



The Pakistan Credit Rating Agency Limited

PAKISTAN GENERAL INSURANCE COMPANY LIMITED (PGI)

IFS RATING REPORT

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

DEC 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-Sep17 is dominated by fire (54%), followed by marine (35%), miscellaneous (7%) and motor (5%)
- Company underwrites small and medium sized businesses, hence, top ten client concentration is low
- PGI's GPW (PKR 201mln) witnessed a decrease of 28% in 9MCY17 (9MCY16: PKR 278mln) with the market share decreasing to 0.3% (9MCY16: 0.5%)
- Loss ratio of the company improved to ~2%, due to a noticeable reduction in fire segment (9MCY17: 1%, CY16: 34%, CY15: 49%, CY14: 58%), however expense ratio further increased by a worrisome 42% to 90% (9MCY16: 48%) due to an increase in general and administrative expense
- PGI posted an underwriting profit of PKR 19mln (9MCY16: PKR 19mln)

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 464mln) represents 72% of its equity base at end-Sep17 (Sep16: 76%)
- The liquid investment portfolio (PKR 262mln) has decreased as compared to Sep16 (PKR 292mln) on the back of reduced bank deposits.
- Investment properties (PKR 202mln; 31% of equity); provides a regular stream of rental income.
- Premium receivable balance improved slightly (9MCY17:256mln, 1QCY17: 270mln, CY16: PKR 261mln and CY15: 339mln)
- At end-Sep17, the liquid investments provide 4.1times 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 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; 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	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
		Annual	Annual	Annual
Investments				
Liquid Investments	262	167	333	379
Other Investments	202	236	42	105
	464	403	374	484
Insurance Related Assets	309	298	354	184
Other Assets	264	248	247	226
TOTAL ASSETS	1,037	949	975	894
Equity	639	651	648	582
Underwriting Provisions	106	163	226	221
Insurance Related Liabilities	156	94	76	66
Other Liabilities	136	41	26	25
TOTAL EQUITY & LIABILITIES	1,037	949	975	894
INCOME STATEMENT	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
Gross Premium Written (GPW)	201	352	458	413
Net Premium Revenue (NPR)	219	251	265	224
Net Claims	(3)	(85)	(129)	(122)
Net Operational Expenses	(151)	(95)	(73)	(43)
UNDERWRITING (LOSS) / INCOME - Adjusted	65	71	63	59
Investment Income	11	18	29	29
Other Income / (Expense)	(47)	(53)	(22)	(38)
(LOSS) / PROFIT BEFORE TAX	29	36	70	50
RATIO ANALYSIS	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results				
Loss Ratio	1%	34%	49%	55%
Combined Ratio	92%	93%	91%	96%
Performance				
Operating Ratio	82%	82%	74%	82%
Investment Yield	2%	5%	6%	7%
Liquidity & Solvency				
Liquidity Ratio - times	4.1	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.

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Rated Entity

Name of Rated Entity
Sector
Type of Relationship

The Pakistan General Insurance Company Limited
 Insurance - General
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Outlook	Action
29-Dec-17	A-	Stable	Maintain
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:
 Research:

Insurer Financial Strength Rating Methodology
 Insurance | General - Viewpoint | | J Oct'17

Rating Analysts

Iqra Bashir
iqra.bashir@pacra.com
 (92-42-35869504)

Jhangeer Hanif
 Jhangeer Hanif <jhangeer@pacra.com>
 (92-42-35869504)

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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Surveillance

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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.

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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

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Probability of Default (PD)

PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of each rating notch. These studies are available at our website (www.pacra.com). However, actual transition of a particular rating may not follow the pattern