



The Pakistan Credit Rating Agency Limited

IGI INSURANCE LIMITED (IGI)

IFS RATING REPORT

	NEW [DEC-16]	PREVIOUS [DEC-15]
Insurer Financial Strength (IFS) Rating	AA	AA
Outlook	Stable	Stable

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DECEMBER 2016

Profile & Ownership

- IGI Insurance Limited (IGI), established in 1953, is listed on Pakistan Stock Exchange
- The packages group including Ali Family holds ~62% stake in the company
- Packages Group, under the umbrella of “IGI Financial Services” established foothold in the financial sector (i) IGI Insurance, (ii) IGI Life, (iii) IGI Investments, and (iv) IGI Financial Services. While, major strategic investments have been parked on the balance sheet of IGI Insurance (end-Sep16; BV: PKR 15 bln, MV: PKR 57bln)
- The group has initiated corporate restructuring, envisioned to create a Holding Company (HoldCo), thereby separating strategic investment from its insurance business. This would benefit in creating value in excess of its parts. The company is in process of applying petition in the court for the approval of merger (effective 31-Dec-16) and then de-merger (effective 1-Jan-16).

Governance and Management

- Eight-member Board of Directors comprises two independent directors, two executive directors (including the CEO) and four non-executive directors representing the main sponsoring family
- The board, chaired by an industrial veteran – Syed Babar Ali, comprises seasoned professionals with a diverse portfolio of experiences
- The CEO of the company, Mr. Chaudry Tahir Masaud, is an ACII and MBA from LUMS, having diversified national and international insurance related experience of over two decades

Business Risk

- IGI, having a market share of 4.3%, stands at 5th position in terms of industry’s GPW in 9M16
- Segment mix is diversified with fire (36%), motor (28%), marine (14%), and health segment (8%), and rest comprise miscellaneous
- The top ten clients concentration is moderately high at ~20%, however, captive GPW (27%) provides stable stream to the topline
- GPW witnessed impressive growth (20%), invariably in all segments
- The gross loss was high due to one-off claim in the engineering segment, effective reinsurance strategy protected the company on net account to settle the net loss ratio at 53%, stable YoY
- The combined ratio remained in comfortable range of 94%, however, the size of underwriting profits is small (PKR 42mln)
- Sizable investment income (9M16: PKR 1,279mln) provides boost to the bottomline; mainly comprising stable stream of dividends (PKR 1,089mln) from strategic investments with strong fundamentals

Investments

- Sizeable investment Book (Sep16: PKR 15,834) represents 1.3times of its equity base; majorly deployed in strategic investments (PKR 15,064mln), liquid avenues (PKR 589mln), investment properties 9PKR 182mln)
- Strategic portfolio majorly constitutes Nestle Pakistan (PKR 6,472mln; 10% holding), Packages (PKR 4,511; 28% holding), Packages Construction (PKR 1,000; 25% holding), IGI Investment Bank (PKR 890; 42% holding), IGI Life (PKR 858; 82% holding), Tri-Pak Films (PKR 565mln; 5% holding), Sonafi (PKR 391mln; 19% holding), and others.
- The investment yield on the book small at 1.4% in 9M16; herein, the unrealized gain though declined YoY, remained huge ~PKR 43bln

Financial Risk

- The liquidity position of the company is comparatively low, wherein the liquid investment (PKR 589mln) is short of providing coverage to company’s gross claims outstanding (PKR 1,214)
- Although, the liquidity coverage net-off-reinsurance improves to 1.7times, remains lower than peers
- Reinsurance arrangements are robust, with reinsurers of sound international reputed standing within strong categories of IFS rating

RATING RATIONALE

The rating draws comfort from the investments-holding company structure of IGI Insurance. This, while generating non-core revenue stream, provides strong risk absorption capacity to the company, engendering high level of resilience and flexibility against varied risks. The company continued to march on growth trajectory, invariably in all segments, while maintaining diversification of premium mix. Advanced IT platform supports efficient operations, particularly superior claims handling system. Comfort is drawn from the sound governance practices of the group.

KEY RATING DRIVERS

The rating placed on rating watch, with developing status. The sponsors of IGI group intend to redesign the overall structure of its multiple businesses engaged primarily in the ambit of financial services. Formation of a financial services Holding Company (Holdco) is proposed. A two-step transaction is envisaged comprising i) merger of IGI Investment Bank Limited (IGI IBL) with and into IGI Insurance company (IGI) and ii) de-merger of IGI to form a Holdco having separate subsidiaries for different business lines – General Insurance, Life Insurance, Brokerage and Investments. The merger and de-merger would be under share swap arrangement; whereby shareholders of IGI IBL will be issued IGI’s shares according to a swap ratio of 1:92, while swap ratio of hived down insurance entity is yet to be decided. The company is in process of applying court petition. The merger of IGI IBL with and into IGI have minimal impact on profile of IGI, due to its small size (1.6% of merged entity). However, hived-down of insurance would change the entire corporate structure, and, hence, would necessitate rating review. The de-merger to form a holding company will bring further focus to the group’s strategy to deliver various financial services. PACRA would continue to monitor these developments and the rating would be updated accordingly.



IGI Insurance Limited (IGI)

BALANCE SHEET	30-Sep-16	31-Dec-15	31-Dec-14
Investments			
Liquid Investments	589	715	439
Investment in Associates	15,063	11,977	12,072
Other Investments	182	191	127
	15,834	12,883	12,639
Insurance Related Assets	1,804	1,073	1,086
Other Assets	939	694	765
TOTAL ASSETS	18,576	14,651	14,490
Equity	12,595	12,261	11,579
Underwriting Provisions	1,307	821	721
Insurance Related Liabilities	1,860	1,121	1,096
Other Liabilities	462	300	339
Borrowings	2,352	148	755
TOTAL EQUITY & LIABILITIES	18,576	14,651	14,490

INCOME STATEMENT	30-Sep-16	31-Dec-15	31-Dec-14
Gross Premium Written (GPW)	2,379	2,344	2,140
Net Premium Revenue (NPR)	1,027	1,122	1,045
Net Claims	(547)	(586)	(595)
Net Operational Expenses	(437)	(454)	(431)
UNDERWRITING INCOME / (LOSS) - Adjusted	42	81	20
Investment Income	1,237	1,472	979
Other Income/ (expense) including financial charges	(48)	(21)	(57)
PROFIT BEFORE TAX	1,231	1,532	942

RATIO ANALYSIS	30-Sep-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	53%	52%	57%
Combined Ratio	96%	93%	98%
Performance			
Operating Ratio	-20%	-37%	10%
Investment Yield	2%	12%	34%
Liquidity & Solvency			
Liquidity Ratio – times	1.5	0.9	-0.5

IGI Insurance Limited (IGI)

December 2016



RATING SYMBOLS & DEFINITIONS:

**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
AAA	Exceptionally Strong. 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.
AA+ AA AA-	Very Strong. 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
A+ A A-	Strong. 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.
BBB+ BBB BBB-	Good. 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.
BB+ BB BB-	Moderately Weak. 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-	Weak. 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.
CCC CC C	Very Weak. 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.
D	Distressed Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

Outlook (Stable, Positive, Negative, Developing)

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'.

Rating Watch

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension

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.

Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

