

RATING REPORT

Reliance Insurance Company Limited (RICL)

REPORT DATE:

January 06, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	A	A
Rating Date	December 30, '15	December 31, '14
Rating Outlook	Positive	Stable

COMPANY INFORMATION

Incorporated in 1981	External auditors: BDO Ebrahim & Co. Chartered Accountants.
Public Limited Company	Chairman: Mr. Ismail H. Zakaria
Key Shareholder(s):	Chief Executive Officer: Mr. A. Razak Ahmed
Individuals – 55.07%	
Directors, CEO & Other Spouses & Minor Children – 25.49%	
Joint Stock Companies – 17.92%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria : General Insurance 2003 <http://www.jcrvis.com.pk/images/methodology.pdf>

Reliance Insurance Company Limited (RICL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>RICL was incorporated as a public limited company and commenced operations in 1981. Financial statements for 2014 were audited by M/s BDO Ebrahim & Company Chartered Accountants. The company has total staff strength of 200.</p>	<p>The assigned rating to Reliance Insurance Company Limited (RICL) incorporates strong liquidity profile, adequate capitalization indicators and reinsurance program along with improving underwriting performance. However, earnings and cash flows are dependent on investment activity. While maintaining other key rating parameters, sustainability and quantum of underwriting profits will be the key determinant to the future direction of rating. RICL is backed by Amin Bawany and Al-Noor Group of Companies, two prominent industrial groups.</p> <p>Gross premium depicted a growth of 23% during FY14 to cross Rs. 1b. Apart from miscellaneous segment, growth was witnessed across all business segments with major increase emanating from aviation segment which represents around half of total gross premiums. Given that aviation business is almost entirely passed on to reinsurers, growth in net premium revenue has remained lower than gross premium. During FY15, growth has been manifested in the proportion of motor business. Going forward, management is targeting to increase the proportion of fire and motor in overall business mix.</p> <p>Reinsurance panel of the company has witnessed improvement with the induction of Swiss Re on the panel as the lead reinsurer. For FY15, retention and treaty capacities have witnessed an increase in key business segments, particularly fire. However, commission rates from reinsurers have declined across all segments which will have implications for the expense ratio of the company. Maximum retention on net account in any business segment represents around 2% of the company’s equity base. Going forward, management plans to continue to gradually increase retention and treaty capacity in key business segments.</p> <p>Gross and net claims ratios of the company have showcased improvement during 9M15 and compare favorably to industry. Improvement in claims performance has been driven by the motor segment. Resultantly, the company has managed to post underwriting profits during 9M15; however, expense ratio continues to be on the higher side in relation to peers.</p> <p>Overall profitability is supported by sizeable investment income. Historically, around half of the investment income pertains to recurring sources (Dividend income and return on fixed income instruments). Overall exposure to market risk is sizeable with investment in equities representing around two-third of the investment portfolio and half of the company’s equity base. Large equity scrips in the investment portfolio comprise blue chip dividend yielding stocks. Credit risk emanating from the investment portfolio is considered manageable.</p> <p>Liquidity profile of the institution is considered adequate in view of sizeable liquid assets in relation to liabilities, manageable level of insurance debt and positive cash flow from operations. Capitalization levels of the institution have increased over time on account of retained profits. Leverage indicators are on the lower side and indicative of room for growth.</p>

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Reliance Insurance Company Limited (RICL)

Appendix I

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
BALANCE SHEET	SEP 30, 2015	DEC 31, 2014	DEC 31, 2013
Cash and Bank Accounts	69.5	78.5	77.3
Deposits Maturing Within 12 Months	27.0	26.0	25.7
Insurance Debt	225.9	202.1	226.9
Total Assets	1,664.9	1,595.9	1,456.6
Net Worth	774.6	725.2	653.4
Total Liabilities	890.2	870.7	803.2
INCOME STATEMENT			
	SEP 30, 2015	DEC 31, 2014	DEC 31, 2013
Net Premium Revenue	225.4	295.8	260.8
Net Claims	62.1	94.3	87.9
Underwriting Profit/(Loss)	6.3	(2.4)	(19.0)
Other Income	1.3	2.8	2.9
Profit Before Tax	79.6	96.5	81.2
Profit After Tax	69.6	90.1	74.7
RATIO ANALYSIS			
	SEP 30, 2015	DEC 31, 2014	DEC 31, 2013
Market Share (Gross Premium) (%)	1.54%	1.87%	1.72%
Cession Ratio (%)	69.2%	70.8%	65.8%
Gross Claims Ratio (%)	24.0%	29.7%	27.9%
Net Claims Ratio (%)	27.5%	31.9%	33.7%
Underwriting Expense Ratio (%)	69.7%	68.9%	73.6%
Combined Ratio (%)	97.2%	100.8%	107.3%
Net Operating Ratio (%)	80.2%	84.7%	87.1%
Insurance Debt to Gross Premium (%)	22.0%	19.7%	27.1%
Operating Leverage (%)	37.4%	38.6%	39.8%
Financial Leverage (%)	52.9%	56.5%	59.0%
Adjusted Liquid Assets to Total Liabilities (%)	137.7%	128.9%	118.1%

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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: 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

'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

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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	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	RATING TYPE: IFS			
	30/12/2015	A	Positive	Maintained
	12/31/2014	A	Stable	Reaffirmed
	09/30/2013	A	Stable	Upgrade
	01/28/2013	A-	Positive	Maintained
	12/29/2011	A-	Stable	Reaffirmed
Instrument Structure	N/A			
Statement by the Rating Team	JCR-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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