Kuwait-Based Warba Insurance Co. 'BBB' Ratings Affirmed; Outlook Negative

- Warba Insurance Co.'s (Warba's) declining revenue and underwriting losses continue to weigh on its competitive position. That said, on a net income basis, Warba has shown signs of recovery after returning to profitability in 2018.
- There has been a marginal decline in the company's capital adequacy and liquidity because of an increase in its net technical reserves.
- We are affirming our 'BBB' long-term issuer credit and financial strength ratings on Warba.
- The negative outlook indicates that we could lower the ratings if there is a significant deterioration in Warba's capital adequacy or liquidity.

DUBAI (S&P Global Ratings) July 16, 2019--S&P Global Ratings today affirmed its 'BBB' long-term issuer credit and financial strength ratings on Kuwait-based Warba Insurance Co. (Warba). The outlook remains negative.

Warba's competitive position has remained under pressure over the past few years due to losses both on the underwriting and investments levels. The company did show some improvement in 2018 and first-quarter 2019, with reported net profit in excess of Kuwaiti dinar (KWD) 0.6 million ($2 million) in both periods, compared with losses totaling KWD2.7 million in 2016-2017. However, this was mainly due to investment gains, while underwriting is still unprofitable, with the net combined ratio remaining above 100%. Furthermore, Warba recorded its third consecutive annual decline in gross written premiums (GWP). The company relates this decline to its efforts to stop underwriting losses and improve its net combined ratio, but this has yet to produce results.

During 2016-2017, Warba witnessed significant volatility in its capital and earnings due to financial reporting issues. This resulted in Warba's shareholder equity declining to KWD33.2 million in 2017, compared with KWD45.3 million in 2015, mainly due to reserve strengthening of KWD8.2 million. These issues did not recur in 2018 and Warba's shareholder equity improved to KWD35.9 million. Furthermore, our assessment of Warba's capital and earnings is moderated by the absolute size of its capital base, which could make it sensitive to single loss events or market volatility.

Under our internal risk-based capital model, Warba has maintained robust capital adequacy (redundant at the 'AAA' level), but there has been a marginal decline compared with previous years. This is primarily due to additional charges emanating from credit risk, market risk, and non-life reserve risk that have also led to a slight decline in the company's liquidity position. Although liquidity remains at adequate levels, we see a negative trend.

The outlook is negative because we could lower the ratings by one or more notches if Warba's capital adequacy or liquidity deteriorates further.

We could lower the ratings by one or more notches over the next two years if:

- Warba's capital adequacy or liquidity deteriorates further.
- There is a material reduction in Warba's market share or it continues to make underwriting losses.

We could revise our outlook to stable over the next two years if:

- Warba improves its underwriting performance, capital adequacy, and liquidity from current levels.
- Warba lowers its risk exposure by maintaining a low risk tolerance in its investment exposure and reduced volatility in its capital and earnings.