RATING REPORT

The Co-operative Insurance Society of Pakistan Limited

REPORT DATE:
December 20, 2022

RATING ANALYSTS:

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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
Entity	BB+	BB+
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Rationalized
Rating Date	*Dec 20, '2022*	*Mar 31, '2022*

COMPANY INFORMATION	
Incorporated in 1949	**External auditors:** Crowe Hussain Chaudhury & Co. Chartered Accountants
Co-operative Society	**Chairman of the Board:** Asad-ul-Haq Piracha
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Fateh Khan Niazi
Punjab Provincial Cooperative Bank Limited – 76%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: General Insurance (March 2022) https://docs.vis.com.pk/docs/VIS%20General%20Insurance%20-%2020220331%20-%20FinalFinal.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 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: HY22: Rs. 2.36b; CY21: Rs. 2.35b; CY20: Rs. 2.36b

Net Profit/(Loss): HY22: Rs. 3.5m; CY21: Rs. (1.0)m; CY20: Rs. (1.4)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 9MCY22, the Society reported some growth in business majorly on account of increase in 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 remained low, consistently higher expense ratio in line with contraction in topline 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 very 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 optimizing capitalization indicators.

Business Update:

During FY21, gross written premium (GWP) of the company decreased by ~22% to Rs. 18.7m vis-à-vis Rs. 23.9m in the preceding period, on account of overall decrease in business volumes across segments. Given the society is largely dependent on business from Punjab Provincial Cooperative Bank Limited (PPCBL), the suspension of loan disbursement by the bank has adversely impacted the business of the Society. Around 80% of the business is contributed by PPCBL while the rest emanates from third-party insurance, some regular corporate clients and individuals.

The business mix remained largely the same during CY21 and HY22. The declining trend continued in the ongoing year with depressed gross business booked during first half of the ongoing year; gross written premium amounted to Rs. 7.4m as compared to Rs. 8.6m in HY'21. The Society operates in three business segments, with Miscellaneous being the largest one followed by Fire and Motor while there has been no exposure in marine segment owing to highly competitive insurance market dynamics, making business procurement and low-premium offering difficult for a small-sized company. Under Miscellaneous category the society underwrites crops, livestock, cash in hand, cash in transit and some other policies which contributes less than 10% to the total business. The business mix is presented in the table below:

Business Mix	CY20	CY21	HY22
Fire	32%	33%	26%
Marine	0%	0%	0%
Motor	21%	22%	23%
Misc.	47%	45%	50%
Total (Rs. in m)	**23.9**	**18.7**	**8.9**

Overall cession ratio also increased to 16.0% (CY21: 15.1%) mainly due to higher business ceded in Miscellaneous segment during CY21. This led to ~35% YoY decrease in net premium revenue to 17.2m (FY21: 26.5m). During 1H'23, the cession ratio increased further to 19.8%.

Cession Ratio	CY20	CY21	HY22
Fire	4.9%	4.9%	8.0%
Marine	0%	0%	0%
Motor	18.7%	13.4%	13.4%
Misc.	20.6%	25.5%	28.9%
Overall Cession	**15.1%**	**16.0%**	**19.8%**

The Society has generated Rs. 25m in GWP during 9MCY22. The growth in business vis-à-vis preceding period is primarily led by higher business from PPCBL and renewal of some other policies. The management expects to fetch around Rs. 5m of additional policies from third-party insurances by the end of Dec'22.

Reinsurance Arrangements:

Reinsurance panel, treaty capacities and retention limits remained largely unchanged during CY22. 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, general accident, engineering, livestock and crops. Moreover, quota share and excess of loss treaties have been arranged for worker's compensation and motor segments.

Underwriting Performance:

The underwriting performance of the society remained dismal on a timeline basis. During CY21, net claim ratio depicted improvement to 0.4% (CY21: 15.3%) as a result of notable decline in incidence of claims in Fire segment. However, combined ratio increased to 181.6% (CY21: 136.1%) due to upsurge in expense ratio in line with contraction in topline. Accordingly, the company reported underwriting losses in all three segments. The same trend persisted in HY22 as well.

Underwriting Profit/ (Loss) (Rs. in m)	CY20	CY21	HY22
Fire	(6.4)	(3.7)	(1.3)
Marine	-	-	-
Motor	(0.3)	(5.1)	(0.9)
Misc.	(2.7)	(5.3)	(4.5)
Total	(9.4)	(14.1)	(6.7)

Albeit the management has been making efforts to control operating expenses, inflationary pressure and subdued revenue has impacted the profitability during the ongoing year. In full year, operating expenses are expected to be curtailed in view of lower directors' training expenses, absence of compliance related penalties and efficiencies from revamped IT system. The management expects to generate underwriting profits in the going year depending on securing additional business, as discussed above.

Investments:

Investment mix of CISPL constituted listed & unlisted equities and term deposits. Carrying value of investment in listed equities decreased to Rs. 73.3m (CY21: Rs. 81.5m CY20: Rs. 86.5m) owing to lackluster performance of stock market amidst political and economic instability. The listed equities exposure largely included investment in Ferozesons Laboratories Ltd. (FLL) and PRCL. Carrying value of the unlisted equities stood at Rs. 10.6m (FY21: Rs. 10.6m; FY20: Rs. 10.5m), these included investment in PPCBL and National Cooperative Supply Corporation (NCSC). During HY22, investment income was recorded at Rs. 1.6m (HY21: Rs. 1.9m; FY21: 4.0m; CY20: Rs. 2.3m). The society also holds term deposits amounting Rs. 3.5m (CY21 & CY20: Rs.

3.0m). CISPL society earns rental income from head office building space and another building located in Rawalpindi. The value of investment property stood at Rs. 70.9m (CY21: Rs. 70.9m; CY20: Rs. 68.8m) at end-HY22. Some increase in value of investment property at end-CY21, was due to unrealized fair value gain; the same was recorded in other income during that period. Rental income from the investment property amounting Rs. 5.2m (HY21: 4.3m; CY21: Rs. 8.9m; CY20: Rs. 8.2m) was recorded in HY22. In FY21, the botomline remained negative despite support from rental and dividend income. However, in HY22, accounting for higher deferred tax assets carried forward, the society reported net profit of Rs. 3.5m (HY21: Rs. 0.5m).

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 nominal over the years. Equity base has remained largely stagnant on account of limited capital generation. Operating and financial leverages continued to remain very low at 0.31% (CY21: 0.73%; CY20: 1.13%) and 0.05% (CY21: 0.04%; CY20: 0.47%), respectively, which reflect sizeable room for growth and remains a ratings constraint. In addition, the society has sufficient cushion against the regulatory requirement of Rs. 150m for solvency.

Corporate Governance and Information Technology:

The board of directors comprises eight members including Chairman and one ex-officio member. 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. During CY21, five management committee meetings and one BoD directors meeting were conducted.

To comply with a statutory regulatory order of SECP, the Society has developed a customized Transaction Monitoring System (TMS) with the help of software developer which will be linked to the list of National Counter Terrorism Authority (NACTA) proscribed persons. The system became fully operational in July' 2022.

The Society is in process of change in business processes, data recording and storage as a result of implementation of IFRS-17; the Society is expected to complete its Phase-II by end-Dec'22. 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.

The Co-operative Insurance Society of Pakistan Limited Appendix I

BALANCE SHEET (in PKR '000s')	DEC 31, 2019	DEC 31, 2020	DEC 31, 2021	JUN 30, 2022
Property and equipment	2,220,484	2,216,184	2,232,484	2,230,299
Investment Property	68,371	68,818	70,903	70,903
Investments	70,643	99,906	95,049	87,371
Insurance Debt	556	403	507	68
Cash and Bank Balances	13,218	14,731	12,286	13,190
Total Assets	2,385,790	2,407,970	2,419,464	2,411,732
Paid Up Capital	500,032	500,032	500,032	500,032
Total Equity	2,325,302	2,325,302	2,355,783	2,353,452
Total Liabilities	59,911	62,721	63,680	58,280
INCOME STATEMENT	**DEC 31, 2019**	**DEC 31, 2020**	**DEC 31, 2021**	**JUN 30, 2022**
Gross Premium Revenue	33,351	23,947	18,677	8,932
Net Premium Revenue	23,463	26,473	17,243	7,395
Net Claims	768	4,062	64	(137)
Underwriting Profit/ (loss)	(8,193)	(9,432)	(14,076)	(6,712)
Net Investment Income	2,603	2,272	3,957	1560
Rental Income	7,829	8,213	8,932	5,215
Profit/ (loss) Before Tax	2,908	1,456	1,611	292
Profit/ (loss) After Tax	(106)	(1,421)	(1,020)	3,475
RATIO ANALYSIS	**DEC 31, 2019**	**DEC 31, 2020**	**DEC 31, 2021**	**JUN 30, 2022**
Cession Ratio (%)	7.1	15.1	16.0	19.8
Gross Claims Ratio (%)	3.3	13.9	1.4	(2.2)
Net Claims Ratio (%)	3.3	15.3	0.4	(1.9)
Underwriting Expense Ratio (%)	149.0	120.8	181.3	192.1
Combined Ratio (%)	152.3	136.1	181.6	190.3
Net Operating Ratio (%)	141.2	127.5	158.7	169.2
Insurance Debt to Gross Premium (%)	1.67	1.68	0.01	0.38
Operating Leverage (%)	1.01	1.13	0.73	0.31
Financial Leverage (%)	0.70	0.47	0.04	0.05
Adjusted Liquid Assets to Net Technical Reserves (%)	513.7	1040.0	1248.2	1128.3
Debt to Equity (x)	N/A	N/A	N/A	N/A
Current Ratio (x)	N/A	N/A	N/A	N/A

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	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				
20/12/2022	BB+		Stable	Reaffirmed
03/31/2022	BB+		Stable	Harmonized
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
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	Acting CFO	28-11-2021