# RATING REPORT

# Jubilee General Insurance Company Limited

**REPORT DATE:**
December 30, 2022

**RATING ANALYSTS:**
Arsal Ayub, CFA
*arsal.ayub@vis.com.pk*

Syed Ilyas Afridi
*ilyas.afridi@vis.com.pk*

## RATING DETAILS

| | Latest Rating | Previous Rating |
|---|---|---|
| **Rating Category** | **Long-term** | **Long-term** |
| **IFS** | AA++(IFS) | AA++(IFS) |
| ***Rating Date*** | *Dec 30, '22* | *Mar' 31, 22* |
| **Rating Outlook** | Stable | Stable |
| ***Rating Action*** | *Reaffirmed* | *Harmonised* |

## COMPANY INFORMATION

| | |
|---|---|
| **Incorporated in 1953** | **External auditors:** M/s A.F. Fergusan & Co. (Chartered Accountants) |
| **Public Limited Company** | **Chairman of the Board:** Mr. R. Zakir Mahmood |
| **Key Shareholders (with stake 5% or more):** | **Chief Executive Officer:** Mr. Hassan Khan |
| **Aga Khan Hospital & Medical College Foundation – 20.6%** | |
| **Aga Khan Fund for Economic Development – 14.1%** | |
| **Habib Bank Limited – 19.8%** | |
| **Hashwani Hotels Limted – 5.5%** | |
| **Pakistan Services Limited – 7.6%** | |

## APPLICABLE METHODOLOGY(IES)

**VIS Entity Rating Criteria Methodology – General Insurance, March, 2022**
**https://docs.vis.com.pk/docs/VIS%20General%20Insurance%20-%2020220331%20-%20FinalFinal.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 26 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 10.6% as of 2021; this includes JGI's market share of 10.9% in the conventional insurance market and 8.6% in takaful insurance market.

### Insurance Sector Update

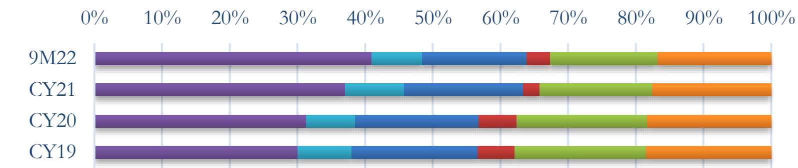
**Table 1: Insurance Industry Financial Indicators (Source: IAP)**

| (Rs. in Billions) | 2020 | 2021 | 9M'22 |
|---|---|---|---|
| Insurance Premium (Gross) | 89.6 | 97.4 | 97.5 |
| Takaful Contributions (Gross) | 12.6 | 16.2 | 16.1 |
| Industry Total (Gross) | 102.3 | 113.6 | 113.7 |
| Combined Ratio | 95.3% | 84.4% | 97.1% |
| - Net Claims Ratio | 54.8% | 49.4% | 59.2% |
| - Underwriting Expense Ratio | 40.5% | 35.0% | 37.9% |
| Net Operating Ratio | 78.6% | 67.5% | 81.7% |
| RoAA | 4.4% | 5.4% | 3.6%* |
| RoAE | 10.1% | 12.8% | 9.4%* |
| Operating Leverage | 52.5% | 58.3% | 66.9%* |
| ** Annualized* | | | |

- The gross premiums/ takaful contributions underwritten by the industry grew by 11% in 2021, picking up from 8% in 2020. In H1'2022, given the increase in inflation, we have noted a change in trend wherein industry underwriting posted a growth of 26% vis-s-vis SPLY. Overall growth for 2022, is expected to be notably higher in the range of 25-30%.
- Insurance penetration in Pakistan has remained below that of neighboring counterparts, given non-life insurance penetration of ~0.355% vis-à-vis India at 4.2% and Sri-Lanka 1.39%.
- The industry's combined ratio posted a dip in 2021, which was driven by a drop in both net claims and expense ratios. Overall, the impact of investment returns on industry profitability remained similar, investment returns stood at 17% of the net premium. In the ongoing year, we have noted an increase in combined ratio, being driven by higher net claims ratio that was a result of sizable losses in Fire segment incurred by the industry. Going forward, reinsurance commissions are likely to be higher, which should keep the treaty acquisition ratio elevated.
- Even though operating leverage of Pakistan's insurance industry remains adequately high, which is partly explained by lagged growth, in June'22, we have noted a trend of an uptick in operating leverage to 67.3% (annualized). Apart from the overall growth in underwriting, this is also partly attributable to dividend payouts in Q1 and mark to market losses on fixed income portfolios in Q2.
- Investment returns in H1'2022, have not depicted much deviation, unlike the one noted in life insurance portfolios. This is partly attributable to a different asset management strategy, albeit also implies that the industry was well placed in terms of portfolio duration leading up to 400 bpts steep drop in benchmark rates noted in Q2'2022. Given higher benchmark rates, investment yield is expected to improve in 2023.
- The implementation of IFRS 17 is likely to be delayed past the initially identified date of January 1' 2023. The implementation is expected to translate in sizable provisioning burden for the industry, however the actual impact of the same on industry capitalization is yet to be ascertained.

## Business Update[1]

**Figure 1: JGI Business Mix**




| | CY19 | CY20 | CY21 | 9M22 |
|---|---|---|---|---|
| Fire and Property Damage | 30.0% | 31.3% | 37.1% | 41.0% |
| Marine, Aviation and Transport | 8.0% | 7.3% | 8.7% | 7.5% |
| Motor | 18.6% | 18.3% | 17.6% | 15.4% |
| Liability | 5.5% | 5.6% | 2.5% | 3.4% |
| Accident & Health | 19.4% | 19.2% | 16.6% | 15.9% |
| Miscellaneous | 18.5% | 18.3% | 17.6% | 16.7% |

- During 2021, JGI's gross underwriting (inclusive of takaful contributions) grew by 16.4% owing to the strong growth derived from 'Fire & Property Damage' and 'Marine, Aviation & Transport' segments. Hence, the Company's consolidated market share improved to 10.6% in 2021 (2020: 10.1%).
- JGI's takaful market share has undergone attrition from 9.5% to 8.6% during 2021, as the Company's gross underwriting contribution growth (15.8%) lagged the takaful industry growth (28.3%) during the period.
- In terms of business mix, Fire & Property Damage constitutes the highest portion of gross underwriting and its share has increased during the past 3-year period (CY19-CY21), as illustrated in the figure above.
- The Company's gross claims ratio depicted improvement in the preceding year; albeit in line with the industry, an increase in gross claims ratio has been noted in 9M'2022, mainly being affected by higher losses in the 'Fire & Property Damage' segment. When compared to peers, gross claims ratio depicts room for improvement.

**Table 2: Segment-wise Gross Claims Ratio**

| | 2020 | 2021 | 9M'22 | 3-Yr Avg * |
|---|---|---|---|---|
| **Gross Claims Ratio** | **50.4%** | **41.9%** | **45.0%** | **43.9%** |
| - **Fire and Property Damage** | 63.3% | 22.2% | 54.3% | 36.1% |
| - **Marine, aviation and transport** | 38.3% | 33.2% | 29.9% | 31.5% |
| - **Motor** | 41.9% | 43.6% | 44.3% | 43.0% |
| - **Liability** | 30.9% | 83.8% | (49.4)% | 51.9% |
| - **Accident & Health** | 85.4% | 86.3% | 80.9% | 88.5% |
| - **Miscellaneous** | 10.6% | 29.8% | 15.8% | 19.3% |
| ***2019-21** | | | | |

[1] Market Share figures presented herein, only include members of the Insurance Association of Pakistan.

## Profitability

**Table 3: Profitability Metrics**

| | 2020 | 2021 | 9M'22 |
|---|---|---|---|
| **Net Operating Ratio** | **66.6%** | **65.2%** | **84.5%** |
| **Combined Ratio** | **100.1%** | **91.0%** | **97.0%** |
| - **Net Claims Ratio** | 61.8% | 56.4% | 60.7% |
| - **Expense Ratio** | 38.3% | 34.5% | 36.2% |

- The Company's profitability mainly emanates from its investment portfolio, as is typical in general insurance market, given that combined ratio of the industry tends to hover in the range of 90-100% limiting quantum of underwriting profitability.
- Subsequent to the decline in net underwriting revenue in 2020, the Company has posted Rs. 6.3b net underwriting revenue in 2021, reflecting an increase of 6.8% from preceding year.
- On the back of lower net claim and expense ratio during 2021, the Company's combined ratio depicted improvement during 2021, however, it remained above the peer median. JGI's management envisages the combined ratio to come in at ~94% during for CY22, slightly dropping from the high of 97% reported for 9M'2022.
- As of Sep'22, the Company's investment portfolio comprises of sovereign debt instruments (80.9%), equity securities (17.5%) and term deposits (1.6%). Given adverse equity market performance and higher benchmark rates, the investment in government debt securities has been increased during the period.
- Yield on investment portfolio declined during 2021, with investment income in absolute terms reducing from Rs. 2.0b in 2020 to Rs. 1.6b in 2021. In the ongoing year, we have noted relative improvement in yield, being driven by higher benchmark rates prevailing during the period.

**Table 4: Yield on Investments (Conventional Portfolio)**

| | 2020 | 2021 | 9M'22 |
|---|---|---|---|
| **Investment Portfolio** | **13.9%** | **9.0%** | **10.6%*** |
| - **Sovereign Debt Securities** | 10.5% | 10.2% | 13.1%* |
| - **Equities** | 21.0% | 9.2% | 4.9%* |
| - **Term Deposits** | 2.9% | 1.5% | 1.5* |
| **Properties** | **10.7%** | **12.8%** | **12.5%*** |
| **Associates** | **21.8%** | **16.1%** | **10.4%** |
| ***Annualized (excludes income from equities)*** | | | |

- **Investment Portfolio (Money Market & Equities):** The investment portfolio yield declined on a YoY basis, as illustrated in the table above, owing to the underperformance of equity market.

- **Properties:** These include buildings and land where the market value is significantly higher than the book value, according to professional valuations. The yield on property varies according to the occupancy rate.

- **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. 821m and Rs. 240m respectively. A significant dip in the holding in JLI's market value has been noted which stands at Rs. 836m as of Sep'22 compared with Rs. 1,527m as of Sep'21.

### Reinsurance Coverage

Table 5: Cession Ratio

| | 2020 | 2021 | 9M'22 |
|---|---|---|---|
| - Fire & Property damage | 68.1% | 63.6% | 56.2% |
| - Marine, Aviation & transport | 19.9% | 22.6% | 24.3% |
| - Motor | 3.5% | 2.9% | 3.4% |
| - Liability | 99.0% | 99.2% | 65.6% |
| - Health & Accident | 0.2% | 0.4% | 0.6% |
| - Miscellaneous | 77.6% | 66.4% | 62.1% |
| **Overall Cession Ratio** | **43.2%** | **40.2%** | **38.1%** |

- JGI's cession ratio has trended down and remains on the lower side as compared to peers. Cession ratio for 'Accident & Health remain lowest (<1%) while 'Liability' segment has the highest cession ratio of (>90%).
- As per regulations, credit quality of the Company's reinsurance panel cannot fall below investment grade (BBB), wherein maximum allotment cannot exceed 20%. The remaining 80% allotment can only be against reinsurers rated 'A' or above.

### Capitalization and Liquidity

- On the back of strong profitability, and adequate profit retention, JGI has built sufficient capital buffer over the years.
- Both financial and operating leverage has trended up during the period under review. However, these remain on the lower side compared to peers.
- JGI's investment portfolio entails mostly liquid assets, providing substantial coverage of technical reserves.
- An uptick in insurance debt to gross premium was observed during 2021, a trend which continued in 9M'22. As per management, the increase in insurance debt to gross contribution is on account of a few new large-sized policies, wherein premium is received on installment basis.

Table 6: Capitalization

| | 2020 | 2021 | 9M'22 |
|---|---|---|---|
| Equity (In PKR' Millions) | 9,547 | 10,189.7 | 10,219.1 |
| Payout Ratio | 45% | 48% | N/A |
| Operating Leverage | 42.8% | 46.1% | 47.1%* |
| Financial Leverage | 25.2% | 26.4% | 34.2% |
| **Annualized* | | | |

Table 7: Liquidity Indicators

| | Dec'20 | Dec'21 | Sep'22 |
|---|---|---|---|
| Liquid Assets/ Net technical Reserves | 217.1% | 221.0% | 200.2% |
| Insurance Debt to Gross premium | 11.8% | 14.4% | 26.1%* |
| **Annualized* | | | |

### Sponsor Profile

The assigned ratings incorporates the Company's sponsor profile, being majority owned by Aga Khan Fund for Economic Development (AKFED). AKFED is an international development agency that operates 90 different project firms and employs over 55,000 people. AKFED had consolidated revenues of USD 4 billion in 2021.

## Jubilee General Insurance Company Limited — Appendix I

| FINANCIAL SUMMARY | | | *(amounts in PKR millions)* |
|---|---|---|---|
| **BALANCE SHEET** | **31-Dec-20** | **31-Dec-21** | **30-Sep-22** |
| **Cash and Bank Deposits** | 965.9 | 1,902.0 | 2,345.7 |
| **Investments** | 13,619.9 | 14,030.7 | 14,763.8 |
| **Investment Properties** | 645.9 | 640.6 | 636.8 |
| **Insurance Debt** | 1,074.0 | 1,525.8 | 3,907.0 |
| **Total Assets** | 23,295.0 | 26,194.0 | 32,639.3 |
| **Net Worth** | 9,547.0 | 10,189.7 | 10,219.1 |
| **Total Liabilities** | 13,748.0 | 16,004.3 | 22,420.3 |
| | | | |
| **INCOME STATEMENT** | **CY20** | **CY21** | **9M'CY22** |
| **Net Premium Revenue*** | 5,918.4 | 6,317.9 | 5,111.1 |
| **Net Claims*** | 3,658.7 | 3,566.0 | 3,104.7 |
| **Underwriting Profit*** | (8.1) | 566.5 | 155.4 |
| **Net Investment Income*** | 1,985.0 | 1,632.0 | 634.2 |
| **Profit Before Tax** | 2,113.7 | 2330.0 | 1,727.8 |
| **Profit After Tax** | 1,532.7 | 1,649.3 | 1,055.0 |
| *** incl. WTO** | | | |
| **RATIO ANALYSIS** | **CY20** | **CY21** | **9M'CY22** |
| **Market Share (Gross Premium)** | 10.1% | 10.6% | 11.2% |
| **Cession Ratio** | 43.2% | 40.2% | 38.1% |
| **Gross Claims Ratio** | 50.4% | 41.9% | 45.0% |
| **Net Claims Ratio** | 61.8% | 56.4% | 60.7% |
| **Underwriting Expense Ratio** | 38.3% | 34.6% | 36.2% |
| **Combined Ratio** | 100.1% | 91.0% | 97.0% |
| **Net Operating Ratio** | 66.6% | 65.2% | 84.5% |
| **Insurance Debt to Gross Premium** | 11.8% | 14.4% | 26.1%* |
| **Operating Leverage** | 42.8% | 46.1% | 47.1%* |
| **Financial Leverage** | 25.2% | 26.4% | 34.2% |
| **Adjusted Liquid Assets to Technical Reserves** | 217.1% | 221.0% | 200.2% |
| ***Annualized** | | | |

# 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) |

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: INSURER FINANCIAL STRENGTH** | | | | |
| 30/12/2022 | AA++(IFS) | - | Stable | Reaffirmed |
| 31/03/2022 | AA++(IFS) | - | Stable | Harmonised |
| 28/12/2021 | AA+ | - | Stable | Reaffirmed |
| 29/12/2020 | AA+ | - | Stable | Reaffirmed |
| 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 |

| | |
|---|---|
| **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. |
| **Disclaimer** | Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS. |

**Due Diligence Meetings Conducted**

| Name | Designation | Date |
|---|---|---|
| **Mr. Nawaid Jamal** | CFO | December 13, 2022 |