

CREDIT RATING REPORT On CENTRAL INSURANCE COMPANY LIMITED

REPORT: RR/66793/23

This is a credit rating report as per the provisions of the Credit Rating Companies Rules 2022. CRISL's Claim Paying Ability Rating is valid for only one year from the date of rating. After the above period, the rating will not carry any validity unless the company goes for rating surveillance. CRISL followed Insurance Rating Methodology published in CRISL website www.crislbd.com

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	Claim Paying Ability
CPA Rating	AA
Outlook	Stable
Date of Rating: July 19, 2023	Valid up to: July 18, 2024

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Entity Rating:
CPA Rating: AA

Outlook: Stable

Rating:
Based on Financials up to
December 31, 2022

**CENTRAL
INSURANCE
COMPANY LIMITED**

ACTIVITY
Non-Life Insurance

**DATE OF
INCORPORATION**
November 12, 1987

**COMMENCEMENT OF
BUSINESS**
December 10, 1987

CHAIRMAN
Alhaj Md. Masud Hossain

**CHIEF EXECUTIVE
OFFICER (C.C.)**
Md. Badrul Amin

EQUITY
TK.2,692.54 million

TOTAL ASSETS
TK.3,673.35 million

1.0 RATIONALE

CRISL has reaffirmed the Claim Paying Ability (CPA) rating of Central Insurance Company Limited (CICL) to 'AA' (Very High claims paying ability) based on the financials up to December 31, 2022 and other relevant qualitative and quantitative information up to the date of rating. The rating has been upgraded on the basis of CICL's profitable underwriting performance, good capital base, good FDR base, experienced and professional management team etc. CICL sources significant business from renowned group of companies and banks. The company continues to deliver improved and innovative product and services taking due care of the compliance requirements. Based on the financial statement of 2022, its underwriting profit stood at Tk.103.10 million. Profit after Tax (PAT) moved down to Tk. 108.18 million in 2022 from Tk.127.20 million in 2021. Pre-tax operating margin decreased to 36.68% in 2022 from 43.77% in 2021. CRISL views CICL's investment strategy is diversified having around major portion of its funds remaining in cash and deployed in fixed deposits as well as in fixed assets while rest in capital market.

On the other hand, CICL faces challenges from substantial outstanding claim, high expense ratio, unrealized loss on capital market exposure, moderate market share, decline in market capitalization etc. However, reduction of management expense will enhance its overall performance. CRISL expects the company to continue to adopt a prudent underwriting approach, improve business and investment portfolio.

CPA rated in this category is adjudged to offer very high claims paying ability. Protection factors are strong. Risk is modest but may vary slightly over time due to underwriting and/or economic condition.

CRISL also views the company with "Stable Outlook" from the industry viewpoint for overall industry growth and policy and regulations implicated by regulatory authority. CRISL believes that the company will be able to maintain its fundamentals in foreseeable future.

2.0 CORPORATE PROFILE

2.1 Background

Central Insurance Company Limited (CICL) is a first generation non-life insurance company, was incorporated on November 12, 1987 as a public limited company with an objective to provide all types of general insurance services to the insuring community according to their need and expectation. It obtained the Certificate of Registration for carrying on insurance business from the Chief Controller of Insurance on November 30, 1987 and now has been operating under the legal framework of the Insurance Act, 2010. CICL was incorporated with the initiative of some renowned business personalities of the country having involvement in diversified businesses with the vision "to be leading and most confident and a reliable insurer of the country". The company started its business with an authorized capital of Tk.1,000.00 million and paid-up capital of Tk.415.19 million. However, capital base has been enhanced to Tk.531.45 million against the authorized capital of Tk.1,000.00 million as on December 31, 2022. CICL went into initial public offering in 1994. The shares of the company are listed with both the bourses of the country and are being traded as 'A' category issue. The company has been operating its business with a network of 36 branches located at different districts of the country. CICL earned a gross premium of Tk.503.15 million in 2022 and reported underwriting profit of Tk.103.10 million during the same period. Alhaj Md. Masud Hossain is the Chairman of the Board while Management team is headed by Mr. Md. Badrul Amin as acting Managing

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Director & CEO. The company carries out its business operation from its Head Office located at CIC Tower (3rd & 4th Floor), 7-8 Motijheel C/A, Dhaka-1000.

2.2 Shareholding Pattern

CICL was sponsored by a good number of established limited companies which are operating in different sectors. Total number of the shares of the company stood at 53.14 million held by the sponsors, public and institutional shareholders as on December 31, 2022. Out of the above, 33.97% shares are held by sponsors and directors, 51.43% by the public shareholders and remaining 14.60% by ICB & institutional investors. While reviewing the sponsor shareholding pattern of the company it has been observed that 94.31% of the sponsor shares are held by only 15 shareholders ranging between 1,000,001-2,000,000 shareholdings while the remaining shares are held by other 9 shareholders.

Diversified shareholding pattern



Moderate Market Share



Good branch network



2.3 Market Share

CICL has been operating its business with moderate market share over the last couple of years. The non-life insurance industry of Bangladesh reported a gross premium of Tk.70.07 billion in 2022 and Tk.54.17 billion in 2021 which was being shared by 46 companies including the Government owned Sadharan Bima Corporation (SBC). Out of total gross premium of Tk. 70.07 billion (including SBC), CICL has earned Tk. 0.47 billion in 2022 against Tk.0.47 billion in 2021. With considering the SBC's portion, CICL's market share stood at 0.67% in 2022 and 0.86% in 2021. Against industry's growth of 29.35% in gross premium earnings, CICL's business growth stood at 7.65% in 2022.

2.4 Branch Network

During the reporting period total branch network of CICL has been found to be increased. Total number of branches of CICL stood at 36 as on December 30, 2022, which were 33 in the previous reporting period. Out of the above, 15 branches are in Dhaka, 3 in Chittagong, 5 in Rajshahi, 4 in Khulna, 1 in Sylhet, 5 in Rangpur, 1 in Barisal and 2 in Mymensingh. The branch network has been found to be good compared to many first generation insurance companies.

3.0 INSURANCE INDUSTRY

The economy of Bangladesh has been rapidly shifting away from an agricultural dependence to the emergence of the services sector with the burgeoning of the latter. Insurance, as one of the critical ingredients of the financial services industry, can play a significant role if promoted properly. The Bangladesh insurance market is in an upward trend despite a low penetration rate. It has the embedded potential to grow and advance further as widely regarded by insurance experts both from home and abroad. In spite of a stable growth rate (around 10%) of the Bangladeshi insurance industry over the last few years, the expansion of the insurance business, particularly the non-life sector, has experienced a downward trend due to COVID-19 (Corona Virus) pandemic in 2020. As a whole, 2020 was characterized by uncertainty and challenges. The pandemic gave communities and businesses an impetus to innovate, rethink and manage unforeseen emergencies. The insurance industry snap backed strongly in 2021 due to normalized business flow and digitization of services. According to the Insurance Development and Regulatory Authority (IDRA) total gross premium of non-life insurance grew 15.58 per cent year-on-year to Tk.54,171 million in 2021 against Tk.46,868.53 million in 2020 which was being shared by 46 companies including the Government owned Sadharan Bima Corporation (SBC). Financial associates are interested and felt emergencies to consider insurance for financial protection. This increased interest in insurance coupled with access and ease of premium payment through online channels has helped drive the upward trend of premium collection.

Competitive Industry

There are 33 life insurance and 46 non-life insurance companies active in the country. Of them, 49 are listed with the stock market. Metlife (ALICO) is the first foreign insurance operator in Bangladesh. ALICO earned record-breaking gross premium in the life insurance

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sector. In April 2015, the regulator approved two other joint venture life insurance companies in Bangladesh namely Taiyo Summit Life Insurance Company and LIC Bangladesh Ltd. With the advent of two newly established companies in 2015, the number of foreign insurers will reach three, intensifying competition. Bangladesh's Bank and Financial Institution Division drafted the National Insurance Regulation 2014. The recommendation of the said regulation is expected to improve the insurance market of Bangladesh as it has defined both long-as well as short-term goals. GDP at current market price stood at Tk.35,301,848 million (FY2020-21) and Tk. 39,764,622 million (FY2021-22) on which Insurance sector contribution stood at Tk.96,426 million (FY2020-21) and Tk.105,493 million (FY2021-22). In both term the insurance contribution stood at 0.27%. The growth rate of GDP stood at 11.22% where as insurance sector growth rate stays 8.59% in FY2021-22. However, presence of large number of companies in a small market leads to tough market competition and unethical practices which has already created a significant number of sick insurance companies in the industry. Understanding the importance of revitalizing the sector in line with the international norms, the regulatory authority made mandatory credit rating in the industry from 2006. Under the above directives, all insurance companies get credit rating report with mandatory surveillance at the end of each year.

Insurance industry of Bangladesh has a long history of evolution. About a century back, couple of insurance companies started both non-life and life insurance business during the British regime in India. However, insurance business got the momentum during the Pakistan regime. Later, GoB established the Bangladesh Insurance Corporation under "The Bangladesh Insurance Corporation Order, 1972" for the purpose of management, administration and development of insurance and re-insurance business in Bangladesh. On the establishment of this corporation the Pakistan Insurance Corporation in Bangladesh dissolved and the Pakistan Insurance Corporation Act, 1952 in its application to Bangladesh also stood repealed. In order to provide for the management of the nationalized insurance business, a holding corporation with 4 subsidiary corporations was created. Out of the 4 subsidiaries, 2 were exclusively for life and 2 for non-life insurance business. The holding Corporation was, however, named "Jatiya Bima Corporation". The Insurance Corporation Ordinance VII of 1973 was promulgated and subsequently enacted as Act VI of 1973 providing for the establishment of a Jiban Bima Corporation for the purpose of taking over the undertaking of the Surma Jiban Bima Corporation and the Rupsa Jiban Bima Corporation on May 4, 1973; and a Sadharan Bima Corporation for the purpose of taking over the undertakings of the Karnaphuli Bima Corporation and for the dissolution of the Jatiya Bima Corporation.

Insurance industry of Bangladesh has suffered from undue political interference, fraudulent claims, inadequate risk assessments and limited quality private sector participation. In order to reduce risk of insurance business the parliament has enacted two Acts namely Insurance Development and Regulatory Authority Act, 2010 and Insurance Act, 2010 and replaced the age old insurance laws. The Department of Insurance has been abolished and substituted by the five-member Insurance Regulatory Authority headed by the Chairman. For further enhancing the solvency position, the paid up capital for non-life and life insurance companies have been raised to Tk.400 million and Tk.300 million respectively. The number of Directors in the company has been fixed to 20 including 2 Independent Directors and debarred the Directors of an insurance company to be a Director of another insurance company of same class and of a bank or a financial institution simultaneously. The new law also introduced mandatory solvency margin for the insurance companies. Besides, the insurance companies will be required to ensure international accounting standard, separate Islamic insurance from conventional ones and put a limit on commission expenses. The law also allowed foreign investment in non-life insurance sector. With the promulgation of the Acts, the insurance industry has been placed under the Ministry of Finance from the Ministry of Commerce. The government formed Insurance Development and Regulatory Authority (IDRA), a five-member body to regulate the insurance sector. The authority has been formed in line with the section 3, 5 (1) and 6 of the Insurance Development and Regulatory Authority Act-2010. IDRA has taken initiative to develop of Bangladesh insurance industry as well as to regulate the industry within the purview of the Insurance Act, 2010 so as to ensure a level playing field for all companies. Within a short span of time the authority has succeeded in taking the industry to

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different height. IDRA has taken action by fixing 15% commission to stop unbridled competition and hefty commission of the insurance companies. The authority also barred on credit business and investment in land & building and discourage in-house business. Besides, IDRA also has taken initiative to introduce offsite supervision by applying CAMEL rating like central bank's CAMELS rating based on seven key indicators- capital adequacy, asset quality, reinsurance, actuarial issues, management efficiency, earnings & profitability and liquidity. Insurers hope that the authority will bring significant changes in the industry if IDRA is allowed to work as an independent authority.

4.0 CORPORATE GOVERNANCE

4.1 Board of Directors and Board Committees

The Board of CICL composed of 15 Directors including 2 Independent Directors and the Managing Director. The Board is currently Chaired by Alhaj Md. Masud Hossain, a renowned business personality. The Board primarily deals with policy issues and strategic aspects of the company and reviews operational performance on regular basis. The Board held 7 meetings in YE2022. Board of CICL has four subcommittees namely Executive Committee (EC), Audit Committee (AC), Nomination and Remuneration Committee (NRC) and Management Committee (MC) to run its business smoothly and efficiently. The EC is composed of 11 members Chaired by Dr. Jahanara Arzu for reviewing management activities and overall business performance. AC is Chaired by Mr. Md. Amirul Islam FCA, FCS Independent Director, comprising of 6 members to review the internal and external audit report and activities of the branches and departments and to take initiative to find out suspected infringement of laws, rules and regulations etc. AC held 8 meetings in 2022. NRC is Chaired by Mr. A.M Abid Chowdhury, Independent Director, comprising of 5 members to review the Remuneration structure of Top Executives, Senior Executives and all other Officers and ensure that all benefits, including retirement benefits and other financial arrangements are justified, appropriately valued and promoting performance based reward & recognition etc. NRC held 02 meeting in 2022. The MC composed of 6 members Chaired by Mr. Md. Badrul Amin, CEO & President of MC of the Company.

Fifteen members Board

4.2 Management Team

During the period under surveillance there have been a no major changes found in corporate management team of CICL. Management team comprised of some experienced personnel. Mr. Md. Badrul Amin, an experienced personality in the insurance sector is leading the management team as the acting CEO. The overall operation of the company is being carried out through Eight departments namely Accounts & Finance, Claims & Reinsurance, BCD & Underwriting, Internal Audit, IT, Establishment & Share, Board and Administration.

Experienced top management

4.3 Human Resource management

The company has benefit plans for employees which covers group insurance, incentive bonus, gratuity and contributory provident fund. CICL has no separate training wing. With an objective to develop skills of the employees, different level of executives of the company attended different programs on insurance, non life insurance, professional development and Money Laundering issues.

4.4 IT Infrastructure and MIS

During the period under surveillance there have been no significant changes found in IT section. CICL had launched ERP software named INSURANCE MANAGER in YE2016. Before the reporting year CICL had been maintained all recordings manually as well as generated some data through MS office. But now the IT infrastructure of CICL is at an improving stage having up to date ICT devices. Some steps have been taken to more modernize the IT infrastructure. Most of the branches all over Bangladesh already are connected through an IT network. Central Insurance has maintained standalone accounting software for its regular tasks, and the Company has installed firew0all device with advance features to ensure proper security. CICL has been able to maintain well furnished record about HR, affairs, Payroll, PF, FDR,

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Improving IT
infrastructure

Business Registrar and Under-writing related reporting services by Insurance Manager Software (IMS). The Company issues all business Cover notes, Policies and others requirements by IMS. The company also has a dynamic website which contains comprehensive information; Annual Report and other relevant information are available for the valued shareholders and customers.

4.5 Marketing Strategy

CICL has been operating with other 45 general insurance companies (except the state-owned SBC) through its traditional product lines. The marketing activities of the company are being carried out by development officers under direct supervision of Mr. Md. Badrul Amin, acting CEO. Major businesses of the company come from garments textile sector, poultry, Light & heavy engineering, cement, pharmaceuticals, jute mill, dairy business and other industry. CICL also earned 19.90% of its gross premium from the government business in 2022 against 15.43% in 2021. CICL's total gross income stood at Tk. 503.15 million in 2022.

5.0 BUSINESS PROFILE

5.1 Business Mix

CICL carries out all types of general Insurance business as per Insurance Act. The underwriting risk of the company has been found to be increasing during the reporting period. The total underwriting risk stood at Tk.263,326.99 million in 2022 against Tk. 257,555.31 million in 2021. The above underwriting risk constituted of Tk.90,123.09 million (Tk. 86,656.81 million in 2021) in fire business, Tk.152,204.48 million (Tk. 150,702.59 million in 2021) in marine, Tk.1,7202.92 million (Tk. 16,473.84 million in 2021) in Miscellaneous & Engineering and Tk.3,796.51 million (Tk. 3,722.07 million in 2021) in motor business category. It has been observed that the company's sum insured highest increased in misc. sector. However, against the above underwriting risk marine business contributed the highest 57.80% of total gross premium, followed by 34.22% from fire, 6.53% from miscellaneous and 1.44% from motor business during 2022. Business portfolio of CICL is yet highly concentrated towards capital city Dhaka. After Dhaka zone, the company had small exposure in other zone during the same period.

5.2 Reinsurance & Claim Settlement

In accordance with the present rule 50% of the re-insurable general insurance business shall be reinsured with SBC and the remaining to be reinsured either with the corporation or any other reinsurer inside or outside Bangladesh. CICL, in line with the existing regulation, has made 100% reinsurance arrangement with SBC. The Re-insurance and Claims Department of CICL composed of 4 members headed by Mr. S. M. Jahir ul Alam (Deputy Managing Director), Mr. Golam Rejwany (Deputy Vice President) and Mr. Wahidur Rahman (Deputy Vice President), Mrs. Soniya Akter (Sr. Executive officer). CICL has surplus treaty for all class of business except motor business, for which the company has excess of loss treaty. In addition, the retain account of the company is protected by XL treaty to minimize the retained loss in fire business. During 2022, the company underwrote total risk of Tk.263,326.99 million against which reinsurance coverage was Tk.81,880.11 million representing 31.09% gross reinsurance coverage. Claim settlement process starts with the intimation of claim by the claim department. Subsequent to the intimation, a government licensed surveyor is appointed for the assessment of actual quantum of loss. On receipt of required documents from the client and survey report from the surveyor, the documents and the survey report are scrutinized and placed before the authority for approval of the claim. The claims department is headed by one Deputy Managing Director having long experience in claim settlement. The CEO is empowered to approve claim up to Tk.10.00 lac for all business claims. On the other hand, Executive Committee is empowered to approve claim above Tk.10.00 lac up to Tk.15.00 lac for all business claims. Any claims beyond the above limits are placed before the Board of Directors for final approval. As on December 31, 2022 total outstanding claim stood at Tk.539.16 million of which CICL's portion was Tk.34.03 million, SBC's portion was Tk.505.13 million. The above claims are outstanding due to litigation, approval awaiting for SBC, delay in proper document submission etc.

Business portfolio
concentrated to capital
city Dhaka

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5.3 Underwriting Quality and Expertise

CICL's underwriting activities are being carried out under a separate Underwriting Department supervised by an Assistant Managing Director. The company has been continuously following fire, marine and motor tariff published by Central Rating Committee named as Bangladesh Fire tariff, Bangladesh Marine tariff, Motor tariff. Exceptionally Miscellaneous insurance business underwrites as per underwriting manual & underwriting guideline which is provided by IDRA & CRC. The Central Rating Committee modifies tariff rates after every specified period and has flexibility to adjust the tariff rate according to the performance of the specific sector and the client. The officers and staff involved in underwriting activities are well educated and well trained; most of them have long years of experience. CICL underwrote 30 high valued risks (more than one billion) assignments during 2022 with a total amount of Tk. BD 107,584.53 million. CICL's business portfolio has been found to be average, its underwriting profit has been decreased to Tk.103.10 million in 2022 from Tk.112.31 million in 2021 registering a 8.20% de-growth.

Profitable underwriting performance

5.4 Sectoral Business Review

CICL, as mentioned earlier, carries out all types of general insurance business. While analyzing the performance in terms of business classes, CRISL reviewed the sector wise businesses as follows:

5.4.1 Fire Business

Underwriting performance in fire business has been found to be improving during the period. The total sum insured in this business segment stood at Tk.90,123.09 million in 2022 against Tk. 86,656.81 million in 2021` registering 4% growth. The reinsurance coverage stood at 31.00% in 2022 against 31.00% in 2021. Due to increased business, the gross premium earnings also increased to Tk.240.13 million in 2022 against Tk. 201.22 million in 2021 having 19.34% growth. Net premium less reinsurance increased to Tk.189.18 million in YE2022 from Tk.151.64million in 2021. Consequently, retention ratio in this segment increased to 78.78 % from 75.36% during the above periods respectively. Underwriting profit increased to Tk.50.37 million in 2022 against Tk.26.01 million in 2021 indicating 93.66% growth. Underwriting profit increase due to increased of adjusted net premium. Claim ratio decrease to 12.75 % in 2022 against of 13.44% in 2021. Management expenses to adjusted net premium moved downward to 38.06 % in 2022 from 45.69% in 2021 due to comparatively low increase of management expense (3.81% increase in 2022) against adjusted net premium earnings increase (24.60% in 2021). Moreover, agency commission to adjusted net premium decreased to 16.79% in 2022 from 11.88% in 2021 due to increase of agency commission. Expense ratio in this segment moved downward to 57.57% in 2022 against 57.57% in 2021 due to significantly increase of adjusted net premium earnings against total expenses.

Tk.50.37 million underwriting profit in 2022 from Fire segment

5.4.2 Marine Business

Underwriting performance in marine business has been found to be slightly declining. The total sum insured in this business segment stood at Tk.152,204.48 million in in 2022 against Tk.150,702.59 million in in 2021 registering 0.99% growth. The reinsurance coverage stood at 32.05 % in 2022 against 26.16% in 2021. The gross premium earnings in this segment increased to Tk.162.98 million in 2022 from Tk. 185.92 million in 2021. Underwriting profit decreased to Tk.37.67 million in 2022 from Tk.69.20 million in 2021. Underwriting profit decreased due to increased in net claim paid and management expenses. Retention ratio in this segment decreased to 79.79% in 2022 from 81.43% in 2021. Claim ratio has been found upward to 26.38% from 5.79% during the above periods respectively due to comparative increased in net claim payment against adjusted net premium. Expense ratio increased to 50.82 % in 2022 from 39.03% in 2021 due to significantly growth of expenses against adjusted net premium earnings. Combined ratio found increase to 71.20% in 2022 against 58.82% in 2021 due to increase claim ratio and expense ratio.

Tk.37.67 million underwriting profit in Marine business

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5.4.3 Motor Business

Underwriting performance in motor segment has been found to be average. Total underwriting risk was Tk.3,796.51 million in 2022 (Tk.3,722.07 billion in 2021) against no reinsurance coverage found (Tk.0.87 billion in 2020) indicating 0% reinsurance coverage. The gross premium decreased to Tk.21.88 million in 2022 against of Tk. 31.91 million in 2021 indicating a decrease of 31.43%. The net premium earning declined to Tk.20.83 million in 2022 from Tk. 31.82 million in 2021. The underwriting profit decreased to Tk.8.90 million from Tk.10.48 million during above periods respectively due to decreased of adjusted net premium. The retention ratio decreased to 95.20% in 2022 from 99.70% in 2021. The Claim ratio soared to 32.32% from 30.10% during the above periods respectively due to more claim payment against adjusted net premium earnings degrowth of 34.54% in 2022. Expense ratio increased to 46.04% in 2022 from 39.84% in 2021.

Tk. 8.90 million
underwriting profit from
Motor segment

5.4.4 Miscellaneous Business

Underwriting performance in miscellaneous business has been found to be average. CICL underwrote total risk of Tk.17,202.92 million in 2022 (Tk.16,473.84 million in 2021). Gross premium slightly increased to Tk. 78.21million from Tk. 48.38 million. The net premium increased to Tk.18.44 million against Tk. 11.58 million during the above periods respectively. The underwriting profit slightly decreased to Tk.6.16 million in 2022 from Tk.6.62 million in 2021 due to increased in net claim paid and management expenses. Claim ratio soared to 1.02% in 2022 against (0.93)% 2021 due to increase in net claim payment against net premium earnings. Expense ratio in this segment increased to 59.43 % in 2022 from 52.86% in 2021.

Tk. 6.16 million
underwriting profit in
Miscellaneous segment

5.5 Retention Capacity

SBC revises retention limit of private sector general insurance companies from time to time depending on the financial strength, underwriting expertise etc. As per latest treaty (for the period April 1, 2022 to March 31, 2023), retention limit has been fixed at Tk.15.00 million in fire business, Tk.2.5 million in marine (cargo) business, Tk.2.5 million in marine (hull) business. Fire business is protected by excess of loss treaty in current reporting year. Retention limit for miscellaneous business stood at Tk.1.00 million for all business, Tk.0.2 million for personal accident and Tk.1.00 million for personal accident (accumulation). The motor business is also protected by excess of loss treaty in current year. The retained loss in this segment is protected of Tk.0.50 million while maximum amount of Tk.2.50 million in excess of Tk.1.5 million is protected by SBC.

5.6 Investment Portfolio

CICL's investment portfolio has been found to be good. Total investment of the company stood at Tk.996.43 million in 2022 against Tk.976.03 million in 2021. Out of the above investment, Tk.740.65 million has been invested in FDR (Tk. 727.45 million in 2021), Tk.55.18 million has been invested in BGTB (Tk.27.45 million in 2021), Tk.94.72million has been invested in shares (Tk.101.69 million in 2021, Tk.100.00 million has been invested in CIC investment limited (Tk.100.00 million in 2021). The company has considerable investment in capital market with the trading intent. As capital market is highly volatile and market prices of securities fluctuate very frequently, CICL is exposed to equity risk. Share market investment stood at Tk.94.72 million in 2021 with cost value of Tk.129.79 million indicating unrealized loss of Tk.(35.07) million. The provision for fair value of shares stood at Tk.31.56 million in 2022 which creates significant equity risk. During the surveillance period the interest earned on FDR & STD decreases of Tk.42.91million in 2022 compared to Tk. 40.23 million in 2021.

Good Investment
portfolio

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6.0 PERFORMANCE

6.1 Financial Performance

The overall financial performance of the company has been found to be average as against the previous year's performance. The total gross premium has been increased to Tk.503.19 million in 2022 from Tk.467.42 million in 2021 registering 7.65% growth. Net Premium also increased to Tk.358.49 million from Tk.346.43 million as re-insurance premium has been charged proportionately. The underwriting profit decreased to Tk.103.10 million in 2022 against Tk.112.31 million in 2021. Interest on FDR & STD has been increased to Tk.42.91 million in 2022 against Tk.40.23 million in 2021. Dividend income increased to Tk.8.26 million in 2022 against Tk 8.11 million in 2021, others income increase to Tk.28.16 million 2022 against Tk.17.59 million in 2021. Total income decreases to Tk.182.45 million 2022 against Tk. 195.22 million. The management expenses stood at Tk.42.38 million in 2022 against Tk. 34.42 million in 2021. Profit before tax (PBT) decrease and reached at Tk.140.07 million against Tk.160.80 million during the above periods respectively. Profit after tax (PAT) also slightly decreased to Tk.108.18 million in 2022 against Tk.127.20 million in 2021. Major financial performance indicators slightly decreasing during the period compared to previous year. Gross underwriting margin decrease to 65.37% in 2022 against 68.60% in 2021. The net underwriting margin decrease to 27.00% in 2022 against 30.57% due to comparatively significant increase of adjusted net premium earnings against underwriting profit. Pre-tax operating margin decrease to 36.68 % against 43.77% during the above periods respectively due to significant increase of adjusted net premium earnings against PBT. Return on Average Asset (ROAA) decrease to 3.84% in 2022 and 5.70% in 2021. Return on Average Equity (ROAE) decrease to 4.03% against 6.51%..

Improving financial performance



Average technical performance

6.2 Technical Analysis

The overall technical performance of CIKL has been found to be in line with its peers. The retention ratio of the company has been found to be decreasing to 71.24 % in 2022 against 74.11% in 2021 due to retaining maximum business in its own retention. The increased of management expenses stood at 5.59 % (Tk.142.70 million in 2022 against Tk.135.15 million in 2021) and the adjusted net premium earnings stood at Tk.381.91 million in 2022 against Tk. 367.34 million in 2021 registering 3.97% growth. Consequently management expense to adjusted net premium ratio increased to 37.36% against 36.79% during the above periods respectively. The claim ratio improved to 18.01% in 2022 against 11.00% in 2021 due to increased of net claim payment against adjusted net premium earnings. However, CIKL is yet to reduce its management expenses and it is far above from allowable limit.

7.0 BALANCE SHEET STRENGTH

7.1 Solvency Analysis

Solvency position of CIKL has been found to be average. As per Insurance Act 2010, the paid up capital has been re-fixed at Tk.400 million as minimum capital requirement for all general insurance companies while CIKL has already enhanced its capital base to Tk.531.45 million from 2022 and fulfilled regulatory minimum capital requirement. The equity base also increased to Tk.2692.54 million in 2022 against Tk.2,673.23 million in 2021. Maximum portion of equity has been financed by capital. The equity consists of 19.74% paid up capital, 14.18% reserve for exceptional losses, 2.09% share premium, 1.08% general reserve, 57.40% other reserve and the remaining 3.94% as retained earnings. While analyzing the overall solvency position of the company, it has been found to be average in terms of relative measurement. An external liability to equity ratio has been found to be increase to 0.30 times in 2022 and 0.29 times in 2021. Unexpired risk reserve to net claim ratio decreased to 2.13 times against 3.46 times in 2021 due to huge increased of net claim payment. Net worth to total assets decreased to 73.30 % in 2022 from 73.93% in 2021 due significant growth in net worth (0.72% in 2022) against total asset (1.59% in 2022). Internal Capital Generation Ratio (ICGR) decreased to 1.14% against 4.05%, however, it has been found to be moderate among its peers. Net worth to total liability downward to 274.52% in 2022 from

Average solvency

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283.60% in 2021, however, it has been found to be average. Insurance liability to total asset moved downward and stood at 4.74% in 2022 from 4.75% in 2021 indicating relatively lower growth of total liability against higher growth of total assets.

7.2 Liquidity and Funding

The overall liquidity position of the company has been found to be good. Liquid assets to insurance fund ratio moved downward to 5.97 times in 2022 against 6.29 times in 2021 due to comparatively more increase of insurance fund against less increase of total liquid assets. Liquid assets to total assets slightly moved downward to 23.84% from 24.30% during the above periods respectively. Current ratio increase to 2.75 times in 2022 and 2.74 times in 2021. Liquid assets to net claim ratio decreased to 12.73 times in 2022 against 21.73 times in 2021. However, it has been found to be good among its peer. Moreover, liquid asset to total current liability ratio slightly increased to 1.52 times in 2022 against 1.55 times in 2021.

Good liquidity

8.0 RISK MANAGEMENT

8.1 Industry Risk

Too many insurance companies in a small market pose significant risk for all the companies. The two acts 'Insurance Development and Regulatory Authority Act, 2010' and 'Insurance Act, 2010' has brought significant changes in the regulation of the industry. For further enhancing the solvency position, the paid up capital for non-life and life insurance companies have been raised to Tk.400 million and Tk.300 million respectively. Moreover, mandatory credit rating for the insurance companies created a positive vibration in the industry as the institutional insured expect for good credit rating to safeguard their interest. The same will pressurize the underperforming (non investment grade) insurance companies to retain their market share. Moreover, two more non-life insurance companies have commenced their business in small market.

8.2 Business Risk Management

CICL adopted underwriting guidelines to mitigate the business risk. In case of underwriting a policy, Underwriting professionals at branch level are given specific instructions and guidelines, time to time from Head Office regarding underwriting of different types of policies. The company has regular risk inspection team headed by Mr. S. M. Jahir ul Alam with one Vice president and two senior manager. Risks involved with policies are assessed by surveyors companies for underwriting different types of policies involving specific limit of sum insured. However, in case of higher value at risk, the company makes inspection as and when required. Among the different business classes CICL has more concentration in risky fire (34.22%) followed by marine business (57.81%), miscellaneous (6.53%) and motor (1.44%) in 2022 in terms of business risk undertaken. Besides, the zonal concentration of the company remained same in Dhaka region indicating significant business risk.

8.3 Internal Control Risk Management

CICL has separate Internal Audit Department (IAD) besides the Board Audit Committee to ensure proper internal control of the company. The Department comprises of 4 officials headed by Mr. Md. Mizanur Rahman who is serving CICL as a Senior Manager having professional background on Internal Audit. Internal control department mainly deals with compliance issues of financial obligations. Internal Audit team of CICL audited the branches on their own program and sent the report to the MD/CEO and respective branches to comply with. When the branches replied, the reports were placed before the Audit Committee. During 2022, the audit department conducted audits of 36. However, number branches audited have been found to be average among its branch network.

8.4 Catastrophic Risk Management

Bangladesh is vulnerable to natural disaster which exposes CICL to catastrophic risk. The company does not have CAT excess of loss treaty with SBC or any other insurance to protect the risk from fire business. For which there is a risk of catastrophic loss. However, CICL did not encounter any catastrophic loss in 2022 & 2021.

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8.5 Financial Risk

The applicable income tax rate for insurance companies has presently been fixed at 37.5% on the taxable net profit. CICL is yet to finalize tax dispute of several years at DCT, AJICT and Tribunal Level and two appeals remain pending as stay order by Honorable High Court Division.

9.0 OBSERVATION SUMMARY

<p>Rating Comforts:</p> <ul style="list-style-type: none"> • Profitable underwriting performance • Improving financial performance • Good capital base • Good liquidity • Good FDR base • Diversified investment portfolio • Experienced top management • Good branch network 	<p>Rating Concerns:</p> <ul style="list-style-type: none"> • Substantial outstanding claim • High expense ratio • Unrealized loss on capital market exposure • Moderate market share • No reinsurance agreement with foreign reinsurer • Yet to start business of subsidiary operation • Decline in market capitalization • Static retention limit
<p>Business Prospects:</p> <ul style="list-style-type: none"> • Expansion of branch network • Product diversification 	<p>Business Challenges:</p> <ul style="list-style-type: none"> • Too many companies in small market • Emergence of foreign companies

END OF THE REPORT

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[We have examined, prepared, finalized and issued this report without compromising with the matters of any conflict of interest. We have also complied with all the requirements, policy procedures of the BSEC rules as prescribed by the Bangladesh Securities and Exchange Commission.]

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CRISL RATING SCALES AND DEFINITIONS
INSURANCE CLAIM PAYING ABILITY RATING

RATING	DEFINITION
AAA Triple A	Highest claims paying ability. Risk factors are negligible and almost risk free.
AA+, AA, AA- Double A	Very high claims paying ability. Protection factors are strong. Risk is modest, but may vary slightly over time due to underwriting and/or economic condition.
A+, A, A- Single A	High claims paying ability. Protection factors are good and there is an expectation of variability in risk over time due to economic and/or underwriting conditions.
BBB+, BBB, BBB- Triple B	Good claims paying ability. Protection factors are good. Changes in underwriting and/or economic conditions are likely to have impact on capacity to meet policyholder obligations than insurers in higher rated categories.
BB+, BB, BB- Double B	Average claim paying ability. Protection factors are average. The companies are deemed likely to meet these obligations when due. But changes in underwriting and/or economic conditions are more likely to weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
B+, B, B- Single B	Inadequate Claim paying ability. Protection factors are weak. Changes in underwriting and/or economic conditions are very likely to further weaken the capacity to meet policyholder obligations than insurers in higher rated categories.
CCC	Uncertain claims paying ability. The companies may not meet these obligations when due. Protection factors are very weak and vary widely with changes in economic and/or underwriting conditions.
CC	Poor claims paying ability. Adverse underwriting or economic conditions would lead to lack of ability on part of insurer to meet policyholder obligations.
C	Very high risk that policyholders obligations will not be paid when due. Present factors cause claim paying ability to be vulnerable to default or very likely to be default. Timely payment of policyholder obligations possible only if favorable economic and underwriting conditions emerge.
D	Insurance companies rated in this category are adjudged to be currently in default.