S&P Global Ratings

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Qatar Insurance Co. S.A.Q.

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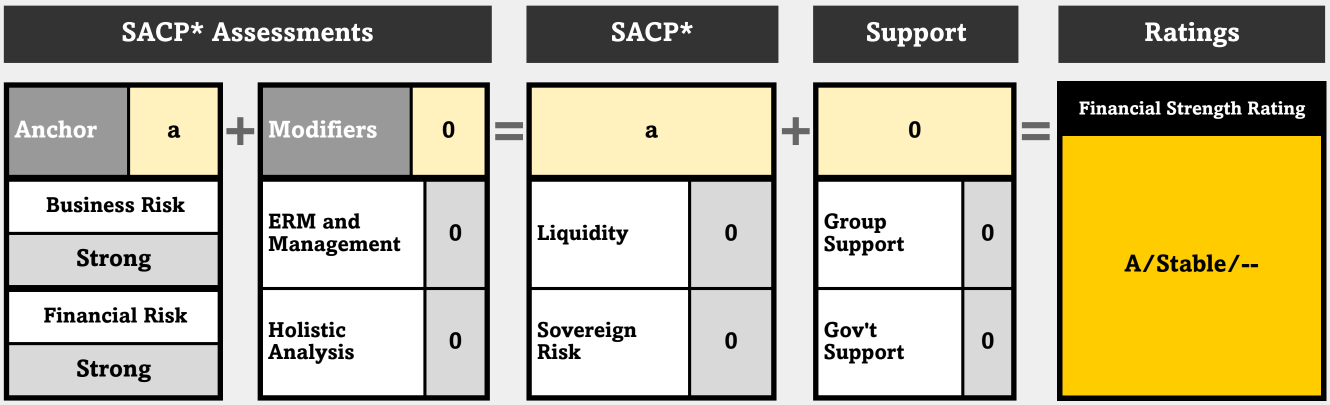

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths

- 'AAA' level risk-based capital adequacy (measured using our model) despite rapid growth and various acquisitions over recent years.
- Strong business position supported by scale, and diversified business portfolio by geography and product, support good operating performance.

Weaknesses

- Rapidly built significant exposure to the U.K. motor business mainly through Markerstudy group.
- Historically aggressive growth strategy through acquisitions and new business when compared to peers.
- Exposure to the challenging pricing conditions in large commercial insurance and reinsurance business.

Rationale

Our ratings on QIC reflect its strong business and financial risk profiles. Supporting factors are the group's scale, diversified premium base (by geography and product), and ability to post good results. This is despite the challenging pricing conditions in some of its main business lines. The group's 'AAA' level risk-based capital (measured using our model) somewhat mitigates its acquisitive nature and rapid premium growth through new business particularly in new territories. The latter is demonstrated by the significant levels of U.K. business the group is writing through Markerstudy (MS). Furthermore, the group acquired Gibraltar-based motor insurer MS' four insurance entities.

Outlook: Stable

The stable outlook reflects our expectation that QIC's capital and earnings will remain strong over the next 24 months. We expect the group maintain its strong business position. In particular, we do not expect the increased exposure to the U.K. motor market to adversely affect its earnings profile.

Downside scenario

We could lower the ratings over the next 24 months if:

- There are signs that the group's risk-based capital is likely to drop materially below the 'AAA' level. This could arise from a combination of weak earnings, excessive profit distribution, material growth, or acquisitions.
- We see a sustained weakening of its business profile through deterioration of earnings.
- There is evidence of materially higher exposure to catastrophe or other highly volatile risks.

Upside scenario

We view a position rating action as unlikely over the next 24 months. This reflects the challenging pricing conditions in QIC's main business lines as well as the group's short track-record in a material amount of business it currently writes (that is, most of the non-GCC business).

Base-Case Scenario

Macroeconomic Assumptions

- Government yields to increase over the next two-to-three years, but to remain below long-term historical norms until at least 2018.
- Economic growth in Qatar will continue although at a slower pace than in the past five years given weakened business activity and confidence as a result of Qatar's boycott by several Arab countries.

Table 1

Macroeconomic Forecast Summary

%	Eurozone	United Kingdom	Qatar	U.S.
Real GDP (% change)				
2017	2.5	1.7	2.5	2.3
2018f	2.3	1.3	2.8	2.9
2019f	1.9	1.5	2.5	2.6
10-year bond yield (yearly average)				
2017	1.1	1.2	N.A.	2.3
2018f	1.4	1.8	N.A.	2.9
2019f	1.9	2.5	N.A.	3.3

N.A.--Not available.

Company-Specific Assumptions

- We forecast 'AAA' level risk-based capital (measured using our model) over 2018-2020, supported by retained earnings.
- Gross premium to remain almost flat in 2018, even after the increase from MS acquisition because the group will not renew a significant portion of its non-GCC business due to pricing inadequacy. Thereafter, we expect premiums to grow by about 5% in 2019-2020.
- QIC will deliver net profits of around Qatari riyal (QAR) 800 million-900 million annually, generating return on equity and return on revenue of 10% in 2018-2020, largely supported by investment gains.
- We do not expect the recent move by various Arab countries to cut diplomatic ties with Qatar to materially affect QIC. This reflects QIC's modest level of business exposure to these countries. Furthermore, the group benefits from a robust level of capital relative to its balance sheet risks.

Key Metrics

(Mil. QAR)	2019f	2018f	2017	2016
Gross premiums written	12,242	11,659	11,659	9,901
Change in Gross Premiums Written (%)	5	-	18	19
Net income (attributable to all shareholders)	800-900	800-900	424	1052
Return on revenue (%)	9-10	9-10	2.5	8.6
Return on shareholders' equity (%)	~10	~10	5.06	14.5
P/C: net combined ratio (%)	99.0	100.0	105.8	98.0
S&P Capital Adequacy	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong

f - forecast

Business Risk Profile: Strong

QIC benefits from a diverse competitive position supported by its dominant domestic standing, regional GCC operations, and a substantial (re)insurance income stream from the international market (accounting for more than 70% of total premium).

The group has significant exposure to the U.K. motor market via only one group, Markerstudy. The acquisition of MS' insurance subsidiaries will not enhance the group's competitive position, in our view. This is particularly because the increased exposure to the U.K. motor market, which continues to post a technical deficit with combined ratios above 100%, and QIC is materially exposed to the underwriting discipline of MS.

After the acquisition, we expect the total premium stemming from MS to increase materially (likely to account for about 30% of premium) through the provision of more long-term reinsurance arrangements to MS' managing general agent. That said the amount of earnings sourced from motor business will continue to remain modest particularly because this is low-margin business based on a profit and loss sharing mechanism. We believe this arrangement provides some protection against potential deterioration in QIC's underwriting performance.

QIC is facing the challenges of the difficult pricing conditions notably in its international business, which QIC has built rapidly in recent years particularly through Qatar Re (accounting for about 45% of the premium). Resulting from the tough pricing environment for some of its business lines (namely agriculture, marine & aviation, motor and property) the group is not renewing a material amount of business.

The blockade of Qatar by its some of it neighbors (UAE, Bahrain, Saudi, and Egypt) had minimal impact on its business position particularly because the group's premium is diversified by geography.

QIC's performance is broadly in line with 'A' rated peers in terms of combined ratio (see table 2). That said the group's reinsurance segment (Qatar Re) suffered with a high combined ratio (loss and expense relative to premium) of 121.5% due to a combination of catastrophic events in 2017 and other large losses. At the group level, QIC still managed to report a net profit of QAR424 million supported by investment income. Some global reinsurers lost almost all of their annual earnings and some lost capital.

Table 2

Qatar Insurance Co.				
P/C: net combined ratio (%)	**2017**	**2016**	**2015**	**3 year average**
Qatar Insurance Group	105.8	98.0	96.4	100.1
Aspen insurance Group	125.6	98.4	91.9	105.3
Hiscox Insurance Group	99.3	91.5	87.2	92.7
Direct Line Insurance Group	86.4	94.0	89.9	90.1

Selection of QIC's peers is mostly based on rating level and business mix.

Financial Risk Profile: Strong

We forecast that the group will continue to benefit from a strong financial risk profile over 2018-2019, supported by its 'AAA' level risk-based capital (measured using our model) and good earnings. Our assessment takes into account the group's propensity for significant growth and its appetite for acquisitions. We believe that the group will retain sufficient levels of earnings to continue supporting its 'AAA' level capital. At year-end 2017, the group's capital buffer above the 'AAA' level reduced slightly due to lower earnings and a reduction in investment revaluation reserves. The latter was largely due to reduction in equity values following the Qatar blockade.

The group borrows U.S.-dollar-denominated cash and invests at local banks at higher interest rates in local currency, which slightly increases its investment yield. The group pledges its fixed-income instruments as collateral and the amount borrowed does not exceed a pre-determined limit of its fixed-income holdings (these are shown as short-term borrowings in the report and accounts). Because the Qatari riyal is pegged to the dollar, there is no currency-exchange risk provided the long-standing peg is in place. QIC does not take duration risk and the amount borrowed is placed as cash with terms of one-to-three months. We therefore treat these borrowings as operational leverage.

On the investment side, the group's exposure to high-risk assets (equities and alternative investments) is about 20% of total invested assets. This is higher than global peers. However, when compared with GCC peers, which tend to have a high investment risk appetite, QIC's exposure is relatively conservative. The group's assets are geared toward the financial sector and it is well diversified by obligor. We view QIC's access to new sources of capital and liquidity as good. This is evident from the fact that the group has raised a total of $957 million through rights issues since 2005 and the high demand for the group's hybrid bonds at the time of issuance.

Other Assessments

In our view, ERM supports the rating. The QIC group operates across many continents writing insurance and reinsurance business. In our view, this necessitates a comprehensive risk-control framework, which we consider QIC to have successfully embedded and which it continues to enhance as it undergoes integration of Antares and Qatar Re in particular. We view ERM as being of high importance because of QIC's rapid expansion into new lines and operations, assumed reinsurance, and a multi-regional platform. We expect the group's risk management culture and key risk controls to continue to improve as a centralized and coherent group ERM framework is being developed. Risk modeling is well advanced in some parts of the group and will be further strengthened once a group model is finalized.

In line with many of its peers, QIC's management and governance is satisfactory, in our opinion. We note the significant growth level since 2015. However, we anticipate that it will maintain the financial discipline to support its good operating performance and capital. Over 2017, QIC deep-dived into its underwriting practices, which is likely to lead to the non-renewal of a material amount of business particularly marine & aviation, agriculture, property and motor (non-MS business). This was primarily due to pricing inadequacy.

The group is currently consolidating its international platforms (Qatar Re and Antares) to derive synergies and increase strategic alignment. We view this positively.

We regard QIC's liquidity as strong and sustainable. In our view, the group is unlikely to need additional liquidity support for major event losses, given the current controlled level of potential catastrophe exposure.

Rating Score Snapshot	
Financial Strength Rating	A/Stable
Anchor	a
Business Risk Profile	Strong
IICRA Intermediate Risk	Intermediate risk
Competitive Position	Strong
Financial Risk Profile	Strong
Capital and Earnings	Strong
Risk Position	Intermediate risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic analysis	0
Liquidity	Strong

IICRA -- Insurance Industry Country Risk Assessment.

Related Criteria

- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Insurance - General: Methodology For The Classification And Treatment Of Insurance Companies' Operational Leverage, Oct. 31, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- Qatar Insurance Ratings Not Immediately Affected By Announced Offer To Buy Markerstudy's Insurance Subsidiaries Jan. 3, 2018
- Most Qatar-Based Insurers Ratings Not Immediately Affected By Downgrade Of Qatar After Six Countries Sever Ties, June 12, 2017

Ratings Detail (As Of July 12, 2018)	
Operating Company Covered By This Report	
Qatar Insurance Co. S.A.Q.	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	A/Stable/--
Related Entities	
Kuwait Qatar Insurance Co. K.S.C.	
Financial Strength Rating	
Local Currency	A/Stable/--
Qatar Reinsurance Company Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
QIC Europe Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Q Life & Medical Insurance Company LLC	
Financial Strength Rating	
Local Currency	A/Stable/--

Ratings Detail (As Of July 12, 2018) (cont.)	
Domicile	Qatar

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.