



Press Release
27/12/2007

LRA assigned BB₁ rating to Asian Alliance Insurance Company PLC

LRA has assigned a claims-paying ability rating of BB₁ (with a stable outlook) to Asian Alliance Insurance Company PLC (“the Company” or “AAIC”). The rating reflects the Company's improving financial profile, backed by its growing franchise in the life-insurance business and conservative investments. Even though the rating is pressured by the Company's weak underwriting performance in the non-life category, the absence of an asset-liability management process and the competitive & regulatory challenges to be faced in the future, the primary constraint that depressed the rating is AAIC's minuscule size.

AAIC is a relatively new player in both life insurance (“Life”) and general insurance (“General”). Although the Company started out as a general insurer in 1999, the Life business has turned out to be its chief revenue spinner. The adoption of a well-defined marketing strategy in Life has enabled the Company to capture the sixth position in the Life sector in terms of premiums. Despite its success in this sector, competitive pressure still looms large as rivalry is expected to intensify, especially in light of the Company's diminutive balance sheet; AAIC only accounted for 1.00% of the domestic insurance industry's assets as at the end of FYE 31 December 2006 (“FY Dec 2006”).

Meanwhile, the Company's performance in Life has been supported by its investments in gilt-edged securities, which has been lifting its financials over the last 5 years. As a result, AAIC has been able to trim its cumulative losses, from LKR 188.71 million in FY Dec 2002 to LKR 82.41 million in FY Dec 2006. Furthermore, AAIC's investments are mostly short-tenured, strengthening its liquidity profile. However, these positive factors are somewhat mitigated by the absence of an asset-liability management framework, which is critical, especially in a volatile and competitive environment.

The Company's improving financial profile is backed by its Life underwriting standards, which stem from its international reinsurer, Munich Re (rated AA- by Standard & Poor's). This reinsurer provides technical assistance and training, helping AAIC to strengthen its underwriting capability in this segment. Conversely, the Company's General underwriting standards have been rather weak. Aggressive price competition and inadequate market share underscore the Company's poor underwriting performance in this segment. Moving forward, AAIC aims to improve its market reach through a new business strategy, which includes strengthening its agency force.

Nonetheless, potential regulatory changes may have an adverse effect on AAIC. The introduction of a national insurance trust fund (“NITF”) for the reinsurance of general insurance, the legal separation of Life and General, and capital-enhancement requirements (LKR 500 million for each business by 2010) are material challenges that confront the Company.

At present, however, AAIC's capitalisation is considered adequate as the Company has met the solvency levels for both its Life and General businesses - thanks to its conservative investment profile.

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