RATING REPORT

Askari General Insurance Company Limited

REPORT DATE:
February 29, 2024

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating
Rating Category	**IFS**
IFS Rating	AA+ (IFS)
Rating Date	*Feb. 29, 24*
Rating Outlook	*Stable*
Rating Action	*Initial*

COMPANY INFORMATION

Incorporated in 1995	**External Auditors:** Yousuf Adil Chartered Accountants
Public Limited Company	**Chairman:** Lt Gen (R) Nauman Mahmood **Chief Executive Officer:** Mr. Abdul Waheed
Key Shareholder(s):	
Army Welfare Trust – 59.25%	
Mr. Muhammad Iqbal – 7.93%	

APPLICABLE METHODOLOGY(IES)

VIS 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

Askari General Insurance Company Limited

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..

Profile of Chairman

Lt Gen Nauman Mahmood, HI (M) (Retired) passed out from Pakistan Military Academy in 1987 and was commissioned in an Infantry Battalion. He is graduate of Command and Staff College Quetta, Command and Staff College Cario, Egypt and National Defence University Islamabad. The General Officer is a recipient of Hilal-e-Imtiaz (Military and holds a Master Degree in War Studies as well.

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 takes into account strength of its primary shareholder, Army Welfare Trust that has a presence in various sectors of the economy. The business risk profile of the insurance industry is currently elevated owing to projected slowdown in the domestic economic activity due to high interest rates, rupee devaluation, and heightened inflation levels coupled with expected rate hardening by international reinsures. The rating factors in growth in the business volumes on account of inflation and forex impact in premiums, and onboarding of few new clients. While underwriting profit decreased, bottom line was supported by increasing investment income. Investment portfolio is dominated by debt securities (primarily PIBs & Ijarah Sukuk) followed by mutual funds; the credit risk emanating from the same is manageable. Going forward, the Company's investments are planned to be directed towards Shariah-Compliant instruments and sustain income generated from investment portfolio. Successful implementation of the planned strategy would be important for the assigned ratings, going forward.

Rating is supported by reinsurance arrangements largely with counterparties having sound credit risk profiles. AGICO is considered sound from solvency risk point of view as the Company has adequate cushion in terms of admissible assets over its liabilities. On the other hand, operating and financial leverages scaled up on a timeline and are higher than the peer median. With significant uptick expected in business volumes, the leverage indicators are projected to increase further during the rating horizon. Going forward, improvement in underwriting profits through rationalization of loss ratios, adequate mitigation of market risk and improvement in profitability would remain important rating drivers. Lastly, adequate management of leverage indicators to remain aligned with assigned rating would be important.

Key Rating Drivers

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 higher inflation led to revaluation of assets with commensurate higher premium values. 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. 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. No final timeline for the same is announced yet.

Future Outlook

Globally, it is expected that there will be premium rate hardening in CY23 in response to the continuation of high inflation, geopolitical tensions, natural catastrophes and financial market losses of CY22.

Business Strategy

AGICO maintains a widespread presence across Pakistan, with operations spanning more than 15 cities and a total of approximately more than 20 branches nationwide. The Company primarily offers insurance covers for fire and allied perils, marine cargo, marine hull, motor theft and damage, crop and miscellaneous risks including loss of cash in safe and cash in transit, engineering losses, health, workmen's compensation, aviation, livestock and natural calamities. The business mix remained largely stable during the rating review period; the same is composed of a well-diversified mix of fire & property, Accident & Health, Motor and Miscellaneous segment whereas the proportion of marine segment remained low on a timeline. During 9MCY23, proportion of A&H segment increased on account of an uptick witnessed in the medicinal costs in line with higher inflation coupled with addition of a few new clients. On the other hand, the share of miscellaneous segment reduced in line with lower funding from Government of Punjab towards the agriculture department that impacted the contributions from crop business within the segment. Furthermore, on timeline proportion of marine, aviation and transport segment remained the lowest in the business mix during 9MCY23, however, some uptick in share to total business mix is observed in last two years.

Despite weak economic and political condition of Pakistan during CY23, GWP was reported 33.9% higher during 9MCY23 as opposed to SPLY with growth witnessed in all segments. The aforementioned augmentation is largely on account of upward revisions in premium prices in line with soaring inflation across all segments as opposed to noteworthy expansion of client base. The company's optimistic outlook indicates confidence in their ability to navigate market challenges, capitalize on emerging opportunities, and meeting the evolving needs of their customer base. As per the management, business mix will remain the same going forward with health segment remaining the dominant segment.
The breakup of business mix has been tabulated below:

Business Mix	CY20	CY21	CY22	9MCY23
Fire and property damage	14.6%	14.7%	17.1%	18.1%
Marine, aviation and transport	6.5%	6.1%	7.5%	7.6%
Motor	27.9%	26.9%	26.6%	24.0%
Accident & Health	31.2%	29.7%	25.7%	32.4%

Miscellaneous	19.8%	22.6%	23.2%	17.9%
Total Gross Premium	2,955.3	3,606.5	4,041.4	3,744.4

On the Window Takaful Operations (WTO) front, the gross and net contribution increased to Rs. 496.9m (9MCY22: Rs. 329.7m) and Rs. 73.5m (9MCY22: 58.4m) respectively during CY22 with major increase manifested in A&H, Fire & Property damage and motor segments; the A&H segment continued to represent the largest proportion. The participants incurred a surplus of Rs. 37.7m during 9MCY23 in comparison to Rs. 27.4m booked in preceding year. Moreover, the WTO have been profitable for the past couple of years; the management expects to maintain growth momentum while expanding the scale of Takaful operations.

Claims Performance

Claims ratio depicted a slight weakening during the rating review period in line with weak economy and high inflation however, the same largely remained well maintained on a timeline. A&H segment has the highest net claim ratio on account of full retention on net account coupled with an increased business activity in the said segment. As per the management, the inflationary pressure contributed towards increased health insurance-related claims as the medical treatment became relatively costly during the ongoing year. Moreover, overall claims expenses pertaining to motor segment also increased during the ongoing year on account of high price of vehicles/replacement cost leading to time lag in claim incurrence and adjustment of insurance premiums. Loss ratio pertaining to fire and property damage also increased during 9MCY23 as compared to SPLY; the same was an outcome of claims emerging from a well-reputed fertilizer plant coupled with claims stemming from a petroleum company and a power plant. Going forward, AGICO anticipates that effective management of motor and health claims will be prioritized while maintaining the net claims ratio simultaneously. Overall, the company's continued focus on effective claims management, coupled with robust reinsurance arrangements, would position it well to navigate potential challenges and sustain stable net claims ratios in the future. The segment-wise net claims ratios are presented in the table below:

NET CLAIMS RATIO	CY20	CY21	CY22	9MCY23
Fire and property damage	42.6%	68.0%	41.0%	55.9%
Marine, aviation transport	38.0%	29.0%	21.6%	19.7%
Motor	47.7%	44.8%	49.7%	53.6%
Accident & Health	97.5%	96.2%	87.0%	84.4%
Miscellaneous	17.5%	22.1%	34.9%	38.3%
Net Claims Ratio	60.0%	63.4%	63.8%	64.6%
Net Claims	1,116.7	1,377.0	1,548.2	1,251.9

Reinsurance Arrangements

AGICO's risk profile is supported by strong reinsurance coverage provided by diversified panel of reinsurers. Risk profile of the reinsurance panel is considered sound as all reinsurers are rated in 'A' band or higher with majority share allocated to 'AA-' rated reinsurers in main segments. The reinsurance panel remained the same during the rating review period however the share of the respective reinsurers depicted a few changes as the share of Hannover Re was reduced and was subsequently taken up by Eco Re. SCOR re remained the lead reinsurer in majority of segments meanwhile, Hannover Re leads in motor, terrorism, and catastrophe XoL (fire & engineering) and Motor XOL segments. Pakistan Reinsurance Company Limited (PRCL) holds a share of 35% in all segments; the same is a mandatory requirement by the regulatory bodies. Moreover, Hannover Re holds the highest share in Terrorism, Catastrophic XOL (Fire & Engineering) and Motor XOL segments. The share of SCOR Re and PRCL remained the same during the rating review period. During CY23, event limits under Fire QS & Surplus Treaty and Engineering QS & Surplus Treaties were revised whereby limits for EQ, Flood and SRCC were changed to Rs. 2.7b, Rs. 2.5b and Rs. 1.5b respectively as opposed to a standard limit of Rs. 3.0 for all events. Furthermore, in anticipation of increased business treaty capacities of various businesses in the aforementioned segments were also enhanced; the same factors in the impact of inflation. Going forward, the reinsurance panel is expected to remain the same for CY24.

Cession ratio exhibited a declining trend during the rating review period with highest cession recorded in miscellaneous segment followed by fire and marine segments; the same led to growth in the GWP to Rs. 3.7b (9MCY22: Rs. 2.8b) by end-Sept'23. On the flip side, cession pertaining to marine segment was recorded lower on account of a one-off transaction involving favorable pricing of wheat imports from Ukraine that allowed the Company to retain more risk and pass on a lower margin to the reinsurer.

Cession Ratio	CY20	CY21	CY22	9MCY23
Fire and property damage	91.5%	85.1%	79.7%	80.3%
Marine, aviation transport	66.0%	58.5%	61.0%	49.5%
Motor	2.8%	4.1%	3.9%	3.7%
Accident & Health	17.2%	13.7%	3.4%	0.0%
Miscellaneous	48.9%	54.3%	74.8%	82.5%
Cession Ratio	33.5%	33.5%	37.4%	33.9%

Underwriting Performance

AGICO's underwriting profits were recorded significantly lower at Rs. 69.5m (9MCY22: Rs. 145.0m) during 9MCY23 as opposed to SPLY; the same is attributable to increased costs of doing business, higher claim costs, and tighter reinsurance arrangements influenced by inflationary pressures. On the flip side, the higher inflation has significantly contributed to investment income representing around 68% increase during CY23. A segment-wise breakdown of underwriting profits depicts very high motor-related underwriting losses incurred during the rating review period in line with import restrictions imposed, that resulted in drop in quantitative sales of automobile sector thus lowering the contributions in this segment. However, the management interjects that with stabilization of currency, reduced inflation and decline in policy rate, automobile sales will revive and subsequently restoration of Company's share in this segment will take place. Moreover, underwriting profits pertaining to A&H segment were also recorded lower as a combined outcome of higher business volume & demand that raised the claims coupled with a recent hike in the medicinal and hospitalization costs that inflated the claims incurred and negatively impacted the profits. With an improved cession under miscellaneous segment, the profits pertaining to the aforementioned segment was recorded higher.
As per the management, underwriting profits are expected to improve when inflation rates decrease, as these profits are directly linked to inflation. Higher inflation leads to increased costs of doing business and higher claims negatively impact underwriting income. In line with this expectation, the Company aims to improve their pricing where necessary and actively manage claims to enhance the underwriting profitability. By adjusting pricing strategies to reflect current market conditions and implementing effective claims management practices, the AGICO aims to mitigate the adverse effects of inflation on underwriting profits.

Underwriting Profit	CY20	CY21	CY22	9MCY23
Fire and property damage	30.0	56.2	56.1	22.4
Marine, aviation and transport	15.1	34.1	42.8	29.2
Motor	74.5	1.2	(89.8)	(129.3)
Accident & Health	(0.0)	(19.1)	79.0	74.1

Miscellaneous	94.2	113.3	89.2	73.1
Underwriting Profit/ Loss	213.8	185.8	177.3	69.5

Investment Mix

The investment portfolio scaled up on a timeline to Rs. 3.5b (CY22: Rs. 3.1b; CY21: Rs. 2.8b) by end-Sept'23; the same remains dominated by medium to long-term PIBs followed by Ijarah Sukuk and mutual fund. A recent shift towards Shariah Compliant investments can be evidenced by the AGICO's investment in an Ijarah Sukuk and Islamic Income Funds. The Company has also divested their investment in T-bills and replaced them with Shariah-compliant counterparts. As per the management, the management will halt their investments in PIBs and will only reap favorable gains from the already existing PIBs. Moreover, equity portfolio comprised 16% of the investment mix with 67% (CY22: 29%) 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 a vast range of sectors. Owing to the positive trajectory of stock market performance, the Company may reap sound dividend and capital gains in the medium term. Nevertheless stock market exposure will carry price risk. In expectation of the company for a reduction in policy rates it plans to re-profile its equity investments in terms of its investment policy.
Given the sizable investments in government securities coupled with remaining majority constituting of stable & high rated equity securities and mutual funds, the credit risk emanating from the same is manageable. Going forward, investment's policy is planned to remain focused on investment income to support bottom line in the backdrop of managing volatility in investment mix and market scenarios.

INVESTMENT MIX	CY20	CY21	CY22	9MCY23
Mutual Funds	0.2%	0.1%	3.2%	10.9%
Listed Shares	0.9%	7.3%	7.8%	5.3%
Equity Securities	**1.1%**	**7.5%**	**11.1%**	**16.1%**
PIBs	4.5%	78.6%	70.3%	50.4%
T-Bills	82.7%	4.4%	11.1%	0.0%
TFC	6.3%	5.8%	5.2%	4.6%
Ijarah Sukuk	0.0%	0.0%	0.0%	27.4%
Sukuk	5.4%	3.7%	2.4%	1.4%
Debt Securities	**98.9%**	**92.5%**	**88.9%**	**83.9%**
Total Investment	2,540.9	2,765.1	3,091.8	3,463.1

Capitalization

AGICO's core equity scaled up slightly to Rs. 2.54b (CY22: Rs. 2.46b) on account of internal capital generation coupled with a slight improvement in reserves to Rs. 68.5m (CY22: Rs. 46.1m). AGICO 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 increased on a timeline at 101.9% (CY22: 96.0%; CY21: 93.8%) given the enhancement of operations reflecting in amplification of net premium revenue was offset by growth in equity base during the ongoing year. The operating leverage ratio increased during the review period in line with augmentation of scale of operations along with equity remaining almost the same during 9MCY23, the same indicates increase in risk profile of the Company. However, on account of appropriate reinsurance coverage the increase in operating leverage would need to be addressed with growth in business. The financial leverage ratio increased on a timeline to 57.4% (CY22: 37.0%; CY21: 33.5%) in line with an increase in net technical reserves to Rs. 1.5b (CY22: Rs. 915.1m; CY21: Rs. 775.2m) by end-9MCY23; the increase in the technical reserves was largely manifested in an increase in unearned premium reserves and outstanding claims. Outstanding claims rose as a consequence of very high motor and health related claims incurred during the review period. Nevertheless, unearned premium has an element of cyclicality attached as majority of the new business was reaped in the 3rd quarter of CY23. Both the financial leverage and operating leverage continue to be above the peer median and thus constrain the assigned rating. Therefore, improvement in these metrics will remain imperative going forward. Moreover, 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. 3.8b (CY22: Rs. 3.4b; CY21: Rs. 3.0b) by end-Sept'23 in line with higher investment in Shariah-compliant mutual funds and debt securities (*Ijarah Sukuk*); however, the same maintained in relation to net technical reserves declined on a timeline to 260.2% (CY22: 370.2%: CY21: 382.7%) during the ongoing year in line with business growth, and growth in outstanding claims which the company expects to recover by year end owing to inherent cyclicality prevalent in the insurance sector enabling the company maintain its liquidity profile. Moreover, a decline in insurance debt in relation to gross premium on a timeline to 32.6% (CY22: 36.5%; CY21: 39.8%) was a combined function of growth in business volumes and swifter payments received by policy holders; the same in turn is a function of change in accounting policy of recording receivables. Moreover, operating cash flows in terms of net premium revenue increased on a timeline to 28.4% (CY22: 31.8%; CY21: 22.6%) during 9MCY23; however the same was lower as compared to outgoing year on account of other operating payments of Rs. 103.4m made in the ongoing year as opposed to the receipts aggregating to Rs. 122.3m in the preceding year.

Askari General Insurance Company Limited Appendix I

FINANCIAL SUMMARY	CY20	CY21	CY22	9MCY23
Cash and Bank Balances	232	196	292	327
Investments	2,541	2,765	3,092	3,463
Insurance Debt	1,219	1,435	1,475	1,628
Liquid Assets	2,773	2,962	3,383	3,790
Total Assets	5,868	6,287	7,004	8,852
Ordinary Share Capital	719	719	719	719
Total Equity	2,182	2,316	2,462	2,537
Total Liabilities	3,590	3,868	4,423	6,150
INCOME STATEMENT	**CY20**	**CY21**	**CY22**	**9MCY23**
Gross Premium Revenue	2,955	3,607	4,042	3,744
Net premium Revenue	1,860	2,173	2,428	1,939
Net Claims	1,117	1,377	1,548	1,252
Underwriting Profit	214	186	177	69
Investment Income	266	252	268	285
Other Income	22	20	54	53
Profit before Tax	560	504	540	465
Profit after Tax	395	367	347	260
RATIO ANALYSIS	**CY20**	**CY21**	**CY22**	**9MCY23**
Cession Ratio (%)	33.5%	33.5%	37.4%	33.9%
Gross Claims Ratio (%)	56.0%	53.0%	51.1%	84.9%
Net Claims Ratio (%)	60.0%	63.4%	63.8%	64.6%
Underwriting Expense Ratio (%)	28.1%	28.1%	28.9%	31.8%
Combined Ratio (%)	88.1%	91.4%	92.7%	96.4%
Operating Leverage (%)	85.3%	93.8%	98.6%	101.9%
Adjusted Financial Leverage (%)	32.8%	33.5%	37.2%	57.4%
Insurance Debt/ Gross Premium	41.2%	39.8%	36.5%	32.6%
Liquid Assets to Adjusted Technical Reserves	387.1%	382.0%	369.7%	260.2%

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Askari General Insurance Company Limited
Sector	Insurance
Type of Relationship	Solicited
Purpose of Rating	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 insurer financial strength only and is not a recommendation to buy or sell any securities.
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Due Diligence Meetings Conducted	

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: IFS				
2/29/2024	AA+	-	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Meeting Date