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Research Update:

Oman United Insurance Co. 'BBB' Ratings Affirmed; Outlook Stable

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Overview

- On Feb. 17, 2016, we lowered the local and foreign currency sovereign ratings on the Sultanate of Oman to 'BBB-/A-3' from 'BBB+/A-2'.
- As a result of the sovereign downgrade, our 'bbb' stand-alone credit profile assessment on Oman United Insurance Co. SAOG (OUIC) exceeds the foreign and local currency ratings on the sovereign.
- According to our assessment of OUIC, the firm would remain appropriately solvent with sufficient resources to cover potential liquidity requirements even if the Sultanate of Oman were to default.
- We are therefore affirming our 'BBB' long-term ratings on OUIC as the company is able to pass our sovereign default stress test, aided in particular by an investment portfolio with a significant weighting toward cash deposits with banks that we deem to be systemically important.
- The stable outlook reflects our view that OUIC's investment portfolio will remain broadly in line with the current asset mix, and that cash deposits will continue to be placed with systemically important banks.

Rating Action

On Feb. 25, 2016, Standard & Poor's Ratings Services affirmed its 'BBB' financial strength and counterparty credit ratings on Oman-based composite insurer Oman United Insurance Co. SAOG (OUIC). The outlook is stable.

Rationale

The affirmation follows our assessment of OUIC's resilience to a hypothetical default of Oman (foreign currency rating: BBB-/Stable/A-3). In our view, this stress testing has demonstrated the capacity of OUIC's shareholder's equity and investment assets to absorb losses in a sovereign default scenario. This means that we can rate OUIC above the sovereign rating level, and we therefore rate the insurer one notch above the sovereign foreign currency rating and at the same level as OUIC's stand-alone credit profile (SACP) of 'bbb'.

OUIC has a significant volume of cash deposits placed with systemically important banks in Oman. This in particular allows OUIC to pass our rating above the sovereign stress test, and allows OUIC to be rated at the lower of its own SACP level or up to two notches above the sovereign.

Despite the recent sovereign rating action, our view of the intrinsic SACP of OUIC remains unchanged. We continue to regard OUIC's business risk profile as

fair, and its financial risk profile as moderately strong. Furthermore, our assessment of industry and country risk for the wider property/casualty nonlife sector in Oman remains unchanged at moderate.

Regarding the stand-alone position of OUIIC, we note that the most recent information relates to the audited financial statements as of Dec. 31, 2015. These numbers indicate that shareholders' funds at OUIIC increased slightly as of end-2015 to Omani riyal (OMR) 26.6 million from OMR26.1 million as of end-2014, while gross written premiums declined by 6.4% from OMR41.4 million to OMR38.7 million. During the same period, operating profit before tax for 2015 was OMR3.7 million, down 4.9% from the OMR3.9 million in 2014. After unrealized losses on investments, total comprehensive income as of Dec. 31 2015 stood at OMR2.6 million.

Outlook

The stable outlook reflects our expectation that neither the SACP of OUIIC nor the sovereign ratings on the Sultanate of Oman will change during our two-year outlook period. In particular, we expect OUIIC to continue passing our rating above the sovereign stress test, aided by very strong capital adequacy and by significant levels of cash continuing to be deposited with systemically important banks.

Upside scenario

We do not expect to upgrade OUIIC in the near term as we expect its SACP to remain stable at 'bbb'.

Downside scenario

We do not expect to lower the ratings on OUIIC, but we could do so if its SACP were to fall or if the insurer were to change its investment strategies and no longer prove able to pass our stress testing. Similarly, the rating on OUIIC could also be lowered if the ratings on either Oman or on the banks in which OUIIC principally deposits its cash, were to fall below the currently secure levels.

Ratings Score Snapshot

Financial Strength Rating	BBB/Stable
BRP/FRP Anchor	bbb
Business Risk Profile	Fair
IICRA	Moderate Risk
Competitive Position	Adequate
Financial Risk Profile	Moderately Strong
Capital & Earnings	Moderately Strong
Risk Position	Intermediate Risk
Financial Flexibility	Adequate

Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Fair
Holistic Analysis	0
Liquidity	Strong
Support	0
Group Support	0
Government Support	0

Related Criteria And Research

Related Criteria

- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Oman United Insurance Co. S.A.O.G.

Counterparty Credit Rating

Local Currency BBB/Stable/--

Financial Strength Rating

Local Currency BBB/Stable/--

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