

## RATING REPORT

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

**REPORT DATE:**

December 19, 2017

**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>Dec 19'2017</i>	<i>Nov 8, '16</i>

#### COMPANY INFORMATION

Incorporated in 1949

External auditors: Malik &amp; Co. Chartered Accountants

Co-operative Society

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

CEO: Mr. Fateh Khan Niazi

#### APPLICABLE METHODOLOGY(IES)

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

<http://jcrvis.com.pk/docs/Meth-GenInsurance201609.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 two zonal offices, two regional offices and nine branches. Financial statements for 2016 were audited by Malik & Co. Chartered Accountant.

#### 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, previously working as Assistant General Manager.

#### Financial Snapshot

Net Income: 1HFY17: Rs. (0.5m); FY16: Rs. 0.4m

Equity: 1HFY17: Rs. 2.3b; FY16: Rs. 2.4b.

### RATING RATIONALE

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

During the period under review, underwriting business remained stable, however on account of lower quantum of insurance business in relation to management expenses, the society continues to post underwriting losses. Fire and motor segment remained key business drivers for the company. Investment income comprising dividend and rental income supports the bottom line. Despite higher business volume and lower net claim expense, net profit decreased to Rs. 0.4m (FY15: Rs. 0.9m) in FY16 on account of incidence of higher property tax. The company posted a net loss of Rs. 0.5m during 1HFY17. 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-1HFY17.

Reinsurance panel and treaty terms of the society remained unchanged during FY16. Reinsurance coverage has been arranged from Pakistan Reinsurance Company Limited having an IFS rating of "AA". The company has negotiated surplus treaties in fire, marine, general accident, engineering, livestock and crops. Meanwhile, quota share and Excess of Loss treaties have been arranged for bond and motor segments. Overall cession has also remained stable during the period under review.

Liquidity profile is considered strong on account of adequate liquid assets in relation to technical reserves and other liabilities. Total equity base of the company amounted to Rs. 2.3b at end-1HFY17 (FY16: Rs. 2.4b) including a surplus on revaluation of fixed assets. Given modest business volumes, the operating and financial leverage remains low.

**The Co-operative Insurance Society of Pakistan Limited**
**Appendix I**
**FINANCIAL SUMMARY**
*(amounts in PKR 000s)*

<b>BALANCE SHEET</b>	<b>June 30, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Cash and Bank Deposits	11,866	11,813	12,417
Investments	87,888	162,197	214,786
Investment Properties	2,197,668	2,198,318	2,201,670
Insurance Debt	-	121	221
<b>Total Assets inc reval. surplus</b>	<b>2,301,806</b>	<b>2,376,737</b>	<b>2,432,985</b>
<b>Net Worth inc reval. surplus</b>	<b>2,275,326</b>	<b>2,351,205</b>	<b>2,405,619</b>
<b>Total Liabilities</b>	<b>26,480</b>	<b>25,532</b>	<b>27,366</b>
<b>INCOME STATEMENT</b>	<b>June 30, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Net Premium Revenue	2,574	5,328	4,082
Net Claims	240	131	467
Underwriting Profit / (loss)	(4.7)	(11.1)	(9.9)
Net Investment Income	5,004	11,493	10,456
Profit Before Tax	463	433	606
Profit After Tax	(528)	421	916
<b>RATIO ANALYSIS</b>	<b>June 30, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Market Share (Gross Premium) (%)	0.011%	0.009%	0.011%
Cession Ratio (%)	13.5%	15.2%	13.6%
Gross Claims Ratio (%)	8.1%	2.1%	11.8%
Net Claims Ratio (%)	8.1%	2.4%	11.5%
Underwriting Expense Ratio (%)	259.5%	300.2%	312.9%
Combined Ratio (%)	268.8%	302.7%	324.4%
Net Operating Ratio (%)	74.4%	52.0%	68.3%
Insurance Debt to Gross Premium (%)	-	2.08%	3.35%
Operating Leverage (%)	0.9%	0.8%	0.2%
Financial Leverage (%)	0.8%	0.6%	0.1%
Adjusted Liquid Assets to Technical Reserves (%)	1,937.3%	4,569.2%	5,837.1%

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](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)

**(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](http://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.

## JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURES				Appendix III	
<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>
	RATING TYPE: IFS				
	12/19/2017	BB		Stable	Stable
	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>	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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