



The Pakistan Credit Rating Agency Limited

ADAMJEE LIFE ASSURANCE COMPANY LIMITED (ALAC)

IFS RATING REPORT

	NEW [NOV-17]	PREVIOUS [APR-17]
Insurer Financial Strength (IFS) Rating	A+	A+
Outlook	Stable	Stable

Profile & Ownership

- Adamjee Life Assurance Company, a subsidiary of Adamjee Insurance (74%), started operations in 2009
- Adamjee Insurance is the second largest non-life insurance company in the country, rated 'AA+' by PACRA
- The other major shareholder is IVM Intersurer B.V. (26%), a company of Hollard (a leading Insurance Group of South Africa)

Governance & Management

- A seven member board; chaired by Mr. S.M Jawed
- Adamjee Insurance is having majority representation on the board while three representatives are of Hollard/ IVM
- The majority of BoD has extensive experience in the insurance industry which augurs well for the overall governance and strategy formulation
- Chief Executive Officer, Mr. Mian Umer Mansha, has been serving on the Board of Directors of various listed companies for more than 17 years.
- Mr. De Beer, acting as Executive Director, having experience of over three decades in various sectors including life and general insurance business

Business Risk

- Growth in premium 1H17 (22%) & 9M17 (17%); outpacing industry's growth
- Sustained market share 9M17 (8%) while adding ~1% market share each year since inception
- Premium mix dominated with unit-linked business (84%), followed by non-unitized (3%), Group funds (~4%) and Family Takaful (8%) at 9M 17
- Second year persistency improved to 85% in 1H17 and 78% in 9M17
- Investment income has observed decline of 30% at 1H17 and 89% dip in 9M17.
- Operating ratio increased to 100% (9M16: 96%, 1H16: 99%)

Business Strategy

- Sizeable growth targeted, to be driven by bancassurance; herin, in addition to parent bank-MCB, Faysal Bank, Dubai Islamic Bank and Waseela Microfinance.
- Operating ratio surged to 100% (CY16: 96%)
- Plans Initial Public Offering till end 2018
- Expansion in branch network on the back of agency model
- Eying growth in window Takaful operations

Financial Risk

- Adamjee Life has paid back major portion of capital contribution at end-Dec'16 which has boosted up equity of the company PKR 422 mln at end Dec 16 which further boosted to PKR 477 mln at end June 17 & PKR 489mln at end Sep 17.
- Investment book is deployed amongst government securities which is shrinking with time 21% (9M16: 62%), to Bank deposits 37% (9M16: 14%) & equities 42% (9M16: 22%).
- Investment yield of both statutory funds (-1%) and shareholders' funds (-5%) dropped its performance
- liquidity ratio remained constant at 1x, providing good risk absorption capacity

RATING RATIONALE

The rating reflects Adamjee Life's strengthening market position. This has been possible through a relatively aggressive volume growth that mainly relied on bancassurance. Herein, synergies with group bank (MCB) benefited the most. It has achieved better persistency in subsequent years renewal. The company achieved break-even and thereafter sustained surplus in CY16 but showed deficit in 9MCY17. The company's statutory funds are now self-subsistence; accumulated deficit of statutory fund is down significantly. Consequently, Adamjee Life has improved equity base. Start of window takaful operations has boded well for the company, adding significant volumes. Lately, the management has expanded its branch network and also has built a sales force around agency model as well to add to its growth momentum. Meanwhile, comfort is drawn from Adamjee Life's strong risk absorption capacity, represented by sufficient liquidity and overall quality of its investment portfolio.

KEY RATING DRIVERS

The continued self-subsistence of statutory funds, ability to improve its market position and strengthening of core profitability are integral for the rating. Moreover, prudent management of risk in wake of increasing business volumes and agency model remain important.

INDUSTRY SNAPSHOT

Life insurance sector has seen remarkable growth in recent years (CAGR 5years: 21%), wherein the private sector has seen relatively high growth. Private sector brought innovative life solution, mainly bancassurance – a sum of both saving plans and nominal life cover. Investment portfolios of life insurers are skewed towards government securities (primarily PIBs). Although Interest rate cuts brought revaluation gains, investment would be at lower returns.



LIFE INSURANCE Financials [Summary]

Adamjee Life Assurance Company Limited (ALAC)

BALANCE SHEET	30-Sep-17	30-Jun-17	31-Dec-16
Investments			
Liquid Investments	25,588	25,183	21,774
Investment in Associates	-	-	-
Other Investments	723	36	29
	<u>26,311</u>	<u>25,219</u>	<u>21,803</u>
Insurance Related Assets	196	198	248
Other Assets	591	1,293	1,544
TOTAL ASSETS	<u>27,098</u>	<u>26,709</u>	<u>23,595</u>
Equity	489	477	423
Statutory Fund	25,243	24,531	22,166
Insurance Related Liabilities	537	557	637
Other Liabilities	829	1,143	369
TOTAL EQUITY & LIABILITIES	<u>27,098</u>	<u>26,709</u>	<u>23,595</u>
INCOME STATEMENT	30-Sep-17	30-Jun-17	31-Dec-16
Net Premium			
Gross Premium	8,703	5,651	11,302
Reinsurance Expense	(365)	(169)	(388)
Net Premium	<u>8,338</u>	<u>5,482</u>	<u>10,913</u>
Net Claims	(3,159)	(2,331)	(3,152)
Expenses	(1,906)	(1,210)	(2,239)
Investment Income	(125)	481	2,268
Excess of Income over Expenditure (EoI)	<u>3,147</u>	<u>2,423</u>	<u>7,791</u>
Miscellaneous (Expense)/ Income	-	-	-
Reserve for Policyholders' Liabilities	3,184	2,406	7,395
SURPLUS BEFORE APPROPRIATIONS	<u>(36)</u>	<u>16</u>	<u>396</u>
RATIO ANALYSIS	30-Sep-17	30-Jun-17	31-Dec-16
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	17%	22%	24%
Premium Mix (Individual GPW/ Total GPW)	95%	97%	96%
Persistency Ratio (Individuals Funds)	78%	85%	80%
Loss Ratio (Net Claims as %age of net premium)	38%	43%	29%
Operating Ratio	100%	100%	96%
Performance			
Return on Equity - Shareholder	-0.9%	-0.4%	0.3%

**RATING SYMBOLS & DEFINITIONS:****INSURER FINANCIAL STRENGTH (IFS)
RATING SCALE & DEFINITIONS**

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

RATING SCALE	DEFINITION
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small
A+ A A-	Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ BBB BBB-	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ B B-	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC CC C	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
D	Distressed Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

Outlook (Stable, Positive, Negative, Developing)

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

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**Name of Issuer**
Sector
Type of RelationshipAdamjee Life Assurance Company Limited
Life Insurance
Solicited**Purpose of the Rating**

Independent Risk Assessment

Rating History

Date	Rating	Outlook	Action
4-Dec-17	A+	Stabel	Maintain
12-Apr-17	A+	Stabel	Upgrade
12-Apr-16	A	Positive	Maintain
22-Apr-15	A	Positive	Maintain
12-May-14	A	Stable	Maintain
3-May-13	A	Stable	Maintain
11-Nov-11	A	Stable	Maintain

Related Criteria and ResearchRating Methodology
Sector ResearchInsurer Financial Strength Rating
Insurance | Life - Viewpoint | April-17**Rating Analysts**

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[Rating Team Statement](#)**Rating Procedure**

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)**Rating Shopping**

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

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[Probability of Default \(PD\)](#)

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