

Press Release

JCR-VIS considers the General Insurance Sector to be under significant stress

Karachi, December 24, 2008: The insurance sector is one of the key pillars of an economy, with growth trends in premium and investment avenues reliant upon GDP growth and state of capital markets. Amidst weakening macroeconomic fundamentals, JCR-VIS Credit Rating Company Ltd. (JCR-VIS) believes that there is significant stress on the general insurance sector, as reflected in performance of both the underwriting and investment management functions.

The private sector insurance companies incurred aggregate underwriting loss of Rs. 1.3b in 2007 - an outcome of political and social unrest in the country towards the end of FY07. The aftermath of this was also felt during the ongoing year with net claims ratio continuing to be high across key business segments. Payments in lieu of claims resulted in large cash outflows, and the resulting pressures on liquidity were further compounded by rising level of insurance debt. While the investment portfolio of an insurance company serves as a secondary source of liquidity, the cash crunch facing the capital markets has rendered equity investments including stock funds illiquid. Volumes have continued to remain minimal at the key stock exchange of the country, even after the removal of floor price levels, resulting in serious implications for the liquidity profile of insurance companies.

Profitability has traditionally received considerable support from the investment management function, particularly amongst the larger players in the industry. However, returns generated in the last few years on equity exposures may not be recurring while exposures in fixed income instruments are also exposed to heightened credit risk. Overall earnings may continue to remain under stress in the near to medium term.

A key ratings driver is the strength of re-insurance arrangements available with any company. Over the last few years, cession ratio has been on a decline almost across the sector, indicating an increasing amount of risk retained on net account. JCR-VIS believes that current economic conditions will continue to significantly impact insurance activities and its effect, on growth trends and re-insurance treaties for the coming year will be monitored.

JCR-VIS is in the process of reviewing the IFS ratings of the *entire* general insurance sector. Although the impact of macroeconomic shocks will vary across the sector, ratings will take into account the systemic risk impacting the sector as a whole, while also continuing to be driven by intrinsic fundamentals of individual companies.

For further information on this sector overview, please contact Syed Ziauddin Ahmed (Ext: 508) or Ms. Sabeen Saleem (Ext: 510) at 5311861-70 (10 lines) or fax to 5311872-73.

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