



**IFS RATING (DECEMBER 2010)**  
**ASIA INSURANCE COMPANY LIMITED**  
**(ASIC)**

	Initial
<b>Insurer Financial Strength</b>	BBB

**FINANCIAL DATA**

	PKR '000	
	Sep -10*	Dec -09
Total Assets	463,589	419,519
Equity	409,566	355,665
GPW	31,948	36,699
Underwriting Income	2,608	1,461
Net Income	3,901	4,886
ROE%	1.4%	1.5%
Loss Ratio%	10.6%	36.8%
Operating Ratio%	74.5%	75.3%
Liquid Asset/Net Claims (x)	83.5	13.9

\* Based on unaudited accounts for nine months ended Sep 30, 2010

**Analysts**

Hira Sajjad  
 +92 42 35869504  
 hira.sajjad@pacra.com

Nazia Ramzan  
 +92 42 35869504  
 nazia@pacra.com

**RATING RATIONALE AND KEY DRIVERS**

- The rating reflects ASIC's limited market presence, attributed to its small scale operations and subdued underwriting performance engendering business risk. Although the management is focusing on developing sustainable core insurance business, the macro-economic environment would keep it challenging. Nevertheless, the rating takes into account ASIC's sound financial profile emanating from strong capitalization and healthy liquidity.
- The rating remains dependent on successful execution of management's envisaged growth strategy while strengthening systems and controls to ensure sustained underwriting profitability. Meanwhile, any material deterioration in risk absorption capacity of ASIC would have adverse implications on rating. Furthermore, fortifying the governance framework of the company would remain critical.

**ASSESSMENT**

▪ Pakistan's insurance sector experienced accelerated growth and robust profitability in recent years in unison with benign economic environment. Although insurance penetration in the country remains low, the sector now faces major challenges arising from economic slowdown, security concerns, widening fiscal and trade imbalances, and stressed global reinsurance market. These factors coupled with subdued performance of various industrial sectors and slow pace of recovery are likely to continue impacting growth prospects of the industry. The profitability of the sector could be further stressed due to devastating recent floods in the country and volatile performance of stock exchange.

▪ ASIC, a small scale insurance company, provides non life insurance services and underwrites business in fire, marine, motor and miscellaneous segments. After depicting stable business volumes till 2008, the company's premium declined sharply in 2009 due to management's cautious stance and subdued economic environment. During 2009, although the loss ratio improved on the back of lower incidence of claims in motor segment, substantially high management and administrative expenses, (expense ratio 2009: 105%; 2008: 55%), inhibited the company's underwriting profitability. During 9MCY10, the company's portfolio mix changed, as the contribution of motor and fire segment to GPW declined marginally and was substituted by the marine and miscellaneous segments. The company recorded negligible loss ratio for this period. Nevertheless, the management and administrative expenses remain high impacting the underwriting performance. This rise in expenses is attributable to ASIC's recent expansion in branch network. The management's ability to translate its enhanced geographical outreach into commensurating GPW growth remains critical. The bottomline was adequately supported by interest income on the company's investment (PKR 13.7mln).

▪ In line with business vision of sponsors, the top management of the company was changed in 2009, with a focus to revert stagnant growth pattern. While majority of department heads are in place, reliance on few key individuals remain high owing to relatively small scale of operations.

▪ Going forward, the management plans to focus on the non-conventional insurance business by launching new and innovative products. In this regard, the company has launched a Child Health Assurance Programme by the name of ACHAP in July 2010. Furthermore, keeping in view its size, the management intends to establish its foothold in SME and Micro finance sectors through direct insurance. ASIC envisages taking up only about 5-10% share of big clients through coinsurance. The company is building its new Head Office, Asia House, in Lahore. The construction commenced this year on a piece of free hold land that ASIC owned (measuring over two kanals) and is estimated to be completed by September 2011. ASIC will occupy two floors of the eight storey building while the remaining floors will be let out. The rental yield from the project is expected to boost profitability and would be a stable source of income.

▪ The company has developed an in-house centralized Oracle based operating system to cater to its specific needs. The system has so far been deployed at around 70% of ASIC's branches, with implementation in remaining branches to be completed soon. At present, Claims, Underwriting, Accounts and Reinsurance modules are operational at the Head Office. Once fully implemented, the system will offer real time access, which will not only improve the company's record keeping process but also provide management with instant access to critical information. This will assist monitoring and decision-making process.

▪ The company has a sizeable investment portfolio, comprising around 50% of its total asset base. A major portion of investments is deployed in Term Deposit Receipts (85%) while the remaining investment book is distributed between government securities (11%), and equities (4%). Hence, the company remains largely insulated from market risk while enjoying ample liquidity and stable income stream.

▪ During the last two years, many established reinsurers (Munich Re, Swiss Re, Hannover Re) have scaled down their operations in Pakistan, especially in high risk markets. Resultantly, domestic insurance companies are facing problems in renewal of their treaties. ASIC also had to change its reinsurer's panel. Previously, the company enjoyed relations with high rated (AA category) reinsurers. However, the current reinsurers – Best Reinsurance Far East (A-), Labuan Reinsurance Co. Malaysia (A-), Arab Reinsurance Co. Malaysia (B+) – though enjoy good market standing, are not highly rated. The company also has relatively limited treaty capacities, which could constrain its growth.

▪ ASIC has a debt free capital structure and its solvency position has strengthened over the years, (Net claims/ Equity 2009: 3%; 2008: 6%). The company has continued to meet the regulatory capital requirements by consistent right share issues in the past. Currently its equity base (net of revaluation surplus) stands at PKR 282mln. The management plans to issue right shares to the tune of PKR 50mln next year to meet statutory requirements (PKR 300mln for end 2011).

**PROFILE**

▪ ASIC, established in 1979, merged with Indus Insurance Company in 2002 to expand operations and meet regulatory requirement. In 2007, the ownership structure of the company changed with current sponsors Mr. Ihtsham ul Haq and family taking majority stake (99%). The company has been listed on the Karachi and Lahore stock exchanges since 1982, though its free float has been minimal. The company, with its Head Office in Lahore, operates a network of 10 branches across the country.

▪ ASIC's Board of Directors comprises seven members including the CEO. The Board is entirely represented by the sponsoring family. The CEO, Mr. Ihtsham ul Haq Qureshi who is also the Chairman of the Board, brings with him over thirty years of successful entrepreneurial experience. Mr. Ali Munem Shamsi joined the company in 2008 prior to which he was Regional Head for Askari Insurance. He is supported by a relatively young management team.