



The Pakistan Credit Rating Agency Limited

Rating Report

IGI General Insurance Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Feb-2019	AA	-	Stable	Maintain	-
18-Dec-2018	AA	-	Stable	Maintain	-
29-Jun-2018	AA	-	Stable	Initial	-

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. Largest growth has been seen in the motor segment. 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 has injected a sizeable capital into the company. This is preserved mostly as in the form of liquid investments. The holdco has an express mandate to proactively support the company in times of need. The top group resources provide strategic direction and oversight. 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

Name of Rated Entity	IGI General Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance(Jun-18)
Related Research	Sector Study General Insurance(Nov-18)
Rating Analysts	Zeeshan Munir zeeshan.munir@pacra.com +92-42-35869504



Profile

Legal Structure IGI General Insurance Limited (“IGI General”) is a public limited company incorporated on November 18, 2016 under the Companies Ordinance, 1984 and engaged in the general insurance business. IGI General is a wholly owned subsidiary of IGI Holdings Limited (formerly: IGI Insurance Limited) and is part of Packages Group.

Background Packages Group, under the umbrella of “IGI Financial Services” established foothold in the financial sector (i) IGI Insurance, (ii) IGI Life, (iii) IGI Investment Bank Limited, and (iv) IGI Securities Limited. The group initiated corporate restructuring, envisioned to create a Holding Company (HoldCo), thereby separating strategic investment from its insurance business. This would benefit in creating value in excess of its parts. The company filed a petition for sanctioning of the Scheme of Amalgamation under Sections 284 to 288 of the now repealed Companies Ordinance, 1984 in the High Court of Sindh for approval of merger (effective 31-Dec-16) and then de-merger (effective 31-Jan-17).

Operations IGI General Insurance is headquartered in Karachi. It has offices in 9 cities nationwide including all major cities including Karachi, Lahore, and Peshawar etc. to provide prompt services to the customers. Company has 4,000 corporate and 19,000 individual customers.

Ownership

Ownership Structure IGI Holdings holds ~100% stake in the company.

Stability Following the restructuring of the company, the company is on its way to finding strong footings and leading a vision of being a market forerunner in the insurance business.

Business Acumen 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.

Financial Strength Packages Group has expanded its footings into diversified business avenues with sizable portfolios of strategic investments in packaging, financial services, construction, chemical and power depicting a very strong financial strength of the group.

Governance

Board Structure Board comprises five members having diversified experience and expertise. Board comprises one independent, two executive (including CEO) and two non-executive directors.

Members’ Profile Board is headed by Mr. Shamim Ahmad Khan who is associated with the Company as a Non-executive Director. He has served various government organizations in different capacities namely Securities and Exchange Commission of Pakistan (SECP) and Ministry of Commerce (MoC). He has also been engaged with consultancy assignments for Asian Development Bank and other organizations. Other board members are also renowned professionals having wide and varied professional working experience spanning over many years.

Board Effectiveness The presence of strong strategic parent group on board, Packages Group, enhances the governance framework of the company. The incumbent members bring in requisite challenge and fresh vision for the company especially after the restructuring of the company.

Financial Transparency A.F. Ferguson & Co. Chartered Accountants issued an unqualified audit report and review report pertaining to financial statements for CY17 and 1H18 respectively.

Management

Organizational Structure 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.

Management Team Management Team is headed by Mr. Tahir Masaud (CEO) of IGI Holdings Limited (Formerly IGI Insurance Limited) as well as IGI General Insurance Limited. Mr. Masaud brings with him over 17 years of rich and varied experience gained in senior leadership positions within the general insurance sector in Pakistan and United Kingdom. There are separate individuals heading the Underwriting, Claims, Finance and Sales department.

Effectiveness The board’s investment committee (IC) sets the guidelines and policies for the company. The performance is evaluated by IC every quarter, while proposal for investments by AIL’s management are considered in bi-monthly.

Claim Management System With the implementation of AEGIS, company has brought noticeable efficiency in claims Turnaround Time (TAT). Web portals are maintained for claim surveyors, shipping clearing agents (cargo/containers). The claims department handles all non-health claims processes of the company and closely monitors the outstanding claims position. The health claims settlement has been outsourced to its group company.

Investment Management Function The board’s investment committee (IC) sets the guidelines and policies for the company. The performance is evaluated by IC every quarter, while proposal for investments by the management are considered in regularly.

Risk Management Framework IGI, focuses on growth through risk based pricing, and has devised a well-structured risk management program. The company implements comprehensive measures prior to issuance of a policy, including obtaining reasonable knowledge of assets being insured, physical inspection, and assessment of vulnerability to loss, advising the insured on specific actions to minimize the potential risk of loss, and evaluating involvement of any moral hazard on part of the insured.

Business Risk

Industry Dynamics Pakistan’s general insurance witnessed continuous growth (CAGR 4 years 11%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

Relative Position IGI General Insurance is a medium sized company with 4% market share at CY17 and is ranked 5th in the industry wide position based on GPW. However, the market share increased to 5% in 9MCY18.

Revenue GPW witnessed an impressive size of PKR 3,645mln in first 9 months, (57% more than 3Q17: PKR 2,322mln).

Profitability Underwriting results for the 9M18 stood at PKR 177 million as compared to PKR 233 million in the corresponding period last year. This decline in profitability is mainly attributed to the management expenses which rose to PKR 536 million (9M17: PKR 385 million). The higher management expenses are due to increased tracker expenses along with an incremental one month comparative due to the restructuring of the company.

Investment Performance Investment income rose by 108% in the 9M18 to reach PKR 129 million as compared to PKR 62 million in the corresponding period last year.

Sustainability Net loss has improved from 54% (9M17) to 52% (9M18). Combined ratio saw a deterioration from corresponding period last year (9M17: 80% compared to 9M18: 89%) on account of Expense Ratio which witnessed a substantial increase from 26% in 9M17 to 38% in 9M18.

Financial Risk

Claim Efficiency The claim outstanding days are high (9M18: 297 days). Premium outstanding days stood at 57 days, remained comparable with peers.

Re-Insurance IGI’s panel includes Swiss Re (rated AA- by S&P), Hannover Re (rated AA- by S&P), MS Frontier Re, Scor Re (rated A+ by S&P), Korean Re (rated A by AM Best), Arig (rated B++ by AM Best) and Pak Re. IGI continues to enjoy proportional treaty arrangements, while XoL treaties.

Liquidity Sizeable investment Book (9M18: PKR 3,274mln) represents 1.4times of its equity base; deployed in cash and bank (PKR 1,025mln), govt. securities (PKR 1,773mln) and investment properties PKR 173mln).

Capital Adequacy IGI is compliant with the SECP’s mandated requirement of PKR 500mln. The equity stands over PKR 2bln.



IGI General Insurance Limited (IGI)

BALANCE SHEET	30-Sep-18	31-Dec-17	30-Sep-17
Investments			
Liquid Investments	3,101	2,789	1,139
Investment in Associates	-	-	-
Other Investments	173	179	183
	3,274	2,968	1,322
Insurance Related Assets	2,003	1,426	1,564
Other Assets	1,661	1,286	1,414
Assets - Window Takaful	96	64	57
TOTAL ASSETS	7,034	5,745	4,357
Equity	2,159	2,091	622
Underwriting Provisions	1,929	1,287	1,574
Insurance Related Liabilities	2,221	1,574	1,463
Other Liabilities	581	711	619
Borrowings	107	65	71
Liabilities - Window Takaful	37	17	8
TOTAL EQUITY & LIABILITIES	7,034	5,745	4,357
INCOME STATEMENT - Extracts*	30-Sep-18	31-Dec-17	30-Sep-17
Gross Premium Written (GPW)	3,645	2,902	2,322
Net Premium Revenue (NPR)	1,673	1,645	1,165
Net Claims	(863)	(933)	(632)
Net Operational Expenses	(634)	(552)	(301)
UNDERWRITING INCOME / (LOSS) - Adjusted	177	160	232
Total Investing Income	129	86	62
PROFIT BEFORE TAX	312	251	297
RATIO ANALYSIS	30-Sep-18	31-Dec-17	30-Sep-17
Underwriting Results			
Loss Ratio	52%	57%	54%
Combined Ratio	89%	90%	80%
Performance			
Operating Ratio	81%	85%	74%
Investment Income Ratio	8%	5%	5%
Liquidity & Solvency			
Liquidity Ratio – times	2.4	2.2	1.0

* conventional only



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
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.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</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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