



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
25-Jun-2019	A+	-	Stable	Maintain	-
27-Dec-2018	A+	-	Stable	Maintain	-
21-Jun-2018	A+	-	Stable	Maintain	-
04-Dec-2017	A+	-	Stable	Maintain	-
12-Apr-2017	A+	-	Stable	Upgrade	-

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 registered a deficit in CY17 but achieved higher than break-even 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, Adamjee General Insurance has taken over 100% stakes in the company. 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 Life Insurance(Jun-18)
Related Research	Sector Study Life Insurance(Jun-19)
Rating Analysts	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 in Punjab, Sindh and ICT.

Ownership

Ownership Structure Adamjee Life is a subsidiary of Adamjee Insurance Limited (Adamjee Insurance) and was an associate of IVM Intersurer B.V, both of which had a stake of 74% and 26% respectively at Dec-18. However, Adamjee Insurance bought the remaining 26% stakes from IVM to make it a wholly owned subsidiary.

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

Business Acumen The sponsor of the company, Adamjee Insurance, demonstrated support and commitment towards the company in CY12 and CY13 by injecting fresh capital of PKR 400mln to absorb startup losses. Recently, Adamjee Insurance took over the remaining stakes and IMV has taken an exit from Pakistan operations.

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 21bln for CY18 with market share of ~23%.

Governance

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

Members' Profile 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.

Board Effectiveness The board has three committees namely; 1) Investment committee, 2) Audit risk and compliance committee, and 3) Human Resource committee.

Financial Transparency Auditors of the company, KPMG Taseer Hadi & Co., Chartered Accountants, expressed a qualified opinion in their audit report for the year ended December 31, 2018 on account of Sales Tax exemption which was not extended beyond 30-June-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 1) Finance 2) Actuarial & Operations 3) Sales & Marketing 4) Information Systems, and 5) HR and Administrative.

Management Team Mr. Umer Mansha is a Chief Executive Officer at Adamjee Life Assurance Co. Ltd. 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 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). Executive investment committee is responsible to take investment, divestment and reinvestment decisions in accordance with the IPS.

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. It contains guidelines for handling the general reinsurance treaties, as well as policies and procedures to handle the facultative reinsurance, reinsurance allocation and validation, in addition to reinsurance management and control.

Business Risk

Industry Dynamics Life insurance sector has seen stupendous growth in recent years (CAGR 3 years: 13%). Major growth is led by the public sector, which grew by average 15%; while growth in private sector was 11%. 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 mid-sized company with a market share of 6%.

Persistency Second year persistency showed an increase of 1% improving to 78% in CY18 (CY17: 77%). Subsequent year persistency fell by 8% because of a decrease in the subsequent years renewals (CY18: PKR 3.8bln out of PKR 4.9bln – 78% ; CY17: PKR 3.2bln out of PKR 3.8bln – 86%).

Revenue Gross Premium (CY18: PKR 13.2bln CY17: PKR 13.8bln) showed a decrease of 4% on YoY basis. First year and second year premium growth increased by 16% and 17% respectively in case of individual funds whereas Group Funds showed an increase of 2%. Single premium revenues showed a sharp dip of 27% in CY18.

Profitability Profitability of the company showed a marked improvement by recording a profit of PKR 84mln in CY18 after recording losses of PKR 235mln in CY17. Underwriting profits fell by 42% (CY18: PKR 3,459mln and CY17: PKR 6,003mln) mainly due to increased net claim expense which rose by 44% (CY18: PKR 6,316mln and CY17: PKR 4,394mln).

Investment Performance Net investment income of the company showed a remarkable increase of 202% from a loss of PKR 392mln in CY17 to a profit of PKR 398mln in CY18. Return on deposits increased from PKR 463mln in CY17 to PKR 807mln in CY18.

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. Following the takeover by Adamjee Insurance, the company targets to achieve significant GPW growth in future while 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 dip, increasing from 27 days in CY17 to 51 days in CY18 emanating from an increase of 165% in the provision for outstanding claims as compared to an increase of 42% in claims expense. Increase in provision was claims expense was majorly recorded in the Unitized Investment Fund whereby its provision of claims increased by 250% from PKR 234mln in CY17 to PKR 819mln in CY18 and claims expense increased by 50% from PKR 3,829mln in CY17 to PKR 5,729mln in CY18.

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-Dec 18, the accumulated capital contribution to statutory funds stood at PKR 475mln. The liquidity ratio remained constant at 0.9x, providing satisfactory risk absorption capacity.

Capital Adequacy The company has a paid up capital of PKR 935mln. At CY18, the shareholders equity of the company stood at PKR 510mln (CY17: PKR 519mln).



LIFE INSURANCE
Financials [Summary]

Adamjee Life Assurance Company Limited (ALAC)

BALANCE SHEET	31-Dec-18	31-Dec-17	31-Dec-16
Investments			
Liquid Investments	27,647	23,955	21,774
Investment in Associates	4,448	3,677	-
Other Investments	901	677	29
	32,995	28,309	21,803
Insurance Related Assets	281	171	248
Other Assets	899	1,066	1,544
TOTAL ASSETS	34,175	29,546	23,595
Equity	510	519	423
Statutory Fund	31,455	27,666	22,166
Insurance Related Liabilities	1,322	792	637
Other Liabilities	888	569	369
TOTAL EQUITY & LIABILITIES	34,175	29,545	23,595
INCOME STATEMENT	31-Dec-18	31-Dec-17	31-Dec-16
Net Premium			
Gross Premium	13,247	13,781	11,302
Reinsurance Expense	(536)	(472)	(388)
Net Premium	12,711	13,309	10,913
Net Claims	(6,316)	(4,394)	(3,152)
Expenses	(2,937)	(2,913)	(2,239)
Investment Income	398	(392)	2,268
Excess of Income over Expenditure (EoI)	3,858	5,610	7,791
Reserve for Policyholders' Liabilities	3,703	5,845	7,395
SURPLUS BEFORE APPROPRIATIONS	154	(235)	396
RATIO ANALYSIS	31-Dec-18	31-Dec-17	31-Dec-16
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	-4%	22%	24%
Premium Mix (Individual GPW/ Total GPW)	98%	98%	96%
Persistency Ratio (Individuals Funds)	78%	77%	80%
Loss Ratio (Net Claims as %age of net premium)	50%	33%	29%
Operating Ratio	99%	102%	96%
Performance			
Return on Equity - Shareholder	-2%	-8%	0%
Liquidity			
Claims outstanding days	51	27	



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>
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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

Restrictions

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- (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)

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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)
- (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)

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