

## Rating Report (Surveillance) Meghna Insurance Company Limited

**Ratings**

Long Term : **B<sub>2</sub>**  
 Short Term : **ST-5**  
 Date of Ratings : **13 May 2010**  
 Valid till : **30 June 2011**

**Previous Ratings**

Date of Ratings	Long Term	Short Term
15 Dec 2009	B <sub>2</sub>	ST-5
05 Feb 2009	B <sub>3</sub>	ST-5
03 Mar 2008	B <sub>3</sub>	ST-5

**Analysts**

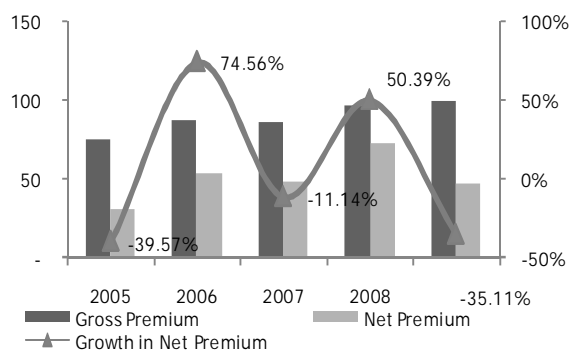
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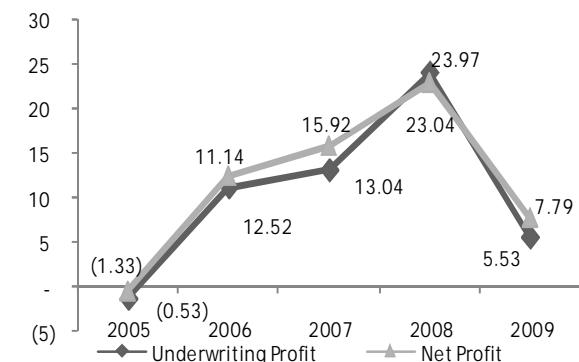
**1.0 RATIONALE**
**Financial Highlights**

Particulars	BDT in million	
	2009	2008
Gross Premium	100.38	96.95
Net Premium	47.20	72.74
Underwriting Profit	5.53	23.97
Pretax Profit	7.79	23.04
Paid up Capital	60.00	60.00
Shareholder's Equity	69.17	64.76
Loss Ratio	20.32%	4.29%
Management Expense Ratio	121.60%	68.56%
Combined Ratio	141.92%	72.85%
Return on Average Assets	5.84%	17.53%
Risk Retention Ratio	47.02%	75.03%
Current Ratio	4.24	3.02

Credit Rating Agency of Bangladesh Limited (hereinafter called as CRAB) has retained the long term rating of Meghna Insurance Company Limited (hereinafter called as 'MIC' or 'the Company') at **B<sub>2</sub> (Single B two)** and short term rating at **ST-5**. CRAB performed the rating surveillance based on audited financial statements of 31 December 2009 and other relevant information.



Insurance Companies rated '**B<sub>2</sub>**' have weak financial security characteristics and adverse business conditions are likely to impair their ability to meet financial commitments. Insurance Companies rated '**ST-5**' are regarded as currently vulnerable to non-payment and are dependent upon favorable business, financial, and economic conditions for them to meet their financial commitments on short-term policy obligations.



The rating takes into account both quantitative and qualitative indicators which include market share, growth potential, corporate governance, underwriting quality, claim paying ability, profitability, capital adequacy, investment performance and liquidity. The solvency status, re-insurance practice and reserve base of the Company are also key drivers of rating analysis.

MIC's major underwriting business covers fire, marine, motor and miscellaneous insurance business. In 2009 the gross premium of MIC



increased by 3.54% to BDT 100.38 million. However, in 2009 MIC's net premium earnings decreased by 35.11% to BDT 47.20 million from BDT 72.74 million in 2008 due to increase in reinsurance with Sadharan Bima Corporation (SBC).

On the other hand, the net claim has increased by 207.38% to BDT 9.59 million in 2009 from BDT 3.12 million in 2008. In 2009 due to high growth in net claim than that of net premium the underwriting profit of MIC has decreased by 76.94% to BDT 5.53 million from BDT 23.97 million in 2008. However the investment & other income have increased by 26% and the net profit (before tax) has decreased by 66.17% in 2009. Usually lower net premium reduced the Company's own risk retention which ultimately hampered the profitability of the Company. The Company could not manage the risk return trade off efficiently. Over the last five years the Company reported inconsistent retention ratio and in 2009 it was 47.02% which was 75.03% in 2008.

In 2009 the total management expenses of the Company was BDT 57.40 million which has increased by 15.10% in 2009. The total management expense was 47.38% higher than the allowable management expenses. However, net premium to management expense was 82.23% in 2009. On the other hand, the underwriting profit in 2009 was BDT 5.53 million. However, the management expense charged in profit & loss account was BDT 6.62 million.

In 2009 the claim settlement ratio of the Company was 97.19% which was 82.06% in 2008 and MIC was able to minimize its average claim settlement period in all class of business except motor.

The paid up capital of MIC was BDT 60 million, so it did not fulfill the provision of BDT 150 million paid up capital by issuing shares to the public for BDT 90 million. However, in 2009 the shareholder's equity has increased by 6.80% to BDT 69.17 million from BDT 64.76 million in 2008.

In 2009, MIC's current assets to current liabilities increased to 4.24 times from 3.02 times in 2008. On the other hand, MIC's net claim payable ability decreased to 12.11 times from 37.37 times in 2008. On the other hand, in 2009 the available solvency was 4.89 times of required solvency which was only 1.34 times in 2008.

In 2009 the Board structure of the Company has changed a lot and each of the Directors has sufficient exposure to diversify industrial sectors. But the Company is yet to include any independent director in accordance with the notification of the Securities and Exchange Commission. The rating also takes into account MIC's effort to restructure the overall management structure of the Company though the Company is constrained with the lack of an efficient and competent mid management. In 2009 MIC has developed separate HR and internal control & compliance department. To modernize its management information system in 2009 it had developed its own server and networking system to all its work stations.