



The Pakistan Credit Rating Agency Limited

Rating Report

Jubilee Life Insurance Company Limited

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Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
22-Feb-2024	AA++ (ifs)	Stable	Maintain	-
07-Mar-2023	AA++ (ifs)	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's Life Insurance sector faces challenges due to an unexpected rise in inflation leading to a decrease in the disposable incomes. To adapt, sector players shifted their focus from first-year persistency to second-year, prioritizing top-line growth. However, the market size of the Life Insurance sector with respect to the Gross Premiums Written (GPW) posts growth of ~24% in 9MCY23. On the expense side, gross claims grew by ~45%. While the loss ratio, with respect to both the private and public segments, has also been gradually rising. On the financial risk side, the sector is expected to maintain liquidity. Going forward, a sluggish economic pace may impact the sector's overall stability.

The assigned IFS rating of Jubilee Life Insurance Company Limited ("Jubilee Life" or "the Company") derives strength from its strong association with Agha Khan Fund for Economic Development (AKFED), having sound financial footing across many business arenas. Jubilee Life enjoys strong business acumen of its sponsors which combined with AKFED nominees on the Board, enhances the Company's governance framework. The Company offers a wide range of standard products, both in conventional and takaful market. Individual Life - Unit Linked products remain prominent (~73% of total GPW), followed by accident & health insurance (~20%), and the corporate health segment ~7%. The Company focuses on an agency model with a vast branch network. First-year and renewal persistency of the Company has deteriorated, reporting at ~76% and ~73%, respectively. The current economic conditions have led to an unusual surge in claims, particularly surrenders, stressing the underwriting performance of the Company. However, bottom-line gathers support from strategic investments in debt securities realizing sound investment income. On the financial risk front, the Company's cash outflow from operations underwent a decline, largely attributable to substantial claims payouts and surrenders. However, the rating takes comfort from adequate liquidity and risk appetite.

The rating is dependent on the sustained competitive positioning of the Company within life insurance industry. On an ongoing strategy revamp to ensure an improvement in core and operational profitability is imperative. Moreover, solvency profile as indicated through reserves, must remain strong, at all times, so as to sustain the rating.

Disclosure

Name of Rated Entity	Jubilee Life Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Life Insurance Rating(Mar-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Life Insurance(Jun-23)
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Profile

Legal Structure Jubilee Life Insurance Company ("Jubilee Life" or "the Company") was incorporated as a public limited company in Pakistan in Jun-95.

Background Jubilee Life, a life insurance wing of Agha Khan Fund for Economic Development S.A. Switzerland (the Fund), operates in Pakistan since Jun-95. The Fund holds strong footings in various business segments. Within insurance, general plus life, the Group operates four insurance companies in Africa (Kenya, Uganda, Mauritius and Tanzania), one in Kyrgyzstan and two in Pakistan.

Operations The product portfolio of the Company comprises conventional and takaful plans categorized as; i) Individual Life Unit Linked ii) Accidental & Health Business iii) Individual Family Takaful iv) Group Life v) Non-Reportable Segments; and holds geographical presence throughout Pakistan, Head Office in Karachi.

Ownership

Ownership Structure The primary shareholding of the Company lies with the Fund (~57.9%), followed by Habib Bank Limited (~18.5%) and Jubilee General Insurance (~6.4%). Foreign investors and Financial Institutions holds ~6.3% and ~3.6%, respectively. The remaining shareholding (~7.3%) vests with the General Public.

Stability Ownership seems to remain stable, going forward, as the sponsoring Fund holds an ownership stake in various commercial ventures, including sectors such as insurance, banking, hotels, and tourism in Pakistan.

Business Acumen The Fund, founded and chaired by Mr. Prince Karim Agha Khan, represents a group of development agencies that focuses on various development activities, including health, education, economic recovery, environment, disaster reduction and micro finance. Moreover, has experienced many business cycles.

Financial Strength The Fund holds ownership in one of Pakistan's largest private sector banks (Habib Bank Limited). To support development activities, the Fund has an ownership stake in several commercial ventures. The shareholders possess a robust financial standing to provide support to the Company when necessary.

Governance

Board Structure Nine members BoD, including 5 Non-Executives, 1 Executive, and 3 Independent Directors, manage the overall policy framework of the Company.

Members' Profile The Board of the Company is Chaired by Mr. Rafiuddin Zakir Mehmood, having sound and extensive experience with the financial & other sectors. With a professional journey spanning over three decades, he has accumulated valuable experience working with both international and local banks. Currently, he holds positions on the Boards of various companies.

Board Effectiveness The BoD met quarterly with majority attendance. To ensure effective oversight of the Company, five BoD-level committees have been formed, namely: Audit, HR & Remuneration, Finance & Investment Risk Management and Technical Committee. These committees met five times during the year.

Financial Transparency The external auditors, M/s A.F. Ferguson & Co, has provided an unqualified opinion on the financial statements for the year ended CY22.

Management

Organizational Structure The Company holds a horizontal organizational structure with clear reporting lines, ensuring segregation of duties and focus on key business functions, with each function being headed by a Group Head.

Management Team The CEO, Mr. Javed Ahmed has been associated with the Company since 1997. The Group Heads are directly reporting to the CEO; wherein the team has been associated with the Company for a fairly long time.

Effectiveness The Company has eight management committees, i) Underwriting & Reinsurance ii) Claims iii) Management Committee iv) Risk Management & Compliance v) Investment Management vi) Marketing vii) IT Steering viii) Disaster Steering, to ensure the effectiveness of processes in place.

Claim Management System A detailed claims settlement system is in place to ensure a smooth and efficient progression of claims received. As the claims departments receive a policyholder request, a policy review is held in order to assess the legitimacy of the claim.

Investment Management Function A formal Investment Policy Statement (IPS) has been assigned for each fund, specifically providing investment guidelines. The IPS is approved by the BoD and reviewed as and when required. An in-house research department, comprising eight analysts, is also in place to assist the overall functions.

Risk Management Framework The Company has implemented a detailed underwriting manual and field underwriting guidelines, which are issued to the branches and agents, being updated from time to time. A risk register is maintained by the Company which accounts for any current and potential risks

Business Risk

Industry Dynamics Pakistan's Life Insurance sector faces challenges due to an unexpected rise in inflation leading to a decrease in disposable income. To adapt, sector players shifted their focus from first-year persistency to second-year, prioritizing top-line growth. However, the market size of the Life Insurance sector with respect to the Gross Premiums Written (GPW) posts growth of ~24%, during 9MCY23. While the loss ratio, with respect to both the private and public segments, has also been gradually rising. The sector's outlook is expected to remain stable, supported by the investment income.

Relative Position Jubilee Life is classified among top players within the private sector with a market share of ~12% in terms of GPW, during 9MCY23.

Persistency Retention of clientele plays a crucial role in the life insurance business. During CY22, the persistency ratio of Jubilee Life is considered good, clocking in for direct sales force at ~70% (CY21: ~78%) for second year and ~75% (CY21: ~82%) for subsequent year persistency. During 9MCY23, first year's persistence stood at ~76% and renewal of persistency surged to ~73%.

Revenue Jubilee Life generated a GPW of PKR 47,343m during CY22 (CY21: PKR 49,355m), depicting a decline of ~4% (YoY). While first-year and second-year premiums remained stable, the pivotal driver for premiums was found in subsequent year renewals. During 9MCY23, GPW clocked in at PKR 34,165m, posting a slight decrease of ~1.5% (9MCY22: ~PKR 34,701m).

Profitability The Company depicted an underwriting loss of ~PKR 4,004m during CY22 (CY21: profit ~PKR 809m) owing to higher insurance claims incurred over the period. However, the Company reported PAT of ~PKR 2,072m during CY22 (CY21: ~PKR 1,793m) due to support driven from investment income. During 9MCY23, PAT of the Company surged to ~PKR 1,482m.

Investment Performance The investment income of the Company improved by ~9% owing to higher returns generated from government securities, and total investment income surged to ~PKR 4,357m during CY22 (CY21: ~PKR 3,979m). The Company followed a cautious approach to mitigate risk and invested ~69% of the total investments in government securities. During 9MCY23, the investment income of the Company stood at ~PKR 20,573m.

Sustainability Going forward, the management intends to maintain its market position through capitalization on its strong operational network, including direct sales force, bancassurance, and digital, to enter low penetration markets. Further, product innovation is achieved through the introduction of a fixed return policy in addition to the unit-linked product, to further attract customers and augment its customer base.

Financial Risk

Claim Efficiency Claims outstanding days of the Company increased to 65 days in CY22 (CY21: 35 days), owing to higher claims. Net claims increased by ~8% reported at ~PKR 42,933m in CY22 (CY21: ~PKR 39,848m). The claims coverage ratio of the Company surged to 4.1x in CY22 (CY21: 4.5x), witnessing the Company's robust position to meet its obligations. As of 9MCY23, claims outstanding days surged to ~102 days (including disputed claims) and claims coverage ratio stands at 1.3x.

Re-Insurance The reinsurance panel of the Company is graced with well reputed reinsurance companies such as Hannover Re (rated "AA-" by S&P), Arch Re (rated "A+" by A.M Best) and Generali (rated "A" by A.M Best).

Cashflows & Coverages The investment portfolio is primarily in liquid assets, including government securities (PIBs and T-Bills) and listed equity. As of CY22, it stands at ~PKR 177,473 million (CY21: ~PKR 181,232 million). Liquid investments to net claims coverage is 4.2x, and liquid assets to net premium revenue is 3.9x, reflecting a strong liquidity position. In 9MCY23, the investment book surged to ~PKR 183,971m, with liquid investments to net claims and liquid assets to net premium ratio at 3.8x and 4.2x, respectively.

Capital Adequacy As of 9MCY23, Jubilee Life issued bonus shares ~PKR 131m, further strengthening the Company's equity position, which stood at ~PKR 14,426m (9MCY22: ~PKR 13,408m). Concerning the capital adequacy indicator, the liquid investment to equity clocked in at 12.7x as of 9MCY23 (9MCY22: 13.2x).



PKR mln

Jubilee Life Insurance Company Limited
Listed Public Limited

Sep-23	Dec-22	Dec-21	Dec-20
9M	12M	12M	12M

A BALANCE SHEET

1 Investments	183,971	177,473	181,232	180,713
2 Insurance Related Assets	2,888	2,200	1,869	2,277
3 Other Assets	4,787	3,526	2,660	2,767
4 Fixed Assets	4,356	4,654	4,791	4,666
Total Assets	196,001	187,853	190,552	190,422
6 Insurance Related Liabilities	172,176	166,462	170,922	171,052
7 Other Liabilities	7,946	5,788	4,645	4,390
8 Borrowings	1,453	1,661	1,917	2,108
Total Liabilities	181,574	173,911	177,483	177,550
Equity	14,426	13,941	13,069	12,872

B INCOME STATEMENT

1 Gross Premium Written	34,165	47,343	49,356	46,507
2 Net Insurance Premium	32,433	45,571	47,580	45,208
3 Underwriting Expenses	(40,156)	(49,576)	(46,770)	(35,800)
Underwriting Results	(7,723)	(4,005)	810	9,407
4 Management Expenses	(4,177)	(4,352)	(3,828)	(3,402)
5 Investment Income	20,573	4,357	3,979	11,895
6 Other Income / (Expense)	326	200	36	(279)
7 Net Change in Reserve for Policyholders' Liabilities	(6,127)	7,101	1,543	(13,552)
Profit Before Tax	2,873	3,301	2,540	4,070
8 Taxes	(1,391)	(1,229)	(747)	(1,186)
Profit After Tax	1,482	2,072	1,793	2,884

C RATIO ANALYSIS

1 Profitability

Loss Ratio (Net Insurance Claims / Net Insurance Premium)
Combined Ratio (Loss Ratio + Expense Ratio)

109.7%	94.2%	83.8%	63.8%
123.8%	108.8%	98.3%	79.2%

2 Investment Performance

Investment Income / Operating Profit

237.2%	-109.0%	413.9%	66.5%
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3 Liquidity

(Liquid Assets - Borrowings) / Outstanding Claims

15.79	16.10	20.28	25.38
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4 Capital Adequacy

Liquid Investments / Equity

12.75	12.73	13.87	14.04
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Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
AAA (ifs)	Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

<p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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