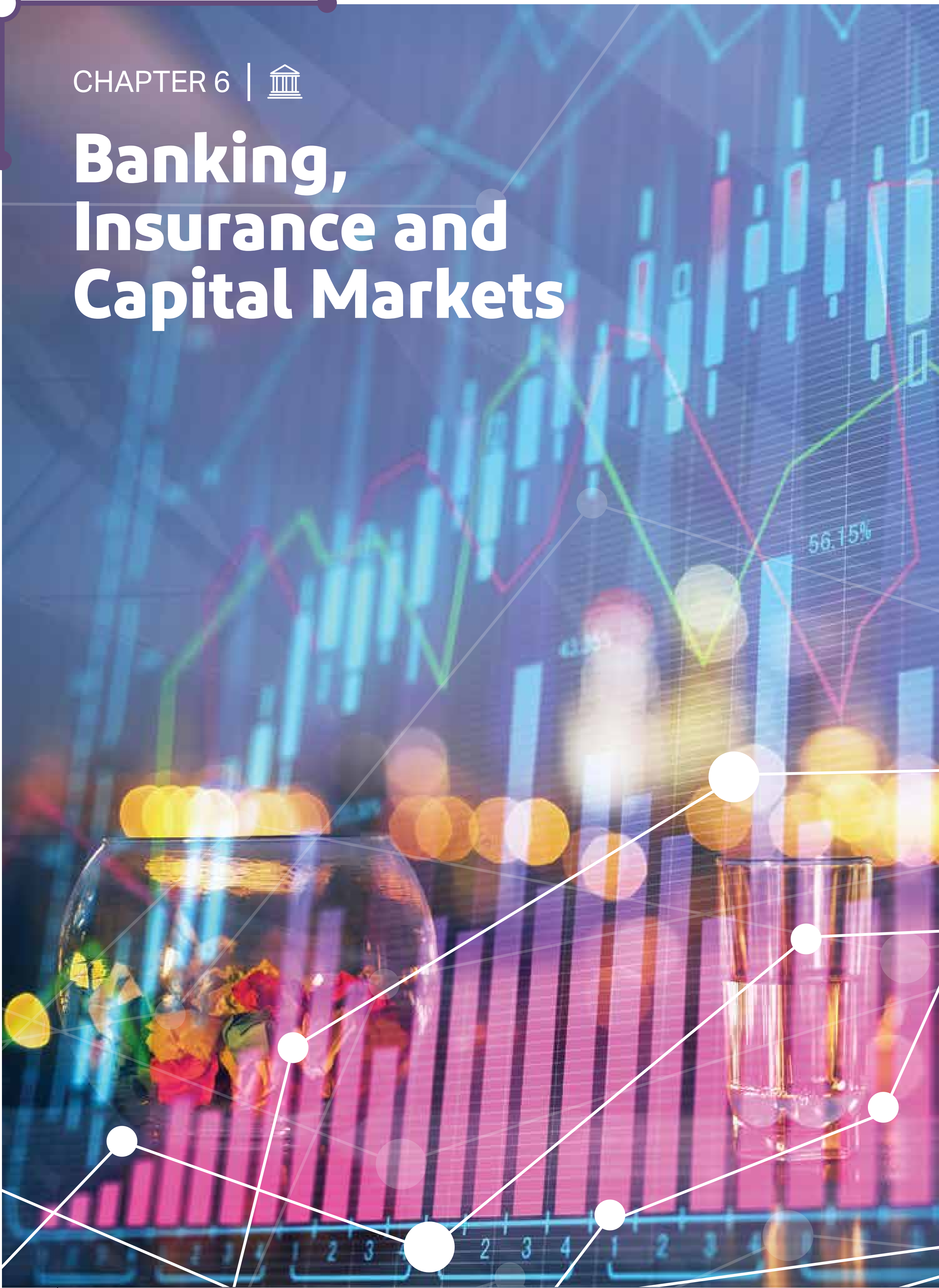
CHAPTER 6

Banking, Insurance and Capital Markets



Global Leader in Banking, Insurance, Islamic Finance

Dubai's Financial Services sector generated value added of AED 40.4 billion (US$11 billion) in 2018. This sector indirectly facilitates other economic activities through loans, credit, insurance and capital.

US$ 7.4 Billion
(AED 27.2 Billion)
Gross Written Premiums

62%
of total gross written premiums in UAE in 2018

1

Robust Insurance Activities

Dubai's insurance activities accounted for gross written premiums of AED 27.2 billion (US$7.4 billion), 62% of the total gross written premiums in UAE in 2018.

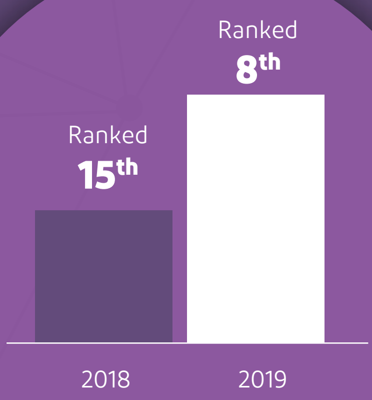
US$ 60 Billion
Total Value of Sukuk Listed on Nasdaq Dubai in 2018

Sukuk

2

Strength in Islamic Finance

The Emirate is a major capital market for Islamic Finance. The total value of Sukuk listed on Nasdaq Dubai reached a global record of US$60 billion in 2018.



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Global Finance Leader

Dubai ranked 8th in the world as a global financial leader (up from 15th place in 2018), ahead of all other GCC locations.

Overview

Banking, Insurance and Capital Markets, and the financial services sector, accounted for the third largest sectoral contribution to Dubai's real GDP in 2018, generating value added of AED 40.4 billion in constant prices or 10.2 per cent of the total. The sector's contribution to national output is generated by financial institutions operating in the Emirate of Dubai which includes banks, insurance companies, supporting financial intermediaries and capital market operators. The sector employed a workforce of 46,033 in 2018, slightly down from 46,283 in 2017. This represents 1.7 per cent of the total Dubai workforce, but average labour productivity (output per worker) at nearly AED 1,304,000 per employee in 2018, was the highest among the main economic sectors in Dubai's economy. The gross value added of the financial services sector rose by 0.62 per cent in 2018, below the rate of growth of 1.94 per cent of total GDP. The sector is expected to rise by 1.0 per cent in 2019 and by 2.7 per cent in 2020.

Banking was the largest direct contributor within the sector to Dubai's economy, but the sector indirectly facilitates other economic activities through the extension of loans and credit. The second largest conventional bank in the UAE in terms of assets, Emirates NBD, is based in Dubai and Dubai Islamic Bank, the first and largest bank founded on the principles of Islam in the Federation in 1975, is the largest Islamic bank in the UAE and the third largest in the world. Dubai insurance activities generated value added of AED 3 billion in 2018, the same value as the year before.

Despite the small contribution to Dubai's GDP, the Emirate is a major city for the UAE insurance sector as a whole. The gross written premiums in Dubai's insurance activities amounted to AED 27.1 billion in 2018, or 62 per cent of the total gross written premiums in the UAE in that year.

Dubai is an important hub for capital market activity within the UAE and the region. Dubai International Financial Center (DIFC), the second largest and most diversified financial centre in the region, is steadily entering into the global financial arena taking its place among the global leading financial hubs such as New York, London, Singapore and Hong Kong. DIFC plays a major role in Dubai's growth in global and regional finance. As one of the world's leading offshore (free zone) financial centres, connecting regional markets to the global economy, the importance of DIFC is highlighted in the Dubai Plan 2020.

Dubai hosts a domestic stock exchange, Dubai Financial Market and an international capital market, Nasdaq Dubai. The two exchanges operate seamlessly, offering investors and companies opportunities across different asset classes for the efficient allocation of capital within and outside the country. The Dubai Financial Market (DFM) General Index gained 4 per cent in the first quarter of 2019 and net portfolio investment reached AED 680 million or 65 per cent of total trade in DFM. Of the total sum invested institutions accounted for AED 492 million, a sign of confidence in the economy's future prosperity.

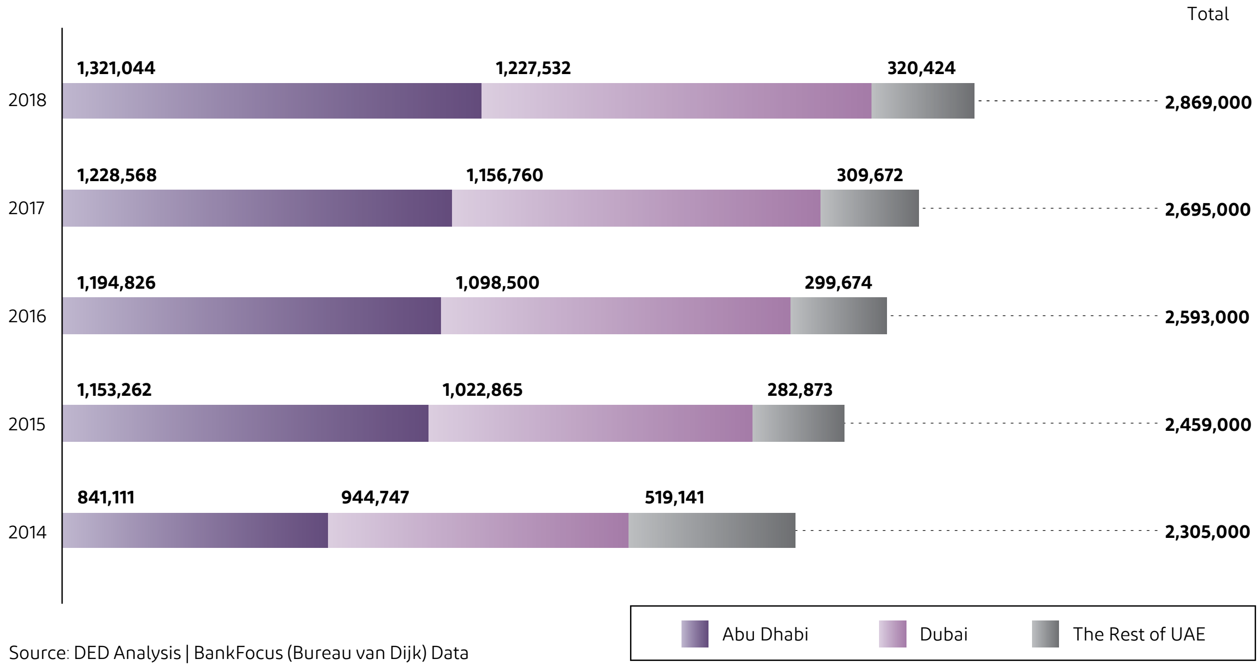
Developments in the UAE Banking Sector[1]

6.1 According to the UAE Central Bank the total number of domestic licensed banks remained unchanged at 22, while the number of Gulf and foreign banks operating in the UAE decreased to 38, of which 11 are wholesale banks. The total assets of all UAE banks reached AED 2.869 trillion at the end of 2018 and grew by 6.5 per cent from AED 2.694 trillion at the end of 2017. The end of 2018 asset value is equivalent to 208 per cent of UAE's nominal GDP.

The growth in bank assets in the UAE as a whole has moderated since 2015 after a rapid increase of 28.6 per cent in 2014. The rise was attributable mainly to a large rise in the value of bank assets in Abu Dhabi of 12.1 per cent in that year and a subsequent rise of 37.1 per cent the following year, which was offset by a fall in banking assets in the rest of the UAE. In contrast, the growth in bank assets has been more stable averaging 7.0 per cent since 2014. In 2018, the rate of growth of Dubai-based banks assets was 6.1 per cent, slower than the growth rate of banking assets in Abu Dhabi which grew by 7.5 per cent, but greater than the rise in banking assets in other Emirates within the UAE which grew by 3.5 per cent, (Figures 6.1 & 6.2).

The major corporate event that took effect in 2018 in the UAE banking sector was the agreement to merge between Abu Dhabi Commercial Bank (ADCB), Union National Bank (UNB) and Al Hilal Bank. The merger was effected in May 2019 and the corporate name ADCB has been retained for the new banking group, but Al Hilal Bank retains its trading brand name as a separate Islamic unit to provide customers with Sharia'a compliant products and services. The merger means that there are now three mega players in the UAE banking sector: FAB, Emirates National Bank of Dubai (Emirates NBD) and ADCB. Jointly, in 2018 they accounted for 59.5 per cent of total bank assets in the UAE. In that year, FAB accounted for 26.5 per cent of total assets while Emirates NBD accounted for 17.8 per cent and ADCB 15.3 per cent while Dubai Islamic Bank (DIB) followed in fourth place with almost 8 per cent of total assets, (Figure 6.3).

Figure 6.1: Trends in UAE Bank's Assets by Emirate (AED billion)



Source: DED Analysis | BankFocus (Bureau van Dijk) Data

1 Methodology: For the analysis of Dubai & Abu Dhabi banks' performance in this chapter, financial data on 24 banks covered in *BankFocus* (Bureau van Dijk) are used. These 24 banks represent 98% of the entire banking sector in the UAE measured by total assets. The indicators and figures used to measure the size of the whole of financial activity for the UAE as an aggregate are from the UAE Central Bank website.

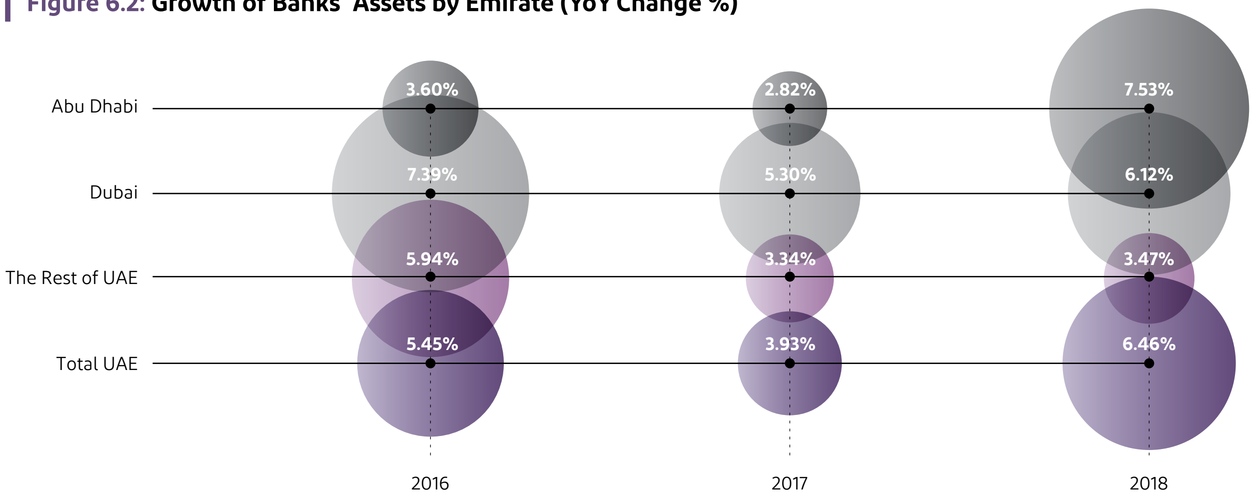
The consolidation further increased the concentration of assets in the hands of fewer banks in the UAE, although the rest of the sector remains fragmented. Further consolidation is likely to improve efficiency and profitability, allowing banks to adapt to the challenges of new technology, and to better support the commercial activities and loan needs of the private sector. (See Box 6.1) However the merger did not lead to changes in the share of the UAE banks' assets by Emirate, from the previous year. Abu Dhabi still accounted for 47 per cent, Dubai 44 per cent and the rest of the UAE 9 per cent of all banking assets in the country in 2018.

6.2 In 2018, the UAE banking sector remained adequately capitalized and above the minimum regulatory requirements. Overall financial soundness indicators of the banking sector remained positive. The loans-to-deposits ratio for the entire UAE banking system rose at the end of 2018 and into the first quarter of 2019, due to the positive growth in the banks' lending activity and the decline in total customers' deposits indicating tightening in liquidity. As per economic activity, the fastest growth in bank lending was in construction, real estate, mining and quarrying and manufacturing. On the other hand, banks' credit line for agriculture, electricity, gas, water, transport, storage and communication decreased during 2018. UAE residents received more loans then non-residents. Lending to UAE residents expanded to 3.9 per cent, while lending to non-resident was less than 10 per cent of total loans. A slight increase in the Non-Performing Loan (NPL) ratio was experienced towards the end of 2018. This represents a moderate deterioration of asset quality. Specific loan loss provisions also increased.

6.3 The UAE national banks experienced a decline in the number of branches throughout 2018 and into 2019 in response to consolidation and improved efficiency. The number of branches operated by domestic banks fell to 733 by the end of the first quarter in 2019, from 771 at the end of 2017 and 743 at the end of 2018. The number of branches operated by foreign banks fell from 82 at the end of December 2017 to 79 by the end of March 2019. The ability of banks to reduce branches is attributed to the growing trend of mobile banking, online banking and in the ease in the use of ATMs. The total number of Bank ATMs operating in the UAE stood at 5,303 by the end of December 2018.

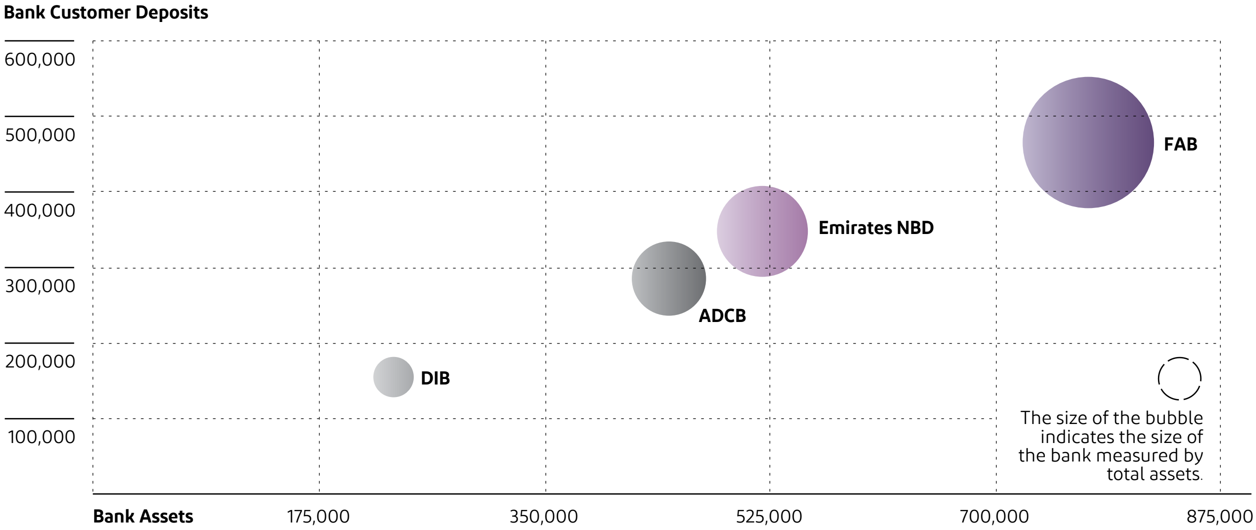
UAE national banks increased their number of employees in 2018 to 30,966, from 29,056 at the end of 2017, while foreign banks experienced a decline from 7,311 employees to 5,633 during the same period. The decline is attributable to the rise in efficiency and the consolidation of banking activity, (Table 6.1).

Figure 6.2: Growth of Banks' Assets by Emirate (YoY Change %)



Source: DED Analysis | BankFocus (Bureau van Dijk) Data

Figure 6.3: UAE's Largest Banks in 2018 (AED million)



Source: DED Analysis | BankFocus (Bureau van Dijk) Data.

Table 6.1: Banking Sector Overview

		2015	2016	2017	2018
ATM		5,119	5,243	5,302	5,303
National	**Banks**	23	23	22	22
	Branches	874	846	771	743
	Employees	32,352	29,532	29,056	30,966
Foreign	**Banks**	34	37	39	38
	Branches	86	85	82	80
	Employees	7,807	7,439	7,311	5,663

Source: UAE Central Bank

BOX 6.1

Bank mergers in UAE and their Impact

Overview

The banking sector in the UAE is a dynamic part of its economy, but its market structure is imbalanced. Three large banks, First Abu Dhabi Bank (FAB), Emirates NBD and Abu Dhabi Commercial Bank (ADCB), all created by mergers, accounted for 59.5 per cent of total banking assets in 2018. The sector has consolidated as a result of merger activity that is expected to continue since the UAE remains overbanked with a surfeit of licensed operators and an excess supply of branches. Economies of scale are important since banking is undergoing technological change and consolidation is essential for banks to invest and succeed in a rapidly changing environment. The increased pressure for digitalization in banking places the larger banks in a stronger position and will lead to incentives for further consolidation.

Further mergers are expected in both conventional and Islamic banking segments. In June 2019, the boards of Dubai Islamic Bank (DIB), the fourth largest in the banking sector in terms of assets, and Noor bank agreed to merge, which if effected will consolidate the position of DIB as the fourth largest bank in the UAE and in primary position providing customers with Sharia'a compliant products and services.

Bank Merger Activity in the UAE

The three largest banks in the UAE achieved their current scale as a result of organic growth and strategic mergers. Consolidation started in March 2007, when Emirates NBD was formed from a merger between Emirates Bank International and National Bank of Dubai, two government owned entities.

A decade later, FAB was formed from a merger between First Gulf Bank (FGB). In July 2016 the National Bank of Abu Dhabi (NBAD) agreed with the merger and it was completed in April 2017. In May 2019, Abu Dhabi Commercial Bank (ADCB) merged with Union National Bank (UNB), and Al Hilal Bank merged to create a bank with AED 430 billion in assets.

Emirates NBD: The second largest bank in the UAE with 17.8 per cent of total banking assets and 18.5 per cent of total deposits in 2018 is Emirates NBD, which was formed by a merger in 2007. The merger was aimed at capturing greater opportunities within the market by leveraging the financial strength, scale and positioning of the combined banks. The merger has created an entity with greater financial strength and quality standards with the scale to compete in a dynamic market. The merger served to strengthen the bank in several areas, which included forming a highly diversified business mix, forming a corporate/retail banking powerhouse and significantly enhanced distribution network in the UAE.

The first years following the merger were challenging as a result of the global financial crisis and group profit initially rose from AED 2.77 billion in 2007 to AED 3.68 billion in 2008 before sliding to AED 2.34 billion by 2010. Despite the adverse banking environment with falls in asset prices and large financial impairment costs, the management of the combined banking operation were able to achieve operating efficiencies and cut the ratio of operating expenses, exclusive of financial impairments, from 38.9 per cent in 2007 to 31.4 per cent in 2010 while growing deposits by 42.2 per cent to AED 200 billion over the same period, (Figure 1).

As a result of the merger Emirates NBD remains one of the most cost efficient banks in the UAE. According to consultants Alvarez and Marsal[1] Emirates NBD reduced its cost to income ratio to 29.4 per cent between Q4 2018 and Q1 2019. The bank is in a strong position to expand its domestic and regional presence and to capture greater potential growth.

First Abu Dhabi Bank: The largest bank in the UAE with 26.5 per cent of total banking assets and 24.8 per cent of deposits in 2018 is First Abu Dhabi Bank (FAB). FAB has exploited economies of scale and scope by offering a wider range of complementary products and services to more clients than the unmerged entities.

The merger has been successful although the group's consolidated pre-tax profit fell marginally to AED 11.3 billion in 2017 from AED 11.7 billion the year before. In

1 UAE Banking Pulse Q1 2019

Figure 1: Emirates NBD Post-Merger Results

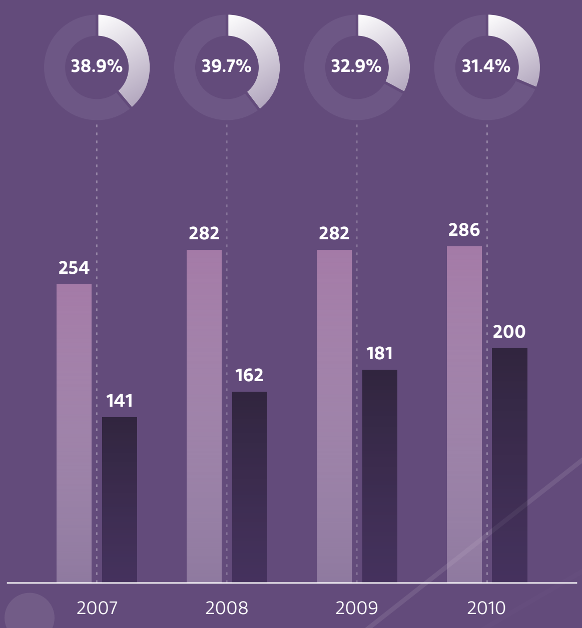
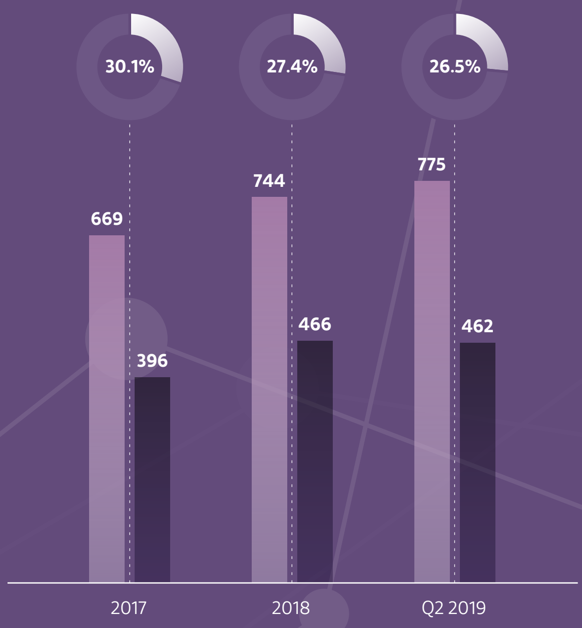


Figure 2: First Abu Dhabi Post-Merger Results



Total Assets AED Billion | Total Deposits AED Billion | Operating Cost Ratio (%)

Source: Emirates NBD annual reports

Source: FAB annual and quarterly reports

the first year FAB achieved approximately AED 500m of cost synergies from a proper evaluation of its local activities. In the second year post merger FAB recorded stronger results with pre tax profit rising to AED 12.0 billion in 2018. Moreover, the group managed to reduce impairments for bad loans by 28 per cent and oper ating expenses fell by 9.3 per cent. Since the merger by the end of June 2019 FAB has grown total assets by 15.8 per cent to AED 775 billion and deposits by 16.8 per cent to AED 462 billion. The ratio of operating expenses to income has been reduced from 30.5 per cent to 26.5 per cent, the lowest ratio in the UAE bank ing sector, (Figure 2).

Abu Dhabi Commercial Bank: The third bank in the UAE with 15.3 per cent of total banking assets and 15.2 per cent of deposits in 2018 is Abu Dhabi Commercial Bank (ADCB). In Abu Dhabi, the merger will create a bank with the scale and capability to compete with FAB. The group name will be ADCB and the combined bank has acquired Al Hilal, an Islamic bank, which will maintain its existing name. The new banking group will have a greater scale, which will allow it to provide better financial support to UAE's economic plans of diversification. The strategic objective of the merger is to acquire a large market share in the economy by delivering excellent service, thus ensuring inno vative products and services to expand the group's offering to customers.

Future Challenges

Banking is undergoing technological change so consol idation in the UAE's banking sector is essential in order to invest and succeed against a rapidly changing envi ronment. The increased pressure for digitalization in banking places the larger banks in a stronger position and will lead to incentives for further consolidation. Outdated, traditional technological tools will become unsuitable, as banks need to face the challenges of FinTech innovations.

Developments in Dubai Banking

6.4 Among the 22 UAE national banks, six major banks are Dubai-based: Emirates NBD, Emirates Islamic Bank (the Islamic unit of Emirates NBD), Dubai Islamic Bank (DIB), Commercial Bank of Dubai, Mashreq Bank and Noor Bank. Emirates NBD, of which the government of Dubai is the major shareholder, is the second-largest bank in the UAE by assets. Dubai also is a home to three large Islamic banks: Dubai Islamic Bank (DIB); Emirates Islamic Bank (EIB); and Noor Bank. DIB is the largest Islamic bank in the UAE and the third largest Islamic bank in the world by asset size, followed by EIB. Dubai Islamic banks had combined assets of AED 332.8 billion, at the end of 2018, equivalent to 13 per cent of the total assets of the Dubai-based national banks. At the UAE level, Islamic banks represent 23 per cent of the total assets of all UAE national banks.

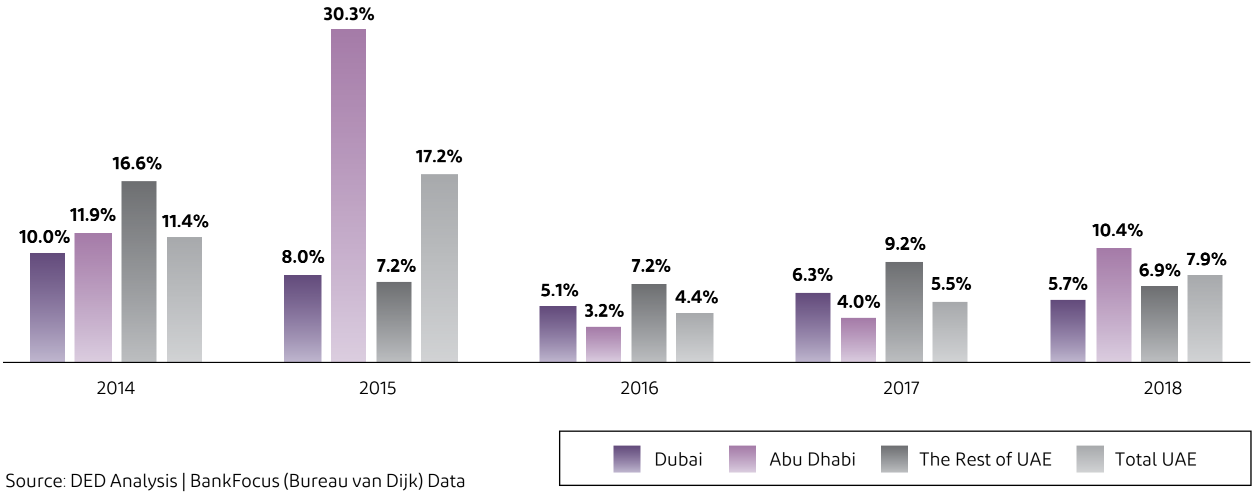
6.5 Dubai's banking sector continued to grow in 2018 due to an increase in loans and deposits while maintaining high levels of capitalization represented by capital adequacy ratios and Tier 1 capital ratios. Despite a moderate decline in Tier 1 and Total Capital Adequacy ratio for Dubai banks, to 15.59 per cent and 16.87 per cent in 2018 from 15.83 per cent and 17.13 per cent in 2017 respectively, they are well above Basel 3 requirements and those of the Central Bank of the UAE. Additionally, the ratio of impaired loans to gross loans for Dubai banks stabilized in 2018 at 5.92 per cent as compared to 5.96 per cent in 2017 and 6.21 per cent in 2016. Profitability increased with a 14.37 per cent growth in net annual income growth in 2018 as compared to an increase of 15.32 in 2017. Dubai banks have also strongly outperformed Abu Dhabi banks in terms of profitability, liquidity and loans while Abu Dhabi banks outperformed in terms of deposits and declined in Tier 1 and total capital adequacy ratios. Overall, the 2018 performance of the Dubai banking sector was characterized by improved profitability, growing customer deposits, increasing loans and advances to customers, and stable liquidity.

6.6 Customer deposits in Dubai banks amounted to AED 834 billion in 2018 and grew at a slower rate of 5.7 per cent compared to 6.3 per cent in 2017. This growth was lower than that of customer deposits in Abu Dhabi banks, which increased from 4.0 per cent in 2017 to 10.4 per cent in 2018, reaching AED 865 billion. Banking deposits in the rest of the UAE banks increased at a slower rate by 6.9 per cent by the end of 2018, reaching 180 billion compared to a rise of 9.2 per cent in the previous year, (Figure 6.4). According to central bank, UAE's total customer deposits increased in 2018 due to a rise in both resident and non-resident deposits growing by 7.4 per cent and 11.4 per cent respectively over the previous year.

The 2018 performance of the Dubai banking sector was characterized by improved profitability, growing customer deposits, increasing loans and advances to customers, and stable liquidity.

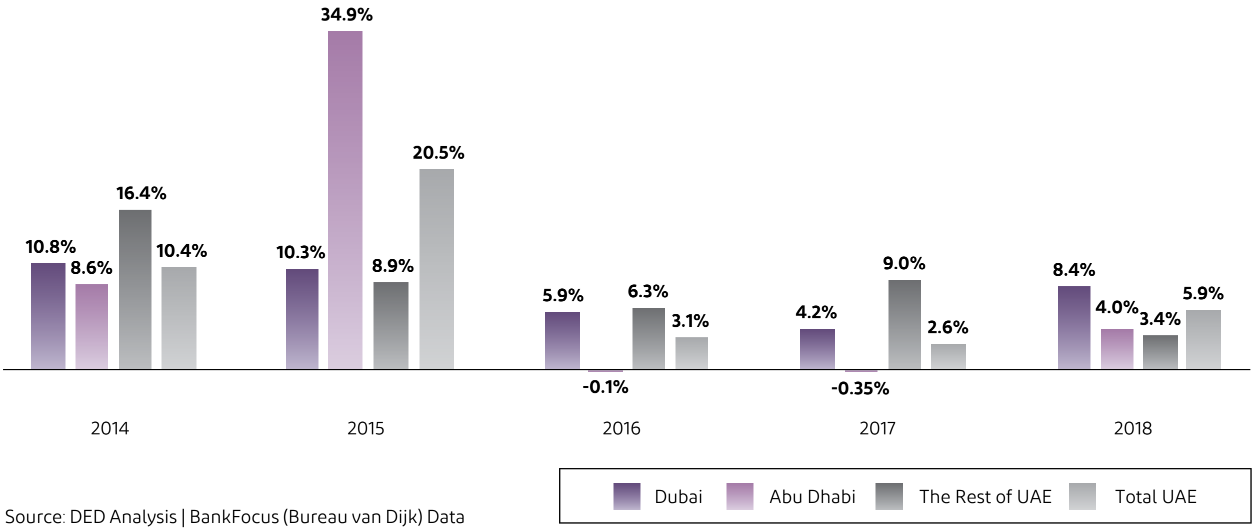
6.7 In 2018, the total loans made by Dubai banks grew faster by 8.4 per cent to reach AED 756.9 billion, as compared to a growth in lending of 4.2 per cent in 2017 and 5.9 per cent in 2016. In contrast, loans made by Abu Dhabi banks grew by 4.0 per cent, reaching AED 712.6 billion in 2018, after registering a decline by -0.4 per cent in 2017 and effectively stagnating in 2016, (Figure 6.5). According to the UAE Central Bank, the 5.9 per cent increase in lending by all UAE banks in 2018 was attributable to a rise in foreign credit, in lending to government, to the private sector, and to Non-Bank Financial Institutions (NBFIs). Government credit increased higher than its average to reach 9.2 per cent compared to 1.7 per cent growth the previous year. In the rest of the public sector, Government Related Enterprises (GREs) were the only sector continuing to expe-

Figure 6.4: Trends in Banks' Customer Deposits by Emirate (YoY Change %)



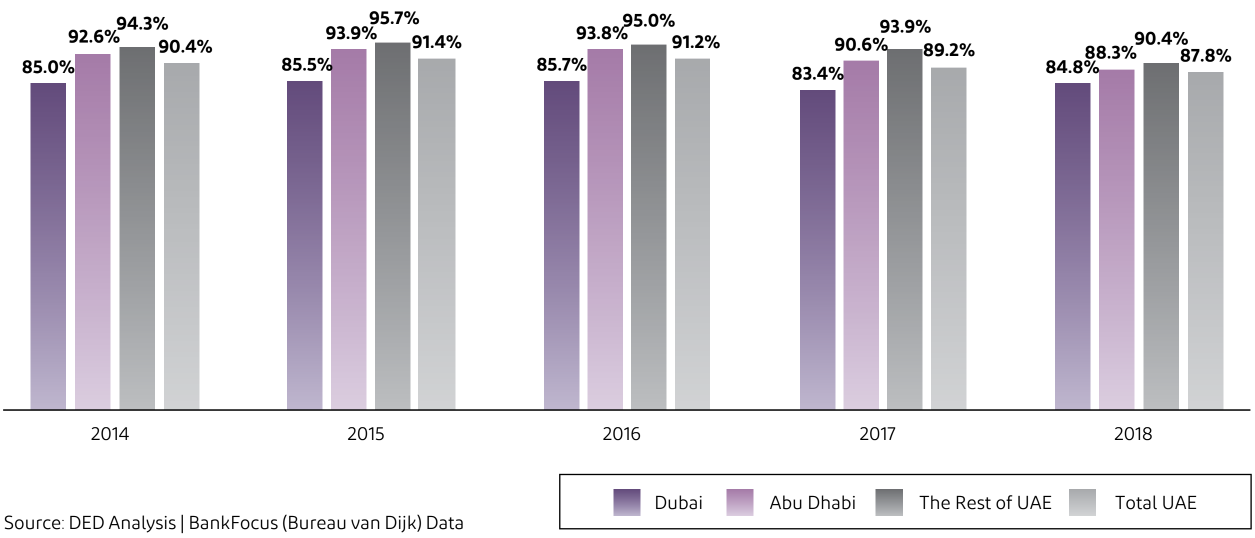
Source: DED Analysis | BankFocus (Bureau van Dijk) Data

Figure 6.5: Banks' Loans by Emirate (YoY Change %)



Source: DED Analysis | BankFocus (Bureau van Dijk) Data

Figure 6.6: Loan-to-Deposit Ratio by Emirate (%)



Source: DED Analysis | BankFocus (Bureau van Dijk) Data rience a credit decline of 2.7 per cent in 2018 following a fall of 8.1 per cent the previous year.

6.8 The loan-to-deposit ratio in Dubai banks in 2018 was 84.8 per cent, marking a slight increase from 83.4 per cent over the previous year, but remained below the 100 per cent ceiling set by the UAE Central Bank. The increase is due to the higher pace of lending and a decrease in the rate of growth of deposits. In contrast, the loan-to-deposit ratio for Abu Dhabi banks decreased to 88.3 per cent in 2018 compared to 90.6 per cent at the end of 2017. The ratio for banks in the rest of the UAE also declined by 3.5 percentage points to 90.4 per cent in 2018. As a result, the loan-to-deposit ratio for the overall UAE banking sector declined to 87.8 per cent in 2018 from 89.2 per cent in 2017, (Figure 6.6). This is mainly due to stronger growth in total customer deposits compared to loans, with the government sector contributing strongly to the higher rate of deposit growth showing a rise of 36.9 per cent in 2018.

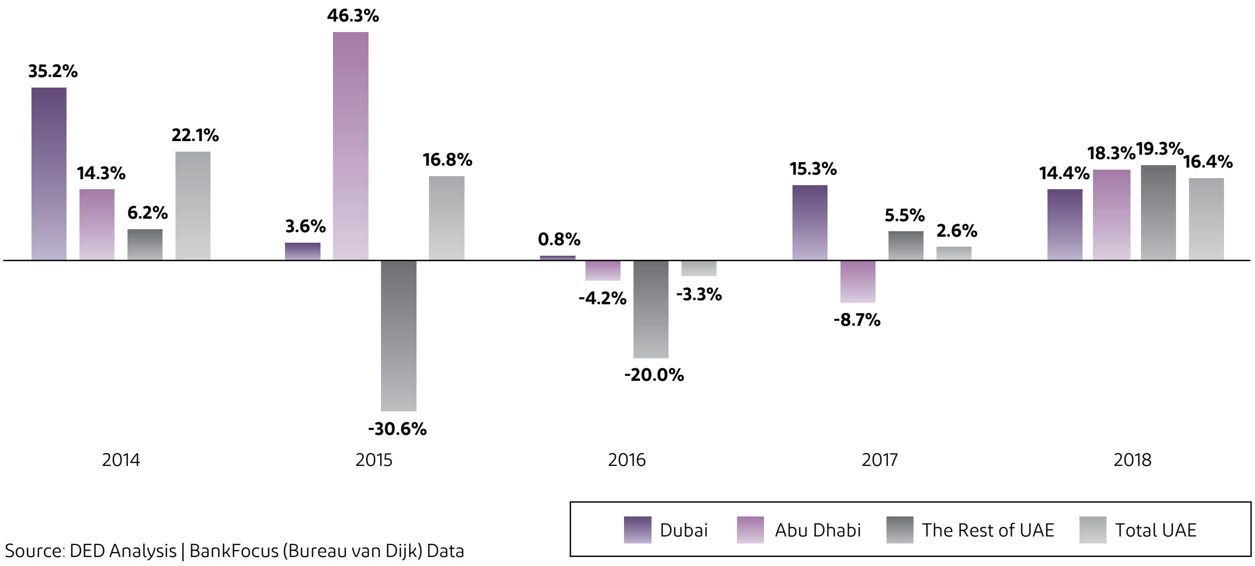
6.9 The profitability of Dubai banks continued to increase at steady rate in 2018 with net income rising by 14.4 per cent compared to a 15.3 per cent increase in 2017. The total net income of the Dubai banking sector reached AED 22.45 billion in 2018, just above the AED 21.18 billion earned by banks in Abu Dhabi. Net income of Abu Dhabi's banks increased by 18.2 per cent recovering after falling by 8.7 per cent in 2017 and 4.3 per cent the previous year, (Figure 6.7).

The improvement in profitability is evident from the increase in the net interest margin[2] for Dubai banks in 2018, which rose to 3.27 per cent in 2018, slightly above the 3.24 per cent in 2017. Abu Dhabi banks also registered an increase in the net interest margin from 2.91 to 3.00 per cent while net interest margins in the rest of the UAE fell from 3.35 per cent in 2017 to 3.25 per cent in 2018, (Figure 6.8).

The improvement in the profitability of Dubai's banks was also observed in an increasing return on equity. For Dubai's banks, the return on equity reached 12.6 per cent in 2018, up from 11.5 per cent the year before. In contrast, the return on equity for Abu Dhabi banks rose from 9.6 per cent to 10.2 per cent over the same period, (Figure 6.9).

6.10 The ratio of non-performing loans (NPLs) for Dubai banks, measured by impaired loans to total loans, fell slightly to 5.92 per cent in 2018 from 5.96 per cent in 2017 after reaching a high point of 6.21 per cent at the end of 2016. In contrast, NPLs for Abu Dhabi banks that had been stable over the past 3 years at just below 5 per cent with some deviations, rose to 5.16 per cent in 2018. In the rest of the UAE the ratio of NPLs was higher at 7.48 per cent in 2017 up from 6.89 per cent in 2017. The UAE banking sector as a whole recorded a rise in the NPLs reaching 6.37 per cent in 2018 from 5.99 per cent in 2017, an increase that was mostly driven by GREs and other large corporates. Despite the increase, NPLs have been fully provisioned for (Source: IMF, 2018 Article IV Consultation), (Figure 6.10).

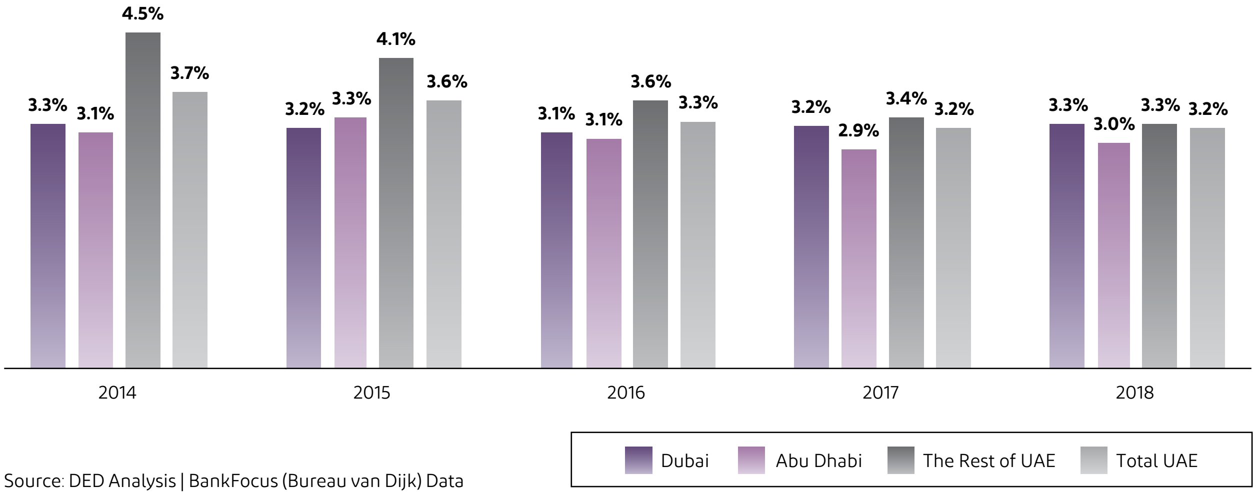
Figure 6.7: Banks' Net Income by Emirate (YoY Change %)



Source: DED Analysis | BankFocus (Bureau van Dijk) Data

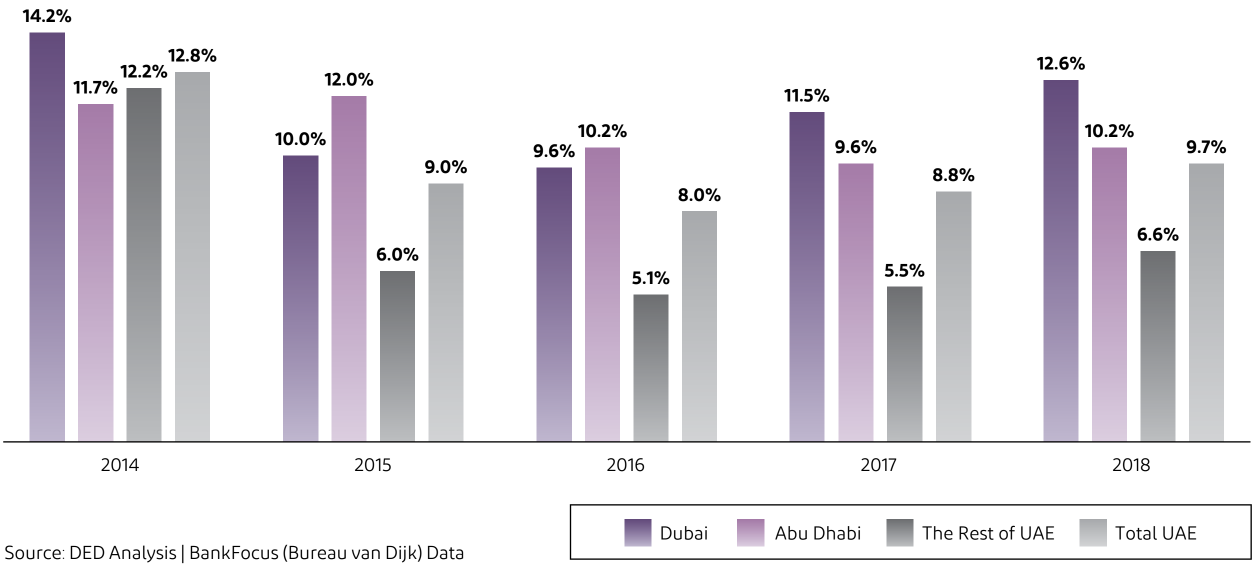
2 Net interest margin is a measure of the difference between the interest income generated by banks and the amount of interest paid out to their depositors relative to the amount of their interest-earning assets.

Figure 6.8: Banks' Net Interest Margin by Emirate (YoY Change %)



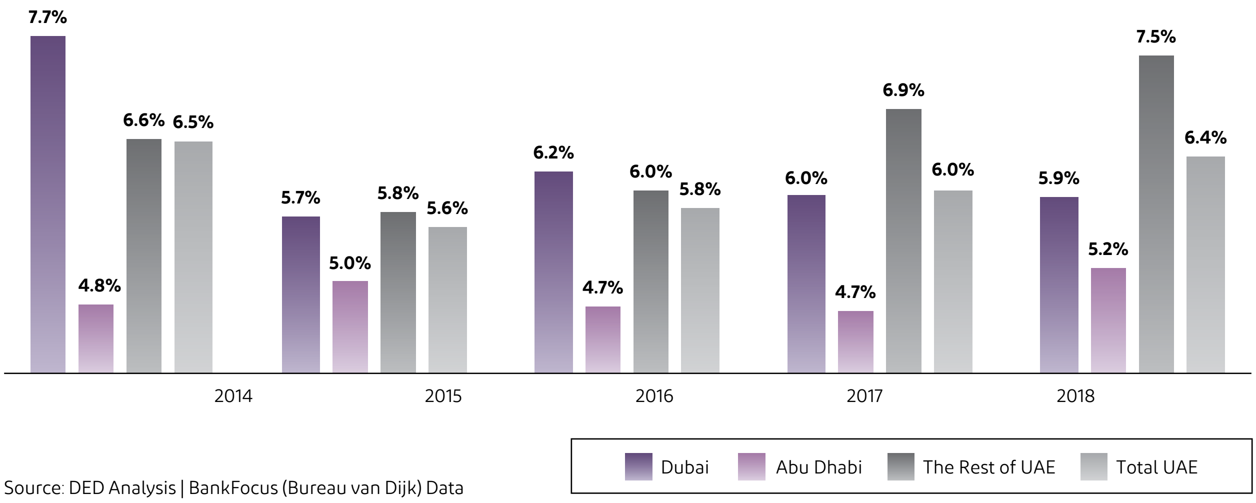
Source: DED Analysis | BankFocus (Bureau van Dijk) Data

Figure 6.9: Banks' Return on Equity by Emirate (YoY Change %)



Source: DED Analysis | BankFocus (Bureau van Dijk) Data

Figure 6.10: Banks' Non-Performing Loans to Total Loans ratio (%)



Source: DED Analysis | BankFocus (Bureau van Dijk) Data

Insurance

Developments in Dubai Insurance Activities

6.11 Insurance in Dubai accounts for the second largest activity of the financial sector and generated value added of AED 3.0 billion in 2018, the same value as the year before. In 2018, insurance activities constituted 7.5 per cent of the total financial sector's value added, but only a relatively small contribution to Dubai GDP with less than 1 per cent. Value added in the insurance sector has followed the trend line of the overall financial sector value added; however, the insurance value added growth has been a very volatile sector over the past years. After falling by 13.8 per cent to AED 2.2 billion in 2014, the sector's value added grew by 37.5 per cent over 2016 and 2017 before stabilizing at its current level, (Figure 6.11).

The relative size of the insurance sector workforce in Dubai remained constant at 12 per cent of the total of 46,033 workers in the financial sector in 2018 over the previous year. There were 5,540 employees working in insurance companies although at AED 542,000 per employee, productivity was less than half that of the financial sector as a whole.

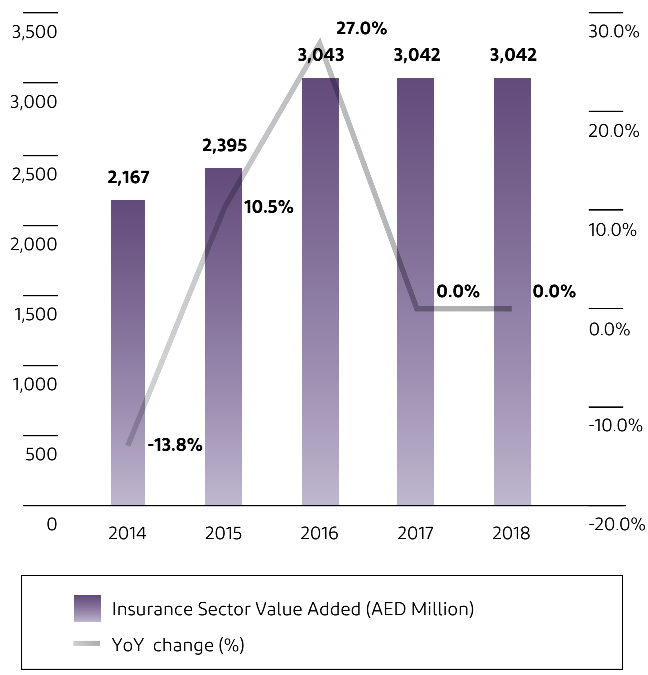
6.12 Despite the small contribution to Dubai's total GDP, the Emirate is a major city for the entire insurance sector of UAE. The gross written premiums in Dubai's insurance activities amounting to AED 27.2 billion in 2018, constituted 62 per cent of the total gross written premiums in UAE in that year. The number of insurance policies in Dubai, standing at 3.49 million in 2018, also accounted for 46 per cent of the total in the UAE. The overall gross claims paid by Dubai insurance companies, standing at AED 16.97 billion, accounted for 58 per cent of the total in UAE in the same year.

Jointly, Dubai and Abu Dhabi dominate all insurance activities in UAE, accounting for almost 90 per cent of the overall gross written premiums, 82 per cent of the total number of policies and 89 per cent of the total gross claims paid in 2018, (Figures 6.12-6.14).

6.13 The insurance sector in Dubai, measured in terms of gross premiums and the number of policies, is dominated by non-life insurance activities that accounted for 70.4 per cent of gross premiums and 89.9 per cent of policies. Life insurance accounted for 29.6 per cent of the total of gross written premiums and 10 per cent of policies. Health insurance is the largest part of the insurance market in Dubai in terms of value and accounted for 40.5 per cent of the gross value of written premiums and 29.6 per cent for policies. Motor insurance accounted for 14 per cent of premiums, but contributed 46.5 per cent of all policies.

The total value of written premiums declined by 0.9 per cent in 2018 while the number of policies rose by 4.4 per cent to reach 3,493,277. All insurance categories experienced a rise in the number of policies in Dubai in 2018, but the rises were small in health, motor and other insurance activities. The number of health insurance policies rose by 2.0 per cent while the value of health gross premiums decreased by 0.1 per cent and the number of motor insurance policies rose by 0.7 per cent, but the value of gross premiums declined by 9.0 per cent. In contrast, the number of life insurance policies in Dubai rose strongly by 37.7 per cent and gross premiums increased by 36.3 per cent pushing up its sector share in 2018, (Table 6.2).

Figure 6.11: Value added of insurance Activities in Dubai



Source: Dubai Statistics Center

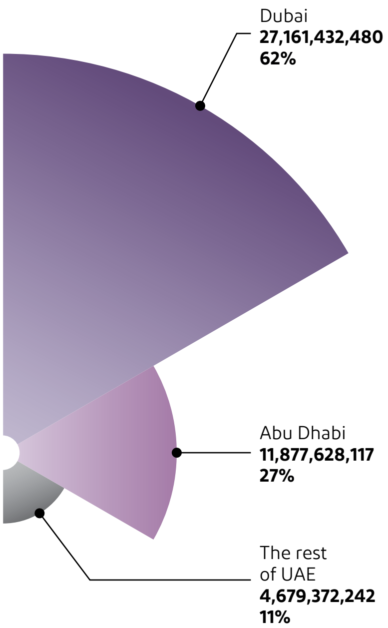
Table 6.2: Growth of Total Gross Written Premiums and Number of Policies of the Dubai Insurance Activities

Year	Value in Dirham									
	Health Insurance		Life Insurance		Motor Insurance		Others		Total for Dubai	
	Gross Written Premiums (AED)	Number of Policies (thousand)	Gross Written Premiums (AED)	Number of Policies (thousand)	Gross Written Premiums (AED)	Number of Policies (thousand)	Gross Written Premiums (AED)	Number of Policies (thousand)	Gross Written Premiums (AED)	Number of Policies (thousand)
2018	11,004,684	1,067	8,046,590	354	3,843,269	1,626	4,266,890	446	27,161,432	3,493
2017	11,012,915	1,046	5,905,067	257	4,224,398	1,615	6,253,793	429	27,396,173	3,347
2016	9,329,598	401	5,616,330	272	3,536,770	1,792	3,913,178	835	22,395,876	3,301

Year	Percentage (%)									
	Health Insurance		Life Insurance		Motor Insurance		Others		Total for Dubai	
	Gross Written Premiums	Number of Policies	Gross Written Premiums	Number of Policies	Gross Written Premiums	Number of Policies	Gross Written Premiums	Number of Policies	Gross Written Premiums	Number of Policies
2018	40.5	30.5	29.6	10.1	14.1	46.5	15.7	12.8	100.0	100
2017	40.2	31.2	21.6	7.7	15.4	48.3	22.8	12.8	100.0	100
2016	41.7	12.2	25.1	8.2	15.8	54.3	17.5	25.3	100.0	100

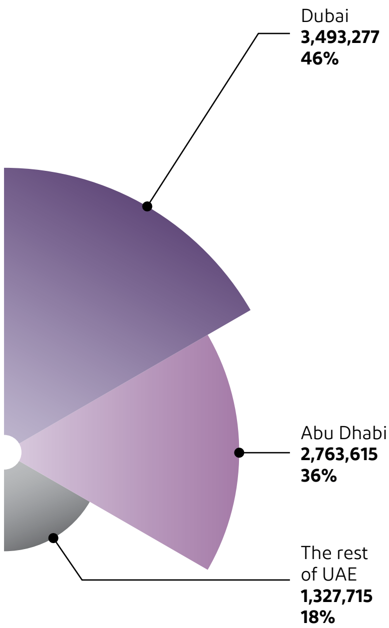
Source: DED Analysis & Estimation | UAE Insurance Authority

Figure 6.12: Share of Dubai in Total Gross Written Premiums in 2018



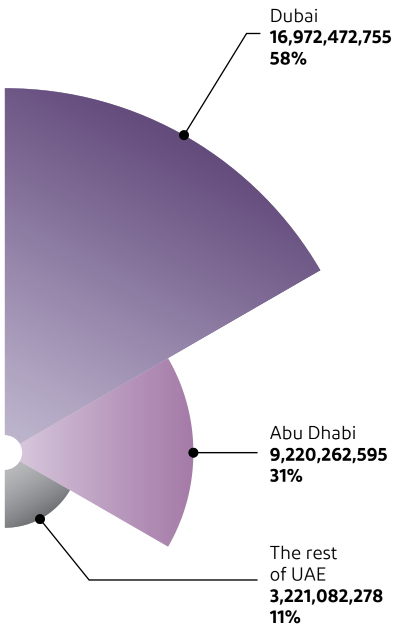
Source: UAE Insurance Authority

Figure 6.13: Share of Dubai in the Total Number of Insurance Policies in 2018



Source: UAE Insurance Authority

Figure 6.14: Share of Dubai in Total Insurance Gross Claims Paid in 2018



Source: UAE Insurance Authority

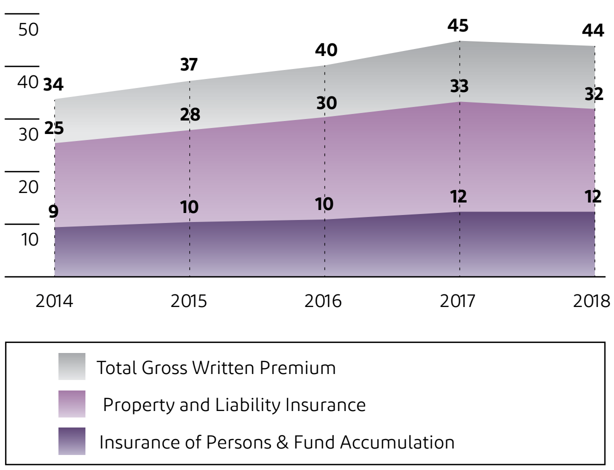
Developments in UAE Insurance

6.14 The UAE is home to 62 insurance companies as well as many insurance agents, insurance broker companies, insurance consultants, actuaries, loss/damage adjusters, and third party administrators. The total assets of these 62 companies reached AED 105.3 billion, marking a 1.3 per cent increase from the year before, which is mainly due to increases in investment within the sector. Out of the 62 insurance companies, 35 are national insurance companies and 27 are foreign. National companies accounted for 61 per cent of the total assets of the sector in 2018 and foreign companies accounted for the rest.

6.15 The total gross written premiums of the UAE insurance sector were AED 43.7 billion in 2018, down from AED 44.8 billion in 2017, representing a decline of 2 per cent. The largest contribution to the total gross written premiums came from property and liability insurance accounting for 72.6 per cent while Insurance of Persons & Fund Accumulation accounted for the rest of gross premiums in 2018. Foreign insurance companies contributed 36.7 per cent of total gross written premiums in 2018. Takaful companies, which offer Sharia'a compliant cover, accounted for 8.5 per cent of all gross written premiums in UAE during 2018, (Figure 6.15).

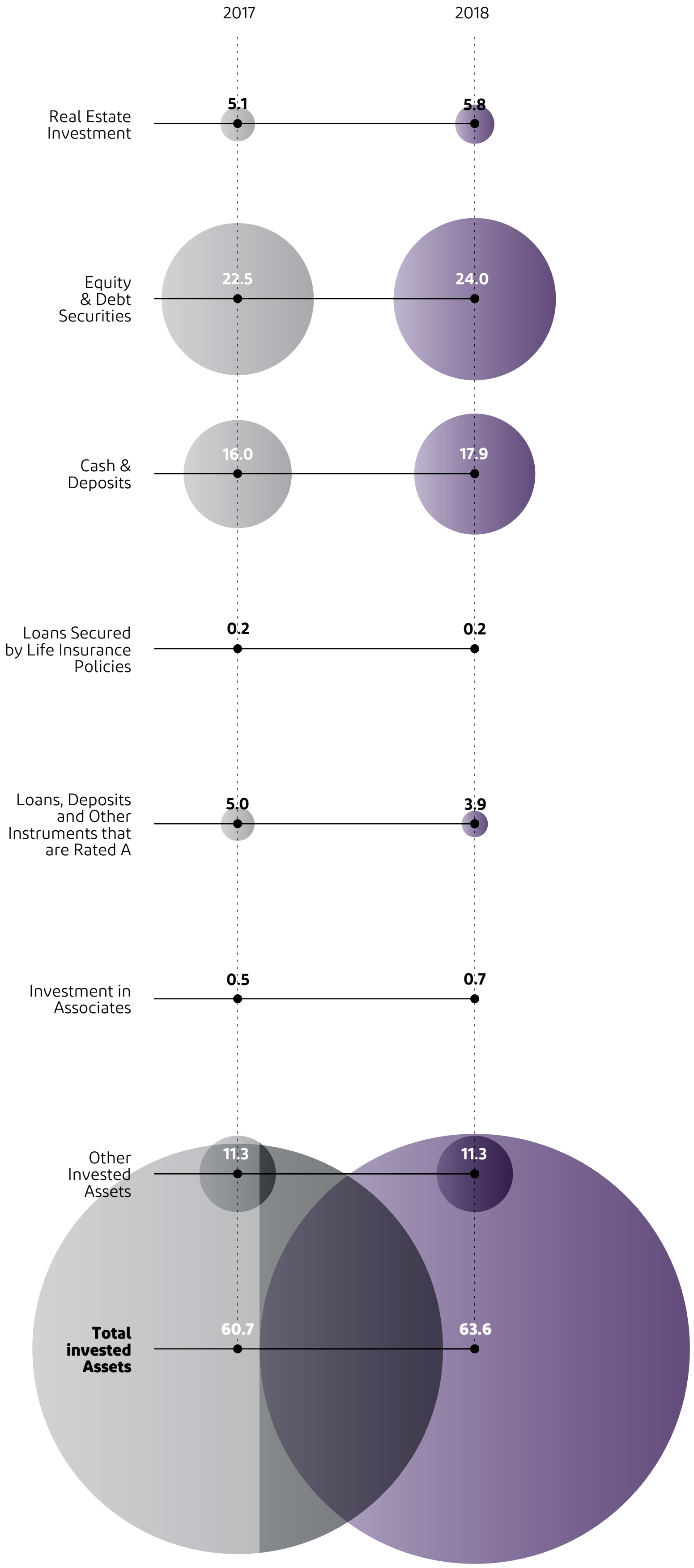
6.16 Total investments of the UAE insurance sector in the economy have grown extensively, reaching AED 63.6 billion in 2018, an increase of 4.9 per cent from the year before. The investments portfolios of the insurance companies are concentrated primarily in equity & debt securities, cash & deposits, and real estate representing 37.7 per cent, 28.1 per cent and 9.1 per cent respectively of the overall investment holdings in 2018, (Figure 6.16).

Figure 6.15: Gross Written Premiums in UAE by Type and Aggregate (AED billion)

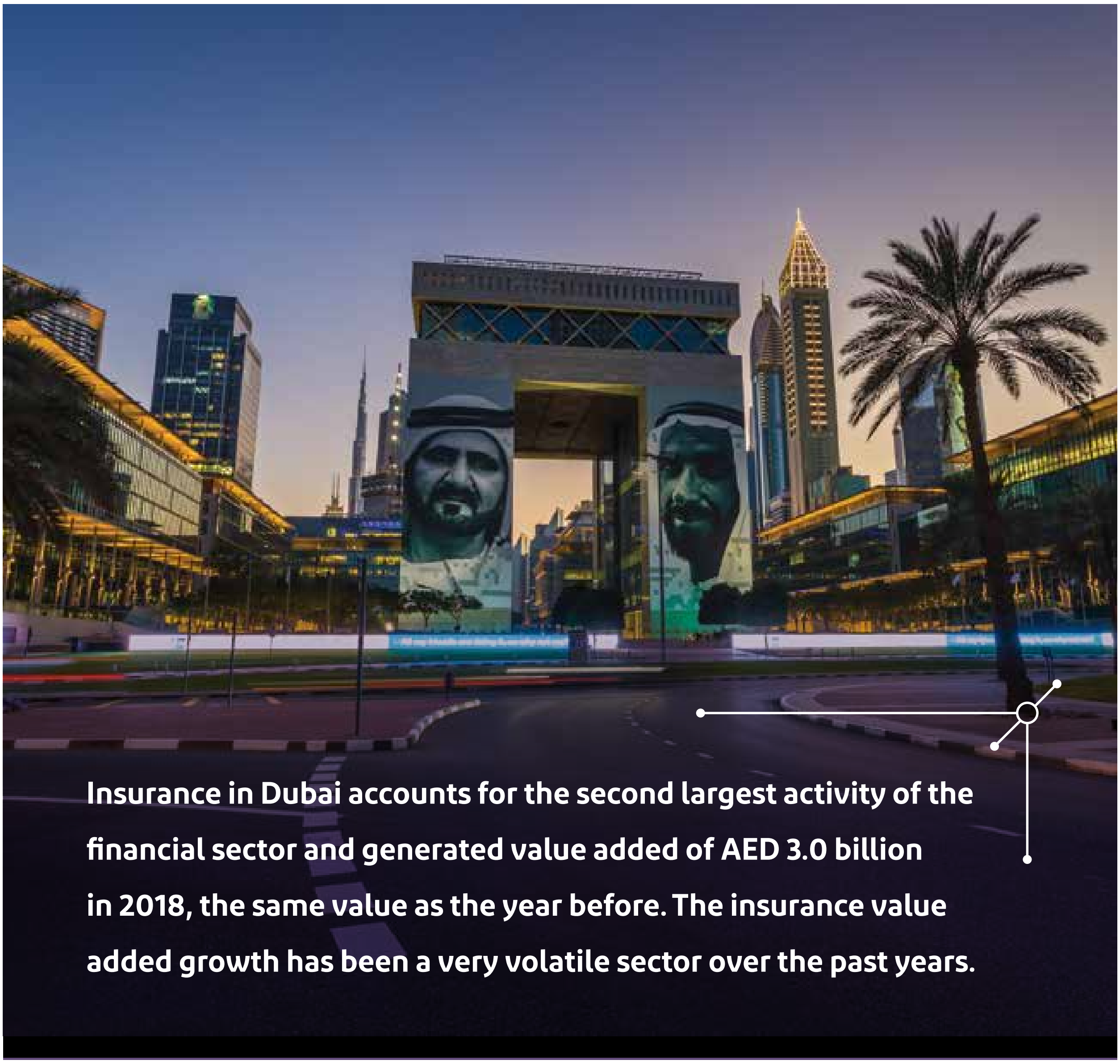


Source: DED Analysis & Estimation | UAE Insurance Authority

Figure 6.16: Investment Portfolios of the Insurance Sector (AED billion)



Source: DED Analysis & Estimation | UAE Insurance Authority



Regulatory Developments

6.17 The UAE Insurance Authority (UAE IA) has been instrumental in reforming the sector's regulatory framework and establishing a legislative foundation based on best international practices. These actions are intended to ensure the stability of the sector and to also enhance the growth of the overall insurance sector.

Regulatory developments in the insurance sector of UAE during 2018 included new regulations and enforcement was introduced in the following areas:

- Introduction of a Digital Supervisory Platform for monitoring technology penetration in the insurance industry and the use of technological applications in the insurance supply chain.
- Accelerating the digital transformation of the insurance industry to provide Smart Services through the launch of the UAE IA's application for mobile phones.
- Tighter oversight of distribution channels such as bank assurance, brokerage fees and reinsurance rules that will encourage greater domestic risk retention.
- Further Emiratization of the employees in the insurance industry. In 2018, out of the total of 9,573 employees working in the UAE insurance industry, 1,088 are UAE nationals or 11.4 per cent of the total.
- Since the start of 2018, Value Added Tax (VAT) has been collected from insurance operations. It applies to all non-life insurance policies at the time of sale and all underwritten policies have been taxable.

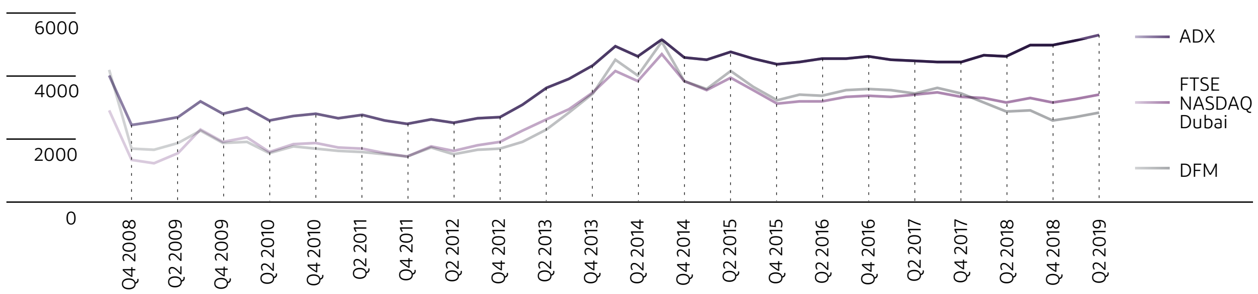
Developments in Capital Markets

6.18 Capital markets in the UAE experienced diverse trends in their share price indexes during 2018. The Abu Dhabi securities Exchange (ADX) experienced an increase in its share price index and market capitalization as result of higher oil prices, while fiscal reforms and the incentive packages introduced by the Abu Dhabi Government also helped attract portfolio investment into the market. In contrast, the Dubai Financial Market (DFM) and FTSE NASDAQ both experienced a decline in their share price indexes and in their market capitalization. The DFM's decline in its price index is attributed to the decline in the real estate sector index.

6.19 Out of a total of the 126 listed companies on the UAE domestic capital markets, the DFM accounted for 67 companies and the Abu Dhabi Securities Exchange (ADX) accounted for 64. Initial public offering (IPO) activity declined drastically in 2018 compared to the previous year. The UAE did not experience new IPOs issued on any of its exchanges in 2018. The last IPO issued on DFM was in 2017 when Emaar Development sold US$1.3 billion in new shares. There is an argument that a single merged UAE domestic equity may be a more attractive vehicle for local companies to raise financing, (Box 6.2).

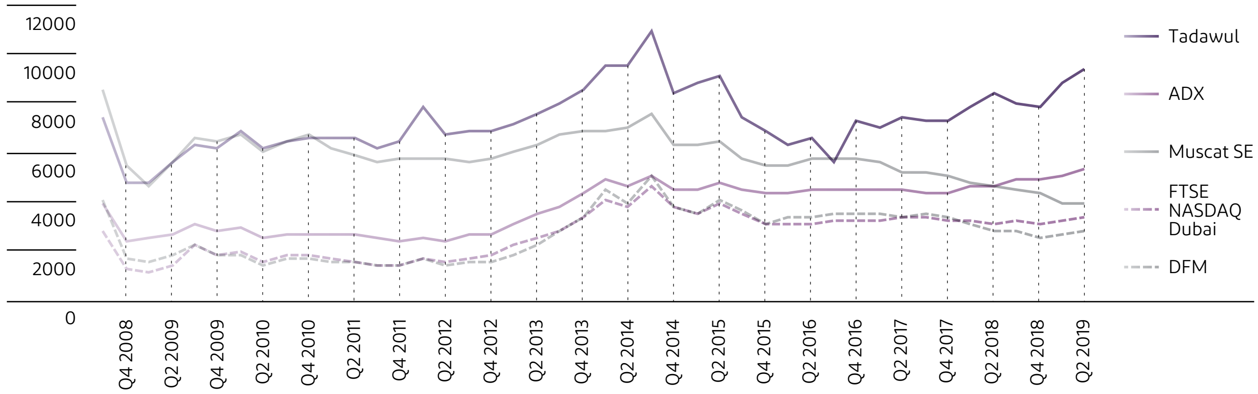
6.20 The average share price index of Dubai Financial Market during 2018 reached 2,823.55 points recording an 18 per cent decline in performance after an increase of 1 per cent in 2017. On the other hand, the average share price index of Abu Dhabi Securities Exchange was at 4,797 points during 2018, up by 8 per cent from the 4,416 points recorded during 2017. The average capitalization of DFM has decreased by -13 per cent in 2018, in contrast with a 17 per cent increase in the previous year.

Figure 6.17: Performance of Share Price Indices in the UAE Stock Markets



Source: Thomson Reuters data

Figure 6.18: Performance of Share Price Indices in GCC Stock Markets



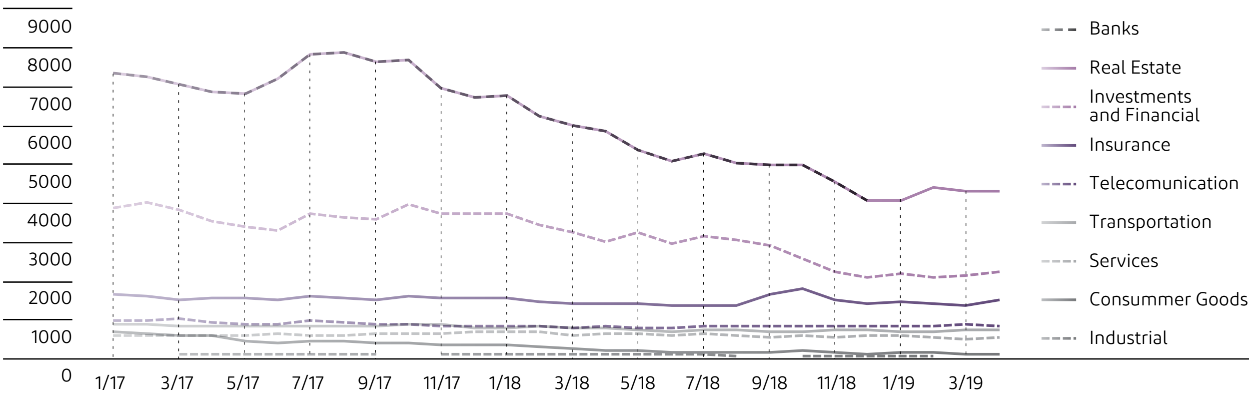
Source: Thomson Reuters data

ADX has been more stable in terms of market capitalization showing high growth rising by 13.4 per cent throughout 2018, (Figure 6.17).

6.21 Financial markets indices in the rest of the GCC countries also had varied performance in 2018. Stock market indices in Saudi Arabia, Qatar, Kuwait and Bahrain each recorded growth in their share price indexes by 8.31 per cent, 4.24 per cent, 11.48 per cent and 0.42 per cent, respectively. In contrast, Oman's stock market has been one of the worst performing financial markets in GCC in 2018. The Oman financial market index rose by 6.96 per cent in 2016, then fell by 11.82 per cent in 2017, and by 15.21 per cent in 2018. The reasons behind this decline range from volatile oil prices to emerging markets turmoil, regional geopolitical developments, the US-China trade dispute and the US Federal Reserve rate rises, (Figure 6.18).

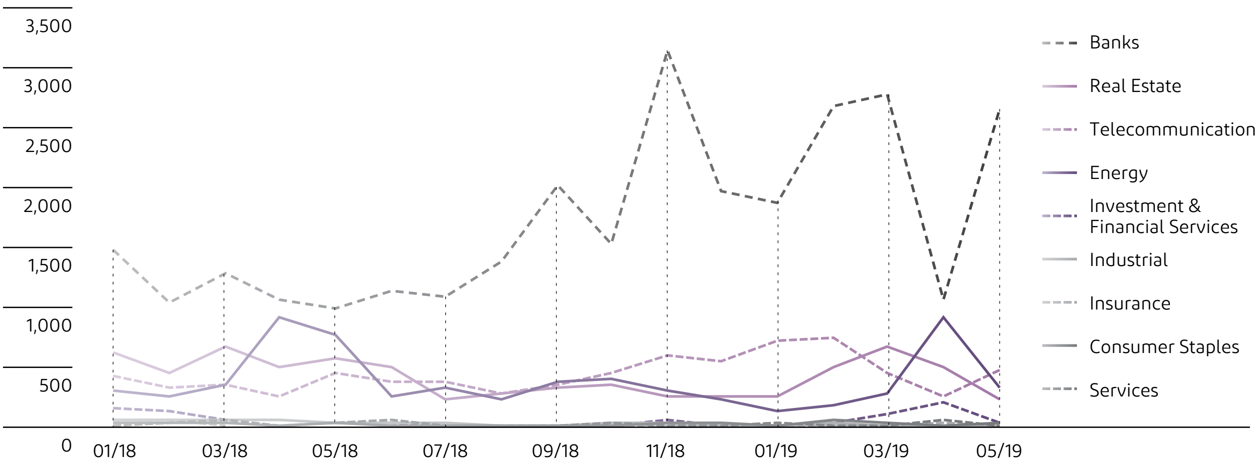
6.22 At the sector level, all of the DFM industry groups had experienced a decline in their index values by the end of 2018 compared to the end of the year 2017. The fall was most severe in the Consumer goods sector, which declined by 62 per cent, but the Real estate and Industrial sectors also fell with 39 per cent and 24 per cent declines, respectively, dragging down the DFM index. The ADX witnessed an increase in two out of the nine sectors from the beginning of 2018 to the end of the year. Banks and Telecommunication experienced increases of 33 per cent and 27 per cent in the value of their sector indexes, respectively, (Figures 6.19 & 6.20).

Figure 6.19: Performance of Sectoral Share Price Indices of Dubai Financial Market



Source: Thomson Reuters data

Figure 6.20: Performance of Sectoral Share Price Indices of Abu Dhabi Securities Exchange



Source: Abu Dhabi Securities exchange monthly report

BOX 6. 2

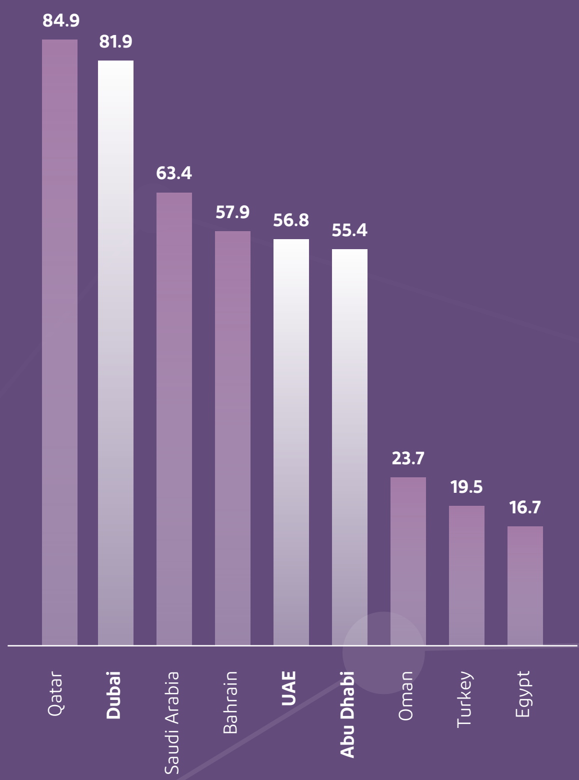
Capital Markets in UAE and their Impact

Capital markets in equity and debt instruments play an essential economic role by channeling domestic and international savings into investment while provid ing liquidity and risk transfer facilities. Companies can raise finance assisting in the process of domes tic capital formation and economic growth and effi cient capital markets also play an important role in facilitating medium term borrowing by governments, multinational institutions such as development banks and corporations.

The UAE is home to two main domestic capital markets: Dubai Financial Market (DFM) and the Abu Dhabi Secu rities Exchange (ADX), which also has trading loca tions in the smaller emirates. Both the DFM and the ADX were established in 2000 to provide listings for mainly UAE companies. DFM is also the world's first Shari'a compliant stock exchange. The World Bank compares the relative international depth of capital markets by the market capitalization of listed domes tic stocks to GDP[1] and by this measure the combined capital markets of the UAE at 56.8 per cent of GDP are larger than the MENA average, but below Saudi Arabia, Bahrain and Qatar. In contrast, despite the differences in size between the DFM and the ADX in favour of the ADX, the relative economic importance of the DFM at 81.9 per cent of GDP is greater than the ADX at 55.4 per cent, (Figure 1).

Dubai's importance as a capital market hub is further enhanced since it also hosts Nasdaq Dubai, which lists regional and international equities in addition to Sukuk, Shari'a compliant instruments for corporate and sovereign borrowers. Nasdaq Dubai, founded in 2005, is located in the Dubai International Finan cial Centre free zone, but it integrated with DFM in 2010 by sharing a trading platform when DFM took a two-thirds ownership stake in the international exchange. Both exchanges are controlled by Borse Dubai, the holding company created on August 7th 2007 to consolidate the Government's holding in Dubai's two exchanges in order to expand Dubai's position as a global capital market hub.

Figure 1: Stock Market Relative Depth by Country 2018



Source: World Bank, DFM, ADX

The existence of two competing domestic stock exchanges within the UAE begs the question of the potential efficiency gains and other economic bene fits that might result from a merger between the DFM and the ADX. Consolidation was discussed between the two exchanges in 2010, but a merger was not realized. However the case for one larger UAE capital market has become potentially stronger as competi tion from other regional stock markets, particularly the Tadawul exchange in Saudi Arabia, has intensi fied in recent years.

A merger between the DFM and the ADX could be attractive for a number of reasons. One obvious gain would be the cost saving resulting from economies of scale from servicing a larger client base from one

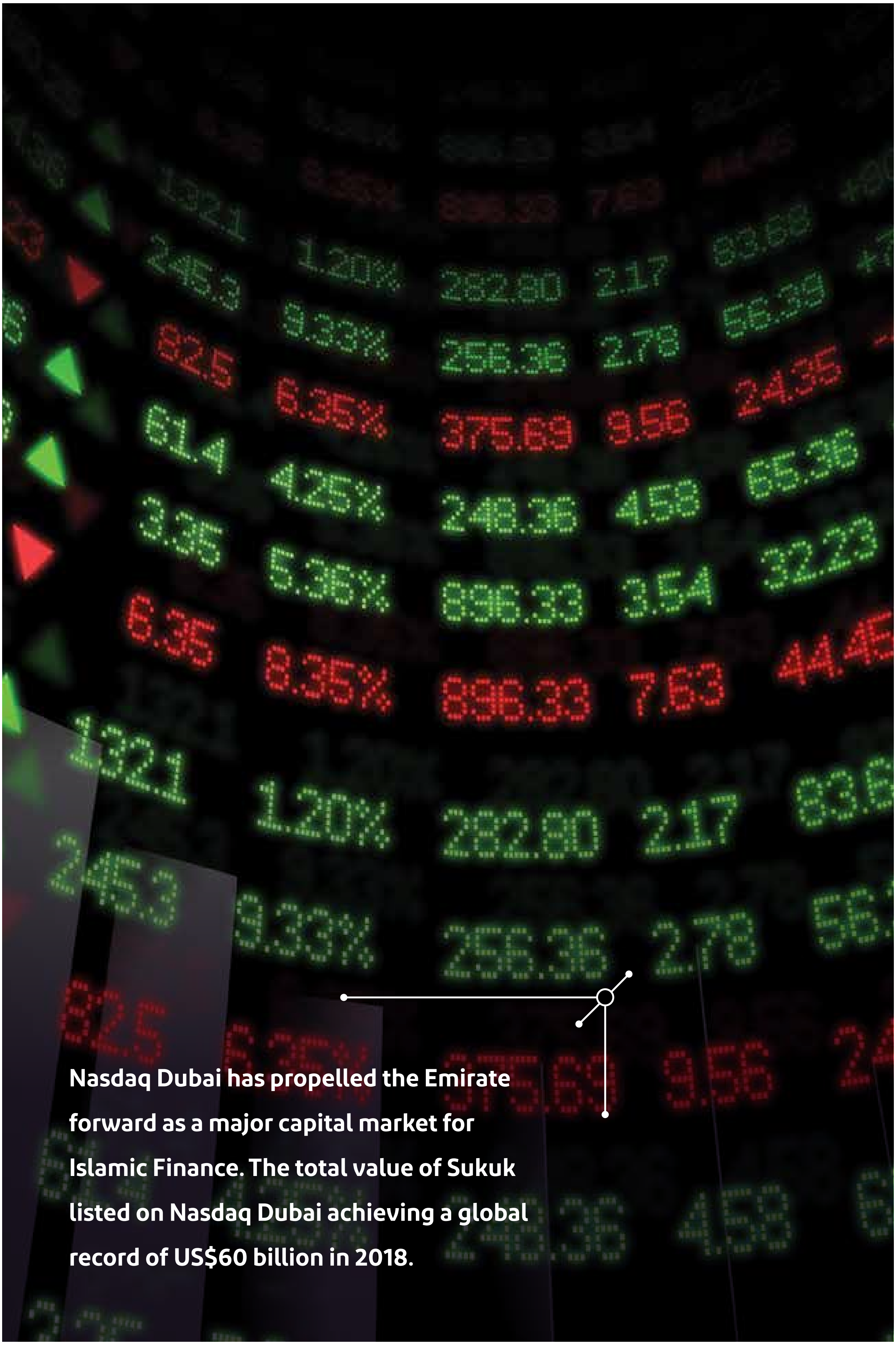
1 https://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS?view=chart

larger exchange. There are 67 companies listed equities on the DFM and 72 on the ADX. In 2018 the DFM, which is itself listed, incurred operating costs of AED 208 million and earned gross income of AED 334 million, down by 22.4 per cent from the year before mainly due to a fall in trading commission fees as liquidity fell. The existence of relatively high fixed costs and low marginal costs in running an exchange means that eliminating the duplication of operating costs from running two exchanges could lead to substantial savings in the case of a DFM-ADX merger. Furthermore, a merged capital market would carry greater weight in the region and would offer more diversified sector opportunities for investors. At present DFM is dominated in terms of the number of listings by the combined weight of companies in these sectors — Banks/Insurance/Investment & Financial Services/ Real Estate — that had a combined share of just under 70 per cent of all listings in 2018. In a merged exchange this share would drop marginally to 65.9 per cent, but the share of Industrials, a sector of strategic importance for Dubai's economy would rise from 3 per cent to 10 per cent. The DFM has been trying to encourage listings from companies operating in tourism, trade, manufacturing, health care and education in order to make the country's capital market fit the investment needs of these important sectors of the economy.

A merged exchange could also attract a larger number of companies issuing shares to raise finance through initial public offers (IPOs) which would increase the exchange's profitability and ability to cut listing cost and trading commission expanding liquidity. According to McKinsey, the management consulting company, the most important factors in the choice of exchange for companies deciding on an initial listing are liquidity, listing costs and value enhancement which all stem from scale and a solid base of domestic and international investing institutions. All of these IPO attractors would be enhanced through a merger between the DFM and the ADX.

Since 2017, both UAE domestic markets have experienced a drought in IPOs with no new listings in either exchange in 2018 to the end of August 2019. The last IPO on the DFM was in November 2017, when Emaar Developments listed a real estate and construction company raising US$1.3 billion, while the last IPO on DFX was the listing of the Abu Dhabi National Oil Distribution Company in December of the same year raising US$831 million.

In contrast, the Saudi Arabian Tadawul exchange has been gaining traction as a source of capital and attracted two IPOs in 2018 and already four up to August 2019 raising US$287 million and US$1.0 billion respectively. Finalbr, a domestic company operating in the foreign exchange and payment processing markets, elected in May 2019 to list 25 per cent of its shares in London rather than the DFM or ADX rather than listing in the UAE. In addition to making the UAE more attractive as source of capital for growing local companies, a merged exchange would be simpler to regulate and the Central Bank of the UAE would be able to monitor portfolio inflows and outflows more easily.



Nasdaq Dubai has propelled the Emirate forward as a major capital market for Islamic Finance. The total value of Sukuk listed on Nasdaq Dubai achieving a global record of US$60 billion in 2018.

Nasdaq Dubai

6.23 FTSE Nasdaq Dubai index, which tracks the performance of 20 companies listed on the Dubai Financial Market, the Abu Dhabi Stock Market and the Nasdaq Dubai, gave an indication of the relatively weak performance of the Dubai financial sector in 2018. The index fell by 6.52 per cent in 2018, after declining by 0.16 per cent in 2017 and rising 7.52 per cent in 2016.

6.24 The value of shares trading on the Nasdaq Dubai market amounted to AED 4.23 billion by the end of 2018, down 13 per cent from the value of trading in 2017, which amounted to about AED 4.88 billion. The volume of shares traded also declined significantly to 165 million shares in 2018 from 273 million shares in 2017, marking a 40 per cent decrease. The number of deals fell from 29,000 to 26,000, (Table 6.3).

Table 6.3: Nasdaq Dubai Market Indicators

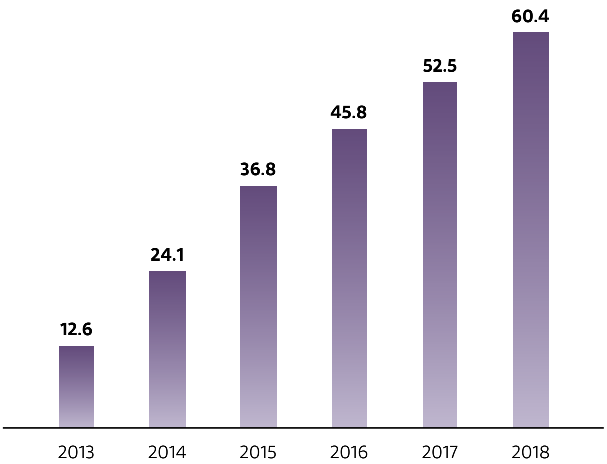
	2013	2014	2015	2016	2017	2018
Value of Shares Traded (AED Billions)	2.33	5.31	5	4.57	4.88	4.23
Volume of Shares (Million Shares)	199	280	219	138	273	165
No. of Deals (Thousands)	11.9	25	31	23	29	26

Source: Dubai Statistics Center

6.25 Despite its relatively weak performance in equities, Nasdaq Dubai has propelled the Emirate forward as a major capital market for Islamic Finance. The total value of Sukuk listed on Nasdaq Dubai increased from US$12.6 billion in its first year as an Islamic capital market to US$52.5 billion in 2017 before achieving its global record of US$60 billion in 2018. (Figure 6.21).

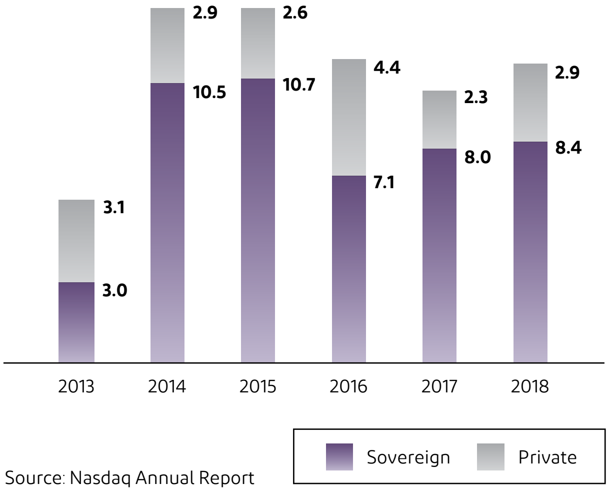
6.26 Since 2014 Sukuk listings on Nasdaq Dubai has been dominated by private issues by number, but sovereign sukuk listing contributes a larger amount to the overall value of Sukuk listed on Nasdaq Dubai. Hong Kong, Indonesia and the Sharjah Government have made ongoing sovereign listings on Nasdaq Dubai. Hong Kong first chose to issue Sukuk on Nasdaq Dubai in 2014 with a US$1 billion dollar listing followed by another of the same size in 2015 and a later one in 2017. Since 2015, the government of Indonesia has been issuing Sukuk on Nasdaq Dubai and has become the largest issuer in terms of value and number with US$14.5 billion from 10 issues. The listings by Indonesia, the largest Muslim country, further supports Nasdaq Dubai in attracting more Sukuk from other countries and strengthened its position as capital of Islamic economy, (Figures 6.22 & 6.23).

Figure 6.21: Dubai Sukuk Listing (USD Billion)



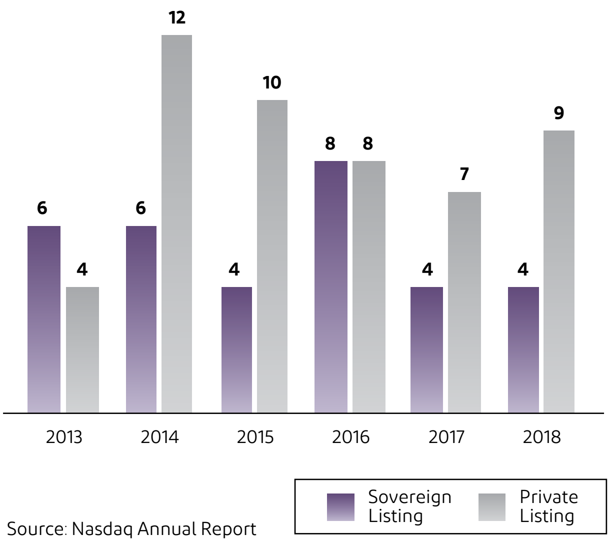
Source: Nasdaq Annual Report

Figure 6.22: Sukuk Value on Nasdaq Dubai (AED Billion)



Source: Nasdaq Annual Report

Figure 6.23: Sukuk listing on Nasdaq Dubai



Source: Nasdaq Annual Report