



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-Jun-2019	AAA	-	Stable	Maintain	-
27-Dec-2018	AAA	-	Stable	Maintain	-
22-Jun-2018	AAA	-	Stable	Maintain	-
04-Dec-2017	AAA	-	Stable	Maintain	-
31-Mar-2017	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 – Health Insurance, Bancassurance, Window Takaful and Microinsurance.

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.

State Life Insurance Corporation of Pakistan (SLIC) was incorporated in March 1972 when the life insurance business in Pakistan was nationalized. Currently, the Corporation operates through a widespread sales network throughout Pakistan and also has presence in the Middle East. State Life Insurance Corporation is the largest life insurer in Pakistan with ~ 51% market share that it aims to maintain.

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-19)
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. 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 run the affairs of the corporation in the most efficient manner.

Financial Strength The company operates under the Federal Ministry of Commerce, hence its a 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 seven 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 nine committees and provides 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 CY18

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 deputations. 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 2018. 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 Risk Management efforts of the Corporation have been formalized through the constitution of Board's Risk Management Committee and the creation of Risk Management Division. Ongoing efforts are being made to strengthen the implementation of the Risk Management Framework.

Business Risk

Industry Dynamics Life insurance sector has seen steady growth in recent years (CAGR 3years: 12%), wherein the public sector has seen relatively high growth. Private sector brought innovative life solution, mainly bancassurance – a sum of both saving life and nominal life cover. Investment portfolios of life insurers are skewed towards government securities (primarily PIBs). Although Interest rate increase brought revaluation losses.

Relative Position The State Life Insurance is the largest insurer in the industry with the market share of 51%

Persistency The company has been experiencing a very sound persistency ratio over the past few years. In CY18, the entity also has 81% persistency in the first year (CY17: 80%) and 96% persistency in the second year (CY17: 91%)

Revenue The company has a top line of PKR 114bln rising from PKR 101bln YoY at end CY18. All of the segments experienced an increase. The individual segment rose by 14% YoY whereas there was a 16% increase in the group policies segment

Profitability The company posted a surplus at end of PKR 101bln at end CY18 as against PKR 94bln for the same period last year. The increase is amidst rising investment income on account of rising interest income on bank deposits and rising policies underwritten.

Investment Performance The investment income from Revenue Account at CY18 stood at PKR 78bln rising from 69bln at end CY17. The benefited from the rising interest as SLIC has a major chunk of its investment in government securities.

Sustainability Going forward, SLIC intends to maintain sustained growth stance, with an increasing focus on new avenues. Window Takaful operations will be operational soon. In the wake of rising competition, SLIC envisages bringing geographical and product diversification and innovation

Financial Risk

Claim Efficiency The company has a Net Claims days of 128 days at end Dec-18 (Dec17: 137day, Dec16:156). The increase in days is due to the rising number of reporting claims by 19%.

Re-Insurance 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 total liquidity to policy holders ratio of the company remains stable at 1x at end Dec-18 (Dec -17: 1x, Dec-16: 1x)

Capital Adequacy The authorized share capital of the company was PKR 5bln at end Dec-18 and the company has a very solid equity of PKR 4.6bln



LIFE INSURANCE
Financials [Summary]

State Life Insurance Corporation of Pakistan (SLIC)

BALANCE SHEET	31-Dec-18	31-Dec-17	31-Dec-16
Investments			
Liquid Investments	726,785	607,070	530,729
Investment in Associates	338	338	242
Other Investments	3,657	80,346	66,374
	<u>730,781</u>	<u>687,755</u>	<u>597,344</u>
Insurance Related Assets	115,117	43,193	39,590
Other Assets	84,333	25,025	22,877
TOTAL ASSETS	<u>930,231</u>	<u>755,973</u>	<u>659,811</u>
Equity	4,758	3,377	3,948
Statutory Fund	905,343	707,388	614,177
Insurance Related Liabilities	891	22,576	21,340
Other Liabilities	19,240	22,631	20,347
TOTAL EQUITY & LIABILITIES	<u>930,231</u>	<u>755,973</u>	<u>659,811</u>
INCOME STATEMENT	31-Dec-18	31-Dec-17	31-Dec-16
Net Premium			
Gross Premium	115,237	101,045	90,074
Reinsurance Expense	(322)	(284)	(253)
Net Premium	<u>114,915</u>	<u>100,761</u>	<u>89,821</u>
Net Claims	(53,040)	(44,954)	(37,939)
Expenses	(35,401)	(30,931)	(27,669)
Investment Income	78,572	69,251	64,214
Excess of Income over Expenditure (EoI)	<u>105,047</u>	<u>94,128</u>	<u>88,428</u>
Miscellaneous (Expense)/ Income			
SURPLUS BEFORE APPROPRIATIONS	<u>105,047</u>	<u>94,128</u>	<u>88,428</u>
RATIO ANALYSIS	31-Dec-18	31-Dec-17	31-Dec-16
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	14%	12%	12%
Premium Mix (Individual GPW/ Total GPW)	91%	91%	93%
Persistency Ratio (Individuals Funds)	81%	80%	78%
Loss Ratio (Net Claims as %age of net premium)	46%	45%	42%
Operating Ratio [^]	90%	94%	94%
Performance			
Return on Equity - Shareholder	32%	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)

June 2019



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)

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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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