

## RATING REPORT

### Alpha Insurance Company Limited

**REPORT DATE:**

October 20, 2020

**RATING ANALYSTS:**

Muniba Abdullah, CFA

[Muniba.khan@vis.com.pk](mailto:Muniba.khan@vis.com.pk)

#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	A	A
Rating Outlook	Negative	Negative
Rating Date		Jun 28, 2019

#### COMPANY INFORMATION

Incorporated in 1951	External auditors: 2019 - M/s. KPMG Taseer Hadi & Co. Chartered Accountants 2020 - Grant Thornton Anjum Rahman 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– 95%	
Individuals - 5%	

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: General Insurance (November 2019)

<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 95% stake in the company. Registered office of the company is located in Karachi.*

**RATING RATIONALE**

Assigned rating of Alpha Insurance Company Limited (AICL) is underpinned by financial and sponsor profile of its primary shareholder, 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. Nonetheless, the rating is constrained on account of persistent trend in underwriting losses, low business volumes and quality of insurance debt in comparison to peers.

**Key Rating Drivers**

**Over the years, business volumes of AICL have depicted a declining trend. Growth trend reversed in CY19 and management aims to increase top line at a steady pace without compromising underwriting quality.**

With frequent changes in management and stiff market competition, AICL was unable to build sufficient level of business volumes in order to stay profitable in its underwriting operations. With the appointment of a permanent resource for the position of CEO in 2018, the company was able to arrest its declining trend in business volumes. During CY19, the company underwrote business amounting to Rs. 114.9m vis-à-vis Rs. 83.5m last year. Given the prevailing competition in the insurance market, the company also faces significant pressure on premium rates. Growth was evident across all business segments barring credit and suretyship; the company incurred significant losses in the segment in 2018 and further underwriting in the same has been kept on hold. However, growth metrics are expected to remain subdued during the ongoing year, as evident from the half year business level reported by AICL. Given the outbreak of coronavirus, pandemic-related project delays are expected to impact premiums under fire & engineering segment. Moreover, non-life insurance is predominantly asset based, including long term assets like plant and machinery and short term assets like stocks and inventories, a slowdown in GDP growth may have its impact on the industry in terms of value of new policies business going forward. Moreover, the reduced international trade will affect premiums in the marine line of business. As a result of the coronavirus public lock down in Q2'2020, the automobile sales have been notably impacted. Nonetheless, this indicator has started picking up in Q3'2020; reduced overall automobile sales may reduce motor premiums.

Gross Premium	HY20	CY19	CY18	CY17	CY16
Fire and property damage	8.2	33.0	27.2	45.8	66.6
Marine, aviation and transport	9.1	23.1	11.5	20.1	22.5
Motor	9.9	31.0	19.9	19.0	29.6
Accident & Health	0.9	10.4	8.8	8.8	7.8
Credit and Suretyship	1.6	0.4	3.7	4.1	5
Miscellaneous	2.5	17.0	12.4	8.5	19
<b>Total Gross Premium</b>	<b>32.2</b>	<b>114.9</b>	<b>83.5</b>	<b>106.3</b>	<b>151.4</b>

**Reinsurance treaties remained unchanged with a diversified panel of local and international reinsurers.**

Reinsurance treaties of the company depicted some changes during the period under review. With a new business plan in place, reinsurance treaties for the year 2020 were revised with higher capacities. Best Meridian International Insurance Company is the lead reinsurer in the treaty followed by Pakistan Reinsurance Company Limited with the second largest share at 35%. The company now manages non-proportional treaties across all its business segments which have

revised the reinsurance expenses on the lower side. As per the treaty arrangements, all segments are covered by XoL treaty, barring terrorism which has a quota share treaty in place. Cession is expected to remain within the 30%-50% range in the coming years. Maximum retention on the books is Rs. 10m for any risk.

**Loss ratios for AICL improved on the back of lower business volumes.**

With a conservative stance of the management to underwrite profitable businesses and shed off loss making ones, loss ratios of the company were reported significantly lower on a gross and net basis for CY19. Gross claims ratio of the company was reported at 15.8% which compared favorably in comparison to peers. Loss ratios deteriorated during the half year ended June 2020 and were reported at 36.3%. As the business volumes grow, loss ratios will need to be monitored closely given that they will continue to be a function of the quality of underwriting undertaken by management.

Net Claims Ratio	HY20	CY19	CY18	CY17	CY16
Fire and property damage	-204.82%	-35.13%	276.60%	295.10%	31.20%
Marine, aviation and transport	-446.46%	-21.40%	433.40%	27.10%	30.50%
Motor	53.72%	28.44%	-0.20%	38.00%	34.40%
Accident & Health	72.56%	85.98%	102.00%	83.70%	111.40%
Credit and Suretyship	0.00%	0.00%	101.40%	0.00%	0.00%
Miscellaneous	1.69%	8.83%	-98.10%	50.10%	202.30%
<b>Total Net Claims Ratio</b>	<b>19.75%</b>	<b>2.35%</b>	<b>97.10%</b>	<b>111.80%</b>	<b>59.70%</b>

**Return from investments continues to support the underwriting operations of the company. The trend is expected to persist till a breakeven level of premium is achieved by AICL.**

The company has maintained a balanced investment portfolio with more than half of the assets parked in fixed income instruments followed by exposure in equities. At end-December 2019, investment mix of the company largely comprised long term government securities. With higher interest rates in the market, investment returns from government securities increased from Rs. 36.2m in FY18 to Rs. 48.1m in FY19. 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 first half of 2020, underwriting losses are expected to continue. With improvement in investment performance, the company reported a positive bottom line. Nonetheless, low business volumes and a significant underwriting expense ratio, combined ratio are reported at more than 100%. Ability to maintain performance metrics will remain a challenge given the prevalent competition faced by the industry players. Going forward, maintaining these profitability metrics will also be challenge on account of a lower interest rate prevailing. Given the sizable reduction in interest rates, the investment income, specifically for companies holding fixed rate PIBs, are expected to increase on account of capital gains on PIBs. This should have a positive impact on the net operating ratio. While reduced economic activity is likely to have a positive impact on claims ratio, expenses are likely to remain sticky, which should resultantly increase underwriting expense ratio. Subsequently, the combined ratio is likely to remain range bound.

**With lower underwriting liabilities vis-à-vis exposure in liquid investments, liquidity indicators of the company improved and are considered strong. Insurance debt as a proportion of gross premium continues to remain within manageable limits. Capitalization levels continue to remain sound to support future growth plans.**

Capitalization levels of the company are considered adequate as evident from low leverage

indicators in line with lower underwriting levels. Capitalization levels are sufficient to cater to the short to medium term growth plans of the company. Equity level stands at Rs. 705.5m at end-Dec 2019 which compares favorably to peers. Cash outflow remained high primarily on account of payment of claims, reinsurance premiums and general management expenses. With a lower growth in business volumes, the company booked a lower level of underwriting liabilities vis-à-vis peers. As a result, liquid assets as a proportion to technical reserves stood significantly higher and were comfortable at 3.04x, at end-December 2019. 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.

**Alpha Insurance Company Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>					
	<i>(amounts in PKR millions)</i>				
<b><u>BALANCE SHEET</u></b>	<b>30-Jun-20</b>	<b>31-Dec-19</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Cash and Bank Deposits	52.9	142.0	31.4	133.0	22.3
Insurance Debt	44.0	62.5	54.3	79.2	97.3
<b>Total Assets</b>	<b>1,059.6</b>	<b>1,112.0</b>	<b>1,216.1</b>	<b>1,411.1</b>	<b>1,196.4</b>
Paidup Capital	500.0	500.0	500.0	500.0	500.0
Net Worth	681.7	705.5	705.6	741.1	702.6
<b>Total Liabilities</b>	<b>378.0</b>	<b>406.4</b>	<b>510.5</b>	<b>670.1</b>	<b>493.8</b>
<b>INCOME STATEMENT</b>					
<b><u>INCOME STATEMENT</u></b>	<b>30-Jun-20</b>	<b>31-Dec-19</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Net Premium Revenue	40.5	60.2	47.4	79.9	79.9
Net Claims	18.6	2.7	46.0	89.3	47.7
Underwriting Profit/(Loss)	(21.1)	(59.7)	(101.6)	(126.4)	(99.9)
Other Income	3.7	24.8	4.4	5.0	2.7
<b>Profit Before Tax</b>	<b>(5.9)</b>	<b>5.7</b>	<b>(53.5)</b>	<b>(67.7)</b>	<b>(19.1)</b>
<b>Profit After Tax</b>	<b>(6.2)</b>	<b>3.6</b>	<b>(49.6)</b>	<b>(60.0)</b>	<b>(15.5)</b>
<b>RATIO ANALYSIS</b>					
<b><u>RATIO ANALYSIS</u></b>	<b>30-Jun-20</b>	<b>31-Dec-19</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Cession Ratio (%)	46.3	34.3	54.4	45.7	38.4
Gross Claims Ratio (%)	36.3	15.8	48.9	255.6	123.7
Net Claims Ratio (%)	19.8	4.5	97.1	111.8	59.7
Underwriting Expense Ratio (%)	106.2	194.7	217.3	146.4	165.3
Combined Ratio (%)	126.0	199.2	315.2	258.2	225
Net Operating Ratio (%)	125.3	198.3	211.1	187.7	144.8
Insurance Debt to Gross Premium (%)	68.4	54.4	65.1	74.5	62.9
Operating Leverage (%)	5.9	8.5	6.7	10.8	10.8
Financial Leverage (%)	36.0	37.0	50.3	65.2	36.8
Adjusted Liquid Assets to Technical Reserves (%)	309.8	304.7	236.4	188.6	313.8

**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>				
	10/20/2020	A	-	Negative	Reaffirmed
	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.				
<b>Probability of Default</b>	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.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, 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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
<b>Due Diligence Meetings Conducted</b>		<b>Name</b>	<b>Designation</b>	<b>Meeting Date</b>	
	1	Mr. Nadeem Bessey	Chief Executive Officer	September 2, 2020	
	2	Mr. Khawaja Balighuddin	Head of Underwriting & Re-insurance	September 2, 2020	
	3	Mr. Faraz Ahmed	Chief Financial Officer	September 2, 2020	