PERFORMANCE ANALYSIS OF UAE LISTED INSURANCE COMPANIES FOR THE HALF YEAR ENDED JUNE 30, 2019

AUGUST • 2019

CONTENTS

Overview of 2018

INSURANCE SECTOR

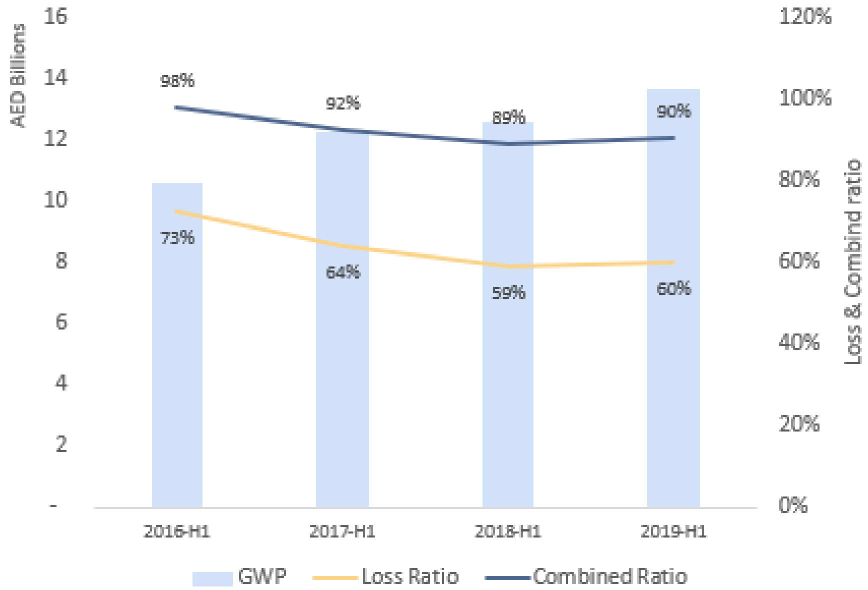
Despite pressure from stagnant premium growth and profitability, the Loss and Combined Ratios of the U.A.E Insurance Industry continue to present a positive outlook during 2018. The gains from increased minimum motor tariffs as per the unified motor policy in 2017 were witnessed to extend on to 2018. However, with an economic slowdown and introduction of regulator-allowed discounts on the minimum motor tariffs, increased challenges for the industry in 2018 which are expected to continue in 2019.

KEY STATS OF 2018

- The total gross written premium of the insurance industry for the year ended 2018 was estimated to be AED 40 billion as compared to AED 41 billion in the corresponding year of 2017. This showed a decline of 2% in premiums for the Insurance Market.
- The Insurance industry, as represented by the companies and branches covered in our previous analysis, reported an overall profit of AED 1.9Bn for the year 2018.
- The weighted average combined ratio was at 91% in 2018, an improvement from 99% in 2017 and 2016

***Note that the full year analysis of 2018 also covers foreign Branches while2019-H1 is for listed companies only.*

INDUSTRY AT A GLANCE - OVERVIEW



The total written premium of the Industry for the half year ended 2019 was estimated to be AED 13.7* Billion which shows a growth of 9% from 2018-H1.

Based on the premium estimations of the past four half-years, CAGR of the Industry from 2016-2019 is computed to be 9%.

The Insurance Industry has exhibited a slightly increasing trend in Loss and Combined ratios in the first half of 2019, when compared with the corresponding period of 2018. The Loss and Combined Ratios for the market during 2019-H1 stood at 60% and 90% respectively.

The Insurance industry represents a total of 29 listed Companies for this report analysis. AKIC was excluded from the review because its financials were not published as at the date of this report.

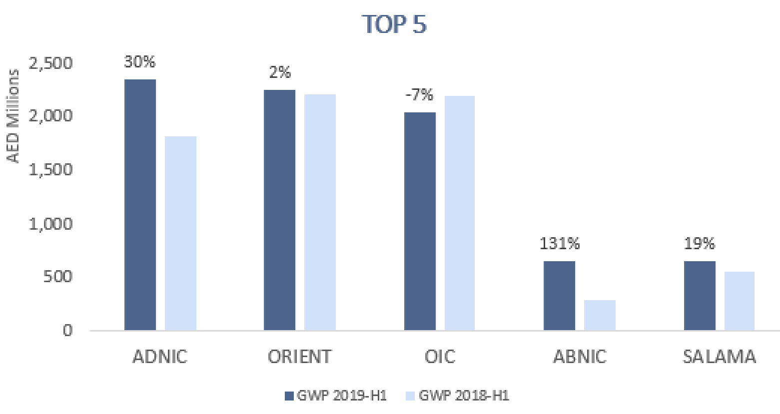
*AKIC was excluded from the review

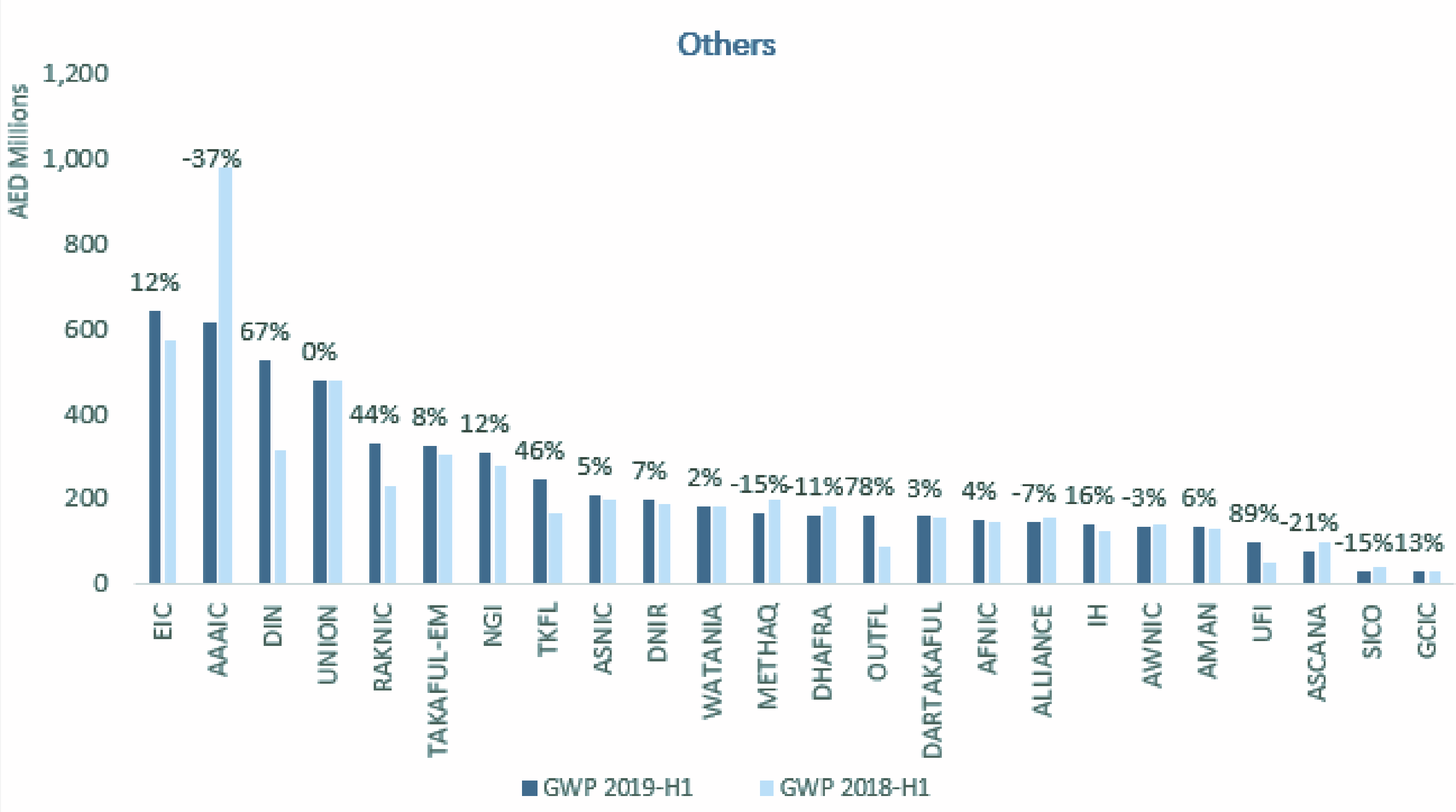
GROSS WRITTEN PREMIUM

Total Gross premiums written by the insurance companies in 2019-H1 stood at AED 13.7 Billion from AED 12.6 Billion in 2018-H1 exhibiting a growth of **9%**.

The written premium of top 5 companies was AED 8 billion which contributes to **58%** of the market share for 2019-H1.

ADNIC, ORIENT, OIC and SALAMA have maintained their position in the top ranks from year ended 2018 while ABNIC has jumped 8 places and secured 4th position in 2019-H1





The highest growth of the 2019-H1 was shown by ABNIC with a grwoth of 131% from 2018-H1. While the biggest decline of 37% was exhibited by AAAIC when compared with corresponding period of 2018.

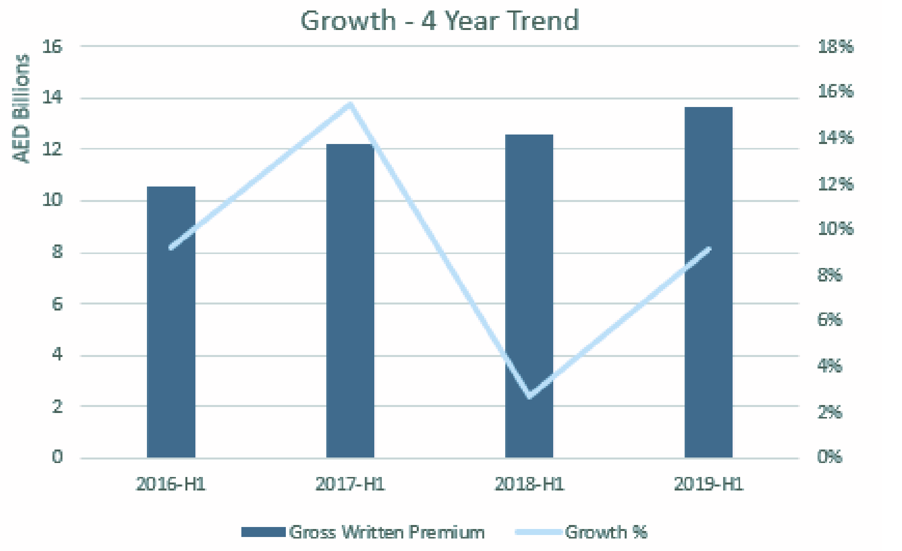
Overall, the market has shown a sizable growth in written premiums in 2019-H1; of the 29 companies considered, 21 companies displayed an increase in premiums over previous period, while 8 companies saw premiums decline.

*AKIC was excluded from the review

Premium Conclusion

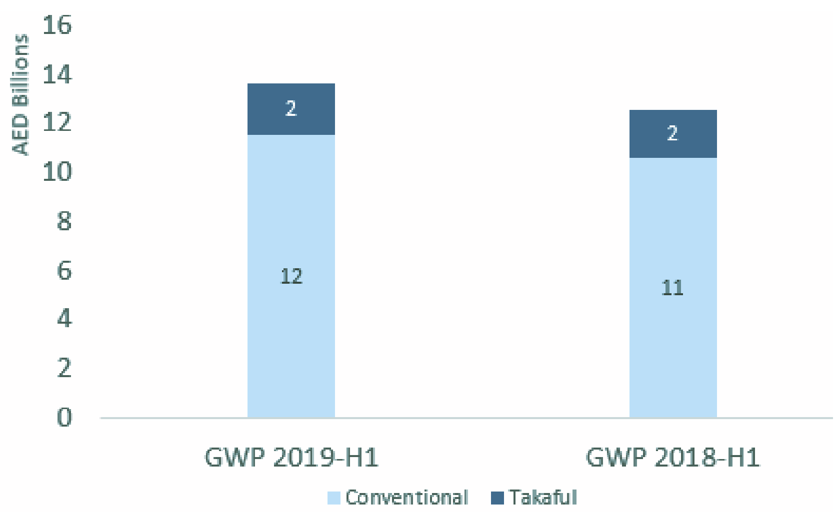
The 30 Listed Companies of Insurance Market of UAE have witnessed a significant growth of **9%** compared from half year ended 2018.

The highest growth over the last 4 half years of **15%** was witnessed in 2017-H1 which was due to IA imposed minimum and maximum tariffs for Motor LOB which were materially higher than the existing rates and new benefits for the Industry.



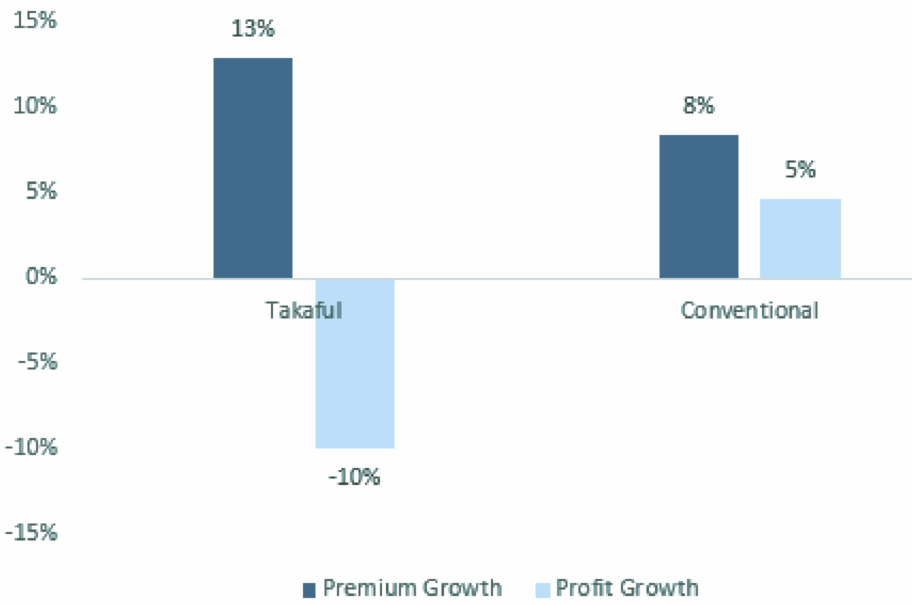
Out of 30 Insurance Companies, 9 operate as Takaful insurers in the UAE Market.

The proportion of business written by Takaful companies grew from **15%** to **16%** in half year 2019.



The listed takaful insurers saw a growth in written premiums by 13% from 2018-H1 while the gross written premium grew by 8% for Conventional insurers.

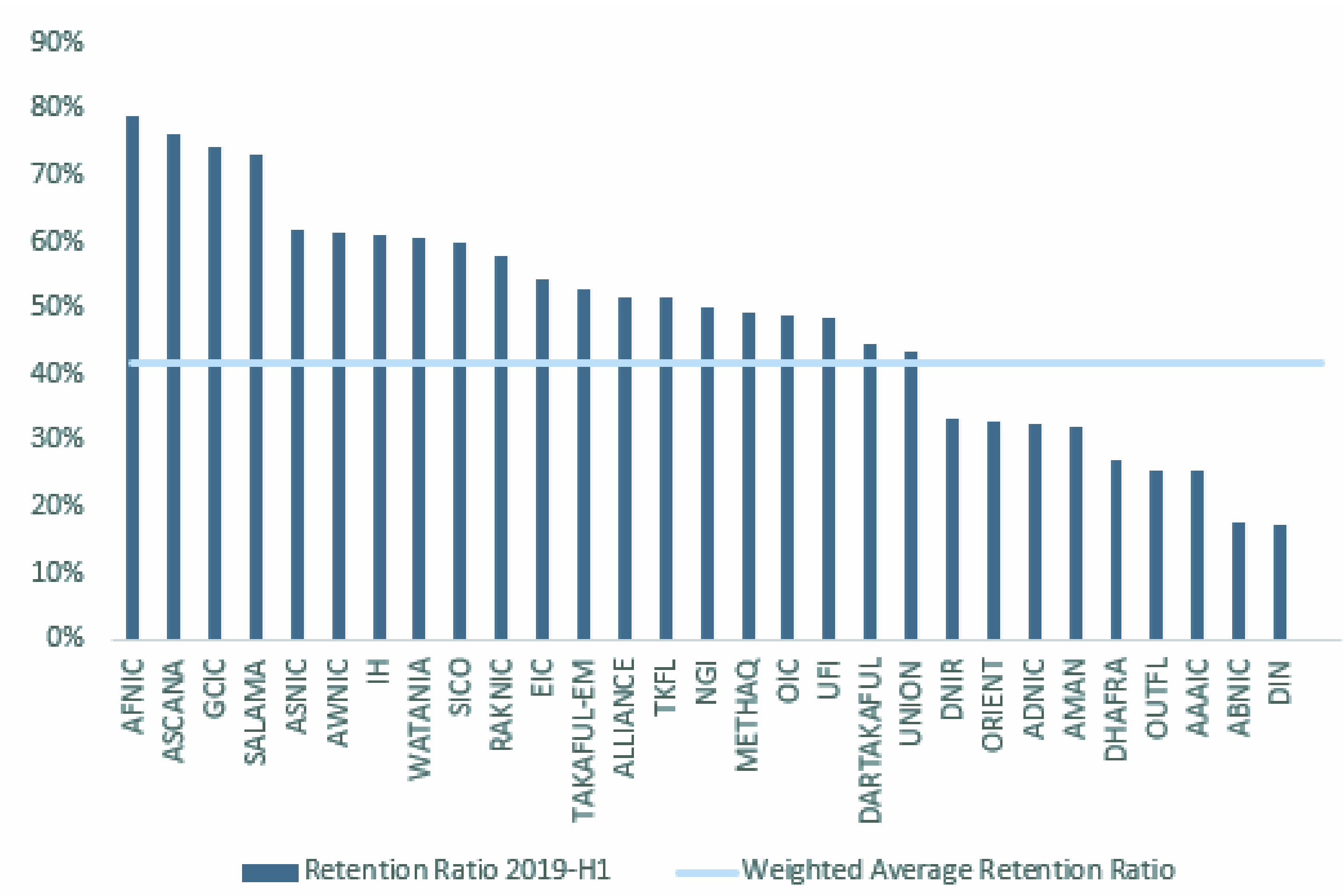
In contrast, net profits for Takaful companies experienced a decline of 10% while the profits for the conventional companies grew by 5%.



*AKIC was excluded from the review

Retention Ratio

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



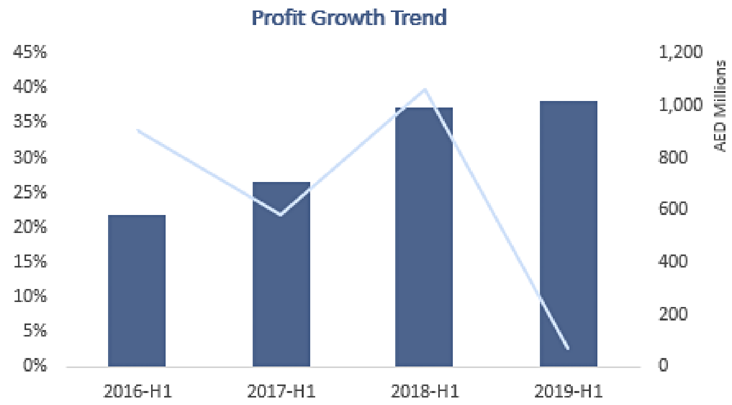
The weighted average retention ratio for the listed companies stood at 41% (2018-H1: 46% and 2017-H1: 45%).

The highest retention for the first half of 2019 of 79% is reflected by AFNIC while, the lowest of 17% is exhibited by DIN.

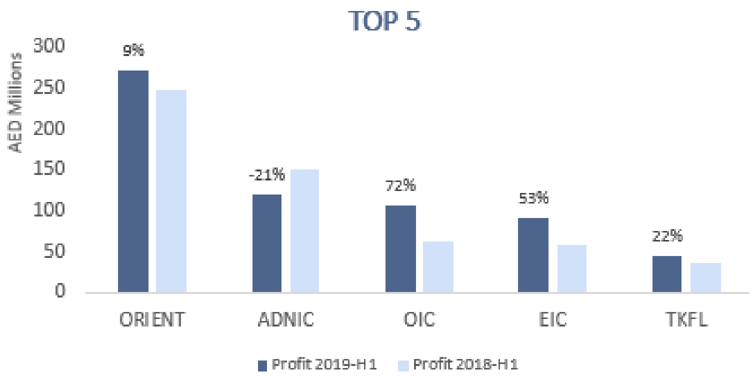
Although there may be exceptions, retention ratios are generally reflective of lines of business being underwritten; Motor and Medical generally tend to have high retention ratios while commercial lines such as Aviation, Engineering and Fire tend to have lower retention. Also, since this analysis does 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.

*AKIC was excluded from the review

Profit (Before Tax) - Overview



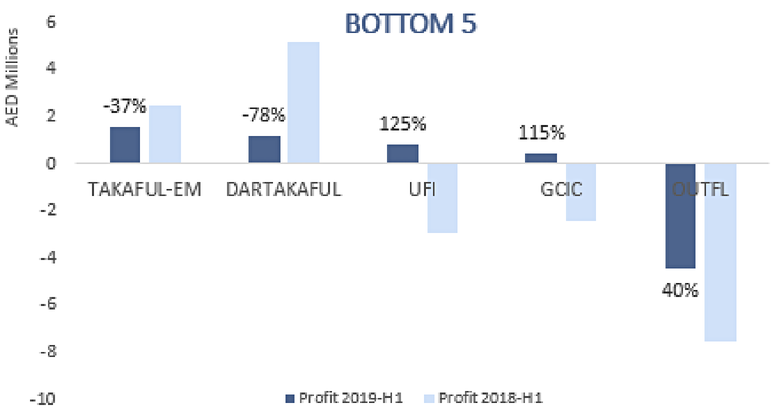
The listed Insurance Companies have experienced an increasing trend in profits over the years, although the profits are seen to stabilize in terms of amounts during the first half of 2019 whereas, the percent growth for 2019-H1 stood at **2%**.



Orient has booked the highest profits consecutively for the past 3 years. This year the profit for ORIENT amounted AED 271 Million which depicts a growth of 9%.

TKFL moved from 8th place to top 5 when compared with 2018-H1. The biggest shift in terms of rank is witnessed by AWNIC in first half of 2019 which shifted from top 5 to 18th rank.

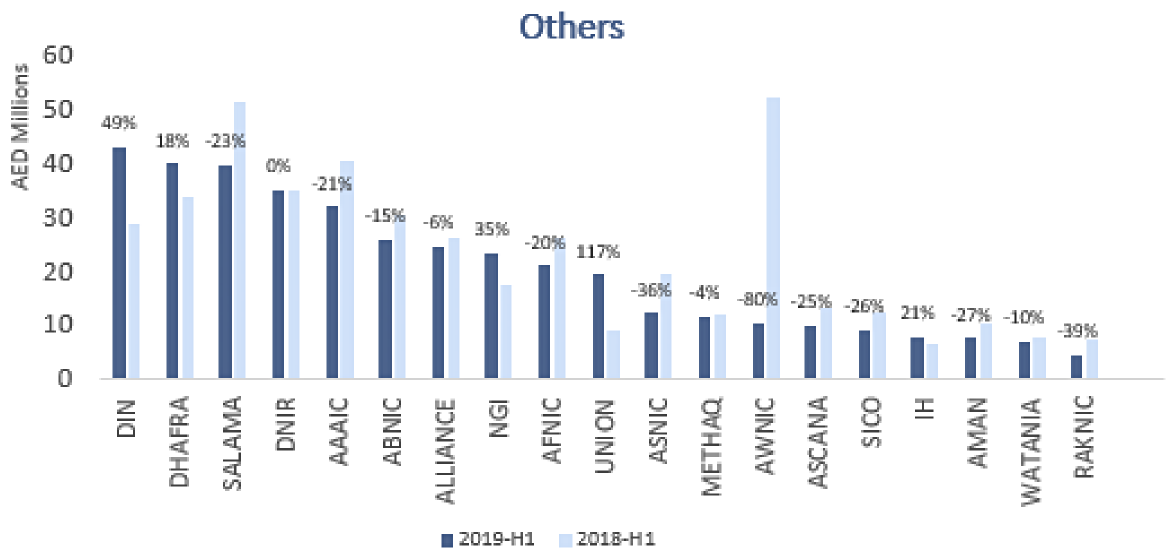
The profits for the Top 5 companies amounted to AED 630* Million which contributes **62%** of the Market share.



During the first half of 2019, OUTFL experienced the highest net losses however, the Company witnessed 40% reduction in losses compared with corresponding period of 2018.

*AKIC was excluded from the review

Profit (Before Tax) - Overview



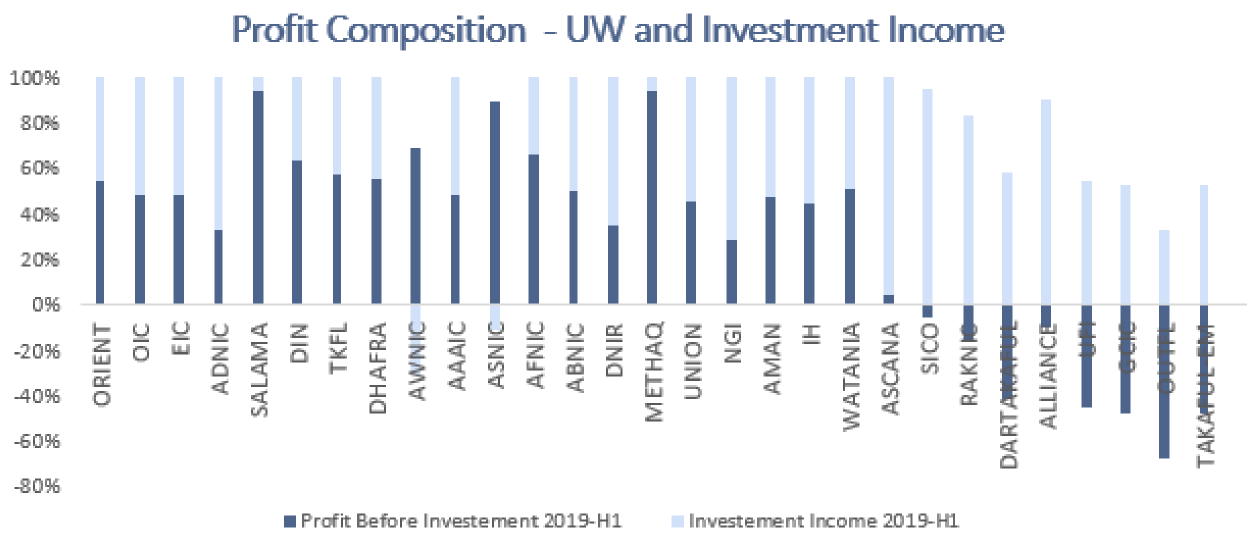
The total profits for 2019-H1 amounted to AED 1.02 Billion compared to AED 1* Billion (restated) recorded for 2018-H1 which shows a profit growth of **2%**.

The highest profit growth of 125% is observed by UFI, which moved their financial position from losses to making profits in first half of 2019. The biggest decline of 80% for the period was recorded by AWNIC.

This year Insurance companies have shown a better performance in terms of profits where only one company of the 29 under review recorded loss, which was also at loss in the corresponding period of 2018. Whereas, the other 2 loss making companies as at 2018-H1 have started recording profits.

*AKIC was excluded from the review

Profit (Before Tax) - Overview

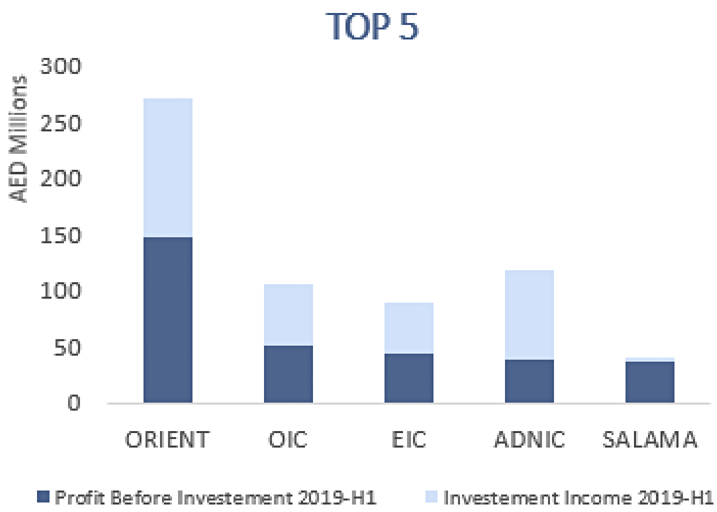


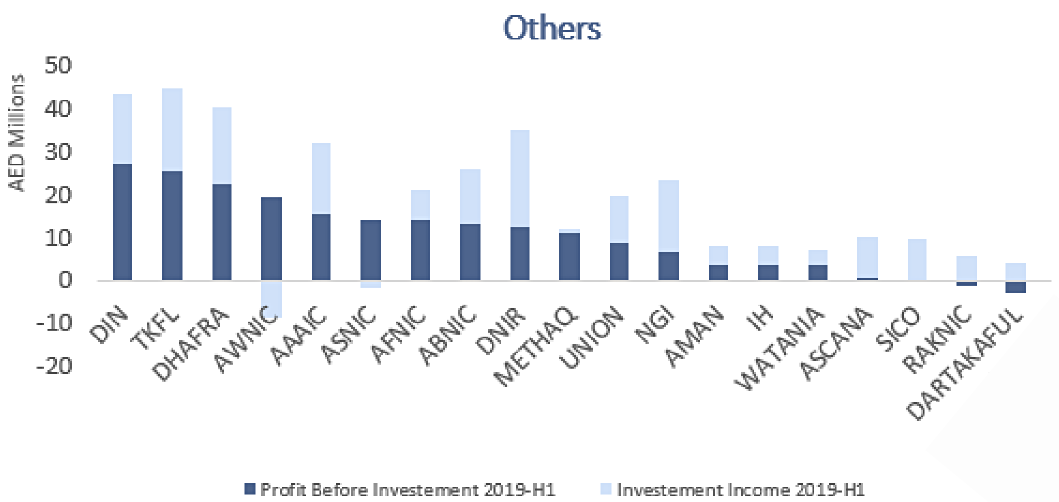
Investment Income has contributed in generating profits for some companies. Insurance companies that recorded losses from their underwriting business were able to make profits from their investments.

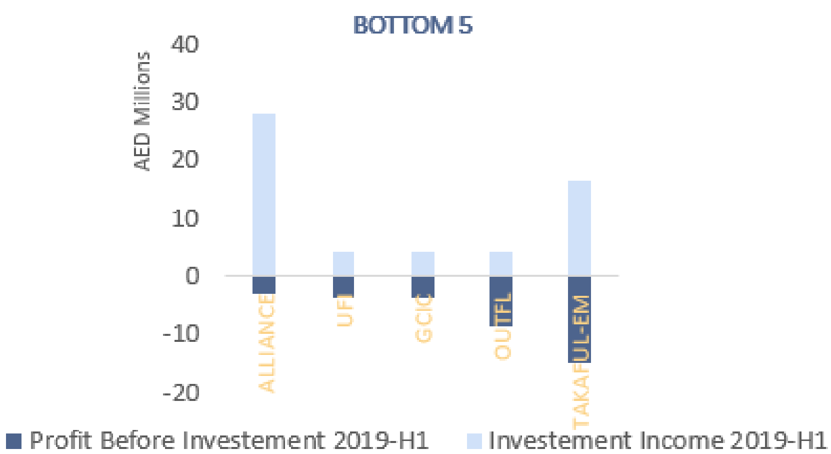
This shows that there is a room for improvement in their underwriting strategies in the market because the primary source for generating profits should be from insurance activities for insurance companies.

*AKIC was excluded from the review

Profit before and after Investment Income - Overview







The above is sorted by profits before investment income

*AKIC was excluded from the review

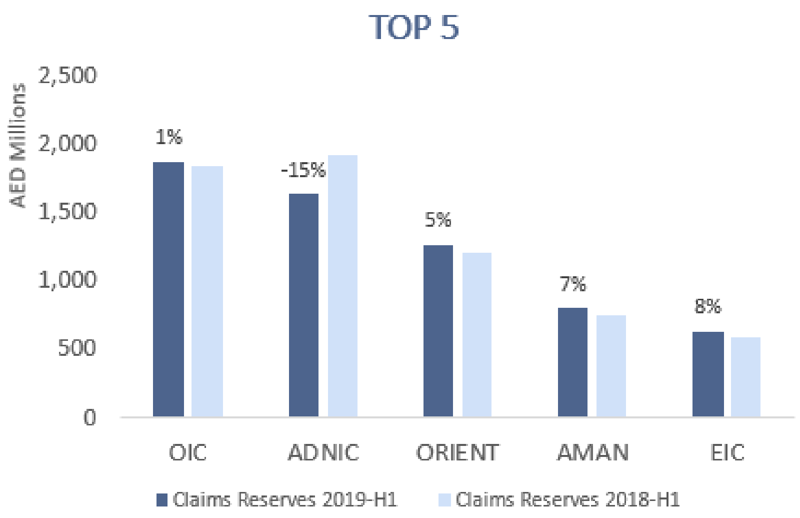
Premium Benchmarked on the Basis of Profitability

Company	Ranking		Indic
	Gross Premium	Profit	
ADNIC	1	2	↓
ORIENT	2	1	↑
OIC	3	3	→
ABNIC	4	11	↓
SALAMA	5	8	↓
EIC	6	4	↑
AAAIC	7	10	↓
DIN	8	6	↑
UNION	9	15	↓
RAKNIC	10	24	↓
TAKAFUL-EM	11	25	↓
NGI	12	13	↓
TKFL	13	5	↑
ASNIC	14	16	↓
DNIR	15	9	↑
WATANIA	16	23	↓
METHAQ	17	17	→
DHAFRA	18	7	↑
OUTFL	19	29	↓
DARTAKAFUL	20	26	↓
AFNIC	21	14	↑
ALLIANCE	22	12	↑
IH	23	21	↑
AWNIC	24	18	↑
AMAN	25	22	↑
UFI	26	27	↓
ASCANA	27	19	↑
SICO	28	20	↑
GCIC	29	28	↑

Out of the top 10 Companies by Premium volumes 6 have a lower rank when benchmarked on the basis of profitability. However, listed companies like ORIENT, ADNIC, OIC, EIC and DIN have seem to build up large and profitable books of business.

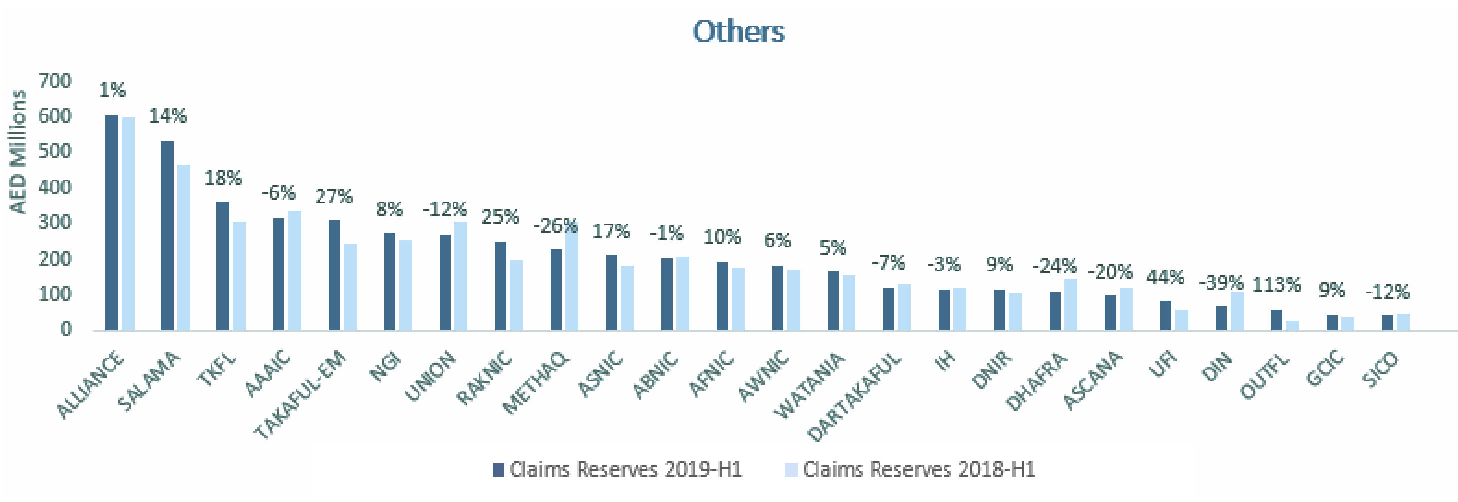
*AKIC was excluded from the review

Net Technical Provisions



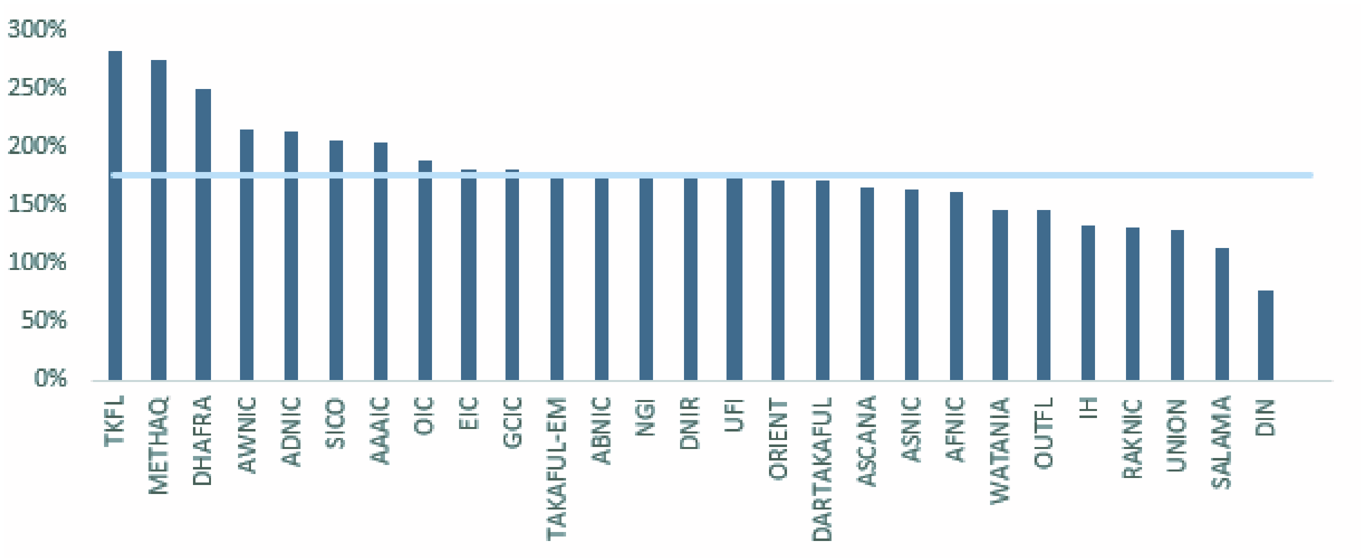
Total Net reserves as at 2019-H1 have remained unchanged compared to 2018-H1.

OIC in term of booking technical provisions secured the highest rank, and though the sequence has slightly changed, eight of the top 10 companies remain the same.



*AKIC was excluded from the review

Net Reserves as Percentage of Net Written Premium

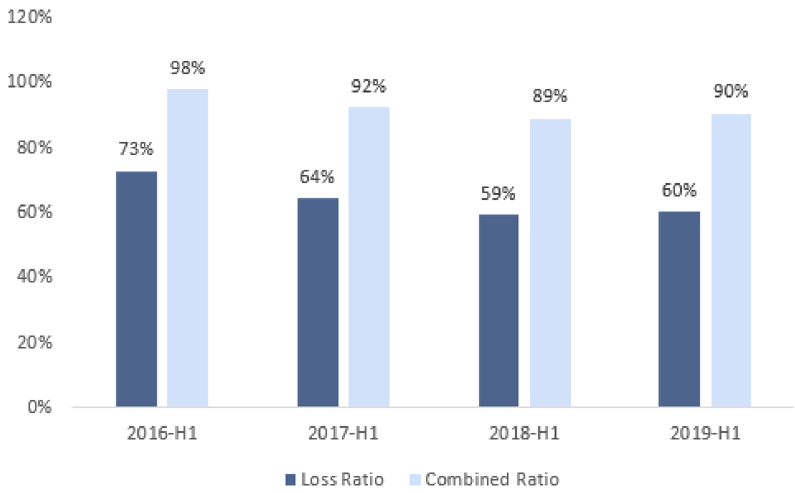


Aman and Alliance Insurance were observed to be outliers due to their Individual life mathematical reserve amounting to AED 717 million and AED 569 million respectively. It's proportion of Individual life mathematical reserve over net reserves is around **89%** and **77%** respectively which presents a big proportion in comparison to other life companies who have large portfolio of Individual life business. Hence they have been excluded from the above analysis.

*AKIC was excluded from the review

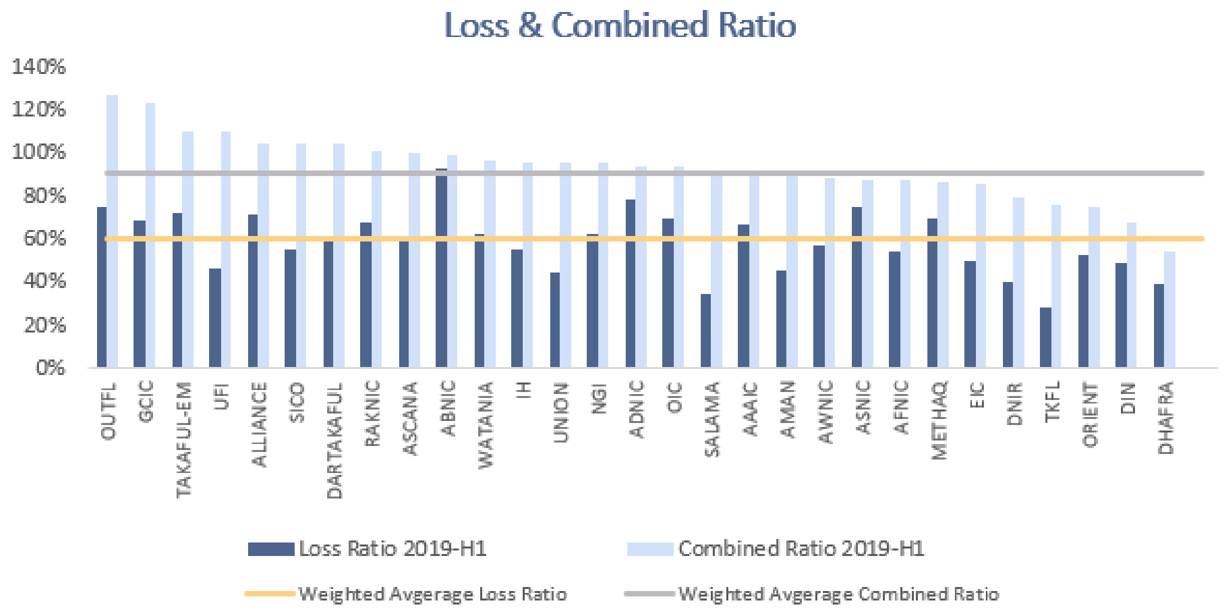
Loss Ratio and Combined Ratio

Loss and Combined Ratio 4 Year Trend



Weighted average and combined ratio depicts, a decreasing trend over the past 4 year period. Due to improved underwriting, and IA imposed regulations and continuous monitoring.

For 2019-H1 weighted average loss ratio was **60%** (2018-H1: **59%**, 2017-H1: **64%**) and combined ratio was at **90%** (2018-H1 **89%,** 2017-H1 **92%**)



The weighted average loss and combined ratio increased slightly over corresponding period of 2018.

For 2019-H1, the highest combined ratio of 127% was reflected by OUTFL, Whereas, the lowest of 54% being depicted by DHAFRA.

OUTFL reported the highest combined ratio consecutively, when compared with 2018-H1 However, the combined ratio have declined significantly, but the company needs to monitor their expenses as they push the combined ratio well above 100% to generate UW surplus for the Company.

For Takaful companies we have consolidated the policyholders and shareholders P&L for comparative purposes.

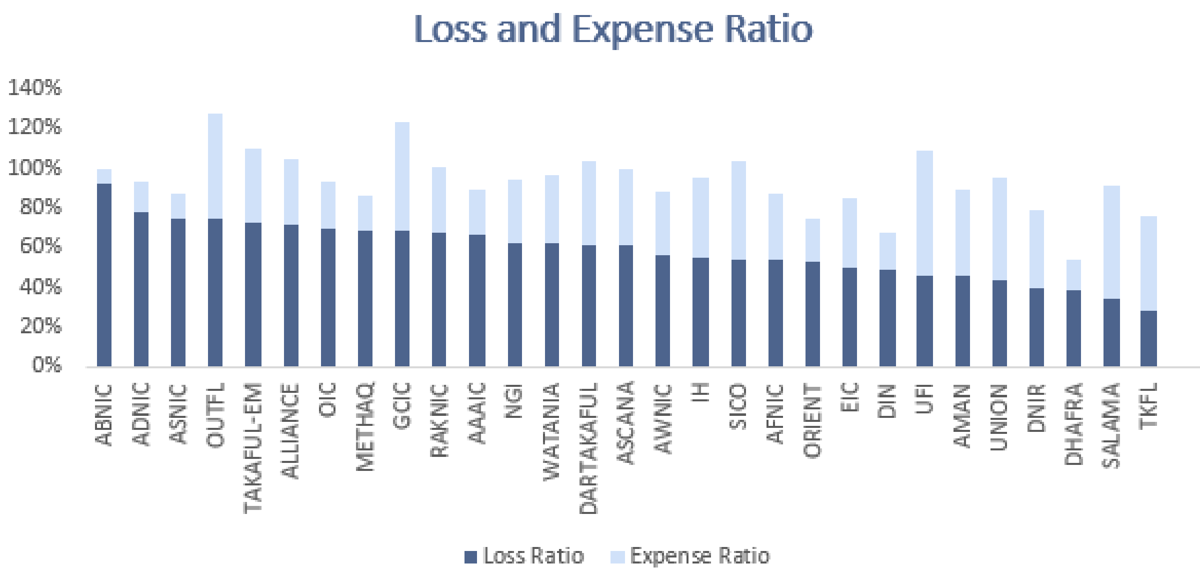
A company is deemed to be profitable from an underwriting perspective if the combined ratio is below 100%.

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

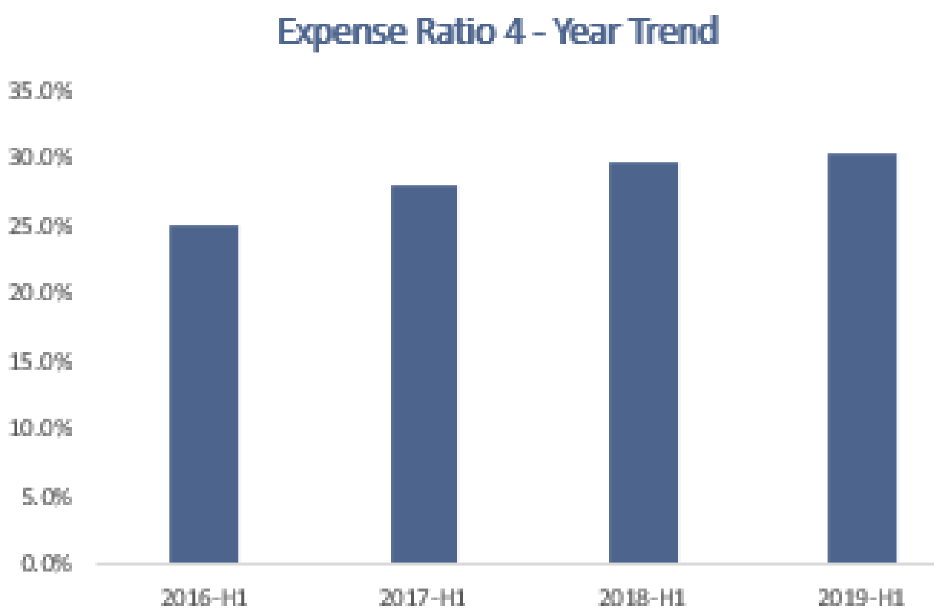
Combined Ratio is calculated as ratio of net Incurred Claims along with expenses and net commissions over net earned premiums.

*AKIC was excluded from the review

Loss and Expense Ratio Overview



The above is sorted in respect with loss ratio of the companies. As evident from above UFI and GCIC have relatively low loss ratios however, the expenses push the combined ratios well above 100% resulting in underwriting loss for the companies.

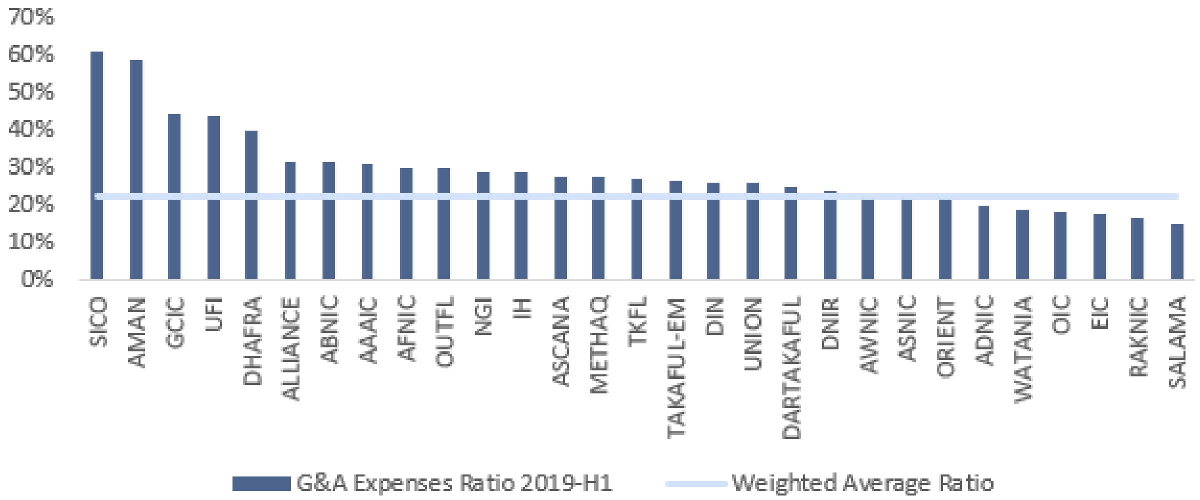


The graph comprises of all the expenses, of the listed companies, including other operational expenses. Over the years, the Industry witnessed a gradual but rising expense trend. If the same trend is to continue in future, the combined ratio for the industry will cross 100% mark.

*AKIC was excluded from the review

Expense Ratio

G&A Expense as a percentage of Net Earned Premium



The above ratio has been computed as General and administrative expense as a percentage of Net Earned Premium.

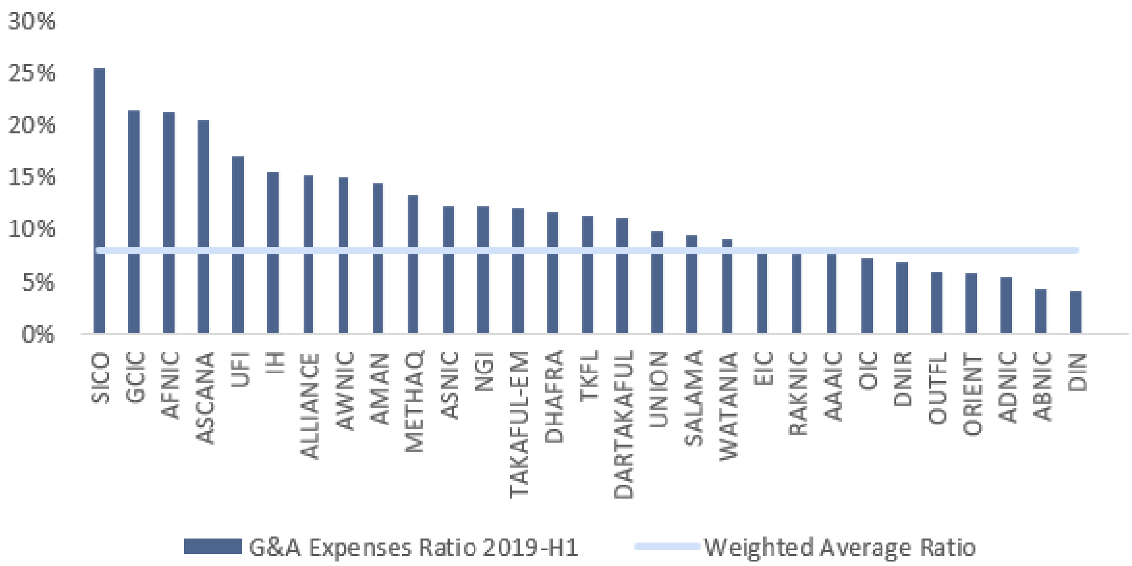
According to the above, the highest expense ratio for the first half of 2019 was **61%** reflected by SICO, while the lowest expense ratio of 14% being exhibited by SALAMA. The weighted average ratio for the industry stood at **22%.**

The larger business written reduces the expense ratios. However, taking earned premiums as base the lowest G&A expense ratio when analysed by gross written premium for DIN and ABNIC has shifted on higher side.

*AKIC was excluded from the review

Expense Ratio

G&A Expense as a Percentage of Gross Written Premium



The highest expense ratio for the 2019-H1 was recorded by SICO at **26%,** while the lowest expense ratio of 4% being reflected by ABNIC and DIN. The weighted average ratio for the industry stood at **8%.** It is commonly believed that G&A expense ratio should be analysed on the basis of gross written premiums for the company hence, the same is included in our analysis.

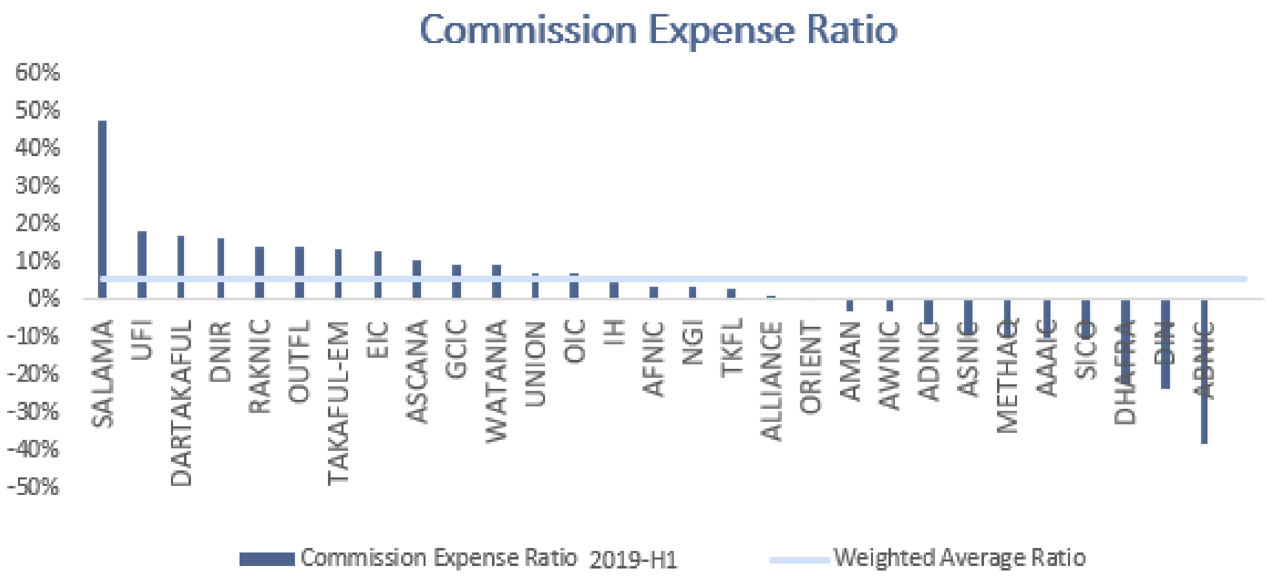
However, as may be expected, larger companies that have extensive business scale have lower expense ratio, as they have sufficient business to absorb the cost base.

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

For Takaful companies, same has been used for comparative purposes and wakala fees is ignored, as wakala fees is a positive in one account and a negative in the other

*AKIC was excluded from the review

Expense Ratio



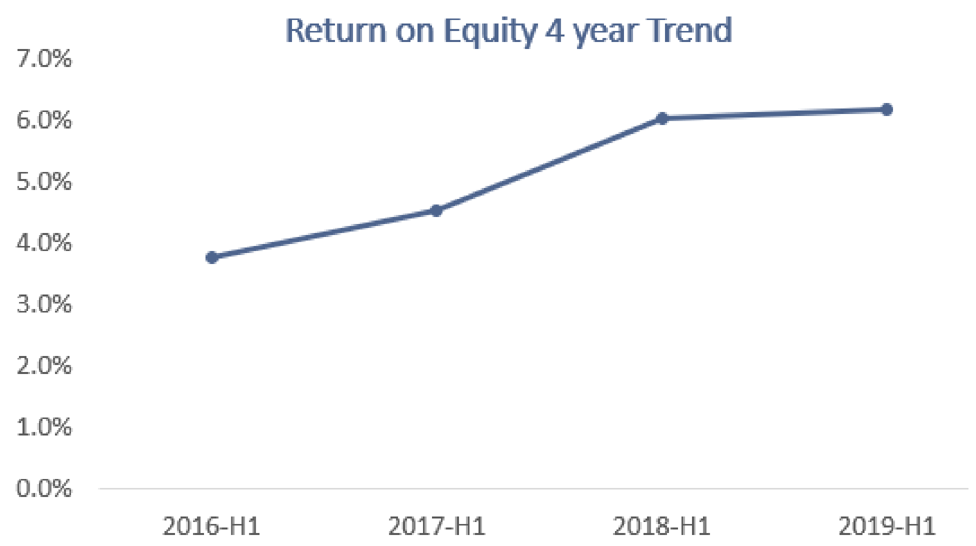
The highest commission expense ratio was for SALAMA at 48%, where as the lowest commission ratio was recorded by ABNIC at -38%. Industry's average was at 6% for commission expense.

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.

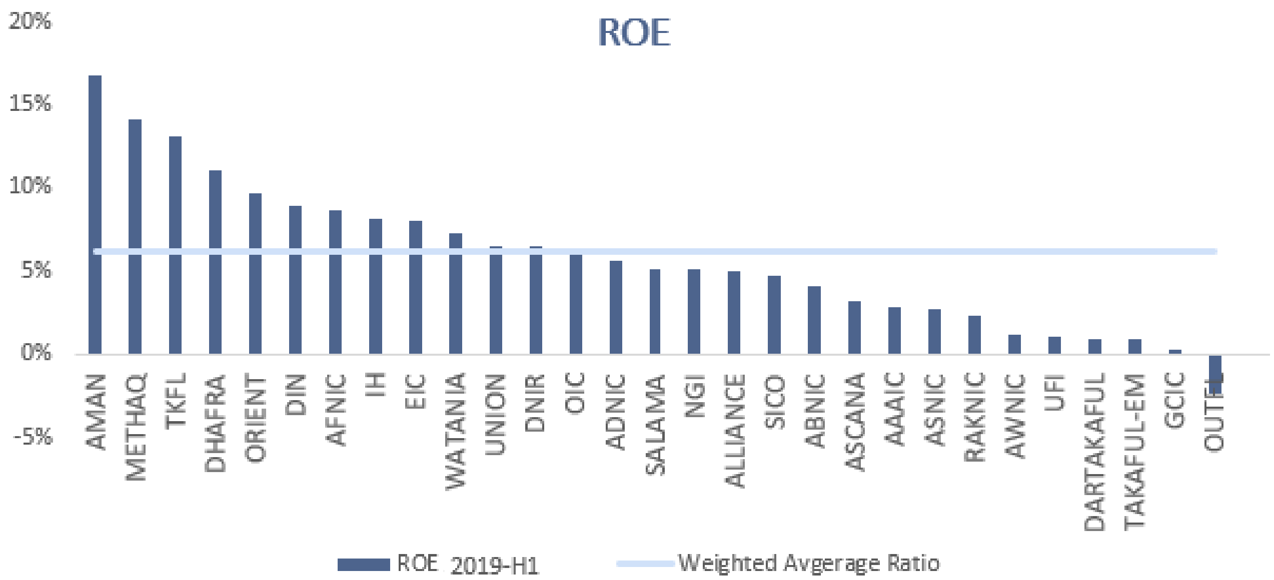
In UAE market, it is common practice for companies to cede out large proportion of commercial lines business and benefit from the reinsurance commissions, which is also evidenced by the low net commission ratio. It is felt that there is an inherent need to optimize reinsurance arrangements so that companies can benefit from underwriting profitable business without passing the risk and reward to re-insurers and just acting as fronting partners; at the same time not effecting their solvency position.

*AKIC was excluded from the review

Return on Equity



The shareholders of the listed insurance companies have been experiencing the increasing ROE over the periods. The ROE for the period under analysis was at 6%, which has remained stable over the corresponding period of 2018-H1 ended.

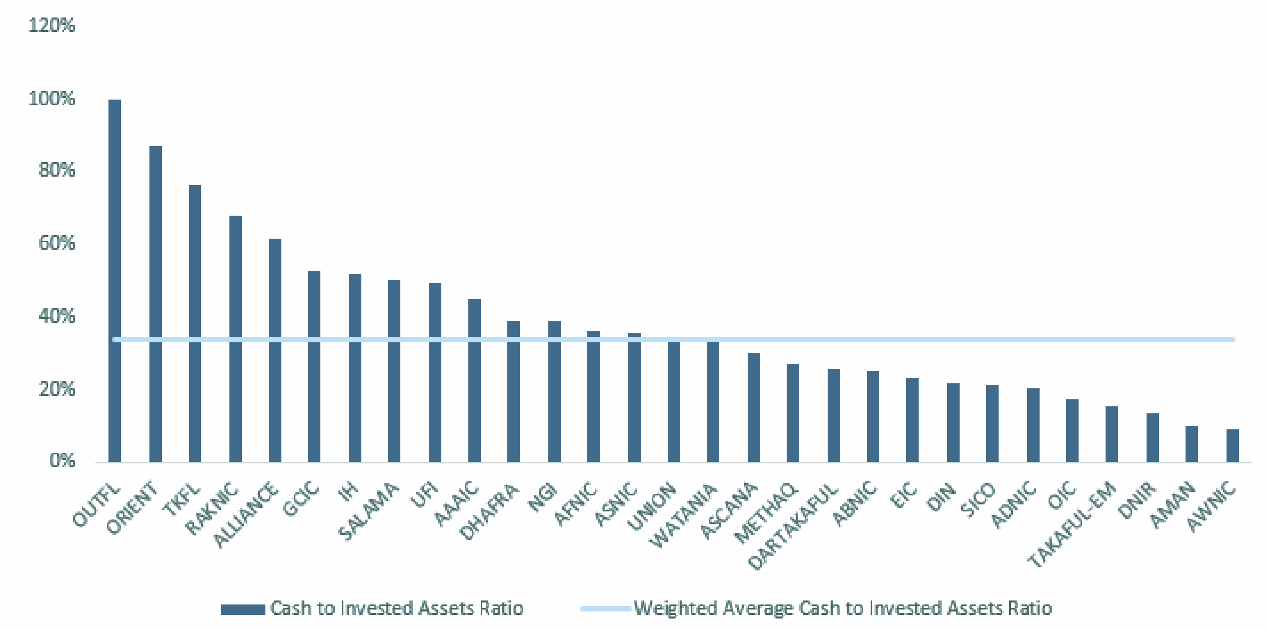


The highest return on equity of 17% was reflected by Aman whereas the lowest of -2% was depicted by OUTFL. The average for the industry was at 6% (2018-H1: **6%** 20170-H1: **5%**)

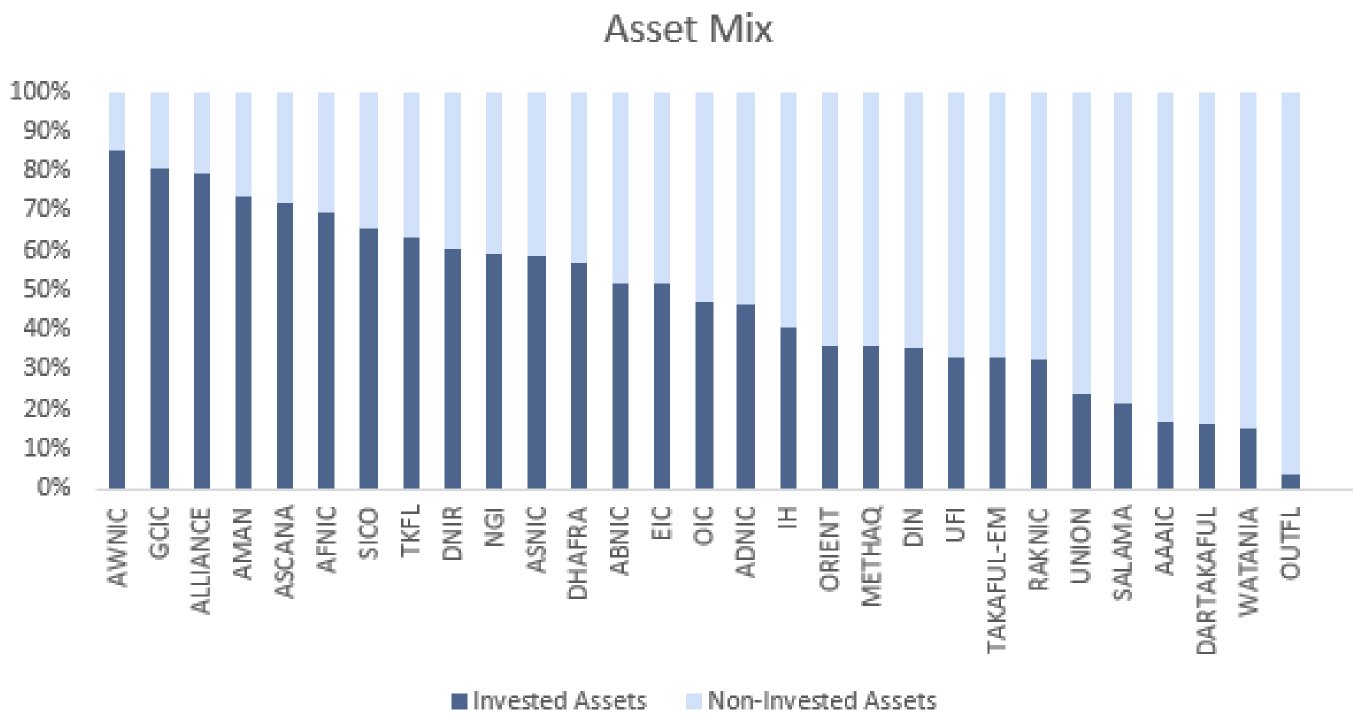
The return on equity is calculated as a ratio of net profit recorded for 2019-H1 to a total of shareholder's equity at the beginning of the period.

*AKIC was excluded from the review

Cash to Invested Asset Ratio



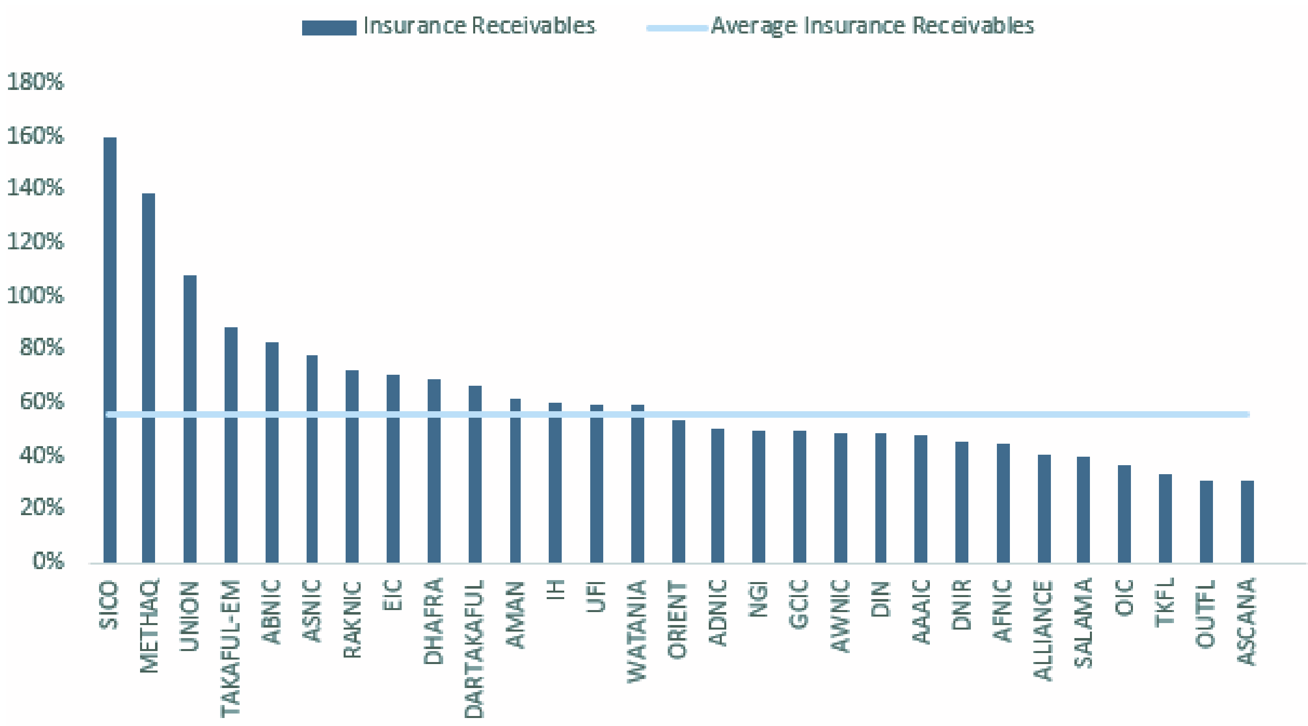
The above ratio illustrates the ratio of cash deposits to total invested assets. Weighted average ratio for the listed companies of UAE was **34%.** With OUTFL having the highest levels of invested assets maintained as cash**,** while the lowest cash ratio was maintained by AWNIC at **9%**.



The asset mix compares the invested assets as a proportion of total assets for the listed companies for the first half 2019. AWNIC had the highest proportion of 85% of invested assets, while the lowest proportion of 4% was witnessed by OUTFL. The above chart is sorted according to invested assets for the companies.

*AKIC was excluded from the review

Insurance Receivables



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

The highest receivable ratio was observed by SICO at **160%**, while the lowest receivables were recorded by ASCANA and OUTFL around **31%.**

The weighted average insurance receivables for the listed companies works out to be 56% for the first half of 2019

*AKIC was excluded from the review

Conclusion

The first half of 2019 was favorable for the Insurance Market of UAE with Premiums recording a growth of **9%** from the corresponding period of 2018. Similar to premiums, Profits for the market also witnessed growth of **2%** from 2018-H1.

The total premiums written, by the listed insurance companies, during 2019-H1 amounted to **AED 13.7 billion**, as compared to the premium written in the corresponding period of 2018 of **AED 12.6 billion**. The average premium retention ratio was at **41%**.

Total Profit by the listed insurance companies, for the period 2019-H1 amounted to AED 1.02 Billion compared to profits of corresponding period of **AED 1* Billion**.

The average loss ratio for all companies analyzed was **60%** and average combined ratio was at **90%**. This remained identical to the corresponding period of 2018.

*AKIC was excluded from the review

BADRI

ABOUT BADRI MANAGEMENT CONSULTANCY

WHAT WE DO

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.

BADRI

ABOUT OUR TEAM

Our team has grown to 59 at end of July 2019 and on a broad level divided into the following focus areas.

UAE/OMAN ACTUARIAL	19 STAFF
KSA ACTUARIAL	13 STAFF
BUSINESS INTELLIGENCE	9 STAFF
MEDICIAL	5 STAFF
EOS	7 STAFF
SUPPORT FUNCTIONS	6 STAFF

BADRI

DISCLAIMER

- The data represented in our report was gathered from publicly available information, and the financial statements released by the companies. This is why we were not able to inlcude AKIC in our report, due to the fact that there financial statements were not released at the time of creation of this report.
- We have undertaken an analysis of the Key Performance Indicators (KPIs) of the listed insurance for the 2019-H1. The data has been extracted from 2019-H1 year-end 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 are unable to segregate between life and non-life.Once all companies start publishing financial statements with uniform level of segregation, this can be done.
- 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.

FEEDBACK

Badri Management Consultancy is proud to present the 2019-H1 report. We have a dedicated team that is working on research to bring you research reports. Our doors are open for your feedback, and we welcome them. Feel free to inquire about the report.

To get in touch with our team contact us at info@badriconsultancy.com

GET IN TOUCH WITH US!

+971-4-3207-250

www.linkedin.com/company/badri-management-consultancy

www.badriconsultancy.com/