



The Pakistan Credit Rating Agency Limited

## Rating Report

### Askari Life Assurance Company Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Jul-2021	A-	-	Stable	Maintain	-
20-Jul-2020	A-	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The Rating of Askari Life Assurance Company Limited (the Company) is based on its core sponsorship from the Army Welfare Trust, unlocking synergistic benefits as well as providing explicit commitment in times of financial crisis. The Army Welfare Trust has an established presence in the insurance industry through Askari General Insurance (Rated AA). A deficit for the year has occurred due to its initial year of operations, however improvement in the profitability through growth in single premium revenue and regular premium revenue along-with increased exposure in bancassurance provides comfort to the rating. 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 remains crucial. Moreover, maintenance of adequate capital in wake of increasing business volumes and consequent support from sponsors would remain important.

During CY-20, the total GPW of the industry grew by 4.6% to PKR 233bln, as against a decline of 1.2% to PKR 223bln in CY-19. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. However, due to current pandemic situation, the demand for Life Insurance products is expected to increase over near term which in-turn is expected to result in new business growth for the industry.

Sustained improvement in the business and financial risk profile of the company in line with their relative positioning in the industry remain vital to the rating. Concurrently, the liquidity profile of the Company should continue to cushion the policyholder's liabilities. Growth in topline and underwriting profits remain 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	Muhammad Noor Ul Haq   noorulhaq@pacra.com   +92-42-35869504

**Profile**

**Legal Structure** Askari Life Assurance Company Limited is public listed on the Pakistan Stock Exchange (PSX) with a trading symbol of ALAC.

**Background** The company was formerly known as East West Life Assurance Company Limited, which commenced its operations in February, 1993. It is owned by the AWT (Army Welfare Trust).

**Operations** Head office of the company is located in Karachi, whereas the company operates in major cities of the country, with branches in Lahore, Islamabad and Karachi.

**Ownership**

**Ownership Structure** ALAC is majorly owned by Army Welfare Trust (AWT), with a stake held of 66.6%. While East West Life Insurance Company Limited owns 19%. The remainder of shareholding is freely floated and held by individuals in public.

**Stability** Operations of AWT are well diversified, with involvement in Aviation, CNG, Agriculture, Manufacturing, Sugar, Lubricants, Real Estate, Security Solutions and other various sectors.

**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 Shuhda 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 financial strength of the group is deemed to be strong, support being derived from its successful business ventures in multiple sectors.

**Governance**

**Board Structure** The board is structured with eight members, with layering as 4 members representing Army Welfare Trust, 2 independent members, 1 member representing East West Insurance Company and CEO of the company, functioning as an executive director.

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

**Board Effectiveness** Three sub-committees are established by the board, which oversees the operations of the company, namely; (i) Audit Committee (ii) Investment Committee (ii) Ethics, Human Resource Remuneration & Nomination Committee.

**Financial Transparency** The auditors of the company, RSM Awais Hyder Liaquat Nauman have provided an unqualified opinion on the financial statement of FY-20.

**Management**

**Organizational Structure** Askari Life has a well-defined organogram, structured with reporting lines directed towards the Nomination Committee, which functions with the CEO of the company.

**Management Team** The company has a qualified and experienced management team. Mr. Jehanzeb Zafar, 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** A detailed claim settlement guide is developed by Askari Life, with a core objective of smooth transition between different stages of the process. With the initiation of claim through the policyholder's request, a policy review is undertaken. Subsequently, once the legitimacy of the claim is verified, a case is prepared and forwarded to the Head of Claims for approval.

**Investment Management Function** A comprehensive Investment Policy Statement (IPS) has been drafted by ALAC, which provides guidance in terms of investment decision-making. The Committee is chaired by Mr. Malik Riffat Mahmood. Maj. Gen. Akhtar Iqbal (Retd), Jahanzeb Zafar, Noman Noor Muhammad and Rehan Mobin form remaining members of the Investment Committee. The meeting is held on a quarterly basis, in which the investment framework is discussed and investment decisions are conducted, in accordance with the IPS.

**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 minuscule 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 Assurance Company holds a market share of less than 1% at December-20.

**Persistency** The persistency ratios for the year have witnessed a downfall in the year under review, with first year persistency decreasing to 51% (FY-19: 71%) and second year persistency falling to 51% (FY-19: 120%).

**Revenue** The company has increased its Gross Premium Written by ~49% compared on YoY basis (FY-20: PKR 449mln; FY-19: PKR 302mln). Both the individual and group business grew, as the company penetrated the market. Group Premium termed to be the highest contributor (FY-20: PKR 220mln, FY-19: PKR 126mln), as the company focused on agency, with concurrent progress observed in bancassurance.

**Profitability** Loss ratio of the company increased to 45% in FY-20 (FY-19: 41%), due to increased death claims. The company has succeeded in lowering its expense ratio (FY-20: 134%, FY-19: 178%), however, it is still considered above the industry average. A slight improvement in the profitability of the company is observed, with loss of the company being reduced to PKR 239mln (FY-19: 263mln).

**Investment Performance** The investment income declined by ~13% (FY-20: PKR 65mln; FY-19: PKR 75mln) caused by low rate returns by 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 to 116 days (FY-19: 177 days)

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

**Liquidity** The total liquid assets parked with the company stand at PKR 909mln.

**Capital Adequacy** Askari Life has an equity base of PKR 451mln. The company witnessed an increase in equity in November-20, supported by a rights issue amounting to PKR 400mln.

	<b>Dec-20</b>	<b>Dec-19</b>	<b>Dec-18</b>
	<b>12M</b>	<b>12M</b>	<b>12M</b>
<b>A BALANCE SHEET</b>			
1 Investments	909	623	788
2 Insurance Related Assets	38	11	3
3 Other Assets	39	35	47
4 Fixed Assets	63	100	5
<b>Total Assets</b>	<b>1,050</b>	<b>770</b>	<b>843</b>
5 Underwriting Provisions	-	-	-
6 Insurance Related Liabilities	518	394	289
7 Other Liabilities	44	33	9
8 Borrowings	36	59	-
<b>Total Liabilities</b>	<b>599</b>	<b>486</b>	<b>297</b>
<b>Equity</b>	<b>451</b>	<b>284</b>	<b>546</b>

## B INCOME STATEMENT

1 Gross Premium Written	449	302	44
2 Net Insurance Premium	281	220	26
3 Underwriting Expenses	(503)	(474)	(145)
<b>Underwriting Results</b>	<b>(222)</b>	<b>(255)</b>	<b>(119)</b>
4 Investment Income	65	75	34
5 Other Income / (Expense)	(21)	(9)	(32)
<b>Profit Before Tax</b>	<b>(238)</b>	<b>(262)</b>	<b>(113)</b>
6 Taxes	(0)	(1)	(0)
<b>Profit After Tax</b>	<b>(239)</b>	<b>(263)</b>	<b>(113)</b>

## C RATIO ANALYSIS

### 1 Profitability

Loss Ratio (Net Insurance Claims / Net Insurance Premium )

45.0%	37.4%	195.2%
178.7%	216.1%	565.0%

Combined Ratio (Loss Ratio + Expense Ratio)

52.2%	70.7%	45.2%
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### 2 Persistence

First Persistence ("Second Year Premium" as %age of last year "First Year Premium")

52.2%	70.7%	45.2%
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### 3 Investment Performance

Investment Yield

8.4%	10.7%	5.4%
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### 4 Liquidity

(Liquid Assets - Borrowings) / Outstanding Claims

7.6	6.1	10.0
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### 5 Capital Adequacy

Equity / Net Insurance Claims

2.9	5.1	8.0
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## 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.

<b>Scale</b>	<b>Definition</b>
<b>AAA</b>	<b>Exceptionally Strong.</b> 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.
<b>AA+</b>	
<b>AA</b>	<b>Very Strong.</b> 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.
<b>AA-</b>	
<b>A+</b>	
<b>A</b>	<b>Strong.</b> 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.
<b>A-</b>	
<b>BBB+</b>	
<b>BBB</b>	<b>Good.</b> 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.
<b>BBB-</b>	
<b>BB+</b>	
<b>BB</b>	<b>Weak.</b> 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>BB-</b>	
<b>B+</b>	<b>Very Weak.</b> 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.
<b>B</b>	
<b>B-</b>	
<b>CCC</b>	<b>Very high credit risk.</b> 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.
<b>CC</b>	
<b>C</b>	"C" Ratings signal imminent default.
<b>D</b>	<b>Distressed.</b> 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.
<b>Outlook (Stable, Positive, Negative, Developing)</b>	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'.
<b>Rating Watch</b>	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.
<b>Suspension</b>	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.
<b>Withdrawn</b>	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.
<b>Harmonization</b>	A change in rating due to revision in applicable methodology or underlying scale.

**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.

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## **Regulatory and Supplementary Disclosure**

(Credit Rating Companies Regulations,2016)

### **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)

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- (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 principle 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)

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- (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](http://www.pacra.com)). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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