RATING REPORT

Century Insurance Company Limited

REPORT DATE:
January 11, 2019

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	A+	A+
Rating Date	*December 28, '18*	*November 15,'17*
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 1985	**External auditors:** KPMG Taseer Hadi & Co. 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 – 13.8%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria : General Insurance (March 2017)
http://jcrvis.com.pk/docs/Meth-GenInsurance201702.pdf

Century Insurance Company Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Century Insurance Company Limited (CICL) was incorporated in 1985 as a public limited company. The registered office of the company is located in Karachi.

Century Insurance Company Limited (CICL) is backed by the Lakson Group of Companies, an industrial group, having prominent presence across several sectors including paper & packaging, media, fast moving consumer goods and financial services. CICL enjoys both financial and business support from the group. Market share of the company equaled 1.50% (2016: 1.56%: 2015: 1.69%) for 2017.

In August 2017, the company was granted a license by Securities & Exchange Commission of Pakistan to carry out Window Takaful Operations which subsequently commenced operations. The Takaful segment posted gross contribution of Rs. 5.4m during remaining months of 2017 and Rs. 44.1m in 9M2018.

Rating Drivers

Business Strategy and Gross Premium

After subdued business growth in 2017, CICL reported healthy growth of 10.4% in gross premium to Rs. 948.3m (9M2017: Rs. 858.9m) in 9M2018. The company continues to maintain a diversified portfolio mix. Growth in business was manifested in all segments (Growth in 9M2018: Fire: 24%; Marine: 19%; Motor: 13%; Health 31%; Miscellaneous: 5%). While in 2016, health portfolio decreased on account of cautious approach adopted by management; the same increased in subsequent years as the company resumed underwriting albeit with a more prudent framework. Over the years, related party business has remained above 35% of total premium underwritten (2017: 48.0%; 2016: 39.3%) while gross claims pertaining to related parties depicted slight increase. Management plans to continue conservative approach in underwriting business with no specific business targets for any particular segment while caution will continue to be exercised with respect to health portfolio.

Going forward, the company plans to expand range of insurance products to cater to commercial and retail segments and also develop micro-insurance products. Moreover, it will focus on developing new channels of distribution using the internet, social media and cellular phones so as to effectively penetrate the retail and micro-insurance markets. The company will also explore synergizing with banks and other entities to develop new and cost-effective distribution channels.

Profitability

With sizeable shedding of health business since 2016 (which the company retains almost entirely on net account), claims (on both gross and net basis) have decreased (Net Claims Ratio: 9M2018: 42.3%; 2017: 41.6%; 2016: 59.2%). As a result, CICL's underwriting profit has more than doubled to Rs. 76.9m (2016: Rs. 30.6m) in 2017 while further improvement has been witnessed in 9M2018 on the back of motor and marine businesses. However, underwriting expense ratio increased over the outgoing year and stands at 45.4% (2016: 36.1%). This was offset by lower claims incidence as a result of which combined ratio decreased to 87.0% (2016: 95.4%).

Despite higher underwriting profit, overall profitability of the company has declined in 2017 as the income earned on investments was lower. In 9M2018, profit before tax was reported lower at 78.3m (9M2017: Rs. 192.7m) primarily on account of loss on investments amounting to Rs. 23.9m compared to investment income of Rs. 140.9 booked in same period last year.

Investment Portfolio

The company's investment portfolio comprises two-third exposure in equities while remaining is deployed in cash/income funds and debt instruments. As per management, the company has historically varied the asset class mix on the basis of outlook for interest rates and equity markets. Size of the investment portfolio was reported at Rs. 1,232m (2016: Rs. 1,496.0m) in 2017. Given the portfolio composition, credit risk is considered manageable. However, CICL remains exposed to market risk; a further downward trajectory in the equity market may have unfavorable impact on profitability and capitalization indicators adjusted for market value. Although an investment policy statement is in place, limit for equity exposure is on the higher side at 70% and warrants reduction considering the current market environment and the institution's risk absorption capacity. Cognizant of this, and in tandem with outlook for upward movement in interest rate, management plans to adjust proportion of equity/ fixed income exposure over the medium term.

Liquidity

Liquid assets of the company are considered adequate to meet the current liabilities of the company. Net operating cash flow of the company decreased in 2017. As a proportion of net premium revenues, net operating cash flow still remains on the lower side at 4% (2016: 7%).

Insurance debt increased to Rs. 380.0m (2016: Rs. 341.0m); in relation to gross premiums, the same appreciated to 36.2% (2016: 33.8%). However, aging profile of insurance debt is considered satisfactory. Given the new regulations related to unpaid premium and ongoing collection efforts, insurance debt levels are projected to decline by end-2019. This is likely to have a positive impact on cash flows of the company.

Capitalization

Total adjusted equity (adjusted for market value of investments) was reported at Rs. 1.7b (2016: Rs. 2.0b) in 2017 on account of downward trend in unrealized gains on investment. Both, operating and financial leverage have trended upwards to 35.4% (2016: 33.6%) and 25.3% (2016: 19.3%) respectively. Given the equity base, leverage indicators remain lower vis-à-vis peers and indicate room for growth, assuming risk retention levels do not change materially.

Reinsurance

Scor Reinsurance Company continues to serve as the lead insurer. Reinsurance panel of CICL is considered sound as the minimum Insurer Financial Strength (IFS) rating of any reinsurer on the company's panel is A-. Major changes in the reinsurance panel were the exit of Qatar Re and Watkins Syndicate. Cession has decreased on a timeline basis as the company retained higher quantum of business on net account (Cession: 9M2018: 33.8%; 2017: 38.8%; 2016: 40.8%). Retention on net account in relation to equity is considered manageable in key segments, except for the health segment. Hence, caution must be exercised with regards to growth in this particular segment.

Century Insurance Company Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	30-Sep-18	31-Dec-17 (Restated)	31-Dec-16
Cash and Bank Deposits	578	362	409
Net Operating Cash Flow	145	22	49
Investments	1,211	1,232	1,496
Insurance Debt	471	380	341
Total Assets	3,011	2,736	2,661
Adjusted Equity	1,808	1,677	1,965
Total Liabilities	1,250	1,002	951
INCOME STATEMENT	**30-Sep-18**	**31-Dec-17**	**31-Dec-16**
Gross Premium Written	948	1,050	1,009
Net Premium Revenue	508	593	659
Net Claims	215	247	391
Underwriting Profit/(Loss)	78	77	31
Net Investment Income	(24)	131	224
Profit Before Tax	78	234	265
Profit After Tax	54	140	186
RATIO ANALYSIS	**30-Sep-18**	**31-Dec-17**	**31-Dec-16**
Market Share (Gross Premium) (%)	n/a	1.50	1.56
Cession Ratio (%)	33.8	38.8	40.8
Gross Claims Ratio (%)	39.6	26.1	45.2
Net Claims Ratio (%)	42.3	41.6	59.2
Underwriting Expense Ratio (%)	42.4	45.4	36.1
Combined Ratio (%)	84.7	87.0	95.4
Net Operating Ratio (%)	80.6	67.7	92.6
Insurance Debt to Gross Premium (%)	37.2	36.2	33.8
Operating Leverage (%)	40.4	35.4	33.6
Financial Leverage (%)	28.8	25.3	19.3
Adjusted Liquid Assets to Technical Reserves (%)	235.1	243.7	391.9

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			
28-Dec-18	A+	Stable	Reaffirmed
15-Nov-17	A+	Stable	Reaffirmed
23-Aug-16	A+	Stable	Reaffirmed
28-Jul-15	A+	Stable	Reaffirmed
24-Jun-14	A+	Stable	Reaffirmed
8-Mar-13	A+	Stable	Upgrade
19-Mar-12	A	Stable	Reaffirmed
7-Jan-11	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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