



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-2021	A+	-	Stable	Maintain	-
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	-

#### 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 specifically in the bancassurance. The surge in business volumes have been observed as company increase its focus towards single premium. The low discount rate is the leading factor behind this. Persistency in "subsequent years renewal" is decreasing due to enhanced volume of single premium in the overall mix. The company has registered a surplus in CY20 whereas the window takaful operations have added significant volumes. 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 second year premium, means higher clientage retention 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. Company is planning for IPO at the end of 2021 to increase their paid-up capital. This would boost the Company's financial profile.

During CY20, the total GPW of the industry grew by 4.6% to PKR 233bln in CY20 as against a decline of 1.2% to PKR 223bln in CY19. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. However, due to present pandemic situation, the demand for Life Insurance products is expected to increase over near term which in-turn is expected to result in new business growth for the industry.

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   LI(Jun-20)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-20)
<b>Rating Analysts</b>	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 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 solutions, and Health Covers. With adoption of agency model, the company has expanded its branch network to total 68 branches in Pakistan.

## Ownership

**Ownership Structure** Adamjee Life is a solely owned subsidiary of Adamjee Insurance Limited (Adamjee Insurance).  
**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-seven 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 9 years approximately. 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** During CY20, the total GPW of the industry is grew by 4.57% (PKR 233bln) and has shown a muted growth of 1.24% in CY19(PKR 223bln). Particularly two factors which are contributed in the industry growth i) Decline in discount rate and remain stable at 7% and ii) Recovery of stock market from under stress performance. The past year has been very challenging due to COVID-19 pandemic which has caused immense stress on most businesses.  
**Relative Position** Adamjee Life is classified as a mid-sized company with a market share of 7.34%.  
**Persistency** First year persistency decreased by 3% to 75% in CY20 (CY19: 79%) due to shift from regular premium to single premium. Subsequent year persistency decreased by 12% because of an decrease in the subsequent years renewals (CY20: PKR 5,271mln out of PKR 7,094mln-74%;CY19: PKR 4,898mln out of PKR 5,681mln – 86%).  
**Revenue** GPW during CY20: PKR 17,101mln (CY19: PKR 12,969mln ) has showed a growth of 32% on YoY basis. Single premium revenues showed a sharp growth of 233% in CY20 PKR 5,331mln(CY19: PKR 1,600mln). In CY20 single premium is 31% of the total GPW, as compared to the previous corresponding period it was 12%.  
**Profitability** The company recorded a surplus before tax of PKR 283mln (CY19: PKR 273mln). Adamjee Life have PBT of PKR 310mln (CY19: PKR 281mln) mainly due to increase in investment income and Net premium revenue. The company change its focus from regular premium to single premium for the growth of bottom line. The company has a loss ratio of 41%. Profit after tax has show a slight decline (CY20: PKR 191mln, CY19: PKR 217mln) due to higher income tax expense.  
**Investment Performance** Net investment income of the company in CY20 was PKR 3,097 mln(CY19: PKR 3,989mln). This was mainly due to return on government securities and recovery equity securities revaluation gain of PKR 1,399mln to a gain of PKR 555mln in CY19.  
**Sustainability** The company envisages expansion in branch network on the back of agency model. The bancassurance business expects to show a steady growth a slight less than historical due to implementation of new Corporate Insurance Agents’ Regulations which is going to be effective from July 1, 2021. The Company will continue its expansion plan for its Direct Distribution Sales force and is targeting to touch new business generation of PKR 1.5 bln by 2022-23. Company is planning for IPO at the end of 2021 to increase their paid up capital. This transaction results in dilution of Adamjee General shareholding.

## Financial Risk

**Claim Efficiency** Claim outstanding days of the company decreased from 45 days in CY19 to 40 days in CY20 emanating from a increase of gross claims expense by 29%. Net Claims expense recorded at PKR 6,831mln in CY20 (CY19: 6,716mln).  
**Re-Insurance** The company’s primary reinsurer is Munich Re Reinsurance Company covering all conventional and takaful business written under both individual and group contracts under which business is ceded up to agreed limits and one secondary reinsurance arrangement with Hannover Re (malaysian branch) under group life insurance Quota share and surplus reinsurance agreement.  
**Liquidity** At Dec 20, the liquid investments of the Company stood at PKR 48,502mln. The liquidity ratio remained constant at 1.03x, providing satisfactory risk absorption capacity regarding insurance liabilities. Statuary fund balance at the end of CY20 is PKR 47,098mln.  
**Capital Adequacy** The company has a paid-up capital of PKR 935mln. At CY20, the shareholder’s equity of the company stood at PKR 1,491mln (CY19: PKR 1,319mln). Increase is due to increase in amount of capital contribution by shareholder fund.



PKR mln

Adamjee Life Unlisted Public Limited	Dec-20 12M	Dec-19 12M	Dec-18 12M
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## A BALANCE SHEET

1 Investments	49,358	39,215	32,950
2 Insurance Related Assets	232	57	128
3 Other Assets	848	597	593
4 Fixed Assets	402	564	241
<b>Total Assets</b>	<b>50,839</b>	<b>40,434</b>	<b>33,912</b>
5 Underwriting Provisions	-	-	-
6 Insurance Related Liabilities	48,012	37,531	32,498
7 Other Liabilities	900	1,222	292
8 Borrowings	436	361	-
<b>Total Liabilities</b>	<b>49,349</b>	<b>39,114</b>	<b>32,789</b>
<b>Equity</b>	<b>1,491</b>	<b>1,319</b>	<b>1,123</b>

## B INCOME STATEMENT

1 Gross Premium Written	17,101	12,969	13,247
2 Net Insurance Premium	16,537	12,386	12,711
3 Underwriting Expenses	(20,479)	(15,598)	(12,969)
<b>Underwriting Results</b>	<b>(3,942)</b>	<b>(3,212)</b>	<b>(258)</b>
4 Investment Income	3,989	3,097	240
5 Other Income / (Expense)	263	396	90
<b>Profit Before Tax</b>	<b>310</b>	<b>281</b>	<b>73</b>
6 Taxes	(119)	(64)	(16)
<b>Profit After Tax</b>	<b>191</b>	<b>217</b>	<b>56</b>

## C RATIO ANALYSIS

<b>1 Profitability</b>			
Loss Ratio (Net Insurance Claims / Net Insurance Premium )	41.4%	54.3%	49.7%
Combined Ratio (Loss Ratio + Expense Ratio)	63.7%	84.6%	72.9%
<b>2 Persistency</b>			
First Persistency ("Second Year Premium" as %age of last year "First Year Premium")	75.4%	78.6%	77.6%
<b>3 Investment Performance</b>			
Investment Yield	9.0%	8.6%	0.7%
<b>4 Liquidity</b>			
(Liquid Assets - Borrowings) / Outstanding Claims	40.9	46.6	33.8
<b>5 Capital Adequacy</b>			
Equity / Net Insurance Claims	0.2	0.2	0.2

## Insurer Financial Strength (IFS) Rating

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	<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.
AA+ AA AA-	<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.
A+ A A-	<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.
BBB+ BBB BBB-	<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.
BB+ BB BB-	<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+ B 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.
CCC CC C	<b>Very high credit risk.</b> 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.
D	<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 some material identifiable event with indeterminable rating implications. 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 rating 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. 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, 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><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(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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- (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.
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- (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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- (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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