



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
24-Dec-2019	A+	-	Stable	Maintain	-
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	-
12-Apr-2016	A	-	Positive	Maintain	-
22-Apr-2015	A	-	Positive	Maintain	-
12-May-2014	A	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Adamjee Life under the umbrella of Nishat Group is a mid-sized life insurance company. Synergic benefits with the group bank (MCB) are being unlocked. The business volumes have declined as the company shifts its strategy towards regular premium. Persistency in subsequent years renewal remained fairly stable. The company has registered a surplus in 9MCY19. The company's statutory funds are now self-subsistent. Introduction of window takaful operations has boded well for the company, adding significant volumes. Adamjee General Insurance is in the process of taking over remaining 26% stakes in the company from IVM Intersurer however the deal is pending due to the approval of regulator. 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	PACRA_Methodology_LI_FY19(Jun-19)
Related Research	Sector Study Life Insurance(Jun-19)
Rating Analysts	Harris Ghaffar harris.ghaffar@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. Adamjee General Insurance is in the process of taking over remaining 26% stakes in the company from IVM Intersurer however the deal is pending due to the approval of regulator

Stability There has been no change in the ownership structure recently

Business Acumen Nishat Group is one of the most distinguished business groups in Pakistan. Mian Mohammad Mansha – the brain behind Nishat Group – is the Chairman of MCB Bank.

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 23bln for CY18 and for 9MCY19 it is PKR 8.3bln.

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 is from Adamjee General Insurance. Six out of seven directors from Adamjee General Insurance and one independent director.

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, Deloitte Touche Tohmatsu Limited., Chartered Accountants, expressed an unqualified opinion in their review of June-2019.

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 decreased by 4% to 77% in 9MCY19 (9MCY18: 81%). Subsequent year persistency decrease by 2% because of a decrease in the subsequent years renewals (9MCY19: PKR 3.2bln out of PKR 3.9bln – 82% ;9MCY18: PKR 2.6bln out of PKR 3.1bln – 84%).

Revenue Gross Premium 9MCY19: PKR 8.3bln (9MCY18: PKR 9.3bln) showed a decrease of 11% on YoY basis. First year and second year premium growth increased by 33% and 5% respectively in case of individual funds whereas Group Funds showed a decrease of 1%. Single premium revenues showed a sharp dip of 59% in 9MCY19. In 9MCY19 single premium is the only 15% of the GPW as compared to previous corresponding period it was 39%.

Profitability The company has a loss ratio of 57%. Underwriting profits fell by 69% (9MCY19: PKR 817mln and 9MCY18: PKR 2,607mln) due to decreased in Net premium 9MCY19: PKR7.9bln (9MCY18: PKR 8.9bln) and increased in claim and management expenses.

Investment Performance Net investment income of the company decline by 80% (9MCY19: PKR 260mln, 9MCY18: PKR 1,266mln). Mainly due to unrealized loss in value of equities securities which is (9MCY19: PKR 1,496.203mln ,9MCY18: 605.963mln). Loss in mutual funds is 9MCY19: PKR (444.704mln) last year have a gain (9MCY18: PKR 44.572mln).

Sustainability The company recording a profit of PKR 95 mln in 9MCY19 (9MCY18: PKR 143 mln) declining mainly due to high income tax expense. The company change its focus from Single premium to regular premium for the sustainability of bottom line. In current period regular premium is 64% of the GPW as compared to previous corresponding period it was 61%. The company envisages expansion in branch network on the back of agency model. Moreover, Adamjee Life plans to expand through newly introduced window Takaful operations.

Financial Risk

Claim Efficiency Claim outstanding days of the company increasing from 18 days in 9MCY18 to 39 days in 9MCY19 emanating from an increase of 122% in the provision for outstanding claims. Net Claims expense recorded at PKR 4,490mln in 9MCY19 (9MCY18: 4,242mln)

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 19, the accumulated capital contribution to statutory funds stood at PKR 480mln. The liquidity ratio remained constant at 1.02x, providing satisfactory risk absorption capacity.

Capital Adequacy The company has a paid up capital of PKR 935mln. At 9MCY19, the shareholders equity of the company stood at PKR 495mln (9MCY18: PKR 515mln).



Adamjee Life Assurance Company Limited (ALAC)

BALANCE SHEET	30-Sep-19	31-Dec-18	30-Sep-18	31-Dec-17
Investments				
Liquid Investments	32,695	32,095	31,640	27,632
Investment in Associates				
Other Investments	926	901	895	677
	33,621	32,996	32,535	28,309
Insurance Related Assets	187	281	171	163
Other Assets	1,120	899	746	1,066
TOTAL ASSETS	34,928	34,176	33,452	29,538
Equity	495	510	515	512
Statutory Fund	32,538	31,456	31,542	27,666
Insurance Related Liabilities	1,046	1,322	591	792
Other Liabilities	850	887	806	569
TOTAL EQUITY & LIABILITIES	34,928	34,176	33,452	29,538
REVENUE ACCOUNT	30-Sep-19	31-Dec-18	30-Sep-18	31-Dec-17
Net Premium				
Gross Premium	8,334	13,247	9,337	13,781
Reinsurance Expense	(480)	(536)	(421)	(472)
Net Premium	7,854	12,711	8,916	13,309
Net Claims	(4,490)	(6,316)	(4,242)	(4,394)
Expenses	(2,547)	(2,937)	(2,067)	(2,913)
Investment Income	260	399	1,266	(392)
Excess of Income over Expenditure (EoI)	1,077	3,858	3,873	5,610
Miscellaneous (Expense)/ Income	-	-	-	-
Reserve for Policyholders' Liabilities	915	3,703	3,725	5,845
SURPLUS BEFORE APPROPRIATIONS	162	154	148	(235)
RATIO ANALYSIS	30-Sep-19	31-Dec-18	30-Sep-18	31-Dec-17
Underwriting Results				
Gross Premium Written (GPW) Growth Rate	-11%	-4%	7%	22%
Premium Mix (Individual GPW/ Total GPW)	97%	98%	97%	98%
Persistency Ratio (Individuals Funds)	77%	78%	81%	77%
Loss Ratio (Net Claims as %age of net premium)	57%	50%	48%	33%
Operating Ratio	98%	98%	98%	102%

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.

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+	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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
BB+	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.
BB	
BB-	
B+	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.
B	
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
CC	
C	
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. 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, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</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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