

RATING REPORT

Chubb Insurance Pakistan Limited (CIPL)

REPORT DATE:

January 06, 2021

RATING ANALYSTS:

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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 31st, 20</i>	<i>December 24th, 19</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)

Applicable Rating Criteria: General Insurance (November 2019)
<http://www.vis.com.pk/kc-meth.aspx>

Chubb Insurance Pakistan Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

CIPL was incorporated in 2001 as a public limited company under Companies Ordinance, 1984 (now Companies Act, 2017) and is engaged in general insurance business.

Profile of Chairman:

Mr. Shab is the former CEO of Chubb Insurance Pakistan Ltd., and former Managing Director of Chubb Arabia Cooperative Insurance Company, K.S.A. Prior to joining Chubb, Mr. Shab worked with New Jubilee Insurance Company Ltd., Abu Dhabi National Corporation, and United Bank Ltd.

Profile of CEO:

Mr. Chaudhri is a Chartered Professional Accountant (CPA) from Canada and is a member of the CPA Canada and CPA Ontario and also The Institute of Chartered Accountants of Pakistan. He 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.

Chubb Insurance Pakistan Limited (CIPL) 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. 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 rating drives comfort from growth in business volume, better underwriting results and decrease in loss ratio. Moreover, recurring investment income has supported the bottomline over the years. While capitalization is supported by relatively low operating leverage, increase in financial leverage in 9MFY20 was mainly due to increase in unearned premium reserves as a result of higher business volumes and major renewals in third quarter. Liquidity is considered sound as reflected by adequate liquid assets in relation to technical reserves.

Business Update

During 9MFY20, CIPL recorded higher gross premium of Rs. 693.8m (FY19: Rs. 604.7m; FY18: Rs. 437.4m) mainly on the back of higher business written in energy and power gen lines of Fire & Property (F&P) segment. The company has surpassed the full year target of Rs. 700m and expects to close FY20 at around Rs. 860m. Gross premium under F&P augmented to Rs. 570.7m (9MFY19: Rs. 326.4m; FY19: Rs. 428.9m; FY18: Rs. 262.6m) and remained the largest segment (9MFY20: 82.3%; FY19: 70.9%; FY18: 60.1%) during 9MFY20. Meanwhile, Accident & Health (A&H) gross premium decreased to Rs. 35.2m (9MFY19: Rs. 43.4m; FY19: Rs. 54.6m; FY18: Rs. 90.7m) during 9MFY20 along with reduction in its proportion to 5.1% (FY19: 9.0%; FY18: 20.7%). Shortfall in A&H during ongoing year was mainly due to impact of Covid-19 restrictions on travel business and slowdown in other A&H classes of business. Meanwhile, decrease in A&H in FY19 was due to non-renewal of a major account. CIPL's Marine portfolio mainly pertained to marine project cargo risks; on account of overall decrease in infrastructure project cargo activity, proportion of the same has further decreased in 9MFY20. Business mix of CIPL is presented below:

Business Mix	9MFY20	FY19	FY18	FY17
Fire and Property Damage	82.2%	70.9%	60.1%	67.6%
Marine, Aviation and Transport	2.0%	5.1%	8.7%	5.7%
Motor	0.1%	0.3%	0.2%	0.1%
Accident & Health	5.1%	9.0%	20.7%	19.2%
Liability	10.6%	14.7%	10.3%	7.4%
Total	100%	100%	100%	100%

While expected gross premium for FY21 is Rs. 888.5m as per business plan, management expects to surpass this target mainly on back of sustained growth driven by higher exposure in energy and power gen sector. The plan to launch Business Travel Portfolio for large corporates and various travel products for domestic airlines has been delayed due to Covid-19. Moreover, direct marketing campaign with Jazz Cash is planned to be launched in FY21.

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 (~28% 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.

Reinsurance Arrangements

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. There were no significant changes to the overall Reinsurance program of the Company for FY20. As per management, treaty capacities are expected to remain largely intact in FY21.

Claims Experiences:

Claims performance of the company improved during 9MFY20 largely on account of lower net claim ratio in F&P segment. Higher incidence of claims under Marine was related to rain damage to cargo during inland transit; meanwhile, due to small size of Marine portfolio the net claim ratio appeared inflated. The segment-wise net claims ratios are presented in the table below:

	9MFY20	FY19	FY18	FY17
Fire and Property Damage	12.5%	29.5%	26.0%	15.7%
Marine, Aviation and Transport	143.9%	28.5%	30.8%	25.5%
Motor	-280.0%	9.5%	-78.8%	-51.0%
Accident & Health	8.6%	7.0%	14.1%	5.1%
Liability	-0.6%	-6.2%	9.1%	0.0%
Total Net Claims Ratio	13.5%	19.6%	21.3%	10.2%

Underwriting performance:

CIPL's underwriting performance exhibited improvement during ongoing year owing to decrease in loss ratio, expense ratio along with increase in scale of operations. Net commission income amounted to Rs. 15.8m (FY19: 6.7m; FY18: Rs. 26.9m) in 9MFY20. Underwriting expense ratio decreased to 54.1% (FY19: 67.3%; FY18: 63.0%) on account of increase in net premium revenue and largely rationalized operating expenses. Resultantly, combined ratio decreased to 67.5% (FY19: 86.9%; FY18: 84.3%) during 9MFY20. The snapshot of underwriting results is given below:

Rs. in millions	9MFY20	FY19	FY18	FY17
Fire and Property Damage	24.5	(8.5)	(3.5)	(24.3)
Marine, Aviation and Transport	(3.2)	(1.4)	(5.4)	(0.6)
Motor	0.1	0.1	1.6	0.9
Accident & Health	6.1	8.3	24.0	37.8
Liability	21.8	23.5	3.0	12.7
Total Underwriting Profit	49.2	22.0	19.7	26.5

Investment income continued to support the bottom line; the same stood at Rs. 48.2m (FY19: Rs. 58.3m; FY18: Rs. 34.0m) during 9MFY20. Net operating ratio improved to 28.7% (FY19: 57.3%; FY18: 34.5%) mainly on account of decrease in combined ratio coupled with higher net premium revenue.

Liquidity and Capitalization

Liquid assets in relation to net technical reserves decreased to 153.7% (FY19: 197.7%; FY20: 391.6%) owing to higher net technical reserves at end-9MFY20, though still considered adequate. Adjusted technical reserves increased to Rs. 504.3m (FY19: Rs. 336.7m; FY18: Rs. 141.7m) as a result of higher provision for unearned

income of Rs. 417.3m (FY19: Rs. 252.9m; FY18: Rs. 148.7m) as major renewals fall in third quarter and also due to increase in business. Cash and bank balances stood higher at Rs. 57.8m (FY19: Rs. 33.5m; FY18: Rs. 38.2m) at end-9MFY20. Investments of CIPL constituted term deposits amounting Rs. 665.0m (FY19: Rs. 582.0m; FY18: Rs. 465.0m), maturing within 12 months on various dates and carry markup at rates ranging from 5.50% to 6.40% (FY19: 12.0% to 12.4%). The company also held Pakistan Investment Bonds of Rs. 52.2m (FY19: Rs. 50.3m; FY18: Rs. 51.6m) deposited with State Bank of Pakistan in compliance with the requirement of Insurance Ordinance, 2000.

Insurance debt as a percentage of gross premium increased during the outgoing year given increase in amount due from insurers/reinsurers to Rs. 398.4m (FY19: Rs. 164.9m) while amount due from insurance contract holders was Rs. 5.3m (FY19: Rs. 17.5; FY20: Rs. 9.1m). The aging profile of insurance debt is considered satisfactory given around 90% of the same were outstanding for less than six months. Receivable above one year witnessed some increase and were mainly due from related parties; receivables stood lower at Rs. 320.8m as of now. Net operating cash flows of CIPL amounted to Rs. 115.1m (FY19: Rs. 125.2m; FY18: Rs. (96.2)m) in 9MFY20 mainly on account of higher insurance premium received.

Core equity increased to Rs. 747.0m (FY19: Rs. 673.8m; FY18: Rs. 610.0m) by end-9MFY20 on back of profit retention. Financial leverage increased notably to 67.5% (FY19: 50.0%; FY18: 23.2%) as a result of higher unearned premium reserves while operating leverage was recorded at 27.0% (FY19: 25.0%; FY18: 20.6%). The company has maintained an adequate buffer of Rs. 563.1 (FY18: 554.6m) in solvency margin at end-FY19 against regulatory requirement of Rs. 150m.

Chubb Insurance Pakistan Limited
Annexure I

BALANCE SHEET	Dec 31, 2018	Dec 31, 2019	Sep 30, 2020
Property, Plant and Equipment	17.9	32.2	33.9
Investments	516.6	632.3	717.2
Loans and Other Receivables	120.0	124.4	118.1
Insurance Debt	132.3	182.4	403.8
Reinsurance Recoveries Against Outstanding Claims	96.0	123.2	102.9
Prepayments	38.7	64.0	46.2
Cash and Bank Deposits	38.2	33.5	57.8
Other Assets	55.7	38.9	30.4
Total Assets	1,015.4	1,230.9	1,510.3
Paid Up Capital	500.0	500.0	500.0
Net Worth	610.0	673.8	747.0
Total Liabilities	405.4	557.1	763.3
INCOME STATEMENT	Dec 31, 2018	Dec 31, 2019	Sep 30, 2020
Net Premium Revenue	125.8	168.2	151.6
Net Claims	26.7	33.0	20.5
Underwriting Profit	19.7	22.2	49.2
Net Investment Income	34.0	58.3	48.2
Profit Before Tax	59.9	87.5	99.1
Profit After Tax	41.5	61.8	70.4
RATIO ANALYSIS	Dec 31, 2018	Dec 31, 2019	Sep 30, 2020
Market Share (Gross Premium) (%)	0.60	0.72	1.06
Cession Ratio (%)	80.3	54.9	54.5
Gross Claims Ratio (%)	17.0	19.4	3.5
Net Claims Ratio (%)	21.3	19.6	13.5
Underwriting Expense Ratio (%)	63.0	67.3	54.1
Combined Ratio (%)	84.3	86.9	67.5
Net Operating Ratio (%)	57.3	52.3	28.7
Adjusted Insurance Debt to Gross Premium (%)	30.3	30.2	43.8*
Operating Leverage (%)	20.6	25.0	27.0
Adjusted Financial Leverage (%)	23.2	50.0	67.5
Adjusted Liquid Assets to Adjusted Technical Reserves (%)	391.6	197.7	153.7

*Annualized

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure II

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	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	<u>RATING TYPE: INSURER FINANCIAL STRENGTH</u>			
	12/31/2020	AA	Stable	Reaffirmed
	12/24/2019	AA	Stable	Reaffirmed
	12/31/2018	AA	Stable	Reaffirmed
	12/29/2017	AA	Stable	Reaffirmed
	12/30/2016	AA	Stable	Reaffirmed
	12/01/2015	AA	Stable	Reaffirmed
	10/17/2014	AA	Stable	Upgrade
	10/21/2013	AA-	Stable	Reaffirmed
09/10/2012	AA-	Stable	Reaffirmed	
08/01/2011	AA-	Stable	Upgrade	
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.			
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.			
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Due Diligence Meetings Conducted	Name	Designation	Date	
	1	Mr. Mahad Hafeez	Chief Financial Officer	December 22, 2020
	2	Mr. Nabeel Turabi	Property & Casualty Manager	December 22, 2020
	3	Mr. Khizr Hasan	Property & Casualty Deputy Manager	December 22, 2020
	4	Mr. Mahmood Ahmad	Accident & Health Manager	December 22, 2020
	5	Mr. Abdul Azim	Finance Manager	December 22, 2020