



Media Release

RAM Ratings Lanka reaffirms Asian Alliance Insurance's ratings

RAM Ratings Lanka has affirmed Asian Alliance Insurance PLC's ("AAI" or "the Company") claims paying ability rating of BB+ with a stable outlook. The rating is supported by the Company's life-insurance franchise and its conservative investment strategy. However, the rating continues to be pressured by AAI's small size and weak underwriting results from its general business.

AAI retained its position as the 7th largest composite insurance player, accounting for 2.46% of industry composite premiums as at FYE 31 December 2008 ("FY Dec 2008"). Owing to the harsh macroeconomic conditions witnessed in fiscal 2008, the Company's life segment expanded at a slower pace. It maintained its focus on a niche market of professionals, recording an average premium value of LKR 36,639, the highest in the industry. However, AAI's general business recorded a spike in growth boosted by an expanding branch network and sales force. The Company widened its branch network from 14 as at end-FY Dec 2007 to 21 as at end-FY Dec 2008.

However, without a clear strategy, AAI's branch expansion and rapid growth in the general segment, took its toll on the Company's claims and expense ratios. The Company's general business expense ratio jumped to 60.73% from 43.29% a year earlier, while the general business claims ratio also weakened to 75.42% as at end-FY Dec 2008 (end-FY Dec 2007: 73.33%). The motor segment, which spurred growth, was the most affected as claims from this sub-class deteriorated to 71.45% from 63.21% the previous year. Consequently, pre-tax losses from the general business widened to LKR 28.85 million (end-FY Dec 2007: LKR 0.81 million). Nonetheless, AAI's life business continues to support its overall financial performance, as profits augmented 14.60% to LKR 131.15 million.

The management has begun to address the overheads and high claims in the general segment. Low performing staff are being axed and recruitment halted; the Company has also reduced staff allowances. To improve underwriting results, the management has already tightened the screening process, and intends to increase premiums on loss-making contracts during renewal and refrain from underwriting certain classes of business. These actions are expected to have a positive impact beginning FY Dec 2010, as poorly underwritten contracts mature during FY Dec 2009.

Meanwhile, AAI continues to maintain a conservative stance regarding investments. Government securities take up the bulk of its investment portfolio, accounting for 81.82% of total investments as at end-FY Dec 2008. Furthermore, the bulk of corporate debt investments, which accounted for 12.57% of the Company's total investment portfolio, was in investment-grade companies.

Analyst Contact
Prakash Jerome
prakash@ram.com.lk

The credit rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment on the security's market price or its suitability for a particular investor, nor does it involve any audit by RAM Ratings Lanka. The credit rating also does not reflect the legality and enforceability of financial obligations, transfer and convertibility risks, repatriation risk, currency risk or any other risk apart from credit risk.

RAM Ratings Lanka receives compensation for its rating services, normally paid by the issuers of such securities or the rated entity, and sometimes third parties participating in marketing the securities, insurers, guarantors, other obligors, underwriters, etc. The receipt of this compensation has no influence on RAM Ratings Lanka's credit opinions or other analytical processes. In all instances, RAM Ratings Lanka is committed to preserving the objectivity, integrity and independence of its ratings. Rating fees are communicated to clients prior to the issuance of rating opinions. While RAM Ratings reserves the right to disseminate the ratings, it receives no payment for doing so, except for subscriptions to its publications.

Published by RAM Rating Lanka Ltd

© Copyright 2009 by RAM Ratings Lanka

RAM Ratings (Lanka) Ltd
Wholly owned by
RAM Holdings Berhad

No 9, Arthur's Place
Colombo 4
Sri Lanka

T +94 112 553089
F +94 112 553090
E ram@ram.com.lk
www.ram.com.lk