



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
11-Sep-2020	AAA	-	Stable	Maintain	-
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	-

#### 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. 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. The company in the midst of challenging economic climate and management restructuring has been able to sustain its GPW. Improvement is expected by year-end. 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.

Prior to COVID-19, the life insurance industry witnessed minuscule growth of 1% YoY as single premium declined due to multiple factors. The current pandemic further affected the life insurance industry, which plummeted the growth. The large investment book, however, provides cushion. The industry intends to sustain its existing position while aiming to launch innovative product.

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   GI(Jun-20)
Related Research	Sector Study   Life Insurance(Jun-20)
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, 201 Sector Offices, and a network of 1329 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).

**Stability** SLIC is a government owned entity with stable 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 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. Riaz Ahmed Memon - the Chairman (appointed 14th July, 2020) 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 BDO Ebrahim & Company, Chartered & Co.

**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 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** Prior to COVID-19, the life insurance industry witnessed minuscule growth of 1% YoY as single premium declined due to multiple factors. The current pandemic further affected the life insurance industry, which plummeted the growth. The large investment book, however, provides cushion. The industry intends to sustain its existing position while aiming to launch innovative product.

**Relative Position** The State Life Insurance is the largest insurer in the industry with the market share of 52% as at December 2019.

**Persistency** The company has been experiencing a sound persistency ratio over the past few years. In CY19, the entity registered 68% persistency in the first year (CY18: 81%) and 91% persistency in the second year (CY18: 96%). The decrease in persistency in CY19 was due to a one-off event. It is expected to recoup in CY20.

**Revenue** The company has a top line of PKR 112.7bln declining from PKR 115.238bln YoY at end CY19. With exception to individual misc. all of the segments experienced decline albeit a minimal.

**Profitability** The company posted a surplus of PKR 123bln at end CY19 as against PKR 111bln 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. The profit for the company stood at PKR 1.5bln at end CY19 as against PKR 1.4bln at end CY18.

**Investment Performance** The investment income from Revenue Account at CY19 stood at PKR 95bln rising from 69bln at end CY18. The benefited from the rising interest as SLIC has a major chunk of its investment in government securities (78%).

**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 148 days at end Dec-19 (Dec18: 128day, Dec17: 137). The increase in days is due to the rising number of reporting claims by 27%.

**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-19 (Dec-18: 1x, Dec-17: 1x). At end CY19, the Investment Book comprises of government securities (78%), Equities (11.5%), Bank deposits (10.5%) and Other fixed income securities (.4%).

**Capital Adequacy** The authorized share capital of the company was PKR 5bln at end Dec-19 and the company has a solid equity of PKR 4.6bln.

**State Life Insurance Corporation of Pakistan (SLIC)**

<b>BALANCE SHEET</b>	<b>31-Dec-19</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>
<b>Investments</b>			
Liquid Investments	869,386	769,099	607,070
Investment in Associates	318	338	338
Other Investments	115,249	96,971	80,346
	<u>984,953</u>	<u>866,408</u>	<u>687,755</u>
Insurance Related Assets	64,817	52,440	43,193
Other Assets	9,066	12,123	25,025
<b>TOTAL ASSETS</b>	<b><u>1,058,836</u></b>	<b><u>930,231</u></b>	<b><u>755,973</u></b>
<b>Equity</b>	4,942	3,618	3,377
Statutory Fund	996,341	878,374	707,388
Insurance Related Liabilities	27,635	25,148	22,576
Other Liabilities	29,917	23,831	22,631
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b><u>1,058,836</u></b>	<b><u>930,231</u></b>	<b><u>755,973</u></b>
<b>INCOME STATEMENT</b>	<b>31-Dec-19</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>
<b>Net Premium</b>			
Gross Premium	112,776	115,238	101,045
Reinsurance Expense	(204)	(324)	(284)
Net Premium	<u>112,572</u>	<u>114,914</u>	<u>100,761</u>
Net Claims	(53,143)	(53,040)	(44,954)
Expenses	(27,046)	(35,396)	(30,931)
Investment Income	95,439	69,961	69,251
Excess of Income over Expenditure (EoI)	<u>123,913</u>	<u>96,439</u>	<u>94,128</u>
<b>SURPLUS BEFORE APPROPRIATIONS</b>	<b><u>123,913</u></b>	<b><u>96,439</u></b>	<b><u>94,128</u></b>

<b>RATIO ANALYSIS</b>	<b>31-Dec-19</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>
<b>Underwriting Results</b>			
Gross Premium Written (GPW) Growth Rate	-2%	14%	12%
Premium Mix (Individual GPW/ Total GPW)	92%	91%	91%
Presistency Ratio (Individual Funds)	68%	81%	80%
Loss Ratio (Net Claims as %age of net premium)	51%	46%	45%
<b>Performance</b>			
Return on Equity - Shareholder	32%	32%	32%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times <sup>^^</sup>	0.9	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

## Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

<b>Scale</b>	<b>Definition</b>
<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>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>AA-</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>A-</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>BBB-</b>	
<b>BB+</b>	
<b>BB</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>BB-</b>	
<b>B+</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>B</b>	
<b>B-</b>	
<b>CCC</b>	<b>Very high credit risk.</b> 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.
<b>CC</b>	
<b>C</b>	"C" Ratings signal imminent default.
<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.
<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'.
<b>Rating Watch</b>	Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. 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 rating outlook of the respective opinion.
<b>Suspension</b>	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.
<b>Withdrawn</b>	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.
<b>Harmonization</b>	A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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## **Regulatory and Supplementary Disclosure**

(Credit Rating Companies Regulations,2016)

### **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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- (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)

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- (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 principle 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)

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- (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](http://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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