



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
05-Mar-2019	AA+	-	Stable	Maintain	-
07-Dec-2018	AA+	-	Stable	Maintain	-
27-Apr-2018	AA+	-	Stable	Maintain	-
29-Sep-2017	AA+	-	Stable	Maintain	-
27-Feb-2017	AA+	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the sustained fundamentals of the company. AICL has been growing the business profile along with keeping costs under check, hence resulting positive for the core profitability. The stability in the management team and concerted efforts are the positives. AICL continues to enjoy the perk of being only company with operations outside Pakistan. The company's sizeable investment portfolio, albeit concentrated in few group companies, continues to supplement its profitability and financial strength. The business strategy, going forward, is focused on increasing its market share through expansion of branch network - home and abroad - along with product innovation; retail and microinsurance. The group has also consolidated its stake in the Life Assurance company. Furthermore, AICL is eyeing geographical diversification in other regions, as well. The rating incorporates the effect of association of AICL with Nishat Group.

The rating depends on the stability and continuous efforts of the management team to execute the business plan. AICL should continue to strengthen its market position along with sustained underwriting profits. With a strengthened claims management system in place, maintaining lower claims turnaround time (TAT) remains vital. The added efficiency in the MIS setup must result into improved proficiency in claims settlement.

#### Disclosure

<b>Name of Rated Entity</b>	Adamjee Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   General Insurance(Jun-18)
<b>Related Research</b>	Sector Study   General Insurance(Nov-18)
<b>Rating Analysts</b>	Zeeshan Munir   zeeshan.munir@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, incorporated in 1960s, is the second largest general insurance company of Pakistan and only company having sizeable operations outside Pakistan as well.

**Operations** The head office of the company is located in Lahore. Company operates a network of 27 branches in Pakistan, two in UAE (Dubai and Abu Dhabi), and one branch in Export Processing Zone (EPZ). The operations are divided in 10 divisions; five in south, four in north, and one in UAE.

## Ownership

**Ownership Structure** Company enjoys a very strong ownership structure as Nishat Group, mainly through MCB Bank, retains management control of AICL.

**Stability** There is no change in the ownership structure of the company.

**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** MCB Bank, being one of the largest banks in terms of total assets, provides an added platform with its outreach, in the form of Bank assurance, to provide and cushion to the company at time of stress and provide penetration in the personal line of insurance.

## Governance

**Board Structure** The overall control of the company vests in the eight-member BoD (excluding the CEO). Board has a majority of Nishat Group representatives. There are five subcommittees of the board namely; (i) Audit, (ii) Claims, (iii) Underwriting, (iv) Reinsurance, and (v) Human Resource & Remuneration.

**Members' Profile** The members carry diversified experience including exposures of textile, sugar, leather, and banking sectors. One director attended the Directors Training Program during the year. Five directors have earlier attended the training program whereas two directors are exempt from this. During the current year, Mr. Fredrik Coenard de Beer resigned from the board and was replaced by Mr. Muhammad Arif Hameed.

**Board Effectiveness** During the year CY17, five board meetings were held. Attendance of board members in these meetings remained high. Board members are provided with a comprehensive package before the meetings; includes agenda, financials, performance comparison with variances, and future strategy.

**Financial Transparency** The auditors of the company, KPMG Taseer Hadi & Co., Chartered Accountants issued an unqualified report for the annual audit of financial statements for CY17 and also for the half yearly review for the period ending 1H18. The Board has formed an Audit Committee. It comprises of three non- executive directors. This ensures effective, transparent an independent oversight is maintained. The meetings of the audit committee were held quarterly.

## Management

**Organizational Structure** Company's operations are divided into ten divisions which are profit centres. 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 Team** Mr. Muhammad Ali Zeb, the CEO of the company since Jun-13, has a long association with Nishat Group. Previously, he was CEO of the company from 2008 till 2011. Many of the old associates at executive management level also rejoined the company along with Mr. Zeb in Jun-13 and the management has remained stable since then.

**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.

**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 professionals in each sector including medical practitioners for health. Claims settlement is completely centralized and handled at HO level.

**Investment Management Function** AICL'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** The risk management function is clearly demarcated from commercial function and is equipped with qualified engineers. Physical surveys are conducted for every risk relating to fire segment above specified risk and/or upon underwriters request. The risk reports, in addition to qualifying, assessing, evaluating risks in 5 categories, recommends improvements to reduce risk exposure.

## Business Risk

**Industry Dynamics** Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 11%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.

**Relative Position** Company is categorized as a large sized insurance company with a market shares of about 22%.

**Revenue** The company posted a GPW of PKR 15bln in nine months ending Sep-18 rising by 6% YoY. Motor Segment remained forte of the company comprising 46% of the total GPW followed by Fire segment (33%), Health (9%), Misc. (7%) and Marine (5%).

**Profitability** The underwriting profit of the company for nine months ending Sep-18 was PKR 832mln (9MCY17: PKR 810mln) on account of improved business under written.

**Investment Performance** AICL has a sizeable investment book (end-Sep18: PKR 24bln) – 1.3 times of its equity base. Major portion (58%) is deployed in liquid avenues, and the rest represents strategic book (38%) and other unlisted scrips (3%). The investment income stood at PKR 1.5bln for nine months ending Sep-18 (9MCY17: PKR1.8mln). This year the company had no return on realized on PIBs which reduced the investment income.

**Sustainability** Going forward, the company aims to acquire untapped market and the investment income prospects are also sanguine on account of rising interest. The company has also passed a special resolution to acquire further 26% shareholding of Adamjee Life from IVM Intersurer to take up 24.059 million shares at an approxiamte share price of PKR 16.68/share thereby investing a further amount of PKR 401 million in Adamjee Life.

## Financial Risk

**Claim Efficiency** Net claim days rose 655days (9MCY17:595days) on account of reduced recoveries from the reinsurer at end Sep-18.

**Re-Insurance** AICL 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 (Rated 'A-' by AM Best).

**Liquidity** Risk absorption capacity reflected by liquidity position of the company; providing 2.4 times cover to claim liabilities increased from 1.8 times at CY17. Liquid investments to net claims expense ratio improved to 4.0 times in 9M18 as compared to 2.7 times in 9M17 reflecting an improved liquidity position of the company.

**Capital Adequacy** With maintained strong bottom-line, Adamjee Insurance has been able to strengthen its equity over the years (9M18: PKR 19.3 bln CY17: PKR 16.7bln, 9M17: PKR 17.2bln).



## GENERAL INSURANCE Financials [Summary]

### Adamjee Insurance Company Limited (AICL)

BALANCE SHEET	30-Sep-18 9M	31-Dec-17 Annual	31-Dec-16 Annual
<b>Investments</b>			
Liquid Investments	24,267	20,918	12,554
Investment in Associates	695	-	7,709
Other Investments	-	-	955
	24,962	20,918	21,218
Insurance Related Assets	6,134	14,480	12,490
Other Assets	15,394	6,648	4,950
Assets - Window Takkaful	364	241	99
<b>TOTAL ASSETS</b>	<b>46,854</b>	<b>42,287</b>	<b>38,758</b>
Equity	19,360	16,794	17,026
Underwriting Provisions	10,402	9,153	7,821
Insurance Related Liabilities	12,495	13,154	11,850
Other Liabilities	4,380	3,045	2,015
Liabilities - Window Takkaful	217	141	46
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>46,855</b>	<b>42,287</b>	<b>38,758</b>
INCOME STATEMENT (Extracts)*	30-Sep-18	31-Dec-17	31-Dec-16
<b>Gross Premium Written (GPW)</b>	<b>15,871</b>	<b>19,265</b>	<b>16,526</b>
Net Premium Revenue (NPR)	10,553	12,052	9,683
Net Claims	6,389	9,552	6,196
Net Operational Expenses	3,054	3,726	3,043
Underwriting Income/Loss- Adjusted	<b>873</b>	<b>1,202</b>	<b>1,137</b>
Investment Income	1,484	1,491	3,705
Other Income/ (expense)	49	113	(69)
<b>Profit before Tax</b>	<b>2,364</b>	<b>2,121</b>	<b>4,054</b>
<b>Profit after Tax</b>	<b>1,511</b>	<b>1,221</b>	<b>3,493</b>
RATIO ANALYSIS (Conventional)	30-Sep-18	31-Dec-17	31-Dec-16
<b>Underwriting Results</b>			
Loss Ratio	61%	80%	65%
Combined Ratio	92%	90%	96%
<b>Performance</b>			
Operating Ratio	76%	76%	58%
Investment Yield	6%	6%	16%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times	2.4	1.8	1.7

\*Including Takkaful Operations



## 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
<b>AAA</b>	<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.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<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
<b>A+</b> <b>A</b> <b>A-</b>	<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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> 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> <b>B</b> <b>B-</b>	<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>CCC</b> <b>CC</b> <b>C</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.
<b>D</b>	<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.

<b>Outlook (Stable, Positive, Negative, Developing)</b>	<b>Rating Watch</b>	<b>Suspension</b>	<b>Withdrawn</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'.	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.	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.	A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

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### **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)

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- (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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