

**ALFALAH INSURANCE COMPANY LIMITED (AFIC)****RATING (AUGUST 2009)****ALFALAH INSURANCE COMPANY LIMITED**

	NEW	PREVIOUS
INSURER FINANCIAL STRENGTH	A-	A-

FINANCIAL DATA

PKR (mln)

	31-Dec-08	31-Dec-07
Total Assets	931.6	644.7
Total Equity	262.1	254.6
Underwriting Results	59.8	6.6
Net Income	30.7	23.2
Loss Ratio (%)	74.3	70.0
ROE (%)	2.9	9.6
Premium		
Solvency Ratio (%)	84.4	175.0

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RATING RATIONALE AND KEY DRIVERS

- The rating reflects AFIC's association with a strong group – the Abu Dhabi group – providing support to the company mainly in the form of captive and referred business in the initial years of its operations. Moreover, AFIC, while pursuing high growth, intends to maintain conservative risk appetite that entails significant reliance on reinsurers. Meanwhile, AFIC's financial base and solvency position are expected to remain under pressure in tandem with business expansion.
- The rating is dependent on successful execution of the management's plans about establishing a robust operating platform and risk management infrastructure inline with growth in overall business and retention levels. Meanwhile, any hike in the loss ratio impacting the risk absorption capacity would have negative implications. Moreover, curtailment of the rising trend in the company's receivables remains critical for the rating.

ASSESSMENT

- AFIC, having presence in all major categories of general insurance business, has high reliance on group business. During 2008, there was a significant increase in captive business of health insurance and 'others' segment (mainly credit card and banker blanket). Meanwhile, 'referred business' witnessed a decline attributable to a sizeable contraction in auto insurance.
- AFIC, inline with its strategy, almost doubled its GPW during 2008, attributed to growth in all segments especially health. The company witnessed a dip in overall cession, owing to full retention in health segment. This also resulted in increasing the loss ratio for the period. Management expenses increased in tandem with the business expansion. Meanwhile, AFIC had to recognize a significant loss on its investments though it was cushioned by interest income to some extent. Nonetheless, AFIC received a sizeable commission from reinsurers, helping it register significant growth in net income, with commission from reinsurers. Meanwhile, AFIC largely maintained its performance trend during 1Q09.
- Going forward, AFIC intends to continue with its current business model, with a gradual focus towards non-group business. AFIC's plan is to first leverage all group resources for business expansion because of the associated convenience and better risk management. The company has recently signed a MoU with Bank Alfalah Limited in order to create a group synergy in bancassurance segment. 'Referred' business is also likely to pickup with anticipated recovery in auto-sales and mortgage finance. Meanwhile, AFIC has plan to tap emerging niche markets such as travel insurance. Nonetheless, AFIC's key risk would be containment of losses especially in health and motor segments.. Moreover, the insurance industry in Pakistan is still facing major challenges arising from various broad socio-economic risks, which have hampered the growth prospects of the sector. Hence, the extent to which AFIC succeeds in achieving its targets remains to be seen.
- AFIC has re-insurance treaties with international reinsurers rated predominantly in 'AA' and 'A' category. The management was successful in getting enhancement in treaty capacity per risk for 2009. The company intends to continue with its currently high cession pattern for the time being. Despite focusing on the group business, the management does not forsake a prudent approach towards risk evaluation and competitive pricing.
- AFIC's investment portfolio is dominated by remunerative bank deposits (47%), followed by equities and government securities (53%). AFIC had unrecognized loss of PKR 53 mln at end-08 on equities, which has been significantly reversed (~ 63%) after recovery in the market.
- AFIC, with expansion in business, has experienced a decline in its financial base, solvency and liquidity position. Going forward, these are likely to taper off before improving through retention of profits.

PROFILE

- Alfalah 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 8 branches in major cities of Pakistan. 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 PKR 329 bln at the end – Mar09, is the sixth 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.
- AFIC has a seven member board – chaired by Sheikh Hamdan Bin Mubarak Al Nahayan. The Chief Executive Officer, Mr. Nasar us Samad Qureshi, assisted by a team of professionals, possesses around three decades of related experience.