



The Pakistan Credit Rating Agency Limited

Rating Report

Alfalah Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Aug-2019	AA-	-	Stable	Maintain	-
27-Feb-2019	AA-	-	Stable	Maintain	-
07-Dec-2018	AA-	-	Stable	Maintain	-
19-Apr-2018	AA-	-	Stable	Maintain	-
29-Sep-2017	AA-	-	Stable	Maintain	-
10-Mar-2017	AA-	-	Stable	Upgrade	-
01-Dec-2016	A+	-	Stable	Maintain	-
01-Dec-2015	A+	-	Stable	Maintain	-
02-Dec-2014	A+	-	Stable	Upgrade	-
24-Dec-2013	A	-	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The rating recognizes Alfalah Insurance's maintained financial profile, emanating from i) well managed insurance assets/liabilities structure, and ii) investment book that contributes a sizeable income stream & provide cushion to the bottom line. Rating also draws comfort from sponsorship of the company. Growth in business volumes of the company has been observed. Impetus is being added with the launch of personal accidental products to various telecom subscribers, which has yielded noteworthy results. This augers well for the business expansion and branding of the company. The management's conservative stance, in the form of low risk retention, continues yielding profitability. Positive momentum in volumes is expected to continue on the back of new products. Health and accident segment intends to fortify its position in the general insurance industry via expanding its outreach. The company is expanding penetration in motor segment; building synergies with group bank – Bank Alfalah. Supporting its prudent risk retention policies, Alfalah Insurance has a sound panel of re-insurers with favourable treaty terms.

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

Disclosure

Name of Rated Entity	Alfalah Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI_FY19(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Faraan Taimoor faraan.taimoor@pacra.com +92-42-35869504



Profile

Legal Structure Alfalah Insurance Company Limited (AFIC) was incorporated as a public unlisted company in December 2005.

Background The company started its operations in September 2006 as the first non-life insurance venture of Abu Dhabi Group (ADG) in Pakistan.

Operations AFIC operates through two business Hubs - North and South - with a total of 10 branches. The North Zone comprises seven branches (1 each in Lahore, Islamabad, Gujranwala, Faisalabad, Multan, Sialkot and Peshawar) alongwith the Head office, whereas the South zone consists of three branches (2 in Karachi (including zonal main office) and 1 in Hyderabad).

Ownership

Ownership Structure 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 - rated AA+ by PACRA.

Stability Abu Dhabi Group (ADG) consists of the prominent members of UAE's ruling family, leading businessmen of UAE and their associates.

Business Acumen ADG having investments in number of countries including Bangladesh, Iran, Uganda, Republic of Congo, and Middle East, has a sizeable interest in Pakistan's financial and telecommunication segments.

Financial Strength The financial strength of AFIC's sponsors is supported by strong muscles of Bank Alfalah (30% ownership in AFIC) amongst other business ventures.

Governance

Board Structure AFIC has a seven-member board including the Chief Executive Officer. H.H. Sheikh Nahayan Mubarak Al Nahayan, UAE Cabinet member and Minister of Knowledge and Culture Department, is chairman of the board.

Members' Profile Three board members come from royal family and leading businesses of UAE, namely Al Nahyan, Al Otaiba and Al-Butti, which are part of ADG.

Board Effectiveness Key executives of Bank Alfalah on AFIC's board provide strategic direction to AFIC, while members from Royal family provide challenge.

Financial Transparency The company's financial statements has been audited by KPMG, who gave an unqualified opinion and review on financial statements for CY18.

Management

Organizational Structure The company has a well-defined organizational structure and different operations are segregated and managed through Executive director and Departmental Heads. The major operational departments include (i) Risk Management, (ii) Finance, (iii) Claims, (iv) Underwriting, (v) Reinsurance, (vi) HR and (vii) IT.

Management Team The management team of the company comprises qualified and experienced professionals. AFIC's sustainable management team has led to achieving organic growth through capitalizing upon their experience. The new CEO, Mr. Abdul Hayee Mughal, possesses around three decades of extensive experience of the insurance industry and served as ED before his elevation as CEO.

Effectiveness There are four management committees, namely, (i) Reinsurance Committee, Re-Takaful and Coinsurance Committee (ii) Claims Settlement Committee, (iii) Underwriting Committee & (iv) Risk Management & Compliance Committee.

MIS AFIC uses General Insurance System (GIS) developed by Sidat Hyder and Morshed Associates. The system is real time and online, and is capable of running in both centralized and distributed environment. It ensures data integrity, maintains audit trail and generate customized reports. The system ensures strong control environment, supporting centralised operation by allowing policy locking and posting at head office level.

Claim Management System AFIC has decentralised its claim settlement process with authority limits assigned to different cadres – incorporated in respective individual's authority card. Claims department handles all non-health claims of the company and monitors the outstanding claims position.

Investment Management Function AFIC has a formal investment policy document approved by BoD, reviewed annually. The authority of investment decisions lies with the CEO and CFO, as per IPS.

Risk Management Framework AFIC has developed and implemented a detailed document, "Risk Management and Compliance Guidelines". These guidelines tend to institute a strong risk environment, while laying down underwriting and reinsurance guidelines and identifying functions and responsibilities of all participants from the BoD to the support staff.

Business Risk

Industry Dynamics Pakistan's general insurance witnessed continuous growth (CAGR 4 years 11%) though economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

Relative Position AFIC market share has been steadily increasing, currently hovering around 3.8% in CY18 (CY17: 3.7%).

Revenue The GPW, has witnessed adequate growth of 9% (CY17: 3%), and 17% in Net Premium Revenue (CY17: 9%). The growth mainly owes the expansion in the Health segment and Motor segment. As at 6MCY19, the company posted a GPW of PKR 1,689mln demonstrating impressive growth.

Profitability The loss ratio in conventional sector CY18 was 48% (CY17: 45%), increase was witnessed in fire loss ratio which jumped to 130% (CY17: 53%) due to one-off event. The company witnessed an increase in the expense ratio (CY18: 52%, CY17: 46%) thus leading to an increase in the combined ratio (CY18: 99%, CY17: 91%). Subsequent increase in Wakala and direct expenses was offset by an increased investment income of PKR3mln, leading to a surplus of PKR 5mln in the Participants Revenue Account. With regards to the Operator revenue Account, the company witnessed an increase in the Wakala fee although this was offset by the rising management and commission expenses. With support of investment income, the company posted a surplus of PKR 15mln for CY18. With regards to 6MCY19, company posted a profit of PKR 34mln.

Investment Performance The company's investment income of PKR 40mln provides a stable cushion to the bottom-line, mostly from money market funds and Government Securities. The investment income dropped to PKR 28mln in 6MCY19.

Sustainability Management envisages continuing extensive focus on expanding in non-captive market, benefiting from recently strengthened branch network and the sales team. The innovative products in health segments is getting due attention in the market; it is expected to support brand building. Management would continue prudent underwriting while ensuring profitability remains important.

Financial Risk

Claim Efficiency The claims turnaround time improved at 169 days (CY17: 251 days).

Re-insurance AFIC executes reinsurance arrangements with reputed international reinsurers predominantly rated 'AA-' and 'A+'. The company has various surplus, quota and excess of loss treaties with Swiss Re (Rated 'A+' by S & P), SCOR Re (Rated A by AM Best), Lloyds (A+ By S&P) and PRCL (Rated 'AA' by JCR-VIS).

Liquidity At CY18, AFIC has sizeable investment book of PKR 1,833mln (CY17: PKR 1,504mln), representing 1.1 times of equity, majorly invested in liquid avenues. AFIC has majorly invested in lesser risky areas, cash and bank deposits (45%) and Government securities (5%). Other investments include Debt Securities (41%) and Equities (12%). For 6MCY19, the investment book stood at PKR 2,069mln.

Capital Adequacy Alfalah Insurance has a paid up capital of PKR 500mln, thus safely complying with SECP's Capital Adequacy requirement. The equity base is above PKR 1.1bln.



Financial Summary

The Pakistan Credit Rating Agency Limited

Alfalah Insurance Company Limited

	PKR mln 6MCY19	PKR mln CY18	PKR mln CY17	PKR mln CY16
BALANCE SHEET				
Investments				
Liquid Investments	2,067	1,831	1,505	1,121
Other Investments	2	2	-	-
	2,069	1,832	1,505	1,121
Insurance Related Assets	929	876	1,056	1,015
Other Assets	566	546	570	489
Fixed Assets	251	179	189	184
TOTAL ASSETS	3,815	3,433	3,320	2,808
TOTAL EQUITY & LIABILITIES				
Equity	1,176	1,094	1,041	933
Underwriting Provisions	979	862	830	695
Insurance Related Liabilities	1,245	1,230	1,154	976
Other Liabilities	416	247	294	205
TOTAL EQUITY & LIABILITIES	3,815	3,433	3,320	2,808
INCOME STATEMENT - Combined				
Gross Premium Written (GPW)	1,689	2,602	2,309	2,275
Net Premium Revenue (NPR)	943	1,434	1,136	1,103
Net Claims	(468)	(718)	(538)	(643)
UNDERWRITING (LOSS) / INCOME	(13)	(23)	87	(5)
Investment Income	28	40	77	97
(LOSS) / PROFIT BEFORE TAX	33	43	165	92
RATIO ANALYSIS - Conventional				
Underwriting Results				
Loss Ratio	41%	47%	45%	54%
Expense Ratio	55%	52%	46%	38%
Combined Ratio	97%	99%	91%	92%
Performance				
Operation Ratio	90%	94%	83%	81%
Investment Yield	6%	5%	11%	15%
Liquidity & Solvency				
Liquidity Ratio - times	6.0	5.2	4.8	5.0
Alfalah Insurance Company Limited				
Aug-19				

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.

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, 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.</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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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.

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)

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)

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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)

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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