



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-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	-
27-Feb-2017	AA+	-	Stable	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. Overall business took a dip as a result of COVID-19; however, it has witnessed strong recovery and it is anticipated that it will get back to historic levels. The combined ratio continues to witness stability. The company's sizeable investment portfolio, albeit concentrated in few group companies, continues to supplement its profitability through stable dividend stream 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 reflects association of Adamjee Insurance Company Limited with the Nishat Group.

Management expenditure rationalization and product innovation shall remain crucial for the industry participants for the solidification of market position.

The rating depends on the profitability from the core business and investment income. The continuous strengthening of its market positioning along with its growing underwriting profits remains fundamental for the ratings.

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(Jun-21)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Waqas Ahmad waqas.ahmad@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 1960, is one of the largest general insurance companies of Pakistan. It is the only general insurance company having operations outside Pakistan as well.

Operations The head office of the company is located in Lahore. Company operates a network of 91 branches in Pakistan, in addition to twenty Specialized Agriculture field offices, 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 Insurance enjoys a very strong patronage from sponsors, the Nishat Group, mainly through MCB Bank which retains management control of AICL.

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 Bancassurance, for penetration in the personal lines of insurance. In addition, backing of the Nishat Group provides a very strong backing to the company.

Governance

Board Structure The overall governance 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 CY20. 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 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 Team Mr. Muhammad Ali Zeb, the CEO of the company since Jun 2013, has a long association with the Nishat Group. Previously, he served as CEO of the Company from 2008 till 2011. 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. 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. The risk reports, in addition to qualifying, assessing, evaluating risks in recommends improvements to reduce risk exposure to its customers.

Business Risk

Industry Dynamics The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. In terms of Gross Premium Written (GPW), Pakistan's general insurance industry had a total size of PKR~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR~104,453mln). Currently, the general insurance industry has witnessed a growth of ~19% on YoY basis as of Sep-21.

Relative Position Company is categorized as a large sized insurance company with a market share of about 16.9% as per 9MCY21.

Revenue The company posted a GPW of PKR 18.5bln for 9MCY21 (9MCY20: PKR 14.4bln) showing a growth of 28% but net premium of company PKR 9bln for 9MCY21 (9MCY20: PKR 10.4bln) declined by 12%. Fire & Property is largest segment comprising 43% of the total GPW followed by Motor (35%), Accident & Health (13%), Marine (5%) & Misc. (5%)

Profitability The underwriting profit of the company for 9MCY21 was PKR 712mln (9MCY20: PKR 554mln) which increased by 28%, owing to decreased net insurance claim (17.5%) and Net commission and acquisition expenses (25%)

Investment Performance AICL has a sizable investment book (9MCY21: PKR 29bln) – 1.27 times of its equity base. Major portion of the investments deployed in equity securities and remaining in term deposits and T-Bills. The investment income for 9MCY21 was PKR 2.2bln (9MCY20: PKR 915mln).

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 The Company's strong liquidity position is reflected in its risk absorption capacity, realized by providing 3.2x cover to the claims for period. In terms of claim concentration, Motor remained heavily concentrated during the period, accounting for 59% of total claims, amounting to PKR 3,012mln, with majority of claims originating outside Pakistan.

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.

Cashflows & Coverages Liquid investments to Net Insurance premium contribution ratio increase to 1.8x as at end-Sep21 as compared to 1.5 times as at CY20 reflecting increase due to increase in liquid assets.

Capital Adequacy With strong profitability, the Company has strengthened its equity base over the years (9MCY21: PKR 22bln, 9MCY20: PKR 21bln).



PKR mln

Adamjee Insurance Company Limited
Listed Public Limited

Sep-21	Dec-20	Dec-19	Dec-18
9M	12M	12M	12M

A BALANCE SHEET

1 Investments	31,944	29,284	28,151	26,890
2 Insurance Related Assets	22,061	14,737	15,675	16,289
3 Other Assets	2,835	2,470	2,427	1,987
4 Fixed Assets	4,682	4,589	4,336	3,630
5 Window Takaful Operations	-	-	-	-
Total Assets	61,522	51,080	50,589	48,797
1 Underwriting Provisions	13,074	9,050	10,904	10,859
2 Insurance Related Liabilities	20,122	15,441	14,398	14,569
3 Other Liabilities	4,012	3,751	3,573	3,587
4 Borrowings	1,601	283	105	-
5 Window Takaful Operations	-	-	-	-
Total Liabilities	38,810	28,525	28,981	29,016
Equity/Fund	22,713	22,555	21,608	19,781

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	19,665	19,805	23,720	21,489
2 Net Insurance Premium/Net Takaful Contribution	9,891	14,449	16,375	14,475
3 Underwriting Expenses	(9,082)	(13,881)	(15,556)	(13,588)
Underwriting Results	809	568	819	887
4 Investment Income	2,288	1,226	1,423	1,307
5 Other Income / (Expense)	65	208	401	(13)
Profit Before Tax	3,162	2,002	2,643	2,181
6 Taxes	(849)	(35)	(720)	(935)
Profit After Tax	2,313	1,967	1,923	1,246

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	1,109	1,526	1,213	1,102
2 Net Takaful Contribution	487	745	617	416
3 Net Takaful Claims	(471)	(692)	(531)	(424)
4 Direct Expenses Including Re-Takaful Rebate Earned	(3)	(8)	(13)	(1)
Surplus Before Investment & Other Income/(Expense)	14	46	72	(8)
5 Investment Income	9	14	6	15
6 Other Income/(Expense)	19	32	32	-
Surplus for the Period	42	92	110	7

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	311	409	324	253
2 Management, Commission & Other Acquisition Costs	(228)	(262)	(231)	(173)
Underwriting Income/(Loss)	83	146	93	79
3 Investment Income	4	7	3	(0)
4 Other Income/(Expense)	10	10	12	(0)
Profit Before tax	98	164	108	79
5 Taxes	(37)	(47)	(31)	(26)
Profit After tax	61	116	77	53

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Claims / Net Premium or Contribution	56.0%	60.1%	63.6%	60.9%
Combined Ratio (Loss Ratio + Expense Ratio)	91.8%	96.1%	95.0%	93.9%
2 Investment Performance				
Investment Yield	10.0%	4.3%	5.2%	4.9%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.867534622	1.910901366	1.996778683	2.046360425
4 Capital Adequacy				
Liquid Investments / Equity	109.6%	97.2%	98.7%	110.5%

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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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (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.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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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