



The Pakistan Credit Rating Agency Limited

Rating Report

Sindh Insurance Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Jan-2023	A++ (ifs)	-	Stable	Maintain	-
31-Mar-2022	A++ (ifs)	-	Stable	Harmonize	-
31-Jan-2022	A+	-	Stable	Maintain	-
24-Feb-2021	A+	-	Stable	Maintain	-
25-Feb-2020	A+	-	Stable	Maintain	-
28-Aug-2019	A+	-	Stable	Maintain	-
28-Feb-2019	A+	-	Stable	Maintain	-
06-Dec-2018	A+	-	Stable	Maintain	-
24-May-2018	A+	-	Stable	Maintain	-
02-Oct-2017	A+	-	Stable	Maintain	-
13-Mar-2017	A+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Its rating reflects the parentage - Government of Sindh (GoS) and the potential to leverage on the same to establish Sindh Insurance in a competitive insurance industry. The Company was incorporated with the objective to fulfill insurance needs for huge assets owned and financed by GoS sanctioned after the legislation passed by the provincial assembly of Sindh, 'Sindh Insurance of public property Act, 2015'. Over the year, all segments of the Company have performed admirably and contributed to a better top line with inclination towards engineering and motor segments. Further enhancement in topline is anticipated through captive underwriting, extensive efforts are being undertaken by the Company in this regard. Prudent underwriting practices along with a focus on diversified products helped to demonstrate continued healthy underwriting profitability. Stable stream of investment income further supports the bottom line. The direct benefit from "Universal Accidental Insurance and Social Benefit" has heaved in the form of liquidity – as means of investment. The Company has also created a reserve against IBNR on account of UAIS. The Company further aims to develop a market-related business in the medium term which is essential moving forward.

Company posted the growth of ~48% in GPW during 9MCY22 as SIL reported a GPW of PKR 761mln (9MCY21: PKR 514mln). The Company is generating gross written premium mainly from engineering segment (74%) followed by motor segment (10.8%). The investments are deployed entirely in liquid avenues dominated by Term Deposits, PIBs and TFCs. The Company showed a ~18% YoY increase as Company reported an investment income of PKR 359mln for 9MCY22 (9MCY21: PKR 304mln) due to increased return on government securities (PIBs).

The rating is dependent on the Company's ability to strengthen its market position with sustainable profitability. The financial risk profile should remain afloat along with growth. Furthermore, the Government's backing and good governance practices are the key to sustained ratings.

Disclosure

Name of Rated Entity	Sindh Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Mar-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study General Insurance(May-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504



Profile

Legal Structure Sindh Insurance Limited ("Sindh Insurance" or the "Company") was incorporated under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) as an unlisted public company on December 20, 2013.

Background The primary objective to establish Sindh Insurance is to fulfill insurance needs for assets owned and financed by the Government of Sindh (GoS) as per the "Sindh Insurance of Public property Act, 2015". The Company was granted authorization on September 22, 2016, to undertake Takaful Window Operations by the Securities and Exchange Commission of Pakistan (SECP).

Operations The Company is engaged in the non-life insurance business comprising fire, marine, motor, aviation, engineering, transportation, accidental & health and etc. The registered office and principal place of business of the Company is situated at 1st Floor, Imperial Court, Dr. Ziauddin Ahmed Road, Karachi.

Ownership

Ownership Structure All shares of the Company are held beneficially by the Government of Sindh, directly and through nominee directors.

Stability Sindh Insurance has a smooth and sound shareholding, patronizing parentage from Government of Sindh.

Business Acumen GoS entered into financial market by launching Sindh Bank in 2010; Sindh Leasing in 2014; Sindh Modaraba Management Limited in 2014 and Sindh Microfinance Bank in 2015. Sindh Insurance reaps synergistic benefits through these associations.

Financial Strength Sindh Bank has since ventured into Islamic banking and has network of 14 Islamic branches throughout the country whereas Sindh Modaraba is a perpetual, multi-dimensional and multi-purpose Modaraba.

Governance

Board Structure Sindh Insurance's 8-member board comprises 6 independent and 2 non-executive directors including a GoS official who is a representative of GoS. The board has constituted six board committees, namely Audit Committee, Risk Management Committee, Human Resource Committee, Procurement & Information Technology Committee, Nomination Committee and Investment Committee.

Members' Profile The Chairman of the board, Mr. Syed Akhtar UI Islam, is a seasoned professional with an extensive experience in cargo marketing at PIA for more than thirty years. The profile of other Board members is satisfactory, with a mix of experienced legal professionals and investment experts.

Board Effectiveness Investment and Audit Committees meet on a quarterly basis. Risk Management, Human Resource, Procurement & Information Technology and Nomination Committees meet as per need of the hour. The minutes of the meetings are adequately documented.

Transparency The Company's External Auditor, M/s BDO Ebrahim & Co. issued an unqualified opinion on the financial statements for the year ended Dec-21.

Management

Organizational Structure The Company has a lean organizational structure. Coherent reporting lines have been established in order to enhance operational efficiency. Operations of the Company are divided into four departments; i) Operations, ii) Finance, iii) Human Resource & Admin and iv) Internal Audit. Head of Operations (HOO), Head of Finance (CFO) and Head of HR & Admin directly report to the CEO. Moreover, there are four management committees functioning in the Company namely Underwriting Committee, Claim Committee, Reinsurance Committee and Risk Management and Compliance Committee.

Management Team The Chief Executive Officer, Mr. Muhammad Faisal Siddiqui - an Associate of Chartered Insurance Institute, London, has been associated with the Insurance industry for the last 24 years and has diversified experience in working with life and general insurance sectors. He is assisted by a competent team of professionals.

Effectiveness Underwriting, Claim, Reinsurance Committees meet on quarterly basis. Risk Management and Compliance Committee meets as per need of the hour. The minutes of the meetings are formally documented.

MIS Company is operating a bespoke, oracle-based ERP software developed by The Data Corporation (TDC), a multinational company with operations in GCC.

Claim Management System The claims process is initiated with claim intimation by client (via email, letter or phone call) and is recorded directly on claims register. For claim validation/authentication purposes, the Company uses external surveyors with prior approval of CEO.

Investment Management Function Investment management is overseen by an Investment Committee which includes Chairman, CEO, CFO and two Board members.

Risk Management Framework The treaty capacities are optimal with surplus arrangements. The Company has diversified its panel of reinsurers, boding well for its financial risk.

Business Risk

Industry Dynamics In terms of Gross Premium Written (GPW), Pakistan's general insurance industry have a total size of PKR ~114bln for 9MCY22 (9MCY21: PKR~89bln), registering a growth of ~28% YoY basis. Investment income has deteriorated to PKR ~8bln for 9MCY22 (9MCY21: PKR 9.45bln).

Relative Position The Company is placed among the small players in the industry having a market share of less than 1% in terms of GPW.

Revenue Company posted growth of ~48% in GPW during 9MCY22 as SIL reported a GPW of PKR 761mln (9MCY21: PKR 514mln). The Company is generating gross written premium mainly from the Engineering segment (74%) followed by Motor (10.8%). The reason for momentous concentration in Engineering segment is due to the flow of GPW through SECMC amounting to PKR 609mln during 9MCY22 (9MCY21: PKR 398mln). Other top 2 clients contributing a major proportion in GPW for 9MCY22 are GOS - Services General Administration & Coordination Dept with GPW amounting to PKR 23mln (9MCY21: PKR 18mln) and Sindh Bank Limited with GPW amounting to PKR 17mln (9MCY21: PKR 28mln).

Profitability The Company reported an underwriting profit of PKR 60mln during 9MCY22 (9MCY21: PKR 18mln). This is primarily owing to enhancement in net insurance premiums along with an efficient allocation of resources. During the period, the Company witnessed an improvement in its management expenses (9MCY22: PKR 83.9mln; 9MCY21: PKR 65.7mln). Moreover, the bottom line was further supported by an increase in other income (9MCY22: PKR 12mln; 9MCY21: PKR 6mln) and investment income (9MCY22: PKR 368mln; 9MCY21: PKR 307mln).

Investment Performance The Company is heavily reliant on investment income, instead of its core operating revenue. Sindh Insurance has maintained a sizable investment book of PKR 3,959mln during 9MCY22 (9MCY21: PKR 3,805mln) registering a growth of ~4%. The composition of the liquid investment book comprised as follows; i) Government Securities (~76%), TFCs (~15%), cash and bank balances (~9%) and equity securities (~0.42%). The major portion (76%) of the Company portfolio is invested in debt securities (PIBs) during 9MCY22. The Company showed a ~18% YoY increase as Company reported an investment income of PKR 359mln for 9MCY22 (9MCY21: PKR 304mln) due to increased return on government securities (PIBs).

Sustainability The Company aims to enhance top-line through captive underwriting, extensive efforts are being undertaken in this regard.

Financial Risk

Claim Efficiency Sindh Insurance's risk absorption capacity, reflected by liquid assets coverage to outstanding claims, is considered strong. Insurance & Takaful Claims / Liquid Investments increased to 5.9x during 9MCY22 (9MCY21: -1.1x) depicting that Company is able to meet the claims quickly with its liquid assets that may arise during the period.

Re-Insurance Sindh Insurance has reinsurance arrangements with Hannover Re (AA- S&P), PRCL (AA by VIS), Labuan Re-Labuan (A- by A.M Best), Arab Re (B- by A.M Best) and Tunis Re (B by A.M Best).

Cashflows & Coverages The investments are deployed entirely in liquid avenues dominated by Term Deposits, PIBs and TFCs. The total investments of the Company currently stand at PKR 3,959mln in 9MCY22 (9MCY21: PKR 3,805mln).

Capital Adequacy Minor increase in the equity of the Company was observed, as it increased from PKR 2,441mln during CY21 to PKR 2,747mln for the period ended Sep'22 owing to retain its profits.



PKR Mln

Sindh Insurance Limited
Un-listed Public Limited

Sep-22	Dec-21	Dec-20	Dec-19
9M	12M	12M	12M

A BALANCE SHEET

1 Investments	3,959	3,847	3,762	3,447
2 Insurance Related Assets	1,635	808	876	1,097
3 Other Assets	203	104	114	89
4 Fixed Assets	27	31	31	31
5 Window Takaful Operations	-	-	-	-
Total Assets	5,824	4,791	4,783	4,664
1 Underwriting Provisions	611	455	363	549
2 Insurance Related Liabilities	2,406	1,842	2,118	2,252
3 Other Liabilities	56	47	68	40
4 Borrowings	5	6	8	3
5 Window Takaful Operations	-	-	-	-
Total Liabilities	3,078	2,349	2,556	2,844
Equity/Fund	2,747	2,441	2,226	1,819

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	766	734	505	910
2 Net Insurance Premium/Net Takaful Contribution	168	97	267	389
3 Underwriting Expenses	(109)	(65)	(207)	(330)
Underwriting Results	60	32	60	58
4 Investment Income	368	385	403	384
5 Other Income / (Expense)	(0)	(11)	(7)	21
Profit Before Tax	427	407	456	463
6 Taxes	(122)	(116)	(131)	(133)
Profit After Tax	306	291	326	331

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	5	19	16	14
2 Net Takaful Contribution	1	6	7	6
3 Net Takaful Claims	(2)	(6)	(4)	(4)
4 Direct Expenses Including Re-Takaful Rebate Earned	0	0	0	-
Surplus Before Investment & Other Income/(Expense)	(1)	1	3	2
5 Investment Income	4	1	1	2
6 Other Income/(Expense)	0	0	1	0
Surplus for the Period	3	2	5	4

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	4	5	6	5
2 Management, Commission & Other Acquisition Costs	(3)	(3)	(3)	(4)
Underwriting Income/(Loss)	1	1	2	1
3 Investment Income	5	2	5	4
4 Other Income/(Expense)	(0)	(0)	0	0
Profit Before tax	6	4	8	4
5 Taxes	(2)	(1)	(2)	(1)
Profit After tax	4	3	6	3

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	23.5%	-206.4%	26.7%	53.9%
Combined Ratio (Loss Ratio + Expense Ratio)	64.5%	66.7%	77.6%	85.0%
2 Investment Performance				
Investment Yield	12.6%	10.1%	11.2%	11.1%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	2.1	2.0	1.6	1.4
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	123.2%	134.0%	143.2%	157.3%

Insurer Financial Strength (IFS) Rating

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

Scale	Definition
AAA (ifs)	Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or 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 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>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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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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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 | Clause 11-(A)(p).

(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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