



The Pakistan Credit Rating Agency Limited

## Rating Report

### Sindh Insurance Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-May-2018	A+	-	Stable	Maintain	-
02-Oct-2017	A+	-	Stable	Maintain	-
02-Oct-2017	A+	-	Stable	Maintain	-
13-Mar-2017	A+	-	Stable	Maintain	-
13-Mar-2017	A+	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

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, recently further augmented, the GoS has provided a platform to establish SIL in a competitive insurance industry. The introduction of the "Universal Accident Insurance scheme", initiated by GoS, has brought 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. Meanwhile, the company is actively pursuing a mass scale motor third party insurance, going forward

The rating is dependent on management's ability to capitalize on its brand and group's well-built platform for business expansion. Achieving a good market share is considered positive. At the same time, the liquidity level should be upheld and reliance on captive business should be limited, and company should participate procurement of business other than captive business

#### Disclosure

<b>Name of Rated Entity</b>	Sindh Insurance Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   Insurer Financial Strength (IFS) Rating   General(Jun-17)
<b>Related Research</b>	Sector Study   Insurance   General(Oct-17)
<b>Rating Analysts</b>	Rohail Amjad   rohail.amjad@pacra.com   +92-42-35869504 Jhangeer Hanif   jhangeer@pacra.com   +92-42-35869504

## SINDH INSURANCE COMPANY LIMITED PROFILE

<b>Incorporated</b>	2013
<b>Major Business</b>	Insurance
<b>Legal Status</b>	Public Limited Company
<b>Head Office</b>	Karachi

## 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; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.

## OWNERSHIP

- Sindh Insurance Limited (SIL) was incorporated as a non-listed public limited company on December 20th, 2013 as a wholly owned entity of Government of Sindh (GoS)
- SIL started its operation effectively beginning Oct-14, envisaging business from all segments of general insurance
- Government of Sindh (GoS) owns 100% stake in SIL through their Finance Department

## Governance

- SIL's seven member board. One of them being Government's official, while rest are executive and non-executive directors
- The chairman of the board, Mr. Bilal Sheikh, is a seasoned banker with over 45 year's diversified banking experience

## MANAGEMENT

- Mr. Muhammad Faisal Siddiqui, the CEO since the inception of the company, is an Associate of Chartered Insurance Institute, London, and possesses diversified experience in life and general Insurance. He served as CEO of National Assets Insurance Limited for four years and remained the Deputy Director, General Insurance, in Securities and Exchange Commission of Pakistan for half a decade
- The CEO is supported by a management team comprising qualified and experienced professionals
- Operations of the company are divided into four departments; i) Operations, ii) Finance, iii) Human Resource & Admin, and iv) Internal Audit. Head of Operations (HOO), Head of Finance (CFO) and Head of HR & Admin directly report to the CEO

## BUSINESS RISK

- During 9M17, SIL reported a GPW of PKR 2,762mln capturing a market share of 0.8% in its fourth year of operations. The captive business from Sindh Group (SG) entities - all FIS – amounted to PKR 2,643mln – predominately Secretary Finance Government of Sindh.
- Top client concentration is extremely high at 98%, due to one large client, SECRETARY FINANCE GOVERNMENT OF SINDH with GPW size of PKR 2,643mln
- SIL's GPW grew considerably by 531% in 9MCY17, mainly account of the payment released by the Sind Secretary of Finance in lieu of the Universal Accidental Insurance.
- The company's Window Takaful Operation posted a combined profit of PKR 2.313mln at Sep-17 in its first year of operation. (OPF: PKR 2.027mln, PTF: PKR 0.286mln).
- The company recorded a Net Premium Revenue of PKR 2,028mln (9MCY16: PKR68mln) rising by 288%.
- The underwriting Profit stood at PKR 32.3mln as compared to PKR 12.2mln in 9MCY16.

## BUSINESS STRATEGY

- SIL is well positioned to take accelerated growth from initiatives led by the Government of Sindh (GoS). "Universal Accidental Insurance" scheme announced by GoS, has been kicked off.
- On the non-captive front SIL is establishing ties with commercial banks, of which motor and crop insurance arrangements with Summit Bank, JS Bank and NBP are on advanced stage

## FINANCIAL RISK

- SIL has sizeable investment book (PKR 2,533 mln), that constitutes 348% of equity at end-Sep 17. The investments are deployed entirely in liquid avenues dominated by Term Deposits in banks with attractive rates such as; JS Bank (7.15%) and Pak-Brunei Investment Company Ltd (6.8%).
- The investment comprises of Debt securities and term deposits with the markup rates ranging from 5.95% to 10.25%. The company has no investment in equity securities at end Sep-17
- SIL's liquid investments amount to PKR 2,533mln which were an increase of 280% as compared to the same period year
- SIL's capital base rose PKR 1bln after the injection of PKR 500mln. The amount of. PKR500 Million was received in the month of November 2017 as Advance against Equity and Right Issue procedure was completed in the month December 2017.
- SIL's re-insurers panel includes Hannover Re (AA- by S&P), Trust Re (A- by S&P), PRCL (AA by JCR) and GIC – Dubai Br (A- by A.M Best).



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## General Insurance

### Sindh Insurance Limited (SIL)

<b>BALANCE SHEET</b>	<b>30-Sep-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>
	9MCY17	Annual	Annual
<b>Investments</b>			
Liquid Investments	2,488	2,546	580
Investment in Associates			-
Other Investments			-
	<b>2,488</b>	<b>2,546</b>	<b>580</b>
Insurance Related Assets	3169	87	32
Other Assets	411	303	65
<b>TOTAL ASSETS</b>	<b>6,068</b>	<b>2,985</b>	<b>677</b>
Equity	773	656	599
Underwriting Provisions	4663	1722	47
Insurance Related Liabilities	73	533	23
Other Liabilities	559	72	7
Borrowings		1	-
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>6,068</b>	<b>2,985</b>	<b>677</b>
<b>INCOME STATEMENT</b>	<b>30-Sep-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>
<b>Net Premium</b>			
Gross Premium Written (GPW)	2,130	2,409	74
Reinsurance Expense	102	96	(11)
Net Premium Revenue (NPR)	<b>2,028</b>	<b>640</b>	<b>21</b>
Net Claims	(1,850)	(517)	(13)
Net Operational Expenses	(146)	(117)	(40)
<b>UNDERWRITING INCOME / (LOSS) - Adjusted</b>	<b>32</b>	<b>7</b>	<b>(32)</b>
Investment Income	128	63	115
Other Income/ (expense) including financial charges	6	13	14
<b>PROFIT BEFORE TAX</b>	<b>166</b>	<b>83</b>	<b>97</b>
<b>RATIO ANALYSIS</b>	<b>30-Sep-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>
<b>Underwriting Results</b>			
Loss Ratio	91%	81%	65%
Combined Ratio	102%	99%	258%
<b>Performance</b>			
Operating Ratio	102%	87%	-374%
Investment Yield	17%	16%	22%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times	1.1	5.2	77.4

Sindh Insurance Limited (SIL)

May 2018



## INSURER FINANCIAL STRENGTH (IFS) RATING 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
<b>AAA</b>	<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.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<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
<b>A+</b> <b>A</b> <b>A-</b>	<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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<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>B</b> <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.
<b>CCC</b> <b>CC</b> <b>C</b>	<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.
<b>D</b>	<b>Distressed</b> 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.

<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>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. 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.</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.

### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
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- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) 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 a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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