RATING REPORT

UBL Insurers Limited

REPORT DATE:
December 19, 2023

RATING ANALYSTS:

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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
IFS	AA+	AA+
Rating Date	*December 19, 2023*	*December 29, 2022*
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION	
Incorporated in 2006	**External auditors:** EY Ford Rhodes
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, October 2023
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

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 President of Khushhali Microfinance Bank Limited.

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

RATING RATIONALE

UBL Insurers Limited ('UIL' or 'the Company') has been operating for more than a decade in the general (non-life) insurance segment and has an established franchise in the local market, offering conventional insurance products as well as takaful products through Window Takaful Operations (WTO). The assigned rating derives strength from the sponsorship backing of UBL, the third largest private commercial bank in Pakistan, and the Bestway Group having business interests in commercial banking and cement sector in Pakistan along with wholesale, pharmacy and real estate sectors in the UK. The ratings also reflect the Company's positioning as the fifth largest general insurance company in the industry with a market share of 4.9% at end-June'23 (CY22: 4.3%, CY21: 4.2%). The business risk profile of the insurance industry is currently elevated owing to projected slowdown in the domestic economic activity due to high interest rates, rupee devaluation, heightened inflation levels, destruction caused by floods coupled with expected rate hardening by international reinsures. However, the topline augmented during the rating review period, driven largely by inflation adjustments to premium prices. The Company's cautious underwriting approach resulted in slight improvement in loss ratios over the rating review period which were comparatively better than industry benchmarks. However, underwriting losses were registered in the outgoing year, largely on account of higher underwriting expense ratio due to a one-time provisioning of claim receivable from the local reinsurer. The overall risk profile is further supported by sound reinsurance arrangements with reputed international reinsurers. The ratings reflect comfortable liquidity position as depicted by improvement in liquid assets relative to net technical reserves and insurance debt relative to gross premium. Underpinned by growth in equity base, the operating leverage also improved during the review period. On the other hand, despite increase in financial leverage, the leverage indicators remain adequate for the assigned ratings. Moreover, the aging of claims is healthy with no claim overdue for more than year at end of the outgoing year. Going forward, the rating remains sensitive to the Company's ability to uplift its profitability metrics, particularly underwriting performance, amidst the challenging business environment.

Insurance Sector Update

Global Perspective

Despite building macroeconomic challenges, the insurance industry continued to grow in FY22, both globally and in Pakistan. Global insurance industry faced repricing of risks due to macroeconomic stresses and natural catastrophes with economic losses from natural disasters recorded higher in FY22; however insured losses covered 45% of these damages amounting to USD 125 billion. In addition, claims increased as high inflation increased the cost of repairing buildings, motor vehicles and other fixed assets that are usually covered by insurance. This led to continued rise in premium rates to cover the expenses. However, elevated interest rates augmented the investment income for insurers across the globe.

Local Perspective

Pakistan's insurance industry posted growth despite weak macroeconomic situation in CY22 with continued dominance of Life Insurance & Family Takaful segments in terms of assets and gross premiums. Gross premiums increased from Rs. 417.2 billion in CY21 to Rs. 531.7 billion in CY22 with Life & Family Takaful segment, and Non-Life & General Takaful segments posting increases of Rs. 81.9 billion and Rs. 29.4 billion respectively. Moreover, the industry's asset base grew by 14.8% in CY22 to Rs. 2,459.9 billion particularly on the back of significant growth in the Life Insurance segment. In addition, despite building macroeconomic pressures characterized by dwindling foreign reserves, stabilization measures, slowdown in economic activity, etc. along with catastrophic floods affecting one-third of the country during the year under review, all segments of the industry continued to expand. This was the result of a combination of general factors affecting the whole insurance industry such as

Nadeem Raza is Senior 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.

inflation leading to a rise in premium rates and idiosyncratic factors pertaining to all segments. The growth in Life Insurance segment was an outcome of the implementation of the government's health insurance programs carried out by State Life; the same increased health coverage to the low and middle-income strata of society. However, the claims ratio for the sector witnessed an increase due to a rise in group claims and higher surrender claims by individuals. Nevertheless, since life insurers maintain most of their investments in government securities due to lackluster performance of capital market, the resulting higher investment income boosted their profitability due to hike in interest rates. In non-life insurance sector, motor premiums drove the growth in net premiums as the cost of motor vehicles increased drastically during the outgoing year. However, torrential rains and flooding, some major fire incidents, and higher cost of repairing fixed assets contributed to the increase in claims. Accordingly, financial performance indicators for the non-life sector slightly weakened on a timeline. Further, the industry's combined ratio increased in CY22, which was driven by a spike in both net claims and expense ratios. With the increase in combined ratio, insurers are expected to reprice their products in the ongoing year. Going forward, due to the prevailing slowdown in economic activity and stressed macro financial conditions, the growth trajectory in non-life premiums is expected to be uncertain while the growth in the life sector will continue to largely depend on traction in the health insurance programs. Moreover, the SECP has issued instructions of phase wise implementation of IFRS 17. The implementation is expected to translate in sizable provisioning burden for the industry; however, the actual impact of the same on industry capitalization is yet to be ascertained. The SECP has issued the deadline of 1st January, 2026 to complete the implementation of IFRS 17.

Future Outlook

Globally, it is expected that there will be premium rate hardening in CY23 in response to the high inflation, geopolitical tensions, natural catastrophes and financial market losses of CY22. These global insurance developments will lead to increases in reinsurance rates offered by international re/insurers which coupled with the exchange rate depreciation, may lead to increase in reinsurance expense for insurers in EMDEs, particularly non-life insurers that have extensive reinsurance arrangements with international reinsurers. The rate hardening along with the elevated policy rate is expected to influence insurers' financial performance in the near term. Global premiums are expected to grow at 2.1% in real terms on average in 2023. Given that non-life insurance is correlated with economic growth and the latest data indicates that Pakistan's economy will significantly slowdown in 2023, accordingly the growth trajectory of non-life premiums in Pakistan could also face pressures. Moreover, if inflation remains elevated, then there could be further rate hardening leading to an uncertain growth trajectory for non-life premiums. Furthermore, in the backdrop of high interest rates, non-life insurers may also consider recalibrating their investment portfolios in order to pad the bottom-line. Life insurance business, with a longer time horizon, is expected to remain relatively immune to the prevailing macroeconomic pressures. The growth in this sector is now partially dependent on the continuity of the government's health insurance programs.

Source: Financial Stability Review – 2022 | State Bank of Pakistan

Key Rating Drivers

Business Update

UIL offers a comprehensive set of insurance covers for fire and property damage, marine, aviation and transport, motor, health, and other miscellaneous risks. The Company has a branch network of 32 locations across the country; no new branches were introduced over the rating review period. The overall business mix is dominated largely by the fire and property segment, which has expanded on a timeline basis, constituting about half of GWP during 1HCY23. This is followed by the motor segment, which, on the other hand, depicted a notable decline in the business mix owing to drop in demand for motor vehicles given unprecedented increase in prices and reduction in car leasing in line with policy rate hikes. The overall GWP augmented by 40.2% during 1HCY23 to Rs. 3.7b (CY22: Rs. 5.2b, CY21: Rs. 4.1b); however, the same was driven primarily by upward revision in premium prices owing to impact of dollar appreciation and inflationary pressure on sum insured valuation rather than notable expansion of client base. Nonetheless, the Company's market share was recorded higher at 4.9% (CY22: 4.3%, CY21: 4.2%) during 1HCY23. As per management, the Company dropped several clients within the textile sector over the rating review period owing to the high loss ratios in the industry on account of floods. Going forward, the management aims to continue its cautious underwriting approach and projects GWP to reach Rs. 8b (including WTO) by end-CY23. Given that the topline amounted to Rs. 6.4b (including WTO) by end-Sept'23, the aforementioned target is considered achievable particularly keeping in mind the inherent cyclicality in policy renewals. Breakdown of business mix can be seen below:

Business Mix (Conventional)	CY20	CY21	CY22	1HCY23
Fire and property damage	36.6%	40.7%	44.5%	52.1%
Marine, aviation and transport	8.5%	11.0%	10.2%	7.5%
Motor	23.8%	25.5%	20.7%	16.4%
Bankers Blanket	3.5%	2.7%	2.0%	2.8%
Health	13.8%	8.1%	11.2%	8.5%
Miscellaneous	13.9%	12.0%	11.5%	12.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The overall cession ratio witnessed a decline to 53% during 1HCY23 (CY22: 59%, CY21: 56%) with greater retention levels exhibited across all segments except for health with an increase in the Company's retention in proportional treaties. However, cession was recorded higher in A&H owing to the inherently high loss ratios in the segment. With reduction in cession, the management aims to book higher net premium revenue to boost profitability indicators.

On the Window Takaful Operations (WTO) front, the Company registered gross and net contributions of Rs. 465.5m and Rs. 140.3m, respectively, during 1HCY23 (CY22: Rs. 890.2m, Rs. 482.7m; CY21: Rs. 653.2m, Rs. 361.4m). The business mix remained dominated by the motor segment, comprising more than two-thirds of gross contributions, followed by the fire & property segment. The Participant's Takaful Fund reported a surplus of Rs. 90.6m during 1HCY23 (CY22: Rs. 81.1m, CY21: Rs. 100.7m); however, this growth is attributable largely to uptick in investment income which offset net claims emanating largely from the motor segment. Going forward, expansion of the WTO business is expected to be restricted owing to the limited availability of reinsurance coverages and competitive shariah-compliant investment avenues.

Claims Experience

The Company reported an increase in gross claims to Rs. 3.2b during CY22 (CY21: Rs. 2.4b), attributable largely to the miscellaneous segment. Gross claims in the motor segment also depicted an increase in line with significant price inflation of motor vehicles given there is significant lag in premium adjustments of existing policies. In addition, several in-transit losses in the marine segment further added to claim payouts. However, owing to the Company's cautious underwriting approach, gross claims in the fire & property and health segments witnessed a decline on a timeline during the rating review period. On the flipside, the Company's net claims expense decreased to Rs. 892.6m (CY21: Rs. 959.1m) owing to increase in average claim cost particularly in the motor segment entailing largely excess of loss (XoL) treaties leading to low claim retention on Company's net account. Moreover, the increase in average claim cost in the marine segment also resulted in lower transition of gross claims to net claims during FY22 owing to procurement of surplus treaty over and above quota share. Furthermore, no major losses were booked during the ongoing year which helped moderate overall claims ratios on both gross and net basis. In comparison to industry benchmarks (conventional only), the Company's net claims performance compared favorably over the rating review period, standing at 52% during 1HCY23 (CY22: 49%, CY21: 53%) compared to the industry's 56.6% (CY22: 55.6%, CY21: 48.6%). Breakdown of net claims ratio by segment can be seen below:

Net Claims Ratio (Conventional)	CY21	CY22	1HCY23
Fire and property damage	29.8%	39.2%	37.6%
Marine, aviation and transport	15.4%	24.3%	20.9%

Motor	43.3%	58.3%	56.1%
Bankers Blanket	238.6%	93.9%	344.4%
Health	97.9%	28.7%	88.5%
Miscellaneous	70.4%	80.8%	35.4%
Total Net Claims Ratio	**53.5%**	**48.5%**	**52.0%**

Underwriting Performance

UIL posted underwriting losses during the outgoing year despite lower net claims ratio on account of notable increase in the expense ratio to 57.1% (CY21: 49.3%) in line with higher management expenses; the same is a mainly a result of a one-time bad-debt provisioning charge on a reinsurance claim receivable from the local reinsurer amounting to Rs. 128.8m. Consequently, the overall combined ratio increased to 105.6% (CY21: 102.7%) during CY22. Moreover, with the expansion of the investment portfolio in government securities and increase in policy rates, recurring investment income doubled to Rs. 197.4m (CY21: Rs. 96.1m), resulting in the net operating ratio improving to 94.9% (CY21: 97.4%). Consequently, despite weakening in underwriting results, growth in investment income boosted the bottom-line with profit after tax recorded at Rs. 133.6m (CY21: Rs. 66.2m).

However, underwriting performance improved in the ongoing year, reporting a profit of Rs. 51.6m as underwriting expenses ratio declined to 42% on the back of net commission income. Improvement in the same is an outcome of favorable commission income rates received on the sliding scale owing to decline in loss ratios during CY22 in comparison to the preceding year. The reduction in expense ratio offset the increase in the net claims ratio, resulting in the combined ratio improving to 94.4%. Recurring investment income further grew during 1HCY23 to Rs. 150.8m on the back of repeated policy rate hikes; the same resulted in net operating ratio noticeably improving to 78%. Resultantly, the Company's profit after tax increased to Rs. 215.2m.

Underwriting Profit (Loss) (Rs. mln)	CY21	CY22	1HCY23
Fire and property damage	(112)	(207)	(45)
Marine, aviation and transport	(13)	(18)	16
Motor	187	72	92
Bankers Blanket	(32)	(1)	(21)
Health	(44)	102	(3)
Miscellaneous	(34)	(51)	12
Total Underwriting Profit	**(49)**	**(104)**	**52**

Reinsurance

The Company's risk profile is supported by sound reinsurance arrangements with a diversified panel of international and local reinsurers. The overall risk profile of the reinsurance panel is considered satisfactory despite the introduction of MISR Re, rated 'B++' by A.M. Best, as 80% of reinsurers are rated in the 'A' band or higher. As per management, the MISR Re was included due to attractive commission income rates and to enhance the diversification of the reinsurance panel. Hannover Re (rated AA- by S&P and A+ by A.M. Best) is the lead reinsurer across all segments (except marine cargo) followed by Pakistan Reinsurance Company Limited (PRCL) owing to specific quota extended to the local reinsurer. The Company has negotiated quota share cum surplus treaties in major segments, namely, F&P and marine cargo, and quota share treaties in remaining segments which are further reinforced by non-proportional treaties. Additionally, a new quota share treaty in the health segment was introduced during the ongoing year to protect against the inherently high loss ratios in the industry and elevation in hospitalization expenses due to inflationary pressure. Moreover, retention levels increased across all segments except health during the ongoing year as part of the management's strategy to enhance the topline. Subsequently, with increase in retention limits, size of maximum per risk claim largely increased during the period under review; however, the same is considered manageable in relation to the Company's equity base. Going forward, the management does not envisage any major change in the reinsurance panel, treaty terms or commission rates during CY24.

Investments

The Company's investment portfolio has more than doubled over the rating review period, standing at Rs. 2.3b at end-June'23 (CY22: Rs. 1.7b, CY21: Rs. 1.1b). The investment mix consisted almost exclusively of debt securities owing to the management's cautious investment approach, prevailing high interest rate environment and volatile stock market performance. The augmentation in the investment portfolio was manifested largely in 3-10yr PIBs with returns varying between 11.1% and 17.1% and T-Bills; the government securities portfolio is equally split between PIBS and T-Bills. The remaining debt instruments comprise of TFCs/corporate sukuks totaling Rs. 60m (CY22: Rs. 70m, CY21: 90.2m). Moreover, given that 61.3% of government securities are held-to-maturity, the same are not susceptible to mark-to-market losses arising due to interest rate fluctuations. In addition, given around 90% of the investment portfolio is vested in government securities, the credit risk emanating from the same is low. Equity investments remained minimal, declining to Rs. 76.6m (CY22: Rs. 132, CY21: Rs. 81.2m), consisting largely of mutual funds. Going forward, the management plans to continue its conservative investment strategy, focusing primarily on risk-free government securities.

	CY21	%	CY22	%	1HCY23	%
Debt Securities	1,006.3	92.5%	1,695.6	92.8%	2,184.0	96.6%
Equity	81.2	7.5%	132.0	7.2%	76.6	3.4%
Total	1,087.5	100.0%	1,827.6	100.0%	2,260.6	100.0%

Liquidity

In conjunction with the timeline augmentation of the investment portfolio, the Company's liquidity position in terms of liquid assets to net technical reserves improved over the rating review period to 70.3% (CY22: 59.3%, CY21: 49.5%) at end-June'23. Moreover, once the unearned premium reserve is gradually realized during the ongoing year in line with cyclical trends, the aforementioned liquidity indicator is expected to increase further by end-CY23. Additionally, insurance debt to gross premium improved to 18.4% (CY22: 30.7%, CY22: 39.1%) at end-1HCY23 on account of notable decline in receivables due from other insurers/reinsurers; the same is attributable to the change in SECP regulations pertaining to recording of insurance receivables.

Capitalization

The Company's equity base expanded on a timeline basis to Rs. 2.0b at end-June'23 (CY22: Rs. 1.9b, CY21: Rs. 1.7b) in line with profit retention in turn stemming from uptick in investment income. Increase in equity levels outstripped growth in the topline, resulting in the Company's operating leverage declining over the rating review period to 91.1% (CY22: 99.1%, CY21: 102.9%), indicating improvement in the overall risk profile. However, given the management's plans to increase retention levels going forward, operating leverage is expected to depict upward trend with increase in net premium revenue. Nonetheless, the Company is considered sound from a solvency risk perspective as the Company has adequate cushion in terms of total admissible assets over liabilities. On the flipside, financial leverage has scaled upwards on a timeline to 82.9% at end-June'23 (CY22: 76.1%, CY21: 62.1%) on account of higher net technical reserves. However, the same is projected to be moderated by end-Dec'23 as unearned premium reserves are gradually realized during the ongoing year, consistent with cyclical trends. Aging of claims payables is considered satisfactory with no claims outstanding for more than a year at end-CY22. Overall, the Company's capitalization levels are commensurate with the assigned rating. Going forward, the ratings will remain sensitive to improvement in underwriting performance to ensure leverage indicators remain rangebound.

UBL Insurers Limited — Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**	**30-Jun-23**
Cash and Bank Deposits	214	226	227	573
Investments	1,067	1,087	1,828	2,261
Insurance Debt	1,791	1,595	1,474	1,232
Total Assets	5,867	5,703	7,663	9,440
Paid-up Capital	1,152	1,152	1,152	1,152
Net Worth	1,670	1,743	1,856	2,023
Total Liabilities	4,196	3,960	5,807	7,417
INCOME STATEMENT	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**	**30-Jun-23**
Net Insurance Premium (incl. WTO)	2,172	2,155	2,322	1,062
Net Claims (incl. WTO)	1,273	1,098	1,136	611
Underwriting Profit/(Loss) (incl. WTO)	(18)	33	(52)	123
Other Income	40	30	47	52
Profit Before Tax	94	102	199	320
Profit After Tax	67	66	134	215
RATIO ANALYSIS	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**	**30-Jun-23**
Market Share (%)	4.5%	4.2%	4.3%	4.9%
Cession Ratio (%) (incl. WTO)	52.8%	54.0%	55.9%	51.3%
Gross Claims Ratio (%) (incl. WTO)	65.8%	58.2%	66.5%	61.4%
Net Claims Ratio (%) (incl. WTO)	58.6%	50.9%	48.9%	57.5%
Underwriting Expense Ratio (%) (incl. WTO)	38.8%	43.7%	48.6%	40.6%
Combined Ratio (%) (incl. WTO)	97.4%	94.7%	97.5%	98.2%
Net Operating Ratio (%) (incl. WTO)	91.1%	88.6%	85.5%	78.1%
Net Insurance Debt to Gross Premium (%)	44.4%	39.1%	30.7%	18.4%
Operating Leverage (%)	110.3%	102.9%	99.1%	91.1%
Financial Leverage (%)	74.3%	62.1%	76.1%	82.9%
Liquid Assets to Net Technical Reserves (%)	49.5%	57.0%	59.3%	70.3%
Liquid Assets to Adjusted Net Technical Reserves (%)	103.3%	121.2%	145.5%	169.0%
Operating Cash Flow/Net Premium Revenue (%)	5.2%	-1.1%	40.2%	84.4%

REGULATORY DISCLOSURES — Appendix II

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				
12/19/2023	AA+	-	Stable	Reaffirmed
12/29/2022	AA+	-	Stable	Reaffirmed
03/31/2022	AA+	-	Stable	Harmonised
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	November 30, 2023