

RATING REPORT

Reliance Insurance Company Limited (RICL)

REPORT DATE:

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RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	A	A
Rating Date	December 29, '16	December 30, '15
Rating Outlook	Positive	Positive

COMPANY INFORMATION

Incorporated in 1981	External auditors: BDO Ebrahim & Co. Chartered Accountants.
Public Limited Company	Chairman: Mr. Ismail H. Zakaria
Key Shareholder(s):	Chief Executive Officer: Mr. A. Razak Ahmed
Individuals – 55.23%	
Directors, CEO & Other Spouses & Minor Children – 25.28/%	
Joint Stock Companies – 17.49%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: General Insurance (September 2016)

<http://jcrvis.com.pk/docs/Meth-GenInsurance201609.pdf>

Reliance Insurance Company Limited (RICL)

OVERVIEW OF THE INSTITUTION

RICL was incorporated as a public limited company and commenced operations in 1981. Financial statements for 2015 were audited by M/s BDO Ebrahim & Company Chartered Accountants. The company has total staff strength of 198.

The company has also been granted license to work as Window Takaful Operator dated May 25, 2016. RICL initiated its Window Takaful Operations under the brand name of Reliance Takaful. Operations for the same commenced from 20th June 2016.

Profile of the Chairman: Mr. Ismail H. Zakaria has been the Chairman of the Board of Directors of RICL since its inception. He has 45 years of diversified experience in various industries.

Profile of the CEO: Mr. Razak Ahmed is the CEO of RICL since 1995. He has over 45 years of experience in the insurance industry both in public and private sectors.

RATING RATIONALE

The assigned rating to Reliance Insurance Company Limited (RICL) incorporates strong liquidity profile, adequate capitalization indicators and reinsurance program along with improving underwriting performance. However, market share has declined on a timeline basis. While maintaining other key rating parameters, increasing market share (in terms of both gross and net premiums) and sustainability & quantum of underwriting profits will be the key determinant to the future direction of rating. RICL is backed by Amin Bawany and Al-Noor Group of Companies, two prominent industrial groups.

Market Share and Business Mix: Gross premium depicted a growth of 8.4% and 9.7% during FY15 and 9M16, respectively. With growth in gross premiums lagging industry growth, market share has declined on a timeline basis. Marine, aviation and transport segment represents over half of gross premiums (56%) followed by fire & property and motor business. In terms of net premium revenue, motor represents around half of total net premiums. Given that a large chunk of aviation business is almost entirely passed on to reinsurers, net premium base of the company is on the lower side vis-à-vis peers. Going forward, business volumes are projected to grow at a steady pace of around 10%-15% with growth planned in marine and motor business where loss ratios have remained manageable.

Reinsurance: Reinsurance panel of the company is considered strong with Swiss Re (40%) (Rated AA-) as the lead reinsurer. Pakistan Reinsurance Company Limited has the second largest share in treaties at 25%. For 2016, retention and treaty capacities have witnessed steady increase in key business segments. Maximum retention on net account in any business segment represents around 2.7% of the company's equity base. Going forward, management plans to continue to gradually increase retention and treaty capacity in key business segments.

Underwriting Performance: Gross and net claims ratios of the company has consistently remained below industry average. Improvement in claims performance has been driven by the motor and marine segment. While expense ratio has declined in the ongoing year, the same continues to be on the higher side in relation to peers. With a decline in expense ratio, RICL managed to post underwriting profit in 2015 and 9M16.

Investments: Overall profitability of RICL is supported by sizeable investment income. Historically, around half of the investment income pertains to recurring sources (Dividend income and return on fixed income instruments). Overall exposure to market risk is sizeable with investment in equities representing around two-third of the investment portfolio and half of the company's equity base. Large equity scrips in the investment portfolio comprise blue chip dividend yielding stocks. Credit risk emanating from the investment portfolio is considered manageable.

Liquidity and Capitalization: Liquidity profile of the institution has improved with higher liquid assets in relation to liabilities and increase in cash flow from operations. Insurance debt in relation to gross premium has remained within manageable level and stood at 17.9% at end-9M16. Capitalization levels of the institution have increased over time on account of retained profits. Leverage indicators are on the lower side and indicative of room for growth.

Reliance Insurance Company Limited (RICL)

Appendix I

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
BALANCE SHEET	SEP 30, 2016	DEC 31, 2015	DEC 31, 2014
Cash and Bank Accounts	103.6	133.9	78.5
Deposits Maturing Within 12 Months	26.7	27.0	26.0
Insurance Debt	202.1	200.7	202.1
Total Assets	1,761.9	1,766.6	1,595.9
Net Worth	820.9	786.0	725.2
Total Liabilities	941.0	980.5	870.7
INCOME STATEMENT			
	SEP 30, 2016	DEC 31, 2015	DEC 31, 2014
Net Premium Revenue	260.9	316.4	295.8
Net Claims	76.0	89.9	94.3
Underwriting Profit/(Loss)	14.5	3.0	(2.4)
Other Income	0.7	1.3	2.8
Profit Before Tax	69.3	90.7	96.5
Profit After Tax	58.0	80.9	90.1
RATIO ANALYSIS			
	SEP 30, 2016	DEC 31, 2015	DEC 31, 2014
Market Share (Gross Premium) (%)	1.64% ¹	1.82%	1.87%
Cession Ratio (%)	68.6%	69.7%	70.8%
Gross Claims Ratio (%)	10.8%	31.9%	29.7%
Net Claims Ratio (%)	29.1%	28.4%	31.9%
Underwriting Expense Ratio (%)	65.3%	70.6%	68.9%
Combined Ratio (%)	94.4%	99.0%	100.8%
Net Operating Ratio (%)	82.9%	85.3%	84.7%
Insurance Debt to Gross Premium (%)	17.9%	18.0%	19.7%
Operating Leverage (%)	41.4%	38.4%	38.6%
Financial Leverage (%)	51.0%	63.3%	56.5%
Adjusted Liquid Assets to Total Liabilities (%)	137.4%	125.1%	128.9%

¹Market share for 1H16

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

JCR-VIS Credit Rating Company Limited

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: JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

REGULATORY DISCLOSURES		Appendix III		
Name of Rated Entity	Reliance Insurance Company Limited (RICL)			
Sector	Insurance			
Type of Relationship	Solicited			
Purpose of Rating	Insurer Financial Strength (IFS) Rating			
Rating History	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	RATING TYPE: IFS			
	29/12/2016	A	Positive	Reaffirmed
	30/12/2015	A	Positive	Maintained
	12/31/2014	A	Stable	Reaffirmed
	09/30/2013	A	Stable	Upgrade
	01/28/2013	A-	Positive	Maintained
	12/29/2011	A-	Stable	Reaffirmed
Instrument Structure	N/A			
Statement by the Rating Team	JCR-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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