



The Pakistan Credit Rating Agency Limited

Rating Report

Premier Insurance Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jun-2018	A	-	Negative	Maintain	-
03-Oct-2017	A	-	Stable	Maintain	-
06-Apr-2017	A	-	Stable	Maintain	-
30-Sep-2016	A	-	Stable	Maintain	-
30-Sep-2015	A	-	Positive	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects sustained efforts of the incumbent leadership to steer the company out of prevalent challenges. The company is envisaged to cautiously underwrite insurance business; the market share has gone down. The results are depicted in the fall of GPW but with greater decrease in the amount of underwriting losses. The support to profitability has emanated from investment income, though largely contributed by relatively high risk equity investments. The company has accumulated a high quantum of liabilities, cushioned by reinsurance receivables and liquid investments; some dilution therein is seen. Liquidity is essential and must be maintained at high levels.

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.

Disclosure

Name of Rated Entity	Premier 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	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

PREMIER INSURANCE COMPANY LIMITED PROFILE	
Incorporated	1952
Major Business	Insurance
Legal Status	Public Limited Company
Head Office	Karachi

INDUSTRY SNAPSHOT
Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). 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; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.

OWNERSHIP
<ul style="list-style-type: none"> ▪ Premier Insurance Limited (Premier), incorporated in 1952, is listed on Pakistan Stock Exchange ▪ Crescent Group is sponsoring shareholder 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), having a long business history (since 1910), operates in diversified sectors: textile, steel, sugar, and power.

Governance
<ul style="list-style-type: none"> ▪ Premier has eight member board of directors, including the CEO: five representations of Crescent Group (including four of Bashir family) and one of State Life Insurance.

MANAGEMENT
<ul style="list-style-type: none"> ▪ Mr. Asad Ullah Khawaja joined the Board as an Independent Director in June 2017. ▪ Mr. Zahid Bashir took over the charge of the company from June 2017. ▪ Mr. Rao Ali Zeeshan has been appointed as Chief Financial Officer/ Company secretary with effect from August 01, 2017. ▪ There are two executive directors – one heads the South Zone and the other heads North Zone. Mr. Mir Khadim Baig, Head - North Zone is a prominent professional in the field of insurance, having experience of over two decades. Mr. Afzal ur Rehman, the other executive director, is responsible for the operations in Southern Zone.

BUSINESS RISK
<ul style="list-style-type: none"> ▪ The company has slowed its pace of business accumulation with an aim to fix the previous issue and take only profitable growth. ▪ The company's market share decline to 1% (CY16: 2 %) on account of reduced premiums written in CY17. ▪ GPW mix is dominated by fire (40%), followed by motor (27%), others (22%) and marine (11%) at end-Dec 17. ▪ With exception to Marina Segment, there has been a dip in all segments. ▪ Motor segment dropping the most by 38% to PKR 231mln (PKR 372mln: CY16), followed by fire and miscellaneous declining by 28% and 38% respectively, YoY ▪ Underwriting loss recovered to PKR 123mln as against PKR 362mln in CY16. The support came from investment income (PKR 147mln). ▪ The Window Takaful operation recorded a profit PKR 6mln as opposed a loss of PKR 20mln in CY16

BUSINESS STRATEGY
<ul style="list-style-type: none"> ▪ The company was facing severe pressure on its operations due to the heightened loss and higher expense ratio. ▪ The new management decided to consolidate, enabling the company to breakeven. ▪ The growth may take time to re-emerge.

FINANCIAL RISK
<ul style="list-style-type: none"> ▪ Reinsurance treaty arrangement shifted from an excess of loss to proportional terms, providing better risk management especially in a growth phase. ▪ Liquidity remained stable at .9x (CY16: .9x). ▪ The size of liquid investment book ~ PKR 1,143mln CY17, (CY16: PKR 1,090) improved on account of better investment management. ▪ More than 70% of investments book deployed in equity scrip's, exposed to market risk. ▪ Premium due but unpaid declines receivables to PKR 447mln at end-Dec17 (CY16: PKR 770mln). ▪ The area of concern is outstanding claims (PKR 1,221mln) and other liabilities (PKR 486mln).



The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE Financials [Summary]

Premier Insurance Limited (Premier)

BALANCE SHEET	31-Dec-17	31-Dec-16	31-Dec-15
Investments			
Liquid Investments	1,291	786	1,025
Investment in Associates	119	119	119
Other Investments	25	25	25
	<u>1,435</u>	<u>930</u>	<u>1,169</u>
Insurance Related Assets	1,620	1,752	1,763
Other Assets	655	1,063	753
TOTAL ASSETS	<u>3,776</u>	<u>3,745</u>	<u>3,685</u>
Equity	1,184	1,242	1,608
Underwriting Provisions	423	1,713	1,242
Insurance Related Liabilities	1,455	291	272
Other Liabilities	490	499	563
TOTAL EQUITY & LIABILITIES	<u>3,776</u>	<u>3,745</u>	<u>3,685</u>
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INCOME STATEMENT	31-Dec-17	31-Dec-16	31-Dec-15
Net Premium			
Gross Premium Written (GPW)	849	1,115	1,408
Net Premium Revenue (NPR)	657	623	770
Net Claims	(447)	(628)	(364)
Net Operational Expenses	(375)	(427)	(333)
UNDERWRITING RESULTS	<u>(123)</u>	<u>(432)</u>	<u>73</u>
Investment Income	147	259	140
Other Income/ (expense)	(253)	(151)	(90)
PROFIT BEFORE TAX	<u>(105)</u>	<u>(325)</u>	<u>123</u>
RATIO ANALYSIS	31-Dec-17	31-Dec-16	31-Dec-15
Underwriting Results			
Loss Ratio	68%	100%	47%
Combined Ratio	125%	179%	103%
Performance			
Operating Ratio	102%	135%	84%
Investment Yield	11%	20%	11%
Liquidity & Solvency			
Liquidity Ratio – times	0.9	0.9	1.9



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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