

RATING REPORT

Allianz EFU Health Insurance Limited

REPORT DATE:

May 31, 2021

RATING ANALYSTS:

Maham Qasim

maham.qasim@vis.com.pk

RATING DETAILS		
Rating Category	Latest Rating	Previous Rating
Insurer Financial Strength	A	A
Rating Date	May 31, 2021	June 12, 2020
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 2000	External auditors: M/s KPMG Taseer Hadi & Co.
Public unlisted Company	Chairman of the Board: Mr. Saifuddin N. Zoomkawala
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Akhtar Kurban Alavi
Allianz SE – 49%	
EFU Services (Pvt.) Limited – 24%	
Aitkenstuart Pakistan (Pvt.) Limited – 9.94%	
Mr. Saifuddin N Zoomkawala – 8%	
Mr. Jahangir Siddiqui – 7.28%	

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

The rating assigned to Allianz EFU Health Insurance Limited (Allianz EFU) take into account the implicit support of the sponsors including EFU group and 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. The rating reflect stagnant business volumes owing to ongoing pandemic, frequent lockdowns, overall contraction in demand and challenging economic environment; the same may pose as challenges for growth in the insurance industry during the rating horizon. The underwriting performance exhibited considerable improvement on the back of improved claims ratio in line with lower incidence of claims as management tapered off high-risk clients during the review period; the same reflected positively on the profitability indicators. The rating take into account the continuing trend of low capitalization levels and high leverage ratios. Insurance debt in relation to gross premium declined on a timeline basis; the aging of receivables is considered sound. Retaining market leadership in health insurance business with a market share of around 19% would remain a key rating driver.

Key Rating Drivers:

Stagnant business volumes in line with economic downturn amid ongoing pandemic coupled with prevalence of stringent competition in the industry. Ability to maintain business volumes and growth rates will remain challenging.

The company underwrites business under three broad categories namely; group business, individual business-bancassurance and individual business-consumer sales. Given unfavorable economic indicators in line with prevalence of COVID-19 pandemic, the company continued its consolidation strategy by discontinuing loss-making policies with corporate and individual customers. During FY20, the company's business volumes remained at prior year's level with top line stagnant at Rs. 2.4b (FY19: Rs. 2.4b). The target market for the company is middle tier and small tier corporate clients; the same is in sync with the risk appetite of the company as with exposure with big clients the risk threshold exceeds the optimal limit. As per the management, the company would continue cautious growth approach with gross written premium (GWP) to be capped at Rs. 2.65b for FY21. Given the prevailing competition in the insurance market, the company continues to face significant pressure on pricing. There is significant concentration in the business mix, as top 20 exposures comprised 55% of the total GWP. Moreover, the sector wise breakdown also exhibited sizable concentration with top four sectors including local authority, technology & communication, textile and construction & engineering constituting 52% of the total insurance debt. The company underwrote a gross premium of Rs. 1.32b by end-April'21.

	2018	2019	2020
Gross Premium	2,026.4	2,382.5	2,360.6
Growth / (Decline)	4.2%	17.6%	-0.9%

With an improved loss ratio, underwriting performance exhibited improvement with combined ratio reported below the 100% level: With notable improvement in the claims ratio, the combined ratio improved despite increase in the underwriting expenses during the review period. The increase in the underwriting expense ratio was an outcome of reduced commission income percentage from 20% in FY19 to 15% in FY20. As per the management, owing to

slowdown in the health insurance sector and the unprecedented pandemic crisis, the re-insurer extended treaties with lower commission income for both FY20 and FY21. However, once the uncertain situation regarding the pandemic subsides the management is hopeful of reverting the commission income percentage back to 20% in FY22. Although, the decline in commission income was a sizable hit to the company's underwriting performance; however the same was largely offset by reduction in claims ratio. Slashing the risky clients during FY20 to align the company's risk exposure to its risk appetite marked the improvement in loss ratio. Allianz EFU's claims payment is noteworthy as no claim was overdue for more than a year; moreover the company incurred all the major claims outstanding at end-FY20 during the month of December indicating swift claims clearance. Going forward, the management plans to write small to medium sized business while enhancing its focus towards improving the bottom line. 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	2020
Combined Ratio	94.5%	97.4%	108.7%	95.4%
Underwriting Expense Ratio	18.2%	17.3%	16.3%	20.5%
Net Claims Ratio	76.3%	80.1%	92.4%	74.9%

Reinsurance treaties remained unchanged with a single local reinsurance company: Along with steady growth over the years, Allianz EFU maintained an adequate risk profile. There was no change in the reinsurance panel or treaties during the period under review. 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 rating horizon. Despite challenging times ahead, Allianz EFU did not face any significant changes in its reinsurance treaties for FY21.

Given slashed GDP growth, lackluster stock market performance and reduced policy rate, maintenance of return on investments will remain a challenge. With curtailed insurance losses leading to higher cash resources available, Allianz EFU total investment portfolio augmented to Rs. 814.8m (FY19: Rs. 594.2m) at end-FY20. The investment portfolio primarily comprises government securities; therefore credit risk emanating from the same is negligible. The duration of PIBs was recorded at three years at end-FY20. The equity portfolio remained meager during the rating review period owing to uncertainty prevalent in the economy reflecting adversely on the stock market stability. Going forward, the management expects the investment portfolio mix to remain the same as equity markets are viewed as highly risky. Management expects to gradually build up the investment portfolio as economic indicators improve. 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 is deemed critical for rating.

Rs. In m	2018		2019		2020	
	Amount	%	Amount	%	Amount	%
Government Securities	588.1	84.5%	592.2	99.7%	809.0	99.3%
Listed Equities	107.8	15.5%	2.0	0.3%	5.8	0.7%
Total	695.9		594.2		814.8	

Improved liquidity position in line with higher investment portfolio: With lesser liquid resources utilized in meeting the financial obligations, the company was able to invest relatively generously in government securities. As a result, liquid assets as a proportion to net technical reserves stood significantly higher at 100.5% (FY19: 71.3%) at end-FY20. In addition, insurance debt in relation to gross premium decreased during the year on account of swifter payments received from policyholders and reinsurers. The aging profile of insurance debt is considered satisfactory, as less than 2% was overdue for more than one year at end-FY20.

Improvement in profitability indicators on account of lower incidence of claims; capitalization levels are adequate: The significant improvement in claims ratio coupled with growth in investment income on account of higher quantum of investments held on books reflected positively on the company's bottom line; Allianz EFU reported after tax profit of Rs. 148.1m during FY20 as compared to after tax loss of Rs. 80.0m in FY19. Although, the expense ratio increased during the period under review; however the same still remains below industry averages. The operating and financial leverage improved on a timeline basis in line with constrained business activity along with growth in equity base. The rating remains sensitive to competitive environment in which the company operates and concentration in the business profile. Given the management is not foreseeing exponential growth in business volumes, the leverage indicators are expected to remain around current levels.

Allianz EFU Health Insurance Limited
Appendix I

FINANCIAL SUMMARY				
	<i>(amounts in PKR millions)</i>			
BALANCE SHEET	DEC 31, 2017	DEC 31, 2018	DEC 31, 2019	DEC 31, 2020
Cash and Bank Deposits	39.5	122.9	30.4	88.1
Investments	759.5	696.0	594.2	814.8
Insurance Debt	447.7	435.0	505.0	358.9
Total Assets	1,821.0	1,814.9	1,741.2	1,918.6
Paid up Capital	500.0	500.0	500.0	500.0
Net Worth	581.4	561.4	446.6	590.9
Total Liabilities	1,239.6	1,253.4	1,294.6	1,327.8
INCOME STATEMENT				
	DEC 31, 2017	DEC 31, 2018	DEC 31, 2019	DEC 31, 2020
Net Premium Revenue	1,227.5	1,335.4	1,615.7	1,464.6
Net Claims	936.4	1,069.4	1,493.6	1,097.4
Underwriting Profit / (Loss)	67.9	34.3	(141.6)	66.3
Net Investment Income	44.4	20.9	64.7	97.5
Profit / (Loss) Before Tax	121.7	76.9	(54.5)	179.4
Profit / (Loss) After Tax	85.1	57.0	(80.0)	148.1
RATIO ANALYSIS				
	DEC 31, 2017	DEC 31, 2018	DEC 31, 2019	DEC 31, 2020
Market Share (Gross Premium) (%)	14%	18%	19%	18.8%
Cession Ratio (%)	34.5%	34.5%	33.7%	34.1%
Gross Claims Ratio (%)	78.1%	80.8%	93.9%	76.1%
Net Claims Ratio (%)	76.3%	80.1%	92.4%	74.9%
Underwriting Expense Ratio (%)	18.2%	17.3%	16.3%	20.5%
Combined Ratio (%)	94.5%	97.4%	108.7%	95.4%
Insurance Debt to Gross Premium (%)	23.0%	21.5%	21.2%	15.2%
Operating Leverage (%)	213.0%	237.9%	361.7%	247.9%
Financial Leverage (%)	148.7%	141.3%	196.0%	152.0%
Adjusted Liquid Assets to Technical Reserves (%)	93.3%	103.2%	71.3%	100.5%

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

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

'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

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Allianz EFU Health Insurance Limited				
Sector	Insurance				
Type of Relationship	Solicited				
Purpose of Rating	Insurer Financial Strength Rating				
Rating History	Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
	<u>RATING TYPE: IFS</u>				
	05/31/2021	A	Stable		Reaffirmed
	06/12/2020	A	Stable		Reaffirmed
	07/03/2019	A	Stable		Downgrade
	04/26/2018	A+	Stable		Reaffirmed
	03/20/2017	A+	Stable		Initial
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.				
Disclaimer	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 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted		Name	Designation	Meeting Date	
	1	Mr. Nooruddin Jaffer Ali	Chief Financial Officer	April 20, 2021	
	2	Mr. Kamran Ansari	Operational Head	April 20, 2021	