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Evidence on the Nature and Extent of Fall in Oil Prices on the Financial Performance of Listed Companies: A Ratio Analysis Case Study of the Insurance Sector in the UAE

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Abstract : The sharp decline in oil prices that started in 2014 affected most economies in the world either positively or negatively. In some economies, particularly the oil exporting countries, the effects were felt immediately. The Gulf Cooperation Council's (GCC henceforth) countries are oil and gas-dependent with the largest oil reserves in the world. UAE (United Arab Emirates) has been striving to diversify away from oil and expects higher non-oil growth in 2018. These two factors, falling oil prices and the economy strategizing away from oil dependence, make a compelling case to study the financial performance of various sectors in the economy. Among other sectors, the insurance sector is widely recognized as an important indicator of the health of the economy. An expanding population, surge in construction and infrastructure, increased life expectancy, greater expenditure on automobiles and other luxury goods translate to a booming insurance sector. A slow-down of the insurance sector, on the other hand, may indicate a general slow-down in the economy. Therefore, a study on the insurance sector will help understand the general nature of the current economy. This study involves calculations and comparisons of ratios pre and post the fall in oil prices in the insurance sector in the UAE. A sample of 33 companies listed on the official stock exchanges of UAE-Dubai Financial Market and Abu Dhabi Stock Exchange were collected and empirical analysis employed to study the financial performance pre and post fall in oil prices. Ratios were calculated in 5 categories: Profitability, Liquidity, Leverage, Efficiency, and Investment. The means pre- and post-fall are compared to conclude that the profitability ratios including ROSF (Return on Shareholder Funds), ROCE (Return on Capital Employed) and NPM (Net Profit Margin) have all taken a hit. Parametric tests, including paired t-test, concludes that while the fall in profitability ratios is statistically significant, the other ratios have been quite stable in the period. The efficiency, liquidity, gearing and investment ratios have not been severely affected by the fall in oil prices. This may be due to the implementation of stronger regulatory policies and is a testimony to the diversification into the non-oil economy. The regulatory authorities can use the findings of this study to ensure transparency in revealing financial information to the public and employ policies that will help further the health of the economy. The study will also help understand which areas within the sector could benefit from more regulations.

Keywords : UAE, insurance sector, ratio analysis, oil price, profitability, liquidity, gearing, investment, efficiency
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