



The Pakistan Credit Rating Agency Limited

## Rating Report

### Adamjee Life Assurance Company Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jun-2022	A++ (ifs)	-	Stable	Maintain	-
31-Mar-2022	A++ (ifs)	-	Stable	Harmonize	-
29-Jun-2021	A+	-	Stable	Maintain	-
29-Jun-2020	A+	-	Stable	Maintain	-
24-Dec-2019	A+	-	Stable	Maintain	-
25-Jun-2019	A+	-	Stable	Maintain	-
27-Dec-2018	A+	-	Stable	Maintain	-
21-Jun-2018	A+	-	Stable	Maintain	-
04-Dec-2017	A+	-	Stable	Maintain	-
12-Apr-2017	A+	-	Stable	Upgrade	-

#### Rating Rationale and Key Rating Drivers

Adamjee Life under the umbrella of “Nishat Group” is a mid-sized life insurance company. Synergic benefits with the group bank (MCB Bank Limited) are being unlocked specifically in the bancassurance. The Company has registered a surplus in CY21 whereas the window takaful operations have added significant volumes. The management has expanded its branch network and also has built a sales force around agency model in order to diversify its distribution channels other than bancassurance. The Company has witnessed heightened increase in second year premium, means higher clientage retention as a result. Meanwhile, comfort is drawn from Adamjee Life's strong risk absorption capacity, represented by sufficient liquidity and overall quality of its investment portfolio. The Company aims to sustain its position in light of the current political and economic circumstances. The Company issued right shares during CY21 and got listing on Pakistan Stock Exchange (PSX) on 4th March, 2022 with a free float of 10%. Listing on PSX has strengthened the Company's financial profile.

Gross Premium Written (GPW) of the Life Insurance industry in Pakistan stood at PKR~95bln during 1QCY22 (1QCY21: PKR~62bln; CY21: PKR~291bln; CY20: PKR~233bln), showing a YoY growth of ~53%. Major growth was observed in Govt. sector. Past year has been very challenging due to the COVID-19 which has caused immense stress on most businesses. CY21 has shown a recovery in business and a positive trend in the growth of the industry, as compared to the corresponding period. Recent hike in the policy rate will be a source of safe return for the Companies on Govt. investments. On the other hand, a massive hike in inflation is also going to affect the surplus income of the general public.

The continued self-subsistence of statutory funds, ability to improve its market position and strengthening of core profitability are integral for the rating. Moreover, prudent management of risk in wake of increasing business volumes and agency model remain important.

#### Disclosure

<b>Name of Rated Entity</b>	Adamjee Life Assurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Criteria   Rating Modifiers(Jun-21),Methodology   Life Insurance Rating(Mar-22)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-21)
<b>Rating Analysts</b>	Waqas Ahmad   waqas.ahmad@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Adamjee Life Assurance Company Limited (Adamjee Life) is a public listed company, possessing a trading symbol of “ALIFE” on the PSX.

**Background** Adamjee Life was incorporated as a public unlisted company on August 4, 2008. The Company started its operations on 24 April 2009. The Company's shares were quoted for trading on Pakistan Stock Exchange (PSX) on March 4, 2022.

**Operations** Adamjee Life is currently offering a number of life insurance schemes including Group Life, Credit Life, Saving /Investment solutions, and Health Covers. With the adoption of the Agency Model, the Company has expanded its branch network to a total of 68 branches in Pakistan.

## Ownership

**Ownership Structure** Adamjee Life is a subsidiary of Adamjee Insurance Limited (Adamjee Insurance) which owns 90% of the Company's shares, remaining shares (10%) belong to the general public.

**Stability** The majority stake still resides with Adamjee Insurance and ownership of the Company is expected to remain stable over the rating horizon.

**Business Acumen** Nishat Group is one of the most distinguished business groups in Pakistan that has seen several economic cycles and kept the growing trend intact.

**Financial Strength** Adamjee Insurance, one of the leading general insurance companies in Pakistan, is part of Nishat Group since 2004. Adamjee Insurance enjoys a competitive edge in the insurance industry due to its strong asset base, sound capitalization, huge reserves, balanced portfolio mix, and large market share. Adamjee Insurance is rated “AA++(ifs)” by PACRA.

## Governance

**Board Structure** The Company's BoD comprises seven members. The board consists of four non-executives, two independent and an executive director (CEO). The board has three committees namely; 1) Investment Committee, 2) Audit Committee, and 3) Ethics, HR, Remuneration & Nominations Committee.

**Members' Profile** The Chairman of the board - Mr. Sheikh Muhammad Jawed has over three decades of diversified professional experience. He is also serving as a director of Adamjee Insurance.

**Board Effectiveness** Board oversight is exercised through board level committees. The diversity and challenge through the presence of independent directors enhance the effectiveness of the decision making. The minutes of the meetings are adequately documented.

**Financial Transparency** M/S Yousuf Adil Chartered Accountants are the External Auditors of the Company, and they expressed an unqualified opinion on financial statements for period end-Dec'21.

## Management

**Organizational Structure** The Company has a reasonably defined organizational structure. Adamjee Life follows a lean organizational structure, with clearly demarcated reporting lines. Different type of activities is adequately segregated and managed through various divisions.

**Management Team** Mr. Manzar Mushtaq has been appointed as CEO of the Company w.e.f May'22, having experience of 19 years. Previously, he has served as CEO of Habib Metropolitan Financial Services Ltd. for 8 years. Each department of the Company is headed by a seasoned professional and they report to the CEO.

**Effectiveness** The senior management team of Adamjee Life comprises qualified professionals, having experience of life insurance industry. The key management is associated with the Company for past 9 years approximately. There are three management committees namely; i) Underwriting, Re-insurance & Co-insurance Committee ii) Claims Settlement Committee iii) Risk Management & Compliance Committee.

**Claim Management System** The claims manual identifies the requirements for claims under different policies. The items required have been clearly outlined and in case of irregularities, alternate requirements and powers of individuals have been stated. The manual covers all eventualities and processes to be followed to tackle them.

**Investment Management Function** The Company maintains a comprehensive, well-documented IPS, documenting clearly defined rules of investment making, trading, and selection of brokers. The IPS is formulated by the Board Investment Committee (BIC). The BIC is also responsible for constituting the executive investment committee (EIC). Executive investment committee is responsible to take investment, divestment and reinvestment decisions in accordance with the IPS.

**Risk Management Framework** The risk management manual has been developed under assistance from the Company's reinsurer – Munich Re. It contains guidelines for handling the general reinsurance treaties, as well as policies and procedures to handle the facultative reinsurance, reinsurance allocation, and validation, in addition to reinsurance management and control.

## Business Risk

**Industry Dynamics** Gross Premium Written (GPW) of the Life Insurance industry in Pakistan stood at PKR~95bln during 1QCY22 (1QCY21: PKR~62bln; CY21: PKR~291bln; CY20: PKR~233bln), showing a YoY growth of ~53%. Major growth was observed in Govt. sector. Past year has been very challenging due to the COVID-19 which has caused immense stress on most businesses. CY21 has shown a recovery in business and a positive trend in the growth of the industry, as compared to the corresponding period. Recent hike in the policy rate will be a source of safe return for the Companies on Govt. investments. On the other hand, a massive hike in inflation is also going to affect the surplus income of the general public.

**Relative Position** Adamjee Life is classified as a mid-sized company with a market share of 6.26% as of Mar'22.

**Persistency** The Company has shown first-year persistency of 87% for 1QCY22 (CY21:73% ; CY20:75%), while subsequent year persistency stood at 87% for 1QCY22 (CY21: 82%; CY20: 74%) owing to improved subsequent year's renewals of PKR 1,864mln for 1QCY22 (CY21: PKR 6,594mln; CY20: PKR 5,271mln).

**Revenue** During 1QCY22, the Company reported GPW of PKR 5,950mln (CY21: PKR 20,658mln; CY20: PKR 14,915mln) emanating growth of 20% on a YoY basis. Single premium revenues showed a growth of 25% in 1QCY22 PKR 2,246mln (CY21: PKR 7,539mln; CY20: PKR 5,331mln). The single premium contributed 38% of the total GPW, as compared to 36% for CY21.

**Profitability** Adamjee Life reported profit before tax of PKR 96mln for 1QCY22 (CY21: PKR 231mln ; CY20: PKR 310mln), owing to improved GPW and investment income the Company achieved a growth of 11% in profit before tax. During 1QCY22, the Company recorded a profit after tax of PKR 68mln (CY21: PKR 173mln; CY20: PKR 191mln). The Company reported a loss ratio of 50% for 1QCY22 (CY21: 45%).

**Investment Performance** Net investment income of the Company in 1QCY22 was PKR 1,090mln (1QCY21: PKR 780mln; CY21: PKR 3,039mln; CY20: PKR 4,305mln). Government securities majorly contributed to the increased investment income.

**Sustainability** The Company envisages an expansion in branch networks on the back of the agency model. The bancassurance business expects to show steady growth, slightly less than historical due to the implementation of new Corporate Insurance Agents' Regulations. The Company will continue its expansion plan for its Direct Distribution Sales force.

## Financial Risk

**Claim Efficiency** Claims outstanding days of the Company decreased to 47 at end-Mar'22 from 53 days in CY21 emanating from an increase of gross claims expense. Net Claims expense recorded at PKR 2,864 as at end-Mar'22 (CY21: PKR 9,106mln; CY20: PKR 6,831mln).

**Re-Insurance** The Company's primary reinsurer is Munich Re Reinsurance Company covering all conventional and takaful business written under both individual and group contracts under which business is ceded up to agreed limits and one secondary reinsurance arrangement with Hannover Re (Malaysian branch) under group life insurance Quota share and surplus reinsurance agreement.

**Cashflows & Coverages** As at end-Mar'22, the liquid investments of the Company stood at PKR 64bln (CY21: PKR 59bln; CY20: PKR 49bln). The Company has liquid assets less borrowings to outstanding claims ratio of 41.61x for 1QCY22 (CY21: 36.54x; CY20: 39.85x) providing satisfactory risk absorption capacity regarding insurance liabilities. Statutory fund balance at the end-Mar'22 is PKR 60bln (CY21: PKR 57bln; CY20: PKR 47bln).

**Capital Adequacy** The Company has a paid-up capital of PKR 2,500mln. The Company has issued right shares of PKR 1,565bln during CY21. As of end-Mar'22, total equity stood at PKR 3,316mln (CY21: PKR 3,250mln; CY20: PKR 1,491mln).



PKR mln

Adamjee Life Assurance Company Limited  
Listed Public Limited

Mar-22	Dec-21	Dec-20	Dec-19
3M	12M	12M	12M

**A BALANCE SHEET**

1 Investments	65,303	60,344	49,358	39,215
2 Insurance Related Assets	164	137	232	57
3 Other Assets	1,289	1,067	848	597
4 Fixed Assets	369	370	402	564
<b>Total Assets</b>	<b>67,126</b>	<b>61,918</b>	<b>50,839</b>	<b>40,434</b>
5 Underwriting Provisions	-	-	-	-
6 Insurance Related Liabilities	60,277	57,672	48,012	37,531
7 Other Liabilities	3,242	681	900	1,222
8 Borrowings	290	315	436	361
<b>Total Liabilities</b>	<b>63,809</b>	<b>58,668</b>	<b>49,349</b>	<b>39,114</b>
<b>Equity</b>	<b>3,316</b>	<b>3,250</b>	<b>1,491</b>	<b>1,319</b>

**B INCOME STATEMENT**

1 Gross Premium Written	5,950	20,658	17,101	12,969
2 Net Insurance Premium	5,767	20,128	16,537	12,386
3 Underwriting Expenses	(3,693)	(12,244)	(9,531)	(9,424)
<b>Underwriting Results</b>	<b>2,074</b>	<b>7,884</b>	<b>7,006</b>	<b>2,962</b>
4 Management Expenses	(275)	(1,255)	(1,011)	(1,048)
5 Investment Income	1,090	3,039	4,305	3,493
6 Other Income / (Expense)	(7)	53	(53)	1
7 Net Change in Reserve for Policyholders' Liabilities	(2,786)	(9,490)	(9,937)	(5,126)
<b>Profit Before Tax</b>	<b>96</b>	<b>231</b>	<b>310</b>	<b>281</b>
8 Taxes	(29)	(57)	(119)	(64)
<b>Profit After Tax</b>	<b>68</b>	<b>174</b>	<b>191</b>	<b>217</b>

**C RATIO ANALYSIS**

<b>1 Profitability</b>				
Loss Ratio (Net Insurance Claims / Net Insurance Premium )	49.7%	45.2%	41.4%	54.3%
Combined Ratio (Loss Ratio + Expense Ratio)	68.8%	67.1%	63.7%	84.6%
<b>2 Investment Performance</b>				
Investment Income / Operating Profit	37.7%	31.4%	41.8%	64.6%
<b>3 Liquidity</b>				
(Liquid Assets - Borrowings) / Outstanding Claims	41.61	36.54	39.85	44.63
<b>4 Capital Adequacy</b>				
Liquid Investments / Equity	19.41	18.28	32.54	29.06

**Insurer Financial Strength (IFS) Rating**

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
AAA (ifs)	<b>Exceptionally Strong.</b> Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	<b>Very Strong.</b> Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	<b>Strong.</b> Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	<b>Good.</b> Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	<b>Modest.</b> Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	<b>Weak.</b> Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	<b>Very Weak.</b> Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	<b>Distressed.</b> Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> 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 | Clause 11-(A)(p).
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- (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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