



Rating Action: Moody's assigns A3 insurance financial strength rating to Walaa Cooperative Insurance Company; Stable Outlook

26 Nov 2018

London, 26 November 2018 -- Moody's Investors Service has today assigned an A3 insurance financial strength rating (IFSR) to Walaa Cooperative Insurance Company (Walaa). The outlook for Walaa is stable. Based in Saudi Arabia, Walaa is a medium sized property and casualty insurer, underwriting motor, medical, property and engineering, and various personal lines products.

RATINGS RATIONALE

The A3 IFSR of Walaa reflects its: (i) strong market position and brand, as the sixth largest player in the Saudi Arabian insurance market with a 3.1% markets share in terms of gross premium written in 2017; (ii) strong asset quality, driven by a conservative investment strategy with high risk assets (HRA) as a percentage of consolidated (shareholders' and policyholders') equity of 16.1% at YE 2017; (iii) strong capital adequacy level, with gross underwriting leverage of 2.6x at YE 2017; (iv) good recent profitability, with the return on capital (ROC) of 25.8% in 2017 and 29.4% in 2016, supported by a good combined ratio (COR) of 81% and 82% respectively; and (v) good reserve adequacy with the sophistication of setting and monitoring underpinned by in-house actuaries.

However these strengths are partially constrained by the increasingly competitive Saudi Arabian property and casualty insurance market. Furthermore Walaa is more concentrated and thus exposed to the market's most competitive lines of motor and medical. However, given the company's focus and controls around underwriting, we believe the recent improvements in profitability are going to be sustained.

OUTLOOK

The stable rating outlook reflects our expectation that Walaa will maintain its improved profitability by profitably growing the business and thereby further aid its capital adequacy.

Given the stable outlook an upgrade at this stage is unlikely but the rating could be upgraded if Walaa: (i) profitably expands into the top three insurers in Saudi Arabia in terms of premiums whilst maintaining ROC of over 15% and COR of under 90%; and/or (ii) it profitably improves its business lines diversification; and/or (iii) profitably expands into other markets, reducing concentration to Saudi Arabia whilst also maintaining its capital adequacy with GUL below 3x.

Conversely, the rating could be downgraded if Walaa: (i) loses significant market position in Saudi Arabia falling out of the top seven in terms of premiums; and/or (ii) its asset quality deteriorates with HRA as a % percentage of consolidated equity of over 30% or there is deterioration of the bank deposit ratings in Saudi Arabia to which Walaa is exposed to and or loss of A-rated reinsurance support; and/or (iii) its capital adequacy levels weaken with GUL of over 3x; and/or (iv) its profitability weakens with ROC's of below 5% and combined ratios of over 95% consistently; and/or (v) its reserve adequacy deteriorates with consistent reserve strengthening required in subsequent years; and/or (vi) it undertakes significant borrowings with leverage levels reaching or over 15%.

The following rating was assigned:

Walaa Cooperative Insurance Company: Insurance Financial Strength Rating of A3.

The outlook is stable.

Based in Saudi Arabia, Walaa reported a 8.4% growth in its premiums to SAR1.1 billion for 2017 from SAR1.0 billion in 2016 and thereby reported a 20.3% growth in net income to SAR145.2 million in 2017 from SAR120.7 million in 2016. As a result Walaa's consolidated equity increased by 33.4% to SAR600.2 million at YE 2017 from SAR450.0 million at YE 2016.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Property and Casualty Insurers published in May 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

The local market analyst for this rating is Mohammed Ali Riyazuddin Londe, +971.4.237.9503.

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