



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
29-Jun-2020	A+	-	Stable	Maintain	-
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	-

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 is increasing. The company has registered a surplus in CY19 whereas the window takaful operations have added significant volumes. Adamjee General Insurance has taken the remaining 26% stakes in the company from IVM Intersurer, the deal was approved by the regulator in early-2020. The management has expanded its branch network and also has built a sales force around agency model in order to recoup business volumes. The company has witnessed heightened increase in regular premium, as a result. Meanwhile, comfort is drawn from Adamjee Life's strong risk absorption capacity, represented by sufficient liquidity and overall quality of its investment portfolio. The company aims to sustain its position in light of the current pandemic.

Prior to COVID-19, the life insurance industry witnessed miniscule growth of 1% YoY as single premium declined due to multiple factors. The current pandemic has further affected the life insurance industry, with the growth expected to plummet. Additional reduction in investment linked policies and heightened claims are expected. Moreover, increase in surrenders is likely as a result of economic stagnation. The large investment book is however likely to cushion any impact. The industry intends to sustain its existing position while aiming to launch innovative products.

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(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 34 branches in Punjab, Sindh and ICT.

Ownership

Ownership Structure Adamjee Life is a solely owned subsidiary of Adamjee Insurance Limited (Adamjee Insurance), the company has recently brought 26% stake from IVM Intersurer.

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.

Governance

Board Structure The company’s BoD comprises seven members, including the CEO – Mr. Umer Mansha. Mr. Meghani is the CFO of the Company has an overall experience of more than twenty-five years in financial management and planning in diverse business sectors

Members’ Profile AICL has majority representation on the board is from Adamjee General Insurance. Five out of seven directors from Adamjee General Insurance and two non-executive directors.

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 December-2020 audited financial statements.

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 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). 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. . 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 Prior to COVID-19, the life insurance industry witnessed miniscule growth of 1% YoY as single premium declined due to multiple factors. The current pandemic has further affected the life insurance industry, with the growth expected to plummet. Additional reduction in investment linked policies and heightened claims are expected. Moreover, increase in surrenders is likely as a result of economic stagnation. The large investment book is however likely to cushion any impact. The industry intends to sustain its existing position while aiming to launch innovative products.

Relative Position Adamjee Life is classified as a mid-sized company with a market share of 6%.

Persistency Second year persistency increased by 1% to 79% in CY19 (CY18: 78%). Subsequent year persistency increase by 8% because of an increase in the subsequent years renewals (CY19: PKR 4.9bln out of PKR 5.7bln – 86%; CY18: PKR 3.8bln out of PKR 5.7bln – 78%).

Revenue Gross Premium CY19: PKR 13bln (CY18: PKR 13.3bln) showed a decrease of 2% on YoY basis. First-year and second-year premium growth increased by 30% and 25% respectively in case of individual funds whereas Group Funds showed a growth of 17%. Single premium revenues showed a sharp dip of 103% in CY19. In CY19 single premium is the only 17% of the GPW as compared to the previous corresponding period it was 36%

Profitability The company recording a profit of PKR 8,826 mln in CY19 (CY18: (PKR 7,998) mln loss) increasing 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 has a loss ratio of 54%. Underwriting profits fell by 45% (CY19: PKR 1914mln and CY18: PKR 3,459mln) due to decreased in Net premium CY19: PKR 12,386mln (CY18: PKR 12,711mln) and increased in claim and management expenses.

Investment Performance Net investment income of the company in CY19: PKR 5,399 mln(CY18: PKR 479mln). Mainly due to return on deposits, return on deposits and recovery equity securities revaluation loss of PKR 1,615mln to a gain of PKR 528 in CY19.

Sustainability 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 51 days in CY18 to 42 days in CY19 emanating from a decrease of 14% in the provision for outstanding claims. Net Claims expense recorded at PKR 6,724mln in CY19 (CY18: 6,316mln)

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 year-end -Dec 19, the accumulated capital contribution to statutory funds stood at PKR 472mln. The liquidity ratio remained constant at 1.0x, providing satisfactory risk absorption capacity.

Capital Adequacy The company has a paid-up capital of PKR 935mln. At CY19, the shareholder's equity of the company stood at PKR 523mln (CY18: PKR 510mln).



Adamjee Life Assurance Company Limited (ALAC)

BALANCE SHEET	31-Dec-19	31-Dec-18	31-Dec-17
Investments			
Liquid Investments	38,339	32,095	27,632
Investment in Associates			
Other Investments	916	901	677
	39,255	32,996	28,309
Insurance Related Assets	283	281	163
Other Assets	1,044	899	1,066
TOTAL ASSETS	40,581	34,176	29,538
Equity	523	510	512
Statutory Fund	36,851	31,456	27,666
Insurance Related Liabilities	1,348	1,322	792
Other Liabilities	1,859	887	569
TOTAL EQUITY & LIABILITIES	40,581	34,176	29,538
INCOME STATEMENT	31-Dec-19	31-Dec-18	31-Dec-17
Net Premium			
Gross Premium	12,969	13,247	13,781
Reinsurance Expense	(583)	(536)	(472)
Net Premium	12,386	12,711	13,309
Net Claims	(6,724)	(6,316)	(4,394)
Expenses	(3,748)	(2,937)	(2,913)
Investment Income	3,485	399	(392)
Excess of Income over Expenditure (Eol)	5,399	3,858	5,610
Miscellaneous (Expense)/ Income	-	-	-
Reserve for Policyholders' Liabilities	5,126	3,703	5,845
SURPLUS BEFORE APPROPRIATIONS	273	154	(235)
RATIO ANALYSIS	31-Dec-19	31-Dec-18	31-Dec-17
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	-2%	-4%	22%
Premium Mix (Individual GPW/ Total GPW)	95%	98%	98%
Persistency Ratio (Individuals Funds)	79%	78%	77%
Loss Ratio (Net Claims as %age of net premium)	54%	50%	33%
Operating Ratio	97%	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.

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. 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, 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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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)

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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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