

RATING REPORT

Chubb Insurance Pakistan Limited

REPORT DATE:

December 27, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS Rating	AA+	AA+
Rating Date	Dec 27, 22	March 31 st , 22
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 (March 2020)

<https://docs.vis.com.pk/docs/VIS%20General%20Insurance%20-%2020220331%20-%20FinalFinal.pdf>

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. 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 over 16 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 insurer with operations in 54 countries. The rating also reflects the technical and financial assistance received by CIPL from the parent company.

The rating incorporates growth momentum evidenced in business volumes, improvement in underwriting results on a timeline basis despite higher loss ratio recorded along with sustainable and growing investment income. Capitalization is supported by relatively low operating leverage on a timeline basis while financial leverage increased in the ongoing year in line with higher net technical reserves. Liquidity is considered sound while liquid assets in relation to technical reserves, though decreased, remained sizable. The company has maintained adequate reserves as solvency margin against regulatory requirement. With projected slowdown in the economic activity due to high interest rates, rupee devaluation, and elevated inflation levels, key focus area for the management would remain fire with balanced mix in power and property which would be important from the underwriting risk in management perspective. Going forward, achieving growth in market share while maintaining loss ratios, underwriting quality and profitability metrics would remain important rating drivers.

Insurance Sector Update:

The gross premiums/ takaful contributions underwritten by the industry grew by 11% in 2021, picking up from 8% in 2020 as data published by Insurance Association of Pakistan (IAP). In HY22, given the increase in inflation, we have noted a change in trend wherein industry underwriting posted a growth of 26% vis-s-vis SPLY. Overall growth for 2022, is expected to be notably higher in the range of 25-30%. The insurance penetration in Pakistan has remained below that of neighboring counterparts, given non-life insurance penetration of ~0.355% vis-à-vis India at 4.2% and Sri-Lanka 1.39%. Further, the industry’s combined ratio posted a dip in 2021, which was driven by a drop in both net claims and expense ratios. Overall, the impact of investment returns on industry profitability remained similar, investment returns stood at 17% of the net premium. Even though operating leverage of Pakistan’s insurance industry remains adequately high, which is partly explained by lagged growth, in June’22, we have noted a trend of an uptick in operating leverage to 67.3% (annualized). Apart from the overall growth in underwriting, this is also partly attributable to dividend payouts in Q1 and mark to market losses on fixed income portfolios in Q2. Investment returns in HY22, have not depicted much deviation, unlike the one noted in life insurance portfolios. This is partly attributable to a different asset management strategy, albeit also implies that the industry was well placed in terms of portfolio duration leading up to 400 bpts steep drop-in benchmark rates noted in Q2’2022. Given higher benchmark rates, investment yield is expected to improve in 2023. The SECP has issued a phase wise implementation plan for 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.

Business Update: The gross written premium (GWP) increased on a timeline and was recorded higher at Rs. 1.3b (CY21: Rs. 927.8m; CY20: Rs. 870.2m) in 9MCY22 with growth mainly attributable to fire and property (F&P) segment. Gross premium under F&P amounted to Rs. 1.1b (CY21: Rs. 724.5m; CY20: Rs. 719.3m) at end-9MCY22 as a result of which its contribution in GWP increased to 84.6% (CY21: 78.1%; CY20: 82.7%) during 9MCY22. As per the management, within F&P majority of business growth emanated from power sector. Moreover, GWP in Liability segment also increased to Rs. 132.3m (CY21: 120.7m; CY20: Rs. 85.3m) during 9MCY22. CIPL covers Directors & Officers (D&O) and cybersecurity risks among other general/product liability lines. A&H gross premium largely remained

stagnant at Rs. 40.2m (CY21: Rs. 42.4m; CY20: Rs. 40.9m) as a result of which its proportion decreased to 3.2% (CY21: 4.6%; CY20: 4.7%). The management expects to close the ongoing year at around Rs. 1.4b; the same is considered to be realistic and achievable. Presently, the company is largely dependent on facultative/reinsurance business constituting around 87% of the GWP (FY21: 82%; FY20: 80%) however, as per the future strategy CIPL plans to increase direct business proportion in the medium to long-term. For that, the company sponsored a handful events in the review period in order to improve its market presence and visibility. The management plans to close FY23 at a GWP of Rs. 1.6b with the aim of targeting retail, small & medium enterprise segments and utilizing Chubb's strength in digital platforms. The snapshot of business mix of CIPL is presented as follows:

Business Mix	CY20	CY21	9MCY22
Fire and property damage	82.7%	78.1%	84.6%
Marine, aviation and transport	2.8%	4.2%	2.0%
Motor	0.0%	0.1%	0.0%
Accident & Health	4.7%	4.6%	3.2%
Liability	9.8%	13.0%	10.4%
Total	100.0%	100.0%	100.0%

Overall cession decreased to 39.9% (CY21: 60.0%; CY20: 61.2%) in 9MCY22 which led to higher net premium revenue of Rs. 326.7m (CY21: Rs. 321.3m; CY20: Rs. 209.3m). CIPL plans to offer its supplementary health products to corporates and individuals through bancassurance and affinity programs in FY23. CIPL also plans to launch some new products in the upcoming year. 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.

Contingencies:

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 209.4 million (~20% 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. There was no change in the status of the aforementioned contingency during the rating review period.

Moreover, 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. Nevertheless, no change in the status of the contingency was witnessed during the review period.

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 S&P. There were no significant changes to the overall reinsurance program of the Company for CY22 apart from an increase in treaty limits evidenced across the board; the same was in line with depreciation of local currency as the treaty arrangements are made in dollar terms. As per management, treaty capacities and Company's retention on net account are expected to remain unchanged in CY23.

Claims Experiences: The claims performance showed weakening both on gross and net basis during the ongoing year as a sizable fire loss was reported in a government owned power plant. As per the management the gross loss was recorded at USD \$1.0m approximately Rs. 225m; however, CIPL's retention for loss after application of XOL treaties is not more than USD 50,000 per occurrence. Therefore, the impact to net claims was largely rationalized. As a result, the net loss ratio was recorded the highest in the fire segment followed by accident & health. On the other hand, as per the management no major loss event was reported post Sep-22. Further, the company continues to witness negligible claim ratio in liability segment. The segment-wise net claims ratios are presented in the table as follows:

Net Claims Ratio	CY20	CY21	9MCY22
Fire and property damage	9.2%	7.6%	31.5%
Marine, aviation and transport	149.2%	(11.1%)	(202.0%)
Motor	1956.0%	(126.4%)	18.9%
Accident & Health	11.1%	23.8%	81.9%
Liability	-0.2%	0.3%	0.0%
Total Net Claims Ratio	11.8%	6.6%	26.6%

Underwriting performance: Despite increase in net claims ratio on account of incurrence of a major loss during the ongoing year, CIPL's underwriting performance exhibited improvement on a timeline in line with higher net premium and reduction in underwriting expense ratio. The reduction in underwriting expense ratio on a timeline to 42.7% (CY21: 46.4%; CY20: 58.1%) was primarily an outcome of growth in scale of operations and higher average ticket size of policies contributing to increased efficiency. On the other hand, the net commission earned reduced to Rs. 6.2m (CY21: Rs. 18.7m; CY20: Rs. 20.4m) in line with reduction in business ceded to reinsures during 9MCY22. Resultantly, despite notable increase in claims ratio combined ratio remained at FY20's level at 69.3% (FY21: 53.0%; FY20: 69.9%) on account of reduced expense ratio; the same exhibits that the company reported profit from its insurance operations. Apart from A&H, all segments reported profit during both periods under review. The ability to maintain overall underwriting performance positive will remain imperative for ratings going forward. The snapshot of underwriting results is given below:

Underwriting Profit (Loss)	CY20	CY21	9MCY22
Fire and property damage	31.6	122.9	74.4
Marine, aviation and transport	(6.4)	5.0	11.6
Motor	0.0	0.2	0.1
Accident & Health	6.7	(0.3)	(9.3)
Liability	31.1	23.3	23.6
Total Underwriting Profit	62.9	151.0	100.4

Investment income showed positive trajectory and was recorded higher at Rs. 89.6m (CY21: Rs. 52.7m; CY21: Rs. 60.3m) during 9MCY22 as a combined outcome of increase in investment portfolio coupled with benchmark rates being at the high end of the spectrum; the investment portfolio majorly constitutes term deposits maturing within a year. Therefore, the credit risk emanating from the investment portfolio is considered manageable given sound financial profile and credit ratings of the counterparties. Going forward, CIPL plans to continue with the existing investment mix with no capital to be invested in the stock market. Net operating ratio on a timeline has remained stable; however, the same depicts weakening in the ongoing year to 41.8% (CY21: 36.6%; CY20: 41.1%) on account of higher combined ratio stemming from increased incidence of claims. The management projects a healthy increase in net premium revenue in CY23 driven by expansion in scale of operations and higher contribution of direct business.

Adequate capitalization indicators, leverage indicators have increased during the ongoing year; significant increase in financial leverage on account of increase in technical reserves:

Capitalization levels of the company have improved on a timeline basis as a result of internal capital generation. Moreover, CIPL is considered sound from solvency point of view as the company has adequate cushion in terms of total admissible assets over its liabilities. The operating leverage ratio increased during the review period in line with augmentation of scale of operations along with decline in cession ratio; however, the same does not reflect a sizable variance from the benchmark criterion for the assigned rating. Moreover, on account of appropriate reinsurance coverage the increase in operating leverage does not pose risk to loss absorption capacity of the company. Moreover, financial leverage ratio was reported higher at end-9MFY22 on account of increase in net technical reserves. The increase in technical reserves was manifested in both higher outstanding claims and unearned premium reserves; higher outstanding claims were an outcome of unsettled fire claim of a government backed IPP, meanwhile, unearned premium has an element of cyclicity attached as majority of the new business was reaped in July'22. Nevertheless, the aging profile of the claim's payable was satisfactory with no claim due for more than a year at end-FY21. Going forward, with steady growth expected in business volumes, the operating leverage is expected to increase slightly during the rating horizon.

Liquidity Profile, Albeit Slight Weakening, Remains Comfortable: In line with a sizable claim booked during the ongoing year, the liquidity profile in terms of liquid assets maintained in relation to net technical reserves represents decline on a timeline; however, the same still remains sound. Moreover, once the settlement of aforementioned claim is made the liquidators indicators will revert to normal. In addition, with the cyclicity prevalent in the insurance sector, the technical reserves will further decline by end-FY22 as the unearned premium reserve is gradually realized. On the other hand, insurance debt in relation to gross premium increased slightly on a timeline on account of increase in receivables due from insurer/reinsurer. Moreover, the operating ratio also increased on timeline basis despite growth in net premium and higher investment income owing to higher incidence of claims.

Chubb Insurance Pakistan Limited
Annexure I

BALANCE SHEET	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021	Sept 30, 2022
Property, Plant and Equipment	32.2	45.1	54.1	56.1
Investments	632.3	742.5	848.9	1,023.9
Loans and Other Receivables	124.4	124.3	120.5	125.8
Insurance Debt	182.4	339.5	400.9	722.0
Reinsurance Recoveries Against Outstanding Claims	123.2	122	126.4	611.7
Prepayments	64	63.8	85.7	198.1
Cash and Bank Deposits	33.5	70.8	54.5	355.9
Other Assets	38.9	28.9	26.6	45.2
Total Assets	1,230.9	1,536.9	1,717.8	3,138.9
Technical Reserves	459.9	597.0	653.6	1,668.5
Total Liabilities	557.1	772	808.7	2,091.2
Paid Up Capital	500	500	500.0	500.0
Net Worth	673.8	764.9	909.1	1,047.7
INCOME STATEMENT	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021	Sept 30, 2022
Net Premium Revenue	168.2	209.3	321.3	326.7
Net Claims	33	24.8	21.3	86.8
Underwriting Profit	22.2	62.9	151.0	100.4
Net Investment Income	58.3	60.3	52.7	89.6
Profit Before Tax	87.5	127.7	204.9	193.3
Profit After Tax	61.8	88.8	143.5	137.3
RATIO ANALYSIS	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021	Sept 30, 2022
Cession Ratio (%)	54.9	61.2	60	39.9
Gross Claims Ratio (%)	19.4	5.8	7.3	69.6
Net Claims Ratio (%)	19.6	11.8	6.6	26.6
Underwriting Expense Ratio (%)	67.3	58.1	46.4	42.7
Combined Ratio (%)	86.9	69.9	53	69.3
Net Operating Ratio (%)	52.3	41.1	36.6	41.8
Insurance Debt to Gross Premium (%)	30.2	39	43.2	42.4
Operating Leverage (%)	25	27.4	35.3	41.6
Adjusted Financial Leverage (%)	41.3	53.8	48.6	82.0
Liquid Assets to Adjusted Technical Reserves (%)	239.1	185	192.4	137.5

*Annualized

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure II

RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH**AAA(IFS)**

Exceptionally Strong. Exceptionally strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.

AA++(IFS), AA+(IFS), AA(IFS)

Very Strong. Very strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.

A++(IFS), A+(IFS), A(IFS)

Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.

BBB++(IFS), BBB+(IFS), BBB(IFS)

Good. Good capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.

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. https://docs.vis.com.pk/docs/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. https://docs.vis.com.pk/docs/criteria_outlook.pdf

BB++(IFS), BB+(IFS), BB(IFS)

Marginal. Marginal capacity to meet policyholders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.

B++(IFS), B+(IFS), B(IFS)

Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.

CCC(IFS), CC(IFS), C(IFS)

Very Weak. Very weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment.

D(IFS)

Distressed. Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

'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. https://docs.vis.com.pk/docs/private_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			
	12/27/2022	AA+	Stable	Reaffirmed
	03/31/2022	AA+	Stable	Harmonized
	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	Dec 01, 2022
	2	Syed Hasan Mahmood	Head of Compliance and Risk & Company Secretary	Dec 01, 2022
	3	Mr. Nabeel Turabi	Head of Property & Casualty	Dec 01, 2022
	4	Mr. Khizr Hasan	Head of Sales & Marketing	Dec 01, 2022
	5	Mr. Mahmood Ahmed	Head of Accident & Health	Dec 01, 2022
	6	Mr. Murtaza Kazi	Head of Claims	Dec 01, 2022
	7	Mr. Abdul Azim	Finance Manager	Dec 01, 2022