

RATING REPORT

Security General Insurance Company Limited (SGICL)

REPORT DATE:

September 15, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	AA	AA-
Rating Date	Sep 14, '17	June 16, '16
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.
	Chairman: Mian Hassan Mansha
Key Shareholder(s):	Chief Executive Officer: Mr. Farrukh Aleem
Allied Bank Limited -18.22%	
Nishat Mills Limited - 15.02%	
Mian Hassan Mansha – 13.30%	
Mian Umer Mansha – 13.30%	
Mian Raza Mansha – 11.95%	
Adamjee Insurance Co. Ltd – 14.22%	
Mrs. Naz Mansha – 7.50%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: General Insurance March 2017 <http://jcrvis.com.pk/kc-meth.aspx>

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 providing insurance coverage against risks related to fire, marine, motor and other categories.

Profile of Chairman

Mian Hassan Mansha continues to Chair the Board. Mr. Hassan carries over 10 years of professional experience and is on the Board of various Nishat group companies.

Profile of CEO

Mr. Farrukh Aleem serves as Chief Executive Officer (CEO) of the company. Mr. Aleem carries 12 years of experience in the insurance industry and also holds a postgraduate degree in Business Administration.

Financial Snapshot

Net Equity: FY16 - Rs. 9.6b; FY15 - Rs. 9.1b

Net Profit: FY16 - Rs.799.6m; FY15 - Rs. 913.8m

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 thereby reflecting strong loss absorption capacity.

Business Strategy

During past few years, business from associated companies accounted for around one-third of the overall gross premium; the management aims to gradually increase the proportion of market based business by pursuing clients having satisfactory track record. With regards to the business mix, fire segment constituted more than three-fourth of gross premium followed by motor (10.6%), miscellaneous (6.1%) and marine (3.6%) segment.

While premium underwritten during 1HFY17 was lower than corresponding period last year, the management expects to achieve reasonable growth in FY17 on the back of business renewals with existing customers while tapping new clients during 2HFY17. The company also intends to explore crop related business in the ongoing year; reinsurance treaty has been arranged for the said purpose. The company awaits approval regarding window takaful license from the regulator; the management expects initiation of takaful operations in 2HFY17.

Reinsurance Arrangement

Reinsurer panel of SGICL is diversified with reinsurers having sound financial strength ratings. For FY17, Hannover Re and Sava Re were added to the existing reinsurer panel of SGICL. While PRCL is in the lead, Hannover Re has replaced Swiss Re in fire engineering, bond and miscellaneous accident quota share and surplus reinsurance treaty. Moreover, Sampo Japan Re exited while its share was distributed among other reinsurers. Excess of loss (XoL) reinsurance cover has been arranged for motor and crop related business.

Underwriting Performance and Profitability

During FY16, gross claims ratio stood higher mainly on account of high claim expense pertaining to the fire segment. However, given adequate reinsurance coverage, impact of claim on net account has been minimal. This along with lower underwriting expense ratio led to improvement in underwriting results. Investment income continues to provide support to the profitability of the company. While profit before tax stood higher, net profit declined on account of higher tax expense, an outcome of change in tax regime during FY16.

Investments

Investments mainly comprises strategic stake in group companies. Total investment portfolio (at cost) increased on account of fresh investment some group companies. The company also increased its investment in mutual funds. In terms of market value, the investment portfolio increased to Rs. 16.8b (FY15: Rs. 14.4b) by end-FY16. Given the asset composition, investment portfolio is subject to market risk. However, there is significant unrealized gain on investments that provides adequate cushion against downside risk.

Asset Quality

Insurance debt stood lower representing 66.6% (FY15: 75.1%) of gross premium. Insurance debt declined on account of lower premium due from clients. Premium due but unpaid from related parties represented 79.1% (FY15: 71.3%) of total premium due but unpaid from clients at end-FY16. However, related parties insurance debt is mostly recovered by end of 1H each year, resulting in lower insurance debt to gross premium ratio.

Cash flows and Liquidity Profile

Net operating cash flows improved considerably in FY16 primarily on account of higher premium and reinsurance recoveries. Overall liquidity profile of the institution remained sound as liquid assets increased on account of increased investment in mutual funds and higher bank placements. Insurance debt as a proportion of gross premium is relatively on the higher side.

JCR-VIS Credit Rating Company Limited

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

Security General Insurance Company Limited (SGICL)**Appendix I**

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	MAR 31, 2017	DEC 31, 2016	DEC 31, 2015
Cash and Bank Accounts	279.1	386.2	198.2
Deposits Maturing Within 12 Months	50.4	50.4	150.3
Insurance Debt	1,196.9	1,332.2	1,401.8
Total Assets	12,418.3	12,588.1	12,004.0
Net Worth	9,758.2	9,563.2	9,105.2
Total Liabilities	2,660.0	3,024.9	2,898.9
INCOME STATEMENT	MAR 31, 2017	DEC 31, 2016	DEC 31, 2015
Net Premium Revenue	125.5	445.7	441.1
Net Claims	28.8	74.7	124.5
Underwriting Profit/(Loss)	46.3	150.3	78.2
Other Income	-	4.2	1.5
Profit Before Tax	278.5	1,186.3	1094.2
Profit After Tax	195.0	799.6	913.8
RATIO ANALYSIS	MAR 31, 2017	DEC 31, 2016	DEC 31, 2015
Market Share (Gross Premium) (%)	1.0	3.2	3.0
Cession Ratio (%)	73.8	76.0	79.8
Gross Claims Ratio (%)	33.1	112.3	97.8
Net Claims Ratio (%)	22.9	16.8	28.2
Underwriting Expense Ratio (%)	42.0	51.1	54.9
Combined Ratio (%)	65.0	67.9	83.1
Insurance Debt to Gross Premium (%)	58.3	66.6	75.1
Operating Leverage (%)	3.0	2.6	2.9
Financial Leverage (%)	7.2	6.8	8.4

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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

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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	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	RATING TYPE: IFS			
	09/14/2017	AA	Stable	Upgrade
	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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