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AM Best Revises Outlooks to Stable for National Takaful Company (Watania) PJSC

LONDON, 7 June 2021—AM Best has revised the outlooks to stable from positive and affirmed the Financial Strength Rating of B (Fair) and the Long-Term Issuer Credit Rating of “bb+” (Fair) of National Takaful Company (Watania) PJSC (Watania) (United Arab Emirates) (UAE).

The ratings reflect Watania’s balance sheet strength, which AM Best assesses as strong, as well as its marginal operating performance, limited business profile and marginal enterprise risk management (ERM).

The revision of the outlooks to stable reflects the uncertainty regarding the company’s regulatory capital position. Following the clarification of the treatment of the Qard Hassan loan for regulatory solvency purposes for takaful companies by the UAE’s central bank, Watania’s regulatory solvency deteriorated below the prescribed minimum requirement at year-end 2020. Watania plans to meet the solvency capital requirement by rebalancing the investment portfolio, managing insurance receivables and suspending dividend payments until the solvency capital position is restored.

AM Best assesses Watania’s balance sheet strength as strong, underpinned by risk-adjusted capitalisation, as measured by Best’s Capital Adequacy Ratio (BCAR), at the strongest level. Watania has strengthened its shareholders’ equity in recent years, mainly through internal capital generation. The company’s balance sheet benefits from a well-rated reinsurance panel, the absence of leverage and a highly liquid investment portfolio. Offsetting rating factors include the company’s small balance sheet, material exposure to higher risk asset classes and limited financial flexibility.

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Since a change in senior management in 2016, Watania’s technical performance has been trending positively, with a combined ratio in 2020 of 92.8%, below its five-year average (2016-2020) of 96.9%. Consequently, overall earnings also have improved considerably, reaching AED 18.4 million in 2020, translating into a healthy return on equity of 18.6%. The company’s investment portfolio continues to contribute positively to overall profitability, producing an investment yield of 1.4% in 2020.

The company has a limited business profile in its domestic market, having written AED 321.5 million in gross written contributions in 2020. The company operates solely in the UAE, and consistent with other market participants, writes predominantly motor and medical insurance. AM Best expects Watania to continue to grow in line with its business plan, although market conditions remain challenging given the high level of competition.

AM Best assesses Watania’s ERM as marginal. Historically, the company lacked formalisation in its risk management framework, and accompanying controls and procedures. However, in recent years, Watania has undertaken steps to establish an enterprise-wide culture of risk awareness and to implement tools to manage its risk exposures more consistently. AM Best expects that as the company continues with its strategic transformation, management will make further meaningful enhancements to the company’s ERM framework.

This press release relates to Credit Ratings that have been published on AM Best’s website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best’s [Recent Rating Activity](#) web page. For additional information regarding the use and limitations of Credit Rating opinions, please view [Guide to Best’s Credit Ratings](#). For information on the proper media use of Best’s Credit Ratings and AM Best press releases, please view [Guide for Media - Proper Use of Best’s Credit Ratings and AM Best Rating Action Press Releases](#).

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