

# AlphaRating

*Pioneer Insurance Company Limited*

*(Rangs Babylonia (5th Floor), 246, Bir Uttam Mir Shawkat Sarak, Tejgaon, Dhaka-1208)*

*(Non-Life Insurance)*

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13 December, 2018

**Managing Director**

**Pioneer Insurance Company Limited**

**Rangs Babylonia (5th Floor), 246, Bir Uttam Mir Shawkat Sarak  
Tejgaon, Dhaka-1208.**

**Subject: Credit Rating of Pioneer Insurance Company Limited.**

Dear Sir,

We are pleased to inform you that Alpha Credit Rating Limited (AlphaRating) has assigned the following rating to **Pioneer Insurance Company Limited**.

Date of Declaration	Valid Till	Rating Action	Long Term Rating	Short Term Rating	Outlook
13 December, 2018	12 December, 2019	Surveillance	AAA	ST- 1	Stable

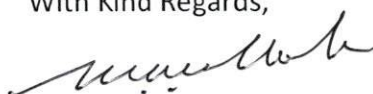
The Short-term and Long-term rating is valid up to the earlier of 12 December, 2019. The rating may be changed or revised prior to expiry, if warranted by extraordinary circumstances in the management, operations and/or performance of the entity rated.

We, Alpha Credit Rating Limited, while assigning this rating to **Pioneer Insurance Company Limited**, hereby solemnly declare that:

- (i) We, Alpha Credit Rating Limited as well as the analysts of the rating have examined, prepared, finalized and issued this report without compromising with the matters of our conflict of interest, if there be any; and
- (ii) We have complied with all the requirements, policy and procedures of these rules as prescribed by the Bangladesh Securities and Exchange Commission in respect of this rating.

We hope the rating will serve the intended purpose of your organization.

With Kind Regards,



**Muhammed Asadullah**  
Managing Director & CEO

**This letter forms an integral part of the credit rating report.**

**Pioneer Insurance Company Limited****AAA** Long Term Rating**ST-1** Short Term Rating**Stable** Outlook**Date of Declaration** 13 December, 2018**Valid Till** 12 December, 2019**Rating Action** SurveillanceBusiness Risk  
HighLiquidity  
GoodProfitability  
GoodSolvency Score  
GoodCapital Adequacy  
ExcellentSector  
Non-life

Pioneer Insurance Company Limited is a leading non-life insurer of the country, operating with experienced management team, prompt claim payment & good compliance practice.

## Rationale

### Previous Rating

Long Term Rating: **AAA**  
Short Term Rating: **ST-1**  
Outlook: **Stable**

Date of Declaration:  
**14 December, 2017**

Valid Till:  
**13 December, 2018**

### Contact Analysts

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**Date of Incorporation:**  
25<sup>th</sup> March, 1996

**DSE & CSE Listing:**  
23<sup>rd</sup> July, 2001

**Board Chairman:**  
Mr. Tapan Chowdhury

**Managing Director & CEO:**  
Mr. Md. Manirul Islam

**Total Asset:**  
BDT 4,082.46 million

**Authorized Capital:**  
BDT 1,000.00 million

**Paid up Capital:**  
BDT 699.81 million

AlphaRating reaffirms long term rating of "AAA" (pronounced as "Triple A") and affirms short term rating of "ST-1" on claim paying ability (CPA) of Pioneer Insurance Company Limited (Hereinafter referred to as 'PICL' or 'the company'). The rating continues to draw comfort from established position in the market, growing assets base, experienced management team, long track record of the promoters in the insurance industry along with its smart investment portfolio.

The assigned rating is also supported by good claim settlement period, increased gross & net premium, improved claim paying ability compared to previous year, good control over excess management expense, sufficient solvency, less than 100% combined ratio, increased underwriting income, adequate paid up capital amidst strong capital structure, increased investment, Sound liquidity, improved cash flow, wide branch network, adequate reserve for un-expired risk, and stronger balance sheet with no debt along with standard investment policy etc.

However, the strength of the rating is partly offset by overall socio economic condition of Bangladesh along with volatility of the share market, decreasing interest rate and increased loss from fire insurance revenue account etc. The rating also considers inherent business risks, unhealthy competition between the competitors and level of sophistication of the domestic insurance market.

	2017	2016	2015	2014
ROA (%)	7.58	8.17	9.80	12.26
Net Profit (%)	22.80	24.26	25.86	27.51
ROE (%)	10.61	11.69	14.15	20.49
Combined Ratio (x)	89	105	105	97
Current Ratio (x)	3.21	3.10	3.39	2.68
Yield on Investment (%)	6	5	6	7
Solvency ratio (x)	7.21	5.73	5.58	4.59
Net premium (BDT in million)	1357.75	1,066.00	1031.90	998.28
Net Claim (BDT in million)	452.48	421.78	392.62	341.76
Investment (BDT in million)	2481.42	1845.50	1668.94	1327.21
Underwriting Income (BDT in million)	221.83	198.16	208.48	227.53
Investment Income (BDT in million)	140.33	108.47	112.60	104.52
Excess of Mgt. Exp. (BDT in million)	(18.91)	(22.08)	19.58	3.36
Operating Cash Flow (BDT in million)	206.07	49.25	16.40	261.16
Fixed Deposit (BDT in million)	814.47	760.67	825.59	810.04

The strength of the rating is partly offset by dearth of qualified professionals in insurance industry of Bangladesh as a whole. The rating has also been constrained by the uncertain economic environment as well as the level of maturity of the domestic insurance market.

The Stable Outlook assessed by AlphaRating reflects that, upside and downside risks to the rating are currently well balanced.

  
**Muhammed Asadullah**  
Managing Director & CEO  
Alpha Credit Rating Limited



## Company Profile

Pioneer Insurance Company Limited is a second generation private sector Non-life insurer in Bangladesh. The company is a public limited company by shares and operating successfully in both the stock exchanges of the country. The company carries its insurance activities through head office along with 40 branches spread across the country covering major financial centers of Dhaka, Chittagong, Khulna, Sylhet, Barisal, Rangpur & Rajshahi Division with the assistance of more than 525 employees. The company has issued 15% cash dividend in FY 2017.

In terms of Gross Premium, during 2016 the company occupied 9.00% of the market share (considering SBC).

PICL is active member of capital market having BDT 2029.44 million market capitalization on 19 November, 2018. According to DSE, market share of the company is categorized as "A".

## Ownership Pattern

The shareholding pattern of the company on 30 June, 2018 is presented below:



Shareholding position of JICL is as follow:

Name of Shareholder	Number of share	% of Shareholding
Sponsor/Director	31,669,260	45.25
Individual	31,313,303	44.75
Institutional	6,998,062	10.00
<b>Total</b>	<b>69,980,625</b>	<b>100%</b>

## Bangladesh Non-life Insurance Market Composition & PICL's Share

The non-life insurance industry of Bangladesh is blessed by 46 companies including the government owned Sadharan Bima Corporation whereas no single insurer holds large market share. Due to the unavailability of industry data, AlphaRating could not determine the market share of PICL in FY 2017. However, the non-life insurance industry of Bangladesh has reported a gross premium of BDT 27,627.47 million in 2016 (including SBC) whereas PICL reported gross premium of BDT 2,487.86 million which represents 9.00% of the total market share in that financial year.

## Principal Product

In FY 2017, the company continued to offer its products through a mix of distribution channels comprising of agents and direct sales team. The company has presence in 23 districts with 40 branches.

### 1. Fire Insurance:

1. Fire and Allied Perils
2. Household Insurance
3. Hotel Owners All Risks insurance
4. Insurance of Consequential Loss
5. Industrial All Risk Insurance

### 4. Aviation Insurance

1. Hull Insurance
2. Liability Insurance
3. Crew Personal Accident
4. WAR Insurance
5. Deductible Insurance
6. Loss of License Insurance

### 5. Engineering Insurance

1. Contractors' All Risks Insurance
2. Erection All Risks Insurance
3. Machinery Loss of Profit Insurance (MLOPI)
4. Deterioration of Stock Insurance
5. Power Plant Insurance
6. Lift, Escalator & Hoisting Equipment Insurance
7. Contractors Plant & Machinery Insurance (CPM)
8. Machinery Insurance (MB)
9. Electronic Equipment Insurance
10. Energy Risks Insurance (Offshore & Onshore)
11. Boiler & pressure Vessels Insurance

### 2. Marine Insurance:

1. Marine Cargo
2. Marine Hull
3. Marine Freight

### 3. Motor Insurance:

1. Comprehensive
2. Act Only Liability
3. Increased Liability

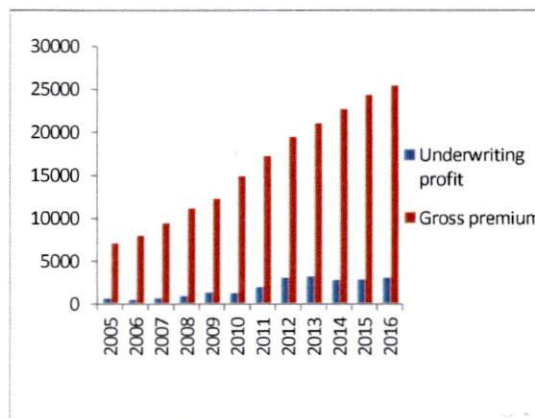
### 6. Miscellaneous Insurance

1. All Risks Insurance
2. Cash/ Property in Premises
3. Money/ Cash in Transit Insurance
4. Cash in ATM Insurance
5. Burglary Insurance
6. General/ Public Liability Insurance
7. Employers Liability Insurance
8. Products Liability Insurance
9. Professional Indemnity Insurance
10. Directors & Officers Liability Insurance
11. Personal Accident Insurance
12. People's Personal Accident Insurance
13. Overseas Mediclaim Insurance
14. Cellular Mobile Phone Insurance
15. Fidelity Guarantee Insurance
16. Hold in One Golf Tournament Insurance
17. Neon Sign Insurance
18. Plate Glass Insurance
19. Rubber Plantation Insurance
20. Lockers Insurance
21. Group Hospitalization Plan Insurance
22. Abandonment of Cricket Match Insurance
23. Air Travel Insurance
24. Credit Card Holder Insurance
25. Poultry Insurance
26. Safe Deposit box (Bank Lockers)

## Industry Overview

At present, 45 Non-Life & 30 Life Insurance Companies are spreading its operation in Bangladesh. The companies are led by state owned Sadharan Bima Corporation & Jibon Bima Corporation respectively. During FY 2016 Government allowed one International Life Insurance Company to operate in the private sector named LIC Bangladesh Ltd. Combine premium income of both sectors is BDT 102,690.92 million (including JBC & SBC, ref: insurance year book-2016). Sectorial share of insurance industry to the GDP at current prices is 0.38% whereas 0.41% in 2016 found in the statistics, Bangladesh for the year 2015. Insurance Penetration rate in Bangladesh is less than 1% since last consecutive years. In spite of the stable growth rate (around 10%) of the Bangladesh insurance industry in the last few years, expansion of the insurance business has experienced an increase in the year 2016 because of favorable market condition. In Bangladesh the marine insurance is considered to be the life guard for the non-life insurance business at this moment. Marine insurance completely depends on imports which were continuously being disturbed by the agent commission related matters however the market is expected to improve in 2018. In the global insurance market, Bangladesh has seen a significant growth over the last few years. The market has immense potential for future expansion and this expansion and increase of insurance penetration lies in personal lines business such as health insurance, micro insurance. The growth of the country's economy, in line with the growth of South Asian countries will also provide an impetus to the insurance sector by creating new business opportunities. Overall growth of non-life insurance gross premium income was 4.73% in 2016 (excluding SBC). The insurance growth rate has been at almost double digit over the years, but this growth somewhat slowed down during the last two years.

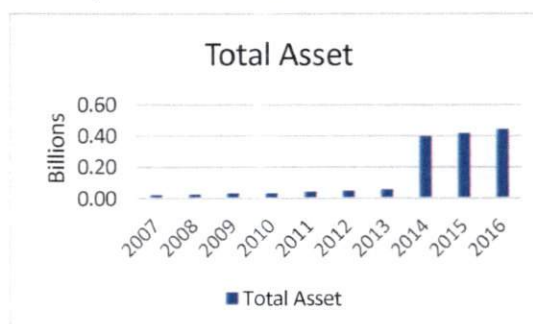
Comparative figure of gross premium & underwriting profit on non-life insurance is pictured below:



Source: Bangladesh Insurance Association

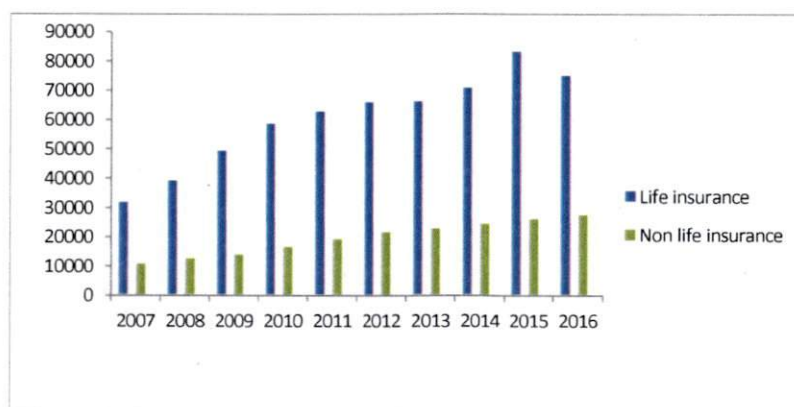
The insurance market in Bangladesh remains fragmented and extremely competitive due to existence of a large number of companies.

Total asset of the insurance companies has been increasing over the years. Total assets of both sector has been increased and aggregated asset was reported BDT 443,280 million in FY 2016.





However, the prospect of insurance business is very positive in Bangladesh, a comparative figure of Life & Non-life insurance business has been given below:



The key drivers for growth of insurance, namely economic growth, per capital income growth, investment in infrastructure, growing population, segment of young group, existence of compulsory insurance requirement, regulatory environment-all exist, but need to be strengthened. It is evident that large segments of the population and insurable interests have not been brought under insurance coverage.

However, considering what is happening in outside world, especially in other similar or neighboring countries, our insurance industry still need to go a long way. Governance model is weak, product base is shallow, risk taking ability is low due to low capital base and premium income is low with low market penetration. The further progress of Bangladesh Insurance Industry predominantly depends on how the consumer's perception of insurance as a useful & efficient vehicle of risk transfer can be bolstered. This can be achieved through sustained efforts of the industry as well as regulators by holding public conference, introducing new products & by rationalizing the pricing mechanism.

## Business Risk Analysis

### Business Risk

PICL controls its business risks arising from different types of underwriting policies, underwriting professionals at branch level with the help of guideline of IDRA. The company has decentralized its underwriting functions and delegated powers to its zonal offices and branches for rendering prompt, efficient and effective services to the clients. Risks involved with policies are assessed by underwriting officers of the respective branch for underwriting policies up to a specific limit of sum insured, beyond which risk assessment of different policies are done by internal Risk Inspection Team. It has been found that PICL handles its business risks arising from different types of underwriting policies, underwriting professionals at branch level by providing them specific instruction and guidelines from the Head Office over the period of time. The company has decentralized its underwriting functions and delegated powers to its zonal offices and branches for rendering prompt, efficient and effective services to the clients.

It has been noted that the company always concentrate on fire insurance business in terms of gross premium. In FY 2017 gross premium received from fire business represented 45.94% of total gross premium whereas in FY 2016 it was 46.40% of total gross premium. Another significant business sector is marine insurance, which represented 32.94% of total gross premium while motor & miscellaneous insurance held only 12.36% & 8.76% of total gross premium whereas in FY 2016 it was 31.49% (marine), 12.30% (motor), and 9.81% (Misc.) of total gross premium respectively. However, it was also noted that, marine & motor insurance was the most profitable sector of the company for the last three financial years, whereas loss from fire insurance has been increasing over the years. The company should focus on generating more underwriting profit to offset the business risk to some extent.

### Internal Control Risk

Internal control risk arises from non-compliance of rules and regulation which ultimately possess negative impact on overall business performance.

PICL has a separate audit department that assist in maintaining financial discipline and management of the company. Audit committee is consisted with 3 directors. This internal audit department is responsible for examination and review of the balance sheet along with financial statement of the company submitted by its auditor. It monitors compliance issue of day to day activities. The company maintains central compliance unit with 3 members to chase the compliance issues. The main purpose is to look at the compliance issues as per the provisions of the Insurance Act, directives of the Board and Managing Director.

### Socio-political-economic Risks

Political instability is a major problem in Bangladesh. The risk arises out of changes in the country's political, social and economic environment which negatively impacts on the overall employment, savings and thus investment of the country. For the instability in politics, many disruptive situations are often created which have negative impact on every business. The people who operate various types of businesses in our country, often experience inconvenience in running their business. This crisis on political platform affects the overall employment, savings and thus investment of the country.

Insurance business is not an exception of this. Political instability and inconsistency of politics have negative impact on overall policy collection of the company and number of claim against policies. The company has cautious approach to deal with such risks.



### Interest Rate Risk

Interest risk arises out of investment decisions and acceptance of high exposures in any one type of investment instrument. Volatility of money market has also great influence over the interest rate structure of fund held by PICL. Interest Income of PICL is a significant portion of total income. This income from fixed and other deposit may fall with the reduction of interest rate of commercial bank. It has been observed in 2017 that PICL moved 32.82% of its investment in FDR to alternative investment but the interest income has fallen by 17.84% which is obviously due to fall in market interest rate. This fall in interest rate ultimately resulted a fall in the total income.

In order to ease up interest rate exposure, companies can invest into secondary market to secure its revenue and also to generate capital gains. However, this source has also its own drawback, if the overall capital market position fall, then the performance of investment fund will also decline. Thus the company should more concentrate on traditional business in order to minimize any loss/reduction of income arises from the investment already made.

### Liquidity Risk

Liquidity risk is the risk that a company may be unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process. The major liquidity risk confronting the company is the daily calls on its available cash resources in respect of claims arising from insurance contracts and maturity of investment securities. Liquidity risk also occurs more generally in relation to the ability to buy and sell investments. This is a function of size of PICL's holding relative to the availability of counter parties willing to buy or sell these holding at any given time. However the company manages its liquidity by ensuring sufficient liquidity to meet its claims and other liabilities when due under both normal & stressed conditions without incurring unacceptable losses or risking damage to the company's reputation.

However, PICL sets limit on the minimum portion of maturing funds available to meet such calls to cover claims at unexpected levels of demand. Moreover, company's FDR with bank has observed to increase in FY 2017.

### Competition in the Market

At present, there are 46 non-life insurance companies (including SBC) in Bangladesh and all of them are active in the industry and responsible of total gross premium of BDT 27,627.47 million including SBC & without SBC it was BDT 25,392.52 million (ref: Insurance year book-2016). Considering the gross premium received, PICL is representing 9.00% market share. Whereas other market giant like Green Delta Insurance Co. Ltd., Pragoti Insurance Ltd. & Reliance Insurance Ltd. hold 11.45%, 5.58% & 8.99% of market share, respectively considering SBC.

As a result, an intense competition exists between big industry players. To be competitive in the market, PICL needs to be more focused to develop new products and offer excellent clientele service. Moreover, the company also needs to expand its market otherwise the competitors may take over its business.

### Human Resource

Human resource risk arises in many forms. Not having the right person in place and with required skills needed to compete is two of those risks. Companies with an ageing workforce are even at more risk.

It is noted that, insurance industry of Bangladesh needs to transform. Lack of frequent training from developed nations' results into information gap and under development of the sector.

PICL holds 9.00% of total market share & is continuously trying to retain to hold the position. Recruitment of energetic, qualified professionals is expected to gear up the business.



**Insurance/Actuarial Risk**

The risk under an insurance contract is that an insured event may occur including the uncertainty of the amount and timing of any resulting claim. The principle risk the company faces under such contracts is that the actual claims and benefit payments exceed the premiums written or the carrying amount of insurance liabilities. This is influenced by the frequency of claim, actual benefits paid being greater than originally estimated subsequent development of long-term claims.

PICL reduces this risk with the help of underwriting team, Government Licensed surveyors who undertakes pre-insurance surveys of large and complicated risk. The company manages these risks through its underwriting strategy, adequate reinsurance arrangements & proactive claims handling. Underwriting team of the company consist of four key members, all member are well experienced and trained from both within and outside the country. Risk management ensures proper understanding of the right level of risk acceptance, risk control and risk related expenditure. PICL also takes reinsurance coverage from SBC & foreign re-insurance companies that also help the company to pay off its claims.

**Regulatory Risk**

The increasing intensity of regulatory requirements poses a significant role in the development of the industry. The new Insurance Development and Regulatory Authority Act-2010 and Insurance Act-2010 replaced the old insurance laws which are likely to bring significant changes in the regulation of the industry. For enhancing the solvency position, paid up capital for non-life and life insurance companies have been raised to BDT 400.00 million and BDT 300.00 million respectively.

As per the circular issued by IDRA, agents will be paid commission at a maximum rate of 15%. Moreover, Credit Rating practice for the insurance companies is expected to create a positive vibration in the industry as the institutional insured expect for good credit rating to safeguard their interest. All these requirements will make the market more reliable and uniform. The same will pressurize the underperforming insurance companies to retain their market share.

In accordance with the Insurance Act 2010, PICL has increased its paid up capital. Experienced board committee especially audit committee of PICL is acting in accordance with the guidelines provided in the notification dated 7<sup>th</sup> August, 2012 of BSEC and ensuring all relevant requirements for the company.



## Financial Risk Analysis

### Underwriting Process & Quality

Revenue from underwriting is the prime source of income of PICL. The company has its separated underwriting department which is responsible for evaluation of risk associated with the clients and thereby making decision whether to accept the risk or not. Underwriting performance is measured by combined ratio which is the ratio of expenses & losses to net premiums. Loss ratio of the company has observed to decrease & stood at 33% in FY 2017. Analysis revealed that, the main reason behind such decrease in loss ratio is; net claim paid out has increased by 7.28% in FY 2017 whereas 27.37% increase has noticed in net premium.

#### Selected Indicators:

(Without considering commission on reinsurance ceded)

	Year Ended Dec. 31			
	2017	2016	2015	2014
Loss ratio (%)	33	40	38	34
Expense ratio (%)	56	65	67	63
Combined ratio (%)	89	105	105	97

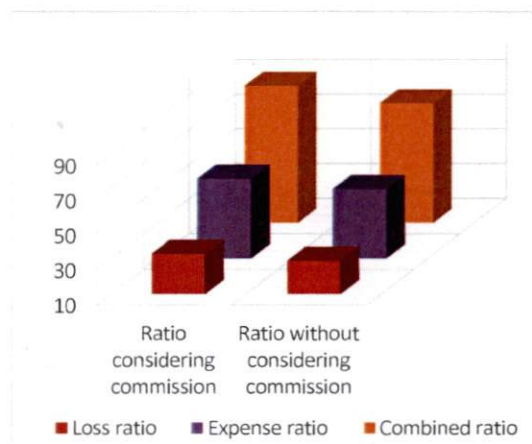
Moreover, expense ratio of the company has decreased by 9% in FY 2017 which shows the controlled management expense as well as increased net premium has impacted the expense ratio positively. Consequently, combined ratio of the company has decreased to 89% in FY 2017 compared to stable outlook of 105% in past two years. However, this ratio create positive impact on the overall underwriting performance of the company as combined ratio of less than 100% indicates an underwriting profit.

#### Selected Indicators:

(After considering commission on reinsurance ceded)

	Year Ended Dec. 31			
	2017	2016	2015	2014
Loss ratio (%)	29	32	31	28
Expense ratio (%)	50	53	55	51
Combined ratio (%)	79	85	87	79

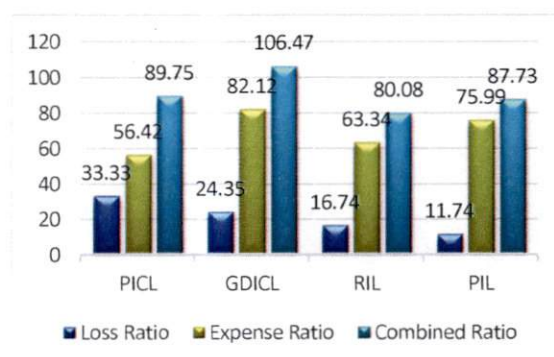
However, if we consider commission on reinsurance ceded along with net premium, scenario of underwriting performance of the company has been showing better performance in terms of loss & expense ratio. Along with this combined ratio of the company stays below 100% in all four years.



### Peer Group Analysis

Peer group analysis is a logical method to compare financial performance of a company with their competitors. AlphaRating has considered this while analyzing the underwriting performance of PICL with other private sector company. In FY 2017, it is noticed that the performance of PICL is in line with the performance of peer in term of expense & combined ratio but loss ratio seems quite high compared to other peer.

### Peer Comparison



PICL= Pioneer Insurance Company Limited

GDICL= Green Delta Insurance Company Limited

RIL= Reliance Insurance Limited

PIL= Pragati Insurance Limited



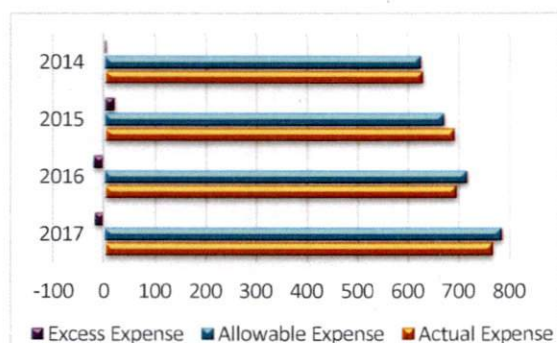
## Management Expense

As per Insurance Act 2010, non-life insurance companies are required to calculate the allowable management expenses as per the given guideline and maintain its actual management expenses within the limit. It has noticed that PICL was also able to control excess management expense in FY 2017 by keeping the actual management expense below the allowable management expense. During the year, the company has BDT 784.93 million in hand as allowable management expense but BDT 766.02 million has actually incurred as management expense which is 97.59% of allowable limit and thus BDT 18.91 million has saved which shows efficiency of the company in controlling management expense. On the contrary, Operating Expenses as a percentage of Gross Premium has increased to 1.97% in FY 2017 compared to 1.92% in FY 2016 due to mainly increase in operating expense (9.38%) at a higher rate than increase in gross premium (6.23%).

### Selected Indicators

	Year Ended Dec. 31			
BDT in millions	2017	2016	2015	2014
Actual management expense	766.02	694.75	690.60	628.64
Allowable management expense	784.93	716.83	671.02	625.29
Excess management expense	(18.91)	(22.08)	19.58	3.35
Actual mgt. exp. as % of allowable exp.	97.59	96.92	102.92	100.54
Operating Expenses as a % of Gross Premium	1.97	1.92	2.38	2.69

According to IDRA, agency commission needs to be confined to 15% of its gross premium of all classes of insurance. PICL incurred BDT 373.22 million as agency commission in FY 2017 against the gross premium of BDT 2660.36 million. So, the agency commission was 14.03% of gross premium which was within the prescribed limit set by the authority



## Claim Management

During FY 2017, the company settled claim of BDT 546.77 million. Out of 1377 initiation, 1107 claims have been settled in FY 2017. If we consider the number of claim initiation that has decreased by only 1.33% in FY 2017. On the other hand, number of claim settled by the company has increased by 2.22% and the company settled higher number of claims in FY 2017 compared to previous year. Moreover, there was no claim repudiated in FY 2017 which states company's loyalty towards their policy holder and good claim management by the company.

### Selected Indicators

	Year Ended Dec. 31			
BDT in millions	2017	2016	2015	2014
Claim Initiated (BDT in million)	843.71	1,955.91	576.28	1,048.53
Claim Settled (BDT in million)	546.77	809.26	443.13	458.23
Claim Repudiated (BDT in million)	-	-	-	5.69
Number of claim Initiated	1377	1355	1,334	1,292
Number of claim Settled	1107	1083	1,263	1,208
Number of claim Repudiated	-	-	-	10

However, it has been observed that PICL's average claim settlement period is within 25 days for last four years, which can bring positive campaign for the company.

### Average Claim Settlement Periods

In days	2017	2016	2015	2014
Motor	07	07	06	06
Marine	12	13	12	13
Fire	21	25	25	27
Miscellaneous	22	24	23	24

### Selected Indicators

	Year ended Dec. 31			
BDT in millions	2017	2016	2015	2014
Total Claims	502.69	463.89	475.90	429.35
Claims paid during the year	395.08	413.67	433.78	346.07
Claims paid as % of total claims	78.59	89.17	91.15	80.60

### Peer Comparison

Claim performance of the company in comparison with its industry peer is found up to the mark and well above than other peer companies.



### Profitability

Profitability position of the company has shown decreasing trend for last four years. PICL earns profit from different sources including interest income & underwriting profit. Underwriting profit is one of the main source of income for PICL comprising 61.25% of total income. However, total underwriting profit has increased by BDT 23.67 million in FY 2017. Though underwriting profit in terms of marine, motor & miscellaneous has been improved but high loss in fire insurance has affected the underwriting profit. It has observed that, loss in fire insurance has increased to BDT 103.49 million in FY 2017 from BDT 58.48 million in FY 2016 which is almost doubled. Apart from this, PICL was able to secure higher profit from other three insurance classes compared to previous year.

Other than underwriting, investment income is another significant source of revenue for PICL comprising 38.75% of total income in FY 2017. It has observed that investment income has increased by BDT 31.86 million in FY 2017. During the year, most of the investment income comes from profit on sales of share which increased to BDT 79.66 million from BDT 31.34 million in FY 2016 and comprise 56.76% of total interest income. Another portion of investment income for the company is interest on FDR comprising 29.46% of total interest income. Further analysis of PICL's interest income revealed that, interest on FDR & STD A/C has decreased to BDT 42.77 million in FY 2017 due to fall in interest rate which has prevailed in market throughout the years.

In FY 2017, profit after tax of the company has increased to BDT 309.62 million which has increased by 19.73% in FY 2017. On the other hand, net premium of PICL has increased to BDT 1357.75 million which has increased by 27.37% in FY 2017. The higher increase in net premium compared to increase in profit after tax has resulted to decrease in net profit by 1.46% in FY 2017.

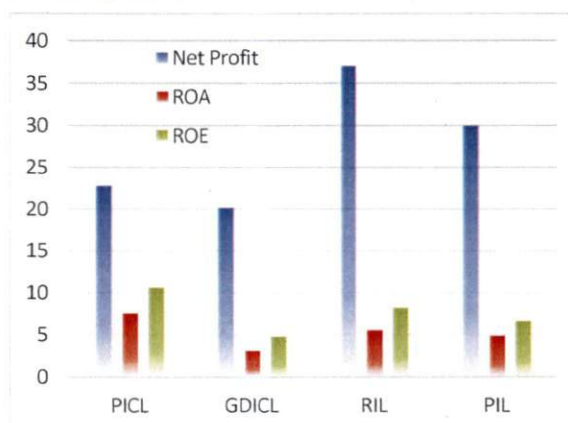
Return on assets (ROA) is an indicator of how profitable a company in relation to total assets and return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. During the year, both ROA and ROE has decreased due to higher increase in asset & equity base compare to the increase in profitability of the company. Further analysis revealed that market value of investment is securities has increased by BDT 572.57 million from FY 2016, which has not recognized though profit & loss account instead recognized only in the balance sheet against reserve for fair value of share. Inconsequence both asset & equity base has gone up without hitting the profit & loss, which resulted lower ROA & ROE in FY 2017

### Selected Indicators

	Year Ended Dec. 31			
	2017	2016	2015	2014
Net profit (%)	22.80	24.26	25.86	27.51
Return on assets (%)	7.58	8.17	9.80	12.26
Return on equity (%)	10.61	11.69	14.15	20.49

Overall profitability performance of PICL has been decreased in FY 2017. However, if the profitability of the company is compared with its peer group it has been observed that the company is lagging behind than that of peer group in terms of profitability. PICL should take more strategical steps to improve overall profitability position in future years by ensuring greater market share & quality risk management.

### Peer Comparison





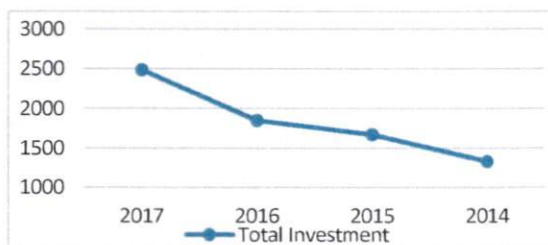
### Investment Profile

AlphaRating observed that PICL has diversified its investment in different sector including Govt. Treasury bond, investment in share & FDR etc. Most of the PICL's investments comprise of fixed deposit with different commercial banks. Level of investment of the company has been increasing over the last four financial years. As per Insurance Act 2010, the company has maintained statutory requirement of investing BDT 25.00 million in Bangladesh Govt. Treasury Bond since FY 2013. It has been noticed that FDR of the company has been increased to BDT 814.47 million from BDT 760.67 million. Along with this, STD & current account has been increased to BDT 58.24 million from 48.69 million. Investment in share is another significant area of investment for the company which is BDT 401.59 million in FY 2017 as before but market value of the investment is share has gone up by BDT 572.57 million in FY 2017 and stood at BDT 1583.71 million. Further analysis revealed that market value of most of the companies share is higher than its cost value which indicates the efficient investment portfolio management. It has been observed that the company has maintained BDT 1182.12 million as reserve for fair value of share in FY 2017.

#### Selected Indicators

	Year Ended Dec. 31			
BDT in millions	2017	2016	2015	2014
Total Investment	2481.42	1845.50	1668.94	1327.21
Investment income as % of total income	39.00	30.00	31.00	27.00
Yield on investment (%)	6.00	5.00	6.00	7.00

Investment income as a % of total income has increased to 39% in FY 2017. During the year investment income has increased by 29.37% which comprise interest on FDR, STD A/C, Treasury bond, dividend income & profit on sales of share along with 18.11% increase in total income has been observed. Further analysis reveals that, during the year Interest on FDR, STD A/C & dividend income has decreased but PICL was able to secure significant profit on sale of share in FY 2017. On the other hand, Yield on investment has increased to 6% in FY 2017 from 5% in FY 2016.



### Liquidity Analysis

Liquidity position of the company has been showing fluctuating trend over the last four years. Liquidity position refers to the company's ability to pay short term obligation as they fall due. Current ratio of the company has increased by 0.11 times and stood at 3.21 times in FY 2017. In FY 2017 PICL's current assets have increased by 20.85% due to mainly increase in sundry debtors & amount due from other persons or bodies which comprise BDT 1028.11 million out of BDT 1919.95 million of total current assets. On the other hand, current liabilities have increased by 16.63% backed by premium deposit & outstanding claims due or intimated. Current asset to net claim ratio has showing fluctuating trend since FY 2014 and during FY 2017 the ratio has been increased to 4.24 times. Scrutiny reveals that net claim has increased by 7.28% which is lower than the increase of current assets and this situation has led the current asset to net claim ratio to improve in FY 2017.

#### Selected Indicators

	Year Ended Dec. 31			
	2017	2016	2015	2014
Current ratio (times)	3.21	3.10	3.39	2.81
Current asset/net claim (times)	4.24	3.77	3.62	3.89
Current liabilities/total liabilities (%)	100.00	100.00	100.00	100.00
Cash & bank balance/total assets (%)	21.00	26.00	34.00	43.00
Operating cash flow/net claim paid out (%)	46.00	12.00	4.00	76.00
Operating Cash Flow	206.07	49.25	16.40	261.16

Current liability to total liability of the company remained at 100% as there is no non-current liability. Cash & bank balance of PICL has decreased in FY 2017 by 63.29 million from previous year whereas total assets grew by BDT 917.92 million, which led the cash & bank balance to total assets ratio to decrease in FY 2017. Operating cash flow of the company has increased drastically in FY 2017 compared to FY 2016. The main reason behind such drastic change is increased amount of premium collection and reduction in management expense, re-insurance, claims & others. Apart from this, increase in income tax provision has impacted the cash flow from operation adversely. Due to higher cash flow from operation, operating cash flow to net claim paid out has increased notably in FY 2017.





### Reinsurance Utilization

Under the discretion of Insurance Act, the retention limit of non-life insurance companies is being revised from time to time depending on the financial strength, underwriting expertise etc. In accordance with the present rule, 50% of the re-insurable general business shall be reinsured with Sadharan Bima Corporation (SBC) and the remaining 50% of such business may be reinsured either with SBC or with any other reinsurer whether in or outside Bangladesh.

As per PICL's latest treaty agreement (01<sup>st</sup> April, 2017 to 31<sup>st</sup> March, 2018), proportional treaty retention limit for the marine cargo surplus BDT 15.00 million and marine hull surplus BDT 5.00 million, engineering surplus BDT 30.00 million and under non-proportional treaty, fire gross XL treaty retention limit is BDT 7.50 million, marine cargo (risk XL Treaty 1<sup>st</sup> to 2<sup>nd</sup> layers) BDT 1.00 million, miscellaneous Accident (risk XL Treaty 1<sup>st</sup> to 5<sup>th</sup> layers) BDT 2.00 million, and motor risk & CAT (XL treaty 1<sup>st</sup> to 4<sup>th</sup> layers) BDT 1.00 million.

It has been found that PICL is in line with the existing regulation, takes 50% reinsurance coverage from Sadharan Bima Corporation (SBC) while rest is reinsured with other reinsurer whether in or outside Bangladesh. Some of overseas reinsurers are: Hannover Re. (Malaysian Branch), Korean Re., General Insurance Corporation of India (GIC), Trust Re., New India Assurance Co. Ltd., MISR, Asian Re., Oman Re., AIG Asia Pacific Insurance Pte. Ltd., Talbot Risk Services Pte. Ltd., Brit Global Specialty Singapore Pte. Ltd., Nexus Underwriting Asia Ltd., Royal and Sun Alliance Re., Arab Insurance Group, Samsung Fire & Marine Insurance Co. Ltd., India International Insurance Pte. Ltd., ICICI Lombard General Insurance Co. Ltd., Travellers 5000, Cathedral, Watkins, Beazley, Htscox, Antares, XL Catlin, QBE, CV Star etc.

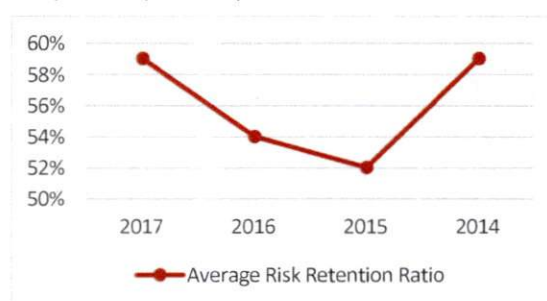
Individual class wise risk retention ratios of last 4 years are presented below:

Business Class\ Year	2017	2016	2015	2014
Fire	36%	21%	33%	20%
Marine (Hull & Cargo)	55%	54%	44%	57%
Motor	98%	91%	97%	99%
Miscellaneous	49%	51%	37%	60%
Total (Average)	59%	54%	52%	59%

During FY 2017, total sum insured was BDT 1261.39 billion whereas re-insurance coverage was BDT 159.48 billion.

Generally high retention level signifies inadequate reinsurance protection while low retention level may hamper profitability. PICL's risk retention rate remained above 50% throughout the last four year.

It has been observed that risk retention of PICL was quite high in marine, motor and miscellaneous insurance compared to risk retention of fire insurance. Moreover, Overall risk retention has increased by 5% in FY 2017 compared to previous year.



### Solvency Analysis

Solvency Margin Ratio is another important financial indicator and one of the key benchmarks for industry regulators. Solvency Margin means the amount by which the assets of the insurance company exceed its liabilities and other comparable commitments.

As per The Insurance Development & Regulatory Authority's (IDRA) regulations 2010, every non-life insurer needed to prepare statement of solvency margin but still insurance Development & Regulatory Authority's (IDRA) has not prescribed any formula or guidelines to calculate the minimum solvency margin. It is observed that solvency ratio of the company has been showing increasing trend over the last four years. By analyzing it has observed that available solvency has increased at higher percentage compared to required solvency for which solvency ratio has been showing increasing trend and stood at 7.21 times in FY 2017. The table below represents the solvency in all concerned years.

#### Selected indicators

	Year Ended Dec. 31			
BDT in millions	2017	2016	2015	2014
Available Solvency (AS)	2463.92	1804.36	1645.60	1274.38
Required Solvency (RS)	341.92	314.78	294.70	277.46
AS/RS (times)	7.21	5.73	5.58	4.59



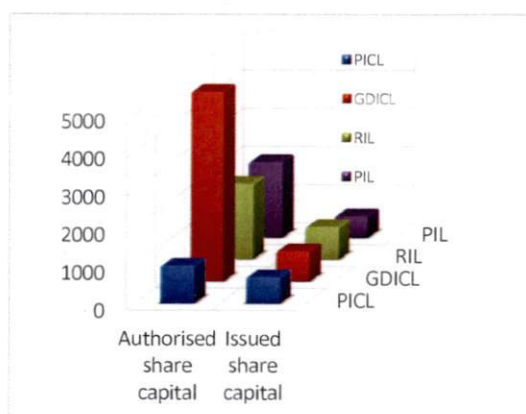
### Capital Adequacy

According to statutory capital requirement, every non-life insurance company is required to have BDT 400.00 million as paid up capital. PICL has fulfilled this requirement in 2013. Paid-up capital of the company has remained same as FY 2016 and stood at BDT 699.81 million at the end of FY 2017.

The board of PICL has last issued 10% stock dividend in FY 2015 (25% 2014, 20% 2013, 20% 2012, 30%B 2011, 25% 2010 & 25% 2009) along with 15% cash dividend in FY 2017 (15% 2016 & 15% 2015) and 1 right share for 5 share in FY 2011.

### Peer Comparison

If peer group is taken into consideration, then it has been noticed that, PICL is running in line with the competitor in terms of issued share capital.



### Peer Comparison

If peer group is taken into consideration, it has been observed that PICL is slightly behind from some of its peer companies.



### Reserve Adequacy

PICL has maintained the reserve for un-expired risk as requires; 100% of the net premium income for marine hull insurance and 40% for all other business classes. The company also maintained reserve for exceptional losses. In FY 2017 the reserve has increased to BDT 758.77 million, which has increased by 21.08% from that of previous year. However, the reserve represents 55.88% of net premium.

Reserve for exceptional losses represent 1.68 times of net claim in 2017 which was 1.70 times in 2016, suggesting the company's unexpected events absorbing capability remains quite same as previous year.



## Management & Other Qualitative Factors

### Composition of the Board

The composition of the Board complies with the requirements as per rules of IDRA & notification of BSEC. PICL's board comprises of 16 directors, 3 of whom are independent. All of them are professionally skilled and experienced in the management, law and business. Their experience, professional expertise & personal attitude enable them to execute their responsibility individually & collectively to perform efficiently & effectively. The board is chaired by Mr. Tapan Chowdhury. The company also complied with the Bangladesh Securities and Exchange Ordinance 1969's requirement of at least 1/5<sup>th</sup> of the total number of directors should be Independent Director.

### Management

The management operates within the guidelines, limits, policies as well as the budgetary control adopted by the Board. The team is headed by the Managing Director & CEO Mr. Md. Manirul Islam who is responsible for the implement of the policy and procedures adopted by the Board. The CEO implements the internal control system, follow-up the day to day affairs of the management and also confirms the safety and security of the company. Considering the outstanding leadership and lively role of Mr. Q.A.F.M. Serajul Islam for uplifting the name and fame of the company during his service as CEO, the board was pleased to appoint him as Consultant of the Company to achieve its vision and mission by their joint efforts and combined experiences. The senior management ensures the CEO about the company's improvement with the compliance of statutory and the regulatory requirements too. The CEO must represent the company's financial & business position in each Board meeting for the Director's understanding and guidance.

### Board Committees

For smooth functioning of the company, PICL formed various committees. Each committee is responsible and accountable for the effective operation of their assigned business area. The board establishes terms of reference and rules with respect to delegate authority and reporting. After fulfillment of the tenure of the committees, the members of committees will be changed within the Board Members. Every subcommittee has separate scope of work and the Board approves the terms of references. The Sub committees are independent and responsible to provide their expertise opinion to the board. The Board has the following standing committees which regularly report to the Board and submit proposals for resolutions:

- Claims Settlement Committee
- Budget Committee
- Audit Committee
- Investment Committee

### Claims Committee

Claim is the most important factor for an insurance company. Efficient & smart settlement of claim speaks about the company goodwill in the insurance market. Claim committee consists of 5 members. The committee is responsible to review, assess and recommend claims for prompt settlement, review of surveyor's report, their method of assessment, recommendations of each claims etc. Claim Committee approved claim more than BDT 5.0 Lac. During FY 2017 the committee member met 8 times.

### Budget Committee

The committee has been established to analysis yearly income, expenditure, capital budget and considered the same for approval of the board. The committee is consisted of five members. During FY 2017, 1 meeting was held to facilitate the budget.



### Investment Committee

The committee is responsible for taking all types of investment decision of the company. The committee consists of 3 members and during the FY 2017 total 3 meetings were held by the committee.

### Audit Committee

The audit committee comprises of non-executive member of the board. The committee is acting in accordance with the guidelines provided in the notification dated 7<sup>th</sup> August, 2012 of BSEC. None of the independent director is serving more than 3 (three) listed companies and tenure of the independent director complies with the policy laid down by the Bangladesh Securities and Exchange Commission. The committee member met 3 times during FY 2016.

The committee operates according to the term and condition of the Board and BSEC notification no SEC/CMRRCD/2006-158/134/Admin/44 dated 07 August, 2012 and subsequently amended notification no SEC/CMRRCD/2006-158/147/Admin/48 dated 21 July, 2013.

### Human Resource

Human capital is considered as the prime asset of the company. It is the combination of competencies, knowledge and personality attributes that can be enhanced through education, training and experience. During its epic journey of 22 years, PICL is able to place itself in current position with the help of loyal employees. The company has the privilege of having a large number of professionals and qualified employees. Currently there are 525 employees working with the company. The company arranges in house and outside training programs for its employees. Staffs receive in-house training, soon after joining the company while time to time management arranges training from Insurance Academy and Insurance Association in order to enhance skill level of its workforce.

### IT Infrastructure & Its Utilization

PICL is constantly taking initiatives to modernize its IT infrastructure. The company ensures its underwriting activity through use of internal software. However, the company has international certified trained personnel in IT sector to assure smooth operating of the company. The company also provided training to enrich the knowledge & quality of its IT department. The company has realized the necessity of ICT security policy and already developed the system. This system will bring efficiency in term of time & cost for the company. Following is the list of departments which are beneficiary of ICT security policy: Underwriting Department, Accounts, Re-insurance, Share and HR. Currently the company using Personal management Software which help the company to keep all record of the employees.

#### Future Plan:

- To keep information safe with the help of blockchain.
- Handling of an underwriting request with the help of Internet of Things (IoT) and implement new technologies to improve insurance claims analysis and fraud detection.

### Internal Control

The company has an internal control department headed by a senior deputy general manager, who worked under the supervision of chief executive officer. The In-Charge of internal audit regularly visit various branches and examines whether branch operation are being carried out as per rules & regulation of the company. Then submit the report with findings to the chief executive after inspection of each branch. BC & MIS department also examines all insurance documents. On examination of reports submitted by Internal Audit, BC & MIS department management takes proper initiative to solve those issues.



**Corporate Governance**

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. Corporate governance facilitates the rules regulation to work in the best interest of stakeholders. PICL believes in a culture where Board of directors & the management are dedicated toward effective corporate governance. It has been the company's endeavor to excel through better governance. PICL believes in two basic principles of corporate governance i.e.: transparency and disclosure. The company also complies with the all other conditions imposed by BSEC's Notification on Corporate Governance. During FY 2017 the company achieved the certificate of good corporate governance from "M A B S & J Partners Chartered Accountants".

**Corporate Social Responsibility**

Corporate social responsibility is a corporation's initiative to assess & take responsibility for the company's effects on environmental & social wellbeing. PICL endeavors to play its role as a good corporate citizen by supporting worthy causes which aim to improve the lives of the people. PICL has participated in different welfare & mass awareness events. The company is very keen to safeguard the interest of the employees & made their insurance for accident & group hospitalization policy.

**End of the Report**



## Company Information:

### Board of Director & CEO

Name	Position
Tapan Chowdhury	Chairman
M Anis Ud Dowla	Director
A.K.M. Rahmatullah, MP	Director
Syed Nasim Manzur	Director
Alamgir Shamsul Alamin	Director
Shusmita Anis	Director
Syed Abdus Sobhan	Director
M.A. Majed	Director
Fahama Khan	Director
Sanchia Chowdhury	Director
Parveen Akhter	Director
Rozina Afroze	Director
A Matin Chowdhury	Independent Director
Captain A B Tajul Islam (Retd.), MP	Independent Director
M. Mokammel Haque	Independent Director
Md. Manirul Islam	Managing Director & C.E.O

### Major Shareholders

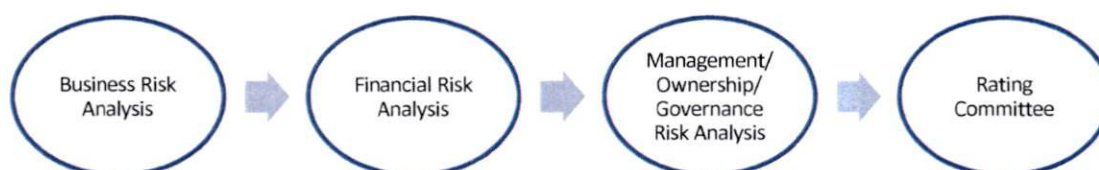
Name of Shareholder	Number of share	% of Shareholding
Sponsor/ Director	31,669,260	45.25
Individual	31,313,303	44.75
Institutional	6,998,062	10.00
<b>Total</b>	<b>69,980,625</b>	<b>100%</b>

### Auditor

Shafiq Basak & Co.  
Chartered Accountants  
3/1 & 3/2, Biloy Nagar, Motijheel, Dhaka-1000.



## AlphaRating's Research Methodology for Determining Insurance Rating



Analysis is segmented into two or three sub sectors:

- ▶ Industry Outlook
- ▶ Competitive Position
- ▶ Operational Analysis

Analysis is segmented into four sub sectors:

- ▶ Earnings
- ▶ Cash Flow Generating Ability & Debt Servicing Capacity
- ▶ Capital Adequacy
- ▶ Financial Flexibility

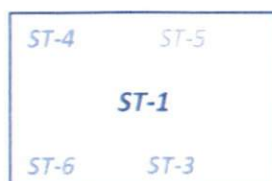
It is one of the key elements of the rating methodology since management decides what businesses to be in, what strategies should be pursued and how these activities should be financed.

Senior personnel review each company to determine the appropriate final credit rating.

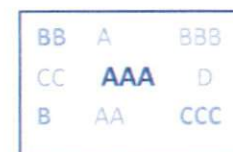
- ▶ Review Modeling Assumption
- ▶ Approve Company-Specific Adjustments

## Rating Outlook

POSITIVE	Rating may be raised
NEGATIVE	Rating may be lowered
STABLE	Rating is likely to remain unchanged
DEVELOPING	Rating may be raised, lowered or remain unchanged.



ST-1	Strong Capacity
ST-2	Good Capacity
ST-3	Adequate Capacity
ST-4	Weak Capacity
ST-5	Very Weak Capacity
ST-6	High Risk of Default



AAA	Exceptionally Strong Capacity
AA	Very Strong Capacity
A	Strong Capacity
BBB	Low Expectation of Ceased or Interrupted Payments
BB	Elevated Vulnerability to Ceased or Interrupted Payments & Key Financial Indicators
B	Significant Risk of Ceased or Interrupted Payments Could Occur in the Future.
CCC	Real Possibility That Ceased or Interrupted Payments Could Occur in the Future.
CC	Probable that Ceased or Interrupted Payments Could Occur in the Future.
C	Ceased or interrupted payments are imminent

Note: "+" or "-" may be appended to a rating to indicate the relative position of a credit within the rating category. Such suffixes are not added to ratings in the 'AAA' category or to ratings below the 'B' category.



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