

Research Update:

Orient Insurance And Subsidiaries 'A+' Ratings Affirmed On Revised Capital Model Criteria; Outlook Stable

May 16, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital, see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions," on RatingsDirect.
- Under our new criteria, Orient Insurance P.J.S.C.'s capital and earnings assessment remains excellent.
- We therefore affirmed our 'A+' issuer credit and insurer financial strength ratings on Orient Insurance and its guaranteed subsidiaries.
- The stable outlook reflects our view that over the next two years, Orient Insurance will retain its leading position in the United Arab Emirates (UAE). We also expect its profitability to remain above the market average and that the insurer will maintain a significant capital adequacy buffer above our '99.99' benchmark.

Rating Action

On May 16, 2024, S&P Global Ratings affirmed its 'A+' long-term issuer credit and insurer financial strength ratings on UAE-based Orient Insurance P.J.S.C. (Orient) and its guaranteed subsidiaries, Orient Takaful PJSC and Orient Takaful Insurance Company (S.A.E). The outlook is stable.

Impact Of Revised Capital Model Criteria

The implementation of our revised criteria for analyzing insurers' risk-based capital has had no material effect on our view of Orient's credit quality. Although our analysis now captures the higher risk diversification benefit more explicitly, this is offset by the higher asset and liability charges under the new model. We therefore continue to view Orient's capital and earnings as excellent under the new criteria.

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Credit Highlights

Overview

Key strengths	Key risks
Largest listed insurer in UAE with a long track record of strong operating performance.	Reinsurance utilization remains relatively high, suggesting some dependence on international reinsurers.
Very well capitalized insurer, with significant redundancy above our '99.99' benchmark.	Some single-counterparty concentration in the investment portfolio, mainly with a local bank.

Outlook

The stable outlook reflects our view that over the next two years, Orient will retain its position as a leading insurer in the UAE. We also expect its profitability to remain above the market average and that the insurer will maintain a significant capital adequacy buffer above our 99.99% benchmark.

Downside scenario

- We could lower the ratings over the next two years if:
- We see fundamental and prolonged weakening in the company's capital adequacy. This could be caused, for example, by a major change in its dividend policy, material investment losses, or a significant deterioration in its performance because of rapid business growth.
 - Contrary to our expectations, Orient's asset quality deteriorates and falls below the 'BBB' level.

Upside scenario

We see limited likelihood of an upgrade during the two-year outlook period. However, we could consider a positive rating action if the insurer significantly expands its geographic presence and capital base from current levels.

Rationale

Orient has maintained its position as the largest listed UAE insurer measured by insurance revenue. The company's insurance revenue increased by about 22% in 2023 to UAE dirham (AED)6.4 billion (US\$1.74 billion) from AED5.0 billion (US\$1.36 billion) in 2022, supported by growth across all business lines. We expect Orient's insurance revenue will continue to increase by at least 10% per year in 2024 and 2025, as the insurer continues to expand its business in the UAE and in the wider Middle East and North Africa region. The company generates about 89% of its revenue from UAE while the remaining 11% comes from overseas.

The insurer continues to outperform its local and regional peers with a net combined ratio (under International Financial Reporting Standard 17) of 78% in 2023 compared with 73% in 2022. The strong operating performance and improved investment results helped the company to achieve a net profit of AED636 million in 2023 compared with AED519 million in 2022. We anticipate that Orient will maintain a net combined ratio of about 80% over the next two years, supported by its

conservative underwriting approach.

Orient's capital and earnings remain excellent, with a significant buffer above our '99.99%' benchmark in our new risk-based capital model. The company's shareholders' equity stood at about AED4.3 billion at year-end 2023 (2022: AED3.9 billion). We expect Orient's capital base will continue to widen and we do not foresee any significant changes in our assessment over the next two years.

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

Ratings Score Snapshot

Financial strength rating	A+
Anchor*	a+
Business risk	Strong
IICRA	Intermediate
Competitive position	Strong
Financial risk	Very Strong
Capital and earnings	Excellent
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

*The anchor is influenced by our view of significant buffers in Orient's capital adequacy.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Orient Insurance P.J.S.C.	
Orient Takaful PJSC	
Orient Takaful Insurance Company S.A.E	
Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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