



The Pakistan Credit Rating Agency Limited

Rating Report

State Life Insurance Corporation of Pakistan

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Rating History

Table with 5 columns: Dissemination Date, IFS Rating, Outlook, Action, Rating Watch. Rows show historical ratings from 2018 to 2024, all maintaining AAA (ifs) and Stable outlook.

Rating Rationale and Key Rating Drivers

Pakistan's Life Insurance market is dominated by the public sector (~67% share as of Dec-23), while the private sector holds only ~33%. The sector players have shifted their focus from first-year persistency to second-year, prioritizing Gross Premium Written (GPW) growth.

The rating of State Life Insurance Corporation of Pakistan ("State Life" or "the Corporation"), a Government of Pakistan (GoP) owned life insurance organization, derives strength from its substantial market share of ~67%. The Corporation is considered to have the most effective agency model that penetrates well into life insurance market.

State Life's ability to maintain its leadership in the life insurance sector is important. Successful execution of envisioned strategies: including diversification and continued growth remains essential. Additionally, implementation of new ERP system will enable efficient business operations with the real time provision of services to all stakeholders.

Disclosure

Table with 2 columns: Field Name, Value. Fields include Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, and Rating Analysts.



Profile

Legal Structure State Life Insurance Corporation of Pakistan ("State Life" or "the Corporation") was established in 1972 as public limited company under Life Insurance Nationalization Ordinance (LINO).

Background The Corporation was established in 1972, under the LINO. Prior to nationalization, 32 life insurance companies were consolidated, which later merged to form the Corporation. Its primary function is to conduct life insurance business, and it also invests policyholders in different avenues.

Operations The Corporation operates both conventional and takaful life business, with products distinct from the private sector, non-unit linked products. State Life manages five statutory funds: (i) Pakistan Life, (ii) Overseas Life, (iii) Pension, (iv) Accident and Health (v) Takaful Fund. The head office is located in Karachi.

Ownership

Ownership Structure State Life is owned by the Government of Pakistan (GoP) through the Federal Ministry of Commerce.

Stability The Corporation is a public sector concern, thus provides stability to the ownership structure.

Business Acumen The Federal Ministry appoints experienced individuals to manage the Corporation, ensuring strong business acumen.

Financial Strength The Corporation gathers support from sovereign backing which ensures strong financial stability.

Governance

Board Structure Overall control of the Board lies with 8 members, nominated by Federal Ministry, comprising 3 Non Executive Directors including Chairman, 4 Independent Directors and 1 Executive Director.

Members' Profile The Board is Chaired by Mr. Suleiman S Mehdi. He has over 2 decades of experience in financial sector. He is accompanied by team of professionals.

Board Effectiveness The board operates through six committees: Ethics, Human Resources, Remuneration & Nomination, Investment, Audit, Underwriting, Re-insurance & Co-Insurance, Claim Settlement, and Risk Management, Compliance & Litigation. The Audit Committee meets quarterly, the Investment Committee meets semi-annually, and the other committees hold annual meetings.

Financial Transparency External Auditors, M/S: BDO Ebrahim & Co, Chartered & Accountants and M/S: Riaz Ahmed & Co, have expressed an unqualified opinion on financial statements for the year ended Dec-23. Both firms are QCR-rated & are in category "A" of SBPs panel.

Management

Organizational Structure The Corporation holds a horizontal organizational structure with clear reporting lines. The operations include 1) General procurement, 2) HR & Administration, 3) Policy Holders Services (PHS), 4) Real Estate, 5) Finance and Accounts, 6) Investments, 7) Legal Affairs, 8) Group and Pension, 9) Bancassurance, 10) Takaful, 11) Human Resource Development (HRD), which are headed by three Executive Directors (ED) collectively who directly report to the CEO.

Management Team Mr. Shoaib Javed Hussain is the CEO since Mar-21, hold experience of more than 2 decades having successful careers in senior management of global insurance groups and consultancies in the United Kingdom (UK) and Asia. He brings with him a breadth of strategic executive perspective and technical acumen gained through global engagements across Europe, North America and Asia.

Effectiveness The Board is essentially concerned with policy matters only. Therefore, the responsibility of operations and internal controls rests with the Executive/Operational management 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 (claims during two years of policy issuance), claims investigators are appointed and claims investigation reports are presented to the claims committee.

Investment Management Function State Life has revised its Investment Policy Statement (IPS) during 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 market is dominated by public sector (~67% share as of Dec-23). While, the private sector holds only ~33% of the market share. Gross Premium (GPW) of the industry stood at ~PKR 406bln during CY23 (CY22: ~PKR 377bln), showing a YoY growth of ~7.69%. GPW is bifurcation i.e., between regular premium products, single premium products and group life policies. ~46.58% of the total premium pertains to renewal premium products and is followed by group life without cash values at ~37.2%. Net Premium stood at PKR~ 399bln (CY22: PKR~372bln), showing a YoY increase of ~7.39%. While, Net Claims stood at ~PKR 367bln (CY22: ~PKR 281bln). The total investment book of the industry stood at ~PKR 2,021bln (CY22: ~PKR 1,747bln).

Relative Position State Life holds the highest market share (~ 67%) in the industry.

Persistency During CY23, State Life reported a robust persistency ratio ~81% (CY22: ~83%). Renewal persistency was notably strong ~91% during CY23 (CY22: ~99%); attributed to the flexible and user-friendly policies, the development of strong client relationships, and the support from government institutions. During 3MCY24, first year persistency of State Life clocked in at ~67%; while renewal persistency stood at ~104%.

Revenue During CY23, the Gross Premium Written (GPW) of State Life improved by ~10%, reported at ~PKR 268bln (CY22: ~PKR 244bln). This improvement in GPW is primarily attributed to a significant ~34% increase in first-year premium. Additionally, second-year premium grew by ~20%, group premium ~10% and subsequent years' premiums by ~4%.

Profitability During CY23, State Life reported an underwriting loss of ~PKR 9.1bln compared to an underwriting profit of ~PKR 45bln during CY22. This underwriting loss is attributed to higher claims incurred during the period, influenced by both micro and macroeconomic factors. Despite this, the Corporation's bottom line received substantial support investment income, resulting in profits. State Life reported a Profit After Tax (PAT) of ~PKR 14.7bln during CY23, marking an increase of ~8% (CY22: ~PKR 13.7bln). During 3MCY24, PAT of the Corporation stands at ~PKR 5.9bln.

Investment Performance State Life maintains diverse and healthy investment book reported at ~PKR 1,472.5bln during CY23 (CY22: ~PKR 1,281.6bln); generating healthy investment income of ~PKR 188bln in CY23 (CY22: ~102bln). During 3MCY24, the Corporation reported investment income of ~PKR 58bln.

Sustainability State Life aims to maintain sustained growth with a focus on new avenues. In response to rising competition, the Corporation plans to expand its product range. Emphasizing existing business lines, it seeks growth by broadening offerings in Health Insurance, Bancassurance, and Window Takaful. Enhancing digital capabilities to stay competitive and meet the evolving demands of customers will further boost the company's performance.

Financial Risk

Claim Efficiency Claims outstanding days of the Corporation increased to 230days in CY23 (CY22: 180days), owing to higher claims. Net claims increased by ~41% reported at ~PKR 247bln in CY23 (CY22: ~PKR 175bln). The claims coverage ratio of State Life surged to 5.5x in CY23 (CY22: 6.7x), witnessing a robust position to meet the obligations. As of 3MCY24, the claims coverage ratio stands at 8.3x.

Re-Insurance State Life maintains reinsurance agreements with 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 investment portfolio is primarily in liquid assets including government securities and listed equity. As of CY23, it stands at ~PKR 1,466bln (CY22: ~PKR1,276bln). Liquid investments to net claims coverage is 5.5x, and liquid assets to net premium revenue is 5.1x, reflecting a strong liquidity position. As of 3MCY24, the liquid investment book surged to ~PKR 1,522bln, with liquid investments to net claims and liquid assets to net premium ratio at 8.3x and 6.7x, respectively.

Capital Adequacy State Life maintains strong equity base reported ~PKR 40bln as of CY23 (CY22: ~PKR 27bln). Whereas, capital adequacy ratio of State Life stands at 36.5x in CY23 (CY22: ~46.7x). As of 3MCY24, equity of the Corporation stood at ~PKR 43bln and CAR stands at ~34.9x.



PKR mln

State Life Insurance Corporation of Pakistan
Listed Public Limited

Mar-24	Dec-23	Dec-22	Dec-21
3M	12M	12M	12M

A BALANCE SHEET

1 Investments	1,528,647	1,472,569	1,281,647	1,116,574
2 Insurance Related Assets	220,954	184,566	78,093	37,430
3 Other Assets	269,514	272,152	240,715	211,227
4 Fixed Assets	1,440	1,397	1,033	881
Total Assets	2,020,554	1,930,684	1,601,488	1,366,112
5 Underwriting Provisions	-	-	-	-
6 Insurance Related Liabilities	1,902,668	1,818,738	1,534,304	1,321,661
7 Other Liabilities	74,355	71,813	39,771	28,978
8 Borrowings	-	-	-	-
Total Liabilities	1,977,023	1,890,551	1,574,075	1,350,639
Equity	43,531	40,132	27,412	15,474

B INCOME STATEMENT

1 Gross Premium Written	54,794	268,879	244,150	162,480
2 Net Insurance Premium	54,634	267,844	243,211	161,789
3 Underwriting Expenses	(47,931)	(277,035)	(197,990)	(118,033)
Underwriting Results	6,702	(9,190)	45,221	43,756
4 Management Expenses	(3,699)	(17,849)	(13,994)	(9,882)
5 Investment Income	58,002	188,500	102,300	88,017
6 Other Income / (Expense)	11,404	68,409	36,994	21,022
7 Net Change in Reserve for Policyholders' Liabilities	(62,737)	(205,390)	(149,856)	(133,579)
Profit Before Tax	9,671	24,479	20,665	9,334
8 Taxes	(3,773)	(9,760)	(6,936)	(2,708)
Profit After Tax	5,899	14,720	13,728	6,625

C RATIO ANALYSIS

1 Profitability

Loss Ratio (Net Insurance Claims / Net Insurance Premium)

81.2%	92.4%	72.1%	60.6%
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Combined Ratio (Loss Ratio + Expense Ratio)

94.5%	110.1%	87.2%	79.1%
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2 Investment Performance

Investment Income / Operating Profit

95.1%	116.7%	76.6%	72.2%
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3 Liquidity

(Liquid Assets - Borrowings) / Outstanding Claims

6.78	7.45	10.62	20.09
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4 Capital Adequacy

Liquid Investments / Equity

34.97	36.54	46.55	71.76
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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)
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- 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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- (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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- (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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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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