



The Pakistan Credit Rating Agency Limited

Rating Report

Adamjee Life Assurance Company Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Jun-2018	A+	-	Stable	Maintain	-
04-Dec-2017	A+	-	Stable	Maintain	-
12-Apr-2017	A+	-	Stable	Upgrade	-
12-Apr-2016	A	-	Positive	Maintain	-
22-Apr-2015	A	-	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

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 CY17, due to rise in claims and loss on investment. 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.

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.

Disclosure

Name of Rated Entity	Adamjee Life Assurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Insurer Financial Strength (IFS) Rating Life(Jun-17)
Related Research	Sector Study Life Insurance(Jun-18)
Rating Analysts	Farheen Farooq farheen.farooq@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

ADAMJEE LIFE ASSURANCE COMPANY

Incorporated	2008
Major Business	Life Insurance
Legal Status	Public Unlisted
Head Office	Karachi

INDUSTRY SNAPSHOT

Life insurance sector has seen remarkable growth in recent years (CAGR 4years: 18%), 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 increase brought revaluation losses.

OWNERSHIP

- Adamjee Life is a subsidiary of Adamjee Insurance Company Limited (AICL) and an associate of IVM Intersurer B.V both of which have a stake of 74% and 26% respectively.

GOVERNANCE

- The company's BoD comprises seven members, including the CEO - Mr. Umer Mansha AICL has majority representation on the board. Mr. Nashir Omer, representative of Hollard Brokers Market of South Africa have joined board on Feb 3, 2016. The majority of BoD has extensive experience in the insurance industry which augurs well for the overall governance and strategy formulation of the Company.
- The board has three committees namely; 1) Investment committee, 2) Audit committee, and 3) Human Resource committee.

MANAGEMENT

- Mr. Umer Mansha is the Chief Executive Officer of Adamjee Life Assurance Co. Ltd. He is also CEO & Executive Director at Nishat Mills Ltd. and a CEO& Director at Nishat Dairy (Pvt) Ltd. He is on the Board of Directors at Nishat Mills Ltd., MCB Bank Ltd., Nishat Dairy (Pvt) Ltd., Adamjee Life Assurance Co. Ltd., Hyundai Nishat Motor (Pvt) Ltd., Nishat (Aziz Avenue) Hotels & Properties Ltd., Nishat (Gulberg) Hotels & Properties Ltd., Nishat (Raiwind) Hotels & Properties Ltd., Nishat Agriculture Farming (Pvt) Ltd., Nishat Developers (Pvt) Ltd., Nishat Farm Supplies (Pvt) Ltd., Nishat Hotels & Properties Ltd. and Pakistan Business Council. Mr. Mansha also served on the board at MCB Bank Ltd. and MCB Asset Management Co. Ltd.
- The senior management team of Adamjee Life comprises qualified professionals, having experience of life insurance industry.
- There are three management committees' viz. Executive investment committee (EIC), Under-writing committee (UC) and claims committee (CC).

BUSINESS RISK

- Growth in premium witnessed in CY17 (22%) & CY16 (24%); outpacing industry's growth.
- Market share decrease in CY17 (~7%) while adding ~1% market share each year since inception.
- Adamjee Life continued to procure predominant business through bancassurance arrangements with its group bank – MCB and Window Takaful during CY17.
- The premium mix, for CY17, remained dominated with unit-linked business (85%), followed by Family Takaful (8%), Group funds (~4%) and non-unitized (3%).
- During CY17 alone, Adamjee Life's GPW (PKR 13,781mln) showed massive growth of 22%. Herein, growth has been seen in all funds including individual's renewable premium, single premium and group premium.
- Second year persistency decreased (77%) in CY17. It was 80% in CY16.
- The investment income decreased by 117% (CY17: PKR -392mln, CY16: PKR 2,268mln); loss predominantly from deficit on revaluation. Operating ratio increased to 102% (CY16: 96%).

FINANCIAL RISK

- The company has three main reinsurance arrangements with Munich Reinsurance Company covering all conventional business written under both individual and group contracts under which business is ceded up to agreed limits and one secondary reinsurance arrangement with Hollard Group Risk International under group life contracts under which business is ceded up to agreed limits.
- Adamjee Life has paid up capital of PKR935 at end-Dec'17 and equity of PKR 512mln (Dec16: PKR 423mln).
- Adamjee Life's statutory fund's investment book is distributed amongst government securities (14%), bank deposits (38%), cash and other equivalents (5%), listed equity securities and units of mutual funds (38%) and other fixed income securities (4%).
- The investment yield of both statutory funds (-2%) and shareholders' funds (4%), dropped its performance mainly due to deficit on revaluation of investments.
- Liquidity ratio remained constant at 1x, providing good risk absorption capacity.



LIFE INSURANCE Financials [Summary]

Adamjee Life Assurance Company Limited (ALAC)

BALANCE SHEET	31-Dec-17	31-Dec-16	31-Dec-15
Investments			
Liquid Investments	27,632	21,774	15,088
Investment in Associates		-	-
Other Investments	677	29	14
	28,309	21,803	15,101
Insurance Related Assets	163	248	347
Other Assets	1,066	1,544	210
TOTAL ASSETS	29,538	23,595	15,659
Equity	512	423	351
Statutory Fund	27,666	22,166	14,445
Insurance Related Liabilities	792	637	471
Other Liabilities	569	369	392
TOTAL EQUITY & LIABILITIES	29,538	23,595	15,659
INCOME STATEMENT	31-Dec-17	31-Dec-16	31-Dec-15
Net Premium			
Gross Premium	13,781	11,302	9,151
Reinsurance Expense	(472)	(388)	(313)
Net Premium	13,309	10,913	8,838
Net Claims	(4,394)	(3,152)	(1,778)
Expenses	(2,913)	(2,239)	(2,054)
Investment Income	(392)	2,268	1,170
Excess of Income over Expenditure (EoI)	5,610	7,791	6,175
Miscellaneous (Expense)/ Income	-	-	-
Reserve for Policyholders' Liabilities	5,845	7,395	5,869
SURPLUS BEFORE APPROPRIATIONS	(235)	396	305
RATIO ANALYSIS	31-Dec-17	31-Dec-16	31-Dec-15
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	22%	24%	75%
Premium Mix (Individual GPW/ Total GPW)	98%	96%	96%
Persistency Ratio (Individuals Funds)	77%	80%	74%
Loss Ratio (Net Claims as %age of net premium)	33%	29%	20%
Operating Ratio	102%	96%	97%
Performance			
Return on Equity - Shareholder	-4.6%	0.3%	0.2%



INSURER FINANCIAL STRENGTH (IFS) RATING 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.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>
---	---	---	--

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent