

ISSUER COMMENT

18 January 2021

 Rate this Research

RATINGS

Insurance Financial Strength - Fgn Curr	A3
Outlook	Negative

Source: Moody's Investors Service

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Walaa Cooperative Insurance Company

Board recommends capital increase to maintain company's solvency amid growth plan, a credit positive

On 11 January, the [Walaa Cooperative Insurance Company](#) (A3 negative) board of directors recommended a SAR775 million (\$206 million) rights issue to increase the company's paid capital by 120%. Pending regulatory and shareholder approvals, the rights issue would likely take place in the third quarter of 2021 and boost shareholders' equity by around 87% from the SAR884 million (\$235 million) reported in third-quarter 2020.

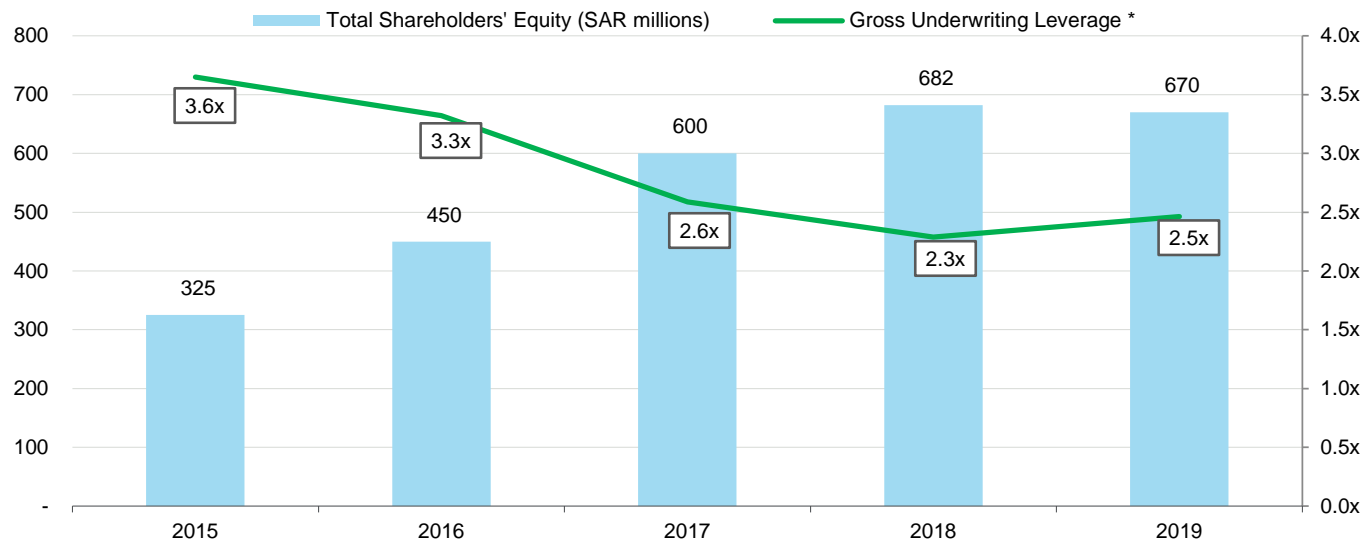
Walaa's proactive risk and capital management is credit positive because it aims to maintain the company's solvency margin as it pursues its growth plan for the next three to five years. Despite increasing competition in the Saudi Arabian insurance market and uncertainty over the profitability of new business, the increased capital buffers would allow Walaa to manage execution risks and adjust its growth plan if necessary.

Like other insurers, Walaa seeks growth to remain among the largest players in Saudi Arabia, as the regulator pushes market consolidation. In 2019, Walaa had a 3.2% market share and was the sixth largest insurer by premiums. As a property and casualty (P&C) insurer, it underwrites motor, medical, property and engineering risk. Since its merger with MetLife AIG ANB Insurance Company in February 2020, it also provides life protection and savings insurance.¹

Walaa aims to grow in all these segments over the next five years, but we expect most of the growth in the P&C lines of health and motor insurance, which together account for more than 80% of the Saudi market's premiums. These lines are short tail in nature and thereby any deviation in pricing and reserving is rapidly visible. Therefore, we expect Walaa to adjust its plans should the profitability of new business be lower than it expects. Walaa historically has had good profitability, with an average return on capital of 9.9% between 2015 and 2019, and an average combined ratio of 92%.

Walaa's flexibility and ability to withstand an unfavourable scenario would be relatively high with the proposed capital increase of 120% on top of its already strengthened capital (see exhibit). The increase would likely cover several years of prudent underwriting growth. According to Saudi Arabian regulations, SAR100 of health premiums require SAR16 of capital, and SAR100 of motor premiums require SAR20 of capital. For example, for an insurer with a 200% solvency margin, the proposed capital increase would allow writing SAR1.9-SAR2.4 billion of additional premiums (compared with gross premiums written of SAR1.2 billion in 2019 for Walaa) without affecting its solvency ratio. Such growth is unlikely to occur in a couple of years and the proposed capital increase is therefore designed more to cover its medium-term ambitions.

Exhibit 1

Wala'a's capital has continued to strengthen

* Gross underwriting leverage is the underwriting risk (premiums and reserves) in comparison to shareholders' equity.

Sources: Company's filings and Moody's Investors Service

Nonetheless, the benefits of the capital increase can be diminished by potential changes in investment strategy since we expect insurers to chase yields amid low interest rates. Unlike most of its P&C peers in the wider Gulf Cooperation Council region, Wala'a's capital adequacy is not pressured by a high-risk investment portfolio. It is predominantly invested in cash and deposits, which is common for highly rated insurers in the Saudi market given their propensity to maintain strong liquidity and admissible assets to aid their solvency buffers.

Peer Group:

- » [Al Rajhi Company for Cooperative Insurance](#)
- » [Mediterranean & Gulf Ins. & Reinsurance Co.](#)
- » [Malath Cooperative Insurance Company](#)

Methodologies used

- » [Property and Casualty Insurers Methodology](#)
- » [Life Insurers Methodology](#)

Moody's related publications

- » [Wala'a Cooperative Insurance Company - Credit Opinion](#), October 2020

Endnotes

- 1 See [Wala'a Cooperative Insurance Company: Merger with Metlife AIG ANB will bring synergies, but poses short-term downside risks](#), 5 February 2020.

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