

RATING REPORT

Allianz EFU Health Insurance Limited

REPORT DATE:

April 26, 2018

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>	<i>March 20, 2017</i>
Rating Outlook	Stable	Stable
<i>Outlook Date</i>	<i>April 26, 2018</i>	<i>March 20, 2017</i>

COMPANY INFORMATION

Incorporated in 2000	External auditors: KPMG Taseer Hadi & Co., 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%	
Jahangir Siddiqui & Sons Limited – 9.98%	
Mr. Saifuddin N Zoomkawala – 8.0%	
Mr. Jahangir Siddiqui – 7.24%	

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.

Profile of Chairman:

Mr. Saifuddin N. Zoomkawala has been associated with EFU group since 1964. He has prior work experience at Credit & Commerce Insurance Company in UAE, an insurance company of EFU group and has also been the Managing Director of EFU General Insurance Limited (EFUG) for over two decades. Apart from being the Chairman of the BoDs of Allianz EFU, EFUG, he is also represented on the board of EFU Life Assurance Limited. In addition to the EFU group, he has also been associated with a number of regional bodies, business forums and renowned social institutions. Mr. Zoomkawala has a Master's degree in Business Administration from Karachi University.

Profile of CEO:

Mr. Akhtar Kurban Alavi is an Associate of

RATING RATIONALE

Current rating of Allianz EFU Health Insurance Limited (Allianz EFU) derives strength from financial profile of its sponsors including 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). To date, Allianz EFU has no signed technical or knowledge transfer agreement with its sponsor. Prominent shareholders of the company also include EFU Services (Pvt.) Limited. Assigned rating continues to be constrained by persistent trend in low capitalization levels and high leverage ratios in comparison to peers.

Rating Drivers

- 1. Business Volumes:** Despite growth in industry volumes, total business underwritten of the company remained stagnant (FY17: Rs. 1.9b, FY16: Rs. 2.0b). As per management, shortfall in business volumes is primarily attributable to on account of non-renewal of policy for a corporate client. Efforts were also concerted towards improvement of its control environment which diverted the company's focus from business development. Going forward, Allianz EFU anticipates higher business volumes with a prudent underwriting practice; premium is targeted to be close to Rs. 2.5b in 2018. In the ongoing year, Allianz EFU is focused towards improving its business volumes by concentrating on both its corporate and individual businesses; the company had developed banc-assurance arrangements with 4 commercial banks in this regard. Developments in this regard are yet to materialize. Management foresees continued domination of corporate clients (95%) in the business mix; concentration of top 20 clients in the business mix remains on the higher side at 57%.
- 2. Underwriting Performance:** With no growth in business volumes, underwriting performance of the company deteriorated on account of a higher expense base. Underwriting profit of Allianz EFU stood lower (FY17: Rs. 67.9m (FY16: Rs. 82.4m), nonetheless, claims performance of the company improved given that loss making clients were shed off during the outgoing year. Management believes that with further strengthening its monitoring measures, performance of health segment can be significantly improved. In order to do so, the company is improving the existing claims management system which would allow for cross checking of rates offered by hospitals.
- 3. Reinsurance:** Over the years, Allianz EFU maintained an adequate risk profile covered by a pro-rata reinsurance treaty negotiated with Pakistan Reinsurance Company Limited. In view of the aggressive nature of health business, Allianz EFU plans to move from a proportional to a non- proportional treaty during 2018; effect of the treaty change will be realized from 2019 onwards. The company is exploring opportunities in the foreign reinsurance market given that there is only one reinsurer operating in Pakistan. A non-proportional treaty is expected to reduce reinsurance expenses in the coming years.
- 4. Investments:** Similar to other insurance players in the market, market value of investments declined significantly (FY17: Rs. 759.5m, FY16: Rs. 888.6m) given the recent downward trajectory in the equity market. As a result, support from investments also reduced from Rs. 111.1m in FY16 to Rs. 44.4m in FY17. Investment portfolio largely comprises government securities along with exposure in blue-chip stocks. In order to maintain its level of recurring income from investments, management anticipates placing liquidity in short term government papers.
- 5. Liquidity:** Given that liquidity of insurance companies emanates from its investments, liquidity profile of the company has weakened with liquid assets as a proportion of technical reserves reducing (FY17: 93.3%, FY16: 128.3%). Moreover, insurance debt to gross premium also increased to 23.0% (FY16: 17.2%) on account of higher number of policies offered with premium installment plans. Aging of

*Chartered Insurance
Institute—ACII
(London) & is in
Insurance Industry for
more than 5 decades.
Prior to joining Allianz
EFU Health Insurance
Ltd Mr. Alavi served
EFU General
Insurance Ltd and
Adamjee Insurance
Ltd.*

insurance debt, nevertheless, improved with a large chunk of receivables belonging in the less than one year bucket. Furthermore, net operating cash flow of Allianz EFU improved on the back of lower claims (FY17: Rs. 104.0m, FY16: Rs. 32.6m).

- 6. Profitability:** Despite an improved claims ratio, the company earned a lower bottom line on account of a higher expense base and lower business volumes. Underwriting expense ratio increased to 18.2% in FY17 (FY16: 12.8%) subsequently adversely impacting its combined ratio (FY17: 94.5%, FY16: 93.6%). With Allianz EFU's growth plans, overheads will need to be controlled in order to improve profitability levels.
- 7. Capitalization & Liquidity:** In line with regulatory requirement, Allianz EFU has a paid up capital of Rs. 500m at end-December 2017. Nonetheless, rating is constrained by the competitive environment in which the company operates and low profit retention levels observed on a timeline basis. With a significant dividend paid out during 2017, a lower equity base translated into leverage indicators trending upwards; operating and financial leverage were reported at 213.0% (FY16: 189.4%) and 148.7% (FY16: 112.4%) in 2017. Given the future growth plans of the company, risk adjusted capitalization levels may be increased in order to improve leverage indicators.
- 8. Management & Policy Framework:** Senior management comprises 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. The company utilizes technical support from its associate, EFU Life Assurance Company Limited in this regard. IT infrastructure in place includes an internally developed ERP system and an Oracle database.

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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, 2017	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Cash and Bank Deposits	39.5	91.4	67.6	41.5
Investments	773.5	840.4	910.2	759.5
Investment Properties	-	-	-	-
Insurance Debt	447.7	344.3	223.7	230.2
Total Assets	1,829.9	1,731.4	1,580.9	1,349.2
Net Worth	590.3	631.1	600.4	577.9
Total Liabilities	1,239.6	1,100.3	980.5	771.2
INCOME STATEMENT				
	DEC 31, 2017	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Net Premium Revenue	1,227.5	1,286.5	1,026.7	994.8
Net Claims	936.4	1,027.2	770.0	731.9
Underwriting Profit	67.9	82.4	75.4	105.4
Net Investment Income	44.4	111.1	123.0	101.2
Profit Before Tax	121.7	216.6	229.9	234.3
Profit After Tax	84.2	150.7	172.5	172.3
RATIO ANALYSIS				
	DEC 31, 2017	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Market Share (Gross Premium) (%)	14	21	21	22
Cession Ratio (%)	34.5	34.5	33.7	33.9
Gross Claims Ratio (%)	79.3	79.8	73.7	70.8
Net Claims Ratio (%)	76.3	80.8	75.0	73.6
Underwriting Expense Ratio (%)	18.2	12.8	17.7	15.8
Combined Ratio (%)	94.5	93.6	92.7	89.4
Net Operating Ratio (%)	89.0	89.6	88.0	86.2
Insurance Debt to Gross Premium (%)	23.0	17.5	13.4	15.4
Operating Leverage (%)	213.0	189.4	158.2	162.1
Financial Leverage (%)	148.7	112.4	127.0	108.6
Adjusted Liquid Assets to Technical Reserves (%)	93.3	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>				
	26/4/2018	A+	Stable		Reaffirmed
	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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