S&P Global Ratings

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Oil Insurance Co. JSC

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Table Of Contents

Oil Insurance Co. JSC

Anchor	b+
Business Risk	**Weak**
Competitive position	Fair
IICRA	Moderately high
Financial Risk	**Marginal**
Capital and earnings	Satisfactory
Risk exposure	High
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

=

SACP	b+

+

Support	0
Group support	0
Government support	0

=

B+/Stable/--
Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Debt-free balance sheet.	Challenging operating environment in Kazakhstan due to intensifying competition and financial market volatility arising from the geopolitical environment.
Adequate liquidity cushion.	Recent pressure on the regulatory solvency margin and the relatively small absolute size of capital.
	A modest share of Kazakhstan's property/casualty (P/C) insurance market, and volatile operating performance.

S&P Global Ratings expects that Oil Insurance Co. JSC (NSK) will retain its position as a midsize player in the Kazakh P/C insurance market in the next two years. In our forecast, the company's market share by gross premium written (GPW) will stay at 3%-4% during this period.

We expect that NSK will maintain its capital adequacy at least at the 'BBB' level based on our model, complying with regulatory capital requirements and restoring its solvency margin to 1.5x. NSK's regulatory solvency margin dropped from 1.85x as of Dec. 31, 2021, to 1.01x as of May 1, 2022, close to the minimal level of 1.0x. This follows financial market volatility and the withdrawal of the credit ratings on some bonds and deposits in NSK's investment portfolio after sanctions were imposed on the subsidiaries of Russian banks early in 2022. NSK has submitted an action plan to the regulator in which it has committed to restore its solvency margin to 1.5x by the end of 2022, otherwise the shareholder will recapitalize the company to achieve this level of solvency margin. We expect that NSK will be able to execute the plan in line with the schedule. As of Aug. 1, 2022, the solvency margin had improved to 1.45x.

Outlook: Stable

The stable outlook reflects our expectation that, in the next 12 months, NSK will be able to:

- Sustain its competitive position;
- Maintain its capital adequacy at least at the 'BBB' level based on our model, complying with regulatory capital requirements and restoring its solvency margin to 1.5x, despite the high competition in the Kazakhstani P/C insurance market; and
- Maintain its conservative investment policy.

Downside scenario

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

- Competitive position weakened, for example, if its combined (loss and expense) ratio sustainably exceeded 100% due to a prolonged deterioration of operating performance, or if premium volumes declined materially, signifying a loss of market share;
- Capital deteriorated for a prolonged period below the 'BBB' level according to our capital model, due to weaker operating performance than we expect, investment losses, or higher dividend payouts than we expect; or
- The solvency margin deteriorated further, approaching or dropping below 1x, increasing the risk of regulatory intervention.

Upside scenario

We see a positive rating action as unlikely in the next 12 months, given NSK's relatively small market share, volatile operating performance, and low capital in absolute terms. A positive rating action would require a substantial improvement in the company's operating performance and financial risk profile. Specifically, NSK would need to maintain its combined ratio below 100%, average asset quality in the 'BBB' category, and capital adequacy based on our capital model sustainably above 'BBB'. A positive rating action would also depend on the improvement of NSK's regulatory solvency margin with no risk of regulatory intervention.

Key Assumptions

Macroeconomic assumptions

- Kazakhstan's real GDP expands 3.0% in 2022, 4.1% in 2023, and 3.6% in 2024.
- Favorable sector profitability in 2022-2023.
- Growth in Kazakhstani P/C sector premiums at a rate of about 15% in 2022-2023, and a return on equity (ROE) of about 12% in the same period.
- A combined ratio of about 98% in 2022 because of higher losses from the motor segment--as the number of accidents returns to pre-pandemic levels and inflation increases repair costs. We then foresee the combined ratio declining to about 95% as general insurance and P/C reinsurance prices rise in response to inflation and higher

reinsurance losses. This signals a hardening of the insurance and reinsurance markets.

Company-specific assumptions

- An increase in NSK's net premiums earned (NPE) of about 20% in 2022 (21% in the first seven months of 2022 compared with the first seven months of 2021), reflecting a low premium base last year. However, annual premium growth will depend on the situation with NSK's solvency. We expect that premium growth will stabilize at about 10%-15% in 2023-2024, in line with the Kazakhstani P/C insurance market.
- A net combined ratio of about 100%-102% in 2022, taking into account the pressure on the loss ratio in the motor segment because of the increasing cost of car repairs in the context of local-currency depreciation and elevated inflation. This should be somewhat offset by the company's cost-saving initiatives. We forecast that the combined ratio will improve to 98%-99% in 2023-2024, on the back of a likely decrease in losses compared to 2022, but will remain high, reflecting high competition in the market.
- A likely net investment yield of about 6.4%-6.5% in 2022-2023, higher than 6.0% in 2021 due to an increase in interest rates in the first half of 2022 and the company's shift of part of its investments to higher-yield instruments.
- Net income of about Kazakhstani tenge (KZT) 700 million-KZT900 million in 2022, supported by higher investment income and foreign-currency revaluation gains.
- Dividend payments not exceeding 50% of net income in the next two years.

Oil Insurance Co. JSC--Key Metrics

	--Fiscal year ended Dec. 31--				
(Mil. KZT)	**2023f**	**2022f**	**2021**	**2020**	**2019**
Gross premium written	~17,500-18,000	~16,000-17,000	14,263	14,871	12,129
Net premium earned	~13,000-13,500	~12,000-12,500	10,125	11,491	9,411
Net income	~700-900	~700-900	203	1,480	189
Return on shareholders' equity (%)	~10.0-11.0	~10.0-11.0	3.1	22.1	2.6
P/C: Net combined ratio (%)	~98.0-99.0	~100.0-102.0	105.1	94.3	102.2

KZT--Kazakhstani tenge. P/C--Property/casualty. f--Forecast.

Business Risk Profile: Weak

In our view, NSK's business risk profile remains constrained by the company's relatively small size, volatile operating performance, and the challenging operating environment in the P/C insurance segment in Kazakhstan, where all the company's operations are based.

As of Aug. 1, 2022, NSK ranked No. 6 by GPW in Kazakhstan's P/C insurance sector, with a market share of 3.0% (No. 6 by GPW and 3.5% market share in 2021). The company continues to focus on the motor segment, which accounted for about 51% of its GPW in the first seven months of 2022. In addition, the company underwrites property insurance (15.9% of GPW) and medical and personal accident insurance (17.7% of GPW), with other types of insurance accounting for the remaining 15% of GPW in the first seven months of 2022, mostly liability insurance. We expect that the company's portfolio structure will remain largely stable in the next two years.

Financial Risk Profile: Marginal

Our assessment of NSK's financial risk profile is moderated by the company's relatively small absolute size of capital, recent pressure on its solvency margin, and its exposure to higher-risk assets within its investment portfolio.

We expect that NSK's NPE will increase by about 20% in 2022 from the low base in 2021, when premiums declined following the company's measures to build up capital adequacy. However, annual growth will depend on its solvency margin dynamics. We expect that NSK's combined ratio will be about 100%-102% in 2022. In particular, we believe that the company's claims ratio may increase in lines of business where claims payments are linked to foreign currency, such as the motor segment. A significant share of spare car parts is imported, and this is pushing up the local-currency cost of repairs as the tenge depreciated by about 9% against the U.S. dollar over the first eight months of 2022 and we forecast inflation of about 13% in the full year. That said, we believe that NSK adheres to sound underwriting standards, and we expect a gradual improvement in its operating profitability in 2023-2024.

We expect that NSK will be able to sustain its capitalization at the current level and restore its regulatory solvency margin to 1.50x by the end of 2022 (1.45x as of Aug. 1, 2022), in line with the plan it submitted to the regulator. This assumes, among other things, control of expenses; the early termination and reduction to a minimal level of the company's deposits in unrated banks, mostly Kazakhstan-based subsidiaries of Russian banks; and no dividends for 2021 in 2022. Additionally, the plan assumes the shareholders' recapitalization of the company if it does not execute the plan by year-end 2022. However, this is not a part of our base-case scenario.

We forecast NSK's net income at KZT700 million-KZT900 million on average in the next two years, compared with KZT200 million in 2021. We also forecast an ROE of 10%-11%. We expect that the company's performance will be supported by business growth, as well as potential revaluation gains from U.S.-dollar-denominated assets as NSK has a material and long foreign-currency position.

Our forecast of capital adequacy implies that NSK can return to a 50% dividend payout ratio in 2023-2024. We expect that the company's total adjusted capital will remain redundant at the 'BBB' level in 2022-2024. That said, the company's capital remains small in absolute terms (KZT6.9 billion, or about $15 million, on Aug. 1, 2022), which makes it more vulnerable to sizable one-off losses. Even if we see gradual improvements in the company's capital adequacy under our capital model, the absolute size of capital will continue to limit our overall assessment of capital and earnings until capital exceeds the equivalent of $25 million, which we think will happen beyond our two-year rating outlook horizon.

We expect that the concentration of NSK's investments in high-risk assets will continue to constrain its financial risk profile in the next 12 months. Speculative-grade or unrated bonds, deposits with low-rated local banks, equity instruments, and real estate assets make up about 50% of total invested assets. A significant part of the company's investments (about 50%) comprises Kazakhstan government bonds, and bonds and deposits of the country's systemically important banks and government-related entities. However, the weighted-average credit quality of NSK's investments remains in the 'BB' range due to the low ratings on Kazakhstan-based issuers in a global comparison.

Other Key Credit Considerations

Governance

NSK has an established risk management framework with clear tolerances for underwriting and investment risk. We believe that the company takes all the necessary actions to address the regulator's concerns regarding a temporary decline in the regulatory solvency margin. Under our base-case scenario, we do not expect regulatory intervention in or any material regulatory sanctions against the company in the next 12 months.

Liquidity

We believe that NSK has sufficient liquidity to meet its obligations in a stress scenario. Short-term investments, consisting of bank deposits and cash equivalents, along with fixed-income securities, cover the company's claims. Furthermore, NSK does not have any confidence-sensitive liabilities and is not exposed to collateral-posting risk. We expect that the company's liquidity ratio adjusted for less liquid (unrated) investments will remain above 115% in the next 12 months.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	G-2	**G-3**	G-4	G-5

Environmental	Social	Governance
- N/A	- N/A	- Risk management, culture, and oversight.

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Governance factors are a moderately negative consideration in our credit rating analysis of NSK. This factors in our view of the regulatory framework in Kazakhstan, which has less advanced governance standards and lower disclosure levels than developed markets. In our view, these risks reduce the predictability of insurers' performance in Kazakhstan. We also monitor NSK's system of checks and balances, as well as the impact of changes in its management team in 2021, noting that the appointed team has a long track record in the insurance sector.

Related Criteria

- 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: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Kazakhstan Outlook Revised To Negative On Higher External And Financing Risks; 'BBB-/A-3' Ratings Affirmed, Sept. 2, 2022

Appendix

Oil Insurance Co. JSC -- Credit Metrics History

(Mil. KZT)	2021	2020
Total invested assets	13,996.4	13,317.2
Total shareholder equity	6,717.3	6,528.5
Gross premium written	14,263.0	14,870.7
Net premium written	10,910.7	11,650.1
Net premium earned	10,124.8	11,490.7
Reinsurance utilization (%)	23.5	21.7
EBIT	235.0	1,760.9
Net income (attributable to all shareholders)	203.4	1,479.9
Return on revenue (%)	1.7	10.6
Return on assets (excluding investment gains/losses) (%)	1.1	8.0
Return on shareholders' equity (%)	3.1	22.1
Property/casualty: Net combined ratio (%)	105.1	94.3
Property/casualty: Net loss ratio (%)	43.7	30.6
Property/casualty: Net expense ratio (%)	61.4	63.8
Net investment yield (%)	6.0	6.1
Net investment yield including investment gains/(losses) (%)	6.4	9.6
KZT--Kazakhstani tenge. P/C--Property casualty.		

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	**Marginal**	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	**bb-/b+**	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of September 13, 2022)*

Operating Company Covered By This Report	
Oil Insurance Co. JSC	
Financial Strength Rating	
Local Currency	B+/Stable/--
Issuer Credit Rating	
Local Currency	B+/Stable/--
Kazakhstan National Scale	kzBBB/--/--
Domicile	Kazakhstan

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.