

RATING REPORT

Alpha Insurance Company Limited

REPORT DATE:

December 15, 2015

RATING ANALYSTS:

Talha Iqbal
talha.iqbal@jcrvis.com.pk

Narendar Shankar Lal
narendar.shankar@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	A	A
Rating Outlook	Stable	Stable
Rating Date	Dec 15, '15	Dec 10, '14

COMPANY INFORMATION

Incorporated in 1951	External auditors: M/s. A.F.Ferguson & Co.
Public Limited Company	Chairperson of the Board: Ms. Nargis Ghaloo
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Captain Muhammad Jamil Akhtar Khan
State Life Insurance Corporation– 94%	
Individuals - 6%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria <http://www.jcrvis.com.pk/images/methodology.pdf>

Alpha Insurance Company Limited

OVERVIEW OF THE INSTITUTION

Alpha Insurance Company Limited was incorporated in 1951. State Life Insurance Corporation is the parent company of the organization, possessing 94% stake in the company. Registered office of the company is located in Karachi.

RATING RATIONALE

The assigned rating incorporates financial profile and demonstrated support of the parent institution, State Life Insurance Corporation of Pakistan (SLIC), the largest life insurance company in the country & owned by the Government of Pakistan. The assigned rating also reflects adequate capitalization and liquidity profile of Alpha Insurance Company Limited (AICL). Rating are constrained by persistent trend in underwriting losses, high levels of insurance debt & outstanding claims, sizeable amount of claims not recognized on company's balance sheet and room for improvement in overall control environment of the institution.

Gross premiums of the company have depicted a noticeable decline in 2014. Decline in business volume is attributable to turnover at a key marketing position and discontinuation of custom guarantee bond business. Agents and branch wise gross premiums generated by AICL depict significant concentration. Given the current trend in gross premiums during the ongoing year, the company is expected to remain short of the target gross premium of Rs. 270m for 2015. As per management, shortfall is a result of selective underwriting and concerted efforts by the management to reduce reliance on co-insurance business. Going forward, the management is targeting steady growth (20%-30%) in business volumes over the next three years. Growth is planned in the health insurance segment where AICL plans to engage a third party to benefit from lower cost and improved service.

Reinsurance panel of the company remained unchanged for 2015. In compliance with regulatory requirements, around 85% of the total business is being placed with reinsurers having a rating of 'A-' and above. Treaty terms have remained largely similar to preceding year; however, terrorism cover from PRCL has expired and the management expects renewal of the same soon. Treaty capacities of AICL are currently on the lower side in relation to peers which is a hindrance for growth in business volumes. Resultantly, management plans to enhance total treaty capacity while gradually increasing retention in all key business segments. Moreover, the company intends to negotiate a whole account XoL treaty to replace the existing separate XoL treaties for each segment.

During the outgoing year, trend in underwriting losses has persisted. Higher underwriting losses were on account of decline in business volumes resulting in a higher expense and claims ratio as compared to the preceding year. Growth in business volumes, while limiting losses at manageable levels, is warranted to arrest the sizeable underwriting losses being incurred by the company. Given the projected growth in business volumes and assuming current retention levels, underwriting losses are expected to persist till at-least 2017. Overall profitability profile is supported by sizeable investment income which has allowed the post net profits for the last four years.

Exposure to credit risk due to overdue receivables is high with insurance debt representing over half of gross premiums. Ageing profile of insurance debt is considered weak with around 35% of the outstanding premiums overdue by more than 2 years. While insurance debt in relation to gross premium continues to be sizeable and cash flow operations remain marginal, overall liquidity profile is supported by sizeable liquid assets in relation to total liabilities (Liquid assets coverage of total liabilities is around 2x.). The company also has sizeable balance of outstanding claims; ageing profile of outstanding claims is also weak with majority of outstanding claims being due for over a year. Apart from outstanding claims, various insurance claim amounting to Rs. 107.3m (2013: Rs. 99.7m) have not been recognized by the company as the management feels that AICL is not liable to settle these claims. Most of these claims are currently in litigation.

Capitalization levels of the company are considered adequate as evident from low leverage indicators and growth in equity base on account of internal capital generation. Capitalization levels are sufficient to cater to the short to medium term growth plans of the company. During the ongoing year, Capt. Muhammad Jamil Akhtar Khan was appointed as the CEO/MD of the company. Capt. Muhammad Jamil has extensive experience in the insurance sector.

JCR-VIS Credit Rating Company Limited

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

Alpha Insurance Company Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	DEC 31, 2013	DEC 31, 2014	JUNE 30, 2015
Cash and Bank Deposits	75.8	64.3	36.2
Insurance Debt	136.4	125.5	112.8
Total Assets	1028.3	1029.7	1003.5
Net Worth	583.7	603.3	612.9
Total Liabilities	444.6	426.4	390.6
INCOME STATEMENT	DEC 31, 2013	DEC 31, 2014	JUNE 30, 2015
Net Premium Revenue	115.1	90.9	42.8
Net Claims	55.8	53.9	13.8
Underwriting Profit/(Loss)	(59.3)	(71.2)	(25.2)
Other Income	4.1	6.3	1.6
Profit Before Tax	103.2	23.1	12.0
Profit After Tax	97.7	19.5	9.6
RATIO ANALYSIS	DEC 31, 2013	DEC 31, 2014	JUNE 30, 2015
Market Share (Gross Premium) (%)	0.5	0.4	0.3
Cession Ratio (%)	57.0	60.4	60.0
Gross Claims Ratio (%)	23.1	51.2	52.1
Net Claims Ratio (%)	48.5	59.2	32.2
Underwriting Expense Ratio (%)	103.0	119.1	126.7
Combined Ratio (%)	151.5	178.4	158.9
Net Operating Ratio (%)	88.0	105.7	82.5
Insurance Debt to Gross Premium (%)	51.4	57.1	57.6
Operating Leverage (%)	17.4	13.2	12.4
Financial Leverage (%)	29.4	26.8	23.9
Adjusted Liquid Assets to Technical Reserves (%)	381.1	202.0	461.0

INSURER FINANCIAL STRENGTH RATING SCALE & DEFINITIONS

Appendix II

AAA

Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

AA+, AA, AA-

Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

A+, A, A-

High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

BBB+, BBB, BBB-

Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

BB+, BB, BB-

Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

B+, B, B-

Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

CCC

Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

CC

Weak capacity to meet policyholder and contract obligations; Risk may be high.

C

Very weak capacity to meet policyholder and contract obligations; Risk may be very high

D

Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURES				Appendix III	
Name of Rated Entity	Alpha Insurance Company Limited				
Sector	Insurance				
Type of Relationship	Solicited				
Purpose of Rating	IFS Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: IFS				
	12/15/2015	A	-	Stable	Reaffirmed
	12/10/2014	A	-	Stable	Reaffirmed
	9/30/2013	A	-	Stable	Maintained
	11/14/2012	A	-	Negative	Reaffirmed
	12/30/2011	A	-	Negative	Maintained
	12/3/2010	A	-	Stable	Reaffirmed
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				