RATING REPORT

Askari General Insurance Company Limited

REPORT DATE:
January 06, 2021

RATING ANALYSTS:

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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
IFS	AA	AA
Rating Date	*Dec 31,'20*	*Dec 27,'19*
Rating Outlook	Stable	Stable
Rating Action	Reaffirm	Reaffirm

COMPANY INFORMATION	
Incorporated in 1995	**External Auditors:** KPMG Taseer Hadi & Co.
Public Limited Company	**Chairman:** Lt Gen (R) Najib Ullah Khan **Chief Executive Officer:** Mr. Abdul Waheed
Key Shareholder(s):	
Army Welfare Trust – 59.2%	
Mr. Muhammad Iqbal – 7.9%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: General Insurance (November 2019) *https://www.vis.com.pk/kc-meth.aspx*

Askari General Insurance Company Limited (AGICO)

OVERVIEW OF THE INSTITUTION

AGICO commenced commercial operations in 1995 and is listed on Pakistan Stock Exchange. With a network of 20 branches, the company is engaged in general insurance business. The financial statements for FY19 were audited by M/s KPMG Taseer Hadi & Co.

Profile of Chairman
Lt. Gen (R) Najeeb Ullah Khan is an ex-serviceman and is currently also acting as MD of Army Welfare Trust. He was awarded Hilal-e-Imtiaz (military) for his distinguished services to the forces. He has also served as Director General FWO.

Profile of CEO
Mr. Abdul Waheed has diverse experience in financial management, banking, and leasing sector. He is a qualified Certified Public Accountant (USA). Mr. Waheed has held the position of CEO since 2010.

Financial Snapshot
Net Worth: 9MFY20: Rs. 2.1b; FY19: Rs. 2.0b; FY18: Rs. 1.7b.
Net Profit: 9MFY20: Rs. 294.4m; FY19: Rs. 361.8m; FY18: Rs. 295.8m.

RATING RATIONALE

The rating assigned to AGICO derives strength from its association with its primary shareholder Army Welfare Trust which has presence in various sectors of the economy. Growth momentum was disrupted in 9MFY20 mainly due to the outbreak of COVID-19. The impact of growth in fire, marine, and accident & health segments was offset by lower gross premium written in miscellaneous and motor segments owing to relatively lower demand for vehicles and initiation of price war by industry players to maintained market share. Going forward, the management expects business expansion from the launch of new health and motor insurance products, recovery in auto sector, new projects in the pipeline in miscellaneous segment, and some increase in fire and marine segments.

The rating also incorporates reinsurance arrangements largely with counterparties having sound credit risk profiles. Despite one of the highest net retention amongst the peers, the company is managing risks given largely consistent loss ratio over the years. Liquidity, in terms of liquid assets in relation to technical reserves have remained adequate. Investment income has supported underwriting profitability on a timeline basis. However, the rating is constrained by high operating and financial leverages; capitalization support to retain risk profile is needed as the company continues to grow its business volumes. Going forward, the rating would remain sensitive to projected growth in business volumes while maintaining sound underwriting quality and adequate liquidity indicators.

Business Strategy
The company primarily offers insurance covers for fire and property damage, marine and transport, motor, health and miscellaneous risks including burglary, loss of cash in safe and cash in transit, engineering losses, business interruption losses, accident, and natural calamities. During 9MFY20, business mix of the company remained largely stable and dominated by motor segment followed by accident & health and miscellaneous segments. Despite intense competition, contribution of fire and marine in overall business mix also improved during 9MFY20. As per management, the company focuses on high-risk segments given capturing business from large insurance companies in fire and marine segments with presence in Rawalpindi is strategically challenging. Gross written premium of the company stood at Rs. 2.0b (FY19: Rs. 3.0b; FY18: Rs. 2.9b) during 9MFY20.

Asper management, gross written premium is expected at Rs. 3.4b for FY20 as the company focused on retention of existing clients due to elevated growth challenging faced by the insurance sector since 2019. For FY21, the management is targeting to achieve gross premium of Rs. 4.0b, with growth expected to emanate mainly from the launch of new health insurance product in collaboration with AXA XL, recovery in auto sector, new projects in the pipeline in miscellaneous segment, and steady increase in fire and marine segments. The snapshot of business mix is presented in the table below:

	FY17	FY18	FY19	9MFY20
Fire	15.8%	15.6%	13.8%	14.7%
Marine	7.0%	6.9%	6.4%	6.6%
Motor	33.2%	34.2%	29.5%	28.8%
Accident & Health	32.1%	27.2%	24.6%	26.5%
Miscellaneous	11.9%	16.1%	25.8%	23.4%
Gross Premium (Rs. m)	2,583.2	2,885.1	3,029.1	1,993.0

The written contribution from WTO amounted to Rs. 281.6m (FY19: Rs. 371.5m; FY18: Rs. 294.7m) while net profit from operator's fund was recorded at Rs. 33.4m (FY19: Rs. 67.2m; FY18: Rs. 56.9m) during 9MFY20.

Reinsurance Arrangement

AGICO's risk profile is supported by strong reinsurance coverage provided by diversified panel of reinsures. Risk profile of the reinsurance panel is considered sound as majority reinsurers are rated 'A' or higher. Scor Re remains the lead reinsurer in major segments; meanwhile, Hannover Re leads in motor, terrorism and catastrophe XoL (fire & engineering). During FY20, Sava Re was removed and Kuwait Re and Qianhai Re were added to the panel. AXA XL was removed from fire and Misc while it remained in Health. Moreover, share of Pakistan Reinsurance Company Limited (PRCL) was increased in all major segments.

During 9MFY20, retention on company's net account was recorded higher mainly due to lower cession in miscellaneous segment. As per management, cession is expected to remain within the 40%-50% range in the coming years. As per management, no major change in the reinsurance panel is expected in FY21.

Claims Experiences

In line with the industry trend, the highest net claims ratio remained in accident & health segment with higher retention on the company's net account in the presence of equal loss sharing arrangement with the reinsurer. Net claims ratio of miscellaneous segment also improved in the absence of any large quantum loss incurred during 9MFY20. While net claims ratio in marine and fire segments increased, the overall impact was somewhat diluted due their relatively low proportion in business mix. The segment-wise net claims ratios are presented in the table below:

	FY17	FY18	FY19	9MFY20
Net Claims Ratio	**45.9%**	**59.0%**	**62.0%**	**56.9%**
Fire	39.4%	43.0%	18.0%	62.9%
Marine	39.7%	33.4%	37.3%	45.9%
Motor	40.6%	44.1%	49.6%	48.8%
Accident & Health	79.3%	86.1%	93.8%	87.1%
Miscellaneous	13.3%	55.1%	37.5%	19.6%

Underwriting Performance

During 9MFY20, the company's underwriting performance was impacted by some decrease in gross premium and increase in expense ratio despite improvement in net claims ratio and marginal increase in net commission income amounting to Rs. 65.4m (FY19: Rs. 82.5m; FY18: Rs. 75.6m). Expense ratio increased to 32.2% (FY19: 27.6%; FY18: 26.3%) due to lower net premium and also the company continued to pay staff salaries and bonuses during the pandemic. However, according to the management, the company may revisit its administration expense strategy to rationalize the cost structure during FY21. Resultantly, combined ratio stood at 89.1% (FY19: 89.6%; FY18: 85.4%) during 9MFY20. All segments except accident & health continues to report underwriting profit during FY19 and 9MFY20; ability of the company to sustain these performance metrics will remain a key rating factor. The snapshot of underwriting results is tabulated below:

Rs. in millions	FY18	FY19	9MFY20
Underwriting Profit	**264.7**	**208.8**	**145.2**
Fire	57.7	64.1	54.1
Marine	44.3	35.1	14.8
Motor	163.0	108.1	32.5
Accident & Health	62.3	-165.8	-90.2
Miscellaneous	67.4	167.2	134.0

Investment income continues to support the bottom line of the company. Investment income stood higher at Rs. 214.7m (FY19: Rs. 201.5m; FY18: Rs. 70.7m) mainly on account of sizeable enhancement of investment portfolio which mainly comprised T-Bills (82%), PIBs (5%), Sukuk & TFCs (12%), and equities (1%) at end-9MFY20. Contribution of dividend income remained minimal on account of further reduction in exposure to mutual funds and listed equities in view of volatility in the stock market. The company intends to remain invested in government securities while exposure in stock market will remain limited during FY21. Despite pressure on underwriting performance on a timeline basis, growth in net profit was led by healthy increase in investment income during FY19 and 9MFY20.

Capitalization and Liquidity

Liquidity profile is considered sound reflected by sizeable liquid assets maintained in relation to net technical reserves. The management managed to reduce insurance debt in relation to gross premium to 38.5% (FY18: 48.3%) during FY19 and further improvement is expected by end-FY20. While overall aging profile of insurance debt is considered satisfactory, stricter monitoring is required for receivables (13%) which were overdue for one year or more at end-9MFY20. During 9MFY20, the company generated lower net operating cash flows of Rs. 384.1m (FY19: Rs. 743.5m; FY18: Rs. 456.9m) as a major portion of reinsurance premiums pertaining to the previous year was paid during 1QFY20.

Paid up capital of the company stood at Rs. 719.0m at end-9MFY20 that is above the minimum regulatory requirement. Capitalization level has improved on a timeline basis as a result of internal capital generation. With slightly increase in shareholder equity owing to profits retention, operating and financial leverage ratios decreased to 85.2% (FY19: 102.5%; FY18: 107.4%) and 73.2% (FY19: 84.5%; FY18: 97.7%) due to decrease in net premium revenue and net technical reserves, respectively, by end-9MFY20. The leverage indicators of the company continue to remain on the higher side vis-à-vis peer companies that need to be rationalized.

Askari General Insurance Company Limited Annexure I

Financial Summary *(amounts in PKR millions)*			
BALANCE SHEET	**Dec 31, 2018**	**Dec 31, 2019**	**Sept 30,2020**
Cash and Bank Accounts	147.2	342.2	269.5
Investments	1,831.9	2,216.8	2,470.0
Investment Property	41.8	40.5	39.5
Insurance Debt	1,393.7	1,166.4	943.1
Total Assets	4,857.7	5,431.4	5,421.6
Net Worth	1,686.7	1,966.4	2,079.6
Total Liabilities	3,171.0	3,465.0	3,341.9
Paid Up Capital	625.2	719.0	719.0
INCOME STATEMENT	**Dec 31, 2018**	**Dec 31, 2019**	**Sept 30,2020**
Net Premium Revenue	1,811.8	2,016.2	1,329.6
Net Claims	1,069.5	1,250.8	755.9
Underwriting Profit/(Loss)	272.6	217.8	151.5
Investment Income	70.7	201.4	214.7
Other Income	29.4	39.2	16.3
Profit Before Tax	420.8	509.5	414.4
Profit After Tax	295.8	361.8	294.4
RATIO ANALYSIS	**Dec 31, 2018**	**Dec 31, 2019**	**Sept 30,2020**
Cession Ratio (%)	33.0	41.8	36.8
Gross Claims Ratio (%)	51.7	54.6	48.5
Net Claims Ratio (%)	59.0	62.0	56.9
Underwriting Expense Ratio (%)	26.4	27.6	32.2
Combined Ratio (%)	85.4	89.6	89.1
Insurance Debt to Gross Premium (%)	48.3	38.5	35.5
Operating Leverage (%)	107.4	102.5	85.2
Financial Leverage (%)	97.7	84.5	73.2
Adjusted Liquid Assets to Technical Reserves & Borrowing (%)	120.1	153.9	179.2

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: 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.vis.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.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Annexure III
Name of Rated Entity	Askari General Insurance Company Limited (AGICO)
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			
12/31/2020	AA	Stable	Reaffirmed
12/27/2019	AA	Stable	Reaffirmed
12/28/2018	AA	Stable	Upgrade
12/27/2017	AA-	Stable	Reaffirmed
8/31/2017	AA-	Stable	Reaffirmed
2/06/2017	AA-	Stable	Upgrade
4/15/2015	A+	Stable	Reaffirmed
2/18/2014	A+	Stable	Upgrade

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.
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Due Diligence Meetings Conducted	

Name	Designation	Date
Mr. Razi Haider	CFO	December 23, 2020
Mr. Usman Nawaz	Company Secretary	December 23, 2020