

RATING REPORT

UBL Insurers Limited

REPORT DATE:

December 28, 2021

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>December 28, 2021</i>	<i>November 17, 2020</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 Muhammad 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, November 2019

<https://docs.vis.com.pk/docs/Meth-GenInsurance201911.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.

UBL Insurers Limited ('UIL' or 'the Company') 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 offering conventional insurance products as well as takaful products through Window Takaful Operations (WTO). The Company is the 7th largest private insurance company in the country, holding a market share (incl. of WTO) of 4.5% (2019: 4.8%) as of 2020. As of Sep'21, the Company was operating through a network of 25 branches across the country, with its head office in Karachi.

Insurance Sector Update

- The gross premiums/ takaful contributions underwritten by the industry grew by 8% in 2020, as data published by Insurance Association of Pakistan.
- Growth in insurance industry premiums receded to 8% in 2020 vis-à-vis 10% in the preceding year. Historically, growth in the insurance premiums has been reported at more than 2x of the GDP growth. However, in last 5 year period, this has dropped. Future industry growth is likely to pick pace as the ruling government enters its final 2 years, wherein historically it has been noted that infrastructure projects are ramped up. Nevertheless, industry experts remain conservative in their projections, maintaining the same within the single digit domain and close to the GDP growth projection of ~5%.
- As a result, non-life insurance penetration, estimated at ~0.2%, remains notably lower than regional peers.
- Given the meagre growth in premiums, the industry's combined ratio posted an uptick, which was driven by an uptick in both net claims and expense ratios.
- The investment performance remained strong during the period, with overall investment income posting an uptick of 13%.
- The sector's operating leverage remains around ~50%, which is considered to be on the lower side and there is certainly room for additional insurance penetration in the domestic market.
- Overall capitalization & liquidity buffers in place are considered to be adequate. Industry capitalization & liquidity are expected to persist.
- The implementation of IFRS 17 has been further postponed to January 1' 2023. The SECP has issued instructions of phase-wise implementation of IFRS 17, as per which the insurance companies have been instructed to submit a gap analysis with SECP by end-September'2021. So far, an estimate of related provisioning impact on the industry is yet to be ascertained.

Table 1: Insurance Industry Financial Indicators (Source: IAP)

(Rs. in Billions)	2019	2020
Insurance Premium (Gross)	83.7	89.6
Takaful Contributions (Gross)	11.0	12.6
Industry Total (Gross)	94.6	102.3
Combined Ratio	89.1%	95.3%
- Net Claims Ratio	51.7%	54.8%
- Underwriting Expense Ratio	37.4%	40.5%
Net Operating Ratio	72.5%	78.6%
RoAA	4.7%	4.4%
RoAE	10.5%	10.1%
Operating Leverage	49.6%	52.5%

Profile of CFO

Nadeem Raza 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

Key Rating Drivers

Ratings incorporate UIL's Sponsor Profile

Assigned ratings continue to draw comfort from strong sponsor profile with the ownership jointly shared by United Bank Limited (UBL) and UBL's main sponsor, the Bestway Group. UBL is the 2nd largest private sector bank in the country, holding deposit market share of 8% (Mar'21) and an outstanding rating of 'AAA/A-1+' from VIS.

Ratings incorporate UIL's Market Positioning

- UIL's gross underwriting (including WTO) increased by 2.1% in 2020, lagging private industry growth of 8% and resulting in market share attrition from 4.8% in 2019 to 4.5% in 2020. The trend is mainly attributable to a sizable aviation sector client moving to private sector, which was underwritten by a single company. As a result, the industry posted growth, despite most of the insurers posting flat growth and losing market share.
- Growth in underwriting operations in ongoing year (9M21) has also remained relatively weak at ~6%, albeit the management projects strong growth in Q4'2021, which should allow them to recoup market positioning.
- As per management, growth in underwriting was intentionally kept low, in order to improve underwriting results, which had slipped into losses in recent years. The management is confident of regaining its market share in 2022. VIS will continue to monitor the Company's market positioning on an ongoing basis.
- In term of lines of business, we have not noted any significant change, as illustrated in the table.

	2019	2020	9M'21
Fire & Property Damage	36.2%	34.9%	39.5%
Marine, Aviation & Transport	8.2%	8.5%	10.2%
Motor	29.4%	28.3%	28.5%
Bankers Blanket	3.4%	3.7%	3.0%
Health	11.8%	12.1%	8.3%
Miscellaneous	11.1%	12.6%	10.6%
Gross Premium Written (incl. WTO)	4,511	4,605	3,790

Ratings incorporate Reinsurance Panel of UIL

- 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 reduces the net risk retention to much acceptable level.

Ratings incorporate underwriting quality of UIL; adverse movement in loss ratios has been noted; VIS will continue to monitor projected improvement in profitability metrics given measures taken by the management

- UIL's gross claims performance was adverse in 2020, as indicated by an uptick in gross claims ratio, which remained high in 9M'21 (9M'21: 62.3%; 2020: 63.3%; 2019: 57.8%).\

Institute of Corporate Secretaries of Pakistan.

- The adverse movement in gross claims ratio has affected UIL's (net) profitability metrics. As illustrated in the table below, the underwriting operations posted a breakeven in 2020, vis-à-vis Rs. 374m profit in 2019.

	2019	2020	9M'21
Combined Ratio	82.1%	100.1%	97.5%
- Net Claims Ratio	37.7%	58.6%	53.9%
- Net Acquisition Cost	9.9%	6.2%	9.7%
- Underwriting Expense Ratio	34.4%	35.3%	33.9%
Net Operating Ratio	75.0%	92.0%	90.3%

- Cognizant of the impact on UIL's profitability, underwriting quality guidelines have been revised, which include lower exposure to textile sector, attrition of major client in the Motor segment, which had higher loss ratio. Furthermore, net sum assured in health segment has been capped at 80% of premium. These measures taken by the management, should allow the Company to post improvement in combined ratio in 2022.
- Measured growth was noted in investment income, which amounted to Rs. 176m in 2020 vis-à-vis Rs. 148m in 2019. Quantum of investment income remained stable in 9M21 in contrast to SPLY. In absence any major growth in investment income, net operating ratio has increased in tandem with the uptick in combined ratio.

Ratings incorporate financial risk profile of UIL

	Dec'19	Dec'20	Sep'21
Liquid Assets/ (net) Technical Reserves	119.3%	103.3%	104.2%
Operating Leverage	125.2%	130.1%	130.0%*
Financial Leverage	59.8%	74.3%	74.9%

- The operating leverage remains on the higher side, while financial leverage has also trended up on a timeline. Cognizant of this, the management will lower the payout ratio going forward to build capitalization buffer.
- Liquidity indicators remain adequate, given sizable coverage of (net) technical reserves, as illustrated in the table above.

Ratings incorporate Market & Credit Risk Exposures

- As of Sep'21, UIL was maintaining investment portfolio of Rs. 1.2b, majority (93%) of which is composed of debt instruments. In anticipation of policy rate increase, the portfolio depicts a higher tilt towards shorter maturity T-Bills. Resultantly portfolio duration has decreased on a timeline and so has the exposure to market risk. Exposure to equity market is lower side, at only 2.5% of the portfolio.
- Exposure to credit risk mainly arises from insurance/takaful receivables of Rs. 2.2b as of Sep'21; these amounted to 43% of the annualized gross premium underwritten in 9M'21, falling from 56% as of Dec' 20, albeit standing higher from 36% as of last review on Dec'19.

UBL Insurers Limited
Appendix I

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>		Dec'19	Dec'20	Sep'21
Cash and Bank Deposits		360.4	214.3	202.7
Investments		827.4	1,067.1	1,150.5
Insurance Debt (incl. WTO)		1,663.1	1,995.1	2,161.1
Total Assets		5,754.8	5,866.5	6,545.9
Paid up Capital		1,152.2	1,152.2	1,152.2
Shareholder's Equity		1,665.9	1,670.3	1,733.6
Total Liabilities		4,088.8	4,196.2	4,812.3
<u>INCOME STATEMENT</u>		2019	2020	9M'21
Net Premium Revenue (incl. WTO)		2,085.2	2,172.2	1,695.0
Net Claims (incl. WTO)		786.7	1,273.3	913.4
Underwriting Profit (incl. WTO)		374.0	(1.2)	41.6
Net Investment Income (incl. WTO)		147.6	175.7	123.1
Profit Before Tax		448.6	93.5	85.1
Profit After Tax		307.9	67.1	57.7
<u>RATIO ANALYSIS</u>		Dec'19	Dec'20	Sep'21
Market Share (GP) (%) (incl. WTO)		4.8%	4.5%	N/A
Cession Ratio (%) (incl. WTO)		51.1%	52.8%	46.2%
Gross Claims Ratio (%) (incl. WTO)		57.8%	63.3%	62.3%
Net Claims Ratio (%) (incl. WTO)		37.7%	58.6%	53.9%
Underwriting Expense Ratio (%) (incl. WTO)		44.3%	41.4%	43.7%
Combined Ratio (%) (incl. WTO)		82.1%	100.1%	97.5%
Net Operating Ratio (%) (incl. WTO)		75.0%	92.0%	90.3%
Insurance Debt to Gross Premium (%)		36.1%	55.9%	42.9%*
Operating Leverage (%)		125.2%	130.1%	130.0%*
Financial Leverage (%)		59.8%	74.3%	74.9%
Adjusted Liquid Assets to Net Technical Reserves (%)		119.3%	103.3%	104.2%
* Annualized				

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: 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
	RATING TYPE: INSURER FINANCIAL STRENGTH				
	12/28/2021	AA	-	Stable	Reaffirmed
	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		December 2, 2021	
	Mr. Rashid Jameel Khan	Head of Operations			