



The Pakistan Credit Rating Agency Limited

Rating Report

Askari Life Assurance Company Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Jul-2022	A (ifs)	-	Stable	Maintain	-
31-Mar-2022	A (ifs)	-	Stable	Harmonize	-
14-Jul-2021	A-	-	Stable	Maintain	-
20-Jul-2020	A-	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Rating of Askari Life Assurance Company Limited (the Company) is based on its core sponsorship from the Army Welfare Trust, unlocking synergistic benefits as well as providing explicit commitment in times of financial crisis. The Army Welfare Trust has an established presence in the insurance industry through Askari General Insurance. A deficit for the year has occurred due to its initial year of operations, however improvement in the profitability through growth in single premium revenue and regular premium revenue along-with increased exposure in bancassurance provides comfort to the rating. During CY21, the Company’s GPW grew by ~86% to PKR ~835mln as compared to PKR ~449mln in CY20. Loss ratio of the Company improved to ~26% in CY21 (CY20: ~45%). Contribution of captive business in GPW of Askari life is ~3% which is expected to grow in future. Group business yielded profit of PKR ~1.5mln. Currently, Askari Life is only focusing on life business. Risk absorption capacity and capitalization levels are moderate. Any dilution therein has the comfort backing of the sponsors. Increase in market share along with converting underwriting losses into profitability remains crucial. Moreover, maintenance of adequate capital in wake of increasing business volumes and consequent support from sponsors would remain important.

During CY21, total GPW of the industry grew by ~25% to PKR ~291bln as against increase of ~4.6% to PKR ~223bln in CY20. Post pandemic situation, the demand for Life Insurance products has increased, however, inflation is an ongoing challenge for growth of the industry.

Sustained improvement in the business and financial risk profile of the company in line with their relative positioning in the industry remain vital to the rating. Concurrently, the liquidity profile of the Company should continue to cushion the policyholder's liabilities. Growth in topline and underwriting profits remain essential

Disclosure	
Name of Rated Entity	Askari Life Assurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Criteria Rating Modifiers(Jun-21),Methodology Life Insurance Rating(Mar-22)
Related Research	Sector Study Life Insurance(Jun-21)
Rating Analysts	Behrooz Fareed behrooz.fareed@pacra.com +92-42-35869504

Profile

Legal Structure Askari Life Assurance Company Limited (ALAC) is a public listed entity.

Background The Company was formerly known as East West Life Assurance Company Limited, which commenced its operations in February, 1993.

Operations Head office of the Company is located in Karachi, whereas the Company operates in major cities of the country, with branches in Lahore, Islamabad and Karachi.

Ownership

Ownership Structure Askari Life is majorly owned by Army Welfare Trust (AWT), with a stake held of ~66.6%. While East West Life Insurance Company Limited owns ~19%. Remainder of the shareholding is free floated and held by individuals in public.

Stability Operations of AWT are well diversified, with involvement in Aviation, CNG, Agriculture, Manufacturing, Sugar, Lubricants, Real Estate, Security Solutions and other various sectors.

Business Acumen AWT was set up in 1971 by Pakistan Army under the 'Societies Registration Act' with the mandate of promoting the welfare of retired personnel of the Army and Shuhda through the creation of income and employment generating activities. The Trust is currently engaged in sugar, textile, real estate, banking, leasing, insurance, cement, and travel services.

Financial Strength Financial strength of the group is deemed to be strong, support being derived from its successful business ventures in multiple sectors.

Governance

Board Structure The board comprises five non-executives, two independent and an executive director who is also CEO of the Company.

Members' Profile CEO is the only executive director, while there are two independent board members. Remaining are non-executive directors including the Chairman.

Board Effectiveness Three sub-committees are established by the board, which oversees the operations of the Company, namely; (i) Audit Committee (ii) Investment Committee (ii) Ethics, Human Resource Remuneration & Nomination Committee.

Financial Transparency External Auditors of the Company, M/s RSM Awais Hyder Liaquat Nauman have provided an unqualified opinion on the financial statement of Askari Life for CY-21.

Management

Organizational Structure Askari Life has a well-defined organogram, structured with reporting lines directed towards the Nomination Committee, which functions with CEO of the Company.

Management Team The Company has a qualified and experienced management team. Mr. Jehanzeb Zafar, CEO of the Company has been involved in the insurance sector for two decades. Mr. Jehanzeb along with COO - Mr. Azmat ullah Sharif and Mr. Rehan Mobin, CFO of the Company carry out the decisions at a strategic level.

Effectiveness The board has three management committees, namely; Underwriting and Reinsurance Committee, Claim Settlement Committee; and Risk Management & Compliance Committee.

Claim Management System A detailed claim settlement guide is developed by Askari Life, with a core objective of smooth transition between different stages of the process. With the initiation of claim through the policyholder's request, a policy review is undertaken. Subsequently, once the legitimacy of the claim is verified, a case is prepared and forwarded to the Head of Claims for approval.

Investment Management Function A comprehensive Investment Policy Statement (IPS) has been drafted by Askari Life, which provides guidance in terms of investment decision-making. The Committee is chaired by Mr. Malik Riffat Mahmood. Air Vice Marshal Muhammad Athar Shamas (Retd), Jahanzeb Zafar and Rehan Mobin are remaining members of the Investment Committee. The meeting is held on a quarterly basis, in which the investment framework is discussed and investment decisions are conducted, in accordance with the IPS.

Risk Management Framework The Company has developed a robust risk management framework which establishes principles and standards for the management and control of all risks that may impact the Organization. The risk register captures all the risks that are currently impacting the Company or may have an impact in the future. It highlights the severity of the risk and controls in place for prevention. The risk register is updated regularly.

Business Risk

Industry Dynamics Market size of the Life Insurance industry with respect to the Gross Premiums Written (GPW) is PKR~291bln in CY21; up by ~25% YoY as compared to last year's GPW of PKR~233bln in CY20. Net claims, however, declined by 0.4%. The investment by the industry went up by ~12%. With the revival of industrial activity, the private sector credit by banks and FIs is expected to rise going forward and would therefore simultaneously boost demand for the life insurance industry. The Insurance Sector is directly linked to banking credit growth. The industry intends to sustain its existing position while aiming to launch innovative products.

Relative Position Askari Life holds a market share of less than 1% in terms of GPW, as at end-Dec'21.

Persistency Persistency ratios for the year under review have witnessed improvement, with first year persistency standing at ~63% (CY20: 52%) and second year persistency at 76% (CY20: 51%).

Revenue The Company has significantly increased its Gross Premium Written by ~86% compared on YoY basis (CY21: PKR ~835mln, CY20: PKR ~449mln). Renewal of individual business and group life business increased by ~104% and ~51% respectively. During CY21, the Company initiated a distribution partnership for Bancassurance with a commercial bank, in order to enhance the business growth.

Profitability Loss ratio of the Company improved to ~26% in CY21 (CY20: ~45%), due to decrease in death claims post COVID-19 scenario. The Company has succeeded in lowering its expense ratio significantly to ~25% during CY21 (CY20: ~134%) which is in consensus with the industry average. During CY21, the management's focus remained on the cost of acquisition. Company's net loss (before tax) for the CY21 stood at PKR 242mln (CY20: PKR 238mln).

Investment Performance The Company's Investment portfolio currently stood at PKR 1,021mln (CY20: PKR 909mln). However, investment income remained stagnant during CY21 at PKR 65mln (CY20: PKR 65mln) caused by low return rate on bank deposits. For the quarter of 2022, Investment & other income showed improvements and increased to PKR 22mln as compared to PKR 16mln for the same quarter of 2021. The Company's investment portfolio expanded due to increased business activity. Investment portfolio of the Company stood at PKR 1052mln as at End-March22 (CY21: PKR 1021mln)

Sustainability Going forward, the Company envisages high growth targets with a focus on multiple avenues. Furthermore, strengthening of banking network along with expansion of agent network to promote new marketing strategies and launch competitive products which will help the Company in achieving the business growth.

Financial Risk

Claim Efficiency The claims outstanding days increased to ~326days during CY21 (CY20: ~54days) due to increase in out standing claims to PKR 134mln as at End-Dec21 (CY20: PKR 115mln) despite of lower insurance claims.

Re-Insurance Askari Life has Reinsurance arrangements with Hannover Re (AA- by S&P) and Munich Re (AA- by S&P).

Cashflows & Coverages Total liquid assets parked with the Company stood at PKR 1,021mln as at end-Dec'21 (end-Dec'20: PKR 909mln). Liquid ratio of the Corporation comparing liquid assets to outstanding claims remained stagnant as at End-Dec21 to 7:1 (CY20: 7:1) however, improved to 8:1 as at End-March22.

Capital Adequacy Askari Life has total equity of PKR 309mln as at end-Dec'21 (end-Dec'20: PKR 451mln). The Company witnessed a decrease in equity due to a decrease in reserves (General ledger D) to PKR -1,223mln as at END-DEC21 (CY20: PKR -971mln).



PKR mln

Askari Life Assurance Co Ltd
Listed Public Limited

Mar-22	Dec-21	Dec-20	Dec-19
3M	12M	12M	12M

A BALANCE SHEET

1 Investments	1,053	1,021	909	623
2 Insurance Related Assets	48	55	38	11
3 Other Assets	50	45	39	35
4 Fixed Assets	30	34	63	100
Total Assets	1,181	1,155	1,050	770
5 Underwriting Provisions	-	-	-	-
6 Insurance Related Liabilities	756	771	518	394
7 Other Liabilities	57	58	44	33
8 Borrowings	12	18	36	59
Total Liabilities	825	847	599	486
Equity	356	309	451	284

B INCOME STATEMENT

1 Gross Premium Written	265	835	449	302
2 Net Insurance Premium	204	600	281	220
3 Underwriting Expenses	(187)	(545)	(322)	(246)
Underwriting Results	17	55	(41)	(26)
4 Management Expenses	(53)	(187)	(180)	(229)
5 Investment Income	22	65	65	75
6 Other Income / (Expense)	(1)	(11)	(22)	(8)
7 Net Change in Reserve for Policyholders' Liabilities	(38)	(164)	(60)	(74)
Profit Before Tax	(52)	(242)	(239)	(261)
8 Taxes	(0)	(0)	(0)	(1)
Profit After Tax	(53)	(242)	(239)	(262)

C RATIO ANALYSIS

1 Profitability				
Loss Ratio (Net Insurance Claims / Net Insurance Premium)	13.2%	25.8%	45.0%	37.4%
Combined Ratio (Loss Ratio + Expense Ratio)	117.6%	121.9%	178.7%	216.1%
2 Investment Performance				
Investment Income / Operating Profit	-157.0%	-96.9%	-41.1%	-42.0%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims	8.38	7.46	7.59	6.07
4 Capital Adequacy				
Liquid Investments / Equity	2.96	3.31	2.02	2.19

Notes

Insurer Financial Strength (IFS) Rating

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

Scale	Definition
AAA (ifs)	Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or 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 some material identifiable event with indeterminable rating implications. 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 rating 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. 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, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(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

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(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)

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(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 | Clause 11-(A)(p).

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(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)

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(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)

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(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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