



BADRI

PERFORMANCE ANALYSIS OF UAE LISTED INSURANCE COMPANIES FOR NINE MONTHS ENDED SEPTEMBER 30, 2019

NOVEMBER 18, 2019



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

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.

CONTENTS

Look at The Previous Quarter	05
Industry at a Glance	06
Gross Written Premium	07
Conventional Vs Takaful	08
Net Earned Premium	09
Premiums & Profit Analysis	10
Retention Ratio	11
Profit (Before Tax) - Overview	12
Profit Before & After Investment Income - Overview	15
Premium Benchmarked on the Basis of Profitability	16
Net Technical Provisions	17
Net Reserves as Percentage of Net Written Premium	18
Loss Ratio and Combined Ratio Overview	20
Expense Ratio	21
Return on Equity	24
Cash to Invested Asset Ratio	25
Insurance Receivables	26
Conclusion	27
Summary	28
About Our Team	29



Look at the Previous Quarter



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-Q2 stood at 60% and 90% respectively.

The Insurance industry represents a total of 30 listed Companies for this report analysis.



Industry at a Glance



The total written premium of the Industry for the 2019-Q3 was estimated to be AED 18.8 billion which shows a growth of 10% from 2018-Q3.

Based on the premium estimations of the past five years, CAGR of the Industry from 2015-2019 is computed to be 8%.

The Insurance Industry has exhibited a slightly increasing trend in Loss and Combined ratios in the nine months of 2019, when compared with the corresponding period of 2018. The Loss and Combined Ratios for the market during 2019-Q3 stood at 61% and 92% respectively.

The analysis carried is for 30 listed Companies of the Industry in this report. AKIC is excluded from certain KPIs where it was acting as an outlier.

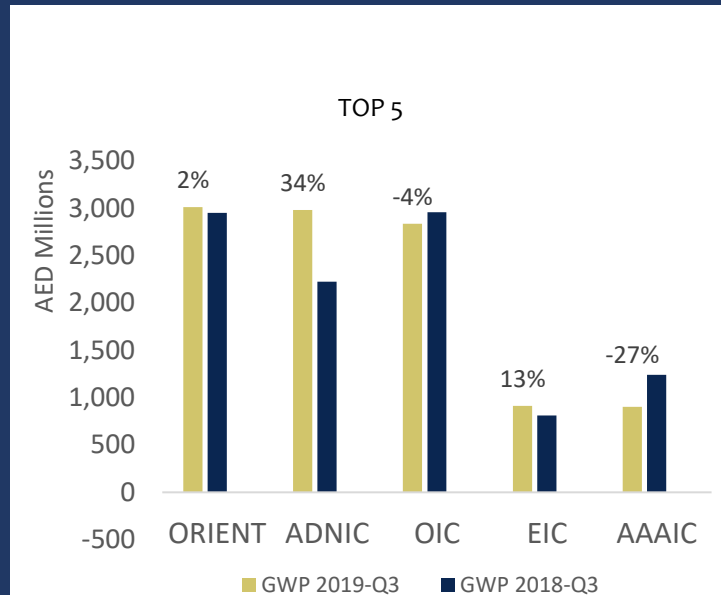


Gross Written Premium

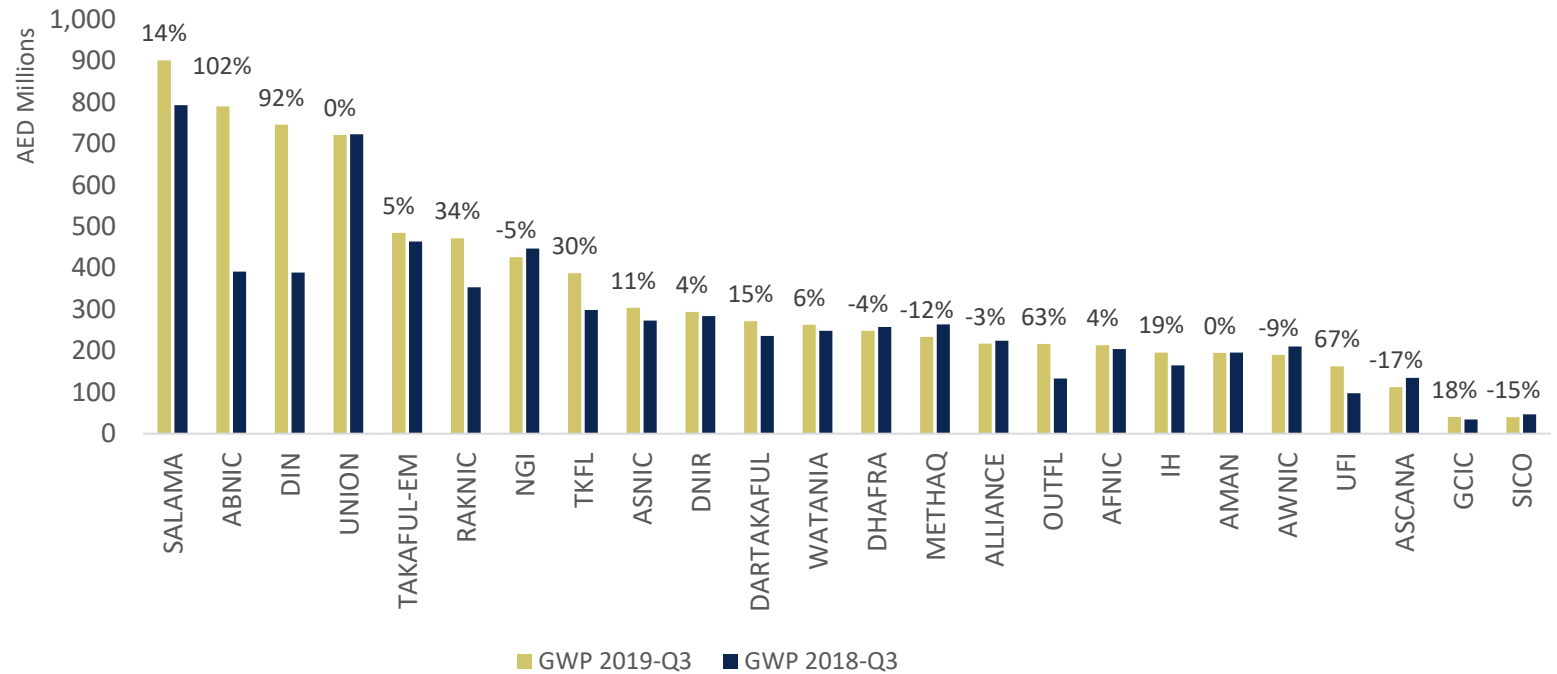
Total Gross premiums written by the insurance companies in 2019-Q3 stood at AED 18.8 billion an increase of 10% from AED 17.1 billion in 2018-Q3.

The written premium of top 5 companies amounted to AED 10.6 billion which makes up 57% of the market share for 2019-Q3.

ADNIC, ORIENT and OIC have maintained their position in the top ranks from half-year ended 2019 and year-ended 2018.



Others



The highest growth for the period 2019-Q3 was shown by ABNIC with 102% growth from the corresponding period of 2018. AKIC experienced the biggest decline in the written premiums from a business of AED 39 million in 2018-Q3 to AED 96 thousand. Excluding this outlier, the biggest decline is experienced by ASCANA, of 17%.

Overall, the listed companies have shown a sizable growth of 10% in written premiums in 2019-Q3; of the 30 companies considered, 18 companies displayed an increase in premiums over previous period, while 12 companies saw premiums decline.



Conventional Vs Takaful

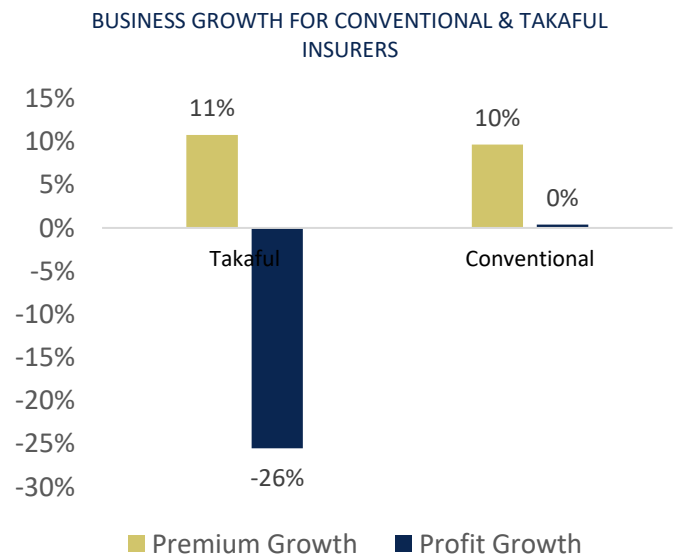
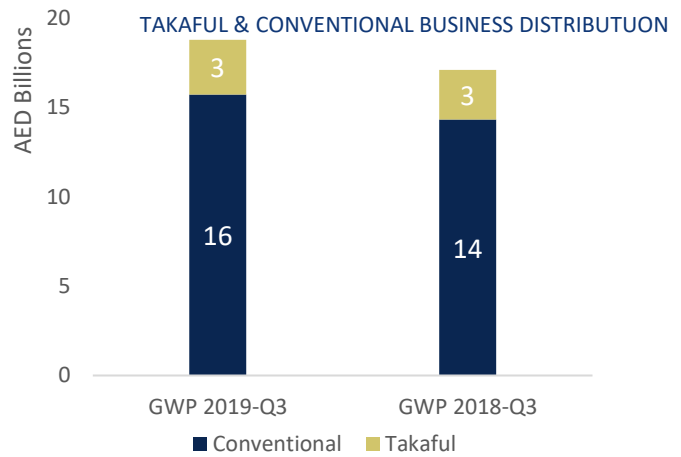
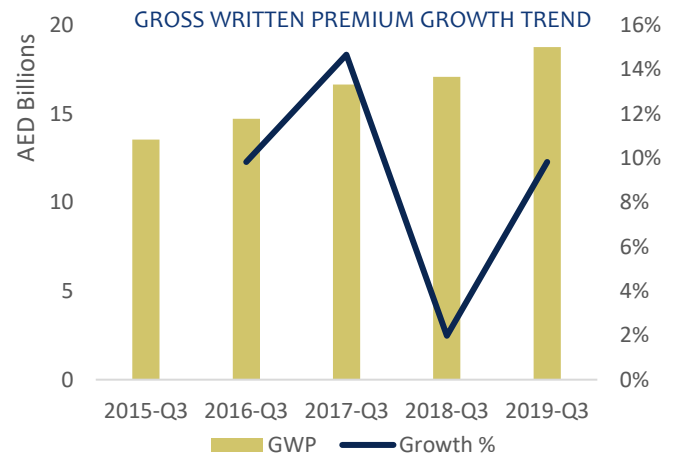
The 30 listed companies of insurance market of UAE have witnessed a significant growth of 10% compared from 2018-Q3.

The highest growth over the last five periods was witnessed in 2017-Q3 of 15% 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 in nine months of 2019 have remained similar to that of corresponding period of 2018.

Although the overall profits before tax have witnessed a decline, the listed takaful insurers saw a decline of 26% from 2018-Q3 and the conventional companies exhibited no significant changes in profits for the period.

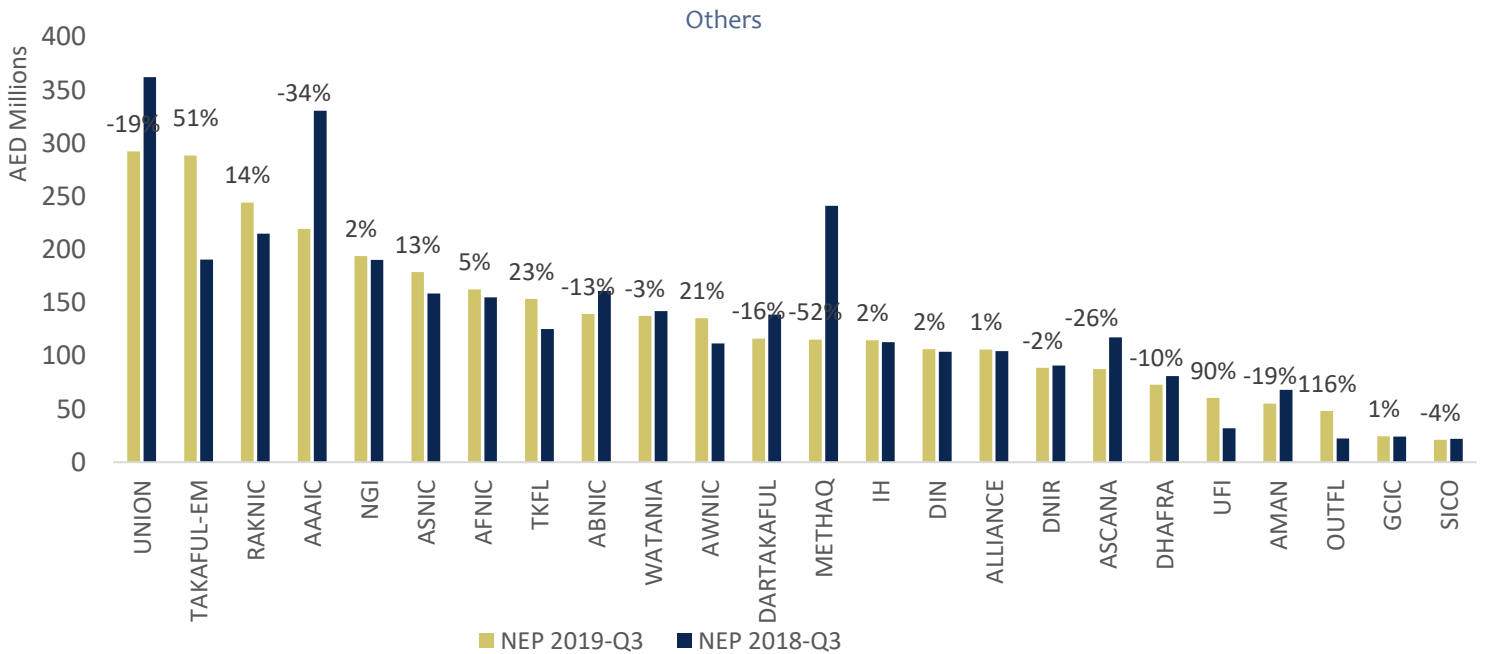
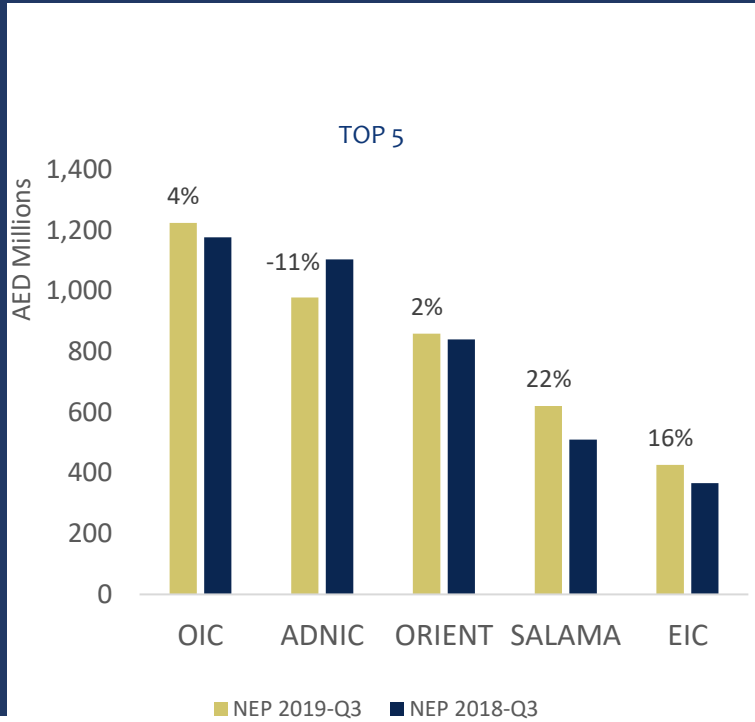


Net Earned Premiums

Total net earned premiums written by the Listed Insurance Companies in 2019-Q3 stood at AED 7.28 billion with a decrease of 0.8% from AED 7.34 billion from the corresponding period of 2018.

The earned premium of top 5 companies was AED 4.1 billion which makes up 56% of the market share for 2019-Q3.

ADNIC, ORIENT, EIC and OIC have maintained their position in the top ranks in net earned premiums as well.

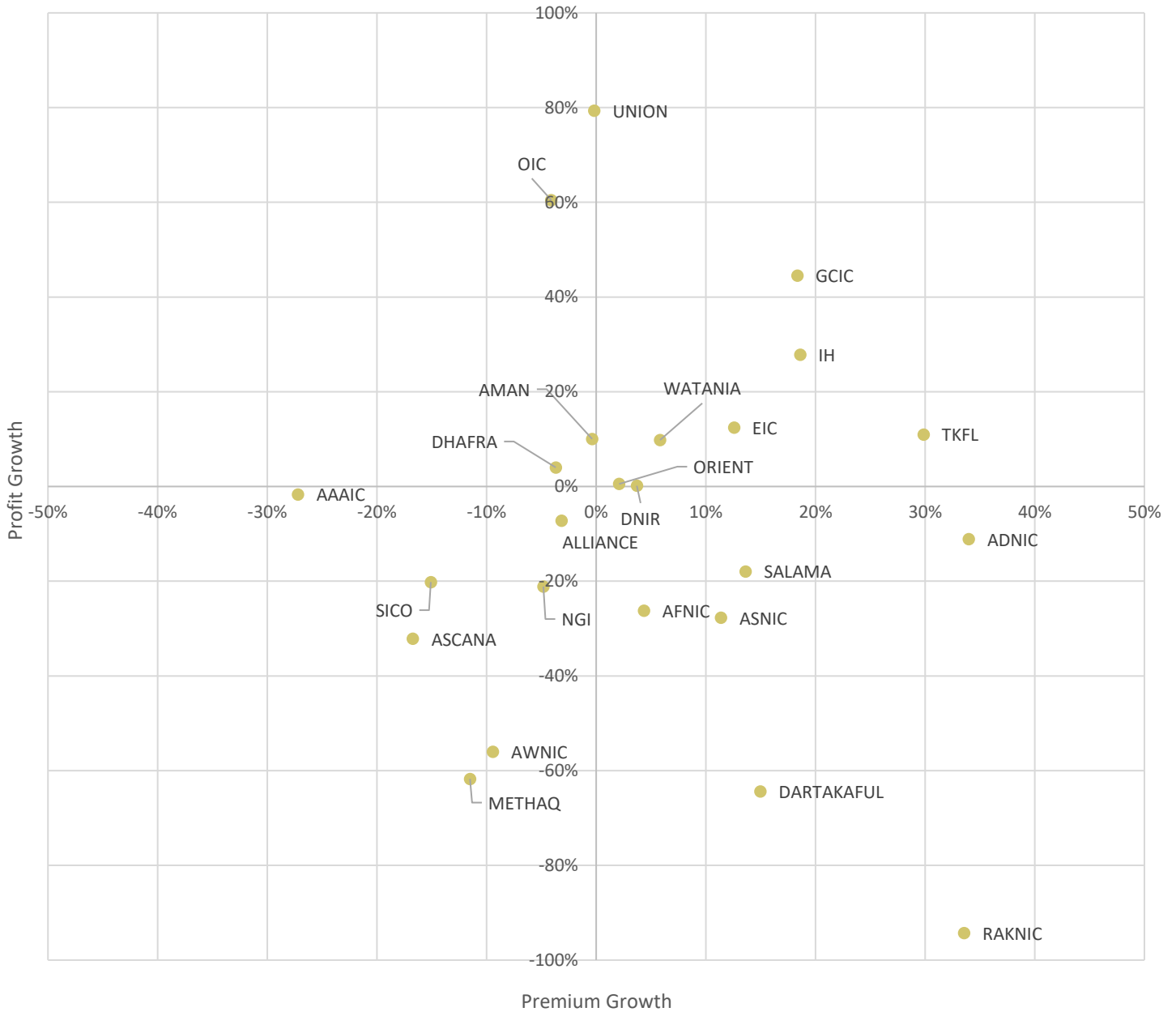


The highest growth of the 2019-Q3 was shown by OUTFL with a growth of 116% from the corresponding period of 2018. While the biggest decline of 83% was exhibited by AKIC.

Overall, the market has shown a decline of 0.8% in earned premiums for the nine months of 2019. When compared with corresponding period of 2018, 17 companies displayed an increase in net earned premiums over previous period, while 13 companies saw net earned premiums decline.



Premiums & Profit analysis



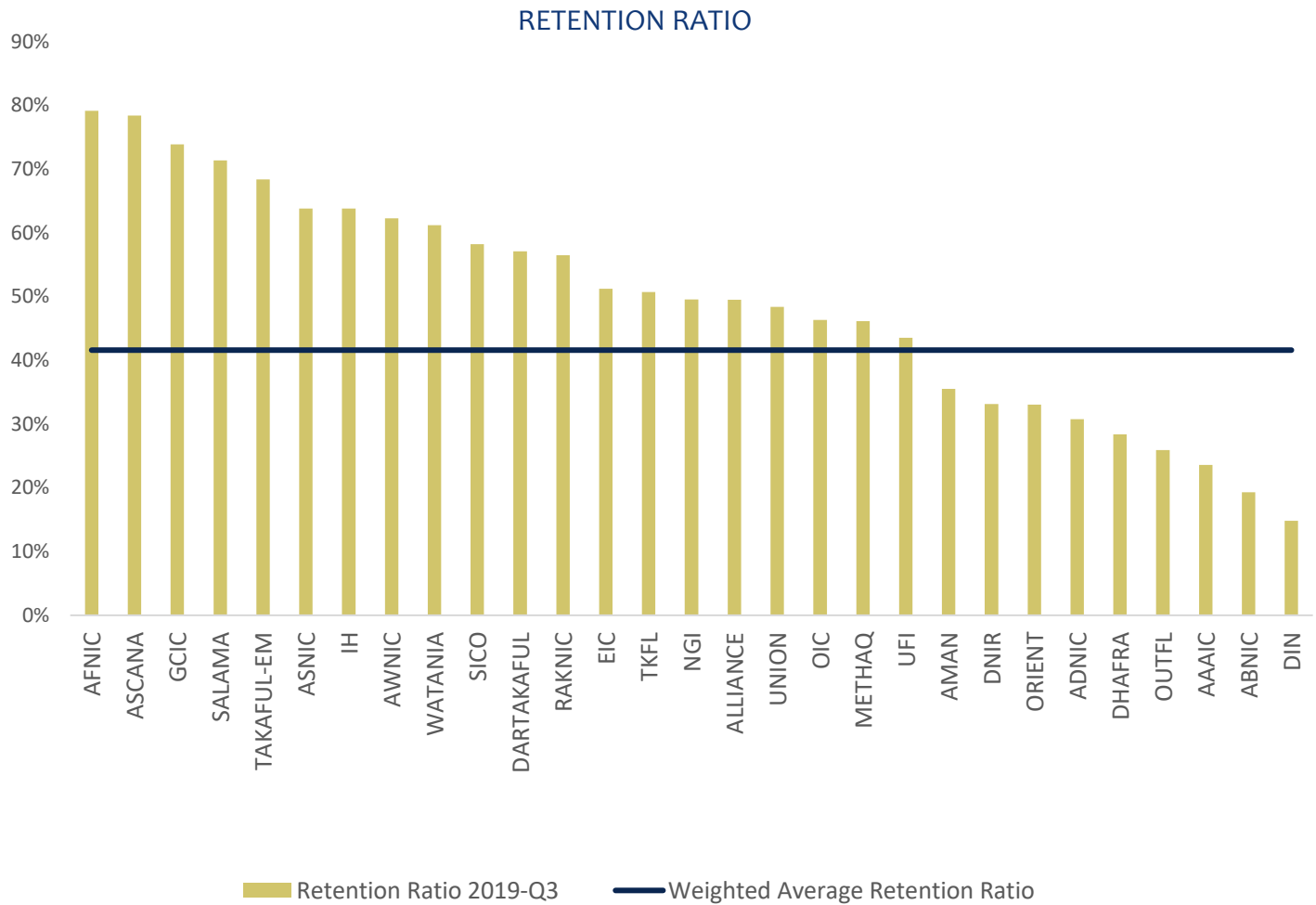
The graph represents the summary of premium and profitability growth of the Companies for the nine months ended of 2019. Companies exhibiting profit and/or premium growth rate higher than 50% are not displayed in the graph above to avoid distortion in presentation.

UFI, OUTFL and DIN exhibited Gross Premium and Profit growth higher than 50% when compared with last year.



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 30 listed companies stood at **42%** (2018-Q3: **45%** and 2017-Q3: **45%**).

The highest retention for the 2019-Q3 was at **79%** reflected by AFNIC while the lowest of **15%** is exhibited by DIN after excluding AKIC, which was acting as an outlier with retention ratio of **1,781%**.

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.

Profit (Before Tax) - Overview

The profit growths have declined over the period. In 2018-Q3, the profit for the listed companies was at AED 1.42 billion. Whereas, the current quarter resulted in profits of AED 1.37 billion, a 3% decline from corresponding period of 2018.

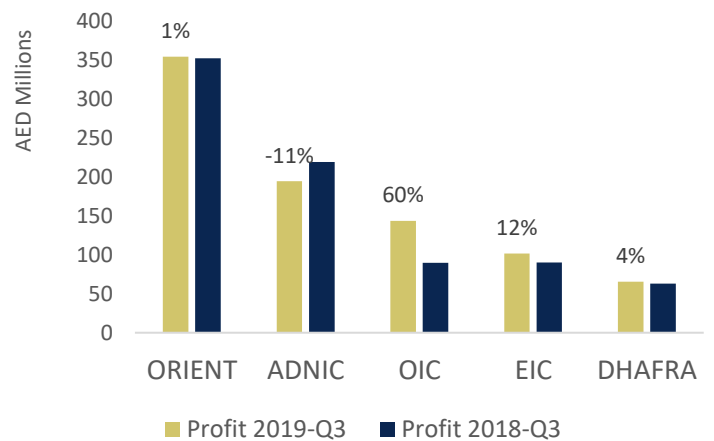
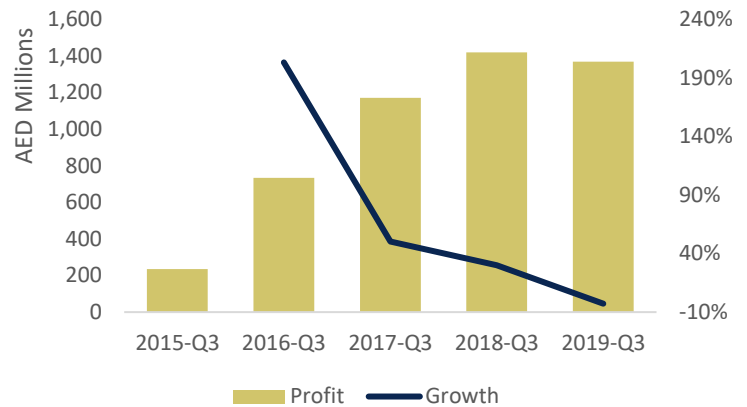
Orient has booked the highest profits consecutively. Profit for 2019-Q3 by ORIENT amounted AED 353 Million which depicts a growth of 1%.

ORIENT, ADNIC, OIC and EIC have maintained their ranks in top 5 when compared from the corresponding period of 2018.

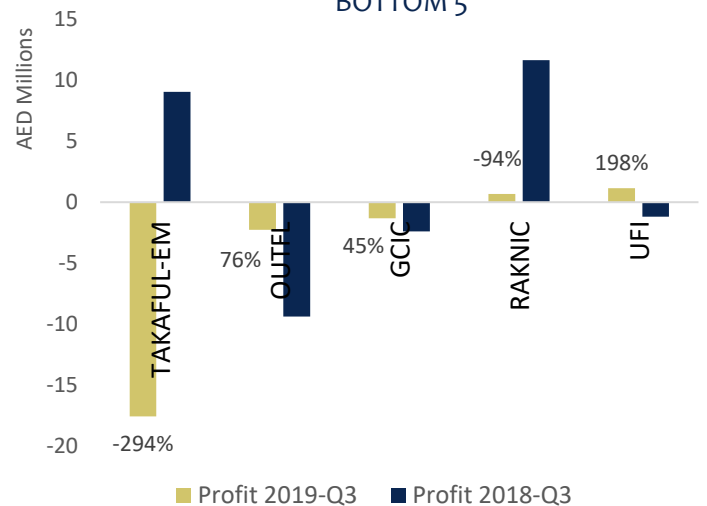
The profits for the Top 5 companies amounted to AED 859 Million which is an increase of 6% from 2018-Q3, and the profit share of top 5 companies represents 63% of the total profit of the listed companies in UAE.

During the nine months of 2019, TAKAFUL-EM experienced the highest net losses of AED 17.6 million from making profits in the corresponding period of 2018. Whereas, UFI saw a growth of 198% in profits and moved its books from loss making to profitable.

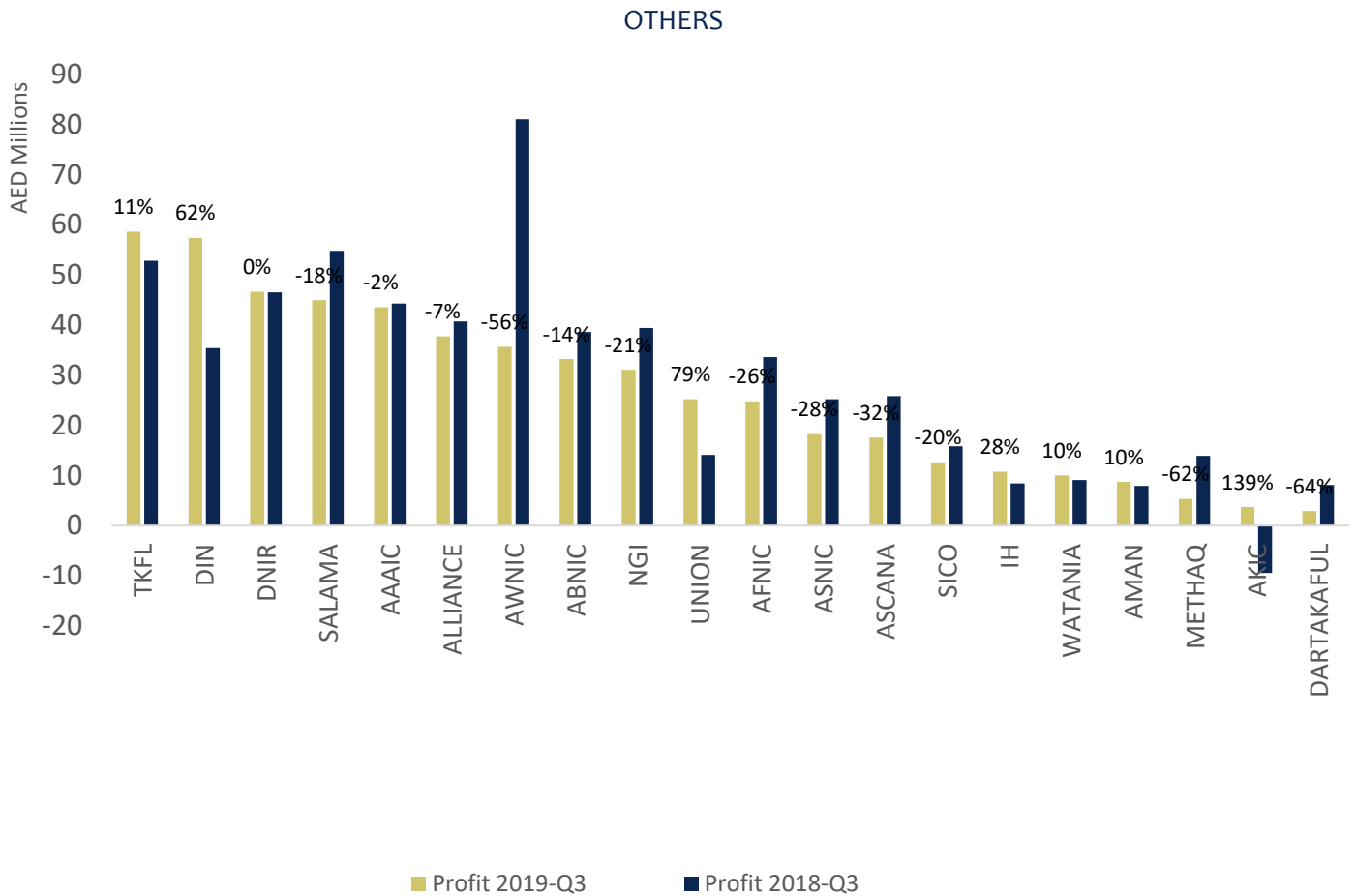
PROFIT GROWTH TREND



BOTTOM 5



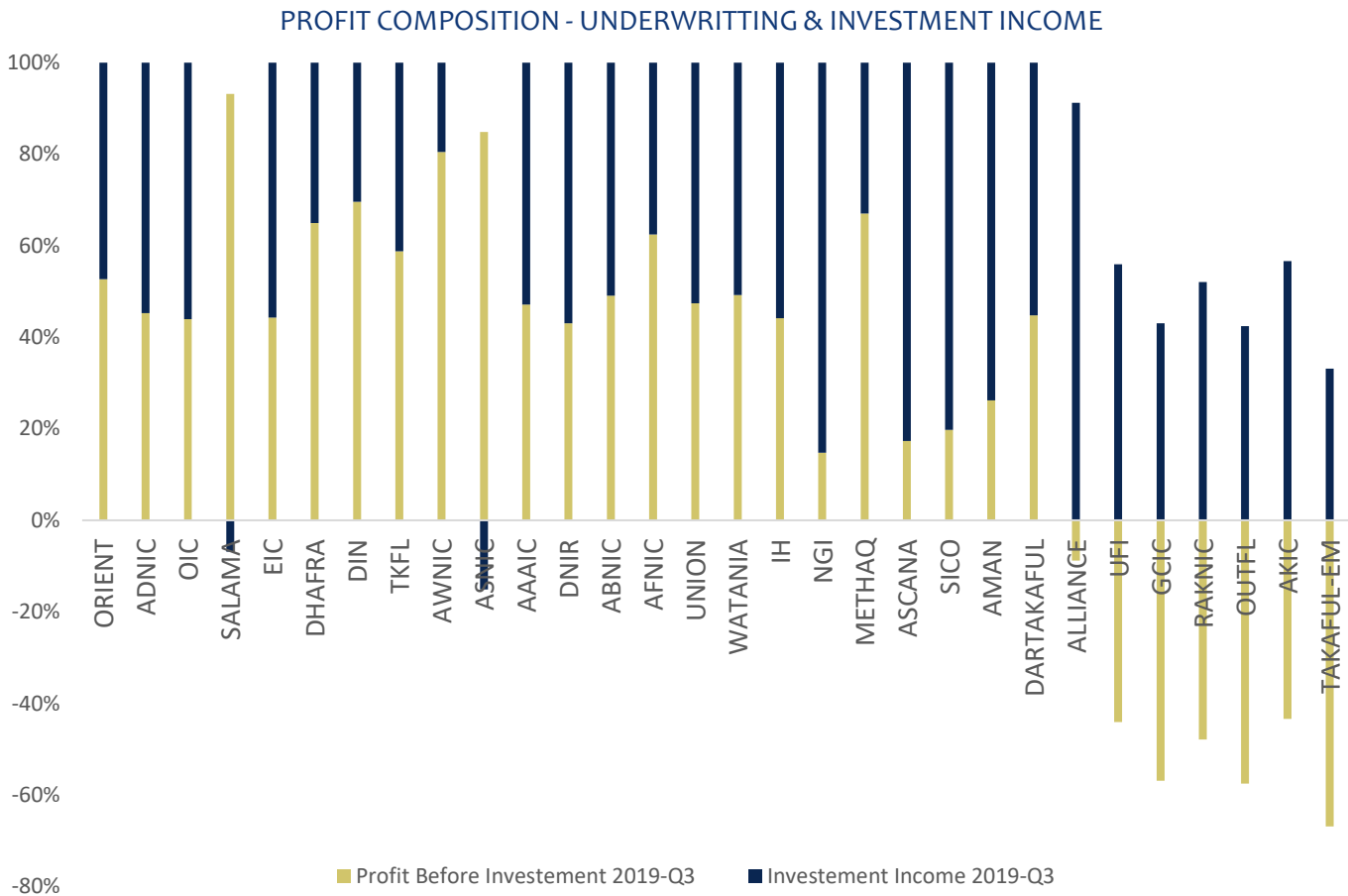
Profit (Before Tax) - Overview



The total profit for 2019-Q3 amounted to AED **1.37** Billion compared to AED **1.42** Billion recorded for 2018-Q3 which shows decline of 3%.

The highest profit growth of 198% is observed by UFI, which moved their financial position from losses in 2018-Q3 to making profits in 2019-Q3. The biggest decline of 294% for the period was recorded by TAKAFUL-EM, it recorded losses in 2019-Q3 from making profit when compared with corresponding period of 2018.

Profit (Before Tax) - Overview

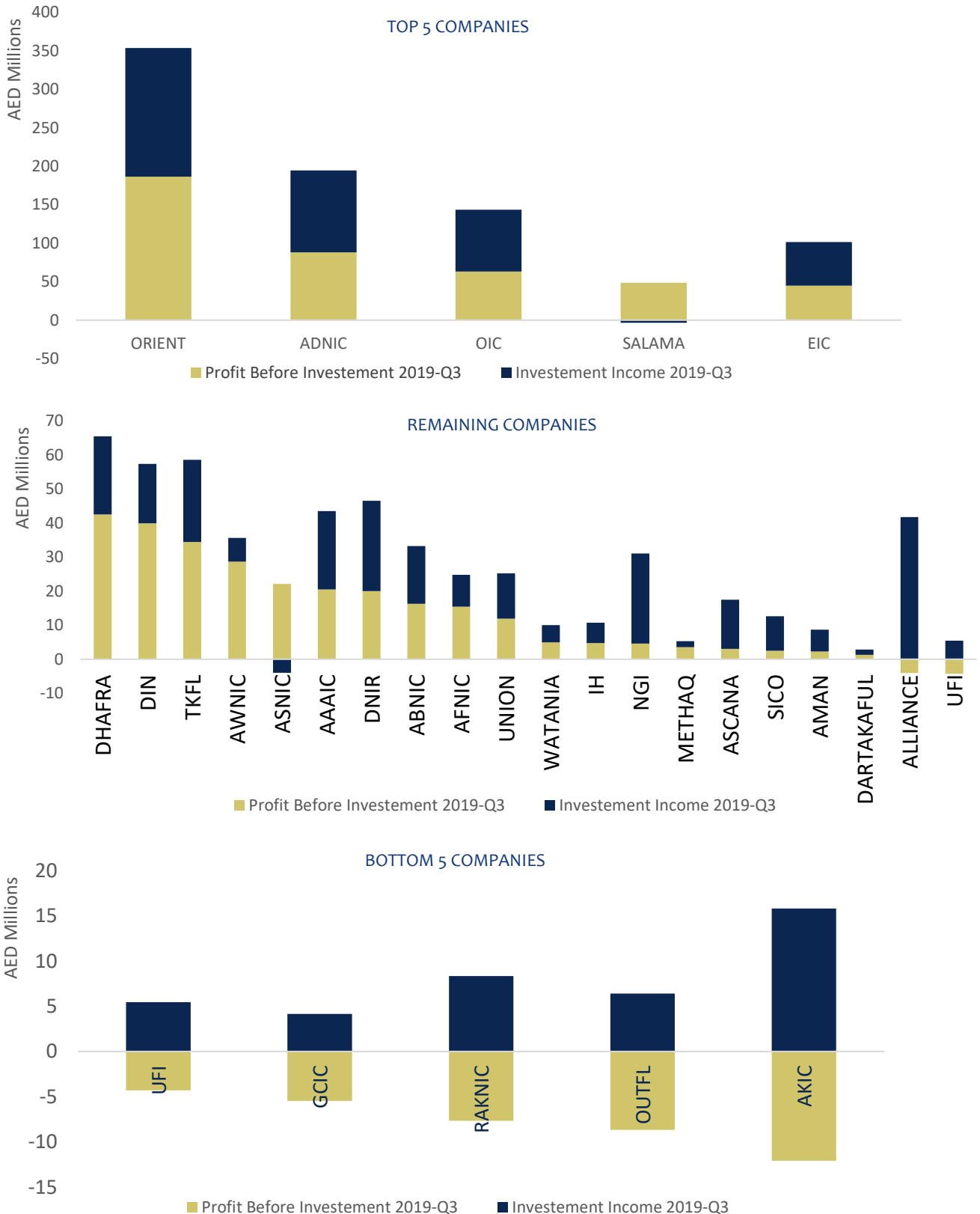


Investment Income has contributed in generating profits for some companies. Insurance companies that recorded losses from their underwriting business were able to make profits from their investments.

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.



Profit Before & After Investment Income - Overview



The above is sorted by profits before investment income



Premium Benchmarked on The Basis of Profitability

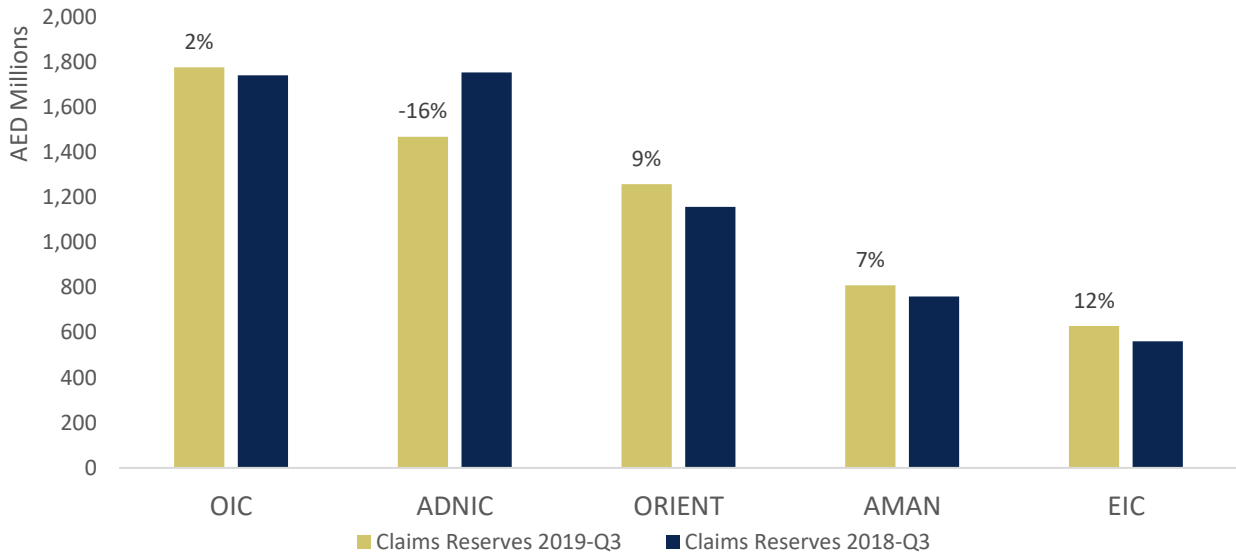
Company	Ranking		Indic
	Gross Premium	Profit	
ORIENT	1	1	→
ADNIC	2	2	→
OIC	3	3	→
EIC	4	4	→
AAIC	5	10	↓
SALAMA	6	9	↓
ABNIC	7	13	↓
DIN	8	7	↑
UNION	9	15	↓
TAKAFUL-EM	10	30	↓
RAKNIC	11	27	↓
NGI	12	14	↓
TKFL	13	6	↑
ASNIC	14	17	↓
DNIR	15	8	↑
DARTAKAFUL	16	25	↓
WATANIA	17	21	↓
DHAFRA	18	5	↑
METHAQ	19	23	↓
ALLIANCE	20	11	↑
OUTFL	21	29	↓
AFNIC	22	16	↑
IH	23	20	↑
AMAN	24	22	↑
AWNIC	25	12	↑
UFI	26	26	→
ASCANA	27	18	↑
GCIC	28	28	→
SICO	29	19	↑
AKIC	30	24	↑

The top four companies continued to maintain their positions with respect to profits and gross written premium. This shows that, listed companies like ORIENT, ADNIC, OIC and EIC seem to have built up large and profitable books of business.



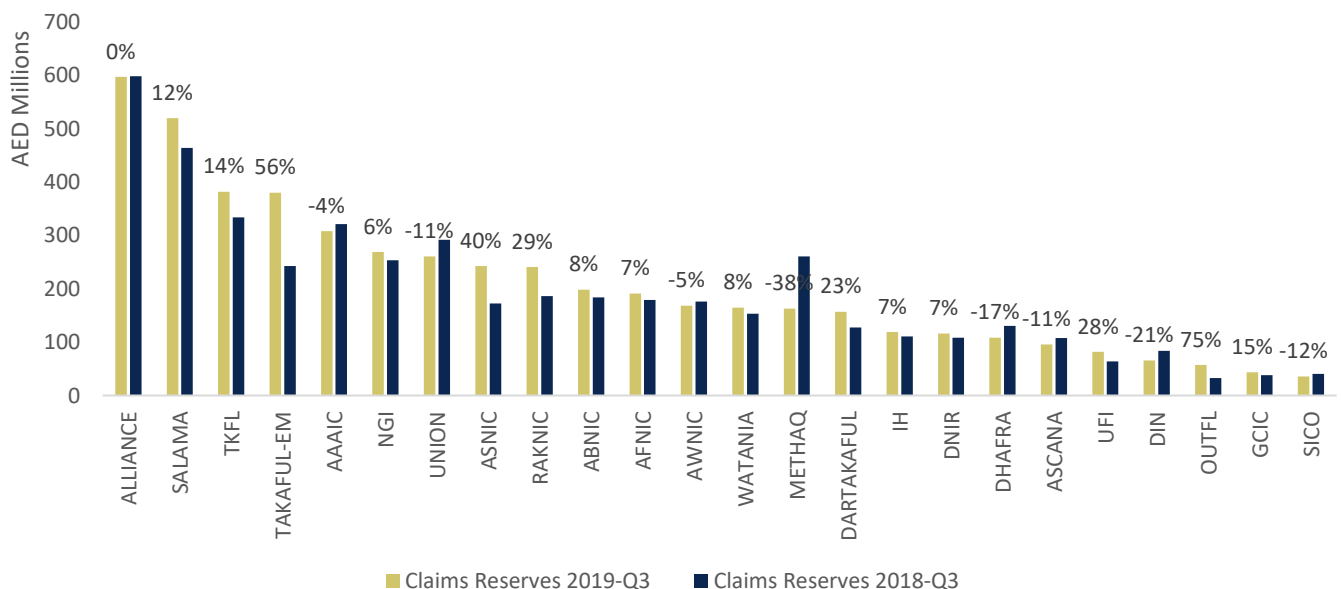
Net Technical Provisions

TOP 5 COMPANIES



Total Net reserves as at 2019-Q3 increased by 2% when compared with the corresponding period on 2018-Q3. OIC in term of booking technical provisions secured the highest rank. The ranking of top 5 companies when in terms of Net technical provisions have remained identical to that of corresponding period of 2018.

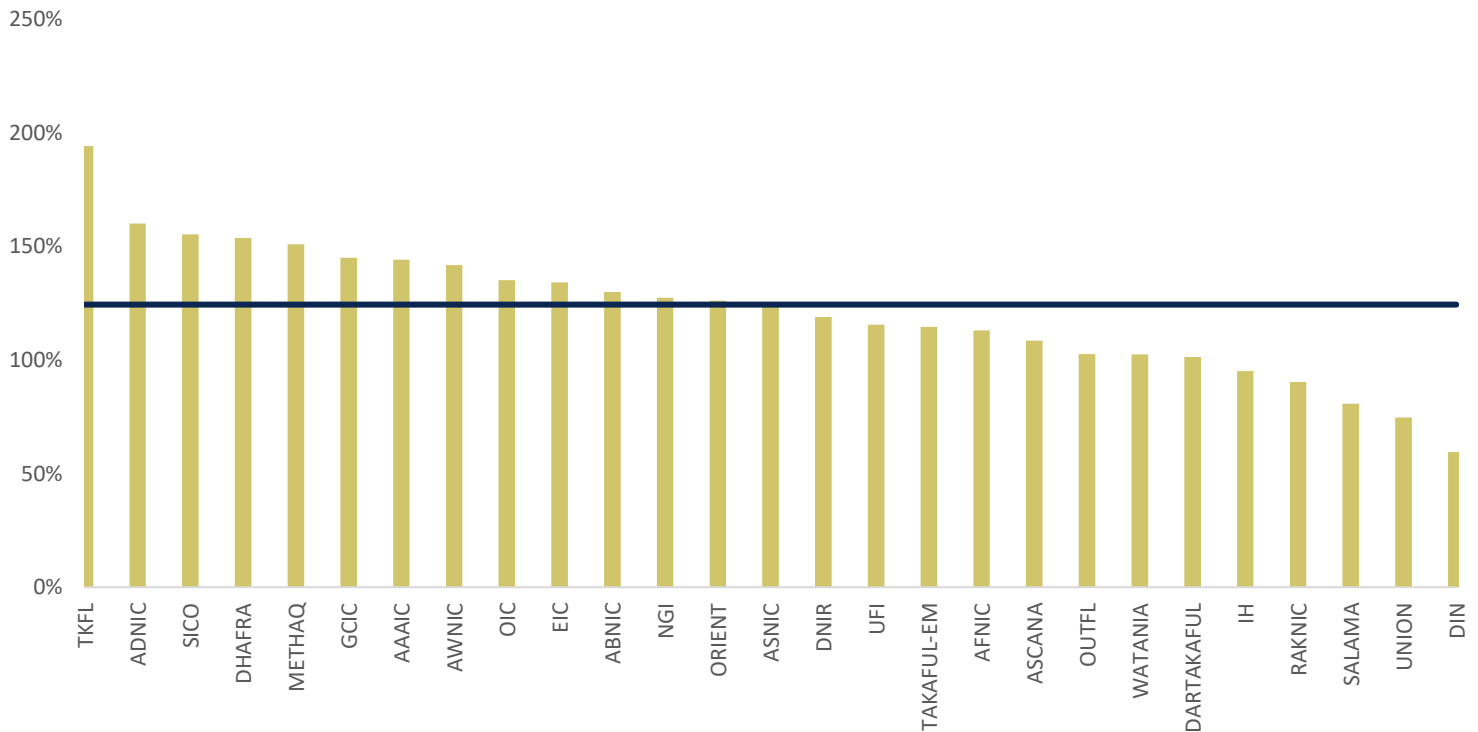
REMAINING COMPANIES





Net Reserves as Percentage of Net Written Premium

RESERVES AS % OF NET WRITTEN PREMIUMS

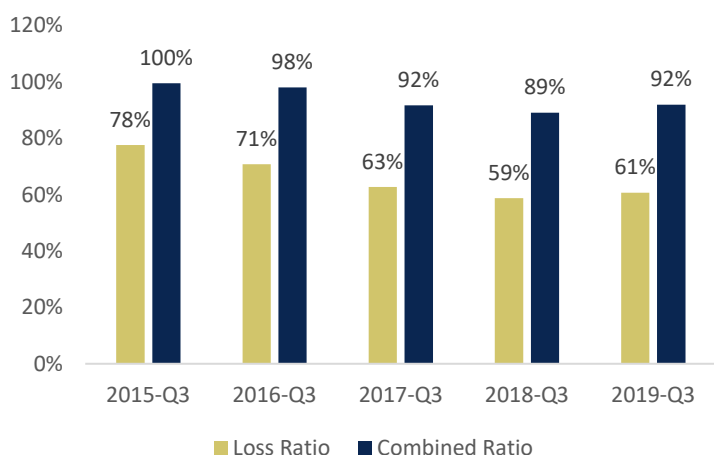


Aman and Alliance Insurance were observed to be outliers due to their Individual life mathematical reserve amounting to AED 22 million and AED 565 million respectively. These proportion of Individual life mathematical reserve over net reserves is around 89% and 94% respectively which presents a big proportion in comparison to other life companies who have large portfolio of Individual life business. Hence, they have been excluded from the above analysis.



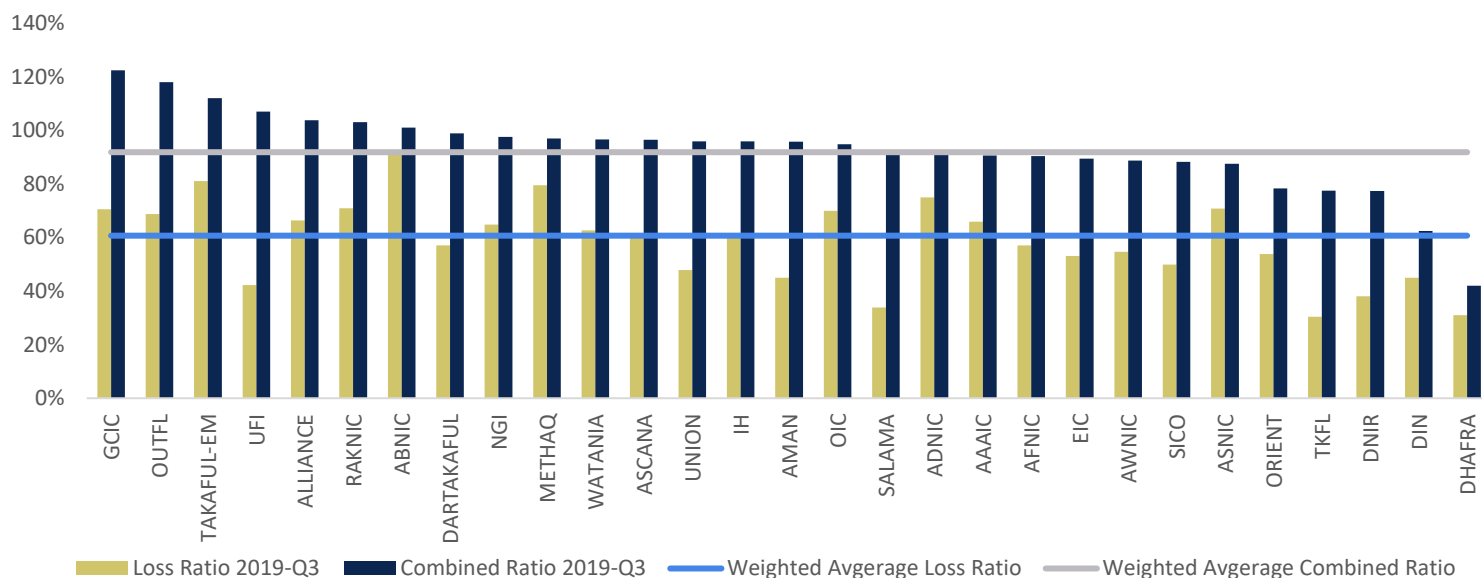
Loss Ratio and Combined Ratio

LOSS & COMBINED RATIO



Weighted average loss and combined ratio had a declining trend over the past few years until 2018-Q3. This year we have seen an increase as compared to the previous year. The gap between Combined and Loss ratio has also seen an increase to 31% in 2019-Q3 as compared to 30% in 2018-Q3 and 28% in 2017-Q3.

LOSS & COMBINED RATIO



The weighted average loss and combined ratio increased slightly when compared to the corresponding period of 2018.

For 2019-Q3, the highest combined ratio of 367% was reflected by AKIC whereas the lowest loss ratio was also depicted by AKIC with 96%. The company is acting as an outlier and is been removed from the analysis due to presentation purposes.

Excluding AKIC, the highest combined ratio is exhibited by GCIC at 122% whereas; the lowest combined ratio is evident for DHAFRA.

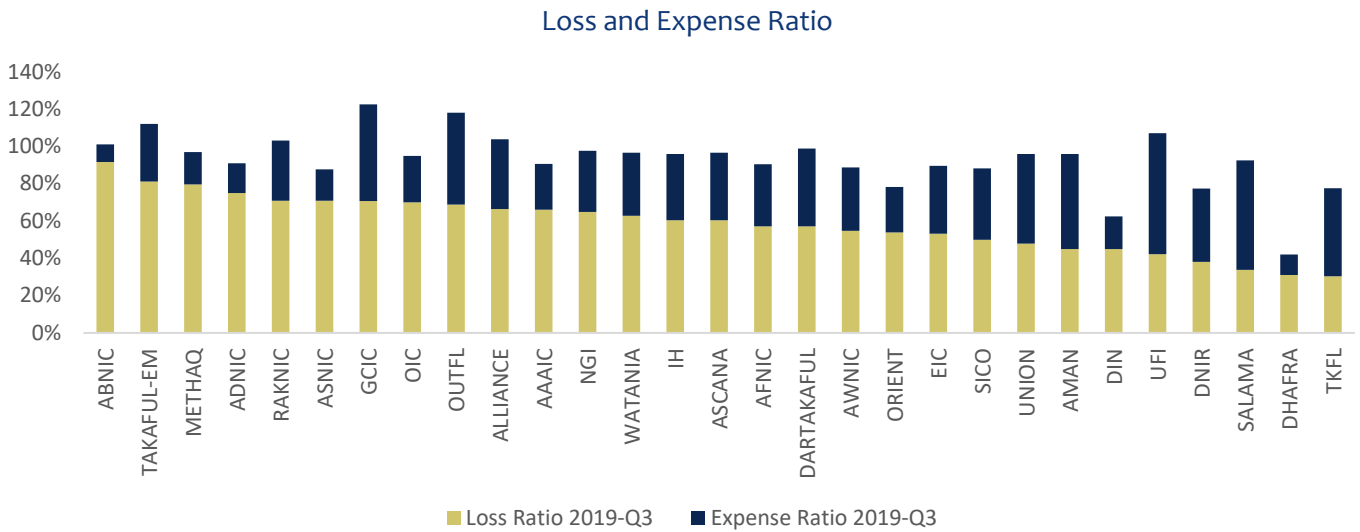
For Takaful companies we have consolidated the policyholders and shareholders P&L for comparative purposes. A company is deemed to be profitable from an underwriting perspective if the combined ratio is below 100%.

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

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

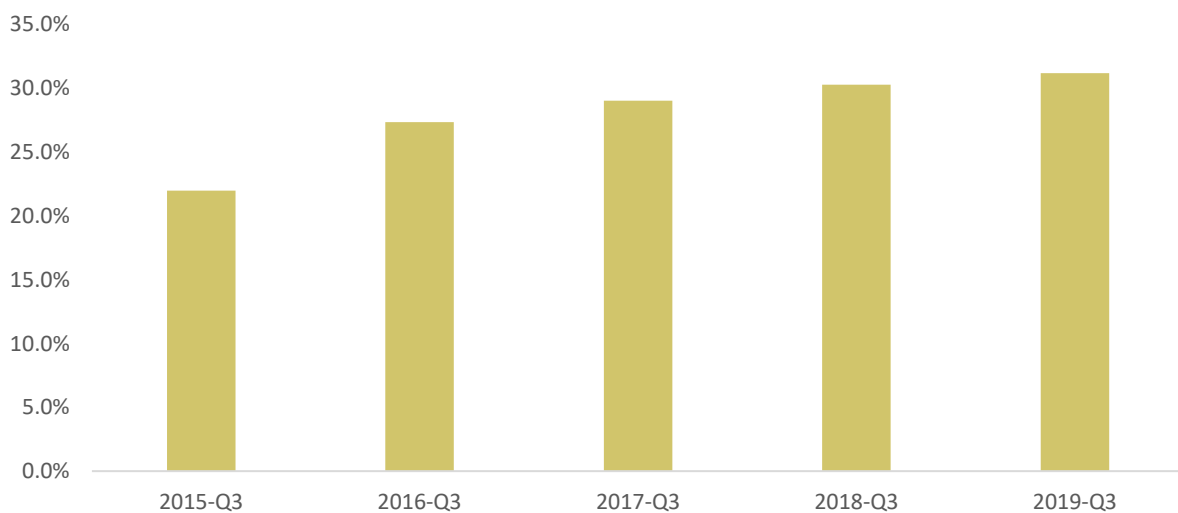


Loss and Expense Ratio Overview



The above is sorted in respect with loss ratio of the companies. As evident from above UFI and ALLIANCE have low loss ratios well below 100%, however, the expenses push the combined ratios above 100% resulting in underwriting loss for the companies. AKIC have been excluded for the fact that it was an outlier with loss ratio and expense ratio at -96% and 463% respectively.

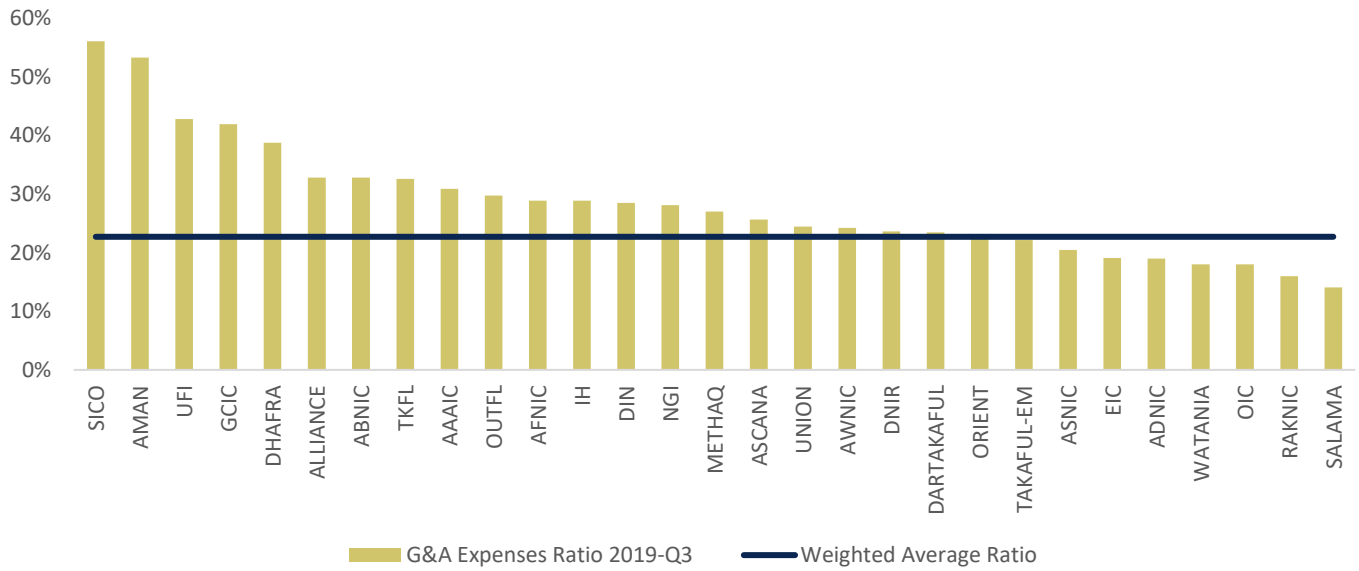
EXPENSE RATIO 5 - YEAR TREND



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

Expense Ratio

G&A EXPENSE AS A RATIO 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 during 2019-Q3 was 56% reflected by SICO, while the lowest expense ratio of 14% being exhibited by SALAMA. The weighted average ratio for the industry stood at 23%.

AKIC was excluded from the above as it was an outlier.

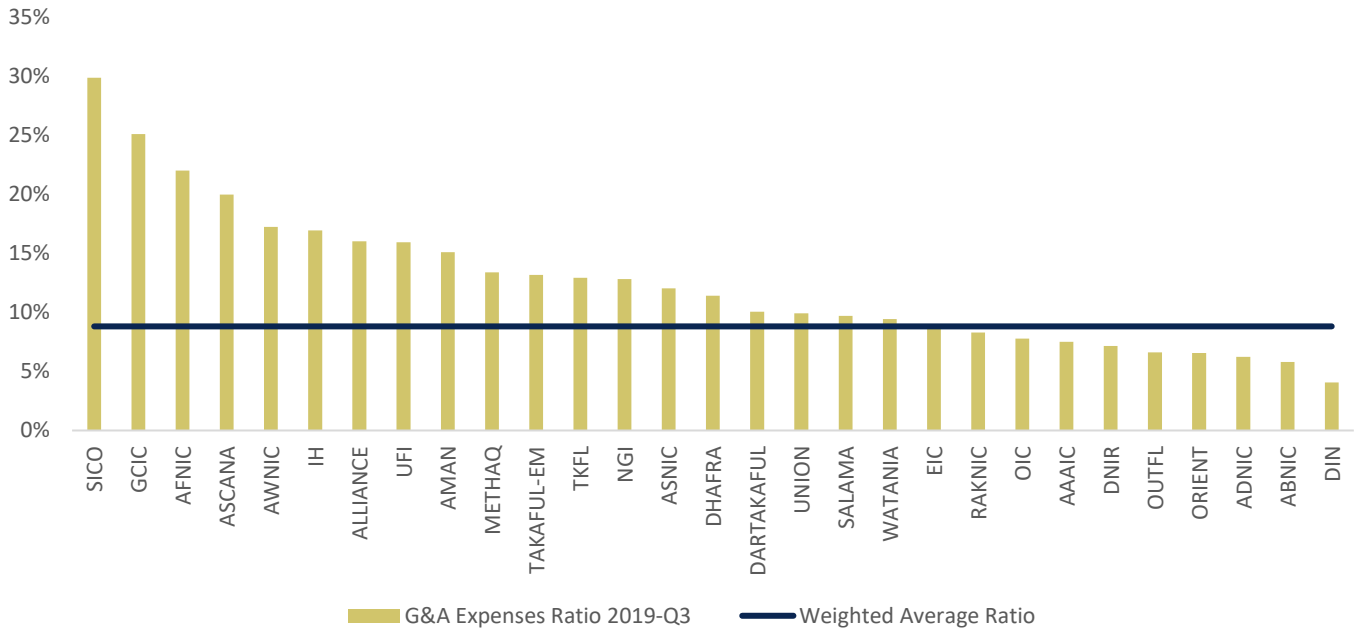
The larger business written reduces the expense ratios. However, taking earned premiums as base the lowest G&A expense ratio when analyzed by gross written premium for DIN and ABNIC has shifted on higher side.

The expense ratio is worked out as:

Expense Ratio = General and administrative expense as a percentage of Net Earned Premium

Expense Ratio

G&A EXPENSE AS A RATIO OF GROSS WRITTEN PREMIUM



The highest expense ratio for the 2019-Q3 was recorded by SICO at 30%, while the lowest expense ratio of 4% being reflected by DIN. The weighted average ratio for the industry stood at 9%. It is commonly believed that G&A expense ratio should be analyzed on the basis of gross written premiums for the company hence, the same is included in our analysis.

AKIC was excluded from the above analysis because it was an outlier.

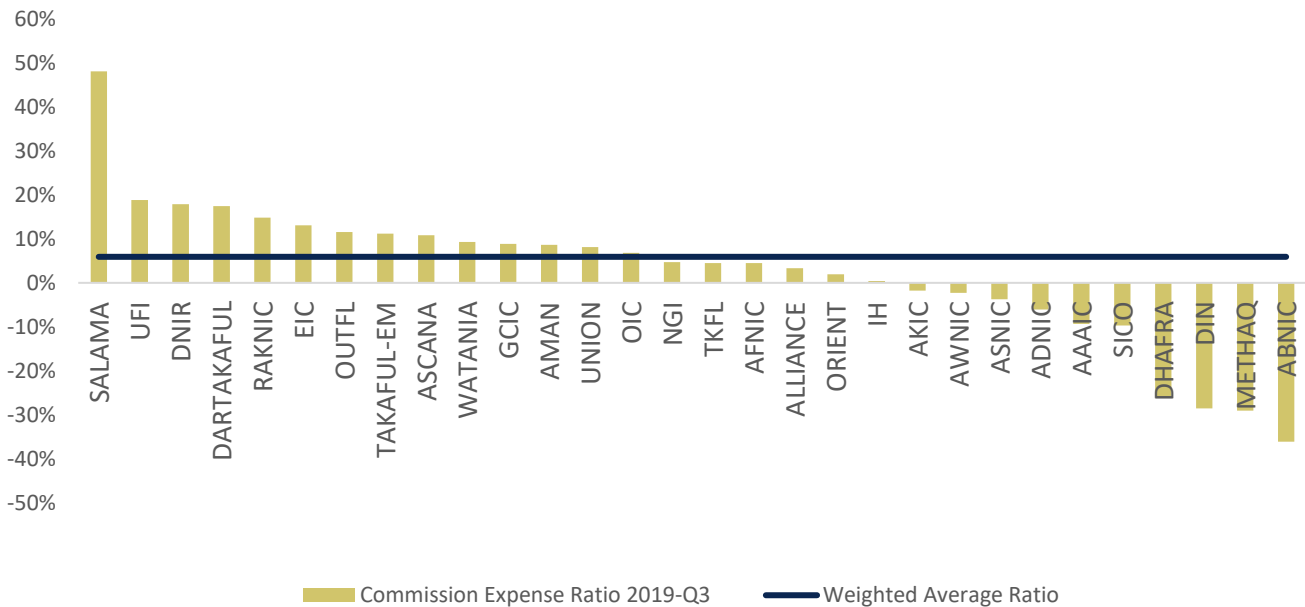
However, as may be expected, larger companies that have extensive business scale have lower expense ratio, as they have sufficient business to absorb the cost base.

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.

Expense Ratio

COMMISSION EXPENSE RATIO



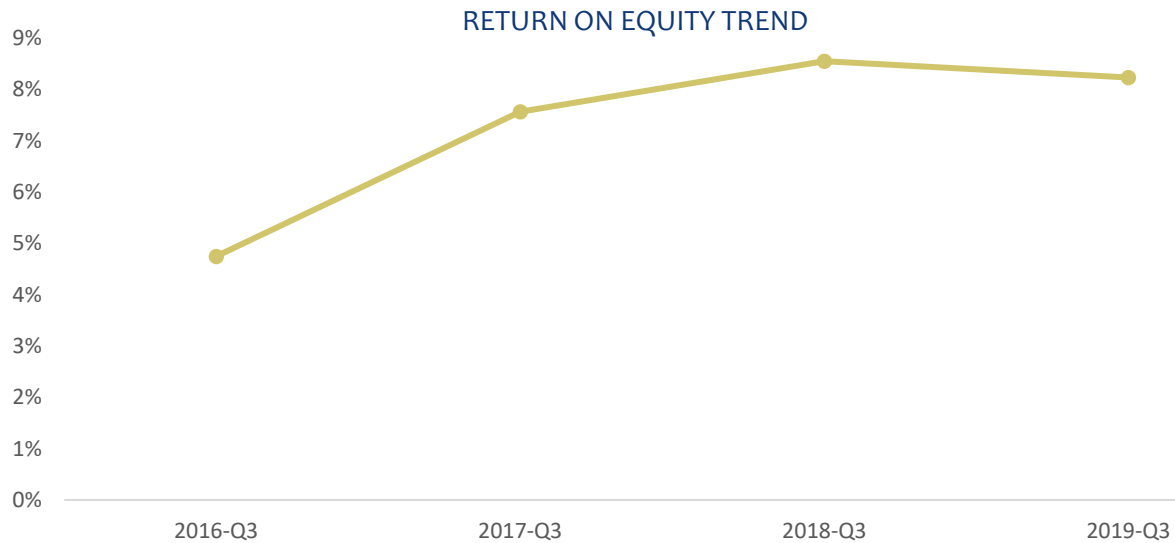
The highest commission expense ratio was for SALAMA at **48%**, whereas the lowest commission ratio was recorded by ABNIC at **-36%**. Industry's average was at **6%** for commission expense.

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.

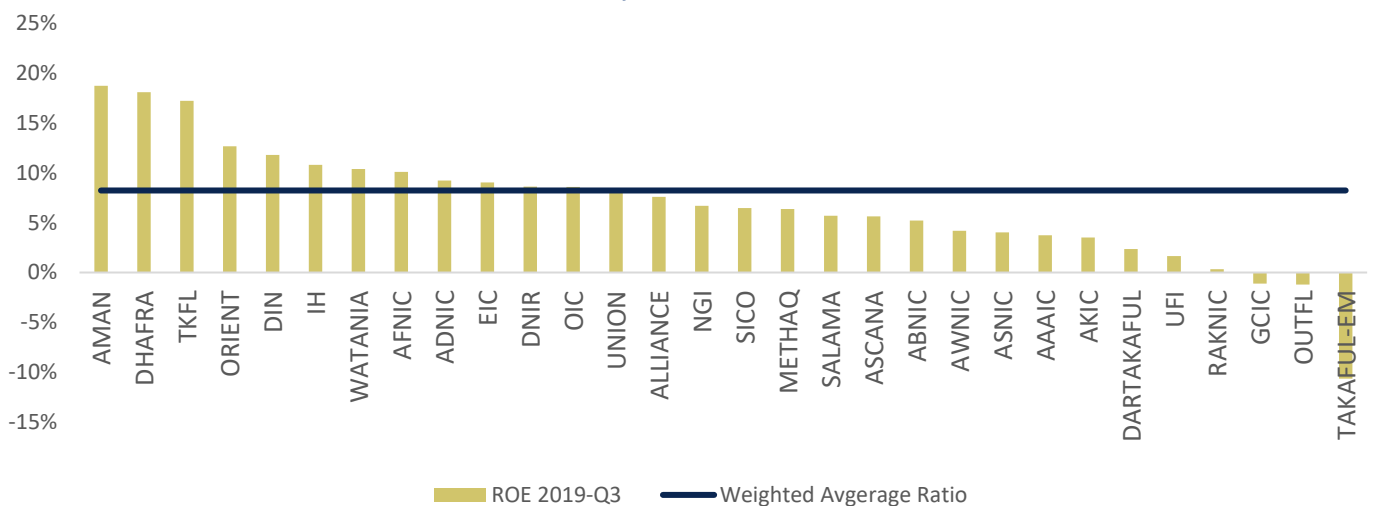


Return on Equity



The shareholders of the listed insurance companies had been experiencing the increasing ROE over the periods. The ROE for the period under analysis was at 8%. This is slightly lower from the corresponding period of 2018 however, it is stable.

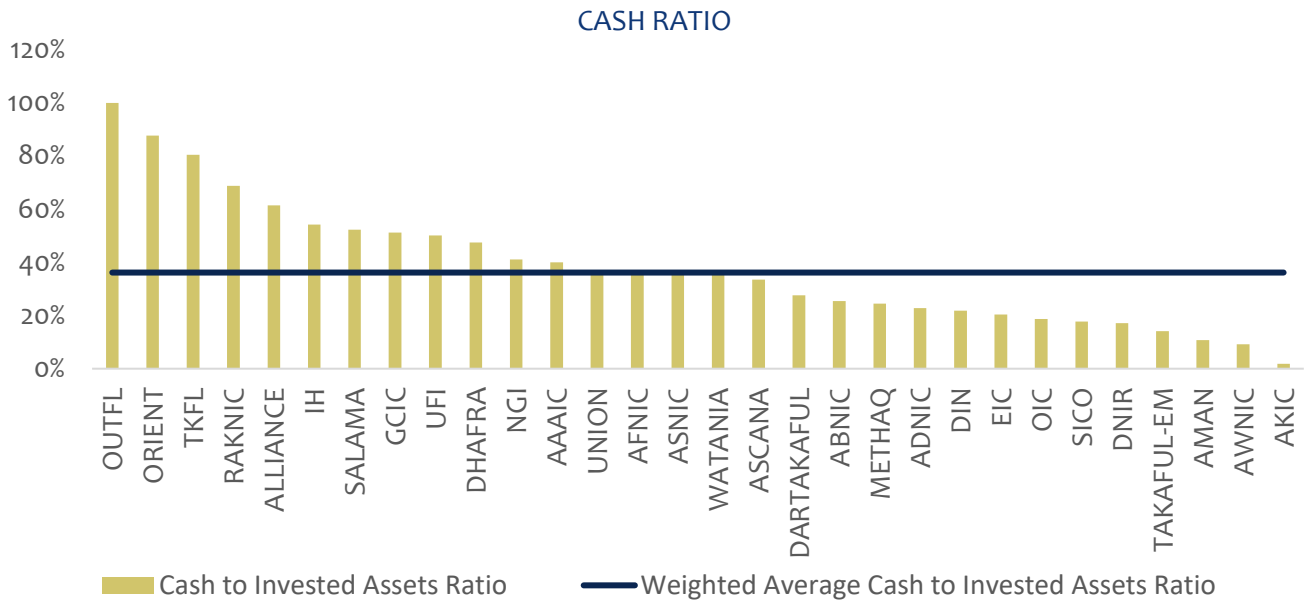
RETURN ON EQUITY FOR LISTED COMPANIES



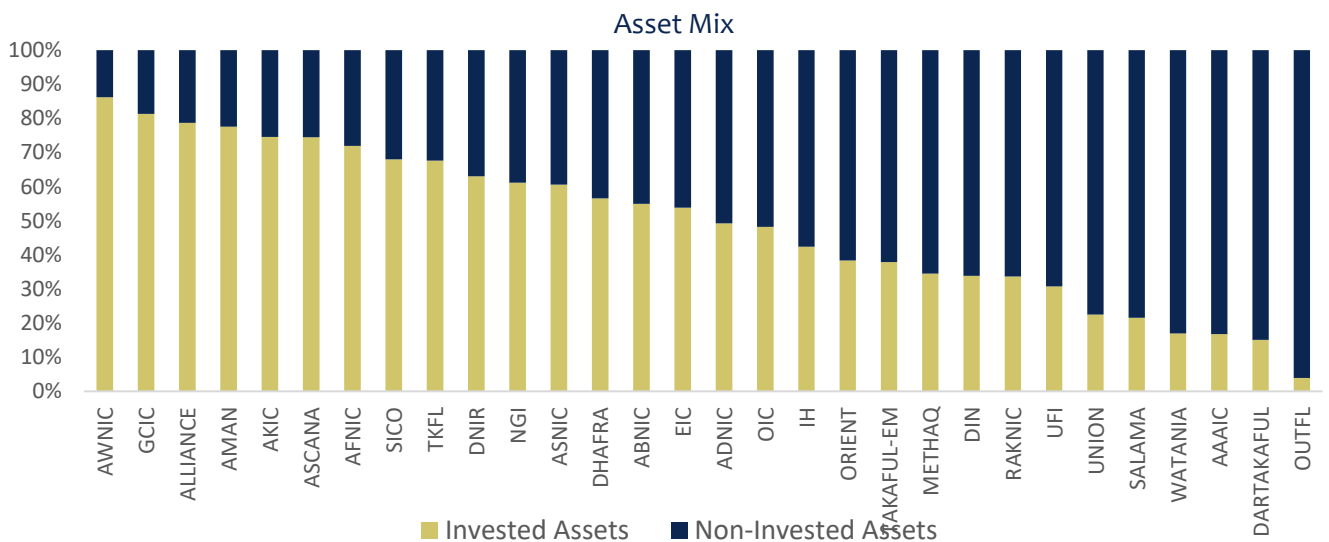
The highest return on equity of 19% was reflected by AMAN whereas the lowest return on equity of -11% depicted by TAKAFUL-EM. The average for the industry was at 8% (2018-Q3: 9%, 2017-Q3: 8%)

The return on equity is calculated as a ratio of net profit recorded for 2019-Q3 to a total of shareholder's equity at the beginning of the period.

Cash to Invested Asset Ratio

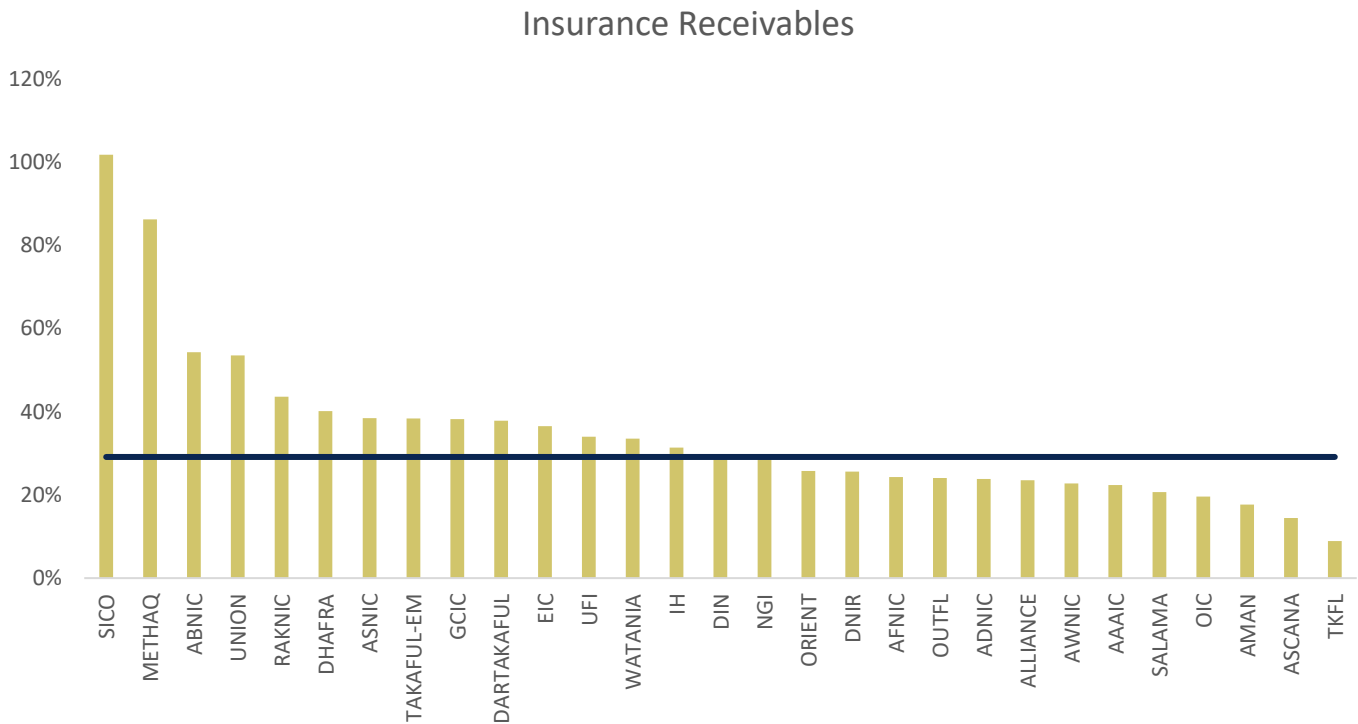


The above ratio illustrates the ratio of cash deposits to total invested assets. Weighted average ratio for the listed companies of UAE was **36%**. With OUTFL having the highest levels of **100%** invested assets maintained as cash, while the lowest cash ratio was maintained by AWNIC at **9%**.



The asset mix compares the invested assets as a proportion of total assets for the listed companies for the 2019-Q3. AWNIC had the highest proportion of **86%** 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.

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 **102%**, while the lowest receivables were recorded by TKFL around **9%**.

AKIC was not included in the above as it was acting as an outlier and was distorting the presentation.

The weighted average insurance receivables for the listed companies works out to be **29%** for the 2019-Q3.



Conclusion

The listed companies of UAE recorded a positive growth of **10%** in Gross Premiums in the nine months ended of 2019 from the corresponding period of 2018. However, a slight contradicting trend in Net earned premiums is observed with Net earned premiums declining by **0.8%**.

The profits in the nine months of 2019 have observed a decline of **3%** when compared with the corresponding period of 2018.

The total premiums written, by the listed insurance companies, during 2019-Q3 amounted to **AED 18.8 billion**, as compared to the premium written in the corresponding period of 2018 of **AED 17.1 billion**. The average premium retention ratio was at **42%** for 2019-Q3.

Total Profit by the listed insurance companies, for the period 2019-Q3 amounted to **AED 1.36 Billion** compared to profits of corresponding period of **AED 1.4 Billion**. The average loss ratio for all companies analyzed was **61%** and average combined ratio was at **92%**. This was slightly higher than witnessed in 2018-Q3 (loss ratio 2018 Q3: **59%**, combined ratio: **89%**)

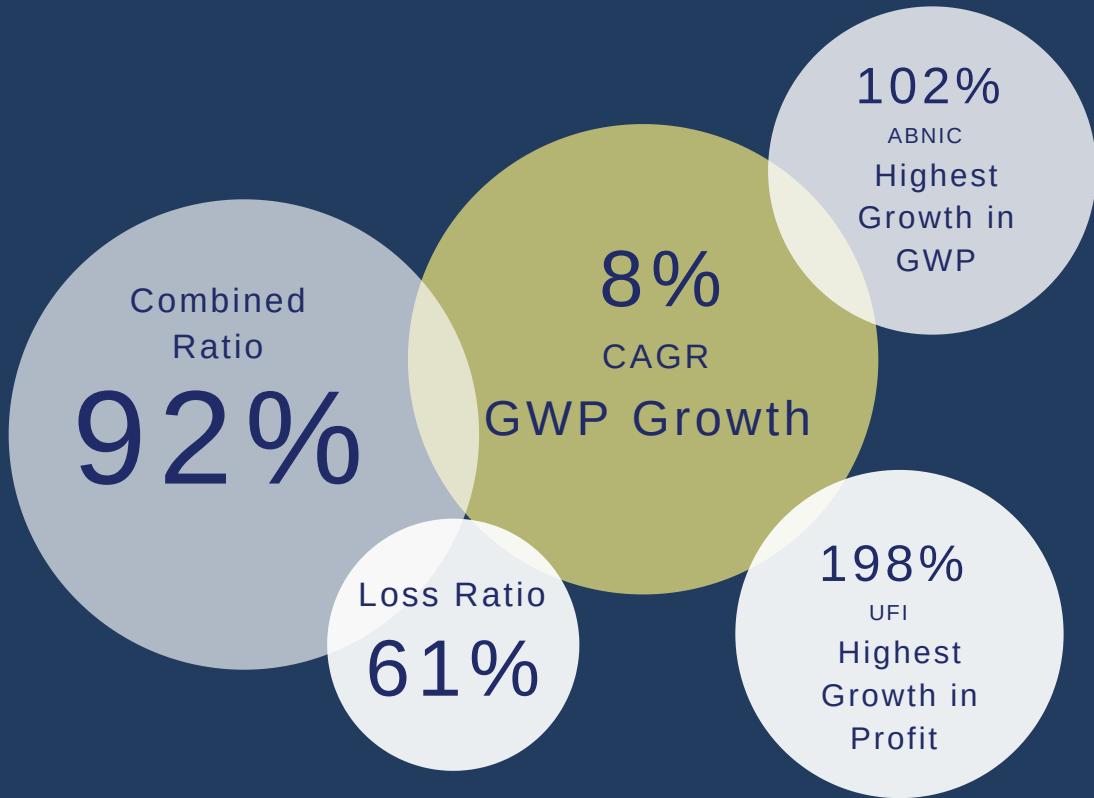
SUMMARY

2019-Q3



BADRI

GWP GROWTH TIME LINE



PROFIT GROWTH TIME LINE





BADRI

ABOUT OUR TEAM

Our team has grown to 60 at end of September 2019 and on a broad level divided into the following focus areas.

UAE/OMAN ACTUARIAL	25 STAFF
KSA ACTUARIAL	9 STAFF
BUSINESS INTELLIGENCE	8 STAFF
MEDICAL	8 STAFF
EOS	5 STAFF
SUPPORT FUNCTIONS	5 STAFF



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 2019-Q3. The data has been extracted from 2019-Q3 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.



BADRI

FEEDBACK

Badri Management Consultancy is proud to present the 2019-Q3 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/