

## RATING REPORT

### Pakistan Reinsurance Company Limited

**REPORT DATE:**

April 02, 2021

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating	Initial Rating
	Long-Term	Long-term
<b>IFS</b>	AA	AA
<i>Rating Date</i>	<i>April 02, 2021</i>	<i>December 19, 2019</i>
<b>Rating Outlook</b>	Positive	Stable

#### COMPANY INFORMATION

<b>Incorporated in 2000</b>	<b>External auditors:</b> Grant Thornton Anjum Rahman Chartered Accountants
<b>Public Limited Company</b>	
<b>Key Shareholder(s):</b>	
Secretary Ministry Of Commerce – 44.88%	
State Life Insurance Corporation – 24.41%	
PRCL Employees Empowerment Trust – 6.12%	
General Public – 13.26%	

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria : General Insurance (November 2019)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Meth-GenInsurance201911.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 Corporation Limited (PRCL) is engaged in the provision of reinsurance and retakaful services in Pakistan. It provides reinsurance protection to the local insurance industry as well as managing insurance schemes assigned by the Federal Government of Pakistan. It is the sole national reinsurer operating in Pakistan presently.

#### Key Rating Drivers

#### **Assigned ratings continue to remain underpinned by strong sponsor profile**

The rating draws comfort from the strong sponsorship of Government of Pakistan (GoP), directly and indirectly owning 75% controlling stake in the organization. PRCL operates as the sole national reinsurer in Pakistan. Given its shareholding stake in the organization, the GoP nominates the CEO and six out of eight Directors on the Board.

#### **Growth in business volumes of PRCL outperformed industry volumes growth in 9M'20; facultative business is the primary driver of growth in business volumes due to concentrated efforts in the fire and engineering segments**

All insurance companies operating in Pakistan have to mandatorily offer at least 35% of their business to PRCL under treaty arrangements, whereby the company enjoys discretion for first right of refusal. Hence, growth in PRCL business volumes is linked to the overall industry volumes. Due to impact of COVID-19, overall industry volumes remained almost stagnant. However, PRCL has outperformed industry growth during 9M'20. Growth in business volumes of PRCL was on account of facultative business. Given the nature of facultative business, management was able to have a greater control on its underwriting operations vis-à-vis when writing business under treaties. Treaty business declined in 9M'20 due to change in the treaty arrangements of a major client, from proportional to non-proportional. The company posted total gross premiums of Rs. 13.7b (9M'19: Rs. 12.6b; 2019: Rs. 17.7b; 2018: Rs. 10.7b) in 9M'20. Due to lack of business renewals in the aviation segment, overall gross premiums are expected to remain lower in full year 2020 relative to 2019. Negotiations are currently underway to renew the aviation sector business in 2021. Management foresees growth in industry volumes on account of economic recovery over the rating horizon. Growth in industry premium may augment business volumes for PRCL, if the risk profile of accepted business remains within acceptable limits for the company.

Table 1: Business Mix

<i>In Rs. Millions</i>	2018	2019	9M'19	9M'20
Fire	15.2%	10.8%	12.1%	11.1%
Marine Cargo	0.5%	0.2%	0.3%	0.2%
Marine Hull	0.9%	2.8%	3.1%	1.9%
Accident & Others	1.8%	1.5%	1.6%	1.2%
Aviation	13.1%	19.4%	4.4%	2.5%
Engineering	27%	37.7%	46.4%	58.7%
Treaty	41.6%	27.6%	32.1%	24.5%
<b>Total Gross Premium</b>	<b>10,734.5</b>	<b>17,655.5</b>	<b>12,596.1</b>	<b>13,742.8</b>

**Significant improvement in the underwriting and investment performance coupled with growth in retakaful operations contributed to improvement in overall profitability profile**

Despite lower net premium revenue, underwriting results depicted improvement in 9M'20 vis-à-vis the corresponding period in the preceding year due to reduction in expenses and selective underwriting approach which translated to improvement in the loss ratios. Underwriting profit of the company amounted to Rs. 492.6m (9M'19: Rs. 205.9m) in 9M'20. Facultative business of the company was profitable across all segments barring fire and marine cargo segments, which incurred underwriting losses of Rs. 105.0m (9M'19: Profit of Rs. 246.9m) and 42.1m (9M'19: Profit of Rs. 41.8m), respectively. Major contribution to underwriting profit came from aviation (9M'20: Rs. 249.3mn; 9M'19: Loss of 320.3m) and engineering (9M'20: Rs. 207.8mn; 9M'19: Rs. 87.0m). Treaty business has witnessed improvement as the company posted underwriting profit of Rs. 8.2m as opposed to a loss of Rs. 20.5m in 9M'19.

Improvement in the loss ratio within the aviation segment and reduced exposure in the health business has translated to slight improvement in the overall net claims ratio (9M'20: 63.2%; 9M'19: 66.2%). Net claims ratios were reported higher in the fire and marine cargo segment due to breakout of fire in three textile clients and one-off claim pertaining to a cargo. An improved underwriting expense ratio led to considerable improvement in the combined ratio of the company which remains below 100% mark. Profit from window takaful operations was reported higher at Rs. 27.5m (9M'19: Rs. 6.2m) in 9M'20. Going forward, the management opines that selective business exposure within profitable segments especially the power sector projects will not only enable the company to grow its business but also improve its profitability.

Table 2: Underwriting Profit (Loss)

<i>In Rs. Millions</i>	2018	2019	9M'19	9M'20
Fire	276.0	400.8	246.9	(105.9)
Marine Cargo	8.8	18.9	41.8	(42.1)
Marine Hull	15.2	120.6	52.6	74.7
Accident & Others	41.3	72.9	118.5	100.6
Aviation	92.8	(168.7)	(320.3)	249.3
Engineering	370.6	370.5	87.0	207.8
Treaty	235.5	(264.5)	(20.5)	8.2
<b>Total Underwriting Profit</b>	<b>568.3</b>	<b>487.5</b>	<b>205.9</b>	<b>492.6</b>

Table 3: Profitability Metrics

	2018	2019	9M'19	9M'20
Gross Claims Ratio (%)	25.6%	69.6%	86.4%	59.8%
Net Claims Ratio (%)	54.8%	61.7%	66.2%	63.2%
Underwriting Expense Ratio (%)	34.8%	31.3%	33.3%	26.4%
Combined Ratio (%)	89.6%	92.9%	99.5%	89.5%

**Reinsurance panel of the company is well diversified; retrocession level was reported the highest in comparison to its historical 5 year average**

PRCL has a diversified reinsurance panel with mostly 'A' and above rated companies; Hannover Ruck SE, Germany enjoys the lead share in fire and engineering segments while cover for marine and marine cargo is mainly provided by Korean Reinsurance Company and Asia Capital Reinsurance, respectively. Treaty capacities have increased in major segments. Maximum retention on net account in relation to equity remained within manageable levels.

Table 4: Cession Ratio

	2018	2019	9M'19	9M'20
Fire	21.4%	26%	30.9%	34.3%
Marine Cargo	0.0%	0.0%	0.0%	0.0%
Marine Hull	50.4%	61.7%	62.9%	58.8%
Accident & Others	2.5%	2.5%	3.2%	3.7%
Aviation	84%	82.3%	72.9%	-61.5%
Engineering	83.4%	88.6%	89.1%	93.6%
Treaty	16.7%	15.4%	12.0%	14.6%
<b>Overall Cession</b>	<b>41.7%</b>	<b>44.2%</b>	<b>54.1%</b>	<b>62.0%</b>

**Risk adjusted capitalization levels are considered sound in view of healthy capital coverage of claims**

Equity base of the company increased to Rs. 10.1b (2019: Rs. 9.8b; 2018: Rs. 9.4b), at end-9M'20 on account of internal capital generation. The company has not paid any dividends pertaining to the year 2020. The operating leverage ratio was reported lower during the review period in line with increase in equity base, thereby indicating room for further growth. On the other hand, financial leverage ratio of the company increased considerably

at end-Sep2020 on account of increase in net technical reserves. The increase in technical reserves was primarily manifested in outstanding claims including IBNR. Improvement in financial leverage is considered important from the ratings perspective.

**Table 5: Capitalization Indicators**

<i>In Rs. Millions</i>	2018	2019	9M'19	9M'20
Net Worth	9,407.9	9,828.8	10,179.0	10,080.2
Operating Leverage (%)	58.1%	70.3%	65.5%	62.2%
Financial Leverage (%)	73.1%	116.6%	97.1%	175.9%

**Liquidity indicators is considered satisfactory given the adequate liquid assets to meet underwriting liabilities**

Insurance debt as a percentage of gross premiums increased to 65.1% (9M'19: 53.9%; 2019: 55.4%; 2018: 50.6%) at end-9M'20 as a sizeable proportion of business was underwritten in September 2020. However, aging profile of insurance debt is considered satisfactory. The company's net cash generated from operating activities was reported at Rs. 378.0m (9M'19: Rs. 114.6m; 2019: Rs. 1.4b; 2018: Rs. 1.2b) during 9M'20. Accounting for recurring investment and rental income, the net operating cash flow is considered strong at Rs. 1.2b (9M'19: Rs. 749.6m) during 9M'20. Liquidity profile is considered satisfactory as reflected by sizable liquid assets maintained in relation to technical reserves (9M'20: 60.9%; 9M'19: 98.8%).

**Given the healthy investment portfolio, support for underwriting operations from investments remains strong**

Investment portfolio has grown over the years, translating into healthy investment income for the company. Market value of investments amounted to Rs. 11.2bn (2019: Rs. 10.9bn; 2018: Rs. 9.2bn). Almost 66% of the company's investment portfolio has exposure in sovereign instruments (T-bills and PIBs) while the remaining was primarily deployed in the stock market and mutual funds. Additional exposure was undertaken in floating rate PIBs during 9M'20. The portfolio continues to generate a steady stream of income and provides significant contribution to the bottom-line. Both credit and market risk arising from the portfolio is considered manageable.

**Table 6: Investment Portfolio**

<i>In Rs. Millions</i>	2018	2019	9M'19	9M'20
Equity Securities	4,163.3	3,865.7	3,188.2	3,592.3
Debt Securities	4,470.4	7,076.7	4,457.0	7,587.1
Term Deposit Receipts	-	-	-	-
<b>Total</b>	<b>9,222.67</b>	<b>10,942.4</b>	<b>7,645.2</b>	<b>11,179.5</b>

The company also owns investment properties which were valued at Rs. 1.1b by an independent party as at end-Dec 2019. Rental income earned amounted to Rs. 62.4m (9M'19: Rs. 52.4m) in 9M'20.

**Governance framework depicts room for improvement**

At present, the Board of Directors at PRCL includes 4 members, while 4 vacancies exist on the Board. Timely completion of the Board of Directors (BoDs) is considered important from the rating perspective. The vacancy of CEO was addressed during the outgoing year through appointment of Mr. Manzoor Ali Shaikh. He is a seasoned professional possessing relevant experience in the insurance industry. However, his charge also ended in March 2021. Timely appointment of the CEO and stability in the senior management are considered important rating drivers.

**Pakistan Reinsurance Company Limited**
**Appendix I**

<b>BALANCE SHEET</b>	<b>2018</b>	<b>2019</b>	<b>9M'19</b>	<b>9M'20</b>
Cash and Bank Deposits	2,602.5	815.7	2,770.2	1,023.3
Investments	8,633.7	10,942.4	7,538.2	11,342.4
Investment Properties	28.3	26.8	27.2	25.8
Insurance Debt	5,435.8	9,775.5	9,050.2	11,920.7
<b>Total Assets</b>	<b>24,459.2</b>	<b>35,836.0</b>	<b>32,408.5</b>	<b>43,105.7</b>
Paid Up Capital	3,000.0	3,000.0	3,000.0	3,000.0
Net Worth	9,407.9	9,828.8	10,179.0	10,080.2
Underwriting Liabilities	9,349.4	16,915.3	14,890.3	23,338.8
<b><u>INCOME STATEMENT</u></b>				
Net Premium Revenue	5,463.6	6,905.2	5,003.3	4,703.3
Net Claims	2,991.8	4,258.9	3,312.5	2,970.2
Expenses	1,892.2	2,145.4	1,658.1	1,220.0
General & Admin Exp	11.4	13.4	6.9	20.5
Underwriting Profit/(Loss)	568.3	487.5	25.8	492.6
Investment Income	691.0	1,008.3	391.1	690.9
Recurring Investment Income	599.6	819.3	582.6	788.0
Rental Income	62.3	71.3	52.4	62.4
Other Income	405.1	612.4	637.2	3.1
Profit Before Tax	1,729.7	2,189.2	2,252.8	1,276.6
Profit After Tax	1,228.0	1,484.3	1,549.5	869.2
<b><u>RATIO ANALYSIS</u></b>				
Retrocession Ratio	44.2%	58.2%	54.1%	62.0%
Gross Claims Ratio	25.6%	69.6%	86.4%	59.8%
Net Claims Ratio	54.8%	61.7%	66.2%	63.2%
Underwriting Expense Ratio	34.8%	31.3%	33.3%	26.4%
Combined Ratio	89.6%	92.9%	99.5%	89.5%
Net Operating Ratio	78.8%	81.1%	90.5%	74.8%
Insurance Debt to Gross Premium	50.6%	55.4%	53.9%	65.1%
Operating Leverage	58.1%	70.3%	65.5%	62.2%
Financial Leverage	73.1%	116.6%	97.1%	175.9%
Adjusted Liquid Assets to Technical Reserves	153.5%	96.8%	76.3%	64.0%

<b>REGULATORY DISCLOSURES</b>		<b>Appendix III</b>		
<b>Name of Rated Entity</b>	Pakistan Reinsurance Company Limited (PRCL)			
<b>Sector</b>	Insurance			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Insurer Financial Strength (IFS) Rating			
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: IFS</b>			
	02/04/2021	AA	Positive	Maintained
	12/19/2019	AA	Stable	Reaffirmed
	10/12/2018	AA	Stable	Initial
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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.			
<b>Probability of Default</b>	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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<b>Due Diligence Meetings</b>	<b>S. No.</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>
	1	Mr. Jameel Ahmed	Chief Financial Officer	March 25, 2021
	2	Mr. M. Naveed Iqbal	Head of Investments	March 25, 2021
	3	Mr. Danish Maqsood	Head of Claims Department	March 25, 2021
	4	Mr. Sheraz Ashraf	ED (HR/Admn) /GM/ Head of Risk Management	March 25, 2021
	5	Mr. Shams-ud-Din	Company Secretary	March 25, 2021
	6	Mr. M. Junaid Moti	Executive Director Underwriting	March 25, 2021