



The Pakistan Credit Rating Agency Limited

Rating Report

TPL Insurance 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 |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 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 | - |

Rating Rationale and Key Rating Drivers

The rating reflects 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 industry's GPW of the segment. They company is growing into non-motor avenues with 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. Capitalising 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 | Methodology Insurer Financial Strength (IFS) Rating General(Jun-17) |
| Related Research | Sector Study Insurance General(Oct-17) |
| Rating Analysts | Rohail Amjad rohail.amjad@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504 |



| TPL INSURANCE COMPANY LIMITED | |
|-------------------------------|------------------------|
| PROFILE | |
| Incorporated | 1992 |
| Major Business | Insurance |
| Legal Status | Public Limited Company |
| Head Office | Karachi |

| INDUSTRY SNAPSHOT |
|---|
| Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform. |

OWNERSHIP

- TPL Insurance Limited, is listed on Pakistan Stock Exchange.
- TPL Corp has 94% stake in TPL Insurance. This was as a result of re-acquisition of ownership stake from Greenoaks Global Holding Ltd (GGH) which previously held 69% shares in the company.

Governance

- TPL Insurance's board of directors at end of Dec'17, comprised seven members, including the CEO.
- The board comprises of five NEDs, one ED and one Independent Director. Mr. Andrew Borda, who previously, was a representative of Greenoaks Global Holding, is now a nominee of TPL group.

MANAGEMENT

- The CEO, Mr. Saad Nissar, an MBA from IBA, has been on the position since Jan-09, and is supported by a team of experienced professionals
- Mr. Syed Ather Abbas joined in as the Deputy Managing Director since May 2017. He previously worked in Jubilee General Insurance as Chief Sales Officer. He served the insurance industry for more than two decades.
- Mr. Syed Kazim Hassan is the Chief Operating Officer of the company.
- Mr. Shehzad Dhedhi joined in as the new Chief Financial Officer since August 2017.

BUSINESS RISK

- TPL Insurance's market share is ~3% in 2017, capturing a GPW of PKR 2,293mln*, up from 2% in 2016.
- Motor segment – cornerstone of the company – rose by 10% contributing PKR 2,096mln* to the top line, other segments, fire, marine and health added PKR 196mln in CY17 (CY16: PKR 150mln).
- The company maintains its 3rd position in motor segment, 2nd position in overall Takaful Operations and 5th position overall (based on NPR).
- The company recorded a Net Premium Revenue of PKR 2,069mln* (CY16: PKR 1, 751mln) rising by 18%.
- Loss ratio of conventional business showed improvement reducing to 39% (CY16:42%), while window takaful's loss ratio also showed improvement reducing to 51% (CY16: 54%).
- Expense ratio slightly improved to 38% (CY16: 39 %) on combined basis.
- The combined underwriting Profit (Conventional PKR: 99mln, Window Takaful: PKR 12.5mln) stood at PKR 112mln as compared to PKR 26mln in CY16.
- The Window Takaful operation posted a profit of PKR 47mln at end CY17 (CY16: PKR 35mln) registering a growth of 34%

BUSINESS STRATEGY

- 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.
- Further, TPL Insurance's micro health segment will remain in the limelight. The underwriting strategy is conservative while retaining small proportion on net account

FINANCIAL RISK

- TPL Insurance's investment book (PKR 1,144mln) constitutes 1.02 times of its equity base at end-Dec17
- Predominant portion has been deployed in liquid avenues (PKR 1,045 mln), mainly in Term Deposits in banks and mutual funds, reflecting risk averse strategy of sponsors.
- Liquidity cover to claims liability, currently at robust level, provides cushion for ongoing expansion as the company underwrites larger risks in fire and marine.
- Reinsurance arrangements are with reputable reinsurers; Reinsurer panel for conventional business: Swiss Re (Rated 'AA-' by S&P), Hannover Re (rated 'AA-' by S&P) and Trust Re (rated 'A- by AM Best); Reinsurer panel for Window Takaful Operation: Hannover Re, Bahrain (rated 'AA' by S&P) and GIC Re, Dubai (Rated A- by A.M Best)

*Including results from Window Takaful Operations – Participants' Takaful Fund



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

GENERAL INSURANCE
[Financial Summary]

PKR mln

| BALANCE SHEET | 31-Dec-17 | 31-Dec-16 | 31-Dec-15 |
|---------------------------------------|-----------------------|-----------------------|-----------------------|
| | Annual Audited | Annual Audited | Annual Audited |
| Investments | | | |
| Liquid Investments | 1,045 | 821 | 722 |
| Other Investments | 99 | 100 | 100 |
| | <u>1,144</u> | <u>922</u> | <u>822</u> |
| Insurance Related Assets | 426 | 399 | 253 |
| Other Assets | 930 | 960 | 796 |
| TOTAL ASSETS | <u>2,501</u> | <u>2,280</u> | <u>1,871</u> |
| Equity | 1,121 | 1,045 | 941 |
| Underwriting Provisions | 979 | 972 | 783 |
| Insurance Related Liabilities | 117 | 59 | 20 |
| Other Liabilities | 283 | 204 | 126 |
| TOTAL EQUITY & LIABILITIES | <u>2,501</u> | <u>2,280</u> | <u>1,871</u> |
| INCOME STATEMENT | 31-Dec-17 | 31-Dec-16 | 31-Dec-15 |
| Gross Premium Written (GPW) | 1,384 | 1,370 | 1,171 |
| Net Premium Revenue (NPR) | 1,299 | 1,204 | 1,129 |
| Net Claims | (502) | (508) | (532) |
| Net Operational Expenses | (698) | (646) | (543) |
| UNDERWRITING RESULTS | 99 | 50 | 55 |
| Investment Income | 15 | 44 | 10 |
| Other Income/ (expense)* | 49 | 55 | (19) |
| PROFIT BEFORE TAX | <u>163</u> | <u>149</u> | <u>45</u> |
| RATIO ANALYSIS | 31-Dec-17 | 31-Dec-16 | 31-Dec-15 |
| Underwriting Results | | | |
| Loss Ratio | 39% | 42% | 47% |
| Combined Ratio | 92% | 96% | 95% |
| Performance | | | |
| Operating Ratio | 45% | 44% | 35% |
| Investment Yield | 1% | 4% | 2% |
| Liquidity & Solvency | | | |
| Current Ratio | 1.75 | 1.55 | 1.60 |

*Other Income includes Profit from Window Takaful Operations

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