



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-2023	BBB+ (ifs)	-	Stable	Maintain	-
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 rating reflects group support by way of planned synergetic benefits between different ventures of TRAFCO Group. The Company's underwriting portfolio is currently in development stage, which will be growing as envisaged by the management. The Company deals in "Fire and Property Damage", "Marine, Aviation and Transport", "Motor" and "Miscellaneous" segments. The rating factors in TRAFCO's weak solvency, which remains below the regulatory requirement. The Company's ultimate forte resides with the motor segment ~65.37% followed by fire & property (~18.67%) and miscellaneous (~15.94%). Further, TRAFCO continues to report weak profitability with high underwriting losses, thereby resulting in net losses of PKR 8mln during CY22. The underwriting losses can partially be accredited to a negligible net insurance premium. Presently, TRAFCO does not maintain an investment book. The quantum of liquid profile stood at PKR 2mln as at end-Dec22. 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	Methodology Rating Modifiers(Jun-22),Methodology General Insurance Rating(Mar-23)
Related Research	Sector Study General Insurance(May-22)
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 offers a range of non-life insurance products to individuals and corporates. 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 Malik family. The majority shareholder, Mr. Tahir Malik holds (43.38%) shareholding followed by Mr. Saboohi Tahir (32.37%). While remaining (24.25%) of the shareholding is held by other family members.

Stability It is a family-owned business and the ownership structure of the Company is expected to remain unchanged in near future.

Business Acumen The sponsors of the Company possess sharp business acumen and continue 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-member board. The board comprises four non-executive, two executive, and an independent director. 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.

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 diversified experience.

Board Effectiveness Board committees meet on a regular basis and minutes of the meetings are documented.

Transparency The financial statements of the Company for the period ended Dec-22 have been audited by M/s Muniff Ziauddin & Co. Chartered Accountants. The External Auditors gave a qualified opinion on the financial reports. The basis of the qualified opinion was; failure to comply with the requirement of Insurance Ordinance, 2000 of keeping the deposit in SBP, the required minimum amount either in cash or in approved securities. The required minimum deposit is higher of PKR 10mln or 10% of the insurer's paid-up capital. Company has not deposited any securities or cash in this regard.

Management

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

Management Team The management team has constantly demonstrated commitment to the Company. the CEO of the Company, Mr. Muhammad Nawaz Shahid was the General Manager of Credit Insurance and later took office as the CEO of TRAFCO.

Effectiveness Management committees meet as and when required. The minutes of the meetings are not formally documented. However, action points are noted.

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 During 9MCY22, general insurance industry has a total GPW size of PKR ~114bln (9MCY21: PKR~89bln), registering a growth of ~28% YoY basis. Investment income has deteriorated to PKR ~8bln for 9MCY22 (9MCY21: PKR 9.45bln), despite hike in policy rate, insurance companies had to bear losses in equity securities.

Relative Position TRAFCO Insurance is categorized as a small-sized Insurance player, with less than 1% market share in terms of GPW as at Dec'22.

Revenue TRAFCO experienced a significant boost in its Gross Premium Written (GPW) by 37.5% to PKR11mln (CY21: PKR 8mln; CY20: PKR 14mln) as it successfully underwrote the business of a Financial Institution. Concentration risk in revenues is notably high, as indicated by the fact that the top segment accounted for 65.4%, while the top client represented 36.4% of the overall revenue.

Profitability TRAFCO's profitability has been following a downward trajectory. The Company has incurred a loss after taxation amounting to PKR 8mln during CY22 as compared to PKR 94mln during CY21 (CY20: PKR 48mln; CY19: PKR 3mln). This is majorly owing to higher underwriting expenses amounting to PKR 34mln during CY22 (CY21: PKR 25mln) coupled with underwriting loss. The decrease in underwriting results is due to the suppressed gross premium written that ultimately translated into underwriting loss amounting to PKR 28mln during CY22 (CY21: PKR 19mln; CY20: PKR 47mln; CY19: PKR 0mln).

Investment Performance Presently, TRAFCO does not maintain an investment book. The Company has earned PKR 11mln interest income during CY22 (CY21: PKR 10mln; CY20: PKR 3mln; CY19: PKR 0), owing to the loans that was extended to its related parties: TRAFCO Logistics (Pvt.) Ltd and TRAFCO Tracking (Pvt.) Ltd.

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 incurred claim expenses of PKR 0.313mln for the period ended Dec'22 (CY21: 3mln; CY20: PKR 14mln; CY19: PKR 13mln). Claim outstanding days of TRAFCO Insurance stood at 450days during CY22 (CY21: -3146days; CY20: 378days; CY19: 235days).

Re-Insurance TRAFCO Insurance maintains re-insurance treaties -Whole account Excess of loss for motor, fire, engineering, miscellaneous, bond and marine with international re-insurers which includes Protection Re, Arch Re (rated "AA-" by Fitch), BMIIC (rated "A" by A.M. Best), OCEAN Re (rated "A" by A.M. Best), Kenya Re (rated "B" by A.M. Best).

Cashflows & Coverages Currently, the Company has a liquid assets of PKR 2mln (CY21: PKR 9mln).

Capital Adequacy The total equity of the Company as at Dec'22 is PKR 305mln. The Company has paid up capital of PKR 570mln as at Dec'22 which is well above the Minimum Capital Requirement (MCR) for non-life insurers established by SECP. The minimum solvency requirement stands at PKR 150mln. However, Company faces a deficit in net admissible assets over minimum requirement amounting to PKR 87mln.



PKR Mln

TRAFCO Insurance Company Limited
Un-listed Public Limited

Dec-22	Dec-21	Dec-20	Dec-19
12M	12M	12M	12M

A BALANCE SHEET

1 Investments	2	9	0	0
2 Insurance Related Assets	8	4	-	3
3 Other Assets	62	120	113	32
4 Fixed Assets	248	250	94	94
5 Window Takaful Operations	-	-	-	-
Total Assets	320	383	207	129
1 Underwriting Provisions	6	5	5	9
2 Insurance Related Liabilities	4	18	19	15
3 Other Liabilities	5	18	27	20
4 Borrowings	-	30	29	2
5 Window Takaful Operations	-	-	-	-
Total Liabilities	15	71	80	45
Equity/Fund	305	312	127	84

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	11	8	14	19
2 Net Insurance Premium/Net Takaful Contribution	6	6	14	25
3 Underwriting Expenses	(34)	(25)	(62)	(25)
Underwriting Results	(28)	(19)	(47)	(0)
4 Investment Income	-	-	-	-
5 Other Income / (Expense)	21	(75)	(0)	(3)
Profit Before Tax	(8)	(94)	(48)	(3)
6 Taxes	(0)	0	(0)	(0)
Profit After Tax	(8)	(94)	(48)	(3)

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	-5.7%	-41.7%	98.1%	50.5%
Combined Ratio (Loss Ratio + Expense Ratio)	611.0%	399.9%	428.3%	100.6%
2 Investment Performance				
Investment Yield	0.0%	0.0%	0.0%	0.0%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	0.5	-1.5	-1.6	-0.2
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	0.8%	2.8%	0.1%	0.2%

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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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 | 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)

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)

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