Research Update:
UAE-Based Orient Insurance PJSC 'A' Ratings Affirmed Following Annual Review; Outlook Stable

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Overview

• We are affirming our 'A' long-term counterparty credit and insurer financial strength ratings on Orient Insurance PJSC (Orient). The outlook is stable.
• Orient has maintained its position as second-largest insurer in the United Arab Emirates (UAE), with Emirati dirham (AED) 2,673 million of gross premiums written (GPW) and a market-leading net combined ratio of about 76%.
• Orient is 100%-owned by Al Futtaim Group (AF), a large, family-owned conglomerate. We regard AF as an investment holding company and consequently assess Orient on a stand-alone basis.

Rating Action


Rationale

Orient recorded GPW of AED2,673 million in 2016, maintaining its position as second-largest insurer in the UAE. Premium growth was about 15%, outpacing the market average of the 29 listed insurers in the country, which we estimate to be around 10%. This was largely driven by the life and medical portfolios. Orient is one of the "participating insurers" under the Dubai Health Authority (DHA) scheme, which has concluded its third phase in the first quarter of 2017. Furthermore, in an aim to broaden its customer base and diversify its product offering, Orient set up Orient UNB Takaful, a joint venture with Abu Dhabi-based Union National Bank that offers Sharia-compliant products.

In terms of operating performance, 2016 was another outstanding year for Orient. It recorded a net combined ratio of 76% (2015: 72%). This compares with a market average of about 99%. The underwriting performance of the past two years is slightly worse than Orient's five-year average combined ratio of 69%. This is due to some fire losses in high-rise towers in the UAE. The most significant one was at The Address Hotel. Orient's net exposure was about AED38 million, compared with a gross loss of AED1,285 million. Net profits in 2016 stood at AED314 million, and these represent a substantial 35% of the
overall market.

At end-2016, Orient's total shareholders' equity was around AED2,557 million. Under our risk-based capital model, the company continues to have a capital adequacy in excess of our 'AAA' benchmark. We continue to see some concentration risk in Orient's equity investment in a local bank. However, the strength of capital mitigates this risk.

AF, Orient's 100%-owner, is a large UAE-based conglomerate with businesses and interests in at least three industry sectors. We therefore treat it as an investment holding company and do not take it into account when we form our view of Orient's credit profile.

Our final rating of 'A' includes an additional notch of uplift, reflecting Orient's exceptional track record and steady, predictable, and material outperformance over its peers.

Outlook

The stable outlook reflects our expectation that Orient will retain its position as a top-tier insurer in the UAE with above-market-average profitability and maintain a capital adequacy in excess of our 'AAA' benchmark.

Downside scenario

We could lower the ratings on Orient if we see long-term, fundamental, and prolonged weakening in the resilience of the company's capital adequacy, such as a major change in its capital management policy, a change in investment strategy, or a material deterioration in its outperformance of the market as a result of rapid business growth.

Upside scenario

We are unlikely to raise the ratings on Orient over the next three years because the insurer relies significantly on reinsurance. It is also generally smaller and less diversified, both geographically and by line of business, compared with insurers rated 'A+' globally.

Ratings Score Snapshot

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### 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

### Related Research

- **UAE Listed Insurers Are Navigating Their Way To Profitability, Amid Regulatory Pressures,** April 16, 2017
- **United Arab Emirates Property/Casualty,** Feb. 22, 2017

### Ratings List

Ratings Affirmed

Orient Insurance P.J.S.C.
Research Update: UAE-Based Orient Insurance PJSC 'A' Ratings Affirmed Following Annual Review; Outlook
Stable

Counterparty Credit Rating
Local Currency A/Stable/--
Financial Strength Rating
Local Currency A/Stable/--

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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.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the 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.