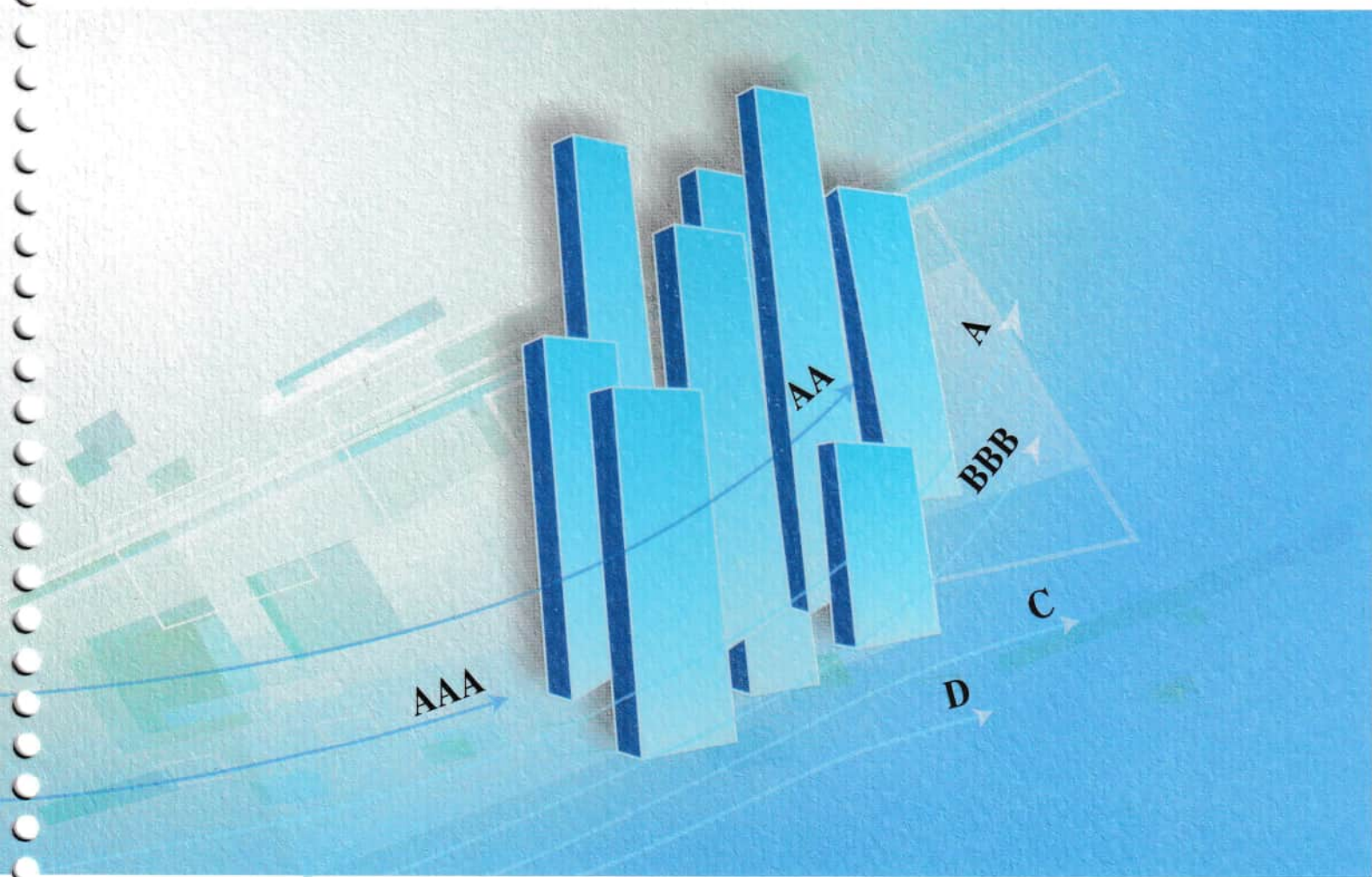


Credit Rating Report



Alpha Credit Rating Limited

AlphaRating

Purabi General Insurance Company Limited

Sandhani Life Tower (2nd Floor), 34 Banglamotor Dhaka- 1000

(Non-Life Insurance)

Disclaimer: Information used herein was obtained from sources believed to be accurate and reliable. However, Alpha Credit Rating Limited does not guarantee the accuracy, adequacy or completeness of any information and is not responsible from any errors or omissions or for the results obtained from the use of such information. The rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities or to finance in a project. All rights of this report are observed by Alpha Credit Rating Limited. The contents may be used by the news media and researchers with due acknowledgement. Under no circumstances Alpha Credit Rating Limited will or its affiliates will be liable for any special, indirect, incidental or consequential damages of any kind, including, but not limited to, compensation, reimbursement or damages on account of the loss of present or prospective profits, expenditures, loans or commitments, whether made in the establishment, development or maintenance of Company reputation or goodwill, cost of substitute materials, products, services or information, cost of capital, and the claims of any third party, or for any other reason whatsoever.

14 August, 2023

Chief Executive Officer

Purabi General Insurance Company Limited

Sandhani Life Tower (2nd Floor), 34 Banglamotor 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), vide credit rating Agreement No. 3064 has assigned the following rating to **Purabi General Insurance Company Limited**

Date of Declaration	Valid Till	Rating Action	Long Term Rating	Short Term Rating	Outlook
14 August, 2023	13 August, 2024	4 th Surveillance	AA-	ST-2	Stable

The long term and short-term rating is valid up to the earlier of 13 August, 2024 or the limit expiry date of respective credit facility. 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 analyst 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,



Tanzina Khaled

Chief Rating Officer

This letter is integral part of the credit rating report

Business Risk High	Liquidity Good	Profitability Good	Solvency Score Good	Capital Adequacy Adequate	Sector Non-life
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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-2

Outlook: Stable

Date of Declaration: 05, October, 2022

Valid Till: 04 October, 2023

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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 1,396.02 million
(As on 31.12.2022)

Authorized Capital:

BDT 1000.00 million (As on 31.12.2022)

Paid up Capital: BDT 580.70 million
(As on 31.12.2022)

Rationale

AlphaRating vide credit rating Agreement No. 3064, upgrades long term rating to "AA-" (Pronounced as "Double A Minus") from "A+" (Pronounced as "Single A Plus") and affirms short term rating "ST-2" 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 for the year end of 31 December, from 2020 to 2022 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 supported by increased total assets, good liquidity, spare management expense, increased net profit, claim settlement period within 90 days, increased total investment, good solvency position, fulfillment of paid up capital requirement, increasing ROE, positive CFO etc. The rating also draws comfort from long track record of the 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, decreased gross & net premium, decline in investment income along with yield on investment, decreased underwriting profit, combined ratio above 100% threshold, underwriting loss in marine hull revenue account, decreased ROA etc. As per management information, PGICL is trying to rearrange their investment as per the guideline.

FYE 31 December	2022	2021	2020
Combine ratio (%)	109.30	44.32	83.19
ROA (%)	8.96	9.23	9.17
ROE (%)	10.53	10.27	8.84
Net profit (BDT in million)	83.71	79.72	63.97
Current Ratio(x)	2.30	2.74	2.95
Solvency ratio(x)	13.59	10.25	28.48
Gross premium (BDT in million)	183.46	184.42	82.74
Net premium (BDT in million)	57.90	81.85	24.02
Net Claim (BDT in million)	5.21	0.90	0.59
Investment (BDT in million)	936.28	730.77	691.42
Yield on Investment (%)	11.08	11.13	12.91
Underwriting Profit (BDT in million)	30.64	39.31	15.83
Excess of Mgt. Exp. (BDT in million)	(14.51)	(20.61)	(6.71)
Operating Cash Flow (BDT in million)	213.12	63.61	85.06
Fixed Deposit (BDT in million)	880.00	700.00	659.53

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.


Tanzina Khaled
Chief Rating Officer
Alpha Credit Rating Limited

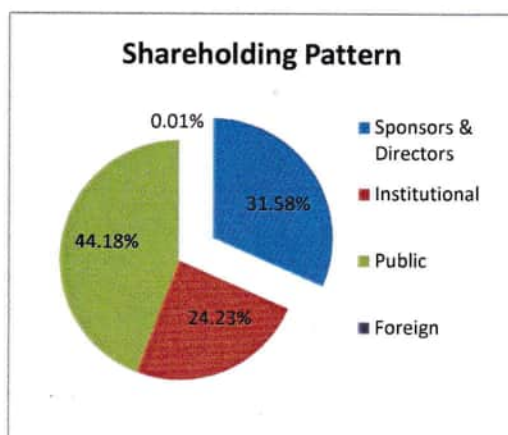
Company Profile

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 2020 considering bonus issue cumulative paid-up capital increased to BDT 580.70 million.

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

Ownership Pattern

The shareholding pattern of the company on 30 June, 2023 is presented below:



Principal Product

In FY 2022, 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 8 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 Risk

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.

The gross premium volume of life insurance in Bangladesh stands at BDT 95,279.46 million and that of non-life stands at BDT 46,868.53 million at the end of 2020, which was BDT 96,143.04 million for life insurance and BDT 47,115.70 for non-life insurance at the end of 2019. 0.90% and 0.52% decline in gross premium has been observed in life & non-life insurance respectively in 2020. Total gross premium (life & non-life) has declined to BDT 142,147.99 million in FY 2020 from BDT 143,258.74 million in FY 2019. Life insurance constitutes 67.03% of Bangladesh's insurance market and non-life insurance constitutes 32.97%.

The assets of all insurance companies in Bangladesh stood at BDT 572,820.6 million at the end of 2020, with an average growth rate of 9.62% from 2019. Investments in both life and non-life insurance companies have grown at an average rate of 16.61% in 2020. The life insurance sector has a competitive landscape, with market share being closely distributed among multiple players.

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

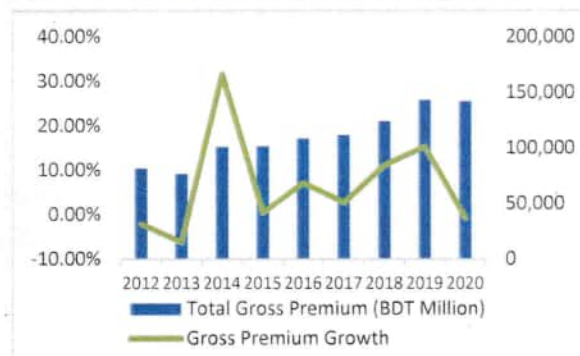
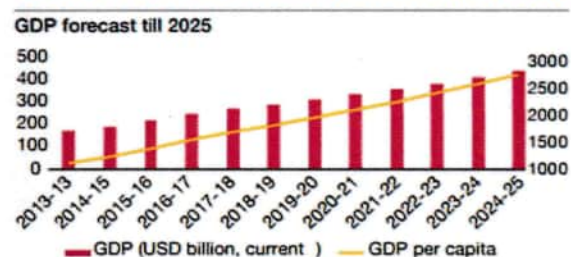
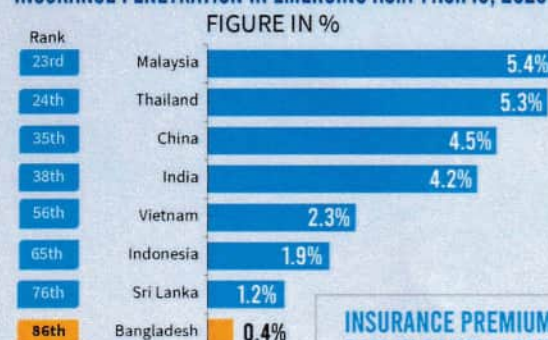


Figure 2: Bangladesh's economy has seen steady growth



Source: PwC analysis

INSURANCE PENETRATION IN EMERGING ASIA-PACIFIC, 2020



INSURANCE PENETRATION IN BANGLADESH

0.40% of GDP in 2020



Life Insurance
0.30%

Non-life
0.1%

Swiss Re Institute expects
5.8% global economic growth in 2021

Source: Swiss Re Institute

INSURANCE PREMIUM PAID IN BANGLADESH

FIGURES IN CRORE TAKA

Life insurance
Non-life insurance



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).

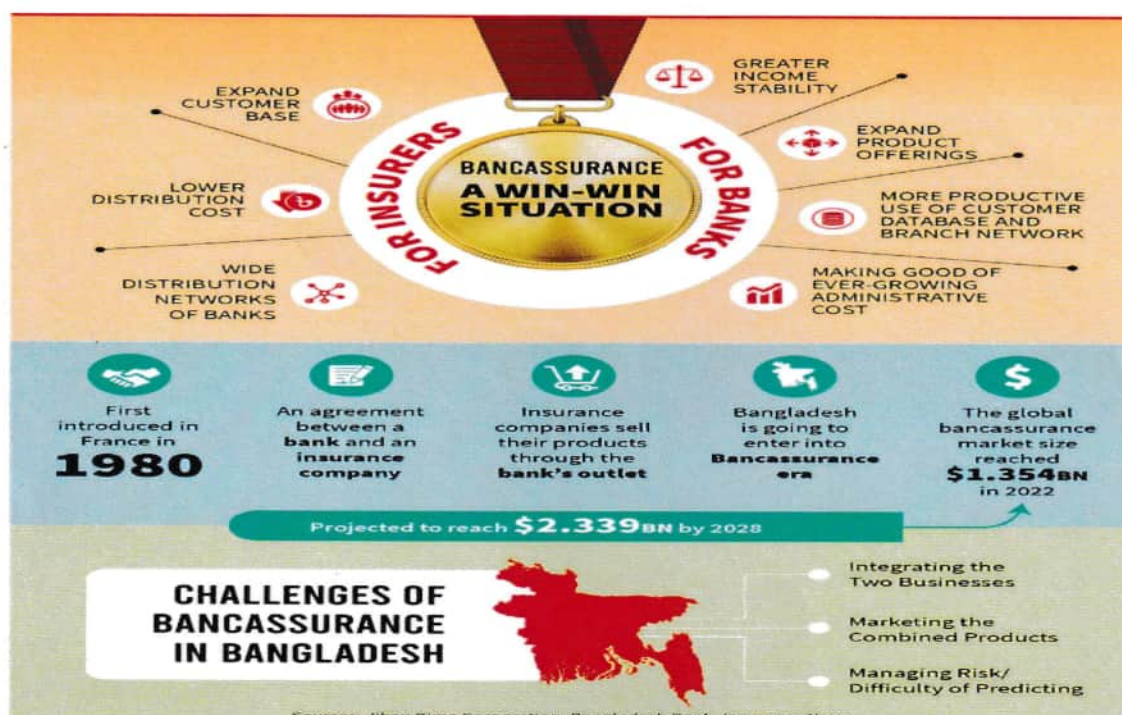
In the next decade, Bangladesh will continue to witness the rise of the middle and wealthy class in major cities. This could easily translate into a higher demand for insurance products as individuals and companies become increasingly risk aware.

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

Bancassurance is an arrangement between a bank and an insurance company allowing the insurance company to sell its products to the bank's client base. This partnership arrangement can be profitable for both companies. Banks earn additional revenue by selling insurance products and insurance companies expand their customer bases without increasing their sales force.

Bancassurance provides a new way of gaining revenue for banks and insurance companies by working together with similar aims. There is a huge untapped market as currently less than 1% of the total population have insurance. Bancassurance would help many more people to have access to insurance by taking advantage of the nationwide reach of banks' branch networks to avail insurance products. In other words, all the potential clients of banks are the target group of Bancassurance and insurance products can be offered to the customer who has a bank account or eligible to have a bank account.



The concept of bancassurance is relatively new in Bangladesh and has been introduced by private commercial banks. In May 2022 the Central Bank finalized guidelines for local banks to provide this service. It will provide new business opportunities to the stagnant local insurance industry and boost revenue of the banks from the partnership. It is expected that the insurance penetration that remained below 0.05 per cent of the GDP will dramatically improve after launching the bancassurance.

As per guideline, the banks will apply for a corporate agent license to IDRA upon receiving approval from the BB and then notify the central bank accordingly with a copy of the license as soon as it is received from IDRA. In approving bancassurance, the bank shall meet the following criteria: a) capital to risk-weighted asset ratio (CRAR) with capital conservation buffer (CCB) not to be less than 12.5 per cent; b) shall meet the credit rating not less than Bangladesh Bank (BB) rating grade 2 defined at the Guidelines on Risk-Based Capital Adequacy [Revised Regulatory Capital Framework for banks in line with Basel III]; c) shall meet the minimum CAMELS rating of 2 of Bangladesh Bank; d) the level of net non-performing loans (NPL) shall not be more than 5 per cent; e) shall have a positive net profit for the last three consecutive years; and f) shall have a viable bancassurance business plan and review mechanism. A bank will not be allowed to sign agreements with more than three life insurance and three non-life insurance companies at the same time, according to the guidelines. The banks will require establishing a separate and dedicated department or wing to procure the business through the model, under which bank customers will be the clients of the insurance products.

Advantages of Bancassurance

To Banking Institutions: diversification of product and customer portfolio, improved profitability and non-interest fee income, customer loyalty and retention, cost-effective use of existing resources, increased customer lifetime value etc.

To Customers: One stop-shop for all financial needs, improved application and policy processing time, ease of renewals, trust in insurance products and services, customized product and expert advice etc.

To Insurance Companies: High market penetration rate, relevant offer generation and customer engagement, increased operational efficiency and reduced costs, high service and product responsiveness, increased premium turnover.

Disadvantages of Bancassurance

- Association and dependence may cause conflict of interest between the partners leading to new operational and performance risk.
- The conflict of interest between bank products and insurance products and their policies could confuse the customers regarding where to make the investment.
- For such synergy to work, it requires intensive planning and monitoring which could a lot to the participating company.
- This requires huge initial investment and trained employees.

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.



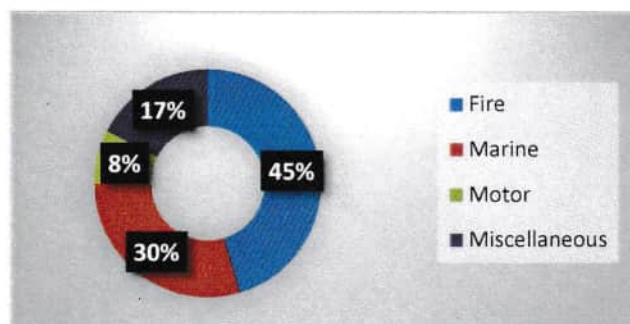
A recent study by Human Rights Watch shows that when orders were cancelled, 72.1% of buyers refused to pay for raw materials already purchased by the supplier, and 91.3% of buyers refused to pay for the "cut-make-trim" cost - or production cost - of the supplier. As a result, 58% of factories surveyed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

Marine Insurance

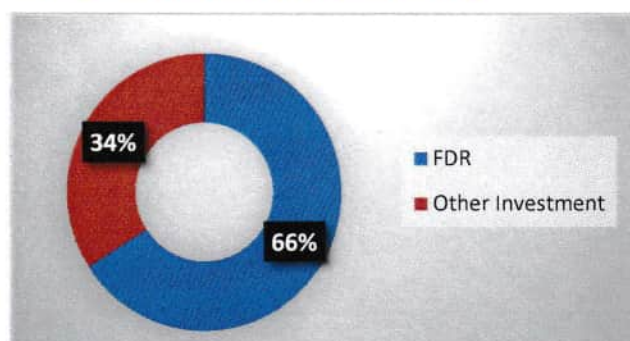
Marine insurance that depends on import cargo accounts for 30% of the non-life insurance's total premium a year. Insurance companies' premium income from marine insurance is expected to go down to a new low if this global pandemic countries and world trade continues to slow down.

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)



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 country'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). The Bangladesh Bank has imposed 9 per cent ceiling on lending rate in April 2020, which has formally removed from 01 July, 2023. Under the new framework, the lending rate for banks will be determined by incorporating a 3 per cent premium with six-month moving average interest rate (SMART) of 182-day Treasury bill. Therefore, FDR interest rate will also increase which will ultimately increase 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, etc.]

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 2022 and gross premium received from marine business represented 53.39% of total gross premium. Another significant business sector is miscellaneous insurance business which represented 29.31% of total gross premium while fire & motor insurance held only 14.60% & 2.70% of total gross premium, respectively. However, it was also noted that, motor insurance was the most profitable business sector of the company during FY 2022, 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 (67.35%). 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 2022.

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.

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.

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 2022, gross premium of PGICL has slightly decreased to BDT 183.46 million and net premium has also decreased to BDT 57.90 million whereas in FY 2021 gross premium was BDT 184.42 million and net premium was BDT 81.85 million. This shows that the company has lower premium collection than previous year. On the other hand, total underwriting profit of the company has also decreased to BDT 30.64 million in FY 2022 from BDT 39.31 million in FY 2021.

According to management report of quarter ended March, 2023 the gross premium of PGICL stood at BDT 75.20 million and net premium stood at BDT 27.52 million.

Selected Indicators

(Without considering commission on reinsurance ceded)

	Year Ended Dec. 31		
	2022	2021	2020
Loss ratio (%)	9.00	1.10	2.47
Expense ratio (%)	100.30	43.22	80.73
Combined ratio (%)	109.30	44.32	83.19

Underwriting performance is evaluated by combined ratio which is the ratio of expenses & losses to net premiums. Loss ratio of the company has increased & stood at 9.00% in FY 2022. It is observed that, net claim paid out has increased by 477.01% whereas net premium has decreased by 29.26% in FY 2022 and this has influenced the loss ratio to increase.

On the other side, expense ratio of the company has increased and stood at 100.30% in FY 2022. Due to increase of actual management expense and decrease of net premium, expense ratio of the company has increased during the year.

However, combined ratio of the company has stood 68.82% in FY 1st quarter, 2023 & shows below 100% indicate an undertaking profit.

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		
	2022	2021	2020
Loss ratio (%)	6.80	0.96	1.81
Expense ratio (%)	75.85	37.52	59.24
Combined ratio (%)	82.66	38.48	61.05

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	2022	2021	2020
Actual management expense	58.08	35.37	19.39
Allowable management expense	72.59	55.98	26.10
Excess/ (Spare) management expense	(14.51)	(20.61)	(6.71)
Actual management Expense as % of Allowable Expense	80.01	63.18	74.29

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 72.59 million whereas total actual management expense was BDT 58.08 million in FY 2022, which has resulted in spare allowable management expense of BDT 14.51 million. PGICL has incurred almost 80.01% of its allowable management expense in FY 2022, which was 63.18% in FY 2021.

According to IDRA, agency commission must be within 15% of its gross premium of all classes of insurance. PGICL incurred BDT 17.19 million as agency commission in FY 2022 against the gross premium of BDT 183.46 million. So, the agency commission was 9.37% 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	2022	2021	2020
Claim Initiated (BDT in million)	5.55	5.13	0.69
Claim Settled (BDT in million)	5.43	2.94	0.60
Claim Repudiated (BDT in million)	0.11	-	-
Number of Claim Initiated	45	27	4
Number of Claims Settled	44	23	3
Number of Claims Repudiated	1	-	-

During FY 2022, the company settled 44 claim worth of BDT 5.43 million against 44 initiated claims worth of 5.55 million. Both number of initiated and settled claims has increased during the year. In term of percentage, the company has settled 97.78% of total initiation in FY 2022. PGICL has 1 repudiated claim in FY 2022.

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 insurance was 60 days and for marine cargo & miscellaneous insurance it was 90 & 45 days respectively in FY 2022.

Profitability

Profitability position of the company has been improved in FY 2022 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 77.20% of total income in FY 2022. The investment income consists of interest income, dividend income & gain from sale of shares of listed companies. However, investment income has increased to BDT 103.76 million in FY 2022 from BDT 81.35 million in FY 2021 due to mainly increased interest income.

Other than investment income, underwriting profit comprises 22.80% of total income of in FY 2022 which was 32.58% in FY 2021. Total underwriting profit has decreased to BDT 30.64 million in FY 2022 from BDT 39.31 million in FY 2021 due to low underwriting profit from fire, marine cargo & motor revenue account. On the other hand, loss in miscellaneous revenue account has also impact the total underwriting profit.

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 ROA has slightly decreased, because of profit has increased at a lower rate compare to increase of total assets. On the other hand, ROE has slightly increased in FY 2022 as a result of increase of net profit.

Selected indicators

	Year Ended Dec. 31		
	2022	2021	2020
Net profit (BDT in million)	83.71	79.72	63.97
Return on assets (%)	8.96	9.23	9.17
Return on equity (%)	10.53	10.27	8.84

According to management report of quarter ended March, 2023, PGICL reported BDT 17.67 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 2022 & stood at BDT 880.00 million, which represent 25.71% 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 51.78 million at (Cost price). 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 1,396.01 million in FY 2022 from that of previous year.

Selected Indicators

	Year Ended Dec. 31		
BDT in millions	2022	2021	2020
Total Investment	936.28	730.77	691.42
Investment income as % of total income	77.20	67.42	84.94
Yield on investment (%)	11.08	11.13	12.91

Investment income as % of total income has increased to 77.20% in FY 2022, which was 67.42% in FY 2021. The reason behind this growth is, investment income has increased by 27.57% whereas total income has increased by 11.39%. On the other hand, total investment has increased at a higher rate compare to investment income, as a result yield on investment has slightly decreased to 11.08% in FY 2022 from 11.13% in FY 2021.

Items	Govt. Securities	BSEC approved Shares (Total)	FDR (Bank)	Others
Required Rate (in terms of)	7.50% (min)	25% (max)	80% (max)	5% (Max)
PGICL's Rate (FY 2022)	0.47	5.63	91.56	2.34
PGICL's (March-2023)	0.49	7.00%	84.06%	8.45

According to the audit report of December, 2022 PGICL has complied with all the investment rules except for Govt. Securities & FDR and in 1st quarter, 2023 PGICL has not complied with all the investment rules except for shares which is depicted in the table.

According to management report of quarter ended March, 2023 the company has BDT 4.50 million of Investment in Bangladesh Govt. Treasury Bond, BDT 63.73 million in shares, BDT 765.00 million in FDR.

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 2.30 times in FY 2022 as PGICL's current assets has increased by 10.50%, whereas current liabilities has increased at a higher rate by 31.45%.

Current assets to net claim has decreased to 255.54 times in FY 2022. Further analysis reveals that net claim has increased by 477.01% whereas current assets has increased by 10.50% in current year. 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 & bank balance to total assets has increased in FY 2022 compared to last year because of cash and cash equivalents has increased by 25.75%.

However, operating cash flow of the company has increased to BDT 213.12 million in 2022. Operating cash flow has mainly increased due to increase in collection from premium & other income. However, operating cash flow to net claim ratio has decreased in FY 2022 due to significant increase of net claim.

Selected indicators

	Year Ended Dec. 31		
	2022	2021	2020
Current ratio (times)	2.30	2.74	2.95
Current asset/net claim (times)	255.54	1334.41	1762.01
Current liabilities/total liabilities (%)	100.00	100.00	100.00
Cash & bank balance/total assets (%)	64.76	57.57	61.77
Operating cash flow/net claim paid out (%)	4091.04	7045.74	14358.46
Operating Cash Flow (CFO) (BDT in million)	213.12	63.61	85.06

According to management report of quarter ended March, 2023, current ratio of PGICL stood at 2.49 times and CFO stood at BDT 29.13 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	100.00	15.00	10.00	1.00
Retention	5.00	1.50	1.20	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 low retention in fire, marine hull and miscellaneous insurance.

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

Business Class\ Year	2022	2021	2020
Fire (%)	17.03	19.62	18.04
Marine (Cargo) (%)	49.65	75.43	40.54
Marine (Hull) (%)	1.68	2.67	2.02
Motor (%)	82.25	72.08	89.61
Misc. (%)	3.27	2.35	4.34
Total (Average) (%)	31.56	44.38	29.03

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	2022	2021	2020
Available Solvency (AS)	476.66	460.25	442.24
Required Solvency (RS)	35.07	44.91	15.53
AS/RS (times)	13.59	10.25	28.48

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 increased to 13.59 times in FY 2022 from 10.25 times in FY 2021. Available solvency has increased by 3.57% whereas required solvency has decreased by 21.91% and this is the reason behind increased solvency margin in FY 2022.

Reserve Adequacy

As per Insurance Act, 2010, the company need to maintain reserve for un-expired risk, which is 100% of the net premium income for marine hull insurance and 40% for all other business classes. During FY 2022, PGICL has maintained 39.27% for fire, 38.35% for marine cargo, 90.34% for marine hull, 35.04% for motor & 38.94% for miscellaneous insurance as reserve for un-expired risk.

The company also maintained reserve for exceptional losses. In FY 2022 the reserve for exceptional losses has increased to BDT 36.44 million, which has increased by 18.89% from that of previous year. However, the reserve represents 62.94% of net premium in FY 2022 which has increased from previous year.

Reserve for exceptional losses represent 7 times of net claim in FY 2022 which was 33.95 times in FY 2021, suggesting the company's unexpected events absorbing ability has decreased in FY 2022.

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 remains stable at BDT 580.70 million at the end of FY 2022. As a result, capital maintenance ratio has also stable to 1.45 times in FY 2022.

The board of PGICL has last issued 10% cash dividend in FY 2021 (5% 2020 & 10% 2019, 12% 2018) & issued 5% bonus issue (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.

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, Mr. Amzad Hussain CIP 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 2022, total 02 meetings were held by the NRC Committee.

Audit Committee

The audit committee comprises of 3 members headed by the Independent Director, Dr. Md. Mizanoor Rahman is the chairman of AC. In FY 2022 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%
2022	16.24%



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 has used integrated Insurance Business Software (IIBS) 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 & 1/5th 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 30.06.2023)

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. Md. 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. Amzad Hussain, CIP	Independent Director
10	Dr. Md. Mizanoor Rahman	Independent Director
11	Abu Zayed Mohammad	Independent Director

Major Shareholders (As on 30 June, 2023)

Sponsors' & Directors	31.58%
Institutional	24.23%
Public	44.18%
Foreign	0.01%

Office address

Sandhani Life Tower (2nd Floor), 34 Banglamotor Dhaka- 1000

Auditor

Khan Wahab Shafique Rahman & Co. & Co.

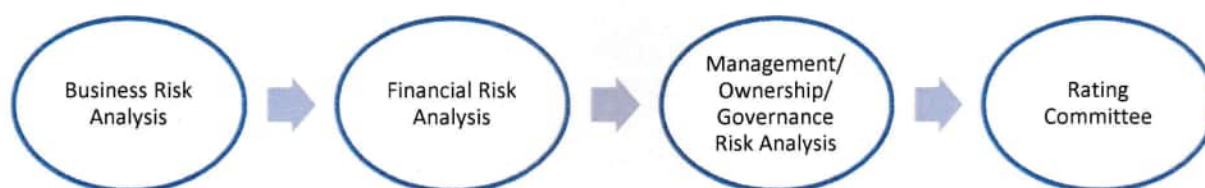
Chartered Accountants

Rupali Bima Bhaban, 7 Razzak Avenue (5th & 6th Floor), Motijheel, Dhaka-1000.

Mobile: 47122785

Email: info@kwsrbd.com

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

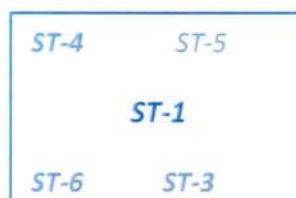
It is one of the key elements of the rating methodology since management decides what businesses to be in, what strategies should be pursued and how these activities should be financed.

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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