RATING REPORT

Askari General Insurance Company Limited

REPORT DATE:
January 04, 2022

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, '21*	*Dec 31,'20*
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION	
Incorporated in 1995	**External Auditors:** A. F. Ferguson & Co.
Public Limited Company	**Chairman:** Lt Gen (R) Naveed Mukhtar **Chief Executive Officer:** Mr. Abdul Waheed
Key Shareholder(s):	
Army Welfare Trust – 59.25%	
Mr. Muhammad Iqbal – 7.93%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: General Insurance (November 2019) ***https://docs.vis.com.pk/docs/Meth-GenInsurance201911.pdf***

Askari General Insurance Company Limited (AGICO)

OVERVIEW OF THE INSTITUTION

Askari General Insurance Company Limited (AGICO) commenced commercial operations in 1995 and is listed on Pakistan Stock Exchange. With a network of 27 branches, the company is engaged in general insurance business. The financial statements for FY20 were audited by KPMG Taseer Hadi & Co.

Profile of Chairman

Lt. Gen (R) Naveed Mukhtar was elected as Chairman of the board of directors, effective February 16, 2021. He is a graduate of Pakistan Military Academy, The Cavalry School France, Command and Staff College Quetta, Joint Command and Staff College Philippines, National Defense University and The United States Army War College. His military career spans over 40 years.

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.

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. The rating draws comfort from business growth in all segments of the company during 9MFY21. Majority of the growth in absolute terms manifested in miscellaneous segment due to notable increase crop business, followed by accident & health, motor, and fire segments, while growth in marine segment remained steady. Albeit some slowdown is expected in economic activity due increase in interest rates, rupee devaluation, and higher inflation, the company intends to continue its steady growth momentum during FY22 by increasing focus on health segment, further penetration in motor segment, new projects in miscellaneous segment, and steady 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 retentions amongst the peers, the company is managing risks effectively given largely consistent loss ratio over the years. In order to arrest the increasing trend in loss ratio of accident & health segment, several initiatives are underway including increase in pricing as well as deployment of specialized staff for enhanced screening of claims, strengthening of internal controls and quarterly meetings with the management of major clients. Liquidity, in terms of liquid assets in relation to technical reserves have remained adequate; however, net operations cash flows were recorded lower during 9MFY21. Investment income has supported underwriting profitability on a timeline basis, though some decrease in the same was noted during 9MFY21. 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 offers a comprehensive set of insurance covers for fire and property damage, marine and transport, motor, health, and miscellaneous risks including crop, burglary, loss of cash in safe and cash in transit, engineering losses, business interruption losses, accident, and natural calamities. The company's business mix has remained largely stable during 9MFY21, with motor being the largest segment in overall gross premium mix, closely followed by accident & health and miscellaneous segments. Meanwhile, gradual increase in fire segment was noted despite intense competition, whereas contribution of marine segment decreased during 9MFY21. 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. The snapshot of business mix is presented in the table below:

	FY18	FY19	FY20	9MFY21
Fire	15.6%	13.8%	14.6%	15.0%
Marine	6.9%	6.4%	6.5%	6.1%
Motor	34.2%	29.5%	27.9%	27.6%
Accident & Health	27.2%	24.6%	31.2%	26.4%
Miscellaneous	16.1%	25.8%	19.8%	24.8%

Supported by uptick in economic activity, the company has witnessed growth in all segments during the ongoing year. During 9MFY21, gross written premium of the company grew by 23% over the corresponding period to Rs. 2.4b (FY20: Rs. 3.0b; FY19: Rs. 3.0b). As per the management, gross

Financial Snapshot
Net Worth: 9MFY21: Rs. 2.24b; FY20: Rs. 2.18b; FY19: Rs. 1.97b.
Net Profit: 9MFY21: Rs. 277.2m; FY20: Rs. 395.2m; FY19: Rs. 361.8m.

written premium is expected higher at Rs. 4.0b for FY21, with growth mainly emanating from crop, engineering, motor, and health segments. Albeit some slowdown is expected in economic activity due increase in interest rates, rupee devaluation, and higher inflation, the company intends to continue its steady growth momentum during FY22 by increasing focus on health segment, further penetration in motor segment, new projects in miscellaneous segment, and steady increase in fire and marine segments. Breakdown of gross premiums by segment is tabulated below:

	FY18	FY19	FY20	9MFY21
Gross Premium (Rs. m)	2,885.1	3,029.1	2,955.3	2,442.3
Fire	450.9	417.9	430.5	366.3
Marine	199.7	192.7	193.4	149.0
Motor	986.0	893.4	824.4	675.2
Accident & Health	784.4	744.1	921.1	645.9
Miscellaneous	464.1	781.0	585.8	605.9

The written contribution from Window of Takaful (WTO) amounted to Rs. 295.6m (FY20: Rs. 376.0m; FY19: Rs. 371.5m) while net profit from operator's fund was recorded at Rs. 33.4m (FY20: Rs. 62.9m; FY19: Rs. 67.2m) during 9MFY21.

Reinsurance Arrangement

Strong reinsurance coverage provided by diversified panel of reinsurers underpins the risk profile of the company. Meanwhile, risk profile of the reinsurance panel is also considered sound as reinsurers are rated 'A-' or higher. Score Re remains the lead reinsurer in major segments; meanwhile, Hannover Re leads in motor, terrorism, and catastrophe XoL (fire & engineering) and AXA leads the health segment. During FY21, Qianhai Re was removed from marine segment and its share was allocated to Pakistan Reinsurance Company Limited (PRCL), whereas share of Hannover was reduced to 65% (FY20: 70%) and share of PRCL was further increased by the same in motor segment. Going forward, no major change in reinsurance panel, commission rates, and treaty capacities is expected for FY22, baring health segment where the management is contemplating either to end reinsurance agreement and retain all the risk within the company or negotiate new terms with a new panel of reinsurers.

During 9MFY21, retention on company's net account was recorded higher mainly due to reduction in cession in fire, marine, and accident & health segments, partially offset by increase in cession in miscellaneous and motor segments. Increasing cession trend in motor segment was due to increased sale of high-price vehicles while increase in miscellaneous segment cession due to notable growth in crop business which is majorly reinsured. As per the management, overall cession is expected to remain within the historical range, going forward.

	FY18	FY19	FY20	9MFY21
Cession Ratio	33.6%	41.8%	33.5%	34.0%
Fire	80.5%	87.3%	91.5%	89.3%
Marine	60.8%	64.2%	66.0%	57.0%
Motor	1.9%	1.4%	2.8%	4.4%
Accident & Health	29.9%	21.5%	17.2%	11.6%
Miscellaneous	49.9%	77.6%	48.9%	51.5%
Premium Ceded (Rs. m)	969.5	1,266.9	989.5	829.2

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. Increase in health segment claims during the ongoing year was due to spike in post-corona hospital visits, significant increase in prices of medical supplies, and largely unfavorable pricing due to intense competition. In order to arrest the increasing trend in claims ratio in accident & health segment, several initiatives are underway including increase in pricing as well as deployment of specialized staff for enhanced screening of claims, strengthening of internal controls and quarterly meetings with the management of major clients to control fake claims and keep the underwriting profitability in check. Going forward, the company's target is to bringdown accident & health segment's net claims ratio between 80% and 90%. The company is also working with the Jubilee Insurance on the Sehat Sahulat Program and intends to take conservative exposure initially in order to study the market dynamics. Meanwhile, net claims ratio of miscellaneous segment improved further during 9MFY21 on account of increased contribution of relatively low-risk crop business. Motor segment has also depicted decline in net claims ratio during the ongoing year as the company passes the risk onto reinsures for vehicles exceeding Rs. 5m. The segment-wise net claims ratios are presented in the table below:

	FY18	FY19	FY20	9MFY21
Net Claims Ratio	**59.0%**	**62.0%**	**60.0%**	**62.0%**
Fire	43.0%	18.0%	42.6%	26.6%
Marine	33.4%	37.3%	38.0%	45.2%
Motor	44.1%	49.6%	47.7%	39.9%
Accident & Health	86.1%	93.8%	97.5%	99.1%
Miscellaneous	55.1%	37.5%	17.5%	16.2%

Underwriting Performance

During 9MFY21, the company's underwriting performance was impacted by some increase in combined ratio and reduction in net commission income to Rs. 17.5m (FY20: Rs. 125.2m; FY19: Rs. 82.5m) despite uptick in net premium revenue. Slight increase in expense ratio to 29.0% (FY20: 28.1%; FY19: 27.6%) was due to lower net commission income and continued increase in staff salaries and bonuses while many peers announced cutbacks in administrative expenses. Resultantly, combined ratio stood higher at 91.0% (FY20: 85.14%; FY19: 79.53%) during end-9MFY21. All segments except accident & health continues to report underwriting profit during 9MFY21; 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	FY20	9MFY21
Underwriting Profit	**272.58**	**217.84**	**231.91**	**153.63**
Fire	57.98	64.33	31.59	22.88
Marine	44.57	35.49	16.01	10.62
Motor	166.93	112.26	80.67	86.81
Accident & Health	(64.98)	(162.66)	6.53	(27.08)
Miscellaneous	68.08	168.42	97.11	60.40

Investment income continues to support the bottom line of the company. Investment portfolio of the company generated income of Rs. 190.8m (FY20: Rs. 266.3m; FY19: Rs. 201.5m) during 9MFY21, which mainly comprised divided income of Rs. 14.0m (FY20: Rs. 2.5m), return on debt securities amounting to Rs. 167.1m (FY20: Rs. 252.8m) and realized gain on investment portfolio amounting to Rs. 9.7m (FY20: Rs. 11.1m). Some increase in dividend income was due to reconstitution and increase in equity portfolio to Rs. 187.0m (FY20: Rs. 27.7m) which mainly comprised blue-chip, dividend-yielding shares of commercial banks, cement, and E&P companies. Given expected continuation of market volatility, the company intends to maintain equity exposure around current levels. Debt securities portfolio was maintained at Rs. 2.5b (FY20: Rs. 2.5b) by end-9MFY21, though the company changed the overall mix by reducing exposure in held-to-maturity T-bills to Rs. 29.0m (FY20: Rs. 2.1b) while building held-to-maturity PIBs portfolio to Rs. 2.2b (FY20: Rs. 114.8m) between Feb'21 and July'21. The average duration of PIBs portfolio is around 3 years. The average return on PIBs portfolio is around 10%, and given further increase in interest rates, the management plans to take further exposure in PIBs at 12% to 12.5% per annum, going forward.

Capitalization and Liquidity

Liquidity profile is considered sound as reflected by sizeable liquid assets maintained in relation to net technical reserves, remaining largely stable at 148% (FY20: 148.2%; FY19: 153.9%) by end-9MFY21. The company managed to reduce insurance debt in relation to gross premium to 34.6% (FY20: 41.2%) during 9MFY21; however, the same is expected to increase slightly by end-FY21 on account of major health insurance policy renewal during Dec'21. While overall aging profile of insurance debt is considered satisfactory, stricter monitoring is required for receivables (15%) which were overdue for one year or more at end-9MFY21. No additional provision for doubtful receivables was recorded during the period. The company generated lower net operating cash flows amounting to Rs. 275.1m (FY20: Rs. 475.6m; FY19: Rs. 743.5m) mainly on account of higher claims payments and net commission paid, partially offset by lower net reinsurance premium paid during the 9MFY21.

Paid up capital of the company stood at Rs. 719.0m at end-9MFY21, which is above the minimum regulatory requirement. Operating leverage increased to 97.9% (FY20: 85.3%; FY19: 102.5%) as the impact of largely stable equity base of Rs. 2.2b (FY20: Rs. 2.2b; FY19: Rs. 2.0b) was more than offset by uptick in net premium revenue during 9MFY21. Meanwhile, net financial leverage decreased to 72.3% (FY20: 85.7%; FY19: 84.5%) on account of notable reduction in net technical reserves which amounted to Rs. 1.6b (FY20: Rs. 1.9b; FY19: Rs. 1.7b). 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, 2019**	**Dec 31, 2020**	**Sept 30,2021**
Cash and Bank Accounts	342.2	231.8	96.1
Investments	2,216.8	2,540.9	2,672.3
Investment Property	40.5	39.2	38.2
Insurance Debt	1,166.4	1,218.7	1,125.4
Total Assets	5,431.4	5,868.3	5,820.0
Net Worth	1,966.4	2,181.9	2,239.0
Total Liabilities	3,465.0	3,686.3	3,581.0
Paid Up Capital	719.0	719.0	719.0
INCOME STATEMENT	**Dec 31, 2019**	**Dec 31, 2020**	**Sept 30,2021**
Net Premium Revenue	2,016.2	1,860.2	1,644.3
Net Claims	1,250.8	1,116.7	1,018.6
Underwriting Profit/(Loss)	217.8	231.9	153.6
Investment Income	201.4	265.8	190.8
Other Income	39.2	22.2	14.5
Profit Before Tax	509.5	560.0	392.3
Profit After Tax	361.8	395.2	277.2
RATIO ANALYSIS	**Dec 31, 2019**	**Dec 31, 2020**	**Sept 30,2021**
Cession Ratio (%)	41.8	49.6	34.0
Gross Claims Ratio (%)	54.6	56.0	48.5
Net Claims Ratio (%)	62.0	60.0	26.6
Underwriting Expense Ratio (%)	27.6	30.3	29.0
Combined Ratio (%)	89.6	90.4	91.0
Insurance Debt to Gross Premium (%)	38.5	41.2	34.6
Operating Leverage (%)	102.5	85.3	97.9
Financial Leverage (%)	84.5	85.7	72.3
Adjusted Liquid Assets to Technical Reserves & Borrowing (%)	153.9	148.2	148.0

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	See table below
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 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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Rating History

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: IFS			
12/31/2021	AA	Stable	Reaffirmed
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

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Suleman Khalid	CFO	December 24, 2021