

Pakistan Reinsurance Company Limited

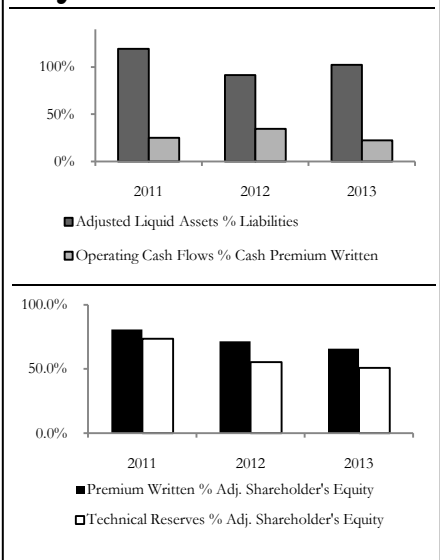
Chairman & CEO: Vacant

November 28, 2014

Analyst: Maimoon Rasheed
Muniba Khan

Category	Latest	Previous
IFS	AA Nov 28, '14	AA Oct 28, '13
Outlook	Stable Nov 28, '14	Stable Oct 28, '13

Key Financial Trends



Rs. in millions	2011	2012	2013
Gross Premium Written	6,893	8,153	8,659
Net Premium	3,535	4,096	4,724
Net Claims Ratio	57.1%	54.1%	59.9%
Combined Ratio	90.4%	87.2%	91.7%
Net Profit/(Loss)	845	1,160	1,321
Adj. Equity	7,611	8,087	10,155
Operating Leverage	46.5%	50.7%	46.5%
Financial Leverage	37.1%	55.8%	50.8%
Insurance Debt % G.P	37.2%	33.2%	30.0%

Rating Rationale

The rating assigned to Pakistan Reinsurance Company Limited (PRCL) incorporates sovereign sponsorship represented through State Life Insurance Corporation of Pakistan and Ministry of Commerce, having aggregate shareholding of around 69.3%. By virtue of being the sole reinsurer in Pakistan, all insurance companies must offer at least 35% of their business to PRCL under treaty arrangements, whereby the company enjoys discretion to accept that business. In view of this, business has continued to grow even though there are significant gaps in the senior management cadres, including at the helm of the organization. Timely appointment of key executives is considered essential from a governance perspective as also the future business strategy.

The assigned rating also reflects PRCL's strong capitalization built over a period of time through internal profit generation. Liquidity indicators remain sound, drawing strength from the positive cash flows, which have allowed the company to build a sizeable investment portfolio over the years.

During FY13, the company posted gross premium of Rs. 8.7b (FY12: Rs. 8.2b) primarily on account of higher treaty business. Proportion of treaty business to total business increased to 48.1% in FY13. Moreover, gross premium amounted to Rs. 3.4b in HY14; business in second half is likely to be higher as aviation business is largely renewed in the second half of the year. Growth in industry premium may help augment business volumes for PRCL, if the risk profile of ceded business remains within acceptable limits for the company.

PRCL's reinsurer panel comprises various companies with bulk of business ceded to entities rated in the 'A' and 'AA' bands. Lead reinsurer in non proportional treaties is Swiss Re (rated AA- by S&P). The reinsurance panel depicted some changes for year 2014 with the exit of Best Re and Lloyd's Underwriters. PRCL was able to negotiate treaties instead with Tempo Re, Partner Re, Canopus Asia Pte and Catlin Syndicate, etc. During HY14, overall cession level was recorded at 44% (FY13: 40%; FY12: 49.7%); full year numbers are likely to be slightly different, given that business mix is likely to experience change as aviation business is booked by the company.

Market value of investments amounted to Rs. 10.5b (FY13: Rs. 9.7b; FY12: Rs. 7.8b) at end-HY14. Almost 40% of the company's investment portfolio comprises exposure in government securities while the remaining was primarily deployed directly in the stock market or through mutual funds. Over time, PRCL has enhanced its fixed income portfolio further by taking fresh exposure in PIBs. The portfolio continues to generate a steady stream of income and provides meaningful contribution to the bottom line of the company. PRCL has benefited from the upward rally in the stock market. PRCL's investments also include two properties at prime locations in Karachi, which generate rental income.

Insurance debt amounted to Rs. 2.4b (FY13: Rs. 2.6b, FY12: 2.7b), representing 36% (FY13: 30%, FY12: 33.2%) of gross premium at end-HY14. Insurance debt largely pertained to marine and aviation business. Adjusted liquid assets as a proportion of total liabilities were considerably high while operating cash flows were also adequately positive at Rs. 1.5b (FY12: Rs. 2b) in FY13. Cash flows for HY14 amounted to Rs. 234.2m; given the trend in past, full year cash flows are likely to be higher. On account of higher market value of investments along with profit retention, total adjusted equity increased to Rs. 10.8b (FY13: Rs. 10.2b; FY12: Rs. 8.1b) by end-HY14.

Gross claims ratio increased to 64% (FY12: 39%) in FY13 and net claims ratio was also higher at 60% (FY12: 54%). On net basis, claims performance in treaty business weakened as compared to business underwritten through facultative arrangement. A larger proportion of claims were contributed by the fire segment in both businesses, followed by engineering in facultative and accident in treaty. Gross and net claims ratios were reported lower at 32%, in HY14.

Overview of the Institution

Established in 2000, PRCL is a public limited entity under the Companies Ordinance, 1984. The company is responsible for providing reinsurance services to the local industry. Majority shareholding is held by Ministry of Commerce and State Life Insurance Corporation of Pakistan. PRCL operates through its zonal office in Lahore and head office in Karachi. The annual accounts for the year 2013 were audited by M/s Anjum Asim Shahid Rehman & Co. **JCR-VIS**

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

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