



The Pakistan Credit Rating Agency Limited

Rating Report

Postal Life Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Oct-2022	A+ (ifs)	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating derives assurance from “Postal Life Insurance Company Limited” being wholly owned subsidiary of the Govt. of Pakistan (GoP), through Ministry of Communications. GoP has also injected equity of PKR 4bln, which is a testimony of GoP’s vision and commitment to the Company. Rating derives comfort from outreach of Postal Life through vast branch network of the Pakistan Post, spread across country. Postal Life has been enjoying a long-standing history since its establishment in 1884. GoP formulated Postal Life as a separate legal entity, in Mar’20, which operates under regulatory framework of the Securities & Exchange Commission of Pakistan (SECP). Composition of Board of Directors (BoD) has been approved by the Cabinet. BoD of the Company includes three Govt. officials i) Federal Secretary for Communications ii) Additional Secretary Finance and iii) Director General, Pakistan Post. The Company is in process of approval of "Postal Life Insurance Act, 2021" from the Cabinet. Postal Life has two separate funds namely: i) Post Office Business Fund (POBF) & ii) Pakistan Business fund (PBF) for distinct management of legacy and new businesses. POBF is established for claims related to legacy business. Whereas, PBF is established to pay off obligations related to new business of Postal Life. Additionally, GoP is committed to provide fund amounting to PKR 48bln, along with any outstanding amount duly determined by actuarial valuation. Whereas, actuarial valuation report has shown policyholder liabilities amounting to PKR 59.936bln net off outstanding policy holder loans. Rating also factors in healthy capital position, strong risk absorption capacity, represented by sufficient liquidity and quality of its investment portfolio. Majority of the Company’s investment book is invested in government securities. The Company has written a Gross Premium Written (GPW) of PKR 1,593mln and net profitability of PKR 458mln during 6MCY22. GPW of Life Insurance industry in Pakistan stood at PKR~95bln during 1QCY22 (1QCY21: PKR~62bln; CY21: PKR~291bln), showing a YoY growth of ~53%. Major growth was observed in Govt. sector. CY21 has shown recovery in business and a positive trend in growth of the industry, compared to corresponding period. Hike in policy rate will be a source of safe return for the Companies on Govt. investments.

The Company’s continued self-subsistence of statutory funds, ability to improve its market position and strengthening of core profitability are integral to the rating. Moreover, prudent management of risk in wake of increasing business volumes and agency model remain important. Moreover, approval of "Postal Life Insurance Act, 2021" from the Parliament of Pakistan, realization of accrued interest income on the promissory note, remains crucial to the rating.

Disclosure

Name of Rated Entity	Postal Life Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Life Insurance Rating(Mar-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Life Insurance(Jun-22)
Rating Analysts	Waqas Ahmad waqas.ahmad@pacra.com +92-42-35869504

Profile

Legal Structure Postal Life Insurance Company Limited ("Postal Life" or "the Company") is a public limited company.

Background Postal Life was incorporated in 1884 to secure the lives of postal mail runners. Later on, its services were extended to other Govt. employees. After independence in 1947, it started offering its services to general public through Pakistan Post. In March 2020, Government of Pakistan (GoP) decided to formulate Postal Life as a separate legal entity, which will operate under the regulatory framework of SECP.

Operations Postal Life provides individual, group life and savings solutions through a vast network of Post Offices and 47 field offices spanning all over Pakistan. Whereas, the principal office is located in Islamabad.

Ownership

Ownership Structure Postal Life is wholly owned by Govt. of Pakistan (GoP), through the Ministry of Communications.

Stability Postal Life is a government owned entity with stable shareholding. There are no intentions regarding dilution of shareholding of the Company.

Business Acumen Postal Life is a Govt. owned enterprise, which operates under the umbrella of Ministry of Communications. GoP appoints relevant individuals with requisite experience to run the operations of the Company in most efficient manner.

Financial Strength Federal Government, being sole shareholder of the Company, will always be there for support and will be approached when such requirement arises. GoP has also injected equity of PKR 4bln, which is a testimony of the GoP's vision and commitment to the Company. GoP is committed to provide fund amounting to PKR 48bln, along with any outstanding amount duly determined by actuarial valuation. Whereas, actuarial valuation report has shown policyholder liabilities amounting to PKR 59.936bln net off outstanding policy holder loans. Postal Life is in process of approval of "Postal Life Insurance Act, 2021" from the Cabinet.

Governance

Board Structure Postal Life's has a seven member Board of Directors(BoD). Composition of BoD has been approved by the Cabinet. The board consists of three non-executive (Govt. officials), three independent and one executive member. In order to ensure effective governance, the Company has formulated four board level committees namely: i) Ethics, HR, Remuneration & Nominations Committee, ii) Investment Committee, iii) Procurement Committee and iv) Audit Committee.

Members' Profile The Chairman of BoD, Capt.(R) Mr. Muhammad Khurram Agha is an officer of Pakistan Administrative Service. He completed his Master of Arts in History in Pakistan and obtained degree of MBA in E-Business from Australia. He has an experience of more than two decades in managing different Govt. entities. Other two Govt. officials are i) Additional Secretary Finance and ii) Director General, Pakistan Post. Other members of the Board are experienced professionals.

Board Effectiveness Effectiveness of the board found to be paramount. The board of directors meets at least quarterly in normal course of business. Formal agenda is prepared before meeting, detailed minutes of the meeting are maintained to keep record and enhanced transparency.

Financial Transparency The External Auditors of the Company, M/S Ilyas Saeed & Co. Chartered Accountants, have provided an unqualified opinion on the financial statements for CY20. It is pertinent to mention that, Postal Life has finalized draft financial accounts for CY21, which are to undergo audit process. Additionally, audit committee has recommended M/S BDO Ebrahim & Co, Chartered & Accountants for appointment as external auditor for CY21.

Management

Organizational Structure The Company has instituted a detailed hierarchal structure to adapt with the Company's vast operations. The Company has formulated three management committees: i)Underwriting & Reinsurance Committee, ii)Claim Settlement Committee and iv)Risk Management & Compliance Committee.

Management Team Mr. Hassan Akhtar Khan is acting CEO of the Company. He has served for more than three decades in different government sectors. Currently, he is also appointed as Director General - Pakistan Post. He has done B.Sc. Engineering in 1987, and has participated in various domestic and international training program. Additionally, He is accompanied by seasoned professionals having vast industry experience.

Effectiveness Management committees are held every quarter to discuss operational matters of the Company. Formal agendas are prepared for the meetings and minutes of the meeting are recorded and maintained.

Claim Management System Claims are initiated by field officers, who prepares and complete complete file and forward it to claim department. Claim are approved according to assigned limits of each designated person. Claims of higher amounts require CEO's approval. After approval from relevant authoritative person, a list of claims is prepared and sent to finance department. Finance department then process payments.

Investment Management Function Postal Life has investment committee at board level. Investment committee monitors performance of funds and issue guidelines for investment/divestment in specific asset class. The Company has approved investment policy which specifies guidelines for investment in each assets classes of each fund.

Risk Management Framework Postal Life has "Risk Management & Compliance Committee" at management level, which evaluates, manages and monitors risk at organizational level. Ongoing efforts are being made to strengthen the implementation of the Risk Management Framework.

Business Risk

Industry Dynamics Gross Premium Written (GPW) of the Life Insurance industry in Pakistan stood at PKR~95bln during 1QCY22 (1QCY21: PKR~62bln; CY21: PKR~291bln; CY20: PKR~233bln), showing a YoY growth of ~53%. Major growth was observed in Govt. sector. CY21 has shown a recovery in business and a positive trend in the growth of the industry, as compared to the corresponding period. Recent hikes in the policy rate will be a source of safe returns for the Companies on Govt. investments. On the other hand, a massive hike in inflation is also going to affect the surplus income of the general public.

Relative Position Postal Life is in the transition phase to be a separate legal entity. It has strong potential for market penetration through branch network of Pakistan Post, spread across the country. Currently, It has a market share of ~1% in terms of Gross Premium/Contribution Written.

Persistency Continuation of the premium is fundamental to the life insurance business. Postal Life has a strong loyalty and reputation with its policyholders, who are satisfied with products of the Company. This is evident from the fact that 64% of GPW was contributed by its subsequent year renewals. Whereas, group policies without cash value contributed 28% followed by second-year renewal (5%) and first-year (3%).

Revenue As Postal Life initiated its operations as a separate legal entity during CY21, it has written a total GPW of PKR 2,513mln over the year. Further, the Company has written a GPW of PKR 1,593mln during 6MCY22.

Profitability During CY21, the financial performance of the Company remained satisfactory. The Company incurred commission and acquisition costs of PKR 251mln along with management expenses of PKR 316mln. With the support of investment income, the Company earned net profit of PKR 504mln for CY21.

Investment Performance Postal Life has booked an investment income of PKR 4,870mln for CY21 including an accrued interest of PKR 4,477mln on promissory note, Govt. securities amounting to PKR 211mln and others amounting to PKR 182mln. Interest is accrued on the average outstanding balance of the principal amount of promissory note. Whereas, interest rate is based on circular issued through Ministry of Finance (Budget Wing).

Sustainability The Company intends to enhance its digital space in order to provide hassle-free services to its policyholders. The management is planning to increase market share by retention and training current staff with industry specific knowledge.

Financial Risk

Claim Efficiency GoP has issued promissory note amounting to PKR 48bln, claim related to legacy business will be paid by GoP, till date of issue of promissory note. Whereas, subsequent liabilities will be borne by Postal Life. The Company has paid claim amounting to PKR 2,390mln during 6MCY22 (CY21: PKR 3,704mln).

Re-Insurance Postal Life has reinsurance treaties with "Swiss Re" Rated "AA-(Very Strong)" by S&P, "Aa3(Excellent)" by Moody's and "A+(Superior)" by A.M. Best.

Cashflows & Coverages Postal Life has an investment book of PKR 65,411mln as at period ended Dec'21, comprising majorly (92%) of promissory note amounting to 60,309mln issued by GoP. Followed by Govt. securities (7%) and Cash & Banks (1%).

Capital Adequacy Postal Life has an equity base of PKR 4,976mln as at period ended June'22 (CY21: PKR 4,518mln). The Company has paid up capital of PKR 700mln and share deposit money against issuance of shares of PKR 3,300mln. Postal Life has not paid any dividend since it's inception.



PKR mln

Postal Life Insurance Company Limited
Public Unlisted Company

Jun-22	Dec-21	Dec-20
6M	12M	12M

A BALANCE SHEET

1 Investments	60,879	65,411	1,700
2 Insurance Related Assets	401	401	-
3 Other Assets	12,394	5,959	22
4 Fixed Assets	16	12	-
Total Assets	73,691	71,783	1,722
5 Underwriting Provisions	-	-	-
6 Insurance Related Liabilities	68,481	67,074	-
7 Other Liabilities	233	192	8
8 Borrowings	-	-	-
Total Liabilities	68,714	67,265	8
Equity	4,976	4,518	1,714

B INCOME STATEMENT

1 Gross Premium Written	1,593	2,513	-
2 Net Insurance Premium	1,593	2,513	-
3 Underwriting Expenses	(2,569)	(3,955)	-
Underwriting Results	(976)	(1,442)	-
4 Management Expenses	(327)	(316)	(2)
5 Investment Income	3,431	4,870	22
6 Other Income / (Expense)	(1)	(10)	(1)
7 Net Change in Reserve for Policyholders' Liabilities	(1,614)	(2,522)	-
Profit Before Tax	514	580	19
8 Taxes	(56)	(75)	(6)
Profit After Tax	458	504	14

C RATIO ANALYSIS

1 Profitability			
Loss Ratio (Net Insurance Claims / Net Insurance Premium)	150.0%	147.4%	N/A
Combined Ratio (Loss Ratio + Expense Ratio)	181.8%	170.0%	N/A
2 Investment Performance			
Investment Income / Operating Profit	161.2%	156.5%	110.8%
3 Liquidity			
(Liquid Assets - Borrowings) / Outstanding Claims	119.43	128.32	N/A
4 Capital Adequacy			
Liquid Investments / Equity	12.23	14.48	0.99

Notes

The Company has finalized draft financial accounts for CY21, which are to undergo audit process.

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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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 | 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)

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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