

RATING REPORT

The Co-operative Insurance Society of Pakistan Limited

REPORT DATE:

November 11, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	BB	BB-
Rating Outlook	Stable	Stable
<i>Outlook Date</i>	<i>Nov 8, '16</i>	<i>Sep 23, '15</i>

COMPANY INFORMATION

Incorporated in 1949

External auditors: Mumtaz Balouch & Co.

Co-operative Society

Chairman of the Board: Sh. Anwar-ul-Haq Piracha

Vice Chairman: Ch. Akhtar Mahmood

APPLICABLE METHODOLOGY(IES)

General Insurance (September 2016)

<http://www.jcrvis.com.pk>

The Co-operative Insurance Society of Pakistan Limited

OVERVIEW OF THE INSTITUTION

CISPL was incorporated under the Cooperative Societies Act, 1925 in 1949. The society operates through two zonal offices, four regional offices and eight branches. Financial statements for 2015 were audited by Mumtaz Balouch and Co. Chartered Accountant.

RATING RATIONALE

The ratings assigned to The Cooperative Insurance Society of Pakistan Limited (CISPL) take into account its low business volumes and continued underwriting losses reflecting marginal capacity of the society to meet policyholder and contractual obligations. Moreover, the internal control infrastructure of the company remained weak. The majority of insurance business is routed through society's largest shareholder; Provincial Cooperative Bank Limited (PPCBL) while business from society's branch network remained negligible.

While the underwriting business posted growth, the quantum of insurance business in relation to management expenses remained low leading to continued underwriting losses. The society reported higher management expenses on account of increase in headcount. Investment income comprising of dividend and rental income supports the bottom line with CISPL reporting a profit after tax of Rs. 0.9m during FY15 (FY14: Rs. 1.3m). During 1HFY16, net profit amounted to Rs. 1.4m. The society earns rental income from head office building space and another building located in Rawalpindi; however the rental yields are well below the market rates. These properties were revalued in FY15 and carry a surplus of Rs. 1.7b at end-1HFY16.

Reinsurance panel and treaty terms of the society remained unchanged during FY15. Reinsurance coverage has been arranged from Pakistan Reinsurance Company Limited having an outstanding IFS rating of "AA". The company has negotiated surplus treaties in fire, marine, general accident, engineering, livestock and crops. Meanwhile, the society has arranged quota share for bond segment and Excess of Loss (XoL) for motor segment. Cession has declined across all the business segments during the period under review.

The paid up capital of the society increased to Rs. 500m (FY14: Rs. 300m) through transfer of revaluation surplus on land and building amounting to Rs. 200m. Total equity base of the company amounted to Rs. 2.2b at end-1HFY16 (FY15: Rs. 2.2b; FY14: Rs. 2.0b) including a surplus on revaluation of fixed assets amounting to Rs. 1.7b. Given depressed business volumes, the operating and financial leverage remains low.

The Co-operative Insurance Society of Pakistan Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR 000s)</i>		
BALANCE SHEET	June 30, 2016	DEC 31, 2015	DEC 31, 2014
Cash and Bank Deposits	12,946	12,417	10,534
Investments	173,058	214,785	122,128
Investment Properties	2,199,994	2,200,575	1,986,786
Insurance Debt	-	221	64
Total Assets	2,223,919	2,225,704	2,009,171
Net Worth inc reval. surplus	2,198,598	2,104,214	1,989,527
Total Liabilities	25,322	27,366	19,645
INCOME STATEMENT	June 30, 2016	DEC 31, 2015	DEC 31, 2014
Net Premium Revenue	3,292	4,082	2,212
Net Claims	66	467	316
Underwriting Profit / (loss)	(3.9)	(9.9)	(7.3)
Net Investment Income	5,753	10,456	8,924
Profit Before Tax	1,818	606	1,620
Profit After Tax	1,383	916	1,286
RATIO ANALYSIS	June 30, 2016	DEC 31, 2015	DEC 31, 2014
Market Share (Gross Premium) (%)	0.008%	0.01%	0.005%
Cession Ratio (%)	15.4%	13.6%	19.1%
Gross Claims Ratio (%)	1.8%	11.8%	15.7%
Net Claims Ratio (%)	2.0%	11.5%	14.3%
Underwriting Expense Ratio (%)	220.0%	312.9%	417.9%
Combined Ratio (%)	222.0%	324.4%	431.4%
Net Operating Ratio (%) - After removing impact of other income	47.2%	105.8%	27.9%
Insurance Debt to Gross Premium (%)	-	3.35%	2.20%
Operating Leverage (%)	0.1%	0.2%	0.1%
Financial Leverage (%)	0.1%	0.1%	0.1%
Adjusted Liquid Assets to Technical Reserves (%)	662%	735%	601%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

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

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'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

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

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				
	11/08/2016	BB		Stable	Upgrade
	9/23/2015	BB-		Stable	Initial
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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