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Research Update:

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

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Overview

- In 2015, Orient Insurance PJSC (Orient) became the second largest insurer in the United Arab Emirates by gross written premiums, reinforcing its strong competitive position and market-leading operating performance.
- The insurer has extremely strong risk-based capital adequacy, with some investment concentration risk as a result of equity holdings in one local bank.
- We continue to view Orient as financially and operationally independent from 100%-owner, Al Futtaim Group, and apply a positive one-notch holistic adjustment to reflect Orient's consistent and material outperformance relative to its peers.
- We are affirming our 'A' long-term counterparty credit and insurer financial strength ratings on Orient. The outlook is stable.

Rating Action

On May 26, 2016, S&P Global Ratings affirmed its 'A' long-term counterparty credit and insurer financial strength ratings on United Arab Emirates (UAE)-based Orient Insurance PJSC (Orient). The outlook is stable.

Rationale

In 2015, Orient became the second largest insurer in the UAE by gross written premiums, recording a 29% growth rate and writing UAE dirham (AED) 2.3 billion of premiums (2014: AED1.8 billion). This significant growth was supported by strong contributions from the life and medical portfolios. Orient is one of the nine preferred insurers under the Dubai Health Authority (DHA) scheme and 2015 saw a substantial amount of new business written under this scheme. The first quarter of 2016 also shows a strong 24% growth rate, and Orient expects this to continue throughout the year. The new products written under the DHA scheme and the lack of historical performance could pose a risk to Orient's operating performance. However, we believe the insurer's partnerships with international reinsurers mitigate this. Orient continues to outperform the market, and recorded a 2015 net combined ratio of 72% (2014: 67%), despite significant fire losses in the year.

Orient has the largest capital base of the listed UAE insurers and maintains extremely strong risk-based capital adequacy; our modelling indicates that it

is resilient to extreme market volatility. Orient's investment portfolio is largely dominated by cash and short-term deposits with securely-rated banks, but we note a large equity concentration in one local bank. If we are to fully write off this investment, hypothetically, Orient would maintain its capital adequacy at the 'AAA' rating level. Moreover, this investment concentration is expected to reduce as new Insurance Authority (IA) regulations come in place in January 2017 and will see Orient divest some of those high-risk investments.

We continue to view Orient as financially and operationally independent from its 100%-owner Al Futtain Group (AF). Only 9% of Orient's 2015 premiums relate to AF, and the company is subject to IA and Capital Markets Authority regulations. As such, Orient's ratings represent our analysis of its stand-alone credit profile. Moreover, we currently apply a positive one-notch holistic adjustment to reflect Orient's consistent and material outperformance relative to its peers. While Orient's high use of reinsurance constrains our view of its business profile at satisfactory, we see the longevity and performance of these relationships as a strength for Orient.

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 its extremely strong capital adequacy. It will continue to qualify and be viewed as an insulated subsidiary of AF.

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 dividend policy, a change in investment strategy, or a material deterioration in its outperformance of the market as a result of rapid business growth; or
- Orient's financial strength or autonomy from its parent were compromised to the extent that we no longer consider it an insulated subsidiary.

Upside scenario

We are unlikely to raise the ratings on Orient over the next three years because the insurer relies heavily on reinsurance and has a relatively concentrated geographic focus.

Ratings Score Snapshot

	To	From
Counterparty Credit Rating	A/Stable	A/Stable
Financial Strength Rating	A/Stable	A/Stable

Anchor	a-	a-
Business Risk Profile	Satisfactory	Satisfactory
IICRA*	Intermediate	Intermediate
Competitive Position	Strong	Strong
Financial Risk Profile	Strong	Strong
Capital & Earnings	Very Strong	Very Strong
Risk Position	Intermediate	Intermediate
Financial Flexibility	Adequate	Adequate
Modifiers	+1	+1
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	+1	+1
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

*Insurance Industry and Country Risk Assessment.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- United Arab Emirates Property/Casualty Insurance Sector Carries An Intermediate Industry And Country Risk Assessment, Feb. 17, 2016

Ratings List

Ratings Affirmed

Orient Insurance P.J.S.C.
Counterparty Credit Rating
Local Currency

A/Stable/--

Financial Strength Rating

Local Currency

A/Stable/--

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