

Research Update:

DRAFT: Kazakhstan-Based Oil Insurance Co. JSC

Outlook Revised To Positive From Stable; 'B+' Rating Affirmed

June 24, 2024

S&PGR Revises Outlook On Oil Insurance Co. To Pos; Rtg Afrmd

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Under our new criteria, although Oil Insurance Co. JSC's (NSK's) capital adequacy exceeds the 99.8% confidence interval, we still assess capital and earnings as satisfactory because in absolute terms the size of its capital is relatively small, at below \$25 million.
- The average credit quality of NSK's investments remains in the 'BBB' range and volatility in its regulatory solvency margin and technical performance has declined since last year, which makes it more comparable with higher-rate peers.
- We revised our outlook to positive from stable and affirmed our 'B+' issuer credit and insurer financial strength ratings on NSK. We also upgraded to 'kzBBB+' from 'kzBBB' our Kazakhstan national scale rating on NSK.
- The positive outlook indicates that we could raise the ratings over the next 12 months if NSK maintains its positive operating performance and asset quality. An upgrade would also depend on the company maintaining its level of capital adequacy, with sufficient buffers above the 99.5% level.

Rating Action

On June 25, 2024, S&P Global Ratings revised to positive from stable its outlook on Kazakhstan-based insurer Oil Insurance Co. JSC (NSK). We affirmed our 'B+' long-term issuer credit and insurer financial strength ratings. At the same time, we upgraded our Kazakhstan national scale rating on NSK to 'kzBBB+' from 'kzBBB'.

PRIMARY CREDIT ANALYST

Elena Polyakova
Dubai
+971 50 106 1863
elena.polyakova
@spglobal.com

SECONDARY CONTACT

Roman Rybalkin, CFA
Dubai
+971 (0) 50 106 1739
roman.rybalkin
@spglobal.com

ADDITIONAL CONTACT

Insurance Ratings EMEA
Insurance_Mailbox_EMEA
@spglobal.com

Impact Of Revised Capital Model Criteria

- The implementation of our revised criteria for analyzing insurers' risk-based capital has had no material effect on our view of NSK's capital and earnings assessment; we give full credit for the contractual service margin (CSM) and risk adjustment (RA), which we consider to be equity-like reserves that mostly offset the depletion of equity following implementation of International Financial Reporting Standards (IFRS) 17.
- We also capture the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- Recalibrating our capital charges to higher confidence levels, especially our interest rate risk charges and catastrophe risk charges, somewhat offset the above improvements.

Credit Highlights

Overview

Key strengths	Key risks
NSK has a satisfactory capital assessment relative to business volumes, supported by retained earnings.	NSK's market share is relatively modest and the environment in which it operates in Kazakhstan is difficult because of intensifying competition and because rising inflation and interest rates in an uncertain geopolitical environment could increase financial market volatility.
It has relatively highly rated and liquid investment portfolio.	It is susceptible to single-event losses because capital is relatively small compared with international peers.

Outlook

The positive outlook indicates that we could raise the ratings over the next 12 months if NSK maintains its positive operating performance and asset quality. An upgrade would also depend on the company maintaining its level of capital adequacy, with sufficient buffers above the 99.5% level.

Downside scenario

We could lower the ratings over the next 12 months if NSK's:

- Competitive position weakened, for example, if its operating performance deteriorates significantly, or if premium volumes materially declined, signifying loss of market share; or
- Capital deteriorated for a prolonged period below what we view as a satisfactory level, due to weaker-than-expected operating performance, investment losses, or higher-than-expected dividend payouts.

Upside scenario

We could raise the ratings in the next 12 months if NSK maintains profitable underwriting results, asset quality within the 'BBB' range, and capital adequacy based on our capital model sustainably

above satisfactory levels, which could make the company more comparable with higher-rated peers.

Rationale

NSK is expected to maintain its capital adequacy at the current level but we assess capital and earnings as satisfactory because in absolute terms the size of its capital is relatively small, at below \$25 million.

NSK's capital adequacy exceeded the 99.8% confidence level in 2023, according to our capital model, and we forecast that it will remain at this level over the next three years. This reflects our expectation that insurance revenue will grow by 10% over 2024-2026, as new products are implemented, supported by profitable operating performance and retention of up to 50%-70% of net profit. Implementing the IFRS 17 accounting standard in 2023 caused a decline in NSK's total reported equity. We understand that NSK used a relatively conservative approach and applied the general measurement model (GMM) to perform the initial estimate and recognize most of its insurance contract liabilities under IFRS 17, even for contracts that last just over a year or less. As a result, its retained earnings were partly depleted by the CSM, which effectively represents future profits. NSK disclosed a CSM of Kazakhstani tenge (KZT) 2.8 billion at the end of 2023 (or about KZT1.9 billion, net of the CSM on reinsurance contract assets). This represented about 50% of total reported equity. We consider the CSM and RA to be equity-like reserves and add them back to the company's total adjusted capital (TAC). As a result, implementing IFRS 17 did not materially deplete the company's TAC in our capital model. That said, in absolute terms NSK's TAC is still modest at below \$25 million, and this makes its capitalization more susceptible to single-event losses, in our view. In addition, the insurer has a limited record of capital planning and CSM treatment under IFRS 17. As a result, we cap our view of NSK's overall capital and earnings at satisfactory.

We view as positive that the company's solvency margin has become less volatile and its investment policy has remained prudent.

We expect this to continue. Since NSK completed its solvency margin recovery plan in October 2023, its solvency has remained at or above 1.5x, which is sufficiently above the minimum regulatory requirement of 1.0x. We expect the company to sustain its regulatory solvency margin at or above the 1.54x seen on June 1, 2024, going forward, suggesting that regulatory risks have diminished. About 70% of NSK's invested assets as of May 1, 2024, were bonds, cash, and deposits related to domestic and international entities that have an average credit quality of 'BBB-' and above. Both factors make NSK more comparable with higher-rated local and international peers, in our view.

NSK's business risk profile still reflects its relatively small size, historically volatile operating performance, and the challenging operating environment in the property/casualty insurance segment in Kazakhstan.

We expect NSK to maintain its market share at about 3% in 2024-2025 (3% as of April 1, 2024). The company is still focused on the motor segment, which accounted for 55% of its gross premium written in the first four months of 2024. Motor cover was almost equally split between motor hull insurance and compulsory motor third-party liability insurance.

Ratings Score Snapshot

	To	From
Financial strength rating	B+/Positive	B+/Stable

	To	From
Anchor*	bb-	bb-
Business risk	Weak	Weak
IICRA	Moderately high	Moderately high
Competitive position	Fair	Fair
Financial risk	Fair	Fair
Capital and earnings	Satisfactory	Satisfactory
Risk exposure	Moderately high	Moderately high
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	-1	-1
Support	0	0
Group support	0	0
Government support	0	0

*For the anchor, we chose the lower option, 'bb-', because of the company's relatively modest capital size and historically somewhat volatile operating performance. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 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

Ratings List

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.