

## RATING REPORT

### Reliance Insurance Company Limited (RICL)

**REPORT DATE:**

November 27, 2017

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	A	A
<i>Rating Date</i>	<i>November 27, '17</i>	<i>December 29, '16</i>
Rating Outlook	Positive	Positive

#### COMPANY INFORMATION

Incorporated in 1981	<b>External auditors:</b> BDO Ebrahim & Co. Chartered Accountants.
Public Limited Company	<b>Chairman:</b> Mr. Ismail H. Zakaria
<b>Key Shareholder(s):</b>	<b>Chief Executive Officer:</b> Mr. A. Razak Ahmed
Individuals – 57.79%	
Directors, CEO & Other Spouses & Minor Children – 24.32/%	
Joint Stock Companies – 16.20%	

#### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: General Insurance (March 2017)

<http://jcrvis.com.pk/docs/Meth-GenInsurance201702.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 2016 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 June 20, 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. Rażak 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 rating incorporates sound capitalization level of the company that has strengthened over time on account of profit retention. Overall liquidity profile of the company is also considered sound with positive operating cash flows. In line with the company's conservative stance, business volumes grew at a modest pace. Nonetheless, improved market share and sustainable profitability will be key determinants for future direction of rating. Moreover, RICL is backed by Amin Bawany and Al-Noor Group of Companies, two prominent industrial groups.

**Market Share and Business Mix:** Gross premium of RICL grew by 8.0% with market share of the company increasing marginally in 2016. In terms of business mix, 'marine, aviation and transport' segment represents over half of gross premiums (56%) followed by fire & property (28%) and motor business (15%). However, the company retains a larger proportion of motor business on its net account. Going forward, business mix is projected to remain the same with growth primarily emanating from growth in marine, fire and motor segment, respectively.

**Reinsurance:** Reinsurance panel of the company is considered sound with Swiss Re (Rated AA-) as the lead reinsurer. Pakistan Reinsurance Company Limited has the second largest share in treaties at 25%. Other reinsurers on the panel have rating of 'A-' or above. For 2017, retention and treaty capacities have largely remained unchanged vis-à-vis corresponding year, except for motor, terrorism and general accident segment. Retention limits and capacities were enhanced for the above mentioned segments.

**Underwriting Performance:** During FY16, improvement in gross claims ratio was primarily driven by fire and marine segment, while net claims ratio remained stable. Gross and net loss ratios of the company have consistently remained below industry average. Moreover, cession ratio of the company has remained stable at 70.0%. During FY16, the company posted higher net premium revenue which also resulted in improved underwriting expense and combined ratio. While expense ratio has declined, the same continues to be on the higher side in relation to peers. On account of improved premium base, the company posted higher underwriting profit in FY16.

**Investments:** Apart from underwriting performance, investment income provides strong impetus to overall profitability of RICL. Historically, around half of the investment income pertains to recurring sources including dividend income and return on fixed income instruments. However, during FY16, investment income increased largely on account of capital gains on equity securities. Overall exposure to market risk is sizeable with investment in equities representing around 70% of the investment portfolio. Large equity scrips in the investment portfolio comprise blue chip dividend yielding stocks. During 9MFY17, market risk emanating from the portfolio has been evident on account of volatility in the stock market which resulted in a significant loss from investments. Nonetheless, credit risk emanating from the investment portfolio is considered manageable.

**Liquidity and Capitalization:** Liquidity profile of the institution has improved with liquid assets in relation to liabilities being higher and increase in cash flow from operations. Nevertheless, liquidity indicators may be impacted in 2017 given the recent trend in stock market. Insurance debt in relation to gross premium has remained within manageable level. Moreover, capitalization levels of the institution have remained stable over time while leverage indicators indicate further room for growth. The company may need to strengthen its underwriting operations in order to sustain its profitability and capitalization indicators.

**Reliance Insurance Company Limited (RICL)**
**Appendix I**

<b>FINANCIAL SUMMARY</b>			
<i>(amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>	<b>JUNE 30, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Cash and Bank Accounts	129.1	120.3	106.9
Deposits Maturing Within 12 Months	26.6	26.7	27.0
Insurance Debt	195.6	168.7	200.7
<b>Total Assets</b>	<b>1,788</b>	<b>1,811</b>	<b>1,766.6</b>
<b>Net Worth</b>	<b>818.9</b>	<b>863.5</b>	<b>786.0</b>
<b>Total Liabilities</b>	<b>969.6</b>	<b>948.0</b>	<b>980.5</b>
<b>INCOME STATEMENT</b>	<b>JUNE 30, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Net Premium Revenue	177.6	359.4	316.4
Net Claims	43.9	101.7	89.9
Underwriting Profit/(Loss)	10.9	17.2	3.0
Other Income	0.5	0.9	1.3
<b>Profit Before Tax</b>	<b>(25.1)</b>	<b>115.5</b>	<b>90.7</b>
<b>Profit After Tax</b>	<b>(31.0)</b>	<b>100.7</b>	<b>80.9</b>
<b>RATIO ANALYSIS</b>	<b>JUNE 30, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Market Share (Gross Premium) (%)	1.66%	1.85%	1.82%
Cession Ratio (%)	70.0%	69.0%	69.7%
Gross Claims Ratio (%)	19.8%	12.7%	31.9%
Net Claims Ratio (%)	24.7%	28.3%	28.4%
Underwriting Expense Ratio (%)	69.1%	66.9%	70.6%
Combined Ratio (%)	93.9%	95.2%	99.0%
Net Operating Ratio (%)	80.6%	83.8%	85.3%
Insurance Debt to Gross Premium (%)	17.5%	14.0%	18.0%
Operating Leverage (%)	44.0%	41.0%	38.4%
Financial Leverage (%)	51.7%	47.7%	63.3%
Adjusted Liquid Assets to Total Liabilities (%)	138.2%	156.5%	125.1%

# 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](http://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](http://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](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix III		
<b>Name of Rated Entity</b>	Reliance Insurance Company Limited (RICL)			
<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>Rating Outlook</b>	<b>Rating Action</b>
	RATING TYPE: IFS			
	27/11/2017	A	Positive	Reaffirmed
	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
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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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