RATING REPORT

The Askari General Insurance Company Limited

REPORT DATE:
January 01, 2019

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	AA	AA-
Rating Outlook	Stable	Stable
Outlook Date	*28-Dec'18*	*27-Dec'17*
Rating action	*Upgrade*	*Reaffirmed*

COMPANY INFORMATION

Incorporated in 1995	**External auditors:** KPMG Taseer Hadi & Co
	Chairman of the Board: Lt. Gen. (R) Najib Ullah Khan
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Abdul Waheed
Army Welfare Trust : 59.2%	
Mr. Muhammad Iqbal : 7.9%	

APPLICABLE METHODOLOGY

JCR-VIS Insurer Financial Strength Rating Methodology – General Insurance Rating (March, 2017)
http://jcrvis.com.pk/docs/Meth-GenInsurance201702.pdf

Askari General Insurance Company Limited

OVERVIEW OF THE INSTITUTION

AGICO commenced commercial operations in 1995 and is listed on Pakistan Stock Exchange. With a network of 19 branches, the company is engaged in general insurance business. The financial statements for FY17 were audited by M/s KPMG Taseer Hadi & Co.

Profile of Chairman

Lt. Gen (R) Najeeb Ullah Khan is an ex-serviceman and is currently also acting as Chairman of Army Welfare Trust. He was awarded Hilal-e-Imtiaz (military) for his distinguished services to the forces. He has also served as Director General FWO.

Profile of CEO

Mr. Abdul Waheed has diverse experience in financial management, banking, and leasing sector. He is a qualified Certified Public Accountant (USA). Mr. Waheed has held the position of CEO since 2010.

Financial Snapshot

Net Worth: 9M18 – Rs. 1.6b, end-FY17 – Rs. 1.5b, end-FY16 – Rs. 1.4b

Net Profit: 9M18 – Rs. 221.0m, FY17 – Rs. 253.7m, FY16 – Rs. 236.8m

RATING RATIONALE

Ratings assigned to Askari General Insurance Company Limited (AGICO) derive strength from association with its primary shareholder Army Welfare Trust (AWT) having presence in various sectors of the economy. Ratings also take into account growth in business volumes, consistent improvement in underwriting performance, sound liquidity profile and largely maintained loss absorption capacity. Credit risk emanating from reinsurance panel selection remains sound with majority reinsurers rated in category 'A' or higher. However, the rating is constrained by high operating and financial leverages.

Business Strategy

The company primarily offers insurance covers for fire and property damage, marine and transport, motor, health and miscellaneous risks including burglary, loss of cash in safe and cash in transit, engineering losses, business interruption losses, accident and natural calamities. Despite higher incidence of claims in respect to premium earned, the business mix of the company remained dominated by motor segment followed by miscellaneous owing to intense competition making market development in fire and marine segments challenging. During the period under review, business volumes of the company stood at Rs. 1.8b (FY17: 2.6b; FY16: Rs. 2.3b) during 9M18; the growth during FY17 was primary driven by higher contribution from accident and health segment. The company surpassed the growth target of Rs. 2.4b for FY17; moreover, the projected target for FY18 is set at Rs. 2.7 b. As per the management, the company is comfortably placed to meet the allocated target owing to sizeable quantum of new policies currently being in the approval phase. In addition, the management projects renewal of health policies amounting to Rs. 400m during last quartet FY18. The company is currently targeting small and medium term businesses for risk diversification. As per the management, the company has a sound client retention ratio of around 85%. The snapshot of business mix is presented in the table below:

	FY15	FY16	FY17	9M18
Fire	16.1%	13.3%	15.8%	16.6%
Marine	7.9%	6.7%	7.0%	7.3%
Motor	40.7%	36.0%	33.2%	41.5%
Accident & Health	21.8%	18.7%	32.1%	16.8%
Miscellaneous	13.6%	25.2%	11.9%	17.8%
Gross Premium (m)	2,005.1	2,249.0	2,583.2	1,803.9

In line with low risk appetite, the company follows a steady business growth approach without compromising of underwriting performance. The management projects that the gross premium for FY19 will exceed Rs. 3.2b. Going forward, the growth in business volumes is projected to be primarily driven by miscellaneous segment given the company is focusing on contractors plant and machinery (CPM) projects entailing long tenor; hence contributing towards stable growth. Further, AGICO has inked an MoU with one of the top-five re-insurance companies in Peoples Republic of China, rated 'A' by an international rating agency, to provide insurance services to their clients operating in Islamic Republic of Pakistan. Hence, the management expects growth in gross premiums in construction and marine sectors also on the back of ongoing projects related to China Pakistan Economic Corridor. On the Takaful 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.

Reinsurance Arrangements

AGICO'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 'A-' or higher. Scor Re remains the lead reinsurer in major segments; meanwhile, Hannover Re leads in motor, terrorism and special capacity (fire & engineering). During FY18, there were few changes in the reinsurance panel with Munich Re exiting the market coupled with Trust Re removed from being the leader in non-proportional treaties in catastrophic and motor segments. In addition, Trust Re's share in proportional treaties was also reduced and allocated to Hannover Re in line with anticipation of rating downgrade of the former. A.M Best downgraded the Insurer Financial Strength Rating of Trust Re from 'A-' to 'BBB+' in Oct'18.

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 fire segment, the company increased its total treaty capacity to 805.0m for FY18 as compared to Rs. 735.0m in preceding year by adding two more lines in surplus treaty; however, AGICO's own retention remained unchanged. Further in the terrorism cover, the company's retention and total treaty limit were enhanced during the ongoing year. Moreover, excess of loss' treaty limit and company's retention were recorded higher in the motor segment for FY18. Other than the aforementioned changes, the treaty capacities and retention limits remained unchanged as of FY17. Retention on company's net account was recorded higher during FY17 in line with increased retention in miscellaneous segment; however the cession ratio during the ongoing year was maintained at FY16's level to keep the company's business risk profile intact. For FY18, the cessation ratio is expected to slightly trend downwards on account of sizeable renewal expected from Accident & Health segment entailing equal business sharing treaty. Cession is expected to remain within the 40%-50% range in the coming years. Size of maximum per risk claim on net account increased in terrorism and motor segments; 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 FY19 other than the increase in the commission rate in the engineering segment.

Claims Experiences

Given the industry's trend, the highest net claims ratio emanated from the accident & health segment on account of higher retention on net account in line with equal loss sharing arrangement with the reinsurer. As per the management, the appreciation in US Dollar also contributed towards increased health insurance related claims as the medicinal treatment became costly over the corresponding period. Moreover, the loss ratio of motor segment deteriorated during 9M18 owing to weak law and order situation leading to increased vehicle thefts coupled with significant 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 followed by marine. The segment-wise net claims ratios are presented in the table below:

	FY15	FY16	FY17	9M18
Net Claims Ratio	**49.3%**	**51.3%**	**45.9%**	**58.1%**
Fire	31.7%	21.5%	39.4%	36.1%
Marine	42.1%	19.2%	39.7%	39.3%
Motor	40.6%	47.2%	40.6%	45.0%
Accident & Health	99.6%	84.1%	79.3%	84.3%
Miscellaneous	42.2%	30.8%	13.3%	45.8%

Underwriting Performance

The company's underwriting results were supported by lower incidence of claims during FY17. Further, despite increased loss ratios in accident & health and miscellaneous segment during 9M18, AGICO's underwriting profitability exhibited positive trajectory owing to increase in overall scale of operations and rationalization of management expenses. In addition, the net commission income was also recoded higher at Rs. 74.5m (FY17: Rs. 47.0m; FY16: Rs. 48.7m) during 9M18 as a result of sustained commission rates in major segments along with increase in gross premium written. With lower expense ratio, the combined ratio improved on a timeline basis. All segments, barring accident & health, reported profits during FY17 and 9M18; ability to maintain these performance metrics will remain a key rating factor. Going forward, the management plans to strengthen its monitoring measures to improve the performance of health segment. The snapshot of underwriting results is tabulated below:

Rs. in millions	FY15	FY16	FY17	9M18
Underwriting Profit	**160.0**	**181.6**	**244.5**	**228.9**
Fire	53.2	64.5	55.0	48.5
Marine	15.3	34.2	27.2	27.9
Motor	69.8	66.0	100.7	123.1
Accident & Health	-11.5	-11.1	-21.8	-43.1
Miscellaneous	33.1	28.0	83.4	72.6

Investment income continues to support the bottom line of the company; however, the same was reported lower during the ongoing year owing to lower gain on sale of investments in line with overall lackluster performance of stock market. As per the management, volatility in the stock market is expected to continue going forward, leading to hampered contribution of investment income towards the bottom line of the company. In addition, Window Takaful Operations of the company continue to exhibit increasing contribution on a timeline basis with after-tax profit recorded higher at Rs. 38.3m (FY17: Rs. 23.75 m) during 9M18. Subsequently, in line with augmented business volumes coupled with curtailed management expenses the company earned a higher net profit on an annualized basis.

Investments

The investment mix continues to be dominated by income mutual funds; however the proportion of the same was streamlined during the period in review. Moreover, the company has increased investment in term deposits to Rs. 500.0m (FY17: Rs. 350.0m; FY16: nil) by end-9M18. 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, AGICO's investment horizon is short-term, mostly targeting capital appreciation, therefore the company is actively involved in day trading. Going forward, the management plans to invest in liquid avenues preferring government securities; the proposed investment strategy is in line with expected increase in prevailing market rates. Moreover, the company has an investment in property including two offices in Islamabad Stock Exchange.

Capitalization & Liquidity

Liquidity profile is considered sound reflected by sizeable liquid assets maintained in relation to net technical reserves. In addition, insurance debt in relation to gross premium decreased during 9M18 on account of swifter payments received from policy holders and reinsurers. The aging profile of insurance debt is considered satisfactory. However, the same is slightly higher than the rating benchmark. The cash flow from operations exhibited positive momentum on a timeline basis in line with higher business volumes and was recorded at Rs. 454.8m (FY17: Rs. 287.4m; FY16: Rs. 158.1m) during 9M18.

In line with regulatory requirement, AGICO has a paid up capital above Rs. 500m, at end-9M18. Capitalization levels of the company have somewhat improved over time on the back of internal capital generation. Moreover, AGICO 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 higher during the review period, thereby signifying increase in risk profile of the company. However, the financial leverage ratio of the company decreased by end-9M18 on account of decrease in technical reserves and increase in adjusted shareholder equity of the company. Nevertheless, leverage indicators of the company continue to remain higher than the rating benchmark on account of current capitalization levels. In line with positive impetus in business generation coupled with no immediate plan of equity injection by the sponsors, the operating leverage is expected to remain high.

Expansion Strategy

To company has initiated branch expansion strategy to improve its market penetration; a new branch was opened in Rahim Yar Khan in Nov'18 to cater to the existing market gap. Moreover, to further strengthen its market presence, the company has planned to open three satellite branch offices during FY19. In addition, the company bought a commercial property at Askari Tower situated in Lahore to establish a corporate office during the ongoing year; the same will become operational during FY19. AGICO also plans to establish a tracker company during FY19; the legal process for incorporation and licensing along with the name finalization has been completed.

Management

During the rating review period, Lt. Gen (R) Najeeb Ullah Khan replaced Lt. Gen (R) Khalid Rabbani as the Chairman of the Board. Mr. Najeeb is an ex-serviceman and is currently acting as Chairman of Army Welfare Trust. In addition, Mr. Razi Haider, a qualified Chartered accountant was promoted as the Chief Financial Officer (CFO) after resignation of the previous office bearer during FY18. Further, Mr. Hassan Tahir Khokhar was appointed as Head of MIS Department. He has done Masters in Computer Science from Mohammad Ali Jinnah University and has an experience of over a decade in strategic and tactical capacities in managing information systems.

The Askari General Insurance Company Limited — Appendix I

BALANCE SHEET *(Rs. in millions)*	DEC 31, 2015	DEC 31, 2016	DEC 30, 2017	SEP 30, 2018
Cash and Bank Deposits	115.3	151.9	191.8	183.4
Investments (MV)	1,147.7	1,524.5	1,606.8	1,849.8
Investment Properties	45.7	44.4	43.1	42.1
Insurance Debt	646.0	935.8	1,485.7	946.6
Total Assets	2,841.7	3,726.6	4511.1	4,291.0
Net Worth	975.8	1,385.2	1,484.3	1,630.7
Total Liabilities	1,865.9	2,341.4	3,026.8	2,660.3
INCOME STATEMENT	**DEC 31, 2015**	**DEC 31 2016**	**DEC 30, 2017**	**SEP 30, 2018**
Net Premium Revenue	1,091.9	1,255.2	1,356.2	1,334.9
Net Claims	537.8	644.5	622.4	781.5
Underwriting Profit / (loss)	160.0	181.6	244.5	228.9
Net Investment Income	104.0	122.2	87.8	47.8
Profit Before Tax	274.9	320.5	364.5	314.7
Profit After Tax	198.5	236.8	253.7	221.0
RATIO ANALYSIS	**DEC 31, 2015**	**DEC 31, 2016**	**DEC 30, 2017**	**SEP 30, 2018**
Cession Ratio (%)	42.3%	41.0%	33.9%	41.2%
Gross Claims Ratio (%)	51.7%	54.6%	45.5%	51.1%
Net Claims Ratio (%)	49.3%	51.3%	45.9%	58.1%
Underwriting Expense Ratio (%)	36.1%	34.2%	36.1%	24.9%
Combined Ratio (%)	85.4%	85.5%	82.0%	83.0%
Net Operating Ratio (%)	83.6%	82.8%	80.5%	81.8%
Insurance Debt to Gross Premium (%)	32.2%	41.6%	57.5%	39.4%

Operating Leverage (%)	111.9%	90.61%	91.4%	110.0%
Financial Leverage (%)	99.4%	78.7%	99.7%	81.8%
Adjusted Liquid Assets to Net Technical Reserves (%)	132.9	150.8%	121.6%	159.2%

ISSUE/ISSUER RATING SCALE & DEFINITION — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

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

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

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'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

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURE — Appendix III

Name of Rated Entity	The Askari General Insurance Company Limited
Sector	Insurance
Type of Relationship	Solicited
Purpose of Rating	Insurer Financial Strength (IFS) Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: IFS		
12/28/2018	AA		Stable	Upgrade
12/27/2017	AA-		Stable	Reaffirmed
8/31/2017	AA-		Stable	Reaffirmed
2/06/2017	AA-		Stable	Upgrade
4/15/2015	A+		Stable	Reaffirmed
2/18/2014	A+		Stable	Upgrade
1/22/2013	A		Stable	Reaffirmed
12/31/2011	A		Stable	Reaffirmed
12/15/2010	A		Stable	Upgrade

Instrument Structure	N/A
Statement by the Rating Team	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 financial strength only and is not a recommendation to buy or sell any securities.
Probability of Default	Not Applicable
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