CO-OPERATIVE INSURANCE COMPANY PLC

REG NO: PQ 00255274

12th September 2024

Mr. Renuke Wijayawardhana
Chief Regulatory Officer
Colombo Stock Exchange
World Trade Centre
Echelon Square
Colombo 01

Dear Sir,

<u>Fitch affirms Co-Operative Insurance's 'BB(lka)' IFS; Outlook Stable</u>

This is to bring your kind attention that Fitch Rating has affirmed the National Insurer Financial Strength (IFS) rating of Co-Operative Insurance Company PLC 'BB(lka)'. The outlook is Stable as published on 11th September 2024.

The report published by Fitch Ratings enclosed herewith for your reference.

Thanking You.

Yours faithfully,

Priyankara Rajapakshe
Chief Executive Officer

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FitchRatings

RATING ACTION COMMENTARY

Fitch affirms Co-operative Insurance's 'BB(lka)' IFS; Outlook Stable

Wed 11 Sep, 2024 - 5:55 AM ET

Fitch Ratings - Colombo/Sydney - 11 Sep 2024: Fitch Ratings has affirmed the rating on Sri Lanka-based Co-operative Insurance Company PLC's (CICPLC) 'BB(lka)' National Insurer Financial Strength (IFS) Rating. The Outlook is Stable.

The affirmation reflects insurer's 'Moderate' Company profile and volatile underwriting performance offset by a satisfactory regulatory capital position. The rating also reflects the CICPLC's 'Less Favourable' corporate governance.

KEY RATING DRIVERS

Addressing Corporate Governance Issues: CICPLC has taken steps to enhance transparency in its internal audit function and strengthen internal controls to improve governance. The company underwent its second leadership transition since June 2023 in 1H24, appointing a new CEO and key management personnel in finance and operations. CICPLC has continued to adhere to the corporate governance requirements mandated by the Colombo Stock Exchange (CSE) and the Insurance Regulatory Commission of Sri Lanka (IRCSL) since the lifting of regulatory restrictions in May 2023.

In April 2023, CICPLC faced governance lapses including issues with board composition and compliance with Colombo Stock Exchange (CSE) listing rules. This led to a nearly one-and-a-half-month restriction on its insurance operations by the regulator, and a trading halt on the CSE for nearly two months until 22 June 2023.

Pressure on Underwriting Profitability: CICPLC recorded a net loss of LKR258 million in since 2022, driven by rising administrative and claims costs amid inflationary pressures alongside the depreciation of the rupee.

However, the combined ratio improved to 118% in 1H24 supported by a claim ratio of 77% (2023: 87%) as claims management improved and gross written premiums rose by 7%. The 1H24 results also accounted for 100% premium remittance under the motor category of strikes, riots, civil commotion and terrorism from January 2024, up from the previous 12%. (Please see Sri Lanka's Motor Insurance Changes to Hit Non-Life Sector). We expect underwriting profit to rise gradually with better governance practices, enhanced claims management, and a rebound in business activities following the lifting of regulatory restrictions.

Satisfactory Capitalisation: CICPLC's regulatory risk-based capital adequacy (RBC) ratio was 312% at end-1H24 (end-2023: 333%). The capital position of its fully owned life subsidiary, Cooplife Insurance Limited, was satisfactory at 228% at end-March 2024 (2023: 356%), but we believe any significant capital infusion into the subsidiary may keep CICPLC's capital buffers in check.

Moderate Company Profile: Fitch regards CICPLC's company profile as 'Moderate' compared with other insurers in Sri Lanka because of a 'Moderate' business profile and 'Less Favourable' corporate governance - due to their weaknesses in the governance structure in the recent past. CICPLC's business profile reflects its adequate franchise, which is buoyed by its ownership by co-operative societies, modest operating scale and an average risk appetite.

Reduced Investment and Liquidity Risks: Fitch believes investment and liquidity risks have eased following the late-September 2023 upgrade of Sri Lanka's sovereign Long- and Short-Term Local-Currency Issuer Default Ratings to 'CCC-' and 'C', respectively, as well as the positive rating action on Fitch-rated Sri Lankan bank and non-banking financial institutions. CICPLC's investment portfolio, similar to that of other insurers in the country, is dominated by government securities (2023: 19%) , corporate bonds (27%), and term deposits (35%) with domestic financial institutions.

RATING SENSITIVITIES

deteriorated;

- Sustained deterioration in financial performance, or weaker risk-management practices;

- Rising investment and asset risks, including a downgrade of the ratings of financial institutions or the sovereign.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Fitch's perception of sustained improvement in the insurer's corporate governance practices;

- Maintaining its combined ratio well below 105% for a sustained period, while our assessment of the insurer's capitalisation remains unchanged.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Co-operative Insurance Company PLC	Natl LT IFS BB(lka) Rating Outlook Stable	Affirmed	BB(lka) Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Insurance Rating Criteria (pub. 05 Mar 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Global (ex-U.S.) Model, v1.8.1 (1)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

Potential Conflicts Resulting from Revenue Concentrations

ENDORSEMENT STATUS

Co-operative Insurance Company PLC	-

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