RATING REPORT

Alpha Insurance Company Limited

REPORT DATE:
February 1, 2024

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	A+	A+
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed
Rating Date	*February 1, 2024*	*November 16, 2022*

COMPANY INFORMATION

Incorporated in 1951	**External auditors:** **2021 -** Grant Thornton Anjum Rahman Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Tariq Ikram
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Dr. Syed Arif Hussain
State Life Insurance Corporation– 95%	
Individuals - 5%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: General Insurance
https://docs.vis.com.pk/docs/GeneralInsurance-2023.pdf

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.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 network 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

The rating assigned to Alpha Insurance Company Limited (AICL or "the Company") 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; the same has been assigned a rating of AAA by a local rating agency. The business risk profile of the insurance industry is currently elevated owing to projected slowdown in the domestic economic activity due to high interest rates, rupee devaluation, and heightened inflation levels coupled with expected rate hardening by international reinsures. The rating factors in growth in the business volumes observed during the rating review period on account of inflation adjustments, forex impact and onboarding of few new clients. Nonetheless, the rating is constrained by persistent underwriting losses and low business volumes as compared to peers. On the other hand, with the materialization of plans to improve profitability and operations, the Company was able to reverse their losses in the ongoing year as opposed to losses reported in the previous year. In addition, total investment portfolio remains stagnant. In terms of composition of investment mix, given the sizable investments in government securities coupled with remaining majority constituting of stable and high rated equity securities, the credit risk emanating from the same is manageable.

The rating factors in reinsurance arrangements largely with counterparties having sound credit risk profiles with appropriate risk retention on net account to maintain risk appetite of the Company. In addition, the aging profile of the claim's payable was satisfactory with no claim due for more than a year at end of the outgoing year. AICL is considered sound from solvency risk point of view as the Company has adequate cushion in terms of admissible assets over its liabilities. On the other hand, operating and financial leverages scaled up on a timeline in line with enhancement of operations however; the same remains below the peer median. With significant uptick expected in business volumes, the leverage indicators are projected to change during the rating horizon. Going forward, reversal of underwriting losses through rationalization of loss ratios, adequate mitigation of market risk and improvement of momentum in profitability would remain important rating drivers.

Key Rating Drivers

Global Perspective

Despite building macroeconomic challenges, the insurance industry continued to grow in FY22, both globally and in Pakistan. Global insurance industry faced repricing of risks due to macroeconomic stresses and natural catastrophes with economic losses from natural disasters recorded higher in FY22; however insured losses covered 45% of these damages amounting to USD 125 billion. In addition, claims increased as high inflation increased the cost of repairing buildings, motor vehicles and other fixed assets that are usually covered by insurance. This led to continued rise in premium rates to cover the expenses. However, elevated interest rates augmented the investment income for insurers across the globe.

Local Perspective

Pakistan's insurance industry posted growth despite weak macroeconomic situation in CY22 with continued dominance of Life Insurance & Family Takaful segments in terms of assets and gross premiums. Gross premiums increased from Rs. 417.2 billion in CY21 to Rs. 531.7 billion in CY22 with Life & Family Takaful segment, and Non-Life & General Takaful segments posting increases of Rs. 81.9 billion and Rs. 29.4 billion respectively. Moreover, the industry's asset base grew by 14.8% in CY22 to Rs. 2,459.9 billion particularly on the back of significant growth in the Life Insurance segment. In addition, despite building macroeconomic pressures characterized by dwindling foreign reserves, stabilization measures, slowdown in economic activity, etc. along with catastrophic floods affecting one-third of the country during the year under review, all segments of the industry continued to expand. This was the result of a combination of general factors affecting the whole insurance industry such as inflation leading to a rise in premium rates and idiosyncratic factors pertaining to all segments. The growth in Life Insurance segment was an outcome of the implementation of the government's health insurance programs carried out by State Life; the same increased health coverage to the low and middle-income strata of society. However, the claims ratio for the sector witnessed an increase due to a rise in group claims and higher surrender claims by individuals. Nevertheless, since life insurers maintain most of their investments in government securities due to lackluster performance of capital market, the resulting higher investment income boosted their profitability due to hike in interest rates. In non-life insurance sector, motor premiums drove the growth in net premiums as the cost of motor vehicles increased drastically during the outgoing year. However, torrential rains and flooding, some major fire incidents, and higher cost of repairing fixed assets contributed to the increase in claims. Accordingly, financial performance indicators for the non-life sector slightly weakened on a timeline. Further, the industry's combined ratio increased in CY22, which was driven by a spike in both net claims and expense ratios. With the increase in combined ratio, insurers are expected to reprice their products in the ongoing year. Going forward, due to the prevailing slowdown in economic activity and stressed macro financial conditions, the growth trajectory in non-life premiums is expected to be uncertain while the growth in the life sector will continue to largely depend on traction in the health insurance programs. Moreover, the SECP has issued instructions of phase wise implementation of IFRS 17. The implementation is expected to translate in sizable provisioning burden for the industry; however, the actual impact of the same on industry capitalization is yet to be ascertained. The SECP has issued the deadline of 1st January, 2026 to complete the implementation of IFRS 17.

Future Outlook

Globally, it is expected that there will be premium rate hardening in CY23 in response to the high inflation, geopolitical tensions, natural catastrophes and financial market losses of CY22. These global insurance developments will lead to increases in reinsurance rates offered by international re/insurers which coupled with the exchange rate depreciation, may lead to increase in reinsurance expense for insurers in EMDEs, particularly non-life insurers that have extensive reinsurance arrangements with international reinsurers. The rate hardening along with the elevated policy rate is expected to influence insurers' financial performance in the near term. Global premiums are expected to grow at 2.1% in real terms on average in 2023. Given that non-life insurance is correlated with economic growth and the latest data indicates that Pakistan's economy will significantly slowdown in 2023, accordingly the growth trajectory of non-life premiums in Pakistan could also face pressures. Moreover, if inflation remains elevated, then there could be further rate hardening leading to an uncertain growth trajectory for non-life premiums. Furthermore, in the backdrop of high interest rates, non-life insurers may also consider recalibrating their investment portfolios in order to pad the bottom-line. Life insurance business, with a longer time horizon, is expected to remain relatively immune to the prevailing macroeconomic pressures. The growth in this sector is now partially dependent on the continuity of the government's health insurance programs.

Source: Financial Stability Review – 2022 | State Bank of Pakistan

Topline of the company depicted a significant improvement in 2022 with similar momentum sustained in 9MCY23

AICL is primarily engaged in providing general insurance and window takaful operations (*initiated this year*) to six primary segments namely fire & property damage, marine, aviation & transport, motor, accident & health (A&H), bond and miscellaneous segments. The Company operates via ten branches spread across Pakistan; one new branch was opened during the period under review and three are expected to open during CY24.
AICL's business mix did not exhibit any noteworthy change during the rating horizon; the same is dominated by fire business followed by almost an equal share of marine, aviation & transport, motor and accident & health segments. On the other hand, the proportion of miscellaneous and bond segment continued to remain low. Gross written premium (GWP) increased to Rs. 255.5m (CY21: Rs. 174.1m) during CY22 on account of inflation adjustments, forex impact and onboarding of few new clients. Further, the growth momentum was sustained in the ongoing year with GWP increasing by 44% to Rs. 252.4m (9MCY22: Rs. 175.6m) by end-Sept'23. All segments reported a growth during the rating review period. The uptick in A&H segment is attributable to an increase in the hospitalization and medicinal costs owing to inflationary pressures. Owing to sponsor support and prudent underwriting, fire business posted growth during the rating review period. Furthermore, the growth in GWP in motor segment is underpinned by higher average ticket size given the volumetric sale has dropped owing to an increase in car prices and reduction in car leasing business due to high market rate scenario prevalent. Marine, aviation and transport segment scaled down in line with import restrictions; however the decline did not impact the results or strategy. Bond segment is relatively new and its share remains nominal in the business mix. AICL engages in facultative business; however, the proportion of facultative business compared to GWP was recorded at 30% during the rating review period; the same is expected to scale up driven by increase in facultative co-insurance class business in fire & engineering

In addition, as per management, the business mix will remain the same along with an increase expected in the facultative co-insurance business going forward. The management projects that the Company will be able to close CY23 with organic growth of 50% in the topline. Lastly, to expand operations, AICL is planning for digital marketing; the management plans to launch an app for which the discussions currently ongoing among senior management and BoD.

Business Mix	CY20	CY21	CY22	9MCY23	9MCY22
Fire and property damage	30%	43%	45%	47%	45%
Marine, aviation and transport	23%	14%	15%	15%	19%
Motor	25%	22%	18%	17%	19%
Accident and health	13%	7%	10%	13%	7%
Bond	2%	0%	1%	1%	1%
Miscellaneous	7%	15%	10%	7%	9%
Total	97.0	174.1	255.5	252.4	175.6

The Company introduced its Window Takaful Operations (WTO) operations during the ongoing year to support the bottom line. The gross and net takaful contribution was recorded at Rs. 11.8m and (Rs. 0.4m) respectively during 9MCY23, mainly driven by the motor segment. The surplus reaped by the participants amounted to Rs. 0.9m; the same is meagre but the management projects a positive growth in WTO, driven by an increase in contribution from all segments, going forward.

Reinsurance Arrangements:

Reinsurance treaties of the company depicted some changes during the ongoing year with revisions noted encompassing higher capacities and more favorable rates. 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. Three new reinsurers namely Best Meridian International, Tunis Re and MISR were added to the reinsurance panel for whole account XOL and Motor XL segments; the same adds to the diversification of reinsurance panel. Moreover, in anticipation of growth in the business, treaty capacities were enhanced for the all segments except terrorism. An additional layer was also added during the ongoing year that subsequently led to an increase in the max liability under treaty to Rs. 980m (CY22: Rs. 735m). As per the management, the reinsurance panel is expected to remain the same going forward; however the Company intends to lower reinsurance cost during CY24. Furthermore, motor capacity will be enhanced in the future.

Claims Performance

Weakening in claims performance was evidenced during the rating review period; loss ratios increased during CY22 on account of higher claims emanating from fire segment particularly due to country's largest claim reported pertaining to a packaging company. With the aforementioned exposure covered by largely all insurance companies operating in the country, the increase in loss ratios remained in line with the industry average. On the other hand, no major claims emanated from the recent floods in rural areas of Sindh and Punjab. Furthermore, the net claims in fire showcased slight recovery during the ongoing year in line with higher average sum insured. On the contrary, highest claims emanated from A&H segment on a timeline on account of almost full retention on net account. As per the management, the inflationary pressure contributed towards increased health insurance-related claims as the medical treatment became relatively costly during the ongoing year. Moreover, overall claims expenses pertaining to motor segment also increased during the ongoing year on account of high price of vehicles/replacement cost leading to time lag in claim incurrence and adjustment of insurance premiums. The segment-wise net claims ratios are presented in the table below:

Net Claims Ratio	CY20	CY21	CY22	9MCY23	9MCY22
Fire and property damage	80%	4%	92%	49%	96%
Marine, aviation and transport	56%	9%	32%	47%	30%
Motor	40%	29%	42%	32%	37%
Accident and health	98%	76%	42%	127%	92%
Bond	0%	8054%	0%	0%	0%
Miscellaneous	82%	90%	62%	123%	61%
Total	**63%**	**26%**	**64%**	**55%**	**67%**
Net Claims	**44.6**	**26.3**	**116.6**	**90.9**	**75.3**

Underwriting profits:

AICL has reported persistent underwriting losses on a timeline; the same scaled down slightly during 9MCY23 compared to SPLY owing to net lower claim ratio recorded. A nominal profit was recorded in the motor segment during the ongoing year whereas remaining segments posted losses on a timeline. Furthermore, an increase in investment income to Rs. 60.3m (9MCY22: Rs. 31.4m) primarily due to higher returns on government securities has supported the bottom line; the same was recorded higher at Rs. 54.5 during 9MCY23 as opposed to Rs. 36.7m in the preceding year. The company recorded and earned good investment returns as compared to same period last year owing to good yield of PIB and Treasury bill coupled with the positive trajectory of stock market performance However, investment income is recorded the lowest among peer companies.

Underwriting Profit (Loss)	CY20	CY21	CY22	9MCY23	9MCY22
Fire and property damage	(23.0)	(12.3)	(59.0)	(19.7)	(45.2)
Marine, aviation and transport	(17.4)	(2.9)	(4.5)	(11.9)	(5.9)
Motor	(5.4)	(2.3)	(1.6)	3.5	(1.2)
Accident and health	(9.8)	(3.1)	3.5	(16.3)	(5.5)
Bond	(0.1)	2.5	(1.4)	(0.5)	(0.9)
Miscellaneous	(5.9)	(20.8)	(8.1)	(10.7)	(6.3)
Total Underwriting Profit	**(61.6)**	**(39.0)**	**(71.1)**	**(55.5)**	**(65.0)**

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

The investment portfolio remained stable at Rs. 681.2m (CY22: Rs. 682.9m; CY21: Rs. 664.3m) during the review period. In line with the uptick in the benchmark rates, the asset class mix shifted more towards debt market products with some portion of investment in equity-based securities being divested during the rating review period. Given around 78% of the portfolio is vested in government securities coupled with remaining majority constituting of stable and high rated equity securities, the credit risk emanating from the investment mix is considered manageable. Moreover, equity portfolio comprised 22% investment vested in diverse set of blue chip companies pertaining to oil and gas business, paper and board, commercial banks, chemicals, insurance and power generation and distribution companies. Owing to the positive trajectory of stock market performance, the Company can reap capital gains in the medium term. Nevertheless stock market exposure will always carry price risk. Going forward, investment's policy involves around making diversified and secure investments while ensuring a sound balance between risk and return. As per the management, major investments are expected to be made in fixed rate government securities. Subsequently, the aim is for the growth trajectory in investment income to support the bottom line of the Company.

INVESTMENT MIX	CY20	CY21	CY22	9MCY23
Equities	223.1	216.5	191.7	151.7
PIBs	224.8	227.5	230.5	233.0
Treasury	306.8	220.2	260.7	296.6
Total	**754.6**	**664.3**	**682.9**	**681.2**

Capitalization

Capitalization levels of the Company have reduced during the rating review period on account of reduction in fair value reserve to Rs. 71.6m (CY21: Rs. 82.4m) in line with lower unrealized appreciation on AWS investments coupled with reduction in the unappropriated profit to Rs. 106.4m (CY21: Rs. 120.4m) during CY22. AICL is considered sound from solvency risk point of view as the Company has adequate cushion in terms of admissible assets over its liabilities. The operating leverage increased on a timeline to 33.0% (CY22: 26.5%; CY21: 14.4%) on account of combined impact of slight enhancement of operations and decrease in equity base at end-Sept'23. However, AICL's operating leverage remained one of the lowest among the peers and below the rating benchmark for the assigned ratings. Financial leverage ratio also increased to 35.1% (CY22: 25.9%; CY21: 14.4%) in line with increase in net technical reserves to Rs. 232.6m (CY22: Rs. 178.1m;

CY21: Rs. 102.9m) by end-9MCY23; the increase in the technical reserves was manifested in both outstanding claims and unearned premium reserves. The aging of claims improved during the review period as no claim was overdue for more than one year at year-end CY22 as opposed to 26% falling within 1-2 year overdue bracket in the preceding year. Subsequently, leverage indicators exhibit sizable room for growth in the operating scale. However, with marginal uptick expected in business volumes, the leverage indicators are projected to increase during the rating horizon.

Liquidity

The quantum of liquid assets decreased on a timeline to Rs. 778.9m (CY22: Rs. 808.4m; CY21: Rs. 783.7m) by end Sept'23 in line with reduction in cash and bank balances. Moreover, the same maintained in relation to net technical reserves declined on a timeline to 334.9% (CY22: 454.0%; CY21: 761.4%) by end-Sept'23 owing to inherent cyclicality prevalent in the insurance sector. The absolute value of net technical reserves is expected to reduce once the unearned premium reserves are realized by end-CY23. Nevertheless, despite the aforementioned decline, the coverage of technical reserves is sizable and the liquidity profile is sound. Insurance debt in relation to gross premium increased on a timeline to 49.1% (CY22: 41.8%%; CY21: 37.4%) on account of growth in receivables due from policy holders. Lastly, the operating cash flows in terms of net premium revenue also improved on a timeline to 39.8% (CY22: 27.8%; CY21: -3.5%) by end-9MCY23.

Alpha Insurance Company Limited Appendix I

FINANCIAL SUMMARY	CY20	CY21	CY22	9MCY23
Cash and Bank Balances	46	119	125	98
Investments	755	664	683	681
Insurance Debt	26	65	107	165
Liquid Assets	801	784	808	779
Total Assets	1,083	1,078	1,155	1,321
Ordinary Share Capital	500	500	500	500
Total Equity	700	713	688	663
Total Liabilities	383	365	466	658
Gross Premium Revenue	97	174	256	252
Net premium Revenue	70	103	183	164
Net Claims	45	26	117	91
Underwriting Profit	(62)	(39)	(71)	(56)
Investment Income	60	55	48	60
Other Income	7	13	13	12
Profit before Tax	3	28	(11)	21
Profit after Tax	2	18	(14)	14
Cession Ratio (%)	37.0%	32.3%	21.3%	21.9%
Gross Claims Ratio (%)	53.3%	8.9%	54.3%	58.1%
Net Claims Ratio (%)	63.4%	25.5%	63.8%	55.4%
Underwriting Expense Ratio (%)	124.2%	112.3%	75.1%	78.5%
Combined Ratio (%)	187.6%	137.9%	139.0%	133.9%
Operating Leverage (%)	10.0%	14.4%	26.5%	33.0%
Adjusted Financial Leverage (%)	17.4%	14.4%	25.9%	35.1%
Insurance Debt/ Gross Premium	26.9%	37.5%	41.9%	49.0%
Liquid Assets to Adjusted Technical Reserves	658.2%	761.4%	454.0%	334.9%

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				
2/1/2024	**A+**	**-**	**Stable**	**Reaffirmed**
11/16/2022	A+	-	Stable	Reaffirmed
3/31/2022	A+	-	Stable	Harmonized
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