RATING REPORT

Alpha Insurance Company Limited

REPORT DATE:
November 16, 2021

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
IFS	A+	A+ (Harmonized)
Rating Outlook	Stable	Stable
Rating Date	*November 16, 2022*	*March 31, 2022*

COMPANY INFORMATION	
Incorporated in 1951	**External auditors:** **2021 -** Grant Thornton Anjum Rahman Chartered Accountants
Public Limited Company	**Chairman of the Board:** NA
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Abdul Haseeb Fakih
State Life Insurance Corporation– 95%	
Individuals - 5%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: General Insurance (March 2022) **https://docs.vis.com.pk/docs/VIS%20General%20Insurance%20-%2020220331%20-%20FinalFinal.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 95% stake in the company. Registered office of the company is located in Karachi. AICL has branch net work in all the major cities of Pakistan including Lahore, Multan, Faisalabad, Peshawar, Islamabad, Rawalpindi, and Karachi.

Profile of CEO:

Mr. Abdul Haseeb Fakih has a rich experience of more than 30 years in the insurance industry. In addition to being a seasoned Insurance and Takaful professional, he has also served as a corporate consultant and trainer for quite a few years. Prior to joining Alpha Insurance, he was working as the CEO of Excel Insurance Limited.

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 underwriting losses and low business volumes as compared to peers. Going forward, materialization of projected business growth through planned initiatives and consequent improvement in underwriting profitability is considered important.

During the period under review, some changes took place in the Board of Directors after completion of tenure of certain members. The new chairman is yet to be elected. In addition to that, Mr. Abdul Haseeb Fakih was appointed as the new CEO in 2021.

<u>Key Rating Drivers</u>

Insurance Sector Update

(Rs. in Billions)	CY20	CY21	1H'CY22
Insurance Premium (Gross)	89.6	97.4	55.8
Takaful Contributions (Gross)	12.6	16.2	10.4
Industry Total (Gross)	102.3	113.6	66.2
Combined Ratio	95.3%	84.4%	89.8%
- Net Claims Ratio	54.8%	49.4%	53.2%
- Underwriting Expense Ratio	40.5%	35.0%	36.7%
Net Operating Ratio	78.6%	67.5%	74.6%
RoAA	4.4%	5.4%	3.8%*
RoAE	10.1%	12.8%	9.6%*
Operating Leverage	52.5%	58.3%	67.3%*
		*Annualized	

- The gross premiums/takaful contributions underwritten by the industry grew by 11% in 2021, as data published by Insurance Association of Pakistan.
- Growth in insurance industry premiums has picked up from 8% in 2020 to 11% in the subsequent year. General Insurance performance is highly associated with economic growth as macroeconomic, regulatory and demographic factors are its key drivers.
- Albeit being subdued, insurance premium of the industry grew by around 9% in CY21 surpassing GDP growth of 6% in FY22; however, the insurance penetration has remained below par if compared to neighboring counterparts, as non-life insurance penetration is estimated at ~0.355%, which remains lower than that of regional peers (India at 4.2%, Sri-Lanka 1.39%, Bangladesh 0.4%).
- High inflation, rising interest rates, flooding in major parts of Sindh and Punjab, and incessant political turmoil have posed major challenges for the non-life insurance sector as net claim expenses have increased but the companies are unable to expand their premium to the same extend much to the client discontent.
- International reinsurers have also neglected the local insurance players as successive global calamities has put pressure on the profitability of the global insurance sector

hence they have diminished their capacity while demanding higher rates to local insurance companies.

- The industry's combined ratio posted a dip in CY21, which was driven by a drop in both net claims and expense ratios. However, with a higher claim ratio in the first half of the ongoing calendar year amidst uncertain floods situation, overall combined ratio for CY22 is expected to increase, which will squeeze the net income of the sector.
- The investment performance remained strong during the period, with overall investment income posting an uptick of 17.8%.
- The sector's operating leverage has risen to 67.3% at end-June 2022 primarily on account of subdued equity growth due to declining investment income. However, this level of operating leverage still depicts room for additional insurance penetration in the domestic market.
- The implementation of IFRS 17 will commence from January 1' 2023. The SECP has issued instructions of phase-wise implementation of IFRS 17, as per which the insurance companies have submitted the gap analysis with SECP by end-September'2021.

Aided by recovery in economic activity post COVID-19 and efficient branch operations, topline of the company depicted a significant improvement in 2021 with similar momentum sustained in HY22.

In 2021, Gross Premiums Written (GPW) amounted to Rs. 174m, exhibiting a rise of 75% YoY. Growth mainly emanated from Fire & property and Motor segments, which along with the Marine segment continued to account for around four-fifth of the total GPW in 2021. Going forward, business mix is projected to remain similar going forward. The growth momentum was sustained in HY22 with GPW reported at Rs. 82.1m. In accordance to seasonal nature of writing contracts where major textile companies contracts are renewed in July-August, management expects growth in premium underwriting in the second half of the ongoing year with target of a total gross premium of Rs. 250m in 2022.

Business Mix	CY18	CY19	CY20	CY21	HY22
Fire and property damage	33%	29%	30%	43%	38%
Marine, aviation and transport	14%	20%	23%	14%	27%
Motor	24%	27%	25%	22%	23%
Accident and health	11%	9%	13%	7%	0%
Bond	4%	0%	2%	0%	0%
Miscellaneous	15%	15%	7%	15%	12%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Planned initiatives by the company to increase topline include the following:

1. With the support from the parent company, schemes have been introduced for mountaineers, small-scale restaurants, and delivery brands.
2. Plans to offer crop insurance and launch health insurance by establishing an independent setup.
3. Plan to establish a Takaful window, which will offer an entry in an untapped market segment.

4. As for the branch network, the priority is to improve the performance of the existing branches after which new branches will be opened in different cities over the medium to long-term.

Reinsurance limits enhanced in 2022 to Rs. 750m (2021: Rs. 500m), with reinsurance treaties consisting of a diversified panel of local and international reinsurers.

Reinsurance treaties of the company depicted some changes during the ongoing year with revisions noted encompassing higher capacities and more favorable rates. The panel for reinsurers remain the same as last year. As per the arrangements, all segments are covered by XoL treaties other than terrorism, for which there is quota share treaty in place. Comfort is drawn from a diversified panel of local and international reinsurers that have strong credit ratings. Retention ratio has gradually increased over the period under review due to enhanced capacities. Going forward, the plan is to maintain the existing retention levels (around 80%).

Retention Ratio	CY18	CY19	CY20	CY21	HY22
Fire and property damage	6%	31%	36%	71%	67%
Marine, aviation and transport	7%	66%	60%	60%	82%
Motor	82%	90%	85%	88%	89%
Accident and health	100%	100%	100%	100%	100%
Bond	54%	-118%	93%	NA	NA
Miscellaneous	63%	69%	55%	84%	85%
Overall Retention Ratio	**45%**	**65%**	**65%**	**77%**	**78%**

Claims ratio improved in 2021. However, the same increased in the ongoing year due to the claims emanating from two major clients.

Due to a reduction in claims across all major segments, claim ratios at gross and net levels improved significantly during 2021. However, other than the usual claims, the company incurred expenses related to major fire incidents (affecting the whole industry) to the tune of Rs. 30m during the ongoing year. Consequently, the relevant ratios were reported at elevated levels at end-HY22. As per management, property damages during the recent floods, are likely to have an impact of Rs. 15m on the company's underwriting results by the end of this year. Maintaining quality of underwriting operations is considered important in view of expected increment in claims due to floods situation.

Gross Claims Ratio	CY18	CY19	CY20	CY21	HY22
Fire and property damage	58%	-113%	48%	-11%	126%
Marine, aviation and transport	34%	-31%	34%	6%	26%
Motor	28%	43%	47%	28%	29%
Accident and health	102%	88%	98%	76%	86%
Bond	152%	0%	0%	NA	NA
Miscellaneous	7%	8%	51%	64%	28%
Total Gross Claims Ratio	**57%**	**-14%**	**53%**	**9%**	**90%**

Return from investments continues to support the underwriting operations of the company.

The company has maintained a relatively stable mix of investments. At end-HY22, around two-third of the overall portfolio was parked in fixed income instruments (PIBs and T-Bills), followed by exposure in listed shares. Equity portion of the portfolio is well diversified and consists of shares in high dividend yielding scrips. Investments make up around 60% (2021: 70%) of the asset base at end-June'22. Within debt securities, PIBs offer a fixed rate of return to the company (9.5%-10%). With the PIB portfolio being held till maturity, management has not recognized any capital losses on the same. However, despite stability in dividend income from scrips and fixed return on government securities, overall investment income decreased to Rs. 18.5m for HY22 (FY21: Rs. 55.4m, FY20: Rs.59.9m) due to plunging KSE-100 index yielding impairments in value of AFS equity securities. Going forward, management plans to replace loss-yielding scrips with HTM fixed income instruments, which will ensure a stable flow of income.

Net Operating Ratio and Combined Ratio of the company depicted improvement in 2021 supported by higher growth in topline against claims. However, due to a major uptick in claim expenses for HY22, underwriting results deteriorated in the ongoing year with net operating ratio and combined ratio reported at 131% (FY21: 84%: FY20: 84%) and 158% (CY21: 138%, CY20: 188%), respectively in 1H2022. Persistent underwriting losses continue to act as a rating constraint for the company. Furthermore, with decline in income from investments, the company incurred an overall loss in HY2022. Going forward, the projected increase in GPW and the realignment of investment strategy is expected to improve the overall profitability of the company. Materialization of the same will be reviewed by VIS.

Sound capitalization levels continue to support future growth plans.

Capitalization structure of the company is considered strong as evident from low level of capitalization indicators. At end-HY22, financial leverage was reported slightly higher at 19% (CY21: 14%, CY20: 17%) due to a rise in outstanding claims and erosion in equity base. In line with growth in business base of the company, operating leverage also went up and was reported at 20% (CY21: 14%, CY20: 10%). However, both ratios remain at reasonable levels for the assigned ratings. Going forward, maintenance of capitalization profile is considered important.

Liquidity profile remains strong on account of exposure in government instruments and marketable equity securities.

Considering a sizeable quantum of investments on the company's books in comparison to the liabilities, liquid asset coverages remain strong at end-HY22 and end-2021.

Net Insurance Debt (after accounting or impairment provisions) as a proportion of gross premium has gone up on a timeline basis and was reported at 42% (CY21: 38%, CY20: 27%).

Comfort is drawn with fully providing for receivables that are overdue for more than a year. Total provisions for impairment constituted 63% of the Gross Insurance Debt portfolio at end-June'22. Going forward, timely recovery of the receivables will be important to maintain the liquidity and asset quality position of the company.

Alpha Insurance Company Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	30-Jun-22
Cash and Bank Deposits	31.4	142.0	46.4	69.5	105.7
Investments	808.0	654.2	754.6	664.3	675.4
Insurance Debt	183.6	179.2	152.2	182.5	187.8
Total Assets	1,216.1	1,112.0	1,082.9	1,077.6	1,093.1
Paid-up Capital	500.0	500.0	500.0	500.0	500.0
Net Worth	705.6	705.5	700.1	713.0	692.2
Total Liabilities	510.5	406.4	382.8	364.6	400.9
INCOME STATEMENT					
Net Insurance Premium	47.4	60.2	70.3	102.9	69.3
Net Claims	(46.0)	(2.7)	(44.6)	(26.3)	(50.5)
Underwriting Profit/(Loss)	(97.5)	(56.0)	(57.9)	(35.7)	(38.4)
Other Income	4.4	24.8	6.8	12.9	6.3
Profit Before Tax	(53.5)	5.7	3.0	27.8	(15.8)
Profit After Tax	(49.6)	3.6	1.8	18.3	(17.4)
RATIO ANALYSIS					
Cession Ratio (%)	54.4%	31.2%	37.0%	32.3%	28.1%
Retention Ratio (%)	45.6%	68.8%	63.0%	67.7%	71.9%
Gross Claims Ratio (%)	54.8%	-13.8%	53.3%	8.9%	89.9%
Net Claims Ratio (%)	97.1%	4.5%	63.4%	25.5%	73.0%
Underwriting Expense Ratio (%)	217.2%	194.8%	124.2%	112.3%	85.0%
Combined Ratio (%)	314.3%	199.2%	187.5%	137.9%	157.9%
Net Operating Ratio (%)	222.0%	127.3%	102.4%	84.0%	131.2%
Gross Insurance Debt to Gross Premium (%)	219.9%	156.0%	156.8%	104.8%	114.4%
Net Insurance Debt to Net Premium (%)	114.5%	103.9%	37.2%	63.5%	49.7%
Net Insurance Debt to Gross Premium (%)	114.5%	54.5%	26.9%	37.5%	41.9%
Operating Leverage (%)	6.7%	8.5%	10.0%	14.4%	20.0%
Financial Leverage (%)	20.3%	20.2%	17.4%	14.4%	19.1%
Adjusted Liquid Assets to Technical Reserves (%)	224.6%	288.4%	309.6%	342.2%	299.9%

INSURER FINANCIAL STRENGTH RATING SCALE & DEFINITIONS

Appendix II

RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

AAA(IFS)
Exceptionally Strong. Exceptionally strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.

AA++(IFS), AA+(IFS), AA(IFS)
Very Strong. Very strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.

A++(IFS), A+(IFS), A(IFS)
Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.

BBB++(IFS), BBB+(IFS), BBB(IFS)
Good. Good capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.

BB++(IFS), BB+(IFS), BB(IFS)
Marginal. Marginal capacity to meet policyholders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.

B++(IFS), B+(IFS), B(IFS)
Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.

CCC(IFS) , CC(IFS), C(IFS)
Very Weak. Very weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment.

D(IFS)
Distressed. Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

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. https://docs.vis.com.pk/docs/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. https://docs.vis.com.pk/docs/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. https://docs.vis.com.pk/docs/private_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				
11/16/2022	A+	-	Stable	Reaffirmed
3/31/2022	A+	-	Stable	Harmonised
9/29/2021	A	-	Stable	Maintained
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

Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	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.
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Due Diligence Meetings Conducted

	Name	Designation	Meeting Date
1	Mr. Abdul Haseeb Fakih	Chief Executive Officer	October 07, 2022
2	Dr. Arif Hussain	GM Takaful	October 07, 2022
3	Khawaja Balighuddin	GM Operations	October 07, 2022
4	Mr. Faraz Ahmed	Chief Financial Officer	October 07, 2022