



The Pakistan Credit Rating Agency Limited

## Rating Report

### Asia Insurance Company Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Mar-2019	A	-	Positive	Maintain	-
12-Dec-2018	A	-	Positive	Maintain	-
24-May-2018	A	-	Positive	Maintain	-
03-Oct-2017	A	-	Stable	Maintain	-
10-Mar-2017	A	-	Stable	Upgrade	-

#### Rating Rationale and Key Rating Drivers

Asia Insurance is an emerging t small-sized general insurance company of Pakistan. It is characterized by a) premium size, b) strong liquidity and c) good coverage to liabilities. Underwriting performance has sustained with a gradual uptick in business volumes coupled with operational efficiencies. There is a slight slow down, though. The company's stature has benefited from a recent equity stake taken up by InsuResilience Investment Fund, supported by the German Developed Bank KFW and managed by Switzerland based Impact Investment Manager BlueOrchard Finance. This has boosted the company's liquidity. The governance structure is also improving with the induction of a board member from BlueOrchard. The business synergies are also expected to materialize. The company foresee significant expansion in the business with more diversification in the product portfolio.

The Positive Outlook captures the company's improved liquidity and future plans, towards penetration and product enrichment. The translation into performance is considered positive.

#### Disclosure

<b>Name of Rated Entity</b>	Asia Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   General Insurance(Jun-18)
<b>Related Research</b>	Sector Study   General Insurance(Nov-18)
<b>Rating Analysts</b>	Rohail Amjad   rohail.amjad@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Asia Insurance Company is a public limited company.

**Background** Asia Insurance Company Limited (ASIC) was established in 1979 as a general insurance company, and has been listed on the Pakistan stock exchange since 1982

**Operations** With its Head Office in Lahore, the company operates a network of 27 branches along with a single representative office across the country at end-Sep18

## Ownership

**Ownership Structure** ASIC, a family owned business, is sponsored by its Chief Executive Officer, Mr. Ihtsham ul Haq Qureshi and his family

**Stability** On 11th September, 2017, Asia Insurance entered into an agreement with a European Investment Fund named "InsuResilience Investment Fund", (IIF) with reference to its equity. The fund has been setup by the German Development Bank KfW and is managed by Switzerland based Impact Investment Manager, BlueOrchard Finance. The fund subscribed for 25% of stake in Asia Insurance Company Ltd. Since then, there has been no change in the shareholding of the company.

**Business Acumen** Mr. Ihtsham ul Haq, the driving force behind the business, started his career as an industrial engineer. Later on, he launched his own business in electrical works by establishing Falcon Engineering. It is the main representative of FL Smidth of Denmark, one of the leading cement plant manufacturers of the world, in Pakistan

**Financial Strength**

## Governance

**Board Structure** ASIC's Board of Directors comprises seven members.

**Members' Profile** The board comprises three individuals from sponsoring family, including CEO, one independent director and one executive director. Mr. Aisam ul Haq was replaced by Mr. Thibaut Ponchon on the board in March 2018.

**Board Effectiveness** The board is assisted by five committees: (i) Investment Committee, (ii) Audit Committee, (vi) Human Resource. The presence of board member in the said committees reflects the board's intention to closely monitor the company's operations, limiting the oversight function of the board

**Financial Transparency** Ilyas Saeed & Co. are the auditors of the company. The company gave an unqualified opinion in their half year review.

## Management

**Organizational Structure** The overall functions of the company are divided into (i) Underwriting, (ii) Claims, (iii) Reinsurance, (iv) Sales & Marketing (v) Finance and (vi) Admin. ASIC follows a lean organizational structure with a number of individuals reporting directly to the CEO, this highlights key man risk.

**Management Team** The CEO of the company, Mr. Ihtsham ul Haq, brings with him over two decades of experience in the insurance sector.

**Effectiveness** The company should consider aligning its organizational structure to cater high growth trajectory by inducting senior and experienced resource.

**Claim Management System** The claims processing settlement system is completely centralized at ASIC. In case of a loss, the insured party contacts the concerned branch to launch a claim. The branch, using a claims form, gathers necessary information from the client and intimates the Head Office

**Investment Management Function** SIC has a formal investment policy statement (IPS) providing fundamental guidelines and execution structure to the investment process at ASIC

**Risk Management Framework**

## 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** The company has a less than 1% market share and is categorized among the small players of insurance industry

**Revenue** During 9MCY18, the company posted a GPW of PKR 424 mln as against PKR 533mln in 9MCY17 registering a decrease of 20%. GPW was dominated by Miscellaneous segment (30%) followed by Motor (29%), Fire (28%), Marine (10%) and Credit and surety ship (3%).

**Profitability** During the period 9MCY18, company posted an underwriting profit of PKR 12mln as against PKR 19mln of same period last year on account of reduced business written. At 9MCY18, ASIC posted a Profit After tax of PKR 32mln as against PKR 126mln in 9MCY17. The increase in the previous year was because of one-off disposal of an investment property (Asia House)

**Investment Performance** At end Sep-18, the liquid investment book (PKR 779mln) was 78% of its equity base. The liquid portfolio remained heavily in deployed banks 74% and the remaining 12.7% was in government securities and investment bonds (13.3%)

**Sustainability** Going forward, the company aims to be prudent amidst worsening economic conditions

## Financial Risk

**Claim Efficiency** The claims efficiency deteriorated to 206 days on accounts of increased provision coupled with the rising claims expense

**Re-Insurance** ASIC has reinsurance arrangement with Trust Re (Leader; rated A- by S&P), Labuan Re (A- by AM Best), Saudi Re (BBB+ by S&P), Oman Re (B+ AM Best) and PRCL (AA by JCR-VIS). Terrorism Treaty is from Hannover Re (A+ by AM Best). The treaty terms on non-proportional basis

**Liquidity** The company has sound liquidity ratio at 7x (9MCY17: 6.3x)

**Capital Adequacy** The company has a capital well above the minimum limit. At end Sep'18, the equity rose to PKR989mln (CY17: PKR 650mln)



The Pakistan Credit Rating Agency Limited

## GENERAL INSURANCE Financials [Summary]

### Asia Insurance Company Limited (ASIC)

<b>BALANCE SHEET</b>	<b>Sep-18</b>	<b>Dec-17</b>	<b>Dec-16</b>
	<b>9M</b>	<b>Annual</b>	<b>Annual</b>
<b>Investments</b>			
Liquid Investments	779	556	433
Investment Property	-	-	115
	<u>779</u>	<u>556</u>	<u>548</u>
Insurance Related Assets	351	266	194
Other Assets	307	315	313
<b>TOTAL ASSETS</b>	<u>1,437</u>	<u>1,136</u>	<u>1,055</u>
Equity	989	621	650
Underwriting Provisions	268	307	254
Insurance Related Liabilities	129	150	84
Other Liabilities	50	58	67
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<u>1,437</u>	<u>1,136</u>	<u>1,055</u>
<b>INCOME STATEMENT</b>	<b>Sep-18</b>	<b>Dec-17</b>	<b>Dec-16</b>
<b>Gross Premium Written (GPW)</b>	<b>424</b>	<b>659</b>	<b>540</b>
Net Premium Revenue (NPR)	369	527	420
Net Claims	(84)	(179)	(96)
Net Operational Expenses	(274)	(359)	(310)
<b>Underwriting Results</b>	<b>11</b>	<b>(11)</b>	<b>14</b>
Investment Income	11	(30)	52
Other Income/ (expense)	9	127	4
<b>PROFIT BEFORE TAX</b>	<b>32</b>	<b>80</b>	<b>70</b>
<b>RATIO ANALYSIS</b>	<b>Sep-18</b>	<b>Dec-17</b>	<b>Dec-16</b>
<b>Underwriting Results</b>			
Loss Ratio	23%	34%	23%
Combined Ratio	97%	102%	97%
<b>Performance</b>			
Operating Ratio	97%	84%	83%
Investment Yield	2%	-6%	24%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times	7.68	4.91	5.78

Asia Insurance Company Limited (ASIC)

Mar-19



## 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.

<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, but may stay in abeyance for long. 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, or c) the rating remains suspended for six months.</p>
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**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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