

Research Update:

Qatar Insurance Company Ratings Affirmed; Outlook Remains Negative Despite Likely Loan Repayment

March 23, 2021

Overview

- We believe that Qatar Insurance Company Q.S.P.C. (QIC) will likely receive the balance of its loan to Markerstudy (MS) in the first half of 2021.
- The group reported another underwriting loss in 2020 on the back of COVID-19 and catastrophe losses. However, capitalization has improved through various management actions in 2020.
- We are affirming our 'A' issuer credit and financial strength ratings on QIC and its guaranteed subsidiaries.
- The outlook remains negative to reflect the possibility of a downgrade if QIC does not improve its underwriting performance over the next 12 months.

PRIMARY CREDIT ANALYST

Robert J Greensted
London
+ 44 20 7176 7095
robert.greensted
@spglobal.com

SECONDARY CONTACT

Emir Mujkic
Dubai
+ (971)43727179
emir.mujkic
@spglobal.com

Rating Action

On March 23, 2021, S&P Global Ratings affirmed its 'A' issuer credit and financial strength ratings on QIC and its guaranteed subsidiaries. The outlook remains negative. At the same time, we affirmed our 'BBB+' rating on QIC's subordinated debt issued through Qatar Reinsurance Company Ltd. and QIC (Cayman) Ltd.

Rationale

We believe that QIC will likely receive repayment of the outstanding amount of its loan to MS in the first half of 2021. This follows an investment by Pollen Street into MS announced in January 2021. We believe that QIC has managed the delayed repayment well such that it receives compensation on its loan while maintaining its important distribution relationship with MS.

QIC reported a much-reduced net profit in 2020 of Qatari riyal (QAR) 126 million (2019: QAR671 million) driven by additional claims from both COVID-19 and natural catastrophes. QIC's combined ratio of 112% was higher than our expectation for 2020 and at the higher end of the reinsurance peer group. We have previously viewed QIC as having less volatility in its results than peers in the reinsurance sector such as Markel, Axis, and Lloyd's, but in recent years QIC has come closer to

their levels of volatility. Despite QIC's strong investment performance, without the gain made on the partial sale of its subsidiary, QLM Life and Medical Insurance Company Q.P.S.C., the group would have recorded a net loss in 2020.

2020 is the fourth consecutive year that QIC has recorded an underwriting loss. While its Gulf segments have continued to perform well, QIC's international segments (Qatar Re in particular) have dragged down the overall underwriting result. We have therefore maintained our negative outlook on QIC.

Despite pressure from its underwriting results, QIC's capital has improved over 2020 and early 2021. The group now has an excess of capital above our 'AAA' benchmark in our risk-based model. We expect QIC to maintain this throughout 2021-2023 as the group is likely to experience low-to-no growth over the same period. QIC's management took several steps to improve the group's capital position in 2020-2021. The most important of these was raising \$300 million in hybrid capital early in 2020, but the group also improved capital adequacy by de-risking its investment portfolio and choosing not to pay a dividend in respect of the 2020 year.

Outlook

The negative outlook reflects our view that QIC's underwriting performance may continue to weigh on the group's overall performance and that QIC's international operations will underperform its peers in the reinsurance and specialty markets over the next 12 months. This underperformance may reflect a weakening of the group's position in these markets.

Downside scenario

We could downgrade QIC by one notch if we do not see improved underwriting performance over the next 12 months, reporting combined ratios in the 98-100% range (in a normalized catastrophe year). We could also lower the rating if QIC's capital position were to weaken below its current 'AAA' level or its fixed-charge cover did not improve to over 4x, although this is not our base-case scenario.

Upside scenario

We could revise the outlook on QIC to stable if we saw the group's underwriting performance return to below breakeven levels over the next 24 months while the group maintains its current capital position.

Ratings Score Snapshot

	To	From
Business risk profile	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive position	Strong	Strong
Financial risk profile	Strong	Strong
Capital and earnings	Very Strong	Strong
Risk exposure	Moderately High	Moderately Low

	To	From
Funding structure	Neutral	Neutral
Anchor	a	a
Modifiers	0	0
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Ratings List

Ratings Affirmed

Qatar Insurance Co. Q.S.P.C.

Issuer Credit Rating A/Negative/--

Kuwait Qatar Insurance Co. K.S.C.

Financial Strength Rating A/Negative/--

QIC Europe Ltd.

Issuer Credit Rating A/Negative/--

QIC (Cayman) Ltd.

Subordinated BBB+

Qatar Reinsurance Co. Ltd.

Subordinated BBB+

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 for further information. A description of each of

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