



## 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
29-Jun-2020	A-	-	Stable	Maintain	-
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 though the margin is minuscule. Management expenses have traditionally been on a higher side as the company envisages aggressive growth target. This has led to a high deficit, a concern. 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.

Prior to COVID-19, the life insurance industry witnessed minuscule growth of 1% YoY as single premium declined due to multiple factors. The current pandemic has further affected the life insurance industry, with the growth expected to plummet. Additional reduction in investment linked policies and heightened claims are expected. Moreover, increase in surrenders is likely as a result of economic stagnation. The large investment book is however likely to cushion any impact. The industry intends to sustain its existing position while aiming to launch innovative products.

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 a public limited status

**Background** TPL Life Insurance Limited was incorporated in 2008 and obtained 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 is held by three major shareholders ~ TPL Corp (82.27%), Sindh Bank (9.09%) and few directors (8.64%).

**Stability** There has been no change in the shareholding of the company since the induction of the new shareholder

**Business Acumen** TPL Life Insurance is 82% 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 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. TPL Corp has investments in insurance, real estate, security services, and is eyeing expansion in energy and financial services sectors

## Governance

**Board Structure** Board Structure The Company's BoD consists of 6 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 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 CY19.

## 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 19 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

**Effectiveness** The MIS sent to new sponsor directors is detailed and sent every month. Moreover, new sponsor directors have more frequent interaction with the management during initial years after acquisition

**Claim Management System** 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** 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** Prior to COVID-19, the life insurance industry witnessed miniscule growth of 1% YoY as single premium declined due to multiple factors. The current pandemic has further affected the life insurance industry, with the growth expected to plummet. Additional reduction in investment linked policies and heightened claims are expected. Moreover, increase in surrenders is likely as a result of economic stagnation. The large investment book is however likely to cushion any impact. The industry intends to sustain its existing position while aiming to launch innovative products.

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

**Persistency** Persistency ratio of the company stood at 19.3% at end Dec-19 (end Dec-18: 12.5%) which is way low than the market average.

**Revenue** The company posted a GPW of PKR 752mln at end Dec -19 as against PKR 435mln in Dec-19 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 underwriting loss decline to PKR 171mln as against PKR 185mln YoY at end Dec-19. The loss decreased on account of better management of expenses whilst maintaining the loss ratio improving at 61%. The combined ratio of the company also dropped to 126% from 146% YoY at the end Dec-19.

**Investment Performance** The return on investment stood at PKR 13mln rising from PKR 19mln (YoY) at end Dec-19. The decrease is on account of declining return from the equity market. The company had pulled out its investment in equity stocks.

**Sustainability** 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'19.

## Financial Risk

**Claim Efficiency** The claims outstanding days increased to a massive 116days at end Dec-19 as against 98days at end Dec-18 on account of increased IBNR from PKR 66mln in Dec-18 to PKR 125 mln at end Dec-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 at 4.6x at end Dec-19 as against 4.2x at Dec-18 on account of increased outstanding claims.

**Capital Adequacy** The paid-up capital of the company is PKR 1.1bln which is well above the MCR for Life Insurers. However, equity at end Dec-19 stood at PKR 288mln, which is very small.



## Life Insurance Financials [Summary]

### TPL Life Insurance Company Limited (TPL Life)

<b>BALANCE SHEET</b>	<b>Dec'19</b>	<b>Dec'18</b>	<b>Dec'17</b>
<b>Investments</b>			
Liquid Investments	612	460	371
	<b>612</b>	<b>460</b>	<b>371</b>
Insurance Related Assets	287	85	87
Other Assets	76	66	74
<b>TOTAL ASSETS</b>	<b>976</b>	<b>611</b>	<b>532</b>
Equity	288	260	233
Statutory Fund Balance	355	207	164
Insurance Related Liabilities	231	91	74
Other Liabilities	103	53	59
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>976</b>	<b>611</b>	<b>532</b>
<b>Revenue Account</b>	<b>Dec'19</b>	<b>Dec'18</b>	<b>Dec'17</b>
GPW	752	435	270
Net Premium	642	395	253
Net Claims	(393)	(246)	(68)
Net Operational Expenses	(421)	(334)	(277)
Investment Income	12	14	7
<b>Excess of income over claims/expenditures</b>	<b>(161)</b>	<b>(171)</b>	<b>(84)</b>
Reserve for Policyholder Liabilities	137	69	99
<b>(Deficit) / Surplus before Capital contribution (Excluding Profit / (Loss) of Shareholders' Fund)</b>	<b>(160)</b>	<b>(103)</b>	<b>(182)</b>
<b>RATIO ANALYSIS</b>	<b>Dec'19</b>	<b>Dec'18</b>	<b>Dec'17</b>
<b>Underwriting Results</b>			
Gross Premium Written (GPW) Growth Rate	73%	61%	132%
Premium Mix (Individual GPW/ Total GPW)	11%	9%	11%
Persistency Ratio (Individuals Funds)	19%	13%	2%
Loss Ratio (Net Claims as %age of net premium)	61%	62%	27%
Operating Ratio	146%	161%	107%
<b>Performance</b>			
Return on Equity - Shareholder	-103%	-80%	13%
<b>Liquidity</b>			
Claims outstanding days	116	98	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)

### **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)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent