RATING REPORT

Pakistan Reinsurance Company Limited (PRCL)

REPORT DATE:
March 19, 2025

RATING ANALYSTS:

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RATING DETAILS		
	Latest Rating	Previous Rating
Rating Category	Long-term	Long-term
IFS	AA+	AA+
Rating Date	*Mar 19, 2025*	*February 27, 2024*
Rating Outlook/ Rating Watch	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION	
Incorporated in 2000	**External Auditors:** Kreston Hyder Bhimji & Co. Chartered Accountants
Public Limited Company	**Chairman:** Mr. Mumtaz Ali Rajpar **Chief Executive Officer:** Mr. Farmanullah 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

Pakistan Reinsurance Company Limited was incorporated in Pakistan as a public limited company on March 30, 2000 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The Company is engaged in providing reinsurance and other insurance business being forum of risk transfer. The shares of the Company are quoted on Pakistan Stock Exchange Limited.

The Company is under administrative control of Ministry of Commerce (Government of Pakistan). The Ministry of Commerce holds 51% shares of the Company. The Cabinet Committee on Privatization (CCoP) on August 21, 2020 approved divestment of government stakes in the Company through public offerings. The Privatization Commission has submitted the case of PRCL to CCOP for further guidance as Share Value at Stock Exchange has declined now from the original approval of CCOP in 2018.

RATING RATIONALE

The rating assigned to Pakistan Reinsurance Company Limited (PRCL or 'the Company') is underpinned by its strategic importance, being the government owned (75% stake) and the sole local reinsurance company in Pakistan. The rating incorporates improvement in underwriting results on a timeline basis with a well-maintained loss ratio recorded along with sustainable and growing investment income. Moreover, a significant increase in investment income, largely emanating from higher returns on government securities, supported the bottom line. In terms of composition of investment mix, 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.

PRCL is considered sound from solvency risk point of view as the Company has adequate cushion in terms of admissible assets over its liabilities. 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. Rating further derives strength from the ESG initiatives undertaken to improve the gender diversity and digitization initiatives to add to the operational efficiency. Rating remains constrained on account of a qualified opinion and matter of emphasis on the financial statements of CY23 that pertain to sizable receivables and the management is currently in process of reconciling these balances.

Insurance Sector Update

Global Overview

The global insurance industry has demonstrated remarkable resilience and adaptability amidst evolving macroeconomic conditions and heightened geopolitical tensions. In 2023, the industry recorded its strongest growth since 2006, expanding by 7.5%. Global premiums reached USD 7.2 trillion, divided among life insurance (USD 2.8 trillion), property and casualty (P&C) (USD 2.1 trillion), and health insurance (USD 1.4 trillion).

Regional market dynamics underscore significant variances in growth. North America continues to dominate the P&C and health insurance segments, contributing 54.2% and two-thirds of global premiums, respectively. The Asia-Pacific region led the recovery in life insurance, buoyed by China's post-pandemic rebound (7.7% growth) and India's exceptional growth trajectory of 13.6%. In Europe, life insurance premiums grew by 3.3% in 2023 after a contraction in 2022, though challenges persist, including a heavy reliance on single-premium products.

Sustainability and ESG (Environmental, Social, and Governance) integration have become central to insurers' strategies, with almost all firms embedding sustainability goals into their investment portfolios. Clean energy and transition technologies are particularly prominent themes. Technological innovation, especially through artificial intelligence (AI), is gradually replacing traditional insurance processes. AI is now critical for underwriting, claims management, and risk modeling, while advancements in IT enable real-time customer engagement and personalized products.

Capital management strategies are also evolving in response to macroeconomic changes. Higher interest rates have improved investment yields, prompting insurers to increase allocations to private markets and alternative assets, such as infrastructure debt. Liquidity management remains a top priority as insurers strive to balance portfolio diversification with maintaining stable risk levels. Meanwhile, regulatory developments and geopolitical tensions are among the top macroeconomic concerns for insurers, further complicated by diverging monetary policies across regions.

Looking ahead, the global insurance market is projected to grow at an annual rate of 5.5% over the next decade, with life and health insurance driving much of this expansion. Asia is expected to remain the primary growth engine, accounting for nearly half of the absolute premium increase. However, the industry must address key challenges, such as balancing insurability and affordability amidst rising climate and cyber risks, tackling inequalities exacerbated by demographic and economic shifts, and adapting to regulatory changes in a fragmented geopolitical environment.

Local Overview

The insurance sector in Pakistan, demonstrates a complex and evolving landscape. The industry is divided into life and non-life insurance segments, with significant contributions from both conventional and takaful (Islamic insurance) operations. However, insurance penetration remains low, at just 0.79% of Gross Domestic Product (GDP). In 2023, the life insurance sector reported a gross premium of PKR 404 billion, with claims paid amounting to PKR 289 billion. Health policies dominated product distribution, constituting 41% of the total premium, followed by participating policies at 30% and unit-linked policies at 23%. The non-life insurance sector, on the other hand, recorded a gross premium of PKR 227 billion, with claims paid totaling PKR 84 billion. Fire and property damage insurance accounted for the largest share of the premium at 31%, followed by motor insurance at 20% and engineering insurance at 16%.

The financial performance of the sector highlights a substantial investment income, with the life insurance segment reporting total assets of PKR 2,518 billion and investments of PKR 1,911 billion as of Dec'23. The non-life insurance segment also showed strong financial health, with total assets of PKR 381 billion and investments of PKR 145 billion as of Dec'23. The takaful sector, although smaller, shows promising growth potential, particularly in the family takaful segment, which contributed 35% of the total private sector premium. The general takaful segment accounted for 11% of the total non-life insurance industry premium.

Challenges facing the sector include low motor insurance adoption, limited local reinsurance capacity, and a shortage of skilled human resources. The SECP's strategic plan underscores the importance of adopting IFRS-17 by January 2026, embracing technological advancements, strengthening legislative frameworks, and enforcing compulsory insurance schemes to tackle current challenges. Overall, the insurance sector in Pakistan is poised for potential growth, driven by both conventional and takaful operations. The industry's financial stability, coupled with strategic initiatives by the SECP, positions it well for future expansion and increased penetration in the national economy.

Business Update - PRCL

PRCL is engaged in the provision of reinsurance and re-takaful 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 (GWP) posted a decline of 10.4% to Rs. 22.9b (9MCY23: Rs. 25.6b) in Sept'24. GWP pertaining to conventional segment declined to Rs. 21.3b (9MCY23: Rs. 24.4b) whereas takaful segment grew to Rs. 1.6b (9MCY23: Rs. 1.2b) during 9MCY24. The decline in conventional GWP is primarily attributable to reduction in engineering segment; the same formulates large-scale government projects. As per the management, some of the policy renewals were delayed till 4QCY24 that resulted in the decline in GWP. Moreover, treaty business formulates a significant chunk of business mix as it comprises all business lines (*fire, marine, accident, aviation and engineering*). 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. Furthermore, the marine segment's representation in the business mix remained the lowest over time. This can be attributed to the lower proportion of exports compared to imports in the country, as imports shipments are often insured internationally, thereby reducing local demand. Gross business in aviation was reported lower during the rating review period as PIA policy is expected to be renewed in the 4th quarter and will be reflected in full year accounts. Accident and health segment posted a sizable growth during the ongoing year in line with inflationary and forex adjustments. In addition, as the sole re-insurer in Pakistan, all insurance companies are compelled to offer at least 35% of their business to PRCL under treaty arrangements, granting the Company the discretion for the first right of refusal.

Gross Premium	**CY22**	**%**	**CY23**	**%**	**9MCY24**	**%**	**9MCY23**	**%**
Fire	**1,885.7**		**6,344.4**		**5,237.9**		**5,539.4**	
Conventional	1,778.8	*7.4%*	6,172.2	*17.9%*	5,103.8	*22.9%*	5,405.8	*21.7%*
Takaful	106.9		172.2		134.1		133.6	
Marine Cargo	**189.5**		**251.1**		**108.1**		**226.6**	
Conventional	188.0	*0.7%*	249.2	*0.7%*	107.3	*0.5%*	224.8	*0.9%*
Takaful	1.6		1.9		0.8		1.8	
Marine Hull	**262.6**	*1.0%*	**353.6**	*1.0%*	**414.5**	*1.8%*	**341.4**	*1.3%*
Conventional	262.6		353.6		414.5		341.4	

Takaful	-		-		-		-	
Accident & Others/ Miscellaneous	**418.5**		**1,476.9**		**1,468.5**		**1,302.5**	
Conventional	408.3	*1.6%*	1,468.3	*4.2%*	1,454.2	*6.4%*	1,297.1	*5.1%*
Takaful	10.2		8.5		14.3		5.3	
Aviation	**4,785.5**		**6,678.7**		**318.1**		**666.9**	
Conventional	4,785.5	*18.8%*	6,678.7	*18.8%*	318.1	*1.4%*	666.9	*2.6%*
Takaful	-		-		-		-	
Engineering	**9,960.8**		**10,844.4**		**7,290.6**		**9,536.5**	
Conventional	9,960.8	*39.1%*	10,844.4	*30.6%*	7,290.6	*31.8%*	9,536.5	*37.3%*
Takaful	-		-		-		-	
Treaty	**7,973.9**		**9,537.4**		**8,060.1**		**7,961.8**	
Conventional	6,887.4	*31.3%*	8,202.7	*26.9%*	6,593.6	*35.2%*	6,880.9	*31.1%*
Takaful	1,086.4		1,334.7		1,466.5		1,080.9	
Total Gross Premium	**25,476.6**		**35,486.6**		**22,897.7**		**25,575.1**	
Conventional	24,271.4		33,969.2		21,282.0		24,353.4	
Takaful	1,205.2		1,517.4		1,615.7		1,221.7	

Overall retrocession ratio reduced to 56.4% (9MCY23: 62.8%) during the ongoing year. Conventional and takaful retrocession ratios were 60.0% (9MCY23: 65.6%) and 9.1% (9MCY23: 6.7%) respectively. Highest retrocession was recorded in marine, A&H and aviation segments whereas cession pertaining to fire, engineering and treaty segment declined signifying a higher retention on net account for the aforesaid segments. Retrocession for takaful has remained low owing to limited availability of re-takaful arrangements.

RETRO-CESSION RATIO	**CY21**	**CY22**	**CY23**	**9MC24**	**9MCY23**
Fire	**13.0%**	**16.7%**	**67.1%**	**65.2%**	**73.6%**
Conventional	13.6%	17.7%	68.9%	66.9%	75.4%
Takaful	0.0%	0.0%	0.0%	0.0%	0.0%
Marine Cargo	**0.0%**	**63.6%**	**68.5%**	**0.0%**	**29.8%**
Conventional	0.0%	64.1%	69.0%	0.0%	30.0%
Takaful	0.0%	0.0%	0.0%	0.0%	0.0%
Marine Hull	**45.8%**	**38.8%**	**86.7%**	**87.9%**	**86.0%**
Conventional	45.8%	38.8%	86.7%	87.9%	86.0%
Takaful					
Accident & Others/ Miscellaneous	**45.8%**	**38.8%**	**86.7%**	**87.9%**	**86.0%**
Conventional	3.4%	43.8%	82.8%	82.9%	73.2%
Takaful	0.0%	0.0%	0.0%	0.0%	0.0%
Aviation	**90.0%**	**92.7%**	**91.5%**	**82.6%**	**70.2%**
Conventional	90.0%	92.7%	91.5%	82.6%	70.2%
Takaful					
Engineering	**90.7%**	**90.4%**	**90.4%**	**85.4%**	**90.4%**
Conventional	90.7%	90.4%	90.4%	85.4%	90.4%
Takaful					
Treaty	**13.5%**	**29.1%**	**17.6%**	**17.9%**	**19.9%**
Conventional	0.0%	0.0%	0.0%	0.0%	0.0%
Takaful	11.0%	21.1%	9.7%	10.0%	7.5%
Overall Cession Ratio	**60.3%**	**64.7%**	**66.4%**	**56.4%**	**62.8%**
Conventional	62.5%	66.9%	68.9%	60.0%	65.6%
Takaful	9.9%	19.0%	8.6%	9.1%	6.7%

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), Sava Re (rated A by S&P), XL Re (rated A+ by AM best), Volante Intl. (rated A+ by S&P) and Singapore Re (rated A by AM best). No reinsurer has a share of more than 15%.

Claims Experiences:

During 9MCY24, total gross claims expense was Rs. 6.3b (9MCY23: Rs. 5.9b) wherein conventional and takaful expenses were Rs. 5.8b (9MCY23: Rs. 5.5b) and Rs. 511.3m (9MCY23: Rs. 395.0m) respectively. Around 91.0% (9MCY23: 81.7%) of the gross claims emanated from engineering and treaty segments. The higher engineering claims resulted from Rs. 2.1b (*net Rs. 36.6m*) claim from a state-owned oil and gas company and other power plant related claims. Additionally, gross claims pertaining to marine hull also increased on account of claims related to Pakistan National Shipping Corporation.

GROSS CLAIMS	**CY21**	**CY22**	**CY23**	**9MC24**	**9MCY23**
Fire	**26.4%**	**124.2%**	**14.3%**	**6.5%**	**17.9%**
Conventional	27.1%	128.9%	14.4%	6.5%	18.4%
Takaful	6.9%	32.2%	10.7%	7.8%	0.4%
Marine Cargo	**-169.8%**	**-8.7%**	**4.1%**	**7.4%**	**5.5%**
Conventional	-192.0%	-8.9%	4.2%	7.5%	5.5%
Takaful	0.0%	0.6%	-2.4%	3.2%	0.0%
Marine Hull	**55.8%**	**-27.3%**	**21.0%**	**126.8%**	**9.4%**
Conventional	55.8%	-27.3%	21.0%	126.8%	9.4%
Takaful	-	-	-	-	-
Accident & Others/ Miscellaneous	**8.5%**	**-34.9%**	**26.6%**	**10.2%**	**19.1%**
Conventional	7.8%	-36.0%	26.9%	9.9%	19.3%
Takaful	20.4%	1.0%	-10.5%	37.3%	-5.9%
Aviation	**-128.5%**	**4.2%**	**46.3%**	**-6.4%**	**6.5%**
Conventional	-128.5%	4.2%	46.3%	-6.4%	6.5%
Takaful	-	-	-	-	-
Engineering	**13.1%**	**118.8%**	**48.0%**	**34.5%**	**25.3%**
Conventional	13.1%	118.8%	48.0%	34.5%	25.3%
Takaful	-	-	-	-	-
Treaty	**71.1%**	**68.2%**	**44.2%**	**47.8%**	**47.0%**
Conventional	74.3%	67.5%	44.5%	48.8%	47.4%
Takaful	48.1%	72.3%	42.9%	42.9%	44.3%
Gross claims ratio	**27.2%**	**78.2%**	**39.4%**	**26.1%**	**26.4%**
Conventional	26.5%	78.7%	39.4%	25.3%	25.8%
Takaful	43.5%	67.8%	39.3%	39.4%	39.7%

Net claims expense of PRCL during 9MCY24 remained stable at Rs. 4.7b (9MCY23: Rs. 4.6b) whereby conventional and takaful net claims expense amounted to Rs. 4.1b (9MCY23: 4.3b) and Rs. 579.7m (9MCY23: Rs. 281.1m). However, due to improvement in net premium revenue, the net claims ratio improved to 49.5% (9MCY23: 58.2%). Net claims ratio for accident/ Miscellaneous and engineering segments was high on account of nature of reinsurance treaties.

NET CLAIMS RATIO	**CY21**	**CY22**	**CY23**	**9MC24**	**9MCY23**
Fire	**25.9%**	**139.5%**	**25.3%**	**32.4%**	**56.8%**
Conventional	27.0%	147.8%	26.5%	34.8%	61.6%
Takaful	5.7%	26.8%	10.7%	6.5%	0.4%
Marine Cargo	**-3.8%**	**-23.3%**	**23.4%**	**7.4%**	**10.5%**
Conventional	-4.4%	-24.1%	24.0%	7.5%	10.6%
Takaful	0.0%	0.5%	-2.4%	2.6%	0.0%
Marine Hull	**77.2%**	**-13.5%**	**117.7%**	**153.7%**	**47.0%**
Conventional	77.2%	-13.5%	117.7%	153.7%	47.0%
Takaful	-	-	-	-	-
Accident & Others/ Miscellaneous	**8.7%**	**-56.0%**	**120.9%**	**47.8%**	**38.8%**
Conventional	8.0%	-59.2%	125.7%	48.9%	39.6%
Takaful	17.0%	0.8%	-10.5%	31.1%	-5.9%
Aviation	**5.9%**	**-18.1%**	**60.5%**	**0.3%**	**30.0%**

Conventional	5.9%	-18.1%	60.5%	0.3%	30.0%
Takaful	-	-	-	-	-
Engineering	**40.9%**	**87.7%**	**19.5%**	**81.7%**	**52.0%**
Conventional	40.9%	87.7%	19.5%	81.7%	52.0%
Takaful	-	-	-	-	-
Treaty	**65.6%**	**54.8%**	**55.8%**	**52.7%**	**64.7%**
Conventional	70.0%	51.6%	59.2%	54.5%	70.7%
Takaful	41.1%	80.6%	38.2%	45.5%	34.7%
Net Claims Ratio	**50.7%**	**68.8%**	**48.6%**	**49.5%**	**58.2%**
Conventional	52.3%	68.7%	50.5%	51.0%	61.8%
Takaful	36.8%	69.9%	34.9%	41.1%	30.8%

Underwriting Performance:

Overall underwriting profit of PRCL exhibited a noteworthy growth of 53.4% and reached Rs. 2.0b (9MCY23: Rs. 1.3b) wherein conventional and takaful underwriting profits were Rs. 1.7b (9MCY23: Rs. 890.9m) and Rs. 317.1m (9MCY23: Rs. 422.5m) respectively by end-9MCY24; the same was an outcome of improvement in underwriting profits pertaining to fire segment. On the other hand, underwriting profits for takaful segment declined due to decline in the treaty segment.

The underwriting expense ratio increased marginally to 26.4% (9MCY23: 25.2%) in line with higher management and net commission expenses by end-Sept'24. Despite this, with improvement manifested in the net claims ratio, combined ratio declined to 75.9% (9MCY23: 83.4%). Bottom-line is further supported by sizable investment income to the tune of Rs. 2.5b (9MCY23: Rs. 1.6b) which emanated primarily from higher returns reaped from T-bills and PIBs and resulted in a lower net operating ratio of 46.2% (9MCY23: 58.6%) by end-9MCY24. Consequently, PRCL recorded a higher PBT and PAT amounting to Rs.4.7b (9MCY23: Rs. 3.2b) and Rs. 2.6b (9MCY23: Rs. 2.0b) by end-Sept'24.

UNDERWRITING PERFORMANCE	**CY21**	**CY22**	**CY23**	**9MC24**	**9MCY23**
Fire	**874.5**	**(1,280.2)**	**851.5**	**846.8**	**293.7**
Conventional	815.8	(1,337.7)	741.2	738.4	206.9
Takaful	58.8	57.4	110.2	108.5	86.8
Marine Cargo	**34.4**	**54.9**	**51.0**	**67.9**	**127.7**
Conventional	30.3	53.6	49.2	67.0	126.0
Takaful	4.0	1.3	1.8	0.9	1.6
Marine Hull	**13.6**	**155.1**	**(17.8)**	**(19.4)**	**20.7**
Conventional	13.6	155.1	(17.8)	(19.4)	20.7
Takaful	-	-	-	-	-
Accident & Others/ Miscellaneous	**140.8**	**301.2**	**(113.0)**	**92.1**	**146.4**
Conventional	132.2	290.7	(122.0)	84.5	140.4
Takaful	8.6	10.5	9.0	7.6	6.0
Aviation	**314.1**	**379.6**	**81.1**	**338.4**	**247.9**
Conventional	314.1	379.6	81.1	338.4	247.9
Takaful	-	-	-	-	-
Engineering	**609.2**	**214.2**	**794.2**	**266.4**	**515.5**
Conventional	609.2	214.2	794.2	266.4	515.5
Takaful	-	-	-	-	-
Treaty	**(42.1)**	**348.2**	**364.5**	**423.0**	**(38.5)**
Conventional	(172.9)	168.4	(43.3)	223.0	(366.5)
Takaful	130.8	179.8	407.8	200.1	328.0
Underwriting Profit (Loss)	**1,944.5**	**173.1**	**2,011.5**	**2,015.3**	**1,313.4**
Conventional	1,742.3	(75.9)	1,482.6	1,698.2	890.9
Takaful	202.2	249.0	528.9	317.1	422.5
Other Income (Conv.)	**142.2**	**419.2**	**1,197.1**	**337.8**	**486.3**
Investment Income (Conv.)	**981.7**	**1,338.4**	**2,389.5**	**2,520.0**	**1,571.2**
Rental Income (Conv.)	**104.4**	**126.6**	**148.5**	**110.4**	**123.5**
Finance Cost	**(2.5)**	**(2.8)**	**(7.3)**	**(6.8)**	**(2.9)**
Fair value Gain (Conv.)	**698.1**	**0**	**87.7**	**-**	**80.8**
Profit from operations (Conventional)	**3,598.5**	**3526.4**	**5,093.9**	**4,659.7**	**3,150.8**
Profit from Window Retakaful	**16.0**	**30.4**	**95.5**	**82.3**	**30.3**
PBT	**3,614.4**	**3556.7**	**5,189.3**	**4,741.9**	**3,181.1**
PAT	**2,589.6**	**2624.8**	**3,065.2**	**2,639.3**	**2,021.1**

Investments

Investment Portfolio (PKR million)	CY22	CY23	9MCY24
Listed Shares	1,671.0	2,573.6	2,792.9
Unlisted Shares	0.6	0.6	0.6
Mutual Funds	1,083.9	1,609.5	1,766.9
Total	**2,755.4**	**4,183.7**	**4,560.4**
PIBs (Fixed)	4,076.8	6,608.2	10,434.5
PIBs (Floating)	550.4	175.1	175.1
T-Bills	5,180.0	7,252.4	6,250.7
TFCs	99.8	99.8	-
Debt Securities	**9,907.0**	**14,135.6**	**16,860.2**
Total Investments	**12,662.5**	**18,319.3**	**21,420.6**

The investment portfolio augmented to Rs. 21.4b (CY23: Rs. 18.3b; CY22: Rs. 12.7b) during the review period on account of increased liquidity parked in government securities. A timeline shift towards fixed PIBs can be evidenced whereas the proportion of T-bills was reduced during the review period. Moreover, equity portfolio comprised 21.3% of the investment mix with 39% 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 reaped sound dividend and capital gains in the review period. Nevertheless, stock market exposure will always carry price risk. Given the sizable investments in government securities coupled with the remaining majority constituting stable and high rated equity securities, the credit risk emanating from the same is manageable. Going forward, investment's policy involves making diversified and secure investments while ensuring a sound balance between risk and return.

Capitalization:

	CY21	CY22	CY23	9MCY24
Adjusted Equity	11,526.9	12,900.1	18,139.7	19,700.1
Operating Leverage (%)	70.0%	67.0%	58.3%	64.1%
Adjusted Financial Leverage (%)	72.7%	81.3%	81.2%	61.5%

PRCL's core equity based improved to Rs. 19.7b (CY23: Rs. 18.1b; CY22: Rs. 12.9b) on account of improvements in the reserves of the Company to Rs. 9.3b (CY23: 7.5b; CY22: Rs. 3.9b) by end-Sept'24. PRCL is considered sound from a solvency risk point of view as the Company has adequate cushion in terms of admissible assets over its liabilities. Moreover, the operating leverage increased to 76.7% (CY23: 42.0%; CY22: 68.3%) given the higher growth in net premium revenue compared to the equity base.

The financial leverage ratio decreased to 61.5% (CY23: 81.2%; CY22: 81.3%) in line with decrease in net technical reserves to Rs. 12.1b (CY23: Rs. 14.7b; CY22: Rs. 10.5b) by end-9MCY24; the decrease in the technical reserves was largely manifested in a decline in unearned premium reserves and an increase in reinsurance recoveries. With growth expected in the business volume, the leverage indicators are projected to change during the rating horizon.

Liquidity:

	CY21	CY22	CY23	9MCY24
Adjusted Liquid Assets to Technical Reserves (%)	161.7%	149.6%	145.9%	197.0%
Insurance Debt to Gross Premium (%)	62.4%	68.3%	46.8%	64.4%

The quantum of liquid assets increased on a timeline to Rs. 23.9b (CY23: Rs. 21.5b; CY22: Rs. 15.7b) by end-sept'24 in line with higher investment in government securities (*primarily PIBs*); the same maintained in relation to net technical reserves increased on a timeline to 197.0% (CY23: 145.9%; CY22: 149.6%) by end-sept'24 in line with decline in unearned premium reserves. The absolute value of net technical reserves is expected to reduce further once the unearned premium reserves are realized by end-CY24. Therefore, 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 higher at 64.4% during 9MCY24 as opposed to a decrease to 46.8% (CY22: 68.3%) during CY23. The increase during 9MCY24 was an outcome of decline in GWP and increase in insurance debt to Rs. 19.7b (CY23: Rs. 16.6b; CY22: Rs. 17.4b) by end-9MCY24. Moreover, the operating cash flows in terms of net premium revenue were recorded lower at 35.1% (CY23: 53.7%; CY22: 42.8%) during 9MCY24 on account of lower cash inflows from operations and rental income.

Digitization Initiatives:

PRCL undertook several digitization initiatives to enhance their IT infrastructure. The Company upgraded user systems to meet current technological requirements and revamped its network infrastructure from CAT3 to CAT6 cabling, which ensures faster and more reliable connectivity. The Company installed real-time CCTV surveillance and access control systems to improve workplace safety and secure critical assets. PRCL also updated its cybersecurity policies and introduced monthly awareness alerts to bolster cyber defenses. The implementation of a multifactor authentication system for email security and an electronic filing system were significant steps towards reducing operational costs and enhancing data security. The deployment of the Oracle E-Business Suite improved financial management and decision-making. Additionally, the Company upgraded its data center servers with HCI technology, established a new disaster recovery site at a different geographical location, and transitioned to intelligent switches to optimize network management and resilience. A new cybersecurity team was established to proactively address and mitigate threats, ensuring a robust security posture.

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.
- A formal and effective mechanism is put in place for an annual evaluation of the Board's own performance and of its committees.
- On 19th september, 2023 one of the directors Mr. Kausar Ali Zaidi was replaced by Ms. Sarah Saeed and her position was subequently taken up by Mr. Shakeel Ahmed Mangnejo on July 31st, 2024.

ESG Initiatives:

The Company is undertaking the following ESG initiativess**:**

1. Enhancing the workplace environment to support women in the workforce.
2. Implementing the Women Empowerment-2024 package introduced by the Prime Minister.
3. Providing female transportation allowances to encourage women's participation in the workforce.
4. Working under the guidance of the Federal Government to transition to solar energy, promoting sustainability and environmental responsibility.

Qualified Opinion & Emphasis of Matter:

PRCL's auditor was changed from BDO Ebrahim & Co. to Kreston Hyder Bhimji & Co (*Rated A by SBP*). The auditor provided a qualified opinion on the financial statements of year ended December 2023 which is as follows:

- An amount of PKR 2.6b (2022: 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 the Company not recorded this asset, total assets, accumulated profit and shareholders' equity would have been reduced by the same amount accordingly.

- The Company's amount due from other insurance companies on account of treaty and facultative business includes unreconciled gross amount of PKR 16.1b and net amount of PKR 15.9b and that gross amount includes balance of related party M/s National Insurance Corporation Limited amounting to PKR 10.5b whose financial statements are not yet being issued after the year 2017 for litigation issues. Similarly, the Company's amount due to other insurance companies on account of treaty and facultative business includes unreconciled balance of PKR 175.7m. Managements asserted that the reason for time lag in reconciliation is intimations and communications of the transactions which normally takes place after 3 to 4 months of transaction. The Company is in the process of reconciling these balances. Due to pending reconciliations relating to the above balances, resultant adjustment and consequential impact thereon, if any, on these financial statements remain unascertained.
- *Emphasis of Matters:* Previously, no supporting documentation for the premiums and claims of the ceding insurance companies was made available to the auditors. However, during the year the management has developed some control mechanism over treaty proportional business premium and claims which includes obtaining relevant information from ceding companies in support of periodic returns on random basis and performing ceding company wise analysis of treaty proportional business as well as checking compliance of the treaty terms. However, this needs consistency and continuity of the internal control system over the years.

Pakistan Reinsurance Company Limited (PRCL) Annexure I

FINANCIAL SUMMARY	2021	2022	2023	9MCY24
Cash and Bank balances	1,140.8	3,030.9	3,159.8	2,444.6
Investments	12,415.8	12,662.5	18,319.3	21,420.7
Liquid Assets	13,556.0	15,692.7	21,478.4	23,864.6
Insurance Debt	13,686.2	17,393.4	16,621.4	19,664.0
Prepayments	7,723.5	8,943.5	11,900.4	10,042.6
Total Assets	46,805.6	63,854.9	76,887.4	78,939.5
Total Liabilities	33,733.4	49,533.5	58,747.7	59,239.3
Paid up Capital	3,000.0	9,000.0	9,000.0	9,000.0
Adjusted Equity	11,526.9	12,900.1	18,139.7	19,700.1
INCOME STATEMENT	**2021**	**2022**	**2023**	**9MCY24**
Gross Premium Revenue	21,926.7	25,476.6	35,486.6	22,897.7
Net Premium Revenue	8,072.5	8,647.8	10,572.8	9,470.6
Net Claims	4,089.0	5,945.7	5,142.9	4,689.6
Underwriting Profit	1,944.5	173.1	2,011.5	2,015.3
Investment Income (Conv.)	981.7	1,338.4	2,389.5	2,520.0
Other Income (Conv.)	142.2	419.2	1,197.1	337.8
Profit Before Tax (Conv)	3,614.4	3,556.7	5,189.3	4,741.9
Profit After Tax (Conv.)	2,589.6	2,624.8	3,065.2	2,639.3
RATIO ANALYSIS	**2021**	**2022**	**2023**	**9MCY24**
Retrocession Ratio (%)	60.3%	64.7%	66.4%	56.4%
Gross Claims Ratio (%)	27.2%	78.2%	39.4%	26.1%
Net Claims Ratio (%)	50.7%	68.8%	48.6%	49.5%
Underwriting Expense Ratio (%)	23.0%	32.3%	29.8%	26.4%
Combined Ratio (%)	73.7%	101.0%	78.5%	75.9%
Net operating ratio (%)	59.2%	79.6%	48.6%	46.2%
Insurance Debt to Gross Premium (%)	62.4%	68.3%	46.8%	64.4%*
Operating Leverage (%)	70.0%	67.0%	58.3%	64.1%*
Adjusted Financial Leverage (%)	72.7%	81.3%	81.2%	61.5%
Adjusted Liquid Assets to Technical Reserves (%)	161.7%	149.6%	145.9%	197.0%

**Annualized*

REGULATORY DISCLOSURES — Annexure II

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 Watch	Rating Action
RATING TYPE: IFS			
19/03/2025	AA+	Stable	Reaffirmed
27/02/2024	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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS Credit Ratings Company Limited (VIS) does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information .VIS , the analysts involved in the ratings process and members of its ratings committee do not have any conflict of interest relating to the ratings(s)/ranking(s) mentioned in this report. VIS is paid a fee for most ratings assignments. This ratings/ranking is an opinion and is not a recommendation to buy or sell any securities. Contents may be used by news media with credit to VIS

Due Diligence Meetings Conducted

Name	Designation	Date
1. Mr. Muhammad Junaid Moti	Executive Director	**24th February, 2025**
2. Mr. Sumeet Kumar	Company Secretary	
3. Syed Amir	CFO	
4. Mr. Bashir Ahmed	Head of Compliance/Risk Management	
5. Mr. Hans Hussain Soomro	Head of Accounts	