



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
24-Nov-2023	A+ (ifs)	-	Stable	Maintain	-
30-Dec-2022	A+ (ifs)	-	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

In terms of Gross Premium Written (GPW), the general insurance industry has a total size of ~PKR 84bln during 6MCY23 (6MCY22: ~PKR 66bln), exhibiting a growth of ~28%. However, the underwriting performance of the industry witnessed a dip of ~72% and was reported at ~PKR 863mln during 6MCY23 (6MCY22: ~PKR 2.9bln). Investment income contributed to the industry's earnings reported at ~PKR 7.7bln during 6MCY23 (6MCY22: ~PKR 5.1bln). However, current economic conditions remain imperative for the overall performance of the insurance industry.

The assigned rating of Reliance Insurance Company Limited ("Reliance" or "the Company") derives strength from its adequate position in the insurance sector. Moreover, considerably strong sponsoring Groups - Al-Noor and Amin Bawany – add strength. Both Groups operate diversified businesses. Over time, the Company has shown organic growth with minimal reliance on captive business. Gross premium grew by ~30% during 6MCY23; mainly emanating from the Fire and Property (~52%) segment, followed by the Marine and Transport (~25%) segment. The Company's bottom line gathers further support from the growth in the investment portfolio's performance backed by the prevailing high interest rates. Investment income reported grew by ~124% during 6MCY23. Going forward, the Company aims to diversify its focus towards the motor insurance segment so as to support its market share. The financial risk profile is characterized by an adequate liquidity position backed by considerable liquid assets. Moreover, the Company maintains adequate risk appetite evident from the agreed treaties with credit-worthy and well-known reinsurers.

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 with growth. Sustained underwriting profits remain crucial, going forward.

Disclosure	
<b>Name of Rated Entity</b>	Reliance Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   General Insurance Rating(Mar-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   General Insurance(Jun-23)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504



## Profile

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

**Background** Reliance Insurance 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 183 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 the MD & CEO as an Executive Director.

**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 Company has three Board-level committees namely, Audit, Human Resource & Remuneration and Nomination Committee. The board meetings are held every quarter and high attendance of the Board members is ensured. The minutes of the meetings are documented.

**Transparency** M/s. BDO Ebrahim & Co., Chartered Accountants have expressed an unqualified opinion on financial statements for the CY22.

## Management

**Organizational Structure** The Company has a simplified organizational structure with clear reporting lines, ensuring the segregation of duties.

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

**Effectiveness** To ensure the smooth functioning of the Company's activities, different management-level committees are in place. Reliance Insurance's monitoring and evaluation structure is also effective, as evidenced by periodic management meetings.

**MIS** The Company 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 claim's settler.

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

**Risk Management Framework** The 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 industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. During 6MCY23, in terms of GPW, the General Insurance industry stood at PKR 84bln (6MCY22: PKR 66bln), witnessing a growth of 28%. This surge was primarily attributed to the impact of rupee-dollar parity on asset pricing. However, underwriting performance plummeted by 72%, reporting to PKR 863mln (6MCY22: PKR 2.9bln). Profit after tax increased by 20% to PKR 6bln, supported by investment income amidst weak underwriting. However, the overall outlook of the industry remains stable.

**Relative Position** Reliance Insurance with a market share of less than 1% is classified among small-sized companies in the industry in terms of GPW for the period ending June'23.

**Revenue** The Company underwrote a gross premium of PKR 858mln during CY22 as compared to PKR 730mln in CY21, depicting a growth of 17.5%. During 6MCY23, the Company underwrote PKR 438mln. Fire segment being the major segment contributed 54% of the gross premium written in 6MCY23. The majority (89%) of GPW is driven from conventional operations.

**Profitability** During CY22, the core income of the Company grew by 22.5% to PKR 49mln (CY21: PKR 40mln). However, the investment income remained stable to PKR 81mln (CY21: PKR 81mln) during CY22. The high other expenses along with the high tax expense impacted the bottom line of the Company, which reported a decrease of 16.9%. The Company's net profit stood at PKR 49mln as compared to a net profit of PKR 59mln for the previous year. During 6MCY23, the Company earned a net profit of PKR 51mln.

**Investment Performance** During CY22, dividend income grew by 27.6% to PKR 83mln against PKR 65mln of the previous year. Income from debt securities held for maturity also increased from PKR 6mln CY21 to PKR 9mln for CY22. Moreover, net realized gains increased to PKR 7mln in CY22 to PKR 5mln in CY21. The investment yield for CY22 was at 8.1% against 9.1% in CY21. The investment yield for 6MCY23 stood at 10.8%.

**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 by increasing its business concentration in the motor segment.

## Financial Risk

**Claim Efficiency** Claims outstanding days decreased to 268 days (CY22) as compared to 329 days (CY21). Claims outstanding days stood at 211 for the period 6MCY23.

**Re-Insurance** Reliance Insurance successfully concluded reinsurance arrangements for the year 2023. Swiss Re world's most prestigious and renowned Re-Insurer continues to be the leader of RIC's reinsurance program for the year 2023. Underwriting capacity for certain lines of business has improved further in 2023. The Company has proportional treaty arrangements. The Company ceded an insurance premium of PKR 454mln in 6MCY23.

**Cashflows & Coverages** The Company's current ratio stood at 1.9x in CY22 (CY21: 1.6x). In 6MCY23 the Company's current ratio stood at 1.8x showing strong liquidity position. Liquidity coverage changed slightly it stood at 5.1x at end of CY22 and 4.7x at CY21 on account of provisions for outstanding claims (including IBNR). Liquidity coverage for the 6MCY23 stood at 4.0x.

**Capital Adequacy** The Company's equity stood at PKR 1,148mln in CY22 experiencing growth of 1.5% (CY21: PKR 1,131mln). For 6MCY23 equity base stood at PKR 1,166mln.



PKR mln

Reliance Insurance Company Limited  
Public Listed Company

Jun-23	Dec-22	Dec-21	Dec-20
6M	12M	12M	12M

#### A BALANCE SHEET

1 Investments	1,072	1,051	1,074	1,104
2 Insurance Related Assets	857	814	731	606
3 Other Assets	125	147	118	87
4 Fixed Assets	87	73	73	70
5 Window Takaful Operations	-	-	-	-
<b>Total Assets</b>	<b>2,141</b>	<b>2,084</b>	<b>1,997</b>	<b>1,867</b>
1 Underwriting Provisions	370	413	378	328
2 Insurance Related Liabilities	476	423	424	410
3 Other Liabilities	129	99	64	56
4 Borrowings	-	-	-	-
5 Window Takaful Operations	-	-	-	-
<b>Total Liabilities</b>	<b>975</b>	<b>936</b>	<b>866</b>	<b>793</b>
<b>Equity/Fund</b>	<b>1,166</b>	<b>1,148</b>	<b>1,131</b>	<b>1,074</b>

#### B INCOME STATEMENTS

##### CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	438	858	730	631
2 Net Insurance Premium/Net Takaful Contribution	259	403	333	379
3 Underwriting Expenses	(205)	(354)	(292)	(327)
<b>Underwriting Results</b>	<b>54</b>	<b>49</b>	<b>40</b>	<b>52</b>
4 Investment Income	57	81	81	86
5 Other Income / (Expense)	(28)	(58)	(45)	(37)
<b>Profit Before Tax</b>	<b>84</b>	<b>73</b>	<b>77</b>	<b>101</b>
6 Taxes	(33)	(23)	(17)	(15)
<b>Profit After Tax</b>	<b>51</b>	<b>49</b>	<b>59</b>	<b>86</b>

##### PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	49	96	78	62
2 Net Takaful Contribution	8	5	4	24
3 Net Takaful Claims	(7)	(12)	(7)	(17)
4 Direct Expenses Including Re-Takaful Rebate Earned	4	9	7	6
<b>Surplus Before Investment &amp; Other Income/(Expense)</b>	<b>5</b>	<b>2</b>	<b>4</b>	<b>13</b>
5 Investment Income	1	1	(1)	(2)
6 Other Income/(Expense)	1	2	3	7
<b>Surplus for the Period</b>	<b>7</b>	<b>5</b>	<b>6</b>	<b>17</b>

##### OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	21	38	25	36
2 Management, Commission & Other Acquisition Costs	(16)	(30)	(21)	(26)
<b>Underwriting Income/(Loss)</b>	<b>5</b>	<b>8</b>	<b>5</b>	<b>10</b>
3 Investment Income	9	13	7	5
4 Other Income/(Expense)	0	(1)	(1)	3
<b>Profit Before tax</b>	<b>13</b>	<b>19</b>	<b>11</b>	<b>18</b>
5 Taxes	(4)	(6)	(3)	(5)
<b>Profit After tax</b>	<b>10</b>	<b>14</b>	<b>8</b>	<b>13</b>

#### C RATIO ANALYSIS

<b>1 Profitability</b>				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaf	25.8%	26.2%	21.3%	24.5%
Combined Ratio (Loss Ratio + Expense Ratio)	79.1%	87.7%	87.9%	86.3%
<b>2 Investment Performance</b>				
Investment Yield	10.8%	7.7%	7.4%	7.9%
<b>3 Liquidity</b>				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	4.0	5.1	4.8	4.2
<b>4 Capital Adequacy</b>				
Liquid Investments / Equity (Funds)	91.9%	91.5%	95.0%	102.7%

### 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
<b>AAA (ifs)</b>	<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.
<b>AA++ (ifs)</b> <b>AA+ (ifs)</b> <b>AA (ifs)</b>	<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.
<b>A++ (ifs)</b> <b>A+ (ifs)</b> <b>A (ifs)</b>	<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.
<b>BBB++ (ifs)</b> <b>BBB+ (ifs)</b> <b>BBB (ifs)</b>	<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.
<b>BB++ (ifs)</b> <b>BB+ (ifs)</b> <b>BB (ifs)</b>	<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>B++ (ifs)</b> <b>B+ (ifs)</b> <b>B (ifs)</b>	<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.
<b>CCC (ifs)</b> <b>CC (ifs)</b> <b>C (ifs)</b>	<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
<b>D (ifs)</b>	<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 surveill 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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