

Research Update:

Ras Al-Khaimah National Insurance Co. Ratings Affirmed At 'BBB+'; Outlook Stable

October 2, 2019

Overview

- Ras Al-Khaimah National Insurance Co. recorded strong year-on-year gross written premium growth in the first six months of 2019, but also lower net earnings.
- Despite lower shareholders' equity in 2018, due to one-off provisions, we expect capital adequacy to remain very strong.
- We are therefore affirming our 'BBB+' ratings on RAK Insurance.
- The stable outlook reflects our expectation that the insurer will maintain capital adequacy at least at the 'AA' level and operational independence from its parent over the next two years.

Rating Action

On Oct. 1, 2019, S&P Global Ratings affirmed its 'BBB+' long-term insurer financial strength and issuer credit ratings on the UAE-Based Ras Al-Khaimah National Insurance Co. (RAK Insurance). The outlook is stable.

Outlook

The stable outlook reflects our expectation that the insurer will maintain capital adequacy at least at the 'AA' level, supporting the company's growth ambitions in the UAE over the next two years. We also expect that RAK Insurance will remain operationally and financially independent from its parent, National Bank of Ras Al Khaimah (RAK Bank).

Downside scenario

We could take a negative rating action on RAK Insurance over the next two years capital adequacy materially deteriorated to below the 'AA' level, for example following significant business growth and weak profitability, or higher-than-expected dividend payouts.

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Upside scenario

We consider a positive rating action as unlikely over the next two years, due to the insurer's relatively small scale in terms of gross written premiums (GWP) and capital.

Rationale

The affirmation reflects our view that, notwithstanding reduced absolute capital levels, the company's projected risk-adjusted capital adequacy will remain at least at the 'AA' level (as per our model). It also reflects our expectation that the RAK Insurance will continue to remain operationally independent from its parent.

In 2018, the company's shareholder equity declined to 195 million UAE dirham (AED) from AED254 million in 2017. The decline in the equity was because of the one-off adjustments relating to the implementation of International Financial Reporting Standards (IFRS) 9. Despite a drop in shareholders' equity in combination with strong business expansion plans in the UAE, leading to higher risk chargers in our model, we anticipate that the insurer's capital adequacy will still remain above the 'AA' level over 2019-2021.

In the first six months of 2019, RAK Insurance reported GWP growth of 44% to AED332 million (US\$90 million) from AED231 million in the same period in 2018. The premium growth was mainly because of a 58% increase in the medical business, which contributes about 77% of total GWP. At the same time, the company reported a decline in net profit to AED4.5 million from AED7.5 million in the first six months of 2018. The earnings decline was due to a one-off increase in general and administrative expenses. We anticipate that the company's GWP growth will moderate in the second part of 2019, and that net earnings will reach at least AED10 million for the year.

We continue to view RAK Insurance as a strategic investment to its parent RAK Bank (not rated). Nevertheless, the ratings on RAK Insurance do not benefit from any support from its parent. The ratings continue to reflect the company's stand-alone credit profile and characteristics, due to its financial and operational independence.

Ratings Score Snapshot

| Business Risk Profile | Satisfactory |
|-------------------------------|---------------------|
| Competitive position | Satisfactory |
| IICRA | Intermediate risk |
| Financial Risk Profile | Strong |
| Capital and earnings | Strong |
| Risk exposure | Moderately low |
| Funding structure | Neutral |
| Anchor* | bbb+ |
| Modifiers | |
| Governance | Neutral |
| Liquidity | Adequate |
| Comparable ratings analysis | 0 |

Financial Strength Rating

bbb+

*This is influenced by the relatively small premium and capital base as well as some volatility in capital and earnings in recent years.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, 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

Ratings List

Ratings Affirmed

Ras Al-Khaimah National Ins Co.

| | |
|---------------------------|----------------|
| Issuer Credit Rating | |
| Local Currency | BBB+/Stable/-- |
| Financial Strength Rating | |
| Local Currency | BBB+/Stable/-- |

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