

# MOODY'S

## INVESTORS SERVICE

### Credit Opinion: ICIEC

Global Credit Research - 21 Oct 2014

Saudi Arabia

#### Ratings

Category	Moody's Rating
Rating Outlook	STA
Insurance Financial Strength	Aa3

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#### Key Indicators

ICIEC[1][2]	2013	2012	2011	2010	2009
As Reported (ID - Islamic Dinars Millions) [3]					
Gross Premiums Written	8.9	8.7	9.8	10.4	7.9
Net Premiums Written	5.7	5.5	6.3	7.2	6.3
Net Income (Loss) Attributable to Common Shareholders	0.3	- 0.4	0.3	0.1	1.1
Shareholders' Equity [4]	137.1	129.3	99.8	99.3	98.8
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity [4]	10.4%	11.2%	15.9%	17.0%	16.9%
Reinsurance Recoverable % Shareholders' Equity [4]	1.1%	1.4%	1.4%	1.5%	2.7%
Goodwill & Intangibles % Shareholders' Equity [4]	-	-	-	-	-
Net Total Exposure % Shareholder's Equity [4]	4.1x	4.1x	4.6x	3.8x	3.8x
Net Underwriting Leverage [4]	0.1x	0.1x	0.1x	0.1x	0.1x
Combined Ratio (5 yr avg)	132.9%	160.1%	153.3%	168.1%	NA
Sharpe Ratio of ROC (5 yr avg) [4]	52.8%	61.6%	66.1%	77.9%	108.2%
Financial Leverage [4]	0.1%	3.8%	3.9%	-	-
Total Leverage [4]	0.1%	3.8%	3.9%	-	-
Earnings Coverage (1 yr)	NM	NM	NM	NM	NM

[1] Information based on IFRS financial statements; 29 Dhul-Hijjah 1434 corresponds to 3 November 2013; [2] Certain items may have been relabeled and/or reclassified for global consistency; [3] 1 ID = US\$ 1.53175 as at 3 November 2013; [4] Includes shareholders' and policyholders' funds

#### Opinion

##### SUMMARY RATING RATIONALE

The Islamic Corporation for the Insurance of Investment and Export Credit ("ICIEC"), rated Aa3 for insurance financial strength, stable outlook, was established in 1994 and is based in Jeddah, Saudi Arabia. ICIEC is a member of the Islamic Development Bank Group (IDB, rated Aaa by Moody's), which holds (as at 1434H) 43.2% of ICIEC's issued shares through its Waqf fund, a special fund established by IDB. ICIEC's other shareholders/members include the sovereign members of the IDB Group, including Saudi Arabia (rated Aa3

Stable, 26% direct shareholding as at 1434H and more than 36% on a total (direct and indirect basis) and other sovereign members of the Organisation of the Islamic Conference.

ICIEC provides export credit insurance and re-insurance for exports emanating from its member countries, to anywhere in the world, to cover the non-payment of export receivables resulting from commercial or non-commercial risks. It also provides investment insurance for foreign investment flows into its member countries, irrespective of their country of origin, against country risks, mainly the risks of exchange transfer restrictions, expropriation, war and civil disturbance and breach of contract by the host government.

Moody's notes that ICIEC's rating reflects both the stand-alone fundamentals as well as potential support from its shareholders/IDB Group member countries. Thus, despite the absence of explicit guarantees, in the context of its key role as facilitator of trade between Islamic countries, ICIEC's rating reflects the strong ability and potentially high willingness of ICIEC's main ultimate shareholders, and in particular the IDB (Aaa stable), Saudi Arabia, (Aa3 Stable) and other GCC countries, to support the company in times of financial distress.

Furthermore, the rating reflects ICIEC's legal structure and business nature as the only multilateral export credit and investment insurance corporation in the world that provides Shariah-compatible insurance and reinsurance products, as well as its enhanced regional knowledge through its experience gained by operating in the region. Furthermore, Moody's views positively ICIEC's full membership in Berne Union of export credit insurers, which ensures that ICIEC meets the legal, risk management and capitalisation requirements for full membership.

More negatively, ICIEC's portfolio is exposed to a concentration in terms of product lines and geography, operating primarily in the GCC and Africa, parts of which are facing political instability. Moreover its small size and limited distribution capacity can challenge further growth.

### **Credit Strengths**

Capital support from GCC/other member countries (particularly Saudi Arabia)

Advantageous position as the only insurer providing Shariah-compatible export credit and investment

Regional knowledge gained while operating in the region

As a member of the IDB Group, various managerial synergies and support benefits

Strong international network

### **Credit Challenges**

Stand-alone capitalisation levels in the context of growth opportunities

Business coverage and risk and business concentrations

Efficiency of the organisation and the underwriting process

Distribution networks

### **Rating Outlook**

The outlook is stable.

#### **WHAT TO WATCH FOR:**

Geo-political instability within certain member countries to which ICIEC is exposed

Potential for meaningful top-line growth following the capital injections

Increasing focus on medium-term business

### **What Could Change the Rating - Up**

Significant upgrade of the long-term ratings of ICIEC's main shareholders / member countries, in particular moving Saudi Arabia's ratings moving above Aa3 levels

Significant strengthening in ICIEC's ownership structure and / or level of support from member countries

### **What Could Change the Rating - Down**

Downgrade of some of ICIEC's main shareholders/member countries, in particular Saudi Arabia's ratings moving to below A1 level

Deterioration in ICIEC's ownership structure and/or level of support from member countries/the IDB

Material increase in ICIEC's risk profile due to significant deterioration of current capitalisation and/or material increase in the company's asset risk and insurance risk profile

### **DETAILED RATING CONSIDERATIONS**

Moody's rates ICIEC Aa3 for insurance financial strength (stable outlook) which is several notches higher than adjusted rating indicated by the Moody's insurance financial strength rating scorecard. The rating differential reflects the company's key role as facilitator of trade between Islamic countries, and the consequent support that the rating generates from a variety of highly rated sovereigns in addition to its main owner IDB, as described under Other Credit Considerations.

**Market Position, Brand and Distribution: Baa - STRONG POSITION IN CORE MARKETS BUT POOR GLOBALLY**

Although ICIEC is relatively small on a global basis, it maintains a strong market position in its core market of providing export credit insurance and reinsurance from its member countries. With total premiums and fees of USD13.2 million in 1434H (1433H: USD13.9 million), and a large proportion of its premiums in relation to contracts written in markets such as Saudi Arabia, GCC countries and other nations, ICIEC is seen as one of the leaders in its market segment. Given the relatively low penetration of credit insurance in the region and amongst member countries, Moody's expects stable premium volumes of ICIEC to continue. Notwithstanding this, ICIEC has experienced over the last few years a considerable degree of competition from international players, especially in its short-term insurance portfolio, which represented 67% of ICIEC's business insured at 1434H (1433H: 72%). The company's strategy has hence focused towards increasing the proportion of medium-term insurance. Furthermore, we note that ICIEC has approved plans to commence providing an insurance wrapper to Sovereign Sukuk issuances, a product which could potentially expose ICIEC to additional risks and will be closely monitored by Moody's.

Diversification by insurance purchaser is relatively low, with a current focus on several large exporting names. Nevertheless, this might potentially improve going forwards as ICIEC expands its operations across its Member Countries.

Business insured was marginally higher at USD3.4 bn in 1434H (1433H: USD3.1 bn), reflecting the strong demand for credit insurance and political risk among ICIEC member countries. However, due to the pricing and competitive pressures, gross premiums written declined 5% to USD13.2 million from USD13.9 million in 1433H, although earned premiums increased 31% to ID8.2 million (c.USD12.2 million), benefitting from the business written in previous years.

**Product Focus and Diversification: Ba - HIGH CONCENTRATION BY PRODUCT AS WELL AS GEOGRAPHY**

As a pure export credit insurer, ICIEC's business diversification is inherently limited. ICIEC's risk exposure predominantly relates to insurance of exports from various member countries to countries globally and in particular to the default of commercial counterparts in those territories. In addition to commercial credit exposure, certain ICIEC policies also cover, albeit to a more limited degree, political risk, which in many countries can be relatively high. Nevertheless, we note that the stable demand for political risk policies in ICIEC's member countries lead to stable new commitments in 1434H compared to 1433H. However, Moody's notes that ICIEC maintains good access to a wide variety of sovereign markets through its member sovereign countries, ensuring good information and access in the event of political trade interventions. Less positively, the material and increasing proportion of multiyear policies limits the company's flexibility to change policies at renewal, if necessary, potentially affecting the overall company's risk portfolio. In addition to this, the company's exposure by buyer is relatively concentrated by country and by sector but overall reflecting ICIEC's strategic goal to facilitate the trade of its member countries.

**Asset Quality: A - GOOD INVESTMENT STRATEGY WITH THE MAJORITY OF INVESTMENTS HELD IN MURABAHA**

ICIEC's assets are predominantly invested in Shari'ah-compliant Murabaha (similar to money market instruments) with increasing exposure to Sukuk (1434H: 55% and 1433H: 29% of total investments), both mainly linked to regional banks. Moody's therefore regards asset quality as strong, albeit the company's Shari'ah compliance does impose some restrictions in terms of asset choice leading to relatively high concentration risk. The investments in quoted shares (1434H: 9% of total investments) and in Takaful Re (1434H: 1% of total investments) carry additional risk, but the risk is in proportion to the capital adequacy of ICIEC.

The level of intangibles and reinsurance recoverables as a proportion of equity is very low in line with the industry practices in the Middle East, with the RI recoverables figure actually relating to other debtors rather than specifically reinsurance counterparts.

**Capital Adequacy: Baa - ADEQUATE CAPITALISATION WITH CONSIDERABLE FREE ASSETS BACKING HIGH RISK POLICIES**

Moody's views ICIEC's capital levels as adequate. With net total exposure as a proportion of shareholders funds at about 4.1x and a net underwriting leverage 0.1x in 1434H largely unchanged from 1433H, ICIEC appears strongly capitalised. However, this measure is not risk adjusted and does not reflect the higher probability of default on political risk versus credit risk and the concentration exposures on both the liability and asset side of the balance sheet. Nevertheless, Moody's notes that ICIEC maintains a strong level of potential shareholder resources, in particular both the Waqf fund and the individual sovereign members of ICIEC maintain considerable levels of free assets which could be provided to support ICIEC's growth. In March 2011, the board of directors of ICIEC approved a proposal to more than double ICIEC's capital resources from ID150 million (USD230 million) to ID400 million (USD613 million). As of 1434H, ID231.5 million (USD354.6 million) was subscribed and ID110.9 million (USD169.8 million) was paid up.

**Profitability: Ba - PROFITABILITY REMAINS LOW, IN LINE WITH ICIEC'S ROLE**

In 1434H, profitability improved compared to 1433H, due to an increase in investment income, underwriting income and lower foreign exchange losses. The combined ratio (5 year average) has improved to 132.9% in 1434H from 160.1% in 1433H, albeit remains high. This was mainly the result of the combined ratio of 258.4% for 1428H, which was driven by an expense ratio of 235%, falling off the 5 year metric in 1434H. Further we note that in 1434H the combined ratio improved to 123% from 129% in 1433H, reflecting the improved expense ratio to 99% in 1434H (1433H: 118%), partially offset by the loss ratio at 23% (1433H: 12%). This development led to the company's bottom line net profit of ID0.3 million (USD0.5 million) in 1434H after a net loss of ID-0.4 million in 1433H.

However, Moody's notes that, as part of the IDB Group, and reflecting its pseudo-state/social role, ICIEC is unlikely to aim to consistently produce strong levels of profitability, and the volatility of results is also likely to be a feature. However, Moody's regards a consistent and modest level of profitability, principally through controlled underwriting and pricing but also through good levels of expense control, as being a key credit goal for ICIEC.

**Reserve Adequacy: Baa - ADEQUATE RESERVES ALBEIT EXPOSURE TO MEDIUM TERM AND INVESTMENT POLICIES**

Reserves are regarded as adequate, reflecting the short-tail nature of the risks ICIEC takes, relative to Middle Eastern property and casualty insurers, albeit it underwrites more medium term and investment multi-year policies than other rated credit insurers.

**Financial Flexibility: Ba - UNLEVERED AND WITH MODEST STANDALONE FINANCIAL FLEXIBILITY, BUT BENEFITS FROM IDB OWNERSHIP**

As a Shari'ah compliant institution, ICIEC does not fund itself through borrowings. In addition, ICIEC's dividend policy remains restricted (dividends are not payable until substantial reserves have accrued). Consequently, ICIEC's ability to fund its required regular cash financing needs is strong. However, on a stand-alone basis, Moody's regards ICIEC's ability to source additional external capital as modest. More positively, Moody's regards the company's position within the IDB Group and its supportive sovereign member countries as indicating that financial flexibility overall is at higher levels.

**Operating Environment: Aaa-A - ADEQUATE ECONOMIC ENVIRONMENTS OFFSET BY UNDERDEVELOPED INSURANCE MARKETS**

ICIEC is headquartered in Saudi Arabia, and operates in various countries that are sovereign members of its major shareholder IDB, as well as other sovereign members of the Organisation of the Islamic Conference. ICIEC benefits from the strong economic stability of those of its members from the GCC. However a majority of the

insurance markets of the member sovereigns are still in a development stage, with growth potentially volatile and with some large risk concentrations. As an established credit insurer with sovereign ties, access to business is likely to continue to flow into ICIEC in our opinion.

#### Other Credit Considerations

In addition to these stand-alone qualities, ICIEC's rating also factors in the considerable benefits in the context of its key role as facilitator of trade between Islamic countries. In particular, ICIEC's rating reflects the strong ability and potentially high willingness of ICIEC's main ultimate shareholders, and in particular Saudi Arabia, and other GCC countries (including through their ownership stake in the IDB), to support the company in times of financial distress. Subsequent to the year end, the capital resources of ICIEC were proposed to be significantly increased, as outlined above, evidence of further capital support from ICIEC's owners, although the IDB is not directly participating in this capital increase.

### Rating Factors

#### ICIEC[1][2]

Financial Strength Rating Scorecard	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adjusted Score
<b>Business Profile</b>								Baa	Ba
<b>Market Position and Brand (10%)</b>							X	Ba	Baa
- Market Share									
- Distribution and Access to New Markets			X						
<b>Product Focus and Diversification (20%)</b>								Baa	Ba
- Business Diversification					X				
- Flexibility of Underwriting					X				
- Risk Diversification			X						
<b>Financial Profile</b>								A	Baa
<b>Asset Quality (15%)</b>								Aaa	A
- High Risk Assets % Shareholders' Equity	10.4%								
- Reinsurance Recoverable % Shareholders' Equity	1.1%								
- Goodwill & Intangibles % Shareholders' Equity	0.0%								
<b>Capital Adequacy (20%)</b>								Aaa	Baa
- Net Total Exposure % Shareholder's Equity	4.1x								
- Net Underwriting Leverage (Credit Insurers)	0.1x								
<b>Profitability (20%)</b>								B	Ba
- Combined Ratio (5 yr avg)							132.9%		
- Sharpe Ratio of ROC (5 yr avg)					52.8%				
<b>Reserve Adequacy (5%)</b>									Baa
- Worst Reserve Development for 10 Years % Beginning Reserves									
<b>Financial Flexibility (10%)</b>								Aa	Ba
- Financial Leverage	0.1%								
- Earnings Coverage (5 yr avg)									
<b>Operating Environment</b>								Aaa - A	Aaa - A
<b>Aggregate Profile</b>								A3	Baa3

[1] Information based on IFRS financial statements; 29 Dhul-Hijjah 1434 corresponds to 3 November 2013 [2] The

Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis

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