



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
26-Aug-2021	A	-	Negative	Maintain	-
26-Aug-2020	A	-	Negative	Maintain	-
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 continuing efforts of the new leadership to steer the Company towards positive performance. Premier Insurance is cautiously underwriting business, though the market share remained limited. Annual and three-month financials showed slight signs of improvement which bodes well for the Company going forward. Gross Premium and Underwriting results improved which is especially welcomed when considering these numbers are compared to pre COVID-19 pandemic slowdown. However, the equity levels going forward must be maintained as the unappropriated loss amount is concerning. The new leadership have envisaged a business plan in order to steer Premier Insurance into profitable growth. Efforts are afoot, upturn in economic activity is expected to expediate the recovery process.

In terms of Gross Premium Written (GPW), Pakistan’s general insurance industry had a total size of PKR ~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR ~104,453mln). The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. Gross premiums written of non-life insurers in India reached USD ~26.5bln in FY21, from USD ~26.4bln in FY20.

The rating is dependent on positive performance matrix. Meanwhile, the management has to carefully manage its insurance asset liability structure wherein timely realization of outstanding premium along with smooth settlement of claims is critical. Any further dilution in the risk profile of the Company may impact the rating.

Disclosure

Name of Rated Entity	Premier Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Jun-21)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504



Profile

Legal Structure Premier Insurance Limited (herein referred to as Premier Insurance) is a public limited Company, listed on the Pakistan Stock Exchange under the symbol – PINL.

Background Premier Insurance was incorporated in 1952 and is listed on PSX. Premier Insurance, with its head office in Karachi, operates through two business Hubs – South and North – having thirteen (13) branches as at end CY20.

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

Ownership

Ownership Structure Premier Insurance is part of Crescent Group, owned by Chinioti Sheikh family, with an effective shareholding of 70% at end CY20. State Life Insurance Corporation of Pakistan is another major shareholder (11%). The Shareholding of the Company is diverse; held by a large number of family members. No formal shareholding agreement exists.

Stability There was no change in the shareholding structure of the Company at end Dec-20. Shareholding is considered stable as majority is closely held.

Business Acumen Among Crescent Group, Bashir family is single majority stakeholder (45%), which was led by Mr. Zahid Bashir (late); he was identified as the man at the last mile for Premier Insurance. On 1st January, 2020 Mr. Bashir unfortunately passed away.

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

Governance

Board Structure Premier Insurance has an eight (8) member Board of Directors (the Board), including the CEO, from which six representatives are Crescent Group family members, one representative from State Life Insurance, and one independent director.

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 Khawaja.

Board Effectiveness The Board meetings are actively held; as reflected by discussions captured in meeting minutes. Most active participation was 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. Members also contribute to the discussion.

Transparency The external auditors for Premier Insurance, EY Ford, Chartered Accountants gave an unqualified opinion on the financial statements of the Company for the year ended CY20.

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. 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 After the passing of Mr. Zahid Bashir, Mr. Nadeem Maqbool was appointed as the new CEO of the Company on January 14th, 2020. Mr. Sharik Bashir S/o Mr. Zahid Bashir (late) was appointed as the director of the Company for the remaining term in place.

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 There are MIS reports used by management, covering zone wise contribution and claims position on a real-time basis. The MIS reports used by management are rudimentary; comparison of budgeted and actual financial results, identifying the variances.

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 to the claim.

Investment Management Function Premier Insurance has formed an Investment Committee that approves all new investments proposal including trading activities. The committee comprises Mr. Nadeem Maqbool (CEO), Mr. Amjed Bahadur Ali (CFO), Mr. Sharik Bashir, Mr. Imran Maqbool, Mr. Asadullah Khawaja, and Mr. Ahsan Bashir.

Risk Management Framework The management has developed and implemented a detailed Risk Management Framework. These guidelines tend to institute a strong risk environment, while laying down underwriting and reinsurance guidelines and identifying functions and responsibilities of all participants from the Board to the support staff.

Business Risk

Industry Dynamics In terms of Gross Premium Written (GPW), Pakistan's General Insurance industry had a total size of PKR ~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR ~104,453mln). The Insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remains very modest as compared to other jurisdictions while the Insurance sector remains underdeveloped relative to its potential. Gross Premiums Written of Non-Life Insurers in India reached USD ~26.5bln in FY21, from USD ~26.4bln in FY20.

Relative Position Premier Insurance is small sized Insurance Company, having less than 1% of market share on basis of GPW.

Revenue Conventional GPW for 3MCY21 increased to PKR 96mln by a marginal 19% YoY against PKR 81mln. The Window Takaful Operations GPW for 3MCY21 increased to PKR 29mln by 43% YoY against PKR 21mln. Segment breakup consisted of Fire (43%), Health (29%), Motor (14%), Miscellaneous (8%), and Marine (6%). For end CY20, the Company posted combined GPW of PKR 607mln as against PKR 633mln, reporting a decline of 4% YoY.

Profitability During 3MCY21, the company posted conventional underwriting loss of PKR 44mln as against a loss of PKR 47mln in the same period last year. This was on account of higher Net Insurance Premium this year. As for Window Takaful Operations PTF posted a deficit of PKR 2mln and Operator fund posted a loss of PKR 9mln.

Investment Performance The liquid investments of the Company are .75x of the equity. The investment comprises investment in equity stocks (86%), mutual funds (8%), bank deposit (5.5%) and cash (.05%). The company also has a strategic investment i.e an 8% stake in Crescent Powers Limited.

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 1,548days at year end CY20 as against 1,532days at year end CY19. 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 Premier Insurance has reinsurance arrangements with reputable reinsurers; Reinsurer panel for conventional business: Scor Re ('AA+' by S&P), Pakistan Reinsurance ('AA' by VIS), Korean Re ('A-' by AM Best), Emirates International Insurance ('A-' by S&P), GIC Re UAE ('A-' by AM Best) and Eco Re Switzerland ('A-' by S&P). Reinsurer panel for Takaful operation: Labaun Re (rated 'A-' by A.M Best), GIC Re (Dubai) ('A-' by A.M. Best) and Pak Re ('AA' by VIS).

Liquidity During the year CY20, the liquidity coverage rose to 2.6x as against 2.3x at period end CY19. 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 1.3x from 1.1x YoY at year period end CY19.

Capital Adequacy Premier Insurance has total equity at 3MCY21 of PKR 1.3bln, whereas the paid-up capital of the Company is PKR 506mln, well above MCR.



The Pakistan Credit Rating Agency Limited

Premier Insurance Limited (Premier)

BALANCE SHEET *	Mar-21	Dec-20	Dec-19	Dec-18
Investments				
Liquid Investments	978	927	842	920
Investment in Associates	373	373	243	205
Other Investments	276	276	268	267
	1,627	1,575	1,353	1,392
Insurance Related Assets	990	1,061	1,013	1,097
Other Assets	604	613	591	692
TOTAL ASSETS	3,220	3,249	2,957	3,181
Equity	1,316	1,337	1,084	1,223
Underwriting Provisions	257	299	257	267
Insurance Related Liabilities	1,297	1,249	1,272	1,116
Other Liabilities	350	364	344	575
TOTAL EQUITY & LIABILITIES	3,220	3,249	2,957	3,181

INCOME STATEMENT *	Mar-21	Dec-20	Dec-19	Dec-18
GPW	125	607	633	685
Net Premium Revenue (NPR)	69	294	356	431
Net Claims	-55	-165	-175	-174
Underwriting Profit / (Loss)	-56	-214	-235	-73
Investment Income	11	35	-132	76
Other Income / (Expense)	0	41	112	30
Profit / (Loss) Before Tax	-45	-139	-256	33

RATIO ANALYSIS *	Mar-21	Dec-20	Dec-19	Dec-18
Underwriting Results				
Loss Ratio	79%	56%	49%	40%
Combined Ratio	180%	173%	166%	99%
Performance				
Operating Ratio	196%	198%	160%	124%
Investment Yield	15.4%	11.9%	-37.1%	5.3%
Liquidity & Solvency				
Liquidity Ratio – times	1.3	1.3	1.1	1.0
Liquid assets/NPR (times)	3.5	3.2	2.4	2.1

*Including Window Takaful Operations

Premier Insurance Limited (Premier)

Aug-21

Insurer Financial Strength (IFS) Rating

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+ AA 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.
A+ A 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.
BBB+ BBB 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.
BB+ BB 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.
B+ B 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.
CCC CC C	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.
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.

<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>
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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)
- (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.
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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)
- (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)

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- (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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