



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-Dec-2019	A+	-	Stable	Maintain	-
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 been stagnant, owing to change in the business strategy: to reduce dependence on the single premium and shift towards the regular premium. The high expenses related to the launch of 'Vitality' and updated IT infrastructure has led to a falling bottom-line. The company has beefed up its equity through the issue of right shares. 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, the improved equity and liquidity profile should be sustained to cushion the policyholder's liabilities. The performance of 'Vitality' remains essential.

Disclosure

Name of Rated Entity	IGI Life Insurance Company
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_LI(Jun-19)
Related Research	Sector Study Life Insurance(Jun-19)
Rating Analysts	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.

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 and review for 1H19. The company along with other industry participant have filled a constitutional petition against the sales tax issue.

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 – Head of Business and Operations, Chief Financial Officer (CFO), Chief Operations Officer (COO) and Group Chief Investment Officer (GCIO). In August, Abdul Haseeb Kasbati was appointed as the new CFO whereas Mr. Tahir Masaud has been appointed as the Head of Business and Operations recently.

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 The company recorded a second year persistency of 67% (CY18: 77%) while the subsequent year persistency was observed at 84%(CY18: 80%). The company aims to further improve the persistence ratio with improved products and customer services.

Revenue Gross premium (9M19: PKR 3,591mln, 9M18: PKR 3,706mln) declined by 3%. The company has focused its strategy towards regular premium while it expects to reap benefits from Vitality product.

Profitability IGI Life posted a deficit before tax of PKR 248mln (CY18: Surplus PKR 52mln) as the loss ratio stood 103% and the combined ratio at 142%. The high loss ratio was mainly on the account of high surrenders in investment linked units as their popularity diminished due to reduced market gains and the company's shift from single to regular premium products.

Investment Performance The company reaped benefits from high investment income of PKR 1,150mln (CY18: PKR 791mln)

Sustainability IGI Life posted a Loss AfterTax of PKR 176mln as at Sep-19. 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 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 were recorded at 30 days (CY18: 18 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 16,755mln.

Capital Adequacy IGI Life is compliant with SECP's mandated required capital of PKR 700mln. It has an equity base of PKR 2,193mln. The company issued rights shares amounting to PKR 1bn enabling it to enhance its equity levels.



LIFE INSURANCE Financials [Summary]

IGI Life Insurance Limited (IGILife)

	PKR mln 30-Sep-19	PKR mln 31-Dec-18	PKR mln 31-Dec-17	PKR mln 31-Dec-16
BALANCE SHEET				
Investments				
Liquid Investments	16,755	16,450	18,518	18,283
Other Investments	179	181	168	154
	<u>16,933</u>	<u>16,631</u>	<u>18,686</u>	<u>18,437</u>
Insurance Related Assets	846	668	535	561
Other Assets	1,721	1,351	807	549
TOTAL ASSETS	<u>19,500</u>	<u>18,650</u>	<u>20,028</u>	<u>19,547</u>
Equity	2,193	1,353	1,544	1,604
Statutory Fund	16,298	16,491	17,741	17,102
Insurance Related Liabilities	432	351	255	347
Other Liabilities	577	455	488	494
TOTAL EQUITY & LIABILITIES	<u>19,500</u>	<u>18,650</u>	<u>20,028</u>	<u>19,547</u>
INCOME STATEMENT - Extracts				
Net Premium				
Gross Premium	3,591	4,794	5,617	7,584
Reinsurance Expense	(112)	(137)	(129)	(125)
Net Premium	<u>3,479</u>	<u>4,657</u>	<u>5,488</u>	<u>7,459</u>
Net Claims	(3,586)	(5,123)	(4,319)	(3,187)
Expenses	(1,379)	(1,425)	(1,251)	(1,180)
Investment Income	1,150	993	1,112	2,312
Excess of Income over Expenditure (EoI)	<u>(336)</u>	<u>(898)</u>	<u>1,032</u>	<u>5,404</u>
Miscellaneous (Expense)/ Income	1	96	115	141
Reserve for Policyholders' Liabilities	87	668	(920)	(5,323)
Surplus before tax	<u>(248)</u>	<u>(134)</u>	<u>226</u>	<u>222</u>
RATIO ANALYSIS				
Underwriting Results				
Gross Premium Written (GPW) Growth Rate	-3%	-15%	-26%	91%
Presidency Ratio (Individuals Funds)	67%	77%	45%	64%
Loss Ratio (Net Claims as % age of net premium)	103%	110%	79%	43%
Liquidity & Solvency				
Liquidity Ratio – times	1.0	1.0	1.0	1.1
Claims Outstanding Days (Provision for Outstanding Claims/Claims Expense * 365) - days	29.9	18.1	20.6	27.3

IGI Life Insurance Limited (IGILife)

December 2019

www.pacra.com

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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