RATING REPORT

Jubilee Life Insurance Company Limited

REPORT DATE:
February 22, 2024

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	AA++(IFS)	AA++(IFS)
Rating Date	*Feb 22, 2024*	*Feb 23, 2023*
Rating Outlook	Stable	Stable
Rating Action	*Reaffirmed*	*Reaffirmed*

COMPANY INFORMATION

Incorporated in 1995	**External auditors:** M/s A. F. Ferguson & Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. R. Zakir Mahmood
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)

Applicable Rating Criteria: Life Insurance Family Takaful (Oct 2023)
https://docs.vis.com.pk/docs/LifeTakaful-Oct-2023.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Jubilee Life Insurance Company Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Jubilee Life Insurance Company Limited (JLI) commenced operations in 1996. The addresses of its registered and principal office are 26-D, 3rd Floor, Kashmir Plaza, Jinnah Avenue, Blue Area, Islamabad and Jubilee Life Insurance Building, 74/1-A, Lalazar, M.T. Khan Road, Karachi, respectively. JLI is listed on the Pakistan Stock Exchange.

Jubilee Life Insurance Company Limited ('JLI' or 'the Company') is the largest private sector life insurance Company in Pakistan, offering both individual and group life covers. The assigned rating derives strength from the Company's robust sponsorship profile which includes the Aga Khan Fund for Economic Development S.A. (AKFED), Switzerland in addition to indirect holding of AKFED through HBL. However, the business risk profile of the life insurance sector is currently heightened owing to surge in policy surrenders stemming from contraction in disposal income of policy holders amid weak macroeconomic environment coupled with existing issue of low insurance penetration. This is reflected in the financial risk assessment of the Company which has seen a decline in the topline particularly due to a decrease in business activity in the individual life business, mainly on account of the challenging economic conditions. Persistency levels in particular have declined in line with industry trends owing to increase in policy surrenders which may impact the growth of premiums going forward. While the increase in loss ratios have adversely impacted underwriting performance, the bottom-line was propped up by appreciable income generated from debt securities amidst the high policy rate environment as well as reduction in unrealized losses on financial assets which were held-for-trading. The rating also incorporates sound reinsurance arrangements with renowned international reinsurers with appropriate risk retention on net account to maintain risk appetite of the Company. Furthermore, liquidity and capitalization levels remained satisfactory owing to sufficient available liquid assets along with adequate capital coverage of claims. Going forward, the rating will factor in improvement in the Company's underwriting performance, particularly in its ability to arrest policy surrenders and boost new business generation.

Insurance Sector Update

Pakistan's insurance industry posted growth despite weak macroeconomic situation in CY22 with continued dominance of Life Insurance & Family Takaful segments in terms of assets and gross premiums. Gross premiums increased from Rs. 417.2 billion in CY21 to Rs. 531.7 billion in CY22 with Life & Family Takaful segment, and Non-Life & General Takaful segments posting increases of Rs. 81.9 billion and Rs. 29.4 billion respectively. Moreover, the industry's asset base grew by 14.8% in CY22 to Rs. 2,459.9 billion particularly on the back of significant growth in the Life Insurance segment. Moreover, despite building macroeconomic pressures characterized by dwindling foreign reserves, stabilization measures, slowdown in economic activity, etc. along with catastrophic floods affecting one-third of the country during the year under review, all segments of the industry continued to expand. This was the result of a combination of general factors affecting the whole insurance industry such as inflation leading to a rise in premium rates and idiosyncratic factors pertaining to all segments.

The growth in Life Insurance segment was an outcome of the implementation of the government's health insurance programs carried out by State Life; the same increased health coverage to the low and middle-income strata of society. However, the claims ratio for the sector witnessed an increase due to a rise in group claims and higher surrender claims by individuals amidst the challenging macroeconomic environment. Nevertheless, since life insurers maintain most of their investments in government securities due to lackluster performance of capital market, the resulting higher investment income boosted their profitability due to hike in interest rates. Moreover, the SECP has issued instructions of phase wise implementation of IFRS 17. 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. The SECP has issued the deadline of 1st January, 2026 to complete the implementation of IFRS 17. Going forward, growth in insurance sector is expected to remain correlated with economic pressures.

Source: Financial Stability Review – 2022 | State Bank of Pakistan

Business Update

The Company registered a 3.8% decrease (annualized) in its topline during 3QCY23, amounting to Rs.

34.2b (CY22: Rs. 47.3b, CY21: Rs. 49.4) largely due to decline in individual life segment. The same is a result of erosion of disposable incomes in line with steep inflation coupled with the already minimal penetration of life insurance in the local market. Additionally, the availability of alternative investment products offering competitive returns amidst the high interest rate environment further discouraged the adoption of unit-linked insurance policies. Moreover, the weakening in macroeconomic conditions also resulted in the quantum of surrenders increasing, reflected in the decline in renewal premiums in absolute terms by 11.9% on an annualized basis during 3QCY23, particularly manifested in subsequent year premiums. Consequently, overall persistency levels dipped over the rating review period which is expected to impact the topline moving forward. On the other hand, the group segment exhibited a timeline increase in the business mix as corporate entities were better placed to absorb inflation adjustments to premium prices. However, the overall decrease in topline performance resulted company's market share, in the private life insurance industry, at end-Sept'23, to be around 35.6% compared to CY22: 37.5%, CY21: 39.2%). Going forward, given that macroeconomic conditions are expected to remain depressed in the medium-term, topline growth is anticipated to be limited, particularly in the individual segment. Breakdown of business mix can be seen below:

Business Mix (GWP)	**2021**	**2022**	**9M2023**
Total Regular Premium / Contribution Individual Policies	**76.3%**	**73.2%**	**63.6%**
First year	*14.0%*	*14.3%*	*11.6%*
Second year renewal	*9.1%*	*10.1%*	*10.3%*
Subsequent year renewal	*53.2%*	*48.7%*	*41.8%*
Single premium / contribution individual policies	**1.5%**	**1.1%**	**1.1%**
Group policies without cash values	**22.2%**	**25.8%**	**35.3%**
Total	**100.0%**	**100.0%**	**100.0%**

JLI has an extensive branch network consisting of over 300 locations across the country, with 18 new branches added during the CY23. However, in terms of sales distribution, there is a significant tilt towards bancassurance with about 77.4% (CY21: 77.1%) of individual gross premium generated through these channels at end-Dec'22. As per management, similar trend is expected to continue going forward.

Moreover, as per management, the Company plans on releasing a new application by end-Dec'24 which will allow for the digital onboarding of new clients as well as encouraging policyholders to pursue healthier lifestyles by meeting in-app targets in exchange for reward points. These efforts toward digitalization are viewed positively in encouraging and maintaining business activity moving forward.

Profitability Performance

Over the rating review period, the Company's underwriting performance deteriorated on account of marked increase in loss ratios with the net claims ratio rising to 109.6% during 9MCY23 (CY22: 94.2%, CY21: 83.8%). This was largely an outcome of higher surrenders/withdrawals of individual policies amidst the weakening macroeconomic conditions as claims pertaining to death remained within mortality fluctuation tolerance levels. The overall expense ratio increased on a timeline as well to 27.1% (CY22: 24.2%, CY21: 22.7%) due to decline in net insurance premium on an annualized basis combined with rise in management expenses to Rs. 4.2b (CY22: Rs. 4.4b, CY21: Rs. 3.8b) in line with inflationary pressure. Consequently, the combined ratio was booked at over 100% which indicates underwriting losses were registered during CY23. Furthermore, given the adverse stock market performance and repeated interest rate hikes over the rating review period, the Company's decision to shift its investment portfolio from equities towards fixed income securities resulted in sizeable net realized losses on financial assets, especially during CY22; the same amounted to Rs. (448.1m) during 9MCY23 (CY22: Rs. (3.2b), CY21: Rs. 954m). Additionally, with uptick in premium prices, net change in insurance liabilities (other than outstanding claims) increased to Rs. 6.1b (CY22: (Rs. 7.1b), CY21: (Rs. 1.5b) which added further pressure to the bottom-line. Moreover, given that the majority of the investment portfolio constitutes of financial assets held at fair-value through profit and loss, unrealized gains/losses on the same directly impacted profitability. However, with decline in equity investments, net unrealized losses on financial assets reduced significantly to Rs. (524m) (CY22: Rs. (11.6b), CY21: Rs. (9.2b)). Additionally, investment income grew sizably to Rs. 21.5b during 9MCY23 (CY22: Rs. 19.1b, CY21: Rs. 12.3b), representing a 63% growth vis-à-vis SPLY, on the back of higher returns from debt securities. Consequently, healthy profit after tax of Rs. 1.5b was registered during CY23 (CY22: Rs. 2.1b, CY21: Rs. 1.8b).

Reinsurance

Life insurance underwriting is based on sum assured applied for and age of the client according to which medical requirements (based on medical underwriting tables) are generated automatically. Reinsurance treaties along with commission rates for individual life and group business remain unchanged during the period under review. Major reinsurance treaties have been arranged from Hannover Re (rated 'AA-' by S&P and 'A+' by AM Best), indicating robust overall risk profile of the reinsurance panel. Going forward, no major change in reinsurance panel, treaty terms or commission rates is expected for FY24.

Investments

The Company has a total of eight unit-linked funds which vary in terms of investment avenues as per the risk appetite of the clients; four of which pertain to Window Takaful business. The overall investment portfolio expanded to Rs. 179.9b (CY22: Rs. 173.1b, CY21: Rs. 178b) by end-Sept'23; the same constituted primarily of government securities, markedly moving away from equities on account of the management's conservative approach, volatile stock market performance and high interest rate environment. Moreover, the government security mix itself redirected from PIBs to T-bills over the rating review period; the tenor of PIBs range from 3-20 years with returns between 10.07-22.85% while T-Bills constitute of 3M and 12M securities with returns between 21.96-22.30%. On the other hand, composition of GoP Ijarah Sukuks increased on a timeline as well, comprising of instruments with tenor of 1-5 years with returns between 15.34-23.42%. Resultantly, with increased focus on shorter-term securities, the average duration of the overall portfolio decreased which moderated the associated price and reinvestment risk amidst increasing policy rates. The same is viewed positively from a rating's perspective as the impact of mark-to-market losses are reduced, directly impacting the bottom-line given that about 81.1% of government securities at are recorded at fair value through profit or loss at end-Sept'23 (CY22: 78.1%, CY21: 74.4%). The remainder of the investment portfolio constituted of debt securities, comprising largely of TFCs and corporate Sukuks, amounting to Rs. 7.5b (CY22: Rs. 7.6b, CY21: Rs. 6.9b) as well as open-end mutual funds which stood at Rs. 6.1b (CY22: Rs. 6.5b, CY21: Rs. 4.4b). On the other hand, investment in term deposits reduced to nil during CY23 as they were redirected largely to fixed-income government instruments. Furthermore, since the investment mix constituted majorly of government securities, the associated credit risk of the overall portfolio is considered low. Going forward, the management envisages the policy rates to slide down following stabilization of macroeconomic indicators and positive developments in the IMF program. Consequently, as per management, the investment mix is expected to remain focused on short to medium-term fixed income instruments to lock-in higher interest rates, particularly through 12M T-bills as well as 5-year floater PIBs with bi-annual coupon readjustments. Breakdown of investment mix can be seen below:

Investment Mix	2021	2022	9M2023
Equity securities	**36.3%**	**16.5%**	**4.4%**
Government securities	**45.4%**	**70.8%**	**88.0%**
PIBS	*18.4%*	*4.1%*	*12.1%*
T-bills	*22.0%*	*43.9%*	*59.1%*
Ijarah Sukuk	*5.0%*	*22.8%*	*16.9%*
Debt securities	**3.9%**	**4.4%**	**4.2%**
Term deposits	**12.0%**	**4.6%**	**0.0%**
Open-ended mutual funds	**2.5%**	**3.7%**	**3.4%**
Total Investments	**100.0%**	**100.0%**	**100.0%**

Liquidity & Capitalization

In line with sizeable internal generation mainly on account of investment income, the equity base grew over the rating review period to Rs. 14.4b at end-Sept'23 (CY22: Rs. 13.9b, CY21: Rs. 13.1b). Therefore, the overall risk absorption capacity of the Company is considered satisfactory in view of healthy solvency margin levels. Additionally, the liquidity position remained sound as liquid assets relative to total liabilities stood relatively stable at 1.01x at end-9MCY23 (CY22: 1.02x, CY21: 1.02x) owing to expansion of the investment portfolio despite increase in claims payouts to Rs. 35.5b (CY22: Rs. 42.9b, CY21: Rs. 39.8b) due to higher surrenders.

Jubilee Life Insurance Company Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	30-Sep-23
Cash and Bank Deposits	4,095	4,943	3,080	4,169	3,754
Investments	158,691	175,621	177,978	173,085	179,939
Total Assets	173,361	190,422	190,552	187,853	196,001
Paid Up Capital	793	873	873	873	1,004
Net Worth	11,406	12,872	13,069	13,941	14,426
Total Liabilities	161,955	177,550	177,483	173,911	181,574

INCOME STATEMENT	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	30-Sep-23
Gross Contributions/ Contributions	49,627	46,507	49,356	47,343	34,165
Net Premium/ Contributions	48,396	45,208	47,580	45,571	32,433
Surplus – Overall	3,555	3,987	2,523	3,314	2,737
- Individual	3,046	3,007	2,219	1,927	1,756
- Group Family	161	245	(170)	484	382
- Group Health	348	735	473	903	599
Profit Before Tax	3,416	4,070	2,540	3,301	2,873
Profit After Tax	2,224	2,884	1,793	2,072	1,482

RATIO ANALYSIS	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	30-Sep-23
Market Share (private life insurance)	51.4%	41.6%	39.2%	37.5%	35.6%
Cession Ratio	2.5%	2.8%	3.6%	3.7%	5.1%
Gross Claims Ratio	47.6%	65.9%	84.4%	94.0%	106.6%
Net Claims Ratio	46.4%	63.8%	83.8%	94.2%	109.6%
Expense Ratio	25.3%	23.1%	22.7%	24.2%	27.1%
Combined Ratio	71.7%	86.8%	106.5%	118.4%	136.7%
Liquid Assets to Total Liabilities (x)	1.01	1.02	1.02	1.02	1.01

**Annualized*

REGULATORY DISCLOSURES Appendix II

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				
22/02/2024	**AA++ (IFS)**		**Stable**	**Reaffirmed**
23/02/2023	AA++ (IFS)		Stable	Reaffirmed
03/01/2022	AA++ (IFS)		Stable	Reaffirmed
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.
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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Omer Farooq	CFO	17-Jan-2024
Mr. Shan Rabbani	Digitalization, Actuarial & Strategy Group	