RATING REPORT

Chubb Insurance Pakistan Limited

REPORT DATE:

December 26, 2024

RATING ANALYSTS:

Musaddeq Ahmed
musaddeq@vis.com.pk

Husnain Waheed
Husnain.waheed@vis.com.pk

RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
IFS Rating	AA+(IFS)	AA+(IFS)
Rating Date	*Dec 26, 24*	*Dec 04, 23*
Rating Outlook/Rating Watch	*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
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	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 18 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' 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. The assigned rating derives strength from the sponsor profile of Chubb Group, representing a world leader in insurance. With operations in 54 countries and territories, Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients. The rating also reflects the technical and financial assistance received by CIPL from the parent company.

The rating reflects a positive trajectory in business volumes and improvement in underwriting results on a timeline basis. A significant decline in the combined ratio has been observed, accompanied by growing investment income. The Company's liquidity profile is considered sound, supported by substantial coverage of net technical reserves and a comfortable aging profile. Additionally, the Company has maintained adequate solvency margins to meet regulatory requirements.

With ongoing improvements in economic activity—driven by reductions in interest rates, stabilization of the rupee exchange rate, and lower inflation levels—the management's key focus areas will include fire and liability insurance, with a balanced mix of cyber and property insurance. These areas are critical for managing underwriting risk. Looking ahead, achieving growth in market share, maintaining underwriting quality and profitability indicators, and rationalizing claims ratios will remain important drivers of the rating.

Auditor's Opinion

A.F. Ferguson & Co. Chartered Accountants has provided an unqualified and unmodified opinion, affirming that the Company's financial statements comply with accounting standards and accurately portray the Company's financial position as of December 2023.

Insurance Sector Update:

Global Overview:

The global insurance industry has demonstrated remarkable resilience and adaptability amidst evolving macroeconomic conditions and heightened geopolitical tensions. In 2023, the industry recorded its strongest growth since 2006, expanding by 7.5%. Global premiums reached €6.2 trillion, divided among life insurance (€2.62 trillion), property and casualty (P&C) (€2.15 trillion), and health insurance (€1.43 trillion).

Regional market dynamics underscore significant variances in growth. North America continues to dominate the P&C and health insurance segments, contributing 54.2% and two-thirds of global premiums, respectively. The Asia-Pacific region led the recovery in life insurance, buoyed by China's post-pandemic rebound (7.7% growth) and India's exceptional growth trajectory of 13.6%. In Europe, life insurance premiums grew by 3.3% in 2023 after a contraction in 2022, though challenges persist, including a heavy reliance on single-premium products.

Sustainability and ESG (Environmental, Social, and Governance) integration have become central to insurers' strategies, with almost all firms embedding sustainability goals into their investment portfolios. Clean energy and transition technologies are particularly prominent themes. Technological innovation, especially through artificial intelligence (AI), is gradually replacing traditional insurance processes. AI is now critical for underwriting, claims management, and risk modeling, while advancements in IT enable real-time customer engagement and personalized products.

Capital management strategies are also evolving in response to macroeconomic changes. Higher interest rates have improved investment yields, prompting insurers to increase allocations to private markets and alternative assets, such as infrastructure debt. Liquidity management remains a top priority as insurers strive to balance portfolio diversification with maintaining stable risk levels. Meanwhile, regulatory developments and geopolitical tensions are among the top macroeconomic concerns for insurers, further complicated by diverging monetary policies across regions.

Looking ahead, the global insurance market is projected to grow at an annual rate of 5.5% over the next decade, with life and health insurance driving much of this expansion. Asia is expected to remain the primary growth engine, accounting for nearly half of the absolute premium increase. However, the industry must address key challenges, such as balancing insurability and affordability amidst rising climate and cyber risks, tackling inequalities exacerbated by demographic and economic shifts, and adapting to regulatory changes in a fragmented geopolitical environment.

Local Overview:

The insurance sector in Pakistan, demonstrates a complex and evolving landscape. The industry is divided into life and non-life insurance segments, with significant contributions from both conventional and takaful (Islamic insurance) operations. However, insurance penetration remains low, at just 0.79% of Gross Domestic Product (GDP). In 2023, the life insurance sector reported a gross premium of PKR 404 billion, with claims paid amounting to PKR 289 billion. Health policies dominated the product distribution, constituting 41% of the total premium, followed by participating policies at 30% and unit-linked policies at 23%. The non-life insurance sector, on the other hand, recorded a gross premium of PKR 227 billion, with claims paid totaling PKR 84 billion. Fire and property damage insurance accounted for the largest share of the premium at 31%, followed by motor insurance at 20% and engineering insurance at 16%.

The financial performance of the sector highlights a substantial investment income, with the life insurance segment reporting total assets of PKR 2,518 billion and investments of PKR 1,911 billion as of Dec'23. The non-life insurance segment also showed strong financial health, with total assets of PKR 381 billion and investments of PKR 145 billion as of Dec'23. The takaful sector, although smaller, shows promising growth potential, particularly in the family takaful segment, which contributed 35% of the total private sector premium. The general takaful segment accounted for 11% of the total non-life insurance industry premium.

Challenges facing the sector include low motor insurance adoption, limited local reinsurance capacity, and a shortage of skilled human resources. The SECP's strategic plan underscores the importance of adopting IFRS-17 by January 2026, embracing technological advancements, strengthening legislative frameworks, and enforcing compulsory insurance schemes to tackle current challenges. Overall, the insurance sector in Pakistan is poised for potential growth, driven by both conventional and takaful operations. The industry's financial stability, coupled with strategic initiatives by the SECP, positions it well for future expansion and increased penetration in the national economy.

CIPL Business Update:

Gross Written Premium Mix	CY21	CY22	CY23	9MCY24
Fire and property damage	78.1%	83.2%	82.7%	82.4%
Marine, aviation and transport	4.2%	2.6%	3.0%	2.0%
Motor	0.1%	0.0%	0.0%	0.0%
Accident & Health	4.6%	3.5%	3.5%	2.7%
Liability	13.0%	10.6%	10.7%	12.9%
Total (PKR in million)	**927.9**	**1,506.6**	**2,035.0**	**1,917.9**

The business mix of CIPL is dominated largely by the fire and property segment, constituting 82% of gross written premium (GWP) during 9MCY24. The GWP exhibited a growing trend recorded at 1.91b (CY23: PKR 2.03b; CY22: PKR 1.5b) during 9MCY24 with growth mainly attributable to liability segment. As per the management, within the liability segment majority of business growth emanated from cyber insurance. Cyber insurance currently accounts for 5% of Chubb Insurance's business portfolio. Going forward, the management anticipates strong growth in this segment, underpinned by rising demand and an increasing focus on cybersecurity risk mitigation. The growth in the topline is underpinned by multiple factors including tapping of new clients, improved penetration in existing markets. The snapshot of business mix of CIPL is presented above.

Cession Ratio	CY21	CY22	CY23	9MCY24
Fire and property damage	59.7%	46.3%	47.5%	43.3%
Marine, aviation and transport	73.7%	77.1%	68.3%	95.5%
Motor	55.0%	73.2%	66.0%	0.0%
Accident & Health	71.7%	73.1%	66.1%	67.4%
Liability	53.7%	59.7%	54.1%	52.7%
Overall Cession Ratio	**60.0%**	**49.5%**	**49.5%**	**46.2%**

The overall cession decreased at 46.2% (CY23: 49.5%; CY22: 49.5%) during the outgoing year, contributing to a slight increase in net premium revenue, which stood at PKR 651.5m (9MCY23: PKR 635.6m). Additionally, the cession ratios have remained on a higher side in the marine, aviation and transport segment as almost 95% is ceded. The breakdown of cession segment-wise is provided above. The increase in retention ratio while representing a higher risk on own account is balanced by a lower claims' ratio.

Contingencies:

The Company is involved in an ongoing lawsuit with the Sindh Revenue Board (SRB) regarding Sindh Sales Tax of PKR 209.4 million (~11% of equity) on reinsurance services from foreign reinsurers, an industry-wide issue also raised by the IAP. Following the Sindh High Court's instructions, the Company deposited 50% of the amount (PKR 104.7 million), recorded as a receivable in its financial statements. Based on legal advice, the management believes it has strong grounds for defense. There was no change in the status of this contingency during the rating review period.

Engro Fertilizers Limited (EFL) filed a recovery suit in 2018 with EFU General Insurance (Lead Insurer) and co-insurers, including CIPL (5% share), for USD 12.7 million (~9% of equity in PKR) for boiler replacement costs, which was repudiated in February 2021 after an independent root cause analysis. The suit now includes USD 12.7 million plus USD 21.39 million for associated losses, and adjudication is pending with the Insurance Tribunal of Sindh. The management remains confident of a favorable outcome and has not created a provision in the financial statements. There was no change in the status of this contingency during the review period.

Reinsurance Arrangements:

In accordance with the Group's strategy, all reinsurance treaties have been arranged with Chubb Tempest Reinsurance Ltd., Bermuda (CTRL), a member of the Chubb group as well. CTRL has a solid credit risk profile with a credit rating of 'AA' from S&P. The reinsurance agreement for Chubb Insurance for the period CY24-25 remains unchanged in USD terms. However, due to the appreciation of the PKR against the USD (2023: USD/PKR = 285.4, 2024: USD/PKR = 278), the values in PKR have been adjusted accordingly.

Claims Experiences:

Gross Claims Ratio	CY21	CY22	CY23	9MCY24
Fire and property damage	2.6%	57.3%	51.3%	-11.3%
Marine, aviation and transport	96.0%	59.3%	97.1%	222.1%
Motor	-32.4%	18.1%	5.3%	0.0%
Accident & Health	23.5%	54.8%	11.7%	14.8%
Liability	0.3%	3.2%	4.3%	0.3%
Total Gross Claims Ratio	**7.3%**	**51.0%**	**46.3%**	**-2.4%**

During the rating review period four major outstanding claims were filed with a gross amount of PKR 120.3m. However, CIPL's retention for the losses after application of XOL treaties stood manageable at PKR 30.7m for 9MCY24. Therefore, the impact to net claims was largely rationalized. The Company reported a decline in the gross claims ratio to -2.4% during 9MCY24 (CY23: 46.3%; CY22: 51.0%), primarily driven by significant reserve releases across key sectors, particularly in the fire and property damage segment. This segment recorded a gross claim of PKR 144.8m in 9MCY24, a sharp reversal from PKR 803.6m in CY23, largely attributable to substantial reserve releases for certain major clients. These reserve releases, amounting to reductions in the Outstanding Loss Reserve (OSLR) balances, reflected the favorable resolution of previously recorded claims. For instance, CIPL saw a significant reserve release of PKR 372.0m from a large client while reported a reduction of PKR 92.7m in another client, underscoring the effective resolution of high-value claims without additional financial outflows. Conversely, the marine, aviation, and transport segment experienced a substantial increase in the gross claims to PKR 100.7m in 9MCY24 (CY23: 52.2m; CY22: 22.4m), driven by high-value claims arising from in-transit losses, highlighting the inherent risk exposure in this line of business.

Net Claims Ratio	CY21	CY22	CY23	9MCY24
Fire and property damage	7.6%	26.6%	21.4%	11.9%
Marine, aviation and transport	-11.1%	-113.4%	18.2%	2.8%
Motor	-126.4%	73.0%	500.0%	0.0%
Accident & Health	23.8%	72.7%	11.8%	3.0%
Liability	0.3%	4.3%	8.2%	1.4%
Total Net Claims Ratio	**6.6%**	**23.5%**	**20.0%**	**11.0%**

Net claims ratios followed a similar trend, with the overall net claims ratio reducing to 11.0% in 9MCY24 (CY23: 20.0%; CY22: 23.5%). This improvement was supported by a decline in net claims in the fire and property damages segment to PKR 70.5m in 9MCY24 (CY23: PKR 2173.7m; CY22: PKR 110.0m). The Company's sound reinsurance strategy, including quota share and excess of loss (XoL) treaties, continues to provide adequate claims protection and ensure lower retention on net accounts.

Underwriting performance:

Underwriting Profit (Loss)	CY22	CY23	9MCY23	9MCY24
Fire and property damage	114.6	370.8	186.3	298.1
Marine, aviation and transport	11.7	3.6	(2.9)	6.2
Motor	0.0	0.0	0.4	0.2
Accident & Health	(13.5)	(5.3)	21.6	11.1
Liability	24.8	47.3	146.8	9.1
Total Underwriting Profit	**137.8**	**416.4**	**352.2**	**324.7**

The underwriting expense ratio increased slightly to 39.1% (CY23: 42.3%; CY22: 32.3%). Meanwhile, the net commission earned increased to PKR 18.2m (CY23: PKR 9.6m; CY22: PKR 7.3m) during the outgoing year in line with the business ceded to reinsures. Resultantly, stemming from a major decrease in net claims ratio, the combined ratio was recorded on a timeline low at 50.1% (CY23: 76.6%; CY22: 52.3%) during 9MCY24. This improvement underscores the Company's profitability from its insurance operations, with all segments reporting profits during the review period. The ability to maintain overall underwriting performance is considered important from ratings perspective going forward.

Investment income demonstrated strong growth, reaching PKR 284.7m during 9MCY24 (CY23: PKR 285.5m; CY22: PKR 89.57m). The investment mix remained unchanged, with the majority—89.5% (CY23: 96%; CY22: 15%)—allocated to government securities, ensuring minimal credit risk from the portfolio. Furthermore, term deposits continue to be placed with financially sound counterparties holding high credit ratings. Operational performance has remained stable, as indicated by the net operating ratio of 43.2% (CY23: 63.2%; CY22: 20.99%). Looking ahead, in line with its investment policy, CIPL plans to maintain the existing investment mix, with a primary focus on government securities and no exposure to the stock market.

Liquidity Profile:

Liquidity Indicators	CY21	CY22	CY23	9MCY24
Liquid Assets/ Net technical Reserves	190.4%	199.0%	210.0%	185.1%
Insurance Debt to Gross premium	43.2%	51.2%	62.0%	46.0%

Investment portfolio is largely liquid providing sizable coverage to net technical reserves; the same is in line with the peer median of the assigned rating. Moreover, insurance debt in relation to gross premium remained stable on quarterly basis on the account of rationalization in receivables due from insurer/reinsurer in respect to growth in scale of operations. The aging profile of premium receivables also remains satisfactory, with only 2.4% of premium overdue for more than a year at end-9MCY24.

Capitalization:

Capitalization Indicators	CY21	CY22	CY23	9MCY24
Equity (In PKR million)	909	1,105	1,543	1,939
Operating Leverage	35.3%	42.4%	56.7%	44.8%

Financial Leverage	49.1%	69.2%	63.5%	69.1%

The Company's capitalization levels have shown consistent improvement over time, driven by internal capital generation. CIPL maintains a sound solvency position, with a sufficient cushion of total admissible assets exceeding its liabilities. The operating and financial leverage ratio remains rangebound during the review period. Nonetheless, the presence of adequate reinsurance coverage mitigates any risk to the Company's loss absorption capacity. The aging profile of claims payables also remains satisfactory with no claim payable due for more than a year at the end-9MCY24. Looking ahead, the operating leverage is expected to rise slightly during the rating horizon in line with projected business growth.

Chubb Insurance Pakistan Limited **Annexure I**

BALANCE SHEET	Dec'22	Dec'23	Sept'23	Sept'24
Property, Plant and Equipment	54.1	46.5	49.0	76.5
Investments	1,466.7	1670.7	1540.6	2391.5
Loans and Other Receivables	123.0	118.6	118.5	144.6
Insurance Debt	770.7	613.1	1116.9	1176.6
Reinsurance Recoveries Against Outstanding Claims	607.8	1064.4	1004.2	580.4
Prepayments	152.7	180.6	212.1	274.6
Cash and Bank Deposits	55.9	384.8	391.3	89.6
Other Assets	28.9	40.0	32.0	55.3
Total Assets	3,259.8	4,119.0	4,464.9	4,789.4
Paid Up Capital	500.0	500	500	500
Net Worth	1105.3	1542.7	1396.3	1939.4
Total Liabilities	2,154.5	2576.3	3068.6	2850.0
INCOME STATEMENT	**2022**	**2023**	**9M2023**	**9M2024**
Net Premium Revenue	468.6	874.2	635.6	651.5
Net Claims	110.0	174.6	217.9	71.6
Underwriting Profit	137.7	416.4	352.18	325.6
Net Investment Income	135.9	285.5	204.4	284.7
Profit Before Tax	296.2	738.0	455.1	640.1
Profit After Tax	194.6	446.1	286.7	390.5
RATIO ANALYSIS	**Dec'22**	**Dec'23**	**Sept'23**	**Sept'24**
Market Share (%)	0.80%	0.90%	1.00%	1.10%
Cession Ratio (%)	49.52%	49.48%	42.47%	46.23%
Gross Claims Ratio (%)	50.96%	46.33%	59.58%	-2.39%
Net Claims Ratio (%)	23.47%	19.98%	34.28%	11.00%
Liquid Assets /Gross Claims Outstanding	197.07%	156.83%	146.79%	283.79%
Underwriting Expense Ratio (%)	47.14%	32.39%	42.36%	39.17%
Combined Ratio (%)	70.61%	52.37%	76.64%	50.17%
Net Operating Ratio (%)	43.04%	20.99%	63.27%	43.25%
Insurance Debt to Gross Premium (%)	51.16%	30.15%	62.05%	46.02%
Operating Leverage (%)	42.40%	56.67%	45.52%	44.79%
Net Financial Leverage (%)	69.21%	63.45%	90.99%	69.10%
Net Technical Reserves / Liquid Assets	50.24%	47.62%	65.76%	54.01%

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 Watch	Rating Action
RATING TYPE: INSURER FINANCIAL STRENGTH			
12/26/2024	AA+ (IFS)	Stable	Reaffirmed
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.
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Mahad Hafeez	Chief Financial Officer	Dec 02, 2024
2	Syed Hasan Mahmood	Head of Compliance and Risk & Company Secretary	Dec 02, 2024
3	Mr. Nabeel Turabi	Head of Property & Casualty	Dec 02, 2024
4	Mr. Mahmood Ahmed	Head of Accident & Health	Dec 02, 2024
5	Mr. Murtaza Kazi	Head of Claims	Dec 02, 2024
6	Mr. Abdul Azim	Finance Manager	Dec 02, 2024