



The Pakistan Credit Rating Agency Limited

# STATE LIFE INSURANCE CORPORATION OF PAKISTAN (SLIC)

## IFS RATING REPORT

	<b>NEW</b> <b>[MAR-16]</b>	<b>PREVIOUS</b> <b>[APR-15]</b>
Insurer Financial Strength (IFS) Rating	AAA	AAA
Outlook	Stable	Stable

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MARCH 2016

## PROFILE & OWNERSHIP

- State Life is the single largest life insurance company of Pakistan, was formed in 1972 as a consequence of Nationalization of life insurance companies in 1972
- Very strong ownership; wholly-owned by Government of Pakistan (GoP) through the President
- Offer for sale underway, leading to divestiture of 15% stake

## GOVERNANCE

- The seven-member BoD, including Chairperson/CEO, is nominated by GoP.
- The Chairperson, Ms. Nargis Ghaloo, possesses diversified experience in various government organizations. Previously, she also remained Executive Director (ED) of SLIC for four years till 2009
- BoD is a good mix of individuals belonging to public sector, State Bank of Pakistan, and private financial and corporate sectors

## MANAGEMENT QUALITY

- Experienced management team, having a fair degree of stability
- Nine management committees for enhanced oversight of large operations

## BUSINESS RISK

- Large premium size, occupying half of industry's market share (CY15: ~51%)
- Premium growth rate lower than industry's growth due to high competition from private sectors's relatively new product - bancassurance
- Persistency decreased to 55% in 9M15 (9M14: 61%), also remained lower than private sector
- Improved loss ratio due to better mortality experience in current year and reduced claims from health insurance fund
- Sizeable investment income (PKR 43bln) took robust growth (16%) in 9M15, on the back of an 14% higher investment in Government securities
- Surplus of statutory funds not available for 9M15, as the corporation computes reserves for policyholders' liabilities on annual basis; needs management's attention

## BUSINESS STRATEGY

- Eyeing high growth going forward
- Increasing focus on product diversification and new avenues; (i) Window Takaful mid-CY16; (ii) Bancassurance; and (iii) Microinsurance
- Government initiated health schemes, recently won by SLIC, expected to boost Health Insurance fund
- Rationalized Investment Policy Statement (IPS-2015) - allowing more reasonable exposure to equity market and real estate - will increase investment income, going forward
- 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 454bln (as at end-Sep15) based on conservative investment strategy (PIBs: 82%)
- Claims outstanding as a % of claim expense clocks in at 66% at end-Sep15 (Dec 14: 52%)
- 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 SLIC'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 SLIC are guaranteed as to payment in cash by GoP under article 35 of the Life Insurance (Nationalization) Order, 1972. The rating takes into account SLIC'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 SLIC the single largest player, capturing more than 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. SLIC 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

SLIC'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; the management plans complete implementation by end-Dec16. Claims outstanding days are higher due to longer processing of claims in initial years of policy issuance.

## INDUSTRY SNAPSHOT

Life insurance sector has seen remarkable growth in recent years (CAGR 5years: 24%), wherein the private sector growth (35%) has outpaced the industry's average. Private sector brought innovative life solution, mainly bancassurance - a sum of both saving plans and nominal life cover, targeting niche market. Investment portfolios of life insurers are highly skewed towards government securities (primarily PIBs). Interest rate cuts brought revaluation gains augmenting bottom-line.



**LIFE INSURANCE**  
**Financials [Summary]**

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

	<i>PKR mln</i>		
	<b>30-Sep-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
<b>BALANCE SHEET</b>			
<b>Investments</b>			
Liquid Investments	450,230	409,639	351,198
Investment in Associates	183	171	242
Other Investments	48,916	45,164	37,819
	<u>499,330</u>	<u>454,975</u>	<u>389,259</u>
Insurance Related Assets	28,498	34,942	25,340
Other Assets	6,163	6,773	6,210
<b>TOTAL ASSETS</b>	<u>533,991</u>	<u>496,690</u>	<u>420,809</u>
Equity	3,419	3,840	3,032
Statutory Fund	499,972	450,025	378,608
Insurance Related Liabilities	16,019	20,595	18,513
Other Liabilities	14,581	22,229	20,655
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<u>533,991</u>	<u>496,690</u>	<u>420,809</u>
<b>INCOME STATEMENT</b>			
	<b>30-Sep-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
<b>Net Premium</b>			
Gross Premium	42,305	76,561	65,931
Reinsurance Expense	(48)	(219)	(186)
Net Premium	<u>42,257</u>	<u>76,342</u>	<u>65,745</u>
Net Claims	(22,830)	(30,600)	(25,835)
Expenses	(13,066)	(23,799)	(24,827)
Investment Income	43,413	50,510	50,891
Excess of Income over Expenditure (EoI)	<u>49,741</u>	<u>72,405</u>	<u>65,900</u>
Miscellaneous (Expense)/ Income	-	-	(1)
Reserve for Policyholders' Liabilities	N/A*	58,450	60,609
<b>SURPLUS BEFORE APPROPRIATIONS</b>	<u>478,640</u>	<u>13,955</u>	<u>5,290</u>
<b>RATIO ANALYSIS</b>			
	<b>30-Sep-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
<b>Underwriting Results</b>			
Gross Premium Written (GPW) Growth Rate	11%	16%	17%
Premium Mix (Individual GPW/ Total GPW)	89%	91%	89%
Persistency Ratio (Individuals Funds)	55%	79%	81%
Loss Ratio (Net Claims as %age of net premium)	54%	40%	39%
Operating Ratio <sup>^</sup>	N/A*	82%	92%
<b>Performance</b>			
Return on Equity - Shareholder	7%	29%	30%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times <sup>^^</sup>	N/A*	1.0	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 2016**

## 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	<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.
AA+ AA AA-	<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
A+ A A-	<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.
BBB+ BBB BBB-	<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.
BB+ BB BB-	<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>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.
CCC CC C	<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.
D	<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.

<p><b>Rating Watch</b> 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.</p>	<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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'.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.</p>
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**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.



**Name of Issuer**  
**Sector**  
**Type of Relationship**

State Life Insurance Corporation of Pakistan  
Life Insurance  
Solicited

**Purpose of the Rating**

Independent Risk Assessment

**Rating History**

Date	Rating	Outlook	Action
31-Mar-16	AAA	Stable	Maintain
1-Apr-15	AAA	Stable	Maintain
9-Feb-15	AAA	Stable	Maintain
11-Jun-14	AAA	RW	Maintain
2-May-13	AAA	Stable	Maintain

**Related Criteria and Research**

Rating Methodology  
Sector Research

Insurer Financial Strength Rating  
Insurance | Life - Viewpoint | Mar-16

**Rating Analysts**

Haider Imran                      Amara S. Gondal  
[haider.imran@pacra.com](mailto:haider.imran@pacra.com)      [amara.gondal@pacra.com](mailto:amara.gondal@pacra.com)  
(92-42-35869504)                      (92-42-35869504)

[Rating Team Statement](#)

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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.

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

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