



The Pakistan Credit Rating Agency Limited

ADAMJEE LIFE ASSURANCE COMPANY (ALAC)

IFS RATING REPORT

	NEW [APR-16]	PREVIOUS [APR-15]
Insurer Financial Strength (IFS) Rating	A	A
Outlook	Positive	Positive

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

APRIL 2016

PROFILE & OWNERSHIP

- ALAC, starting operations in 2009, is a subsidiary of Adamjee Insurance (AICL) (74%)
- AICL is the second largest non-life insurance company in the country, rated 'AA+' by PACRA
- The other major shareholder is IVM Intersurer B.V. (26%), a company of Hollard (a leading Insurance Group of South Africa)

GOVERNANCE

- A six member board; chaired by Mr. Umar Mansha
- AICL having majority representation on the board (67%); while two representatives of Hollard
- The majority of BoD has extensive experience in the insurance industry which augurs well for the overall governance and strategy formulation of the Company.

MANAGEMENT

- Chief Executive Officer, Mr. Fredrik de Beer, associated since inception and represents Hollard
- Mr. De Beer having experience of over three decades in various sectors including life and general insurance business
- The key management associated with the company since inception

BUSINESS RISK

- Massive growth in premium in CY15 (75%)
- Adding ~1% market share each year since inception, CY15 : 6%
- Premium mix dominated with unit-linked business (90%), followed by non-unitized (5%), and Group funds (4%)
- Persistency sustained at 74% in second year
- Surplus in statutory funds has been achieved, the very first time after inception of business; and sustained for four quarters (1Q15: PKR 20mln, 2Q15: PKR 29mln, 3Q15: PKR 46mln, and 4Q15: PKR 209mln)
- Gains from PIBs Significantly increased investment income (CY15: PKR 6,179 mln, CY14: PKR 3,378mln), mainly from gains in PIBs
- Operating ratio improved to 97% (CY14: 99%)

BUSINESS STRATEGY

- Sizeable growth targetted fro CY16 and CY17. Significant growth to be driven by bancassurance; herin, in addition to parent bank - MCB - other banks also taken on board
- Stabilizing and diversifying revenue streams while enhancing profitability
- Plans Initial Public Offering in near future
- Envisages to expand footprint through recntly introduced agency model; expanding branch network
- Plans to introduce window Takaful operations

FINANCIAL RISK

- Accumulated deficit has been significantly reduced (Dec'15: PKR 305mln, surplus, Dec'11: PKR 155mln deficit)
- Accumulated capital contribution to statutory funds stands at PKR 656mln. Half of the total surplus would be paid back by mid of CY16, while remaining would be gradually paid back until CY17. This would boost equity of the compapny (Dec15: PKR 351mln)
- Investment book is predominantly deployed in low risk government securities (78%), followed by equities (12%).
- Investment yield of both statutory funds (10%) and shareholders' funds (10%) sustained its performance
- liquidity ratio remained constant at 1.1x, providing good risk absorption capacity

RATING RATIONALE

The rating reflects ALAC's sustained progression in business volume emanating from its synergies with the group bank - MCB. With significant growth in its topline, the company has succeeded in achieving break-even and thereafter sustained surplus for four quarters of CY15; ahead of plan, and is continuously improving. The company's statutory funds are now self-subsistent without relying on capital contribution; accumulated deficit of statutory fund has been significantly reduced. ALAC is eyeing return of major portion of capital contribution by end-Dec'16 which will boost equity of the company, and remaining by end-Dec'17. The growth in volume is primarily Bancassurance driven. The management has built a sales force around agency model as well to add to its growth momentum. Although this would lead to high set-up cost yet success therein is important for future positioning of the company. Meanwhile, comfort is drawn from ALAC's strong risk absorption capacity, represented by sufficient liquidity and overall quality of its investment portfolio.

KEY RATING DRIVERS

The positive outlook takes into account management's ability to improve its market position while sustaining its core profitability. The continued self-subsistence of statutory funds along with complete payback of capital contribution and ensuring underwriting profitability would benefit the rating. Moreover, prudent management of risk in wake of increasing business volumes and agency model would remain important.

INDUSTRY SNAPSHOT

Life insurance sector has seen remarkable growth in recent years (CAGR 5years: 24%), wherein the private sector growth (35%) has outpaced the industry's average. Private sector brought innovative life solution, mainly bancassurance – a sum of both saving plans and nominal life cover, targeting niche market. Investment portfolios of life insurers are highly skewed towards government securities (primarily PIBs). Interest rate cuts brought revaluation gains augmenting bottom-line. The sector comprises nine players, including one state owned giant, and two family takaful operators – relatively late entrants. Takaful contribution share is small. With the advent of large conventional insurers commencing window takaful operations, it is expected to spur growth. Simultaneously, the competition has stiffened for dedicated takaful operators. The penetration in terms of insurable lives is low, implying further growth potential.



LIFE INSURANCE
Financials [Summary]

Adamjee Life Assurance Company Limited (ALAC)

BALANCE SHEET	31-Dec-15	31-Dec-14	31-Dec-13
Investments			
Liquid Investments	15,088	8,682	5,478
Investment in Associates	-	-	-
Other Investments	14	3	-
	15,101	8,685	5,478
Insurance Related Assets	347	360	34
Other Assets	210	144	123
TOTAL ASSETS	15,659	9,189	5,634
Equity	351	364	419
Statutory Fund	14,445	8,256	4,860
Insurance Related Liabilities	471	337	190
Other Liabilities	392	232	165
TOTAL EQUITY & LIABILITIES	15,659	9,189	5,635
INCOME STATEMENT	31-Dec-15	31-Dec-14	31-Dec-13
Net Premium			
Gross Premium	9,151	5,215	4,475
Reinsurance Expense	(313)	(239)	(162)
Net Premium	8,838	4,976	4,313
Net Claims	(1,778)	(1,243)	(608)
Expenses	(2,054)	(1,456)	(1,213)
Investment Income	1,170	1,049	317
Excess of Income over Expenditure (EoI)	6,175	3,326	2,809
Miscellaneous (Expense)/ Income	-	-	-
Reserve for Policyholders' Liabilities	5,869	3,254	2,873
SURPLUS BEFORE APPROPRIATIONS	305	72	(64)
RATIO ANALYSIS	31-Dec-15	31-Dec-14	31-Dec-13
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	75%	17%	95%
Premium Mix (Individual GPW/ Total GPW)	96%	94%	96%
Persistency Ratio (Individuals Funds)	74%	75%	77%
Loss Ratio (Net Claims as %age of net premium)	20%	25%	14%
Operating Ratio	97%	99%	101%
Performance			
Return on Equity - Shareholder	0.2%	13.2%	3.7%
Liquidity & Solvency			
Liquidity Ratio – times	1.1	1.1	1.1

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
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-	Moderately Weak. 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-	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.
CCC CC C	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.
D	Distressed. Either failed to make payments on their obligations in a timely manner, are deemed to be insolvent, or have been subjected to some form of regulatory intervention. Limited liquid assets available to fund obligations.

<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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.</p>	<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>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.</p>	<p>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.</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.



Name of Issuer | Adamjee Life Assurance Company Limited
Sector | Life Insurance
Type of Relationship | Solicited

Purpose of the Rating | Independent Risk Assessment

Rating History

Date	Rating	Outlook	Action
12-Apr-16	A	Positive	Maintain
22-Apr-15	A	Positive	Maintain
12-May-14	A	Stable	Maintain
3-May-13	A	Stable	Maintain
11-Nov-11	A	Stable	Maintain

Related Criteria and Research

Rating Methodology | Insurer Financial Strength Rating
 Sector Research | Insurance | Life - Viewpoint | Mar-16

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Rating Team Statement

Rating Procedure
 Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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