



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-2019	AAA	-	Stable	Maintain	-
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	-
31-Mar-2016	AAA	-	Stable	Maintain	-
01-Apr-2015	AAA	-	Stable	Maintain	-
09-Feb-2015	AAA	-	Stable	Maintain	-
11-Jul-2014	AAA	-	Rating Watch	Maintain	-

Rating Rationale and Key Rating Drivers

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. State Life Insurance Company is thus the single biggest entity to capture the largest share in the insurance market. The rating reflects State Life Insurance Corporation's robust 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. With an emphasis on existing business lines, the organization pursues a growth strategy that seeks to broaden 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.

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 ~ 47% 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	PACRA_Methodology_LI(Jun-19)
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 a Zonal office 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 1341 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 reflecting stability in its shareholding.

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

Financial Strength The corporation operates under the Federal Ministry of Commerce, hence it is 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. Farrukh Ahmed Hamidi - the Chairman of State Life Insurance company was transferred in December 2019. In the absence of Chairman, the Executive Directors and the Divisional heads are looking into the strategic decisions of the company. The Government of Pakistan is expected to appoint the new Chairman in due course of time.

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. 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 Year ended CY18 and performed half-year review for the period 6MCY19.

Management

Organizational Structure The corporation has a defined organizational structure and different types of activities are segregated and managed through Executive Directors and Divisional Heads. The operations of major departments are headed by five 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 2019. 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 plans 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 47%.

Persistency The corporation has been experiencing a very sound persistency ratio over the past few years. In 9MCY19, the entity has a persistency ratio of 56% in the first year (9MCY18: 58%) and 95% persistency ratio in the second year (9MCY18: 99%).

Revenue The corporation has a top line of PKR 60bln rising from PKR 57bln YoY at end Sep-18 as all the segments experienced a gain. The individual segment rose by 0.4% YoY whereas there was an impressive 50% increase in the group policies segment.

Profitability The company's revenue account posted a surplus at end of PKR 50bln at end Sep-19 as against PKR 64bln for the same period last year. The decline was on account of the impaired financial assets resulting in reduced investment income.

Investment Performance The investment income from Revenue Account at Sep-19 stood at PKR 46bln declining from 58bln at end Sep -18. The decline was on account of the impairment of financial assets which reduced the overall investment income.

Sustainability The corporation posted a profit of PKR 1.9bln at end Sep-19 as against PKR 1.47 in the same period last year. Going forward, SLIC intends to maintain sustained growth stance, with an increasing focus on new avenues. Window Takaful operations have recently commenced. In the wake of rising competition, SLIC envisages bringing geographical and product diversification and innovation.

Financial Risk

Claim Efficiency The company has Net Claims days of 123days at end Sep-19 (Sep18: 162day, Dec18: 128). As per the ordinance, the claims settlement period is 90days after completion of requirements, however, the processing of claims for payment within 3 weeks off al requirement.

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 policyholders ratio of the company remains stable at 1x at end Sep-19 (Sep -18: 1x, Dec-18: 1x)

Capital Adequacy The authorized share capital of the company was PKR 5.8bln at end Sep-19 and the company has a very solid equity of PKR 7bln



State Life Insurance Corporation of Pakistan (SLIC)

BALANCE SHEET	30-Sep-19	31-Dec-18	30-Sep-18	31-Dec-17
Investments				
Liquid Investments	809,234	769,099	735,898	607,070
Investment in Associates	338	338	871	338
Other Investments	104,363	96,971	87,330	80,346
	<u>913,935</u>	<u>866,408</u>	<u>824,099</u>	<u>687,755</u>
Insurance Related Assets	21,745	52,440	43,622	43,193
Other Assets	38,279	12,123	14,967	25,025
TOTAL ASSETS	<u>973,958</u>	<u>930,971</u>	<u>882,688</u>	<u>755,973</u>
Equity	7,085	3,618	4,241	3,377
Statutory Fund	914,731	878,374	840,386	707,388
Insurance Related Liabilities	24,050	25,148	17,052	22,576
Other Liabilities	28,092	23,831	21,008	22,631
TOTAL EQUITY & LIABILITIES	<u>973,958</u>	<u>930,971</u>	<u>882,688</u>	<u>755,973</u>
INCOME STATEMENT	30-Sep-19	31-Dec-18	30-Sep-18	31-Dec-17
Net Premium				
Gross Premium	60,686	115,237	57,095	101,045
Reinsurance Expense	(113)	(322)	(105)	(284)
Net Premium	<u>60,574</u>	<u>114,915</u>	<u>56,990</u>	<u>100,761</u>
Net Claims	(41,190)	(53,249)	(34,365)	(44,954)
Expenses	(14,673)	(28,779)	(16,451)	(30,931)
Investment Income	<u>45,616</u>	<u>78,572</u>	<u>57,621</u>	<u>69,251</u>
Excess of Income over Expenditure (EoI)	50,327	111,460	63,797	94,128
Miscellaneous (Expense)/ Income				
SURPLUS BEFORE APPROPRIATIONS	<u>50,327</u>	<u>111,460</u>	<u>45,007</u>	<u>94,128</u>
RATIO ANALYSIS	30-Sep-19	31-Dec-18	30-Sep-18	31-Dec-17
Underwriting Results				
Gross Premium Written (GPW) Growth Rate	6%	14%	12%	12%
Premium Mix (Individual GPW/ Total GPW)	83%	91%	88%	91%
Presistency Ratio (Individuals Funds)	56%	81%	58%	80%
Loss Ratio (Net Claims as % age of net premium)	68%	46%	60%	45%
Performance				
Return on Equity - Shareholder	32%	32%	22%	32%
Liquidity & Solvency				
Liquidity Ratio – times^^	0.9	1.0	1.0	0.9

* 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 2019

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.

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+	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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
BB+	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.
BB	
BB-	
B+	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.
B	
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
CC	
C	
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. 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, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</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

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- (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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