Pakistan Reinsurance Company Limited

Chairman & CEO: Vacant

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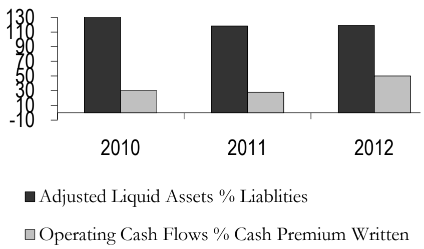
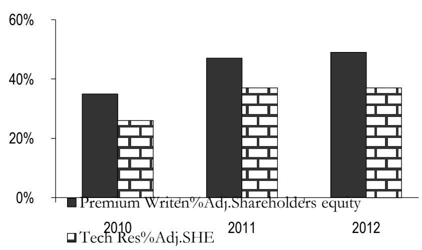
Category	**Latest**	**Previous**
IFS	**AA** *Oct 28, '13*	**AA** *June 05, '12*
Outlook	**Stable** *Oct 28, '13*	**Stable** *June 05, '12*

Key Financial Trends





Rs. in billions	2010	2011	2012
Gross Premium Written	6,552	6,892	8,154
Net Premium	2,941	3,535	4,096
Net Claims Ratio	57.4%	57.1%	54.1%
Combined Ratio	91.3%	90.4%	88.6%
Net Profit/(Loss)	526.3	844.8	1,104
Adj. Equity	8,471	7.611	8.365
Operating Leverage	34.7%	46.5%	49%
Financial Leverage	25.6%	37.1%	37.4%
Insurance Debt % G.P	38.1%	37.2%	33.2%

Rating Rationale

Pakistan Reinsurance Company Limited (PRCL) continues to hold a dominant position in the local reinsurance market by virtue of having the first right of refusal in treaty business. The company posted gross premium of Rs. 8.2b (FY11: Rs. 6.9b), depicting growth of 18.3% in 2012. The increase was manifested in facultative business while curtailing the proportion of revenue under treaty. PRCL accepted around 22% of total treaty business against a compulsory offering of 35% by the local insurance industry, thereby reflecting some selectivity in its underwriting operations.

There was no change in the reinsurer panel with Swiss Re as leader in non-marine while Novae Syndicate 2007 of Lloyds leading marine business. There are two reinsurers in the 'AA' rating band. Barring Asian Re, the remaining panelists have ratings in the 'A' Band. PRCL has XoL cover for both marine and non-marine business. The company negotiated additional reinstatements in the first layer of its marine treaty. Moreover, retention and treaty capacity in CAT cover for non-marine business was enhanced while reducing the number of reinstatements to one each in every layer. The remaining treaty terms have remained the same. Overall cession increased to 49.7% (FY11: 41.3%) due to higher premium rates negotiated by reinsurers.

The liquidity profile of the company remains robust having net operating cash flows of Rs. 2b (FY11: Rs. 1.3b). Moreover, liquid assets as a proportion of total liabilities improved to 1.19x (FY11: 1.18x) on the back of increased cash generation. This is despite the fact that over the years, the company has piled up significant insurance debt amounting to Rs. 2.7b (FY11: Rs. 2.6b) due to reconciliation issues with other insurers/reinsurers. In 2012, a comprehensive exercise was conducted by the external auditors to reconcile these balances. As a result, for the first time in 26 years PRCL's accounts were not qualified in relation to this issue in 2012. The exercise has helped in reconciling balances as the quantum of insurance debt vis-à-vis gross premium has reduced amidst considerable business growth in 2012.

The investment portfolio (at market value) amounted to Rs. 7.9b (FY12: Rs. 7b) at end FY12. Around 43% of the portfolio is concentrated in ordinary shares and stock funds while the remaining portion comprises exposure in government securities and TDRs. The portfolio carried a revaluation surplus of Rs. 1.1b primarily on stock market investments at end FY12, increasing to Rs. 2.1b by end HY13. During FY12, PRCL has taken fresh exposure in government securities only. Going forward, the management intends to retain such approach. Market risk arising from the company's portfolio is slightly on the higher side, both in terms of interest rate risk and equity price risk. Exposure to stock market (both directly & indirectly) represented about 40.5% of the company's own adjusted equity. The company also has sizable investment properties yielding rental income.

PRCL's claims performance was better in facultative procurement vis-à-vis treaty business; there is complete underwriting discretion in case of former. Net claims ratio in treaty remained largely in line with the industry trend improving notably in 2012 as compared to the preceding year. Consequently, overall net claims ratio was slightly lower at 54.1% (FY11: 57.1%).

The position of CEO & Chairman is vacant as the newly appointed Mr. Rasul Bux Phulpoto was called back by the GoP before completing his three years term. Moreover, the internal audit head retired in 2011 and the position is still vacant. Apart from this, there has been stability at senior management level.

Overview of the Institution

PRCL was established in 2000 and is listed on the Karachi and Lahore stock exchanges. The Government of Pakistan (GoP) directly and indirectly holds 75.4% of PRCL's shares while remaining shares are held by the general public and various institutional investors. The company has a zonal office in Lahore while the head office is in Karachi. The annual accounts for the year 2012 were audited by M/s Anjum Asim Shahid Rehman & Co JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: IFS		
28-Oct-13	AA	Stable		Reaffirmed
05-Jun-12	AA	Stable		Reaffirmed
28-Apr-11	AA	Stable		Initial