Operating Company Non-Life

Emirates Insurance Company P.S.C.

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AMB #: 085401	**Ultimate Parent #:** N/A	**NAIC #:** N/A	**AIIN#:** AA-4660230

Publicly Traded Corporation: Emirates Insurance Company P.S.C.
ADX: EIC

Best's Credit Ratings

Best's Financial Strength Rating: A- **Outlook:** Stable

Best's Issuer Credit Rating: a- **Outlook:** Stable

Rating Effective Date: 07/07/2016

Financial Size Category: IX

Report Revision Date: 07/28/2016

Rating Rationale

Rating Rationale: The ratings of Emirates Insurance Company P.S.C. (EIC) reflect its strong risk-adjusted capitalisation, excellent business profile within the United Arab Emirates (UAE), and its track record of good technical and operating performance. An offsetting rating factor is the company's concentrated investment portfolio, which is weighted towards domestic equities.

EIC's risk-adjusted capitalisation remains at a very strong level. Capital consumption continues to be driven by investment risk, with UAE equity holdings accounting for 44% of total investments as at year-end 2015. As a result of new insurance regulation in the UAE, the company is looking to reallocate its investment portfolio in order to comply with the investment allocation limits by the end of 2016. Despite EIC's concentrated investment portfolio, its capital position remains sufficient to absorb volatility driven by these equity holdings, as demonstrated by the AED 102 million (USD 28 million) of unfavourable fair value movements from investments during 2015, recorded through other comprehensive income. In addition, EIC's strong risk-adjusted capitalisation benefits from relatively low underwriting risk. Whilst the company has a strong capital buffer to support future strategic initiatives, internal capital generation is expected to remain constrained by dividend payments. EIC maintains a strong liquidity position with a current liquidity ratio of 133%.

EIC wrote AED 939 million (USD 256 million) of gross written premium in 2015, ranking it as the fourth-largest listed insurer within the UAE market. The company's premium retention has increased materially in the past five years, to 46% during 2015. Emirates Insurance Company International (EIC Intl) was founded in 2012 as the company's specialty reinsurance branch, operating out of the Dubai International Financial Centre, and writing business from the Afro-Asian region. Whilst 77% of EIC's total premium is derived from the domestic market, the company has a well-diversified portfolio by line of business and benefits from geographical diversification through business written via the reinsurance division. EIC Intl has become a fundamental part of the business offering a revenue stream uncorrelated to the UAE economy, and during 2015, it accounted for 21% of EIC's gross written premium and 18% of operating profits.

EIC's technical performance has deteriorated over the past five years as it absorbs start-up costs from EIC Intl and has come under competitive pressure in the domestic market; nevertheless, the company has a good five-year average combined ratio of 84%. For 2015, the company achieved an overall operating profit of AED 90 million (USD 24 million); this translated into a sound return on equity of 9%. The company's profits are split equally between investment and underwriting operations, with net investment income totaling AED 42 million (USD 11 million) during 2015. EIC reported a good net result of AED 38 million

Rating Rationale (Continued...)

(USD 10 million) for the first quarter of 2016, albeit 35% down from the first quarter of 2015, as the company was hit by losses in Abu Dhabi and Chennai.

Positive rating pressure may arise from the expansion of the company's business profile whilst maintaining strong technical profitability.

Negative rating pressure may arise from a material reduction in risk-adjusted capitalisation or a prolonged period of weak operating performance.

Positive or negative rating pressure may arise from a change in A.M. Best's assessment of the economic, political or financial situation in the UAE or the company's ability to navigate the challenging operating environment.

Five Year Rating History

	BEST'S	
Date	FSR	ICR
07/07/2016	A-	a-
07/16/2015	A-	a-
07/17/2014	A-	a-
09/03/2013	A-	a-
09/10/2012	A-	a-
09/12/2011	A-	a-

Business Profile

Established in 1982 as one of the national insurance companies of Abu Dhabi, EIC is listed on the Abu Dhabi Securities Exchange (ADX). The largest shareholders include Mazrui Investments 15%, Al Dhabi Investments 13%, and the Abu Dhabi Investment Council 12%.

Since inception EIC has been operating solely in the domestic market, where it has successfully become a leading market player in the United Arab Emirates. However, due to increasing competition and pressure on rates the company's profile had stagnated during 2008 to 2012 as the company sought to maintain underwriting discipline, focusing on profitability over top line growth. In 2012, EIC took the initiative to enhance its profile through the creation of Emirates Insurance Company International (EIC Intl) based next to the Dubai International Financial Centre (DIFC). The division provides specialty reinsurance cover across the Afro-Asia region, and writes four lines of business concentrating on areas that their management team has experience in underwriting. The reinsurance segment the company operates in is: Marine; Energy; Property Fac; and Non-Marine Retro. In order to maintain a balanced portfolio, there is no intention to increase EIC Intl's exposure beyond 25% of total premium revenue. EIC Intl has become a key pillar in the company's strategy, providing growth opportunities and offering a revenue stream uncorrelated with the UAE economy.

EIC retained their position as the fourth largest listed insurer in the UAE (by GWP), with a market share of 7%. Retention has increased in the past few years, peaking in 2014 at 51%. During 2015 GWP grew by 12% to AED 939 million. Growth has been driven by large contracts and EIC Intl.

EIC has always focused on maintaining strong underwriting discipline. However the prevailing challenging operating environment has meant that EIC have reduced rates on selective risks to remain competitive. The company is able to demonstrate the effect on rates from the highly competitive nature of the UAE property market, and are hopeful there will be technical improvements in the short to medium term as a result of improving regulation from the Abu Dhabi Insurance Authority (IA).

Scope of Operations

Scope of Operations: EIC focuses on non-life and health insurance products in the UAE, and EIC Intl accounted for 23% of GWP during Q1 2016. Business is sourced via Brokers (London, Singapore, and Dubai) 28%, Fac Inwards 28%, Direct 23%, and Agency 21%. The use of brokers has increased with the introduction of international risks. EIC benefits from its wide distribution network, with over 26 branches based within the UAE and as such the majority of business is sourced from Abu Dhabi and Dubai, which combined represent 77% of the company's GWP.

The company's total portfolio remains well diversified by line of business on both a GWP and NWP level. Motor remains the largest component of total GWP; this is expected to continue going forward. At year-end 2015, EIC's GWP was split as follows: Motor 23%, Energy Oil & Gas 20%, Fire & General Insurance 16%, Medical 14%, Marine & Aviation 13%, Engineering 11%, and Employee Benefits 2%.

Motor is retained at 84% and accounts for 42% of NPW. The majority of motor risks are commercial fleets, generally sold direct and via brokers. The company has agreements with agency repair companies, in addition to gaining subrogation costs where possible. Whilst third party rates remain under pressure, the company has seen an uptick in motor comprehensive rates during 2015.

Risk Management

EIC's enterprise risk management is considered to be on par with regional insurers and is commensurate to the company's risk profile. Risk management has a strong focus on the underwriting side as evidenced by the policies and procedures in place.

EIC has a risk management committee, and a risk register that is organised by risk category, in place. The risk register is a comprehensive list focusing on underwriting, operational, and credit risk, however fails to adequately address many of the risks associated with a portfolio concentrated in public and private equities. Although investments do not feature prominently within the formal risk management framework, there are sound procedures and monitoring tools in place to effectively manage the investment portfolio.

The company utilises an effective risk accumulation monitoring tool that geo tags all property risks and assists with the purchase of additional reinsurance cover if necessary. EIC employs a clear segregation of risks between its core direct portfolio and the exposures assumed by EIC Intl. Given the nature of risks sourced by EIC Intl the company uses the latest tools to monitor and control these risks, such as, OpenExposure for the energy book. Separate retrocession is purchased to protect the company from the additional volatility created by EIC Intl, which is driven by the company's risk appetite and tolerances.

EIC measures capital adequacy using both Best's Capital Adequacy Ratio and the IA Solvency Template. The company's risk appetite statement is incorporated into policies, and procedures are cascaded down to the business units. Asset liability matching is conducted to ensure sufficient liquid assets are available to cover net reserve liabilities.

As a result of the new financial regulations for insurance companies in the UAE, published January 2015, EIC appointed an internal actuary, and are looking to reallocate their investments to conform to the investment allocations. EIC's management have been proactive in looking to implement strategies to move in line with the regulation. A.M. Best views the changes in legislation positively; they promote a better level of corporate governance and risk management.

Catastrophe Exposure & Management: Support from EIC's and EIC Intl's reinsurance brokers is received for PML calculations and subsequently assist in reinsurance purchasing. The company's largest net exposure is to an earthquake in India, via business written by EIC Intl. Conversely the company's largest gross exposure is to an earthquake in the UAE. A.M. Best notes that modelling in the UAE remains relatively underdeveloped as a result of the region having no records of catastrophe prior to its inception, 50 years ago.

Country Risk: The UAE is a CRT-3, CIC II, associated with moderate levels of political and financial system risk, and low levels of economic risk. The country has been affected by a sustained period of low oil prices, although it is less at risk than other members of the Gulf Cooperation Council, and has the lowest level of country risk in the Middle East as assessed by A.M. Best.

The majority of EIC's business comes from the UAE market, 70% of investments are held in the country, and the company is domiciled in the UAE. The DIFC was recently set up in the UAE and is considered a free trade financial zone, operating under English law and regulated by the DFSA. Whilst there is diversification benefit from EIC Intl's business that is sourced out of the UAE, the majority of that business is in CRT-3, CRT-4 and CRT-5 countries. EIC have a significant capital buffer to partially mitigate country risk, and management has a strong track record of operating performance.

Operating Performance

Operating Results: EIC has shown strong operating profitability driven by good technical performance and stable yields on investments. Profits are split equally between underwriting and investments. The company reported a sound return on equity during 2015 of 9%, continuing the company's strong performance over the past 5 years, highlighted by a 5 year average return on equity of 10%. During 2015 EIC produced an operating profit of AED 90 million, an increase of 13% from 2014. A.M. Best notes that profitability may be affected in the short term as EIC adjusts to the new insurance regulations.

Underwriting Results

Underwriting Results: EIC has demonstrated a strong track record of technical profitability owing to its prudent underwriting discipline and risk selection. Technical profitability was flat in 2015, at AED 43 million, resulting from a 65% overall loss ratio. This is recognised as a good result considering the increasing competition, and pressure on rates throughout the UAE and business acquired via the DIFC.

Underwriting profit for the traditional operations was driven by strong results in Motor AED 13 million, Marine AED 13 million, and Engineering AED 12 million. All lines of business made a profit.

Underwriting profit for EIC Intl was driven by energy AED 10 million, supported by Non-Marine Retro AED 6 million, and Marine AED 2 million. On the other hand Property Fac, which has been underperforming for most market participants, produced a AED 9 million loss, after suffering from a large loss in Nepal during Q2 2015. The company will be challenged to improve this line of business and has taken a number of steps to improve performance or as a minimum to limit its exposure to this segment.

The motor line of business as a whole remained profitable and continued to be EIC's largest line of business, contributing 42% of NWP in 2015. Third party motor business continued to have adverse performance however was marginally offset by an uptick in comprehensive motor rates. The company has undergone an assessment of all branches to improve the motor book, resulting in the closure of one branch.

The expense ratio has shown an increasing trend over the last five years as a result of changes in business mix, distribution channels, in addition to the costs involved with EIC Intl.

Q1 2016:

The company has continued to grow its profile during Q1 2016, with GWP increasing by 6% compared to the same period in 2015. EIC made a profit of AED 38 million for the first quarter of 2016, although this was much lower than the AED 59 million of profit attributable to the first quarter of 2015. The reduction in profit can be attributed to increasing reserve requirements, losses from the March weather storms in the UAE, and claims volatility on the international book. Profitability is expected to normalise throughout the course of 2016.

Investment Results

Investment Results: Net investment yield has remained stable over the past five years, averaging 3.1%. Investments taken through profit and loss have performed well, particularly in 2014 and 2015, where investment income has been AED 43 million and 42 million respectively. Conversely the company suffered AED 102 million of adverse fair value movements on investments taken through other comprehensive income; the company's relatively high proportion of equities in the investment portfolio exposes them to such market volatility.

The new insurance regulations in the UAE will have an impact on EIC's investment portfolio. The company will have two years to come into line with the new requirements. A.M. Best notes the penalty for exceeding investment allocations is that any surplus will be classed as an inadmissible asset in the IA's solvency calculation.

Balance Sheet Strength

Capitalization

Capitalization: EIC has strong risk-adjusted capitalisation, with capital requirements primarily driven by investment risks given the high concentration in equities. However, EIC's capital position is sufficiently strong enough to absorb additional charges and movements in investment activity. The company's capital base is supported by a comprehensive reinsurance programme with companies that have secure financial strength ratings and an unleveraged balance sheet.

Dividend payments currently stand at 60% of paid-up capital, with payments linked to the profitability of the company. Prospective risk-adjusted capitalisation is likely to remains strong, but is constrained by its dividend policy. The company is anticipated to take appropriate action if its capital position moves close to the stated tolerance, for which there is no material concern at present.

EIC utilises rating agency models to assess its capital requirements, in addition to ensuring key capital and solvency ratios are stable and in line with expectations.

Loss Reserves

Loss Reserves: EIC's reserves are based on requirements set by insurance law and legislation. Loss reserves appear to be adequately provisioned, with the company building in prudence where possible. Reserves are calculated internally, and in 2015 the company appointed an external actuary to review technical provisions. The report shows total reserves were redundant by 1% on a net basis. Two new reserves were established during Q1 2016 to bring reserves in line with new regulatory requirements. A.M. Best notes this was a marginal increase in total reserves held and the company is considered adequately reserved.

Liquidity

Liquidity: EIC has sufficient levels of cash and cash equivalents to cover net reserve liabilities to counter EIC's significant exposure to equities and private investment funds. The current liquidity ratio was 133%, and ratio of liquid assets to net technical provisions of 295% during 2015.

Investments

Investments: At year-end 2015, investment portfolio consisted of quoted equity 42%, deposits 24%, bonds 22%, other investments 6%, unquoted equity 4%, and real estate 1%.

The new insurance regulations in the UAE will have an impact on EIC's investment portfolio. The rules require that insurers have no more than a 30% allocation to UAE equities, which is significantly below the level currently invested by EIC: 44%. In order to comply with the investment allocation limits, the company has highlighted key exposures that need diluting.