



The Pakistan Credit Rating Agency Limited

Rating Report

Adamjee Life Assurance Company Limited

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Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
26-Jun-2024	A++ (ifs)	Positive	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Pakistan's Life Insurance market is dominated by the public sector (~66.6% share as of Dec-23), while the private sector holds only ~33.4%. The sector players have shifted their focus from first-year persistency to second-year, prioritizing Gross Premium Written (GPW) growth. During CY23, overall GPW showed a YoY growth of ~7.7%. Out of the total, ~46.6% of the GPW pertains to renewals, followed by group life without cash value (~37.2%). Net Premium also showed a YoY increase of ~7.4%. As policy maturities and surrenders have largely trickled in, net claims grew by ~31%. To adapt, the industry holds a substantial investment book (CY23: PKR 2,021bln, CY22: PKR 1,747bln) stabilizing the overall outlook.

Adamjee Life Assurance Company Ltd. ('Adamjee Life' or 'the Company') under the umbrella of Nishat Group ('the Group') is a mid-sized life insurer. Strategic benefits from the Group's financial institute (MCB Bank Limited) are being unlocked through bancassurance. However, lately, the Company is increasing its reliance on the agency channel by expanding its branch network. The Company has registered a surplus during CY23, with takaful operations contributing ~30% to the overall GPW. Adamjee Life stands out as the sole life insurance company that places a distinct focus on single premium policies, which account for a significant ~33% of its GPW. The Company witnessed increase in subsequent year premium identifying its ability to retain clientele. Comfort is drawn from Adamjee Life's strong risk absorption capacity, represented by sufficient liquidity and overall quality of its investment portfolio.

The rating is dependent on the improvement in competitive positioning of the Company. This, along with improved core and operational profitability remains imperative to the rating. Moreover, solvency profile as indicated through reserves, must remain substantial at all times. Prudence in risk management while expanding through agency model remains important.

Disclosure

Name of Rated Entity	Adamjee Life Assurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Assessment Framework Life Insurance(Mar-24),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study Life Insurance(Jun-23)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504



Profile

Legal Structure Adamjee Life Assurance Company Limited ("Adamjee Life" or "the Company") was incorporated as a public unlisted company on 04-Aug-08. The Company got listed on PSX on 04-Mar-22.

Background Adamjee Life is a part of Nishat Group that holds expertise in various sectors in local and international market. Adamjee Insurance Ltd. (Adamjee Insurance), a Group company, and Holland Insurance Pty. Ltd., operating in Australia and NewZeland, formed Adamjee Life. The Company became operational in Apr-09. In May-16, the Company was granted authorization by SECP to operate window takaful in respect to family takaful products. However, takaful operations began in Jul-16.

Operations The Company mainly operates in conventional business 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 68 branches across Pakistan.

Ownership

Ownership Structure The major stake (~91.4%) of the Company is held by Adamjee Insurance. Modaraba's hold ~0.9% stake; while, the remaining ~7.6% shares belong to the general public.

Stability Ownership of the Company seems to remain stable as the majority of the stake are held by Adamjee Insurance.

Business Acumen The Sponsors possess robust expertise and a diversified business portfolio offering substantial support to the Company.

Financial Strength The Company gathers its financial strengths from the Group, if needs be.

Governance

Board Structure The overall control of the Company lies among eight-member Board. Five members, including one female Director and two members of Mansha family, are Non-Executive Directors, while there are two Independent Directors and one Executive Director.

Members' Profile Mr. S. M. Jawed chairs the Board and has more than three decades of diversified professional experience. He is also serving as a director of Adamjee Insurance. All other Board members possess diversified professional background.

Board Effectiveness During CY23, the Board met six times. The Board is assisted by three committees: 1) Investment, 2) Audit, and 3) Ethics, HR, Remuneration & Nominations. The Board committees, except Ethics & HR, meet on quarterly basis; the minutes of which are adequately documented.

Financial Transparency External Auditors, M/S Yousuf Adil Chartered Accountants, has issued an unqualified opinion on the financial statements as of CY23.

Management

Organizational Structure The Company operates through Sales and Marketing, HR, Window Takaful, Legal services, Investment, Risk Management, IT, Compliance & Claims, Actuarial Services and Finance. All the Heads reports to the CEO, who then reports to the BoD. However, the Head of Internal Audit, Investment and HR functionally reports to the respective BoD committee and administratively to the CEO.

Management Team Mr. Manzar Mushtaq, the CEO, holds an experience of 19 years. Mr. Jalal Meghani, the CFO, holds an overall experience of above 3 decades. He is assisted by a team of professionals.

Effectiveness The Company has 3 management committees: Underwriting, Re-insurance & Co-insurance, Claims Settlement, and Risk Management & Compliance. All of these are headed by Non-Executive Directors and met on quarterly basis. Minutes are adequately maintained.

Claim Management System The Company has an automated claims management system. The manual identifies the claims requirements under different policies. The items are 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 has outsourced its investment management function to MCB funds and maintains a comprehensive, well-documented IPS, documenting clearly defined investment rules, trading and broker selection. Executive investment committee decides to invest, divest and reinvest in accordance with the IPS.

Risk Management Framework The risk management manual has been developed by the Company. It contains guidelines for handling the general reinsurance treaties, along with policies and procedures to handle the facultative reinsurance, allocation, and validation, in addition to management and control.

Business Risk

Industry Dynamics Life Insurance market is dominated by public sector (~67% share as of Dec-23). While, the private sector holds only ~33% of the market share. GPW of the industry stood at ~PKR 406bln during CY23 (CY22: ~PKR 377bln), showing a YoY growth of ~8%. GPW is bifurcation i.e., between regular premium products (first year premium, second year premium and subsequent year premium), single premium products and group life policies. ~47% of the total premium pertains to renewal premium products, and is followed by premium booked under the category of group life without cash values at ~37%, during Dec-23. Net Premium stood at PKR~399bln, during CY23 (CY22: PKR~372bln), showing a YoY increase of ~7%. On the claims end, Net Claims stood at ~PKR 367bln, during CY23 (CY22: ~PKR 281bln). The total investment book of the insurance industry stood at ~PKR 2,021bln, during CY23 (CY22: ~PKR 1,747bln). Going forward, the overall outlook of the industry remains stable.

Relative Position The Company is classified as a mid-sized company with a market share of ~5.8% during CY23.

Persistency During CY23, the first year persistency clocked at ~77% (CY22: ~72%) whereas the renewal persistency clocked at ~81% (CY22: ~80%). Efficient client management and increase in policy prices led to this increase.

Revenue The Company generates the revenue primarily from sale of conventional plans. The Company recorded GPW of PKR 23bln during CY23 (CY22: PKR 21bln) mainly from single premium. Going forward, revenue is expected to post an inclining trend.

Profitability During CY23, the Company's net profits posted growth (CY23: PKR 0.9bln, CY22: PKR 0.5bln) backed by substantial increase in investment income not attributable to the policy holder.

Investment Performance During CY23, the investment income increased and stood at PKR 17bln (CY22: ~PKR 3.7bln). This is mainly due to higher returns on government securities.

Sustainability The Company envisages an expansion in branch networks on the back of the agency model. The Company will continue its expansion plan for its Direct Distribution Sales force.

Financial Risk

Claim Efficiency As of CY23, the Company reported outstanding claims of PKR 3.4bln (CY22: PKR 3.1bln). This increase is mainly due to maturity of previously sold policies and low purchasing power of policyholders leading to surrender claims.

Re-Insurance The Company has multiple re-insurance arrangements including Hannover RE (rated "AA-" by S&P), Munich RE (rated "A+" by A.M. Best), Swiss RE (rated "A+" by A.M. Best) and HCC Tokio Marine (rated "A++" by A.M. Best)

Cashflows & Coverages As of CY23, the liquidity stood at 3.2x. Liquid assets increased by ~23.1% and reported at PKR 80bln (CY22: PKR 65bln). Liquid investment to outstanding claims stood at 23.7x. The liquid investments has increased because investments in govt. securities of ~61.8% standing at PKR 61bln (CY22: PKR 38bln).

Capital Adequacy As of CY23, the equity increased by ~17.9% and recorded at PKR 4.4bln (CY22: PKR 3.7bln). The increase in equity is due to increase in both reserves and unappropriated profit.



PKR mln

Adamjee Life Assurance Company Limited
Public Listed

Mar-24	Dec-23	Mar-23	Dec-22	Dec-21
3M	12M	3M	12M	12M

A BALANCE SHEET

1 Investments	86,187	83,600	68,698	67,031	60,344
2 Insurance Related Assets	184	94	70	62	137
3 Other Assets	2,940	2,077	2,141	1,706	1,067
4 Fixed Assets	294	319	358	367	370
Total Assets	89,605	86,090	71,267	69,166	61,918
5 Underwriting Provisions	-	-	-	-	-
6 Insurance Related Liabilities	83,606	80,257	66,152	64,193	57,672
7 Other Liabilities	1,195	1,311	1,090	1,065	681
8 Borrowings	82	103	146	160	315
Total Liabilities	84,883	81,672	67,388	65,418	58,668
Equity	4,721	4,418	3,879	3,748	3,250

B INCOME STATEMENT

1 Gross Premium Written	6,547	23,351	5,991	20,949	20,658
2 Net Insurance Premium	6,343	22,686	5,785	20,315	20,128
3 Underwriting Expenses	(6,852)	(22,171)	(4,826)	(17,076)	(12,244)
4 Management Expenses	(311)	(1,117)	(352)	(1,201)	(1,255)
5 Investment Income	3,919	17,057	2,074	3,723	3,039
6 Other Income / (Expense)	191	984	75	(14)	53
7 Net Change in Reserve for Policyholders' Liabilities	(2,783)	(15,897)	(2,550)	(4,937)	(9,490)
Profit Before Tax	506	1,541	205	810	231
8 Taxes	(203)	(633)	(75)	(313)	(57)
Profit After Tax	303	908	130	498	174

C RATIO ANALYSIS

1 Profitability

Loss Ratio (Net Insurance Claims / Net Insurance Premium)	95.9%	83.7%	72.3%	70.1%	45.2%
Combined Ratio (Loss Ratio + Expense Ratio)	112.9%	102.7%	89.5%	90.0%	67.1%

2 Investment Performance

Investment Income / Operating Profit	126.5%	103.7%	77.4%	64.6%	31.4%
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3 Liquidity

(Liquid Assets - Borrowings) / Outstanding Claims	20.85	23.76	24.68	20.81	36.54
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4 Capital Adequacy

Liquid Investments / Equity	18.03	18.68	17.45	17.63	18.28
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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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- 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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Conduct of Business

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- (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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- (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)
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- (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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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(d)

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(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 | 14-3(f)(vii)

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