



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
16-Feb-2021	AA	-	Stable	Maintain	-
28-Feb-2020	AA	-	Stable	Maintain	-
28-Aug-2019	AA	-	Stable	Maintain	-
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	-
15-Dec-2015	A+	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

Askari General Insurance Company Limited has a solid risk profile. This is reflected in the assigned rating of the company. Askari General has exhibited sustained business volumes and underwriting performance in recent times through its underwriting strategy, with a focus to augment the bottom-line profitability. This has led to improved combined ratio; a testament to sustained profitability in the recent times. The management efforts for sustaining the overall quality of control environment are supported by a real-time operating software. This provides tools for holistic oversight and efficient decision making. A subsidiary, AskTech, a venture focused on vehicle tracking solutions, has been set up to yield technological synergies; this is expected to create diversification by enhancing customer experience. The sustained liquidity profile provides a cushion to the risk absorption capacity. Askari Insurance continues to have a sound panel of reinsurers with favorable treaty terms. Going forward, it intends to fortify its position in non-conventional segments, while using alternative distribution channels. The rating, likewise, takes into account Askari General's association with Army Welfare Trust (AWT).

Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. The volumes need to sustain, indeed, improve in tandem with the longer historical trend. The new interest rate regime has added momentum to auto-financing, which is a good sign for the insurance industry.

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

#### Disclosure

<b>Name of Rated Entity</b>	Askari General Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   GI(Jun-20)
<b>Related Research</b>	Sector Study   General Insurance(May-20)
<b>Rating Analysts</b>	Maryam Ijaz   maryam.ijaz@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Askari General Insurance Company Limited (AGICO) is a public listed company.

**Background** Askari General Insurance Company Limited (AGICO) commenced commercial operations in 1995. The company is listed on Pakistan Stock exchange. With its head office in Rawalpindi, the company operates with a nationwide network of 20 branches.

**Operations** The company's business comes from its branches in Islamabad and Rawalpindi, while majority of branches are located in Punjab (13) followed by Sindh (4) & KP (2) and two corporate branches in Karachi and Lahore, respectively, targeting corporate business. The rest of the branch network has been classified as retail branches, focusing on retail customers. The product portfolio of the company, in addition to four core insurance products (fire, marine, health and motor), includes health, bond, travel, and crop insurance. AGICO is also engaged in contractor's all risk insurance, including civil engineering projects.

## 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** There is no change in the shareholding of the company recently.

**Business Acumen** 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.

**Financial Strength** The Trust is currently engaged in sugar, textile, real estate, banking, leasing, insurance, cement, and travel services.

## Governance

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

**Members' Profile** Board comprises five representatives of AWT – retired army officials including the Chairman – Lt. Gen. (R) Najib Ullah Khan, and three independent members, Mr. Munir Malik, Mr. Imran Iqbal and Ms. Saima Akbar Khattak.

**Board Effectiveness** The presence of strong strategic parent group on board, AWT group, enhances the governance framework of the company.

**Transparency** The auditors of the company, KPMG Taseer Hadi & Co, expressed an unqualified audit opinion on Audited Financial statements December-19.

## 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** Mr. Abdul Waheed is the CEO of the Company with a demonstrated history of working in the insurance industry. There are separate individuals heading the underwriting, Claims, Finance & Sales department.

**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. Moreover, AGICO has a Disciplinary Committee – led by the CEO – comprising HR head, the CFO and the head of administration.

**MIS** Cognizant of the importance of up-to-date information for timely business decisions and in line with the industry trend, AGICO deploys real time web-based.

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

**Investment Management Function** AGICO maintains a formal Investment Policy Statement (IPS), formulated in March 2009 under the BoD guidelines, which was last updated in CY18. 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** The treaty capacities are optimal with surplus arrangements, which are adequate. The company has diversified its panel of reinsurers, boding well for its financial risk. Business Risk

## Business Risk

**Industry Dynamics** Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. The volumes need to sustain, indeed, improve in tandem with the longer historical trend. The new interest rate regime has added momentum to auto-financing, which is a good sign for the insurance industry.

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

**Revenue** During the period 9MCY20, the company posted a GPW of PKR 1.9bln. The health and miscellaneous segment was the forte of the company, comprising 50% of the total revenue, followed by Motor(29%), Fire(15%), and Marine (7% ).

**Profitability** The company posted an underwriting profit of PKR 152mln in 9MCY20 (9MCY19: PKR 199mln) mainly driven by fire segment. The reduction is mainly due to increase in management expenses in 9MFY20 PKR 488mln (9MCY19: PKR 457mln). The combined ratio remained relatively stable in 9MCY20 at 89% (9MCY19: 87%). Profit before tax clocked in at PKR 414mln in comparison of profit of PKR 362mln in 9MCY19.

**Investment Performance** The investment income shows an impressive growth of 84%. The company exhibited an investment income of PKR 219mln at 9MCY20 and it is mainly induced by return on government securities and fixed income securities.

**Sustainability** Going forward, the company aims to acquire untapped market both in captive and non-captive business for sustainability of business. The Company further aims to generate in miscellaneous and fire segment.

## Financial Risk

**Claim Efficiency** The claims efficiency ratio of the company stands at 157 days.

**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 has liquidity ratio of 4.5x at end Sep'20 compared to 4.1x in Sep'19. The majority of the liquid investments is in Government Securities which comprises of 77% (PKR 2.109bln).

**Capital Adequacy** The company has equity of PKR 2bln, whereas the paid-up capital is PKR 719mln.



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE**  
**Financials [Summary]**

**Askari General Insurance Company Limited (AGICO)**

	-----PKR (mln)----->			
<b>BALANCE SHEET</b>	<b>Sep-20</b>	<b>Dec-19</b>	<b>Dec-18</b>	<b>Dec-17</b>
<b>Investments</b>				
Liquid Investments	2,730	2,549	1,979	1,483
Other Investments	50	51	42	395
	<u>2,779</u>	<u>2,600</u>	<u>2,021</u>	<u>1,878</u>
Insurance Related Assets	1,193	1,498	1,574	1,670
Other Assets	1,159	1,055	1,056	869
Assets - Window Takkaful	290	279	202	120
<b>TOTAL ASSETS</b>	<u><b>5,422</b></u>	<u><b>5,431</b></u>	<u><b>4,854</b></u>	<u><b>4,537</b></u>
Equity	2,080	1,966	1,687	1,510
Underwriting Provisions	1,405	1,493	1,750	1,629
Insurance Related Liabilities	1,343	1,477	977	986
Other Liabilities	501	403	371	369
Liabilities - Window Takkaful	93	92	69	43
	<u>5,422</u>	<u>5,431</u>	<u>4,854</u>	<u>4,537</u>
<b>INCOME STATEMENT</b>	<b>Sep-20</b>	<b>Dec-19</b>	<b>Dec-18</b>	<b>Dec-17</b>
Gross Premium Written (GPW)	1,993	3,029	2,885	2,949
Net Premium Revenue (NPR)	1,330	2,016	1,812	1,591
Net Claims	756	1,251	1,069	730
Underwriting Income/Loss - Adjusted	152	218	273	437
Investment Income	219	207	74	103
Profit from WTO	47	67	57	24
<b>PROFIT BEFORE TAX</b>	<b>414</b>	<b>509</b>	<b>421</b>	<b>364</b>
<b>RATIO ANALYSIS</b>	<b>Sep-20</b>	<b>Dec-19</b>	<b>Dec-18</b>	<b>Dec-17</b>
<b>Underwriting Results</b>				
Loss Ratio	57%	62%	63%	57%
Combined Ratio	89%	89%	90%	87%
<b>Performance</b>				
Operating Ratio	105%	100%	95%	80%
Investment Yield	11%	9%	4%	6%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	4.5	3.9	4.3	3.4

Asakri General Insurance Company Limited (AGICO)

Jan-21

## Insurer Financial Strength (IFS) Rating

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

Scale	Definition
AAA	<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.
AA+ AA AA-	<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.
A+ A A-	<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.
BBB+ BBB BBB-	<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.
BB+ BB BB-	<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+ B 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.
CCC CC C	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	<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 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

### **Restrictions**

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- (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)

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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
- (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)

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- (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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