



The Pakistan Credit Rating Agency Limited

Rating Report

TRAFCO Insurance Company Limited

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Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
05-Jun-2025	BBB (ifs)	Stable	Downgrade	-
07-Jun-2024	BBB++ (ifs)	Stable	Maintain	-
09-Jun-2023	BBB++ (ifs)	Stable	Upgrade	-
13-May-2023	BBB+ (ifs)	Stable	Maintain	-
13-May-2022	BBB+ (ifs)	Stable	Initial	-

Rating Rationale and Key Rating Drivers

TRAFCO Insurance Company Limited ("TRAFCO Insurance" or "the Company") is currently in its developmental phase, with a limited market share in the non-life insurance sector, offering only conventional insurance products. The Company's revenue base remains weak, with the majority (~68%) stemming from the Insurance Guarantees segment. This is followed by contributions from Fire and Property (~19%), Motor (~9%), Miscellaneous (~2%), and Marine & Aviation (~1%). Despite ongoing operations, TRAFCO continues to report underwriting losses. As of CY24, the Company does not maintain an investment portfolio and, consequently, lacks investment income to support its bottom line, except for interest income from loans extended to its subsidiary, resulting in a profit after tax (PAT) of PKR 7mln. On the financial risk front, TRAFCO holds a paid-up capital of PKR 570mln. In light of evolving regulatory requirements, the Company will require a capital injection to meet the Minimum Capital Requirement (MCR) of ~PKR 2bln by 2030. While efforts have been made to comply with the minimum solvency requirement of PKR 150mln, a shortfall of PKR 73mln remains as of CY24. The absence of an investment book has further strained the Company's liquidity position. Due to these risk factors, the Company's rating has been adjusted downward. To address these challenges, TRAFCO must improve underwriting practices and develop a robust investment portfolio to generate supplementary income, an essential step toward improving its liquidity and overall financial stability.

The ratings are dependent on TRAFCO's relative standing and an improvement in the overall business profile. Moreover, achieving underwriting profitability remains important. Resolution of compliance concerns related to the Insurance Ordinance, 2000, remains imperative. Additionally, the development of a healthy investment book remains crucial for rating. Any further weakening in the financial profile may impact the ratings.

Disclosure

Name of Rated Entity	TRAFCO Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Assessment Framework General Insurance(Mar-25),Methodology Rating Modifiers(Apr-25)
Related Research	Sector Study General Insurance(Jun-24)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Legal Structure TRAFICO Insurance Company Limited ("TRAFICO" or "the Company") was incorporated in Pakistan as an unlisted public limited company on 25-Oct-79 under the Companies Act 1913 (now the Companies Act, 2017).

Background The sponsoring Company, TRAFICO Group of Companies, acquired Credit Insurance Company in 2015 and subsequently changed the name to TRAFICO Insurance Company Limited, while the parent company took over the operations in 2015.

Operations TRAFICO offers a range of non-life insurance products to individuals and corporations. The Company deals in Fire and Property Damage, Marine, Aviation and Transport, Motor and Miscellaneous segments. The Company currently operates through three branches in Pakistan. The head office of the Company is located in Lahore.

Ownership

Ownership Structure The ownership of the Company is fully held by the Malik family. The majority shareholder, Mr. Tahir Malik holds (~40%) shareholding followed by Mr. Saboohi Tahir (~30%). While remaining (~30%) of the shareholding is held by other family members.

Stability The Company is a family-owned business, and the sponsoring family has no plans to alter the ownership structure or relinquish the controlling stake. This ensures the ownership structure remains stable in the near future.

Business Acumen The sponsors of the Company possess strong business acumen and continue to follow a distinguished path.

Financial Strength Under the leadership of Mr. Tahir Malik, the group has expanded into logistics, supply chain solutions, asset and vehicle tracking management, and insurance businesses, demonstrating the sponsors' solid financial strength.

Governance

Board Structure The overall governance of the Company vests in seven-member Board: an Independent Director, two Executives and four Non-Executive Directors including two female Directors. The CEO is not a member of the Board.

Members' Profile The position of the Board's Chairman is held by Mr. Tahir Malik, a reputed professional and entrepreneur and current CEO of TRAFICO Logistics and TRAFICO Tracking. He has over three decades of diversified experience.

Board Effectiveness The Board oversees strategic planning, finance, governance, and compliance through seven committees: Audit, Investment, Ethics and Compliance, Underwriting, Reinsurance and Co-Insurance, Claim Settlement, Nominations, and Risk Management. They keep detailed minutes.

Transparency M/s Muniff Ziauddin & Co. Chartered Accountants audited the Company's financial statements for the period ended Dec-23. The external auditors issued a qualified opinion due to non-compliance with solvency requirements, failure to maintain the minimum deposit with the SBP, and failure to make provisions for the penalty per Section 157, Subsection 1 of the Insurance Ordinance 2000. For CY24, the Company has appointed M/s Mushtaq & Co. and the audit for period ended Dec-24 is in progress.

Management

Organizational Structure The Company has a well-defined organogram with clear lines of reporting. All the department heads directly report to the CEO who then reports to the Board.

Management Team The Chief Executive Officer, Mr. Muhammad Nawaz Shahid, possesses over three decades of experience within the insurance industry. Before taking the position as CEO, he served as the General Manager for Credit Insurance.

Effectiveness Management committees, overseen by the Management Committee, convene as needed with action points noted but no formal minutes. These include Underwriting, Reinsurance and Co-Insurance; Claim Settlement; Risk Management; Remuneration; and Ethics and Compliance. They ensure efficient decision-making and oversight in vital operational areas.

MIS Management Information System (MIS) is crucial to streamline operations, improve customer service, and enhance efficiency. The Company needs to implement a robust MIS to improve the decision-making process.

Claim Management System Claims Management System ensures streamlined claims processing and accurate claims settlement. The Company needs to devise a robust system to ensure faster claims settlement, ensuring reduced chances of fraud while improving policyholders retention.

Investment Management Function Investment Management Function is responsible for strategically managing the investment book according to Investment Policy Statement (IPS) to ensure optimal returns and maintain liquidity to meet uncertainties. The Company needs to devise a detailed IPS laying down investment guidelines.

Risk Management Framework Risk management covers underwriting, claims, sales & marketing, and accounts & finance.. The Company needs to establish a Risk Management Committee to mitigate and control risks.

Business Risk

Industry Dynamics Pakistan's general insurance industry has a total size of PKR ~214bln during CY24 (CY23: ~PKR 188bln), exhibiting a growth of ~14%, in terms of Gross Premium Written. The industry reported a growth of ~70% in underwriting results (CY24: ~PKR 12.2bln, CY23: ~PKR 7.1bln). The net income of the industry also experienced an increase of ~33% to ~PKR 24bln during CY24 (CY23: ~PKR 18bln). Overall, the industry overall outlook remains stable with substantial liquidity available with players.

Relative Position TRAFICO Insurance is categorized as a small Insurance player, with less than ~1% market share in terms of GPW as of Dec'24

Revenue During CY24, the Company reported an uptake in GPW reporting at ~PKR 67mln (CY23: ~PKR 21mln). The Company exclusively operates as a conventional insurance company. The Insurance Guarantee segment holds a substantial share of ~69%, followed by Fire and Property (~19%), Motor (~9%), Miscellaneous (~2%) and Marine & Aviation (~1%).

Profitability The Company witnessed an improvement in underwriting results with underwriting loss reported at ~PKR 5mln (CY23: ~PKR 30mln-loss) primarily due to a trickle down impact of increased GPW. Interest income supported the bottomline with PAT reported at ~PKR 7mln (CY23: ~PKR 16mln-loss).

Investment Performance During CY24, the Company had no investment book present. The Company has no supplementary income other than a loan to its sister concern generating interest income for the Company.

Sustainability TRAFICO Insurance needs to achieve sustainable breakeven at the underwriting level, ensuring consistent improvement in prudent underwriting and risk management. Moreover, a substantial investment book yielding sustainable investment income is required to sustain profitability and to improve liquidity. Similarly, the Company needs to meet the MCR and solvency to meet regulatory requirements. Therefore, the overall high quantum of risk resulted in a rating adjustment of the Company.

Financial Risk

Claim Efficiency As of CY24, the Company's outstanding claims, including IBNR, remained at PKR 4mln, consistent with CY23. The net insurance claims expense for CY24 was ~PKR 1mln (CY23: ~PKR 2mln).

Re-Insurance TRAFICO Insurance maintains re-insurance treaties -Whole account Excess of loss with international and local reinsurers, which include PVI Insurance Corporation (rated "A" by A.M. Best), Kenya Re (rated "BB+" by A.M. Best), and Pakistan Reinsurance Company Limited (rated "AA+ if's" by VIS).

Cashflows & Coverages The liquidity cover deteriorated significantly to ~0.1x as of CY24 (CY23: ~1x) due to lack of availability of liquid assets to payback claims. The Company's liquid investments to equity ratio was 0.1% in CY24 (CY23: ~1.2%).

Capital Adequacy The Company's equity as of CY24 is PKR 296mln (CY23: PKR 289mln), an uptick due to a reduction in accumulated loss. The Company has paid-up capital of PKR 570mln. Although the Company meets the current SECP Minimum Capital Requirement (MCR) of ~PKR 500mln. However, as per new regulations, the Company needs to inject more capital to meet the new MCR requirement of ~PKR 2bln by 2030.



Financial Summary

PKR Mln

TRAFICO Insurance Company Limited Public Unlisted Company	Dec-24	Dec-23	Dec-22
	12M	12M	12M
A BALANCE SHEET			
1 Investments	0	3	2
2 Insurance Related Assets	3	4	8
3 Other Assets	110	79	62
4 Fixed Assets	242	240	248
5 Window Takaful Operations	-	-	-
Total Assets	355	327	320
1 Underwriting Provisions	31	13	6
2 Insurance Related Liabilities	8	13	4
3 Other Liabilities	20	12	5
4 Borrowings	-	-	-
5 Window Takaful Operations	-	-	-
Total Liabilities	59	38	15
Equity/Fund	296	289	305
B INCOME STATEMENTS			
CONSOLIDATED INCOME STATEMENT			
1 Gross Premium Written/Gross Contribution Written	67	21	11
2 Net Insurance Premium/Net Takaful Contribution	41	10	6
3 Underwriting Expenses	(46)	(39)	(27)
Underwriting Results	(5)	(30)	(21)
4 Investment Income	-	-	-
5 Other Income / (Expense)	13	14	21
Profit Before Tax	8	(15)	(1)
6 Taxes	(1)	(0)	(0)
Profit After Tax	7	(16)	(1)
PARTICIPANTS' TAKAFUL FUND - PTF			
1 Gross Contribution Written	-	-	-
2 Net Takaful Contribution	-	-	-
3 Net Takaful Claims	-	-	-
4 Direct Expenses Including Re-Takaful Rebate Earned	-	-	-
Surplus Before Investment & Other Income/(Expense)	-	-	-
5 Investment Income	-	-	-
6 Other Income/(Expense)	-	-	-
Surplus for the Period	-	-	-
OPERATOR'S TAKAFUL FUND - OTF			
1 Wakala Fee Income	-	-	-
2 Management, Commission & Other Acquisition Costs	-	-	-
Underwriting Income/(Loss)	-	-	-
3 Investment Income	-	-	-
4 Other Income/(Expense)	-	-	-
Profit Before tax	-	-	-
5 Taxes	-	-	-
Profit After tax	-	-	-
C RATIO ANALYSIS			
1 Profitability			
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	3.6%	21.8%	-5.7%
Combined Ratio (Loss Ratio + Expense Ratio)	111.9%	409.8%	490.7%
2 Investment Performance			
Investment Yield	0.0%	0.0%	0.0%
3 Liquidity			
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	0.1	1.0	0.5
4 Capital Adequacy			
Liquid Investments / Equity (Funds)	0.1%	1.2%	0.8%

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	Long-Term Rating
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)	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.
AA+ (ifs)	
AA (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.
A+ (ifs)	
A (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.
BBB+ (ifs)	
BBB (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.
BB+ (ifs)	
BB (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.
B+ (ifs)	
B (ifs)	
CCC (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.
CC (ifs)	
C (ifs)	
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.

Rating Modifiers | Rating Actions

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'.	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.	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.	Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	Harmonization A change in rating due to revision in applicable methodology or underlying scale.
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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 General Insurance & Takaful Operator, and Life Insurance & Family Takaful Operator methodology

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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

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- (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 | Clause 11-(A)(p).
- (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)

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- (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 | 17-(a)
- (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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