

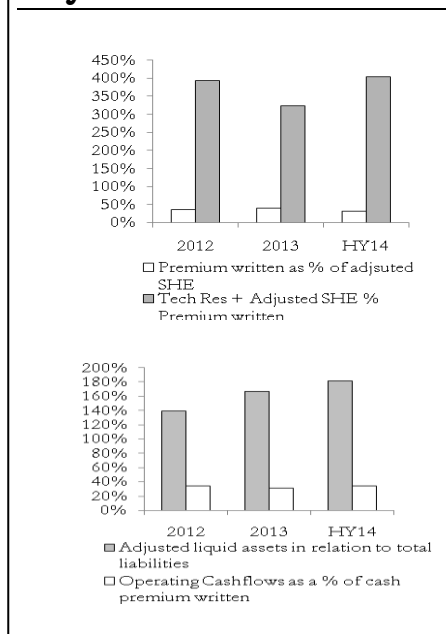
## Alpha Insurance Company Limited

Acting Chairman: Mr. Muhammad Izgar Khan; Managing Director & CEO: Mr. Umair Khan

January 06, 2015

<b>Analysts:</b> Amir Shafique Faiq Sattar		
<b>Category</b>	<b>Latest</b>	<b>Previous</b>
IFS	<b>A</b> Dec 10, 2014	<b>A</b> Sept 30, 2013
<b>Outlook</b>	<b>Stable</b> Dec 10, 2014	<b>Stable</b> Sept 30, 2013

### Key Financial Trends



(In Rs. M)	2012	2013	HY14
Gross Premium	203.8	265.2	110.8
Market Share *	0.5%	0.5%	0.4%
Net Premium	67.4	115.1	94.5
Net Claims ratio	55.5%	48.5%	58.3%
Combined ratio	199.2%	152.4%	184.3%
Net Profit / (Loss)	35.2	97.7	12.1
Adjusted Equity	561.9	661.7	699.4
Operating Leverage	12%	17.4%	13.5%
Financial Leverage	41.2%	29.4%	27.9%
Insurance debt % Gross Premium	58.9%	51.4%	60.3%

### Rating Rationale

The rating assigned to Alpha Insurance Company Limited (AICL) incorporates parent support of State Life Insurance Corporation of Pakistan (SLIC), the largest life insurance company in the country & owned by the Government of Pakistan. SLIC has provided financial support in the past; in more recent years, capitalization levels have continued to strengthen on the back of profits which have been entirely retained by the company. Profitability has been derived from investment activities while underwriting operations continue to report losses. Growth in business volumes while ensuring sound underwriting quality is required to improve results from underwriting operations; if losses from the same persist, it may have a negative impact on the company's risk profile.

While the company registered cash outflow from operating activities in HY14, overall liquidity profile is considered sound, with liquid assets representing 1.8x total liabilities. The weakening in cash flows, also manifested in a high level of insurance debt, may nevertheless need to be arrested.

The company had posted higher business volumes in 2013; growth momentum however slowed down subsequently due to turnover at a key marketing position. Business target for 2014 is Rs. 280m that is unlikely to be met, with only Rs. 171.8m underwritten in 9M14. Business mix is diversified with almost 60% generated from fire & marine; the management intends to enhance focus on marine segment, going forward. While health, motor & terrorism risks were retained on net account in 2013, the company has arranged reinsurance cover for the latter two for 2014 in addition to also arranging marine hull cover. AICL had managed to negotiate higher treaty capacities for 2014 though its benefit in terms of ability to write larger risks and generate higher business volumes remained untapped.

In 2014, there were two changes on the reinsurance panel with Emirates Re and Saudi Re replacing Al-Fajerh Re, Kuwait. The lead reinsurer is Pakistan Reinsurance Company Limited (PRCL) rated 'AA' by JCR-VIS Credit Rating Company Limited. The company mostly has quota share cum surplus arrangement for its key business segments. AICL has reported a decline in cession over time.

AICL continued to post underwriting loss in 2013 and HY14. While net claims ratio has remained around industry average, high expense ratio continues to put a drag on underwriting profitability. In addition to being a function of business volumes, the company's commission rates are also higher than peers, resulting in high expense ratio. Underwriting operations are expected to remain under stress unless a sizable premium base is build.

Apart from a one-off gain in 2013, investment income from recurring sources has also remained healthy over the year. The company had a sizable investment portfolio, amounting to Rs. 716.2m (FY13: Rs. 665.3m) at end HY14. With up to 76% exposure in government securities, the portfolio entails limited credit risk, though market risk is on the higher side given sizeable investment in PIBs. Listed equities comprised around 22% of the portfolio and were carried at a revaluation surplus of Rs. 82.8m at end HY14.

There was turnover at two senior management positions during 2013. The company is yet to appoint a Marketing Head while a resource has been internally promoted as CFO. Moreover, the management plans to strengthen human resource by making new inductions at junior and middle level management. An integrated IT system is deployed; however, the reinsurance module is still at implementation stage. Overall organizational strengthening may facilitate the company in achieving its business targets in coming years.

### Overview of the Institution

State Life Insurance Corporation of Pakistan (SLIC) is the parent company of Alpha Insurance Company Limited. Financial statements for the year 2013 were audited by M/s Fergusons and Co. JCR-VIS

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

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Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<b><u>RATING TYPE: IFS</u></b>				
30-Sep-13	A	Stable		Maintained
14-Nov-12	A	Negative		Reaffirmed
30-Dec-11	A	Negative		Maintained
03-Dec-10	A	Stable		Reaffirmed