



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-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 | -            |
| 27-Nov-2015        | A-               | -                 | Stable   | Maintain | -            |
| 28-Nov-2014        | A-               | -                 | Stable   | Maintain | -            |

**Rating Rationale and Key Rating Drivers**

The rating captures sustained fundamentals of the company alongwith the good risk absorption capacity of the company. Revenue has been augmented as the company expands it footprints. Improvement in operational efficiency has also been witnessed leading to underwriting profitability. Sustainability in underwriting performance is pivotal. The presence of InsuResilience Investment Trust, funded by the German Developed Bank KFW and controlled by the Swiss-based Impact Investment Director BlueOrchard Finance, provides comfort. However, any positive development through new product slate is yet to transpire. The adequate liquidity position and strong financial risk profile of the company lend support to rating. Going forward, the emergence of new products and improved profitability is crucial.

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 interest rate regime would impact the fixed income stream but the equity market is improving though requiring a prudent approach.

Positive Outlook captures the forecasted business trajectory of the company given its advancement on innovative products for the local market. Impetus through foreign partner in the form of new revenue streams is crucial.

**Disclosure**

|                              |   |
|------------------------------|---|
| <b>Name of Rated Entity</b>  | Asia 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>       | Rohail Amjad   rohail.amjad@pacra.com   +92-42-35869504 |

## Profile

**Legal Structure** Asia insurance is a public listed company

**Background** Asia Insurance Company Limited (ASIC) 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.

**Operations** With its Head Office in Lahore, the company operates a network of 27 branches along with a single representative office across the country at end-Jun17. 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 Jail Road branch Lahore, (iii) Agri insurance division based in Shadman branch Lahore, and (iv) Auto Insurance division based in Shahrah-e-Faisal branch Karachi. ASIC commenced window takaful operations beginning Aug-15.

## Ownership

**Ownership Structure** ASIC, a family owned business, is sponsored by its Chief Executive Officer, Mr. Ihtsham ul Haq Qureshi and his family

**Stability** On 11thSeptember, 2017, Asia Insurance entered into an agreement with a European Investment Fund named "InsuResilience Investment Fund", (IIF) with reference to its equity. The fund has been setup by the German Development Bank KfW and is managed by Switzerland based Impact Investment Manager, BlueOrchard Finance. The fund subscribed 25% of stake in Asia Insurance Company Ltd. There has been no change since the

**Business Acumen** Mr. Ihtsham 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 of the world, in Pakistan

**Financial Strength** Mr. Ihtsham ul Haq, the man at the last mile, has a number of varied business 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 90s, 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** ASIC's Board of Directors comprises seven members.

**Members' Profile** The CEO of the company, Mr. Ihtsham ul Haq, brings with him over two decades of experience in the insurance sector. The board comprises three individuals from sponsoring family, including CEO, one independent director and one executive director.

**Board Effectiveness** The board is assisted by four committees: (i) Investment Committee, (ii) Audit Committee, (vi) Human Resource. The presence of board member in the said committees reflects the board's intention to closely monitor the company's operations, limiting the oversight function of the board.

**Financial Transparency** The auditors of the company, BDO Ebrahim & Company Chartered Accountants, expressed an unqualified opinion in audit report for financial statements of CY19. This was their first years as the auditors of the company.

## Management

**Organizational Structure** The organizational structure of ASIC is divided into departments, each department head reporting into 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 BOD.

**Management Team** The CEO of the company, Mr. Ihtsham ul Haq, brings with him over two decades of experience in the insurance sector

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

**MIS** ASIC 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 ASIC.

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

**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** Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic has affected the volumes which will lead to contraction in the growth. With decrease in bank financing and slowdown in auto sector, the insurance sector is bound to face intense competition amongst peer companies. The dip in business volumes and reduced margins are likely to decrease the underwriting profits i.e. from core business. Investment income is likely to plummet in the wake of depressing trends in PSX and reduced interest rates. Companies may need to cut management expenses while the launch of innovative products would be the need of the hour, in order to engage new customer base.

**Relative Position** Asia Insurance is categorized among the small insurance players with less than 1% of the market share. Prior to CY18, the company had experienced a growth in topline

**Revenue** At end CY19, the company posted a GPW of PKR 524mln as against PKR 521mln in CY18 registering a rise of 0.4%. GPW was dominated by Fire (35%), followed by Motor (24%), Miscellaneous segment (17%), Marine (13%) and Credit and surety ship (2%). During 3MCY20, the company posted a GPW of PKR 111mln as against PKR 97mln in 3MCY19 registering a rise of 11%. GPW was dominated by Fire (48%), followed by Motor (21%), Marine (16%), Miscellaneous segment (12%) and Credit and surety ship (2%).

**Profitability** At end CY19, company posted an underwriting loss of PKR 67mln as against a loss of PKR 19mln in same period last year on account of decline in the topline. The window takaful operator posted a Profit of PKR 6.6mln in 3MCY20 as against PKR 1.7mln in 3MCY19. During the period 3MCY20, company posted an underwriting profit of PKR 7mln as against a loss PKR 3mln in same period last year on account of increased business written. The window takaful operator posted a Profit of PKR 6.6mln in 3MCY20 as against PKR 1.7mln in 3MCY19

**Investment Performance** Durig CY19, the investment yield rose to 6.6% (CY18: 5.5%). This was mainly because the company had converted their equity investments into TDR and the rise in interest rate supported their decision. The investment yield rose to 3.9% at end 3MCY19 ( 3MCY18: 2.2%), on account of increased interest rate Insurance

**Sustainability** Going forward, the company envisages increased GPW in CY20 with a focus on tapping into Agri and crop business which carries huge potential

## Financial Risk

**Claim Efficiency** The claims outstanding days at CY19 stood at 259 days against 222days at end CY18. The increase is in on account of previously accumulated claims.

**Re-Insurance** ASIC 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).

**Liquidity** The liquidity coverage of the company reduced 5.8x at end CY19 as against 6.5 in the end CY18, the reduction was on account of squeezed up liquid assets. During the period end 3MCY20, company has a very sound liquidity ratio at 5.4x

**Capital Adequacy** The equity of the company stands just about PKR 998mln whereas the paid-up capital of the company is PKR 600mln, well above MCR



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE  
Financials [Summary]**

**Asia Insurance Company Limited (ASIC)**

| <b>BALANCE SHEET</b>                  | <b>3MCY20</b>       | <b>CY19</b>         | <b>CY18</b>         | <b>Dec-17</b>       |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                       | <b>3Months</b>      | <b>Annual</b>       | <b>Annual</b>       | <b>Annual</b>       |
| <b>Investments</b>                    |                     |                     |                     |                     |
| Liquid Investments                    | 728                 | 777                 | 815                 | 556                 |
| Investment Property                   |                     |                     | -                   | -                   |
|                                       | <u>728</u>          | <u>777</u>          | <u>815</u>          | <u>556</u>          |
| Insurance Related Assets              | 358                 | 313                 | 334                 | 266                 |
| Other Assets                          | 513                 | 514                 | 315                 | 315                 |
| <b>TOTAL ASSETS</b>                   | <u><b>1,599</b></u> | <u><b>1,604</b></u> | <u><b>1,464</b></u> | <u><b>1,136</b></u> |
| Equity                                | 998                 | 975                 | 986                 | 621                 |
| Underwriting Provisions               | 245                 | 273                 | 261                 | 307                 |
| Insurance Related Liabilities         | 149                 | 144                 | 161                 | 150                 |
| Other Liabilities                     | 206                 | 210                 | 57                  | 58                  |
| <b>TOTAL EQUITY &amp; LIABILITIES</b> | <u><b>1,599</b></u> | <u><b>1,604</b></u> | <u><b>1,464</b></u> | <u><b>1,136</b></u> |

| <b>INCOME STATEMENT</b>            | <b>3MCY20</b> | <b>CY19</b> | <b>CY18</b> | <b>Dec-17</b> |
|------------------------------------|---------------|-------------|-------------|---------------|
| <b>Gross Premium Written (GPW)</b> | <b>111</b>    | <b>524</b>  | <b>521</b>  | <b>659</b>    |
| Net Premium Revenue (NPR)          | 122           | 437         | 480         | 527           |
| Net Claims                         | (30)          | (131)       | (137)       | (179)         |
| Net Operational Expenses           | (85)          | (374)       | (370)       | (359)         |
| <b>Underwriting Results</b>        | <b>7</b>      | <b>(67)</b> | <b>(27)</b> | <b>(11)</b>   |
| Investment Income                  | 22            | 53          | 11          | (30)          |
| Other Income/ (expense)            | 3             | 24          | 16          | 127           |
| <b>PROFIT BEFORE TAX</b>           | <b>28</b>     | <b>10</b>   | <b>9</b>    | <b>80</b>     |

| <b>RATIO ANALYSIS</b>           | <b>3MCY20</b> | <b>CY19</b> | <b>CY18</b> | <b>Dec-17</b> |
|---------------------------------|---------------|-------------|-------------|---------------|
| <b>Underwriting Results</b>     |               |             |             |               |
| Loss Ratio                      | 19%           | 30%         | 29%         | 34%           |
| Combined Ratio                  | 111%          | 124%        | 106%        | 102%          |
| <b>Performance</b>              |               |             |             |               |
| Operating Ratio                 | 111%          | 124%        | 106%        | 84%           |
| Investment Yield                | 75%           | 7%          | 6%          | -6%           |
| <b>Liquidity &amp; Solvency</b> |               |             |             |               |
| Liquidity Ratio – times         | 5.37          | 5.82        | 6.46        | 4.91          |

Asia Insurance Company Limited (ASIC)

Aug-20

## 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+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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> |
|---|---|--|---|---|

**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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- (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)

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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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