



The Pakistan Credit Rating Agency Limited

Rating Report

TPL Insurance Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Aug-2019	A+	-	Stable	Maintain	-
04-Mar-2019	A+	-	Stable	Maintain	-
13-Dec-2018	A+	-	Stable	Maintain	-
24-May-2018	A+	-	Stable	Maintain	-
30-Dec-2017	A+	-	Stable	Maintain	-
16-May-2017	A+	-	Stable	Upgrade	-
06-Dec-2016	A	-	Stable	Maintain	-
07-Mar-2016	A	-	Stable	Maintain	-
07-Apr-2015	A	-	Stable	Upgrade	-
24-Oct-2014	A-	-	Rating Watch	Maintain	-
27-Jan-2014	A-	-	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects an established position of the Company in its niche market. The Company has been sustainably augmenting its market positioning with significant growth in the topline. The third-largest player in the motor segment, TPL Insurance Limited holds a substantial share in the industry's GPW of the segment. The Company is growing into non-motor avenues with the strengthened management team. Advanced technology infrastructure has continued providing an edge to the Company amidst high competition. The financial risk profile is equipped with sound liquidity.

With structured efforts, TPL Insurance Limited is fortifying its inroads in commercial lines. This has added diversity to product slate of TPL Insurance Limited. Capitalizing on a strong foothold in niche market, TPL Insurance Limited is establishing relationships with intermediaries; bankers and auto manufacturers. Window Takaful volumes are growing. With the rise in business size, the underwriting profitability must improve.

Disclosure

Name of Rated Entity	TPL Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI_FY19(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504



Profile

Legal Structure TPL Insurance Limited is a limited liability Company. The Company is listed on Pakistan Stock Exchange.
Background The Company was incorporated in 1992 and is headquartered in Karachi, Pakistan. TPL Insurance Limited is a subsidiary of TPL Corp Limited
Operations TPL Insurance has been in insurance operations since 2005. The company operates in Auto, Health, Micro, Fire and Marine insurance business

Ownership

Ownership Structure TPL INSURANCE LIMITED is a 94% subsidiary of TPL Corp.
Stability There was no change in the ownership structure this year.
Business Acumen TPL INSURANCE LIMITED is the 94% subsidiary of TPL Corp. TPL Corp is a 61.88% subsidiary of TPL Holdings.
Financial Strength TPL Corp Limited – close to three and a half billion rupee corporate conglomerate in turnover terms – has expanded its footings in diversified business avenues with sizable portfolio of strategic investments.

Governance

Board Structure TPL Insurance Limited has a seven member Board.
Members' Profile Mr. Jameel Yusuf is the Chairman of the Board. He is an experienced business professional and has been associated with many other not for profit organizations. He has also been awarded with the Sitar-e-Shujaat for his gallantry services
Board Effectiveness The presence of strong strategic partners on board, TPL Corp, enhances the governance framework of the company. The incumbent partner has brought requisite challenge and fresh vision for the company.
Financial Transparency The Company's auditor EY Ford Rhodes Chartered Accountants, issued an unqualified audit report for the year ended December 31, 2018

Management

Organizational Structure The Company has developed a defined organizational structure and different type of activities are properly segregated and managed through various departments. The operations are divided into 1) Underwriting 2) Claims 3) Finance and 4) Sales & Distribution. Meanwhile, a separate department has been established for emerging non-motor segments
Management Team Mr. Muhammad Aminuddin is the Chief Executive Officer of the Company. He has been associated with the Company since August 2018). Mr. Aminuddin is an experienced professional having an exposure of more than 2 decades in corporate finance, Banking and Insurance sector. He is assisted by a team of professionals.
Effectiveness
MIS The MIS sent to directors is detailed and sent every month. Moreover, directors have more frequent interaction with the management.
Claim Management System The department comprises of individuals having multiple years of experience in claims handling. Claim approval is centralized at Karachi head office. The loss executive or the agent (call center) captures the incidence of claims in 'Claim Intimation Slip (CIS)' when verbal intimation is received through (i) 24/7 call center of TPLI, (ii) Trakker Business Partners (TBPs) (i.e. TPL's dealers), or (iii) the claims department.
Investment Management Function TPL Insurance has a formal Investment Policy Statement (IPS) providing fundamental guidelines and execution structure to the investment process. This incorporates a predominant portion of funds to be placed in bank deposits and money market/fixed income funds
Risk Management Framework TPL Insurance has a formal Risk Management Committee under the supervision of Chairman that ensures the implementation of Enterprise Risk Management Program. The program aims effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations such that all the measures for managing risks entity-wide are addressed and strategic objectives are achieved.

Business Risk

Industry Dynamics Pakistan's general insurance industry witnessed continuous growth (CAGR 4 years 9%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.
Relative Position TPL Insurance is a medium sized company with 3% market share at 3MCY19.
Revenue At end- 3MCY19, the company's GPW (combined) clocked in at PKR 621mln (including Window Takaful). Motor segment was the forte of the company comprising 87% of the total GPW, followed by Misc. (5%), Fire (5%), and Marine (3%).
Profitability Conventional underwriting posted underwriting profit of PKR 35mln, against underwriting profit of PKR 23mln in 3MCY18 rising by an impressive 55%. As for the Window Takaful underwriting Operations, there was an underwriting profit of PK5mln (3MCY18: Underwriting Loss of PKR 4mln).
Investment Performance Investment income (3MCY19: PKR 19mln), comes from stable stream of bank deposits carrying low financial risk.
Sustainability TPL Insurance has a high growth strategy in place. The company is eyeing 3 to 4 times growth in the next five years; capitalizing on strong footprints in retail, motor segment growth is inevitable, while corporate insurance strengthening remains to be seen

Financial Risk

Claim Efficiency The claims settlement days of the company remains just above 2 months annually (CY 18: 78days, CY17: 58 days), though for the first quarter the claims settlement days are 74 days.
Re-Insurance Reinsurance arrangements are with reputable reinsurers; Reinsurer panel for conventional business: Hannover Re (rated 'AA-' by S&P), SAVA Re (A by A.M. Best), Qatar General (A by A.M. Best); Reinsurer panel for Window Takaful Operation mainly comprise of: Hannover Re, Bahrain (Rated 'AA' by S&P) .
Liquidity The Company's Liquid assets to equity ratio remained relatively stable compared to last year at 0.8x (CY 2018: 0.9x)
Capital Adequacy At end-Mar19, paid-up share capital stood at PKR 947mln well beyond the Minimum Capital Requirement (MCR) for non-life insurers, defined as per SECP's regulation



The Pakistan Credit Rating Agency Limited
TPL Insurance Limited (TIL)

BALANCE SHEET (Conventional)	Mar-19	Dec-18	Dec-17	Dec-16
	Quarter	Annual	Annual	Annual
Investments				
Liquid Investments	700	826	1,203	998
Other Investments	-	-	-	-
	<u>700</u>	<u>826</u>	<u>1,203</u>	<u>998</u>
Insurance Related Assets	286	306	280	386
Other Assets	862	749	683	577
Assets - Window Takaful	395	370	335	319
TOTAL ASSETS	<u>2,242</u>	<u>2,251</u>	<u>2,501</u>	<u>2,280</u>
Equity	924	937	1,122	1,045
Underwriting Provisions	805	792	676	831
Insurance Related Liabilities	128	127	165	59
Other Liabilities	193	226	304	167
Liabilities - Window Takaful	193	169	234	178
TOTAL EQUITY & LIABILITIES	<u>2,242</u>	<u>2,251</u>	<u>2,501</u>	<u>2,280</u>
INCOME STATEMENT (Extracts) *	Mar-19	Dec-18	Dec-17	Dec-16
Gross Premium Written (GPW)	621	2,409	2,292	2,054
Net Premium Revenue (NPR)	528	2,246	2,068	1,743
Net Claims	(226)	(965)	(893)	(799)
Net Operational Expenses	(261)	(1,104)	(1,083)	(967)
Underwriting Results	41	177	92	(23)
Investment Income	17	(0)	19	49
Other Income/ (expense)	(53)	(143)	(18)	19
Profit/ (Loss) before tax	4	34	93	45
RATIO ANALYSIS (Conventional)	Mar-19	Dec-18	Dec-17	Dec-16
Underwriting Results				
Loss Ratio	43%	43%	43%	46%
Combined Ratio	92%	92%	96%	101%
Performance				
Operating Ratio	46%	47%	48%	46%
Investment Yield	2.4%	0.0%	1.6%	4.9%
Liquidity & Solvency				
Liquidity Ratio – times (Liquid assets to equity)	0.8	0.9	1.1	1.0

*Including Takaful Operations

TPL Insurance Limited (TPL)

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.

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+	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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
BB+	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.
BB	
BB-	
B+	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.
B	
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
CC	
C	
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. 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, 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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- 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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (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)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

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