RATING REPORT

The Co-operative Insurance Society of Pakistan Limited

REPORT DATE:
February 06, 2020

RATING ANALYSTS:

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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
Entity	BB	BB
Rating Outlook	Stable	Stable
Outlook Date	*Dec 31'2019*	*Dec 19'2018*

COMPANY INFORMATION	
Incorporated in 1949	**External auditors:** IECnet S.K.S.S.S & Co. Chartered Accountants
Co-operative Society	**Chairman of the Board:** Sh. Aziz-ul-Haq Piracha
	CEO: Mr. Fateh Khan Niazi

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

The Co-operative Insurance Society of Pakistan Limited

OVERVIEW OF THE INSTITUTION

CISPL was incorporated in 1949 under the Cooperative Societies Act, 1925. The society operates through two zonal offices, two regional offices and nine branches..

Profile of CEO

Mr. Fateh Khan Niazi serves as CEO of the company. Mr. Niazi is a graduate (B.A) and has been associated with CISPL for more than 20 years, previously worked as Assistant General Manager.

Financial Snapshot

Net Income: 1HFY19: Rs. 2.5m; FY18: Rs. 0.2m

Equity: 1HFY19: Rs. 2.3b; FY18: Rs. 2.3b.

RATING RATIONALE

The rating assigned to The Cooperative Insurance Society of Pakistan Limited (CISPL) takes into account its low business generation and weak underwriting performance reflecting limited capacity of the society to meet policyholder and contractual obligations. Credit risk emanating from reinsurance panel selection remains sound with the reinsurer rated in category 'AA'. Liquidity profile of the company is considered adequate in view of sizeable liquid cushion available along with manageable level of insurance debt. The ratings incorporate meagre organic growth emanating from society's branch network; Punjab Provincial Cooperative Bank Limited, society's largest shareholder, contributes major proportion of business. Hence, the market presence of the society remains restricted. The ratings take into account the support available from investment and rental income. Ample room for improvement is available in operating and financial leverages.

Improvement in business volumes on timeline basis: The business mix of the company tilted towards miscellaneous segment under the period under review; meanwhile exposure in motor and marine segments is limited owing to highly competitive insurance market dynamics, making business procurement and low-premium offering difficult for small-sized companies. Business volumes of the Society increased to Rs. 14.0m (FY18: Rs. 16.8m; FY17: 8.7b) during HY19 primarily on the back of new policies underwritten in the miscellaneous segment. The proportion of non-motor business vis-à-vis motor business witnessed growth during the period under review. Overall cession reduced on a timeline basis despite no change in treaty terms in line with increase in quantum of policies with lower sum insured over the years. The snapshot of business mix is presented in the table below:

	FY16	FY17	FY18	HY19
Fire	78%	71%	27%	29%
Marine	0%	0%	0%	0%
Motor	20%	27%	40%	19%
Misc.	2%	2%	33%	52%
Total (Rs. in m)	**5.8**	**8.7**	**16.8**	**14.0**

Treaty capacities and company's retention remain unchanged: Reinsurance panel, treaty capacities and retention limits remained unchanged during FY18 and FY19. Reinsurance coverage has been arranged from Pakistan Reinsurance Company Limited (PRCL) having an IFS rating of "AA". The society has arranged surplus treaties in fire, marine, general accident, engineering, livestock and crops. Moreover, quota share and excess of loss treaties have been arranged for bond and motor segments. Size of maximum per risk claim remained unchanged which, on net account, is considered manageable in relation to the society's loss absorption capacity.

Given limited scale of operations, society continues to report underwriting losses: The underwriting performance of the society deteriorated during FY18 in line with higher incidence of claims in the fire segment. The loss ratio in the fire segment trended upwards on a timeline basis on account of higher incidence of claims. The loss retention on society's books remained manageable in the other segments. On the other hand, underwriting performance slightly improved during HY19 with the society reporting underwriting profit of Rs. 0.6m on account of lower expense ratio recorded in line with rationalization of expenses. However, the same is likely to overturn by end-FY19 on account of additional administrative expenses to be added. Hence, the performance of the society remains dismal, due to lower quantum of insurance business in relation to management expenses. With lower expense ratio, the combined ratio improved on a timeline basis.

	FY16	FY17	FY18
Underwriting Profit/ (Loss) (Rs. in m)	(11.1)	(11.8)	(15.2)
Fire	(8.5)	(7.9)	(2.2)
Marine	(0.0)	(0.01)	0.0
Motor	(2.4)	(3.5)	(6.7)
Misc	(0.23)	(0.37)	(6.3)

Rental income remained sizeable: Investment income primarily comprising rental and dividend income continues to support the bottom line. The society earns rental income from head office building space and another building located in Rawalpindi; however, the rental yields are well below the market rates. Moreover, the society receives dividend income from investment in shares of PRCL and Ferozsons Laboratories Limited. Subsequently, in line with slight increase in business volumes coupled with curtailed management expenses the society reported net profit during HY19 on an annualized basis.

Operating and financial leverages remained well below rating benchmark: Liquidity profile is considered sound reflected by sizeable liquid assets maintained in relation to net technical reserves. In addition, insurance debt in relation to gross premium was recorded almost nil at end-HY19. On account of breakeven achieved during FY18 and relatively smoother HY19 the society's equity base, remaining adequate vis-à-vis business operations, has largely remained stagnant during the period under review. Both operating and financial leverages are well below the rating benchmarks for the assigned rating. Therefore, the society has room to optimize its leverage indicators by expanding its business further.

The Co-operative Insurance Society of Pakistan Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR 000s)*

BALANCE SHEET	DEC 31, 2016	DEC 31, 2017	DEC 31, 2018	JUN 30, 2019
Cash and Bank Deposits	11,813	10,855	7,341	9,468
Investments	162,197	79,826	58,370	45,214
Investment Properties	2,198,318	2,195,981	2,291,000	2,288,933
Insurance Debt	121	42	41	47
Paid Up Capital	500,000	500,000	500,032	500,032
Total Assets inc reval. Surplus	2,376,737	2,285,106	2,365,765	2,354,178
Net Worth inc reval. Surplus	2,351,205	2,239,766	2,317,126	2,308,996
Total Liabilities	25,532	45,341	48,639	44,939

INCOME STATEMENT	DEC 31, 2016	DEC 31, 2017	DEC 31, 2018	JUN 30, 2019
Net Premium Revenue	5,328	6,309	10,530	10,051
Net Claims	131	618	787	433
Underwriting Profit / (loss)	(11.1)	(11,767)	(15,215)	634
Net Investment Income	11,493	9,793	10,002	3,739
Profit/ (loss) Before Tax	433	(1,543)	(4,040)	4,395
Profit/ (loss) After Tax	421	(1,623)	247	2,514

RATIO ANALYSIS	DEC 31, 2016	DEC 31, 2017	DEC 31, 2018	JUN 30, 2019
Cession Ratio (%)	15.2%	12.6%	9.8%	9.7%
Gross Claims Ratio (%)	2.1%	8.3%	7.3%	6.7%
Net Claims Ratio (%)	2.4%	9.8%	7.5%	4.3%
Underwriting Expense Ratio (%)	300.2%	234.3%	213.8%	131.2%
Combined Ratio (%)	302.7%	244.1%	221.2%	135.5%
Net Operating Ratio (%)	87.0%	88.9%	126.3%	135.5%
Insurance Debt to Gross Premium (%)	2.08%	1.47%	0.25%	0.17%
Operating Leverage (%)	0.8%	1.1%	1.90%	3.7%
Financial Leverage (%)	0.6%	1.0%	2.44%	2.24%
Adjusted Liquid Assets to Net Technical Reserves (%)	4,569.2%	1,363.6%	448.7%	404.1%
Current Ratio (x)	N/A	N/A	N/A	N/A
Debt to Equity (x)	N/A	N/A	N/A	N/A

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-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.jcrvis.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.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	The Co-operative Insurance Society of Pakistan Limited				
Sector	Insurance				
Type of Relationship	Solicited				
Purpose of Rating	Insurer Financial Strength (IFS) Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: IFS				
	12/31/2019	BB		Stable	Reaffirm
	12/31/2018	BB		Stable	Reaffirm
	12/19/2017	BB		Stable	Reaffirm
	11/08/2016	BB		Stable	Upgrade
	9/23/2015	BB-		Stable	Initial
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.				
Probability of Default	VIS ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**	
	1	Mr. Shoaib A Waseem	Senior Manager	26-Nov-2019	