

# The Directors' Report

for the year ended December 31, 2009



Charming the Challenges

The Directors are pleased to present the annual report and the audited accounts for the year ended December 31 2009.

## Industry Review

The global recession and the stagnant domestic economy during 2009 had an impact on the non-life insurance industry of Pakistan. The written premium of entire sector is expected to grow by less than 5% in 2009 (3.5% in 2008). The stagnant premium growth is mainly due to a substantial slow down in the motor business, contraction of the Large Scale Manufacturing sector, international trade and low investment specially in infra-structure projects. However due to the significant recovery on the stock exchange, the investment income of the Industry has increased substantially.

On the regulatory side, the International Financial Reporting Standard-4 "Insurance Contracts" has been made applicable on the insurance companies which is expected to bring more transparency and lead to further strengthening of individual companies.

## Performance Highlights

The Directors are pleased to report that the Company has achieved a healthy growth of 14% in the written premium to cross the Rs. 4 billion mark with a balanced product mix. As evident from the key numbers summarised below, significant increases have also been recorded in underwriting profit, investment income, pretax and after tax profit.

	2009	2008
	(Rupees '000)	
Gross Premium	4,030,643	3,526,397
Net Premium Revenue	2,297,720	2,186,443
Underwriting Result	114,121	108,115
Investment Income including Capital Gain and Rent	673,537	366,030
Impairment in value of available for sale securities	-	(651,142)
Profit / (loss) before tax	771,898	(179,153)
Profit / (loss) after tax	656,464	(267,249)
Earning / (loss) per share of Rs. 10 each	9.96	(4.05)

## Fire & Property

The Fire & Property portfolio contributed gross premium of Rs. 1,025 million which equals 25% of the total gross premium written by the Company. It is slightly below the premium of Rs. 1,041 million written in the previous year due to our selective underwriting.

The underwriting profit of this class of business is Rs. 17.60 million as compared with Rs. 38.80 million in the previous year. The decline is due to increase in claims as a result of heavy rainfall in July 2009 in Karachi.

## Marine, Aviation & Transport

This portfolio constituted 11% of our business in 2009, with a written premium of Rs. 438 million (2008: Rs. 497 million). The decline in the underwritten premium is primarily due to a steep fall in the international prices of oil,



metals and some other commodities as well as contraction in international trade. However, it has contributed Rs. 68.6 million to Company's underwriting profit as compared with Rs. 61.49 million in the previous year.

#### Motor

Motor portfolio constituted 16% of our business with a written premium of Rs. 641 million during 2009 as compared to Rs. 691 million in 2008. The decline in the underwritten premium is due to lower sale of motor vehicles in 2009 mainly due to reduction in financing by banks and other financing institutions. This class has contributed Rs. 51.0 million to Company's underwriting profit which represents a tremendous improvement over the underwriting profit of Rs. 2.38 million in the previous year.

#### Liability

The liability portfolio constituted 9% of our business and has grown robustly by 83% to achieve a written premium of Rs. 358 million (2008: Rs. 196 million). This growth has been achieved due to expansion in the industrial/commercial activities of our clients. It has also contributed Rs. 27 million to the Company's underwriting profit as against the underwriting loss of Rs. 1.65 million recorded in the previous year.

#### Accident & Health

The Accident & Health portfolio contributed 10% of our business in 2009. During the year under review, this portfolio has increased marginally by 2% to reach written premium of Rs. 410 million (2008: Rs. 401 million). This portfolio has resulted in a loss of Rs. 20.47 million (2008: Profit of Rs. 19.40 million) mainly due to competitive pressure on premium rates, increase in hospitalisation cost and higher claims ratios of some large accounts.

#### Other Classes

This represents miscellaneous classes of business including engineering, financial products, crop insurance, etc. The written premium of Rs. 1,159 million is 66% higher than the premium of Rs. 700 million written in the previous year. This account also resulted in an underwriting loss of Rs. 26.24 million in the current year (2008: Rs. 12.06 million).

#### Investment Income

The investment income of the Company from all sources including realised capital gain on equities and rental income from real estate holdings recorded strong growth during the year, rising to Rs. 673.5 million as compared with Rs. 366.0 million in the year 2008. The most significant increase was recorded in realised Capital gains, which contributed Rs. 355.8 million in 2009, whereas in the previous year we had only realised a capital gain of Rs. 99.7 million on our stock portfolio due to a very sharp decline in share values on the Karachi Stock Exchange.

By the Grace of Allah, even after booking a capital gain of Rs. 355.8 million during the year, our investment portfolio as on December 31, 2009 shows an unrealised appreciation of Rs. 1,755.5 million inclusive of an appreciation of Rs. 1,258.5 million on our prime real estate holdings.

#### Dividend and Appropriations of profit:

	(Rupees in '000)
The amount available for appropriation is:	
Amount brought forward from previous years	50,062
Profit after tax for the year	656,464
Un-appropriated amount available for appropriation	706,526



The Directors recommend that this amount be appropriated in the following manner:

(Rupees in '000)

**Appropriation**

Transfer to General Reserve	320,000
Proposed final cash dividend @ 30% (2008: 15%)	197,744
Proposed issue of bonus shares @ 20% (2008: nil)	131,830
Carry forward to next year	56,952
	<hr/>
	706,526

**Reinsurance**

The overall economic slow down, the high claim ratios specially in Fire & Property portfolio and the poor law and order situation in general does not make Pakistan an attractive market for international re-insurers. However, the Company's adequate capital base and reserves coupled with sound underwriting strategies continue to attract higher capacities and relatively competitive terms.

**Insurer Financial Strength Rating:**

NJI has maintained its unique distinction of being the only Pakistan insurer with "AA" rating from both agencies operating in Pakistan. Both Pakistan Credit Rating Agency (PACRA) and JCR-VIS have once again reaffirmed the "AA" rating of NJI's financial strength. The "AA" rating denotes a very strong capacity to meet policy holder and contract obligations.

**Market Share**

NJI's market share has increased from 7.6% in 2005 to 10.4% in 2008. We expect to see further improvement for 2009 when the statistics for all the companies are compiled by the Insurance Association of Pakistan.

**Contribution to the National Exchequer**

The company has contributed Rs. 596 million (2008: Rs. 361 million) to the National Exchequer during the year in the form of direct and indirect taxes and other mandatory contributions.

**Corporate Social Responsibility**

NJI plays its role as a good corporate citizen by supporting worthy causes which aim to improve the lives of our people, and make our country a better place to live in.

During the year 2009, the company has donated Rs.1.20 million to welfare institutions in the health, education and environment sectors.

In addition to above, we have also contributed Rs. One million for the welfare of Internally Displaced Persons of Swat and Tribal Areas along-with the employees who have also contributed one-day salary reflecting CSR spirit at large in the Company.

**Human Resource Development**

Human capital development is critical especially in knowledge-based companies in order to gain competitive advantage and deliver consistent results. At NJI, our training and development programmes both in-house and external play an important role in upgrading the required skills and knowledge of our workforce.

**Business Risks and Business Process Re-Engineering (BRP)**

Details of business risks and BRP are annexed to this report (Page 26)



### Board Meetings

The Board of Directors held five (5) meetings in 2009. Attendance of Directors is indicated below:

Name of Director	Meetings attendend
Towfiq H. Chinoy	05
Akbarali Hashwani	05
Masood Noorani	05
Akbarali Pesnani	04
John Joseph Metcalf	05
R. Zakir Mahmood	04
Aly Noormahomed Rattansey	05
Vazir Ali F. Mohammad (Alternate Director to Sadruddin Hashwani)	04
Tahir Ahmed	05

### Board Committees

During the year the Board Audit Committee, Human Resource & Remuneration Committee and Finance & Investment Committee held four (4), three (3) and six (6) meetings respectively. The names of the members of the Board Committees and terms of reference are given in the annexure to this report (Page 27). Except for the Managing Director, all others are non-executive Directors.

### Management Committees

The Company has three management committees which cover the core areas of business; these are Underwriting Committee, Claims Settlement Committee and Re-insurance & Co-insurance Committee. During the year four meetings were held by each committee. The names of members and the terms of references of these committees are given in the annexure to this report (Page 29).

### Statement of Directors Responsibilities

In compliance with the Corporate and Financial Reporting Framework of the Code of Corporate Governance the Directors confirm the following:

- the Financial Statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- proper books of accounts of the Company have been maintained.
- appropriate accounting policies have been consistently applied in preparation of Financial Statements and accounting estimates are based on reasonable and prudent judgment.



- International Financial Reporting Standard as applicable in Pakistan have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
- the system of internal control is sound in design and has been effectively implemented and monitored.
- there are no significant doubts upon the Company's ability to continue as a going concern.
- there is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

#### **Pattern of Shareholding and trading in the shares**

The pattern of shareholding and the information regarding trading in the shares of the Company by its Directors, Chief Executive, Chief Financial Officer and Company Secretary are annexed to this report (Page 30).

#### **Key Financial Data**

Key financial data for the last ten years is annexed to this report (Page 32).

#### **Value of investments in Provident Fund and Gratuity Fund**

The values of investments in employees retirement funds based on audited accounts for the year ended December 31, 2008 are as follows:

	(Rupees in '000)
Staff Provident Fund	74,880
Employees' Gratuity Fund	38,341

#### **Auditors**

Messrs Ernst & Young Ford Rhodes Sidat Hyder have audited the accounts for the year 2009, and have offered themselves for re-appointment. The Board Audit Committee recommends that they be re-appointed as the statutory auditors for a further term of one year, and the Board endorses this recommendation.

#### **Future Outlook**

The global economic situation is expected to improve in 2010. However, the domestic economic scenario is uncertain as GDP growth of only 3% is projected. The private business sector is faced with various constraints such as energy shortages, high interest rates, and all-round inflationary pressures. However, the management is committed to maintaining the good pace of growth of business and profitability.

#### **Acknowledgement**

We thank our valued clients and shareholders of the Company for their support which enabled us to achieve healthy growth. We also thank our brokers and reinsurers for their excellent services and would like to record our appreciation for the cooperation of Securities & Exchange Commission of Pakistan. We acknowledge the hard work and dedication of our development officers, staff members and executives without whom we could not have achieved our goals.

On behalf of the Board.

Towfiq H. Chinoy  
Chairman

Karachi: March 01, 2010