Research Update:

Saudi Reinsurance Co. Assigned 'A-' Ratings; Outlook Stable

December 16, 2022

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Overview

- Saudi Reinsurance Co. (Saudi Re) has continued to strengthen its competitive position via profitable business growth and diversification in recent years, thanks to local and international expansion.
- At the same time, Saudi Re's exposure to catastrophe and other large risks is relatively modest and the company maintains capital adequacy above the 'AAA' level in our model.
- We assigned our 'A-' long-term issuer credit and insurer financial strength ratings and 'gcAAA' regional scale rating to Saudi Re.
- The stable outlook reflects that Saudi Re will maintain excellent capital adequacy and continue to profitably expand and diversify its business over the next two years.

Rating Action

On Dec. 16, 2022, S&P Global Ratings assigned its 'A-' long-term issuer credit and insurer financial strength ratings to Saudi Reinsurance Co. (Saudi Re). The outlook is stable.

At the same time, we assigned our 'gcAAA' Gulf Corporation Council regional scale rating to the company.

Rationale

Saudi Re posted gross written premium (GWP) growth of about 19% to Saudi riyal (SAR) 1.1 billion ($298 million) in 2021 from SAR0.9 billion in 2020. It also increased its top line 7.5% in the first nine months of 2022, mainly driven by higher premium income from inherent defects insurance in its home market of Saudi Arabia. At the same time, the company achieved a net combined (loss and expense) ratio of about 92% compared with 97% during the first nine months of 2021, supported by the discontinuation of less profitable business in the Far East.

Saudi Re enjoys several regulatory benefits, such as certain tax benefits and mandatory cession on a first right of refusal basis from local primary insurers from 2023, since the Saudi authorities implicitly regard it as part of the local insurance sector infrastructure. We expect that Saudi Re's GWP will expand at least 5%-10% in 2022 and 2023. Following an increase in reinsurance pricing and thanks to relatively low exposure to catastrophe and other large risks, we also anticipate that the company will generate net combined ratios of 94%-96% per year in the same period.

Saudi Re's shareholders' equity increased about 2.7% to SAR990.8 million at Sept. 30, 2022, from about SAR964 million at year-end 2021. This increase was supported by a net comprehensive income of about SAR26.7 million and no dividend payouts. We consider Saudi Re's capital adequacy a key rating strength and expect it to remain above the 'AAA' benchmark in our risk-based capital model over the next two years. A planned capital increase through a rights issue in early 2023 will further support the entity's growth plans, in our view.

In line with regulatory requirements, governance practices at Saudi Re appear effective and appropriate. We also regard the consistency in strategy and management's expertise and experience as a benefit to the company.

Based on our calculations, Saudi Re's assets exceeded stressed liabilities but at a somewhat lower margin when compared with peers. Although we view the reinsurer's liquidity position as adequate, we anticipate gradual improvements over the next two years as the base of liquid assets expands.

Outlook

The stable outlook reflects that Saudi Re will maintain excellent capital adequacy and continue to profitably expand and diversify its business over the next two years.

Downside scenario

We could take a negative rating action if the company experiences significant volatility in GWP and operating performance over the next two years. We could also take a negative rating action if, contrary to our expectations, Saudi Re's financial risk profile weakens significantly, for example because of unexpected and material losses, significant premium growth, or increasing exposure to large, long-tail risks.

Upside scenario

We view an upgrade as unlikely over the next two years, given the entity's relatively limited diversification and the overall small capital base compared with higher-rated global peers.

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 Saudi Re.

Ratings Score Snapshot

Business risk profile	Satisfactory
Competitive position	Satisfactory
IICRA	Intermediate risk
Financial risk profile	Strong
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	a-
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Financial strength rating	A-/Stable

*This is mainly influenced by Saudi Re's robust capital adequacy, favorable competitive position in Saudi Arabia, and improving operating performance.

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

Ratings List

New Rating	
Saudi Reinsurance Co.	
Issuer Credit Rating	
Gulf Cooperation Council Regional Scale	gcAAA/--/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
Financial Strength Rating	

New Rating

Local Currency	A-/Stable/--