

Research Update:

Warba Insurance and Reinsurance Co. Outlook Revised To Positive From Stable; 'BBB+' Ratings Affirmed

December 5, 2024

Overview

- Following a strong improvement in earnings in 2023, Warba continued to report profitable underwriting and investment results in the first nine months of 2024.
- At the same time, the company's shareholders' equity increased by about Kuwaiti dinar (KWD)40.6 million as of third-quarter 2024 from KWD36.3 million at year-end 2023 and we expect that Warba will maintain capital adequacy at our 99.99% confidence level in our capital model.
- We therefore revised our outlook on Warba to positive from stable and affirmed our 'BBB+' ratings.
- The positive outlook indicates that we could raise the ratings over the next two years if Warba continues to expand its business with better than market-average profitability, while maintaining capital adequacy with a comfortable buffer above the 99.99% confidence level.

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Rating Action

On Dec. 5, 2024, S&P Global Ratings revised its outlook on Kuwait-based Warba Insurance and Reinsurance Co. K.S.C.P. to positive from stable. At the same time, we affirmed our 'BBB+' long-term issuer credit and insurer financial strength ratings on Warba.

Outlook

The positive outlook indicates that we could raise the ratings over the next two years if Warba continues to expand its business with better than market-average profitability, while maintaining capital adequacy with a comfortable buffer above the 99.99% confidence level.

Upside scenario

We could raise the ratings over the next two years if Warba:

- Continues to profitably expand its business, while outperforming peers in technical performance; and
- Maintains capital adequacy comfortably above the 99.99% benchmark, measured by our model, e.g., by reducing risk in its investment portfolio and steering away from high-risk assets.

Downside scenario

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

- Capital adequacy falls more permanently below our 99.99% benchmark.
- Underwriting or investment performance significantly weakens compared with our base-case scenario.

Rationale

The outlook revision follows an improvement in Warba's competitive standing in recent years, as the company continues to profitably expand its business. In 2023, Warba reported a strong increase in net profit to about KWD7.1 million (about \$23 million) compared with about KWD4.9 million in 2022. The earnings improvement was underpinned by both Warba's profitable underwriting and its investment results. In the first nine months of 2024, Warba recorded a 7.4% increase in insurance revenue to KWD31.9 million from KWD29.7 million during the same period in 2023. At the same time, Warba's net profit increased to KWD4.7 million from KWD2.8 million as of the third quarter of 2023, thanks to a further improvement in both underwriting and investment returns. Warba reported a combined ratio (loss and expense) of 76.9% for the first nine months of 2024 as compared with 79.2% for the same period of 2023. We anticipate revenue growth will remain at about 5%-10% per year in 2024 and 2025, as the company continues to expand its business across its key lines in Kuwait.

Warba's shareholders' equity increased to KWD40.6 million as of third-quarter 2024 compared with KWD36.3 million at the end of 2023 and KWD32.1 million as of third-quarter 2023, driven by profitable earnings. In 2023, Warba's shareholders' equity declined, mainly owing to the implementation of International Financial Reporting Standards (IFRS) 17 and IFRS9, as the company booked expected credit losses on financial assets and receivables of about KWD5.8 million. However, some of these provisions reversed during 2024 and we expect capital adequacy will improve to our 99.99% benchmark in 2024 from 99.95% in 2023 and remain at the 99.99% benchmark over the next two years, supported by net income of KWD5 million-KWD7 million per year. In our base-case scenario, we assume a dividend payout ratio of 10%-15% of Warba's share capital.

We view Warba's risk exposure as elevated, reflecting the company's exposure to high-risk assets relative to its total adjusted capital. In 2023, about a half of invested assets were allocated to equity and property investments. We also note that the company borrows cash and invests in higher-yielding bonds to increase its investment yield. We treat these borrowings as operational leverage.

Ratings Score Snapshot

	To	From
Business Risk Profile	Satisfactory	Satisfactory
Competitive position	Satisfactory	Satisfactory
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+

IICRA--Insurance Industry And Country Risk Assessment. *This reflects Warba's relatively small size and diversification compared to higher rated peers.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Warba Insurance 'BBB+' Rating Affirmed Following Revised Capital Model Criteria; Outlook Stable, April 25, 2024

Ratings List

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Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Warba Insurance and Reinsurance Co. K.S.C.P.		
Issuer Credit Rating		
Local Currency	BBB+/Positive/--	BBB+/Stable/--
Financial Strength Rating		
Local Currency	BBB+/Positive/--	BBB+/Stable/--

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