



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-2019	A+	-	Stable	Maintain	-
26-Dec-2018	A+	-	Stable	Maintain	-
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 diluted, owing to change in the business strategy: to reduce dependence on the single premium and shift towards the regular premium. The reduced GPW coupled with high expenses related to the launch of 'Vitality' and IT infrastructure has led to a falling bottom-line. Going forward, IGI Life aims to improve penetration in the market, on the back of expansion in branch network and gradually building up portfolio through 'Vitality'. The company's association with Packages Group engenders sound governance framework remains 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, improved equity and liquidity profile are crucial to cushion the policyholder's liabilities. The performance of company's new product 'Vitality' remains essential.

#### Disclosure

<b>Name of Rated Entity</b>	IGI Life Insurance Company
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   Life Insurance(Jun-18)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-19)
<b>Rating Analysts</b>	Faraan Taimoor   faraan.taimoor@pacra.com   +92-42-35869504



## Profile

**Legal Structure** IGI Life Insurance Limited (IGI Life), a quoted public company, is listed on Pakistan Stock Exchange.

**Background** The company commenced its operation in 1995. It is owned by the Packages Group.

**Operations** With its head office in Karachi, the company operates through three business Hubs – South, Central and North – with a total of 24 branches boasting a vast network of agents in excess of 700.

## Ownership

**Ownership Structure** IGI Life is majority owned by IGI Holdings Limited (formerly; IGI Insurance Limited). IGI Life Insurance Limited marked the entry of IGI Financial Services (part of Packages Group) into the Life Insurance arena through acquisition of controlling shares in American Life Insurance Company (Pakistan) Limited in April 2014.

**Stability** There has been no change in shareholding this year.

**Business Acumen** The Packages Group is ranked amongst the renowned industrial groups of the country, having diversified interests in packaging, dairy, pharmaceutical, and financial sectors.

**Financial Strength** Packages Limited, listed on Pakistan Stock Exchange, has strong presence in different dimensions of the packaging business, and is the group's flagship company for non-financial business with long-term entity rating of "AA" by PACRA.

## Governance

**Board Structure** The overall control of the company vests in seven member board of directors.

**Members' Profile** CEO is the only executive director while there are three independent board members. Remaining are non-executive directors including the chairman. In 2018, two new directors namely ; Hasan Askari and Naz Khan replaced Nadeem Malik and Ehsan Malik respectively.

**Board Effectiveness** There are six sub-committees of the board namely; (i) Audit, (ii) Claims, (iii) Underwriting & Reinsurance, (iv) Investment (v) Human Resource & Remuneration and (vi) Risk Management & Compliance.

**Financial Transparency** The auditors of the company A.F. Fergusons & Co. Chartered Accountants issued an unqualified audit report pertaining to annual financial statements for CY18.

## Management

**Organizational Structure** The management team of the company comprises qualified and experienced professionals. The organisational structure is well laid down.

**Management Team** 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).

**Effectiveness** 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.

**Claim Management System** IGI Life has a detailed claims settlement guideline in place with core objective of removing the gaps with effective controls. Once the claims department receives policyholders' request the policy review is carried out, if the claim is legitimate, a case is prepared and sent to head of claims or claims committee for approval.

**Investment Management Function** IGI Life has a formal investment policy document approved by BoD and reviewed annually. Management investment committee (MIC) chaired by deputy CEO has the authority for implementation and monitoring and propose changes in investment strategy and policy.

**Risk Management Framework** The company has developed a detailed underwriting manual and field underwriting guidelines are issued to the branches and agents and are updated from time to time. A risk register maintained by the company. The register captures all the risks that are currently impacting the company or may have an impact in the future. It highlights the severity of the risk and controls in place for prevention along with department or individuals that are responsible for its mitigation.

## Business Risk

**Industry Dynamics** Life insurance sector has seen remarkable growth in recent years (CAGR 4years: 16%), 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.

**Relative Position** IGI Life is classified as mid-sized company with a market share of 3%.

**Persistency** Gross premium (CY18: PKR 4,794mln, CY17: PKR 5,617mln) witnessed a dip of 15% largely on the back of single premium. This enabled the company to improve its persistency level to 77% (CY17: 77%).

**Revenue** The single premium declined by a whopping 60% as the company has focused its strategy to regular premium plans and banca. The single premium now comprises 40% of the total premium in CY18 as against 48% in the corresponding period. The gap created due to the decline in single premium policy is being managed through the shift in policy, expansion in branch network and the launch of new products such as Vitality.

**Profitability** Coupled with reduced gross premiums and the investment income, alongwith increased claims by surrender, IGI Life posted a Loss before Tax of PKR 134 mln as against profit of PKR 226mln in CY17.

**Investment Performance** The investment income reduced to PKR 993mln (CY17: 1,112mln).

**Sustainability** Going forward, the company envisages high growth targets with focus on profitability. It aims to reduce dependency on single premium and shift towards regular premium. The launch of its new product 'Vitality' will enable it to make inroads as the company aims to market the product extensively. 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

**Claim Efficiency** The claims outstanding days reduced to 18 days(CY17: 21 days) reflecting robust claim efficiency.

**Re-Insurance** IGI Life is strengthened by its Reinsurance arrangements with Hannover Re (AA- by S&P) and Munich Re (AA- by S&P). Catastrophic arrangements provide the company with cushion to absorb unforeseen risks. Treaties include retention limits segregated between quota share, surplus and XOL.

**Liquidity** The liquidity ratio is ~1.0x, providing good risk absorption capacity. The total liquid assets parked with the company stand at PKR 16,450mln.

**Capital Adequacy** IGI Life is compliant with SECP's mandated required capital of PKR 700mln. It has an equity base of PKR 1,353mln.



## LIFE INSURANCE Financials [Summary]

### IGI Life Insurance Limited (IGILife)

	PKR mln	PKR mln	PKR mln
	31-Dec-18	31-Dec-17	31-Dec-16
<b>BALANCE SHEET</b>			
<b>Investments</b>			
Liquid Investments	16,450	18,518	18,283
Other Investments	181	168	154
	<u>16,631</u>	<u>18,686</u>	<u>18,437</u>
Insurance Related Assets	668	535	561
Other Assets	1,351	807	549
<b>TOTAL ASSETS</b>	<u><b>18,650</b></u>	<u><b>20,028</b></u>	<u><b>19,547</b></u>
Equity	1,353	1,544	1,604
Statutory Fund	16,491	17,741	17,102
Insurance Related Liabilities	351	255	347
Other Liabilities	455	488	494
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<u><b>18,650</b></u>	<u><b>20,028</b></u>	<u><b>19,547</b></u>
<b>INCOME STATEMENT - Extracts</b>			
<b>Net Premium</b>			
Gross Premium	4,794	5,617	7,584
Reinsurance Expense	(137)	(129)	(125)
Net Premium	<u>4,657</u>	<u>5,488</u>	<u>7,459</u>
Net Claims	(5,123)	(4,319)	(3,187)
Expenses	(1,425)	(1,251)	(1,180)
Investment Income	993	1,112	2,312
<b>Excess of Income over Expenditure (EoI)</b>	<u><b>(898)</b></u>	<u><b>1,032</b></u>	<u><b>5,404</b></u>
Miscellaneous (Expense)/ Income	96	115	141
Reserve for Policyholders' Liabilities	668	(920)	(5,323)
<b>Surplus before tax</b>	<u><b>(134)</b></u>	<u><b>226</b></u>	<u><b>222</b></u>
<b>RATIO ANALYSIS</b>			
<b>Underwriting Results</b>			
Gross Premium Written (GPW) Growth Rate	-15%	-26%	91%
Persistency Ratio (Individuals Funds)	77%	45%	64%
Loss Ratio (Net Claims as %age of net premium)	110%	79%	43%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times	1.0	1.0	1.1
Claims Outstanding Days (Provision for Outstanding Claims/Claims Expense * 365) - days	18.1	20.6	27.3



## 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
<b>AAA</b>	<b>Exceptionally Strong.</b> 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.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> 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
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> 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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> 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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> 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> <b>B</b> <b>B-</b>	<b>Weak.</b> 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>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> 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>D</b>	<b>Distressed</b> 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)	Rating Watch	Suspension	Withdrawn
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'.	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.	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.	A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

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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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- (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)
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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)

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- (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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