



The Pakistan Credit Rating Agency Limited

## Rating Report

### Jubilee General Insurance Company Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Dec-2018	AA+	-	Stable	Maintain	-
27-Apr-2018	AA+	-	Stable	Maintain	-
22-Jan-2018	AA+	-	Stable	Maintain	-
23-Jun-2017	AA+	-	Stable	Maintain	-
30-Dec-2016	AA+	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The rating reflects Jubilee General's robust risk management framework facilitating the company in sustaining sound underwriting performance. The persistent investment income augers well for the bottom line of the company giving it a strong cushion. The rating recognizes the management's efforts of penetrating relatively untapped segments, reflected in its diverse premium mix. Jubilee General has sound equity base and sufficient liquidity engendering strong risk absorption capacity. The ability of key sponsor, Aga Khan Development Network (AKDN), to foster synergies amongst its financial institutions operating in Pakistan - HBL, Jubilee General, and Jubilee Life - and in the group's different insurance companies across the globe, is also a consideration. The business strategy, going forward, is focused on improving its market position and consequent profitability from core business, which is a challenge given recent results.

The rating is dependent upon sustained competitiveness of the company with improvement in underwriting profitability. Sustaining the market share is crucial with consequent improvement in the liquidity. Meanwhile harnessing of claims management process is essential.

#### Disclosure

<b>Name of Rated Entity</b>	Jubilee General Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   General Insurance(Jun-18)
<b>Related Research</b>	Sector Study   General Insurance(Nov-18)
<b>Rating Analysts</b>	Faraan Taimoor   faraan.taimoor@pacra.com   +92-42-35869504 Zeeshan Munir   zeeshan.munir@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Jubilee General, incorporated in 1953, is the third largest general insurance company in Pakistan and is listed on Pakistan stock exchange.

**Background** In 2003, Jubilee General was acquired and successfully integrated Pakistan operations of Commercial General Union Insurance. During CY11, the company underwent a change in corporate identity through a change in its brand to Jubilee General (previously New Jubilee).

**Operations** Jubilee General's marketing network is primarily divided in four zones and two commercial units. Zones are named as follows: (i) Southern Zone, (ii) Lahore Zone, (iii) Multan Zone, & (iv) North Zone. The company's current network comprises 28 branches. This setup of the company, with its head office in Karachi, covers all major cities with its presence in 12 cities of the country.

## Ownership

**Ownership Structure** The major shareholding of the company lies with Aga Khan Development Network (AKDN) (~57%) through various entities including Habib Bank Limited with ~18% stake. Hashoo Group, through its different entities, is the second main shareholder (~16%) in Jubilee General.

**Stability** The Aga Khan Development Network founded and chaired by His Highness the Aga Khan, represents a group of development agencies that focuses on various development activities, including health, education, economic recovery, environment, disaster reduction and micro finance.

**Business Acumen** Some of the major agencies included in the network are Aga Khan Fund for Economic Development, Aga Khan Agency for Micro-finance, Aga Khan Foundation, Aga Khan University, University of Central Asia and Aga Khan Trust for Culture. AKDN's outreach extends to 30 countries around the world and provides employment to around 80,000 people. The second largest shareholder, Hashoo Group (HG) has diversified business interests, out of which Pearl-Continental Hotel and Marriott Hotel chains are the most significant.

**Financial Strength** Within the financial sector, in addition to Jubilee General and Jubilee Life, AKDN operates the country's largest private sector bank – Habib Bank Limited (HBL) – in which it acquired a controlling interest in 2004 through privatisation. HBL is rated 'AAA'.

## Governance

**Board Structure** Nine member board of directors, including CEO; includes four representations of AKDN and one of HBL

**Members' Profile** All directors, except the CEO, are non-executive members. Mr. Tawfiq H. Chinoy, a distinguished industrialist, is board chairman. The directors are known figures of business community and possess diversified experience, auguring well for the overall governance of the company.

**Board Effectiveness** The board has three committees, comprising non-executive members, providing strategic oversight to the company and, hence, strengthen its governance framework.

**Financial Transparency** The company's auditor, KPMG Taseer Hadi & Company, issued an unqualified audit report for CY18.

## Management

**Organizational Structure** The company has instituted a detailed hierarchical organizational structure to cope with expanding operations and segregation of responsibilities while maintaining good control environment.

**Management Team** Mr. Tahir Ahmed, the company's MD since Jul-05, is an engineer, MBA, and a Chartered Insurer, with extensive experience in insurance. He is assisted by qualified and experienced professionals.

**Effectiveness** The company has four management committees, a) Underwriting Committee, b) Claims Committee, c) Re-insurance/Co-insurance Committee, and d) Risk Management Committee – all headed by the Chief Executive Officer.

**Claim Management System** The company underwent considerable development in revamping its claims handling system; i) Completely centralised at Head office in 2015, ii) Web-based real time settlement system, and iii) upgraded MIS reporting.

**Investment Management Function** For major investment decisions, the company has Finance and Investment committee at board level. The committee comprises six members including CEO, Executive Director and four non-executive directors.

**Risk Management Framework** The company's Risk Management Department (RMD) based in Head Office – has developed a comprehensive risk management system. The department comprises individuals, including engineers, MBA's and M.Com-insurance in addition, industry wide experts are engaged from time to time for any specialized job.

## Business Risk

**Industry Dynamics** Pakistan's general insurance witnessed continuous growth (CAGR 4 years 11%) 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, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

**Relative Position** Jubilee General is the third largest company with GPW market share of 13% (for conventional & takaful both) at end-Sep18. It is classified as large sized company based on its market share.

**Revenue** In 9M18, company witnessed a major increase of 20% in the GPW of conventional sector whereas the gross contribution for Takaful also witnessed an increase of 43% (9M18: PKR 702mln, 9M17: PKR 491mln).

**Profitability** Profit after Tax remained steady at PKR 1.1bln, augmented by increased investment income whereas the Underwriting results showed profitability of PKR 20mln after a loss of PKR 130mln in end-June 2018.

**Investment Performance** Investment Income remains the forte for the company as the company reported a gain of PKR 1,075mln at end-Sep18 as against PKR 935mln as at end-Sep17. The increase was mainly attributable to gain on sale of equity securities and enhanced return on government securities.

**Sustainability** Jubilee General envisages continuing its growth strategy while ensuring improved profitability. Collaboration with Jubilee Life Pakistan for its health business, sharing common operating platform augments operating efficiency. The focus on product innovation is on retail and micro insurance. The persistent investment income augers well for the bottom line of the company giving it a strong cushion.

## Financial Risk

**Claim Efficiency** Jubilee's risk absorption capacity is reflected by its strong liquidity position, providing 2.7 times (2.9 times 9M17) cover to the claims liability.

**Re-Insurance** Jubilee General continues to maintain re-insurance treaties with international re-insurers mostly having rating of 'AA' and 'A' category including Swiss Re (AA- by S&P and A+ by AM Best), SCOR Re (AA- by S&P and A by AM Best), Allianz SE (AA by S&P and A+ by AM Best), Hannover Re (AA- by S&P and A+ AM Best) and several other reputed reinsurance companies.

**Liquidity** At end-Sep18, Jubilee has sizeable investment book of PKR 13.6bln, representing 1.7 times of equity. Predominantly the book is invested in liquid avenues (89%). The risk profile of the investment portfolio remained balanced with more than half of the funds deployed in low risk bank deposits and Government securities.

**Capital Adequacy** The company is well equipped in capital adequacy as per the requirements of SECP. It has an equity of PKR 8.1bln.



## GENERAL INSURANCE Financials [Summary]

The Pakistan Credit Rating Agency Limited

### Jubilee General Insurance Company Limited

	PKR mln Sep-18	PKR mln Dec-17	PKR mln Dec-16
<b>BALANCE SHEET</b>			
<b>Investments</b>			
Liquid Investments	12,061	10,410	10,182
Strategic Investments	786	1,113	1,043
Other Investments	658	661	668
	<b>13,506</b>	<b>12,185</b>	<b>11,893</b>
Insurance Related Assets	6,327	3,770	3,469
Other Assets*	3,358	2,037	2,049
<b>TOTAL ASSETS</b>	<b>23,190</b>	<b>17,992</b>	<b>17,411</b>
Equity	8,179	7,122	6,600
Underwriting Provisions	4,493	3,072	2,952
Insurance Related Liabilities	7,348	5,156	5,249
Other Liabilities*	3,171	2,642	2,610
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>23,190</b>	<b>17,992</b>	<b>17,411</b>
<b>INCOME STATEMENT - Extracts</b>			
Gross Premium Written (GPW)	7,658	7,694	7,851
Net Premium Revenue (NPR)	3,733	4,611	4,171
Net Claims	(2,194)	(2,450)	(2,030)
Net Commission	(318)	(392)	(411)
Net Operational Expenses	(1,201)	(1,425)	(1,333)
<b>UNDERWRITING RESULTS</b>	<b>20</b>	<b>343</b>	<b>397</b>
Investment Income	1,075	1,207	1,198
<b>PROFIT BEFORE TAX</b>	<b>1,111</b>	<b>1,556</b>	<b>1,838</b>
<b>RATIO ANALYSIS - Conventional</b>			
<b>Underwriting Results</b>			
Loss Ratio	59%	53%	49%
Combined Ratio	99%	93%	90%
<b>Performance</b>			
Operating Ratio	70%	66%	56%
Investment Yield	16%	10%	10%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times	2.7	3.0	3.1

\* Includes Window Takaful

Jubilee General Insurance Company Limited

Nov 2018



## INSURER FINANCIAL STRENGTH (IFS) RATING 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
<b>AAA</b>	<b>Exceptionally Strong.</b> 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.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> 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
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> 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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> 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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> 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> <b>B</b> <b>B-</b>	<b>Weak.</b> 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.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> 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>D</b>	<b>Distressed</b> 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.

**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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