RATING REPORT

Pakistan Reinsurance Company Limited (PRCL)

REPORT DATE:
February 27, 2024

RATING ANALYSTS:

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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
IFS	AA+	AA+
Rating Date	*Feb. 27, 24*	*Dec 30, 2022*
Rating Outlook	Stable	Maintained
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION	
Incorporated in 2000	**External Auditors:** M/s BDO Ebrahim & Co. Chartered Accountants
Public Limited Company	**Chairman:** Mr. Mumtaz Ali Rajpar **Chief Executive Officer:** Mr. Farman Zarkoon
Key Shareholder(s) (above 5%):	
Secretary Ministry of Commerce – 51.00%	
State Life Insurance Corporation – 24.41%	
Banks, DFIs, NBFCs – 5.16%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: General Insurance
https://docs.vis.com.pk/docs/GeneralInsurance-2023.pdf

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Pakistan Reinsurance Company Limited (PRCL)

OVERVIEW OF THE INSTITITION	RATING RATIONALE

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.

The assigned ratings reflect Pakistan Reinsurance Company Limited (PRCL or 'the Company') strategic market position as the country's sole reinsurer. The rating incorporate the issuer's strong sponsor profile, given that the GoP holds significant shareholding (75%) with controlling stake. On the other hand, business risk profile of insurance industry is currently elevated owing to projected slowdown in the domestic economic activity due to high interest rates, rupee devaluation, heightened inflation levels, destruction caused by floods coupled with rate hardening by international reinsurers. Furthermore, ratings are underpinned by notable business growth, profitable underwriting operations and sizable improvement in investment income coupled with sound liquidity and capitalization profile. The rating further incorporates reinsurance arrangements largely with counterparties having sound credit risk profiles with appropriate risk retention on net account to maintain risk appetite of the Company. Lastly, assigned rating positively reflect the recent implementation of an ERP system highlighting technological advancements, abolishment of pension-based job structure to lower costs and achievement of 3rd tier HR structure. PRCL is also working on their reconciliation and receivable related issues; the same have been resolved by 50% and controls are put in place to offer permanent fix to this issue. The effectiveness of these controls will be imperative for rating going forward.

Insurance Sector Update

Global Perspective

Despite building macroeconomic challenges, the insurance industry continued to grow in FY22, both globally and in Pakistan. Global insurance industry faced repricing of risks due to macroeconomic stresses and natural catastrophes with economic losses from natural disasters recorded higher in FY22; however insured losses covered 45% of these damages amounting to USD 125 billion. In addition, claims increased as high inflation increased the cost of repairing buildings, motor vehicles and other fixed assets that are usually covered by insurance. This led to continued rise in premium rates to cover the expenses. However, elevated interest rates augmented the investment income for insurers across the globe.

Local Perspective

Pakistan's insurance industry posted growth despite weak macroeconomic situation in CY22 with continued dominance of Life Insurance & Family Takaful segments in terms of assets and gross premiums. Gross premiums increased from Rs. 417.2 billion in CY21 to Rs. 531.7 billion in CY22 with Life & Family Takaful segment, and Non-Life & General Takaful segments posting increases of Rs. 81.9 billion and Rs. 29.4 billion respectively. Moreover, the industry's asset base grew by 14.8% in CY22 to Rs. 2,459.9 billion particularly on the back of significant growth in the Life Insurance segment. In addition, despite building macroeconomic pressures characterized by dwindling foreign reserves, stabilization measures, slowdown in economic activity, etc. along with catastrophic floods affecting one-third of the country during the year under review, all segments of the industry continued to expand. This was the result of a combination of general factors affecting the whole insurance industry such as inflation leading to a rise in premium rates and idiosyncratic factors pertaining to all segments. The growth in Life Insurance segment was an outcome of the implementation of the government's health insurance programs carried out by State Life; the same increased health coverage to the low and middle-income strata of society. However, the claims ratio for the sector witnessed an increase due to a rise in group claims and higher surrender claims by individuals. Nevertheless, since life insurers maintain most of their investments in government securities due to lackluster performance of capital market, the resulting higher investment income boosted their profitability due to hike in interest rates. In non-life insurance sector, motor premiums drove the growth in net premiums as the cost of motor vehicles increased drastically during the outgoing year. However, torrential rains and flooding, some major fire incidents, and higher cost of repairing fixed assets contributed to the increase in claims. Accordingly, financial performance indicators for the non-life sector slightly weakened on a timeline. Further, the industry's combined ratio increased in CY22, which was driven by a spike in both net claims and expense ratios. With the increase in combined ratio, insurers are expected to reprice their products in the ongoing year. Going forward, due to the prevailing slowdown in economic activity and stressed macro financial conditions, the growth trajectory in non-life premiums is expected to be uncertain while the growth in the life sector will continue to largely depend on traction in the health insurance programs. Moreover, the SECP has issued instructions of phase wise implementation of IFRS 17. The implementation is expected to translate in sizable provisioning burden for the industry; however, the actual impact of the same on industry capitalization is yet to be ascertained. The SECP has issued the deadline of 1st January, 2026 to complete the implementation of IFRS 17.

Future Outlook

Globally, it is expected that there will be premium rate hardening in CY23 in response to the high inflation, geopolitical tensions, natural catastrophes and financial market losses of CY22. These global insurance developments will lead to increases in reinsurance rates offered by international re/insurers which coupled with the exchange rate depreciation, may lead to increase in reinsurance expense for insurers in EMDEs, particularly non-life insurers that have extensive reinsurance arrangements with international reinsurers. The rate hardening along with the elevated policy rate is expected to influence insurers' financial performance in the near term. Global premiums are expected to grow at 2.1% in real terms on average in 2023. Given that non-life insurance is correlated with economic growth and the latest data indicates that Pakistan's economy will significantly slowdown in 2023, accordingly the growth trajectory of non-life premiums in Pakistan could also face pressures. Moreover, if inflation remains elevated, then there could be further rate hardening leading to an uncertain growth trajectory for non-life premiums. Furthermore, in the backdrop of high interest rates, non-life insurers may also consider recalibrating their investment portfolios in order to pad the bottom-line. Life insurance business, with a longer time horizon, is expected to remain relatively immune to the prevailing macroeconomic pressures. The growth in this sector is now partially dependent on the continuity of the government's health insurance programs.

Source: Financial Stability Review – 2022 | State Bank of Pakistan

Business Update

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. The gross written premium during the ongoing year was recorded 41% higher at Rs. 24.3b (9MCY22: Rs. 17.3b) on account of increase manifested in all segments. Engineering segment continues to dominate the business segment in line with renewals of major power project policies however, proportion of the same in the business mix has declined as opposed to same period last year (SPLY). Moreover, treaty business formulates a significant chunk of business mix as it comprises all business lines (*fire, marine, accident, aviation and engineering*). The contribution of treaty segment to overall GWP mix remained range bound on account of regulatory and operational requirement imposed on insurance Companies to incorporate such treaties with reinsurers; the same allows insurers to underwrite a business (*that is recurring in nature*) up to a certain limit however; it is subjected to certain terms and conditions and insurers are bound to provide reinsurers a commission fee for this service on a quarterly basis along with a detailed disclosure of the underwritten business. Moreover, the placing of business under treaty segment reducer the administrative costs for the insurer and the reinsurer. Additionally, in Pakistan, fire business continues to dominate the insurance industry therefore as a secondary market player offering reinsurance services, the significance of fire business is reflected in PRCL's business mix. Marine business improved slightly during the ongoing year attributable to the Company offering reinsurance to public sector insurers however, the proportion of marine business remained the lowest given Pakistan is an import-based economy with major shipments arriving in the country being registered and insured abroad. On the contrary, exports are nominal therefore demand for insurance in the local market is low. Gross business in aviation was reported slightly higher during the rating review period as PRCL regained PIA policy in CY21. As per management, due to unusual circumstances, NICL had to issue No Objection Certificate to PIA in 2020 and PIA placed the risk through private insurance company while PRCL received some share in the business for its net account. Given the value of PIA's fleet and its annual reinsurance cost, it is PRCL's largest account in terms of gross written premium. Lastly, Accident and health segment posted a sizable growth during the ongoing year in line with inflationary and forex adjustments.

PRCL is in process of obtaining pricing tools as per the international reinsurers for pricing their risks; the same will be positively reflected in the GWP in future. In addition, by virtue of being the sole re-insurer in Pakistan, all insurance companies must offer at least 35% of their business to PRCL under treaty arrangements, whereby the company enjoys discretion for first right of refusal. In this regard, the Company's participation is decided by taking into account the treaty structure and treaty limits along with considering its underwriting results in last three to five years. Going forward, the management expects growth in facultative business segments. Nevertheless, for treaty business, PRCL intends to remain cautious and expects moderate growth, particularly, for non-proportional treaty, owing to hardening of international reinsurance terms. The management expects to close this year at ~Rs. 30b in gross business during CY23 with a net profit reaching the Rs. 4.0b mark. With a few government projects in the pipeline such as the expected launch of a satellite, functioning of Gwadar airport and more, uptick is expected in GWP going forward.

BUSINESS MIX	**CY20**	**CY21**	**CY22**	**9MCY23**
Fire	11.6%	9.8%	7.3%	22.2%
Marine Cargo	0.2%	0.2%	0.8%	0.9%
Marine Hull	2.2%	1.3%	1.1%	1.4%
Accident & Others	1.3%	0.9%	1.7%	5.3%
Aviation	2.1%	23.8%	19.7%	2.7%
Engineering	57.3%	39.3%	41.0%	39.2%
Treaty	25.4%	24.6%	28.4%	28.3%
Total	**16,896**	**20,994**	**24,271**	**24,353**

Overall retrocession ratio remained range bound during the ongoing year. The highest cession ratio emanated from engineering segment Moreover, the Company has begun doing small portion of retrocession through direct placement as opposed to it being done by the brokers in the past; the same will lead to a lower brokerage fee for the Company resulting in scaling down of the commission expenses by 10-15%. With a few public sector projects in the pipeline that carry sizable risks, cession ratios are projected to increase slightly in the medium term.

Reinsurance Ceded	**CY20**	**CY21**	**CY22**	**9MCY23**
Fire	27.2%	13.6%	17.7%	75.4%
Marine Cargo	0.0%	0.0%	64.1%	30.0%
Marine Hull	57.9%	45.8%	38.8%	86.0%
Accident & Others	2.6%	3.4%	43.8%	73.2%
Aviation	115.0%	90.0%	92.7%	70.2%
Engineering	92.8%	90.7%	90.4%	90.4%
Treaty	15.9%	13.9%	30.3%	21.9%
Total	64.0%	62.5%	66.9%	65.6%

Reinsurance Arrangements:

PRCL has an excess of loss reinsurance arrangements with some of the top global reinsurers including Hannover Re (rated AA- by S&P), Swiss Re (rated AA- by S&P), XL Re (rated AA- by S&P) and Lloyd's Syndicate (rated A+ by S&P). The Company follows a policy of optimizing risk retention through a carefully designed program of reinsurance. As per the management, there were no changes in the reinsurance panel during the review period and no reinsurer has a share of more than 15%. Additionally:

- The Company enhanced treaty capacities by 50%-100% for all segments in anticipation of higher business.
- PRCL is in the process of obtaining pricing tools as per the international reinsurers.
- Currently PRCL has over 200 treaty arrangements; the commission fee is charged as per international rates. With the currency devaluation, PRCL's fee will also increase similar to that of international reinsurers that will increase the commission income.
- No change in reinsurance panel or commission rates is expected in the CY24.

Claims Experiences:

The increase in the net claims ratio evidenced during CY22 was an outcome of higher claims emanating from fire segment particularly due to country's largest claim reported pertaining to a packaging company. PRCL's gross and net claim from various cedents in the same aggregated to Rs. 22.5b and Rs.1.1b respectively. Moreover, on gross basis the Company also incurred a claim amounting to Rs. 1.5b pertaining to a cold chain refrigeration firm. Moreover, loss ratios emanating from engineering segment were also sizable; the same was an outcome of loss amounting to Rs. 7.8b (*Rs. 80.3m on net basis*) on gross basis related to electronics manufacturing unit coupled with a few power plant claims. On the other hand, there was only slight increase in net claims ratio given the translation of gross to net account was low.

During the ongoing year, a sharp decline in gross claims expense was witnessed as CY23 proved to be a good year in terms of loss occurrences. The largest claim worth Rs. 4.7b pertaining to an oil & gas company (*Rs. 27.7m on net basis*) was recorded during the ongoing year. PRCL incurred some accident claims from Aga Khan Medical College, United Bank and Tetra Pak amounting to Rs. 603.5m, Rs. 246.4m and Rs. 168.6m respectively. Further, the claim relating to the electronic manufacturer was carried forward in the ongoing year and was valued at Rs. 9.2b and Rs. 2.7b on gross and net basis respectively. Lastly, majority of aviation claims of PRCL emanate from state owned airline during the outgoing and ongoing year. Moreover, VIS notes that the Company's net claims ratio was reported higher than the gross claims ratio during the ongoing year on account of the nature of the reinsurance arrangements which mainly constitute of Excess of Loss (EOL) treaties across major segments. The elevation of the net claims ratio is explained by the impact of smaller-ticket sizes falling within retention limits along with payment of reinstatement premiums to reset treaty limits for rationalization of risk retention. Furthermore, the net claims ratio in the fire segment stood significantly higher than the gross claims ratio in line with increase in claims value, resulting in higher reinstatement premiums paid over the rating review period.

NET CLAIMS	***CY20***	***CY21***	***CY22***	***9MCY23***	***9MCY22***
Fire	79.2%	27.0%	147.8%	61.6%	115.1%
Marine Cargo	51.1%	-4.4%	-24.1%	10.6%	23.8%
Marine Hull	13.7%	77.2%	-13.5%	47.0%	-13.4%
Accident & Others	18.1%	8.0%	-59.2%	39.6%	2.6%
Aviation	65.4%	5.9%	-18.1%	30.0%	-550.5%
Engineering	12.1%	40.9%	87.7%	52.0%	89.4%
Treaty	63.9%	70.0%	51.6%	70.7%	83.0%
Total	**58.5%**	**52.3%**	**54.4%**	**61.8%**	**67.7%**
Net claims	**3,925**	**3,778**	**4,312**	**4,326**	**3,837**

GROSS CLAIMS	**CY20**	**CY21**	**CY22**	**9MCY23**	**9MCY22**
Fire	59.5%	27.1%	128.9%	18.4%	161.3%
Marine Cargo	151.4%	-192.0%	-8.9%	5.5%	23.8%
Marine Hull	7.1%	55.8%	-27.3%	9.4%	1.8%
Accident & Others	17.4%	7.8%	-36.0%	19.3%	1.9%
Aviation	276.8%	-128.5%	4.2%	6.5%	7.5%
Engineering	-15.1%	13.1%	118.8%	25.3%	60.8%
Treaty	65.3%	74.3%	67.5%	47.4%	106.4%
Total	60.5%	26.5%	78.7%	25.8%	69.0%
Claims Expense	11,389	4,437	18,066	5,530	11,581

Underwriting Performance:

Underwriting profit has noted steady growth over the years; the same registered a growth of 9% in 9MCY23 compared to SPLY due to growth in operating scale coupled with slight improvement in net claims ratio. Engineering, fire and aviation segments have continued to contribute the majority of underwriting profits while treaty segment posted losses in the ongoing year in line with very high net claims to the tune of Rs. 2.9b. Furthermore, a significant increase in investment income to Rs. 1.6b (9MCY22: Rs. 910.5m) primarily due to higher returns on government securities has supported the bottom line; the same was recorded higher at Rs. 1.3b during 9MFY23 as opposed to Rs. 553.9m in the preceding year. Although net operating ratio largely remained stable at 63.0% (CY22: 60.1%; CY21: 61.9%); the same slightly increased during the review period owing to increase in net claims ratio during 9MCY23 as opposed to CY22.

Rental income on investment property amounted to Rs. 123.5m (9MCY22: Rs. 100.2m; CY22: Rs. 123.5m; CY21: Rs. 104.4m) during 9MCY23. Moreover, other income was reported higher at Rs. 486.3 (9MCY22: Rs. 319.2m;

CY22: Rs. 419.2m; CY21: Rs. 142.2m) mainly owing to increase in exchange gain emanating from large facultative policies which are written in dollars. Profit from window re-takaful operations improved slightly to Rs. 30.3m (9MCY22: Rs. 12.2m; CY22: Rs. 30.4m; CY21: Rs. 16.0m). According to management, no major loss has been reported in last quarter'23. PRCL switched to a gratuity-based job structure as opposed to pension-based job structure during the ongoing year and additional hiring is being done under the new regime. Moreover, the Company outsourced their clerical staff to 3rd parties. The aforementioned initiatives remove long-term liabilities on the Company and will positively impact the underwriting expense ratio; the same will subsequently improve the profitability in the future.

UNDERWRITING PROFIT	**2020**	**2021**	**2022**	**9MCY23**	**9MCY22**
Fire	-136.51	813.75	-1337.67	206.87	-470.16
Marine Cargo	6.23	30.29	53.63	126.04	20.05
Marine Hull	107.51	13.43	155.09	20.69	101.10
Accident & Others	1229.58	131.93	290.74	140.37	131.87
Aviation	169.90	313.67	379.65	247.92	273.53
Engineering	738.27	608.33	214.22	515.50	6.77
Treaty	-421.71	-177.91	168.44	-365.53	369.34
Total	743.13	1733.49	1644.89	891.87	820.20

Investments:

The investment portfolio augmented to Rs. 16.1b (CY22: Rs. 12.5b; CY21: Rs. 12.4b) during the review period on account of increased liquidity parked in government securities. In line with the uptick in the benchmark rates, the asset class mix shifted more towards debt market products with some portion of investment in equity-based funds being divested during the rating review period. Around 50% of the investment portfolio is vested in T-bills in line with higher dividend income generated that provide support to the bottom-line of the Company. Additionally, PIBs constituted around 31% during the ongoing year for adequate capital gains however; majority of them have a tenor of five year with a fixed rate primarily to combat the impact of expected reduction of policy rates on the returns generated in the future. Moreover, equity portfolio comprised 18% of the investment mix with 40% of the equity portfolio comprising of stable and high end mutual fund investments while the rest largely pertained to diverse set of investments in blue chip companies pertaining to oil and gas business, paper and board, commercial banks, chemicals, insurance and power generation and distribution companies. Owing to the positive trajectory of stock market performance, the Company can reap sound dividend and capital gains in the medium term. Nevertheless stock market exposure will always carry price risk.

Given the sizable investments in government securities coupled with remaining majority constituting of stable and high rated equity securities, the credit risk emanating from the same is manageable. Going forward, investment's policy involves around making diversified and secure investments while ensuring a sound balance between risk and return. As per the management, major investments are expected to be made in T-bills and medium-tenor government securities. Subsequently, the aim is for the growth trajectory in investment income to support the bottom line of the Company.

INVESTMENT MIX	**CY20**	**CY21**	**CY22**	**9MCY23**	**9MCY22**
Listed Shares	2,154.50	1,873.00	1,536.70	1,683.10	1,757.10
Unlisted Shares	0.6	0.6	0.6	0.6	0.6
Mutual Funds	1,433.40	1,368.20	1,083.90	1,135.10	1,137.80
Total Equity Investments	**3,588.50**	**3,241.70**	**2,621.20**	**2,818.80**	**2,895.50**
PIBs	3,198.60	2,498.10	4,627.20	5,070.20	3,247.40
T-bills	4,973.00	6,576.10	5,180.00	8,076.40	5,601.30
TFC	99.9	99.9	99.8	99.8	99.9
Total Debt Investments	**8,271.50**	**9,174.10**	**9,907.00**	**13,246.30**	**8,948.60**
Total Investment Portfolio	**11,860.00**	**12,415.80**	**12,528.20**	**16,065.20**	**11,844.10**

Capitalization:

PRCL's core equity based improved to Rs. 14.4b (CY22: Rs. 12.9b; CY21: Rs. 11.5b) on account of internal capital generation. However, the reserves declined on a timeline to Rs. 5.4b (CY22: Rs. 3.9b; CY21: Rs. 8.6b) during the review period as a combined outcome of reduction in revaluation reserve on available for sale investments to Rs. 714.7m (CY22: Rs. 597.1m; CY21: Rs. 1.05b) on account of unrealized loss booked coupled with dip in retained earnings to Rs. 3.3b (CY22: Rs. 1.9b; CY21: Rs. 5.4b) in line with payment of final cash dividend at Rs.2/share and issuance of bonus shares at 200% amounting to Rs. 600.0m and Rs. 5.4b respectively during CY22. PRCL is considered sound from solvency risk point of view as the Company has adequate cushion in terms of admissible assets over its liabilities. Moreover, the operating leverage remained range bound on a timeline at 64.7% (CY22: 61.5%; CY21: 62.4%) given the enhancement of operations reflecting in amplification of net premium revenue was offset by growth in equity base during the ongoing year. The financial leverage ratio increased on a timeline to 105.5% (CY22: 87.4%; CY21: 72.7%) in line with an increase in net technical reserves to Rs. 14.3b (CY22: Rs. 10.5b; CY21: Rs. 8.7b) by end-9MCY23; the increase in the technical reserves was largely manifested in an increase in unearned premium reserves and a reduction in reinsurance receivables. Nevertheless, unearned premium has an element of cyclicality attached as majority of the new business was reaped in the 3rd quarter of CY23. Furthermore, outstanding claims in terms of business revenues improved during the outgoing year in line with payment of significant claims amounting to Rs. 21.3b (CY21: Rs. 9.4b) made during CY22. With a sizable growth expected in the business volume, the leverage indicators are projected to increase slightly during the rating horizon.

Liquidity:

The quantum of liquid assets increased on a timeline to Rs. 21.1b (CY22: Rs. 15.6b; CY21: Rs. 13.6b) by end-sept'23 in line with higher investment in government securities (*primarily T-bills and PIBs*); however, the same maintained in relation to net technical reserves declined on a timeline to 147.4% (CY22: 148.3%; CY21: 155.7%) by end-sept'23 in line with growth in unearned premium reserve owing to inherent cyclicality prevalent in the insurance sector. The absolute value of net technical reserves is expected to reduce once the unearned premium reserves are realized by end-CY23. Nevertheless, despite the aforementioned decline, the liquidity profile is sound and intact. Moreover, insurance debt in relation to gross premium exhibited a mixed trend on a timeline; the same was recorded lower at 44.8% during the ongoing year as opposed to an increase to 71.7% (CY21: 65.2%) during CY22, the increase at end of the outgoing year was a combined function of noteworthy growth in business volumes along with no major uptick in equity base due to issuance of bonus shares. Furthermore, PRCL has actively worked on their recoveries that doubled the cash flows from underwriting activities to Rs. 5.8b (CY22: Rs. 2.9b; CY21: Rs. 576.7m) during 9MCY23; the same fulfils the liquidity requirements of the Company in fulfilling claim payments. Moreover, the operating cash flows in terms of net premium revenue were recorded lower at 74.9% (CY22: 223.1%; CY21: 227.1%) during 9MCY23 on account of lower rental income and interest income on bank balances. However; the same will revert back to normal level by end-CY23 in line with booking of significant rental income along with improvement in cash generated from operating activities that will offset the slight reduction in dividend income.

Corporate Governance:

- Board of Directors at PRCL includes seven members, including the Chairman of Board. Out of the seven Directors, four are nominated by Federal Government, one is nominated by State Life Insurance Corporation of Pakistan (SLIC) being a substantial investor, while remaining two are elected from the business community (Minority Shareholders).
- There are four committees at the Board level, including, Audit Committee, Investemnt Committee, Ethics, Human Resource & Remuneration/Nomination Committee and Procurement Committee. Three management committees are present, namely, Underwriting/reinsurance Committee, Claims Settlement Committee, and, Risk Management, Compliance and Legal Committee. To streamline the processes the Company is incorporating digitization, succession planning and technological advacements to improve the operations of the Company.
- A formal and effective mechanism is put in place for an annual evaluation of the Board's own performance and of its committees.
- PRCL has implemented an Enterprise Resource Planning. Detailed and timely annual report disclosures bode well from a transparency perspective and provide important information to stakeholders. Checks and balances have been added as well.

- Some structural changes such as improvement in human resource through addition of fresh graduates into the workforce from renounced universities that add to the efficiency of Company's operations. Currently, 50% of the employees are fresh graduates and according to the management, the achieved mix has greatly aided the Company in resolving their issues.
- The Company has been able to achieve 3rd tier of HR through investment in specialized training (*local and international*) and hiring employees from well reputed institutions.
- PRCL has faced reconcliation and receivables issues in the past that is mentioned in their accounts however; the Company has been able to resolve this by more than 50%. To avoid this issue in future, the Company has formulated a specialized mechanism (with SECP's intervention); the same will determine how the past and future reconcliation issues will be dealt. Moreover, departments have been formulated other than Human resources to further insulate the reconciliation process. As per the management, the matter will be resolved by the end of CY23.

Qualified opinion by external auditors

The financial statements of PRCL for 2022 have a qualified opinion from the external auditor, with following reservations:

- As disclosed in note 15 and 37.2 to the financial statements, an amount of Rs. 2.6b (CY21: Rs. 2.6b) is receivable from Sindh Revenue Board (SRB) which was recovered by SRB against the sales tax liability on reinsurance services. The Company has recorded this amount as an asset; however, the Company could not substantiate any control over the underlying asset and the flow of economic benefits is remote due to ongoing Court case. Had PRCL not recorded this asset, total assets, accumulated profit, shareholders' equity and solvency would have been reduced by the same amount accordingly.
- Amount due from other insurance Companies on account of treaty and facultative business includes gross amount of Rs. 16.8b and net amount of Rs. 16.6b along with the amount due to other insurance Companies of Rs. 40.11m which remain unreconciled as of reporting date. The Company is in the process of reconciling these balances. Due to pending reconciliations relating to above balances, resultant adjustment and consequential impact thereon, if any, on these financial statements remain unascertained.
- Certain account balances and class of transactions have been recorded against treaty proportional business. As per the management, PRCL has not provided the details and supporting documentation of the premium/ claim of the ceding insurance companies except statutory quarterly returns. The Company does not have any system and controls to verify and determine whether any adjustments to these amounts were necessary
- The Company carries its investment properties at fair value. International Accounting Standard (IAS-40) "Investment Property" requires an entity following fair value model to reassess the fair values on a continuing basis. The management has not carried out any exercise to determine the fair values and resultant its resultant impact on the reporting dates. Accordingly, resultant adjustment and consequential impact thereon, if any, on these financial statements remain unascertained.

Pakistan Reinsurance Company Limited (PRCL) Annexure I

FINANCIAL SUMMARY	2020	2021	2022	9MCY23
Cash and Bank balances	1,571	1,141	3,031	4,965
Investments	12,035	12,563	12,662	16,219
Insurance Debt	8,141	13,686	17,393	14,533
Prepayments	4,145	7,724	8,944	10,461
Total Assets	35,765	46,806	63,855	66,710
Total Liabilities	25,523	33,733	49,534	50,892
Paid up Capital	3,000	3,000	9,000	9,000
Adjusted Equity	10,242	11,527	12,900	14,417
INCOME STATEMENT	**2020**	**2021**	**2022**	**9MCY23**
Gross Premium Revenue	16,896	20,994	24,271	24,353
Net Premium Revenue	6,709	7,226	7,929	6,999
Net Claims	3,925	3,778	4,312	4,326
Underwriting Profit	743	1,733	1,645	892
Investment Income	1,043	982	1,338	1,571
Other Income	74	142	419	486
Profit Before Tax	1,972	3,614	3,557	3,181
Profit After Tax	1,391	2,590	2,625	2,021
RATIO ANALYSIS	**2020**	**2021**	**2022**	**9MCY23**
Retrocession Ratio (%)	64.0%	62.5%	66.9%	65.6%
Gross Claims Ratio (%)	60.5%	26.5%	78.7%	20.7%
Net Claims Ratio (%)	58.5%	52.3%	54.4%	61.8%
Underwriting Expense Ratio (%)	30.4%	24.5%	24.9%	25.4%
Combined Ratio (%)	88.9%	76.8%	79.3%	87.3%
Net operating ratio (%)	73.4%	62.4%	60.1%	63.2%
Insurance Debt to Gross Premium (%)	48.2%	65.2%	71.7%	44.8%
Operating Leverage (%)	65.5%	62.7%	61.5%	64.7%
Adjusted Financial Leverage (%)	74.0%	72.7%	81.3%	99.0%
Adjusted Liquid Assets to Technical Reserves (%)	167.6%	155.7%	148.3%	147.4%

REGULATORY DISCLOSURES	Annexure 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			
2/27/2024	**AA+**	**Stable**	**Reaffirmed**
30/12/2022	AA+	Stable	Maintained
03/31/2022	AA+	Positive	Harmonized
12/28/2021	AA	Positive	Maintained
04/02/2021	AA	Positive	Maintained
12/19/2019	AA	Stable	Reaffirmed
10/12/2018	AA	Stable	Initial

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 credit quality 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 Meetings Conducted	

Name	Designation	Date
1. Mr. Muhammad Junaid Moti	Executive Director	
2. Mr. Sumeet Kumar	Company Secretary	
3. Syed Amir	CFO	14th December, 2023
4. Mr. Bashir Ahmed	Head of Compliance/Risk Management	
5. Mr. Hans Hussain Soomro	Head of Accounts	