RATING REPORT

Chubb Insurance Pakistan Limited (CIPL)

REPORT DATE:

December 29, 2021

RATING ANALYSTS:

Tayyaba Ijaz
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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
IFS Rating	AA	AA
Rating Date	*December 29th, 21*	*December 31st, 20*
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)
Applicable Rating Criteria: General Insurance (November 2019)
http://www.vis.com.pk/kc-meth.aspx

Chubb Insurance Pakistan Limited

OVERVIEW OF THE INSTITUTION

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. Shah is the former CEO of Chubb Insurance Pakistan Ltd., and former Managing Director of Chubb Arabia Cooperative Insurance Company, KSA. Prior to joining Chubb, Mr. Shah worked with Jubilee Insurance Company Ltd., Abu Dhabi National Insurance 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 a member of The Institute of Chartered Accountants of Pakistan. He has around 15 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.

RATING RATIONALE

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. In the ongoing year, the company has reviewed its strategy to expand retail and direct business. 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 from the parent company.

The rating incorporates growing trend in business volume, improvement in underwriting results on a timeline basis with lower loss ratio. In addition, recurring investment income continues to support the bottom line. Capitalization is supported by relatively low operating leverage on a timeline basis while financial leverage decreased marginally in the ongoing year. Liquidity is considered sound while liquid assets in relation to technical reserves, though decreased, remained adequate. The company has maintained adequate reserves as solvency margin against regulatory requirement.

Insurance Sector Update: The gross premiums/takaful contributions underwritten by the industry grew by 8% in 2020, as data published by Insurance Association of Pakistan (IAP). Historically, growth in the insurance premiums has remained well above the GDP growth. Future industry growth is likely to pick pace as the ruling government enters its final 2 years, wherein historically it has been noted that infrastructure projects are ramped up. Nevertheless, industry experts remain conservative in their projections, maintaining the same within the single digit domain and close to the GDP growth projection of ~5%. As a result, non-life insurance penetration, estimated at ~0.2%, remains notably lower than regional peers. Given the meagre growth in premiums, the industry's combined ratio increased driven by an uptick in both net claims and expense ratios. The investment performance remained strong during the period, with overall investment income posting an uptick of 13%. The sector's operating leverage remains around ~50%, which is considered to be on the lower side and there is certainly room for additional insurance penetration in the domestic market. Overall capitalization & liquidity buffers in place are considered to be adequate. Industry capitalization & liquidity are expected to persist. The implementation of IFRS 17 has been postponed to January 1' 2023. The SECP has issued instructions of phase-wise implementation of IFRS 17, as per which CIPL has duly submitted gap analysis with SECP. The related provisioning impact on the industry is yet to be ascertained.

Business Update: CIPL recorded gross premium of Rs. 739.1m (9MCY20: Rs. 693.8m; CY20: Rs. 870.2m; CY19: Rs. 604.7m) in 9MCY21. The management expects to close the ongoing year above Rs. 900m in gross premium. Gross premium under F&P amounted to Rs. 582.2m (9MCY20: Rs. 570.7m; CY20: Rs. 719.3m; CY19: Rs. 428.9m) and remained the largest segment while its contribution decreased slightly to 78.8% (CY20: 82.7%; CY19: 70.9%) during 9MCY21. Gross premium in Liability segment increased to Rs. 100.7m (9MCY20: 74.0m; CY20: Rs. 85.3m; CY19: Rs. 83.0m) during 9MCY21. CIPL covers Directors & Officers (D&O) and cybersecurity risks among other general/product liability lines. A&H gross premium amounted to Rs. 30.0m (9MCY20: Rs. 35.2m; CY20: Rs. 40.9m; FY19: Rs. 54.6m) with some decrease in its proportion to 4.1% (CY20: 4.7%; CY19: 9.0%). Business mix of CIPL is presented as follows:

Business Mix	CY19	CY20	9MCY21
Fire and Property Damage	70.9%	82.7%	78.8%
Marine, Aviation and Transport	5.1%	2.8%	3.5%
Motor	0.3%	0.0%	0.1%
Accident & Health	9.0%	4.7%	4.1%
Liability	14.6%	9.8%	13.6

Total	**100%**	**100%**	**100%**

Overall cession decreased to 56.9% (CY20: 61.2%; CY19: 54.9%) in 9MCY21 which led to higher net premium revenue of Rs. 231.4m (CY20: Rs. 209.3m; CY19: Rs. 168.2m). The proportion of direct business decreased in the ongoing year (9MCY21: 15.8%; CY20: 19.5%; CY19: 31.2%).

The management expects to generate Rs. 1 b in gross premium during CY22. CIPL has reviewed its strategy in the ongoing year. Given the company's portfolio is heavily skewed towards large corporates, the management intends to undertake various initiatives to expand in retail market by focusing on middle market accounts and utilizing Chubb's strength in digital platforms. A new direct marketing campaign was launched for the wallet customers of a microfinance bank in September 2021. Management plans to increase resources allocated for sales through this medium in CY22. The management is also pursuing similar partnerships with other sponsors. CIPL will also offer its supplementary health products to corporates and individuals through bancassurance and affinity programs. CIPL also plans to launch some new products in CY22. The company has a dedicated marketing and sales resource that works in conjunction with Chubb's regional marketing and sales teams to support these initiatives.

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 IAP with the SRB. On instructions of the Sindh High Court, CIPL has deposited 50% of the amount (Rs. 104.7m); 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.

In addition, Engro Fertilizers Limited (EFL) raised a claim with EFU General Insurance (Lead Insurer) and certain other insurance companies including CIPL (5% share) for replacement cost of its boiler to the sum of USD 12.7m in 2018 which was formerly repudiated in Feb'21 based on the findings set out in an independent root cause analysis of the exercise carried out. EFL has subsequently filed a recovery suit with the Insurance Tribunal of Sindh against the co-insurers for USD 12.7m plus USD 21.39m on account of replacement cost of boiler and losses or damages associated therewith, which is pending adjudication. The management is confident that the case will be decided in favor and accordingly no provision has been created in the financial statements.

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 CY21 except changes in pricing for some treaties due to favorable claims experience. As per management, treaty capacities are expected to remain largely intact in CY22.

Claims Experiences: Claims performance of the company improved notably in CY20 and further in 9MCY21 largely on account of lower net claim ratio in F&P segment. Net claim ratio of A&H increased notably, however, given its lower proportion, the same had minimal impact on overall ratio. The company continues to witness minimal claim ratio in liability segment. The segment-wise net claims ratios are presented in the table as follows:

Net Claims Ratio	CY19	CY20	9MCY21
Fire and property damage	29.5%	9.2%	4.8%
Marine, aviation and transport	28.5%	149.2%	-5.6%
Motor	9.5%	1956.0%	-3220.0%
Accident & Health	7.0%	11.1%	27.4%
Liability	-6.2%	-0.2%	0.0%
Total Net Claims Ratio	**19.6%**	**11.8%**	**4.7%**

Underwriting performance: CIPL's underwriting performance exhibited improvement during the ongoing year on the back of higher net premium and lower combined ratio. Net commission income amounted to Rs. 17.3m (CY20: Rs. 20.4m; CY19: 6.7m) in 9MCY21. Underwriting expense ratio decreased to 42.5% (CY20: 58.1%; CY19: 67.3%) in line with increase in net premium revenue and largely rationalized operating expenses. Resultantly, combined ratio decreased considerably to 47.1% (CY20: 69.9%; CY19: 86.9%) during 9MCY21. The snapshot of underwriting results is given below:

Underwriting Profit (Loss)	CY19	CY20	9MCY21
Fire and property damage	(8.5)	31.6	100.1
Marine, aviation and transport	(1.4)	(6.4)	5.0
Motor	0.1	(0.0)	0.2
Accident & Health	8.3	6.7	0.6
Liability	23.5	31.1	27.8
Total Underwriting Profit	**22.0**	**62.9**	**122.3**

Investment income amounted to Rs. 38.4m (9MCY20: Rs. 48.2m; CY20: Rs. 60.3m; CY19: Rs. 58.3m) during 9MCY21 and was recorded lower mainly due to decrease in investment in term deposits as compared to corresponding period last year. Net operating ratio has improved to 25.6% (CY20: 41.1%; CY19: 52.3%) mainly on the back of decrease in combined ratio coupled with higher net premium revenue. The management projects a healthy increase in net premium revenue in CY22 driven by expansion in scale of operations and higher contribution of direct business.

Liquidity and Capitalization: Liquidity position is considered adequate as reflected by liquid assets in relation to net technical reserves. However, the same decreased to 160.5% (CY20: 185.0%; CY19: 239.1%) owing to some increase in adjusted technical reserves along with marginal decrease in adjusted liquid assets. Adjusted technical reserves stood higher at Rs. 461.9 (CY20: Rs. 411.2m; CY19: Rs. 287.5m) at end-9MCY21 primarily due to increase in provision for unearned income to Rs. 468.7m (CY20: Rs. 381.4m; CY19: 252.9m) as major renewals fall in third quarter and also due to higher business volume. Cash and bank balances amounted to Rs. 32.9m (CY20: Rs. 70.8m; CY19: Rs. 33.5m). Investment mix of CIPL constituted term deposits amounting Rs. 625.0m (CY20: Rs. 690.0m; CY19: 582.0m), maturing within three months on various dates and carry markup at rates ranging from 5.80% to 6.59% (CY20: 5.60% to 6.45%; CY19: 12.0% and 12.4%). The company also held Pakistan Investment Bonds (PIBs) worth 53.5m (CY20: Rs. 52.5m; CY19: Rs. 50.3m) which have been deposited with SBP in compliance with the requirement of Insurance Ordinance 2000 and carry coupon interest at rate of 9.0% per annum and are due to mature on September 19, 2022.

Insurance debt as a percentage of gross premium increased to 39% (CY19: 30.2%) during CY20 mainly due to increase in amount due from insurers/reinsurers to Rs. 317.7m (CY19: Rs. 164.9m) while amount due from insurance contract holders was Rs. 21.8m (CY19: Rs. 17.5m). In 9MCY21, insurance debt as a percentage of gross premium increased further to 56.9% on an annualized basis on account of notable increase in amount due from insurers/reinsurers. The increase was partly a result of recoveries falling due in Dec'21 pertaining to renewals and partly due to extension by a client for payment amounting around Rs. 150m which was subsequently recovered in Oct'21. The aging profile of insurance debt amounting Rs. 551.4m is considered satisfactory given receivables amounting Rs. 298.7m were not due as of Sep 30, 2021 and receivables of Rs. 220.0m were outstanding for less than six months. Net operating cash flows of CIPL were negative in 9MCY21 mainly on account of higher payments pertaining to reinsurance premium, management expenses, and income tax paid (9MCY21: Rs. (90.4); CY20: Rs. 166.2m; CY19: Rs. 125.2m).

Core equity enhanced to Rs. 881.0m (CY20: Rs. 764.9m; CY19: Rs. 673.8m) by end-9MCY21 on back of profit retention. Financial leverage decreased marginally to 52.4% (CY20: 53.8%; CY19: 41.3%) while operating leverage increased to 34.9% (CY20: 27.4%; CY19: 25.0%) in 9MCY21. The company has maintained an adequate buffer of Rs. 646.0m (CY19: Rs. 563.1) at end-FY20 against minimum solvency requirement of Rs. 150m.

Chubb Insurance Pakistan Limited **Annexure I**

BALANCE SHEET	Dec 31, 2019	Dec 31, 2020	Sep 30, 2021
Property, Plant and Equipment	32.2	45.1	49.9
Investments	632.3	742.5	678.5
Loans and Other Receivables	124.4	124.3	122.7
Insurance Debt	182.4	339.5	559.6
Reinsurance Recoveries Against Outstanding Claims	123.2	122.0	134.5
Prepayments	64.0	63.8	94.0
Cash and Bank Deposits	33.5	70.8	32.9
Other Assets	38.9	28.9	24.3
Total Assets	1,230.9	1,536.9	1,696.4
Paid Up Capital	500.0	500.0	500
Net Worth	673.8	764.9	881.0
Total Liabilities	557.1	772.0	815.4
INCOME STATEMENT	Dec 31, 2019	Dec 31, 2020	Sep 30, 2021
Net Premium Revenue	168.2	209.3	231.4
Net Claims	33.0	24.8	10.9
Underwriting Profit	22.2	62.9	122.3
Net Investment Income	58.3	60.3	38.4
Profit Before Tax	87.5	127.7	160.7
Profit After Tax	61.8	88.8	114.1
RATIO ANALYSIS	Dec 31, 2019	Dec 31, 2020	Sep 30, 2021
Cession Ratio (%)	54.9	61.2	56.9
Gross Claims Ratio (%)	19.4	5.8	6.5
Net Claims Ratio (%)	19.6	11.8	4.7
Underwriting Expense Ratio (%)	67.3	58.1	37.5
Combined Ratio (%)	86.9	69.9	47.1
Net Operating Ratio (%)	52.3	41.1	25.6
Adjusted Insurance Debt to Gross Premium (%)	30.2	39.0	56.9*
Operating Leverage (%)	25.0	27.4	34.9
Adjusted Financial Leverage (%)	41.3	53.8	52.4
Adjusted Liquid Assets to Adjusted Technical Reserves (%)	239.1	185.0	160.5

**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**
	RATING TYPE: INSURER FINANCIAL STRENGTH			
	12/29/2021	AA	Stable	Reaffirmed
	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
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	Nov 30, 2021
2	Syed Hasan Mahmood	Head of Compliance & Company Secretary	Nov 30, 2021
3	Mr. Nabeel Turabi	Head of Property & Casualty	Nov 30, 2021
4	Mr. Khizr Hasan	Head of Sales & Marketing	Nov 30, 2021
5	Mr. Mahmood Ahmed	Head of Accident & Health	Nov 30, 2021
6	Mr. Murtaza Kazi	Claims Manager	Nov 30, 2021
7	Mr. Abdul Azim	Finance Manager	Nov 30, 2021