BADRI

# UAE INSURANCE COMPANIES (INCLUDING FOREIGN BRANCHES) PERFORMANCE ANALYSIS FOR YEAR ENDED 2020

May 24, 2021


**Badri Management Consultancy** is proud to have won the Strategic Partner of the Industry at the 7th Middle East Insurance Industry Awards 2020 conducted by Middle East Insurance Review.

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.

# ABOUT BADRI MANAGEMENT CONSULTANCY

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.

# Vision

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.

# Core Values

### Integrity Chasing Excellency

We uphold the highest standards of integrity in all of our actions by being professional, transparent and independent.

### Chasing Excellence

Through our empowered teams, we raise the bar by challenging norms to provide cutting edge solutions to our partners.

### Fostering Partnerships

We foster our partnerships with all our stakeholders through collaboration, empathy and adaptability.

### Breeding Excitement

We value our people and create an exciting environment for them to develop.

### Growth-Centric

We believe in creating a vibrant culture through continuous personal and professional growth of our people, while also growing the business.

# CONTENT

# HIGHLIGHTS OF 2019

## AED 40.3 Billion

### Gross premiums written

Gross premiums estimated for the insurance industry for 2019.

## 49%

### Retention ratio

The weighted average retention ratio in YE2019 for the industry was recorded 49%.

## AED 2.2 Billion

### Profit

Estimated profit for listed companies and branches amounted to AED 2.2 billion in YE2019.

## 68%

### Loss Ratio

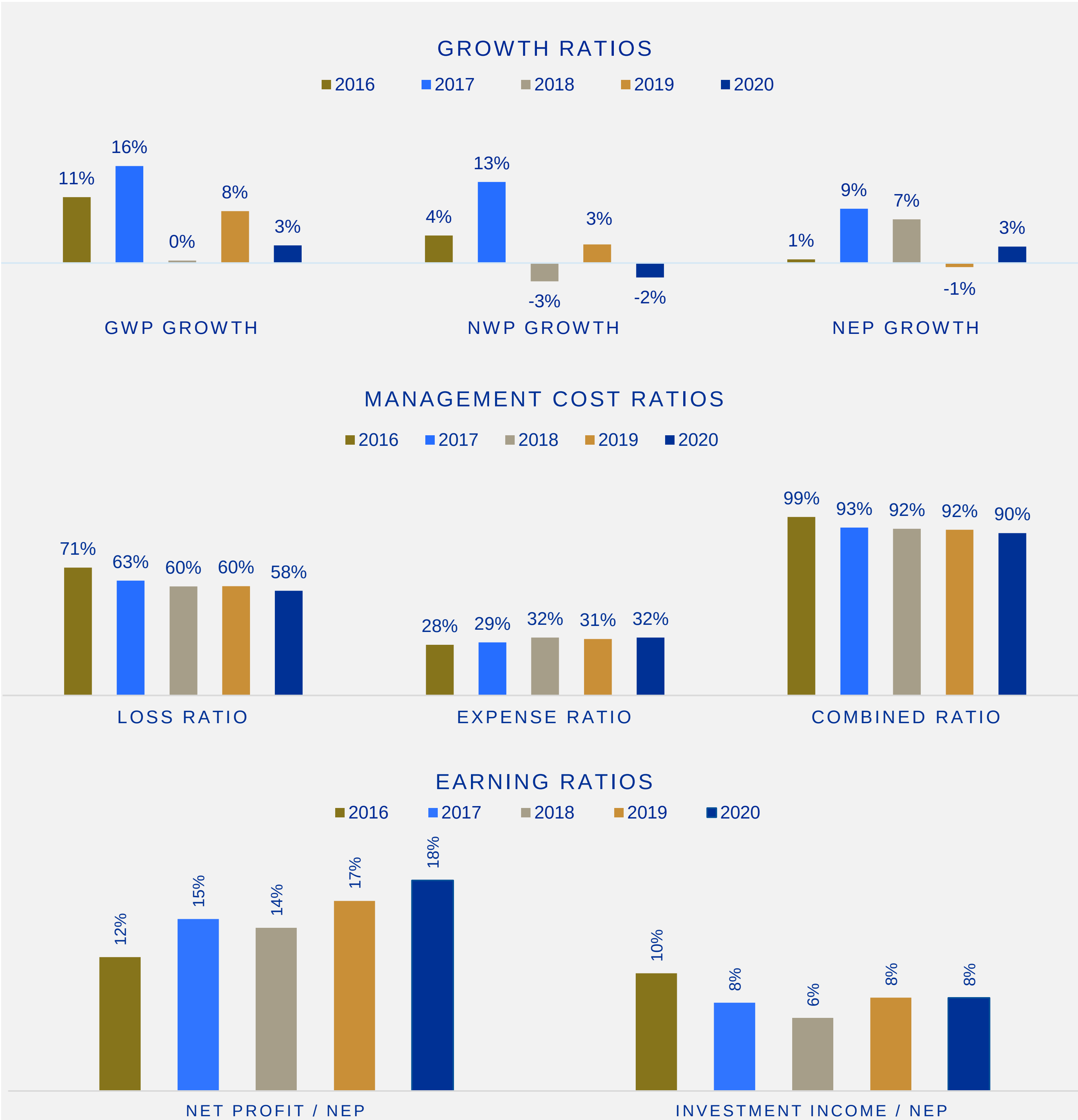
Weighted Average loss ratio was for the year ended 2019 stood at 68% for listed companies of and branches in UAE.

## 10%

### Return on Equity

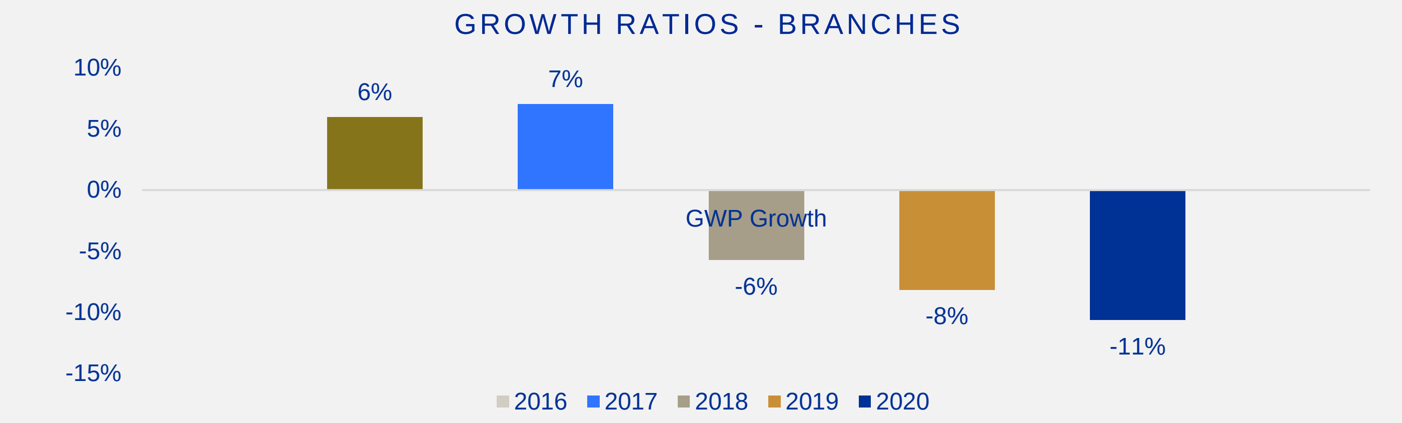
For Listed Companies, weighted average return on equity was 10% for year ended 2019.

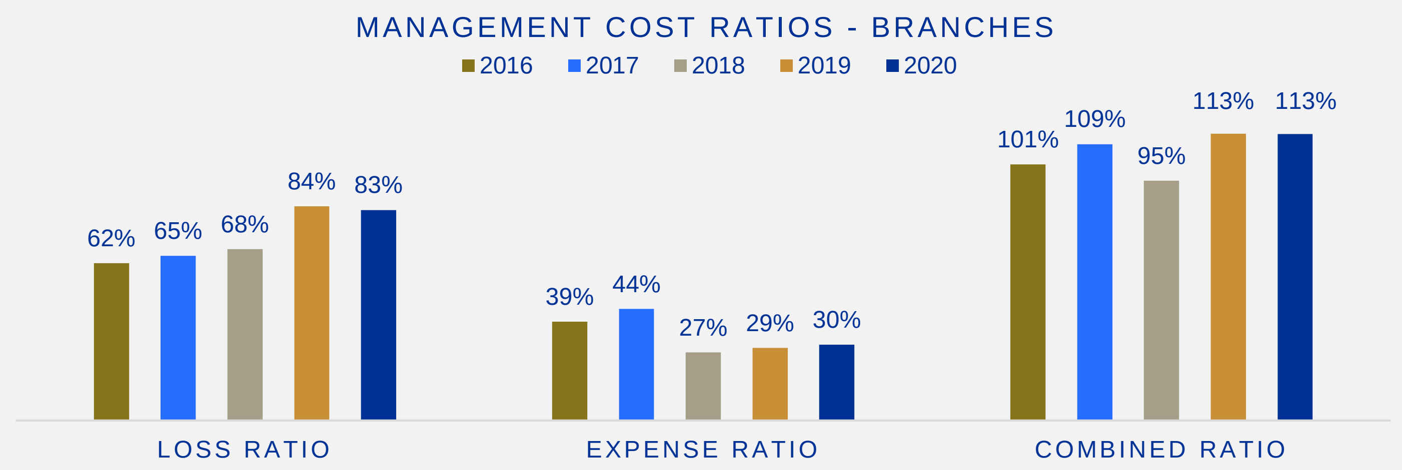
# PERFORMANCE RATIOS – LISTED COMPANIES

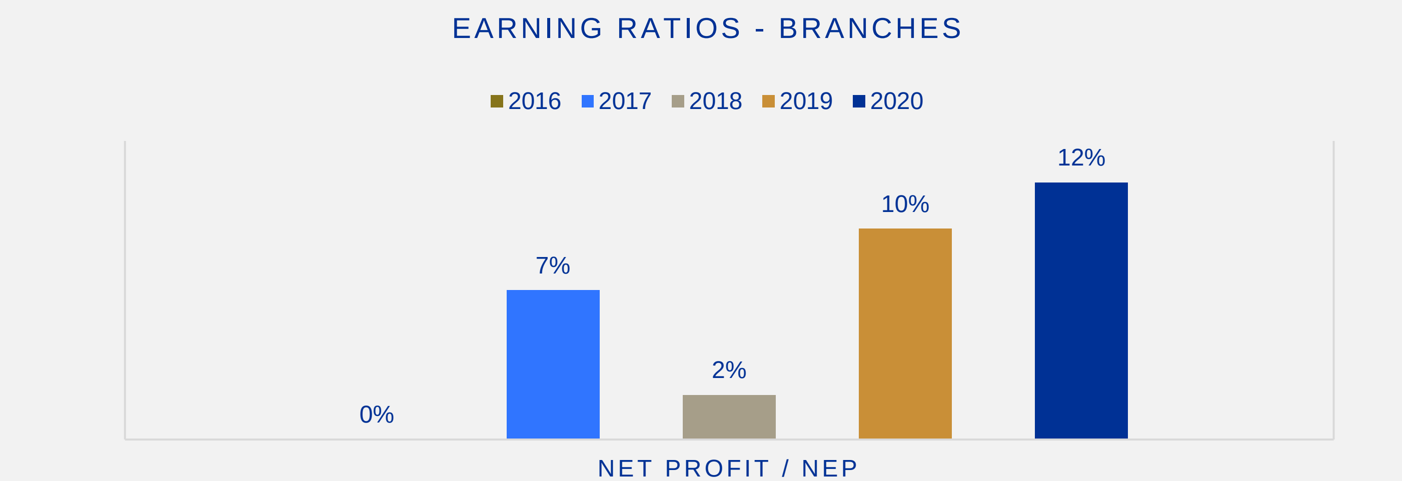



The year 2020 has been a very unpredictable year for most of the businesses including but not limited to the insurance sector. Nevertheless, the listed insurance companies managed to record a growth of 3% in GWP. The return on investments have remained stable at 8% while the loss & combined ratios have lowered during the year when compared to 2019.

# PERFORMANCE RATIOS – BRANCHES

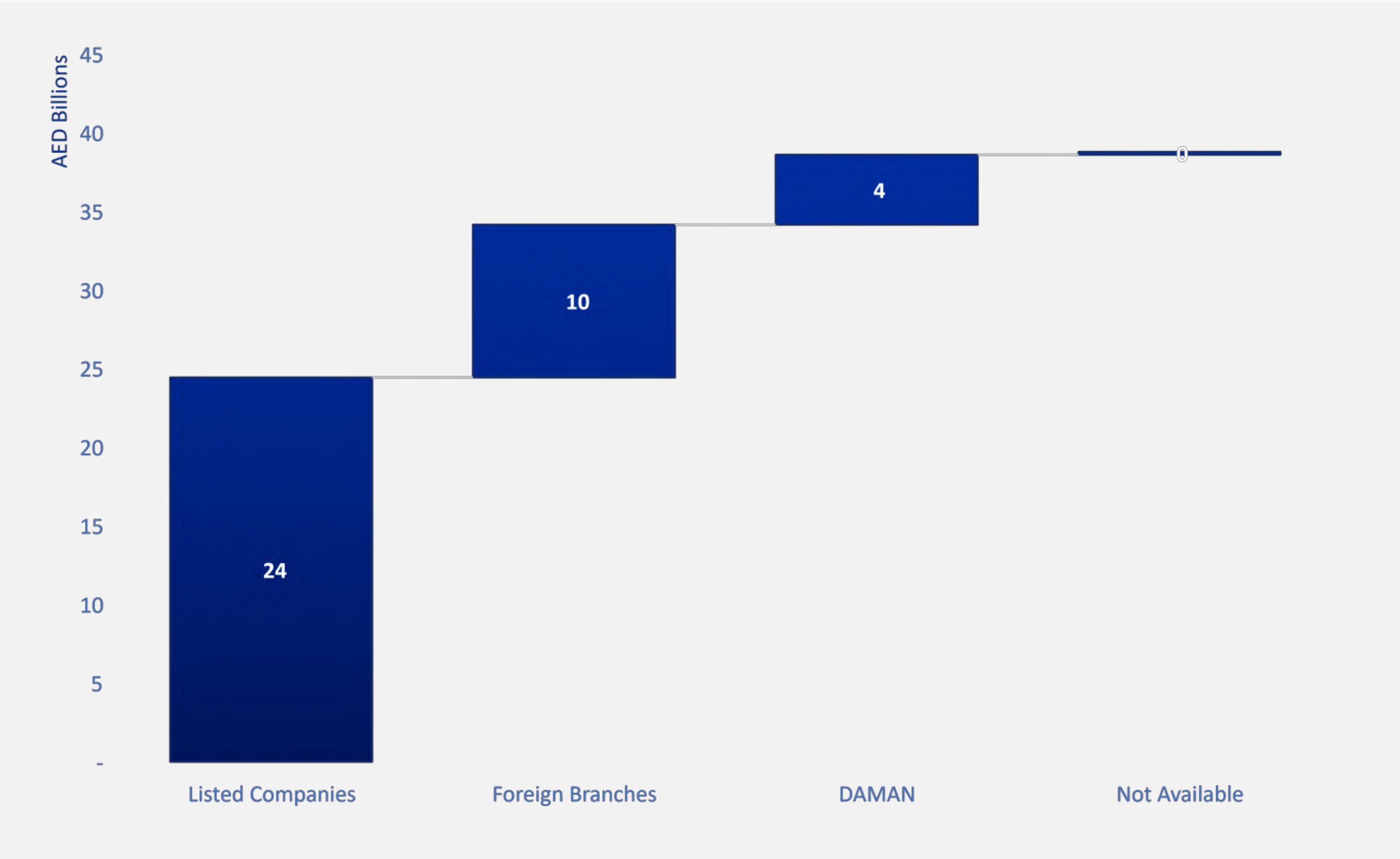



On the contrary, foreign Branches operating in the Emirates have been experiencing a continuous decline in business in the last three years. The loss ratio has slightly improved in 2020, however, an adverse movement in expense ratio of a similar magnitude was observed. The Earning ratio (Profit as a proportion of Earned Premium) for the Branches has improved, an increase from 10% in 2019 to 12% in 2020.

# INDUSTRY VOLUME ESTIMATION




The total market volume is estimated to be **AED 39 Billion**. The financials published were used for the listed Companies and Foreign branches, while for Daman and Not Available segments, an estimation was applied.

***DAMAN:***

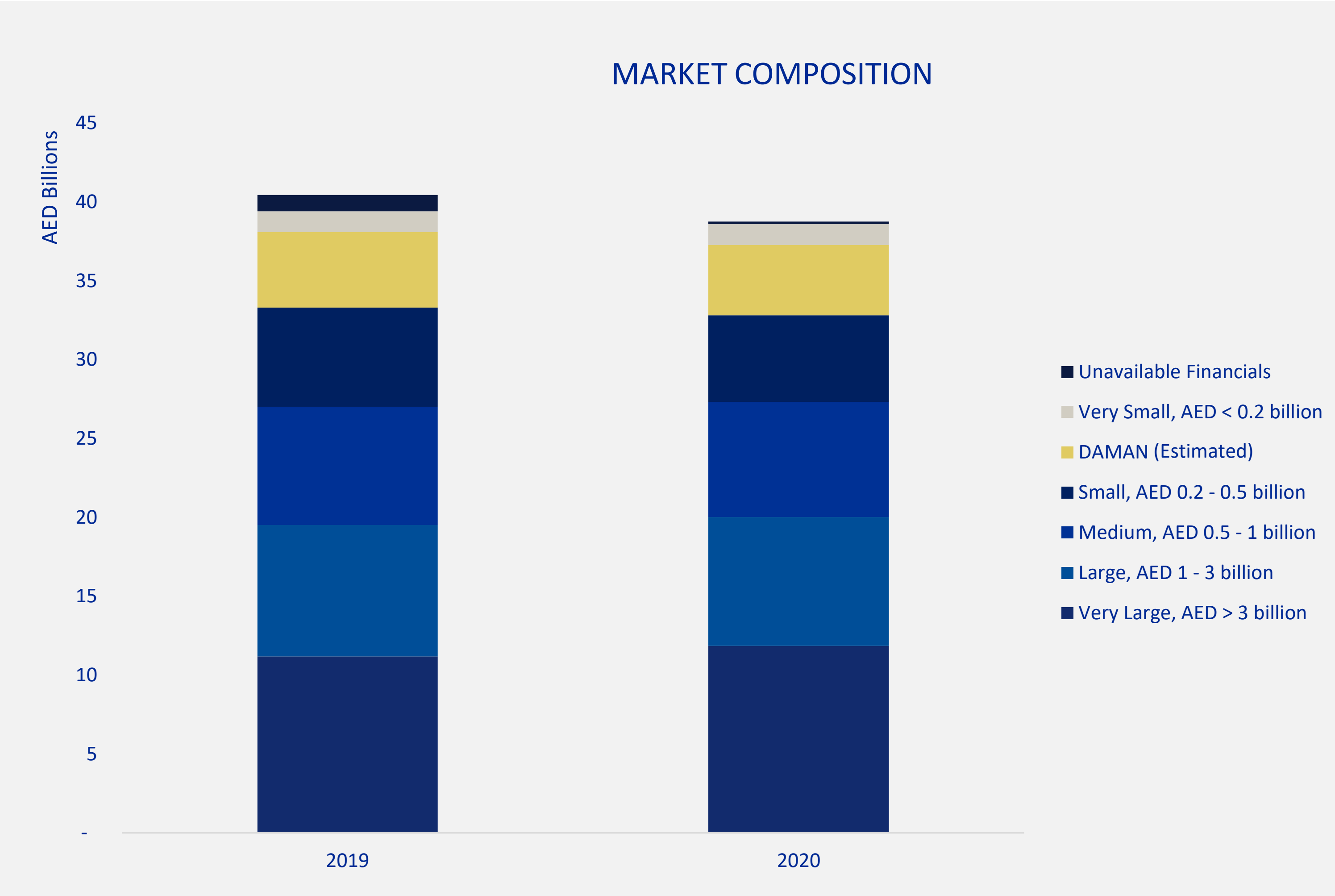
As per HAAD Statistics of 2017 (subsequent reports not available publicly), Daman covered 553,297 enhanced members at an average premium of AED 5,918. The Basic and Enhanced premium worked to be AED 1 billion and AED 3 billion, respectively. A compound growth of negative 1% is applied for the 2018 to 2020 period. This is based on the average industry growth in the similar period.

It is assumed that 5% of business comes from Non-HAAD sources, providing total GWP for 2020 to be AED 4.5 billion. This excludes Thiqa.

***Missing Financials:***

The missing segment pertains to Local Unlisted companies whose financials were unavailable. These are assumed to make up 0.5% of the listed companies plus branches premium. This assumed percentage is lowered from our last publications considering that Noor Takaful's portfolio is now a part of DARTAKAFUL.

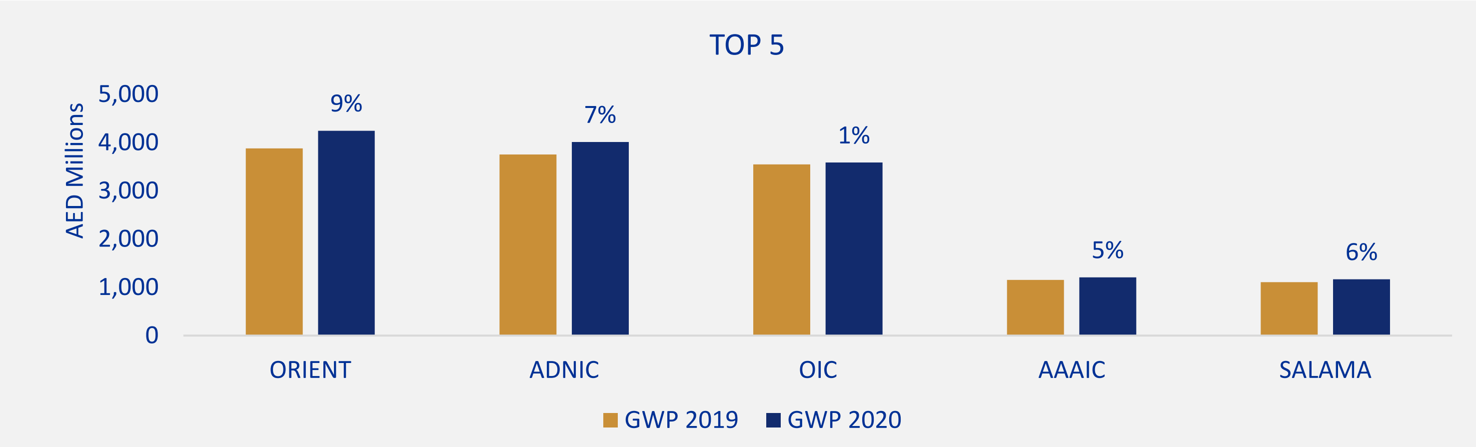
# ESTIMATING TOTAL MARKET VOLUME




The Gross Written Premiums for 2019 are taken from our release of December 31, 2019.

As per the Annual Report of Insurance Sector published by CBUAE for 2019, the industry premiums aggregated to AED 44 billion. The main cause of the difference in the industry estimates is believed to be emanating from different treatment of savings/investment component of premium in the financials versus the regulatory forms (eforms). We believe that the report produced by CBUAE is based on eforms, while we have used publicly available financials. Some companies do not show such premiums as part of gross premiums in the financials, however, in the eforms these are added to the topline premiums.

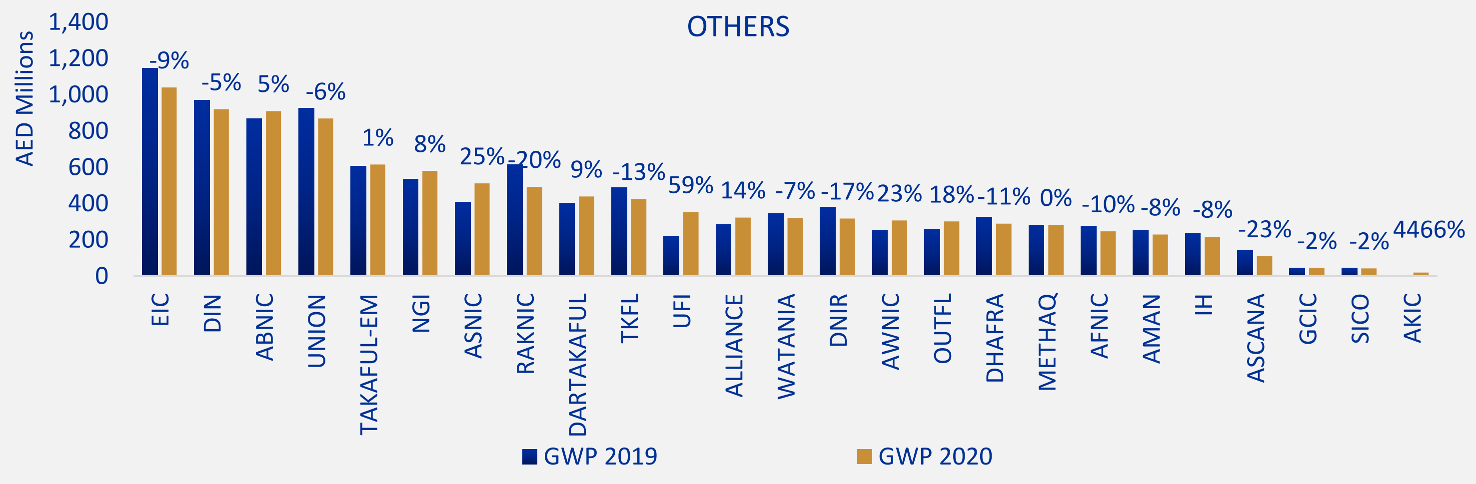
# GROSS WRITTEN PREMIUMS - LISTED COMPANIES




Despite the pandemic and restrictions associated with it, the companies reflected a growth of 3% in Gross Written Premiums. The total GWP by the insurance companies amounted to AED 24.4 billion for the year ended 2020 as compared to AED 23.7 billion in 2019.

The market share of the top 5 companies in terms of the gross premium increased from 57% in 2019 to 58% in 2020. The collective premium of the top 5 companies accumulates to AED 14.2 billion in this year.

SALAMA has made it to the top 5 in 2020, while top 4 companies remain unchanged in their position from 2019 with ORIENT sustaining its top rank in the market in terms of highest written premium for the year ended 2020.

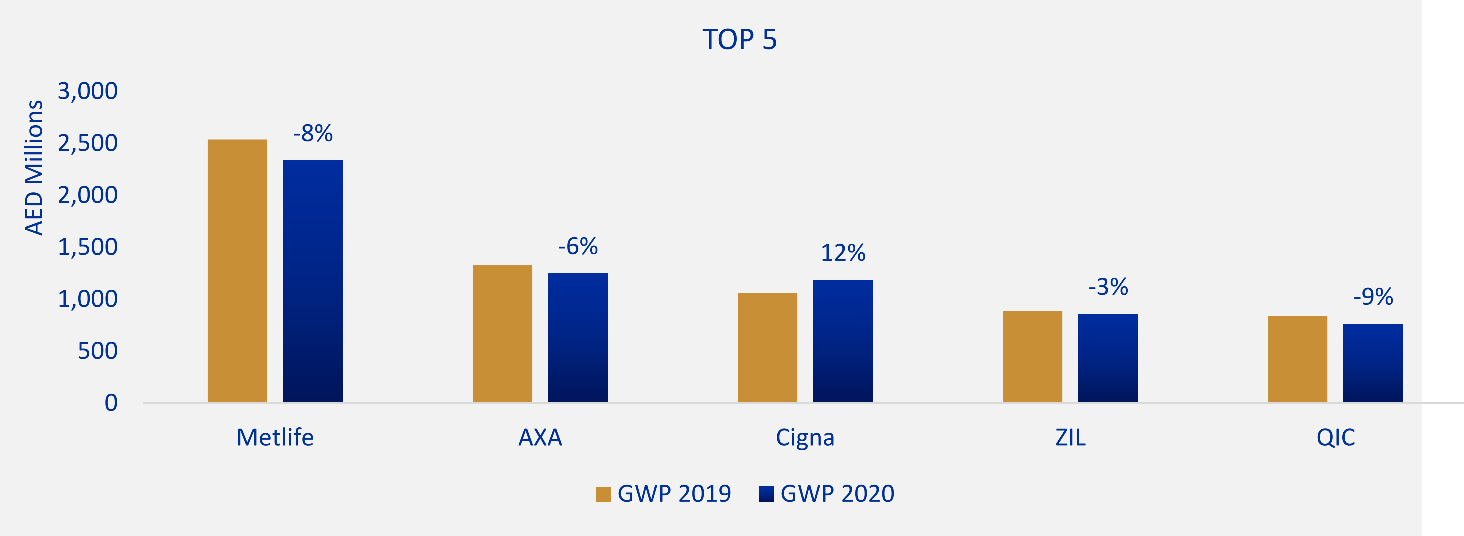



The highest growth in 2020 (after AKIC) was exhibited by Fidelity United with 59% growth from 2019 while the biggest decline in business was reflected by ASCANA from AED 141 million to AED 109 million depicting a decline of 23%.

AKIC has displayed a growth of 4466% from 2019. Their operations were suspended for most of 2019.

Overall, of the 30 listed Companies, half of them displayed an increase in premiums while the other half experienced a decrease in topline.

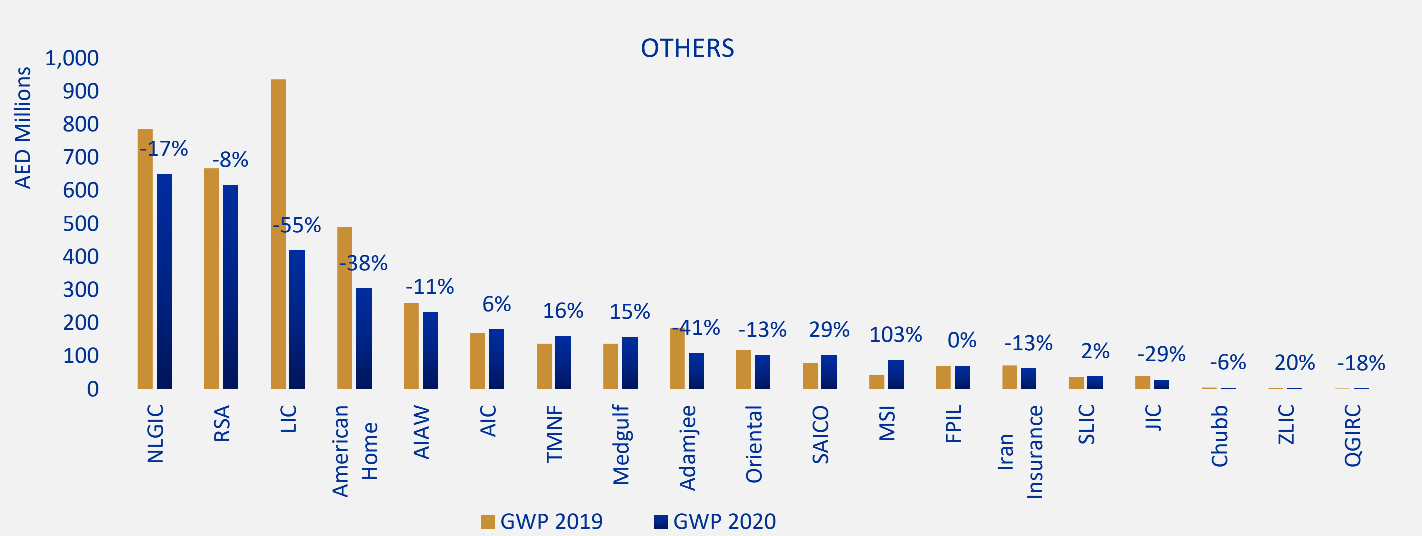
# GROSS WRITTEN PREMIUMS - BRANCHES




The 24 branches included in this review have closed the year with an aggregate business of AED 9.7 billion. However, the business has reduced when compared with the year end 2019, which recorded a business of about AED 10.9 billion for the same branches.

The top 5 branches recorded a combined premium of AED 6.4 billion, comprising of 66% of the gross premium written for branches.

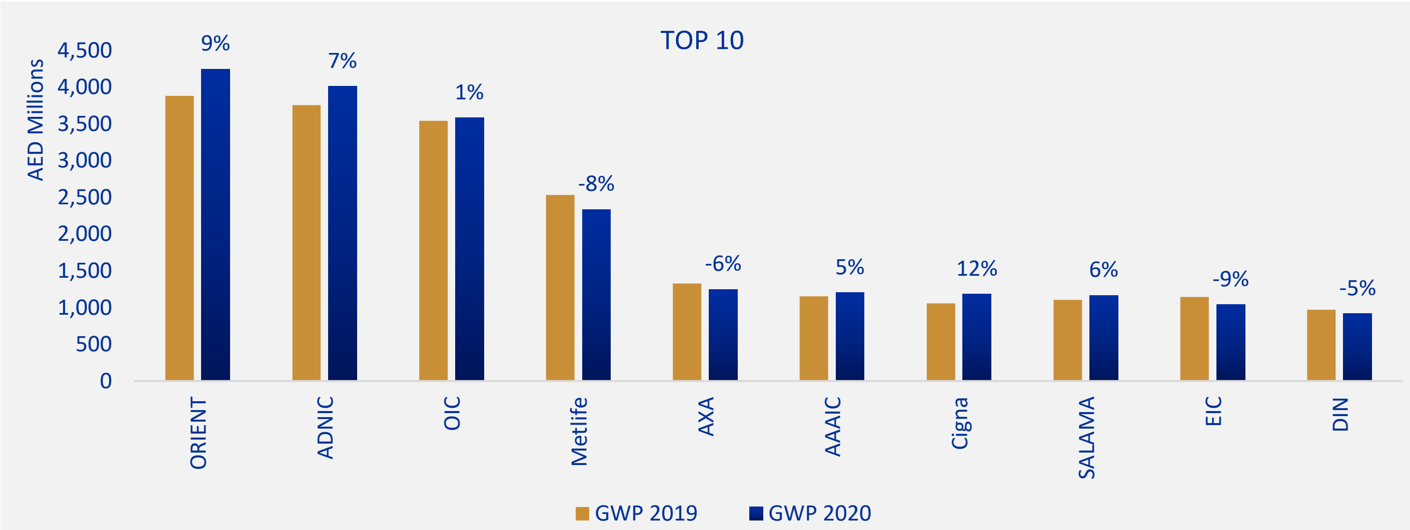
The positions of the Top 3 branches have remained similar to last year while QIC has replaced LIC in the Top 5 position. Only 1 of the Top 5 branches exhibited growth in their business during 2020.




MSI has recorded the highest growth of about 103% in gross business written among the branches for the year 2020 and on the contrary, LIC has observed the lowest growth of negative 55%, LIC has dropped to 8th position from 4th position in 2019.

Overall, only 9 out of 24 branches reflected growth in premiums when compared with the year end 2019.

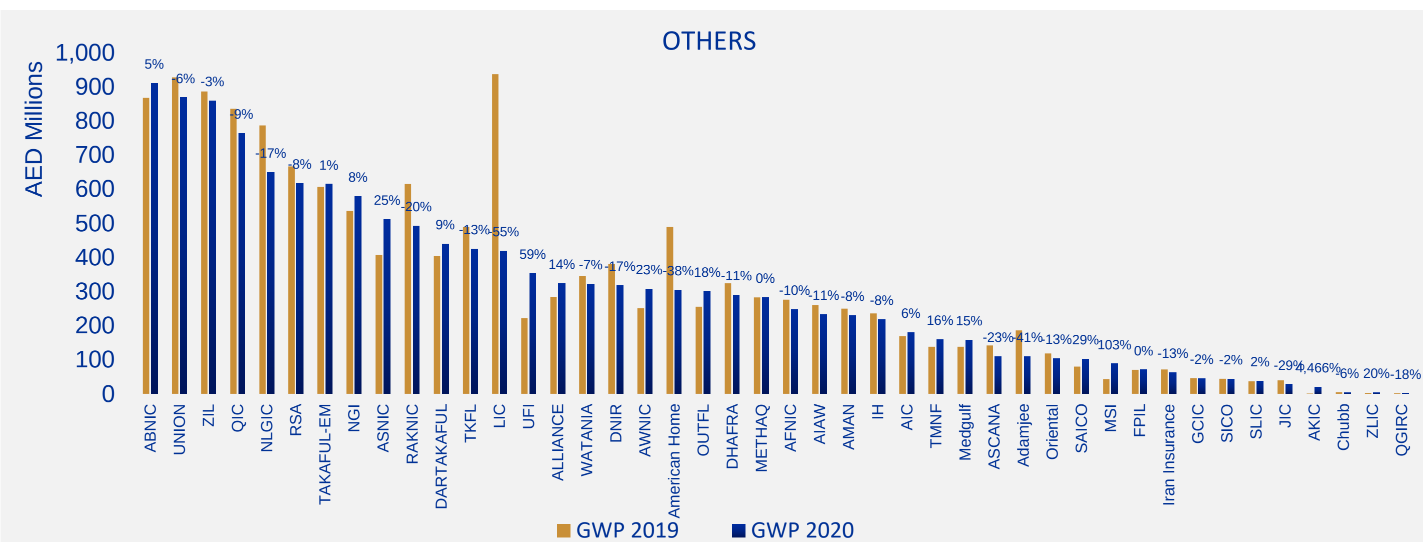
# GROSS WRITTEN PREMIUMS - COMBINED



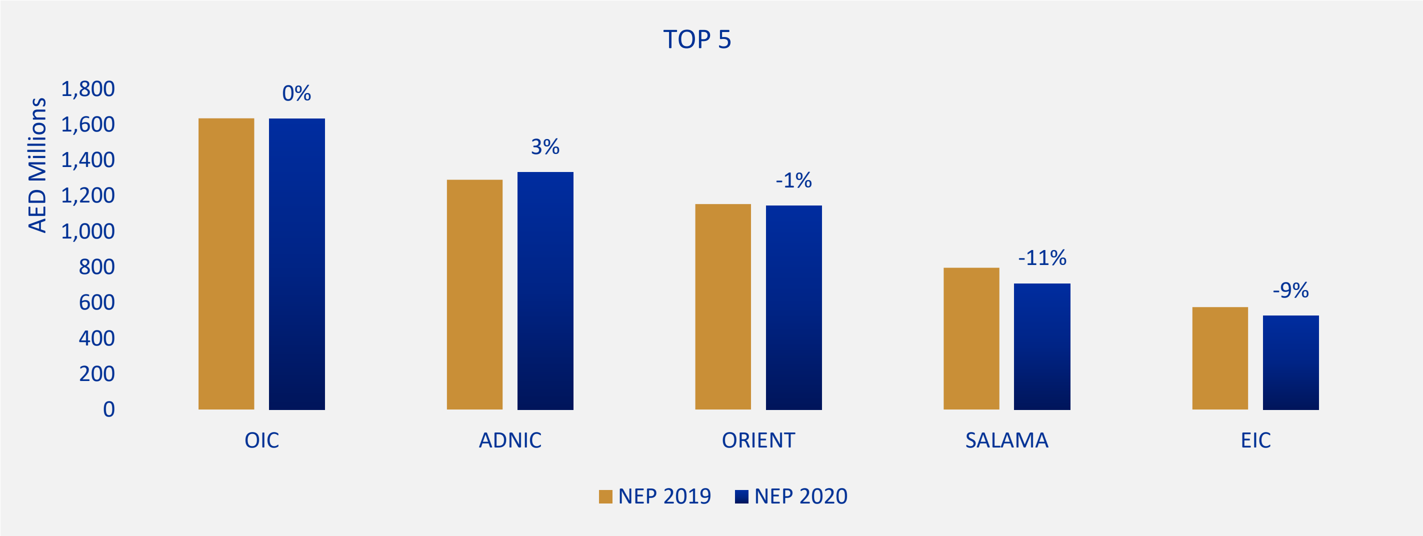

Total premiums written for all the listed Companies and Branches considered under this review, for the year 2020 amounted to AED 34.1 billion depicting a decline of about 1% from 2019. The AED 34.1 billion is composed of AED 24.4 billion (72%) from listed companies and AED 9.7 billion (28%) from branches.

The top 10 companies including branches had a combined premium of AED 20.9 billion, which makes up 61% of the total gross written premium for the year 2020.

Three of the top 10 and 6 of the top 15 companies by premium volume are foreign branches, indicating that they continue to hold a significant presence in the UAE market.

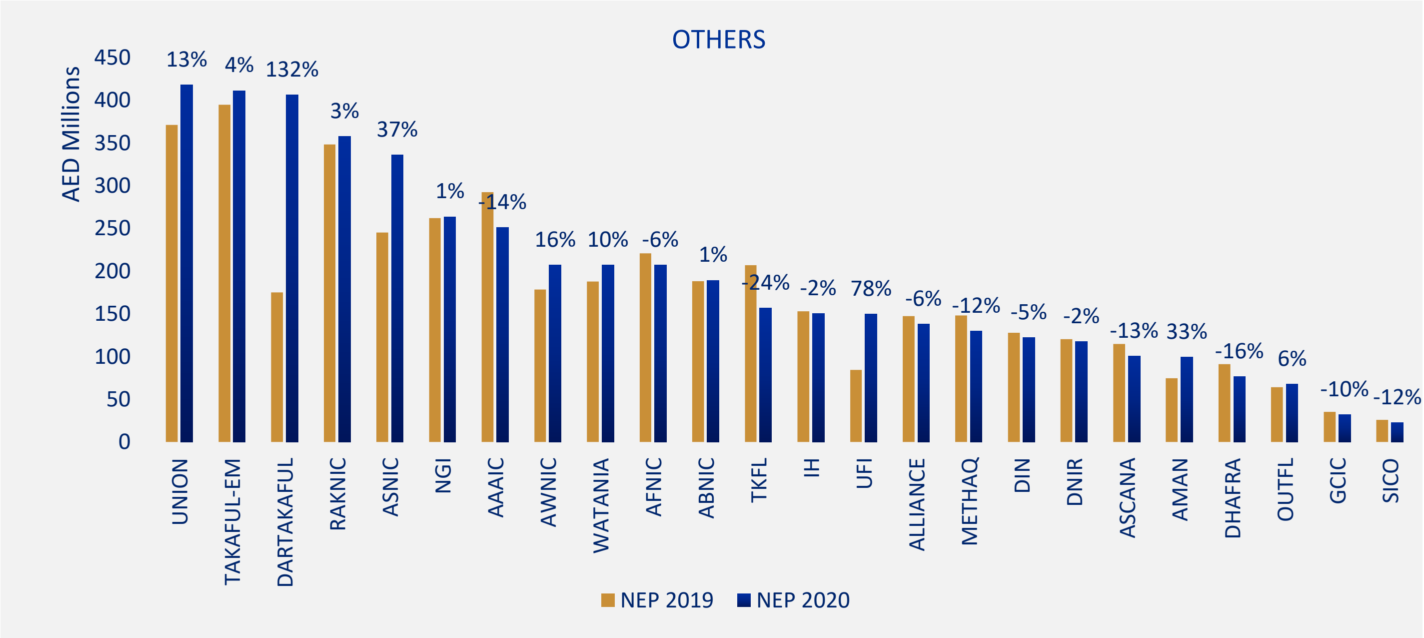


# NET EARNED PREMIUMS - LISTED COMPANIES




The total Net Premiums Earned by the insurance companies amounted to AED 10 billion, an increase of 2.6% from AED 9.7 billion in the year ended 2019.

The net earned premiums of top 5 companies amounted to AED 5.3 billion, reflecting a contribution of 54% of the market share for year end 2020. This contribution has lowered by 2% when compared with 2019's net earned premium of the top 5 companies.




As depicted, DARTAKAFUL experienced an immense growth in the year 2020 of about 132% while the biggest decline in net earned premiums was exhibited by TKFL of negative 24%.

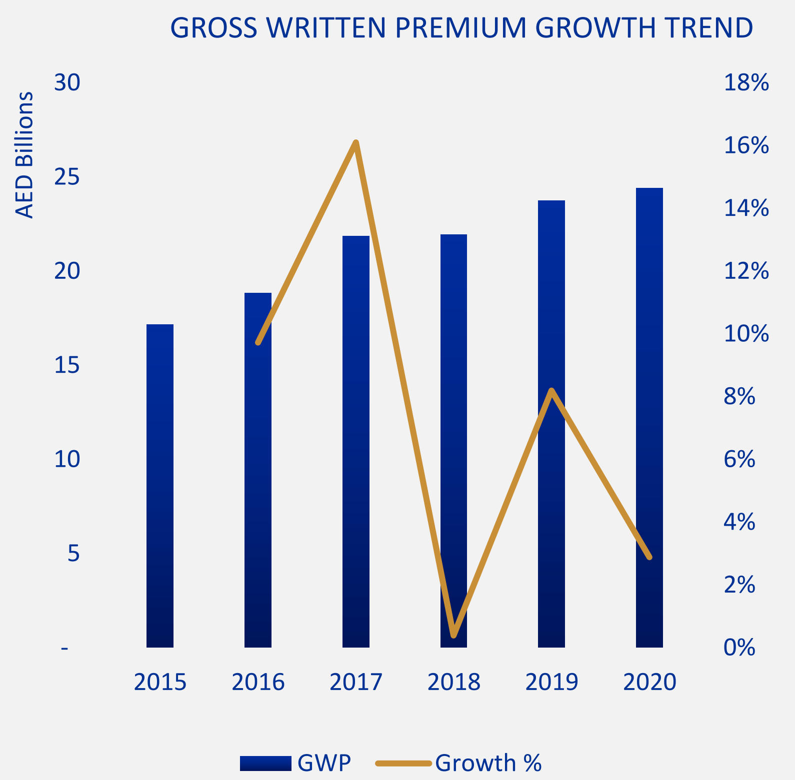
# PREMIUMS TREND – LISTED COMPANIES

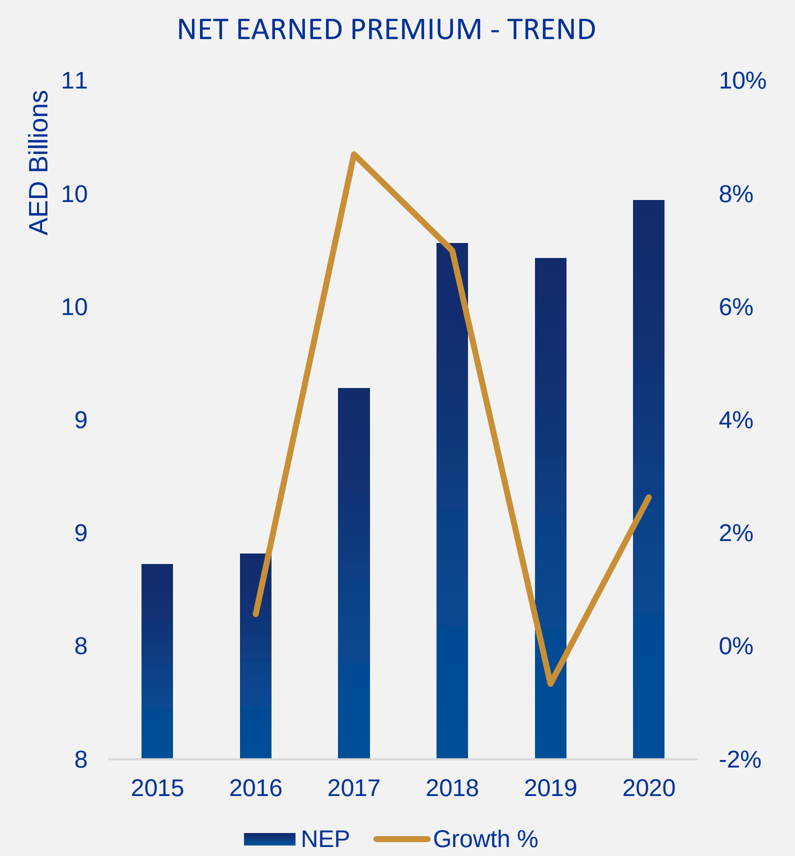
As depicted, the minimal growth of 3% in premiums of listed companies reflects the declining average premiums for Motor, pressure on reduced benefits for Medical and reduced economic activity in 2020.

The highest growth since 2015 was witnessed in 2017 after CBUAE (formerly Insurance Authority) imposed minimum tariffs for Motor LOB that were materially higher than the existing rates and new benefits for the Industry.

The historical performance of Net Earned Premiums have exhibited identical trends to that of gross written premiums for similar reasons, albeit with a year lag as business is earned over the next one year for the short-term business, that makes up majority of the industry premium of UAE market.

Therefore, the significant growth of GWP in 2017 is reflected in both, 2017 and 2018 financial years for net earned premiums. The Net earned premium in 2020 has depicted a growth of about 3%.



# CONVENTIONAL VS TAKAFUL – LISTED COMPANIES

Out of 30 listed insurance companies, 9 operate as Takaful Insurers in the UAE market.

The business written by the Takaful companies contributed 16% of the total written business by the listed insurance companies in UAE in 2020.

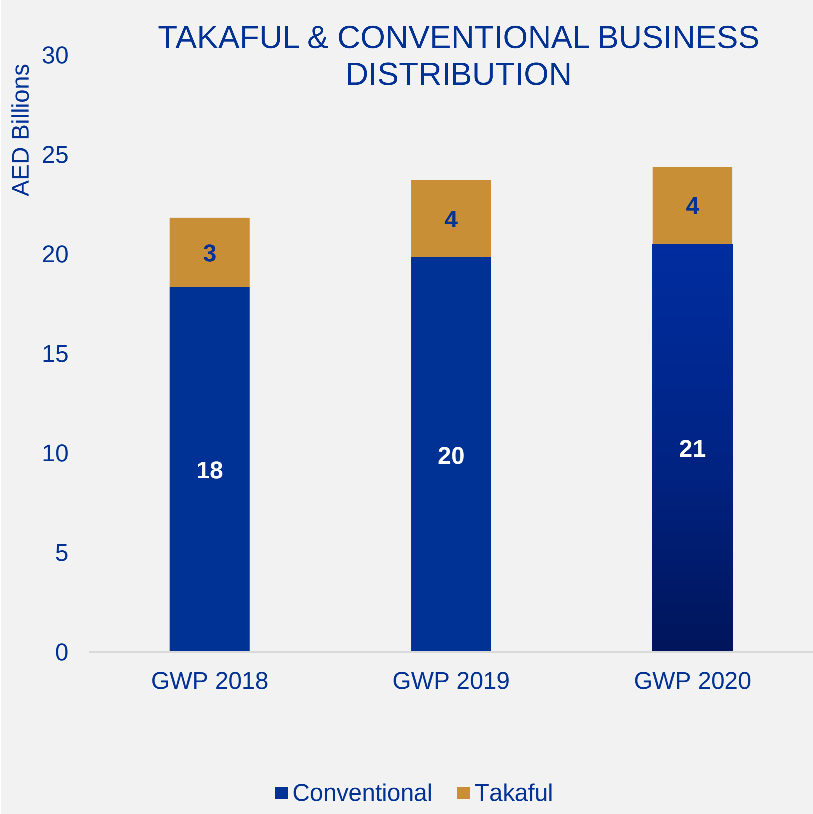
The premium for the Takaful insurers remained stagnant when compared with last year.

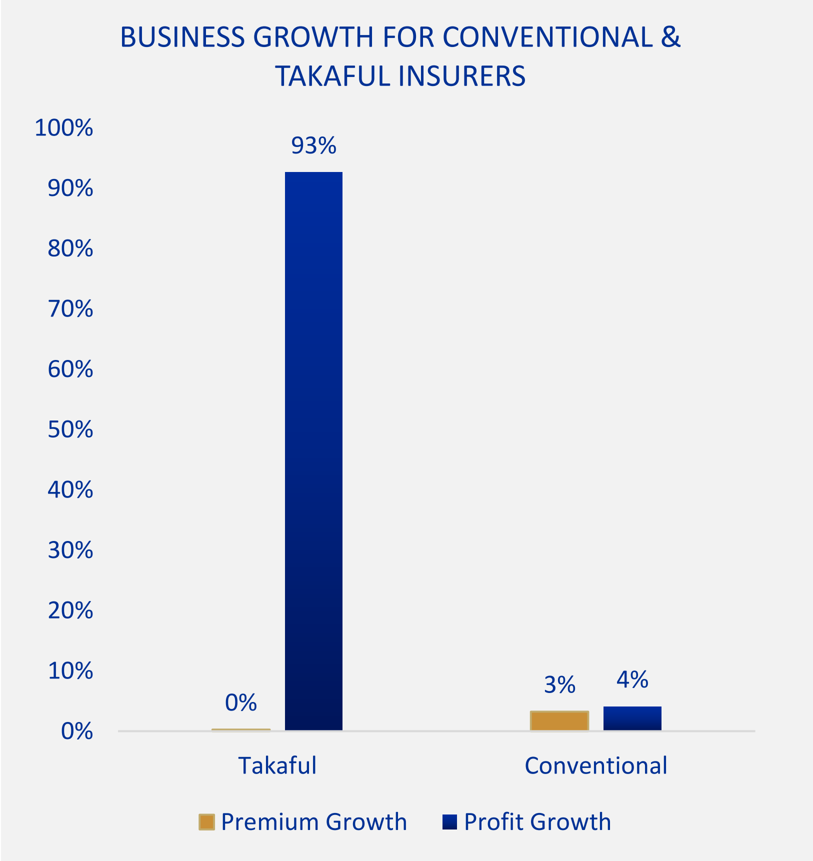
The shareholder profits for Takaful Insurers reflected exceptional increase of 93% in the year 2020 when compared with 2019.

The growth in terms of GWP has dropped down to 3% (9% in YE2019) while profit growth has significantly dropped to 4% as compared to the growth of 24% recorded in 2019 for Conventional Insurers.

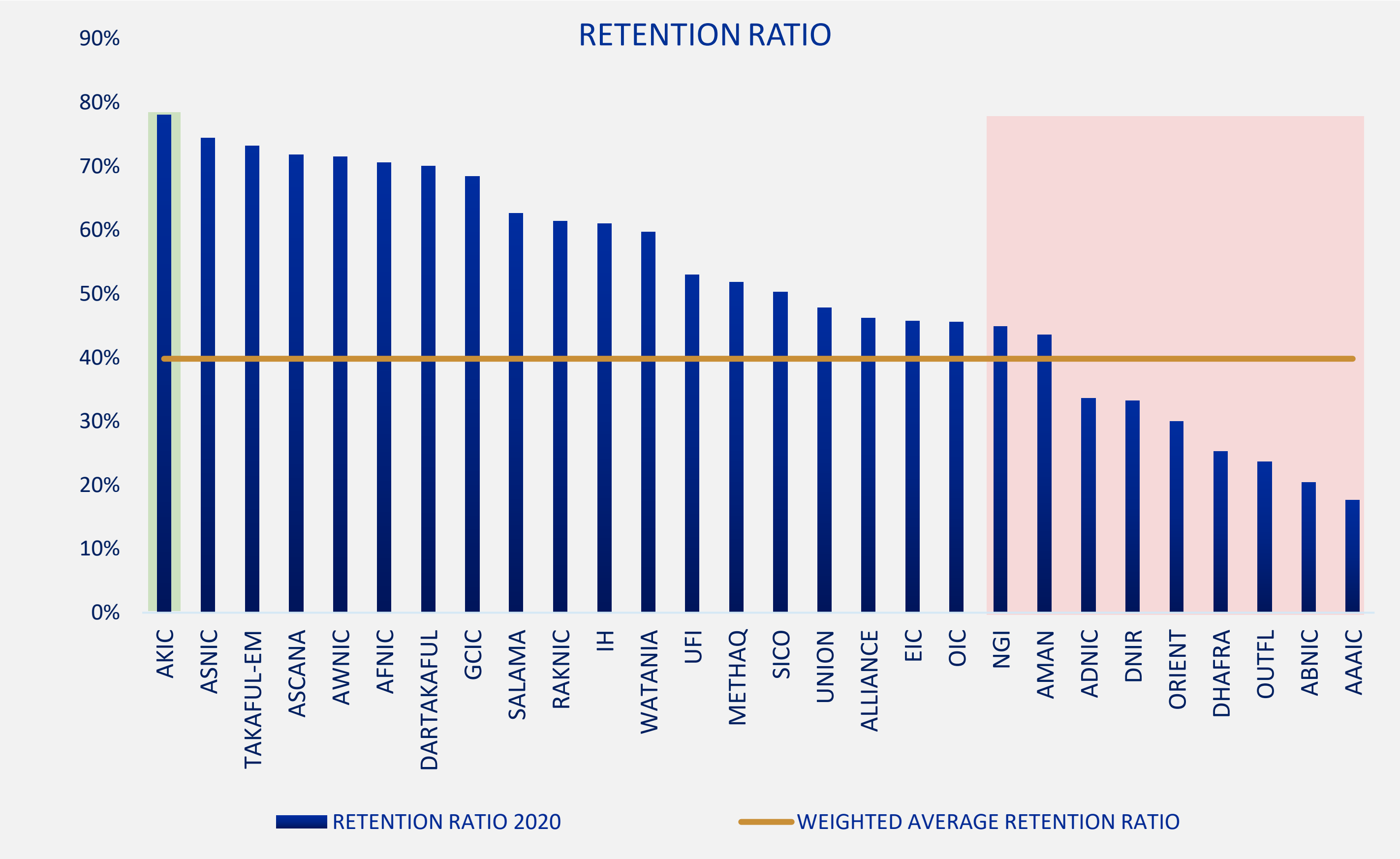
It is noteworthy that 4 out of 9 Takaful insurers faced a decline in their topline. On the other hand, the exceptional profit growth of 93% is significantly influenced by SALAMA. For SALAMA, AED 63 million worth of the profit emerged through selling of shares of SALAMA KSA. Apart from TKFL, all Takaful companies have demonstrated substantial growth in profits.

In addition, DARTAKAFUL realized a one-time gain of AED 35 million (Gain on Bargain Purchase less Acquisition Cost of Subsidiaries) on acquisition of Noor Takaful.



# RETENTION RATIO – LISTED COMPANIES




The weighted average retention ratio for 2020 was recorded to be 40%, depicting a declining trend from the historical trends (2019: 42%, 2018: 44%, 2017: 46% and 2016: 47%).

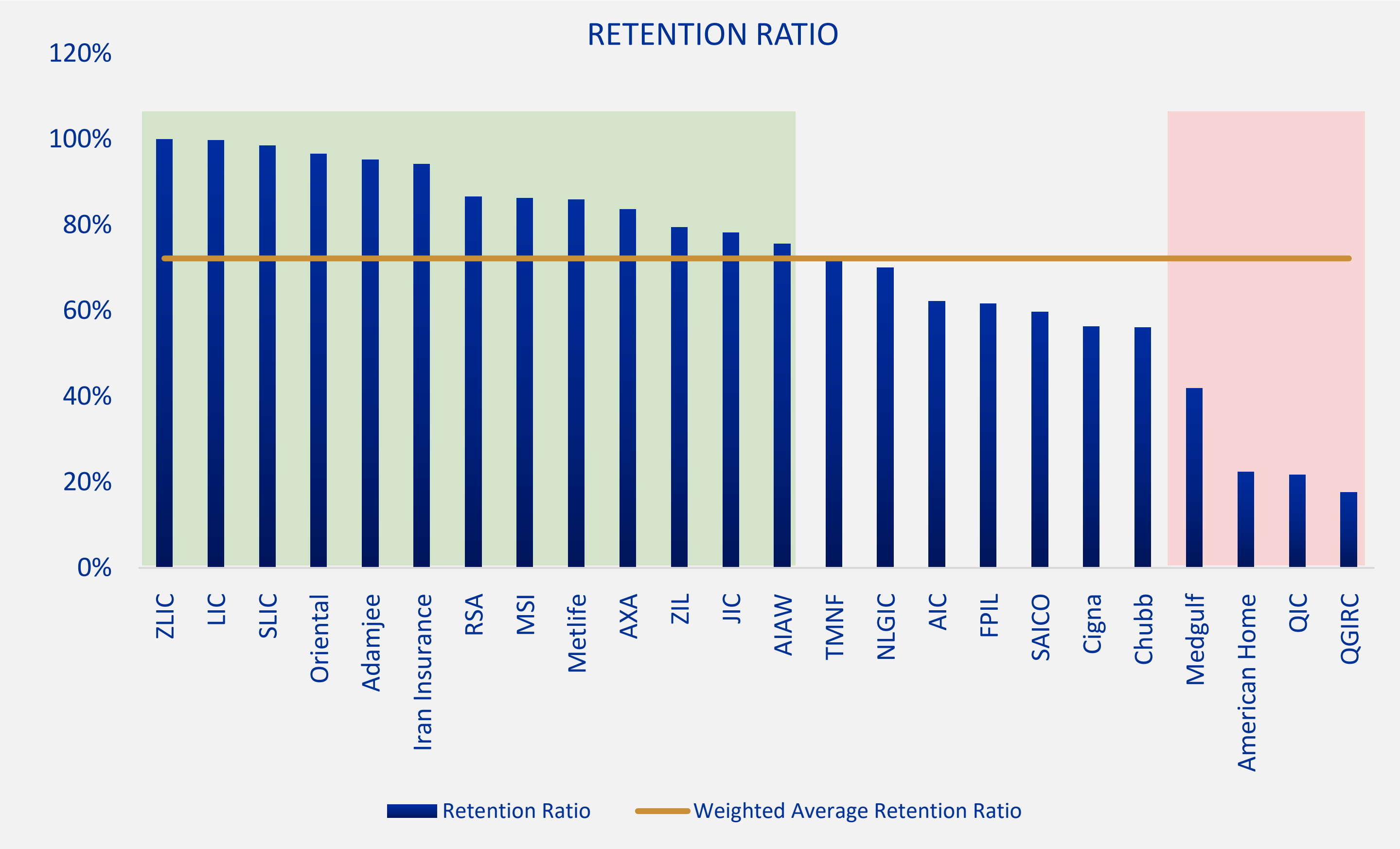
The highest retention was displayed by AKIC of 78% they retained 78% of their business while the lowest retention of 13% is reflected by DIN. TKFL is excluded from the presentation above with its net written premium being negative due to their retakaful adjustments made in 2020.

As per the CBUAE benchmark the recommended range for retention ratio is above 45%, while the preferred range is above 75%. The red zone reflects the companies falling in critical range which is below 45%.

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.

❖ *The retention ratio is calculated as a ratio of net written premiums to gross written premium.*

# RETENTION RATIO – BRANCHES



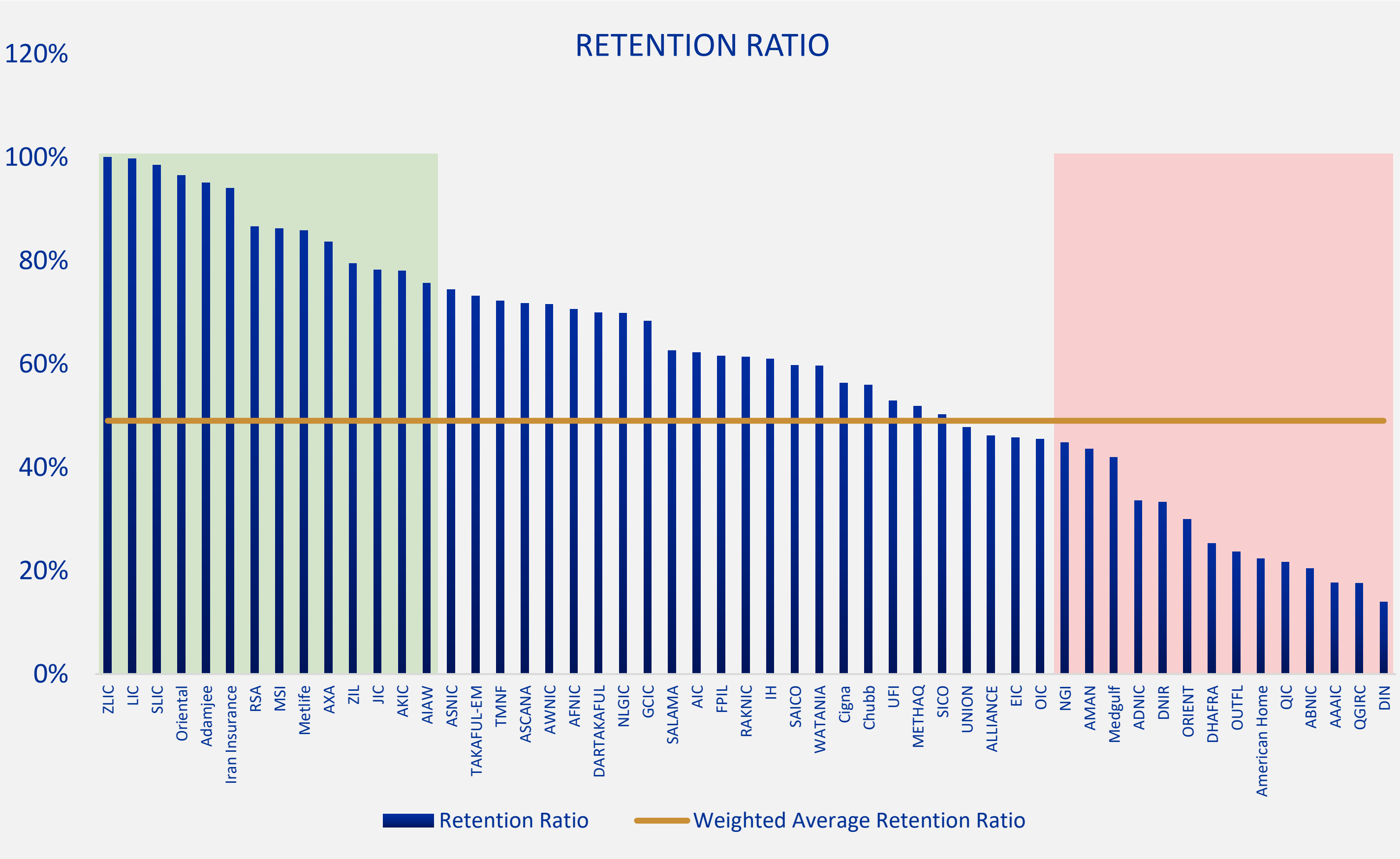

The highest retention ratio for the year 2020 is depicted by ZLIC and LIC with a ratio of 100%, while the lowest retention ratio of 18% is reflected by QGIRC.

The weighted average retention ratio for foreign branches stood at 72%.

MSI has observed a significant shift in the retained business in 2020 when compared with 2019 as it moved 6 spaces up from 74% in 2019 to 86% in 2020.

A few branches have reinsurance arrangements through their head office which are not reflected in the books of the UAE based branch. Since we are using the financial numbers as published by the UAE branches of these companies, this would be distorting the actual retention ratios.

# RETENTION RATIO – COMBINED




The weighted average retention ratio for the year 2020 for listed companies is 40% and for branches is 72% making the overall weighted average retention ratio 49%.

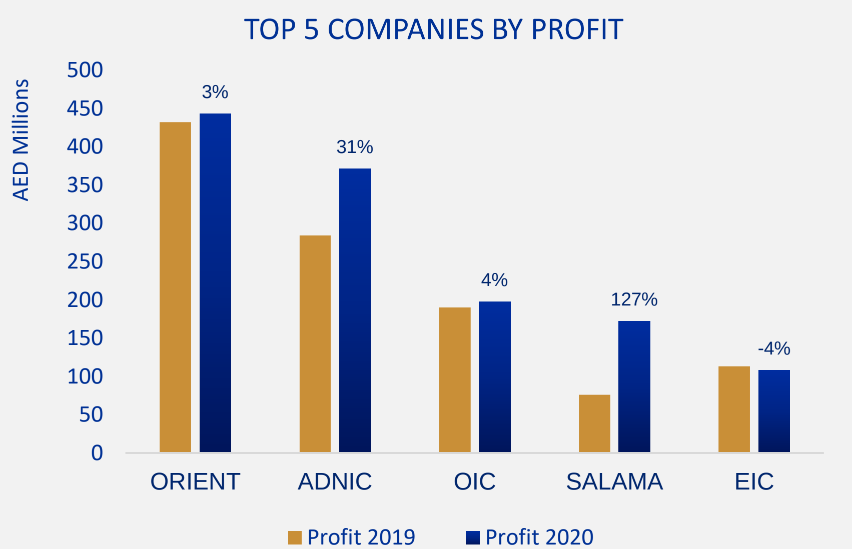
The highest retention of 100% is depicted by ZLIC and LIC, whereas the lowest retention ratio is reflected by DIN with 14% after excluding TKFL.

13 out of top 15 highly retained insurers are branches, hence, this indicates that generally the branches retain more as compared to local companies. However, some branches have reinsurance arrangements with their head office outside of the books in the UAE. As the UAE published financials of the branches are used, the retention ratios may be distorted.

# PROFIT BEFORE TAX - LISTED COMPANIES TREND

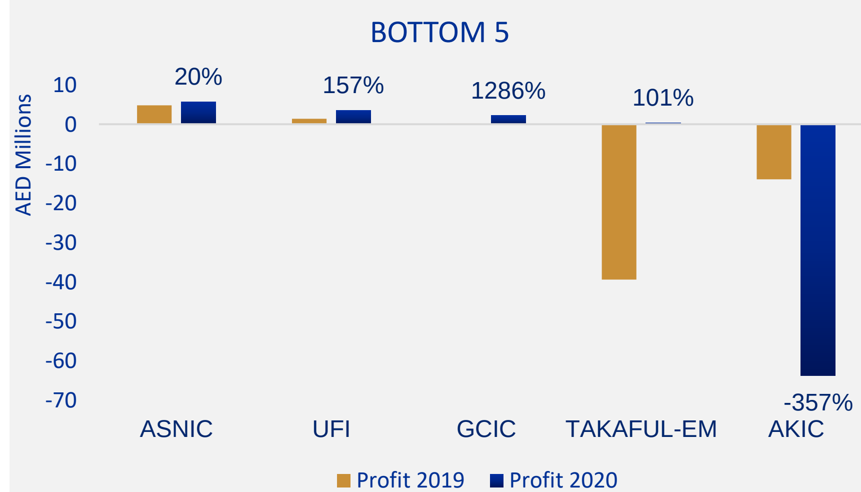
The companies in the Emirates experienced a growth of about 13% (16% excluding AKIC) in profits for the year 2020. It is worth mentioning that if we remove the one-off gains of SALAMA and DARTAKAFUL, the growth drops to 7% from 13%.


ORIENT maintains its top rank in terms of recording the highest profits consecutively for 5 years with profits amounting to AED 443 million in 2020, an increase of 3% from 2019 (AED 432 million).



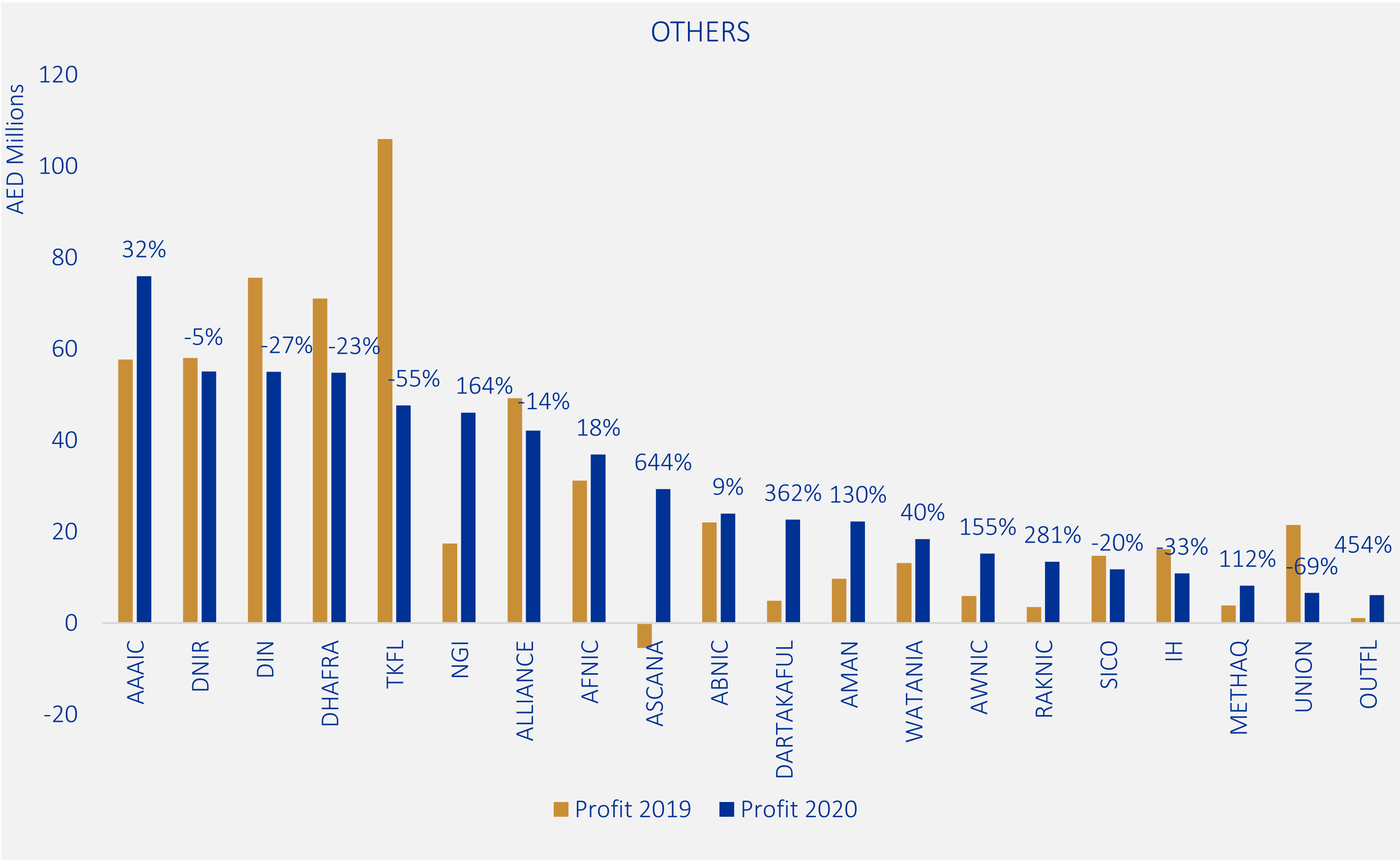

The profit for the TOP 5 companies accumulates to AED 1.3 billion, reflecting a contribution of 70% of market's profit share of the insurance companies in the United Arab Emirates.

SALAMA has moved to the 4th position with a tremendous growth of 127% in profits while ORIENT, ANDIC and OIC have maintained their ranks. As mentioned earlier, AED 63 million profit out of the total AED 172 million profit is a result of selling of shares of SALAMA KSA. Also, DARTAKFUL witnessed a one-time net gain of AED 35 million.




TAKAFUL-EM witnessed a growth of 101% and moved its books from loss making in 2019 to profitable business in 2020.

# PROFIT BEFORE TAX - LISTED COMPANIES TREND




The profits for the year end 2020 have experienced a growth of 13% for the companies, totaling AED 1.8 billion when compared with AED 1.6 billion of profits recorded in 2019.

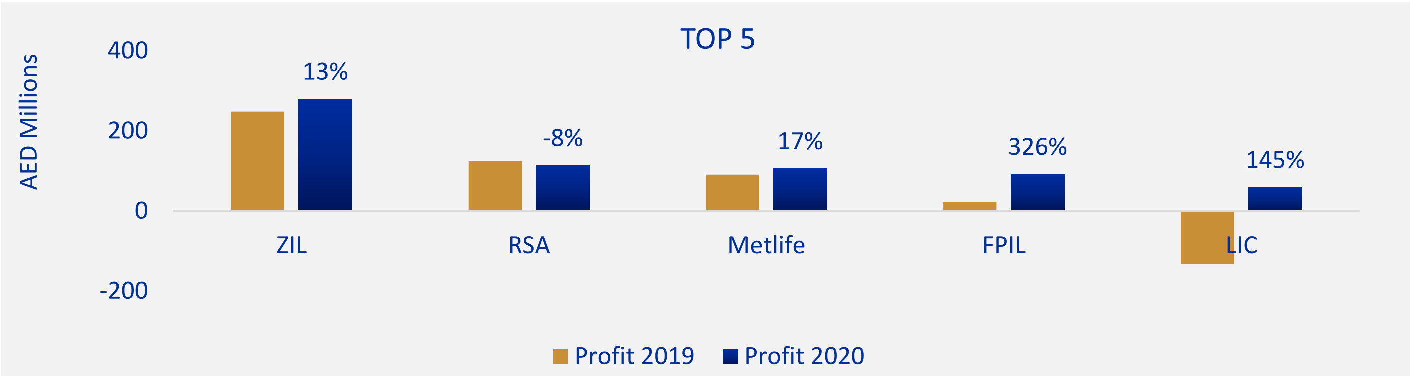
The highest growth in profits was recorded by GCIC, a growth of 1286%, from AED 0.2 million profit in 2019 to AED 2.2 million in 2020. On the contrary, the biggest decline for the period was witnessed by UNION of 69% (neglecting AKIC, having a 357% increase in its losses).

As of year 2020, EIC restated its financials in 2020 after some rectifications that impacted its past profits. For 2019, their profits reduced from AED 140 million to AED 113 million.

On a good note, none of the listed companies (excluding AKIC) recorded a loss for the year ended 2020; where, 2 of the 30 companies were able to generate profits in 2020 after posing losses in 2019. Overall, 18 companies witnessed a growth in their profits out of the 30 companies included in this analysis.

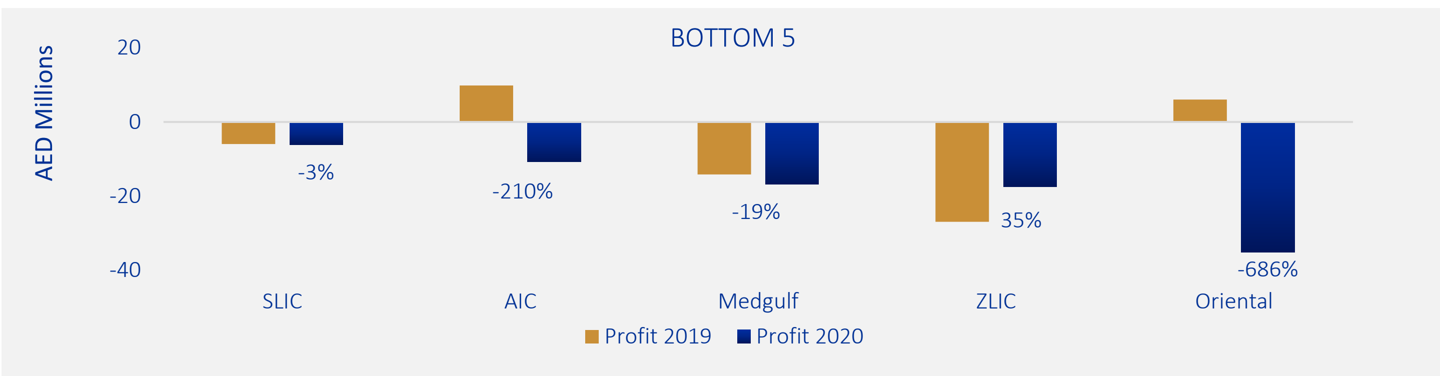
For Takaful companies we have consolidated the Policyholders and Shareholders profit/loss for comparative purposes.

# PROFIT BEFORE TAX – BRANCHES

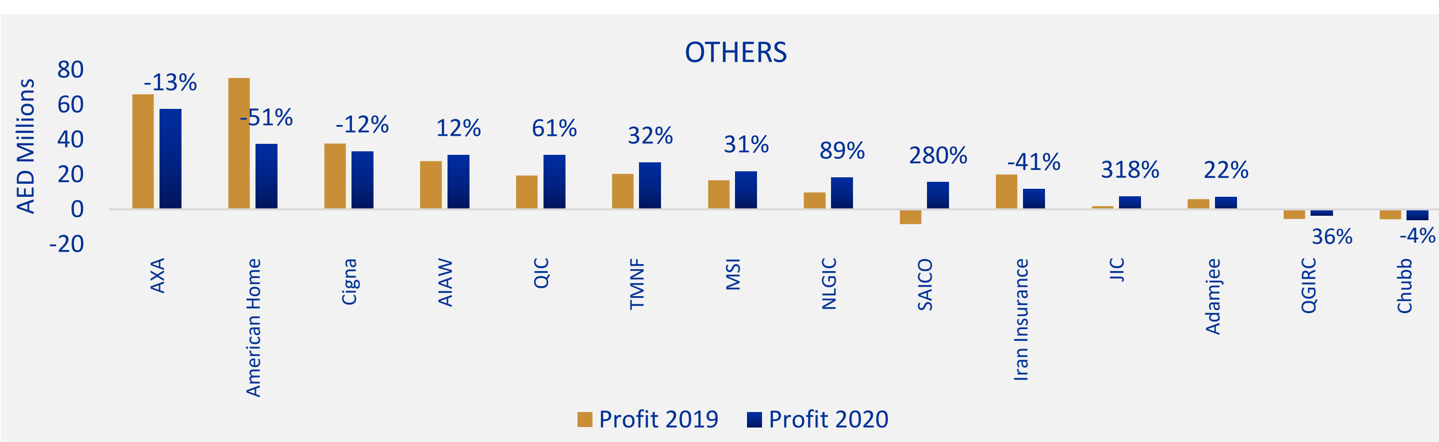



The Foreign Branches have shown a tremendous performance by optimizing their profits in this for the year 2020 recording a growth of growth of 42% with profits accumulating to AED 854 million which were AED 600 million in 2019 for the same branches.

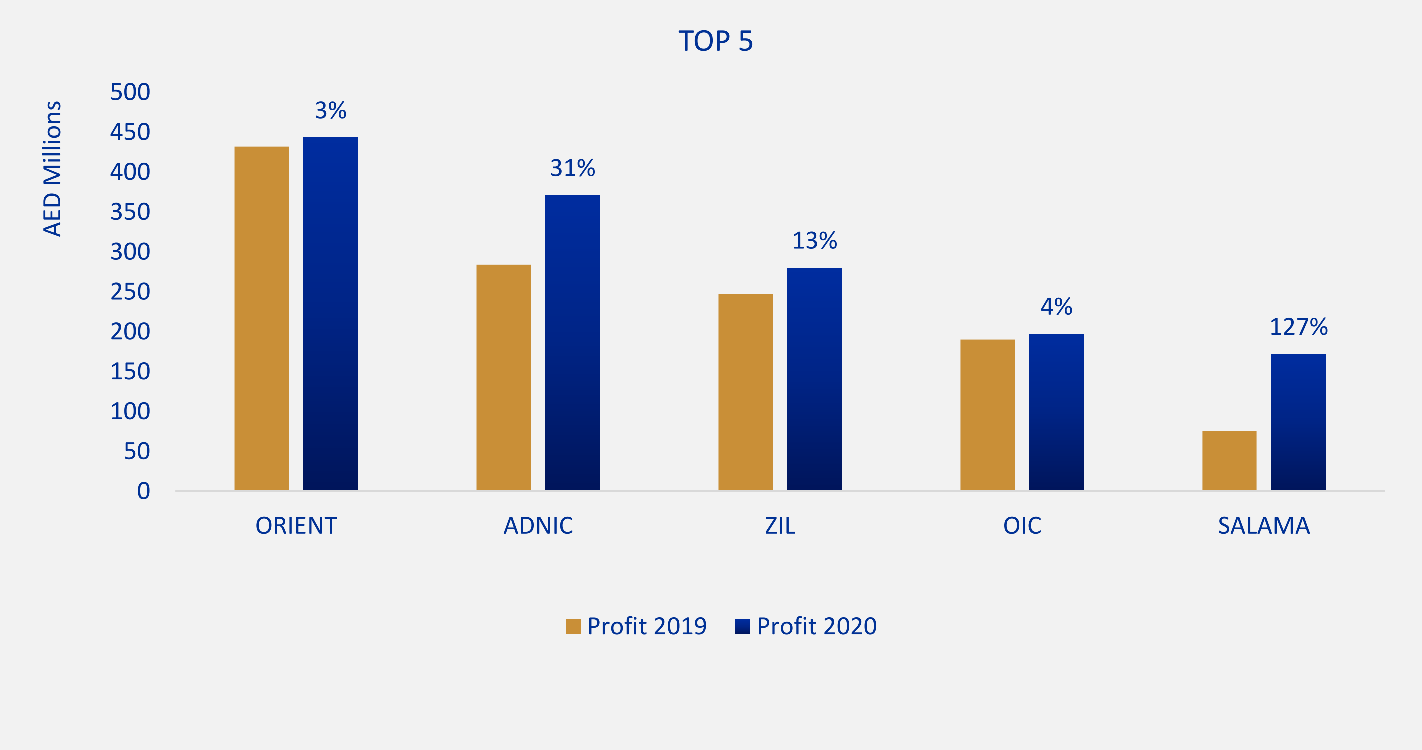
The extraordinary profit growth is portrayed by FPIL of 326% from AED 22 million in 2019 to AED 92 million in 2020 also making its way into the Top 5 Branches by Profits. Another noticeable increase in profits is exhibited by LIC with an increase from a loss of AED 132 million to a profit of AED 59 million. On the contrary, the biggest decline is witnessed by Oriental of 686%.




7 out of 24 branches made a loss this year of which 5 had losses last year as well.

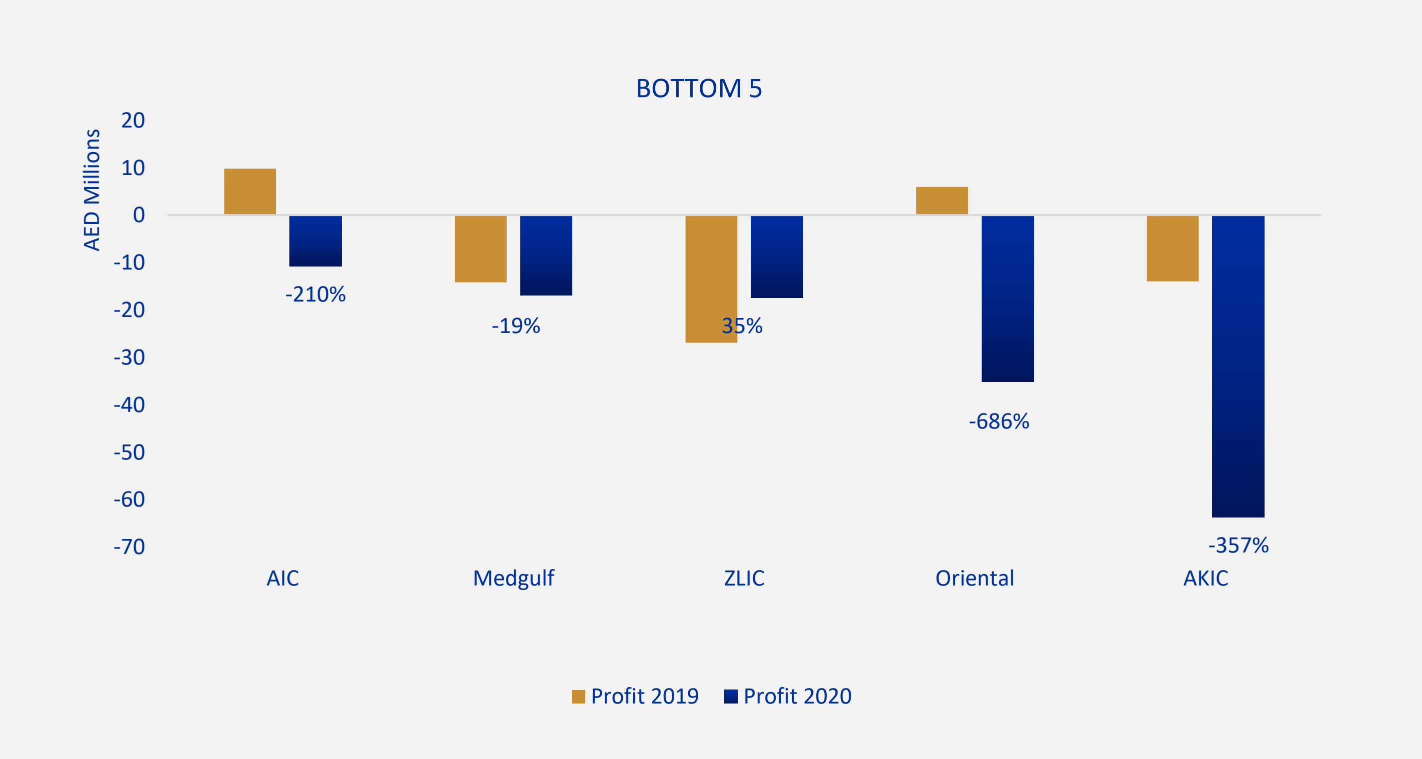


# PROFIT BEFORE TAX – COMBINED

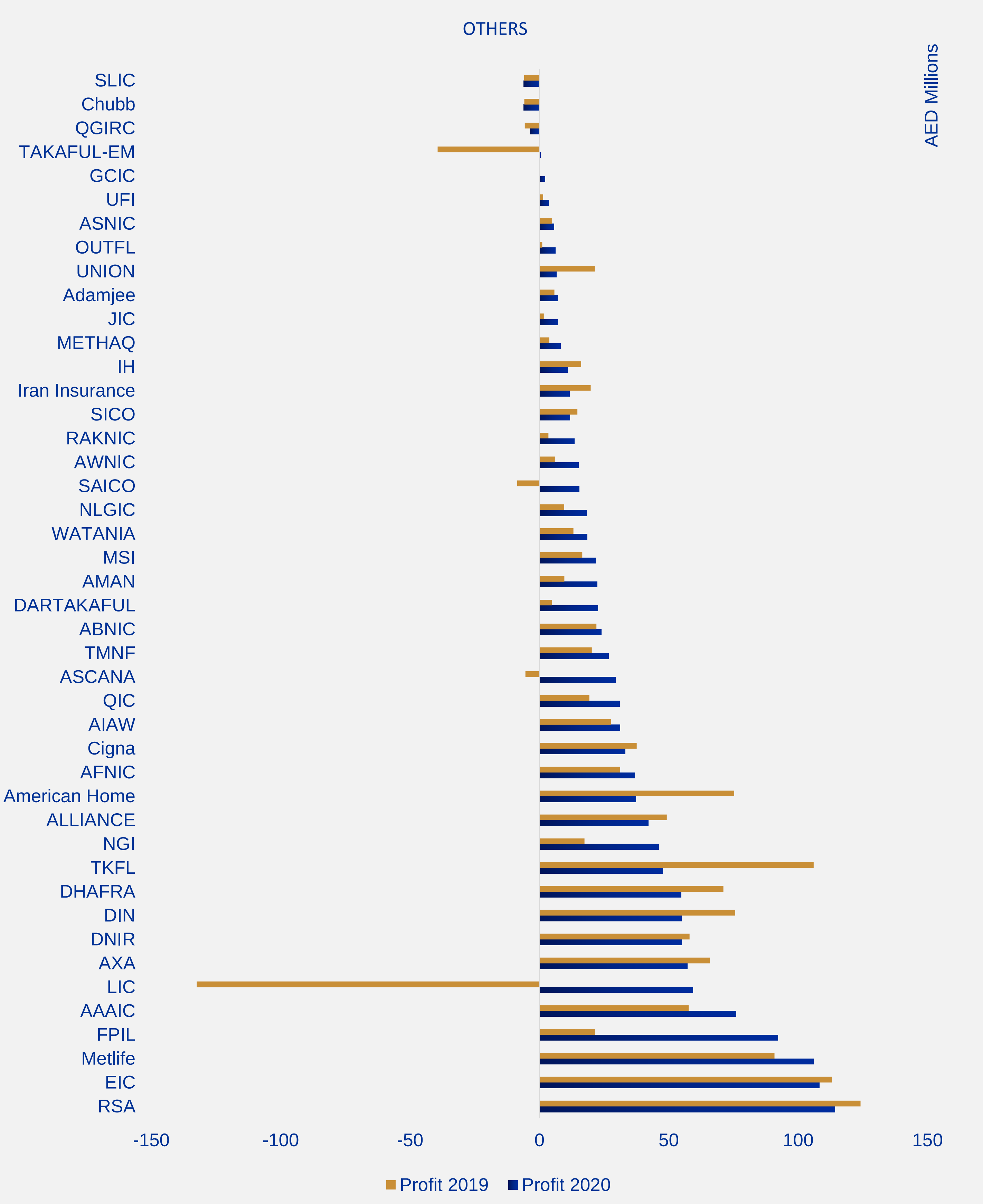



The combined profit for the industry (listed companies & branches) aggregates to AED 2.7 billion for the year ended 2020, depicting a growth of 21% from YE 2019 with profits amounting to AED 2.2 billion.

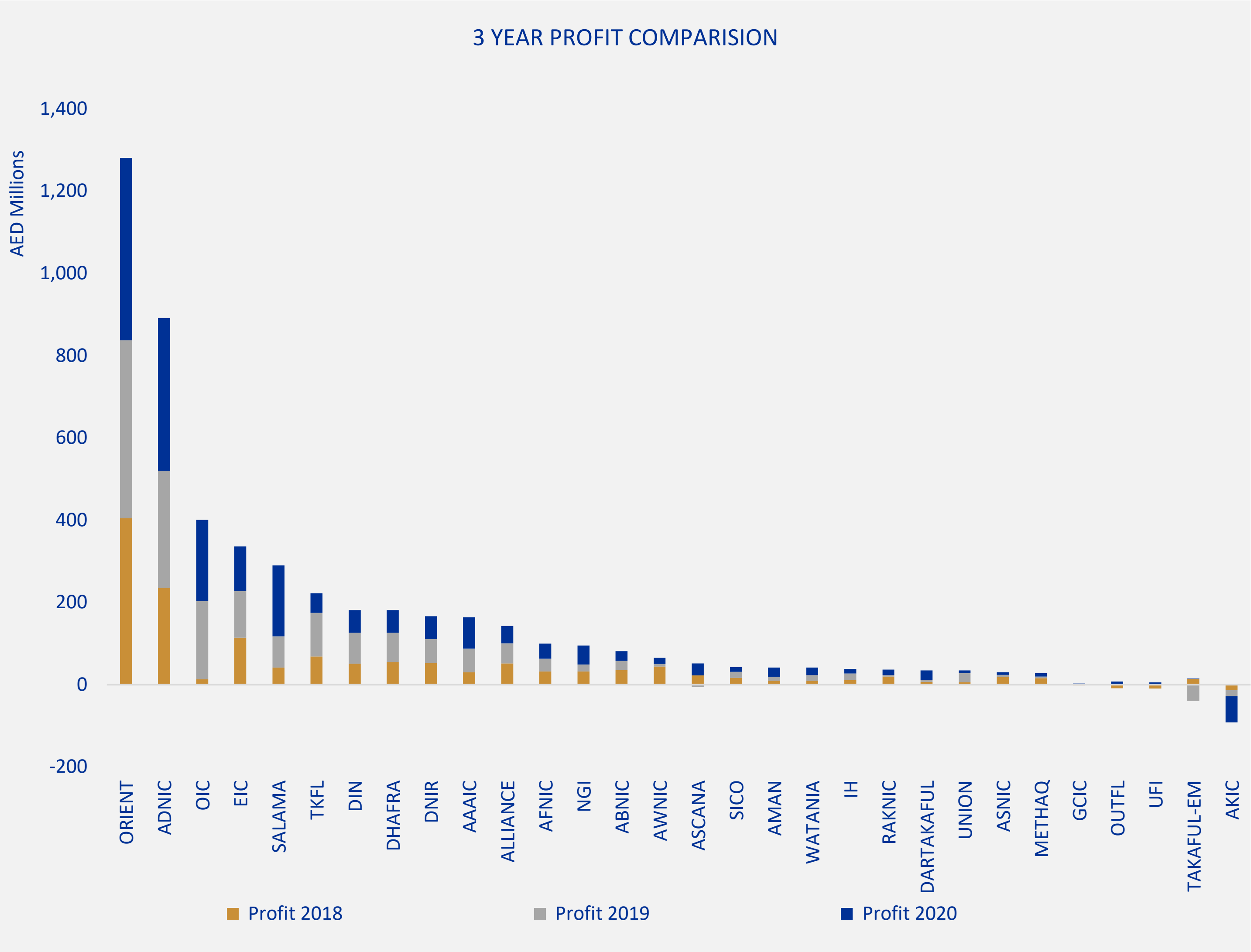
ZIL is the only Branch making into Top 5 among listed Companies.



# PROFIT BEFORE TAX – COMBINED

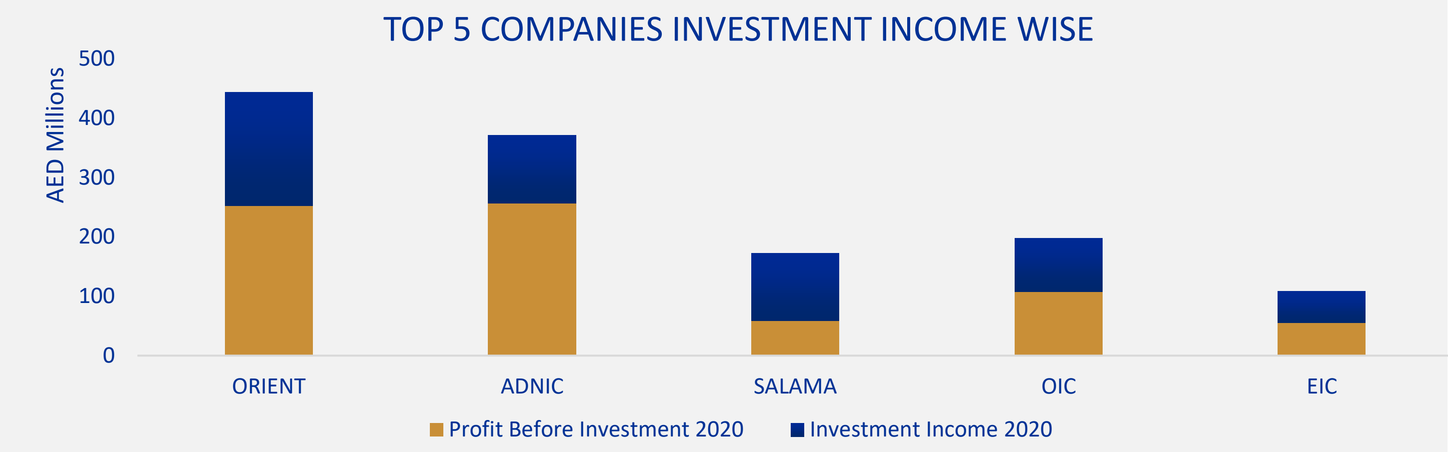


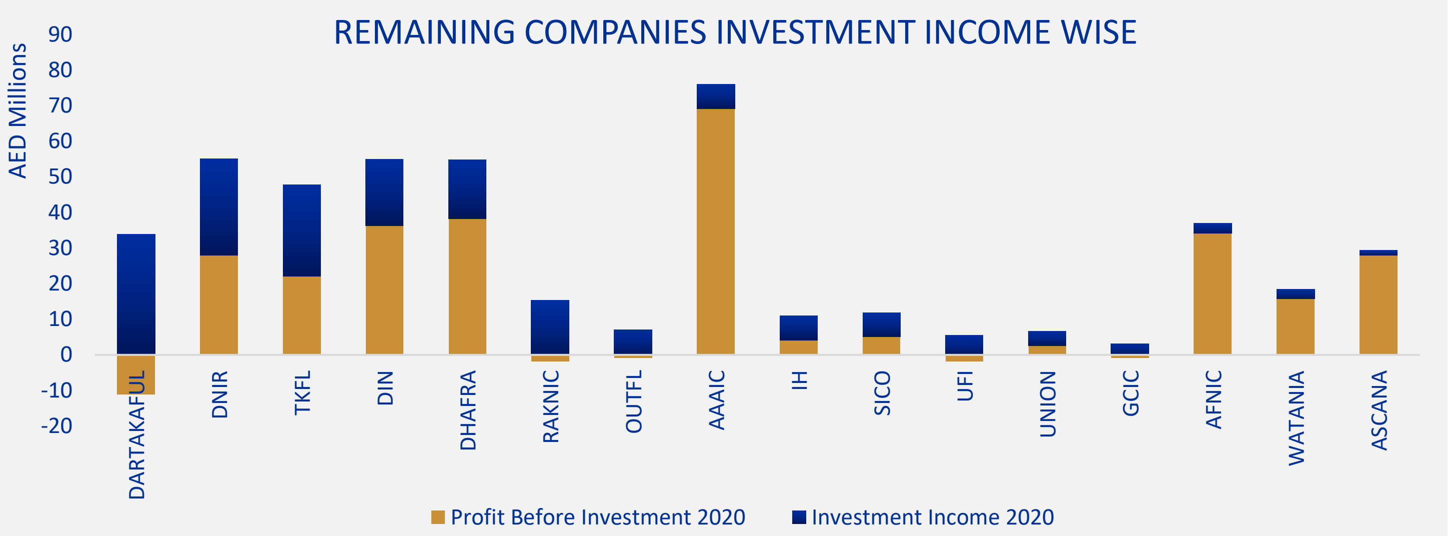
# PROFIT BEFORE TAX – 3 YEAR TREND FOR LISTED COMPANIES

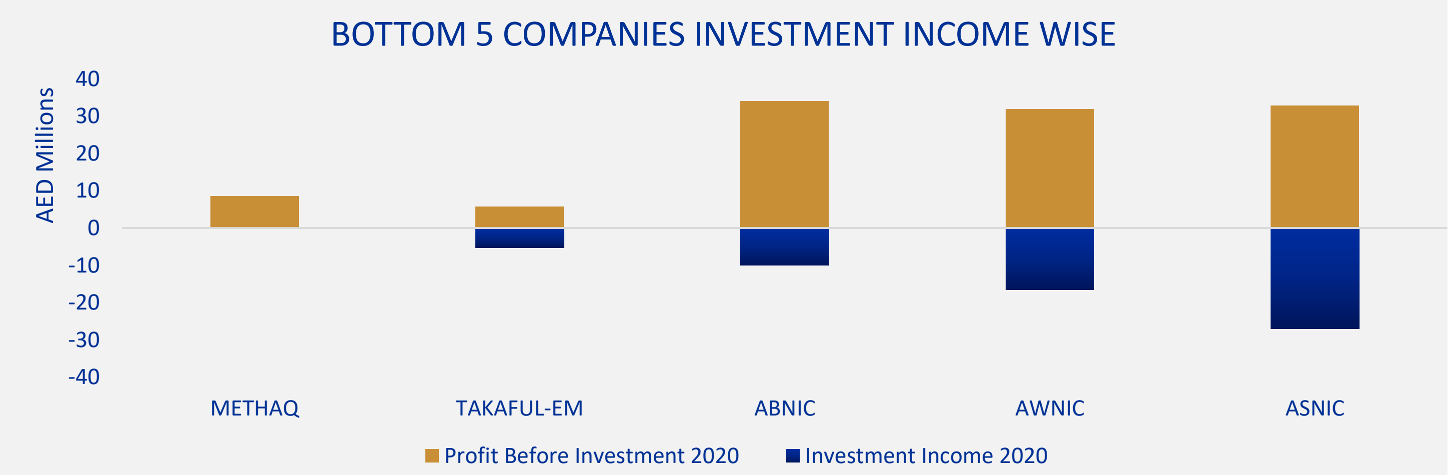



The above is sorted with reference to the combined net profits and shows the ranking for the companies based on their total profits over the last three years, in order to compare stability of returns. Orient is significantly ahead of the industry. EIC and TAKAFUL-EM profits show restated values for 2019 only.

# PROFIT ANALYSIS – LISTED COMPANIES



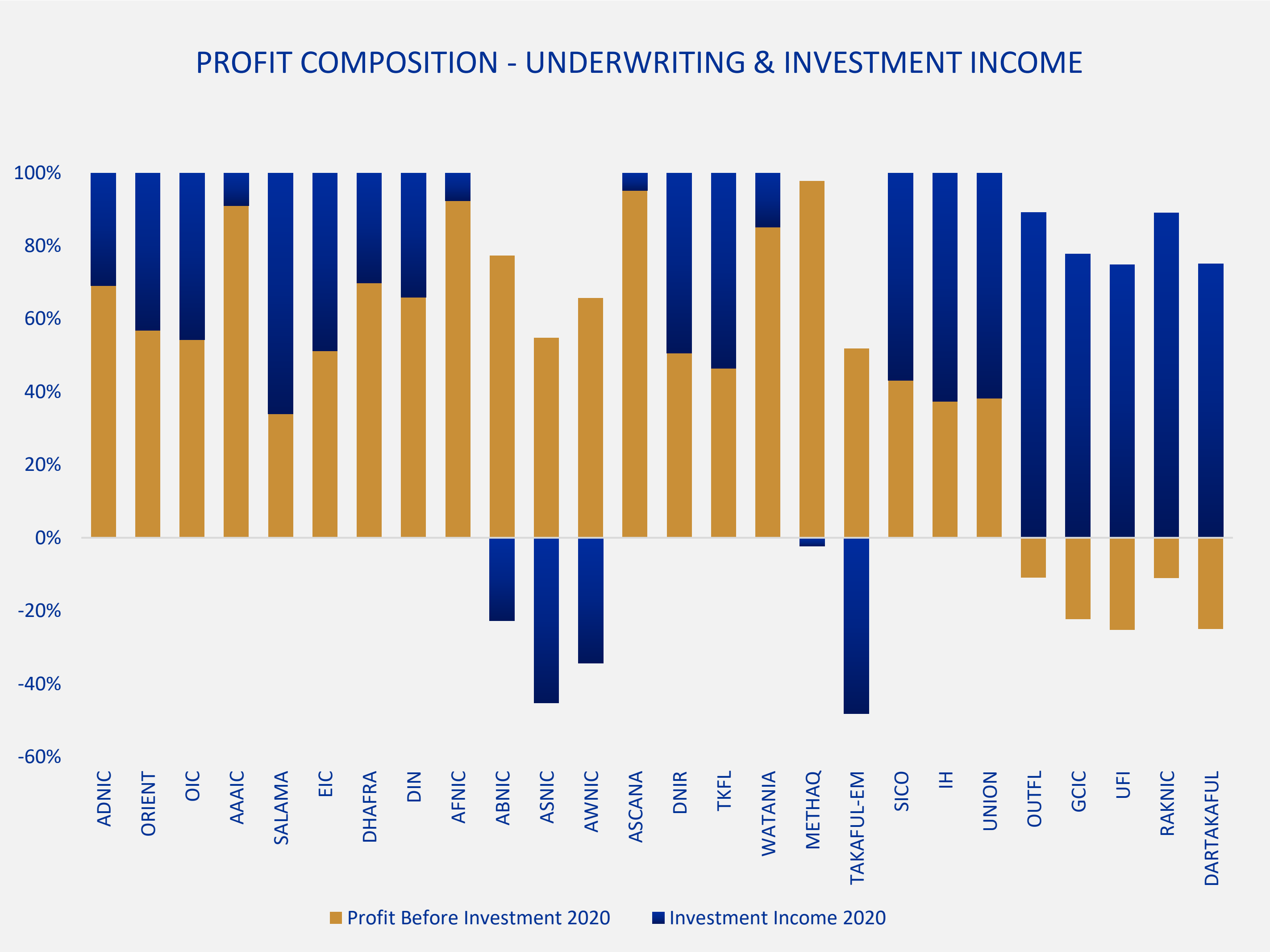




The analysis above is sorted by investment income.

Out of 26 companies in this analysis 5 have witnessed deficit in their Underwritings while 5 other companies have witnessed losses in their investments.

# PROFIT COMPOSITION 2020 – LISTED COMPANIES




It can be observed that insurance companies which recorded losses from their underwriting business were able to minimize the impact from investment income.

As can be seen, the highest underwriting income was generated by ADNIC (AED 256 million) while the highest investment income was recorded by ORIENT (AED 191 million).

There is room for improvement in underwriting strategies in the market because companies should target underwriting income to be their primary source for generating profits.

Investment Income contributes a significant role in underwriting activities for Companies writing considerable Life business and since the financials are not segregated into Life and Non-life business segment, the performance is presented on overall Company level. Therefore, for the companies writing significant top line through Life portfolio like NGI, AMAN and ALLIANCE; these are excluded from this review as the results might not reflect the accurate comparative review.

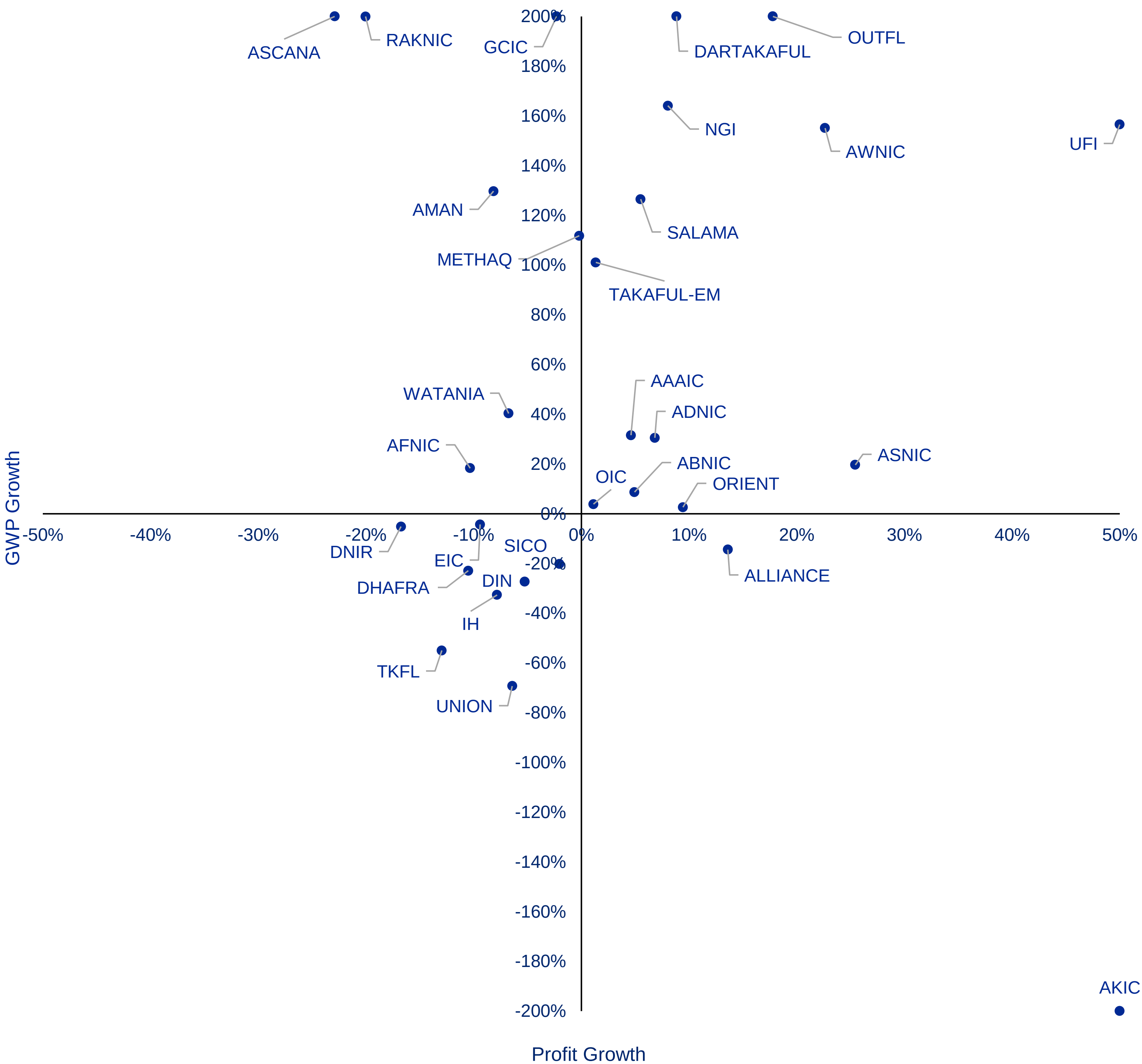
# PREMIUM BENCHMARKED ON THE BASIS OF PROFITABILITY

| Company | Ranking | | Indic |
|---|---|---|---|
| | Gross Premium | Profit | |
| ORIENT | 1 | 1 | → |
| ADNIC | 2 | 2 | → |
| OIC | 3 | 4 | ↓ |
| Metlife | 4 | 8 | ↓ |
| AXA | 5 | 12 | ↓ |
| AAAIC | 6 | 10 | ↓ |
| Cigna | 7 | 21 | ↓ |
| SALAMA | 8 | 5 | ↑ |
| EIC | 9 | 7 | ↑ |
| DIN | 10 | 14 | ↓ |
| ABNIC | 11 | 26 | ↓ |
| UNION | 12 | 41 | ↓ |
| ZIL | 13 | 3 | ↑ |
| QIC | 14 | 23 | ↓ |
| NLGIC | 15 | 31 | ↓ |
| RSA | 16 | 6 | ↑ |
| TAKAFUL-EM | 17 | 46 | ↓ |
| NGI | 18 | 17 | ↑ |
| ASNIC | 19 | 43 | ↓ |
| RAKNIC | 20 | 34 | ↓ |
| DARTAKAFUL | 21 | 27 | ↓ |
| TKFL | 22 | 16 | ↑ |
| LIC | 23 | 11 | ↑ |
| UFI | 24 | 44 | ↓ |
| ALLIANCE | 25 | 18 | ↑ |
| WATANIA | 26 | 30 | ↓ |
| DNIR | 27 | 13 | ↑ |
| AWNIC | 28 | 33 | ↓ |
| American Home | 29 | 19 | ↑ |
| OUTFL | 30 | 42 | ↓ |
| DHAFRA | 31 | 15 | ↑ |
| METHAQ | 32 | 38 | ↓ |
| AFNIC | 33 | 20 | ↑ |
| Al Itahaad Al Watani | 34 | 22 | ↑ |
| AMAN | 35 | 28 | ↑ |
| IH | 36 | 37 | ↓ |
| AIC | 37 | 50 | ↓ |
| TMNF | 38 | 25 | ↑ |
| Medgulf | 39 | 51 | ↓ |
| ASCANA | 40 | 24 | ↑ |
| Adamjee | 41 | 40 | ↑ |
| Oriental | 42 | 53 | ↓ |
| SAICO | 43 | 32 | ↑ |
| MSI | 44 | 29 | ↑ |
| FPIL | 45 | 9 | ↑ |
| Iran Insurance | 46 | 36 | ↑ |
| GCIC | 47 | 45 | ↑ |
| SICO | 48 | 35 | ↑ |
| SLIC | 49 | 49 | → |
| JIC | 50 | 39 | ↑ |
| AKIC | 51 | 54 | ↓ |
| ACE Tempest Life | 52 | 48 | ↑ |
| ZLIC | 53 | 52 | ↑ |
| QGIRC | 54 | 47 | ↑ |

The chart above is sorted by Gross Premium and represents the company's movement based on their profitability.

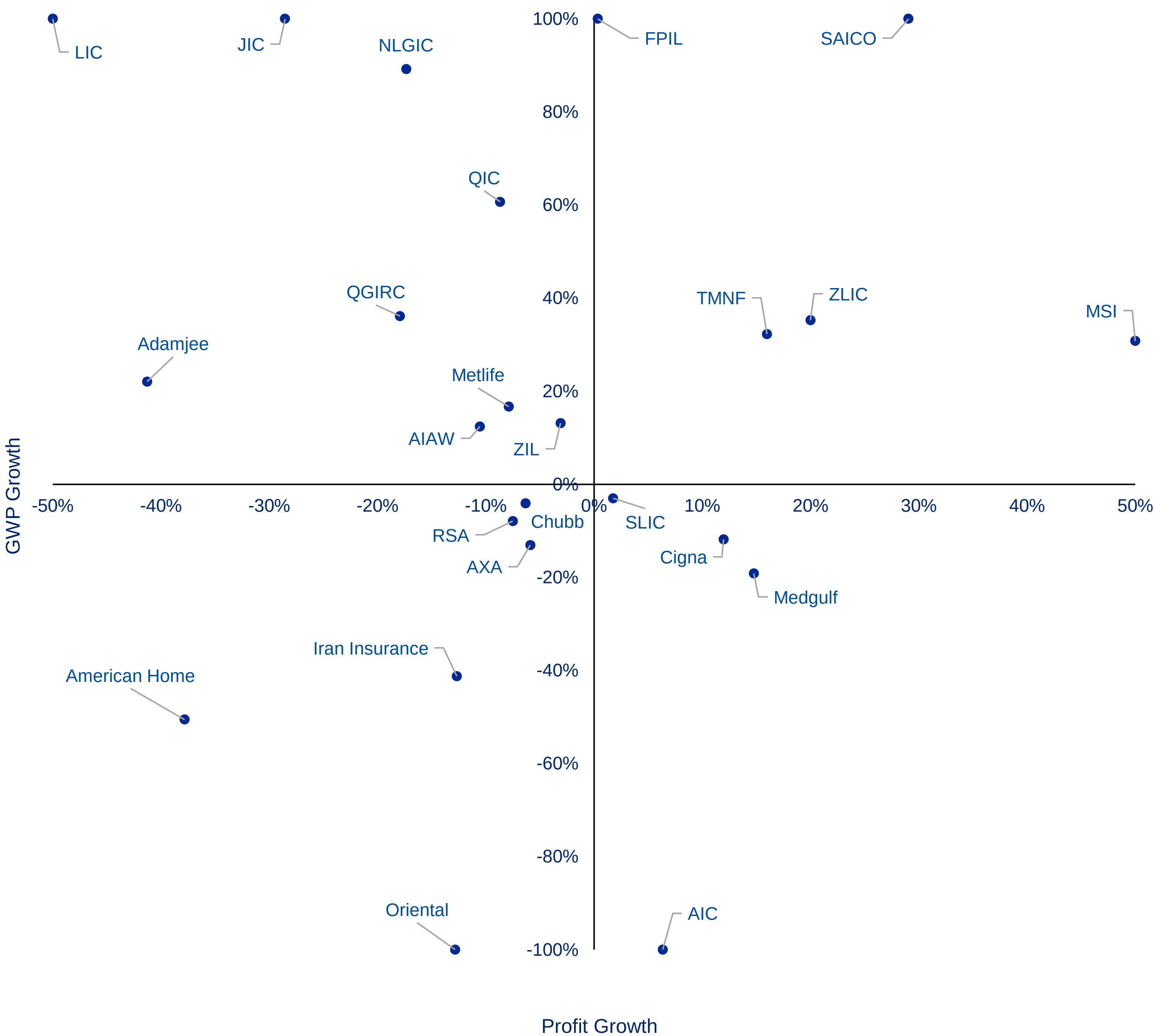
Out of the top 10 companies by GWP, 7 companies remain in the top 10 position by profitability. LIC has made a remarkable comeback moving its profit position from 52 in 2019 to 11th position in year ended 2020.

# PREMIUMS & PROFIT ANALYSIS - LISTED COMPANIES




The summary of premium and profitability growth in the year 2020 from year end 2019 is illustrated above. Companies exhibiting premium and profitability growth rate outside of the +-50% and +-200% range are capped, respectively.

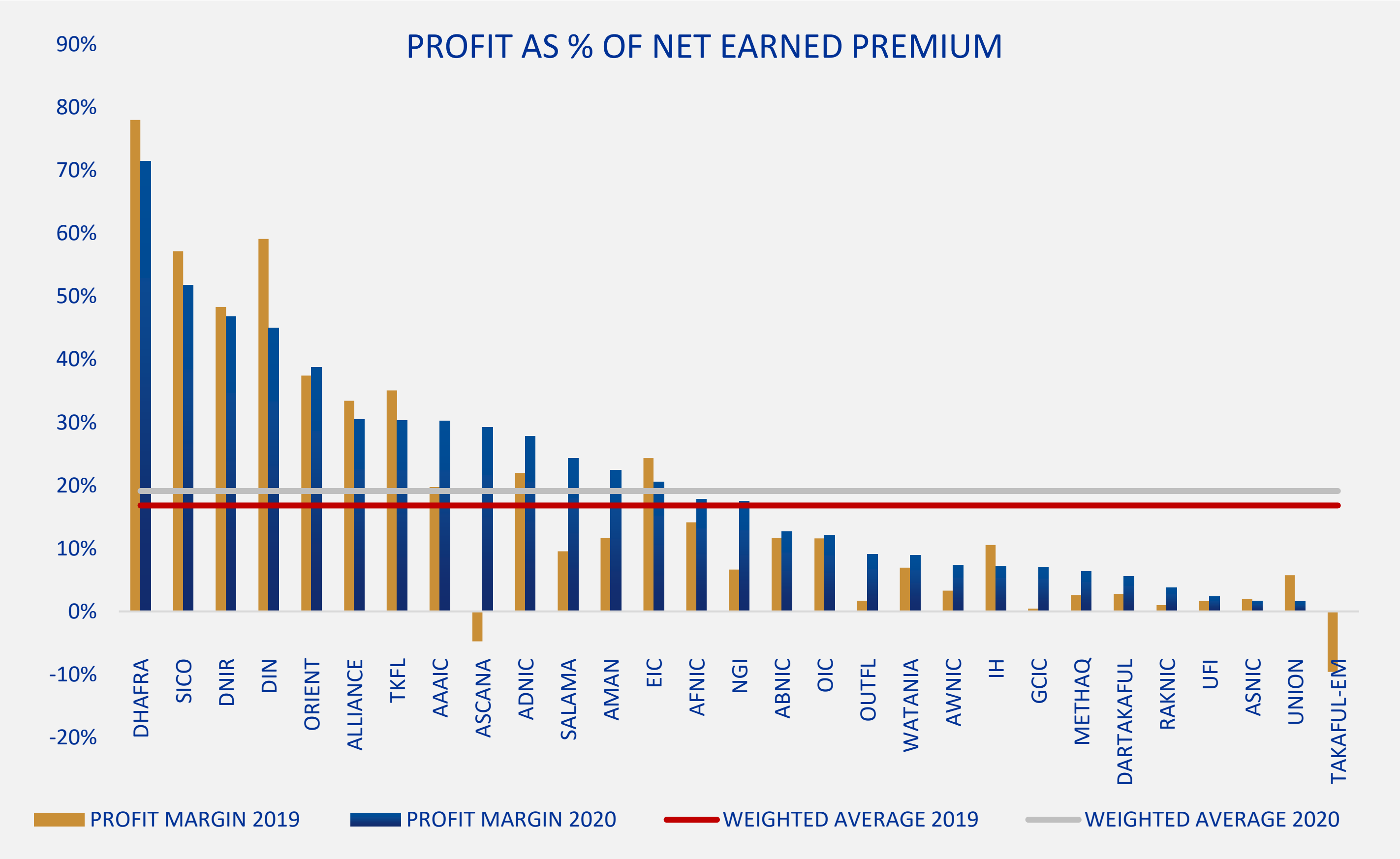
# PREMIUMS & PROFIT ANALYSIS - BRANCHES




The summary of premium and profitability growth in the year 2020 from year end 2019 is illustrated above. Branches exhibiting premium and profitability growth rate outside of the +-50% and +-100% range are capped, respectively.

Only 5 branches are present in the 1st quadrant, depicting positive performance in terms of business and profitability growth.

# EARNING RATIOS – LISTED COMPANIES

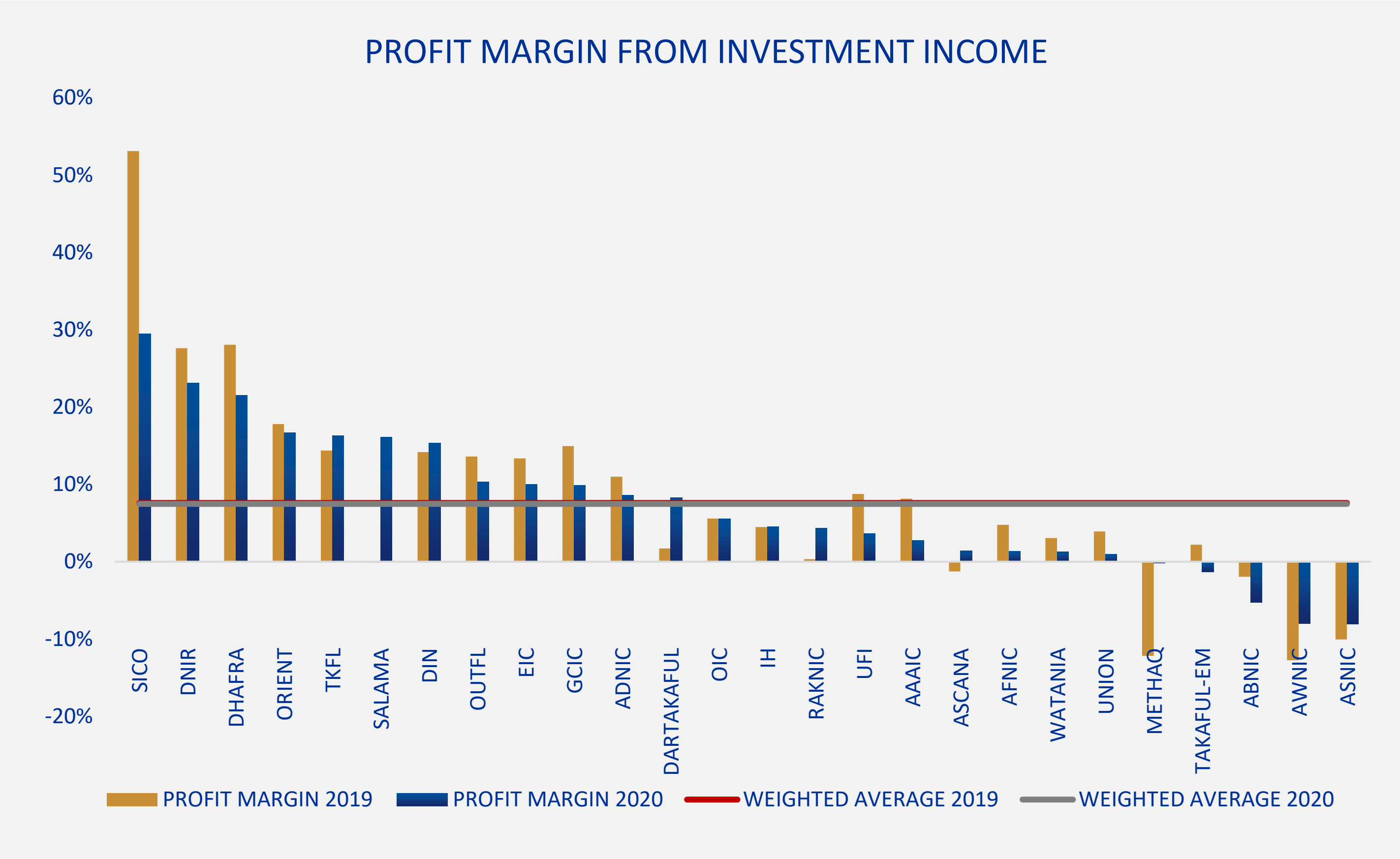



The weighted average net profit margin for the year 2020 is recorded to be at 19% exhibiting an increase from 17% in 2019.

The highest margin of 71% is depicted by DHAFRA while 0% is the lowest margin exhibited by TAKAFUL-EM for the year 2020, however this ratio has increased from last year which was a negative 10% for TAKAFUL-EM.

❖ *Profit Margin is computed as net profit (before tax) on every unit of net earned premium.*

# EARNING RATIOS – LISTED COMPANIES

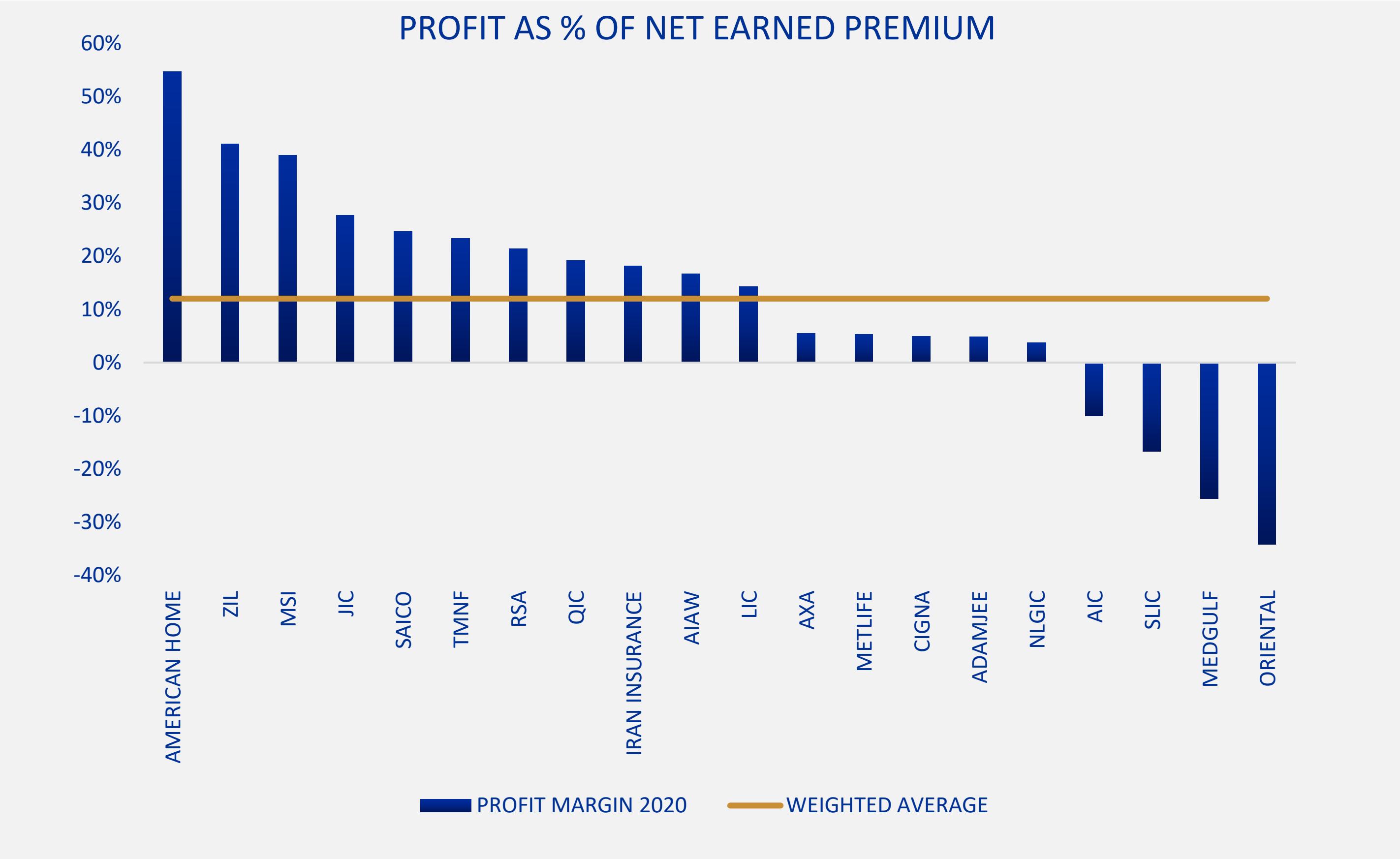



The weighted average profit margin from investment activities for the year ended 2020 culminates to 7%, hence portraying a slight decrease when compared with 2019.

SICO recorded the highest profit margin from investment income, hence mounting to the top position. If we remove the one-time gains of SALAMA and DARTAKAFUL, the Profit Margin from Investment Income goes down to 6% for the listed companies.

❖ *Profit Margin from Investment income is computed as Investment Income on every unit of net earned premium.*

# EARNING RATIOS – BRANCHES

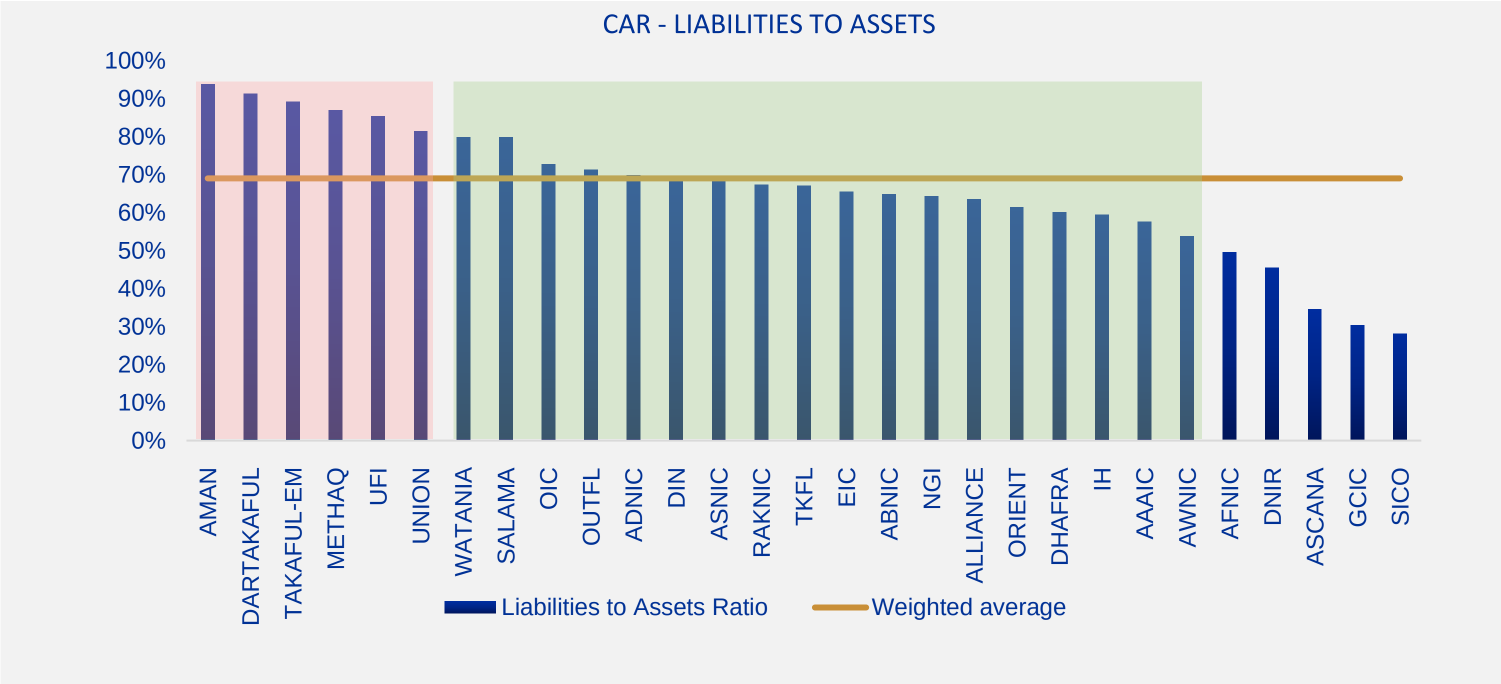



The weighted average Earning Ratio for the Foreign branches operating in UAE is recorded at 12% for the year ended 2020.

Chubb, QGIRC and ZLIC had exceptionally low profit margins of negative 273%, 368% and 1223% respectively in 2020 while FPIL has an exceptional margin of about 212%. These outliers are excluded from the chart above.

Apart from these outliers, the highest profit margin is depicted by American Home (55%) while the lowest profit margin is experienced by Oriental (-34%).

# CAPITAL ADEQUACY RATIO

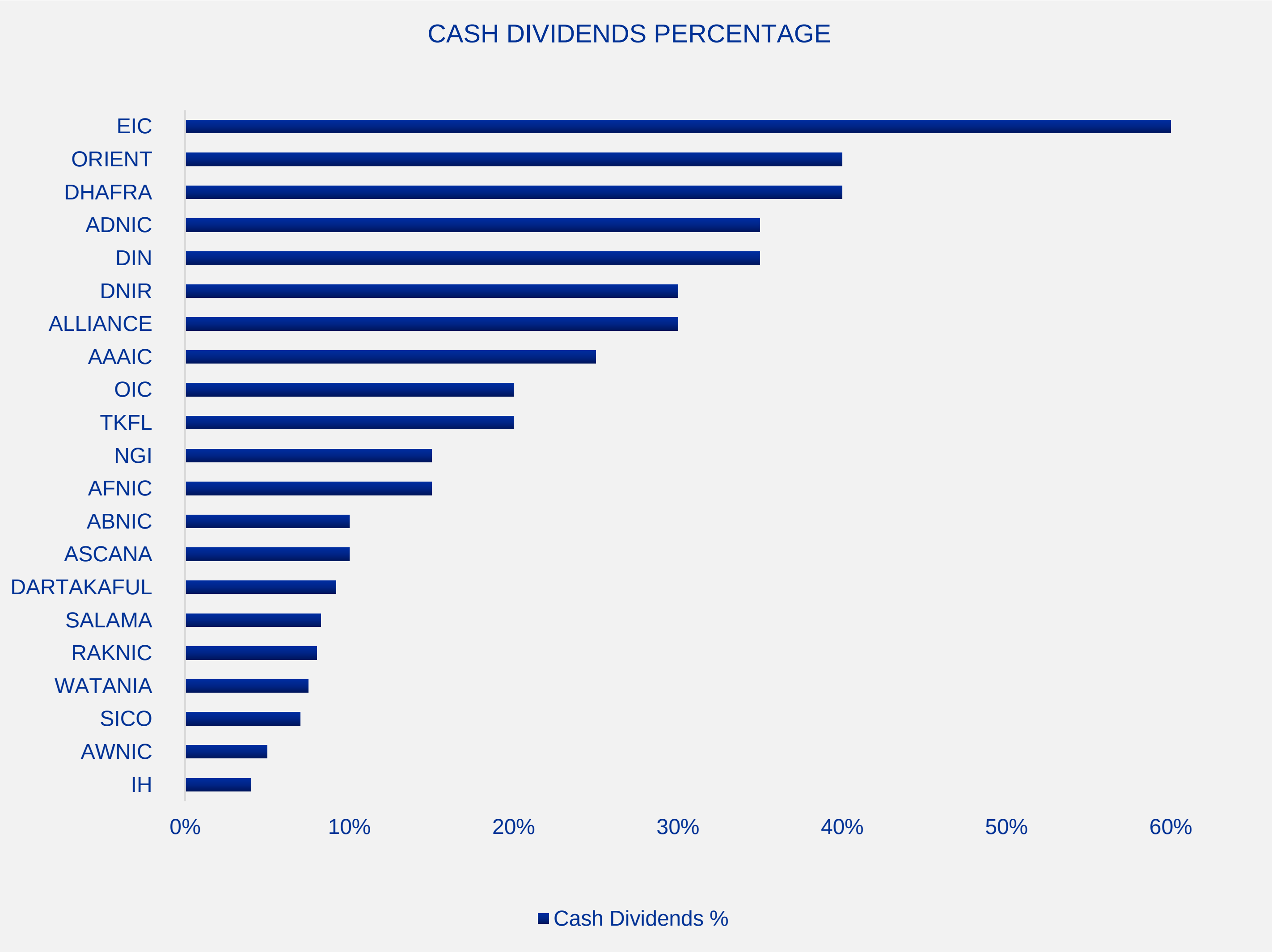



The Capital Adequacy Ratio (CAR) indicates how much a company is capable to absorb any unexpected risks, hence depicting a company's financial position to meet policyholders' liabilities. Therefore, a higher ratio indicates that the companies' liabilities are on the higher side. As per the CBUAE threshold, the red zone indicates an alarming scenario for the company.

Majority of the companies have demonstrated a favorable ratio. 18 out of the 29 listed companies analyzed fall in the green zone, 5 are in the caution area while 6 are in the red zone.

The Takaful companies may have inter-fund receivables and payables inflating the assets and liabilities. Total assets and liabilities as per the financials are used without removing these common balances as the CBUAE threshold is applicable on the value inclusive of these balances.

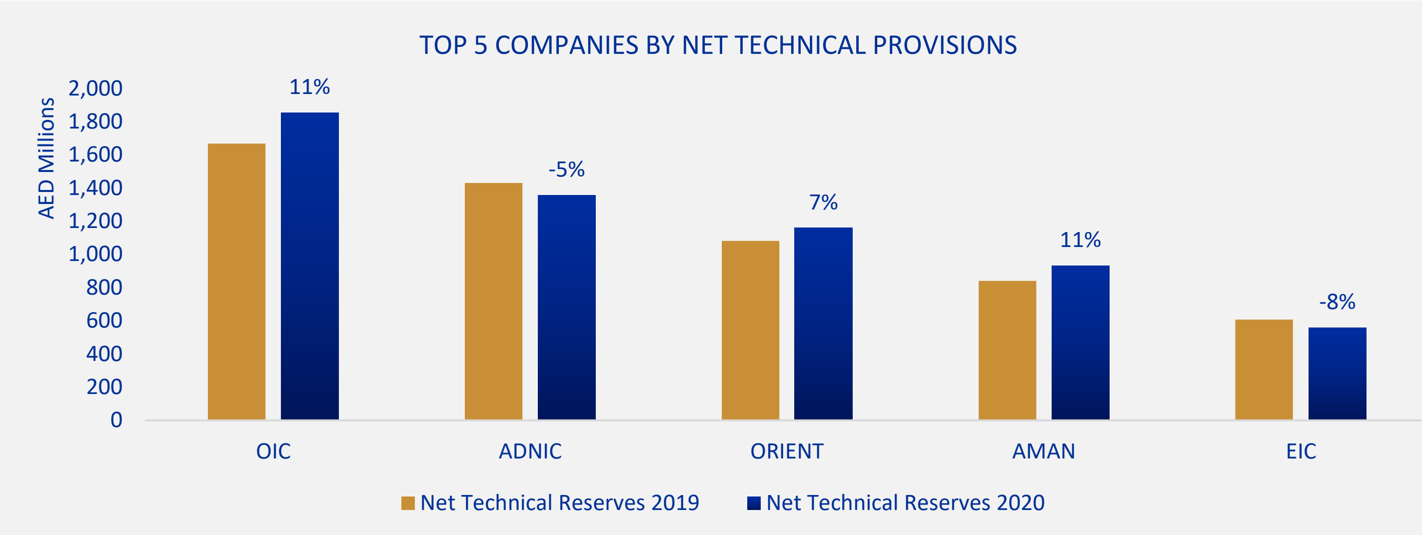
# CASH DIVIDENDS




The above chart portrays the cash dividends percentage of Share Capital by listed companies in UAE. EIC, despite the decline in their Top line and Bottom line, paid out the highest dividend percentage.

20 out 30 companies have posted their dividends statistics as of the compilation of this report and the same are included in this analysis.

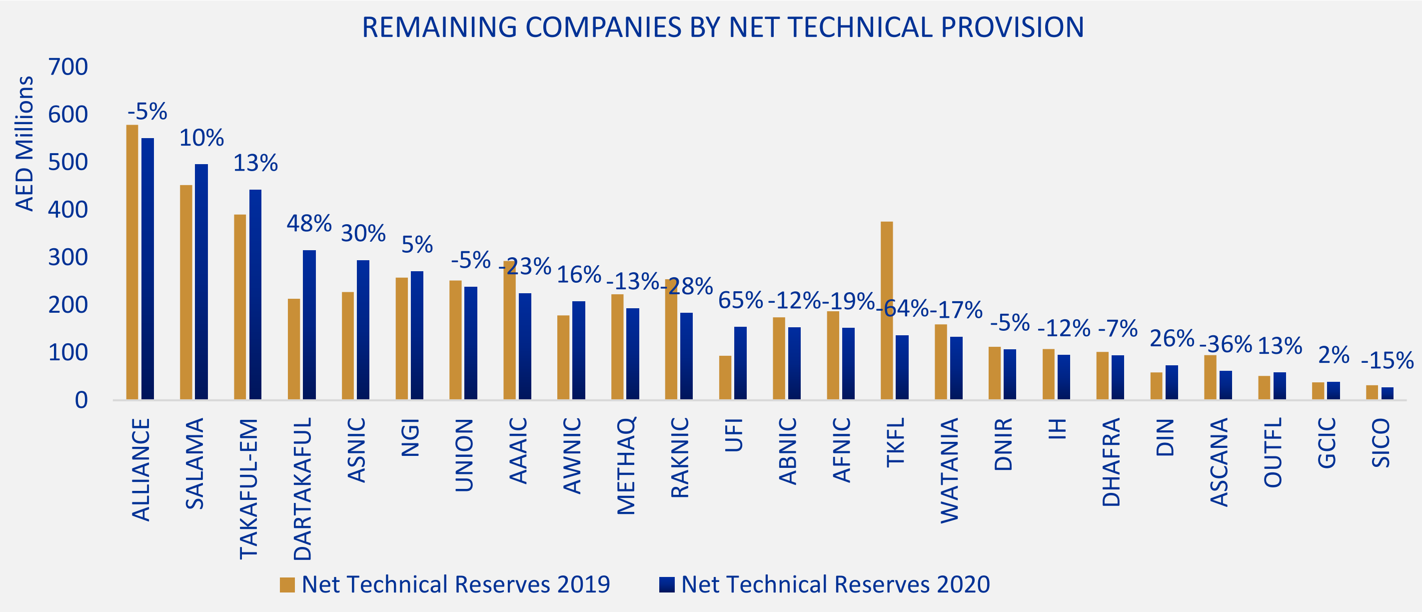
# NET TECHNICAL PROVISIONS – LISTED COMPANIES



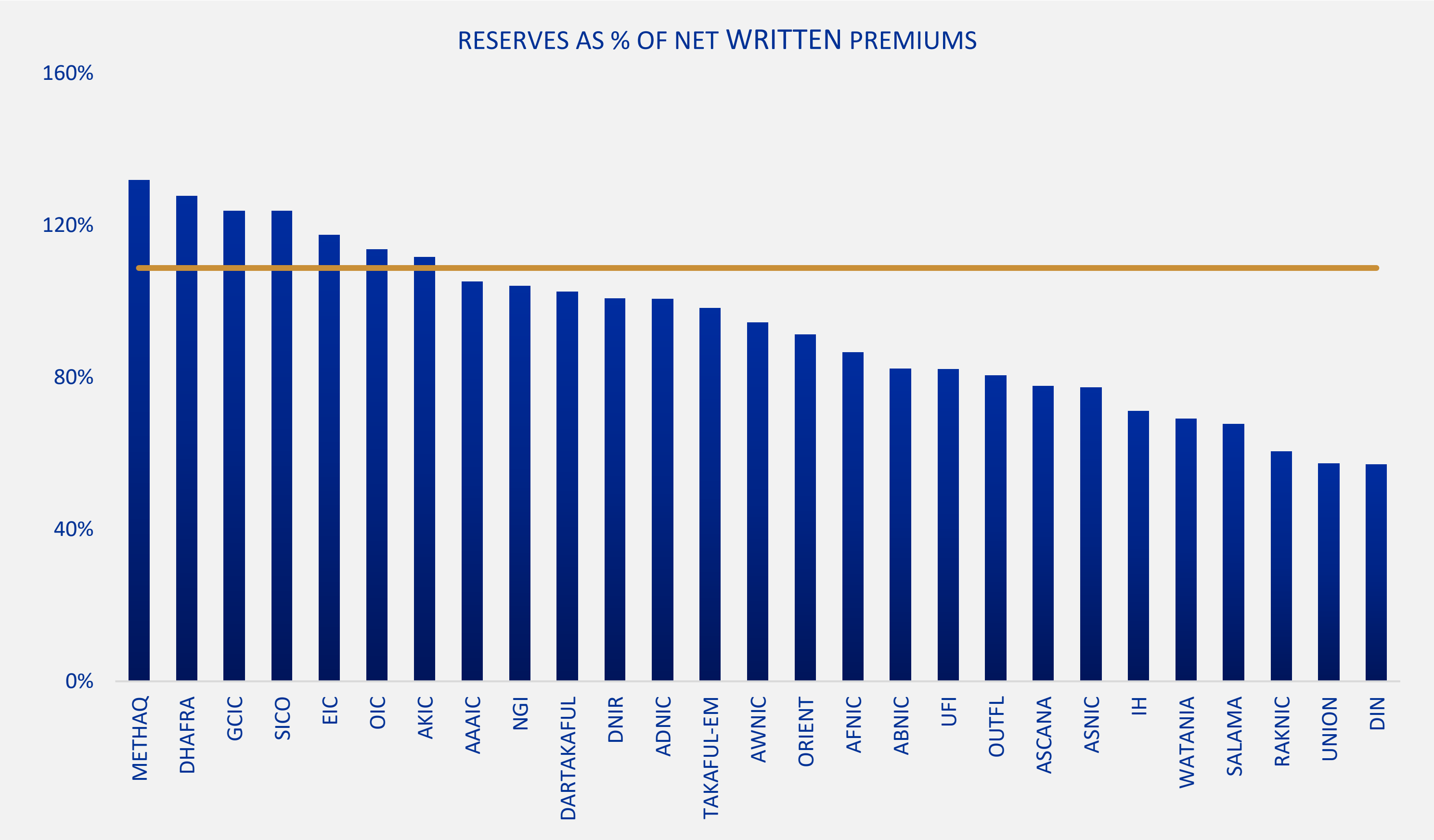

The Net Technical Reserves as at year end 2020 remained stable when compared with the corresponding period of 2019.

OIC in terms of booking net technical provisions secured the highest rank, exhibiting an increase of 11% in the reserves booked by the company. The position of the top 5 companies remains the same as was in year end 2019.

The major change in reserves was depicted by UFI and TKFL, where UFI has increased their net reserves by 65% while TKFL has decreased their net reserves by 64% when compared with the corresponding period of 2019.



# NET RESERVES AS A PERCENTAGE OF NET WRITTEN PREMIUMS – LISTED COMPANIES

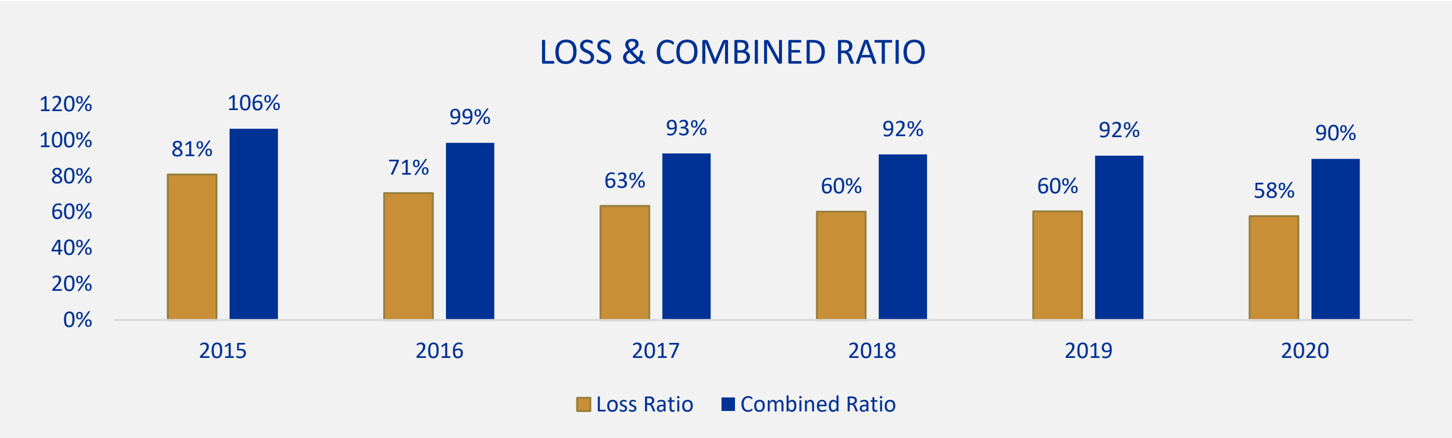



AMAN, ALLIANCE, and TKFL were observed to be outliers, and thus excluded from the above analysis. AMAN and ALLIANCE booked Individual Life Mathematical reserves amounting to AED 839 million and AED 510 million, respectively, whereas TKFL reflected a negative 177% proportion of NWP in their reserves, this is caused by retakaful arrangements made during the year 2020.

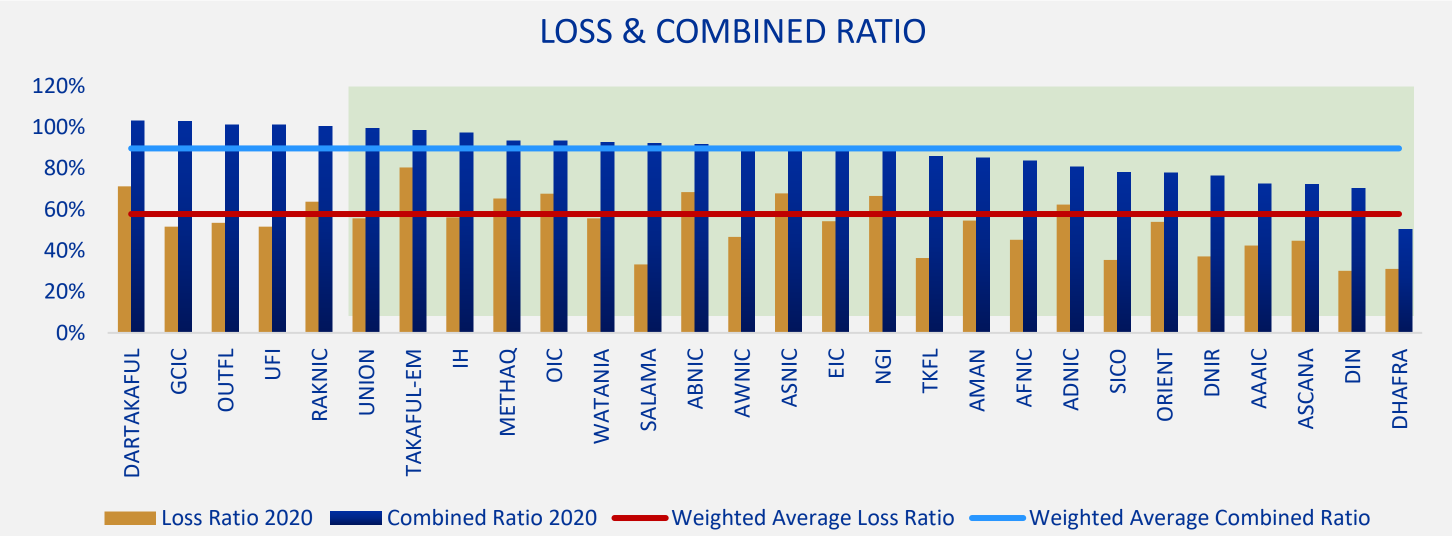
Apart from the outliers mentioned above, the highest ratio of 132% is exhibited by METHAQ reflecting that the net reserves booked by the company are in excess of the business retained for the year. On the other hand, the lowest ratio of 57% is depicted by UNION and DIN. The weighted average net reserves to net premium ratio is recorded to be 109%, however if we exclude the outliers, the ratio drops to 94%.

❖ *The ratio above is calculated as a ratio of net reserves booked over the business retained by the company.*

# LOSS & COMBINED RATIO – LISTED COMPANIES




The loss has experienced a noticeable drop this year owing to improved underwriting performance but particularly due to pandemic related events. Due to movement restrictions in place, there was a substantial drop in the road accidents. Similarly, suspension of elective surgeries and deferment of non-emergency treatments, created a positive impact on profitability of medical insurers. As Motor and Medical are the top underwritten lines of the UAE insurance companies, the impact on profitability was considerable.




The weighted average loss and combined ratio stood at 58% and 90% respectively, with DARTAKAFUL and GCIC bearing the highest combined ratio of about 103%. The lowest combined ratio of 50% was depicted by DHAFRA.

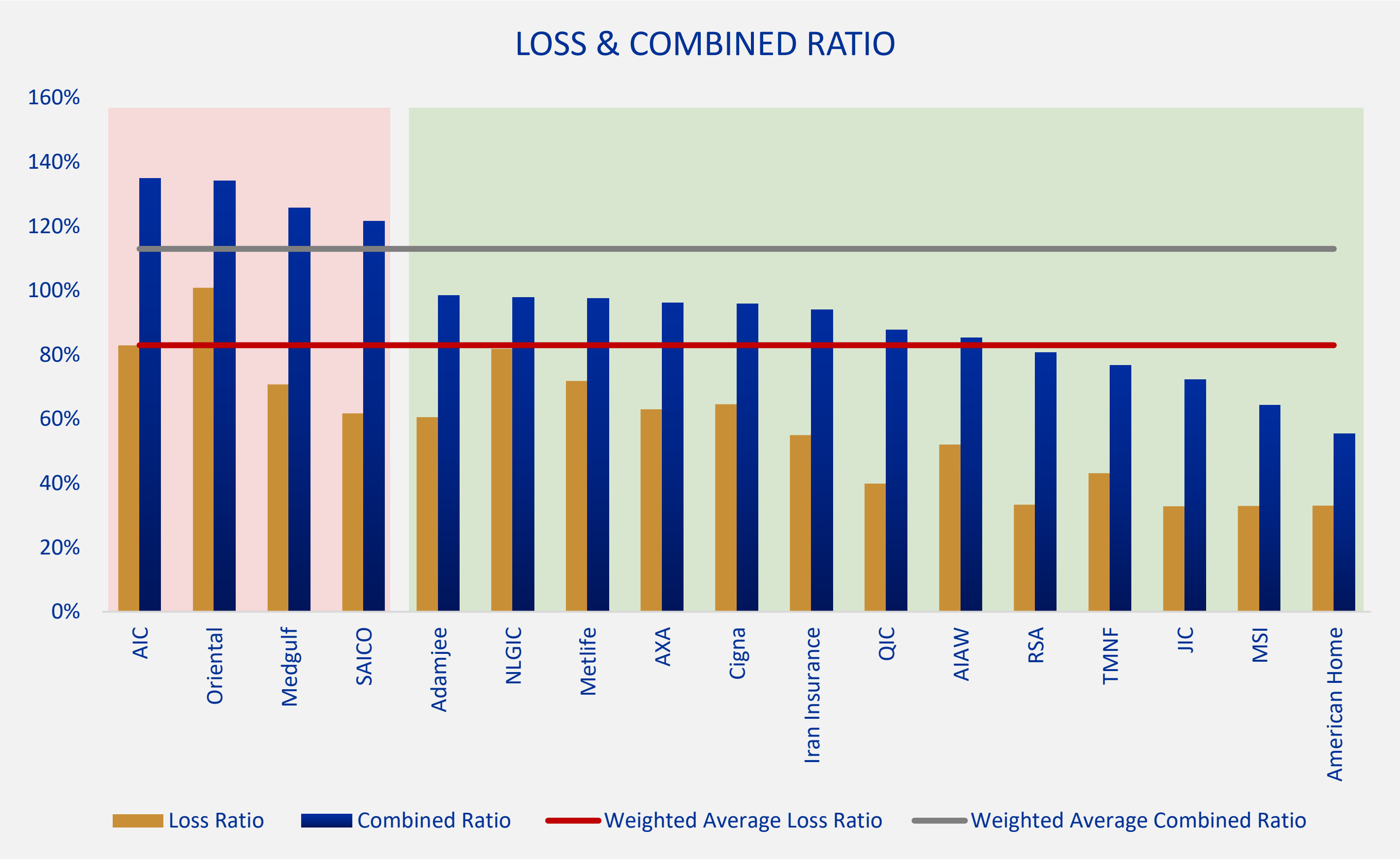
For Takaful companies we have consolidated the Policyholders and Shareholders P&L for comparative purposes.

A company is deemed profitable from an underwriting perspective if the combined ratio is below 100%, thus the companies falling in green zone are considered profitable from their underwriting activities.

- *Loss ratio is computed as Net Claims Incurred over Net Earned Premium*

- *Combined ratio is calculated as ratio of Net Claims Incurred along with the expenses and net commissions over Net Earned Premium*

# LOSS & COMBINED RATIO – BRANCHES



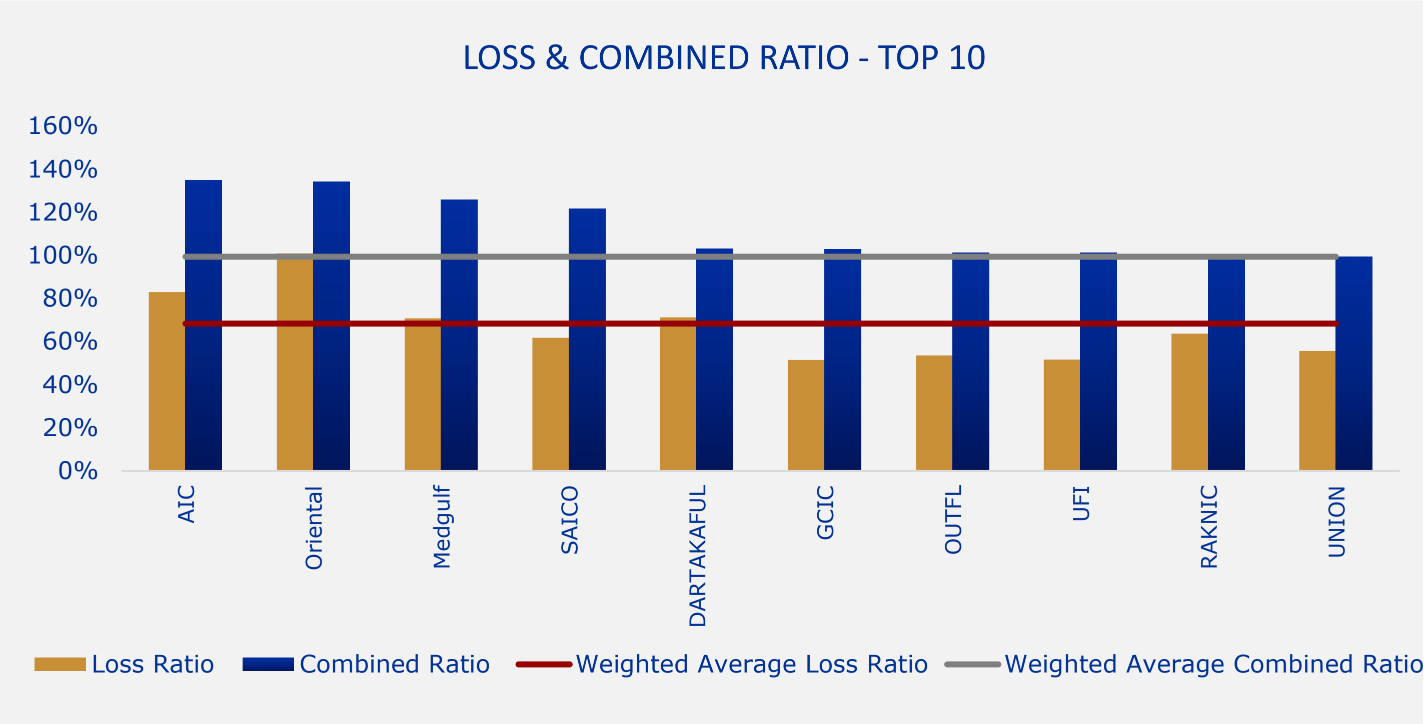

The weighted average loss ratio for the Foreign Branches in the UAE worked out to be 83%, while the weighted average combined ratio stood at 113%.

The highest combined ratio for 2020 is reflected by QGIRC of 1,376% while the lowest combined ratio is exhibited by FPIL of negative 229% respectively, hence they have been excluded from the analysis as they would distort the presentation.

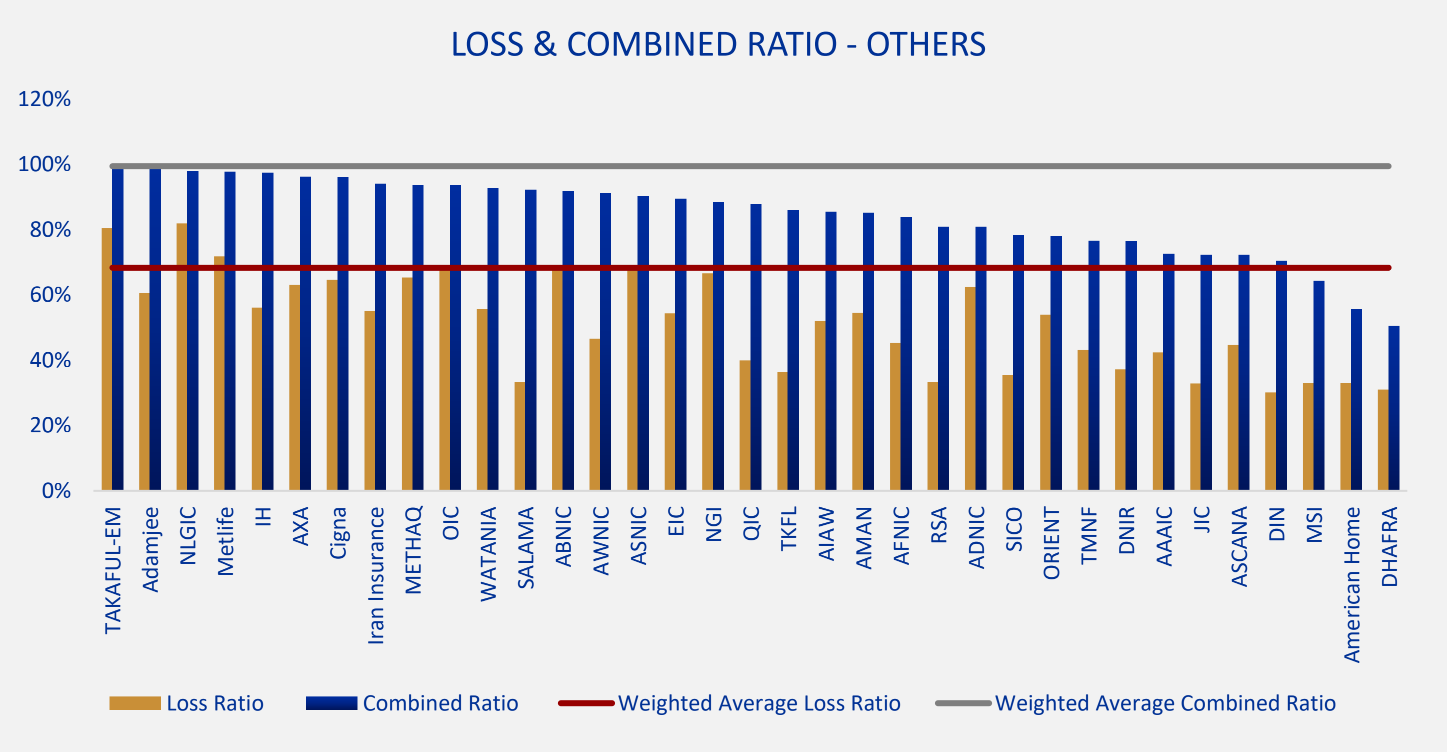
As depicted above, the highest combined ratio (excluding the outliers) of 135% is reflected by AIC whereas the lowest combined ratio of 55% is recorded by American Home.

We have excluded the branches concentrating in long term life business with savings products from this analysis for comparative purposes.

# LOSS & COMBINED RATIO – COMBINED



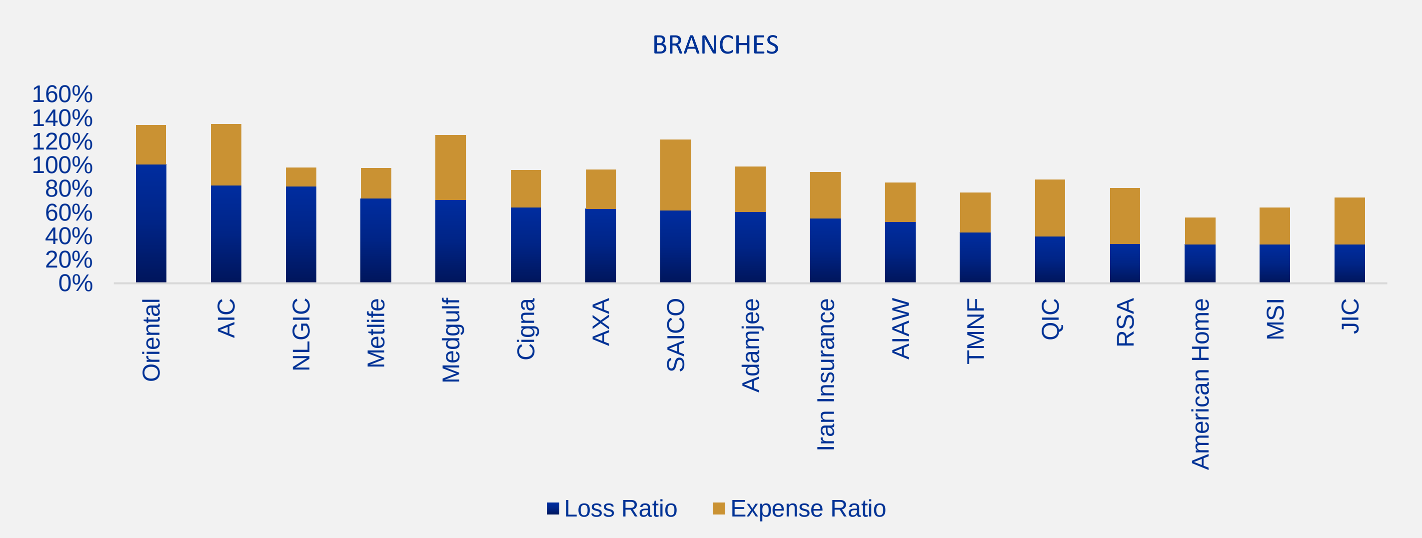

The weighted average loss ratio of the listed companies and branches stood at 68% while the weighted average combined ratio is recorded to be 99%.



# LOSS & EXPENSE RATIO


It is observed that few companies have low loss ratios, but the expenses push the combined ratio nearly to 100%.

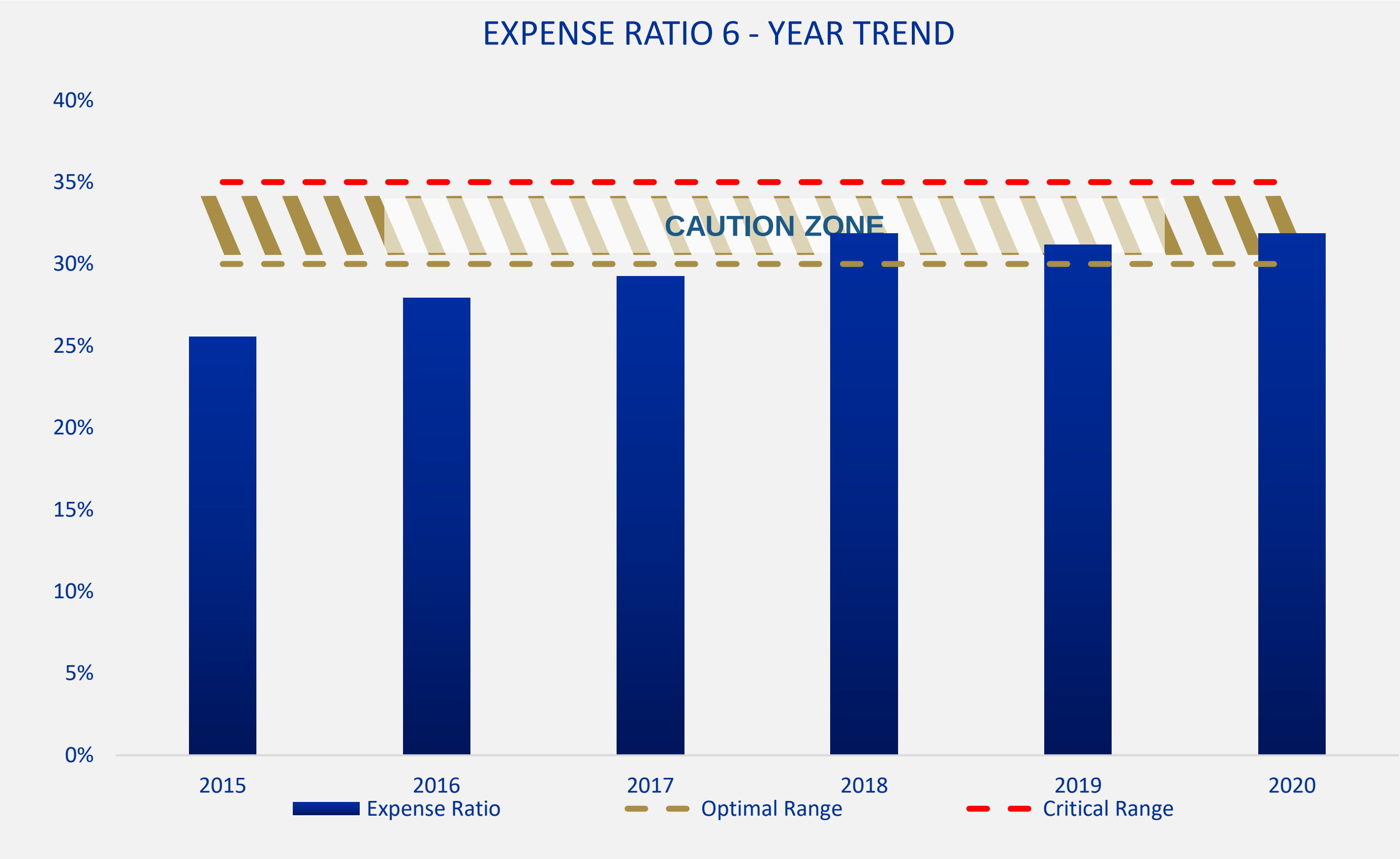
Fidelity United, OUTFL and GCIC have loss ratios well below 55%, however, the expenses push the combined ratio above 100% resulting in an underwriting loss for the Company. Likewise, SALAMA has a loss ratio of 33%, but the expenses elevated the combined ratio to 92%.




Chubb and QGIRC are excluded from the above presentation as their combined ratio were significantly higher than the rest. The loss ratio of companies concentrating in long term life savings products can be misleading as changes in unit/mathematical reserves is considered as claims cost for the year. Therefore, companies known to be concentrating in such business are excluded from the above graph. As depicted, SAICO experienced the highest expense ratio of 60% while its loss ratio was 62% hence crossing the 100% threshold of combined ratio.

The graphs are sorted with respect to the loss ratio.

# EXPENSE RATIO – LISTED COMPANIES

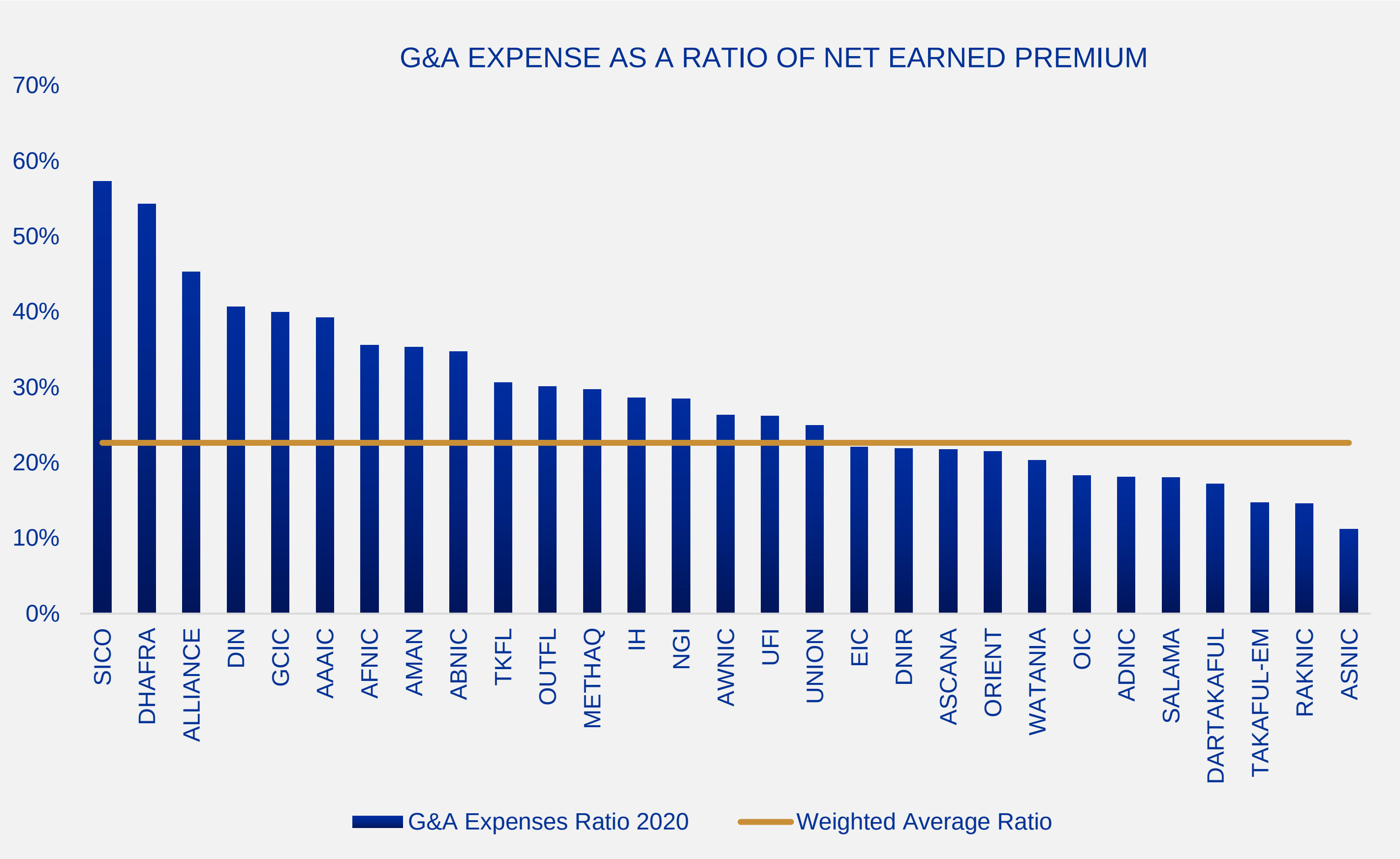



As depicted, the expense ratio of the industry experienced by the listed companies has witnessed a gradually increasing trend up to 2018 (32%) , which is then followed by a slight decrease (31%) in the year 2019 but it has now gone up to 32% again for 2020.

The CBUAE has provided the industry with benchmark expense ratio where the optimal range is below 30% while expenses above 35% are not preferred and actions should be taken to bring them within the defined ranges.

- *The expense ratio is computed as the G&A expenses plus the net commissions (commissions paid plus commissions earned) plus other operational expenses recorded for the period by the companies as a proportion of net earned premiums*

# EXPENSE RATIO – LISTED COMPANIES



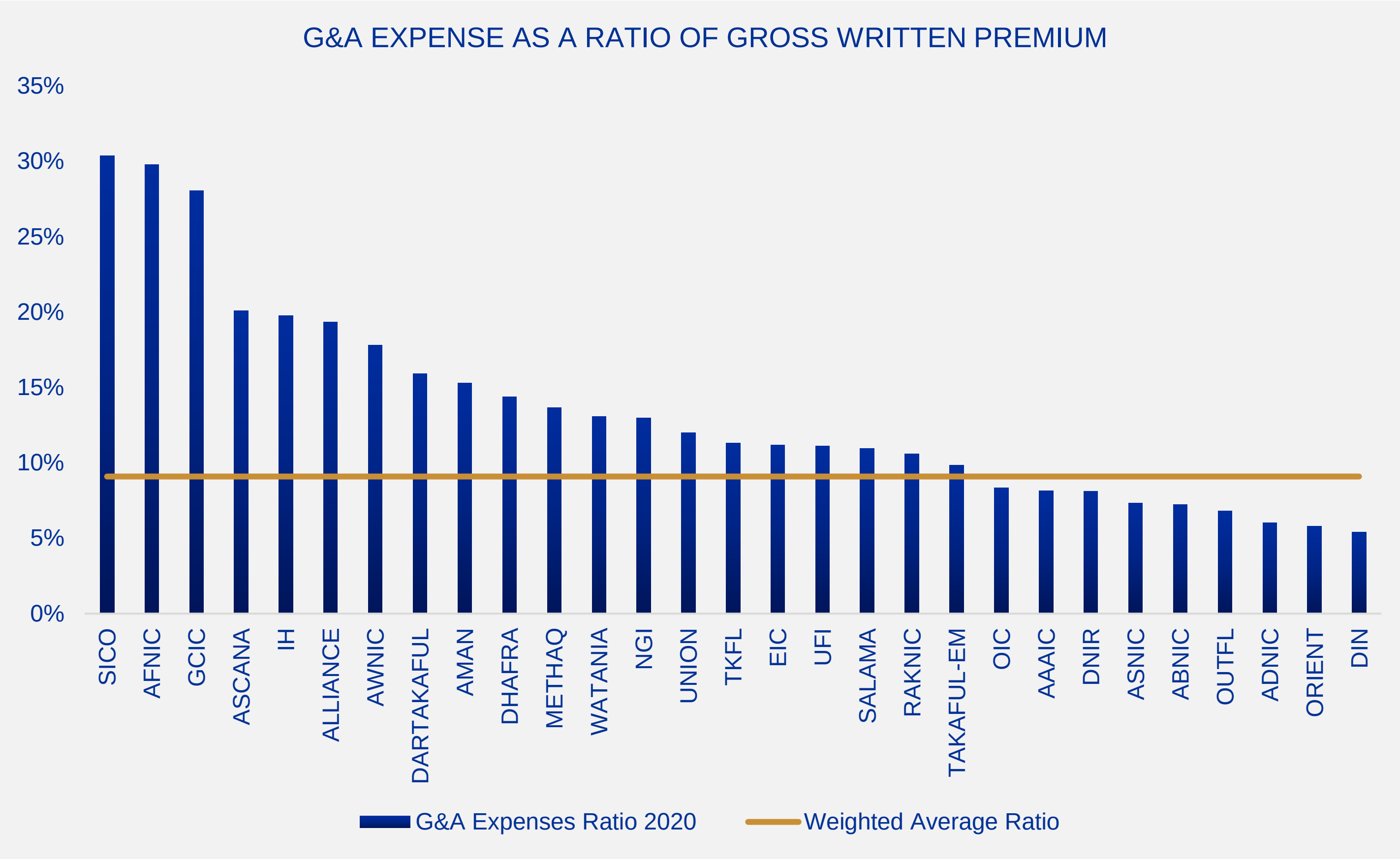

The highest expense ratio for the year 2020 is depicted by SICO of about 57% whereas the lowest expense ratio of 11% is exhibited by ASNIC. The weighted average G&A expense ratio of the industry for the year 2020 works out to be 23% reflecting stability from the year end 2019 ratio.

❖ *The expense ratio is worked out as:*

*Expense Ratio = General and administrative expense / Net Earned Premium*

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

# EXPENSE RATIO – LISTED COMPANIES



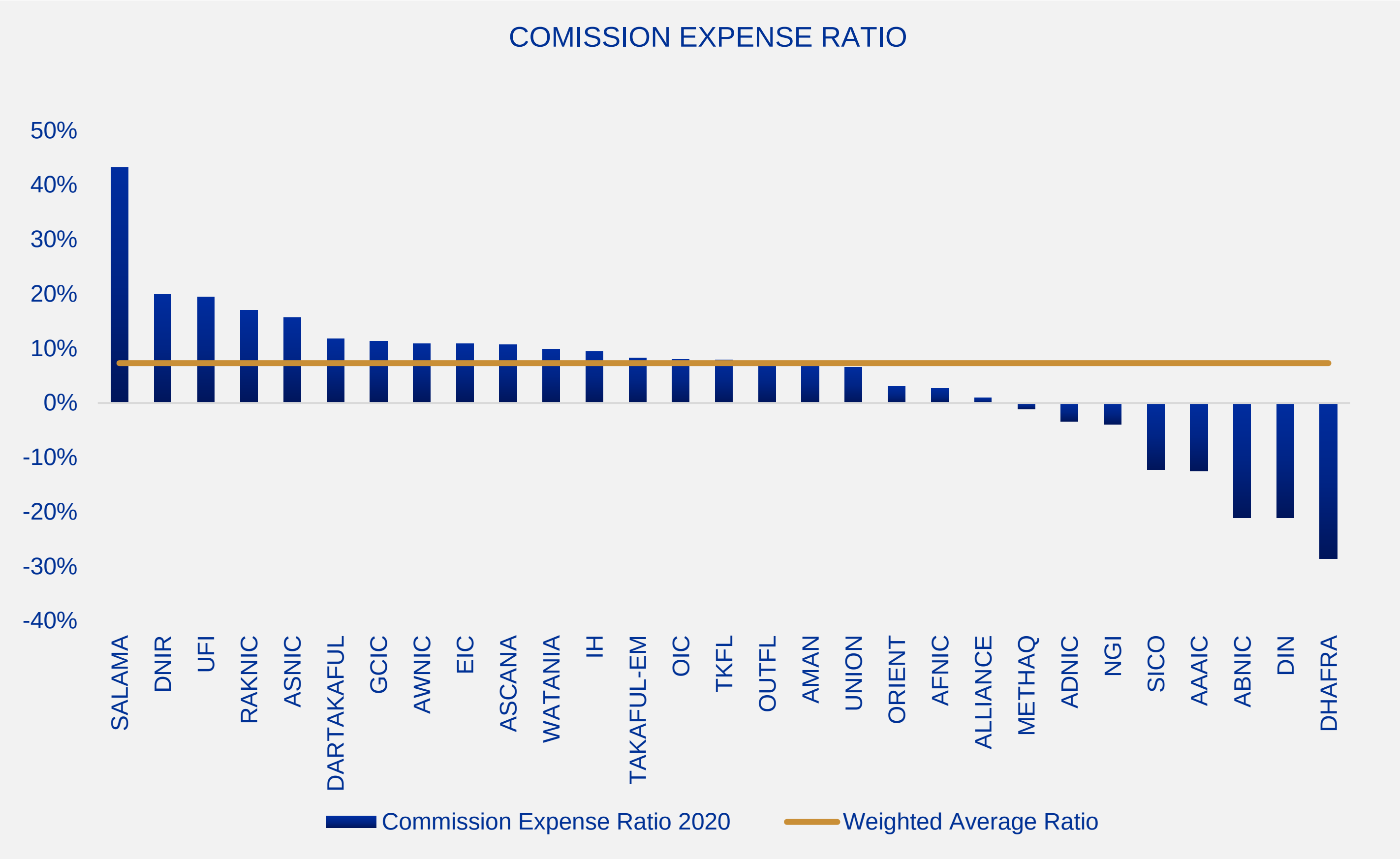

It is commonly believed that G&A expense ratio should be analyzed on the basis of gross written premium for the Company hence, the same is included in our analysis. In the year 2020, the highest expense ratio of 30% is reflected by SICO while the lowest expense ratio of 5% is reflected by DIN.

The weighted average General & Administrative expense ratio of the industry for the year 2020 stood at 9%, which has remained stable when comparing to the corresponding period of 2019.

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.

❖ *The expense ratio is worked out as:*
*Expense Ratio = General and administrative expense / Gross Written Premium*

# EXPENSE RATIO – LISTED COMPANIES



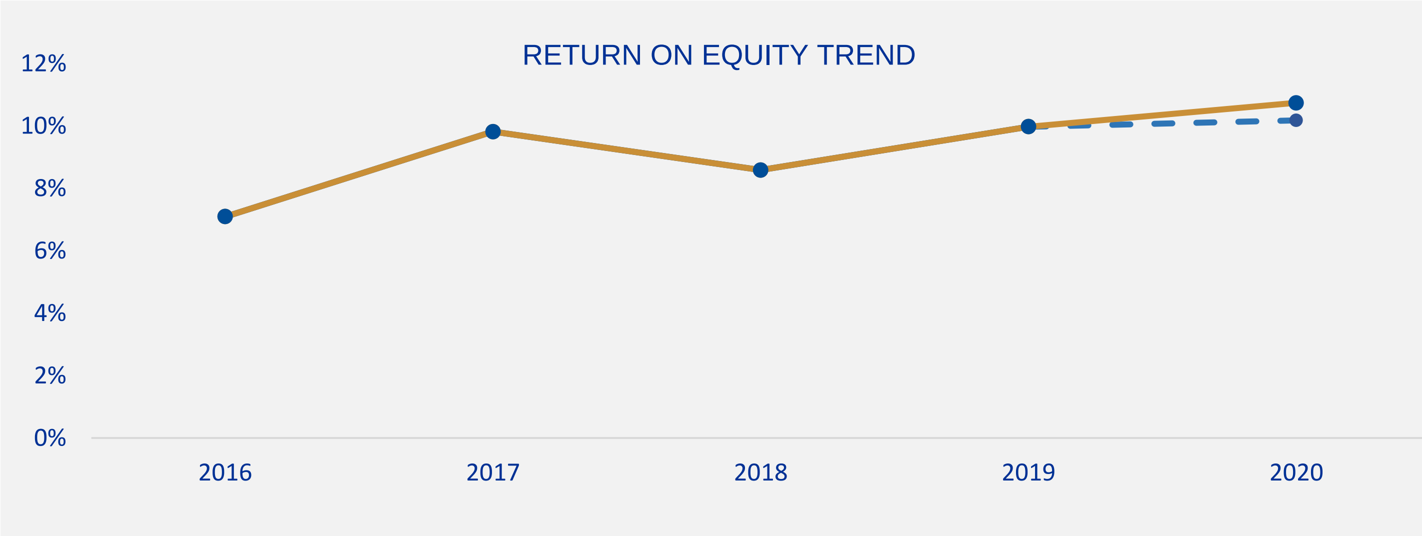

SALAMA experienced the highest commission ratio of 43% for the year 2020 whereas DHAFRA reflected the lowest commission ratio negative 29%.

The weighted average commission ratio for the year 2020 stood at 7% (2019: 6%).

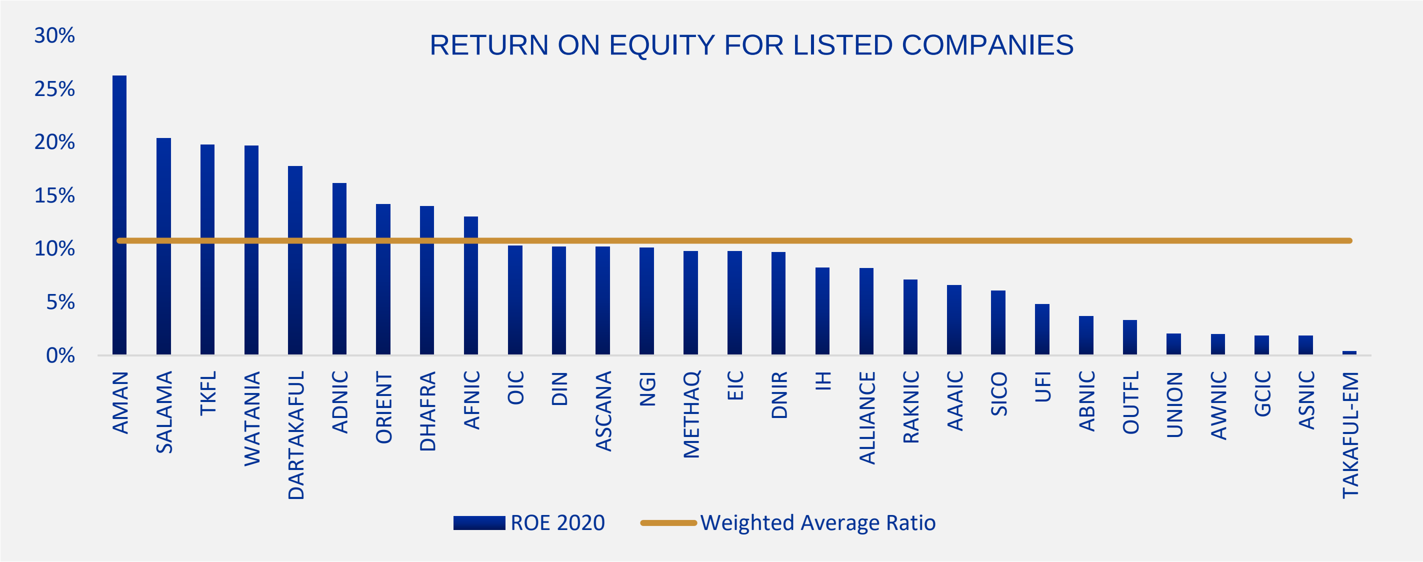
The commission expense considered is the net commission (commissions paid less commissions earned); a negative ratio signifies that the commissions earned outweigh the commissions paid. In UAE, it is common practice for the companies to cede out large proportion of commercial lines business and benefit from the reinsurance commissions, which is also evident 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.

# RETURN ON EQUITY – LISTED COMPANIES TREND




The shareholders of the listed insurance companies have experienced an increasing trend in return on equity since 2018. The dotted line represents the return on Equity of 10%, when excluding the M&A activity of DARTAKAFUL and disinvestments by SALAMA.

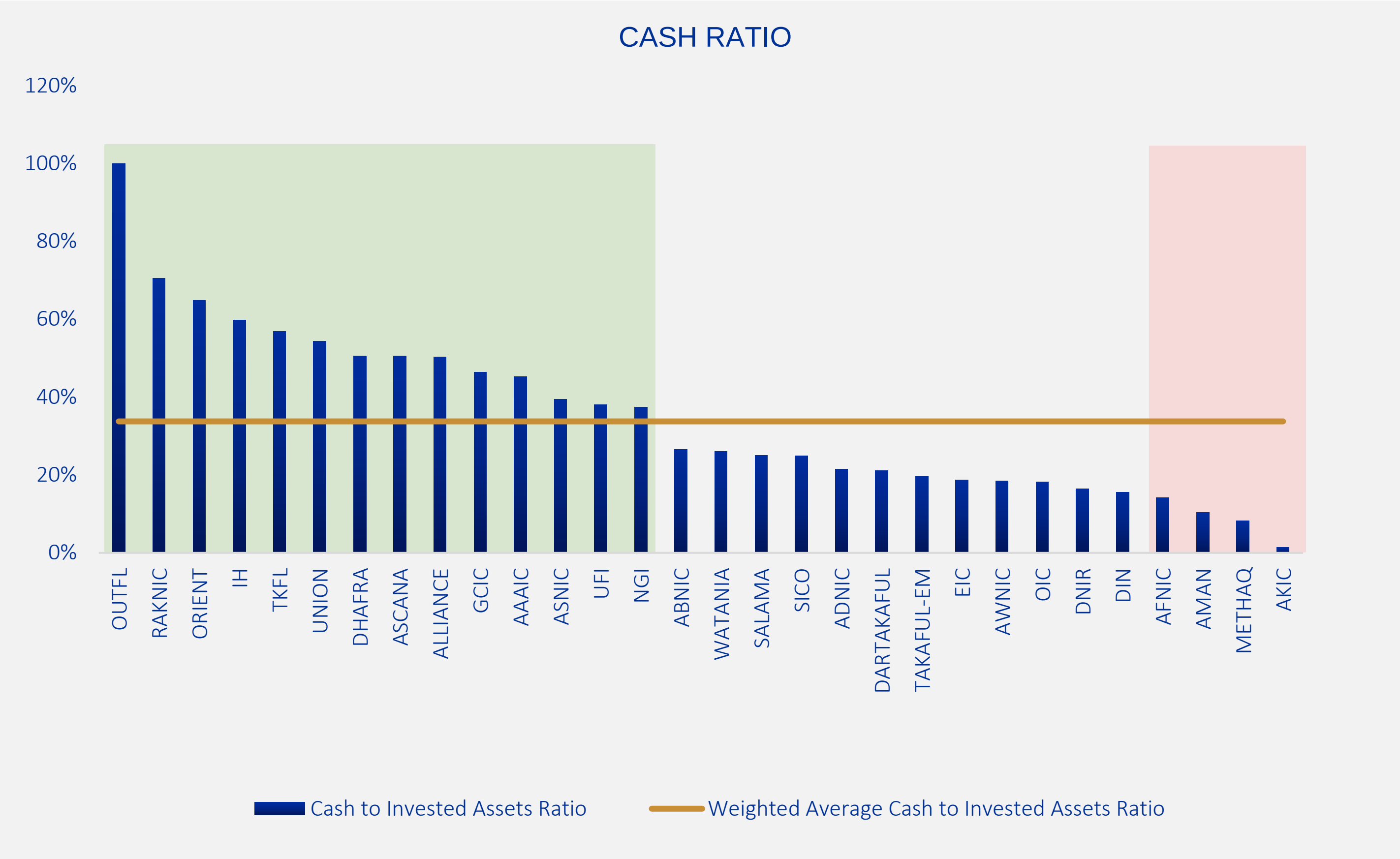



The weighted average return on equity recorded to be 11% for the year ended 2020 with AMAN depicting the highest return on equity of 26.2% followed by SALAMA with 20.4%; TAKAFUL-EM on the other hand, observed to have the lowest returns of 0.4%.

For takaful companies while we have combined shareholder and policyholder profits in other analysis, for the purpose of ROE calculations, only the shareholder profits are considered.

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

# CASH TO INVESTED ASSETS – LISTED COMPANIES



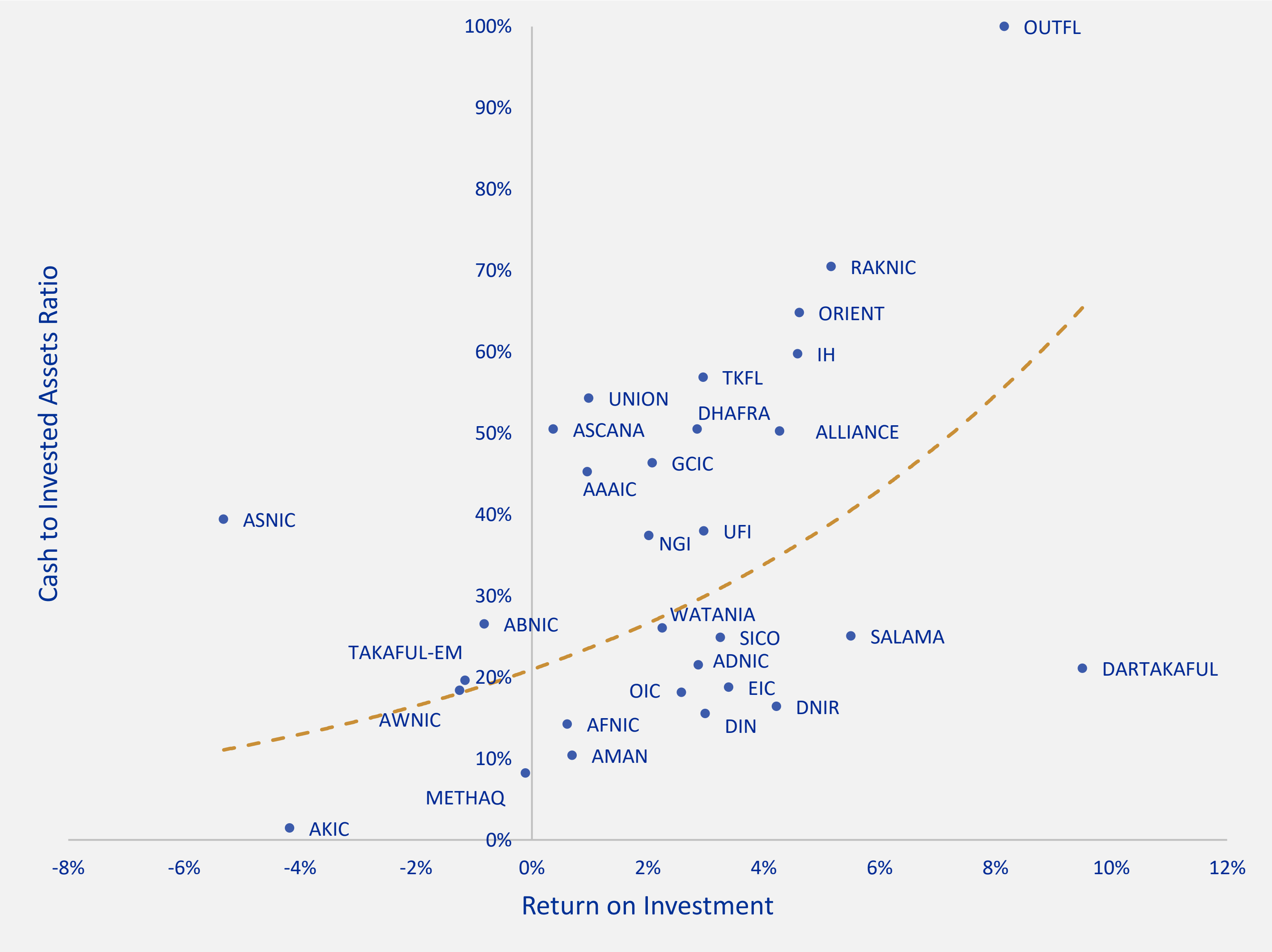

The cash to invested assets of the industry averages around 34% for the year end 2020. The ratio has remained stable when compared with the year 2019.

OUTFL has all of its invested assets maintained as cash, while the lowest cash ratio is observed to be at 8% by METHAQ, apart from AKIC's ratio of 1%.

As per the CBUAE benchmarks, the cash to invested assets ratio for the companies should not fall below 15% of the total invested assets while the optimal area is beyond 30%.

❖ *The cash to invested assets ratio has been taken as the ratio of cash & deposits to total invested assets.*

# RETURN ON INVESTMENTS VS CASH RATIO – LISTED COMPANIES



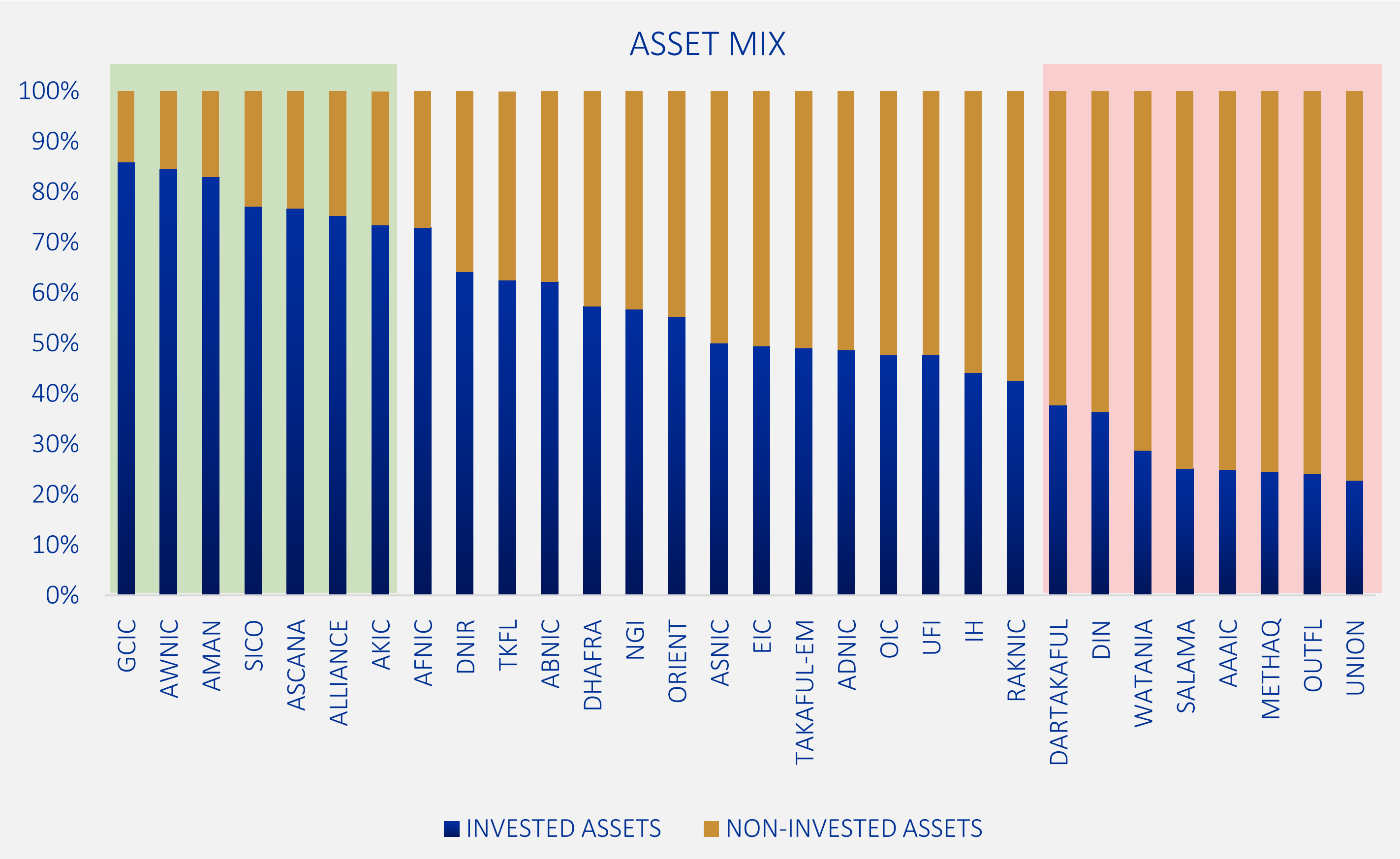

The graph demonstrates the relationship between the amount of cash held by the companies versus the return on investments. Normally, an inverse relationship is expected as having more cash implies having fewer riskier investments, therefore, lower expected yield. However, the impact of an economic downturn is evident from the graph above that has reversed the relationship.

The weighted average Return on investments recorded for listed companies was 3% for the year ended 2020.

As depicted, DARTAKAFUL experienced the highest return on their investments. It is noteworthy that DARTAKFUL had one-off gains as a result of acquiring Noor-Takaful.

❖ *The Return on Investment is computed as the ratio of investment income to the average invested assets at the beginning and end of period.*

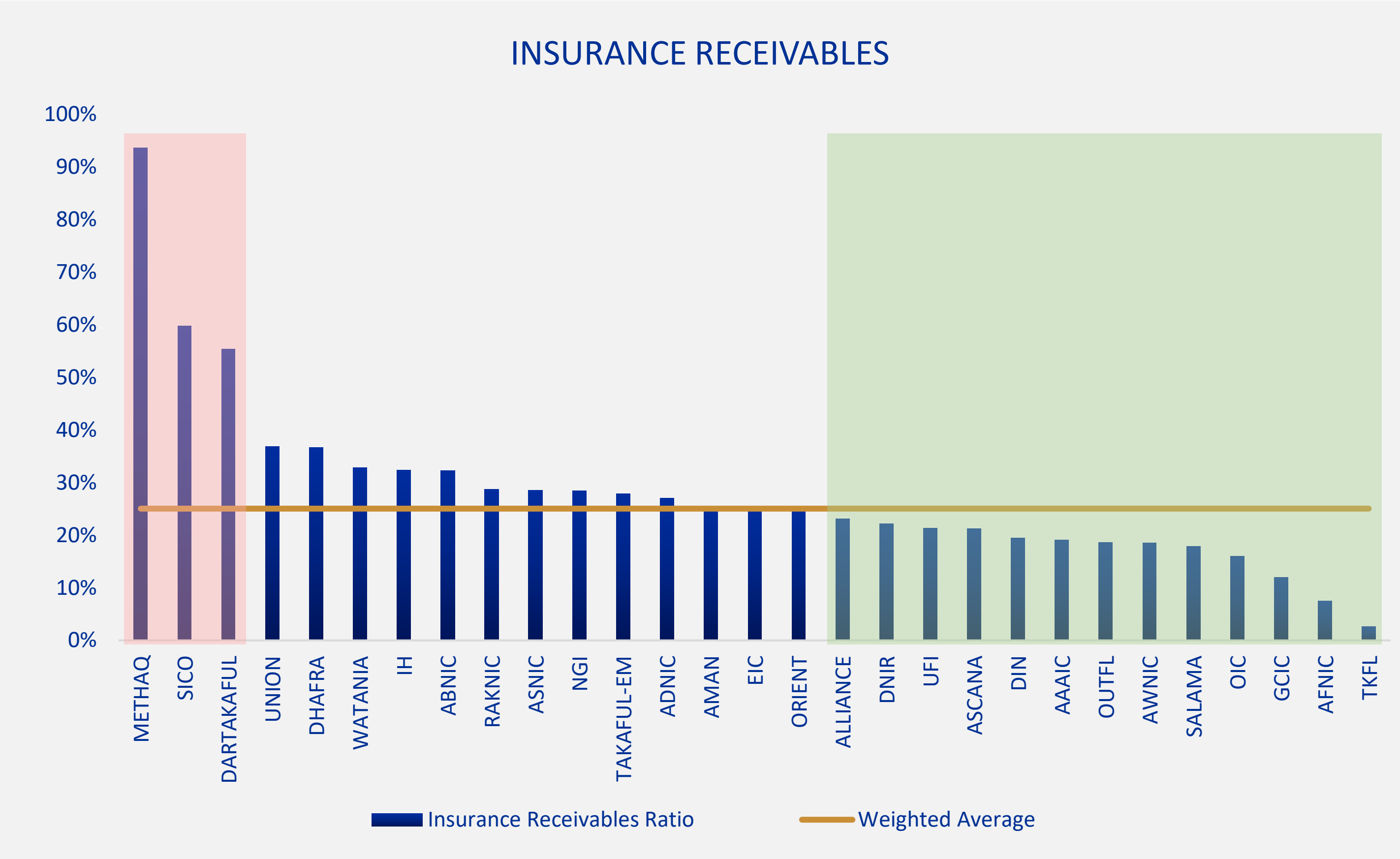
# INVESTED ASSETS TO TOTAL ASSETS – LISTED COMPANIES




The prescribed range for Invested assets to total assets is 40% - 70% as per the Central Bank of UAE, where the companies falling in critical range of below 40% are under red zone.

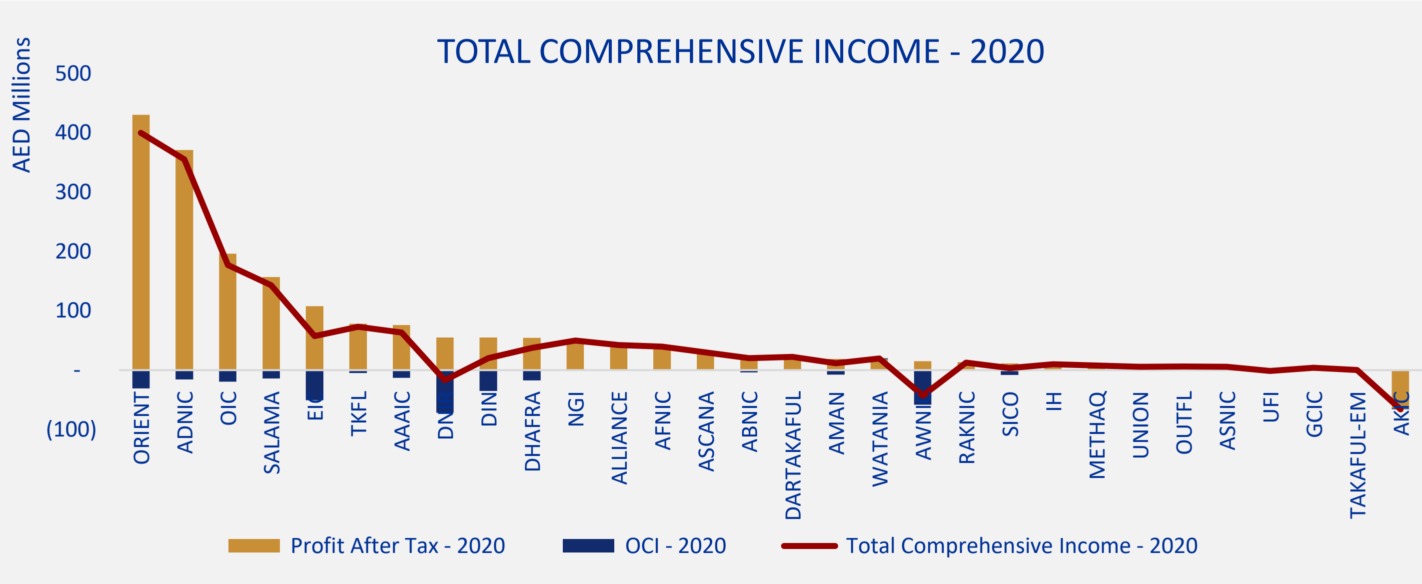
Asset Mix compares the proportion of invested assets and non invested assets for the year 2020. GCIC has the highest proportion of 86% of their assets invested, while UNION has only invested 23% of their assets.

# INSURANCE RECEIVABLES – LISTED COMPANIES




The prescribed range for insurance receivables as a proportion of gross written premium is less than 25% while above 45% as per the Central Bank of UAE is the red zone.

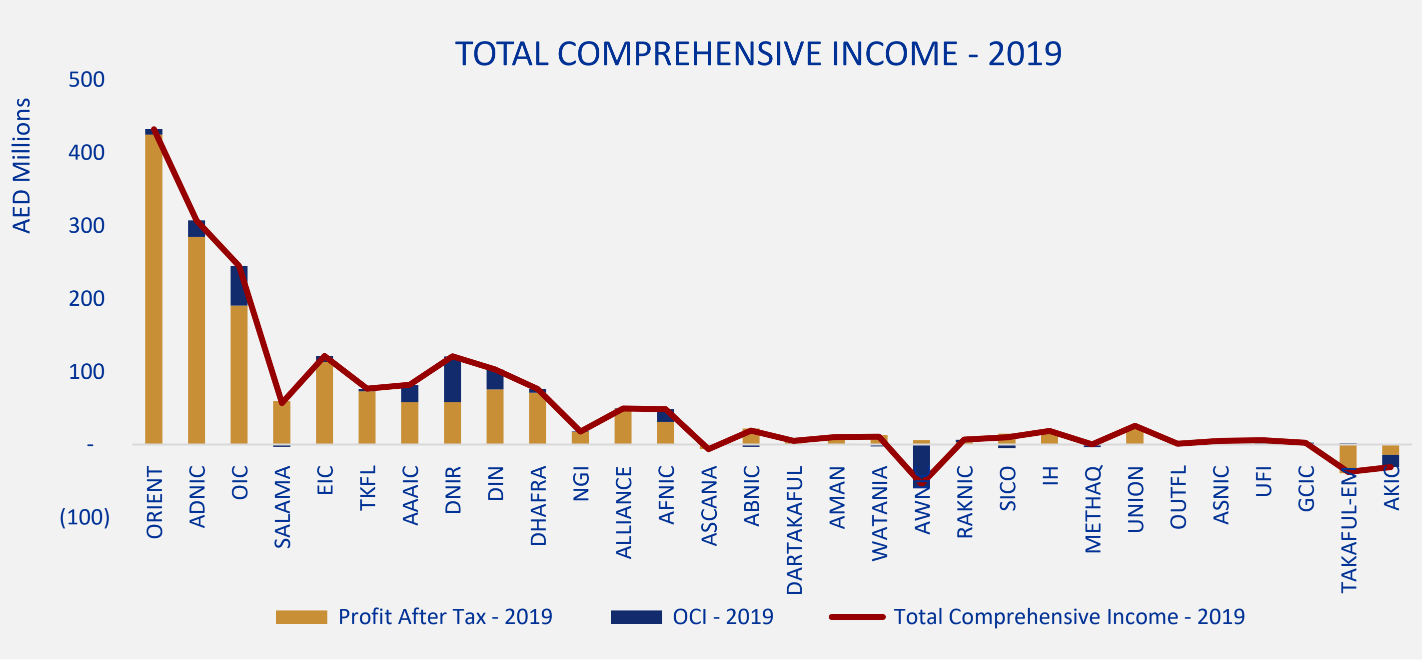
# TOTAL COMPREHENSIVE INCOME - COMPANIES



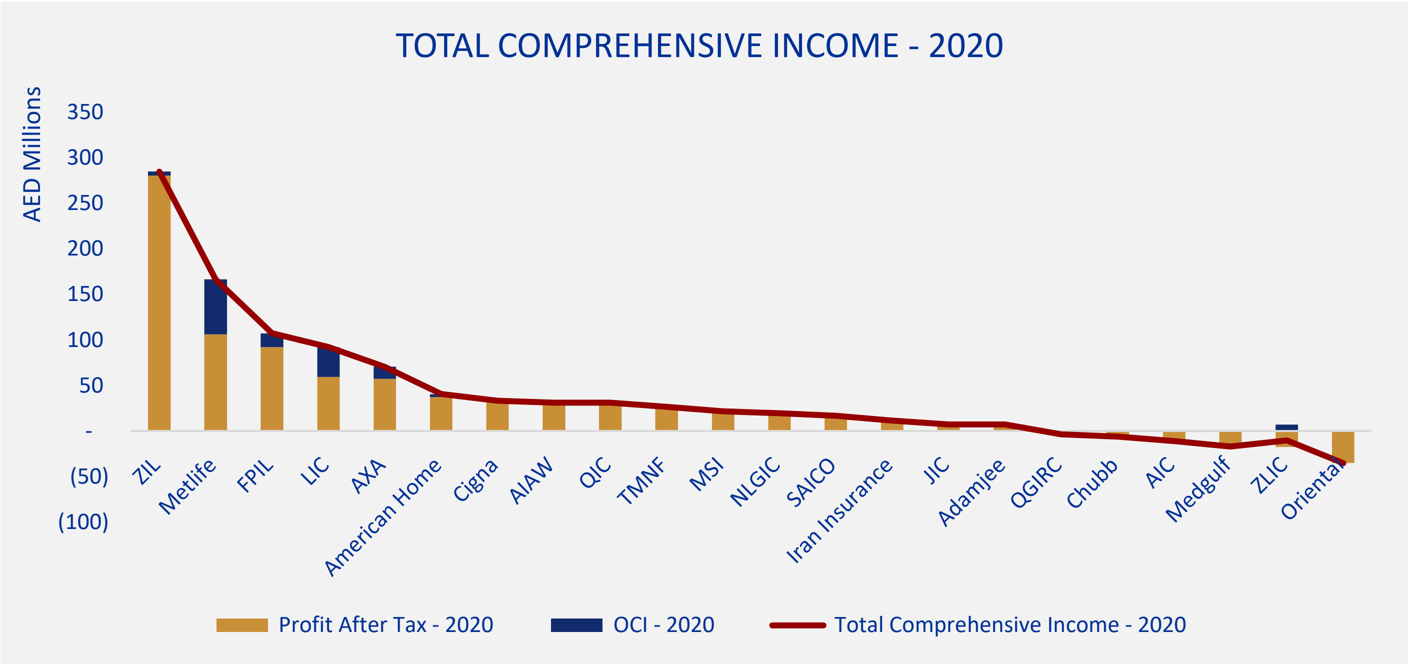

The Indices of general market performance in the Stock Exchange (DFM/ADX) exhibited a declining trend post the outbreak of COVID-19 the realization of the decline witnessed in Financial Market is reflected through either profit & loss accounts or Other Comprehensive Income statements of the Companies.

The Total Comprehensive Income for the year 2020 exhibit a decline of 10% when compared with the year end 2019. This decline percentage was 99.6% in our 2020-Q2 reporting, hence depicting a significant improvement in the investment portfolios of the companies in the second half of 2020.

Almost half of the listed companies recorded growth on their Comprehensive Income account. The biggest loss for the period was recorded by AKIC followed by AWNIC with total comprehensive losses of AED 66 million and AED 43 million respectively in the year 2020.

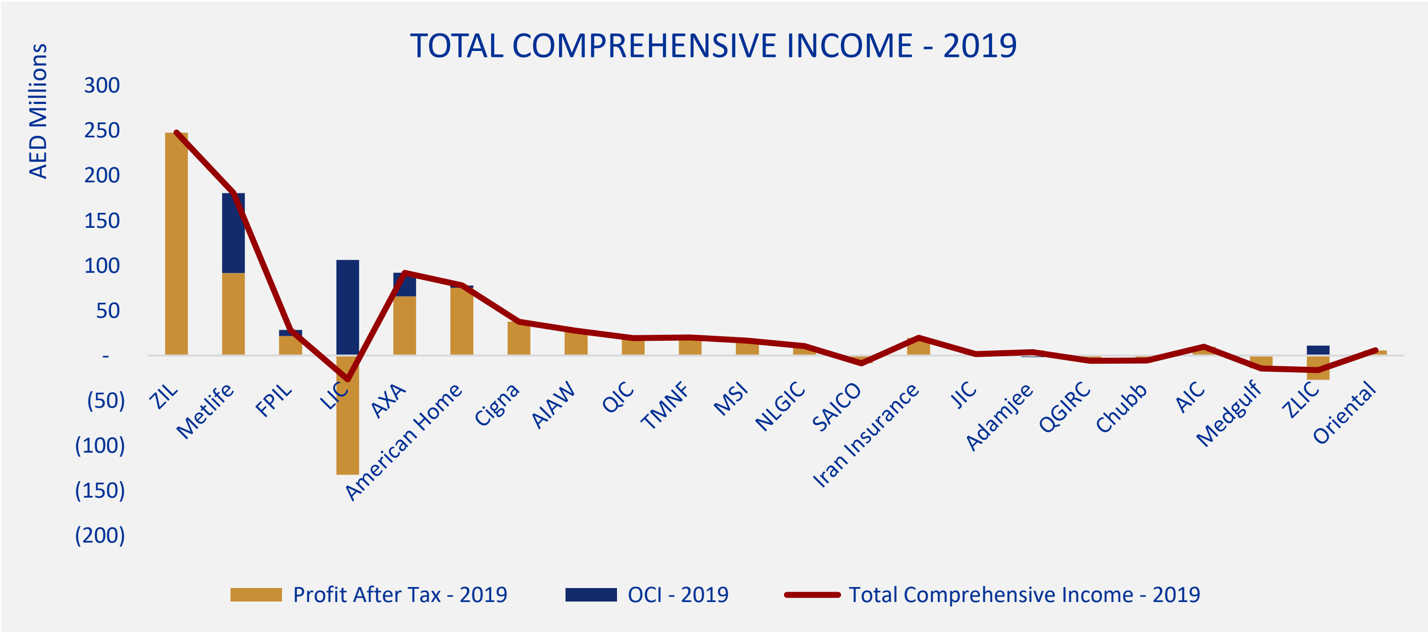


# TOTAL COMPREHENSIVE INCOME - BRANCHES




The Foreign Branches operating in the Emirates observed a growth of 22% in their Shareholder's Comprehensive Income when compared with the year end 2019.

13 out of 22 branches included in this analysis, recorded growth on their Total Comprehensive Income account. The biggest loss for the period was recorded by ORIENTAL with total comprehensive loss of AED 35 million in the year 2020 depicting a decline 686% from its TCI of 2019.



# CONCLUSION

The year 2020 has been a very unpredictable year for most of the businesses including but not limited to the insurance sector. The topline of the Insurance Industry in the Emirates exhibited a decline of 4%. The total estimated premiums written by Insurance industry in UAE approximated to AED 39 billion during 2020 as compared to AED 40 billion of estimated premiums written in the year end 2019.

The industry saw some ups and downs in the later half of 2020. The insurers moving away from capitation schemes to fully insured schemes. While this has not had a significant impact on the topline yet, this will lead to increased average premiums for the lower end plans over time. In addition, we finally saw M&A activity with the acquisition of Noor Takaful by Dar Takaful and disinvestment by Salama which led to a one-off boost in net profits for the listed companies. The investment markets have improved significantly from the position at close of second quarter which has boosted total comprehensive income for the companies.

On the flip side we are seeing average motor premiums lower than the pre-2017 range and curtailing economic activity which will lead to insurers realizing lower earned premium in 2021. This is also coupled with the price competition on commercial lines and hardening 2021 reinsurance renewals. The year 2020 has been unique in many ways and we will continue our monitoring of the insurance sector as we heads into 2021.

On the contrary to the business decline, the total Profit for year ended 2020 have escalated to AED 2.7 billion as compared to AED 2.2 billion in 2019, reflecting a growth of about 21%. The M&A activity of DAR TAKAFUL and disinvestment by SALAMA added to the profit growth observed, though, even without these investment related activities, the profits demonstrated a commendable growth of about 17% from last year. This is highly attributable to the events leading from the pandemic that improved performance of Motor and Medical lines. Due to movement restrictions and deferment of elective treatments, the loss ratios of Motor and Medical lines took a dip. UAE insurance companies generally write and retain substantial risk from these lines, thereby retaining the benefits as well. The products like event cancellation and business interruption are generally highly reinsured in the market. Therefore, the improvement in Motor and Medical lines more than off set any adverse exposure from such risks.

The average loss ratio for the listed companies and branches analyzed in the report stood at 68% and average combined ratio was at 99%; where, the listed companies exhibited loss and combine ratio of 58% and 90% respectively, while the branches experienced loss and combined ratio of 83% and 113% respectively, while the companies and branches retention ratio averages to 49%.

# KEY TAKE AWAY POINTS

## INDUSTRY GWP GROWTH TIMELINE

| 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| AED 37bn | AED 41bn | AED 40bn | AED 40bn | AED 39bn |

## INDUSTRY NEP GROWTH TIMELINE

| 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| AED 16bn | AED 16bn | AED 20bn | AED 19bn | AED 17bn |

Highest Growth in Profit by **GCIC** at **1286%**

Highest Growth in GWP Recorded by **Fidelity United** at **59%**

Highest ROE by **AMAN** at **26%**

Highest Retention Recorded by **ZLIC** at **100%**

Highest GWP recorded by **ORIENT** at **4.2bn**

Highest Net Earned Premium Growth by **DARTAKAFUL** at **132%**

Highest Investment Income recorded by **ORIENT** at **191.1mn**

## INDUSTRY PROFIT GROWTH TIMELINE

| 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| AED 1.2bn | AED 2.1bn | AED 1.9bn | AED 2.2bn | AED 2.7bn |

# COMPANIES INCLUDED IN THE ANALYSIS

| Listed Insurance Companies | | | |
|---|---|---|---|
| Sr. No. | Symbol | Name | Market |
| 1 | AAAIC | Al Ain Al Ahlia Insurance Co. | ADX |
| 2 | ABNIC | Al Buhaira National Insurance Company | ADX |
| 3 | ADNIC | Abu Dhabi National Insurance Co. | ADX |
| 4 | AFNIC | Al Fujairah National Insurance Co. | ADX |
| 5 | AKIC | Al Khazna Insurance Co. | ADX |
| 6 | ALLIANCE | Alliance Insurance | DFM |
| 7 | AMAN | Dubai Islamic Insurance and Reinsurance Co. | DFM |
| 8 | ASCANA | Arabian Scandinavian Insurance Co. | DFM |
| 9 | ASNIC | Al Sagr National Insurance Company | DFM |
| 10 | AWNIC | Al Wathba National Insurance Co | ADX |
| 11 | DARTAKAFUL | Dar al Takaful (Takaful House) | DFM |
| 12 | DHAFRA | Al Dhafra Insurance Co. | ADX |
| 13 | DIN | Dubai Insurance Co , PSC | DFM |
| 14 | DNIR | Dubai National Insurance & Reinsurance Co. | DFM |
| 15 | EIC | Emirates Insurance Co. | ADX |
| 16 | GCIC | Green Crescent Insurance Company | ADX |
| 17 | IH | Insurance House P.S.C | ADX |
| 18 | METHAQ | Methaq Takaful Insurance Co. | ADX |
| 19 | NGI | National General Insurance Company | DFM |
| 20 | OIC | Oman Insurance Company (P.S.C. | DFM |
| 21 | ORIENT | Orient Insurance PJSC | DFM |
| 22 | OUTFL | Orient UNB Takaful PJSC | DFM |
| 23 | RAKNIC | Ras Al Khaimah National Insurance Co. | ADX |
| 24 | SALAMA | Islamic Arab Insurance Company | DFM |
| 25 | SICO | Sharjah Insurance Company | ADX |
| 26 | TAKAFUL-EM | Takaful Emarat (PSC) | DFM |
| 27 | TKFL | Abu Dhabi National Takaful Co. PJSC | ADX |
| 28 | UFI | United Fidelity Insurance (PSC) | ADX |
| 29 | UNION | Union Insurance Company | ADX |
| 30 | WATANIA | National Takaful Company | ADX |

# COMPANIES INCLUDED IN THE ANALYSIS

| Branches - Unlisted Companies | | |
|---|---|---|
| **Sr. No.** | **Symbol** | **Name** |
| 1 | Adamjee | Adamjee Insurance Company Ltd. |
| 2 | AIAW | Al Itahaad Al Watani |
| 3 | AIC | Arabia Insurance |
| 4 | American Home | American Home Insurance Company |
| 5 | AXA | AXA Gulf |
| 6 | Chubb | ACE Tempest Life Reinsurance Ltd. |
| 7 | Cigna | Cigna |
| 8 | FPIL | Friend Provident International |
| 9 | Iran Insurance | Iran Insurance Company |
| 10 | JIC | Jordan Insurance Company |
| 11 | LIC | Life Insurance Corporation (International) B.S.C. |
| 12 | Medgulf | The Mediterranean & Gulf Insurance and Reinsurance Company |
| 13 | Metlife | MetLife |
| 14 | MSI | Mitsui Sumitomo Insurance Company Ltd. |
| 15 | NLGIC | National Life and General Insurance Company |
| 16 | Oriental | The Oriental Insurance Company |
| 17 | QGIRC | Qatar General Insurance and Reinsurance Company |
| 18 | QIC | Qatar Insurance Company |
| 19 | RSA | Royal and Sun Alliance Insurance |
| 20 | SAICO | Saudi Arabian Insurance Company |
| 21 | SLIC | State Life Insurance Corporation of Pakistan |
| 22 | TMNF | Tokio Marine and Nichido Fire Insurance Company Ltd. |
| 23 | ZIL | Zurich International Life |
| 24 | ZLIC | Zurich Life Insurance Company Ltd. |

# DISCLAIMER

- We have undertaken an analysis of the Key Performance Indicators (KPIs) of the listed insurance companies and branches of foreign insurance companies operating in UAE (subsequently referred to as Branches) for the year ended December 31, 2020. The data has been extracted from the financial statements of those companies which were publicly listed and available till the compilation of this report. For branches, the financials published in different newspapers have been relied upon.

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- Some of the figures for 2019, as shown in this analysis differ from the ones shown in our report compiled as of December 31, 2019. This is because of the restatements of financials and the exclusion (inclusion) of some branches for which the financials were not available (available) in 2019.

BADRI

# About our team

| | | |
|---|---|---|
| UAE/Oman Actuarial<br>32 Staff | KSA Actuarial<br>22 Staff | Medical<br>4 Staff |
| Business Intelligence<br>9 Staff | End of Service<br>6 Staff | HR Consulting<br>1 Staff |

14 Support and admin staff

Total Strength = 88


# Contact us!

Hatim Maskawala

Ali Bhuriwala

Manaal Siddiqui

Uroosha Jameel

Subhan Naeem

## FEEDBACK

Badri Management Consultancy is proud to present the UAE insurance Industry Analysis for the year ended 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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