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Emirates Insurance Co. (PSC)

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Emirates Insurance Co. (PSC)

Anchor	a-	+	Modifiers	0	=	SACP	a-	A-/Stable/-- Financial strength rating
Business Risk	Satisfactory					Support	0	
Competitive position	Satisfactory		Governance	Neutral		Group support	0	
IICRA	Intermediate		Liquidity	Exceptional		Government support	0	
Financial Risk	Very Strong		Comparable ratings analysis	0				
Capital and earnings	Very strong							
Risk exposure	Moderately low							
Funding structure	Neutral							

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

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. EIC's capitalization exceeds our 'AAA' benchmark, which is the key rating strength, and will likely improve further over the next two years, supported by positive net income projections.

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) in the range of 90%-95% over the next two years.

EIC's small size in terms of premiums and absolute capital informs our choice of anchor. While EIC is among the top-five listed insurance companies in the UAE, it is relatively smaller in terms of premiums and capital base when compared to some large local and regional peers. This is reflected in our choice of the lower of two anchor choices.

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 in the range of 3%-5% in 2023-2024.
- We expect that overall UAE gross written premium (GWP) growth (including both listed and non-listed property/casualty [P/C] insurers) will be about 10%-15% in 2023-2024 as the economy continues to expand amid strong economic activity.

Emirates Insurance Co.--Key metrics

(Mil. AED)	2024f	2023f	2022	2021	2020
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premiums written*	~1300	~1,200	1,136	1,118	1,040
Net combined ratio (%)	<90%	<90%	85.3	95.7	88.3
Reinsurance utilisation (%)	60-70	60-70	68.0	64.2	54.2
Net income attributable to all shareholders	~100	~100	71.7	71.0	108.3
Return on shareholders' equity (%)	~8	~8	6.18	6.3	9.9

*Data for 2020-2022 is based on IFRS 4. Forecast data is based on IFRS 17. Gross premiums written will be replaced by Insurance Revenue under IFRS 17. AED--United Arab Dirham. f--S&P Global Ratings' forecast.

Business Risk Profile: Satisfactory

EIC was established in Abu Dhabi in 1982, with its shares listed on Abu Dhabi Securities exchange (ADX). In 2022, the company was the fifth-largest listed insurer in the UAE, with a market share of about 4% in terms of GWP.

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 about 85% of its total GWP in the UAE P/C sector, and around 15% through its international division in Dubai.

In 2022, EIC's GWP grew marginally by 1.6% to UAE dirham (AED) 1.14 billion (2021: AED1.12 billion). We note that the premium growth rate for EIC is lower than our market growth expectation. This is primarily due to EIC's relatively higher proportion of commercial business while market growth mainly stems from retail lines. EIC writes a broad spectrum of P/C covers with fire and general insurance contributing around 40% of total premium income in 2022. For first-half 2023, insurance revenue under IFRS17 grew by 2% compared with the same period in 2022. We anticipate EIC's insurance revenues will grow around 5%-7% over the next two years.

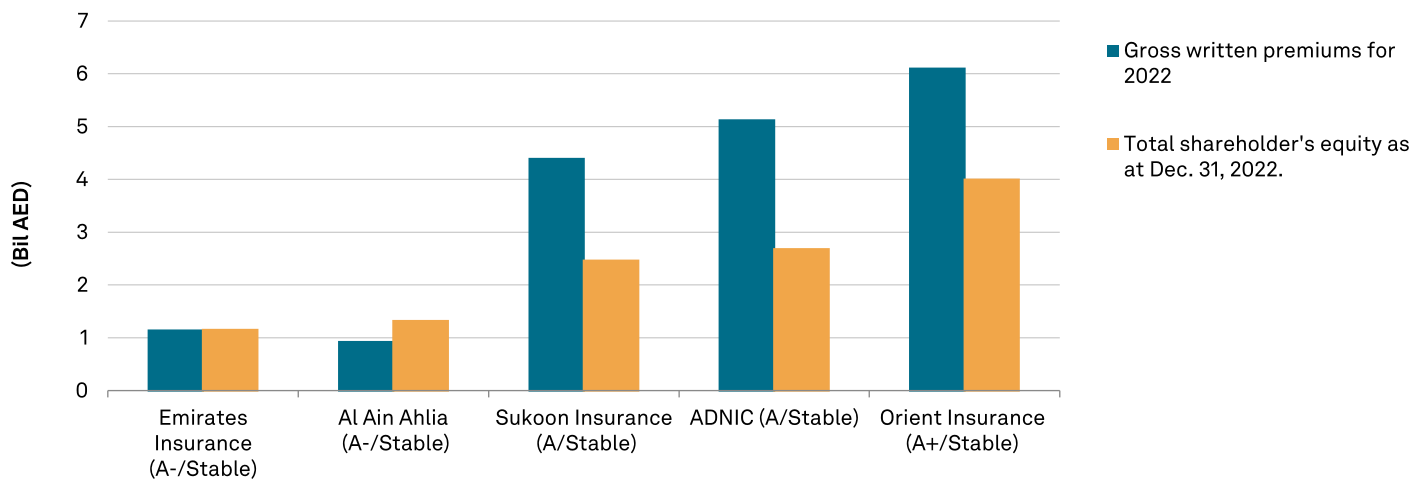
In 2022, EIC reported a material improvement in its underwriting results--the net combined ratio fell to 85.3% from 95.7% in 2021. Its five-year average net combined ratio is about 89%. We expect EIC to maintain its conservative underwriting discipline and report net combined ratios not exceeding 90% in 2023-2024. However, on the investment side, EIC posted lower net investment income of AED22.5 million (2021: AED59.3 million), mainly due to an unrealized loss on its investments measured at fair value.

In 2022, EIC ceded about 68% of its GWP to highly rated reinsurers, compared with about 64% in 2021. 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 2023-2024.

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

Comparison of A+/A/A- rated peers in the UAE



AED--United Arab Emirates 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 declined slightly to AED1.15 billion at year-end 2022 from AED1.17 billion in 2021, mainly due to other comprehensive losses of about AED20 million. Based on its robust capital position, we believe that EIC's need for any additional external capital and liquidity will be very low over the next two years.

In 2022, EIC generated about 17% 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, 2022, about 50% of EIC's total investments were in equities (mainly UAE-listed equities), 30% in fixed-income instruments, and the balance about 20% 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

EIC's liquidity profile is exceptional, thanks to the availability of liquid sources at its disposal, such as premium income and a liquid investment portfolio. At year-end 2022, stressed liquid assets exceeded stressed liabilities by about 3x, which we consider exceptional.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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	2022	2021
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	1,660	1,674
Total shareholder equity	1,150	1,173
Gross premium written	1,136	1,118
Net premium written	364	400
Net premium earned	367	424
Reinsurance utilization (%)	68.0	64.2
EBIT	71.7	71.0
Net income (attributable to all shareholders)	71.7	71.0
Return on revenue (%)	23.9	11.1
Return on assets (excluding investment gains/losses) (%)	5.0	2.6
Return on shareholders' equity (%)	6.2	6.3
Property/casualty: Net combined ratio (%)	85.3	95.7
Property/casualty: Net expense ratio (%)	33.1	33.6
Property/casualty: Return on revenue (%)	25.31	12.8
Financial leverage including pension deficit as debt (%)	0	0

Emirates Insurance Co.--Credit metrics history (cont.)

Ratio/Metric	2022	2021
Net investment yield (%)	3.11	2.54
Net investment yield including investment gains/(losses) (%)	0.24	10.85

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-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	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 October 31, 2023)*

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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