



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-2022	AAA (ifs)	-	Stable	Maintain	-
31-Mar-2022	AAA (ifs)	-	Stable	Harmonize	-
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	-

#### 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. 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. During CY21, the Corporation's Gross Premium Written grew by ~36% to PKR ~162bln as compared to PKR ~119bln) in CY20. It has posted a profit after tax of PKR~6.6bln. Expense ratio also showed improvement, decreasing to ~18% from ~21%. 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. Regarding Health Insurance, the Corporation is implementing mega health insurance program i.e. Federal Sehat Sahulat program & KP Sehat Sahulat program. These programs are projected to cover ~80million population of Pakistan. This scheme has worth of around PKR 87+ billion in the next five years. State Life'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.

During CY21, total GPW of the industry grew by ~25% to PKR ~291bln as against increase of ~4.6% to PKR ~233bln in CY20. Post pandemic situation, the demand for Life Insurance products has increased, however, inflation is an ongoing challenge for growth of the industry.

#### 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>	Criteria   Rating Modifiers(Jun-21),Methodology   Life Insurance Rating(Mar-22)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-21)
<b>Rating Analysts</b>	Behrooz Fareed   behrooz.fareed@pacra.com   +92-42-35869504

## Profile

**Legal Structure** State Life Insurance Corporation of Pakistan (State Life) is a wholly government owned, Public Corporation.

**Background** State Life was established in March 1972 when the Life Insurance business in Pakistan was nationalized under the Life Insurance Nationalization Ordinance.

**Operations** State Life 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 7 Regional offices, 33 Zonal offices, few Sub-Zonal offices, 164 Sector offices, and a network of 1136 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** State Life is a wholly owned Corporation of the Government of Pakistan (GoP) through Ministry of Commerce.

**Stability** State Life 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 six members including Chairman. All of the members are nominated by the Federal Government. The Board has nine committees and provides oversight using the diversified experience of its members. 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.

**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. 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** Effectiveness of the board found to be paramount. The board meets at regular intervals of time in normal course of business. Detailed minutes of the meeting are maintained to keep record and enhance transparency.

**Financial Transparency** External Auditors of the Corporation are M/S: BDO Ebrahim & Co, Chartered & Accountants and M/S: Grant Thornton Anjum Rahman, Chartered Accountants. They have expressed unqualified opinion on Financial statements of the Corporation for the year ended December 2021.

## 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 three 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-years 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, State Life 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** State Life has revised its Investment Policy Statement (IPS) in 2017. The investment strategy continued to remain conservative, with maximum asset-allocation (dynamic) 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** Market size of the Life Insurance industry with respect to the Gross Premiums Written (GPW) is PKR~291bln in CY21; up by ~25% YoY as compared to last year's GPW of PKR~233bln in CY20. Net claims, however, declined by 0.4%. The investment by the industry went up by ~12%. With the revival of Industrial Activity, the private sector credit by banks and FIs is expected to rise going forward and would therefore simultaneously boost demand for the life insurance industry. The industry intends to sustain its existing position while aiming to launch innovative products.

**Relative Position** The Corporation is the largest player within life insurance industry and holds market share of 56% as at End-December21.

**Persistency** Persistency ratios for the year under review have witnessed improvement, with first year persistency standing at ~79% (CY20: 72%) and second year persistency at ~94% (CY20: ~92%).

**Revenue** The Corporation has significantly increased its Gross Premium Written by ~36% compared on YoY basis (CY21: PKR ~162,480mln, CY20: PKR ~119,414mln). Renewal of individual business and Group life business increased by ~6.4% and 239% respectively.

**Profitability** The Corporation posted profit after tax at End-Dec21 of PKR~6,625mln as against PKR~4,206mln at End-CY20. This increase is primarily owed to rising premium revenue, impact of which trickled down to profit after tax. Expense ratio also showed improvement, decreasing to ~18% from ~21%.

**Investment Performance** The Corporation's Investment portfolio currently stands at PKR~1,116,588 million (CY20: PKR~Rs 987,096 million). Investment income increased to PKR~121,891mln during CY21 (CY20: PKR 118,062mln) which is consistent with increase in investment portfolio.

**Sustainability** Going forward State Life intends to maintain sustained growth stance with an increasing focus on new avenues. In the wake of rising competition the Corporation, envisage bringing geographical and product diversification. 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. Regarding Health Insurance, State Life is implementing mega health insurance program i.e. Federal Sehat Sahulat program & KP Sehat Sahulat program. These programs are projected to cover ~80million population of Pakistan. This scheme has worth of around PKR 87+ billion in the next five years.

## Financial Risk

**Claim Efficiency** The Corporation has claims outstanding days at End-Dec21 ~202days (CY20: ~196days). This slight increase in days is owed to increase in number of outstanding insurance claims.

**Re-Insurance** SLIC has reinsurance for its home business from Swiss Re (rated 'AA-' by 'S&P'), overseas business by Munich Re (rated 'AA-' by 'S&P'), and Takaful business by Hannover Re Takaful (rated 'AA-' by 'S&P')

**Cashflows & Coverages** The total liquid assets parked with the Corporation stand at PKR~1,106,289mln as at CY21 (CY20: PKR~977,431mln). Liquid ratio of the Corporation comparing liquid assets to outstanding claims stood at 20:1 (CY20: 28:1).

**Capital Adequacy** Ordinary share capital of the Corporation stands at PKR~4.9bln as at End-Dec21 (CY20: PKR~4.6bln) and total equity amount stands at strong PKR~15.48bln.



PKR mln

State life Insurance Corporation of Pakistan  
Public Unlisted

Mar-22	Dec-21	Dec-20	Dec-19
3M	12M	12M	12M

#### A BALANCE SHEET

1 Investments	1,177,447	1,116,574	987,096	873,119
2 Insurance Related Assets	31,214	37,430	32,574	26,301
3 Other Assets	218,989	211,227	182,861	158,495
4 Fixed Assets	857	881	851	920
<b>Total Assets</b>	<b>1,428,507</b>	<b>1,366,112</b>	<b>1,203,383</b>	<b>1,058,836</b>
5 Underwriting Provisions	19,935	1,248	206	229
6 Insurance Related Liabilities	1,359,105	1,320,412	1,170,032	1,031,597
7 Other Liabilities	31,821	28,978	22,836	19,861
8 Borrowings	-	-	-	-
<b>Total Liabilities</b>	<b>1,410,861</b>	<b>1,350,638</b>	<b>1,193,074</b>	<b>1,051,687</b>
<b>Equity</b>	<b>17,646</b>	<b>15,474</b>	<b>10,309</b>	<b>7,149</b>

#### B INCOME STATEMENT

1 Gross Premium Written	60,501	162,480	119,415	112,777
2 Net Insurance Premium	60,302	161,789	119,035	112,572
3 Underwriting Expenses	(32,076)	(118,033)	(81,285)	(73,551)
<b>Underwriting Results</b>	<b>28,226</b>	<b>43,756</b>	<b>37,749</b>	<b>39,021</b>
4 Management Expenses	(2,253)	(9,882)	(7,953)	(9,968)
5 Investment Income	27,052	88,017	88,589	77,355
6 Other Income / (Expense)	4,631	21,022	16,581	17,865
7 Net Change in Reserve for Policyholders' Liabilities	(54,592)	(133,579)	(129,039)	(121,476)
<b>Profit Before Tax</b>	<b>3,063</b>	<b>9,334</b>	<b>5,927</b>	<b>2,797</b>
8 Taxes	(891)	(2,708)	(1,720)	(813)
<b>Profit After Tax</b>	<b>2,173</b>	<b>6,625</b>	<b>4,206</b>	<b>1,984</b>

#### C RATIO ANALYSIS

<b>1 Profitability</b>				
Loss Ratio (Net Insurance Claims / Net Insurance Premium )	48.0%	60.6%	54.3%	50.7%
Combined Ratio (Loss Ratio + Expense Ratio)	56.9%	79.1%	75.0%	74.2%
<b>2 Investment Performance</b>				
Investment Income / Operating Profit	51.0%	72.2%	74.8%	72.7%
<b>3 Liquidity</b>				
(Liquid Assets - Borrowings) / Outstanding Claims	18.93	20.02	28.01	37.33
<b>4 Capital Adequacy</b>				
Liquid Investments / Equity	65.95	71.50	94.82	120.94

**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)	<b>Exceptionally Strong.</b> 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)	<b>Very Strong.</b> 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)	<b>Strong.</b> 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)	<b>Good.</b> 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)	<b>Modest.</b> 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)	<b>Weak.</b> 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)	<b>Very Weak.</b> 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)	<b>Distressed.</b> 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><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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(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)

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(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).

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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)

(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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