



The Pakistan Credit Rating Agency Limited

## Rating Report

### Adamjee Life Assurance Company Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2018	A+	-	Stable	Maintain	-
21-Jun-2018	A+	-	Stable	Maintain	-
04-Dec-2017	A+	-	Stable	Maintain	-
12-Apr-2017	A+	-	Stable	Upgrade	-
12-Apr-2016	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. However, company is showing positive results in CY18. The company's statutory funds are now self-subsistent. 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

<b>Name of Rated Entity</b>	Adamjee Life Assurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   Life Insurance(Jun-18)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-18)
<b>Rating Analysts</b>	Zeeshan Munir   zeeshan.munir@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Adamjee Life Assurance Company Limited (Adamjee Life) is a public unlisted company.

**Background** Adamjee Life was incorporated in Pakistan on 4 August 2008 and started its operations from 24 April 2009.

**Operations** Adamjee Life is currently offering a number of life insurance schemes including Group Life, Credit Life, Saving / Investment, and Health Covers. With adoption of agency model, the company has expanded its branch network to total 14 branches; two branches in Karachi, two in Hyderabad, two in Lahore, two in Multan and each in Islamabad, Sialkot, Faisalabad, Gujranwala, Sargodha and Sukkur.

## Ownership

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

**Stability** There has been no change in the ownership structure recently.

**Business Acumen** Adamjee Insurance has a unique advantage of having regional presence in United Arab Emirates (UAE) and maintains its standing through an unwavering commitment to its corporate philosophy. The two partners (Adamjee Insurance and IVM Intersurer) have an agreement in place with defined terms and conditions for each party.

**Financial Strength** Adamjee Insurance, one of the leading general insurance companies of Pakistan, is part of Nishat Group since 2004. Adamjee Insurance enjoys a competitive edge in the insurance industry due to its strong asset base, sound capitalization, huge reserves, balanced portfolio mix, and large market share. Adamjee Insurance is rated "AA+" by PACRA. Gross premium of the company amounted to PKR 15bln for 9MCY18 with market share of ~22%.

## Governance

**Board Structure** The company's BoD comprises seven members, including the CEO – Mr. Umer Mansha.

**Members' Profile** AICL has majority representation (four members) on the board. Board has two members from IVM Intersurer and one member from Hollard Brokers Market South Africa. During the current year, Mr. Raza Mansha resigned from the board and was replaced by Mr. Imran Maqbool, president MCB Bank. All BoD members have extensive experience in the insurance industry which augurs well for the overall governance and strategy formulation of the company.

**Board Effectiveness** The board has three committees namely Investment committee; Audit risk and compliance committee and Ethics, HR & Nominations committee.

**Financial Transparency** Auditors of the company, KPMG Taseer Hadi & Co., Chartered Accountants, expressed an unqualified opinion in their audit report for the year ended December 31, 2017 and review report for the half year ended June 30, 2018.

## Management

**Organizational Structure** The company has a reasonably defined organizational structure. Adamjee Life follows a lean organizational structure, with clearly demarcated reporting lines. Different type of activities are adequately segregated and managed through various divisions. The operations are divided into Business Distribution; Finance; Actuarial & Risk Management; Corporate Business; Sales & Marketing; Information Systems; Policy Holder Services; U/W and Re-insurance; Takaful and HR & Administrative.

**Management Team** Mr. Umer Mansha is a Chief Executive Officer at Adamjee Life. He is CEO & Executive Director at Nishat Mills Ltd. and a CEO & Director at Nishat Dairy (Pvt) Ltd. and multiple other companies including Pakistan Business Council. Each department is headed is by a seasoned professional and they report to the CEO.

**Effectiveness** The senior management team of Adamjee Life comprises qualified professionals, having experience of life insurance industry. The key management is associated with the company for past 8 years. There are three management committees viz. Executive investment committee (EIC), Underwriting committee (UC) and claims committee (CC)

**Claim Management System** The claims manual identifies the requirements for claims under different policies. The items required have been clearly outlined and in case of irregularities, alternate requirements and powers of individuals have been stated. The manual covers all eventualities and processes to be followed to tackle them.

**Investment Management Function** The company maintains a comprehensive, well-documented IPS, documenting clearly defined rules of investment making, trading, and selection of broker. The IPS is formulated by the Board Investment Committee (BIC), comprising CEO, CFO, and appointed member of the board, who acts as chairman of BIC. The BIC is also responsible for constituting executive investment committee (EIC).

**Risk Management Framework** The risk management manual has been developed under assistance from the company's reinsurer – Munich Re. The manual covers the risk management framework for the company which includes the environment, processes, and structures directed towards effective management of potential opportunities and adverse effects.

## Business Risk

**Industry Dynamics** Life insurance sector has seen stupendous growth in recent years (CAGR 4 years: 16%). Major growth is led by the public sector, which grew by 19%; while growth in private sector was 12%. With the advent of takaful window, another avenue has emerged which may benefit the sector in future.

**Relative Position** Adamjee Life is classified as a large-sized company with a market share of 7%.

**Persistency** Second year persistency showed an increase of 3% improving to 81% in 9M18 (9M17: 78%). Subsequent year persistency stayed stable at 85% in 9M18, similar to that of the corresponding period last year.

**Revenue** Gross Premium (9M18: PKR 9,337 mln 9M17: PKR 8,703 mln) showed an increase of 7% on YoY basis. First year and second year premium growth increased by 16% and 27% respectively. Single premium revenue stayed consistent at 42% in 9M18 and 9M17.

**Profitability** Profitability of the company showed a marked improvement by recording a profit of PKR 47 mln in 9M18 after recording losses of PKR 235 mln and PKR 36 mln in CY17 and 9M17. Underwriting profits fell by 20% (9M18: PKR 2,607 mln and 9M17: PKR 3,272 mln) mainly due to increased net claim expense which rose by 34% (9M18: PKR 4,242 mln and 9M17: PKR 3,159 mln).

**Investment Performance** Net investment income of the company showed a remarkable increase from a loss of PKR 125 mln in 9M17 to a profit of PKR 1,266 mln in 9M18. Return on deposits increased from PKR 257 mln in 9M17 to PKR 543 mln in 9M18.

**Sustainability** Going forward the company envisages enhancing its bancassurance business. While its group bank (MCB) would continue to remain forte of banca business, the company is expanding through Faysal Bank, Dubai Islamic Bank, Askari Bank, Silk Bank and Mobilink as well. The company envisages expansion in branch network on the back of agency model. As the company targets to achieve significant GPW growth in future, focus on stabilizing and diversifying revenue streams while enhancing persistency would remain important. Moreover, Adamjee Life plans to expand through newly introduced window Takaful operations.

## Financial Risk

**Claim Efficiency** Claim outstanding days of the company showed a significant improvement, decreasing from 37 days in 9M17 to 24 days in 9M18 reflecting an efficient claim handling and settlement procedure. The increased net claim expense also resulted in a lowering of claim outstanding days.

**Re-Insurance** The company's primary reinsurer is 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.

**Liquidity** At end-Sep 18, the accumulated capital contribution to statutory funds stands at PKR 475 mln. The liquidity ratio remained constant at 1x, providing good risk absorption capacity.

**Capital Adequacy** The company has a paid up capital of PKR 935 mln. At 9M18, the shareholders equity of the company is PKR 515 mln (9M17: PKR 489 mln).



**LIFE INSURANCE**  
**Financials [Summary]**

**Adamjee Life Assurance Company Limited (ALAC)**

<b>BALANCE SHEET</b>	<b>30-Sep-18</b>	<b>31-Dec-17</b>	<b>30-Sep-17</b>
<b>Investments</b>			
Liquid Investments	31,640	27,632	25,588
Investment in Associates	-	-	-
Other Investments	884	677	723
	<b>32,524</b>	<b>28,309</b>	<b>26,311</b>
Insurance Related Assets	170	163	196
Other Assets	759	1,066	591
<b>TOTAL ASSETS</b>	<b>33,452</b>	<b>29,538</b>	<b>27,098</b>
<b>Equity &amp; Liabilities</b>			
Equity	515	512	489
Statutory Fund	31,540	27,666	25,243
Insurance Related Liabilities	591	792	537
Other Liabilities	806	569	829
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>33,452</b>	<b>29,538</b>	<b>27,098</b>
<b>INCOME STATEMENT</b>	<b>30-Sep-18</b>	<b>31-Dec-17</b>	<b>30-Sep-17</b>
<b>Net Premium</b>			
Gross Premium	9,337	13,781	8,703
Reinsurance Expense	(421)	(472)	(365)
Net Premium	<b>8,916</b>	<b>13,309</b>	<b>8,338</b>
Net Claims	(4,242)	(4,394)	(3,159)
Expenses	(2,067)	(2,913)	(1,906)
Investment Income	1,266	(392)	(125)
Excess of Income over Expenditure (EoI)	<b>3,872</b>	<b>5,610</b>	<b>3,147</b>
Miscellaneous (Expense)/ Income	-	-	-
Reserve for Policyholders' Liabilities	3,725	5,845	3,184
<b>SURPLUS BEFORE APPROPRIATIONS</b>	<b>147</b>	<b>(235)</b>	<b>(36)</b>
<b>RATIO ANALYSIS</b>	<b>30-Sep-18</b>	<b>31-Dec-17</b>	<b>30-Sep-17</b>
<b>Underwriting Results</b>			
Gross Premium Written (GPW) Growth Rate	7%	22%	17%
Premium Mix (Individual GPW/ Total GPW)	97%	98%	95%
Persistency Ratio (Individuals Funds)	81%	77%	78%
Loss Ratio (Net Claims as % age of net premium)	48%	33%	38%
Operating Ratio	98%	102%	100%
<b>Performance</b>			
Return on Equity - Shareholder	-2%	-5%	-1%
<b>Liquidity</b>			
Claims outstanding days	24	27	37



## 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
<b>AAA</b>	<b>Exceptionally Strong.</b> 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.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> 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
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> 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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> 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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> 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> <b>B</b> <b>B-</b>	<b>Weak.</b> 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.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> 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.
<b>D</b>	<b>Distressed</b> 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><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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>
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**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

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- (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)
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- (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)
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- (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)
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- (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)

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