



The Pakistan Credit Rating Agency Limited

## Rating Report

### TPL Life Insurance Company Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2019	A-	-	Stable	Maintain	-
27-Jun-2019	A-	-	Stable	Maintain	-
27-Dec-2018	A-	-	Stable	Maintain	-
26-Jun-2018	A-	-	Stable	Maintain	-
13-Dec-2017	A-	-	Stable	Maintain	-
30-May-2017	A-	-	Stable	Maintain	YES
18-Apr-2016	A-	-	Rating Watch- Developing	RW-Developing	-
08-Oct-2015	A-	-	Stable	Maintain	-
20-Jan-2015	A-	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The company has been witnessing increased business volumes ; majority emanates from group business. The topline has been beefed up though the margin is minuscule. Management expenses have traditionally been on a higher side however they are improving in terms of percentage of the premium. The company has endured losses from the investment-linked as well as group business. The deficit has been overturned due to contribution from policyholder's reserve . The Loss Ratio is high in group health business. Support has been received from the sponsor in the form of equity injection through a right issue. Further liquidity is expected to be acquired; the sponsor is exploring different avenues in this regard. Going forward, the company envisages improved topline while simultaneously increasing profitability. Reduction of the loss-making segment while underwriting prudential business is vital.

The rating is dependent on the company's ability to execute its existing business plan in an efficient manner; herein, consistent growth in top-line and underwriting profits are essential. Maintenance of liquidity levels are pivotal for rating.

#### Disclosure

<b>Name of Rated Entity</b>	TPL Life Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	PACRA_Methodology_LI(Jun-19)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-19)
<b>Rating Analysts</b>	Rohail Amjad   rohail.amjad@pacra.com   +92-42-35869504



## Profile

**Legal Structure** TPL Life Insurance is an unlisted company with public limited status.

**Background** TPL Life Insurance Limited was incorporated in 2008 and obtained a license to carry on life and related line of business in 2009. The head office is in Karachi having regional offices in Lahore and Islamabad

**Operations** Currently, the company offers group products for corporate clients (group clients) and retail products for individuals and families according to their requirements. The company uses direct sales force for its group sales and third party distribution channels, Bancassurance in particular, for retail sales

## Ownership

**Ownership Structure** TPL Life Insurance is owned by four shareholders. TPL Life allotted 10mln Right shares at PKR 10/ share to TPL Corp Limited, increasing its holding to 81.5% whereas the remaining 19.5% is shared by Sindh Bank and two individuals.

**Stability** TPL Corp has increased its holdings in the company to 81.5% as against the previous 75% holding

**Business Acumen** TPL Corp is 81.5% subsidiary of TPL Corp. Mr. Ali Jameel is the CEO of TPL Corp Ltd. and the director of TRG Pakistan Ltd. Mr. Jameel has served as the CEO of Jahangir Siddiqui Investment Bank. He has also held several advisory posts in Board of Investment, Economic Advisory Council, Pakistan's information technology and telecommunication sectors, including appointments on the Task Force on Telecom Deregulation, the Fiscal Incentive Group on the IT Commission and the Task Force on Venture Capital

**Financial Strength** TPL Corp – close to four and a half billion rupees corporate conglomerate in turnover terms – has expanded its footings in diversified business avenues with sizable portfolio of strategic investments. TPL Corp has investments in insurance, real estate, security services, and is eyeing expansion in energy and financial services sectors

## Governance

**Board Structure** The Company's BoD consists of 7 members of Sponsoring group and one minority representative. The board has five committees i) Underwriting and Reinsurance Committee ii) Claims Committee iii) Investment Committee iv) Audit Committee & v) Risk Management Committee

**Members' Profile** The chairman Mr. Jameel Yusuf Ahmed, SST. is a veteran businessman and is the Chairman of TPL Holdings (Pvt) Limited, and has exposure in diversified sectors.

**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 CY18 and performed half year review for the period ended Jun-19

## Management

**Organizational Structure** The organizational structure is well defined with clear reporting lines. There are primarily ten departments headed by competent individuals namely, i) Head of Human Resource & Admin, ii) Head of Marketing, communication and CSR, iii) Head of Business solutions and innovation, iv) Head of Underwriting & Policyholder, v) Head of Distribution Operations and Services, iv) Head of Sales Agency Priority Channels, vii) Chief Information Officer, viii) Head of Corporate Business, ix) Head of Finance, and x) Head of Actuarial & Investments. All these heads report directly to the CEO. The company, also, has a management committee comprising all departmental heads.

**Management Team** Mr. Faisal Abbasi, CEO of the company, is a seasoned professional having experience of over two decades years in Life Insurance and banking sector. Earlier he was associated with Jubilee Life insurance and was part of core management role as Group Head Customers Experience, Marketing, and Products

**Effectiveness** The MIS is detailed and sent every month to the directors and the senior management.

**Claim Management System** Claims are classified into four categories: 1) Emergency claims, 2) claims for treatment from panel hospital, 3) Out Patient Department (OPD) claims and 4) claims for reimbursement for treatment from the non-panel hospital. In case of emergency claims, panel hospital provides treatment without the approval of TPL life

**Investment Management Function** TPL Life has a formal investment policy document approved by BoD and reviewed annually. Investment committee chaired by CEO has the authority for implementation and monitoring and propose changes in investment strategy and policy

**Risk Management Framework** TPL Life has developed a detailed manual for risk profiling, mainly based on manuals obtained from its reinsurers. However, the corporation has to put in more effort to fully implement all the ingredient of the manual in its systems and controls

## Business Risk

**Industry Dynamics** Life insurance sector has seen steady growth in recent years (CAGR 3years: 12%), wherein the public sector has seen relatively high growth. Private sector brought innovative life solution, mainly bancassurance – a sum of both saving plans and nominal life cover. Investment portfolios of life insurers are skewed towards government securities (primarily PIBs). Although Interest rate increase brought revaluation losses

**Relative Position** TPL Life Insurance is small sized life insurer with the market share of less than 1%.

**Persistency** Persistency ratio of the company stood at 8.3% at end Sep-19 (end Sep-18: 9.3%) which is less than the market average.

**Revenue** TPL Life has expanded its business size. The company posted a GPW of PKR 512mln at end Sep -19 as against PKR 272mln in Sep-18 rising by an impressive 88%. The revenue from the individual segment comprised 10% of the total revenue whereas the remaining 90% was achieved from group health and life business.

**Profitability** The revenue account posted a deficit of PKR 88mln as against PKR 115mln YoY at end Sep-19. The loss decreased on account of better management of expenses and improved the loss ratio improving to 56% from 71%. The combined ratio of the company also dropped to 125% from 152% YoY at the end Sep- 19.

**Investment Performance** The return on investment stood at PKR 14mln rising from PKR 7mln (YoY) at end Sep-19. The increase is on account of inflated interest rate as the company has major portion invested in government securities (46%).

**Sustainability** The loss for the period was PKR178mln at end Sep-18 as against PKR 106lmm at the same period last year. The increase in the loss is attributed to the rising marketing and administration expense which rose by 29% YoY. Going forward, the company envisages capturing the market from untapped avenues like Banca and takaful supported along with the investment income. The company's Window Takaful has commenced its operation since Jan'

## Financial Risk

**Claim Efficiency** The claims outstanding days increased to 119days at end Sep-19 as against 94days at end Sep-18 on account of increased outstanding claims from PKR 66 mln in Sep-18 to PKR97mln at end Sep-19.

**Re-Insurance** TPL has reinsurance arrangement for both individual life and group life – on the Surplus basis – with Hannover Ruck SE (rated 'AA-' by S&P, and 'A+' by A.M. Best). The treaty provides a cover of PKR 67mln

**Liquidity** The company's liquidity stands dropped to 4.5x at end Sep-19 as against 4.9x at Sep-18 on account of increased outstanding claims.

**Capital Adequacy** The paid-up capital of the company is PKR 1bmln which is well above the MCR for Life Insurers. However, equity at end Sep-19 stood at PKR 282mln, which is minuscule.



**TPL Life Insurance Company Limited (TPL Life)**

<b>BALANCE SHEET</b>	<b>Sep'19</b>	<b>Dec'18</b>	<b>Sep'18</b>	<b>Dec'17</b>
<b>Investments</b>				
Liquid Investments	421	460	425	371
Investment in Associates	-	-	-	-
Other Investments	73	-	-	-
	<b>494</b>	<b>460</b>	<b>425</b>	<b>371</b>
Insurance Related Assets	293	85	51	87
Other Assets	62	66	76	74
	<b>849</b>	<b>611</b>	<b>553</b>	<b>532</b>
<b>TOTAL ASSETS</b>				
Equity	282	260	253	233
Statutory Fund Balance	-	207	-	164
Insurance Related Liabilities	472	91	81	74
Other Liabilities	94	53	219	59
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>849</b>	<b>611</b>	<b>553</b>	<b>532</b>
<b>Revenue Account</b>	<b>Sep'19</b>	<b>Dec'18</b>	<b>Sep'18</b>	<b>Dec'17</b>
GPW	512	435	272	270
Net Premium	449	395	236	253
Net Claims	(252)	(246)	(167)	(68)
Net Operational Expenses	(308)	(334)	(191)	(277)
Investment Income	9	14	17	7
<b>Excess of income over claims/expenditures</b>	<b>(102)</b>	<b>(171)</b>	<b>(105)</b>	<b>(84)</b>
<b>Other Income</b>	14	-	7	1
Reserve for Policyholder Liabilities	(106)	69	(6)	99
<b>(Deficit) / Surplus before Capital contribution (Excluding Profit / (Loss) of Shareholders'</b>	<b>(194)</b>	<b>(103)</b>	<b>(104)</b>	<b>(182)</b>
<b>RATIO ANALYSIS</b>	<b>Sep'19</b>	<b>Dec'18</b>	<b>Sep'18</b>	<b>Dec'17</b>
<b>Underwriting Results</b>				
Gross Premium Written (GPW) Growth Rate	66%	61%	28%	132%
Premium Mix (Individual GPW/ Total GPW)	10%	9%	8%	11%
Persistency Ratio (Individuals Funds)	8%	13%	9%	2%
Loss Ratio (Net Claims as %age of net premium)	56%	62%	71%	27%
Operating Ratio	143%	161%	154%	107%
<b>Performance</b>				
Return on Equity - Shareholder	-69%	-80%	-44%	13%
<b>Liquidity</b>				
Claims outstanding days	119	98	94	292

## 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	<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.
AA+	<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.
AA	
AA-	
A+	<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.
A	
A-	
BBB+	<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.
BBB	
BBB-	
BB+	<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.
BB	
BB-	
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	
B-	
CCC	<b>Very high credit risk.</b> 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	<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. 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)

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- (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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