

## RATING REPORT

### Premier Insurance Limited

**REPORT DATE:**

October 2, 2015

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	A	A
Rating Date	Oct 2, '15	Dec 11, '13
Rating Outlook	Stable	Stable
Outlook Date	Oct 2, '15	Dec 11, '13

**COMPANY INFORMATION**

<b>Incorporated in 1952</b>	<b>External auditors:</b> Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants
<b>Public Company</b>	<b>Chairman of the Board:</b> Mr. Zahid Bashir
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Muhammad Asif Arif
General Public – 59.1%	
Mahmood Textile Mills Limited – 9.8%	
Crescent Powertec Limited – 7.0%	

**APPLICABLE METHODOLOGY(IES)**

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

## Premier Insurance Limited

### OVERVIEW OF THE INSTITUTION

Premier Insurance Limited was established in 1952 as a public limited company and is listed on all three stock exchanges in the country.

The company's Board of Directors comprises eight members and is chaired by Mr. Zahid Bashir. Financial statements for FY14 were audited by M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants

### RATING RATIONALE

With more than 60 years of operations, Premier Insurance Limited (PIL) has a strong equity base amounting to Rs. 1.9b at end-1HY15. Operating and financial leverage indicators are on the lower side depicting sound risk absorption capacity. The company posted gross premium of Rs. 1.4b (FY13: Rs. 1.2b), depicting growth of 9.4% in 2014. Despite growth in premium base, bottom line of PIL was largely driven by investment activities while underwriting operations continue to report losses; underwriting losses were reported lower for FY14 vis-à-vis prior year. Ability to demonstrate an improving underwriting performance will continue to be tracked by JCR-VIS.

The company's business mix is led by Fire segment, which includes Terrorism related risks, and represents more than 40% of the total business volumes. This is followed by motor and marine business. Incidence of claims generally remained within manageable limits. Losses on net account are protected by an adequate set of treaty arrangements and a sound & diversified panel of reinsurers.

PIL has an adequate reinsurer panel featuring 'A-' and above rated reinsurers for both proportional and non-proportional treaties. There were two changes on the reinsurer panel in 2015 with Malaysian Reinsurance Berhad and ARIG Re, Bahrain exiting and their shares allocated to other existing reinsurers. PIL has primarily negotiated surplus and quota share treaties for its marine segment while there is an Excess of loss (XoL) treaty for its fire and motor segment. Engineering and marine hull are covered under surplus treaties while marine cargo has a quota cum surplus cover. Miscellaneous business including health, bond and general accident has quota share arrangement. Treaty terms for all segments remained unchanged for 2015. Overall cession for the company was higher at 49.3%; the increase in cession was mainly due to higher fronting business underwritten in marine and fire segments. PIL posted an underwriting loss of Rs. 110.4m (FY13: Rs. 329.4m) for FY14; underwriting loss of Rs. 11.0m was reported for 1HY15. The company has generated an underwriting profit from the Motor segment only. Significant underwriting losses continued to be experienced in both Fire and Marine segments. Given the limited growth in net premium revenue, the company's expense ratio remained considerably on the higher side. As a result, combined ratio continues to be above 100%.

The company has an investment portfolio with almost half of its exposure in listed equities while remaining is deployed in cash/income funds and debt instrument at end-June 2015. In recent years, the portfolio has generated steady stream of income and supported the bottom line of the company. PIL has benefited from the upward rally in the stock market. The investment function of the company is managed by a third party individual.

Insurance debt in relation to gross premium has remained on the higher side. The rising trend in un-paid premiums may need to be arrested. Cash flow from operations has depicted improvement on the back of improved cash flows from underwriting operations, during 2014. Overall liquidity profile of the company is considered adequate in view of sizeable liquid assets in relation to technical reserves. Leverage indicators have remained low indicating significant room for growth.

PIL has implemented an Oracle based General Insurance Accounting System (GIAS) to support core operations. Progress towards implementation of sound IT infrastructure is being accelerated to improve the control environment and resolve issues related to reconciliation of outstanding balances. In the on-going year, PIL has experienced a change at the helm, with Mr. Asif Arif assuming the office of Chief Executive Officer. Key positions, vacant for more than two years, were also filled during 2014.

## Premier Insurance Limited

## Appendix I

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b><u>BALANCE SHEET</u></b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>	<b>DEC 31, 2012</b>
Cash and Bank Deposits	151.0	108.9	146.8
Investments	1,121.1	1,169.5	1,250.9
Investment Properties	53.8	54.3	54.8
Insurance Debt	1,024.1	1,143.6	908.9
<b>Total Assets</b>	<b>3,430.0</b>	<b>3,554.3</b>	<b>3,305.9</b>
<b>Net Worth</b>	<b>1,528.3</b>	<b>1,553.9</b>	<b>1,781.4</b>
<b>Total Liabilities</b>	<b>1,901.7</b>	<b>2,000.4</b>	<b>1,524.5</b>
<b><u>INCOME STATEMENT</u></b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>	<b>DEC 31, 2012</b>
Net Premium Revenue	694.5	652.9	532.5
Net Claims	347.1	573.2	327.4
Underwriting Profit	(110.4)	(329.4)	(96.9)
Net Investment Income	145.7	173.5	72.6
Profit Before Tax	40.5	(152.0)	(15.7)
Profit After Tax	34.6	(166.8)	3.9
<b><u>RATIO ANALYSIS</u></b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>	<b>DEC 31, 2012</b>
Market Share (Gross Premium) (%)	2.5	2.5	2.4
Cession Ratio (%)	49.3	43.3	49.5
Gross Claims Ratio (%)	41.0	93.6	80.8
Net Claims Ratio (%)	50.0	87.8	61.5
Underwriting Expense Ratio (%)	65.9	62.7	56.7
Combined Ratio (%)	115.9	150.5	118.2
Net Operating Ratio (%)	115.8	150.4	118.0
Insurance Debt to Gross Premium (%)	75.5	92.3	85.0
Operating Leverage (%)	39.7	36.7	28.2
Financial Leverage (%)	43.3	57.0	38.5
Adjusted Liquid Assets to Technical Reserves (%)	157.3	117.1	177.5

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

# 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)

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Premier Insurance Limited				
<b>Sector</b>	Insurance				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	10/2/2015	A	-	Stable	Reaffirmed
	12/11/2013	A	-	Stable	Reaffirmed
6/7/2011	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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