

TRAKKER DIRECT INSURANCE LIMITED

RATING (APRIL 2008)
TRAKKER DIRECT INSURANCE LIMITED (TDI)

	NEW
Insurer Financial Strength	A-

FINANCIAL DATA

PKR (mln)

	31-Dec-07	31-Dec-06
Total Assets	208.2	134.2
Total Equity	60.2	26.1
Underwriting Results	20.2	(2.2)
Loss Ratio (%)	23.77	25.44
ROE (%)	78.92	n.m
Premium Solvency Ratio (%)	38.76	23.98
Financial Base / NPW (%)	92.51	80.50

ANALYSTS

Ali Eeman
+92 42 586 9504
ali@pacra.com

Susan S. Sharaf
+92 42 586 9504
susan@pacra.com

PROFILE

- TDI, a wholly owned subsidiary of Trakker (Pvt.) Limited, Pakistan's first and the largest vehicle tracking and fleet management company, is the country's first direct insurance company with exclusive focus on personal line insurance. TDI, currently only focusing on motor insurance, was launched in July 2005 with a unique business model of direct insurance through multiple channels, mainly a 24 hours call center. Pioneering web-based services allows customers to interact and retrieve progress of insurance policies and claims. Moreover, the company offers customized insurance rates that are based on the driver's background information and vehicle profile.
- TDI's Chief Executive, Mr. Iqbal Siddiqui, who has recently joined the company, possesses a rich experience of working for leading insurance companies in Pakistan and internationally. He holds a BS and MBA degree from USA in addition to being a Chartered Insurance Professional (CIP) from Insurance Institute of Canada.

RATING RATIONALE AND KEY DRIVERS

- The rating reflects TDI's unique position in the insurance sector emanating from rapidly developed market niche supported by robust technology platform, quality human resource, systems and processes. The business model envisages comprehensive evaluation of risk prior to writing it, which, in turn, benefit in the form of low loss ratio. TDI's currently limited profitability, mainly an outcome of rollout phase of its operations, is expected to improve on the back of targeted volume expansion. At the same time, the rating factors in the company's improving solvency position with augmentation in the equity base through right issue.
- The rating is dependent on the company's ability to improve its financial base while maintaining a high growth stance. At the same time, TDI's ability to maintain its leading position in the direct insurance segment, given gradual entry of other established players in the same niche, would be critical. Meanwhile, any (a) significant increase in prevailing loss pattern impacting the risk absorption capacity and/or (b) delays in the introduction of new products or expansion in the existing line thus hampering growth could have negative implications for the rating.

ASSESSMENT

- TDI's business model envisages direct sourcing of business through multiple channels, including (a) its desks at most of auto companies authorized dealers, (b) referrals from its parent, Trakker (Pvt.) Limited (TPL), and (c) customers directly contacting the company in response to its marketing efforts. In the initial period, TDI had higher reliance on TPL for identification of potential business. Although, going forward, the premium from open market is likely to increase given installation of tracking device as a pre-requisite for insurance cover, inter-dependence between TDI and TPL would remain high. Nevertheless, the diversification strategy coupled with focus on the existing line of business would help in providing impetus for growth in the premium written.
- TDI, since its launch in 2005, has been quite successful in growing its gross premium written. The company posted positive underwriting profit (PKR 20mln) during 2007. Despite considerable increase in business volume, the loss ratio, unlike other insurance companies in motor insurance, has remained under control, which is one of the lowest in the sector (24%). The gradual decline in the proportion of management expenses, under the technology based business model, would be more visible with higher volumes. This is evident from consistently declining combined ratio of the company (2007: 85%, 2006: 103%).
- Going forward, the company, while offering personalized motor insurance cover, plans to introduce new products through identifying niche markets. In this regard, the management intends to launch joint label personal line products with another established foreign company including (i) Home Mortgage Insurance (ii) Wallet Insurance (iii) Household Insurance (iv) Travel Insurance (v) Mobile Insurance and (vi) Bank Assurance. The company would follow its existing business model for these products with customized trade-off between risk and premium. Besides this, the company plans to launch Fleet Insurance and Pay as you drive. These initiatives are expected to help the company in achieving its growth targets. However, as the company's risk assessment model is not established in local environment, the management's ability to understand and implement the same would be critical. The new business growth is expected to be around 15% while the loss ratio of 30% is expected in 2008.
- Unlike conventional motor insurance, TDI provides insurance for mostly self-owned vehicles. Empirical evidence reveals that such vehicles have lower risk of loss vis-à-vis financed/leased vehicles. This places TDI at an advantage against insurance companies providing insurance cover to mostly financed vehicles. TDI's association with TPL is also highly beneficial for the company in terms of up-to-date availability of the relevant data.
- TDI maintains re-insurance treaties mainly with international reinsurers having a good ability to meet their obligations to policyholders. The company's cession is at low levels wherein the company's retention level is fixed at PKR 1.5mln per policy. The company's expanding capital base would lead to enhanced risk retention capacity of the company.
- Currently, TDI's investment portfolio primarily comprises income mutual funds. Going forward, the company intends to develop a more diversified portfolio. In this regard, around half of the investments are intended to be deployed in stocks markets including equity mutual funds while the other half in real estate and money market instruments. The expected growth in investment income would supplement underwriting profits.
- TDI's solvency position is improving, an outcome of its expanding equity base through a series of right issues, that is also a demonstration of sponsors' confidence on the company's strategy. This alongwith expected profit retention is likely to further enhance the premium solvency ratio despite substantial increase in net premium written.