



The Pakistan Credit Rating Agency Limited

Rating Report

Asia Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Aug-2022	A++ (ifs)	-	Stable	Maintain	-
31-Mar-2022	A++ (ifs)	-	Stable	Harmonize	-
26-Aug-2021	A+	-	Stable	Upgrade	-
26-Aug-2020	A	-	Positive	Maintain	-
30-Aug-2019	A	-	Positive	Maintain	-
01-Mar-2019	A	-	Positive	Maintain	-
12-Dec-2018	A	-	Positive	Maintain	-
24-May-2018	A	-	Positive	Maintain	-
03-Oct-2017	A	-	Stable	Maintain	-
10-Mar-2017	A	-	Stable	Upgrade	-
25-Nov-2016	A-	-	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects augmented governance framework and strengthened financial position of “Asia Insurance Company Limited” (Asia Insurance). This was realized post equity injection and stake taken by InsuResilience Investment Fund, funded by the German Developed Bank KfW and controlled by the Swiss-based Impact Investment Director BlueOrchard Finance Ltd., providing added support. The financial position was supplemented by that time and continues to reflect in its liquidity. The representation of the InsuResilience Investment Funds on the Board of Asia Insurance, for quite some time is comforting to the rating. The incumbent management is directing concerted efforts towards growth and diversification. Results of the Company are getting reflected in the recent period. There is enduring focus on IT integration and development of new products. Asia Insurance has shown a significant growth in GPW and achieved a milestone of PKR 1bln during CY21.

The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. CY20 was full of challenges and unprecedented pressures, locally as well as in the global economy. However, CY21 has been the road to recovery from these setbacks of the previous year. In terms of GPW, Pakistan’s general insurance industry have a total size of PKR ~34.1bln for 1QCY22 (CY21: PKR~112.8bln), have shown a growth of ~19% YoY basis. Investment income has also been a support to the bottom-line performances of the Companies during the period. Overall industry has earned profit after tax of PKR 3.5bln for 1QCY22 (CY21: PKR 13.4bln), owing to lower profitability and lower underwriting profits for period ended Mar’22.

The rating is dependent on continued growth in core business of Asia Insurance as well as support from the Investment side to enhance profitability. Sustaining underwriting profitability will be crucial going forward.

Disclosure

Name of Rated Entity	Asia Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Mar-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study General Insurance(May-22)
Rating Analysts	Waqas Ahmad waqas.ahmad@pacra.com +92-42-35869504



Profile

Legal Structure Asia Insurance Company Limited (herein also referred to as Asia Insurance) is a public listed Company, with trading symbol - ASIC.

Background Asia Insurance was established in 1979 as a General Insurance Company, and has been listed on the Pakistan Stock Exchange since 1982. In 2002, the Company merged with Indus Insurance Company Limited in order to expand operations and meet regulatory requirements. The Company has been allowed to commence window takaful operations since Aug'15.

Operations With its Head Office in Lahore, the Company operates a network of 28 branches across the country as at end Dec-21. The branch network includes specified branches with designated division for non-conventional avenues, (i) Health insurance division based in head office, (ii) Travel insurance division based in Lahore, (iii) Agri insurance division based in Lahore (iv) Auto Insurance division based in Karachi.

Ownership

Ownership Structure Asia Insurance is sponsored by its Chairman, Mr. Ihtesham ul Haq Qureshi and his family, holding majority (67%) of the shareholding. While, an European Investment Fund named "InsuResilience Investment Fund (IIF)" holds 25% of the shareholding.

Stability There is no change in the shareholding of the Company recently.

Business Acumen Mr. Ihtesham ul Haq, the driving force behind the business, started his career as an industrial engineer. Later on, he launched his own business in electrical works by establishing Falcon Engineering. It is the main representative of FL Smidth of Denmark, one of the leading cement plant manufacturers in Pakistan.

Financial Strength Mr. Ihtesham ul Haq, the man at the last mile, has a number of varied businesses including the construction business named Falcon Engineering, which is also the main representative of FL Smidth of Denmark, one of the leading cement plant manufacturers of the world, in Pakistan. During the 1990s, he set up a software house called C Soft. He also ventured into the insurance industry by setting up his own Company "Indus Insurance" in this time period.

Governance

Board Structure Asia Insurance's Board of Directors comprises a total of seven members, two of them are independent directors, three are non-executive directors, one executive director (CEO) and one non-executive director is nominated by InsuResilience.

Members' Profile The position of the Board's Chairman is held by Mr. Ihtesham ul Haq, the driving force behind the Company.

Board Effectiveness The Board is assisted by three committees: (i) Investment Committee, (ii) Audit Committee, and (iii) Human Resource. The presence of Board members in the said committees reflects the Board's intention to closely monitor the Company's operations, enhancing the oversight function of the Board.

Transparency The External Auditors of the Company, M/S BDO Ebrahim & Co. Chartered Accountants, expressed an unqualified opinion in audit report for financial statements, for the period ended 31st Dec'21.

Management

Organizational Structure The organizational structure of Asia Insurance is divided into departments, each department head reporting to the CEO directly. This comprises (i) Operations - Underwriting and Reinsurance, (ii) Claims, (iii) Sales and Marketing, (iv) Finance and Accounts, (v) I.T, and (vi) Human Resources and Administration. Internal Audit reports directly to the Audit Committee of the Board.

Management Team Mr. Zain ul Haq Qureshi has been the CEO of the Company since Jul'21. He brings with him over thirteen years of combined experience. He holds a Bachelor's degree from Imperial College London, while currently pursuing Executive MBA from the University of Oxford. He is assisted by team of professionals.

Effectiveness The overall functions of the Company are divided into (i) Underwriting, (ii) Claims, (iii) Reinsurance, (iv) Sales & Marketing (v) Finance and (vi) Admin. Asia Insurance follows a lean organizational structure with a number of individuals reporting directly to the CEO, this highlights key man risk.

MIS Asia Insurance has developed an in-house, centralized, real-time Oracle-based operating system. Key MIS reports used by the management includes Monthly Business Summary Reports; (i) segment-wise and branch wise premium written and collected report, (ii) segment-wise and agent wise premium in comparison with last year, and (iii) branch wise report on premium written and outstanding.

Claim Management System The claims processing settlement system is completely centralized at Asia Insurance.

Investment Management Function Asia Insurance has a formal investment policy statement (IPS) providing fundamental guidelines and execution structure to the investment process at the Company.

Risk Management Framework The risk absorption capacity of the Company, characterized by sound liquidity profile, provides a cushion for future growth.

Business Risk

Industry Dynamics The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. CY20 was full of challenges and unprecedented pressures, locally as well as in the global economy. However, CY21 has been the road to recovery from these setbacks of the previous year. In terms of GPW, Pakistan's general insurance industry have a total size of PKR ~34.1bln for 1QCY22 (CY21: PKR~112.8bln), have shown a growth of ~19% YoY basis. Investment income has also been a support to the bottom-line performances of the Companies during the period. Overall industry has earned profit after tax of PKR 3.5bln for 1QCY22 (CY21: PKR 13.4bln), owing to lower profitability and lower underwriting profits for period ended Mar'22.

Relative Position Asia Insurance is categorized among the small Insurance players with less than 1% of the market share at Mar'22.

Revenue The Company posted a GPW (Conventional and Takaful) of PKR 222mln for 3MCY22 (3MCY21: PKR 232mln), registering a decline of 5% compared to same period last year. Whereas, Asia Insurance has earned a GPW of PKR 1,001mln for CY21 (CY20: PKR 680mln), depicting a growth of 47% on YoY basis. Segment breakup consisted of Fire (34%), Accident and Health (31%), Misc. (12%), Motor (12%) and Marine (11%) for the period ended Mar'22.

Profitability Asia Insurance has reduced conventional underwriting losses to PKR 4mln for 3MCY22 (3MCY21: loss of PKR 16mln), owing to 38% increase in GPW in conventional business. The Company posted conventional underwriting profits of PKR 7mln for CY21 (CY20: loss of PKR 26mln). With reference to Window Takaful Operations, the Company has maintained underwriting profits of PKR 6mln for 3MCY22 (3MCY21: PKR 6mln). Whereas, GPW of PKR 24mln for CY21 (CY22: PKR 24mln). Asia Insurance earned a cumulative net profit of PKR 4mln for 3MCY22 (3MCY21: PKR 6mln; CY21: PKR 27mln)

Investment Performance The Company earned an investment income of PKR 2mln during 3MCY22 (3MCY21: PKR 17mln; CY21: PKR 21mln). Investment yield of Asia Insurance reduced to 0.9% (CY21: 2.5%), owing to deficits on revaluation of equity investments.

Sustainability Going forward, the Company envisages GPW of more than PKR 1,200mln for CY22, with a focus on innovation and development of new business channels.

Financial Risk

Claim Efficiency The claims outstanding days reduced to 169 days for the period ended Mar'22 as against 275days for the period ended Dec'21. The decreased days are in account of lower claim expenses. Asia Insurance paid an expense of PKR 121mln during 3MCY22.

Re-Insurance Asia Insurance has reinsurance arrangement with Trust Re (Leader; rated A- by S&P), Labuan Re (A- by AM Best), Saudi Re (BBB+ by S&P), Oman Re (B+ AM Best) and PRCL (AA by JCR-VIS). Terrorism Treaty is from Hannover Re (A+ by AM Best).

Cashflows & Coverages Asia Insurance has an investment book of PKR 840mln, which comprises of Cash & Banks 62%, Equity investments (27%) and Govt. securities (8%) and investment property (3%). The Company has a liquidity coverage ratio of 2.9 for period ended Mar'22 (CY21: 3.8). Reduction was on account of increased provision for outstanding claims.

Capital Adequacy The equity of Asia Insurance stands at PKR 994mln for period ended at Mar'22. Whereas the paid-up capital of the company is PKR 664mln, well above MCR.



PKR mln

Asia Insurance Company Limited
Listed Public Limited

Mar-22	Dec-21	Dec-20	Dec-19
3M	12M	12M	12M

A BALANCE SHEET

1 Investments	840	877	799	852
2 Insurance Related Assets	891	821	682	436
3 Other Assets	148	153	199	199
4 Fixed Assets	126	133	161	193
5 Window Takaful Operations	-	-	-	-
Total Assets	2,005	1,984	1,841	1,680
1 Underwriting Provisions	472	501	343	305
2 Insurance Related Liabilities	333	274	260	163
3 Other Liabilities	98	90	77	89
4 Borrowings	109	129	138	143
5 Window Takaful Operations	-	-	-	-
Total Liabilities	1,011	994	818	700
Equity/Fund	994	990	1,024	981

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	222	1,001	680	584
2 Net Insurance Premium/Net Takaful Contribution	177	649	523	475
3 Underwriting Expenses	(175)	(632)	(539)	(533)
Underwriting Results	2	17	(16)	(58)
4 Investment Income	2	21	113	55
5 Other Income / (Expense)	0	(1)	(7)	10
Profit Before Tax	4	37	90	7
6 Taxes	(0)	(11)	(46)	2
Profit After Tax	4	27	43	9

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	20	77	73	60
2 Net Takaful Contribution	6	23	24	17
3 Net Takaful Claims	(3)	(25)	(24)	(13)
4 Direct Expenses Including Re-Takaful Rebate Earned	(0)	0	(0)	0
Surplus Before Investment & Other Income/(Expense)	2	(2)	0	5
5 Investment Income	1	2	2	2
6 Other Income/(Expense)	-	-	-	-
Surplus for the Period	3	(0)	2	6

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	9	32	28	20
2 Management, Commission & Other Acquisition Costs	(5)	(20)	(18)	(14)
Underwriting Income/(Loss)	3	12	10	6
3 Investment Income	-	-	-	-
4 Other Income/(Expense)	1	2	3	2
Profit Before tax	4	15	12	8
5 Taxes	-	-	-	-
Profit After tax	4	15	12	8

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful	29.9%	29.6%	32.3%	30.3%
Combined Ratio (Loss Ratio + Expense Ratio)	98.8%	97.4%	103.1%	112.0%
2 Investment Performance				
Investment Yield	0.9%	2.5%	13.7%	6.4%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	2.9	3.8	3.2	5.9
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	82.1%	88.6%	78.0%	86.9%

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)	Exceptionally Strong. 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)	Very Strong. 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)	Strong. 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)	Good. 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)	Modest. 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)	Weak. 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)	Very Weak. 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)	Distressed. 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>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 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>Suspension 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>Withdrawn 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>Harmonization 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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- (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 | Clause 11-(A)(p).
- (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)
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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)

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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