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Research Update:

# Ratings On Qatar Insurance Co. And Guaranteed Subsidiaries Affirmed At 'A'; Outlook Stable


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## Overview

- We view Qatar Insurance Co. S.A.Q. (QIC) as an increasingly diversified insurance group with relatively mature operations in the still-growing Gulf Cooperation Council region, and with rapidly expanding reinsurance operations in Europe.
- A substantial capital injection in 2013 to finance these new operational areas has materially reinforced its already very strong capitalization.
- These factors are somewhat offset by the increasing complexity of the group's operations, which heightens its risk profile and present integration challenges.
- We are affirming our ratings on QIC at 'A'.
- The stable outlook reflects our view that QIC's franchise expansion will not weaken capitalization and earnings will remain favorably positive, in line with our base-case assumptions.

## Rating Action

On July 3, 2014, Standard & Poor's Ratings Services affirmed its 'A' counterparty credit and financial strength ratings on Qatar Insurance Co. S.A.Q. (QIC). The outlook is stable.

## Rationale

The ratings reflect our view of QIC's strong business risk profile and very strong financial risk profile. The combination of these factors results in an anchor of either 'a+' or 'a', according to our criteria. We have opted for the lower anchor given QIC's still rapidly developing business model and franchises in the global reinsurance and London insurance markets, which we believe present some potential uncertainty. QIC's overseas businesses are currently undergoing full integration with QIC, which brings operational and management challenges.

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.

QIC's strong business risk profile reflects its strong competitive position, achieved through its dominant domestic position and regional GCC operations. We believe the broad diversity of its product offerings and strength in distribution and sourcing are key factors supporting its competitive position. The group is one of the largest insurers in the GCC and is now expanding further via its rapidly growing reinsurance arm, Qatar Reinsurance (Qatar Re), and the acquisition of Antares Syndicate 1274 at Lloyd's this year. During the next two years, we expect QIC's group premium to develop from being predominantly sourced from the GCC to 50% non-GCC business; we forecast premium growth at about 70% in 2014, easing back to 20% and below in 2015 and 2016.

We regard QIC's financial profile as very strong, mainly reflecting its very strong capital and earnings, intermediate risk position, and adequate financial flexibility. QIC benefited from a significant injection of new capital in 2013 when subscribed capital rose 44% and shareholder funds increased by 42%. We expect extremely strong risk-based capital adequacy to be maintained in the next two years of rapid franchise growth, although in absolute terms capital redundancy will diminish.

Retained earnings will support capital, and we expect QIC to show combined ratios lower than 95% during 2014-2016 .(Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) We forecast net earnings above Qatari riyal 660 million representing a return on equity above 10% and a return on revenues above 15%.

## Outlook

The stable outlook reflects our view that QIC's capital and earnings will continue to be very strong and sufficient to support its significant expansion plans. Its financial strength will continue to be reinforced by extremely strong capital adequacy and stable positive earnings.

### Upside scenario

We could consider rating the ratings in the next two years if QIC demonstrates success and the sustainable assimilation of its new business platforms.

### Downside scenario

We consider a downgrade unlikely, but we could lower the ratings if we see:

- A material weakening of QIC's capital and earnings to below strong. This could arise from poorly managed acquisitions and/or material earnings deficits.
- A weakening of its business profile through underperformance at its domestic or reinsurance 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 | 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 & Governance | Satisfactory |
| Holistic analysis | 0 |
| | |
| Liquidity | Exceptional |

IICRA -- Insurance Industry Country Risk Assessment

## Related Criteria And Research

### Related Criteria

- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Group Rating Methodology, Nov. 19, 2013
- Use of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- Qatari Property/Casualty Insurance Sector Carries An Intermediate Insurance Industry And Country Risk Assessment, April 28, 2014
- Insurance Industry And Country Risk For The Global Property/Casualty Reinsurance Sector Is Intermediate, Sept. 6, 2013

## Ratings List

Ratings Affirmed

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

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