



RATINGS

Media Release

RAM Ratings Lanka upgrades Co-operative Insurance Company Ltd's rating to BB+

RAM Ratings Lanka has upgraded Co-operative Insurance Company Limited's ("CICL" or "the Company") claims-paying ability rating from BB to BB+, with a stable outlook. The upgrade is reflective of the Company's strengthened capitalisation and improving financial performance. Moreover, the rating is supported by CICL's niche focus that insulates it from competition to some extent, and its extensive branch network. Nevertheless, the rating is moderated by the Company's small size and foothold in the market.

CICL entered the insurance arena in 1999, primarily catering to the rural masses. The Company works on a "mutual insurance" concept, whereby the owners and policy holders are the co-operative societies themselves. This gives CICL the opportunity to leverage on the co-operative societies' wide branch network, allowing it better access to its target market.

Despite the harsh economic climate, CICL had increased its composite market share to 1.30% as at end-December 2009 (end-December 2008: 1.12%), underscored by the Company's widely dispersed branch network. We also note that CICL had leveraged on the weakening competitive positions of certain larger players in the industry. The Company's overall gross written premiums ("GWPs") increased 14.10% year-on-year ("y-o-y") to LKR 745.58 million in FYE 31 December 2009 ("FY Dec 2009"). In the first 9 months of FY Dec 2010, its GWPs increased to LKR 649.67 million (+33.33% y-o-y), against the backdrop of gradually improving macroeconomic conditions and branch expansion. In spite of intensifying competition within the general-insurance segment, we opine that CICL will retain its position in the industry, owing to its niche focus, i.e. the rural masses. We also believe that the Company has good potential for expansion in the life segment given the low penetration rate in this area.

Although CICL's underwriting performance had weakened in FY Dec 2009, this was followed by a better showing in subsequent months. While the general business turned around with a LKR 60.76 million profit for the 9-month period, its life profits surged from LKR 6.72 million to LKR 35.01 million. This is owing to improved claims and cost control; as such, its combined ratio eased from 102.79% as at end-FY Dec 2009 to 83.99% as at end-September 2010.

With the cancellation of 2 health contracts that had given rise to hefty claims in FY Dec 2009, CICL's claims ratio on general insurance eased substantially to 46.13% as at end-September 2010 (end-FY Dec 2009: 64.19%). Going forward, we expect the elevated excesses imposed on its products and the recovering macroeconomic landscape to enhance the quality of its underwriting, which would in turn reduce claims. On the other hand, CICL's claims ratio for the life business remained low at 8.99% as at end-September 2010 (end-FY Dec 2009: 8.57%), mostly because it is a relatively new player and its life policies have yet to mature.

Meanwhile, CICL's capitalisation level is deemed moderate; its ratio on insurance liability to shareholders' funds was better than those of its peers as at end-FY Dec 2009, clocking in at 1.47 times (end-September 2010: 1.08 times). Notably, its shareholders' funds had increased following capital infusions last year; the Company's paid-up capital to LKR 499.41 million as at end-September 2010. This is in line with its aim to reach its targeted level of LKR 500 million (LKR 250 million for each business line) by 2011.

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