



The Pakistan Credit Rating Agency Limited

Rating Report

Alfalah Insurance Company Limited

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Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
14-Jun-2024	AA+ (ifs)	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Alfalah Insurance Company Limited ('Alfalah Insurance' or 'the Company') ratings reflect its association with Abu Dhabi Group and Bank Alfalah Limited (BAFL). Alfalah Insurance is a non-life insurance company offering conventional and takaful insurance, where conventional business constitutes the majority (~86%) of the Company's operations. The rating takes comfort by the Company's healthy financial profile, supported by robust business volumes, and a substantial income stream from its investment book generating consistent profitability. During CY23, the Company reported a slight decline in its topline due to loss of business in the health portfolio. However, the Company has almost recovered from the downturn experienced during the beginning of the year. The Company reported a growth of ~37% in its underwriting profits, despite a decline in business, due to support obtained through positive acquisition costs. Going forward, the Company aims to increase its overall portfolio, which will further strengthen underwriting profitability. The synergies with BAFL, one of the largest private banks in Pakistan, has positively influenced business volumes. Business volumes through the non-captive side have shown consistent growth over the years. This further strengthens the diversification of the topline into smaller segments, along with providing stability. The Company's substantial involvement in window takaful operations also supports the topline. Additionally, the Company's robust investment income contributes significantly to the overall strength of the bottom line. Enhanced liquidity and sound cash flow generation add further strength to the Company's financial position. Alfalah Insurance has demonstrated its commitment to the Shareholders by paying dividends, highlighting its financial stability. The presence of internationally recognized and highly rated reinsurance provides 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 Company since its inception.

The assigned rating is dependent on the Company's ability to augment its market position within the competitive landscape while maintaining strong underwriting performance. It remains crucial that the Company strengthens its liquidity profile and exercise 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	Methodology General Insurance Rating(Mar-23),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study General Insurance(Jun-23)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504



Profile

Legal Structure Alfalah Insurance Company Limited ("Alfalah Insurance" or the Company") was incorporated as a public unlisted company in Dec-05.

Background Alfalah Insurance is a part of Abu Dhabi Group ("the Group"), a UAE-based investor operating in the financial and telecom sectors in Pakistan. The Group held stakes in Bank Alfalah during 1997. Later, in Sept-06, a non-life insurance vertical - Alfalah Insurance - was setup.

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 The Group owns ~60% stake in the Company, with H.H. Sheikh Nahayan Mabarak Al Nahayan holding a majority stake of ~40%. Institutional investors, such as Bank Alfalah (~30%) and M/s Electromechanical Co. LLC (~10%) hold the remaining shares.

Stability The Company's ownership ensures a stable and robust ownership structure.

Business Acumen The Group holds investments in Bangladesh, Iran, Uganda, the Republic of Congo, and the Middle East, along with holding sizeable interests in Pakistan's financial and telecom sectors.

Financial Strength The Company's sponsors are backed by significant support from Bank Alfalah, which holds ~30% ownership in Alfalah Insurance, among other investments in Pakistan.

Governance

Board Structure The Company's Board consists of seven members, including the CEO as an Executive Director. There are six Non-Executive Directors and one Executive Director. Four Directors represent the Group, and two Directors represent Bank Alfalah (BAFL). The Board also includes a female member.

Members' Profile H.H. Sheikh Nahyan Mabarak Al Nahayan, a prominent member of the Group, chairs the Board. He holds a key position in the UAE Cabinet as the Minister of State for Tolerance and Coexistence.

Board Effectiveness The Board is assisted by four committees: Strategy, Audit, Ethics & Human Resources, and Investment. Decision-making is shared between the Group and Bank Alfalah. Bank Alfalah's board, including key executives and Royal family members, provides strategic direction. Detailed minutes are recorded during board meetings for effective communication and documentation.

Transparency The external auditor, A.F. Ferguson & Co., has given an unqualified opinion on the Company's financial statements for the year ended Dec-2023.

Management

Organizational Structure The Company is led by an Executive Director and Departmental Heads overseeing Risk Management, Finance, Claims, Underwriting, Reinsurance, HR, and IT. Departmental Heads report to the CEO, who reports to the Board. However, Internal Audit and HR Heads report to Board committees.

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 experienced professionals. Mr. Khurram Hussain joined the Company as the Deputy CEO. He holds almost three decades of industry experience.

Effectiveness The Company has four management committees: Reinsurance, Re-Takaful and Coinsurance, Claims Settlement, Underwriting, and Risk Management & Compliance. They convene meetings periodically to discuss key concerns, resource induction, evaluate initiatives, and other relevant matters.

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 The Company has implemented a decentralized approach to its 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," outlining the roles and responsibilities of all stakeholders, including the Board and support staff. These guidelines aim to establish a strong risk environment and define protocols for underwriting and reinsurance.

Business Risk

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

Relative Position Alfalah Insurance is a medium-sized company with a market share of ~2.7% as of Dec-23.

Revenue The Company underwrote a Gross Premium of PKR 4,843mln in CY23 (CY22: PKR 4,964mln), a decline of ~2% due to a loss in the health portfolio. Recovery from this downturn has been almost achieved. The fire segment, contributing ~26%, was the largest in CY23. Conventional operations drove ~86% of the GPW. In the first three months of CY24, the Company reported a GPW of PKR 2,108mln. The Company anticipates healthy growth, focusing on individual policies.

Profitability During CY23, the Company reported a ~37% increase in underwriting results to PKR 190mln, supported by positive commission expenses (CY22: PKR 139mln). The combined ratio improved to ~91.5% due to a lower loss ratio (CY22: ~94.8%). PAT was PKR 601mln (CY22: PKR 329mln). In 3MCY24, the Company reported underwriting results of PKR 98mln, a combined ratio of 83.6%, and a PAT of PKR 203mln. The Company expects topline growth and further improvements in underwriting to positively impact net earnings.

Investment Performance The Investment Book of the Company reflected an uptake of ~20% (CY23: PKR 4,318mln, CY22: PKR 3,597mln) and generated an income of PKR 571mln during CY23 (CY22: PKR 295mln). During 3MCY24 the investment book reported at PKR 5,227mln generating income of PKR 98mln. The investment book comprises of Cash & Bank Balances primary (42%) after the significant investment was made into savings account followed by Government Securities comprising ~36%.

Sustainability Management focuses on expanding in the non-captive market, leveraging a strengthened branch network and sales team. Prudent underwriting and profitability remain key priorities.

Financial Risk

Claim Efficiency As at CY23, Insurance & Takaful Claims covered by Liquid Investments stood at ~55.3%, a decrease from ~40% in CY23 reflecting the Company's robust capacity to fulfill claims obligations through its liquid investment portfolio. As at 3MCY24, the efficiency ratio reported at ~37.1%.

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 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. The Company's current ratio stood at 1.2x in 3MCY24 reflecting adequate liquidity position (CY23: 1.1x). Liquidity coverage on account of provisions for outstanding claims (including IBNR) improved and reported at 3.5x as at 3MCY24 owing to the increase in liquid investment portfolio (CY23: 2.7x).

Capital Adequacy The Company is well equipped in capital adequacy as per the requirements of SECP. The Company's equity stood at PKR 2,893mln as of 3MCY24 (CY23: PKR 2,692mln). Going forward, the Company plans to consistently issue annual dividends to the Sponsors while also retaining earnings to strengthen its equity base.



PKR Min

Alfaluh Insurance Company Limited
Public Unlisted Company

Mar-24 Dec-23 Dec-22 Dec-21
3M 12M 12M 12M

A BALANCE SHEET

1 Investments	5,227	4,318	3,597	3,043
2 Insurance Related Assets	2,846	2,941	2,174	1,870
3 Other Assets	631	680	623	419
4 Fixed Assets	315	289	252	261
5 Window Takaful Operations	-	-	-	-
Total Assets	9,019	8,228	6,646	5,593
1 Underwriting Provisions	2,656	1,848	1,552	1,279
2 Insurance Related Liabilities	2,316	2,644	2,110	1,690
3 Other Liabilities	1,077	951	802	601
4 Borrowings	77	94	80	105
5 Window Takaful Operations	-	-	-	-
Total Liabilities	6,126	5,537	4,544	3,676
Equity/Fund	2,893	2,692	2,102	1,916

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	2,108	4,843	4,964	4,004
2 Net Insurance Premium/Net Takaful Contribution	600	2,232	2,671	2,288
3 Underwriting Expenses	(501)	(2,042)	(2,532)	(2,081)
Underwriting Results	98	190	139	207
4 Investment Income	188	571	295	194
5 Other Income / (Expense)	9	172	49	(11)
Profit Before Tax	295	933	483	390
6 Taxes	(91)	(332)	(154)	(100)
Profit After Tax	203	601	329	290

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	376	676	589	505
2 Net Takaful Contribution	92	350	278	226
3 Net Takaful Claims	(87)	(337)	(282)	(201)
4 Direct Expenses Including Re-Takaful Rebate Earned	6	17	13	4
Surplus Before Investment & Other Income/(Expense)	11	30	8	28
5 Investment Income	20	22	22	(0)
6 Other Income/(Expense)	(7)	18	(5)	(3)
Surplus for the Period	24	70	26	25

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	52	197	175	128
2 Management, Commission & Other Acquisition Costs	(29)	(88)	(81)	(66)
Underwriting Income/(Loss)	23	109	94	62
3 Investment Income	29	69	40	5
4 Other Income/(Expense)	0	23	9	9
Profit Before tax	52	201	143	75
5 Taxes	(20)	(89)	(50)	(22)
Profit After tax	32	113	92	54

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	57.6%	66.9%	55.4%	51.6%
Combined Ratio (Loss Ratio + Expense Ratio)	83.6%	91.5%	94.8%	90.9%
2 Investment Performance				
Investment Yield	15.7%	14.4%	8.9%	6.9%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	3.5	2.7	2.7	3.0
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	174.4%	155.0%	172.6%	157.7%

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)
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- (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).
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- (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)

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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

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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