RATING REPORT

Chubb Insurance Pakistan Limited

REPORT DATE:

December 04, 2023

RATING ANALYSTS:

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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
IFS Rating	AA+ (IFS)	AA+ (IFS)
Rating Date	*Dec 04, '23*	*Dec 27, '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 (Oct 2023)
https://docs.vis.com.pk/docs/GeneralInsurance-2023.pdf

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

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 over 17 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). 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 positive trajectory of business volumes, improvement in underwriting results on a timeline basis despite higher loss ratio recorded along with sustainable and growing investment income. Liquidity profile is considered sound underpinned by growth in liquid assets in relation to technical reserves coupled with comfortable aging of receivables. The Company has maintained adequate reserves as solvency margin against regulatory requirement. The operating leverage ratio increased during the review period in line with augmentation of scale of operations; however, on account of appropriate reinsurance coverage there is no sizable risk accumulation on the net account. In addition, the aging profile of the claim's payable was satisfactory with no claim due for more than a year at end-FY22. With ongoing 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 and accident & health with balanced mix in power and property which would be important from the underwriting risk management perspective. Going forward, achieving growth in market share, maintaining underwriting quality and profitability indicators along with rationalization of claims ratios would remain important rating drivers.

Insurance Sector Update:

<u>Global Perspective</u>

Despite building macroeconomic challenges, the insurance industry continued to grow in FY22, both globally and in Pakistan. Global insurance industry faced repricing of risks due to macroeconomic stresses and natural catastrophes with economic losses from natural disasters recorded higher in FY22; however insured losses covered 45% of these damages amounting to USD 125 billion. In addition, claims increased as high inflation increased the cost of repairing buildings, motor vehicles and other fixed assets that are usually covered by insurance. This led to continued rise in premium rates to cover the expenses. However, elevated interest rates augmented the investment income for insurers across the globe.

<u>Local Perspective</u>

Pakistan's insurance industry posted growth despite weak macroeconomic situation in CY22 with continued dominance of Life Insurance & Family Takaful segments in terms of assets and gross premiums. Gross premiums increased from Rs. 417.2 billion in CY21 to Rs. 531.7 billion in CY22 with Life & Family Takaful segment, and Non-Life & General Takaful segments posting increases of Rs. 81.9 billion and Rs. 29.4 billion respectively. Moreover, the industry's asset base grew by 14.8% in CY22 to Rs. 2,459.9 billion particularly on the back of significant growth in the Life Insurance segment. Moreover, despite building macroeconomic pressures characterized by dwindling foreign reserves, stabilization measures, slowdown in economic activity, etc. along with catastrophic floods affecting one-third of the country during the year under review, all segments of the industry continued to expand. This was the result of a combination of general factors affecting the whole insurance industry such as inflation leading to a rise in premium rates and idiosyncratic factors pertaining to all segments. The growth in Life Insurance segment was an outcome of the implementation of the government's health insurance programs carried out by State Life; the same increased health coverage to the low and middle-income strata of society. However, the claims ratio for the sector witnessed an increase due to a rise in group claims and higher surrender claims by individuals. Nevertheless, since life insurers maintain most of their investments in government securities due to lackluster performance of capital market, the resulting higher investment income boosted their profitability due to hike in interest rates.

In non-life insurance sector, motor premiums drove the growth in net premiums as the cost of motor vehicles increased drastically during the outgoing year. However, torrential rains and flooding, some major fire incidents, and higher cost of repairing fixed assets contributed to the larger increase in claims. Accordingly, financial performance indicators for the non-life sector slightly weakened on a timeline. Further, the industry's combined ratio increased in CY22, which was driven by a spike in both net claims and expense ratios. With the increase in combined ratio, insurers are expected to reprice their products in the ongoing year. Going forward, due to the prevailing slowdown in economic activity and stressed macro financial conditions, the growth trajectory in non-life premiums is expected to be uncertain while the growth in the life sector will continue to largely depend on traction in the health insurance programs. Moreover, the SECP has issued instructions of phase wise implementation of 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. No final timeline for the same is announced yet.

Future Outlook

Globally, it is expected that there will be premium rate hardening in CY23 in response to the high inflation, geopolitical tensions, natural catastrophes and financial market losses of CY22. These global insurance developments will lead to increases in reinsurance rates offered by international re/insurers which coupled with the exchange rate depreciation, may lead to increase in reinsurance expense for insurers in EMDEs, particularly non-life insurers that have extensive reinsurance arrangements with international reinsurers. The rate hardening along with the elevated policy rate is expected to influence insurers' financial performance in the near term. Global premiums are expected to grow at 2.1% in real terms on average in 2023. Given that non-life insurance is correlated with economic growth and the latest data indicates that Pakistan's economy will significantly slowdown in 2023, accordingly the growth trajectory of non-life premiums in Pakistan could also face pressures. Moreover, if inflation remains elevated, then there could be further rate hardening leading to an uncertain growth trajectory for non-life premiums. Furthermore, in the backdrop of elevated interest rates, non-life insurers may also consider recalibrating their investment portfolios in order to pad the bottom-line. Life insurance business, with a longer time horizon, is expected to remain relatively immune to the prevailing macroeconomic pressures. The growth in this sector is now partially dependent on the continuity of the government's health insurance programs.

Source: Financial Stability Review – 2022 | State Bank of Pakistan

Business Update: The gross written premium (GWP) exhibited a mixed trend with an increase recorded on a timeline at 1.5b (CY21: Rs. 927.8m; CY20: Rs. 870.2m) during CY22 with growth mainly attributable to fire and property (F&P) segment. As per the management, within F&P majority of business growth emanated from power sector. On the other hand, GWP was reported lower at Rs. 594.1m during HY23; the reduction is mainly an outcome of element of cyclicality inbuilt in the insurance sector with majority of business written in third and fourth quarters. The cyclicality can be assessed from the fact that CIPL closed 9MCY23 at a GWP of Rs. 1.8b which is 3x the business written by end-HY23. Going forward, the management expects to close the ongoing year at around Rs. 2.4b; given the positive momentum witnessed during 3QCY23 the same is considered to be realistic and achievable. The growth in the topline is underpinned by multiple factors including tapping of new clients, improved penetration in existing markets and dollar appreciation which translated into higher rupee denominated sales. Moreover, GWP in Liability segment also increased to Rs. 159.8m (CY21: 120.7m) during the outgoing year. CIPL covers Directors & Officers (D&O) and cybersecurity risks among other general/product liability lines. Presently, the company is largely dependent on facultative/reinsurance business constituting around 77% of the GWP (FY22:85%; FY21: 82%) however, as per the future strategy CIPL plans to increase direct business proportion especially public & product liability segment 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 FY24 at a GWP of Rs. 3.0b 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	CY21	CY22	HY23
Fire and property damage	78.1%	83.2%	74.0%
Marine, aviation and transport	4.2%	2.6%	5.5%
Motor	0.1%	0.0%	0.0%
Accident & Health	4.6%	3.5%	5.6%
Liability	13.0%	10.6%	14.9%
Total	100.0%	100.0%	100.0%

The overall cession decreased slightly to 59.0% (CY21: 62.2%) during the outgoing year which positively contributed to increase in net premium revenue of Rs. 468.6m (CY21: Rs. 321.3m; CY20: Rs. 209.3m). Generally, cession ratio largely remained range bound as there was no significant change in the business mix or treaty arrangements during the rating review period. As per the management, the cession ratio is likely to remain within 50-60% range in the medium term also. CIPL has recently started offering its supplementary health products to corporates and individuals through bancassurance and affinity programs during the ongoing year. Moreover, 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 (~19% 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. In all major segments including global property per risk, global property catastrophe, marine cargo & energy upstream, terrorism & cyber, downstream energy and Accident & Health, there were no significant changes to the overall reinsurance program of the Company for CY23 apart from an increase in treaty limits evidenced across the board; the same was a function of depreciation of local currency as the treaty arrangements are made in dollar terms. In addition to treaty covers for all segments, CIPL also has a multiline top layer excess of loss contract wherein risk coverage of multiple events is undertaken and the Company's own retention in aggregate does not exceed more than $20,000. Moreover, in line with expectation of increase in business volumes three new reinsurance covers for casualty, financial lines and erection all risks were obtained during the rating review period; the same are likely to add depth reinsurance coverage profile. The new treaty capacities are applicable till June'24; moreover, as per management, treaty capacities and Company's retention on net account are expected to remain unchanged on absolute dollar terms in the medium term.

Claims Experiences: The claims performance deteriorated on both gross and net fronts on a timeline during the rating review period on account of two sizable fire losses aggregating to Rs. 776.0m on gross basis reported in two power plants. However, CIPL's retention for the aforementioned losses after application of XOL treaties stood manageable at Rs. 28.7m for CY22. Therefore, the impact to net claims was largely rationalized. Moreover, owing to per risk EOL treaty coverage coupled with numerous low value claims incurred under A&H with high retention of the same on net account, the net loss ratio was recorded the highest in the A&H segment followed by fire during HY23. On the other hand, as per the management no major loss event was reported post June-22. Further, the Company continues to witness low claim ratio in liability segment. The segment-wise net claims ratios are presented in the table as follows:

Net Claims Ratio	CY21	CY22	HY23
Fire and property damage	7.6%	26.6%	36.4%
Marine, aviation and transport	(11.1%)	-113.4%	0.0%
Motor	(126.4%)	73.0%	0.0%
Accident & Health	23.8%	72.7%	79.2%
Liability	0.3%	4.3%	0.0%
Total Net Claims Ratio	**6.6%**	**23.5%**	**32.7%**

Underwriting performance: Despite increase in net claims ratio on account of incurrence of a major loss during the outgoing year and onwards, CIPL's underwriting performance exhibited improvement on a timeline in line with higher net premium revenue and reduction in underwriting expense ratio. The reduction in underwriting expense ratio on a timeline to 33.9% (CY21: 43.1%; CY21: 46.4%) was primarily a function of growth in operating scale and higher average ticket size of policies contributing to improved efficiency. On the other hand, the net commission earned reduced to Rs. 7.3m (CY21: Rs. 18.7m) during the outgoing year in line with reduction in business ceded to reinsures. Resultantly, stemming from significant increase in claims ratio, combined ratio was recorded higher on a timeline at 66.6% (FY22: 66.5%; FY21: 53.0%) by end-HY23; however, the same positively exhibits that the Company reported profit from its insurance operations. Moreover, barring A&H, all segments reported profit during both periods under review. The ability to maintain overall underwriting performance positive is considered important from the rating perspective going forward. The snapshot of underwriting results is given below:

Underwriting Profit (Loss)	CY21	CY22	HY23
Fire and property damage	122.9	130.6	111.7
Marine, aviation and transport	5.0	12.2	1.3
Motor	0.2	0.0	0.1
Accident & Health	(0.3)	-12.8	-12.3
Liability	23.3	26.8	20.4
Total Underwriting Profit	**151.0**	**156.9**	**121.2**

Investment income showed positive momentum and was recorded higher at Rs. 114.6m (CY22: Rs. 135.9m; CY21: Rs. 52.7m) during HY23 as a combined outcome of increase in investment portfolio coupled with benchmark rates being at the high end of the spectrum. There has been a shift in the investment mix with majority of the portfolio constituting 75% (FY22: 14%; FY21: 6%) vested in government securities. Therefore, credit risk emanating from the investment portfolio is on a lower side in comparison to last two years. Moreover, term deposits are also placed with counterparties with sound financial profile and credit ratings. Going forward, CIPL plans to continue with the existing investment mix with major investment in short-tenor fixed income securities with no capital to be invested in the stock market. Despite increase in combined ratio, net operating ratio has improved slightly on a timeline basis to 35.0% (CY22: 37.5%; CY21: 36.6%) primarily owing to uptick in investment income reaped. The management projects a healthy increase in net premium revenue in CY24 driven by expansion in scale of operations and higher contribution of direct business.

Adequate capitalization indicators, leverage indicators have largely remained intact: 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; however, the same is slightly on a higher side 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 lower at end-HY23 on account of increase in net technical reserves being offset by augmentation of equity base. In addition, the aging profile of the claim's payable was satisfactory with no claim due for more than a year at end-FY22. Going forward, with steady growth expected in business volumes, the operating leverage is expected to increase slightly during the rating horizon.

Liquidity profile improved significantly during the rating review period: In line with growth of investment portfolio and higher cash balances during the review period, the liquidity profile in terms of liquid assets maintained in relation to net technical reserves improved on a timeline and is considered sizable; the same is in line with the benchmarks of the assigned rating. Moreover, insurance debt in relation to gross premium was also recorded lower on a

	timeline on account of rationalization in receivables due from insurer/reinsurer in respect to growth in scale of operations. As per the aging schedule of receivables, only 0.3% of the total were overdue for more than a year at end-FY22 indicating comfortable aging profile and no liquidity strain on the asset side.

Chubb Insurance Pakistan Limited **Annexure I**

BALANCE SHEET	Dec 31, 2020	Dec 31, 2021	Dec 31, 2022	June 30, 2023
Property, Plant and Equipment	45.1	54.1	54.1	49.8
Investments	742.5	848.9	1,466.7	1,848
Loans and Other Receivables	124.3	120.5	123.0	117.4
Insurance Debt	339.5	400.9	770.7	410.3
Reinsurance Recoveries Against Outstanding Claims	122	126.4	607.8	1,082.9
Prepayments	63.8	85.7	152.7	91.9
Cash and Bank Deposits	70.8	54.5	55.9	401.7
Other Assets	28.9	26.6	28.9	22.7
Total Assets	1,536.9	1,717.8	3,259.8	4,024.7
Technical Reserves	597.0	653.6	1,522.6	1,756.9
Total Liabilities	772	808.7	2,154.5	2,752.0
Paid Up Capital	500	500.0	500.0	500.0
Net Worth	764.9	909.1	1,105.4	1,272.7
INCOME STATEMENT	**Dec 31, 2020**	**Dec 31, 2021**	**Dec 31, 2022**	**June 30, 2023**
Net Premium Revenue	209.3	321.3	468.6	363.0
Net Claims	24.8	21.3	110.0	118.6
Underwriting Profit	62.9	151.0	156.9	121.2
Net Investment Income	60.3	52.7	135.9	114.6
Profit Before Tax	127.7	204.9	296.2	245.8
Profit After Tax	88.8	143.5	194.6	165.8
RATIO ANALYSIS	**Dec 31, 2020**	**Dec 31, 2021**	**Dec 31, 2022**	**June 30, 2023**
Cession Ratio (%)	61.2	60.0	49.5	90.3
Gross Claims Ratio (%)	5.8	7.3	51.0	73.2
Net Claims Ratio (%)	11.8	6.6	23.5	32.7
Underwriting Expense Ratio (%)	58.1	46.4	43.1	33.9
Combined Ratio (%)	69.9	53.0	66.5	66.6
Net Operating Ratio (%)	41.1	36.6	37.5	35.0
Insurance Debt to Gross Premium (%)	39	43.2	51.2	34.5
Operating Leverage (%)	27.4	35.3	42.4	57.0
Adjusted Financial Leverage (%)	53.8	49.1	69.2	46.0
Liquid Assets to Adjusted Technical Reserves (%)	185	190.5	172.7	384.6

REGULATORY DISCLOSURES — Appendix II

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			
12/04/2023	AA+ (IFS)	Stable	Reaffirmed
12/27/2022	AA+ (IFS)	Stable	Reaffirmed
03/31/2022	AA+ (IFS)	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.
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Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Mahad Hafeez	Chief Financial Officer	Oct 06, 2023
2	Syed Hasan Mahmood	Head of Compliance and Risk & Company Secretary	Oct 06, 2023
3	Mr. Nabeel Turabi	Head of Property & Casualty	Oct 06, 2023
4	Mr. Khizr Hasan	Head of Sales & Marketing	Oct 06, 2023
5	Mr. Mahmood Ahmed	Head of Accident & Health	Oct 06, 2023
6	Mr. Murtaza Kazi	Head of Claims	Oct 06, 2023
7	Mr. Abdul Azim	Finance Manager	Oct 06, 2023