

RatingsDirect®

Research Update:

UAE Insurer RAK Insurance Assigned Ratings Of 'BBB+'; Outlook Stable

Primary Credit Analyst:

Kevin R Willis, Dubai (971) 4-372-7103; kevin.willis@standardandpoors.com

Secondary Contact:

Ali Karakuyu, London (44) 20-7176-7301; ali.karakuyu@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

UAE Insurer RAK Insurance Assigned Ratings Of 'BBB+'; Outlook Stable

Overview

- We are assigning our 'BBB+' long-term ratings to Ras Al-Khaimah National Ins Co. (RAK Insurance).
- We view RAK Insurance as a relatively small UAE insurer that has ambitions to grow above the market norms while maintaining its track record of above average earnings and capital strength.
- We consider the current operational scale of the company as sustainable, but limited in breadth, which is a key rating constraint.
- The stable outlook reflects our view that RAK Insurance will maintain very positive technical performance and capital and earnings will remain moderately strong.

Rating Action

On Jan. 5, 2015, Standard & Poor's Ratings Services assigned to Ras Al-Khaimah National Ins Co. (RAK Insurance) its 'BBB+' counterparty credit and insurer financial strength ratings. The outlook is stable.

Rationale

The ratings reflect our view of RAK Insurance's favorable competitive position--it largely controls its product distribution and has a track record of underwriting performance above the market average. The company maintains a strong operating performance, demonstrated by its five-year combined ratio of 80%, supported by low volatility in its loss ratios. The combined ratio is a measure of claims losses plus expenses. These factors and the intermediate industry risk we assign to the United Arab Emirates (UAE) support our assessment of RAK Insurance's business risk profile as satisfactory.

We assess RAK Insurance's financial risk profile as moderately strong, reflecting its sustainable and extremely strong capital adequacy and its intermediate risk position, which benefits from the investment portfolio characteristics. However, operational scale is limited. Gross premium written in 2013 was UAE dirham (AED) 250 million (\$68 million), representing a market share of less than 2% of UAE-listed insurers. Shareholder funds were also AED250 million at the end of December 2013.

We combine our assessments of satisfactory business risk profile and moderately strong financial risk profile to derive an anchor of 'bbb+'. Other rating factors of management and governance, enterprise risk management, and liquidity are neutral to the rating.

In our opinion, RAK Insurance has extremely strong risk-based capital adequacy that is resilient to both underwriting event stress and the potential volatility from its investment portfolio. We expect its capital base to continue to grow as the company maintains its strong profitability, which will support RAK Insurance's current growth strategy. Our base-case scenario is that premium income will increase at 10% per year, in line with market norms, and that it will report a combined ratio below 85% and net earnings of at least AED28 million, representing a return on equity of 12%.

We assess RAK Insurance's risk position as intermediate. As of Sept. 30, 2014, over 70% of invested funds were in bank deposits predominantly at local banks with investment-grade ratings. Relative to market norms, we view this as a conservative strategy, but the company is exposed to a degree of counterparty concentration. Strategic investments in high-risk assets such as equity and real estate were relatively modest compared with regional peers at 25% of invested funds, giving only moderate investment leverage. Our rating expectation is that any likely developments in the future investment portfolio structure will not weaken our assessment of risk position.

Our assessments of management and governance and enterprise risk management are neutral to the rating. We see RAK Insurance's liquidity as exceptional, and we anticipate that it will maintain its liquidity.

Our assessment of RAK Insurance's business risk profile as satisfactory reflects the current operational structure and plans of the management team. The government of Ras Al Khaimah currently owns 47% of RAK Insurance, but we do not consider the insurer to be a government-related entity, so it merits no rating support. We understand that National Bank of Ras Al Khaimah (RAKBank), itself majority-owned by the Ras Al Khaimah government, will soon acquire a majority shareholding in RAK Insurance, by acquiring shares from the government and the open market. We do not view this expected change in ownership to be a rating event under our criteria.

Outlook

The stable outlook reflects our view that the factors supporting RAK Insurance's business and financial risk profiles are unlikely to change over the next two years. We anticipate that capital adequacy will remain extremely strong and resilient to any earnings pressure, and that RAK Insurance's technical profitability will remain high. We also anticipate that its risk position will remain intermediate, although this assessment is sensitive to any changes in the asset mix in RAK Insurance's investment portfolio.

Downside scenario

We could lower the ratings if we saw a material weakening of earnings that affected our assessment of the company's competitive position or financial profile by causing the capital adequacy to deteriorate materially.

Upside scenario

At this stage, we consider an upgrade to be unlikely over the next two years. 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 could be facilitated by material favorable relationship developments with its potential new parent.

Ratings Score Snapshot

Financial Strength Rating	BBB+/Stable
Anchor	bbb+
Business Risk Profile	Satisfactory
IICRA	Intermediate risk
Competitive Position	Adequate
Financial Risk Profile	Moderately strong
Capital and Earnings	Moderate strong
Risk Position	Intermediate risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
ERM	Adequate
Management and Governance	Fair
Holistic analysis	0
Liquidity	Exceptional

IICRA--Insurance Industry Country Risk Assessment.

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, Dec. 16, 2014

Ratings List

Ras Al-Khaimah National Ins Co.

Counterparty Credit Rating

BBB+/Stable/--

Financial Strength Rating

BBB+/Stable/--

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.