



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
26-Jun-2023	A++ (ifs)	-	Stable	Maintain	-
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	-

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 CY22 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. Adamjee Life stands out as the sole life insurance company that places a distinct focus on single premium policies, which account for a significant 35% of its GPW. The Company has also witnessed heightened increase in second year and subsequent year premium, means higher clientele 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 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.

During FY23, Pakistan's Life Insurance sector faced challenges due to an unexpected rise in inflation which led to a decrease in disposable incomes. To adapt, sector players shifted their focus from first-year persistency to second year, prioritizing top-line growth. During the said period, unit-linked products remained attractive, offering fixed-rate investment opportunities amidst high policy rates. The sector's outlook is expected to remain Stable, supported by investment income in the next financial year. However, muted economic growth could adversely impact the sector if not timely mitigated.

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

Name of Rated Entity	Adamjee Life Assurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Rating Modifiers(Jun-22),Methodology Life Insurance Rating(Mar-23)
Related Research	Sector Study Life Insurance(Jun-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504



Profile

Legal Structure Adamjee Life Assurance Company Limited ("Adamjee Life" or the "Company") is a publicly listed company on the Pakistan Stock Exchange with the ticker "ALIFE."

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

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 and two independent directors. 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. Board committees except Ethics & HR meet on quarterly basis, the minutes of which are adequately documented.

Financial Transparency External Auditors of the Company, M/S Yousuf Adil Chartered Accountants gave an unqualified opinion on financial statements for year ended Dec'22.

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. There are three management committees namely; i) Underwriting, Re-insurance & Co-insurance Committee, ii) Claims Settlement Committee iii) Risk Management & Compliance Committee.

Management Team Mr. Manzar Mushtaq has been appointed as CEO of the Company since 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 is by a seasoned professional and they report to the CEO.

Effectiveness The CEO receives regular updates through the Management Information System (MIS). Formal minutes are prepared for management meetings, with a preshared agenda to ensure meeting quality and effectiveness.

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. 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 Life Insurance industry in Pakistan reported at~ PKR 370bln, indicating a notable growth of~ 28.5% YoY (CY21: PKR~288bln). Life Insurance Industry in Pakistan is dominated by public sector contributing 65% of Gross Premiums Written (GPW) during CY22. Net claims increased by 48.8% to PKR 270bln during CY22. Investment income of industry increased by 22.1% to PKR 126bln. Overall, higher GPW and improved investment income resulted in net profitability of PKR 17bln for CY22. Takaful industry plays a crucial role in the Islamic financial system, offering a diverse range of risk protection products and services that complement existing options for consumers.

Relative Position Adamjee Life is classified as a mid-sized company with a market share of 5.6% as at Dec'22.

Persistency First-year persistency reduced to 72% during CY22 (CY21: 73%) due to reduced retainment of policyholders that who either chose not to continue their policies or fail to pay their premiums after the initial purchase. Renewal persistency considered moderate, has reduced to 80% during CY22 (CY21: 82%).

Revenue Individual life regular premium increased by 1.4% emanating negligible growth on YoY basis. The Company reported GPW of PKR 20,949m (CY21: PKR 20,658m). During 1QCY23, the Company reported GPW of PKR 5,990m (1QCY22: PKR 5,950m). Single premium revenues showed a reduction of 2.7% on YoY basis amounting to PKR 7,339m during CY22 (CY21: PKR 7,539m).

Profitability The underwriting performance of the Company resulted an underwriting profit of of PKR 3,239m during CY22 (CY21: PKR 7,884m). The Company has earned a profit after tax of PKR 498m for CY22 against PKR 174m in CY21 (CY20: PKR 191m). This is largely due to the Company changed its focus from single premium and substantial increase in subsequent year premium for the growth of bottom-line.

Investment Performance The Company reported an investment income of PKR 3,723m during CY22 (CY21: PKR 3,039m). Investment income grossed up to PKR 2,074m for the period ended 1QCY23 (1QCY22: PKR 1,090m). Returns generated from government securities emerged as the key investment income generators, contributing 67% of the total 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 increased to 59 days in CY22 from 53 days in CY21 emanating from increase of net claims expense. Net claim expense recorded at PKR 14,234m (CY21: PKR 9,106m). Net Claims expense recorded at PKR 4,180 during 1QCY23 (1QCY22: PKR 2,864m).

Re-Insurance The Company has multiple re-insurance arrangements with various reinsurers including Hannover RE (rated "AA-" by S&P) and Munich RE (rated "A+" by A.M. Best).

Cashflows & Coverages The total investment book scales to PKR 67,031m for CY22 posting a growth of 11% (CY21: PKR 60,344m, CY20: PKR 49,358m; CY19: PKR 39,215m). Investment book amounted to PKR 68,698m during 1QCY23 (1QCY22: PKR 65,303m).

Capital Adequacy The Company has a paid-up capital of PKR 2500m. As of end-Mar'23, the shareholder's equity of the Company stood at PKR 3,879m (CY22:PKR 3,748m).



PKR mln

Adamjee Life Assurance Company Limited
Listed Public Limited

Mar-23	Dec-22	Dec-21	Dec-20
3M	12M	12M	12M

A BALANCE SHEET

1 Investments	68,698	67,031	60,344	49,358
2 Insurance Related Assets	70	62	137	232
3 Other Assets	2,141	1,706	1,067	848
4 Fixed Assets	358	367	370	402
Total Assets	71,267	69,166	61,918	50,839
5 Underwriting Provisions	-	-	-	-
6 Insurance Related Liabilities	66,152	64,193	57,672	47,882
7 Other Liabilities	1,090	1,065	681	1,031
8 Borrowings	146	160	315	436
Total Liabilities	67,388	65,418	58,668	49,349
Equity	3,879	3,748	3,250	1,491

B INCOME STATEMENT

1 Gross Premium Written	5,991	20,949	20,658	17,101
2 Net Insurance Premium	5,785	20,315	20,128	16,537
3 Underwriting Expenses	(4,826)	(17,076)	(12,244)	(9,531)
Underwriting Results	959	3,239	7,884	7,006
4 Management Expenses	(352)	(1,201)	(1,255)	(1,011)
5 Investment Income	2,074	3,723	3,039	4,305
6 Other Income / (Expense)	75	(14)	53	(53)
7 Net Change in Reserve for Policyholders' Liabilities	(2,550)	(4,937)	(9,490)	(9,937)
Profit Before Tax	205	810	231	310
8 Taxes	(75)	(313)	(57)	(119)
Profit After Tax	130	498	174	191

C RATIO ANALYSIS

1 Profitability

Loss Ratio (Net Insurance Claims / Net Insurance Premium)

72.3%	70.1%	45.2%	41.4%
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Combined Ratio (Loss Ratio + Expense Ratio)

89.5%	90.0%	67.1%	63.7%
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2 Investment Performance

Investment Income / Operating Profit

77.4%	64.6%	31.4%	41.8%
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3 Liquidity

(Liquid Assets - Borrowings) / Outstanding Claims

24.68	20.81	36.54	39.85
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4 Capital Adequacy

Liquid Investments / Equity

17.45	17.63	18.28	32.54
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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)	Exceptionally Strong. 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)	Very Strong. 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)	Strong. 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)	Good. 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)	Modest. 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)	Weak. 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)	Very Weak. 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)	Distressed. 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>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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- (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 | Clause 11-(A)(p).
- (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)

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- (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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