Media Release

RAM Ratings Lanka assigns Amana Takaful PLC's claims paying ability rating of BBB-/P3

RAM Ratings Lanka has assigned Amana Takaful PLC ("ATL" or "the Company") long- and short-term claims-paying ability rating of BBB- and P3, respectively. The outlook on the long-term rating is stable. The ratings are supported by ATL's above-average general insurance underwriting performance, conservative investment policy and above-average capitalisation levels. On the other hand, the ratings are weighed down by the Group's small market share, its below-average life insurance underwriting standards and limited investment avenues owing to adherence to *Shari'ah*-compliant investments.

ATL is a relatively new player in the market, engaged in both life and general insurance. Having made its debut in 2002, it is the only composite *takaful* or non-conventional insurer in Sri Lanka. Amana Takaful Maldives PLC (ATM) which is a sub-subsidiary of ATL, (The Company and its subsidiaries will be collectively referred to as "the Group"). The Group provides *Shari'ah*-compliant insurance services; however, it also competes against conventional insurers with established track records. ATL is in ninth position in long-term business in terms of gross written premiums ("GWPs") and in tenth position in the general insurance segment. While the Group accounted for a minuscule 1.79% of total industry GWPs as at end-FYE 31 December 2012 (FY Dec 2012), however, it is deemed that the Group is somewhat insulated from competition given its sole presence in the *takaful* business.

The Group's general *takaful* underwriting standards are viewed as above average. Conventionally, it has been able to keep its general *takaful* underwriting standards above industry-average levels. Moreover, we note that the Group's claims ratio in the general *takaful* business ameliorated to 55.35% as at end-FY Dec 2012, which compared better against industry levels of around 65%, owing to its smaller exposure to motor insurance, which entails higher claims. This is mainly due to ATL's Maldivian sub-subsidiary focusing on non-motor policies for which claims remained low. The Company had, over the years, achieved strong growth in the general segment. Moreover, its improving financial profile was supported by better general underwriting standards stemming from its international re-insurers such as Best Re, ACR Re-takaful, Labuan Re and Malaysian Re (all rated A- by AM Best). Its re-insurers provide technical assistance and staff training and help ATL strengthen its underwriting capability in the general insurance business.

ATL's family *takaful* underwriting standards was weighed down reflecting in the division's claims ratio and net underwriting margins, relative to peers mainly owing to high surrenders and part withdrawals. However, the Company's family *takaful* claims ratio had improved to 23.75% as at end-FY Dec 2012 from 26.92% as at end-FY Dec 2011. This is viewed in the context of Shariah compliant underwriting which accommodates minimal exit barriers attached to its family *takaful* model compared to conventional players. We also note that policy lapses have been the dominant factor in policy termination due to unattractive legacy portfolios promoted in the past. In the meantime, ATL has re-launched the life portfolio in 2012 with improved exit barriers to address this anomaly. However, the policy lapses was an industry wide phenomenon amid increased cost of living coupled with reduced investment returns.

ATL's composite GWPs grew at a faster compounded annual growth rate (CAGR) of 30.36% over the last 3 years, compared to the industry rate of 14.69%, although general premiums, being the Group's key revenue driver, increased at a CAGR of 32.80%, while life premiums augmented 23.24%. RAM Ratings Lanka's concerns hinge on the Company's inability to reduce lapse and surrender rates in its family *takaful* business.

ATL's weak financial performance in previous years had eroded its capital. Its cumulative losses had risen to LKR 442.15 million as at end-FY Dec 2012. However, we note that the Company was able to raise LKR 750 million through a rights issue in fiscal 2011.

In addition, we note that the Company reported solvency ratios of 3.71 times and 1.89 times in the life and general segments, respectively in fiscal 2012. We view positively ATL's ability keep its solvency margins above the Insurance Board of Sri Lanka's (IBSL) minimum requirement.

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