



The Pakistan Credit Rating Agency Limited

Rating Report

Postal Life Insurance Company Limited

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Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
07-Oct-2024	A+ (ifs)	Stable	Maintain	Yes
20-Oct-2023	A+ (ifs)	Stable	Maintain	-
21-Oct-2022	A+ (ifs)	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 this 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 industry's outlook.

The assigned rating of Postal Life Insurance Company Ltd. ('Postal Life' or 'the Company') incorporates its evolving presence across the country through Pakistan Post and its wide spread offices. Government of Pakistan (GoP), through the Ministry of Communications, established Postal Life as a separate legal entity in Mar-20. The Company operates through Post Office Business Fund (POBF) for claims related to legacy business, and Pakistan Business Fund (PBF) to pay off obligations related to new businesses. During CY23, the Company's GPW declined by ~46%; this coupled with increased claims, significantly impacted Postal Life's underwriting performance. Persistency ratio for first year and renewals, remain low. The Company holds an elevated combined ratio. While, the bottom-line gathers support primarily from the income received from the Government of Pakistan (GoP) related to Postal Life's legacy business. The Company's liquidity position remained stable. On the qualitative side, financial transparency is impacted and timely completion of audit financials remains crucial. Rating has been assigned a 'Watch' as the overall business performance of the Company remains under pressure. Moreover, governance framework requires to be streamlined.

The Company's ongoing ability to independently sustain statutory funds and enhance its market position along with core profitability remain critical to rating. The streamlining of audit procedure remains integral for sustaining the rating. Moreover, prudent management of risk and agency models are important along with the realization of accrued interest income on the promissory note holds significance for the rating.

Disclosure

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



Profile

Legal Structure Postal Life Insurance Company Ltd. ('Postal Life' or 'the Company') was incorporated in 2020 as a public limited company under the repealed Company's Act-17.

Background Postal Life, part of a government department rendered insurance related services through General Post Office (GPO) to secure the lives of postal mail runners since 1884. Later, the services were extended to other govt. employees. In 1947, GPO started offering its services to general public. In Mar-20, a separate legal entity was incorporated and named Postal Life. Lately, the Company is in process of approval for "Postal Life Insurance Act, 2021" from concern departments/ministries

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

Ownership

Ownership Structure Government of Pakistan (GoP), through the Ministry of Communications holds complete stake in the Company.

Stability Postal Life, a Govt. owned enterprise and its ownership will remain stable.

Business Acumen Through Ministry of Communications, the GoP appoints relevant individuals with requisite experience to run the operations of the Company. Thus, the acumen remain adequate.

Financial Strength The sovereign support highlights the company's sound financial stability. The Government of Pakistan (GoP) has injected PKR 4bln in equity into the company. To address claims related to legacy business, the GoP has committed to providing ~PKR 48bln. The actuarial valuation report indicates cumulative policyholders' liabilities of ~PKR 60bln, with the current outstanding amount standing at ~PKR 52bln.

Governance

Board Structure Postal Life's Board composition is approved by the Cabinet. The Company has a 4 member Board including the CEO. The Board comprises of three Non-Executive Directors (Govt. officials) and one Executive Director.

Members' Profile The BoD was chaired by Capt.(R) Mr. Mohd. Khurram Agha, an officer of Pakistan Administrative Service. However, his tenure has ended and the position is currently vacant. Other three members of the BoD are experienced professionals

Board Effectiveness To ensure effective governance, the BoD is assisted by four committees: i) Ethics, HR & Remuneration (E, HR&R), ii) Investment (IC), iii) Procurement (PC) and iv) Audit Committee (BAC). The BoD meets on a quarterly basis to discuss a formally circulated agenda. Minutes of the meetings are adequately maintained.

Financial Transparency The External Auditor's, M/S BDO Ebrahim & Co, Chartered & Accountants, provided an unqualified opinion of financial statements for the year ended Dec-22. However, Audit for the period CY23 is still in process.

Management

Organizational Structure The Company has adopted a horizontal hierarchical structure comprising several departments; including HR, Finance, Actuarial & Strategic Planning, Operations, IT, Sales & Marketing, Investment, Compliance, and Internal Audit. Each department is managed by a dedicated Head, reporting to the CEO. The CEO reports to the Board.

Management Team Mr. M. Salman, the acting CEO of Postal Life, has an experience of above two decades. He has served as Senior Joint Secretary at Pakistan Post and is supported by a team of seasoned professionals.

Effectiveness The management is assisted by three management committees: Underwriting & Reinsurance, Claim Settlement, and Risk Management & Compliance Committee. These committees meet on quarterly basis to discuss pertinent operational matters. Minutes of these meetings are adequately maintained.

Claim Management System Claims are initiated by field officers who prepares and complete file and forward it to claim department. Claims of higher amounts require CEO's approval. After approval from relevant authoritative person, the list is prepared and sent to the finance department, where the payments are processed.

Investment Management Function The BoD has approved an Investment Policy specifying guidelines for investment in each assets class of each fund. The IC monitors performance according to those guidelines

Risk Management Framework The Risk Management & Compliance Committee evaluates, manages and monitors organizational risk at the management level. Ongoing efforts are being made to strengthen the implementation of the Committee's framework.

Business Risk

Industry Dynamics 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.

Relative Position Postal Life is in its initial gestation phase, and currently has a market share of less than ~1% in terms of GPW

Persistency Continuity of premium payments is a critical aspect of the life insurance business. The first-year persistency of the Company stands at ~47% during CY23. Further, the subsequent year's persistency ratio stands at ~58%, reflecting the retention of policyholders by the Company.

Revenue During CY23, Postal Life achieved a GPW of ~PKR 1,668mln, witnessing a dip of ~45% (CY22: PKR 3,047mln). A significant portion of the GPW was driven by the subsequent year's renewable policies amounting to ~PKR 1,572mln (CY22: PKR 2,631mln).

Profitability The Company experienced a declining trend in underwriting performance. During CY23, the Company reported an underwriting loss of ~PKR 4,226mln (CY22: ~PKR 2,999mln). This increase in underwriting loss is attributed to weak topline performance and high claims incurred during the period. However, bottomline of the Company was supported by investment income couple with grants received from government and reported at ~PKR 962mln during CY23 (CY22: ~PKR 432mln)

Investment Performance Postal life holds an investment book of PKR~ 5,174mln (CY22: ~PKR 4,230mln), majorly concentrated towards Government Securities (~93%). Whereas, investment income of the Company stood at ~PKR 984mln during CY23 (CY22: ~PKR647mln).

Sustainability The Company intends to enhance its digital space in order to provide continuous 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 To address claims related to legacy business, the GoP has committed to providing ~PKR 48bln. The actuarial valuation report indicates cumulative policyholders' liabilities of ~PKR 60bln, with the current outstanding amount standing at ~PKR 52bln. Whereas, Postal Life will bear subsequent liabilities. The Company has paid claims of ~PKR 5,529mln in CY23 (CY22: PKR 5,615mln).

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

Cashflows & Coverages As of CY23, the Company's liquid assets amounted to ~PKR 5,174mln. The liquidity ratio (Liquid Assets - Borrowing / Outstanding Claims) of the Company stood at ~30x as of CY23 (CY22: 25x).

Capital Adequacy Postal Life has a total equity base of PKR 6,416mln as at CY23 (CY22: ~PKR 5,456mln). An increase in equity owing to an increase in reserves coupled with unappropriated profits.



PKR mln

Postal Life Insurance Company Limited
Public Limited

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

A BALANCE SHEET

1 Investments	5,174	4,230	5,087
2 Insurance Related Assets	438	468	253
3 Other Assets	75,272	70,645	65,861
4 Fixed Assets	10	14	12
Total Assets	80,894	75,357	71,213
5 Underwriting Provisions	-	-	-
6 Insurance Related Liabilities	73,485	67,093	65,888
7 Other Liabilities	993	2,808	303
8 Borrowings	-	-	-
Total Liabilities	74,478	69,901	66,191
Equity	6,416	5,456	5,022

B INCOME STATEMENT

1 Gross Premium Written	1,668	3,047	2,493
2 Net Insurance Premium	1,668	3,045	2,492
3 Underwriting Expenses	(5,893)	(6,044)	(3,955)
Underwriting Results	(4,226)	(2,999)	(1,463)
4 Management Expenses	(671)	(654)	(315)
5 Investment Income	798	611	219
6 Other Income / (Expense)	8,431	6,376	4,640
7 Net Change in Reserve for Policyholders' Liabilities	(3,007)	(2,704)	(1,990)
Profit Before Tax	1,326	629	1,091
8 Taxes	(364)	(196)	(82)
Profit After Tax	962	432	1,008

C RATIO ANALYSIS

1 Profitability			
Loss Ratio (Net Insurance Claims / Net Insurance Premium)	331.5%	184.4%	148.6%
Combined Ratio (Loss Ratio + Expense Ratio)	393.6%	220.0%	171.4%
2 Investment Performance			
Investment Income / Operating Profit	-19.5%	-20.1%	-14.0%
3 Liquidity			
(Liquid Assets - Borrowings) / Outstanding Claims	30.70	25.10	9.34
4 Capital Adequacy			
Liquid Investments / Equity	0.81	0.78	1.01

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)

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)

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 | 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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