RATING REPORT

Jubilee General Insurance Company Limited

REPORT DATE:
January 07, 2020

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	AA+	AA+
Rating Date	*Dec 31, '19*	*Dec 31, '18*
Rating Outlook	Stable	Stable
Outlook Date	*Dec 31, '19*	*Dec 31, '18*

COMPANY INFORMATION

Incorporated in 1953	**External auditors:** M/s KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Towfiq H. Chinoy
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Tahir Ahmed*
Aga Khan Hospital & Medical College Foundation – 20.6%	Mr. Hassan Khan**
Aga Khan Fund for Economic Development – 14.1%	
Habib Bank Limited – 19.8%	
Hashwani Hotels Limted – 5.5%	
Pakistan Services Limited – 7.6%	*to retire as of December 31' 2019 **to be appointed CEO, as of January 1st 2020

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – General Insurance (March 2017)
http://vis.com.pk/docs/Meth-GenInsurance201702.pdf

Jubilee General Insurance Company Limited

OVERVIEW OF THE INSTITUTION

JGI was incorporated as a public limited company in 1953. The company is engaged in provision of general insurance services and is listed on the Pakistan Stock Exchange. JGI operates through a network of 28 branches with its Head Office established in Karachi.

RATING RATIONALE

Jubilee General Insurance Company Limited ('JGI' or 'the Company') is a listed public limited company, engaged in provision of general (non-life) insurance business, including window takaful operations. The Company operates as the third-largest general insurance company in the industry, having a market share of 11.8%, in terms of gross premiums underwritten in 2018. JGI also holds a market share of 10.5%, in terms of takaful business underwritten in 2018. JGI operates with a network of 28 branches.

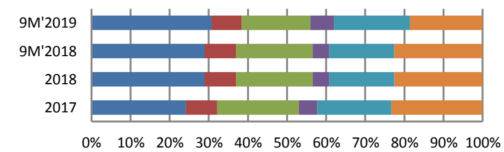
Sponsor Profile

The assigned ratings draw strength from the sponsor profile, as major shareholding is vested with Aga Khan Fund for Economic Development (AKFED), which is an international development agency operating 70 separate project companies across 30 countries.

Business Update

In 2018, JGI's business volumes grew by 20.8%, which exceeded industry growth of 12.4% (2018: Rs. 10.1b; 2017: Rs. 8.3b), resulting in an increase in market share from 10.9% to 11.8%. The business mix depicted slight change, given growth in premiums from the 'Fire & Property' line of business (+4.7%). As a result, the proportion of premium from Accident & Health (A&H) (-2.4%) and Motor, (-1.4%) trended down. In view of the high claims ratio of the A&H segment, its proportional decrease in business mix is viewed positively.

Figure 1: Business Mix - JGI



	2017	2018	9M'2018	9M'2019
Fire and property damage	24.2%	28.9%	28.9%	30.7%
Marine, aviation and transport	7.9%	8.1%	8.1%	7.7%
Motor	20.9%	19.5%	19.5%	17.6%
Liability	4.6%	4.3%	4.3%	6.0%
Accident & Health	19.0%	16.6%	16.6%	19.4%
Miscellaneous	23.3%	22.6%	22.6%	18.6%

Fire and property damage	58.9%
Marine, aviation and transport	31.5%
Motor	39.5%
Liability	42.7%
Accident & Health	80.1%
Miscellaneous	48.1%

Table 1: Gross Claims Ratio – Conventional (3 Year Average - 2016-18)

Takaful business, which was initiated in FY15, has been depicting healthy growth (2018: Rs.907.2m; 2017: Rs. 642.5m). For 2018, JGI's market share, in terms of takaful business, was 10.5% (2017: 10.3%), making JGI the 5th largest player in the takaful segment.

Business growth in 9M'2019 has been relatively muted, at 3.9%, notably lower than industry growth rate.

Underwriting Performance

JGI's underwriting performance weakened in 2018, vis-à-vis the preceding year, with gross claims ratio depicting an increase. The increase was precipitated by high claims incidences in 'Miscellaneous' and 'Liabilities' segments. On the contrary, fire and property segment exhibited improvement. The overall gross claims ratio is aligned with the peer median.

Table 2: Segment-wise Gross Claims Ratio

	2017	2018	9M'19
Gross Claims Ratio	**46.0%**	**58.1%**	**38.8%**
- Fire and property damage	49.5%	43.9%	22.4%
- Marine, aviation and transport	27.6%	32.7%	25.1%
- Motor	45.5%	42.6%	45.8%
- Liability	-8.4%	82.6%	51.6%
- Accident & Health	80.2%	86.0%	89.3%
- Miscellaneous	34.9%	70.7%	17.5%

Profitability

	2017	2018	9M'19
Net Operating Ratio	**76.7%**	**80.1%**	**88.8%**
Combined Ratio	**94.5%**	**99.0%**	**97.7%**
- Net Claims Ratio	55.5%	57.1%	57.9%
- Expense Ratio	39.0%	41.8%	39.9%
Operating Income	1,664	1,631	1,009
- Underwriting Income	404 (24%)	224 (14%)	373 (37%)
○ Conventional	343	142	281
○ Takaful	60	82	92
- Other Income	1,261 (76%)	1,407 (86%)	637 (63%)
○ Investment Income	879	1,020	389
○ Share of Profit from Associates	214	200	95
○ Rental Income	84	88	38
○ Others	83	100	114

Table 3: Profitability Metrics (Figures in PKR' Millions, unless stated otherwise)

Akin to the norms in the general insurance industry, a significant proportion of the Company's income arises from sources other than insurance operations; on average, these sources contributed 81% of the aggregate income for 2017-18 periods. In 2018, the Company's combined ratio increased to 99%, which was higher than the peer median; the uptick in combined ratio was almost equally contributed by the uptick in net claims ratio and expense ratio. Given the drop in size of the investment portfolio and lower investment income (in 9M'19), the net operating ratio has also depicted a negative trend.

In absolute terms, JGI's net premium revenues increased by 9% to Rs. 5.4b (2017: Rs. 5.0b). The lower uptick in topline, vis-à-vis growth in gross premiums, can be attributed to a relatively higher proportion of these revenues being unearned as of year-end 2018. Overall, the net claims performance has slightly worsened, albeit it remains aligned with the peer median. On the other hand, the expense ratio posted a notable increase, mainly on account of the 18% increase in General & Administrative expenses; about 60% of this increase can be attributed to staff overheads, while 21% can be attributed to higher expenses incurred on advertisements & sales promotions.

Underwriting performance in 9M'19, depicted improvement vis-à-vis SPLY. Overall combined ratio remained range bound and aligned with peers.

JGI has an investment portfolio of Rs. 12.1b, comprising 48.4% (Dec'18: 50.5%; Dec'17: 54.3%) of the total asset base as of Sep'19. The portfolio is mainly composed of sovereign debt securities (56.2%) and equity securities (42.4%) while exposure to term deposits is limited at 1.5% of the portfolio. Both credit and market risk arising from the portfolio is considered manageable.

In addition to these, the Company has investments in property and associates to the tune of Rs. 652m and Rs. 787m respectively. The yields on these portfolios are provided in table 4.

	2017	2018	9M'19
Investment Portfolio**	**-0.9%**	**2.6%**	**0.6%***
Properties	**12.7%**	**13.4%**	**7.8%***
Associates	**37%**	**28%**	**16%***

Annualized

*****Takes into account unrealized losses incurred during the year and deducted from equity.***

Table 4: Yield on Investments

- **Investment Portfolio (Money Market & Equities):** The low yield on the portfolio can be attributed to the adverse equity market performance during the period, which has translated in capital losses in the portfolio. Nevertheless, the portfolio yield exceeds weighted average expected return on the portfolio, based on the asset class returns during the period.

- **Properties:** These include buildings and land, wherein the market value is 4.6x of the recorded book value. The 9M'19 yield on the property portfolio was lower, which can be attributed to a drop in tenancy.

- **Associates:** The associated portfolio includes JGI's holdings in Jubilee Life Insurance Company Limited (JLI) and Jubilee Kyrgyzstan Insurance Company Limited (JKICL) having a book value of Rs. 640m and Rs. 146m respectively. The holding in JLI represents a sizable surplus, with market value of the holding standing at Rs. 1.6b (2.5x of book value) as of Sep'19.

In case of the latter, market value can be considered as equivalent to book value.

Given limited growth in net premium revenues and adverse underwriting and investment performance, JGI's pre-tax profits were lower by 2% (YoY) in 2018 and 14% in 9M'19 (SPLY). However, adjusting for the capital losses incurred on the investment portfolio during the year, which have been deducted from OCI, the Company's profitability falls. The adjusted RoAE is presented in table 5. Given a lower equity, vis-à-vis peers, adjusted RoAE still compares favorably to peers.

Table 5: Profits Adjusted for Unrealized Losses

	2017	2018	9M'18	9M'19
Profit After Tax	1,117	1,066	761	723
Unrealized loss in investments	794	551	54	328
Reversal of Gains	192	194	194	9
Adjusted Profits	131	322	513	386
Adjusted RoAE	1.5%	4.0%	8.3%	6.6%

Annualized

*****Takes into account unrealized losses incurred taken through equity.***

Reinsurance Coverage

The reinsurance panel of JGI mainly comprises reinsurance companies rated highly by international credit rating agencies, in addition to the mandatory share of Pakistan Reinsurance Company Limited (PRCL). PRCL has a rating of 'AA' from VIS. All other reinsurers on the panel - excluding Saudi Re (5%) and Milli Re (3%) that are rated 'BBB+' and 'B+' respectively - have a rating in the 'A' band or above. JGI's retention is adequately low, with net retention of sum assured in each segment not exceeding 1% of the Company's equity base. Actual cession has remained range bound over the period (9M'19: 36.6%; 2018: 37.3%; 2017: 35.3%).

Capitalization and Liquidity

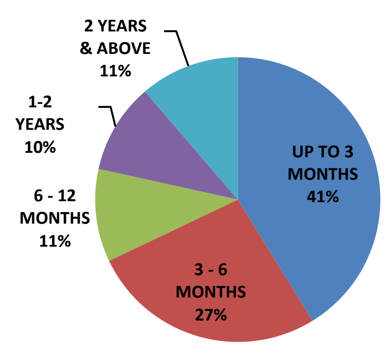
Given depressed profitability and a stable dividend pattern (Rs.3.5-4 per share), the Company's equity has been falling; this in combination with business growth, is translating in an uptick in leverage. It is pertinent to mention that the Company holds a sizable surplus on its investment in associate company i.e. JGI's stake in JLI, wherein the market value of the holding represents a surplus of ~Rs. 1b as of Sep'19. Taking the surplus into account, the operating leverage would stand around 55-60%.

	2017	2018	9M'19
Equity (In PKR' Millions)	8,313	7,708	7,583
Payout Ratio	65%	68%	NA
Operating Leverage	32.2%	38.1%	57.9%
Financial Leverage	23.6%	25.6%	43.2%
Liquid Assets to Net Technical Reserves	234.3%	196.4%	172.9%
Insurance Debt (% of Gross Premium)	23.2%	18.8%	23.9%

Table 6: Capitalization

JGI's liquid assets to net technical reserves have come down, albeit remains adequate. Aging profile of insurance debt is also considered adequate wherein around 68% of the same is outstanding for a period of less than 6 months. Furthermore the company has maintained an ample buffer of solvency margin (2018: Rs. 3.3b) against the regulatory requirement of Rs. 984.5m.

Figure 2: Aging Profile as at Jun'19



Jubilee General Insurance Company Limited Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET**	**DEC 31, 2017**	**DEC 31, 2018**	**SEP 30,2019**
Cash and Bank Deposits	1,893.3	1,669.0	1,221.9
Investments	10,701.3	10,757.6	10,670.1
Investment Properties	658.9	656.9	652.5
Insurance Debt	1,782.8	1,718.3	2,508.8
Total Assets	19,697.6	21,313.2	21,653.5
Paid Up Capital	1,569.1	1,804.5	1,804.5
Net Worth	8,312.9	7,908.1	7,582.5
Total Liabilities	11,258.1	13,237.9	14,473.3
INCOME STATEMENT*	**DEC 31, 2017**	**DEC 31, 2018**	**SEP 30,2019**
Net Premium Revenue	4,950.7	5,397.9	4,369.9
Net Claims	3,676.1	5,324.2	2,944.3
Underwriting Profit (exc other expenses)	274.7	56.6	98.4
Net Investment Income	881.1	1,018.5	390.0
Profit Before Tax	1,664.3	1,631.3	1,009.4
Profit After Tax	1,116.9	1,066.3	722.7
RATIO ANALYSIS	**DEC 31, 2017**	**DEC 31, 2018**	**SEP 30,2019**
Market Share (Gross Premium) (%)*	11.0%	11.9%	N/A
Cession Ratio (%)*	36.7%	37.3%	36.6%
Gross Claims Ratio (%)*	46.0%	58.1%	38.8%
Net Claims Ratio (%)*	55.5%	57.1%	57.9%
Underwriting Expense Ratio (%)*	39.0%	41.8%	39.9%
Combined Ratio (%)*	94.5%	99.0%	97.7%
Net Operating Ratio (%)*	76.7%	80.1%	88.8%
Insurance Debt to Gross Premium (%)*	22.1%	18.0%	23.3%
Operating Leverage (%) **	32.2%	38.1%	57.9%
Financial Leverage (%) **	23.6%	25.6%	43.2%
Adjusted Liquid Assets to Technical Reserves (%) **	234.3%	196.4%	172.9%
**Including window takaful operations*			
***Excluding window takaful operations*			

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

AAA
Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

AA+, AA, AA-
Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

A+, A, A-
High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

BBB+, BBB, BBB-
Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

BB+, BB, BB-
Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

B+, B, B-
Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

CCC
Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

CC
Weak capacity to meet policyholder and contract obligations; Risk may be high.

C
Very weak capacity to meet policyholder and contract obligations; Risk may be very high

D
Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.vis.com.pk/images/criteria_outlook.pdf

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Jubilee General Insurance Company Limited
Sector	Insurance
Type of Relationship	Solicited
Purpose of Rating	Insurer Financial Strength
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: INSURER FINANCIAL STRENGTH				
12/31/2019	AA+	-	Stable	Reaffirmed
12/31/2018	AA+	-	Stable	Reaffirmed
1/23/2018	AA+	-	Stable	Reaffirmed
11/8/2016	AA+	-	Stable	Reaffirmed
12/31/2015	AA+	-	Stable	Reaffirmed
12/30/2014	AA+	-	Stable	Reaffirmed
12/12/2013	AA+	-	Stable	Reaffirmed