



The Pakistan Credit Rating Agency Limited

Rating Report

Alfalah Insurance Company Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Jun-2022	AA+ (ifs)	-	Stable	Maintain	-
31-Mar-2022	AA+ (ifs)	-	Stable	Harmonize	-
18-Jun-2021	AA	-	Stable	Upgrade	-
26-Aug-2020	AA-	-	Stable	Maintain	-
29-Aug-2019	AA-	-	Stable	Maintain	-
27-Feb-2019	AA-	-	Stable	Maintain	-
07-Dec-2018	AA-	-	Stable	Maintain	-
19-Apr-2018	AA-	-	Stable	Maintain	-
29-Sep-2017	AA-	-	Stable	Maintain	-
10-Mar-2017	AA-	-	Stable	Upgrade	-
01-Dec-2016	A+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating takes into account Alfalah Insurance's healthy financial profile, emanating from i) healthy business volumes arising from health, fire and motor segments ii) consistent profitability providing support to equity base and ii) investment book that contributes a sizeable income stream hence providing cushion to the bottom-line.

Alfalah Insurance capitalizes on its unique portfolio in the health segment in collaboration with a renowned telecom operator. This has yielded noteworthy results, leading to business expansion and branding of the Company. The inherent practice of retaining risk in the motor segment has yielded higher underwriting profitability. Synergies with Bank Alfalah Ltd. (BAFL) have provided positive momentum in volumes in the motor segment and improved business volumes via the health product post-COVID. Non-captive business volumes have augmented over the years, and diversification into minuscule segments provides comfort to the topline. A healthy investment income lends support to the bottom line. Enhanced liquidity and sound cash flow generation ability, provide strength to the rating. The Company has paid dividends for the first time. The rating also draws comfort from association with the group bank – Bank Alfalah. Further, the rating takes into account a series of reinsurance treaties signed with internationally rated reinsurance companies.

The general insurance industry witnessed a growth of ~10% YoY in CY21. This year has been the road to recovery from these setbacks of the previous year. The industry has managed to sustain the business volumes and profitability through improvement in investment income as of December 2021.

The rating is dependent on the Company's ability to augment its market position in the competitive landscape while upholding the underwriting performance. Strengthening of liquid profile is vital along with prudent management of claims and receivables.

Disclosure

Name of Rated Entity	Alfalah Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Criteria Rating Modifiers(Jun-21),Methodology General Insurance Rating(Mar-22)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Waqas Ahmad waqas.ahmad@pacra.com +92-42-35869504



Profile

Legal Structure Alfalah Insurance Company Limited (AFIC) was incorporated as a public unlisted company in December 2005.

Background The company started its operations in September 2006 as the first non-life insurance venture of Abu Dhabi based family group in Pakistan.

Operations Alfalah Insurance operates through two business hubs - North and South - with a total of 10 branches. The North Zone comprises seven branches (1 each in Lahore, Islamabad, Gujranwala, Faisalabad, Multan, Sialkot and Peshawar) along with the Head office, whereas the South zone consists of three branches (2 in Karachi (including zonal main office) and 1 in Hyderabad).

Ownership

Ownership Structure The sponsoring family, consisting of members of UAE's ruling family and leading businesses, owns AFIC through key sponsoring individuals and group companies including Bank Alfalah Limited - rated "AA+" by PACRA.

Stability The sponsoring family consists of the prominent members of UAE's ruling family, leading businessmen of UAE and their associates.

Business Acumen The sponsoring family having investments in number of countries including Bangladesh, Iran, Uganda, Republic of Congo, and Middle East, has a sizeable interest in Pakistan's financial and telecommunication segments.

Financial Strength The financial strength of the Company's sponsors is supported by strong muscles of Bank Alfalah (30% ownership in Alfalah Insurance) amongst other business ventures.

Governance

Board Structure The Company has a seven-member board including the Chief Executive Officer. H.H. Sheikh Nahayan Mabarak Al Nahayan, UAE Cabinet member and Minister of Knowledge and Culture Department, is chairman of the board.

Members' Profile Three board members come from royal family and leading businesses of UAE, namely Al Nahyan, Al Otaiba and Al-Butti.

Board Effectiveness Key executives of Bank Alfalah on the Company's board provide strategic direction to the Company, while members from Royal family provide challenge. The board has four committee's namely, (i) Board strategy Committee (ii) Audit Committee (iii) Ethics, Human Resource and Remuneration Committee and (iv) Investment Committee.

Transparency The company's financial statements has been audited by EY, who gave an unqualified opinion on financial statements for CY21.

Management

Organizational Structure The company has a well-defined organizational structure and different operations are segregated and managed through Executive director and Departmental Heads. The major operational departments include (i) Risk Management, (ii) Finance, (iii) Claims, (iv) Underwriting, (v) Reinsurance, (vi) HR and (vii) IT.

Management Team The management team of the company comprises qualified and experienced professionals. Alfalah Insurance's sustainable management team has led to achieving organic growth through capitalizing upon their experience. The CEO, Mr. Abdul Hayee Mughal, possesses around three decades of extensive experience of the insurance industry.

Effectiveness There are four management committees, namely, (i) Reinsurance Committee, Re-Takaful and Coinsurance Committee (ii) Claims Settlement Committee, (iii) Underwriting Committee & (iv) Risk Management & Compliance Committee.

MIS Alfalah Insurance uses General Insurance System (GIS) developed by Sidat Hyder and Morshed Associates. The system is real time and online, and is capable of running in both centralized and distributed environment. It ensures data integrity, maintains audit trail and generate customized reports. The system ensures strong control environment, supporting centralized operation by allowing policy locking and posting at head office level.

Claim Management System Alfalah Insurance has decentralized its claim settlement process with authority limits assigned to different cadres - incorporated in respective individual's authority card. Claims department handles all non-health claims of the company and monitors the outstanding claims position.

Investment Management Function Alfalah Insurance has a formal investment policy document approved by BoD, reviewed annually. The authority of investment decisions lies with the CEO and CFO, as per IPS.

Risk Management Framework Alfalah Insurance has developed and implemented a detailed document, "Risk Management and Compliance Guidelines". These guidelines tend to institute a strong risk environment, while laying down underwriting and reinsurance guidelines and identifying functions and responsibilities of all participants from the BoD to the support staff.

Business Risk

Industry Dynamics The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. CY20 was full of challenges and unprecedented pressures, locally as well as in the global economy. However, CY21 has been the road to recovery from these setbacks of the previous year. In terms of Gross Premium Written (GPW), Pakistan's general insurance industry have a total size of PKR~112.8bln in CY21, with a growth of ~10% from the previous year (CY20: PKR~102.3bln). Investment income has also been a support to the bottom-line performances of the companies during CY21. Overall industry has earned profit after tax of PKR 13.4bln (CY20: PKR 10bln) during CY21.

Relative Position Alfalah Insurance is medium sized company. Its market share has been remained stable at 3.55% as of Dec-21.

Revenue The GPW (Conventional and Takaful window operations combined), has witnessed growth of 15% to PKR 1,620mln for 3MCY22 (CY21 PKR 4,004mln). The growth mainly owes the expansion in the Health, Fire & Motor segment. Health segment is forte of the Company with a portion of 53%, other segments misc. and motor being the 18% and 15% share each respectively. While, fire segment constitutes 11% and marine contributes 3% of business.

Profitability The Company earned PKR 41mln for 3MCY22 from underwriting operations (CY21: PKR 207mln, CY20: PKR 161mln). Along with investment income of PKR 59mln, the Company earned a profit after tax of PKR 78mln for 3MCY22 (CY21: PKR 290mln, CY20: PKR 306mln).

Investment Performance The Company's investment income of PKR 59mln for 3MCY22 (CY21: PKR 194mln, CY20: PKR 222mln) provides a stable cushion to the bottom-line, mostly return from Government Securities.

Sustainability Management envisages continuing extensive focus on expanding in non-captive market, benefiting from recently strengthened branch network and the sales team. The innovative products in health segments is getting due attention in the market; it is expected to support brand building. Management would continue prudent underwriting while ensuring profitability remains important. The Company's health product is yielding impressive results and continues to grow at a higher pace.

Financial Risk

Claim Efficiency Company has net insurance claims of PKR 294mln for 3MCY22 compared to PKR 199mln for 3MCY21 (CY21: PKR 979mln). Claims turnaround time is 134 days for 3MCY22 (CY21: 193days, CY20: 184days).

Re-Insurance Alfalah Insurance executes reinsurance arrangements with reputed international reinsurers predominantly rated 'AA-' and 'A+'. The company has various surplus, quota and excess of loss treaties with Swiss Re (Rated 'A+' by S & P), SCOR Re (Rated A by AM Best), Lloyds (A+ By S&P) and PRCL (Rated 'AA' by VIS).

Cashflows & Coverages At 3MCY22, Alfalah Insurance has sizeable investment book of PKR 3,817mln (CY21: PKR 3,043mln, CY20: PKR 2,595mln), representing 2.02 times of equity, majorly invested in liquid avenues. The Company has majorly invested in lesser risky areas, cash and bank deposits (27%) and other investments include Debt Securities (54%) and Equities (18%).

Capital Adequacy Alfalah Insurance has a paid-up capital of PKR 500mln, thus safely complying with SECP's Capital Adequacy requirement. The equity base is above PKR 1.8bln. The Company has paid a dividend of PKR 2 per share for period ended Dec'21.



PKR mln

Alfalah Insurance Company Limited
Public Unlisted Limited

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

A BALANCE SHEET

1 Investments	3,817	3,043	2,594	2,213
2 Insurance Related Assets	2,078	1,870	1,556	1,635
3 Other Assets	490	419	297	267
4 Fixed Assets	252	261	224	252
5 Window Takaful Operations	-	-	-	-
Total Assets	6,638	5,593	4,672	4,367
1 Underwriting Provisions	1,835	1,279	900	970
2 Insurance Related Liabilities	2,076	1,690	1,470	1,596
3 Other Liabilities	753	601	531	365
4 Borrowings	92	105	71	73
5 Window Takaful Operations	-	-	-	-
Total Liabilities	4,756	3,676	2,972	3,004
Equity/Fund	1,882	1,916	1,700	1,363

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	1,620	4,004	3,184	3,005
2 Net Insurance Premium/Net Takaful Contribution	637	2,288	2,017	1,847
3 Underwriting Expenses	(596)	(2,081)	(1,857)	(1,724)
Underwriting Results	41	207	161	123
4 Investment Income	59	194	222	111
5 Other Income / (Expense)	10	(11)	31	47
Profit Before Tax	110	390	414	281
6 Taxes	(32)	(100)	(108)	(94)
Profit After Tax	78	290	306	187

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	232	505	373	339
2 Net Takaful Contribution	63	226	187	176
3 Net Takaful Claims	(66)	(201)	(165)	(148)
4 Direct Expenses Including Re-Takaful Rebate Earned	4	4	(5)	(17)
Surplus Before Investment & Other Income/(Expense)	0	28	17	12
5 Investment Income	2	(1)	(2)	(5)
6 Other Income/(Expense)	1	(3)	18	22
Surplus for the Period	4	24	32	28

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	40	128	104	87
2 Management, Commission & Other Acquisition Costs	(20)	(66)	(55)	(58)
Underwriting Income/(Loss)	20	62	50	29
3 Investment Income	2	5	5	5
4 Other Income/(Expense)	5	9	6	4
Profit Before tax	27	75	61	39
5 Taxes	(8)	(22)	(18)	(11)
Profit After tax	19	54	44	27

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful	56.6%	51.6%	44.9%	43.7%
Combined Ratio (Loss Ratio + Expense Ratio)	93.6%	90.9%	92.0%	93.3%
2 Investment Performance				
Investment Yield	6.9%	6.9%	9.3%	5.5%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	2.8	3.0	2.9	2.8
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	199.8%	154.9%	141.1%	151.9%

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>
---	---	--	---	---

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.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent