The Pakistan Credit Rating Agency Limited

TPL INSURANCE LIMITED (TDIL)

IFS RATING REPORT

	NEW [DEC-17]	PREVIOUS [MAY-17]
Insurer Financial Strength (IFS) Rating	A+	A+
Outlook	Stable	Stable

REPORT CONTENTS

DECEMBER 2017

Profile & Ownership

- TPL Insurance Limited (TIL); formed in 1992, is listed on Pakistan Stock Exchange since Sep-11
- TPL Insurance is a subsidiary of TPL Corp. TPL Corp has 93% stake in TIL, this was as a result of reacquisition of Greenoaks Global Holding ltd(GGH) which previously held 69% shares in the company.

Management

- The CEO, Mr. Saad Nisar, an MBA from IBA, has been on the position since Jan-09, and is supported by a team of experienced professionals
- Mr. Ali Hassan Zaidi has been promoted to the role of Head of Operations. Previously, he was the CFO of the company.
- Mr. Shehzad Dhedi joined in as the new CFO since November.

Business Risk

- GPW of the company clocked in at PKR 1681mln for 9MCY17, showing high growth of 11%. The book is dominated by motor segment (91%), followed by fire (5%), health (2%) and marine (2%).
- Motor segment – cornerstone of the company – rose by 8% contributing PKR1,530 to the top line , new segments, fire, marine and health added PKR 143mln in 1HY17 (9MY16: PKR 96mln)
- Loss ratio of conventional business remained stagnant at 42% (9MCY16:42%), while window takaful showed an impressive improvement in loss ratio of 56% (9MCY16: 76%)
- Expense ratio improved to 57% (1HCY16: 62%) on the back of higher net premium written in 9MCY17, resulting improved combined ratio 77% (9MCY16:102%)
- Conventional underwriting posted improvement with a profit of PKR 137mln, as against of PKR 82mln in 9MCY16; whereas, window takaful underwriting posted an underwriting loss of PKR 51 mln in participant’s takaful fund and profit of PKR118 mln in Operator’s fund
- Window takaful operations post a consolidated profit of PKR 67.5mln (OF: Profit of PKR118.3 mln, PTF: Loss of PKR50mln, improving participant’s takaful fund from PKR 69mln in 9MCY16 on account of increased contribution written
- Net Investment income (9MCY17: PKR 22mln), mainly comes from stable stream of bank deposits carrying low financial risk-supports bottom-line

Business Strategy

- TDIL envisages to continue expansionary stance and improve its standing in the industry
- The underwriting strategy for corporate is conservative while retaining small proportion on net account, wherein, focus on profitability remains important

Financial Risk

- TDIL’s investment book (PKR 1,601mln) constitutes 1.4times of its equity base at end-Sep17
- Predominant portion has been deployed in liquid avenues (PKR 1,501 mln), mainly in Term Deposits in banks, reflecting risk averse strategy of sponsors
- Liquidity cover to claims liability, currently at robust level (times), provides cushion for ongoing expansion as the company underwrites larger risks in fire and marine
- Reinsurance arrangements are with reputable reinsurers; Trust Re (rated ‘A- by AM Best) and Hannover Re (rated ‘AA-’ by S&P)

RATING RATIONALE

The rating reflects established position of the company in its niche market personal line auto insurance. The company has been sustainably augmenting its market positioning. Third largest player in motor segment, TIL holds substantial share in industry's GPW of the segment. Advanced technology infrastructure has continued providing an edge to the company amidst high competition. Rolling out new business strategy, the company launched corporate line insurance in fire and marine segments. With structured efforts, TI intends to fortify its inroads in commercial lines. This has added diversity to product slate of TIL. Capitalizing on strong foothold in niche market Direct Insurance TIL is establishing relationships with intermediaries; bankers and auto manufacturers. Window takaful volumes are growing, though profitability is yet to materialize in this segment. With rise in business size, the underwriting profitability must transpire. Currently, the financial risk profile is equipped with sound liquidity, however, needs to be monitored carefully as the company takes the trajectory of growth

KEY RATING DRIVERS

The rating is dependent upon the company's ability to increase its system share, in line with expansion strategy, thereby, adding diversification to revenue stream. Translation of the same in the form of enhanced profitability is beneficial. Cohesiveness and sustainability in the management team is important. At the same time, the absolute & proportional size of liquid as well as earning investment book is essential.

INDUSTRY SNAPSHOT

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.

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TPL Direct Insurance Limited (TDIL)

BALANCE SHEET	30-Sep-17	31-Dec-16	31-Dec-15
	9MCY17	Annual	Annual
Investments		Audited	Audited
Liquid Investments	1,501	1,295	961
Other Investments	100	75	210
	1,601	1,370	1,170
Insurance Related Assets	531	381	199
Other Assets	1,532	822	680
TOTAL ASSETS	**3,664**	**2,573**	**2,049**
Equity	1,137	1,116	975
Underwriting Provisions	1,271	1,053	795
Insurance Related Liabilities	431	272	200
Other Liabilities	752	132	80
TOTAL EQUITY & LIABILITIES	**3,664**	**2,573**	**2,049**

INCOME STATEMENT	30-Sep-17	31-Dec-16	31-Dec-15
Gross Premium Written (GPW)	**1,681**	**1,796**	**1,635**
Net Premium Revenue (NPR)	1,554	1,558	1,421
Net Claims	(699)	(686)	(691)
Net Operational Expenses	(519)	(931)	(887)
UNDERWRITING RESULTS	336	(59)	(157)
Investment Income	22	58	47
Other Income/ (expense)	(66)	62	102
PROFIT BEFORE TAX	**291**	**61**	**(8)**

RATIO ANALYSIS	30-Sep-17	31-Dec-16	31-Dec-15
Underwriting Results			
Loss Ratio	45%	44%	49%
Combined Ratio	77%	104%	111%
Performance			
Operating Ratio	79%	97%	100%
Investment Yield	1%	5%	6%
Liquidity & Solvency			
Liquidity Ratio – times	5.4	6.8	5.5

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GENERAL INSURANCE AND GENERAL *TAKAFUL* RATING SCALE

RATING SYMBOLS & DEFINITIONS:

INSURER FINANCIAL STRENGTH (IFS) RATING SCALE & DEFINITIONS

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

RATING SCALE	DEFINITION
AAA	**Exceptionally Strong.** Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ **AA** **AA-**	**Very Strong.** Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small
A+ **A** **A-**	**Strong.** Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ **BBB** **BBB-**	**Good.** Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ **BB** **BB-**	**Moderately Weak.** Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ **B** **B-**	**Weak.** Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC **CC** **C**	**Very Weak.** Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
D	**Distressed** Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

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'.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. 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 Outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.