



## The Pakistan Credit Rating Agency Limited

### Rating Report

## Premier Insurance Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Nov-2019	A	-	Negative	Maintain	-
03-Jun-2019	A	-	Negative	Maintain	-
07-Dec-2018	A	-	Negative	Maintain	-
29-Jun-2018	A	-	Negative	Maintain	-
03-Oct-2017	A	-	Stable	Maintain	-
06-Apr-2017	A	-	Stable	Maintain	-
30-Sep-2016	A	-	Stable	Maintain	-
30-Sep-2015	A	-	Positive	Initial	-

#### Rating Rationale and Key Rating Drivers

The rating reflects significant risk absorption capacity of the company. It denotes sustained efforts of the incumbent leadership to steer the company out of prevalent challenges. The company is cautiously underwriting insurance business; the market share remains constant. The results are depicting a fall in GPW but with greater decrease in the amount of underwriting losses. The support comes from investment income, though largely contributed by relatively high-risk equity investments. The company has accumulated a high quantum of liabilities, protected by reinsurance receivables and liquid investments; some evasion therein is seen. The company has adequate equity ; maintenance is imperative. The reduction in the claims days are essential as to the loss ratio of the company.

The management of insurance assets to liability structure remains crucial wherein timely realization of outstanding premium along with the prompt settlement of claims is vital. Maintainance of equity reserves is vital.

#### Disclosure

<b>Name of Rated Entity</b>	Premier 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>	Rohail Amjad   rohail.amjad@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Premiere Insurance is a limited liability company.

**Background** Premier Insurance Limited (Premier) was incorporated in 1952 and is listed on Pakistan Stock Exchange. Premier Insurance, with its head office in Karachi, operates through two business Hubs – South and North – having more than 20 branches

**Operations** Premier offers general insurance solutions under two categories; i) Commercial line business, which includes fire, marine, motor-group, health group, shop owner's insurance, and other specialized insurance, and ii) Personal Line insurance covered under travel risk, personal accident, motor, home owners and property insurance

## Ownership

**Ownership Structure** Premier is part of Crescent Group, owned by Chinioti sheikh family with an effective shareholding of 70% at end-Dec18. State Life Insurance is another major shareholder (11%). The Shareholding of the company is diverse; held by a large number of family members. There does not exist any shareholding agreement. As a tacit understanding only, the effective control is held by Mr. Zahid Bashir

**Stability** There was no change in the shareholding structure of the company at end Sep-19

**Business Acumen** Among Crescent Group, Bashir family is single majority stakeholder (45%), which is led by Mr. Zahid Bashir; he is identified as the man at the last mile for Premier.

**Financial Strength** The group operates in diversified sectors of textile, steel, sugar, software, and power.

## Governance

**Board Structure** Premier has an eight-member board, including the CEO, from which six representatives are Crescent Group family members and one represents SLIC

**Members' Profile** Mr. Khalid Bashir, the chairman of the board since Apr-15, is a seasoned entrepreneur. He also previously held the position of CEO from Feb-13 till Mar-14. The company currently has one independent director, Mr. Asadullah Khwaja

**Board Effectiveness** The board meetings are actively held; as reflected by discussions captured in meeting minutes. Most active participation is seen from Mr. Zahid Bashir while rest of the board members also contribute to the discussion. MIS is provided to board on a quarterly basis before meetings

**Financial Transparency** The auditors for Premier Insurance, Ernst & Young Ford Rhodes Sidat Hyder & Co performed half-year review for 1H19. This is their first year of engagement.

## Management

**Organizational Structure** The organizational structure of the company is designed with properly defined reporting lines. The sales function is segregated from operations. The sales function is separated into North Zone and South Zone. The operations are divided into six departments; (i) Underwriting and Risk management, (ii) Claims, (iii) Corporate Services, (iv) Finance, (v) IT, (vi) HR. There are two executive directors – one heads the South Zone and the other heads the North Zone

**Management Team** Mr. Zahid Bashir has taken charge of the company since June 2017. He is assisted by a team of professionals. The CFO Mr. Ali

**Effectiveness** A management committee has been formed which comprises all departmental heads, chaired by the CEO. With ongoing operational re-organization, the committee meets on monthly basis to review performance and resolve operational issues on timely basis

**MIS**

**Claim Management System** The claim processing process is subject to the approval from the Head Office/ Zonal Office. Claim reporting are done by branch who are attending the claims

**Investment Management Function** Premier Insurance has formed an Investment Committee that approves all new investments proposal including trading activities. The committee comprises Mr. Zahid Bashir (Chairman), Mr. Nadeem Maqbool (Director), Mr. Imran Maqbool (Director), Mr. Asadullah Khwaja Asadullah (Director) and Mr. Amjed Bahadur Ali (Chief Financial Officer)

**Risk Management Framework** Premier Insurance has reinsurance arrangements with reputable reinsurers; Reinsurer panel for conventional business: Scor Re ('AA+' by S&P), Pakistan Reinsurance ('AA' by JCR-VIS), Korean Re ('A' by AM Best), Emirates International Insurance ('A-' by A.M Best), Oman Re (rated 'B+' by AM Best) and Saudi Re (rated 'BBB+' by S&P); Reinsurer panel for Takaful operation: Labaun Re (rated 'A-' by A.M Best), GIC Re (Dubai) (rated 'A-' by A.M. Best), Africa Re (Cairo) (rated 'A-' by A.M Best), Kenya Re (Kenya) (rated 'B' by A.M Best) and Saudi Re (Riyadh) (rated 'BBB+' by S&P)

## Business Risk

**Industry Dynamics** Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 11%). While conventional segments of fire and motor growth has been driven by private sector credit off-take by the banks, the miscellaneous segment has seen the largest growth in non-conventional avenues; bond business, health, crop, livestock, etc

**Relative Position** Premiere Insurance is small sized insurance company having less than 1% of market share.

**Revenue** The company has adopted a prudent approach and has reduced their pace of business accumulation with an aim to fix the previous issues by only underwriting less risky businesses. The conventional GPW declined to PKR 408.272mln reduced by a marginal 6% YoY (9MCY18: PKR 4330mln). The GPW for Window Takaful operations was PKR 86.5mln at end Sep-18 declining by 9% against the GPW at end Sep-18 (GPW: PKR 95.7mln). Premier Insurance posted a total GPW of PKR 492mln at end Sep-19 as against PKR 529mln at end Sep-18.

**Profitability** The company posted a conventional underwriting loss of PKR 120mln at end Sep- 19 against a loss of PKR 116 same period last year. As for Window Takaful Operations PTF made a Profit of PKR 4.76 mln and Operator fund posted a loss of PKR 16mln.

**Investment Performance** The liquid investments of the company are .7x of the equity. The investment comprises investment in equity stocks (82%), mutual funds (5.6%), bank deposit (12%) and cash (.1%). The company also has a strategic investments i.e an 8% stake in Crescent Powers Limited

**Sustainability** Sustainability Going forward, the management envisages sustaining the ongoing strategy whilst being prudent in its approach when underwriting the business.

## Financial Risk

**Claim Efficiency** Claims days have risen to a whopping 2,164days at Sep-19 as against 1,661days at end Sep-18. The reason for the increase in the claims days is the balance of the previously existing claims including the long-pending claims in lieu of Samsung distributors and Air Indus amounting to above PKR 674mln

**Re-Insurance** The re-insurance receivable days have jacked up to 3,405days at end Sep-19 as against 3,194 days at end Sep-18. This is because the company has been slow in approaching the reinsurer for recoveries

**Liquidity** The liquidity of Premier Insurance at end Sep-19 rose to 2.7x as against 2.4x at end Sep-18. The reason for this is that the company's liquid investment to the NPR has improved this year as compared to the previous years. The company's liquid assets ratio against the provision of outstanding claims improved to .8x from .6x YoY at end Sep-19.

**Capital Adequacy** Premier Insurance has an adequate capital (PKR 1bln) well above the required level i.e PKR 500mln



The Pakistan Credit Rating Agency Limited

**Premier Insurance Limited (Premier)**

<b>BALANCE SHEET*</b>	<b>Sep-19</b>	<b>Dec-18</b>	<b>Sep-18</b>	<b>Dec-17</b>
<b>Investments</b>				
Liquid Investments	723	920	634	1,230
Investment in Associates	205	205	346	212
Other Investments	266	267	25	25
	<u>1,195</u>	<u>1,392</u>	<u>1,005</u>	<u>1,467</u>
Insurance Related Assets	1,457	1,097	1,329	1,620
Other Assets	605	692	587	512
<b>TOTAL ASSETS</b>	<b><u>3,256</u></b>	<b><u>3,181</u></b>	<b><u>3,019</u></b>	<b><u>3,599</u></b>
Equity	1,017	1,223	979	1,134
Underwriting Provisions	293	267	307	542
Insurance Related Liabilities	1,575	1,116	1,283	1,549
Other Liabilities	372	575	416	374
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b><u>3,256</u></b>	<b><u>3,181</u></b>	<b><u>3,019</u></b>	<b><u>3,599</u></b>
<b>INCOME STATEMENT *</b>	<b>Sep-19</b>	<b>Dec-18</b>	<b>Sep-18</b>	<b>Dec-17</b>
<b>GPW</b>	<b>491</b>	<b>685</b>	<b>529</b>	<b>1009</b>
Net Premium Revenue (NPR)	271	569	375	973
Net Claims	-118	-174	-84	-284
<b>Underwriting Profit / (Loss)</b>	<b>-116</b>	<b>-74</b>	<b>-103</b>	<b>-141</b>
Investment Income	-142	78	6	154
Other Income / (Expense)	30	30	-46	-130
<b>Profit / (Loss) Before Tax</b>	<b>-247</b>	<b>29</b>	<b>-141</b>	<b>-116</b>
<b>RATIO ANALYSIS *</b>	<b>Sep-19</b>	<b>Dec-18</b>	<b>Sep-18</b>	<b>Dec-17</b>
<b>Underwriting Results</b>				
Loss Ratio	44%	40%	56%	54%
Combined Ratio	132%	99%	138%	98%
<b>Performance</b>				
Operating Ratio	90%	124%	152%	80%
Investment Yield	-23.8%	5.3%	0%	11%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	0.8	1.0	0.6	1.0
Liquid assets/NPR (times)	2.7	2.1	2.4	1.5

\*Including Window Takkaful Operations

Premier Insurance Limited (Premier)

Nov-19

## 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+	<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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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	
B-	
CCC	<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.
CC	
C	
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.

**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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