



The Pakistan Credit Rating Agency Limited

PAKISTAN GENERAL INSURANCE COMPANY LIMITED (PGI)

RATING REPORT

	NEW [JUN-17]	PREVIOUS [JUN-16]
Insurer Financial Strength (IFS) Rating	A-	A-
Outlook	Stable	Stable

JUNE 2017

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 36 branches
- Mr. Zahoor Ahmad along with family, are the majority shareholder of the company

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

Business Risk

- PGI's GPW mix at end-Dec16 is dominated by fire (62%), followed by marine (26%), miscellaneous (7%) and motor (4%)
- Company underwrites small and medium sized businesses, hence, top ten client concentration is low
- PGI's GPW (PKR 352mln) witnessed a decrease of 23% in CY16 (CY15: PKR 458mln) with the market share decreasing to 0.4% (CY15: 0.5%)
- Loss ratio of the company improved to 34%, due to a noticeable reduction in fire segment (CY16: 34%, CY15: 49%, CY14: 58%), however expense ratio increased by a worrisome 16% to 59% (CY15: 43%) due to an increase in general and administrative expense
- PGI posted an underwriting profit of PKR 18mln (CY15: PKR 23mln)

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 bought four investment properties signifying increased proportion of real-estate in the book

Financial Risk

- PGI's investment book (PKR 403mln) represents 62% of its equity base at end-Dec16 (CY15: 59%)
- The liquid investment portfolio (PKR 167mln) has significantly decreased as compared to CY15 (PKR 333mln) on the back of reduced bank deposits.
- Investment properties (PKR 236mln; 36% of equity); provides a regular stream of rental income.
- Premium receivable balance improved slightly (1QCY17: 270mln, CY16: PKR 261mln and CY15: 339mln) despite providing sizeable provision for doubtful debt of PKR 22mln and write offs PKR 26mln; resulting in increased level of credit risk
- At end-Dec16, the liquid investments provide 4.5times coverage to claims outstanding.
- Management has chalked out stringent recovery strategy; envisages complete recovery in due time, a portion of which has been recovered in Dec-16
- Reinsurance arrangements with Trust Re (rated A- by A.M.Best), PRCL (AA by PACRA), and Labuan Re (A- by A.M Best)

RATING RATIONALE

The rating reflects PGI's sustained positioning amidst challenges facing the topline of the company. Though GPW mix is skewed towards conventional segments – fire and marine - the incidence of loss has remained low. The company is committed in recovering premium receivables and has made progress though further recovery is required in due course of time. Furthermore, increase in investment properties have yielded a steady stream of stable rental income.

KEY RATING DRIVERS

The rating is dependent upon company's ability to completely execute strategy for recovery of premiums as per plan, thereby preserving its cash reserves. At the same time, strengthening of market position in the form of GPW growth and profitability is critical. Requisite levels of liquid investments is essential.

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.



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE
Financials [Summary]**

The Pakistan General Insurance Company Limited

BALANCE SHEET	31-Dec-16	31-Dec-15	31-Dec-14
	Annual	Annual	Annual
Investments			
Liquid Investments	167	333	379
Other Investments	236	42	105
	403	374	484
Insurance Related Assets	298	354	184
Other Assets	248	247	226
TOTAL ASSETS	949	975	894
Equity	651	648	582
Underwriting Provisions	163	226	221
Insurance Related Liabilities	94	76	66
Other Liabilities	41	26	25
TOTAL EQUITY & LIABILITIES	949	975	894
INCOME STATEMENT	31-Dec-16	31-Dec-15	31-Dec-14
Gross Premium Written (GPW)	352	458	413
Net Premium Revenue (NPR)	251	265	224
Net Claims	(85)	(129)	(122)
Net Operational Expenses	(95)	(73)	(43)
UNDERWRITING (LOSS) / INCOME - Adjusted	71	63	59
Investment Income	18	29	29
Other Income / (Expense)	(53)	(22)	(38)
(LOSS) / PROFIT BEFORE TAX	36	70	50
RATIO ANALYSIS	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	34%	49%	55%
Combined Ratio	93%	91%	96%
Performance			
Operating Ratio	82%	74%	82%
Investment Yield	5%	6%	7%
Liquidity & Solvency			
Liquidity Ratio - times	4.5	7.6	7.8

**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 The Pakistan General Insurance Company Limited
Sector Insurance - General
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Outlook	Action
9-Jun-17	A-	Stable	Maintain
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: Insurer Financial Strength Rating Methodology
Research: Insurance | General - Viewpoint || Ji 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

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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.

Reporting of Misconduct

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

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Probability of Default (PD)

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