

Research Update:

# **DRAFT: Saudi-Arabia-Based Walaa Cooperative Insurance Upgraded To 'A-' And 'gcAAA' On Improved Risk Profile; Outlook Stable**

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S&PGR Upgrades Walaa Coop. Insurance To 'A-'; Outlook Stable

## Overview

- Walaa Cooperative Insurance Co. completed its integration with Metlife AIG ANB Cooperative Insurance Co. during 2020, without experiencing any earnings or capital volatility.
- Walaa's capital adequacy stayed above the 'AAA' level as per our model, and will likely strengthen over the next two years, since Walaa plans to increase its capital base in 2021 via a rights issue to support future growth.
- We are therefore raising our ratings on Walaa to 'A-' from 'BBB+' and to 'gcAAA' from 'gcAA+'.
- The stable outlook reflects our expectation that Walaa will maintain its robust capital adequacy while strengthening its competitive position and diversifying its operations.

## Rating Action

On Jan. XX, 2021, S&P Global Ratings raised to 'A-' from 'BBB+' its long-term insurer financial strength rating on Saudi Arabia based Walaa Cooperative Insurance Co. The outlook is stable.

At the same time, we raised our Gulf Cooperation Council regional scale financial strength rating on Walaa to 'gcAAA' from 'gcAA+'.

## Outlook

The stable outlook reflects our expectation that Walaa will maintain its robust capital adequacy while strengthening its competitive position and diversifying its operations over the next two years. It also reflects the stable outlook on our sovereign credit rating on Saudi Arabia.

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## Upside scenario

We see limited likelihood of an upgrade during the outlook period. However, we could consider a positive rating action over the next two years if Walaa expands significantly in terms of premium income, which would lead us to reassess its business risk profile as strong, while maintaining its excellent capital adequacy and low risk tolerance in its investment portfolio.

A positive rating action would be possible only if we took similar action on our sovereign ratings on Saudi Arabia, or if we believe Walaa could pass our hypothetical sovereign default stress test, allowing us to rate it above the sovereign.

## Downside scenario

We could consider a negative rating action over the next two years if Walaa's:

- Operating performance deteriorates rapidly and steadily due to underwriting or investment losses;
- Capital and earnings weaken as a result of its growth or acquisition strategy; or
- We took a negative rating action on Saudi Arabia, while Walaa fails to pass our sovereign default stress test.

## Rationale

The upgrade reflects a change in our assessment of Walaa's risk profile. Our concerns about potential capital and earnings volatility due to Walaa's growth and acquisition strategy have reduced, since Walaa completed its merger with Metlife AIG ANB in 2020 without experiencing any significant volatility. Walaa has also demonstrated that it can expand profitably by following strict underwriting guidelines. It also maintains a very low tolerance for volatility in its investment portfolio by keeping a large proportion of its investments in bank deposits and fixed-income instruments.

Walaa's capital adequacy (according to our model) has sufficient buffers above the 'AAA' confidence level. Walaa plans to further strengthen its capital via a rights issue of Saudi Arabian riyal (SAR) 775 million (about \$207 million) in 2021 to support its ambitious growth plan. We believe this demonstrates proactive management that would enable the company to have sufficient capital resources for its growth strategy and to absorb any unexpected volatility. This additional capital would significantly enhance the already sufficient capital adequacy buffers Walaa carries.

During the first nine months of 2020, Walaa's gross premium increased by 21%, outpacing the market average growth rate of 3.9%. The growth was across all lines of business. Walaa posted positive operating results, with a net combined (loss and expense) ratio of 92.5% and net income of SAR32 million. Over the next two years, we expect Walaa to maintain a high premium growth rate since it plans to expand in some business lines. This growth trajectory might result in thinner profit margins in the short term, but we expect Walaa to remain profitable in medium term.

## Ratings Score Snapshot

	To	From
Financial strength rating	A-	BBB+
Business risk profile	Satisfactory	Satisfactory
Competitive position	Satisfactory	Satisfactory
IICRA	Intermediate risk	Intermediate risk
Financial risk profile	Very strong	Strong
Capital and earnings	Very strong	Very strong
Risk exposure	Moderately low	Moderately high
Funding structure	Neutral	Neutral
Anchor*	a-	bbb+
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0

\*This reflects Wala's geographic concentration in single country (Saudi Arabia) and small absolute size in global terms. IICRA--Insurance Industry and Country Risk Assessment.

## 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
- 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

## Ratings List

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](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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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