

## RATING REPORT

### The Co-operative Insurance Society of Pakistan Limited

**REPORT DATE:**

January 2<sup>nd</sup>, 2024

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	BB+	BB+
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed
Rating Date	January 2 <sup>nd</sup> , 2024	Dec 20 <sup>th</sup> , 2022

**COMPANY INFORMATION**

Incorporated in 1949

**External auditors:** M/s Kryston Hyder Bhimji & 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)**

VIS Entity Rating Criteria Methodology – General Insurance, October 2023

<https://docs.vis.com.pk/docs/GeneralInsurance-2023.pdf>

**APPLICABLE RATING SCALE(S)**

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.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:** HY23: Rs. 2.34b; CY22: Rs. 2.34b; CY21: Rs. 2.36b

**Net Profit/(Loss):** HY23: Rs. 0.1m; CY22: Rs. 0.8m; CY21: Rs. (1.0)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. Over the rating review period, the Society reported growth in business majorly on account of higher premium prices in conjunction with inflationary pressure and currency devaluation. Overall market presence of the Society has remained restricted owing to meager organic growth from its branch network on a timeline basis. While net claims ratio remained low, underwriting losses have been registered on a timeline owing to persistently high expense ratio despite improvement in the same in the ongoing year due to uptick in the topline. Nonetheless, underwriting losses were offset largely by rental income, resulting in a positive bottom-line despite no investment returns being registered in 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 CY22, gross written premium (GWP) of the company increased by ~44.1% to Rs. 26.4m vis-à-vis Rs. 18.7m in the preceding period despite limited loan disbursement by Punjab Provincial Cooperative Bank Limited (PPCBL) which contributes to the majority of the topline. This was largely on account of upward revision in premium prices in line with impact of inflation and dollar appreciation on sum insured valuation. The business mix remained largely the same over the rating review period. Uptrend in gross premium continued in the ongoing year on the back of inflation adjustments to premium prices; gross written premium amounted to Rs. 15.6m during HY'23 as compared to Rs. 8.9m in HY'22. 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. Going forward, the management is projecting a 10% increase in GWP by end-Dec'23 vis-à-vis- CY22 levels. The business mix is presented in the table below:

Business Mix	CY20	CY21	CY22	1HCY23
Fire	32.1%	33.0%	24.3%	31.5%
Marine	0.0%	0.0%	0.0%	0.0%
Motor	21.0%	22.2%	20.6%	22.0%
Misc.	46.8%	44.8%	55.1%	46.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Overall cession ratio also decreased to 14.9% during CY22 (CY21: 16.0%) mainly due to higher retention in the miscellaneous segment. However, during 1HCY23, the cession ratio increased to 19.5% driven largely by lower retention levels in the miscellaneous segment in order to mitigate impact of claim payouts on net account. Breakdown of cession by segment can be seen below:

Cession Ratio	CY20	CY21	CY22	HY23
<b>Fire</b>	4.9%	4.9%	<b>6.2%</b>	7.0%
<b>Marine</b>	-	-	-	-
<b>Motor</b>	18.7%	13.4%	9.9%	7.3%
<b>Misc.</b>	20.6%	25.5%	20.5%	33.7%
<b>Overall Cession</b>	<b>15.1%</b>	<b>16.0%</b>	<b>14.9%</b>	<b>19.5%</b>

#### Reinsurance Arrangements:

Reinsurance panel, treaty capacities and retention limits remained largely unchanged during the rating review period. 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. Over the rating review period, the net claims ratio remained minimal, albeit, weakening slightly to 3.4% (CY22: 4.2%, CY21: 0.4%) largely on the account of increase in motor claim payouts in line with unprecedented rise in prices of motor vehicles. However, the combined ratio decreased notably in the ongoing year to 132.4% (CY22: 218.5%, CY21: 181.6%) due to decline in the expense ratio in line with uptick in net premium booked. Nonetheless, the company reported underwriting losses in all three segments during the rating review period. In CY22, positive bottom-line of Rs. 0.8m (CY21: Rs. 1.0m) was reported despite notable underwriting losses owing to sizeable deferred tax assets carried forward. However, in HY23, profit after tax was squeezed to Rs. 0.1m owing to lack of investment income coupled with underwriting losses.

Underwriting Profit/(Loss) (Rs. in mln)	CY21	CY22	1HCY23
<b>Fire</b>	(3.7)	(3.4)	(1.6)
<b>Marine</b>	-	-	-
<b>Motor</b>	(5.1)	(4.4)	(1.4)
<b>Misc.</b>	(5.3)	(12.0)	(1.8)
<b>Total</b>	<b>(14.1)</b>	<b>(19.8)</b>	<b>(4.8)</b>

#### Investments:

Investment mix of CISPL constituted listed & unlisted equities and term deposits. Carrying value of investment in listed equities decreased to Rs. 47.0m (CY22: Rs. 48.5m CY21: Rs. 81.5m) 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. 15.5m (CY22: Rs. 15.5m; CY21: Rs. 10.6m),

these included investment in PPCBL and National Cooperative Supply Corporation (NCSC). During HY23, no investment income was recorded (CY22: Rs. 2.6m; FY21: 4.0m) as no dividend from equity investments was booked. The society also holds term deposits amounting Rs. 3.5m (CY22: Rs. 3.5m, CY21: 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. 75.3m at end-June'23 (CY22: Rs. 75.3m, CY21: Rs. 70.9m). Some increase in value of investment property at end-CY22, 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. 5.1m (CY22: Rs. 10.2, CY21: Rs. 8.9m) was recorded in HY23. Going forward, the management is looking to expand its investment portfolio, particularly equity and term deposit holdings.

**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 1.3% (CY22: 0.7%; CY21: 0.7%) and 0.05% (CY22: 0.05%; CY21: 0.04%), respectively, which reflect sizeable room for growth and remains a rating constraint. In addition, the society has sufficient cushion against the regulatory requirement of Rs. 150m for solvency.

**Corporate Governance:**

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 CY22, four management committee meetings and one BoD directors meeting were conducted.

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

<b>BALANCE SHEET (in PKR '000s')</b>	<b>31-Dec-20</b>	<b>31-Dec-21</b>	<b>31-Dec-22</b>	<b>30-Jun-23</b>
Property and equipment	2,216,184	2,232,484	2,228,033	2,226,078
Investment Property	68,818	70,903	75,252	75,252
Investments	99,906	95,049	67,453	66,024
Insurance Debt	403	507	410	4
Cash and Bank Balances	14,731	12,286	15,804	14,364
<b>Total Assets</b>	<b>2,407,970</b>	<b>2,419,464</b>	<b>2,398,832</b>	<b>2,395,096</b>
Paid Up Capital	500,032	500,032	500,032	500,032
<b>Total Equity</b>	<b>2,325,302</b>	<b>2,355,783</b>	<b>2,337,388</b>	<b>2,336,465</b>
<b>Total Liabilities</b>	<b>62,721</b>	<b>63,680</b>	<b>61,445</b>	<b>58,631</b>
<b>INCOME STATEMENT</b>				
	<b>31-Dec-20</b>	<b>31-Dec-21</b>	<b>31-Dec-22</b>	<b>30-Jun-23</b>
Gross Premium Revenue	23,947	18,677	26,356	15,614
Net Premium Revenue	26,473	17,243	16,745	14,815
Net Claims	4,062	64	698	507
Underwriting Profit/ (loss)	(9,432)	(14,076)	(19,837)	(4,798)
Net Investment Income	2,272	3,957	2,607	0
Rental Income	8,213	8,932	10,190	5,062
Profit/ (loss) Before Tax	1,456	1,611	(2,588)	341
Profit/ (loss) After Tax	(1,421)	(1,020)	818	92
<b>RATIO ANALYSIS</b>				
	<b>31-Dec-20</b>	<b>31-Dec-21</b>	<b>31-Dec-22</b>	<b>30-Jun-23</b>
Cession Ratio (%)	15.1%	16.0%	14.9%	19.5%
Gross Claims Ratio (%)	13.9%	1.4%	3.9%	3.0%
Net Claims Ratio (%)	15.3%	0.4%	4.2%	3.4%
Underwriting Expense Ratio (%)	120.8%	181.3%	214.3%	129.0%
Combined Ratio (%)	136.1%	181.6%	218.5%	132.4%
Net Operating Ratio (%)	127.5%	158.7%	202.9%	132.4%
Insurance Debt to Gross Premium (%)*	1.7%	0.0%	1.6%	0.0%
Operating Leverage (%)*	1.1%	0.7%	0.7%	1.3%
Financial Leverage (%)	0.5%	0.0%	0.1%	0.0%
Adjusted Liquid Assets to Net Technical Reserves (%)	1040.0%	1248.2%	637.7%	782.9%

\*Annualized

REGULATORY DISCLOSURES		Appendix II			
<b>Name of Rated Entity</b>	The Co-operative Insurance Society of Pakistan Limited				
<b>Sector</b>	Insurance				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Insurer Financial Strength (IFS) Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: IFS</b>				
	01/02/2024	BB+		Stable	Reaffirmed
	12/20/2022	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	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>		<b>Designation</b>	<b>Date</b>	
	1	Mr. Fahad Amjad	Acting CFO	27-12-2023	