

RATING REPORT

Pakistan Reinsurance Company Limited

REPORT DATE:

April 26, 2016

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>April 26, '16</i>	<i>November 28, '14</i>
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 2000	External auditors: BDO Ebrahim & Co.
Public Limited Company	Chairman of the Board: Mr. Mumtaz Ali Rajper
Key Shareholder(s):	Chief Executive Officer: <i>Vacant</i>
<i>Government of Pakistan – 51.0%</i>	
<i>State Life Insurance Corporation – 24.4%</i>	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria : General Insurance 2003

<http://www.jcrvis.com.pk/images/methodology.pdf>

Pakistan Reinsurance Company Limited

OVERVIEW OF THE INSTITUTION

Pakistan Reinsurance Company Limited (PRCL) was incorporated as a public limited entity in March 2000. Majority shareholding of company lies with Government of Pakistan. It operates through its head office in Karachi and North Zonal Office in Lahore.

RATING RATIONALE

Pakistan Reinsurance Company Limited (PRCL) is the sole local reinsurance company operating in Pakistan. It is mandatory for the insurance companies existing in Pakistan to offer 35% share of their reinsurance business to PRCL, while PRCL possesses the first right of refusal in this regard. Gross premiums of PRCL remained at Rs. 8.7b in 2014, while the same amounted to Rs. 5.7b during 9M15. Business mix of the company indicates that facultative business remained more than half of the total gross premiums in 2014, while the remaining proportion attributed to treaty business.

Consolidation has been witnessed in the reinsurance panel of PRCL in 2015, with the exit of 14 panel members while one new member was inducted in the panel. Reinsurance panel of PRCL in 2015 comprised 7 members, with a minimum rating of A-. Treaty terms did not witness any change in 2015. Overall cession in 9M15 was recorded at 28% (2014: 46%; 2013: 40%); full year figure is likely to be different due to change in business mix during 4Q15.

Key Rating Drivers

- **Strong sponsor support:** PRCL majority shareholding lies with Government of Pakistan, having an aggregate share of 75% attributing to State Life Insurance Corporation of Pakistan, PRCL Employees Empowerment Trust and Ministry of Commerce.
- **Corporate Governance & Management team:** While the position of CEO remains vacant, efforts have been witnessed to address gaps at the senior management level as indicated by the appointment of Chief Internal Auditor and the Company Secretary. Process for appointing a CEO is currently underway. Casual vacancies were also filled at the board level.
- **Business volume:** Business volumes of PRCL remained stagnant, contrary to 10% growth in the overall industry during 2014. The company posted gross premiums of Rs. 8.7b (2013: Rs. 8.7b) in 2014. Total business booked by the company remained at the same level as prior year of Rs. 8.7b in FY14 largely on account of decline in premium rates. Gross premiums in 9M15 amounted to Rs. 5.7b while major renewals were expected in the last quarter of 2015. Going forward, the management plans to increase its share of treaties up to the maximum limit of 35%, which is currently below the stipulated limit in most cases.
- **Financial Profile:** Insurance debt of PRCL remained sizeable amounting to Rs. 3.6b at end-9M15 (2014: Rs. 3.0b; 2013: Rs. 2.6b), thereby representing 61% as a proportion of gross premiums. Adjusted liquid assets as a proportion of total liabilities remained sizeable at end-2014, while net operating cash flow stood at Rs. 1.1b (2013: Rs. 1.5b) during the same period. Net operating cash flow in 9M15 amounted to Rs. 641m and is likely to be reported higher at end-2015. In spite of higher profit retention, decline in the market values of investments translated into reduction in adjusted equity to Rs. 12.2b (2014: Rs. 12.5b, 2013: Rs. 10.2b). Gross and net claims ratio of PRCL exhibited improvement to 42% (2013: 64%) and 58% (2013: 60%) respectively in 2014.

Outlook

Timely appointment of the CEO is considered pivotal in effectively executing growth plans of the company. PRCL's sufficient equity base provides cushion to absorb losses; prudent underwriting and performance indicators may have bearing on future trend in rating.

Pakistan Reinsurance Company Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	SEP 30, 2015	DEC 31, 2014	DEC 31, 2013
Cash and Bank Deposits	3,629.6	3,081.4	2,706.4
Insurance Debt	3,663.1	3,037.9	2,611.8
Total Assets	17,250.0	17,621.3	16,305.9
Net Worth	7,368.0	6,987.4	6,571.4
Total Liabilities	9,882.0	10,633.9	9,734.5
<u>INCOME STATEMENT</u>	SEP 30, 2015	DEC 31, 2014	DEC 31, 2013
Net Premium Revenue	3,875.8	4,783.9	4,724.4
Net Claims	1,972.6	2,793.2	2,830.9
Underwriting Profit/(Loss)	623.9	515.3	453.4
Investment Income	753.8	1,078.9	1,101.4
Rental Income	35.2	50.2	50.5
Exchange Gain	91.3	(50.6)	156.9
Profit Before Tax	1,504.1	1,564.7	1,705.9
Profit After Tax	1,130.6	1,244.0	1,321.1
<u>RATIO ANALYSIS</u>	SEP 30, 2015	DEC 31, 2014	DEC 31, 2013
Retrocession Ratio (%)	28.4	45.5	40.0
Gross Claims Ratio (%)	49.6	42.2	64.0
Net Claims Ratio (%)	50.9	58.4	60.0
Underwriting Expense Ratio (%)	33.0	31.5	31.7
Combined Ratio (%)	83.9	89.9	91.7
Net Operating Ratio (%)	64.5	76.4	78.1
Insurance Debt to Gross Premium (%)	47.9	35.0	30.0
Operating Leverage (%)	42.5	38.5	46.9
Financial Leverage (%)	52.5	45.6	51.2
Adjusted Liquid Assets to Technical Reserves (%)	186.7	208.9	193.6

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

JCR-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: JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

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			
	04/26/2015	AA	Stable	Reaffirmed
	11/28/2014	AA	Stable	Reaffirmed
	10/28/2013	AA	Stable	Reaffirmed
	6/5/2012	AA	Stable	Reaffirmed
	4/28/2011	AA	Stable	Initial
Instrument Structure	N/A			
Statement by the Rating Team	JCR-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.			
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