



The Pakistan Credit Rating Agency Limited

ALFALAH INSURANCE COMPANY LIMITED (AFIC)

IFS RATING REPORT

	NEW [MAR-17]	PREVIOUS [DEC-16]
Insurer Financial Strength (IFS) Rating	AA-	A+
Outlook	Stable	Stable

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MARCH 2017

Profile & Ownership

- Alfalah Insurance Company Limited (AFIC), commencing business in Sep'06, is engaged in providing non-life insurance services
- AFIC operates through two business Hubs - North and South - with a total of 12 branches
- 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 - sixth largest bank of Pakistan

Governance and Management

- Seven member board, including CEO, is chaired by HH Sheikh Nahayan Mabarak Al Nahayan; a minister for Public Works in UAE government
- Three board members come from the sponsoring group; two members represent Bank Alfalah Limited, while one member holds executive position in ADG
- Mr. Nasar us Samad Qureshi, CEO of the company, has insurance related experience of over three decades; he is supported by a team of experienced professionals

Business Risk

- The company has a market share of 2.8% in 9M16 (CY15: 2.5%)
- GPW mix is well diversified in fire (24%), miscellaneous (26%), motor (22%), health (22%), and marine (6%); misc. segment predominantly comprises banker's blanket (48%), machinery breakdown (13%) and electronic equipment insurance (10%)
- Proportion of non-captive increased drastically to 67% (9M15: 55%) as a result of management's strategy to strengthen the market foothold
- GPW of PKR 1,612mln, in 9M16, increased impressively (28%), entirely led by non-captive business invariably in all segments
- Sustained loss ratio at a moderate level of 55%; loss ratio reduced in fire (9M16: 27%, 9M15: 31%) and marine (9M16: 30%, 9M15: 42%) while surged in Health segment (89%)
- Expense ratio (37%) maintained, resulting into combined ratio of 93%
- Investment income (PKR 66mln) continues to provide considerable cushion to the bottom line (PKR 79mln)

Business Strategy

- Captive GPW mix would reduce by 22% in CY16 with the change ownership of Warid (~PKR 150mln), whereas referral business from Bank Alfalah is being aggressively tapped, fueling motor segment
- Extensive focus would continue to expand non-captive market, benefitting from recently strengthened branch network and the sales team
- Innovative products in health and accident segments getting due attention in the market in collaboration with sister concern – waird telecom; expected to support brand building
- Prudent underwriting ensuring profitability remains important

Financial Risk

- The size of liquid investment book (end-Sep16: PKR 1,294mln) remained strong, representing 1.5 times of equity base
- The risk profile of the investment portfolio remained low with majority of the funds deployed in low risk bank deposits (48%) and Government securities (37%); investment yield clock in at 6%
- Strong risk absorption capacity reflected by stable liquidity position, providing 2.7 times cover to the claims liability
- Improved position of outstanding claims led to reduced claim days 210 days (9M15: 300days); however miscellaneous (647 days) and motor (209 days) are higher than peers; requiring management's attention
- Strong reinsurance arrangements with reputed international reinsurers predominantly rated 'AA-' and 'A+'

RATING RATIONALE

The rating captures the strength of the business profile of Alfalah insurance with noticeable growth in non-captive business. The company has outpaced GPW growth of the industry while keeping the underwriting performance intact. The management's conservative stance, in the form of low risk retention, continues yielding profitability. The rating takes comfort from the robust control environment of Alfalah Insurance enabling efficient monitoring and performance evaluation of the core business in a wholesome manner. The company has been able to attract market attention through introducing innovative product in health and accident segment and intends to fortify its position in the general insurance industry by diversifying its product mix. The company is aiming penetration in motor segment; building synergies with group bank – Bank Alfalah. The rating recognizes the company's efforts to build a sound investment book over the years comforting its financial risk profile. Currently, the liquidity profile is robust; however, needs to be monitored carefully as the company takes the trajectory of growth. Supporting its prudent risk retention policies, Alfalah Insurance has a sound panel of reinsurers with favourable treaty terms. The rating considers Alfalah Insurance association with Abu Dhabi group which, along with sustained captive business, ensures sound governance.

KEY RATING DRIVERS

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 liquidity profile is vital along with prudent management of claims and receivables.

INDUSTRY

Pakistan general insurance continued growth trajectory (CAGR 4 years 10%). While fire and motor growth is driven by credit off by the banks, the miscellaneous segment has seen largest growth in health, crop, and livestock. The underwriting profitability improved, though change in tax laws shall impact net profits, going forward. Growth prospects are sanguine.



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GENERAL INSURANCE Financials [Summary]

Alfalsh Insurance Company Limited

BALANCE SHEET	30-Sep-16	31-Dec-15	31-Dec-14
Investments			
Liquid Investments	1,294	1,102	1,073
Investment in Associates	-	-	-
Other Investments	-	-	-
	<u>1,294</u>	<u>1,102</u>	<u>1,073</u>
Insurance Related Assets	1,007	856	730
Other Assets	760	419	372
TOTAL ASSETS	<u>3,061</u>	<u>2,377</u>	<u>2,175</u>
Equity	885	805	710
Underwriting Provisions	941	637	559
Insurance Related Liabilities	1,025	793	777
Other Liabilities	210	142	129
TOTAL EQUITY & LIABILITIES	<u>3,061</u>	<u>2,377</u>	<u>2,175</u>
INCOME STATEMENT	30-Sep-16	31-Dec-15	31-Dec-14
Net Premium			
Gross Premium Written (GPW)	1,612	1,546	1,331
Net Premium Revenue (NPR)	666	780	705
Net Claims	(369)	(429)	(411)
Net Operational Expenses	(247)	(275)	(249)
UNDERWRITING RESULTS	<u>50</u>	<u>76</u>	<u>45</u>
Investment Income	66	76	101
Other Income/ (expense)	2	2	4
PROFIT BEFORE TAX	<u>118</u>	<u>154</u>	<u>151</u>
RATIO ANALYSIS	30-Sep-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	55%	55%	58%
Combined Ratio	93%	90%	94%
Performance			
Operating Ratio	82%	80%	79%
Investment Yield	6%	6%	9%
Liquidity & Solvency			
Liquidity Ratio – times	2.7	2.2	2.3



RATING SYMBOLS & DEFINITIONS:

**INSURER FINANCIAL STRENGTH (IFS)
RATING SCALE & DEFINITIONS**

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

RATING SCALE	DEFINITION
AAA	Exceptionally Strong. 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-	Very Strong. 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-	Strong. 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-	Good. 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-	Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ B B-	Weak. 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.
CCC CC C	Very Weak. 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.
D	Distressed 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.

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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, but may stay in abeyance for long. 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) cessation of underlying entity, or c) the rating remains suspended for six months.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Name of Issuer
Sector
Type of Relationship
Purpose of the Rating

Alfalalah Insurance Company Limited
 Insurance | General
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	IFS Rating	Outlook	Action
10-Mar-17	AA-	Stable	Upgrade
1-Dec-16	A+	Stable	Maintain
1-Dec-15	A+	Stable	Maintain
2-Dec-14	A+	Stable	Upgrade
24-Dec-13	A	Positive	Maintain

Related Criteria and Research

Rating Methodology
 Sector Research

General Insurance and Takaful operator – IFS Rating methodology
 Insurance | General - View Point | Nov 16
 General Takaful - View Point | Feb 16

Rating Analysts

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP.

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties.

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter.

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[Probability of Default \(PD\)](#)

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