# MARKET MONITOR - UAE

## PRELIMINARY INSURANCE DISCLOSURES

# 2017

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

FEBRUARY
2018

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The Gross Written Premium, Net Profit and the Shareholder's 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.

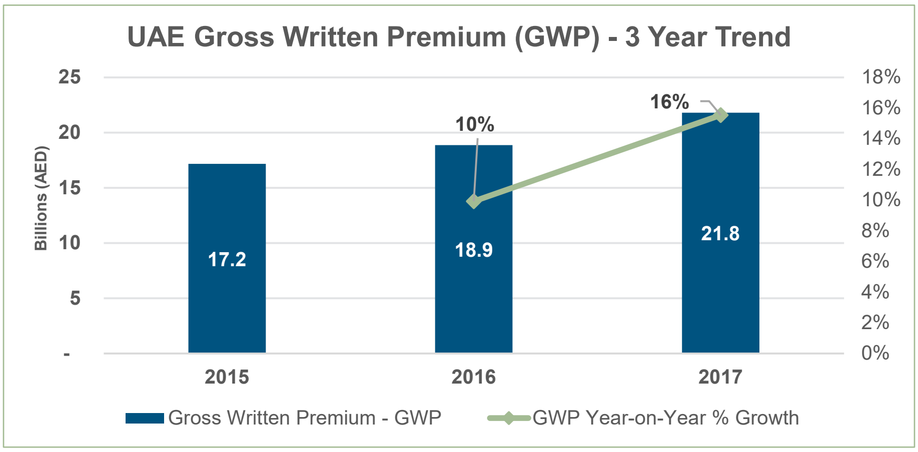
21 of the 30 companies showed an increase in GWP in 2017 over 2016.

> U/W Profit continued to be positive in 2017 with a 60% increase during the period, compared to 102% in 2016

# Market Overview

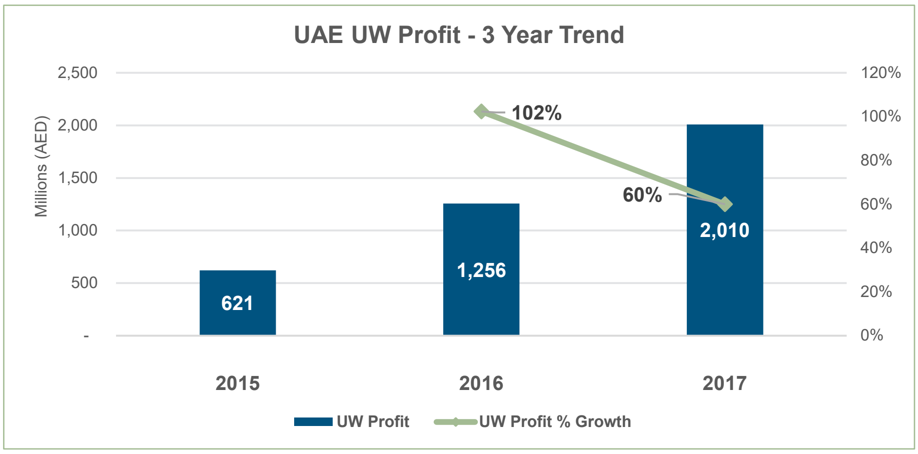
With both top and bottom lines growing, the UAE insurance market enjoyed record profitability and strong premium growth in 2017. The growth was primarily driven by regulatory changes that increased motor tariffs and DHA mandated medical coverage for the remaining spectrum of insureds in the Emirate of Dubai. These 2017 trends also contributed to a return to profitability for Takaful operators. Based 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 16% to AED 21.8b during 2017, up from an increase of 10% in 2016. For these companies, the net profit grew by 46% from AED 900m in 2016, to AED 1.3b in 2017.

### Graph 1 – Gross Written Premium (AED Billions)




While the growth in underwriting profit decreased from 102% in 2016 to 60% in 2017, the profit of AED 2,010m in 2017 is a record compared to AED 1,256m in 2016.

### Graph 2 – Underwriting Profit (AED Millions)



> "Net Profit has shown a 46% increase to AED 1,310m during 2017, compared to 706% in 2016 on the heels of a loss of AED 149m in 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, 24 of the 30 companies experienced an increase in shareholder's equity, with the total for the 30 companies increasing by 5% during 2017.

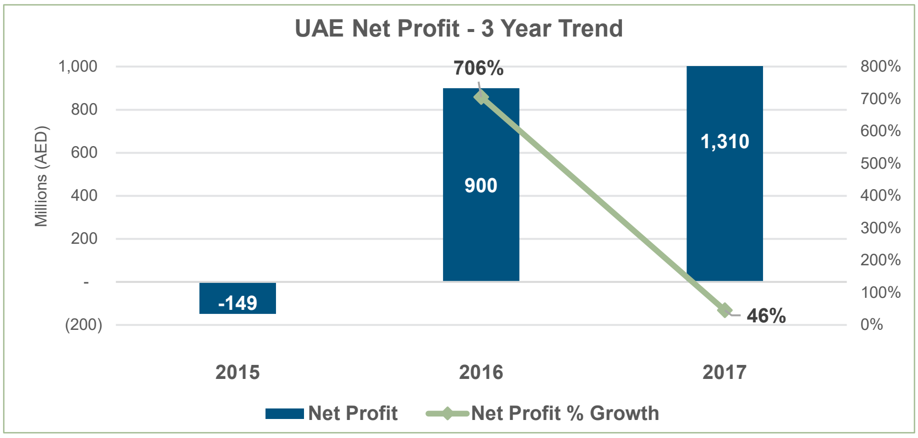
The improvement in results during 2017 is attributed to regulatory changes by the Insurance Authority such as improvement in pricing for certain lines of business, growth in medical insurance largely due to mandatory coverage in Dubai, and enhanced technical awareness including requirements for a higher 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, shareholders equity grew consistently for the past two years recovering to 2014 levels of AED 16.5b

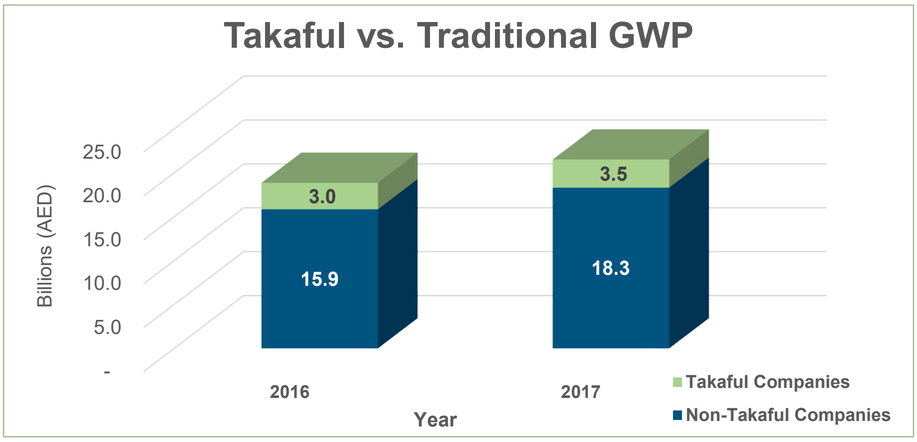
On a net profit basis, the industry continued to improve for the second year in a row achieving a net profit of AED 1,310m for 2017, compared to a net profit of AED 900m in 2016, an increase of 46%.

### Graph 3 – Net Profit (AED Millions)



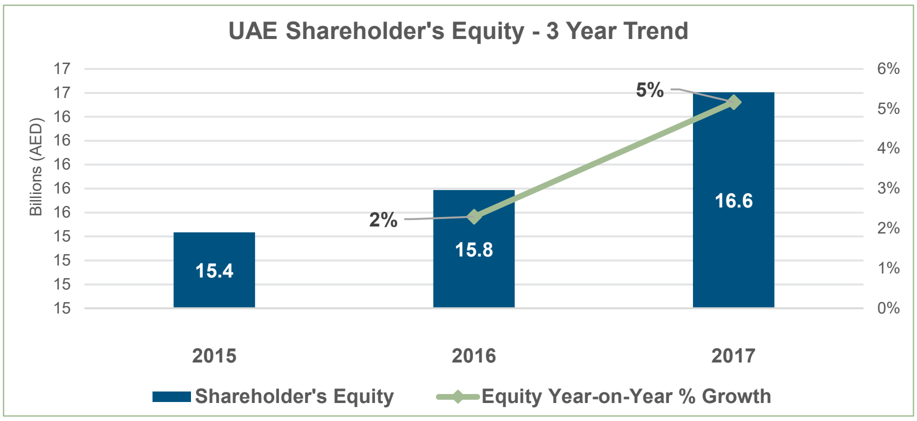

Both traditional and Takaful companies saw similar growth of around 16% in their top line premiums in 2017. Total GWP for Takaful operators now stands at AED 3.5b compared to AED 18.3b for traditional companies.

### Graph 4 – Takaful vs Traditional GWP




The increase in profitability also added to Shareholder's Equity with a year over year increase of 5% in 2017 compared to the 2% growth in 2016. The total Shareholder's Equity for the 30 companies grew from AED 15.8b to AED 16.6b at year end 2017.

### Graph 5 – Shareholder's Equity (AED Billions)



> The market underwriting profit ratio for all companies is converging to the 6% - 19% range. However, 5 companies achieved an underwriting profit ratio of 20% and above.

As seen in Graph 6, companies are improving their loss ratios and we believe this is due to better risk control and underwriting processes by many of the market players. However in 2017, the improvement in the bottom line is largely as a result of increased motor tariffs.

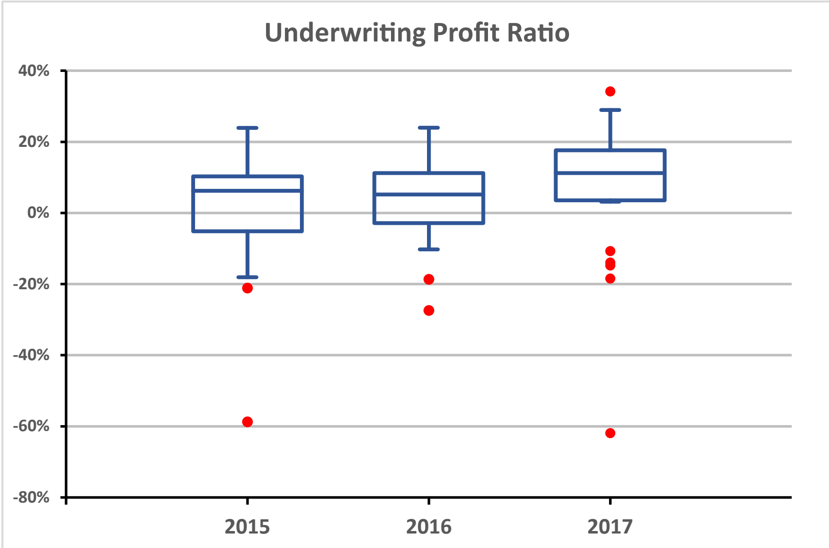
**It is important to note that companies are not consistent in reporting their financial results. For example, some companies subtract General Expenses to reach their UW profit but others do not. This makes industry comparisons difficult at best and can cause misleading indications of profitability for 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 underwriting margins between the 1st and 3rd quartiles that the market is becoming more competitive.

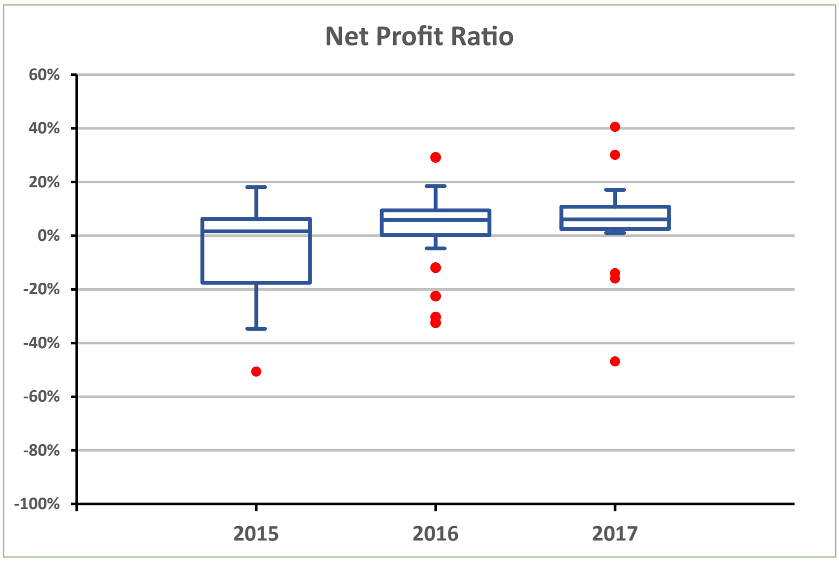
Accordingly, the gap between the ROE has significantly reduced as well implying the market is stabilizing in comparison to the large variance in 2015 and earlier.

> The market return on shareholder's equity was 8% for 2017 year end results compared to 6% in 2016

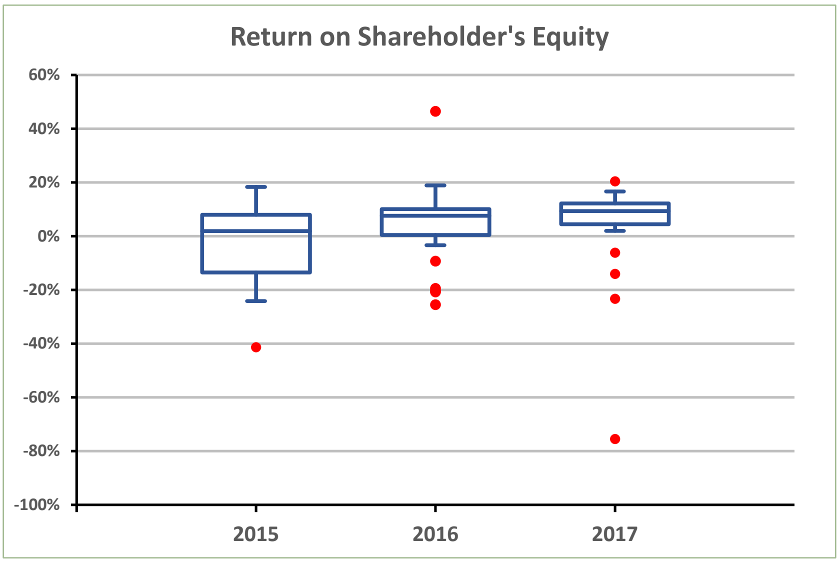
## Graph 6 – Distribution of Underwriting Profit Ratio




## Graph 7 – Distribution of Net Profit Ratio




## Graph 8 – Distribution of Return on Shareholder's Equity



# Exhibit 1

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

| Insurance Company | Gross Written Premium | | Underwriting Profit | | Net Profit | | Shareholder Equity | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Orient Insurance (Audited) | 4,027 | 2,673 | 442 | 348 | 360 | 314 | 2,527 | 2,557 |
| Oman Insurance Company (Audited) | 3,718 | 3,555 | 117 | 106 | 104 | 79 | 2,061 | 1,957 |
| Abu Dhabi National Insurance Company (Audited) | 2,643 | 2,375 | 304 | 343 | 227 | 205 | 1,976 | 1,765 |
| Al Ain Al Ahlia Insurance Company | 1,388 | 964 | 115 | 105 | 50 | 62 | 1,171 | 1,165 |
| Emirates Insurance Company | 1,077 | 1,022 | 160 | 125 | 110 | 87 | 1,079 | 1,053 |
| Union Insurance Company | 1,049 | 877 | 37 | 38 | 10 | (10) | 309 | 298 |
| Islamic Arab Insurance Company | 809 | 778 | 178 | (80) | 35 | (175) | 804 | 767 |
| Takaful Emarat | 584 | 568 | 102 | 65 | 19 | 15 | 149 | 142 |
| National General Insurance Company | 572 | 550 | 38 | 18 | 37 | 28 | 465 | 448 |
| Al Buhaira National Insurance Company | 537 | 685 | 31 | 25 | 58 | 43 | 666 | 634 |
| Dubai Insurance Company (Audited) | 476 | 400 | 29 | 24 | 38 | 37 | 475 | 485 |
| Ras Al Khaimah National Insurance Company (Audited) | 472 | 416 | 37 | 7 | 32 | 23 | 253 | 235 |
| Al Dhafra Insurance Company | 415 | 336 | 69 | 29 | 55 | 22 | 345 | 311 |
| Methaq Takaful Insurance Company | 409 | 265 | (44) | (17) | 9 | 9 | 82 | 80 |
| Dar Al Takaful | 390 | 300 | 45 | 33 | 10 | 5 | 116 | 56 |
| Dubai Islamic Insuranec & Reinsurance Co. | 381 | 414 | 14 | (18) | 9 | (20) | 81 | 70 |
| Abu Dhabi National Takaful Company | 374 | 321 | 128 | 77 | 60 | 48 | 314 | 271 |
| Al Sagr National Insurance Company | 362 | 338 | 77 | 35 | 20 | 25 | 455 | 447 |
| Dubai National Insurance & Reinsurance Company (Audited) | 323 | 260 | 45 | 38 | 50 | 46 | 499 | 468 |
| Alliance Insurance | 282 | 302 | 55 | 39 | 48 | 45 | 482 | 459 |
| National Takaful Company | 271 | 200 | 34 | 22 | 8 | 0 | 85 | 79 |
| Al Fujairah National Insurance Company | 243 | 208 | 32 | 13 | 28 | 17 | 233 | 215 |
| Al Wathba National Insurance Company | 237 | 295 | 20 | (24) | 71 | 54 | 851 | 821 |
| Arabian Scandanavian National Insurance Company | 234 | 165 | (33) | (31) | 6 | 30 | 295 | 316 |
| Insurance House (Audited) | 219 | 160 | 41 | 5 | 8 | (19) | 91 | 82 |
| Al Khazna Insurance | 108 | 240 | (67) | (66) | (142) | (78) | 114 | 261 |
| United Insurance Company | 72 | 97 | (13) | (5) | (10) | 0 | 87 | (1) |
| Sharjah Insurance Company | 56 | 66 | 12 | (2) | 23 | 19 | 222 | 204 |
| Green Crescent Insurance Company | 40 | 46 | 12 | 4 | (19) | (14) | 123 | 144 |
| Orient UNB Takaful (Audited) | 38 | - | (6) | - | (6) | - | 195 | - |
| **Total** | **21,808** | **18,876** | **2,010** | **1,256** | **1,310** | **900** | **16,605** | **15,789** |

## Please Note:

- With reference to the underwriting profit/loss (net operating profit/loss) shown above, the treatment of items such as general and administrative expenses is not consistent across the companies. For the companies who have only published the preliminary results, we will not have the details for the calculation of the underwriting profit/loss until the final audited reports are published. Hence, we have provided information based on the data that is currently available.
- Therefore it is important to note that due to varied treatment of general expenses to reach underwriting profits, industry comparisons are difficult at best and may cause misleading indications of profitability for some companies (until the audited financials are available)
- 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 (Audited) | 18.5% | 14.2% | 1 | 2 | +1 |
| Oman Insurance Company (Audited) | 17.0% | 18.8% | 2 | 1 | -1 |
| Abu Dhabi National Insurance Company (Audited) | 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 | 2.5% | 3.6% | 10 | 8 | -2 |
| Dubai Insurance Company (Audited) | 2.2% | 2.1% | 11 | 13 | +2 |
| Ras Al Khaimah National Insurance Company (Audited) | 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 |
| Dar Al Takaful | 1.8% | 1.6% | 15 | 18 | +3 |
| Dubai Islamic Insuranec & Reinsurance Co. | 1.7% | 2.2% | 16 | 12 | -4 |
| Abu Dhabi National Takaful Company | 1.7% | 1.7% | 17 | 16 | -1 |
| Al Sagr National Insurance Company | 1.7% | 1.8% | 18 | 14 | -4 |
| Dubai National Insurance & Reinsurance Company (Audited) | 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 (Audited) | 1.0% | 0.8% | 25 | 26 | +1 |
| Al Khazna Insurance | 0.5% | 1.3% | 26 | 22 | -4 |
| United Insurance Company | 0.3% | 0.5% | 27 | 27 | 0 |
| Sharjah Insurance Company | 0.3% | 0.4% | 28 | 28 | 0 |
| Green Crescent Insurance Company | 0.2% | 0.2% | 29 | 29 | 0 |
| Orient UNB Takaful (Audited) | 0.2% | 0.0% | 30 | 30 | 0 |

هيئة التأمين
Insurance Authority

## Regulatory Updates

There have been lots of regulatory activities in 2017 with the UAE Insurance Authority (IA) issuing 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 running by using natural gas or by 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 has increased 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 the following concerns:
  - 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 is forcing 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 reinsurers
- 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.

# 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.

## 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.

FOR FURTHER INFORMATION PLEASE CONTACT:

**Ae.milliman.com**

**dubai@milliman.com**

OR:

**Safder Jaffer, FIA**
Managing Director, Milliman LLC, Dubai
safder.jaffer@milliman.com

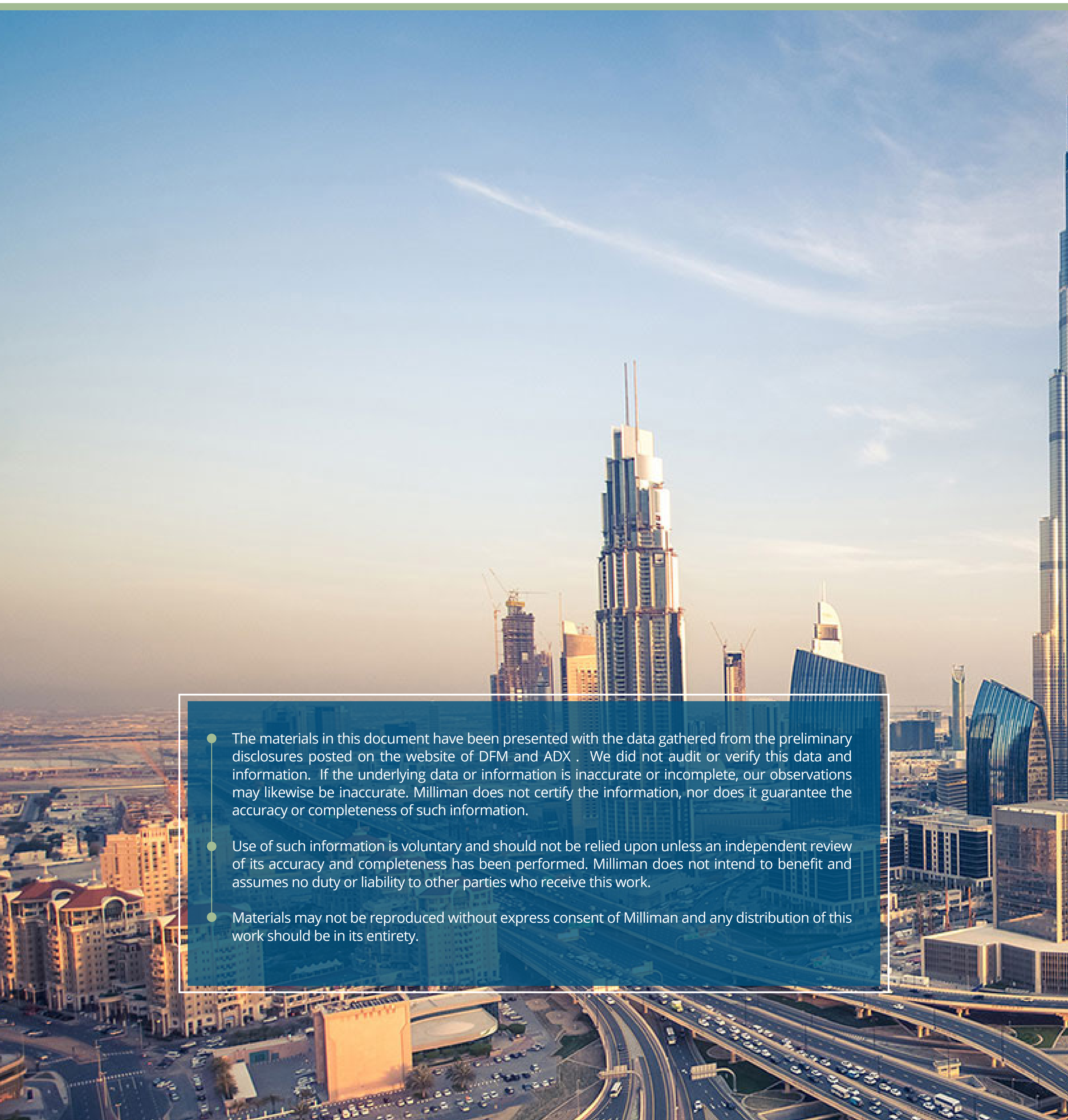
**Muhammad Asad Irshad, FSA**
Senior Consulting Actuary
asad.irshad@milliman.com

Milliman

Unit 809, Level 8
Liberty House, DIFC
Dubai, United Arab Emirates

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

milliman.com



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