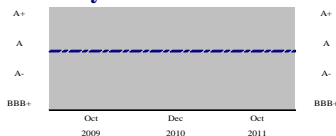


**RATINGS (OCTOBER 2011)**  
**ADAMJEE LIFE ASSURANCE**  
**COMPANY (ALAC)**

	NEW	PREVIOUS
<b>Insurance Financial Strength</b>	A	A

**Long-Term Entity Rating History**



**FINANCIAL DATA (PKR mln)**

	3Q11	2010	2009
Total Assets	794	577	576
Equity	244	339	489
Policy holders' liability	317	100	11
Net Premium Revenue	498	216	24
Underwriting Results	116	(73)	(47)
Loss Ratio (%)	4.8	7.5	15.2
Expense Ratio (%)	72.0	126	278

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**PROFILE**

- Adamjee Life Assurance Company Limited (ALAC), a newly setup life insurance company, started its operations in 2009. The company was formed in 2008 as a result of a partnership between Adamjee Insurance (55%) and Hollard Insurance (45%). Adamjee Insurance is a part of Nishat group - a leading business conglomerate in Pakistan with strong presence in banking, insurance, textiles, and cement sectors. Hollard Group is a leading insurance group of South Africa.
- The company's BoD comprises seven members, including the CEO of the company. There are four directors from Adamjee while three directors are representatives of Hollard. Mr. Fredrik de Beer, the Chief Executive Officer of ALAC, has significant experience of over two decades in various sectors including life insurance business. He is assisted by a team of young professionals educated from local and foreign institutions.

**RATING RATIONALE AND KEY RATING DRIVERS**

- The rating reflects ALAC's association with established business groups - Hollard, offering life insurance experience and support in strategy setting and infrastructure development; and Nishat, providing seasoned knowledge of domestic environment and access to solid banking and general insurance platform to build business volumes. The management of Adamjee Life is gradually building protocol to yield synergic benefits from its parentage. It has started working with Adamjee Insurance Company and MCB Bank for business expansion and has also captured sizable group business. Initial losses due to gestation phase, though gradually receding, have dented the equity base of the company. In this regard, the rating factors in sponsors commitment to support, in case the need arises. Meanwhile, ALAC's commitment to improve organizational structure along with expanding operations to further strengthen risk management and control environment is vital.
- The management's ability to expand its market share in line with its growth objectives, while translating GPW growth into underwriting profitability, remains critical for the rating. At the same time, retention of key management to ensure consistency in envisaged strategy would be important. Moreover, any major impairment in investment portfolio, thereby fueling erosion in equity in the absence of timely support from sponsors, could have negative rating implications.

**ASSESSMENT**

- Over the decades, life insurance sector of Pakistan has experienced slow growth mainly due to nationalization of insurance sector in 1972. The government allowed private entrants in the industry in 1990. However, with two-thirds of the population living in non-urban areas coupled with low literacy rate, the insurance sector faces various hurdles in its growth. With growing awareness among masses supported by diversified distribution channel, the industry offers exponential growth prospects.
- The company, by using various means of marketing interalia, online and print media, aims to build awareness of its services among target customers. The majority of the population of Pakistan belongs to the lower and middle class and is price sensitive. Hence, the company would focus on low ticket size insurance products, matching the requirements of urban and rural population considering the relatively low per capita income levels in the country. ALAC through the use of group distribution channels (mainly Adamjee Insurance & MCB Bank) intends to have a good representation in the urban areas. Taking a further innovative step, the company in collaboration with ZONG, a sizeable mobile Telco, has launched ZONG insurance, first accidental insurance via mobile.
- During 2010, the company witnessed significant increase in GPW. The major increase was due to launch of non-unitized investment link business through bancassurance channel. The company's underwriting performance improved (Combined ratio 2010: 134%, 2009: 293%) due to decline in loss ratio (2010: 8%, 2009: 15%) and rationalization of expense ratio on account of significant increase in GPW. This growth trend continued during 3QCY11 and the company more than doubled its revenue and managed to achieve underwriting profits. The management, with improved knowledge curve of multiple distribution channels, integration into group, and expanding product state is expected to achieve its targeted growth in revenues.
- Going forward, the company while focusing on existing products has formulated an aggressive growth strategy by introducing new product. In order to increase its bancassurance business, third party distribution channels will be expanded by having agreements with other financial institutions. The management's ability to establish ALAC amidst a competitive landscape would be a challenging task.
- The senior management team of ALAC comprises qualified and young professionals, gaining experience in life insurance industry gradually. The stability of the key management is critical for smooth functioning of the company's envisaged strategy. Meanwhile, the company needs to bring further segregation in management structure. Although this would remain a function of operational size, any concentration may potentially affect the control environment especially considering the fact that ALAC is in growth phase.
- The company, with the help of AICL and Hollard, has designed and implemented various policies and manuals. Initially information system and marketing resources were shared with AICL. Since, ALAC is in life insurance having different business dynamics when compared to AICL, it developed its own IT infrastructure and real-time MIS function to support the decision making process. All the procedures and systems are fully automated to help the company in providing quality services to its customers while bringing efficiency in its overall operations.
- The investment book is dominated by government securities (83%), followed by fixed income mutual funds (16%) and listed equity securities (1%). The government securities, comprising long term bonds, and investment in mutual fund, comprising fixed income funds, are subject to interest rate risk. The company intends to hold the current mix of investment portfolio for long term. Development of a comprehensive investment policy would facilitate decision making and performance monitoring.
- The company has reinsurance arrangement with an established international reinsurance company - Munich Re. The company witnessed decline in cession level (3QCY11: 13%, 2010: 19%, 2009: 54%) owing to introduction of investment product which offers life insurance as a rider.
- ALAC's paid up capital is PKR535mln as against the statutory requirement of PKR500mln. However, due to higher initial setup cost, operating losses have consumed the equity base (3QCY11: PKR 244mln, 2010: PKR 339mln, 2009: PKR 481mln). The company would require equity injection within next year, wherein, the sponsors have stated their intention to support.