



The Pakistan Credit Rating Agency Limited

## Rating Report

### Sindh Insurance Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Aug-2019	A+	-	Stable	Maintain	-
28-Feb-2019	A+	-	Stable	Maintain	-
06-Dec-2018	A+	-	Stable	Maintain	-
24-May-2018	A+	-	Stable	Maintain	-
02-Oct-2017	A+	-	Stable	Maintain	-
13-Mar-2017	A+	-	Stable	Maintain	-
04-May-2016	A	-	Stable	Maintain	-
27-May-2015	A	-	Stable	Upgrade	-
28-Jan-2015	A-	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The rating reflects SIL's strong parentage - the Government of Sindh (GoS) and its ability to leverage on the same. "Universal Accidental Insurance Scheme(UAIS)", initiated by GoS, provided impetus to the company's business volume. The scheme has undergone a new regime, by virtue of which the premium size has squeezed though the cash balance has stayed with the company. It is enriching the company's alternative investment. The business from this segment is reduced though still adding value to the company operations. Sindh Insurance has built market business via its linkage with Sindh Bank. To have a profitable growth in the market business is also important though, the company has recently ventured into a new business of Sindh Engro Coal Mining (Pvt.) Ltd.Phase-2 by which will be generating a business of PKR170mln annually. The company has created a reserve against IBNR on account of UAIS.

Sindh government-related business provides slight comfort. Although the company is trying to develop a market-related business but it needs further impetus in order to preserve company's relative positioning.

#### Disclosure

<b>Name of Rated Entity</b>	Sindh Insurance Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	PACRA_Methodology_GI_FY19(Jun-19)
<b>Related Research</b>	Sector Study   General Insurance(May-19)
<b>Rating Analysts</b>	Rohail Amjad   rohail.amjad@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Sindh Insurance Limited (SIL) was incorporated as a non-listed public limited company on December 20th, 2013 as a wholly owned entity of Government of Sindh (GoS) with primary objective to fulfill insurance needs for huge assets owned and financed by GoS as per the 'Sindh Insurance of public property Act, 2015', with a capital of PKR 500mln

**Background** The mission of the company is to maximize market share through adoption of comprehensive conventional and non-conventional distribution strategy by marketing innovative insurance products

**Operations** SIL started its operation effectively beginning Oct-14, envisaging business from all segments of general insurance. SIL is the very first project of the Government of Sindh in the general insurance sector with a mandate to park business-related to public assets of GoS and the group – Sindh Group (SG) including bank, leasing, modarba and microfinance. Meanwhile building non-captive portfolio, the business model incorporates capitalizing platforms of SG entities – all financial institutions – and benefit from synergies available within the group

## Ownership

**Ownership Structure** SIL's seven member board comprises elected representatives of GoS. Two are Government's officials, while rest are employees of Financial Institutions owned by GoS

**Stability** Sindh Insurance has a smooth and sound shareholding

**Business Acumen** Government of Sindh (GoS) owns 100% stake in SIL through Ministry of Finance (MoF)

**Financial Strength** Sindh bank has since ventured into Islamic banking and has a network of 13 Islamic branches throughout the country whereas Sindh Modaraba, with 70% holding of GoS, is a perpetual, multi-dimensional, and no-trading modaraba. The Modaraba engages in business of Ijarah, diminishing musharkah and other shariah compliant financing facility.

## Governance

**Board Structure** SIL's seven member board comprises elected representatives of GoS. Two are Government's officials, while rest are employees of Financial Institutions owned by GoS

**Members' Profile** The profile of entire board is satisfactory, with a mix of experienced legal professionals and investment experts. The chairman of the board, Mr. Bilal Sheikh, is a seasoned banker with over 45 year's diversified banking experience. Mr. Mushtaq Malik has joined the board of directors replacing Mr. Ahmad Salahuddin as an executive director.

**Board Effectiveness** On average, all the directors have presence on at least two other boards of listed companies, however availability of directors is not an issue as witnessed by the high attendance in board meetings. The company intends to bring one more independent director with the recruitment process already underway.

**Financial Transparency** Riaz Ahmad & Company, Chartered Accountants issued an unqualified audit report pertaining to financial statements for CY17 as well for the review of six months ending Jun-18. BDO Ebrahim & Co. Chartered Accountants has been appointed as new auditors from CY18,

## Management

**Organizational Structure** Operations of the company are divided into four departments; i) Operations, ii) Finance, iii) Human Resource & Admin, and iv) Internal Audit. Head of Operations (HOO), Head of Finance (CFO) and Head of HR & Admin directly report to the CEO.

**Management Team** Management team is being headed by the CEO, Mr. Muhammad Faisal Siddiqui. The head count of the company, as at year end Dec-17 was 32; herein, mostly belong to the lower tier except departmental heads. Currently, the positions of claims and underwriting Head of Departments are vacant

**Effectiveness** Mr. Muhammad Faisal Siddiqui, the CEO since the inception of the company, is an Associate of Chartered Insurance Institute, London, and possesses diversified experience in life and general Insurance. He served as CEO of National Assets Insurance Limited for four years and remained the Deputy Director, General Insurance, in Securities and Exchange Commission of Pakistan for half a decade. The CEO is supported by a management team comprising qualified and experienced professionals.

### MIS

**Claim Management System** The claims process is initiated with claim intimation by client (via email, letter or phone call) and is recorded directly on claims register. For claim validation/authentication purposes, a surveyor is appointed on the basis of size of claim; in-house surveyor up to PKR 25,000, and external surveyor for claims above PKR 25,000 with prior approval of CEO

**Investment Management Function** SIL has sizeable investment book (PKR 3,018 mln), that constitutes 216% of equity at end-Sep 18. The investments are deployed entirely in liquid avenues dominated by Term Deposits in banks with attractive. SIL has invested majorly in TDF's in this stage to keep it risk free. Investment management is overseen by an Investment Committee which includes CEO, CFO and one board member – Mr. Muhammad Bilal Sheikh (Chairman)

**Risk Management Framework** SIL's re-insurers panel includes Hannover Re (AA- by S&P), Trust Re (A- by S&P), PRCL (AA by JCR) and GIC – Dubai Br (A- by A.M Best). The treaty capacities are optimal with surplus arrangements, which are adequate in the initial years of operation. The company has diversified its panel of reinsurers, boding well for its financial risk.

## Business Risk

**Industry Dynamics** Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 11%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform

**Relative Position** The company is placed among the small players in the industry. The company needs to develop market business to preserve its business positioning.

**Revenue** During 3MCY19, SIL reported a GPW of PKR 30.4mln (Conventional: PKR 29, PTF: PKR 1.4mln) (3MCY18: 23.6) increasing by 29% YoY. Improvement was witnessed in both conventional and window takaful operations

**Profitability** The company registered a Net Premium Revenue of PKR 93.4mln (Conventional PKR: 91mln, PTF PKR: 2.4mln) (3MCY18: PKR 89.76mln) rising by marginal 8%. The the company posted an underwriting profit of PKR 15.84mln (Conventional 15mln, PTF PKR: .848 mln) as compared to against an underwriting profit of PKR 34.06mln in 3MCY18 declining by a huge 56% on account of increased insurance claims cost

**Investment Performance** The investment income of the company rose by 40% to PKR 88mln (3MCY18: 66mln) compared to the same period last year. The increase was due to increased return on debt securities amidst rising interest rates

**Sustainability** The company needs to develop a market-related business to preserve its relative positioning. To grow the market business is important for the company. Profitability is also essential. Sindh Insurance has recently ventured into a new business of Sindh Engro Coal Mining (Pvt.) Ltd.Phase-2 by which will be generating a business of PKR170mln annually

## Financial Risk

**Claim Efficiency** IBNR reported on account of UAIC is the major portion of claims outstanding. The claims days rose to a whopping 2262 days at Mar -19 (CY 18 : 827 days, CY17: 547days)

**Re-Insurance** The treaty capacities are optimal with surplus arrangements, which are adequate in the initial years of operation. The company has diversified its panel of reinsurers, boding well for its financial risk.

**Liquidity** Liquidity coverage dropped to 1.6x as against 2.1x in 3MCY18 on account of increased provisions for outstanding claims (including IBNR).

**Capital Adequacy** The company has equity of PKR 1.5bln, well above the basic requirement for the insurance companies by SECP.



The Pakistan Credit Rating Agency Limited

## General Insurance

### Sindh Insurance Limited (SIL)

<b>BALANCE SHEET</b>	<b>Mar-19</b>	<b>Dec-18</b>	<b>Dec-17</b>	<b>Dec-16</b>
	Annual	Annual	Annual	Annual
<b>Investments</b>				
Liquid Investments	3,169	3,161	3,048	2,546
Investment in Associates				
Other Investments				
	<b>3,169</b>	<b>3,161</b>	<b>3,048</b>	<b>2,546</b>
Insurance Related Assets	457	466	130	87
Other Assets	226	171	247	303
Asset - Window Takkaful	63	62	54	50
<b>TOTAL ASSETS</b>	<b>3,915</b>	<b>3,860</b>	<b>3,479</b>	<b>2,985</b>
Equity	1,555	1,479	1,281	656
Underwriting Provisions	201	308	374	1,722
Insurance Related Liabilities	2,091	2,024	1,277	533
Other Liabilities	58	39	544	72
Liabilities - Window Takkaful	9	9	2	1
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>3,915</b>	<b>3,860</b>	<b>3,479</b>	<b>2,985</b>
<b>INCOME STATEMENT (Extracts)*</b>	<b>Mar-19</b>	<b>Dec-18</b>	<b>Dec-17</b>	<b>Dec-16</b>
<b>Gross Premium Written (GPW)</b>	<b>29</b>	<b>426</b>	<b>403</b>	<b>2,409</b>
Net Premium Revenue (NPR)	92	359	1,619	2,409
Net Claims	76	802	763	517
Net Operational Expenses	2	469	862	117
Underwriting Results - Adjusted	(4)	-	3,239	3,042
Investment Income	88	258	181	63
PROFIT/ LOSS BEFORE TAX	106	279	175	83
PROFIT/ LOSS AFTER TAX	76	198	122	156
<b>RATIO ANALYSIS (Conventional)</b>	<b>Mar-19</b>	<b>Dec-18</b>	<b>Dec-17</b>	<b>Dec-16</b>
<b>Underwriting Results</b>				
Loss Ratio	83%	224%	47%	81%
Combined Ratio	107%	404%	7%	99%
<b>Performance</b>				
Operating Ratio	8%	327%	-4%	87%
Investment Yield	11%	8%	6%	16%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	1.6	1.6	2.6	5.2

\*Including Takkaful Operations

Sindh Insurance Limited (SIL)

Aug-19

## 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	<b>Exceptionally Strong.</b> 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+	<b>Very Strong.</b> 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.
AA	
AA-	
A+	<b>Strong.</b> 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.
A	
A-	
BBB+	<b>Good.</b> 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.
BBB	
BBB-	
BB+	<b>Weak.</b> 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.
BB	
BB-	
B+	<b>Very Weak.</b> 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.
B	
B-	
CCC	<b>Very high credit risk.</b> 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.
CC	
C	
D	<b>Distressed.</b> 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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