

Research Update:

Qatar Insurance Co. S.A.Q. Outlook Revised To Negative On Potential Implications From Markerstudy; 'A' Ratings Affirmed

November 25, 2019

Overview

- Markerstudy (MS) provides about 28% of Qatar Insurance's annual premium, and MS owes Qatar Insurance £240 million in the form of a loan, which is due before May 2020.
- There is ongoing uncertainty as to whether or not MS will pay its financial obligations to QIC as promised.
- We have therefore revised our outlook on QIC to negative from stable and affirmed our 'A' ratings on the group.
- The negative outlook indicates that we could lower the ratings by one notch if QIC's strong competitive position deteriorates or we identify deficiencies in QIC's strategic planning process and risk management practices, or if our view of capital adequacy were to materially deteriorate, although this is unlikely.

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Rating Action

On Nov. 25, 2019, S&P Global Ratings revised its outlook on Qatar Insurance Co. S.A.Q. (QIC) to negative from stable. We also affirmed our 'A' insurer financial strength and long-term counterparty credit ratings on QIC and its guaranteed subsidiaries (see ratings list). We also affirmed the 'BBB+' issue rating on the group's subordinated debt.

Rationale

QIC has significant business and financial risk exposure to Markerstudy (MS). QIC sources about 28% of its annual premium from MS through its long-term reinsurance arrangement to MS' managing general agents. When QIC acquired four of MS' subsidiaries in 2018, it also purchased the parent-related loans of these entities (£240 million). We understand the entire loan balances are due before May 2020.

Any failure by MS to pay its £240 million loan to QIC--accounting for about 14% of shareholders' equity (Qatari riyal [QAR] 8.4 billion) as of Sept. 30, 2019--could place downward pressure on QIC's financial risk profile. Furthermore, QIC has premium receivables amounting to about £200 million in total; we recognize that £160 million of the receivables are held in a trust account and they are due within 90 days as of Sept. 30, 2019. We understand QIC controls the trust account's operation. Therefore, counterparty risk to QIC is minimal.

Our base-case scenario is that QIC is likely to maintain its 'AAA' capital over 2019-2020. This takes into account our earnings projection (about QAR900 million per year in 2019 and 2020) and dividend policy. We expect QIC to maintain its consolidated group solvency ratio between 160% and 170% over 2019-2020.

On the business side, QIC could potentially lose a significant portion of the premium it receives--about \$1 billion per year--through MS. If MS does not pay its obligations it will most likely find it difficult to maintain its premium income. This is because such behavior would indicate financial difficulty at MS and by extension this could cause reputational damage to MS and QIC. We understand that QIC is working with MS to ensure a successful resolution of the potential issues with MS. On the earnings side, any potential loss of business from MS is likely to have only a modest effect on QIC's earnings.

In our view, the developments with MS, along with rapid premium growth--gross premium increased by 27% between 2016 and 2018--and significant changes in business mix in recent years, raise questions about the group's strategic planning process and risk management practice. That said, we acknowledge that QIC has managed to post profit consistently in recent years while raising and holding sufficient levels of capital to manage the material amount of growth in recent years.

Outlook

The negative outlook indicates the possibility that we could lower the ratings by one notch if QIC's strong competitive position deteriorates or we identify governance deficiencies in QIC's strategic planning process and risk management practices. QIC's exposure to MS could significantly reduce its premium income albeit the impact on earnings is likely to be modest.

Downside scenario

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

- There is uncertainty that the group's risk-based capital is not likely to remain at the 'AAA' level;
- We see a weakening of its competitive position through material decline in premium income and, by extension, its earnings;
- There is evidence of materially higher exposure to catastrophe or other highly volatile risks; or
- We identify deficiencies in strategic planning process or risk management practices that place pressure on either competitive position or financial profile.

Upside scenario

We could revise the outlook to stable over the next 24 months if QIC maintains its competitive position, continues to demonstrate that its risk management practices and approach to strategic

planning are robust, and there is a successful resolution of the potential issues with MS. We would also expect QIC to maintain its 'AAA' level risk-based capital through 2019-2020.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate risk
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 we currently expect to stay at the 'AAA' level--and diversified premium base.

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

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Qatar Insurance Co. S.A.Q.		
Issuer Credit Rating	A/Negative/--	A/Stable/--

Qatar Insurance Co. S.A.Q.

Qatar Reinsurance Company Ltd.

QIC Europe Ltd.

Q Life & Medical Insurance Company LLC

Kuwait Qatar Insurance Co. K.S.C.

Financial Strength Rating

Local Currency	A/Negative/--	A/Stable/--
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QIC Europe Ltd.

Issuer Credit Rating

Local Currency	A/Negative/--	A/Stable/--
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Ratings Affirmed

Qatar Reinsurance Company Ltd.

Subordinated	BBB+	BBB+
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