

## RATING REPORT

### Allianz EFU Health Insurance Limited

**REPORT DATE:**

June 12, 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
Insurer Financial Strength	A	A
<i>Rating Date</i>	<i>June 12, 2020</i>	<i>July 3, 2019</i>
Rating Outlook	Stable	Stable
<i>Outlook Date</i>	<i>June 12, 2020</i>	<i>July 3, 2019</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> Mr. 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 Siddique and Sons Limited – 17%	
Mr. Saifuddin N Zoomkawala – 8%	

**APPLICABLE METHODOLOGY(IES)**

**VIS Entity Rating Criteria:** General Insurance (November 2019)

<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**

Allianz EFU Health Insurance Limited (Allianz EFU) provide health insurance products catering to both individual and corporate customers. The company underwrites business under three broad categories namely; group business, individual business-bancassurance and individual business-consumer sales. The company belongs to a prominent business conglomerate, EFU Group, which operates in both life and general insurance. Prominent shareholders of Allianz EFU include EFU Services (Pvt.) Limited. The rating also 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). The group is present in more than 70 countries with major operations in Europe.

**Key Rating Drivers:**

**Business volumes grew by 17.6% despite prevalence of stringent competition in the industry. Ability to maintain business volumes and growth rates will remain challenging.**

During the past two years, the company underwent a consolidation exercise for discontinuing loss-making policies with corporate and individual customers. During 2019, the company's business levels depicted a healthy growth rate and resulted in a top line amounting to Rs. 2.4b. Management anticipates business volumes to grow to Rs. 2.5b over the next year. Given the prevailing competition in the insurance market, the company continues to face significant pressure on pricing. However, prevailing uncertainty in sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand and challenging economic environment may pose as challenges for growth in the insurance industry during the coming years. The company underwrote a gross premium of Rs. 876.5m by end-March 2020.

	2017	2018	2019	March 2020
<b>Gross Premium</b>	1,947.0	2,026.4	2,382.5	876.5
<b>Growth</b>	-2.9%	4.2%	17.6%	–

**With a higher loss ratio reported, underwriting performance worsened with combined ratio reported over the 100% level.**

While management expenses were contained at historic levels, loss ratio of the company significantly deteriorated on account of higher incidence of claims from its new clients. Historically, claims of health segment have remained on the higher side for all insurance players. However, Allianz EFU had maintained its claims ratio at a favorable level of around 80% in previous years. Management believes that with the recent introduction to its robust monitoring measures, performance of health segment will continue to depict positive results.

	2017	2018	2019	March 2020
<b>Combined Ratio</b>	94.5%	97.4%	108.8%	98.4%
<b>Underwriting Expense Ratio</b>	18.2%	17.3%	16.4%	22.6%
<b>Net Claims Ratio</b>	76.3%	80.1%	92.4%	75.8%

**Reinsurance treaties remained unchanged with a single local reinsurance company.**

Along with a steady growth over the years, Allianz EFU also maintained an adequate risk profile. The rating draws comfort from its pro-rata reinsurance treaty with Pakistan Reinsurance Company Limited. Enhanced focus on underwriting quality is expected to result in a healthy bottom line over the year. Despite

challenging times ahead, Allianz EFU did not face any significant changes in its reinsurance treaties for the year 2020.

**With a slowdown in economic activity, reduction in interest rates and downward trend in stock market, maintenance of return on investments will remain a challenge.**

Allianz EFU has a total investment portfolio of Rs. 584.9m at end of March-2020 (FY19: Rs. 594.2m) which primarily comprises government papers. In order to address the higher loss ratio for 2019, Allianz EFU significantly shed off its equity portfolio from Rs. 107.8m at end-2018 to Rs. 1.4m at end-March 2020. Management expects to build up the investment portfolio as soon as the economic scenario improves. The company has a structured oversight mechanism and investment management which utilizes expertise of EFU Life Assurance Limited. In the backdrop of a challenging economic scenario, ability to generate sufficient investment income to support its underwriting operations will need to be monitored.

Rs. In m	2017		2018		2019		Mar-20	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Government Securities</b>	620.3	81.7%	588.1	84.5%	592.2	99.7%	583.5	99.8%
<b>Equities/Equity related mutual funds</b>	139.2	18.3%	107.8	15.5%	2.0	0.3%	1.4	0.2%
<b>Total</b>	<b>759.5</b>		<b>695.9</b>		<b>594.2</b>		<b>584.9</b>	

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

In order to meet the rising loss ratio during the outgoing year, the company utilized its liquid assets for fulfilling its financial obligations. As a result, liquid assets as a proportion to technical reserves stood significantly lower, declining from 103.2% at end-2018 to 81.6% at end-March 2020. Nonetheless, the company maintains a sound level of insurance debt in relation to its total gross business.

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

An insurance company primarily derives profitability from its underwriting and investment activities. While investment income of the company improved on the back of higher return on government paper, underwriting operations posted a significant loss of Rs. 141.6m in 2019 vis-à-vis a profit of Rs. 34.3m in 2018. As a result, net profit of the company declined to a loss of Rs. 80.0m in 2019. This decline was largely on account of higher reported 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 2019. 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 2019. 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, 2017</b>	<b>DEC 31, 2018</b>	<b>DEC 31, 2019</b>	<b>MAR 31, 2020</b>
Cash and Bank Deposits	39.5	122.9	30.4	212.8
Investments	759.5	696.0	594.2	584.9
Insurance Debt	447.7	435.0	505.0	523.6
Total Assets	1,821.0	1,814.9	1,741.2	2,030.7
Paid up Capital	500.0	500.0	500.0	500.0
Net Worth	581.4	561.4	446.6	481.1
Total Liabilities	1,239.6	1,253.4	1,294.6	1,549.6
<b>INCOME STATEMENT</b>	<b>DEC 31, 2017</b>	<b>DEC 31, 2018</b>	<b>DEC 31, 2019</b>	<b>MAR 31, 2020</b>
Net Premium Revenue	1,227.5	1,335.4	1,615.7	335.3
Net Claims	936.4	1,069.4	1,493.6	254.3
Underwriting Profit / (Loss)	67.9	34.3	(141.6)	5.5
Net Investment Income	44.4	20.9	64.7	17.0
Profit / (Loss) Before Tax	121.7	76.9	(54.5)	27.7
Profit / (Loss) After Tax	85.1	57.0	(80.0)	23.2
<b>RATIO ANALYSIS</b>	<b>DEC 31, 2017</b>	<b>DEC 31, 2018</b>	<b>DEC 31, 2019</b>	<b>MAR 31, 2020</b>
Market Share (Gross Premium) (%)	14%	18%	19%	21%
Cession Ratio (%)	34.5%	34.5%	33.7%	34.5%
Gross Claims Ratio (%)	78.1%	80.8%	93.9%	76.5%
Net Claims Ratio (%)	76.3%	80.1%	92.4%	75.8%
Underwriting Expense Ratio (%)	18.2%	17.3%	16.4%	22.6%
Combined Ratio (%)	94.5%	97.4%	108.8%	98.4%
Insurance Debt to Gross Premium (%)	23.0%	21.5%	21.2%	29.9%
Operating Leverage (%)	213.0%	237.9%	361.7%	139.4%
Financial Leverage (%)	148.7%	141.3%	196.3%	203.2%
Adjusted Liquid Assets to Technical Reserves (%)	93.3%	103.2%	71.3%	81.6%

**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>
	<u>RATING TYPE: IFS</u>				
	06/12/2020	A	Stable		Reaffirmed
	07/03/2019	A	Stable		Downgrade
	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 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. Nooruddin Jaffer Ali	Chief Financial Officer	May 11, 2020	
	2	Mr. Kamran Ansari	Chief Operating Officer	May 11, 2020	