S&P Global Ratings

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Research Update:

Arab Investment and Export Credit Guarantee Corp. (Dhaman) Outlook Revised To Negative; 'AA-' Ratings Affirmed

March 30, 2021

Overview

- The Arab Investment and Export Credit Guarantee Corp.'s (Dhaman's) gross insured business declined by about 20% over 2020, amid the weak business environment in member countries from the global pandemic, and due to what we view as conservative underwriting policy.
- We consider it could be difficult for Dhaman to play a countercyclical role and achieve sustainable growth in its core business lines that underpin its policy mandate.
- At the same time, Dhaman's financial profile remains strong, supported notably by its capital adequacy and excellent liquidity.
- We are therefore revising our outlook on Dhaman to negative from stable and affirming our 'AA-' ratings.
- The negative outlook indicates that we could lower the ratings over the next two years if Dhaman's business fails to rebound significantly, especially where the development impact could be highest, counter to our current view of its strong public-policy role fulfillment.

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Rating Action

On March 30, 2021, S&P Global Ratings revised its outlook on the Arab Investment and Export Credit Guarantee Corp. (Dhaman) to negative from stable. At the same time, we affirmed our 'AA-' long-term issuer credit and financial strength ratings on Dhaman.

Rationale

In our view, downside pressure is building on our strong assessment of Dhaman's policy importance. Dhaman's low growth trend over 2013-2019 was exacerbated by the COVID-19 pandemic. Global supply chain and demand disruptions adversely affected policyholders' business activity, making it difficult for Dhaman to expand its activities. In 2020, Dhaman's grand total insured business and gross premiums written contracted about 23% and 20% respectively compared with 2019. Lebanon was removed from cover in October 2019, which significantly affected the volume of the agency's trade finance insured business last year.

Beyond the pandemic-induced economic shocks, several structural challenges could further undermine Dhaman's ability to implement its public-policy mandate in the longer term. Despite a 9% expansion last year, growth in the investment guarantee line, where Dhaman's development impact could be highest, has been stagnant in recent years after declining from a peak of $540 million in 2009. A lack of investor interest and geopolitical uncertainty in the region could complicate Dhaman's expansion plans in this line of business.

In addition, removing Lebanon from cover in late 2019 has further narrowed Dhaman's geographical coverage and the scope of business operations. Five to six member countries out of 21, including Libya, Syria, Somalia, and Yemen (alongside Iraq and Sudan on a selective basis) are regularly placed off cover for geopolitical and economic reasons. Although this reflects the continued difficult operating conditions, we believe it to be an output of Dhaman's prudent risk settings that, ultimately, could limit the agency's development impact.

At the same time, Dhaman faces competition from private insurers in the remaining list of countries under cover, with some players entering the market with new products and a wider range of risks to cover. A lack of awareness of the agency in nonmember countries, eligibility criteria for its business, and its limited range of risks covered could undermine Dhaman's comparative advantage vis-a-vis its peers.

Amid the global pandemic and potentially slow vaccination in emerging economies, 2021 remains a challenging year for Dhaman, in our view. We expect GDP in most of the agency's member countries, including the Gulf Cooperation Council (GCC) to recover modestly, by about 2%-3% in 2021 on average. The business cycle is likely to take several quarters at least to fully recover. Low investment and trade activity in the region could weigh on Dhaman's operations, especially in investment guarantee and export credit business lines. In our view, this could slow the return to 2019 levels of total insured business. We understand that to revive its business operations, Dhaman plans to increase marketing efforts and expand its geographical reach to new non-Arab markets, including Asia and Sub-Saharan Africa, as allowed by the organization's mandate.

Our issuer credit ratings on Dhaman are based on our assessments of the agency's strong business profile and strong financial profile. Dhaman's stand-alone credit profile (SACP) is 'a+'. We incorporate one notch of uplift from our holistic assessment into our 'AA-' long-term issuer credit ratings on Dhaman. This reflects our view that the agency's liquidity will remain excellent, representing a significant rating strength relative to that of peers.

Despite high operating risks in several member countries, Dhaman's membership has remained stable and supportive. It currently has 25 shareholders, of which 21 are Arab states and four are pan-Arab regional funds owned by similar shareholders. The funds do not have voting rights. No shareholder has left, and we do not expect any departures over the medium term.

We do not incorporate preferred creditor treatment in our assessment of Dhaman's enterprise risk profile, because less than 25% of its insured business is noncommercial (the investment guarantee line). Within this line of business, Dhaman has a strong history of recoveries from member states, although recoveries can occur over an extended period and Dhaman has granted small waivers in the past. We expect preferential treatment from member countries for Dhaman's commercial exposure, for instance, by exempting them from currency convertibility or transfer restrictions.

We view Dhaman's financial risk profile as strong, an assessment which maps from the very strong financial risk profile assessment under our insurance criteria. Our assessment of the financial risk profile is underpinned by Dhaman's 'AAA' capital adequacy under our insurance criteria, and further supported by the company's low tolerance to investment risk.

Dhaman's capital adequacy continues to show a significant buffer above the 'AAA' level. Based on the scale of operations and business growth projections for the next two years, we expect Dhaman will maintain its robust level of capital adequacy over the same period, supported by profitable earnings.

We view Dhaman's investment portfolio as conservative. The relatively low tolerance to investment risk is evidenced by the portfolio's primary cash-denomination, which also contributes to its exceptional liquidity. The investment portfolio mainly includes bank deposits (about 55%) followed by fixed-income instruments (about 35%) with only small exposure to high-risk assets like equities and real estate (about 10%).

Outlook

The negative outlook reflects our view that Dhaman's policy importance could weaken over the next two years.

Downside scenario

We could lower the ratings if we conclude that the entity's role and public-policy mandate for its shareholders is no longer strong. This could be because sustainable growth in Dhaman's business is difficult to achieve, or if this growth comes predominately from markets where private insurers are active and the development impact is low.

Upside scenario

We could revise the outlook to stable if Dhaman demonstrates its continued policy importance. This could be through significantly expanding its business, especially where the developmental impact may evidence Dhaman's public-policy mandate and role for its shareholders.

Ratings Score Snapshot

Issuer credit rating: AA-/Negative/--

SACP: a+

Holistic approach: +1

Enterprise risk profile: Strong

- Policy importance: Strong
- Governance and management expertise: Adequate

Financial risk profile: Strong

- Capital adequacy: N/A
- Funding and liquidity: N/A

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Insurance | Specialty: Trade Credit Insurance Capital Requirements Under S&P Global Ratings' Capital Adequacy Model, Dec. 6, 2013
- 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

- S&P Global Ratings Definitions, Jan. 5, 2021
- Supranationals Special Edition 2020, Oct. 20, 2020
- Abridged Supranationals Interim Edition 2020: Comparative Data For Multilateral Lending Institutions, May 8, 2020

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Arab Investment and Export Credit Guarantee Corp. (The)		
Sovereign Credit Rating		
Foreign Currency	AA-/Negative/--	AA-/Stable/--
Financial Strength Rating		
Local Currency	AA-/Negative/--	AA-/Stable/--