



The Pakistan Credit Rating Agency Limited

Rating Report

Adamjee Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-Mar-2023	AA++ (ifs)	-	Stable	Maintain	-
31-Mar-2022	AA++ (ifs)	-	Stable	Harmonize	-
02-Mar-2022	AA+	-	Stable	Maintain	-
02-Mar-2021	AA+	-	Stable	Maintain	-
04-Mar-2020	AA+	-	Stable	Maintain	-
02-Sep-2019	AA+	-	Stable	Maintain	-
05-Mar-2019	AA+	-	Stable	Maintain	-
07-Dec-2018	AA+	-	Stable	Maintain	-
27-Apr-2018	AA+	-	Stable	Maintain	-
29-Sep-2017	AA+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Core sponsorship of Adamjee Insurance Company Limited (Adamjee Insurance or the Company) is held by Nishat Group (The Group). Strong presence of the Group in the financial industry allows the Company to unlock synergies through group financial institutions i.e., MCB Bank Limited and Adamjee Life Assurance Company Limited. The Company continues to enjoy perks of being the only general insurance company with operations outside Pakistan. A sound board structure along with experienced management personnel places confidence in the sustainable operations of AICL. Further, the rating reflects the adequate risk management framework, facilitating the Company to achieve adequate profitability. A diversified revenue strategy is pursued by the Company, with focal business derived through Fire & Motor segments at ~39% & ~34% GPW concentration, respectively. Whereas, a GPW mix of ~17% through Health, ~6% through Marine and ~4% through Miscellaneous segments was earned during 9MCY22. The total segmental mix converged into Gross Premium/contribution of PKR~28,505mln (9MCY21: PKR~19,664mln) showing a healthy growth of ~45% Period-on-Period. The Company's sizeable investment portfolio, albeit concentrated in few group companies, continues to supplement its profitability through stable dividend stream and financial strength. Adamjee Insurance managed to generate investment income of PKR~1,972mln in 9MCY22. Enhanced GPW profile, combined with strong operating performance and investment resulted in better profitability. The Company reported expense and combined ratio of ~33% and ~97%, respectively. Adamjee Insurance has sound equity base and sufficient liquidity compliments strong risk absorption capacity. The business strategy, going forward, is to focus on increasing its market share through expansion of branch network - home and abroad - along with product innovation; retail and micro insurance.

The rating depends on the profitability of core business and investment income. Continuous strengthening of its market position along with its growing underwriting profits remains fundamental for the rating. Sustainable segment mix and efficient expense management remained critical to the financial performance, with further progress being envisaged.

Disclosure

Name of Rated Entity	Adamjee Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Mar-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study General Insurance(May-22)
Rating Analysts	Behrooz Fareed behrooz.fareed@pacra.com +92-42-35869504



Profile

Legal Structure The Company has a public listed status and is listed on Pakistan Stock Exchange (PSX).

Background Adamjee Insurance Company Limited (AICL or the Company), incorporated in 1960, is one of the largest general insurance companies of Pakistan. It is the only general insurance company having operations outside Pakistan as well. AICL has a unique advantage of having regional presence in United Arab Emirates (UAE).

Operations Head office of the Company is located in Lahore. The Company operates a network of 91 branches of conventional insurance and 3 of takaful (North, South and Central) in Pakistan, 20 Specialized Agriculture field offices, three in UAE (Dubai, Abu Dhabi & Sharjah), and one branch in Export Processing Zone (EPZ). Operations are divided into 10 divisions; five in south, four in north, and one in UAE.

Ownership

Ownership Structure AICL enjoys a very strong patronage of its sponsors mainly through MCB Bank which retains management control of the Company.

Stability Shareholding structure of AICL observed no change and is expected to remain stable in foreseeable future owed to its strategic importance for sponsors.

Business Acumen Mian M. Mansha, the brain behind Nishat Group, one of the most distinguished business personalities in Pakistan is credited with building one of the largest conglomerates of the Country, spanning interests in textile, banking, insurance, power, auto and Agri businesses. Success of these companies is a testimony to the enviable business skills of the sponsors.

Financial Strength MCB Bank, being one of the largest banks in Pakistan, provides an added platform with its outreach, in the form of Bancassurance, for penetration in the personal lines of insurance. In addition, backing of the Nishat Group provides a very strong support to the Company and opportunity to get captive business.

Governance

Board Structure Governance of the Company vests in eight-member BoD, hosting two independent, five non-executives and one executive director. Majority represents Nishat Group. The board has established three subcommittees namely; (i) Audit, (ii) Ethics, Human Resource & Remuneration (iii) Investment Committee.

Members' Profile Chairman board, Mr. Umer Mansha holds a bachelor's degree in Business Administration from USA. He has served on the Board of Directors of various listed companies for more than 23 years. He also holds the position of the Chief Executive Officer of Nishat Mills Limited. All the others members are well qualified and carry diversified experience.

Board Effectiveness Board meetings are held regularly with high attendance. Board members are provided with a comprehensive package before the meetings; includes agenda, financials, performance comparison with variances, and future strategy.

Transparency External Auditors of the Company, Yousuf Adil Chartered Accountants & Co expressed an unqualified opinion on financials of CY21. An effective internal audit department exists at the Company to ensure effectiveness, transparency and an independent oversight. The department reports to the Audit Committee, quarterly.

Management

Organizational Structure Adamjee's operations are divided into ten divisions which are profit centers. Each division has been equipped with a separate team for respective functions – commercial, technical, claim – with administrative reporting to division heads and functional reporting to respective department heads at the head office. Management has formed four committees as well, namely; (i) Claims, (ii) Underwriting, (iii) Re-insurance & (iv) Risk Management.

Management Team Muhammad Ali Zeb, the CEO, is a Chartered Accountant and has a post graduate diploma in Organizational Leadership from Saïd Business School, University of Oxford. He has over 24 years of diverse experience in the manufacturing, financial and insurance sectors. He is assisted by a team of professionals.

Effectiveness The CEO meets all department heads in joint meeting on periodic basis, to discuss key issues and developments. This ensures smooth implementation of Company's strategies, while enhancing overall control environment. Minutes of the meeting are maintained adequately.

MIS Importance of up-to-date information for timely business decisions. Adamjee Insurance deploys IBM Congos business development tool and its related dashboards. This provides management with sophisticated management tools in a structured way, which helps the company to bring operational efficiency.

Claim Management System Owing to specialized nature of the claims in each segment, the Company has separate sub-departments for each type of claims making use of experts in each sector including medical practitioners for Health. Claims settlement is completely centralized and handled at HO level.

Investment Management Function Adamjee Insurance's Investment Policy Statement places emphasis on preservation of funds, liquidity, achieving at least market rate of return and compliance with regulatory instructions.

Risk Management Framework Risk Management function is clearly demarcated from Commercial ones. Physical surveys are conducted for every risk relating to fire segment above specified risk. The risk reports, in addition to qualifying, assessing, evaluating risks in recommends improvements to reduce risk exposure to its customers.

Business Risk

Industry Dynamics In terms of Gross Premium Written (GPW) general insurance industry has business of PKR ~114bln for 9MCY22 (9MCY21: PKR~89bln), achieving a growth of ~28% YoY basis. Insurance penetration remained very modest as compared to neighboring markets, underdeveloped relative to its potential. Investment income has deteriorated to PKR~8bln for 9MCY22 (9MCY21: PKR 9.45bln). Overall industry has earned profit after tax of PKR 7.45bln for 9MCY22 (9MCY21: PKR~9.9bln), owing to higher claims, lower investment income and imposition of super tax. Some major industry claims have resulted in slight increase in claim ratio, recent flood will further impact profitability of insurance companies in last quarter of CY22.

Relative Position The Company is categorized as a large sized insurance company with a market share of about 18% as per 9MCY22.

Revenue The Company posted a consolidated GPW & GCW of PKR 28,505mln for 9MCY22 (9MCY21: PKR 19,640mln) and PKR~24,785mln in CY21 (CY20: PKR~19,805mln) showing a growth of 45% on period-on-period basis and 25% YoY basis. Fire & Property segment contributed lion's share of 39% towards GPW of the Company, while Motor segment contributed 34%, Health contributed 17%, Marine 6% & Misc. 4%.

Profitability Consolidated underwriting profit during 9MCY22 perched at PKR~378mln (9MCY21: PKR~809mln) observing a dip of ~53% over the corresponding period of last year. Investment income, profit before tax and profit after tax also showed decrease of ~13%, ~20% and ~39%, respectively.

Investment Performance Adamjee Insurance has a sizable investment book of (9MCY21: PKR 38,241mln) – ~1.5 times of its equity base. Major portion of the investments deployed in equity securities (~51%), cash (~35%). The investment income for 9MCY22 was PKR 1,972mln (9MCY21: PKR 2,280mln).

Sustainability Going forward, the Company aims to acquire untapped market and the investment income prospects are good on account of recovery in equity markets. Major investments are in blue chip companies. These companies have history of higher dividend payouts, so higher dividend income is expected.

Financial Risk

Claim Efficiency The Company's strong liquidity position is reflected in its risk absorption capacity, realized by providing 2x cover to the claims for period. Its also pertinent to mention that AICL's ability to pay its claims expeditiously, improved significantly as evident by Claim Efficiency Days of which improved to ~272days during 9MCY22 (CY21: ~331days). Figure of Claims Efficiency Days is inflated due to Fire claims which take normally more time than any other due to surveys and due diligence activities.

Re-Insurance Adamjee Insurance has secured reinsurance treaty arrangement with international reinsurers of sound repute, including Swiss Re (Rated 'AA-' by S&P), Hannover Re (Rated 'AA-' by S&P), SCOR Re (Rated 'A+' by S&P) and Trust Re.

Cashflows & Coverages Liquid investments to Net Insurance premium contribution ratio decreased slightly to ~1.5x as at period ended Sep'22 as compared to ~1.7 times as at CY21 reflecting relatively high growth in net insurance premium contribution as compared to liquid investments.

Capital Adequacy During 9MCY22, total equity of the Company stood at PKR~25,402mln (CY21: 26,668mln) down by PKR~1,226mln due dip in reserves. Liquid investment ratio to equity of the Company improved to ~113% (CY21: ~96%). The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions.



PKR mln

Adamjee Insurance Company Limited
Listed Public Limited

Sep-22	Dec-21	Dec-20	Dec-19
9M	12M	12M	12M

A BALANCE SHEET

1 Investments	38,241	36,005	29,669	28,151
2 Insurance Related Assets	29,545	20,079	14,737	15,675
3 Other Assets	4,193	2,748	2,470	2,427
4 Fixed Assets	4,411	4,372	4,204	4,336
5 Window Takaful Operations	-	-	-	-
Total Assets	76,390	63,204	51,080	50,589
1 Underwriting Provisions	18,473	11,728	9,050	10,904
2 Insurance Related Liabilities	26,903	19,824	15,441	14,398
3 Other Liabilities	5,522	4,867	3,751	3,573
4 Borrowings	90	1,009	283	105
5 Window Takaful Operations	-	-	-	-
Total Liabilities	50,988	37,428	28,525	28,980
Equity/Fund	25,402	25,776	22,555	21,609

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	28,505	24,785	19,805	23,720
2 Net Insurance Premium/Net Takaful Contribution	13,646	13,637	14,449	16,375
3 Underwriting Expenses	(13,268)	(12,806)	(13,881)	(15,556)
Underwriting Results	378	831	568	819
4 Investment Income	1,972	3,580	1,226	1,423
5 Other Income / (Expense)	122	61	208	401
Profit Before Tax	2,472	4,472	2,002	2,643
6 Taxes	(1,116)	(1,269)	(35)	(720)
Profit After Tax	1,356	3,203	1,967	1,923

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	2,030	1,465	1,526	1,213
2 Net Takaful Contribution	813	654	745	617
3 Net Takaful Claims	(902)	(610)	(692)	(531)
4 Direct Expenses Including Re-Takaful Rebate Earned	17	(5)	(7)	(14)
Surplus Before Investment & Other Income/(Expense)	(72)	39	46	72
5 Investment Income	33	13	14	6
6 Other Income/(Expense)	10	15	32	32
Surplus for the Period	(29)	67	92	110

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	458	431	409	324
2 Management, Commission & Other Acquisition Costs	(257)	(311)	(262)	(231)
Underwriting Income/(Loss)	201	120	147	93
3 Investment Income	23	5	7	3
4 Other Income/(Expense)	26	14	10	12
Profit Before tax	250	139	164	108
5 Taxes	(88)	(40)	(48)	(31)
Profit After tax	162	99	116	77

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful	64.1%	57.2%	60.3%	63.5%
Combined Ratio (Loss Ratio + Expense Ratio)	97.2%	93.8%	96.3%	95.0%
2 Investment Performance				
Investment Yield	7.1%	10.9%	4.2%	5.2%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.8	1.8	1.9	2.0
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	113.3%	95.5%	96.7%	98.1%

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
AAA (ifs)	Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or 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 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>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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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

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 | Clause 11-(A)(p).
- (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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