



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
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	-
27-Feb-2017	AA+	-	Stable	Maintain	-
26-Feb-2016	AA+	-	Stable	Upgrade	-
11-Jun-2015	AA	-	Positive	Maintain	-
11-Jun-2014	AA	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects the sustained fundamentals of the company. Adamjee Insurance Company Limited 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. Adamjee Insurance Company Limited continues to enjoy the perk of being only company with operations outside Pakistan. The company's size able 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 micro insurance. The group has also consolidated its stake in the Life Assurance company. Furthermore, Adamjee Insurance Company Limited is eyeing geographical diversification in other regions, as well. The rating incorporates the effect of association of Adamjee Insurance Company Limited with Nishat Group. The company has taken over the remaining 26% stakes of IVM Intersurer from Adamjee Life to make it a wholly owned subsidiary.

The rating depends on the stability and continuous efforts of the management team to execute the business plan. Adamjee Insurance Company Limited 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

Name of Rated Entity	Adamjee Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Harris Ghaffar harris.ghaffar@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 largest general insurance company of Pakistan and only company having sizable 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 (including the CEO). Board has a majority of Nishat Group representatives. There are three subcommittees of the board namely; (i) Audit, (ii) Ethics & Human Resource & Remuneration (iii) Investment Committee and four management committees namely; (i) Claims, (ii) Underwriting, (iii) Re-insurance & (iv) Risk Management.

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.

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.

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 CY18 and half year review. 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.

MIS Importance of up-to-date information for timely business decisions and in line with the industry trend, AICL deploys real time web-based Insurance Management System (IMS) developed in-house. This has provided management with sophisticated management tools in structured MIS system, helping 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 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 achieved a CAGR of 9% during the last four years. Majority of the growth emanates from Fire and motor segments. The miscellaneous segment has experienced growth via non-conventional avenues such as crop, livestock, travel etc. Takaful segment has been growing positively mainly in motor while exploring new avenues in health and fire segment. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

Relative Position Company is categorized as a large sized insurance company with a market share of about 22% as per 9MCY19.

Revenue The company posted a GPW of PKR 18.8bln (9MCY18: PKR15.9bln) rising by 18.2%. Motor Segment remained forte of the company comprising 46% of the total GPW followed by Fire segment (34%), Health (9%), Misc. (7%) and Marine (4%). The highest growth in GPW is observed in fire segment of 26%.

Profitability The underwriting profit of the company for year ending 9MCY-19 was PKR 909mln (9MCY18: PKR 941mln). Slight decline is due to increase in management expenses.

Investment Performance AICL has a sizable investment book (9MCY19: PKR 25bln) – 1.33 times of its equity base. Major portion of the investments deployed in equity securities and remaining in T-Bills and term deposits. The investment income stood at PKR 864mln for 9MCY19 (9MCY18: PKR1.5bln). Majorly decline due to impairment loss on revaluation of Available for Sale Securities.

Sustainability Going forward, the company aims to acquire untapped market and the investment income prospects are also sanguine on account of rising interest. The shareholders have authorized the company to acquire 26% shareholding of Adamjee Life from IVM Intersurer. The Company board has also approved 10% stake in Hyundai Nishat Motor (Pvt) Limited by injecting PKR 850mln.

Financial Risk

Claim Efficiency Net claim days decline at 296days (9MCY18: 333days) due to higher frequency of payment of claims.

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 same as in 9MCY18. Liquid investments to net claims expense ratio decline to 2.6 times in 9MCY19 as compared to 3 times in 9MCY18 reflecting decline due to increase in net claim expenses.

Capital Adequacy With maintained strong bottom-line, Adamjee Insurance has been able to strengthen its equity over the years (9MCY19: PKR 18.8bln, 9MCY18: PKR 19.5bln)



GENERAL INSURANCE Financials [Summary]

Adamjee Insurance Company Limited (AICL)

BALANCE SHEET*	30-Sep-19	30-Dec-18	30-Sep-18
	9M	Annual	9M
Investments			
Liquid Investments	24,953	26,342	24,713
Investment in Associates	695	695	695
Other Investments	535	-	122
	26,183	27,036	25,530
Insurance Related Assets	13,835	13,381	6,505
Other Assets	10,054	7,997	15,267
Assets - Window Takkaful	452	382	364
TOTAL ASSETS	50,524	48,797	47,667
Equity	18,757	19,781	19,498
Underwriting Provisions	12,115	10,994	10,776
Insurance Related Liabilities	15,402	13,440	12,770
Other Liabilities	4,014	4,352	4,407
Liabilities - Window Takkaful	236	230	217
TOTAL EQUITY & LIABILITIES	50,524	48,797	47,667
INCOME STATEMENT (Extracts)*	30-Sep-19	30-Dec-18	30-Sep-18
Gross Premium Written (GPW)	18,800	21,489	15,870
Net Premium Revenue (NPR)	12,403	14,475	10,425
Net Claims	7,645	8,787	6,319
Net Operational Expenses	3,849	4,919	3,165
Underwriting Income/Loss- Adjusted	909	769	941
Investment Income	864	1,291	1,483
Other Income/ (expense)	(34)	121	61
Profit before Tax	1,732	2,181	2,485
Profit after Tax	1,109	1,220	1,631
RATIO ANALYSIS (Conventional)	30-Sep-19	30-Dec-18	30-Sep-18
Underwriting Results			
Loss Ratio	62%	61%	61%
Combined Ratio	93%	95%	92%
Performance			
Operating Ratio	87%	85%	76%
Investment Yield	7%	5%	6%
Liquidity & Solvency			
Liquidity Ratio – times	2.3	2.5	2.3

*Including Takkaful Operations

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

- (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)

Independence & Conflict of interest

- (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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