



The Pakistan Credit Rating Agency Limited

Rating Report

Alfalah Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Apr-2018	AA-	-	Stable	Maintain	-
29-Sep-2017	AA-	-	Stable	Maintain	-
10-Mar-2017	AA-	-	Stable	Upgrade	-
01-Dec-2016	A+	-	Stable	Maintain	-
01-Dec-2015	A+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

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 draws comfort from sponsorship of the company. Growth in business volumes of the company is important. 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. Supporting its prudent risk retention policies, Alfalah Insurance has a sound panel of reinsurers with favourable treaty terms.

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 liquid profile is vital along with prudent management of claims and receivables.

Disclosure

Name of Rated Entity	Alfalah Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Correlation between long-term and short-term rating scale(Jun-2017), Methodology Criteria Modifiers(Jun-2017), Methodology Debt Instruments Rating Methodology(Jun-2017), Methodology Insurer Financial Strength (IFS) Rating General(Jun-2017), Methodology Preference Shares Rating Methodology(Jun-2017)
Related Research	Sector Study General Insurance(Nov-2016)
Rating Analysts	Iqra Bashir iqra.bashir@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

ALFALAH INSURANCE COMPANY LIMITED PROFILE	
Incorporated	2006
Major Business	Insurance
Legal Status	Un-Listed Public Limited Company
Head Office	Lahore

INDUSTRY SNAPSHOT
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.

OWNERSHIP	STRONG
<ul style="list-style-type: none"> 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 AFIC operates through two business Hubs - North and South - with a total of 12 branches 	

Governance	STRONG
<ul style="list-style-type: none"> Seven member board, including CEO, is chaired by HH Sheikh Nahayan Mabarak Al Nahayan; a minister of culture & knowledge development 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 	

MANAGEMENT	GOOD
<ul style="list-style-type: none"> The company has a well-defined organizational structure and different operations are segregated and managed through Executive director and Departmental Heads. The major operational departments include (i) Risk Management, (ii) Finance, (iii) Claims, (iv) Underwriting, (v) Reinsurance, (vi) HR and (vii) IT. 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 To ensure operational efficiency, Alfalah Insurance has three management committees in place which includes; (i) Underwriting and Risk Management, (ii) Claims settlement and (iii) Reinsurance and co-insurance. The meetings of each committee are held quarterly; however the members meet as and when required to discuss unusual cases. 	

BUSINESS RISK	GOOD
<ul style="list-style-type: none"> The company constitutes market share of 3% at Sep 17, critical to augment its market position in competitive landscape. GPW portfolio mix at end-Sep17 is dominated by health (28%), followed by miscellaneous (25%), motor (24%), fire (17%) and marine (6%). GPW (PKR 1,757 mln) witnessed 9% growth in 9M17 majorly in Health (36%) and Motor (20%). Sustained loss ratio at a moderate level of 47%. Expense ratio increased in 9M17: 46% (9M16: 37%), resulting sustained combined ratio of 93% (9M16:93%). The company posted an underwriting profit of PKR 62mln and Investment income (PKR 85mln) continues to provide cushion to the bottom line (PKR 102mln). 	

BUSINESS STRATEGY	GOOD
<ul style="list-style-type: none"> 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	GOOD
<ul style="list-style-type: none"> The company's investment book (PKR 1,397mln) represents 132% of its equity base at end-Sep 17 and the size of liquid investment book (end-Sep17: PKR 1,397mln end-Sep16: PKR 1,294mln) 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 (54%), Government securities (2%) and Equity Securities (17%) investment yield clock in at 6% at 9M17 (9M16: 7%). Risk absorption capacity reflected by liquidity position, providing 1.8 times cover to the claims liability declined from 2.7 times in 9M16, needs management attention to strengthen liquidity in relative universe. At end Dec-16, improved position of outstanding claims led to reduced claim days 210 days (CY15: 286days) while at 9M17 it further decreased to 172 days (9M16: 210 days). 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-Sep-17	30-Jun-17	31-Dec-16	31-Dec-15
Investments				
Liquid Investments	1,397	1,403	1,235	1,102
Investment in Associates	-	-	-	-
Other Investments	-	28	-	-
	<u>1,397</u>	<u>1,431</u>	<u>1,235</u>	<u>1,102</u>
Insurance Related Assets	1,477	958	1,023	856
Other Assets	746	641	618	419
TOTAL ASSETS	<u>3,620</u>	<u>3,030</u>	<u>2,877</u>	<u>2,377</u>
Equity	1,054	1,051	915	805
Underwriting Provisions	927	880	765	637
Insurance Related Liabilities	1,252	799	996	793
Other Liabilities	388	299	200	142
TOTAL EQUITY & LIABILITY	<u>3,620</u>	<u>3,030</u>	<u>2,877</u>	<u>2,377</u>

INCOME STATEMENT	30-Sep-17	30-Jun-17	31-Dec-16	31-Dec-15
Net Premium				
Gross Premium Written (GPW)	1,757	1,150	2,022	1,546
Net Premium Revenue (NPR)	886	570	954	780
Net Claims	(417)	(256)	(511)	(429)
Net Operational Expenses	(406)	(265)	(383)	(275)
UNDERWRITING RESULTS	<u>62</u>	<u>49</u>	<u>59</u>	<u>76</u>
Investment Income	85	69	118	76
Other Income/ (expense)	1	(5)	4	2
PROFIT BEFORE TAX	<u>147</u>	<u>112</u>	<u>181</u>	<u>154</u>

RATIO ANALYSIS	30-Sep-17	30-Jun-17	31-Dec-16	31-Dec-15
Underwriting Results				
Loss Ratio	47%	45%	54%	55%
Combined Ratio	93%	91%	100%	115%
Performance				
Operating Ratio	83%	80%	88%	105%
Investment Yield	6%	5%	12%	6%
Liquidity & Solvency				
Liquidity Ratio – times	1.8	2.7	2.5	2.2



INSURER FINANCIAL STRENGTH (IFS) RATING 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.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>
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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.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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