



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
27-Dec-2018	AAA	-	Stable	Maintain	-
22-Jun-2018	AAA	-	Stable	Maintain	-
04-Dec-2017	AAA	-	Stable	Maintain	-
31-Mar-2017	AAA	-	Stable	Maintain	-
31-Mar-2016	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 Life Insurance(Jun-18)
Related Research	Sector Study Life Insurance(Jun-18)
Rating Analysts	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504



Profile

Legal Structure State Life Insurance Corporation (SLIC) is an unlisted, wholly government owned, public corporation.

Background SLIC was established in March 1972 when the life insurance business in Pakistan was nationalized under the Life Insurance Nationalization Ordinance.

Operations SLIC has the largest and most extensive branch network spread throughout the country. The corporation also has Sector Offices in Dubai, Kuwait and Saudi Arabia. The basic structure of the Corporation consists of Seven Regional Offices, Thirty Three Zonal Offices, a few Sub-Zonal Offices, 190 Sector Offices, and a network of 1102 Area Offices across the country for Individual Life Insurance; Four Zonal Offices and 6 Sector Offices with 20 Sector Heads for Group & Pension are involved in the Marketing of Life Insurance Plans policies and products offered by State Life and a Principal Office.

Ownership

Ownership Structure SLIC is a wholly owned corporation of the Government of Pakistan (GoP) through the President of Pakistan.

Stability SLIC is a government owned entity so its shareholding is stable.

Business Acumen This state owned enterprise operates under the Federal Ministry of Commerce (MoC). MoC appoint the relevant individuals with requisite experience to the run the affairs of the corporation in the most efficient manner.

Financial Strength Federal Ministry of Commerce (MoC) is the main sponsor of the company as its government owned entity. 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

Board Structure The Corporation's board comprises six members including the Chairman. All of the members are nominated by the Federal Government.

Members' Profile Mr. Mohammad Younus Dagha - the Chairman possesses diversified experience in various government organizations. Other board members are a good mix of individuals belonging to public sector, private financial and corporate sectors. All board members have been active in strategic oversight of the corporation.

Board Effectiveness The board is essentially concerned with policy matters only. Therefore the responsibility of operations and internal controls rests with the Executive/Operational management – executive directors, and departmental heads. Board has eight committees and provide oversight using the diversified experience of its members.

Financial Transparency The auditors of the corporation are Grant Thornton Anjum Rahman, Chartered Accountants, and Riaz Ahmad & Company, Chartered Accountants. They have expressed an unqualified opinion in their review report for the period ended 1H18.

Management

Organizational Structure The corporation has a defined organizational structure and different type of activities are segregated and managed through Executive Directors and Divisional Heads. The operations of major departments are headed by four Executive Directors (ED) collectively who directly report to the Chairman; they are assisted by Divisional Heads.

Management Team Executive Directors are nominated by the federal government for two to three year depositions. Marketing, Information Technology (IT), Corporate Affairs, and Internal Audit & Compliance are headed by seasoned professionals having vast industry experience.

Effectiveness For enhanced oversight of the operations, SLIC has constituted 9 management committees. These include Central Procurement; Regional Procurement; Zonal Procurement; Central Claim; Regional Claim; Zonal Claim; Investment; Real Estate Functional and Takaful.

Claim Management System Claims are settled at three levels in designated committees; 1) Zonal Claims Committee, 2) Regional Claims Committee, and 3) Central Claims Committee. Each Zonal and Regional Claims committee has their authorized limits on the basis of skills, qualification and experience of the respective team. For early death claims (claim during 2 years of policy issuance), claims investigators are appointed and claims investigation reports are presented to claims committee.

Investment Management Function SLIC has revised its Investment Policy Statement (IPS) in 2017. The investment strategy continued to remain conservative, with maximum asset-allocation (dynamic) capped at 93% in risk free securities; exposure limit to equity scrips is ~6%.

Risk Management Framework SLIC has developed a detailed manual for risk profiling, mainly based on manuals obtained from its reinsurers. However, the corporation has to put in more effort to fully implement all the ingredient of the manual in its systems and controls.

Business Risk

Industry Dynamics Life insurance sector has seen stupendous growth in recent years (CAGR 4 years: 16%). Major growth is led by the public sector, which grew by 19%; while growth in private sector was 12%. With the advent of takaful window, another avenue has emerged which may benefit the sector in future.

Relative Position The State Life Insurance is the largest insurer in the industry with the market share of 42%.

Persistency The company has been experiencing a very sound persistency ratio over the past few years. In 9MCY18, the entity also has 58% persistency in the first year (9M17: 57%) and 99% persistency in the second year (9M17: 97%)

Revenue The company has a topline of PKR 57bln rising from PKR 50bln YoY at end Sep-18. All of the segments experienced an increase. The individual segment rose by 11% YoY whereas there was a 16% increase in the group policies segment.

Profitability The company posted asurplus at end of PKR 63bln end- Sep-18 as against PKR 43bln for the same period last year. The increase is amidst rising investment income and rising policies underwritten.

Investment Performance At 9MCY18 the company's investment income from the statutory fund rose to PKR 54.8 bln as against PKR 47.7 bln of the same period last year on account of increasing interest rates.

Sustainability Going forward, SLIC intends to maintain sustained growth stance, with increasing focus on new avenues. Window Takaful operations launched in CY17. In the wake of rising competition, SLIC envisages to bring geographical and product diversification and innovation.

Financial Risk

Claim Efficiency The company has a Net Claims days of 162 days at end Sep-18 (Dec17: 137day, Dec16:156). The increase in days is due to the rising number of claims.

Re-Insurance The SLIC reinsures its Home business with Swiss Re (rated 'AA-' by 'Standard and Poor'), Overseas Business with Munich Re (rated 'AA-' by 'Standard and Poor') and Takaful Business with Hannover Re Takaful (rated 'AA-' by 'Standard and Poor'). For Pakistan business, the reinsurance treaty with Swiss Re dates back to 1990.

Liquidity The liquidity ratio of the company stood at 1x at end Sep-18. (9M17: 1x)

Capital Adequacy The authorized share capital of the company was increased to PKR 5bln in CY17 and at end Sep-18 the company had a very sound equity of PKR 4.2bln



**LIFE INSURANCE
Financials [Summary]**

State Life Insurance Corporation of Pakistan (SLIC)

BALANCE SHEET	30-Sep-18	31-Dec-17	30-Sep-17
Investments			
Liquid Investments	735,898	607,070	584,565
Investment in Associates	871	338	811
Other Investments	87,330	80,346	71,188
	824,099	687,755	656,563
Insurance Related Assets	43,622	43,193	36,355
Other Assets	14,967	25,025	13,104
TOTAL ASSETS	882,688	755,973	706,021
Equity	4,241	3,377	-
Statutory Fund	840,386	707,388	666,493
Insurance Related Liabilities	17,052	22,576	16,506
Other Liabilities	21,008	22,631	23,023
TOTAL EQUITY & LIABILITIES	882,688	755,973	706,021
INCOME STATEMENT - Extracts			
	30-Sep-18	31-Dec-17	30-Sep-17
Gross Premium	57,095	101,045	50,963
Net Premium	56,990	100,761	50,899
Net Claims	(34,318)	(44,954)	(29,230)
Expenses	(16,872)	(30,931)	(15,588)
Investment Income	54,755	69,251	47,694
Excess of Income over Expenditure (EoI) - Revenue a/c	63,798	94,128	43,184
RATIO ANALYSIS			
	30-Sep-18	31-Dec-17	30-Sep-17
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	12%	12%	13%
Premium Mix (Individual GPW/ Total GPW)	88%	91%	89%
Persistency Ratio (Individuals Funds)	58%	80%	57%
Loss Ratio (Net Claims as %age of net premium)	60%	45%	38%
Performance			
Return on Equity - Shareholder	22%	32%	29%
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

State Life Insurance Corporation of Pakistan (SLIC)

Dec 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
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.
- (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)

Independence & Conflict of interest

- (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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