



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
18-Jul-2023	AAA (ifs)	-	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The rating assigned to State Life Insurance Corporation of Pakistan’s (SLIC) derives strength from sound market position emanating from extensive and well-penetrated distribution network, experienced management team and robust financial profile. The rating takes into account the 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 CY22, the Corporation’s Gross Premium Written depicted a significant growth of 50.3% to PKR 244.2bln compared to PKR 162.5bln in CY21. Premiums under health insurance posted a remarkable increase due to health insurance policies undertaken for the Prime Minister's National Health Insurance Program. The total income of the Corporation posted a growth of 41.3% to PKR 383.3bln (CY21: PKR 271.3bln). 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. These programs are projected to cover 170 million population of Pakistan.

State Life Insurance Corporation of Pakistan'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. Additionally, implementation of new ERP system will enable efficient business operations with the real time provision of services to all stakeholders.

Disclosure

Name of Rated Entity	State Life Insurance Corporation of Pakistan
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Rating Modifiers(Jun-22),Methodology Life Insurance Rating(Mar-23)
Related Research	Sector Study Life Insurance(Jun-22)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Legal Structure State Life Insurance Corporation of Pakistan (State Life) is a 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 across 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, 149 Sector offices, and a network of 1,127 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 which provides stability to the ownership structure.

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 comprises eight members including Chairman. All of the members are nominated by the Federal Government. The Board has eight 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, having over 2 decades of experience 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 2022.

Management

Organizational Structure The Corporation's 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. 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.

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 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.

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 Life Insurance industry in Pakistan reported at~ PKR 370bln, indicating a notable growth of~ 28.5% YoY (CY21: PKR~288bln). Life Insurance Industry in Pakistan is dominated by public sector contributing 65% of Gross Premiums Written (GPW) during CY22. Net claims increased by 48.8% to PKR 270bln during CY22. Investment income of industry increased by 22.1% to PKR 126bln. Overall, higher GPW and improved investment income resulted in net profitability of PKR 17bln for CY22. Takaful industry plays a crucial role in the Islamic financial system, offering a diverse range of risk protection products and services that complement existing options for consumers.

Relative Position The Corporation is the largest player within life insurance industry and holds market share of 65.6% in terms of GPW as at end-Dec22.

Persistency The Corporation witnessed improvement in its persistency with 1st year stood at ~83% (CY21: 79%) and 2nd year reported at ~99% (CY21: ~94%).

Revenue GPW of State Life has significantly increased to PKR 244.2bln in CY22 compared to PKR 162.5bln in CY21. Premium under Health segment significantly grew from PKR 40.5bln in CY21 to PKR 143.3bln in CY22. This growth is majorly owing to health insurance policies undertaken for the Prime Minister's National Health Insurance Program. The health segment constitutes 59.0% of the total GPW.

Profitability During CY22, net Income of the Corporation depicted a significant increase of 41.3% to PKR 383.3bln (CY21: PKR 271.3bln) and settled PKR 175.3bln (CY21: 98.0bln) insurance claims to policyholders. The Corporation incurred PKR 22.7bln (CY21: PKR 20.0bln) acquisition expenses. With the support of investment income and adjustment of other operational expenses, the Corporation reported a PAT of PKR 13.7bln which represents a remarkable increase of 109.4% YoY.

Investment Performance State Life actively managed its debt and equity portfolios during CY22 in response to the performance of capital market as well as increase in policy rate. During CY22, State Life booked an investment income of PKR 114.7bln (CY21: PKR 96.1bln). In addition to that the Corporation reported an unrealized capital loss of PKR 13.5bln (CY21: PKR 8.6bln).

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.

Financial Risk

Claim Efficiency The insurance liabilities of the Corporation registered an increase of 16.4% to PKR 1,522.0bln (CY21: PKR 1,307.9bln). While the outstanding claims grew from PKR 54.5bln to PKR 118.7bln. Hence, claims outstanding days inched up to 247 as at end-Dec22 (CY21: 202 days).

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 stood at PKR~1,266bln as at end-Dec22 (end-Dec21: PKR1,106.3bln).

Capital Adequacy The Share capital of the Corporation reported at PKR 6.2bln as at end-Dec22 (CY21: PKR~4.9bln) and total equity amount stood at PKR 27.4bln.



PKR mln

State Life Insurance Corporation of Pakistan
Listed Public Limited

Mar-23	Dec-22	Mar-22	Dec-21
3M	12M	3M	12M

A BALANCE SHEET

1 Investments	1,310,006	1,282,547	1,177,447	1,116,574
2 Insurance Related Assets	108,347	78,093	374	37,430
3 Other Assets	238,672	240,715	218,989	211,227
4 Fixed Assets	995	1,033	857	881
Total Assets	1,658,021	1,602,388	1,397,667	1,366,112
5 Underwriting Provisions	941	1,408	19,935	1,248
6 Insurance Related Liabilities	1,587,467	1,532,896	1,359,105	1,320,412
7 Other Liabilities	37,973	39,771	31,820	28,978
8 Borrowings	-	-	-	-
Total Liabilities	1,626,381	1,574,075	1,410,860	1,350,639
Equity	31,639	27,412	17,646	15,474

B INCOME STATEMENT

1 Gross Premium Written	62,749	244,150	60,501	162,480
2 Net Insurance Premium	62,556	243,211	60,302	161,789
3 Underwriting Expenses	(55,699)	(197,990)	(32,076)	(118,033)
Underwriting Results	6,858	45,221	28,226	43,756
4 Management Expenses	(3,308)	(13,994)	(2,253)	(9,882)
5 Investment Income	29,347	102,300	27,052	88,017
6 Other Income / (Expense)	17,556	36,994	4,631	21,022
7 Net Change in Reserve for Policyholders' Liabilities	(44,500)	(149,856)	(54,592)	(133,579)
Profit Before Tax	5,952	20,665	3,063	9,334
8 Taxes	(2,134)	(6,936)	(891)	(2,708)
Profit After Tax	3,818	13,728	2,173	6,625

C RATIO ANALYSIS

1 Profitability				
Loss Ratio (Net Insurance Claims / Net Insurance Premium)	83.4%	72.1%	48.0%	60.6%
Combined Ratio (Loss Ratio + Expense Ratio)	94.3%	87.2%	56.9%	79.1%
2 Investment Performance				
Investment Income / Operating Profit	89.2%	76.6%	51.0%	72.2%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims	9.78	10.67	18.93	20.02
4 Capital Adequacy				
Liquid Investments / Equity	40.81	46.19	65.95	71.50

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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