



The Pakistan Credit Rating Agency Limited

Rating Report

Crescent Star Insurance Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Jul-2019	A-	-	Stable	Maintain	YES
18-Jan-2019	A-	-	Stable	Maintain	YES
14-Jun-2018	A-	-	Stable	Maintain	-
06-Dec-2017	A-	-	Developing	Maintain	YES
23-Jun-2017	A-	-	Developing	Maintain	YES
29-Dec-2016	A-	-	Developing	Maintain	YES
18-Apr-2016	A-	-	Developing	Maintain	-
06-Oct-2015	A-	-	Stable	Maintain	-
25-Mar-2015	A-	-	Stable	Upgrade	-
01-Apr-2014	BBB+	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects CSInsurance's strategy to focus on direct line personal insurance in motor and health segments, targeting small ticket clients. The company has shredded its corporate health portfolio - amid high losses. This enabled the company to improve underwriting losses, though expense ratio is still alarmingly high. The company's liquidity profile matches the risk parameters for current size of business operations, however, going forward, should the insurance business increase, improvement in liquidity profile is essential. CSInsurance is predominantly having a holding company structure through building its non-insurance strategic book. IFS rating of the company reflects the company's liabilities towards the policyholders. The company has completed deployment of sizeable funds in Dost Steels Limited (DSL), funded through internal sources and equity injection; herein, management of associated risks will be important. Moreover, it has entered FMCG sector - CSFoods and CSLuxury. While, CSTechnologies is aimed at providing group support. To further expand its footprint in the retail business, CSInsurance injected fresh equity through way of right issue. The company reported net loss for 2018, though there is nominal profit in 1Q19. The loss was primarily attributed to the dip in business volume and the provisions created on the account of receivable.

The rating watch captures the company's consolidation process in DSL and backward merger of CSFoods into PICIC Insurance, while fulfilling regulatory and legal requirements. Audit qualification is also a consideration. Profitability and curtailed expansion in insurance business along with unfilled casual vacancies on Board is also a consideration. CSInsurance holds major stake in DSL, herein, smooth running of operations and consequent turnover build-up is critical. Generation of cash return from subsidiaries is important. Meanwhile, risk absorption capacity needs to be kept intact.

Disclosure	
Name of Rated Entity	Crescent Star Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI_FY19(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Zeeshan Munir zeeshan.munir@pacra.com +92-42-35869504



Profile

Legal Structure Crescent Star Insurance Limited (CSInsurance) is a listed company on the Pakistan Stock Exchange (PSX).

Background CSInsurance was established in 1957. Since its inception, CSI has been engaged in providing non-life general insurance services mainly in the sphere of Motor, Health, Fire, Marine, Credit & Suretyship, Travel, Livestock & Crop and Miscellaneous all across Pakistan. The company executed another right issue of PKR 250 mln at par, the proceeds have been received in Jan-18.

Operations CSInsurance head office is located in Karachi. The company operates a network of 11 branches across the country; three in Karachi, one each in Hyderabad, Multan, Rawalpindi and Sialkot, two each in Lahore and Islamabad.

Ownership

Ownership Structure CSInsurance has 80% and 20% shareholding of individuals and corporates respectively. Roomi Enterprise currently holds the largest share of 6%.

Stability Company has a diversified ownership structure with small percentage holdings of corporates and individuals.

Business Acumen Mr. Naim Anwar, the main driving force behind the company, has been in the insurance industry for more than two decades. Mr. Naim was the Executive Director at Adamjee Insurance and Deputy Managing Director at PICIC Insurance before joining CSI.

Financial Strength CSInsurance has developed a holding company structure, diversifying into other sectors of steel, FMCG, technology and luxury.

Governance

Board Structure There was a Board of eight members in Dec-17, however, composition of Board in Dec-18 and Mar-19 was just five members and six members (two subject to sound and prudent approval of SECP) respectively which includes CEO as well.

Members' Profile Mr. Naim Anwar is the Chairman of the BoD and also the CEO which is a non-compliance of Code of Corporate Governance. Members of BoD, nominated by the sponsors, comprise professionals belonging to technology, engineering, health sciences and NBFCs sectors

Board Effectiveness There are three board committees namely i) Audit, ii) Investment and iii) HR&Remuneration. In CY18, five, one and four meetings of Audit, HR&Remuneration and Investment Committee were held in which attendance was satisfactory. However, HR committee doesn't have majority non-executive directors.

Financial Transparency The external auditors of the company, M/s Grant Thornton, have qualified the opinion for CY18. Qualification pertains to i) impairment testing on investment ii) advance for issue of shares to DSL iii) interest income accrued iv) premium receivable. Management responded i) impairment testing will be done after PICIC and CSF merger ii) shareholder agreement of DSL and CSIL provided iii) solvency of CSIL is still intact without interest income iv) provision of 33% made.

Management

Organizational Structure The operations have been clearly segregated from the sales function. The structure comprises six major divisions (i) Operations – underwriting, Claims, and Reinsurance, (ii) Business Development – Sales and marketing, (iii) Finance – Accounts, Treasury, Investment, and secretarial practices, (iv) Business and Commercial Applications – Information Technology, (v) Human Resource – HR and corporate communication, and (vi) Admin – Administration and Purchase.

Management Team Key man behind the company is the CEO, Mr. Naim Anwar, who has built a sound team of professionals. Each of the division is headed by a senior resource. Top and middle tier management team is experienced. Heads of a number of departments are vacant as per the latest organogram of the company which include Head of Re-insurance; Head of IT; Head of marketing; Head of Sales and Head of HR.

Effectiveness The CEO meets all department heads in joint meeting on periodic basis, to discuss key issues and developments. There are currently four management committee namely Audit Committee; Investment Committee; Risk Management Committee and Underwriting, Claims, RE-insurance and Risk Management (UCRR) Committee. In the absence of Heads of various departments, the CEO and Resident Directors directly get involved in the decision making of the concerned departments.

MIS

Claim Management System CSInsurance has a centralized claims processing function for all segments except for motor claims. The motor claims are decentralized till the amount of PKR 10,000 and above which all claims are posted to the Head Office (HO). Upon claims intimation the surveyor prepares a report which is then scrutinized by branches first and then forwarded to HO along with supporting documents.

Investment Management Function Company has a formally documented investment policy approved by the BoD. As per the policy, the investment committee shall comprise of two non-executive directors in addition to CEO and CFO. There is an Investment Committee, both, at BoD level and Management level. The Investment objectives in priority order will be a) capital preservation; b) liquidity maintenance; and c) earning optimal risk adjusted return. Investment Policy however lacks any formal limits authorization and instead of quantifying the limits, it has been all subjected to approval of Investment Committee on case to case basis.

Risk Management Framework The company has clearly laid down approval limits for different tiers starting from the Branch Manager to the CEO. A detailed document, "Risk Management Guidelines" constitute risk environment, while laying down underwriting and reinsurance guidelines and identifying functions and responsibilities of all participants from the BoD to the support staff.

Business Risk

Industry Dynamics Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 11%). 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.

Relative Position Company is categorized as a small sized insurance company with a market shares of less than 0.15%.

Revenue Company wrote a premium of PKR 23mln in 3M19 as compared to PKR 35mln in last corresponding period. Company closed CY18 clocking in a GPW of PKR 115mln registering a growth of only 2% as compared to corresponding period last year. (CY17: PKR 113 mln).

Profitability Company recorded a loss before tax of PKR 49mln in CY18 as compared to a profit of PKR 40mln in same period last year. Although, underwriting results showed a slightly smaller extent of loss (CY18: PKR 94mln loss; CY17 PKR 99mln loss), but lack of support from investment income resulted in loss.

Investment Performance Investment income showed a sharp plunge from PKR 104 mln in CY17 to a dismal PKR 0.3 mln in CY18. The gain earned in the last period was on account of sale of equity securities held in Dost Steels Limited. Investment income stood at PKR 3mln in 1Q19.

Sustainability Going forward, primary focus is on direct line personal insurance in motor segment; small ticket risks in masses. Further, technology up-gradation taking synergic benefit from CSTechnologies – sister concern – in underwriting and claims management functions. The company is skeptical to take on any risk in insurance business and in the 1Q19 company didn't incur any reinsurance expense to spread their risk. Hence going forward, strategy is to build a low risk portfolio and to focus on equity transactions to earn and record a sizeable gain and also attain ownership control.

Financial Risk

Claim Efficiency Claims outstanding days increased to a whopping 1243 days in 3M19 as compared to 786 days in corresponding period last year. This massive increase is a result of reduced claims expense as compared to provision for outstanding claims.

Re-Insurance CSInsurance has reinsurance arrangements with XL Bermuda Ltd (Rated 'A+' by S&P), Santam Re (Rated 'AA-' by S&P) and PRCL. All treaties are XOL and the total capacity in Fire and Engineering has been reduced to PKR 150 mln in CY18 (PKR 300 mln in CY17). The treaty terms have been changed to non-proportional basis, in line with most peers.

Liquidity The liquidity position has deteriorated further in 3M19 falling to PKR 90mln as compared to PKR 94mln in 3M18. The liquidity provides 1.3 times coverage to claims liability, as the risk profile of motor segment gives rise to only small sized claims.

Capital Adequacy CSInsurance is compliant with the SECP's mandated requirement of PKR 500mln. The equity stands at PKR 933mln at 3M19.



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE
Financials [Summary]**

Crescent Star Company Insurance Limited (CSInsurance)

BALANCE SHEET	31-Mar-19	31-Dec-18	31-Dec-17
	1Q19	Annual	Annual
Investments			
Liquid Investments	90	89	94
Other Investments	784	782	765
	<u>873</u>	<u>870</u>	<u>859</u>
Insurance Related Assets	151	156	238
Other Assets	167	154	146
	<u>1,191</u>	<u>1,180</u>	<u>1,243</u>
TOTAL ASSETS			
Equity	933	927	990
Underwriting Provisions	47	48	57
Insurance Related Liabilities	62	61	110
Other Liabilities	149	143	86
	<u>1,191</u>	<u>1,180</u>	<u>1,243</u>
TOTAL EQUITY & LIABILITIES			
INCOME STATEMENT			
	31-Mar-19	31-Dec-18	31-Dec-17
Gross Premium Written (GPW)	23	115	113
Net Premium Revenue (NPR)	25	111	110
Net Claims	(5)	(17)	(37)
Net Operational Expenses	(28)	(189)	(170)
	<u>(7)</u>	<u>(95)</u>	<u>(98)</u>
UNDERWRITING RESULTS			
Investment Income	3	0	104
Other Income/ (expense)	14	45	35
	<u>9</u>	<u>(50)</u>	<u>41</u>
PROFIT BEFORE TAX			
RATIO ANALYSIS			
	31-Mar-19	31-Dec-18	31-Dec-17
Underwriting Results			
Loss Ratio	18%	16%	34%
Combined Ratio	129%	186%	189%
Performance			
Operating Ratio	-64%	-146%	-63%
Investment Yield	11%	0%	82%
Liquidity & Solvency			
Liquidity Ratio – times	1.3	1.3	1.3

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.

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+	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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
BB+	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.
BB	
BB-	
B+	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.
B	
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
CC	
C	
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.

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'.

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.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. 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, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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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