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Ras Al-Khaimah National Ins Co.

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Ras Al-Khaimah National Ins Co.

SACP* Assessments				SACP*		Support		Ratings		
Anchor	bbb+	+	Modifiers	0	=	bbb+	+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0	BBB+/Stable/--
Satisfactory			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	
Financial Risk										
Moderately Strong										

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Satisfactory

- Ras Al Khaimah National Insurance Co. P.S.C. (RAK Insurance) has an adequate competitive position, with above-market-average operating performance from a relatively small market share.
- We assess RAK Insurance's insurance industry and country risk as intermediate owing to the company's sole exposure to the property/casualty (P/C) sector in the United Arab Emirates (UAE).
- Since its acquisition by the National Bank of Ras al Khaimah (RAKBANK), a major UAE retail bank, RAK Insurance has greater potential to improve its competitive position by leveraging its relationship with RAKBANK, which, at present remains untested.

Financial Risk Profile: Moderately Strong

- Moderately strong capital and earnings, constrained by a relatively small capital base in absolute terms.
- Intermediate risk position, reflecting investment portfolio weighting to securely rated bank counterparties.
- Adequate financial flexibility owing to a debt-free balance sheet.

Other Factors

- We combine our assessments of the company's satisfactory business risk profile and moderately strong financial risk profile to derive our anchor of 'bbb+'.
- We assess enterprise risk management (ERM) as adequate, management and governance as fair, and liquidity as exceptional, all of which are neutral to the rating.
- Our counterparty credit and financial strength ratings on RAK Insurance are therefore 'BBB+'.

Outlook: Stable

The stable outlook reflects Standard & Poor's expectation that RAK Insurance will maintain its extremely strong capital adequacy and positive operating performance. Furthermore, we expect that RAK Insurance will remain operationally independent from its parent, RAKBANK.

Downside scenario

We consider a downgrade to be unlikely over the next two years. However, we could lower the ratings if we saw a persistent deterioration in technical profits to no better than break-even, affecting our assessment of the company's competitive position or financial profile by causing capital adequacy to deteriorate materially.

Upside scenario

We consider an upgrade as unlikely over the next two years because of RAK Insurance's limited scale and diversity of premium by geography. However, we could raise the ratings if we saw a significant increase in operational scale and the capital base, combined with sustained outperformance of the local market. These events could be facilitated by favorable relationship developments with RAK Insurance's new parent, RAKBANK.

Base-Case Scenario

Macroeconomic Assumptions

- Premium growth for the P/C sector of around 10% per year.
- Real GDP growth rate in the UAE of around 3.5% for 2015-2017.
- For detailed macroeconomic forecasts, see "United Arab Emirates Property/Casualty Insurance Sector Carries An Intermediate Industry And Country Risk Assessment," published Feb. 17, 2016, on RatingsDirect.

Company-Specific Assumptions

- Gross premiums written (GPW) to rise at about 7% annually over 2015-2018.
- Combined ratios to be better than 90% for the next two years, with return on equity (RoE) at approximately 12%.
- Capital adequacy to remain extremely strong and fully supportive of the company's growth projections.

Key Metrics

Ras Al Khaimah National Insurance Company P.S.C -- Key Metrics

(Mil. AED)	2017f	2016f	2015e	2014	2013	2012	2011
Gross premiums written	447	420	394	296	251	210	196
Net combined ratio (%)	<90	<90	<90	84	82	75	80
Net income (attributable to all shareholders)	>40	>40	>40	37	32	27	19
Return on shareholders' equity (%)	>12	>12	>12	16	16	15	11
S&P capital adequacy	Extremely strong						

AED--UAE dirham. e--expected. f--forecast.

Company Description

Established in 1974, RAK Insurance is a UAE "national" insurer that operates from its primary base in Ras Al Khaimah and writes all classes of insurance business, with an emphasis on commercial lines. It was listed on the Abu Dhabi Securities Exchange in July 2005.

With effect from May 2015, RAK Insurance became 79.23% owned by RAKBANK. We consider RAK Insurance to be operationally insulated from RAKBANK. Therefore our rating of RAK Insurance is based on its stand-alone credit profile, with no rating influence from its ownership by RAKBANK.

Business Risk Profile: Satisfactory

We assess RAK Insurance's business risk profile as satisfactory, reflecting our view of the UAE's intermediate country and industry risk, and the company's adequate competitive position.

Insurance industry and country risk: Intermediate risk due to sole exposure to the highly competitive UAE insurance market

RAK Insurance is operationally based in the UAE. Therefore, in our opinion, it faces intermediate industry and country risk exposure. We view the UAE P/C insurance market as having low insurance product risk, with generally moderate and sustainable returns on capital. However, earnings have been under pressure from fierce price competition in key volume lines of business, such as medical and motor insurance, in an overpopulated insurance market. However, we believe the UAE still offers good premium growth opportunities and remains a fundamentally profitable market for companies with sufficient business volumes to dilute costs.

Table 1

Ras Al Khaimah National Insurance Company P.S.C. -- Industry And Country Risk

Insurance sector	IICRA	Business mix*
UAE P/C	Intermediate	100

*Based on gross premiums written. P/C--Property and casualty.

Competitive position: Adequate, with a history of earnings outperformance despite modest size

In our opinion, RAK Insurance's competitive position is adequate. It is a small insurer with less than a 2% market share, but it is a consistent outperformer, with average combined ratios below 90% and a market-leading RoE. It controls more than half of its premium distribution channels, but also uses intermediaries.

In 2014, gross premiums written (GPW) rose by 18% compared to 2013, and comprised medical and group life 55%, property and general 27%, motor 14%, marine and aviation 4%. We do not expect these proportions to vary materially in future. We believe growth in 2015 GPW will be in the range of 30%-35%, boosted by two high-value medical policies, but will moderate to below 10% per year in 2016-2018.

Our assessment of RAK Insurance's competitive position recognizes its lack of geographic diversity, in that all of its premiums derive from UAE, and we do not expect this to alter in the medium term.

The company maintains a strong operating performance, with a five-year average combined ratio of 81%, supported by low volatility in its loss ratios, which have remained in the range of 54%-59%, with a five-year average of around 57%.

We expect earnings to maintain this out-performance, with RAK Insurance trying to gain more access to the local market and strengthen its market position. We consider that RAK Insurance could make better use of its parent's (RAKBANK's) retail network to its benefit. RAKBANK has a wide network of branches and is considered as one of the aggressive players in the retail market. While there is no evidence of any exclusive agreements being signed between RAKBANK and RAK Insurance, we believe that such an association could benefit both the companies.

RAK Insurance uses a variety of channels to distribute its products, with the majority of revenues generated from its controlled sources.

RAK Insurance's reinsurance utilization is also falling consistently, highlighting that the company is retaining more of the profitable business and becoming a more mature player in the market.

Table 2

Ras Al Khaimah National Insurance Company P.S.C -- Competitive Position				
--Year-ended Dec. 31--				
(Mil. AED)	2014	2013	2012	2011
Gross premiums written	296	251	210	196
Change in gross premiums written (%)	18	19	7	12
Net premiums written	210	157	121	116
Change in net premiums written (%)	34	29	5	6
Total assets	526	480	437	384
Growth in total assets (%)	10	10	14	(5)
Reinsurance utilization - premiums written (%)	29	37	42	41

AED--UAE dirham.

Financial Risk Profile: Moderately Strong

We view RAK Insurance's financial risk profile as moderately strong, reflecting its extremely strong capital adequacy, constrained by operational size, an intermediate risk position, and adequate financial flexibility.

Capital and earnings: Moderately strong, with capital adequacy forecast to remain at 'AAA' level over the next two years

RAK Insurance's capital adequacy is extremely strong and the company has a solid record of earnings generation, generally above the market average. Shareholder equity has grown consistently over the past five years owing to positive technical results and a healthy RoE. As we note above, RAK Insurance has one of the strongest net combined ratios in the UAE, reporting 84% in 2014 and a five-year average of around 80%. Its 2014 RoE was 15.7%, compared to a five-year average of 13.6%. This long-term stability reflects the company's general emphasis on low volatility investments and returns.

Under our base-case scenario, we expect RAK Insurance to maintain its robust level of AAA capital adequacy over the next two years, along with a combined ratio of more than 90% and RoE at about 12%. We note that external actuaries reviewed the company's technical reserves in 2015, as required by the new regulatory framework, with no meaningful impact on our assessment of capital adequacy, or the required solvency requirements.

Table 3

Ras Al Khaimah National Insurance Company P.S.C -- Capitalization Statistics				
--Year-ended Dec. 31--				
(Mil. AED)	2014	2013	2012	2011
Common shareholders' equity	250	215	192	179
Change in common shareholders' equity (%)	16	12	7	3

AED--UAE dirham.

Table 4

Ras Al Khaimah National Insurance Company P.S.C -- Earnings Statistics				
--Year-ended Dec. 31--				
(Mil. AED)	2014	2013	2012	2011
Total revenue	198	149	112	111
EBIT adjusted	36	30	27	23
Net income (attributable to all shareholders)	37	32	27	19
Return on revenue (%)	18	20	24	21
Return on shareholders' equity (reported) (%)	16	16	15	11
Net expense ratio (%)	30	24	20	21
Net loss ratio (%)	54	58	55	59
Net combined ratio (%)	84	82	75	80

AED--UAE dirham.

Risk position: Intermediate risk reflects modest and tightly managed exposure to volatile investments

We regard RAK Insurance's risk position as intermediate. This is because 71% of total investments are invested in cash and short-term deposits, with only 20% in equities and 2% in real estate. We expect the portfolio structure to remain largely unchanged, supporting intermediate risk and exceptional liquidity.

Table 5

Ras Al Khaimah National Insurance Company P.S.C -- Risk Position				
--Year-ended Dec. 31--				
(000s AEDS)	2014	2013	2012	2011
Total invested assets	247	266	229	203
Net investment income	7	5	5	6
Net investment yield (%)	3	2	2	3
Net investment return (%)	3	3	2	1
Portfolio composition (% of general account invested assets)				
Cash and short term investments (%)	71	76	77	72
Bonds (%)	2	1	0	0
Equity investments (%)	21	16	5	6
Real estate (%)	2	3	3	3
Investments in affiliates (%)	0	0	10	14
Other investments (%)	4	4	5	5

Financial flexibility: Adequate due to access to funds through banks and shareholders

RAK Insurance has adequate financial flexibility, in our view, given its fairly low financing needs, good earnings generation, and prudent dividend policy. Capital growth has been wholly internally financed since the company's establishment in 1974, and therefore access to external funding is largely untested.

Earnings at RAK Insurance are the key source of capital generation. We expect the company's future earnings capacity to support its capital and growth needs in the medium term. In addition, we also believe that RAK Insurance could now leverage its majority shareholder, RAKBANK, to access bank financing and additional capital, if required.

Other Assessments

We assess ERM, management and governance, and liquidity as neutral to the ratings.

Enterprise risk management: Adequate, of low importance in view of relatively straightforward operational structure

We consider RAK Insurance's ERM as adequate. Our assessment reflects our view that the company has an embedded risk management culture and implemented appropriate controls for all areas of risk. These controls are still in the process of development, but the company's local and relatively modest operational scale, and the historical effectiveness of the underwriting risk controls in place, ease our concerns.

Management and governance : Fair, with limited track record of senior management team

We assess management and governance as fair, because in our view senior management still has a relatively limited

track record at RAK Insurance. The team presents a stable, conservative, and well-developed underwriting expansion strategy. Even so, the growth plan entails some expansion into the other UAE emirates that already have long-established and significantly larger insurers than RAK Insurance.

Liquidity: Exceptional as a result of a liquid investment portfolio

We regard RAK Insurance's liquidity as exceptional, owing to the quantum of liquid investments on its balance sheet relative to stressed potential liabilities. The company holds about two-thirds of its investments in readily liquid instruments. At year-end 2014, bank deposits alone covered 4.4x net loss reserves.

Accounting Considerations

RAK Insurance prepares its financial statements under International Financial Reporting Standards (IFRS). We view accounting as broadly transparent and reflective of the company's economic substance. Our analysis is based on these financial statements, supplemented by nonpublic information.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- United Arab Emirates Property/Casualty Insurance Sector Carries An Intermediate Industry And Country Risk Assessment, Feb. 17, 2016

Ratings Detail (As Of March 1, 2016)

Operating Company Covered By This Report

Ras Al-Khaimah National Ins Co.

Financial Strength Rating

Local Currency

BBB+/Stable/--

Counterparty Credit Rating

Local Currency

BBB+/Stable/--

Domicile

United Arab Emirates

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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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