



The Pakistan Credit Rating Agency Limited

Rating Report

Adamjee Insurance Company Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
01-Mar-2024	AA++ (ifs)	Stable	Maintain	-
02-Mar-2023	AA++ (ifs)	Stable	Maintain	-
31-Mar-2022	AA++ (ifs)	Stable	Harmonize	-
02-Mar-2022	AA+	Stable	Maintain	-
02-Mar-2021	AA+	Stable	Maintain	-
04-Mar-2020	AA+	Stable	Maintain	-
02-Sep-2019	AA+	Stable	Maintain	-
05-Mar-2019	AA+	Stable	Maintain	-
07-Dec-2018	AA+	Stable	Maintain	-
27-Apr-2018	AA+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Pakistan's general insurance industry has a total size of PKR 166bln during 9MCY23 (9MCY22: PKR 113bln), exhibiting a growth of ~47%, in terms of Gross Written Premium (GWP). The industry reported a growth of ~266% in underwriting results (9MCY23: PKR 9.9bln, 9MCY22: PKR 2.7bln). The net income of the industry also experienced an increase of ~170% to PKR 20bln during 9MCY23 (9MCY22: PKR 7.4bln). The industry's overall outlook remains stable with substantial liquidity available with players.

The IFS rating of Adamjee Insurance Company Limited ('Adamjee Insurance' or 'the Company') drives strength from the strong backing of the Nishat Group, majorly through MCB. This along with a robust governance framework provides a comprehensive policy development platform. The Company's GPW posted a value-driven growth of ~23%, with minimal volumes trickling in. This growth was mainly derived from fire and property segment (~50%); While, other segments like motor contributed ~26%, accident and health ~15%, marine and transport ~6% and miscellaneous contributed ~4% to the total GPW. Operational challenges in the international (UAE) business led the Company to book underwriting loss (~PKR 622mln); However, local business remains profitable. The management believes that the overall impact of international branches is expected to breakeven by CY24, while generating profits till CY25. Overall, the bottom-line gathers support from substantial investment income flowing in from a considerably strong investment book (mainly invested in Group companies). Despite substantial standing in Pakistan's insurance market, management of loss ratio remains crucial for the rating. On the financial risk front, the Company holds adequate liquidity with a considerable equity standing. Higher claims are stressing the efficiency; however, the Company gathers support from a diversified and creditworthy reinsurer panel.

The rating depends on the profitability of core business and investment income. Continuous strengthening of its market position along with its growing underwriting profits remains fundamental for the rating. Sustainable segment mix and efficient expense management remained critical to the financial performance with further progress being envisaged.

Disclosure

Name of Rated Entity	Adamjee Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Mar-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study General Insurance(Jun-23)
Rating Analysts	Nabia Rauf nabia.rauf@pacra.com +92-42-35869504



Profile

Legal Structure Adamjee Insurance Company Limited ("Adamjee Insurance" or "the Company") was incorporated in 1960 and is listed on PSX.

Background The Company was established with a paid-up capital of PKR 2.5mln in early 60's. Later in 1972, Adamjee tapped in the international market (UAE) Over time, there had been significant developments in the Company's segmental mix and product slate. In 2004, a significant stake in the ownership was acquired by Nishat Group ('the Group') through MCB. The Company acquired license to began takaful operations in 2016.

Operations The Company operates in both, Conventional and Takaful business domains. Within both, the Company is engaged in fire, motor, marine & transport, accident & health and miscellaneous segments. The Company operates through a network of 127 branches, including HO in Lahore and three branch are located in UAE.

Ownership

Ownership Structure The Nishat Group owns major stake; ~20% is held by MCB and ~17% is held by other group entities. Financial Institutions hold ~23.5% and Joint Stock Companies hold ~15% stake. While the general public holds the remaining ~23%.

Stability The ownership seems steady as the majority stake is held by the Sponsors, having significant financial footings across banking and textile sector.

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

Financial Strength The Company is owned by the Nishat Group upholds a strong financial position.

Governance

Board Structure The overall control of the Company lies with eight-member Board - five Non-Executive (including one female), one Executive and two Independent Directors. The Board is dominated by the representatives of the Nishat Group.

Members' Profile The Chairman of the Board, Mr. Umer Mansha is associated with the Company since 2007. He holds an overall experience of above two decades. All other members possess diversified backgrounds and rich business acumen. They have served at leading positions throughout their professional career and provide their expertise in strategic decision-making process.

Board Effectiveness During CY23, the Board met four times. The Board is assisted by three committees, namely: (i) Audit, (ii) Investment, and (iii) Ethics, Nomination, Human Resource & Remuneration Committee. All committees are headed by an Independent Director and meet on quarterly basis.

Transparency M/S. Yousuf Adil Chartered Accountants issued an unqualified audit report on financial statements as of CY22. The firm is QCR rated and on SBP's panel in category "A".

Management

Organizational Structure The Company operates through nine departments: Window Takaful Operations, Investment, Risk Management, Information Systems, Compliance & Claims, Actuarial Services, Finance, Human Resource, and General Services, Legal, Salvage & Auction. All the Heads reports to the CEO, who then reports to the BoD. However, the Head of Internal Audit functionally reports to the respective BoD.

Management Team Mr. Muhammad Ali Zeb, serves as the CEO since May-13. He is associated with the Company since Apr-05 and holds an overall experience of more than two decades. The CFO, Mr. Muhammad Asim Nagi, is associated with the Company since Nov-11 and holds an overall experience of more than two decades. He is assisted by a team of professionals.

Effectiveness The Company has four management committees, namely: Underwriting, Re-insurance & Co-insurance, Claim Settlement, and Risk Management & Compliance Committee. These committees are chaired by the Chairman and the CEO and meet on quarterly basis.

MIS The Company deploys IBM Congos business development tool and its related dashboards. This provides management with sophisticated management tools in a structured way, which helps the company to bring operational efficiency.

Claim Management System Claims upto PKR 25mln are approved by the Deputy Executive Director. However, claims above PKR 25mln are approved by the CEO and management committee.

Investment Management Function The Board's investment committee oversees the investment function, with the CFO's support.

Risk Management Framework The Company's risk management policies are designed to control risks to align with market conditions and company activities.

Business Risk

Industry Dynamics Pakistan's general insurance industry has a total size of PKR 166bln during 9MCY23 (9MCY22: PKR 113bln), exhibiting a growth of ~47%, in terms of Gross Written Premium (GWP). The industry reported a growth of ~266% in underwriting results (9MCY23: PKR 9.9bln, 9MCY22: PKR 2.7bln). The net income of the industry also experienced an increase of ~170% to PKR 20bln during 9MCY23 (9MCY22: PKR 7.4bln). Overall, the industry overall outlook remains stable with substantial liquidity available with players.

Relative Position The Company is ranked as the largest player with a market share of ~18% in terms of GPW.

Revenue The Company generated GPW from Conventional (~93%), followed by Window Takaful (~7%). Due to value-driven increase in the business, total GPW grew by ~23% (9MCY23: ~PKR 35bln, 9MCY22: ~PKR 28bln) mainly from conventional business. Conventional and Takaful business generated ~PKR 33bln and ~PKR 2bln of the total GPW respectively. Fire and Property was the top performing segment contributed ~50%, followed by motor ~26%, accident and health ~15%, marine and transport ~6% and miscellaneous contributed ~4% of the total GPW. Going forward, it is expected that GPW will follow the similar trend, yet it remains essential to prioritize efforts aimed at increasing volumes.

Profitability During 9MCY23, the Company incurred an underwriting loss of ~PKR 622mln. Underwriting results of local business remain profitable, the loss trickles down from the UAE branch. However, during 9MCY22, recorded an underwriting profit of ~PKR 378mln. Underwriting expenses rose ~27% and stood at ~PKR 17bln (9MCY22: ~PKR 13bln), mainly due to increased claims. Investment income contributed to the bottom line and Profit after Tax stood at ~PKR 1.9bln (9MCY22: ~PKR 1.3bln), showing an increase of ~39%. Upholding prudent underwriting practices will remain beneficial for achieving break-even at the underwriting level, resulting in an improved bottom line during CY24.

Investment Performance During 9MCY23, the Company recorded investment income of ~PKR 3.3bln (9MCY22: ~PKR 2bln), showing an increase of ~71% owing to increased dividend income. The Company recorded dividend income of ~PKR 2.8bln (9MCY22: ~PKR 1.4bln), showing an increase of ~98%. Going forward, increased investment income will supplement the bottom line.

Sustainability The Company banks on prioritizing operational efficiency and adding value to its existing operations.

Financial Risk

Claim Efficiency As of 9MCY23, the claims outstanding days increased and stood at 293days (9MCY22: 272days). Outstanding claims increased ~71% and stood at ~PKR 27bln (9MCY22: ~PKR 16bln). Net insurance/takaful claims increased ~30% and stood at ~PKR 11bln (9MCY22: ~PKR 8bln). Claims Efficiency Days are inflated by fire claims and require more time due to surveys and due diligence activities. It is pivotal to minimize claims to enhance operational efficiency.

Re-Insurance The Company has reinsurance arrangements with leading insurers including: Swiss Re (Rated 'AA-' by S&P), Hannover Re (Rated 'AA-' by S&P), SCOR Re (Rated 'A+' by S&P) and Trust Re.

Cashflows & Coverages Liquidity ratio of the Company slightly deteriorated and stood at 1.3x (9MCY22: 1.5x), owing to increased net insurance premium/takaful contribution (9MCY23: ~PKR 16bln, 9MCY22: ~PKR 13bln). Liquid assets increased ~5% and reported at ~PKR 30bln (9MCY22: ~PKR 28bln). Going forward, it is imperative that liquidity is maintained to support the sustainability of the ratio.

Capital Adequacy Total equity increased ~11% and stood at ~PKR 28bln (9MCY22: ~PKR 25bln), owing to increased unappropriated profit (9MCY23: ~PKR 19bln, 9MCY22: ~PKR 17bln). Admissible assets to total liabilities ratio stood stagnant at 1x, depicting adequate capital adequacy. Going forward, maintaining an optimal level of capital adequacy is anticipated.



PKR Mln

Adamjee Insurance
Listed Public Limited

Sep-23	Dec-22	Sep-22	Dec-21	Dec-20
9M	12M	9M	12M	12M

A BALANCE SHEET

1 Investments	43,151	36,190	38,241	36,005	29,669
2 Insurance Related Assets	44,842	30,869	29,545	20,079	14,737
3 Other Assets	3,849	4,440	4,193	2,748	2,470
4 Fixed Assets	4,397	4,408	4,411	4,372	4,204
5 Window Takaful Operations	-	-	-	-	-
Total Assets	96,239	75,906	76,390	63,204	51,080
1 Underwriting Provisions	21,975	16,066	18,473	11,728	9,050
2 Insurance Related Liabilities	38,763	30,155	26,903	19,824	15,441
3 Other Liabilities	7,241	4,300	5,522	4,867	3,751
4 Borrowings	-	46	90	1,009	283
5 Window Takaful Operations	-	-	-	-	-
Total Liabilities	67,979	50,566	50,988	37,428	28,525
Equity/Fund	28,260	25,340	25,402	25,776	22,555

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	35,082	35,191	28,513	24,785	19,805
2 Net Insurance Premium/Net Takaful Contribution	16,201	18,773	13,646	13,637	14,449
3 Underwriting Expenses	(16,823)	(18,824)	(13,268)	(12,806)	(13,881)
Underwriting Results	(622)	(51)	378	831	568
4 Investment Income	3,371	3,163	1,972	3,580	1,226
5 Other Income / (Expense)	554	(4)	122	61	208
Profit Before Tax	3,303	3,108	2,471	4,472	2,002
6 Taxes	(1,414)	(562)	(1,116)	(1,269)	(35)
Profit After Tax	1,889	2,545	1,356	3,203	1,967

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	2,372	2,514	2,039	1,465	1,526
2 Net Takaful Contribution	1,208	1,152	813	654	745
3 Net Takaful Claims	(1,274)	(1,281)	(902)	(610)	(692)
4 Direct Expenses Including Re-Takaful Rebate Earned	25	28	17	(5)	(8)
Surplus Before Investment & Other Income/(Expense)	(41)	(102)	(72)	39	46
5 Investment Income	52	45	33	13	14
6 Other Income/(Expense)	10	17	10	15	32
Surplus for the Period	21	(40)	(29)	67	92

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	611	641	458	431	409
2 Management, Commission & Other Acquisition Costs	(391)	(381)	(257)	(311)	(262)
Underwriting Income/(Loss)	219	260	201	120	146
3 Investment Income	96	34	23	5	7
4 Other Income/(Expense)	20	44	27	14	10
Profit Before tax	335	339	250	139	164
5 Taxes	(145)	(118)	(88)	(40)	(47)
Profit After tax	190	220	162	99	116

C RATIO ANALYSIS

1 Profitability					
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Taka	69.9%	66.9%	64.1%	57.2%	60.3%
Combined Ratio (Loss Ratio + Expense Ratio)	103.8%	100.3%	97.2%	93.8%	96.3%
2 Investment Performance					
Investment Yield	11.3%	8.8%	7.1%	10.9%	4.2%
3 Liquidity					
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.1	1.2	1.8	1.8	1.9
4 Capital Adequacy					
Liquid Investments / Equity (Funds)	107.2%	103.0%	113.3%	95.2%	96.7%

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>
---	---	--	---	---

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.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

Rating Team Statements

(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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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)

Independence & Conflict of interest

- (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)

Monitoring and review

- (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 | 17-(a)
- (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)

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 | 14-3(f)(vii)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent