

## RATING REPORT

### Pakistan Reinsurance Company Limited

**REPORT DATE:**

October 12, 2018

**RATING ANALYSTS:**

Muniba Khan

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**RATING DETAILS**

Rating Category	Initial Rating
	Long-term
IFS	AA
<i>Rating Date</i>	<i>October 12, 2018</i>
<b>Rating Outlook</b>	Stable

**COMPANY INFORMATION**

<b>Incorporated in 2000</b>	<b>External auditors:</b> BDO Ebrahim & Co., Chartered Accountants
<b>Public Limited Company</b>	<b>Chairman of the Board:</b> Mr. Shahab Khawaja
<b>Key Shareholder(s):</b>	<b>Chief Executive Officer:</b> Mr. Shakeel Ahmed Mangnejo
Government of Pakistan – 51.0%	
State Life Insurance Corporation – 24.4%	

**APPLICABLE METHODOLOGY(IES)**

JCR-VIS Entity Rating Criteria : General Insurance (September 2016)

<http://www.jcrvis.com.pk/kc-meth.aspx>

## Pakistan Reinsurance Company Limited

### OVERVIEW OF THE INSTITUTION

*Pakistan Reinsurance Company Limited (PRCL) was incorporated as a public limited entity in March 2000. Majority shareholding of company lies with Government of Pakistan. It operates through its head office in Karachi and North Zonal Office in Lahore.*

### RATING RATIONALE

PRCL is the sole local re-insurer in the country enjoying a significant market share by virtue of having the first right of acceptance up to 35% of the treaty business. With its monopolistic position in the market, PRCL plans to increase its share of business, which is currently below the stipulated limit in most cases. Current rating of the company derives strength from its sound liquidity and capitalization indicators. Moreover, leverage indicators have remained low.

#### Key Rating Drivers

- **Strong sponsor support:** PRCL majority shareholding lies with Government of Pakistan, having an aggregate share of 75% attributing to State Life Insurance Corporation of Pakistan, PRCL Employees Empowerment Trust and Ministry of Commerce.
- **Corporate Governance & Management team:** After a long tenure of the position of CEO being vacant, Mr. Shakeel Ahmed Mangnejo joined PRCL during the ongoing year. Ever since his appointment, efforts have been witnessed to address gaps at the senior management level as well as improve workflows by segregating teams for reinsurance, underwriting and claims.
- **Business volume:** Despite increasing premium base of the industry, the company underwrote business volumes amounting Rs. 8.0b which was lower than the corresponding year's premium base of Rs. 8.8b. Business mix of the company indicates that facultative business remained more than half of the total gross premiums in 2014, while the remaining proportion attributed to treaty business. Going forward, the management plans to increase its share of treaties. Both capitalization and leverage indicators indicate adequate margin for growth in business.
- **Reinsurance:** PRCL has a diverse panel of reinsurers with a major chunk of business reinsured with companies having ratings in the 'A' and 'AA' bands. Swiss Re continues to lead in non-proportional treaties. In order to reduce risk on its net account, cession ratio of the company has increased on a timeline basis to 43.6% (FY17: 41.7%, FY16: 33.5%) in HY18.
- **Loss experience:** With increased losses emanating primarily from fire and engineering segments, gross claims ratio deteriorated to 61.4% (FY16: 57.8%) in FY17. Historically, loss ratios of facultative business have remained on the lower side in comparison to treaty business. Claims in treaty business primarily emanated from fire, engineering and accident segments.
- **Financial Profile:** Given the sizeable investment portfolio of PRCL, earning from the same continues to support core underwriting operations on a timeline basis. With declining gross premium and higher loss ratios, contribution of core underwriting operations to the bottom line has exhibited notable decline over the past two years. While an improvement in underwriting operations was observed during HY18, ability to maintain performance metrics at sustainable levels will be a key rating driver. PRCL's sufficient equity base provides cushion to absorb losses; prudent underwriting and performance indicators may have bearing on future trend in rating.

**Pakistan Reinsurance Company Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>				
	<i>(amounts in PKR millions)</i>			
<b><u>BALANCE SHEET</u></b>	<b>JUN 30, 2018</b>	<b>DEC 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Cash and Bank Deposits	1,910.5	2,517.1	2,240.0	3,285.0
Insurance Debt	4,586.4	4,304.8	4,545.1	3,836.1
Total Assets	25,548.4	24,341.6	25,117.2	17,388.6
Net Worth	11,124.3	11,115.5	13,170.0	6,938.5
Total Liabilities	14,424.1	13,226.1	11,947.2	10,450.0
<b><u>INCOME STATEMENT</u></b>	<b>JUN 30, 2018</b>	<b>DEC 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Net Premium Revenue	2,644.8	5,098.3	5,801.8	5,218.9
Net Claims	1,455.4	3,740.0	3,335.6	2,774.8
Underwriting Profit/(Loss)	289.4	(587.9)	491.0	683.8
Investment Income	383.9	3,325.9	961.2	934.7
Rental Income	29.8	56.3	55.8	47.8
Exchange Gain	151.1	102.9	(0.7)	106.0
Profit Before Tax	858.7	2,973.5	1,426.9	1,772.3
Profit After Tax	603.6	2,219.3	974.3	1,376.7
<b><u>RATIO ANALYSIS</u></b>	<b>JUN 30, 2018</b>	<b>DEC 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Retrocession Ratio (%)	43.6	41.7	33.5	34.0
Gross Claims Ratio (%)	60.3	61.4	57.8	49.5
Net Claims Ratio (%)	55.0	73.4	57.5	53.2
Underwriting Expense Ratio (%)	34.0	38.2	34.0	33.7
Combined Ratio (%)	89.1	111.5	91.5	86.9
Net Operating Ratio (%)	74.6	93.0	74.7	67.9
Insurance Debt to Gross Premium (%)	47.7	53.6	51.6	45.1
Operating Leverage (%)	41.9	40.4	37.6	42.3
Financial Leverage (%)	42.0	57.2	47.1	46.4
Adjusted Liquid Assets to Technical Reserves (%)	210.0	106.7	148.4	161.7

# JCR-VIS Credit Rating Company Limited

## RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

### AAA

Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

### AA+, AA, AA-

Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

### A+, A, A-

High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

### BBB+, BBB, BBB-

Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

### BB+, BB, BB-

Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

### B+, B, B-

Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

### CCC

Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

### CC

Weak capacity to meet policyholder and contract obligations; Risk may be high.

### C

Very weak capacity to meet policyholder and contract obligations; Risk may be very high

### D

Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix III		
<b>Name of Rated Entity</b>	Pakistan Reinsurance Company Limited (PRCL)			
<b>Sector</b>	Insurance			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Insurer Financial Strength (IFS) Rating			
<b>Rating History</b>		<b>Medium to Long Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>Rating Date</b>	<b>RATING TYPE: IFS</b>		
	12/10/2018	AA	Stable	Initial
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on insurer financial strength only and is not a recommendation to buy or sell any securities.			
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