



The Pakistan Credit Rating Agency Limited

ATLAS INSURANCE LIMITED (AIL)

IFS RATING REPORT

	NEW [MARCH- 17]	PREVIOUS [DEC-16]	REPORT CONTENTS
Insurer Financial Strength (IFS) Rating	AA	AA-	1. SUMMARY ANALYSES
Outlook	Stable	Stable	2. FINANCIAL SUMMARY
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MARCH 2017

Profile & Ownership

- One of the oldest insurance company of the country; established in 1934 and was acquired in 1980 by Atlas group, listed on Pakistan Stock Exchange
- AIL's operations are currently carried out from a network of 22 branches
- Sponsors, Atlas Group (AG), control 78% stake in AIL; the strong financial muscle of AG provides strength to the ownership structure of the company

Governance & Management

- AIL's seven member board of directors include two independent members, one executive director – CEO, while rest are non-executive directors from various group affiliates
- Mr. Arshad P. Rana, an insurance veteran, has been associated with the company since 2004 as CEO
- The company's top management consists of qualified and experienced professionals, having long standing relationship with the company

Business Risk

- AIL's Premium mix is fairly diversified comprising fire (22%), motor (22%), marine (21%), engineering (19%) and miscellaneous (16%); which mainly comprises of health, terrorism and bond insurance
- Top 10 client concentration stood at 54%, which is significantly high, however, 34% of top 10 clients business relates to the group ensuring stability
- AIL's GPW progressed with a decent growth of 21% in 9M16; thereby, improving market share amidst high competition to 3.4% (9M15: 3.0%)
- Combined ratio deteriorated to 73% (9M15: 59%), wherein decline was mainly led by higher expense ratio
- Loss ratio (23%) is lower than peers, reflecting positively on business risk profile of the company. Whereas, expense ratio (50%) is high viz-a-viz peers.
- The company reported an improved underwriting profit of PKR 299mln (9M15: PKR 293mln) translating into a YoY growth of 2%
- Investment income improved to PKR 329mln (9M15: PKR 288mln) mainly due to higher gain from disposal of investments and strong dividend income from group companies. This boosted the profitability of the company, hence, PBT recorded an increase of 10%.
- In Mar-16, AIL launched its Window Takaful Operations which posted GPW of PKR 40mln in six months period since inception in Mar-16
- The window takaful operations are in net deficit of PKR 1.1mln

Business Strategy

- AIL vows to manage sustainable profitability, ensuring consistent improvement in prudent underwriting and risk management. At the same time, the company aims to attain large projects under CPEC as they come.
- Expansion is on cards with four new branches to be added while takaful will have its first own separate branch by Mar-17
- AIL, with launch of window takaful operations, now aims to spur growth through Shariah compliant products as well

Financial Risk

- AIL's investment portfolio (PKR 2,514mln) constitutes ~1.3 times of its equity base at end-Sep16
- Major portion of the book is deployed in liquid avenues (90%), rest invested in strategic equity stocks of group companies
- Liquid portfolio is dominated by equity stocks including equity based mutual funds (66%), government securities, debt securities and money market funds (19%), and bank deposit (15%); investment yield of the book clocked in at 17%
- AIL has an ample liquidity position with the liquidity ratio, providing 5 times cushion to the company's liabilities towards policyholders
- Claim outstanding days have increased to 336days at end-Sep16 (end-Sep15: 233days), which requires improvement in claims monitoring system
- Renowned international Reinsurers panel including Swiss Re ('AA-' by S&P), Hannover Re ('AA-' by S&P), Malaysian Re ('A-' by A.M. Best), Trust Re ('A-' by A.M. Best) and Labuan Re ('A-' by A.M. Best)

RATING RATIONALE

Atlas Insurance Limited distincts itself amongst medium-sized general insurance companies on the basis of its robust underwriting performance, persistent over the years. This results from a stable stream of quality business and a diverse segment mix. Noticeable growth in non-captive business bodes well for improved footprint in the market. The company is eyeing large public sector projects to drive future growth. Atlas Insurance, with launch of window takaful operations, now aims to spur growth through Shariah compliant products as well. The rating takes significant comfort from the robust liquidity profile emanating from a diverse investment book that also provides robust coverage to the company's obligations. It has prudent risk retention policies that are well supported by solid reinsurance arrangements. The company's association with Atlas group providing benefits in terms of sustained low-risk captive business, while ensuring sound governance framework, remains a key rating factor.

KEY RATING DRIVERS

The rating is dependent on sustained improvement in business and financial metrics of the company in line with its relative positioning with in the industry. At the same time, the size of liquid investments should increase in tandem with growth in business. Recent improvement in claims management system should translate into reduced claims turnaround time.

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]**

Atlas Insurance Limited (AIL)

PKR mln

BALANCE SHEET	30-Sep-16 9M16	31-Dec-15 Annual	31-Dec-14 Annual
Investments			
Liquid Investments	2,271	2,316	2,085
Other Investments	243	236	236
	<u>2,514</u>	<u>2,553</u>	<u>2,322</u>
Insurance Related Assets	982	656	505
Other Assets	809	588	521
TOTAL ASSETS	<u>4,305</u>	<u>3,797</u>	<u>3,347</u>
Equity	1,857	1,846	1,668
Underwriting Provisions	1,181	845	780
Insurance Related Liabilities	948	796	620
Other Liabilities	320	310	279
TOTAL EQUITY & LIABILITIES	<u>4,305</u>	<u>3,797</u>	<u>3,347</u>
INCOME STATEMENT	30-Sep-16	31-Dec-15	31-Dec-14
Gross Premium Written (GPW)	1,857	1,964	1,651
Net Premium Revenue (NPR)	758	959	878
Net Claims	(177)	(204)	(211)
Net Operational Expenses	(281)	(333)	(296)
UNDERWRITING RESULTS	<u>299</u>	<u>422</u>	<u>372</u>
Investment Income	329	364	301
Other Income/ (expense)	10	12	17
PROFIT BEFORE TAX	<u>638</u>	<u>798</u>	<u>691</u>
RATIO ANALYSIS	30-Sep-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	23%	21%	24%
Combined Ratio	73%	69%	69%
Performance			
Operating Ratio	30%	30%	33%
Investment Yield	17%	15%	22%
Liquidity & Solvency			
Liquidity Ratio – times	5.1	5.5	11.1

**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.

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Name of Issuer
Sector
Type of Relationship
Purpose of the Rating

Atlas Insurance Limited
General Insurance
Solicited
Independent Risk Assessment

Rating History

Date	Rating	Outlook	Action
10-Mar-17	AA	Stable	Upgrade
30-Dec-16	AA-	Stable	Maintain
31-Dec-15	AA-	Stable	Maintain
7-Jan-15	AA-	Stable	Maintain
19-Dec-13	AA-	Stable	Maintain

Related Criteria and Research

Rating Methodology
Sector Research

Insurer Financial Strength Rating
Insurance | General - Viewpoint | Nov-16
Takaful | General - Viewpoint | Mar-16

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[Rating Team Statement](#)

Rating Procedure

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](#)

Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

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The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

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mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and ii) fee mandate - signed with the payer, which can be different from the entity

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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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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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