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# Doha Bank Assurance Co. LLC

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# Doha Bank Assurance Co. LLC

## Major Rating Factors

| Operating Company Covered By This Report |
|---|
| **Financial Strength Rating** |
| *Local Currency* |
| BBB/Stable/-- |

**Strengths:**

- Strong capitalization and extremely strong capital adequacy.
- Strategic importance to Doha Bank, its parent company.
- Strong liquidity with a very high proportion of liquid assets.

**Weaknesses**

- Competitive position restricted by relatively small size in an increasingly competitive local market.
- Modest growth constrained by delays in implementation of strategy.
- Execution risk given its start-up nature

## Rationale

The ratings on Doha Bank Assurance Co. LLC (DBAC) reflect Standard & Poor's Ratings Services' view of the company's strong capitalization and extremely strong capital adequacy, its strategic importance to its parent, Doha Bank (A-/Stable/A-2), and its strong liquidity position. These factors are offset by DBAC's competitive position, which is restricted by its relatively small size in the increasingly competitive Qatari insurance market; modest growth, constrained by delays in the implementation of DBAC's strategy; and execution risk inherent in a relatively new insurance company.

In our opinion, DBAC's strong capitalization is a strength for the rating. We view the company's capital adequacy as extremely strong, despite the relatively small size of shareholders' funds of Qatari riyal (QAR) 132 million as at June 30, 2011. In addition, DBAC remains well supported by a panel of highly rated international reinsurers, which we consider important for some of the high risk lines that DBAC writes.

We view DBAC as strategically important to its parent, Doha Bank and therefore the rating benefits from three notches of support. Doha Bank has declared an ongoing commitment to its insurance subsidiary both in terms of capitalization and operationally, and DBAC benefits from its parent's name and branding. The strategic importance of DBAC to its parent is also apparent through the close integration of both entities through support for corporate functions such as Human Resources, Information Technology, and investment advisory services; commonality of some senior management roles; and Doha Bank's strategic input. Further integration could be achieved by Doha Bank providing a distribution network for DBAC to sell insurance products to clients of the bank. Prospectively, there is an opportunity for clients to be referred from DBAC to Doha Bank for banking services.

We consider DBAC's liquidity to be strong, given the high proportion of cash on the company's balance sheet. With cash covering technical reserves by 4x and liquid assets exceeding monetary liabilities 7x as at Dec. 31, 2010, we view liquidity as a relative strength for the rating.

We view DBAC's competitive position as a weakness for the rating, given its small size (gross written premiums (GWP) of QAR97 million in 2010) and scale when compared with existing, more established domestic insurers. Delays encountered in the acquisition of a retail license to write more personal lines business has hindered further development of a sustainable competitive position. In our opinion, we expect this will come to fruition by the end of 2011, and that DBAC is in a position to grow quickly if this is realized, adding about QAR15million – QAR18 million of premium income in 2012. We also anticipate that DBAC, despite being regulated by the Qatar Financial Centre Regulatory Authority (QFCRA), will soon be empanelled for all government risks. This could increase premium income by about QAR5 million-10 million. Furthermore, an increase in insurable activity in the non-hydrocarbon-related government sector and the impact of the 2022 FIFA World Cup should provide additional opportunities for DBAC in the local market.

Established in 2007 as a subsidiary of a bank, DBAC has not as yet developed a measurable track record in the Qatari market and is exposed to execution risk inherent in any start-up operation that experiences rapid growth. We consider this a moderate weakness for the rating. We note that DBAC is making improvements to its risk management framework as the company grows and is beginning to embed risk controls across the business. The bank-owned insurance company model is growing in popularity in Qatar, although it is not yet clear how sustainable the concept of bank-owned insurance companies is against a growing number of new entrants into the market.

## Outlook

The stable outlook is predicated on DBAC being able to successfully utilize its relationship with its parent company, Doha Bank, as a viable distribution network for its products and as a means of acquiring more customers. We anticipate that DBAC will soon be able to participate in the tendering process for all government-related risks. Rapid prospective top-line growth also depends on the company acquiring a retail licence, which is expected in late 2011. In our view, neither of these initiatives will have an immediate impact, therefore modest top-line growth of 10 – 15% is expected for 2011. However, we anticipate a material increase in premium income of about QAR 25million over budgeted GWP in 2012 once a licence is awarded and DBAC can compete for all government-related tenders. We expect DBAC to remain profitable and maintain a combined ratio below 95% and in line with its historical average. Capital adequacy is expected to remain at least strong and we do not foresee any additional capital or liquidity requirements in the short term.

Positive movement in the rating could occur if DBAC strengthens its competitive position, delivering a sustainable advantage over peers. This could be achieved through DBAC writing more government-related engineering risks, gaining approval to write retail business and growing the motor and medical books, or strengthening its integration with Doha Bank customers. Downward rating momentum may occur should there be continued delays in obtaining a licence beyond 2011, deterioration in operating performance, or a downgrade of the rating on its parent, Doha Bank.

## Corporate Profile: Relatively Small Sized, Bank-Owned Qatari Insurer

DBAC is a wholly owned subsidiary of Qatar-based Doha Bank and is authorized by the QFCRA. The company was established in 2007 and its key distribution strategy is to leverage its ownership and build access to Doha Bank's client base, which accounts for roughly 60% of total GWP (QAR97 million) in 2010. DBAC is predominantly a short-tail, non-life writer that targets commercial clients in Qatar. Motor business currently represents 47% of DBAC's portfolio; the remainder is made up of marine, engineering, aviation, and group health lines. DBAC also writes some facultative business within the Gulf Cooperation Council (GCC) as permitted under its reinsurance treaty.

## Competitive Position: Developing In An Already Competitive Market

**Table 1**

**Doha Bank Assurance Co. LLC Competitive Position**

| | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|
| **(000s QAR)** | **2010** | **2009** | **2008** | **2007** |
| Total revenue | 63,780.4 | 59,841.6 | 22,735.4 | 445.5 |
| Net premium earned | 56,816.4 | 52,724.8 | 16,717.9 | 0.0 |
| Annual change in net premium earned (%) | 7.8 | 215.4 | 83,589,265.0 | N.M. |
| Total assets under management | 154,797.4 | 138,764.4 | 114,091.7 | 99,653.2 |
| Growth in assets under management (%) | 11.6 | 21.6 | 14.5 | N.M. |

QAR--Qatari riyal. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

We consider DBAC's competitive position to be marginal and a weakness for the rating, given its small size (GWP of QAR97 million in 2010) and scale when compared with existing, more established domestic insurers. We believe this will improve as DBAC becomes more established in the market and develops a stable track record. Partially offsetting this is the strong brand equity and name of Doha Bank as the third-largest bank in Qatar.

### Historic

DBAC benefits from the strong brand equity and name of Doha Bank, which we believe has a good market position in Qatar, as well as access to its client base. About 60% of DBAC's business was sourced from Doha Bank relationships in 2010 and all business is written on a direct basis. Through this, DBAC is able to exploit opportunities for cross-selling and can offer multiple insurance policies to existing bank clients. Synergies have also been realized across product lines--as Doha Bank increased lending to small businesses, DBAC began offering trade finance insurance to Doha Bank's customers.

DBAC's competitive position should improve through the quality of service it provides for its customers and its strategic interactions with its reinsurers. The company is focused on the importance of sustaining strong client relationships to source business from its parent's client base. To enforce this, internal and external customer satisfaction surveys are conducted periodically to monitor service levels and feedback is used to drive improvements. The development of an efficient motor claims servicing department in preparation for the acquisition of a retail license has also enabled DBAC to improve the quality of its offering. Sustained strategic relationships with its reinsurers gives DBAC access to business it may not have written otherwise, providing additional technical expertise to the company.

Historically, DBAC has achieved technical profitability every year since its inception, with growth driving good profitability in the company's sizable motor portfolio and marine cargo insurance book. In 2010, most lines of business achieved positive underwriting results, with the exception of group health. A significant loss was incurred on a single group health policy which constitutes 85% of the total book and resulted in a loss ratio of 245%. Most lines of business, excluding motor which is largely retained, are reinsured and DBAC uses its relationships with its reinsurers to gain technical knowledge and some pricing assistance of larger risks. DBAC has revised its product focus and has pulled out of some high risk lines including its participation in aviation and catastrophe pools.

Authorized by the QFCRA, DBAC does not have "national" status; however, the company expects to be empanelled for all government tenders. This is expected to improve DBAC's competitive position, adding approximately QAR5 million-QAR10 million of GWP in 2012. In addition, DBAC is confident it will obtain approval to write retail business and in preparation for this has been restructuring its business and increased staffing in back office and underwriting functions.

### Prospective

In our opinion, DBAC is in a position to grow its business rapidly once its strategic initiatives come to fruition. We note that DBAC will soon be empanelled for all government tenders and approval to write retail lines by the end of the year will help improve the company's competitive position further and help it achieve a market share approaching 5% in the medium term. Competition in the Qatari insurance market is also expected to increase as new local and international entrants are authorized. Therefore, should the acquisition of a retail license be prolonged any further, we believe the competitive position of DBAC may not improve and will come under additional pressure.

An increase in insurable activity in the non-hydrocarbon-related government sector such as infrastructure, hotels, and stadiums should provide additional opportunities for DBAC, especially in its property engineering insurance business. We believe DBAC's focus on customer service and the importance of relationship management will help to differentiate it from its competitors and provide a competitive advantage over other insurers.

The concept of bank-owned insurance companies is relatively new in Qatar, although it is not yet clear how sustainable the concept of bank-owned insurance companies is against a growing number of new entrants into the market. Increasingly, we also expect Doha Bank may see opportunities for the cross-selling of banking products to insurance clients.

## Management And Corporate Strategy: Improving, But Lacks A Historically Stable Track Record

We consider the company's management and corporate strategy as a moderate constraint on the rating. Given its nascent stage of development, coupled with management turnover since DBAC was established, we have a limited track record against which to measure the success of management in executing its strategy.

### Strategic management

DBAC has been able to foster relationships with Doha Bank clients, accounting for 60% of GWP; however, this is only the case for commercial risks as DBAC is still not authorized to write retail lines for these products. The company's strategy has previously been very aggressive in terms of growth, but it has now shifted its focus from solely increasing market share and top-line growth to greater emphasis on underwriting profitability, making forecasts more realistic. We consider target growth of GWP of 15% in 2011 as ambitious but achievable. We note that both DBAC and Doha Bank have the same long-term vision for the group of institutional convergence: the ability to offer a multitude of financial products through one organization. Therefore, key strategic initiatives to achieve these goals include fostering strong relationships with Doha Bank's customer base, gaining a retail license, and gaining access to government-related business.

**Operational management**

The management team at DBAC is suitably experienced in the insurance industry from both within the GCC, but also in other international markets. Senior management at DBAC has seen some turnover since it was established and we believe DBAC is taking steps to retain key staff and attract new, highly qualified personnel with insurance expertise. DBAC has also put in place a succession plan for all senior positions to mitigate against key man risk. The company currently employs 61 members of staff across the organization, but has approval to increase this to 76 as the company grows and makes structural changes, predominantly into support functions.

**Financial management**

Given DBAC's small size, its financial targets are fairly simplistic, considering a target combined ratio of below 90% and technical profitability as measured by incurred loss ratios per book of business, not pure operating performance measures such as return on equity and return on revenue. The company has defined financial standards and risk tolerances for its major business units. We view financial standards set by the company as ambitious although we still consider them attainable. However, high top-line growth is a function of the start-up nature of DBAC and is therefore not comparable to more mature incumbent insurers.

## ERM: Developing Risk-Management Capabilities

In our opinion, DBAC's enterprise risk management has improved as the company has grown, but still requires further strengthening. Chinese walls and additional risk controls have been put in place to prevent the quotation of rates or terms and conditions by bank employees on behalf of DBAC to group clients. DBAC also has the ultimate right of refusal on all risks referred from banking clients, or fully reinsures them to prevent inadequate pricing based on the strength of a relationship, not on its risk profile. Risks are monitored through a risk committee comprising members of both DBAC and Doha Bank management, with additional guidance from the company regulator, QFCRA. We expect DBAC's risk management to evolve further and keep pace with the company's growth and development.

Underwriting risk controls are sound. Insurance risk is monitored through underwriting guidelines and an underwriting committee with periodic reporting to the executive manager on all business written, portfolio mix, and loss ratios, as well as the formulation and maintenance of an emerging risk register. DBAC's strong panel of reinsurers provide technical pricing capability on larger, high value risks, while smaller risks are priced on a historic loss ratio basis. New controls require underwriters to sign off on risk and rate and additional escalation procedures have been implemented to prevent risks being written above tolerance or outside of authority levels.

DBAC has taken steps through consultation with the regulator and external advisors and by drawing on past experience to undertake reviews of its risk management framework and as a result has acted to rectify concerns. This has led to an increase in staff in both support and underwriting functions, as well as further formal documentation of its compliance and governance procedures. Furthermore, DBAC has outsourced its internal audit function to Ernst & Young, who has conducted in-depth audits of DBAC's operations to identify potential shortfalls in risk management and take steps to remedy them.

## Accounting: Prepared In Accordance With International Financial Reporting Standards

DBAC's financial statements conform to International Financial Reporting Standards (IFRS) and form the basis of our assessment of capital adequacy. No material adjustments are made to the reported figures, which have been audited by Deloitte & Touche.

## Operating performance: Rapid Top-Line Growth In 2010, Now Focused On Bottom-Line Improvement

For the year ended Dec. 31, 2010, we consider the company's operating performance to be good. Rapid top-line growth of 20% (8% on a net basis) was among the highest in a flat Qatari insurance market and in part reflected the company's start-up nature. However this growth reversed in the first half of 2011, with GWP of QAR 47m representing a marked decline on the prior year. We also note that DBAC has produced positive underwriting profits since inception.

**Table 2**

**Doha Bank Assurance Co. LLC Operating Performance**

| | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|
| (000s QAR) | 2010 | 2009 | 2008 | 2007 |
| Return on revenue (%) | 14.1 | 19.3 | 28.4 | 70.4 |
| Return on equity (%) | 6.6 | 10.7 | 5.8 | N/A |
| EBIT adjusted to Total equity adjusted (%) | 7.4 | 10.3 | 6.3 | N/A |
| EBITDA adjusted to Capital (%) | 8.9 | 11.1 | 6.3 | N/A |
| EBIT | 9,007.6 | 11,520.1 | 6,460.6 | 313.5 |
| EBIT adjusted | 9,007.6 | 11,520.1 | 6,460.6 | 313.5 |
| EBITDA | 10,769.1 | 12,398.1 | 6,520.3 | 313.5 |
| EBITDA adjusted | 10,769.1 | 12,398.1 | 6,520.3 | 313.5 |
| Net loss ratio (%) | 60.1 | 60.4 | 59.8 | N/A |
| Net investment yield (%) | 4.7 | 5.6 | 5.6 | N/A |

QAR--Qatari riyal. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

### Historic

Despite significant top-line growth of QAR97 million in 2010, technical returns fell 15%, primarily driven by poor performance of its group health business, which is largely retained, and was affected by a major loss in 2010. Consequently, the net combined ratio deteriorated to 93.3% (2009: 91.4%), which is relatively high in comparison to other similarly assessed peers. The company's three-year average combined ratio totals 94%. DBAC's expense ratio showed a moderate increase in 2010 to 33% (2009: 31%) and remains in excess of other domestic insurers, reflecting additional costs of attracting and retaining key staff. Interest income (2010: QAR7 million) was lower than anticipated, given the current low interest rate environment in Qatar for fixed deposits.

Results for H1 2011 show a 19% year-on-year reduction in GWP as DBAC is no longer fronting business on its personal accident and aviation books. The decline is further exacerbated by a 30% reduction in its engineering portfolio due to intensive competition resulting in inadequate pricing of risks. Despite falling premium income, the company's profit before tax increased 6%, driven by a benign loss experience in the first half of the year, giving a net combined ratio of 62% for H1 2011.

### Prospective

We remain aware that rapid prospective top-line growth for DBAC depends on the successful execution of its strategic initiatives, namely acquiring a retail licence and being empanelled on all government-related risks. In our view, neither of these initiatives will have an immediate impact, therefore modest top-line growth of 10 – 15% is expected for 2011. However, we anticipate a material increase in premium income in 2012 once a licence is awarded and DBAC can compete for all government-related tenders. In addition, we expect DBAC to remain profitable both technically and overall, supported by additional investment income from a reallocation of cash into fixed income products. We also note that both the management of DBAC and Doha Bank are now focused on underwriting and overall profitability, not top-line growth and market share. Without a material shift in the composition of the business DBAC is currently writing, we anticipate a net combined ratio of below 95% as some cost efficiencies are realized and premium volumes increase.

## Investments And Liquidity; Prudent, But Diversifying

**Table 3**

**Doha Bank Assurance Co. LLC Liquidity And Investments**

| | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|
| **(000s QAR)** | **2010** | **2009** | **2008** | **2007** |
| Invested assets to total assets (%) | 81.6 | 82.8 | 79.6 | 99.1 |
| Invested assets to loss and unearned premium reserve (%) | 382.0 | 397.2 | 518.7 | 759,262.8 |
| Common equity investments to capital (%) | N/A | N/A | N/A | N/A |
| Real estate investments to capital (%) | N/A | N/A | N/A | N/A |
| Total invested assets adjusted | 154,797.4 | 138,764.4 | 114,091.7 | 99,653.2 |
| General account invested assets | 154,797.4 | 138,764.4 | 114,091.7 | 99,653.2 |
| Separate accounts/unit linked assets | N/A | N/A | N/A | N/A |
| **Investment portfolio composition** | | | | |
| Cash and cash equivalents (%) | 100.0 | 100.0 | 100.0 | 100.0 |
| Total bonds (%) | N/A | N/A | N/A | N/A |
| Common stock (%) | N/A | N/A | N/A | N/A |
| Real estate (%) | N/A | N/A | N/A | N/A |
| Total mortgages and loans (%) | N/A | N/A | N/A | N/A |
| Investments in affiliates (%) | N/A | N/A | N/A | N/A |
| Investments in partnerships, joint ventures, and other alternative investments - portfolio composition (%) | N/A | N/A | N/A | N/A |
| Other investments (%) | N/A | N/A | N/A | N/A |
| Total portfolio composition (%) | 100.0 | 100.0 | 100.0 | 100.0 |

QAR--Qatari riyal. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

DBAC's investment strategy, in our opinion, is prudent. Invested assets consist solely of cash and short-term deposits with a maturity of less than 12 months. The entire portfolio is held with two Qatari institutions, presenting significant concentration risk, though we anticipate that this risk will reduce as DBAC changes its investment strategy and allocations. We expect reallocation of cash to bonds will occur in 2011, predominantly into short maturity Qatari debt, therefore reducing exposure to Doha Bank. As at June 30, 2011 fixed income products represented 17% of invested assets and we believe the allocation of this asset class will remain within DBAC's stated tolerance of 20% of invested assets. Market risk will therefore have a greater importance in DBAC's risk profile as it diversifies its investment portfolio. Subsequent diversification into property is also expected, though this will be limited to 5%-10% of invested assets.

### Investment strategy

The company is developing its investment guidelines and, through its risk committee and guidance from Doha Bank, is looking at alternative investment strategies. The company is more aware of concentration risk in its portfolios and as a result of regulatory guidance, we believe DBAC's exposure to Doha Bank will be actively managed down.

### Credit risk

A significant proportion of DBAC's current assets are held with two banks--Doha Bank (the parent) and Ahli Bank (not rated). Concerns about risk exposure are mitigated by the systemic importance of the banking system to the State of Qatar, meaning both banks benefit from an implicit government guarantee.

### Liquidity

We consider DBAC's liquidity to be strong, given the high proportion of cash on the company's balance sheet. With cash covering technical reserves by 4x as at Dec. 31, 2010, we don't expect diversification of the investment portfolio into other asset classes to have a material impact on liquidity. Furthermore, liquid assets exceeded monetary liabilities 7x as at Dec. 31, 2010, and we expect this to remain at a similar level through 2011.

## Capitalization; Strong And Supported By Internationally Diverse Reinsurers

We consider capitalization to be a strength for the rating, underpinned by extremely strong capital adequacy and a strong panel of international reinsurers.

### Capital adequacy

We consider DBAC's capital adequacy to be extremely strong and sufficient to support the company's medium-term ambitions without the need for additional capital injections, despite the relatively small size of shareholders' funds (QAR132 million as at June 30, 2011). In our assessment of capital adequacy, concentration charges were applied to DBAC's cash holdings across a limited number of institutions, the most significant risk being exposure to Doha Bank. DBAC maintains capital at 170% of the regulatory minimum capital requirement. Prospectively, we do not expect any change in DBAC's capital management strategy and expect capital adequacy to be at least strong in the near term

### Reserves

As a writer of predominantly short-tail commercial risks and group health risks, we consider DBAC's reserves as adequate and supportive of the business it writes. Reserves are held at a margin over the company's best estimate and average claims run-off is between one to three years for its liability business. The company conducts regular internal reviews and periodic external actuarial reviews of reserves. DBAC also benefits from the expertise of internationally renowned loss adjustors to provide technical support.

### Reinsurance

DBAC ceded 38% of its premium to reinsurers in 2010 (2009: 31.6%). DBAC retains a significant proportion of its risks, especially in motor and medical lines, where the loss experience is relatively predictable. A significant



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proportion of its low frequency, high severity lines such as engineering and property books are reinsured, as well as 100% of the aviation book. We take comfort from the financial strength and international diversity of DBAC's reinsurance panel, consisting of Hannover Rueckversicherung AG (AA-/Stable), Swiss Reinsurance Company Ltd. (A+/Positive/A-1), Score SE (A/Positive), Assicurazioni Generali SpA (AA-/Stable), Aspen Insurance Ltd. (A/Stable), MAAF Assurances S.A. (not rated), and General Insurance Corporation of India (not rated). During 2011, DBAC added additional layers of reinsurance protection at the lower levels to cover its net motor and group health business.

## Financial Flexibility; Strong, With Continued Commitment From Its Parent

In our opinion, financial flexibility is strong and sufficient to support DBAC as it continues to grow in size and scale. DBAC continues to benefit from the ongoing support from its parent, Doha Bank, which we expect will continue. We believe DBAC will not require additional funding in the medium term, but would revert to Doha Bank should there be a need.

**Table 4**

**Doha Bank Assurance Co. LLC Financial Flexibility**

| | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|
| **(000s QAR)** | **2010** | **2009** | **2008** | **2007** |
| EBITDA interest coverage (x) | N.M. | N.M. | N.M. | N.M. |
| EBITDA fixed-charge coverage (x) | N.M. | N.M. | N.M. | N.M. |
| Debt leverage including additional pension deficit as debt (%) | 1.2 | 0.8 | 0.3 | 0.0 |
| Financial leverage including additional pension deficit as debt (%) | 1.2 | 0.8 | 0.3 | 0.0 |

QAR--Qatari riyal. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

| **Ratings Detail** (As Of September 27, 2011)* | |
|---|---|
| **Operating Company Covered By This Report** | |
| **Doha Bank Assurance Co. LLC** | |
| Financial Strength Rating | |
| *Local Currency* | BBB/Stable/-- |
| Counterparty Credit Rating | |
| *Local Currency* | BBB/Stable/-- |
| **Domicile** | Qatar |

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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