RATING REPORT

Century Insurance Company Limited

REPORT DATE:
December 15, 2022

RATING ANALYST:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
	Long-Term	**Long-term**
IFS	AA (IFS)	AA (IFS)
Rating Date	*December 15, 2022*	*March 31, 2022*
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Harmonized

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 (March 2022)
https://docs.vis.com.pk/docs/VIS%20General%20Insurance%20-%2020220331%20-%20FinalFinal.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) has a 37-year track record of providing general (non-life) insurance services. Alongside, it also operates a small window of takaful operations. CICL is a small-sized player with consolidated (conventional and takaful insurance) market share of 1.6% (2021: 1.5%) at end-Sept'22. CICL provides insurance policies covering fire & property damage (including engineering), marine cargo, aviation & transport, motor, accident & health and other miscellaneous risks through 11 branches spread nation-wide.

Sector Update

- As per Insurance Association of Pakistan (IAP), industry's gross premiums/takaful contributions underwritten grew by ~11% (2020: ~8%) in 2021.
- General Insurance performance is highly associated with economic growth as macroeconomic, regulatory and demographic factors are key demand drivers.
- Albeit being subdued, insurance premium growth surpassed GDP growth of ~6% in FY22; however, the insurance penetration has remained below par if compared to regional counterparts, as non-life insurance penetration is estimated at 0.35% (India: 4.2%; Sri-Lanka: 1.4%; Bangladesh: 0.4%).

Table: Key Industry Metrics (Rs. in Billions)

	2019	2020	2021	HY22
Insurance Premium (Gross)	83.7	89.6	97.4	55.8
Takaful Contributions (Gross)	11.0	12.6	16.2	10.4
Industry Total (Gross)	94.6	102.3	113.6	66.2
Combined Ratio	89.1%	95.3%	84.4%	89.8%
Net Claims Ratio	51.7%	54.8%	49.4%	53.2%
Underwriting Expense Ratio	37.4%	40.5%	35.0%	36.7%
Operating Leverage	49.6%	52.5%	58.3%	67.3%

- High inflation, rising interest rates, flooding in major parts of Sindh and Punjab, and incessant political turmoil have posed major challenges for non-life insurance sector as net claim expenses have increased but the companies are unable to expand their premium to the same extend much to the client discontent.
- International reinsurers have also neglected local insurance players as successive global calamities has put pressure on profitability of global insurance sector, hence they have diminished their capacity while demanding higher rates to local insurance industry.
- Industry's combined ratio posted a dip in 2021, which was driven by both net claims and expense ratios. However, with a higher claim ratio in the first half of the ongoing year amidst uncertain floods situation, overall combined ratio for 2022 is expected to increase, which will squeeze net income of the sector.
- Investment performance remained strong during the period, with overall investment income posting an uptick of ~18%.
- Sector's operating leverage has risen to ~67% at end-Jun'22 primarily on account of subdued equity growth. However, this level of operating leverage still depicts room for additional insurance penetration in the domestic market.

- Implementation of IFRS 17 will commence from Jan'23. The SECP has issued instructions of phase-wise implementation of IFRS 17, as per which the insurance companies have submitted the gap analysis with SECP by end-Sept'21.

Key Rating Drivers

Assigned ratings continue to drive support from strong sponsor strength

CICL is a part of Lakson Group of Companies, an industrial conglomerate with a prominent and diverse presence in several industries, including paper and packaging, media, fast moving consumer goods, and financial services.

Healthy growth aided by post-pandemic economic recovery. However, economic slowdown amid global inflation and recessionary trend pose a challenge going forward.

Gross underwriting premium amounted to Rs. 1.6b (2020: Rs. 1.4b), registering a growth of ~17% (outpacing industry growth of ~11%) in 2021 supported by economic recovery following the pandemic. While broad based growth was noted across all segments, Marine contributed the most new business, followed by Health and Motor segments. Moreover, Marine has outperformed all other segments in terms of growth over the last three years. The growth momentum was sustained in the ongoing year with gross premiums reported at Rs. 1.4b at end-Sept'22, up ~16% from SPLY.

Table: Business Mix (%)

	2019	2020	2021		9M'21	9M'22
Fire and property damage	30.9%	30.3%	27.6%		30.6%	28.2%
Marine, aviation & transport	18.2%	20.1%	21.9%		19.3%	22.4%
Motor	24.3%	24.7%	24.2%		24.5%	22.0%
Accident & Health	21.7%	20.4%	22.0%		21.5%	22.9%
Miscellaneous	4.9%	4.5%	4.2%		4.1%	4.4%

Highest revenue contribution continue to remain from Fire and property damage; however, overall business mix is considered balanced and well diversified. As per management, the mix will remain similar going forward, with a focus on growth in all segments while exercising cautious underwriting in light of economic slowdown amid global inflation and recessionary trend.

Reinsurance limit enhanced in the Marine segment during the year, with reinsurance treaties comprising a diversified panel of local and international reinsurers.

Diverse panel of reinsurers with 'A-' and higher rated reinsurers supports loss absorption capacity and business underwriting ability. The replacement of Arab Re (rated B) and Saudi Re (rated A3) on the reinsurer panel by Peak Re (rated A-) and an increase in Marine reinsurance limit were among few changes over the review period. Retention and treaty capacities for the remaining segments remained unchanged.

Table: Cession Ratio

Cession Ratio	2019	2020	2021		9M'21	9M'22
Fire and property damage	87.0%	86.2%	91.1%		90.2%	93.4%
Marine, aviation transport	33.5%	36.2%	42.6%		40.0%	41.8%
Motor	2.1%	2.0%	2.5%		2.5%	2.7%

Accident & Health	0.2%	0.2%	0.2%		0.1%	0.2%
Miscellaneous	76.9%	71.0%	73.6%		72.4%	66.7%
Overall Cession Ratio	**38.1%**	**37.1%**	**39.4%**		**38.5%**	**38.6%**

Claim ratio depicted weakening in 2021 and in the ongoing year yet remained in line with industry average.
Overall net claim ratio depicted a weakening in 2021 and in the ongoing year, with higher claims growth in relation to premium written; however, it remained in line with industry average. Highest claims emanated from Health segment followed by Motor while overall claim expenses raised considerably given high inflation over the review period, which mirrors the industry trend. In addition, Fire segment gross loss ratio scaled up during 9M'22 due to fire breakout in one of the packaging sector clients; nonetheless, high cession provided comfort. As per management, no significant claims have resulted from the recent floods situation in rural areas of Sindh & Punjab.

Ratings incorporate steady underwriting profits reported over the years. Significant increase in investment income supported the bottom-line.
Underwriting profitability has noted steady growth over the years; however, the same fell by ~11% in 9M'22 compared to SPLY due to a higher net claims ratio. Marine and Motor segments have continued to contribute the majority of underwriting profit, while Fire and property has posted losses on a timeline, which management attributes to expense allocation on a written premium basis. Furthermore, significant increase in investment income (primarily due to higher returns on government securities, dividend income, and gain on sale of equity securities) supported the bottom line, which is consistent with industry trend.

Investments increased in debt instruments and fixed income/money market funds over the review period.
As at end-Sept'22, investment book reached Rs. 2.0b (2021: Rs. 1.8b), accounting for ~45% of total asset base. Government debt securities (both T-Bills and floater PIBs) combined with income/money market funds account for nearly 77% of investments, with the remainder comprising asset allocation and strategic investment funds, and equities (~6% of investment portfolio). In line with uptick in benchmark rates, asset class mix shifted towards debt market products, with majority investment in equity-based funds being divested during the review period.

Table: Investment Portfolio (Rs. in m)

	2019	2020	2021		9M'21	9M'22
Mutual Funds (FI & MM) & Equities	802.1	958.7	1,224.9		1,015.9	1,225.8
Debt Securities	429.4	524.7	582.9		533.2	791.2
Term Deposit Receipts	426.0	195.4	-		100.0	-
Total	**1,657.4**	**1,678.8**	**1,807.8**		**1,649.1**	**2,016.9**

Liquidity profile remains sound on account of exposure in government instruments and adequate coverage of liabilities.
Given the size of investments in relation to liabilities, liquid asset coverage remains strong. Over the review period, insurance debt as a proportion of gross premium has improved. However, insurance receivables increased in absolute terms to Rs. 804.5m (2021: Rs. 541.1m) at end-Sept'22 given growth in business volumes and policy renewal falling in the month of June (due to timing difference in premium received from Lakson group clients). Comfort is

drawn with fully providing for receivables that are overdue for more than a year. Operating cash flow in relation to net premium revenue noted healthy improvement.

Capitalization continue to support future growth plans.
Net equity grew by ~14% over the review period, reaching to Rs. 2.3b at end-Sep'22. In 2021, dividend payout ratio remained consistent with last year at 36.2%. Financial leverage, adjusted for reinsurance recoveries against outstanding claims, increased during as a result of increased unearned premium reserve while increase at end-Sept'22 is consistent with market trend, wherein technical reserves are typically elevated. Operating leverage has largely remained stable over the years. Overall financial risk indicators are aligned with peer median.

Century Insurance Company Limited **Appendix I**

FINANCIAL SUMMARY							*(amounts in PKR millions)*
BALANCE SHEET	**2018**	**2019**	**2020**	**2021**		**9M'21**	**9M'22**
Cash and Bank Deposits	440.4	267.0	454.4	725.5		658.4	549.3
Investments	1,359.0	1,657.4	1,678.8	1,807.8		1,649.1	2,016.9
Insurance Debt	452.6	500.4	554.7	541.1		598.6	804.5
Total Assets	**2,829.7**	**3,086.2**	**3,402.8**	**3,850.5**		**3,721.9**	**4,458.8**
Paid-up Capital	503.0	503.0	503.0	503.0		503.0	553.3
Net Worth	**1,720.4**	**1,836.7**	**2,049.1**	**2,265.0**		**2,129.1**	**2,334.9**
Liquid Assets	1,799.4	1,924.5	2,133.2	2,533.3		2,307.5	2,566.1
Total Liabilities	**1,109.3**	**1,220.8**	**1,318.9**	**1,536.9**		**1,546.3**	**1,536.9**
INCOME STATEMENT							
Net Insurance Premium	690.3	779.7	846.1	897.6		662.6	788.5
Net Claims	288.2	362.7	360.2	449.7		309.6	429.2
Underwriting Profit/(Loss)	**119.3**	**125.4**	**182.7**	**195.5**		**143.3**	**127.5**
Investment Income	(54.3)	28.0	79.5	116.0		85.2	123.5
Other Income	-	47.0	63.5	52.8		37.5	55.5
Profit Before Tax	**105.0**	**199.7**	**342.4**	**389.6**		**281.9**	**329.6**
Profit After Tax	**71.3**	**145.2**	**242.6**	**277.5**		**200.9**	**203.3**
RATIO ANALYSIS							
Cession Ratio (%)	37.0%	36.5%	36.3%	36.4%		34.5%	35.5%
Retention Ratio (%)	63.0%	63.5%	63.7%	63.6%		65.5%	64.5%
Gross Claims Ratio (%)	41.9%	41.2%	49.6%	43.3%		41.1%	74.4%
Net Claims Ratio (%)	41.8%	46.5%	42.6%	50.1%		46.7%	54.4%
Underwriting Expense Ratio (%)	41.0%	37.4%	35.8%	28.1%		31.6%	29.4%
Combined Ratio (%)	82.7%	83.9%	78.4%	78.2%		78.4%	83.8%
Net Operating Ratio (%)	90.6%	80.3%	69.0%	65.4%		73.1%	68.2%
Net Insurance Debt to Gross Premium (%)	38.2%	38.1%	40.5%	33.8%		56.2%	43.4%
Operating Leverage (%)	40.1%	42.5%	41.3%	39.6%		41.2%	44.9%
Financial Leverage (%)	23.3%	24.9%	24.1%	27.8%		27.0%	32.5%
Liquid Assets to Net Technical Reserves (x)	4.50	4.20	4.32	4.02		3.39	3.42

INSURER FINANCIAL STRENGTH RATING Appendix II

RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

AAA(IFS)
Exceptionally Strong. Exceptionally strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.

AA++(IFS), AA+(IFS), AA(IFS)
Very Strong. Very strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.

A++(IFS), A+(IFS), A(IFS)
Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.

BBB++(IFS), BBB+(IFS), BBB(IFS)
Good. Good 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 manageable.

BB++(IFS), BB+(IFS), BB(IFS)
Marginal. Marginal capacity to meet policyholders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.

B++(IFS), B+(IFS), B(IFS)
Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.

CCC(IFS) , CC(IFS), C(IFS)
Very Weak. Very weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment.

D(IFS)
Distressed. Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

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. https://docs.vis.com.pk/docs/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. https://docs.vis.com.pk/docs/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. https://docs.vis.com.pk/docs/private_ratings.pdf

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Century Insurance Company 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				
	15-Dec-22	AA (IFS)	Stable	Reaffirmed	
	31-Mar-22	AA (IFS)	Stable	Harmonized	
	29-Dec-21	AA-	Stable	Reaffirmed	
	31-Dec-20	AA-	Stable	Reaffirmed	
	31-Dec-19	AA-	Stable	Upgrade	
	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	
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.				
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 Meeting	**Name**	**Designation**	**Date**		
	Mr. Sabzali Pirani	Chief Financial Officer	Nov 25, 2022		
	Mr. Aseem Ahmed	Head of Sales & Marketing			
	Ms. Madiha Khalid	Head of Reinsurance			
	Mr. Hamza Siddiqui	Risk Management Head			
	Mr. Asif Mehmood	SVP- Finance & Compliance Officer			