



The Pakistan Credit Rating Agency Limited

SINDH INSURANCE LIMITED (SIL)

IFS RATING REPORT

	NEW [MARCH- 17]	PREVIOUS [MAY-16]
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Insurer Financial
Strength (IFS) Rating

A+

A

Outlook

Stable

Stable

REPORT CONTENTS

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MARCH 2017

Profile & Ownership

- Sindh Insurance Limited (SIL) incorporated as an unlisted public company in Dec13, is wholly owned by Government of Sindh (GoS)
- Operates through a network of a head office and four branches
- are Sindh Bank, Sindh Modaraba, Sindh Leasing and Sindh Microfinance Bank

Governance & Management

- Seven member board, elected by GoS, are professionals with a plan to include an independent director shortly.
- Chairman of the board, Mr. Bilal Sheikh, a seasoned banker with over 45 years of diversified experience in banking, is an executive director of Sindh Bank and also the CEO of Sindh Leasing Limited.
- The CEO, Mr. Muhammad Faisal Siddiqui, brings with him diversified experience of two decades in life and general Insurance
- Supported by core management team comprising qualified and experienced professionals reporting to seven board committees.

Business Risk

- Majority business (75%) is captive business from associates while GPW size in 9M16 is PKR 438mln
- High GPW growth owing to inflow of captive business (9M16: PKR 438mln, CY15: PKR 56mln, CY14: Nil) while SECMEC added PKR 316mln.
- The NPR provided 62% absorption to expenses while the net loss and health loss ratio remained within the acceptable range i.e. 44% and 70% respectively.
- Investment income increased by 89% on the back of capital gains from trading of government securities amidst reducing interest rate environment
- In 4Q16, company has added a GPW of PKR 2000mln on account of the 'Universal Social Security' (USS) programme, announced by GoS, which covers all the residents of Sindh.

Business Strategy

- SIL is well positioned to take accelerated growth from initiatives led by GoS including the USS Scheme.
- Management expects to mobilize GPW of approximately PKR 3bln to be added per annum
- The scheme has upgraded the business profile of the company while generating a good insurance float.
- At the same time, SIL is working on other projects with GoS, including Mass Transit Scheme, Micro Health Insurance Coverage along with others.
- On non-captive front, SIL is establishing ties with commercial banks, of which motor and crop insurance arrangements with Summit Bank, JS Bank and NBP are on advanced stage.
- Commencement of window takaful operations effective Sep – 16, is also expected to widen the sources to widen sources of income from business expansion.

Financial Risk

- Sizeable investment book (PKR 633mln) constituting 105% of equity at end Sep-16; investments are deployed entirely in liquid avenues i.e. (PIBs and bank deposits including TDRs)
- With the inflow of advance GPW from USS, the liquidity has been jacked up to PKR 2.6bln at the end – Dec16 (draft accounts).
- Reinsurers on the panel: Hannover Re (AA- by S&P), Pak Re (AA by JCR-VIS), Korean Re (A by S&P), Trust Re (A- by S&P) and Saudi Re (BBB+ by S&P)

RATING RATIONALE

The rating reflects SIL's strong parentage of the Government of Sindh (GoS) and its strong positioning to leverage on the same. In addition to a sizeable capital in cash, the GoS has provided a platform to establish SIL in a competitive insurance industry. The introduction of the "Universal Social Security" scheme, initiated by GoS, has bought a sizeable increase to the business of SIL, thereby heavily increasing its topline. Herein, incidence of claim and pattern is yet to be established. However, GOS's coverage to claims exceeding scheme's premium base provides net protection to the company. Stable stream of investment income from sizable and deployed investment book significantly supports the bottomline. The direct benefit from the scheme has heaved in the form of liquidity – premium received in advance. Legislation passed by provincial assembly of Sindh effective March- 15, provides exclusive rights to Sindh Insurance to underwrite public property of Government of Sindh. Though property under insurance net has been acquired, untapped business is yet to be pitched. Meanwhile, the company is actively pursuing a mass scale motor third party insurance, going forward.

KEY RATING DRIVERS

The rating is dependent on management's ability to capitalize on its brand and group's well-built platform for business expansion. At the same time, the liquidity level should be upheld; herein attrition beyond a requisite threshold would negatively impact. Unprecedented rise in the incidence of claims - associated with schemes initiated by GoS – thereby impacting SIL's bottom line, may impact the rating.

INDUSTRY SNAPSHOT

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 11.47%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



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Sindh Insurance Limited (SIL)

General Insurance

	30-Sep-16	31-Dec-15	31-Dec-14
	Annual	Annual	Annual
<i>PKR mln</i>			
BALANCE SHEET			
Investments			
Liquid Investments	665	580	491
Investment in Associates	-	-	-
Other Investments	-	-	-
	665	580	491
Insurance Related Assets	89	32	3
Other Assets	302	65	51
TOTAL ASSETS	1,057	677	544
Equity	633	599	532
Underwriting Provisions	355	47	2
Insurance Related Liabilities	61	23	3
Other Liabilities	7	7	6
Borrowings	-	-	-
TOTAL EQUITY & LIABILITIES	1,057	677	544
INCOME STATEMENT			
Net Premium			
Gross Premium Written (GPW)	438	74	2
Reinsurance Expense	(63)	(11)	(1)
Net Premium Revenue (NPR)	68	21	(0)
Net Claims	(30)	(13)	(0)
Net Operational Expenses	(42)	(40)	(13)
UNDERWRITING INCOME / (LOSS) - Adjusted	(5)	(32)	(14)
Investment Income	54	115	61
Other Income/ (expense) including financial charges	0	14	0
PROFIT BEFORE TAX	50	97	48
RATIO ANALYSIS			
Underwriting Results			
Loss Ratio	44%	65%	-25%
Combined Ratio	107%	258%	-2897%
Performance			
Operating Ratio	27%	-374%	10525%
Investment Yield	12%	22%	0%
Liquidity & Solvency			
Liquidity Ratio – times	43.0	77.4	4229.3

Sindh Insurance Limited (SIL)

May 2016



RATING SYMBOLS & DEFINITIONS:

**INSURER FINANCIAL STRENGTH (IFS)
RATING SCALE & DEFINITIONS**

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

RATING SCALE	DEFINITION
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small
A+ A A-	Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ BBB BBB-	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ B B-	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC CC C	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
D	Distressed Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

Outlook (Stable, Positive, Negative, Developing)

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

