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Research Update:

DRAFT: Kazakhstan-Based Oil Insurance Co. JSC Outlook Revised To Positive From Stable; 'B+' Rating Affirmed

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

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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'.

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 completion 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.