

RATING REPORT

Century Insurance Company Limited

REPORT DATE:

December 29th, 2021

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-Term	Long-term
IFS	AA-	AA-
<i>Rating Date</i>	<i>December 29, 2021</i>	<i>December 31, 2020</i>
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 1985	External auditors: EY Ford Rhodes Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Iqbal Ali Lakhani
Key Shareholder(s):	Chief Executive Officer: Mr. Mohammed 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)

VIS Entity Rating Criteria : General Insurance (November 2019)

<https://docs.vis.com.pk/docs/Meth-GenInsurance201911.pdf>

Century Insurance Company Limited

OVERVIEW OF
THE
INSTITUTION

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

RATING RATIONALE

Century Insurance Company Limited (CICL) is engaged in the provision of general (non-life) insurance services and small window of takaful operations in Pakistan. CICL is a small-sized insurance Company with a market share of 1.6% (2020: 1.5%) in the conventional insurance market and 0.9% (2020: 0.8%) in the takaful insurance market. On consolidated basis, the company has a market share of 1.5% (2020: 1.4%) as of end Sep'21.

Industry Update

The gross premiums/takaful contributions underwritten by the industry grew by 8% in 2020, with further growth observed in 9M'21 as well, as per data published by Insurance Association of Pakistan (IAP). Future industry growth is likely to pick pace as the ruling government enters its final 2 years, wherein historically it has been noted that infrastructure projects are ramped up. The non-life insurance penetration, estimated at ~0.2%, remains notably lower than regional peers. In 2020, given the meagre growth in premiums, the industry's combined ratio increased driven by an uptick in both net claims and expense ratios. The sector's operating leverage is considered to be on the lower side and there is certainly room for additional insurance penetration in the domestic market. Overall capitalization & liquidity buffers in place are considered to be adequate.

(Rs. in Billions)	2019	2020	9M20	9M21
Insurance Premium (Gross)	83.7	89.6	65.3	76.8
Takaful Contributions (Gross)	11.0	12.6	9.5	12.0
Industry Total (Gross)	94.6	102.3	74.8	88.8
Combined Ratio	89.1%	95.3%	66.9%	64.1%
- Net Claims Ratio	51.7%	54.8%	25.0%	25.9%
- Underwriting Expense Ratio	37.4%	40.5%	41.9%	38.2%
Operating Leverage	49.6%	52.5%	37.0%	41.8%

Key Rating Drivers

Assigned ratings are underpinned by sound sponsor profile

CICL forms part of the Lakson Group of Companies, an industrial group, having prominent and diversified presence across several sectors including paper & packaging, media, fast moving consumer goods and financial services. The company draws financial and business support from the group.

Modest growth observed in business volumes

CICL offers insurance policies covering fire and property damage (including engineering), marine cargo, aviation and transport, motor, accident and health and other miscellaneous risks through eleven branches spread across Pakistan. During 2020, gross underwriting

premium grew by 4.3% and further grew by 11.5% during 9M'21, less than the industry growth of 8% and 18% respectively. Growth in business volumes was on account of Company generating new business in Motor and Marine segment. The company posted total gross premiums of Rs. 1,200m (9M'20: Rs. 1,076.0m; 2020: Rs. 1,371.2m; 2019: Rs. 1,314.6m) in 9M'21. Management foresees opportunity in Marine and Motor segment going forward, on account of growth in car sales and increase in export led activities while exposure in accident and health segment is expected to remain limited and selective. Fire and property segment which accounts for the largest share of business mix is expected to record in uptick going forward on account of higher capex spend incurred by companies in the last year.

Table 1: Business Mix

Business Mix	2018	2019	2020	9M'20	9M21
Fire and property damage	31.7%	30.9%	30.3%	32.0%	30.6%
Marine, aviation & transport	17.7%	18.2%	20.1%	18.3%	19.3%
Motor	25.9%	24.3%	24.7%	23.8%	24.5%
Accident & Health	19.5%	21.7%	20.4%	20.9%	21.5%
Miscellaneous	5.2%	4.9%	4.5%	5.0%	4.1%
Total	100%	100%	100.0%	100.0%	100.0%

Ratings incorporate steady underwriting profits reported over the years

Underwriting profitability has depicted modest growth over the years and was reported higher at Rs. 143.4m (9M'20: Rs. 122.8m; 2020: Rs. 182.8; 2019: Rs. 122.8m) during 9M'21. Major contribution to underwriting profit came from marine (9M'21: Rs. 93.4m; 9M20: Rs. 63.1m) and motor (9M'21: Rs. 71.3m; 9M'20: Rs. 81.6m) segments. Fire segment has posted losses on a timeline, which management cites due to allocation of expenses on return premium basis. Even though net claims ratio was higher (9M'21: 46.7%; 9M'20: 40.5%), contained underwriting expenses along with higher gross premium contributed towards higher underwriting profits. The highest net claims ratio emanates from A&H segment, which mirrors the industry trend as well, although a scale down was witnessed during 2020 due to pandemic. Other notable decline with the onset of pandemic was witnessed in Motor segment on account of decline in transport led activities. After the ease in COVID-19 led travel restriction claim ratio for Motor jumped up to pre-pandemic levels. The loss ratio in the fire segment scaled up during 2020 on account of breakout of fire in one of the textile client. Nevertheless, depicted improvement during 9M'21.

Table 2: Underwriting Profit (Loss)

Underwriting Profit/Loss	2019	2020	9M'20	9M'21
Fire and property damage	(16.5)	(24.6)	(28.1)	(12.1)
Marine, aviation& transport	84.6	106.2	63.1	93.4
Motor	92.2	101.2	81.6	71.3
Accident & Health	(28.9)	0.8	12.1	(14.1)
Miscellaneous	(6.0)	(0.9)	(5.9)	4.9
Total Underwriting Profit	125.4	182.8	122.8	143.4

Higher investment income during 2020 and 9M'21 provided support to the bottom-line. Investment income stood higher majorly on account of increased investments within Fixed Income and gain on sale of equity securities. On the Window Takaful Operations front, CICL mainly caters to financial institutions (Banks) to provide Islamic financing options to them. The management foresee steady growth in the takaful window, going forward. Whereas, the strategic investments of the Company include Colgative Palmolive (Pakistan) Limited and Century Paper Board Mills Limited; dividend income emanating from these is considered adequate given small quantum of investment.

Table 4: Profitability Metrics

	2019	2020	9M'21
Combined Ratio	83.9%	78.4%	78.4%
- Net Claims Ratio	46.5%	42.6%	46.7%
- Underwriting Expense Ratio	37.4%	35.8%	31.6%
Investment income	28.0	79.5	85.2
Other income	47.0	63.5	37.5
Share of Profit-Associates	6.9	12.4	4.8
Profit on Window Takaful	9.5	10.5	15.4
Profit After Tax	145.2	242.6	200.9

Ratings are further supported by diversified panel of local and international reinsurers.

Loss absorption capacity of the institution and ability to underwrite business is supported by diversified panel of reinsurers with mostly 'A' and above rated companies; SCOR RE (AA-rated) enjoys the lead share followed by Pakistan Reinsurance Company Limited (AA rated), Korean Re (A rated), Labuan Re (A- rated), and Arab Re (B rated), and Saudi Re (rated A3) respectively. There was just one change on the reinsurer panel during ongoing year with Trust International being replaced by Arab Re and Saudi Re. CICL's retention ratio decreased during the ongoing year with further cession observed in Fire segment. Retention and treaty capacities have largely remained around prior year level and are expected to remain in similar ranges going forward. Ratings draw comfort from a diversified panel of local and international reinsurers.

Table 5: Cession Ratio

Cession Ratio	2019	2020	9M'21
Fire and property damage	87.2%	88.5%	94.6%
Marine, aviation transport	34.9%	38.1%	41.0%
Motor	1.96%	2.4%	2.14%
Accident & Health	0.2%	0.2%	0.1%
Miscellaneous	74.3%	73.5%	70.3%
Overall Cession Ratio	37.2%	38.1%	40.0%

Investments diversified within capital markets, private equity and debt instruments

The investment book of CICL comprises 44.3% of the total asset as at end Sep'21. Almost 41% of investment is deployed in Fixed Income securities, 6% in term deposits, 39% in equity and equity based mutual funds and remaining deployed in Lakson Private Equity fund. As per internal investment policy, asset class mixes are adjusted on the basis of outlook on interest rates and capital market. Hence, going forward investment will tilt more towards money market securities given uptick in interest rates.

Table 3: Investment Portfolio

<i>In Rs. Millions</i>	2019	2020	9M'21
Equity Securities(including FI funds)	802.1	958.7	1,015.9
Debt Securities	429.4	524.7	533.2
Term Deposit Receipts	426	195.4	100.0
Total	1,657.4	1,678.8	1,649.1

Liquidity profile is considered satisfactory given the adequate liquid assets to meet underwriting liabilities.

Liquidity profile is considered sound in view of sizable liquid assets maintained in relation to technical reserves. Insurance debt as a proportion of gross premium improved during Sep'21 on account of higher gross premiums recorded. However, insurance receivables increased to Rs. 598.6m (2020: Rs. 554.7m) during Sep'21 due to growth in business volumes and policy renewal falling in Jun'21 (on account of timing difference in premium received from Lakson group clients). The aging profile of insurance debt is considered adequate with 67% of the same outstanding for a period of up to 6 months. Operating cash flow in relation to net premium revenue remains at adequate levels (9M'21: 23.6%; 2020: 24.3%).

Table 4: Liquidity Indicators

<i>In Rs. Millions</i>	2018	2019	2020	9M'21
Operating Cash Flow	160.7	165.4	205.8	208.8
Adjusted Liquid Assets/Technical reserves (x)	3.6x	3.5x	3.5x	3.4x
Insurance debt/ gross premium(%)	38.2%	38.1%	40.5%	37.4%*

*annualized ratio

Capitalization indicators remain sound to support future growth plans

Company recorded slightly higher net equity at Rs. 2.1b during Sep'21, internal capital generation has remained limited on account of high dividend payout policy (2020: 41%; 2019: 60.6%). Capitalization levels of the Company are considered adequate and are sufficient to cater to the growth plans of the Company. Financial leverage adjusted for reinsurance recoveries against outstanding claims, stood higher during the ongoing year on account of increased unearned premium reserve, the increase in interim period is in line with market trend, wherein technical reserves are usually elevated as of 9M-end. Operating

leverage however has remained fairly stable over the years at 41.5%. The Company's financial risk indicators are aligned with peer median.

Table 65: Capitalization Indicators

<i>In Rs. Millions</i>	2018	2019	2020	9M'21
Net Worth	1,720.4	1,836.7	2,049.1	2,129.1
Operating Leverage (%)	40.1%	42.5%	41.3%	41.5%
Financial Leverage (%)	22.8%	24.9%	24.1%	27.0%

Century Insurance Company Limited

Appendix I

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	31-Dec-18	31-Dec-19	31-Dec-20	9M'21	
Cash and Bank Deposits	440.4	267.0	454.4	658.4	
Investments	1,359.0	1,657.4	1,678.8	1,649.1	
Insurance Debt	452.6	500.4	554.7	598.6	
Total Assets	2,829.7	3,086.2	3,402.8	3,721.9	
Paid-up Capital	503.0	503.0	503.0	503.0	
Net Worth	1,720.4	1,836.7	2,049.1	2,129.1	
Liquid Assets	1,799.4	1,924.5	2,133.2	2,307.5	
Total Liabilities	1,109.3	1,220.8	1,318.9	1,546.3	
<u>INCOME STATEMENT</u>					
Net Insurance Premium	690.3	779.7	846.1	662.6	
Net Claims	288.2	362.7	360.2	309.6	
Underwriting Profit/(Loss)	119.3	125.4	182.8	143.4	
Investment Income	(54.3)	28.0	79.5	85.2	
Profit Before Tax	105.0	199.7	342.4	281.9	
Profit After Tax	71.3	145.2	242.6	200.9	
<u>RATIO ANALYSIS</u>					
Cession Ratio (%)	37.0%	37.2%	38.1%	40.0%	
Gross Claims Ratio (%)	41.9%	41.2%	49.6%	41.1%	
Net Claims Ratio (%)	41.8%	46.5%	42.6%	46.7%	
Underwriting Expense Ratio (%)	41.0%	37.4%	35.8%	31.6%	
Combined Ratio (%)	82.7%	83.9%	78.4%	78.4%	
Net Operating Ratio (%)	78.8%	75.1%	65.9%	66.7%	
Insurance Debt to Gross Premium (%)	38.2%	38.1%	40.5%	37.4%	
Operating Leverage (%)	40.1%	42.5%	41.3%	41.5%*	
Financial Leverage (%)	22.8%	24.9%	24.1%	27.0%	
Adjusted Liquid Assets to Technical Reserves (x)	3.66	3.47	3.45	3.39	

*annualized ratios

REGULATORY DISCLOSURES		Appendix III		
Name of Rated Entity	Pakistan Reinsurance Company Limited (PRCL)			
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			
	29-Dec-21	AA-	Stable	Reaffirmed
	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	
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 insurer financial strength only and is not a recommendation to buy or sell any securities.			
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Due Diligence Meetings	S. No.	Name	Designation	Date
	1	Mr. Mohammad Hussain Hijri	Chief Executive Officer	
	2	Mr. Sabzali Pirani	Chief Financial Officer	November 29th, 2021
	3	Mr. Asif Mehmood	VP- Finance & Compliance Officer	