RATING REPORT

Alpha Insurance Company Limited

REPORT DATE:
January 31, 2018

RATING ANALYSTS:
Muniba Khan
Muniba.khan@jcrvis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	A	A
Rating Outlook	Stable	Stable
Rating Date	*Jan 31, '18*	*Dec 07,'16*

COMPANY INFORMATION

Incorporated in 1951	**External auditors:** M/s. KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Ghufran Memon
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Amaduddin Siddiqui
State Life Insurance Corporation– 96%	
Individuals - 4%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: General Insurance (March 2017)
http://www.jcrvis.com.pk/kc-meth.aspx

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

Current rating of Alpha Insurance Company Limited (AICL) derives strength from financial profile and demonstrated support of its sponsor, State Life Insurance Corporation of Pakistan (SLIC). SLIC is the largest life insurance company in the country and is owned by the Government of Pakistan. Assigned rating continues to be constrained by persistent trend in underwriting losses, high levels of insurance debt & outstanding claims.

Key Rating Drivers

Business Volumes: Gross premium written by the company has witnessed a noticeable decline on a timeline basis with business underwritten reduced from Rs. 219.7m in 2014 to Rs. 151.4m in 2016. Gross premium of the company amounted to Rs. 92.3m during 9M17. As per management, shortfall in business volumes is primarily attributable to frequent changes in the top management over the years. In 2017, efforts were also made towards improvement of its control environment which diverted the company's focus from business development. Going forward, AICL anticipates higher business volumes with a prudent underwriting practice; premium is targeted to be close to Rs. 160m in 2018.

Sales Strategy: In order to achieve its projected level of premiums, the company has revamped its sales force and distribution network. In addition to the financial support demonstrated by SLIC, the sponsor has also allowed AICL to utilize its marketing and business development avenues for growing business. As a result, AICL will have access to more than 1100 nodes in the branch network and an agent force of 200,000. These agents will be responsible for selling motor and health business to retail clients. They will also look into booking business in fire and other segments; in need of assistance, available branch staff in the region will be available for supporting the agents. Along with support from SLIC, the company has also increased its presence in Faisalabad and Baluchistan by deploying a regional manager at the new branches. Given the extensive coverage of agents across the country, training is done at the regional and area manager level. Currently the company operates through 15 branches and it plans to open another one in Karachi during the ongoing year. To facilitate achievement of its sales targets, the company also plans to add new bancassurance products in its product line.

Business Mix: AICL largely procures business in the fire and marine segments. The company also focuses on motor and health segments, a large proportion of which are retained on net account. Currently, both these segments are procured through cross-selling. Going forward, business mix is expected to largely remain the same with some tilt towards the motor segment.

Reinsurance: Reinsurance panel of the company is considered sound with Labuan Re (Rated A- by A.M.Best) as the lead reinsurer. Pakistan Reinsurance Company Limited has the second largest share in treaties at 35%. Other reinsurers on the panel have rating of 'A-' or above. For 2017, retention and treaty capacities have largely remained unchanged vis-à-vis corresponding year. The company negotiated quota cum surplus treaties for all its segments protected further by non-proportional treaties. As per the treaty arrangements, maximum retention on motor segment is Rs. 0.7m while all other segments have a maximum retention limit of Rs. 5m. Cession is expected to remain within the 40%-50% range in the coming years.

Claims Experience: Given the industry trend, the highest loss ratios emanate from its miscellaneous and accident & health segments. In 9M17, loss ratio of fire segment worsened to 308.6% on account of losses in three large clients. On the other hand, other segments depicted a better claims performance in the same period. Loss ratio of accident & health continues to remain on the higher side. In order to improve this loss ratio, the company has signed an agreement with a third-party advisor for its underwriting, claims management and business development. Developments in this regard are yet to materialize.

Investments & Profitability: The company has a defined investment policy in place which allows at least 60% exposure to be parked in fixed income followed by a maximum of 30% in equities and the remaining proportion as cash and near cash instruments. At end-September 2017, investment mix of the company largely comprised government securities followed by listed equities. During 2016, the company posted a stable investment income of Rs. 78.2m (2015: Rs. 77.2m); return from investments amounted to Rs. 44.1m during 9M17. Despite support from investments, underwriting loss in the ongoing year has increased on account of low business volumes and higher claims. Given the level of business volumes in 9M17, underwriting losses are expected to continue. With deteriorating underwriting performance, the company posted a net loss on the bottom line. With low business volumes, underwriting expense ratio and subsequently combined ratio are reported at more than 100%.

Liquidity & Capitalization: With decline in business volumes, insurance debt in relation to gross premium has increased and is sizeable at 75.9%. Ageing profile of insurance debt depicts room for improvement given that a large chunk belongs to receivables outstanding since 2009. There is an approved provisioning policy in place with premium receivables from clients provided for completely after 3 years. Cash flow from operations has also remained negative. Overall liquidity profile is supported by sizeable liquid assets in relation to total liabilities; liquid assets coverage of total liabilities is around 2x. Moreover, capitalization levels of the company are considered adequate as evident from low leverage indicators. During 2017, the company issued right shares amounting to Rs. 96.4m in order to increase the paid up capital to Rs. 500m, as per regulations. As a result, equity level increased to Rs. 680.7m. Right shares were completely subscribed by SLIC increasing its shareholding from 94% to 96%.

Governance & Control Framework: Helm of the organization has witnessed several changes during 2017 and in the ongoing year. With the appointment of a new CEO, the company has developed a corporate strategy for growing its business; the same has been approved by the Board and SLIC. Nevertheless, stability in top management may facilitate the company in achieving its business targets in coming years. The company has also made concerted efforts towards improving its overall control environment such as centralizing both its underwriting and claims department. Moreover, in line with the Code of Corporate Governance for Insurers, the company has developed a Board Risk Management and Compliance Committee; ToRs of the committee have been approved by the Board.

Alpha Insurance Company Limited **Appendix I**

FINANCIAL SUMMARY

(amounts in PKR millions)

BALANCE SHEET	SEP 30, 2017	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Cash and Bank Deposits	40.2	97.3	33.1	64.3	75.8
Insurance Debt	93.4	95.2	110.5	125.5	136.4
Total Assets	1,386.3	1,105.5	974.4	1029.7	1028.3
Net Worth	680.7	619.9	635.3	603.3	583.7
Total Liabilities	705.6	485.6	339.1	426.4	444.6

INCOME STATEMENT	SEP 30, 2017	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Net Premium Revenue	64.6	79.9	63.2	90.9	115.1
Net Claims	78.7	47.7	14.9	53.9	55.8
Underwriting Profit/(Loss)	(85.9)	(99.9)	(39.4)	(71.2)	(59.3)
Other Income	2.5	2.7	3.2	6.3	4.1
Profit Before Tax	(39.3)	(19.1)	41.1	23.1	103.2
Profit After Tax	(35.6)	(15.5)	31.6	19.5	97.7

RATIO ANALYSIS	SEP 30, 2017	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Market Share (Gross Premium) (%)		0.1	0.1	0.4	0.5
Cession Ratio (%)	45.3	38.4	66.2	59.7	56.8
Gross Claims Ratio (%)	310.5	123.7	40.5	51.2	23.1
Net Claims Ratio (%)	121.8	59.7	23.7	59.2	48.5
Underwriting Expense Ratio (%)	111.2	165.3	138.5	119.1	103.0
Combined Ratio (%)	233.0	225.0	162.3	178.4	151.5
Net Operating Ratio (%)	165.1	144.8	52.9	104.7	91.8
Insurance Debt to Gross Premium (%)	75.9	62.9	61.4	57.1	51.4
Operating Leverage (%)	12.7	10.8	8.9	13.2	17.4
Financial Leverage (%)	77.7	36.8	17.1	26.8	29.4
Adjusted Liquid Assets to Technical Reserves (%)	155.0	313.8	628.3	413.9	381.1

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

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				
1/31/2018	A	-	Stable	Reaffirmed
12/07/2016	A	-	Stable	Reaffirmed
12/15/2015	A	-	Stable	Reaffirmed
12/10/2014	A	-	Stable	Reaffirmed
9/30/2013	A	-	Stable	Maintained

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 financial strength only and is not a recommendation to buy or sell any securities.
Probability of Default	Not Applicable
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 2018 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.