



Media Release

RAM Ratings has reaffirmed the BB+ claims-paying ability rating of Asian Alliance Insurance PLC

RAM Ratings has reaffirmed the BB+ claims-paying ability rating of Asian Alliance Insurance PLC ("AAI" or "the Company"), with a stable outlook. The rating is premised on the Company's growing franchise in the life-insurance business, adequate life underwriting standards, moderate performance, and conservative investments. However, these positives are tempered by the Company's miniscule size. In addition, its deteriorating underwriting vis-a-vis general insurance, stemming from its delicate competitive position, continues to pressure its rating.

AAI remains a small player, accounting for about 2.46% of the composite insurance premiums for FYE 31 December 2007 ("FY Dec 2007"). Even though the Company's competitive position in general insurance is weak, it has been successful in establishing its franchise in the life-insurance segment. However, short-term prospects will be somewhat challenging, given the highly inflationary economy and fierce price competition in an industry where the biggest 5 players command 88.73% of the industry premiums. Against this backdrop, AAI slipped a notch to become the seventh-largest composite premium writer in FY Dec 2007. That said, the Company is presently implementing its new marketing strategy to combat competition and improve its underwriting results.

The intense price competition and premium contraction are also reflected in the Company's general-insurance claims ratio, which worsened from 66.52% in FY Dec 2006 to 73.33% in FY Dec 2007. In addition, the management's efforts to expand operations amid a highly inflationary climate have pressured its overheads. Consequently, its consolidated expense ratio deteriorated from 49.65% as at end-FY Dec 2006 to 51.31% as at end-FY Dec 2007. By end-June 2008, this figure had reached 57.85%.

Despite its weakness in general insurance, AAI's life-insurance business continues to support the Company's overall financial performance. In FY Dec 2007, LKR 115.24 million was transferred from its life funds to shareholders'. Netting off the loss in general insurance, AAI's overall pre-tax profit amounted to LKR 114.44 million for the year (FY Dec 2006: LKR 68.20 million).

Although profit retention had elevated the Company's shareholders' funds to LKR 268.66 million at FY Dec 2007, AAI faces a potential regulatory hurdle should the minimum requirement for paid-up capital be increased to LKR 500 million for each class of business. Even though AAI is a listed entity, RAM Ratings opines that the Company will be challenged to expand its shareholders' funds to the required LKR 1 billion by 2010, especially in the current economic climate.

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