RAM

CREDIT RATING RATIONALE

November 2011

CO-OPERATIVE INSURANCE COMPANY LIMITED

- Claims-Paying Ability Ratings

RAM Ratings (Lanka) Ltd

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RAM RATINGS

CREDIT RATING RATIONALE

CLAIMS-PAYING ABILITY RATINGS

NOVEMBER 2011

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Principal Activity:
Provision of general and life insurance coverage

Ratings:
Long-term: BB+
[Reaffirmed]

Rating Outlook:
Stable

CO-OPERATIVE INSURANCE COMPANY LIMITED – Rating Review

Summary

RAM Ratings Lanka has reaffirmed Co-operative Insurance Company Limited's ("CICL" or "the Company") long- term claims-paying ability ratings at BB+; the outlook on the long-term rating is stable. The ratings continue to be constrained by the Company's small size. On the other hand, the ratings are supported by its extensive branch reach through its links with co-operative societies, as well as its conservative investment policy and adequate performance and capitalisation.

CICL has an extensive geographical coverage that mainly reaches the rural masses in Sri Lanka; the Company leverages on 80 strategically placed co-operative service centres. While roughly 50% of CICL's composite gross written premium ("GWP") comprises premiums stemming from the rural segment, the rest is from the Western province. Despite intense competition, CICL has continued to maintain its small market share of 1.31% as at end-December 2010, supported by its links to the co-operative societies in terms of both business generation and branch reach. These societies and their members continue to be the Company's shareholders.

The Company's composite GWP grew by 17.99% year-on-year ("y-o-y") during FYE 31 December 2010 ("FY Dec 2010"), primarily supported by the life segment, which grew by 56.32% y-o-y. However, CICL had experienced slower growth in its general segment at 8.60% y-o-y over the same period; this had been due to the intense competition in this segment, which is prone to price undercutting. That said, the Company's GWP continues to be dominated by general premiums, which accounted for 73.90% as at end-Dec 2010.

Meanwhile, on the back of increased GWP and decreased overall claims, CICL's total underwriting surplus had improved during fiscal 2010. However, we note that life segment claims have started to trickle in as the portfolio matures. Life claims increased to LKR 19.17 million in FY Dec 2010 (FY Dec 2009: LKR 11.91 million): this had resulted in an increased life claims ratio of 8.71% in the same period (FY Dec 2009: 8.57%). Meanwhile, CICL's general claims ratio improved

to 50.52% in FY Dec 2010 (FY Dec 2009: 61.64%) as claims dropped on the back of the discontinuation of 2 policies which resulted in high levels of claims coupled with an overall reduction in general claims. CICL's claims ratios in both life and general segments have continuously outperformed its peers. That said, increased overheads owing to branch expansions pressured the underwriting margins; CICL's overall expense ratio weakened to 60.55% in FY Dec 2010 (FY Dec 2009: 52.40%). However, supported by the reduced claims, the Company's combined ratio improved to 99.02% during the same period from 103.30% in the previous year.

On a separate note, the Company continued to maintain a conservative stance with regards to investments; this is viewed positively. As such, the majority of its investments are in the form of government bonds and fixed deposits in licensed commercial/specialised banks. While government securities still accounted for a 77.43% majority as at end-Dec 2010, CICL had increased its exposure to fixed deposits at 12.94% during the same period (end-Dec 2009: 7.42%). The Company's investment portfolio grew at a rapid 47.36% y-o-y on the back of premium growth. Meanwhile, we note that the Company's investment yields have been on a downward trend owing to the receding interest-rate scenario prevailing in the economy. Furthermore, the Company's liquidity position is considered to be adequate; its ratio on liquid assets to total insurance funds had improved to 1.61 times as at end-Dec 2010 (end-Dec 2009: 1.45 times), which is in line with its peers.

We observe improving trends in CICL's overall profitability on the back of GWP growth coupled with lower claims. However, due to branch expansions the Company's overhead costs had escalated; overall pre-tax profit improved only 5.89% to LKR 76.95 million in FY Dec 2010. We expect overheads to ease when new branches break even. CICL's general segment incurred an underwriting loss of LKR 35.37 million in FY Dec 2010 (FY Dec 2009: 29.33 million). Meanwhile, CICL's overall profitability eased against the backdrop of receding interest rates as its investment-yield ratio declined to 15.79% in FY Dec 2010 (FY Dec 2009: 20.38%).

On a separate note, CICL's capitalisation is deemed adequate. The Company had further strengthened its capital base by infusing LKR 203.19 million during FY Dec 2010, which in turn resulted in better capitalisation ratios. CICL's shareholders' funds to total assets and shareholders' funds to insurance funds ratios improved to 39.60% and 78.36% respectively as at end-Dec 2010 from 36.31% and 68.14% from previous year; both were better than the insurance peers. Moreover, CICL's solvency margins in both the life and general segments had improved during fiscal 2010, and are in line with its peers.

Company Background

Relatively new company focusing on rural segment

Governed by the Insurance Board of Sri Lanka ("IBSL"), CICL is a relatively new insurance company with a 12-year track record. 50% of CICL's GWP consists of business from co-operative societies; the rest comes from agents. Unlike most of the other insurance companies, CICL has continued to focus on the rural segment in Sri Lanka that is closely linked to the co-operative societies. The Company accrues an advantage from this as it can leverage on the societies' good geographical coverage.

Good Geographical presence

CICL is a smaller player in the insurance industry, accounting for a composite share of 1.31% as at end-December 2010 in terms of GWP. That said, the Company currently has 42 branches and leverages on the co-operative societies' 80 or so service centres to reach its target market. Meanwhile, CICL has a strong base of around 6000 insurance agents.

Now focused on life segment as well

Historically, CICL's core focus was on the general insurance segment. However owing to the severe competition in this segment, the Company is now growing its life insurance segment as well; this is shown by the changes in its premium composition.

Co-operative societies are shareholders

Co-operative societies continue to be CICL's shareholders; they have infused capital in the past. The Company does not anticipate further capital infusions in the near term as they have ample capital to meet the minimum capital requirements set by the IBSL.

Industry & Business Assessment

Industry dominated by 2 large players

Sri Lanka's insurance sector only accounted for a minor 3.2% of the financial industry's total assets as at end-December 2010. The industry is dominated by 2 large players, which collectively account for around 49% of total composite GWP, while the other 17 players share the rest of the market. From this, 5 players concentrate only on general insurance while 2 are exclusively into life business.

Premium growth mainly stemming from life segment

Supported by better macroeconomic conditions, industry composite premiums grew at a 19.42% y-o-y in FY Dec 2010. The growth in premiums mainly stemmed from the life segment, which expanded at 30.52% y-o-y in comparison with the general segment's 11.52% y-o-y. Moreover, we note that the insurance industry is pressured by intense competition; this is primarily observed in the general segment where customers are price sensitive. In this regard, insurers are compelled to cut prices to retain their market share, as reflected by the underwriting losses made by most players in the general segment. In contrast, the life segment was seen as an attractive arena as the penetration level (as a percentage of the country's population) was still low at 10.9% as at end-Dec

2010; as such, there are further avenues for growth. Nevertheless, larger players are able to dominate the life segment as it is primarily driven by a good track record and a well-known franchise.

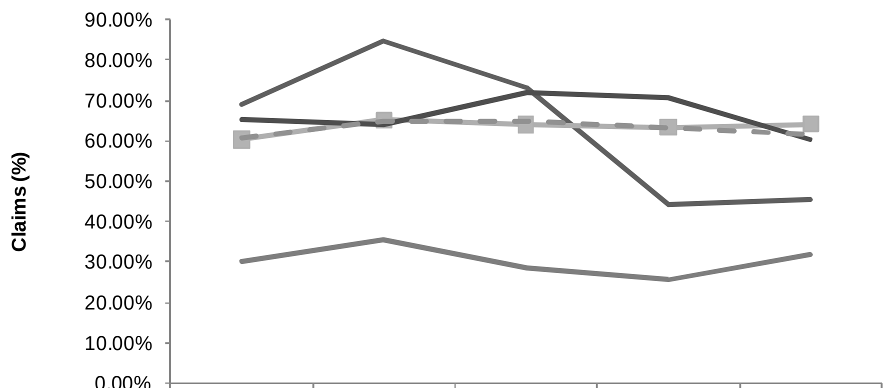
Focused on generating investment income

Owing to the weak core underwriting performance, particularly in the general segment, most players have to improve their profits through investment income. That said, safer government securities continued to be a vital investment income generator in the industry especially due to the IBSL regulations.

General claims – main claims driver

The industry's general-claims ratio has been around 65% historically; the main contributor towards general claims has been motor, for which the claims ratio was around 64% as at end-Dec 2011 (refer to Chart 1). This was closely followed by the miscellaneous segment, which includes health insurance claims; this was noted as a loss-making product by most of the players due to high claim levels. Owing to severe competition, insurance players are compelled to provide health insurance to retain their market share. Other general claims have been relatively stable.

Chart 1: General claims ratio – industry



	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
Fire	68.80%	84.80%	73.20%	44.40%	45.40%
Motor	60.40%	65.20%	64.10%	63.40%	64.25%
Marine	30.30%	35.60%	28.40%	25.60%	31.70%
Miscellaneous	65.20%	63.90%	71.90%	70.70%	60.40%
Total	60.60%	65%	64.90%	63.20%	61.60%

Source: Insurance Board of Sri Lanka

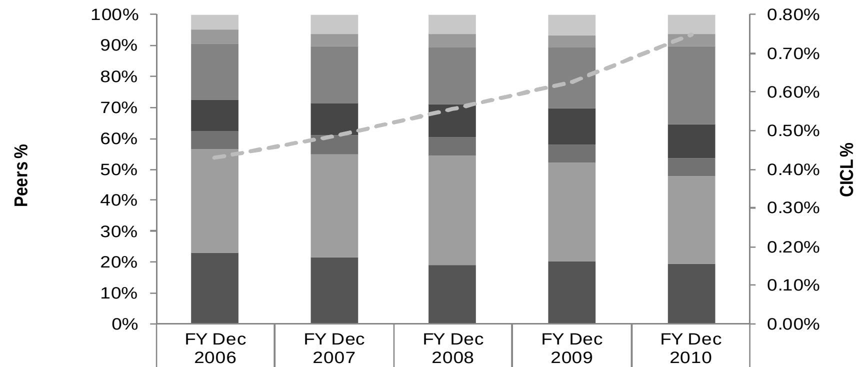
More stringent regulations to be put in place

IBSL has taken steps to tighten regulations to ensure that the insurance segment is more in line with international standards. In this regard, the composite insurance companies are required to separate the life and general segments into two legal entities. Furthermore, listing on the Colombo Stock Exchange is mandatory within 3-5 years for all insurance companies. Moreover, solvency margins will also be amended to be more in line with international standards, broadening the asset classes that can be recognised as admissible.

Premium growth steered by life insurance

CICL's premiums are dominated by general insurance; however, during FY 2010 the main driver for the Company's premium growth had been life insurance. Life insurance grew at a rapid pace of 56.32% y-o-y as at end-Dec 2010 (end-Dec 2009: 14.04%) increasing CICL's minor market share in the life segment to 0.75% as at the same period (refer to Chart 2). Penetration into untapped markets along with customers' better purchasing power and higher profitability has made the life segment more attractive to most players, as seen by industry trends. However, in this regard we note that players with better franchises benefit more in comparison with smaller players. Nevertheless, CICL's co-operative business model mitigates the latter to a larger extent, as the rural market places confidence in co-operatives.

Chart 2: CICL's market share – life insurance



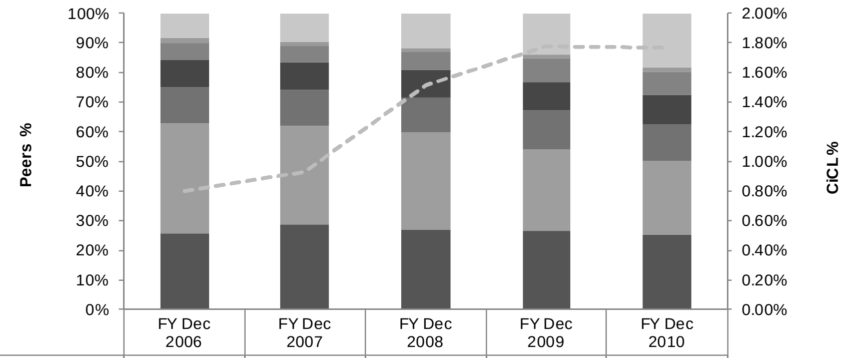
	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
Others	4.87%	6.06%	6.28%	6.55%	6.24%
AAI	4.37%	4.30%	4.11%	4.23%	3.99%
Aviva NDB	18.42%	18.27%	18.39%	19.41%	24.99%
Union Assurance	9.78%	10.44%	10.60%	11.64%	11.12%
Janashakthi	5.99%	5.82%	6.04%	5.84%	5.41%
Ceylinco	33.43%	33.03%	34.97%	31.52%	28.20%
SLIC	22.71%	21.60%	19.05%	20.19%	19.29%
CICL	0.43%	0.48%	0.55%	0.63%	0.75%

Source: Company annual reports, Insurance Board of Sri Lanka
Ceylinco = Ceylinco Insurance PLC; Janashakthi = Janashakthi Insurance PLC; Union Assurance = Union Assurance PLC; Aviva NDB = Aviva NDB Insurance PLC; AAI = Asian Alliance Insurance PLC

General premiums grew much slower; weighed down overall growth

On a related note, as reflected by the industry trends, CICL's general premiums only grew by 8.60% y-o-y as at end-Dec 2010 in comparison with 16.59% in FY Dec 2009. The Company's composite premiums thus grew by 17.99% as at end-Dec 2010, weighed down by the slow growth in the general insurance segment, albeit faster than the previous year's 15.96%. CICL's composite premium growth is in line with the industry's overall growth of 18.26% (refer to Chart 4). That said, CICL has maintained its general-segment market share at 1.77% as at end-December 2010 (refer to Chart 3).

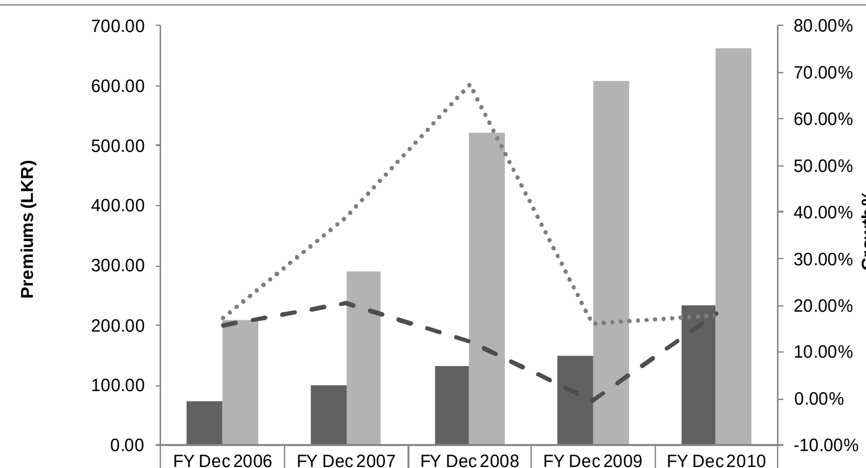
Chart 3: CICL's market share – general insurance



	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
Others	8.29%	9.38%	11.46%	13.62%	18.13%
AAI	1.61%	1.23%	1.33%	1.48%	1.15%
Aviva NDB	5.66%	5.99%	5.97%	7.48%	7.62%
Union Assurance	9.20%	9.03%	9.21%	9.59%	9.82%
Janashakthi	11.96%	11.81%	11.39%	12.76%	11.98%
Ceylinco	36.87%	33.22%	32.67%	27.12%	24.70%
SLIC	25.61%	28.40%	26.45%	26.17%	24.82%
CICL	0.80%	0.93%	1.51%	1.78%	1.77%

Source: Company annual reports, Insurance Board of Sri Lanka

Chart 4: CICL's composite premium growth



	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
CICL - Life	73.69	100.39	131.00	149.40	233.54
CICL - General	207.49	289.69	522.45	609.12	661.52
CICL Growth	17.22%	38.73%	67.52%	16.08%	17.99%
Industry Growth	15.80%	20.56%	12.10%	-0.43%	18.26%

Source: Company annual reports, Insurance Board of Sri Lanka

GWP tilted towards life

Along with the premium growth, the Company's GWP composition had tilted more towards the life sector, accounting for 26.09% of total GWP as at end-Dec 2010 (end-December 2009: 19.69%). Looking at the general insurance premium composition, CICL's premiums – like most of the other players – are dominated by the motor segment, which accounted for 75.19% of total general segment premiums during FY Dec 2010.

Underwriting & Risk Management

➢ General Business

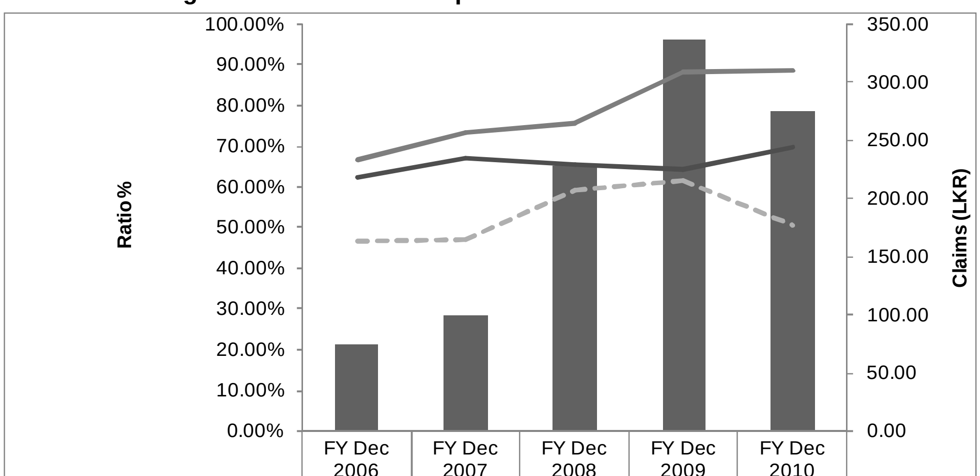
GWP dominated by general premiums

Even though there had been a tilt towards the life segment during FY 2010, general premiums still continue to be the core premium generator for the Company, accounting for 73.90% of total GWP as at end-FY Dec 2010 (end-March 2011: 78.02%). Meanwhile, underwriting margins had weakened during FY Dec 2010 owing to increased overhead expenses incurred on expanding the Company's branch network; we expect this to moderate as new branches break even.

General claims ratio better than peers'

CICL's general claims ratio has continuously outperformed its peers; the ratio stood at 50.52% in FY Dec 2010 (refer to Chart 5), weakening slightly to 52.81% in 1Q Dec 2011. That said, the ratio had improved from 61.64% in FY Dec 2009, which was historically the worst for the Company; this was due to a spike in miscellaneous claims as a result of 2 group health policies. The Company has now taken corrective action. Similar to other insurance companies, the motor sub-segment has been the main claims driver.

Chart 5: CICL's general claims ratio vs. peers'



	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
CICL - absolute claims	74.84	99.44	227.96	337.24	274.96
CICL	46.59%	46.80%	58.98%	61.64%	50.52%
AAI	66.52%	73.33%	75.42%	88.16%	88.66%
Janashakthi	62.38%	67.00%	65.52%	64.39%	69.53%

Source: Company annual reports, Insurance Board of Sri Lanka

Net underwriting margins weakened – moderate underwriting performance

CICL's net underwriting margin stood at a negative 5.80% despite reduced claims (net underwriting deficit – LKR 35.37 million) in FY Dec 2010; the margin had weakened slightly from 5.20% in fiscal 2009. While underwriting deficits in the general segment are a common phenomenon, they have worsened owing to increased branch expansion costs; the expense ratio came in at 55.98% in FY

Dec 2010 (FY Dec 2009: 43.72%). Meanwhile, the Company's combined ratio stood at 106.50% during fiscal 2010 (FY Dec 2010: 105.36%); we expect the ratios to improve when branches start to break even.

- **Life Business**

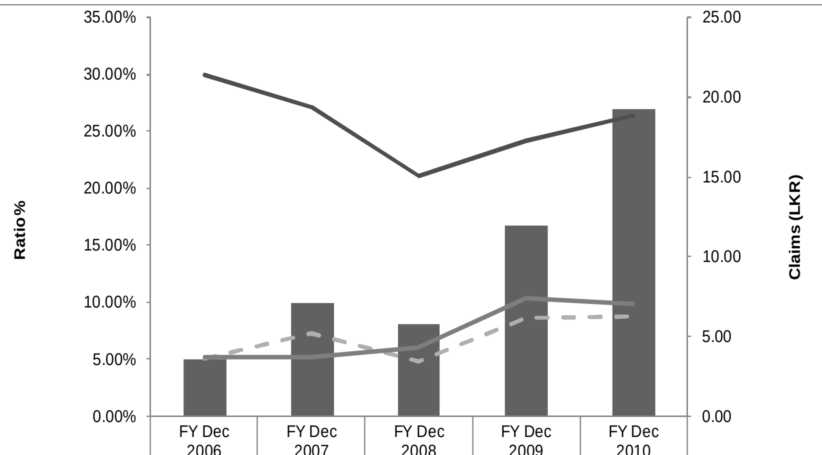
Life-underwriting performance deemed moderate

We opine that CICL's life-underwriting performance is moderate. The claims have started to trickle in with the maturing of its portfolio. That said, CICL's life claims ratio stands the lowest amongst its peers; we envisage claims to rise as the life portfolio matures. However, its underwriting profits have improved to LKR 42.84 million in FY Dec 2010 (despite increased overheads and claims) due to rapid GWP growth; its expense and combined ratios have improved, but remain weaker than its peers.

Life claims ratio weakened slightly

CICL's absolute life claims had increased 60.92% y-o-y in FY Dec 2010 to LKR 19.17 million, resulting in a slightly increased claims ratio of 8.71% (refer to Chart 6); the weakening of the ratio was moderated by the growth in life premiums. That said, CICL's life claims ratio had been lower than its peers. Moreover, we note that the majority of CICL's life claims primarily related to death (46.98%), while 18.83% of claims arose from maturity; the rest related to claims due to disability.

Chart 6: CICL's life claims ratio vs. peers'



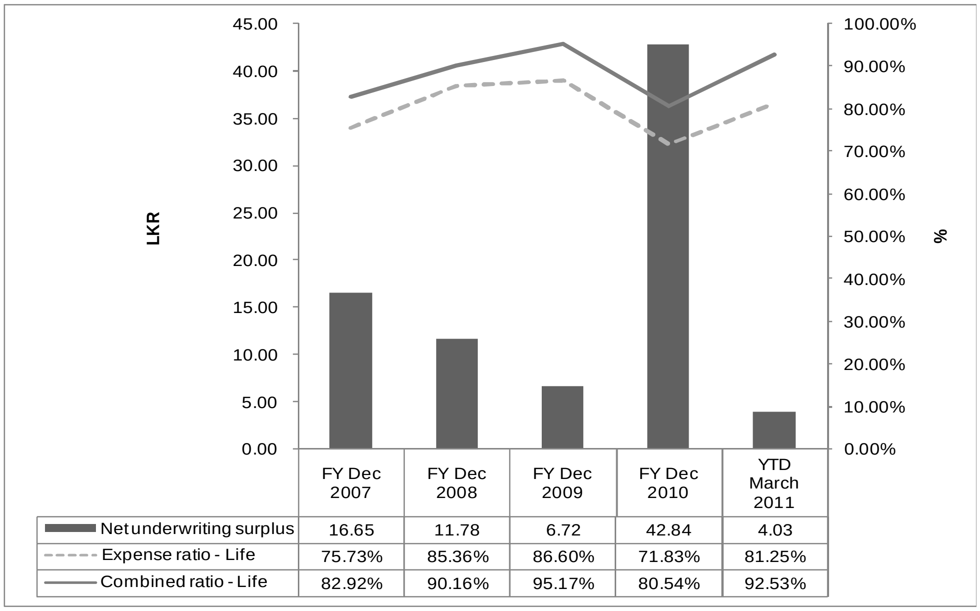
	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
CICL - absolute Claims	3.54	7.01	5.74	11.91	19.17
CICL	5.01%	7.19%	4.80%	8.57%	8.71%
AAI	5.18%	5.24%	6.03%	10.38%	9.93%
Janashakthi	29.97%	27.17%	21.11%	24.17%	26.44%

Source: Company annual reports, Insurance Board of Sri Lanka

Net underwriting margins improved along with GWP

CICL's net underwriting surplus improved during FY Dec 2010 to LKR 42.84 million owing to increased premiums. Meanwhile, the Company's expense ratio and combined ratio stood at 71.83% and 80.54% respectively during FY Dec 2010, up from fiscal 2009 (refer to Chart 7); the premium growth was much stronger than the increase in overheads due to branch expansions. In line with its improved margins, the Company's net underwriting margin also improved to 19.46% in FY Dec 2010 (FY Dec 2009: 4.83%); however, this is weaker than CICL's peers due to relatively high overheads.

Chart 7: CICL's life underwriting performance



	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010	YTD March 2011
Net underwriting surplus	16.65	11.78	6.72	42.84	4.03
Expense ratio - Life	75.73%	85.36%	86.60%	71.83%	81.25%
Combined ratio - Life	82.92%	90.16%	95.17%	80.54%	92.53%

Source: Company annual reports

Reinsurance in line with IBSL requirements

As required by the IBSL, all reinsurers should be rated BBB or above; in this regard, CICL has made adequate arrangements with a diverse pool of reinsurers (refer to Table 1). The Company's retention ratios remain at 92.73% during FY Dec 2010 (FY Dec 2009: 92.70%), in line with its peers.

Table 1: CICL's reinsurers

Reinsurer	Country of Origin	Rating	Rating Agency
GIC India	India	A-	AM Best
Best Re	Malaysia/Tunisia	BBB/A-	S&P/AM Best
African Re	Nigeria	BBB+/A	S&P/AM Best
Malaysian Re	Malaysia	A-	AM Best
Asian Re	Thailand	BBB	AM Best
Hannover Re	Germany	AA-	S&P/AM Best

■ Management & Corporate Strategy

Company led by managing director

CICL is spearheaded by Managing Director TMS Nanayakkara. He is well experienced in the industry and is supported by a team of insurance professionals. Going forward, CICL will continue to focus on the rural segment in Sri Lanka through its co-operative links. Moreover, CICL has strengthened its branch reach with 5 new additions while leveraging on the co-operative society service outlets.

Corporate Governance

Co-operative societies and members are shareholders

CICL's board of directors is led by its Chairman WL Pieris, who is also the chairman of the Wennappuwa Multi-Purpose Co-operative Society. All the shareholders of the Company are either co-operative societies or their members.

Complies with regulations

The Company's board comprises 13 directors, 12 of whom are non-executive. Meanwhile, the board is assisted by the audit, remuneration and fund-management committees; these committees meet on a regular basis. The Company's external audits are carried out by Messrs PE Mathews & Company, while Messrs Ernst & Young have been appointed to carry out internal audits on a quarterly basis.

Investment Strategy and Liquidity

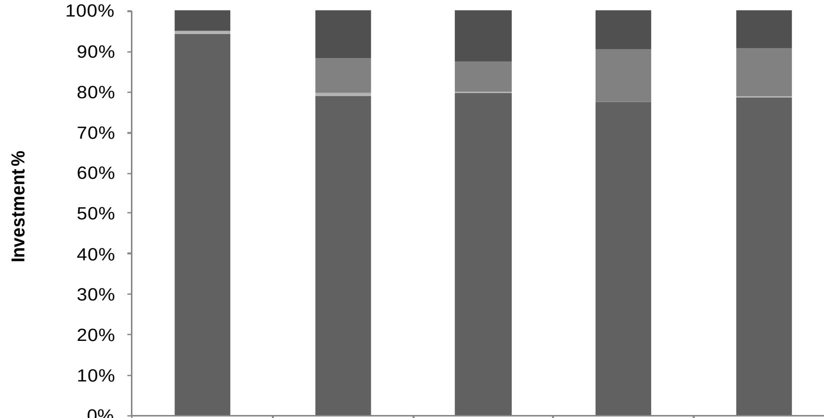
Conservative investment strategy...

CICL's investment strategy continues to remain conservative; the bulk of its investments are in the form of government securities. Apart from this, the Company has also increased its exposure to fixed deposits, which it places in licensed commercial/specialised banks. However, we note that due to CICL's conservative strategy on investments, its investment yield continues to be pressured; this reflects downward trends, especially on the back of a receding interest-rate environment. Going forward, the latter may affect the overall profitability of the Company.

...viewed positively

The Company's investment portfolio augmented 47.36% y-o-y in FY Dec 2010 to LKR 1.27 billion, fuelled by increased premiums. While Government securities still account for a majority of 77.43% as at the same period (refer to Chart 8), the composition of fixed deposits increased to 12.94% (end-FY Dec 2009: 7.42%). RAM Ratings Lanka foresees pressurised investment yields in the future due to conservative investments in a receding interest-rate environment. Meanwhile, CICL has always kept its investments in government securities well above regulatory minimums. According to IBSL regulations, all insurance Companies must hold 20% of their technical reserves and 30% of their long-term funds as government debt papers; CICL has maintained the composition well above these limits, at 169.95% and 83.73% respectively as at end-FY Dec 2010 (end-FY Dec 2009: 85.64% and 141.47%).

Chart 8: CICL's investment composition



	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010	YTD March 2011
Corporate debt	4.73%	11.68%	12.51%	9.41%	9.00%
Fixed deposits	0.25%	8.77%	7.42%	12.94%	12.14%
Equity investments	0.59%	0.45%	0.32%	0.22%	0.20%
Government securities	94.44%	79.10%	79.75%	77.43%	78.65%

Source: Company annual reports

Adequate liquidity

Meanwhile, the Company's liquidity position is considered to be adequate; its ratio on liquid assets to total insurance funds had improved to 1.61 times as at end-Dec 2010 (end-FY Dec 2009: 1.45 times), which is in line with its peers.

■ Financial Performance

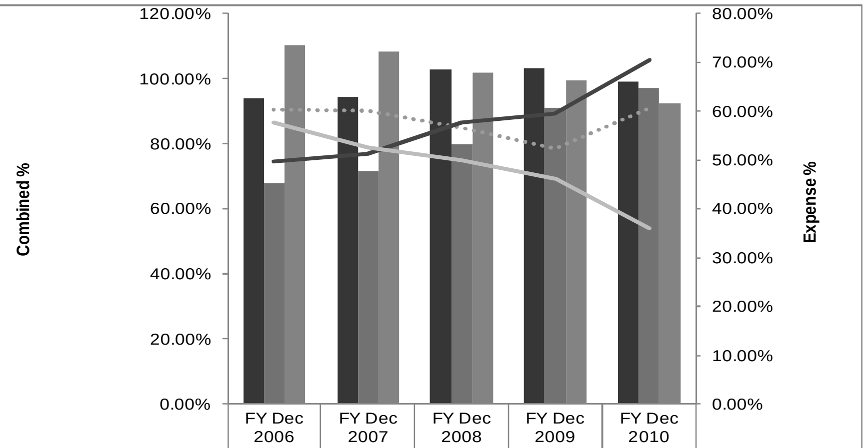
Improved overall performance

CICL's overall underwriting performance had improved amid the increased overall GWP and reduced claims in the general segment. That said, the general segment still continues to make underwriting losses due to increased overheads; in FY Dec 2010, the general segment of CICL made an underwriting loss of LKR 35.37 million (FY Dec 2009: 29.33 million). The Company had recorded robust improvements in its life underwriting levels, recording a surplus of LKR 42.84 million (FY Dec 2009: 6.72 million) owing to improved premiums. Nonetheless, CICL's increased branch expansion costs coupled with personnel expenditure had lowered pre-tax profits growth to 5.89% (LKR 76.95 million) in FY Dec 2010 (fiscal 2009: LKR 72.67 million); we envisage the former to ease as branches break even.

High combined ratio – skewed by business focus

That said, CICL's overall expense ratio weakened to 60.55% in FY Dec 2010 (FY Dec 2009: 52.40%) (refer to Chart 9) due to increased overhead expenditures. We note that CICL's combined ratio remains weaker than its peers, skewed by its business which is tilted more towards the general segment; this results in higher claims in comparison with the life segment. As such, the ratio improved to 99.02% in FY Dec 2010 amid reduced claims made during FY Dec 2010.

Chart 9: CICL's expense ratio vs. peers'



	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
Combined ratio - CICL	94.12%	94.32%	102.79%	103.30%	99.02%
Combined ratio - AAI	68.08%	71.40%	79.75%	90.94%	97.05%
Combined ratio - Janashakthi	110.36%	108.19%	101.97%	99.34%	92.42%
Expense ratio - CICL	60.24%	59.98%	56.62%	52.40%	60.55%
Expense ratio - AAI	49.65%	51.31%	57.70%	59.53%	70.50%
Expense ratio - Janashakthi	57.66%	52.56%	50.02%	46.24%	35.98%

Source: Company annual reports, Insurance Board of Sri Lanka

Investment income weighed down performance

On a separate note, CICL's investment income was weighed down by the receding interest rates, as reflected by its easing investment yield ratio; the latter stood at 15.79% in FY Dec 2010 (FY Dec 2009: 20.38%). Total investment income only grew by 7.17% in FY Dec 2010 to LKR 153.67 million.

Reserving deemed to be adequate

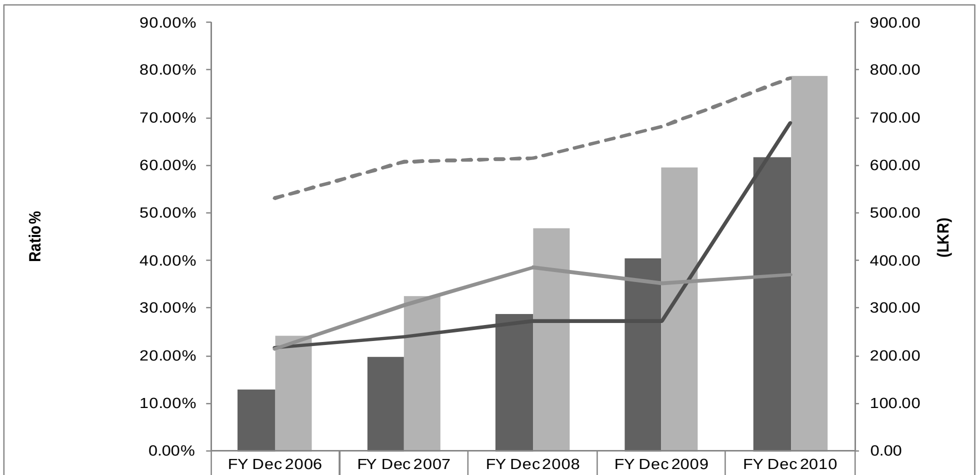
Meanwhile, CICL's reserving is deemed adequate by the actuarial assessment in both the life and general segments. Its actuarial needs for the general segment are fulfilled by Messrs KA Pandit Consultants and Actuaries, while the actuarial requirements for life insurance are carried out by Messrs Actuarial and Management Services (Pvt) Ltd.

■ Capital Adequacy

Capitalisation deemed adequate

CICL's capitalisation is viewed to be adequate; the Company had further strengthened its equity to LKR 617.00 million as at end-Dec 2010 through a share issue amounting to LKR 203.19 million during the year. Moreover, in line with its strengthened capitalisation, CICL's shareholders to total assets ratio improved to 39.60% as at the same period (end-Dec 2009: 36.31%), the best among its peers. Along with the former, the Company's shareholder funds to insurance funds ratio also improved to 78.36% as at end-Dec 2010 (refer to Chart 10), further strengthening its capitalisation measures.

Chart 10: CICL's capitalisation



	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009	FY Dec 2010
Total Equity	128.74	197.25	287.68	405.62	617.00
Insurance funds	242.17	325.34	467.98	595.24	787.41
CICL	53.16%	60.63%	61.47%	68.14%	78.36%
AAI	21.62%	24.10%	27.25%	27.22%	68.86%
Janashakthi	21.56%	30.73%	38.52%	35.32%	36.96%

Source: Company annual reports, Insurance Board of Sri Lanka

Healthier solvency ratio – in line with peers'

The Company's solvency ratio improved along with the increased investments in admissible assets (mainly government bonds) to 5.16 times in the life segment as at end-Dec 2010 (end-Dec 2009: 3.99 times). Meanwhile, its general solvency ratio stood at 2.69 times during the same period, improving from 1.30 times during the previous year; the ratios are in line with its peers.

■ Corporate Information – Co-operative Insurance Company Limited

Date of Incorporation:	March 1999	
Commencement of Business:	March 1999	
Major Shareholders (as at 31 March 2011):	Wennappuwa MPCS Ltd	9.91%
	Nattandiya MPCS Ltd	5.77%
	Central Province Co-operative Rural Bank Union Ltd	4.27%
	Matara District Co-operative Rural Bank Union Ltd	3.75%
	Wayamba Co-operative Rural Bank Union Ltd	3.30%
	Beliatta MPCS Ltd	3.30%
	Colombo District Co-operative Rural Bank Union Ltd	3.30%
	Others	66.40%
Directors:	Mr W Lalith A Peiris	Chairman
	Mr PMC Bandara	Vice Chairman
	Mr TMS Nanayakkara	Managing Director
	Mr Upali Herath	Director
	Mr SA Wickramapala	Director
	Mr Bandu Ranawaka	Director
	Mr A Dahanayake	Director
	Mr WH Jayasiri	Director
	Mr Lional Samarasinghe	Director
	Mr K Liyanage	Director
	Mr VL Wanigasinghe	Director
	Mr A Mathararachchi	Director
	Mr DP Amaradewa	Director
Auditor:	P E Mathew & Company	
Listing:	Not Listed	
Key Management:	Mr TMS Nanayakkara	Managing Director
	Mr G Thalagala	General Manager
	Mr M Karunaratne	General Manager (Marketing)
	Ms Champika Alwis	Assistant General Manager (Life)
	Mr Aruna Thebuwana	Manager (Finance)

Capital History:

Year	Remarks	Amount (LKR million)	Cumulative Total (LKR million)
2007	Brought forward	-	165.36
2008	Share issue	84.11	249.47
2009	Share issue	105.18	354.65
2010	Share issue	203.19	557.84
2011	Transfers	5.56	563.40

FINANCIAL SUMMARY
Co-operative Insurance Company Limited

BALANCE SHEET (LKR Million)	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	Unaudited 31-Mar-11
ASSETS					
Cash and Bank Balances	9.04	17.23	18.01	10.67	51.46
Investments					
Properties	0.00	0.00	0.00	0.00	0.00
Fixed Income Securities	419.73	560.11	794.82	1,102.44	1,400.82
Unit Trust	0.00	0.00	0.00	0.00	0.00
Equity Securities	2.50	2.77	2.77	2.77	0.00
Fixed and Call Deposits	1.05	54.13	63.94	164.32	0.00
Investment-Linked Investments	0.00	0.00	0.00	0.00	0.00
Net Loans	6.14	10.94	2.34	2.47	3.19
Outstanding Premium from agents/brokers	36.80	58.43	48.23	59.07	0.00
Amount Due from reinsurers/ceding company	7.41	6.25	12.28	11.74	11.09
Investments in Subsidiaries/Associates	0.00	0.00	0.00	0.00	0.00
Other Assets	43.78	38.38	72.16	87.66	153.63
Property, Plant & Equipment	48.10	91.90	102.45	116.89	120.73
TOTAL ASSETS	574.53	840.13	1,117.00	1,558.04	1,740.92
LIABILITIES					
Provision for outstanding claims:					
Admitted/estimated but not yet paid & IBNR	30.64	32.00	6.42	7.58	0.00
Reserve for Unexpired Risks (General Insurance)	129.59	222.06	311.18	367.82	398.82
Actuarial Liabilities (Life Insurance)	165.10	213.92	277.64	412.01	429.38
Bonus & Unallocated surplus carried forward	0.00	0.00	0.00	0.00	0.00
TOTAL INSURANCE FUNDS	325.34	467.98	595.24	787.41	828.20
Amount Due to Agent, Brokers & Reinsurers	10.30	15.54	22.55	22.20	0.00
Accrued expenses & Trade and Other Creditors	17.02	49.70	58.45	84.83	13.40
Amount due to Related Companies	0.00	0.00	0.00	0.00	0.00
Bank Overdraft & Other bank borrowings	4.56	0.79	12.07	14.21	225.00
Investment-linked Liabilities	0.00	0.00	0.00	0.00	0.00
Provision for Taxation/Deferred Tax Liabilities	16.37	9.77	11.17	14.72	0.00
Provision for Dividends	3.68	8.68	11.90	17.68	0.00
TOTAL LIABILITIES	377.28	552.45	711.38	941.04	1,066.60
Stated Capital	165.36	249.47	354.65	557.84	563.40
Irredeemable Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Share Premium & Other Reserves	3.04	3.04	3.04	3.04	3.04
Retained Profits/(Accumulated Losses)	28.85	35.18	47.94	56.13	107.89
Minority Interest	0.00	0.00	0.00	0.00	0.00
TOTAL SHAREHOLDERS' FUNDS	197.25	287.68	405.62	617.00	674.32
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	574.53	840.13	1,117.00	1,558.04	1,740.92

FINANCIAL SUMMARY
Co-operative Insurance Company Limited

INCOME STATEMENT (LKR Million)	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	Unaudited 31-Mar-11
Net Premiums	355.66	603.89	703.16	829.99	246.07
Less: Provision for Reserves for Unexpired Risks	(45.67)	(97.71)	(17.08)	(65.53)	(35.23)
Earned Premiums	309.99	506.18	686.08	764.46	210.84
Less: Claims Incurred and Claims Admitted	(106.46)	(233.70)	(349.16)	(294.13)	(88.95)
Gross Underwriting Surplus/(Deficit)	203.53	272.48	336.92	470.33	121.88
less: Underwriting Expenses (of the Funds)	(185.92)	(286.61)	(359.54)	(462.86)	(101.66)
Net Underwriting Surplus/(Deficit)	17.61	(14.13)	(22.61)	7.47	20.23
Investment Income	45.93	102.50	143.39	153.67	28.11
Other Income	5.32	13.61	8.62	14.96	20.58
Surplus / (deficit) transferred from Revenue Account					
- General Insurance	29.62	48.25	64.95	60.87	49.19
- Life Insurance	1.57	4.93	7.72	16.09	2.58
Company's Operating Turnover	31.20	53.17	72.67	76.95	51.76
Less: (Management expenses)	0.00	0.00	0.00	0.00	0.00
(Other expenses)	0.00	0.00	0.00	0.00	0.00
Add: Investment Income	0.00	0.00	0.00	0.00	0.00
Other Income	0.00	0.00	0.00	0.00	0.00
Operating Profit Before Depn., Interest and Tax	31.20	53.17	72.67	76.95	51.76
Less: Depreciation and Amortisation	0.00	0.00	0.00	0.00	0.00
Operating Profit Before Interest and Tax	31.20	53.17	72.67	76.95	51.76
Less: Interest and Finance Charges	0.00	0.00	0.00	0.00	0.00
Operating Profit Before Tax	31.20	53.17	72.67	76.95	51.76
Prior Year Adjustments	0.00	0.00	0.00	0.00	0.00
Extraordinary/Exceptional Items	0.00	0.00	0.00	0.00	0.00
Share of Associates Profit/(Loss)	0.00	0.00	0.00	0.00	0.00
Adjusted Profit/(Loss) Before Tax	31.20	53.17	72.67	76.95	51.76
Less: Tax	(8.34)	(14.27)	(19.75)	(14.87)	0.00
Adjusted Profit/(Loss) After Tax	22.86	38.90	52.92	62.08	51.76
Less: Minority Interests	0.00	0.00	0.00	0.00	0.00
Less: Dividends	(16.01)	(32.57)	(40.60)	(54.22)	0.00
Retained Profit For The Year	6.85	6.33	12.32	7.86	51.76

FINANCIAL RATIOS
Co-operative Insurance Company Limited

KEY FINANCIAL RATIOS (%)	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	Unaudited 31-Mar-11
PROFITABILITY (%)					
Gross Underwriting Margin	57.23%	45.12%	47.92%	56.67%	49.53%
Net Underwriting Margin	4.95%	(2.34%)	(3.22%)	0.90%	8.22%
Pre-tax Operating Margin	19.36%	16.89%	18.40%	21.22%	28.01%
Pre-tax Return on Assets (av.)	13.94%	14.42%	13.22%	13.17%	16.71%
Investment Yield (av.)	13.91%	21.96%	20.38%	15.79%	14.56%
After Tax Return on Equity	11.59%	13.52%	13.05%	10.06%	30.70%
Return on Capital Employed	15.73%	18.48%	17.40%	12.19%	26.05%
Claims Ratio	34.34%	46.17%	50.89%	38.48%	42.19%
Expense Ratio	59.98%	56.62%	52.40%	60.55%	48.22%
Combined Ratio	94.32%	102.79%	103.30%	99.02%	90.41%
Investment Income Ratio	14.41%	19.23%	21.62%	20.32%	19.79%
Operating Ratio	79.91%	83.56%	81.68%	78.71%	70.62%
CAPITALISATION / SOLVENCY					
Gearing Ratio	2.31%	0.27%	2.98%	2.30%	33.37%
Operating Profit Debt Coverage Ratio	15.24	133.48	11.10	12.61	1.24
Insurance Fund Liability Ratio	1.65	1.63	1.47	1.28	1.23
Total Surplus Assets Coverage	0.52	0.52	0.57	0.66	0.63
LIQUIDITY					
Total Liquid Assets / Total Insurance Funds	1.30	1.32	1.45	1.61	1.69
Total Liquid Assets / Total Assets	0.74	0.73	0.77	0.81	0.80
OTHER PERFORMANCE RATIOS					
Retention Ratio	91.18%	92.41%	92.70%	92.73%	94.75%

FINANCIAL RATIOS
Co-operative Insurance Company Limited

Ratio Definition:-	
Gross Underwriting Margin	Gross Underwriting Profit / Net Premiums
Net Underwriting Margin	Net Underwriting Profit / Net Premiums
Pre-tax Operating Margin	Operating Profit Before Tax / Net Premiums
Pre-tax Return on Assets (av.)	Operating Profit Before Tax / Total Asset (av.)
Investment Yield (av.)	(Interest income + Dividend Income) / Total Liquid Assets/Investments (av.)
After Tax Return on Equity	Adjusted Profit After Tax / (Shareholders' Funds + Minority Interests)
Return on Capital Employed	(Pre-tax Profit + Interest) / (Total Debt + Shareholders' Funds + Minority Interests)
Claims Ratio	(Claims Paid + Changes in Provision for Outstanding Claims) / Earned Premiums
Expense Ratio	(Commission + Management Expenses + General and Administrative Expenses + Other Expenses) / Earned Premiums
Combined Ratio	Claims Ratio + Expenses Ratio
Investment Income Ratio	Investment Income / Net Premiums
Operating Ratio	Combined Ratio - Investment Income Ratio
Gearing Ratio	Total Debt / (Shareholders' Funds + Minority Interest)
Operating Profit Debt Coverage Ratio	Operating Profit Before Depreciation Interest and Tax / Total Debt
Insurance Fund Liability Ratio	Total Insurance Funds / (Shareholders' Funds + Minority Interest)
Total Surplus Assets Coverage	(Total Assets - Total Liabilities) / Total Liabilities
Retention Ratio	Net Premium / Gross Premium

The above ratios have been computed based on information from the company and published accounts. Where applicable, some items have been reclassified according to RAM's definition to facilitate meaningful comparisons between companies.

CREDIT RATING DEFINITIONS

Claims-Paying Ability Ratings

A Claims-Paying Ability ("CPA") is RAM Ratings Lanka's current opinion on the overall capacity of an insurance company to meet its financial obligations to policy/contract holders. The opinion is not specific to any particular policy/contract, as it does not take in to account the expressed terms and conditions of any specific policy/contract.

Long-Term Ratings

AAA	An insurance company rated AAA has a superior capacity to meet its financial obligations to policy/contract holders. This is the highest long-term CPA assigned by RAM Ratings.
AA	An insurance company rated AA has a strong capacity to meet its financial obligations to policy/contract holders. The insurance company is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
A	An insurance company rated A has a strong capacity to meet its financial obligations to policy/contract holders. The insurance company is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
BBB	An insurance company rated BBB has a moderate capacity to meet its financial obligations to policy/contract holders. The insurance company is more likely to be weakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. This is the lowest investment-grade category.
BB	An insurance company rated BB has a weak capacity to meet its financial obligations to policy/contract holders. The insurance company is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments.
B	An insurance company rated B has a very weak capacity to meet its financial obligations to policy/contract holders. The insurance company has limited ability to withstand adverse changes in circumstances, economic conditions and/or operating environments.
C	An insurance company rated C has a high likelihood of defaulting on its financial obligations to policy/contract holders. The insurance company is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of which would likely result in it defaulting on its financial obligations to policy/contract holders.
D	An insurance company rated D is currently in default on either all or a substantial portion of its financial obligations to policy/contract holders, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the insurance company that could jeopardise the payment of financial obligations to policy/contract holders.

Short-Term Ratings

P1	An insurance company rated P1 has a strong capacity to meet its short-term financial obligations to policy/contract holders. This is the highest short-term CPA assigned by RAM Ratings.
P2	An insurance company rated P2 has an adequate capacity to meet its short-term financial obligations to policy/contract holders. The insurance company is more susceptible to the effect of deteriorating circumstances than those in the highest-rated category.
P3	An insurance company rated P3 has a moderate capacity to meet its short-term financial obligations to policy/contract holders. The insurance company is more likely to be weakened by the effects of deteriorating circumstances than those in the higher-rated category. This is the lowest investment-grade category.
NP	An insurance company rated NP has doubtful capacity to meet its short-term financial obligations to policy/contract holders. The insurance company faces major uncertainties that could compromise its capacity for payment of financial obligations.
D	An insurance company rated D is currently in default on either all or a substantial portion of its financial obligations to policy/contract holders, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the insurane company could jeopardise the payment of financial obligations to policy/contract holders

For long-term ratings, RAM Ratings applies signs plus (+), flat or minus (-) in each category from AA to C. The sign plus (+) indicates that the financial institution ranks at the higher end of its generic rating category; the sign flat indicates a mid-ranking; and the sign minus (-) indicates that the financial institution ranks at the lower end of its generic rating category.

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