

RATING REPORT

The Co-operative Insurance Society of Pakistan Limited

REPORT DATE:

December 31, 2021

RATING ANALYSTS:

Tayyaba Ijaz

tayyaba.ijaz@vis.com.pk
RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	BB	BB
Rating Outlook	Stable	Stable
Rating Date	Dec 31, '2021	Dec 31, '2020

COMPANY INFORMATION

Incorporated in 1949	External auditors: M/s Kryston Hyder Bhimji & Co. Chartered Accountants
Co-operative Society	Chairman of the Board: Sh. Aziz-ul-Haq Piracha
Key Shareholders (with stake 5% or more):	CEO: Mr. Fatch 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 four 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

Total Equity: 9MCY21: Rs. 2.3b; CY20: Rs. 2.3b; CY19: Rs. 2.3b

Net Profit/(Loss): 9MCY21: Rs. 1.4m; CY20: Rs. (1.4)m; CY19: Rs. (0.1)m

RATING RATIONALE

The rating assigned to The Cooperative Insurance Society of Pakistan Limited (CISPL) takes into account limited business volume with restricted capacity of the society to meet policyholder and contractual obligations. During the ongoing year and CY20, business remained depressed on account of lower business from Punjab Provincial Cooperative Bank Limited (PPCBL), which is Society's largest shareholder. Overall market presence of the Society has remained restricted owing to meager organic growth from its branch network on a timeline basis. While claims ratio was very low in the ongoing year, consistently high expense ratio resulted in underwriting losses. Investment and rental income have provided enough support to the bottomline which has more than offset underwriting losses during the ongoing year. Liquid assets in relation to net technical reserves have remained sound. Insurance debt as proportion of gross written premium remained minimal amidst limited business volume. Both operating and financial leverages have also remained low and provide considerable room for growth. Credit risk emanating from reinsurance panel selection remains sound with the reinsurer rated in category 'AA'. The rating remains dependent on growth in business and profitability while maintaining liquidity position and optimizing capitalization indicators.

Business Update:

Gross premium of the company was recorded lower at Rs. 23.9m (FY19: Rs. 33.4m) in FY20 mainly on account of lower business from PPCBL. The trend continued in the ongoing year as well with a decrease in gross premium to Rs. 13.2m (9MCY20: Rs. 22.3m). The society is largely dependent on business from PPCBL, and lower loan disbursement activities by the bank resulted in depressed gross business for the Society. Miscellaneous segment contributed 46% (CY20: 47%; CY19: 43%) to the business mix, followed by fire and motor contributing 31% (CY20: 32%; CY19: 25%) and 23% (CY20: 21%; CY19: 19%: 31), respectively, in 9MCY21. No exposure in marine segment is due to highly competitive insurance market dynamics, making business procurement and low-premium offering difficult for a small-sized company. The snapshot of business mix is presented in the table below:

Business Mix	CY19	CY20	9MCY21
Fire	25%	32%	31%
Marine	0%	0%	0%
Motor	31%	21%	23%
Misc.	43%	47%	46%
Total (Rs. in m)	33.4	23.9	13.3

Overall cession increased to 16.3% (CY20: 15.1%; CY19: 7.1%) mainly due to higher business ceded in miscellaneous segment during 9MCY21. However, its impact on net premium was largely offset by higher premium earned; net premium amounted to Rs. 13.2m (FY20: Rs. 26.5m; FY19: Rs. 23.5m). The management expects to close the ongoing year at Rs. 20m in gross premium revenue.

Reinsurance Arrangements:

Reinsurance panel, treaty capacities and retention limits remained largely unchanged during CY21. 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 remained dismal. Given higher incidence of claims in fire segment, net claim ratio increased to 15.3% (CY20: 3.3%) during CY20. The underwriting quality improved during 9MCY21 with low net claims ratio of 1.9%. However, the combined ratio deteriorated further to 173.0% (CY20: 136.1%; CY19: 152.3%) due to higher expense ratio. With limited business volumes, underwriting performance is expected to remain stressed in the ongoing year.

Underwriting Profit/ (Loss) (Rs. in m)	CY19	CY20	9MCY21
Fire	(2.7)	(6.4)	(2.8)
Marine	-	-	-
Motor	(1.4)	(0.3)	(3.1)
Misc.	(4.1)	(2.7)	(3.8)
Total	(8.2)	(9.4)	(9.6)

Investments:

Investment mix of CISPL constituted listed & unlisted equities and term deposits. Carrying value of investment in listed equities increased to Rs. 99.9m (CY20: Rs. 96.9m; CY19: Rs. 67.6m) mainly on account of unrealized gain on investment in Ferozsons Laboratories Ltd. (FLL) and PRCL. Investment income was recorded higher at Rs. 3.9m (CY20: Rs. 2.3m; CY19: Rs. 2.6m) in 9MCY21. Carrying value of unlisted equity investment amounted to Rs. 10.5m (CY20: Rs. 10.5m; CY19: Rs. 10.4m) that included investment in PPCBL and National Cooperative Supply Corporation. The society also holds term deposits of Rs. 3.0m (CY20 & CY19: Rs. 3.0m). CISPL society earns rental income from head office building space and another building located in Rawalpindi. Rental income of Rs. 6.6m (CY20: Rs. 8.2m; CY19: Rs. 7.8m) was recorded in 9MCY21. Despite support from dividend and rental income, bottomline remained under stress. Accounting for deferred tax assets carried forward in 9MCY21, net profit amounted to Rs. 1.4m (CY20: Rs. (1.4)m; CY19: Rs. (0.1)m).

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 0.74% and 0.07% (CY20: 1.13% and 0.47%; CY19: 1.01% and 0.70%), respectively at end-9MCY21. The society has sufficient cushion against the regulatory requirement of Rs. 150m for solvency.

Corporate Governance and Information Technology:

The board of directors comprises seven members including Chairman, CEO and one independent director. The board has formed three committees namely, Audit Committee, Investment Committee and Remuneration & Nomination Committee. The Society also maintains four managements committees, namely, Underwriting Committee, Claims Settlement Committee, Reinsurance and Coinsurance Committee and Ethics/Compliance and Risk Management Committee. The management committees' meetings are held at least once every quarter.

Some major developments have been observed in context of regulatory compliance, information technology and cyber security fronts. The Society has adopted Code of Corporate Governance for insurers, 2016 issued by Securities & Exchange Commission of Pakistan in CY20. On IT front, the Society entered into an agreement for implementation of accounting software with an IT company in 2019, which is now fully functional. To comply with a statutory regulatory order of SECP, the Society is in process of developing a customized Transaction Monitoring System (TMS) with the help of software developer which will be linked to the list of National Counter Terrorism Authority proscribed persons.

Presently, the Society is in process of change in business processes, data recording and storage as a result of implementation of IFRS-17. The related staff is engaged for training with M/s Akhtar & Hassan (Pvt.) Limited, the actuaries arranged by Insurance Association of Pakistan (IAP) for all the insurers engaged in non-life insurance business. CISPL has engaged an advisor for cyber security arrangements as per regulations by SECP. This would help in securing data of the Society from any damage or external threats.

The Co-operative Insurance Society of Pakistan Limited
Appendix I

BALANCE SHEET (in PKR '000s')	DEC 31, 2019	DEC 31, 2020	SEP 30, 2021
Property and equipment	2,220,484	2,216,184	2,224,591
Investment Property	68,371	68,818	68,818
Investments	70,643	99,906	102,878
Insurance Debt	556	403	1
Cash and Bank Balances	13,218	14,731	10,766
Other Assets	12,518	7,928	10,159
Total Assets	2,385,790	2,407,970	2,417,213
Paid Up Capital	500,032	500,032	500,032
Total Equity	2,325,302	2,325,302	2,334,619
Adjusted Equity including Fair Value Reserve on Investments	608,544	608,544	625,964
Total Liabilities	59,911	59,911	59,254
INCOME STATEMENT			
	DEC 31, 2019	DEC 31, 2020	SEP 30, 2021
Gross Premium Revenue	33,351	23,947	13,325
Net Premium Revenue	23,463	26,473	13,190
Net Claims	768	4,062	251
Underwriting Profit/ (loss)	(8,193)	(9,432)	(9,630)
Net Investment Income	10,433	10,433	4,094
Profit/ (loss) Before Tax	2,908	1,456	875
Profit/ (loss) After Tax	(106)	(1,421)	1,362
RATIO ANALYSIS			
	DEC 31, 2019	DEC 31, 2020	SEP 30, 2021
Cession Ratio (%)	7.1	7.115.1	16.3
Gross Claims Ratio (%)	3.3	13.9	1.4
Net Claims Ratio (%)	3.3	15.3	1.9
Underwriting Expense Ratio (%)	149.0	120.8	171.1
Combined Ratio (%)	152.3	136.1	173.0
Net Operating Ratio (%)	141.2	127.5	143.3
Insurance Debt to Gross Premium (%)	1.67	1.68	0.01
Operating Leverage (%)	1.01	1.13	0.74
Financial Leverage (%)	0.70	0.47	0.07
Adjusted Liquid Assets to Net Technical Reserves (%)	513.7	1040.0	1314.8
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				
	12/31/2021	BB		Stable	Reaffirmed
	12/31/2020	BB		Stable	Reaffirmed
	12/31/2019	BB		Stable	Reaffirmed
	12/31/2018	BB		Stable	Reaffirmed
	12/19/2017	BB		Stable	Reaffirmed
	11/08/2016	BB		Stable	Upgrade
	09/23/2015	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.				
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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, 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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted		Name	Designation	Date	
	1	Mr. Fahad Amjad	Assistant Manager/Compliance Officer	20-12-2020	