



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
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	-

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 reflects financial soundness of the company alongside providing benefits in terms of sustained low-risk captive business, while ensuring sound governance framework. The growth in auto sector in which the group has more exposure goes to the advantage of Atlas Insurance, noticeable growth in non-captive business bodes well for improved footprints in the market. The bottom-line is supplemented by high investment income, ensuring increased profits after tax for the company. AIL, with launch of window takaful operations, now aims to spur growth through Shariah compliant products as well though current volume is low. The rating takes into account robust liquidity profile, providing strong coverage to the company's obligations. The company has a strong panel of reinsurers with favorable treaty terms and prudent risk retention policies.

The rating is dependent on sustained improvement in business and financial metrics of the company in line with its relative positioning with in 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	Methodology Insurer Financial Strength (IFS) Rating General(Jun-17)
Related Research	Sector Study Insurance General(Oct-17)
Rating Analysts	Nauman Mustafa nauman.mustafa@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

ATLAS INSURANCE LIMITED (AIL)

PROFILE

Incorporated	1934
Major Business	Insurance
Legal Status	Listed Public Limited Company
Head Office	Karachi

INDUSTRY SNAPSHOT

Pakistan general insurance continued growth trajectory (CAGR 4 years 12%). While fire and motor growth is driven by credit off by the banks, the miscellaneous segment has seen largest growth in health, crop, and livestock. The underwriting profitability improved, though change in tax laws shall impact net profits, going forward. Growth prospects are sanguine.

OWNERSHIP

- One of the oldest insurance company of the country; established in 1934 and was acquired in 1980 by Atlas group, listed on Pakistan Stock Exchange. AIL's operations are currently carried out from a network of 24 branches.
- Sponsors, Atlas Group (AG), control 78% stake in AIL; the strong financial muscle of AG provides strength to the ownership structure of the company

GOVERNANCE

- AIL's seven member board of directors include two independent members, one executive director – CEO, while rest are non-executive directors from various group affiliates
- The BoD, with diversified background and professional expertise of its members, is a key source of guidance to the company's management in terms of enhancing business opportunities, targeting specific segments of the industry and improving the company's portfolio returns.

MANAGEMENT

- The company has a well-defined organizational structure and different operations are segregated and managed through Executive director and Departmental Heads. The company's top management consists of qualified and experienced professionals, having long standing relationship with the company
- 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). All seven department heads report directly to CEO.
- Mr. Arshad P. Rana, an insurance veteran, has been associated with the company since 2004 as CEO
- To ensure operational efficiency, Atlas has three management committees in place which includes; (i) Underwriting and Risk Management, (ii) Claims settlement and (iii) Reinsurance and co-insurance. The meetings of each committee are held quarterly; however the members meet as and when required to discuss unusual cases.

BUSINESS RISK

- The company constitutes market share of 2.9% in end CY17 compared to CY16 market share of Atlas was 3.2% a negative growth of 0.9% in market share.
- AIL's Premium mix is fairly diversified comprising fire (27%), motor (13%), marine (33%), and miscellaneous (22%); which mainly comprises of health, terrorism, bond insurance.
- GPW (PKR 2,379mln) witnessed muted growth in CY17 (2%) major increase in Marine (42%) and Misc (72%; they merged engineering under Misc.), while Atlas has shown slight positive growth in Fire (3%) and decline in Motor (-14%).
- Net loss ratio of the company increased due to a noticeable increase in motor segment (CY17: 51.8%, CY16: 35.1%) and in marine segment (CY17: 11.2%, CY16: 6.1%) thereby increasing the overall loss ratio to CY17: 33.9% (9MCY16: 25.7%).
- The company posted an underwriting profit of PKR ~595mln, whereas in CY16 it showed profit of PKR 484mln; a significant growth of 23%.
- Investment income decreased to PKR 324mln (CY16: PKR 466mln) mainly due to lower gain from disposal of investments but somewhat covered by strong dividend income from group companies i.e. 215mln (CY16: 151mln).
- This boosted the profitability of the company marginally, hence, PBT recorded an increase of 7.5%.
- In Mar-16, AIL launched its Window Takaful Operations. PBT from Window Takaful was PKR 0.847mln this year.
- Going Forward, Atlas Insurance Limited vows to manage sustainable profitability, ensuring consistent improvement in prudent underwriting and risk management. At the same time, the company aims to attain large projects under CPEC as they come, co-insurance in this regard is also considered. It intends to explore opportunities by introducing new products and diversifying current product portfolio. Expansion is also on cards with new branches to be added to existing branch network and takaful will have its first own separate branch soon; the company is now focusing on flourishing its window takaful operations – especially in motor segment. The company also plans to develop a low cost product in collaboration with its associates to offer to buyers of motor cycles.

FINANCIAL RISK

- The company's investment book (PKR 3,068mln) represents 136% of its equity base at end CY17.
- The liquid investment portfolio is deployed in Government Securities (2.6%), Cash & Bank (24.8%), equities (72.6%) & debt securities (4.3%).
- The company's premium receivables improved in CY17 (13.8Days) from CY16 (17.7 Days).
- 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.



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE
Financials [Summary]**

Atlas Insurance Limited (AIL)

	<i>PKR mln</i>			
BALANCE SHEET	CY17	CY16	CY15	CY14
	Annual	Annual	Annual	Annual
Investments				
Liquid Investments	2,832	2,622	2,316	2,085
Other Investments	236	236	236	236
	<u>3,068</u>	<u>2,859</u>	<u>2,553</u>	<u>2,322</u>
Insurance Related Assets	459	622	656	505
Other Assets	677	796	588	521
TOTAL ASSETS	<u>4,204</u>	<u>4,278</u>	<u>3,797</u>	<u>3,347</u>
Equity	2,249	2,047	1,846	1,668
Underwriting Provisions	998	1,078	845	780
Insurance Related Liabilities	580	738	796	620
Other Liabilities	377	415	310	279
TOTAL EQUITY & LIABILITIES	<u>4,204</u>	<u>4,278</u>	<u>3,797</u>	<u>3,347</u>
INCOME STATEMENT	CY17	CY16	CY15	CY14
Gross Premium Written (GPW)	2,379	2,334	1,964	1,651
Net Premium Revenue (NPR)	1,275	1,044	959	878
Net Claims	(433)	(269)	(204)	(211)
Net Operational Expenses	(277)	(338)	(333)	(296)
UNDERWRITING RESULTS	<u>565</u>	<u>437</u>	<u>422</u>	<u>372</u>
Investment Income	324	466	364	301
Other Income/ (expense)	98	15	12	17
PROFIT BEFORE TAX	<u>988</u>	<u>919</u>	<u>798</u>	<u>691</u>
RATIO ANALYSIS	CY17	CY16	CY15	CY14
Underwriting Results				
Loss Ratio	34%	26%	21%	24%
Combined Ratio	82%	71%	69%	69%
Performance				
Operating Ratio	48%	25%	30%	33%
Investment Yield	11%	17%	15%	22%
Liquidity & Solvency				
Liquidity Ratio – times	8.7	6.3	4.6	11.1



INSURER FINANCIAL STRENGTH (IFS) RATING 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.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>
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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)

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