RATING REPORT

Reliance Insurance Company Limited (RICL)

REPORT DATE:
January 7, 2019

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, '18*	*November 27, '17*
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 – 57.79%	
Directors, CEO & Other Spouses & Minor Children – 24.3%	
Joint Stock Companies – 16.2%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria: General Insurance (March 2017)
http://jcrvis.com.pk/docs/Meth-GenInsurance201702.pdf

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 insurance 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

Reliance Insurance Company Limited (the Company) was incorporated as a public limited company on November 1981. The Company is engaged in general insurance business and General Window Takaful Operations in Pakistan. RICL is backed by Amin Bawany and Al-Noor Group of Companies, two prominent industrial groups.

Rating Drivers

The rating 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.

Business Mix

Overall gross premiums (including takaful contributions) have increased to Rs.1,230.2m (2016: Rs. 1,226.2m) in 2017, depicting a growth of 0.3%. The Takaful segment posted gross contribution of Rs. 74.7m in 2017 (2016: Rs. 24.4m). The company continues to maintain a diversified portfolio mix with marine, aviation and transport segment contributing the highest share followed by fire & property and motor segments. However, proportion of marine, aviation and transport segment has decreased on year on year basis. Market share of the company (excluding takaful premium) declined to 1.65% (2016: 1.85%) in 2017. Gross premiums in 9M'18 (including takaful premiums) were reported lower at Rs. 746.9m (9M'17: Rs. 899.7m) vis-à-vis the corresponding period last year. Decrease in premiums from aviation sector was the major reason for the overall decline in premiums. Going forward, the management intends to cover the shortfall in business through other conventional business segments, especially the fire segment, along with growth initiatives in window takaful operations, which have already depicted healthy growth in 9M'18.

Table 1: Gross Premium

Rs. in millions	9M'18	%	CY17	%	CY16	%
Fire and property damage	208.4	31%	338.8	29%	330.5	27%
Marine, aviation and transport	308.3	46%	622.9	54%	666.8	55%
Motor	131.1	20%	166.2	14%	174.1	14%
Miscellaneous	20.0	3%	27.5	2%	30.4	3%
Total Gross Premium	**667.8**	**100%**	**1,155.4**	**100%**	**1,201.8**	**100%**

Table 2: Net Premiums

Rs. in millions	9M'18	%	CY17	%	CY16	%
Fire and property damage	77.4	32%	118.7	33%	113.6	32%
Marine, aviation and transport	36.6	15%	65.1	18%	66.9	19%
Motor	124.5	51%	162.5	45%	169.0	47%
Miscellaneous	6.8	3%	11.5	3%	9.9	3%
Total Net Premium	**245.2**	**100%**	**357.7**	**100%**	**359.4**	**100%**

Reinsurance Coverage

Reinsurance panel of the company is considered sound with Swiss Re (Rated AA) as the lead reinsurer. Reinsurance treaties of the company provide adequate risk coverage. Maximum net retention in any one segment is Rs. 50m for the year 2018. In 2018, the management increased treaty capacities in the fire, motor, terrorism, general accident and property segments. However, despite increase in capacities, higher business volumes have not materialized. In line with strategic business growth objectives, management has planned enhancement in capacities in the fire and engineering segments for 2019.

Claims

Net claims ratio has improved in comparison to 2016 due to sound reinsurance arrangements; however gross claims ratio has increased on timeline basis on account of higher claims in the fire segment. The company's gross and net claims ratios have remained lower vis–a-vis peers due to management's conservative approach. Management expects loss ratios to remain on the lower side as underwriting quality remains the primary focus of the management.

Table 3: Gross Claims

	9M18	2017	2016
Fire	52.7%	37.3%	34.2%
Marine	3.6%	4.3%	-4.8%
Motor	34.9%	36.1%	40.2%
Misc	20.5%	17.0%	14.0%
Total Gross Claims Ratio	**23.5%**	**18.3%**	**12.7%**

Table 4: Net claims

	9M18	2017	2016
Fire	15.3%	8.9%	19.2%
Marine	15.7%	22.9%	21.1%
Motor	35.5%	37.9%	38.4%
Misc	14.1%	9.7%	8.4%
Total Net Claims Ratio	**25.6%**	**24.6%**	**28.3%**

Profitability

Barring the marine, transport and aviation segment, all business segments witnessed underwriting profits in 2017. Underwriting profit of the company depicted modest growth in 2017 to Rs. 19.8m (2016: Rs. 17.2m) on account of lower incidence of claims, especially in the fire segment, vis-à-vis the preceding year. Due to growth in management expenses, underwriting expense ratio of the company increased to 69.8% (2016: 66.9%) in 2017. However, the increase in expenses was offset by net claims, resulting in slight decrease in overall combined ratio to 94.5% (2016: 95.2%). In 9M'18, underwriting profit was reported lower vis-à-vis the corresponding period in the preceding year as a result of decrease in business volumes coupled with incurrence of a sizeable claim in the fire segment.

Table 5: Underwriting profit/loss

(Rs. in millions)	9M18	2017	2016
Fire	1.3	13.6	4.7
Marine	(7.1)	(13.1)	(7.8)
Motor	11.4	14.8	16.0

Misc	1.9	4.5	4.4
Total	**7.5**	**19.8**	**17.2**

Despite higher underwriting profit, the company reported overall loss after tax in 2017 (2017: Rs. -46.7m; 2016: Rs. 100.7m) as the company booked sizeable unrealized losses on investments. In 9M'18, profit after tax was reported higher at 82.6m (9M'17: Rs. 1.8m) primarily on account of sizeable unrealized gains in investment income (9M'18: Rs. 62.4m; 9M'17: -16.7m).

Investment Portfolio

After witnessing a decline in 2017, the investment performance has depicted considerable improvement in 9M'18, with the company booking sizeable unrealized gains. The company's investment portfolio comprises approximately 60% exposure in equities while remaining is deployed in cash/income/money market funds and government securities. As per management, the company has historically varied proportion of the investment portfolio on the basis of outlook for macroeconomic variables such as interest rates and equity markets. Size of the total investment portfolio (including TDRs) was reported at Rs. 730.2m (2017: Rs. 704.2m; 2016: Rs. 795.3m) at end-9M'18. Given the portfolio composition, credit risk is considered manageable. However, exposure to market risk is still considered on the higher side; a further downward trajectory in the equity market may have unfavorable impact on profitability. Management may consider defining maximum exposure limits with regards to equity investments in its investment policy in line with its risk absorption capacity. However, the management remains cognizant of the current equity market environment and expectations of hike in interest rates; resultantly, the management has already undertaken steps in post end-9M'18 to further reduce the proportion of equity portfolio in overall investments.

Liquidity and Capitalization

Liquid assets of the company are considered adequate to meet the current liabilities of the company. Liquid Assets as a proportion of net technical reserves stood at 202.4% (2017: 215.1%; 2016: 219.0%). Net operating cash flow of the company decreased on year on year basis. Increase in receivables and decline in gross premiums has resulted in an increase in insurance debt in relation to gross premiums (9M'18: 25.6%; 2017: 18.0%; 2016: 14.0%). However, aging profile of insurance debt is considered satisfactory. As per management, overall slowdown in economy resulted in increasing receivables from customers.

Total Equity (adjusted for value of investments) has varied in line with profitability of the company. Given the equity base, leverage indicators depict room for growth, provided that risk retention levels do not change materially.

Table 6: Capitalization and Leverage Indicators

	9M'18	2017	2016
Equity (Rs. in mn)	871.9	798.5	880.0
Operating Leverage	37.5%	44.8%	40.8%
Financial Leverage	48.7%	50.3%	47.5%

Reliance Insurance Company Limited (RICL) — Appendix I

FINANCIAL SUMMARY
(amounts in PKR millions)

BALANCE SHEET	SEP 30, 2018	DEC 31, 2017	DEC 31, 2016	DEC 31, 2015
Cash and Bank Accounts	128.7	160.2	120.2	106.9
Deposits Maturing Within 12 Months	22.8	26.7	26.7	27.0
Insurance Debt	228.0	207.8	168.7	200.7
Total Assets	1,784.4	1,790.7	1,828.4	1,766.6
Adjusted Equity	871.9	798.5	880.0	786.0
Total Liabilities	912.5	992.2	948.4	980.5
INCOME STATEMENT	**SEP 30, 2018**	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Net Premium Revenue	245.2	357.7	359.4	316.4
Net Claims	62.8	88.2	101.7	89.9
Underwriting Profit/(Loss)	7.5	19.8	17.2	3.0
Other Income	1.7	1.5	1.0	1.3
Profit/(Loss) Before Tax	82.6	(25.5)	115.5	90.7
Profit/(Loss) After Tax	65.7	(46.7)	100.7	80.9
RATIO ANALYSIS	**SEP 30, 2018**	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Market Share (Gross Premium) (%)	-	1.65%	1.85%	1.82%
Cession Ratio (%)	74.8%	69.6%	69.0%	69.7%
Gross Claims Ratio (%)	23.5%	18.3%	12.7%	31.9%
Net Claims Ratio (%)	25.6%	24.6%	28.3%	28.4%
Underwriting Expense Ratio (%)	71.3%	69.8%	66.9%	70.6%
Combined Ratio (%)	96.9%	94.5%	95.2%	99.0%
Net Operating Ratio (%)	83.3%	83.0%	83.7%	85.3%
Insurance Debt to Gross Premium (%)	25.6%	18.0%	14.0%	18.0%
Operating Leverage (%)	37.5%	44.8%	40.8%	38.4%
Financial Leverage (%)	48.7%	50.3%	47.5%	63.3%
Adjusted Liquid Assets to Total Liabilities (%)	135.5%	135.9%	158.7%	125.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

JCR-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: 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

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	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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Rating History

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