



**RATINGS (FEBRUARY 2011)**  
**NEW JUBILEE INSURANCE**  
**COMPANY LIMITED (NJI)**

	New	Previous
<b>Insurer Financial Strength</b>	AA	AA
<b>Outlook</b>	Positive	-

**IFS RATING HISTORY**



**FINANCIAL DATA**

PKR (mln)

	9M10*	2009
Total Assets	7,959	6,420
Equity	2,643	2,621
Underwriting Results	-90	114
Pre-tax Profit	261	772
Combined ratio (%)	105.6	95.9
Operating ratio (%)	85.6	75.9
Adjusted liquid assets/ net claims expense (times)	^2.3	2.4
Net Claims expense/ Financial Base (%)	^43.0	41.3

\* unaudited, ^ annualized

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**RATING RATIONALE AND KEY RATING DRIVERS**

- The rating reflects NJI's robust risk management framework facilitating the company in sustaining sound underwriting practices despite volatile socio-economic fundamentals. The rating recognizes the management's persistent efforts of penetrating relatively untapped segments through innovative products, also reflected in its relatively more diverse premium mix compared to peers. Moreover, the rating takes into account NJI's sound equity base and sufficient liquidity engendering strong risk absorption capacity. The ability of key sponsor of the company, AKDN group, to foster synergies amongst its financial institutions operating in Pakistan – HBL, NJI, and NJI Life – is also a key rating factor.
- Any material deterioration in the company's equity and/or significant decline in its underwriting business could have negative implications for the rating. Meanwhile, sustainable improvement in NJI's competitive positioning amongst the related universe of peers would have positive implications on its rating.

**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.
- NJI continued generating its underwriting business through diversified sources. Although its portfolio was dominated by miscellaneous segment during 9M10, the overall business remained balanced with less reliance on motor segment as against close peers.
- NJI, after achieving significant upturn in GPW (14%) during 2009, experienced slowdown in GPW growth (7%) on a YoY basis during 9M10. During 1H10, NJI's underwriting performance was largely maintained with positive underwriting results. However, catastrophic floods during 3Q10, causing massive losses to the insurance industry, also affected NJI. Resultantly, loss ratio climbed to 96% during 3Q10, thereby bringing the overall loss ratio for 9M10 to 72%. Consequently, the company posted underwriting loss for 9M10. The investment income slightly decreased YoY, yet contributed to absorb underwriting losses and led to profitability for 9M10.
- NJI operates decentralized risk management system, having defined authority limits specified to the respective branches. The Risk Management Department at Head Office, with clearly demarcated reporting lines, closely monitors the branch operations and issues guidelines from time to time. NJI's risk management system is supported by a well-equipped IT infrastructure.
- Going forward, NJI intends to fortify its market presence in all segments while pursuing higher growth in miscellaneous and health portfolios. In the miscellaneous segment, the primary focus of expansion would be liability insurance, which over the recent years has experienced sizable growth. The Health segment is likely to witness major upturn through NJI's collaboration with its associate, NJI Life. All modalities related to the collaboration is expected to be completed in 1H11. This arrangement is expected to bring economies of scale to the group, in addition to expanding the product basket.
- NJI continues to maintain re-insurance treaties with international reinsurers mostly having rating of 'A' category and above. Meanwhile, the company has favorable terms and conditions with reinsurers especially in crop and catastrophic insurance covers.
- NJI has a significant investment portfolio, constituting ~54% of its total assets at end-Sep10. The company has shifted towards conservative investment portfolio, and has substantially reduced equity investments (at end-Sep10: 16%), within last two years. The investment in money market and income based mutual funds was substantially enhanced, thus dominating the investment book with 57% (2009: 27%) share, followed by bank deposits (13%), and Government securities (9%), mainly signifying strong fundamentals. The portfolio also includes investment properties, which are recorded at cost though these carry a significant revaluation surplus.
- NJI's solvency has largely remained stable during 9M10, despite higher loss ratio. Nevertheless, NJI's solvency is relatively stretched amongst its peers. The company's strong liquidity remains a function of its sizeable investment book.

**PROFILE**

- NJI, incorporated in 1953, is the third largest general insurance company in Pakistan with a market share of ~12.5% at end-Sep10. It is listed on Karachi and Lahore stock exchanges of Pakistan. Significant shareholders of NJI include Aga Khan Development Network (50%) including Habib Bank Limited, and Hashoo Group (16%). NJI enjoys an established franchise and network. In addition to traditional insurance segments, NJI has significant presence in engineering, health, and personal line insurance.
- NJI's board of directors comprises eight members. The Chairman of the board, Mr. Towfiq H. Chinoy, is an industrialist by profession and is on the board of many other companies. The company's MD, Mr. Tahir Ahmed, a graduate engineer, MBA, and a Chartered Insurer, possesses extensive experience in the field of insurance. He has been associated with NJI since August 2004.