

**ALFALAH INSURANCE COMPANY LIMITED (AFIC)**

RATING (APRIL 2008)

ALFALAH INSURANCE COMPANY LIMITED

	INITIAL
INSURER FINANCIAL STRENGTH	A-

FINANCIAL DATA

PKR (mln)

	31-Dec-07	31-Dec-06
Total Assets	644.7	280.2
Total Equity	254.6	229.9
Underwriting Results	6.6	(12.8)
Net Income	23.2	(1.5)
Loss Ratio (%)	70.0	5.6
ROE (%)	9.6	n.m.
Premium Solvency Ratio (%)	175.0	n.m.

ANALYSTS

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RATING RATIONALE AND KEY DRIVERS

- The rating reflects AFIC's association with a strong group – the Abu Dhabi group – having key interests in Pakistan's financial sector. Moreover, the management, while pursuing aggressive growth, intends to have a conservative risk appetite that results in lower risk retention. At the same time, the rating recognizes the company's well conceived business strategy to fast establish itself in a competitive insurance industry, with relatively high reliance on group support – mainly in the form of captive and referred business – in the initial period.
- The rating is dependent on successful execution of the management's plans about establishing a robust operating platform, including human resource base, in tandem with the growth momentum. Meanwhile, any significant increase in the loss pattern impacting the risk absorption capacity would have negative implications for the rating.

ASSESSMENT

- AFIC, in the beginning of its operations, has high reliance on group related business. During 2007, non-group business, mainly in the miscellaneous segment, constituted less than 10% of GPW. While focus on group business – mainly captive business of Bank Alfalah Limited and its referrals, followed by captive business of Warid Telecom (Pvt.) Limited – augured well for the company in terms of faster take-off, it increased the concentration risk. With respect to the product portfolio, AFIC had a tilt towards motor and miscellaneous segments including health, accident and engineering cover. Cognizant of its initial phase of operations, AFIC ceded relatively higher amount of business in fire (84%), marine (69%) and miscellaneous (67%) segments. Although the higher level of cession put pressure on the company's profitability, it confined potential losses. Nevertheless, claims arising on account of riot and strike damages towards the end of 2007 impacted the underwriting result. In addition, the company focused on building a team of qualified professionals, which though exerted some pressure on its profitability during the year is likely to be beneficial in the long run.
- Going forward, AFIC intends to follow an aggressive growth stance, mainly focusing on the business to be referred through the group in addition to its captive business, which is also witnessing a sizeable expansion on YoY basis. This is likely to double the GPW by the end of current year. The company, to diversify its premium base, has plans to gradually penetrate into the retail market, capitalizing on group resources, though the extent of actual business arising from this source remains to be seen. In addition, AFIC is pursuing enlisting with public sector entities for writing public infrastructure projects. Meanwhile, staff induction and training and development are underway while four new branches are expected to open in major cities of the country (current: 6). Management systems are expected to improve with finalization of terms of reference for major management committees. Meanwhile, the company, as against most of its peers, has planned to spend a sizeable amount on advertisement campaign, eyeing penetration in retail and other diverse segments.
- AFIC has re-insurance treaties with international reinsurers rated predominantly in 'A' and 'AA' category. The management has been successful in getting enhancement in treaty capacity per risk albeit on similar commission rates. While focusing on the group business, the management does not forsake a prudent approach towards risk evaluation and competitive pricing. Despite aggressive growth targets, the risk retention pattern is not expected to change, going forward. Meanwhile, AFIC has developed and implemented a detailed document, "Risk Management 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.
- AFIC's investment portfolio is dominated by equities and government securities, followed by mutual funds and remunerative bank deposits. Investment decisions are a function of research conducted by relatively strong research departments of group companies. Meanwhile, the bulk of the existing portfolio consists of liquid, reasonably strong, and dividend paying shares.
- AFIC started off with a paid-up capital of PKR 230mln, which was further complemented by full retention of profits during 2007. The company's liquidity position alongwith premium solvency ratio though currently higher than most peers is expected to adjust with growth. Nevertheless, sponsors are committed to inject more money to ensure a robust financial base.

PROFILE

- Alfalah Insurance Company Limited (AFIC), incorporated as an unquoted public limited company in Dec05 and licensed to undertake the insurance business in Sep06, is engaged in providing general non-life insurance services. Besides, the company plans to enter life insurance business and get listed in the due course of time. 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 (BAL). BAL, with total assets of around 329bln at end-07, is the fifth largest bank of the country. Other investment initiatives of ADG include United Bank Limited, Warid Telecom (Pvt.) Limited, Wateen Telecom (Pvt.) Limited, Alfalah GHP Investment Management Limited and Alfalah Securities (Pvt.) Limited.
- With its headquarter in Lahore, AFIC operates through a network of 6 branches in major cities of Pakistan. The current Chief Executive Officer, assisted by a team of professionals, possesses around three decades of related experience.