RATING REPORT

UBL Insurers Limited

REPORT DATE:
August 24, 2018

RATING ANALYSTS:

Talha Iqbal
talha.iqbal@jcrvis.com

Muhammad Ibad Desmukh
ibad.deshmukh@jcrvis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	AA-	AA-
Rating Date	*August 20, 2018*	*May 29, '17*
Rating Outlook	Stable	Stable
Outlook Date	*August 20, 2018*	*May 29, '17*

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Public Company	**Chairman of the Board:** Mr. Aameer Karachiwalla
Key Shareholders (with stake 10% or more):	**Chief Executive Officer (Acting):** Mr. Zeeshan Muhammad Raza
Bestway (Holdings) Limited – 55.603%	
United Bank Limited – 30.000%	
Bestway Cement Limited – 12.227%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – General Insurance (Sep 2016)
http://www.jcrvis.com.pk/docs/Meth-GenInsurance201609.pdf

UBL Insurers Limited (UIL)

OVERVIEW OF THE INSTITUTION

UBL Insurers Limited is an unlisted public limited company which commenced operations in January 2007. The company is a subsidiary of Bestway (Holding) Limited.

Profile of Chairman

Mr. Aameer Karachiwalla is a seasoned banking professional who has been associated with UBL since 2011. He currently serves as Chief Financial Officer at UBL.

Profile of CEO (Acting)

Mr. Zeeshan M. Raza is an experienced senior insurance Professional with 25 years of extensive experience in insurance industry, a Cert-CII from Chartered Insurance Institute (UK) and an MBA; he is currently associated with UBL Insurers Limited as Acting C.E.O, previously he had been associated with Habib Insurance Company Limited in the same capacity. He has a diversified set of experience of managing and leading different business functions including Marketing, Operations, Administration/HR and IT. Besides that he's also engaged in the academic sector and has taught at renowned universities.

RATING RATIONALE

UBL Insurers Limited (UIL) is ranked sixth largest in the non-life insurance sector with a market share of 3.9% (2016: 3.6%) in gross premium underwritten. The company is primarily engaged in provision of general insurance services in Pakistan. In December 2015, UIL was granted approval to launch Window Takaful Operations.

The assigned rating while taking note of UIL's growth in business volumes, improved underwriting results and conservative investment profile, is constrained by continued increase in adjusted leverage indicators and low cash flow from operations in relation to peers. Along with this, higher risk was taken on net account given increase in retention limits of UIL's proportional treaties. While overall claims performance has so far remained favorable, higher net retention exposes the risk profile of the company to larger claims, management of which would be important going forward. Reinsurance panel of the company remains sound with all reinsurers being rated 'A-' or higher.

Rating Drivers

Business Mix

The company primarily offers insurance policies covering fire and property damage, marine and transport, motor, health and miscellaneous risks including burglary, loss of cash in safe and cash in transit, engineering losses, accident & wealth and money. It also provides banker's blanket insurance which covers losses resulting from dishonest or fraudulent acts by officers of the insured bank. In 2017, UIL's overall business mix tilted towards fire and motor segments while exposure to health was curtailed in line with cautious approach undertaken by management. Continuing the growth momentum observed over past five years, business volumes increased from Rs. 2.3b to Rs. 2.8b largely on the back of growth in motor and fire segments. Overall, growth in top line of 18.3% was higher than the industry growth of 8.1%. Around half of premium growth emanated from related parties, which represented 15.3% (2016: 9.6%) of gross premium. Stiff competition in the market has impacted prevailing premium rates for UIL. Growth in business has been supported by branch expansion strategy pursued by management with total number of branches increasing to 20 (2016: 15) as at end-2017; set up of further branches is not planned over the foreseeable term. Similar to other players, top line of the company is expected to be driven by business volumes.

In 1H2018, gross premium was reported at Rs. 1.4b. For ongoing year, the company envisages focus on increasing penetration in rural market, new product development, utilization of virtual branches, emphasis on social media marketing and digital distribution platforms including mobile applications. On the Takaful front, business is expected to grow by lower amount in absolute terms vis-à-vis conventional business given that there is limited capacity in the market. The company underwrote a total of Rs. 248.3m (2016: Rs. 114.9m) with motor segment representing the largest chunk, during 2017.

Reinsurance

Reinsurance panel of the company is considered sound with all reinsurers being rated 'A-' or higher. Hannover Re remains the lead reinsurer in major segments, barring health and special capacity (fire & engineering). During 2017, total retention and capacity of fire and marine cargo were enhanced. For 2018, retention and capacities for fire, general accident, marine cargo, health and non-motor segments were increased. Cession has decreased on a timeline basis to 52.3% (2016: 56.2%; 2015: 60.1%) on account of higher retention.

Claims Experience

In 2016, claims performance of UIL was adversely impacted by significant losses from introduction of health underwriting while claims from banker's blanket and miscellaneous segments also depicted increase. In 2017, overall claims (on both gross and net basis) have returned to manageable levels on account of better performance of aforementioned segments. However, gross loss ratio of marine segment significantly worsened to 95.7% (2016: 32.1%) partly due to one large claim although the impact on net loss ratio for marine was lower (2017: 33.1%; 2016: 18.3%). Despite improvement in security and law & order situation, gross loss ratio of motor increased to 59.8% (2016: 35.6%). Moreover, gross claims of related party business remain on the higher side at 80.4% (2016: 85.9%; 2015: 38.6%) and warrant reduction.

Underwriting Performance and Profitability
Given lower incidence of claims, the company's underwriting results have continued to improve in 2017 and 1H2018. Over past five years, contribution of motor segment to underwriting profit has remained sizeable. Expense ratio surged on account of one-time branch expansion costs though remaining at par with peers. Underwriting performance was supported by health segment which reported earnings of Rs. 14.7m compared to loss of Rs. 160.4m in 2016. Since 2013, combined ratio has depicted year on year improvement to 81.7% (2016: 84.2%; 2015: 90.4%; 2014: 93.9%).

Investments
In line with performance of the equity market, investment portfolio witnessed a shift from equities to debt securities and term deposits. At market value, total investments amounted to Rs. 863.7m (2016: Rs. 785.3m) at end-2017 and comprised 55% (2016: 30%) exposure in treasury bills, 28% (2016: 32%) in Pakistan Investment Bonds (PIBs), 10% in term deposit receipts (2016: nil) and 6% (2016: 30%) in listed shares and mutual funds. Entire PIB holdings mature in December 2019. In the backdrop of increasing interest rates, quantum of PIB holdings and duration of the same, exposure to market risk is considered high. Given lower capital gains earned, impairment charges and dividend income, investment income amounted to Rs. 44.1m (2016: Rs. 73.9m). Going forward, in view of increasing interest rate scenario, focus is expected to remain on fixed rate instruments with short term maturities along with stable dividend yield stocks.

Capitalization and Liquidity
Financial leverage of UIL continues to depict a rising trend (2017: 176.0%; 2016: 164.4%; 2015: 130.9%) on account of higher outstanding premium payables and unearned income. Adjusting for sizeable reinsurance recoveries against outstanding claims, financial leverage stands at 71.3% (2016: 58.4%) at end-2017. Similarly, operating leverage increased to 90.0% (2016: 87.9%) and stands higher than peers as the company retained more business on net account. Leverage indicators (on adjusted basis) are not in line with benchmarks for the assigned rating. Going forward, continuation of prudent underwriting policies would be amongst the key rating drivers; ability to demonstrate a consistent and improving track record in underwriting performance and a strengthening trend in capital on both absolute and risk-adjusted basis will continue to be tracked by JCR-VIS.

After turning negative in 2016, cash inflow generated from operating activities improved to Rs. 186.6m (Negative Rs. 93.7m) in 2017 although quantum stands low vis-à-vis peers. Insurance debt increased to Rs. 1,058.8m (2016: Rs. 954.9m); in relation to gross premiums, the same declined to 38.4% (2016: 40.9%) and remained higher than rating benchmark. However, aging profile of insurance debt is considered satisfactory. Given the new regulations related to unpaid premium and ongoing collection efforts, insurance debt levels are projected to decline by end-2018. This is likely to have a positive impact on cash flows of the company.

Sponsor Profile and Governance
The assigned rating is underpinned by the sponsors' profile, with shareholding vested with Bestway (Holding) Limited, a multinational conglomerate operating in United Kingdom and Pakistan – and United Bank Limited (UBL), one of the largest banks in the country. In 2017, the Abu Dhabi Group completely divested its 12.2% stake in UIL to Bestway Cement Limited. Senior management comprises individuals with significant experience in the insurance industry; a key change in senior management was appointment of Mr. Zeeshan Muhammad Raza as acting Chief Executive Officer in place of Mr. Babar Mahmood Mirza who resigned in the outgoing year. A total of four committees exist at management level (Underwriting Committee, Claim Committee, Re-Insurance & Co-Insurance Committee and Risk Management & Compliance Committee).

UBL Insurers Limited — Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*		
BALANCE SHEET	**31-Dec-17**	**31-Dec-16**	**31-Dec-15**
Cash and Bank Deposits	86.0	30.5	77.8
Investments	863.7	785.3	864.0
Insurance Debt	1,058.8	954.9	596.7
Total Assets	4,179.1	3,536.6	2,665.4
Adjusted Shareholder's Equity	1,124.9	993.0	868.5
Total Liabilities	3,028.4	2,544.5	1,802.0
INCOME STATEMENT	**31-Dec-17**	**31-Dec-16**	**31-Dec-15**
Net Premium Revenue	1,012.2	872.9	534.6
Net Claims	420.0	452.9	203.8
Underwriting Profit	195.9	126.8	51.5
Net Investment Income	44.1	74.0	88.2
Profit Before Tax	247.4	196.3	147.1
Profit After Tax	167.0	136.6	99.5
RATIO ANALYSIS	**31-Dec-17**	**31-Dec-16**	**31-Dec-15**
Market Share (Gross Premium) (%)	3.9%	3.6%	2.6%
Cession Ratio (%)	52.3%	56.2%	60.1%
Gross Claims Ratio (%)	59.3%	82.4%	45.5%
Net Claims Ratio (%)	41.5%	51.9%	38.1%
Underwriting Expense Ratio (%)	40.2%	32.3%	52.2%
Combined Ratio (%)	81.7%	84.2%	90.4%
Net Operating Ratio (%)	77.4%	75.7%	77.3%
Insurance Debt to Gross Premium (%)	38.4%	40.9%	37.3%
Operating Leverage (%)	90.0%	87.9%	61.5%
Financial Leverage (%)	176.0%	164.4%	130.9%
Adjusted Liquid Assets to Technical Reserves (%)	43.4%	52.4%	82.9%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

JCR-VIS Credit Rating Company Limited

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: JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	UBL Insurers Limited
Sector	Insurance
Type of Relationship	Solicited
Purpose of Rating	Insurer Financial Strength
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: INSURER FINANCIAL STRENGTH				
8/20/2018	AA-		Stable	Reaffirm
5/29/2017	AA-		Stable	Upgrade
12/30/2016	A+		Stable	Reaffirmed
12/23/2015	A+		Stable	Reaffirmed
11/13/2014	A+		Stable	Upgrade