

**IGI Insurance Limited (IGI)****Rating (November 2008)**

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Rating	New	Previous
Insurer Financial Strength (IFS)	AA	AA
Outlook	-	Positive

**Financial Data**

PKR (mln)

	31-Sep-08	31-Dec-07
Total Equity	11,336	11,280
Total Assets	14,051	14,104
GPW	817	1,060
Underwriting Profit	168	161
Profit After Tax	103	2,857
ROE % <sup>^</sup>	1.21	29.61
Loss ratio %	40.65	57.27
Premium Solvency Ratio %	2575.59	1837.77

<sup>^</sup>Annualized for meaningful comparison.**Analysts**

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**Profile**

IGI insurance, listed on Karachi and Lahore stock exchanges, has a history of more than fifty years of successful commercial operations. Packages Group – the majority shareholder of IGI Insurance– is one of the larger conglomerates of the country with interests in packaging, dairy, chemicals, and the financial sector.

The group has been offering the full range of non-banking financial services; a) insurance – IGI Insurance, b) investment banking – IGI Investment Bank Limited, c) brokerage – IGI Finex Securities Limited, and d) asset management – IGI Funds Limited. All these group companies are now being branded together as “IGI Financial Services”. At the same time, further synergetic benefits have been captured, including having common business premises and cost sharing in marketing and support services.

Mr. Saulat Said was appointed as the CEO of IGI during 2007. He has extensive experience with the Packages Group, which includes holding the position of General Manager Packages Limited, the flagship company of the group. However, previously he was mostly involved in the operations of non-financial companies of the group. IGI’s eight-member board comprises vastly experienced professionals representing various industries.

**RATING RATIONALE AND KEY DRIVERS**

- The rating reflects IGI’s strong risk absorption capacity emanating from a robust equity base and strong liquidity. The rating also recognizes the company’s sound underwriting policies, leading to healthy core profitability, though the overall performance is currently under pressure on account of declining investment income. Meanwhile, synergetic benefits arising from the company’s association with the IGI Financial Services is also a key consideration.
- The competition in the insurance sector, intensified by the economic slowdown in the country, has placed a high emphasis on the company’s ability to maintain its risk management and premium pricing standards while retaining its prudent risk stance. Meanwhile, IGI’s ability to maintain sound underwriting results, supplemented by requisite liquidity, remains critical for the rating.

**ASSESSMENT**

- IGI, after experiencing significant growth in the last couple of years, lately witnessed a declining trend in the growth momentum of Gross Premium Written (GPW). This was attributable to the overall economic slowdown in Pakistan mainly resulting from fiscal and trade imbalances and drying foreign investment, coupled with political instability. The social unrest experienced towards the end of 2007, translating in industry wide losses, also added to the already cautious growth approach followed by the company. Meanwhile, IGI’s risk appetite, which experienced a gradual increase until end-07, also witnessed a decline, as reflected by the 3Q08 cession levels. Nevertheless, the company continued with its focus on the two main contributors towards growth – motor and fire – though in terms of percentage, ‘others’ segment depicted exceptional growth on the back of health and travel insurance.
- IGI, inline with its strategy of diversification, enhanced significantly the proportion of non-captive business in its total premium mix (Captive CY07: 30%; CY06: 41%). Although this strategy of focusing on market-based business is expected to provide impetus for higher premium revenue, the overall risk profile of the company might not improve significantly due to the higher probability of claims from the non-group segment, mainly because of the relatively higher moral hazards. Nonetheless, the company’s ability to manage associated risks alongwith substantial risk absorption capacity provide it significant cushion to make inroads into relatively high-risk areas. However, growth prospects of the company are expected to remain limited, given deteriorating economic fundamentals of the country, impacting both business initiatives and consumer sentiments.
- IGI’s Net Premium Written (NPW), though registered considerable growth during 2007, experienced around 9% decline in 3Q08 on a QoQ basis. The claims expense, after witnessing a surge in fire and motor segments towards the end of 2007, largely restored to IGI’s traditional levels during 3Q08. Nevertheless, the company’s net income remained robust during 2007, mainly due to significant, though 57% lower on YoY basis, capital gains on strategic investments. However, IGI’s bottom line came under pressure during 3Q08, owing to declining investment income as a result of the downfall of the stock market.
- Going forward, IGI plans to continue changing its focus from being a captive insurance and passive investment management company to being a market based business with active investment management. This is preconditioned by one overriding objective – not to compromise on underwriting policies in order to maintain the company’s sound underwriting results. In this regard, IGI is likely to face increasing competition in the industry and its investment income would remain under pressure due to subdued capital markets as a result of weakening economic fundamentals of the country. Meanwhile, IGI, cognizant of the high loss pattern in the motor segment, has already sought gradual reduction in motor insurance. This decision almost coincided with the sharp decline in auto financing on account of rising interest costs. The management plans to cushion the gap by focusing on health, home and umrah insurance. Nevertheless, IGI’s extent of success on meeting the aforementioned challenges remains to be seen.
- The company’s overall investment portfolio continues to be dominated by investments in associated companies (PKR: 9.9bln at end-June 08, 85% of the overall portfolio). IGI’s reported investment portfolio increased during 2007 mainly on account of the company’s strategy to simultaneously buy and sell shares in order to realize unrecognized revaluation surplus on equity investments. However, with prevailing weak fundamentals stocks are expected to experience significant decline, eroding sizeable portion of IGI’s equity. Nevertheless, the company is expected to retain significant risk absorption capacity.
- IGI continues to maintain re-insurance treaties with credible re-insurers including Swiss Re (AA-), Hannover Re (A+), Mitsui Sumitomo Re (AA-), and other companies of good standing. The entire reinsurance arrangement was renewed on the same commission rates. While the cession levels increased from last year, it was an outcome of the management’s strategy to stem increasing losses. Going forward, there will be pressure on the company to obtain re-insurance at a competitive pricing rate, owing to the downturn in the global economic conditions.
- Over the years the company has seen improvement in its capitalization owing to improved profitability and high profit retention. The liquidity of the company is mainly an outcome of its sizeable investment portfolio and committed standby credit lines (Unutilized 3Q08: PKR 1.9bln).