

Research Update:

# **Orient Insurance Outlook To Positive On Profitable Growth And Expected Asset Quality Improvement; 'A' Ratings Affirmed**

**May 24, 2022**

## **Overview**

- In 2021, Orient's gross written premiums (GWP) increased by about 19% and net profits by about 11%, supporting the company's strong business position as the largest and most profitable listed insurer in the United Arab Emirates (UAE).
- While Orient's investment portfolio remains highly liquid, we expect that a planned shift toward higher rated banks and securities in 2022 and 2023 will substantially strengthen the insurer's asset quality.
- We therefore revised our outlook on Orient to positive from stable and affirmed our 'A' long-term issuer credit and financial strength ratings.
- The positive outlook indicates that we could raise the ratings over the next two years if Orient significantly strengthens its asset quality while maintaining its position as a leading insurer in the UAE with above-market-average profitability and capital adequacy with a significant buffer above our 'AAA' benchmark.

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## **Rating Action**

On May 24, 2022, S&P Global Ratings revised its outlook on Orient Insurance P.J.S.C. to positive from stable. At the same time, we affirmed our long-term issuer credit and insurer financial strength ratings at 'A'.

We also revised the outlook on Orient Takaful PJSC and Orient Takaful Insurance Co. to positive. At the same time, we affirmed the long-term issuer credit and insurer financial strength ratings at 'A'.

## **Rationale**

In 2021, Orient maintained its position as the largest listed UAE insurer measured by GWP. The company's GWP increased by about 19% to UAE dirham (AED)5.0 billion (US\$1.36 billion) from AED4.2 billion in 2020, supported by growth in its life insurance business and other lines, as well as the consolidation of its subsidiary Orient Takaful in its financial statements. In the first quarter of 2022, Orient reported 11.7% growth in GWP to about AED1.8 billion from AED1.6 billion during the same period in 2021. This growth was thanks to the company's expansion across all business lines. We expect that Orient's GWP will continue to grow by about 10% per year in 2022 and 2023, as the insurer continues to expand its business in the UAE and in the wider Middle East and North Africa region.

At the same time, the insurer also continued to outperform its local and regional peers with a combined (loss and expense) ratio of 79.6% in 2021 compared with 77.8% in 2020, when the insurer benefited from fewer claims due to lockdown measures in UAE. The strong operating performance and steady investment results helped the company to achieve a net profit of AED476 million in 2021 compared with AED430 million in 2020. In the first quarter of 2022, the company generated a net profit of AED200 million compared with AED196 million during the first quarter of 2021. The improvement in profitability in first-quarter 2022 was driven by stronger underwriting results. We anticipate that Orient will maintain a combined ratio of about 80% over the next two years, supported by its conservative underwriting approach.

Orient's capital adequacy remains excellent, with a significant buffer above our 'AAA' benchmark in our risk-based capital model. The company's shareholders' equity stood at about AED3.8 billion at year-end 2021 (2020: AED3.4 billion). We expect Orient's capital base will continue to grow and we do not expect any significant changes in our assessment over the next two years, despite the insurer's growth ambitions.

Orient's investment portfolio remains highly liquid, in our opinion. At year-end 2021, about 63% of total investments were held in cash and short-term instruments, about 19% in equities, and the remainder in bonds, real estate, and other assets. Following a decline in interest rates on cash and fixed deposits in recent years, most of Orient's deposits are now held at lower rated or unrated banks, resulting in lower weighted asset quality when compared with similar rated peers. With an increase in interest rates, we anticipate that Orient will shift a substantial amount of its fixed deposits to higher rated banks and strengthen its weighted average asset quality to 'BBB+' or above over the next one to two years.

The ratings on Orient Takaful PJSC and Orient Takaful Insurance Co. reflect the unconditional guarantee provided by Orient Insurance PJSC. The explicit support agreements satisfy our criteria (see "General Criteria: Guarantee Criteria," published Oct. 21, 2016, on RatingsDirect), which means that we equalize the ratings on the two subsidiaries with those on the guarantor.

## **Environmental, Social, And Governance**

### **ESG credit indicators: E-2, S-2, G-2**

ESG factors have no material influence on our credit rating analysis of Orient.

## Outlook

The positive outlook indicates that we could raise the ratings on Orient over the next two years if the company significantly strengthens its asset quality while maintaining its position as a leading insurer in the UAE.

## Upside scenario

We could raise the ratings over the next two years if:

- We see a significant improvement in Orient's asset quality to a level in line with peers rated 'A+'; and
- The insurer maintains its position as a leading insurer in the UAE, above-market-average profitability, and capital adequacy with a significant buffer above our 'AAA' benchmark.

## Downside scenario

We could revise the outlook back to stable if we do not see any meaningful improvement in asset quality or if we see long-term, fundamental, and prolonged weakening in the company's capital adequacy. This could be caused, for example, by a major change in its dividend policy, a further weakening in asset quality, material investment losses, or a significant deterioration in its performance.

## Ratings Score Snapshot

	To	From
Business Risk Profile	Strong	Satisfactory
Competitive position	Strong	Strong
IICRA	Intermediate Risk	Intermediate Risk
Financial Risk Profile	Very Strong	Very Strong
Capital and earnings	Excellent	Excellent
Risk exposure	Moderately High	Moderately High
Funding structure	Neutral	Neutral
Anchor*	a	a
<b>Modifiers</b>		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Financial Strength Rating	A	A

\*This is influenced by our view of Orient's weaker asset quality when compared with peers rated at the same level.

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
<b>Orient Insurance P.J.S.C.</b>		
<b>Orient Takaful PJSC</b>		
<b>Orient Takaful Insurance Company S.A.E</b>		
Issuer Credit Rating		
Local Currency	A/Positive/--	A/Stable/--
Financial Strength Rating		
Local Currency	A/Positive/--	A/Stable/--

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