



The Pakistan Credit Rating Agency Limited

IGI LIFE INSURANCE LIMITED (IGIL)

IFS RATING REPORT

	INITIAL [APR-17]	REPORT CONTENTS
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APRIL 2017

Profile & Ownership

- IGI Life Insurance Limited (IGILife), is listed on Pakistan Stock Exchange, started its operations in May-95 as American Life Insurance Pakistan Limited
- With its head office in Karachi, the company operates through 17 branches working with an agent base of 700 individuals
- Majority shareholding on the books of IGI Insurance Limited (81.97%); part of Packages Group (PG) owned by Ali Family
- Packages Group, under the umbrella of “IGI Financial Services” established foothold in the financial sector (i) IGI Insurance, (ii) IGI Life, (iii) IGI Investments, and (iv) IGI Securities. While, major strategic investments have been parked on the balance sheet of IGI Insurance (endSep16; BV: PKR 15 bln, MV: PKR 57bln).
- The group has initiated corporate restructuring, envisioned to create a Holding Company (HoldCo), thereby separating strategic investments (including IGILife) from its insurance business. This would benefit in creating value in excess of its parts. The company is in process of applying petition in the court for the approval of merger (effective 31-Dec-16) and then de-merger (effective 1-Jan-16).

Governance & Management

- Seven-member board is a balanced mix of two executive directors (CEO and Deputy CEO), two independent directors and three non-executive directors; including two from sponsoring family
- Strong governance structure is a hallmark of Packages Group
- Mr. Syed Hyder Ali, the CEO of the company since Apr-14, carries more than three decades of experience of different industries. He is also serving as CEO of Packages Limited

Business Risk

- Major business is driven from bancassurance channel (CY16: 75%, CY15: 53%), whereas corporate channel contributes around 15%
- Gross premium (CY16: PKR 7,584mln) took an emphatic growth of 91% enabling the company to improve its market share to 4.2%, largely on the back of single premium
- Top 25 client concentration has risen from 9% at end-Dec14 to 22% at end-Dec16
- Persistency clocks in at 64% (CY15: 59%), though improved YoY, lags behind peers
- The surplus of the company has strengthened YoY (CY16: PKR 223mln, CY15: PKR 135mln), reflecting positively on business risk profile
- Investment income increased significantly (CY16: PKR 2,449mln, CY15: PKR 1,346mln); gains from government securities

Business Strategy

- Company envisages aggressive business growth targets while focus on profitability would be enhanced
- Strengthening of human capital along with expansion of agent network to 1,200 with recruitment of professional and qualified personnel is also in the pipeline
- Further diversification of the product slate is on the cards along with new bancassurance arrangements
- IGILife plans to update its IT infrastructure with replacement of its core IT system, in this regard, IGILife is currently negotiating with vendors. The project will take approximately 18 months to roll out, this along with other marketing techniques will help improve client retention

Financial Risk

- Investment book (end-Dec16: PKR 18bln); entirely liquid is deployed in government securities (79%), mutual funds (14%) and TDRs (~7%)
- The investment yield (16%) outperformed its benchmark rate in CY16
- IGILife has a sound capital base of PKR 859mln. The liquidity ratio is robust at 1.6x, providing good risk absorption capacity
- During CY16, shareholders fund contributed PKR 76mln to statutory funds
- IGIL is strengthened by its Reinsurance arrangements with Hannover Re (AA- by S&P) and Munich Re (AA- by S&P)

RATING RATIONALE

Packages Group, with the brand of IGI, has been operating in the industry since 1953. IGILife is a step towards holistic presence in insurance industry. This would unlock synergistic benefits. The rating encapsulates IGILife's improving performance evident from rise in market share (CY16: 4.2%, CY15: 2.4%, CY14: 1.9%). This stems from a stream of predominantly single premium business underwritten by the company. The agency network of the company has continued to expand, whereas, bancassurance arrangements with some of the leading banks of the country are yielding benefits. The company has a diverse product slate, targeting all segments of the market. Going forward, IGILife aims to further penetrate the market, on the back of expansion in branch network and gradually building up shariah compliant portfolio. Further, improvement in persistency levels is critical for sustaining business and hence, profitability. The rating takes into account sustained liquidity profile, providing coverage to the company's obligations. The company's association with Packages Group engenders sound governance framework, a key rating factor.

KEY RATING DRIVERS

The rating is dependent on sustained improvement in business and financial risk profile of the company in line with its relative positioning with in the industry. At the same time, liquidity profile should continue to cushion the policyholder's liabilities. While finalization and smooth implementation of new IT system is critical.

INDUSTRY SNAPSHOT

Life insurance sector has seen remarkable growth in recent years (CAGR 5years: 21%), wherein the private sector has seen relatively high growth. Private sector brought innovative life solution, mainly bancassurance – a sum of both saving plans and nominal life cover. Investment portfolios of life insurers are skewed towards government securities (primarily PIBs). Although Interest rate cuts brought revaluation gains, investment would be at lower returns.



**LIFE INSURANCE
Financials [Summary]**

IGI Life Insurance Limited (IGILife)

BALANCE SHEET	31-Dec-16	31-Dec-15	31-Dec-14
Investments			
Liquid Investments	17,967	12,527	10,905
Other Investments	154	148	135
	18,121	12,675	11,040
Insurance Related Assets	561	552	561
Other Assets	550	380	262
TOTAL ASSETS	19,233	13,606	11,863
Equity	859	890	826
Statutory Fund	17,609	12,021	10,456
Insurance Related Liabilities	347	318	298
Other Liabilities	418	378	282
TOTAL EQUITY & LIABILITIES	19,233	13,606	11,863
INCOME STATEMENT	31-Dec-16	31-Dec-15	31-Dec-14
Net Premium			
Gross Premium	7,584	3,962	2,535
Reinsurance Expense	(148)	(128)	(99)
Net Premium	7,436	3,835	2,436
Net Claims	(3,187)	(2,598)	(3,398)
Expenses	(1,144)	(1,011)	(799)
Investment Income	2,449	1,346	1,513
Excess of Income over Expenditure (EoI)	5,554	1,571	(248)
Miscellaneous (Expense)/ Income	-	-	-
Reserve for Policyholders' Liabilities	5,332	1,436	(453)
SURPLUS BEFORE APPROPRIATIONS	223	135	204
RATIO ANALYSIS	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	91%	56%	-42%
Premium Mix (Individual GPW/ Total GPW)	88%	81%	76%
Persistency Ratio (Individuals Funds)	64%	59%	63%
Loss Ratio (Net Claims as %age of net premium)	43%	68%	140%
Operating Ratio	97%	96%	92%
Liquidity & Solvency			
Liquidity Ratio – times	1.1	1.1	1.1

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. Either failed to make payments on their obligations in a timely manner, are deemed to be insolvent, or have been subjected to some form of regulatory intervention. Limited liquid assets available to fund obligations.

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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.

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Name of Issuer	IGI Life Insurance Limited (IGILife)								
Sector	Life Insurance								
Type of Relationship	Solicited								
Purpose of the Rating	Independent Risk Assessment								
Rating History	<table border="1"> <thead> <tr> <th>Dissemination Date</th> <th>Rating</th> <th>Outlook</th> <th>Action</th> </tr> </thead> <tbody> <tr> <td>9-May-17</td> <td>A+</td> <td>Stable</td> <td>Initial</td> </tr> </tbody> </table>	Dissemination Date	Rating	Outlook	Action	9-May-17	A+	Stable	Initial
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Related Criteria and Research									
Rating Methodology Sector Research	Insurer Financial Strength Rating Insurance Life - Viewpoint Apr-17								
Rating Analysts	<table> <tr> <td>Muneeb Rashid muneeb.rashid@pacra.com (92-42-35869504)</td> <td>Jhangeer Hanif Jhangeer@pacra.com (92-42-35869504)</td> </tr> </table>	Muneeb Rashid muneeb.rashid@pacra.com (92-42-35869504)	Jhangeer Hanif Jhangeer@pacra.com (92-42-35869504)						
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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.								
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