



The Pakistan Credit Rating Agency Limited

Rating Report

Askari General Insurance Company Limited

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|-----------|--------------|
| 14-Feb-2023 | AA+ (ifs) | - | Stable | Maintain | - |
| 31-Mar-2022 | AA+ (ifs) | - | Stable | Harmonize | - |
| 14-Feb-2022 | AA | - | Stable | Maintain | - |
| 16-Feb-2021 | AA | - | Stable | Maintain | - |
| 28-Feb-2020 | AA | - | Stable | Maintain | - |
| 28-Aug-2019 | AA | - | Stable | Maintain | - |
| 27-Feb-2019 | AA | - | Stable | Maintain | - |
| 30-Nov-2018 | AA | - | Stable | Upgrade | - |
| 29-Jun-2018 | AA- | - | Stable | Maintain | - |
| 29-Sep-2017 | AA- | - | Stable | Maintain | - |
| 17-Mar-2017 | AA- | - | Stable | Upgrade | - |

Rating Rationale and Key Rating Drivers

Askari General Insurance Company Limited has a solid risk profile. This is reflected in the assigned rating of the Company. Askari General has exhibited sustained business volumes and underwriting performance in recent times through its underwriting strategy, with a focus to augment the bottom-line profitability. During 9MCY22, Company earned GPW of PKR 3,127mln (incl takaful) owing 14.2% growth on YoY basis (9MCY21: PKR 2,738mln). Fire and Property segment reported a growth 30.1% followed by marine & aviation (28.9%), motor (14.2%), miscellaneous (9.2%), and health (4.3%). The management efforts for sustaining the overall quality of the control environment are supported by the real-time operating software. This provides tools for holistic oversight and efficient decision-making. A subsidiary, AskTech, a venture focused on vehicle tracking solutions, has been set up to yield technological synergies; this is expected to create diversification by enhancing customer experience. The Company's fully functional android and IOS-based mobile app - Ask Health enhanced communication and coordination, facilitated through a 24/7 immaculate call center and brought a reduction in Turn Around Time (TAT) in claims processing; therefore attracting a customer base. The sustained liquidity profile provides a cushion to the risk absorption capacity. Askari Insurance continues to have a sound panel of reinsurers with favorable treaty terms. Going forward, it intends to fortify its position in non-conventional segments, while using alternative distribution channels. The rating, likewise, takes into account Askari General's association with Army Welfare Trust (AWT).

During CY22, the economy faced multiple challenges i.e. natural disasters (Floods), the political instability trickles down toward a dip in business activities. Reduction in management expenditure and product innovation shall remain crucial for the industry participants in order to solidify their market position.

The rating is dependent upon the Company's ability to sustain its market share and its profitability from the core business and investment income. At the same time, the proportional improvement must be recorded in its liquidity.

Disclosure

| | |
|------------------------------|---|
| Name of Rated Entity | Askari General Insurance Company Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | IFS Rating |
| Applicable Criteria | Methodology General Insurance Rating(Mar-22),Methodology Rating Modifiers(Jun-22) |
| Related Research | Sector Study General Insurance(May-22) |
| Rating Analysts | Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504 |



Profile

Legal Structure Askari General Insurance Company Limited (" Askari General" or "the Company") was incorporated under the Companies Ordinance, 1984 (Repealed with the enactment of the Companies Act, 2017) as a Public Limited Company in Apr 1995. It was listed on Pakistan Stock Exchange.

Background The Company commenced commercial operations in Oct 1995 under the leadership of Army Welfare Trust (AWT). AWT was set up in 1971 by the Pakistan Army with the mandate of promoting the welfare of retired personnel of the Pakistan Army and their families. The Company was granted license to work as Window Takaful Operator (WTO) in Aug 2015 by the Securities and Exchange Commission of Pakistan (SECP) under Takaful Rules, 2012.

Operations The Company is engaged in non-life insurance business comprising fire, marine, motor, health, and miscellaneous. The registered office & principal place of business of the Company is located at AWT Plaza, Rawalpindi. The Company has 20 branches in Pakistan.

Ownership

Ownership Structure Askari General is a (59.3%) subsidiary of the Army Welfare Trust.

Stability AWT is exclusively devoted to the welfare of ex-servicemen of the Pakistan Armed Forces and their dependents. Going forward, the ownership structure is expected to remain the same.

Business Acumen AWT has evolved into a large business group and is currently engaged in sugar processing, textile, real estate development, commercial banking, leasing, insurance, cement, and travel services.

Financial Strength The financial strength of the group is deemed to be strong, with support being derived from its successful business ventures in multiple sectors.

Governance

Board Structure The overall control of the Company vests in the 8-member board (excluding the CEO). The board includes retired army officials, senior executives of AWT, and three independent members. The board is assisted by six committees.

Members' Profile The Chairman of the board, Lt. Gen Naveed Mukhtar (Retd) holds two master's degrees and has 4 decades of an illustrious military career.

Board Effectiveness The presence of board members in the board committees reflects the board's intention to closely monitor the company's operations, limiting the oversight function of the board.

Transparency M/s A. F. Ferguson & Co. expressed an unqualified audit opinion on financial statements for the period ended Dec'21. It is pertinent to mention that the Company has appointed M/s Yousaf Adil & Co as External Auditors for CY22.

Management

Organizational Structure Askari General has a well-designed organizational structure segregated among various functions to handle the Company's operations.

Management Team Mr. Abdul Waheed is the Chief Executive Officer (CEO) of Company with a demonstrated history of working in the insurance industry. He is accompanied with a team of professionals.

Effectiveness The CEO meets HoDs in a joint meeting every Monday, to discuss key issues and developments. This ensures smooth implementation of Company's strategies while enhancing the overall control environment. Moreover, the Company has a Disciplinary Committee – led by the CEO – comprising HR head, the CFO and the Head of administration.

MIS Cognizant of the importance of up-to-date information for timely business decisions and in line with the industry trend, the Company deploys real-time web-based.

Claim Management System Owing to the specialized nature of the claims in the health segment, the department has been separated from non-health claims and makes use of professionals from the health sector including medical practitioners. Claims settlement is completely centralized and handled at HO level. All intimated claims are routed through 'Claims Service Centre.

Investment Management Function Function Askari General maintains a formal Investment Policy Statement (IPS), formulated in March 2009 under the BoD guidelines, which was last updated in CY18. In line with the inherently risky nature of the equity market, The Company's IPS has capped the investment in shares and equity-based mutual funds at 10% of the total investments.

Risk Management Framework The treaty capacities are optimal with surplus arrangements, which are adequate. The Company has diversified its panel of reinsurers, boding well for its financial risk.

Business Risk

Industry Dynamics In terms of Gross Premium Written (GPW), Pakistan's general insurance industry have a total size of PKR ~114bln for 9MCY22 (9MCY21: PKR~89bln), registering a growth of ~28% YoY basis. The insurance penetration and density remained very modest as compared to other jurisdictions while the insurance sector still remains underdeveloped relative to its potential. Investment income has deteriorated to PKR ~8bln for 9MCY22 (9MCY21: PKR 9.45bln), despite hike in policy rate, insurance companies had to bear losses in equity securities. Overall industry has earned profit after tax of PKR 7.45bln for 9MCY22 (9MCY21: PKR 9.9bln), owing to higher claims, lower investment income and imposition of super tax. Some major industry claims have resulted in an increase in claims ratio, recent flood will further impact profitability of insurance companies in last quarter of CY22.

Relative Position Askari General is classified as a medium-sized player in the general insurance industry, possessing a market share of 2.8% as of Sep'22.

Revenue During CY21, the Company's GPW grew by 20.4% to PKR 4,009mln as compared to PKR 3,331mln in CY20. This is majorly owing to considerable growth in Health segment, which contributes 29.6% of total GPW. Whereas the contribution of Motor segment stood at (26.9%), followed by Miscellaneous (22.7%), Fire & Property Damage (14.7%) and Marine, Aviation & Transport (6.1%). During 9MCY22, Askari General posted a growth of 14.2% YoY in GPW to PKR 3,127mln (9MCY21: PKR 2,738mln). The increase in GPW was witnessed across all segments associated with the rising inflationary pressure; predominantly in Motor segment.

Profitability During CY21, underwriting profit witnessed a decrease of 15.0% to PKR 232mln as compared to PKR 273mln in CY20. The Company reported an aggregated reinsurance expense of PKR 1,354mln in CY21 (CY20: PKR 1,112mln). Claims incurred during CY21 stood at PKR 1,500mln CY20: PKR 1,241mln, showing an increase of 20.9%. Hence, Company reported a PAT of PKR 381mln (CY20: PKR 408mln). However, during 9MCY22 the Company's bottom line grew by 5.5% to PKR 308mln as compared to same period last year.

Investment Performance During CY21, investment income of the Company slightly dropped to PKR 257mln as compared to PKR 271mln in CY20, owing to a fluctuation in policy rates. However, during 9MCY22 Company has shown an increase of 24% due to the higher rate of return on deposits & Govt. securities. The Company earned an investment income of PKR 266mln for 9MCY22 (9MCY21: PKR 214mln), induced by return on government securities.

Sustainability Going forward, the Company aims to acquire untapped markets both in captive and non-captive businesses for sustainability of the business. The Company further aims to generate in miscellaneous and fire segments.

Financial Risk

Claim Efficiency Company's contributions due but unpaid reported at PKR 1,036mln as at end-Sep22 (CY21: 1,311mln). Hence, the average premium outstanding days remained at 103 as at end-Sep22 (CY21: 108 days). Whereas the average claims outstanding days stood at 145 (CY21: 150 days).

Re-Insurance The reinsurers panel includes Scor Re (rated `A`), Trust Int'l (rated `A`), Malaysian Re (rated `A`), Korean Re (rated `A`), Swiss Re (rated `AA-`), Hannover Re (AA-), AON, Al Futtaim Wills, Mib, Nasco France, Al Wasl, J.B.Boda and PRCL (rated locally AA).

Cashflows & Coverages The Company manages liquidity prudently to ensure its ability to meet contractual obligations more efficiently, using cash flow generated by its core business as well as investment and other income. Askari General has a sizeable investment book of PKR 3,630mln as at end-Sep22 (CY21: PKR 3,556mln), majorly deployed in liquid avenues.

Capital Adequacy Equity of the Company stood at PKR 2,448mln as at end-Sep22 (CY21: PKR 2,368mln). The Company has paid-up capital of PKR 719mln while meeting the SECP minimum capital requirement.



Askari General Insurance Company Limited
Listed Public Limited

Sep-22 Dec-21 Sep-21 Dec-20
9M 12M 9M 12M

A BALANCE SHEET

| | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|
| 1 Investments | 3,630 | 3,556 | 3,326 | 3,345 |
| 2 Insurance Related Assets | 2,394 | 2,441 | 2,120 | 2,195 |
| 3 Other Assets | 506 | 473 | 436 | 456 |
| 4 Fixed Assets | 408 | 406 | 411 | 385 |
| 5 Window Takaful Operations | - | - | - | - |
| Total Assets | 6,937 | 6,876 | 6,293 | 6,381 |
| 1 Underwriting Provisions | 1,854 | 2,008 | 1,677 | 1,773 |
| 2 Insurance Related Liabilities | 2,013 | 1,894 | 1,768 | 1,817 |
| 3 Other Liabilities | 406 | 393 | 346 | 363 |
| 4 Borrowings | 215 | 213 | 216 | 209 |
| 5 Window Takaful Operations | - | - | - | - |
| Total Liabilities | 4,488 | 4,508 | 4,007 | 4,163 |
| Equity/Fund | 2,448 | 2,368 | 2,286 | 2,219 |

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

| | | | | |
|--|------------|------------|------------|------------|
| 1 Gross Premium Written/Gross Contribution Written | 3,127 | 4,009 | 2,738 | 3,331 |
| 2 Net Insurance Premium/Net Takaful Contribution | 2,046 | 2,434 | 1,848 | 2,115 |
| 3 Underwriting Expenses | (1,862) | (2,202) | (1,661) | (1,842) |
| Underwriting Results | 184 | 232 | 187 | 273 |
| 4 Investment Income | 266 | 284 | 214 | 299 |
| 5 Other Income / (Expense) | 15 | 3 | 5 | 0 |
| Profit Before Tax | 465 | 519 | 406 | 572 |
| 6 Taxes | (157) | (137) | (115) | (165) |
| Profit After Tax | 308 | 381 | 291 | 408 |

PARTICIPANTS' TAKAFUL FUND - PTF

| | | | | |
|---|-----------|-----------|-----------|-----------|
| 1 Gross Contribution Written | 330 | 403 | 296 | 376 |
| 2 Net Takaful Contribution | 58 | 103 | 83 | 107 |
| 3 Net Takaful Claims | (69) | (123) | (95) | (124) |
| 4 Direct Expenses Including Re-Takaful Rebate Earned | 30 | 24 | 15 | 19 |
| Surplus Before Investment & Other Income/(Expense) | 19 | 4 | 2 | 2 |
| 5 Investment Income | 10 | 8 | 6 | 8 |
| 6 Other Income/(Expense) | 5 | 2 | 2 | 2 |
| Surplus for the Period | 35 | 14 | 10 | 12 |

OPERATOR'S TAKAFUL FUND - OTF

| | | | | |
|--|-----------|-----------|-----------|-----------|
| 1 Wakala Fee Income | 126 | 158 | 121 | 148 |
| 2 Management, Commission & Other Acquisition Costs | (105) | (124) | (90) | (109) |
| Underwriting Income/(Loss) | 20 | 35 | 31 | 39 |
| 3 Investment Income | 21 | 18 | 14 | 21 |
| 4 Other Income/(Expense) | 4 | 2 | 2 | 4 |
| Profit Before tax | 45 | 55 | 46 | 63 |
| 5 Taxes | (17) | (15) | (13) | (17) |
| Profit After tax | 28 | 39 | 33 | 45 |

C RATIO ANALYSIS

| | | | | |
|--|--------|--------|--------|--------|
| 1 Profitability | | | | |
| Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Combined Ratio (Loss Ratio + Expense Ratio) | 59.3% | 61.6% | 60.3% | 58.7% |
| | 91.0% | 90.5% | 89.9% | 87.1% |
| 2 Investment Performance | | | | |
| Investment Yield | 9.9% | 8.2% | 8.6% | 9.4% |
| 3 Liquidity | | | | |
| (Liquid Assets - Borrowings) / Outstanding Claims Including IBNR | 3.4 | 4.0 | 4.0 | 3.3 |
| 4 Capital Adequacy | | | | |
| Liquid Investments / Equity (Funds) | 139.5% | 138.3% | 132.0% | 135.0% |

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

| Scale | Definition |
|--|---|
| AAA (ifs) | Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small. |
| AA++ (ifs) AA+ (ifs) AA (ifs) | Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small. |
| A++ (ifs) A+ (ifs) A (ifs) | Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small. |
| BBB++ (ifs) BBB+ (ifs) BBB (ifs) | Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable. |
| BB++ (ifs) BB+ (ifs) BB (ifs) | Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant. |
| B++ (ifs) B+ (ifs) B (ifs) | Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant. |
| CCC (ifs) CC (ifs) C (ifs) | Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment |
| D (ifs) | Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or 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.

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(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

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(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)

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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 | Clause 11-(A)(p).

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(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)

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(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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