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## Emirates Insurance Co. (PSC)

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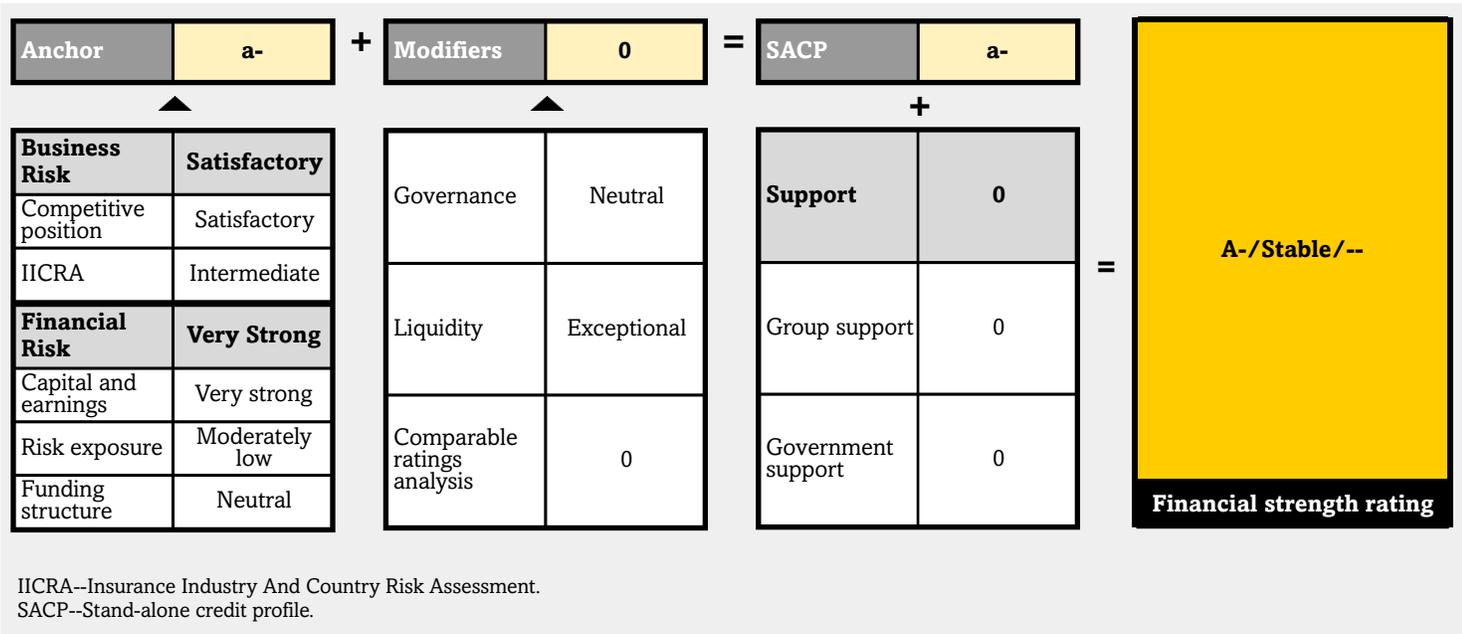
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# Emirates Insurance Co. (PSC)



## Credit Highlights

Overview	
Key strengths	Key risks
'AAA' level risk-based capital adequacy.	Business concentrated in the United Arab Emirates (UAE), a highly competitive market.
Track record of profitable underwriting performance and overall earnings.	Relatively high reinsurance utilization increases its dependence on international reinsurers.

*S&P Global Ratings expects Emirates Insurance Co. (PSC) (EIC) will maintain its 'AAA' level capital adequacy, as per our capital model.* The company's capitalization exceeds our 'AAA' benchmark, which is the key rating strength. We expect this to continue over the next two years.

*We expect EIC will maintain its track record of positive operating performance.* The company has built a track record of positive underwriting as well as overall earnings supported by its conservative underwriting approach. We expect EIC will maintain its underwriting discipline and continue to report net combined ratios (loss and expense) not exceeding the mid-90% range over the next two years.

*EIC's small size in terms of premiums and absolute capital informs our choice of anchor.* EIC is among the top-six listed insurance companies in the UAE but is smaller in terms of premiums and absolute capital base than market-leading peers. We reflect this aspect by selecting the lower of two anchor choices, based on the business and financial risk assessment.

**Outlook: Stable**

The stable outlook reflects our view that EIC's capital adequacy will remain at the 'AAA' level, as measured by our risk-based capital adequacy model, supported by profitable earnings over the next two years.

**Downside scenario**

We could lower the ratings if:

- There is an unexpected and significant decline in shareholders' equity, or we see a marked shift toward more high-risk assets, leading to a decline in the company's risk-based capital adequacy to the 'AA' level or below; and
- Although currently not expected, if we observe any significant weaknesses relating to governance and internal controls.

**Upside scenario**

Although unexpected, we could raise the ratings over the next two years if EIC:

- Continues to expand its premium base and profitability, both domestically and internationally, while outperforming its local peers; and
- Maintains its 'AAA' capital adequacy, measured by our model, and continues to de-risk its investment portfolio.

**Key Assumptions**

- We expect the UAE's real GDP to expand 3.8% in 2022.
- We expect that overall UAE gross written premium (GWP) growth (including both listed and nonlisted property/casualty [P/C] insurers) will be about 5% in 2022, as the economy continues to expand. The main spurs for GWP growth in 2022 are expected to be ongoing infrastructure spending, an increase in tourist numbers, and new visa programs to attract more residents and visitors.

**Emirates Insurance Co. (PSC)--Key Metrics**

<b>(Mil. AED)</b>	<b>2023f</b>	<b>2022f</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
S&P Global Ratings' capital adequacy*	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premiums written (mil. AED)	~1,200	~1,100	1,118.3	1,039.5	1,147.0
Net combined ratio (%)	>95	>95	95.7	88.3	92.4
Reinsurance utilisation (%)	60-70	60-70	64.2	54.2	49.0
Net income attributable to all shareholders (mil. AED)	~80	~60	71.0	108.3	113.1
Return on shareholders' equity (%)	~7	~5	6.3	9.9	10.1

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

## Business Risk Profile: Satisfactory

EIC was established in Abu Dhabi in 1982. Today it is one of the leading insurers in the UAE. In addition to its headquarters in Abu Dhabi, EIC has an office in Dubai, from which, it writes international reinsurance business primarily in African and Asian markets. In recent years, EIC has generated 80%-85% of its total GWP in the UAE P/C sector, and 15%-20% through its international division in Dubai.

In 2021, EIC's GWP expanded 7.6% to UAE dirham (AED) 1.12 billion (2020: AED1.04 billion). The company recorded growth in almost all lines of business except motor, which declined 21% due to continuous pricing pressure in the UAE market, even though traffic has returned to near pre-pandemic levels since lockdown restrictions were eased. For first-half 2022, GWP expanded a modest 4% compared with the same period in 2021. We anticipate EIC's GWP will remain broadly stable in 2022 and then expand 5%-10% in 2023-2024.

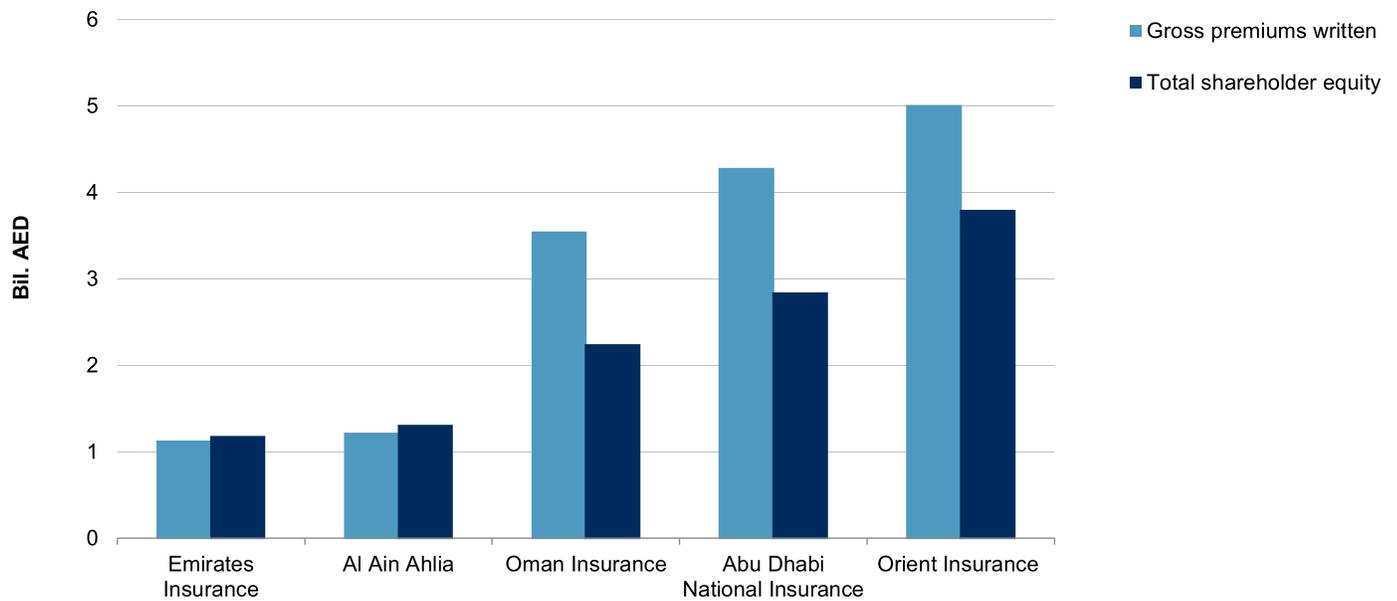
EIC has continued to report positive underwriting results over the past few years with a five-year net combined ratio of about 89%. However, due to the ongoing stiff competition, almost all insurers writing motor have recorded thinner margins, with some even reporting underwriting losses. EIC's net combined ratio deteriorated to 95.7% in 2021 compared with 88.3% in 2020. For first-half 2022, it reported a net combined ratio of 89%. Although pricing conditions in the motor market might bring some volatility in the short term, we expect EIC to maintain its conservative underwriting discipline and report net combined ratios not exceeding 95% in 2022-2023. On the investment side, EIC posted lower net investment income of AED6 million (first-half 2021: AED39 million), due to unrealized losses on financial assets measured at fair value.

In 2021, EIC ceded about 64% of its GWP to highly rated reinsurers, compared with about 54% in 2020. The increase in reinsurance utilization was mainly due to a rise in GWP from some highly reinsured lines such as fire and general accident. Although EIC's reinsurance utilization is relatively high compared to global standards, it is not unusual for insurers in the UAE. This typically helps companies to write profitable, large-scale business in return for lucrative inward reinsurance commissions, but it also reflects some dependence on reinsurers to offer capacity for large risks. We expect EIC's reinsurance utilization to remain broadly at current levels in 2022-2023.

Our assessment of EIC's business risk profile is moderated by its relatively small absolute size in terms of GWP compared with that of some local and regional peers, and significant exposure to the relatively small and highly competitive UAE market.

Chart 1

## Size Comparison Of 'A' Or 'A-' Rated Peers In The UAE In 2021



AED--UAE dirham. Source: S&P Global Ratings.

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## Financial Risk Profile: Very Strong

We consider the company's robust risk-based capital adequacy, which remains above the 'AAA' level in our model, a key rating strength. We expect EIC will maintain this over the next two years, supported by positive net income projections and dividend payouts in line with the historical average. EIC's shareholders' equity increased to about AED1.17 billion at year-end 2021 from AED1.08 billion in 2020, supported by profitable earnings. Based on the robust capital position, we believe that the need for any additional external capital and liquidity will be very low over the next two years.

In 2021, EIC generated about 16% of its total GWP through its international reinsurance division, which mainly writes business from African and Asian markets with low exposure to catastrophe risks. It therefore has limited risk of earnings volatility from large losses, in our view.

At Dec. 31, 2021, about 50% of EIC's total investments were in equities (mainly UAE-listed equities), 35% in fixed-income instruments, and 15% in cash and bank deposits. Although about half of EIC's investments are in equities (which we consider high-risk assets), we believe the company has sufficient capital adequacy buffers to absorb any potential volatility.

## Other Key Credit Considerations

### Governance

The company's management has a track record of implementing and delivering its key targets. We therefore regard the expertise, experience, and stability of the senior management team as beneficial to EIC.

We consider the insurer's enterprise risk management to be appropriate for its current risk exposure. The risk appetite for both its local primary insurance and international reinsurance business is set at relatively conservative levels and we view it unlikely that EIC will experience losses greater than its risk tolerance, given its modest net exposure to catastrophe or other large risks.

### Liquidity

When measured by our model, EIC's stressed liquid assets exceeded stressed liabilities by about 2.5x in 2021, which we consider exceptional. We do not anticipate any significant change in our assessment of the company's liquidity position over the next two years.

### Environmental, social, and governance

#### ESG Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of EIC.

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- 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

## Appendix

Emirates Insurance Co.--Credit Metrics History		
Ratio/Metric	2021	2020
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets (mil. AED)	1,674.5	1,559.5

## Emirates Insurance Co.--Credit Metrics History (cont.)

Ratio/Metric	2021	2020
Total shareholder equity (mil. AED)	1,172.8	1,076.7
Gross premiums written (mil. AED)	1,118.2	1,039.5
Net premiums written (mil. AED)	399.9	475.8
Net premium earned (mil. AED)	424.1	526.4
Reinsurance utilization (%)	64.2	54.2
EBIT	71.0	108.3
Net income (mil. AED)	71.0	108.3
Return on revenue (%)	11.1	18.3
Return on shareholders' equity (reported) (%)	6.3	9.9
P/C: net combined ratio (%)	95.7	88.3
P/C: net loss ratio (%)	62.5	54.3
Net investment yield (%)	2.5	3.2

AED--UAE dirham. P/C--Property/Casualty.

## Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bbb-	bb-/bb-	b+/b
<b>Satisfactory</b>	a	<b>a/a-</b>	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bbb-	bb+/bb	bb-/b+
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bbb-	bbb-/bbb-	bb+/bb	b+/b
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/bb-	bb-/b+	b/b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

## Ratings Detail (As Of September 8, 2022)\*

## Operating Company Covered By This Report

## Emirates Insurance Co. (PSC)

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer 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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