

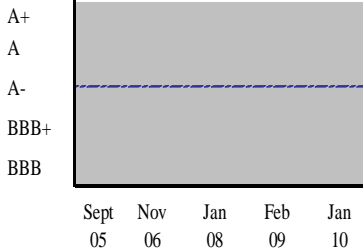


RATINGS (MARCH 2010)

ASKARI GENERAL INSURANCE COMPANY LIMITED (AGICO)

	New	Previous
Insurer Financial Strength	A-	A-

IFS RATING HISTORY



FINANCIAL DATA

PKR (mln)	Sep-09*	Dec -08	Dec -07
Total Assets	1,347	1,217	1,188
Equity	242.7	295.5	326.3
GPW	891.5	1,002.7	829.1
Underwriting Income	22.8	73.0	79.8
Net Income/(loss)	(53.1)	17.4	70.0
ROE%	(26.3)	2.3	16.1
Loss Ratio%	70.6	65.1	63.4
Premium Solvency Ratio%	28.5	40.0	42.7

* Based on unaudited accounts for nine months

Analysts

Amara Gondal
+92 42 35869504
amara.gondal@pacra.com

Jhangeer Hanif
+92 42 35869504
jhangeer@pacra.com

RATING RATIONALE AND KEY DRIVERS

- The rating reflects AGICO’s diversified portfolio mix which has enabled the company to sustain pressure on its growth despite weak economic fundamentals of the country. Although the company’s underwriting profitability came under pressure primarily due to health losses, strengthening of the underwriting practices and centralization of the claims department are expected to reflect positively on AGICO’s performance. The management’s focus on consolidation of business, while improving the overall control environment, is likely to further improve the company’s risk profile. Meanwhile, AGICO’s brand equity, due to its association with AWT, is also a key rating factor.
- The rating is dependent on the company’s ability to manage pressure on its underwriting profitability. At the same time, gradual improvement in AGICO’s solvency position, which is currently subdued, inline with its business growth remains critical. Meanwhile, any material deterioration in the company’s equity and/or significant decline in its overall profitability would have negative implications for the rating.

ASSESSMENT

- The company generates its business from diversified sources, with marginal contribution from group companies. While AGICO’s focus remained institutional clients, top ten client concentration is modest.
- AGICO registered significant expansion in its GPW during 3Q09, fueled mainly by growth in health and fire segments. Marine segment witnessed contraction, which was an outcome of increasing competition and downtrend in both volume and value of trade on a YoY basis. There was slight increase in the cession, primarily due to relatively high risks insured in the fire category. Underwriting profitability of AGICO declined significantly during 3Q09 due to deterioration in overall loss ratio mainly driven by health losses – having no re-insurance as a cushion. In addition, with tightening of re-insurance terms, commission from re-insurer went downward, reflecting negatively on underwriting income. Another dent on AGICO’s profitability was substantial impairment loss on its equity investments, translating into sizeable net loss to the company during the period.
- Lately, AGICO experienced major changes in its top management. The new team, while reorganizing different functions, intends to focus on consolidation of its operations with moderate growth in business volume, in the near term. The company has taken a shift towards centralization of all major functions to ensure strict adherence to risk management policies and procedures. At the same time, a risk management department with two engineers has been set up, which terminates into head of underwriting. Portfolio scanning to identify high loss clients has been made a regular feature. Meanwhile, the company is taking a gradual exit from relatively high loss sectors while restricting its exposure to sectors having moderate risk levels. The company has arranged re-insurance for the health segment from Pakistan Re-insurance Company Limited (PRCL). Further diversification is also on the cards with plans to penetrate into engineering insurance, travel insurance, crop insurance and terrorist insurance. Meanwhile, AGICO has implemented an advanced insurance solution (GIAS) from Sidat Hyder Morshed & Associates, which is currently running parallel to the existing software and shall be fully operational by the end of 1Q10. This is expected to augment the company’s overall control environment.
- AGICO maintains a sizeable investment portfolio, constituting 42% of its total assets at end-Sep09 (book value: PKR 559.6 mln, market value: PKR 541.4 mln). The investment book is currently dominated by equity securities (53%), followed by debt securities (22%). Going forward, the company, chastened by high impairment losses, intends to maintain a conservative investment portfolio (income and money market funds: 80%, equity scrips: 20%). Meanwhile, the company has taken steps to make its credit policy more stringent to curtail the overdue premium and has started periodic reviews of overdue balances to harness recovery efforts and/or cancel policies wherever deemed appropriate.
- AGICO has secured reinsurance arrangements with international reinsurers of sound repute including SCOR Re (rated ‘A’ by Fitch), Best Re (rated ‘A-’ by AM BEST), Malaysian Re (rated ‘A-’ by Fitch) and Pakistan Reinsurance Company Limited and has significantly enhanced its treaty capacities across all business segments during the period. AGICO cession trend has been largely steady over the years (3Q09: 28.2%, 2008: 26.3%).
- AGICO’s premium solvency ratio depicted a downward trend (9M09: 28%; CY08: 40%), attributable to deterioration in its equity due to net loss during the period. Furthermore, AGICO’s solvency position, measured by admissible assets less total liabilities, remained limited and low compared to most peers, highlighting the need to strengthen its equity base.

PROFILE

- Askari General Insurance Company Limited (AGICO), listed on all three bourses of the country, commenced commercial operations as a general insurance company in 1995. The company has a nationwide network of over 18 branches with head office in Rawalpindi. AGICO’s market share stood at 3% at end-June09. Army Welfare Trust (AWT) group has majority stake of 53% in AGICO. AWT was set up in 1971 and has evolved into a large business group, and is currently engaged in banking & leasing, insurance, and cement.
- AGICO has an eight-member BoD including the CEO. Four of them are retired army officials while the remaining members are experienced business professionals. Lt. Gen (Retd.) Imtiaz Hussain is chairman of the board. The Chief Executive, Mr. Mohammad Hussain Hirji, a qualified Chartered Insurer with over 17 years of experience in the insurance sector, assumed this position in February 2009. A team of professionals, some of whom has recently joined AGICO, assists the CEO.

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s written consent. Our reports and ratings constitute opinions, not recommendations to buy or to sell.