

Rating Report

Pioneer Insurance Company Ltd.

Rating Outstanding (February 05, 2009)

Long Term : **AA₃**
 Short Term : **ST-1**
 Validity : May 29, 2009

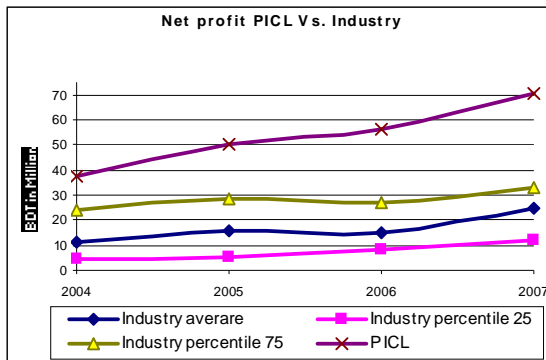
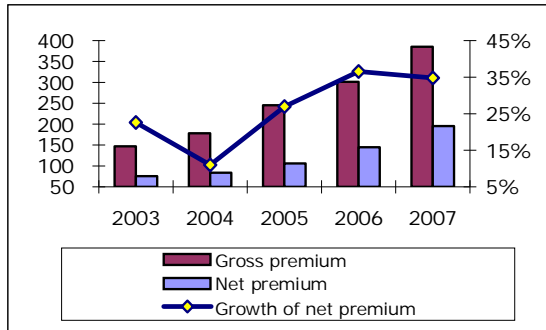
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Financial Highlights

	BDT in Million	
	2007	2006
Gross Premium	385.20	301.16
Net Premium	195.37	144.95
Underwriting Profit	24.66	17.44
Net Profit	70.50	56.40
Shareholder's Equity	262.93	243.43
Investment	407.28	368.27
Investment Yield	14.39%	12.79%
Combined Ratio	104.81%	109.33%
Return on Average Assets	11.25%	10.43%
Current Ratio (times)	1.50	1.52
Risk Retention Ratio	50.72%	48.13%
Proprietary Ratio	38.84%	42.28%



1.0 RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned 'AA₃' (Pronounced double A three) rating in the Long Term and 'ST-1' rating in the Short Term to Pioneer Insurance Company Limited (hereafter called PICL)

Insurance Companies rated 'AA₃' have 'very strong' financial security characteristics. In this grade, an entity is adjudged to have very good financials, claim paying ability and first rate operating environment. The level, growth and quality of earnings over the medium term are of very high grade and changes in business/economic circumstances, as may be envisaged, may very slightly impair the underlying fundamentals. General insurance companies rated in Short Term "ST-1" category, are considered to have the highest capacity for timely repayment of obligations. Companies rated in this category are characterized with excellent position in terms of liquidity, internal fund generation, and access to alternative sources of funds.

CRAB has performed the present rating assignment based on audited financial statements of 31 December 2007 and other relevant information. The rating also takes into account business profile, the past record and trend of operating performance and balance sheet strength of the Company.

Pioneer Insurance Company Ltd (PICL) has been operating successfully and has become one of the renowned private sector general insurance companies in Bangladesh in only 10 years. The gross premium of PICL stood at BDT 385.20 million in 2007 which was BDT 301.16 million in 2006 registering a growth rate of 27.91% reporting the 5th position among the insurance companies operating in the private sector. The claim ratio of the



Company reported increasing trend during the period under analysis; 33.55% in 2007 and 27.81% in 2006, which mainly incurred from Fire insurance business. The deteriorated claim ratio reduced benefit from the declining trend of expense ratio over the year from 2005. The management expense of PICL stood at BDT 139.23 million in 2007 which was BDT 118.17 million in 2006 registering a growth rate of 17.82%. Nonetheless, excess expense as percent of allowable expense has been declining over the year and stood at 8.91% in 2007.

PICL maintained sustained overall business growth in terms of both underwriting profit and net profit. The underwriting profit of the Company stood at BDT 24.66 million in 2007 which was BDT 17.44 million in 2006 registering a growth rate of 41.39%. The net profit stood at BDT 70.50 million in 2007 (growth rate 25%), which was significantly higher than that of industry 75 percentile. The high investment income growth serves to dampen the stress on underwriting streams and to report 6th position in terms of net profit although the position was 11th in terms of underwriting profit. The ROAA and ROAE increased at a consistent manner over the year and stood at 11.25% and 27.84% respectively in 2007, which was significantly higher than those of industry average.

Claim settlement process analysis involves assessment of PICL's willingness and ability to fulfill its contractual obligation to the insured in time. Although the claim settlement ratio of the Company had been improving over the year, it was still not at satisfactory level. The new claims as percent of total claims declined to 61.14% in 2007 from 72.74% in 2006 revealing improved underwriting quality. The improvement of settlement speed is positively considered in the process of rating. The average settlement period considering intimation date substantially improved in 2007. The management has decided to conduct co-insurance agreement with the companies having good financial strength to speed up the claim settlement. Management's willingness to settle the claims expeditiously can improve the claims settlement record as well as the confidence of the insured.

The rating takes into account the large volume investment (BDT 407.28 million) in the form of National Investment Bond (2.21%), Fixed Deposit with banks (63.71%) and investment in share (34.08%), which enabled the Company to increase the profitability and develop sound financial position, so be able to withstand any downturn easier. The capital market investment portfolio of the Company concentrated in banks (99%) and insurance companies (1%), where 94% of the total investment was in the shares of Mutual Trust Bank Ltd. PICL has a plan to increase capital market operation in the upcoming year which will help the Company to improve its position in the industry. Total investment of PICL increased at an average rate of 8.82% over the five-year period ended 2007 while the income from investment increased at an average rate of 13.51% during the same period.

The current assets of PICL stood at BDT 501.88 million in 2007 which was BDT 417.44 million in 2006 registering a growth rate of 20.23%. The liquidity position of the company stood at 1.50 times in 2007 from 2.10 times in 2003. Although the current assets to net claims declined over the years, still it was adequate to meet the claims. The Company had substantial solvency strength during the period under analysis. The retention rate has been improving over the years and reached at 50.72% in 2007. In addition to the technical reserve as per regulatory requirement, the Company maintained two reserve accounts amounting to BDT 77.95 million at the end of 2007 which cumulated over the years to meet any exceptional losses. However



the reserve for exceptional loss to net claim declined to 1.12 times in 2007 from 1.42 times in the previous year due to high growth in the incurred net claim in the last two years, especially in fire business.

The rating also takes into account the profile of the Board members, Board's effectiveness and the sponsor support from a group of prominent businessmen and a number of affluent companies and business houses. Total shareholders equity of the Company as on 31 December 2007 stood at BDT 262.93 million including paid up capital of BDT 150.00 million. The shares of the Company were enlisted in both the exchanges. PICL has experienced and expert professionals with functional organizational structure, documented service rule and practice of regular training of the officers to enhance their quality to keep in track with the market competition as well as operational and technological development of the Company. The rating also considered the vision and objectives of the Company, the management's strategies, operational efficiencies and risk tolerance, which are expected to be reflected in the development of PICL's future financial performance.

PICL uses "Tally" software for general accounts and in-house developed software used for different business operation of the Company. Company has plan of installing intranet to enrich the extent of networking between branches, which may enable ready and immediate access to branch data, and the level of data backup and security are also taken into consideration. The Company is moving toward decentralized branch network over the last couple of years and has planned to expand the branch network in different strategically important area in Bangladesh from 23 branches in 2008 to 36 by the end of 2011. Therefore the impact of sponsors support and management expertise along with the developing IT infrastructure, branch network and investment volume will facilitate to continue the success trend of Pioneer Insurance Company in next balance sheet year and onwards.