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Research Update:

Qatar Insurance Co And Guaranteed Subsidiaries Ratings Affirmed At 'A' After Insurance Criteria Change; Outlook Stable

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Overview

- Following a review of Qatar-based insurer Qatar Insurance Co. S.A.Q. (QIC) under our revised insurance criteria, we are affirming our 'A' ratings on the company and its guaranteed subsidiaries, QLM, QICI, and Q-Re.
- The ratings reflect QIC's strong business risk profile, and its very strong financial risk profile. These assessments principally derive from our view of QIC's strong competitive position and very strong capital and earnings.
- The stable outlook on the ratings reflects our view that QIC's business and financial risk profiles will remain unchanged over the next two years.

Rating Action

On June 27, 2013, Standard & Poor's Ratings Services affirmed its 'A' insurer financial strength and counterparty credit ratings on Qatar-based multiline insurer Qatar Insurance Co. S.A.Q. (QIC) and its guaranteed subsidiaries, Q Life & Medical Insurance Company LLC (QLM), QIC International LLC (QICI), and Q-Re LLC. The outlook on all entities is stable.

Rationale

The ratings reflect our view that QIC's financial risk profile is very strong, and its business risk profile is strong. We derive these assessments from our view of the company's extremely strong capital adequacy and the strength of its competitive position in the Qatari market. These outcomes underpin our anchor of 'a' for QIC. 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 exceptional liquidity--are currently neutral for the ratings.

We view QIC's current and prospective capital and earnings position as very strong. At March 31, 2013, QIC reported shareholders' equity of Qatari riyal (QAR) 4.8 billion ($1.3 billion), up 27% from December 2012 following a rights issue. These funds will finance the planned expansion of QIC's guaranteed reinsurance subsidiary, Q-Re, as it targets segments within the global market. QIC has extremely strong risk-based capital, as modeled by us through to 2015, although excess capital above that required for extremely strong is slightly diluting over time in response to expected business growth. We expect QIC's quality of capital to remain excellent. Our base-case scenario is that QIC will generate combined ratios generally around 90% and returns on equity of at least 10% in 2013-2015.

In our view, QIC has an intermediate risk position, reflective of the relatively high asset concentrations in equities and real estate (67% of shareholder funds). We expect no change to the investment strategy in 2013 following the new capital injection this year.

We view financial flexibility as adequate to likely needs. QIC has a good track record of internal capital generation to finance its growth, and demonstrable support from its shareholders.

QIC has a demonstrably strong and sustainable business risk profile deriving from its dominance in the domestic Qatari market, the targeted regional expansion, and the intermediate industry and country risk in the areas in which it operates.

In our opinion, QIC group has a strong competitive position, which reflects its acknowledged domestic market leadership, with a significant market share, and the planned growth of its reinsurance business. QIC has a notable dominance of the domestic Qatari market, where it is materially larger in terms of gross premium written (GPW) and capitalization relative to local peers. In 2012, the group wrote QAR2.6 billion ($0.7 billion) of GPW and is one of the largest insurers in the Gulf Cooperation Council (GCC) region. We expect QIC to continue as the leading local insurer and its gross premiums will grow in response to the economic growth in, and development of, Qatar (AA/Stable/A-1+).

We expect the growth of Q-Re to add materially to underwritten volumes, and so geographic and business line diversity, over the next five years. However, in our view this exposes QIC to significantly greater short-to-medium term operational volatility, stemming from the nature of the reinsurance market.

Our assessment of industry risk in Qatar reflects the high barriers to entry that act as some protection to the established market participants, as well as the forthcoming enhancements to the insurance supervisory regime following the combination of the Qatar Financial Centre and Ministry of Business And Trade into the Qatar Central Bank earlier in 2013. We view product risks in the market as relatively low, reflecting the predominance of fundamentally short-tail, although often high-value, risks and lack of liability/legal claims culture. The market has strong capital and earnings characteristics, with attractive returns on equity averaging 13% and better. Qatar, and the GCC region generally, is a low-penetration insurance market, particularly in life business (not medical, which is now compulsory), but the pace of infrastructure development, and so insurable risk growth, is very high.

We view QIC's continuing development of ERM as adequate and, though neutral for the rating, consider it a potential rating driver. The QIC group now operates a multi-continent operation, with increasing complexity in the risks it writes. In our view, this necessitates a more demanding control framework, which QIC is further enhancing. We view management and governance as satisfactory. QIC has a stable, very experienced management team that successfully utilizes and implements strategic planning, with the full support of the board and shareholders.

We view liquidity as exceptional, and consider that it has sufficient depth to meet likely and stressed claims scenarios.

Outlook

The stable outlook reflects our view that QIC's financial risk profile will remain very strong and that it will maintain a strong business risk profile over the next two years. We anticipate significant premium growth at QIC during 2013-2015, but believe that the capital injection in 2013 will fully support this, aided by future retained earnings from both underwriting surpluses and investment yields.

We could raise the ratings if the expansion of the reinsurance business written in Q-Re delivers a sustainable increase in underwritten volumes and diversification of profit sources away from its currently Qatari/GCC regional focus.

We are unlikely to lower the ratings over the next two years. This could be prompted, however, by any signs of material weakening of capital and earnings, particularly from unexpected event losses deriving from Q-Re.

Rating Score Snapshot

Financial Strength Rating	A/Stable
Anchor	a
Business Risk Profile	Strong
IICRA	Intermediate Risk
Competitive Position	Strong
Financial Risk Profile	Very Strong
Capital and Earnings	Very Strong
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management and Governance	Satisfactory
Holistic Analysis	0

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Liquidity                         Exceptional


Support                           0
   Group Support                  0
   Government Support             0
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IICRA—Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related research

- List Of Issuers With Ratings Under Criteria Observation Due To S&P's New Insurers Rating Methodology, May 7, 2013
- Standard & Poor's Assigns Insurance Industry And Country Risk Assessments, May 7, 2013

Ratings List

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Ratings Affirmed

Qatar Insurance Co. S.A.Q.
 Counterparty Credit Rating
  Local Currency                        A/Stable/--
Financial Strength Rating
  Local Currency                        A/Stable/--

QIC International LLC
Q-Re LLC
Q Life & Medical Insurance Company LLC
 Financial Strength Rating
  Local Currency                        A/Stable/--
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