



The Pakistan Credit Rating Agency Limited

# ADAMJEE INSURANCE COMPANY LIMITED (AICL)

## RATING REPORT

	<b>NEW [SEP-17]</b>	<b>PREVIOUS [FEB-17]</b>
Insurer Financial Strength (IFS) Rating	AA+	AA+
Outlook	Stable	Stable

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SEPTEMBER 2017

**Profile & Ownership**

- Adamjee Insurance Company Limited (AICL), incorporated in 1960, is listed on Pakistan Stock Exchange; only insurance company having operations outside Pakistan
- The company operates a network of 29 branches in Pakistan, three in UAE (Dubai, Abu Dhabi and Sharja), and one branch in Export Processing Zone
- Nishat Group, mainly through MCB Bank, is the sponsor with 49% shareholding
- Nishat Group is one of the most distinguished business groups in Pakistan. Mian Mohammad Mansha – the brains behind Nishat Group – is the Chairman of MCB Bank and also serves as an advisor to AICL’s Board of Directors

**Governance and Management**

- Eight member board of directors, including CEO; includes five representations of Nishat Group and two independent members
- Mr. Muhammad Ali Zeb, the CEO of the company since Jun’13, carries long association with Nishat Group
- Besides the experienced top management, the department heads and their teams comprise qualified professionals

**Business Risk**

- During 1HCY17, the company wrote GPW of PKR 10.0bln (Growth: 18% YoY) out of which PKR 3.4bln were from non-Pakistan operations
- Largest growth was witnessed in health segment (43%)
- The company followed a strong business strategy in order to boost its market share (1H17: 27%, 9M16: 23%)
- GPW remained dominated by motor (47%) and fire (30%), followed by health (12%), marine (5%) and miscellaneous (7%); AICL is the country’s second largest player in motor segment now targeting the retail side of motor segment, partnering with authorized car dealers
- Loss ratio increased to 65% (1HCY16: 59%) on account of increase in motor claims; management expenses were kept under control reducing expense ratio to 30% (9MCY16: 32%)
- Hence, the company achieved net profit of PKR 1.0bln (1H16: PKR 1.4bln)
- AICL’s investments stood at PKR 18.0bln at end-Jun17 with an investment yield of 9%
- AICL’s investment income (1HCY17: PKR1.2bln, 1HCY16: PKR 1.3bln) is the largest in the industry, though more than half of it comes from capital gains on equity scrips while rest comprises stable stream of dividend income

**Business Strategy**

- Continuous focus on market share in Pakistan through an extended branch network, while ensuring underwriting profits
- Eyeing to expand its wings in the textile, agriculture, sugar, and food/edible segments along with maintaining its dominance in energy sector
- Entrance into retail and micro insurance; product innovation on cards
- Expansion in UAE is also envisaged

**Financial Risk**

- A sizeable investment book, including cash and bank deposits (end-Jun17: PKR ~23bln) – 80% of equity base – majority (59%) deployed in liquid avenues, and the rest represents strategic book (37%) and other unlisted scrips (5%); total exposure of the company to market risk is significant (74%)
- Market value of the book (Jun’17: PKR 23bln) is significantly above its book value (PKR 18bln); investment income as percentage of net premium revenue stood at 20%
- Liquidity of the company provides strong cushion to claim liabilities (at end-Jun17: 1.5 times, end-Dec16: 1.7 times), with further buffer provided by strategic investment of PKR ~8.2mln
- Claims settlement days (Jun’17: 334 days, Jun’16: 248 days) increased significantly on account of surge in provision for outstanding days; fire and miscellaneous days remain high, warranting management’s attention.

**RATING RATIONALE**

The ratings reflect 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 added efficiency in the MIS setup has resulted into improved proficiency in claims settlement. 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. Furthermore, AICL is eyeing geographical diversification in other regions, as well. The ratings incorporate the effect of association of AICL with Nishat flagship companies.

**KEY RATING DRIVERS**

The ratings depend on the stability and continuous efforts of the management team to execute the business plan. AICL must 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.

**INDUSTRY**

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). 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; health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



## GENERAL INSURANCE Financials [Summary]

The Pakistan Credit Rating Agency Limited

### Adamjee Insurance Company Limited (AICL)

*PKRmln*

BALANCE SHEET	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
	1H	Annual	Annual	Annual
<b>Investments</b>				
Liquid Investments	13,143	12,554	10,031	9,599
Investment in Associates	8,189	7,709	7,336	6,409
Other Investments	1,042	955	925	351
	22,373	21,218	18,292	16,359
Insurance Related Assets	14,594	12,490	9,320	8,114
Other Assets	6,182	5,049	4,644	4,359
<b>TOTAL ASSETS</b>	<b>43,149</b>	<b>38,758</b>	<b>32,256</b>	<b>28,832</b>
Equity	17,217	17,026	15,647	14,104
Underwriting Provisions	9,468	7,821	6,142	5,501
Insurance Related Liabilities	14,594	11,850	7,788	7,463
Other Liabilities	1,870	2,061	2,679	1,763
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>43,149</b>	<b>38,758</b>	<b>32,256</b>	<b>28,832</b>
<b>INCOME STATEMENT</b>				
	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
<b>Gross Premium Written (GPW)</b>	<b>10,321</b>	<b>16,398</b>	<b>13,639</b>	<b>12,101</b>
Net Premium Revenue (NPR)	5,830	9,632	7,747	6,303
Net Claims	(3,814)	(6,236)	(4,780)	(4,088)
Net Operational Expenses	(1,739)	(3,028)	(2,742)	(2,372)
<b>UNDERWRITING INCOME - Adjusted</b>	<b>277</b>	<b>367</b>	<b>225</b>	<b>(158)</b>
Investment Income	1,192	3,705	2,494	2,161
Other Income/ (expense)	24	(69)	108	27
<b>PROFIT BEFORE TAX</b>	<b>1,493</b>	<b>4,003</b>	<b>2,827</b>	<b>2,030</b>
<b>RATIO ANALYSIS</b>				
	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
<b>Underwriting Results</b>				
Loss Ratio	65%	65%	62%	65%
Combined Ratio	95%	96%	97%	103%
<b>Performance</b>				
Operating Ratio	74%	58%	64%	68%
Investment Yield	9%	16%	-6%	20%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	1.5	1.7	2.4	2.7

Adamjee Insurance Company Limited (AICL)

September 2017



**RATING SYMBOLS & DEFINITIONS:**

**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.

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.

**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'.

**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.

**Suspension**

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.

**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.

**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.

