Research Update:

# Islamic Corporation For The Insurance Of Investment And Export Credit Assigned 'AA-' Ratings; Outlook Stable

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## Overview

- The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) has a mandate to foster trade and investment insurance in Islamic member states to promote their economic development.
- We consider ICIEC's enterprise risk profile as strong under our criteria for multilateral lending institutions (MLI), underpinned by the corporation's supportive shareholder base, very strong preferred creditor treatment, and unique policy role of conducting all business in a Sharia-compliant manner.
- We assess ICIEC's financial risk profile as very strong under our insurance criteria, as ICIEC's capital adequacy shows a significant buffer above the 99.99% confidence level, as measured by our insurers' risk-based capital model, and the corporation maintains exceptional liquidity.
- We therefore assigned our 'AA-' long-term ratings to ICIEC.

## Rating Action

On March 26, 2024, S&P Global Ratings assigned its 'AA-' long-term issuer credit and financial strength ratings to the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). The outlook is stable.

## Outlook

The stable outlook reflects our expectation that ICIEC will continue leveraging its unique mandate and very strong preferred creditor status to expand its core business, while maintaining its robust capital and liquidity positions.

### Downside scenario

We could lower the rating over the next 24 months if we were to witness evidence of weakening shareholder support, for instance from significant delays in capital increase payments, or diminishing preferred creditor treatment status, indicated by unrecoverable claims from sovereign member states within our 180-day waiting period. We could also lower the rating if an uptick in claims payouts pressure ICIEC's capital and liquidity positions.

### Upside scenario

Ratings upside could arise from an improvement in ICIEC's public policy importance, demonstrated, for example, by a meaningful increase in business that supports ICIEC's mandate. In our view, this would most likely be accompanied by a strengthening of shareholder support.

## Rationale

Established in 1994 in Jeddah, Saudi Arabia, ICIEC was founded to promote cross-border trade and foreign direct investment in Islamic member states in a Sharia-compliant manner. The corporation is connected to the Organization of Islamic Cooperation (OIC), the leading intergovernmental organization for Muslim countries, through a solidarity agreement, whereby all ICIEC member countries are also OIC members. We view ICIEC's articles of agreement as equivalent to a treaty and the corporation is exempt from all taxation and custom duties.

ICIEC's core business remains its investment guarantee line, which insures foreign direct investment against the political and sovereign risk of the host member state. These risks include war, civil disturbance, breach of contract, transfer restrictions, and nonhonoring of sovereign financial obligations. Additionally, ICIEC offers supplier credit insurance to exporters and contractors in member and nonmember countries against the risk of nonpayment due to commercial and political risks (for nonmember countries, the covered goods must be imports into a member state). It also offers insurance to financial institutions against the risk of nonpayment of trade receivables and covers confirmation of letters of credit issued for imports.

While small on a global basis, ICIEC's gross written premium (GWP) has grown by about 18% year on year on average since 2015. In 2022, GWP reached $92.4 million (2021: $78.9 million), of which about half comprised foreign investment insurance. This is line with the corporation's strategy to boost its share of sovereign-related exposures benefiting from preferred creditor treatment (PCT), currently accounting for 92% of total GWP. Despite being well diversified by geography, ICIEC continues to operate in member countries that are in fragile or conflict-afflicted situations.

A member of the Islamic Development Bank (IsDB) (AAA/Stable/A-1+) Group, ICIEC's largest and only nonsovereign shareholder with 50.5% of subscribed shares is the Waqf Fund, an IsDB special account resources fund that is fully legally separated and independent from the IsDB. We give no group support for ICIEC's membership of IsDB Group, because we believe that IsDB has no explicit special commitments toward the Waqf fund apart from a small annual transfer to finance grants and technical assistance, and would not provide extraordinary support directly to ICIEC. ICIEC has 49 other sovereign shareholders, led by Saudi Arabia (20.2%), Egypt (4.5%), Iran (3.4%), the UAE (2.5%), and Kuwait (2.5%). Maldives and Azerbaijan are the newest shareholders, having joined in 2021 and 2022, respectively. Positively, no member state has withdrawn since inception, and management sees the likelihood of any member state withdrawing capital as remote.

We believe ICIEC's shareholders have demonstrated their support for the entity through previous capital increases. In June 2022, shareholders approved an Islamic dinar (ID) 600 million ($805 million) increase in authorized capital to ID 1 billion ($1.35 billion) to support the corporation's growth plans. This represents ICIEC's third and largest general capital increase (GCI) in its history. We understand the subscription plan was extended by 12 months to June 30, 2024, largely attributed to lengthy parliamentary approval processes in member states. As of March 2024, 84% of the capital has been subscribed to (versus 100% under the second GCI), with payment by subscribers commencing in January 2025 and ending in 2029. In our view, the higher equity capital will permit ICIEC to continue its recent trajectory of prudent growth.

We assess ICIEC's PCT as very strong, because, since its inception, ICIEC has registered no claims beyond its 180-day policy waiting period on business lines that can be subrogated to the sovereign. This implies, however, that subrogation remains untested. ICIEC has a proactive pre-claims management procedure and uses mechanisms such as the memoranda of understanding with central banks, nonobjection letters from member states, and IsDB's cross-default policy. The latter states that a default by a member state to any of the IsDB group's entities translates into a cross-default to the entire group, preventing all group members from fully engaging with a sovereign to resolve payment delays before they materialize into claims. For lines of business where subrogation is not possible, we would still expect ICIEC to benefit from preferential treatment, for instance for exemption from transfer and exchange restrictions or the government interceding to settle disputes, because of ICIEC's close relationship with member countries. We understand that while ICIEC has exposure to member states that are currently in arrears to IsDB, its existing policies in those member states continue to be serviced.

We view ICIEC's governance and risk management framework as adequate. While key governance structures, such as board meetings, are separated, ICIEC, under the umbrella of the IsDB group, benefits from operational support and various managerial synergies that ensure stability in its operations. Over the last three years, ICIEC has introduced significant enhancements to its risk management policies, including reviewing its risk appetite framework, risk capital model, and exposure management framework. The insurer also has a relatively diverse shareholding structure, and there is no private shareholding. Despite support from wealthier countries in the Gulf Cooperation Council, governance indicators for member countries are on average lower than those of higher-rated MLIs. Positively, ICIEC has never distributed dividends to members. In accordance with its articles of agreement, annual net income must be transferred to the general reserve until the total cumulative reserve amount reaches five times the subscribed capital.

We view ICIEC's financial risk profile as very strong, underpinned by the corporation's excellent capital adequacy and low tolerance to investment risk. Moreover, ICIEC's capital adequacy continues to show a significant buffer above the 99.99% confidence level, as measured by our insurers' risk-based capital model. Based on its scale of operations and business growth projections, we forecast ICIEC will maintain robust capital adequacy over the next two years, supported by profitable earnings.

We view ICIEC's investment portfolio as conservative. The corporation's relatively low tolerance for investment risk is demonstrated by its portfolio being denominated primarily in cash and fixed income securities, which also contributes to its exceptional liquidity. As of Dec. 31, 2022, the investment portfolio mainly includes bank deposits and fixed-income instruments (together contributing about 98.6%), with only a small exposure to high-risk assets such as equities and real estate (about 1.4%).

We view ICIEC's liquidity as exceptional. In our view, liquid assets will remain well in excess of stressed liabilities.

## Ratings Score Snapshot

### Issuer credit rating: AA-/Stable/--

Stand-alone credit profile: aa-

Holistic approach: 0

**Enterprise risk profile: Strong**

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

**Financial risk profile: Very Strong**

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

N/A--Not applicable.

## Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Supranationals Special Edition 2023: Capital Optimization At The Forefront for MLIs, Oct. 13, 2023
- Supranationals Special Edition 2023, Oct. 12, 2023
- Supranationals Edition 2023: Comparative Data For Multilateral Lending Institutions, Oct. 12, 2023
- Introduction To Supranationals Special Edition 2023, Oct. 11, 2023

## Ratings List

| New Rating | |
|---|---|
| **Islamic Corp. for the Ins of Invest and Export Credit** | |
| Sovereign Credit Rating | |
| Foreign Currency | AA-/Stable/-- |
| Financial Strength Rating | |
| Local Currency | AA-/Stable/-- |

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.