

## RATING REPORT

## Alpha Insurance Company Limited

**REPORT DATE:**

June 28, 2019

**RATING ANALYSTS:**

Muniba Khan

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## RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	A	A
Rating Outlook	Negative	Stable
Rating Date	Jun 28, '19	Jan 31, '18

## COMPANY INFORMATION

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

## APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: General Insurance (September 2016)

<http://www.vis.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**

Assigned rating of Alpha Insurance Company Limited (AICL) continues to derive strength from financial and sponsor profile of 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. Current rating continues to be constrained by persistent trend in underwriting losses, high levels of insurance debt & outstanding claims.

**Key Rating Drivers**

**Business Volumes:** Since the past four years, gross premium of AICL has depicted a declining trend on account of stiff market competition along with a consolidated strategy adopted to underwrite profitable businesses. Given the prevailing competition in the insurance market, the company faces significant pressure on premium rates. With appointment of a new CEO, the company has developed a new business plan according to which management is projecting a steady growth (20%-40%) in business volumes over the next three years. Growth is planned in the motor insurance segment. Developments in this regard will materialize over time. AICL largely procures business in the fire and marine segments. The company also focuses on motor and miscellaneous related segments, a large proportion of which are retained on net account. Going forward, business mix is expected to largely remain the same with some tilt towards the motor segment.

<b>Gross Premium</b>	<b>CY18</b>	<b>CY17</b>	<b>CY16</b>	<b>CY15</b>	<b>CY14</b>
Fire and property damage	27.2	45.8	66.6	77.1	101.6
Marine, aviation and transport	11.5	20.1	22.5	38.4	43.3
Motor	19.9	19.0	29.6	36.0	44.6
Accident & Health	8.8	8.8	7.8	5.7	4.9
Credit and Suretyship	3.7	4.1	5	4.5	2.8
Miscellaneous	12.4	8.5	19	18.2	22.5
<b>Total Gross Premium</b>	<b>83.5</b>	<b>106.3</b>	<b>151.4</b>	<b>180.0</b>	<b>219.7</b>

**Reinsurance:** Reinsurance treaties of the company remained unchanged during the period under review. With a new business plan in place, reinsurance treaties for the year 2019 were revised with the entry of Qatar General Insurance & Reinsurance Company as a lead reinsurer; the company is rated A- by A.M.Best. Pakistan Reinsurance Company Limited has the second largest share in treaties at 35%. The company has now replaced its proportional treaties with non-proportional treaties. This is expected to revise the reinsurance expenses on the lower side. As per the treaty arrangements, all segments are covered by XoL treaty. Cession is expected to remain within the 40%-50% range in the coming years.

**Claims Experience:** Despite a conservative stance of the company to underwrite profitable businesses, claims ratio of the company has remained on the higher side in comparison to peers. Given the industry trend, the highest loss ratios emanated from all segments barring motor and miscellaneous. Loss ratios will continue to be a function of the quality of underwriting undertaken by management.

<b>Net Claims Ratio</b>	<b>CY18</b>	<b>CY17</b>	<b>CY16</b>	<b>CY15</b>	<b>CY14</b>
Fire and property damage	276.6%	295.1%	31.2%	56.2%	68.9%
Marine, aviation and transport	433.4%	27.1%	30.5%	-1.0%	76.8%
Motor	-0.2%	38.0%	34.4%	-1.4%	50.4%
Accident & Health	102.0%	83.7%	111.4%	110.1%	103.8%
Credit and Suretyship	101.4%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	-98.1%	50.1%	202.3%	6.7%	45.7%
<b>Total Net Claims Ratio</b>	<b>97.1%</b>	<b>111.8%</b>	<b>59.7%</b>	<b>23.7%</b>	<b>59.2%</b>

**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-December 2018, investment mix of the company largely comprised government securities followed by listed equities. With the prevailing economic situation, the company posted a lower investment income of 43.8m in 2018 vis-à-vis Rs. 53.6m in the preceding year. Despite support from investments, underwriting loss in the ongoing year has remained significant on account of low business volumes. Given the level of business volumes in 2018, 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%.

<b>(PKR millions)</b>	<b>2018</b>	<b>%</b>	<b>2017</b>	<b>%</b>	<b>2016</b>	<b>%</b>
Govt. Securities	557.3	69	557.8	72	522.3	63
Listed Equity	250.7	31	221.2	28	232.2	28
TDRs	-	-	-	-	75	9
<b>Total</b>	<b>808.0</b>	<b>100</b>	<b>779.0</b>	<b>100</b>	<b>829.5</b>	<b>100</b>

**Liquidity & Capitalization:** Despite decline in business volumes, insurance debt in relation to gross premium improved while still being sizeable at 65.1% (FY17: 75.9%). Ageing profile of insurance debt depicts room for improvement given that a large chunk belongs to receivables outstanding since 2009. The company has concerted efforts towards recovering legacy receivables outstanding against clients coming through agents. Cash flow from operations continues to remain negative given significant amount of claims paid. 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. The company benefits from a sizeable equity base of Rs. 705.6m which compares favorably in comparison to peers. This capitalization level keeps leverage indicators within manageable levels.

**Governance & Control Framework:** Helm of the organization has witnessed several changes since 2017 to date. During 2018, Mr. Nadeem Bessey was appointed as the new CEO of AICL who has been associated with SLIC for an extended period of time. 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. Management team is expected to witness further changes with anticipated hiring of departmental heads for IT, Human Resources, Claims, Compliance and Marketing. Developments in this regard will be monitored over time.

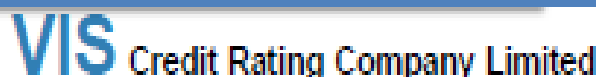
## Alpha Insurance Company Limited

## Appendix I

<b>FINANCIAL SUMMARY</b>					
<i>(amounts in PKR millions)</i>					
<b><u>BALANCE SHEET</u></b>	<b>DEC 31, 2018</b>	<b>DEC 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Cash and Bank Deposits	31.4	133.0	22.3	33.1	64.3
Insurance Debt	54.3	79.2	97.3	110.5	125.5
<b>Total Assets</b>	<b>1,216.1</b>	<b>1,411.1</b>	<b>1,196.4</b>	<b>974.4</b>	<b>1029.7</b>
<b>Net Worth</b>	<b>705.6</b>	<b>741.1</b>	<b>702.6</b>	<b>635.3</b>	<b>603.3</b>
<b>Total Liabilities</b>	<b>510.5</b>	<b>670.1</b>	<b>493.8</b>	<b>339.1</b>	<b>426.4</b>
<b><u>INCOME STATEMENT</u></b>					
	<b>DEC 31, 2018</b>	<b>DEC 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Net Premium Revenue	47.4	79.9	79.9	63.2	90.9
Net Claims	46.0	89.3	47.7	14.9	53.9
Underwriting Profit/(Loss)	(101.6)	(126.4)	(99.9)	(39.4)	(71.2)
Other Income	4.4	5.0	2.7	3.2	6.3
<b>Profit Before Tax</b>	<b>(53.5)</b>	<b>(67.7)</b>	<b>(19.1)</b>	<b>41.1</b>	<b>23.1</b>
<b>Profit After Tax</b>	<b>(49.6)</b>	<b>(60.0)</b>	<b>(15.5)</b>	<b>31.6</b>	<b>19.5</b>
<b><u>RATIO ANALYSIS</u></b>					
	<b>DEC 31, 2018</b>	<b>DEC 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Market Share (Gross Premium) (%)	0.1	0.1	0.1	0.1	0.4
Cession Ratio (%)	54.4	45.7	38.4	66.2	59.7
Gross Claims Ratio (%)	48.9	255.6	123.7	40.5	51.2
Net Claims Ratio (%)	97.9	111.8	59.7	23.7	59.2
Underwriting Expense Ratio (%)	217.3	146.4	165.3	138.5	119.1
Combined Ratio (%)	315.2	258.2	225.0	162.3	178.4
Net Operating Ratio (%)	211.1	187.7	144.8	52.9	104.7
Insurance Debt to Gross Premium (%)	65.1	74.5	62.9	61.4	57.1
Operating Leverage (%)	6.7	10.8	10.8	8.9	13.2
Financial Leverage (%)	50.3	65.2	36.8	17.1	26.8
Adjusted Liquid Assets to Technical Reserves (%)	236.4	188.6	313.8	628.3	413.9

**INSURER FINANCIAL STRENGTH RATING SCALE & DEFINITIONS**

**Appendix II**



**RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH**

<p><b>AAA</b> Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.</p>	<p><b>B+, B, B-</b> Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.</p>
<p><b>AA+, AA, AA-</b> Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.</p>	<p><b>CCC</b> Very low capacity to meet policyholder and contract obligations; Risk may be substantial.</p>
<p><b>A+, A, A-</b> High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.</p>	<p><b>CC</b> Weak capacity to meet policyholder and contract obligations; Risk may be high.</p>
<p><b>BBB+, BBB, BBB-</b> Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.</p>	<p><b>C</b> Very weak capacity to meet policyholder and contract obligations; Risk may be very high</p>
<p><b>BB+, BB, BB-</b> Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.</p>	<p><b>D</b> Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.</p>

**Rating Watch:** 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.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.com.pk/images/criteria_watch.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.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.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.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.com.pk/images/criteria_outlook.pdf)

REGULATORY DISCLOSURES				Appendix III	
<b>Name of Rated Entity</b>	Alpha Insurance Company Limited				
<b>Sector</b>	Insurance				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	IFS Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: IFS</b>				
	6/28/2019	A	-	Negative	Maintained
	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
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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 insurer financial strength only and is not a recommendation to buy or sell any securities.				
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