



The Pakistan Credit Rating Agency Limited

## Rating Report

### Atlas Insurance Limited

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Aug-2022	AA+ (ifs)	-	Stable	Maintain	-
31-Mar-2022	AA+ (ifs)	-	Stable	Harmonize	-
26-Aug-2021	AA	-	Stable	Maintain	-
28-Aug-2020	AA	-	Stable	Maintain	-
29-Aug-2019	AA	-	Stable	Maintain	-
27-Feb-2019	AA	-	Stable	Maintain	-
13-Dec-2018	AA	-	Stable	Maintain	-
27-Apr-2018	AA	-	Stable	Maintain	-
02-Oct-2017	AA	-	Stable	Maintain	-
10-Mar-2017	AA	-	Stable	Upgrade	-
30-Dec-2016	AA-	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

Atlas Insurance has demonstrated renewal vibrance and resilience over the couple of years. This is a direct outcome of a documented vision to act as dynamic player in the market. Atlas Insurance has built and sustained its relative positioning in the peer universe. Atlas stands at a very high level in terms of its profitability. The Company has a very high amount of contribution from its core business, as against other companies which garner less support from core business. The Company has gradually enhanced its non-group business over the years. Envisaged strategy is to expand the business size while retaining core profitability. Association with Atlas group provides benefits in terms of sustained low-risk captive business, while ensuring sound governance framework. The Company has a strong panel of reinsurers with favorable treaty terms and prudent risk retention policies. Robust equity and investment book provides ample cushion to Atlas Insurance in terms of fulfilling its claim obligations without affecting its liquidity base adversely.

During CY21, the sector experienced ~7% growth YoY basis rising to PKR~703bln (CY20: PKR~656bln). Equity of the sector grew as well by ~5%. Underwriting grew up by ~75% YoY in CY21 as compared to CY20. During CY21, upsurge in auto sales and health products remained pivotal for growth. Underwriting profitability has been maintained through reduced management expenses while innovative products are being envisaged. However, current political instability and worsening economic condition could adversely impact insurance industry. The rating is dependent upon sustained improvement in relative position of the Company, augmenting its sustainability, as envisaged by the board and the management. Meanwhile, continued improvement in the business and financial profile of the Company is also imperative for the rating.

The rating is dependent on sustained improvement in business and financial metrics of the Company in line with its relative positioning within the industry. At the same time, the liquidity profile should continue to cushion the liabilities.

#### Disclosure

<b>Name of Rated Entity</b>	Atlas Insurance Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   General Insurance Rating(Mar-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   General Insurance(May-22)
<b>Rating Analysts</b>	Behrooz Fareed   behrooz.fareed@pacra.com   +92-42-35869504

## Profile

**Legal Structure** The Company is a Public listed entity, incorporated on Pakistan Stock Exchange.

**Background** Atlas Insurance Limited (Atlas Insurance) is one of the the oldest insurance companies within the country, established in 1934 as Muslim Insurance Company Limited. Atlas Group acquired Muslim Insurance Company Limited in 1980 and later in 2006, changed the name to Atlas Insurance Limited.

**Operations** Atlas Insurance, with its head office in Lahore, operates a network of 28 branches divided into two zones: Southern Zone (Karachi, Sukkur and Hyderabad) and Northern Zone (Lahore, Gujranwala, Rawalpindi, Islamabad, Faisalabad, Sialkot, Sahiwal, and Multan). The Company is engaged in general insurance business.

## Ownership

**Ownership Structure** Atlas Group controls 78% stake in Atlas Insurance. Rest is owned by Individuals (17.2%), State Life Insurance Corporation (2.8%), and a few Financial Institutions (2%).

**Stability** Atlas Group owns majority stake in Atlas Insurance (78%) through its different companies. Strong financial muscle of Atlas Group, and intention to hold business provides strength to the ownership structure of the Company.

**Business Acumen** Atlas Group is one of the biggest conglomerates of the country dealing in auto mobiles, engineering, power plant, insurance, asset management and trading, depicting sponsors fine business acumen.

**Financial Strength** Atlas Group shareholders equity and assets stand over a billion US dollars approximately. Sponsors have all the financial muscles and intentions to support the Company in situation of distress which is evident through its ownership history.

## Governance

**Board Structure** The Board comprises of Seven members including two independent, four non-executives from various group affiliates and one executive director.

**Members' Profile** Board Chairman Mr. Iftikhar H. Shirazi graduated with a Bsc. in Finance from Notre Dame De Namur University, USA, and completed his OPM from Harvard Business School. He has over 31 years of management experience. Other board members are highly qualified as well and enjoys experience of decades.

**Board Effectiveness** Board has formed Audit Committee; Ethics, HR & Remuneration Committee and Investment Committee. Except Ethics, HR and Remuneration, Committees meet once in every quarter prior to the approval of interim and final results of the Company. Proper minutes of the meeting are maintained.

**Transparency** Auditors of the Company, M/S EY Ford Rhodes, Chartered Accountants has expressed an unqualified opinion on the review of financial statements of CY21. The Company has an effective internal audit function, which is considered suitably qualified and experienced.

## Management

**Organizational Structure** Atlas Insurance has clearly defined organizational structure. There are two broad segments: i) insurance related activities (i.e., underwriting, claims and reinsurance) and ii) support services (i.e., finance internal audit, HR & Admin, and MIS). All seven department heads report directly to CEO.

**Management Team** CEO, Mr. Babar Mahmood Mirza is a veteran of insurance industry and has extensive domestic and international experience, who is ably assisted by a team of well-qualified professionals.

**Effectiveness** The Company has four management committees, a) Underwriting, Re-insurance/Co-insurance Committee, b) Claims Committee, c) Risk Management & Compliance Committee and d) Information Technology Committee. Meeting of each committee is held quarterly and on need basis.

**MIS** The system comprises a centralized database and web based front-end for development and reporting. The system assigns authority levels to its users and enforces strict compliance with internal procedures. IT system supports Head Office operations as well as remote users provide real-time updates.

**Claim Management System** Atlas Insurance has comprehensive Claim Policy with clearly defined approval authorities. The Company follows up the case with the surveyors and their performance is assessed on semi-annual basis, mainly focusing on their response time and quality of survey.

**Investment Management Function** The Board's Investment Committee sets guidelines and policies for the Company. Investment advisor, Atlas Asset Management Ltd, is prudently investing Company funds and managing the portfolio efficiently. Performance is evaluated by investment committee every quarter.

**Risk Management Framework** The Company has implemented a detailed Risk Management Framework. These guidelines tend to institute a strong risk environment, while laying down underwriting and reinsurance guidelines and identifying functions and responsibilities of all participants from the Board to the support staff.

## Business Risk

**Industry Dynamics** During CY21, the sector experienced ~7% growth YoY basis rising to PKR~703bln (CY20: PKR 656bln). Equity of the sector grew as well by ~5%. Underwriting grew up by ~75% YoY in CY21 as compared to CY20. During CY21, upsurge in auto sales and health products remained pivotal for growth. Underwriting profitability has been maintained through reduced management expenses while innovative products are being envisaged. However, current political instability and worsening economic condition could adversely impact insurance industry.

**Relative Position** Atlas Insurance enjoys ~3.6% share of the market classifying Company as medium sized entity. However, being part of established and a large group provides immense opportunity to grow in future specially in auto sector.

**Revenue** GPW increased by ~24% to PKR 4,107mln in CY21 as compared to CY20: PKR 3,323mln. With exception to Miscellaneous segment, all segments experienced growth (Fire: 19%, Motor: 16% and Marine, Aviation and Transport: 59%). Marine, Aviation and Transport segment dominates the portfolio and growth in GPW as the group auto business contributes significantly.

**Profitability** During CY21, Profit before tax reached PKR~1,201mln against PKR~934mln of last year, up ~29%. After providing for taxes aggregating to PKR~346mln, the profit after tax stood at PKR~855mln compared to PKR~672mln of last year, up 29%. During 1QCY22, the Company earned profit before tax of PKR~299mln against PKR~246mln of corresponding period, up 27%. Profit after tax stood at PKR~219mln compared to PKR~172mln of the same period last year, up 27%.

**Investment Performance** Atlas Insurance's investment portfolio (PKR~7,320mln) constitutes ~1.7 times of its equity (PKR~4,227mln). During CY21, the Company earned investment income of PKR~353mln compared to PKR~264mln of last year, up 34%. Dividend income increased to PKR~294mln as compared to PKR~160mln of the last year. During 1QCY22, Investment income for the period under review was PKR~68mln against PKR~54mln of the corresponding period last year showing an increase of ~25%.

**Sustainability** The Company vows to manage sustainable profitability, ensuring consistent improvement in prudent underwriting and risk management. Expansion is also on cards with new branches to be added to existing branch network. The Company is now focusing on flourishing its window takaful operations – especially in motor segment.

## Financial Risk

**Claim Efficiency** Claim efficiency days of the Company improved to ~208days during CY21 as compared to ~215days in CY20. During 1QCY22, claim efficiency days stood at ~169days. The Company has demonstrated a slight decay in its risk absorption capacity through dipped liquidity ratio, providing cover of 2x to the outstanding claims as at end-Dec21 as compared to 2.4x as at end-Dec20. During 1QCY22, Liquidity ratio has remained stagnant at level of CY21

**Re-Insurance** The Company has re-insurance arrangements with some of the best renowned international reinsurers including Swiss Re, Hannover Re, Tokio Marine & Nichido Fire, Sampo Re, Luban Re and Malaysian Re among others. Treaty arrangement predominantly comprises surplus treaties.

**Cashflows & Coverages** Total liquid assets parked with the Company stand at PKR~5,262mln as at end-Dec21 (CY20: PKR 4,529mln). Liquid investment as at end-1QCY22 further improved to PKR~5,428mln. Liquidity ratio of the Company comparing liquid assets to Net insurance premiums stood at 2.1:1 as at end-Dec21 (CY20: 2.2:1)

**Capital Adequacy** The Company's current paid-up capital is in accordance with the limit prescribed by the SECP. During CY21, total equity of the Company stood at PKR~4,227mln which further improved to PKR~4,360mln during 1QCY22.



PKR mln

Atlas Insurance Limited Listed Public Limited	Mar-22 3M	Dec-21 12M	Dec-20 12M	Dec-19 12M	Dec-18 12M
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#### A BALANCE SHEET

1 Investments	7,359	7,320	7,462	5,426	5,041
2 Insurance Related Assets	2,796	2,025	2,134	1,152	1,333
3 Other Assets	395	323	239	197	101
4 Fixed Assets	150	148	161	121	82
5 Window Takaful Operations	-	-	-	138	108
<b>Total Assets</b>	<b>10,699</b>	<b>9,817</b>	<b>9,995</b>	<b>7,034</b>	<b>6,666</b>
1 Underwriting Provisions	2,110	1,561	1,468	1,292	1,177
2 Insurance Related Liabilities	2,704	2,444	2,240	1,135	1,279
3 Other Liabilities	1,470	1,525	1,407	841	706
4 Borrowings	55	60	73	26	-
5 Window Takaful Operations	-	-	-	34	43
<b>Total Liabilities</b>	<b>6,339</b>	<b>5,590</b>	<b>5,188</b>	<b>3,327</b>	<b>3,205</b>
<b>Equity/Fund</b>	<b>4,360</b>	<b>4,227</b>	<b>4,807</b>	<b>3,707</b>	<b>3,461</b>

#### B INCOME STATEMENTS

##### CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	1,608	4,107	3,323	2,912	2,849
2 Net Insurance Premium/Net Takaful Contribution	574	2,063	1,579	1,455	1,474
3 Underwriting Expenses	(346)	(1,240)	(933)	(859)	(790)
<b>Underwriting Results</b>	<b>228</b>	<b>823</b>	<b>646</b>	<b>597</b>	<b>684</b>
4 Investment Income	68	353	264	225	232
5 Other Income / (Expense)	9	25	23	74	73
<b>Profit Before Tax</b>	<b>305</b>	<b>1,201</b>	<b>934</b>	<b>895</b>	<b>989</b>
6 Taxes	(87)	(346)	(262)	(272)	(323)
<b>Profit After Tax</b>	<b>219</b>	<b>855</b>	<b>672</b>	<b>623</b>	<b>666</b>

##### PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	148	367	277	-	-
2 Net Takaful Contribution	36	140	112	-	-
3 Net Takaful Claims	(42)	(135)	(92)	-	-
4 Direct Expenses Including Re-Takaful Rebate Earned	5	3	(5)	-	-
<b>Surplus Before Investment &amp; Other Income/(Expense)</b>	<b>(1)</b>	<b>8</b>	<b>16</b>	<b>-</b>	<b>-</b>
5 Investment Income	6	12	12	-	-
6 Other Income/(Expense)	-	-	-	-	-
<b>Surplus for the Period</b>	<b>5</b>	<b>19</b>	<b>27</b>	<b>-</b>	<b>-</b>

##### OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	28	93	62	-	-
2 Management, Commission & Other Acquisition Costs	(14)	(50)	(30)	-	-
<b>Underwriting Income/(Loss)</b>	<b>14</b>	<b>43</b>	<b>31</b>	<b>-</b>	<b>-</b>
3 Investment Income	3	11	13	-	-
4 Other Income/(Expense)	(0)	0	(1)	-	-
<b>Profit Before tax</b>	<b>17</b>	<b>54</b>	<b>43</b>	<b>-</b>	<b>-</b>
5 Taxes	-	-	-	-	-
<b>Profit After tax</b>	<b>17</b>	<b>54</b>	<b>43</b>	<b>-</b>	<b>-</b>

#### C RATIO ANALYSIS

<b>1 Profitability</b>					
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	38.5%	36.6%	34.3%	32.2%	33.1%
Combined Ratio (Loss Ratio + Expense Ratio)	60.5%	60.0%	59.1%	59.0%	53.6%
<b>2 Investment Performance</b>					
Investment Yield	3.7%	4.8%	4.1%	4.3%	4.6%
<b>3 Liquidity</b>					
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	3.0	3.7	2.6	5.8	4.1
<b>4 Capital Adequacy</b>					
Liquid Investments / Equity (Funds)	124.5%	124.5%	94.2%	103.7%	105.2%

**Insurer Financial Strength (IFS) Rating**

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
AAA (ifs)	<b>Exceptionally Strong.</b> Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	<b>Very Strong.</b> Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	<b>Strong.</b> Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	<b>Good.</b> Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	<b>Modest.</b> Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	<b>Weak.</b> Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	<b>Very Weak.</b> Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	<b>Distressed.</b> Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or 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 some material identifiable event with indeterminable rating implications. 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 rating 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. 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, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(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

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(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 | Clause 11-(A)(p).

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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

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(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

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(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)

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(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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