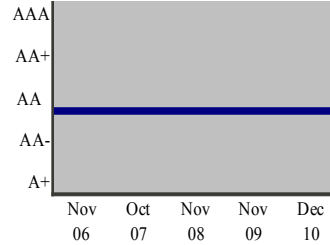


RATINGS (FEBRUARY 2011)
IGI INSURANCE LIMITED (IGI)

	New	Previous
Insurer Financial Strength	AA	AA

IFS RATING HISTORY



FINANCIAL DATA

PKR (mln)	9M10*	2009
Total Assets	12807	12366
Equity	11030	10961
GPW	1059	1152
Underwriting Income	170	253
Pre-tax profits	341	365
Combined ratio (%)	82.18	73.35
Operating Ratio (%)	37.56	40.65
Adjusted liquid assets/ net claims expense (times)	^1.32	^1.99
Net Claims expense/ Financial Base (%)	^3.32	^3.02

* Unaudited ^ Annualized

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RATING RATIONALE AND KEY DRIVERS

- The rating reflects IGI's very strong risk absorption capacity emanating from a robust financial profile and relatively stable underwriting performance. Meanwhile, a sizeable investment portfolio continues to fortify the company's financial strength and profitability, though overall performance remains exposed to stock market fluctuations to a certain extent. Synergic benefits arising from the company's association with 'IGI Financial Services' and Packages Group is also a key consideration.
- The rating is dependent upon the management's ability to sustain its competitive position in the industry, in an environment of intense competition and stern challenges, while maintaining prudent risk management and underwriting practices. Meanwhile, materialization of the management's recent initiatives of organizational realignment and process streamlining would be positive for the company.

ASSESSMENT

- IGI underwrites all major categories of general insurance, with business portfolio dominated by motor segment (35%) at end-Sep10, followed by fire (31%), marine (16%), and miscellaneous segment (18%) at end-Sep10. The miscellaneous portfolio mainly includes health, engineering, and travel insurance. IGI has largely maintained share of non-captive business (64% at end-Sep10) in the total business volume.
- IGI has observed a steady growth (11%) in GPW, on a YoY basis during 9M10. This is attributable to phenomenal growth in the miscellaneous segment, mainly driven by the health business, followed by other segments. The retention ratio of the company has been enhanced slightly, owing to increased health portfolio, having no reinsurance cover. The increase in loss ratio during 9M10, mainly in fire and marine, pushed up the combined ratio of the company. Nevertheless, IGI's loss ratio remains well below the industry average, enabling it to earn comparatively high underwriting profits as a percentage of its NPR amongst its peers. The operating ratio of the company exhibited improvement, fetching comfort from improved investment income.
- IGI has well designed risk management system in place, supported by General Insurance System (GIS). During 2010, IGI has implemented Sys-Flow – content and workflow management system – enabling its control environment to be further augmented by automation and digitization.

Going forward, IGI envisages a sizable growth in its topline, thereby enhancing its market share over the medium term. For this, the company, among traditional businesses, is focusing on non-conventional insurance, especially the health segment. It plans to reduce reliance on the captive business. To carry out the expansion plans effectively, the company is consolidating its branch network, and moving towards centralization of its business operations. Meanwhile, replacement of current GIS with the web-based GIS in 1H11, accompanied with recent implementation of Sys-Flow in the claims department, would bring higher efficiency and better control environment.

IGI maintains a huge investment book representing 89% (2009: 90%) of its total asset base at end-Sep10. The investment portfolio pre-dominantly comprises (98%) strategic investments in associated companies at end-Sep10. During 9M10, the company has rationalized its investment book by enhancing its liquid investments portfolio (end-Sep10: PKR 335mln, 2009: PKR143mln). This mainly consists of mutual funds (30%), followed by equity scrips (29%), Government securities (20%), and debt securities (20%) at end-Sep10. During 9M10, the investment yield improved YoY, attributed to absence of the impairment of equity securities, previously charged in 2009.

IGI has secured reinsurance arrangements with international reinsurers of sound repute, including Hannover Re (Rated AA-) and Mitsui Sumitomo Re (Rated AA-). IGI's reinsurance arrangements mainly comprises Surplus treaties; the company has Excess of Loss treaty arrangements to cover the catastrophic risks and the motor insurance.

The company enjoys strong financial base reflecting outstanding solvency ratios amongst its peers. The company's solvency is function of strong equity base having relatively soft exposure to net premium revenue (PKR 545mln), thus magnifying its risk absorption capacity. Though net claims as a percentage to financial base increased slightly, yet remained well below industry average. IGI's liquidity is indeed limited, considering sizable strategic investment in associates, a part of which is financed by borrowings (end-Sep10: PKR 608mln). The borrowing is not a common feature in the insurance industry. Nevertheless, the sizable investment portfolio, in the form of collateral, strengthen the company's ability to raise further finance, if need arises.

PROFILE

IGI Insurance Limited, listed on Karachi and Lahore stock exchanges, has a history of more than fifty years of operations. Packages Group – the majority shareholder of IGI – is one of the larger conglomerates of the country with interests in packaging, dairy, chemicals, and the financial sector. IGI Insurance is the holding company of the Packages Group's interest in the financial sector. Moreover, IGI plans to diversify its business, by entering into life insurance business. The company is actively considering various options of collaborating with an international organization, to develop and carry out the business plan.

The overall control of the company is vested in the eight-member board of directors with Syed Babar Ali as its Chairman. The board comprises seasoned professionals with a diverse portfolio of experience, possessing the ability to provide strategic guidance to the management. The overall governance structure and transparency of Packages Group in general and IGI Insurance in particular meets high standards in the industry.

Mr. Jalees Ahmed Siddiqi, the CEO, joined IGI Insurance in January 2009. An engineering graduate from Karachi University, he possesses national and international experience of over three decades and is assisted by a team of experienced professionals.