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National General Insurance Co. (PSC)

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National General Insurance Co. (PSC)

SACP* Assessments				SACP*		Support		Ratings
Anchor	bbb+	Modifiers	0	bbb+		0		Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	BBB+/Positive/--
Satisfactory								
Financial Risk		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Moderately Strong								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Satisfactory

- Intermediate industry and country risk and low insurance product risk in the UAE market.
- Midsize company with well-established brand in Dubai and strategic partnerships.
- Strategy underpinned by key partnerships and targets diverse range of products and sectors.
- Prudent underwriting and dividend policy.

Financial Risk Profile: Moderately Strong

- Strong capital and earnings underpinned by sizable shareholders' funds and good earnings capacity.
- Geographic and sector concentration in investment portfolio contribute to moderate risk position.
- Strong balance sheet with no debt.

Other Factors

- Stable management team with focus on enterprise risk management.

Outlook: Positive

The positive outlook on Dubai-based insurer National General Insurance Co. (PSC) (NGI) reflects Standard & Poor's Ratings Services expectation that NGI will continue to reduce its capital exposure to market volatility and maintain a stable competitive position. We expect NGI's derisking decision to be a long-term commitment toward reducing its susceptibility to market volatility.

Upside scenario

We would raise the ratings on NGI if it successfully divested a significant proportion of its high-risk investments, and demonstrated a long-term commitment to insulating its capital from excessive market volatility. We could also raise the ratings if NGI demonstrated its ability to diversify its revenue generation, particularly in the life and health business lines.

Downside scenario

We could revise the outlook to stable if NGI's financial risk profile were to deteriorate because of volatility in underwriting earnings or any deterioration in its risk position. This could occur if exposure to potentially volatile, high-risk assets remained at or near the level of total adjusted capital.

Base-Case Scenario

Macroeconomic Assumptions

- Fragmented market and high competition in the United Arab Emirates (UAE) will put pressure on pricing.
- Good economic recovery and regulatory push will support premium growth, particularly in the life and medical sectors.
- Investment returns will remain broadly stable on the back of improved capital markets.

Company-Specific Assumptions

- We expect revenue growth of 5%-8% through 2016.
- We expect NGI to post a stable combined ratio of 85% and a return on equity of about 15% through 2016.
- We expect NGI to continue to derisk its asset base owing to the ongoing sale of high-risk assets.

Key Metrics

(Mil. AED)	2014f	2013	2012	2011	2010	2009
Gross premiums written	470.0	445.7	449.0	435.4	416.7	402.9
Total revenue	320.0	303.0	272.0	266.0	254.0	242.0
Net income (attributable to all shareholders)	50-60	125.1	46.4	28.3	53.8	33.3
Return on revenue (%)	12.0	11.3	8.7	3.4	17.8	19.5
Return on shareholders' equity (%)	15	31.9	13.9	8.6	17.0	11.7
P/C: net combined ratio (%)	85-90	88.7	91.3	96.6	82.2	80.5

AED--UAE dirham. F--forecast.

Company Description: Midsize Insurer Benefiting From Strategic Partnerships And Name Recognition

NGI is a midsize composite insurer established in Dubai in 1980 and listed on the Dubai Stock Exchange since 2001. The company writes a diverse book of business, with medical accounting for 43% of gross premium written (GPW) at year-end 2013, motor 20%, life 16%, and general insurance 21%, making it the seventh-largest insurer in the UAE. NGI operates almost exclusively in Dubai.

NGI continues to benefit from its strategic relationships as the preferred in-house insurer for its major shareholders, the largest and most significant of which remains the bank Emirates NBD, which has a 37% stake in the company. Other major shareholders include the Commercial Bank of Dubai (CBD) with 18%, the Zarouni Group with 11%, the Bin Haider Group with 8%, and Dubai Investment PJSC with 8%.

Business Risk Profile: Satisfactory

We regard NGI's business risk profile as satisfactory in a context of fragmented markets and high competition.

Insurance industry and country risk: Stable and solely exposed to UAE

Overall, NGI faces intermediate industry and country risk because its core business is exposed to the UAE. Our assessment is based on our view of low insurance product risk and intermediate country risk. This assessment is unlikely to change through 2016, as NGI mainly operates in the UAE.

We also factor in a high level of competition in a fragmented insurance market supported by good economic prospects. We view the UAE regulatory framework as lagging behind international practice.

Competitive position

NGI's competitive position is adequate, in our view. The company is a midsize composite insurer in the UAE, increasingly writing a greater proportion of life business through its strategic partners and its arrangements with its shareholders. We believe NGI will maintain a stable competitive position by further strengthening its relationship with Emirates National Bank of Dubai (ENDB) and Commercial Bank of Dubai (CBD), and its cooperation with Allianz in the medical insurance business. NGI's overall growth prospects have slowed in the non-life market because of pricing pressure. We see higher growth prospects in the life market. As NGI continues to broaden its coverage across the UAE--Emirates NBD currently offers NGI products in all of its branches--we believe that there is potentially room for more business volumes, especially in the medical market. We expect such development to be gradual. The company's financial performance hinges on the UAE's economic environment as NGI operates exclusively in the UAE, mainly Dubai. The company's sensitivity to its operating environment is further exacerbated by its exposure to Dubai property and capital markets. In a context of soft markets, we assume in our base case that the group will report revenue growth of about 5%-8% through 2016, across segments.

Table 1

National General Insurance Co. (PSC) Competitive Position					
	--Year-ended Dec. 31--				
(Mil. AED)	**2013**	**2012**	**2011**	**2010**	**2009**
Gross premiums written	445.7	449.0	435.4	416.7	402.9
Change in Gross Premiums Written (%)	(0.7)	3.1	4.5	3.4	N.M.
Net premiums written	305.6	299.4	248.2	239.9	237.3
Change in Net Premiums Written (%)	2.1	20.6	3.5	1.1	N.M.
Net premiums earned	290.5	261.8	257.8	234.1	233.5
Total assets under management	651.2	515.2	478.5	578.7	477.0
Growth in Assets Under Management (%)	26.4	7.7	(17.3)	21.3	N.M.
P/C: reinsurance utilization - premiums written (%)	26.3	30.1	30.7	29.1	31.5
Life: reinsurance utilization - reserves (%)	N/A	N/A	N/A	N/A	N/A
Business Segment (%age of GPW)					
Life	16.7	27.5	26.1	27.4	23.7
P/C	83.3	72.5	73.9	72.6	76.3

AED---UAE dirham. N/A--Not applicable. N.M.--Not meaningful.

Financial Risk Profile: Moderately Strong

We regard NGI's financial risk profile as moderately strong owing to strong capital and receding investment volatility risk.

Capital and earnings

The company reports strong capital and earnings underpinned by sizable shareholders' funds and comparatively good earnings generation. NGI exhibited stable operating performance and good investment income at year-end 2013, owing to a recovery in the capital markets. As a result, NGI's total equity had increased by the same date to UAE dirham (AED) 438 million. NGI'S quality of capital is good and comprised of pure equity. There is some concentration in the company's investment portfolio but this has fallen to some extent through the diversification in cash deposits and investment in fixed income instruments. Under our base case, we do not anticipate any significant changes to NGI's capital management strategy and expect dividend payout to remain stable for the foreseeable future at about 20%-25% of net profits.

Table 2

National General Insurance Co. (PSC) Capitalization Statistics					
	--Year-ended Dec. 31--				
	2013	**2012**	**2011**	**2010**	**2009**
Common shareholders' equity	438.7	345.8	319.5	336.8	296.2
Change in common shareholders' equity (%)	26.9	8.2	(5.1)	13.7	N.M.
Total reported capital	438.7	345.8	319.5	336.8	296.2
Change in total capital (reported) (%)	26.9	8.2	(5.1)	13.7	N.M.

N.M.--Not meaningful.

Table 3

National General Insurance Co. (PSC) Earnings Statistics					
	--Year-ended Dec. 31--				
	2013	**2012**	**2011**	**2010**	**2009**
Total revenue	303.3	272.3	265.8	254.3	241.5
EBIT adjusted	41.1	40.0	27.5	77.3	N/A
EBITDA adjusted	44.6	40.0	27.5	77.3	N/A
Net income (attributable to all shareholders)	125.1	46.4	28.3	53.8	33.3
Return on revenue (%)	13.5	14.7	10.3	30.4	N/A
Return on shareholders' equity (reported) (%)	31.9	13.9	8.6	17.0	N/A
P/C: net expense ratio (%)	14.0	12.1	12.1	17.4	13.5
P/C: net loss ratio (%)	74.7	79.3	84.5	64.8	67.0
P/C: net combined ratio (%)	88.7	91.3	96.6	82.2	80.5
Life: Net expense ratio (%)	(8.6)	(1.9)	(29.3)	(44.4)	(43.1)

N/A--Not applicable.

Risk position

In our view, NGI has a moderate risk position stemming from geographic, sector, and single-name concentration of the investment portfolio. NGI's investment leverage fell to below 100% in 2013 owing to stronger capital. That said, the company's investment portfolio remains weighted toward real estate and equities, with 34% in real estate and 25% of assets invested in equities at year-end 2013. Positively, exposure to the property market has reduced over the past 18 months as NGI continues its diversification across asset classes. We expect this trend to continue. NGI has doubled its exposure to fixed income assets, reaching 14% over the same period. The balance of investment is largely in cash. However, we note that investments are all in the UAE. There is some degree of single-name concentration. About half of cash deposits are held at the ENBD Group as a result of its ties with the group. Nonetheless, we note that this concentration has reduced over the past year. Another 20% is held with various financial institutions and 16% of deposits are held with CBD. The company is generally invested with top tier issuers in the UAE and regularly and comprehensively monitors credit risk. Investment with high credit quality counterparties helps mitigate credit risk.

Table 4

National General Insurance Co. (PSC) Risk Position					
	--Year-ended Dec. 31--				
	2013	**2012**	**2011**	**2010**	**2009**
Total invested assets	651.2	515.2	478.5	578.7	477.0
Net investment income	12.8	10.4	8.0	20.2	8.0
Net investment yield (%)	2.3	2.2	1.5	3.8	N/A
Net investment yield including realized capital gains/(losses) (%)	6.5	2.6	2.1	3.7	N/A
Portfolio composition (% of General account invested assets)					
Cash and short term investments (%)	22.2	25.3	28.0	42.0	42.4
Bonds (%)	14.8	10.3	3.5	3.1	3.7
Equity investments (%)	26.5	19.7	18.7	13.8	18.0
Real Estate (%)	36.2	44.2	49.7	41.0	35.9
Other investments (%)	0.3	0.6	0.0	0.0	0.0

N/A--Not applicable.

Financial flexibility

NGI has adequate financial flexibility, in our view, given its fairly low financing needs, good earnings generation, and prudent dividend policy. As a listed company, NGI has access to the capital markets, although this option is untested. Earnings at NGI are the main source of capital generation. We expect the company's future earnings capacity to support its capital and growth needs in the medium term. In addition, NGI could leverage its shareholder base to access bank financing.

Table 5

National General Insurance Co. (PSC) Financial Flexibility					
	--Year-ended Dec. 31--				
(Mil. AED)	2,013.0	2,012.0	2,011.0	2,010.0	2,009.0

AED--UAE dirham.

Other Assessments

Enterprise risk management: Adequate

We consider NGI's enterprise risk management (ERM) to be adequate and its management and governance practices as consistent with the rating. Our assessment of ERM reflects our view that the company has developed a risk management framework, where risk culture is embedded throughout the business. NGI is looking to adopt a more holistic view of risk management and hopes to introduce a risk-based view of capitalization. That said, we consider that advanced ERM techniques are of low importance given NGI's risk profile.

Management and governance: Satisfactory

NGI's management and governance is satisfactory in our opinion. NGI's stable management team has significant combined insurance expertise and continues to demonstrate a strong track record in terms of operational effectiveness, and consistent delivery of its commercial and financial goals.

The company's core strategy is the development of its product range with the support of its strategic partners and shareholders. To date, NGI has been successful in cultivating these relationships, particularly with the Allianz Group on medical business, Coface S.A. for credit insurance and especially with ENBD, utilizing cross-sell opportunities through the bank's branch network across the Middle East.

Liquidity: Exceptional

We consider NGI's liquidity to be exceptional. The company holds more than half of its investments in liquid assets, including cash, listed equities, and fixed income instruments. We expect liquidity indicators to gradually strengthen over the next 12 months, on the back of strong earnings capacity and the planned sale of some assets.

Related Criteria And Research

- 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

Ratings Detail (As Of June 10, 2014)	
Operating Company Covered By This Report	
National General Insurance Co. (PSC)	
Financial Strength Rating	
Local Currency	BBB+/Positive/--
Counterparty Credit Rating	
Local Currency	BBB+/Positive/--
Domicile	United Arab Emirates

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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