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## Emirates Insurance Co. (PSC)

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# Emirates Insurance Co. (PSC)

SACP* Assessments				SACP*		Support		Ratings		
Anchor	a-	+	Modifiers	0	=	a-	+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0	A-/Stable/--
Satisfactory			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	
Financial Risk										
Strong										

\*Stand-alone credit profile.  
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

## Rationale

### Business Risk Profile: Satisfactory

- Emirates Insurance Co. (EIC) is the fourth-largest insurer in the United Arab Emirates (UAE) with a growing international unit.
- Intermediate industry and country risk exposure signifies that most of its business comes from the United Arab Emirates (UAE).
- Adequate competitive position due to strong operating performance history coupled with diversification by line of business and geography.

### Financial Risk Profile: Strong

- Extremely strong capital adequacy in excess of the 'AAA' requirements when modeled using our insurance risk-based capital model, with good quality of capital.
- Intermediate risk position, reflecting some investment risk concentration to equity holdings, partly offset by substantial levels of capital and liquid assets in the portfolio.
- Adequate financial flexibility reflecting our opinion of EIC's ability to meet any potential additional capital requirements and supported by relatively modest needs for funding.

### Other Factors

- We combine our assessments of the company's satisfactory business risk profile and strong financial risk profile to derive our anchor of 'a-'.
- We assess enterprise risk management (ERM) as adequate, management and governance as satisfactory, and liquidity as exceptional, all of which are neutral to the rating.
- Our counterparty credit and financial strength ratings on EIC are therefore 'A-'.

**Outlook: Stable**

The stable outlook reflects S&P Global Ratings' view that our assessments of the drivers of Emirates Insurance Co.'s (EIC's) satisfactory business and strong financial risk profiles are unlikely to change materially over the next two years. We anticipate that capital adequacy will remain extremely strong and resilient to any earnings pressure, and that EIC's technical profitability will remain high, and better than the market. We also anticipate that its risk position will remain intermediate.

**Downside scenario**

We could downgrade EIC if we saw a material weakening of its earnings, constraining our assessment of both the company's competitive position and its financial profile through a material deterioration of capital adequacy.

**Upside scenario**

We consider an upgrade to be unlikely over the next two years. However, we could take a positive rating action if EIC continues to diversify its business profile in and outside the UAE in a profitable manner, while further improving the quality of its assets and maintaining operating performance that is significantly better than the UAE market average.

**Base-Case Scenario****Macroeconomic Assumptions**

- Real GDP growth in the UAE of about 2.5% in 2016-2018.
- The nominal premium growth rate for the property/casualty (P/C) sector in the UAE will be about 10% in 2016-2017, supported by increasing insurance penetration in the market.
- UAE insurers' heavy investment in equity and real estate markets, with earnings therefore subject to market volatilities. Despite the stock market volatility, we regard insurers as relatively resilient since we consider them to be strongly capitalized.
- For detailed macroeconomic forecasts, see "United Arab Emirates Property/Casualty Insurance Sector Carries An Intermediate Industry And Country Risk Assessment," published Feb. 17, 2016 on RatingsDirect.

**Company-Specific Assumptions**

- While the gross premium written will remain flat, net premium earned will grow by around 7%-8% over the two-year outlook horizon.
- We expect EIC to post combined ratios of better than 90% and return on equity (ROE) better than 8% through to 2018.
- Capital adequacy to remain extremely strong and fully supportive of the company's growth projections.

## Key Metrics

(mil. AED)	--Year ended Dec. 31--				
	2017f	2016f	2015	2014	2013
Gross premiums written	952	920	939	840	721
Net combined ratio (%)	<90.0	<90.0	88.7	88.6	83.3
Net income	>85	>85	90	103	86
Return on shareholders' equity (%)	>8.0	>8.0	8.5	9.8	9.4
S&P Global Ratings' capital adequacy	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong

AED--United Arab Emirates dirham. F--forecast.

## Company Description: Leading UAE Insurer with Strongly Profitable Earnings

EIC is the fourth-largest insurer in the UAE (of the 29 listed insurers in a market with over 60 participants) by gross premiums. Around 80% of its gross premium is generated domestically and a further 20% is generated by its international operation based in Dubai. EIC was established in Abu Dhabi in 1982 and is listed on the Abu Dhabi Securities Exchange. EIC writes all classes of insurance business, with an emphasis on commercial lines.

No shareholder has a significant single stake in EIC, but we note that the Al Mazroui family holds 14.8%, followed by Al Dhabi Investments, L.L.C. holding 12.8% and Abu Dhabi Investment Council holding 11.8%. EIC does not derive significant volumes of business from these parties.

## Business Risk Profile: Satisfactory

Our assessment of EIC's satisfactory business risk profile reflects the insurer's intermediate industry and country risk, due to its focus on the UAE market and its adequate competitive position as a leading company in the local sector.

### Insurance industry and country risk: Intermediate, averaging EICs exposures in UAE and international operations

We assess EIC's industry and country risk as intermediate, because it derives its business predominantly from the UAE. This assessment is based on our view of low insurance product risk and intermediate country risk. It also reflects the level of competition present in this fragmented insurance market, despite being supported by good economic prospects. Development of the UAE regulatory framework lags international practice, but new regulations introduced in 2015 should make the supervisory oversight and market integrity significantly better, once established. In our opinion, the international business, which generates around 20% of gross premium, carries a higher level of risk but does not materially weaken EIC's average intermediate risk.

Table 1

Emirates Insurance Co. (PSC) -- Industry And Country Risk		
Insurance sector	IICRA	Business mix*
United Arab Emirates P/C	Intermediate	79
Other P/C	Moderate	21

**Table 1**

Emirates Insurance Co. (PSC) -- Industry And Country Risk (cont.)		
Insurance sector	IICRA	Business mix*
Weighted average IICRA	Intermediate	100

\*Based on gross premiums written. P/C--Property and casualty.

### Competitive position: Adequate, with stable and predictable performance on a technical and overall basis

EIC's competitive position is adequate, in our view. The company is the fourth-largest listed domestic insurer in the UAE, a status reinforced by its growing international book. EIC wrote UAE dirham (AED) 939 million (US\$255 million) of gross premiums in 2015, up 12% on 2014. We estimate this as a 5% share of the listed insurers market, based upon the published results. The strong rate of growth reflects the expansion of EIC's international business through its Dubai operation, which continues to grow by 19% in 2015. We see the international unit as adding controlled diversity to the business. Domestic business grew 10%, within the average of market norms, with profitability impressive across all lines of business.

EIC's core risks are commercial nonlife, with motor and medical business written as accommodation lines, supporting energy, marine, and property. Almost all lines saw growth in 2015, except motor which remained flat. The company is not developing a presence in the highly competitive domestic medical business, nor is it building any life platform (one-third of the total market) but it is expanding its acceptance of non-catastrophe Afro-Asian sourced risks. This unit is limited to less than 25% of total gross premiums (21% in 2015).

**Table 2**

(Mil. AED)	--Year ended Dec. 31--				
	2015	2014	2013	2012	2011
Gross premiums written	939	840	721	645	643
Change in Gross Premiums Written (%)	11.7	16.5	11.7	0.3	2.1
Net premiums written	435	431	354	256	230
Change in Net Premiums Written (%)	0.8	21.8	38.5	11.1	(2.8)
Net premiums earned	418.0	386.0	321.0	244.0	235.0
Change in Net Premiums Earned (%)	8.2	20.3	31.6	4.0	5.9
Reinsurance utilization - premiums written (%)	53.7	48.7	50.9	60.4	64.2

AED--AED--United Arab Emirates dirham.

### Financial Risk Profile: Strong

We see EIC's financial risk profile as strong, benefiting from very strong capital and earnings, intermediate risk position, and adequate financial flexibility.

### Capital and earnings: Very strong, with capital adequacy forecast to remain at 'AAA' level over the next two years

In our opinion, EIC has extremely strong risk-based capital adequacy, supported by strong and persistently

above-average earnings. At 89% in 2015, and a five-year average of 83%, EIC's combined ratio is measurably better than many peers, but has gradually deteriorated over the past five years. We expect that EIC will deliver net combined ratios no worse than 90% and that it will, on balance, continue to outperform the domestic market in terms of underwriting performance.

EIC has long maintained extremely strong capital adequacy, and we expect this to continue until 2018. Nevertheless, we expect that EIC's capital adequacy will weaken due to premium, and therefore risk, growing faster than earnings generation. We believe the international unit introduces greater potential for earnings volatility, but the control framework limits this downside. As of December 2015, 17% of shareholder funds comprised valuation surpluses, so there is some sensitivity to market volatility. However, our assessment of capital adequacy does not give any credit for reserve redundancies or the full value of real estate, so there is some additional margin for extreme events beyond our existing modeled 'AAA' redundancy.

EIC's ROE has also been declining, but at 8.6%, was above the 2015 market average. This weakening is in response both to the less generous underwriting trends and a slight decline in investment yields. Nevertheless, retained earnings will maintain capital adequacy at our extremely strong assessment level.

**Table 3**

<b>Emirates Insurance Co. (PSC) -- Capitalization Statistics</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(Mil. AED)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Common shareholders' equity	1,004	1,097	1,018	800	784
Change in common shareholders' equity (%)	(8.5)	7.7	27.3	2.0	(0.6)

AED--United Arab Emirates dirham.

**Table 4**

<b>Emirates Insurance Co. (PSC) -- Earnings Statistics</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(Mil. AED)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Total revenue	458	427	355	275	265
EBIT adjusted	79	79	84	77	81
Net income (attributable to all shareholders)	90	103	86	99	105
Return on shareholders' equity (reported) (%)	8.5	9.8	9.4	12.5	13.4
Net expense ratio (%)	23.8	24.2	24.9	21.1	19.5
Net loss ratio (%)	64.9	64.3	58.4	58.6	57.5
Net combined ratio (%)	88.7	88.6	83.3	79.7	77.0

AED--United Arab Emirates dirham.

### **Risk position: Intermediate risk reflects tightly managed exposure to volatile investments**

We view EIC's risk position as intermediate, reflecting a largely unchanged investment portfolio at the end of 2015 from 2014, comprising 46% cash and bonds and 52% equities. The equity instruments include both local equities and international funds, a mix managed internally and by outside advisers. EIC continues to gradually de-risk its investment profile, and although there is still relatively high equity leverage, at 68% of shareholder's equity (2014:

74%), we expect this to steadily decrease over the next two years, and also give an improvement to the credit quality of its funds.

In 2015, EIC ceded 54% of gross premiums, in line with market norms. The company maintains long-term stable relationships with mostly strongly rated international. As noted above, there is no sign of reinsurer dependence for the net income stream.

Independent actuarial reviews by all lines of business for 2015 show technical reserves redundancy of 8% on a gross level and 1% on a net level. At a provided level of AED198 million (2014: AED150 million), net loss reserves were 47% of net premiums earned (2014: 39%), the rise being, in part, caused by the international unit, which has longer-term settlement patterns. Available capital can, in our opinion, cope with significant reserving stress, though this is unlikely.

**Table 5**

Emirates Insurance Co. (PSC) -- Risk Position					
	--Year ended Dec. 31--				
(Mil. AED)	2015	2014	2013	2012	2011
Total invested assets	1,310	1,366	1,220	910	909
Net investment income	40	41	34	31	30
Net investment yield (%)	3.0	3.2	3.2	3.4	3.3
<b>Portfolio composition (% of General account invested assets)</b>					
Cash and short term investments (%)	23.7	16.7	16.4	20.1	19.6
Bonds & Loans (%)	22.1	21.1	21.2	17.8	10.8
Equity investments (%)	52.1	60.5	60.4	59.2	66.7
Other Investments (%)	2.2	1.7	2.0	2.8	2.9

AED--United Arab Emirates dirham.

### Financial flexibility: Adequate due to access to funds through banks and shareholders

EIC's capital growth has been entirely self-funded, but as a listed company it can access the capital markets. EIC has adequate financial flexibility, in our view, given its low future financing needs and good earnings generation. We expect the EIC's future earnings capacity to support its capital and growth needs in the medium term. EIC has historically paid a stable dividend of 60% on capital, though slightly reduced for 2015 (50%), which we believe reflects EIC's ability to adjust its outflows if required.

## Other Assessments

Our assessments of enterprise risk management (ERM), management and governance, and liquidity are neutral to the ratings.

### Enterprise risk management: Adequate for EIC's current risk profile

We consider EIC's enterprise risk management (ERM) to be adequate, with appropriate and established risk controls for its main risks. In our view, ERM is of relatively low importance to the rating, given EIC's comparatively simple operational and risk structure, and its predominantly UAE-focused business. The new international unit does raise the risk level but, in our view, this has a robust control and risk limitation framework. EIC has a clear risk appetite

statement, with appropriate and active reporting and performance indicators to monitor the risk profile. Nevertheless, we expect EIC's risk management to further evolve as operational complexity and market competition grows.

### **Management and Governance: Satisfactory, based experience of management team**

We assess EIC's management and governance as satisfactory. The management team is stable and has significant insurance expertise with a track record of success. The company has pursued a clear strategy that has served it well through the recent and ongoing very competitive market conditions, both domestically and internationally. Its persistent record of outperformance indicates the operational effectiveness and expertise of the management team.

### **Liquidity: Exceptional as a result of a liquid investment portfolio**

We view EIC's liquidity as exceptional, relative to likely funding needs in a stress scenario. The bulk of the company's investments are liquid and at end-2015 the liquidity position was exceptional with the stress ratio outcome at 233% (2014: 240%)

## **Accounting Considerations**

We view EIC's accounting policies as consistent with regional industry standards and neutral to the ratings. The company reports under International Financial Reporting Standards and our analysis is based on these accounts, supplemented by non-public information. This includes the composition of gross and net premium income, technical reserving, and additional investment-related information. The company discloses an unrealized surplus on real estate (own use office buildings) of AED107 million, which is not recognized on the balance sheet, and would add another 10% to adjusted shareholder funds.

Based on the new regulations issued by UAE Insurance authority, all UAE insurers are now reporting their 2015 financial statements in line with the regulations and had some minor restatements to the 2014 figures. There was no noticeable impact of these changes in EIC's financial position from a ratings perspective.

## **Related Criteria And Research**

### **Related Criteria**

- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

### **Related Research**

- United Arab Emirates Property/Casualty Insurance Sector Carries An Intermediate Industry And Country Risk Assessment, Feb. 17, 2016

**Ratings Detail (As Of October 12, 2016)**

**Operating Company Covered By This Report**



**Ratings Detail (As Of October 12, 2016) (cont.)****Emirates Insurance Co. (PSC)**

Financial Strength Rating

*Local Currency*

A-/Stable/--

Counterparty Credit Rating

*Local Currency*

A-/Stable/--

**Domicile**

United Arab Emirates

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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