Financial Analysis of Reported Earnings

As of 31 December 2015

UAE National Insurance & Takaful Companies

Executive Summary

22 May 2016

Taha Actuaries & Consultants examined the financial statements of twenty-nine (29) listed, locally incorporated, National companies as of 31 December 2015. These financial statements form the basis for this year-end report and the results reflected below.

The companies we reviewed included eight (8) Takaful Companies and twenty-one (21) Conventional Insurance Companies, of which we had the following special cases:

1. Arabian Scandinavian Insurance Company was converted from a conventional insurance company to a takaful company operating under the name "Arabian Scandinavian Insurance Company P.L.C – Takaful – ASCANA Insurance", effective from 2015. For consistency in the comparison of the figures between current and previous periods, we added ASCANA to the Takaful companies list throughout the period under review.
2. Islamic Arab Insurance Co. (SALAMA) and its subsidiaries is a Takaful company but it reports its financials similar to the conventional companies. In our report, we included SALAMA under the Takaful list.

The Takaful analysis is greatly affected by one Takaful company, Islamic Arab Insurance Co. (SALAMA), which constitutes 33% of Gross Takaful premium. Similarly, the Conventional analysis is affected mainly by three large players: Abu Dhabi National Insurance Company (ADNIC), Oman Insurance Company (OMAN), and Orient Insurance Company (ORIENT).

Our analysis is based solely on the data disclosed by the companies on their financial statements. It is important to note that the majority of the companies are not following the exact format of the financials mandated by the new Insurance and Takaful regulations. Due to this incompliance with the reporting requirements, providing standardized figures for all the companies in the market was not an easy task, especially that many accounts reported by the companies are not explained in the financial statements. For this report, however, we tried to follow the format stipulated in the regulations, to the extent possible.

In addition, due to each company's different reporting formats, our calculated results may vary with actual disclosed results unless the company is following the reporting format stipulated by the regulator. For example, we calculated the Net Underwriting Income as the income before operating expenses, as required in appendix 1 of the Financial Regulations; however, this will not match the Net Underwriting Income available in the financials of the companies that did not follow the unified appendix 1 of the Financial Regulations. Another important example is the Net Takaful Income that might not match with the accounts with the same name available in the financials of the Takaful companies, as no Takaful company is currently following the appendix 1 of the Financial Regulations for financial reporting.

We faced a delay in publishing this report due to two reasons:

- One listed company was late in publishing its financials for the period, as compared to the other companies.
- We wanted to include the results of the branches of Foreign companies in this report to present a more comprehensive view of the insurance market. However, as of the publication of this report, we were not able to collect the data for all the companies. We opted to publish our standard market report now, with a possible comprehensive market follow up at a later stage.

There were several trends observed at the end of 2015 which were noted in previous quarters, as well as some new trends. They are all detailed below:

1. Large Number of Companies with Losses

Nine (9) out of twenty-one (21) Conventional insurance companies have recorded Net Losses as of 31 December 2015, amounting to a total loss of **AED 673 million**. The Net Profit for the same companies as of 31 December 2014 amounted to a loss of **AED 304 million**. The table below shows the details for those companies.

Financial Statement Analysis of UAE National Conventional companies
Income Statement - Net Profit
Figures in AED million

Name of Company	Net Profit	
	Dec-15	Dec-14
Abu Dhabi National Insurance Company PSC	(335)	(280)
Al Dhafra Insurance Company P.S.C.	(61)	42
Al Khazna Insurance Company P.S.C.	(60)	(68)
Al-Sagr National Insurance Company P.S.C. and its subsidiary	(105)	39
AXA Green Crescent Insurance Company PJSC	(15)	0
Insurance House P.S.C	(14)	(21)
Sharjah Insurance Company P.S.C.	(13)	(8)
Union Insurance Company P.S.C.	(5)	44
United Insurance Company P.S.C.	(65)	(52)
Total Conventional Companies with Losses	**(673)**	**(304)**

For Takaful companies, four (4) out of eight (8) companies recorded Net Losses as of year-end 2015, amounting to a total loss of **AED 215 million**. The same four (4) companies recorded Net Profits for the same period in 2014 of **AED 29 million**.

Financial Statement Analysis of UAE National Takaful companies
Income Statement - Net Profit
Figures in AED million

Name of Company	Net Profit	
	Dec-15	Dec-14
Dar Al Takaful PJSC	(7)	5
Islamic Arab Insurance Co. (Salama) and its subsidiaries	(163)	37
Methaq Takaful Insurance Company PSC	(4)	(2)
National Takaful Company (Watania) PJSC	(41)	(10)
Total Takaful Companies with losses	**(215)**	**29**

In total, Net recorded losses for the market were **AED 124 million** as of 31 December 2015, compared to **AED 814 million** in Net Profits as of 31 December 2014. This equates to around an AED 938 million decrease in profits between the two periods.

2. Lower Profit – Even for Companies Who Achieved Profit

Conventional companies who achieved Net Profit as of 31 December 2015 achieved it at a significantly lower rate than in previous years for the same period.

Twelve (12) out of twenty-one (21) Conventional insurance companies have recorded Net Profits as of 31 December 2015, amounting to a total profit of **AED 697 million**. Net Profits for the same companies as of year-end 2014 amounted to **AED 1,015 million**. Only five (5) out of the twelve (12) companies show an increase in their Net Profits year-on-year.

Financial Statement Analysis of UAE National Conventional companies
Income Statement - Net Profit
Figures in AED million

Name of Company	Net Profit	
	Dec-15	Dec-14
Al Ain Ahlia Insurance Co. P.S.C.	21	59
Al Buhaira National Insurance P.S.C.	34	26
Al Fujairah National Insurance Company P.S.C.	14	22
Al Wathba National Insurance Company PJSC	18	129
ALLIANCE INSURANCE (PSC)	44	48
Orient Insurance Company PJSC and its subsidiaries	272	252
Dubai Insurance Company (PSC)	35	30
Dubai National Insurance & Reinsurance P.S.C.	41	36
Emirates Insurance Company P.S.C.	90	103
National General Insurance Co. (P.S.C.)	24	62
Oman Insurance Company P.S.C. and Subsidiaries	81	229
Ras Al Khaimah National Insurance Company P.S.C.	23	18
Total Conventional Companies with profits	**697**	**1,015**

In total, Takaful companies who made a profit experienced a decrease in profit year-on-year due to the decrease in profit recorded for Arabian Scandinavian Insurance Company (PLC) -Takaful (ASCANA). Of the Takaful companies, four (4) out of eight (8) recorded Net Profits as of year-end 2015, amounting to **AED 67 million**. Net Profits for the same companies as of year-end 2014 amounted to **AED 74 million**.

Financial Statement Analysis of UAE National Takaful companies

Income Statement - Net Profit

Figures in AED million

Name of Company	Net Profit	
	Dec-15	Dec-14
Abu Dhabi National Takaful Company PSC	42	36
Arabian Scandinavian Insurance Company (PLC) - Takaful (ASCANA)	13	31
Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)	2	0
Takaful Emarat - Insurance (PSC)	10	7
Total Takaful Companies with profits	**67**	**74**

3. Reduction in Investments and Other Income

Investments and Other Income (I&OI), as of 31 December 2015, decreased sharply when comparing to the same period in 2014. Sixteen (16) out of twenty-one (21) Conventional companies showed a decrease in their I&OI year-on-year. The total I&OI for the Conventional companies which showed a decrease in this category as of year-end 2015 amounts to **AED 179 million**, compared to **AED 699 million** for the same companies as of year-end 2014.

Financial Statement Analysis of UAE National Conventional Companies

Invetsment and Other Income and Return on Assets

Figures in AED million

Name of Company	Investment and Other Income	
	Dec-15	Dec-14
Abu Dhabi National Insurance Company PSC	102.0	106.4
Al Ain Ahlia Insurance Co. P.S.C.	20.1	48.3
Al Dhafra Insurance Company P.S.C.	16.1	26.9
Al Fujairah National Insurance Company P.S.C.	7.7	12.5
Al Khazna Insurance Company P.S.C.	(18.6)	(52.0)
Al-Sagr National Insurance Company P.S.C. and its subsidiary	(121.4)	28.3
Al Wathba National Insurance Company PJSC	15.7	122.0
Dubai Insurance Company (PSC)	17.9	18.5
Emirates Insurance Company P.S.C.	47.5	63.9
AXA Green Crescent Insurance Company PJSC	0.6	14.2
Insurance House P.S.C	6.7	14.7
National General Insurance Co. (P.S.C.)	9.5	75.1
Oman Insurance Company P.S.C. and Subsidiaries	88.3	142.8
Ras Al Khaimah National Insurance Company P.S.C.	5.2	8.4
Sharjah Insurance Company P.S.C.	0.3	27.9
Union Insurance Company P.S.C.	(29.9)	22.3
United Insurance Company P.S.C.	11.8	18.9
Total Conventional Companies	**179**	**699**

Six (6) out of eight (8) Takaful companies showed a decrease in Investment and Other Income. The total I&OI recorded for those Takaful companies as of year-end 2015 amounts to **AED 39 million**, compared to **AED 110 million** for the same companies as of year-end 2014.

Financial Statement Analysis of UAE National Takaful Companies

Invetsment and Other Income and Return on Assets

Figures in AED million

Name of Company	Investment and Other Income	
	Dec-15	Dec-14
Abu Dhabi National Takaful Company PSC	4.7	9.9
Arabian Scandinavian Insurance Company (PLC) - Takaful (ASCANA)	19.5	30.3
Dar Al Takaful PJSC	3.0	13.7
Methaq Takaful Insurance Company PSC	6.8	30.9
National Takaful Company (Watania) PJSC	6.7	11.5
Takaful Emarat - Insurance (PSC)	(1.3)	13.3
Total Takaful Companies	**39**	**110**

4. Response to New Regulation

Abu Dhabi National Insurance Company (ADNIC) declared during the year-end of 2015 that they further increased their technical reserves, and in year 2016, they are planning to take measures to strengthen their Capital.

During 2015, Ras Al Khaimah National Insurance Company (RAKNIC) declared a change of their Unearned Premium Reserve (UPR) calculation and the same adjustments were made retrospectively.

AXA Green Crescent Insurance Company (AXAGCI) revealed in their statements that the reason for reduction in their business is due to a selective and conservative underwriting strategy.

Emirates Insurance Company P.S.C (EIC) are relying on Actuarial advice for pricing and reserving from this year onwards.

Dubai National Insurance and Reinsurance Company (DNIR) booked reserves as of year-end 2015 based on Actuarial estimates.

National General Insurance Company (NGI) reported that the Company is fully compliant with the regulations on technical provisions.

We also noticed that seven (7) companies restated their comparative figures for year-end 2014, with an increase in their insurance contract liabilities for year-end 2014.

In September 2015, a number of companies met to discuss the "pricing" profitability, or lack thereof, experienced in the Motor portfolio. The general consensus is that Motor is losing; however, there is no will to address the unprofitability of Motor in a consistent way. As of 31 December 2015, we noticed that six (6) companies have booked Unexpired Risk Reserve (URR). We cannot tell for which lines of business, however, we assume that at least some of the URR is for Motor.

We believe that the new regulation will help the Insurance and Takaful market in the UAE achieve better results, have more control over their underwriting, and lead to profits in the near future. The companies who are the leaders in implementing the regulations will benefit greatly by being ahead of the curve. Accordingly, we recommend the following, with actuarial help:

- The new Financial Regulation stipulates the maintenance of adequate and actuarially-certified Technical Reserves every quarter, starting year-end 2015.
- Companies should know their vulnerabilities to risks via analysis of the risks facing them and implementation of Enterprise Risk Management (ERM).
- Companies should start strengthening their underwriting and pricing, especially for Motor and Medical.

- Proper Underwriting and risk management of low frequency, high severity lines of business, such as Fire and Engineering.
- Modeling of their Reinsurance contracts to ensure maximum utilization.

Findings & Recommendations

Below is an overview of the findings of our analysis of the financial statements of the twenty-nine (29) listed, locally incorporated, National companies as of 31 December 2015. We would be happy to discuss any of our findings and recommendations with you.

- Total Gross Premium (GP) for the above mentioned 29 companies, as of 31 December 2015, was AED 17.15 billion, an increase of 8% as compared to GP as of 31 December 2014. However, totals and averages hide the variation between companies and sectors: Gross Premium for Conventional companies increased from AED 13.69 billion, as of 31 December 2014, to AED 14.32 billion, as of 31 December 2015, a 5% increase. Gross Premium for Takaful companies increased from AED 2.26 billion, as of 31 December 2014, to AED 2.83 billion, as of 31 December 2015, a 25% increase.

- As compared to 31 December 2014, total Net Profits declined significantly for both Conventional and Takaful companies, with a decrease of 97% and 242% for Conventional and Takaful, respectively. Nine (9) Conventional companies and four (4) Takaful companies reported negative Net Profit as of year-end 2015.

- As of 31 December 2015, the 29 companies possessed a total of AED 42.02 billion in Assets against Liabilities of AED 26.51 billion. As compared to year-end 2014, Assets increased by 5.1% while Liabilities increased by 12.7%. Share Capital increased slightly by 2%, from AED 6.48 billion as of year-end 2014 to AED 6.63 billion as of year-end 2015. Equity experienced a decrease of 5.9%, from AED 16.48 billion, as at 31 December 2014, to AED 15.51 billion, as of 31 December 2015.The average variation by sector is a 7.7% decrease in Equity for Takaful companies and a 5.6% decrease for Conventional insurers.

- Four (4) Conventional and six (6) Takaful companies are at higher risk as their Equity is below their Share Capital level. Equity as a percentage of Assets is higher, on average, for Conventional companies (39%) compared to their Takaful counterparts (29%). However, this ratio decreased from 43% as of year-end 2014 for Conventional companies and from 33% for Takaful companies. The industry's Return on Assets is -0.3%, Return on Share Capital is -1.9%, and Return on Equity is -0.8%.

- In total, Takaful companies are relying less on reinsurance (and/or Retakaful) than Conventional companies. The average reinsurance ratio in 2015 for Takaful companies decreased by 4.6%, while for Conventional companies, the ratio increased by 5.9%. This ratio changed significantly up or down for individual companies. Additionally, there are varying levels of reinsurance ratios for Conventional companies, ranging from 25% for Al Fujairah National Insurance Company P.S.C. (AFNIC) to 73% for Dubai Insurance Company (DIN), the highest in the market. Similarly, for Takaful companies, the range is from 11% for Methaq Takaful Insurance Company (METHAQ) to 63% for Dubai Islamic Insurance & Reinsurance Co. PSC (AMAN).

- While the accounts available in the new P&L template required by the regulator do not allow us to calculate the gross and the reinsurance claims loss ratios. We only calculated the Net Claims Loss Ratios for each company. Net Claims Loss Ratio is defined as follows:

$$\text{Net Claims Loss Ratio} = \frac{\text{Net Claims Incurred}}{\text{Net Premiums Earned}}$$

  The Net Claims Loss Ratio for all companies increased from 79% as of year-end 2014 to 81% as of year-end 2015. Takaful companies registered a better Net Claims Ratio of 68%, compared to 85% by the Conventional companies in total.

- The industry, as a whole, incurred 8% more General and Administrative Expenses and Other expenses as of year-end 2015 compared to the same period in 2014. However, the Net Expense Ratio stayed almost stable at 23%, due to the increase of 8% in Net Premium over the same period. Conventional companies increased their General and Administrative Expenses and Other Expenses by 3%, while Takaful companies increased their General and Administrative Expenses and Other Expenses by 32%.

- For Conventional companies, there was an increase of 32% in their Net Commission during 2015.

- We noticed that many companies restated the previous year’s comparative figures, hence, year-end 2014 figures available in this report are different from the year-end 2014 figures available in the report that we published in the previous year. The companies that restated their accounts are the following: Al Fujairah National Insurance Company P.S.C. (AFNIC), Al-Sagr National Insurance Company P.S.C. and its subsidiary (ASNIC), Al Wathba National Insurance Company PJSC (AWNIC), National General Insurance Co. (P.S.C.) (NGI), Ras Al Khaimah National Insurance Company P.S.C (RAKNIC), Sharjah Insurance Company P.S.C.(SICO), Dubai Islamic Insurance & Reinsurance Co. (Aman)

(PSC), Al Buhaira National Insurance Company P.S.C (ABNIC), Emirates Insurance Company P.S.C (EIC), and Islamic Arab Insurance Co. and its subsidiaries (SALAMA).

- We also analyzed Investment and Other Income, i.e., the Other Income not related to underwriting activities and including the finance costs, of the industry during the period under review. The industry as a whole experienced a decrease of 52% compared to the same period in 2014. Conventional companies' Investment and Other Income decreased by 54%, while Takaful companies observed a decrease of 39% as of year-end 2015, as compared to year-end 2014.

We calculated Investment and Other Income Ratios for each company for the years 2014 and 2015. The Ratio is defined as follows:

$$\text{Investment and Other Income Ratio} = \frac{\text{Investment and Other Income}}{\text{Net Premiums Earned}}$$

Based on the above, the ratio for the year 2015 for the whole industry comes to 6.1%, whereas the same calculation for the year 2014 works out to 13.8%.

Our findings summarized above are market trends and totals on a consolidated basis. However, totals can hide a lot of the interesting details and variations between companies. For a better understanding of the particulars of each company, please read our more detailed analysis report.

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We hope this report and analysis is of value to you and your companies. Please provide any feedback using the contact details below:

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