



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

Rating Rationale and Key Rating Drivers

The rating captures the solid fundamentals of the company. Adamjee Insurance Company Limited has exhibited sustained growth in the business profile while maintaining operational efficiency, reflecting positively in the core profitability. The stability in the management team and concerted efforts are laudable. Adamjee Insurance Company Limited continues to enjoy the perk of being the only general insurance company with operations outside Pakistan. The overseas business took a dip as a result of COVID-19; however, it has witnessed strong recovery since June 20. The combined ratio continues to witness stability. 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 micro insurance. Furthermore, Adamjee Insurance Company Limited keeps an eye on opportunities geographical diversification in other regions. The rating incorporates the effect of association of Adamjee Insurance Company Limited with Nishat Group.

Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, business volumes have picked up post-June 2020 amidst revival of economic activities throughout the country. The business volumes need to sustain, indeed, improve in tandem with the longer historical trend. The lower interest rate regime has added momentum to auto-financing, which is a good sign for the insurance industry.

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 its underwriting profits.

Disclosure

Name of Rated Entity	Adamjee Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology GI(Jun-20)
Related Research	Sector Study General Insurance(May-20)
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 one the largest general insurance company of Pakistan. It is the 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 60 branches in Pakistan, three in UAE (Dubai, Abu Dhabi & Sharjah), and one branch in Export Processing Zone (EPZ). The operations are divided into 10 divisions; five in south, four in north, and one in UAE.

Ownership

Ownership Structure Adamjee General 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.

Stability There is no change in the shareholding of the company recently. The ownership structure remains stable as per the vision of the sponsors.

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 provides penetration in the personal lines of insurance. In addition, backing of Nishat group provides a very strong backing to the company in the times of stress.

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 requirement.

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 The auditors of the company, Yousuf Adil chartered Accountants & Co issued an unqualified report for the annual audit of financial statements for CY19. The Board has formed an Audit Committee. It comprises of three non- executive directors. This ensures effectiveness, transparency and an independent oversight. 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. Before rejoining, Mr. Muhammad Ali Zeb had served as the CEO of the company since Jun-13, has been associated with Nishat Group. Previously, he was CEO of the company from 2008 until 2011. Since 2013, there has been no change in the top management of the company for a long time.

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 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 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 to its customers.

Business Risk

Industry Dynamics Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. The volumes need to sustain, indeed, improve in tandem with the longer historical trend. The lower interest rate regime has added momentum to auto-financing, which is encouraging sign for the insurance industry.

Relative Position Company is categorized as a large sized insurance company with a market share of about 20% as per 9MCY20.

Revenue The company posted a GPW of PKR 15.6bln (9MCY20: PKR 18.8bln) declining by 17%. Major decline was observed in Miscellaneous and motor segment with 35% and 28% drop, respectively. This was mainly due to the reduction in engineering activities with in the country and lockdown imposed in UAE. Motor Segment remained forte of the company comprising 39% of the total GPW followed by Fire segment (37%), Health (13%), Misc. (6%) and Marine (5%). The highest growth in GPW is observed in Health segment with 15% due to health consciousness of individuals after COVID-19 pandemic.

Profitability The underwriting profit of the company for 9MCY-20 was PKR 655mln (9MCY19: PKR 909mln) down by 28%. Decline is due to increase in claims expense, net commission expense in proportion of GPW and reduction in GPW by approximately PKR 3bln.

Investment Performance AICL has a sizable investment book (9MCY20: PKR 29bln) – 1.40 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 1.1bln for 9MCY20 (9MCY19: PKR 863mln).

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

Financial Risk

Claim Efficiency Net claim days 367days (9MCY19: 296days) due to higher provision of outstanding claims on account of catastrophic rain losses in July & August 2020.

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.

Liquidity Risk absorption capacity reflected by liquidity position of the company; providing 2.1 times cover to claim liabilities . Liquid investments to net claims expense ratio increase to 3.4 times in 9MCY20 as compared to 2.6 times in 9MCY19 reflecting increase due to increase in liquid assets.

Capital Adequacy With maintained strong bottom-line, Adamjee Insurance has been able to strengthen its equity over the years (9MCY20: PKR 21bln, 9MCY19: PKR 18.8bln).



GENERAL INSURANCE
Financials [Summary]

Adamjee Insurance Company Limited (AICL)

BALANCE SHEET*	30-Sep-20	30-Dec-19	30-Sep-19	30-Dec-18
	9M	Annual	9M	Annual
Investments				
Liquid Investments	27,611	27,054	24,953	26,342
Investment in Associates	1,098	695	695	695
Other Investments	548	548	535	-
	29,257	28,297	26,183	27,036
Insurance Related Assets	14,133	12,092	13,835	13,358
Other Assets	9,753	10,339	10,054	8,020
Assets - Window Takkaful	-	-	452	382
TOTAL ASSETS	53,143	50,729	50,524	48,797
Equity	20,976	21,608	18,757	19,781
Underwriting Provisions	9,750	11,044	12,115	10,994
Insurance Related Liabilities	17,714	14,022	15,402	13,440
Other Liabilities	4,467	3,818	4,014	4,352
Liabilities - Window Takkaful	236	236	236	230
TOTAL EQUITY & LIABILITIES	53,143	50,728	50,524	48,797
INCOME STATEMENT (Extracts)*	30-Sep-20	30-Dec-19	30-Sep-19	30-Dec-18
Gross Premium Written (GPW)	15,619	23,542	18,800	21,489
Net Premium Revenue (NPR)	10,916	16,346	12,403	14,475
Net Claims	6,685	10,392	7,645	8,787
Net Operational Expenses	3,851	5,150	3,849	4,919
Underwriting Income/Loss- Adjusted	655	804	909	769
Investment Income	1,103	1,410	864	1,291
Other Income/ (expense)	6	55	(34)	121
Profit before Tax	1,755	2,269	1,732	2,181
Profit after Tax	1,189	1,549	1,109	1,220
RATIO ANALYSIS (Conventional)	30-Sep-20	30-Dec-19	30-Sep-19	30-Dec-18
Underwriting Results				
Loss Ratio	59%	64%	62%	61%
Combined Ratio	95%	96%	93%	95%
Performance				
Operating Ratio	84%	87%	87%	85%
Investment Yield	7%	10%	7%	5%
Liquidity & Solvency				
Liquidity Ratio – times	2.1	2.5	2.3	2.5

*Including Takkaful Operations

Adamjee Insurance Company Limited (AICL)
February 2021

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	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+ AA 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.
A+ A 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.
BBB+ BBB 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.
BB+ BB 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.
B+ B 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.
CCC CC C	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.
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 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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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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