RATING REPORT

Century Insurance Company Limited

REPORT DATE:
December 31, 2020

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	AA-	AA-
Rating Date	*December 31, '20*	*December 31, '19*
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 – 14.9%	

APPLICABLE METHODOLOGY(IES)

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

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 primarily engaged in provision of general insurance services in Pakistan. In August 2017, CICL was granted approval to launch Window Takaful Operations. In the domestic context, CICL is a small-sized insurance company with a market share of 1.6%[1] the conventional insurance market and 0.7%[1] in the takaful insurance segment. On consolidated basis, CICL had a market share of 1.4% in 2019.

CICL is part of 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.

Insurance Sector Update

Table 1: Insurance Industry Financial Indicators (Source: IAP)

(Rs. in Billions)	2018	2019
Insurance Premium (Gross)	77.0	83.7
Takaful Contributions (Gross)	8.6	11.0
Industry Total (Gross)	85.7	94.6
Combined Ratio	86.3%	89.1%
- Net Claims Ratio	50.5%	51.7%
- Underwriting Expense Ratio	35.8%	37.4%
Net Operating Ratio	71.6%	72.5%
RoAA	4.3%	4.7%
RoAE	9.8%	10.5%
Operating Leverage	50.7%	49.6%

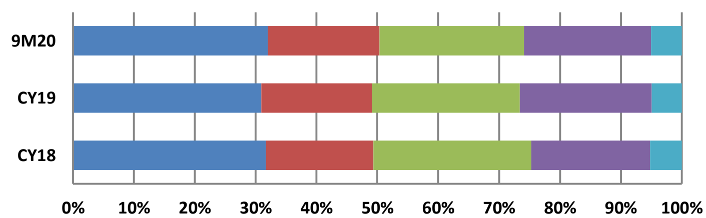
- The gross premiums/ takaful contributions underwritten by the industry grew by 10% in 2019. The non-life insurance penetration, at ~0.2%, continues to lag the regional counterparts.
- Amidst double digit inflation (CYTD Dec'19: 12.6%), the industry' underwriting expense ratio increased, while a slight uptick was also noted in net claims ratio.
- Nevertheless, the industry's investment income grew by almost a fifth, which supported the net operating ratio.
- The sector's operating leverage remains around ~50%, which is considered to be on the lower side.
- The impact of the outbreak of novel coronavirus on the insurance has been relatively measured so far. Nevertheless, given the overall pandemic-induced macroeconomic changes, the following pointers summarize the impact.
    - The premium from all lines of business is expected to be impacted for 2020.
        - The pandemic-related project delays are expected to impact premiums under fire & engineering segment, albeit this largely depends on the actual project delays.
        - The reduced international trade will affect premiums in the marine line of business.
        - As a result of the coronavirus public lock down in Q2'2020, the automobile sales have been notably impacted. These have started picking up in Q3'2020, albeit the reduced automobile sales will have an impact on motor premiums, as new car insurance policies would drop.
        - In view of the above factors, we expect full-year premium for 2020 to be affected. The impact will largely depend on how long the pandemic stretches.
    - Despite lower premiums, the profitability of the insurance industry is likely to improve
        - The reduced economic activity, due to Covid-19, is likely to have a positive impact on claims ratio. The recent rains would adversely impact motor claims ratios generally in Property and Motor portfolio.

[1] Market Share is for 2019 and includes IAP members only.

- However, the expenses base likely to remain sticky, which should resultantly increase underwriting expense ratio.
- Given the sizable reduction in interest rates, the investment income, specifically for companies holding fixed rate PIBs, are expected to increase on account of capital gains on PIBs. This should have a positive impact on the net operating ratio.

- Overall capitalization & liquidity buffers in place are considered to be adequate. Industry capitalization & liquidity are expected to persist.
- Going forward, there are plans to implement IFRS 17 across the industry, which will require additional provisioning. However, the industry-de IFRS 17 implementation is scheduled for January 1' 2022 and so far we have not received an estimation of the related provisioning charge.

CICL's Business Update



	CY18	CY19	9M20
Fire & Property Damage	375.5	406.4	344.1
Marine, Aviation and Transport	209.8	239.0	197.2
Motor	307.4	319.3	255.7
Accident & Health	231.3	284.9	224.3
Miscellaneous	61.6	65.1	54.3

- In 2019, CICL's gross premium underwritten grew by 11%, which was in tandem with growth posted by the industry. However, CICL's growth in gross premiums underwritten during 9M'20 was higher than industry growth.
- Business mix remains broadly similar; albeit Accident & Health (A&H) segment was the growth driver in 2019 and 9M'20. Given the adverse claims performance of the A&H segment, proportionate increase in A&H business is viewed adversely from risk perspective.
- Underwriting performance remained in line with the historical track record, albeit an increase in gross claims ratio has been noted in 9M20, which was mainly contributed by adverse performance in the 'Fire & Property Damage' and 'Miscellaneous' segments; however, the trend is in line with the worsening industry claims ratio during the period.

	2018	2019	9M20
Fire and property damage	34.2%	24.7%	37.7%
Marine, aviation and transport	26.7%	14.8%	13.2%
Motor	42.0%	46.8%	35.7%
Accident & Health	75.6%	83.2%	68.2%
Miscellaneous	19.5%	55.6%	134.1%
	41.9%	**41.2%**	**43.6%**

Reinsurance

- 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-.

- Scor Reinsurance Company, with a rating of 'AA-', continues to serve as the lead reinsurer, with about 35-40% share in all treaties, except for Crop Stop Loss Treaty.
- Cession has continued its downward momentum. The company's cession has dropped from 39.1% in 2017 to 36.5% in 2019 (2018: 37.0%).
- 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.

Profitability

	2018	2019	9M19	9M20
Underwriting Profit (Conventional)	119	125	84	123
Investment Income	(54)	28	(53)	52
Other Income	28	47	38	27
Share of Profit from Associates	4	7	4	5
Profit from Window Takaful Operations	7	9	6	8
Finance Costs	-	(6)	-	(5)
Impairment in Associates	-	(11)	(17)	-
Profit Before Tax	105	200	61	210

- CICL's profitability has depicted improvement on a timeline, with pre-tax profits being almost 2x for 2019 vis-à-vis 2018. Similarly, pre-tax profit for 9M'20 was already in excess of 2019 full year pre-tax profit. The recovery in profitability is in line with the improvement in equity market performance, as a result of which investment income has depicted a notable uptick. Other income, which also mainly constitutes profit on bank accounts, also depicted improvement on the back of higher interest rates prevalent during the period.

- CICL's combined ratio increased slightly in 2019, mainly as of a spike in claims performance; this manly featured an uptick in net claims ratio of the A&H segment, wherein the company does not have any reinsurance treaty available.

	2018	2019	9M20
Combined Ratio	**82.7%**	**83.9%**	**80.1%**
- Net Claims Ratio	41.8%	46.5%	40.5%
- Commission Income	1.7%	1.7%	1.8%
- Expense Ratio	42.6%	39.1%	41.4%

- In 9M'20, the net claims ratio did depict improvement vis-à-vis SPLY. This was despite a spike in gross claims ratio during the period. In terms of segments, the increase in claims performance was contributed by Fire & property Damage and Miscellaneous, wherein adequate reinsurance arrangements allowed the company to keep the same from reflecting on the net claims performance.

- The expense ratio has continued to improve, as the net premiums continue to increase. Accordingly, the same has fallen from 45% in 2017 to 39% for 2019.

- CICL's combined ratio is aligned with the peer median.

Investment Portfolio

	2018	2019	9M20	2018	2019	9M20
Equity Securities	1,097	802	885	59%	41%	42%
Debt Securities	139	429	622	8%	22%	29%
Term Deposit	123	426	195	7%	22%	9%
Cash & Bank	440	267	377	24%	14%	18%
Investment in Associates	45	39	44	2%	2%	2%
	1,845	1,964	2,122			

- Pre-empting the uptick in benchmark rates, portfolio allocation to money market instruments increased notably in 2019 & 9M'20. Conversely, equity exposure was reduced, albeit given improvement in equity market outlook we have noted slight increase in equity allocation during 9M'20.
- As per the internal investment philosophy, asset class mixes are adjusted on the basis of outlook on interest rates and equity markets. Given the portfolio composition, credit risk is considered manageable. However, CICL remains exposed to market risk. Although an investment policy statement is in place, limit for equity exposure is on the higher side at 70% and warrants reduction.
- CICL's investment portfolio is managed by Lakson Investments, which is an associate company, and is rated 'AM2+' by a domestic rating agency in Pakistan.
- The company's equity securities portfolio includes private equity investment of Rs. 200m, which is invested in Lakson Private Equity Fund. The underlying asset is 'OMI Hospital', yield on which has been positive.

Liquidity

	2018	2019	9M20
Liquid Assets/ Net Technical Reserves	4.1x	3.9x	3.6x
Operating Cash flow to Net Premium	23.3%	23.1%	29.0%
Insurance Debt to Gross Premium	38.2%	38.1%	42.4%

- CICL's liquid assets increased to to Rs. 1.9b by end-Sep'20, while net technical reserves were also higher at Rs. 526m. Given the higher proportionate growth in net technical reserves, the ratio of liquid assets to net technical reserves has trended down on a timeline, albeit even at current levels is considered to be comfortably high.

- CICL's Operating Cash Flow (OCF) was 12% higher in 2019, while OCF for 9M'20 was almost equal to full year 2019 OCF. Resultantly, despite the growth business volume, OCF to net premium revenue has depicted improvement.

- The insurance debt to gross premium has trended up, even in proportionate terms to the gross premium. Aging of insurance debt has been reviewed, which is indicative of low credit risk profile. As of Sep'20, 22% of the insurance debt was overdue for a period of less than 3 months, 57% for a period of 3-6 months and 16% for a period of 6-12 months. Accordingly, amounts outstanding for more than 1 year were meager at 6% of the insurance debt or Rs. 13.4m in absolute terms.

Capitalization

	2018	2019	9M20
Net Equity	1,720	1,837	1,908
Operating Leverage	40.1%	42.5%	43.0%
Financial Leverage	23.4%	25.1%	27.6%
Dividend Payout	88.1%	60.6%	NA

- In line with the improvement in investment portfolio performance, some of the unrealized losses earlier charged directly to equity, have been reversed, translating in an uptick in equity. With dividend payout being on the higher side, internal capital generation has remained limited.

- Given the increase in business volumes, the operating leverage continues to inch up. However, in relation to peers, both operating & financial leverage compare favorably.

- The solvency buffer has increased on a timeline with net admissible asses being notably in excess of the minimum requirement (Dec'19: Rs. 828m; Dec'18: Rs. 533m).

Century Insurance Company Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET		Dec 31, 2018	Dec 31, 2019	Sep 30, 2020
Cash and Bank Deposits		440.4	267.0	145.5
Investments		1,359.0	1,657.4	1,701.8
Investment in Associates		45.1	39.4	43.9
Liquid Assets		1,799.4	1,924.5	2,078.5
Insurance Debt		452.6	500.4	605.8
Prepaid Reinsurance Ceded		171.1	179.9	230.8
Total Assets		2,829.7	3,086.2	3,501.0
Paid Up Capital		503.0	503.0	503.0
Net Worth		1,720.4	1,836.7	1,908.2
Technical Reserves		671.2	740.8	943.0
Total Liabilities		1,094.2	1,220.8	1,552.8

INCOME STATEMENT	2018	2019	9M'19	9M'20
Net Premium Revenue	690.3	779.7	579.0	617.0
Net Claims	(288.2)	(362.7)	(261.0)	(249.9)
Expenses	(283.9)	(294.8)	(229.0)	(246.8)
General & Administrative Expenses	(10.5)	(9.8)	(8.3)	(8.7)
Underwriting Profit/(Loss)	119.3	125.4	84.4	122.8
Investment Income	(54.3)	28.0	(53.5)	51.9
Profit Before Tax	105.0	199.7	61.0	210.0
Profit After Tax	71.3	145.2	38.3	151.2

RATIO ANALYSIS		2018	2019	9M'20
Cession Ratio (%)		37.0%	36.5%	34.8%
Gross Claims Ratio (%)		41.9%	41.2%	43.6%
Net Claims Ratio (%)		41.8%	46.5%	40.5%
Underwriting Expense Ratio (%)		41.0%	37.4%	39.6%
Combined Ratio (%)		82.7%	83.9%	80.1%
Net Operating Ratio (%)		90.6%	80.3%	71.7%
Insurance Debt to Gross Premium (%)		38.2%	38.1%	42.4%
Operating Leverage (%)		40.1%	42.5%	43.0%
Financial Leverage (%)		23.4%	25.1%	27.6%
Adjusted Liquid Assets to Technical Reserves (%)		4.1x	3.9x	3.6x

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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: 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.vis.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.vis.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.vis.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	See table below
Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted	See table below

Rating History

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	Rating Type: IFS		
31-Dec-20	AA-	Stable	Reaffirmed
28-Dec-19	AA-	Stable	Upgrade
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

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Mohammad Hussain Hijri	CEO	December 17, 2020
Mr. Sabzali Pirani	CFO	
Mr. Asif Mehmood	VP – Finance & Compliance Officer	