

Research Update:

Saudi Arabia Based Wala'a Cooperative Insurance 'BBB+' Rating Affirmed; Outlook Positive

September 30, 2019

Overview

- Wala'a Cooperative Insurance Co. benefits from capital adequacy above the 'AAA' level, as per our risk-based capital model, and exceptional liquidity.
- The company's ambitious growth and diversification plans, mainly through acquisitions, could bring volatility to its capital and earnings while carrying execution risk.
- We are affirming our 'BBB+' ratings on Wala'a.
- The positive outlook indicates that we could raise the ratings over the next 12-24 months if Wala'a continues its strong operating performance, alongside prudent growth and diversification, while maintaining extremely strong capital adequacy.

Rating Action

On Sept. 30, 2019, S&P Global Ratings affirmed its 'BBB+' long-term financial strength ratings on Saudi-Arabia-based Wala'a Cooperative Insurance Co. Ltd. The outlook remains positive.

At the same time, we affirmed our 'gcAA+' Gulf Cooperation Council regional scale financial strength rating on the company.

Outlook

The positive outlook indicates that we could raise the ratings over the next 12-24 months if Wala'a sustains its positive operating performance, while prudently expanding and diversifying its operations without compromising its extremely strong capital adequacy.

Upside scenario

Any positive rating action would depend upon the company's ability to return to profitability and deliver sustainable strong operating performance.

We could raise our ratings on Wala'a over the next 12-24 months if:

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- It continues to successfully implement its strategies, thereby combining ongoing profitable business growth and greater diversification by line of business, with sustainable performance and extremely strong capital adequacy; or
- We are satisfied that the company's acquisition strategy and growth plans will not add significant volatility to its capital and earnings.

Downside scenario

We could revise the outlook to stable over that period if:

- The company's operating performance were to weaken significantly compared with our base case; or
- Capital and earnings were to become volatile as a result of its growth strategy, contrary to our expectations.

Rationale

Wala'a ranks among the top 10 insurers in Saudi Arabia in terms of gross premiums written (GPW), with robust capital adequacy, low tolerance to investment risk, and exceptional liquidity. The company's strategy to retain almost all its earnings has helped it maintain and strengthen its capital adequacy comfortably above the 'AAA' level in our model. Furthermore, the investment portfolio is quite conservative, with the majority of assets in the form of cash and short-term deposits, which also contribute to its exceptional liquidity.

However, Wala'a has relatively small operations in terms of GPW and its capital base in global terms, given that its core business is limited to Saudi Arabia and in a few business lines. An increase in the concentration of motor insurance business (which contributes more than 60% of the total GPW) could hurt the company's competitive position.

Wala'a managed to strengthen its competitive position over 2016-2018, reporting strong operating performance. However, we note that its net results in first-half 2019 were below our expectations. The company posted a net loss of Saudi Arabian riyal (SAR) 7 million (about \$1.9 million).

On Sept. 29, 2019, Wala'a announced that it has entered into a binding merger agreement with MetLife AIG ANB Cooperative Insurance Company (MetLife AIG ANB) and its firm intention to make an offer to acquire all MetLife AIG ANB shares through an exchange of shares. At this stage, we do not anticipate this merger will change our positive outlook. However, we will monitor the situation to assess the likelihood of any potential volatility in capital and earnings or operational risk during the execution of the merger.

Ratings Score Snapshot

Business Risk Profile	Satisfactory
Competitive position	Satisfactory
IICRA	Intermediate risk
Financial Risk Profile	Strong
Capital and earnings	Very strong

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Risk exposure	Moderately high
Funding structure	Neutral
Anchor*	bbb+
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	BBB+

*This is influenced by our view of Wala'a's historical earnings volatility coupled with ambitious growth plan, which might create potential future capital & earning volatility.

Related Criteria

- 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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Wala'a Cooperative Insurance Co. Ltd.

Financial Strength Rating	BBB+/Positive/--
Gulf Cooperation Council Regional Scale Ratings	gcAA+/--/--

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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