MARKET
MONITOR - UAE

UAE INSURANCE INDUSTRY REPORT

FINANCIALS OF LISTED COMPANIES

HALF-YEAR 2020

Gross written premiums showed an overall increase showing market resilience despite the COVID-19 pandemic, however, profitability decreased due to lower investment returns.

SEPTEMBER2020

TABLE OF CONTENTS

The Gross Written Premium, Net Profit and the Total Equity of the 29 listed insurance companies are shown in Exhibit 1. The financial statement for Q2 2020 is not published for one listed company (Al Khazna Insurance).

The other 32 companies operating in UAE are not listed and hence excluded from this report.

> *Market showed an overall growth in the written premiums in first half year of 2020, despite the COVID-19 pandemic.*

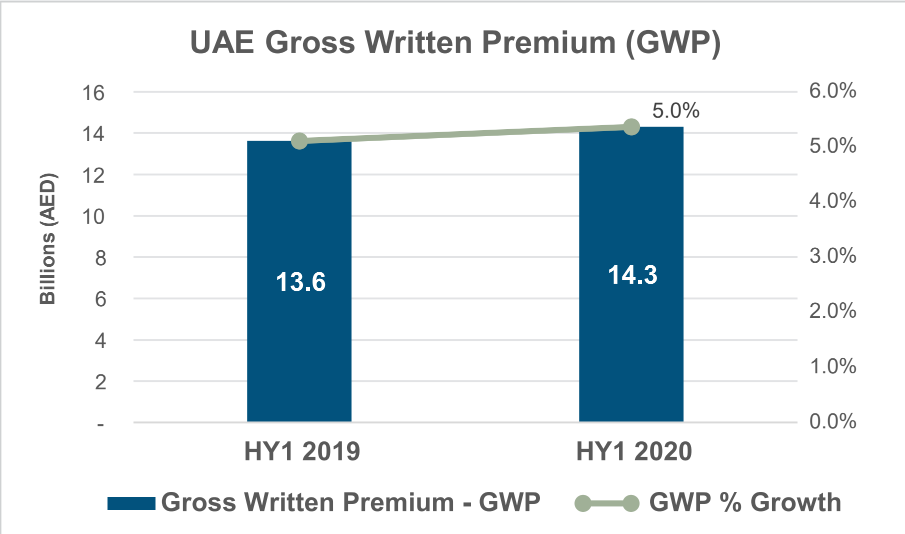
15 of the 29 companies showed an increase in GWP in HY1 2020 over HY1 2019. Abu Dhabi National Insurance Company (ADNIC), Orient Insurance Company and Oman Insurance Company retained their top spots based on premiums written in the first half of this year compared to the first half last year. However, as compared to the year-end 2019, Abu Dhabi National Insurance Company replaced Orient Insurance Company at the top position writing the highest premiums, Oman Insurance Company retaining the third position.

> *Net Profit decreased by 5% to AED 926m in HY1 2020, compared to AED 975m in HY1 2019. This is primarily driven by lower investment returns and higher commission expenses in HY1 2020.*

MARKET OVERVIEW

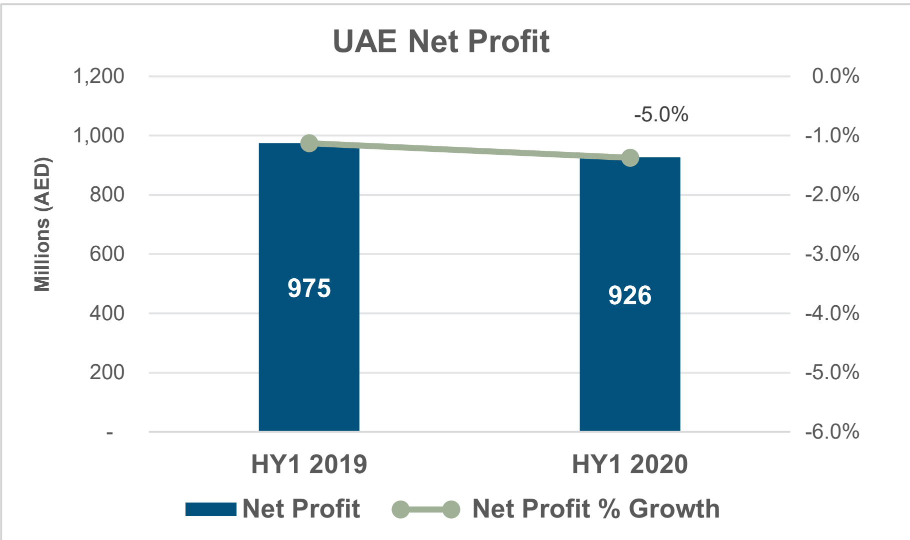
These results are based on the 29 unaudited reports (referred to as “the market” in this report) of the UAE insurance companies listed on the Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM). The UAE insurance market experienced a decrease in net profits as at HY1 2020 as compared to HY1 2019, despite an overall increase in the gross written premium (GWP). GWP grew by 5% to AED 14.3b in HY1 2020 as compared to AED 13.6b in HY1 2019. The increase in premium was primarily due to the higher volume of the new business written in the first half year, despite the occurrence of the COVID-19 pandemic, illustrating the resilience of the Insurance sector in UAE.

GRAPH 1 – GROSS WRITTEN PREMIUM (AED BILLIONS)



Underwriting profits improved for most companies compared to last year due to COVID-19 as motor claims decreased due to lockdown in the second quarter and health claims decreased due to postponement of elective treatments. However, investment returns for the market were lower than last year due to the adverse performance of investment markets in the UAE due to COVID-19. The impact of this resulted in the industry showing a decrease of nearly 5% in the net profit from AED 975m in the HY1 2019 to AED 926m in HY1 2020.

GRAPH 2 – NET PROFIT (AED MILLIONS)



4 of 29 listed companies had a net loss during HY1 2020 in comparison to only one company during HY1 2019.

Orient Insurance Company and Abu Dhabi National Insurance Company led the overall profitability of the insurance sector in the UAE during HY1 2020 with 17 out of the 29 companies improving their net profits compared to HY1 2019. Al Wathba National Insurance Company suffered the largest loss during HY1 2020.

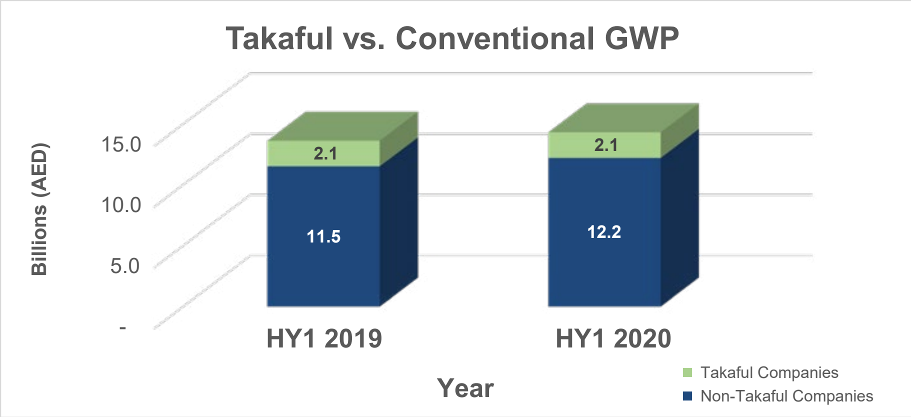
7 out of the 9 Takaful operators made profits in HY1 2020.

Only 10 of the 29 companies experienced an increase in total equity, with the total for the 29 companies showing an overall decrease of 3.7% during HY1 2020.

> *Parallel to decrease in profitability, the total equity also reduced in the first half year of 2020.*

Takaful companies saw a slight decrease in their GWP in HY1 2020 of 0.3% in comparison to 6% increase for the traditional players. Total GWP for Takaful operators now stands at AED 2.1b compared to AED 12.2b for traditional companies.

GRAPH 3 – TAKAFUL VS CONVENTIONAL GWP



The total equity for the 29 companies reduced from AED 17.5b at year-end 2019 to AED 16.8b at June end 2020, a decrease of 3.7%.

GRAPH 4 – TOTAL EQUITY (AED BILLIONS)

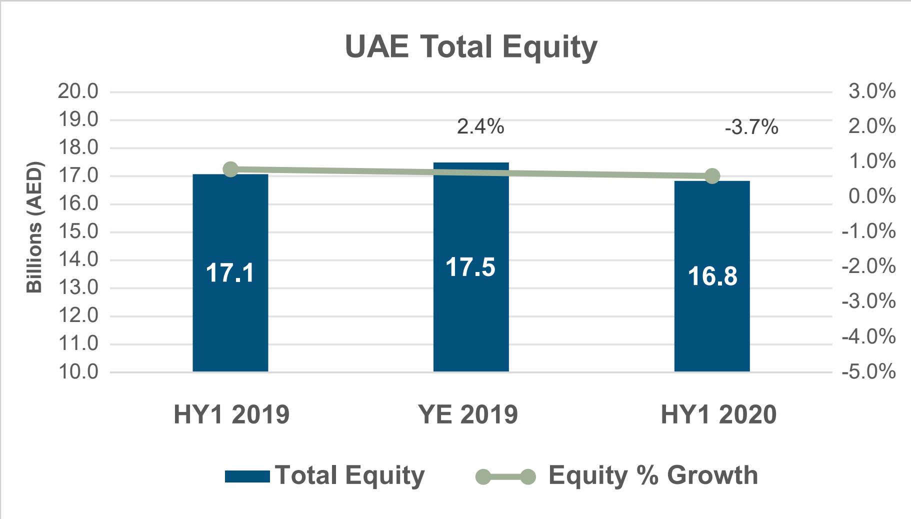


Exhibit 1

GWP, Net Profit and Total Equity (AED Millions)

Insurance Company	GWP HY1 2020	GWP HY1 2019	Net Profit HY1 2020	Net Profit HY1 2019	Total Equity HY1 2020	Total Equity YE 2019
Abu Dhabi National Insurance Company	2,562	2,348	190	119	2,188	2,296
Orient Insurance	2,559	2,253	282	270	3,214	3,124
Oman Insurance Company	2,100	2,044	110	106	1,949	1,916
Al Buhaira National Insurance Company	715	653	28	26	679	654
Islamic Arab Insurance Company	695	639	47	33	840	845
Al Ain Al Ahlia Insurance Company	670	616	32	32	1,139	1,203
Emirates Insurance Company	608	625	53	55	949	1,109
Union Insurance Company	473	482	(9)	20	312	326
Dubai Insurance Company	465	528	33	43	477	541
National General Insurance Company	333	311	2	24	444	457
Takaful Emarat	304	330	(4)	2	120	119
Ras Al Khaimah National Insurance Company	271	332	6	5	196	190
Al Sagr National Insurance Company	238	214	9	12	364	356
Abu Dhabi National Takaful Company	225	250	46	45	448	449
Dar Al Takaful	202	161	5	1	133	128
Al Wathba National Insurance Company	202	139	(80)	11	578	766
National Takaful Company	194	187	17	7	88	94
Orient UNB Takaful	186	162	1	(5)	188	187
Dubai National Insurance & Reinsurance Company	184	201	39	35	453	569
United Fidelity Insurance Company	182	100	2	1	62	76
Al Dhafra Insurance Company	165	163	32	40	340	391
Insurance House	150	145	7	8	125	132
Al Fujairah National Insurance Company	140	153	22	21	290	284
Alliance Insurance	128	146	25	25	510	515
Dubai Islamic Insurance & Reinsurance Co.	118	138	8	7	72	73
Methaq Takaful Insurance Company	117	168	(2)	12	82	84
Arabian Scandanavian National Insurance Company	65	78	23	10	312	289
Sharjah Insurance Company	33	34	1	9	165	194
Axa Green Crescent Insurance Company	32	33	1	0	121	121
Total	**14,314**	**13,631**	**926**	**975**	**16,837**	**17,489**

Please Note:

As per 2020 unaudited reports for half year, 2019 half year results for some companies have been restated due to change in accounting policies or reclassification of certain line items. Hence, we have used the most recent published figures above.

Exhibit 2

Premium Ranks by Company

Insurance Company	Market Share HY1 2020	Market Share HY1 2019	Market Share Rank HY1 2020	Market Share Rank HY1 2019	Change
Abu Dhabi National Insurance Company	17.9%	17.2%	1	1	0
Orient Insurance	17.9%	16.5%	2	2	0
Oman Insurance Company	14.7%	15.0%	3	3	0
Al Buhaira National Insurance Company	5.0%	4.8%	4	4	0
Islamic Arab Insurance Company	4.9%	4.7%	5	5	0
Al Ain Al Ahlia Insurance Company	4.7%	4.5%	6	7	+1
Emirates Insurance Company	4.2%	4.6%	7	6	-1
Union Insurance Company	3.3%	3.5%	8	9	+1
Dubai Insurance Company	3.2%	3.9%	9	8	-1
National General Insurance Company	2.3%	2.3%	10	12	+2
Takaful Emarat	2.1%	2.4%	11	11	0
Ras Al Khaimah National Insurance Company	1.9%	2.4%	12	10	-2
Al Sagr National Insurance Company	1.7%	1.6%	13	14	+1
Abu Dhabi National Takaful Company	1.6%	1.8%	14	13	-1
Dar Al Takaful	1.4%	1.2%	15	20	+5
Al Wathba National Insurance Company	1.4%	1.0%	16	24	+8
National Takaful Company	1.4%	1.4%	17	16	-1
Orient UNB Takaful	1.3%	1.2%	18	19	+1
Dubai National Insurance & Reinsurance Company	1.3%	1.5%	19	15	-4
United Fidelity Insurance Company	1.3%	0.7%	20	26	+6
Al Dhafra Insurance Company	1.2%	1.2%	21	18	-3
Insurance House	1.0%	1.1%	22	23	+1
Al Fujairah National Insurance Company	1.0%	1.1%	23	21	-2
Alliance Insurance	0.9%	1.1%	24	22	-2
Dubai Islamic Insurance & Reinsurance Co.	0.8%	1.0%	25	25	0
Methaq Takaful Insurance Company	0.8%	1.2%	26	17	-9
Arabian Scandanavian National Insurance Company	0.5%	0.6%	27	27	0
Sharjah Insurance Company	0.2%	0.2%	28	28	0
Axa Green Crescent Insurance Company	0.2%	0.2%	29	29	0

REGULATORY UPDATES

The highlights of the UAE Insurance Authority (IA) activities include the following:

- The IA had issued Circular No. (20) on IFRS 17 Financial Impact Assessment which required companies to complete their financial impact assessment and provide a report to the IA. Insurance companies submitted their FIA results to the IA in April 2020 as per the extended deadline due to COVID-19. Additionally, companies were required to provide a report to the IA showing their progress in comparison to their IFRS 17 implementation roadmap, within 15 days of the end of each quarter. The deadline for the first quarter was extended to 30th April. We understand that most companies have started the Design phase work but at a slower pace due to COVID-19 and the one year extension to the implementation of IFRS17 provided by IASB.

- In addition, the Circular No. (20) of IA provides the deadlines for the quarterly progress reports to be submitted by the companies to IA in 2021 and 2022. All the companies are also required to submit IFRS 17 Financial Impact Assessment reports in 2021 (using 2019 year-end data) and 2022 (using 2020 year-end data).

- The IA has issued Circular No. (26) in August 2020, on the Additional Technical and Regulatory Requirements concerning the Actuarial Review of Pricing Policies applied by companies in the classes of Property and Liability Insurance. These requirements intend to increase the business awareness amongst the top executives of the companies and also raise the level of compliance.

  Some of the additional requirements to be complied by the Appointed Actuaries include – analysis of TPA arrangements, analysis of the extent of compliance with the minimum and maximum tariffs stipulated by the IA, expense study analysis and analysis of the extent of conformity of pricing process to the overall strategic goals and business plans of the company; it is expected that these developments will support future IFRS 17 implementation and reporting needs.

Milliman

MARKET DEVELOPMENTS & UPDATES

IFRS 17

Implementation of IFRS17 continues to be a major focus for the Insurance Industry in UAE. The IFRS17 implementation date has also been extended by one year effective for accounting periods starting 1 January 2023.

Following on from the financial impact assessment conducted by the Insurance market in Q1 2020, most of the market has now started the process of designing their policies to comply with the new standard, however the momentum has slowed down due to COVID-19.

From our initial findings, working with several insurance companies in the region, it is clear that the implementation of IFRS 17 is likely going to require significant efforts in particular getting access to an unprecedented amount of data, adequate IT systems and experienced teams. It is also evident that most companies are currently not clear what impact IFRS17 will have on their transition balance sheet (day 1 profits and equity position).

Based on the results for our clients in UAE and other GCC countries, we have seen that most companies are projected to have a decrease in profits in year 1 under IFRS 17 as compared to IFRS 4. This trend is mainly due to the following reasons:

- Risk Adjustment applied to the claims and expenses leading to a decrease in profit.
- Discounting of the claims liabilities increasing the profit, but since the tail is small for the non-life contracts, positive impact of discounting is lower than the decreasing impact of the risk adjustment on profit.
- Impact of difference in methodology of IFRS 17 vs IFRS 4.

For majority of the companies, the Motor line of business (LOB) shows an initial decrease in profit, which is mainly due to the impact of setting up a risk adjustment. In UAE however, due to the 13 months contracts, running Motor LOB on General Measurement Model can offset some of the negative impact of risk adjustment due to methodology differences.

Like Motor LOB, a decrease is observed in year 1 profit for Medical LOB as well primarily due to the introduction of risk adjustment. However, for some cases where the medical LOB is heavily reinsured we have seen a different trend. We have also seen an impact of methodology difference between the gross and reinsurance contract, due to the difference in contract boundaries (where the reinsurance is on a risk-attaching basis).

For other LOBs, we have seen both positive and negative impact on year 1 profits depending on the reinsurance, methodology applied and current policies on deferred acquisition costs.

UAE COVID-19 UPDATE

The UAE insurance industry appears to be holding up reasonably well so far based on the results of the 29 companies presented above. Globally, the general expectation is that the crisis will lead to a fall in global insurance demand during 2020, however, the industry is expected to return to pre-crisis levels by the end of 2021. Especially if fears of a more prolonged crisis are allayed by the emergence of a vaccine.

The COVID-19 crisis is likely to speed-up various paradigm shifts and new opportunities for the insurance sector, due to increased risk awareness, significantly accelerated digital transformation, potential slowing down of the pace of globalization and different approaches to managing and structuring of economic supply chains.

The more immediate financial impacts are expected to emerge in the health insurance sector and motor insurance sector. The delays to elective surgeries and reduced holiday season travel is likely to lead to an increase in claims, due to a change in seasonality patterns. In addition, treatment cost is likely to be higher for some treatments due to the delay in elective surgeries. Motor insurance renewals could be scaled back, as policyholders cut back and replace comprehensive cover with mandatory Third-party cover. In addition, there could be a demand for lower rates or "free policy extensions" in lieu of unutilized cover during the lockdown period.

Going forward, there could be some long term challenges for the life insurance industry to consider from a pricing perspective, given the emerging long-term health effects from COVID-19. These long-term effects, which have not yet been exhaustively understood, could potentially impact on the prevalence of critical illness conditions, for example.

There is still uncertainty about the duration of the pandemic, especially as managing this effectively depends on achieving "herd-immunity" through a sustainable globally-administered vaccine. There is still a risk of a second wave in the UAE later on during the year (we have already seen these in Europe, for example), but for now, social distancing, wearing of face coverings and extensive test, trace and treatment work and localized lockdowns appear to be helping economies to open up sustainably.

The financial impacts on the insurance industry remain unchanged: a forecast of reduced earnings due to higher claims in some lines, lower investment income and lower growth which is linked to lower economic growth forecasts, a "refund of premiums" for not being on risk during lockdown periods. The Dubai and Abu Dhabi stocks have (as at 19th August 2020) lost 19% and 11% respectively, which is a recovery from losses of 26% and 20% respectively as at 10th April 2020. The recovery is being held back by the UAE's heavy reliance on sectors highly impacted by COVID-19 such as tourism, hospitality, trade, retail, logistics and real estate.

We do not expect reporting needs to reduce for now as Insurance Regulators in the Gulf region seek to maintain a handle on the industry impact from COVID-19. And, whilst the general expectation was that COVID-19 was a "non-adjusting event" for financial statements ending 31 December 2019, this has changed at HY1 2020 with companies having to satisfy their auditors and boards about the impact of COVID-19. Companies have had to run various scenarios showing the impact on: revenues, costs, capital, risks and operations and considering different time horizons. We would expect that business plans and strategies would be updated to reflect these findings.

Whilst there are challenges, COVID-19 also does present some opportunities for innovation, product development, reviewing risk appetites and governance, resource management, digitization, cyber risk management to enable and support the capacity for business continuity plans as well as how to more specifically react to possible changes in consumer behaviors in the short, medium and long term. Cost structures could be streamlined by considering the "future of work" and how this possibly compliments employee satisfaction levels and the ability to future-proof against service disruptions.

FOR FURTHER INFORMATION PLEASE CONTACT:

dubai@milliman.com

OR

SAFDER JAFFER
FIA

Managing Director
Milliman LLC, Dubai

safder.jaffer@milliman.com

MUHAMMAD ASAD IRSHAD
FSA

Principal
Milliman LLC, Dubai

asad.irshad@milliman.com

Milliman

Office: +971 4 386 6990
Fax: +971 4 386 6950

Unit 511, level 5
Liberty House, DIFC
Dubai, United Arab Emirates

ae.milliman.com