



The Pakistan Credit Rating Agency Limited

Rating Report

Askari General Insurance Company 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	-
30-Nov-2018	AA	-	Stable	Upgrade	-
29-Jun-2018	AA-	-	Stable	Maintain	-
29-Sep-2017	AA-	-	Stable	Maintain	-
17-Mar-2017	AA-	-	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

The rating captures solid risk profile of the company along with improved profitability. The company strategy led in volumetric growth over years and improved core underwriting performance. Askari Insurance has been able to keep expenses under check while pursuing growth. AWT is the sponsor behind AGICO. It has demonstrated support to the company, last equity injection is a witness. The assigned rating takes additional comfort from the express undertaking of AWT to support AGICO in times of need proactively. The rating also incorporates ensuing synergistic and oversight benefits from its association with AWT. The improved liquidity profile provides cushion to the risk absorption capacity. Askari Insurance continues to have a sound panel of reinsurers with favourable treaty terms. The management efforts for improving the overall quality of control environment, supported by real time operating software providing tools for holistic oversight and efficient decision making, are bearing fruits. Going forward, it intends to fortify its position in non-conventional segments, while using alternative distribution channels.

The rating is dependent upon AGICO's ability to improve its market share and its profitability from core business and investment income as well. At the same time, proportional improvement must be recorded in its liquidity.

Disclosure

Name of Rated Entity	Askari General Insurance Company 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	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504



Profile

Legal Structure Askari General Insurance Company Limited (AGICO) is a company listed at Pakistan Stock Exchange (PSX)

Background Army Welfare Trust (AWT) was set up in 1971 by Pakistan Army under the 'Societies Registration Act' with the mandate of promoting the welfare of retired personnel of the Army and their families through the creation of income and employment generating activities. The Trust is currently engaged in sugar, textile, real estate, banking, leasing, insurance, cement, and travel services. Going forward, AWT plans to establish an insurance house, which would be responsible for managing general and life insurance under the umbrella of AWT, serving both AWT group and Fauji Foundation group.

Operations AGICO commenced commercial operations in 1995. The company operates a nationwide network of 20 branches with head office in Rawalpindi.

Ownership

Ownership Structure AGICO's controlling stake is with AWT (59%). Given Askari Insurance being the only financial institution within AWT, this should engender higher attention and focus.

Stability AGICO has a very sound shareholding.

Business Acumen AGICO's controlling stake is with AWT (59%).

Financial Strength AWT was set up in 1971 by Pakistan Army under the 'Societies Registration Act' with the mandate of promoting the welfare of retired personnel of the Army and their families through the creation of income and employment generating activities. The Trust is currently engaged in sugar, textile, real estate, banking, leasing, insurance, cement, and travel services. Going forward, AWT plans to establish an insurance house, which would be responsible for managing general and life insurance under the umbrella of AWT, serving both AWT group and Fauji Foundation group.

Governance

Board Structure The overall control of the company vests in the eight-member BoD (excluding the CEO).

Members' Profile Lt. Gen. (R) Najib Ullah Khan is the chairman of the board. The board has observed change. Lt. Gen. Khalid Rabbani (Retd.), Maj Gen. Hamid Mahmood (Retd.) and Maj Gen. Syed Taqi Naseer Rizvi ceased to be directors of the company w.e.f 26-02-2018 and Lt. Gen. (R) Najib Ullah Khan, Maj Gen. Akhtar Iqbal (Retd.) and Maj Gen. Imtiaz Hussain Sherazi (Retd.) have been appointed as directors.

Board Effectiveness The board is assisted by six committees: (i) Audit Committee, (ii) Executive, Risk Management and Compliance Committee, (iii) Underwriting Committee, (iv) Claims Committee, (v) Ethics, Human Resource and Remuneration Committee and (vi) Investment Committee. These committees are headed by a member of BoD as chairman.

Financial Transparency The auditors of the company, KPMG Taseer Hadi & Co, expressed an unqualified audit opinion and review on financial statements for the year ended Dec-17 and half year ended Jun-18 respectively

Management

Organizational Structure AGICO has a detailed organizational structure segregating the company's operations from the marketing function, with clearly demarcated reporting lines, to manage the conflict of interest in the two functions.

Management Team The Chief Executive, Mr. Abdul Waheed, CPA (USA), has deep insight into the insurance business in particular and financial industry in general. His term has been, once again, extended by BoD to another period of three years up till Jul-19

Effectiveness The CEO meets all department heads in joint meeting every Monday, to discuss key issues and developments. This ensures smooth implementation of company's strategies, while enhancing overall control environment.

Claim Management System Owing to specialized nature of the claims in the health segment, the department has been separated from non-health claims, and makes use of professionals from health sector including medical practitioners. Claims settlement is completely centralized and handled at HO level

Investment Management Function AGICO maintains a formal Investment Policy Statement (IPS), formulated in March 2009 under the BoD guidelines, which was last updated in CY16. In line with the inherent risky nature of equity market, AGICO's IPS has capped the investment in shares and equity based mutual funds at 10% of the total investments.

Risk Management Framework AGICO has a 'Credit Policy' in place for its non-group corporate – defined as those clients with annual premium of PKR 1mln or more, or where client's contribution is at least three percent (3%) or more of the annual premium turnover of the branch. For corporate clients, maximum credit period is capped at 45 days. In case of non-receipt of premium within agreed credit period or in case the client's cheque has bounced twice, the branches are endorsed to cancel the policy subject to HO approval.

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 AGICO is categorized as a medium sized insurance company with a market shares of about 3%

Revenue The company posted a conventional GPW of PKR 1.8bln at end Sep-18 rising by 5% YoY. Motor Segment remained forte of the company comprising 42% of the total GPW followed by misc. segment (18%), Fire (17%), Health (17%) and Marine (7%). With exception to Misc. segment each of the business segment experienced a dip. The contribution from Takaful operations stood at PKR 209mln in Sep-18 as against PKR 135 mln in Sep-17. Similar to the conventional operations, Motor Segment in Takaful operations was also the highest contributor to the top-line, comprising 71% of the total contribution written followed by Fire (12%), Marine (5%), Accident and Health (7%) and Misc. (3%).

Profitability The conventional underwriting profit of the company at end Sep-18 was PKR 229mln (9MCY17: PKR 174.452mln) on account of improved GPW and controlled expenses As for the Takaful Operations, the underwriting profit is PKR 3.9mln as against PKR 2.6mln of the same period last year.

Investment Performance The investment income stood at PKR 50mln at end Sep18 (9MCY17: PKR103mln), the company had lower realized gain this year as against same period last year

Sustainability Going forward, the company aims to acquire untapped market and the investment income prospects are also sanguine on account of rising interest rates.

Financial Risk

Claim Efficiency Net claim days rose to 125days (9MCY17:107days), reflecting a steady pattern

Re-Insurance The reinsurers panel includes Scor Re Swiss Re(rated `A`), Trust Int'l (rated `A`), Malaysian Re (rated `A`), Korean Re (rated `A`), Swiss Re (rated `AA-`), Hannover Re (AA-), AON, Al Futtaim Wills, Mib, Nasco France, Al Wasl, J.B.Boda and PRCL (rated locally AA)

Liquidity The company enjoys sound liquidity at 4.5x (9MCY17: 3.8x) on account of increasing liquid assets.

Capital Adequacy With maintained strong bottom-line, AGICO has been able to strengthen its equity over the years (9M18: PKR 1,631 mln CY17: PKR 1,510mln, 9M17: PKR 1,518mln).



The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE Financials [Summary]

Askari General Insurance Company Limited (AGICO)

	<-----PKR (mln)----->		
	Sep-18	Dec-17	Dec-16
BALANCE SHEET			
Investments			
Liquid Investments	2,124	1,483	1,634
Other Investments	42	395	61
	2,166	1,878	1,695
Insurance Related Assets	1,146	1,670	1,143
Other Assets	797	869	889
Assets - Window Takkaful	183	120	194
TOTAL ASSETS	4,291	4,537	3,921
Equity	1,631	1,510	1,385
Underwriting Provisions	1,341	1,629	1,232
Insurance Related Liabilities	931	986	828
Other Liabilities	322	369	256
Liabilities - Window Takkaful	67	43	24
TOTAL EQUITY & LIABILITIES	4,291	4,537	3,726
INCOME STATEMENT (Extract)*			
	Sep-18	Dec-17	Dec-16
Gross Premium Written (GPW)	2,014	2,949	2,449
Net Premium Revenue (NPR)	1,485	1,591	1,329
Net Claims	917	730	680
Net Operational Expenses	367	443	150
Underwriting Income/Loss - Adjusted	233	437	361
Investment Income	50	103	135
Other Income/ (expense)	1	(7)	6
PROFIT BEFORE TAX	315	313	305
PROFIT AFTER TAX	259	334	245
RATIO ANALYSIS (Conventional)			
	Sep-18	Dec-17	Dec-16
Underwriting Results			
Loss Ratio	58%	46%	51%
Combined Ratio	94%	87%	93%
Performance			
Operating Ratio	94%	80%	82%
Investment Yield	2%	6%	8%
Liquidity & Solvency			
Liquidity Ratio – times	4.5	3.4	3.7

*Including Window Takkaful Operations

Asakri General Insurance Company Limited (AGICO)

Feb-19



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.

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'.

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.

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.

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.

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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