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Research Update:

Qatar-Based Doha Bank Assurance 'BBB+' Ratings Affirmed; Outlook Remains Negative

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Overview

- Qatari insurer Doha Bank Assurance Co. (DBAC) reported 5.6% growth in gross written premiums in 2016, compared with estimated market growth of 0.3%, but the company's operating performance weakened following an increase in claims in its core motor and medical business lines.
- However, despite the deterioration in operating performance, DBAC recorded a net profit of Qatari riyal 3.1 million in 2016, resulting in further improvement in the company's capital position in terms of both size and strength.
- We are therefore affirming our 'BBB+' long-term ratings on the company.
- The negative outlook on DBAC reflects that on its parent, Doha Bank.

Rating Action

On May 19, 2017, S&P Global Ratings affirmed its 'BBB+' long-term insurer financial strength and counterparty credit ratings on Qatar-based insurer Doha Bank Assurance Co. LLC (DBAC). The outlook remains negative.

Rationale

The ratings reflect our view of DBAC's small size and market share in the competitive Qatari property/casualty market, while recognizing the company's financial risk profile as a relative rating strength. We have revised our view of the financial risk profile to moderately strong from upper adequate, incorporating our view of the company's capital adequacy, which exceeds our 'AAA' benchmark, and its relatively diversified investment portfolio compared with those of some local and regional peers. The risk of unexpected volatility in DBAC's capital base is relatively low, due to an increase in size and strength, in our opinion, which also contributes to our upward revision of DBAC's financial risk profile.

DBAC's net profit after tax declined to Qatari riyal (QAR) 3.1 million (US$0.9 million) from QAR11.9 million in 2015, mainly due to a deterioration in the company's operating performance. Following a marked increase in claims incurred in its core motor and medical lines of business, DBAC's 2016 loss ratio climbed to 65%, against 49% in 2015. Additionally, although expenses in 2016 remained similar to the 2015 level, the expense ratio deteriorated to 40% from 33% in 2015, as a result of a decline in net earned premiums. The decrease in net earned premiums was primarily due to a QAR9.0 million year-on-year increase in unearned premium reserves. Consequently, the company's combined (loss and expense) ratio, the insurance industry's main underwriting profitability measure, was 105% in 2016, indicating an underwriting loss (the lower the combined ratio, the more profitable, and a ratio of more than 100% signifies an underwriting loss). In the context of Qatar's highly price-driven market and DBAC's lack of significant competitive advantage, we project a combined ratio at about 100% in 2017 and 2018 for DBAC, and return on equity lower than figures for the company's local and regional peers. With the weakening in DBAC's operating performance, we continue to assess the company's competitive position as less than adequate. DBAC's market share in Qatar is only about 2%, and it relies heavily on its parent, Doha Bank, as a source of business.

We expect that DBAC will generate gross premium growth of around 5% in 2017 and 10% in 2018, with its parent being an important, but not sole, distribution channel. DBAC continues to face challenges in writing new business above its technical pricing level given the stiff competition in the Qatari market.

We continue to apply a one-notch downward adjustment to DBAC's stand-alone credit profile (SACP) under our holistic analysis, due to its small size and market share, and its high dependence on Doha Bank to generate premium income.

We view DBAC as a strategically important subsidiary of Doha Bank. Our ratings on the company therefore benefit from two notches of support above its SACP.

Outlook

The negative outlook on DBAC reflects that on Doha Bank. We expect that DBAC's capital adequacy will remain extremely strong, supporting what we regard as ambitious growth plans over the next two years. We also anticipate that DBAC will continue to expand its cooperation with its parent to strengthen its market position through profitable growth.

Downside scenario

We could lower our ratings on DBAC if we lowered our rating on Doha Bank.

Upside scenario

We could revise our outlook on DBAC to stable if we made a similar outlook change on Doha Bank.

Ratings Score Snapshot

	To	From
Financial Strength Rating	BBB+/Negative/--	BBB+/Negative/--

Anchor	bbb-	bbb-
Business Risk Profile	Fair	Fair
IICRA	Intermediate risk	Intermediate risk
Competitive Position	Less than adequate	Less than adequate
Financial Risk Profile	Moderately strong	Upper adequate
Capital and Earnings	Moderately strong	Moderately strong
Risk Position	Intermediate risk	Moderate risk
Financial Flexibility	Adequate	Adequate
Modifiers		
Holistic analysis	-1	-1
ERM and Management	0	0
ERM	Adequate	Adequate
Management and Governance	Fair	Fair
Liquidity	Exceptional	Exceptional
Support	+2	+2
Group Support	+2	+2
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment. ERM--Enterprise risk management.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Insurance Industry And Country Risk Assessment: Qatar Property/Casualty, March 9, 2017

Ratings List

Ratings Affirmed

Doha Bank Assurance Co. LLC
Counterparty Credit Rating

Local Currency	BBB+/Negative/--
Financial Strength Rating	
Local Currency	BBB+/Negative/--

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