RATING REPORT

Jubilee Life Insurance Company Limited

REPORT DATE:
February 23, 2021

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	AA+	AA+
Rating Date	*February 23, 2021*	*December 19, 2019*
Rating Outlook	Stable	Stable
Outlook Date	*February 23, 2021*	*December 19, 2019*

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 2019 were audited by M/s A. F. Ferguson & Co., Chartered Accountants. The Company is listed on the Pakistan Stock Exchange.

RATING RATIONALE

Due to uncertain economic environment and inflationary pressures impacting earnings and savings capacity of individuals, JLI's new business acquisition in its Individual Life Unit Linked segment was mainly impacted in 2019 resulting in a 5% decrease in GWP compared to 2018. However, the decline was contained on account of robust growth in Accident & Health Business (both conventional and Takaful) and Individual Family Takaful business segments.

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. Owing to the economic slowdown in 2019, JLI recorded a dip of 12% in NWP in the Individual Life Unit Linked Business segment, for both new business and single premium policies. The decline in premium earned was contained on account of robust growth of 32% and 8% emanating from Accident & Health and Individual Family Takaful business segments, respectively in 2019. Surplus in Accident & Health segment and Takaful business declined during 2019 owing to increase in business volumes & high medical inflation. Growth in premium was largely contributed by its regular premium individual covers. Window Takaful operations continued to witness higher aggregate GWP as compared to preceding year owing to market sentiments shifting towards Islamic products; surplus in the segment declined during 2019 attributable to increase in expenses incurred on expansion of distribution network. Given the positive relationship between development of life insurance and economic growth per capita and recent general economic slowdown in the country amidst COVID-19, growth in business volumes for life insurance is expected to remain subdued. Despite the sudden lock down measures by the federal and respective provincial governments, the company was able to continue its operations. With the resumption of business and economic activities, JLI's GWP during 3Q20 showed a positive increase of 7% as compared to the corresponding period last year (CPLY). Going forward, management expects recovery in growth of premium/contribution income in the ongoing years from the wide range of its existing and new products to cater protection and investment needs.

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

Rs. in millions	2018	%	2019	%	9M2020	%
Individual Life Unit Linked	36,044	71%	31,668	65%	18,648	59%
Conventional Business	1,177	2%	1,421	3%	1,164	4%
Accident and Health Business	3,433	7%	4,547	9%	4,417	14%
Oversees Group Life & Health Business	14	0%	12	0%	13	0%
Individual Family Takaful	9,780	19%	10,529	22%	6,510	21%
Group Family Takaful	53	0%	38	0%	97	0%
Accident & Health Family Takaful	170	0%	181	0%	689	2%
Total Net Premium	**50,671**		**48,396**		**31,539**	

Business mix analysis depicts decline in new business contribution and single premium business in 2019 and 9M2020. Contribution of renewal and group business segment witnessed an increase during 2019 and 9M2020. 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.

Table 2: Business Mix

	2014	2015	2016	2017	2018	2019	9M2020
First Year Contribution	28.60%	26.60%	25.80%	23.50%	22.41%	18.78%	9.38%
Renewal Contribution	53.90%	53.20%	54.00%	52.60%	59.02%	65.41%	68.80%
Top-up & Single Premium	3.80%	7.40%	9.30%	12.40%	7.66%	1.61%	0.26%
Group Contribution	13.70%	12.70%	11.00%	11.40%	11.34%	14.78%	22.32%

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. Consequently, as per management's deliberate strategy, proportion of single premium products is expected to be minimal going forward.

Overall persistency of policies witnessed a decline in 2019 and HY2020 owing to economic slowdown and subdued renewal premium collection. Lower persistency during the on-going year is on account of the pandemic due to which JLI had to extend their grace period. 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 2019, 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; consequently increasing its contribution in the overall premium income. The same is planned through introducing new products along with strengthening of the sales staff.

During the outgoing year, the industry faced decline in new business premiums given the political and economic uncertainty and negative performance of equity market. There was a reluctance of clients to make investments. 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. Bancassurance continue to contribute around 75% in overall premiums. Management envisages this proportion to decline going forward as DSF strengthens over time.

During the period ended December'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 to over 30% in the next 3-4 years. In order to do so, the company also plans to introduce new products, revise features for its existing products, and increase its focus on digital sales. In view of greater focus on Takaful business, JLI plans to open dedicated Takaful branches in the coming years to further enhance its foothold in the Islamic insurance segment.

Net income before expenses reported a double-digit growth during 2019 on account of higher investment income. Despite increasing claims ratio and higher insurance liabilities, profit before tax of the company signify similar results during 2020 as compared to CPLY. On account of higher tax expense, profit after tax declined by 8% during 2019. Risk adjusted capitalization levels of the institution are considered sound in view of healthy capital coverage of claims.

Individual Life Unit Linked segment earned a 20% higher surplus in the outgoing year on account of higher investment income. Given that this segment is the largest contributor to the bottom line, overall surplus of the company also reflected an increase from Rs. 3.3b in 2018 to Rs. 3.5b in 2019. Nonetheless, all segments including individual & group life along with group health have reported a positive bottom line. Surplus for Takaful segment declined during 2019 due to higher expenses incurred on expansion of distribution network. Due to increasing claims ratio, higher insurance liabilities and higher tax expense, profit after tax of the company declined by 8% to Rs. 2.2b (2018: Rs. 2.4b) during 2019. Profitability indicators for 2020 are expected to be similar to 2019 due to higher claims ratio amidst COVID-19 pandemic as evident in 9M2020.

Risk absorption capacity of the company is considered sound on the back of sizeable equity base of Rs. 11.9b (2019: Rs. 11.4b; 2018: Rs. 10.3b; 2017: Rs. 9.3b) at end-September'20. 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.

Further the company also made its first surplus distribution to the entitled IL Takaful participants in April 2020 for the surplus earned for the years 2017 through 2019 aggregating to Rs 394.40 million in accordance with the approved mechanism.

Table 3: Company and Segment-Wise Profitability

Rs. in millions	2018	2019	9M2020
Overall Surplus	3,277	3,555	2,944
Surplus from Individual	2,409	2,892	2,020
Surplus from Group Family	75	161	328
Surplus from Group Health	532	318	487
Surplus from Overseas Business	17	30	24
Surplus from Takaful Business	244	154	85
Profit Before Tax	3,449	3,416	2,801
Profit After Tax	2,430	2,224	1,966
Equity	10,342	11,406	11,916

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. 154.3b (2019: Rs. 146.2b; 2018: Rs. 116.5b) as of end-Nov'20 with highest exposures parked in equity and government paper. During 2019, the company built up a significant portfolio of PIBs of over Rs. 65b in different tenors yielding attractive returns. This along with some recovery in the equity market led to an investment income (including fair value gains and losses) of Rs. 20b (2018: Loss of Rs. 2b). Given declining stock market index during 1Q2020, funds with equity exposure reported negative returns similar to other market players. Despite though economic situation, company was able to significantly recoup its Mark to Market (MTM) valuation loss on investments and earned same level of investment income during 9M2020 as compared to CPLY. As per management, given limited avenues for Shariah compliant investments, growing Takaful business is considered challenging in terms of investment opportunities. In the backdrop of the interest rate scenario, the company built up its long term exposure in government securities during 2019 which aided in boosting the investment income of the company. Overall investment income increased to Rs. 12.6b (2018: Rs. 7.2b) during 2019 largely contributed by income from debt securities. Going forward, management envisages higher projected investment income in light of expected recovery in the equity market. Ability to generate sufficient investment income to support operations will also be another key rating driver.

Table 4: Fund Size

Rs. in billions	2014	2015	2016	2017	2018	2019	Nov'20
Managed Fund	34.5	47.5	67.2	70.6	76.6	90.7	94.6
Capital Growth Fund	1	2.9	9.3	14.7	19.3	27.3	27.6
Meesaq Fund	5.1	6.7	9.3	9	9	9.1	8.2
Yaqeen Growth Fund	1	1.1	1.4	1.7	2	3.1	4.2
Managed Takaful Fund	-	0.02	0.5	1.8	3.9	6.9	9.3
Capital Growth Takaful Fund	-	0.02	0.6	2.9	5.7	9.2	10.4
Total AUMs	***41.6***	***58.24***	***88.3***	***100.7***	***116.5***	***146.2***	***154.3***

Strengthening of investment management team completed in view of the increasing fund size; internal control framework of the company has also been strengthened

Given the increasing size of the funds managed, the Company has strengthened its investment team further by deploying specialist managers with respect to each asset class under management i.e. equity, government securities and commercial papers. JLI has also implemented a strict trading policy for employees in order to avoid conflict of interest in its investment decisions. 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	**31-Dec-18**	**31-Dec-19**	**30-Sep-20**
Cash and Bank Deposits	5,673.4	4,095.0	3,603.4
Investments	128,449.5	158,843.2	17-,775.9
Total Assets	139,626.0	173,360.5	184,379.1
Paid Up Capital	793.3	793.3	872.64
Net Worth	10,341.7	11,405.6	11,916.4
Total Liabilities	129,284.3	161,955.0	172,462.7
INCOME STATEMENT	**31-Dec-18 (Re-Stated)**	**31-Dec-19**	**30-Sep-20**
Gross Contributions	51,887.1	49,627.4	32,550.9
Net Contributions	50,671.0	48,396.0	31,538.7
Surplus – Overall	3,276.6	3,554.9	2,550.3
- Individual	2,408.8	2,892.3	2,020.2
- Group Family	74.6	160.6	327.9
- Group Health	532.3	318.4	486.8
Profit Before Tax	3,448.6	3,416.4	2,800.8
Profit After Tax	2,430.3	2,224.2	1,966.3
RATIO ANALYSIS	**31-Dec-18**	**31-Dec-19**	**30-Sep-20**
Market Share (Gross Premium-Private)	46.9%	45.1%	NA
Liquid Assets to Total Liabilities	1.04	1.01	1.01
Cession Ratio	2.34%	2.48%	3.11%
Gross Claims Ratio	33.3%	47.6%	63.5%
Net Claims Ratio	32.2%	46.4%	62.1%
Individual Claims Ratio	27.7%	41.5%	61.4%
Group Claims Ratio	72.7%	78.1%	63.4%
Individual Claims Ratio- without surrender	5.3%	11.3%	15.2%
Acquisition cost/Gross Premium	18.9%	18.3%	14.8%
Cash Flow from Operations	22,499.3	13,027.3	5,200.4
Current Ratio	NA	NA	NA
Gearing	NA	NA	NA

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: INSURER FINANCIAL STRENGTH				
02/23/2021	AA+		Stable	Reaffirmed
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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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Omer Farooq	Acting CFO	21-Dec-2020
Mr. Shan Rabbani	Group Head Retail Operations, Investments & Actuarial	21-Dec-2020