



The Pakistan Credit Rating Agency Limited

# PAKISTAN GENERAL INSURANCE COMPANY LIMITED (PGI) IFS RATING REPORT

	<b>NEW [JUN-16]</b>	<b>PREVIOUS [JUN-15]</b>
Insurer Financial Strength (IFS) Rating	A-	A-
Outlook	Stable	Stable

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JUNE 2016

## **Profile & Ownership**

- Pakistan General Insurance Company Limited (PGI), a small sized general insurer is listed on Pakistan Stock Exchange, established in 1947
- With major concentration in Punjab region, the nationwide network stands at 33 branches
- Mr. Zahoor Ahmad along with family, are the single largest shareholder of the company (41%)

## **Governance & Management**

- PGI's Board of Directors comprises seven members; four members of sponsoring family, and two independent directors
- Mr. Zahoor Ahmad, the CEO of the company, brings with him forty years of experience in the insurance industry
- In May-16 Mr. Zahoor has been re-designated as the chairman of the BoD, while transferring the position of CEO to his son, Mr. Nasir Ali, an anointed successor. The new appointments are pending regulatory approval
- Mr. Nasir, previously advisor to CEO, would give full time to the company in new role of CEO, as he has moved to Pakistan

## **Business Risk**

- PGI's GPW mix at end-Dec15 is dominated by fire (55%), followed by marine (30%), miscellaneous (11%) and motor (4%)
- Company underwrites small and medium sized businesses, hence, top ten client concentration is low
- PGI's GPW (PKR 458mln) witnessed a decent growth in CY15 (11%), however, market share remains stagnant at 0.7%
- Loss ratio of the company improved to 49%, due to a noticeable reduction in fire segment (CY15: 49%, CY14: 58%), however expense ratio increased by 2% to 43% due to provision for bad debts
- PGI posted an underwriting profit of PKR 23mln, (CY14: PKR 21mln), on the back of increase in business

## **Business Strategy**

- The company envisages moderate growth in topline with bottom line centric approach
- In addition to conventional avenues, the company eyes expanding in non-conventional avenues
- PGI is launching takaful window operations; and is targeting a GPW of PKR 50mln in its first year
- The company is materializing its plan to provide vehicle tracking systems for expanding into motor segment – which is currently small in size

## **Financial Risk**

- PGI's investment book (PKR 374mln) represents 59% of its equity base at end-Dec15
- The liquid investment portfolio (PKR 333mln) is deployed in call deposit receipts (66%), Pakistan Investment Bonds (12%), and equities (11%), investment properties (PKR 42mln; 7% of equity); provides a regular stream of rental income (5% of market value)
- Premium receivable balance is seeing significant surge (1QCY16: 388mln, CY15: PKR 339mln and CY14: 163mln) despite providing sizeable amounts (1QCY16: PKR 19mln, CY15: PKR 17mln) and write offs PKR 18mln; resulting in increased level of credit risk
- Increased working capital requirements have been met through liquid resources, which declined by PKR 110mln in CY15 and PKR 35mln in 1QCY16
- Management has chalked out stringent recovery strategy; envisages complete recovery in Sep-16, a portion of which has been recovered in May-16
- Reinsurance arrangements with Trust Re (rated A- by A.M.Best), PRCL (AA by JCR-VIS), and Labuan Re (A- by A.M Best)

## **RATING RATIONALE**

The rating reflects PGI's sustained positioning amidst challenges facing the company. Though GPW mix is skewed towards conventional segments – fire and marine - the incidence of loss has remained low. Recently there has been increased credit risk associated with premium receivables, resulting into write offs and higher working capital requirements. This has been met through in-house liquid resources; which have, consequently seen a decline. This has exerted a pressure on the company's risk profile - hence rating. Management is actively pursuing the recovery; a strategy is chalked out for complete recovery by end Sep-16.

## **KEY RATING DRIVERS**

The rating is dependent upon company's ability to roll out strategy for recovery of premiums as per plan, thereby preserving its cash reserves. At the same time upholding of market position in the form of GPW growth and profitability is critical. Smooth transition of management control remains important.

## **INDUSTRY SNAPSHOT**

Pakistan's general insurance growth has picked up (CAGR 4 years 11%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



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**GENERAL INSURANCE  
Financials [Summary]**

**The Pakistan General Insurance Company Limited**

	<i>PKR mln</i>			
<b>BALANCE SHEET</b>	<b>31-Mar-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
	Unaudited	Annual	Annual	Annual
<b>Investments</b>				
Liquid Investments	298	333	379	147
Other Investments	41	42	105	156
	<u>339</u>	<u>374</u>	<u>484</u>	<u>303</u>
Insurance Related Assets	410	354	184	241
Other Assets	241	247	226	263
<b>TOTAL ASSETS</b>	<u><b>990</b></u>	<u><b>975</b></u>	<u><b>894</b></u>	<u><b>808</b></u>
Equity	661	648	582	537
Underwriting Provisions	221	226	221	191
Insurance Related Liabilities	87	76	66	55
Other Liabilities	21	26	25	25
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<u><b>990</b></u>	<u><b>975</b></u>	<u><b>894</b></u>	<u><b>808</b></u>
<b>INCOME STATEMENT</b>	<b>31-Mar-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
<b>Gross Premium Written (GPW)</b>	<b>95</b>	<b>458</b>	<b>413</b>	<b>330</b>
Net Premium Revenue (NPR)	85	265	224	177
Net Claims	(27)	(129)	(122)	(65)
Net Operational Expenses	(38)	(73)	(43)	(95)
<b>UNDERWRITING (LOSS) / INCOME - Adjusted</b>	<u><b>20</b></u>	<u><b>63</b></u>	<u><b>59</b></u>	<u><b>17</b></u>
Investment Income	4	29	29	39
Other Income / (Expense)	(10)	(22)	(38)	(38)
<b>(LOSS) / PROFIT BEFORE TAX</b>	<u><b>14</b></u>	<u><b>70</b></u>	<u><b>50</b></u>	<u><b>18</b></u>
<b>RATIO ANALYSIS</b>	<b>31-Mar-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
<b>Underwriting Results</b>				
Loss Ratio	32%	49%	55%	37%
Combined Ratio	89%	91%	96%	106%
<b>Performance</b>				
Operating Ratio	84%	74%	82%	84%
Investment Yield	1%	6%	7%	9%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio - times	6.7	7.6	7.8	3.0

## INSURER FINANCIAL STRENGTH (IFS) RATING SCALE & DEFINITIONS

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

RATING SCALE	DEFINITION
<b>AAA</b>	<b>Exceptionally Strong.</b> Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
<b>B+</b> <b>B</b> <b>B-</b>	<b>Weak.</b> Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
<b>D</b>	<b>Distressed.</b> Either failed to make payments on their obligations in a timely manner, are deemed to be insolvent, or have been subjected to some form of regulatory intervention. Limited liquid assets available to fund obligations.

<p><b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p><b>Outlook (Stable, Positive, Negative, Developing)</b> Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.</p>	<p><b>Suspension</b> It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p><b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.</p>
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## Regulatory and Supplementary Disclosure

### Rated Entity

**Name of Rated Entity**  
**Sector**  
**Type of Relationship**

The Pakistan General Insurance Company Limited  
Insurance - General  
Solicited

### Purpose of the Rating

Independent Risk Assessment

### Rating History

Dissemination Date	Long Term	Outlook	Action
9-Jun-16	A-	Stable	Maintain
9-Jun-15	A-	Stable	Maintain
12-Jun-14	A-	Stable	Maintain
4-Jun-13	A-	Stable	Initial

### Related Criteria and Research

**Methodology:**  
**Research:**

Insurer Financial Strength Rating Methodology  
Insurance | General - Viewpoint | | Ji Nov'15

### Rating Analysts

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### Rating Team Statement

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated

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