

RATING (JANUARY 2011)
ADAMJEE INSURANCE COMPANY LIMITED (AICL)

	NEW	PREVIOUS
Insurer Financial Strength	AA	AA

RATING HISTORY

Rating	Jun 07	Dec 08	Nov 09	Jan 11
AAA				
AA+				
AA				
AA-				
A+				

FINANCIAL DATA
 PKR (mln)

	Sep-10*	Dec-09	Dec-08
Total Assets	25,809	21,612	19,004
Total Equity	10,654	10,781	8,560
GPW	8,446	10,321	10,205
Underwriting Results	223	679	367
Net Income	134	2,434	1,099
Loss Ratio (%)	70.6	65.2	69.0
ROE (%)	1.6	25.1	13.5
Operating Ratio (%)	95.4	61.8	84.3
Liquid Assets / Net Claims (times)	1.4	1.3	1.1

* based on unaudited accounts for nine months ended September 30, 2010

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RATING RATIONALE AND KEY RATING DRIVERS

- The rating reflects AICL’s ability to sustain its leading position in the insurance sector despite intense competition and subdued economic environment. However, the company’s underwriting margins remain thin. The management, while identifying new growth avenues, is rationalizing its cost structure to improve core performance. The rating incorporates the company’s strong risk absorption capacity emanating from robust financial profile and ample liquidity. The company’s sizeable and high quality investment portfolio continues to supplement its financial strength and profitability. Meanwhile, synergic benefits arising from the company’s association with Nishat Group remains a key consideration.
- The management’s ability to maintain its market share, while translating GPW growth into underwriting profitability, remains critical for the rating. Moreover, strengthening systems and controls in conjunction with growth is important. Substantial increase in the company’s loss ratio and/or major impairment in investment portfolio could have negative rating implications.

ASSESSMENT

- Pakistan’s insurance sector experienced accelerated growth and robust profitability in recent years in unison with benign economic environment. Although insurance penetration in the country remains low, the sector now faces major challenges arising from economic slowdown, security concerns, widening fiscal and trade imbalances, and stressed global reinsurance market. These factors coupled with subdued performance of various industrial sectors and slow pace of recovery are likely to continue impacting growth prospects of the insurance sector. The overall profitability of the sector could be further stressed on the back of devastating recent floods in the country and volatile performance of stock exchange.
- AICL, the leading non-life insurance company has around 28% (end-Sep10) of market share on the basis of Gross Premium Written (GPW). In terms of business mix, AICL has a balanced portfolio. Fire (Sep-10: 37%) and Motor (Sep10: 34%) are major contributors, though recently, share from Miscellaneous segment (Sep10: 19%) has increased. The increase in Miscellaneous section will remain critical to the company as it has highest loss ratio in the overall portfolio of the company. GPW of the company grew by 14% in 9MCY10 compared to the corresponding period last year. The cession levels in the fire and Miscellaneous are high indicating the cautious approach by the management. Loss ratio mounted on account of increase in Fire and Property damage, and Crop business due to recent floods in the country, resulting in rise in combined ratio (9MCY10: 103.9%, CY09: 100.5%). The investment income of the company declined by 85% as compared to same period last year, owing to revaluation deficit and high base effect. Nevertheless, this income enabled AICL to report net income for 9MCY10, as reflected in the company’s operating ratio of 95% at end-Sep10.
- Going forward, the company intends to focus on power, infrastructure, fertilizer, and engineering sectors. Moreover, AICL will follow cautious approach for the underwriting business regarding financial institutions and certain units in cement and textile sector. Subdued economic conditions in the country are expected to constrain the pace of growth. Therefore, in addition to concentrating on domestic segment, AICL is looking forward to augment its growth through international diversification (Current Contribution in GPW;at Sep10: 15.5%).
- AICL has sizable investment portfolio constituting 46% of its total asset base at Sep-10. The portfolio is mainly dominated by investment in equities (59%) followed by Bank Deposits and TDRs (20%), mutual funds units (12%). The significant concentration in equity investments has exposed the company to market risk. However, investment in group companies constitutes 66% of equity investments, which, though not readily available for liquidation can be monetize in times of crises or for higher returns.
- The company has shifted from GIS to Premia, a real time software which is developed by 3i-infotech a leading software Indian company. In this regard 80% of the implementation work has been done. From policy issuance to claims processing and disbursement, the system integrates the various operational roles into one application. To facilitate users, flexible reporting tools have also been provided.
- AICL has secured reinsurance arrangements with international reinsurers of sound repute at good rates, including Swiss Re (Rated ‘A+’ by S&P), Hannover Re (Rated ‘AA-’ by S&P), Malaysian Re (Rated ‘A-’ by AM BEST) and Best Re (Rated ‘BBB+’ by S&P). The cession levels in the fire and Miscellaneous are high indicating the cautious approach by the management.
- The liquidity of the company has improved due to significant increase in investment portfolio. Net premium revenue/equity ratio declined in CY09 and 9MCY10 and remains at moderate level as compared to peers. Although, net claims to equity ratio improved in CY09, it deteriorated during 9MFY10 due to rise in claims expense on account of recent floods.

PROFILE

- AICL, one of the leading insurance companies of Pakistan, is part of Nishat Group since 2004. Incorporated in 1960, the company is listed on all three stock exchanges of the country. AICL operates a network of 42 branches in Pakistan and one branch in UAE (Dubai).
- The eleven-member board of directors has six representative of Nishat Group, while remaining are independent directors. Mr. Ali Zeb, a Chartered Accountant by profession, a long associate of Nishat Group, has been the CEO (Chief Executive Officer) of the company since 2008. He has served at various managerial positions, mostly in finance discipline. Besides the experienced top management, the department heads and their teams comprise well-qualified professionals.