



The Pakistan Credit Rating Agency Limited

SPI INSURANCE COMPANY LIMITED

RATING REPORT

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

OCTOBER 2017

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 47 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, is an insurance veteran. He is the Group Chairman of UIG.
- Core management team comprises experienced professionals.

Business Risk

- Diversified GPW mix, comprising miscellaneous (42%), motor (31%), fire (18%) and marine (9%).
- Miscellaneous segment includes health, crop and livestock insurance which SPI capitalizes on agricultural footprint of UIG
- Moderate premium growth in 1H17 (2%) as compared to previous years (CY16:24%, 1H16: 13%, CY15: 60%, CY14: 31%) pushed GPW to PKR 468mln (including Takaful) in 1H17 (CY16: PKR 1,007mln, 1H16: PKR 458mln); market share steady (1H17: 1.3%, CY16: 1.3, 1H16: 1.3%, CY15: 1.2%)
- Window takaful reported high Gross Contribution of PKR 119mln (CY16 PKR 329mln. 1H16: PKR 58mln) in second year of operations; takaful market share at 2%.
- Loss ratio improved to 32% (CY16: 40%, 1H16: 36%, CY15: 29%) on the back of low loss ratios of Marine and Miscellaneous segment. Similarly, expense ratio reduced due to increased net premium revenue.
- Moderate support through stable stream of investment income contributing to net profit i.e 16%.

Strategy

- Going forward, the company envisages high growth 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.
- SPI boosted its liquidity profile by issuing rights shares worth PKR 50mln to meet SECP's Minimum Capital Requirement (MCR).

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) and Swiss Re (AA- by S&P).
- Recent shift towards non-proportional treaties has allowed larger projects to be underwritten in future, providing growth potential.
- Liquid investments of the company is on the rise as it has touched PKR 270mln in conventional segment on June-17 up from PKR 175mln in Cy15.
- For Takaful business, liquidity has reduced to PKR 66mln from PKR 72mln as the company has settled its balances with takaful/re-takaful operators.

RATING RATIONALE

The rating reflects substantial improvement in the business profile of the company. The company continues to demonstrate sizeable growth in its topline and the portfolio mix is well-balanced. The client base is direct with less reliance on bank business. The organization takes benefit from synergistic approach at group level - United International Group (UIG) - and replicate the group's established practices. With reported loss ratio, the company demonstrates underwriting profitability. The contribution from alternative income stream – investment book – is small; needs to improve. Improved equity size and hence liquidity supported by the recent right issue provides cushion to the risk absorption capacity.

KEY RATING DRIVERS

The rating is dependent on the management's ability to capitalize on its brand and group's well-built platform for business expansion. At the same time, the liquidity level must improve and consequent income stream should likewise go up; herein attrition beyond a requisite threshold would negatively impact. Recovery of overdue receivables remain critical.

INDUSTRY SNAPSHOT

Pakistan's general insurance growth has picked up (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; bond, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



Financial Summary

The Pakistan Credit Rating Agency Limited

SPI Insurance Company Limited

BALANCE SHEET	1H17	31-Dec-16	31-Dec-15	31-Dec-14
	6M	Annual	Annual	Annual
Investments				
Liquid Investments	337	308	248	181
Other Investments	-	13	24	37
	337	321	272	218
Insurance Related Assets	477	523	342	287
Other Assets	449	490	386	153
TOTAL ASSETS	1,263	1,334	1,000	658
Equity	487	430	397	329
Underwriting Provisions	329	390	333	212
Insurance Related Liabilities	233	310	113	92
Other Liabilities	214	204	157	25
TOTAL EQUITY & LIABILITIES	1,263	1,334	1,000	658
INCOME STATEMENT	1H17	31-Dec-16	31-Dec-15	31-Dec-14
Gross Premium Written (GPW)	468	1,007	814	511
Net Premium Revenue (NPR)	382	787	609	405
Net Claims	(121)	(311)	(179)	(123)
Net Operational Expenses	(229)	(420)	(350)	(225)
UNDERWRITING (LOSS) / INCOME - Adjusted	32	56	79	57
Investment Income	12	15	13	13
(LOSS) / PROFIT BEFORE TAX	44	81	102	72
RATIO ANALYSIS	1H17	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results				
Loss Ratio	32%	40%	29%	30%
Combined Ratio	81%	93%	87%	86%
Performance				
Operation Ratio	77%	90%	83%	82%
Investment Yield	17%	20%	6%	8%
Liquidity & Solvency				
Liquidity Ratio - times	1.5	1.4	2.5	2.4

SPI Insurance Company Limited (SPI)

Oct-17



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.

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
02-Oct-17	A	Stable	Upgrade
07-Jun-17	A-	Positive	Maintain
10-Jun-16	A-	Stable	Maintain
17-Jun-15	A-	Stable	Maintain
17-Jun-14	A-	Stable	Maintain

Related Criteria and Research

Methodology:
Research:

Insurer Financial Strength Rating Methodology
Insurance | General - Viewpoint | Nov-16

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.

Disclaimer

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Surveillance

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

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

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Probability of Default (PD)

PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of each rating notch. These studies are available at our website (www.pacra.com). However, actual transition of a particular rating may not follow the pattern observed in the past.