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**Research Update:**

# Kuwait-Based Wethaq Takaful Insurance Co. K.S.C. Rated 'BBB-'; Outlook Stable

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## Rationale

On Sept. 22, 2008, Standard & Poor's Rating Services assigned its 'BBB-' long-term counterparty credit and financial strength ratings to Kuwait-based insurer Wethaq Takaful Insurance Co. K.S.C. (Closed) (Wethaq). The outlook is stable.

The ratings on Wethaq reflect its strong capitalization and good financial flexibility. Offsetting factors are a marginal competitive position, aggressive investment strategy, and only adequate earnings.

Wethaq is listed on the Kuwait Stock Exchange and is owned 67.9% by The Investment Dar (TID; not rated), a Kuwaiti Islamic finance shareholding company. Wethaq was established in 2000 as a takaful (Islamic Sharia-compliant insurance) player, with a primary focus on the Kuwaiti market. Gross premiums written (GPW) were only Kuwaiti dinar (KWD) 4.3 million (€10.9 million) in 2007, mostly in property/casualty (88% of GPW). Life and health businesses represented 12% of GPW.

### Major rating factors:

- Strong capitalization. Capitalization supports the ratings thanks to strong capital adequacy and substantial use of reinsurance. Capital adequacy is strong according to Standard & Poor's risk-adjusted capital model, with a capital base sufficiently covering the heavy capital requirements stemming from equity investments. A small capital base and insufficient business diversification mean that capital adequacy can be highly volatile, however.
- Good financial flexibility. Financial flexibility is good relative to Wethaq's modest needs, thanks to implicit shareholder support. Wethaq fits well with its main shareholder's Islamic finance strategy, and should benefit from shareholder support if the need arises. Wethaq's only adequate earnings potential constrains financial flexibility, however.
- Marginal competitive position. The competitive position is a weakness for the rating owing to Wethaq's very small size overall and dependence on reinsurance capacities. The company has not yet reached a critical size in its local market and cedes most of its business excluding motor. Mitigating this weakness is its focus on the niche, fast-growing takaful business. Wethaq's links with its principal shareholder also offer good growth prospects and should help in enhancing Wethaq's penetration in the local and regional takaful markets.
- Aggressive investment strategy. Wethaq is heavily invested in local equities and particularly nonlisted equities and funds. This weakens the company's financial profile, although the investments yielded adequate returns in the past five years. The company has not yet developed solid risk management practices to monitor its equity exposures, and relies mostly on its shareholder's expertise in that field.

- Adequate earnings. Operating performance is adequate due to investment income and good loss ratios, reflecting the company's prudent pricing. The company's small premium volumes prevent it from sufficiently covering its expenses and expose it to prospective earnings volatility. Reinsurance costs also weigh on the company's earnings generation capacity, although reinsurance contributes to earnings stability.

## Outlook

The stable outlook reflects our expectation that Wethaq will maintain strong capitalization and good financial flexibility, while gradually improving its earnings quality in 2009 and 2010. We expect Wethaq's competitive position to remain marginal over the same horizon, although we expect much higher growth compared with that of the past five years.

Wethaq should achieve at least 30% growth per year in 2009 and 2010, while premiums for 2008 should be at the same level as those for 2007. We expect Wethaq's shareholder to remain committed to supporting the company's growth and maintaining strong capitalization. The company should also reach a 95% net combined ratio in 2009 and 2010, while we expect the combined ratio for 2008 to be less than 105%. The company should reduce its cost ratios to 30% in 2009 and in 2010.

Owing to Wethaq's current profile, an upgrade is unlikely over the rating horizon. We would however change the outlook to negative if the company does not reach the above-mentioned operating performance levels and growth targets in 2008 and 2009. Any apparent change in the shareholder's support to Wethaq would also result in a negative rating action.

## Ratings List

### New Rating

Wethaq Takaful Insurance Co. K.S.C. (Closed)

Counterparty Credit Rating

Local Currency

BBB-/Stable/--

Financial Strength Rating

Local Currency

BBB-/Stable/--

### Additional Contact:

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