



The Pakistan Credit Rating Agency Limited

## Rating Report

### Askari Life Assurance Company Limited

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#### Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
05-Jul-2024	A (ifs)	Stable	Maintain	-
07-Jul-2023	A (ifs)	Stable	Maintain	-
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

Pakistan's Life Insurance market is dominated by the public sector (~66.6% share as of Dec-23), while the private sector holds only ~33.4%. The sector players have shifted their focus from first-year persistency to second-year, prioritizing Gross Premium Written (GPW) growth. During CY23, overall GPW showed a YoY growth of ~7.7%. Out of the total, ~46.6% of the GPW pertains to renewals, followed by group life without cash value (~37.2%). Net Premium also showed a YoY increase of ~7.4%. As policy maturities and surrenders have largely trickled in, net claims grew by ~31%. To adapt, the industry holds a substantial investment book (CY23: PKR 2,021bln, CY22: PKR 1,747bln) stabilizing the overall outlook.

Askari Life Assurance Company Limited ("Askari Life" or "the Company") drives its strength from its association with Army Welfare Trust ("the Trust"). The Trust holds a broad and diversified business portfolio encompassing its established role in the insurance sector through Askari General & Life Insurance companies. Askari Life offers a range of products from savings and family protection plans to unit-linked plans and tailored health and life insurance coverage. During CY23, GPW of the Company improved by ~24%. The first year of business slightly decreased due to economic factors leading to reduced customers' purchasing power. The support was driven from renewal business along with group premiums. The Company reported renewal persistency of (~82%), while first-year persistency remains weak (~52%). The combined ratio has improved, however, remains substantially high due to high expense ratio (i.e. the acquisition cost). Though investment income provides some respite. The Company has booked a net loss, thus depleting the equity base. On the contrary, the Company maintains adequate liquidity cover and capital adequacy ratio. Askari Life requires a strategy revamp to manage operational expenses effectively, thereby achieving profitability and strengthening its industry standing.

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. The liquidity profile should continue to cushion the policyholder's liabilities.

#### Disclosure

<b>Name of Rated Entity</b>	Askari Life Assurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Assessment Framework   Life Insurance(Mar-24),Methodology   Rating Modifiers(Apr-24)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-23)
<b>Rating Analysts</b>	Mir Muhammad Hamza   Mir.Hamza@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Askari Life Assurance Company ("Askari Life" or "the Company") was incorporated in 1992 as a public listed company under the repealed Companies Ordinance 1984 (now called Companies Act 2017). The Company is listed on PSX.

**Background** The Company formerly known as East West Life Assurance Company Limited, commenced its operations in Feb'93. The parent group, Army Welfare Trust (the Trust) was formed in 1971 and comprises a diversified business portfolio renowned in all major sectors of Pakistan including Insurance, Aviation, CNG, Agriculture, Manufacturing, Sugar, Lubricants, Real Estate, Security Solutions and Information Technology.

**Operations** The Company is engaged in life insurance and window takaful business including savings and family protection plans to unit-linked plans and tailored health and life insurance coverage. The head office is located in Karachi, while the Company operates through branches in Lahore and Islamabad.

## Ownership

**Ownership Structure** The majority shareholding lies with the Trust (~66.7%), followed by East West Insurance Company (~19%), individuals, and others (~14.3%).

**Stability** Ownership seems to remain stable, going forward, as the majority of the shareholding lies in associates (the Trust).

**Business Acumen** The Trust is committed to improve the welfare of retired personnel and martyrs by developing income-generating activities and promoting employment opportunities showcasing strong business acumen.

**Financial Strength** Financial strength of the Trust is deemed stable where support is being derived from successful business ventures in multiple sectors.

## Governance

**Board Structure** Overall control of the Board vest with 7 members including 4 Non-Executive, 2 Independent and 1 Executive Director.

**Members' Profile** The Board is chaired by Lt. Gen. Nauman Mehmood (R). (He was commissioned into an Infantry Battalion and is a distinguished graduate of the Command and Staff College Quetta, the Command and Staff College Cairo, Egypt, and the National Defence University Islamabad.).

**Board Effectiveness** Three committees assist the Board in overseeing operations: (i) the Audit (ii) Investment (iii) Ethics, HR Remuneration & Nomination Committee. 5 board meetings were held, with the minutes of the meeting documented. These Committees meet at regular interval of time and whenever the need arises.

**Financial Transparency** The External Auditors of the Company, RSM Awais Hyder Liaquat Nauman have provided an unqualified opinion on the financial statement of CY23. The firm is QCR-rated and categorized under category A in the SBP panel.

## Management

**Organizational Structure** Askari Life adopts a horizontal organizational structure where reporting lines extend to the Executive Committee, working closely with the CEO. The Company's operations are segmented into six primary areas: Administration, Human Resources, Accounts & Finance, Operations, Information Technology, and Distribution Services. Each department head reports to the Executive Committee, which in turn reports to the Board of Directors.

**Management Team** Mr. Jehanzeb Zafar, the CEO, brings nearly a decade of experience and is associated with the Company since 2018. He has also served as the Chief Strategy Officer (CSO) at Adamjee Life Assurance Co. Ltd. He is assisted by a qualified and experienced management team.

**Effectiveness** The Board has established three management committees to ensure the effectiveness of its processes: (i) Underwriting and Reinsurance (ii) Claim Settlement (iii) Risk Management & Compliance Committee. Meetings are conducted on a regular basis to counter operational challenges and to run business smoothly.

**Claim Management System** A detailed claim settlement guide is developed by Askari Life with a core objective of a smooth transition between different stages of the process. With the initiation of the claim through the policyholder's request, a policy review is undertaken. 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 IPS has been drafted, which provides guidance in terms of investment decision-making. 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 risk management framework that establishes principles and standards for the management and control of all risks. 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** Life Insurance market is dominated by public sector (~66.2% share as of Dec-23). While, the private sector holds only ~33.8% of the market share. Gross Premium (GPW) of the industry stood at ~PKR 406bln during CY23 (CY22: ~PKR 377bln), showing a YoY growth of ~7.69%. GPW is bifurcation i.e., between regular premium products, single premium products and group life policies. ~46.58% of the total premium pertains to renewal premium products, and is followed by group life without cash values at ~37.2%. Net Premium stood at PKR~ 399bln (CY22: PKR~372bln), showing a YoY increase of ~7.39%. While, Net Claims stood at ~PKR 367bln (CY22: ~PKR 281bln). The total investment book of the industry stood at ~PKR 2,021bln (CY22: ~PKR 1,747bln).

**Relative Position** Askari Life, a small player, holds a market share of less than 1% during CY23.

**Persistency** During CY23, 1st year persistency remained weak clocking at ~52% (CY22: ~48%). Whereas, renewal persistency stood at ~82% (CY22: ~81%). Support from the Trust along with efficient & effective customer service attributes to improved persistency of the Company.

**Revenue** During CY23, the GPW of the Company improved by ~24%, reporting at ~PKR 1,614mln (CY22: ~PKR 1,302mln). Group insurance premium remained as key revenue generator ~32%, followed by first-year premium ~29%, second-year premium ~19%, subsequent year premium ~13%, and single-year premiums ~7%. Looking ahead, the Company's revenue may gather support from expanding bancassurance segment.

**Profitability** During CY23, the underwriting performance of the Company witnessed substantial improvement (~50%) due to cost control and reported at ~PKR 300mln (CY22: ~PKR 200mln). However, owing to high management expenses the Company reported a net loss of ~PKR 165mln during CY23 (CY22: loss ~PKR 276mln). As management prioritizes reducing operational costs, its expected to enhance bottom-line performance moving forward

**Investment Performance** The Company's investment portfolio saw an improvement of ~31%, reaching ~PKR 1,871mln during CY23 (CY22: ~PKR 1,431 mln). The investment book predominantly consists of government securities (~66%), followed by equity instruments (~19%) and cash & bank balance (~15%). During CY23, the Company reported investment income of ~PKR 277mln (CY22: ~PKR 131mln), primarily stemming from returns on government securities. Going forward, policy rate cut and ~86% of the portfolio allocated to government securities will impact the investment portfolio income.

**Sustainability** Moving forward, the Company envisions achieving high growth targets by focusing on multiple avenues. This includes strengthening its banking network and expanding its agent network.

## Financial Risk

**Claim Efficiency** Claims outstanding days of the Company improved to 85 days in CY23 (CY22: 101 days), owing to higher claims paid during the period. The claims coverage ratio of the Company surged to 5.9x in CY23 (CY22: 8.3x), witnessing the Company's robust position to meet its obligations.

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

**Cashflows & Coverages** The investment portfolio is primarily in liquid assets, including government securities and listed equity. As of CY23, it stands at ~PKR 1,871mln (CY22: ~PKR1,431mln). Liquid investments to net claims coverage is 5.9x, and liquid assets to net premium revenue is 1.3x, reflecting a strong liquidity position.

**Capital Adequacy** The Company reported an equity base of ~PKR 397mln as of CY23 (CY22: ~PKR 359mln). Whereas, capital adequacy ratio of the Company stands at 4.7x in CY23 (CY22: ~3.9x).



PKR mln

Askari Life Assurance  
Public Listed

Mar-24	Dec-23	Dec-22	Dec-21
3M	12M	12M	12M

#### A BALANCE SHEET

1 Investments	1,898	1,871	1,431	1,021
2 Insurance Related Assets	28	67	100	55
3 Other Assets	146	114	60	45
4 Fixed Assets	41	47	33	34
<b>Total Assets</b>	<b>2,113</b>	<b>2,099</b>	<b>1,624</b>	<b>1,155</b>
5 Underwriting Provisions	-	-	-	-
6 Insurance Related Liabilities	1,653	1,559	1,164	771
7 Other Liabilities	91	112	87	58
8 Borrowings	26	31	14	18
<b>Total Liabilities</b>	<b>1,770</b>	<b>1,702</b>	<b>1,265</b>	<b>847</b>
<b>Equity</b>	<b>343</b>	<b>397</b>	<b>359</b>	<b>309</b>

#### B INCOME STATEMENT

1 Gross Premium Written	367	1,614	1,302	835
2 Net Insurance Premium	282	1,254	1,078	600
3 Underwriting Expenses	(244)	(954)	(878)	(545)
<b>Underwriting Results</b>	<b>37</b>	<b>300</b>	<b>200</b>	<b>55</b>
4 Management Expenses	(90)	(320)	(242)	(187)
5 Investment Income	82	277	131	65
6 Other Income / (Expense)	5	3	(21)	(11)
7 Net Change in Reserve for Policyholders' Liabilities	(90)	(418)	(343)	(164)
<b>Profit Before Tax</b>	<b>(56)</b>	<b>(159)</b>	<b>(275)</b>	<b>(242)</b>
8 Taxes	(1)	(7)	(1)	(0)
<b>Profit After Tax</b>	<b>(57)</b>	<b>(165)</b>	<b>(276)</b>	<b>(242)</b>

#### C RATIO ANALYSIS

##### 1 Profitability

Loss Ratio (Net Insurance Claims / Net Insurance Premium )  
Combined Ratio (Loss Ratio + Expense Ratio)

30.9%	22.4%	13.7%	25.8%
118.6%	101.6%	103.9%	121.9%

##### 2 Investment Performance

Investment Income / Operating Profit

276.1%	107.9%	146.9%	-96.9%
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##### 3 Liquidity

(Liquid Assets - Borrowings) / Outstanding Claims

11.03	11.77	10.76	7.46
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##### 4 Capital Adequacy

Liquid Investments / Equity

5.53	4.72	3.98	3.31
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### 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
<b>AAA (ifs)</b>	<b>Exceptionally Strong.</b> 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.
<b>AA++ (ifs)</b> <b>AA+ (ifs)</b> <b>AA (ifs)</b>	<b>Very Strong.</b> 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.
<b>A++ (ifs)</b> <b>A+ (ifs)</b> <b>A (ifs)</b>	<b>Strong.</b> 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.
<b>BBB++ (ifs)</b> <b>BBB+ (ifs)</b> <b>BBB (ifs)</b>	<b>Good.</b> 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.
<b>BB++ (ifs)</b> <b>BB+ (ifs)</b> <b>BB (ifs)</b>	<b>Modest.</b> 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>B++ (ifs)</b> <b>B+ (ifs)</b> <b>B (ifs)</b>	<b>Weak.</b> 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.
<b>CCC (ifs)</b> <b>CC (ifs)</b> <b>C (ifs)</b>	<b>Very Weak.</b> 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
<b>D (ifs)</b>	<b>Distressed.</b> 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><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> 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

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

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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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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