OMANI LISTED INSURANCE COMPANIES PERFORMANCE ANALYSIS

H1-2021

OCTOBER 11, 2021

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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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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.

BADRI

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

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.

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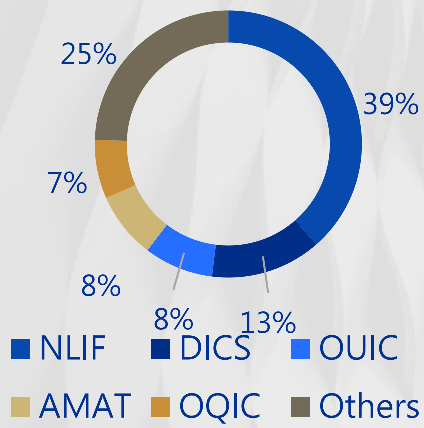
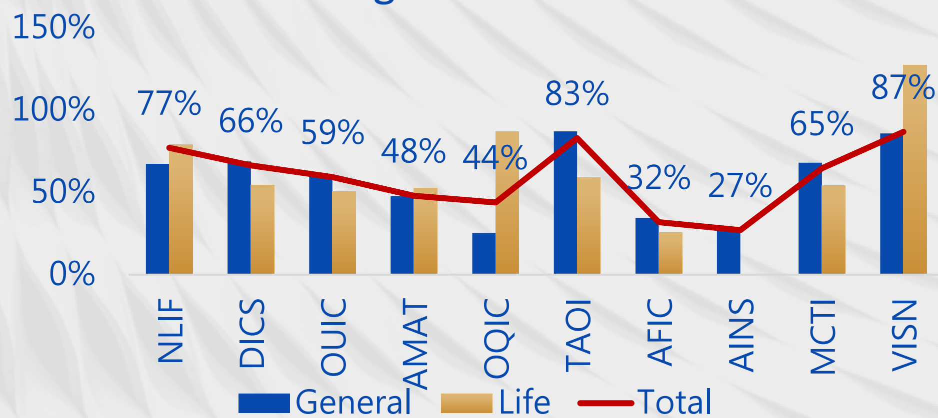
Summary of 2021 – H1 & Historical Trends

Business Written	Profit recorded by listed companies	Industry Average Loss Ratio	Industry Average Combined Ratio
RO 222 mn	RO 17 mn	67%	96%
2020-H1: RO 218 mn	2020-H1: RO 25 mn	2020-H1: 58%	2020-H1: 84%

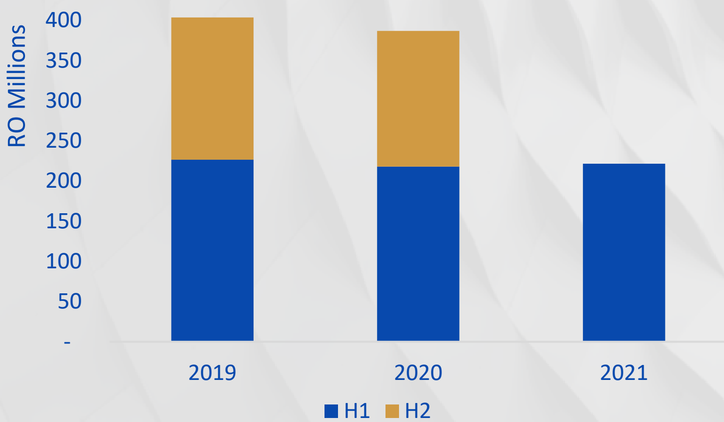
Market Share



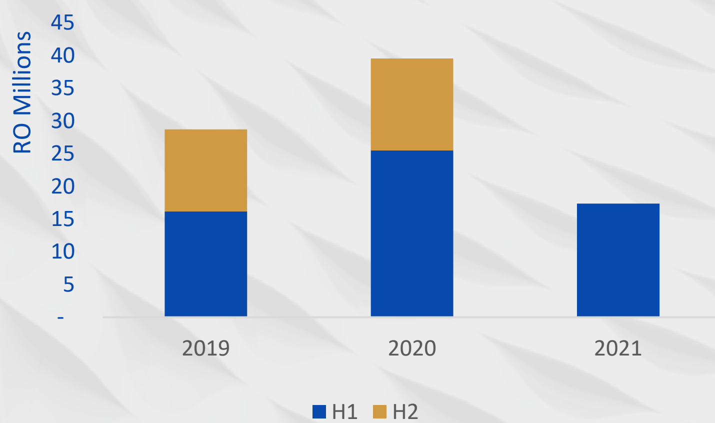
Business Segment wise Loss Ratio



Premium Trend Over 3 Years

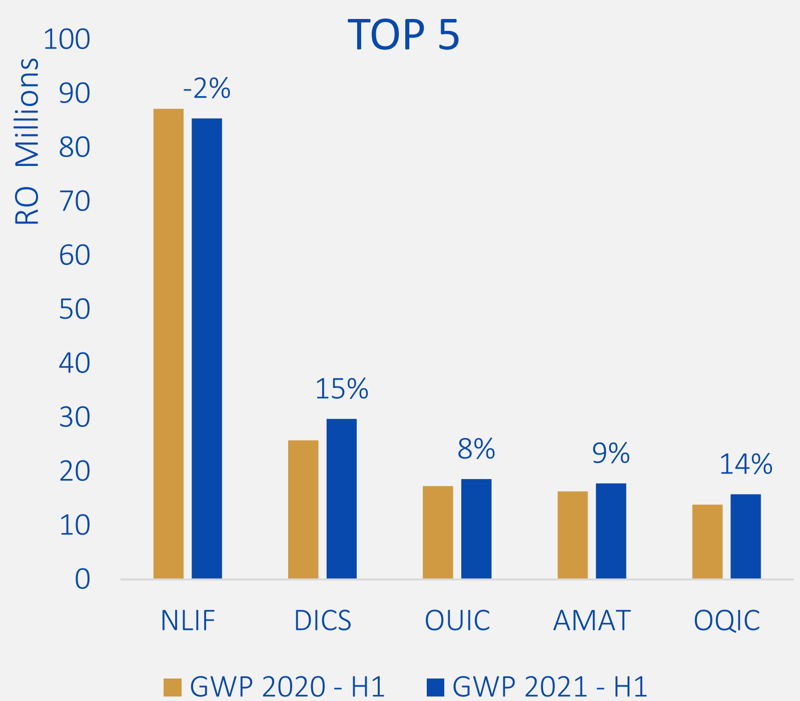


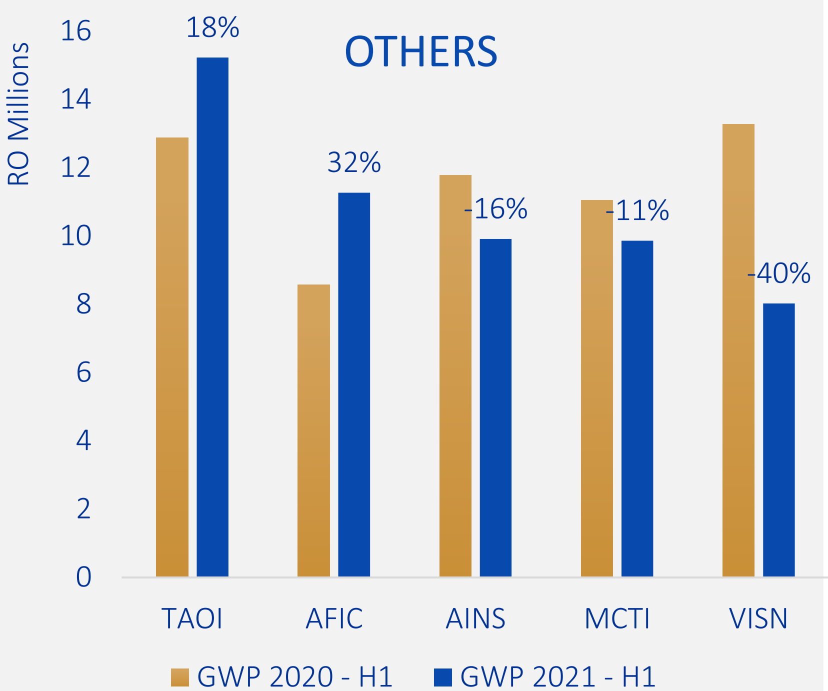
Profits Trend Over 3 Years



Profit Growth for Listed Companies	GWP Growth for Listed Companies	Industry Average ROE	Insurance receivables to GWP for Listed Companies
-32%	2%	11%	39%
2020-H1: 57%	2020-H1: -4%	2020-H1: 15%	2020-H1: 41%

Gross Written Premiums





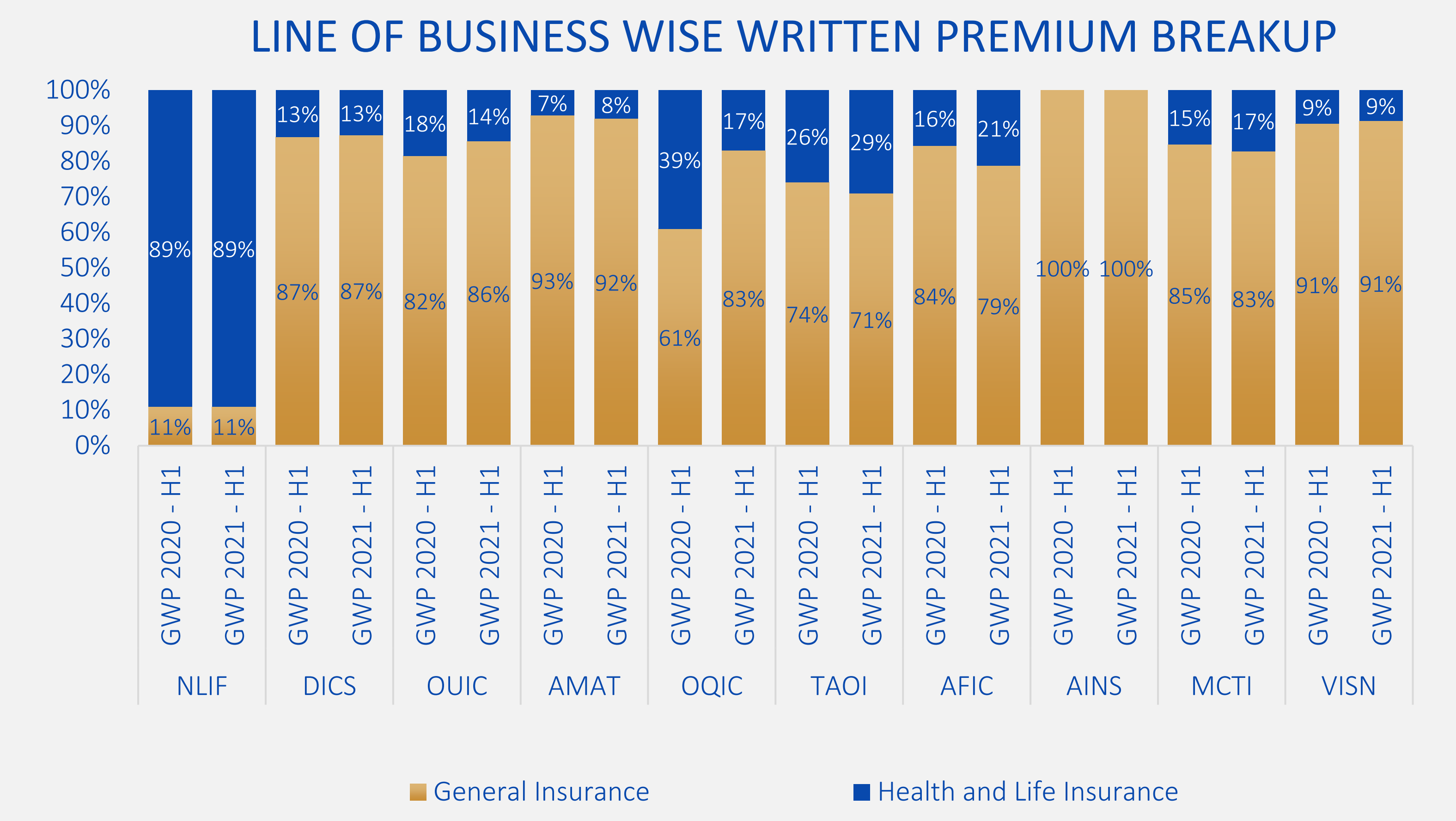
The insurance companies in the Sultanate saw an increase in business, with total gross written premiums at RO 222 million in 2021-H1. A 2% increase from 2020-H1, which is expected, since 2020-H1 was the peak of the Covid-19 pandemic. The growth in overall premium can also be attributed to implementation of mandatory health insurance in mid 2020. However, a few companies (NLIF, AINS, MCTI, and VISN) observed a decrease in premiums when compared to last year.

The TOP 5 insurers in terms of GWP amounted to RO 167 million, hence contributing to 75% of overall market.

NLIF being the market leader in Health and Life Insurance secures top rank and contributed 39% share in insurance sector for the first half of 2021. NLIF's premium of RO 85 million includes RO 41 million from overseas subsidiaries which is about 48% of their total business. However, as the consolidated numbers are reported, we have used the consolidated financial statements.

AFIC exhibited the highest GWP growth rate of 32%, while VISN observed the largest decline of 40%.

Gross Written Premiums



The business for NLIF is concentrated in Health and Life Insurance which comprises 89% of the total gross premiums of the Company for the first half of 2021.

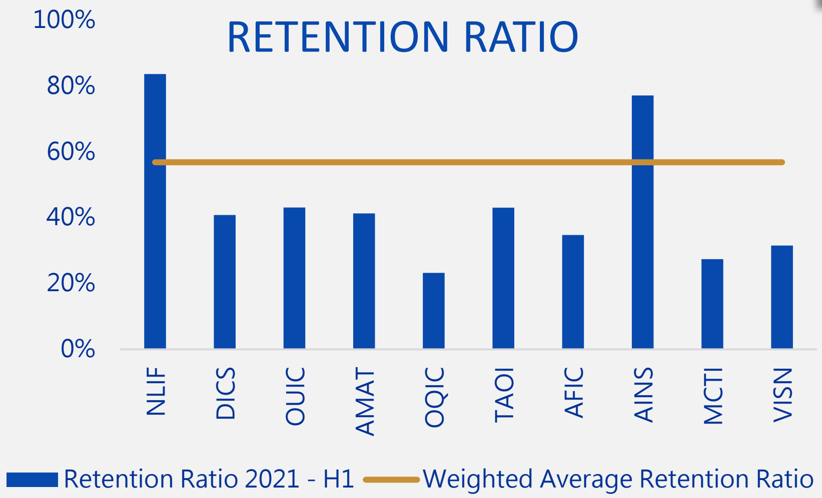
Excluding NLIF, the companies operating in Oman concentrate predominantly in Non-Life Insurance Business. 85% of the GWP excluding NLIF is attributable to Non-Life Insurance, while as a percentage of the overall market including NLIF, this works out to 57% for the first half of 2021. The ratios have remained consistent with the previous period.

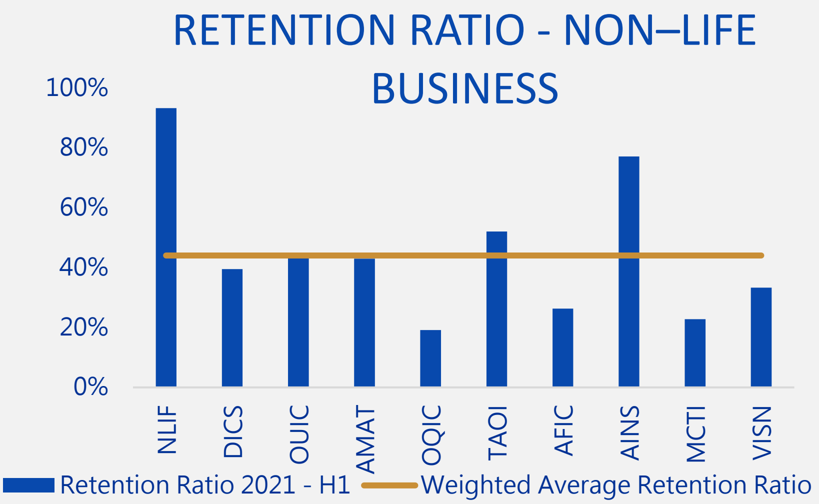
For AINS, segmental information was not available and thus all amounts have been allotted to Non-Life insurance business only. Change in business composition is significant for OQIC. There has been an increase of RO 4.5 million in their Non-Life business while Life business has declined by RO 2.6M.

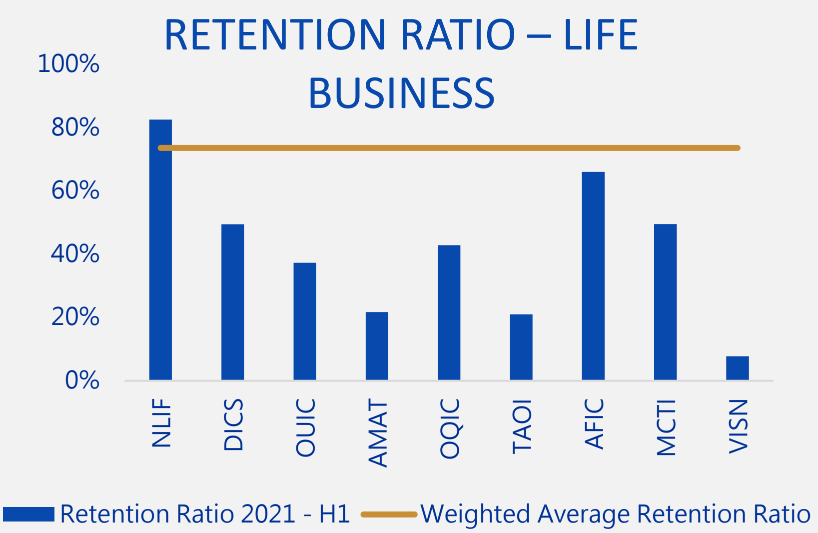
The Non-Life segment has exhibited a 5% increase whereas the life segment declined by 2% when compared to 2020-H1, resulting in an overall increase of 2% in gross written business of Oman Insurance Industry.

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

Retention Ratio







The retention ratios have been calculated as a ratio of net written premiums to gross written premiums. The graphs are sorted in descending order of total gross written premium.

The weighted average retention ratio for the companies in the Sultanate in 2020-H1 stood at 60% and has declined to 57% in 2021-H1 with NLIF reflecting highest retention of 84% 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 44% for 2021-H1 in contrast with Life business retention ratio which is computed as 74%.

Due to the limited information available for Life and Non-life segments of VISN, the retention ratios have been calculated using net earned premium instead of net written premium.

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 decline of 32%, where the total profit amounted to RO 17 Million for 2021-H1 (2020-H1: RO 25 Million). If NLIF is excluded from this analysis, the profit decline drops to -9% (from -32%) for 2021-H1.

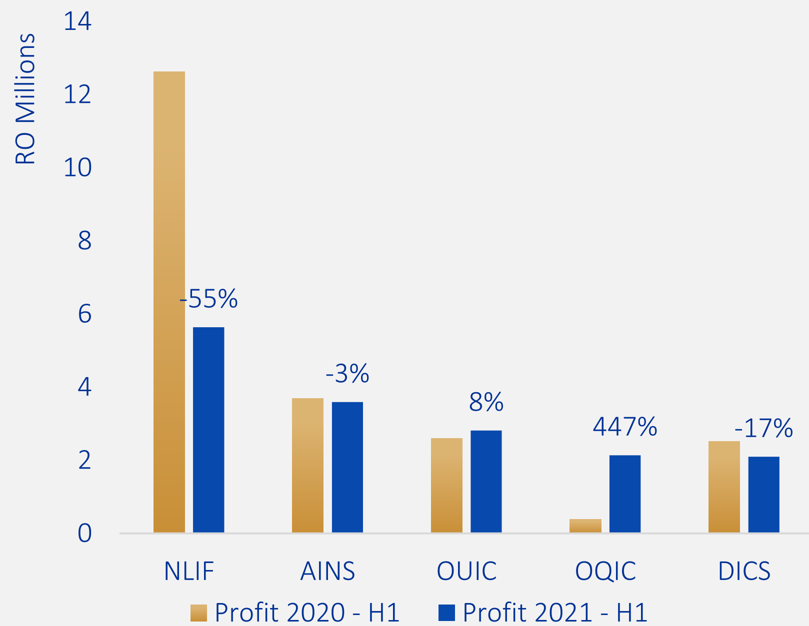
NLIF booked the highest profit amounting to RO 5.6 Million. However, this is a decrease of 55% from 2020-H1 (RO 12.6 Million). NLIF makes up 32% of the total profit of the companies in the Sultanate for 2021-H1. It should also be noted that profits from business within Oman amount to RO 7.3 Million (130% of their profits) while their overseas businesses have made a loss of RO 1.7 Million. The drop in profits in NLIF is significant and attributed to losses in overseas business.

The highest profit growth was recorded by MCTI of about 688% while the largest decline of 342% for the period was recorded by TAOI.

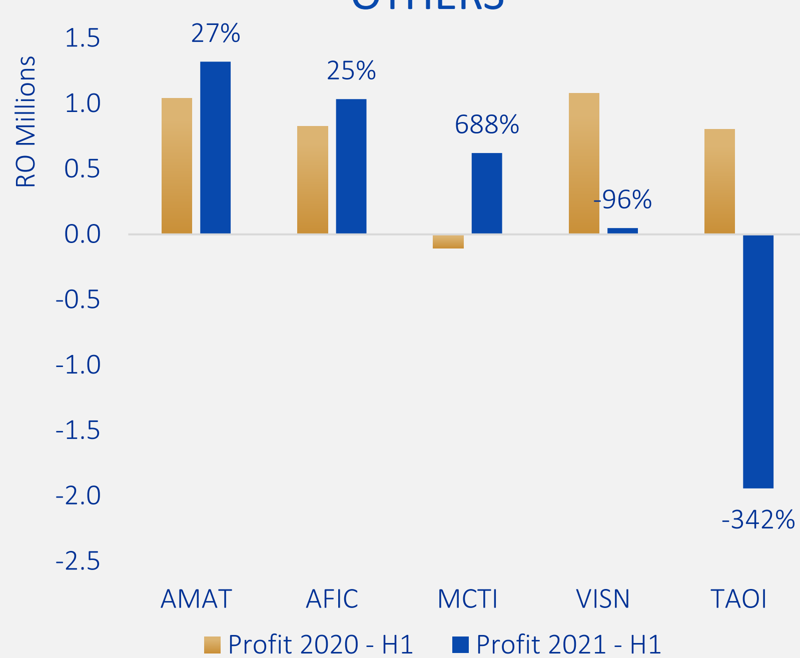
MCTI has managed to record a profit in 2021-H1 after incurring losses since year-end 2019 up to 2020-H1 as shown in our past performance analysis reports.

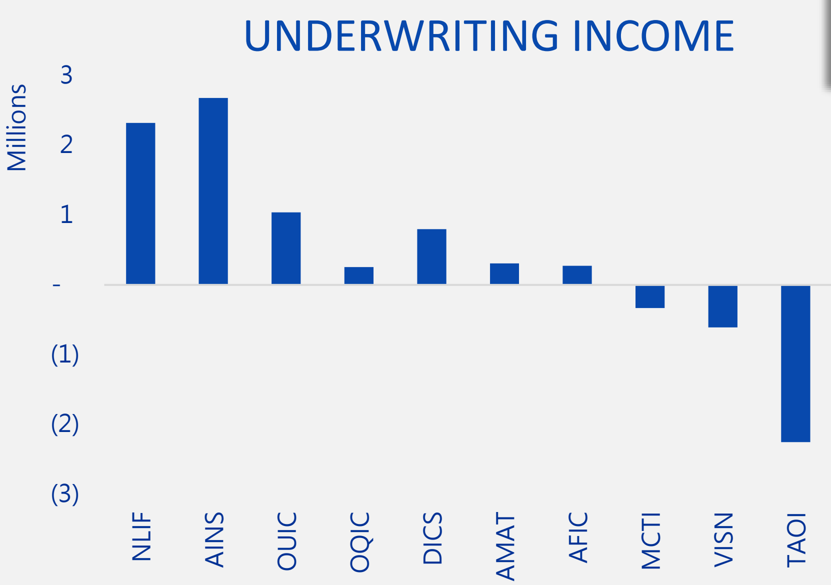
For Takaful companies, net profits before tax on policyholder and shareholder accounts are consolidated for comparative purpose.

TOP 5 COMPANIES BY PROFIT



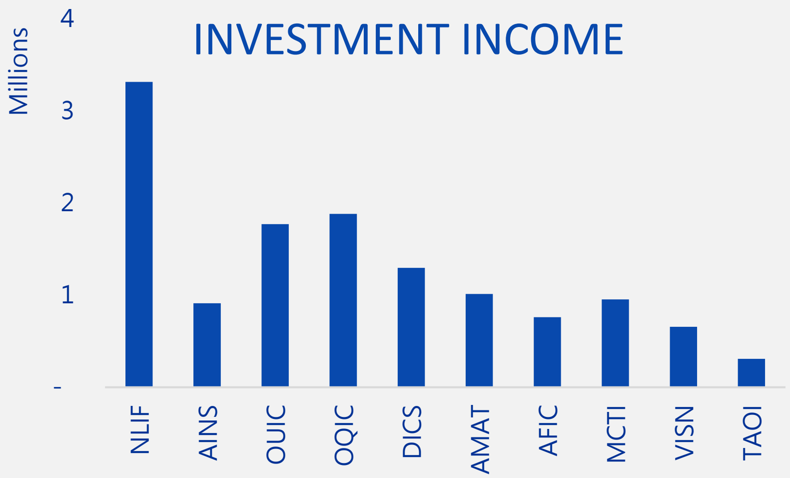
OTHERS



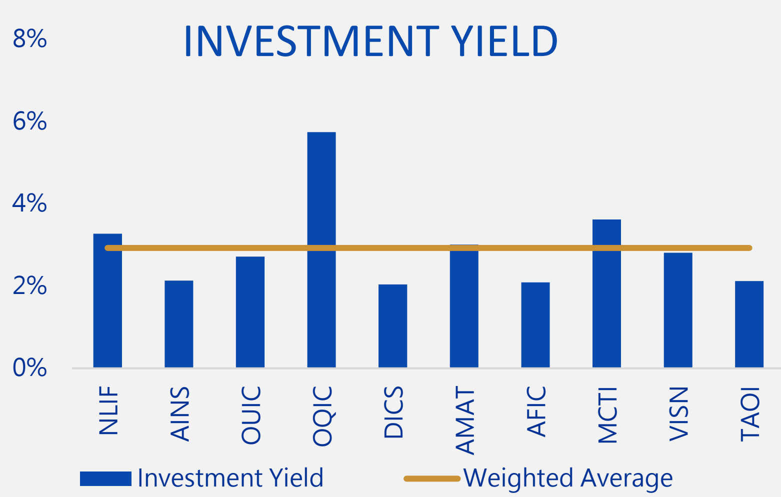


Profit Before Tax

All listed companies, except MCTI, VISN and TAOI, have recorded profits from their underwriting activities. As demonstrated by the first graph, NLIF recorded the highest underwriting profits; however, nearly half (48%) of their business is overseas which generated a loss of RO 1.7 Million. Moreover, underwriting income for most companies has reduced since 2020-H1.



The second graph demonstrates the investment income earned by each of the companies over the periods. Similar to underwriting income, NLIF has recorded the highest investment income as well. It should again be noted that not all of the income is generated within Oman. Since 2020-H1, the investment income for several companies has gone up; there has been an overall increase of 91% which is indicative of the economy recovering from COVID.



Lastly, we have depicted investment yield, calculated by dividing the investment income from 2021-H1 by the average of opening and closing invested assets of the period. The highest investment yield is exhibited by OQIC.

The graphs are sorted in descending order of 2021-H1 Profit.

Profit Before Tax

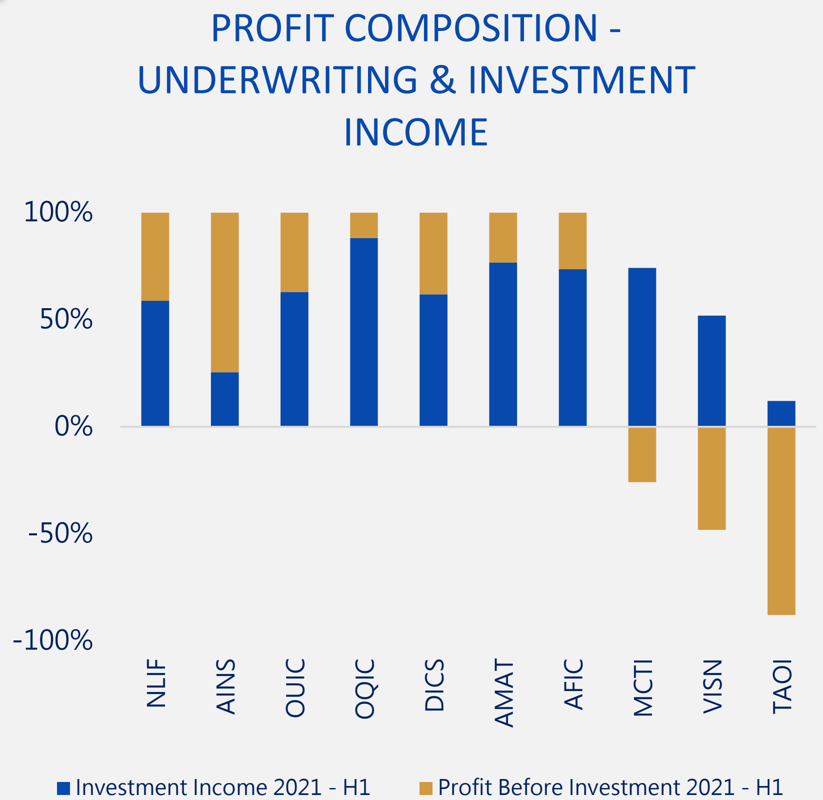
In this analysis, profit before tax comprises of underwriting income and investment income.

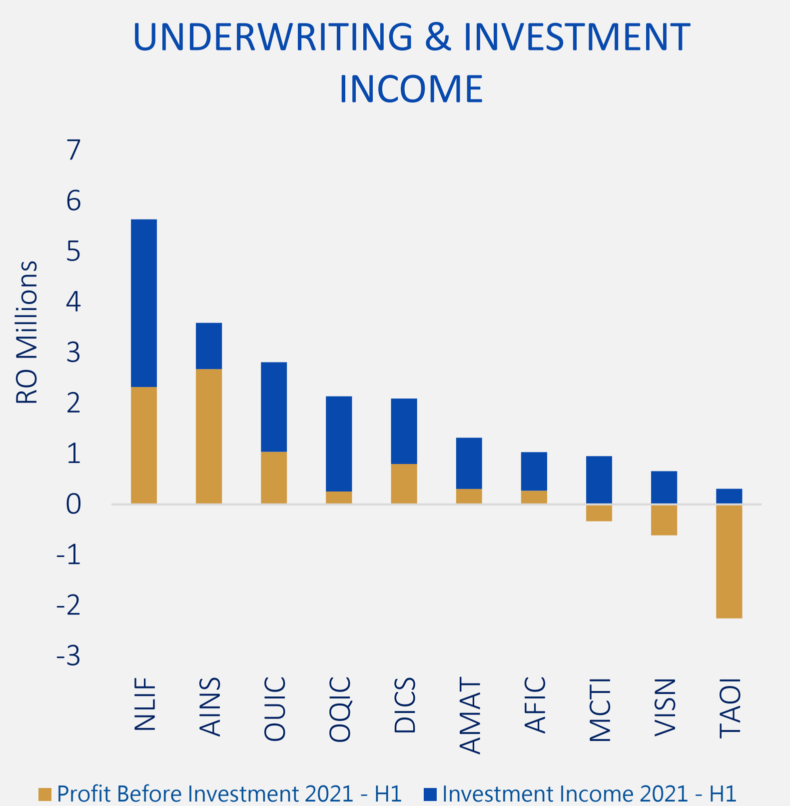
For most of the listed Companies operating in Oman, Investment Income has contributed to generating profits.

TAOI recorded a loss on underwriting activities. Although they recorded investment income, it was not sufficient to offset the loss.

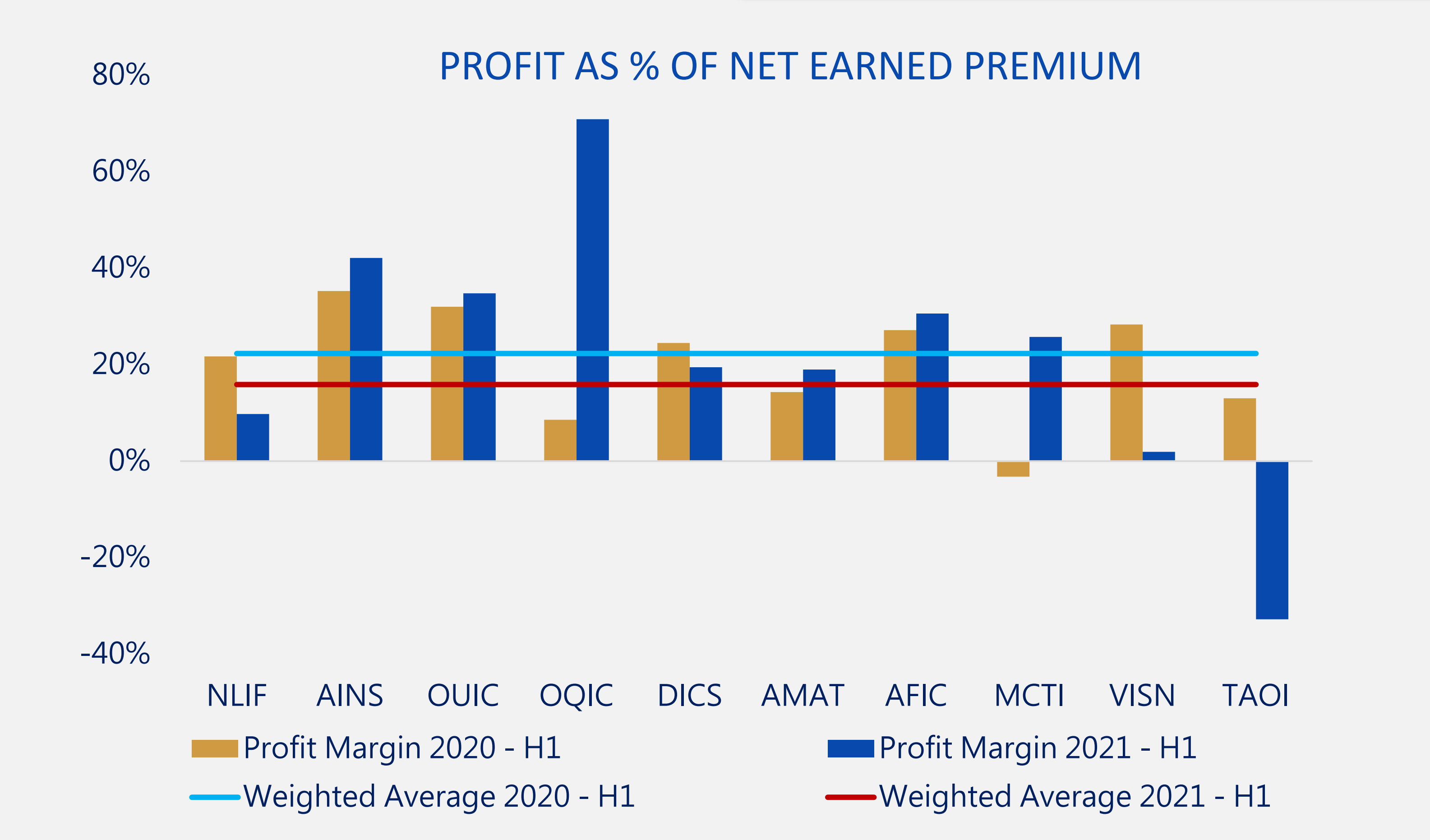
Overall, three companies have investment income which is higher than the profit before tax. This shows the importance of investment income in the industry when the primary profit source of insurance companies is expected to be from underwriting.

The analysis presented here is sorted by 2021-H1 Profit.





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 the first half of 2021.

The Profit Margin of the Oman Insurance Industry stands at around 16% for 2021-H1 (2020-H1: 22%).

As depicted, OQIC has the highest profit margin, followed by AINS. TAOI has the lowest profit margin of -33% which is driven by a deficit of RO 2.6 million in their participants' fund.

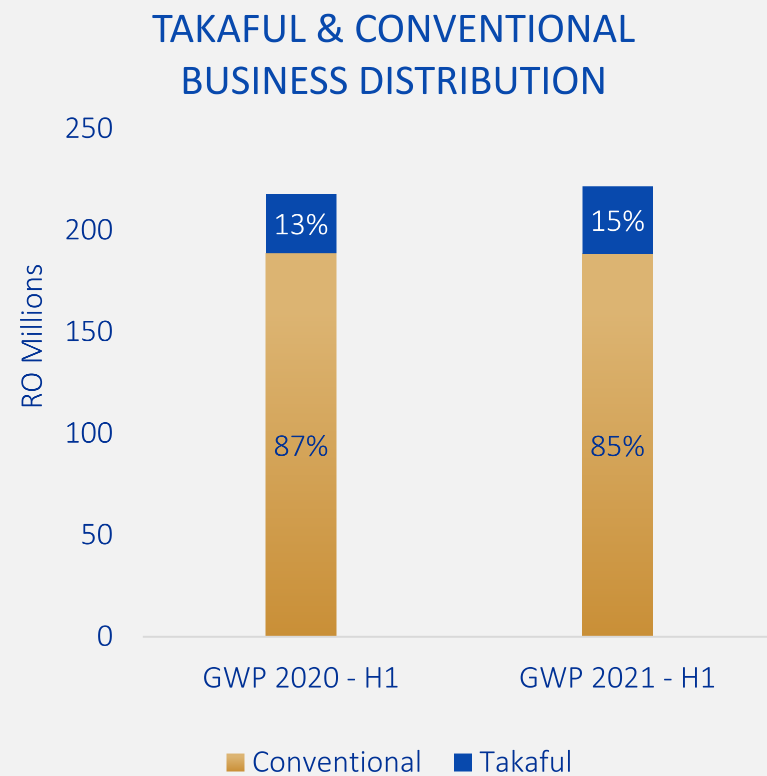
The above analysis is sorted in decreasing order of 2021-H1 Profit.

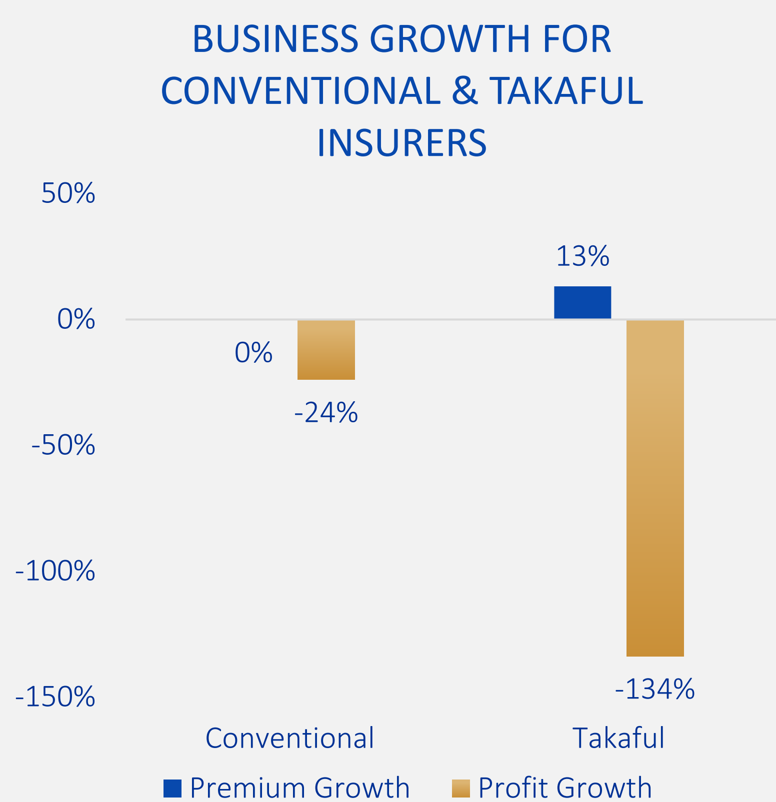
Conventional Vs Takaful

In the Sultanate of Oman, out of 10 listed insurance companies, only 2 operate as Takaful Insurers (TAOI & AMAT), contributing 15% of the total written business in 2021-H1 which is a 2% increase from 2020-H1.

While there has been no significant change in premium, Conventional business has exhibited a 24% decline in profits. This is driven by NLIF recording a 55% decline in profits.

On the Takaful front, TAOI exhibited a significant decline in profit of 342% while AMAT showed a profit growth of 27%. On an overall level, the Takaful business exhibited a decline of 134% in profits.





Premiums and Profit Analysis

A summary of premium and profitability growth in 2021-H1 from 2020-H1 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	5	
OUIC	3	3	
AMAT	4	6	
OQIC	5	4	
TAOI	6	10	
AFIC	7	7	
AINS	8	2	
MCTI	9	8	
VISN	10	9	

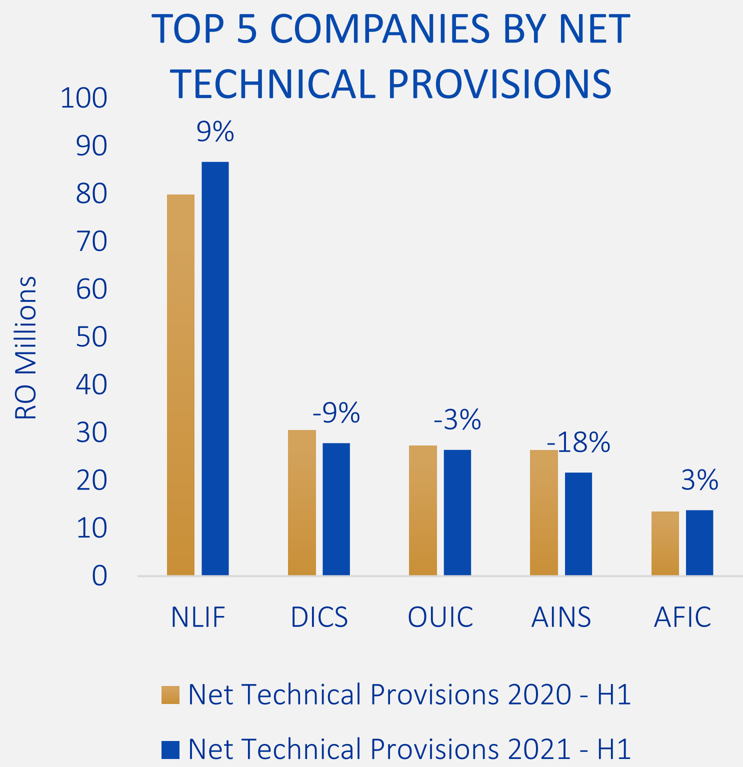
The chart above is sorted by Gross Premium and represents the company's movement based on their profitability.

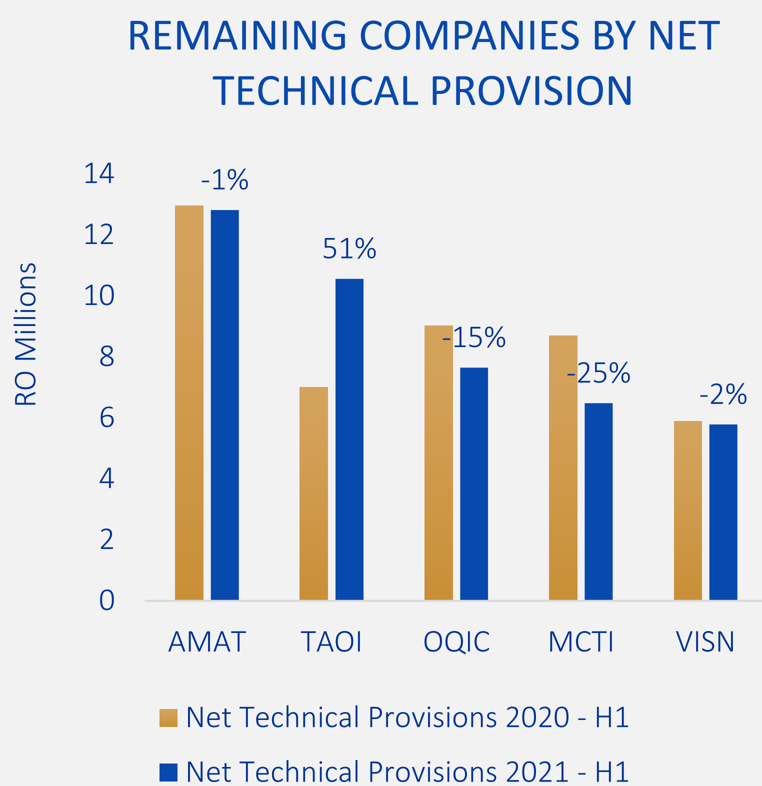
Net Technical Provisions

Total Net reserves dropped from RO 221 million as at end of June 2020 to RO 220 million as at end of June 2021 which is a decline of 0.6%.

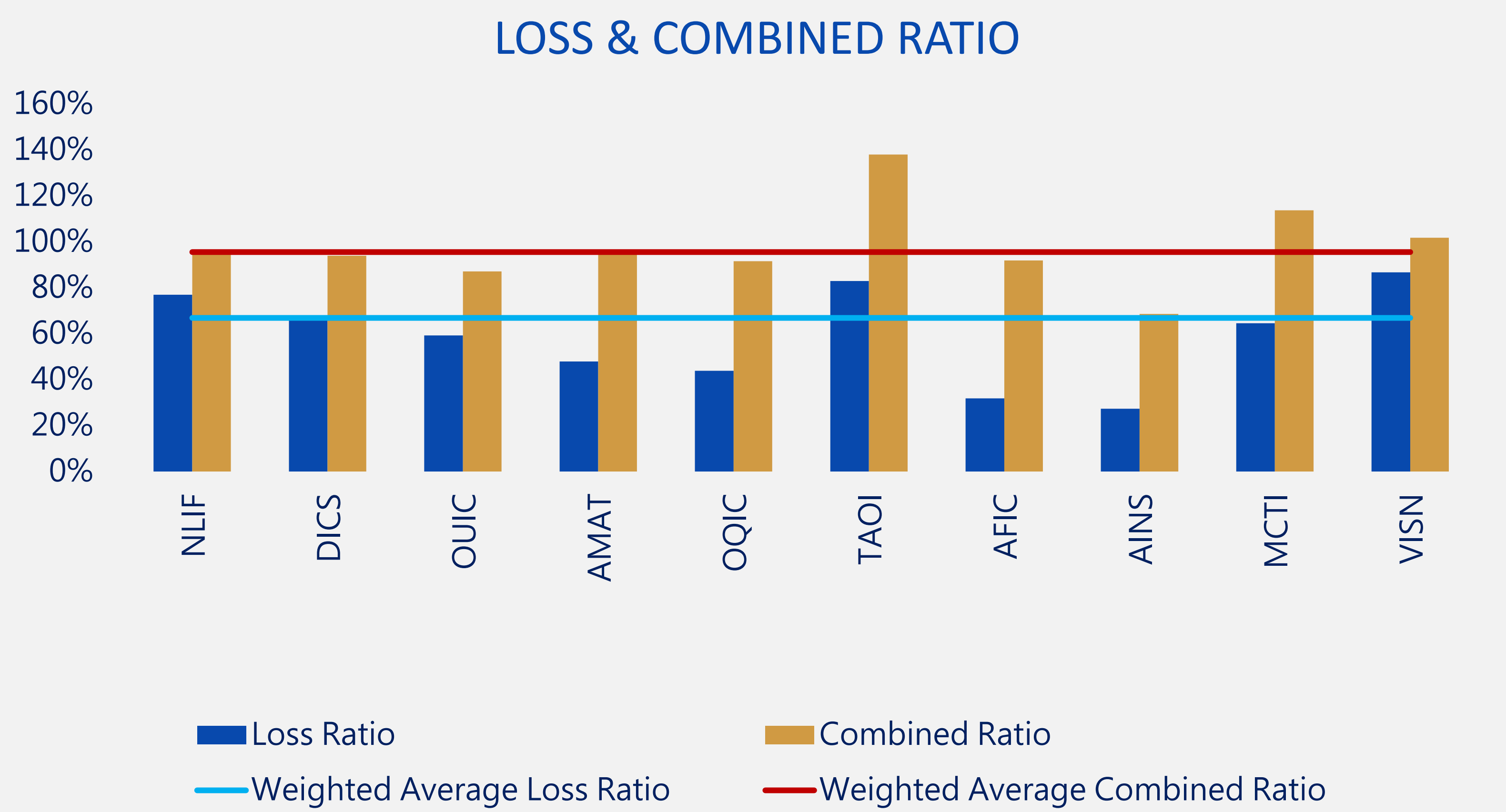
NLIF has the highest technical provisions as compared to the other companies, which is commensurate with the size and nature of its operations.

The highest growth in net technical provisions is for TAOI. The increase is driven by a substantial increase in IBNR. For the Family Takaful, the amount of claims outstanding has also gone up quite significantly.





Combined Ratio Analysis



The weighted average loss of the insurance companies in the Sultanate of Oman is computed to be 67% (2020-H1: 58%) with VISN bearing the highest loss ratio of 87% and AINS bearing the lowest loss ratio of 27%.

A company is deemed to be profitable from an underwriting perspective if the combined ratio is below 100%. The weighted average combined ratio of listed companies in the Sultanate works out to be 96% (2020-H1: 84%) with TAOI bearing the highest combined ratio of 138%, whereas the lowest combined ratio of about 69% is depicted by AINS.

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

Combined Ratio is calculated as ratio of Net Incurred Claims along with G&A Expenses, Net Commissions and Other Expenses over Net Earned Premiums.

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

The analysis is sorted on the basis of gross written premium for 2021-H1.

Segment-wise Loss Ratio

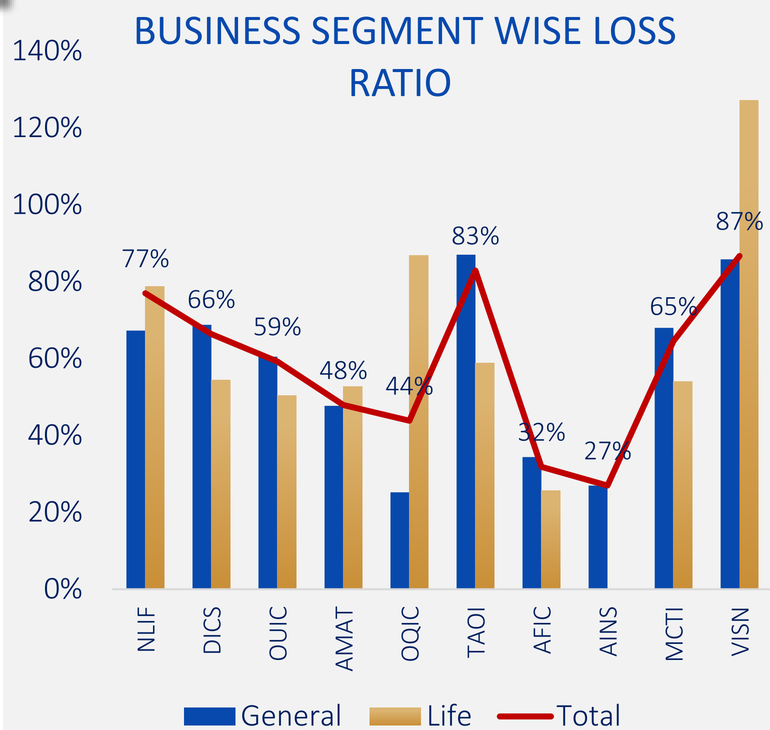
Since the Life and Non-Life business segment wise information was available, Loss Ratio analysis on the breakup is also presented. However, for AINS, segmented information was not available, hence all the information is allotted to General business.

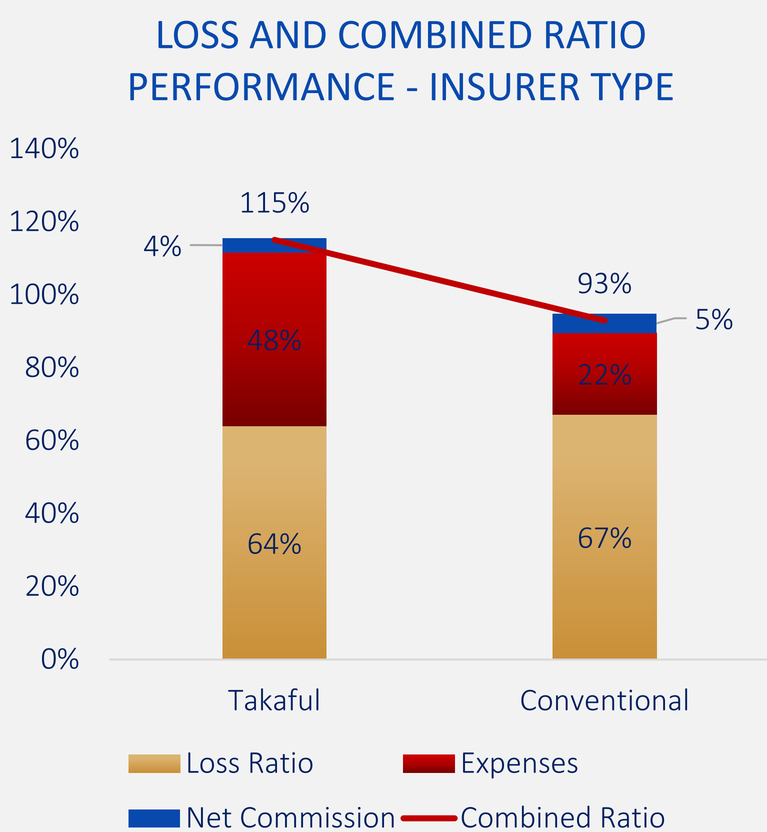
Due to limited availability of information, the graph shows reported net loss ratios for Life and Non-life segments.

The weighted average loss ratio for Life business in 2021-H1 worked out to be 76% (2020-H1: 65%) whereas Non-Life business had a weighted average of 58% in 2021-H1 (2020-H1: 50%). There seems to be an upward trend in loss ratios for both Life and Non-Life business however, this could be because loss ratios in 2020-H1 were exceptionally low owing to the effects of the pandemic.

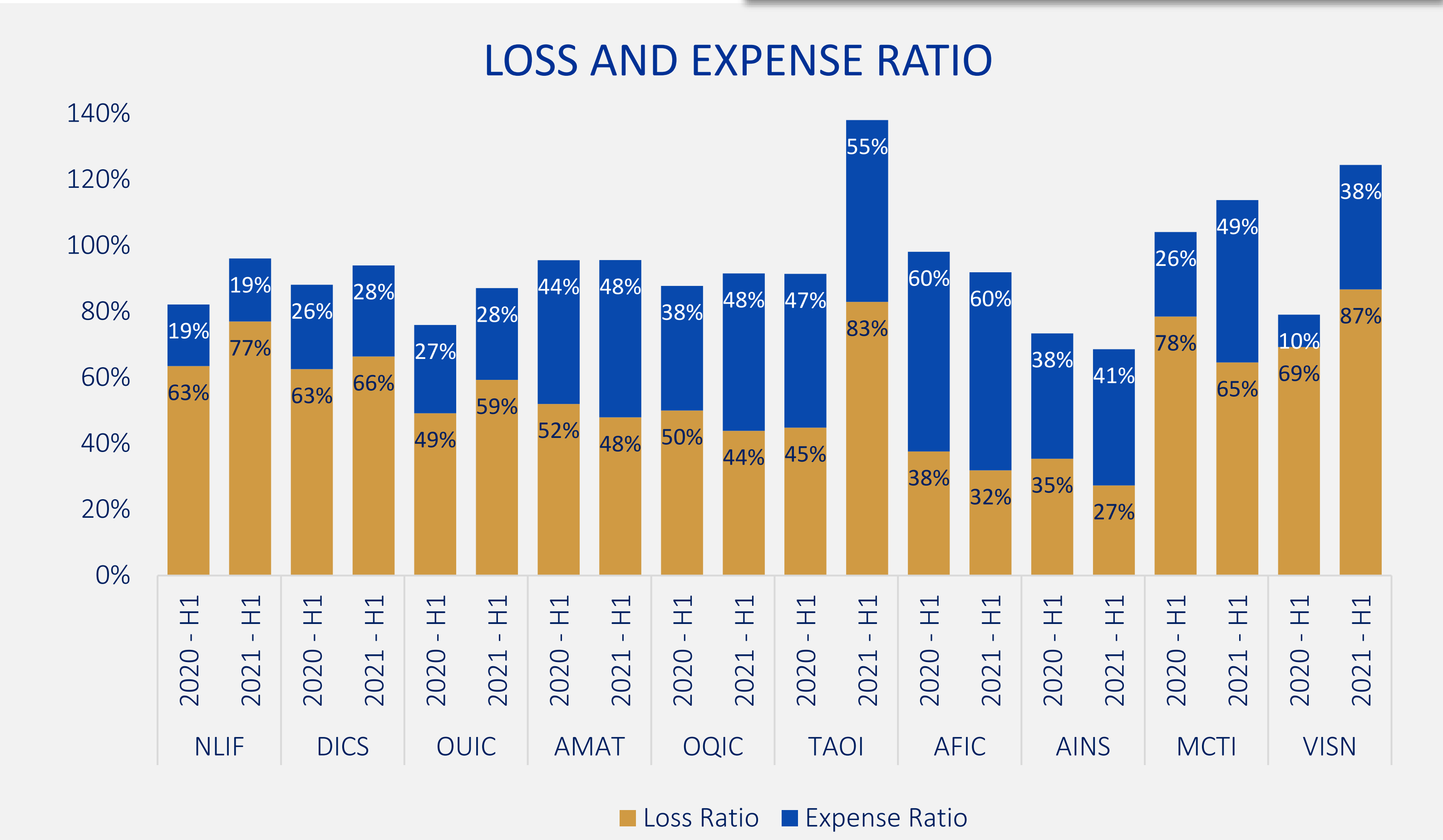
The weighted average loss ratios and commission ratios for takaful insurers are marginally lower than those of their conventional insurance counterparts. But due to significantly higher expense ratios exhibited by the takaful operators, the overall combined ratio for takaful companies works out to be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

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





Loss and Expense Ratio



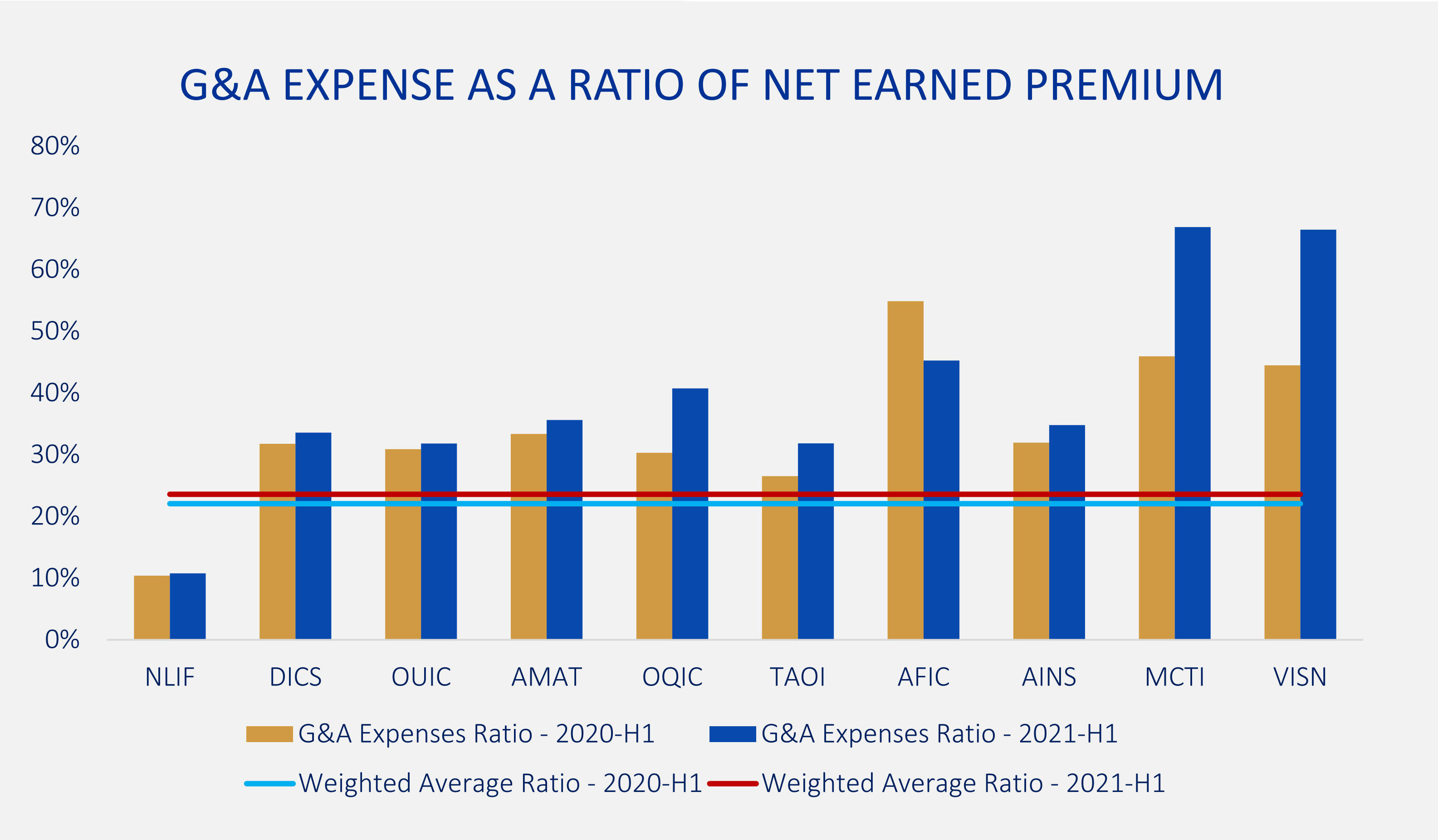
The above graph shows loss and expense ratios (inclusive of commissions). The expense ratios for AFIC, AINS, and OQIC in 2021-H1 are higher than their respective loss ratios. The highest expense ratio is exhibited by AFIC, so while their loss ratio is one of the lowest, the high expense ratio has pushed the combined ratio to 92%. Similarly, TAOI with an expense ratio of 55% is observed to have the highest combined ratio of 138% which is significantly higher than the industry average of 96%. NLIF recorded the lowest expense ratio in the industry at 19% owing to its large premium volume.

The most notable movement in loss and expense ratio has been for TAOI where the loss ratio has gone up from 45% to 83% and expense ratio has gone from 47% to 55%. TAOI has exhibited significant growth in business volume in 2021-H1 and the increase in expense ratio can be attributed to this growth. The increase in loss ratio is arising from the Non-Life segment.

Expense ratios are calculated as a ratio of G&A Expenses, Net Commissions and Other Expenses to Net Earned Premiums.

The above graph is sorted with respect to gross written for 2021-H1 premium in descending order.

Expense Ratio



Considering G&A Expense as a proportion of Net Earned Premiums, MCTI bears the highest expense ratio of 67% followed by VISN having expense ratios of 66%. The remaining Companies all have G&A Expense ratios at or below 45%.

NLIF recorded the lowest expense ratio in the industry at 11% owing to its large premium volume. Larger companies generally tend to have lower expense ratios, as they have sufficient business to absorb the fixed cost base as is evidenced by the above.

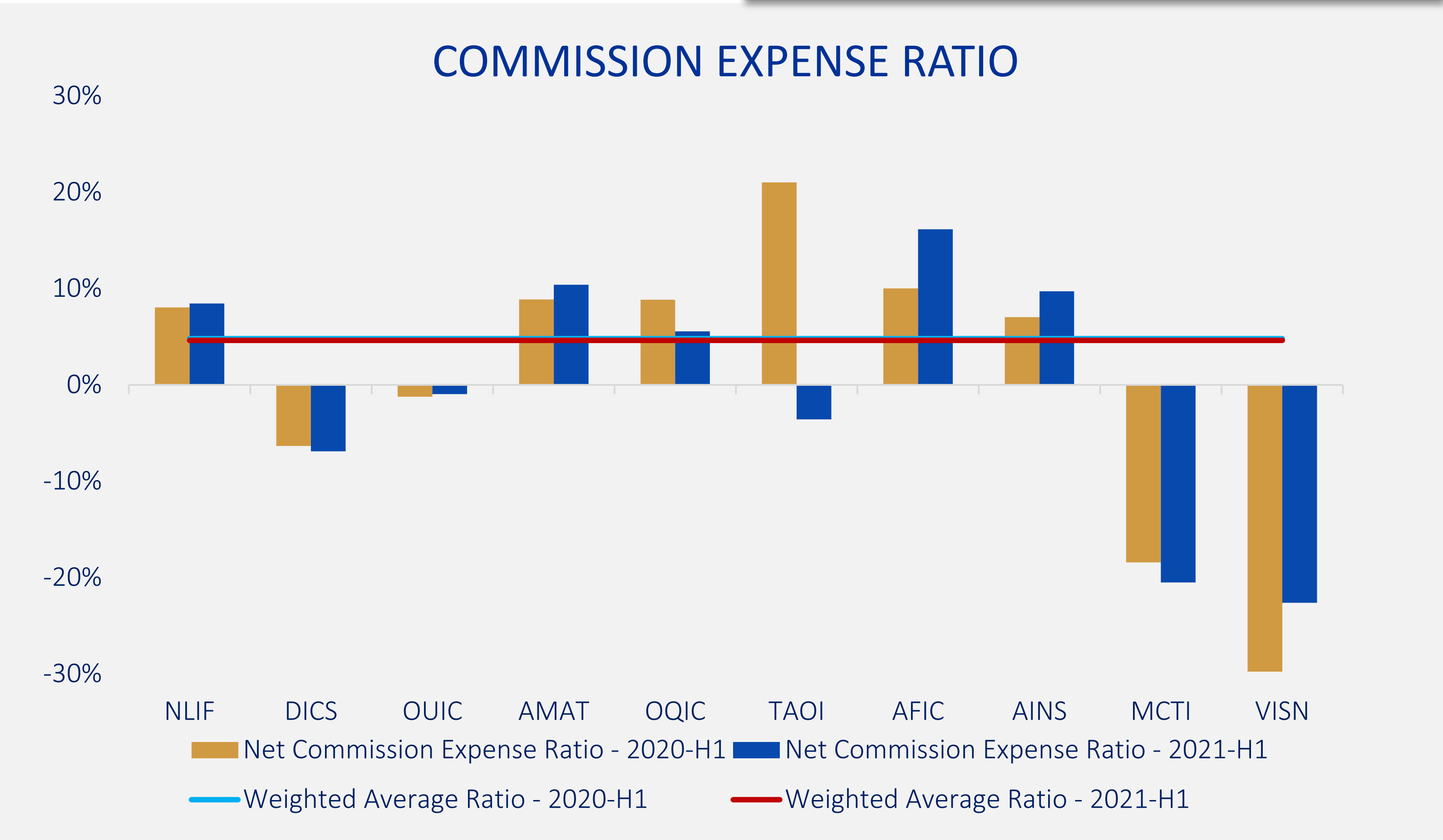
The weighted average G&A expense ratio as a proportion of net earned premium for the listed Insurance companies stands at 24% (2020-H1: 22%).

The expense ratio is worked out as:

Expense Ratio = General and Administrative Expense as a percentage of Net Earned Premium.

The above graph is sorted with respect to gross written premium for 2021-H1 in descending order.

Expense Ratio



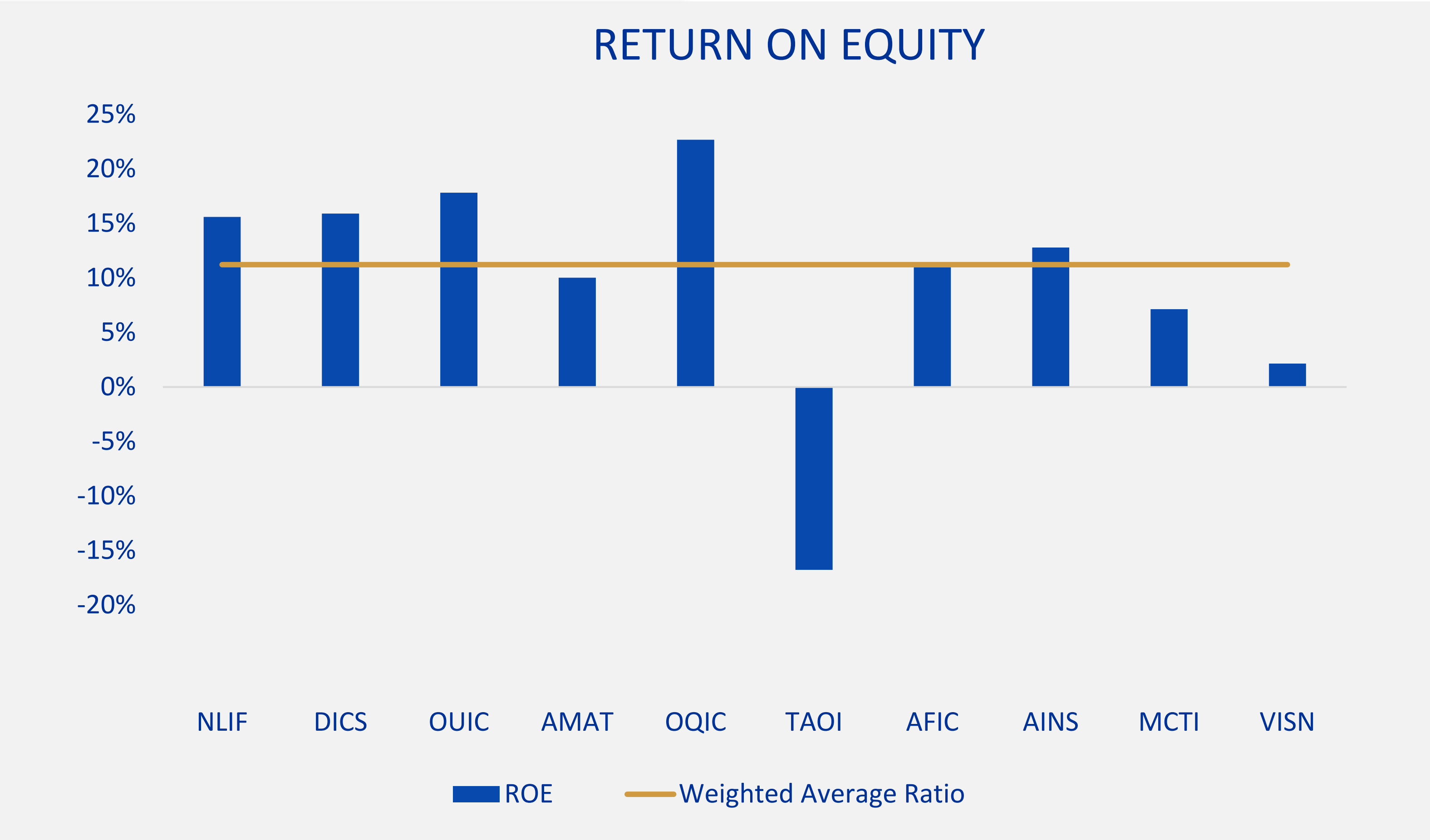
The highest commission expense ratio recorded for the period 2021-H1 is for AFIC at 16% while VISN experienced the lowest ratio of -23%. The average net commission ratio for the Omani Insurance Industry stood at 5% which is consistent from 2020-H1. The commission expense considered is the net commission (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 a 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 affecting their solvency position.

Commission Ratios = Net Commissions as a percentage Net Earned Premium.

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

Return on Equity



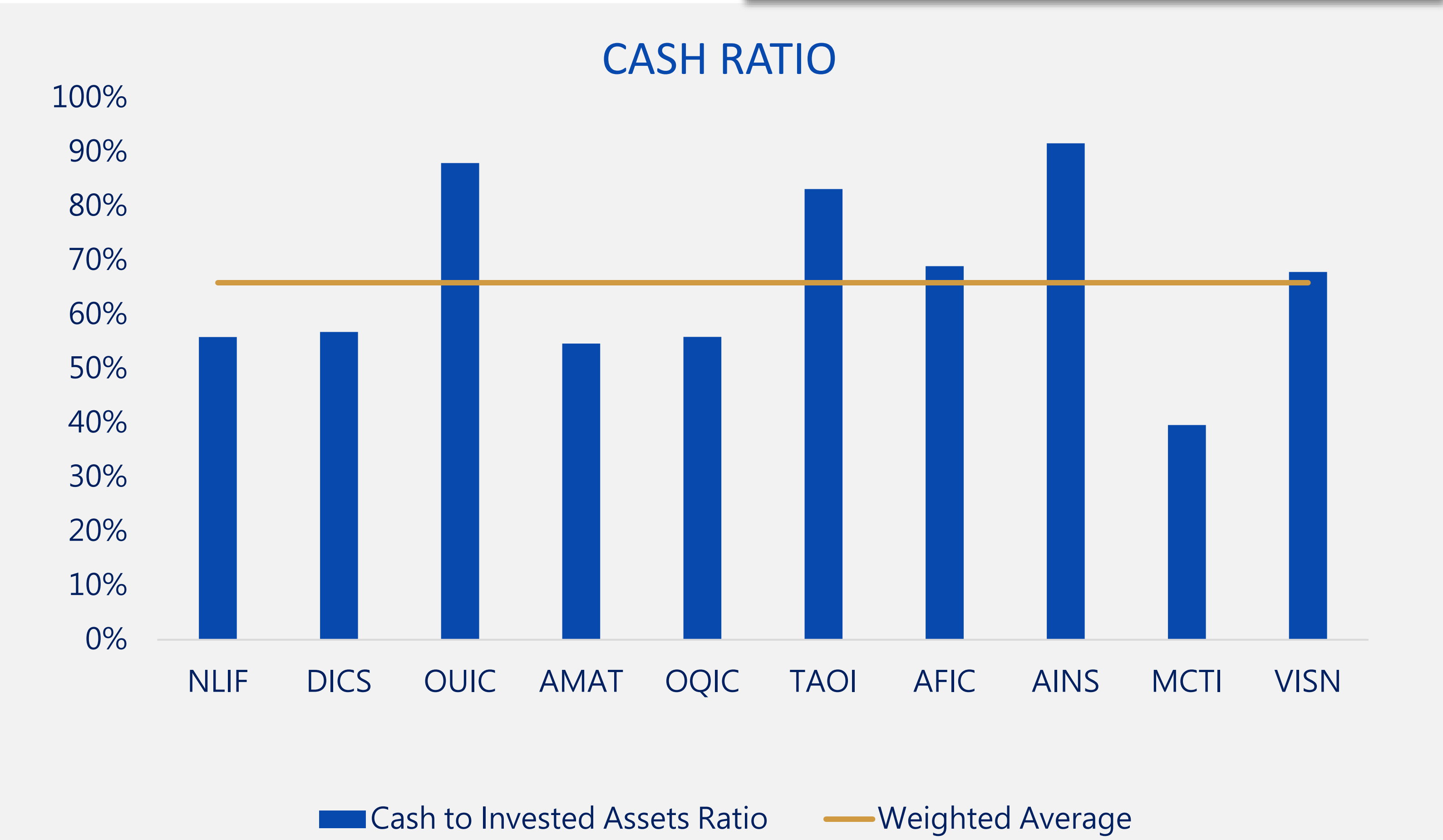
The weighted average Return on Equity (ROE) for the Insurance companies in Oman recorded to be 11% (2020-H1: 15%). This decline can be attributed to the substantial decline in profits.

OQIC has the highest return on equity of about 23% whereas TAOI has recorded the lowest return of -17%.

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 2021.

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

Cash To Invested Assets



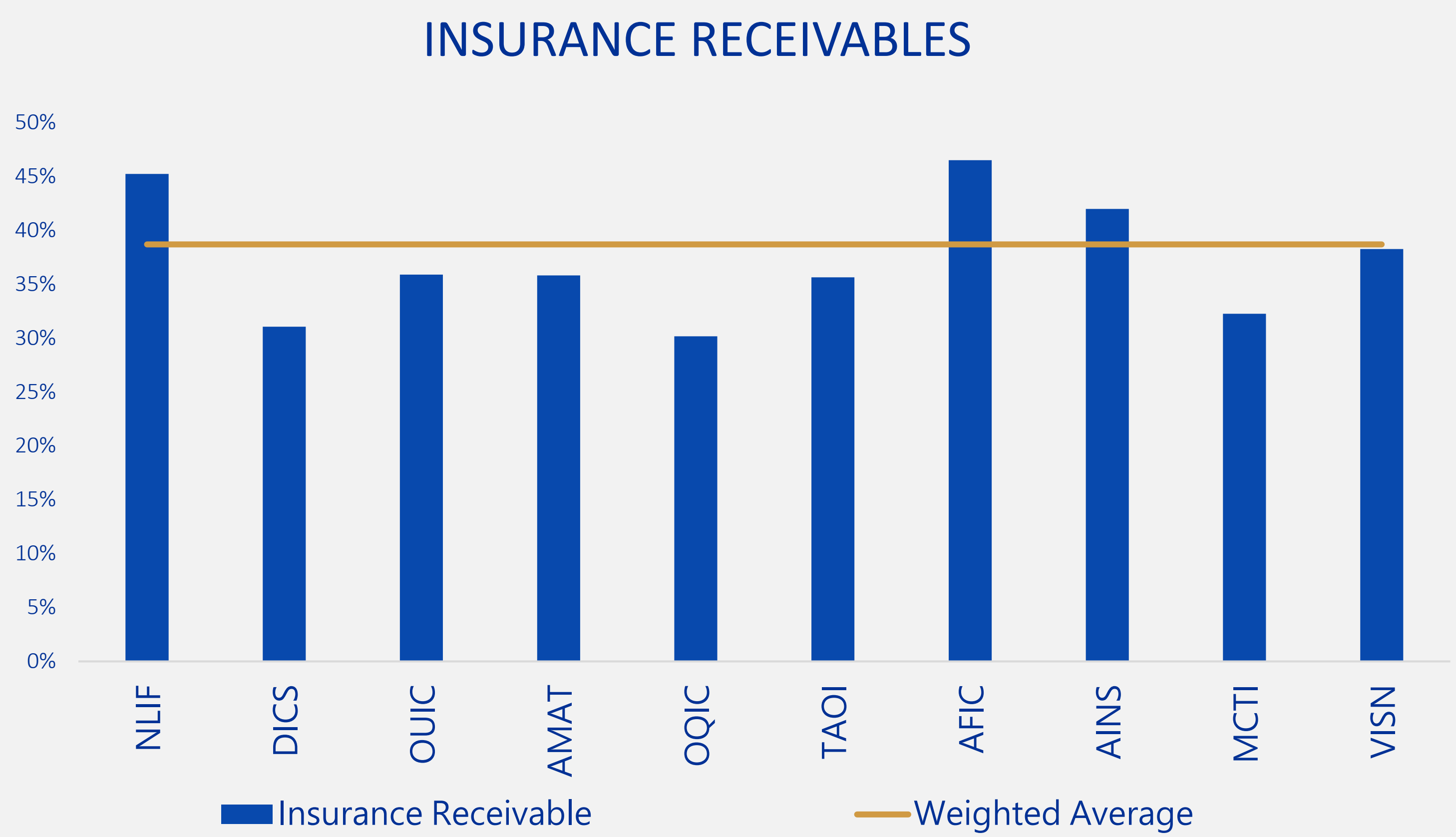
The Cash ratio of the industry works out to 66% (2020-H1: 65%). AINS has the highest level of 92% maintained as Cash, while MCTI has the lowest ratio of 40%.

The Cash Ratio indicates very high liquidity for the market overall. Since majority of the business for all companies except NLIF is concentrated in short-tailed Non-life segment, the high liquidity is to be expected.

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

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

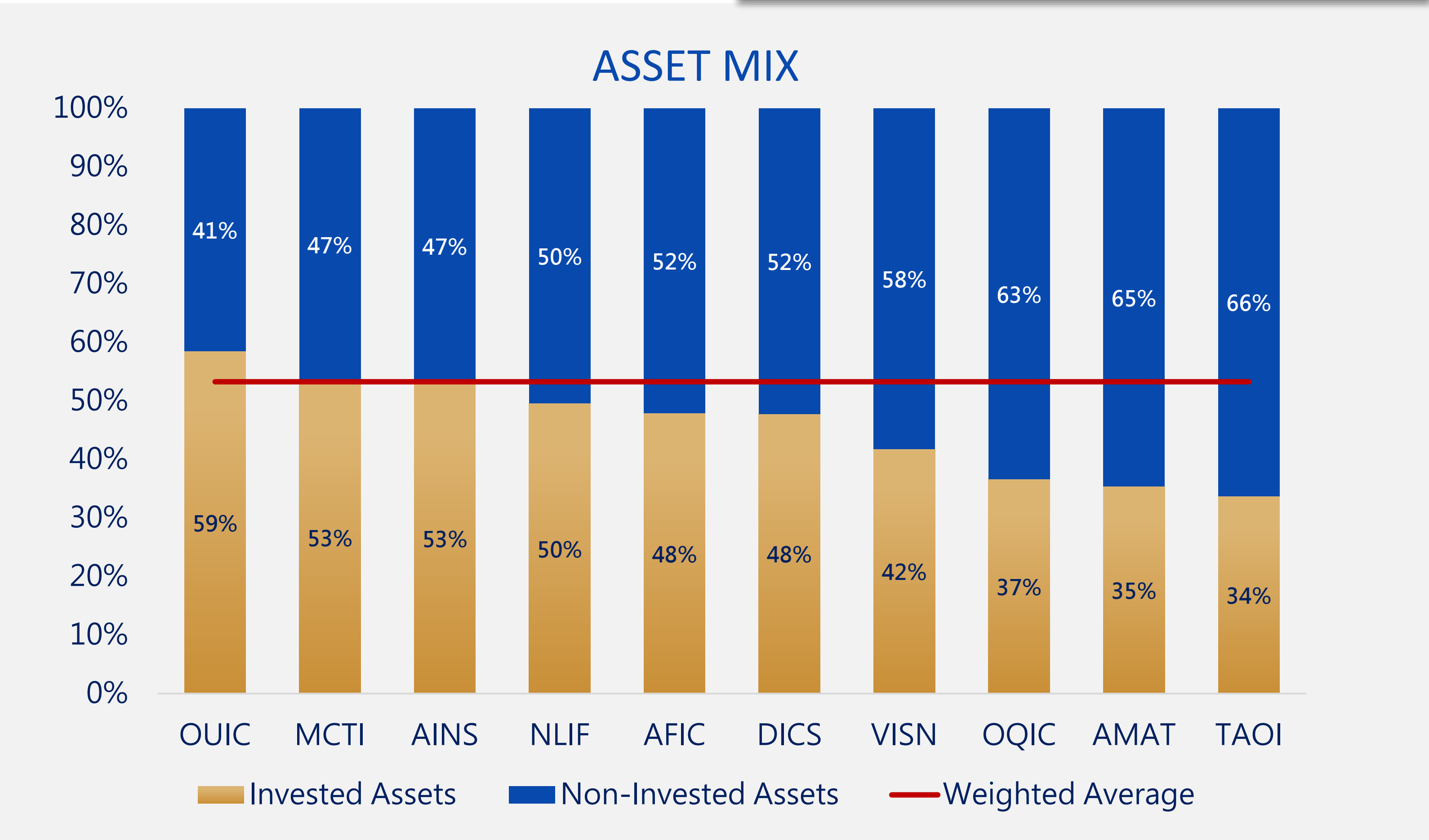
Insurance Receivables



The insurance receivables are computed as a ratio of Insurance receivables of the company to gross written premium recorded over the last 12 months. The analysis presented above is sorted by decreasing gross written premium.

AFIC has the highest receivable ratio of about 46%, while OQIC recorded the lowest ratio of 30%. The weighted average insurance receivables ratio for the Omani industry stands at 39% as at June 30, 2021 which is a slight decline from 41% as at June 30, 2020.

Asset Mix



The Asset Mix compares the proportion of invested assets and non invested assets (such as insurance & reinsurance receivables) of the companies in Oman insurance industry as at June 30, 2021. OUIC has the highest proportion (59%) of invested assets, followed by MCTI and AINS, both having 53% of assets invested. Whereas TAOI has the lowest proportion (34%) of assets invested. The weighted average of invested assets to non invested assets has been computed as 53% (2020-H1: 45%). The industry average is driven by NLIF and OUIC which have the highest amount of overall assets. It should be noted that majority of the companies have invested assets below the weighted average.

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

Total Comprehensive Income

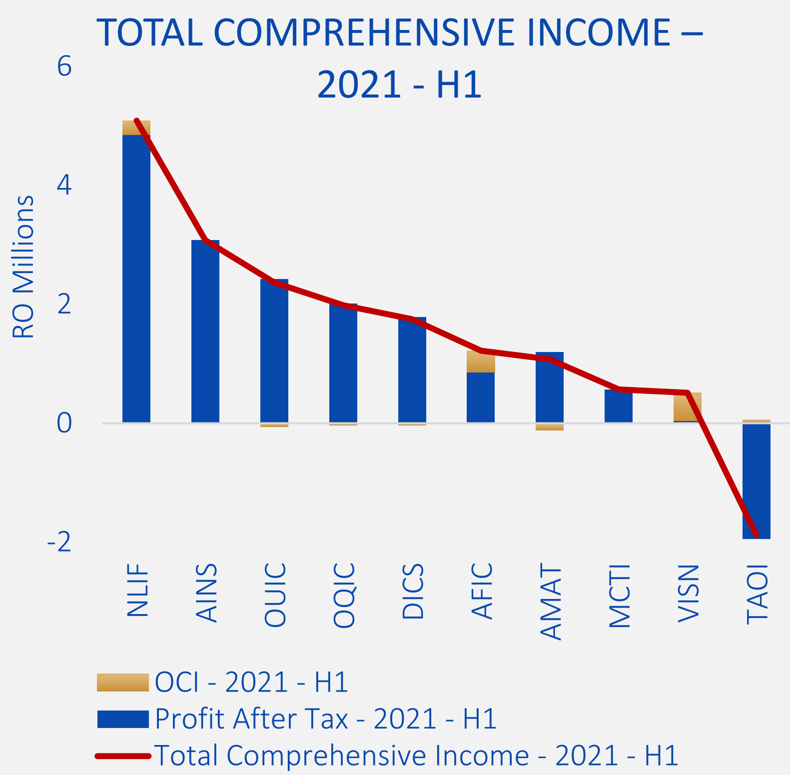
The profit & loss accounts or Other Comprehensive Income statements of the Companies in 2020-H1 were reflective of the declining Stock Exchange trend that was observed during the outbreak of COVID-19; the situation has started to recover post pandemic.

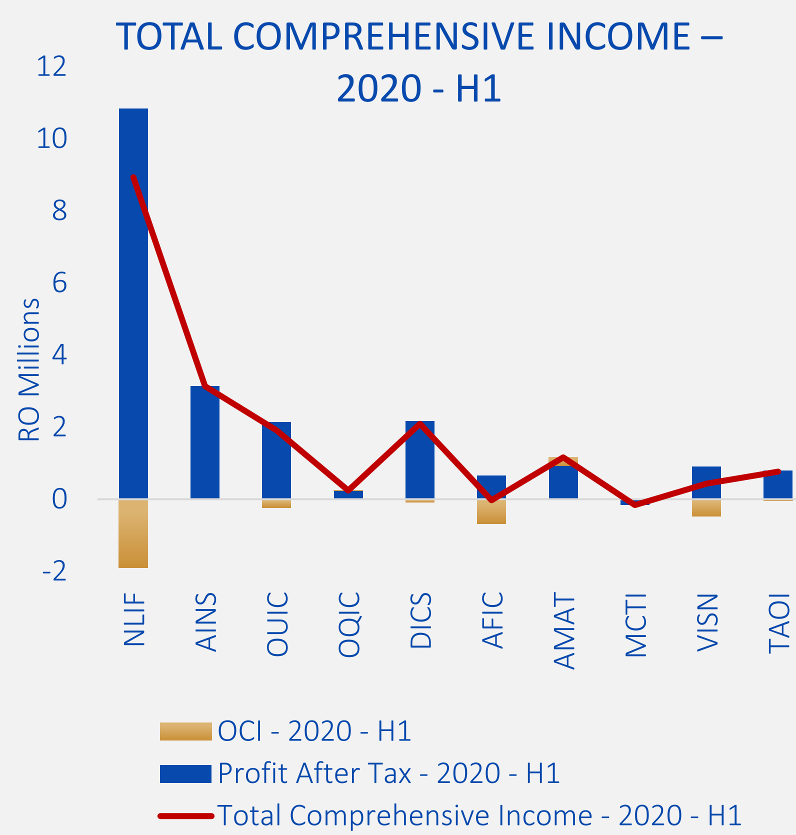
The Total Comprehensive Income (Profit after Tax plus Other Comprehensive Income) for the period 2021-H1 has exhibited a decline of 15%. This is primarily because in 2020-H1, NLIF exhibited exceptional growth in profits after tax which has not been sustained. It should be noted that most companies have shown improvement in their Other comprehensive income in 2021-H1 when compared with 2020-H1. In fact, the growth percentage of Total Comprehensive Income rises to 12% (from -15%) if NLIF is excluded from the calculation.

In 2021-H1, TAOI is the only company having negative Total Comprehensive Income which is driven down by their Profit after Tax.

Only 8 (out of 10) companies segregated their OCI in their financial statements, 4 out of those 8 recorded losses in the fair value of their investments for 2021-H1. It is observed that OCI for companies on an aggregate level was previously negative and has since increased by 128% in the period 2021-H1 when compared 2020-H1.

The charts are sorted in descending order of 2021-H1 Total Comprehensive Income.





Conclusion

The total written premium for the listed insurance companies in Oman have observed a growth of 2% from RO 218 Million in 2020-H1 to RO 222 Million in 2021-H1. This is to be expected given that the insurance sector, along with other economic activities, in 2020 was severely impacted by the COVID-19 pandemic. Furthermore, the growth in overall premium can also be attributed to implementation of mandatory health insurance in mid 2020. Experts anticipate further growth driven by the latter and due to substantial infrastructure development supported by the government.

The average loss ratio for the listed companies analyzed in the report stood at 67% (previously, 58%) and average combined ratio was at 96% (previously, 84%). The average combined ratio for Takaful and Conventional insurers was evaluated to be 115% and 93% respectively, despite Takaful companies on average having lower loss ratios; their higher expense ratio pushed the combined ratio over 100%. Following the pandemic there is an increased focus towards digitization of distribution channels and claims processes. Going forward, this should enhance efficiency and improve expense ratios.

The profits recorded for the period 2021-H1 observed a decline of 32% when compared with the corresponding period of 2020; this is primarily due to the profits in 2020-H1 being exceptionally high which was a result of the lockdown leading to lower frequency of accidents. Total Profit by the listed insurance companies for the half year amounted to almost RO 17 Million compared to RO 25 Million recorded in the previous year. Furthermore, the profits of NLIF are nearly half of what they were in 2020-H1. The overall decline in profits drops to -9% (from -32%) if NLIF is excluded. Given the anticipated changes in the landscape of Oman's insurance industry, it is unclear what path the profits will take in the short-term. However, growth prospects look promising, and profits should stabilize in the long-run as the smaller players achieve economies of scale.

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 period 2021-H1. The data has been extracted from financial statements of those companies which were publicly listed.

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Due to availability of 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
Arab Falcon Insurance Company	AFIC
Dhofar Insurance	DICS
Muscat Insurance	MCTI
National Life & General Insurance	NLIF
Oman Insurance Company	OUIC
Oman Qatar Insurance Company	OQIC
Takaful Oman Insurance	TAOI
Vision Insurance Company	VISN

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About Our Team

UAE/Oman Actuarial 30 staff	KSA Actuarial 19 staff	Medical 5 staff	IFRS-17 5 staff
Business Intelligence 10 staff	End of Service 6 staff	HR Consulting 3 staff	Support Functions 11 staff

Total Strength
89

OUR FEEDBACK

Badri Management Consultancy is proud to present Oman's Insurance Industry Performance analysis 2021 H1. 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.

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