



Media Release

RAM Ratings Lanka reaffirms Co-Operative Insurance's CPA rating of BB

RAM Ratings Lanka has reaffirmed the BB claims-paying ability rating of Co-operative Insurance Company Limited ("CICL" or "the Company"), with a stable outlook. The rating is premised on the Company's moderate competitive position, extensive distribution network and moderate underwriting standards. On the other hand, the rating is pressured by hefty overheads and inadequate reserving in the general-insurance business.

CICL is a small composite insurer in an industry where the 2 largest players command about 57% of the sector's gross written premiums ("GWPs"). Leveraging on the distribution networks of other co-operative societies, the Company was able to sustain its above-average premium growth in FYE 31 December 2008 ("FY Dec 2008"). CICL's overall premiums augmented 67.52% to LKR 653.45 million, resulting in a 1.12% share of the market as at the same date (end-FY Dec 2007: 0.75%). The growth was mainly driven by the motor insurance sub-class, which charted an unprecedented 97.97% year-on-year ("y-o-y") expansion in 2008.

While expanding its premiums, we note that CICL's overall claims ratio for general insurance increased from 46.80% to 58.98% in FY Dec 2008, owing to the high claims experience in the motor sub-class. Nonetheless, it was still better than the industry average of 64.92%. We note that the Company has been facing an increasing trend in claims in the motor sub-class, which may become a concern. However, for now we have taken into account the management's measures to arrest this rising trend. In the context of life insurance, RAM Ratings Lanka considers CICL's life insurance fund to be moderate owing to its benign claims ratio and lapse rates.

In the meantime, CICL has maintained its conservative investment strategy by investing about 79% of its funds in government securities. The high interest rate environment in 2008 aided the Company to increase its investment income from LKR 45.93 million to LKR 102.50 million y-o-y. Meanwhile, we note that the Company's reserving levels in general insurance also weakened in FY Dec 2008, pressured by escalating overheads. All said, CICL's pre-tax profit augmented 70.42% to LKR 53.17 million in FY Dec 2008 (FY Dec 2007: LKR 31.20 million). However, the core business performance is considered weak due to its heavy overheads.

Elsewhere, the Company reported solvency ratios of 1.10 and 1.13 times in the life and general segments, respectively, as at end-FY Dec 2008. However, RAM Ratings Lanka's independent calculation of CICL's ratio (excluding the fixed deposit placed with a registered finance company or RFC) revealed a marginal shortfall. Nonetheless, by September 2009 the management has taken remedial action.

On a more positive note, the Company's capital adequacy has improved after capital infusions. This had followed the Insurance Board of Sri Lanka's ("IBSL") provisional direction to increase an insurance company's paid-up capital to LKR 500 million (or LKR 250 million for each class of business) by end-2009. This regulation is expected to be mandatory with effect from FY Dec 2009. As at end-March 2009, CICL's paid-up capital amounted to LKR 251.23 million. Nonetheless, the shareholders of CICL have agreed to meet the regulatory requirement via the issuance of new shares and a dividend-reinvestment plan. RAM Ratings Lanka will monitor the Company in this regard and inability to meet this requirement may exert pressure on CICL's ratings.

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