

Research Update:

Kuwait-Based Warba Insurance And Reinsurance Co.

Upgraded To 'BBB+'; Outlook Stable

April 19, 2023

Overview

In 2022, Warba Insurance and Reinsurance Co. K.S.C.P. (Warba) continued to profitably expand its business, reporting 19.5% year-on-year growth of gross written premiums (GWP).

- At the same time, Warba maintained capital adequacy at the 'AAA' confidence level in our capital model.

- We therefore raised our long-term issuer credit and financial strength ratings on Warba to 'BBB+' from 'BBB'.

- The stable outlook reflects our view that Warba will continue to post profitable underwriting performance over the next two years, while improving its top line and maintaining capital adequacy at our 'AAA' benchmark.

Rating Action

On April 19, 2023, S&P Global Ratings raised its long-term issuer credit and insurer financial strength ratings on Kuwait-based Warba Insurance and Reinsurance Co. K.S.C.P. (Warba) to 'BBB+' from 'BBB'. The outlook is stable.

Rationale

The upgrade stems from Warba's profitable expansion of its business over the past three years. The company reported GWP growth of 19.5% to Kuwaiti dinar (KWD) 40.9 million (about \$134 million) in 2022, up from KWD34.2 million in 2021. Although the company achieved growth across

all product lines, the overall increase in GWP was mainly fueled by new medical business.

At the same time, Warba achieved a net combined (loss and expense) ratio of 90.9% compared with 98.1% in 2021. Warba's loss ratio improved to 60.8% from 64% in 2020, driven by stronger results across its portfolio and the closure of some open claims. Its expense ratio also improved to 30.1% from 34.1% in 2021, thanks to management's efforts to control general expenses and

acquisition costs.

We anticipate that Warba's GWP will increase by about 5%-10% in 2023 and 2024 as the company continues to expand its medical insurance portfolio and other lines of business. We also expect the combined ratio to settle at 92%-95%.

Warba maintains robust capital adequacy, in excess of the amount consistent with the 'AAA' confidence level in our risk-based capital model. In recent years, Warba has built a track record of

steady improvements in net earnings, which reached KWD3.1 million in 2022 compared with KWD2.3 million in 2021. We expect capital adequacy will remain at our 'AAA' benchmark over the next two years, supported by net income of more than KWD2 million per year.

Outlook

The stable outlook reflects our view that Warba will maintain profitable underwriting performance over the next two years, while improving its top line and keeping capital adequacy at our 'AAA' benchmark.

Downside scenario

We could take a negative rating action on Warba over the next two years if:

- Underwriting or investment performance significantly weaken compared with our base-case scenario; or

- Capital and earnings become volatile, leading to a permanent decline in capital adequacy to the

'AA' level or lower.

Upside scenario

We consider a positive rating action unlikely over the next two years, given the company's relatively small capital base and overall size compared with higher-rated peers.

Environmental, Social, And Governance

ESG credit indicators: E-2, S-2, G-2.

ESG factors have no material influence on our credit rating analysis of Warba.

Ratings Score Snapshot

	To	From
Business Risk Profile	Fair	Fair
Competitive position	Fair	Fair
IICRA	Intermediate risk	Intermediate risk
Financial Risk Profile	Strong	Strong
Capital and earnings	Very strong	Very strong
Risk Exposure	Moderately high	Moderately high
Funding structure	Neutral	Neutral
Anchor*	BBB+	BBB
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0
Financial Strength Rating	BBB+	BBB