



The Pakistan Credit Rating Agency Limited

ASIA INSURANCE COMPANY LIMITED (ASIC)

IFS RATING REPORT

	NEW [MARCH-17]	PREVIOUS [NOV-16]
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Insurer Financial
Strength (IFS) Rating

A

A-

Outlook

Stable

Positive

REPORT CONTENTS

1. SUMMARY ANALYSES
2. FINANCIAL SUMMARY
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

MARCH 2017

Profile & Ownership

- Asia Insurance Company Limited (ASIC) was established in 1979 as a general insurance company; listed on the Pakistan Stock Exchange since 1982
- With its Head Office in Lahore, the company operates a network of 22 branches across the country at end-Sep16
- ASIC, a family owned business (98%), is sponsored by its Chief Executive Officer, Mr. Ihtsham ul Haq Qureshi and his family

Governance & Management

- The overall control of the company vests in the seven-member Board of Directors, comprising four individuals from sponsoring family, including CEO, two independent directors and an executive director
- ASIC follows lean organizational structure with a number of individuals reporting to the CEO
- The CEO of the company, Mr. Ihtsham ul Haq, brings with him over two decades of experience in the insurance sector

Business Risk

- ASIC has achieved a considerable GPW size (9M16: PKR 427mln, CY13: PKR 154mln)
- GPW dominated by miscellaneous (50%) – mainly crop and livestock, followed by motor (30%), fire (10%) Marine (6%) and credit and surety ship (5%)
- Top ten client concentration has escalated profoundly to 46% (CY15: 23%, CY14: 13%), attributable to acquiring portfolios of FIs
- Loss ratio is low (16%) primarily due to low risk miscellaneous and motor segments, coupled with effective risk transfer – reinsurance strategy in fire and marine.
- Underwriting profits clocked in at PKR 60mln with sound combined ratio of 81%.
- Window Takaful operations have picked up as it reported a net profit of PKR 2.1mln (9M15: net loss of 0.2mln)
- The bottom-line of the company takes major support from the investment income, which improved due to revaluation gain on trading portfolio

Business Strategy

- Going forward, the management envisages to continue growth strategy; lynchpin of the strategy shall be to capitalize on strengthened branch network and the producers' team
- While crop and motor segments would continue to be major contributor to the top line growth, the management also eyes larger sized risks in fire and engineering to fuel further growth

Financial Risk

- ASIC's investment book (9M16: PKR 660mln), represents 94% of its equity base; rest (40%) investment property – Asia House
- The liquid book (PKR 380mln) is majorly deployed in equities including mutual funds (45%), followed by bank deposits (42%), and government and debt securities (13%). The yield on this book is improved to 14%.
- The risk absorption capacity of the company, characterized by sound liquidity profile, provides cushion for future growth
- After completion of real estate project (Asia House), the commencement of rental income (~PKR 24mln) shall provide a regular stream of income, going forward
- ASIC has reinsurance arrangement with Trust Re (Leader; rated A- by S&P), Labuan Re (A- by AM Best), Saudi Re (BBB+ by S&P) and PRCL (AA by JCR-VIS)

RATING RATIONALE

Asia Insurance is emerging fast amongst small-sized general insurance companies. It is characterized by a) profitable premium expansion, b) strong liquidity and c) good coverage to liabilities. Company's real estate project – Asia House – located at a prime location, has started yielding a stable stream of rental income supplementing the bottom-line. Meanwhile, underwriting performance has improved significantly with gradual uptick in business volumes coupled with operational efficiencies. The business plan envisages further penetration in the market on the back of extended branch network, exploring both general and takaful avenues. Notably, Asia Insurance is carrying a conservative stance in its underwriting risk management practices also reflected in its proportionate reinsurance treaty cover.

KEY RATING DRIVERS

The rating is dependent upon augmenting the company's competitive positive with enhanced market share and profitability. In addition, strengthening of management structure, as the company takes further growth trajectory is essential. Investment management framework needs improvement

INDUSTRY SNAPSHOT

Pakistan general insurance continued growth trajectory (CAGR 4 years 10%). While fire and motor growth is driven by credit off by the banks, the miscellaneous segment has seen largest growth in health, crop, and livestock. The underwriting profitability improved, though change in tax laws shall impact net profits, going forward. Growth prospects are sanguine.



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE
Financials [Summary]**

Asia Insurance Company Limited (ASIC)

BALANCE SHEET	30-Sep-16	31-Dec-15	31-Dec-14
	9M16	Annual	Annual
Investments			
Liquid Investments	380	304	282
Investment Property	279	261	230
	<u>660</u>	<u>566</u>	<u>512</u>
Insurance Related Assets	232	182	162
Other Assets	212	205	139
TOTAL ASSETS	<u>1,103</u>	<u>953</u>	<u>813</u>
Equity	704	624	556
Underwriting Provisions	263	198	153
Insurance Related Liabilities	72	69	70
Other Liabilities	64	61	35
TOTAL EQUITY & LIABILITIES	<u>1,103</u>	<u>953</u>	<u>813</u>
INCOME STATEMENT	30-Sep-16	31-Dec-15	31-Dec-14
Gross Premium Written (GPW)	421	450	305
Net Premium Revenue (NPR)	310	347	191
Net Claims	(51)	(64)	(40)
Net Operational Expenses	(199)	(204)	(153)
UNDERWRITING RESULTS	<u>60</u>	<u>79</u>	<u>(2)</u>
Investment Income	35	13	33
Other Income/ (expense)	4	1	1
PROFIT BEFORE TAX	<u>98</u>	<u>93</u>	<u>32</u>
Unappropriated Profit/ (loss) Brought Forward	624	556	70
Unappropriated Profit/ (loss) Carried Forward	<u>704</u>	<u>624</u>	<u>90</u>
RATIO ANALYSIS	30-Sep-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	16%	18%	21%
Combined Ratio	81%	77%	101%
Performance			
Operating Ratio	68%	73%	83%
Investment Yield	13%	9%	27%
Liquidity & Solvency			
Liquidity Ratio – times	8.0	6.8	8.6

Asia Insurance Company Limited (ASIC)

Mar-17

www.pacra.com



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.



Rated Entity

Name of Rated Entity Asia Insurance Company Limited (ASIC)
Sector Insurance - General
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Rating	Outlook	Action
10-Mar-17	A	Stable	Maintain
25-Nov-16	A-	Positive	Maintain
27-Nov-15	A-	Stable	Maintain
28-Nov-14	A-	Stable	Maintain
28-Oct-13	A-	Stable	Maintain

Related Criteria and Research

Methodology: Insurer Financial Strength Rating
 Research: Insurance Sector Study | Nov-16

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 entity/instrument.

Disclaimer

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the

security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

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Probability of Default (PD)

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