



The Pakistan Credit Rating Agency Limited

PREMIER INSURANCE LIMITED

IFS RATING REPORT

| | UPDATE [SEP-16] | INITIAL [SEP-15] |
|---|----------------------------|-----------------------------|
| Insurer Financial Strength (IFS) Rating | A | A |
| Outlook | Stable | Positive |

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SEPTEMBER 2016

Profile & Ownership

- Premier Insurance Limited (Premier), incorporated in 1952, is listed on Pakistan Stock Exchange
- Crescent Group is the sponsor with 70% shareholding (including Bashir family 57%); whereas management control is held by Mr. Zahid Bashir
- State Life Insurance is the other major shareholder (11%)
- The Crescent Group (CG), in the business since 1910, operates in diversified sectors diversified sectors of textile, steel, sugar, software, and power.

Governance and Management

- Eight member board of directors, including CEO; includes six representations of Crescent Group (including four of Bashir family) and one of State Life Insurance
- The company currently has no independent director on the board
- Mr. Muhammad Asif Airf, CEO of the company since Apr-15, has insurance related experience of over three decades; he is supported by a team of experienced professionals

Business Risk

- The company has a market share of 2.2% (1H16)
- GPW mix is dominated by fire segment (37%), followed by motor (29%), miscellaneous (31%) and marine and aviation (3%)
- Stupendous growth in GPW (65%) in IH16; however, excluding some early renewals (in line with industry owing to tax implications) and one unusual endorsement, the growth rate clocks in at 30%
- Net loss ratio surged significantly due to higher losses in mobile insurance and health segment
- Huge one-off claim increased in marine segment (~PKR 250mln); net impact is minimal as 99.9% reinsured
- Expansion in branch network; expense ratio alarmingly high (1H16: 100%); includes impact of new bad debt provision policy (2% of premium)
- Owing to these factors, profitability nose-dived in 1H16 (loss of PKR 151mln)

Business Strategy

- Aggressive growth continued to be a focal point, going forward
- In addition to conventional segment, increasing penetration in health and mobile insurance; risk management needs close attention
- Branch expansion in south during the year should result in requisite business expansion; thereby bringing geographical diversification
- GPW growth should provide economies of scale to absorb high expenses incurred

Financial Risk

- Reinsurance treaty arrangement shifted from excess of loss to proportional terms, would provide better risk management specially in growth phase
- The size of liquid investment book (end-Jun16: PKR 1,025mln) remained strong, though the position declined due to spiked working capital needs
- The risk profile of the investment portfolio remained balanced with half of the funds deployed in low risk bank deposits and Government securities
- Half of investments book deployed in equity scrip's, exposing the company to market risk; however, management of the portfolio is outsourced to a specialist
- Insurance related receivables accumulated to PKR 2,129mln in Jun'16, creating a net receivable position of PKR 464mln; management is exercising stringent credit recovery procedures and reconciliations with reinsurer/coinsurer are also being carried out by a professional firm. Management envisages to improve the position by end-Dec'16
- Claims surged mainly in miscellaneous segment; needs management's attention (Claim days: 274)

RATING RATIONALE

The rating reflects strong liquidity position emanating from bank deposits and placements in low-risk investments of the company. This has helped in upholding financial profile of Premier Insurance. However, the business profile of the company is currently in pressure. This is mainly an outcome of a certain business reversals and high incidence of loss in few segments. The new management team is working to re-energize the company. Strengthening the risk management and procedural framework and volumetric expansion are being focused equally. In pursuit, the company has expanded its network, while improving existing infrastructure. However, these initiatives have pushed up the cost, wherein commensuration benefits have yet to translate. Timely achievement of profitable expansion is important to relieve the drag from profitability.

KEY RATING DRIVERS

The rating is dependent on fast ascend to positive performance matrix. Meanwhile, the management has to carefully manage its insurance asset liability structure wherein timely realization of outstanding premium along with smooth settlement of claims is critical. Any further stretching in these parameters would negatively impact the rating.

INDUSTRY

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 10%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



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GENERAL INSURANCE Financials [Summary]

Premier Insurance Limited (Premier)

| BALANCE SHEET | 30-Jun-16 | 31-Dec-15 | 31-Dec-14 |
|---------------------------------------|------------------|------------------|------------------|
| Investments | | | |
| Liquid Investments | 1,025 | 1,120 | 1,109 |
| Investment in Associates | 186 | 161 | 164 |
| Other Investments | 25 | 25 | 54 |
| | <u>1,237</u> | <u>1,306</u> | <u>1,326</u> |
| Insurance Related Assets | 2,129 | 1,682 | 1,346 |
| Other Assets | 876 | 704 | 758 |
| TOTAL ASSETS | <u>4,242</u> | <u>3,691</u> | <u>3,430</u> |
| Equity | 1,422 | 1,608 | 1,528 |
| Underwriting Provisions | 848 | 673 | 629 |
| Insurance Related Liabilities | 1,665 | 1,151 | 1,011 |
| Other Liabilities | 308 | 258 | 262 |
| TOTAL EQUITY & LIABILITIES | <u>4,242</u> | <u>3,691</u> | <u>3,430</u> |
| INCOME STATEMENT | 30-Jun-16 | 31-Dec-15 | 31-Dec-14 |
| Net Premium | | | |
| Gross Premium Written (GPW) | 730 | 1,408 | 1,356 |
| Net Premium Revenue (NPR) | 331 | 770 | 695 |
| Net Claims | (220) | (364) | (347) |
| Net Operational Expenses | (329) | (430) | (458) |
| UNDERWRITING RESULTS | <u>(219)</u> | <u>(23)</u> | <u>(110)</u> |
| Investment Income | 81 | 145 | 150 |
| Other Income/ (expense) | 1 | 1 | 1 |
| PROFIT BEFORE TAX | <u>(137)</u> | <u>123</u> | <u>41</u> |
| RATIO ANALYSIS | 30-Jun-16 | 31-Dec-15 | 31-Dec-14 |
| Underwriting Results | | | |
| Loss Ratio | 67% | 47% | 50% |
| Combined Ratio | 166% | 103% | 116% |
| Performance | | | |
| Operating Ratio | 141% | 84% | 94% |
| Investment Yield | 7% | 11% | 11% |
| Liquidity & Solvency | | | |
| Liquidity Ratio – times | 1.1 | 1.9 | 2.4 |



RATING SYMBOLS & DEFINITIONS:

**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.

| RATING 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+ AA 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 |
| A+ A 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. |
| BBB+ BBB 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. |
| BB+ BB BB- | Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant. |
| B+ B B- | 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. |
| CCC CC C | 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. |
| 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, but may stay in abeyance for long. 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, or c) the rating remains suspended for six months.

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.



Name of Issuer
Sector
Type of Relationship
Purpose of the Rating

Premier Insurance Limited
 Insurance | General
 Solicited
 Independent Risk Assessment

Rating History

| Dissemination Date | IFS Rating | Outlook | Action |
|--------------------|------------|----------|----------|
| 30-Sep-16 | A | Stable | Maintain |
| 30-Sep-15 | A | Positive | Initial |

Related Criteria and Research

Rating Methodology
 Sector Research

General Insurance and Takaful operator – IFS Rating methodology
 Insurance | General - View Point | Nov 15
 General Takaful - View Point | Feb 16

Rating Analysts

| | |
|--|---|
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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable

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PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them

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The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

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[Probability of Default \(PD\)](#)

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