

RATING REPORT

ACE Insurance Limited (ACE Pakistan)

REPORT DATE:

December 07, 2015

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	AA	AA
Rating Date	December 1, '2015	October 17, '14
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 2001	External auditors: A.F. Fergusons & Co., a member firm of Price Waterhouse Coopers (PWC)
Public Limited Company (Unlisted)	Chairperson & Chief Executive Officer: Ms. Zehra Naqvi
Key Shareholder(s):	
ACE INA International Holding Limited, USA – 100%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria : General Insurance 2003 <http://www.jcrvis.com.pk/images/methodology.pdf>

ACE Insurance Limited (ACE Pakistan)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Incorporated on August 6, 2001, ACE Insurance Limited - Pakistan is engaged in underwriting non-life insurance business. Financial statements for 2014 were audited by M/s A.F. Fergusons & Co., a member firm of Price Waterhouse Coopers. The company has total staff strength of 16.</p>	<p>The assigned rating of ACE Insurance Limited (ACE Pakistan) derives strength from the ACE Group. ACE Pakistan is a wholly owned subsidiary of ACE INA International Holdings, Ltd. Delaware, USA, which is part of ACE Group. ACE Group is one of the world’s largest multiline Property and Casualty insurers with operations in 54 countries. Financial strength of the parent entity is strong as reflected in its Financial Strength Rating of ‘AA’ by an international rating agency. At year-end 2014, ACE Limited, reported \$29.5b in net equity (2013: \$28.8b) while the Group posted net profit of \$2.8b (2013: \$3.8b). ACE Tempest Reinsurance Company Limited is the prime reinsurer of the company which has a strong credit risk profile, with a financial strength rating of ‘AA’ from Standard & Poor’s.</p> <p>The assigned rating incorporates ACE Pakistan’s strong risk adjusted capitalization level as evident from strong treaty protection, conservative investment profile, sound liquidity indicators and one of the lowest combined ratios in the industry. Support from the parent entity is evident in terms of sizeable treaty capacities, largest in the domestic context, providing ACE Pakistan significant advantage in terms of business generation while allowing the company to prudently manage risks. Reinsurance treaties provide coverage for risks written outside Pakistan as well; enabling geographical risk diversification. Moreover, technical support from the Group provides strength to underwriting operations.</p> <p>Business mix continues to be led by the Fire & Property Damage segment representing almost four-fifth of the total gross premium generated during 2014. Business volumes depicted healthy growth during 2014 which along with low losses during the period translated into significant increase in underwriting profitability. Gross premium witnessed a decline in the ongoing year during 1H15 as the management curtailed exposure to the power sector where multiple losses have been incurred. However, gross premiums have showcased an uptick during 9M15 (Rs. 551m) on account of renewals due in July and underwriting of power sector exposures at a significant increase in premium rates. Going forward, management expects business volumes to depict growth in the construction, marine and accident and health segment. Despite multiple claims in the ongoing year, underwriting performance has remained stable due to strong treaty protection. Overall profitability profile is supported by sizeable other income from bank placements. Although same is expected to decline in the backdrop of low interest rate environment.</p> <p>Liquidity profile of the institution is considered strong in view of sizeable liquid assets in relation to liabilities and manageable level of insurance debt. The company has consistently reported positive operative cash flows over the last few years; however, ACE Pakistan reported net operating cash outflow of Rs. 31.5m (2013: Rs. 68.1m) during 2014 on account of higher taxes paid. During 9M15, the company posted net operating cash inflow of Rs. 36.3m. Overall exposure to credit risk is low given the conservative investment profile; investment portfolio including bank placement with highly rated counterparties. Capitalization levels have grown over time on account of internal capital generation while leverage indicators are indicative of room for growth.</p> <p>ACE Pakistan benefits from qualified & competent team of senior management professionals. Changes were witnessed in the senior management team; vacancies have been filled through internal promotions.</p>

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

ACE Insurance Limited (ACE Pakistan)

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	DEC 31, 2013	DEC 31, 2014	SEP 30, 2015
Cash and Bank Accounts	61.1	61.0	62.0
Deposits Maturing Within 12 Months	680.0	565.0	505.0
Insurance Debt*	45.3	104.2	
Total Assets	1615.3	1367.2	1998.1
Net Worth	397.6	513.9	522.6
Total Liabilities	1217.7	853.2	1475.5
INCOME STATEMENT	DEC 31, 2013	DEC 31, 2014	SEP 30, 2015
Net Premium Revenue	152.0	244.9	214.6
Net Claims	29.1	10.2	25.0
Underwriting Profit/(Loss)	54.6	116.5	112.2
Other Income	74.0	166.8	30.0
Profit Before Tax	125.7	277.5	139.1
Profit After Tax	80.5	182.5	94.6
RATIO ANALYSIS	DEC 31, 2013	DEC 31, 2014	SEP 30, 2015
Market Share (Gross Premium) (%)	1.19	1.41	
Cession Ratio (%)	73.6	62.2	69.9
Gross Claims Ratio (%)	90.1	14.5	154.2
Net Claims Ratio (%)	19.2	4.2	11.7
Underwriting Expense Ratio (%)	40.9	47.3	36.0
Combined Ratio (%)	60.1	51.4	47.7
Net Operating Ratio (%)	40.3	68.8	42.6
Insurance Debt* to Gross Premium (%)	7.8	13.4	
Operating Leverage (%)	38.2	47.7	54.8
Financial Leverage (%)	196.9	117.5	200.6
Liquid Assets to Adjusted Liabilities (%)	122	139	110

*Net of Deferred Premiums

JCR-VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

AAA

Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

AA+, AA, AA-

Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

A+, A, A-

High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

BBB+, BBB, BBB-

Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

BB+, BB, BB-

Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

B+, B, B-

Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

CCC

Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

CC

Weak capacity to meet policyholder and contract obligations; Risk may be high.

C

Very weak capacity to meet policyholder and contract obligations; Risk may be very high

D

Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

Rating Watch: JCR-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.jcrvis.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.jcrvis.com.pk/images/criteria_outlook.pdf

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

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REGULATORY DISCLOSURES		Appendix III		
Name of Rated Entity	ACE Insurance Limited (ACE Pakistan)			
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			
	12/07/2015	AA	Stable	Reaffirmed
	10/17/2014	AA	Stable	Upgrade
	10/21/2013	AA-	Stable	Reaffirmed
	9/10/2012	AA-	Stable	Reaffirmed
	8/1/2011	AA-	Stable	Upgrade
Instrument Structure	N/A			
Statement by the Rating Team	JCR-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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