

Research Update:

Qatari Al Koot Insurance & Reinsurance Co. 'A-' Ratings Affirmed After Revised Capital Model Criteria; Outlook Stable

February 20, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital, "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions."
- The revised criteria have no material impact on our ratings on Al Koot Insurance & Reinsurance Co. P.J.S.C. (Al Koot).
- We therefore affirmed our 'A-' ratings on Al Koot.
- The stable outlook reflects our view that Al Koot will remain profitable and maintain capital adequacy in line with our 99.99% confidence level, despite further business growth over the next two years.

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Rating Action

On Feb. 20, 2024, S&P Global Ratings affirmed its 'A-' issuer credit and insurer financial strength ratings on Al Koot Insurance & Reinsurance Co. P.J.S.C. (Al Koot) The outlook is stable.

Impact Of Revised Capital Model Criteria

- The revised criteria have no material impact on Al Koot's risk-based capital adequacy.
- The higher risk diversification benefit we capture more explicitly in our analysis offsets the higher asset and liability charges under the new model.
- We therefore expect Al Koot's capital adequacy to remain comfortably in line with our 99.99% confidence level over the next two years, based on our new criteria.

Credit Highlights

Overview

Key strengths	Key risks
Capital adequacy in line with our 99.99% confidence level.	Generates about half of its business from the medical line, suggesting some concentration risk, which could lead to top- and bottom-line volatility.
Among the largest domestic insurers in Qatar and part of a local consortium, giving it preferential access to government-related business.	

Outlook

The stable outlook reflects our view that Al Koot will remain profitable and maintain capital adequacy in line with our 99.99% confidence level, despite further business growth over the next two years.

Downside scenario

We could lower our ratings if material underwriting losses or top-line volatility prompted us to negatively reassess Al Koot's capital adequacy or competitive position.

Upside scenario

Although we consider it unlikely, we could take a positive rating action over the next two years if:

- Al Koot demonstrated sustainable and profitable business growth, leading to a pronounced increase in market share, while operating performance exceeded the market average; or
- We believed that Al Koot had more strategic long-term importance to ultimate owner QatarEnergy (formerly Qatar Petroleum; AA/Stable/--) than under our current assessment.

Rationale

S&P Global Ratings' affirmation indicates our expectation that Al Koot's capital adequacy will remain in line with our 99.99% confidence level over the next two years, thanks to significant net profits. As of the third quarter of 2023, Al Koot enjoyed net profits of Qatari riyal (QAR) 82 million, nearly double the profits for the same period in 2022. The improvement came from both underwriting and investment activities. Al Koot experienced lower claims activity in 2023 while benefitting from higher interest rates on its bank deposits. Over the next two years, our base-case scenario assumes net profits of QAR70 million-QAR90 million. The insurer's overall profitability continues to support its business growth, despite relatively high dividend payouts. Our base-case scenario includes an assumption of a dividend payout ratio of about 70% of net profits, although we note that Al Koot has flexibility to reduce its dividends in the unlikely event capital adequacy comes under pressure.

Al Koot's significant growth is likely to continue in 2024-2025, before moderating thereafter.

As of the third quarter of 2023, insurance revenue had grown 37% to QAR857 million. Al Koot saw growth across most of its business lines, particularly energy, medical, and international inward reinsurance. We note, however, that the latter book remains relatively small. We expect the insurer's revenue to increase by 15%-20% in 2024-2025, before moderating to about 10% in 2026. Factors to support growth include the expected launch of the health insurance scheme for expatriates, new business opportunities from targeting small and midsize entities, and various engineering projects relating to the expansion of QatarEnergy's gas fields. Nonetheless, Al Koot's exposure to large contracts and its concentration in medical and energy lines are relative rating weaknesses.

We rate Al Koot based on its stand-alone characteristics. Initially established as a captive insurer of QatarEnergy, Al Koot started its transition to a commercial open-market insurance and reinsurance company in 2016 but maintains close ties with QatarEnergy. QatarEnergy is the ultimate owner of Al Koot through its 10% of Gulf International Services Q.S.C. It has absolute operational and financial control of the insurer under a golden share agreement. However, we think that Al Koot is of nonstrategic importance to QatarEnergy and consequently do not apply any upward notches for extraordinary support to our assessment of Al Koot's stand-alone credit profile.

Ratings Score Snapshot

Financial strength rating	A-/Stable
Anchor*	a-
Business risk	Satisfactory
Competitive position	Satisfactory
IICRA	Intermediate
Financial risk	Strong
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

*We choose the higher of the two possible outcomes, reflecting Al Koot's robust risk-based capital adequacy as well as its preferred access to profitable government-related business.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

Al Koot Insurance & Reinsurance Co. P.J.S.C.	
Issuer Credit Rating	A-/Stable/--
Financial Strength Rating	A-/Stable/--

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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