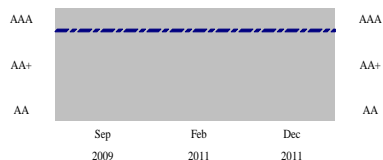


RATINGS (DECEMBER 2011)

STATE LIFE INSURANCE CORPORATION OF PAKISTAN (SLIC)

	NEW	PREVIOUS
Insurance Financial Strength	AAA	AAA

IFS RATING HISTORY



FINANCIAL DATA

PKR (mln)

	9MCY11*	Dec-10	Dec-09
Total Assets	271,134	251,478	217,685
Investments	237,690	216,628	189,609
Net Premium Revenue	24,251	35,639	28,367
Underwriting Results	2,234	4,153	1,013
Loss Ratio (%)	53.3	47.9	55.4
Liquid Assets to Policyholders' Liabilities	0.94	0.96	0.96

* based on unaudited accounts of nine months.

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PROFILE

- State Life Insurance Corporation of Pakistan (SLIC) was incorporated in March 1972 when the Life Insurance Business in Pakistan was nationalized. Currently, the company operates largely in life insurance (individual and group) and pension schemes segment.
- The Corporation's BOD comprises eight members, including the Chairman. The federal government through the Ministry of Commerce (MoC) nominates board members who are independent directors. The Chairman, Mr. Shahid Aziz Siddiqi, holds a master degree from Karachi University and Cambridge University. Mr. Siddiqi has held several key positions in various Government organizations and is associated with SLIC since 2008.

RATING RATIONALE AND KEY DRIVERS

- The rating reflects SLIC's sound market position in life insurance industry emanating from strong market share, extensive distribution network, experienced management and robust financial profile. The Corporation is pursuing a growth strategy, wherein while focusing on existing business lines, it intends to expand its product offerings. This is expected to help in managing the impact of increasing competition on business volumes. SLIC policy holder's obligations are supported by sound investment portfolio; hence any drag on its capital base is unlikely. Meanwhile, liabilities of the Corporation are guaranteed by the Government of Pakistan.
- SLIC's ability to maintain its leadership in the insurance sector is important. In this regard, successful execution of Corporation's envisaged business strategy including diversification and growth while managing risk and updating IT infrastructure would be key challenges. At the same time, upholding high governance standard will be critical.

ASSESSMENT

- State Life is the leading life insurer in Pakistan, holding ~ 68% of the total market share. The premium revenue comprises mainly local life insurance (96.7%) followed by foreign operations (3.2%), and pension schemes (0.1%). The Corporation has strong presence all across Pakistan fetching ~ 64% business from smaller cities/rural areas, while the rest hails from the larger cities of the country.
- During 2010, the Corporation witnessed significant growth in Gross Premium Written (GPW) (CY10: 25.4%, CY09: 25.2%). The main contribution is from individual business, though it is experiencing intense competition as being the low risk segment. First year premium of individual business grew by 33.8% (2009: 39.5%) while persistency rate remained at same level (84%). Group life insurance witnessed modest growth (CY10: 5%, CY09: -0.12%) and its contribution towards GPW remains small (10%). The Corporation's commission expenses (CY10: PKR 9,153mln; CY09: PKR 6,790mln) remained high on account of its remuneration policy which is tilted towards commission rather than fixed salaries. SLIC registered significant increase in underwriting performance owing to controlled loss ratio. Bottom line is further augmented by robust investment income (CY10: PKR 27,351mln; CY09: PKR 21,462mln) majorly due to rising interest rates, besides a sizeable increase in investment portfolio.
- SLIC maintained its growth trend during 9MCY11 and GPW increased by 27% compared to same period last year. Claims expense witnessed an increase of 16% leading to loss ratio of 53%. This was on account of increase in group claims and surrendering of individual policies. Meanwhile, investment income remains the key profitability driver.
- Going forward, SLIC intends to maintain sustained growth stance, with increasing focus on new avenues. These include bancassurance and health insurance, while tapping growth potential in Middle East to fuel GPW expansion. Given the low persistency rate in bancassurance segment, high claims ratio in health insurance business and subdued economic environment, the growth from new avenues will remain a challenge for the Corporation. The competition with increasing number of private companies entering life insurance segment is intensifying. This would require SLIC to critically monitor its service standards and be dynamic.
- Investment portfolio of shareholder's fund (PKR 964mln) and policy holder's fund (PKR 237,690mln) comprises 77% and 88% of respective asset base. The shareholder's portfolio majorly comprises government securities. The policy holder's investment book is dominated (80%) by government securities mainly Pakistan Investment Bonds (PIBs), followed by equities (11%) and remunerative bank deposits (7%) and a small portfolio of investment properties. Although PIBs are subject to interest rate risk, the Corporation does not trade in these investments and, hence, these risks are considered minimal. Going forward, the Corporation is planning to increase its exposure in equities owing to declining interest rate. Although portfolio of investment properties has a book value of PKR 2,769mln, it has sizeable unrecognized surplus of PKR 18,888mln (end- Dec 10). SLIC is using around 23% of its properties while the rest 77% have been rented out.
- SLIC has a detailed MIS reporting framework. However, to improve overall operations, the Corporation needs to strengthen its IT infrastructure. Being aware of this fact, SLIC is in process of implementing various modules of software to support its core operations. The Corporation has targeted to start parallel run by June 2012 after resolving all related issues.
- SLIC's cession level has remained under 1% over the last few years. This is due to the fact that the Corporation only cedes premium above a certain amount while most of the clients fall below that threshold. The Corporation reinsures its Pakistan business with Swiss Reinsurance (rated 'AA-' by 'Standard and Poor') and it's Overseas Business with Munich Reinsurance (rated 'A+' by 'A.M. Best').
- SLIC's paid up capital is PKR 1,100mln as against the regulatory requirement of PKR500mln. As the Corporation envisages expanding its operations in the Middle East, where, the equity requirement is AED 100mln. SLIC is planning to beef up its equity to the target of PKR 2,340mln by the end of June 2012 (End Sep11: PKR 1,239mln). In this regard, the Corporation is considering various options to raise its capital.
- The Corporation allocates 97.5% of the income to policyholders and 2.5% is paid to the government as a dividend. The Government has guaranteed the liabilities of the Corporation. Till date, the Corporation has never had to avail the guarantee.