

## RATING REPORT

### Allianz EFU Health Insurance Limited

**REPORT DATE:**

July 03, 2019

**RATING ANALYSTS:**

Muniba Khan

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RATING DETAILS		
Rating Category	Latest Rating	Previous Rating
Insurer Financial Strength	A	A+
<i>Rating Date</i>		<i>April 26, 2018</i>
Rating Outlook	Stable	Stable
<i>Outlook Date</i>		<i>April 26, 2018</i>

**COMPANY INFORMATION**

<b>Incorporated in 2000</b>	<b>External auditors:</b> M/s KPMG Taseer Hadi & Co.
<b>Public unlisted Company</b>	<b>Chairman of the Board:</b> Saifuddin N. Zoomkawala
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Akhtar Kurban Alavi
Allianz SE – 49%	
EFU Services (Pvt.) Limited – 24%	
Jahangir Siddiqui & Sons Limited – 10%	
Mr. Saifuddin N Zoomkawala – 8%	
Mr. Jahangir Siddiqui – 7%	

**APPLICABLE METHODOLOGY(IES)**

**VIS Entity Rating Criteria:** General Insurance (March 2017)

<http://www.vis.com.pk/kc-meth.aspx>

**Allianz EFU Health Insurance Limited**

**OVERVIEW OF THE INSTITUTION**

*Incorporated in 2000, Allianz EFU Health Insurance Limited (Allianz EFU) is a joint venture of Allianz SE and EFU Services (Private) Limited. Allianz EFU is a pioneer and one of the largest health insurers in Pakistan.*

**RATING RATIONALE**

The rating assigned to Allianz EFU Health Insurance Limited (Allianz EFU) derives strength from the sponsor profile of Allianz SE, a Germany-based financial services provider and holding company of the Allianz Group (Allianz SE rated AA by Standard & Poor’s and A+ by A.M.Best). In insurance business, the company provides property/casualty and life/health insurance products for both private and corporate customers. The group is present in more than 70 countries with major operations in Europe. Prominent shareholders of Allianz EFU also include EFU Services (Pvt.) Limited.

**Rating Drivers:**

**Business volumes remained at a stagnant level; gross premium expected to grow at a steady pace**

Gross premium of the company written in 2018 amounted to Rs. 2.0b (FY17: Rs. 1.9b), depicting a growth rate of 4.1%. Subdued growth has been witnessed in business volumes on account of increasing competition in health business. The company is one of the largest health insurance service providers with a market share of 18% in 2018. Management anticipates business volumes to grow to Rs. 2.5b over the next year. The company underwrites business under three broad categories namely; group business, individual business-bancassurance and individual business-consumer sales.

Rs. in millions	2018	2017	2016	2015	2014
Health	2,026.4	1,947.0	2,004.6	1,664.8	1,493.0
Growth	4.1%	-2.9%	20.4%	11.5%	15.4%

**Underwriting performance depicted a decline during the outgoing year; combined ratio remained below the 100% level**

The assigned rating also derives strength from positive underwriting results of Allianz EFU. Historically, claims of health segment have remained on the higher side for all insurance players. However, despite this trend, Allianz EFU has contained claims to a favorable level of upto 80%. Management believes that with the recent introduction to its robust monitoring measures, performance of health segment will continue to depict positive results.

	2018	2017	2016	2015	2014	2013
Net Claims Ratio	80.10%	76.30%	80.80%	75.00%	73.60%	72.90%
Underwriting Expense Ratio	17.3%	18.2%	12.8%	17.7%	15.8%	18.1%
Combined Ratio	97.4%	94.5%	93.6%	92.7%	89.4%	91.0%

**Reinsurance treaties remained unchanged with a single local reinsurance company; treaties may be renegotiated in order to reduce reinsurance expenses**

Along with a steady growth over the years, Allianz EFU also maintained an adequate risk profile. The rating also draws comfort from its pro-rata reinsurance treaty with Pakistan Reinsurance Company Limited. Enhanced focus on underwriting quality has allowed the company to report a healthy bottom line over the three-year horizon. The company intends to move its treaties towards non-proportional ones in order to reduce reinsurance expenses.

**Allianz EFU maintains a sizeable investment portfolio; return on investments will remain a challenge given the prevailing economic conditions**

Allianz EFU has a structured oversight mechanism and investment management which utilizes expertise of EFU Life Assurance Limited. Investment portfolio of the company comprises blue-chip stocks and government paper. Investment portfolio witnessed a decline on account of disposal of scrips from various

sectors. In the backdrop of a challenging economic scenario, ability to generate sufficient investment income to support its underwriting operations will need to be seen.

Rs. In m	2018		2017		2016		2015		2014	
<b>Government Securities</b>	588.1	84.5%	620.3	81.7%	627.7	70.6%	350.6	36.6%	317.1	39.9%
<b>TFCs</b>	-	-	-	-	-	-	-	-	8.7	1.1%
<b>Equities/Equity related mutual funds</b>	107.8	15.5%	139.2	18.3%	235.6	26.5%	193.8	20.2%	168.9	21.3%
<b>Units of Mutual Funds</b>	-	-	-	-	25.4	2.9%	414.5	43.2%	299.8	37.7%
<b>Total</b>	<b>695.9</b>		<b>759.5</b>		<b>888.6</b>		<b>958.9</b>		<b>794.5</b>	

**Liquidity indicators have depicted a declining trend on account of lower exposure in equity market**

The rating takes into account adequate liquidity profile of the company. On a timeline basis, adjusted liquid assets in relation to technical reserves have depicted a declining trend on account of lower exposure in liquid assets. While level of insurance debt in relation to its total gross business has remained within manageable levels.

**Profitability levels have weakened on account of lower investment support coupled with higher claims reported on net account; capitalization levels may need to be strengthened to support future growth plans**

While profitability derives strength positive underwriting performance of the company, net profit of the company declined to Rs. 57.0m in 2018 vis-à-vis Rs. 85.1m in the preceding year. This decline was largely on account of lower investment income and higher loss ratio for the outgoing year. The company has maintained its expense ratio at favourable levels in comparison to peers. In line with regulatory requirement, Allianz EFU has a paid up capital of Rs. 500m, at end-December 2018. However, rating is constrained by the competitive environment in which the company operates and concentration in the business profile. With growth in business volumes, leverage indicators of the company have trended upwards in 2018. Given the future growth plans of the company, risk adjusted capitalization levels may be increased in order to improve leverage indicators.

**Allianz EFU Health Insurance Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>					
	<i>(amounts in PKR millions)</i>				
<b>BALANCE SHEET</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	122.9	39.5	91.4	67.6	41.5
Investments	696.0	759.5	888.7	910.2	759.5
Investment Properties	-	-	-	-	-
Insurance Debt	435.0	447.7	351.3	223.7	230.2
<b>Total Assets</b>	<b>1,814.9</b>	<b>1,821.0</b>	<b>1,775.5</b>	<b>1,580.9</b>	<b>1,349.2</b>
<b>Net Worth</b>	<b>561.4</b>	<b>581.4</b>	<b>664.9</b>	<b>600.4</b>	<b>577.9</b>
<b>Total Liabilities</b>	<b>1,253.4</b>	<b>1,239.6</b>	<b>1,110.6</b>	<b>980.5</b>	<b>771.2</b>
<b>INCOME STATEMENT</b>					
<b>Net Premium Revenue</b>	<b>1,335.4</b>	<b>1,227.5</b>	<b>1,286.5</b>	<b>1,026.7</b>	<b>994.8</b>
<b>Net Claims</b>	<b>1,069.4</b>	<b>936.4</b>	<b>1,039.8</b>	<b>770.0</b>	<b>731.9</b>
<b>Underwriting Profit</b>	<b>34.3</b>	<b>67.9</b>	<b>82.4</b>	<b>75.4</b>	<b>105.4</b>
<b>Net Investment Income</b>	<b>20.9</b>	<b>44.4</b>	<b>111.1</b>	<b>123.0</b>	<b>101.2</b>
<b>Profit Before Tax</b>	<b>76.9</b>	<b>121.7</b>	<b>216.6</b>	<b>229.9</b>	<b>234.3</b>
<b>Profit After Tax</b>	<b>57.0</b>	<b>85.1</b>	<b>150.7</b>	<b>172.5</b>	<b>172.3</b>
<b>RATIO ANALYSIS</b>					
<b>Market Share (Gross Premium) (%)</b>	<b>18%</b>	<b>14%</b>	<b>21%</b>	<b>21%</b>	<b>22%</b>
<b>Cession Ratio (%)</b>	<b>34.5%</b>	<b>34.5%</b>	<b>34.5%</b>	<b>33.7%</b>	<b>33.9%</b>
<b>Gross Claims Ratio (%)</b>	<b>82.2%</b>	<b>79.3%</b>	<b>79.8%</b>	<b>73.7%</b>	<b>70.8%</b>
<b>Net Claims Ratio (%)</b>	<b>80.1%</b>	<b>76.3%</b>	<b>80.8%</b>	<b>75.0%</b>	<b>73.6%</b>
<b>Underwriting Expense Ratio (%)</b>	<b>17.3%</b>	<b>18.2%</b>	<b>12.8%</b>	<b>17.7%</b>	<b>15.8%</b>
<b>Combined Ratio (%)</b>	<b>97.4%</b>	<b>94.5%</b>	<b>93.6%</b>	<b>92.7%</b>	<b>89.4%</b>
<b>Net Operating Ratio (%)</b>	<b>92.9%</b>	<b>89.0%</b>	<b>89.6%</b>	<b>88.0%</b>	<b>86.2%</b>
<b>Insurance Debt to Gross Premium (%)</b>	<b>21.5%</b>	<b>23.0%</b>	<b>17.5%</b>	<b>13.4%</b>	<b>15.4%</b>
<b>Operating Leverage (%)</b>	<b>237.9%</b>	<b>213.0%</b>	<b>189.4%</b>	<b>158.2%</b>	<b>162.1%</b>
<b>Financial Leverage (%)</b>	<b>141.3%</b>	<b>148.7%</b>	<b>140.7%</b>	<b>127.0%</b>	<b>108.6%</b>
<b>Adjusted Liquid Assets to Technical Reserves (%)</b>	<b>103.2%</b>	<b>93.3%</b>	<b>128.3%</b>	<b>157.4%</b>	<b>156.2%</b>

**VIS** Credit Rating Company Limited

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

**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:** 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)

**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)

**'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)

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Allianz EFU Health Insurance Limited				
<b>Sector</b>	Insurance				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Insurer Financial Strength Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Outlook</b>	<b>Short Term</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: IFS</u></b>				
	04/26/2018	A+	Stable		Reaffirmed
	03/20/2017	A+	Stable		Initial
<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 credit quality only and is not a recommendation to buy or sell any securities.				
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