

SECURITY GENERAL INSURANCE COMPANY LIMITED

Chairman: Mr. Mian Hassan Mansba; Chief Executive: Ms. Nabiba Shahnawaz

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Analysts: Maimoon Rasheed
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Rating Rationale

Category	Latest	Previous
IFS	AA-	A+
Outlook	Stable	Stable
	Feb 04, '14	Dec 26, '12

The rating assigned to Security General Insurance Company Limited (SGI) takes into account the conservative risk retention strategy, which has kept the company's net account protected. Moreover, the company has a large equity base. Accounting for revaluation surplus on investments, adjusted equity of the company improved to Rs. 14.5b by end-Sept, 13. As such the company's entire equity may not be a source of risk absorption, given that most of it is deployed in strategic investments. Capitalization level is nevertheless considered strong, and improving on a timeline basis, on the back of profit retention.

SGI recorded significant increase in business volumes over the last two years. Market share of the company increased to 2.3% in FY12 and further in the on-going year (FY11: 1.1%). While there has been growth in net premium as well, the level of net premium itself is much smaller than gross premium, as most of the fresh power sector business acquired from associated companies has been placed onwards on facultative basis. The management expects to be able to retain this business in the foreseeable future. Barring group business, SGI has posted reasonable growth in market based premium as well.

Reinsurance panel of SGI remained diversified. For 2013 treaty arrangements, Sompo Japan Re. and Saudi Re. were included as new reinsurers replacing Mitsui Sumitomo Re while Scor Re. and Pakistan Re. continued to enjoy lead share in major business segments. Meanwhile, the company has arranged adequate reinsurance coverage for the power sector business and it has also placed deductibles, shielding itself from small sized frequent claims. Cession increased to 80.4% during FY12 (FY11: 64.0%) and further to 89.3% during 9MFY13. Going forward, the management plans to cautiously increase its retention while aiming to capture further business from power sector entities.

Increase in gross claims ratio was observed in FY12, though the same improved considerably during 9MFY13. Given adequate treaty arrangements in place, net claims ratio continues to be on the lower side. Growth in business volumes also led to improvement in expense ratio. Moreover, underwriting profitability of the company augmented during the ongoing year on the back of higher commission income mainly emanating from fire business. Maintaining growth momentum along with upholding strong underwriting quality would be critical for future underwriting profitability.

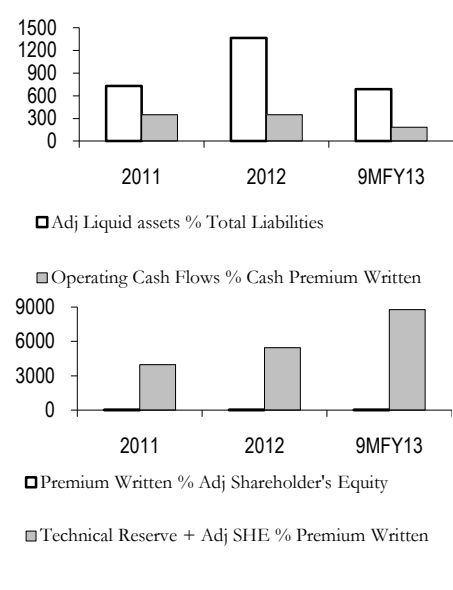
Investment portfolio of SGI mainly comprises strategic investments in associated companies. Investment portfolio was carried at a revaluation surplus of Rs. 6.7b at end-Sept, 13 (FY12: Rs. 3.0b; FY11: loss of Rs. 1.2b) attributable to upward movement at the bourses. Liquid assets including strategic investments (adjusted for market value) increased to Rs. 10.2b at end-FY12 (FY11: Rs. 4.9b) and further to Rs. 14.2b at end-Sept, 13. Liquid assets, excluding strategic investments, as a proportion of technical reserves were lower at 38.6% at end-Sept, 13 (FY12: 65.5%). While the investment portfolio may not be readily saleable, given its strategic nature, earnings thereon provide considerable support to the company's profitability and cash flows. Resultantly, utilization of bank borrowings has remained low during FY12 and in the ongoing year translating into lower financial expenses. While insurance debt in proportion to gross premium was higher at 104.8% at end-Sept, 13 (FY12: 35.2%), the same is expected to rationalize gradually as premium is recovered in installments.

Senior management team of SGI comprises seasoned professionals and has depicted stability over the years. The company plans to enhance its technical expertise by hiring relevant resources. In view of the growing business and market competition, SGI may consider switching to a web-based ERP system.

Overview of the Institution

SGI is a non-life insurance company incorporated in 1996. SGI operates with 11 branches (FY11: 10) while its Head Office is located in Lahore. Individuals and group companies of Nishat Group are the main sponsors while Allied Bank Limited and Samin Textiles Limited also have sizeable holding in the company. **JCR-VIS**

Key Financial Trends



(In Rs. M)	2011	2012	9M13
Gross Premium	451.4	1,006.1	1,702.7
Net Premium Revenue	155.4	197.6	173.2
Net Claims ratio	33.9%	35.4%	28.5%
Combined ratio	143.8%	115.4%	58.9%
Profit before tax	457.2	585.3	617
Net Profit / (Loss)	389.3	526.8	436.0
Equity	7,133.7	7,422.3	7,731.9
Operating Leverage	2.6%	1.9%	1.6%
Financial Leverage	4.4%	3.4%	4.9%
Insurance debt % Gross Premium	58.1%	35.2%	104.8%

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Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: IFS</u>				
04-Feb-14	AA-	Stable		Upgrade
26-Dec-12	A+	Stable		Reaffirmed
21-Dec-11	A+	Stable		Reaffirmed
31-Dec-10	A+	Stable		Upgrade
05-Jan-10	A	Positive		Maintained