MARKET MONITOR - UAE

AUDITED INSURANCE DISCLOSURES

2017

RECORD PROFITABILITY IN 2017 LARGELY DRIVEN BY REGULATORY CHANGES IN MOTOR TARIFFS AND MANDATED HEALTH INSURANCE IN THE EMIRATE OF DUBAI

APRIL
2018

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

The other 29 companies operating in UAE are not listed and hence excluded from this report.

> We believe that this growth was primarily driven by growth in Motor and Health Insurance business due to regulatory interventions by the financial and health regulators. Please refer to Regulatory Update section for details.

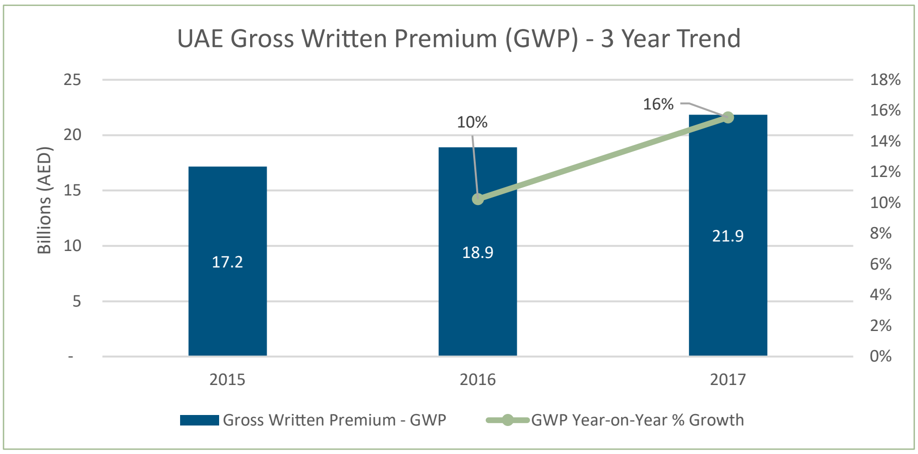
22 of the 30 companies showed an increase in GWP in 2017 over 2016, with 7 experiencing a decrease in GWP.

Orient Insurance Company surpassed Oman Insurance Company taking the largest insurer seat in terms of GWP with 50% growth in 2017.

Market Overview

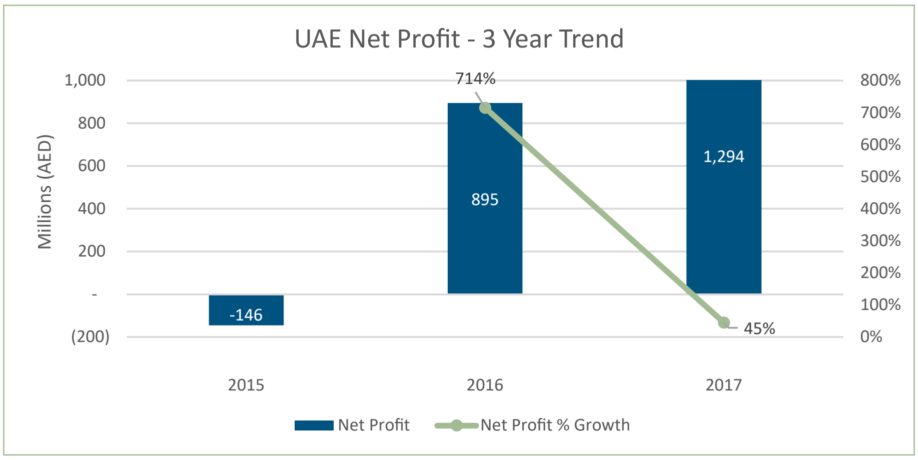
With both top and bottom lines growing, the UAE insurance market enjoyed record profitability and strong premium growth in 2017. The growth was primarily driven by regulatory changes that increased motor tariffs and DHA mandated medical coverage for the remaining spectrum of insureds in the Emirate of Dubai. These 2017 trends also contributed to a return to profitability for Takaful operators. Based audited reports (30 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 16% to AED 21.9bn during 2017, up from an increase of 10% in 2016. For these companies, the net profit grew by 45% from AED 895m in 2016, to AED 1.3b in 2017.

Graph 1 – Gross Written Premium (AED Billions)



On a net profit basis, the industry continued to improve for the second year in a row achieving a net profit of AED 1,294m for 2017, compared to a net profit of AED 895m in 2016, an increase of 45%.

Graph 2 – Net Profit (AED Millions)



> Net Profit has shown a 45% increase to AED 1,294m during 2017, compared to 714% in 2016 on the heels of a loss of AED 146m 2015

Only 4 of 30 listed companies had a net loss during 2017, compared to 6 companies in 2016.

Orient Insurance and Abu Dhabi National Insurance Company (ADNIC) led the overall profitability of the insurance sector in UAE during 2017. Al Khazna and AXA Green Crescent suffered the largest losses during 2017. In addition, 8 out of the 9 Takaful operators made profits in 2017 with exception being Orient UNB Takaful which is understandable considering it's in its first year of operations.

As a result of strong profitability, 23 of the 30 companies experienced an increase in total equity, with the total for the 30 companies increasing by 5% during 2017.

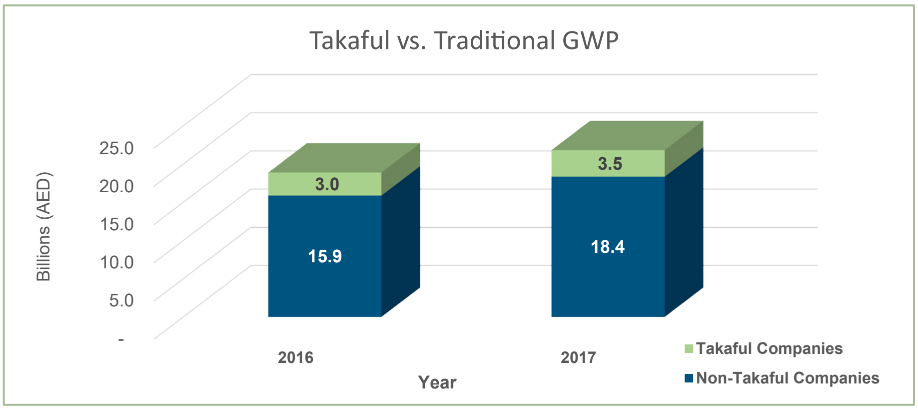
The improvement in results during 2017 is attributed to regulatory changes by the Insurance Authority such as improvement in pricing for certain lines of business, growth in medical insurance largely due to mandatory coverage in Dubai, and enhanced technical awareness including requirements for higher level of actuarial input.

It can be seen that the market is moving in a positive direction with a stable growth of both the top lines and the bottom lines for most companies.

> Parallel to growth in profitability, total equity grew consistently for the past two years recovering to 2014 levels of AED 16.5b.

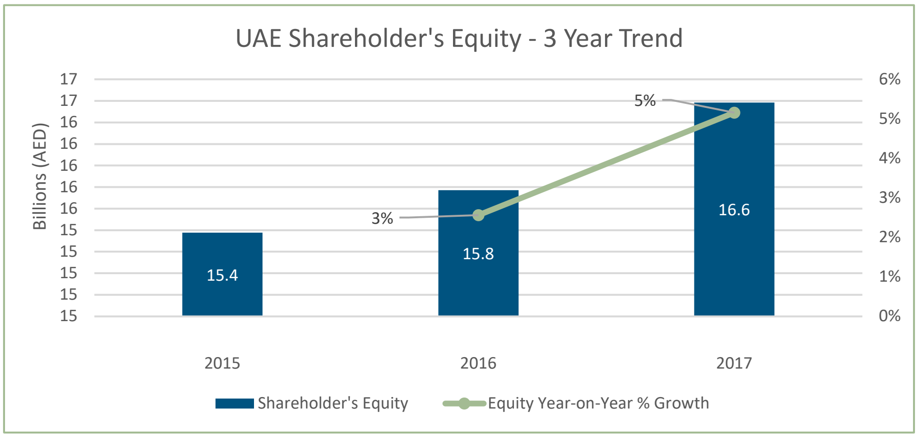
Both traditional and Takaful companies saw similar growth of around 16% in their tope line premiums in 2017. Total GWP for Takaful operators now stands at AED 3.5b compared to AED 18.4b for traditional companies.

Graph 3 – Takaful vs Traditional GWP



The increase in profitability also added to Total Equity with a year over year increase of 5% in 2017 compared to the 3% growth in 2016. The total Equity for the 30 companies grew from AED 15.8b to AED 16.6b at year end 2017.

Graph 4 – Total Equity (AED Billions)

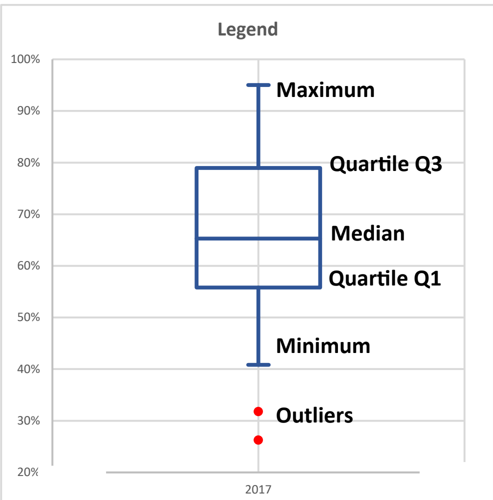


We have not included the underwriting profits in our analysis as the companies are not reporting the underwriting profits in a consistent manner. For example, some companies include General Expenses in calculating the UW profit but others do not. This makes industry comparisons difficult at best and can cause misleading indications of profitability for some companies.

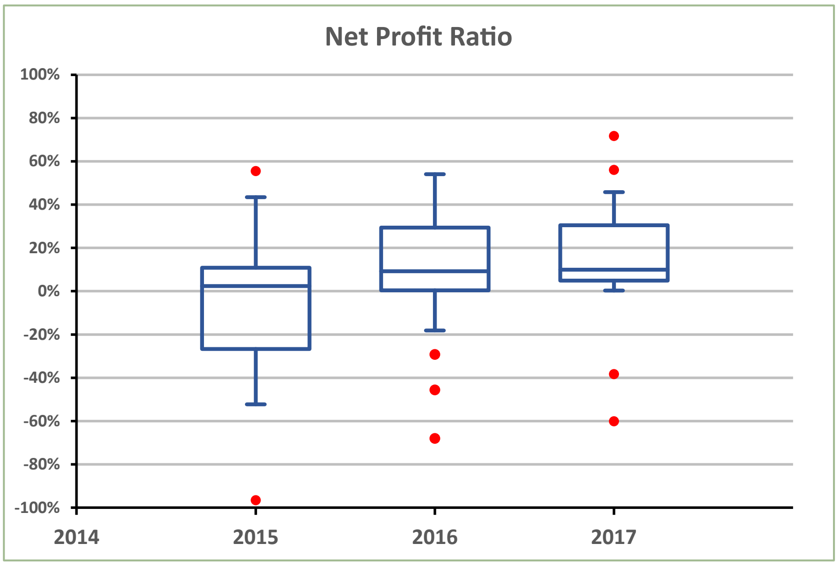
The overall market turned to profitability from 2015 to 2016 and continued the positive trend in 2017. Depending on the size and strategy, each company has a different path to profitability. However, we can see from the shortening gap between the profit margins between the 1st and 3rd quartiles that the market is becoming more competitive.

The gap between the ROE achieved by difference companies has been reducing since 2015 thereby implying that the market has been gradually stabilizing.

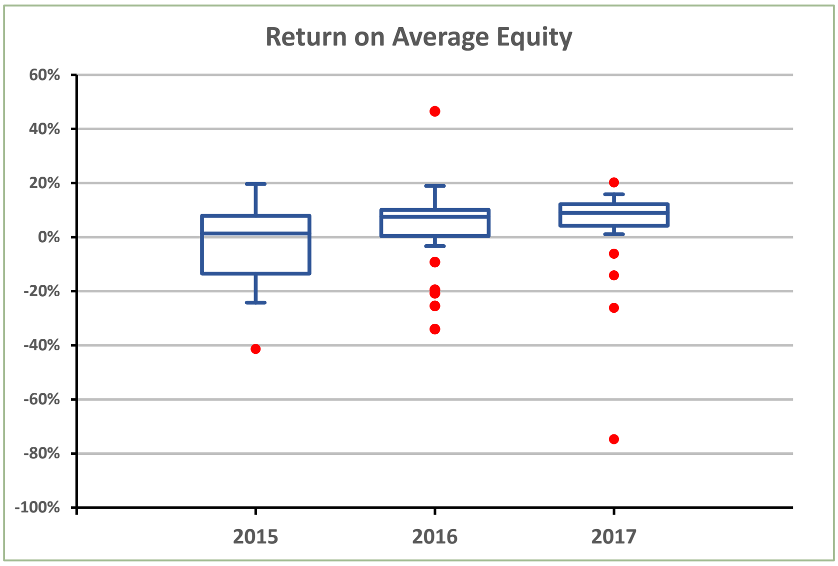
> Market return in average equity was 8% for 2017 year end results compared to 6% in 2016



Graph 5 – Distribution of Net Profit Ratio



Graph 6 – Distribution of Return on Average Equity



As seen in Graph 7, both the liabilities to total equity and liabilities to assets ratio have increased steadily since 2015. The liabilities have increased by 13% in 2017 compared to 2016, while the total equity has only increased by 5% in the same time.

We have seen a large variance in the liabilities to total equity and assets ratio between the companies with the a gap of almost 200% between the 25th and 75th percentile in 2017

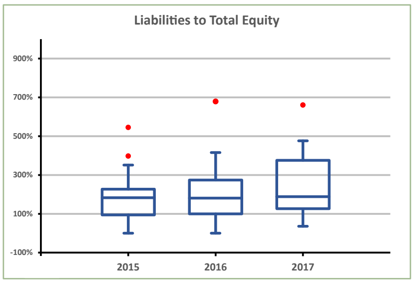
> Liabilities to total equity ratio was 217% in 2017 year end results compared to 201% in 2016

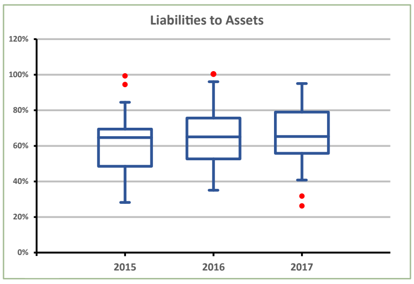
The retention ratios also have been largely stable since 2015. This is also true for the gap between the different companies implying that the re-insurance arrangements have largely been unchanged.

> Retention ratios have remained stable across 2017 at an average of 46% (median at 51%) while commission paid increased very slightly from 8.6% in 2016 to 8.7% in 2017

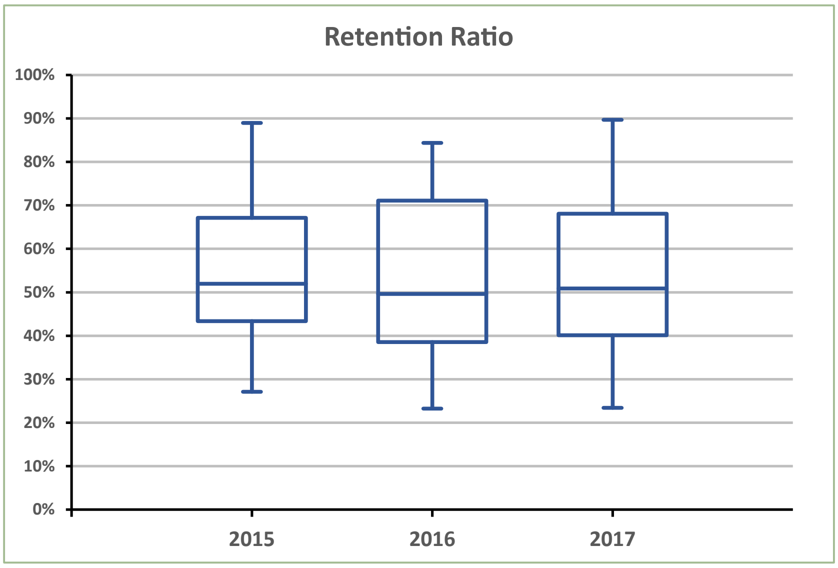
The gap in commissions incurred ratio has reduced since 2016 with some outliers paying significantly more commission than the majority of the market.

Graph 7 – Distribution of Liabilities to Total Equity and Liabilities to Assets:

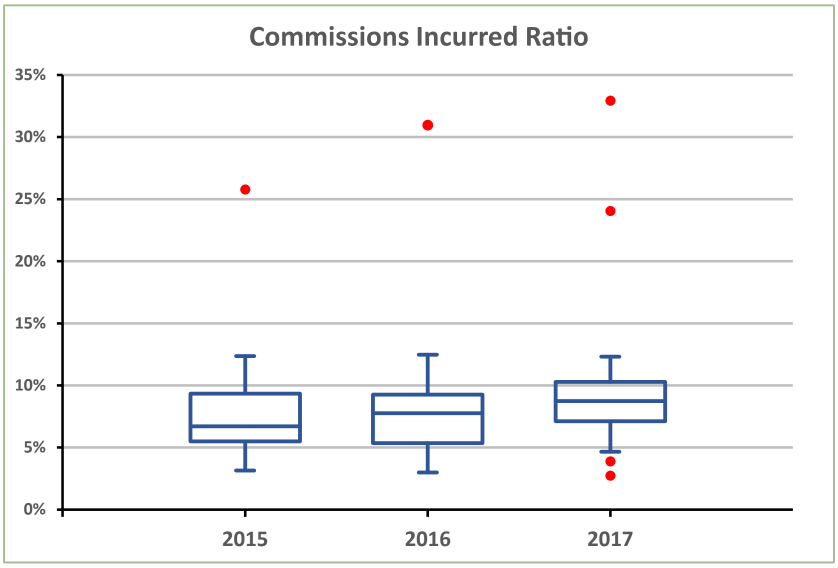




Graph 8 – Distribution of Retention Ratio



Graph 9 – Distribution of Commissions Incurred Ratio



Overall, the average investment ratio decreased significantly in 2017 although the median increased slightly. One reason for that is the poor performance of the stock market in the UAE: the stocks in Dubai and Abu Dhabi ended the year down by 4.55% and 3.25% respectively.

> Average investment ratio reduced significantly in 2017 to 7.9% from 10.9% in 2016

After the improvement in 2016, the average loss ratio has seen further improvement from 71% in 2016 to 63% in 2017. The overall gap between companies has also reduced, albeit with some outliers. We believe the continued improvement is attributed to regulatory changes by the Insurance Authority such as improvement in pricing for certain lines of business and enhanced technical awareness including requirements for higher level of actuarial input.

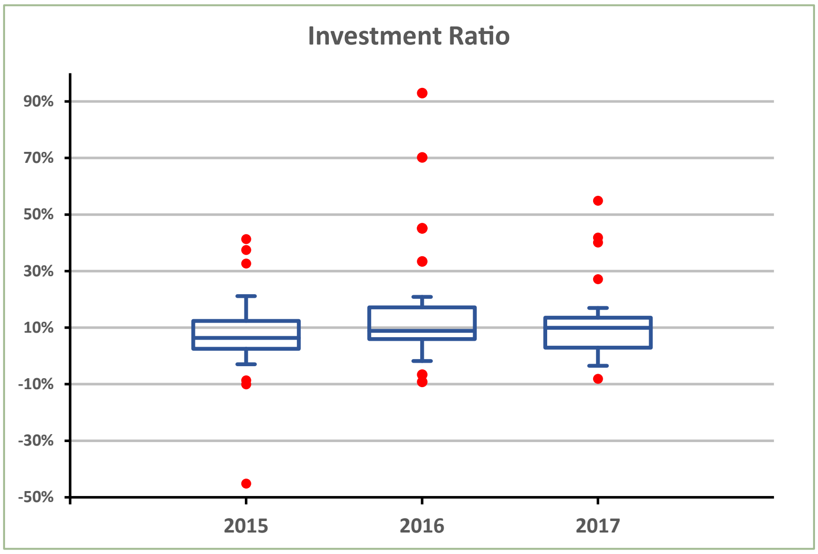
> Combined ratios improved in 2017 to 86% from 89% in 2016.

Consistent with improvements in overall profitability and loss ratios, the Net Combined Ratio also improved in 2017. In addition, the gap between the companies is also reducing implying the strengthening risk practices and governance of the overall market.

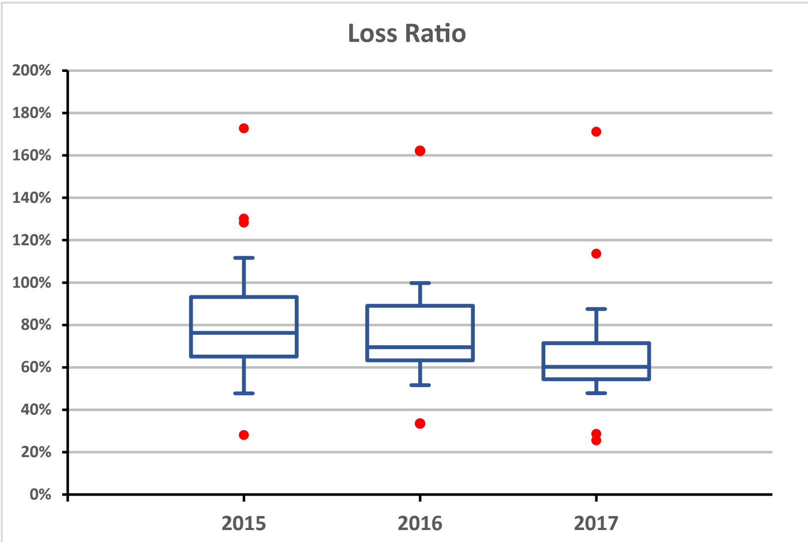
Please note the ratios used:

Underwriting Profit Ratio = Underwriting Profit / Net Earned Premium
Net Profit Ratio = Net Profit / Net Earned Premium
Return on Equity = Net Profit / Average Equity
Retention Ratio = Net Written Premium / Gross Written Premium
Commission Ratio = Commission Incurred/Gross Written Premium
Investment Ratio = Investment Income / Net Earned Premium
Loss Ratio = Net Claims Incurred / Net Earned Premium
Net Combined Ratio = 1-(Net Profit / Net Earned Premium)

Graph 10 – Distribution of Investment Ratio



Graph 11 – Distribution of Loss Ratio



Graph 11 – Distribution of Loss Ratio

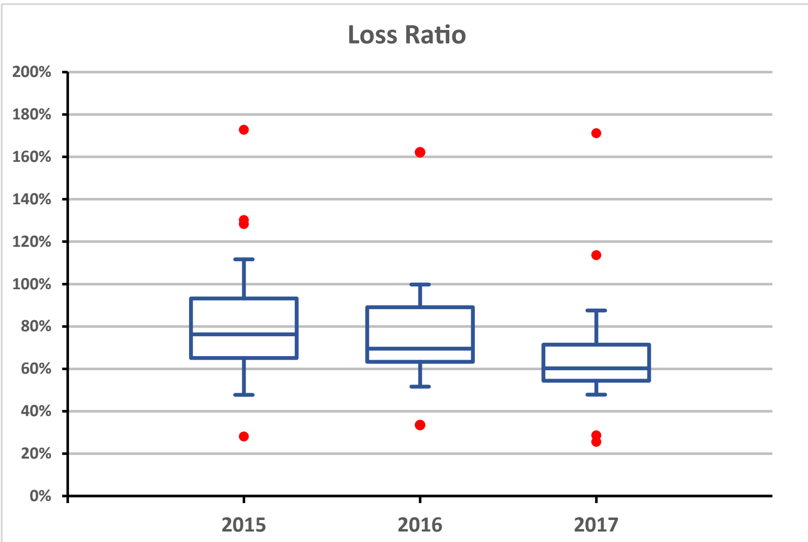


Exhibit 1

GWP, Net Profit and Total Equity (AED Millions)

Insurance Company	GWP		Net Profit		Total Equity	
	2017	2016	2017	2016	2017	2016
Orient Insurance	4,027	2,673	360	314	2,527	2,557
Oman Insurance Company	3,718	3,555	104	79	2,061	1,957
Abu Dhabi National Insurance Company	2,643	2,375	227	205	1,976	1,765
Al Ain Al Ahlia Insurance Company	1,388	964	50	62	1,171	1,165
Emirates Insurance Company	1,077	1,022	110	87	1,079	1,053
Union Insurance Company	1,049	877	10	(10)	309	298
Islamic Arab Insurance Company	809	780	38	(175)	807	767
Takaful Emarat	584	568	19	15	149	142
National General Insurance Company	572	550	37	28	465	448
Al Buhaira National Insurance Company	530	703	52	43	664	634
Dubai Insurance Company	476	400	38	37	475	485
Ras Al Khaimah National Insurance Company	472	416	32	23	253	235
Al Dhafra Insurance Company	415	336	52	22	342	311
Methaq Takaful Insurance Company	409	265	1	9	75	80
Al Sagr National Insurance Company	396	379	20	21	455	448
Dar Al Takaful	390	300	10	5	116	56
Dubai Islamic Insurance & Reinsurance Co.	381	414	9	(20)	68	53
Abu Dhabi National Takaful Company	374	321	59	48	314	271
Dubai National Insurance & Reinsurance Company	323	260	50	46	499	468
Alliance Insurance	290	302	48	45	482	459
National Takaful Company	271	200	8	0	85	79
Al Fujairah National Insurance Company	243	208	28	17	234	215
Al Wathba National Insurance Company	237	295	72	54	851	821
Arabian Scandanavian National Insurance Company	234	165	5	30	295	316
Insurance House	219	160	8	(19)	91	82
Al Khazna Insurance	104	237	(141)	(78)	115	261
United Insurance Company	85	72	(11)	0	87	(1)
Sharjah Insurance Company	56	66	22	19	221	204
Green Crescent Insurance Company	40	46	(19)	(14)	124	144
Orient UNB Takaful	38	-	(6)	-	195	-
Total	**21,852**	**18,910**	**1,294**	**895**	**16,585**	**15,772**

Please Note:

- There have been some changes in the published figures in comparison to the preliminary results, thus we have used the most recent published figures for each of the years.
- As per 2017 audited reports, 2015 & 2016 final results for some companies have been restated due to change in accounting policies or reclassification of certain line items. Furthermore, 2016 results in the 2017 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		
	2017	2016	2017	2016	Change
Orient Insurance	18.4%	14.1%	1	2	+1
Oman Insurance Company	17.0%	18.8%	2	1	-1
Abu Dhabi National Insurance Company	12.1%	12.6%	3	3	0
Al Ain Al Ahlia Insurance Company	6.4%	5.1%	4	5	+1
Emirates Insurance Company	4.9%	5.4%	5	4	-1
Union Insurance Company	4.8%	4.6%	6	6	0
Islamic Arab Insurance Company	3.7%	4.1%	7	7	0
Takaful Emarat	2.7%	3.0%	8	9	+1
National General Insurance Company	2.6%	2.9%	9	10	+1
Al Buhaira National Insurance Company	2.4%	3.7%	10	8	-2
Dubai Insurance Company	2.2%	2.1%	11	13	+2
Ras Al Khaimah National Insurance Company	2.2%	2.2%	12	11	-1
Al Dhafra Insurance Company	1.9%	1.8%	13	15	+2
Methaq Takaful Insurance Company	1.9%	1.4%	14	20	+6
Al Sagr National Insurance Company	1.8%	2.0%	15	14	-1
Dar Al Takaful	1.8%	1.6%	16	18	+2
Dubai Islamic Insurance & Reinsurance Co.	1.7%	2.2%	17	12	-5
Abu Dhabi National Takaful Company	1.7%	1.7%	18	16	-2
Dubai National Insurance & Reinsurance Company	1.5%	1.4%	19	21	+2
Alliance Insurance	1.3%	1.6%	20	17	-3
National Takaful Company	1.2%	1.1%	21	24	+3
Al Fujairah National Insurance Company	1.1%	1.1%	22	23	+1
Al Wathba National Insurance Company	1.1%	1.6%	23	19	-4
Arabian Scandanavian National Insurance Company	1.1%	0.9%	24	25	+1
Insurance House	1.0%	0.8%	25	26	+1
Al Khazna Insurance	0.5%	1.3%	26	22	-4
United Insurance Company	0.4%	0.4%	27	27	0
Sharjah Insurance Company	0.3%	0.3%	28	28	0
Green Crescent Insurance Company	0.2%	0.2%	29	29	0
Orient UNB Takaful	0.2%	0.0%	30	30	0

Regulatory Updates

There have been lots of regulatory activities in 2017 with the UAE Insurance Authority (IA) has issued the following since February 2017:

- Amendments to the vehicle insurance tariff system that have taken effect from 1st January 2018. The minimum premium for Motorcycle has been amended, and reductions have been allowed below the minimum tariff for individuals with a claim-free record, for fleet policies, for companies' loyal customers, and for vehicles using natural gas or electricity.

- New instructions regarding the Investment limits (Decision No.22). An insurance Company can exceed the investment limits if it has no deficit, and a new investment will not cause a deficit, in the Minimum Capital, Solvency Capital or Minimum Guarantee Fund requirements. If these capital requirements are not met, the company cannot purchase more assets of the asset category exceeding the limit.

- New asset category for investments in Associates. While these investments used to be considered part of the "Other Invested Assets" category subject to a limit of 10% of the invested assets, they now have a separate category with a limit of 20% for investments inside the State, and 10% for investments outside the State.

- The IA has continued to enhance the Financial Reporting forms (eForms) during 2017. Along with the updates, they have been raising the bar on data quality, including a zero error tolerance policy starting with year-end 2017 reporting.

- Several industry workshops took place in 2017 to get input on new regulations on capital requirements for Foreign Branches and new Life insurance regulations, but as of this writing the final regulations are still pending.

- The IA issued regulations on the licensing and registration of actuaries and the regulation of their operations. The regulation introduced a requirement for a professional liability insurance policy for actuaries and gives an option for actuarial firms to register with the IA. The regulation has also set limits to the number of insurance companies that actuaries can work with; a maximum of 2 companies for an actuary who is a non-resident, a maximum of 3 insurance companies for an actuary who is a resident and is registered as an individual, and a maximum of 4 insurance companies for an actuary who is a resident and is employed in a registered actuarial firm.

- The IA has asked all companies to prepare an FCR report at year-end 2017 as part of its efforts to help companies fully-align to the new regulations which have now become fully in force.

VAT Implementation

- Introduction of the 5% Value Added Tax (VAT) in 2018 could increase the administrative burden and costs for insurers due to heavy investments in VAT compliant infrastructures. Furthermore, some rules and procedures regarding the VAT implementation still lack clarity. There is ambiguity on the treatment of VAT due to unearned premium reserves and some of the market has raised concerns summarised below:
    - Insurers heavily involved in retail lines are finding it difficult to reclaim VAT on the unearned premiums for policies sold in 2017 due to not having retroactive VAT claim inserted in their policies or not having direct access to their customers (if sold through brokers)
    - Inconsistencies of VAT treatment by different brokers which leads insurance companies to have different systems to deal with different brokers
    - Not all parties involved are VAT registered and hence creating further operational hurdles
    - Different treatment of VAT for local and international re-insurers
- All of the above means that insurers may have to absorb a large amount of this tax liability which may weaken their performance in 2018.

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Market Developments & Updates

Telematics:

Telematics is the latest technology being adopted by motor insurers around the world as part of their innovation efforts and keeping up with the newest technologies. This is finding its way into the UAE market too.

Using telematics, an insurance company can get live data from a smart phone, a connected car or devices connected within the car and can base their pricing on how the car is being driven. In Europe and US (where this technology has been in play for a while), the results of telematics has been favorable for both the insurance companies and the end customer as insurance based on usage and driving behavior lowers premiums for the customers, but lowers claims costs even more which benefits society as a whole and the insurance companies.

IFRS 17:

The IFRS project for Insurance Contracts has come a long way, but finally the IFRS 17 Standard has been published and will be effective from 1 January 2021. This implies companies should already be working towards a transition before it is too late.

The new IFRS standard for insurance contracts promises to have a transformative effect on insurers' financial reporting.

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.

The biggest challenge for the insurers in the region will be getting access to an unprecedented amount of data. With insurers in Europe feeling the pressure of the going live by 1/1/2021 (even though they updated their systems as part of Solvency II), all companies in the UAE should seriously consider getting started as soon as possible.

Takaful Market Updates:

Takaful Emarat has acquired Al Hilal Takaful from Hilal Bank creating the largest Takaful Company by gross written premiums.

Orient UNB Takaful was established in Dubai as a joint venture between Orient Insurance and Union National Bank holding 70% and the remaining 30% being offered through an IPO to the public.

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