



The Pakistan Credit Rating Agency Limited

SINDH INSURANCE COMPANY LIMITED

IFS RATING REPORT

	NEW [OCT-17]	PREVIOUS [MAR-17]
Insurer Financial Strength (IFS) Rating	A+	A+
Outlook	Stable	Stable

REPORT CONTENTS

1. RATING REPORT
2. FINANCIAL SUMMARY
3. RATING SCALE
4. DISCLOSURE

OCTOBER 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 , 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.

- In 1H17, company renewed GPW of PKR 2,000mln on account of the ‘Universal Social Security’ (USS) programme, announced by GoS, covering residents of Sindh only in the case of unnatural deaths.
- The Net Claims amount PKR 1,259mln (1HCY16: PKR 18mln) also consists of IBNR in lieu of Universal Social Security and Outstanding claims. This classification was made on the advice of the actuary. The actuarial advisors for the Sindh Insurance Limited are Junaid Ikram & Co.

Business Strategy

- SIL is well positioned to take accelerated growth from initiatives led by GoS including the USS Scheme.
- The scheme has upgraded the business profile of the company while generating a good insurance float.
- The company plans to drive electronic and print media campaign to enhance awareness among masses of Sindh province.
- On non-captive front, SIL is establishing ties with commercial banks, of which motor and crop insurance arrangements with, JS Bank and NBP are on advanced stage.
- The footprints of Sindh Bank would be improved as Summit Bank is being merged into it.
- Apart from this, the company is generating PKR 22.6mln (1HCY16:PKR339mln, including one-off SECMEC ~ PKR 322mln) from the government related programs under the law “**Public Property Act 2015**”. The company lawfully operates through Head office and some of the branches of the Sindh Bank.

Financial Risk

- Sizeable investment book (PKR 729mln) constituting 190% of equity at end Jun-17; investments are deployed entirely in liquid avenues i.e. (Mutual funds and bank deposits including TDRs)
- No liquidity risk owing to improved coverages
- 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 bottom line. 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.

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 is considered negative.

INDUSTRY SNAPSHOT

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). 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.



Sindh Insurance Limited (SIL)

BALANCE SHEET	30-Jun-17	31-Dec-16	31-Dec-15
	1HCY17	Annual	Annual
Investments			
Liquid Investments	2,549	2,546	580
Investment in Associates			-
Other Investments			-
	2,549	2,546	580
Insurance Related Assets	76	87	32
Other Assets	701	303	65
TOTAL ASSETS	3,000	2,985	677
Equity	729	656	599
Underwriting Provisions	355	1722	47
Insurance Related Liabilities	1785	533	23
Other Liabilities	130	72	7
Borrowings	2	1	-
TOTAL EQUITY & LIABILITIES	3,000	2,985	677

INCOME STATEMENT	30-Jun-17	31-Dec-16	31-Dec-15
Net Premium			
Gross Premium Written (GPW)	39	2,409	74
Reinsurance Expense	(68)	96	(11)
Net Premium Revenue (NPR)	1,345	640	21
Net Claims	(1,259)	(517)	(13)
Net Operational Expenses	(68)	(117)	(40)
UNDERWRITING INCOME / (LOSS) - Adjusted	18	7	(32)
Investment Income	86	63	115
Other Income/ (expense) including financial charges	5	13	14
PROFIT BEFORE TAX	108	83	97

RATIO ANALYSIS	30-Jun-17	31-Dec-16	31-Dec-15
Underwriting Results			
Loss Ratio	94%	81%	65%
Combined Ratio	101%	99%	258%
Performance			
Operating Ratio	101%	87%	-374%
Investment Yield	13%	16%	22%
Liquidity & Solvency			
Liquidity Ratio – times	1.3	5.2	77.4



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.

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Name of Issuer
Sector
Type of Relationship
Purpose of the Rating

Sindh Insurance Limited
 Insurance | General
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	IFS Rating	Outlook	Action
02-Oct-17	A+	Stable	Maintain
13-Mar-17	A+	Stable	Upgrade
04-May-16	A	Stable	Initial

Related Criteria and Research

Rating Methodology
 Sector Research

General Insurance and Takaful operator – IFS Rating methodology
 Insurance | General - View Point | Nov 16

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

Rating Shopping

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PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP.

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[Probability of Default \(PD\)](#)

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