RATING REPORT

The Co-operative Insurance Society of Pakistan Limited

REPORT DATE:
January 10, 2019

RATING ANALYSTS:

Maham Qasim
maham.qasim@jcrvis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
Entity	BB	BB
Rating Outlook	Stable	Stable
Outlook Date	*Dec 31'2018*	*Dec 19'2017*

COMPANY INFORMATION

Incorporated in 1949	**External auditors:** Safdar Saad & Co. Chartered Accountants
Co-operative Society	**Chairman of the Board:** Sh. Aziz-ul-Haq Piracha
	CEO: Mr. Fateh Khan Niazi

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: General Insurance (September 2016)
http://jcrvis.com.pk/docs/Meth-GenInsurance201609.pdf

The Co-operative Insurance Society of Pakistan Limited

OVERVIEW OF THE INSTITUTION

CISPL was incorporated in 1949 under the Cooperative Societies Act, 1925. The society operates through two zonal offices, two regional offices and nine branches. Financial statements for 2017 were audited by Safdar Saad & Co. Chartered Accountant.

Profile of CEO

Mr. Fateh Khan Niazi serves as CEO of the company. Mr. Niazi is a graduate (B.A) and has been associated with CISPL for more than 20 years, previously worked as Assistant General Manager.

Financial Snapshot

Net Income: 1HFY17: Rs. (0.5m); FY16: Rs. 0.4m

Equity: 1HFY17: Rs. 2.3b; FY16: Rs. 2.4b.

RATING RATIONALE

The rating assigned to The Cooperative Insurance Society of Pakistan Limited (CISPL) takes into account its low business generation and weak underwriting performance reflecting limited capacity of the society to meet policyholder and contractual obligations. Credit risk emanating from reinsurance panel selection remains sound with the reinsure rated in category 'AA'. Liquidity profile of the company is considered adequate in view of sizeable liquid cushion available along with manageable level of insurance debt. The ratings incorporate meagre organic growth emanating from society's branch network; Punjab Provincial Cooperative Bank Limited (PPCBL), society's largest shareholder, contributes major proportion of business. Hence the market presence of the society remains restricted.

Low business volumes with fire contributing majorly to the total gross premium: The business mix of the company remained dominated by fire segment followed by motor; meanwhile exposure in miscellaneous and marine segments is limited owing to highly competitive insurance market dynamics, making business procurement and low-premium offering difficult for small-sized companies. Business volumes of the Society increased to Rs. 6.0m (FY17: 8.7b; FY16: Rs. 5.8m) during HY18 primarily on the back of new policies underwritten in the fire segment. The proportion of motor business vis-à-vis non-motor business witnessed growth during the period under review. Overall cession reduced on a timeline basis despite no change in treaty terms in line with increase in quantum of policies with lower sum insured over the years. The snapshot of business mix is presented in the table below:

	FY15	FY16	FY17	HY18
Fire	81%	78%	71%	55%
Marine	0%	0%	0%	0%
Motor	14%	20%	27%	42%
Misc.	5%	2%	2%	3%
Total (Rs. in m)	**6.6**	**5.8**	**8.7**	**5.8**

Treaty capacities and company's retention remain unchanged: Reinsurance panel, treaty capacities and retention limits remained unchanged during FY17. Reinsurance coverage has been arranged from Pakistan Reinsurance Company Limited (PRCL) having an IFS rating of "AA". The society has arranged surplus treaties in fire, marine, general accident, engineering, livestock and crops. Moreover, quota share and excess of loss treaties have been arranged for bond and motor segments. Size of maximum per risk claim remained unchanged which, on net account, is considered manageable in relation to the society's loss absorption capacity.

Given limited scale of operations, society continues to report underwriting

losses: The underwriting performance of the society deteriorated during FY17 in line with higher incidence of claims in the motor segment. The loss ratio in the motor segment trended upwards on account of car accessories becoming expensive in line with depreciation of Pak Rupee vis-à-vis US Dollar. The loss retention on society's books was nominal in the other segments. On the other hand, underwriting performance slightly improved during HY18 on account of lower expense ratio recorded in line with rationalization of expenses. Contrary to last three years, fire and miscellaneous segment reported underwriting profit, although minimal, during HY18. However, overall the society continues to report underwriting losses, due to lower quantum of insurance business in relation to management expenses. With lower expense ratio, the combined ratio improved on a timeline basis. The snapshot of underwriting results is tabulated below:

	FY15	FY16	FY17	HY18
Underwriting Profit/ (Loss) (Rs. in m)	(9.9)	(11.1)	(11.8)	(2.4)
Fire	(7.8)	(8.5)	(7.9)	0.06
Marine	(0.02)	(0.0)	(0.01)	(0.0)
Motor	(1.7)	(2.4)	(3.5)	(2.6)
Misc	(0.4)	(0.23)	(0.37)	0.1

Rental income remained sizeable: Investment income primarily comprising rental and dividend income continues to support the bottom line. The society earns rental income from head office building space and another building located in Rawalpindi; however, the rental yields are well below the market rates. Moreover, the society receives dividend income from investment in shares of PRCL and Ferozsons Laboratories Limited. Subsequently, in line with slight increase in business volumes coupled with curtailed management expenses the society reported relatively lower net loss during HY18 on an annualized basis.

Operating and financial leverages remained well below rating benchmark: Liquidity profile is considered sound reflected by sizeable liquid assets maintained in relation to net technical reserves. In addition, insurance debt in relation to gross premium was recorded nil at end-HY18. Given persistent reporting of after tax losses over the years, the society equity base, though remained adequate vis-à-vis business operations, has decreased on a time basis. Both operating and financial leverages are well below the rating benchmarks for the assigned rating. Therefore, the society has room to optimize its leverage indicators by expanding its business further.

The Co-operative Insurance Society of Pakistan Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR 000s)*

BALANCE SHEET	DEC 31, 2015	DEC 31, 2016	DEC 31, 2017	JUN 30, 2018
Cash and Bank Deposits	12,417	11,813	10,855	7,853
Investments	214,786	162,197	79,826	65,178
Investment Properties	2,201,670	2,198,318	2,195,981	2,195,186
Insurance Debt	221	121	42	-
Total Assets inc reval. Surplus	2,432,985	2,376,737	2,285,106	2,275,803
Net Worth inc reval. Surplus	2,405,619	2,351,205	2,239,766	2,235,153
Total Liabilities	27,366	25,532	45,341	40,651
INCOME STATEMENT	**DEC 31, 2015**	**DEC 31, 2016**	**DEC 31, 2017**	**JUN 30, 2018**
Net Premium Revenue	4,082	5,328	6,309	4,358
Net Claims	467	131	618	216
Underwriting Profit / (loss)	(9.9)	(11.1)	(11.8)	(2.4)
Net Investment Income	10,456	11,493	9,793	2,337
Profit/ (loss) Before Tax	606	433	(1,543)	(57)
Profit/ (loss) After Tax	916	421	(1,623)	(2,350)
RATIO ANALYSIS	**DEC 31, 2015**	**DEC 31, 2016**	**DEC 31, 2017**	**JUN 30, 2018**
Cession Ratio (%)	13.6%	15.2%	12.6%	3.6%
Gross Claims Ratio (%)	11.8%	2.1%	8.3%	3.9%
Net Claims Ratio (%)	11.5%	2.4%	9.8%	5.0%
Underwriting Expense Ratio (%)	312.9%	300.2%	234.3%	150.2%
Combined Ratio (%)	324.4%	302.7%	244.1%	155.2%
Net Operating Ratio (%)	68.3%	87.0%	88.9%	101.5%
Insurance Debt to Gross Premium (%)	3.35%	2.08%	1.47%	0.0%
Operating Leverage (%)	0.2%	0.8%	1.1%	0.8%
Financial Leverage (%)	0.1%	0.6%	1.0%	1.1%
Adjusted Liquid Assets to Net Technical Reserves (%)	5,837.1%	4,569.2%	1,363.6%	1,133.9%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

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

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'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

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

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	Insurer Financial Strength (IFS) Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: IFS				
12/31/2018	BB		Stable	Reaffirm
12/19/2017	BB		Stable	Reaffirm
11/08/2016	BB		Stable	Upgrade
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 2019 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.