



The Pakistan Credit Rating Agency Limited

Rating Report

TRAFCO Insurance Company Limited

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Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
07-Jun-2024	BBB++ (ifs)	Stable	Maintain	-
09-Jun-2023	BBB++ (ifs)	Stable	Upgrade	-
13-May-2023	BBB+ (ifs)	Stable	Maintain	-
13-May-2022	BBB+ (ifs)	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's General Insurance industry has a total size of PKR 182bln during CY23 (CY22: PKR 143bln), exhibiting a growth of ~27%, in terms of Gross Written Premium (GWP). The industry reported a growth of ~46% in underwriting results (CY23: PKR 4.7bln, CY22: PKR 3.2bln). The net income of the industry also experienced an increase of ~60% to PKR 18bln during CY23 (CY22: PKR 11bln). Overall, the industry's overall outlook remains stable with substantial liquidity available with players.

TRAFCO Insurance Company Limited ("TRAFCO Insurance" or "the Company") rating reflects that the Company is currently in the developing stage, with the management making concerted efforts towards achieving financial stability. The Company is compliant with meeting the minimum capital requirements. Despite efforts that have been made to meet the minimum solvency requirements of PKR 150mln, the Company needs to address the concern in full as a deficit of PKR 85mln stands. The Company has reported growth of ~95% in its underwriting portfolio; yet, the portfolio size remains comparatively small. The management has taken substantial steps to minimize segmental concentration risk. During CY23, the fire segment accounts for ~36% of the total portfolio, making it the highest contributor, followed by the miscellaneous segment (~31%), motor segment (~29%), and the marine segment (~4%). TRAFCO Insurance requires a strategy revamp so as to generate profits in underwriting results trickling to net level. TRAFCO Insurance has made significant progress by securing reinsurance treaties, which provide the capacity for growth and offer a safeguard against underwriting risks. The Company needs to build a substantial investment book, which at present comprises PKR 3mln invested in TDRs, so as to generate a supplementary income. This is essential for addressing the liquidity concerns. The overall quantum of risk remains considerable.

The assigned rating is dependent on improved business to ensure financial stability. The rating would benefit from the resolution of compliance concerns related to the Insurance Ordinance, 2000. Additionally, the development of a healthy investment book, along with achieving breakeven from the core operations remains crucial for rating.

Disclosure

Name of Rated Entity	TRAFCO Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Assessment Framework General Insurance(Mar-24),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study General Insurance(Jun-23)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Legal Structure TRAFCO Insurance Company Limited (“TRAFCO” or “the Company”) was incorporated in Pakistan as an unlisted public limited company on October 25th, 1979 under the Companies Act 1913 (now the Companies Act, 2017).

Background The sponsoring Company - "TRAFCO Group of Companies" acquired "Credit Insurance Company" in 2015 and subsequently changed the name to TRAFCO Insurance Company Limited, while the parent company took over the operations in 2015.

Operations TRAFCO offers a range of non-life insurance products to individuals and corporations. The Company deals in “Fire and Property Damage”, “Marine, Aviation and Transport”, “Motor” and “Miscellaneous” segments. The Company currently operates through three branches in Pakistan. The head office of the Company is located in Lahore.

Ownership

Ownership Structure The ownership of the Company is fully held by the Malik family. The majority shareholder, Mr. Tahir Malik holds (~40%) shareholding followed by Mr. Saboohi Tahir (~30%). While remaining (~30%) of the shareholding is held by other family members.

Stability The Company is a family-owned business, and the sponsoring family has no plans to alter the ownership structure or relinquish the controlling stake. This ensures the ownership structure remains stable in the near future.

Business Acumen The sponsors of the Company possess strong business acumen and continue to follow a distinguished path.

Financial Strength Under the leadership of Mr. Tahir Malik, the group has expanded into logistics, supply chain solutions, asset and vehicle tracking management, and insurance businesses, demonstrating the sponsors' solid financial strength.

Governance

Board Structure The overall governance of the Company vests in seven-member Board: an Independent Director, two Executives and four Non-Executive Directors. The CEO is not a member of the Board.

Members' Profile The position of the board's Chairman is held by Mr. Tahir Malik, a reputed professional and entrepreneur and current CEO of TRAFCO Logistics and TRAFCO Tracking. He has over three decades of diversified experience.

Board Effectiveness The Board oversees strategic planning, finance, governance, and compliance through seven committees: Audit, Investment, Ethics and Compliance, Underwriting, Reinsurance and Co-Insurance, Claim Settlement, Nominations, and Risk Management. They keep detailed minutes.

Transparency M/s Muniff Ziauddin & Co. Chartered Accountants audited the Company's financial statements for the period ended Dec-23. The external auditors issued a qualified opinion due to non-compliance with solvency requirements, failure to maintain the minimum deposit with the SBP, and failure to make provisions for the penalty per Section 157, Subsection 1 of the Insurance Ordinance 2000.

Management

Organizational Structure The Company has a well-defined organogram with clear lines of reporting. All the department heads directly report to the CEO who then reports to the Board.

Management Team The Chief Executive Officer, Mr. Muhammad Nawaz Shahid, possesses over three decades of experience within the insurance industry. Before taking the position as CEO, he served as the General Manager for Credit Insurance.

Effectiveness Management committees, overseen by the Management Committee, convene as needed with action points noted but no formal minutes. These include Underwriting, Reinsurance and Co-Insurance; Claim Settlement; Risk Management; Remuneration; and Ethics and Compliance. They ensure efficient decision-making and oversight in vital operational areas.

MIS The Company has implemented its custom Insurance Management System (IMS). IT system developed by ANZ Globalsoft (Pvt.) using back-end database comprised of Oracle 11g environment. IMS is a centralized ERP system that is installed at the local Servers (Application and Database Servers) which are online 24/7.

Claim Management System Claims and underwriting processes of the Company are well structured. The underwriting and Risk assessment department has independent operations. Each department is equipped with capable staff, especially engineers, pertaining to motor insurance and installation/monitoring of tracking equipment.

Investment Management Function The Company has in place an Investment Policy Statement laying down the guidelines for investment. IPS delegates the authority to investment committee of the Board to oversee the investment function. The members have the ongoing responsibility for managing the investment portfolio.

Risk Management Framework The Company has established a Risk Management Committee to mitigate and control risks. Risk management covers underwriting, claims, sales & marketing, and accounts & finance. Underwriting authority lies with divisions and units, while branches can issue pre-approved policies.

Business Risk

Industry Dynamics Pakistan's General Insurance industry has a total size of PKR 182bln during CY23 (CY22: PKR 143bln), exhibiting a growth of ~27%, in terms of Gross Written Premium (GWP). The industry reported a growth of ~46% in underwriting results (CY23: PKR 4.7bln, CY22: PKR 3.2bln). The net income of the industry also experienced an increase of ~60% to PKR 18bln during CY23 (CY22: PKR 11bln). Overall, the industry's overall outlook remains stable with substantial liquidity available with players.

Relative Position TRAFCO Insurance is categorized as a small Insurance player, with less than ~1% market share in terms of GPW as at Dec'23.

Revenue During CY23, the Company reported an uptake of ~90%, reporting at PKR 21mln, compared to PKR 11mln in CY22. The Company exclusively operates as a conventional insurance company. The fire segment accounted for ~36% of the total, making it the highest contributor, followed by Miscellaneous at ~31%, Motor at ~29%, and Marine at ~4%.

Profitability TRAFCO's profitability has been on a downward trajectory. During CY23, the Company reported underwriting losses of PKR 30mln, an increase from the previous year's loss of PKR 28mln. With no investment income to offset these losses, the Company reported a net loss of PKR 16mln for CY23, compared to a net loss of PKR 8mln in CY22. The significant management expenses relative to the business generated have severely impacted the Company's profitability.

Investment Performance During CY23 the Company invested in term deposits with 1 month maturity. Previously the Company had no investment book present. The Company has no supplementary income other than a loan to its sister concern generating interest income for the Company.

Sustainability TRAFCO Insurance plans to grow its position in the market while managing sustainable breakeven and subsequent profitability, ensuring consistent improvement in prudent underwriting and risk management.

Financial Risk

Claim Efficiency In CY23, the Company's outstanding claims, including IBNR, remained at PKR 4mln, consistent with CY22. The net insurance claims expense for CY23 was PKR 2mln, up from PKR 0mln in CY22. The insurance claims to liquid investments ratio improved to 71.7% in CY23 from 131.6% in CY22.

Re-Insurance TRAFCO Insurance maintains re-insurance treaties -Whole account Excess of loss for motor, fire, engineering, miscellaneous, bond and marine with international and local re-insurers which includes PVI Insurance Corporation (rated "A" by A.M. Best), Kenya Re (rated "BB+" by A.M. Best) and Pakistan Reinsurance Company Limited (rated "AA+ ifs" by VIS).

Cashflows & Coverages As of the end of CY23, liquidity coverage stood at 1.0x, compared to 0.5x in CY22, on account of provisions for outstanding claims, including incurred but not reported (IBNR) claims. The Company's liquid investments to equity ratio was 1.2% in CY23, up from 0.8% in CY22.

Capital Adequacy The Company's equity as of CY23 is PKR 289mln (CY22: PKR 305mln), with paid-up capital of PKR 570mln, exceeding SECP's Minimum Capital Requirement (MCR) for non-life insurers. The minimum solvency requirement is PKR 150mln. However, the Company has a deficit in net admissible assets of PKR 85mln as of CY23.



PKR Mln

TRAFICO Insurance Company Limited
Public Unlisted Company

Dec-23	Dec-22	Dec-21	Dec-20
12M	12M	12M	12M

A BALANCE SHEET

1 Investments	3	2	9	0
2 Insurance Related Assets	4	8	4	-
3 Other Assets	79	62	120	113
4 Fixed Assets	240	248	250	94
5 Window Takaful Operations	-	-	-	-
Total Assets	327	320	383	207
1 Underwriting Provisions	13	6	5	5
2 Insurance Related Liabilities	13	4	18	19
3 Other Liabilities	12	5	18	27
4 Borrowings	-	-	30	29
5 Window Takaful Operations	-	-	-	-
Total Liabilities	38	15	70	79
Equity/Fund	289	305	312	127

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	21	11	8	14
2 Net Insurance Premium/Net Takaful Contribution	10	6	6	14
3 Underwriting Expenses	(39)	(34)	(25)	(62)
Underwriting Results	(30)	(28)	(19)	(47)
4 Investment Income	-	-	-	-
5 Other Income / (Expense)	14	21	(75)	(0)
Profit Before Tax	(16)	(8)	(94)	(48)
6 Taxes	(0)	(0)	0	(0)
Profit After Tax	(16)	(8)	(94)	(48)

C RATIO ANALYSIS

1 Profitability

Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful	21.8%	-5.7%	-41.7%	98.1%
Combined Ratio (Loss Ratio + Expense Ratio)	411.8%	611.0%	399.9%	428.3%

2 Investment Performance

Investment Yield	0.0%	0.0%	0.0%	0.0%
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3 Liquidity

(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.0	0.5	-1.5	-1.6
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4 Capital Adequacy

Liquid Investments / Equity (Funds)	1.2%	0.8%	2.8%	0.1%
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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
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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2) Conflict of Interest

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- (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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- (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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- (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)

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(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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