The Pakistan Credit Rating Agency Limited

Rating Report

TPL Insurance Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-May-2022	AA (ifs)	-	Stable	Maintain	-
31-Mar-2022	AA (ifs)	-	Stable	Harmonize	-
07-May-2021	AA-	-	Stable	Upgrade	-
27-Aug-2020	A+	-	Stable	Maintain	-
27-Aug-2019	A+	-	Stable	Maintain	-
04-Mar-2019	A+	-	Stable	Maintain	-
13-Dec-2018	A+	-	Stable	Maintain	-
24-May-2018	A+	-	Stable	Maintain	-
30-Dec-2017	A+	-	Stable	Maintain	-
16-May-2017	A+	-	Stable	Upgrade	-
06-Dec-2016	A	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

TPL Insurance's rating is driven by its strong position in the relevant universe of players. The Company's efficient management systems, in tandem with sustained growth and operational efficiency are reflected in the rating. Further, consistency in implementing prudent financial strategies also played a pivotal role in the maintenance of the entity's rating. The aforementioned factors also enabled the perpetuation of a stable outlook. TPL Insurance has constantly endeavored to diversify its business composition and while its forte resides with the motor segment, the Company offers a variety of other products. Additionally, impetus is derived from abundant liquidity in the form of high liquid investments and cash reserves. Reinsurance treaties provide sufficient coverage to risks. Moreover, TPL Insurance continues to witness an increase in business volumes of the Window Takaful.
The rating is supported by the induction of a German-based institution, DEG, which acquired a 20% stake in the Company in 2021. Another foreign company, Finnfund, is being inducted as an equity partner in the Company. The investment will provide further impetus to TPLI's vision of introducing innovative and tech-driven products, such as yield-based crops and livestock insurance thereby increasing the penetration of insurance in Pakistan. TPL Insurance intends to further develop its digital footprints and bring efficiencies through the digitization of business processes. The equity injection will also improve the financial strength and underwriting capability of TPL Insurance.

The rating is dependent upon the Company's ability to diversify its revenue stream. The inclusion of the foreign partner should provide oversight and impetus to the business and financial risk profile while aiding growth trajectory of the Company. Additional capital received in the form of equity should be kept in cash equivalent or liquid investment.

Disclosure	
Name of Rated Entity	TPL Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Criteria | Rating Modifiers(Jun-21),Methodology | General Insurance Rating(Mar-22)
Related Research	Sector Study | General Insurance(May-21)
Rating Analysts	Muhammad Noor Ul Haq | noorulhaq@pacra.com | +92-42-35869504

Profile

Legal Structure TPL Insurance Limited is a limited liability company. The Company is listed on Pakistan Stock Exchange.

Background The Company was incorporated in 1992 and is headquartered in Karachi, Pakistan. TPL Insurance Limited is a majority owned subsidiary of TPL Corp Limited.

Operations TPL Insurance has been operating in the general insurance market since 2005. The company operates in Auto, Health, Agri, Fire and Marine insurance segments.

Ownership

Ownership Structure TPL Insurance Limited is a majority-owned (~59%) subsidiary of TPL Corp subsequent to an equity injection in April 2021 amounting to 20% shares being issued to and acquired by DEG - Deutsche lnvestitions- und Entwicklungsgesellschaft mbH, a wholly owned subsidiary of KfW Group based in Cologne, Germany, a major development finance institution.

Stability The Company has a strong, stable operating structure. There has been no significant change in the ownership structure.

Business Acumen TPL Insurance Limited is (~58.77%) subsidiary of TPL Corp. TPL Corp is the Investment Holding Company of TPL Group with investments across insurance, tracking, real estate, security, navigation, mapping solutions, fintech and financial sectors through its various subsidiaries. The ultimate sponsors possess strong knowledge in technology. investments and financial sector.

Financial Strength TPL Corp Limited, close to five-billion-rupee corporate conglomerate in turnover terms for 2021, has expanded its footings in diversified business avenues with sizable portfolio of strategic investments

Governance

Board Structure TPL Insurance Limited has an eight-member Board including the CEO, Mr. Muhammad Aminuddin. Presently, there are two independent directors, two executive directors and four non-executive directors chairing the board.

Members' Profile Mr. Jameel Yusuf is the Chairman of the Board. He is an experienced business professional and has been associated with many other not for profit organizations. He has also been awarded with the Sitar-e-Shujaat for his gallantry services.

Board Effectiveness Through the presence of strong strategic partners, TPLI bolsters the governance framework. The Board has established a system of sound internal control, which is effectively implemented at all levels within the Company. The Company has adopted and complied with all the necessary aspects of internal controls given in the 2016 Code.

Transparency The Company's External Auditor, M/s EY Ford Rhodes Chartered Accountants issued an unqualified opinion for financial statements CY21.

Management

Organizational Structure The Company has developed a defined organizational structure and different type of activities are properly segregated and managed through various departments. The operations are divided into I) Underwriting 2) Claims 3) Finance and 4) Sales & Distribution. Meanwhile, a separate department has been established for emerging non-motor segments.

Management Team Mr. Muhammad Aminuddin, the Chief Executive Officer of the Company, has been associated with the Company since August 2018. Mr. Aminuddin is an experienced professional having an exposure of more than two decades in Corporate Finance, Banking and Insurance sector. He is assisted by a team of professionals.

Effectiveness The Company has developed a defined organizational structure and different type of activities are properly segregated and managed through various departments.

MIS The MIS sent to directors is detailed and sent every month. Moreover, directors have more frequent interaction with the management.

Claim Management System The department comprises of individuals having multiple years of experience in claims handling. Claim approval is centralized at Karachi head office. The loss executive or the agent (call center) captures the incidence of claims in 'Claim Intimation Slip (CIS)' when verbal intimation is received through (i) 2417 call center of TPLI, (ii) Trakker Business Partners (TBPs) (i.e. TPL's dealers), or (iii) the claims department.

Investment Management Function TPLI has a formal Investment Policy Statement (IPS) providing fundamental guidelines and execution structure to the investment process. This incorporates a predominant portion of funds to be placed in bank deposits and money market/fixed income funds.

Risk Management Framework TPL Insurance has a formal Risk Management Committee under the supervision of Chairman that ensures the implementation of Enterprise Risk Management Program. The program aims effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations such that all the measures for managing risks entity-wide are addressed and strategic objectives are achieved.

Business Risk

Industry Dynamics The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. In terms of Gross Premium Written (GPW), Pakistan's general insurance industry had a total size of PKR~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR~104,453mln). Currently, the general insurance industry has witnessed a growth of ~19% on YoY basis as of Sep-21, ensuring sustainability in the growth despite the current pandemic of COVID-19. Investment income has also been a support to the bottom-line performances of the companies, since the volumes in PSX have picked up.

Relative Position TPL Insurance is a medium sized company with ~3% market share at Sep-21.

Revenue At end-CY21, the Company's GPW (combined) clocked in at PKR 4,774mln (CY20: PKR 3,986), including Window Takaful. The largest contribution to the GPW can be accredited to the motor vehicle segment; the motor segment contributed a whopping 80% to the aggregate GPW, followed by fire and property damage (8%), health (8%), miscellaneous (2%), and marine, aviation and transport (2%).

Profitability Underwriting profit for the year ended CY21 amounted to PKR 36mln after increasing from PKR 131mln in CY20. As for the Window Takaful Underwriting Operations, the Company incurred a deficit before investment income of PKR 117mln (CY20: PKR 103mln). This was caused by a significant increase in net claims that rose from PKR 507mln in CY20 to PKR 684mln in CY21.

Investment Performance TPL's investment income decreased to PKR 120mln in CY21 from PKR 175mln in CY20, owing to lower returns on deposits and saving accounts.

Sustainability TPLI is expected to gain strategic impetus in the growth of non-motor segment of the company post acquisition by DEG. The retail-centric company expects to launch innovative non-motor products, deriving benefit from DEG's experience.

Financial Risk

Claim Efficiency The claims outstanding days increased to 101 days in CY21 from 81 days in CY20, owing to higher claims, mainly driven by motor segment.

Re-Insurance Reinsurance arrangements are with reputable reinsurers; Reinsurer panel for conventional business: Hannover Re (rated 'AA-' by S&P), SAVA Re (A by A.M. Best), Qatar General (A by A.M. Best); Reinsurer panel for Window Takaful Operation mainly comprise of:Hannover Re, Bahrain (Rated 'AA' by S&P).

Cashflows & Coverages Liquid assets over insurance liabilities are to 1.37 times (1.38 times for CY20). Liquid investments stood at PKR 2,489mln. Majority is cash and bank balance (PKR 1,870mln), Government securities (PKR 320mln), and equity and debt investments (PKR 299mln).

Capital Adequacy The Company has a paid-up capital amounting to PKR 1174mln, which is well above the Minimum Capital Requirement (MCR) for non-life insurers established by SECP.

PACRA

TPL Insurance Limited Listed Public Limited	Dec-21 12M	Dec-20 12M	Dec-19 12M
			PKR mln
A BALANCE SHEET			
1 Investments	2,864.593	2,326.550	2,003.300
2 Insurance Related Assets	1,586.374	1,171.225	685.787
3 Other Assets	1,288.004	974.547	900.546
4 Fixed Assets	449.921	299.668	503.453
5 Window Takaful Operations	-	-	-
Total Assets	6,188.891	4,771.989	4,093.086
1 Underwriting Provisions	2,536.787	2,091.357	1,843.659
2 Insurance Related Liabilities	1,368.297	1,196.809	715.231
3 Other Liabilities	1,063.182	856.959	766.486
4 Borrowings	199.423	129.554	276.621
5 Window Takaful Operations	-	-	-
Total Liabilities	5,167.689	4,274.678	3,601.997
Equity/Fund	1,459.405	882.095	705.162
B INCOME STATEMENTS			
CONSOLIDATED INCOME STATEMENT			
1 Gross Premium Written/Gross Contribution Written	4,773.900	3,986.385	3,684.710
2 Net Insurance Premium/Net Takaful Contribution	3,640.716	3,278.904	3,157.350
3 Underwriting Expenses	(3,604.705)	(3,147.652)	(3,092.326)
Underwriting Results	36.011	131.252	65.024
4 Investment Income	119.573	174.678	151.189
5 Other Income / (Expense)	(323.450)	(306.495)	(230.904)
Profit Before Tax	(167.866)	(0.565)	(14.691)
6 Taxes	(4.464)	(39.725)	(25.514)
Profit After Tax	(172.329)	(40.290)	(40.205)
PARTICIPANTS' TAKAFUL FUND - PTF			
1 Gross Contribution Written	1,489.878	1,239.458	1,179.432
2 Net Takaful Contribution	648.693	714.720	720.524
3 Net Takaful Claims	(684.038)	(505.213)	(480.912)
4 Direct Expenses Including Re-Takaful Rebate Earned	(81.894)	(106.085)	(136.587)
Surplus Before Investment & Other Income/(Expense)	(117.239)	103.422	103.026
5 Investment Income	31.243	45.768	53.969
6 Other Income/(Expense)	(22.858)	(58.924)	(19.258)
Surplus for the Period	(108.854)	90.266	137.737
OPERATOR'S TAKAFUL FUND - OTF			
1 Wakala Fee Income	593.667	401.102	304.583
2 Management, Commission & Other Acquisition Costs	(558.250)	(489.548)	(454.297)
Underwriting Income/(Loss)	35.417	(88.446)	(149.714)
3 Investment Income	9.663	13.926	16.289
4 Other Income/(Expense)	(98.868)	(95.825)	(75.033)
Profit Before tax	(53.788)	(170.344)	(208.458)
5 Taxes	-	-	(4.813)
Profit After tax	(53.788)	(170.344)	(213.271)
C RATIO ANALYSIS			
1 Profitability			
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takafu	49.4%	45.0%	43.3%
Combined Ratio (Loss Ratio + Expense Ratio)	99.0%	96.1%	98.1%
2 Investment Performance			
Investment Yield	4.6%	8.1%	9.2%
3 Liquidity			
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	2.76	3.01	4.25
4 Capital Adequacy			
Liquid Investments / Equity (Funds)	196.3%	263.8%	277.0%

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
AAA (ifs)	**Exceptionally Strong.** Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	**Very Strong.** Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	**Strong.** Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	**Good.** Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	**Modest.** Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	**Weak.** Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	**Very Weak.** Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	**Distressed.** Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or 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 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.

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 surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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.

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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