

RatingsDirect®

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	Satisfactory		ERM and Management	0		Liquidity	0	Group Support	0	A-/Stable/--
Financial Risk	Strong		Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	

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

Rationale

S&P Global Ratings' issuer credit ratings on Emirates Insurance Co. (PSC) (EIC) reflects its position as a key Abu Dhabi-based property and casualty (P/C) insurer with operations extending across the United Arab Emirates (UAE), and internationally through its Dubai-based division. EIC is the fourth-largest listed insurer, as measured by gross written premium (GWP), with a 5% market share. EIC outperforms several of its local peers, boasting a track record of better-than-market-average operating performance, supported by its strategic focus on underwriting selective commercial risks that traditionally have lower retention rates and have profited more than commoditized lines. We expect EIC will maintain its current extremely strong capital adequacy over the next two years. EIC has no debt on its balance sheet, and it has historically not resorted to access debt or capital markets to meet its funding and liquidity needs. We acknowledge its diversified investment portfolio, which has been rebalanced toward higher-quality bonds and bank deposits over the last few years. Furthermore, the company has exceptional liquidity buffers to meet its liabilities and stable management and risk controls, which are neutral to the rating.

Key Metrics

	--Year-end Dec. 31--				
(Mil. AED)	2018f	2017f	2016	2015	2014
Gross premiums written	1,084	1,047	1,022	939	840
Net combined ratio (%)	< 91.0	< 91.0	91.5	88.5	88.6
Net income	> 80	> 80	87	90	103
Return on shareholders' equity (%)	> 7.0	> 7.0	8.5	8.5	9.8
S&P Global Ratings' capital adequacy	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong

AED--United Arab Emirates dirham. f--S&P Global Ratings' forecast.

Emirates Insurance Co. Rating Score Snapshot

Financial Strength Rating	A-/Stable
Anchor	a-
Business Risk Profile	Satisfactory
IICRA*	Intermediate Risk
Competitive Position	Adequate
Financial Risk Profile	Strong
Capital & Earnings	Very Strong
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

*Insurance Industry And Country Risk Assessment.

Outlook: Stable

The stable outlook on EIC reflects our assessment that, over the coming two years, the insurer will uphold its competitive position by growing modestly and continue to be profitable, while maintaining a balanced and de-risked investment portfolio. We expect the company will also maintain its extremely strong capital adequacy and will remain resilient to earnings pressures.

Upside scenario

We consider an upgrade unlikely in the next two years. However, we would consider raising the rating if we saw a material improvement in the company's competitive position through an increase in its geographical diversification, while it maintained positive operating performance.

Downside scenario

We would lower the ratings if:

- A material weakening in earnings erodes EIC's capital strength; and/or
- Significant deterioration in the quality of investments, to below investment grade, weakens EIC's risk and liquidity positions, and leads us to reassess the financial risk profile as less than adequate from currently strong..

S&P Global Ratings' Base-Case Scenario

Macroeconomic assumptions

- GWP in the UAE P/C sector to grow by about 10.0% per year in 2017 and 2018, outpacing real GDP growth of about 2.5% over the same period.
- Earnings characteristics to improve modestly for UAE insurers, underpinned by the implementation of actuarial pricing as new regulations are being fully implemented.
- For detailed macroeconomic forecasts, see "Insurance Industry And Country Risk Assessment: United Arab Emirates Property/Casualty," published Feb. 22, 2017, on RatingsDirect.

Company-specific assumptions

- Gross written premium to grow by 2%-3% in 2017 and 2018.
- Net combined (loss and expense) ratio to remain below 91% and net income of more than UAE dirham (AED) 80 million- (about US\$21 million) over the next two years.
- Risk-based capital adequacy to remain extremely strong at the 'AAA' range redundancy over the next two years.

Key Rating Factors

Business Risk Profile: Satisfactory

- EIC is an established insurer in Abu Dhabi, the capital of the UAE, and is strategically positioned to underwrite commercial risks, with motor and medical business written as accommodation lines, supporting energy, marine, and property.
- The company operates domestically (UAE) and underwrites internationally through its international division set up in Dubai, which accounts for about 23% of its premiums.
- We regard the UAE non-life sector as overcrowded with limited exposure to catastrophic risks, and that its growth has been mainly supported by compulsory lines and evolving regulatory enhancements. Nevertheless, our view of intermediate (which is the third lowest assessment on a six-point scale) country risks reflects the relatively stable economic environment.
- During 2015-2016, EIC's international book, which was still in expansionary phase, grew by a fast 19% year-on-year, compared with its domestic operations that grew within market norms by about 9% over the same period.
- Its business scale makes EIC the No. 4 (of 30) listed insurers in the UAE, with a 5% market share, measured by GWP of listed UAE insurers.
- EIC's operating performance continues to be stronger than that of its peers, with a combined ratio of 91.5% in 2016 compared with the market aggregate of 99.0% for the same period.
- We believe a key contribution to its stellar performance has been the nature of its commercial risks, which is highly reinsured to global and regional reinsurance market, a utilization rate that is similar to market norms in the region. We recognize that, despite the falling trend in net commission income, commercial business still remains profitable.
- We also note that EIC does not intend to participate in the compulsory medical business (Essential Benefits Plan) for expatriates in Dubai, which is only offered by "Participating Insurers," a status assigned by the Dubai Health Authority, as this line is highly competitive.

Financial Risk Profile: Strong

- EIC benefits from very strong capital and earnings, although it is moderated by the absolute size of capital, reflecting our view that capital is more sensitive to one-off shocks and exposed to more volatility.
- Capital strength will likely stay at this level, supported by our expectation of two factors: first, top-line growth will be

modest relative to the double-digit growth we have seen in recent years, reaching about 3% in 2017, primarily due to non-renewal of agency business (which would otherwise add 10% to gross premiums written). Secondly, our expectation that EIC will continue to focus on producing underwriting profits, with combined ratios under 91% in 2017-2018, the hallmark of its business strategy.

- Additionally, the company's Dubai-based international division, which focuses on writing Afro-Asian commercial risks, introduces greater volatility to its earnings, in our view. However, we expect premium volume for this to be maintained at current levels during the forecast period.
- EIC's current balanced investment portfolio stems from the company's significant efforts in de-risking its investments from high-risk equities to investment-grade fixed income in the past few years. Holdings include both local and international investments--a mix that is 37% managed by external advisors. We regard EIC's efforts to increase the quality and diversification of its current investments as supportive of the rating.
- The company discloses an unrealized surplus on real estate (including some for own-use office buildings) of AED94 million, which is not recognized on the balance sheet, and would add another 10% of adjusted shareholder funds.
- In 2016 EIC ceded 54% of its GWP, in line with market norms. The company maintains long-term, stable relationships with strongly rated international reinsurance, and there is no sign of reinsurer dependence for the net income stream.
- Independent actuarial review of technical reserves for year-end 2016 indicates that EIC's are adequately reserved. At a provided level of AED246 million (2015: AED198 million), net loss reserves were 52% of net premiums earned (2015: 47%). The increase being, in part, generated by the international unit, this has longer-term settlement patterns. Available capital can, in our opinion, handle significant reserving stress, though this is unlikely.
- The company's capital growth has been entirely self-funded, and as a listed company it has access to capital markets. We expect future earnings capacity to continue supporting its growth and capital needs.
- EIC has an exceptional liquidity position, based on our liquidity model for year-end 2016 its liquid assets cover 238% of its liabilities in a stress scenario (2015: 233%).

ERM And Management & Governance Assessment

- We consider EIC's enterprise risk management (ERM) to be adequate, underpinned by its established risk controls for its main risks, comparatively simple operational and risk structure, and its predominantly UAE-focused business.
- EIC's management and governance is satisfactory, based on our view of the stability of its senior management and leaders' significant insurance expertise and track record of success. The company's consistent positive performance points to a disciplined underwriting and operating culture, with good risk-management capabilities, which in our view mitigates concerns regarding potential risks.

Related Criteria

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

Related Research

- United Arab Emirates Listed Insurers' Strong 2017 Midyear Results Propelled By Regulatory Change, Aug. 24, 2017
- UAE Listed Insurers Are Navigating Their Way To Profitability, Amid Regulatory Pressures, April 16, 2017
- Insurance Industry And Country Risk Assessment: United Arab Emirates Property/Casualty, Feb. 22, 2017

Ratings Detail (As Of October 17, 2017)

Operating Company Covered By This Report

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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