



RATING (NOVEMBER 2011)
ADAMJEE INSURANCE
COMPANY LIMITED (AICL)

	NEW	PREVIOUS
Insurer Financial Strength	AA	AA

RATING HISTORY

AAA					
AA+					
AA					
A+					
A-					
	Jun 2007	Dec 2008	Nov 2009	Jan 2011	Nov 2011

FINANCIAL DATA
 PKR (mln)

	Sep-11*	Dec-10
Total Assets	25,289	27,886
Total Equity	11,124	11,035
GPW	8,903	11,564
Underwriting Results	(551)	(354)
Net Income	494	577
Loss Ratio (%)	68.2	70.2
ROE (%)	4.4	4.8
Operating Ratio (%)	90.8	91.6
Liquidity Ratio** (x)	^1.8	1.8
Solvency Ratio*** (x)	^2.9	3.0

* Based on unaudited accounts
 **Liquidity Ratio: Adjusted liquid assets/Net Claims Expense
 *** Solvency Ratio: Financial Base/ Net Claims
 ^Annualized

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RATING RATIONALE AND KEY RATING DRIVERS

- The rating reflects AICL's leading market position in the insurance industry in Pakistan. The management's focus on consolidation of business, while reinvigorating its underwriting practices and rationalizing its cost structure, is expected to reflect positively on AICL's performance, which is currently relatively strained. Nevertheless, the company's sizable and superior investment portfolio continues to supplement its profitability and financial strength. The centralization of the risk management department, augmented by quality human resource and robust IT infrastructure would improve the company's risk profile. Meanwhile, the rating takes into account the synergic benefits that AICL derives from its association with the Nishat Group.
- The management's ability to maintain its leading market position, while achieving improved translation of GPW into underwriting profitability remains critical. Moreover, strengthening systems and controls in conjunction with business size is important. Substantial erosion in the risk absorption capacity resulting from depressed underwriting performance and/or material impairment in investment portfolio could have negative rating implications.

ASSESSMENT

- Ever since the economic downturn in 2008, the insurance industry has been facing major challenges arising from muted GDP growth, precarious security situation, widening fiscal imbalance, and rising inflation. The economic slowdown has further intensified the competitive landscape of the insurance industry putting pressure on premium pricing. Consequently, the industry growth as well as overall profitability continues to remain uncertain. The industry, cognizant of growth impediments, is taking steps to improve its operating platform to offer an improved level of services. Moreover, the regulator has taken a strict stance to invariably implement governing regulations in the industry. Lately entry of a broad array of reinsurers in the market, after the exit of some leading re-insurers, is good though the looming risk is departure of other leading reinsurers should their views on the Pakistani market change.
- AICL, the leading non-life insurance company of Pakistan has around 28% (end-Dec10) of market share on the basis of Gross Premium Written (GPW). AICL's GPW portfolio at end Sep-11 is dominated by fire (43%), followed by motor (27%), miscellaneous (19%), and marine (11%). The miscellaneous segment mainly comprises health insurance constituting 40% of the segment.
- During 9MCY11, total GPW of the company grew by 5%. Though AICL's Pakistan business increased by 10%, the foreign portfolio witnessed decline (~22%) entirely due to motor insurance. This is because of rent-a-car business facing downturn in UAE, which led the company to shed off motor insurance because of unacceptable lower premium rates. AICL maintained loss ratio at 68%, as improvement (by 32%) in fire losses was partially mitigated by the impact of increase (14%) in health loss ratio. Nevertheless, combined ratio significantly deteriorated to 110%. This was attributable to high provisioning of bad debts (PKR 482mln) and HR redundancy cost (~PKR 60mln), resulting in (admin and general) expense ratio rising to 35% (CY10: 28%). AICL's bottomline takes entire support from the investment income, which improved substantially (2times) to PKR 936mln; driving benefit from tax-efficient mutual funds and relatively stable stream of dividend income from high yield strategic book.
- Going forward, AICL envisions enhanced focus on underwriting profitability while maintaining the leading position. The company is undergoing branch consolidation, having direct reporting mechanism to divisional hubs. The management's efforts of rationalizing AICL's cost structure and focus on removing operational impediments through centralization of risk management framework, as executed properly, is expected to bode well for the company. Meanwhile, the company plans expansion in UAE by opening another branch, and envisions tapping non-motor insurance business.
- The company has shifted from GIS to PREMIA, real time software, capable of generating superior quality MIS reports. AICL recently established a centralized risk management department at Head Office. The department has been equipped with experienced engineers, who are committed to the identification, monitoring, and management of risks associated with business portfolio in line with risk assessment framework.
- AICL has sizable liquid investment portfolio representing 104% of its equity base at end Sep-11. The portfolio is a mix (50:50) of strategic book and trading investments. The strategic book is dominated by dividend paying MCB stocks (81%). The trading investment portfolio comprises mainly equity securities (38%), bank deposits (38%) and mutual funds (19%) – with high proportion of income funds. Although equity securities signify dividend paying scrips, it exposes AICL to market risk.
- AICL has secured reinsurance arrangements with international reinsurers of sound repute at good rates, including Swiss Re (Rated 'A+' by S&P), Hannover Re (Rated 'AA-' by S&P), Malaysian Re (Rated 'A-' by AM BEST) and Best Re (Rated 'BBB+' by S&P). The cession levels in the fire segment are high indicating the cautious approach by the management.
- The liquidity of the company, including its strategic investment book, is adequate (2times of claims expense). Moreover, AICL's solvency position is in comfortable range with financial base standing at 3times of claims.

PROFILE

- AICL, incorporated in 1960, and part of Nishat Group since 2004, is listed on all three stock exchanges of the country. AICL operates a network of 30 branches in Pakistan and two branches in UAE.
- The eleven-member board of directors has six representative of Nishat Group, while remaining are independent directors. Mr. Manzar Mushtaq, a long associate of Nishat Group, has recently been elevated to the position of the CEO of AICL. He has served at various managerial positions in the company since 2006. Besides the experienced top management, the department heads and their teams comprise well-qualified professionals.

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