RATING REPORT

IGI General Insurance Limited

REPORT DATE:
November 05, 2021

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Insurer Financial Strength	AA	AA
Rating Date	*November 05, 2021*	*December 30, 2020*
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**

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) 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)
IGI FSI (Private) Limited
Packages Limited
Packages Convertors 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
S.C. Johnson & Son of Pakistan (Private) Limited

Ratings assigned to IGI derive strength from association with its primary shareholder, growth in business volumes, penetration of un-tapped market segments, hiring & training of new sales team and re-enlistment and enhancement of limits with banks. New business generation has been a challenge in the outgoing year given the slowdown in economic activity due to COVID-19 outbreak; however, gross premium written exhibited positive momentum and stood at a higher level in HY21 as compared to the preceding year. Conservative investment mix and comfortable liquidity profile continue to support the rating. 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. Loss ratios deteriorated on a timeline basis primarily on account of higher incidence of claims in the fire and miscellaneous segments. On the other hand, insurance debt in relation to gross premium has declined on a timline basis in line with growth in scale of operations; the same now falls within the benchmark criterion of the assigned rating. The aging of receivables is also considered satisfactory. Assigned rating also accounts for the stability and expertise of the management team in the insurance sector. The rating remains sensitive to increase in operating and financial leverages; the same remain higher than the rating benchmark. 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. Although the business mix of the company remained dominated by fire segment followed by motor, the proportion of both segments declined during the review period owing to growth in miscellaneous and Accident & Health (A&H) segments. The sizable growth in miscellaneous segment was on the back of a one-off engineering policy written during the ongoing year. Further, higher premiums were recorded in A&H on account of better reception of health policies by individuals amid pandemic situation. On the other hand, post COVID-19, the business volumes in motor segment have also improved as compared to FY20. Subsequently, the business volumes of the company increased to Rs. 4.44b during HY21 (FY20: 6.0b; FY19: 5.6b); the growth during the ongoing year was primarily driven by higher contribution from miscellaneous segment. Along with addition of new clients, growth in gross premiums has also been facilitated by increase in sum assured across various business lines. The facultative business accepted during FY20 was reported around Rs. 48.9m along with Rs. 22.0m in HY21; the same is expected to remain in single digits by end-FY21 with the proportion of the same to GWP remaining low. The co-insurance & others lead business reaped during the outgoing year was recorded at Rs. 1.4b; the same was reported at Rs. 557.3m during HY21. Business generated from group companies support overall gross premiums with the same constituting around 14% (FY19:14%) of overall gross premiums during FY20. The managements projects that the company would be able to close FY21 at GWP of Rs. 7.0b. In addition, once economic indicators stabilize, the increase in car prices along with entry of high-end variants is expected to contribute positively to GWP. The snapshot of business mix (conventional & takaful) is presented in the table below:

	FY18	**FY19**	**FY20**	**HY21**
Fire	27.2%	35.0%	34.2%	28.3%
Marine	11.7%	11.6%	11.8%	8.8%
Motor	32.2%	31.3%	28.8%	22.6%
Accident & Health	8.9%	8.6%	9.0%	15.6%
Miscellaneous	20.1%	13.6%	16.2%	24.7%
Gross Premium (m)	**4,608.0**	**5,612.5**	**6,014.0**	**4,427.9**

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 motor segment; both cumulatively are expected to constitute 55% during the rating horizon. In addition, IGI plans on tapping middle tier clients to avoid imbalance of institution's risk appetite and risk exposure. The cession ratio exhibited an increasing trend during the outgoing year; the same was highest in the miscellaneous segment owing to higher sum policies ceded to reinsurers. As per the management, out of the entire foreign trade credit business in the miscellaneous segment almost 95% is ceded. However, cession normalized during HY21; going forward, the overall cession ratio is expected to remain at current levels if there is no change in the revenue mix. In addition, the entire Accident & Health business is retained on company's books. The breakdown of cession segment wise is provided below:

	FY18	**FY19**	**FY20**	**HY21**
Fire	79.7%	74.4%	87.6%	80.1%
Marine	53.0%	59.4%	62.4%	54.4%
Motor	1.0%	4.9%	9.4%	8.7%
Accident & Health	0.0%	0.0%	0.0%	0.0%
Miscellaneous	65.9%	74.8%	84.8%	50.1%
Overall Cession	**41.4%**	**44.6%**	**53.7%**	**41.8%**

On the Window Takaful Operations (WTO) front, with motor and A&H segments 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 inflationary pressure contributed towards increased health insurance related claims as the medicinal treatment became relatively costly during the ongoing year. On the hand, with the emergence of ongoing pandemic the claim ratio in A&H was reported low during FY20 as less people were opting for elective surgeries. In addition, to counter high claim ratios in A&H segment, IGI 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. Moreover, the company has appointed on call doctors who virtually assist patients; the same has resulted in less outpatient visits. Currently, the management is undergoing an exercise to identify loss making clients/groups in A&H segment so that profitable business is continued in the next year. The loss ratios in the fire segment also scaled up in line with large quantum losses relating to textile business incurred during the period. Nevertheless, despite sizable increase, the loss retention on company's books was still recorded the lowest in the fire segment. Further, claims ratio also increased for marine and miscellaneous segments on account of large quantum losses irrespective of number of loss events remaining the same. On the other hand, loss ratio in motor segment showcased slight improvement primarily on account of restricted travelling owing to pandemic led restriction resulting in less accidents and theft incidents. Going forward, the targeted net claims ratio by IGI is 55% for FY21. The segment-wise net claims ratios are presented in the table below:

	FY18	FY19	FY20	HY21
Fire	60.0%	13.5%	52.6%	41.4%
Marine	35.9%	33.5%	45.5%	52.2%
Motor	46.5%	51.4%	47.7%	49.8%
Accident & Health	98.8%	100.3%	83.4%	101.2%
Miscellaneous	37.5%	42.9%	31.3%	65.4%
Total Net Claims Ratio	**53.3%**	**54.9%**	**53.6%**	**62.9%**

Underwriting Performance

The company's underwriting performance exhibited a volatile trend with dip in FY20 owing to a combined impact of increase in underwriting expense ratios. The increase in expense ratio was on account of higher commission expense booked owing to efforts of management to improve market penetration in Karachi by set up of sales force unit with additional agents. Moreover, as price-based competition is inherent in the insurance sector, high commission is often paid to agents to tap incremental business as the share of the pie has not increased sizably over the course of rating review. On the other hand, expense ratio improved and scaled down significantly during HY21 owing to reduction in net commission expense during HY21 as opposed to outgoing year. As per the management, net commission income exhibited positive momentum in the current year due to the company receiving higher end of the commission sliding scale rate in the ongoing year on account of reporting low loss ratio in the fire segment; the segment having highest contribution in total revenue mix. In addition, the takaful motor arrangements have also contributed positively in commission income. Furthermore, the rationalization of expense ratio was also a factor of sizable growth in scale of operations coupled with higher retention of business on the company's books. Despite volatility in claims and expense ratios, the combined ratio largely remained range bound and was reported below 100% for both periods as the increase in one was offset by decline in the other. Apart from marine and motor, all segments reported loss during the outgoing year; however, the performance of fire segment has improved considerably during HY21 in line with reduction in claims ratio. The ability to maintain overall underwriting performance positive will remain imperative for ratings going forward. The snapshot of underwriting results (conventional & takaful) is tabulated below:

	FY18	FY19	FY20	HY21
Fire	(47.5)	(89.7)	(237.6)	(6.7)
Marine	103.6	88.1	71.0	39.7
Motor	276.9	352.9	318.8	178.9
Accident & Health	(93.2)	(92.5)	(23.2)	(91.9)
Miscellaneous	(36.3)	(32.9)	(29.4)	(48.5)
Total Underwriting Profit	203.6	225.9	99.5	69.7

Investment income continues to support the bottom line of the company; the same was reported lower during the ongoing year on account of lower return on government securities and deposits on the back of sizable slash in policy rate by the central bank to counter economic compression amid ongoing pandemic. Subsequently, due to lower investment income, IGI reported lower profit after tax during FY20. Furthermore, profitability indicators for HY21 largely mimic outgoing year trend despite improvement in scale of operations and underwriting performing owing to further cut in investment income as benchmark rate has consistently remained lowest during HY21. The snapshot of underwriting ratios (conventional & takaful) is given below:

	FY18	FY19	FY20	HY21
Net Claims Ratio	53.3%	54.9%	53.6%	62.9%
Underwriting Expense Ratio	39.7%	39.8%	42.4%	32.5%
Combined Ratio	93.0%	94.7%	96.1%	95.4%

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 all reinsurers are rated in 'A' band or higher. Pakistan Reinsurance Company Limited (PRCL) has the highest share in major segments including property, general accident, engineering, bond and marine cargo by virtue of specific quota to be extended to local reinsurer followed by Hannover Re. On the other hand, Hannover Re leads in Motor and Terrorism covers. During FY21, Qianhai Re was added to the panel to attract business from Chinese investment being made in Pakistan under CPEC corridor. As a result of new reinsurer added, share of Hannover Re has decreased slightly by 5%.

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, property, general accident and terrorism total treaty capacities were enhanced during FY21. Other than terrorism where retention on company's net account has increased, retention in major segments including property, fire, engineering, CAR (XoL) and general accident, retention on net account decreased slightly. Subsequently, size of maximum per risk claim changed 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, treaty terms and commission rate is expected in FY22.

Conservative investments profile with no direct exposure in stock market: The investment portfolio augmented during the ongoing year; the increase was largely manifested in equity-denominated mutual funds as investment in interest-bearing government securities did not remain lucrative owing to prevailing market rate being at the bottom of the spectrum during the review period. Further, in line with persistent volatility in the capital market, IGI's investment in equity market is only limited to equity 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. Although sizable investment in government securities was liquidated on a timeline basis on account of lopsided returns, half of the of the investment portfolio mix still constitutes of government instruments in order to maintain the same within the company's risk appetite levels. Around two-thirds of PIBs held by the company are longer tenor-floaters with an average effective yield of around 8.1% maturing in FY28 and FY29. Going forward, as per the prevailing market sentiment with interest rates expected to increase slightly by end-FY21, the investment strategy is to only invest in shorter tenor securities. The credit risk emanating from the investment portfolio is considered minimal given considerable investment in risk-free instruments coupled with sound 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. Moreover, the company has an investment in property having a market value of Rs. 377.8m at end-FY20.

Rs. in millions	**FY19**		**FY20**		**HY21**	
	Market Value	**%**	**Market Value**	**%**	**Market Value**	**%**
Mutual Funds	497.6	15.8%	497.2	17.1%	1,296.3	39.1%
Equity	*240.1*	*7.6%*	*277.2*	*9.5%*	*996.2*	*30.0%*
Income /Money Market	*257.5*	*8.2%*	*204.0*	*7.0%*	*300.1*	*9.0%*
Sovereign	*0.0*	*0.0%*	*16.0*	*0.6%*	*0.0*	*0.0%*
T-Bills	122.3	3.9%	1,428.9	49.2%	388.9	11.7%
PIBs	2037.6	64.7%	827.5	28.5%	1,284.1	38.7%
Sukuks/TFCs	194.0	6.2%	150.0	5.2%	150.0	4.5%
Term Deposits	300.0	9.5%	0.0	0.0%	200.0	6.0%
Total	**3,151.5**	**100.0%**	**2,903.7**	**100.0%**	**3,319.3**	**100.0%**

Adequate capitalization indicators with significant buffer over minimum solvency requirement; leverage indicators have increased during the ongoing year. 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 increased during the review period in line with augmentation of scale of operations along with decline in cession ratio, the same indicates increase in risk profile of the company. However, on account of stringent checks on writing new business resulting in elimination of high-risk policies along with appropriate reinsurance coverage the increase in operating leverage does not pose exponential risk to loss absorption capacity of the company. Moreover, financial leverage ratio was reported higher at end-HY21 on account of increase in net technical reserves. The increase in technical reserves was manifested in both higher outstanding claims and unearned premium reserves; higher outstanding claims were an outcome of unsettled fronting claims, meanwhile, unearned premium has an element of cyclicality attached as 90% of the new business was reaped in 2QFY21. 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 slightly during the rating horizon.

Sound liquidity profile: Liquidity profile is considered comfortable reflected by sizeable liquid assets maintained in relation to net technical reserves; however, the same depicted a declining trend on a timeline basis owing to significant increase in net technical reserves. On the other hand, insurance debt in relation to gross premium decreased during the ongoing year on account of sizable growth in business operations; the same now falls within the rating benchmark criterion for the assigned rating. The operating ratio increased on timeline basis owing to higher incidence of claims along with reduction in recurring investment income due to slashed discount rate resulting in low interest yield on government securities.

IGI General Insurance Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**DEC 31, 2018**	**DEC 31, 2019**	**DEC 31, 2020**	**JUN 30, 2021**
Cash and Bank Deposits	477.2	133.1	231.6	521.8
Investments	2565.0	3151.5	2,903.7	3,319.3
Investment Properties	357.0	377.0	377.8	377.8
Insurance Debt	1,101.2	1,424.9	1,873.8	2,247.3
Total Assets (Conventional & OPF)	7,012.6	8,928.6	10,458.2	12,688.7
Paid-Up Share Capital	1,918.4	1,918.4	1,918.4	1,918.4
Net Worth	2,382.9	2,462.1	2,446.8	2,588.1
INCOME STATEMENT				
Net Premium Revenue	2,287.8	2,569.2	2,531.3	1,517.8
Net Claims	1,219.0	1,409.6	1,357.7	955.2
Underwriting Profit	203.6	203.9	249.8	69.7
Profit Before Tax	530.6	806.9	685.6	336.5
Profit After Tax	373.3	573.2	486.5	241.4
RATIO ANALYSIS				
Cession Ratio (%)	41.4%	44.6%	53.7%	41.8%
Gross Claims Ratio (%)	42.9%	40.5%	63.0%	67.9%
Net Claims Ratio (%)	53.3%	54.9%	53.6%	62.9%
Underwriting Expense Ratio (%)	39.7%	39.8%	42.4%	32.5%
Combined Ratio (%)	93.0%	94.7%	96.0%	95.4%
Net Operating Ratio (%)	83.4%	86.1%	81.6%	84.5%
Insurance Debt to Gross Premium (%)	23.9%	25.4%	31.2%	25.4%
Operating Leverage (%)	97.9%	104.4%	103.5%	117.3%
Financial Leverage (%)	98.5%	105.4%	153.3%	171.2%
Adjusted Financial Leverage (%)	62.6%	64.3%	64.8%	73.1%
Adjusted Liquid Assets to Technical Reserves (%)	129.7%	126.5%	83.6%	86.7%

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

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	
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	

Rating History

Rating Date	Medium to Long Term	Outlook	Rating Action
RATING TYPE: IFS			
05/11/2021	AA	Stable	Reaffirmed
30/12/2020	AA	Stable	Reaffirmed
06/12/2019	AA	Stable	Reaffirmed
13/9/2018	AA	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Syed Awais Amjad	CFO	28-Sep-2021
Mr. S.M Taha Naqvi	Financial Controller	28-Sep-2021
Mr. Faisal Khan	Head Re-Insurance	28-Sep-2021
Mr. Jamshaid Hussain	Head Underwriting	28-Sep-2021
Mr. Ammad Nomani	Finance Manager	28-Sep-2021
Mr. Zahid Mehmood	Head Claims	28-Sep-2021