

RATING REPORT

UBL Insurers Limited

REPORT DATE:

November 17, 2020

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>November 17, 2020</i>	<i>September 27, 2019</i>
Rating Outlook	Stable	Stable

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

RATING RATIONALE

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

UBL Insurers Limited (UIL) has been operating for more than a decade in general (non-life) insurance segment (including window takaful operations) and has an established franchise in the local market. The company has maintained its position as sixth largest insurance company post 2016 while the market share (excluding NICL) stood at 4.8% (2018: 4.4%) in terms of gross premiums written. In terms of takaful contributions underwritten, market share stood at 4.8% (2018: 5.1%). The company has a network of 21 branches across the country, with its head office in Karachi. Moreover, 2 branches are being added in the network in the ongoing year.

Key Rating Drivers

Strong sponsor profile and corporate governance framework

Assigned ratings continue to draw comfort from strong sponsor profile with the ownership jointly shared by United Bank Limited (UBL) and Bank's sponsors, the Bestway Group. Corporate governance infrastructure is adequate given satisfactory board oversight and functioning board and management level committees. Recently, UIL has also formed an in house risk management committee. Control framework is supported by group level annual audits conducted by UBL.

Despite challenging macroeconomic environment insurance industry grew by ~9% (in terms of gross premium underwritten). Overall industry depicts significant room for growth, given a very low non-life insurance penetration to GDP.

Gross premiums/ takaful contributions underwritten by industry grew by 10% in 2019 while the penetration of non-life insurance (0.2% of GDP) continues to lag the regional counterparts. Amidst double digit inflation (2019: 12.6%), the industry's underwriting expense ratio increased while a slight uptick was also noted in net claims ratio. Nevertheless, industry's investment income grew by almost a fifth which supported net operating ratio. The sector's operating leverage remains around ~50% which is considered to be on the lower side. Going forward, there are plans to implement IFRS 17 across the industry which will require additional provisioning. The implementation is scheduled for January 2022.

Industry Data (Source: IAP)	2018	2019
Insurance Premium -Gross	77.0	83.7
Takaful Contributions - Gross	8.6	11
Industry Total - Gross	85.7	94.6
Combined Ratio	86.3%	89.1%
- Net Claims Ratio	50.5%	51.7%
- Underwriting Expense Ratio	35.8%	37.4%
Net Operating Ratio	71.6%	72.5%
RoAA	4.3%	4.7%
RoAE	9.8%	10.5%
Operating Leverage	50.7%	49.6%

Measured impact of Covid-19 outbreak on insurance industry

The outbreak had an impact on a wide variety of sectors which variably weighs down on the insurance industry. However, with insurance penetration to GDP already being too low and

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

bulk of the policies representing repeat policy issuances, impact on Property and Miscellaneous Business is expected to be limited but the Marine (due to reduced international trade) and Motor Business (lower auto sales in 2Q'20) are likely to show downward trend. Moreover, overall impact on a full year basis remains dependent on the breadth of pandemic.

Business volumes have depicted healthy double-digit growth over the past five years. However, new business generation has been a challenge in the ongoing year given the slowdown in economic activity due to Covid-19 outbreak.

In 2019, gross premiums written (GPW) amounted to Rs. 3.9b (2018: Rs. 3.4b), registering a growth of ~18% vis-à-vis ~9% industry growth. Fire & property and motor segment have remained the key growth drivers and continue to contribute more than three-fifth of topline. As per management, impact of coronavirus has been measured; however, new business generation was a challenge. As a result, GPW witnessed no growth and stood at similar level in HY20 vis-à-vis corresponding period last year.

Business Mix (Rs. in m)	2018	2019	HY20
Fire and property damage	31.3%	38.2%	34.5%
Marine, aviation and transport	8.6%	8.5%	7.1%
Motor	27.9%	24.4%	23.5%
Bankers Blanket	4.5%	3.4%	5.8%
Health	16.3%	13.3%	13.7%
Miscellaneous	11.5%	12.1%	15.4%
Gross Premium Written (GPW)	3,391.3	3,988.7	1,886.6

Business generated from related parties has declined considerably in proportional terms on a timeline basis, representing 7% of GPW (2018: 14%). Contribution from takaful operations grew by ~19% in 2019; nevertheless, UIIL's market share in takaful segment remains low.

In line with industry trend, combined ratio depicted weakening in the ongoing year

Claims, on both gross and net basis, depicted a favorable trend in 2019; however, the same has weakened during the ongoing year in line with the industry trends. The weakening in HY20 was primarily due to high claims in health (as testing for covid-19 was covered) and one-off large claim in fire segment. Moreover, as the recent monsoon rains caused flooding and damaged vehicles on roads, motor claim ratio may depict increase on a full year basis in 2020.

Segment-wise Gross Claims	2018	2019	HY20
Fire and property damage	65.2%	58.2%	60.6%
Marine, aviation and transport	51.2%	41.8%	39.2%
Motor	64.7%	51.2%	57.3%
Bankers Blanket	18.6%	41.8%	69.3%
Health	91.2%	87.3%	118.6%
Miscellaneous	59.7%	52.1%	26.1%
Gross Claims Ratio	64.6%	58.4%	61.3%
Net Claims Ratio	40.2%	36.5%	46.2%

Amidst double-digit inflation during the year, underwriting expense ratio trended upwards to 47% (2019: 45% 2018: 41%) in HY20. Given the uptick in both net claims and underwriting expense ratio, underwriting profit for HY20 was notably lower. This has also been reflected in the combined ratio which increased to 93.2% (2019: 81.7% 2018: 80.2%).

Present reinsurance arrangement and capacity levels are sufficient for the business

base. Management has no plans to enhance the capacities in the short term.

Reinsurance panel of the company is considered sound with all reinsurers being rated ‘A-’ or higher (except Arab Re which has a small proportion of 2.5% in Fire & Engineering, General Accident and Marine segment) rating on the international scale. Hannover Re remains the lead reinsurer in major segments, barring special capacity (fire & engineering) which is covered solely by Lauban Re. In addition to quota share / surplus treaties for each segment, UIL has XoL treaties in place for all segments which reduce the net risk retention to much acceptable level.

Qianhai Re. China and Qatar General/Oman Re, rated ‘A-’ and ‘A’ respectively by international rating agencies were added in reinsurance panel in the outgoing year replacing Peak Re as one of the reinsurers. Cession ratio of the company was reported at 53.4% (2018: 49.2%) in 2019. Retention and treaty capacities have largely remained around prior year level and are expected to remain in similar ranges going forward.

Investment strategy is conservative.

Investment avenues of the company include Listed Equities, Government Securities (T-Bills & PIBs), Term Finance Certificates, Sukuk and Term Deposits. The portfolio during the outgoing year witnessed diversification with new investments

Investment Mix (Rs. in m)	2018	2019	HY20
Treasury Bills	9%	37%	31%
Pakistan Investment Bonds	54%	29%	22%
Term Finance Certificates/Corporate Sukuk	-	11%	12%
Listed Equities	6%	5%	3%
Term Deposit Receipts	31%	18%	32%
Total	872.1	827.4	1,110.4

being made in TFCs/Sukuk and increase in exposure towards T-bills. Investment strategy is considered conservative given strong fixed income tilt of the portfolio while the investments mainly comprising short term/floating rate instruments support liquidity and limit market risk.

Leverage indicators have depicted improvement.

In 2019, financial leverage (adjusted for reinsurance recoveries against outstanding claims) exhibited considerable improvement and was reported at 60% (2018: 74%) while operating leverage has increased given the growth in business base (2019: 106.2%; 2018: 100.8%; 2017: 90.0%). Nevertheless, both leverage indicators are aligned with peer median. Going forward, mandatory implementation of IFRS 17 (as planned to be implemented by FY21) would impact the overall capitalization metrics.

Liquidity profile is satisfactory but has room for improvement.

Liquidity indicators i.e. operating cash flow to net premium revenue and insurance debt to gross premium revenue lag VIS

Liquidity Indicators	2018	2019	1H'20
Liquid Assets/ Technical Reserves	45.3%	47.6%	48.8%
Operating CF to Net Premium	7.3%	15.2%	18.6%

benchmarks. Insurance debt (in absolute terms) has increased significantly on a timeline basis; however, the same as a percentage of gross premiums has remained range bound (HY20: 38.2%; 2019: 37.8%; 2018: 38.8%). Nonetheless, comfort is derived from the aging profile of insurance debt with only about a tenth of the insurance debts outstanding for a

period greater than 1 year. Moreover, UIL has maintained an adequate buffer of solvency margin (2019: Rs. 702.7; Rs. 2018: Rs. 450.5m).

UBL Insurers Limited
Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	31-Dec-18	31-Dec-19	30-Jun-20
Cash and Bank Deposits	140.7	360.4	180.1
Investments	872.1	827.4	1,110.4
Insurance Debt	1,315.0	1,507.5	1,441.2
Total Assets	4,807.1	5,754.8	5,810.9
Paid up Capital	1,152.2	1,152.2	1,152.2
Adjusted Shareholder's Equity	1,401.1	1,665.9	1,704.4
Total Liabilities	3,406.0	4,088.8	4,106.5
INCOME STATEMENT			
Net Premium Revenue	1,412.4	1,769.9	853.6
Net Claims	568.3	646.8	394.6
Underwriting Profit	279.4	323.4	57.8
Net Investment Income	60.6	79.7	52.8
Profit Before Tax	365.0	448.6	141.6
Profit After Tax	259.6	307.9	100.6
RATIO ANALYSIS			
Market Share (Gross Premium) (%)	4.4%	4.8%	4.9%
Cession Ratio (%)	49.2%	53.4%	57.5%
Gross Claims Ratio (%)	64.6%	58.4%	61.3%
Net Claims Ratio (%)	40.2%	36.5%	46.2%
Underwriting Expense Ratio (%)	40.7%	45.2%	46.9%
Combined Ratio (%)	80.2%	81.7%	93.2%
Net Operating Ratio (%)	76.6%	77.2%	87.0%
Insurance Debt to Gross Premium (%)	38.8%	37.8%	38.2%
Operating Leverage (%)	100.8%	106.2%	100.2%
Financial Leverage (%)	74.0%	60.4%	65.2%
Adjusted Liquid Assets to Net Technical Reserves (%)	45.3%	47.6%	48.8%

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.

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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
	RATING TYPE: INSURER FINANCIAL STRENGTH				
	11/17/2020	AA	-	Stable	Reaffirmed
	9/27/2019	AA	-	Stable	Upgrade
	8/20/2018	AA-	-	Stable	Reaffirmed
	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.				
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 Meeting Conducted	Name	Designation	Date		
	Mr. Nadeem Raza	CFO	October 22, 2020		
	Mr. Ashfaq Sharif	Head of Reinsurance			