

RATING REPORT

UBL Insurers Limited

REPORT DATE:

January 4, 2017

RATING ANALYSTS:

Mohammad Ibad Desmukh

ibad.desmukh@jcrvis.com.pk

Jazib Ahmed, CFA

jazib.ahmed@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	A+	A+
<i>Rating Date</i>	<i>Dec 30, '16</i>	<i>Dec 23, '15</i>
Rating Outlook	Stable	Stable
<i>Outlook Date</i>	<i>Dec 30, '16</i>	<i>Dec 23, '15</i>

COMPANY INFORMATION

Incorporated in 2006	External auditors: M/s KPMG Taseer Hadi & Co. Chartered Accountants
Public Company	Chairman of the Board: Mr. Aameer Karachiwala
Key Shareholders (with stake 10% or more):	Chief Executive Officer: Mr. Babar Mahmood Mirza
Bestway (Holding) Limited – 55.6%	
United Bank Limited – 30.0%	
Abu Dhabi Group – 12.2%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology –General Insurance (Sep 2016)

<http://www.jcrvis.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.

UIL is a subsidiary of Bestway (Holding) Limited that holds 55.6% stake in the company. Holding of UBL has been maintained at 30% while Abu Dhabi Group holds 12.2% shares.

RATING RATIONALE

UBL Insurers Limited (UIL) was incorporated as an unlisted public company in June 2006. The company is primarily engaged in provision of general insurance services in Pakistan. In December 2015, UIL was granted approval to launch Window Takaful Operations.

- Sponsor Profile & Governance:** The assigned rating is underpinned by the sponsors' profile, with major shareholding vested with Bestway (Holding) Limited, a multinational conglomerate operating in United Kingdom and Pakistan – and United Bank Limited (UBL), one of the largest banks in the country. Internal Audit (IA) function is outsourced to UBL, an associate, which is not line with best practices.
- Business Volumes:** In CY15, UIL underwrote gross premium of Rs. 1.6b (CY14: Rs. 1.1b). Resultantly, market share improved to 2.6% (CY14: 2.0%) for the outgoing year. Fire and motor segments remained key growth drivers. In 9M16, gross premiums registered growth of 53% to Rs. 2.0b (9M15: Rs. 1.3b) vis-à-vis corresponding period last year. Growth during ongoing year largely emanated from initiation of health segment, which represented a substantial 22.9% of total premiums booked; underwriting loss from same segment was sizeable at Rs. 56.5m. Claims ratio in health segment is generally higher and erratic than other business lines, volume of underwriting here would need to be monitored closely. UIL commenced its Window Takaful Operations on January 2016; gross contributions generated from Takaful operations amounted to Rs. 91.3m in 9M16.
- Underwriting Performance & Profitability:** Claims, on both gross and net basis, depicted a favorable trend in CY15; however, the same weakened during the ongoing year. In line with past trends, profitability largely emanated from underwriting operations with relatively nominal contribution from investment portfolio. Higher investment income can serve as a cushion against downside risk from core underwriting operations. Over past three years, the company's underwriting profit has largely emanated from motor segment. Underwriting strategy warrants diversification of segmental income.
- Asset Quality:** At end-CY15, insurance debt of the company accumulated to Rs. 596.7m (CY14: Rs. 449.2m); by end-9M16, insurance debt further increased to Rs. 951.9m (9M15: Rs. 736.8m). Historically, level of insurance debt vis-à-vis gross premium has remained on the higher side. In order to arrest the increasing trend in receivables, a collection team has been formed and a recovery strategy is in process of being drafted by management.
- Liquidity:** Given lower cash premium received, along with higher re-insurance premiums and claims paid, cash inflow generated from operating activities decreased by 82.6% to Rs. 47.1m (CY15: Rs. 264.0m; 9M15: Rs. 271.0m) in 9M16 compared to corresponding period last year. By end-9M16, technical reserves increased by 62.3% to Rs. 1.8b (CY15: Rs. 1.1b); as a result, liquid assets to technical reserves reduced to 48.2% (CY15: 82.9%; 9M15: 84.6%; CY14: 87.0%). As per management, liquidity profile is expected to remain constrained till business portfolio seasons.
- Investments:** Constrained cash flows have limited growth of investment portfolio. Investment avenues of the company include listed equities, mutual funds, government paper and term finance certificates. Funds are largely invested in fixed income securities.
- Reinsurance:** Reinsurance panel of the company is considered sound with all reinsurers being rated 'A-' or higher. Hannover Re remains the lead reinsurer in major segments, barring health and special capacity (fire & engineering) which are both covered solely by Pakistan Reinsurance Company Limited. During CY16, total retention and capacity of certain business lines including fire, marine cargo, motor and miscellaneous were enhanced.
- Capitalization:** Financial leverage of UIL continues to depict a rising trend (9M16: 194.6%; CY15: 130.9%; CY14: 106.0%) on account of higher outstanding premium payables and unearned income. Similarly, operating leverage has increased notably (9M16: 86.8%; CY15: 61.5%; CY14: 49.7%), as the company retained more business on its net account. Equity size is on the lower side in relation to peers; current level of total equity is a constraint on capitalization indicators of the institution.

UBL Insurers Limited
Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	SEP 30, 2016	DEC 31, 2015	DEC 31, 2014
Cash and Bank Deposits	40.2	77.8	183.3
Investments	849.9	864.0	680.7
Insurance Debt	951.9	596.7	449.2
Total Assets	3,874.8	2,652.6	2,082.8
Net Worth	942.7	851.9	753.1
Total Liabilities	2,900.2	1,800.7	1,329.7
INCOME STATEMENT	SEP 30, 2016	DEC 31, 2015	DEC 31, 2014
Net Premium Revenue	617.3	534.6	385.2
Net Claims	307.2	203.8	176.7
Underwriting Profit	84.4	51.5	23.5
Net Investment Income	60.2	88.2	74.6
Profit Before Tax	133.3	147.1	101.8
Profit After Tax	92.0	99.5	59.8
RATIO ANALYSIS	SEP 30, 2016	DEC 31, 2015	DEC 31, 2014
Market Share (Gross Premium) (%)	n/a*	2.6%	2.0%
Cession Ratio (%)	61.9%	60.1%	63.8%
Gross Claims Ratio (%)	86.7%	45.5%	51.5%
Net Claims Ratio (%)	49.8%	38.1%	45.9%
Underwriting Expense Ratio (%)	36.4%	52.2%	48.0%
Combined Ratio (%)	86.2%	90.4%	93.9%
Net Operating Ratio (%)	78.5%	79.8%	80.3%
Insurance Debt to Gross Premium (%)	35.6%	37.3%	40.3%
Operating Leverage (%)	86.8%	61.5%	49.7%
Financial Leverage (%)	194.6%	130.9%	106.0%
Adjusted Liquid Assets to Technical Reserves (%)	48.2%	82.9%	87.0%

*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

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

'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

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

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>				
	12/30/2016	A+		Stable	Reaffirmed
	12/23/2015	A+		Stable	Reaffirmed
	11/13/2014	A+		Stable	Upgrade
	12/10/2013	A		Positive	Maintained
	10/19/2012	A		Stable	Reaffirmed
	9/19/2011	A		Stable	Reaffirmed
Instrument Structure	N/A				
Statement by the Rating Team	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 credit quality only and is not a recommendation to buy or sell any securities.				
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