



The Pakistan Credit Rating Agency Limited

IGI LIFE INSURANCE LIMITED (IGIL)

IFS RATING REPORT

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

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SEPTEMBER 2017

Profile & Ownership

- IGI Life Insurance Limited (IGILife) 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 21 branches working with an agent base in excess of 800 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-17).

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 (1HCY17: PKR 2,956mln) witnessed a dip of 21% largely on the back of single premium, however, all other segments witnessed growth
- This enabled the company to improve its persistency level to 75% (CY16: 64%), though a rise YoY, lags behind peers
- The market share of the company stood at 4%
- The surplus of the company has strengthened YoY (1HCY17: PKR 115mln, 1HCY16: PKR 49mln), reflecting positively on business risk profile
- Investment income registered a slight dip (1HCY17: PKR 637mln, 1HCY16: PKR 761mln); 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. The project along with other marketing techniques will help improve client retention

Financial Risk

- Investment book (end-Jun17: PKR 18.5bln); entirely liquid is deployed in government securities (73%), mutual funds (21%) and TDRs (~5%)
- At 1HCY17, the investment yield clocked in at a decent 8%
- IGILife has a sound capital base of PKR 831mln at end-Jun17. The liquidity ratio is robust at ~2.0x, providing good risk absorption capacity
- During 1HCY17, shareholders fund contributed PKR 39mln 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 (1HCY17: ~4%, CY16: 4.2%, CY15: 2.4%). This stems from a stream of pre-dominantly single premium business, which has lately been facing challenge and may take time to pick up. 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.



IGI Life Insurance Limited (IGILife)

BALANCE SHEET	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
Investments				
Liquid Investments	18,387	17,967	12,527	10,905
Other Investments	160	154	148	135
	18,547	18,121	12,675	11,040
Insurance Related Assets	616	561	552	561
Other Assets	633	550	380	262
TOTAL ASSETS	19,796	19,233	13,606	11,863
Equity	831	859	890	826
Statutory Fund	18,200	17,609	12,021	10,456
Insurance Related Liabilities	313	347	318	298
Other Liabilities	451	418	378	282
TOTAL EQUITY & LIABILITIES	19,796	19,233	13,606	11,863
INCOME STATEMENT	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
Net Premium				
Gross Premium	2,956	7,584	3,962	2,535
Reinsurance Expense	(73)	(148)	(128)	(99)
Net Premium	2,882	7,436	3,835	2,436
Net Claims	(2,283)	(3,187)	(2,598)	(3,398)
Expenses	(624)	(1,144)	(1,011)	(799)
Investment Income	637	2,449	1,346	1,513
Excess of Income over Expenditure (Eol)	613	5,554	1,571	(248)
Miscellaneous (Expense)/ Income	-	-	-	-
Reserve for Policyholders' Liabilities	497	5,332	1,436	(453)
SURPLUS BEFORE APPROPRIATIONS	115	223	135	204
RATIO ANALYSIS	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results				
Gross Premium Written (GPW) Growth Rate	-21%	91%	56%	-42%
Premium Mix (Individual GPW/ Total GPW)	75%	88%	81%	76%
Persistency Ratio (Individuals Funds)	75%	64%	59%	63%
Loss Ratio (Net Claims as %age of net premium)	79%	43%	68%	140%
Operating Ratio	96%	97%	96%	92%
Liquidity & Solvency				
Liquidity Ratio – times	1.1	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.

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 | IGI Life Insurance Limited (IGILife)
Sector | Life Insurance
Type of Relationship | Solicited

Purpose of the Rating | Independent Risk Assessment

Rating History

Dissemination Date	Rating	Outlook	Action
29-Sep-17	A+	Stable	Maintain
9-May-17	A+	Stable	Initial

Related Criteria and Research

Rating Methodology | Insurer Financial Strength Rating
 Sector Research | Insurance | Life - Viewpoint | Apr-17

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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](#)

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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.

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

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