RATING REPORT

IGI General Insurance Limited

REPORT DATE:
January 01, 2021

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Insurer Financial Strength	AA	AA
Rating Date	*December 30, 2020*	*December 06, 2019*
Rating Outlook	Stable	Stable

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 – 100%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: General Insurance (November 2019)
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 100% stake in IGI General Insurance Limited (IGI). IGI Holdings is associated with Packages Group, a diversified conglomerate with strong financial strength holding investments in companies that have presence in the manufacture and sale of packaging material, paper, paperboard and corrugated boxes, biaxial oriented polypropylene film and cast polypropylene film, inks, production and sale of ground calcium carbonate products, and companies engaged in insurance (life and non-life), stock brokerage and real estate businesses.

Group
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

Ratings assigned to IGI derive strength from association with its primary shareholder, growth in business volumes, improved underwriting performance, conservative investment mix and sound liquidity profile. The rating further incorporates reinsurance arrangements largely with counterparties having sound credit risk profiles with appropriate risk retention on net account to maintain risk appetite of the company. Assigned rating also accounts for the stability and experience of the management team. The rating remains sensitive to high operating and financial leverages; the same remain higher than the rating benchmark. Insurance debt in relation to gross premium has also increased; however, aging of receivables is considered satisfactory. Given the prevailing competition in the insurance market, the company continues to face significant pressure on pricing. Further, current uncertainty in sector dynamics due to coronavirus outbreak, overall contraction in demand and challenging economic environment may pose as challenges for growth in the insurance industry during the coming year. Going forward, achieving growth in market share while maintaining underwriting quality and profitability metrics would be an important rating driver.

Business Strategy

IGI is primarily 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; no new branch was opened during the period under review. The business mix of the company remained dominated by fire segment followed by motor owing to relatively low focus on Accident & Health (A&H) and miscellaneous segments on account of inherently higher loss ratios in the latter segments. During the period under review, business volumes of the company increased to Rs. 2.9b (FY19: 5.6b; FY18: 4.6b) during HY20; the growth during FY19 was primary driven by higher contribution from fire segment. Along with 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. However, owing to onslaught of COVID-19, the business volumes took a slight dent primarily in the motor segment as the automobile sector was at a complete halt with no car being sold in April'20. Subsequently, the management expects that the company will fall slight short from its forecasted gross written premium (GWP) target of Rs. 6.1b for FY20. However, with the economy exhibiting slight recovery, motor sales expected to pick pace on account of high-end variants of KIA, Hyundai etc. along with expected roll out of COVID-19 vaccine early next year; the company projects to reap sizable business volumes during FY21. The facultative business during FY19 was reported around Rs. 700m; the same is expected to increase by double digits by end-FY20; however in relation to GWP the proportion will remain the same. Business generated from associated companies support overall gross premiums. Contribution of gross premiums generated from associated companies represented around 16% of overall gross premiums during FY19. The snapshot of business mix is presented in the table below:

	FY17	FY18	FY19	HY20
Fire	27.5%	27.2%	35.0%	32.4%
Marine	12.7%	11.7%	11.6%	10.1%
Motor	30.4%	32.2%	31.3%	27.8%
Accident & Health	8.4%	8.9%	8.6%	12.5%
Miscellaneous	21.0%	20.1%	13.6%	17.2%
Gross Premium (m)	**2,937.9**	**4,608.0**	**5,612.5**	**2,971.2**

To maintain low loss ratios and healthy underwriting performance, the company follows a steady business growth approach whereby business with reputed clients is undertaken. Going forward, the growth in business volumes is projected to be maintained by fire and marine segment; both cumulatively are expected to constitute 55% during the rating horizon. The cession ratio exhibited an increasing trend on a timeline basis; the same was most evident in the fire segment owing to increased fronting business. As per the management, out of the entire foreign trade credit business almost 95% is ceded. In addition, the entire Accident & Health business is retained on company's books. Going forward, the overall cession ratio is expected to remain at current levels if there is no change in the revenue mix. The breakdown of cession segment wise is provided below:

	FY17	FY18	FY19	HY20
Fire	92.2%	79.7%	74.4%	94.6%
Marine	59.7%	53.0%	59.4%	62.1%
Motor	0.6%	1.0%	4.9%	9.6%
Accident & Health	0.0%	0.0%	0.0%	0.0%
Miscellaneous	53.7%	65.9%	74.8%	81.4%
Overall Cession	**44.4%**	**41.4%**	**44.6%**	**53.6%**

On the Window Takaful Operations (WTO) front, with motor segment representing the largest proportion, business is this segment is expected to grow at a slower pace vis-à-vis conventional insurance given that there is limited capacity in the reinsurance market.

Claims Experiences

Given the industry's trend, the highest net claims ratio emanated from the A&H segment on account of full retention on net account. As per the management, the inflation contributed towards increased health insurance related claims as the medicinal treatment became costly over the corresponding period during FY19. However, with the advent of corona virus the claim ratio in A&H has come down during the ongoing year with less people opting for elective surgeries. Further, IGI has opted for a structural change in A&H to improve the underwriting performance of the segment; the company is now focusing on retail based business. The loss ratios in the fire segment also scaled up in line with large quantum losses incurred during the period. Further, claims ratio also increased for marine in HY20 on account of large quantum losses irrespective of number of loss events remaining the same. In addition, slight deterioration in claims performance in motor was an outcome of considerable increase in price of car accessories on account of depreciation of Pak rupee. The loss retention on company's books was recorded the lowest in fire segment. Going forward, the targeted net claims ratio by IGI is 50% for FY21. The segment-wise net claims ratios are presented in the table below:

	FY17	FY18	FY19	HY20
Fire	47.9%	60.0%	13.5%	31.0%
Marine	40.2%	35.9%	33.5%	47.0%
Motor	51.1%	46.5%	51.4%	46.7%
Accident & Health	92.0%	98.8%	100.3%	89.1%
Miscellaneous	63.9%	37.5%	42.9%	49.2%
Total Net Claims Ratio	**56.6%**	**53.3%**	**54.9%**	**53.5%**

Underwriting Performance

The company's underwriting performance exhibited positive momentum despite an upward trend in loss ratios as a result of increase in overall scale of operations and rationalization of management expenses. Primarily, the reason for improvement in the underwriting expense ratio, was the conversion of net commission expense in FY19 to net commission income in the ongoing year. As per the management, the same has been a function of change in proportion of reinsurance allocation with local and international reinsures. Further, the increase in commission was also a direct function of increased cession, which was in turn an outcome of increased facultative business booked. In addition, the takaful motor arrangements have also contributed positively in commission income. The combined ratio has declined on a timeline basis as an outcome of improved expenses ratio despite the company incurring higher claims. Apart from fire and miscellaneous, all segments reported profit during the outgoing year; ability to sustain these performance metrics will remain a key-rating factor. Going forward, the management plans to strengthen its call center facility that will help minimize claims in A&H. The snapshot of underwriting results is tabulated below:

	FY17	FY18	FY19	HY20
Fire	15.8	(47.5)	(89.7)	(26.4)
Marine	17.9	103.6	88.1	32.4
Motor	168.9	276.9	352.9	258.8
Accident & Health	(46.0)	(93.2)	(92.5)	4.6
Miscellaneous	(55.5)	(36.3)	(32.9)	(36.3)
Total Underwriting Profit	162.5	203.6	225.9	233.1

Investment income continues to support the bottom line of the company; the same was reported higher during the ongoing year on account of higher return on government securities on the back of peaked benchmark rates. However, despite improved underwriting performance, IGI reported lower profit after tax on an annualized basis during HY20 owing to curtailment in operations on account of ongoing pandemic crisis. The snapshot of underwriting ratios is given below:

	FY17	FY18	FY19	HY20
Net Claims Ratio	56.6%	53.3%	54.9%	53.5%
Underwriting Expense Ratio	33.6%	39.7%	39.8%	27.7%
Combined Ratio	90.2%	93.0%	94.7%	81.2%

Reinsurance Arrangements

IGI's risk profile is supported by strong reinsurance coverage provided by diversified panel of reinsures. Risk profile of the reinsurance panel is considered sound as majority reinsurers are rated in 'A' band or higher. Hannover Re remains the lead reinsurer in major segments; meanwhile, Swiss Re became the lead during FY20 in the engineering segment. As a replacement Swiss Re and Kuwait Re, both have sound ratings, were added to the reinsurance panel for FY20.

The company has negotiated quota cum surplus treaties for all its segments protected further by non-proportional treaties. In line with anticipation of enhanced business in major segments including fire and engineering total treaty capacities were enhanced during FY20. On the other hand, due to unutilized capacity of bond segment on account of high cash margin requirement the treaty capacity was rationalized. Other than the aforementioned changes, the treaty capacities and retention limits remained unchanged as of FY19. Retention on company's net account was recorded lower during FY20 in line with decreased retention in all segments accept A&H. Size of maximum per risk claim remained unchanged during the period under review; however the same is considered manageable in relation to the company's equity base. Going forward, as per the management, no major change in the re-insurance panel is expected in FY21. However, in order to write more facultative business in fire segment, IGI plans on procuring an additional special cover of Rs. 1.0b for FY21.

Conservative investments profile: The investment portfolio augmented during the ongoing year and was dominated by government securities primarily T-Bills to reap advantage of increased market interest rates towards the start of the year; further mutual income funds were liquidated during the period in review. Going forward, as per the prevailing market sentiment with interest rates at the bottom end of the spectrum, the investment strategy is to only invest in shorter tenor securities. On the other hand sizable long-duration PIBs were purchased during FY19 to take maximum advantage of capital appreciation, as policy rate was higher during the concerned period. The credit risk emanating from the investment portfolio is considered minimal given the strong financial profile and credit ratings of the counterparties. On the other hand, given the asset composition, the investment portfolio is subject to considerable market risk. In the backdrop of prevailing volatility in the capital market, IGI's investment in equity market is only limited to stock funds while no direct investment has been made in the stock market. Investment committee guides the risk in equity market; the management does not plan on making any investment in stocks in the foreseeable future. Moreover, the company has an investment in property having a market value of Rs. 377.0m at end-FY19.

Rs. in millions	FY18		FY19		HY20	
	Market Value	**%**	**Market Value**	**%**	**Market Value**	**%**
Mutual Funds	226.0	6.4%	497.6	14.8%	222.8	6.4%
Equity	*225.8*	6.4%	*257.5*	7.7%	*220.6*	6.4%
Income /Money Market	*0.1*	0.003%	*240.1*	7.1%	-	-
Sovereign	-	-	-	-	*2.2*	<0.01%
T-Bills	799.8	22.7%	122.3	3.6%	1,305.1	37.8%
PIBs	1,014.3	28.8%	2,034.6	60.6%	1,276.4	36.9%
Sukuks/TFCs	-	-	194.0	5.8%	50	1.4%
Term Deposits	631.5	18.0%	509.9	15.2%	600.8	17.4%
Total	**2,671.5**	**100.0%**	**3,358.4**	**100.0%**	**3,455.1**	**100.0%**

Adequate capitalization indicators with significant buffer over minimum solvency requirement; leverage indicators remain high while remaining within manageable levels: Capitalization levels of the company have improved on a timeline basis as a result of internal capital generation. Moreover, IGI is considered sound from solvency point of view as the company has adequate cushion in terms of total admissible assets over its liabilities. The operating leverage ratio was reported lower during the review period in line with augmentation of equity base along with slight decline in NPR, thereby highlighting decline risk profile of the company. However, the same represents room for growth. On the other hand, financial leverage ratio of the company increased at end-HY20 on account of in net technical reserves. The increase in technical reserves was manifested in higher outstanding claims and unearned premium reserves. Nevertheless, the aging profile of the claims payable was satisfactory with no claims overdue for more than one year. The leverage indicators of the company continue to remain higher than the rating benchmark on account of current capitalization levels. Going forward, with steady growth expected in business volumes, the operating leverage is expected to increase in the coming years.

Sound liquidity profile: Liquidity profile is considered sound reflected by sizeable liquid assets maintained in relation to net technical reserves; however, the depicted a declining trend on a timeline basis owing to increase in net technical reserves. In addition, insurance debt in relation to gross premium increased during the ongoing year on account of new rule of policy payment whereby policyholders can either pay in lump sum or in installments. With larger proportional of policyholders opting for installment plan led to increased higher insurance debt. The same is slightly higher than the rating benchmark. The operating ratio has also declined on timeline basis owing rationalization of management and commission expenses.

IGI General Insurance Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**DEC 31, 2017**	**DEC 31, 2018**	**DEC 31, 2019**	**JUN 30, 2020**
Cash and Bank Deposits	1,507.7	477.2	133.1	123.0
Investments	1281.2	2565.0	3151.5	3154.2
Investment Properties	303.6	357.0	377.0	377.0
Insurance Debt	701.8	1,101.2	1,424.9	1,699.0
Total Assets	5,790.7	6,870.5	8,681.1	9,386.6
Paid-Up Share Capital	2,178.0	2,382.9	2,462.1	2,566.0
Net Worth	3,660.2	4,558.7	6,027.1	6,641.7
Total Liabilities				
INCOME STATEMENT				
Net Premium Revenue	1,654.1	2,287.8	2,569.2	1,241.4
Net Claims	936.6	1,219.0	1,409.6	664.6
Underwriting Profit	162.5	203.6	225.9	233.1
Profit Before Tax	248.8	530.6	806.9	336.7
Profit After Tax	172.6	373.3	573.2	245.7
RATIO ANALYSIS				
Cession Ratio (%)	44.4%	41.4%	44.6%	53.6%
Gross Claims Ratio (%)	51.5%	42.9%	40.5%	47.9%
Net Claims Ratio (%)	56.6%	53.3%	54.9%	53.5%
Underwriting Expense Ratio (%)	33.6%	39.7%	39.8%	27.7%
Combined Ratio (%)	90.2%	93.0%	94.7%	81.2%
Net Operating Ratio (%)	85.0%	83.4%	86.1%	63.5%
Insurance Debt to Gross Premium (%)	23.9%	23.9%	25.4%	28.6%
Operating Leverage (%)	75.9%	97.9%	104.4%	96.8%
Financial Leverage (%)	93.3%	98.5%	105.4%	117.4%
Adjusted Liquid Assets to Technical Reserves (%)	137.3%	129.7%	126.5%	108.9%

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

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

'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

REGULATORY DISCLOSURES				Appendix III
Name of Rated Entity	IGI General Insurance Limited			
Sector	Insurance			
Type of Relationship	Solicited			
Purpose of Rating	Insurer Financial Strength Rating			
Rating History	**Rating Date**	**Medium to Long Term**	**Outlook**	**Rating Action**
		RATING TYPE: IFS		
	30/12/2020	AA	Stable	Reaffirmed
	06/12/2019	AA	Stable	Reaffirmed
	13/9/2018	AA	Stable	Initial
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.			
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.			
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Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**	
	Mr. Syed Awais Amjad	CFO	26-Nov-2020	
	Mr. S.M Taha Naqvi	Financial Controller	26-Nov-2020	
	Mr. Faisal Khan	Head Re-Insurance	26-Nov-2020	
	Mr. Jamshaid Hussain	Head Underwriting	26-Nov-2020	
	Mr. Ammad Nomani	Finance Manager	26-Nov-2020	
	Mr. Zahid Mehmood	Head Claims	26-Nov-2020	