The Pakistan Credit Rating Agency Limited

PAKISTAN REINSURANCE COMPANY LIMITED

IFS RATING REPORT

	NEW [OCT-17]	PREVIOUS [APR-17]
Insurer Financial Strength (IFS) Rating	AA	AA
Outlook	Stable	Stable

REPORT CONTENTS

OCTOBER 2017

Profile & Ownership

- Pakistan Reinsurance Company Limited (Pak Re), established in 1952 and listed on PSX, operates as the sole Pakistan based reinsurer.
- Owned by the Federal Government (75%); through Ministry of Commerce (45%) along with the Employee Empowerment Trust (6%) and State Life Corporation (24%).
- Pak Re possesses the first right of refusal against mandatory reinsurance share (35%) offered by all insurance companies existing in Pakistan.

Governance & Management

- Nine member board of directors, of which five are nominated by Federal Government, one represents State Life and one is vacant.
- The CEO, Shakeel Ahmed Mangnejo, appointed recently in Sep'17, is a high ranking officer of Pakistan Administrative Group and carries over two decades of civil services experience. Noticeably, he remained Home Secretary Sindh and worked as Director General EOBI and Director Finance Trading Corporation of Pakistan.
- The company's top management consists of qualified and experienced professionals, most of whom recently joined Pak Re; they are actively working on institutionalizing policies and procedures at Pak Re.
- Establishment of a separate claims department along with upgraded IT Infrastructure in CY16 is boding well for the company.

Business Risk

- Premium mix comprises two elements; treaty (51%) and facultative (49%). The proportion of premium from treaty arrangements increased over the years, whereas the facultative business in itself is dominated by engineering segment (24%), followed by fire (20%), and 1% each of marine, accident, and aviation.
- Premium witnessed growth in CY16 (8%) for the first time since CY13, after experiencing fall every year The growth trend was also witnessed in 1H17 with GPW increasing to PKR 3,366mln up from PKR 1,873mln in 1H16. Although treaty business has been growing at its own pace (6%-7%), facultative business has seen variation.
- Loss Ratio improved significantly (CY16: 57%, CY13: 60%), despite reduced retrocession (CY16: 34%, CY13: 40%), signifies improved risk management practices
- Expense Ratio continues to remain steady at 34%; the acquisition cost is high considering Pak Re's business model with availability of compulsory cession being offered by the insurance companies.
- Underwriting profit decreased in CY16 to PKR 544mln (CY15 722mln), similar decrease was witnessed in 1H17 as underwriting profit decreased to PKR 219mln in contrast to PKR 545mln in 1H16.
- Investment income (CY16: PKR 1017mln. CY15: PKR 982mln) increased by 3% due to increased dividends from the investments.

Business Strategy

- Envisages increased market share in the reinsurance kitty of the country through enforcement of compulsory cession coupled with prudent acceptance.
- Increased focus on Facultative Acceptance, noticeably large project, of which engineering projects with one public sector insurer.
- Profit centric approach, taking benefit from sophisticated information flow from recently upgraded IT infrastructure.
- The company is planning to venture into Window Takaful operations.

Financial Risk

- Sizeable Liquid investment book (CY16: PKR 9.3bln, CY15: PKR 9.6bln), very prudently deployed.
- Sound Liquid position with liquidity coverage to liabilities standing at 1.0 times.
- Surging receivables due to reconciliation issues with the insurance companies; management is expecting to resolve the matter soon.
- Retrocession arrangements with a diversified panel of nine reinsurers, noticeable Hannover Re (rated AA- by S&P), Trust RE (A- by AM Best), Korean Re ('A' by AM Best, Qatar Re (A by S&P); management envisages to improve the arrangements.

RATING RATIONALE

This rating takes into account the company's strong sovereign sponsorship, with the government holding 75% of the shareholding directly and indirectly. The healthy financial profile of Pak Re, as reflected in strong liquidity level is also providing good coverage against outstanding claims. The company business profile is supported by around one-fourth share in country's total reinsurance business. Pak Re has adequate underwriting performance and the loss ratios are largely aligned to industry average. The company is putting extensive effort in order to further improve its underwriting practices. The company's business acquisition cost, though low, has room for improvement. Pak Re has a sizeable investment book, a major portion of which is deployed in low-risk government papers and bank placements. Government ownership and first right of refusal for up to 35% of reinsurance business in the country are key rating factors. Leverage indicators remain low, indicating room for further growth of the company, in an already diminutive reinsurance sector of the country.

KEY RATING DRIVERS

PakRe has an adequately engaged and functional Board of Directors and apex management team. This should help in putting a comprehensive medium-term strategic plan. Improving operational efficiency and better utilization of technology tools should be prioritized. Moreover, turnaround time of claims settlement and premium recovery can be improved. Favorable outcome of certain issues with Sindh Revenue Board would release liquidity; timely resolution is important. Meanwhile, upholding good governance standards remain critical.

INDUSTRY SNAPSHOT

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). 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; bond, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.

The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE AND GENERAL *TAKAFUL* RATING SCALE

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.