

RatingsDirect®

Qatar Insurance Co. S.A.Q.

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Qatar Insurance Co. S.A.Q.

SACP* Assessments				SACP*		Support		Ratings		
Anchor	a	+	Modifiers	0	=	a	+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0	A/Stable/--
Strong			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	
Financial Risk										
Very Strong										

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

Rationale

Business Risk Profile: Strong

- Qatar Insurance Co. S.A.Q. (QIC) is a very well-established Qatari insurance group with a strong shared brand in the Gulf Cooperation Council (GCC) region. It has a rapidly growing presence in global reinsurance markets and is becoming one of the most geographically and operationally diverse of the GCC insurers.
- QIC has a diverse product offering servicing all sectors of the local markets and a track record of strong earnings from its mature GCC operations.
- Its intermediate industry and country risk primarily reflects that of its material premium contribution from global property/casualty (P/C) reinsurance as well as its Qatari domicile.

Financial Risk Profile: Very Strong

- Capital and earnings will continue to be very strong through the next two years of continued development, boosted by retained profits sufficient to support further organic premium growth.
- The intermediate risk position reflects the weighting of investment exposure to regional equity markets and real estate, despite the diversified portfolio.
- Adequate financial flexibility, with a demonstrated ability to access capital should internal funds generation be inadequate. We consider the shareholders, which include the government, to be fully supportive of QIC's growth plans and financial requirements.

Other Factors

- The combination of these factors gives an anchor of either 'a+' or 'a', according to our criteria. We have opted for the lower anchor, given execution risk associated with integrating and developing QIC's reinsurance subsidiaries, in addition to earnings margin pressure in the GCC markets due to competitive pressures.
- We consider enterprise risk management (ERM) and management and governance as neutral to the rating.
- Liquidity is exceptional--there is a large pool of liquid assets, compared with potential stressed liquidity needs.

Outlook: Stable

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

Upside scenario

We could consider raising the ratings in the next two to three years if QIC successfully and sustainably assimilates its new business platforms, as seen in combined ratios sustainably outperforming the market average in international reinsurance.

Downside scenario

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

- A material weakening of QIC's capital and earnings to below strong. This could arise from poorly managed acquisitions or from material earnings deficits.
- A sustained weakening of its business profile through underperformance at its domestic or reinsurance operations.
- 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.

Base-Case Scenario

Macroeconomic Assumptions

- Economic growth in developed markets to improve, but remain sluggish, lagging growth in developing markets.
- Government yields to increase over the next two to three years, but to remain below long-term historical norms until at least 2016.
- GCC investment markets will continue to support current yields with moderate appreciation in asset values over 2015-2017.
- Economic growth in Qatar will continue albeit at a slower pace than in the past five years given lower commodity revenues. We forecast real GDP growth of about 4.0% to 4.5% annually in 2015-2017. We expect Qatari economic growth to be supported by government spending on key infrastructure projects and the 2022 World Cup.
- For detailed macroeconomic forecasts, see "Qatari Property/Casualty Insurance Sector Carries An Intermediate Insurance Industry And Country Risk Assessment," published Jan. 7, 2015 on RatingsDirect; and "Insurance Industry And Country Risk Assessment On The Global Property/Casualty Reinsurance Sector Is Intermediate," published July 18, 2014.

Company-Specific Assumptions

- QIC will continue to expand its GCC regional business by 5%-10% through 2015-2017 across all lines of business. The reinsurance operation will continue to grow organically, delivering overall premium growth of about 20% annually in 2015-2017.
- QIC will deliver net profits of at least Qatari riyal (QAR) 800 million (US\$220 million), generating return on equity (ROE) of 10% and return on revenue (ROR) of 15% in 2015-2017.
- Capital adequacy will remain extremely strong, and fully supportive of targeted organic growth.

Key Metrics

QAR mil.	2016f	2015f	2014	2013	2012	2011	2010
Gross premiums written	c. 8,000	c. 6,700	5,614	3,532	2,559	2,383	2,153
Change in Gross Premiums Written (%)	c. 20.0	c. 20.0	59.0	38.0	7.4	10.7	0.2
Net income (attributable to all shareholders)	>800	>800	1025	778	620	603	623
Return on revenue (%)	c. 15.0	c. 15.0	12.8	20.1	22.3	22.3	34.0
Return on shareholders' equity (%)	c. 10.0	c. 10.0	18.1	17.0	16.9	17.1	19.2
P/C: net combined ratio (%)	c. 95.0	c. 95.0	99.6	95.8	94.2	91.1	79.3
S&P Capital Adequacy	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong

f - forecast

Company Description

QIC is an operating and holding company, established in 1964 as Qatar's first insurance company. It now comprises a

multifaceted insurance/investment management group writing all lines of insurance across the GCC. Since the substantial expansion of its reinsurance subsidiary in 2013, it has written premium globally. The group has five majority-owned insurance subsidiaries that manage business outside Qatar, all of which benefit from a full parental guarantee.

- Qatar Reinsurance (Qatar Re) is 89% owned by QIC. It was established in December 2009 to write international inward reinsurance business, and was substantially expanded in 2013-2014.
- QIC International (QICI) is 85% owned by QIC. It manages or owns international operations that are based in the United Arab Emirates (UAE), Oman, Kuwait, and Malta.
- Qatar Life & Medical is 85% owned by QIC. It was formed in 2011 and underwrites life and medical business across the target GCC region.
- Kuwait Qatar Insurance is majority-owned by QICI.
- QIC Europe Ltd. was established in Malta in 2014 and is licensed to underwrite general insurance business.

In 2014, gross premiums for the QIC group were QAR5.6 billion (US\$1.54 billion), of which 24% was attributable to domestic Qatari operations, 17% to other GCC regional business, and 59% to its international operations at Qatar Re. In 2014, QIC acquired Antares Holdings Ltd., a specialist insurance and reinsurance group operating in the Lloyd's syndicate market, which underwrote US\$378 million of gross premiums in 2014, comprising about 25% to QIC's gross premium that year. QIC listed on the Doha Securities Market in May 1997.

Business Risk Profile: Strong

We view QIC's business risk profile as strong, reflecting its dominant competitive position in its domestic Qatari market, its GCC regional operations, and its rapidly developing global reinsurance arm.

Insurance industry and country risk: Intermediate risk overall, from material global reinsurance platform and operational presence in Qatar and other GCC markets.

We consider QIC's industry and country risk as intermediate, reflecting its principal exposure to what we consider as intermediate risk global P/C reinsurance sector (59%) and the GCC countries (41%).

QIC's global P/C reinsurance sector income stream derives from its operations based in Switzerland and the U.K (35%), as well as the Antares syndicate (around 25%), acquired in 2014. This business segment has grown very rapidly for QIC in 2013-2014, and we identify it as carrying intermediate risk. In our opinion, the weighted-average country risk faced by QIC's operations is intermediate, with moderate industry risks. However, we do consider that the reinsurance industry's exposure to property catastrophe risks increases QIC's potential earnings volatility. There is potential for some volatility in the reinsurance business, as observed in 2014, reflecting integration risks and the lack of an established track record for QIC group in the international reinsurance markets. We do not expect significant changes in our assessment of QIC's industry and country risk over the next three years.

Of group premiums, 24% is from Qatar and about 17% is from other GCC countries, which we generally consider have intermediate insurance industry and country risk. In our opinion, these markets are highly competitive, particularly in commoditized lines such as motor and medical insurance. That said, product risk in these lines is low and the markets have robust growth prospects supported by continued economic growth and government's infrastructure spending in

the region.

Regulation of the sector in Qatar, which we view as relatively weak by international standards, is overseen by both the Ministry and the Qatar Financial Centre Regulatory Authority (QFCRA). We consider that steps taken to bring the QFC under the control of the Qatar Central Bank and unify regulation of the sector will be beneficial in terms of regulatory oversight, but progress and the timeline for implementation are unclear. The central bank has little track record of market intervention. Barriers to entry are modest, in our opinion, despite the dominance of the five national companies, which benefit from a first right of refusal on some government-related business.

Table 1

Qatar Insurance Co. S.A.Q. Industry And Country Risk		
Insurance sector	IICRA	Business mix*
Qatar P/C	Intermediate	24
Global P/C reinsurance	Intermediate	59
United Arab Emirates P/C	Intermediate	8
Oman P/C	Moderate	5
Kuwait P/C	Intermediate	4

*Based on gross premium written. P/C--Property and casualty. IICRA--Insurance Industry And Country Risk Assessment.

Competitive position: Strong competitive position reflects QIC's leading market shares in its key GCC markets and growing diversity of its international reinsurance platform

In our view, QIC has a strong and diverse competitive position, supported by its dominant domestic position, its regional GCC operations, and the substantial reinsurance income stream. We believe the broad diversity of its product offerings and geographies are key supporting factors. The group is one of the largest insurers in the GCC and had a gross premium income of QAR5.6 billion in 2014 (\$1.54 billion). QIC group's historically regional franchise has been materially expanded through its rapidly growing reinsurance arm, which includes syndicates at Lloyd's London through QIC's acquisition of Antares Holdings in 2014. It allows the group the use of the Lloyd's global licenses, and therefore provides access to new markets. Antares adds further diversification to QIC as it writes business in 12 classes of predominantly short-tail insurance/reinsurance for a global client base; Antares delivered a 94% combined ratio on average in 2010-2014. Although we view the international expansion of QIC as favorable, it does bring with it some execution risk in the short-to-medium term.

We expect the group to maintain its strong competitive position, and this will be bolstered by its continued organic growth in the more mature (and so with a higher insurance penetration) territories through the reinsurance arm. Our base-case scenario assumes that the group's gross premium is likely to grow by up to 25% in 2015, but slow to around 20% in 2016-2017, as the reinsurance business achieves operational maturity and stability.

Table 2

Qatar Insurance Co. S.A.Q. Competitive Position					
	--Year-ended Dec. 31--				
(Mil. QAR)	2014	2013	2012	2011	2010
Gross premiums written	5,613.8	3,531.7	2,558.6	2,383.1	2,153.1
Change in Gross Premiums Written (%)	59.0	38.0	7.4	10.7	0.2
Net premiums written	4,339.9	2,470.9	1,551.1	1,383.4	1,166.0

Table 2

Qatar Insurance Co. S.A.Q. Competitive Position (cont.)					
Change in Net Premiums Written (%)	75.6	59.3	12.1	18.6	2.7
Net premiums earned	3,678.3	1,974.1	1,494.6	1,320.9	1,117.9
Change in Net Premiums Earned (%)	86.3	32.1	13.2	18.2	5.9
P/C: reinsurance utilization - premiums written (%)	22.7	30.0	39.4	41.9	45.8

QAR--Qatari riyal.

Chart 1

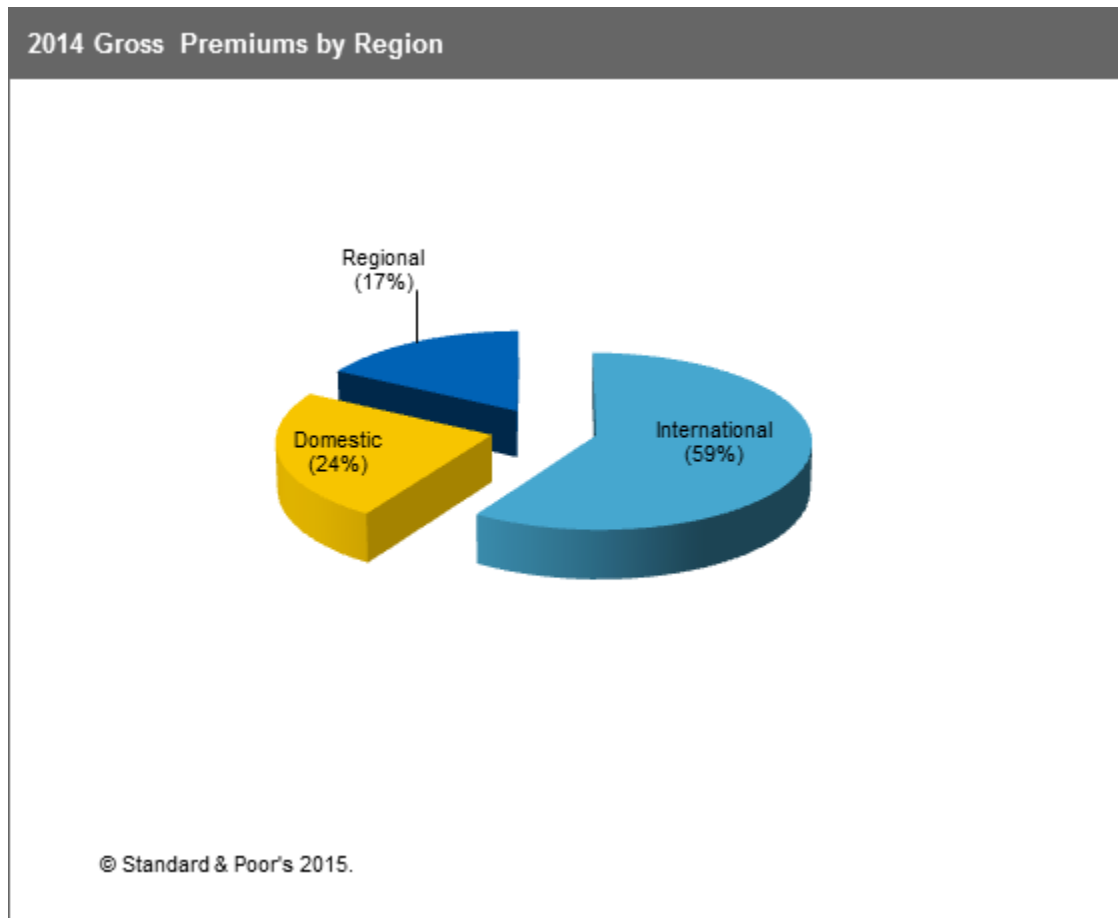
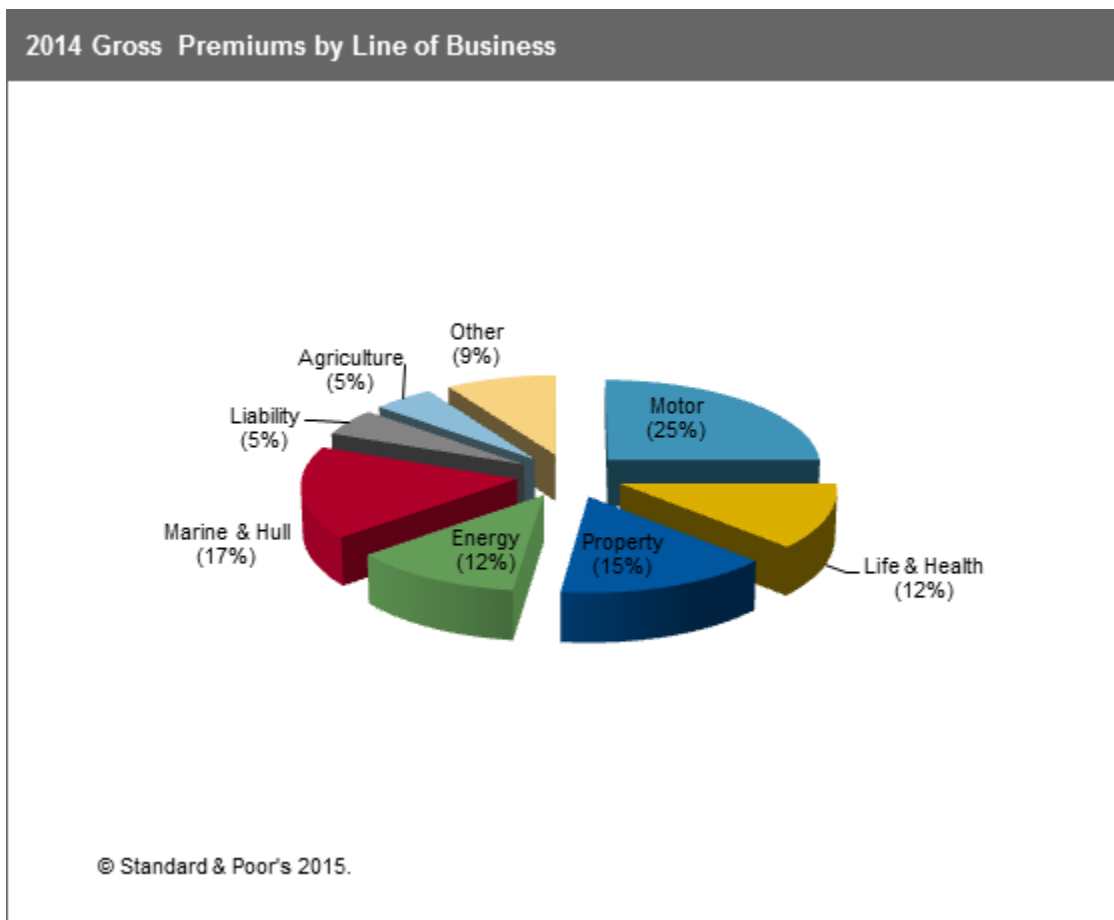


Chart 2



Financial Risk Profile: Very Strong

We regard QIC's financial profile as very strong, chiefly because of its very strong capital and earnings, supported by an intermediate risk position and adequate financial flexibility.

Capital and earnings: Sustainably very strong through our two-year rating horizon

QIC demonstrates extremely strong capital adequacy, which we expect it to maintain through the next two-to-three years of continued organic franchise growth, although in absolute terms the level of capital redundancy at the 'AAA' level will diminish.

A one-off contribution through a rights issue saw subscribed capital rise 44% and shareholder funds increase by 42% in 2013. Although our risk-based capital model projection identifies asset risks as the highest demand factor, the changing business matrix as reinsurance expands raises the risk of increased underwriting volatility, although we expect QIC's risk control framework to manage this effectively.

QIC has stable long-term relationships with its reinsurers and Standard & Poor's rates the leader of this group very strongly. QIC has reduced its use of reinsurance to 23% in 2014 (from 30% in 2013 and more than 50% in 2009); this

shift reflects the changes to the business mix through the reinsurance arm, where more business is retained, and the willingness of QIC to retain more of the primary (GCC domestic) business. We expect QIC's overall net premium retention to continue to rise modestly.

QIC's combined ratio for 2014 was 99.7% (compared with 96% in 2013), and shows a weakening trend, relative to the five-year average of 92% and the combined ratio of 79% for 2009-2010. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) This ratio has weakened because the early reinsurance book suffered run-off losses, there were additional costs associated with rebuilding and expanding this operation, and fierce competition has affected the domestic markets, particularly on commodity medical and motor lines. We expect QIC to report combined ratios of close to 95% in 2015-2017, when net earnings above QAR800 million represent ROE above 10% and ROR above 15%. Both the international/reinsurance business and the GCC-based operations will contribute positively to earnings, which also benefit from the supplementary income stream generated by QIC's investment management arm.

Table 3

Qatar Insurance Co. S.A.Q. Capitalization Statistics					
	--Year-ended Dec. 31--				
	2014	2013	2012	2011	2010
Common shareholders' equity	5,923.5	5,381.7	3,792.6	3,528.9	3,522.1
Change in common shareholders' equity (%)	10.1	41.9	7.5	0.2	18.2

Table 4

Qatar Insurance Co. S.A.Q. Earnings Statistics					
	--Year-ended Dec. 31--				
	2014	2013	2012	2011	2010
Total revenue	4,235.5	2,398.5	1,841.2	1,578.0	1,373.0
EBIT adjusted	542.8	483.2	410.9	351.6	467.1
Net income (attributable to all shareholders)	1,025.4	778.4	619.7	603.1	622.6
Return on revenue (%)	12.8	20.1	22.3	22.3	34.0
Return on shareholders' equity (reported) (%)	18.1	17.0	16.9	17.1	19.2
P/C: net expense ratio (%)	34.2	31.0	25.8	26.0	27.0
P/C: net loss ratio (%)	65.4	64.9	68.3	65.1	52.3
P/C: net combined ratio (%)	99.6	95.8	94.2	91.1	79.3

Risk position: Intermediate risk position reflects investment portfolio mix and weighting of securely rated instruments

We consider QIC's risk position to be intermediate, reflecting the relatively high asset concentrations in equities and real estate (investment leverage maintained at about 63% of shareholder funds as of year-end 2014). We expect no fundamental change to the investment strategy in 2015-2017, although over time we anticipate that the growing reinsurance businesses, based in Zurich and London, may cause the portfolio mix to shift away from equities to more securely rated instruments as the local asset bases grow in these more-tightly-regulated domiciles.

QIC's portfolio is diverse and tightly managed by reference to long-established risk framework rules. The credit risk of

the fixed income portfolio (33% of total invested assets) and cash holdings (28%) is well controlled with its average rating in the 'A' range. We view exposure to unrated or speculative-grade reinsurers as low.

While the rapid expansion of its international reinsurance business could introduce potential for earnings and capital volatility due to typically higher risk catastrophe exposure, QIC has underwriting exposure management framework in place that controls accumulation risk and maintains overall exposure within its risk tolerances. We expect the diversity of the book outside of peak catastrophe zones to offset any such potential volatility in earnings in 2015-2017.

Table 5

Qatar Insurance Co. S.A.Q. Risk Position					
	--Year-ended Dec. 31--				
	2014	2013	2012	2011	2010
Total invested assets	9,577.4	8,294.4	5,578.6	5,329.7	5,058.0
Net investment income	542.2	421.5	343.2	254.0	252.8
Net investment yield (%)	6.1	6.1	6.3	4.9	4.9
Net investment yield including realized capital gains/(losses) (%)	12.1	10.1	10.1	9.9	8.4
Portfolio composition (% of General account invested assets)					
Cash and short term investments (%)	27.6	40.4	38.1	39.0	34.3
Bonds (%)	33.1	18.9	12.1	9.3	8.1
Equity investments (%)	34.5	32.4	37.9	39.6	45.8
Real Estate (%)	4.0	4.8	8.1	8.8	7.9
Investments in affiliates (%)	0.8	1.0	1.3	1.2	1.2
Other investments (%)	0.0	2.5	2.6	2.1	2.7

Financial flexibility: Adequate, with a limited likelihood of needing external funding to finance development

We view QIC's access to new sources of capital and liquidity as adequate. Although we expect QIC to internally finance its capital needs, as a listed entity it benefits from strong relationships with its shareholders, which include the Qatari government. We anticipate that its shareholders would remain fully supportive of any capital raising activities. The group makes no use of term debt finance, but this option remains available.

Other Assessments

Enterprise risk management: ERM is adequate and contributes positively to the company

In our view, ERM is adequate, which is neutral for the rating. The QIC group now operates on many continents, which increases the complexity of its risks. 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 newly acquired subsidiaries--Antares in particular. The group has a clear risk appetite and risk tolerances for all operational areas, and these are regularly monitored across the operation; we see no tensions between the primary and reinsurance businesses.

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. The group's risk management culture and key risk controls support our

overall assessment of the group's ERM. Risk modeling and capital optimization are now regular features of the group operations, but its medium-term beneficial impact has yet to be tested and proven.

Management and Governance: Successful development, pursuit, and implementation of strategy

QIC's management and governance is satisfactory, in our opinion. The group has a clear strategic plan that it has agreed with management and the board. In our view, the group's strategy is consistent with its organizational abilities and market conditions. We anticipate that it will maintain the financial discipline to support its sound operating performance. We expect it will manage the execution risk associated with its growth and acquisition strategy, such that it does not weaken its financial profile.

Liquidity: Exceptional

We regard the group's liquidity as exceptional 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. Securely rated fixed-interest instruments and cash alone covered net technical reserves 1.3x on Dec. 31, 2014.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- 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
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Insurance Industry And Country Risk Assessment On The Global Property/Casualty Reinsurance Sector Is Intermediate, July 18, 2014
- Qatari Property/Casualty Insurance Sector Carries An Intermediate Insurance Industry And Country Risk Assessment, Jan. 7, 2015

Ratings Detail (As Of August 19, 2015)

Operating Companies Covered By This Report

Qatar Insurance Co. S.A.Q.

Financial Strength Rating

Local Currency

A/Stable/--

Counterparty Credit Rating

Local Currency

A/Stable/--

Kuwait Qatar Insurance Co. K.S.C.

Financial Strength Rating

Local Currency

A/Stable/--

Qatar Reinsurance Company LLC

Financial Strength Rating

Local Currency

A/Stable/--

Ratings Detail (As Of August 19, 2015) (cont.)**QIC Europe Ltd.**

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

QIC International LLC

Financial Strength Rating

Local Currency

A/Stable/--

Q Life & Medical Insurance Company LLC

Financial Strength Rating

Local Currency

A/Stable/--

Domicile

Qatar

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