RATING REPORT

Jubilee Life Insurance Company Limited

REPORT DATE:
January 7, 2020

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	AA+	AA+
Rating Date	*December 19, 2019*	*May 30, 2018*
Rating Outlook	Stable	Stable
Outlook Date	*December 19, 2019*	*May 30, 2018*

COMPANY INFORMATION

Incorporated in 1995	**External auditors:** M/s A. F. Ferguson & Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Kamal A. Chinoy
Key Shareholders:	**Chief Executive Officer & Managing Director:** Mr. Javed Ahmed
Aga Khan Fund for Economic Development S.A., Switzerland – 57.9%	
Habib Bank Limited Treasury Division – 18.5%	
Jubilee General Insurance Company Limited – 6.4%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Life Takaful (February, 2018)
http://www.vis.com.pk/kc-meth.aspx

Jubilee Life Insurance Company Limited

OVERVIEW OF THE INSTITUTION

Jubilee Life Insurance Company Limited (JLI) commenced operations in 1996.. The company offers individual and group life covers, with individual policies being the company's major business line in terms of premium income. Majority shareholding of the company is held by Aga Khan Fund for Economic Development S.A., Switzerland followed by its other associates. Financial statements for the year ending December 2018 were audited by M/s KPMG Taseer Hadi & Co. – Chartered Accountants. Current auditors are A. F. Ferguson & Co., Chartered Accountants. The Company is listed on the Pakistan Stock Exchange.

RATING RATIONALE

Despite an uncertain economic and political environment, and negative performance of stock market, JLI recorded double digit growth in GWP in 2018

Over the years, growth in life insurance industry has largely been a function of economic activity in the country, depicting a double-digit growth over the last five years, mainly in unit linked business. With an increase in number of market participants, specifically Takaful windows initiated by conventional players, there was significant pressure exerted on premium rates. Given the low life insurance penetration in Pakistan, growth in gross premiums is expected to continue, although at a reduced rate, given the uncertainty in economic and political environment. Despite these challenges, JLI reported a higher premium base of Rs. 51.9b at end-December 2018 vis-à-vis Rs. 46.8b at the end of the preceding year, i.e. 11%. 2018 also recorded a new benchmark for JLI, wherein it crossed the Rs.50 billion GWP landmark. Growth in premium was largely contributed by its regular premium individual covers. Given the positive relationship between development of life insurance and economic growth per capita and recent general economic slowdown in the country, growth in business volumes for life insurance is expected to remain subdued in the coming year.

Table 1: Segment Wise Distribution of Premiums (net of reinsurance)

Rs. in billions	2014	2015	2016	2017	2018
Individual Life	18.5	25.8	33.5	41.5	45.8
Group Life	0.9	1.1	1.1	1.1	1.2
Accident & Health	1.6	2.2	2.4	3.2	3.6
Overseas	0.0	0.0	0.0	0.0	0.0
Total	**21.1**	**29.1**	**37.0**	**45.9**	**50.7**

Ability to maintain persistency levels of its customer base will be a key rating driver in the near horizon given challenges to grow business volumes; return from investment avenues remained dampened till Q3 2019, but are now recovering to previous levels.

Table 2: Business Mix

	2014	2015	2016	2017	2018	HY19
First Year Contribution	28.6%	26.6%	25.8%	23.5%	22.3%	18.8%
Renewal Contribution	53.9%	53.2%	54.0%	52.6%	58.8%	63.4%
Top-up & Single Premium	3.8%	7.4%	9.3%	12.4%	7.6%	2.3%
Group Contribution	13.7%	12.7%	11.0%	11.4%	11.3%	15.5%

Similar to previous years, business mix of the company has been largely contributed by regular premium policies while proportions of group life and single premium policies have changed. Given the volatile market conditions, there was lower demand for single (one-time) premium products across the industry. With the ongoing challenges, this product (single premium) is not expected to depict any growth in the near horizon. Single premium product was primarily sold as an investment vehicle to customers, usually through commercial banks; JLI has partnered with the country's largest banks to sell single premium products. As a result, business generated through the bancaassurance channel has been the primary driver of growth in premiums over the years. Similar to previous years, overall persistency of policies continued to average at 85.4% in 2018, slightly above five year average of 84.9%. With lower anticipated growth of the industry, persistency will remain a key profitability driver for the life insurance market players in the coming years. Although bancassurance remains the primary driver of growth in premiums, the company also demonstrated its strength towards diversification, and achieved strong performance in the Window Takaful Operations during 2018, as aggregate Gross Written Contribution from all three Window Takaful lines of business crossed the landmark of Rs.10b.

Management plans to focus on improving sales force productivity; strength of the sales team was also beefed up so as to improve sales volumes. The company will also introduce new products for its micro-health portfolio

During the outgoing year, the industry also faced declining ticket sizes given the political and economic uncertainty and negative performance of equity market. There was a reluctance of clients to make investments and as a result, average premium size declined due to increasing inflation rates which reduced the real value of money for the investor. To offset this adverse impact, management diverted the focus of sales team to build up volumes rather than policy values and has also focused on strengthening its own DSF further, in order to increase its penetration.

During the period ended June 30, 2019, JLI increased the strength of its agents in the larger branches with a view to reduce their acquisition costs. The management anticipates its market share (including public and private sector) to increase from 25.5% in 2018 to over 30% in the next 3-4 years. . In order to do so, the company also plans to introduce new products for its micro group health policies as well revise features for its existing products while also focusing on digital sales. In view of greater focus on Takaful business, JLI has also opened up 5 new Takaful dedicated branches in 2018 with 5 more in pipeline.

During 2018, JLI's planned increase in branch penetration translated into higher expenses. In addition, increased penetration of branch network also required strengthening of the Direct Sales Force (DSF) team. While expansion of the DSF line impacted short term profitability, the same is expected to recover in long term. Risk adjusted capitalization levels of the institution are considered sound in view of healthy capital coverage of claims.

Despite higher retention on net account, growth in expense base including benefits and negative conditions of the economy, Individual Life Unit Linked Fund earned a lower surplus in the outgoing year. Given that this segment is the largest contributor to the bottom line, overall surplus of the company also reflected a decline from Rs.4.1 billion in 2017 to Rs. 3.3b in 2018. Nonetheless, all segments including individual & group life along with group health have reported a positive bottom line. Profitability is expected to normalize, going forward. Profit after tax of the company was reported at Rs. 3.8b (2017: Rs. 3.9b) for 2018. Risk absorption capacity of the company is considered sound on the back of sizeable equity base of Rs. 10.2b (2018: Rs. 10.3b; 2017: Rs. 9.3b) at end-June 2019. At present, risk adjusted capitalization levels of the institution are considered sound in view of healthy capital coverage of claims. Management plans to focus on consolidating its books by shedding off loss making clients and improving loss ratios during the ongoing year.

Table 3: Company and Segment-Wise Profitability

Rs. in millions	2014	2015	2016	2017	2018	HY19
Overall Surplus	2,260.6	2,657.1	3,616.2	4,143.3	3,276.6	1,569
Surplus from Individual	1,992.6	2,412.5	2,991.1	3,125.8	2,408.8	1,223.7
Surplus from Group Family	129.7	130.3	167.3	195.1	74.6	143.0
Surplus from Group Health	122.1	141.2	271.1	423.2	532.3	233.2
Surplus from Overseas Business	16.3	19.1	13.8	15.7	16.7	16.2
Surplus from Takaful Business	-	(46.1)	173.0	383.5	244.2	(45.6)
Profit Before Tax	2,001.5	2,441.6	3,151.6	3,875.9	3,775.4	1,643.9
Profit After Tax	1,361.5	1,621.6	2,107.9	2,569.7	2,430.3	979.8
Equity	3,159.9	3,910.2	7,665.2	9,316.7	10,341.7	10,194.3

The company maintains a healthy mix of investments; ability to generate sufficient investment income to support operations will be a key rating driver.

JLI manages a total of six unit linked funds; two of which have been dedicated to its Window Takaful business. The company manages a total fund size of Rs. 122.8b (2018: Rs. 116.5b) as of June 30, 2019 with highest exposures parked in equity and government paper. Given current scenario of the stock market, funds with equity exposure reported negative returns similar to other market players. As per management, given limited avenues for Shariah compliant investments, growing Takaful business is challenging in terms of investment opportunities; life insurance policies are usually sold based on historical fund performance and their ability to generate superior returns vis-à-vis peers/other avenues. In the backdrop of the interest rate scenario, the company has also started building up its long term exposure in government securities; current Weighted Average to Maturity of the portfolio is 4.99 years. Policies having a total cash value of Rs. 1.5b are expected to mature in the coming year; liquidity indicators for meeting these maturities are considered adequate. However, under the current economic conditions, collection of group business receivables should be tightened in order to reduce probability of defaults from its group life segment.

Table 4: Fund Size

Rs. in billions	**2014**	**2015**	**2016**	**2017**	**2018**	**HY19**
Managed Fund	34.5	47.5	67.2	70.6	76.6	78.9
Capital Growth Fund	1.0	2.9	9.3	14.7	19.3	21.1
Meesaq Fund	5.1	6.7	9.3	9.0	9.0	8.5
Yaqeen Growth Fund	1.0	1.1	1.4	1.7	2.0	2.5
Managed Takaful Fund	-	0.02	0.5	1.8	3.9	5.0
Capital Growth Takaful Fund	-	0.02	0.6	2.9	5.7	6.8
Total AUMs	***41.6***	***58.2***	***88.3***	***100.7***	***116.5***	***122.8***

Investment management team may need to beefed up in view of the increasing fund size; internal control framework of the company has also been strengthened

Investment team comprises a total of 11 employees, the largest investment team in the private sector life insurance industry of Pakistan, of which 8 belong to the research department. There is currently one fund manager in the company. Given the increasing size of the funds managed, the Company is considering strengthening its investment team further by deploying specialist managers. JLI has also implemented a trading policy for employees. During 2018, the company implemented a Customer Relationship Management (CRM) platform for improving its customer service; this platform is also expected to help it build its digital sales. The Disaster Recovery (DR) site has also been shifted to another city for geographical diversification. Its core life insurance policy management system was replaced from CLAS to AETINS ISF, a Malaysian system, in 2017, and in the second phase, Group Life (Conventional) was migrated to AETINS ISF in February 2019, and thereafter, Individual Family Takaful was shifted to AETINS ISF in October 2019. The Company has recently acquired the Geneysis Omni Channel Contact Center, which provides features such as data warehousing and business intelligence. Management has also made efforts towards implementing an enterprise risk management framework, and implemented the AML / CFT module in its core business system, towards ensuring regulatory compliance.

Jubilee Life Insurance Company Limited — Appendix I

FINANCIAL SUMMARY					*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2014**	**DEC 31, 2015**	**DEC 31, 2016**	**DEC 31, 2017**	**DEC 31, 2018**
Cash and Bank Deposits	5,070.9	7,379.8	4,404.1	4,893.2	5,673.4
Investments	41,908.7	58,999.0	95,562.6	109,913.0	128,320.0
Total Assets	49,613.5	69,223.9	102,796.8	120,512.9	139,626.0
Net Worth	3,159.9	3,910.2	7,665.2	9,316.7	10,341.7
Total Liabilities	46,453.6	65,313.7	95,131.6	111,196.2	129,284.3
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2015**	**DEC 31, 2016**	**DEC 31, 2017**	**DEC 31, 2018**
Gross Contributions	21,823.4	29,929.2	38,003.6	47,117.2	52,111.4
Net Contributions	21,085.9	29,120.8	36,988.2	45,905.9	50,671.0
Surplus – Overall	2,260.6	2,657.1	3,616.2	4,143.3	3,276.6
- Individual	1,992.6	2,412.5	2,991.1	3,125.8	2,408.8
- Group Family	129.7	130.3	167.3	195.1	74.6
- Group Health	122.1	141.2	271.1	423.2	532.3
Profit Before Tax	2,001.5	2,441.6	3,151.6	3,875.9	3,775.4
Profit After Tax	1,361.5	1,621.6	2,107.9	2,569.7	2,430.3
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2015**	**DEC 31, 2016**	**DEC 31, 2017**	**DEC 31, 2018**
Market Share (Gross Premium-Private)	45.1%	40.4%	46.5%	49.2%	53.8%
Liquid Assets to Total Liabilities	1.01	1.02	1.05	1.03	1.04
Cession Ratio	3.4%	2.7%	2.7%	2.1%	2.8%
Persistency	84.4%	88.4%	85.8%	81.8%	85.4%

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 Life 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				
12/19/2019	AA+		Stable	Reaffirmed
5/30/2018	AA+		Stable	Reaffirmed
9/23/2016	AA+		Stable	Reaffirmed
5/4/2015	AA+		Stable	Upgrade
3/20/2013	AA		Stable	Upgrade
12/29/2011	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 insurer financial strength quality only and is not a recommendation to buy or sell any securities.
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