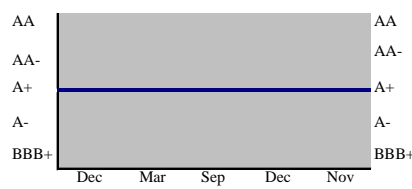


**RATING (NOVEMBER 2011)
IGI INSURANCE LIMITED (IGI)**

	New	Previous
Insurer Financial Strength	AA	AA

RATING HISTORY

FINANCIAL DATA

PKR (mln)

	Sep-11*	Dec-10	Dec-09
Total Assets	13,171	12,961	12,366
Total Equity	11,323	11,576	10,961
GPW	1,386	1,297	1,152
Adjusted U/W Results	94.5	96.0	163.8
Net Income	84.6	836.6	264.0
Loss Ratio (%)	60.4	50.6	41.8
ROE (%)	^ 1.0	7.4	2.4
Operating Ratio (%)	82.6	-27.8	40.6
Liquidity Ratio** (x)	^ 0.7	0.9	1.9
Solvency Ratio*** (x)	^ 31.6	39.1	31.9

*Based on unaudited accounts for nine months ended September 30, 2011

** Liquidity Ratio: Adjusted liquid assets/Net Claims Expense

***Solvency Ratio: Financial Base/ Net Claims
^Annualized

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RATING RATIONALE AND KEY DRIVERS

- IGI's rating is a reflection of the company's very strong risk absorption capacity stemming from healthy equity base and sound underwriting practices. Meanwhile, a sizeable strategic investment portfolio continues to support the company's financial strength, though the performance of the portfolio is volatile due to some of the associates being under pressure. The rating takes note of substantial improvement in the risk management framework, augmented by robust IT infrastructure. The company has revamped its claim processing system, thereby bringing efficiency in claim handling system. At the same time, association of the company with Packages Group is also a key consideration.
- The rating remains dependent on the management's ability to strengthen its market position while maintaining its underwriting performance trend. Meanwhile, any material deterioration in the value of investment book, thereby, significantly impairing the equity base, would have negative implications for the rating.

ASSESSMENT

Ever since the economic downturn in 2008, the insurance industry has been facing major challenges arising from muted GDP growth, precarious security situation, widening fiscal imbalance, and rising inflation. The economic slowdown has further intensified the competitive landscape of the insurance industry putting pressure on premium pricing. Consequently, the industry growth as well as overall profitability continues to remain uncertain. The industry, cognizant of growth impediments, is taking steps to improve its operating platform to offer an improved level of services. Moreover, the regulator has taken a strict stance to invariably implement governing regulations in the industry. Lately entry of a broad array of reinsurers in the market, after the exit of some leading re-insurers, is good though the looming risk is departure of other leading reinsurers should their views on Pakistani market change.

IGI's GPW portfolio at end-Sep11 is dominated by fire segment (38%), followed by motor (27%), misc. (20%) and marine (15%). The portion of motor in overall mix notably reduced (CY10: 35%) in line with the management's strategy to shed-off high loss making business from its corporate clients. IGI's share of non-captive business has shown slight improvement and stood at 65% at end-Sep11 (CY10: 67%, CY09: 64%).

IGI – the fifth largest company with market share of 3.3% at end-Dec10 – recorded a sizable growth (31% YoY) in its topline during 9MCY11. The cession levels increased to 46% (CY10: 42%) owing to the management's conservative approach towards risk management. During 9MCY11, IGI's loss ratio exhibited a steep rise. The increase is mainly attributable to one-off reconciliation exercise with coinsurers as an outcome of which the company had to book earlier losses not intimated before. IGI's expense ratio substantially contracted during 9MCY11, mainly a factor of higher commission income from reinsurers due to better underwriting practices. The impact of huge decline in investment income (9MCY11: PKR 38mln, CY10: PKR 882mln), further reduced the comparative profitability of the company. This was mainly on account of one-off benefit last year and increase in losses from associates. The company would be receiving dividend from one of its strategic investment that would boost up the total investment income.

Over the year, IGI has capitalized on its well-designed risk management system, also supported by its recently upgraded IT infrastructure. The implementation of real time, web-based IGIS and Sys-Flow has improved operational efficiency by using advanced business intelligence tools viz-a-viz growth in business. IGI's lowest outstanding claim days (9MCY11: 125 days, 9MCY10: 213 days) in the industry reflects notable improvement in claim management framework.

Going forward, IGI intends to maintain its growth stance, achieving non-group vs. group business ratio at 74:26 by the end of CY12 while maintaining the profitability trend. The company focuses to establish itself in recently launched health segment while tapping growth potential in different sectors like textile, chemicals and fertilizers, engineering and power.

IGI's huge investment book (9MCY11: PKR 11,948mln) constitutes 1.1 times of its equity at end-Sep11. The portfolio predominantly comprises strategic investments (97%) in associated companies. The company has rationalized its investment book by enhancing its liquid investments portfolio (end-Sep11: PKR 242mln, 2010: PKR 150mln). This consists of government securities (48%), followed by debt securities (43%), equity scrips (6%), and bank deposits and TDRs (3%).

IGI has built up long-term relations with a panel of reputed international reinsurers (Swiss Re, Hannover Re, Mitsui Sumitomo Re, Scor Re) predominantly rated 'AA' and 'A'. This is reflected from the favorable commission rates the company enjoys as compared to its peers.

IGI has a robust financial profile – a factor of profound equity base established by the company over time through internal generation of funds and investment gains. The company's liquidity is substantially stretched since the company has limited book of liquid investments. Nevertheless, huge strategic investment portfolio provides a cushion – as an ultimate fallback – and gives fiscal space for borrowing.

PROFILE

IGI Insurance Limited, listed on Karachi and Lahore stock exchanges, is largely owned by Packages Group – country's prominent business group with diversified interests in packaging, dairy, chemicals, and the financial sector. IGI Insurance is the holding company of the Packages Group's (PG) interest in the financial sector.

The company has an experienced eight-member board of directors with Syed Babar Ali holding the Chairman's position. The overall governance structure and transparency of PG in general and IGI in particular meets high standards in the industry. Mr. Jalees Ahmed Siddiqi, the CEO since January 2009, an engineering graduate, possesses vast national and international experience and is assisted by a team of qualified professionals.