

RATING REPORT

UBL Insurers Limited

REPORT DATE:

October 01, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	AA	AA-
<i>Rating Date</i>	<i>September 27,2019</i>	<i>August 20, 2018</i>
Rating Outlook	Stable	Stable
<i>Outlook Date</i>	<i>September 27,2019</i>	<i>August 20, 2018</i>

COMPANY INFORMATION

Incorporated in 2006	External auditors: A.F Ferguson & Co.
Public Company	Chairman of the Board: Mr. Aameer Karachiwalla
Key Shareholders (with stake 10% or more):	Chief Executive Officer : Mr. Zeeshan Raza
Bestway (Holdings) Limited – 55.6%	
United Bank Limited – 30.0%	
Bestway Cement Limited – 12.2%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – General Insurance (Sep 2016)
<http://www.vis.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

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 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.

Profile of CFO

Nadeem Raza is Executive Vice President and Chief Financial Officer (CFO) at UBL Insurers Limited,

RATING RATIONALE

UBL Insurers Limited (UIL) is an unlisted public limited company, primarily involved in the general (non-life) insurance business, including window takaful operations. In 2018, in terms of gross premiums underwritten, UIL was ranked as the sixth largest non-life insurance company, with a market share of 4.4% (2017: 3.9%). In terms of takaful contributions underwritten, UIL registered a market share of 5.1% in 2018 (2017: 4.0%). UIL operates with a network of 19 branches, with half of these being situated in Karachi, while the remaining being situated in 8 other cities across Pakistan.

Sponsor Profile and Governance

The assigned ratings draw strength from the sponsor profile as major shareholding is vested with Bestway Holding Limited and United Bank Limited (UBL). Moreover, Corporate Governance infrastructure is aligned with best practices, given adequate Board level and Management level (sub) committees. There is also a strong control framework in place, which is further supported by Group level audits conducted by UBL annually.

Business Update

In 2018, UIL's business volumes showcased a growth rate of 22.8% having underwritten gross premium to the tune of Rs. 3.4b (2017: Rs. 2.8b). With growth surpassing the overall industry growth rate, UIL's market share improved from 3.9% to 4.4% for 2018. Business mix remained tilted towards Fire and Property (F&P) (31%) along with Motor (28%) and Health (16%) segments. Notable growth was witnessed in takaful operations, which clocked in at Rs. 439m in 2018 (2017: Rs. 248m). Contributions from related parties constituted 14% of the gross premiums underwritten (2017: 15%). With sizable contribution from, the relatively safer, F&P and Marine segments, the company's business mix compares favorably to peers.

Overall, the industry depicts significant room for growth, given a very low non-life insurance penetration to GDP at 0.24% (2017). Nevertheless, given expectations of an economic slowdown, we do expect a deceleration in new business generation. So far, we have not observed any lag in UIL's growth, wherein gross premiums underwritten were higher by 28% in H1'19; this can also be partly attributed to the significant depreciation in USD/PKR parity and the resultant cost-push inflation.

Underwriting Performance

UIL's underwriting performance was slightly adverse in 2018, vis-à-vis the preceding year, with gross claims ratio increasing to 64.6% (2017: 59.3%). The increase was precipitated by high claims incidences in both major segments i.e. F&P and Motor (F&P-2018: 65%, 2017: 47%; Motor- 2018: 65%, 2017: 60%). In line with industry trend, gross claims ratio remained the highest for the Health segment at 91.2%. On the contrary, marine and aviation segment exhibited significant improvement in terms of underwriting quality (post the one off large claim incurred in 2017) as gross claims for this segment was recorded at 51.2% in 2018 (2017: 95.7%). A reduction in related party gross claims ratio was also observed (2018: 75.6%; 2017: 81.0%).

Profitability

Profitability metrics have remained stable, with combined ratio trending around ~81% during 2017-18. Mainly attributable to a favorable claims performance in the Motor segment, the net claims ratio slightly dropped from 41.5% to 40.2%. On the contrary, the expense ratio remained relatively stable (2018: 40.5%; 2017: 40.2%). UIL's combined ratio remains compliant with VIS benchmarks, and

managing the financial strategies and operations of the Company. He is committed to maximizing long-term shareholder value, ensuring a balanced portfolio of growth initiatives and maintaining the high level of integrity and transparency for which UBL Insurers is known.

Nadeem joined UBL Insurers in 2007 as Financial Controller of the Company. Prior to his appointment in UBL Insurers, he worked at Managerial level managing the budget and investment of New Hampshire Insurance.

During his 24 years' experience, he held other Managerial roles in different multinational companies including Singer Pakistan Limited. He has extensive experience in all aspects of financial management, including financial accounting, revenue cycle and budget operations, business planning, external financing, tax issues, capital planning and long-term financial forecasting of the company.

Nadeem has more than 17 years of diverse experience and in-depth expertise in the Insurance industry. He has earned a Master in Business Administration in the field of Finance and is also a Fellow Member of Institute of Corporate Secretaries of Pakistan.

compares favorably to peers. The net operating ratio, which takes into account investment returns, has remained range bound (2018: 76.6%; 2017: 77.4%).

Partly attributable to the volumetric growth in gross premiums and assisted by lower cession, the underwriting profit, in absolute terms, was higher by 18% at Rs. 378.7m (2017: Rs. 320.9m).

Reinsurance

Peak Re, which is rated 'A-' by international rating agencies, replaced SCOR as one of the reinsurers in 2018. The reinsurance panel of the company is considered sound, with all of the reinsurers having a rating in 'A' band or above (except Arab Re, which has a small proportion, i.e. 2.5%, in Fire & Engineering segments). In addition to the quota share / surplus treaties for each segment, the company has also arranged XoL treaties for all segments, which further reduce the net risk retention to much acceptable level.

On a YoY basis, an increase in internal retention has been noted in the treaty terms, as a result of which overall cession ratio has trended down (2018: 49.2%; 2017: 52.3%).

Investment Portfolio

The investment book of UIL comprises 17.9% (Dec'18: 18.1%; Dec'17: 20.5%) of the total asset base as of Jun'19. The portfolio is mainly composed of sovereign debt securities (54%) and term deposits (42%), while exposure to the equities market is very limited at 4% of the portfolio and a mere 0.8% of the asset base. Market risk emanating from the portfolio is considered limited, with the portfolio mainly comprising short term instruments. In view of the strong fixed income tilt of the portfolio, the investment strategy is considered conservative.

Capitalization and Liquidity

Financial leverage of UIL, adjusted for reinsurance recoveries against outstanding claims, stood slightly higher during the outgoing year (2018: 74.0%; 2017: 71.3%). Whilst operating leverage was recorded fairly higher at end-2018 (2018: 100.8%; 2017: 90.0%). Both leverage indicators are aligned with the peer median. Going forward, in view of the prevailing macroeconomic slowdown, which is expected to impact the growth in UIL's premiums, we expect leverage indicators to persist, wholly on the back of internal capital generation. However, the mandatory implementation of IFRS 17, will certainly impact the capitalization metrics of the company and the industry at large; this is planned to be implemented by FY21.

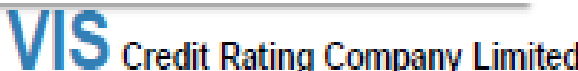
The liquidity indicators, i.e. operating cash flow to net premium revenue and insurance debt to gross premium revenue, lag VIS benchmarks. The insurance debt has risen on a timeline, in absolute terms, albeit as a percentage of gross premiums, it has largely remained at a similar level. Comfort is derived from the aging profile of insurance debt, wherein more than 70% of the same is outstanding for a period of less than 6 months. Furthermore the company has maintained an adequate buffer of solvency margin (2018: Rs. 450.5m; 2017: Rs. 383.5m) against the regulatory requirement of Rs. 150m.

UBL Insurers Limited
Appendix I

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	31-Dec-17	31-Dec-18	30-Jun-19
Cash and Bank Deposits	86.0	140.7	161.4
Investments	863.7	872	870.7
Insurance Debt	1,096.8	1,315.0	1,240.5
Total Assets	4,217.0	4,807.1	4,861.3
Adjusted Shareholder's Equity	1,151.0	1,401.1	1,492.7
Total Liabilities	3,066.3	3,406.0	3,368.6
<u>INCOME STATEMENT</u>	31-Dec-17	31-Dec-18	30-Jun-19
Net Premium Revenue	1,012.2	1,412.4	817.1
Net Claims	420.0	568.3	319.8
Underwriting Profit	195.9	279.4	133.4
Net Investment Income	44.1	60.6	33.4
Profit Before Tax	247.4	365.0	190.6
Profit After Tax	167.0	259.6	142.2
<u>RATIO ANALYSIS</u>	31-Dec-17	31-Dec-18	30-Jun-19
Market Share (Gross Premium) (%)	3.9%	4.4%	N/A
Cession Ratio (%)	52.3%	49.2%	56.8%
Gross Claims Ratio (%)	59.3%	64.6%	50.3%
Net Claims Ratio (%)	41.5%	40.2%	39.2%
Underwriting Expense Ratio (%)	40.2%	40.7%	67.8%
Combined Ratio (%)	81.7%	80.9%	107.0%
Net Operating Ratio (%)	77.4%	76.6%	102.9%
Insurance Debt to Gross Premium (%)	39.7%	38.8%	34.6%
Operating Leverage (%)	87.9%	100.8%	109.5%
Financial Leverage (%)	69.7%	74.0%	79.6%
Adjusted Liquid Assets to Technical Reserves (%)	43.4%	45.3%	43.9%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix 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	UBL Insurers Limited				
Sector	Insurance				
Type of Relationship	Solicited				
Purpose of Rating	Insurer Financial Strength				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: INSURER FINANCIAL STRENGTH</u>				
	9/27/2019	AA		Stable	Upgrade
	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
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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