

RATING REPORT

The Co-operative Insurance Society of Pakistan Limited

REPORT DATE:

January 5, 2021

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	BB	BB
Rating Outlook	Stable	Stable
Rating Date	Dec 31'2020	Dec 31'2019

COMPANY INFORMATION

Incorporated in 1949	External auditors: Naveed Jaffery & Co. Chartered Accountants
Co-operative Society	Chairman of the Board: Sh. Aziz-ul-Haq Piracha
Key Shareholders (with stake 5% or more):	CEO: Mr. Fateh Khan Niazi
Punjab Provincial Cooperative Bank Limited – 76%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: General Insurance (November 2019)

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

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 three zonal offices, four regional offices and nine branches.

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.

Financial Snapshot

Net Income: 1HY20: Rs. 3.7m; FY19: Rs. 1.9m; FY18: Rs. 0.2m

Total Equity: 1HY20: Rs. 2.3b; FY19: Rs. 2.3b; FY18: Rs. 2.3b

RATING RATIONALE

The rating assigned to The Cooperative Insurance Society of Pakistan Limited (CISPL) takes into account limited business volume reflecting restricted capacity of the society to meet policyholder and contractual obligations. Some improvement in underwriting performance has been witnessed in FY19 and 1HY20 mainly on account of higher business underwritten in miscellaneous sector. With increase in net revenue, operating expenses were rationalized, resulting in considerably lower expense ratio. The rating takes into account support available from investment and rental income. Credit risk emanating from reinsurance panel selection remains sound with the reinsurer rated in category 'AA'. Liquid assets in relation to net technical reserves have remained sound. Insurance debt as proportion of gross written premium remained minimal. Both operating and financial leverages have also remained low and provide considerable room for growth.

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. The rating remains dependent on growth in business while maintaining liquidity position, lower loss ratio along with optimization of capitalization indicators.

Business Update:

The society recorded increase in gross premium to Rs. 33.4m (FY18: Rs. 16.8m) in FY19 mainly on account of higher business underwritten in all, particularly miscellaneous segment. Gross premium amounted to Rs. 12.4m during 1HY20 primarily on account of higher contribution from miscellaneous segment; proportion of business mix was tilted towards miscellaneous segment which increased to 71% (FY19: 43%; FY18: 33%) in 1HY20. The proportion of fire segment remained unchanged at 25% (FY19: 25%; FY18: 27%) while proportion of motor segment decreased to 3% (FY19: 31%; FY18: 40%) during 1HY20. Limited exposure in motor and marine segments is due to highly competitive insurance market dynamics, making business procurement and low-premium offering difficult for a small-sized company. Overall cession remained low at (1HFY20: 11.1%; FY19: 7.1%; FY18: 9.8%). The snapshot of business mix is presented in the table below:

Business Mix	FY18	FY19	HY20
Fire	27%	25%	25%
Marine	0%	0%	0%

Motor	40%	31%	3%
Misc.	33%	43%	71%
Total (Rs. in m)	16.8	33.4	12.4

Reinsurance Arrangements:

Reinsurance panel, treaty capacities and retention limits remained unchanged during FY20. 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, worker’s compensation and motor segments.

Underwriting Performance:

The underwriting performance of the society improved slightly during 1HY20 and FY19 mainly as a result of higher business acquired in livestock line from PPCBL under the miscellaneous segment. Overall loss ratio continues to remain manageable; net claim ratio further improved in FY19 and 1HFY20. This along with rationalized expense ratio, combined ratio decreased notably to 62.7% (FY19: 109.8%; FY18: 199.7%) during 1HFY20. With some increase in underwriting profit in motor segment and break-even in miscellaneous segment, the society reported underwriting profit of Rs. 2.5m (FY19: Rs. (4.9)m; FY18: Rs. (15.2)m) during 1HY20. Given limited business written, underwriting performance is expected to remain depressed during FY20.

	FY18	FY19	1HY20
Underwriting Profit/ (Loss) (Rs. in m)	(15.2)	(4.9)	2.5
Fire	(0.5)	(1.5)	(0.4)
Marine	0	0	0
Motor	(7.1)	0.5	2.8
Misc	(7.7)	(3.8)	0.1

Investments:

Investment mix of CISPL constituted listed & unlisted equities and term deposits. Carrying value of investment in listed equities was Rs. 66.9m (FY19 Rs. 57.3m; FY18: Rs. 50.7m) at end-1HY20 and mainly comprised investment in Ferozsons Laboratories Ltd. and PRCL from where the society also receives dividend income. Carrying value of unlisted equity investment amounted Rs. 10.4m (FY19: Rs. 10.4m; FY18: Rs. 4.7m) that mainly included investment in PPCBL and National Cooperative Supply Corporation. Moreover, CISPL holds term deposits of Rs. 3.0m (FY19 & FY18: Rs. 3.0m) at end-1HY20. The society earns rental income from head office building space and another building located in Rawalpindi. In line with increase in business volumes coupled with

rationalized management expenses, the society reported net profit of Rs. 3.7m (FY19: Rs. 1.9m; FY18: Rs. 0.2m) during 1HY20.

Liquidity and Capitalization:

Liquidity profile is considered sound as reflected by sizeable liquid assets in relation to net technical reserves. In addition, insurance debt as percentage of gross premium have remained minimal over the years. Equity base has remained largely stagnant on account of limited capital generation. Operating and financial leverages continued to remain low at 4.8% and 1.9% (FY19: 3.9% and 2.7%; FY18: 1.8% and 2.3%) respectively at end-1HY20 and provide considerable room for growth. At end-FY19, the society had sufficient cushion against solvency margin above the regulatory requirement of Rs. 150m.

The Co-operative Insurance Society of Pakistan Limited
Appendix I

BALANCE SHEET (in PKR '000s')	DEC 31, 2018	DEC 31, 2019	JUN 30, 2020
Property and equipment	2,291,000	2,288,277	2,286,172
Investments	58,370	70,643	80,313
Insurance Debt	10	556	1
Other Assets	16,385	25,737	27,388
Total Assets	2,365,765	2,385,213	2,393,874
Paid Up Capital	500,032	500,032	500,032
Total Equity	2,317,126	2,325,302	2,334,619
Adjusted Equity including Fair Value Reserve on Investments	588,888	608,544	625,964
Total Liabilities	48,639	59,911	59,254
INCOME STATEMENT	DEC 31, 2018	DEC 31, 2019	JUN 30, 2020
Net Premium Revenue	10,530	23,464	15,169
Net Claims	787	768	70
Underwriting Profit/ (loss)	(15,215)	(4,645)	2,495
Net Investment Income	10,002	10,433	4,094
Profit/ (loss) Before Tax	(4,040)	6,000	6,590
Profit/ (loss) After Tax	248	1,908	3,689
RATIO ANALYSIS	DEC 31, 2018	DEC 31, 2019	JUN 30, 2020
Cession Ratio (%)	9.8	7.1	11.1
Gross Claims Ratio (%)	7.3	2.5	0.6
Net Claims Ratio (%)	7.5	3.3	0.5
Underwriting Expense Ratio (%)	192.2	106.5	62.2
Combined Ratio (%)	199.7	109.8	62.7
Net Operating Ratio (%)	104.7	65.3	35.7
Insurance Debt to Gross Premium (%)	0.06	1.67	0.02
Operating Leverage (%)	1.79	3.86	4.85
Financial Leverage (%)	2.28	2.68	1.86
Adjusted Liquid Assets to Net Technical Reserves (%)	563.7	510.6	808.1
Debt to Equity (x)	N/A	N/A	N/A
Current Ratio (x)	N/A	N/A	N/A

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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	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				
	12/31/2020	BB		Stable	Reaffirm
	12/31/2019	BB		Stable	Reaffirm
	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	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	
	1	Mr. Fahad Amjad	Accounts Supervisor	30-12-2020	
	2	Mr. Jameel Ahmad	Assistant Accounts Manger	30-12-2020	