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Research Update:

DRAFT:
DRAFT: UAE-Based Insurer Ras Al-Khaimah National Insurance Co. 'BBB+' Ratings Affirmed; Outlook Stable

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S&PGR Affirms RAK Insurance At 'BBB+'; Outlook Stable

Overview

- Ras Al-Khaimah National Insurance Company P.S.C. (RAK Insurance) reported a material decline in total equity in 2018 due to one-off provisions and shareholder dividends, but we except capital and earnings will remain resilient.
- Although we now assess RAK Insurance as having a moderately strategic group status, our ratings continue to reflect RAK Insurance's stand-alone credit profile.
- Therefore, we are affirming our 'BBB+' long-term issuer credit rating and financial strength rating on RAK Insurance.
- The stable outlook reflects our expectation that over the next two years, RAK Insurance will increase profitability while remaining financially and operationally insulated from its parent.

Rating Action

On Dec. 12, 2018, S&P Global Ratings affirmed its 'BBB+' issuer credit rating and financial strength rating on United Arab Emirates (UAE)-based Ras Al-Khaimah National Insurance Co. (RAK Insurance) The outlook is stable.

Rationale

The ratings affirmation reflects our view that, notwithstanding a reduction in absolute capital levels, the company's risk-adjusted capital adequacy (as per S&P Global Ratings' capital model) will remain resilient above the 'AAA' level benchmark. We also consider that RAK Insurance's business expansion plans in the UAE will support its competitive positon in the market over the next two to three years.

While we expect RAK Insurance will continue to operate independently from its parent National Bank of Ras Al-Khaimah (RAKBank; unrated), we see increased parental commitment to support RAK Insurance's strategic business plans over the next two to three years. We have therefore revised its group status to moderately strategic from non-strategic. That said, the ratings on RAK Insurance continue to reflect its stand-alone credit profile, due to its limited financial and operational dependence on RAKBank.

RAK Insurance plans to diversify its underwriting book of business, which is currently concentrated in medical insurance (Q3 2018: 70% of gross premiums written (GPW) as of Sept. 30, 2018), partly through leveraging its relationship with RAKBank as a source of premium distribution channels for general risks. We believe that RAKBank could provide a stable source of premium income stream to RAK Insurane's overall underwriting portfolio. At the same time, we also expect RAK Insurance will remain disciplined in maintaining its underwriting independence, with its premiums from RAKBank accounting for no more than 15% of its total book in a given year.

RAK Insurance's business expansion plans for 2019-2020 target GWP growth above 20% per annum, which is above our expectations for the average listed UAE insurance market. Despite this high-level of anticipated premium growth, we expect RAK Insurance's capital adequacy and earnings will remain above 'AAA' level in 2019-2020.

Our base-case forecasts assume net written premiums will increase by less, at 5%-10% in both 2018 and 2019, before increasing to 10%-20% in 2020. This reflects the relatively higher growth in commercial business lines, which have a higher reinsurance utilization rate, relieving some of the pressure on the company's capital adequacy. Furthermore, growth will stem from RAK Insurance's current business lines, and we therefore expect the company will maintain its track-record of stable net underwriting income, and report a net combined ratio of less than 95% per year in 2018-2020. Furthermore, we expect the company will generate net income of at least United Arab Emirates dirham (AED) 20 million per year, and pay dividends of about AED11 million in the next two years (AED10 fils per share).

Despite the steep 13% decline in total equity in the first nine months of 2018, RAK Insurance's capital adequacy remains above our 'AAA' level benchmark. We do not foresee any further material deterioration in capital and we expect the impact from the one-off International Financial Reporting Standards 9 (IFS9) provision of AED29 million in 2018 will be restored through retained earnings over the next two years.

Additionally, we expect RAK Insurance will maintain its strong liquidity position. As of Sept. 30, 2018, cash and bank deposits of AED210 million and listed (equity and debt) securities of AED73.5 million, sufficiently covered net technical reserves of AED186 million.

Outlook

The stable outlook reflects our expectation that, over the next two years, RAK Insurance will expand its business profitably in the UAE insurance sector, supporting its current robust 'AAA' level capital adequacy and earnings stability.

The rating outlook also reflects our expectation that RAK Ins. will remain operationally and financially independent from RAKBank. While we believe that a successful integration with its parent could provide a stable source of business stream in the medium to long term, it would likely change our view of RAK Insurance's independence.

Downside scenario

We could lower our rating on RAK Insurance over the next 12-24 months if its capital adequacy materially deteriorated to below 'A' level, or there was unexpected volatility in capital or earnings as a result of higher-than-expected dividend payouts or aggressive top-line growth in new business lines.

Upside scenario

We consider an upgrade on RAK Insurance unlikely over the next 12-24 months due to its relatively small business scale in terms of gross premiums and capital.

Ratings Score Snapshot

Financial Strength Rating	BBB+/Stable/--
SACP [optional]	bbb+
Anchor	bbb+
Business Risk Profile	Satisfactory
IICRA	Intermediate
Competitive Position	Adequate
Financial Risk Profile	Moderately Strong
Capital and Earnings	Moderately Strong
Risk Position	Intermediate
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management and Governance	Fair
Holistic Analysis	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 List

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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.