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## Research Update:

# Qatar Insurance Co. Ratings Affirmed At 'A'; Outlook Stable

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## Research Update:

# Qatar Insurance Co. Ratings Affirmed At 'A'; Outlook Stable

## Overview

- The substantial level of gross premium growth in 2015 has weighed on Qatar Insurance Co. S.A.Q.'s (QIC or the group) risk-based capital, even after the successful capital injection in 2016.
- However, we forecast that the group's risk-based capital is likely to rebuild to very strong levels by year-end 2017 through retained earnings.
- We are therefore affirming our 'A' counterparty credit and financial strength ratings on QIC.
- The stable outlook reflects our expectation that QIC's capital and earnings will be strong and sufficient to support its expansion plans over the next 24 months. We expect that QIC's risk-based capital (measured using our model) will improve to very strong levels by 2017 through retained earnings.

## Rating Action

On June 20, 2016, S&P Global Ratings affirmed its 'A' counterparty credit and financial strength ratings on Qatar Insurance Co. S.A.Q. (QIC) and its guaranteed subsidiaries (see ratings list). The outlook is stable.

## Rationale

During 2015, the group's gross premium increased by almost 50%, mostly due to key accounts relating to the U.K. motor business. This growth, coupled with the related increase in claims reserves, has weighed significantly on the group's previously extremely strong risk-based capital (measured using our model). In recognition of the rapid growth and the group's willingness to manage capital at solid levels, QIC increased its capital by about 25% during the first half of 2016 through a rights issue. While we recognize that this increase mitigated some of the pressure, we expect that QIC will retain sufficient earnings during 2016-2017, allowing it to rebuild its risk-based capital level to very strong from strong. At the same time, we anticipate that the business mix will stabilize and that net premium growth will be more modest.

The ratings reflect our view of QIC's strong business and financial risk profiles. The combination of these factors results in an anchor of either 'a' or 'a-'. We have used an 'a' anchor because we consider that QIC's strong business and financial risk profiles understate their contribution to its overall creditworthiness. The final rating is the same as the anchor,

reflecting our view that the potential modifying factors--principally QIC's satisfactory management and governance, adequate enterprise risk management (ERM), and strong liquidity--are currently neutral for the ratings.

QIC's strong business risk profile reflects its strong and diverse competitive position, supported by its dominant domestic position, its regional GCC operations, and the substantial reinsurance income stream--albeit with some concentration to the U.K. motor market. We believe the broad diversity of its product offerings and geographies are key supporting factors. We forecast that the group's gross premium is likely to grow by about 10%-15% annually over 2016-17, partly driven by more new business from the U.K. motor market during 2016. While we recognize that the group has grown substantially in a challenging pricing environment, we expect that it will maintain its pricing discipline.

For 2016-2017, we forecast that QIC will deliver combined (loss and expense) ratios of just above 95%, as well as return on equity and return on revenue of 15% annually, largely supported by investment gains in line with previous years. Hence the group is likely to generate net profits of about Qatari riyal (QAR) 1 billion annually. We expect the group to retain sufficient earnings such that its risk-based capital builds to very strong levels. We recognize that the group has propensity for significant growth levels beyond what we believe can be reliably quantified, as demonstrated in 2015. Therefore our view of strong capital and earnings reflects this potential.

We have revised our view of the group's liquidity to strong mostly because of the pledged assets within its investment portfolio. The group has sufficient liquidity because securely rated fixed-interest instruments and cash alone comfortably cover the net technical reserves.

## **Outlook**

The stable outlook reflects our expectation that QIC's capital and earnings will be strong and sufficient to support its expansion plans over the next 24 months. We expect that QIC's risk-based capital will improve to very strong levels by 2017 through retained earnings.

### **Downside scenario**

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

- There are signs that the group's risk-based capital is unlikely to recover to the 'AA' level by year-end 2017. This could arise from weak earnings, excessive profit distribution, or material growth.
- There is a sustained weakening of its business profile through underperformance at its domestic or reinsurance operations.
- There is evidence of materially higher exposure to catastrophe or other highly volatile risks, which would lead us to revise our assessment of the intermediate risk position.

## Upside scenario

Although highly unlikely over the next 24 months, we could consider raising the ratings if QIC posts a strong combined ratio across its major operations.

## Ratings 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 And Research

### Related Criteria

- Criteria - Insurance - General: Methodology For The Classification And Treatment Of Insurance Companies' Operational Leverage - October 31, 2014
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

## Ratings List

Ratings Affirmed

Qatar Insurance Co. S.A.Q.  
QIC Europe Ltd.  
Counterparty Credit Rating A/Stable/--

Qatar Insurance Co. S.A.Q.  
Qatar Reinsurance Company Ltd.  
QIC International LLC  
QIC Europe Ltd.  
Q Life & Medical Insurance Company LLC  
Kuwait Qatar Insurance Co. K.S.C.  
Financial Strength Rating A/Stable/--

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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