

RATING REPORT

Allianz EFU Health Insurance Limited

REPORT DATE:

March 14, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating
Insurer Financial Strength	A+
<i>Rating Date</i>	<i>March 20, 2017</i>
Rating Outlook	Stable
<i>Outlook Date</i>	<i>March 20, 2017</i>

COMPANY INFORMATION

Incorporated in 2000	External auditors: M/s Ernst & Young Ford Rhodes Chartered Accountants
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 – 49.0%	
EFU Services (Pvt.) Limited – 24.0%	
Mr. Saifuddin N Zoomkawala – 11.7%	
Jahangir Siddiqui & Sons Limited – 6.9%	
Mr. Jahangir Siddiqui – 6.6%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: General Insurance (March 2017)

<http://www.jcrvis.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 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, A+ by A.M.Best and Aa3 by Moody's). In insurance business, Allianz SE 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.

The company is led by a team of well-qualified professionals possessing rich experience in the health insurance industry. Allianz EFU has a structured oversight mechanism and investment management in place. International best practices are being followed in pricing of services from related parties. IT infrastructure in place includes an internally developed ERP system and an Oracle database. Policy framework at Allianz EFU is also aligned with the group.

Rating Drivers

- 1. Business Volumes:** Gross premium of the company written in 2016 amounted to Rs. 2.0b (FY15: Rs. 1.7b), depicting a growth rate of 20.4%. The company underwrites business under three broad categories namely; group business, individual business-bancassurance and individual business-consumer sales.
- 2. Underwriting Performance:** The assigned rating also derives strength from improved underwriting performance of Allianz EFU. Claims, on both gross and net basis, depicted a favourable trend barring 2016. Management believes that with robust monitoring measures, performance of health segment can be improved. In 2016, gross and net claims ratios were reported higher as a result of a few high quantum claims.
- 3. Reinsurance:** 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.
- 4. Investments:** Allianz EFU holds a sizeable investment portfolio comprising blue-chip stocks and government paper. Investment portfolio has witnessed growth over the years, translating into healthy investment income for the company.
- 5. Liquidity:** The rating takes into account positive results from underwriting operations and liquidity profile of the institution. Liquidity profile of the company has improved on a timeline basis. Adjusted liquid assets in relation to technical reserves remained comfortable at 128.3% at end-Dec'16 (2015: 157.4%, 2014: 156.2%). Moreover, the company is also making efforts to improve cash flow from operations.
- 6. Profitability:** In line with past trends, profitability derived strength from sound underwriting performance of the company coupled with sizeable contribution from the investment income. Improvement in underwriting performance was primarily on account of improvement in lower expense base with an expense ratio of 12.8% in 2016 vis-à-vis 17.7% in 2015.
- 7. Capitalization & Liquidity:** In line with regulatory requirement, Allianz EFU increased its paid up capital from Rs. 300m to Rs. 500m against the minimum paid-up capital requirement of Rs. 400m, at end-December 2016. 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 2016. Given the future growth plans of the company, risk adjusted capitalization levels may be increased in order to improve leverage indicators.

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Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Allianz EFU Health Insurance Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Cash and Bank Deposits	91.4	67.6	41.5
Investments	840.4	910.2	759.5
Investment Properties	-	-	-
Insurance Debt	351.3	223.7	230.2
Total Assets	1,738.3	1,580.9	1,349.2
Net Worth	631.1	600.4	577.9
Total Liabilities	1,107.2	980.5	771.2
INCOME STATEMENT			
	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Net Premium Revenue	1,286.5	1,026.7	994.8
Net Claims	1,039.8	770.0	731.9
Underwriting Profit	82.4	75.4	105.4
Net Investment Income	111.1	123.0	101.2
Profit Before Tax	216.6	229.9	234.3
Profit After Tax	150.7	172.5	172.3
RATIO ANALYSIS			
	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Market Share (Gross Premium) (%)	21%	21%	22%
Cession Ratio (%)	34.5%	33.7%	33.9%
Gross Claims Ratio (%)	79.8%	73.7%	70.8%
Net Claims Ratio (%)	80.8%	75.0%	73.6%
Underwriting Expense Ratio (%)	12.8%	17.7%	15.8%
Combined Ratio (%)	93.6%	92.7%	89.4%
Net Operating Ratio (%)	89.6%	88.0%	86.2%
Insurance Debt to Gross Premium (%)	17.5%	13.4%	15.4%
Operating Leverage (%)	189.4%	158.2%	162.1%
Financial Leverage (%)	140.7%	127.0%	108.6%
Adjusted Liquid Assets to Technical Reserves (%)	128.3%	157.4%	156.2%

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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: JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

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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>					
	20/3/2017	A+	Stable		Initial	
Instrument Structure	N/A					
Statement by the Rating Team	JCR-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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