



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-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	-
27-Nov-2015	A-	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The rating reflects augmented governance framework and strengthened financial position of the Company. 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, providing added support. The translation of efforts towards improvement in governance framework have taken place over the period since positive outlook was assigned to the rating of the Company. The financial position was supplemented by that time and continues to reflect in its liquidity. The representation of the InsuResilience Investment Funds's direction on the Board for quite some time is comforting to the rating. The change in leadership position is indeed building of succession in the Company. 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 profits.

In terms of Gross Premium Written (GPW), Pakistan's general insurance industry had a total size of PKR ~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR ~104,453mln). 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. Gross premiums written of non-life insurers in India reached USD ~26.5bln in FY21, from USD ~26.4bln in FY20.

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

<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   General Insurance Rating(Jun-21)
<b>Related Research</b>	Sector Study   General Insurance(May-21)
<b>Rating Analysts</b>	Muhammad Noor Ul Haq   noorulhaq@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.

**Operations** With its Head Office in Lahore, the Company operates a network of 28 branches across the country along with a single principal office at end Dec-20. 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** Asia Insurance, a family owned business, is sponsored by its Chairman, Mr. Ihtsham ul Haq Qureshi and his family.

**Stability** On 11th September, 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 then.

**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 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 seven (7) members, out of which two (2) are independent and three (3) are non-executive, while remainder being nominee director and the executive director (CEO).

**Members' Profile** The CEO of the Company since Jul-2021, Mr. Zain ul Haq Qureshi, 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. The Board comprises three individuals from sponsoring family, including CEO and two non-executive directors.

**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 auditors of the Company, BDO Ebrahim & Co, Chartered Accountants, expressed an unqualified opinion in audit report for financial statements year end Dec-20.

## Management

**Organizational Structure** The organizational structure of ASIC 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** The CEO of the Company, Mr. Zain ul Haq Qureshi, brings with him over thirteen years of experience while holding foreign qualifications in the field of business.

**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** 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** In terms of Gross Premium Written (GPW), Pakistan's General Insurance industry had a total size of PKR ~108,322m in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR ~104,453m). The Insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remains very modest as compared to other jurisdictions while the Insurance sector remains underdeveloped relative to its potential. Gross Premiums Written of Non-Life Insurers in India reached USD ~26.5bn in FY21, from USD ~26.4bn in FY20.

**Relative Position** Asia Insurance is categorized among the small Insurance players with less than 1% of the market share at Dec-20.

**Revenue** For 3MCY21, the Company posted GPW of PKR 219m as against PKR 111m, registering an impressive rise of 97% YoY. Segment breakup consisted of Miscellaneous (36%), Fire (27%), Health (15%), Motor (10%), Marine (10%), and Agriculture (1%). For end CY20, the Company posted GPW of PKR 607m as against 524m, growing by 16% YoY.

**Profitability** For 3MCY21, the Company posted Conventional Underwriting result of PKR (16)m loss against PKR 8m profit. This degradation of results was mainly due to increased Insurance Claims, which rose YoY by 48%. The Window Takaful operations at 3MCY21 remained unchanged YoY with PTF Underwriting Income of PKR 6m. For CY20, the Company posted Conventional Underwriting result of PKR (26)m loss as against PKR (68)m loss. The 62% YoY improvement was largely due to 8% increase in Premium earned and 14% decrease in management expenses. The Window Takaful operations at CY21 improved by 37% YoY with PTF Underwriting Income of PKR 24m as against PKR 17m.

**Investment Performance** During CY20, the Investment yield rose to 15.8% as against 9.7% in the previous year. The improvement is attributable to increased Dividend income and realized gains on Listed securities investments. Liquid investments at end CY20 comprised of Term Deposits (60%), Equity Securities (16%), Cash & Bank (16%), and Debt Securities (9%).

**Sustainability** Going forward, the Company envisages increased GPW in CY21 and onwards with a focus on innovation and development of new business channels.

## Financial Risk

**Claim Efficiency** The claims outstanding days at 3MCY21 stood at 280 days against 267 days at 3MCY20. The increased days is in on account of higher provisioning for outstanding claims.

**Re-Insurance** Asia Insurance has reinsurance arrangement with Saudi Re (Leader; rated A3 by Moody's), Ocean Re (A- by AM Best), and Trust Insurance Management (BMI) (A- by AM Best). Terrorism Treaty is from Hannover Re (AA- by Standard & Poor).

**Liquidity** The liquidity coverage of the Company reduced, standing at 3.1x at 3MCY21 as against 5.4x at 3MCY20. This reduction was on account of increased provision for outstanding claims.

**Capital Adequacy** The equity of the Company at 3MCY21 stands at PKR 987m whereas the paid-up capital of the company is PKR 603m, well above MCR.



The Pakistan Credit Rating Agency Limited

## GENERAL INSURANCE Financials [Summary]

### Asia Insurance Company Limited (ASIC)

BALANCE SHEET	3MCY21 3 Months	CY20 Annual	CY19 Annual	CY18 Annual
<b>Investments</b>				
Liquid Investments	799	730	777	815
Insurance Related Assets	511	451	313	334
Other Assets	546	555	514	315
<b>TOTAL ASSETS</b>	<b>1,856</b>	<b>1,737</b>	<b>1,604</b>	<b>1,464</b>
Equity	987	985	964	986
Underwriting Provisions	363	308	273	261
Insurance Related Liabilities	272	228	144	161
Other Liabilities	234	216	223	57
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>1,856</b>	<b>1,737</b>	<b>1,604</b>	<b>1,464</b>
INCOME STATEMENT	3MCY21	CY20	CY19	CY18
<b>Gross Premium Written (GPW)</b>	<b>219</b>	<b>607</b>	<b>524</b>	<b>521</b>
Net Premium Revenue (NPR)	117	471	437	480
Net Claims	(44)	(145)	(132)	(137)
Net Operational Expenses	(90)	(353)	(374)	(363)
<b>Underwriting Results</b>	<b>(16)</b>	<b>(26)</b>	<b>(68)</b>	<b>(20)</b>
Investment Income	17	111	53	11
Other Income/ (expense)	3	4	16	25
<b>PROFIT BEFORE TAX</b>	<b>4</b>	<b>88</b>	<b>1</b>	<b>15</b>
RATIO ANALYSIS	3MCY21	CY20	CY19	CY18
<b>Underwriting Results</b>				
Loss Ratio	37%	31%	30%	29%
Combined Ratio	115%	105%	124%	106%
<b>Performance</b>				
Operating Ratio	78%	74%	94%	77%
Investment Yield	17%	30%	7%	6%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	3.12	3.13	5.82	6.46

Asia Insurance Company Limited (ASIC)

Aug-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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### **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

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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)

### **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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