

# RatingsDirect®

---

## Qatar Insurance Co. S.A.Q.

**Primary Credit Analyst:**

Ali Karakuyu, London (44) 20-7176-7301; ali.karakuyu@spglobal.com

**Secondary Contact:**

Emir Mujkic, Dubai (971) 4-372-7179; emir.mujkic@spglobal.com

### Table Of Contents

---

Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

Financial Risk Profile

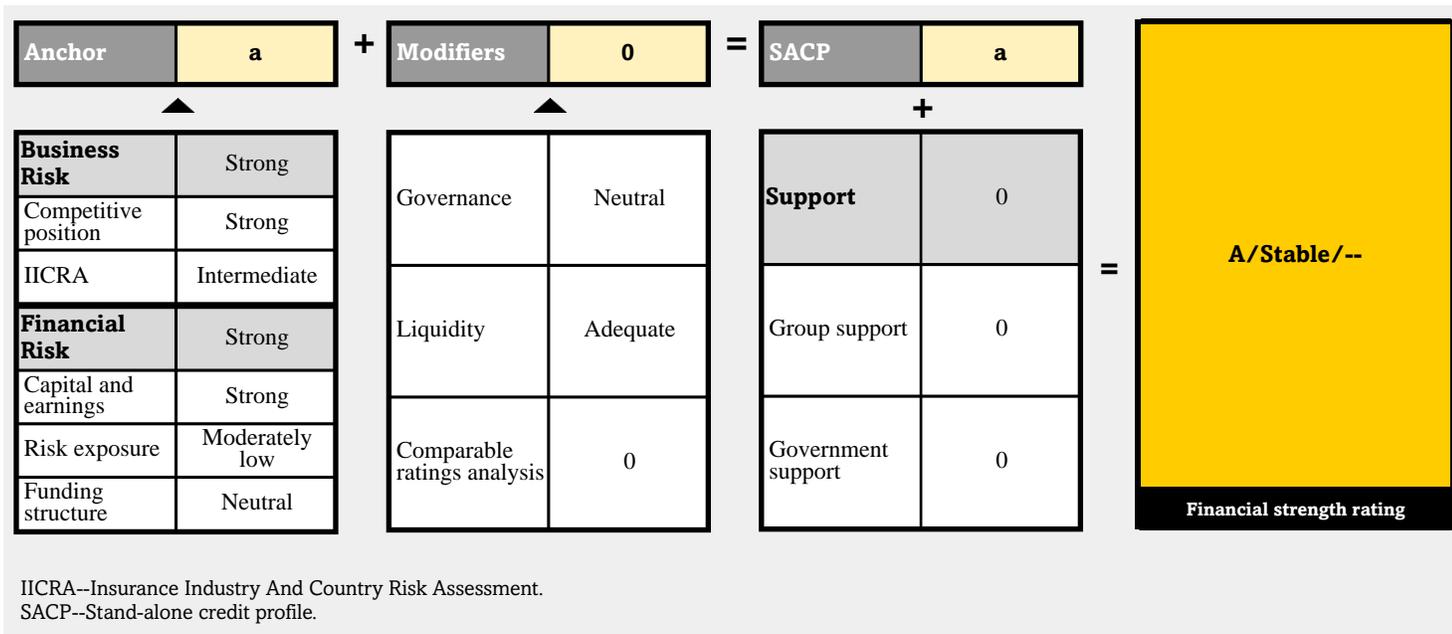
Other Key Credit Considerations

Appendix

Related Criteria

Related Research

# Qatar Insurance Co. S.A.Q.



## Credit Highlights

### Overview

| Strengths  | Risks   |
|--|---|
| 'AAA' level risk-based capital adequacy, despite rapid growth and various acquisitions in recent years | Rapidly built significant exposure to the U.K. motor business, mainly through the Markerstudy group   |
| A diversified premium base by geography, which supports a strong business position                     | Despite some positive momentum going into 2020 renewals, challenging pricing conditions across commercial insurance and reinsurance, in common with peers |

**S&P Global Ratings expects Qatar Insurance Co. S.A.Q.'s (QIC) capital adequacy and strong business position will remain key rating strengths.** Over the next two years, we anticipate QIC will maintain risk-based capital adequacy (measured using our model) above our 'AAA' benchmark. Moreover, despite challenging pricing conditions in some of its main business lines, the group's large-scale, diversified premium base by geography and ability to post good results support its competitive position. From a regulatory perspective, we expect the group to maintain its solvency ratio at reasonable levels (160%-170%) over the next 12 months.

**QIC has a historically aggressive growth strategy through acquisitions and new business when compared with that of peers.** Following years of material, double-digit business growth, gross written premiums (GWP) in 2018 grew by about 8%, reaching Qatari riyal (QAR) 12.6 billion. This is despite the nonrenewal of a significant portion of the business resulting from corrective actions over the past two years. The group replaced a material part of declining business with premium emanating through the acquisition of U.K.-based motor insurer Markerstudy (MS), which was completed in 2018. QIC's robust capital levels mitigates the potential risks related rapid growth and concentration to the U.K. motor market.

**Despite catastrophe-heavy years in 2017-2018, QIC remained profitable thanks to investment income.** In 2018, QIC posted a net combined ratio of 101% (2017: 106%). This mainly followed technical losses at Qatar Re and Antares following a number of hurricanes and typhoons as well as the California wildfires. In addition, a major marine loss in Germany affected Antares. QIC also strengthened its reserves following the MS acquisition. Offsetting this technical performance, the group's investment income resulted in net profits of QAR664 million (2017: QAR424 million). For the first nine months of 2019, gross premiums increased slightly to QAR9.8 billion from QAR9.5 billion for the same period in 2018, reflecting QIC's continued focus to de-risk its book. The group posted a high combined ratio (101.5%) during this period partly driven by changes to the Ogden discount rate in the U.K. (excluding this, the combined ratio is 99.3%). Furthermore, the group's results, in common with its peers, have been affected by provisions for catastrophe events, notably Faxai and Hagibis. Net income grew by slightly to QAR500 million (compared with QAR474 million for the same period in 2018).

### Outlook: Stable

The stable outlook reflects our expectation that QIC's capital and earnings will remain strong over the next 24 months. We expect the group will maintain its strong business position. In particular, we do not expect the increased exposure to the U.K. motor market to adversely affect its earnings profile.

#### Downside scenario

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

- There are signs that the group's risk-based capital is likely to drop materially below the 'AAA' level. This could arise from weak earnings, excessive profit distribution, material growth, and acquisitions.
- We see a sustained weakening of its business profile through deteriorating earnings.
- There is evidence of materially higher exposure to catastrophe or other highly volatile risks.

#### Upside scenario

We view a positive rating action as unlikely over the next 24 months. This reflects the challenging pricing conditions in QIC's main business lines as well as the group's short track record in a material amount of business it currently writes (that is, most of the business outside the Gulf Cooperation Council).

## Key Assumptions

- Stable outlook on the global reinsurance sector and on the majority of the reinsurers we rate
- Global reinsurers to benefit from still-robust capital adequacy, disciplined underwriting, strong risk management capabilities, and hardening reinsurance pricing
- QIC to achieve at least low-single-digit rate increases over the next 12 months.
- Annual premium growth rate for 2019-2020 of about 5%

| Qatar Insurance Co. -- Key Metrics   |           |           |                  |                  |                  |
|--------------------------------------|-----------|-----------|------------------|------------------|------------------|
| (Mil. QAR)                           | 2020f     | 2019f     | 2018             | 2017             | 2016             |
| S&P Global Ratings capital adequacy* | Excellent | Excellent | Extremely Strong | Extremely Strong | Extremely Strong |
| Gross premium written                | 13,898    | 13,236    | 12,606           | 11,659           | 9,901            |
| Net income                           | 937       | 912       | 664              | 424              | 1,052            |
| Return on shareholders' equity(%)    | ~10       | ~10       | 8                | 5                | 15               |
| P/C net combined ratio (%)           | 99        | ~100      | 101              | 106              | 98               |
| Financial leverage (%)               | ~18       | ~18       | 18               | 18               | N/A              |
| Fixed charge coverage (x)            | ~8        | ~8        | 8                | 7                | N/A              |

\*2019-2020 description updated due to new insurance criteria published July 1, 2019. f--S&P Global Ratings forecast. N/A--Not available.

## Business Risk Profile: Strong

QIC benefits from a diverse competitive position supported by its leading domestic standing, regional Gulf Cooperation Council (GCC) operations, and a substantial (re)insurance income stream from the international market, which generates about three-quarters of the group's GWP.

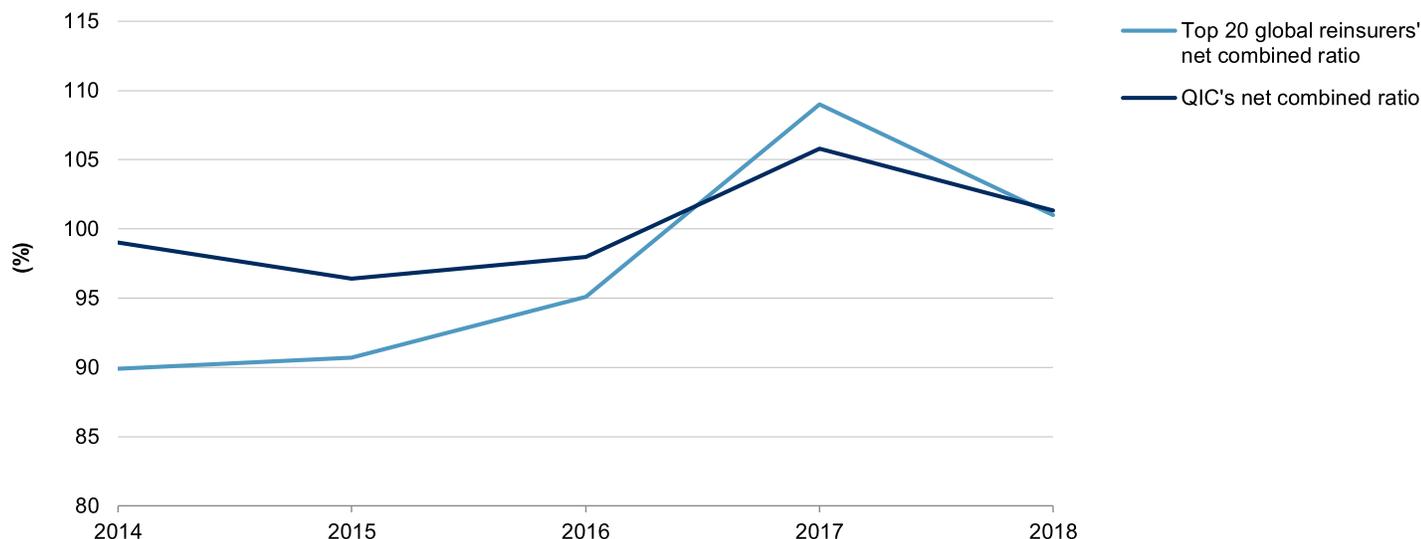
The group has developed a risk management framework that is consistent with the complexity of its risks, particularly at Qatar Re and Antares. The framework continues to evolve with QIC's risk profile, and we expect the development of risk management to support the group's rapid growth into new product and geographic areas.

In 2018, QIC completed the acquisition of MS, resulting in a material exposure to the U.K. motor segment, which represents about one-third of QIC's premiums income. The earnings sourced from the low-margin motor business will continue to remain modest particularly because the profit and loss sharing mechanism provides some protection against potential deterioration in QIC's underwriting performance. Qatar Re and MS have a long-term distribution agreement, which governs the relationship between the MS' U.K.-based managing general agent and QIC, historically sourced a significant amount of premium (\$570 million, or about 20% of the total premium in 2017) from MS by providing reinsurance. After the acquisition, the total premium stemming from MS increased materially (as of September 2019, the MS business accounted for 21% of QIC's gross premium) through the provision of more long-term reinsurance arrangements to MS' managing general agent. MS mainly writes U.K. motor insurance business and has about 5% share of that market. The acquisition brings the total gross written premium to about £750 million (about \$1 billion) to Qatar Re including the aforementioned \$570 million.

Furthermore, with about 45% of premiums coming from Qatar Re, the group has material exposure to the global reinsurance sector. Despite some positive momentum heading into the 2020 renewals, we believe the general pricing environment remains unfavorable. Given this, QIC did not renew a material amount of business across various lines, including marine and aviation, agriculture, and property.

The deterioration in QIC's operating performance over the past two years is broadly in line with that of the top 20 global reinsurers (see chart 1), which have also suffered from catastrophe-related events and other large losses. Our base-case assumes that QIC will report net combined ratios close to 100% for 2019 and just below 100% for 2020.

## Qatar Insurance Co. -- Net Combined Ratio Compared With That Of Top 20 Global Reinsurers



Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

### Financial Risk Profile: Strong

Our base-case scenario assumes that QIC's risk-based capital adequacy will remain above the 'AAA' benchmark over 2019-2020, supported by retained profits. Our assessment takes into account the group's propensity for significant growth in its appetite for acquisitions. Furthermore, MS owes £240 million to QIC, and QIC expects to receive the entire amount by April 30, 2020. At year-end 2018, the buffer above the 'AAA' level decreased. This was due to unrealized losses on investments as well as reserve strengthening on MS's liabilities. From a regulatory perspective, we expect the group's consolidated solvency ratio is likely to remain at 160%-170%. A drop below 150% will mean that the group will need to submit an action plan to the regulator (Qatar Central Bank) to increase the ratio to at least 150%.

In our opinion, capital and earnings volatility will likely be contained thanks to QIC's risk controls. These have been enhanced over a number of years to adapt to the company's growth and diversification. We therefore believe that exposures will remain within set limits and that the company will unlikely experience underwriting or investment losses beyond its risk appetite.

**Earnings profile by key segments: International business (Qatar Re, Qatar Europe Ltd. [QEL], the Gibraltar based carriers and Antares) forms about 75% of the total business, with the balance coming from MENA.**

**Qatar Re: 44% of premiums in 2018.** Underwriting performance improved in 2018 with the combined ratio falling to 104.5% from 121.5% in 2017. Large Cat contributed 1.6% compared with 14.7% in 2017.

**Antares: 17% of premiums in 2018.** Underwriting performance in 2018 remained flat with a combined ratio of 106.6%. California wildfires, Japanese Typhoon Jebi, and the Sassi Superyacht fire had a combined net impact of \$48 million. Cat events and Sassi added 10 percentage points to the combined ratio.

**MENA: 23% of premiums in 2018.** QIC's underwriting performance in regional markets, such as Qatar, Kuwait, and the United Arab Emirates, is generally better than the international book. Underwriting performance of Q Life & Medical Insurance Company LLC, which accounts for the majority of the regional premiums (\$288 million in 2018), is in the 95%-99% range in 2016-2018.

QIC's investment portfolio includes about 20% of high-risk assets, notably equities and real estate. While this is higher than that of global reinsurance peers, it compares favorably with its regional peers in the GCC. The rest of investments are in cash and fixed-income securities. Therefore, QIC's investments are geared toward the financial sector.

Our view of the insurer's funding structure is neutral to the 'A' ratings. At year end-2018, the group's financial leverage was about 18%. Moreover, QIC has proven access to capital markets. Since 2005, the group has raised \$957 million through rights issues and saw high demand for the hybrid bonds at the time of issuance.

### **Operational leverage**

The group borrows U.S.-dollar-denominated cash and invests at local banks at higher interest rates in local currency, which slightly increases its investment yield. The group pledges its fixed-income instruments as collateral and the amount borrowed does not exceed a predetermined limit of its fixed-income holdings (these are shown as short-term borrowings in the report and accounts). Because the Qatari riyal is pegged to the dollar, there is no currency-exchange risk provided the long-standing peg continues. QIC does not take duration risk and the amount borrowed is placed as cash with terms of one-to-three months. We therefore treat these borrowings as operational leverage.

## **Other Key Credit Considerations**

### **Governance**

QIC benefits from an effectively embedded risk culture in the organisation. A chief risk officer supports the in-house risk function at Qatar Re. QIC has invested in qualified staff, particularly since the Antares acquisition and the resulting access it received from experts in the London market.

Moreover, we believe that QIC's board is independent from the executive team. All strategic decisions require the board's approval and, in our view, take into account all stakeholders. We have not identified any governance deficiencies in our analysis.

In 2019, there were various senior management changes, including the promotion of chief underwriter Michael Van der Straaten to CEO position of Qatar Re following the departure of previous CEO Gunther Saacke. Similarly, Joe Battle (previously chief underwriting officer) replaced Stephen Redmond, who has moved to an internal role. These changes are neutral to our assessment of the group's governance.

### **Enterprise risk management**

The group operates across many continents writing insurance and reinsurance business. In our view, this necessitates a comprehensive risk control framework, which we believe QIC has embedded and which it continues to enhance as it

continues to integrate Antares and Qatar Re in particular. We believe risk management is highly important because of the group's rapid expansion into new lines and operations, assumed reinsurance, and a multiregional platform. We expect the risk management culture and key risk controls (underwriting, reserving and catastrophe risk management) to continue to improve as a centralized and coherent group enterprise risk management framework is developed. Risk modelling is well advanced in some parts of the group and will be further strengthened once a group model is finalized.

## Liquidity

We regard QIC's liquidity as adequate relative to its needs. 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.

| Qatar Insurance Co. -- Ratings Score Snapshot |                |
|---|----------------|
| Business Risk Profile                         | Strong         |
| Competitive position                          | Strong         |
| IICRA   | Intermediate   |
| Financial Risk Profile                        | Strong         |
| Capital and earnings                          | Strong         |
| Risk exposure                                 | Moderately low |
| Funding structure                             | Neutral        |
| Anchor*                                       | a              |
| Modifiers                                     |                |
| Governance                                    | Neutral        |
| Liquidity                                     | Adequate       |
| Comparable ratings analysis                   | 0              |
| Financial Strength Rating                     | A              |

\*This is influenced by QIC's risk-based capital, which is expected to stay at 'AAA' level and diversified premium base.

## Appendix

| Qatar Insurance Co. S.A.Q -- Appendix         |                  |                  |
|---|------------------|------------------|
| Ratio/Metric                                  | 2018             | 2017             |
| S&P Global Ratings capital adequacy*          | Extremely Strong | Extremely Strong |
| Total invested assets                         | 23,649           | 22,307           |
| Total shareholder equity                      | 7,972            | 8,274            |
| Gross premiums written                        | 12,606           | 11,659           |
| Net premiums written                          | 10,809           | 9,550            |
| Reinsurance utilization (%)                   | 14               | 18               |
| EBIT  | 779              | 491              |
| Net income (attributable to all shareholders) | 664              | 424              |
| Return on revenue (%)                         | 6                | 3                |
| Return on shareholders' equity (reported) (%) | 8                | 5                |
| P/C: net combined ratio (%)                   | 101              | 106              |
| P/C: net expense ratio (%)                    | 32               | 26               |

## Qatar Insurance Co. S.A.Q -- Appendix (cont.)

| Ratio/Metric             | 2018 | 2017 |
|--------------------------|------|------|
| Net investment yield (%) | 4    | 4    |

\*Descriptor under previous insurance criteria

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Qatar Insurance Co. Affirmed At 'A'; Outlook Stable, July 24, 2019
- 2020 Reinsurance Sector Outlook: Secular Headwinds Continue Despite Positive Pricing Momentum Sept. 3, 2019

## Business And Financial Risk Matrix

| Business risk profile | Financial risk profile |             |             |              |          |          |        |            |
|-----------------------|------------------------|-------------|-------------|--------------|----------|----------|--------|------------|
|                       | Excellent              | Very Strong | Strong      | Satisfactory | Fair     | Marginal | Weak   | Vulnerable |
| Excellent             | aa+                    | aa          | aa-         | a+           | a-       | bbb      | bb+    | b+         |
| Very Strong           | aa                     | aa/aa-      | aa-/a+      | a+/a         | a-/bbb+  | bbb/bbb- | bb+/bb | b+         |
| <b>Strong</b>         | aa-/a+                 | a+/a        | <b>a/a-</b> | a-/bbb+      | bbb+/bbb | bbb-/bb+ | bb/bb- | b+/b       |
| Satisfactory          | a                      | a/a-        | a-/bbb+     | bbb+/bbb     | bbb/bbb- | bb+/bb   | bb-/b+ | b/b-       |
| Fair                  | a-                     | a-/bbb+     | bbb+/bbb    | bbb/bbb-     | bbb-/bb+ | bb/bb-   | b+/b   | b-         |
| Weak                  | bbb+/bbb               | bbb/bbb-    | bbb-/bb+    | bb+/bb       | bb/bb-   | bb-/b+   | b/b-   | b-         |
| Vulnerable            | bbb-/bb+               | bb+/bb      | bb/bb-      | bb-/b+       | b+/b     | b/b-     | b-     | b-         |

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

## Ratings Detail (As Of November 14, 2019)\*

### Operating Company Covered By This Report

**Ratings Detail (As Of November 14, 2019)\*(cont.)****Qatar Insurance Co. S.A.Q.**

Financial Strength Rating

*Local Currency*

A/Stable/--

Issuer Credit Rating

A/Stable/--

**Related Entities****Kuwait Qatar Insurance Co. K.S.C.**

Financial Strength Rating

*Local Currency*

A/Stable/--

**Qatar Reinsurance Company Ltd.**

Financial Strength Rating

*Local Currency*

A/Stable/--

**QIC Europe Ltd.**

Financial Strength Rating

*Local Currency*

A/Stable/--

Issuer Credit Rating

*Local Currency*

A/Stable/--

**Q Life & Medical Insurance Company LLC**

Financial Strength Rating

*Local Currency*

A/Stable/--

**Domicile**

Qatar

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

**Additional Contact:**

Industrial Ratings Europe; Corporate\_Admin\_London@spglobal.com

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.