Market Monitor - UAE

UAE INSURANCE INDUSTRY REPORT

2018

STRONG UNDERWRITING CONTINUES TO FUEL INDUSTRY PROFITABILITY, WHILE PREMIUM GROWTH REMAINS STABLE DUE TO SOFTENING OF RATES AND STABLE MEDICAL TRENDS

Milliman

APRIL 2019

Table of Contents

The Gross Written Premium, Net Profit and the Total Equity for the 30 listed insurance companies are shown in Exhibit 1.

The other 32 companies operating in UAE are not listed and hence excluded from this report.

> We believe the slower growth in premium was primarily driven by almost full penetration achieved on the DHA mandated health coverage in previous years and general softening of rates.

14 of the 30 companies showed an increase in GWP in 2018 over 2017, with the other 16 experiencing a decrease in GWP.

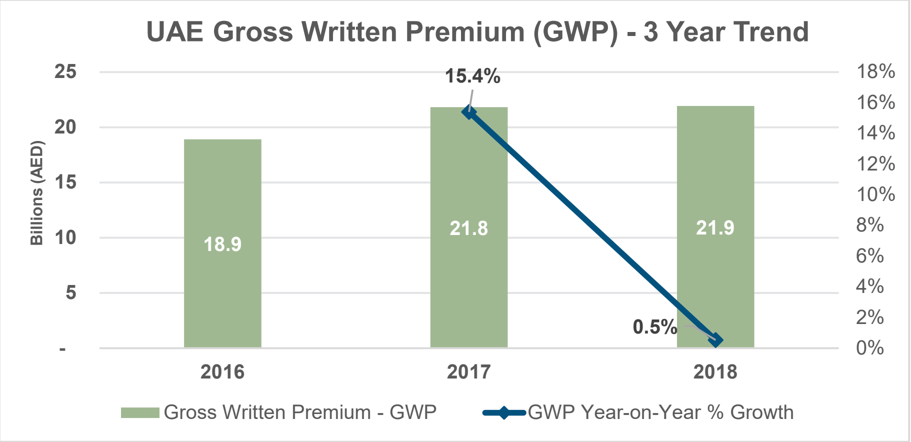
Oman Insurance Company surpassed Orient Insurance Company taking the largest insurer seat in terms of GWP with both the companies having a reduction in premium compared to 2017. However, the difference is only AED 22m.

> Net Profit has shown an 8.5% increase to AED 1,394m during 2018, compared to a 43.5% increase in 2017 on the heels of a profit of only AED 895m in 2016. This is driven by improved underwriting, better medical claims adjudications and contracting and improved regulation on providers.

Market Overview

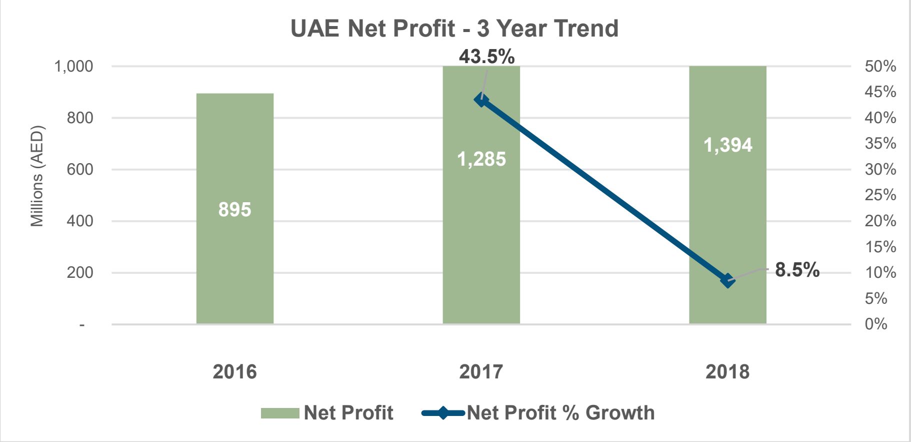
The UAE insurance market continued its trend of an overall increase in their profitability despite minimal premium growth in 2018. Over the last few years, market growth was primarily driven by regulatory changes (i.e. increased motor tariffs and DHA mandated medical coverage for the insureds in the Emirate of Dubai in 2017). However, despite motor tariff system amendments in 2018 that was expected to lead to more challenging results, the overall premium stabilized with marginal improvement in overall net profitability. Based on the preliminary disclosures (5 companies) and audited reports (25 companies) of the UAE insurance companies listed on the Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) up till March 25, 2019, the Gross Written Premium (GWP) grew slightly by 0.5% to AED 21.9b during 2018, down from an increase of 15.4% in 2017.

Graph 1 – Gross Written Premium (AED Billions)



On a Net Profit basis, the industry continued to improve for the third year in a row achieving a Net Profit of AED 1,394m for 2018, compared to a Net Profit of AED 1,285m in 2017, an increase of 8.5%.

Graph 2 – Net Profit (AED Millions)



Only 4 of 30 listed companies had a Net Loss during 2018, the same number of companies as in 2017. However, the actual loss was lower for 3 of the 4 companies.

Orient Insurance Company and Abu Dhabi National Insurance Company (ADNIC) led the overall profitability of the insurance sector in the UAE during 2018 with 14 out of the 26 profitable companies increasing their profits since 2017.

United Fidelity Insurance Company and Orient UNB Takaful suffered the largest losses during 2018. In addition, 8 out of the 9 Takaful operators made profits in 2018 with the exception being Orient UNB Takaful, which is understandable considering the Company is in it's second year of operations.

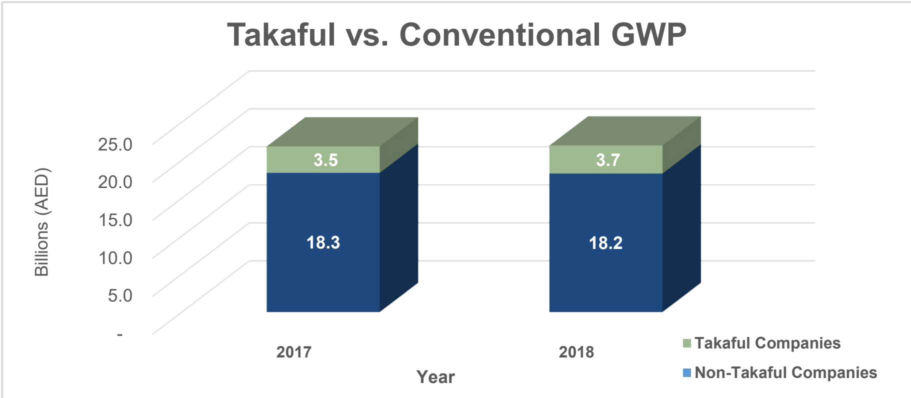
17 of the 30 companies experienced an increase in Total Equity, with the total for the 30 companies having a small growth of 0.7% during 2018.

The pricing came under pressure in 2018 due to changes in some of the motor tariff categories, VAT, increased market competition and general softening of the market. This resulted in a minimal growth of the overall market premium. However, the continued increase in net profits demonstrates the improved underwriting and claim management practices.

> Parallel to growth in profitability, Total Equity grew for the past three years in a row.

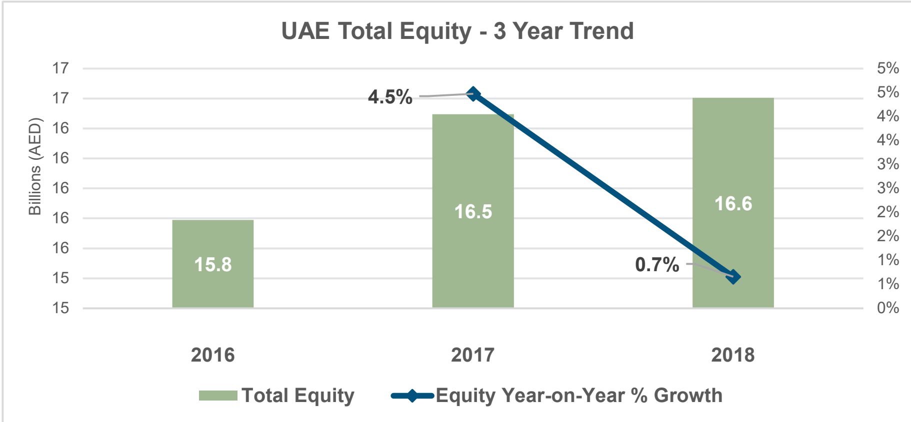
Takaful companies saw a growth in their top line in 2018 of 5.8% in comparison to slight overall decrease in premium for the traditional players. Total GWP for Takaful operators now stands at AED 3.7b compared to AED 18.2b for conventional companies.

Graph 3 – Takaful vs Conventional GWP



The Total Equity had a small year over year increase of 0.7% in 2018 compared to 4.5% growth in 2017. The Total Equity for the 30 companies grew from AED 16.5b in 2017 to AED 16.6b at year-end 2018.

Graph 4 – Total Equity (AED Billions)



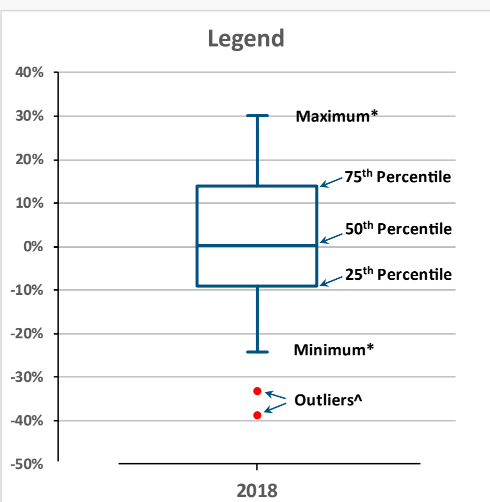
> The Net Profit Ratio for all companies is converging to the 5% to 35% range, with 5 companies achieving Profit Ratio above 35%.

It is important to note that companies are not consistent in reporting their financial results. For example, some companies subtract General Expenses to reach their UW profit but others do not. This makes industry comparisons difficult at best and can cause misleading indications of profitability for some companies. Hence, we have not included Underwriting Profit of the companies in our report.

The market has continued to be profitable in each year since 2016. Depending on the size and strategy, each company has a different path to profitability. However, the gap in the profit margins between the 1st and 3rd quartile has increased since 2017 indicating that not all companies have had a similar positive trend.

The gap between the ROE has continued to reduce implying the market is stabilizing in comparison to the large variance in 2016 and earlier.

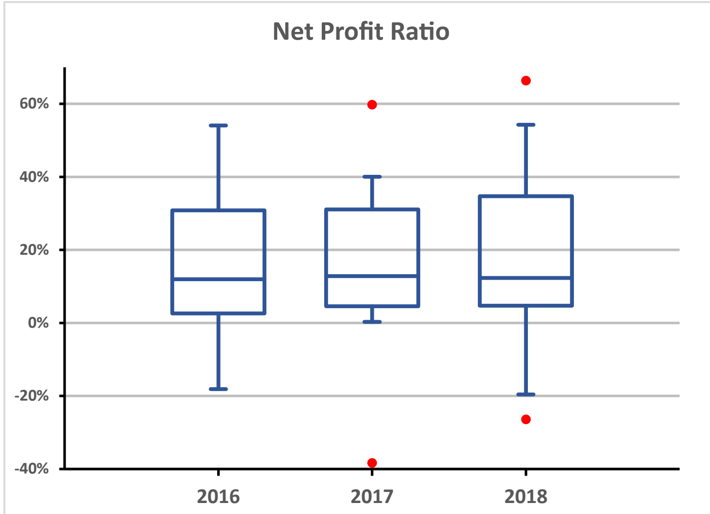
> The market return on Total Equity was 8.4% for 2018 year end results compared to 8% in 2017.



* Largest / smallest value within 3 times the range from the 25th to 75th percentiles.

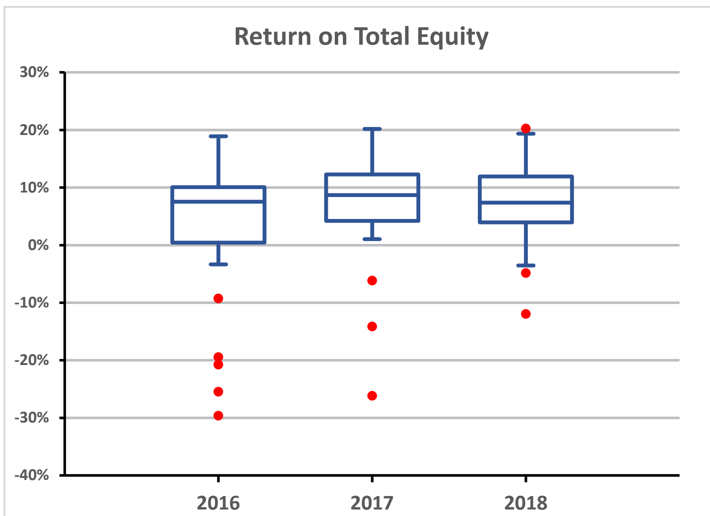
^ Values outside 3 times the range from the 25th to 75th percentiles.

Graph 5 – Distribution of Net Profit Ratio



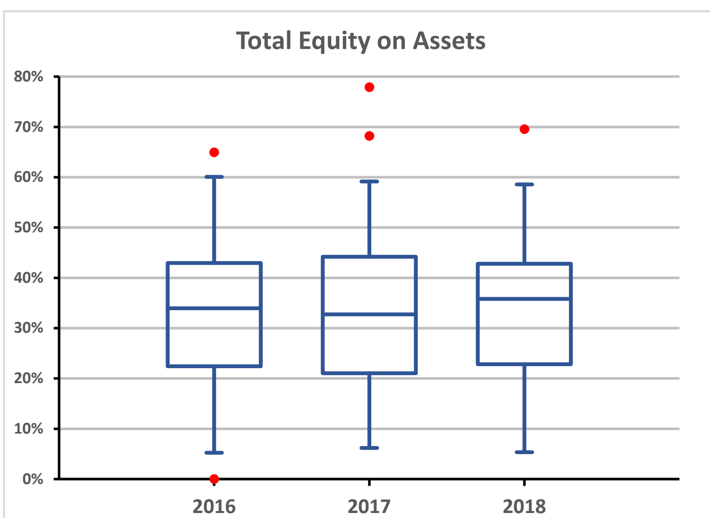
Net Profit Ratio = Net Profit / Net Earned Premium

Graph 6 – Distribution of Return on Total Equity



Return on Equity = Net Profit / Average Equity

Graph 7 – Distribution of Total Equity to Assets



Total Equity on Assets = Total Equity / Assets

As seen in Graph 8, both the Liabilities to Total Equity and Liabilities to Assets ratios have converged to a narrower range in 2018 compared to 2017. However, the average ratios for the market have remained the same for 2017 and 2018.

> Liabilities to Total Equity ratio has remained at 213% in 2018 and 2017 year end results compared to 193% in 2016.

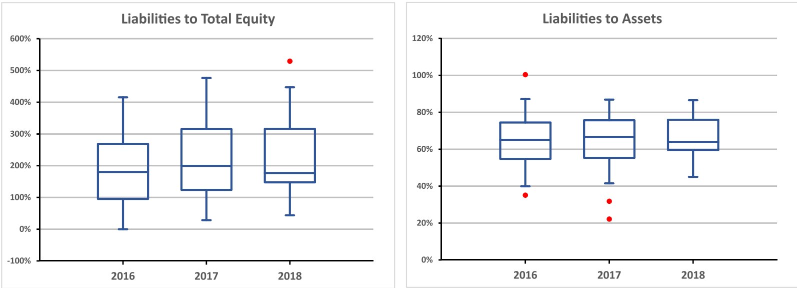
Both the average and the range of Retention Ratios have decreased since 2017 implying that the market, overall, is retaining lesser proportion of premiums.

> Retention ratios have decreased to an average of 42% (44% in 2017) while commission paid ratio increased from 7.9% in 2017 to 8.2% in 2018.

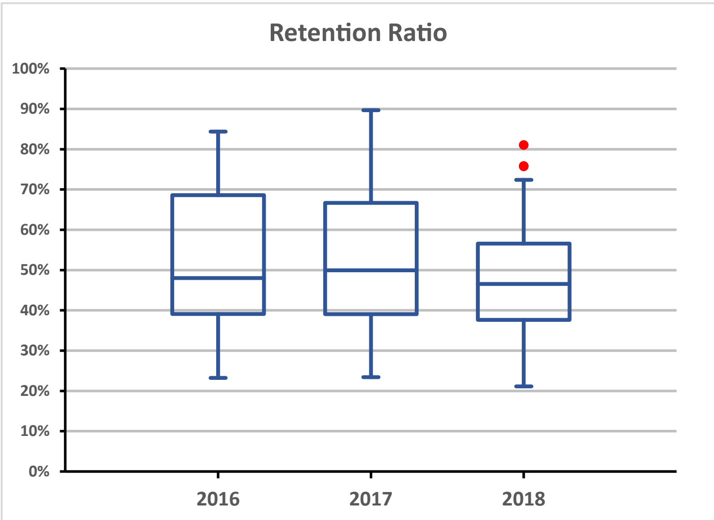
Even though the gap in Commissions Incurred Ratio has increased compared to 2017, there are no significant outliers in 2018.

Note:
We have used the Net Profit before Other Comprehensive Income throughout this report. For companies that did not publish the audited financial statements, we have taken the figures from the preliminary results.
For ratios on this page and the following page, we have used only the results of the 25 companies that have published their audited financial statements.

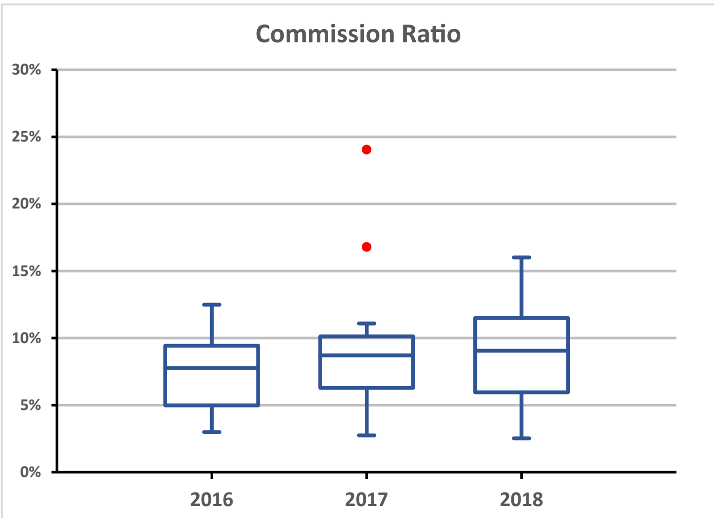
Graph 8 – Distribution of Liabilities to Total Equity and Liabilities to Assets:



Graph 9 – Distribution of Retention Ratio



Graph 10 – Distribution of Commissions Incurred Ratio



Overall, the average Investment Return decreased in 2018 compared to 2017 due to reduction in real estate and equity returns in the market.

> Average investment return reduced from 8.5% in 2017 to 7.1% in 2018.

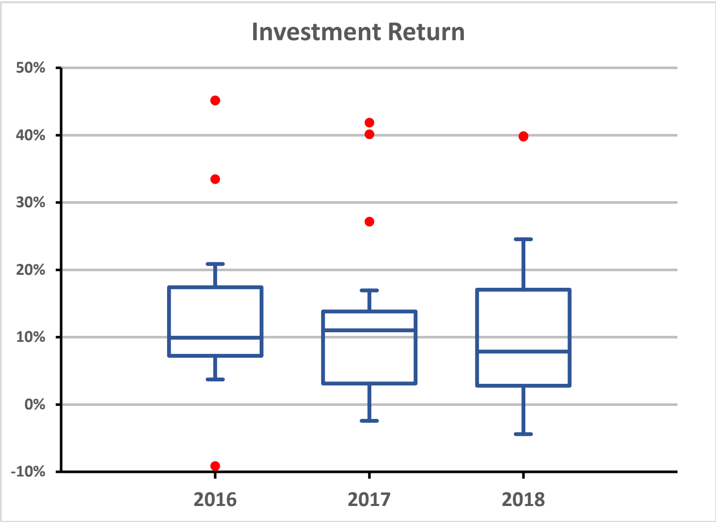
After the drastic improvement in 2017, the average Loss Ratio has stabilized with a slight improvement compared to last year. The overall gap between companies remains similar to 2017 with lesser outliers. We believe the continued improvement is attributed to regulatory changes by the Insurance Authority such as improvement in pricing for certain lines of business and enhanced technical awareness including requirements for higher level of actuarial input.

> Combined ratio increased marginally in 2018 to 84.4% in comparison to 83.7% in 2017.

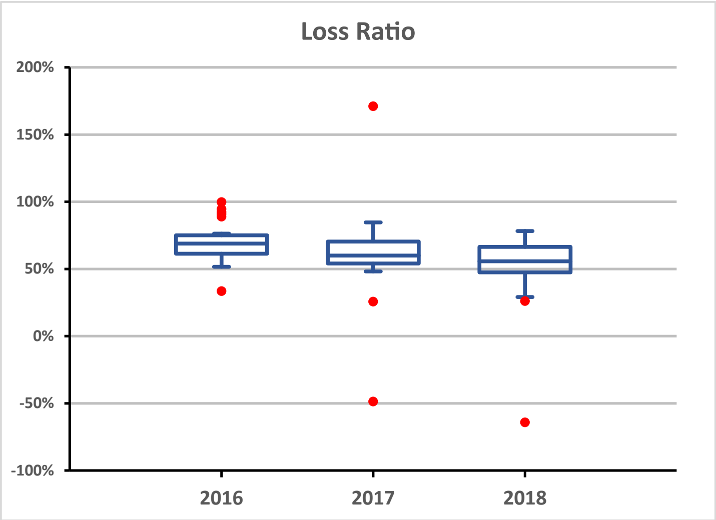
Even though the Net Combined Ratio increased slightly in 2018, the number of outliers in the market have reduced compared to 2017.

Please note the ratios used:
Net Profit Ratio = Net Profit / Net Earned Premium
Return on Equity = Net Profit / Average Total Equity
Retention Ratio = Net Written Premium / Gross Written Premium
Commission Ratio = Commission Incurred / Gross Written Premium
Investment Return = Investment Income / Net Earned Premium
Loss Ratio = Net Claims Incurred / Net Earned Premium
Net Combined Ratio = 1-(Net Profit / Net Earned Premium)

Graph 11 – Distribution of Investment Return



Graph 12 – Distribution of Loss Ratio



Graph 13 – Net Combined Ratio

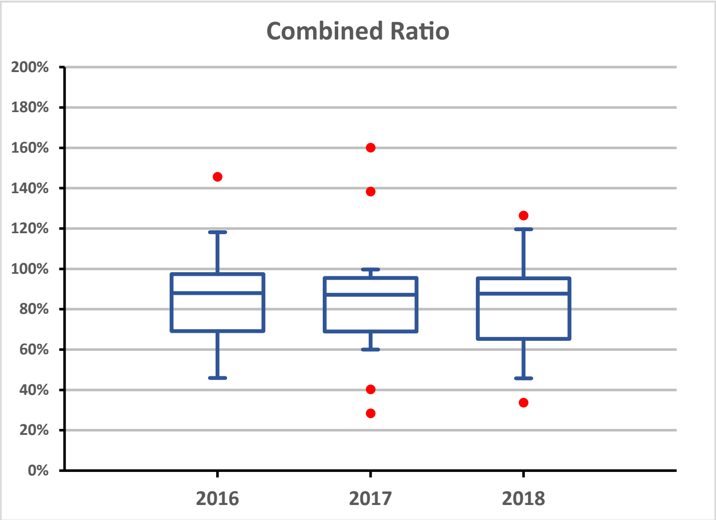


Exhibit 1

GWP, Net Profit and Total Equity (AED Millions)

Insurance Company	GWP		Net Profit		Total Equity	
	2018	2017	2018	2017	2018	2017
Oman Insurance Company (Audited)	3,699	3,718	10	104	1,671	2,061
Orient Insurance (Audited)	3,678	4,027	401	360	2,793	2,527
Abu Dhabi National Insurance Company (Audited)	2,909	2,643	236	227	2,102	1,976
Al Ain Al Ahlia Insurance Company (Audited)	1,514	1,388	48	50	1,175	1,171
Islamic Arab Insurance Company	1,063	809	1	38	725	741
Emirates Insurance Company (Audited)	1,043	1,077	130	101	1,123	1,079
Union Insurance Company (Audited)	952	1,049	6	10	300	309
Takaful Emarat (Audited)	599	584	14	19	165	149
National General Insurance Company (Audited)	551	572	31	37	464	465
Dubai Insurance Company (Audited)	532	476	51	38	486	470
Ras Al Khaimah National Insurance Company (Audited)	510	472	21	28	196	219
Al Buhaira National Insurance Company (Audited)	487	530	35	52	635	664
Abu Dhabi National Takaful Company (Audited)	384	374	68	59	361	314
Dubai Islamic Insurance & Reinsurance Co.	376	381	5	9	72	84
Al Sagr National Insurance Company	356	362	22	20	453	455
Dubai National Insurance & Reinsurance Company (Audited)	351	323	81	65	541	499
Al Dhafra Insurance Company (Audited)	334	415	54	52	361	342
Methaq Takaful Insurance Company (Audited)	317	409	15	1	84	75
National Takaful Company (Audited)	300	271	12	8	96	85
Alliance Insurance (Audited)	291	290	51	48	497	482
Dar Al Takaful (Audited)	291	390	7	10	123	116
Al Wathba National Insurance Company	271	237	39	61	853	851
Al Fujairah National Insurance Company (Audited)	267	243	31	28	246	234
Insurance House (Audited)	211	219	11	8	99	91
Orient UNB Takaful (Audited)	190	38	(9)	(6)	186	195
Arabian Scandanavian National Insurance Company (Audited)	168	234	21	5	311	295
United Fidelity Insurance Company (Audited)	146	85	(9)	(11)	70	87
Al Khazna Insurance	54	108	(4)	(141)	105	115
Sharjah Insurance Company (Audited)	53	56	16	22	195	221
Axa Green Crescent Insurance Company (Audited)	40	40	(2)	(19)	118	124
Total	**21,939**	**21,822**	**1,394**	**1,285**	**16,605**	**16,496**

Please Note:

As per 2018 audited and preliminary reports, 2017 final results for some companies have been restated due to change in accounting policies or reclassification of certain line items. Hence, we have used the most recent published figures above.

Exhibit 2

Premium Ranks by Company

Insurance Company	Market Share		Market Share Rank		
	2018	2017	2018	2017	Change
Oman Insurance Company (Audited)	16.9%	17.0%	1	2	+1
Orient Insurance (Audited)	16.8%	18.5%	2	1	-1
Abu Dhabi National Insurance Company (Audited)	13.3%	12.1%	3	3	0
Al Ain Al Ahlia Insurance Company (Audited)	6.9%	6.4%	4	4	0
Islamic Arab Insurance Company	4.8%	3.7%	5	7	+2
Emirates Insurance Company (Audited)	4.8%	4.9%	6	5	-1
Union Insurance Company (Audited)	4.3%	4.8%	7	6	-1
Takaful Emarat (Audited)	2.7%	2.7%	8	8	0
National General Insurance Company (Audited)	2.5%	2.6%	9	9	0
Dubai Insurance Company (Audited)	2.4%	2.2%	10	11	+1
Ras Al Khaimah National Insurance Company (Audited)	2.3%	2.2%	11	12	+1
Al Buhaira National Insurance Company (Audited)	2.2%	2.4%	12	10	-2
Abu Dhabi National Takaful Company (Audited)	1.8%	1.7%	13	17	+4
Dubai Islamic Insurance & Reinsurance Co.	1.7%	1.7%	14	16	+2
Al Sagr National Insurance Company	1.6%	1.7%	15	18	+3
Dubai National Insurance & Reinsurance Company (Audited)	1.6%	1.5%	16	19	+3
Al Dhafra Insurance Company (Audited)	1.5%	1.9%	17	13	-4
Methaq Takaful Insurance Company (Audited)	1.4%	1.9%	18	14	-4
National Takaful Company (Audited)	1.4%	1.2%	19	21	+2
Alliance Insurance (Audited)	1.3%	1.3%	20	20	0
Dar Al Takaful (Audited)	1.3%	1.8%	21	15	-6
Al Wathba National Insurance Company	1.2%	1.1%	22	23	+1
Al Fujairah National Insurance Company (Audited)	1.2%	1.1%	23	22	-1
Insurance House (Audited)	1.0%	1.0%	24	25	+1
Orient UNB Takaful (Audited)	0.9%	0.2%	25	30	+5
Arabian Scandanavian National Insurance Company (Audited)	0.8%	1.1%	26	24	-2
United Fidelity Insurance Company (Audited)	0.7%	0.4%	27	27	0
Al Khazna Insurance	0.2%	0.5%	28	26	-2
Sharjah Insurance Company (Audited)	0.2%	0.3%	29	28	-1
Axa Green Crescent Insurance Company (Audited)	0.2%	0.2%	30	29	-1

هيئة التأمين
Insurance Authority

Regulatory Updates

There has been a lot of regulatory activity in 2018 with the UAE Insurance Authority (IA) issuing the following since February 2018:

- The Insurance Authority (IA) issued new regulations on the capital requirements for foreign branches in May 2018. A key part is the additional information required by the IA to monitor the solvency of the parent company at the home office level. In addition, the IA clarified the acceptable forms of capital that a foreign branch should hold in order to meet the solvency requirements. This includes transferring part of the parent company's assets to the branch's account in the State, providing a bank guarantee to the IA or other forms of guarantee as approved by the IA.

- The Unified Circular (51) on 2019 reporting requirements included additional guidance for some reports:

  - Financial Condition Reports (FCRs)– The IA requires more details on the pricing policies of life products, a comprehensive analysis on the adequacy of the reinsurance agreements and a clear description and understanding of the status of the Enterprise Risk Management (ERM) implementation for both local companies as well as foreign branches.

  - Reserving Reports – The IA emphasizes the transparency required for the reserving methodologies and assumptions used, including a run-off or back-testing analysis for a minimum of 2 years. In addition, all reports must be peer reviewed by another qualified actuary.

  - Pricing Reports – The reports should include a profitability analysis of the products sold by the Company. The profitability analysis should include Expected Loss Ratios, Expense Ratios, Expected Profit Levels, and for any segment with negative profits recommended corrective measures, at a minimum.

- The IA issued a circular (50) on IFRS 17. Companies are required to complete their gap analysis by 28th February and provide a roadmap to the IA for the implementation of IFRS 17 by 15th March. Starting at Q2 2019, 15 days after the end of each quarter, companies are required to provide a report to the IA showing their progress in comparison to their roadmap. Each company should begin parallel reporting under current and IFRS 17 standard for year-end 2020 results, which will allow companies to finalize all of the implementation issues in 2021 and report results using only IFRS 17 standard in 2022.

- A new version of the eForms (1.7) was released by the IA based on new circulars and decisions issued during 2018. The major changes included the addition of new forms specifically for life insurance business, a major update to the performance analysis ratios to include early warning tests based on the benchmarking report issued by the IA, and some updates to the solvency calculations.

- The IA also published new instructions applying to insurance companies intending to market their products through banks. The main part included limitations on the contractual agreement between the insurance companies and the banks and the approval procedures that companies should follow prior to marketing these products. In addition, the instructions emphasized the appointment of a Designated Officer by the banks and minimum conditions to be met prior to appointing a Designated Officer were also issued.

- In December 2016, the IA issued draft regulations for life insurance and family takaful business that is expected to have a significant impact on the industry. It includes, among other measures, banning upfront high levels of commissions and better policyholder disclosures. A fine-tuned updated draft was also recently published in January 2019. Among other changes, the updated draft has been modified to include guidelines related to the treatment of the commission limits for policies with increasing/decreasing premium and to include an article on the role and licensing of investment advisors. The final regulations are still pending.

- In January 2019, the IA issued draft Electronic Insurance Regulation which will apply to every insurance company that wishes to issue insurance policy contracts electronically. It prohibits selling life insurance and funds accumulation policies, both protection and saving, through the Company's website or any other website. The regulation discusses a wide range of requirements relating to the management of the websites internally or through outsourcing to a third party, security and integrity of the information provided through the website, privacy policies, disclosure requirements, as well as requirements relating to complaints and claims notification procedures.

Market Developments & Updates

IFRS 17:

Since the publication of IFRS 17 in May 2017, the insurance industry in Europe had begun the implementation process in advance of the original effective date of 1st January, 2021. However, following the tentative decision of the IASB in late 2018, the effective date has been postponed to at least 1st January 2022. This has given some much needed time to insurers in UAE as most insurers didn't start the implementation of IFRS17 until the beginning of 2019.

This is because in preparation for the IFRS 17 implementation within the UAE market, the Insurance Authority (IA) issued circular (50) of 2018 on November 29, 2018 instructing the companies to prepare for IFRS 17 by drafting a project plan with three phases (Assessment, Design and Implementation).

From our initial findings, working with several insurance companies in the region, it is clear that the implementation of IFRS 17 is likely going to require significant efforts in particular getting access to an unprecedented amount of data, adequate IT systems and experienced teams.

The new IFRS standard for insurance contracts promises to have a transformative effect on insurers' financial reporting and therefore is likely to have a significant impact on all aspects of the insurance companies from high-level strategy to detailed operational complexities and policies.

IFRS 17 calls for a more nuanced and comprehensive approach to risk modelling—an approach that will require not just specialized actuarial expertise, but also unprecedented processing speed to meet strict auditing timeframes.

IFRS 17 is expected to raise a number of practical challenges for insurance companies. It is an accounting standard, but implementation will require a multi-disciplinary program with involvement from accounting teams, risk management teams and actuarial teams.

On the actuarial front, the requirements of the new standard go well beyond any accounting measurement used so far. At each reporting date, best estimate future cash flows need to be projected and discounted in an appropriate way, using actuarial assumptions and methods. For embedded options, stochastic projections (1000+ scenarios) may be required.

Implementation of a DRG reimbursement mechanism in the Dubai medical insurance market:

The Dubai health insurance industry progressed towards implementation of a Diagnosis Related Grouper (DRG) reimbursement system for in-patient services, with a shadow billing process now in place. A DRG system is a reimbursement mechanism whereby all costs associated with a hospital admission, including costs for ward, theatre, physician, radiology, laboratory etc. are reimbursed under a single code, the DRG, for a fixed reimbursement rate. We understand that the DRG reimbursement mechanism will be phased in during the course of 2019, however no date of implementation has been publicly announced at this point. The benefit of implementing a DRG reimbursement mechanism is that it removes the incentive for providers to keep patients in hospital for longer than strictly necessary, as their reimbursement does not increase with length of stay as it does under a fee-for-service arrangement.

FOR FURTHER INFORMATION PLEASE CONTACT:

dubai@milliman.com

OR:

Safder Jaffer, FIA

Managing Director
Milliman LLC, Dubai

safder.jaffer@milliman.com

Muhammad Asad Irshad, FSA

Principal
Milliman LLC, Dubai

asad.irshad@milliman.com

Milliman

Office: +971 4 386 6990
Fax: +971 4 386 6950

Unit 511, level 5
Liberty House, DIFC
Dubai, United Arab Emirates

ae.milliman.com