

RATING REPORT

The Co-operative Insurance Society of Pakistan Limited

REPORT DATE:

Sept 23, 2015

RATING ANALYSTS:

Waqas Munir, FRM

waqas.munir@jcrvis.com.pk

Birjees Rahat

birjees.rahat@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	BB-	N/A
Rating Outlook	Stable	N/A
Rating Date	Sept 23, '15	N/A

SOCIETY INFORMATION

Incorporated in 1949

External auditors: Hameed Khan & Company

Co-operative Society

Chairman: Sh. Anwar-ul-Haq Piracha

Vice Chairman: Ch. Akhtar Mahmood

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria <http://www.jcrvis.com.pk/images/methodology.pdf>

The Co-operative Insurance Society of Pakistan Limited

OVERVIEW OF THE INSTITUTION

CISPL was incorporated under the Cooperative Societies Act, 1925 in 1949. At end-2014, the society operated through a network of two zonal offices, three regional offices and nine branch offices. Financial statements for 2014 were audited by Hameed Khan & Co.

RATING RATIONALE

Ratings assigned to the Cooperative Insurance Society of Pakistan Limited (CISPL) reflect its marginal capacity to meet policyholder and contract obligations. The society is involved in the business of general insurance including fire & property, marine and motor insurance. Underwriting business have remained low owing to lower business from Provincial Co-operative Bank Limited (PPCBL), also CISPL's major shareholder, while business from society's branch network has remained negligible.

Management expenses remained high in comparison to underwriting business. Combined ratio remained weak as business is insufficient to cover management expenses. Investment income continues to support the bottom line of the company and comprises dividend income from listed equity portfolio (43%) while remaining represents rental income. The society earns rental income from head office building space and another building located in Rawalpindi; the properties were revalued in FY12 and carry a surplus of Rs. 1.1b. While underwriting operations of the society continues to report losses, investment income supported the bottom line with society posting net profit of Rs. 1.4m during FY14 (FY13: Rs. 0.8m). During 1HFY15, net profit amounted to Rs. 0.3m.

Net claims ratio of CISPL remained low at 14.3% (FY13: 17.7%) during FY14. Over the last few years, the society has not seen any major claims on account of low business volumes. Cession declined to 19.1% during FY14 (FY13: 24.1%; FY12: 38.8%) and further to 16% during 1HFY15.

CISPL has a paid-up capital of Rs. 300m which mainly includes impact of capitalization of revaluation surplus to meet regulatory capital requirement. Accounting for reserves and accumulated profit, total equity base of the society amounted to Rs. 317.9m at end-1HFY15 (FY14: Rs. 317.6m; FY13: Rs. 316.2m). The rate of internal capital generation has remained low over the years on account of CISPL's weak profitability. Moreover, support infrastructure also remains weak.

Reinsurance coverage has been arranged from Pakistan Reinsurance Company Limited (PRCL). There has been no change in treaty terms in comparison to the preceding year. The society has negotiated surplus treaties in fire, marine, general accident, engineering, livestock and crops. A quota share arrangement is in place for bond segment while motor business has been covered under Excess of Loss (XoL).

The Co-operative Insurance Society of Pakistan Limited

Appendix I

FINANCIAL SUMMARY (amounts in PKR 000s)			
BALANCE SHEET	31-Dec-12	31-Dec-13	31-Dec-14
Cash and Bank Deposits	10,927	10,490	10,534
Investments	39,341	55,154	122,128
Investment Properties	1,991,798	1,989,250	1,986,786
Insurance Debt	-	-	64
Total Assets	2,012,440	2,010,389	2,008,998
Net Worth (Including Surplus on Revaluation)	1,990,797	1,989,887	1,989,592
Total Liabilities	21,643	20,502	19,406
INCOME STATEMENT	31-Dec-12	31-Dec-13	31-Dec-14
Net Premium Revenue	3,349	1,598	2,212
Net Claims	695	283	316
Underwriting Profit	(4,282)	(5,624)	(5,188)
Net Investment Income (Including Rental Income)	7,236	8,379	8,924
Profit Before Tax	1,181	1,013	1,720
Profit After Tax	1,317	797	1,351
RATIO ANALYSIS	31-Dec-12	31-Dec-13	31-Dec-14
Market Share (Gross Premium) (%)	0.009%	0.006%	0.005%
Cession Ratio (%)	38.8%	24.1%	19.1%
Gross Claims Ratio (%)	18.6%	11.3%	15.7%
Net Claims Ratio (%)	20.7%	17.7%	14.3%
Underwriting Expense Ratio (%)	260.9%	544.0%	412.5%
Combined Ratio (%)	281.7%	561.7%	426.9%
Net Operating Ratio (%)	65.6%	37.4%	23.4%
Insurance Debt to Gross Premium (%)	-	-	2.2%
Operating Leverage (%)	0.2%	0.1%	0.1%
Financial Leverage (%)	0.0%	0.1%	0.1%
Liquid Assets to Total Liabilities & Technical Reserves (%)	202.8%	279.3%	611.3%

INSURER FINANCIAL STRENGTH RATING SCALE & DEFINITIONS

Appendix II

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	The Co-operative Insurance Society of Pakistan Limited				
Sector	Insurance				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	9/23/2015	BB-		Stable	Initial
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.				
Probability of Default	JCR-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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				