



The Pakistan Credit Rating Agency Limited

Rating Report

Atlas Insurance Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Aug-2019	AA	-	Stable	Maintain	-
27-Feb-2019	AA	-	Stable	Maintain	-
13-Dec-2018	AA	-	Stable	Maintain	-
27-Apr-2018	AA	-	Stable	Maintain	-
02-Oct-2017	AA	-	Stable	Maintain	-
10-Mar-2017	AA	-	Stable	Upgrade	-
30-Dec-2016	AA-	-	Stable	Maintain	-
31-Dec-2015	AA-	-	Stable	Maintain	-
07-Jan-2015	AA-	-	Stable	Maintain	-
19-Dec-2013	AA-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Atlas Insurance is a mid-sized insurance company with a constantly growing underwriting performance as a result of quality insurance business and a stable business mix. The rating takes into account robust liquidity profile, providing strong coverage to the company's obligations. The company has a strong panel of re insurers with favourable treaty terms and prudent risk retention policies. The company's association with Atlas group providing benefits in terms of sustained low-risk captive business, while ensuring sound governance framework, remains a key rating factor. The company is leveraging on this relationship to enrich its product-mix, also reaching out directly to customers independent of the banking channels.

The rating is dependent on sustained improvement in business and financial metrics of the company in line with its relative positioning within the industry. At the same time, liquidity profile should continue to cushion the liabilities. Improvement in claims management system should translate into reduced claims turnaround time.

Disclosure

Name of Rated Entity	Atlas Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI_FY19(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Faraan Taimoor faraan.taimoor@pacra.com +92-42-35869504

Profile

Legal Structure Amongst the oldest insurance company of the country; established in 1934 and was acquired in 1980 by Atlas group, listed on Pakistan Stock Exchange

Background Atlas group acquired Muslim Insurance Company Limited in 1980; Later in year 2006, changed the name to Atlas Insurance Limited.

Operations Atlas Insurance's operations are currently carried out from a network of 25 branches including the Head office in Lahore.

Ownership

Ownership Structure Sponsors, Atlas Group (AG), control 78% stake in Atlas Insurance. Rest is owned by Individuals (14.8%), Institutions (4.3%) and State Life Corporation (2.8%).

Stability The company has made steady progress since its acquisition by the Atlas Group. The equity of the Company has grown from PKR 1.6mln in 1979 to over PKR 3.46bln in 2018, total assets having grown to over PKR 6.67bln and investments from PKR 4.6mln to over PKR 3.71bln.

Business Acumen The group operates through holding company "Atlas Group" and has interests in various sectors including engineering, power generation, financial services, and trading. It consists of eighteen companies.

Financial Strength Comfort can be drawn from the strong financial strength of the Atlas Group.

Governance

Board Structure Overall control of the company vests in the seven member Board of Directors (BoD).

Members' Profile The board includes two independent members and one executive director - CEO. The rest are non-executive directors from various group affiliates.

Board Effectiveness Board has formed Audit Committee; Ethics, Human Resource & Remuneration Committee and Investment Committee. BoD has also established management committees namely Underwriting, Reinsurance & Co-insurance Committee; Claims Settlement Committee; Risk Management & Compliance Committee.

Financial Transparency AIL's auditors, A.F. Ferguson & Co., Chartered Accountants, expressed an unqualified opinion on the latest financial statements.

Management

Organizational Structure AIL has clearly defined organizational structure. There are two broad segments: i) insurance related activities (i.e. underwriting, claims and reinsurance) and ii) support services (i.e. finance internal audit, HR & Admin, and MIS).

Management Team The current CEO, Mr. Babar Mahmood Mirza, assumed the position in April 2018. He is an experienced Insurance Professional and has two decades of work experience in Insurance Industry.

Effectiveness The company has four management committees, a) Underwriting, Re-insurance/Co-insurance Committee, b) Claims Committee, c) Risk Management & Compliance Committee and d) Information Technology Committee. The meetings of each committee are held quarterly; however the members meet as and when required to discuss unusual cases.

MIS The system comprises a centralized database (Oracle 10g) and web based front-end for development and reporting. The system assigns authority levels to its users and enforces strict compliance with internal procedures. The IT system supports Head Office operations as well as remote users provide real-time updates. The company's software – GIS – is developed and regularly monitored by Sidat Hyder.

Claim Management System The company maintains a complete Claim Manual and Claim Policy. The company's software has an option of generating exception report. The company has clearly defined claims approval authorities. AIL follows up the case with the surveyors and their performance is biannually assessed, mainly focusing on their response time and quality of survey.

Investment Management Function The board's investment committee (IC) sets the guidelines and policies for the company. The performance is evaluated by IC every quarter. AIL leverages the group's expertise in this domain to ensure prudent investment decision making.

Risk Management Framework The management has developed and implemented a detailed Risk Management Framework. These guidelines tend to institute a strong risk environment, while laying down underwriting and reinsurance guidelines and identifying functions and responsibilities of all participants from the BoD to the support staff.

Business Risk

Industry Dynamics Pakistan's general insurance witnessed continuous growth (CAGR 4 years 11%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

Relative Position Market share stood at 3.1%, classifying the company in the medium sized entities.

Revenue AIL's GPW increased by 20% to PKR 2,850mln in CY18 and clocked in PKR 706mln in 3MCY19. The high growth witnessed in marine (25%), fire (23%) and motor (22%). The takaful segment contributed PKR 211mln and PKR 42mln in CY18 and 3MCY18, respectively, in net contribution revenue.

Profitability Loss ratio (33%) remained stagnant as compared to CY17 (34%). Owing to reduced management expenses, the Combined ratio decreased to 76% (CY17: 82%). The company reported an increased underwriting profit of PKR 668mln (CY17: PKR 565mln). Owing to reduced investment income, the profitability of the company, remained stagnant, as it recorded a PBT of PKR 983mln (CY17: PKR 988mln). For Takaful segment, owing to an increase in Wakala fees, the company was able to record a profit of PKR 17mln in the OPF Revenue Account.

Investment Performance Investment income reduced to PKR 232mln (CY17: PKR 324mln) mainly due to lower gain from disposal of investments.

Sustainability Going Forward, Atlas Insurance Limited vows to manage sustainable profitability, ensuring consistent improvement in prudent underwriting and risk management. Expansion is also on cards with new branches to be added soon; the company is now focusing on flourishing its window takaful operations – especially in motor segment.

Financial Risk

Claim Efficiency Claim outstanding days remained stagnant to 205 days at CY18 (CY17: 198 days), suggesting stability in claims monitoring system.

Re-Insurance The company has re-insurance arrangements with some of the best renowned international reinsurers including Swiss Re ('AA-' by S&P), Hannover Re ('AA-' by S&P), Malaysian Re ('A-' by A.M. Best), Trust Re ('A-' by A.M. Best) and Labuan Re ('A-' by A.M. Best). Treaty arrangement predominantly comprises surplus treaties, while the company has also arranged quota share and excess of loss (XoL) protection on net retention.

Liquidity AIL's investment portfolio (PKR 5,043mln) constitutes ~1.5 times of its equity base. Major portion of the book is deployed in liquid avenues, rest invested in strategic equity stocks of group companies. Liquid portfolio is dominated by equity stocks including equity based mutual funds, government securities, debt securities and money market funds and bank deposit; investment yield of the book clocked in at 4.7%.

Capital Adequacy Atlas Insurance has a paid up capital of PKR 700mln, thus safely complying with SECP's Capital Adequacy requirement. The equity base is approximately PKR 3.5bln.



The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE Financials [Summary]

Atlas Insurance Limited (AIL)

BALANCE SHEET	3MCY19 PKR mln	CY18 PKR mln	CY17 PKR mln	CY16 PKR mln
Investments				
Liquid Investments	2,722	3,117	2,832	2,622
Other Investments	2,116	1,926	2,804	236
	4,839	5,043	5,636	2,859
Insurance Related Assets	831	787	459	622
Other Assets	945	835	667	796
TOTAL ASSETS	6,615	6,666	6,762	4,278
Equity	3,614	3,461	4,047	2,047
Underwriting Provisions	1,283	1,220	998	1,078
Insurance Related Liabilities	1,000	1,100	619	738
Other Liabilities	717	884	1,098	415
TOTAL EQUITY & LIABILITIES	6,615	6,666	6,762	4,278

INCOME STATEMENT - Extracts	3MCY19	CY18	CY17	CY16
Gross Premium Written (GPW)	706	2,851	2,379	2,334
Net Premium Revenue (NPR)	371	1,474	1,275	1,044
Net Claims	(108)	(488)	(433)	(269)
Net Operational Expenses	(101)	(318)	(277)	(338)
UNDERWRITING RESULTS	162	668	565	437
Investment Income	33	232	324	466
PROFIT BEFORE TAX	214	983	988	919

RATIO ANALYSIS - Conventional	3MCY19	CY18	CY17	CY16
Underwriting Results				
Loss Ratio	29%	33%	34%	26%
Combined Ratio	74%	76%	82%	71%
Performance				
Operating Ratio	59%	55%	48%	25%
Investment Yield	3%	5%	8%	17%
Liquidity & Solvency				
Liquidity Ratio – times	4.0	4.3	8.7	6.3

Atlas Insurance Limited (AIL)

Aug-19

www.pacra.com

Insurer Financial Strength (IFS) Rating Scale & Definitions

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

Scale	Definition
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.
AA	
AA-	
A+	Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
A	
A-	
BBB+	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BBB	
BBB-	
BB+	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
BB	
BB-	
B+	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
B	
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
CC	
C	
D	Distressed. Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent