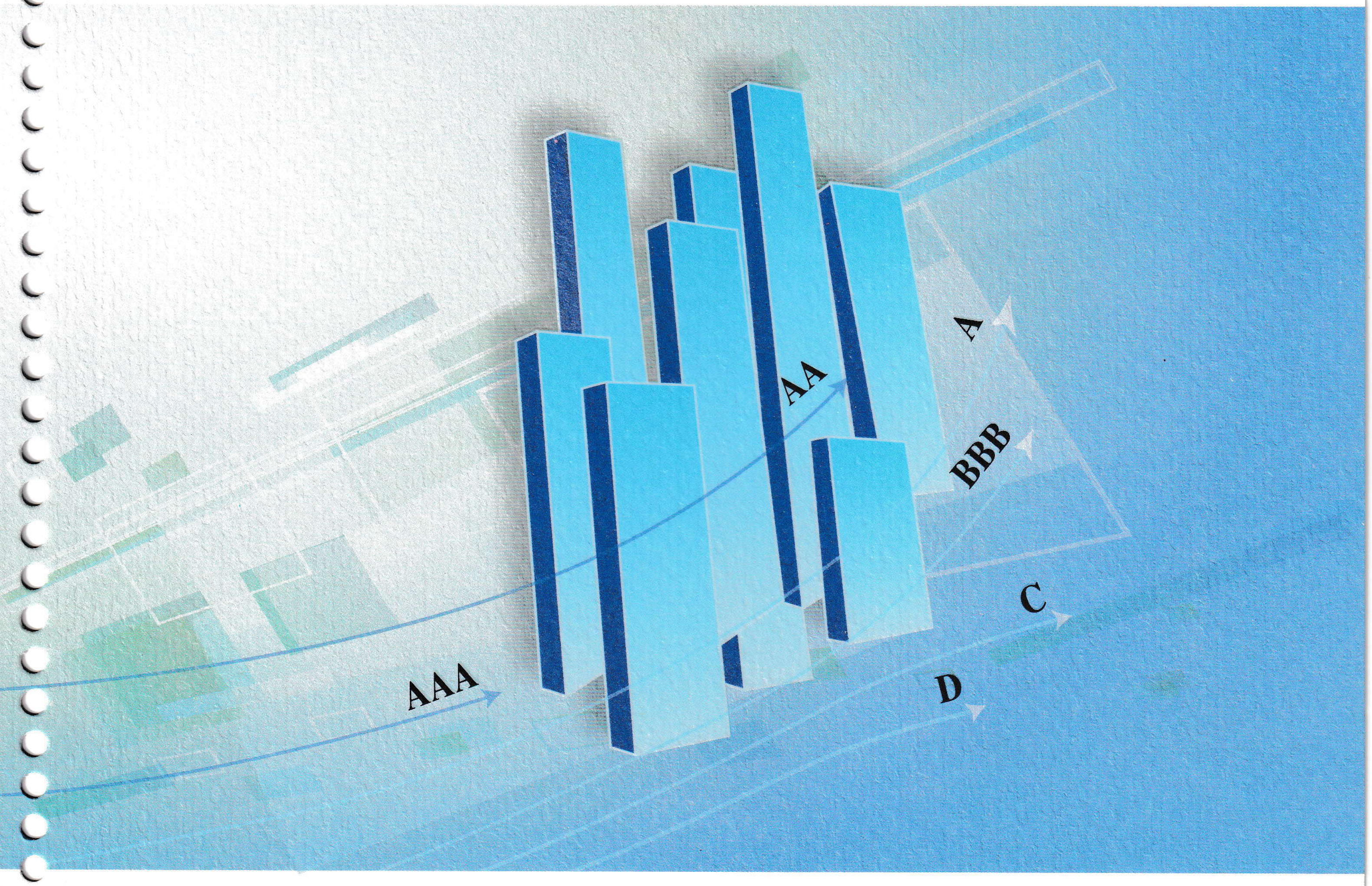
AlphaRating

Credit Rating Report



Alpha Credit Rating Limited

AlphaRating

Purabi General Insurance Company Limited

34, Banglamotor (2nd Floor) Dhaka- 1000

(Non-Life Insurance)

RATING REPORT

11 October, 2022

Chief Executive Officer
Purabi General Insurance Company Limited
34, Banglamotor (2nd Floor) Dhaka- 1000

Subject: Credit Rating of Purabi General Insurance Company Limited

Dear Sir,

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

Date of Declaration	Valid From	Valid Till	Rating Action	Long Term Rating	Short Term Rating	Outlook
11 October, 2022	05 October, 2022	04 October, 2023	Surveillance	A+	ST-2	Stable

The long-term and short-term rating is valid up to the earlier of 04 October, 2023. 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 **Purabi General 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.

AlphaRating

Purabi General Insurance Company Limited | ***A+*** *Long Term Rating* | ***ST-2*** *Short Term Rating* | ***Stable*** *Outlook*

Rating Action ***Surveillance*** *Date of Declaration* ***11 October, 2022*** *Valid From:* ***05 October, 2022*** *Valid Till* ***04 October, 2023***

Business Risk	Liquidity	Profitability	Solvency Score	Capital Adequacy	Sector
High	Good	Good	Good	Adequate	Non-life

Purabi General Insurance Company Limited is a leading non-life insurer of the country, trying to build genial & realistic relationship with clients

Previous Rating

Long Term Rating: ***A+***
Short Term Rating: ***ST-3***
Outlook: ***Stable***
Date of Declaration: 05, October, 2021
Valid Till: 04 October, 2022

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Contents

Date of Incorporation: *29 June, 1988*

DSE Listing: *04 August, 1995*

Board Chairman: *Mr. Mojibul Islam*

Chief Executive Officer:
Mr. Sukumar Chandra Roy

Total Asset: *BDT 1,248.86 million (As on 31/12/2021)*

Authorized Capital:
BDT 1000.00 million (As on 31/12/2021)

Paid up Capital: *BDT 580.70 million (As on 31/12/2021)*

Bank: *Union Bank Limited*

Investment Limit: *BDT 90.45 million*

Investment Outstanding: *BDT 85.15 million (As on 27/09/2022)*

Rationale

AlphaRating affirms long term rating **"A+"** (Pronounced as "**Single A plus**") and upgrades short term rating to **"ST-2"** from **"ST-3"** on claim paying ability (CPA) of **Purabi General** Insurance Company Limited (Hereinafter referred to as 'PGICL' or 'the company'). The rating is based on the audited financial statement from FY 2019-2021, for the year end of 31 December and other qualitative information. While assigning the rating AlphaRating has considered both favorable and unfavorable movement in overall performance of the company.

The assigned rating is also supported by increased total assets, increased gross & net premium, good liquidity, combined ratio within 100% threshold, spare management expense, claim settlement period within 90 days, increased underwriting profit, increased total investment, good solvency position, fulfillment of paid up capital requirement, increasing ROE & ROA, positive CFO, adequate reserve for un-expired risk etc. The rating also draws comfort from long track record of the company, experienced management team etc.

However, the strength of the rating is partly offset by overall socio economic condition of Bangladesh along with volatility of the share market, decline in investment income along with yield on investment, underwriting loss in marine hull revenue account, non-compliance of investment requirement in government Treasury bond etc.

PGICL is required to comply with the investment guideline issued by IDRA Dated 14 November 2019. As per management information, PGICL is trying to rearrange their investment as per the guideline.

FYE 31 December	2021	2020	2019
Combine ratio (%)	44.32	83.19	120.76
ROA (%)	9.23	9.17	7.93
ROE (%)	10.27	8.84	7.25
Net profit (BDT in million)	79.72	63.97	55.66
Current Ratio(x)	2.74	2.95	3.33
Solvency ratio(x)	10.25	28.48	26.52
Gross premium (BDT in million)	184.42	82.74	91.34
Net premium (BDT in million)	81.85	24.02	20.98
Net Claim (BDT in million)	0.90	0.59	0.85
Investment (BDT in million)	758.56	712.47	657.77
Yield on Investment (%)	10.72	12.53	12.22
Underwriting Profit (BDT in million)	39.31	15.83	7.59
Excess of Mgt. Exp. (BDT in million)	(20.61)	(6.71)	(7.54)
Operating Cash Flow (BDT in million)	63.61	85.06	23.61
Fixed Deposit (BDT in million)	700.00	659.53	624.40

The rating also considers inherent business risks, unhealthy competition between the competitors and level of sophistication 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

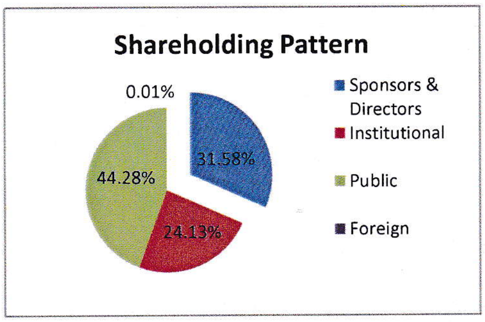
Company Profile

Purabi General Insurance Company Limited is a 1st generation private Non-life insurer in Bangladesh. PGICL was incorporated in 29 June, 1988 under company act 1913 with the object of carrying in and outside Bangladesh all kind of non-life insurance. PGICL started with a paid-up capital of BDT 30.00 million. In FY 2016 considering bonus issue cumulative paid-up capital increased to BDT 553.05 million.

Shares of the company are traded in Dhaka Stock Exchange and trades as "A" category. The registered office of the company is 34, Banglamotor (2nd Floor) Dhaka- 1000. The company has 14 branches.

Ownership Pattern

The shareholding pattern of the company on 31 August, 2022 is presented below:



Principal Product

In FY 2021, 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 6 districts with 14 branches.

1. Fire Insurance:

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

2. Marine Insurance:

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

3. Motor Insurance:

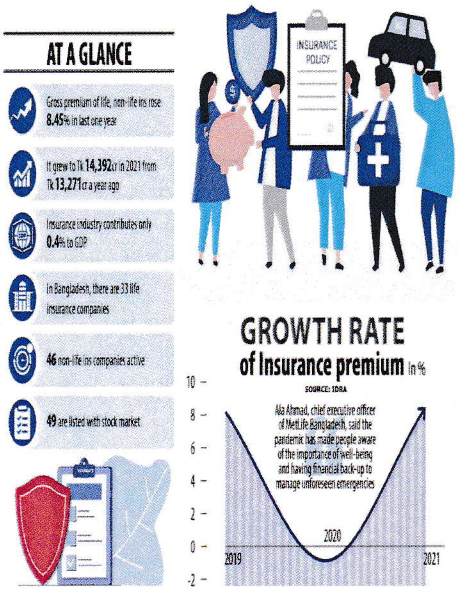
1. Comprehensive
2. Act Only Liability
3. Increased Liability

Industry Overview

The role of insurance in managing risks in an economy cannot be overstated. At a micro level, insurance safeguards households and companies from a myriad of risks. From a macro perspective, it reduces the financial burden on a government and creates a stable environment in which businesses can thrive and succeed. While Bangladesh has taken gigantic strides on the path to economic prosperity, its insurance sector is a vital area that requires considerable attention and can benefit significantly from regulatory reforms.

Snapshot of Bangladesh's insurance industry

Currently, Bangladesh's insurance sector comprises 46 non-life insurance companies and 33 life insurance companies. In addition, there are two state-owned insurance corporations-one in the non-life segment and the other in the life segment.



As per the provisions enunciated in the Motor Vehicles Ordinance, 1983 (hereinafter referred to as the MVO, 1983) taking a motor vehicle insurance was mandatory for the owners of motor vehicles except for the ones owned by the government. The newly enacted Road Transport Act, 2018 has made Act Liability Insurance (Third Party Motor Insurance) optional to the owners to take such insurance and instructed Police authority to curb practice for verifying obligatory insurance certificate and as such no penal action.

Insurance Development and Regulatory Authority (IDRA) has also cancelled the product "Third Party Motor Insurance". Now the owners of motor vehicles are to take only "Comprehensive Motor Insurance Policy" for compensation of loss or damages of vehicle as well as passengers. Now Police Authority is not checking motor insurance certificate and the owners of vehicle are reluctant to take comprehensive motor insurance policy. This situation has badly affected the motor insurance premium income.

Benchmarking Bangladesh's insurance industry

Although Bangladesh's insurance sector has witnessed some growth, in comparison with other emerging nations, there is a lot of room for improvement. According to the Seventh Five Year Plan (2016–2020) of the Government of Bangladesh (GoB), a majority of the population across product segments (life and non-life) remains untapped by the insurance market.

Life insurance penetration (insurance premiums as a share of GDP) in Bangladesh was 0.30% in 2020, while the average for emerging countries was 2.30% as per Swiss Re, a leading global re-insurer. In case of non-life insurance, it was 0.10% in Bangladesh, whereas 1.70% for emerging nations. In the year, overall insurance penetration was 0.40%, which was 0.50% in 2019 and 0.57% the year before. Bangladesh's insurance penetration mostly been on a downward trend as well as falls behind that of several other developing countries. Bangladesh's insurance sector is currently unable to keep pace with emerging markets around the globe. To bring this to perspective, total inflation adjusted premium growth was -9.10% in Bangladesh in 2020. However, this was 3.30% in emerging countries.

Need for key insurance products in Bangladesh

Agricultural sector

The sector accounts for more than a third of all employment in Bangladesh and is an integral part of the country's economy. Bangladesh suffers from agricultural production 'shocks' every five years, leading to a drop of up to 50% in crop income for rural households. This is one of the leading causes of poverty among many small- and medium-scale farmers. Moreover, there are very few providers of agricultural insurance products. Dedicated efforts to increase the penetration of different insurance products by private and state-owned companies, facilitated by conducive regulations, can help farmers transfer some of these risks and reduce their extreme income volatility.

Health sector

Health insurance is another crucial area that needs development. Health insurance is virtually non-existent in Bangladesh's public and private sectors. Bangladesh's expenditure on health is only 2.48% of its GDP (as per The World Bank)—the lowest in South Asia. People in rural areas are especially vulnerable to falling into the poverty trap. Pension schemes are mostly seen in the Government sector and most of the elderly population relies on family support for sustenance. As Bangladesh develops and life expectancy rises, its elderly population will increase proportionately. The insurance sector can play a vital role in reducing the burden on the overall spending on healthcare and contribute positively towards increasing the livelihood of the general public of the nation.

Challenges and Opportunities

Key challenges

Various challenges underlie the limited growth of Bangladesh's insurance sector. For one, the relationship between customers and insurance companies is marked by lack of trust. According to a study by PwC, a majority of Bangladeshi people do not trust insurance agents, and there is limited awareness regarding life insurance products. Claim settlement-related problems also undermine the customer-insurer relationship, and the process of settling claims can be arduous and long. Secondly, Bangladesh lacks potential employees with adequate skills and knowledge to provide insurance services of the highest standard. In particular, employees holding advanced degrees in relevant fields are needed. From a macroeconomic perspective, Bangladesh suffers due to uneven income distribution where a majority of the people are poor and do not have the disposable income to afford insurance. This hinders the growth of the country's overall insurance penetration rate.

Moreover, the country's technological capacities need major advancement. Globally, the insurance sector has been undergoing digitization and platforms are being created to optimize customer service and streamline processes. In contrast, in Bangladesh, there is limited utilization of modern technology and processes. Insurance companies do not have access to accurate and up-to-date demographic statistics for actuarial computations. Lastly, the regulatory environment in Bangladesh leaves much to be desired.

Figure 1: Insurance Industry Trend of Bangladesh

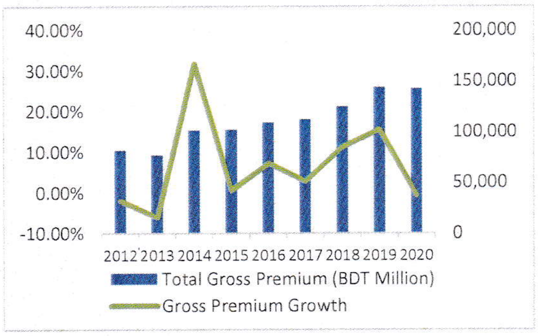
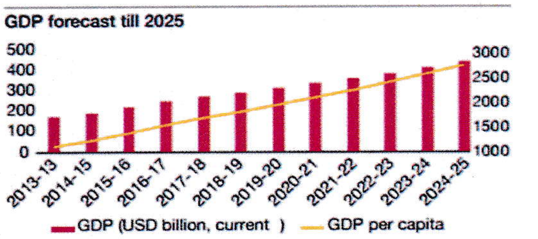
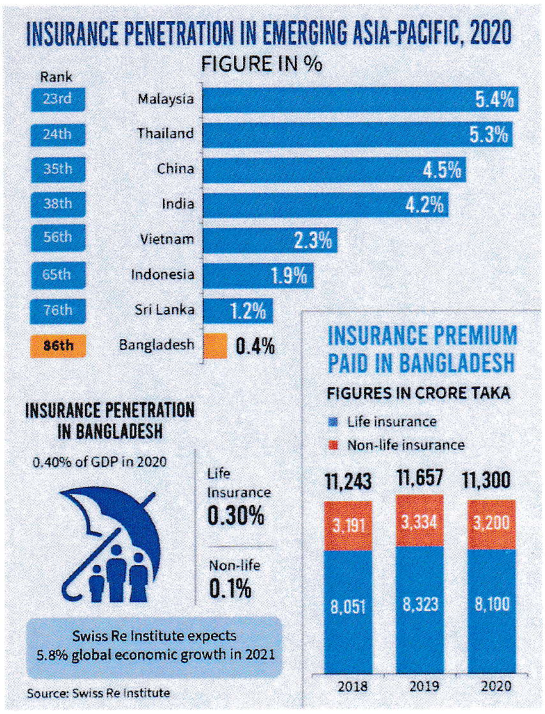


Figure 2: Bangladesh's economy has seen steady growth



Source: PwC analysis



Favorable indicators for insurance sector development

Bangladesh sustained an annual GDP growth rate of 3.51% in 2020. Strong consumption and public investment, recovery of readymade garments (RMG) exports and high remittance growth were the main propellers of economic growth, bolstering the rise in income per capita and growth of the middle-class population.

Macroeconomic trends indicate potential growth in the country's insurance sector, especially given Asia's unprecedented growth. The region is set to represent a large share of overall life insurance premiums between 2016 and 2025, rising from 11.6% to 21.7% (see Figure 2).

Bangladesh is poised to capture some of this growth. The country's economic growth has been on an upward trend, which bodes well for the insurance sector (see Figure 3).

In the next decade, Bangladesh will continue to witness the rise of the middle and wealthy class in major cities. This could easily translate into a higher demand for insurance products as individuals and companies become increasingly risk aware.

As the country becomes increasingly industrialized, the demand for non-life insurance, such as fire, accident and property as well as workers' compensation insurance, is likely to experience substantial growth in demand.

Bancassurance opportunity

Bancassurance (a partnership between an insurance company and a bank where the bank sells insurance products) presents specific growth opportunities in Bangladesh's insurance sector and can result in mutual benefits for banks, insurers, customers and regulators. Banks usually have the preexisting technological and human resources to provide the best customer services.

Thus, it is likely to be more convenient for customers to, for instance, pay premiums and repay cash loans backed by life insurance policies from their banks' ATMs. Customers could also benefit from more customized product suites, including overdraft insurance, depositors' insurance and loan-bundled insurance. Further, decreased costs of insurance for insurers are likely to lower premium rates, making insurance more accessible to customers. Insurers may develop new financial products in collaboration with their bank partners. In Bangladesh, it has been found that customers tend to trust banks more than they trust insurance agents.

On the regulatory side, financial institutions that diversify their product range may reduce systematic risk. In addition, insurers can access the various distribution channels of banks and widen their market reach without having to create a network of agents from scratch. Partnerships with banks could also boost insurers' solvency levels. Selling a range of financial services to customers can be in the best interests of banks since diversification into insurance products would give them a stable source of income. Banks can also reduce their risk-based capital needs for the same level of revenue. Another added benefit is that bundled insurance can help minimize the impact of non-performing assets (NPAs). As such, bancassurance can prove to be one of the fastest ways to raise Bangladesh's insurance penetration rate.

COVID-19 Impact on Insurance Sector

Insurance which plays a vital role in managing risks both in micro and macro level has seen lowest penetrations in Bangladesh compared to its regional peers. Surprisingly, Insurance penetration has been declining for the past several years even though the country's Per-capita GDP has been showing a stable growth over a decade now. Insurance penetration in Bangladesh stood at 0.40% in 2020, down from 1.13% in 2010. COVID-19 has impacted the insurance industry in multiple ways—from employee and business continuity issues to client service considerations and outlook.

Due to COVID-19, fire and marine insurance are expected to take the biggest hit. These two components consist of around 75% of non-life insurance companies total premium income (see Figure 3).

Fire Insurance

The biggest source of premium for non-life insurance company is fire insurance, which accounts for 45% of total premium income for non-life insurance companies.
Factories for the RMG sector are the major driver of fire insurance premium. A total of 419 readymade garment (RMG) factories 348 registered with BGMEA and 71 with BKMEA did not reopen since April 26, 2020 even after a month-long closure in line with public holidays. According to Bangladesh Garment Manufacturers and Exporters Association (BGMEA), some 268 factories out of 348 were closed temporarily and the rest 80 permanently.

A recent study by Human Rights Watch shows that when orders were cancelled, 72.1% of buyers refused to pay for raw materials already purchased by the supplier, and 91.3% of buyers refused to pay for the "cut-make-trim" cost - or production cost - of the supplier. As a result, 58% of factories surveyed reported having to shut down most or all their operations. This shut down of factories may strangle the fire premium growth rate.

Marine Insurance

Marine insurance that depends on import cargo accounts for 30% of the non-life insurance's total premium a year. Insurance companies' premium income from marine insurance is expected to go down to a new low if this global pandemic countries and world trade continues to slow down.

Bangladesh import plummeted to deepen economic crisis amid COVID-19 pandemics. Businesses did not open LCs for products, including raw materials of Bangladesh's largest exporting sector readymade garments, capital machinery, and intermediate goods. Plummeting import means lower marine insurance premium for non-life insurance companies.

*Figure 3: Premium Income Segment (FY 2020)

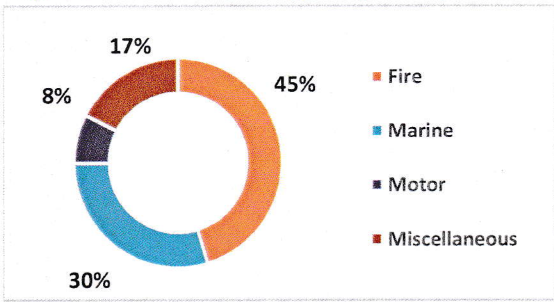
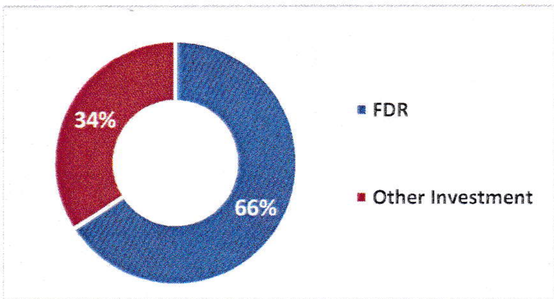


*Figure 4: Investment Portfolio Mix (FY 2020)



Year book 2020's data is used here because of the non-availability of latest year book

Motor and Miscellaneous

Most of the motor vehicles are covered under third party insurance coverage. Since premium charged under third party insurance coverage is insignificant and has a higher rate of renewal, premium from this category will have a less impact. But it is projected that, new motor sales to decline and first party insurance premium to decline too.

Aviation insurance is major contributor of miscellaneous segment. In this COVID-19 situation, the aviation sector may take a few years to turn around. As a result, it can be assumed that the insurance sector will face indirect losses.

Life Insurance Premium

The COVID-19 has hampered the county's economic activity at an unprecedented scale, raising the specter of job losses and salary cuts. The outbreak of the deadly disease could have a widespread impact on the job market of Bangladesh. Most of the organizations would go for cost cutting and remuneration on aggregate to fall. This may include reduced health insurance benefit for employees. This could have negative impact for life insurance companies.

Investment Income

Most of the time insurance company's premium income is eaten away by claim and management expenses. History shows most of the insurance companies have a combined ratio (Direct Management expenses + Claims and Commission to net premium) above 80%. As a result, they rely on investment income for other expenses like provision, tax and indirect management expenses.

FDR consist 34% of total investment and other investment consist 66% of total investment (see Figure 4). Govt. has intended to keep lending interest rate as maximum as 9% therefore FDR interest rate will also decline which will ultimately reduce total investment income in the insurance sector.

Impact on Cost Centers

In 2019, non-life insurers in Bangladesh agreed not to give more than 15% commission to agents. Since these field agents are poorly paid, they now have less motivation to go out in the field and bring new business amid COVID-19 outbreak. So it's expected that agent commission expenses may go down. Some insurance companies may go for salary cut during this COVID-19 pandemic which could result in lower indirect management expenses. Overall, it is expected that benefits of cost savings will be counterbalanced to some extent by higher level of revenue de-growth.

Conclusion

Despite various challenges, Bangladesh's insurance sector has tremendous potential for growth, especially given the country's favorable macroeconomic picture. Regulatory reforms and the introduction of bancassurance, health, expatriate, agriculture, education, coastal, and public pension insurance products along with deep distribution channels can catalyze growth in the insurance sector.

Regulations that focus on reducing the risk of insolvency can help build trust in the market at a global level, which in turn will increase the flow of funds into the economy. With adequate capital requirements in place, insurance companies will serve as a safeguard for investments in infrastructure bonds, thereby boosting infrastructure development.

Strong regulations can also help strengthen the reinsurance market, which will ease the financial burden on the government arising from catastrophic events, thus directly contributing towards development opportunities for the country. Further, well-defined regulations can drive competition, enabling companies to provide the best solutions and offer more options to customers. Regulatory frameworks, ideally framed with reference to international standards and principles, will go a long way towards creating a resilient insurance sector.

A resilient insurance sector can, in turn, have far-reaching economic, commercial and social benefits for Bangladesh. Thriving against odds, it could also, in the long run, encourage entrepreneurship and innovation while facilitating risk transfer.

Source-[COVID-19 Impact on Bangladesh Economy by Lankabangla asset management, Potential for growth: Transforming Bangladesh's insurance sector by PWC, Chapter four-Bima published by ministry of finance, insurance year book-2020 The daily Star- Mar 4, 2022]

Alpha Credit Rating Limited Dhaka

Business Risk Analysis

Insurance/Actuarial Risk

The risk under an insurance contract is that an insured event will 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 claims, actual benefits paid being greater than originally estimated subsequent development of long-term claims.

PGICL reduces this risk with the help of underwriting team who undertakes pre-insurance surveys of large and complicated risk. Underwriting team of the company consist four members, all member are well experience and trained. Risk management ensures proper understanding of the right level of risk acceptance, risk control and risk related expenditure. PGICL also takes reinsurance coverage from SBC which helps the company to pay off its claims.

Regulatory Risk

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. In order to make overall claim settlement procedure smooth and timely, insurance companies are required to set up a special fund policyholders Protection Fund. For further 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, mandatory Credit Rating for the insurance companies is expected to create a positive vibration in the industry as the institutional insured expects for good credit rating to safeguard their interest. The same will pressurize the underperforming insurance companies to retain their market share. All these requirements will make the market more reliable and uniform.

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

Business Risk

PGICL handles its business risks with the help of its underwriting professionals by maintaining the guideline of IDRA. The company has centralized its underwriting functions and ensures effective services to the clients.

It was found that the company mainly concentrated on miscellaneous, marine & fire insurance business in FY 2021 and gross premium received from marine business represented 38.32% of total gross premium. Another significant business sector is miscellaneous insurance business which represented 29.06% of total gross premium while fire & motor insurance held only 22.95% & 9.68% of total gross premium, respectively. However, it was also noted that, motor insurance was the most profitable business sector of the company during FY 2021, where marine hull business has the lowest underwriting profit.

Internal Control Risk

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

PGICL has a separate audit department which is responsible for examination and review of the financial statement of the company submitted by its auditor. It monitors compliance issue of day to day activities. The main purpose internal control system is to look at the compliance issues as per the provisions of the Insurance Act, directives of the Board and Chief Executive Officer.

Interest Rate Risk

Investment 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 hold by PGICL. Interest Income of PGICL is a significant portion of total income (84.94%). This income from fixed and other deposit may fall with the reduction of interest rate of commercial bank.

In order to ease up interest rate exposure, companies can invest into mutual funds 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 mutual fund will also decline.

Thus the company should more concentrate on traditional business in order to minimize any loss/reduction of income arising from the investment already made.

Liquidity Risk

Liquidity is the risk that arises when a firm though solvent, either does not have sufficient financial resources available to meet its obligations as they fall due, or can secure them only at excessive cost. 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 PGICL's holding relative to the availability of counter parties willing to buy or sell these holding at any given time.

However, PGICL 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 2021.

Competition in the Market

Insurance sector in Bangladesh has immense potential. The sector is likely to flourish as the country is heading towards middle income country. Govt. is planning to bring more people under insurance facility. For all these reasons, the industry is very lucrative. Number of insurance company is increasing day by day. Competition amongst the insurance companies is increasing day by day which may badly affect the profitability of the company.

Despite increased competition, PGICL could maintain positive revenue growth. Also, high entry and exit barriers in the industry also provide comfort to the existing companies in the market against threat of new entrants.

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. Like most of the private sector non-life insurance company, PGICL holds a very insignificant portion of total market & is continuously striving to hold the position. Recruitment of energetic, qualified professionals is expected to gear up the business.

Financial Risk Analysis

Underwriting Process & Quality

Revenue from underwriting is a core source of income of PGICL. The company has its dedicated underwriting department which is responsible for securing a safe and profitable distribution of risks & also responsible for classifying clients into appropriate risk classes.

During FY 2021, gross premium of PGICL has increased to BDT 184.42 million and net premium has increased to BDT 81.85 million whereas in FY 2020 gross premium was BDT 82.74 million and net premium was BDT 24.02 million. This shows that the company has higher premium collection than previous year. Along with increase in both gross and net premium, total underwriting profit has also increased to BDT 39.31 million in FY 2021 from BDT 15.83 million in FY 2020.

According to management report of quarter ended June, 2022 the gross premium of PGICL stood at BDT 97.95 million and net premium stood at BDT 35.85 million.

Selected Indicators
(Without considering commission on reinsurance ceded)

	Year Ended Dec. 31		
	2021	2020	2019
Loss ratio (%)	1.10	2.47	4.06
Expense ratio (%)	43.22	80.73	116.70
Combined ratio (%)	44.32	83.19	120.76

Underwriting performance is measured by combined ratio which consists of loss & expense ratio. In FY 2021, both loss & expense ratio of the company have improved to 1.10% & 43.22% of FY 2021 from 2.47% & 80.73% of FY 2020 respectively. Though net claim & actual management expense of the company has increased in FY 2021 but Increase of net premium as a higher rate acted as the main driver for improvement of these ratio.

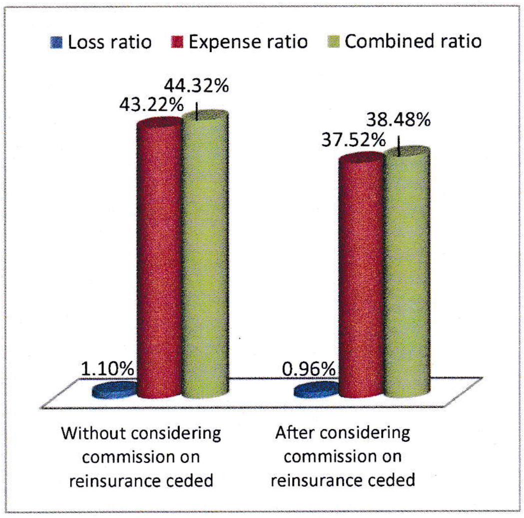
In addition to having improved loss ratio & expense ratio, PGICL'S combined ratio stood well below than 100%, which indicates good underwriting performance of the company. The company should focus on enhancing its net premium & controlling its management expense in future years to further improve its underwriting performance.

However, if we consider commission on reinsurance ceded along with net premium, scenario of underwriting performance of the company would be as following:

Selected Indicators
(After considering commission on reinsurance ceded)

	Year Ended Dec. 31		
	2021	2020	2019
Loss ratio (%)	0.96	1.81	2.70
Expense ratio (%)	37.52	59.24	77.55
Combined ratio (%)	38.48	61.05	80.25

If we consider loss & expense ratio including reinsurance ceded, overall performance of the company shows much better performance and combined ratio stood well below 100%.



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.

Selected Indicators

	Year Ended Dec. 31		
BDT in millions	**2021**	**2020**	**2019**
Actual management expense	35.37	19.39	24.48
Allowable management expense	55.98	26.10	32.02
Excess management expense	(20.61)	(6.71)	(7.54)
Actual management Expense as % of Allowable Expense	63.18	74.29	76.45

It has been noticed that, PGICL was able to keep the actual management expense within the allowable limit. As per given guideline PGICL's allowable management expense was BDT 55.98 million whereas total actual management expense was BDT 35.37 million in FY 2021, which has resulted in spare allowable management expense of BDT 20.61 million. PGICL has incurred almost 63.18% of its allowable management expense in FY 2021, which was 74.29% in FY 2020.

According to IDRA, agency commission must be within 15% of its gross premium of all classes of insurance. PGICL incurred BDT 5.64 million as agency commission in FY 2021 against the gross premium of BDT 184.42 million. So, the agency commission was 3.06% of gross premium which was within the prescribed limit set by the authority.

Claim Management

PGICL appoints government licensed surveyor in order to conduct the claim settlement procedure, whenever a claim is being placed. Based on the delegated power, claims are being approved by the authority and are being processed forward. Performance of the company on the basis of claim settlement is presented below:

Selected Indicators

	Year Ended Dec. 31		
BDT in millions	2021	2020	2019
Claim Initiated (BDT in million)	5.13	0.69	0.49
Claim Settled (BDT in million)	2.94	0.60	0.11
Claim Repudiated (BDT in million)	-	-	-
Number of Claim Initiated	27	4	2
Number of Claims Settled	23	3	1
Number of Claims Repudiated	-	-	-

During FY 2021, the company settled 23 claim worth of BDT 2.94 million against 27 initiated claims worth of 5.13 million. Both number of initiated and settled claims has increased during the year. In term of percentage, the company has settled 57.31% of total initiation in FY 2021. PGICL has no repudiated claim in FY 2021.

As per the rules, the claim must be approved or settled on its claim merit within 90 days of claim registered or last submitting of the required documents. The lower the time taken by the company to settle the claim, the better it is for the company's reputation, which can bring positive campaign for the company. It has observed that, average claim settlement period for fire, motor, marine & miscellaneous insurance was 45 days and marine cargo insurance was 60 days in FY 2021.

According to management report of quarter ended June, 2022 number of initiated claims was 22 worth of BDT 4.05 million, settled claims worth of BDT 2.79 million. PGICL has no repudiated claim during quarter ended June, 2022.

Profitability

Profitability position of the company has been improved in FY 2021 from that of earlier years. PGICL earns profit from different sources including investment income & underwriting profit. Investment income is one of the main sources of earnings of PGICL, representing 67.42% of total income in FY 2021. The investment income consists of interest income, dividend income & gain from sale of shares of listed companies. However, investment income has decreased to BDT 81.35 million in FY 2021 from BDT 89.28 million in FY 2020 due to mainly decreased of interest income.

Other than investment income, underwriting profit comprises 32.58% of total income of in FY 2021 which was 15.06% in FY 2020. Total underwriting profit has increased to BDT 39.31 million in FY 2021 from BDT 15.83 million in FY 2020. In FY 2021, PGICL was able to secure higher underwriting profit from fire, marine cargo & motor revenue account, whereas a fall of underwriting profit in miscellaneous revenue account and loss in marine hull revenue account has been observed.

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 increased due to mainly increase in profitability position of the company.

Selected indicators

	Year Ended Dec. 31		
	2021	2020	2019
Net profit (BDT in million)	79.72	63.97	55.66
Return on assets (%)	9.23	9.17	7.93
Return on equity (%)	10.27	8.84	7.25

According to management report of quarter ended June, 2022 PGICL reported BDT 35.56 million as net profit after tax.

Investment Profile

Level of investment of the company has showing increasing trend over years under consideration. Though the company had maintained a conservative investment portfolio but most of PGICL's investments comprise of fixed deposits with different banks. It has been noticed that, investment in FDR has been increased in FY 2021 & stood at BDT 700.00 million, which represent 6.14% increase compared to previous year. According to the Insurance Act 2010, the company has to maintain statutory requirement of investing BDT 25.00 million in Bangladesh Govt. Treasury Bond. It has observed that, PGICL has invested BDT 4.50 million in Bangladesh Govt. Treasury Bond. Investment in stock market is another significant area of investment for the company and stood at BDT 36.61 million at market value. Along with this the total asset base of the company contains cash & bank balances, sundry debtors, fixed assets etc. As a result, total asset base of the company has been increased to BDT 1,248.86 million in FY 2021 from that of previous year.

Selected Indicators

	Year Ended Dec. 31		
BDT in millions	2021	2020	2019
Total Investment	758.56	712.47	657.77
Investment income as % of total income	67.42	84.94	91.37
Yield on investment (%)	10.72	12.53	12.22

Investment income as % of total income has decreased to 67.42% in FY 2021, which was 84.94% in FY 2020. The reason behind this fall is, investment income has decreased by 9.90% whereas total income has increased by 14.79%. On the other hand, yield on investment has decreased to 10.72% in FY 2021 from 12.53% in FY 2020 due to the effect of decreased investment income as well as increased total investment.

PGICL is required to comply with the investment guideline issued by IDRA Dated 14 November 2019. As per management information, PGICL is trying to rearrange their investment as per the guideline.

According to management report of quarter ended June, 2022 the company has BDT 4.50 million of Investment in Bangladesh Govt. Treasury Bond, BDT 42.10 million in shares, BDT 740.00 million in FDR and BDT 9.71 million in short term deposits.

Liquidity Analysis

Liquidity position refers to the company's ability to pay short term obligation as they fall due. While analyzing the liquidity position of the company, it is observed that current ratio of the company has slightly declined and stood at 2.74 times in FY 2021 as PGICL's current assets have increased by 15.41%, whereas current liabilities have increased at a higher rate by 24.10%.

Low net claim resulted into high current asset to net claim ratio. As the company does not have any non-current liability, current liability to total liability of the company remained same over the last three years. Cash and cash equivalents of PGICL has increased over the years & during FY 2021 cash and cash equivalents has increased by 7.00% due to mainly increase in fixed deposit receipts (FDR) & short term deposits, whereas total assets grew by 14.80%, which led the cash & bank equivalents to total assets ratio to decrease in FY 2021.

However, operating cash flow position of the company has decreased by BDT 21.45 million in 2021. Operating cash flow has mainly decreased due to increase in management expense, commission, re-insurance & claims.

Selected indicators

	Year Ended Dec. 31		
	2021	2020	2019
Current ratio (times)	2.74	2.95	3.33
Current asset/net claim (times)	1334.41	1762.01	1146.51
Current liabilities/total liabilities (%)	100.00	100.00	100.00
Cash & bank balance/total assets (%)	57.57	61.77	58.85
Operating cash flow/net claim paid out (%)	7045.74	14358.46	2770.68
Operating Cash Flow (CFO) (BDT in million)	63.61	85.06	23.61

According to management report of quarter ended June, 2022 current ratio of PGICL stood at 2.56 times and CFO stood at BDT 56.64 million.

Reinsurance Utilization

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 the corporation or with any other insurer whether in or outside Bangladesh. PGICL also maintains reinsurance arrangement with SBC. Reinsurance protections availed from SBC is presented below:

Selected Indicators

	Fire	Marine Cargo	Misc.	Motor
Treaty Limit	90.00	15.00	10.00	1.00
Retention	3.00	0.50	0.50	0.50

It has been observed that, PGICL has surplus treaty for fire, marine cargo and miscellaneous insurance, whereas motor insurance has excess of loss treaty.

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. Generally high retention level signals inadequate reinsurance protection while low retention level may hamper profitability. It has been observed that, the company has high retention level in marine cargo & motor insurance and lower retention in fire, marine hull and miscellaneous insurance.

Individual class wise risk retention ratios of last 03 years are presented below:

Business Class\ Year	2021	2020	2019
Fire (%)	19.62	18.04	28.59
Marine (Cargo) (%)	75.43	40.54	30.54
Marine (Hull) (%)	2.67	2.02	13.30
Motor (%)	72.08	89.61	94.95
Misc. (%)	2.35	4.34	3.00
Total (Average) (%)	44.38	29.03	22.97

Alpha Credit Rating Limited Dhaka

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. The table below represents the solvency in all concerned years.

Selected indicators

	Year Ended Dec. 31		
BDT in millions	2021	2020	2019
Available Solvency (AS)	460.25	442.24	446.35
Required Solvency (RS)	44.91	15.53	16.83
AS/RS (times)	10.25	28.48	26.52

As per The Insurance Development & Regulatory Authority's (IDRA) regulations 2010, every non-life insurer needed to prepare statement of solvency margin. Solvency margin for non-life insurance company have been prepared by IDRA but not yet been approved by the Finance Ministry thereby not yet promulgated through official gazette. It is observed that solvency ratio of the company has decreased to 10.25 times in FY 2021 from 28.48 times in FY 2020. The reason behind this fall in solvency ratio is, available solvency has increased by only 4.07% compared to 189.18% increase of required solvency in FY 2021.

Reserve Adequacy

PGICL has maintained the reserve for un-expired risk as per Insurance Act, 2010; 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 2021 the reserve for exceptional losses has increased to BDT 30.65 million, which has increased by 36.40% from that of previous year. However, the reserve represents 37.45% of net premium in FY 2021 which has decreased from previous year.

Reserve for exceptional losses represent 33.95 times of net claim in FY 2021 which was 37.92 times in FY 2020, suggesting the company's unexpected events absorbing ability has decreased in FY 2021.

Capital Adequacy

According to statutory capital requirement, every non-life insurance company is required to maintain BDT 400 million as paid up capital, of which at least 60% shall be subscribed by the sponsors and the remaining 40% shall remain open for public subscription. PGICL has fulfilled this requirement over the years. Paid-up capital of the company has increased & stood at BDT 580.70 million at the end of FY 2021, which was BDT 553.05 million at the end of FY 2020. As a result, capital maintenance ratio has also increased to 1.45 times in FY 2021 from 1.38 times in FY 2020.

The board of PGICL has last issued 5% bonus share (stock dividend) in FY 2020 (12% 2017, 10% 2016, 12% 2015, 15% 2014, 15% 2013, 10% 2012, 10% 2011, 15% 2010, 10%B 2009 & 10% 2008) along with 10% cash dividend in FY 2021 (5% 2020, 10% 2019 & 12% 2018) and 2R:1 right issue in FY 2013.

Bank Facilities & Credit History

Exhibit: Bank Investment: (As on 27/09/2022)

Bank	Mode of Facility	Investment Limit (BDT in millions)	Investment Outstanding (BDT in millions)
Union Bank Limited	Mudaraba Investment for other Non-Inst.	90.45	85.15
Total		**90.45**	**85.15**

PGICL has availing banking facility from Union Bank Limited, Panthapath Branch, Dhaka. The purpose of the investment facility is to purchase & sell the Shariah shares of different company in the mode of Mudaraba. AlphRating consider above mentioned banks facility only.

Security/Mortgage offered:

- MDDS with Union Bank Limited (Panthapath Branch) of BDT 72.00 million principal value.
- FDR with Modhumoti Bank Limited (Bangla Motor Branch) of BDT 25.00 million principal value.
- FDR with Modhumoti Bank Limited (Gulshan Branch) of BDT 3.50 million principal value.

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. The Board comprises of 11 directors, including 5 sponsor director, 01 nominee director, 3 Independent director and a chairman and vice chairman. All of them are professionally skilled and experience in the management, law and business. The board is chaired by Mr. Mojibul Islam. The company also complied with the Bangladesh Securities and Exchange Ordinance 1969's requirement of at least 1/5th of the total number of directors should be Independent Director.

Board Committees

For smooth functioning of the company, PGICL formed various committees are comprised of Senior Executives. Each committee is responsible and accountable for the effective operation of their assigned business area.

- Nomination & Remuneration Committee (NRC)
- Audit Committee

Nomination & Remuneration Committee (NRC)

Nomination & Remuneration Committee (NRC) is consists of 03 members of the board of Directors. Independent Director, Col. Wais Huda (Retd.) is the chairman of NRC. The responsibility of NRC is to oversee the criteria for determining qualifications, positive attributes and independence of a director and recommend a policy to the board relating to remuneration of the directors, top level executives etc. The committee devising a policy on board's diversity taking into consideration age, gender, experience, ethnicity, educational background and nationality. Besides, the committee formulates the criteria for evaluation of performance, identify the company's needs for employees at different levels and determine their selection, transfer and promotion etc. During FY 2021, total 01 meetings were held by the NRC Committee.

Audit Committee

The audit committee comprises of 3 members headed by the Independent Director, A.F.M Rezaul Hasan is the chairman of AC. In FY 2021 04 meetings were held by the committee. The primary role of the committee is to oversee the financial reporting process and disclosure of financial information, monitor internal control risk management process, oversee hiring and performance of external auditors, review the adequacy of internal audit function, monitor choice of accounting policies and principles, review management letter, review statement of significant related party transactions, review along with the management the quarterly, half yearly and annual financial statements before submission to the board for approval.

Management

The management team analyses and identifies the business' goals and objectives and implements and enforce the strategies the employees need to achieve success. The legal structure of the business is formed by the management team. Introduce each member of the company's board of directors. Each of the company's departments and include the management position that is responsible for the departments. Further the management team is also responsible for all other managerial roles such as hiring employees, meeting their needs etc.

Human Resource

The company believes that quality of human resources is the key to a productive and performance oriented work culture. PGICL strive to ensure employee satisfaction by creating a performance based and transparent work environment. During the last three years staff turnover pictured of the company has presented below:

Year	Turnover Ratio (recruited/left)
2017	7%
2018	-
2019	20%
2020	7.04%
2021	22.73%

IT Infrastructure & Its Utilization

PGICL is setting up its motto to provide a better customer service, create a client friendly environment and build up a trust worthy relationship with all stakeholders and taking priority based initiative to digitalize all its functional activities as earliest as possible in respect to align with government's digitalization plan. The company uses Tally ERP 9 integrated Business management software for accounts. PGICL also has CDBL Connectivity using underground optical fiber. PGICL using online based oracle software from confidence software limited. It can provide any information in a fingertip from MIS Module. The company has a plan to introduce two different online portal name agent & client portal. From where client can easily enter by using their ID & password from their desk to check their business transaction with PGICL.

Internal Control

The company has an internal control department headed by a senior manager, who worked under the supervision of chief executive officer. The In-Charged 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. BCD & MIS department also examines all insurance documents. On examination of reports submitted by Internal Audit, BCD & MIS department management takes proper initiative to solve those issues.

Corporate Governance

Good corporate governance a transparent, efficient and effective system of decision making. It has been the company's endeavor to excel through better governance. PGICL believes in two basic principles of corporate governance i.e.: transparency and disclosure. Audit committee of the company consist of non-executive director & $1/5^{th}$ of the board consist of independent director in compliance with the guide line of BSEC's notification. The company also complies with the all other conditions imposed by BSEC's Notification on Corporate Governance.

End of the Report

Company Information:

Board of Director (As on 03/10/2022)

S.L	Name	Designation
01	Mr. Mojibul Islam	Chairman
02	Mrs. Golam Fatema Tahera Khanam, (Representative of Sandhani Life Insurance Com. Ltd.)	Vice-Chairman
03	Mr. Faisal Kabir Chowdhury	Sponsor Director
04	Mr. Khalid Hossain	Sponsor Director
05	Mrs. Naziba Begum	Sponsor Director
06	Mr. Mohammad Iqbal	Sponsor Director
07	Mr.Nazrul Islam Chowdhury	Sponsor Director
08	Col. Saleh Ahmed (Retd.) (Representative of Mona F.C.S Ltd.)	Director
09	Mr. Mir Akhter Hossain	Independent Director
10	Mr. Shaheduzzaman Choudhury, FCA	Independent Director
11	Mr. Amzad Hussain,CIP	Independent Director

Major Shareholders as on 31 August, 2022

Sponsors' & Directors	31.58%
Institutional	24.13%
Public	44.28%
Foreign	0.01%

Auditor

Shafiq Basak & Co.
Chartered Accountants
Shatabdi Centre (6th Floor) 292, Inner, Toyenbee Circular Road, Dhaka
Mobile: +8801711025146
Email: shafiq_basak@yahoo.com

AlphaRating's Research Methodology for Determining Insurance Rating

Business Risk Analysis → Financial Risk Analysis → Management/ Ownership/ Governance Risk Analysis → Rating Committee

Business Risk Analysis

Analysis is segmented into two or three sub sectors:

- Industry Outlook
- Competitive Position
- Operational Analysis

Financial Risk Analysis

Analysis is segmented into four sub sectors:

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

Management/ Ownership/ Governance Risk Analysis

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.

Rating Committee

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-4 ST-5 ST-1 ST-6 ST-3

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

BB A BBB CC AAA D B AA CCC

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.