



The Pakistan Credit Rating Agency Limited

Rating Report

TRAFCO Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-May-2022	BBB+ (ifs)	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

TRAFCO Insurance Company Limited is the emergent player in general insurance space. The sector has been highly competitive. The Company's underwriting portfolio is currently in development stage, which will be growing as envisaged by the management. The Company has been granted permission to commence underwriting business, after they met the related requirements. The management has a clear vision for business expansion. The rating reflects group support by way of planned synergetic benefits between the different ventures of TRAFCO Group. The business strategy envisages first focus on the motor insurance and later on other conventional lines, as the re-insurance arrangements for the lines are finalized. The rating factors in TRAFCO's weak solvency, which remains below the regulatory requirement. Minimum capital requirement is also being met, which is important. Further, TRAFCO continues to report weak profitability with high underwriting losses, thereby resulting in net losses of PKR 94mln in CY21. The underwriting losses can partially be accredited to a one-time expense pertaining to the assets written off incurred by TRAFCO, amounting PKR 79.71mln. Management is focused on achieving breakeven in upcoming year. The enhancement in scale of operations is warranted for strengthening profitability profile. The quantum of liquid profile stood at PKR 9mln as at end-Dec21. TRAFCO's liquidity profile needs significant improvement.

The Company's success in achieving GPW targets and the expectation of financial support from the sponsor is essential. This should translate in improved underwriting performance and augmented liquidity. The rating would gain benefit provided the Company meets all statutory requirements and captures a sizeable share in the market while achieving breakeven in its core operations. At the same time, the liquid earning investments profile of the Company must rise.

Disclosure

Name of Rated Entity	TRAFCO Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Criteria Rating Modifiers(Jun-21),Methodology General Insurance Rating(Mar-22)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504

Profile

Legal Structure TRAFCO Insurance Company Limited (TRAFCO) was incorporated in Pakistan as an unlisted public limited company on October 25th, 1979 under the Companies Act 1913 (now the Companies Act, 2017).

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

Operations TRAFCO is enlisted with the Security Exchange Commission of Pakistan (SECP) and offers a range of non-life insurance products to individuals and corporates. Insurance policies can be categorized into the distinct segments of "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 Malik family. The majority shareholder, Mr. Tahir Malik, is the Chairman of board for TRAFCO as well as TRAFCO Group. Mr. Tahir Malik holds 43.38% stake in the Company. Mr. Saboohi Tahir is second major shareholder with 32.37% shareholding, rest shareholding is held by other family members.

Stability The ownership structure of the Company remains stable as per the vision of the sponsors.

Business Acumen TRAFCO Group of Companies possesses sharp business acumen, and continues to follow an illustrious path.

Financial Strength Under the leadership of Mr. Tahir Malik, the Group has ventured into the logistics, supply chain solutions, assets/vehicles tracking management and insurance businesses.

Governance

Board Structure The overall governance of the Company vests in seven-membered board: two executives, four non-executives and an independent director. 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 TRAFCO Logistics and TRAFCO Tracking. He has over three decades of relevant industry experience.

Board Effectiveness Seven board level committees have been established for smooth operations throughout the organization, namely: i) Audit Committee ii) Investment Committee iii) Ethics and/ or Compliance Committee and iv) Underwriting, Re-insurance & Co-Insurance Committee v) Claim Settlement Committee vi) Nominations Committee & vii) Risk Management Committee.

Transparency The financial statements of the Company for the period ended Dec-21 have been audited by Muniff Ziauddin & Co. Chartered Accountants. The external auditors gave a qualified opinion on the financial reports. The basis of the qualified opinion was twofold: failure to comply with the requirement of minimum capital requirement and the inadequacy of reinsurance treaties. However, this qualification does not relate to the restriction of business.

Management

Organizational Structure TRAFCO maintains a coherent, well-demarcated organizational structure with clear lines of reporting, converging to the CEO, who ultimately reports to the Chairman. The specialization of duties serves to enhance the operational efficiency of the Company.

Management Team The management team has constantly demonstrated commitment to the Company. Mr. Muhammad Nawaz Sahid holds a Master's degree and possesses over three decades of experience within the Insurance industry. He was the General Manager of Credit Insurance and later took office as the CEO of TRAFCO.

Effectiveness There are five committees falling under the ambit of the Management Committee, namely: i) Underwriting, Re-insurance & Co-insurance Committee, iii) Claim Settlement Committee, iii) Risk Management Committee iv) Remuneration Committee and lastly & v) Nominations Committee.

MIS The Company has implemented its custom Insurance Management System (IMS). IT system developed by ANZ Globalsoft (Pvt.) using back-end database comprised of Oracle 11g environment. IMS is a centralized ERP system that is installed at the local Servers (Application and Database Servers) which are online 24/7.

Claim Management System Claims and underwriting processes of the Company are well structured. The underwriting and Risk assessment department has independent operations. Each department is equipped with capable staff, especially engineers, pertaining to Motor insurance and installation/monitoring of tracking equipment.

Investment Management Function The Company has in place an Investment Policy Statement laying down the guidelines for investment. IPS delegates the authority to investment committee of the Board to oversee the investment function. The members have the ongoing responsibility for managing the investment portfolio.

Risk Management Framework The Company has established a Risk Management Committee to effectively mitigate and control risks that TRAFCO is exposed to. The process of risk management has been spread to the following activities of the Company; i) Underwriting ii) Claims iii) Sales & Marketing and iv) Accounts & Finance. The underwriting authority limits lies with divisions and units, whereas branches are authorized to issue pre-approved policy.

Business Risk

Industry Dynamics The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. In terms of Gross Premium Written (GPW), Pakistan's general insurance industry had a total size of PKR~108,322m in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR~104,453m). Currently, the general insurance industry has witnessed a growth of ~19% on YoY basis as of Sep-21.

Relative Position TRAFCO Insurance is categorized as a small-sized Insurance player, with less than 1% market share in terms of GPW.

Revenue The Company has GPW of PKR 8.16m for CY21 compared with PKR 13.5m for CY20, depicting a decline of 40% YoY basis. The Company's ultimate forte resides with the motor segment.

Profitability TRAFCO's profitability has been following a downward trajectory. The Company has incurred a loss after taxation amounting to PKR 94m for CY21 compared to PKR 4m for CY20. This is majorly owing to higher management expenses of PKR 107m for CY21 (CY20: PKR 47m).

Investment Performance Presently, TRAFCO does not maintain an investment book. The Company has earned PKR 10m interest income in CY21, owing to the loans that was extended to its related parties: TRAFCO Logistics (Pvt.) Ltd and TRAFCO Tracking (Pvt.) Ltd. The Company plans to build its investment book going forward by focusing on low-risk investments such as TDRs and Government Bonds.

Sustainability TRAFCO Insurance plans to grow its position in the market while managing sustainable breakeven and subsequent profitability, ensuring consistent improvement in prudent underwriting and risk management.

Financial Risk

Claim Efficiency The Company ensures timely payment of claims in a max turnaround of 45 days.

Re-Insurance TRAFCO Insurance maintains re-insurance treaties -Excess of loss (XoL) for Motor and Workmen's Compensation - with international reinsurers of sound repute which includes "Trust Re" and "Oman Re." in CY21. Further, the Company has approached different re-insurance brokerage houses for all other classes of business and the management is hopeful to obtain in near future.

Cashflows & Coverages Currently, the Company does not maintain a proper investment book. The Company has liquid cash and bank balance of PKR 8.8m.

Capital Adequacy The total equity of the Company as at end Dec-21 stood at PKR 312m (CY20: PKR 127m). The Company has paid up capital of PKR 349m.



PKR mln

Trafco Insurance Company Limited
Un-Listed Public Limited

Dec-21	Dec-20	Dec-19	Dec-18
12M	12M	12M	12M

A BALANCE SHEET

1 Investments	9	0	0	1
2 Insurance Related Assets	4	-	3	4
3 Other Assets	120	113	32	33
4 Fixed Assets	250	94	94	93
Total Assets	383	207	129	132
5 Underwriting Provisions	5	5	9	20
6 Insurance Related Liabilities	18	19	15	6
7 Other Liabilities	18	27	20	17
8 Borrowings	30	29	2	1
Total Liabilities	70	80	45	44
Equity	312	127	84	88

B INCOME STATEMENT

1 Gross Premium Written	8	14	19	35
2 Net Insurance Premium	6	14	25	26
3 Underwriting Expenses	(105)	(62)	(25)	(29)
Underwriting Results	(99)	(47)	(0)	(3)
4 Investment Income	-	-	-	-
5 Other Income / (Expense)	5	(0)	(3)	(0)
Profit Before Tax	(94)	(48)	(3)	(4)
6 Taxes	0	(0)	(0)	(0)
Profit After Tax	(94)	(48)	(3)	(4)

C RATIO ANALYSIS

1 Profitability

Loss Ratio (Net Insurance Claims / Net Insurance Premium)
Combined Ratio (Loss Ratio + Expense Ratio)

-41.7%	98.1%	50.5%	50.9%
1653.0%	428.3%	100.6%	112.5%

2 Investment Performance

Investment Yield

0.0%	0.0%	0.0%	0.0%
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3 Liquidity

(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR

(1.51)	(1.60)	(0.20)	0.06
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4 Capital Adequacy

Liquid Investments / Equity

2.8%	0.1%	0.2%	1.5%
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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	Definition
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) AA+ (ifs) 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.
A++ (ifs) A+ (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.
BBB++ (ifs) BBB+ (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.
BB++ (ifs) BB+ (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.
B++ (ifs) B+ (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.
CCC (ifs) CC (ifs) C (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
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.

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

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(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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Conduct of Business

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- (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.
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- (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)

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