



The Pakistan Credit Rating Agency Limited

Rating Report

Crescent Star 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
29-Jan-2021	A-	-	Stable	Maintain	YES
31-Jan-2020	A-	-	Stable	Maintain	YES
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	-

Rating Rationale and Key Rating Drivers

The rating reflects Crescent Star Insurance's strategy to focus on direct line insurance in motor and miscellaneous segments. Focus remains on underwriting risk free business, though volumes remain relatively low. This has enabled the company to improve underwriting losses, though the expense ratio is still high. Crescent Star Insurance predominantly has a holding company structure through building its noninsurance strategic book. IFS rating of the company reflects the company's liabilities towards the policyholders. The company has deployed sizeable funds in Dost Steels Limited (DSL), which has been non-cash generating for quite some time. A revival plan is being unfolded which will provide leadership to the company, while ensuring requisite funding for working capital and related operations needs. Management further aims to unlock liquidity through disposing stake in it's subsidiary. This would help augment the financial profile; a positive step moving forward. The company's current liquidity profile matches the risk parameters for the size of business operations, however, going forward, should the insurance business increase, improvement in liquidity profile is essential.

Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. The volumes need to sustain, indeed, improve in tandem with the longer historical trend. The interest rate regime would impact the fixed income stream, but the equity market is improving though requiring a prudent approach.

The rating watch captures the company's consolidation process in Dost Steel Limited and backward merger of CSFoods into PICIC Insurance while fulfilling regulatory and legal requirements. Keeping the business model, the management prefers facultative arrangements. The 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	Methodology GI(Jun-20)
Related Research	Sector Study General Insurance(May-20)
Rating Analysts	Faraan Taimoor faraan.taimoor@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.

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 93% and 7% shareholding of individuals and corporates respectively.

Stability Company has a diversified ownership structure with small percentage of 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 The Board of the company comprises of eight members. Appointment of three members is subject to sound and prudent approval from the SECP.

Members' Profile Mr. Naim Anwar is the Chairman of the BoD. Other members of BoD, nominated by the sponsors, comprise professionals belonging to technology, engineering, health sciences and NBFCs sector.

Board Effectiveness There are three board committees namely i) Audit, ii) Investment and iii) HR & Remuneration. The board audit committee is headed by Mr. Shaikh Waqar Ahmed.

Transparency The external auditors of the company, M/s Ilyas Saeed & Co, have qualified the opinion for CY19. Qualification pertains to i) impairment testing on investment ii) interest income accrued iii) advance for issue of shares to DSL and iv) premium receivable. Management responded i) impairment testing will be provided ii) solvency of CSIL is still intact without interest income iii) shareholder agreement of DSL and CSIL provided iv) provision of 33% made. The management remains optimistic that the qualification will be removed in the upcoming audit report.

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.

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 CSInsurance had been using General Insurance System (iGIS) developed by Sidat Hyder which is running parallel with the new system developed internally. System generated MIS reports have been customized according to the company's specific control procedures.

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 The 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.

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 Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. As at end-Dec'20, the industry has been able to ensure sustainability in the growth despite the current pandemic. Increase in bank financing along with growth in auto sector has improved sector dynamics. Investment income has been augmented as volumes in PSX have picked up. Companies have reduced management expenses; new innovative products are being launched, in order to engage new customer base.

Relative Position The company is classified as a small company (general insurance industry) with a market share of less than 1%.

Revenue The company underwrote a premium of PKR 77mln in 9MCY20 as compared to PKR 74mln, depicting stable topline despite COVID-19. The management has adopted a prudent approach of underwriting business instead of writing premium based on the high risk factor. The top-line was dominated by Miscellaneous Segment with a whopping (73%). The motor business segment, traditionally the forte of the company, comprised 22% of the total GPW. The miscellaneous segment is dominated by Credit and Suretyship.

Profitability Underwriting income remained steady, clocking in at PKR 17mln (9MCY19: PKR 20mln). Profit before tax i.e. PKR 54mln (9MCY19: PKR 36mln) was supplemented by Interest Income pertaining to the advance of shares issues to Dost Steel Limited.

Investment Performance Investment income PKR 2mln (9MCY19: PKR 3.6mln) relates to dividend received.

Sustainability Going forward, the primary focus is on direct line personal insurance in motor segment; small ticket risks in masses. Going forward, Crescent Star Insurance intends to build a low risk portfolio focusing on equity transactions to earn and record a sizeable gain.

Financial Risk

Claim Efficiency Claims outstanding days stood at 4037 as company recorded high IBNR against the claims expenses

Re-Insurance CSInsurance has facultative reinsurance arrangements with XL Bermuda Ltd (Rated 'A+' by S&P) and Santam Re (Rated 'AA-' by S&P).

Liquidity The liquidity position has improved in 9MCY20 increasing to PKR 98mln as compared to PKR 95mln in 9MCY19 on account of increased cash reserves. The liquidity provides 1.5 times coverage to claims liability, as the risk profile of motor segment gives rise to only small sized claims.

Capital Adequacy CSInsurance is well positioned with the SECP's mandated requirement of PKR 500mln. The equity stands at just above PKR 1bln at 9MCY20.



The Pakistan Credit Rating Agency Limited

Crescent Star Insurance (Pvt.) Limited (CSInsurance)

	PKR mln 30-Sep-20	PKR mln 31-Dec-19	PKR mln 31-Dec-18	PKR mln 31-Dec-17
	9M	Annual	Annual	Annual
BALANCE SHEET				
Investments				
Liquid Investments	98	91	89	94
Other Investments	786	784	782	765
	884	875	870	859
Insurance Related Assets	186	171	156	238
Other Assets	238	209	154	146
TOTAL ASSETS	1,309	1,254	1,180	1,243
Equity	1,017	974	927	990
Underwriting Provisions	45	53	48	57
Insurance Related Liabilities	60	61	61	110
Other Liabilities	186	166	143	86
TOTAL EQUITY & LIABILITIES	1,309	1,254	1,180	1,243
INCOME STATEMENT				
Gross Premium Written (C	77	116	115	113
Net Premium Revenue (NPR)	86	111	111	110
Net Claims	(4)	(14)	(17)	(37)
Net Operational Expenses	(64)	(99)	(189)	(170)
UNDERWRITING RESULTS - Adjusted	18	(2)	(95)	(98)
Investment Income	2	4	0	104
Other Income/ (expense)	37	63	45	35
PROFIT BEFORE TAX	57	65	(50)	41
RATIO ANALYSIS				
Underwriting Results				
Loss Ratio	5%	13%	16%	34%
Combined Ratio	79%	102%	186%	189%
Performance				
Operating Ratio	-35%	-43%	-146%	-63%
Investment Yield	4%	4%	0%	82%
Liquidity & Solvency				
Liquidity Ratio – times	1.5	1.3	1.3	1.3

Insurer Financial Strength (IFS) Rating

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+ 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-	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.
B+ B 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.
CCC CC C	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.
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 some material identifiable event with indeterminable rating implications. 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 rating 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. 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, 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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent