



The Pakistan Credit Rating Agency Limited

# **SPI INSURANCE COMPANY LIMITED (SPI)**

## **IFS RATING REPORT**

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

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JUNE 2016

## Profile & Ownership

- SPI Insurance Company Limited (SPI) was incorporated as an unquoted public company in 2005
- Majority owned by United International Group (UIG) (69%), rest is owned by Silkbank (23%) and Saudi Pak Leasing (8%)
- Operates through a network of 40 branches.
- Engaged in conventional general insurance services, while Window Takaful operations commenced in Nov'14
- Associated companies are United Insurance (UIC), United Track System (UTS), Apna Microfinance Bank (Apna Bank) and Silkbank

## Governance & Management

- Seven member board represented by five UIG and two Silkbank representatives
- Chairman of the board - Mr. Aziz Ullah Memon - is associated with UIG since long, and is a well-known and seasoned banker
- The CEO/MD, Mr. M. A. Shahid, brings with him two decades of experience in insurance industry. He is the Group Chairman of UIG
- Core management team comprises experienced professionals

## Business Risk

- Diversified GPW mix, comprising motor (37%), miscellaneous (33%), fire (24%) and marine (7%)
- Miscellaneous segment includes crop and livestock insurance (40%) - as SPI capitalizes on agricultural footprint of UIG
- High premium growth (CY15: 60%, CY14: 31%) pushed GPW to PKR 814mln (including Takaful) in CY15; market share up (CY15: 1.7%, CY14: 0.9%)
- Window takaful reported high Gross Contribution (PKR 214mln) in first year of operations; takaful market share (CY15: 7%)
- Loss ratio sustained whereas increase in expense ratio pushed combined ratio up to 87% (CY14: 84%)
- Meager support through stable stream of investment income (CY15: PKR 92mln, CY14: PKR 70mln) representing just 14% of bottomline

## Strategy

- Going forward, the company envisages aggressive targets with improved market position, focusing on bottomline
- Non-conventional segments - motor, crop & livestock, and health - would continue to remain the forte of the company; new products on the cards
- Venturing into microinsurance via partnership with Tameer Microfinance Bank

## Financial Risk

- Arrangements with strong reinsurers including Hannover Re (AA- by S&P), Trust Re (A- by S&P), Malaysian Re (A- by A.M. Best), MAPFRE (A3 by Moody's), Swiss Re (AA- by S&P) and PRCL (AA by JCR-VIS)
- Recent shift towards non-proportional treaties has allowed larger projects to be underwritten in future, providing growth potential, however, with increased net retention
- Investments are restricted to low-risk avenues. Portfolio (CY15: PKR 249mln) largely concentrated in bank deposits (39%) and government securities (28%), leading to subdued investment yield (CY15: 6%, CY14: 8%)
- Size of liquid investments remains small in size
- Insurance-related assets cover liabilities by 3times; however, 58% (CY14: 40%) of assets are past due by more than one year, warranting management's attention
- SPI positioned itself to meet SECP's Minimum Capital Requirement (MCR) for Jun16 via bonus issue of 22%

## RATING RATIONALE

The rating reflects SPI's improving risk profile emanating from growth in business and core profits. This has been made possible by the focused business strategy of the management. The organization takes benefit from synergistic thought at group level - United International Group (UIG) - and replicates the group's established practices. The outcome is in the form of stable business composition, growing premium, claim efficiency, and profitability for the company. Although the equity size, and hence liquidity, is relatively small, consistent profitability has and would ensure phased improvement therein.

## KEY RATING DRIVERS

The rating is dependent upon sustaining the trend in the improving market positioning of the company. As the company grows, liquidity profile needs to be strengthened; herein, attention must be paid to overdue receivables. Meanwhile, improvement in investment management framework is essential.

## INDUSTRY SNAPSHOT

Pakistan's general insurance growth has picked up (CAGR 4 years 11%). 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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## Financials [Summary]

### SPI Insurance Company Limited

	PKR mln			
	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
	1Q16	Annual	Annual	Annual
<b>BALANCE SHEET</b>				
<b>Investments</b>				
Liquid Investments	254	248	181	151
Other Investments	24	24	37	45
	<b>278</b>	<b>272</b>	<b>218</b>	<b>196</b>
Insurance Related Assets	368	342	287	226
Other Assets	378	386	153	166
<b>TOTAL ASSETS</b>	<b>1,023</b>	<b>1,000</b>	<b>658</b>	<b>588</b>
Equity	405	397	329	289
Underwriting Provisions	343	333	212	174
Insurance Related Liabilities	133	113	92	106
Other Liabilities	143	157	25	18
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>1,023</b>	<b>1,000</b>	<b>658</b>	<b>588</b>
<b>INCOME STATEMENT</b>				
	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
<b>Gross Premium Written (GPW)</b>	220	814	511	391
<b>Net Premium Revenue (NPR)</b>	174	609	405	287
Net Claims	(72)	(179)	(123)	(105)
Net Operational Expenses	(94)	(350)	(225)	(153)
<b>UNDERWRITING (LOSS) / INCOME - Adjusted</b>	<b>9</b>	<b>79</b>	<b>57</b>	<b>29</b>
Investment Income	3	13	13	11
<b>(LOSS) / PROFIT BEFORE TAX</b>	<b>12</b>	<b>102</b>	<b>72</b>	<b>40</b>
<b>RATIO ANALYSIS</b>				
	31-Mar-16	31-Dec-14	31-Dec-14	31-Dec-13
<b>Underwriting Results</b>				
Loss Ratio	41%	29%	30%	37%
Combined Ratio	95%	87%	86%	90%
<b>Performance</b>				
Operation Ratio	93%	83%	82%	86%
Investment Yield	4%	6%	8%	6%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio - times	2.6	2.5	2.4	1.5

SPI Insurance Company Limited (SPI)

Jun-16

## 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.



Rated Entity

**Name of Rated Entity**  
**Sector**  
**Type of Relationship**

SPI Insurance Company Limited  
 Insurance | General  
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	IFS Rating	Outlook	Action
10-Jun-16	A-	Stable	Maintain
17-Jun-15	A-	Stable	Maintain
17-Jun-14	A-	Stable	Maintain
4-Feb-13	A-	Stable	Initial

Related Criteria and Research

Methodology:  
 Research:

Insurer Financial Strength Rating Methodology  
 Insurance | General - Viewpoint | Nov-15

Rating Analysts

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Rating Team Statement

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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