



The Pakistan Credit Rating Agency Limited

Rating Report

Reliance Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Dec-2022	A+ (ifs)	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating of Reliance Insurance Company Limited ("Reliance" or the "Company") derives strength from a long track record of insurance operations which extends over four decades and also from the stable and strong ownership profile of two renowned industrial groups, Al-Noor Group and Amin Bawany Group. The parent groups are well-established and maintain a sound investment portfolio in diversified businesses. They have a long shared and common history in this Company. Reliance has an experienced management team associated with the Company for a substantial period of time. The rating also considered Company's organic growth and very low captive business. The Company exhibited a growth of 19% YoY in net insurance premium to PKR 252mln in 9MCY22 (9MCY21: PKR 212mln). However, due to volatility in the capital market, the Company experienced a decrease of 47% in Investment Income to PKR 35mln during 9MCY22 (9MCY21: PKR 66mln). Company has constantly endeavored to diversify its business composition and while its forte resides with the fire segment, the Company offers a variety of other products. Going forward, growth is projected to accelerate in parallel with economic activity; management anticipates that the fire, marine, and motor segments will drive much of the growth. Moreover, to maintain the firm's risk appetite, the company has well-known reinsurers with strong credit risk profiles. The rating also factors in an adequate liquidity position, as evidenced by the existence of considerable liquid assets.

The rating is dependent on the company's ability to improve its market position with continued profitability. The liquidity position and hence, financial risk profile should remain afloat along with growth. Sustaining underwriting profitability will be crucial going forward.

Disclosure

Name of Rated Entity	Reliance Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Mar-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study General Insurance(May-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504



Profile

Legal Structure Reliance Insurance Company Limited ("Reliance" or the "Company") was incorporated in 1981 and is listed on the Pakistan Stock Exchange (PSX).

Background Reliance was jointly established by two renowned industrial groups (Al-Noor Group and Bawany Group). Al-Noor Group was founded by Mr. Ismail H. Zakaria (Late) and Amin Bawany Group is founded by Mr. Mohammed Amin Ahmed Bawany (Late). Several industrial and commercial projects have been successfully implemented by the groups.

Operations With 24 branches all over Pakistan and a full-time workforce of 177 persons, Reliance Insurance underwrites all classes of General Insurance/Takaful business with a dominating fire segment concentration.

Ownership

Ownership Structure There are two major shareholders; Al-Noor Group (25.45%) and Amin Bawany Group (25.45%). While, the remaining shares are held by Irfan Zakaria Bawany (12.74%), Corporate Inst./Joint Stock Co's (22.33%) and General Public (14.03%).

Stability The Company has a stable ownership structure over the years with no expected change in the future.

Business Acumen The sponsors have extensive and long-standing experience in diversified businesses, depicted strong business acumen.

Financial Strength The sponsoring groups have a sound financial profile as they have ownership stakes in more than 12 companies. If need arises in future, the sponsors have a commitment to support the Company.

Governance

Board Structure The Company has a nine-member board of directors. The Board comprises all non-executive directors including three independent and MD & CEO as an executive director. The Company has three board-level committees namely, i) Audit, ii) Human Resource & Remuneration and Nomination Committee.

Members' Profile The profile of the entire board is satisfactory, with a mix of experienced legal professionals and investment experts. The Chairman of the board, Mr. Irfan Zakaria Bawany is a certified director from the Pakistan Institute of Corporate Governance with other qualifications. Mr. Irfan has over 37 years of experience.

Board Effectiveness The board meetings are held every quarter and high attendance of the Board members is ensured. The minutes of the meetings are documented.

Transparency The Board has endorsed the appointment of M/s. BDO Ebrahim & Co., Chartered Accountants, as external auditors for the year end-Dec22. M/s. Kreston Hyder Bhimji & Co. Chartered Accountants have expressed an unqualified opinion on financial statements for the year end-Dec21.

Management

Organizational Structure The Company has a simplified organizational structure with clear reporting lines, ensuring the segregation of duties. To ensure the smooth functioning of the Company's activities, different management-level committees are in place.

Management Team The Chief Executive Officer, Mr. A. Razak Ahmed has a long association with the Group, carrying extensive experience of insurance industry. The management team also possesses sound experience in the relevant fields which bodes well for executing Company's operational and financial strategies.

Effectiveness Reliance Insurance's monitoring and evaluation structure is also effective, as evidenced by periodic management meetings.

MIS Reliance Insurance is well cognizant of the importance of information technology and is constantly investing to expand and upgrade its technology platform as and when required. The IT strategy is fully aligned with the Company's operational requirements in order to provide swift services to the company's customers for their highest level of satisfaction.

Claim Management System In the occurrence of any claims to the policyholders' insurable interests, the company pays them as promptly as possible. However, independent surveyors are assigned to evaluate the amount of loss for processing and settlement of a claim while keeping the nature of the claims in mind. The Company also uses WK Webster as a claims settler.

Investment Management Function Reliance has a formal approved IPS. Further, Board has constituted an investment committee. Meeting for proposed investments is held fortnightly. Reliance's portfolio is diversified amongst various sectors keeping in view the history of payout, growth potential and active trading.

Risk Management Framework Board has formed a Risk Management and Compliance Committee according to the guidelines. The committee oversees the following: Monitoring and review of all material controls (Financial, operations, and Compliance), Risk mitigation measures are robust and integrity of financial information is ensured and Appropriate extent of disclosure of the company's risk framework and internal control system.

Business Risk

Industry Dynamics The General Insurance sector of Pakistan, operating with approximately 28 insurance companies, falls under the services sector of the economy. In terms of Gross Written Premium (GWP), the general insurance industry has a total size of PKR 113bln in 9MCY22 compared to PKR 88bln in 9MCY21, exhibiting a growth of 28.8%. The industry reported a significant decrease of 38.8% in underwriting results to PKR 2.7bln in 9MCY22 (9MCY21: PKR 4.4bln). The net income of the industry experienced a drop by 26% to PKR 7.4bln in 9MCY22 (9MCY21: PKR 10bln). The recent floods have caused significant losses to the economy. This will affect the insurance industry's performance during the ongoing quarters.

Relative Position Reliance Insurance is classified as a small entity in the general insurance industry with less than 1% market share in terms of GPW as at end-Sep22.

Revenue The Company underwrote a gross premium of PKR 726mln (inclusive of PKR 75mln of Takaful Contribution) during CY21 as compared to PKR 631mln (inclusive of PKR 62mln of Takaful Contribution) in CY20, depicting a growth of 15%. Top-10 customers of the Company contributed above 17% to the GPW. During 9MCY22, the Company underwrote PKR 567mln (inclusive of PKR 70mln of Takaful contribution). Fire segment being the major segment contributed ~50% of the gross premium written in 9MCY22.

Profitability During CY21, the core income of the Company grew by 9.9% to PKR 32mln (CY20: PKR 29mln). However, the investment income witnessed a decrease of 10.5% to PKR 75mln (CY20: PKR 84mln) during CY21. The net impact is further trickled down to the bottom line of the Company, which reported a decrease of 22.6%. The Company's net profit stood at PKR 53mln as compared to a net profit of PKR 68mln for the previous year. During 9MCY22, the Company earned a net profit of PKR 31mln.

Investment Performance During CY21, dividend income grew by 27.5% to PKR 60mln against PKR 47mln of the previous year. Income from debt securities held for maturity also increased from PKR 4.4mln CY20 to PKR 5.1mln for CY21. Moreover, net realized gains decreased from PKR 6mln in C21 to PKR 13mln in CY20. The investment yield for the CY21 was at 8.1% against 9.1% for the previous year CY20. The investment yield for 9MCY22 stood at 6%.

Sustainability Currently, the management does not have aggressive plans to increase the Company's capital through owner's source. However, the Company foresees high growth targets with a focus on its main segment i.e., motor segment. The Company aims to enhance its profits by majorly focusing on its Fire and Property Damage segment as 50% of the firm's business is under this segment.

Financial Risk

Claim Efficiency Claims outstanding days increased to 306 days (CY21) as compared to 260 days (CY20). Claims outstanding days stood at 296 for the period 9MCY22.

Re-Insurance Reliance successfully concluded reinsurance arrangements for the year 2022. Swiss Re world's most prestigious and renowned Re-Insurer continues to be the leader of RIC's reinsurance program for the year 2022. Underwriting capacity for certain lines of business has improved further in 2022. Company has proportional treaty arrangements. Company ceded insurance premium of PKR 258mln in 9MCY22.

Cashflows & Coverages Company's current ratio stood at 1.6x in CY21 (CY20: 1.4x). In 9MCY22 Company's current ratio stood at 1.9x showing strong liquidity position. Liquidity coverage changed slightly it stood at 4.8x at end of CY21 and 4.4x at CY20 on account of provisions for outstanding claims (including IBNR). Liquidity coverage for the 9MCY22 stood at 5.5x.

Capital Adequacy Company's equity stood at PKR 1,131mln in CY21 experiencing growth of ~5% (CY20: PKR 1,074mln). For 9MCY22 equity base stood at PKR 1,137mln.



PKR mln

Reliance Insurance Company Limited
Listed Public Limited

Sep-22	Dec-21	Dec-20	Dec-19
9M	12M	12M	12M

A BALANCE SHEET

1 Investments	1,076	1,074	1,104	1,081
2 Insurance Related Assets	683	711	594	462
3 Other Assets	139	139	99	125
4 Fixed Assets	76	73	70	83
5 Window Takaful Operations	-	-	-	-
Total Assets	1,974	1,997	1,867	1,751
1 Underwriting Provisions	371	378	328	383
2 Insurance Related Liabilities	351	420	410	286
3 Other Liabilities	115	68	56	90
4 Borrowings	-	-	-	-
5 Window Takaful Operations	-	-	-	-
Total Liabilities	837	866	793	758
Equity/Fund	1,137	1,131	1,074	993

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	479	730	631	726
2 Net Insurance Premium/Net Takaful Contribution	282	333	379	414
3 Underwriting Expenses	(240)	(292)	(327)	(345)
Underwriting Results	41	40	52	69
4 Investment Income	49	77	86	105
5 Other Income / (Expense)	(35)	(41)	(37)	(50)
Profit Before Tax	55	77	101	123
6 Taxes	(13)	(17)	(15)	(25)
Profit After Tax	42	59	86	98

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	70	78	62	104
2 Net Takaful Contribution	4	4	24	27
3 Net Takaful Claims	(7)	(7)	(17)	(11)
4 Direct Expenses Including Re-Takaful Rebate Earned	6	7	6	6
Surplus Before Investment & Other Income/(Expense)	3	4	13	23
5 Investment Income	2	(1)	(2)	4
6 Other Income/(Expense)	1	3	7	-
Surplus for the Period	6	6	17	27

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	25	25	36	39
2 Management, Commission & Other Acquisition Costs	(20)	(21)	(26)	(33)
Underwriting Income/(Loss)	5	5	10	5
3 Investment Income	11	3	5	8
4 Other Income/(Expense)	1	3	3	(1)
Profit Before tax	17	11	18	12
5 Taxes	(4)	(3)	(5)	(3)
Profit After tax	13	8	13	8

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaf	23.4%	21.3%	24.5%	23.7%
Combined Ratio (Loss Ratio + Expense Ratio)	85.3%	87.9%	86.3%	83.4%
2 Investment Performance				
Investment Yield	6.0%	7.1%	7.9%	9.7%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	5.5	4.8	4.2	6.6
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	94.7%	95.0%	102.7%	108.9%

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)

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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(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).

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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)

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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