

RATING REPORT

Century Insurance Company Limited

REPORT DATE:

September 04, 2015

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	A+	A+
Rating Date	July 28, '15	June 24, '14
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 1985	External auditors: Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Iqbal Ali Lakhani
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Mohammad Hussain Hirji
Premier Fashions (Pvt.) Limited – 29.0%	
SIZA Services (Pvt.) Limited – 23.6%	
SIZA (Pvt.) Limited – 14.2%	
SIZA Commodities (Pvt.) Limited – 9.9%	
General Public – 16.0%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria : General Insurance 2003 <http://www.jcrvis.com.pk/images/methodology.pdf>

Century Insurance Company Limited

OVERVIEW OF THE INSTITUTION

Century Insurance Company Limited is a public limited company listed on both the Karachi and Lahore Stock Exchanges. The company provides general insurance services and operated with a network of 8 branches.

RATING RATIONALE

Century Insurance Company Limited (CICL) is a subsidiary of Lakson Group of Companies, a group involved in paper & board, media, financial services and FMCGs sector. In recent years, the company has depicted stability at senior management level and posted year-on-year growth in gross premium written for the last three years. GPW for the company amounted to Rs. 755m for 2014 (2013: Rs. 667m). A major portion of the company's business continues to be derived from related parties; the proportion of same increased in 2014 to 44%. For 2015, the management has projected business volumes of over Rs. 1b, with almost half of this underwritten in the first 6 months. Growth is projected to be led primarily by market based business, with the proportion of related party business projected to decline to 35%.

In terms of business mix, Fire and Property segment continues to represent the major portion, comprising slightly more than one-third of the total. Underwriting strategy for this segment remains conservative with the company only retaining a limited amount on books. Marine remains a profitable segment for the company; on an industry wide basis, growth in this segment may be subdued due to trend in oil prices and exports in addition to pricing pressures. In future, the company is foreseeing growth in health segment, which is retained entirely on net account. Selective growth in motor segment is also envisaged, where retention level has increased to manage the treaty cost. Impact of increasing proportion of motor and health risks where cession is minimal to absent, on the company's underwriting results, will be tracked over time. As per management, the focus remains on improving the bottom line and the company will not undertake undue risk. Cession levels remained relatively the same at 46.5% for the year 2014 (2013: 46.8%). Adjusting for motor and health segments, cession is higher side at 70.7% (2013: 68.6%).

CICL posted an underwriting profit of Rs. 11.5.6m for the year 2014 after incurring a loss of Rs. 3.9m in the preceding year. The company has generated steady underwriting profit from the Marine segment on a year-on-year basis though profits in 2014 are attributed to improvement in results of Motor segment. Underwriting expense ratio has declined in 2014 to 45%; there is room for further rationalization given that a large portion of business is generated from related parties.

The company obtains reinsurance coverage through a panel of reinsurers rated in the 'A' band. Scor Re has the lead position in all treaties except for non-proportional Personal Accident coverage which is led by Trust International. For 2015, increase in treaty capacities and retention levels has been observed.

Market risk carried on books has increased in view of increased allocation to equities (directly and through mutual funds), representing almost 60% of the portfolio at year-end. Moreover, the portfolio features concentration with 22% invested in one scrip alone; the management has identified this as a long term investment in a company having sound fundamentals. Remaining investments are spread across federal government securities, PLS savings accounts and mutual funds. The investment portfolio has generated healthy returns and provided meaningful contribution to the bottom line. Given the increased allocation to equities, return on the portfolio may be more closely aligned to stock market performance, going forward. Equity strategy of the company is directed by an associated asset management company; investment decisions for remaining portfolio are taken by the CEO and COO with approval from the Chairman of the Board.

Insurance debt of the company amounted to Rs. 198.4m at end-2014 (2013: Rs. 201.3m), representing 26.3% of GPW. There is no documented provisioning policy in place at CICL. As per management, provisions are generally taken for premiums outstanding over 3 years, on clients deemed necessary. No provisioning is taken for group companies. Ageing profile of insurance debt is considered satisfactory with more than 90% of premiums due but unpaid outstanding for under one year. Internal cash generation has declined on a year-on-year basis and this trend may need to be arrested. Liquidity assessment draws strength from the stock of liquid assets carried on books. Capitalization indicators remain sound; there is however an increase in level of market risk carried on books and underwriting risk retained on net account over time in relation to the company's loss absorption capacity.

Century Insurance Company Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Cash and Bank Deposits	245.2	105.3	90.5
Investments	1,095.9	1,112.7	998.1
Insurance Debt	198.4	107.8	183.4
Total Assets	1,876.7	1,738.9	1,612.1
Net Worth	1,185.3	1,111.6	1,023.0
Total Liabilities	691.4	627.3	589.2
INCOME STATEMENT	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Net Premium Revenue	388.5	321.7	268.2
Net Claims	201.9	159.3	112.0
Underwriting Profit/(Loss)	11.5	(3.9)	5.1
Net Investment Income	135.9	133.2	105.0
Profit Before Tax	158.5	150.8	129.4
Profit After Tax	142.4	147.3	116.2
RATIO ANALYSIS	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Market Share (Gross Premium) (%)	1.33	1.30	1.26
Cession Ratio (%)	46.5	46.8	53.7
Gross Claims Ratio (%)	39.9	33.1	59.1
Net Claims Ratio (%)	51.6	49.5	41.0
Underwriting Expense Ratio (%)	44.7	51.7	56.1
Combined Ratio (%)	96.3	101.2	97.1
Net Operating Ratio (%)	93.7	97.3	91.6
Insurance Debt to Gross Premium (%)	26.3	30.2	31.4
Operating Leverage (%)	21.9	22.5	23.5
Financial Leverage (%)	15.3	18.6	20.9
Adjusted Liquid Assets to Technical Reserves (%)	711.5	578.4	505.2

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

JCR-VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

AAA

Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

AA+, AA, AA-

Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

A+, A, A-

High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

BBB+, BBB, BBB-

Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

BB+, BB, BB-

Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

B+, B, B-

Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

CCC

Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

CC

Weak capacity to meet policyholder and contract obligations; Risk may be high.

C

Very weak capacity to meet policyholder and contract obligations; Risk may be very high

D

Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

REGULATORY DISCLOSURES		Appendix III		
Name of Rated Entity	Century Insurance Limited			
Sector	Insurance			
Type of Relationship	Solicited			
Purpose of Rating	Insurer Financial Strength (IFS) Rating			
Rating History	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	RATING TYPE: IFS			
	6/24/2014	A+	Stable	Reaffirmed
	3/8/2013	A+	Stable	Upgrade
	3/19/2012	A	Stable	Reaffirmed
	1/7/2011	A	Stable	Reaffirmed
Instrument Structure	N/A			
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.			
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