



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
19-Jul-2021	AAA	-	Stable	Maintain	-
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	-

#### Rating Rationale and Key Rating Drivers

The rating takes into account State Life Insurance Corporation of Pakistan's (SLIC) sound market position within the 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 Corporation in spite of challenging economic climate and global pandemic has been able to grow its GPW by ~6%. With an emphasis on existing business lines, the organization pursues a growth strategy that seeks to broaden its product offerings. – Health Insurance, Bancassurance, and Window Takaful.

During CY20, the total GPW of the industry grew by 4.6% to PKR 233bln in CY20 as against a decline of 1.2% to PKR 223bln in CY19. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. However, due to present pandemic situation, the demand for Life Insurance products is expected to increase over near term which in turn is expected to result in new business growth for the industry.

State Life Insurance Corporation of Pakistan'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 continued 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

<b>Name of Rated Entity</b>	State Life Insurance Corporation of Pakistan
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   LI(Jun-20)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-20)
<b>Rating Analysts</b>	Muhammad Noor Ul Haq   noorulhaq@pacra.com   +92-42-35869504



## Profile

**Legal Structure** State Life Insurance Corporation of Pakistan (SLIC) is a 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, 33 Zonal Offices, few Sub-Zonal Offices, 164 Sector Offices, and a network of 1243 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 Plan 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 over the past years.

**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 of Directors (the Board) comprises seven members including the Chairman. All of the members are nominated by the Federal Government.

**Members' Profile** Mr. Shoaib Javed Hussain has 20 years' experience of successful careers in senior management of global insurance groups and consultancies in the United Kingdom (UK) and Asia. He brings with him breadth of strategic executive perspective and technical acumen gained through global engagements across Europe, North America and Asia. Mr. Hussain holds an MSc in Actuarial Management from CASS Business School, City University, London and is a Fellow of the Institute of Actuaries (UK). 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. The Board has ten 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 & Co, Chartered & Accountants.

## 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 collectively by four Executive Directors (ED) 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 nine 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 two 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) stood at 96% in risk-free securities.

**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** During CY20, the total GPW of the industry grew by 4.57% (PKR 233bln) while having shown decline of 1.24% in CY19 (PKR 223bln). Two factors in particular contributed towards the industry growth i) Decline in discount rate which remained stable at 7% and ii) Recovery of stock market from under stress performance. The past year has been very challenging due to COVID-19 pandemic which has caused immense stress on most businesses.

**Relative Position** The State Life Insurance Corporation of Pakistan is the largest player within the Life Insurance industry with market share of 51% as at end CY20.

**Persistency** The Corporation has been experiencing a very sound First and Renewal persistency ratio over the past few years. For CY20 persistency improved to 72% & 92%. For CY19 First & Renewal persistency ratio was 68% & 91% (CY18: 81%, 96%).

**Revenue** SLIC had annual topline growth of ~6% with a posted Net Premium Revenue of PKR 119.4bln (CY20) as opposed to PKR 112.8bln (CY19). The growth was primarily led by increase in contributions to Pakistan Life Fund and Accidental & Health Insurance Fund.

**Profitability** The Corporation posted Profit After Tax at end CY20 of PKR 4.2bln as against PKR 2.0bln (CY19). The increase is amidst rising investment income on account of growing investment book and greater policies underwritten. Expense ratio also showed improvement, decreasing to 20.7% (CY20) from 23.5% (CY19).

**Investment Performance** The Investment Income from Revenue Account at CY20 stood at PKR 88.6bln rising from 77.4bln (CY19). SLIC benefited from the growing investment book and subsequent rising income from Government and Debt 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 Corporation has Claims Outstanding days at end CY20 of 163days (CY19: 133days, CY18: 129days). The increase in days is due to the rising number of outstanding insurance claims.

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

**Liquidity** The Liquidity Ratio of the Corporation comparing Liquid Investments to Outstanding Claims amount for CY20 stood at 28.1 (CY19: 37.5, CY18: 41.4). The decrease was due to rising Outstanding Claims amount. At end CY20 the Investment Book comprises of Government Securities (83%), Equity Securities (9%), Cash & Bank (6%), Mutual Funds (1%), and Debt Securities (0.4%).

**Capital Adequacy** The ordinary share capital of the Corporation was PKR 4.6bln at end CY20 and the total equity amount stands at a very solid amount of PKR 10.3bln.



PKR mln

State Life Insurance Corporation of Pakistan  
State Owned

Dec-20	Dec-19	Dec-18
12M	12M	12M

**A BALANCE SHEET**

1 Investments	987,096	873,119	775,074
2 Insurance Related Assets	32,574	26,301	21,803
3 Other Assets	182,861	158,495	132,473
4 Fixed Assets	851	920	881
<b>Total Assets</b>	<b>1,203,383</b>	<b>1,058,836</b>	<b>930,231</b>
5 Underwriting Provisions	206	229	208
6 Insurance Related Liabilities	1,170,032	1,031,597	904,894
7 Other Liabilities	22,836	19,861	19,251
8 Borrowings	-	-	-
<b>Total Liabilities</b>	<b>1,193,074</b>	<b>1,051,687</b>	<b>924,353</b>
<b>Equity</b>	<b>10,309</b>	<b>7,149</b>	<b>5,878</b>

**B INCOME STATEMENT**

1 Gross Premium Written	119,415	112,777	112,357
2 Net Insurance Premium	119,035	112,572	112,123
3 Underwriting Expenses	(218,278)	(204,995)	(179,370)
<b>Underwriting Results</b>	<b>(99,243)</b>	<b>(92,423)</b>	<b>(67,246)</b>
4 Investment Income	88,589	77,355	55,260
5 Other Income / (Expense)	16,581	17,865	14,661
<b>Profit Before Tax</b>	<b>5,927</b>	<b>2,797</b>	<b>2,675</b>
6 Taxes	(1,720)	(813)	(883)
<b>Profit After Tax</b>	<b>4,206</b>	<b>1,984</b>	<b>1,792</b>

**C RATIO ANALYSIS**

<b>1 Profitability</b>			
Loss Ratio (Net Insurance Claims / Net Insurance Premium )	54.3%	50.7%	44.8%
Combined Ratio (Loss Ratio + Expense Ratio)	75.0%	74.2%	76.1%
<b>2 Persistency</b>			
First Persistency ("Second Year Premium" as %age of last year "First Year Premium")	72.4%	68.3%	81.4%
<b>3 Investment Performance</b>			
Investment Yield	9.5%	9.4%	7.5%
<b>4 Liquidity</b>			
(Liquid Assets - Borrowings) / Outstanding Claims	28.1	37.5	41.4
<b>5 Capital Adequacy</b>			
Equity / Net Insurance Claims	0.1	0.1	0.1

## 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.

Scale	Definition
AAA	<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.
AA+ AA AA-	<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.
A+ A A-	<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.
BBB+ BBB BBB-	<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.
BB+ BB BB-	<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+ 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.
CCC CC C	<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. "C" Ratings signal imminent default.
D	<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.

<p><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'.</p>	<p><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.</p>	<p><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.</p>	<p><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.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**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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(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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- (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)
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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)
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- (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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- (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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