

Research Update:

Walaa Cooperative Assigned 'ksaAAA' Saudi Arabia National Scale Rating; Global And Regional Scale Ratings Affirmed

August 30, 2022

Overview

- We expect Walaa Cooperative Insurance Co. (Walaa) to continue posting strong premium growth this year, having also seen significant growth in 2021.
- We expect the company to retain risk-adjusted capital in excess of our 'AAA' requirements, despite technical losses in 2022, thanks to its expected merger with SABB Takaful.
- Walaa intends to complete another capital increase through a rights issue, although this is unlikely to take place before the second half of 2023.
- We assigned our 'ksaAAA' long-term Saudi national scale rating to Walaa.
- At the same time, we affirmed our 'A-' global scale rating and 'gcAAA' Gulf Cooperation Council (GCC) regional scale rating on Walaa.
- The stable outlook on the 'A-' global scale rating reflects our expectation that Walaa will maintain capital adequacy in excess of our 'AAA' benchmark over the next two years, while improving its operating performance and focusing on profitable business growth.

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Rating Action

On Aug. 30, 2022, S&P Global Ratings assigned its 'ksaAAA' Saudi national scale financial strength rating to Walaa. At the same time, we affirmed our 'A-' long-term insurer financial strength rating and 'gcAAA' GCC regional scale financial strength rating on Walaa. The outlook on the global scale and national scale ratings is stable.

Rationale

The affirmation indicates that we continue to view Walaa's risk-based capital adequacy as a key rating strength. It came under pressure in 2021 as a result of strong premium growth and net

losses. Indeed, the insurer's gross premium written (GPW) grew by 59% to Saudi riyal (SAR) 2,339 million, while suffering from a combined (loss and expense) ratio of 115%, resulting in net losses of SAR122 million. As a result, Walaa's capital adequacy was below the 'AAA' level at year-end 2021.

However, we expect it to return above this level thanks to the expected upcoming merger with Saudi-based company SABB Takaful. Walaa has already received approval from the Saudi Central Bank and the Capital Markets Authority, and we expect the merger to conclude before year-end 2022. The transaction should bring in about SAR300 million in capital, enabling the company to restore its capital adequacy to the 'AAA' benchmark.

Moreover, Walaa is planning to complete a rights issue in 2023. The company aims to raise about SAR450 million-SAR500 million to support its future growth ambitions. We have not factored this capital increase into our base case, since it remains in the early stages.

In our view, the merger with SABB Takaful should further consolidate Walaa's competitive position in the Saudi market, having successfully integrated the operations of Saudi-based company MetLife AIG ANB Cooperative Insurance Co. in 2020. At second-quarter 2022, Walaa's GPW grew by 18% to SAR1,401 million. Its combined ratio was 113%, since motor claims remained high relative to premium, both for Walaa and other insurers in Saudi Arabia.

For full-year 2022, we anticipate Walaa's GPW will exceed SAR2,600 million, and technical performance will not deteriorate from levels reported at the second quarter. This will be supported by Walaa's decision to reduce its exposure to motor while increasing medical and other lines. Moreover, unlike many insurers globally that have taken a hit from the volatility in capital markets, Walaa's unrealized losses on investments were modest and, at less than 2%, did not represent a material portion of its total shareholders' equity at second-quarter 2022.

Outlook

The stable outlook on the 'A-' global scale rating reflects our expectation that Walaa will maintain capital adequacy in excess of our 'AAA' benchmark over the next two years, while improving its operating performance and focusing on profitable business growth. The stable outlook on the 'ksaAAA' Saudi national scale rating reflects that on the 'A-' global scale rating.

Downside scenario

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

- Capital and earnings weakened as a result of its growth or acquisition strategy; or
- Operating results continue to be weak due to underwriting or investment losses.

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:

- Expanded and diversified significantly in terms of premium income, while operating performance exceeded the Saudi market average. This could lead us to reassess its competitive position; and
- Maintained its excellent capital adequacy and low risk tolerance in the investment portfolio.

A positive rating action would be possible only if we took a similar action on our sovereign ratings on Saudi Arabia (A-/Positive/A-2), or if we thought Walaa could pass our hypothetical sovereign default stress test, allowing us to rate it above the sovereign.

Ratings Score Snapshot

Ratings Score Snapshot -- Walaa Cooperative Insurance Co.

	To	From
Financial strength rating	A-	A-
Anchor*	a-	a-
Business risk	Satisfactory	Satisfactory
IICRA	Intermediate	Intermediate
Competitive position	Satisfactory	Satisfactory
Financial risk	Very strong	Very strong
Capital and earnings	Very strong	Very strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers	0	0
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

*This is influenced by Walaa's geographic concentration in a single country (Saudi Arabia).

Environmental, Social, And Governance

ESG credit indicators: E-2, S-2, G-2

ESG factors have no material influence on our credit rating analysis of Walaa.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers 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

Related Research

- Saudi Arabia Property/Casualty And Health, June 10, 2022

Ratings List

New Rating

Walaa Cooperative Insurance Co.

Financial Strength Rating

Local Currency	ksaAAA/Stable/--
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Ratings Affirmed

Walaa Cooperative Insurance Co.

Financial Strength Rating

Local Currency	A-/Stable/--
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Local Currency	gcAAA/--/--
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