RATING REPORT

The Co-operative Insurance Society of Pakistan Limited

REPORT DATE:
March 5, 2025

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
IFS	BB+	BB+
Outlook/ Rating Watch	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed
Rating Date	*March 5, 2025*	*January 2, 2024*

COMPANY INFORMATION	
Incorporated in 1949	**External auditors:** M/s Kryston Hyder Bhimji & Co. Chartered Accountants
Co-operative Society	**Chairman of the Board:** Mr. Asad-ul-Haq Piracha
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Fateh Khan Niazi
Punjab Provincial Cooperative Bank Limited – 73%	

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

APPLICABLE METHODOLOGY(IES)
VIS Criteria For General Insurance Rating
https://docs.vis.com.pk/docs/GeneralInsurance-2023.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.

RATING RATIONALE

The rating of The Cooperative Insurance Society of Pakistan Limited (CISPL or "the Society") reflects its constrained business volume and limited ability to fulfill policyholder and contractual obligations. While gross written premium though somewhat increasing over the year, its quantum and the Society's market presence continues to remain limited. Although the net claims ratio has remained low, the Society has consistently incurred underwriting losses due to a persistently high expense ratio.

Despite generating reasonable rental and investment income, CISPL reported loss during 9MCY24 largely due to reduced net insurance premiums. The Society's liquidity position remains sound, with liquid assets well-covered against net technical reserves. Additionally, the proportion of insurance debt to gross written premium has been minimal that is further indicative of adequate liquidity. Both operating and financial leverage levels have remained low. The credit risk associated with the Society's choice of reinsurance panel is considered low, with the reinsurer maintaining an 'AA+' rating. Going forward, ratings are contingent upon improvement in business volume and profitability metrics.

Insurance Sector Update

Global Overview

The global insurance industry has demonstrated remarkable resilience and adaptability amidst evolving macroeconomic conditions and heightened geopolitical tensions. In 2023, the industry recorded its strongest growth since 2006, expanding by 7.5%. Global premiums reached USD 7.2 trillion, divided among life insurance (USD 2.8 trillion), property and casualty (P&C) (USD 2.1 trillion), and health insurance (USD 1.4 trillion).

Regional market dynamics underscore significant variances in growth. North America continues to dominate the P&C and health insurance segments, contributing 54.2% and two-thirds of global premiums, respectively. The Asia-Pacific region led the recovery in life insurance, buoyed by China's post-pandemic rebound (7.7% growth) and India's exceptional growth trajectory of 13.6%. In Europe, life insurance premiums grew by 3.3% in 2023 after a contraction in 2022, though challenges persist, including a heavy reliance on single-premium products.

Sustainability and ESG (Environmental, Social, and Governance) integration have become central to insurers' strategies, with almost all firms embedding sustainability goals into their investment portfolios. Clean energy and transition technologies are particularly prominent themes. Technological innovation, especially through artificial intelligence (AI), is gradually replacing traditional insurance processes. AI is now critical for underwriting, claims management, and risk modeling, while advancements in IT enable real-time customer engagement and personalized products.

Capital management strategies are also evolving in response to macroeconomic changes. Higher interest rates have improved investment yields, prompting insurers to increase allocations to private markets and alternative assets, such as infrastructure debt. Liquidity management remains a top priority as insurers strive to balance portfolio diversification with maintaining stable risk levels. Meanwhile, regulatory developments and geopolitical tensions are among the top macroeconomic concerns for insurers, further complicated by diverging monetary policies across regions.

Looking ahead, the global insurance market is projected to grow at an annual rate of 5.5% over the next decade, with life and health insurance driving much of this expansion. Asia is expected to remain the primary growth engine, accounting for nearly half of the absolute premium increase. However, the industry must address key challenges, such as balancing insurability and affordability amidst rising climate and cyber risks, tackling inequalities exacerbated by demographic and economic shifts, and adapting to regulatory changes in a fragmented geopolitical environment.

Local Overview

The insurance sector in Pakistan, demonstrates a complex and evolving landscape. The industry is divided into life and non-life insurance segments, with significant contributions from both conventional and takaful (Islamic insurance) operations. However, insurance penetration remains low, at just 0.79% of Gross Domestic Product (GDP). In 2023, the life insurance sector reported a gross premium of PKR 404 billion, with claims paid amounting to PKR 289 billion. Health policies dominated product distribution, constituting 41% of the total premium, followed by participating policies at 30% and unit-linked policies at 23%. The non-life insurance sector, on the other hand, recorded a gross premium of PKR 227 billion, with claims paid totaling PKR 84 billion. Fire and property damage insurance accounted for the largest share of the premium at 31%, followed by motor insurance at 20% and engineering insurance at 16%.

The financial performance of the sector highlights a substantial investment income, with the life insurance segment reporting total assets of PKR 2,518 billion and investments of PKR 1,911 billion as of Dec'23. The non-life insurance segment also showed strong financial health, with total assets of PKR 381 billion and investments of PKR 145 billion as of Dec'23. The takaful sector, although smaller, shows promising growth potential, particularly in the family takaful segment, which contributed 35% of the total private sector premium. The general takaful segment accounted for 11% of the total non-life insurance industry premium.

Challenges facing the sector include low motor insurance adoption, limited local reinsurance capacity, and a shortage of skilled human resources. The SECP's strategic plan underscores the importance of adopting IFRS-17 by January 2026, embracing technological advancements, strengthening legislative frameworks, and enforcing compulsory insurance schemes to tackle current challenges. Overall, the insurance sector in Pakistan is poised for potential growth, driven by both conventional and takaful operations. The industry's financial stability, coupled with strategic initiatives by the SECP, positions it well for future expansion and increased penetration in the national economy.

Business Update:

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, society underwrites crops, livestock, cash in hand, cash in transit and some other policies which contribute less than 10% to the total business.

During CY23, gross written premium (GWP) of the Society increased by ~25.0% to PKR 32.9m vis-à-vis PKR 26.4m in the preceding period with growth manifested in fire and property (F&P)

segment. Additionally, upward revision in premium pricing in line with the impact of inflation also boosted the GWP. Meanwhile, GWP decreased slightly to PKR 22.8m in 9MCY24 as compared to PKR 23.9m in 9MCY23 on account of limited GWP in both motor and miscellaneous segments.

The business mix is presented in the table below:

Business Mix	**CY21**	**CY22**	**CY23**	**9M24**
Fire and property damage	33.0%	24.3%	32.1%	37.7%
Marine	-	-	-	-
Motor	22.2%	20.6%	21.7%	20.5%
Livestock and Others	44.8%	55.1%	46.2%	41.8%
Total	**18.68**	**26.36**	**32.93**	**22.78**

Overall cession ratio increased to 20.1% during CY23 (CY22: 14.9%) mainly due to lower retention in the miscellaneous segment. The cession ratio further increased to 27.5% in 9MCY24 driven largely by higher 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	**CY21**	**CY22**	**CY23**	**9M24**
Fire and property damage	4.9%	6.2%	8.8%	11.1%
Motor	13.4%	9.9%	7.0%	6.5%
Livestock and Others	25.5%	20.5%	34.0%	52.4%
Overall Cession Ratio	**16.0%**	**14.9%**	**20.1%**	**27.5%**

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. The Society does not engage in co-insurance arrangements with any other insurance company.

Underwriting Performance:

Underwriting Profit (Loss) PKR Million	**CY21**	**CY22**	**CY23**	**9M24**
Fire and property damage	(3.72)	(3.43)	(6.12)	(3.63)
Motor	(5.09)	(4.39)	(4.05)	(2.34)
Livestock and Others	(5.27)	(12.02)	(8.95)	(7.14)
Total Underwriting Profit	**(14.08)**	**(19.84)**	**(19.12)**	**(13.11)**

In absolute terms, the underwriting results of the Society remained dismal on a timeline basis. The underwriting expense ratio of Society has remained high. The same was an outcome of higher management expenses compared to net premium revenue by end-Sept'24. The Company recorded expense ratio 168% in 9M24 whereas industry ratio was 31%. On the other hand, the net claims ratio remained minimal, albeit improved further to 1.1% (CY23: 4.1%; CY22: 4.2%) in 9MCY24. Therefore, combined ratio decreased to 157.2% (CY23: 168.4%; CY22: 202.9%) in

9MCY24. The Society reported underwriting losses in all three segments during 9MCY24. In CY23, positive bottom-line of Rs. 5.9m (CY22: Rs. 0.8m) was reported due to fair value gain on revaluation of investment property. On the other hand, loss of Rs. 1.8m was reported in 9MCY24.

Investments:

INVESTMENTS	**CY22**		**CY23**		**9MCY24**	
Term Deposits	3.5	5.2%	2.5	2.8%	4.0	3.6%
Listed Equity Securities	48.5	71.9%	70.0	79.1%	90.9	82.0%
Unlisted Equity Securities	15.5	22.9%	15.9	18.0%	15.9	14.4%
Total	**67.5**	**100.0%**	**88.5**	**100.0%**	**110.9**	**100.0%**

Investment mix of CISPL constituted listed & unlisted equities and term deposits. Carrying value of investment in listed equities increased to PKR 90.9m (CY23: PKR 70.1m; CY22: PKR 48.5m) owing to uptick in stock value. The listed equities exposure largely included investment in Ferozesons Laboratories Ltd. (FLL) and PRCL. Carrying value of the unlisted equities stood at PKR 15.9m (CY23: PKR 15.9m; CY22: PKR 15.5m), these included investment in Punjab Provincial Cooperative Bank Limited (PPCBL) and National Cooperative Supply Corporation (NCSC). During 9MCY24, investment income was recorded at PKR 2.3m (CY23: PKR 1.8m; CY22: PKR 2.6m) owing to dividend reaped from equity investments. The Society also holds term deposits amounting PKR4.0m (CY23: PKR 2.5m; CY22: PKR 3.5m). Given a high proportion of equities in the investment portfolio, the company remained exposed to a certain level of market risk.

CISPL earns rental income from head office building space and another building located in Rawalpindi. The value of investment property stood at PKR 87.9m at end-Sept'24 (CY23: PKR 87.9m; CY22: PKR 75.3m). Some increase in value of investment property by end-CY23 was due to unrealized fair value gain; the same was recorded in other income during that period. Rental income from the investment property amounting PKR 7.8m (CY23: PKR 10.4; CY22: PKR 10.2m) was recorded in 9MCY24. Going forward, the management is looking to expand its investment portfolio, particularly equity and term deposit holdings.

Liquidity and Capitalization:

Liquidity and Capitalization	**CY21**	**CY22**	**CY23**	**9MCY24**
Total Equity	2,355.8	2,337.4	2,481.1	2,494.1
Insurance Debt to Gross Premium (%)	6.1%	1.6%	3.9%	1.0%
Operating Leverage (%)	0.7%	0.7%	1.0%	1.0%
Financial Leverage (%)	0.4%	0.5%	0.6%	0.5%
Adjusted Liquid Assets to Net Technical Reserves (%)	1125.4%	587.6%	560.8%	882.0%

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 has 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 1.0% (CY23: 1.0%; CY22: 0.7%) and 0.05% (CY23: 0.06%; CY22: 0.05%), respectively, which reflect sizeable room for growth. In addition, the Society has sufficient cushion against the regulatory requirement of PKR150m for solvency.

Development in Information Technology

- The Society has upgraded its custom-made software to meet the requirements of modern insurance accounting and upcoming IFRS 17, scheduled for implementation in 2026. The software has been secured with the assistance of Cydea Tech (Pvt.) Ltd. to guard against cyber-attacks.

- Cloud infrastructure has been implemented for office data storage, enhancing the overall efficiency of business operations.

- Developed a complaint form on the official website, with a dedicated staff member assigned for the prompt resolution of claims.

The Co-operative Insurance Society of Pakistan Limited Appendix I

FINANCIAL SUMMARY				PKR in Million
BALANCE SHEET	**CY21**	**CY22**	**CY23**	**9MCY24**
Property and equipment	2,232.5	2,228.0	2,353.0	2,351.2
Investment Property	70.9	75.3	87.9	87.9
Cash and Bank Balances	12.3	12.1	6.5	12.1
Investments	84.5	52.0	72.5	95.0
Liquid Assets	84.5	52.0	72.5	95.0
Insurance Debt	1.1	0.4	1.3	0.3
Total Assets	2,419.5	2,398.8	2,556.4	2,571.0
Paid Up Capital	500.0	500.0	500.0	500.0
Total Equity	2,355.8	2,337.4	2,481.1	2,494.1
Total Liabilities	63.7	61.4	75.4	76.9
INCOME STATEMENT	**CY21**	**CY22**	**CY23**	**9MCY24**
Gross Premium Revenue	18.7	26.4	32.9	22.8
Net Premium Revenue	17.2	16.7	25.3	18.8
Net Claims	0.1	0.7	1.0	0.2
Underwriting Profit/ (loss)	(14.1)	(19.8)	(19.1)	(13.1)
Net Investment Income	4.0	2.6	1.8	2.3
Profit/ (loss) Before Tax	1.6	(2.6)	5.8	(2.2)
Profit/ (loss) After Tax	(1.0)	0.8	5.9	(1.8)
RATIO ANALYSIS	**CY21**	**CY22**	**CY23**	**9MCY24**
Market Share	0.02%	0.02%	0.02%	0.01%
Cession Ratio (%)	16.0%	14.9%	20.1%	27.5%
Gross Claims Ratio (%)	2.8%	0.6%	3.9%	2.1%
Net Claims Ratio (%)	0.4%	4.2%	4.1%	1.1%
Underwriting Expense Ratio (%)	181.3%	214.3%	171.6%	168.5%
Combined Ratio (%)	181.6%	218.5%	175.7%	169.7%
Net Operating Ratio (%)	158.7%	202.9%	168.4%	157.2%
Insurance Debt to Gross Premium (%)	6.1%	1.6%	3.9%	1.0%*
Operating Leverage (%)	0.7%	0.7%	1.0%	1.0%*
Financial Leverage (%)	0.4%	0.5%	0.6%	0.5%
Adjusted Liquid Assets to Net Technical Reserves (%)	1125.4%	587.6%	560.8%	882.0%

**Annualized*

REGULATORY DISCLOSURES						Appendix II
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**	**Outlook/ Rating Watch**	**Rating Action**	
			RATING TYPE: IFS			
	03/05/2025	BB+		Stable	Reaffirmed	
	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	
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	**January 10, 2025**	