

RATING REPORT

Security General Insurance Company Limited (SGICL)

REPORT DATE:

June 20, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	AA-	AA-
<i>Rating Date</i>	<i>June 16, '16</i>	<i>September 23, '15</i>
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 1996	External Auditors: A.F. Ferguson & Co., Chartered Accountants.
Unquoted Public Limited Company	Internal Auditors: S.M. Masood & Co. Chartered Accountants
	Chairman: Mr. Mian Hassan Mansha
Key Shareholder(s):	Chief Executive Officer: Mr. Farrukh Aleem
Allied Bank Limited - 18.2%	
Nishat Mills Limited - 15.0%	
Mian Hassan Mansha - 13.3%	
Mian Umer Mansha - 13.3%	
Mian Raza Mansha - 11.95%	
Adamjee Insurance Co. Ltd - 14.22%	
Mrs. Naz Mansha – 7.5%	

APPLICABLE METHODOLOGY(IES)

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

Security General Insurance Company Limited (SGICL)

OVERVIEW OF THE INSTITUTION

SGICL was incorporated as an unquoted public limited company in May 1996. Headquartered in Lahore, the company operates with a network of 8 branches (2014: 11) providing insurance coverage against risks related to fire, marine, motor and other categories. Individuals and group companies of Nishat Group are the main sponsors while Allied Bank Limited also has a sizeable shareholding in the company.

RATING RATIONALE

Sponsor Support

Ratings assigned to Security General Insurance Company Limited (SGICL) take into account its association with Nishat Group, a large conglomerate operating across diversified sectors of the country. Ratings also take into account conservative risk appetite of the company along with robust capitalization related indicators indicating strong loss absorption capacity.

Business Strategy

In Jan, 15, the sponsors of SGICL decided to depend only on group business for underwriting. However in June, 15, the sponsors decided to continue with its market based business, which was earlier planned to be discontinued. Gross premium during the last three years has remained largely stagnant at around Rs. 1.8b. Business from associated companies reflected more than one-third of overall gross premium; the company has underwritten policies in fire segment of group related power projects. Fire constitutes more than three-fourth of gross premium followed by motor (12.0%), marine (6.2%) and miscellaneous (4.3%) segment.

Management has projected healthy growth in premium for the ongoing year; during 1QFY16, premium underwritten amounted to Rs. 432.7m. In addition to group related business which is expected to remain stable, management aims to gradually increase the proportion of market based business by increasing SGICL share of business with clients carrying satisfactory track record. Moreover, retention is projected to increase in case of such clients leading to lower cession ratio which has remained on the higher side in comparison to the industry. Initiation of window takaful operation is also planned for the ongoing year.

Reinsurance Arrangement

Reinsurer panel of SGICL is diversified with reinsurers having sound financial strength ratings. Barring higher retention incase of fire (2016: Rs. 25m; 2015: Rs. 20m), treaty capacity and retention in other segments largely remained unchanged.

Underwriting Performance and Profitability

Overall claims performance remained satisfactory; the company's loss ratio compares favorably to the industry. Underwriting results have also remained strong. Investment portfolio of the company continues to support profitability and cashflows of the company. Net profit was reported at Rs. 913.8m during FY15 (FY14: Rs. 897.0m).

Investments

Total investment portfolio (at market value) declined to Rs. 14.4b at end-FY15 (end-FY14: Rs. 18.4b). Investments mainly comprises strategic stake in group companies including MCB Bank Limited and Adamjee Insurance Company Limited. During the outgoing year, the company made investment in Nishat Hotels and Properties Limited to the tune of Rs. 500m; further investment in group companies is also planned. Investment portfolio carries sizeable unrealized gain reflecting cushion against downside risk.

Cashflows and liquidity Profile

Operating cash flows declined to Rs. 526.1m (FY14: 730m) as cashflows from underwriting business turned negative on account of a large claim paid pertaining to the power sector. Overall liquidity profile of the institution is considered sound. Insurance debt as a proportion of gross premium is relatively on the higher side.

Management Team & Control Infrastructure

During the ongoing year, Ms. Nabiha Shah Nawaz resigned as the CEO of SGICL and was replaced by Mr. Farrukh Aleem, ex-CFO. Senior management team comprises experienced resource and has depicted stability. Effective implementation of the various policies under development phase is expected to strengthen the overall control infrastructure. Moreover, implementation of a web based system is also planned by the end of ongoing year.

Security General Insurance Company Limited (SGICL)

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	MAR 31, 2016	DEC 31, 2015	DEC 31, 2014
Cash and Bank Accounts	730.7	198.2	834.5
Deposits Maturing Within 12 Months	50.3	150.3	2.3
Insurance Debt	1,083.9	1,401.8	1,194.4
Total Assets	12,038.8	12,004.0	11,033.1
Net Worth	9,321.8	9,105.2	8,494.7
Total Liabilities	2,717.0	2,898.9	2,538.4
INCOME STATEMENT	MAR 31, 2016	DEC 31, 2015	DEC 31, 2014
Net Premium Revenue	97.1	441.2	524.1
Net Claims	15.3	124.5	231.6
Underwriting Profit/(Loss)	28.7	78.7	77.2
Other Income	-	-	46.2
Profit Before Tax	254.1	1,094.2	971.4
Profit After Tax	216.7	913.8	897.0
RATIO ANALYSIS	MAR 31, 2016	DEC 31, 2015	DEC 31, 2014
Market Share (Gross Premium) (%)	-	3.0	3.3
Cession Ratio (%)	89.5	79.8	74.0
Gross Claims Ratio (%)	31.8	98.7	39.5
Net Claims Ratio (%)	15.7	28.2	44.2
Underwriting Expense Ratio (%)	56.1	54.9	41.4
Combined Ratio (%)	71.8	83.1	85.6
Insurance Debt to Gross Premium (%)	62.6	75.7	66.1
Operating Leverage (%)	-	2.9	2.7
Financial Leverage (%)	-	3.8	1.5

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

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

‘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

REGULATORY DISCLOSURES		Appendix III		
Name of Rated Entity	Security General Insurance Company Limited (SGICL)			
Sector	Insurance			
Type of Relationship	Solicited			
Purpose of Rating	Insurer Financial Strength (IFS) Rating			
Rating History		Medium to Long Term	Rating Outlook	Rating Action
	Rating Date			
	RATING TYPE: IFS			
	06/16/2016	AA-	Stable	Reaffirmed
	09/23/2015	AA-	Stable	Reaffirmed
	04/22/2015	AA-	Stable	Reaffirmed
	02/04/2014	AA-	Stable	Upgrade
12/26/2012	A+	Stable	Reaffirmed	
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 credit quality only and is not a recommendation to buy or sell any securities.			
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