

RATING REPORT

The Pakistan General Insurance Company Limited

REPORT DATE:

January 22, 2016

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Long-term	Long-term
Entity	A-	A-
Rating Date	Jan 15, '16	Dec 12, '14
Rating Outlook	Positive	Positive
Outlook Date	Jan 15, '16	Dec 12, '14

COMPANY INFORMATION

Incorporated in 1947	External auditors: Rehman Sarfraz Rahim Iqbal Rafiq, Chartered Accountants, (member firm of Russell Bedford)
Public Company	Chairman of the Board: Ch. Manzoor Ahmed
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Ch. Zahoor Ahmed
Mrs. Perveen Akhter – 7.2%	
Ch. Zahoor Ahmed – 5.9%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS IFS Rating Methodology <http://www.jcrvis.com.pk/images/methodology.pdf>

The Pakistan General Insurance Company Limited

OVERVIEW OF THE INSTITUTION

The Pakistan General Insurance Company Limited was established in 1947 as a public limited company and is listed on all three stock exchanges in the country. The company's

Board of Directors comprises nine members.

The company is spearheaded by Ch. Zahoor Ahmed, a veteran in insurance industry.

Financial statements for FY14 were audited by M/s Rehman Sarfraz Rahim Iqbal Rafiq, Chartered Accountants

RATING RATIONALE

With operations spanning more than two third of a century, The Pakistan General Insurance Company Limited (PGI) has built adequate equity base over the years (end-9M15: Rs. 616m). Operating and financial leverage indicators are on the lower side depicting ample room for growth. The company posted gross premium of Rs. 413m (FY13: Rs. 330m), depicting growth of 25% in 2014. Profitability of PGI was largely driven by improved underwriting results; investment income, though lower YoY, continues to support the bottom line. Decline in insurance debt resulted in strong liquidity vis-à-vis total liabilities of the company.

The company's business mix is led by Fire segment, which represents more than half of the total business volumes. This is followed by marine and engineering businesses. The company continues to write limited motor business, remaining below 4% of gross premium. PGI has a cautious approach towards motor business, which is mainly accepted together with other business from corporate entities. Incidence of claims remained within manageable limits. Going forward, while retaining adequate underwriting quality, the company plans to largely maintain the business mix with slightly enhanced focus towards bond/guarantee and motor (tractors) business. The company has applied for window takaful operator license to the SECP for the initiation of takaful operations and is awaiting a formal approval.

PGI has an adequate reinsurer panel featuring 'A-' and above rated reinsurers for both proportional and non-proportional treaties. Pakistan Reinsurance Company Limited (PRCL) is the lead reinsurer. Apart from conventional covers, PGI has acquired reinsurance cover of 70% from PRCL for crop and livestock. A change was witnessed in the panel with the exit of Russian Re in 2015. Share of PRCL was also reduced. Their respective shares were acquired by Trust International Bahrain (rated A- by AM Best). Treaty terms for all segments remained unchanged for 2015.

Overall cession increased in 9M14 largely on account of lesser cover of proportional treaties. The increase was notable in fire and miscellaneous segments. Net premium revenue amounted to Rs. 224.0m (FY13: Rs. 176.6m) in FY14 and Rs. 196.9m in 9M15. Fueled by top-line growth and in the absence of one off provisioning expense, PGI posted an underwriting profit of 39.5m in 9M15 (FY14: Rs. 19.7m; FY13: loss Rs. 21.2m). After accounting for investment income, the bottom line of the company stood adequately higher in FY14 and 9M15.

During FY14, the company exhibited considerable increase in premium received, an outcome of recovery in insurance debt and higher gross premium for the year. This along with lower reinsurance premium paid resulted in cash inflow of Rs. 119m (FY13: outflow Rs. 6m) during FY14.

With availability of surplus liquidity, total investments (excluding loan & properties) stood considerably higher at Rs. 380.1 and Rs. 381.4m during 9M15 and FY14, respectively (FY13: Rs. 133.4m). The company has an investment portfolio with almost three fourth of its exposure in TDRs while remaining is mainly deployed in government securities and equities; credit and market risks associated with the investment portfolio are considered manageable. Over the years, the portfolio has generated steady stream of income and supported the bottom line of the company.

The Pakistan General Insurance Company Limited

Appendix I

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
BALANCE SHEET	SEP 30, 2015	DEC 31, 2014	DEC 31, 2013
Cash and Bank Deposits	381.8	329.3	109.6
Investments	55.8	49.1	82.6
Investment Properties	101.2	105.1	110.6
Insurance Debt	160.0	178.9	237.5
Total Assets	923.7	893.5	807.5
Net Worth ex reval. surplus	615.7	571.9	526.7
Total Liabilities	298.4	311.8	270.6
INCOME STATEMENT			
	SEP 30, 2015	DEC 31, 2014	DEC 31, 2013
Net Premium Revenue	196.9	224	176.6
Net Claims	89.1	122.5	65.0
Underwriting Profit	65.8	58.7	16.6
Net Investment Income	22.5	22.2	33.1
Profit Before Tax	67.0	49.7	19.0
Profit After Tax	43.6	44.8	27.3
RATIO ANALYSIS			
	SEP 30, 2015	DEC 31, 2014	DEC 31, 2013
Market Share (Gross Premium) (%)		0.75	0.68
Cession Ratio (%)	45.7	43.3	46.8
Gross Claims Ratio (%)	55.0	54.8	67.0
Net Claims Ratio (%)	45.3	54.7	36.8
Underwriting Expense Ratio (%)	34.7	36.5	75.2
Combined Ratio (%)	79.9	91.1	112.0
Net Operating Ratio (%) - After removing impact of other income	65.9	78.4	90.0
Insurance Debt to Gross Premium (%)	39.8	43.0	72.0
Operating Leverage (%)	42.0	38.5	32.9
Financial Leverage (%)	37.8	46.6	44.8
Adjusted Liquid Assets to Technical Reserves (%)	190.8	144.7	61.2

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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

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

'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

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	The Pakistan General Insurance Company Limited				
Sector	Insurance				
Type of Relationship	Solicited				
Purpose of Rating	Insurer Financial Strength (IFS) Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: IFS				
	01/15/2016	A-	-	Positive	Reaffirmed
	12/12/2014	A-	-	Positive	Maintain
	11/25/2013	A-	-	Stable	Upgrade
	12/31/2012	BBB+	-	Stable	Reaffirm
	01/02/2012	BBB+	-	Stable	Upgrade
Instrument Structure	N/A				
Statement by the Rating Team	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 credit quality only and is not a recommendation to buy or sell any securities.				
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