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## Abu Dhabi National Insurance Co. (PSC)

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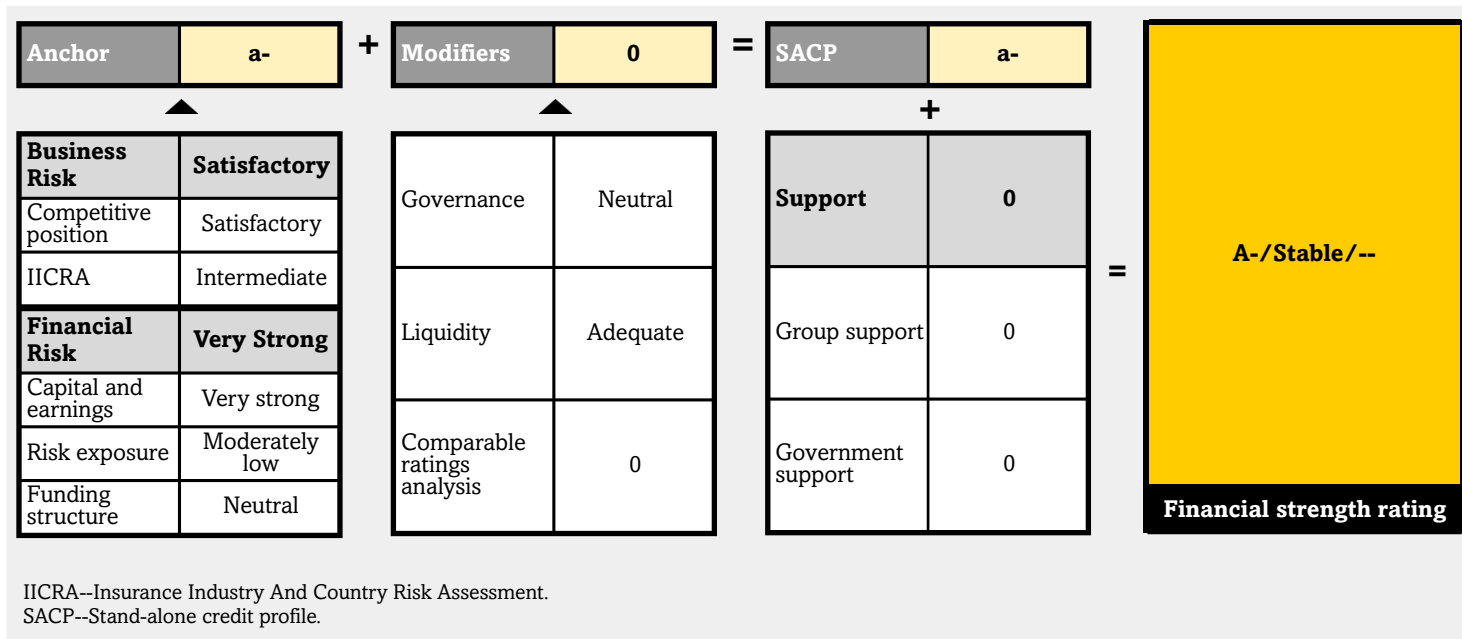
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# Abu Dhabi National Insurance Co. (PSC)



## Credit Highlights

Overview	
Strengths	Risks
Robust capitalization at the 'AAA' level, as per our risk-based capital model.	Business being concentrated in the UAE, a highly competitive market.
One of the leading insurers in the United Arab Emirates (UAE), with a proven track record of profitable underwriting performance and overall earnings.	Relatively high exposure to high-risk assets, despite some de-risking of the investment portfolio over the past three years.

**S&P Global Rating expects that Abu Dhabi National Insurance Co. (ADNIC) will maintain its 'AAA' level capital adequacy, as per our capital model.** ADNIC's capitalization exceeds our 'AAA' benchmark, which is the key rating strength. Despite booking some unrealized losses on its investment portfolio due to stock market volatility caused by the onset of pandemic, the insurer's capital adequacy remained resilient at the 'AAA' level. We expect ADNIC to maintain its capital adequacy level over the next two years because the company retains a significant portion of its profitable earnings to support business growth.

**We believe ADNIC will maintain its improved underwriting performance over the next two years.** The underwriting performance has been broadly stable over past three years and also outperforms the market average. In 2020, we saw limited impact on the insurer's operating performance and capital adequacy as the additional claims related to COVID-19 were compensated by a decline in motor and non-COVID-19-related medical claims. We expect ADNIC will maintain its underwriting discipline and report net combined ratios below 90% over the next two years.

**We believe the company will maintain its position as one of the largest and most profitable listed insurers in the UAE.** ADNIC continues to leverage its well-established business portfolio comprising of property and casualty and global inward facultative reinsurance to further cement its position as one of the leading insurers in the country.

**Outlook: Stable**

The outlook is stable because we believe that ADNIC's capital adequacy will remain at the 'AAA' benchmark in our model, supported by profitable earnings from the insurer's underwriting and investment activities over the next two years.

**Downside scenario**

Although not expected, we could take a negative rating action if ADNIC's capital adequacy weakened significantly, which could stem from unexpected material losses or significant premium growth.

**Upside scenario**

We could raise the ratings if the insurer's underwriting performance improved further, whereby it consistently outperform that of immediate peers in the market, or if ADNIC continues to grow and profitably diversify its income streams.

**Key Assumptions**

- Real GDP in the UAE declining about 8.6% in 2020, recovering by about 3.3% in 2021.
- Gross written premiums (GWP) in the UAE declining up to 5% in 2020 due to weaker economic conditions from the COVID-19 pandemic and lower oil prices. We project GWP will increase up to 5% per year in 2021-2022, as economic conditions improve.

**Key Metrics**

Abu Dhabi National Insurance Co. (PSC)--Key Metrics					
--Year ended Dec. 31--					
(Mil. AED)	2021f	2020f	2019	2018	2017
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent	Extremely strong	Extremely strong
Gross premium written	~4,100	~3,900	3,756	2,909	2,643
Net income	>250	>250	284	230	222
Return on shareholders' equity (%)	>10.0	>10.0	12.9	11.3	11.8
Net combined ratio (%)	<90.0	<90.0	87.0	89.3	87.8

\*The assessments for 2017 and 2018 reflect the rating scores under the previous insurance criteria framework. AED--UAE Dirham. f--S&P Global Ratings forecast.

**Business Risk Profile: Satisfactory**

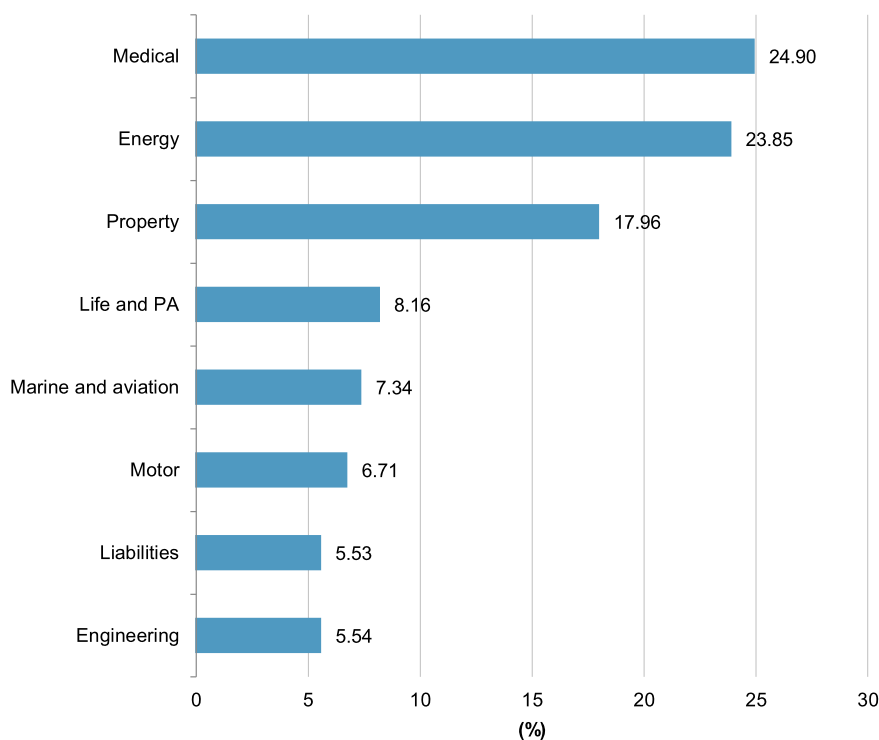
ADNIC was established in 1972, with its shares listed on Abu Dhabi Securities exchange (ADX). The company is the second-largest listed insurer in the UAE, with a market share of 16%, in terms of premium income for the first three

quarters of 2020. In addition to its head office in Abu Dhabi, ADNIC maintains a network of branches throughout the UAE and a representative office in London.

The company remains a preferred insurer for risks in the Emirate of Abu Dhabi, supported by its brand name, product diversity, and strong distribution channels. At the same time, it has expanded its business within and outside the UAE in recent years. In 2019, ADNIC generated about 80% of its total GWP from the insurance sector in the UAE property and casualty sector, and the remaining 20% from international facultative inward and treaty reinsurance business. Its portfolio is also well diversified between commercial and retail lines (see chart 1).

**Chart 1**

**Abu Dhabi National Insurance Co. (PSC)--Well Diversified By Line of Business**



Source: ADNIC Q3 2020 presentation.

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ADNIC's gross premium written reached UAE dirham (AED) 3.7 billion (\$1 billion) in 2019 growing at an average rate of 7.4% over the past five years. The significant growth rate of 29% achieved in 2019 was mainly backed by acquisition of some large contracts in the energy and medical lines of business. The company's underwriting performance has also strengthened over the past three years, with net combined ratios averaging about 88%.

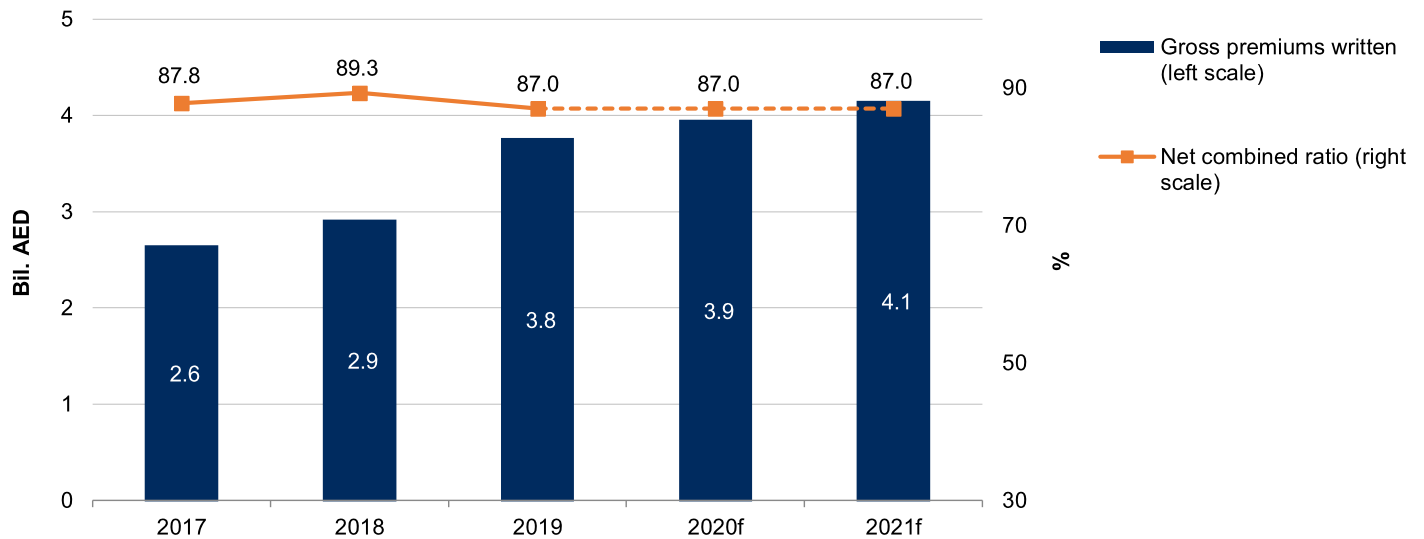
Despite the contraction in UAE's GDP in 2020, ADNIC recorded 6% growth during the first nine months of 2020, supported by its digital strategy and rate increase in some commercial lines. We expect this growth trend to continue for the full year and the company will maintain about 5% growth in its GWP. Furthermore, we expect premiums in

2021 will rise about 5%, in line with the market growth expectation.

We expect the COVID-19 pandemic to have a limited effect on underwriting performance. As a part of ADNIC's long-term strategy, management has been actively investing in digital transformation and automation of its distribution channels over the past couple of years. We anticipate minimal impact on the company's underwriting performance from COVID-19-related claims. Overall, we expect the net combined ratio to remain below 90% over 2020-2021 (see chart 2).

**Chart 2**

**Abu Dhabi National Insurance Co. (PSC)--Track Record Of Profitable Growth, Which We Expect To Continue**

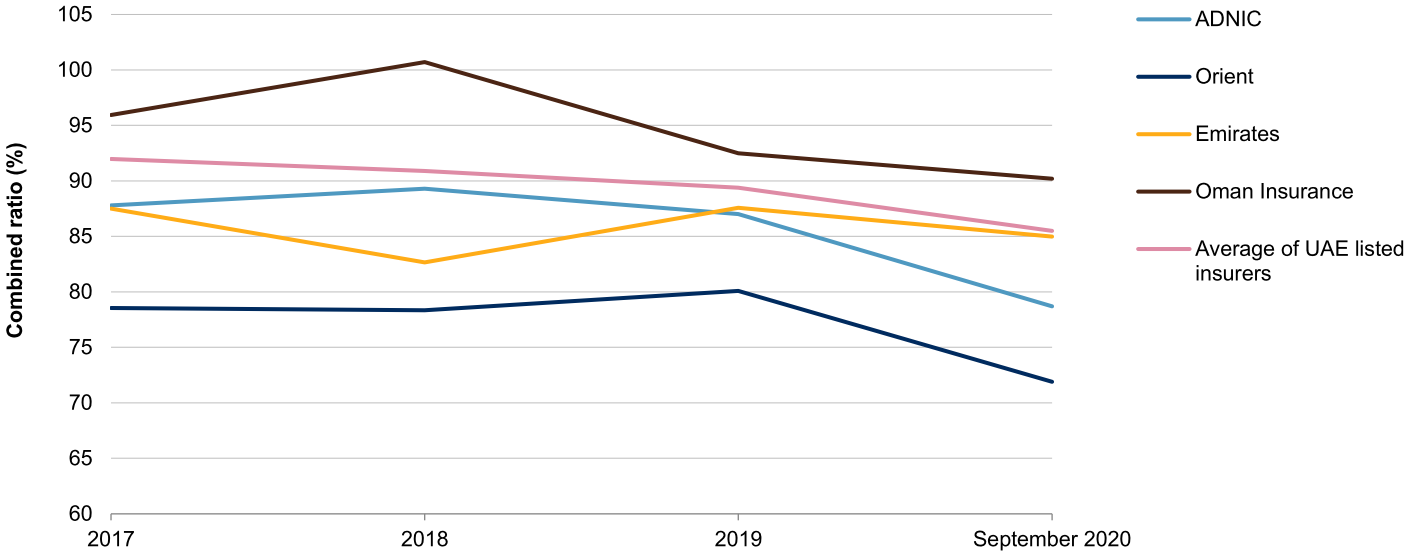


Source: S&P Global Ratings. AED--UAE Dirham. f--Forecast.  
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ADNIC's underwriting performance has improved, both stand-alone and compared with the market average (see chart 3).

Chart 3

**Abu Dhabi National Insurance Co. (PSC)--Underwriting Performance Better Than Market Average**

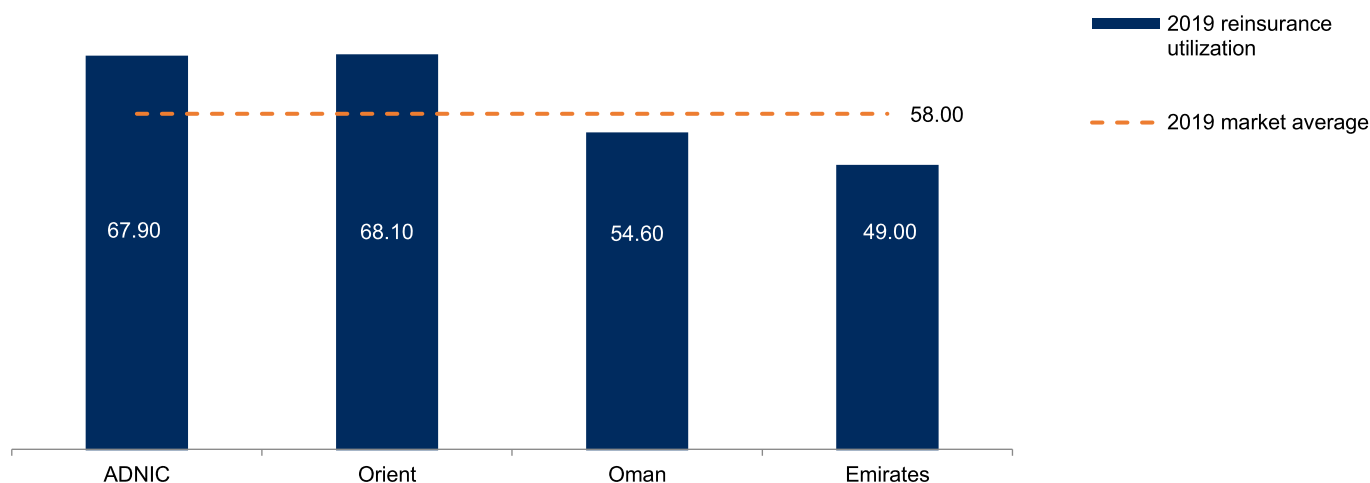


Source: S&P Global Ratings. UAE--United Arab Emirates.  
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In 2019, ADNIC ceded about 68% of its premiums to reinsurers as compared with 54% in 2018. The increase in reinsurance utilization was mainly due to the acquisition of a large energy account that was largely reinsured. While ADNIC's reinsurance utilization is relatively high compared with global standards, it is not unusual for insurers in the UAE (see chart 4). It typically helps companies to write profitable, large-scale business in return for lucrative inward reinsurance commissions, but it also reflects some dependence on reinsurers to offer capacity for large risks.

Chart 4

## Reinsurance Utilization Of Selected Listed Insurers In The UAE In 2019



Source: S&P Global Ratings.

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On balance, ADNIC's competitive position remains satisfactory, in our view, supported by the company's position as one of the top three listed insurers in the UAE in terms of premium income and net earnings. We could consider revising our assessment upward if the insurer continues to profitably diversify its income streams in the UAE and internationally, while its operating performance improved to a level where it consistently outperforms that of peers.

### Financial Risk Profile: Very Strong

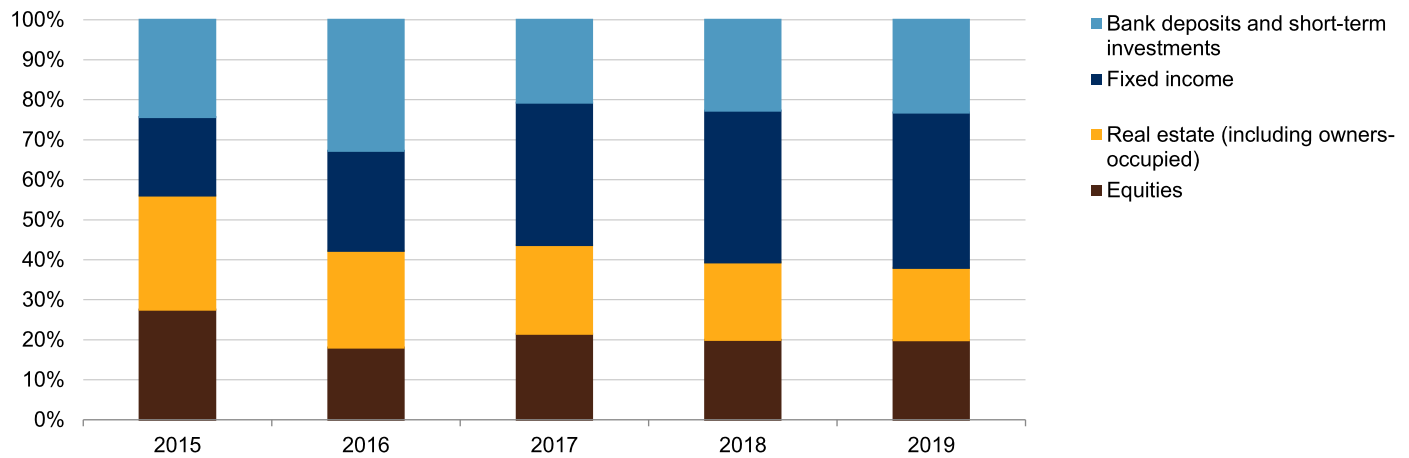
We expect ADNIC's capitalization, which remain a key strength to the overall rating, to remain above the 'AAA' level over 2020-2022, as per our internal risk-based capital model. This is

supported by projected net profits of more than AED250 million per year and dividend payouts in line with the historical average. ADNIC's shareholders' equity increased to about AED2.3 billion at year-end 2019 from AED2.1 billion in 2018, supported by profitable earnings. The company's regulatory solvency ratio was 180% as of December 2019, which indicates sufficient buffers above the required regulatory minimum.

Over the past five years, ADNIC has taken steps to de-risk its investment portfolio toward highly rated bond and cash investments from illiquid equity and real estate investments. As of year-end 2019, about 39% of investments were held in bonds, 23% in cash and short-term instruments, 20% in equities, and 18% in real estate and other investments (see chart 5). We do not expect ADNIC to add major investment risk to the balance sheet. Although the company is expanding its non-UAE operations, we do not expect it will incur any material foreign exchange risk given that most of its business is in or currencies that are pegged to the U.S. dollar.

**Chart 5**

**Abu Dhabi National Insurance Co. (PSC)--Gradual De-Risking Of Investment Portfolio**



Source: S&P Global Ratings.  
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ADNIC's in-house actuarial team and external actuarial consultants regularly review its reserves. The most recent actuarial report indicates that the company's technical provisions are in line with requirements. In our view, ADNIC's risk controls are adequate for the company's risk profile, and relatively advanced compared with that of local and regional insurers of similar size.

ADNIC's need for additional external capital and liquidity over the next two years, in our opinion, will be very low, because of its very robust capital position. However, if needed, the insurer can access equity markets, because it is a listed company on the ADX, similar to past years. It does not have any debt on its balance sheet, which supports our view.

## Other Key Credit Considerations

### Governance

ADNIC benefits from a stable senior management team, which has experience in the local market and substantial insurance expertise, and a successful track record. We regard the team's expertise, experience, and stability as a benefit to the company. In our opinion, the company's governance practices appear effective and appropriate.

### Liquidity

ADNIC's liquidity profile is sound and stable, thanks to the availability of liquid sources at its disposal, such as premium income and a liquid investment portfolio. As of September 2020, liquid assets covered 1.7x the net technical reserves. We do not foresee any liquidity risks for the company.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Appendix

Credit Metrics History		
Ratio/metric	2019	2018
S&P Global Ratings capital adequacy*	Excellent	Extremely strong
Total invested assets	3,968	3,760
Total shareholder equity	2,296	2,102
Gross premium written	3,756	2,909
Net premium written	1,205	1,342
Net premium earned	1,291	1,430
Reinsurance utilization (%)	67.9	53.9
EBIT	284	230
Net income (attributable to all shareholders)	284	230
Return on revenue (%)	22.2	18.9
Return on shareholders' equity (%)	12.9	11.3
P/C: Net combined ratio (%)	87.0	89.3
P/C: Net expense ratio (%)	14.1	17.4
P/C: Return on revenue (%)	22.6	18.9
Net investment yield (%)	4.1	4.0
Net investment yield including investment gains (losses) (%)	4.5	2.7

\*The 2018 assessment reflects the rating scores under the previous insurance criteria framework. P/C--Property/casualty.

**Business And Financial Risk Matrix**

<b>Business risk profile</b>	<b>Financial risk profile</b>							
	Excellent	<b>Very Strong</b>	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
<b>Satisfactory</b>	a	<b>a/a-</b>	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

**Ratings Detail (As Of December 31, 2020)\*****Operating Company Covered By This Report****Abu Dhabi National Insurance Co. (PSC)**

Financial Strength Rating

*Local Currency*

A-/Stable/--

Issuer Credit Rating

*Local Currency*

A-/Stable/--

**Domicile**

United Arab Emirates

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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