



The Pakistan Credit Rating Agency Limited

## IFS RATING REPORT

### EXCEL INSURANCE COMPANY LIMITED

ENTITY	RATING	OUTLOOK	ACTION
Excel Insurance Company Limited	Long Term: A-	Stable	Initial

#### RATING RATIONALE

The rating reflects Excel's sustained positioning amidst challenges facing the topline of the company. Though GPW mix is skewed towards conventional segments – fire and Misc. - the incidence of loss has remained low.

Company's management team is making efforts to revamp company's structure and its business strategies. The management has a clear vision for business expansion though currently small size in a competitive environment makes it challenging. The upgraded control environment equipped with quality MIS system and strengthened HR team will enable the company to tap growth. The company's underwriting operations are currently depressed due to high management expenses. The company's liquidity profile would improve post rights issue. However, the extent of beneficial impact would depend on utilization of these proceeds.

#### KEY RATING DRIVER

The rating is dependent upon company's ability to strengthen market position in the form of achieving GPW targets and underwriting profitability. This should translate in improved underwriting performance. The rating would get benefit provided the company captures a sizeable share in the market while achieving breakeven in its core operations. Smooth induction of seasoned human resource, consequent changes in organization structure remains important. Formation & implementation of formal Investment Policy and placement of foreign reinsurer players on panel are critical to the rating.

#### Report Contents

1. Rating Analyses
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EXCEL INSURANCE COMPANY LIMITED PROFILE	
<b>Incorporated</b>	1991
<b>Major Business</b>	Risk Management
<b>Legal Status</b>	Un-Listed Public Limited Company
<b>Head Office</b>	Karachi

INDUSTRY SNAPSHOT
Pakistan general insurance continued growth trajectory (CAGR 4 years 12%). While fire and motor growth is driven by credit off by the banks, the miscellaneous segment has seen largest growth in health, crop, and livestock. The underwriting profitability improved, though change in tax laws shall impact net profits, going forward. Growth prospects are sanguine.

OWNERSHIP	ADEQUATE
<ul style="list-style-type: none"> <li>Excel is a company owned by Mr. Ghulam &amp; his family. The single largest shareholder in the company is Mrs. Shagufta Ghulam (48%) wife of Mr. G. Muhammad. and her family.</li> <li>There has been no change in the shareholding of the family. The control is established through having mix representation on the board.</li> </ul>	

GOVERNANCE	ADEQUATE
<ul style="list-style-type: none"> <li>The overall control of the company vests in seven member board of directors, including the chairman Mr. Ghulam Muhammad, Mrs. Shagufta w/o Ghulam Muhammad and CEO Dr. Syed Arif Hussain.</li> <li>There are four independent directors on the board, hence the governance structure is good.</li> <li>There are three sub-committees of the board namely; (i) Audit and (ii) HR and (iii) Investment Committee</li> <li>The audit committee reports directly to the board. The auditors of the company Riaz &amp; Co. Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for CY16.</li> </ul>	

MANAGEMENT	ADEQUATE
<ul style="list-style-type: none"> <li>The company has a well-defined organizational structure and different operations are segregated and managed through Executive director and Departmental Heads.</li> <li>The major operational departments include (i) Risk Management, (ii) Finance, (iii) Claims, (iv) Underwriting, (v) Reinsurance, (vi) HR and (vii) IT.</li> <li>Mr. Ghulam Muhammad is Chairman and Dr. Syed Arif Hussain is CEO of the company.</li> <li>To ensure operational efficiency, EICL has three management committees in place which includes; (i) Underwriting and Risk Management, (ii) Claims settlement and (iii) Reinsurance and co-insurance. The meetings of each committee are held quarterly; however the members meet as and when required to discuss unusual cases.</li> </ul>	

BUSINESS RISK	NEEDS TO IMPROVE
<ul style="list-style-type: none"> <li>The company constitutes market share of less than 1%.</li> <li>GPW portfolio mix at end-Dec16 is dominated by fire (48%), followed by miscellaneous (29%) and motor (18%). Whereas at 9MCY17 this GPW mix was Fire (45%), Misc. (32%) and Motor (19%).</li> <li>GPW (PKR 4.6mln) witnessed a decent growth in CY16 (20%) majorly in Misc(173%) and Motor (~13%) while Excel has shown negative growth of 18% at end Sep 17 mainly because of drop in Fire (25%) and Marine (37%).</li> <li>Net loss ratio of the company improved due to a noticeable reduction in fire segment (CY16: 3%, CY15: 275%) thereby reducing the overall loss ratio to CY16: 209% (CY15: 1088%).</li> <li>The company posted an underwriting loss of PKR ~11mln, whereas in CY15 it showed profit of PKR 0.93mln and again posted loss of PKR 11mln in 9MCY17.</li> </ul>	

BUSINESS STRATEGY	ADEQUATE
<ul style="list-style-type: none"> <li>The management envisages four year plan to achieve the Company's objectives to maximize the value of shareholders' investment in the Company. In line with the CEO's vision 2021, this four year plan is focused on meeting the targets by the end of the year 2021 by increasing the business volume of the Company to Rs.350 million, maximizing the return on shareholder's investment and keeping Loss ratio below breakeven level.</li> </ul>	

FINANCIAL RISK	ADEQUATE
<ul style="list-style-type: none"> <li>The company's investment book (PKR 454mln) represents 107% of its equity base at end-Dec16</li> <li>The liquid investment portfolio is deployed in Government Securities (9%), Cash &amp; Bank (14%) and equities (77%).</li> <li>The company's premium receivables improved in CY16 (101Days) from CY15 (218 Days).</li> <li>Reinsurance arrangements are a combination of surplus, quota share and excess of loss treaties for various segments, 100% placed with local reinsurer-PRCL rated (AA) by PACRA.</li> </ul>	



**GENERAL INSURANCE**  
**Financials [Summary]**

**Excel Insurance Company Limited**

<b>BALANCE SHEET</b>	<b>9M17</b>	<b>CY16</b>	<b>9M16</b>	<b>CY15</b>
<b>Investments</b>				
Liquid Investments	441	455	426	298
Other Investments	-	-	-	22
Insurance Related Assets	4	4	5	5
Other Assets	6	7	6	8
<b>TOTAL ASSETS</b>	<b>452</b>	<b>466</b>	<b>437</b>	<b>333</b>
Equity	405	422	422	323
Underwriting Provisions	8	6	4	3
Insurance Related Liabilities	7	8	5	5
Other Liabilities	31	31	6	3
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>452</b>	<b>466</b>	<b>437</b>	<b>333</b>
 <b>INCOME STATEMENT</b>	<b>9M17</b>	<b>CY16</b>	<b>9M16</b>	<b>CY15</b>
 <b>Gross Premium Written (GPW)</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>4</b>
Net Premium Revenue (NPR)	2	1	2	0
Net Claims	0	1	0	(4)
Net Operational Expenses	13	28	14	14
<b>UNDERWRITING INCOME - Adjusted</b>	<b>(11)</b>	<b>(29)</b>	<b>(12)</b>	<b>(10)</b>
Investment Income	14	111	115	17
Other Income/ (expense)	(17)	31	2	2
<b>PROFIT BEFORE TAX</b>	<b>(15)</b>	<b>113</b>	<b>105</b>	<b>10</b>
 <b>RATIO ANALYSIS</b>	<b>9M17</b>	<b>CY16</b>	<b>9M16</b>	<b>CY15</b>
<b>Underwriting Results</b>				
Loss Ratio	1%	209%	16%	1088%
Combined Ratio	590%	3941%	793%	5197%
<b>Performance</b>				
Operating Ratio	788%	17059%	5932%	292%
Investment Yield	2%	14%	27%	5%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	92.9	77.1	88.5	61.9



**RATING SYMBOLS & DEFINITIONS:**

**INSURER FINANCIAL STRENGTH (IFS)  
RATING SCALE & DEFINITIONS**

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

RATING SCALE	DEFINITION
<b>AAA</b>	<b>Exceptionally Strong.</b> Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
<b>B+</b> <b>B</b> <b>B-</b>	<b>Weak.</b> Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
<b>D</b>	<b>Distressed</b> Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

**Outlook (Stable, Positive, Negative, Developing)**

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch**

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

**Suspension**

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn**

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

**Disclaimer:** PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

