



The Pakistan Credit Rating Agency Limited

## Rating Report

### IGI General Insurance Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Aug-2019	AA	-	Stable	Maintain	-
27-Feb-2019	AA	-	Stable	Maintain	-
18-Dec-2018	AA	-	Stable	Maintain	-
29-Jun-2018	AA	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The rating of IGI General Insurance Limited draws comfort from the growing business volume under the stewardship of an able team. The composition of the book is well balanced with almost equal proportion emanating from the direct business. In this, the business relationships of the group also play a pivotal role, whereby a number of multi-national companies obtain insurance coverage from IGI. Largest growth has been seen in the Motor segment. Improvement in the IT infrastructure is helping the company in bringing efficiency - notably in claims management. Underwriting profits improved with contributions from both premiums side as well as claims. Post de-merger, the parent company, IGI Holdings Limited has injected a sizeable capital into the company. This is preserved mostly as in the form of liquid investments. The Hold Co has an express mandate to proactively support the company in times of need. The top group resources provide strategic direction and oversight. The assigned rating also takes into account its association with Packages Group and comfort is drawn from its sound governance practices of the group.

The rating remains dependent on the management's ability to strengthen its market position in a competitive landscape while ensuring underwriting profitability. The liquid investment book need to be preserved and indeed improved in line with the growing business volumes.

#### Disclosure

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



## Profile

**Legal Structure** IGI General Insurance Limited (“IGI General”) is a public limited company incorporated on November 18, 2016 under the Companies Act 2017 and engaged in the general insurance business. IGI General is a wholly owned subsidiary of IGI Holdings Limited and is part of Packages Group.

**Background** Packages Group, under the umbrella of “IGI Financial Services” established foothold in the financial sector (i) IGI Insurance, (ii) IGI Life, (iii) IGI Investment Bank Limited, and (iv) IGI Securities Limited. The group initiated corporate restructuring, envisioned to create a Holding Company (HoldCo), thereby separating strategic investment from its insurance business. This would benefit in creating value in excess of its parts. The company filed a petition for sanctioning of the Scheme of Amalgamation under Sections 284 to 288 of the now repealed Companies Ordinance, 1984 in the High Court of Sindh for approval of merger (effective 31-Dec-16) and then de-merger (effective 31-Jan-17).

**Operations** IGI General Insurance is headquartered in Karachi. It has offices in 9 cities nationwide including all major cities including Karachi, Lahore, and Peshawar etc. to provide prompt services to the customers. Company has 4,000 corporate and 19,000 individual customers.

## Ownership

**Ownership Structure** IGI Holdings holds ~100% stake in the company.

**Stability** Following the restructuring of the company, the company is on its way to finding strong footings and leading a vision of being a market forerunner in the insurance business.

**Business Acumen** The board, chaired by a retired civil servant – Shamim Ahmad Khan, comprises professionals with a diverse portfolio of experiences, and possesses a strong ability to provide strategic guidance to the management.

**Financial Strength** Packages Group has expanded its footings into diversified business avenues with sizable portfolios of strategic investments in packaging, financial services, construction, chemical and power depicting a very strong financial strength of the group.

## Governance

**Board Structure** Board comprises six members having diversified experience and expertise. Board comprises two executive (including CEO) and four non-executive directors.

**Members’ Profile** Board is headed by Mr. Shamim Ahmad Khan who is associated with the Company as a Non-executive Director. He has served various government organizations in different capacities namely Securities and Exchange Commission of Pakistan (SECP) and Ministry of Commerce (MoC). He has also been engaged with consultancy assignments for Asian Development Bank and other organizations. Other board members are also renowned professionals having wide and varied professional working experience spanning over many years.

**Board Effectiveness** The presence of strong strategic parent group on board, Packages Group, enhances the governance framework of the company. The incumbent members bring in requisite challenge and fresh vision for the company especially after the restructuring of the company.

**Financial Transparency** A.F. Ferguson & Co. Chartered Accountants issued an unqualified audit report pertaining to financial statements for CY18.

## Management

**Organizational Structure** The company has a comprehensive organizational structure with clearly demarcated reporting lines, ensuring segregation of duties. The overall functions of the company are divided into five departments: (i) Underwriting, Reinsurance & Risk Management, (ii) Claims, (iii) Marketing & Sales, (iv) Finance, and (v) Group Shared Services (GSS).

**Management Team** Management Team is headed by Mr. Tahir Masaud (CEO) of IGI Holdings Limited as well as IGI General Insurance Limited. Mr. Masaud brings with him over 20 years of rich and varied experience gained in senior leadership positions within the general insurance sector in Pakistan and United Kingdom. There are separate individuals heading the Underwriting, Claims, Finance and Sales department.

**Effectiveness** The board’s investment committee (IC) sets the guidelines and policies for the company. The performance is evaluated by IC every quarter, while proposal for investments by AIL’s management are considered in bi-monthly.

**MIS** Company has a sound and effective MIS system which is fully integrated to incorporate all needs of an insurance company. All steps starting from lead generation, sales, underwriting and claim handling and settlement are taken care of in the MIS. All employees have their dashboards where they can view their relevant tasks.

**Claim Management System** With the implementation of AEGIS, company has brought noticeable efficiency in claims Turnaround Time (TAT). . The claims department processes all claims of the company.

**Investment Management Function** The board’s investment committee (IC) sets the guidelines and policies for the company. The performance is evaluated by IC every quarter, while proposal for investments by the management are considered regularly.

**Risk Management Framework** IGI, focuses on growth through risk based pricing, and has devised a well-structured risk management program. The company implements comprehensive measures prior to issuance of a policy, including obtaining reasonable knowledge of assets being insured, physical inspection, and assessment of vulnerability to loss, advising the insured on specific actions to minimize the potential risk of loss, and evaluating involvement of any moral hazard on part of the insured.

## Business Risk

**Industry Dynamics** Pakistan’s general insurance witnessed continuous growth (CAGR 4 years 11%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

**Relative Position** IGI General Insurance is a medium sized company with 4% market share at CY18 and is ranked 5th in the industry wide position based on GPW. However, the market share increased to 5% in 1Q19.

**Revenue** GPW witnessed an impressive size and closed at of PKR 4.6 bln in CY18, (CY17: PKR 2.9bln). The 1Q19 closed at PKR 1.4bln for conventional and PKR 178mln for the takaful operations.

**Profitability** Underwriting results for the CY18 stood at PKR 244 mln as compared to PKR 209 mln in CY17. In the 1Q19 the underwriting profit fell from PKR 141 mln to PKR 108 mln due to increased net claims expense from PKR 241mln to PKR 311 mln.

**Investment Performance** Investment income rose by 88% in the 1Q19 to reach PKR 83 million as compared to PKR 45 million in the corresponding period last year on back of increasing interest rates.

**Sustainability** Net loss has improved from 51% (CY18) to 46% (1Q19). Combined ratio also saw an improvement from 90% to 84% in the first 3 months of CY19. Expense Ratio also saw an improvement from 39% to 37% in 1Q19.

## Financial Risk

**Claim Efficiency** The claim outstanding days are high (1Q19: 295 days). Premium outstanding days stood at 42 days, remained comparable with peers.

**Re-Insurance** IGI’s panel includes Hannover Re (rated AA- by S&P), LLOYD Syndicate (rated A+ by S&P), Scor Re (rated A+ by S&P), Korean Re (rated A by AM Best), Labuan Re (rated A- by AM Best) and Pak Re. IGI continues to enjoy proportional treaty arrangements and XoL treaties.

**Liquidity** Sizeable investment Book (1Q19: PKR 3.6bln represents 1.5 times of its equity base; deployed in cash and bank (PKR 1.2bln), govt. securities (PKR 2.2bln) and investment properties (PKR 167mln).

**Capital Adequacy** IGI is compliant with the SECP’s mandated requirement of PKR 500mln. The equity stands over PKR 2.3bln.



**IGI General Insurance Limited (IGI)**

<b>BALANCE SHEET</b>	<b>31-Mar-19</b>	<b>30-Dec-18</b>	<b>31-Dec-17</b>
<b>Investments</b>			
Liquid Investments	3,452	3,042	2,789
Investment in Associates	-	-	-
Other Investments	167	170	179
	<b>3,618</b>	<b>3,212</b>	<b>2,968</b>
Insurance Related Assets	2,039	1,955	1,426
Other Assets	1,692	1,549	1,286
Assets - Window Takaful	166	142	64
<b>TOTAL ASSETS</b>	<b>7,516</b>	<b>6,858</b>	<b>5,745</b>
Equity	2,390	2,250	2,091
Underwriting Provisions	1,922	1,644	1,287
Insurance Related Liabilities	2,285	2,018	1,574
Other Liabilities	739	780	711
Borrowings	96	95	65
Liabilities - Window Takaful	84	71	17
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>7,516</b>	<b>6,858</b>	<b>5,745</b>

<b>INCOME STATEMENT - Extracts*</b>	<b>31-Mar-19</b>	<b>30-Dec-18</b>	<b>31-Dec-17</b>
<b>Gross Premium Written (GPW)</b>	<b>1,569</b>	<b>4,608</b>	<b>2,902</b>
Net Premium Revenue (NPR)	668	2,332	1,645
Net Claims	(311)	(1,219)	(933)
Net Operational Expenses	(238)	(914)	(552)
<b>UNDERWRITING INCOME / (LOSS) - Adjusted</b>	<b>118</b>	<b>200</b>	<b>160</b>
Total Investing Income	86	172	86
<b>PROFIT BEFORE TAX</b>	<b>207</b>	<b>474</b>	<b>251</b>

<b>RATIO ANALYSIS</b>	<b>31-Mar-19</b>	<b>30-Dec-18</b>	<b>31-Dec-17</b>
<b>Underwriting Results</b>			
Loss Ratio	46%	51%	57%
Combined Ratio	84%	90%	90%
<b>Performance</b>			
Operating Ratio	70%	79%	85%
Investment Income Ratio	13%	7%	5%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times	2.6	2.2	2.2

## 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	<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.
AA+ AA AA-	<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.
A+ A A-	<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.
BBB+ BBB BBB-	<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.
BB+ BB BB-	<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+ B 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.
CCC CC C	<b>Very high credit risk.</b> 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	<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.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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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**

- (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)

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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)

### **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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