



The Pakistan Credit Rating Agency Limited

Rating Report

SPI Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Apr-2022	A+ (ifs)	-	Stable	Maintain	Yes
12-Apr-2022	A+ (ifs)	-	Stable	Harmonize	Yes
19-Apr-2021	A	-	Stable	Maintain	Yes
20-Apr-2020	A	-	Stable	Maintain	Yes
29-Nov-2019	A	-	Stable	Maintain	-
31-May-2019	A	-	Stable	Maintain	-
06-Dec-2018	A	-	Stable	Maintain	-
28-Jun-2018	A	-	Stable	Maintain	-
02-Oct-2017	A	-	Stable	Upgrade	-
07-Jun-2017	A-	-	Positive	Maintain	-
10-Jun-2016	A-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects the stable business profile of the Company. The organization takes benefit from synergistic approach at group level – United International Group (UIG) - and replicate the group's established practices. The Company is actively engaged in co-insurance both at group level and independently. The convergence of group business is expected to be streamlined in the form of a single company; sponsors are in the process of merging SPI Insurance into “The Unite Insurance Company Limited of Pakistan” (UIC). The merger is in court proceedings at the Honorable Sindh High Court, which are expected to be accomplished by June-22.

In the recent period the growth has been muted due to multiple factors especially due to merger of SPI Insurance with group company, United Insurance. Almost all business is being directed towards group company UIC, with which SPI Insurance will eventually merge. The Company witnessed decreased turnover as at Dec-21. The contribution from alternative income stream, investment book, have reduced; needs to improve. The company booked a revaluation gain on its investment in Apna Micro Finance Bank whereas the liquidity is adequate considering the claims outstanding. However, the receivables are sizable in quantum, management needs to pay attention. The experienced board members provide comfort to the corporate governance structure.

The general insurance industry witnessed a growth of ~19% on YoY basis as of Sep-21. The recent 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 rating watch captures the challenges with regards to the company's growth and its intention to build liquidity. The Company's merger with and into “The United Insurance Company of Pakistan Limited (UIC)”, group entity, is expected to finalized in near future. The IFS rating of the Company will be withdrawn once entity ceases to exist.

Disclosure

Name of Rated Entity	SPI Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Criteria Rating Modifiers(Jun-21),Methodology General Insurance Rating(Mar-22)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Waqas Ahmad waqas.ahmad@pacra.com +92-42-35869504



Profile

Legal Structure SPI Insurance Company Limited (SPI), is an unquoted public limited company, was established in 2005 by Saudi Pak Group (SPG).
Background In 2011, SPI's management control along with majority stake was taken over by United International Group (UIG).
Operations The branch network comprises 27 branches and concentrated in major cities. In November 2014, the company started Window Takaful operations.

Ownership

Ownership Structure Majority shareholding is owned by United International Group (UIG) (70%), rest is owned by Silkbank (23%) and Saudi Pak Leasing (7%).
Stability Previously, SPI had a smooth and sound shareholding reflected by minuscule changes in the previous years. Currently, the Company is in the process of merging with and into The United Insurance Company of Pakistan.
Business Acumen Associated companies such as United Insurance (UIC), United Track System (UTS), Apna Microfinance Bank (Apna Bank) and shareholders Silkbank gives the company a sound business acumen to benefit from.
Financial Strength United Insurance, the fifth largest insurance company in the country in terms of GPW and Silk Bank, a renowned name in banking sector provides a solid financial footing to SPI.

Governance

Board Structure The overall control of the company vests in a seven-member BoD whereby two members represent Silkbank, and five represent UIG.
Members' Profile The Chairman, Mr. Aziz Ullah Memon, is a well-known and seasoned banker, and is associated with UIG since long. Mr. Shahid, the CEO/MD of UIG, is a law graduate having extensive insurance industry experience, especially with The United Insurance Company of Pakistan (UIC) – flagship company of UIG.
Board Effectiveness All the members have vast experience in the financial industry, thus boding well for the company. Majority of the board members attended all board meetings, showing interest in the company's affairs. Minutes of the meetings reflect active participation by majority of board members and ability to raise relevant questions while appraising performance of the Company.
Transparency The auditors of the company; RSM Avais Hyder Liaquat Nauman Chartered Accountants, expressed unqualified opinion on the financial statements of CY21.

Management

Organizational Structure SPI has a well-defined organizational structure and segregated reporting lines. The major operational departments are (i) Administration, (ii) Claims, (iii) Underwriting, (iv) I.T., (v) Accounts and Finance and (vi) Reinsurance. There is one advisor. The department heads report to CEO, with the exception of Audit department which reports directly to the Audit Committee.
Management Team The CEO Mr. Saleem Sheikh, is a banking professional with over 40 years of banking experience, as well as management expertise. He is assisted by a core management team.
Effectiveness The company's management envisages to increase the business of the company while underwriting prudent risks.
MIS SPI has Oracle and IBM servers-based specialized information system named "General Insurance & Accounting System". The MIS is fully owned by the company, but its maintenance is outsourced. This real-time system, operative at all branches, is completely integrated with all aspects of insurance i.e. underwriting, claims, policy generation and accounting, with proper controls at various levels of authority. The user may generate reports, on a daily, weekly, monthly or yearly basis.
Claim Management System The company has centralized its claims processing function at HO. Although, the claim is initially intimated at the respective branch, the authority for the appointment of surveyor and approval of the claim amount rests with the HO.
Investment Management Function The investment management framework is overseen by BoD's Investment Committee. The BoD has restricted the management to invest only in low-risk avenues such as PIBs, T-Bill and bank deposits.
Risk Management Framework The management has developed an operating manual, outlining policies and procedures to be followed by respective department.

Business Risk

Industry Dynamics The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. In terms of Gross Premium Written (GPW), Pakistan's general insurance industry had a total size of PKR~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR~104,453mln). Currently, the general insurance industry has witnessed a growth of ~19% on YoY basis as of Sep-21, ensuring sustainability in the growth despite the current pandemic of COVID-19. Investment income has also been a support to the bottom-line performances of the companies, since the volumes in PSX have picked up.
Relative Position SPI Insurance is small sized Insurance Company, having less than 1% of market share on basis of GPW.
Revenue Overall GPW witnessed a decrease of 51% in CY21: PKR 470mln as compared with (CY20: PKR 919mln) mainly on the account future plan to merge with United Insurance. High performing segment is Motor GPW of PKR 190mln followed by Fire & Property GPW of PKR 112mln. Motor and Fire segment holds 40% and Fire & Property 24% of the total business underwriting portfolio respectively.
Profitability The Company posted a loss before tax of PKR 14.5mln in CY21, compared with profit before tax for CY20: PKR 10mln, including the surplus from participants takaful fund. Lower GPW was a major contributing factor. The Company has loss ratio of 43% and expense ratio of 61% in CY21.
Investment Performance Investment income had been lower for this year. It was PKR 14.88mln for CY21 (CY20: PKR 25mln).
Sustainability Sponsors United insurance group were considering merger of The United Insurance company with SPI and now the merger is in later stages. In this regard the court proceedings are underway which are expected to be finalized by June-22.

Financial Risk

Claim Efficiency The company's liquid assets provide 1.4x cover against outstanding claims. Claim days outstanding increased to 340 days. The total net claims at CY21 were PKR 180mln mainly driven by fire segment.
Re-Insurance In respect of proposed merger, the Company has surrendered its re-insurance licenses.
Cashflows & Coverages Insurance related assets over liabilities are to 2.1 times. Liquid investments stood at PKR 395mln. Majority is invested in strategic investment in Apna Bank (PKR 212mln), Government securities (PKR 112mln), and cash and bank deposits (PKR 62mln).
Capital Adequacy Due to strong equity base the company can capitalize the potential of entering in larger risks – enabled through treaty arrangements. The current equity value of SPI stands at 714mln.



PKR mln

SPI Insurance Company Limited
Public Unlisted Limited

Dec-21	Dec-20	Dec-19
12M	12M	12M

A BALANCE SHEET

1 Investments	395.405	504.372	506.088
2 Insurance Related Assets	509.237	866.267	784.719
3 Other Assets	221.038	259.626	290.046
4 Fixed Assets	112.641	105.814	114.113
5 Window Takaful Operations	-	-	-
Total Assets	1,238.321	1,736.080	1,694.965
1 Underwriting Provisions	123.690	314.959	349.231
2 Insurance Related Liabilities	247.847	482.553	379.734
3 Other Liabilities	109.000	194.638	208.320
4 Borrowings	23.406	18.937	21.483
5 Window Takaful Operations	-	-	-
Total Liabilities	503.943	1,011.087	958.767
Equity/Fund	734.386	725.003	736.189

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	470.166	918.719	964.048
2 Net Insurance Premium/Net Takaful Contribution	425.199	646.995	719.754
3 Underwriting Expenses	(450.425)	(667.748)	(682.313)
Underwriting Results	(25.226)	(20.753)	37.441
4 Investment Income	14.880	25.038	20.745
5 Other Income / (Expense)	(4.208)	5.892	(0.519)
Profit Before Tax	(14.555)	10.176	57.667
6 Taxes	1.135	(11.308)	14.570
Profit After Tax	(13.420)	(1.132)	72.237

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	107.154	200.000	224.552
2 Net Takaful Contribution	29.160	29.299	40.858
3 Net Takaful Claims	(55.458)	(67.938)	(42.811)
4 Direct Expenses Including Re-Takaful Rebate Earned	6.446	3.969	7.065
Surplus Before Investment & Other Income/(Expense)	(19.852)	(34.670)	5.112
5 Investment Income	0.049	0.052	0.115
6 Other Income/(Expense)	3.509	0.181	0.175
Surplus for the Period	(16.294)	(34.437)	5.402

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	62.417	83.560	99.746
2 Management, Commission & Other Acquisition Costs	(47.806)	(82.166)	(100.069)
Underwriting Income/(Loss)	14.612	1.394	(0.323)
3 Investment Income	1.672	7.618	3.067
4 Other Income/(Expense)	(2.034)	(2.708)	(2.410)
Profit Before tax	14.249	6.304	0.334
5 Taxes	-	-	-
Profit After tax	14.249	6.304	0.334

C RATIO ANALYSIS

1 Profitability			
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Premium	42.5%	34.9%	24.1%
Combined Ratio (Loss Ratio + Expense Ratio)	103.2%	104.1%	94.0%
2 Investment Performance			
Investment Yield	3.3%	5.0%	4.1%
3 Liquidity			
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	0.71	0.72	1.17
4 Capital Adequacy			
Liquid Investments / Equity (Funds)	53.8%	69.6%	68.7%

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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(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.
- (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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