RATING REPORT

Reliance Insurance Company Limited (RICL)

REPORT DATE:
December 30, 2022

RATING ANALYST:
Basel Ali Assad
basel.ali@vis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	A+	A+
Rating Date	*December 30, '22*	*March 31, '22*
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 1981	**External auditors:** Chartered Accountants BDO Ebrahim & Co.
Public Limited Company	**Chairman of the Board:** Mr. Irfan Zakaria Bawany
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. A. Razak Ahmed
Individuals - 50.48%	
Directors, CEO, & Other Spouses & Minor Children - 24.46%	
Joint Stock Companies – 22.33 %	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: General Insurance (March 2022)
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 2021 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. Irfan Zakaria Bawany has been the Chairman of the Board of Directors of RICL from 28th July, 2020. He has diversified experience in various industries.

Profile of the CEO
Mr. A. 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.

RICL primarily provides services in general insurance and Window Takaful Operations (WTO). The company is sponsored by two industrial groups, Al-Noor Group and Amin Bawany Group, who are involved in the sugar, modaraba, board manufacturing and trading sectors. Recovery in gross written premium was witnessed during FY21 and 9MFY22. The company continues to post underwriting losses mainly due to high expense ratio. The bottom-line was supported by investment income which has been decreasing on a timeline basis. The company needs to arrest the decreasing trend in profitability by augmenting topline and investment income while controlling expenses and maintaining loss ratio within manageable limits.

The company has sound reinsurance arrangements in place with well-reputed reinsurers and adequate risk retention. No major changes were witnessed in the treaties except for a capacity enhancement within the engineering segment. Meanwhile, the liquidity position remained strong on account of sizable liquid assets in relation to net technical reserves. The insurance debt in relation to gross premium has increased in the outgoing year; a similar trend has been seen at the industry level. The operating and financial leverage remained low reflecting cushion for growth in business volumes. Going forward, the impact of the mandatory implementation of IFRS 17 on capitalization metrics on the overall industry is yet to be seen.

Insurance Sector Update:
Insurance penetration in Pakistan has remained below that of neighboring counterparts, given non-life insurance penetration of ~0.355% vis-à-vis India at 4.2% and Sri-Lanka 1.39%. During CY21, the gross premiums/ takaful contributions underwritten by the industry grew by 11%, picking up from 8% in 2020. In 1HCY22, given the increase in inflation, we have noted a change in trend wherein industry underwriting posted a growth of 26% vis-s-vis SPLY.

The industry's combined ratio posted a dip in CY21, which was driven by a drop in both net claims and expense ratios. Overall, the impact of investment returns on industry profitability remained similar, investment returns stood at 17% of the net premium. Even though operating leverage of Pakistan's insurance industry remains adequately high, which is partly explained by lagged growth, in June'22, we have noted a trend of an uptick in operating leverage to 67.3% (annualized). Apart from the overall growth in underwriting, this is also partly attributable to dividend payouts in Q1 and mark to market losses on fixed income portfolios in Q2.

(Rs. in Billions)	CY20	CY21	1H'CY22
Insurance Premium (Gross)	89.6	97.4	55.8
Takaful Contributions (Gross)	12.6	16.2	10.4
Industry Total (Gross)	102.3	113.6	66.2
Combined Ratio	95.3%	84.4%	89.8%
- Net Claims Ratio	54.8%	49.4%	53.2%
- Underwriting Expense Ratio	40.5%	35.0%	36.7%
Net Operating Ratio	78.6%	67.5%	74.6%
RoAA	4.4%	5.4%	3.8%*
RoAE	10.1%	12.8%	9.6%*
Operating Leverage	52.5%	58.3%	67.3%*
**Annualized*			

Investment returns in 1HCY22, have not depicted much deviation, unlike the one noted in life insurance portfolios. This is partly attributable to a different asset management strategy, albeit also implies that the industry was well placed in terms of portfolio duration leading up to 400 bps steep drop in benchmark rates noted in Q2'2022. Given higher benchmark rates, investment yield is expected to improve in 2023. Meanwhile, in the aftermaths of recent floods, many insurance industry players have posted underwriting losses during Q3'22 on account of augmentation in claims. The growth outlook for insurance industry also seems somewhat vague due to prevailing uncertainty in economic and political environment.

The implementation of IFRS 17 will commence from January 1' 2025. The SECP has issued instructions of phase-wise implementation of IFRS 17. The deadline to complete phase-II is end-Dec'22. The implementation is expected to translate in sizable provisioning burden for the industry, however the actual impact of the same on industry capitalization is yet to be ascertained.

Business Update and Claims Experience:
RICL is engaged in the provision of general insurance and window takaful operations, catering to four main segments: fire & property, marine, transport & aviation (MAT), motor, and miscellaneous with an overall market share of 0.5% in the non-life private insurance industry. The company has a total of 26 branches with the addition of two new branches in the previous year. The management is focused on expanding size of some of the current branches rather than increasing the number, going forward.

In terms of business mix, the fire & property segment has the largest share in gross written premium (GWP) of 53.8% during 9MFY22 (FY21: 54.3%, FY20: 53.3%) followed by marine, share of which decreased slightly to 22.8% (FY21: 25.5%, FY20: 24.4%). Overall, GWP increased in the outgoing year to Rs. 651.2m (FY21: Rs. 569.1m) with about 13.2% pertaining to related parties (FY21: 13.1%). Moreover, around 2% of the gross premium pertained to facultative insurance activities while 25% emanated from coinsurance arrangements. The growing trend in gross premium continued in the ongoing year with a total GWP (incl. takaful) amounting to Rs. 750m by end-Nov'22 with FY22 target of Rs. 872m (incl. takaful). Going forward, the management plans to focus on the fire & property and motor segment; the company is negotiating terms of agreement with two major banks to provide vehicle coverage. Meanwhile, contribution from marine segment is expected to decrease owing to overall decrease in import and export volumes. The management is projecting 20% increase during FY23 with a GPW target of Rs 1.06b. The breakdown of business mix is tabulated below:

Gross Premium Mix	FY19	FY20	FY21	9MFY22
Fire	54.5%	53.3%	54.3%	53.8%
Marine	18.1%	24.4%	25.5%	22.8%
Motor	23.2%	18.2%	15.2%	16.9%
Misc.	4.2%	4.0%	5.0%	6.4%

The cession ratio has witnessed an increase in the ongoing year with total cession at 51.8% (FY21: 47.7%, FY20: 47.9%). Notable increase in cession pertained to fire and miscellaneous segments. The breakdown of cession can be seen below:

Cession	FY19	FY20	FY21	9MFY22
Fire	57.5%	59.7%	50.6%	56.8%
Marine	91.7%	51.3%	69.2%	70.8%
Motor	3.0%	6.0%	5.5%	5.5%
Misc	84.0%	60.4%	35.4%	64.1%
Total	**52.2%**	**47.9%**	**47.7%**	**51.8%**

The gross claims expense decreased to 36.3% (FY21: 42.3%, FY20: 44.7%) during 9MFY22 mainly owing to lower claims in the marine segment. However, net claim ratio increased slightly to 23.3% (FY21: 21.2%, FY20: 23.9%). As the company was not offering insurance coverage pertaining to agri and livestock, the company remained insulated from the impact of related losses. Relatively high net claims were recorded in motor segment mainly due to excess of loss treaty arrangements having higher exposure on net account. Breakdown of net claims ratio is tabulated below:

Net Claims Ratio	FY19	FY20	FY21	9MFY22
Fire	17.6%	13.3%	8.9%	15.1%
Marine	8.7%	28.5%	21.5%	22.6%
Motor	36.9%	35.5%	41.1%	41.3%
Misc.	11.7%	8.1%	5.1%	4.6%
Total	**25.1%**	**23.9%**	**21.2%**	**23.3%**

In regards to Window Takaful Operations, the company's topline performance has been improving on a timeline basis, generating gross written contributions of Rs. 70m during 9MFY22 (FY21: Rs. 75.2m, FY20: Rs. 61.9m). It is largely on track to achieve the end-FY22 target of Rs. 100m and the management is projecting its gross premium to reach Rs. 122m during FY23. The business mix of WTO is mainly dominated by fire & property and motor segments.

Reinsurance:
The company has a strong and diverse reinsurance panel with solid risk profiles. Three-fourths of reinsurance coverage is allocated to reinsurance companies with 'AA' rating while the remainder constitutes of companies with a minimum rating of 'A'. The primary reinsurer is Swiss Re which has the highest share in almost all treaties with minimum 40% coverage except for terrorism which is covered by Hannover Re with 65% coverage. This is followed by Pakistan Reinsurance Company Ltd. (PRCL) which provides 35% coverage for all treaties. Most segments are covered by quota share and surplus treaties except for motor and property & engineering which are protected with excess of loss.

The capacity of quota share agreement in engineering segment increased to Rs. 150m (FY21: Rs. 100m) with a retention ratio of 25% (FY21: 30%) while the surplus treaty increased to Rs. 300m (FY21: Rs. 200m) with retention of Rs. 150m by the company. Also, retention in surplus treaties within fire & property segment increased from Rs. 100m to Rs 150m in FY22 with number of lines decreasing from eight to five. Retention rates for quota share treaties within fire & property and bond segments changed to 25% from 30% and 20%, respectively, with overall treaty capacities standing at Rs. 107.5m and Rs. 10m, respectively (FY21: Rs. 100m, Rs. 10m). Commission rates remained unchanged during FY22.

Underwriting Performance & Profitability:
The company's underwriting results, albeit improved in the ongoing year, still remained negative at Rs. (4.3m) (FY21: Rs. (18.2m), FY20: (Rs. 18.8m)). Improvement in the same is primarily a result of reduction in losses in the fire and motor segments. Segment-wise breakdown of underwriting profits/losses is tabulated below:

Underwriting Profit (Rs. Mln)	FY19	FY20	FY21	3QFY22
Fire	(16.4)	(10.8)	(7.1)	(0.7)
Marine	3.7	(8.7)	(2.8)	(0.8)
Motor	0.3	(0.6)	(9.2)	(1.5)
Misc.	2.6	1.4	0.9	(1.2)
Total	**(9.9)**	**(18.8)**	**(18.2)**	**(4.3)**

The combined ratio decreased in the ongoing year to 101.7% (FY21: 106%, FY20: 105.9%) due to decrease in underwriting expense ratio. Net commission expense increased in the ongoing year amounting to Rs. 56.1m (FY21: Rs. 55m, FY20: Rs. 62m). Meanwhile, investment income, predominantly generated from dividend income from equity portfolio amounting Rs. 35.5m (FY21: Rs. 74.7m, FY20: Rs. 83.5m), continued to support the bottom line but witnessed a decrease mainly owing to unrealized losses. However, recurring investment income remained adequate amounting to Rs. 68.4m (FY21: Rs. 71.5m, FY20: Rs. 60.1m); the same helped improve net operating ratio slightly to 79.7% (FY21: 82.4%, FY20: 87%). Net profit decreased in FY21 and 9MFY22 mainly on account of lower investment income.

	FY19	FY20	FY21	3QFY22
Net Claims Ratio	25.1%	23.9%	21.2%	23.3%
Underwriting Expense Ratio	77.8%	81.9%	84.8%	78.4%
Combined Ratio	102.9%	105.9%	106.0%	101.7%
Profit from Window Takaful Operations *(Rs. Mln)*	11.9	18.1	10.7	13.1
Profit Before Tax *(Rs. Mln)*	96.4	83.6	70.5	44.8
Profit After Tax *(Rs. Mln)*	71.2	68.5	53.0	31.3

Investments:

RICL's total investments stood slightly lower at Rs. 802.3m (FY21: Rs. 837.9m, FY20: Rs. 813.5m) owing to decrease in equities portfolio. The majority of the investment portfolio constitutes of equities, amounting to Rs. 682m (FY21: Rs. 729.3m, FY20: Rs. 715.4m), which exposes the company to relatively high market risk. However, the related risk is moderated through the company's strategy of investing in money market mutual funds and blue-chip companies mainly within the banking, pharmaceutical, fertilizer and power sectors. Government securities consist exclusively of Pakistan Energy Sukuk of Rs. 70.1m (FY21: Rs. 70.1m, FY20: 60m) which will mature by May'30. Going forward, the management plans to maintain the current investment portfolio mix.

Liquidity:

The liquidity profile of the company, in terms of operational cash flows, improved to Rs. 52.7m in 9MFY22 (FY21: Rs. 17.5m, FY20: Rs. (Rs. 2.5m) mainly owing to lower other operating payments and higher profit/dividend received. Insurance debt to gross premium has increased in the outgoing year; a similar trend has been seen at an industry-wide level. However, the management is cognizant to keep it within manageable levels. Meanwhile, liquid assets to net technical reserves remained significant.

Capitalization:

Capitalization indicators have remained largely stagnant with operating and financial leverage amounting to 32.1% (FY21: 28.9%, FY20: 32%) and 20.0% (FY21: 19.9%, FY20: 20.6%) respectively. Current capitalization levels continue to be lower than the rating benchmark, showing room for growth.

Reliance Insurance Company Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**30-Sep-22**
Cash and Bank Deposits	131.2	111.3	93.7	111.8
Investments	777.3	813.5	837.9	802.3
Liquid Assets	902.2	919.2	926.9	908.2
Insurance Debt	198.9	231.8	304.3	290.2
Prepaid Reinsurance Ceded	132.0	137.1	163.4	147.4
Total Assets	1595.5	1714.0	1847.7	1803.0
Paid Up Capital	561.4	561.4	603.5	633.7
Net Worth	933.5	997.6	1048.1	1049.1
Technical Reserves	480.1	523.7	550.1	509.8
Total Liabilities	662.0	716.3	799.6	753.9
INCOME STATEMENT	**2019**	**2020**	**2021**	**9M'22**
Net Premium Revenue	347.8	319.5	303.1	252.8
Net Claims	87.2	76.4	64.2	59.0
General & Administrative Expenses	270.5	261.8	257.1	198.1
Underwriting Profit/(Loss)	-9.9	-18.7	-18.2	-4.3
Investment Income	92.7	83.5	74.7	35.5
Profit Before Tax	96.4	83.6	70.5	44.8
Profit After Tax	71.2	68.5	53.0	31.3
RATIO ANALYSIS	**2019**	**2020**	**2021**	**9M'22**
Cession Ratio (%)	52.2%	47.9%	47.7%	51.8%
Gross Claims Ratio (%)	39.2%	44.7%	42.3%	36.3%
Net Claims Ratio (%)	25.1%	23.9%	21.2%	23.3%
Underwriting Expense Ratio (%)	77.8%	81.9%	84.8%	78.4%
Combined Ratio (%)	102.9%	105.9%	106.0%	101.7%
Net Operating Ratio (%)	85.7%	87.0%	82.4%	74.7%
Insurance Debt to Gross Premium (%)	32.0%	40.7%	46.7%	43.8%*
Operating Leverage (%)	37.3%	32.0%	28.9%	32.1%*
Financial Leverage (%)	25.2%	20.6%	19.9%	20.0%
Adjusted Liquid Assets to Net Technical Reserves (%)	382.8%	448.2%	445.5%	432.8%

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

AAA(IFS)
Exceptionally Strong. Exceptionally strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.

AA++(IFS), AA+(IFS), AA(IFS)
Very Strong. Very strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.

A++(IFS), A+(IFS), A(IFS)
Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.

BBB++(IFS), BBB+(IFS), BBB(IFS)
Good. Good capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.

BB++(IFS), BB+(IFS), BB(IFS)
Marginal. Marginal capacity to meet policyholders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.

B++(IFS), B+(IFS), B(IFS)
Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.

CCC(IFS) , CC(IFS), C(IFS)
Very Weak. Very weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment.

D(IFS)
Distressed. Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

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. https://docs.vis.com.pk/docs/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. https://docs.vis.com.pk/docs/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. https://docs.vis.com.pk/docs/private_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			
30/12/2021	A+	Stable	Reaffirmed
31/3/2022	A+	Stable	Harmonized
31/12/2021	A	Stable	Maintained
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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. A. Razak Ahmed	Managing Director & CEO	23rd Dec 2022
Mr. Haroon A. Shakoor	CFO	
Mr. Ghulam Haider	Company Secretary	
Mr. Abdul Hannan Shadani	Senior Vice President	
Mr. Najmullah Khan	Head of Takaful & Underwriting	
Mr. Salim Memon	Head of Investments	
Mr. Muhammad Siddiq	Head of Claims	
Mr. Abdul Rahim Patni	Head of Reinsurance	