



The Pakistan Credit Rating Agency Limited

Rating Report

State Life Insurance Corporation of Pakistan

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Jun-2018	AAA	-	Stable	Maintain	-
04-Dec-2017	AAA	-	Stable	Maintain	-
31-Mar-2017	AAA	-	Stable	Maintain	-
31-Mar-2016	AAA	-	Stable	Maintain	-
01-Apr-2015	AAA	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects State Life Insurance Corporation'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 State Life Insurance Corporation are guaranteed as to payment in cash by GoP under article 35 of the Life Insurance (Nationalization) Order, 1972. The rating takes into account State Life Insurance Corporation'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 State Life Insurance Corporation the single largest player, capturing major portion 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. State Life Insurance Corporation 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.

State Life Insurance Corporation'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. Additionally, implementation of core insurance ERP system will enable efficient business operations with the real time provision of services to all stakeholders

Disclosure	
Name of Rated Entity	State Life Insurance Corporation of Pakistan
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Insurer Financial Strength (IFS) Rating Life(Jun-17)
Related Research	Sector Study Life Insurance(Jun-18)
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STATE LIFE INSURANCE CORPORATION OF PAKISTAN		INDUSTRY SNAPSHOT
Incorporated	1972	Life insurance sector has seen remarkable growth in recent years (CAGR 4years: 18%), wherein the private sector has seen relatively high growth. Private sector brought innovative life solution, mainly bancassurance – a sum of both saving plans and nominal life cover. Investment portfolios of life insurers are skewed towards government securities (primarily PIBs). Although Interest rate increase brought revaluation losses.
Major Business	Life Insurance	
Legal Status	Public	
Head Office	Karachi	

OWNERSHIP

- State Life, largest life insurance company of Pakistan, was formed in 1972 as a consequence of nationalization of life insurance companies.
- Very strong ownership; wholly-owned by the Government of Pakistan (GoP) through the Presidential order.
- This state owned enterprise operates under the Federal Ministry of Commerce (MoC). The liabilities (sum insured and bonuses) of policyholders are guaranteed as to the payment in cash by the Federal Government under Article 35 of Life Insurance Nationalization Order (LINO) 1972.

GOVERNANCE

- The four-member BoD, including Chairman/CEO, is nominated by GoP.
- The Corporation's board comprises seven members including the Chairman, Mr. Shoaib Mir. The Chairman joined in 2016 and possesses diversified experience in various government organizations. Other board members are a good mix of individuals belonging to public sector, State Bank of Pakistan, and private financial and corporate sectors. All board members have been active in strategic oversight of the corporation.

MANAGEMENT

- Experienced management team, having a fair degree of stability.
- Nine management committees for enhanced oversight of large operations. These include Central Procurement, Regional Procurement, Zonal Procurement, Central Claim, Regional Claim, Zonal Claim, Investment, Real Estate Functional and Takaful.

BUSINESS RISK

- Large premium size, occupying predominant market share (~48%); which it intends to maintain and improve.
- A predominant portion of premium is earned from Pakistan (98%), leaving behind a mere 2% premium contribution from operations in UAE. The premium mix remained dominated by individuals (CY17: 91%, CY16: 93%).
- First year persistency improved to 80% at Dec17 while the second year persistency improved to 91%.
- Loss ratio stood at 44.6% at CY17 and slightly improved at CY16: 42.2% (CY15: 45%).
- The corporation computes reserves for policyholders' liabilities on quarterly basis.
- During CY17, excess of income over claims and expenditure (EoI) rose by 6% mainly contributed by growth in premiums.
- SLIC intends to maintain sustained growth stance, with increasing focus on new avenues.

FINANCIAL RISK

- Absolute risk absorption capacity provided by GoP's guarantee (as to payment in cash) against policyholders' liabilities. However, it is worth mentioning that the corporation has also maintained ample financial capacity for risk absorption since its inception
- At end-Dec17, investment book is dominated by Statutory Funds (PHF) comprising 99.6%, whereas Shareholders Fund (SHF) contains 0.4% of the book.
- Investment book at cost of PKR 688bln (as at end-Dec17), showing growth of 15% (as at end Dec 16: 597bln). Claims outstanding days reduced to 137 days (included 90 days as per SECP requirements) as compared to Dec 16: 156 days.
- Reinsurance agreements, covering large risks, with Swiss Re (rated 'AA-' by S&P), Munich Re (rated 'A+' by A.M. Best) and Hannover Re for Takaful (A+).
- The liquidity and solvency position of SLIC remains adequate. The liquid assets provide 100% cover to policyholders' liabilities (at end Dec-17). The sum insured including bonuses (if any) declared under policy are guaranteed as to payment in cash by the Federal Government, under Article 35 of the Life Insurance (Nationalization) Order, 1972.



State Life Insurance Corporation of Pakistan (SLIC)

BALANCE SHEET	31-Dec-17	31-Dec-16	31-Dec-15
Investments			
Liquid Investments	607,070	530,729	445,115
Investment in Associates	338	242	242
Other Investments	80,346	66,374	54,224
	<u>687,755</u>	<u>597,344</u>	<u>499,580</u>
Insurance Related Assets	43,193	39,590	37,290
Other Assets	25,025	22,877	34,957
TOTAL ASSETS	<u>755,973</u>	<u>659,811</u>	<u>571,827</u>
Equity			
Equity	3,377	3,948	4,229
Statutory Fund	707,388	614,177	526,676
Insurance Related Liabilities	22,576	21,340	22,465
Other Liabilities	22,631	20,347	18,458
TOTAL EQUITY & LIABILITIES	<u>755,973</u>	<u>659,811</u>	<u>571,827</u>

INCOME STATEMENT	31-Dec-17	31-Dec-16	31-Dec-15
Net Premium			
Gross Premium	101,045	90,074	80,171
Reinsurance Expense	(284)	(253)	(229)
Net Premium	<u>100,761</u>	<u>89,821</u>	<u>79,942</u>
Net Claims	(44,954)	(37,939)	(35,955)
Expenses	(30,931)	(27,669)	(26,082)
Investment Income	69,251	64,214	60,066
Excess of Income over Expenditure (EoI)	<u>94,128</u>	<u>88,428</u>	<u>77,919</u>
Miscellaneous (Expense)/ Income			-
SURPLUS BEFORE APPROPRIATIONS	<u>94,128</u>	<u>88,428</u>	<u>77,919</u>

RATIO ANALYSIS	31-Dec-17	31-Dec-16	31-Dec-15
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	12%	12%	5%
Premium Mix (Individual GPW/ Total GPW)	91%	93%	93%
Presistency Ratio (Individuals Funds)	80%	78%	77%
Loss Ratio (Net Claims as %age of net premium)	45%	42%	45%
Operating Ratio [^]	94%	94%	96%
Performance			
Return on Equity - Shareholder	32%	29%	26%
Liquidity & Solvency			
Liquidity Ratio – times ^{^^}	1	1	1

* Policyholders' Liabilities are calculated on annual basis.

[^] Operating Ratio: Loss Ratio + Expense Ratio + Reserve Ratio - Investment Income ratio

^{^^} Liquidity Ratio: Total Liquid assets / Policyholders' Liability



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
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.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</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

Restrictions

- (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)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (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.
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- (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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