RATING REPORT

Chubb Insurance Pakistan Limited

REPORT DATE:
January 07, 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 24th,19*	*December 31, 18*
Rating Outlook	*Stable*	*Stable*

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)

VIS Entity Rating Criteria Methodology – General Insurance (March 2017)
http://vis.com.pk/docs/Meth-GenInsurance201702.pdf

Chubb Insurance Pakistan Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 2001, Chubb Insurance Pakistan Limited is engaged in underwriting non-life insurance business. Financial statements for 2018 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,

RATING RATIONALE

Chubb Insurance Pakistan Limited ('CIPL' or the Company) operates as a wholly owned subsidiary of Chubb INA International Holdings Limited (U.S.A). The Company follows a very selective underwriting strategy. CIPL's primary competitive advantage is the sizable treaty capacities arranged with associate Group company; as the counterparty, in this case is highly rated on the international scale, it allows CIPL to underwrite complex and specialized risks across the property line.

Sponsor Profile and Governance

The assigned rating derives strength from the sponsor profile of Chubb Group, representing the world's largest property and casualty insurers with operations in 54 countries. The rating also reflects the technical and financial assistance provided to CIPL. The Company also receives support in form of sizeable treaty capacities, largest in the domestic context from the Group.

Business Update

In 2018, business volumes for the company declined by 17.2% with gross premium underwritten during the year of Rs. 437.4m (2017: Rs. 528.2m). The decrease was mainly attributable to lower business underwritten in the F&P segment. Despite the decrease in premium, F&P remained the largest business segment (60.1%), with Accident & Health (A&H) being the second largest segment (20.7%). In the ongoing year, CIPL has underwritten gross premium of Rs. 468.4m by the nine months ended September 30, 2019. As per management, they are expected to close the year around Rs. 600m in gross premium. For 2020, business growth is projected given anticipated materialization of CPEC-led power projects and expected initiation of mega-infrastructure projects such as dams.

The Company has an ongoing lawsuit against Sindh Revenue Board (SRB). SRB had alleged that the Company was liable to pay Sindh Sales Tax aggregating to Rs 209.357 million (~34% of the equity base) on reinsurance services obtained by the Company from foreign reinsurers. This is an industry wide issue which has also been taken up by the Insurance Association of Pakistan (IAP) with the SRB. On instructions of the Sindh High Court, CIPL has deposited 50% of the amount (Rs. 104.7m) to continue the lawsuit; the said amount has been recorded as a receivable in the financial statements. The management, based on the advice received from its legal advisors, believes that the Company has good grounds to argue its defense against this demand.

Underwriting Performance

CIPL's underwriting performance was slightly adverse in 2018, vis-à-vis the preceding year, with gross claims ratio increasing to 17.0% (2017: 11.3%). There was an increase in gross claims ratio of Marine and Transport (M&T) and A&H segments (M&T-2018: 93.3%, 2017: -1.5%; A&H- 2018: 18.7%, 2017: -2.8%). Gross claims ratio for F&P segment improved to 9.0% in 2018 (2017: 17.9%). CIPL's claims experience compares favorably with peers.

Profitability

Profitability metrics have slightly deteriorated, with combined ratio of 84.3% (CY17: 75.4%) during 2018, albeit remaining in line with peer median. The net claims ratio increased from 10.2% to 21.3% in 2018, mainly attributable to the increase in net claims ratio in F&P segment. On the contrary expense ratio has remained relatively stable (CY18: 63.0%; CY17: 65.2%). Resultantly underwriting profitability, *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 13 years of experience in the financial sector. Prior to joining Chubb in 2012 Mr. Chaudhri was working with the Royal Bank of Canada in Toronto.*

in absolute terms, declined by 26% from Rs. 26.5m to Rs. 19.7m in 2018. In contrast, better investment income assisted the slight increase in net operating ratio during the outgoing year (CY18: 57.3%; CY17: 49.7%).

In the ongoing year, CIPL's net insurance premiums were higher by 1%, albeit the bottom line was lower by 18.5%, which is mainly be attributable to an increase in management expenses to Rs. 81.9m vis-à-vis Rs. 71.6m reported in SPLY. Resultantly there was an increase in combined ratio. As per management the increase in overheads was mainly a result of concerted marketing efforts to increase direct business of the Company. Given renegotiation of treaty terms, the management has opted to increase deductible, which is expected to translate in higher net premiums. Taking this into account, the management projects full year combined ratio to drop to ~77%.

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.

Capitalization and Liquidity

Financial leverage of CIPL, adjusted for reinsurance recoveries against outstanding claims, stood fairly higher during the outgoing year (2018: 28.6%; 2017: 25.2%). Whilst operating leverage was also recorded fairly higher at end-2018 (2018: 20.6%; 2017: 19.1%). Both leverage indicators compare favorably to the peer median. On a standalone basis, shareholder's equity increased to Rs. 642.3m on the back of profit retention at end-September 2019

The liquidity indicators, i.e. operating cash flow to net premium revenue (CY18: -94.2%; CY17: 132.6%) and insurance debt to gross premium revenue (CY18: 30.3%; CY17: 20.9%) have slightly weakened in the outgoing year. Insurance debt in absolute terms has receded albeit as a percentage of gross premiums, it has increased on a year on year basis. Despite the increment, insurance debt relative to gross premium still compares favorably to the peer median. Comfort is derived from the aging profile of insurance debt, wherein more than 80% of the same is outstanding for a period of less than 6 months at end-HY19. Furthermore the company has maintained an adequate buffer of solvency margin (2018: Rs. 554.6m) against the regulatory requirement of Rs. 150m. Overall liquidity indicators of CIPL compare favorably to peers.

Chubb Insurance Pakistan Limited Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2017**	**DEC 31, 2018**	**SEP 30, 2019**
Cash and Bank Deposits	38.2	38.2	33.2
Investments	642.8	516.6	545.6
Insurance Debt	110.2	132.3	N/A
Total Assets	1,168.6	1,015.4	1,193.4
Paid Up Capital	500.0	500.0	500.0
Net Worth	565.9	610.0	642.3
Total Liabilities	602.7	405.4	551.0
INCOME STATEMENT	**DEC 31, 2017**	**DEC 31, 2018**	**SEP 30, 2019**
Net Premium Revenue	108.1	125.8	98.0
Net Claims	11.0	26.7	12.3
Underwriting Profit	32.7	24.8	6.8
Net Investment Income	26.6	33.9	40.9
Profit Before Tax	56.8	59.9	43.5
Profit After Tax	42.4	41.5	30.9
RATIO ANALYSIS	**DEC 31, 2017**	**DEC 31, 2018**	**SEP 30, 2019**
Market Share (Gross Premium) (%)	0.8%	0.6%	N/A
Cession Ratio (%)	74.5%	80.3%	55.4%
Gross Claims Ratio (%)	11.3%	17.0%	20.1%
Net Claims Ratio (%)	10.2%	21.3%	12.6%
Underwriting Expense Ratio (%)	65.2%	63.0%	85.8%
Combined Ratio (%)	75.4%	84.3%	98.3%
Net Operating Ratio (%)	49.7%	57.3%	56.6%
Adjusted Insurance Debt to Gross Premium (%)*	20.9%	30.3%	41.2%
Operating Leverage (%)	19.1%	20.6%	20.3%
Adjusted Financial Leverage (%)	25.2%	28.6%	43.8%
Adjusted Liquid Assets to Technical Reserves (%)	477.1%	317.5%	205.5%

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	Chubb Insurance Pakistan Limited
Sector	Insurance
Type of Relationship	Solicited
Purpose of Rating	Insurer Financial Strength
Rating History	see below
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.
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Rating History

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: INSURER FINANCIAL STRENGTH			
12/24/2019	AA	Stable	Reaffirmed
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