



The Pakistan Credit Rating Agency Limited

PREMIER INSURANCE LIMITED

IFS RATING REPORT

	NEW [APR-17]	PREVIOUS [SEP-16]
Insurer Financial Strength (IFS) Rating	A	A
Outlook	Stable	Stable

REPORT CONTENTS	
1.	RATING ANALYSES
2.	FINANCIAL INFORMATION
3.	RATING SCALE
4.	REGULATORY AND SUPPLEMENTARY DISCLOSURE

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 sustained a market share of 2% (9M16)
- GPW mix is dominated by fire (38%), followed by, motor (29%), miscellaneous (25%) and motor (2%) at end-Sep'16
- Despite growth in GPW (6%) in 9M16, heaved losses (net loss ratio: 112%) have led to decline in profitability (Sep'16: PKR 420mln loss)
- Miscellaneous segment net loss is too high (9M16: 180%); surged significantly due to higher losses in mobile and health insurance,
- There were certain control lapses in the company
- The hovering expense ratio (100%) is unjustified, despite considering the fact that it relates to building capacity for expansion
- Liquidity constrained widened (Sep'16: 0.9times, Sep'15: 3.0times); cumulative decline of 33% in net liquid position since Sep'15

Business Strategy

- Aggressive strategy did not yielded desired levels, the management has rolled back the strategy. This is expected to reverse the rising expenses, though it would take time to normalize but future drag of expenses on profitability would end.
- Going forward, the management aims to regain its market share in CY17 and achieve a GPW level as it was in 2015; a growth of ~19% over Dec'16 results
- Growth would be led by increased share in auto sector and grabbing business opportunities through utilizing its Group Companies network.
- Management is eying to achieve profit in 1Q17 - excluding the drag form Samsung business

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-Sep16: PKR 1,090mln) has squeezed, and the position has further 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 more to market risk; however, management of the portfolio is outsourced to a specialist
- Hike in net claims liability (3.5times) after reinsurance coverage since Sep15; including major claim incidence without reinsurance coverage pertaining to mobile insurance with Samsung classified in miscellaneous segment
- Total Gross claims liability of PKR 1,165mln at end-Sep16 majorly relates to two claims incidence; i) miscellaneous segment's gross claim liability of PKR 454mln out of which PKR 240mln remains uncovered on company's net account and ii) marine segment includes one big loss from Air Indus (~PKR 300mln) incurred in 1H16 – being adequately covered provides comfort
- Insurance related assets have continued to surge; reconciliations exercise with reinsurers/coinsurers failed to produce results
- Further piling up of premium due but unpaid take receivable to PKR 786mln at end-Sep16; it accounts for 70% of GPW written in 9M16

RATING RATIONALE

Premier Insurance has had certain challenges lately. A specific risk exposure (accidental coverage) did not behave as expected. Desired results of aggressive business team expansion could not be achieved. These led to sizeable losses in CY16. The company (including its sponsors and BoD) took cognizance of these developments ably and requisite responses are in place. The rating recognizes this. Premier Insurance rating reflects its strong liquidity position even after incorporating ensuing losses. This emanates from an adequately diverse investment book. This, while providing alternative revenue stream, provides cushion to absorb losses while upholding the financial profile of the company. The company has rolled back network expansion, drag of related cost is no more there. Barring one risk exposure, the company has good underwriting pattern. This should yield core profits. Moreover, to keep a cap on loss pattern, the management has shifted from excess of loss to proportional reinsurance treaty arrangement. The company is strengthening the risk management and procedural framework. The business strategy is focused on consolidating tested risks and relationships while capturing organic growth. The company plans to enhance motor business. These should help hold its industry position. At the same time rating takes comfort from sustained interest of the sponsoring shareholder in the company; the sponsor remains committed.

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 dilution in the risk profile of the company may 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.



The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE Financials [Summary]

Premier Insurance Limited (Premier)

BALANCE SHEET	30-Sep-16	31-Dec-15	31-Dec-14
Investments			
Liquid Investments	1,090	1,120	1,109
Investment in Associates	193	161	164
Other Investments	25	25	54
	<u>1,307</u>	<u>1,306</u>	<u>1,326</u>
Insurance Related Assets	2,096	1,682	1,346
Other Assets	928	704	758
TOTAL ASSETS	<u>4,331</u>	<u>3,691</u>	<u>3,430</u>
Equity	1,143	1,608	1,528
Underwriting Provisions	909	673	629
Insurance Related Liabilities	2,035	1,151	1,011
Other Liabilities	243	258	262
TOTAL EQUITY & LIABILITIES	<u>4,331</u>	<u>3,691</u>	<u>3,430</u>
INCOME STATEMENT	30-Sep-16	31-Dec-15	31-Dec-14
Net Premium			
Gross Premium Written (GPW)	1,123	1,408	1,356
Net Premium Revenue (NPR)	481	770	695
Net Claims	(539)	(364)	(347)
Net Operational Expenses	(482)	(430)	(458)
UNDERWRITING RESULTS	<u>(540)</u>	<u>(23)</u>	<u>(110)</u>
Investment Income	119	145	150
Other Income/ (expense)	9	1	1
PROFIT BEFORE TAX	<u>(412)</u>	<u>123</u>	<u>41</u>
RATIO ANALYSIS	30-Sep-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	112%	47%	50%
Combined Ratio	212%	103%	116%
Performance			
Operating Ratio	186%	84%	94%
Investment Yield	9%	11%	11%
Liquidity & Solvency			
Liquidity Ratio – times	0.9	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
6-Apr-17	A	Stable	Maintain
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 16
 General Takaful - View Point | Feb 16

Rating Analysts

Mahina Majid
mahina.majid@pacra.com
 (92-42-35869504)

[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 but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

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
 The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest
 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
 The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees
 PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities
 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 ii) fee mandate - signed with the payer, which can be different from the entity
 PACRA ensures that the credit rating assigned to an entity or instrument should 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

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
 Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

None of the information in this document may 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 written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell

[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