MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Walaa's IFSR at A3, outlook remains stable

13 July 2023

Limassol, July 13, 2023 - Moody's Investors Service (Moody's) has today affirmed the A3 insurance financial strength rating (IFSR) of Walaa Cooperative Insurance Company (Walaa), the outlook remains stable. Based in Saudi Arabia, Walaa is a top tier local insurer underwriting property and casualty as well as life insurance.

RATINGS RATIONALE

The rating affirmation reflects Walaa's strong market position and brand, as the fifth largest insurer in Saudi Arabia, and good business diversification that limits its exposure to the highly competitive and price-sensitive retail motor and medical lines. Walaa's financial profile is underpinned by strong asset quality, resulting from its conservative investment strategy, good capital and reserve adequacy, along with good financial flexibility given its low leverage and demonstrated access to capital. These strengths are offset by Walaa's lack of geographic diversification outside of Saudi Arabia and assertive growth strategy, that together have contributed to weak underwriting performance and pressure on capitalization over the past two years.

Walaa has been growing both organically and inorganically over the past few years with the successful mergers with Metlife AIG ANB Insurance Company (Metlife AIG ANB) in 2020 and more recently, the merger with SABB Takaful Company (SABB Takaful) in 2022. With a market share of 5.1% of 2022 gross premiums, Walaa is the fifth largest insurer in the Saudi market. Its overall market position is strengthened by its focus on commercial insurance and differentiation from peers which are more geared towards retail motor and medical insurance.

Market wide weak underwriting performance in 2021 and 2022, driven by competitive pressures on premium rates and adverse claims developments, had a negative impact on Walaa's profitability, with its combined ratio deteriorating to 111% and 106% for 2021 and 2022, respectively, from 88% in 2020. More positively the recent results of Q1 2023 show that Walaa, alongside the wider market, has improved its underwriting performance with Walaa reporting a net income of SAR24.3 million for Q1 2023 compared to a net loss of SAR19.6 million for the same period last year.

Capital adequacy is good, with Moody's gross underwriting leverage (GUL) metric of 3.4x at year-end 2022. However, capital levels had deteriorated during 2021 and part of 2022 due to high premium growth and weak underwriting performance, against a backdrop of market-wide underwriting and pricing challenges. Walaa's growth had been quite significant, with net premiums increasing to SAR2.6 billion in 2022 from SAR1.5 billion in 2020, which together with weak underwriting performance resulted in capital adequacy initially weakening, with GUL deteriorating to 3.9x at YE 2021 from 2.2x at YE 2020 before reverting to an improving trend at the end of 2022 reaching 3.4x, following the merger with SABB Takaful and the related capital raise of SAR294 million.

The SABB Takaful merger and capital raise was in line with the strategy recommended by the board to raise capital by SAR775 million as announced in 2021 to maintain the company's solvency margin as it pursues growth in the expanding Saudi insurance market. Going forward, we expect Walaa's improved underwriting performance and any future capital raise, to support strengthening capital adequacy.

OUTLOOK

The stable rating outlook reflects Moody's expectation that Walaa will maintain good capital adequacy by balancing business growth and capital levels whilst maintaining good underwriting profitability.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Moody's says that the following factors could exert upward pressure on Walaa's rating: (i) strengthening of its market position, with for example, reaching a top three position in Saudi Arabia in terms of premiums; (ii) improved profitability, with return on capital of over 15% and combined ratio under 90%; and (iii) further business line diversification, with for example a more balanced mix of profit generating revenues between several major lines of business.

Conversely, downward pressure would arise in case of (i) deterioration in capital adequacy, with for example, GUL exceeding 3.5x or business growth outpacing growth in capital; (ii) deterioration in profitability, with return on capital remaining below 4% and combined ratios over 100%; (iii) its market position in Saudi Arabia falling out of the top seven in terms of premiums; (iv) a deterioration in asset quality with high risk assets (HRA) as a percentage of consolidated equity of over 60%, or the loss of A-rated reinsurance support; and (v) a deterioration in reserve adequacy or increased level of reserve risk.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Property and Casualty Insurers Methodology published in January 2023 and available at https://ratings.moodys.com/rmc-documents/397707. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The local market analyst for this rating is Mohammed Ali Riyazuddin Londe, +971 (423) 795-03.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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