



The Pakistan Credit Rating Agency Limited

# STATE LIFE INSURANCE CORPORATION OF PAKISTAN (SLIC)

## IFS RATING REPORT

	NEW [MAR-17]	PREVIOUS [MAR-16]
Insurer Financial Strength (IFS) Rating	AAA	AAA
Outlook	Stable	Stable

MARCH 2017

## **Profile & Ownership**

- State Life, largest life insurance company of Pakistan, was formed in 1972 as a consequence of Nationalization of life insurance companies
- Very strong ownership; wholly-owned by the Government of Pakistan (GoP) through the President
- GoP intends to corporatize State Life and list it on the stock exchange With limited progress so far, related timeline remains uncertain

## **Governance & Management**

- The seven-member BoD, including Chairman/CEO, is nominated by GoP
- BoD, a good mix of individuals belonging to public sector, State Bank of Pakistan, and private financial and corporate sectors
- Experienced management team, having a fair degree of stability
- Nine management committees for enhanced oversight of large operations

## **Business Risk**

- Large premium size, occupying predominant market share (~50%); which it intends to maintain
- Persistency slightly improved to 56% in 9M16 (9M15: 55%); however remained lower than private sector
- Although overall loss ratio sustained (9M16: 53%, 9M15:54%), claims from overseas life fund were bit higher
- Sizeable investment income (PKR 45bln) took growth (5%) in 9M16, backing on stable stream of income from rental property and return on deposits
- The corporation computes reserves for policyholders' liabilities on annual basis; needs management's attention as most industry players perform this more frequently

## **Business Strategy**

- Going forward, eyeing growth fuelled through product diversification and new avenues; (i) Window Takaful, (ii) Bancassurance, and (iii) Micro-insurance
- Automation of processes and controls through IT implementation under process - taking longer than expected due to large sized operations; remains key challenge for the management

## **Financial Risk**

- Absolute risk absorption capacity provided by GoP's guarantee (as to payment in cash) against policyholders' liabilities
- Investment book of PKR 576bln (as at end-Sep16) based on conservative investment strategy
- Claims outstanding as a % of claim expense clocks in at 60% at Sep-16 (Dec 15: 50%), expected to normalise by year-end
- Reinsurance agreements, covering large risks, with Swiss Re (rated 'AA-' by S&P) and Munich Re (rated 'A+' by A.M. Best)

## **RATING RATIONALE**

The rating reflects State Life Insurance Corporation's utmost risk absorption capacity on the back of Government of Pakistan's (GoP) guarantee for policyholders' liabilities. The sum insured including bonuses (if any) declared by State Life Insurance Corporation are guaranteed as to payment in cash by GoP under article 35 of the Life Insurance (Nationalization) Order, 1972. The rating takes into account State Life Insurance Corporation's sound market position in life insurance industry emanating from extensive and well-penetrated distribution network, experienced management team and robust financial profile. This makes State Life Insurance Corporation the single largest player, capturing half of industry's premium. The Corporation is pursuing a growth strategy wherein, while focusing on existing business lines, it intends to expand its product offerings - Bancassurance, Window Takaful and Microinsurance. State Life Insurance Corporation has taken up Government initiated health programmes, reaching public at grass-root level. This, while bringing volumes, would facilitate sustaining market position in the wake of increasing competition from the private sector. SLIC's policyholder's obligations are supported by a sound and low risk investment portfolio; hence any drag on its capital base is unlikely.

## **KEY RATING DRIVERS**

State Life Insurance Corporation's ability to maintain its leadership in the life insurance sector is important. In this regard, successful execution of the envisaged business strategy including diversification and growth is essential. Meanwhile, updating IT infrastructure and user-friendly online portal for policyholders would be a key challenge. Although SLIC is proposed to be converted into public company, relevant timeline remains uncertain.

## **INDUSTRY SNAPSHOT**

Life insurance sector has seen remarkable growth in recent years (CAGR 5years: 21%), wherein the private sector has seen relatively high growth. Private sector brought innovative life solution, mainly bancassurance – a sum of both saving plans and nominal life cover. Investment portfolios of life insurers are skewed towards government securities (primarily PIBs). Although Interest rate cuts brought revaluation gains, investment would be at lower returns.



## LIFE INSURANCE Financials [Summary]

### State Life Insurance Corporation of Pakistan (SLIC)

BALANCE SHEET	30-Sep-16	31-Dec-15	31-Dec-14
<b>Investments</b>			
Liquid Investments	516,130	472,738	409,639
Investment in Associates	242	242	171
Other Investments	59,604	54,774	45,164
	575,976	527,754	454,975
Insurance Related Assets	30,196	37,290	34,942
Other Assets	9,644	6,783	6,773
<b>TOTAL ASSETS</b>	615,817	571,827	496,690
Equity	4,142	4,229	3,840
Statutory Fund	577,756	526,676	450,025
Insurance Related Liabilities	15,707	22,465	20,595
Other Liabilities	18,212	18,458	22,229
<b>TOTAL EQUITY &amp; LIABILITIES</b>	615,817	571,827	496,690
INCOME STATEMENT	30-Sep-16	31-Dec-15	31-Dec-14
<b>Net Premium</b>			
Gross Premium	45,825	80,171	76,561
Reinsurance Expense	(82)	(229)	(219)
Net Premium	45,743	79,942	76,342
Net Claims	(24,458)	(35,955)	(30,600)
Expenses	(14,879)	(26,082)	(23,799)
Investment Income	45,739	60,066	50,510
Excess of Income over Expenditure (EoI)	52,107	77,919	72,405
Miscellaneous (Expense)/ Income	-	-	-
<b>SURPLUS BEFORE APPROPRIATIONS</b>	40,294	2,929	13,955
RATIO ANALYSIS	30-Sep-16	31-Dec-15	31-Dec-14
<b>Underwriting Results</b>			
Gross Premium Written (GPW) Growth Rate	8%	163%	16%
Premium Mix (Individual GPW/ Total GPW)	90%	93%	91%
Persistency Ratio (Individuals Funds)	56%	77%	79%
Loss Ratio (Net Claims as % age of net premium)	53%	45%	40%
Operating Ratio <sup>^</sup>	12%	96%	82%
<b>Performance</b>			
Return on Equity - Shareholder	23%	26%	26%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times <sup>^^</sup>	1	1	1.0

\* Policyholders' Liabilities are calculated on annual basis.

<sup>^</sup> Operating Ratio: Loss Ratio + Expense Ratio + Reserve Ratio - Investment Income ratio

<sup>^^</sup> Liquidity Ratio: Total Liquid assets / Policyholders' Liability

State Life Insurance Corporation of Pakistan (SLIC)

March 2017

## 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
<b>AAA</b>	<b>Exceptionally Strong.</b> 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.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> 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
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> 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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> 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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> 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> <b>B</b> <b>B-</b>	<b>Weak.</b> 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.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> 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.
<b>D</b>	<b>Distressed.</b> Either failed to make payments on their obligations in a timely manner, are deemed to be insolvent, or have been subjected to some form of regulatory intervention. Limited liquid assets available to fund obligations.

**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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

**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'.

**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.

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**Name of Issuer** State Life Insurance Corporation of Pakistan  
**Sector** Insurance - Life  
**Type of Relationship** Solicited

**Purpose of the Rating** Independent Risk Assessment

**Rating History**

Dissemination Date	IFS Rating	Outlook	Action
31-Mar-17	AAA	Stable	Maintain
31-Mar-16	AAA	Stable	Maintain
1-Apr-15	AAA	Stable	Maintain

**Related Criteria and Research**

**Rating Methodology** Insurer Financial Strength Rating Methodology  
**Sector Research** Insurance | Life - View Point | April 16

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**Rating Team Statement**

**Rating Procedure**  
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