



## Reliance Insurance Company Limited (RIC)

### Ratings (May 2006)

Reliance Insurance Company Ltd.

	Initial
Insurer Financial Strength	A-

### Financial Data PKR (mln)

	31-Dec-05	31-Dec-04
Total Assets	460.9	349.2
Total Equity	185.6	143.4
Profit After Tax	42.2	23.6
Underwriting Results	44.1	35.8
Loss Ratio (%)	33.01	35.20
ROE (%)	25.68	19.78
Premium Solvency Ratio (%)	66.47	66.98

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### Rating Rationale

#### Assessment

- The ratings reflect RIC's strong capacity to meet policyholders obligations as indicated by its sound financial base and solvency ratios. While the performance of the investment portfolio has remained subdued, it is improving both in terms of return and contribution to total revenue.
- The company has been following a growth-oriented strategy in recent years while maintaining good underwriting performance. At the same time, its level of cession has been steadily decreasing. Despite high growth and decreased cession, there has been no adverse impact on the company's loss ratio; rather, this is registering slow and steady YoY improvement, and is well below industry averages. Apart from sound underwriting practices, this is reflective of the company's high exposure to the relatively low loss-yielding fire segment with a small proportion of relatively high risk fire (textile sector) insurance. While RIC's underwriting performance has been improving, the full impact on the bottomline has been constrained by a high level of management expenses.
- Going forward, the company plans to maintain this level of growth, and in the same segments. However, the management intends to increase the proportion of the motor segment in the overall business mix, which would also help in reducing the incidence of management expenses. RIC currently has a revaluation surplus on its equities portfolio of approximately PKR 68mln. This is expected to be realized in the current year, and the proceeds redeployed into investments.
- RIC maintains excess of loss and surplus treaties accompanied by facultative contracts with international reinsurers mostly having ratings of "A" and above. The share of business from group companies with lower moral hazards has been, and is expected to be, maintained at around 7.0%. Additionally, there is low client concentration within the business mix, with top-ten clients constituting around 8% of total GPW in 2005 (2004: 10%).
- RIC's investment portfolio constituted 31% of total assets at end-05 (2004:20%). The portfolio is dominated by equity securities, and is adequately diversified. The portfolio is managed by the Investment Committee, which includes three members of the BOD. Investment in equities is made on the basis of dividend yield and potential for capital gains. Consequently, dividend income and capital gains, alongwith return from government securities, are likely to remain the main contributors of investment income.
- RIC's financial base is expected to strengthen on the back of a strong retention policy. This will allow the company to continue with its high-growth momentum without an adverse impact on its risk profile. The company had a hidden reserve of around PKR 53mln on property as at end-Dec 05, and also makes extra provisioning in its reserve for outstanding claims as a matter of policy, providing an additional cushion against any contingency.

#### Support

- RIC does not have any contractual agreement with any of its major shareholders for financial support in the event of any contingency. However, in PACRA's assessment, given their demonstrated support to other group entities, the major shareholders will lend support to RIC were it to prove necessary.

#### Background

- Reliance Insurance Company Limited (RIC) was incorporated in 1981 by two industrial groups, Al-Noor and Amin Bawany. Both groups are primarily engaged in the manufacture of sugar and allied products, with interests in the modaraba sector as well as trading in commodities. RIC is listed on the Karachi and Lahore stock exchanges, and underwrites all classes of general insurance business. It has eight members BOD, majority of whom belong to the aforementioned groups. The current CEO has been heading the company since 1995, and is a chartered insurer with over 30 years of experience in both the technical and operational side of the business. He is currently member of the IAP and Karachi Insurance Institute. His commitment to the organization is evidenced through his successful HR endeavors with a very low level of staff turnover at senior positions.
- RIC currently operates with a network of 28 branches and employs 203 people. Six branches each are located in Karachi and Lahore, and the remaining are spread out over the rest of the country.