

RATING REPORT

Chubb Insurance Pakistan Limited

REPORT DATE:

January 4, 2019

RATING ANALYSTS:

Muniba Khan

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	AA	AA
<i>Rating Date</i>	<i>December 31, 18</i>	<i>December 29, 17</i>
Rating Outlook	<i>Stable</i>	<i>Stable</i>

COMPANY INFORMATION

Incorporated in 2001	External auditors: A.F. Ferguson & Co. Chartered Accountants (a member firm of PwC Network)
Public Limited Company (Unlisted)	Chief Executive Officer: Mr. Humzah Chaudhri
Key Shareholders (with stake 10% or more):	Chairman: Mr. Syed Umer Ali Shah
Chubb INA International Holdings Limited, USA – 100%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – General Insurance (March 2017)

<http://jcrvis.com.pk/docs/Meth-GenInsurance201702.pdf>

Chubb Insurance Pakistan Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Incorporated in 2001, Chubb Insurance Pakistan Limited is engaged in underwriting non-life insurance business. Financial statements for 2016 were audited by A.F. Ferguson & Co. Chartered Accountants (a member firm of PwC Network). The company has total staff strength of 15.

Profile of Chairman:

Mr. Shah is the former CEO of Chubb Insurance Pakistan Limited, and former Managing Director of Chubb Arabia Cooperative Insurance Company, KSA. Mr. Shah holds an MBA in Insurance Management from The College of Insurance N.Y., a BS degree in Insurance & Economics, and a B.Sc. degree in Physics, Chemistry and Mathematics, and is also a Certified Director from The Institute of Chartered Accountants of Pakistan. Prior to joining Chubb, Mr. Shah worked with New Jubilee Insurance Company Limited, Abu Dhabi National Insurance Corporation, and United Bank Limited.

Profile of CEO:

Mr. Chaudhri is a Chartered Professional Accountant (Chartered Accountant) from Canada and is a member of the Chartered Professional Accountants Canada,

Chubb Insurance Pakistan Limited (CIPL) operates as a wholly owned subsidiary of Chubb INA International Holdings Limited (U.S.A). Prior to incorporation, the company functioned as a branch of one of the group companies. The assigned rating derives strength from the sponsor profile of Chubb Group, representing the world’s largest property and casualty insurers. The rating also reflects the technical and financial assistance provided to CIPL. The company also receives support in the form of sizeable treaty capacities, largest in the domestic context from the group.

Key Rating Drivers

Business Mix

The company continues to maintain a diversified portfolio mix with fire and property contributing the highest share. During the years, management has adopted a cautious approach with regards to its portfolio due to high incidence of claims. As a result, CIPL’s carried out a consolidation strategy which translated into variability in the top line. In 2017, CIPL was able to grow its business to Rs. 528.2m vis-à-vis Rs. 392.6m in the corresponding period last year. This growth has largely been emanated from the engineering projects that were underwritten. However, with the prevailing political uncertainty, these exposures were not renewed in the ongoing year, reducing the company’s gross business to Rs. 166.6m in HCY18. In order to cater to this trend in top line, management plans to launch of new products along with increase its focus on bancassurance, going forward. In HCY18, the company also significantly increased its accident and health segment.

Table 1: Gross Premium

<i>Rs. in millions</i>	HCY18	CY17	CY16	CY15	CY14	CY13
Fire and property damage	63.4	357.0	295.8	469.3	612.3	496.4
Marine, aviation and transport	26.0	30.2	14.6	7.5	85.7	9.8
Motor	0.3	0.7	1.4	1.6	1.7	1.9
Accident & Health	55.1	101.2	48.8	46.4	37.0	34.8
Liability	21.9	39.0	32.0	19.8	41.2	37.0
Total Gross Premium	166.6	528.2	392.6	544.7	777.9	579.9

Reinsurance Coverage

In line with the Group’s strategy, all reinsurance treaties have been arranged with Chubb Tempest Reinsurance Ltd., Bermuda (CTRL), belonging to the Chubb group as well. CTRL enjoys a strong credit risk profile with a financial strength rating of ‘AA’ from Standard & Poor’s. Reinsurance treaties of the company include risk coverage for both inside and outside Pakistan, enabling the portfolio to be geographically diversified. Moreover, in comparison to peers, CIPL holds the largest reinsurance treaty capacities for fire, engineering and catastrophic cover in Pakistan.

Claims Experience

Similar to other market players, CIPL also focused on consolidating its business on account of higher claims in business segments. Resultantly, CIPL was able to control its loss ratios within manageable limits; gross and net loss ratios were reported at 4.2% and 7.5% respectively in HCY18. Claims

Chartered Professional Accountants Ontario and The Institute of Chartered Accountants of Pakistan.

He holds a Bachelor of Commerce Degree and a Graduate Diploma in Public Accounting both from McGill University, Montreal, Canada. He is also a Certified Director from The Institute of Chartered Accountants of Pakistan. Mr. Chaudhri has over 12 years of experience in the financial sector. Prior to joining Chubb in 2012 Mr. Chaudhri was working for the Royal Bank of Canada in Toronto.

experience of CIPL compares favorably with peers and management expects it to remain at the lower end given the risk selection and pricing procedure implemented at CIPL.

Table 2: Loss Ratios

Gross Claims Ratio	HCY18	CY17	CY16	CY15	CY14	CY13
Fire and property damage	0.6%	17.9%	77.5%	169.1%	2.8%	95.4%
Marine, aviation and transport	7.4%	-1.5%	24.7%	1.7%	282.0%	30.1%
Motor	-162.1%	51.0%	93.2%	77.0%	40.5%	-110.8%
Accident & Health	19.5%	-2.8%	15.7%	8.6%	-19.1%	17.5%
Liability	0.1%	0.0%	0.1%	-17.9%	-63.5%	109.1%
Total Gross Claims Ratio	4.2%	11.3%	64.8%	137.5%	14.5%	90.1%

Net Claims Ratio	HCY18	CY17	CY16	CY15	CY14	CY13
Fire and property damage	8.6%	15.7%	17.6%	78.6%	4.3%	19.3%
Marine, aviation and transport	20.9%	25.5%	20.2%	-13.0%	43.1%	181.9%
Motor	-162.1%	-51.0%	93.2%	77.0%	51.7%	-110.9%
Accident & Health	9.4%	5.1%	17.3%	8.9%	0.9%	-10.9%
Liability	0.0%	0.0%	0.5%	0.4%	-60.9%	78.1%
Total Net Claims Ratio	7.5%	10.2%	17.7%	58.8%	4.2%	19.2%

Underwriting Profitability

As a result of its business strategy, underwriting operations of the company depicted a positive bottom line amounting to Rs. 24.8m in 2017. Increase in profitability levels has largely been a function of improved business volumes and significantly lower claims in the accident and health segment. Barring its marine segment, all business segments have become profitable in 2018. With anticipated growth in business in the coming years, management expects to maintain its underwriting profitability at similar levels. With a lower claims ratio and controlled expense base, combined ratio of the company improved notably to 56.9% (FY17: 77.0%, FY16: 101.0%) in HCY18. Ability to maintain these profitability indicators of the company will need to be monitored over time.

Table 3: Underwriting Performance

Underwriting Profit (Loss)	HCY18	CY17	CY16	CY15	CY14	CY13
Fire and property damage	22.0	(25.4)	(7.6)	(81.8)	98.0	37.1
Marine, aviation and transport	(4.6)	(0.7)	2.8	(15.2)	(5.5)	4.1
Motor	0.8	0.9	(0.6)	(0.2)	0.5	3.7
Accident & Health	8.8	37.4	3.5	8.3	7.3	8.5
Liability	2.9	12.6	1.6	11.2	16.3	1.2
Total Underwriting Profit	29.9	24.8	(0.3)	(77.6)	116.6	54.6

Capitalization & Liquidity

In line with the regulatory requirement, paid up capital of the company increased to Rs. 500m through bonus and right share issuances of Rs. 50m each. On a standalone basis, shareholder's equity increased to Rs. 599.4m on the back of profit retention at end-June 2018. Nevertheless, capitalization levels of the company remain less favorable in comparison to peers. Leverage indicators are low and indicative of significant room for growth. Liquidity profile of the institution is considered strong in view of

sizeable liquid assets in relation to liabilities and manageable level of insurance debt.

Table 4: Capitalization Indicators

	HCY18	CY17	CY16	CY15
Equity	599.4	565.9	469.2	398.1
Operating Leverage	23.1%	19.1%	25.9%	16.7%
Financial Leverage	36.5%	56.9%	131.1%	270.6%

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Chubb Insurance Pakistan Limited

Appendix I

FINANCIAL SUMMARY				
	<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	JUN 30, 2018	DEC 31, 2017	DEC 31, 2016	DEC 31, 2015
Cash and Bank Deposits	26.7	38.2	32.5	51.4
Investments	567.2	642.8	437.5	590.0
Insurance Debt	94.9	107.3	123.1	227.5
Total Assets	912.1	1,165.7	1,282.8	1,897.5
Net Worth	599.4	565.9	469.2	398.1
Total Liabilities	312.7	599.8	813.6	1,499.4
<u>INCOME STATEMENT</u>	JUN 30, 2018	DEC 31, 2017	DEC 31, 2016	DEC 31, 2015
Net Premium Revenue	69.3	108.1	121.4	66.5
Net Claims	5.2	11.0	21.5	39.1
Underwriting Profit	29.9	24.8	(0.3)	(77.6)
Net Investment Income	14.9	26.6	2.6	-
Profit Before Tax	46.9	56.8	27.9	(32.0)
Profit After Tax	32.6	42.4	16.8	(31.9)
<u>RATIO ANALYSIS</u>	JUN 30, 2018	DEC 31, 2017	DEC 31, 2016	DEC 31, 2015
Market Share (Gross Premium) (%)		0.8%	0.6%	0.9%
Cession Ratio (%)	104.1%	81.1%	81.8%	103.3%
Gross Claims Ratio (%)	4.2%	11.3%	64.8%	137.5%
Net Claims Ratio (%)	7.5%	10.2%	17.7%	58.8%
Underwriting Expense Ratio (%)	49.4%	66.8%	83.3%	155.0%
Combined Ratio (%)	56.9%	77.0%	101.0%	213.8%
Net Operating Ratio (%)	34.5%	51.3%	79.3%	159.9%
Adjusted Insurance Debt to Gross Premium (%)*	28.5%	20.3%	39.8%	41.8%
Operating Leverage (%)	23.1%	19.1%	25.9%	16.7%
Financial Leverage (%)	36.5%	56.9%	131.1%	270.6%
Adjusted Liquid Assets to Technical Reserves (%)	271.2%	211.5%	79.9%	59.5%

JCR-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: JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

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Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix III		
Name of Rated Entity	Chubb Insurance Pakistan Limited			
Sector	Insurance			
Type of Relationship	Solicited			
Purpose of Rating	Insurer Financial Strength			
Rating History	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	RATING TYPE: INSURER FINANCIAL STRENGTH			
	12/31/2018	AA	Stable	Reaffirmed
	12/29/2017	AA	Stable	Reaffirmed
	12/30/2016	AA	Stable	Reaffirmed
	12/1/2015	AA	Stable	Reaffirmed
	10/17/2014	AA	Stable	Upgrade
	10/21/2013	AA-	Stable	Reaffirmed
	9/10/2012	AA-	Stable	Reaffirmed
	8/1/2011	AA-	Stable	Upgrade
Instrument Structure	N/A			
Statement by the Rating Team	JCR-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.			
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