

## RATING REPORT

### Chubb Insurance Pakistan Limited

**REPORT DATE:**

January 3, 2018

**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 29, 17</i>	<i>December 30, 16</i>
<i>Rating Outlook</i>	<i>Stable</i>	<i>Stable</i>

#### COMPANY INFORMATION

Incorporated in 2001

**External auditors:** A.F. Ferguson & Co. Chartered Accountants (a member firm of the PwC Network)

Public Limited Company (Unlisted)

**Chief Executive:** Mr. Humzah Chaudhri

**Key Shareholders (with stake 10% or more):**
**Chairman:** Mr. Syed Umer Ali Shah

Chubb INA International Holdings Limited, USA – 100%

#### APPLICABLE METHODOLOGY(IES)

**JCR-VIS Entity Rating Criteria Methodology – General Insurance Rating (March 2017)**
<http://jcrvis.com.pk/docs/Meth-GenInsurance201702.pdf>

## Chubb Insurance Pakistan Limited

### OVERVIEW OF THE INSTITUTION

### RATING RATIONALE

Incorporated in 2001, Chubb Insurance Pakistan Limited is engaged in underwriting non-life insurance business. Financial statements for 2016 were audited by A.F. Ferguson & Co. Chartered Accountants (a member firm of the PwC Network). The company has total staff strength of 15.

Chubb Insurance Pakistan Limited (CIPL) is a wholly owned subsidiary of Chubb INA International Holdings Limited, U.S.A. and is part of Chubb Group. CIPL was incorporated in Pakistan as a Public Limited Company in August 2001.

In line with regulatory requirements, five committees have been formed at board/management level including 1) Underwriting, Reinsurance & Co-insurance Committee 2) Risk Management & Compliance Committee 3) Claims Settlement Committee 4) Investment Committee 5) Ethics, Human Resources and Compliance Committee. A Board Audit Committee had already been in place.

The company benefits from a qualified & competent team of senior management professionals. Since last review, key changes in the Board of Directors and leadership team are highlighted below:

- In October 2017, Mr. Humzah Chaudhri was appointed as Chief Executive (CEO) following retirement of Ms. Zehra Naqvi who also served as Chairperson to the Board of Directors. Previously, Mr. Chaudhri served as Chief Financial Officer (CFO) of the company. He joined CIPL in September 2012, having previously worked with Royal Bank of Canada in Toronto, Canada. Mr. Chaudhri is a Chartered Accountant.
- Mr. Syed Umer Ali Shah was appointed as the Chairman, effective from August 2017. Previously, Mr. Shah held the role of CEO of CIPL and Chubb Arabia Cooperative Insurance Company in Saudi Arabia while also serving as director of both. He has been affiliated with the group for a long period, having joined in 1986. Mr. Shah holds an MBA from College of Insurance, St. John's University New York.
- Mr. Mahad Hafeez was promoted to the role of CFO with effect from October 2017. Mr. Hafeez joined the company in June 2015 and is a Chartered Accountant. Prior to joining CIPL, he was working with A.F. Ferguson & Co. Chartered Accountants (a member firm of the PwC Network).

#### Rating Drivers

##### Capitalization & Liquidity

The assigned rating takes note of CIPL's robust risk-adjusted capitalization as evident from treaty protection, conservative investment profile and adequate liquidity indicators. The rating also factors in prudent underwriting criteria, well-developed risk management infrastructure and solid reinsurance program placed with Chubb Tempest Re. Leverage indicators are low and indicative of significant room for growth. On a standalone basis, adjusted shareholder's equity increased to Rs. 486.8m (9M2016: Rs. 416.9m) at end-9M2017. During 4Q2017, sponsors have injected additional Rs. 50m of equity which will allow the company to achieve compliance with regulatory minimum capital requirement. Solvency margin remains comfortably above statutory limit; impact of adjustment for admissibility of related party assets on solvency margin will continue to be tracked by JCR-VIS (the company has been granted extension till March 2018). Overall liquidity profile of CIPL has also improved on account of higher quantum of liquid assets, reduction in insurance debt and positive cash flows during 9M2017.

**Business Mix**

After declining in 2016, gross premiums have witnessed slight recovery to Rs. 408.8m (2016: Rs. 392.6m; 9M2016: Rs. 312.0m) in 9M2017. Nevertheless, business volumes remain significantly below five-year high of Rs. 777.9m observed in 2014. Fire & Property Damage (F&PD) segment - which also includes energy, engineering and terrorism related risks - remains the forte of the company. However, increase in premiums booked by Accident & Health (A&H) and Liability segments has been observed over the past two years. Moreover, some business had been shed, given adverse claims experience in power segment. Consequently, claims (on both gross and net basis) have demonstrated improvement in 2016 and in the ongoing year (Net Claims Ratio: 9M2017: 15.6%; 2016: 17.7%; 9M2016: 11.5%; 2015: 58.8%). In order to maintain claims ratio within acceptable parameters, careful risk selection and pricing, appropriate policy limits within the business model framework and use of reinsurance to manage net retained exposures at a level appropriate for the institution's risk appetite is planned to be maintained over the coming years. Going forward, management expects gross premiums to depict growth within A&H along with construction and marine sectors due to ongoing projects related to China Pakistan Economic Corridor while product diversification is being pursued through launch of new products.

**Underwriting Profitability**

Since posting an underwriting profit of Rs. 116.6m in 2014, CIPL's profitability has remained under notable pressure on account of decline in net premium revenue and high treaty cost, as evident from surge in expense ratio to 83.8% (2016: 105.4%; 2015: 155.0%; 2014: 47.3%) over time. Subsequent rationalization of treaty arrangement along with realignment of business mix has enabled CIPL to curtail underwriting losses to 0.3m (2015: Loss of Rs. 77.6m) in 2016. Despite an increasing trend in underwriting losses from F&PD, the company achieved positive underwriting result of Rs. 1.3m in 9M2017 on the back of better performance of A&H and Liability segments. Overall combined ratio at current levels (9M2017: 99.4%; 2016: 123.1%; 9M2016: 101.1%; 2015: 213.8%; 2014: 51.4%) is not commensurate with benchmarks for the assigned rating. Future trend with respect to profitability indicators of the institution will continue to be tracked by JCR-VIS.

**Sponsor Support**

The rating recognizes the sound profile of the company's ultimate sponsor, Chubb Group, the world's largest publicly traded property and casualty insurer. The rating also reflects the support provided to CIPL by the sponsor, in the form of capital injections and sizeable treaty capacities, largest in the domestic context, providing CIPL significant advantage in terms of business generation while allowing the company to manage risk on net account. Reinsurance treaties provide coverage for risks written outside Pakistan as well; enabling geographical risk diversification. Moreover, technical support from the Group provides strength to underwriting operations.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

### Chubb Insurance Pakistan Limited

### Appendix I

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b><u>BALANCE SHEET</u></b>	<b>SEP 30, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Cash	14.3	32.5	51.4
Investments (including TDRs)	604.3	437.5	590.0
Adjusted Insurance Debt	127.1	70.8	155.1
<b>Total Assets</b>	<b>1,460.5</b>	<b>1,282.8</b>	<b>1,897.5</b>
<b>Net Worth</b>	<b>486.8</b>	<b>469.2</b>	<b>398.1</b>
<b>Total Liabilities</b>	<b>973.6</b>	<b>813.6</b>	<b>1,499.4</b>
<b><u>INCOME STATEMENT</u></b>	<b>SEP 30, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Net Premium Revenue	70.4	121.4	66.5
Net Claims	11.0	21.5	39.1
Underwriting Profit	1.3	(0.3)	(77.6)
Net Investment Income	19.0	2.6	-
Profit Before Tax	20.6	27.9	(32.0)
Profit After Tax	14.2	16.8	(31.9)
<b><u>RATIO ANALYSIS</u></b>	<b>SEP 30, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>
Market Share (Gross Premium) (%)	n/a**	0.6%	0.9%
Cession Ratio (%)	69.1%	81.8%	103.3%
Gross Claims Ratio (%)	17.5%	75.1%	137.5%
Net Claims Ratio (%)	15.6%	17.7%	58.8%
Underwriting Expense Ratio (%)	83.8%	105.4%	155.0%
Combined Ratio (%)	99.4%	123.1%	213.8%
Net Operating Ratio (%)	72.4%	104.2%	159.9%
Adjusted Insurance Debt to Gross Premium (%)*	23.3%	18.0%	28.5%
Operating Leverage (%)	19.3%	25.9%	16.7%
Financial Leverage (%)	114.9%	132.3%	265.9%
Adjusted Liquid Assets to Technical Reserves (%)	117.5%	79.2%	60.6%
*adjusted for premium deferred not yet due			
** not available			

# 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](http://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](http://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](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix III		
<b>Name of Rated Entity</b>	Chubb Insurance Pakistan Limited			
<b>Sector</b>	Insurance			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Insurer Financial Strength			
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: INSURER FINANCIAL STRENGTH</u></b>			
	12/29/2017	AA	Stable	Reaffirmed
	12/30/2016	AA	Stable	Reaffirmed
	12/1/2015	AA	Stable	Reaffirmed
	10/17/2014	AA	Stable	Upgrade
	10/21/2013	AA-	Stable	Reaffirmed
	9/10/2012	AA-	Stable	Reaffirmed
	8/1/2011	AA-	Stable	Upgrade
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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 financial strength only and is not a recommendation to buy or sell any securities.			
<b>Probability of Default</b>	Not Applicable			
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