

ICRA Lanka assigns Insurance Financial Strength rating of [SL]BBB- to Amana Takaful PLC

October 11, 2018

Instrument	Previous Rated Amount (LKR Mn)	Current Rated Amount (LKR Mn)	Rating Action
Insurance financial strength rating ¹	N/A	N/A	[SL]BBB-; stable outlook

Rating action

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has assigned the insurance financial strength rating of [SL]BBB- with stable outlook for Amana Takaful PLC (ATP).

Rationale

The rating factors in ATP's position as a sharia compliant insurance provider with an island wide network of 38 branches, its business profile characterized by moderate exposure on the highly competitive motor segment (motor contributed to about 52% of total GWP as compared to the industry average of about 60-62%) and its adequate capitalization profile, with risk adjusted capital adequacy ratio (RBC ratio at 166% as in June 2018). However, the rating is affected by the modest scale and the limited scope of ATP's investment activities, which is expected to exert pressure on investment returns and overall profitability. ICRA Lanka takes note of the improvement in the combined ratio over the recent past, however subdued investment returns and volatility in claims ratio would be monitorables from an earnings perspective.

Outlook: Stable

ICRA Lanka believes that ATP's adequate capitalization profile to support near to medium term growth. The outlook may be revised to 'Positive' in case of steady improvement in the earnings, and significant improvement in the capitalization. The outlook may be revised to 'Negative' in case of a significant weakening in capitalization or earnings profile.

Key rating drivers

Credit strengths

Moderate concentration on motor insurance - ATP's exposure to the motor segment, which is characterized by high competition, is lower compared to peers. ATP's motor segment contribution to total GWP was about 50% as in December 2017, vis-à-vis industry exposure of about 60-62%. The same is expected to go down further to about 40% of total GWP over the medium term, replaced by focus on segments such as SME and micro insurance, which are relatively less competitive. ICRA Lanka takes note

-
1. Effective from September 2018, ICRA Lanka has revised the rating terminology of its ratings of insurance companies from Claims Paying Ability Rating (CPR) to Insurance Financial Strength Rating (IFSR). It is to be noted that the above is only a change in the rating product terminology while the underlying rating process and the outcome remains unaffected.

of the subdued standalone GWP growth over the period 2015-2017; consolidated GWP growth was also moderate at about 6% during the same period. Going forward, ability to grow its premium in the SME and micro insurance segments, while maintaining healthy underwriting performance would be crucial.

Adequate capitalization profile - ATP's risk weighted capital adequacy ratio stood at 166% as in June 2018 (187% in December 2017), compared to the regulatory minimum of 120%. Total available capital levels of the company remained above the regulatory requirements.

Credit challenges

Modest scale of operations - Market share of ATP in non-life insurance segment was about 1.9% as in December 2017; ATP's standalone GWP during the period was LKR 1,792 Mn. The consolidated GWP stood at LKR 3,641 Mn registering a YoY growth of 6.8% in 2017. The standalone and consolidated gross premium for 6MCY2018 stood at LKR 1,015 Mn and LKR 2,267 Mn respectively. Modest scale and limited franchise make it challenging for the company to compete with larger players in the industry.

Limited scope of investments - ATP's investments are currently limited to sharia compliant securities and government securities (to the extent of regulatory minimum requirement). As in June 2018, about 56% of the total investment portfolio consisted of sharia compliant debt instruments (mainly of short-term maturity) and 35% was in government securities and remaining was invested in property. Close to 80% of the sharia compliant debt instruments was in the form of fixed deposits. ICRA Lanka expects the investment income to remain moderate because of limited diversity in its investment profile. The company has short-term borrowings of about LKR 200 Mn to fund large claims, and subordinated debt of LKR 50 Mn as in June 2018.

Subdued profitability - Subdued operating efficiencies because of its modest scale, low growth and, limited investment activities exert pressure on the overall earnings profile of ATP. ICRA Lanka however takes note of the improvement in ATP's standalone claims ratio in CY2017 (54.1%) and 6MCY2018 (51.0%), which uplifted the combined ratio (100.6% in CY2017 and 106.8% in 6MCY2018 from 117.3% in CY2016) to an extent; however high operating expense ratio (46.5% in CY2017 and 55.8% in 6MCY2018) as compared to peers impacted underwriting performance. The income from investments are limited to yields on investments made, as the company does not undertake any trading/sale of securities currently. For the calendar year ended December 2017, company reported a PBT of LKR 63 Mn (LKR 139 Mn loss in CY2016) with a net underwriting loss (after management & admin expenses) of LKR 8 Mn and an investment income of LKR 112 Mn. However, with motor contribution further moderating, overall profitability of the company is expected to improve over the medium term if the company is able to keep the claims under check and improve operating efficiencies.

Analytical approach: For arriving at the ratings, ICRA has applied its ratings methodologies as indicated below. **Links to applicable criteria:** [ICRA Lanka's Rating Methodology for General Insurance Companies](#)

Company Profile:

Amāna Takāful PLC

Amāna Takāful PLC was founded in 1998 as a Composite Insurer with a paid-up share capital of LKR 30 Mn, recording LKR 4 Mn GWP revenue in its first year of operation. At present company has 38 branches and 336 full time employees and operates in the Sharia compliant insurance space in Sri Lanka and Maldives. ATP was listed on the Colombo Stock Exchange in 2006 and has three subsidiaries, namely Amāna Takāful Maldives PLC (AT-Maldives), Amāna Takāful Life PLC (AT-Life) which followed as public

listed entities in 2011 and 2016 respectively and, Amāna Global Ltd (unlisted), which is a BOI registered Technical Advisory.

Recent Results

During the year ended December 2017, ATP reported a stand-alone net profit of LKR 63 Mn on a gross written premium of LKR 1,792 Mn, compared to the net loss of LKR 139 Mn on a gross written premium of LKR 1,618 Mn in the 12-month period ended December 2016. During the 6M ending June 2018, ATP reported a stand-alone net profit of LKR 55 Mn on a gross written premium of LKR 1,015 Mn. During the year ended December 2017, ATP reported a consolidated net profit of LKR 155 Mn on a gross written premium of LKR 3,640 Mn, compared to the net loss of LKR 124 Mn on a gross written premium of LKR 3,407 Mn in the 12-month period ended December 2016. During the 6M ending June 2018, ATP reported a consolidated net profit of LKR 145 Mn on a gross written premium of LKR 2,267 Mn.

ANALYST CONTACTS

Ms. Apsara Thurairetnam
+94 11 4339907
apsara@icralanka.com

Mr. A.M Karthik
+91 44 45964308
a.karthik@icraindia.com

RELATIONSHIP CONTACT

Mr. W. Don Barnabas
+94 11 4339907
wdbarnabas@icralanka.com



Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

CORPORATE OFFICE

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka

Tel: +94 11 4339907; Fax: +94 11 2333307

Email: info@icralanka.com; Website: www.icralanka.com

© Copyright, 2018 ICRA Lanka Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Lanka.

ICRA Lanka ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA Lanka ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA Lanka rating is a symbolic indicator of ICRA Lanka's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icralanka.com or contact ICRA Lanka's office for the latest information on ICRA Lanka ratings outstanding. All information contained herein has been obtained by ICRA Lanka from sources believed by it to be accurate and reliable, including the rated issuer. ICRA Lanka however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Lanka in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA Lanka or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA Lanka shall not be liable for any losses incurred by users from any use of this publication or its contents