Reliance Insurance Company Limited

Chairman: Mr. Ismail H. Zakaria;

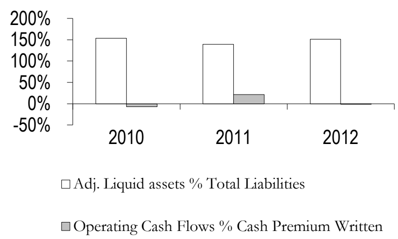
Chief Executive & Managing Director: Mr. A. Razak

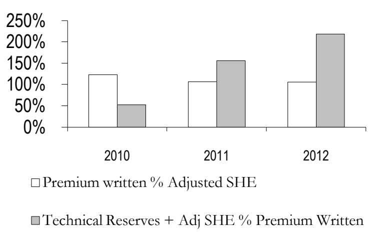
September 22, 2013

Analysts: Sobia Maqbool, CFA
Amir Shafique

Category	Latest	Previous
IFS	**A**	**A-** *Jan 28, '13*
Outlook	***Stable***	***Positive*** *Jan 28, '13*

Key Financial Trends





(In Rs. M)	2010	2011	2012
Gross Premium	530	543	614
Market Share	1.3%	1.2%	1.4%
Net Premium	268	239	241
Net Claims ratio	36%	36%	35%
Combined ratio*	100%	106%	108%
Net profit before tax	57	147**	94
Adj. Equity	439	518	584
Operating Leverage	53%	46%	41%
Financial Leverage	63%	61%	130%
Insurance debt % Gross Premium	34%	40%	38%

***Includes one-time unrealized gain of Rs. 65m on equities portfolio*

Rating Rationale

Reliance Insurance Company Limited (RICL) has been operating in the general insurance industry for almost 30 years and has a market share of 1.4% in 2012. With higher internal capital generation and market value of investments, net equity of RICL increased to Rs. 611m (2011: Rs. 518m) by end 1H13. Leverage indicators of the company are within prudent limits and reflect room for further growth.

While the company registered cash outflow from operating activities in 2012, liquid assets carried on balance sheet depicted a rising trend as the market value of listed equities increased during the period. In 1H13, the company has generated positive cash flows from operating activities. The quantum is still small and sustainability will be tested over time. Insurance debt in relation to gross premium stands considerably high at almost 38%; this needs to be curtailed to bring about sustainable improvement in cash flows. As such, liquidity profile of the company is considered adequate, with liquid assets in relation to technical reserves (adjusted for prepaid reinsurance premium ceded), standing at about 1.02x (2011: 1.5x) at end 1H13.

RICL achieved the business target for 2012 with gross premium of Rs. 614m written in the year. As against the business volume target of Rs. 700m for 2013, business of almost Rs. 325m was written in 1H13. Even though there was increase in gross premium, net premium revenue increased only marginally as higher cession was reported in 2012; in 1H13, the company reported cession of 60%. While two large claims of Rs. 744m (marine) and Rs. 41m (fire) were incurred in 2012, a minimal amount of Rs. 0.7m (marine) and Rs. 1.7m (fire) was borne on company's net account. In view of this, net claims ratio remains within manageable limits, indicating sound underwriting quality and adequacy of reinsurance arrangements in place. The results from underwriting operations however remain under stress on account of a large expense base. Underwriting expense ratio at 70% in 1H13 is considered significantly higher than peers. The management is taking certain measures to curtail expenses, including rationalization of branch network and staff strength and downward revision in commission rates in the motor segment. The results of these steps will be evident over time.

While underwriting loss was reported in 2012 and 1H13, income from investments lent considerable support to the company, translating in bottom line profit. The KSE-100 index increased by 49% in 2012 and a further 24% in 1H13; with almost 70% of the investment portfolio deployed in equities, the company has been able to benefit from the upward rally. While such returns may not be sustainable, the dividend yield on company's portfolio has also remained healthy and may be a more recurring source of income. The company is exposed to significant price risk on account of its equity holdings which represented almost 56% of the company's own equity at end-Jun'13. Apart from equities, other investment avenues comprised government securities including PIBs, GoP Ijarah and WAPDA Sukuk, representing about 20% of the portfolio. Interest rate risk arising from the portfolio is considered manageable. Going forward, the management plans to deploy proceeds from the maturing PIBs and WAPDA Sukuk into Shariah compliant government securities.

Reinsurance panel has depicted few changes with exit of the lead reinsurer from the market. The panel for 2013 is led by Malaysian Re (25%), with majority of the reinsurers rated 'A-.' Two new reinsurers with minimum rating of 'B++' have also joined the panel. Quota share treaty has been introduced in the fire segment along with first surplus treaty with maximum retention of Rs. 5m. Moreover, maximum retention has increased for marine (Rs. 4m) and engineering segment (Rs. 4m). Commission rates have come down in recent years.

At the senior management level, SVP-Operations resigned and was replaced in 2013 by Mr. Rizwan Akhter, EVP-Operations who had been earlier associated with the company in similar capacity. Core business application used by the company is Oracle based General Insurance Accounting Software (GIAS) which is an integrated management information system.

Overview of the Institution

RICL was incorporated as a public limited company and commenced operations in 1981. M/s BDO Ebrahim & Company Chartered Accountants were external auditors of the company for 2012 and have been reappointed for 2013 JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: IFS		
30-Sep-13	A	Stable		Upgrade
01-Jan-13	A-	Positive		Maintained
29-Dec-11	A-	Stable		Reaffirmed
08-Dec-10	A-	Stable		Reaffirmed
12-Nov-09	A-	Stable		Reaffirmed