

Muslim Insurance Company Limited (MIC)

Ratings (October 2005)

Muslim Insurance Company Ltd.

	New	Previous
Insurer	A+	A
Financial Strength		

Financial Data PKR (mln)

	31-Dec-04	31-Dec-03
Total Assets	509.8	406.0
Total Equity	202.2	139.9
Profit After Tax	82.7	41.1
Underwriting Results	59.0	30.7
Loss Ratio (%)	27.75	19.53
ROE (%)	48.35	32.68
Premium Solvency Ratio (%)	133.21	154.99

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Rating Rationale Assessment

- The ratings reflect MIC's improving profitability, sound underwriting practices and premium growth. With business from group companies constituting a high proportion of total business, the company continues to benefit from lower loss ratios. This is both on account of lower moral hazard and the tradition of effective systems of asset maintenance by group companies. The company's financial base is sound owing to a healthy retention policy, allowing MIC to target a higher level of growth, going forward. Adequate due diligence is also being paid to risk management systems given the management's growth strategy encompasses a renewed emphasis on obtaining non-group business.
- MIC registered high growth during 2004 – contrary to the trends witnessed in recent years – on the back of growth in the marine and motor segment. Although the motor segment is characteristically associated with higher loss ratios, the company works within a stringent framework to mitigate the potential risk. The risk profile of the business mix is also being maintained by reducing exposure to relatively high risk fire insurance (textile sector), while increasing the share of relatively lower risk marine insurance. Going forward, the company plans to target the engineering segment; the requisite reinsurance arrangements have been put in place. As this type of insurance is marked by low retention, it is unlikely to alter the risk profile. Other efforts geared towards strengthening procedures and controls include HR training, development of operating manuals, and installation of a modern IT system.
- MIC continues to maintain excess of loss and surplus treaties accompanied by facultative contracts with international reinsurers mostly having ratings of "A" and above. Going forward, the management is targeting a higher level of retention along with the higher level of growth. The company remains exposed to potential concentration risk, with business from two of its group companies constituting around 53% of the total GPW during 2004. However, given the strong financial health of these two companies, and their ongoing expansion plans, the prospects of sustainability- indeed growth- appear positive.
- During 2004, the net premium revenue registered a substantial increase on the back of growth in GPW as well as increased retention. With the improved commission income as well as control over management expenses, underwriting performance reflected significant YoY improvement. Additionally, although the loss ratio registered an increase, it remained at the lowest end among peers. The company was unable to replicate the incidence of capital gains in the previous years, with a corresponding decrease in investment income. Thus ROE and ROA registered an improvement solely on the back of underwriting performance, a trend that continued into 1H05, and is expected to be maintained. The management has also been endeavoring to reduce its management expenses; these efforts have started yielding significant results in the current year.
- MIC maintains a sizeable investment portfolio constituting 47% of total assets at 1H05 (04:43%). The portfolio is dominated by equity securities with 55% in associated/group companies at market prices at 1H05 representing strategic investments. A significant revaluation surplus of PKR 212mln as at end-Sep 05 provides a cushion against stock market volatility. However, as this surplus pertains entirely to equity investments in associated companies, it is not perceived as a potential source of capital gains. The remaining equity portfolio is adequately diversified. Dividend income is likely to remain the main contributor to investment income.
- MIC's strong capacity to meet claims obligation is reflected in its sound financial base and solvency ratios.

Support

- MICs does not have any contractual agreement with any of its major shareholders for financial support in the event of any contingency. However, in PACRA's assessment, given their financial strength, the major shareholders will lend support to MIC were it to prove necessary – the possibility of which seems remote.

Background

- Muslim Insurance Company Limited (MIC), one of the oldest insurance companies in Pakistan, commenced commercial operations in 1934 as a life insurance company. However, after nationalization of life insurance in 1972, MIC was restricted to non-life insurance business. The company went public in 1955 and is listed on the Karachi and Lahore stock exchanges. In 1980, the company was acquired by the Atlas Group – holding 60% of the shares in MIC at YE2004 - and since then it has steadily developed a sound non-life insurance business. The Atlas Group, one of the best-known business groups in the country, is well diversified with interests in car production, motorcycle production, auto parts manufacturing, investment banking, leasing, insurance, and trading.
- Overall control of the company vests in the Board of Directors, comprising seven members, mainly representing the Atlas Group. The current chief executive- previously working in the capacity of chief operating officer in MIC- assumed the position in 2004. He has extensive exposure to the insurance sector, and is also the current chairman of Insurance Association of Pakistan. MIC underwrites all types of non-life insurance business including fire, marine, motor and miscellaneous risks. While efforts are being made to improve the productivity of existing branches, the management is also targeting a further increase in branch network.