



The Pakistan Credit Rating Agency Limited

ALFALAH INSURANCE COMPANY LIMITED

(AFIC)

IFS RATING REPORT

	NEW [SEP-17]	PREVIOUS [MAR-17]
Insurer Financial Strength (IFS) Rating	AA-	AA-
Outlook	Stable	Stable

RATING RATIONALE

The rating recognizes AFIC's maintained financial profile, emanating from i) well managed insurance assets/liabilities structure, and ii) growing investment book that contributes a sizable income stream & provide cushion to the bottom line. Rating also draw comfort from sponsorship of the company by ADG. Growth in business volumes of the company have improved its market share. The management's conservative stance, in the form of low risk retention, continues yielding profitability. Positive momentum in volumes is expected to continue on the back of group support. Health and accident segment intends to fortify its position in the general insurance industry by expanding its health network. The company is expanding penetration in motor segment; building synergies with group bank – Bank Alfalah. Currently, healthy liquid profile of the company; needs to be monitored carefully while considering company's trajectory of growth. Supporting its prudent risk retention policies, Alfalah Insurance has a sound panel of reinsurers with favourable treaty terms.

KEY RATING DRIVERS

The rating is dependent on the company's ability to augment its market position in the competitive landscape, while upholding the underwriting performance. Strengthening of liquidity profile is vital along with prudent management of claims and receivables.

INDUSTRY

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.

Profile & Ownership

- Alfalah Insurance Company Limited (AFIC), commencing business in Sep'06, is engaged in providing non-life insurance services
- AFIC operates through two business Hubs - North and South - with a total of 12 branches
- Abu Dhabi Group (ADG), consisting of members of UAE's ruling family and leading businesses, owns AFIC through key sponsoring individuals and group companies including Bank Alfalah Limited - sixth largest bank of Pakistan

Governance and Management

- Seven member board, including CEO, is chaired by HH Sheikh Nahayan Mabarak Al Nahayan; a minister for Public Works in UAE government
- Three board members come from the sponsoring group; two members represent Bank Alfalah Limited, while one member holds executive position in ADG
- Mr. Nasar us Samad Qureshi, CEO of the company, has insurance related experience of over three decades; he is supported by a team of experienced professionals

Business Risk

- The company has a market share of 3% at 1H17 (CY16: 2.6%).
- GPW mix is well diversified in health (35%), miscellaneous (30%), motor (21%), fire (8%), and marine (6%); misc. segment predominantly comprises banker's blanket, machinery breakdown and electronic equipment insurance.
- GPW of PKR 2,022mln, has seen 31% growth in CY16 and 4% growth is observed in GPW at 1H17.
- Sustained loss ratio at a moderate level of 54% at CY16 whereas 9% decrease in loss ratio is observed at 1H17:45% (1H16:54%). Fire, Marine & Health class of business also witnessed decrease in loss ratio 1H17: 14%, 15%, 58% (1H16: 20%, 40%, 88%) respectively.
- Expense ratio decreased in 1H17: 46% (1H16: 53%), resulting decline in combined ratio of 91% (1H16:107%).
- Investment income (PKR 69mln) continues to provide cushion to the bottom line (PKR 79mln).

Business Strategy

- Going forward, AFIC expects to enhance its customer base and addition of 100mln more in health business.
- Prospects of high support from group business by newly elected CEO of Bank Alfalah.
- Extensive focus would continue to expand non-captive market, benefitting from recently strengthened branch network and the sales team.
- Prudent underwriting ensuring profitability remains important.

Financial Risk

- The size of liquid investment book (end-June17: PKR 1,403mln end-Dec16: PKR 1,235mln) remained strong, representing 1.3 times of equity base.
- The risk profile of the investment portfolio remained low with majority of the funds deployed in low risk bank deposits (50%), Government securities (3%) and Equity Securities (21%) investment yield clock in at 5% at 1H17 and 12% at end Dec 16.
- Strong risk absorption capacity reflected by stable liquidity position, providing 2.7 times cover to the claims liability
- At end Dec-16, improved position of outstanding claims led to reduced claim days 210 days (CY15: 286days) while at 1H17 it surged to 243 days (1H16: 193days).
- Strong reinsurance arrangements with reputed international reinsurers predominantly Swiss Re (AA-), SCOR (AA-), Hannover Re (AA-) by Standard & Poors and PRCL (AA) by PACRA.



GENERAL INSURANCE
Financials [Summary]

Alfalah Insurance Company Limited

BALANCE SHEET	30-Jun-17	31-Dec-16	31-Dec-15
Investments			
Liquid Investments	1,403	1,235	1,102
Investment in Associates	-	-	-
Other Investments	28	-	-
	<u>1,431</u>	<u>1,235</u>	<u>1,102</u>
Insurance Related Assets	958	1,023	856
Other Assets	641	618	419
TOTAL ASSETS	<u>3,030</u>	<u>2,877</u>	<u>2,377</u>
Equity	1,051	915	805
Underwriting Provisions	880	765	637
Insurance Related Liabilities	799	996	793
Other Liabilities	299	200	142
TOTAL EQUITY & LIABILITY	<u>3,030</u>	<u>2,877</u>	<u>2,377</u>

INCOME STATEMENT	30-Jun-17	31-Dec-16	31-Dec-15
Net Premium			
Gross Premium Written (GPW)	1,150	2,022	1,546
Net Premium Revenue (NPR)	570	954	780
Net Claims	(256)	(511)	(429)
Net Operational Expenses	(265)	(383)	(275)
UNDERWRITING RESULTS	<u>49</u>	<u>59</u>	<u>76</u>
Investment Income	69	118	76
Other Income/ (expense)	(5)	4	2
PROFIT BEFORE TAX	<u>112</u>	<u>181</u>	<u>154</u>

RATIO ANALYSIS	30-Jun-17	31-Dec-16	31-Dec-15
Underwriting Results			
Loss Ratio	45%	54%	55%
Combined Ratio	91%	100%	115%
Performance			
Operating Ratio	80%	88%	105%
Investment Yield	5%	12%	6%
Liquidity & Solvency			
Liquidity Ratio – times	2.7	2.5	2.2



RATING SYMBOLS & DEFINITIONS:

**INSURER FINANCIAL STRENGTH (IFS)
RATING SCALE & DEFINITIONS**

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

RATING SCALE	DEFINITION
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small
A+ A A-	Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ BBB BBB-	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ B B-	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC CC C	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
D	Distressed Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

Outlook (Stable, Positive, Negative, Developing)

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

