Outlook On Kuwait-Based Warba Insurance To Positive; Ratings Affirmed At 'BBB'

- Warba is the fourth-largest insurer in Kuwait and reported gross premiums of Kuwaiti dinar (KWD) 32.1 million (approximately US$115 million) and post-tax net income of KWD1.5 million in 2014. We assess its business risk profile as satisfactory, based on intermediate insurance industry and country risk and its adequate competitive position.
- Warba's reported shareholders' funds at the end of 2014 were KWD46.6 million. We assess its financial risk profile as moderately strong, based on its strong capital and earnings, extremely strong capital adequacy ratios according to our capital model, and moderate risk position.
- We combine Warba's business risk and financial risk profiles to derive an anchor of 'bbb+' under our criteria. However, modifying factors reduce this by one notch. We are therefore affirming our 'BBB' ratings on Warba.
- The positive outlook indicates that we could raise the ratings by one notch during the two-year ratings outlook if expected procedural improvements in general, and a reduction in risk in the investment portfolio in particular, enable us to assess either Warba's risk position or its enterprise risk management practices more positively, particularly if this is accompanied by an improvement in operating performance.

LONDON (Standard & Poor's) April 27, 2015--Standard & Poor's Ratings Services today revised to positive from stable the outlook on Kuwait-based Warba Ins.
Co. K.S.C.'s (Warba) counterparty credit and financial strength ratings. At the same time, the ratings were affirmed at 'BBB'.

The outlook revision indicates our growing expectation that we could raise our ratings on Warba by one notch by 2017 if senior management maintains its policy of actively improving enterprise risk management (ERM) across the company, and if, as part of these improvements, the currently high exposure to local equities further moderates. These continuing improvements to the risk profile of the company could, in due course, lead us to reassess our view of Warba's risk position, which we currently regard as moderate, and its enterprise risk management (ERM), which we currently classify as weak.

We have affirmed our ratings on Warba because, in our view, its business risk profile remains satisfactory, and its financial risk profile continues to be moderately strong. Under our criteria, these profiles lead to an anchor of 'bbb+'. We base our view of the business risk profile on our assessment of Warba's competitive position as adequate and its insurance industry and country risk as intermediate. The financial risk profile is supported by our view of Warba's capital and earnings as strong, its risk position as moderate, and its financial flexibility as adequate.

Most other potential modifying factors, such as Warba's strong liquidity, are neutral to the rating outcome. However, because Warba currently combines weak ERM with fair management and governance, we continue to modify the outcome such that the final ratings remain one notch below the anchor, at 'BBB'.

Warba was established in 1976 and is listed on the Kuwait Stock Exchange, although most of its shares are closely held. In 2014, the company wrote gross premiums of KWD32.1 million (2013: 30.9 million), comprising30.8% medical, 24.0% motor, 18.7% general accident (liability), 11.5% life, 9.7% fire and household, and 5.3% marine and aviation. At the end of 2014, reported shareholders' funds were KWD46.6 million (2013: KWD46.6 million), and the net profit for the year was KWD1.5 million (2013: KWD1.2 million). Warba is generally regarded as one of the top four primary insurers in the highly competitive Kuwaiti insurance sector, which currently comprises 36 companies.

The positive outlook indicates that we anticipate raising our ratings on Warba by one notch if the currently high exposure to local equities moderates, thereby potentially allowing us to improve our view of Warba's risk position and ERM. At the same time, Warba's business risk profile would need to remain at least satisfactory, in our opinion, and its financial risk profile at least moderately strong.

As long as other factors are unchanged, we could raise the ratings if our view of either the risk position or ERM at Warba improves. This would most likely occur if the company were to further reduce its currently substantial exposure to what we regard as high-risk assets, in particular local equities.

We could revise the outlook to stable if Warba fails to build on recent improvements in its ERM practices, or if either its business risk or financial risk profiles deteriorates from current levels, for example, because of lower-than-expected earnings or a continuing very high exposure to equity instruments.