MOODY'S RATINGS

Rating Action: Moody's Ratings upgrades Dubai Insurance Company's IFSR to A2; stable outlook

25 March 2025

DIFC - Dubai, March 25, 2025 – Moody's Ratings (Moody's) has today upgraded Dubai Insurance Company (P.S.C.)'s (DIN) insurance financial strength rating (IFSR) to A2 from A3, and changed the outlook to stable from positive. Based in United Arab Emirates (UAE), DIN is a top-five insurer in that market, focused on personal and commercial insurance and with a leading role on a range of government mandated insurance programs.

RATINGS RATIONALE

The upgrade of DIN's IFSR to A2 reflects its strengthened market position and greater business diversification arising from its role as the lead insurer for the UAE government's mandatory employment-based insurance programs. Together with growth in its medical and motor insurance lines, its good track record of managing the government programs has contributed to strong and stable underwriting profits and positions the insurer for future growth in line with expansion and diversification of the UAE's economy.

DIN's A2 IFSR further reflects (i) its strong capital adequacy, with gross underwriting leverage (GUL) of 2.9x at YE 2024 and strong regulatory capital, (ii) very strong profitability, with a five-year average return on capital (ROC) of 14.5% as of 2024, driven by strong underwriting profitability and five-year average combined ratio (COR) of 85.1%, and (iii) moderate reserve risk due to its focus on short-tail insurance lines.

These strengths are partially offset by (i) limited geographic diversification with concentrated exposure to the UAE and correlation between DIN's employment-related insurance products and the local economy and financial markets, (ii) growing dependence on mandatory insurance programs which exposes the insurer to government policy and actions, (iii) elevated level of equity investments, which together with real estate investments results in a ratio of high risk assets (HRA) to shareholders' equity of 86.2% at YE 2024, and (iv) dependence on reinsurance to support its underwriting capacity, which increases its susceptibility to a possible disruption of reinsurance availability and pricing.

DIN's market position and brand has been strengthened by its effective administration of the UAE's mandated Workers Protection Program (WPP) and Involuntary Loss of Employment program (ILoE), as the lead insurer and servicer.

We expect premium growth from these programs to result in continued improvement in profitability. That notwithstanding, growth in these business lines will result in greater client concentration and dependence on government policy and actions. This risk is moderated by the multi-year tenure of these contracts, DIN's successful track-record in leading these programs, and significant investment in administrative capabilities and technology which is difficult to replicate.

While elevated exposure to equity investments contributes to asset risk, DIN has consistently maintained good liquidity buffers which support its ability to hold its equity investments for the long term and absorb short-term market volatility. In addition, the majority of its equity exposures are to high quality UAE-based institutions, which further limits the risk associated with these holdings.

Asset quality is also held back by the insurer’s dependence on reinsurance to support its underwriting capacity, but DIN’s reinsurance program benefits from a highly rated panel of reinsurers which limits counterparty risk.

OUTLOOK

The stable rating outlook reflects our expectation that DIN will maintain good underwriting discipline and profitability despite expected growth in its premiums, while at the same time keeping strong capital adequacy and liquidity buffers.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

There is limited upward pressure on DIN’s ratings at present, however upward pressure may arise in the event of a significant increase in the insurer’s business and geographic diversification, whilst maintaining its current strong financial and operating profile.

Conversely, the following factors could result in negative pressure on the rating (i) weakened profitability with ROC consistently below 8% or combined ratio rising above 95% on a persistent basis; (ii) a significant weakening of its market position, with for example, the company falling out of the top five UAE insurers in terms of premiums or being displaced as the lead insurers for government programs; (iii) a deterioration in asset quality with HRA as a percentage of consolidated equity rising above 90%; or (iv) a weakening of capital adequacy with GUL over 3.5x.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Property and Casualty Insurers published in April 2024 and available at https://ratings.moodys.com/rmc-documents/418354. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody’s key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody’s Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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