

# Inflation Rate and Gross Written Premium (GWP) Influence on the Profitability of UAE Insurance Sector. A Post Financial Crises Analysis

Muhamad Abdul Aziz Muhamad Saleh Jumaa\*

**Abstract** This study highlights how the profitability of insurance companies is affected by the gross written premium (GWP) and the inflation rate in the United Arabs Emirate (UAE). The sector of insurance globally has been affected due to the financial crises in 2007-2008. UAE insurance sector witnessed a shrink from 2008-2010. This research discovers the impact of the inflation rate and gross written premium (GWP) on the profitability of the United Arab Emirates (UAE) insurance sector from 2010 to 2019, and how the insurance sector improved during the post-financial crises. The UAE insurance market offers two types of insurance: the conventional insurance, that allows individuals to shift the burden of riskiness loss to the insurance firm, and the *Takaful* insurance that collects the premium by the members in order to ensure that there's no damage or loss against each other.

Islamically insurance is essentially an idea of mutual help; therefore, the difference between the two insurances should be cleared up. In developed countries, individuals may own a range of assets and have exposure to potential risks that demand some form of life and/or general insurance protection. They also desire to secure incomes for their own confiscation or family members in the event of their death. In developed countries, businesses also are more plausible to use insurance to lessen the financial impact of adverse events. Insurance sector in developing countries has shown an increase even if the level of development of this one remains low compared to developed countries since the developing countries have a lack of coverage. Insurance can help society to improve livelihoods, increase the country's productive capacity and secure prosperity.

Islamic insurance is a replacement model to conventional insurance, which is *haram* (forbidden) in Islam. It consists of some elements that are forbidden in Islam which are:

- *Riba* (usury)
- *Gharar* (ambiguity)
- *Maisir* (gambling)

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Islamic insurance is built on the base of assistance, protection, responsibility and assurance, mutually. Ideally, it is based on *tabarru* (donation), since Islamic values are the set of morals inspired by God, Islam, the Qur'an and the Sunnah that make up the fabric of the Islamic personality, and make it integral capable of living interaction with society, harmony with its members, and work for the sake of the soul, family and belief.

The alternative to conventional insurance, Takaful, is based on the concept of Ta'awun meaning mutual assistance. It is a form of good virtues by helping others who are in need or in hardship. It can also be further explained as participants mutually contribute, as a donation, for the purpose of mutual indemnity to other participants in cases of peril or harm. This concept pre-dates the Islamic era when the rough model of Takaful was practised by Arabic tribes, holding to the principle of pooled resources to help the needy on a voluntary and gratuitous basis. Among the examples of early Takaful, the merchant of Mecca were pooling funds for victims of natural disasters and assistance extended to families of murder victims.

In general, conventional insurance operates on a bilateral arrangement, where there are 'Gharar' elements where the premium collected is used to qualify the payout in the event of death (where death itself is uncertain). However, for a Takaful contract, based on the contract of *tabarru*' (donation), it becomes a unilateral arrangement where some degree of uncertainty is tolerated.

Over the past few years, the insurance sector all through the world was influenced by strengthening the impact of the budgeted emergency of 2007-2008. Along the lines of the overall worldwide pattern, despite the fact that the benefit of the UAE, the insurance sector saw a decay from 2008–2010, the goad in its improvement rates (10%) in 2012 and 2013 is astounding contrasted and the negative development rate in business sectors.

Along the lines of the worldwide pattern, although the gainfulness of the UAE, the Insurance Sector saw a decay from 2008–2010, the prod in its development rates (10%) in 2012 and 2013 is amazing compared with the negative development rate in created markets.

The study has made an attempt to analyse the factors that affect the profitability of the insurance sector in the United Arab Emirates during post worldwide monetary emergency. Inner components incorporate size, development in GWP, piece of the overall industry, influence, dissolvability edge, speculation proportion and misfortune proportion. The effect of influence, size and development in GWP on firm productivity is huge. Further, per capita GDP has a positive and critical effect on benefit while the impact of expansion is huge with a negative sign. The selected factors are growth in GWP and inflation rate. The inflation rate is macroeconomic, while growth in GWP is the internal firm-specific factor. The impact of the growth in GWP is studied to be significant with a probability of less than 5% which means that it is unlikely to have occurred by chance.

**Keywords:** assurance, monetary emergency, medical coverage, protection incomes, reinsurance organizations, liquidity.

## Introduction

Human beings are exposed to the risk of damage, injury, accident, disability and so on. In order to face those risks, an individual needs to anticipate loss and reduce the consequence of adverse conditions. The whole idea of a model of insurance is an agreement between two individuals for coverage of any future unexpected financial losses. Under the conventional insurance companies, the main goal is to minimize risk; an individual transfers a particular risk to the insurance company who restores to the party affected part, if not full, of the loss suffered. It guarantees a loss reduction if any accident or ill-starred situation happens. In this insurance structure, this agreement has no problem. But its acceptance to the Islamic rulings is debatable. If an insurance policy is being purchased the holder is guaranteed loss coverage by the insurance company, soon after the payment of premium is made. This may contravene the Islamic ruling that prohibits return on *riba*.

This industry has a primary job in encouraging national financial development because it offers fillip to different divisions of the economy, for example, wellbeing, engine, foundation, banking, and capital markets. Experimental examinations have featured a positive connection between protection improvement and financial development (Enz, 2000; Arena, 2006). Subsequently, contemplating dissecting the presentations of the protection part have gotten impressive consideration from scientists in both developed and the developing economies.

The GDP development, populace, and financing costs impact the extension and benefit of the protection area. These and other large scale financial factors it has proved to significantly affect the protection development of an economy (Beenstock et al., 1988; Browne and Kim, 1993; Fortune, 1973; Headen and Lee, 1974).

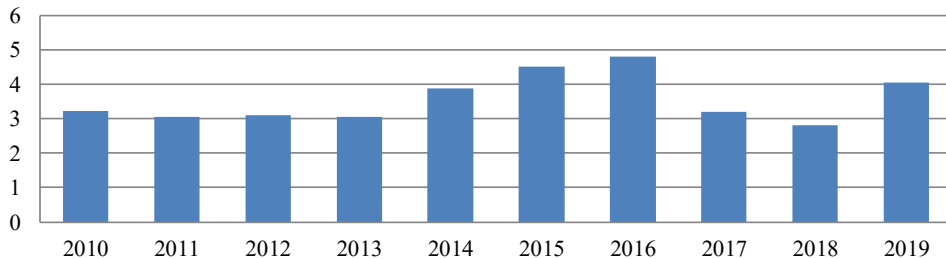
Worldwide protection division was affected by the gradually expanding influence of the money related emergency of 2007–2008, for example, the fall in the worldwide value markets, decrease in the loan costs and monetary log jam. Even though protection industry in the GCC has encountered relentless development in the most recent decade, delayed worldwide vulnerability has presented generous difficulties to it by making unpredictability in speculation esteems and returns. Be that as it may, the joined gross composed premium (GWP) in the area has developed at a CAGR of 11.8% since 2008 to 2012 (Swiss Re, 2010) fuelled by GDP development, necessary medical coverage in certain purviews and increment in the populace. UAE is the biggest protection advertise in the GCC with over \$7.2 billion (Dh26.4 billion) protection incomes in 2013, which is around 45% of the premiums written in the GCC (Moody's Investor administration).

This sector performance is also influenced by a range of internal factors. There have been studies where factors such as company size, age, underwriting risk, solvency margin, and leverage were found to have a significant impact on company profitability (Batra, 1999; Ćurak et al., 2011; Ismail, 2013; Majumdar, 1997; Malik, 2011; Shiu, 2004;). However, few studies have analysed the financial performance of the UAE insurance sector after the financial crisis in 2007–2008. It is intriguing to take note that the spike in development rates accomplished in 2012 and 2013 is greatly contrasted

with the negative development rates in two major markets in particular Japan (– 7%) and the US (– 6%). Notwithstanding the sound development rate, IMF and various rating organizations have considered UAE’s protection industry stuffed which unfavourably affects the market’s general execution. In 2013 protection authority has proposed a huge number of guidelines for combination and further fortifying of the division. In the light of the above talk, it might be noticed that 2009–2013 has been an intriguing period with a progression of advancements in the UAE protection segment concerning its money related execution and the macroeconomic condition in the nation. Subsequently, it is basic to dissect the components which have affected the gainfulness of the protection part in UAE.

Insurance is needed, just like any financial institution like the stock market and banking sectors, for the country to grow economically. Denial of insurance importance cannot be accepted because of its huge contribution to the economic outlook. Example insurance 6.23% is spending in the worlds GDP. For developing countries are about 2–4% and for developed countries is around 8-11%. The whole sector of insurance is very important to the country to improve economically.

Specifically, because it also boosts the other economic sector like health, motor, capital markets, banking and infrastructure. Studies have shown good collation existing in insurance development and the country’s growth economically. Macroeconomic factors like interest rates, GDP, population influence the profitability of a country. The Return on Assets (ROA) of the UAE insurance sector is given below.



**Figure 1.** Average ROA of the UAE insurance sector, 2010-19

*Source: Compiled from the Annual Reports on the activity of the Insurance Sector in the United Arab Emirates from 2010 to 2019*

## Research Objectives

The main aim of this research is to discover how the inflation rate and GWP affect the profitability of the United Arab Emirates (UAE) sector of insurance from 2010 to 2019. The inflation rate is the macroeconomic components chosen while the firms internal factors is GWP. ROA is indicated the profitability or financial performance.

## Literature review

Based on the GWP United Arabs Emirate is ranked the 39th based on global GWP. It is

a country that is very well diverse with a combination of different nationalities across the entire globe. The newly introduced regulations for the insurance companies and the amendments made really helped in the growth of the market. After a very strong increase in 2012-2015, the growth slowed down because of the economic condition. An expansion of 18.4 ppts has been made in the medical insurance section in between 2011 and 2015 to 47.8%. Accident, medical and the liability are 80 percent covering the lines of the non-insurance. The medical insurance business increased and encountered growth at a compound annual growth rate of over 20 percent. The emirates of Abu Dhabi introduced more than a decade ago a new rule of making it mandatory for individuals to have medical insurance which was later adopted by the other emirates, which will likely boost the overall performance of insurance companies of the country. The UAE market sector of insurance is highly competitive and disintegrated 61 insurance providers present in the insurance market, 34 local and 27 foreign companies out of which 11 offer takaful insurance. The global insurance sector is estimated to have a GWP of \$4.4 trillion in 2017. There was an improvement of 9million in 2017 from 2016 which was based on the listed insurance company's profitability accounting for more than half of the country's GWP. The insurance sector of UAE accumulated a net profit of 245.5 million USD in 2016 compared to a previous loss of 51.5millionUSD in the previous year.

A policy was set by the government of new tariffs for 3rd party insurance, 40% raise in premium resulted by the new policy imposed by the government. The new tariff contributed to the expansion of the overall industry's gross written premium (GWP).

Budgetary execution of the protected area in the US, UK, and other created economies. The absolute most punctual examinations on the determinants of gainfulness of the protection part in the US was directed by Wright (1992) on the financial and administrative issues of the disaster protection organizations where he contended that genuine mortality experience, speculation procuring, capital additions, and misfortunes, the size of policyholder's profits and government and state charges influences the monetary exhibition of insurance agencies.

From there on, thinks about directed on the connection among gainfulness and market structure, creators found a noteworthy positive effect of fixation on benefit (Bajtelsmit and Bouzouita, 1998; Chidambaran et al., 1997; Choi and Weiss, 2005; Cole et al., 2015; Dafny et al., 2010). Anyway, the vast majority of them were not able to give proof on whether this positive relationship was because of a conspiracy among the backup plans or productive tasks. Studies identifying with the effect of firm-explicit factors on the budgetary presentation of protection part in the created economies incorporate the examination of Bermuda protection and reinsurance organizations during the period 1993–1997 where influence and friends type were seen as emphatically identified with organization execution while hazard and liquidity were contrarily related (Adams and Buckle, 2003).

General protection area in Poland during 2002–2009 utilizing the relapse model, the outcomes demonstrated that decrease in engine protection with a synchronous increment of different kinds of protection, development in net premium, working cost decrease, GDP development, and piece of the pie development for outside organizations positively affects gainfulness and cost-effectiveness though offering a too wide range of classes of protection

has a negative effect (Kozak, 2011). Burca and Batrinca (2014) utilized fixed and arbitrary impacts model in their examination and indicated proof of the huge effect of development in net premium alongside different variables viz. influence, size, endorsing hazard, chance maintenance proportion, and dissolvability edge on the money related execution.

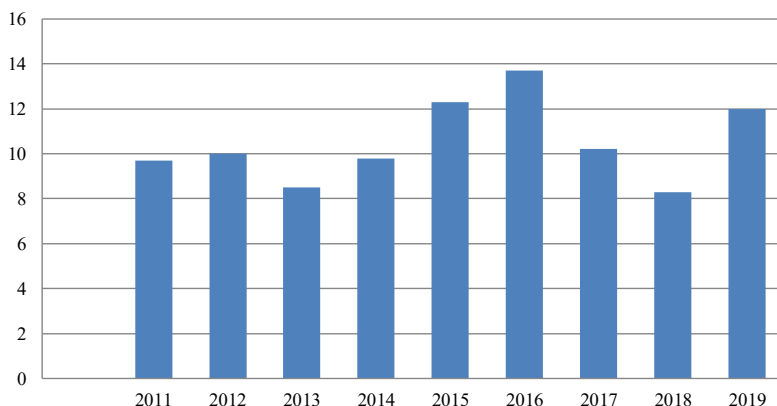
Charumathi (2012) examined the effect of six free factors on the budgetary exhibition of the Indian life back up plans and presumed that size and liquidity have a noteworthy and positive impact while influence, development of GWPs, and volume of value have a negative and huge impact. Comparable outcomes appeared concerning size and influence in an investigation on the Pakistan protection

The showcase which likewise found that volume of capital and misfortune proportion significantly affected the money-related execution (Malik, 2011). Conflicting to the above outcomes, in an investigation of Ethiopian protection segment execution by Mehari and Aemiro (2013) GWP and liquidity were seen as inconsequential while size, misfortune proportion, substance, and influence have appeared as noteworthy elements. Ismail (2013) directed an examination on the general Islamic and customary insurance agencies in Malaysia where venture yield is utilized as the proportion of money related execution.

Utilizing three models of board information estimation the creator found that size, retakaful is the Islamic alternative in contrast to the reinsurance business. In brief, a takaful organization pays premium to a retakaful organization so the retakaful organization accepts a part of the takaful organization's risks. In actuality, a takaful organization can't endure the entire risks of covering its members' claims. In the event that debacle strikes, the takaful fund might be exhausted rapidly and get bankrupt, in which case everybody — the members, the investors, and the takaful administrator — loses. Subsequently, they have the reinsurance business called retakaful. *Retakaful* / reinsurance reliance and dissolvability edge are measurably critical with the general Islamic insurance agencies. The previously mentioned factors alongside loan cost levels, liquidity, and premium development were critical for the budgetary exhibition of traditional insurance agencies. The Middle East protection showcase has been getting consideration from scientists in later occasions in case of the administrative and basic changes in these economies.

Almajali et al. (2012) broke down the insurance agencies recorded on the Amman Stock Exchange during 2002–2007 utilizing numerous relapses and found that liquidity, influence, organization size, and the executives' fitness list have a factual beneficial outcome on safety net providers. An investigation on determinants of money-related execution of the Tunisian disaster protection organizations inferred that tallness, age, and premium development are critical for execution estimated by ROA while influence, substantial-quality, liquidity, and hazard have no noteworthy effect (Derbali, 2014).

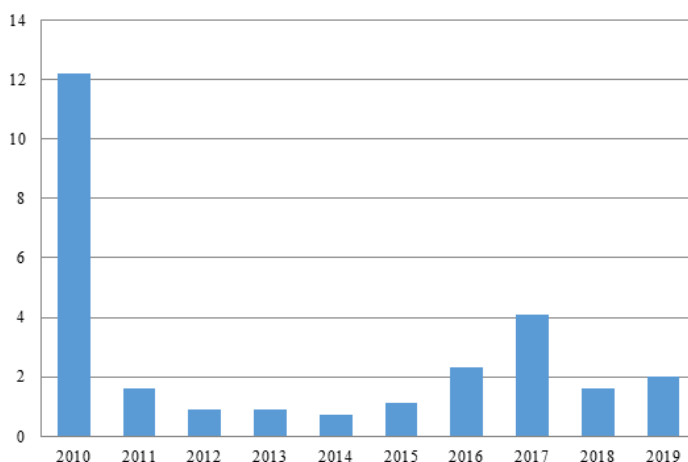
In an examination breaking down the effect of corporate administration instruments on monetary execution of Bahrain protection firms, Najjar (2012) saw that board size, firm size, and number of square holders significantly affect firm execution communicated by return on value (ROE). In UAE, Rao et al. (2010) dissected proficiency and profitable issues of protection area during the period 2000–2004.



**Figure 2.** Growth in GWP in UAE, 2011-19

*Source: Compiled from the Annual Reports on the activity of the Insurance Sector in the United Arab Emirates from 2011 to 2019*

Inflation is also one of the most important factor as individual’s are risk averse change in inflation being either high or low, will lead to people reducing their consumption of insurance products. Researchers have found mixed evidence that a negative relationship exists between the insurance company’s profitability growth and the inflation rates, in China an opposite study was found. They explained that the greater the inflation rate in the country, the greater the growth of the economy of the country. The increase in the inflation rate only decreases the profitability of the insurance companies, as proven during the financial crises, the performance of the insurance sectors only declined and during the post financial crises the insurance sectors started improving on the part of their finances and operations which was caused by the rapid increase of the inflation rate in UAE during the financial crises.



**Figure 3.** Inflation rates in UAE, 2010-19

*Source: Compiled from the Annual Reports on the activity of the Insurance Sector in the United Arab Emirates from 2010 to 2019*

Investment in insurance companies plays an important role, insurance sectors invest premiums in to generate revenue. They invest in bonds, stocks and so many other assets. The insurance companies literally have two main source of generating revenue which are return on investments (ROI) and premiums from underwriting activities. Rules and regulations for the insurance companies were declared by the insurance authority in order to protect the interest of the shareholders and the policy holders, and also protect the insurance company from being bankrupt. These regulations worldwide are in line best practice applicable. The regulations not only protect the rights of the shareholders and policyholders but also protect the insurance companies from potential risk they may encounter.

Limits of investment determined by the financial regulations the invested assets permitted for insurance companies.

**Table 1.** Limits of invested asset for insurance companies

Asset invested type	Limits
Real estate	30%
Equity instruments in UAE	30%
Equity instruments outside UAE	20%
Government securities	100%
Cash and deposits with banks in UAE	5% minimum
Loan secured by life policies issued by the company	30%
Financial derivatives used for hedging	1%
Loans that are secured.	30%
Other invested assets	10%

*Source: The annual report of the Insurance Authority, UAE*

### **Insurance Companies' Investments**

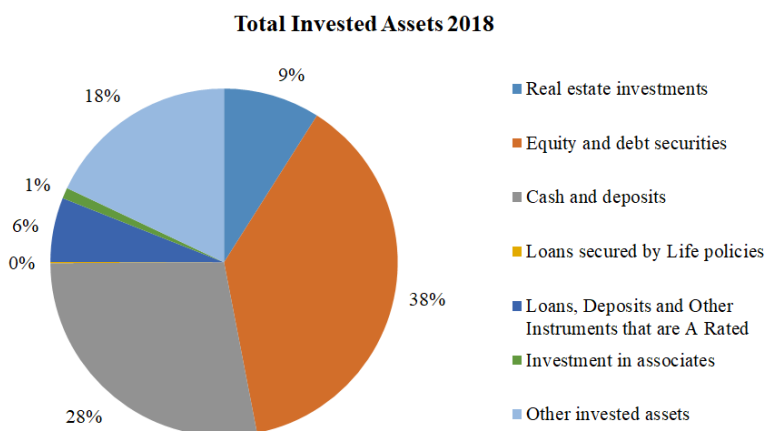
The complete funds invested all different sectors in 2018 arrived at AED 63.6 billion, contrasted with AED 60.7 billion out of 2017 with an expansion of AED 2.9 billion and a level of 5%. The venture arrangement of organizations is described by expansion and dissemination of dangers in the various classes of investments. This is predictable with the Financial Regulations gave by the Authority, which manages all arrangements identifying with the guidelines, classifications and cutoff points of ventures. These speculations were circulated as follows:



**Table 2.** Insurance Companies’ Investments and Their Invested Assets

Type of Invested Assets	Value in Billion Dirhams 2017	Value in Billion Dirhams 2018	Percent of Total of 2017	Percent of Total of 2018
Real Estate Investment	5.144	5.801	9%	9%
Equity & Debt securities	22.525	23.952	37%	38%
Cash & Deposits	16.041	17.848	26%	28%
Loans secured by Life Insurance policies	0.161	0.162	0%	0%
Loans, Deposits and other instruments that are rated A	4.968	3.884	8%	6%
Investment in Associates	0.502	0.682	1%	1%
Other invested assets	11.321	11.280	19%	18%
<b>Total of Invested Assets</b>	<b>60.662</b>	<b>63.608</b>	<b>100%</b>	<b>100%</b>

Source: The annual report of the Insurance Authority, UAE



**Figure 4.** Insurance Companies’ Investments and Their Invested Assets

Source: The annual report of the Insurance Authority, UAE

### Methodology

This study reveals the performances of the insurance sector during post-financial crises

period. It also studies the effect of microeconomic factors such as inflation rate, Gross written premium and insurance firm's specific factors the researcher set the following research objectives.

- To study the specific firm factors that affect profitability and growth of insurance sector (ROA).
- To compare the level of affected microeconomic variables based on the profitability of the insurance companies.
- To analyse the impact on profitability in the UAE' insurance sector regarding the macroeconomic factors and firm-specific factors during the selected years.

The researcher had collected data from the audited annual reports on the activity of the Insurance Sector in the United Arab Emirates from 2010 to 2019. Also gathered data from Milliman, Market monitor, UAE insurance industry report preliminary from the year 2010 to 2019. Further the researcher arranges the collected data and studies the relevant statistical tools. To find the results and validate the hypothesis the researcher employed the following statistical test. The employed tests were least square, Pairwise Granger causality test, Skewness and Kurtosis. Statistical Package for the Social Sciences was used to analyse the collected data. The following hypotheses were validated after analysing the collected data.

$H_0$ : ROA does not have a significant relationship with the inflation rate

$H_0$ : ROA does not have a significant relationship with GWP

## Data Collection

The research is according to a secondary data collected from an audited yearly report for insurance companies in UAE. The data was secondarily collected from yearly reports of insurance company. Macroeconomic information was extracted from the central bank of UAE, Knoema Corporation, International Monetary Fund & World Bank. The main highlight of this research is to observe performance of the UAE's insurance market sector after financial crises which is during the recession years 2009-2011 and to learn what factors that played an important role during and after the recovery period (2011-2019).

The variables such as return on asset, size, leverage, gross return premium, investment ratio, Market share, risk ratio, and loss ratio are the firm-specific variables that have been studied to determine the financial performance of insurers. These variables are described and defined in Table 3. Financial performance of insurers has been lightening by the dependent variable, the ROA. Some of the researchers in the past have considered various measures for company financial performance for their studies such as ROA, ROE, ROS, EVA. ROA has been the most widely used financial performance indicator in studies on insurance (Agiomirgiannakis et al., 2006; Ahmed et al., 2011; Burca and Batrinca, 2014; Chen et al., 2009; Ćurak et al., 2011; Liebenberg and Sommer, 2008). ROA is an indicator of the efficiency with which a firm uses its total assets, measuring net profit generated for each dirham of net assets.

The firm-specific and macroeconomic variables used in this study are selected based on the relevant theory and literature. Size, growth in GWP, market share, leverage,

solvency margin, investment ratio, risk retention ratio and loss ratio are the firm-specific variables that have been in a vast number of studies on determinants of a financial performance of insurers (Almajali et al., 2012; Charumathi, 2012; Derbali, 2014; Mehari and Aemiro, 2013). GDP per capita is one of the macroeconomic factors included in this study and needs a special mention here. There are some studies which have included real GDP growth while a few other studies have considered the GDP per capita. Beck and Webb (2002) argued that countries with large GDP per capita have high life insurance consumption (Sen and Madheswaran, 2007). In another study by Bhatia and Jain (2013) GDP per capita was found to be highly correlated with insurance penetration, density and absolute amount of premium. In yet another study on the determinants of financial performance of insurers, the authors have included gross national income (GNI) per capita as one of the macroeconomic variables (Doumpos et al., 2012).

**Descriptive statistics**

A brief summary of the samples and the measures have done by this particular research study. Supposition of normality is required to be looked over before carrying out any statistical course of action. Given that about all the variables are asymmetrical and the kurtosis values are not normally distributed as shown in the data below. The skewness in inflation rate is high because it is greater than 1, for the ROA and growth in GWP the skewness is moderate.

**Table 3.** Supposition of normality of asymmetrical and the kurtosis

	Inflation	Growth	ROA
Mean	2.750000	10.43000	3.558750
Median	1.600000	9.900000	3.210000
Maximum	12.20000	13.70000	4.800000
Minimum	0.700000	8.300000	2.800000
Std. Dev.	3.463219	1.689214	0.696423
Skewness	2.306524	0.743865	0.684654
Kurtosis	6.889971	2.418694	1.994179
Jarque-Bera	15.17170	1.063024	1.202784
Profitability	0.000508	0.587716	0.548048
Sum	27.50000	104.3000	35.58750
Sum. Sq. Dev	107.9450	25.68100	4.365043
Observations	10	10	10

Source. Knoema 2018 and AMOSS Statistical Software

**Table 4.** Table showing the descriptive statistics of the specific variables

Variables	Mean	Median	Standard Deviation	Skewness	Kurtosis	Jarque-bera
ROA	3.3881	3.876	4.7233	-2.1691	10.5984	378.71102
Size	9.018	8.866	0.3.53	0.343	2.1334	7.345786
Leverage	37.999	28.107	31.9678	1.9756	6.8985	150.8987
Gwp Gr	0.0751	0.053	0.20012	0.0407	3.9846	5.159862
Investment Ratio	0.4274	0.406	0.2196	0.1475	2.2739	2.863570
Market share	3.879	3.001	5.2187	1.7625	4.6524	71.57835
Risk ratio	0.5132	.49820	0.2481	2.7841	10.9958	429.586
Loss ratio	0.4982	0.5134	0.2584	1.5624	10.00154	784.2566

Source: MOSS Statistical Software

**Table 5.** Pairwise Granger Causality Test on growth in GWP and ROA

Null Hypothesis	Obs	F-Statistic	Prob.
INFLATION RATE does not Ganger Cause ROA	8	0.19295	0.8340
ROA does not Ganger Cause INFLATION RATE		2.33046	0.2451
GROWTH IN GWP does not Ganger Cause ROA	8	3.68999	0.1554
ROA does not Ganger Cause GROWTH_IN_GWP		3.71518	0.1543
GROWTH_IN_GWP does not Granger Cause INFLATION_RATE	8	3.01187	0.1917
INFLATION RATE does not Granger Cause GROWTH IN GWP		0.61956	0.5923

Source: AMOSS Statistical Software

The probability of the analysis shows greater than 5%. Hence, all the null hypothesis were rejected and accepted the alternative hypothesis

**Table 6.** Least Square method to Inflation rate growth in GWP and ROA

Variable	Co-efficient	Std. Error	t-Statistics	Prob.
C INFLATION_RATE	-0.432922	0.630852	-0.686249	0.5146
GROWTH_IN_GWP	-0.001104	0.028353	-0.038923	0.9700
	0.383002	0.058129	6.588844	0.0003

R-squared	0.864770	Mean dependent var	3.558750
Adjusted R-squared	0.826133	S.D. dependent var	0.696423
S.E. of regression	0.290390	Akaike info criterion	0.608138
Sum squared reside	0.590283	Schwarz Criterion	0.689914
Long likelihood	-0.040690	Hannan-Quinn Criter	0.508228
F-statistic	22.38192	Durbin-Watson Stat	1.474797
Prob (F-Statistic)	0.000909		

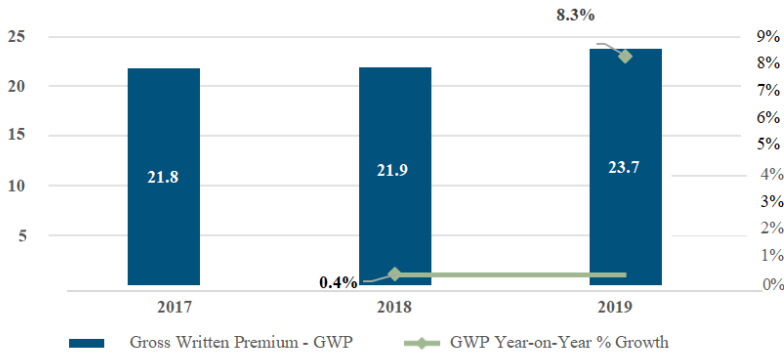
Source: AMOSS Statistical Software

Depending on the results it is clear that the firm-specific factor chosen in this research which is the growth in gross written premium (GWP) has an effective impact on the profitability of insurance sector. A related result was found that a company's growth if not done with necessary supervision regarding the risk selection a pricing will be at risk. The affirmative impact of premium growth in UAE has been contributing in its underwriting activities. These findings indicate a well harmonized genuine pricing and extension by the UAE insurers.

The inflation rate is the macroeconomic factor negatively affecting the growth and profitability of sectors in insurance. The previous study has found that inflation rate negatively affects financial performance. It is noticed that during the post-financial crises the decrease in inflation rate has boosted financial performance of whole insurance sectors.

The UAE insurance sector's profitability has been increasing for a third continuous year with a general increment alongside premium development in 2019. In view of the primer revelations (22 organizations) and evaluated reports (8 organizations) of the UAE insurance agencies recorded on the Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM), the Gross Written Premium (GWP) developed by 8.3% to AED 23.7b during 2019 after a little increment in 2018. The expansion in premium was essentially because of developments among recorded and non-recorded safety net providers.

The Gross Written Premium, Net Profit and the Shareholder's Equity for the 30 recorded insurance agencies are appeared.

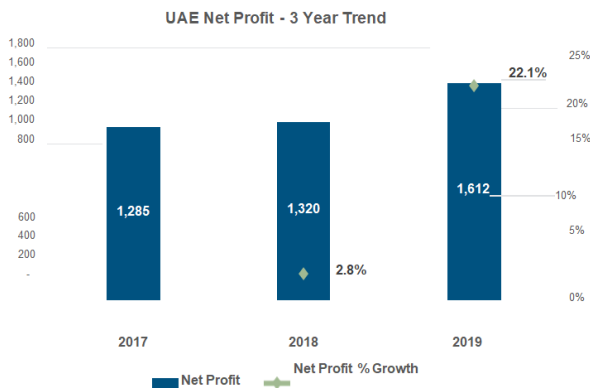


**Figure 5.** UAE Gross Written Premium (GWP), 3-years trend

Source: Milliman, Market monitor- UAE, UAE insurance industry report preliminary 2019

18 of the 30 organizations indicated an expansion in GWP in 2019 more than in 2018. Arrange Insurance Company and Abu Dhabi National Insurance Company both developed to outperform Oman Insurance Company to take the best two spots as far as GWP as the last encountered a decrease in premium contrasted with 2018.

On a net profit premise, the industry kept on improving for the third year straight accomplishing a net profit of AED 1,612m for 2019, contrasted with a net profit of AED 1,320m in 2018, an expansion of 22.1%. The expansion was principally because of organizations concentrating on high yielding ventures in this manner accomplishing more significant yields on their speculations portfolio. These speculation returns were conceivable because of business sectors performing better in 2019 in any case; this is definitely not an economical profitability procedure as higher yielding ventures likewise convey high hazard and unpredictability.

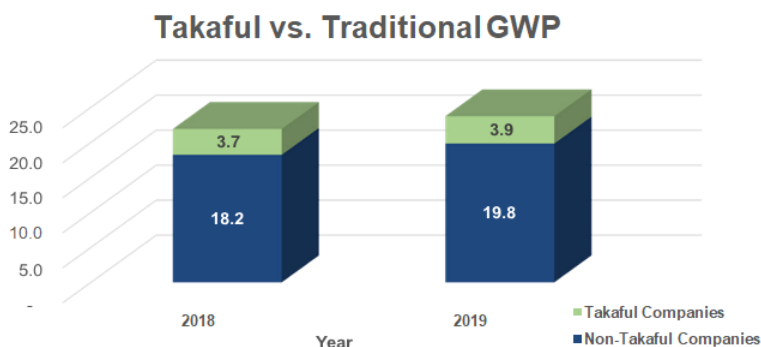


**Figure 6.** UAE Gross Written Premium (GWP), 3 year trend

Source: Milliman Market monitor UAE, UAE insurance industry report preliminary 2019

Takaful organizations saw a development in their top line in 2019 of 5.8% in contrast

with 8.8% increase for the traditional players. All out GWP for Takaful administrators currently remains at AED 3.9b contrasted with AED 19.8b for customary companies. The Shareholder’s Equity had an expansion of 6.1% in 2019 contrasted with a negligible change in 2018. The complete Shareholder’s Equity for the 30 organizations developed from AED 16.5b in 2018 to AED 17.5b at year-end 2019.



**Figure 7.** Shareholder’s Equity (AED billions)

Source: Milliman, Market monitor- UAE, UAE insurance industry report preliminary 2019

**Table 7.** Premium Ranks by Company on GWP, Net Profit and Shareholder’s Equity (AED Millions)

Insurance Company	GWP		GWP %		Net Profit		Net profit %		Share holders’ Equity		Share holders’ Equity %		Market Share Rank	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	
Orient Insurance (Audited)	3,881	3,678	16.36	16.79	425	401	26.36	30.38	3,074	2,759	17.61	16.76	1	2
Abu Dhabi National Insurance Company (Audited)	3,756	2,909	15.83	13.28	284	236	17.62	17.88	2,296	2,102	13.15	12.77	2	3
Oman Insurance Company (Audited)	3,545	3,699	14.94	16.88	191	10	11.85	0.76	1,893	1,650	10.84	10.02	3	1
Al Ain Al Ahlia Insurance Company	1,154	1,514	4.86	6.91	58	30	3.60	2.27	1,203	1,144	6.89	6.95	4	4
Emirates Insurance Company	1,137	1,043	4.79	4.76	140	114	8.68	8.64	1,189	1,123	6.81	6.82	5	6

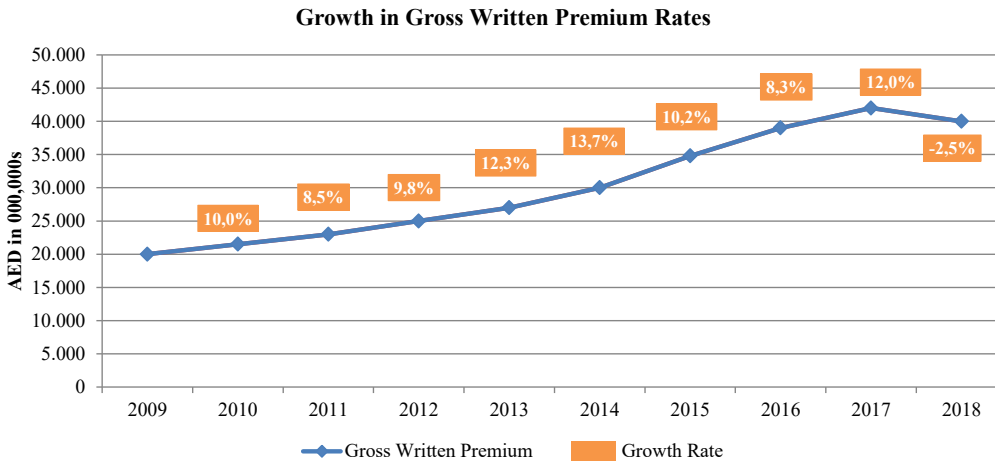
Insurance Company	GWP		GWP %		Net Profit		Net profit %		Share holders' Equity		Share holders' Equity %		Market Share Rank	
	2019	2018	2019	2018	2019	2018	2019.	2018	2019	2018	2019	2018	2018	2019
Islamic Arab Insurance Company	1,130	1,063	4.76	4.85	59	0	3.66	0.00	771	724	4.42	4.40	6	5
Dubai Insurance Company (Audited)	971	532	4.09	2.43	76	51	4.71	3.86	541	471	3.10	2.86	7	10
Union Insurance Company	927	952	3.91	4.35	21	6	1.30	0.45	326	300	1.87	1.82	8	7
Al Buhaira National Insurance Company	867	487	3.65	2.22	22	35	1.36	2.65	656	635	3.76	3.86	9	11
Takaful Emarat	606	599	2.55	2.73	-38	14	-2.36	1.06	118	165	0.68	1.00	10	8
Ras Al Khaimah National Insurance Company	582	482	2.45	2.20	4	19	0.25	1.44	190	195	1.09	1.18	11	12
National General Insurance Company (Audited)	536	551	2.26	2.51	17	31	1.05	2.35	457	464	2.62	2.82	12	9
Abu Dhabi National Takaful Company (Audited)	489	384	2.06	1.75	73	68	4.53	5.15	396	340	2.27	2.07	13	13
Al Sagr National Insurance Company	407	356	1.72	1.62	-3	22	-0.19	1.67	344	453	1.97	2.75	14	15
Dar Al Takaful	403	291	1.70	1.33	4	7	0.25	0.53	127	123	0.73	0.75	15	21
Dubai National Insurance & Reinsurance Company (Audited)	381	351	1.61	1.60	58	53	3.60	4.02	569	541	3.26	3.29	16	16
National Takaful Company	345	300	1.45	1.37	13	12	0.81	0.91	100	96	0.57	0.58	17	19
Al Dhafra Insurance Company	324	334	1.37	1.52	79	55	4.90	4.17	392	350	2.25	2.13	18	17



Insurance Company	GWP		GWP %		Net Profit		Net profit %		Share holders' Equity		Share holders' Equity %		Market Share Rank	
	2019	2018	2019	2018	2019	2018	2019.	2018	2019	2018	2019	2018	2018	2019
Alliance Insurance	285	291	1.20	1.33	49	51	3.04	3.86	515	497	2.95	3.02	19	20
Methaq Takaful Insurance Company	283	317	1.19	1.45	2	15	0.12	1.14	82	84	0.47	0.51	20	18
Al Fujairah National Insurance Company	275	267	1.16	1.22	31	31	1.92	2.35	284	246	1.63	1.49	21	23
Orient UNB Takaful	255	190	1.07	0.87	1	-9	0.06	-0.68	187	186	1.07	1.13	22	25
Al Wathba National Insurance Company (Audited)	250	271	1.05	1.24	23	43	1.43	3.26	783	851	4.48	5.17	23	22
Dubai Islamic Insurance & Reinsurance Co.	250	376	1.05	1.72	10	1	0.62	0.08	75	64	0.43	0.39	24	14
Insurance House	236	211	0.99	0.96	16	11	0.99	0.83	132	99	0.76	0.60	25	24
United Fidelity Insurance Company	221	146	0.93	0.67	1	-9	0.06	-0.68	76	70	0.44	0.43	26	27
Arabian Scandanavian National Insurance Company	141	168	0.59	0.77	-5	21	-0.31	1.59	290	311	1.66	1.89	27	26
Axa Green Crescent Insurance Company	46	40	0.19	0.18	0	-2	0.00	-0.15	121	118	0.69	0.72	28	30
Sharjah Insurance Company	44	53	0.19	0.24	15	16	0.93	1.21	195	195	1.12	1.18	29	28
Al Khazna Insurance	0	53	0.00	0.24	-14	-14	-0.87	-1.06	74	105	0.42	0.64	30	29
Total	23,726	21,909	100.00	100.00	1,612	1,320	100.00	100.00	17,459	16,462	100.00	100.00		

Source: Compiled from the the annual report of the Insurance Authority, UAE

Table 6 reveals the Gross Written premium, Net profit, Shareholders Equity and the market share ranking of different insurance companies in UAE. While comparing the past years GWP 8 percent has increased. Profit ratio was increasing by 22 percent when compare the previous year .2018. Share holders equity also rose from 16,462 million to 17459. It shows the positive growth of GWP and profitability of insurance sector in UAE.



**Figure 8.** Growth in Gross Written Premium Rate

Source: *The annual report of the Insurance Authority, UAE*

## Findings and Discussions

Both interior and full-scale monetary factors have been remembered for the examination. The macroeconomic variables chose are GDP per capita, expansion and financial exchange general list. Inner components incorporate, size, development in GWP, piece of the overall industry, influence, dissolvability edge, speculation proportion and misfortune proportion. The effect of influence, size and development in GWP on firm productivity is huge. Further, per capita GDP has a positive and critical effect on benefit while the impact of expansion is huge with a negative sign. Hazard maintenance proportion and misfortune proportion are inconsequential in clarifying money related execution of UAE protection part. The UAE protection firms should concentrate on the above inner elements for improving their money related execution. Volume of advantages ought not to be expanded further attributable to the unfavourable effect of size on benefit. Firms need to keep up sufficient and proper specialized stores as per the idea of their potential liabilities. This requires the appraisal ought to be finished by experts, for example, a statistician.

Further, organizations should concentrate on improving their advantage quality by constraining their interest in hazardous resource classes and incorporate greater government protections, money and stores in their venture blend. It is additionally proposed that the base capital necessity of Dhs100 million might be expanded which will urge the safety net providers to hold the premium and lessen the reinsurance reliance. In accordance with the global accepted procedures, the protection authority (IA) has given guidelines in February 2015 for institutionalizing the way toward computing the specialized arrangements which incorporates the organizations necessitating that the appraisals be finished by statisticians and furthermore set points of confinement for introduction to value, subordinates and land. When these guidelines are actualized over the organizations, it will add to the power of the protection segment which thus will improve the commitment of the division

## Recommendation and Conclusion

This research's main purpose is studying factors that affect profitability of the insurance sector in United Arab Emirates. The selected factors are growth in GWP and inflation rate. Inflation rate is the macroeconomic while growth in GWP is the internal firm-specific factor. The impact of the growth in GWP is studied to be significant with a probability less than 5% which means that it is unlikely to have occurred by chance. The United Arab Emirates insurance sector need to focus on their internal specific firm's factors that boost the financial performance/profitability (ROA/ROE), where and how to invest the premiums in order to maintain the firm's profitability and avoid any risky asset classes and focus more on less risky ones like government securities which the insurance companies will get benefit.

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