



The Pakistan Credit Rating Agency Limited

Rating Report

TPL Life Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jun-2021	A-	-	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The rating of TPL Life Insurance Company Limited (TPL Life) derives comfort from the strong group support that has been witnessed over the past years by way of equity injections. TPL Corp – the Parent Company, is a rising conglomerate having foothold in insurance, real estate, transport, technology and financial sectors. TPL Life has continued with their strategy since 2016 of expanding the business by focusing primarily on group clients which has resulted in strong growth, however in spite of volume increases the margins remain miniscule. Management expenses have traditionally been on the higher side as the Company envisages aggressive growth target and to attain this the acquisition expenses have also risen. This has led to a high deficit, which is a growing concern. The accumulated losses having eroded the equity has resulted in parent company approving injection of PKR 200mln while also deliberating the entrant of foreign partner. Going forward, the Company envisages improved topline while simultaneously increasing profitability. An equity injection from the parent is also on the horizon. During CY20, the total GPW of the industry grew by 4.6% to PKR 233bln in CY20 as against a decline of 1.2% to PKR 223bln in CY19. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. However, due to present pandemic situation, the demand for Life Insurance products is expected to increase over near term which in-turn is expected to result in new business growth for the industry.

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 while the addition of foreign partner will provide added strength.

Disclosure

Name of Rated Entity	TPL Life Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology LI(Jun-20)
Related Research	Sector Study Life Insurance(Jun-20)
Rating Analysts	Faraan Taimoor faraan.taimoor@pacra.com +92-42-35869504



Profile

Legal Structure TPL Life Insurance Limited (TPL Life) is an unlisted company with a public limited status.

Background TPL Life was incorporated in 2008 and obtained license to carry on life and related line of business in 2009. The head office is in Karachi, while regional offices are located in Lahore and Islamabad.

Operations The Company offers group insurance products for corporate clients (group clients) and retail insurance products for individuals and families according to their respective requirements. The Company uses Direct Sales Force for its group sales and third-party distribution channels for retail sales (Bancassurance in particular). The Company also expanded into Takaful services starting from Jan-2019.

Ownership

Ownership Structure TPL Life as at Dec 31, 2020 was held by three major shareholder groups: TPL Corp Ltd (85.28%), Sindh Bank Ltd (7.55%) and few directors (7.17%).

Stability TPL Corp Ltd during 2020 increased their ownership stake in TPL Life Insurance from 90,496,000 shares (82.27%) to 122,996,000 shares (85.28%).

Business Acumen TPL Life is a 85.28% owned subsidiary of parent holding company TPL Corp Ltd. Mr. Muhammad Ali Jameel is the CEO of TPL Corp Ltd. and the director of TRG Pakistan Ltd. Mr. Jameel has served as the CEO of JS Investment Bank. He has also held several advisory posts in Board of Investment, Economic Advisory Council, Pakistan's IT 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 Ltd – a technology driven corporate conglomerate having ~PKR 3.3bln Total Equity and ~PKR 5.7bln Total Assets as at Dec 31, 2020 – has expanded its footings in diversified business avenues with sizable portfolio of strategic investments. TPL Corp Ltd has investments in insurance, real estate, transport, security, technology, vehicle and container tracking, navigation and mapping solutions and financial sectors.

Governance

Board Structure The Company's Board of Directors consists of eight members including the CEO. The board has six committees: i) Audit, ii) Ethics, HR, Remuneration & Nomination, iii) Board Investment, iv) Underwriting & Reinsurance, v) Claim Settlement, and vi) Risk Management Committees.

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

Board Effectiveness The presence of strong strategic partners on board, TPL Corp Ltd, 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 independent auditor EY Ford Rhodes Chartered Accountants, issued an unqualified audit report on the financial statements for CY20.

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 & CSR, iii) Head of Business solutions and innovation, iv) Head of Underwriting & Policyholder, v) Head of Distribution Operations & 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 23 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 sent to directors is detailed and sent every month. Moreover, directors have frequent interaction with the management.

Claim Management System Claims are classified into four categories: i) Emergency claims, ii) claims for Treatment from Panel Hospital, iii) Out Patient Department (OPD) claims and iv) claims for Reimbursement for Treatment from Non-Panel Hospital. In case of emergency claims, panel hospitals provide 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 & 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 ingredients of the manual in its systems and controls.

Business Risk

Industry Dynamics During CY20, the total GPW of the industry grew by 4.57% (PKR 233bln) while having shown decline of 1.24% in CY19 (PKR 223bln). Two factors in particular contributed towards the industry growth i) Decline in discount rate which remained stable at 7% and ii) Recovery of stock market from under stress performance. The past year has been very challenging due to COVID-19 pandemic which has caused immense stress on most businesses.

Relative Position TPL Life is a small sized life insurer with a market share of less than 1%. TPL Life has expanded its business size over time, highlighted by the Gross Premium amount growing YoY since 2016. The Company expanded into Takaful in Jan-2019.

Persistency First year and subsequent year persistency ratio of the Company stood at 17% & 34% at end CY20 (end CY19: 19%, 48%) which is much lower than the market average and thus needs to be improved upon. Decline in persistency ratios due to worsening economic climate brought on due to COVID-19.

Revenue The Company posted a Gross Premium of PKR 1,130mln at year end CY20 as against PKR 753mln for CY19 rising by an impressive 50%. The revenue from the individual segment comprised 17% of the total premium whereas the remaining 83% was received from group health and life business.

Profitability The underwriting loss increased to PKR 316mln (CY20) as against PKR 162mln (CY19). The loss increased on account of rising claims as highlighted by the loss ratio deteriorating for CY20: 76% (CY19: 60%). Expense ratio for CY20 was 58% (CY19: 65%) which shows progress towards Company's goal of reducing costs. Loss after tax continues to increase YoY which in turn has eroded total equity.

Investment Performance The Company has shown steady improvement in Investment Income with annual figures PKR 14mln (CY17), PKR 15mln (CY18), PKR 22mln (CY19) and PKR 27mln (CY20). Investment income increased by 23% YoY and was derived largely from return on debt securities and term deposits. TPL Life's investment book consists primarily of risk-free government securities and term deposits.

Sustainability Going forward, the Company envisages capturing the market from untapped avenues like Banca and Takaful supported along with the Investment Income while improving upon persistency and underwriting performance.

Financial Risk

Claim Efficiency The claims outstanding days decreased to 74 days at CY20 from 85 days (CY19).

Re-Insurance TPL Life has reinsurance arrangement for both individual life and group life – on 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 PKR 620mln at end CY20 as against PKR 613mln at CY19 on account of increase in government securities and equity instruments.

Capital Adequacy The paid-up capital of the Company stood at PKR 1.325bln (CY20) which is well above the MCR for Life Insurers. However, total equity stood at PKR 62mln (CY20) compared to PKR 288mln (CY19), which is lower due to business losses. Holding company support is strong highlighted in note 1.4 of annual financials, where it is mentioned further equity injection will be provided.



PKR mln

TPL Life Insurance Unlisted Public Limited	Dec-20 12M	Dec-19 12M	Dec-18 12M

A BALANCE SHEET

1 Investments	620	613	460
2 Insurance Related Assets	430	288	85
3 Other Assets	55	46	41
4 Fixed Assets	18	31	26
Total Assets	1,123	977	611
5 Underwriting Provisions	27	13	-
6 Insurance Related Liabilities	905	619	312
7 Other Liabilities	124	50	39
8 Borrowings	4	6	-
Total Liabilities	1,061	688	352
Equity	62	288	260

B INCOME STATEMENT

1 Gross Premium Written	1,130	753	435
2 Net Insurance Premium	952	643	395
3 Underwriting Expenses	(1,268)	(804)	(543)
Underwriting Results	(316)	(162)	(148)
4 Investment Income	27	22	15
5 Other Income / (Expense)	19	15	2
Profit Before Tax	(351)	(271)	(200)
6 Taxes	(1)	(0)	(0)
Profit After Tax	(352)	(271)	(200)

C RATIO ANALYSIS

1 Profitability			
Loss Ratio (Net Insurance Claims / Net Insurance Premium)	75.7%	60.0%	62.3%
Combined Ratio (Loss Ratio + Expense Ratio)	133.2%	125.1%	137.4%
2 Persistency			
First Persistency ("Second Year Premium" as %age of last year "First Year Premium")	16.7%	18.8%	10.7%
3 Investment Performance			
Investment Yield	4.4%	4.2%	3.7%
4 Liquidity			
(Liquid Assets - Borrowings) / Outstanding Claims	2.7	4.8	6.9
5 Capital Adequacy			
Equity / Net Insurance Claims	0.2	0.7	1.1

Insurer Financial Strength (IFS) Rating

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+ 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-	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.
B+ B 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.
CCC CC C	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.
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.

<p>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'.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. 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 rating outlook of the respective opinion.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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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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