

RATING REPORT

Reliance Insurance Company Limited (RICL)

REPORT DATE:

December 31, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	A	A
Rating Date	December 31, '20	December 31, '19
Rating Outlook	Positive	Positive

COMPANY INFORMATION

Incorporated in 1981	External auditors: Kreston Hyder Bhimji & Co. Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Ismail H. Zakaria
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. A. Razak Ahmed
Individuals- 53.41%	
Directors, CEO, & Other Spouses & Minor Children-29.51%	
Joint Stock Companies-14.73%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria : General Insurance (November 2019)

<http://vis.com.pk/kc-meth.aspx>

Reliance Insurance Company Limited (RICL)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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 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. Rażak 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.

Reliance Insurance Company Limited (RICL) is primarily engaged in the provision of general insurance business in Pakistan. RICL is a small-sized insurance company with a market share of 0.8%, in the non-life private insurance industry of Pakistan, in terms of gross underwriting (incl. takaful contributions) for 2019 (2018: 1.1%). The company holds a market share of 0.7% and 0.9% in the conventional and takaful segments respectively.

RICL was established by Al-Noor Group and Amin Bawany Group which are two of the leading Industrial Houses of Pakistan. Both the groups have successfully implemented a number of projects.

Insurance Sector Update

- The gross premiums/ takaful contributions underwritten by the industry grew by 10% in 2019. The non-life insurance penetration, at ~0.2%, continues to lag the regional counterparts.
- Amidst double digit inflation (CYTD Dec'19: 12.6%), the industry' underwriting expense ratio increased, while a slight uptick was also noted in net claims ratio.
- Nevertheless, the industry's investment income grew by almost a fifth, which supported the net operating ratio.
- The sector's operating leverage remains around ~50%, which is considered to be on the lower side.
- The impact of the outbreak of novel coronavirus on the insurance has been relatively measured so far. Nevertheless, given the overall pandemic-induced macroeconomic changes, the following pointers summarize the impact.
 - o The premium from all lines of business is expected to be impacted for 2020.
 - The pandemic-related project delays are expected to impact premiums under fire & engineering segment, albeit this largely depends on the actual project delays.
 - The reduced international trade will affect premiums in the marine line of business.
 - As a result of the coronavirus public lock down in Q2'2020, the automobile sales have been notably impacted. These have started picking up in Q3'2020, albeit the reduced automobile sales will have an impact on motor premiums, as new car insurance policies would drop.
 - In view of the above factors, we expect full-year premium for 2020 to be affected. The impact will largely depend on how long the pandemic stretches.
 - o Despite lower premiums, the profitability of the insurance industry is likely to improve
 - The reduced economic activity, due to Covid-19, is likely to have a positive impact on claims ratio. The recent rains would adversely impact motor claims ratios generally in Property and Motor portfolio.
 - However, the expenses base likely to remain sticky, which should resultantly increase underwriting expense ratio.
 - Given the sizable reduction in interest rates, the investment income, specifically for companies holding fixed rate PIBs, are expected to increase

Table 1: Insurance Industry Financial Indicators

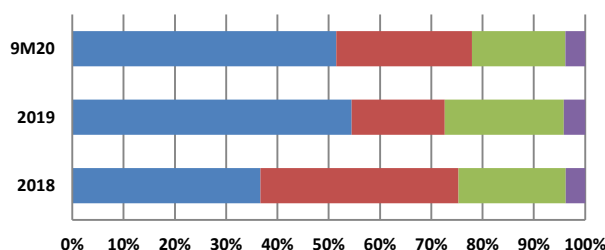
(Source: IAP)

(Rs. in Billions)	2018	2019
Insurance Premium (Gross)	77.0	83.7
Takaful Contributions (Gross)	8.6	11.0
Industry Total (Gross)	85.7	94.6
Combined Ratio	86.3%	89.1%
- Net Claims Ratio	50.5%	51.7%
- Underwriting Expense Ratio	35.8%	37.4%
Net Operating Ratio	71.6%	72.5%
RoAA	4.3%	4.7%
RoAE	9.8%	10.5%
Operating Leverage	50.7%	49.6%

on account of capital gains on PIBs. This should have a positive impact on the net operating ratio.

- Overall capitalization & liquidity buffers in place are considered to be adequate. Industry capitalization & liquidity are expected to persist.
- Going forward, there are plans to implement IFRS 17 across the industry, which will require additional provisioning. However, the industry-de IFRS 17 implementation is scheduled for January 1st 2022 and so far we have not received an estimation of the related provisioning charge.

RICL's Business Update



	2018	2019	9M20
■ Fire	322.6	339.1	183.7
■ Marine, Motor & Aviation	339.2	112.8	94.3
■ Motor	183.5	144.6	65.0
■ Misc	33.4	25.9	13.7

- In 2019, RICL's gross underwriting (incl. takaful contributions) contracted by 26% in 2019, mainly as sizable aviation industry client closed down operations. As a result, consolidated market share fell from 1.1% to 0.8%.
- Given the loss of the large-sized client, business mix is notably different, as also reflected in the figure above. In terms of business mix, 'Fire & Property Damage' segment represented 54% of the gross underwriting for 2019 (2018: 37%), with 'Marine, Aviation & Transport' (MAT) falling from 19% to 18%.
- The change in business mix is viewed adversely from a business risk perspective, as indicated by the historical gross claims ratio of the MAT segment, which has reduced drastically in terms of business mix. As a result, an uptick has been noted in the gross claims ratio, which is expected to remain well above the past 3-year average of 17.1% (2016-18), going forward.

Gross Claims Ratio	2018	2019	9M20
Fire and property damage	44.4%	62.2%	42.1%
Marine, aviation and transport	-0.8%	-1.4%	6.6%
Motor	36.0%	36.2%	30.2%
Miscellaneous	14.4%	13.9%	12.7%
Total	20.2%	39.2%	30.1%

Reinsurance

- Reinsurance panel of the company remains unchanged with Swiss Re (Rated AA-) as the lead reinsurer. Pakistan Reinsurance Company Limited has the second largest share in treaties at 25%. Treaty capacities have been enhanced in the outgoing year.
- The company has primarily negotiated proportional treaties for all its business segments. However, the same are protected by a non-proportional treaty with a maximum sum insured retained on net account amounting to Rs. 5m; net sum assured is considered manageable in relation to equity.

- Given the attrition of a large-sized MAT segment client, the overall cession has significantly reduced (9M20: 49.3%; 2019; 52.2%; 2018:77.7%). Nevertheless, even at current level, the cession ratio compares favorably to peers.

Profitability

	2018	2019	9M20
Combined Ratio	99.0%	102.8%	108.2%
- Net Claims Ratio	25.0%	25.1%	19.4%
- Commission & Acquisition Cost	17.2%	18.8%	19.2%
- Underwriting Expense Ratio	56.8%	59.8%	69.6%
Net Operating Ratio	85.6%	76.2%	80.3%
Profit on Window Takaful Operation	7.9	11.9	13.0
Profit Before Tax	60.1	96.4	51.4
Profit After Tax	49.0	71.2	45.6

- Given the change in business mix, cession has dropped, which allowed the company to keep its topline stagnant at Rs. 348m.
- Underwriting profitability remained depressed. In absolute terms, the company posted an underwriting loss of Rs. 9.9m in 2019 vis-à-vis profit of Rs. 3.4m in 2018. Underwriting operations remained in losses during 9M20, amounting to Rs. 16.1m.
- The company's combined ratio is slightly higher on a timeline. Given the change in business mix, the higher combined ratio is likely to sustain, assuming business growth remains in line with industry. Overall, the combined ratio is aligned with the peer median.
- Despite depressed underwriting profitability, net operating ratio has posted improvement, mainly driven by improved yield on the equities portfolio. Based on -2point average, yield on the investment portfolio increased from 6.6% in 2018 to 12.5% in 2019, and was reported at 9.3% (annualized) for 9M20. The increased yield on portfolio is in line with the uptick in stock market performance and in tandem with other industry participants.
- As illustrated in the table above, the profitability of Window Takaful Operations continues to gradually improve, also mainly attributable to the improved investment performance.

Liquidity

- RICL's liquidity profile is considered to be constrained, as reflected by the operational cash flows, which have remained on the lower side.
- Nevertheless, liquid assets are sizable in relation to net technical reserves and in line with industry participants.
- RICL's market risk is also partly enhanced in view of the composition of the investment portfolio, which is largely composed of equity investments. The investment portfolio is a mix of AMC-managed mutual funds (37%) and RICL's own investment operations, which are undertaken by team of 2 individuals.
- Insurance Debt to Gross Premium has increased on a timeline, albeit still remaining below peer median. The uptick can be attributed to the change in business mix.

	2018	2019	9M20
Liquid Assets/ Net Technical Reserves	203.3%	259.2%	278.4%
Operating Cash Flow to Net Premium	-0.7%	3.9%	3.0%
Insurance Debt to Gross Premium	25.3%	32.0%	41.9%*

Capitalization

- RICL's capitalization metrics are notably better on a timeline. This is a result of stagnant business volume (net premium),

	2018	2019	9M20
Net Equity (In Rs. Millions)	856	934	974
Operating Leverage	40.7%	37.3%	26.7%*
Financial Leverage	29.4%	25.2%	21.4%*

improvement in profitability – on account of improved investment performance – and company’s continued policy of full capital retention.

- At present level both, operating & financial leverage, are aligned with the peer median.

Reliance Insurance Company Limited
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>				
	31-Dec-18	31-Dec-19	30-Sep-20	
Cash and Bank Deposits	144.4	131.2	130.7	
Investments	711.1	777.3	786.9	
Liquid Assets	848.1	902.2	912.1	
Insurance Debt	222.3	198.9	222.3	
Prepaid Reinsurance Ceded	170.9	132.0	132.3	
Total Assets	1,658.7	1,595.5	1,639.5	
Paid Up Capital	561.4	561.4	561.4	
Net Worth	855.9	933.5	973.6	
Technical Reserves	588.1	480.1	460.0	
Total Liabilities	802.7	662.0	665.8	
<u>INCOME STATEMENT</u>				
	2018	2019	9M'19	9M'20
Net Premium Revenue	348.2	347.8	234.0	195.3
Net Claims	87.2	87.2	58.2	37.95
General & Administrative Expenses	257.7	270.5	180.8	173.4
Underwriting Profit/(Loss)	3.4	(9.9)	(5.0)	(16.1)
Investment Income	46.7	92.7	(0.8)	54.5
Profit Before Tax	60.1	96.4	4.9	51.4
Profit After Tax	49.0	71.2	6.2	45.6
<u>RATIO ANALYSIS</u>				
	2018	2019	9M'20	
Cession Ratio (%)	77.7%	52.2%	49.3%	
Gross Claims Ratio (%)	20.2%	39.2%	30.1%	
Net Claims Ratio (%)	25.0%	25.0%	19.4%	
Underwriting Expense Ratio (%)	74.0%	77.8%	88.8%	
Combined Ratio (%)	99.0%	102.8%	108.2%	
Net Operating Ratio (%)	85.6%	76.2%	80.3%	
Insurance Debt to Gross Premium (%)	25.3%	32.0%	41.9%*	
Operating Leverage (%)	40.7%	37.3%	26.7%*	
Financial Leverage (%)	29.4%	25.2%	21.4%*	
Adjusted Liquid Assets to Technical Reserves (%)	203.3%	259.2%	278.4%	
*Annualized				

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: 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.vis.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.vis.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.vis.com.pk/images/policy_ratings.pdf

REGULATORY DISCLOSURES		Appendix III		
Name of Rated Entity	Reliance Insurance Company Limited			
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			
	31/12/2020	A	Positive	Reaffirmed
	31/12/2019	A	Positive	Reaffirmed
	31/12/2018	A	Positive	Reaffirmed
	27/11/2017	A	Positive	Reaffirmed
	29/12/2016	A	Positive	Reaffirmed
	30/12/2015	A	Positive	Maintained
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	
	Mr. A. Razak Ahmed	Managing Director & CEO	24 th December 2020	
	Mr. Haroon A. Shakoor	Chief Financial Officer		
	Mr. Ghulam Haider	Company Secretary & Compliance Officer		
	Mr. Najmullah Khan	Head of Takaful & Underwriting EVP & Head of Operations		
	Mr. Rizwan Akhtar			