

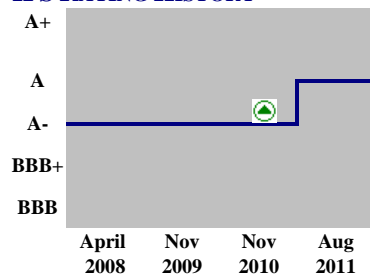


## RATING (AUGUST 2011)

## ALFALAH INSURANCE COMPANY LIMITED (AFIC)

	NEW	PREVIOUS
INSURER FINANCIAL STRENGTH	A	A-
OUTLOOK	-	Positive

## IFS RATING HISTORY



## FINANCIAL DATA

PKR (mln)

	*1H11	2010
Total Assets	1,482	1,300
Total Equity	354	319
Underwriting Results-adj	4	3
Net Income	39	50
Combined Ratio (%)	98	99
Operating Ratio (%)	79	86
ROE (%)	^ 21	14
Liquidity Ratio (x) [Adjusted liquid assets/Net Claims Expense]	^2.2	1.7
Solvency Ratio (x) [Financial Base*/ Net Claims]	^ 2.3	1.8

\* unaudited, ^ annualized

## ANALYSTS

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## RATING RATIONALE AND KEY DRIVERS

- The rating reflects sustained improvement in AFIC's underwriting performance supplemented by stable income from a prudently developed investment book. AFIC's association with Abu Dhabi group provides support to the company mainly in the form of captive business, adding stability to its revenue stream. The company's conservative business strategy, in the form of low risk retention, is expected to continue yielding profitability despite continuing volatile socio-economic environment. Nevertheless, the rating recognizes AFIC's improved financial profile, notably emanating from internal generation of profits.
- The rating is dependent on the management's ability to execute its business plan aimed at ensuring sustained GPW growth while enhancing the portfolio of non-captive business. Meanwhile, material deterioration in underwriting profitability and/or significant dilution in investment portfolio, adversely impacting the risk absorption capacity, would have negative implications for the rating. The company's dividend policy, thereby affecting the solvency, would remain critical.

## ASSESSMENT

- Ever since the economic downturn in 2008, the insurance industry has been facing major challenges arising from decelerating GDP growth, precarious security situation, widening fiscal imbalance, and rising inflation. The economic slowdown has further intensified the competitive landscape of the insurance industry putting pressure on premium pricing. Consequently, the industry growth as well as overall profitability continues to remain uncertain. The industry, cognizant of growth impediments, is taking steps to improve its operating platform to offer an improved level of services. Moreover, the regulator has taken a strict stance to invariably implement governing regulations in the industry. Lately entry of a broad array of reinsurers in the market, after the exit of some leading reinsurers, is expected to bode well for risk absorption capacity of the insurance sector.
- AFIC's GPW portfolio at end-Jun11 was dominated by miscellaneous segments (29%), closely followed by health (27%) and fire (22%). The contribution of motor and marine is on the lower side. The miscellaneous segment majorly comprise banker's blanket, contributing 17% of total GPW portfolio (CY10: 14%). AFIC has high reliance on group business (65%), and, hence, highly concentrated in few clients. The quantum of referral business from group further increases the concentration. AFIC, in non-captive business, is gradually penetrating into textile sector.
- During 1H11, AFIC's GPW experienced a descent growth of 23% YoY, and stood at PKR 472mln (CY10: PKR 672mln). Though the fire and miscellaneous segments – banker's blanket – remained major growth drivers, the company is consistently growing in the health segment. The loss ratio, after experiencing escalation (72%) in CY10 on account of natural calamity, normalized at 64% in 1H11. AFIC's relatively high loss ratio than industry's average is a feature of high risk health segment, whose loss ratio have increased YoY. Moreover, the expense ratio increased to 34% (CY10: 27%), as the company is in growth phase. Nevertheless, the net commission income, a feature of high cession pattern, resulted into combined ratio slightly improving to 98%. Meanwhile, the stable investment income, emanating from virtually risk free money market mutual funds, augmented the operating ratio to 79%.
- Going forward, AFIC maintains sustained growth stance, with increasing focus on non-captive business to fuel GPW expansion. For this, the company is poised to embark upon a 'direct marketing project', thereby adding to its HR strength and opening few new branches. The company has engaged a senior resource along with a team to lead its marketing initiative in South. The company envisages tapping latent potential in motor and health segments. The management reiterates its cautious approach towards risk retention, relying heavily on reinsurers. Meanwhile, the management is in the process of reviewing its policies and procedures, aimed at streamlining expanded operations requiring upgraded control environment.
- AFIC has re-insurance treaties with international reinsurers predominantly rated 'AA' and 'A'. The company's per risk retention limit is lower than peer group. Despite high group business, the management does not forsake a prudent approach towards risk evaluation and competitive pricing.

The company's investment portfolio constitutes 1.7times of equity at end-Jun11. AFIC's investment book is highly liquid, which remains dominated by money market (MM) funds (81%), followed by bank deposits (10%), government securities (5%), and equities (4%). As per the investment policy, the portfolio would remain dominated by low risk MM funds while the criterion for the equity investment is in the refinement process.

AFIC's solvency has improved during 1H11, mainly on account of healthy profitability retained within the company. Consequently, liquidity of the company has experienced commensurate upturn, with liquidity ratio improving to 2.2x (CY10: 1.7x). The company's strong liquidity remains a function of its sizeable investment book, which increased in absolute amount in 1H11.

## PROFILE

Alfalakh Insurance Company Limited (AFIC), licensed to undertake the insurance business in Sep06, is engaged in providing general non-life insurance services. With its headquarter in Lahore, AFIC operates through a network of 11 branches in major cities of Pakistan, and occupies ~2% market share, at end-Dec10. The Abu Dhabi Group (ADG), consisting of prominent members of the UAE's ruling family, leading businessmen of UAE and associates, owns AFIC through key sponsoring individuals and group companies including Bank Alfalah Limited (30%) – sixth largest bank having assets at end-Jun11 of PKR 439bln.

AFIC has a seven member board – chaired by Sheikh Hamdan Bin Mubarak Al Nahayan. The CEO, Mr. Nasar us Samad Qureshi, assisted by a team of professionals, possesses around three decades of related experience.