

## RATING REPORT

### IGI General Insurance Limited

**REPORT DATE:**

December 06, 2019

**RATING ANALYSTS:**

Talha Iqbal

[talha.iqbal@vis.com.pk](mailto:talha.iqbal@vis.com.pk)

Madeeh Ahmed

[madeeh.ahmed@vis.com.pk](mailto:madeeh.ahmed@vis.com.pk)

RATING DETAILS		
Rating Category	Latest Rating	Initial Rating
Insurer Financial Strength	AA	AA
<i>Rating Date</i>	<i>December 06, 2019</i>	<i>September 13, 2018</i>
Rating Outlook	Stable	Stable
<i>Outlook Date</i>	<i>December 06, 2019</i>	<i>September 13, 2018</i>

**COMPANY INFORMATION**

**Incorporated in 2016**

**External auditors:** M/s A.F. Ferguson & Co.  
Chartered Accountants

**Public Limited Company**

**Chairman of the Board:** Mr. Shamim Ahmad Khan

**Key Shareholders (with stake 5% or more):**

**Chief Executive Officer:** Mr. Tahir Masaud

IGI Holdings Limited – 99.99%

**APPLICABLE METHODOLOGY(IES)**

**VIS Entity Rating Criteria:** General Insurance (March 2017)

<http://www.vis.com.pk/kc-meth.aspx>

**IGI General Insurance Limited**

**OVERVIEW OF THE INSTITUTION**

*IGI General Insurance Limited (IGI) was incorporated as a public limited company in 2016, under the Companies Ordinance, 1984. Primary business of the company includes provision of both general insurance and window takaful operations. IGI commenced its window takaful operations with effect from July 2017.*

*The company has a registered office situated in Karachi and operates through a network of nine branches nationwide.*

**Profile of Chairman:**

*Mr. Shamim Ahmad Khan is associated with the Company as a Non-Executive Director, He has served various government organizations in different capacities namely Securities and Exchange Commission of Pakistan (SECP) and Ministry of Commerce (MoC).*

**Profile of CEO:**

*Mr. Tahir Masaud is the Chief Executive Officer of IGI General Insurance Limited. Mr. Masaud brings with him over 17 years of rich and varied experience gained in senior leadership positions within the general insurance sector in Pakistan and United Kingdom. His background includes sales and marketing administration, product development and project management.*

**RATING RATIONALE**

IGI Holdings Limited (IGI Holdings) is a holding company which holds 99.9% stake in IGI General Insurance Limited (IGI). IGI is principally engaged in providing general insurance and window takaful operations to five primary segments namely fire & property damage, marine, aviation, & transport, motor, accident & health and miscellaneous. The company operates via nine branches spread across Pakistan.

IGI Holdings is associated with Packages Group that has diversified presence and strong financial profile. Packages Group holds investments in companies that have a presence in the manufacture and sale of packaging material, paper, paperboard and corrugated boxes, biaxially oriented polypropylene film and cast polypropylene film, inks, production and sale of ground calcium carbonate products, and companies engaged in insurance, and real estate business.

<b>Group</b>
IGI Holdings Limited (Parent company)
IGI Life Insurance Company Limited (Subsidiary of Parent)
IGI Investments (Private) Limited (Subsidiary of Parent)
IGI Finex Securities Limited (Subsidiary of Parent)
Packages Limited
Packages Real Estate (Private) Limited
Bulleh Shah Packaging (Private) Limited
Tri-Pack Films Ltd
Packages Lanka Private Limited
DIC Pakistan Ltd.
Flexible Packages Converters Pty Limited
OmyaPack (Private) Limited

**Business volumes have depicted healthy growth during 2018 and in the ongoing year. Market share has increased to 5.9% (2018: 5.37%; 2017: 3.85%) during 1HCY19. Management has targeted strong double digit growth in gross premiums over the rating horizon.**

During 1HCY19, gross premium of the company stood at Rs. 2.6b (1HCY18: Rs. 2.35b) with business volumes expected to comfortably cross Rs. 5b for calendar year 2019. Gross premiums generated comprise an equal mix of direct and broker generated business. Business generated from associated companies support overall gross premiums. Contributed of gross premiums generated from associated companies represent around one-sixth of overall gross premiums.

**Broad based growth in gross premiums with fire and motor segment being the key growth drivers.**

Business volumes have depicted growth across all segments with fire and motor segment being the key growth drivers. Cumulatively, motor and fire segment represented around two-third of gross premium. Motor segment represents the single largest segment and represented around 35% of gross premiums during 1HCY19. Despite decline in automobile imports and cars sold by OEMs, increase in gross premiums is partly attributable increase in prices of cars sold. Given the continuous decline in cars sold by OEMs, maintaining proportion of motor in gross premiums may be challenging. Besides addition of new clients, growth in gross premiums has also been facilitated by increase in sum assured across various business lines and has facilitated in offsetting premium loss from delay in key infrastructure projects. While growing in absolute terms, proportion of marine segment in overall gross premiums has declined primarily due to lower imports. During

the outgoing year, net premium were reported at Rs. 1.3b during 1HCY19.

<b>Business Mix</b>	<b>CY17 (11 months)</b>	<b>CY18</b>	<b>HY19</b>
Fire and property damage	27.5%	27.2%	30.6%
Marine, aviation and transport	12.7%	11.7%	10.8%
Motor	30.4%	32.2%	34.8%
Accident & Health	8.4%	8.9%	9.8%
Miscellaneous	21.0%	20.1%	14.1%
<b>Total</b>	<b>2,937.9</b>	<b>4,608.0</b>	<b>2,648.5</b>

**Underwriting performance has been maintained with combined ratio hovering around 90%. Significant growth in investment income has supported healthy profitability growth**

Net Claims Ratio of the company improved in 2018 compared to preceding year (CY18: 52.3%; CY17: 56.6%); however, the same was slightly on the higher side in comparison with the industry average claims ratio. Despite growth in business volumes since 2017, expense ratio increased in 2018 on account of rising acquisition and employee related costs but has witnessed a slight improvement in the ongoing year. Resultantly, combined ratio was reported at 89.8% during 1HCY19. In absolute terms, underwriting profit amounted to Rs. 135m in 1HCY19. Accounting for investment income, net profit for 2018 and 1HCY19 was reported at Rs. 327.4m and Rs. 207.6m (1HCY18: Rs. 147.7m), respectively.

	<b>CY17 (11 months)</b>	<b>CY18</b>	<b>HY19</b>
Net Claims Ratio	56.6%	52.3%	53.0%
Underwriting Expense Ratio	33.6%	39.0%	36.9%
Combined Ratio	90.2%	91.3%	89.8%

**Sound profile of reinsurance panel and adequate retention and treaty capacities support assessment of reinsurance arrangement.**

IGI has diversified panel of reinsurers with Hannover Re (Rated AA-) in the lead. Minimum rating of any reinsurer on the panel is A- (Single A Minus). In line with increase in retention levels, cession ratio witnessed a slight decline in 2018 (CY18: 41.4%) and has remained at similar level in the ongoing year. Retention levels for 2019 have been maintained for key business segments while treaty capacity was increased for the fire and engineering segment. Going forward, management plans to gradually increase treaty capacities while maintaining retention at current levels.

#### **Conservative investments profile**

Investment portfolio of the company largely comprises exposure to fixed income instruments while real estate held represented around one-fourth of investment portfolio. With anticipation of interest rates having reached their peak, increase in allocation was witnessed towards long-term government paper. Moreover, allocation to TDRs and TFCs was also increased. Exposure to equities/equity related mutual funds was curtailed and represented only 2.2% of the total investment portfolio.

Rs. in millions	2017		2018		HY19	
	Market Value	%	Market Value	%	Market Value	%
Real Estate	692.9	35.0%	845.9	24.0%	845.9	23.3%
Mutual Funds	-	-	226.0	6.4%	81.2	2.2%
Equity	-	-	225.8	6.4%	81.1	2.2%
Income /Money Market	-	-	0.1	0.003%	0.1	0.003%
T-Bills	-	-	799.8	22.7%	12.7	0.3%
PIBs	321.2	16.0%	1,014.3	28.8%	1,543.7	42.5%
Sukuks/TFCs	-	-	-	-	172.0	4.7%
Term Deposits	985.5	49.0%	631.5	18.0%	974.5	26.8%
<b>Total</b>	<b>1,999.6</b>	<b>100.0%</b>	<b>3,517.4</b>	<b>100.0%</b>	<b>3,630.0</b>	<b>100.0%</b>

**Adequate capitalization indicators with significant buffer over minimum solvency requirement. While remaining within manageable levels, leverage indicators have increased on a timeline basis.**

On a timeline basis, equity base of the company has observed increasing trend owing to profit retention. Equity base (including general and takaful operations) has grown to Rs. 3.0b (CY18: Rs. 2.8b; CY17: Rs. 2.7b) at end-HY19. While remaining within manageable levels, operating leverage has depicted an increasing trend as growth in net premium revenue has outpaced equity growth. Operating leverage stood at 89.1% (CY18: 83.4%) at end-HY19. Financial leverage has exhibited an increasing trend primarily on account of growth in gross premium coupled with rising outstanding claims. Financial leverage stood at 91.1% (CY18: 87.7%) at end-HY19. Future trend with respect to leverage indicators will be tracked by VIS. The company was compliant with minimum solvency requirements with excess net admissible asset over minimum requirement

#### **Sound liquidity profile**

Assessment of liquidity profile of the company draws support from strong liquid asset coverage of liabilities, manageable level of insurance debt and growing cash flows. Liquid assets in relation to technical reserves were reported at 103% (2018: 109%) at end-June 2019. Insurance debt in relation to gross premiums was reported at 26.3% (2018: 25.3%; 2017: 24.6%) at end-June-2019 while cash generated from operations during 1HCY19 was Rs. 442.1m (1HCY18: Rs. 393.8m).

#### **Adequate Governance Framework**

BoD at IGI comprises six members including the chairman. BoD maintains oversight through six Board level committees namely Underwriting Committee (UC), Claim Settlement Committee (CSC), Risk Management & Compliance Committee (RMCC), Human Resource & Remuneration Committee (HRRC), Investment Committee (IC) and Audit Committee (AC).

Internal Audit team (IAT) consists of 5 team members including Head of Internal Audit. During CY18, an in-house internal audit function was made operational (previously outsourced to EY Ford Rhodes Sidat Hyder Chartered Accountants). On the IT front, IGI relies on custom built application with four modules namely underwriting, claims, reinsurance and finance. Disaster Recovery Site of the company is maintained at one of its branches in Lahore.

**IGI General Insurance Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>			
<i>(amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>	<b>DEC 31, 2017</b>	<b>DEC 31, 2018</b>	<b>June 30, 2019</b>
Cash and Bank Deposits	1,561.3	529.3	699.0
Investments	1281.2	2565.0	2674.5
Investment Properties	179.3	357.0	357.0
Insurance Debt	722.4	1,163.9	1,395.7
<b>Total Assets</b>	<b>5,744.50</b>	<b>19,449.00</b>	<b>14,650.60</b>
Paid-Up Share Capital	1,501.0	1,918.3	1918.3
Net Worth	2,656.27	2,796.42	2,974.96
<b>Total Liabilities</b>	<b>3,653.5</b>	<b>4,629.9</b>	<b>5,320.5</b>
<b>INCOME STATEMENT</b>			
Net Premium Revenue	1,654.1	2,331.9	1,325.3
Net Claims	936.6	1,219.1	701.8
Underwriting Profit	162.5	203.6	135.0
Profit Before Tax	248.8	467.6	314.0
Profit After Tax	172.6	322.1	207.6
<b>RATIO ANALYSIS</b>			
Market Share (Gross Premium) (%)	3.9%	5.4%	5.9%
Cession Ratio (%)	44.4%	41.4%	41.3%
Gross Claims Ratio (%)	51.5%	42.5%	41.4%
Net Claims Ratio (%)	56.6%	52.3%	53.0%
Underwriting Expense Ratio (%)	33.6%	39.0%	40.5%
Combined Ratio (%)	90.2%	91.3%	89.8%
Net Operating Ratio (%)	85.0%	81.8%	78.1%
Insurance Debt to Gross Premium (%)	24.6%	25.3%	26.3%
Operating Leverage (%)	62.3%	83.4%	89.1%
Financial Leverage (%)	77.1%	87.7%	91.1%
Adjusted Liquid Assets to Technical Reserves (%)	63.8%	108.9%	102.7%

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

**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:** 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](http://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](http://www.vis.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.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

REGULATORY DISCLOSURES		Appendix III		
<b>Name of Rated Entity</b>	IGI General Insurance Limited			
<b>Sector</b>	Insurance			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Insurer Financial Strength Rating			
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: IFS</b>			
	06/12/2019	AA	Stable	Reaffirmed
	13/9/2018	AA	Stable	Initial
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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.			
<b>Probability of Default</b>	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.			
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