

## Reliance Insurance Company Limited

Chairman: Mr. Ismail H. Zakaria;

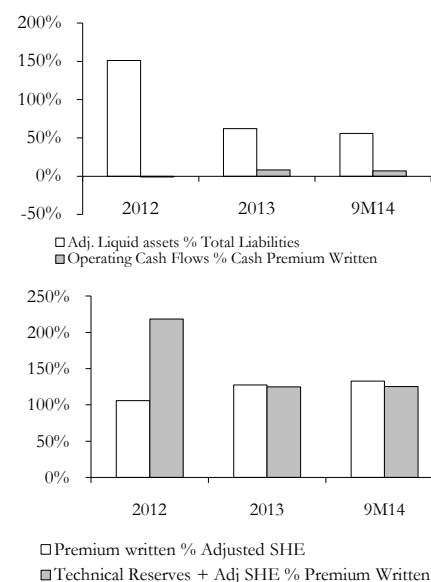
Chief Executive & Managing Director: Mr. A. Razak

February 24, 2015

**Analysts:** Amir Shafique  
Muniba Khan

| Category       | Latest                       | Previous                      |
|----------------|------------------------------|-------------------------------|
| <b>IFS</b>     | <b>A</b><br>Dec 31, '14      | <b>A</b><br>Sept 30, '13      |
| <b>Outlook</b> | <b>Stable</b><br>Dec 31, '14 | <b>Stable</b><br>Sept 30, '13 |

### Key Financial Trends



| (In Rs. millions)              | 2012 | 2013 | 9M14 |
|--------------------------------|------|------|------|
| Gross Premium                  | 614  | 837  | 704  |
| Market Share                   | 1.4% | 1.4% | 1.4% |
| Net Premium                    | 241  | 261  | 205  |
| Net Claims ratio               | 35%  | 34%  | 36%  |
| Combined ratio                 | 108% | 107% | 104% |
| Net profit before tax          | 94   | 81   | 72   |
| Adj. Equity                    | 584  | 658  | 707  |
| Operating Leverage             | 41%  | 40%  | 39%  |
| Financial Leverage             | 130% | 59%  | 67%  |
| Insurance debt % Gross Premium | 38%  | 27%  | 25%  |

### Rating Rationale

Reliance Insurance Company Limited (RICL) is backed by Amin Bawany and Al-Noor Group of Companies, two prominent industrial groups having presence across several sectors including sugar and financial services. The company enjoys both financial and business support from the group. The rating incorporates sound capitalization level of the company that has strengthened over time on the back of retained earnings. Overall liquidity profile of the company is also considered sound; operating cash flows are positive in addition to which the company carries a sizeable portfolio of marketable securities.

In recent years, growth in business volumes has primarily emanated from marine aviation segment, which is almost entirely passed on to reinsurers. As a result, retention levels have continued to decline and growth in net premium has been much slower than gross premium. In order to grow its top line, the company intends to procure additional motor business by participating in a government scheme. Given the lack of control over client screening, ability to generate positive earnings from this business is considered uncertain by JCR-VIS; results will be tracked on an on-going basis.

Adequate set of treaty arrangements has kept the net account protected. The reinsurer panel mostly features 'A-' and above rated reinsurers for both proportional and non-proportional treaties. Malaysian Reinsurance Berhad (rated A-) is the lead reinsurer in main segments. With no major change in treaty terms, overall cession increased to 70.1% (FY13: 65.8%; FY12: 60.5%) in 9M14.

Overall claims performance compares favorably to the industry. There has been some stress in fire lately due to a terrorism related incident; however, loss ratio continues to be on the lower side. The company's expense ratio is considerably on the higher side, in view of which, underwriting operations remains under stress. RICL incurred an underwriting loss of Rs. 7.4m (FY13: Rs. 19m; FY12: Rs. 18.3m) in 9M14. However, net profitability continues to depict improvement on the back of adequate investment income support.

Both earnings and cash flows are primarily dependent on investment activity. Around 2/3rd of the portfolio comprises exposure in equities while the remaining is in income/government securities funds and other debt instruments. Credit risk emanating from the portfolio is considered manageable. Earnings may experience volatility in line with stock market as equity portfolio is marked to market and unrealized gains are taken to income, which comprise a sizeable proportion of investment income.

There was stability at the senior management level positions. Senior management has been associated with the company for ten years on an average. RICL has implemented an integrated General Insurance Accounting System (GIAS) to support core operations. The in-house internal audit function may require additional resources overtime with growth in business activity.

### 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 2014 and have been reappointed for 2015 [JCR-VIS]

**Rating History**

| <b>Rating Type</b> | <b>Rating Date</b> | <b>Medium to Long Term</b> | <b>Outlook</b> | <b>Rating Action</b> |
|--------------------|--------------------|----------------------------|----------------|----------------------|
| IFS                | 12/31/2014         | A                          | Stable         | Reaffirmed           |
| IFS                | 9/30/2013          | A                          | Stable         | Upgrade              |
| IFS                | 1/28/2013          | A-                         | Positive       | Maintained           |
| IFS                | 12/29/2011         | A-                         | Stable         | Reaffirmed           |
| IFS                | 12/8/2010          | A-                         | Stable         | Reaffirmed           |