



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
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	-
04-May-2016	A	-	Stable	Maintain	-
27-May-2015	A	-	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

The rating reflects Sindh Insurance Limited's strong parentage - the Government of Sindh (GoS) and its ability to leverage on the same. The company gains impetus from underwriting captive business of Government of Sindh (GoS); a substantial chunk is yet to be captured. This provided shield amidst COVID-19 as volumes remained intact from the captive business. The company expects improved business volumes in 2021 from "Universal Accidental Insurance Scheme (UAIS)", initiated by GoS, by virtue of which the premium size has squeezed though the cash balance has stayed with the company. The company has also created a reserve against IBNR on account of UAIS. Further enhancement in top-line is anticipated through captive underwriting, extensive efforts are being undertaken by the company in this regard. The large investment pool provides comfort to the profitability in the form of investment income. The company further aims to develop a market-related business in the medium term; it is pivotal moving forward.

Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. The volumes need to sustain, indeed, improve in tandem with the longer historical trend. The interest rate regime would impact the fixed income stream, but the equity market is improving though requiring a prudent approach.

The ratings are dependent on the sustained business and financial risk. The risk absorption capacity needs to be upheld, while 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 GI(Jun-20)
Related Research	Sector Study General Insurance(May-20)
Rating Analysts	Faraan Taimoor faraan.taimoor@pacra.com +92-42-35869504

Profile

Legal Structure Sindh Insurance Limited (SIL) was incorporated as a non-listed public limited company on December 20th, 2013 as a wholly owned entity of Government of Sindh (GoS) with primary objective to fulfill insurance needs for huge assets owned and financed by GoS as per the 'Sindh Insurance of public property Act, 2015.

Background The mission of the company is to maximize market share through adoption of comprehensive conventional and non-conventional distribution strategy by marketing innovative insurance products.

Operations SIL started its operation effectively beginning Oct-14, envisaging business from all segments of general insurance. SIL is the very first project of the Government of Sindh in the general insurance sector with a mandate to park business-related to public assets of GoS and the group – Sindh Group (SG) including bank, leasing, modaraba and microfinance. Meanwhile building non-captive portfolio, the business model incorporates capitalizing platforms of SG entities – all financial institutions – and benefit from synergies available within the group.

Ownership

Ownership Structure SIL's seven-member board comprises elected directors. One is Government officials, two of them are non-executive directors, while rest are independent directors.

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

Business Acumen GoS entered into the financial market by launching Sindh Bank (SBL) (2010); Sindh Leasing (2014); Sindh Modaraba Management Limited (2014), and Sindh Microfinance Bank (2015). Sindh Insurance reaps synergistic benefits through this association.

Financial Strength Sindh Bank has since ventured into Islamic banking and has a network of 13 Islamic branches throughout the country whereas Sindh Modaraba, with 70% holding of GoS, is a perpetual, multi-dimensional, and no-trading Modaraba. The Modaraba engages in business of Ijarah, diminishing Musharakah and other Shariah compliant financing facility.

Governance

Board Structure SIL's seven-member board comprises elected directors. One is Government's official, two directors are non-executive directors and four are independent directors.

Members' Profile The profile of entire board is satisfactory, with a mix of experienced legal professionals and investment experts. The chairman of the board, Mr. Bilal Sheikh, is a seasoned banker with over 45 year's diversified banking experience. Mr. Mushtaq Malik and Mr. Raja Muhammad Abbas are ex bureaucrats.

Board Effectiveness On average, all the directors have presence on at least four other boards of listed companies, however availability of directors is not an issue as witnessed by the high attendance in board meetings. The company have four independent Directors.

Transparency BDO Ebrahim & Co. Chartered Accountants are the auditors of the company and expressed unqualified opinion on the half year financial statements of CY20. Management has received positive legal opinion regarding ongoing legal proceeding pertaining to Mr. Bilal Sheikh.

Management

Organizational Structure 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.

Management Team Management team is being headed by the CEO, Mr. Muhammad Faisal Siddiqui. The head count of the company, as at year end Dec-20 was 20; herein, mostly belong to the lower tier except departmental heads.

Effectiveness Mr. Muhammad Faisal Siddiqui, the CEO since the inception of the company, is an Associate of Chartered Insurance Institute, London, and possesses diversified experience in life and general Insurance. He served as CEO of National Assets Insurance Limited for four years and remained the Deputy Director, General Insurance, in Securities and Exchange Commission of Pakistan for half a decade. The CEO is supported by a management team comprising qualified and experienced professionals.

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

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 CEO, CFO and two board members.

Risk Management Framework The treaty capacities are optimal with surplus arrangements, which are adequate in the initial years of operation. The company has diversified its panel of reinsurers, boding well for its financial risk.

Business Risk

Industry Dynamics Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. As at end-Dec'20, the industry has been able to ensure sustainability in the growth despite the current pandemic. Increase in bank financing along with growth in auto sector has improved sector dynamics. Investment income has been augmented as volumes in PSX have picked up. Companies have reduced management expenses; new innovative products are being launched, in order to engage new customer base.

Relative Position The Company is placed among the small players in the industry. The Company needs to develop marketable business to improve its business positioning.

Revenue During 9MCY20, SIL reported a GPW of PKR ~444mln (9MCY19: PKR ~905mln), this represents a 50% decrease YoY. Premium earned for 9MCY20 stood at PKR ~527mln (9MCY19: PKR ~476mln) which represents 10% increase YoY. SIL for its window Takaful operations as at 9MCY20 reported GPW PKR ~7.5mln (9MCY19: PKR ~4.2mln) representing 78% increase YoY.

Profitability The Company as at 9MCY20 registered a Net Premium Revenue of PKR 232.5mln (Conventional PKR: 222.6mln, PTF PKR: 9.9mln) (9MCY19: PKR 286.9 mln) shrinking by 19%. The Company posted an underwriting profit of PKR 46mln (Conventional 41.9mln, PTF PKR: 4.1 mln) as compared to an underwriting profit of PKR 53.9mln in 9MCY19.

Investment Performance SIL has sizeable Investment Book (PKR 3,520mln), that constitutes 165% of equity at end Sep-20. The investments are deployed entirely in liquid avenues dominated by TFCs in banks, PIBs and T-Bills. SIL has invested majorly in PIBs and T-Bills in this stage to keep it risk free. Investment income depicts an improvement in performance increasing from PKR 267mln in 9MCY19 to PKR 293mln in 9MCY20 mainly on account of improved returns on debt securities and PIBs.

Sustainability The Company aims to enhance top-line through captive underwriting, extensive efforts are being undertaken in this regard. It further aims to develop a market-related business in the medium term; it is pivotal moving forward.

Financial Risk

Claim Efficiency Outstanding claims including IBNR represents largest portion of total liabilities (68%). Claims outstanding days rose to a staggering 3,659 days (9MCY20) as compared to 3,148 days (CY19).

Re-Insurance Sindh Insurance has reinsurance arrangements with Hannover Re (AA- S&P), PRCL (AA- by VIS), Trust Re – Bahrain (A- by S&P), GIC Dubai Br (A-A.M Best), Arab Re (B+ A.M Best) and Tunis Re (B+ by A.M Best).

Liquidity Liquidity coverage held steady at 1.7x at end 9MCY20 as against 1.7x at 9MCY19 on account of provisions for outstanding claims (including IBNR) staying consistent with liquid asset book.

Capital Adequacy The Company as at 9MCY20 has equity of PKR 2.1bln (9MCY19: PKR 1.7bln), well above the basic requirement for insurance companies by SECP.

Sindh Insurance Limited (SIL)

BALANCE SHEET	Sep-20	Dec-19	Sep-19	Dec-18
Investments				
Liquid Investments	3,633	3,362	3,217	3,161
Investment in Associates				
Other Investments				
	3,633	3,362	3,217	3,161
Insurance Related Assets	994	818	1061	466
Other Assets	518	392	655	171
Asset - Window Takaful	66	68	63	62
TOTAL ASSETS	5,210	4,640	4,996	3,860
Equity	2,131	1,819	1,728	1,479
Underwriting Provisions	440	540	759	308
Insurance Related Liabilities	2,543	2,238	2,415	2,024
Other Liabilities	94	40	86	39
Liabilities - Window Takaful	2	3	7	9
TOTAL EQUITY & LIABILITIES	5,210	4,640	4,996	3,860
INCOME STATEMENT (Extracts)*	Sep-20	Dec-19	Sep-19	Dec-18
Gross Premium Written (GPW)	444	896	905	426
Net Premium Revenue (NPR)	359	378	279	359
Net Claims	153	205	-9	802
Net Operational Expenses	46	121	212	469
Underwriting Results - Adjusted	552	56	52	1,624
Investment Income	293	360	267	258
PROFIT/ LOSS BEFORE TAX	344	459	352	279
PROFIT/ LOSS AFTER TAX	244	327	250	198
RATIO ANALYSIS (Conventional)	Sep-20	Dec-19	Sep-19	Dec-18

Underwriting Results				
Loss Ratio	69%	54%	-3%	224%
Combined Ratio	99%	86%	73%	404%
Performance				
Operating Ratio	36%	20%	34%	327%
Investment Yield	16%	11%	17%	8%
Liquidity & Solvency				
Liquidity Ratio – times	1.7	1.7	1.7	1.6

*Including Takaful Operations

Sindh Insurance Limited (SIL)

Feb-21

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	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	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-	
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.
A-	
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.
BBB-	
BB+	
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-	
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.
CC	
C	"C" Ratings signal imminent default.
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.
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'.
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.
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.
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.
Harmonization	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)

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.
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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 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). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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