MARKET MONITOR - UAE

UAE INSURANCE INDUSTRY REPORT 2020

(BASED ON PRELIMINARY RESULTS)

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Despite COVID-19, UAE Insurance industry stays resilient and records profit increase for fourth consecutive year.

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Table of Contents

MARKET OVERVIEW

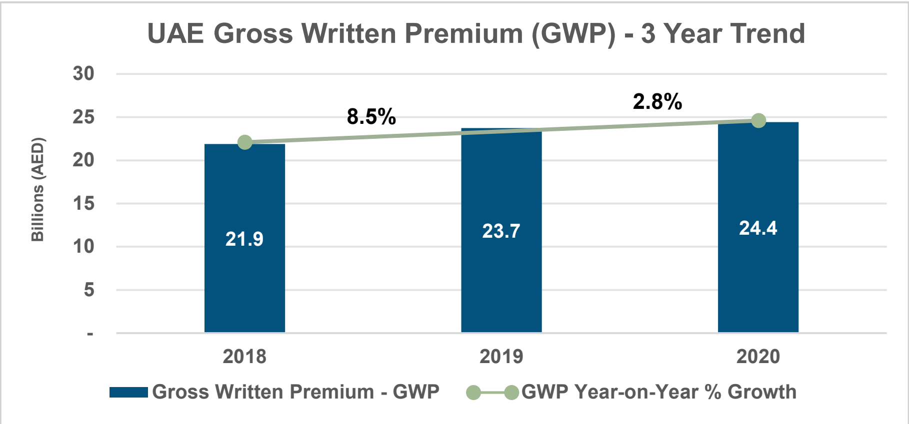
The UAE insurance market continued its trend for the fourth consecutive year with an overall increase in their profitability along with a premium growth in 2020. Based on the preliminary disclosures (21 companies) and audited reports (9 companies) of the UAE insurance companies listed on the Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM), the Gross Written Premium (GWP) grew by 2.8% to AED 24.4b during 2020 following an increase of 8.5% in 2019. The premiums show an increase primarily because of the high volume of insurance business written in the first quarter of 2020 and general inflation in premiums especially related to medical premiums. However, the increase in premiums has been lower as compared to 2019 because of the COVID-19 Pandemic impacting Q2 and Q3 in particular compounded with various discounts offered by the insurers during this period .

The Gross Written Premium, Net Profit, and the Shareholder's Equity for the 30 listed insurance companies are shown in Exhibit 1.

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

Market had a smaller growth in 2020 compared to 2019. This is primarily due to the impact of COVID-19 leading to discounts on premium. Despite that, the market still grew modestly showing the resilience of the UAE Insurance industry.

Graph 1 – Gross Written Premium (AED Billions)

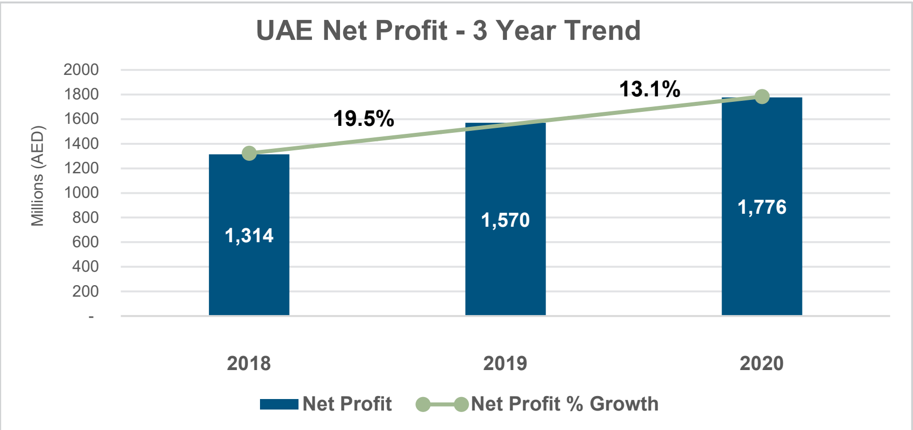


On a net profit basis, the industry continued to improve for the fourth year in a row achieving a net profit of AED 1,776m for 2020, compared to a net profit of AED 1,570m in 2019, an increase of 13.1%. The increase was primarily due to lower volume of claims received during different parts of the year because of COVID-19 related lockdowns and movement restrictions. This was slightly offset by an overall reduction in investment returns during the year.

15 of the 30 companies showed an increase in GWP in 2020 over 2019. Orient Insurance Company and Abu Dhabi National Insurance Company both continued to retain top two positions respectively.

Net Profit has shown a 13.1% increase to AED 1,776m during 2020, compared to 19.5% in 2019. The increase in the Net profits during the year 2020 is primarily driven by favorable claims experience, majorly for motor and medical insurance resulting from COVID-19 related lockdowns and movement restrictions as well as suspension of elective surgeries.

Graph 2 – Net Profit (AED Millions)



Only 3 of 30 listed insurance companies had a net loss during 2020, the same number as 2019.

Further, the impact of the outbreak of COVID-19 continues to progress and evolve. Due to the limited information available on the pandemic, the results are subject to a substantially greater than usual level of uncertainty which may have resulted in more conservatism in reserve setting process offsetting further increase in profits.

Orient Insurance Company and Abu Dhabi National Insurance Company (ADNIC) continued to lead the overall profitability of the insurance sector in the UAE during 2020 with 19 out of the 30 companies improving their results since 2019.

Al Khazna Insurance Company and Takaful Emarat suffered the largest losses during 2020.

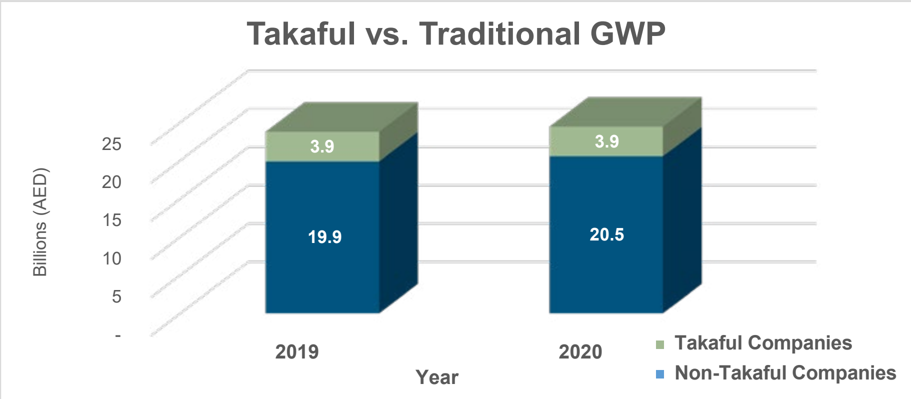
7 out of the 9 Takaful operators made profits in 2020. Arabian Scandinavian National Insurance Company showing a loss in 2019 turned profitable in 2020. However, Methaq Takaful Insurance Company which was profitable in 2019 incurred a loss in 2020.

21 of the 30 companies experienced an increase in shareholder's equity, with the total for the 30 companies having a growth of 4.1% during 2020.

In line with growth in profitability, shareholders equity continued to show a growth for the fourth consecutive year.

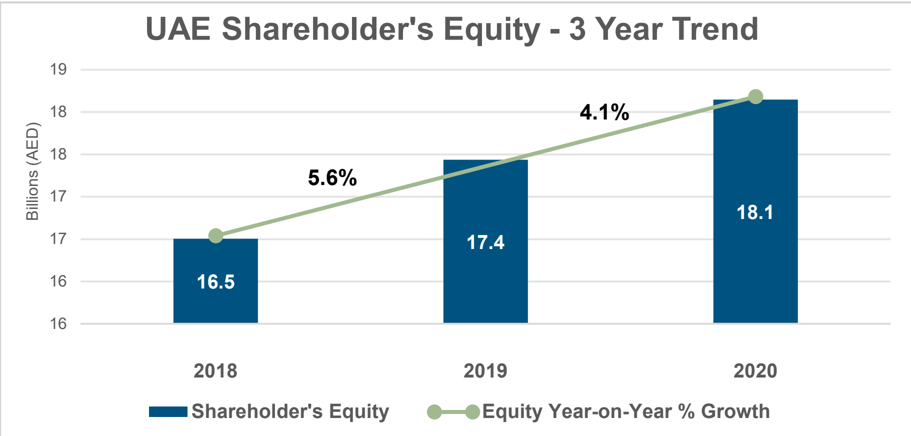
Takaful companies saw a very modest growth in their top line in 2020 of 0.3% in comparison to 3.3% increase for the traditional players. Total GWP for Takaful operators now stands at AED 3.9b compared to AED 20.5b for traditional companies.

Graph 3 – Takaful vs Traditional GWP



The Shareholder's Equity had an increase of 4.1% in 2020 compared to a 5.6% increase in 2019. The total Shareholder's Equity for the 30 companies grew from AED 17.4b in 2019 to AED 18.1b at year-end 2020.

Graph 4 – Shareholder's Equity (AED Billions)



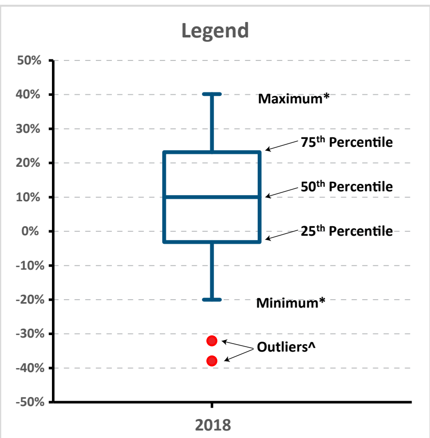
The net profit ratio for all companies is converging to the 3% to 12% range, with 6 companies achieving a profit ratio of 13% and above.

It is important to note that companies are not consistent in reporting their financial results. For example, some companies subtract general expenses to reach their underwriting profit but others do not. This makes industry comparisons difficult at best and can cause misleading indications of profitability for some companies. Hence, we have not included underwriting profit of the companies in our report.

The market continues to show its positive trend of growth in profitability. However, the gap in the profit margins between the 1st and 3rd quartile has increased slightly further indicating increased volatility. The return on shareholder's equity has been positive for most companies except a few outliers.

The gap between the return on shareholder's equity has decreased slightly in 2020, implying stability in the results' volatility.

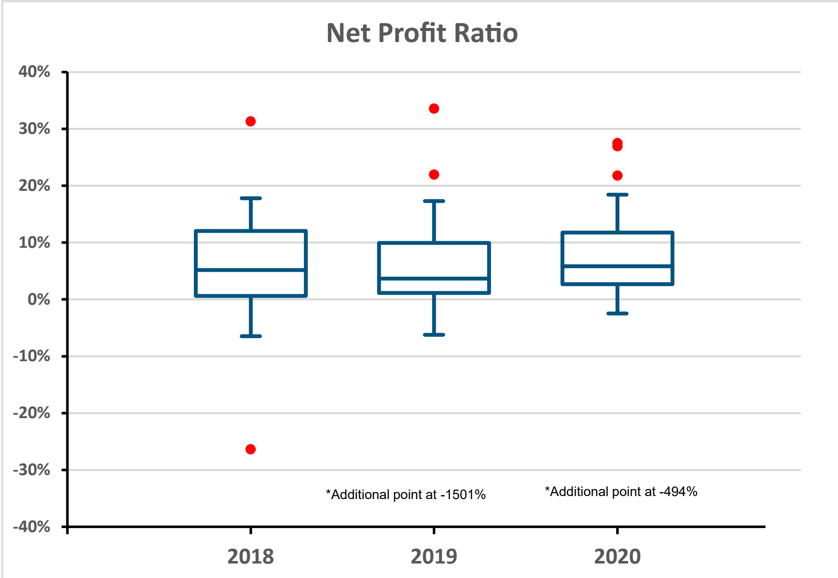
The market return on shareholder's equity is almost 10% for 2020 year-end results compared to 9.3% for 2019.



** Largest / smallest value within 3 times the range from the 25th to 75th percentiles.*

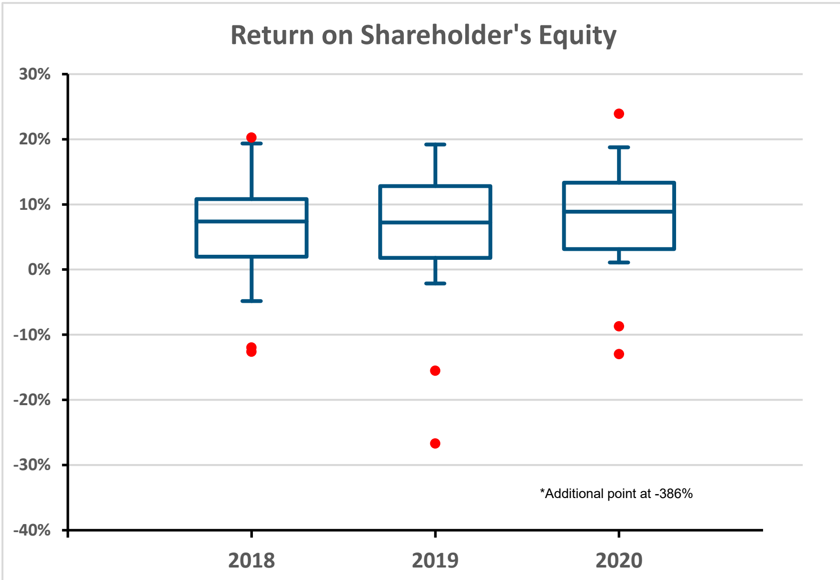
^ Values outside 3 times the range from the 25th to 75th percentiles.

Graph 5 – Distribution of Net Profit Ratio



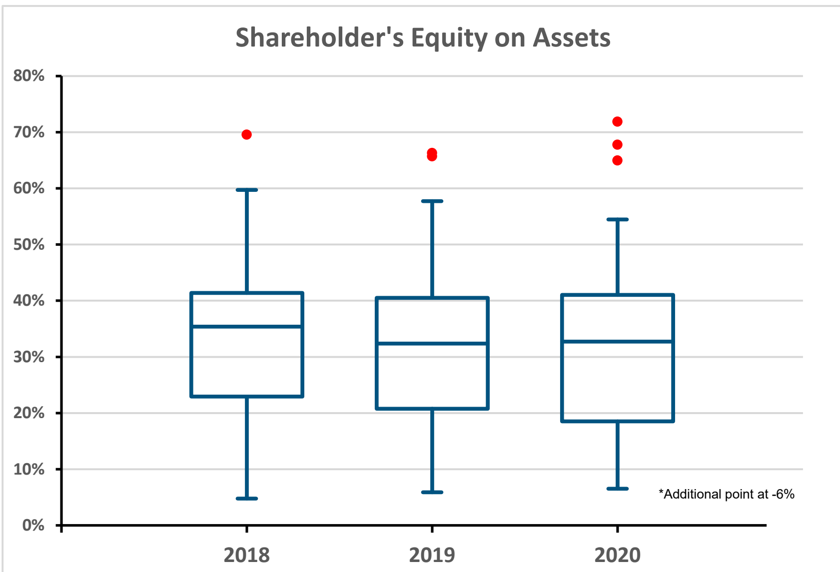
Net Profit Ratio = Net Profit / Gross Written Premium

Graph 6 – Distribution of Return on Shareholder's Equity



Return on Equity = Net Profit / Average Equity

Graph 7 – Distribution of Shareholder's Equity to Assets



Shareholder's Equity on Assets = Shareholder's Equity / Assets

EXHIBIT 1

GWP, NET PROFIT AND SHAREHOLDER'S EQUITY (AED MILLIONS)

	GWP		Net Profit		Shareholder's equity	
Insurance Company	**YE 2020**	**YE 2019**	**YE 2020**	**YE 2019**	**YE 2020**	**YE 2019**
Orient Insurance (Audited)	4,247	3,881	430	425	3,422	3,124
Abu Dhabi National Insurance Company (Audited)	4,012	3,756	371	284	2,507	2,296
Oman Insurance Company (Audited)	3,585	3,545	197	191	2,072	1,916
Al Ain Al Ahlia Insurance Company	1,207	1,154	83	58	1,223	1,203
Islamic Arab Insurance Company	1,167	1,106	136	60	821	772
Emirates Insurance Company	1,040	1,147	108	113	1,077	1,109
Dubai Insurance Company (Audited)	919	971	55	76	522	541
Al Buhaira National Insurance Company	910	867	34	22	686	654
Union Insurance Company	868	927	7	21	331	326
Takaful Emarat	614	606	(15)	(38)	110	119
National General Insurance Company (Audited)	579	536	46	17	490	457
Al Sagr National Insurance Company	511	407	4	5	358	356
Ras Al Khaimah National Insurance Company (Audited)	492	615	13	4	203	190
Dar Al Takaful	439	403	23	5	145	128
Abu Dhabi National Takaful Company (Audited)	425	489	78	73	439	396
United Fidelity Insurance Company	353	221	4	1	75	76
Alliance Insurance	323	285	42	49	527	515
National Takaful Company	322	345	18	13	104	94
Dubai National Insurance & Reinsurance Company (Audited)	317	381	55	58	507	569
Al Wathba National Insurance Company	307	250	11	6	721	766
Orient UNB Takaful	301	255	6	1	193	187
Al Dhafra Insurance Company	290	324	63	71	398	391
Methaq Takaful Insurance Company	282	283	(7)	4	77	84
Al Fujairah National Insurance Company	247	275	37	31	315	284
Dubai Islamic Insurance & Reinsurance Co.	229	250	19	9	85	74
Insurance House (Audited)	217	236	11	16	136	132
Arabian Scandanavian National Insurance Company	109	141	29	(6)	319	289
Axa Green Crescent Insurance Company	45	46	2	0	121	119
Sharjah Insurance Company	43	44	12	15	187	194
Al Khazna Insurance	20	1	(97)	(14)	(24)	74
Total	**24,419**	**23,746**	**1,776**	**1,570**	**18,148**	**17,437**

PLEASE NOTE:

- *As per 2020 audited statements, 2019 results for some companies have been restated due to change in accounting policies or reclassification of certain line items. Furthermore, 2019 results in the 2020 prelim reports have changed for some companies. Hence, we have used the most recent published figures above.*
- *For the companies which do not show a bifurcation for policyholder's fund and Shareholder's equity, we have taken the Total Equity as Shareholder's Equity for the above comparison.*
- *For the companies where the Preliminary Financial Results did not provide Gross Written Premium explicitly, Revenue has been used for the above comparison.*

EXHIBIT 2

PREMIUM RANKS BY COMPANY

Insurance Company	Market Share YE 2020	Market Share YE 2019	Market Share Rank YE 2020	Market Share Rank YE 2019	Change
Orient Insurance (Audited)	17.4%	16.3%	1	1	0
Abu Dhabi National Insurance Company (Audited)	16.4%	15.8%	2	2	0
Oman Insurance Company (Audited)	14.7%	14.9%	3	3	0
Al Ain Al Ahlia Insurance Company	4.9%	4.9%	4	4	0
Islamic Arab Insurance Company	4.8%	4.7%	5	6	+1
Emirates Insurance Company	4.3%	4.8%	6	5	-1
Dubai Insurance Company (Audited)	3.8%	4.1%	7	7	0
Al Buhaira National Insurance Company	3.7%	3.7%	8	9	+1
Union Insurance Company	3.6%	3.9%	9	8	-1
Takaful Emarat	2.5%	2.6%	10	11	+1
National General Insurance Company (Audited)	2.4%	2.3%	11	12	+1
Al Sagr National Insurance Company	2.1%	1.7%	12	14	+2
Ras Al Khaimah National Insurance Company (Audited)	2.0%	2.6%	13	10	-3
Dar Al Takaful	1.8%	1.7%	14	15	+1
Abu Dhabi National Takaful Company (Audited)	1.7%	2.1%	15	13	-2
United Fidelity Insurance Company	1.4%	0.9%	16	26	+10
Alliance Insurance	1.3%	1.2%	17	19	+2
National Takaful Company	1.3%	1.5%	18	17	-1
Dubai National Insurance & Reinsurance Company (Audited)	1.3%	1.6%	19	16	-3
Al Wathba National Insurance Company	1.3%	1.1%	20	23	+3
Orient UNB Takaful	1.2%	1.1%	21	22	+1
Al Dhafra Insurance Company	1.2%	1.4%	22	18	-4
Methaq Takaful Insurance Company	1.2%	1.2%	23	20	-3
Al Fujairah National Insurance Company	1.0%	1.2%	24	21	-3
Dubai Islamic Insurance & Reinsurance Co.	0.9%	1.1%	25	24	-1
Insurance House (Audited)	0.9%	1.0%	26	25	-1
Arabian Scandanavian National Insurance Company	0.4%	0.6%	27	27	0
Axa Green Crescent Insurance Company	0.2%	0.2%	28	28	0
Sharjah Insurance Company	0.2%	0.2%	29	29	0
Al Khazna Insurance	0.1%	0.0%	30	30	0

مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

REGULATORY UPDATES

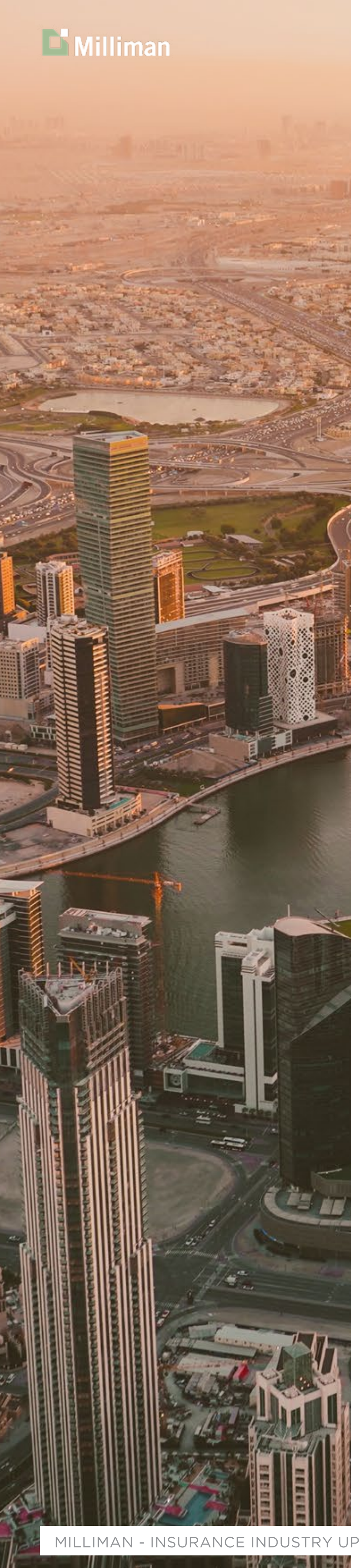
Insurance companies are now regulated by the Central bank of the UAE (CBUAE), which assumed responsibility for insurance regulation from the Insurance Authority effective from 1st January 2021.

The second IFRS 17 Financial Impact Assessment is due by 31 March 2021. It will be based on data up to 2019 and should be completed to a demonstrably higher standard than the 2020 Financial Impact Assessment which was completed on a "best-efforts" basis.

2021 enhanced reporting requirements were highlighted in Circular No. 47 of 2020:

- **Financial Condition Reports (FCRs)** should cover a period of at least 3-5 years to be meaningful, the actuary must include a section on "Inspections", comment on progress made on the previous recommendations, and enhance information in the FCR in order to address inadequacies around reinsurance, risk management, reserving, pricing, profitability analysis and investment analysis.

- **Quarterly Actuarial Certificates** should be enhanced to show outstanding salvage & subrogation reserves separately, compare previous gross and net reserve estimates against latest indications with explanations for the movement between quarters, show and explain the differences between reserves recommended by the actuary and those booked by the company, explain key assumptions used and extent of actuarial review when filling in the solvency forms, explain movement in solvency margins between the quarters and recommendations in case of solvency breaches including a comparison of the actual solvency position with the projected one.



- **Solvency Recovery plans (for insolvent companies)** should realistically demonstrate that the Company is expected to become solvent as per the required timelines of Section (2) Article (8) of the Financial Regulations. The Plan should be certified by the appointed actuary of the company and its board of directors, before being submitted to the CBUAE.

- **Pricing & Underwriting performance reports** should be enhanced. The CBUAE 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 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.

From the year-end 2021 onwards, a separate External Audit Opinion will be required on the operating effectiveness of the internal controls over financial reporting (ICFR). To achieve this requirement, implementation of ICFR will be done in two phases: Phase I (Gap Analysis for year-end 2020) and Phase II (Management fixing the gaps and testing the operational effectiveness of the implemented ICFR during 2021).

With CBUAE assuming responsibility for the insurance regulations, increased focus is expected to be on the compliance with Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) regulations. Semi-annual reports are required to be submitted by the Compliance officers on review of internal systems and procedures for AML & CFT.

The CBUAE continues to collect weekly and monthly data to monitor the industry's exposure to COVID-19. In addition, further discounts were allowed for motor insurance, up to 50% for key workers, and it appears the market responded to support these initiatives.

MARKET DEVELOPMENTS & UPDATES

IFRS 17

We expect the focus on IFRS 17 implementation to continue during 2021. The International Accounting Standards Board (IASB) extended the IFRS17 implementation date by one year, effective for accounting periods starting 1 January 2023. Despite the one-year extension, IFRS 17 implementation continued to be one of the major focus areas for the Insurance Industry in the UAE. Although implementation momentum appeared to have slowed down in the first half of 2020 due to COVID, indications are that it picked up again from Q3 2020 onwards.

The first IFRS 17 financial impact assessment (or 2020 FIA) was completed in Q1 2020, and the second (2021 FIA) is now due by 31st March 2021. The CBUAE issued an industry report summarizing the key findings from the 2020 FIA in Q3 2020. The CBUAE has indicated that for the 2021 FIA it is looking for evidence that companies have progressed from their level of knowledge and approach taken for methodology and assumptions used to generate the numbers submitted in the last 2020 FIA, which was understandably on a best-efforts basis. This expectation is because companies have now had one further year of implementation experience and the IFRS 17 Standard is now final.

During 2020, market players actively started their Design and Implementation phase, with most focusing on designing their policies, testing different approaches and methods, and exploring the most efficient and cost-effective IT and operating system requirements. It appears that **companies have not yet finalized their approach to IFRS 17 transition balance sheets** (i.e., day-one profits and equity position), which is very critical for IFRS 17. Based on results for our clients in UAE and other GCC countries, as well as the 2020 FIA Report issued by the CBUAE, the net liabilities are estimated to increase mainly due to Risk Adjustment being applied over and above best estimate reserves. The other drivers are changes in methodology leading to mismatches between gross liabilities and the reinsurance asset, being offset to some extent by the impact of discounting the liabilities.

The major impact of IFRS 17 implementation is likely to be managing the operational aspects rather than the financial impacts. This is according to the CBUAE's 2020 FIA report, and reflects the short-tailed nature of majority of the business underwritten in the UAE. All the functions and processes within the company need to work in an integrated manner. As such, the CBUAE is now also focusing very heavily on issues arising from the design and implementation phase in its recently announced 2021 FIA exercise. **The CBUAE is now actively asking management to explain how the operational aspects are going to work, i.e., the detail that underlies the IFRS 17 project updates submitted every quarter**. We believe this indicates that the CBUAE will be taking a more active interest in IFRS 17 implementation during 2021 and 2022.

During the second half of 2020, the CBUAE also set up an IFRS 17 Working Group in association with the Emirates Insurance Association, with participants from insurance companies, audit firms as well as actuarial and other consultancies. Four different sub-groups investigated issues relating to the risk adjustment, aggregation, financial reporting, and reinsurance. Another sub-group was recently set-up to tackle Takaful-specific issues. The main objectives of the Working Group are knowledge sharing, brain storming, exploring the practical issues and challenges and finding practical solutions, increasing engagement between the CBUAE and the industry through open dialogue. This is a welcome development in our view.

MARKET DEVELOPMENTS & UPDATES

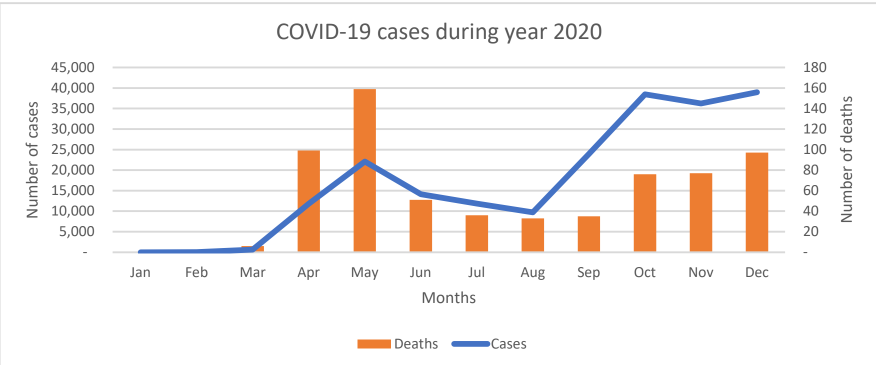
Health and Motor industry updates across the UAE

During 2020, most UAE health insurers have had lower loss ratios compared to 2019. There was a sharp drop in claims in the second quarter of 2020, driven by the measures taken by government authorities to contain the spread of the COVID-19 virus. These measures included the national sterilization programme, suspension of elective surgeries, and non-emergency treatments, etc. The subsequent months saw an increase in the utilization of medical services as elective services resumed. An increase in telehealth services was observed in 2020 as healthcare providers implemented digital alternatives to treat non-emergency patients.

Though the frequency of COVID-19 cases increased throughout the year, the cost of cases was controlled in Dubai as Dubai Health Authority (DHA) implemented uniform rates for COVID-19 treatment based on the severity classification by case.

The ongoing impact of the pandemic on the UAE healthcare system in 2021 is uncertain. The DHA again restricted elective and non-urgent surgeries on 21st January 2021 due to the high COVID-19 case numbers in the country following the winter holiday period. However, the UAE is one of the global leaders in rolling out the COVID-19 vaccinations, with the country targeting to vaccinate the entire eligible adult population before the 4th quarter of 2021. The development of multiple variants of the virus globally may impede vaccination and recovery efforts, while research is ongoing it seems that some vaccines may be less effective against new strains.

The graph below shows the emergence of confirmed COVID-19 cases during 2020, along with the number of deaths across UAE.



Source - "Our World in Data", Date accessed - 16/02/2021

In non-pandemic related news, the DHA announced the implementation of Diagnosis Related Groups for inpatient billing across all hospitals in the Emirate with effect from September 2020. This announcement follows a four-year consultation and shadow billing period. The introduction of DRG billing is expected to assist with improving the efficiency of providers by encouraging bundling of services and thus controlling cost and over utilization.

For the Motor Industry, 2020 has been an exceptional year with unexpected favorable claims experience, especially in Q2 and Q3 of 2020 due to complete / partial lockdown and compulsory or voluntary restriction on movement leading to lesser number of accidents. As a result, most of the insurance companies offered discounts on renewals in Q2 of 2020. These discounts have continued for some companies in Q3 and Q4 of 2020. The impact of these discounts would govern the profitability of motor industry in 2021.

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