



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
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	-
01-Dec-2015	A+	-	Stable	Maintain	-
02-Dec-2014	A+	-	Stable	Upgrade	-

**Rating Rationale and Key Rating Drivers**

The rating recognizes Alfalah Insurance's robust financial profile, emanating from i) consistent profitability providing support to equity base and ii) investment book that contributes a sizeable income stream hence providing cushion to the bottom line. Growth in business volumes of the company has been observed. Value addition is stimulated in health segment through collaboration with well renowned telecom operator in health insurance product, which has yielded noteworthy results. This augers well for the business expansion and branding of the company. The inherent practice of retaining risk in motor segment has yielded higher underwriting profitability. Positive momentum in volumes is expected to continue on the back of synergies with Bank Alfalah in motor segment and improved business volumes via the health product post COVID. Rating also draws comfort from sponsorship of the company i.e. Abu Dhabi Group and the association with group bank – Bank Alfalah. Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. The volumes need to sustain, indeed, improve in tandem with the longer historical trend. The interest rate regime would impact the fixed income stream but the equity market is improving though requiring a prudent approach.

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	
<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   GI(Jun-20)
<b>Related Research</b>	Sector Study   General Insurance(May-20)
<b>Rating Analysts</b>	Harris Ghaffar   harris.ghaffar@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 Group (ADG) in Pakistan.

**Operations** AFIC 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) alongwith 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** Abu Dhabi Group (ADG), 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** Abu Dhabi Group (ADG) consists of the prominent members of UAE's ruling family, leading businessmen of UAE and their associates.

**Business Acumen** ADG 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 AFIC's sponsors is supported by strong muscles of Bank Alfalah (30% ownership in AFIC) amongst other business ventures.

## Governance

**Board Structure** AFIC has a seven-member board including the Chief Executive Officer. H.H. Sheikh Nahayan Mubarak 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, which are part of ADG.

**Board Effectiveness** Key executives of Bank Alfalah on AFIC's board provide strategic direction to AFIC, while members from Royal family provide challenge.

**Financial Transparency** The company's financial statements has been audited by EY, who gave an unqualified opinion and review on financial statements for CY19.

## 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. AFIC'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** AFIC 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** AFIC has decentralised 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** AFIC 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** AFIC 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** Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. The volumes need to sustain, indeed, improve in tandem with the longer historical trend. The interest rate regime would impact the fixed income stream but the equity market is improving though requiring a prudent approach.

**Relative Position** AFIC is medium sized Company. Its market share has been remained stable at 3%.

**Revenue** The GPW, has witnessed adequate growth of 16% and 29% in Net Premium Revenue. The Company has GPW of PKR 3bln at year end Dec-19 last year it was PKR 2.6bln. The growth mainly owes the expansion in the Health segment and Motor segment. The top segments are Health(39%), Motor(26%), Fire(17%), Miscellaneous(16%) and Marine(5%). The Company has posted GPW of PKR 1.2bln in March-2020.

**Profitability** The posted a profit before tax of PKR 282mln at CY19 in CY18 it was PKR 100mln. The two things which supplement the PBT was Investment Income and better management expenses management. Company has combined ratio of 96% better than last year(CY18: 99%).

**Investment Performance** The company's investment income of PKR 111mln 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** The claims turnaround time is 223 days and corresponding last year it was 169.

**Re-Insurance** AFIC 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' byVIS).

**Liquidity** At CY19, AFIC has sizeable investment book of PKR 2,213mln (CY18: PKR 1,833mln), representing 1.6 times of equity, majorly invested in liquid avenues. AFIC has majorly invested in lesser risky areas, cash and bank deposits (30%) and other investments include Debt Securities (60%) and Equities (10%).

**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 1.3bln.



## Financial Summary

The Pakistan Credit Rating Agency Limited

### Alfalah Insurance Company Limited

	PKR mln 3MCY20	PKR mln CY19	PKR mln CY18
<b>BALANCE SHEET - Combined</b>			
<b>Investments</b>			
Liquid Investments	2,366	2,211	1,831
Other Investments	2	2	2
	<b>2,367</b>	<b>2,213</b>	<b>1,832</b>
Insurance Related Assets	1,560	1,243	876
Other Assets	785	659	546
Fixed Assets	245	252	179
<b>TOTAL ASSETS</b>	<b>4,957</b>	<b>4,367</b>	<b>3,433</b>
Equity	1,408	1,363	1,094
Underwriting Provisions	1,386	1,010	862
Insurance Related Liabilities	1,774	1,585	1,230
Other Liabilities	389	410	247
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>4,957</b>	<b>4,367</b>	<b>3,433</b>
<b>INCOME STATEMENT - Combined</b>			
Gross Premium Written (GPW)	1,179	3,005	2,602
Net Premium Revenue (NPR)	526	1,847	1,497
Net Claims	(210)	(806)	(724)
<b>UNDERWRITING (LOSS) / INCOME</b>	<b>61</b>	<b>124</b>	<b>37</b>
Investment Income	(19)	111	40
<b>(LOSS) / PROFIT BEFORE TAX</b>	<b>56</b>	<b>282</b>	<b>100</b>
<b>RATIO ANALYSIS - Conventional</b>			
<b>Underwriting Results</b>			
Loss Ratio	39%	42%	47%
Expense Ratio	53%	55%	52%
Combined Ratio	91%	96%	99%
<b>Performance</b>			
Operation Ratio	95%	86%	94%
Investment Yield	-4%	6%	2%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio - times	2.8	2.8	3.0

Alfalah Insurance Company Limited

Aug-20

## Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

Scale	Definition
AAA	<b>Exceptionally Strong.</b> Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	<b>Very Strong.</b> Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.
A+ A A-	<b>Strong.</b> Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ BBB BBB-	<b>Good.</b> Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	<b>Weak.</b> Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
B+ B B-	<b>Very Weak.</b> Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
CCC CC C	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	<b>Distressed.</b> Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and 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 surveil 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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### **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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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