Kuwait-Based Warba Insurance Co. Outlook Revised to Stable; 'BBB' Rating Affirmed

- Over the past two to three years, Warba's operating performance has stabilized and the company has maintained its premium growth and capital adequacy.
- Warba has also gradually improved its liquidity position over the past two years.
- We revised our outlook on Warba to stable from negative and affirmed our 'BBB' issuer credit and financial strength ratings.
- The stable outlook reflects our view that Warba will maintain its current market share, positive operating performance, and capital adequacy over the next two years.

DUBAI (S&P Global Ratings) April 7, 2021--S&P Global Ratings today revised its outlook on Kuwait-Based Warba Insurance Co. to stable from negative. At the same time, we affirmed our 'BBB' long-term issuer credit and financial strength ratings.

The outlook revision reflects an improvement in Warba's underwriting performance and reduced concerns about capital and earnings volatility. We also considered the improvement in Warba's liquidity position.

Warba has built a three-year track record of positive net income, although this was mainly supported by investment income in 2018-2019. In 2020, Warba reported a technical profit (the net combined ratio was below 100%) for the first time in last five years. This is a major improvement compared with losses in 2016-2017 totaling Kuwaiti-dinar (KWD) 2.7 million (about $8.9 million). This improvement primarily stemmed from measures taken by the company's management that reduced the expense ratio to 38.3% in 2020 from 48.8% in 2017. These measures include controls on general expenses and acquisition costs.

We understand that government hospitals are covering the cost of treating COVID-19 patients and hence there was no additional burden on Warba's medical loss ratio.

Furthermore, fewer people visiting hospitals for treatment and fewer cars on roads during the lockdown had a positive impact on combined ratios in 2020. We believe that with recovering economic activity in 2021-2022 and no further lockdowns, the net combined ratio will increase from the 2020 level, but remain below 100% over the next two years.

Warba also recorded a second year of modest growth of gross written premiums (GWP) in 2020 after a decline in 2016-2018. Based on Warba's first-quarter 2021 performance, we believe premium income will maintain positive growth in excess of 10% for the full year. Beyond 2021, we expect Warba to return to a modest GWP growth rate of 5%.

Warba continues to maintain robust capital adequacy, in excess of that required at the 'AAA' confidence level as per our risk-based capital model. The company experienced significant capital and earnings volatility in 2016-2017 due to audit qualifications and accounting reclassifications. However, these issues have not reoccurred, which have reduced our concerns. That said, the small absolute size of Warba's capital base could make it sensitive to single loss events or market volatility.

In our view, there is also a major improvement in Warba's liquidity in 2020 on account of an increase in its bank deposits and fixed-income instruments, which increased by a combined KWD7 million. At year-end 2020, the ratio of liquid assets to stressed liabilities improved to 1.76x from 1.53x previous year. We expect this improvement to be permanent.

The stable outlook reflects our view that Warba will maintain its current market share, positive operating performance, and current capital adequacy over the next two years.

We could consider a negative rating action over the next two years if Warba's:

- Capital adequacy deteriorates significantly, due to underwriting or investment losses, aggressive premium growth, unexpected reserve strengthening, or higher-than-expected dividend payouts; or
- Absolute capitalization falls on a permanent basis making the company more susceptible to an exogenous shock.

We could consider a positive rating action over the next two years if Warba:

- Continues its growth trend in premium income while maintaining positive operating performance and robust capital adequacy; and

- Lowers its risk exposure by maintaining a low tolerance to investment risk or by reducing the single counterparty concentration in its investment portfolio materially and on a sustainable basis.