



The Pakistan Credit Rating Agency Limited

Rating Report

IGI Life Insurance Company

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2018	A+	-	Stable	Maintain	-
29-Sep-2017	A+	-	Stable	Maintain	-
09-May-2017	A+	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Packages Group, with the brand of IGI, has been operating in the industry since 1953. IGI Life has been a step towards holistic presence in insurance industry - General as well as life. This is unlocking synergistic benefits. The market share of the company has slightly diluted, owing to change in the business strategy: to reduce dependence on the single premium and shift towards the regular premium. The company's persistency in the second year is the highest, which is a good omen, though first year persistence will improve as shift from single premium transpire. 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. 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.

The rating is dependent on sustained improvement in business and financial risk profile of the company in line with its relative positioning within the industry. At the same time, liquidity profile should continue to cushion the policyholder's liabilities. While the launch of the new project's performance remains vital, expected to launch in October.

Disclosure

Name of Rated Entity	IGI Life Insurance Company
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Insurer Financial Strength (IFS) Rating Life(Jun-17)
Related Research	Sector Study Life Insurance(Jun-18)
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IGI LIFE INSURANCE COMPANY LIMITED PROFILE

Incorporated	1995
Major Business	Life Insurance
Legal Status	Public Limited Company
Head Office	Karachi

INDUSTRY SNAPSHOT

Life insurance sector has seen remarkable growth in recent years (CAGR 4years: 18%), 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 increase brought revaluation losses.

OWNERSHIP

- IGI Life Insurance Limited (IGILife), a quoted public company, listed on the Pakistan Stock Exchange, started its operations in May-1995
- The company is engaged in life insurance, carrying on both participating and non-participating business. With its head office in Karachi, the company operates through three business Hubs – South, Central and North – with a total of 17 branches boasting a vast network of agents in excess of 700
- IGI Life is majority owned by IGI Holdings Limited (formerly; IGI Insurance Limited). In 2013, erstwhile IGI Insurance Limited entered into a share purchase agreement with American Life Insurance Company for acquisition of majority stake (69.67%) in its Pakistan business. Pursuant to share purchase agreement, an additional stake (12.28%) was acquired, thereby, increasing the cumulative shareholding to 81.97%. IGI Insurance Limited obtained control in Apr-14. As a result of demerger, IGI Life is now owned by IGI Holding.

Governance

- The overall control of the company vests in seven member board of directors. CEO is the only executive director, three independent while remaining are non-executive directors including the chairman. There are five sub-committees of the board namely; (i) Audit, (ii) Claims, (iii) Underwriting & Reinsurance, (iv) Investment, (v) Human Resource & Remuneration and (vi) Risk Management & Compliance
- The members carry diversified experience with quality education. All directors except the chairman have completed their trainings as part of CCG. The chairman with vast amount of experience has been granted exemption by SECP from taking part in trainings

MANAGEMENT

- The Chief Executive Officer (CEO), Mr. Syed Hyder Ali, oversees operations of the company through four key individuals – Deputy Chief Executive Officer (DCEO), Chief Financial Officer (CFO), Chief Operations Officer (COO) and Group Chief Investment Officer (GCIO).
- The CEO remains abreast of day-to-day operations through real time MIS reporting. Mr. Syed Hyder Ali, the CEO of the company, carries more than three decades of experience of different industries. He is also serving as CEO of Packages Limited

BUSINESS RISK

- IGI Life's gross premium written (GPW), in CY17, is dominated by individual investment linked funds (42%), followed by individual family takaful (21%), group funds (22%) and conventional life funds (15%).
- The major chunk of the business comes through banc assure. More than half (57%) of the business comprises banc assurance.
- During CY17, company's gross premium ~ PKR 5,617 mln (CY16: PKR 7,584mln) showed a downward trend declining by 26% hence reducing the market share to 3%.
- The single premium declined by 52% mainly on account of the shift in focus of their partner bank which previously was the major contributor. The single premium comprises 41% of the total premium as against 63% in CY16. Going forward, the company targets the single premium not to exceed 25% of the total GPW.
- Bancassurance comprises of 57% of the total GPW as against 46% in CY 16.

BUSINESS STRATEGY

- Going forward, the company envisages high growth targets with focus on profitability. Expansion of branch network is on cards
- Furthermore, strengthening of human capital along with expansion of agent network with recruitment of professional and qualified personnel is also in the pipeline.

FINANCIAL RISK

- The stock market's performance remained unattractive especially during the second half of CY17. The market declined by 15% whereas the company's shareholder fund by 20% at end-Dec 17.
- IGILife has a sound capital base of PKR 1,674 mln. The liquidity ratio is robust at 5.4x, providing excellent risk absorption capacity.
- During CY17, shareholders fund received PKR 12.5mln - net from group and individual funds to meet minimum solvency requirement, however, on an aggregate basis the available solvency margin is in line with the required margin.



**LIFE INSURANCE
Financials [Summary]**

IGI Life Insurance Limited (IGILife)

BALANCE SHEET	31-Dec-17	31-Dec-16	31-Dec-15
Investments			
Liquid Investments	18,400	17,967	12,527
Other Investments	168	154	148
	<u>18,568</u>	<u>18,121</u>	<u>12,675</u>
Insurance Related Assets	567	561	552
Other Assets	688	550	380
TOTAL ASSETS	<u>19,910</u>	<u>19,233</u>	<u>13,606</u>
Equity			
Equity	848	859	890
Statutory Fund	18,379	17,609	12,021
Insurance Related Liabilities	82	347	318
Other Liabilities	370	418	378
TOTAL EQUITY & LIABILITIES	<u>19,910</u>	<u>19,233</u>	<u>13,606</u>

INCOME STATEMENT	31-Dec-17	31-Dec-16	31-Dec-15
Net Premium			
Gross Premium	5,617	7,584	3,962
Reinsurance Expense	(152)	(148)	(128)
Net Premium	<u>5,465</u>	<u>7,436</u>	<u>3,835</u>
Net Claims	(4,319)	(3,187)	(2,598)
Expenses	(1,209)	(1,144)	(1,011)
Investment Income	781	2,449	1,346
Excess of Income over Expenditure (Eol)	<u>720</u>	<u>5,554</u>	<u>1,571</u>
Miscellaneous (Expense)/ Income	-	-	-
Reserve for Policyholders' Liabilities	839	5,332	1,436
SURPLUS BEFORE APPROPRIATIONS	<u>(119)</u>	<u>223</u>	<u>135</u>

RATIO ANALYSIS	31-Dec-17	31-Dec-16	31-Dec-15
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	-26%	91%	56%
Premium Mix (Individual GPW/ Total GPW)	78%	88%	81%
Persistency Ratio (Individuals Funds)	45%	64%	59%
Loss Ratio (Net Claims as %age of net premium)	-79%	43%	68%
Operating Ratio	80%	97%	96%
Liquidity & Solvency			
Liquidity Ratio – times	1.3	1.1	1.1



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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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

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- (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.
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- (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)
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- (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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