



The Pakistan Credit Rating Agency Limited

Rating Report

Askari Life Assurance Company Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Jul-2020	A-	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Askari Life, under the umbrella of Army Welfare Trust (AWT), is an emerging life insurance company. The rating incorporates ensuring synergistic and oversight benefits from its association with the sponsor along with explicit commitment for further financial support. AWT already has significant presence in the general insurance market through Askari General (rated AA). The other major shareholder in Askari Life also has presence in general insurance through East West General (rated AA-); have presence on the BoD. They were erstwhile owners of the company before acquisition by AWT. The company is witnessing losses due to initial years of operations, however the demonstrated growth together with improving profitability bodes well for the long-term prospects. Askari Life aims to garner high volumes using both Agency and Bancassurance distribution channels. Efforts are also being undertaken to underwrite captive business. The risk absorption capacity and capitalization levels are moderate. Any dilution therein has the comforting backing of the sponsor. Increase in market share along with converting underwriting losses into profitability is crucial. Moreover, maintenance of adequate capital in wake of increasing business volumes and consequent support from sponsors would remain important.

Prior to COIVD-19, the life insurance industry witnessed miniscule growth of 1% YoY as single premium declined due to the underperformance of equity markets, which made the unit-linked investment funds unattractive to policy holders for investment purposes. The current pandemic has further affected the life insurance industry, with the growth expected to plummet. Additional reduction in investment linked policies and heightened claims are expected. Moreover, increase in surrenders is likely as a result of economic stagnation. The large investment book is however likely to cushion any impact. The industry intends to sustain its existing position while aiming to launch innovative products.

The rating is dependent on sustained improvement in business and financial risk profile of the company in line with its relative positioning with in the industry. At the same time, liquidity profile should continue to cushion the policyholder's liabilities. Growth in topline and underwriting profits are essential.

Disclosure

Name of Rated Entity	Askari Life Assurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology LI(Jun-20)
Related Research	Sector Study Life Insurance(Jun-20)
Rating Analysts	Maryam Ijaz maryam.ijaz@pacra.com +92-42-35869504



Profile

Legal Structure Askari Life Assurance Company Limited (ALAC), a quoted public company, listed on the Pakistan Stock Exchange.

Background The company (formerly East West Life Assurance Company Limited) commenced its operation in Feb-1993. It is owned by the AWT (Army Welfare Trust).

Operations With its head office in Karachi, the company operates in main cities with branches in Lahore, Islamabad and Karachi.

Ownership

Ownership Structure ALAC is majority owned by Army Welfare Trust (AWT) with a stake of 54.5%. While East West Life Insurance Company Limited owns 22%. The rest is on free float and held by individuals in public.

Stability AWT is involved in sector like Aviation, CNG, Agriculture, Manufacturing, Sugar, Lubricants, Real Estate, Security Solutions and many other diverse fields.

Business Acumen AWT was set up in 1971 by Pakistan Army under the 'Societies Registration Act' with the mandate of promoting the welfare of retired personnel of the Army and their families through the creation of income and employment generating activities. The Trust is currently engaged in sugar, textile, real estate, banking, leasing, insurance, cement, and travel services.

Financial Strength The sponsoring group has a sound financial profile reflected by its highly successful business ventures in various sectors.

Governance

Board Structure The overall control of the company vests in eight-member board of directors.

Members' Profile CEO is the only executive director while there are two independent board members. Remaining are non-executive directors including the chairman.

Board Effectiveness There are three sub-committees of the board namely; (i) Audit, (ii) Investment (ii) Human Resource & Remuneration

Financial Transparency The auditors of the company, Grant Thornton Anjum Rehman, issued an unqualified audit report pertaining to annual financial statements for CY19

Management

Organizational Structure ALAC follows a very structured and well segregated organisation structure.

Management Team The company has qualified and experienced management team. Mr. Jehanzeb, the CEO of the company has been involved in the insurance sector for two decades. Mr. Jehanzeb along with the COO i.e. Mr. Noman Muhammad and Mr. Rehan Mobin, the CFO of the company carry out the decisions at a strategic level.

Effectiveness The board has three management committees namely Underwriting and Reinsurance Committee, Claim Settlement Committee; and Risk Management & Compliance Committee.

Claim Management System Askari Life has a detailed claims settlement guideline in place with core objective of removing the gaps with effective controls. Once the claims department receives policyholders' request the policy review is carried out, if the claim is legitimate, a case is prepared and sent to head of claims.

Investment Management Function The company follows a comprehensive Investment Policy Statement (IPS) laying down the guidelines for investment. Malik Riffat Mahmood is the Chairman of Board Investment Committee. Maj Gen Akhtar Iqbal (Retd), Jahanzeb Zafar, Noman Noor Muhammad and Rehan Mobin form part of the Investment Committee. The policy wise decision, investment strategy, investment avenues are discussed in the investment committee. This meeting is held on a quarterly basis.

Risk Management Framework The company has developed a robust risk management framework which establishes principles and standards for the management and control of all risks that may impact the organization. The risk register captures all the risks that are currently impacting the company or may have an impact in the future. It highlights the severity of the risk and controls in place for prevention. The risk register is updated regularly.

Business Risk

Industry Dynamics Prior to COVID-19, the life insurance industry witnessed miniscule growth of 1% YoY as single premium declined due to multiple factors. The current pandemic has further affected the life insurance industry, with the growth expected to plummet. Additional reduction in investment linked policies and heightened claims are expected. Moreover, increase in surrenders is likely as a result of economic stagnation. The large investment book is however likely to cushion any impact. The industry intends to sustain its existing position while aiming to launch innovative products.

Relative Position Askari Life holds a market share of less than 1%.

Persistency The persistency of the first year GPW increased as a result of growth in the premium. First year (CY19: 71%, CY18: 45%) and second year persistency both grew impressively (CY19: 120%, CY18: 65%).

Revenue Gross premium (CY19: PKR 302mln, CY18: PKR 44mln) witnessed a whopping increase of 589%. Both the individual and group business grew as the company penetrated the market. First year premium (CY19: PKR 101mln, CY18: PKR 2mln), accounted for the highest growth in the individual category as the company beefed its focus on the agency while simultaneously inaugurating Bancassurance. Single Premium, in its first year roped in PKR 59mln.

Profitability The company experienced an exponential growth in the topline as against the industry standard in CY19. Loss ratio of the company decreased to 37% (CY18: 201%), due to reduced claims particularly in light of new business. The company was also successful in reducing the expense ratio (CY19: 172%, CY18: 379%) as majority of new recruitment was completed in 2018. The expense ratio though is still high than the industry average. The management expenses i.e. PKR 321mln, significantly higher than the Gross Premium Written led to augmented deficit of PKR 206mln in CY19 (CY18: PKR 102mln).

Investment Performance The investment income grew by 91% (CY19: PKR 34mln, CY18: PKR 18mln) on the back of returns from Government securities.

Sustainability Going forward, the company envisages high growth targets with focus through multiple avenues. Furthermore, strengthening of banking network along with expansion of agent network. The company aims to achieve sustainability irrespective of the economic slowdown and COVID-19.

Financial Risk

Claim Efficiency The claims outstanding days decreased up to 177 days (CY18: 449 days)

Re-Insurance Askari Life has Reinsurance arrangements with Hannover Re (AA- by S&P) and Munich Re (AA- by S&P).

Liquidity The liquidity ratio is ~2.4x, providing good risk absorption capacity. The total liquid assets parked with the company stand at PKR 606mln.

Capital Adequacy Askari Life has an equity base of PKR 284mln. The company witnessed an increase in equity in CY18 as consequence of approved rights issue amounting to PKR 500mln. The equity was boosted by the injection of further PKR 100mln from the sponsor in April 2020.



LIFE INSURANCE Financials [Summary]

Askari Life Assurance Company Limited (ALAC)

	PKR mln 31-Dec-19	PKR mln 31-Dec-18	PKR mln 31-Dec-17
BALANCE SHEET			
Investments			
Liquid Investments	606	781	478
Other Investments	25	17	11
	631	798	490
Insurance Related Assets	15	6	5
Other Assets	124	40	32
TOTAL ASSETS	770	843	527
Equity	284	546	259
Statutory Fund	253	179	184
Insurance Related Liabilities	131	96	70
Other Liabilities	102	23	14
TOTAL EQUITY & LIABILITIES	770	843	527
Revenue Account - Extracts			
Net Premium			
Gross Premium	302	44	19
Reinsurance Expense	(82)	(19)	(3)
Net Premium	220	25	17
Net Claims	(82)	(50)	(37)
Expenses	(378)	(94)	(34)
Investment Income	34	18	14
Excess of Income over Expenditure (EoI)	(206)	(101)	(41)
Miscellaneous (Expense)/ Income	-	-	-
Reserve for Policyholders' Liabilities	(74)	4	6
Surplus / (Deficit) before tax	(280)	(97)	(35)
RATIO ANALYSIS			
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	589%	128%	3%
Persistency Ratio (Individuals Funds)	71%	45%	91%
Loss Ratio (Net Claims as % age of net premium)	37%	201%	224%
Liquidity & Solvency			
Liquidity Ratio – times	2.4	4.4	2.6
Claims Outstanding Days (Provision for Outstanding Claims/Claims Expense * 365) - days	177.1	448.5	607.8

Insurer Financial Strength (IFS) Rating

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

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-	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.
B+ B B-	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.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
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.

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

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 following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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.
- (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)

Independence & Conflict of interest

- (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 | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent