

## RATING REPORT

### The Pakistan General Insurance Company Limited

**REPORT DATE:**

January 17, 2017

**RATING ANALYSTS:**

Waqas Munir, FRM

[waqas.munir@jcrvis.com.pk](mailto:waqas.munir@jcrvis.com.pk)

Maryam Tanveer

[maryam.tanveer@jcrvis.com.pk](mailto:maryam.tanveer@jcrvis.com.pk)

#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	A-	A-
<i>Rating Date</i>	<i>Dec 30, '16</i>	<i>Jan 15, '16</i>
Rating Outlook	Stable	Positive
<i>Outlook Date</i>	<i>Dec 30, '16</i>	<i>Jan 15, '16</i>

#### COMPANY INFORMATION

Incorporated in 1947	<b>External auditors:</b> Rehman Sarfraz Rahim Iqbal Rafiq, Chartered Accountants, (member firm of Russell Bedford)
Public Company	<b>Chairman of the Board:</b> Nasir Ali
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Ch. Zahoor Ahmed
Sponsoring Family - 36.96%	

#### APPLICABLE METHODOLOGY(IES)

General Insurance (Sept, 2016) <http://www.jcrvis.com.pk/kc-meth.aspx>

## 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 Pakistan Stock Exchange. The company provides general insurance services in fire and property damage, marine, aviation and transport, motor and miscellaneous segments.

#### Profile of Chairman

After completion of his qualification, Mr. Nasir Ali worked in the UK with various banks and later returned to Pakistan to join PGI in 2007.

#### Profile of CEO

Mr. Zahoor Ahmed is a seasoned veteran in insurance sector with over 40 years of experience.

#### Financial Snapshot

Net Equity: 9M16-Rs. 634.4m, FY15-Rs. 638.8m

Net Profit: 9M16-Rs. 25.4m, FY15-Rs. 66.6m

### RATING RATIONALE

Ratings assigned to The Pakistan General Insurance Company Limited (PGI) take into account adequate capitalization levels of the company while quantum of liquid reserves carried on the balance sheet in relation to outstanding liabilities provide support to the financial risk assessment. The leverage indicators of the company are lower than peer group companies indicating ample room for growth in business volumes.

#### Business Mix:

PGI operates as a small sized insurance company with a market share of less than 1% in domestic insurance industry. Fire, property damages and marine segment continues to lead the business mix. The company underwrites relatively smaller sized risks. Business volumes during the ongoing year are lower as compared to the preceding year. In addition to this, there is sizeable accumulation of insurance debt on the balance sheet; insurance debt represented 112.6% of gross premium at end-9M16 (FY15: 77%; FY14: 43.3%). Management has made progress in recovering a material portion of the insurance debt during the last quarter for FY16.

#### Reinsurance Arrangement:

PGI has a reinsurer panel with 'A-' and above rated companies. Trust international Bahrain became the lead insurer in FY16, vis-à-vis Pakistan Reinsurance Company Limited (PRCL) in the preceding year. Previously, 50% of PGI's treaties were reinsured by PRCL under proportional treaties while the remaining was covered under XoL treaties. During FY16, reinsurance arrangements were shifted completely to non-proportional treaties barring crops and livestock where quota share treaties have been arranged with PRCL; the same arrangement is expected to continue during FY17. Non-proportion treaties have increased retention of claims on company's net account with occurrence of large claims requiring reinstatement of higher layers of treaties. In view of this, ability of the management to maintain adequate underwriting quality would be critical.

#### Investment:

Total investment portfolio amounted to Rs. 333.1m at end-9MFY16 (FY15: 339.7m; FY14: Rs. 490m). Overall risk profile of the investment portfolio is considered low as more than 70% of funds have been placed with commercial banks. Market risk pertaining to listed equities is considered manageable given the size of exposure. Going forward, proportion of investment in property is expected to increase. Maintaining adequate liquidity in relation to business volumes would be critical.

#### Profitability:

Adjusting for one-time gain realized on sale of property during FY15, profitability remained depressed during the ongoing year owing to decline in investment income coupled with increase in operating and net commission expense. Net claims ratio improved on a timeline basis with notable improvement reported in marine and miscellaneous segment. The impact of higher expense ratio was offset by lower claims ratio, resulting in improved combined ratio. PGI reported profit after tax of Rs. 25.4m (FY15: Rs. 66.6m; FY14: Rs. 44.8m) during 9MFY16.

#### Management and Corporate Governance:

Management team has depicted stability and comprises experienced resources. Key management personnel belong to the sponsoring family. Corporate governance practices of the institution have room for improvement.

## JCR-VIS Credit Rating Company Limited

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

### The Pakistan General Insurance Company Limited

### Appendix I

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b>BALANCE SHEET</b>	<b>SEP 30, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Cash and Bank Deposits	281.4	297.7	329.3
Investments	10.7	34.9	49.1
Investment Properties	40.1	41.6	105.1
Insurance Debt	312.6	352.2	178.9
Total Assets	960.2	975.4	893.5
Net Worth ex reval. surplus	634.4	638.8	571.9
Total Liabilities	316.4	327.0	311.8
<b>INCOME STATEMENT</b>	<b>SEP 30, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Net Premium Revenue	190.1	264.6	224
Net Claims	79.3	128.6	122.5
Underwriting Profit	19.3	22.6	19.7
Net Investment Income	11.6	23.7	22.2
Profit Before Tax	33.7	69.3	49.7
Profit After Tax	25.4	66.6	44.8
<b>RATIO ANALYSIS</b>	<b>SEP 30, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Market Share (Gross Premium) (%)	0.53	0.75	0.75
Cession Ratio (%)	11.0	44.8	43.3
Gross Claims Ratio (%)	25.5	54.6	60.3
Net Claims Ratio (%)	41.7	48.6	54.7
Underwriting Expense Ratio (%)	48.1	42.9	36.5
Combined Ratio (%)	89.9	91.5	91.2
Net Operating Ratio (%) - After removing impact of other income	83.2	84.8	83.1
Insurance Debt to Gross Premium (%)	112.6	77.0	43.0
Operating Leverage (%)	29.5	40.8	38.5
Financial Leverage (%)	36.3	41.7	46.6
Adjusted Liquid Assets to Technical Reserves (%)	126.4	122.8	144.7

**Medium to Long-Term**

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

**Short-Term**

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**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)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'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)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURES				Appendix III	
<b>Name of Rated Entity</b>	The Pakistan General Insurance Company Limited				
<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>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	RATING TYPE: IFS				
	12/30/2016	A-	-	Stable	Maintained
	01/15/2016	A-	-	Positive	Reaffirm
	12/12/2014	A-	-	Positive	Maintain
	11/22/2013	A-	-	Stable	Upgrade
	12/31/2012	BBB+	-	Stable	Reaffirm
	01/02/2012	BBB+	-	Stable	Upgrade
<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 credit quality only and is not a recommendation to buy or sell any securities.				
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