

Rating Action: Moody's assigns Baa1 IFS rating to Kuwait based Kuwait Insurance Company

Global Credit Research - 01 Dec 2010

First-time rating assignment

London, 01 December 2010 -- Moody's Investors Service has today assigned a Baa1 insurance financial strength rating (IFSR) to Kuwait Insurance Company ("KIC"), based in Kuwait. The rating outlook is stable.

RATINGS RATIONALE

Established in 1960, KIC is the largest non-life insurer in Kuwait and writes most lines of non-life insurance, with small shares of the health and medical insurance market. Moody's rating reflects KIC's strong position in the domestic market, where it is an established brand and has a good reputation for service and financial strength, with gross written premiums of KD29.3 million in 2009 (USD101.8 million). The rating is also supported by the relatively strong diversification, albeit within a small market, and its strong capitalisation relative to peers with total equity of KD53.4 million (USD186.7 million) as at 30 September 2010. These strengths are somewhat offset by a high-risk investment strategy which can introduce volatility to the company's profitability.

The Kuwaiti market is expected to grow by about 15-20% each year in light of the economic stimulus package that was recently announced by the government. This is in contrast to recent years, which were characterised by some stagnation during the financial crisis.

"The stable rating outlook reflects KIC's strong position in the Kuwait insurance market, which should enable it to take advantage of the Kuwaiti government's extensive economic stimulus package to be implemented over the next four years," said Paul Oates, Vice President -- Senior Credit Officer and lead analyst for KIC. Specifically, Moody's believes KIC to be well placed to secure a large part of the contracted insurance stemming from the government stimulus measures, given its market presence, focus on service and long-standing relationships with key departments and businesses in Kuwait.

According to Moody's, the rating could be upgraded if there are improvements in asset quality, with a greater focus on bond investments and deposits, or wider geographic diversification, with profitable positions in the GCC. Conversely, the rating could come under negative pressure if there is a weakened capital position, with Gross Underwriting Leverage increasing to 3x, or loss of major cedents in the reinsurance program, or a significant deterioration in the underwriting performance, with combined ratios of above 100% for several years.

The principal methodologies used in this rating were "Moody's Global Rating Methodology for Property and Casualty Insurers" published in May 2010 and "Moody's Global Rating Methodology for Life Insurers" published in May 2010.

Based in Kuwait City, KIC reported net income of KD3.2 million in the first nine months of 2010 on the back of a strong recovery in the Kuwait equity markets, compared with the net loss of KD6.3 million recorded in 2009. KIC's total equity improved to KD53.4 million from KD38.6 million at YE 2009, with nine months' premium of KD22.5 million (nine months 2009: KD20.3 million).

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