RATING REPORT

Reliance Insurance Company Limited (RICL)

REPORT DATE:
January 5, 2020

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
IFS	A	A
Rating Date	*December 31, '19*	*December 31, '18*
Rating Outlook	Positive	Positive

COMPANY INFORMATION	
Incorporated in 1981	**External auditors:** Kreston Hyder Bhimji & Co. Chartered Accountants
Public Limited Company	**Chairman:** Mr. Ismail H. Zakaria
Key Shareholder(s):	**Chief Executive Officer:** Mr. A. Razak Ahmed
Individuals – 53.41%	
Directors, CEO & Other Spouses & Minor Children – 29.51%	
Joint Stock Companies – 14.73%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: General Insurance (November 2019)
http://vis.com.pk/kc-meth.aspx

Reliance Insurance Company Limited (RICL)

OVERVIEW OF THE INSTITUTION

RICL was incorporated as a public limited company and commenced operations in 1981. Financial statements for 2017 were audited by Kreston Hyder Bhimji & Co. Chartered Accountants. The company is engaged in provision of general insurance business services and takaful services through its Window Takaful Operations.

Profile of the Chairman:

Mr. Ismail H. Zakaria has been the Chairman of the Board of Directors of RICL since its inception. He has 45 years of diversified experience in various industries.

Profile of the CEO

Mr. Razak Ahmed is the CEO of RICL since 1995. He has over 45 years of experience in the insurance industry both in public and private sectors.

RATING RATIONALE

The rating assigned to Reliance Insurance Company Limited (RICL) signifies high capacity to meet policyholder and contractual obligations; risk factors may over time due to business/economic conditions. The assigned rating reflects sound capitalization level and liquidity profile of the company. Underwriting quality is also considered prudent. Strong reinsurance program and sustainability in quantum of underwriting profits will continue to be key determinants for future direction of rating. Moreover, RICL is backed by Amin Bawany and Al-Noor Group of Companies, two prominent industrial groups.

Key Rating Drivers

Business underwritten by the company declined during the outgoing year on account of closed operations of a client in the aviation segment.

Given the prevailing competition in the insurance market, the company continues to face significant pressure on premium rates. Despite growth in the insurance market, gross premiums (including Takaful premiums) of RICL decreased by 20.4% largely on account of one of its largest client in the aviation segment closing its operations. Barring aviation, business underwritten in other segments has grown during 2018. Growth in business volumes is expected to remain at similar levels on account of general economic slowdown in the country. While the company maintains a balanced business mix in its conventional segment, motor segment represents the largest share of 67.9% in its Window Takaful business mix followed by fire, marine and aviation. In order to support cash flows, management plans to continue keeping motor business on the higher side. Contribution base of the company amounted to Rs. 100.5m by end-December 2018 vis-à-vis Rs. 74.8m by end-2017.

Table 1: Conventional Business

Gross Premium Written	2016	2017	2018	9M19
Fire	27.5%	29.3%	36.7%	50.8%
Marine & Aviation	55.5%	53.9%	38.6%	20.3%
Motor	14.5%	14.4%	20.9%	24.4%
Misc	2.5%	2.4%	3.8%	4.5%
	1,201.8	**1,155.4**	**878.6**	**415.8**

Table 2: Window Takaful Business

Gross Contribution Written	2016	2017	2018	9M19
Fire	14.7%	14.8%	16.6%	29.4%
Marine & Aviation	64.3%	21.9%	10.5%	13.6%
Motor	18.6%	58.1%	67.9%	52.9%
Misc	2.3%	5.2%	5.0%	4.1%
	24.4	**74.8**	**100.5**	**69.9**

Reinsurance panel of the company is considered adequate with reinsurers rated 'BBB+' rating or above

Reinsurance panel of the company remains unchanged with Swiss Re (Rated AA-) as the lead reinsurer. Pakistan Reinsurance Company Limited has the second largest share in treaties at 25%. Retention level and treaty capacities slightly improved during the outgoing year. The company has primarily negotiated proportional treaties for all its business segments. However, the same are protected by a non-proportional treaty with a maximum sum insured retained on net account amounting to Rs.15m; net sum assured is considered manageable in relation to equity. Going forward, extent of risk on own account would be an important rating driver. While historically remaining stable at a level of 70.0%, cession ratio of the company has leveled in the year and was reported at 66.2% at end-December 2018. The same was lower at 56.5% for the nine months ending September 30, 2019.

Profitability from underwriting operations has remained subdued on account of lower profitability across all business segments. Nonetheless, loss ratios of the company remained within manageable limits

While underwriting profitability from the conventional business remained subdued, profit from its Window Takaful operations picked up pace and was reported higher at Rs. 21.1m (FY17: Rs. 6.2m), during 2018. During FY18, loss ratios of the company compared favorably to peers on a timeline basis. With a lower net premium base, expense ratio was reported at 74.0% which remains on the higher side in relation to peers. With a significant loss in the fire segment, an underwriting loss was incurred during the ongoing year.

Table 3: Profitability of Conventional Business

Underwriting Profit	2016	2017	2018	9M19
Fire	4.7	13.5	(1.9)	(15.1)
Marine & Aviation	(7.8)	(11.6)	(4.4)	3.2
Motor	16.0	13.6	6.9	5.8
Misc	4.3	4.5	2.7	1.1
	17.2	**19.8**	**3.4**	**(5.0)**

Table 4:Profitability of Window Takaful Operations

Underwriting Profit	2016	2017	2018	9M19
Fire	(0.2)	0.7	1.0	0.4
Marine & Aviation	0.2	(1.9)	1.0	(0.1)
Motor	0.1	5.7	22.5	21.0
Misc	(0.0)	0.2	0.9	0.8
	0.1	**4.7**	**25.4**	**22.0**

Investment portfolio of the company remained tilted towards equities with some exposure in fixed income securities. Investment income from the same is expected to remain subdued, during the ongoing year, given the downward trend in capital markets.

Similar to other industry players, support from investments plays a pivotal role to the underwriting operations of the company. In 2018, around half of the investment income pertains to recurring sources including dividend income and return on fixed income instruments. Overall exposure to market risk is sizeable with investment in equities representing around 70% of the investment portfolio. Large equity scrips in the investment portfolio comprise blue chip dividend yielding stocks. During 9M19, market risk emanating from the portfolio has been evident on account of volatility in the stock market which resulted in a significant loss from investments. Nonetheless, credit risk emanating from the investment portfolio is considered manageable.

Liquidity and Capitalization: With revaluation of the equity portfolio, liquidity profile of the institution marginally weakened while proportion of liquid assets in relation to liabilities remains on the higher side in comparison to peers. Liquidity indicators may improve in the coming years given the recent trend in stock market. Insurance debt in relation to gross premium remains on the higher side. Moreover, capitalization levels of the institution have remained stable over time while leverage indicators indicate further room for growth. The company may need to strengthen its underwriting operations in order to sustain its profitability and capitalization indicators.

Reliance Insurance Company Limited (RICL) — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2016**	**Dec 31, 2017**	**Dec 31, 2018**	**Sep 30, 2019**
Cash and Bank Deposits	120.2	160.2	144.4	104.6
Investments	795.3	704.2	711.1	680.9
Investment Properties	-	-	-	-
Liquid Assets	907.2	860.0	848.1	780.8
Insurance Debt	168.7	207.8	222.3	207.4
Prepaid Reinsurance Ceded	364.5	337.5	170.9	127.1
Total Assets	1,828.4	1,791.1	1,658.7	1,634.3
Paid Up Capital	510.4	561.4	561.4	561.4
Net Worth	877.0	798.9	855.9	859.0
Adjusted Equity	877.0	798.9	855.9	859.0
Underwriting Liabilities	782.6	739.4	588.1	609.8
Total Liabilities	951.4	992.2	802.7	775.3
INCOME STATEMENT	**Dec 31, 2016**	**Dec 31, 2017**	**Dec 31, 2018**	**Sep 30, 2019**
Net Premium Revenue	359.4	357.7	348.2	234.0
Net Claims	101.7	88.2	87.2	58.2
Expenses	193.4	202.4	212.4	146.0
General & Administrative Expenses	47.1	47.3	45.2	34.8
Underwriting Profit/(Loss)	17.2	19.8	3.4	(5.0)
Investment Income	99.0	(40.1)	46.7	(0.8)
Recurring Investment Income	41.2	40.9	41.4	45.7
Profit Before Tax	115.5	(17.6)	60.1	4.9
Profit After Tax	100.7	(38.8)	49.0	6.2
RATIO ANALYSIS	**Dec 31, 2016**	**Dec 31, 2017**	**Dec 31, 2018**	**Sep 30, 2019**
Cession Ratio (%)	69.0%	71.9%	77.7%	56.5%
Gross Claims Ratio (%)	12.7%	18.3%	20.2%	54.9%
Net Claims Ratio (%)	28.3%	24.6%	25.0%	24.9%
Underwriting Expense Ratio (%)	66.9%	69.8%	74.0%	77.3%
Combined Ratio (%)	95.2%	94.5%	99.0%	102.1%
Net Operating Ratio (%)	83.7%	83.0%	87.1%	82.6%
Insurance Debt to Gross Premium (%)	14.0%	18.0%	25.3%	37.4%
Operating Leverage (%)	41.0%	44.8%	40.7%	36.3%
Financial Leverage (%)	47.7%	50.3%	48.7%	56.2%
Adjusted Liquid Assets to Technical Reserves (%)	217.0%	214.0%	203.3%	161.8%

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

AAA
Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

AA+, AA, AA-
Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

A+, A, A-
High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

BBB+, BBB, BBB-
Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

BB+, BB, BB-
Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

B+, B, B-
Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

CCC
Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

CC
Weak capacity to meet policyholder and contract obligations; Risk may be high.

C
Very weak capacity to meet policyholder and contract obligations; Risk may be very high

D
Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.vis.com.pk/images/criteria_outlook.pdf

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Reliance Insurance Company Limited (RICL)
Sector	Insurance
Type of Relationship	Solicited
Purpose of Rating	Insurer Financial Strength (IFS) Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Rating History

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: IFS			
31/12/2019	A	Positive	Reaffirmed
31/12/2018	A	Positive	Reaffirmed
27/11/2017	A	Positive	Reaffirmed
29/12/2016	A	Positive	Reaffirmed
30/12/2015	A	Positive	Maintained