



The Pakistan Credit Rating Agency Limited

**Rating Report**

**IGI General Insurance Limited**

**Report Contents**

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

**Rating History**

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jun-2018	AA	-	Stable	Initial	-
21-Jun-2017	AA*	-	Rating Watch	Maintain	YES
30-Dec-2016	AA	-	Rating Watch- Developing	Maintain	YES
31-Dec-2015	AA	-	Stable	Maintain	-
08-Jan-2015	AA	-	Stable	Maintain	-

\* Rating History prior to Jun-2018 pertains IGI Insurance Limited.

**Rating Rationale and Key Rating Drivers**

The rating of IGI General Insurance Limited draws comfort from the growing business volume under the stewardship of an able team. The composition of the book is well balanced with almost equal proportion emanating from the direct business. In this, the business relationships of the group also play a pivotal role, whereby a number of multi-national companies obtain insurance coverage from IGI. Improvement in the IT infrastructure is helping the company in bringing efficiency - notably in claims management.

Underwriting profits improved with contributions from both premiums side as well as claims. Post de-merger, the parent company, IGI Holdings Limited (formerly: IGI Insurance Limited) has injected a sizeable capital into the company. This is preserved mostly as in the form of liquid investments. IGI has designed a framework around the management of the investment book. The top group resources provide strategic direction and oversight to this.

The company aims to grow by focusing more on customer satisfaction in profitable segments. The company targets tapping retail business in non-conventional avenues over the medium-term. The assigned rating also takes into account its association with Packages Group and comfort is drawn from its sound governance practices of the group.

The rating remains dependent on the management's ability to strengthen its market position in a competitive landscape while ensuring underwriting profitability. The liquid investment book need to be preserved and indeed improved in line with the growing business volumes.

**Disclosure**

<b>Name of Rated Entity</b>	IGI General Insurance Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   Insurer Financial Strength (IFS) Rating   Life (Jun-17)
<b>Related Research</b>	Sector Study   Insurance   General (Oct-17)
<b>Rating Analysts</b>	Muhammad Noor ul Haq   muhammad.noorulhaq@pacra.com   +92-42-35869504

## IGI GENERAL INSURANCE LIMITED

<b>Incorporated</b>	1953
<b>Major Business</b>	General Insurance
<b>Legal Status</b>	Listed Public Limited Company
<b>Head Office</b>	Karachi

## 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 business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.

## OWNERSHIP

- The IGI Holdings holds ~100% stake in the company.
- The IGI Holdings is owned by Packages Group, which is ranked amongst the renowned industrial groups of the country, having diversified interests in packaging, dairy, pharmaceutical, and financial sectors.

## GOVERNANCE

- The overall control of the company vests in six-member Board of Directors comprises two independent directors, one executive director and three non-executive directors representing the main sponsoring family.
- The board, chaired by a retired civil servant – Shamim Ahmad Khan, comprises professionals with a diverse portfolio of experiences, and possesses a strong ability to provide strategic guidance to the management.
- A.F. Ferguson & Co. Chartered Accountants issued an unqualified audit report pertaining to financial statements for CY17.

## MANAGEMENT

- The company has a comprehensive organizational structure with clearly demarcated reporting lines, ensuring segregation of duties. The overall functions of the company are divided into five departments: (i) Underwriting, Reinsurance & Risk Management, (ii) Claims, (iii) Marketing & Sales, (iv) Finance, and (v) Group Shared Services (GSS) under the IGI FS umbrella.
- The various functions falling under GSS are i) Human Resource / Administration, ii) Brand Management, and iii) IT / Service & Quality.
- Mr. Tahir Masaud, CEO, is an ACII and MBA from LUMS, having diversified national and international insurance related experience of over 20 years.

## BUSINESS RISK

- IGI, having a market share of CY17: 3.5%, stands at 5th position in terms of industry's GPW in CY17 in medium sector. Segment mix is diversified with fire (27%), motor (30%), marine (13%), health segment (9%), and rest comprise miscellaneous.
- The top ten clients' concentration is moderately high at ~25%.
- GPW witnessed an impressive size (PKR 2,902mln), invariably in all segments.
- The net loss was higher than the medium size industry average (IGI: 57%, Medium industry: 48%) due to one-off claim in the engineering segment, effective reinsurance strategy protected the company.
- The combined ratio was also higher than the medium industry average (IGI: 105%, Medium Industry: 86%).
- Sizable investment income PKR 86mln provides boost to the bottom-line.

## FINANCIAL RISK

- Sizeable investment Book (CY17: PKR 2,968mln) represents 1.4times of its equity base; deployed in cash and bank (PKR 2,468mln), govt. securities (PKR 321mln) and investment properties PKR 179mln).
- The investment yield on the book is 5.2% in CY17.
- The overall size of the investment book is largest among the medium sized industry.
- The liquidity position of the company is fair, wherein the liquid investment (PKR 2,789mln) is strong for providing coverage to company's gross claims outstanding (PKR 1,226).The claim outstanding days are high (CY17: 294days) mainly due to one off claim. Premium outstanding days stood at 54days, remained comparable with peers.



The Pakistan Credit Rating Agency Limited

**IGI General Insurance Limited (IGI)**

**GENERAL INSURANCE  
Financials [Summary]**

<b>BALANCE SHEET</b>	<b>31-Dec-17</b>	<b>30-Sep-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
<b>Investments</b>				
Liquid Investments	2789	390	715	439
Investment in Associates	0	15,262	11,977	12,072
Other Investments	179	182	191	127
	<b>2968</b>	<b>15,834</b>	<b>12,883</b>	<b>12,639</b>

Insurance Related Assets	1426	1,804	1,073	1,086
Other Assets	1351	939	694	765

<b>TOTAL ASSETS</b>	<b>5,745</b>	<b>18,576</b>	<b>14,651</b>	<b>14,490</b>
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Equity	2091	12,595	12,261	11,579
Underwriting Provisions	1287	1,307	821	721
Insurance Related Liabilities	1574	1,860	1,121	1,096
Other Liabilities	727	462	300	339
Borrowings	65	2,352	148	755
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>5,745</b>	<b>18,576</b>	<b>14,651</b>	<b>14,490</b>

<b>INCOME STATEMENT</b>	<b>31-Dec-17</b>	<b>30-Sep-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
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Gross Premium Written (GPW)	2902	2,379	2,344	2,140
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Net Premium Revenue (NPR)	1645	<b>1,027</b>	<b>1,122</b>	<b>1,045</b>
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Net Claims	(933)	(547)	(586)	(595)
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Net Operational Expenses	(552)	(437)	(454)	(431)
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<b>UNDERWRITING INCOME / (LOSS) - Adjusted</b>	<b>160</b>	<b>42</b>	<b>81</b>	<b>20</b>
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Total Operating Income	86	1,237	1,472	979
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Other Income/ (expense) including financial charges	(45)	(48)	(21)	(57)
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<b>PROFIT BEFORE TAX</b>	<b>201</b>	<b>1,231</b>	<b>1,532</b>	<b>942</b>
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<b>RATIO ANALYSIS</b>	<b>31-Dec-17</b>	<b>30-Sep-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
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**Underwriting Results**

Loss Ratio	57%	53%	52%	57%
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Combined Ratio	105%	96%	93%	98%
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**Performance**

Operating Ratio	103%	-20%	-37%	10%
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Investment Yield	35%	1%	12%	34%
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**Liquidity & Solvency**

Liquidity Ratio – times	2.2	1.6	0.9	-0.5
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**IGI Insurance Limited (IGI)**

December 2017



## INSURER FINANCIAL STRENGTH (IFS) RATING 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
<b>AAA</b>	<b>Exceptionally Strong.</b> 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.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> 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
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> 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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> 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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> 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> <b>B</b> <b>B-</b>	<b>Weak.</b> 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.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> 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.
<b>D</b>	<b>Distressed</b> 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.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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'.</p>	<p><b>Rating Watch</b> 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.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.</p>
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**Disclaimer:** PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) 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 a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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