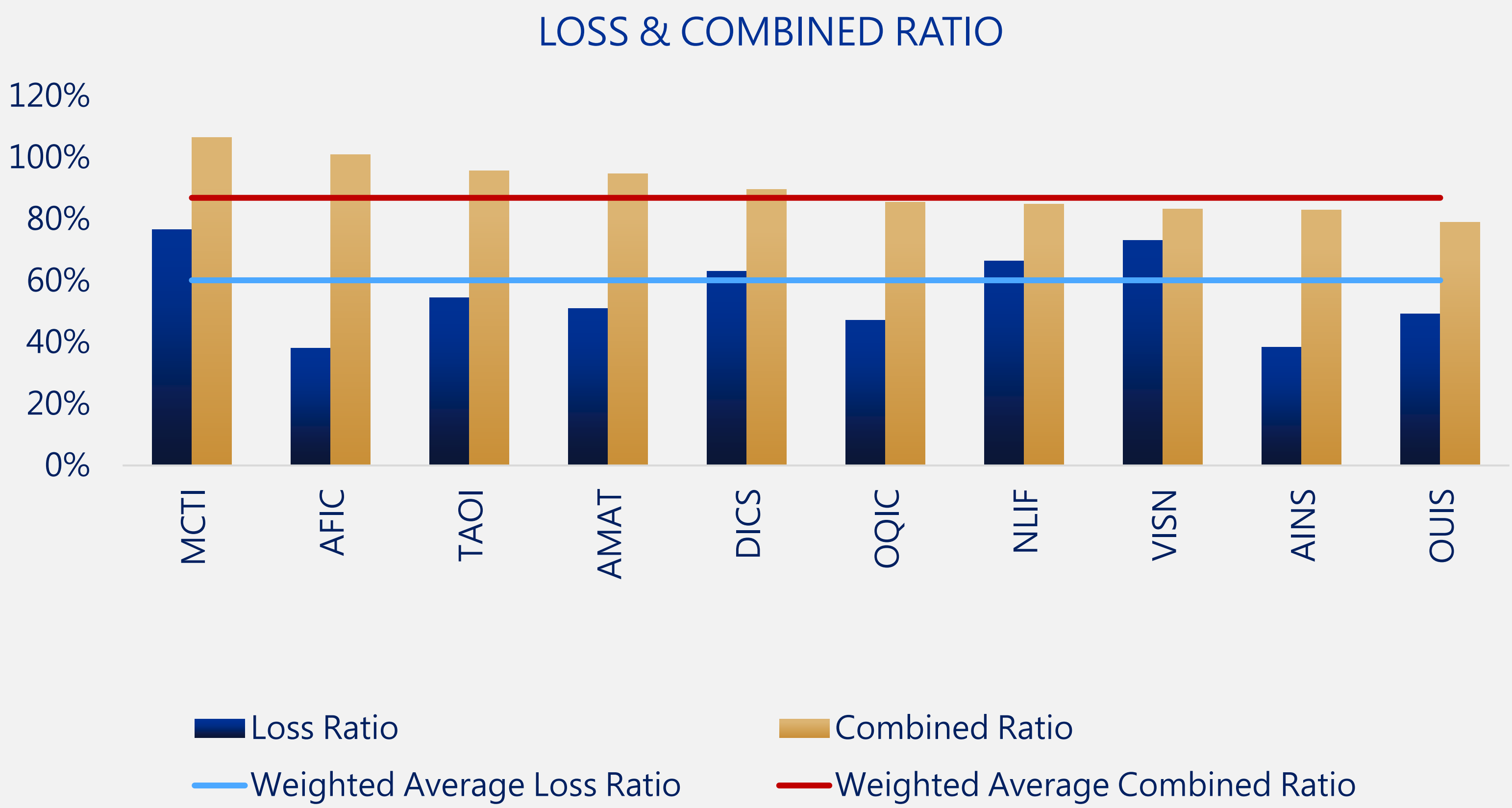




Total Net reserves as at the end of September 2020 dropped by 3% when compared with the corresponding period of 2019.

NLIF has the highest technical provisions as compared to the other companies, which is commensurate to the size and nature of its operations. However, since almost 52% of the business for NLIF is written outside Oman, it is safe to assume that a similar proportion of reserves would also be booked overseas.

Loss and Combined Ratio



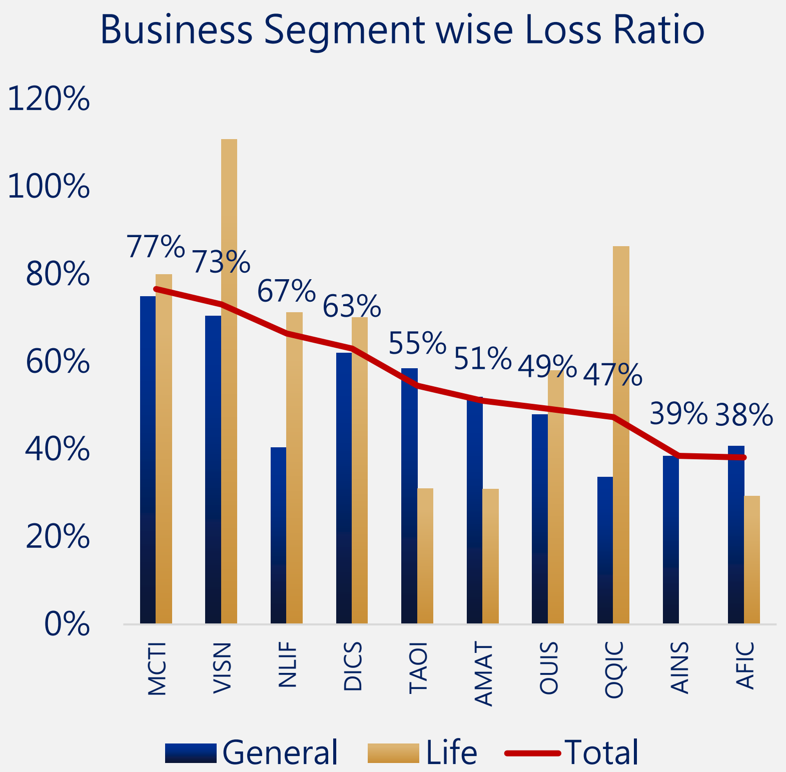
The weighted average loss and combined ratio of the insurance companies in the Sultanate of Oman is computed to be 60% and 87% respectively, with MCTI bearing the highest loss ratio and combined ratio of 77% and 107% respectively, whereas the lowest combined ratio of about 79% is depicted by OUIS.

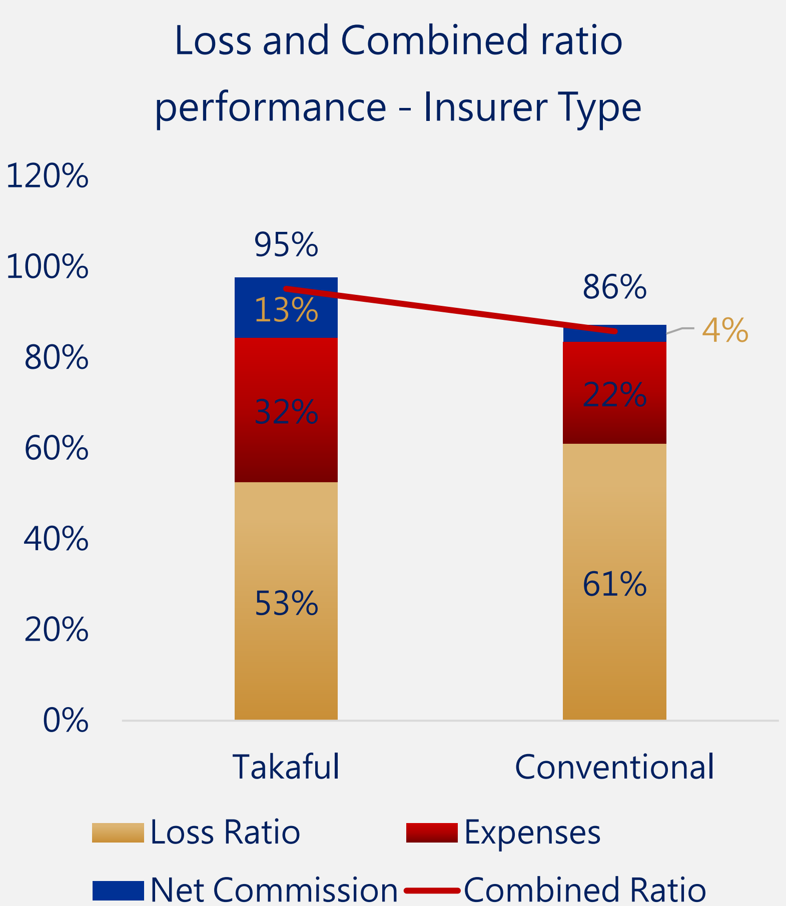
For Takaful companies we have consolidated the policyholders and shareholders P&L for comparative purposes. A company is deemed to be profitable from an underwriting perspective if the combined ratio is below 100%.

Loss Ratio is computed as Net Incurred Claims over Net Earned Premium.

Combined Ratio is calculated as ratio of Net Incurred Claims along with Expenses and Net Commissions over Net Earned Premiums.

Loss and Combined Ratio





Since the Life and Non-Life business segment wise information was available, Loss Ratio analysis on the breakup is also presented. However, for AINS, segmented information was not available, hence all the information is allotted to General business.

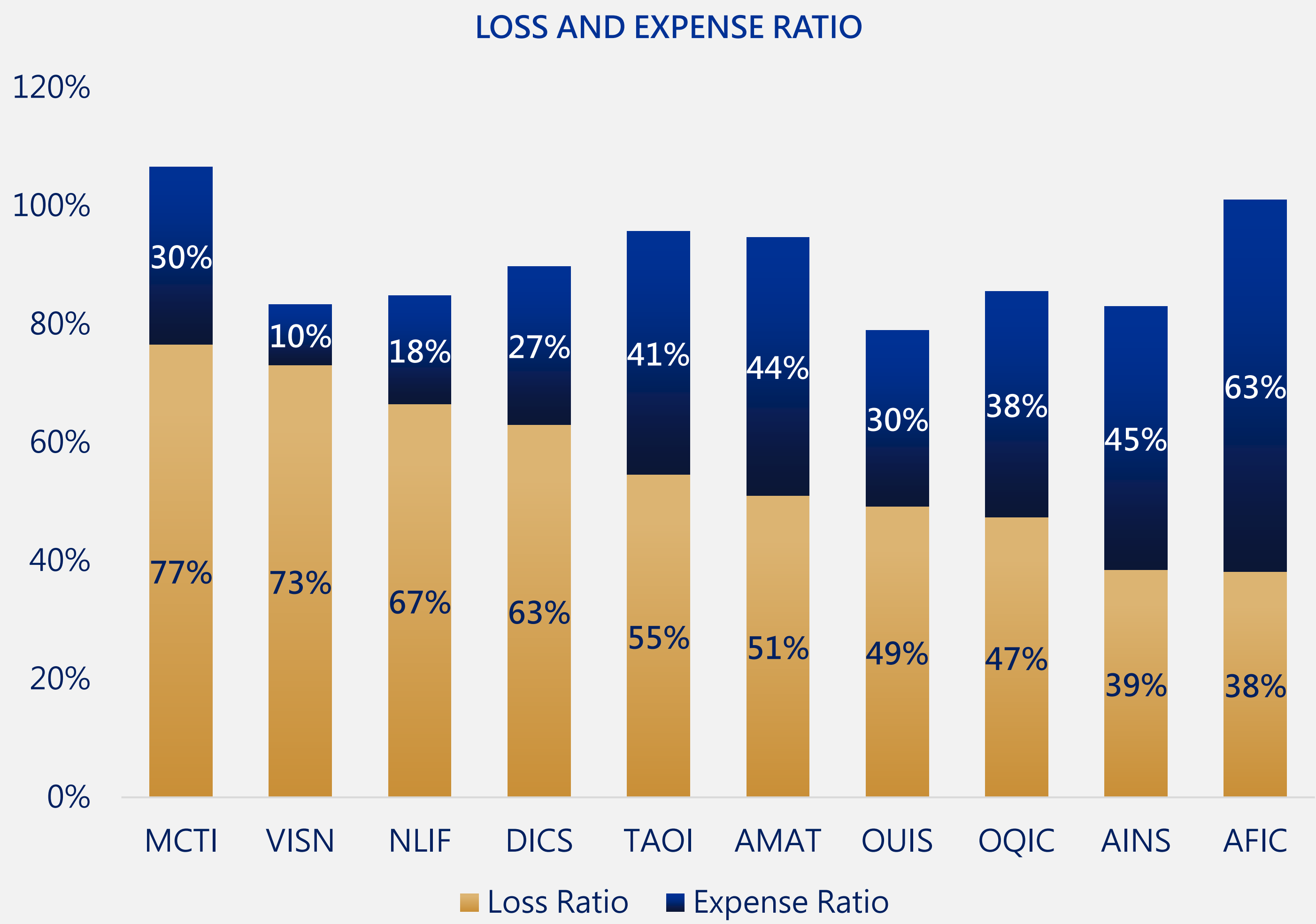
For MCTI, information for losses incurred was not available on the segmental level; therefore loss ratios provided in financial statement have been used as given. For OUIS, only loss ratios for Non-Life segment was provided and the same was used to estimate the loss ratio for Life segment.

Due to limited information, the graph shows reported loss ratios for Life and Non-life segments.

The weighted average loss ratio for Non-Life business worked out to be 53% whereas Life business had a weighted average of 67%.

The weighted average loss ratios for takaful insurers are lower than those of their conventional insurance counterparts. However, due to significantly higher expense and net commission ratios exhibited by the takaful operators, the overall combined ratio for takaful companies is higher than that of conventional insurance companies.

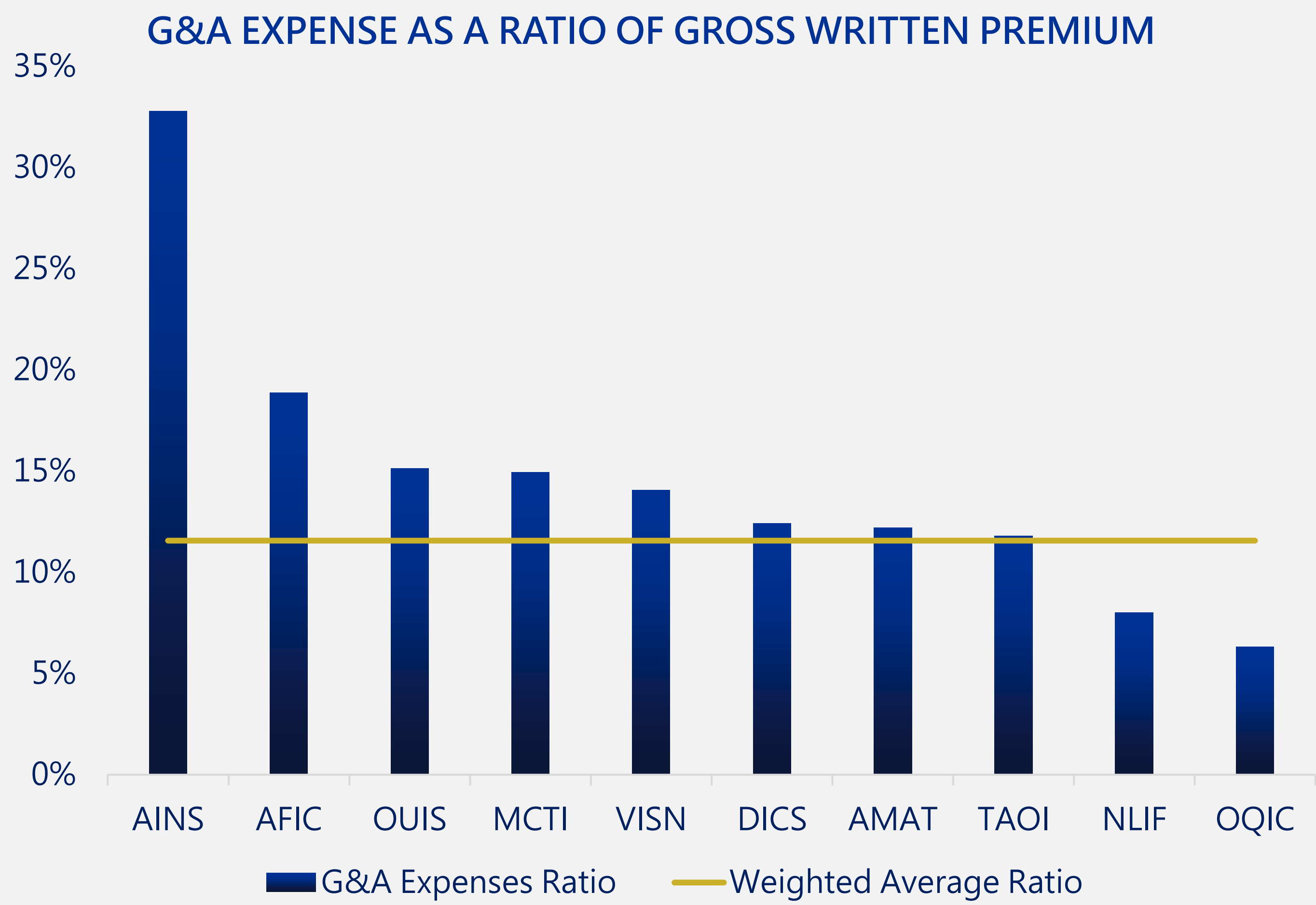
Loss and Expense Ratio



The above is sorted with respect to the loss ratios of all the companies.

MCTI displays the highest loss ratio while AFIC has the lowest loss ratio. The expense ratios for AFIC and AINS are higher than their respective loss ratios. The highest expense ratio is depicted by AFIC, so while their loss ratios are low, the high expense ratio has pushed the combined ratio slightly above 100%. The lowest expense ratio observed is 10% for VISN.

Expense Ratio



It is commonly believed that G&A expense ratio should be analyzed on the basis of gross written premiums for the company, hence, the same is included in our analysis.

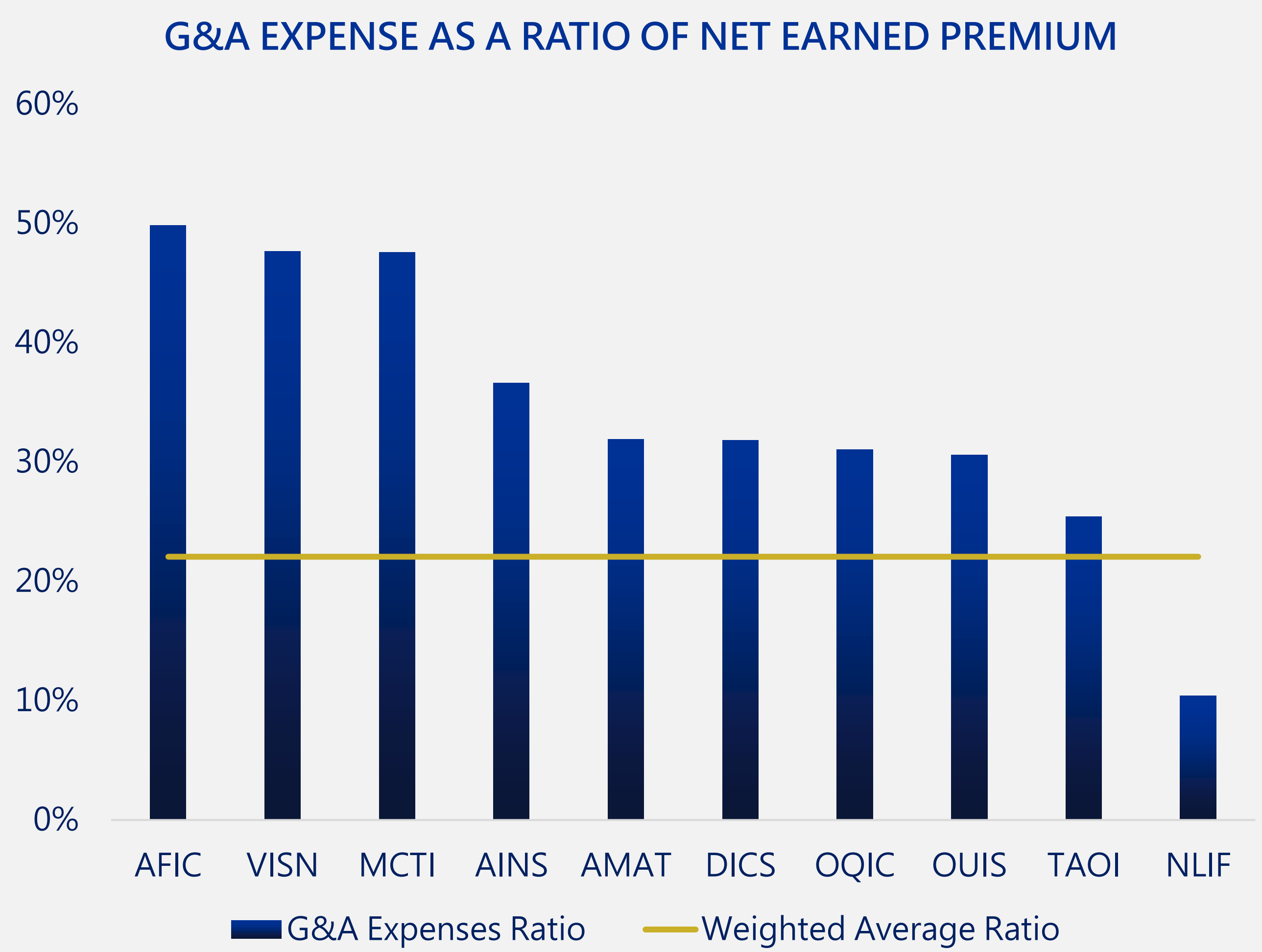
The weighted average G&A expense ratio as proportion of GWP works out to be 12%. AINS has the highest expense ratio (33%) for the nine months ended September 2020, whereas the lowest expenses are observed by OQIC (6%).

Larger companies generally tend to have lower expense ratios, as they have sufficient business to absorb the fixed cost base.

For Takaful companies, Wakala fees is ignored, as Wakala fees is a positive in one account and a negative in the other.

Expense Ratio = General and Administrative expense as a percentage of Gross Written Premium

Expense Ratio



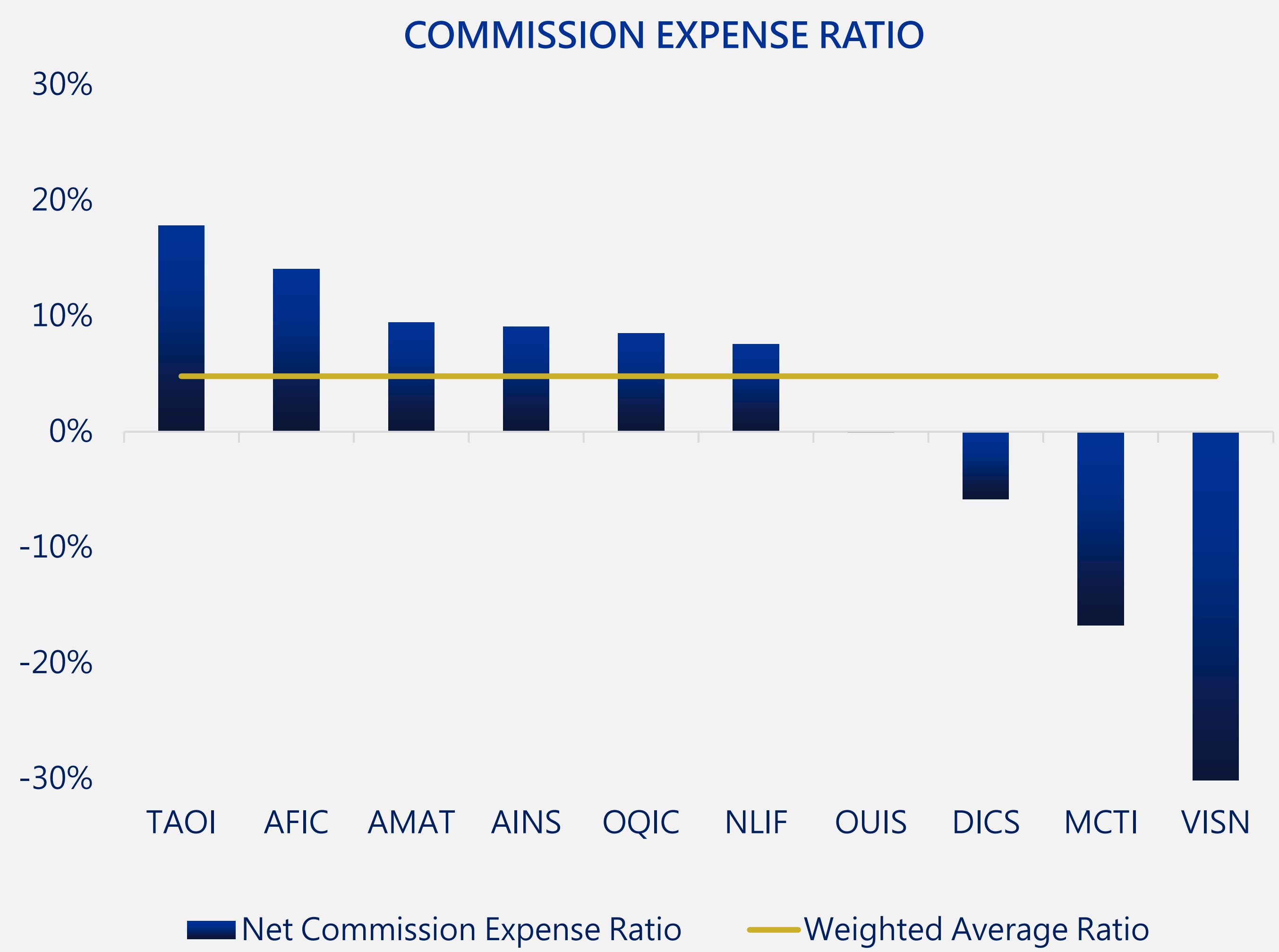
Considering G&A Expense as a proportion of Net Earned Premiums, AFIC bears the highest expense ratio of 50% followed by VISN and MCTI with both having expense ratios of 48%.

NLIF recorded the lowest expense ratio in the industry at 10%.

The weighted average G&A expense ratio as a proportion of net earned premium for the Listed Insurance companies stands at 22%.

The expense ratio is worked out as:
Expense Ratio = General and Administrative Expense as a percentage of Net Earned Premium

Expense Ratio



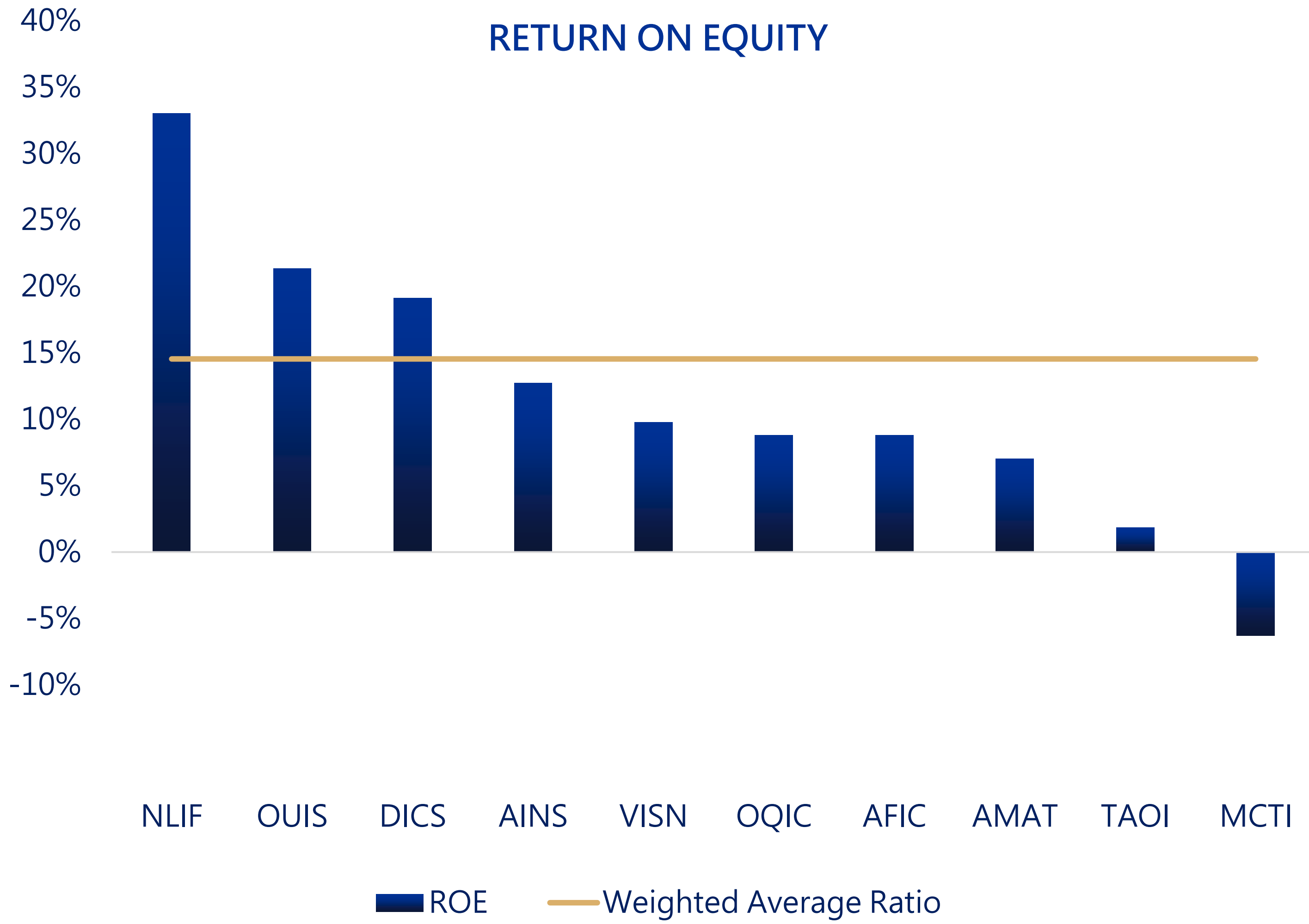
The highest commission expense ratio recorded as of 2020-Q3 is for TAOI at 18% while VISN experienced the lowest ratio of -32%. The average net commission ratio for the Omani Insurance Industry stood at 5%.

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. 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 re-insurers and just acting as fronting partners; while at the same time not effecting their solvency position.

Commission ratios are calculated as a Net Commissions upon Net Earned Premium.

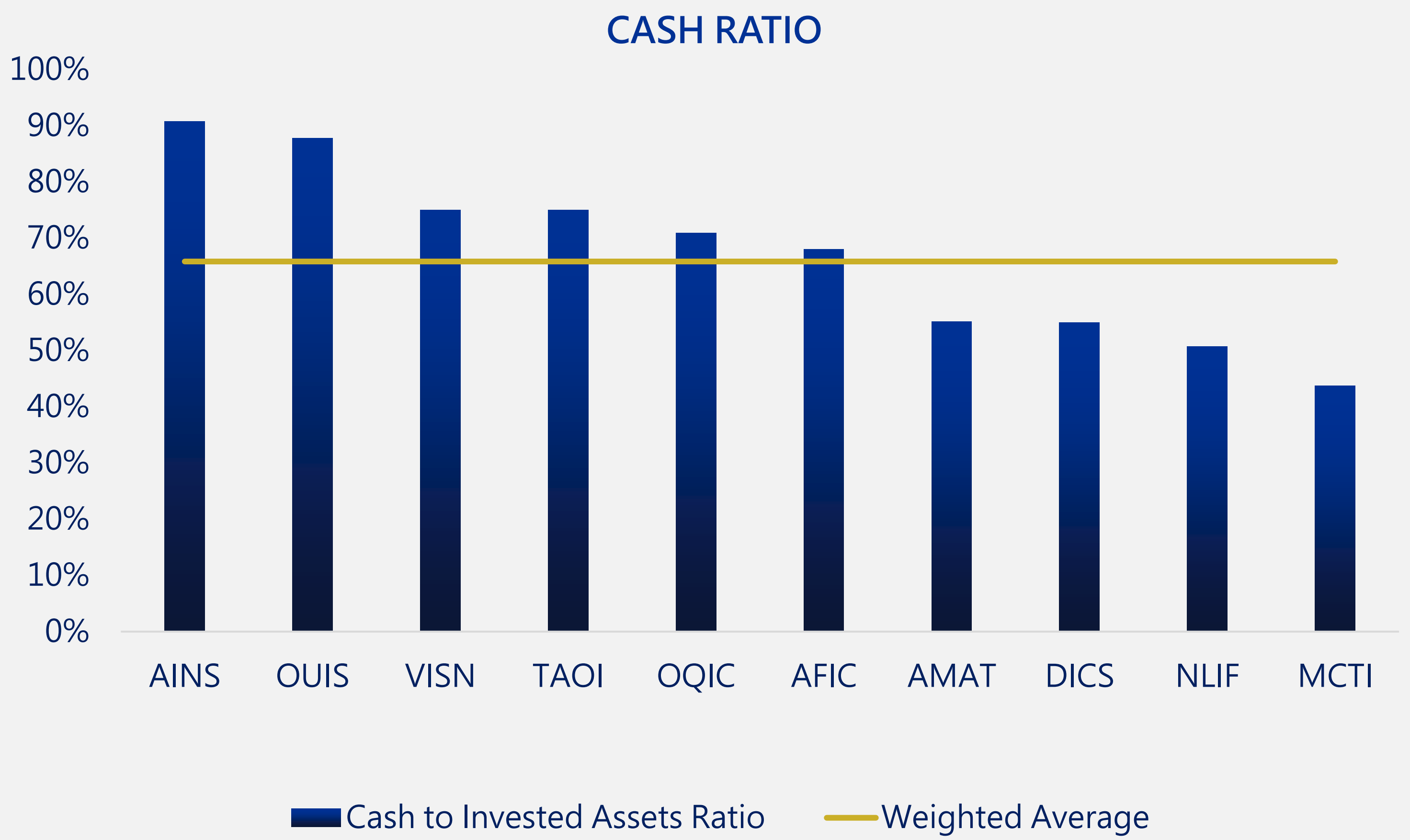
Return On Equity



The weighted average Return on Equity (ROE) for the Insurance companies in Oman recorded to be 16%. NLIF has the highest return on equity of about 33% whereas MCTI has recorded the lowest return of -6%.

The Return on Equity is calculated as a ratio of net profit (before tax) recorded over the last 12 months to total of shareholder's equity at the beginning of the period 2020.

Cash To Invested Assets

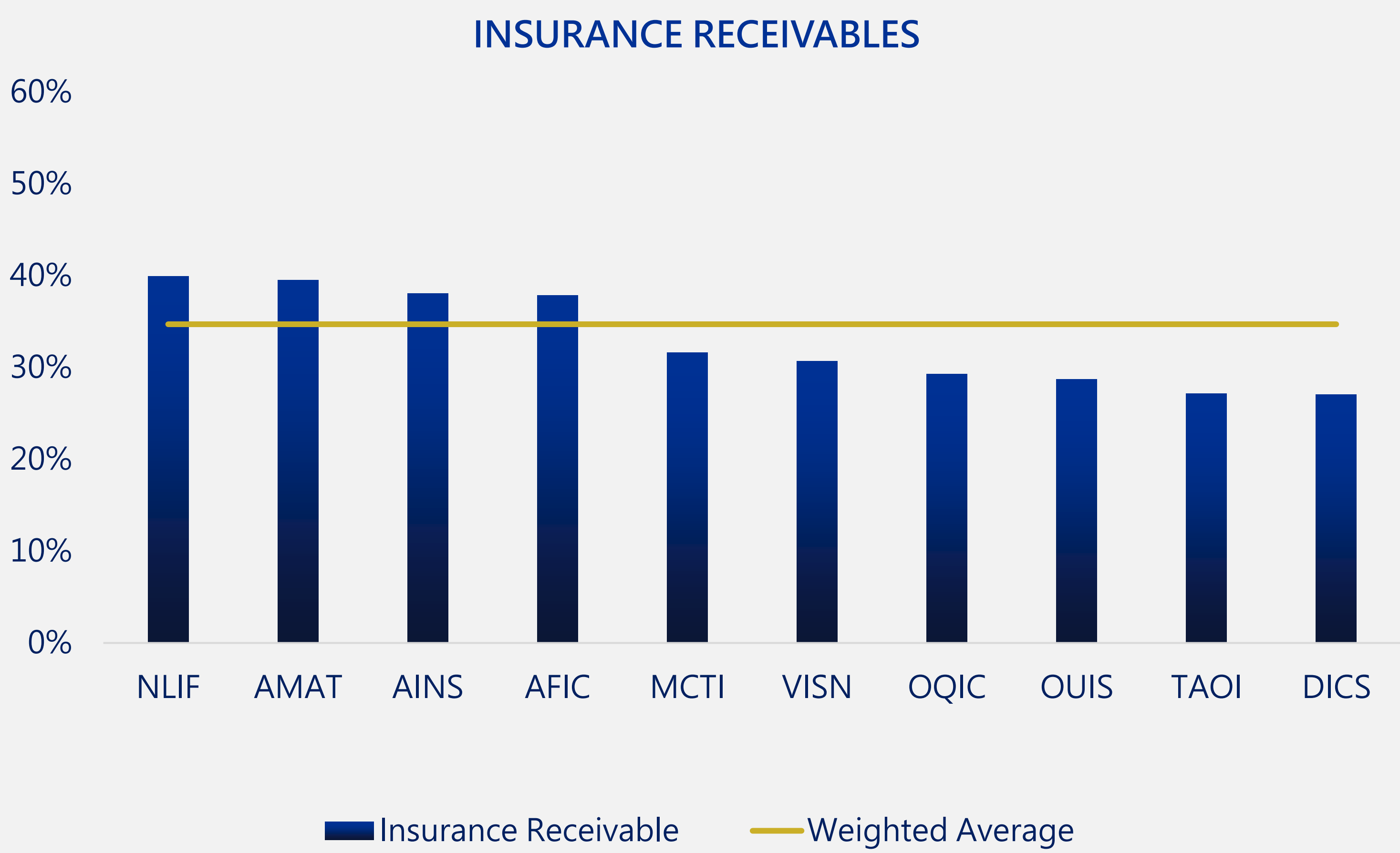


The Cash ratio of the industry works out to 66%. AINS has the highest level of 91% maintained as Cash, while the lowest ratio of 44% is produced by MCTI.

The Cash Ratio indicates very high liquidity for the market as a whole.

The Cash Ratio has been taken as the ratio of Cash and Bank Deposits to Total Invested Assets.

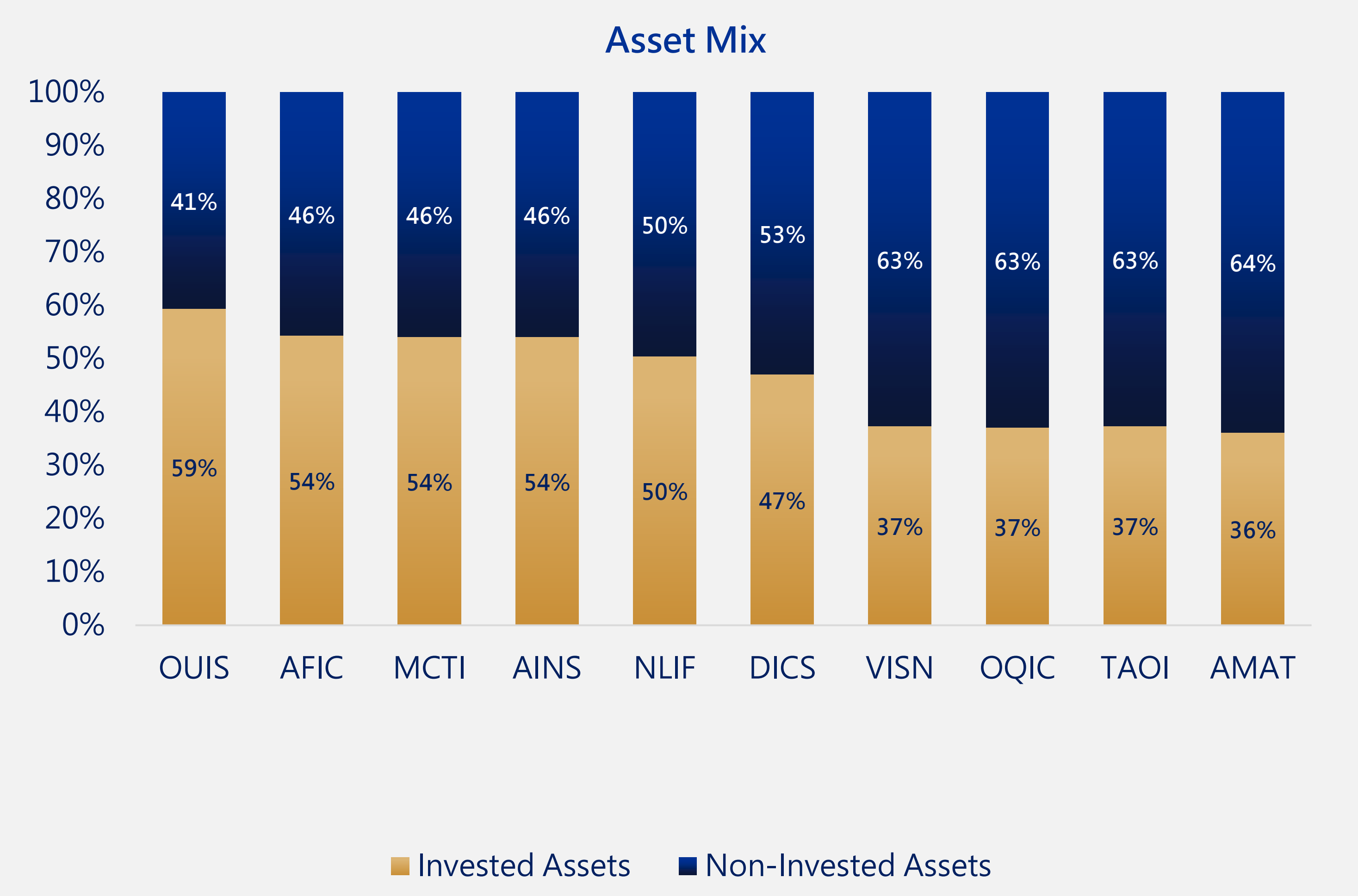
Insurance Receivables



The insurance receivables are computed as a ratio of Insurance receivables of the company to gross written premium recorded over the last 12 months.

NLIF and AMAT are observed to have the highest receivable ratio of about 40%, while TAOI and DICS recorded the lowest ratio of 27%. The weighted average insurance receivables ratio for the Omani industry stood at 35% as at September 30, 2020.

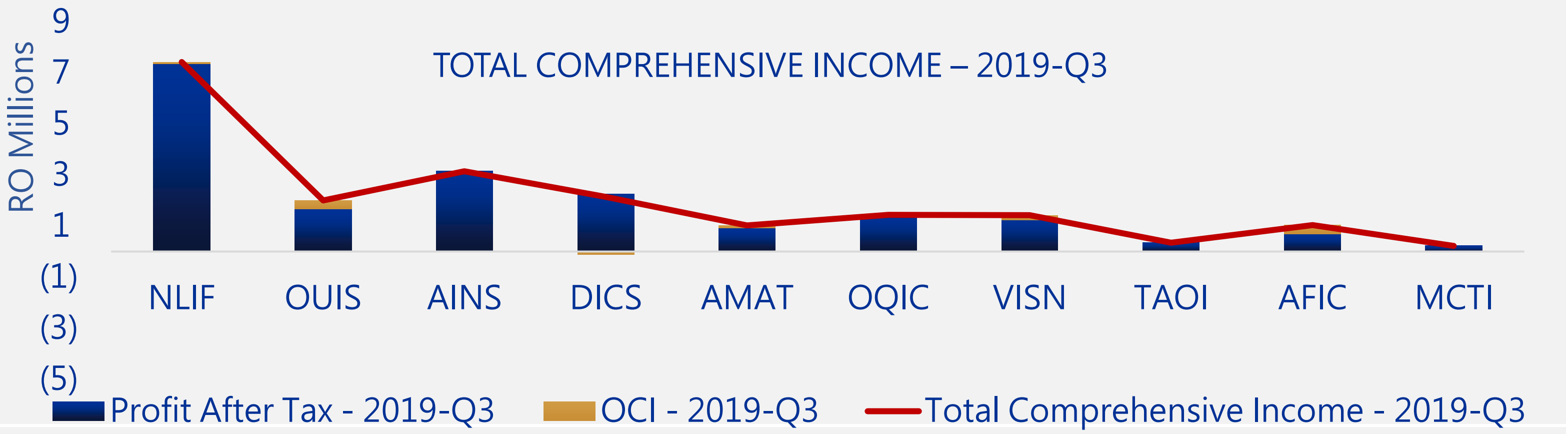
Asset Mix



The Asset Mix compares the proportion of invested assets and non invested assets of the companies in Oman insurance industry as at September 30, 2020. OUIS has the highest proportion (59%) of invested assets, followed by AFIC, MCTI and AINS; each having 54% of their assets invested. Whereas AMAT has the lowest proportion of asset mix at 36%.

The above chart is sorted in descending order of the proportion of invested assets of the companies.

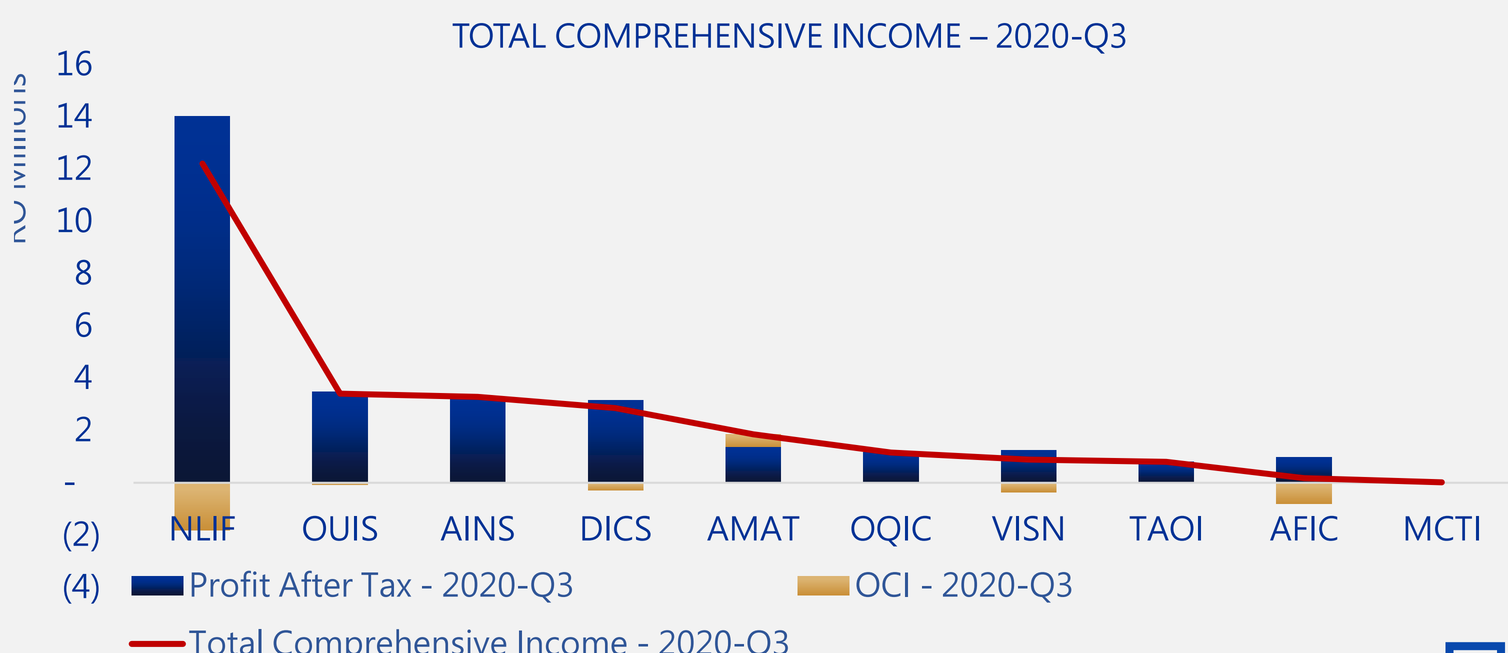
Total Comprehensive Income



The Indices of general market performance in the Stock Exchange exhibited a declining trend post the outbreak of COVID 19. The realization of the decline is reflected through either profit & loss accounts or Other Comprehensive Income statements of the Companies.

The Total Comprehensive Income (Profit after Tax plus Other Comprehensive Income) for the first nine months of 2020 has exhibited an increase of 32%. This increase is mainly due to exceptional growth in profits after tax displayed by NLIF, and ironically NLIF have also recorded the highest deterioration in Other comprehensive income when compared with the corresponding period of 2019. Nonetheless, the growth percentage of Total Comprehensive Income drops to 13% (from 32%) if NLIF is excluded.

Only 7 (out of 10) companies segregated their OCI in their financial statements, 6 out of those 7 recorded losses in the fair value of their investments for 2020. It is observed that OCI for companies on an aggregate level has declined by 374% in the first nine months of 2020 when compared with the corresponding period of 2019.



Conclusion

- The aftershock of the pandemic resulted in the 3% decline in topline for the listed insurance companies in Oman for the nine months of 2020 when compared to the corresponding period of 2019. The total premiums written in this period amounted to be RO 309 million as compared to RO 319 million of premiums written in the corresponding period of 2019.

- The average premium retention ratio stood at 57% for year-to-date 2020-Q3. (Life business retention ratio: 70% and Non-Life business: 47%).

- The average loss ratio for the listed companies analyzed in the report stood at 60% and average combined ratio was at 87%. The average combined ratio for Takaful and Conventional insurers was evaluated to be 95% and 86% respectively, despite Takaful companies on average having lower loss ratios; their high expense ratios elevates the combined ratio near 100%.

- The profits recorded for first nine months of 2020 observed a growth of 52% when compared with the corresponding period of 2019. Total Profit by the listed insurance companies for the period amounted to almost RO 35 Million compared to RO 23 Million recorded in the corresponding period of the previous year. The profit growth of 52% drops to 28% if the exceptional growth of NLIF is excluded. For Takaful companies, policyholders and shareholders P&L was considered for comparative purposes.

Disclaimer

- The data represented in our report was gathered from publicly available information, and the financial statements released by the companies.
- We have undertaken an analysis of the Key Performance Indicators (KPIs) of the listed insurance for the nine months ended September 30, 2020. The data has been extracted from financial statements of those companies which were publicly listed.
- 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.
- Due to Limited information we were unable to segregate further into class of business. Once all companies start publishing financial statements with uniform level of segregation, this can be done.
- The Group & Individual Credit Life, Family Takaful and Term & Whole Life Plans are considered as Life Insurance while Other General Insurance are taken as Non-Life Insurance due to the available segmentation in the published financials. For NLIF and MCTI, Medical is not segregated from Life in the published financial statement therefore, due to limitation it is presented under Life Business segment.

Companies Included in the Analysis

Company Name	Ticker Name
Al Madina Takaful	AMAT
Al-Ahlia Insurance Company	AINS
Arabia Falcon Insurnace Company	AFIC
Dhofar Insurance Company	DICS
Muscat Insurance	MCTI
National Life & General Insurance	NLIF
Oman United Insurance Company	OUIS
Oman Qatar Insurance Company	OQIC
Takaful Oman Insurance	TAOI
Vision Insurance Company	VISN

BADRI

About our team

UAE/Oman Actuarial 28 Staff	KSA Actuarial 22 Staff	Medical 4 Staff
Business Intelligence 11 Staff	End of Service 5 Staff	HR Consulting 2 Staff

12 Support and admin staff

Total Strength = 84

CONTACT US!

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Manaal Siddiqui

Uroosha Jameel

Subhan Naeem

Eesha Ansari

FEEDBACK

Badri Management Consultancy is proud to present the Oman Insurance Industry Analysis for the nine months ended September 2020. We have a dedicated team that is working to bring you research reports. Our doors are open for feedback, and we welcome them. Feel free to inquire about the report.

GET IN TOUCH WITH US!

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