

MARKET
MONITOR - UAE

**UAE INSURANCE
INDUSTRY REPORT
- PRELIMINARY**

2019

Movement of business from non-listed to listed insurers resulted in premium growth, while high investment returns led to increased profitability

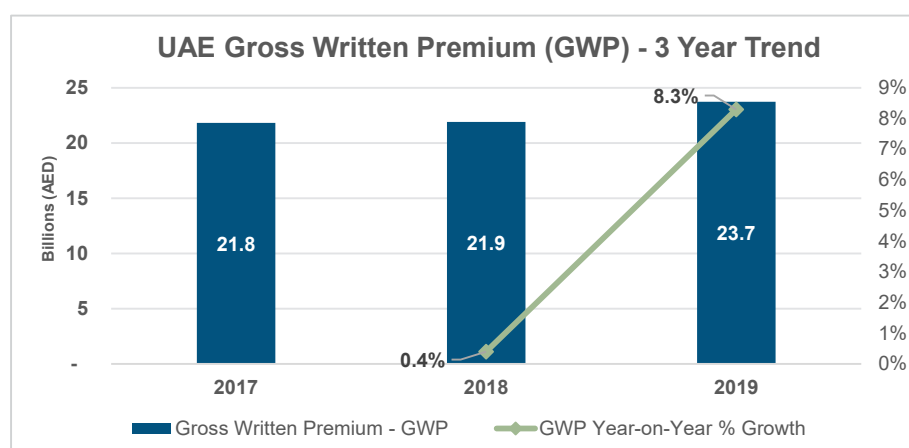
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MARKET OVERVIEW

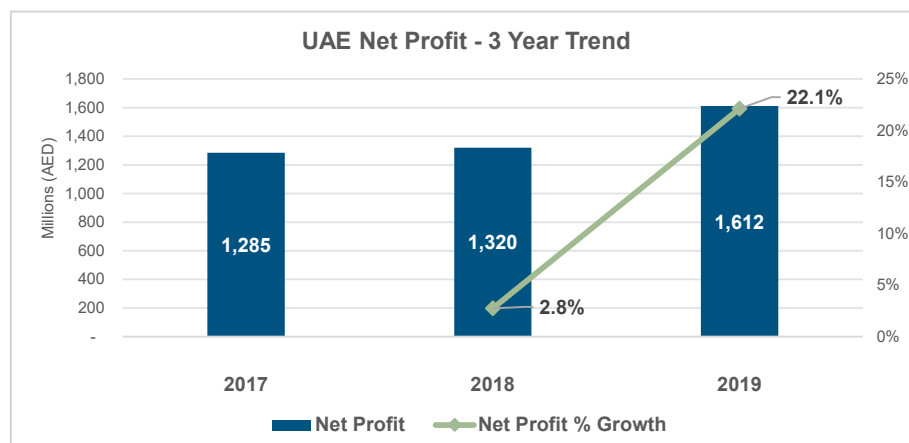
The UAE insurance market continued its trend for a third consecutive year with an overall increase in their profitability along with premium growth in 2019. Based on the preliminary disclosures (22 companies) and audited reports (8 companies) of the UAE insurance companies listed on the Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM), the Gross Written Premium (GWP) grew by 8.3% to AED 23.7b during 2019 following a small increase in 2018. The increase in premium was primarily due to movements between listed and non-listed insurers. In addition, there was also an increase in labor guarantee contracts due to the Expo 2020.

GRAPH 1 - GROSS WRITTEN PREMIUM (AED BILLIONS)



On a net profit basis, the industry continued to improve for the third year in a row achieving a net profit of AED 1,612m for 2019, compared to a net profit of AED 1,320m in 2018, an increase of 22.1%. The increase was primarily due to companies focusing on high yielding investments thereby achieving higher returns on their investments portfolio. These investment returns were possible due to markets performing better in 2019 however; this is not a sustainable profitability strategy as higher yielding investments also carry high risk and volatility.

GRAPH 2 - NET PROFIT (AED MILLIONS)



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 high growth after a slow 2018 year. This is primarily due to the impact of VAT wearing off and movements in business between listed and non-listed companies.”

18 of the 30 companies showed an increase in GWP in 2019 over 2018. Orient Insurance Company and Abu Dhabi National Insurance Company both grew to surpass Oman Insurance Company to take the top two spots in terms of GWP as the latter experienced a reduction in premium compared to 2018.

Although the GWP has increased for some companies, the net retained premium has actually reduced.

“Net Profit has shown a 22.1% increase to AED 1,612m during 2019, compared to 2.8% in 2018. This is primarily driven by higher investment returns. In addition, the 2018 profits were lower for some companies due to one-off provisioning for IFRS 9 that has inflated the increase in year on year comparison.”

Only 4 of 30 listed companies had a net loss during 2019, the same number of companies that were in 2017 and 2018.

Orient Insurance Company and Abu Dhabi National Insurance Company (ADNIC) led the overall profitability of the insurance sector in the UAE during 2019 with 17 out of the 30 companies improving their results since 2018.

Takaful Emarat and Al Khazna Insurance Company suffered the largest losses during 2019. In addition, 7 out of the 9 Takaful operators made profits in 2019.

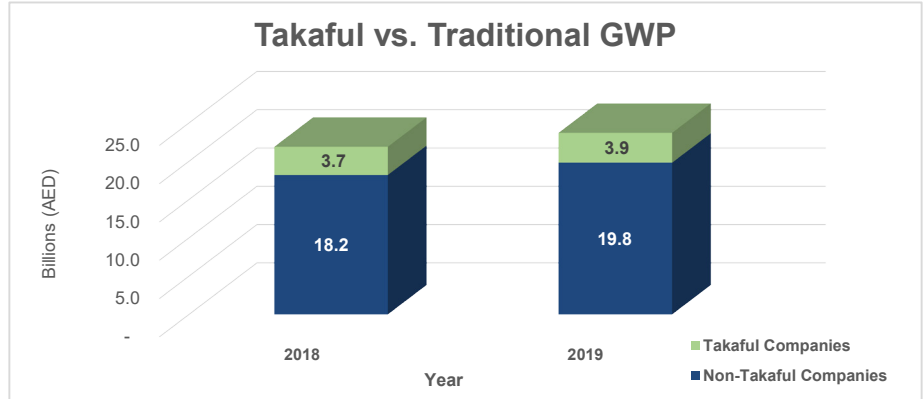
21 of the 30 companies experienced an increase in shareholder's equity, with the total for the 30 companies having a good growth of 6.1% during 2019.

Continued increase in net profits demonstrates better investment yields in comparison to 2018.

“ Parallel to growth in profitability, shareholder's equity grew for the past three years in a row.

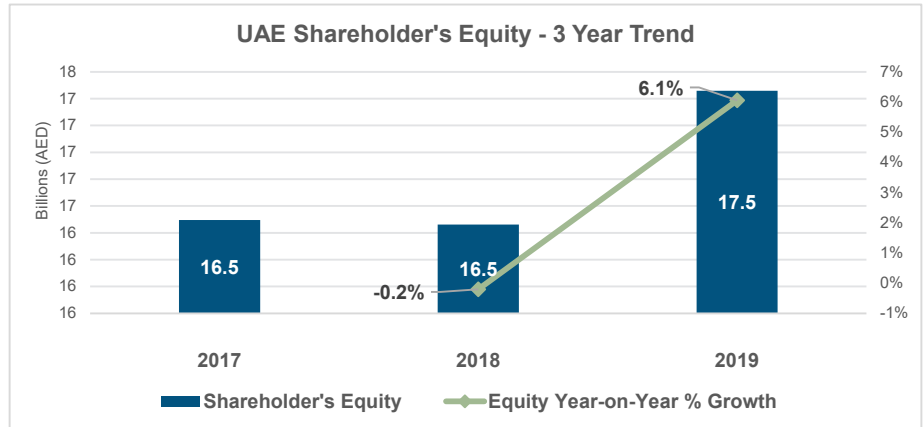
Takaful companies saw a growth in their top line in 2019 of 5.8% in comparison to 8.8% increase for the traditional players. Total GWP for Takaful operators now stands at AED 3.9b compared to AED 19.8b for traditional companies.

GRAPH 3 - TAKAFUL VS TRADITIONAL GWP

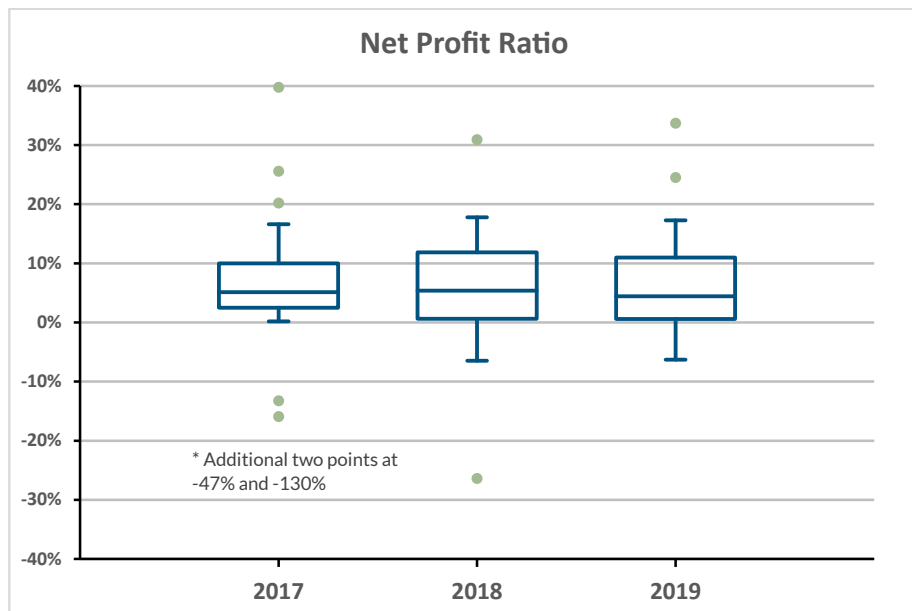


The Shareholder's Equity had an increase of 6.1% in 2019 compared to a minimal change in 2018. The total Shareholder's Equity for the 30 companies grew from AED 16.5b in 2018 to AED 17.5b at year-end 2019.

GRAPH 4 - SHAREHOLDER'S EQUITY (AED BILLIONS)

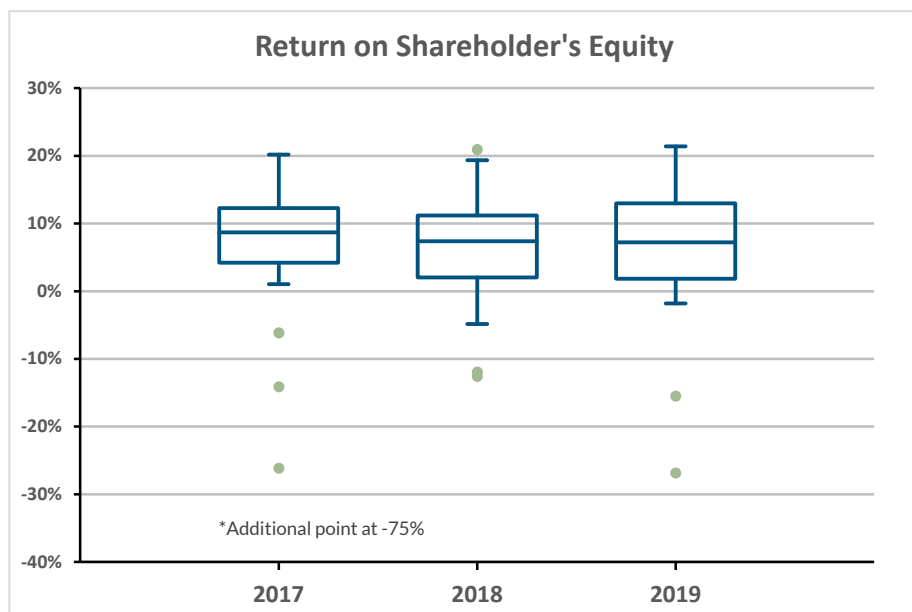


GRAPH 5 - DISTRIBUTION OF NET PROFIT RATIO



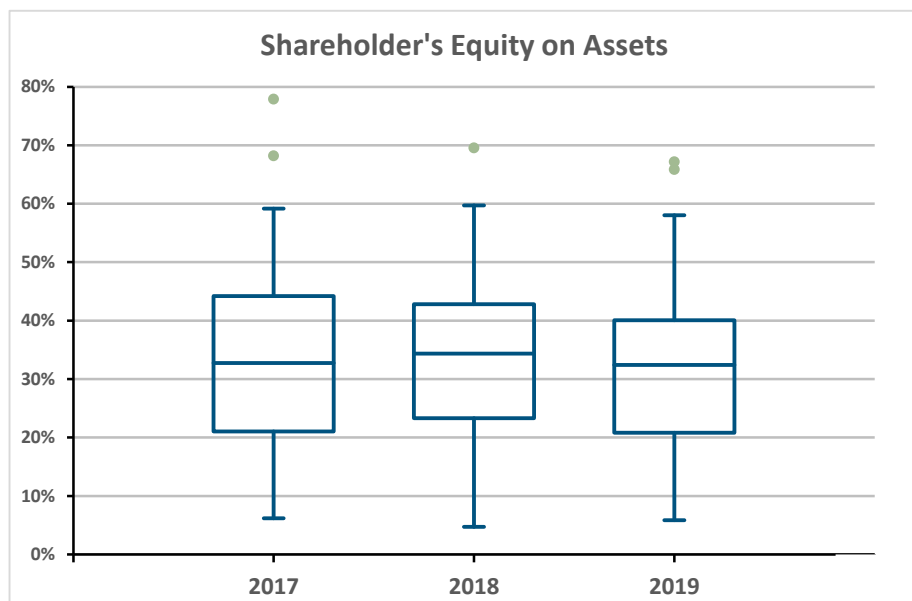
$Net\ Profit\ Ratio = Net\ Profit / Gross\ Written\ Premium$

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



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

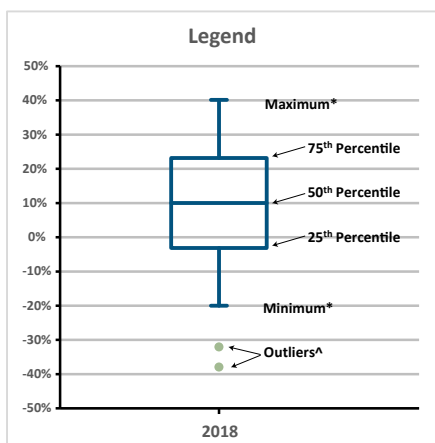
“ The net profit ratio for all companies is converging to the 1% to 9% range, with 8 companies achieving a profit ratio of 10% and above.

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 continued its positive trend of growth in profitability in each year since 2015. Depending on the size and strategy, each company has a different path to profitability. However, the gap in the profit margins between the 1st and 3rd quartile has increased since 2017 indicating that not all companies have had a similar positive trend.

The gap between the ROE has increased further in 2019 continuing the trend for the last 3 years, implying that volatility in the results has been gradually increasing.

“ The market return on shareholder's equity is 9.5% for 2019 year end results compared to 8% in 2018.



* 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.

Exhibit 1

— GWP, Net Profit and Shareholder's Equity (AED Millions)

Insurance Company	GWP		Net Profit		Shareholder's Equity	
	2019	2018	2019	2018	2019	2018
Orient Insurance (Audited)	3,881	3,678	425	401	3,074	2,759
Abu Dhabi National Insurance Company (Audited)	3,756	2,909	284	236	2,296	2,102
Oman Insurance Company (Audited)	3,545	3,699	191	10	1,893	1,650
Al Ain Al Ahlia Insurance Company	1,154	1,514	58	30	1,203	1,144
Emirates Insurance Company	1,137	1,043	140	114	1,189	1,123
Islamic Arab Insurance Company	1,130	1,063	59	0	771	724
Dubai Insurance Company (Audited)	971	532	76	51	541	471
Union Insurance Company	927	952	21	6	326	300
Al Buhaira National Insurance Company	867	487	22	35	656	635
Takaful Emarat	606	599	(38)	14	118	165
Ras Al Khaimah National Insurance Company	582	482	4	19	190	195
National General Insurance Company (Audited)	536	551	17	31	457	464
Abu Dhabi National Takaful Company (Audited)	489	384	73	68	396	340
Al Sagr National Insurance Company	407	356	(3)	22	344	453
Dar Al Takaful	403	291	4	7	127	123
Dubai National Insurance & Reinsurance Company (Audited)	381	351	58	53	569	541
National Takaful Company	345	300	13	12	100	96
Al Dhafra Insurance Company	324	334	79	55	392	350
Alliance Insurance	285	291	49	51	515	497
Methaq Takaful Insurance Company	283	317	2	15	82	84
Al Fujairah National Insurance Company	275	267	31	31	284	246
Orient UNB Takaful	255	190	1	(9)	187	186
Al Wathba National Insurance Company (Audited)	250	271	23	43	783	851
Dubai Islamic Insurance & Reinsurance Co.	250	376	10	1	75	64
Insurance House	236	211	16	11	132	99
United Fidelity Insurance Company	221	146	1	(9)	76	70
Arabian Scandanavian National Insurance Company	141	168	(5)	21	290	311
Axa Green Crescent Insurance Company	46	40	0	(2)	121	118
Sharjah Insurance Company	44	53	15	16	195	195
Al Khazna Insurance	0	53	(14)	(14)	74	105
Total	23,726	21,909	1,612	1,320	17,459	16,462

— **Please Note:**

As per 2019 audited statements, 2018 results for some companies have been restated due to change in accounting policies or reclassification of certain line items. Furthermore, 2018 results in the 2019 prelim reports have changed for some companies. Hence, we have used the most recent published figures above.

Exhibit 2

Premium Ranks by Company

Insurance Company	Market Share		Market Share Rank		Change
	2019	2018	2019	2018	
Orient Insurance (Audited)	16.4%	16.8%	1	2	+1
Abu Dhabi National Insurance Company (Audited)	15.8%	13.3%	2	3	+1
Oman Insurance Company (Audited)	14.9%	16.9%	3	1	-2
Al Ain Al Ahlia Insurance Company	4.9%	6.9%	4	4	0
Emirates Insurance Company	4.8%	4.8%	5	6	+1
Islamic Arab Insurance Company	4.8%	4.9%	6	5	-1
Dubai Insurance Company (Audited)	4.1%	2.4%	7	10	+3
Union Insurance Company	3.9%	4.3%	8	7	-1
Al Buhaira National Insurance Company	3.7%	2.2%	9	11	+2
Takaful Emarat	2.6%	2.7%	10	8	-2
Ras Al Khaimah National Insurance Company	2.5%	2.2%	11	12	+1
National General Insurance Company (Audited)	2.3%	2.5%	12	9	-3
Abu Dhabi National Takaful Company (Audited)	2.1%	1.8%	13	13	0
Al Sagr National Insurance Company	1.7%	1.6%	14	15	+1
Dar Al Takaful	1.7%	1.3%	15	21	+6
Dubai National Insurance & Reinsurance Company (Audited)	1.6%	1.6%	16	16	0
National Takaful Company	1.5%	1.4%	17	19	+2
Al Dhafra Insurance Company	1.4%	1.5%	18	17	-1
Alliance Insurance	1.2%	1.3%	19	20	+1
Methaq Takaful Insurance Company	1.2%	1.4%	20	18	-2
Al Fujairah National Insurance Company	1.2%	1.2%	21	23	+2
Orient UNB Takaful	1.1%	0.9%	22	25	+3
Al Wathba National Insurance Company (Audited)	1.1%	1.2%	23	22	-1
Dubai Islamic Insurance & Reinsurance Co.	1.1%	1.7%	24	14	-10
Insurance House	1.0%	1.0%	25	24	-1
United Fidelity Insurance Company	0.9%	0.7%	26	27	+1
Arabian Scandanavian National Insurance Company	0.6%	0.8%	27	26	-1
Axa Green Crescent Insurance Company	0.2%	0.2%	28	30	+2
Sharjah Insurance Company	0.2%	0.2%	29	28	-1
Al Khazna Insurance	0.0%	0.2%	30	29	-1



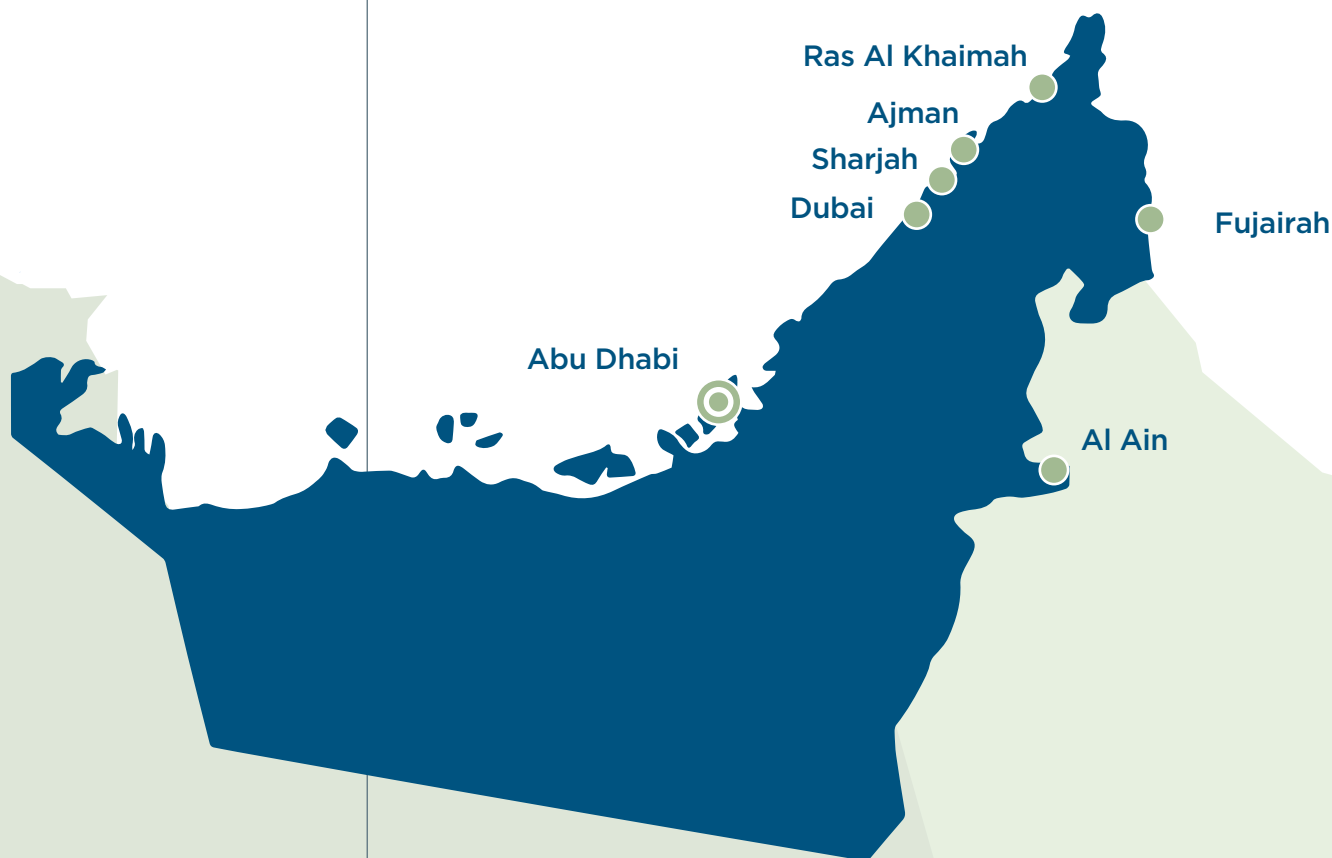
هيئة التأمين
Insurance Authority

REGULATORY / UPDATES

There has been a lot of regulatory activity in 2019. The highlights of the UAE Insurance Authority (IA) activities include the following:

- The Insurance Authority (IA) issued the final version of the Life Regulations via Board of Director's Decision 49 of 2019 concerning Instructions for Life Insurance and Family Takaful Insurance. The new regulations intend to increase policyholder protection by enforcing better disclosures thus expected to increase the Life Insurance penetration in the UAE. The new regulations are set to be implemented by the mid of April 2020. The IA organized a workshop in November 2019 to highlight the main provisions of the regulations. The main provisions on the new regulations include, among other measures, commission caps, commission claw-back, better policyholder disclosures and hence better value to the customers.
- The Unified Circular (21) on 2020 reporting requirements included additional guidance on certain issues:
 - **Financial Condition Reports (FCRs)** – The IA requires actuaries to provide a comprehensive analysis describing the adequacy of the reinsurance arrangements including a study of the impact of the reinsurance agreement on the bottom line of major products and a description of the extent of conformity between the reinsurance arrangements and the risk appetite of the company, at a minimum.
 - **Pricing Reports** – The IA requires that actuaries should prepare the pricing report in such a manner that it provides additional value to the company. This includes performing a detailed analysis on the effectiveness of the reinsurance arrangements in place.
 - **Peer Review** – The IA mandated that all actuarial reports need to be peer-reviewed. Best practices would include peer review from the start of any project and before submitting reports to the company. In the circular, the IA provided guidance on the qualifications of being a peer reviewer.
 - **Data Quality Checklist (QUAL-3)** – The IA introduced a new checklist that needs to be filled in by all companies on a quarterly basis. This checklist has numerous checks with the aim to improve the reporting significantly both qualitatively and quantitatively.
- The IA issued a circular (20) on IFRS 17 Financial Impact Assessment. Companies are required to complete their financial impact assessment and provide a report to the IA no later than 31st March 2020. Additionally, companies are 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 Cabinet Resolution No. (7) Concerning the Administrative Fines imposed by the IA was published in January 2019. This resolution mainly highlights various fines and penalties imposed on companies, actuaries, TPAs, agents, insurance consultants, etc. for violating the provisions of various regulations.
- The IA issued a new Regulation (Board Resolution No. (33) Of 2019) which provides guidance on the Settlement and Resolution of Insurance Disputes. The new law establishes a Committee that would settle insurance related disputes; and including other items it also prescribes the roles and responsibilities of the Committee.
- The IA issued Instructions for organizing Reinsurance Operations in the UAE. The instructions include guidance on licensing and registration, capital, and other requirements. The provisions of these regulations are applicable to reinsurance companies established in the State, branches of foreign reinsurance companies, reinsurance business ceded and accepted by an insurance company licensed by the IA and Insurance/Reinsurance pool in which an insurance or reinsurance company licensed by the IA participates.
- The IA issued Decision No. (50) Concerning Enhancing the Shari'a Controller's Role in Takaful Insurance Companies operating in the state. This decision is intended to improve compliance by the Takaful companies with the underlying Shari'a laws. The regulations specify the qualifications to be a Shari'a Controller and the duties and responsibilities associated with the role.



MARKET DEVELOPMENTS / & UPDATES

IFRS 17

Implementation of IFRS17 continues to be a major focus for the Insurance Industry in UAE. The IASB continues to discuss further amendments to the Exposure Draft and proposed amendments to the recovery of losses under reinsurance held.

Following on from the gap analysis conducted by the Insurance market in Q1 2019, most of the market have now started the process of designing their policies to comply with the new standard. The IFRS17 implementation has also gained some momentum due to the issuance of the Insurance Authority (IA) circular (20) of 2019 on 10th December 2019 instructing companies to prepare detailed financial impact assessment for a significant part of their book by 31st March 2020.

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 clear that most companies are currently not clear what impact IFRS17 will have on their day 1 profits and equity position.

The new IFRS standard for insurance contracts promises to have a transformative effect on insurers' financial reporting and therefore is likely to have a significant impact on all aspects of the insurance companies from high-level strategy to detailed operational complexities and policies.

IFRS 17 calls for a more nuanced and comprehensive approach to risk modelling—an approach that will require not just specialized actuarial expertise, but also unprecedented processing speed to meet strict auditing timeframes.

IFRS 17 is expected to raise a number of practical challenges for insurance companies. It is an accounting standard, but implementation will require a multi-disciplinary program with involvement from accounting teams, risk management teams and actuarial teams.

On the actuarial front, the requirements of the new standard go well beyond any accounting measurement used so far. At each reporting date, best estimate future cash flows need to be projected and discounted in an appropriate way, using actuarial assumptions and methods. For embedded options, stochastic projections (1000+ scenarios) may be required.

PROGRESS IN HEALTH SERVICES CODING AND INFORMATION SYSTEMS CONTINUES ACROSS THE UAE

As part of the drive towards value-based healthcare in the UAE, the health regulators in Dubai and Abu Dhabi have accelerated the pace towards digitalization of health data.

Malaffi, the first health information exchange in the region, has been developed as a joint initiative between the Abu Dhabi Department of Health and Injazat Data Systems and was launched at the beginning of 2019. Good progress has been made with integrating providers to the system so far, while the patient application was unveiled at Arab Health 2020. The intention of the portal is to provide access to clinical records to assist with proactive healthcare management by both providers and patients. Abu Dhabi is in the process of replacing the 2012 IR-DRG classification to the updated version, and this, amongst other planned reforms, is expected to be rolled out in 2020.

In Dubai, the Dubai Health Authority (DHA) entered into an agreement with the American Medical Association (AMA) to use Current Procedural Terminology (CPT) codes for reporting health services and procedures across the Emirate. DRG (Diagnosis Related Grouper) shadow billing continues in Dubai, with the phasing in of the DRG reimbursement mechanism expected in 2020.

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