The Pakistan Credit Rating Agency Limited

Rating Report

Reliance Insurance Company Limited

Report Contents

Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
22-Nov-2024	A+ (ifs)	Stable	Maintain	-
24-Nov-2023	A+ (ifs)	Stable	Maintain	-
30-Dec-2022	A+ (ifs)	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Reliance Insurance Company Limited's ("Reliance" or “the Company") IFS rating derives strength from its association with the renowned sponsoring Groups, Al-Noor and Amin Bawany. Both Groups operate diversified businesses that add strength to the Company's overall policy framework. Reliance provides conventional insurance (~89% of the overall business), along with operating a Takaful window. Over time, the Company has shown organic growth with minimal support from captive business. Reliance's GPW (Gross Premium Written) grew in line with the industry, reflecting growth of ~29%, and majorly (~56.4%) trickling in from the fire segment only. Thus, the segmental concentration remains elevated. Core income remains steady; while a significant uptick in investment returns supplemented the Company's overall performance. This growth was attributed to the revival of the equity market, as the majority (~77%) of investment tilted towards equity instruments. The Company aims to diversify its focus towards the motor segment to support the market share and manage concentration. Moreover, the investment book might require attention according to the current shift in market returns. 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. Enhancing pure equity, though gradual, remains important to rating, going forward.

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 along with equity enhancement remain crucial, going forward.

Disclosure

Name of Rated Entity	Reliance Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Assessment Framework | General Insurance(Mar-24),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | General Insurance(Jun-24)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Reliance Insurance Company Limited ('Reliance Insurance' or 'the Company') was incorporated as a public limited company in 1981 and is listed on PSX.

Background Reliance Insurance was jointly established by two renowned industrial Groups, Al-Noor and Amin Bawany. Al-Noor Group was founded by Mr. Ismail H. Zakaria (late) and Amin Bawany Group was founded by Mr. M. Amin Ahmed Bawany (late). Several industrial and commercial projects have been successfully implemented by the Groups.

Operations Reliance Insurance underwrites all classes of General Insurance and Takaful business with a dominating fire segment concentration. The Company operates through 24 branches across Pakistan.

Ownership

Ownership Structure The Company is owned primarily by Al-Noor Group (~25.45%) and Amin Bawany Group (~25.45%). The remaining shares are held by Mr. 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 witnessed varous business cycles over time. Both sponsors hold strong business acumen across diversified business portfolios; thus, providing the ownership structure a requisite support in the long term.

Financial Strength The sponsors hold strong financial footing across various sectors; thus, ensuring financial stability, going forward.

Governance

Board Structure The control vests with a nine members Board (BoD), comprising 5 Non-Executive Directors, 3 Independent Directors and 1 as an Executive Director.

Members' Profile The BoDs profile is satisfactory, with a mix of experienced legal professionals and investment experts. Mr. Irfan Zakaria Bawany chairs the BoD and is certified director from the Pakistan Institute of Corporate Governance. He holds more than 3 decades of experience.

Board Effectiveness The BoD meets every quarter and minutes of these meetings are adequately documented. The BoD is assissted by 3 committees - Audit, Human Resource & Remuneration and Nomination Committee.

Transparency M/s. BDO Ebrahim & Co., Chartered Accountants have expressed an unqualified opinion on financial statements for the CY23.

Management

Organizational Structure The Company operates through Underwriting, Risk Management, Sales and Marketing, Finance and IT department. All departmental Heads reports to the CEO, who then reports to the BoD. While, the Head of Internal Audit & HR functionally reports to the respective BoD committee, and administratively to the CEO.

Management Team The CEO, Mr. A. Razak Ahmed, holds long association with the Group and carrys extensive insurance related experience. The management team also possesses sound experience in the relevant fields.

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 recognizes the importance of information technology and continually invests in expanding and upgrading its platform as needed. The IT strategy is aligned with operational requirements to provide swift services and maximize customer satisfaction.

Claim Management System In the event of a claim, the Company pays policyholders as promptly as possible. Independent surveyors are assigned to assess the loss amount for claim processing and settlement, considering the nature of the claim. The Company also uses WK Webster as a claim's settler.

Investment Management Function The Company has a formal approved IPS, and the BoD has constituted an Investment Committee that meets fortnightly for proposed investments. The Company's portfolio is diversified across sectors, considering payout history, growth potential, and active trading.

Risk Management Framework The BoD has formed a Risk Management and Compliance Committee to oversee the monitoring and review of all material controls (financial, operational, and compliance), ensure robust risk mitigation, maintain the integrity of financial information, and ensure adequate disclosure of the Company's risk framework and internal controls.

Business Risk

Industry Dynamics During 3MCY24, GPW of General Insurance industry held a total size of PKR 48bln (3MCY23: PKR 41bln), posting growth of ~17%. Underwriting performance also improved by ~103% (3MCY24: PKR 3bln, 3MCY23: PKR 1.5bln). Improved underwriting and investment performance contributed to industry's earnings (3MCY24: PKR 6.3bln, 3MCY23: PKR 4bln). However, current economic conditions remain imperative for the overall performance of insurance industry.

Relative Position Reliance Insurance holds less than ~1% market share and is considered a small-sized company based on GPW posted during 3MCY24.

Revenue The Company operates in both conventional and Takaful segments, with the majority (~89%) of its business driven by conventional operations. The GPW grew in line with the industry, reflecting a growth of ~30% reporting at PKR 1,106mln during CY23 (CY22: PKR 858mln). The fire segment remained the major contributor (~56.4%), reflecting a high concentration risk. During 6MCY24 the GPW of the Company by ~15% reporting at PKR 503mln (6MCY23: PKR 438mln).

Profitability The core income of the Company remains weak, growing by ~10% during CY23 to PKR 54mln (CY22: PKR 49mln). During 6MCY24, underwriting results were reported at PKR 63mln (6MCY23: PKR 49mln). The investment income supplemented the overall performance of the Company. The net income grew by ~251% in CY23 to PKR 172mln (CY22: PKR 49mln) and further improved to PKR 208mln in 6MCY24 (6MCY23: PKR 51mln). The combined ratio remained high at ~89.7% in CY23 (CY22: ~87.7%) and was relatively stable at ~79.7% during 6MCY24 (6MCY23: ~79.1%).

Investment Performance The Company maintained an investment book of PKR 1,328mln as of 6MCY24 (CY23: PKR 1,243mln). The investment book showed strong performance, delivering a consolidated return of ~21.5% during CY23. Investment income reflected a significant increase of ~239% during the period, amounting to PKR 268mln (CY22: PKR 79mln). This growth was attributed to the revival of the equity market, with the majority (~77%) of investments in equity instruments. During 6MCY24, investment income was reported at PKR 223mln (6MCY23: PKR 57mln).

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 it business concentration in the motor segment.

Financial Risk

Claim Efficiency Claims outstanding days decreased to 163 days in CY23, compared to 268 days in CY22. As of 6MFY24, claims outstanding days remained stable at 212 days. The insurance claims/liquid investments efficiency ratio improved to ~48.7% in CY23 (CY22: 27.7%), while as of 6MCY24, the efficiency was reported at 41.2%.

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 CY23. Underwriting capacity for certain lines of business has improved.. The Company has proportional treaty arrangements. The Company ceded an insurance premium of PKR 243mln in 6MCY24 (CY23: PKR 471mln).

Cashflows & Coverages The Company reported a strong current ratio of 2.0x in CY23 (CY22: 2.0x). As at 6MCY24 the current ratio improved to 2.2x reflecting strong liquidity position. The liquidity coverage for provisions of outstanding claims (including IBNR) reported a decline but remained strong, standing at 4.1x as of 6MCY24 (CY23: 4.2x, CY22: 5.1x). The decline was primarily due to an increase in outstanding claims, in line with business growth.

Capital Adequacy The Company is well equipped in capital adequacy as per the requirements of SECP. The Company's equity base reported at PKR 1,328mln as at 6MCY24 reflecting an uptake of ~24% (6MCY23: PKR 1,072mln). During CY23 the equity base experience an uptake of ~15% reporting at PKR 1,311mln (CY22: PKR 1,148mln).

PKR mln

	Jun-24	Dec-23	Dec-22	Dec-21
Reliance Insurance Company Limited				
Public Listed Company	6M	12M	12M	12M
A BALANCE SHEET				
1 Investments	1,328	1,243	1,051	1,074
2 Insurance Related Assets	1,148	1,080	814	731
3 Other Assets	151	165	147	118
4 Fixed Assets	104	87	73	73
5 Window Takaful Operations	-	-	-	-
Total Assets	2,732	2,576	2,084	1,997
1 Underwriting Provisions	476	536	413	378
2 Insurance Related Liabilities	525	540	423	424
3 Other Liabilities	251	190	99	64
4 Borrowings	-	-	-	-
5 Window Takaful Operations	-	-	-	-
Total Liabilities	1,252	1,265	936	866
Equity/Fund	1,480	1,311	1,148	1,131
B INCOME STATEMENTS				
CONSOLIDATED INCOME STATEMENT				
1 Gross Premium Written/Gross Contribution Written	503	1,106	858	730
2 Net Insurance Premium/Net Takaful Contribution	313	519	403	333
3 Underwriting Expenses	(250)	(466)	(354)	(292)
Underwriting Results	63	54	49	40
4 Investment Income	223	268	79	81
5 Other Income / (Expense)	(34)	(64)	(56)	(45)
Profit Before Tax	252	257	73	77
6 Taxes	(44)	(85)	(23)	(17)
Profit After Tax	208	172	49	59
PARTICIPANTS' TAKAFUL FUND - PTF				
1 Gross Contribution Written	63	126	96	78
2 Net Takaful Contribution	14	14	5	4
3 Net Takaful Claims	(18)	(27)	(12)	(7)
4 Direct Expenses Including Re-Takaful Rebate Earned	2	8	9	7
Surplus Before Investment & Other Income/(Expense)	(1)	(4)	2	4
5 Investment Income	0	2	1	(1)
6 Other Income/(Expense)	1	3	2	3
Surplus for the Period	0	0	5	6
OPERATOR'S TAKAFUL FUND - OTF				
1 Wakala Fee Income	28	45	38	25
2 Management, Commission & Other Acquisition Costs	(18)	(35)	(30)	(21)
Underwriting Income/(Loss)	9	9	8	5
3 Investment Income	11	20	11	7
4 Other Income/(Expense)	(0)	(0)	1	(1)
Profit Before tax	20	29	19	11
5 Taxes	(6)	(8)	(6)	(3)
Profit After tax	14	21	14	8
C RATIO ANALYSIS				
1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	27.0%	31.9%	26.2%	21.3%
Combined Ratio (Loss Ratio + Expense Ratio)	79.7%	89.7%	87.7%	87.9%
2 Investment Performance				
Investment Yield	34.6%	23.4%	7.4%	7.4%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	4.1	4.2	5.1	4.8
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	89.8%	94.8%	91.5%	95.0%

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.

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 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.

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 surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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.

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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)

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 | 17-(a)
(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)

Proprietary Information