

Warba Insurance Co 'BBB' Ratings Affirmed; Outlook Remains Negative

S&PGR Affirms Warba Insurance Co. At 'BBB'; Outlook Negative

- Warba Insurance Co.'s (Warba's) net profit improved in 2019 backed by strong investment income.
- That said, Warba's underwriting losses continue to weigh on its competitive position.
- We are therefore affirming our 'BBB' long-term issuer credit and financial strength ratings on Warba.
- The negative outlook indicates that we may lower the rating if Warba's competitive position weakens because of significant underwriting losses and/or an unexpected decline in premium income over the next two years.

DUBAI (S&P Global Ratings) July 27, 2020--S&P Global Ratings affirmed its 'BBB' long-term issuer credit and financial strength ratings on Kuwait-based Warba Insurance Co. (Warba). The outlook remains negative.

In 2018 and 2019, Warba returned to profitability on a net income basis, having posted losses in the previous two years. However, this improvement was mainly supported by increased investment income. In terms of gross written premiums (GWP), Warba registered 4% growth in 2019, reversing the declining premiums trend seen over 2016-2018. The company attributes top line volatility to its efforts to stop underwriting losses and improve its net combined ratio. However, despite these efforts, Warba's underwriting performance remained under pressure both absolutely and relative to that of peers.

Under our internal risk-based capital model, Warba has maintained its capital adequacy at the 'AAA' level, but there has been a marginal decline compared with previous years. Our assessment of Warba's capital and earnings is also moderated by the absolute size of its capital base, which could make it sensitive to single-loss events or market volatility.

The COVID-19 outbreak during first-half 2020 has affected all economies globally including Kuwait's. In our forecasts, we now expect Warba's GWP will remain flat in 2020, followed by modest growth of up to 5% from 2021. On the operating performance side, 2020 will likely remain challenging, with lower investment income and broadly similar underwriting performance leading to breakeven or marginal positive net income.

The negative outlook reflects our view that we may lower the rating if Warba's operating performance or capital adequacy deteriorates further.

We could lower the ratings over the next 12-24 months if:

- Warba's underwriting performance materially deteriorates from current levels;
- Warba's capital adequacy deteriorates, either due to significant underwriting losses or equity market fluctuations.

We could revise the outlook to stable over the next 12-24 months if Warba's underwriting performance improves, both absolutely and relative to peers, while capital adequacy remains at current levels.