



The Pakistan Credit Rating Agency Limited

Rating Report

TPL Insurance Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-May-2021	AA-	-	Stable	Upgrade	-
27-Aug-2020	A+	-	Stable	Maintain	-
27-Aug-2019	A+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

TPL has been augmenting its market positioning as it holds a substantial share in motor segment in the industry. Advanced technology infrastructure has continued providing an edge to the company. The third largest player in the motor segment, TPL continues to witness increased business volumes in Window takaful. The company is making concerted efforts to diversify its business composition as it captures non-motor segment, enhancing product slate of TPL Insurance Limited. Underwriting profitability has been enhanced, this augers well for the risk profile. Impetus is gained from abundant liquidity in the company enabled in the form of high liquid investments and cash reserves. Reinsurance treaties provide sufficient coverage to the risks.

The rating takes into account the induction of a German based institution, DEG, as an equity partner into the company. DEG, a wholly owned subsidiary of KfW Group based in Cologne, Germany, has acquired a 19.9% equity stake in TPL Insurance by investing PKR 466mln. The investment supports DEG's vision into expanding in the financial sector of nascent, but growing markets like Pakistan. TPL is expected to gain strategic impetus in the growth of non-motor segment of the company. The retail-centric company expects to launch innovative non-motor products, deriving benefit from DEG's experience. The equity injection is further expected to improve the financial strength which will aid the underwriting capabilities of the company.

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	Methodology GI(Jun-20)
Related Research	Sector Study General Insurance(May-20)
Rating Analysts	Faraan Taimoor faraan.taimoor@pacra.com +92-42-35869504

Profile

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

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 ~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 Investitions- und Entwicklungsgesellschaft mbH, a wholly owned subsidiary of KfW Group based in Cologne, Germany, a major development finance institution.

Stability There was no change in the ownership structure this year other than the board resolving and finalizing to raise further capital by issuing 20% shares to DEG after SECP approval.

Business Acumen TPL Insurance Limited is the 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 2020 – 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.

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 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.

Transparency The Company's auditor EY Ford Rhodes Chartered Accountants, issued an unqualified audit report for the annual financials CY20.

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 1) 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 is the Chief Executive Officer of the Company. He 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) 24/7 call center of TPLI, (ii) Trakker Business Partners (TBPs) (i.e. TPL's dealers), or (iii) the claims department.

Investment Management Function TPL Insurance 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 Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. As at end-CY20, the industry has been able to ensure sustainability in the growth despite the current pandemic. Increase in bank financing along with growth in auto sector has improved sector dynamics. Investment income has been augmented as volumes in PSX have picked up. Companies have reduced management expenses; new innovative products are being launched, in order to engage new customer base.

Relative Position TPL Insurance is a medium sized company with ~4% market share at CY20.

Revenue At end-CY20, the company's GPW (combined) clocked in at PKR 2,746mln (including Window Takaful). Motor segment was the forte of the company comprising 78% of the total GPW, followed by Misc. (2%), Property (9%), Health (10%) and Marine (1%).

Profitability Consolidated underwriting for CY20 posted underwriting profit of PKR 116mln, against underwriting profit of PKR 111mln in CY19 increasing by 4%. As for the Window Takaful underwriting Operations, there was a Surplus before investment income for CY20 of PKR 103mln (CY19: PKR 103mln).

Investment Performance Investment income at CY20 was PKR 91mln (CY19: PKR 81mln), comes from stable stream of bank deposits and debt securities carrying low financial risk. YoY increase in investment income amounted to 12%.

Sustainability TPL 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 of the company remains just above 58days at end CY20 (CY19: 67days, CY18: 56days).

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).

Liquidity The Company's Liquid Assets to Equity ratio for CY20 remained relatively high at 4.7x compared to last year (CY19: 4.1x).

Capital Adequacy At end CY20, paid-up share capital stood at PKR 947mln well beyond the Minimum Capital Requirement (MCR) for non-life insurers, defined as per SECP's regulation.



Financial Summary

The Pakistan Credit Rating Agency Limited

TPL Insurance Limited

BALANCE SHEET	PKR mln	PKR mln	PKR mln
	CY20	CY19	CY18
	Annual	Annual	Annual
Investments			
Liquid Investments	1,835	1,432	1,279
Other Investments	-	-	-
	1,835	1,432	1,279
Insurance Related Assets	971	555	590
Other Assets	437	549	627
Fixed Assets	258	430	129
TOTAL ASSETS	3,501	2,966	2,625
Equity	840	753	767
Underwriting Provisions	1,971	1,505	1,447
Insurance Related Liabilities	293	223	198
Other Liabilities	397	485	213
TOTAL EQUITY & LIABILITIES	3,501	2,966	2,625
INCOME STATEMENT	CY20	CY19	CY18
Gross Premium Written (GPW)	2,746	2,505	2,408
Net Premium Revenue (NPR)	2,163	2,136	2,246
Net Claims	(970)	(883)	(965)
UNDERWRITING (LOSS) / INCOME	116	112	130
Investment Income	91	81	1
(LOSS) / PROFIT BEFORE TAX	80	56	35
RATIO ANALYSIS	CY20	CY19	CY18
Underwriting Results			
Loss Ratio	45%	41%	43%
Combined Ratio	95%	95%	94%
Performance			
Operation Ratio	41%	41%	41%
Investment Yield	5%	6%	0.1%
Liquidity & Solvency			
Liquidity Ratio - times	1.2	1.2	1.3

TPL Insurance Limited

May-21

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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(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

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- (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.
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- (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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