

National Takaful Company, Watania
Management Discussion and Analysis
For the year ended 31 December 2020

Watania management is pleased to submit the following financial analysis to its stakeholders for the year ended 31 December 2020:

Summary of Financial Performance:

Summarize P&L	FY2020	FY2019	Variance
	(000)		%
Gross Contribution	321,505	344,788	-6.8%
Net Earned Contribution	207,215	187,971	10.2%
Commissions earned	13,649	9,912	37.7%
Net Claims Incurred	(115,247)	(114,794)	0.4%
Commissions expense	(34,163)	(27,554)	24.0%
Other UW expenses - net	(13,691)	(13,342)	2.6%
Underwriting profit	57,763	42,193	36.9%
Total management expenses	(42,505)	(35,251)	20.6%
Profit from Insurance operations	15,258	6,942	119.8%
Total Investment income	3,171	6,190	-48.8%
Net Profit	18,429	13,132	40.3%

Operating Ratios:

	FY2020	FY2019	Y-o-Y change
Net Claims Ratio	55.6%	61.1%	-5.5%
Net Commission & net U/W Expense Ratio	16.5%	16.48%	0.02%
Expense ratio	20.5%	18.8%	1.7%
Combined operating ratio	92.6%	96.3%	-3.7%

Gross and Net Written Contribution:

The Gross Written Contribution for the year declined by 6.8% as compared to the last year due to challenging market condition and the slowdown in the economy. This has led to fall in demand in our core product lines. Our major line of business, Medical and Motor, contributed 89.3% of the total GWC. Overall retention ratio was 59.7% as compared to 60.9% during last year.



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Claims and other operating Ratios:

Net loss ratio improved to 55.6% as compared to 61.1% during last year. Expense ratio stood at 20.5% as compared to 18.8% same period last year. Combined operating ratio for FY20 showed a significant improvement and came down to 92.6% as compared to 96.3% in FY19.

Investment Income:

Total investment income (shareholders and policyholders) in FY20 was 3.2mn as compared to 6.2mn in FY19. The decline was primarily due to real estate valuation loss. In a relatively volatile and depressed investment environment, our equity and sukuk portfolio performed reasonably well delivering a valuation gain of AED 1.6mn.

Net profits:

The Company achieved net profit of AED 18.4mn in FY20 as against AED 13.1mn in FY19.

Liquidity:

During the current year company generated AED 12.9mn worth of free cash flow from its operations. The year saw an increase in our o/s receivable days from 109 to 120 due to difficult market conditions. However, we continue to monitor our ageing strictly along with being conservative in our provisioning policy. We adopted IFRS 9 during the year 2020 to align our provisioning policy in line with the best market practices. Provision for doubtful debts during the year saw an increase from AED 0.7mn in FY19 to AED 1.6mn in FY20. Our historical recovery rate ensured that the initial impact on adoption of IFRS 9 was minimal.

Balance Sheet:

Shareholders' equity stands at AED 104.1 million as against AED 93.7 million at the end of year 2019. Return on equity for the year stood at 19.7%. The company also paid dividend of AED 9.0 million during the year.

Total invested assets as at the period end stood at AED 182.8 million as compared to AED 175.5 million as at Dec 31, 2019.

Outlook:

We are optimistic about the future of UAE economy and the prospects of the insurance industry. S&P Global Ratings project Real GDP growth of the country will be 2% for 2021 as compared to negative 6% in 2020. We have also seen hardening of the reinsurance market with reduction in capacity which will have a bearing on the cost of reinsurance for cedants in the country. We expect stricter focus on solvency and capital adequacy with the transfer of Insurance Authority to Central Bank of UAE. While general recovery will be measured but in alignment with other factors will result in improved margins due to better pricing and more efficient operations.

Watania's focus on underwriting and control on its costs backed up by its commitment to customer service we are confident of meeting the challenges of 2021.



Chief Financial Officer



Chief Executive Officer

