



Media Release

RAM Ratings assigns claims-paying ability rating of BB to Co-operative Insurance Company Limited

RAM Ratings has assigned a claims-paying ability rating of BB (with a stable outlook) to Co-operative Insurance Company Limited ("CICL" or "the Company"). The rating has taken into account the Company's moderate competitive position and underwriting standards. However, the rating is pressured by hefty overheads, inadequate reserving and regular dividend requirements of its shareholders.

Established in 1999, CICL is a relatively new player providing both life and general insurance. Being a co-operative establishment has enabled the Company to leverage on the distribution network of other co-operative societies. Thus, even though the Company has a very small composite market share of 0.75% of industry premiums, it had established 35 branches and 45 service centres by July 2008. This is considered a very broad coverage for a small player and has enabled the Company to grow above industry levels over the past 3 years. Even though the Company does not aspire to become a large player, it is able to shield itself from competition, by virtue of its "co-operative" status and access to a distribution infrastructure that other players do not have. Nonetheless, RAM Ratings opines the Company's premiums are still inadequate to cover its escalating operational expenditure.

Due to its rural focus and ability to access these segments through tie-ups with other co-operatives, the Company has been able to exercise selective underwriting and maintain pricing discipline while garnering a diversified retail portfolio. This together with its stringent claims assessment has enabled the Company to maintain a claims ratio of around 50%, compared to the industry's 60%. Furthermore, it has been able to maintain its lapse ratio better than the industry average. Hence, RAM Ratings considers the Company's overall underwriting standards to be moderate.

Despite this however, the Company's financial performance is deemed weak as its expense ratio has remained high at around 60% over the past 3 years. The expense ratio rose due to inflation, the Company's expansion drive and the resultant increase in head count. Nonetheless, the Company has been able to post a positive bottom line due to investment income, bulk of which stemmed from government securities.

Apart from high overheads, the Company's general insurance reserving levels are deemed inadequate. Its ratio of technical reserves to net premium came in at a low 62.06% as at FY Dec 2007; this ratio has been on a weakening trend over the past 3 years. Further, RAM Ratings has observed that the Company does not reserve for unexpired or contingent risks, rendering its underwriting results fragile.

Furthermore, RAM Ratings notes that inadequate reserving tends to buoy profits. In addition, the Company has been declaring high dividends since FY Dec 2006 to appease its shareholders. CICAL's average dividend payout ratio over the past 2 years stood at a high 86.94%, further constraining internal capital generation and thus the Company's capacity to absorb risks. RAM Ratings views this negatively.

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