

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

## RATING REPORT

### Century Insurance Company Limited

**REPORT DATE:**

August 26, 2016

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	A+	A+
Rating Date	August 23, '16	July 28, '15
Rating Outlook	Stable	Stable

#### COMPANY INFORMATION

Incorporated in 1985	External auditors: Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Iqbal Ali Lakhani
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Mohammad Hussain Hirji
Premier Fashions (Pvt.) Limited – 29.0%	
SIZA Services (Pvt.) Limited – 23.6%	
SIZA (Pvt.) Limited – 14.2%	
SIZA Commodities (Pvt.) Limited – 9.9%	
General Public – 17.7%	

#### APPLICABLE METHODOLOGY(IES)

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

## Century Insurance Company Limited

### OVERVIEW OF THE INSTITUTION

Century Insurance Company Limited (CICL) was incorporated in 1985 as a public limited company. Financial Statements for 2015 were audited by Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants.

### RATING RATIONALE

Century Insurance Company Limited (CICL) operates in the general insurance industry as part of diversified Lakson Group of Companies with its presence in media, paper & board, textiles and food & beverages sectors. Majority shareholding of the company rests with associated companies. CICL is listed on the Pakistan Stock Exchange (PSX).

#### Rating Drivers

- **Business Growth:** Over 2015, CICL witnessed growth of 37% to generate business worth Rs. 1,034.8m (2014: Rs. 755.3m). Since this expansion was manifested in health (Rs. 311.4m, 2014: Rs. 117.9m) and motor segments (Rs. 197.1m, 2014: Rs. 156.5m), having low cession, it translated into greater risk retention on books. Going forward, the management envisages growth in fire and motor segments, the latter requiring stringent underwriting guidelines. Moreover, though management contained business generated through related parties to 34.8%, as compared to 43.6% in preceding year, it still constitutes a significant portion of overall business. Greater market access remains paramount from ratings perspective.
- **Reinsurance:** Scor Reinsurance Company continues to serve as the lead insurer. However, the company suspended its dealings with Malaysian Reinsurance Company as mutually viable rates could not be negotiated. Furthermore, treaty limits and retention were enhanced in face of greater business from segments highlighted above. Retention on net account in relation to equity is considered indemnified based on company's risk absorption capacity.
- **Claims & Cessation:** Given the altered business mix, cession ratio contracted to 38.6% (2014: 46.5%); excluding health and motor divisions, the same improved to 74.6% (2014: 70.7%). Therefore, net claims ratio grew to 58.2% (2014: 51.6%). Retained entirely on account, net claims pertaining to health division soared up to 91.1% (2014: 85.5%). Moreover, a sizeable claim arose from a related party, escalating related parties net claims ratio to 47.7% (2014: 15.0%).
- **Investments:** The company maintained its investment at Rs. 1.9b (2014: Rs. 1.9b) as at end 2015 but asset allocation was altered in favor of equity mutual funds instead of listed equities, constituting 41.7% of investment, thereby reducing concentration risk. Residual portfolio is invested in income/money market funds (37.4%), PLS saving accounts (7.8%), listed equities (6.9%), associates (3.2%) and government securities (3.0%). Furthermore, investment in equities constitutes a significant 53% of CICL's equity, exposing the entity to market risk.
- **Profitability:** The company has reported stagnant underwriting profit of Rs. 12.4m (2014: Rs. 11.5m) on the back of subdued performance of health segment incurring loss of Rs. 53.5 (2014: loss of Rs. 17.0m). Marine and Motor segments remained profitable providing a buffer for the loss absorption. During 2015, the company reported an improved expense ratio of 39.4% (2014: 45.0%). However, increased incidence of claims offset the reduced expense ratio, resulting in a minute increase in combined ratio to 97.6% (2014: 96.3%). CICL posted a higher net profit of Rs. 638.3m (2014: Rs. 142.4m) attributable to exceptional investment income amounting to Rs. 415.8m, earned through realized gains from the sale of PTC. Adjusting the profit to normal capital gains in income, net profit amounted to Rs. 223m. Given the revised taxation requirements for insurance companies, CICL's investment income will be subjected to the corporate tax rate; which will have an adverse impact on profitability.
- **Liquidity:** Despite escalated business, company's net operating cash flow declined owing to considerable claims and higher receivables. As of December 2015, the company's insurance debt showcased sizeable growth to Rs. 363.1m (2014: Rs. 198.4m). This increase emanated from premium due but unpaid amounting to Rs. 266.8 (2014: Rs. 135.9m). However, liquidity position remains adequate as liquid assets (2015: Rs. 1.7b, 2014: Rs. 1.9b) provide an adequate buffer against liabilities.
- **Capitalization:** CICL's paid up capital was maintained at Rs. 457.2m, above the paid-up capital requirement of Rs. 300m as at end 1<sup>st</sup> Quarter 2016. As of March 2016, total equity was reported at Rs. 1.8b (2015: Rs. 1.8b, 2014: Rs. 1.2b); capitalization indicators have increased on account of internal capital generation driven from realized gain. Moreover, net admissible assets stand well above regulatory requirements. Both operating and financial leverage indicators increased, depicting higher exposure to business risk.

**Century Insurance Company Limited**

**Appendix I**

<b>FINANCIAL SUMMARY</b>				
	<i>(amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>	<b>MAR 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
Cash and Bank Deposits	85.2	173.5	245.2	105.3
Net Operating Cash Flow	(22.4)	38.0	62.2	68.7
Investments	1,800.6	1,733.0	1,095.9	1,112.7
Insurance Debt	373.7	363.1	198.4	107.8
Total Assets	2,615.0	2,660.4	1,876.7	1,738.9
Net Worth	1,777.9	1,753.9	1,185.3	1,111.6
Total Liabilities	837.1	906.5	691.4	627.3
<b>INCOME STATEMENT</b>	<b>MAR 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
Gross Premium Written	255.3	1,034.8	755.3	667.1
Net Premium Revenue	173.2	515.0	388.5	321.7
Net Claims	111.2	299.8	201.9	159.3
Underwriting Profit/(Loss)	5.1	12.4	11.5	(3.9)
Net Investment Income	17.4	634.7	135.9	133.2
Profit Before Tax	25.4	649.3	158.5	150.8
Profit After Tax	23.9	638.3	142.4	147.3
<b>RATIO ANALYSIS</b>	<b>MAR 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
Market Share (Gross Premium) (%)	1.34	1.69	1.33	1.30
Cession Ratio (%)	26.1	38.6	46.5	46.8
Gross Claims Ratio (%)	45.0	54.0	39.9	33.1
Net Claims Ratio (%)	64.2	58.2	51.6	49.5
Underwriting Expense Ratio (%)	32.9	39.4	44.7	51.7
Combined Ratio (%)	97.1	97.6	96.3	101.2
Net Operating Ratio (%)	34.8	44.2	93.7	97.3
Insurance Debt to Gross Premium (%) (Asset Quality)	36.6*	35.1	26.3	30.2
Operating Leverage (%)	10.2	31.2	21.9	22.5
Financial Leverage (%)	23.2	26.2	15.3	18.6
Adjusted Liquid Assets to Technical Reserves (%)	457.7	403.0	682.5	578.4

\*Annualized

# 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](http://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](http://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](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

## JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURES		Appendix III		
<b>Name of Rated Entity</b>	Century Insurance Limited			
<b>Sector</b>	Insurance			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Insurer Financial Strength (IFS) Rating			
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: IFS</b>			
	23-Aug-16	A+	Stable	Reaffirmed
	28-Jul-15	A+	Stable	Reaffirmed
	24-Jun-14	A+	Stable	Reaffirmed
	8-Mar-13	A+	Stable	Upgrade
	19-Mar-12	A	Stable	Reaffirmed
	7-Jan-11	A	Stable	Reaffirmed
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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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