



## The Pakistan Credit Rating Agency Limited

### Rating Report

## Alfalah Insurance Company Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Jun-2023	AA+ (ifs)	-	Stable	Maintain	-
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	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the Company's healthy financial profile, supported by robust business volumes in the health, fire, and motor segments, consistent profitability and a substantial income stream from its investment book. The rupee's devaluation has served as a driver for an upsurge of Gross Premium Written (GPW), supplementing the Company's organic growth.

The assigned rating also takes comfort from the Company's association with Abu Dhabi Group. Moreover, Alfalah Insurance capitalizes on its unique portfolio in the health segment, which accounts to a significant portion of the total Gross Premium Written (GPW). The Company's prudent risk retention strategy in the motor segment has yielded higher underwriting profitability. The synergies with Bank Alfalah Ltd. (BAFL), one of the largest private banks in Pakistan, have positively influenced business volumes in the motor segment and facilitated growth in the health product. The Company's non-captive business volumes have shown consistent growth over the years, further strengthened by diversification into smaller segments. This diversification provides stability to the Company's topline. The Company's substantial involvement in window takaful operations has provided a noteworthy boost to its top line, contributing to its overall growth. Additionally, the Company's investment income is robust and contributes to the overall strength of the bottom line. Enhanced liquidity and sound cash flow generation capability add further strength to the assigned rating. Alfalah Insurance has demonstrated its commitment to shareholders by paying dividends, highlighting its financial stability. The presence of internationally recognized and highly rated reinsurance companies provide additional support to the Company's risk management framework. The rating also takes into account the Company's effective corporate governance practices and the presence of an experienced management team that has been associated with the firm since its inception.

The assigned rating is dependent on the Company's ability to augment its market position within the competitive landscape while maintaining a strong underwriting performance. It is crucial for the Company to strengthen its liquidity profile and exercise prudent management of claims and receivables.

#### Disclosure

<b>Name of Rated Entity</b>	Alfalah Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   Rating Modifiers(Jun-22),Methodology   General Insurance Rating(Mar-23)
<b>Related Research</b>	Sector Study   General Insurance(May-22)
<b>Rating Analysts</b>	Muhammad Noor Ul Haq   noorulhaq@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 in two business regions with 11 branches in total. The North zone has seven branches and the Head Office, while the South zone has three branches including the zonal main office in Karachi.

## Ownership

**Ownership Structure** AFIC is owned by a group of individuals and companies, including members of the ruling family and prominent businesses in the UAE. Bank Alfalah Limited, which has a rating of "AA+" by PACRA, is among the key sponsoring entities.

**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 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's board structure consists of a seven-member board, which includes the CEO. Among the board members, four individuals represent ADG (Abu Dhabi Group) and two individuals represent BAFL (Bank Alfalah). The Company's board is structured into four committees that play vital roles in shaping the Company's performance and success. These committees are the Board Strategy Committee, Audit Committee, Ethics, Human Resource and Remuneration Committee, and Investment Committee.

**Members' Profile** H.H. Sheikh Nahayan Mabarak Al Nahayan, a prominent member of Abu Dhabi's ruling family, is the Chairman of the board. He holds key positions in the UAE Cabinet as the Minister of Knowledge and Culture Department and the Minister of Tourism.

**Board Effectiveness** The board includes representatives from ADG and BAFL, ensuring their involvement in decision-making. Bank Alfalah's board, comprising key executives and Royal family members, provides strategic direction and oversight. The presence of Royal family members adds valuable perspectives. Board meetings are conducted with detailed minutes recorded for effective communication and documentation.

**Transparency** The Company's financial statements has been audited by EY, who gave an unqualified opinion on financial statements for CY22.

## Management

**Organizational Structure** The Company exhibits a clear and well-defined organizational structure, with distinct operational departments managed by an Executive Director and Departmental Heads. These departments include Risk Management, Finance, Claims, Underwriting, Reinsurance, HR, and IT. Additionally, the Company has four management committees, namely Reinsurance Committee, Re-Takaful and Coinsurance Committee, Claims Settlement Committee, Underwriting Committee, and Risk Management & Compliance Committee.

**Management Team** The CEO, Mr. Abdul Hayee Mughal, has over 3 decades of experience in the insurance industry and is supported by a team of professionals.

**Effectiveness** The management committees convene periodically to deliberate on various matters such as overcoming obstacles, procuring resources, evaluating forthcoming initiatives, and other relevant issues.

**MIS** Alfalah Insurance employs Sidat Hyder and Morshed Associates' General Insurance System (GIS), an online, real-time system capable of functioning in centralized and dispersed networks. The system guarantees data accuracy, maintains audit trails, and generates tailored reports. It also enforces a robust control environment, allowing policy locking and posting at the head office level to support centralized operations.

**Claim Management System** Alfalah Insurance has implemented a decentralized approach to their claim settlement process, with specific authority limits assigned to various personnel through individual authority cards. The claims department manages all non-health related claims and keeps track of outstanding claims.

**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 implemented "Risk Management and Compliance Guidelines," a comprehensive framework that outlines the roles and responsibilities of all stakeholders, including the Board of Directors and support staff. The guidelines aim to establish a strong risk environment and define protocols for underwriting and reinsurance.

## Business Risk

**Industry Dynamics** In terms of Gross Written Premium (GWP), the general insurance industry has a total size of PKR ~142bln in CY22 compared to PKR ~113bln in CY21, exhibiting a growth of 25.7%. The industry reported a significant decrease of 54.5% in underwriting results to PKR 3.2bln in CY22 (CY21: PKR 7.1bln). The net income of the industry experienced a drop of 163.3% to PKR 11.2bln in CY22 (CY21: PKR 13.4bln).

**Relative Position** Alfalah Insurance is medium sized company. Its market share has been remained stable at ~3.4% as of Sep-22

**Revenue** Company underwrote gross premiums of PKR ~4,964mln (inclusive of PKR ~589mln of Takaful Contribution) against PKR ~4,004mln (inclusive of PKR ~505mln of Takaful Contribution) in last year; showing an increase of PKR ~960mln reflecting a growth of ~23.9%. 5.3.1 Company's health segment accounts for 35% of total GPW. High concentration of single segment highlights a substantial business segmental risk.

**Profitability** The Company's underwriting income depicted a decreasing trend in the current period. (CY22: PKR 139mln; CY21: 207mln). The deterioration in underwriting results is due to the volatility in premium earned coupled with reinsurance expenses. The combined ratio remained range bound from 94% - 90% due to high loss ratio. Company reported an operating profit of PKR 434mln in CY22 compared to PKR 401mln in CY21 (CY20: PKR 383mln) depicted a decrease of 8.2% YoY. The deterioration in underwriting results is due to the volatility in premium earned coupled with reinsurance expenses.

**Investment Performance** The Company's investment income has been significantly increased during CY22 reporting to PKR 295mln against PKR 194mln recorded in CY21. Company has designed its investment portfolio in order to get good returns in such economic and political instability in CY22. The major portion (63.3%) of the Company portfolio is invested in government securities as of CY22 reflecting a healthy risk profile. An increase of ~18.2% was experienced in investment portfolio due to increase in equity securities portfolio

**Sustainability** Management focuses on expanding in the non-captive market, leveraging a strengthened branch network and sales team. The innovative health product, offering checkups by foreign doctors of choice, supports brand building. Prudent underwriting and profitability remain key priorities.

## Financial Risk

**Claim Efficiency** The receivables position remains high, as the contribution due but unpaid reported at PKR~ 614mln during CY22 (CY21: PKR 397mln; CY20: PKR 473mln), showed a significant increase in the current period in line with the increase in the GPW. Company's high premium outstanding days decreased to 169 during CY22 as compared to 193 days (CY21)], reflecting good liquidity management.

**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** Company's current ratio stood at 1.0x in CY22 reflecting adequate liquidity position (CY21: 1.1x, CY20: 1.0) Liquidity coverage changed slightly it stood at 2.6x at end of CY22 and 3.0x at CY21 on account of provisions for outstanding claims (including IBNR). The Company manages liquidity prudently to ensure its ability to meet contractual obligations more efficiently, using cash flow generated by its core business as well as investment and other income.

**Capital Adequacy** The Company is well equipped in capital adequacy as per the requirements of SECP. The Company's equity stood at PKR~ 2,102mln for CY22 (CY21: PKR~ 1,916mln, CY20: PKR ~1,700mln). The paid-up capital of the Company is PKR~ 500mln for CY22.



PKR Mln

Alfalah Insurance Company Limited  
Public Unlisted Limited

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

#### A BALANCE SHEET

1 Investments	3,597	3,043	2,594	2,213
2 Insurance Related Assets	2,174	1,870	1,556	1,635
3 Other Assets	623	419	297	267
4 Fixed Assets	252	261	224	252
5 Window Takaful Operations	-	-	-	-
<b>Total Assets</b>	<b>6,646</b>	<b>5,593</b>	<b>4,672</b>	<b>4,367</b>
1 Underwriting Provisions	1,552	1,279	900	970
2 Insurance Related Liabilities	2,110	1,690	1,470	1,596
3 Other Liabilities	802	601	531	365
4 Borrowings	80	105	71	73
5 Window Takaful Operations	-	-	-	-
<b>Total Liabilities</b>	<b>4,544</b>	<b>3,676</b>	<b>2,972</b>	<b>3,004</b>
<b>Equity/Fund</b>	<b>2,102</b>	<b>1,916</b>	<b>1,700</b>	<b>1,363</b>

#### B INCOME STATEMENTS

##### CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	4,964	4,004	3,184	3,005
2 Net Insurance Premium/Net Takaful Contribution	2,671	2,288	2,017	1,847
3 Underwriting Expenses	(2,532)	(2,081)	(1,857)	(1,724)
<b>Underwriting Results</b>	<b>139</b>	<b>207</b>	<b>161</b>	<b>123</b>
4 Investment Income	295	194	222	111
5 Other Income / (Expense)	49	(11)	31	47
<b>Profit Before Tax</b>	<b>483</b>	<b>390</b>	<b>414</b>	<b>281</b>
6 Taxes	(154)	(100)	(108)	(94)
<b>Profit After Tax</b>	<b>329</b>	<b>290</b>	<b>306</b>	<b>187</b>

##### PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	589	505	373	339
2 Net Takaful Contribution	278	226	187	176
3 Net Takaful Claims	(282)	(201)	(165)	(148)
4 Direct Expenses Including Re-Takaful Rebate Earned	13	4	(5)	(17)
<b>Surplus Before Investment &amp; Other Income/(Expense)</b>	<b>8</b>	<b>28</b>	<b>17</b>	<b>12</b>
5 Investment Income	22	(0)	(2)	(5)
6 Other Income/(Expense)	(5)	(3)	18	22
<b>Surplus for the Period</b>	<b>26</b>	<b>25</b>	<b>32</b>	<b>28</b>

##### OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	175	128	104	87
2 Management, Commission & Other Acquisition Costs	(81)	(66)	(55)	(58)
<b>Underwriting Income/(Loss)</b>	<b>94</b>	<b>62</b>	<b>50</b>	<b>29</b>
3 Investment Income	40	5	5	5
4 Other Income/(Expense)	9	9	6	4
<b>Profit Before tax</b>	<b>143</b>	<b>75</b>	<b>61</b>	<b>39</b>
5 Taxes	(50)	(22)	(18)	(11)
<b>Profit After tax</b>	<b>92</b>	<b>54</b>	<b>44</b>	<b>27</b>

#### C RATIO ANALYSIS

<b>1 Profitability</b>				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Combined Ratio (Loss Ratio + Expense Ratio)	55.4%	51.6%	44.9%	43.7%
<b>2 Investment Performance</b>				
Investment Yield	8.9%	6.9%	9.3%	5.5%
<b>3 Liquidity</b>				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	2.6	3.0	2.9	2.8
<b>4 Capital Adequacy</b>				
Liquid Investments / Equity (Funds)	166.4%	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
<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 surveill 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

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(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).

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(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)

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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

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(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 | 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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