



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
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	-
17-Jun-2015	A-	-	Stable	Maintain	-
17-Jun-2014	A-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

SPI is classified as an emerging company wherein which the company is building a diversified insurance portfolio. In the recent period the growth has been muted due to multiple factors specially the slowdown in the economic environment of the country. Given the prevailing challenges on account of COVID-19, the future growth pattern is also expected to be slightly uneven. 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 loss ratio is in acceptable range. The contribution from alternative income stream – investment book – is small; needs to improve. The company booked a revaluation gain on its investment in Apna Micro Finance Bank. 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 rating watch captures the challenges with regards to the company's growth and its intention to build liquidity. At the same time, the level of liquidity must improve. The increase in GPW should reflect in improved profitability especially during challenging economic scenario.

Disclosure

Name of Rated Entity	SPI Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Harris Ghaffar harris.ghaffar@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 53 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 SPI has a smooth and sound shareholding reflected by minuscule changes in the previous years.
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 provide 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, 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.
Financial Transparency The auditors of the company; RSM Avais Hyder Liaquat Nauman Chartered Accountants, expressed unqualified opinion on the financial statements of CY19.

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/MD, Mr. M. A. Shahid, is an insurance veteran and also serves as the Group Chairman of UIG. 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 Pakistan's general insurance achieved a CAGR of 9% during the last four years. Majority of the growth emanates from Fire and motor segments. The miscellaneous segment has experienced growth via non-conventional avenues such as crop, livestock, travel etc. Takaful segment has been growing positively mainly in motor while exploring new avenues in health and fire segment. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.
Relative Position With a market share of less than 1% in the general insurance industry, the company is classified among the small players.
Revenue Overall GPW witnessed a increase in CY19: PKR 874mln as compared with (CY18: 736 mln) mainly on the account of increase in Live Stock & health insurance policies writing. The increase in GPW was witnessed in Conventional segments(CY19: PKR 739mln; CY18: PKR 581mln) only and Takaful segment decline slightly (CY19: PKR 135mln; CY18: PKR 155mln).
Profitability The company posted a Profit Before Tax of PKR 12mln in CY19 (CY18: PKR 29mln). The increase in premium deficiency reserves in Window Takaful Operations was a major contributing factor. SPI management expense (CY19: PKR 338mln) has increase in higher percentage in comparison of growth in GPW. The company has loss ratio of 30% in CY19 (CY18: 38%) and expense ratio of 77% in CY19 (CY18: 67%).
Investment Performance Investment income increase slightly. It was in CY19 : PKR 21mln (CY18: PKR 19mln).
Sustainability The company envisages aggressive targets non-conventional segments – motor, crop & livestock, and health – would continue to remain the forte of the company; new products on the cards. This aggressive strategy was increase their top line however bottom line is declining due to increase in premium deficiency reserve and management expenses. Meanwhile, management is confident in building up volumes for the foreseeable future.

Financial Risk

Claim Efficiency The company's liquid assets provide 1.1x cover against outstanding claims. Claim days stood at 333days. The total net claims at CY19 was PKR 174mln mainly driven by motor segment.
Re-Insurance SPI possess arrangements with strong reinsurers and has cover from Non-proportional treaties with high capacity. SPI maintains a panel of strong reinsurers including Hannover Re (rated AA- by S&P), Swiss Re (rated AA- by S&P) .Trust Re (rated A- by S&P), and Malaysian Re (rated A- by A. M. Best). The treaty arrangement for takaful window operations is led by Swiss Re (rated AA- by S&P) as well as other reinsurers including Malaysian Re (rated A- by A. M. Best), African Re (rated A by A. M. Best), Kenya Re (rated B by A. M. Best), GIC Re (rated A- by A. M. Best) and Labuan Re (rated A- by A.M. Best).
Liquidity Insurance related assets over liabilities has increased up to 2 times. Liquid assets stood at PKR 231mln. Majority is invested in Government securities. and cash and bank deposits.
Capital Adequacy Due to strong equity base the company can capitalize the potential of entering in larger risks – enabled through treaty arrangements. The bottom line of the company is stable. Company maintains a stable equity base of 735mln (CY18: 543mln)



Financial Summary

The Pakistan Credit Rating Agency Limited

SPI Insurance Company Limited

	PKR mln	PKR mln	PKR mln
	CY19	CY18	CY17
	Annual	Annual	Annual
BALANCE SHEET			
Investments			
Liquid Investments	287	289	257
Other Investments	219	50	50
	506	339	307
Insurance Related Assets	691	674	635
Other Assets	349	413	422
Fixed Assets	114	124	119
TOTAL ASSETS	1,659	1,550	1,482
Equity	734	542	600
Underwriting Provisions	349	311	375
Insurance Related Liabilities	324	403	376
Other Liabilities	252	294	131
TOTAL EQUITY & LIABILITIES	1,659	1,550	1,482
INCOME STATEMENT - Combined			
	CY19	CY18	CY17
Gross Premium Written (GPW) *	874	736	874
Net Premium Revenue (NPR)	584	510	630
Net Claims	(174)	(195)	(257)
UNDERWRITING (LOSS) / INCOME	(44)	(26)	3
Investment Income	21	19	15
(LOSS) / PROFIT BEFORE TAX	12	29	70
RATIO ANALYSIS - Conventional			
	CY19	CY18	CY17
Underwriting Results			
Loss Ratio	24%	32%	35%
Combined Ratio	94%	97%	93%
Performance			
Operation Ratio	91%	96%	94%
Investment Yield	8%	16%	6%
Liquidity & Solvency			
Liquidity Ratio - times	0.7	1.0	1.2
* Excluding Wakala Fee			
SPI Insurance Company Limited (SPI)			

Insurer Financial Strength (IFS) Rating Scale & Definitions

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 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.
A+ 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.
BBB+ 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.
BB+ 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.
B+ B 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.
CCC CC C	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. "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, a) some material identifiable event and/or b) deviation from expected trend. 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 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.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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.
- (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)

Independence & Conflict of interest

- (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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