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Ras Al-Khaimah National Ins Co.

Primary Credit Analyst:
Sachin Sahni, Dubai (971) 4-372-7190; sachin.sahni@spglobal.com

Secondary Contacts:
Emir Mujkic, Dubai (971) 4-372-7179; emir.mujkic@spglobal.com
Bida Blume, Dubai (971) 4-372-7189; bida.blume@spglobal.com

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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: Satisfactory		ERM and Management	0	Liquidity	0	Group Support	0	BBB+/Stable/--
Financial Risk: Moderately Strong		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	

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

Major Rating Factors

Strengths	Weaknesses
• Extremely strong risk-based capital adequacy, resilient to recent top-line growth. • Relatively stable track record of profitability, supported by a conservative underwriting and investment portfolio. • One of the 12 "participating insurers" (PIs) out of more than 60 insurers, authorized by the Dubai Health Authority to sell the Essential Benefits Plan to Dubai residents.	• Medium-sized insurer, in terms of premiums written and the absolute capital base. • Operations concentration in a single geography, that is, the United Arab Emirates (UAE). • High concentration in the medical insurance line of business (contributing 67.6% of the total premium income) could bring potential earnings volatility.

Rationale

S&P Global Ratings' financial strength and issuer credit ratings on Ras Al Khaimah National Insurance Company (RAKNIC) reflect its established business position in the UAE non-life market, where it has been operating successfully since 1974. Its gross premium income continues to increase profitably supported by sound underwriting practices, complemented by a conservatively managed and highly liquid investment portfolio, resulting in a consistent and less volatile operating performance. Our assessment is however, moderated by RAKNIC's limited geographical footprint, modest operational scale (measured by gross premium written [GPW] with less than 2% of the total market share), and small capital base. Nevertheless, we acknowledge RAKNIC's proven ability to sustain its robust capitalization and overall positive performance while experiencing significant growth and changes in its underwriting business led by evolving regulatory enhancements.

Outlook: Stable

The stable outlook on RAKNIC reflects our expectation that the insurer will maintain its extremely strong capital adequacy, supported by an operating performance broadly in line with that of its peers. Furthermore, we expect that RAKNIC will remain operationally and financially independent from its parent, the National Bank of Ras Al-Khaimah (RAKBANK).

Upside scenario

We consider an upgrade unlikely over the next two years because of RAKNIC's limited scale and lack of geographic diversity. However, we could raise the ratings if we saw a significant increase in its operational scale and capital base, combined with technical outperformance.

Downside scenario

We could consider lowering the ratings if we observed:

- Significant deterioration in operating performance, which could weaken our assessment of competitive position or capital and earnings.
- Significant growth in the medical line of business--that is, medical contributing more than 80% of GPW--constraining our assessment of business diversification and leading to a weakened competitive position.
- Sizable financial or operational dependencies on RAKBANK, which could lead to a revision of RAKNIC's insulation status from the parent.

Base-Case Scenario

Macroeconomic Assumptions

- GPW in the UAE property/casualty (P/C) sector to increase by about 10.0% per year in 2018 and 2019, outpacing real GDP growth of about 2%-3% over the same period.
- Earnings characteristics to improve modestly for UAE insurers, underpinned by the implementation of actuarial pricing as new regulations are being fully implemented.
- For detailed macroeconomic forecasts, see "Insurance Industry and Country Risk Assessment: United Arab Emirates Property/Casualty," published on March 21, 2018, on RatingsDirect.

Company-Specific Assumptions

- GPW to increase by 10% in 2017 and 2018.
- Net combined (loss and expense) ratio to remain below 95% and net income of more than UAE dirham (AED) 20 million (about US$5.4 million) over the next two years.
- Risk-based capital adequacy to remain extremely strong at the 'AAA' range redundancy over the next two years.

Key Metrics

(Mil. AED)	2019F	2018F	2017	2016	2015
Gross written premium	560	510	472	416	408
Net income	>20	>20	31	22	22
Return on equity (%)	>8.0	>8.0	12.4	9.4	9.5
Net combined ratio (%)	<95	<95	89	99	88
Net loss ratio (%)	<70	<70	61	72	67
Net investment yield (%)	>2.0	>2.0	2.4	2	1.9
S&P Capital Adequacy	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong

F- Forecasts. Forecast data represent S&P Global Ratings' base-case assumptions. Year-end Dec. 31. AED--United Arab Emirates dirham.

Company Description

RAKNIC was established in 1974, operating from its primary base in the emirate of Ras Al Khaimah, in the UAE. The insurer was listed on the Abu Dhabi Securities Exchange in July 2005 with majority of its shares (79.23%) held by RAKBANK since May 2015. Our ratings on RAKNIC are based on its stand-alone credit profile as we consider it as insulated from its parent, RAKBANK. In our opinion, there are currently limited operational and financial dependencies between the two entities. RAKNIC is not obliged to accept any business from RAKBANK and is free to reject business if it does not meet its underwriting parameters. Similarly, while RAKBANK is RAKNIC's major shareholder, RAKNIC is not obliged to keep the majority of its investments with RAKBANK. Further, both entities are conducting regulated activities under the supervision of two separate regulators (RAKBANK is regulated by the Central Bank of the UAE while RAKNIC is regulated by UAE Insurance Authority). With UAE having new risk-based regulatory framework including solvency margin requirements, any possibility of excessive upstreaming of dividend or cash flow (which could hit RAKNIC's capital adequacy or liquidity) is highly unlikely.

Business Risk Profile: Satisfactory, Based On A Track Record Of Profitable Growth Moderated By Geographic And Business Line Concentration

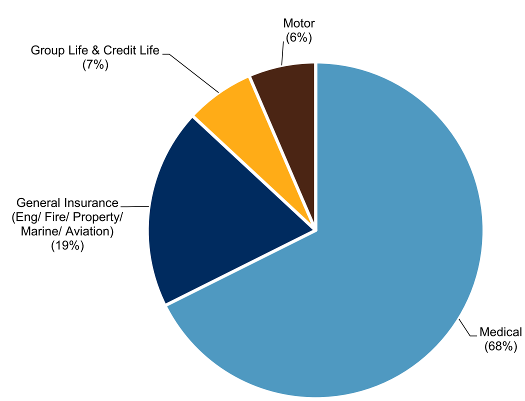
RAKNIC derives its business solely from the UAE P/C insurance market, which we assess as an overcrowded market with limited exposure to catastrophic risk. In our view, the market's growth has been mainly supported by compulsory lines and evolving regulatory enhancements. Nevertheless, our view of intermediate (which is the third lowest assessment on a six-point scale) country risks reflects the relatively stable economic environment.

RAKNIC is one of 12 selected PIs to underwrite the compulsory Essential Benefits Plan medical insurance for Dubai residents, which we consider to benefit its competitive position given there are more than 60 players in the market. While RAKNIC continues to witness top-line growth in line with the market, its competitive position is moderated by its modest operational scale and small geographical footprint.

As of year-end 2017, RAKNIC ranked 12th out of 30 listed insurers in the UAE. Its GPW rose by 13.4% in 2017 reaching AED472 million primarily generated from medical insurance (68%) followed by general lines (engineering/fire/property and marine aviation, 19%), group and credit life (7%), and motor (6%).

Chart 1

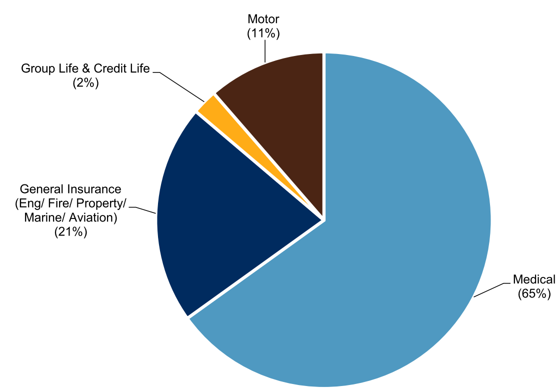
GWP Split By Business Line 2017



LOB--Line of business. Source: S&P Global Ratings.

Chart 2

GWP Split By Business Line 2016



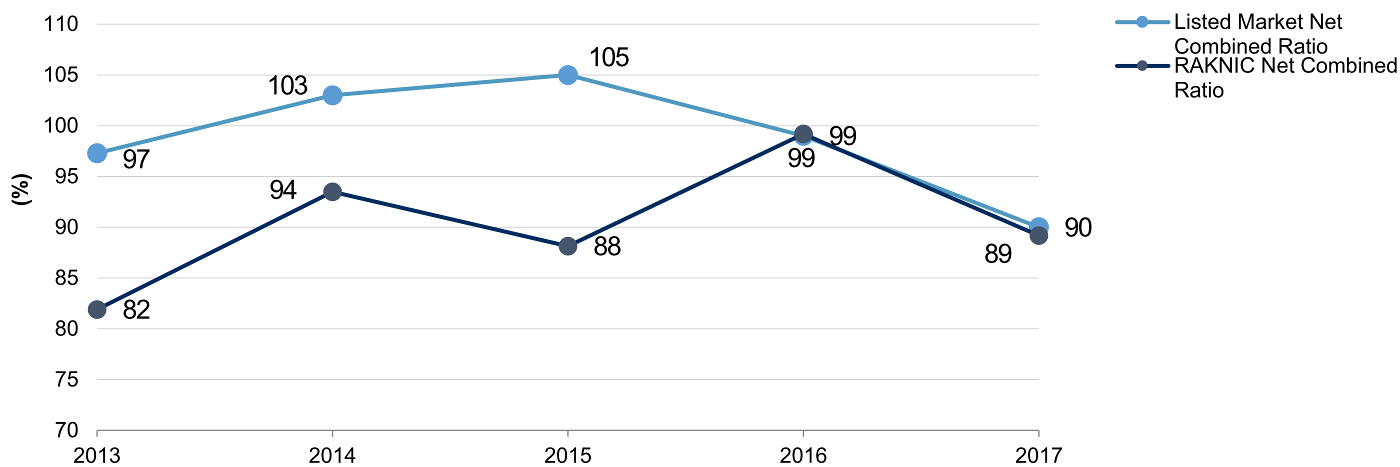
Source: S&P Global Ratings.

RAKNIC's motor portfolio has witnessed a major drop since 2016 as a result of the corrective action taken by RAKNIC to reduce its unprofitable motor business, which also depressed its 2016 results. These steps, coupled with marketwide implementation of actuarial pricing and reserving, have resulted in a material improvement in RAKNIC's operating performance, with the 2017 net combined ratio dropping to 89.2% from 99.2% in 2016. We expect RAKNIC to report a net combined ratio of 95% or less in 2018-2019, which is broadly in line with the market and factors in some margin for future surge in claims and expenses.

In terms of its underwriting results, RAKNIC outperformed the market with a significantly lower net combined ratio than the market average in 2013-2015. However, the underwriting performance in the past two years has been more or less in line with the market average.

Chart 3

Net Combined Ratio - RAKNIC vs UAE Listed Market



Financial Risk Profile: Moderately Strong, Based On Extremely Strong Capital Adequacy And Low Tolerance To Investment Risk

Our assessment of RAKNIC's financial risk profile in underpinned by its extremely strong risk-based capital adequacy, although moderated by its small absolute size of capital. This is further complemented by low tolerance to investment risk and minimal need for additional capital and liquidity.

RAKNIC's shareholders' equity has risen consistently over the past five years, at an average rate of around 5.8%. Furthermore, based on our risk-based insurance capital model, we expect RAKNIC's capital adequacy for 2018-2019 to remain above the 'AAA' level. The company has sustained this robust capital position by consistently generating positive net income and controlling its dividend distributions.

While RAKNIC has consistently sustained extremely strong capital adequacy in periods of strong top-line growth, its capital and earnings assessment is capped at the current level due to its relatively small capital base, which, by global comparison, is more vulnerable to single large-loss events. Its total adjusted capital (TAC) during our outlook period is estimated to remain below AED250 million (US$68 million). Furthermore, the growth in RAKNIC's medical portfolio brings about some earnings volatility and we therefore base our forecast assumptions on marginal underwriting results. While we do not expect RAKNIC's technical performance to deteriorate further, we believe it would be difficult for the insurer to outperform the market in terms of its net combined ratio.

We believe that RAKNIC's risk exposures are well managed, with a low tolerance to investment risk, demonstrated by a high level of investments in cash and bank deposits. We expect the portfolio structure to remain largely unchanged and in line with the local regulations.

As of year-end 2017, RAKNIC's total investment portfolio reached AED369 million (2016: AED271 million), comprising 74% held in cash and bank deposits, 21% in equities, and 5% in real estate. Based on the largely cash-denominated investment portfolio, RAKNIC managed to control earnings volatility with the net investment yield over the past five years settling at around 2%. However, this asset mix creates a natural bias toward financial sector concentration. Within the financial sector, RAKNIC has a high level of single obligor concentration, as generally 40%-50% of its bank deposits are held with the Bank of Sharjah.

We assess RAKNIC's financial flexibility as adequate, reflecting its ability to access capital or bank debt to meet its potential funding needs. RAKNIC has been able to achieve its rapid growth in the past five years with no apparent need for additional capital. It has financed its capital growth wholly internally through retained earnings since its establishment in 1974; therefore access to external funding is largely untested. We believe that the company's consistent earnings generation and prudent dividend policy places it in a comfortable financial position should it need to increase capital. In addition, we believe that RAKNIC could leverage its majority shareholder, RAKBANK, to access bank financing and additional capital, if required.

Other Assessments

We consider RAKNIC's enterprise risk management (ERM) to be adequate, underpinned by its established risk controls for its operations, comparatively simple operational and risk structure, and its predominantly UAE-focused business. The ERM framework, which includes dedicated senior staff, a board-approved risk appetite statement, risk management policies, and risk registers, covers the majority of the risks the company is exposed to. The company's track record in effectively mitigating and managing underwriting and operational risks bolsters our assessment of the effectiveness of the framework.

We believe RAKNIC's senior management team and underwriters are well experienced, understand the local market, and continue to demonstrate a good track record of operational effectiveness. The company has a clear strategic plan, which the management and board develop and implement. In our view, the company's strategy is consistent with its organizational abilities and market conditions. We believe that RAKNIC will maintain sound financial discipline to support its operating performance.

RAKNIC has maintained a strong liquidity position since the majority of its investments are held in readily liquid bank deposits. As of Dec. 31, 2017, cash and bank deposits alone cover by 4.5x net loss reserves.

Ratings Score Snapshot

Table 1

Ras Al Khaimah National Insurance Company P.S.C. Ratings Score Snapshot	
Financial Strength Rating	BBB+
Anchor	bbb+
Business Risk Profile	Satisfactory
IICRA	Intermediate
Competitive Position	Adequate

Table 1

Ras Al Khaimah National Insurance Company P.S.C. Ratings Score Snapshot (cont.)	
Financial Risk Profile	Moderately Strong
Capital & Earnings	Moderately Strong
Risk Position	Intermediate
Financial Flexibility	Adequate
Modifiers	0
ERM & Management	0
Enterprise Risk Management	Adequate
Management & Governance	Fair
Holistic Adjustment	0
Liquidity	Strong
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry and Country Risk Assessment.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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

Ratings Detail (As Of May 25, 2018)	
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. 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.

Additional Contact:
Insurance Ratings Europe; insurance_interactive_europe@spglobal.com