



The Pakistan Credit Rating Agency Limited

Rating Report

Jubilee General Insurance Company Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Nov-2019	AA+	-	Stable	Maintain	-
31-May-2019	AA+	-	Stable	Maintain	-
06-Dec-2018	AA+	-	Stable	Maintain	-
27-Apr-2018	AA+	-	Stable	Maintain	-
22-Jan-2018	AA+	-	Stable	Maintain	-
23-Jun-2017	AA+	-	Stable	Maintain	-
30-Dec-2016	AA+	-	Stable	Maintain	-
31-Dec-2015	AA+	-	Stable	Maintain	-
05-Jan-2015	AA+	-	Stable	Maintain	-
09-Jan-2014	AA+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects Jubilee General's robust risk management framework facilitating the company in sustaining sound underwriting performance. The company has heightened its growth through underwriting. The persistent investment income augers well for the bottom line of the company giving it a strong cushion. The rating recognizes the management's efforts of penetrating relatively untapped segments, reflected in its diverse premium mix. Jubilee General has sound equity base and sufficient liquidity engendering strong risk absorption capacity. The ability of key sponsor, Aga Khan Development Network (AKDN), to foster synergies amongst its financial institutions operating in Pakistan - HBL, Jubilee General, and Jubilee Life - and in the group's different insurance companies across the globe, is also a consideration. The business strategy, going forward, is focused on improving its market position and consequent profitability from core business.

The rating is dependent upon sustained competitiveness of the company with improvement in underwriting profitability. Sustaining the market share is crucial with consequent improvement in the liquidity.

Disclosure	
Name of Rated Entity	Jubilee General Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI_FY19(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504



Profile

Legal Structure Jubilee General, incorporated in 1953, is the third largest general insurance company in Pakistan and is listed on Pakistan stock exchange.

Background In 2003, Jubilee General was acquired and successfully integrated Pakistan operations of Commercial General Union Insurance. During CY11, the company underwent a change in corporate identity through a change in its brand to Jubilee General (previously New Jubilee).

Operations Jubilee General's operations are primarily divided in four zones and two commercial units. Zones are named as follows: (i) Southern Zone, (ii) Lahore Zone, (iii) Multan Zone, & (iv) North Zone. The company's current network comprises 28 branches. This setup of the company, with its head office in Karachi, covers all major cities with its presence in 12 cities of the country.

Ownership

Ownership Structure The major shareholding of the company lies with Aga Khan Development Network (AKDN) (~59%) through various entities including Habib Bank Limited with ~18% stake. Hashoo Group, through its different entities, is the second main shareholder (~16%) in Jubilee General.

Stability The Aga Khan Development Network founded and chaired by His Highness the Aga Khan, represents a group of development agencies that focuses on various development activities, including health, education, economic recovery, environment, disaster reduction and micro finance.

Business Acumen Major agencies included in the Aga Khan Development Network (AKDN) include Aga Khan Fund for Economic Development, Aga Khan Agency for Micro-finance, Aga Khan Foundation, Aga Khan University, University of Central Asia and Aga Khan Trust for Culture. AKDN's outreach extends to 30 countries around the world and provides employment to around 80,000 people. The second largest shareholder, Hashoo Group (HG) has diversified business interests, of which Pearl-Continental Hotel and Marriott Hotel chains are the most significant.

Financial Strength Within the financial sector, in addition to Jubilee General and Jubilee Life, AKDN operates the country's largest private sector bank – Habib Bank Limited (HBL) – in which it acquired a controlling interest in 2004 through privatisation. HBL is rated 'AAA'.

Governance

Board Structure Nine member board of directors, including CEO; includes four representations of AKDN and one of HBL.

Members' Profile All directors, except the CEO, are non-executive members. Mr. Towfiq H. Chinoy, a distinguished industrialist, is board chairman. The directors are known figures of business community and possess diversified experience, auguring well for the overall governance of the company.

Board Effectiveness The board has four board committees, comprising non-executive members, providing strategic oversight to the company and, hence, strengthen its governance framework. These include Audit Committee, Finance & Investment Committee, Board Risk Committee and Human Resource Remuneration and Nomination Committee. All the board meetings observed high attendance.

Financial Transparency As a part of rotational policy AF Fergusons have replaced KPMG Taseer Hadi & Company as Auditors of the company and performed their first review for 1H19.

Management

Organizational Structure The company has instituted a detailed hierarchical organizational structure to cope with expanding operations and segregation of responsibilities while maintaining good control environment.

Management Team Mr Tahir Ahmed, MD of the Jubilee General Insurance since July 2005, is an entrepreneur with vast insurance expertise, an MBA and a Chartered Insurer.

Effectiveness The company has five management committees, a) Underwriting Committee, b) Claims Settlement Committee, c) Re-insurance/Co-insurance Committee, d) Enterprise Risk Management Committee and e) Takaful Committee– all are headed by the Chairman.

MIS The company has been operating on web-based real time ERP solution The company generates comprehensive MIS reports, covering overall operations of the company in all business segments.

Claim Management System Jubilee General Insurance has a highly efficient claims handling system which includes Web-based real time settlement system, and upgraded MIS reporting. It has a completely centralised claims function at its Head office and has introduced online application for motor claims by the name of 'Musafir' and is in the process of introducing a health application soon.

Investment Management Function For major investment decisions, the company has Finance and Investment committee at board level. The committee comprises six members including CEO, Executive Director and four non-executive directors.

Risk Management Framework The company's Risk Management Department (RMD) based in Head Office – has developed a comprehensive risk management system. The department comprises individuals, including engineers, MBA's and M.Com-insurance in addition, industry vide experts are engaged from time to time for any specialized assignments.

Business Risk

Industry Dynamics Pakistan's general insurance sector perpetuated magnification trajectory (CAGR 4 years 11%). While fire and motor magnification are driven by credit off by the banks, the sundry segment has visually perceived most sizably voluminous magnification in health, crop, and livestock. The underwriting profitability ameliorated, though vicissitude in tax laws shall impact net profits going forward. Magnification prospects are sanguine

Relative Position Jubilee General is the third-largest company with GPW market share of 9% (for conventional & takaful both) at 9MCY19. It is classified as large sized company based on its market share.

Revenue In 9MCY19, the company witnessed an increase of 2% YoY in the GPW reaching PKR 7.9bln (9MCY18: PKR 7.7bln) . The gross contribution for Takaful also witnessed an increase of 25% (9MCY19: PKR 882mln, 9MCY18: PKR 702mln). The highest segment for the company continues to be fire standing at 32% followed by Miscellaneous (20%) , Health (18%) and Motor (15%).

Profitability Profit before Tax (PBT) was PKR 1,009mln (9MCY18: PKR 1,173mln) declining by 14% YoY on account of increased expenses and reduced share of profit from the associate. Though the Windows takaful Operations posted an impressive increase of 46% YoY (9MCY19: PKR 91mln, 9MCY18: PKR 62mln)

Investment Performance Investment Income of the company declined by a massive of 54% YoY (9MCY19: PKR389mln, 9MCY18: PKR 857mln), this was on account of losses made by the company on equity securities amidst bearish stock market trend.

Sustainability Jubilee General envisages perpetuating its magnification strategy while ascertaining ameliorated profitability. Collaboration with Jubilee Life Pakistan for its health business, sharing mundane operating platform augments operating efficiency. They fixate on product innovation is on retail and micro indemnification. The assiduous investment income augers well for the bottom line of the company giving it a vigorous cushion.

Financial Risk

Claim Efficiency Jubilee's risk absorption capacity is reflected by its strong liquidity position, providing 2.7 times cover to the claims liability. The company was able to decrease its outstanding claim days in 9MCY19 to 112 days (9MCY18: 119) days

Re-Insurance Jubilee General continues to maintain re-insurance treaties with international re-insurers mostly having rating of 'AA' and 'A' category including Swiss Re (AA- by S&P and A+ by AM Best), SCOR Re (AA- by S&P and A by AM Best), Allianz SE (AA by S&P and A+ by AM Best), Hannover Re (AA- by S&P and A+ by AM Best) and several other reputed reinsurance companies. The company also uses the services of reputable insurance brokers for its reinsurance arrangements

Liquidity At 9MCY19, Jubilee has sizeable investment book of PKR 13.3bln, representing 1.8x of equity. Predominantly the book is invested in liquid avenues (89%). The risk profile of the investment portfolio remained balanced with majority of the funds deployed in low risk bank deposits and Government securities.

Capital Adequacy The company is well equipped in capital adequacy as per the requirements of SECP. It has an equity base of PKR 7.5bln.



GENERAL INSURANCE Financials [Summary]

The Pakistan Credit Rating Agency Limited

Jubilee General Insurance Company Limited

	PKR mln Sep-19	PKR mln Dec-18	PKR mln Sep-18	PKR mln Dec-17
BALANCE SHEET				
Investments				
Liquid Investments	11,892	11,905	12,061	11,840
Strategic Investments	787	1,289	786	1,391
Other Investments	652	659	658	661
	13,331	13,854	13,506	13,892
Insurance Related Assets	5,439	4,748	6,327	3,770
Other Assets*	3,285	2,711	3,358	2,035
TOTAL ASSETS	22,055	21,313	23,190	19,698
Equity	7,583	7,908	8,179	8,313
Underwriting Provisions	4,513	3,636	4,493	3,072
Insurance Related Liabilities	7,244	6,710	7,348	5,156
Other Liabilities*	2,716	3,060	3,171	3,157
TOTAL EQUITY & LIABILITIES	22,055	21,313	23,190	19,698
INCOME STATEMENT - Combined				
Gross Premium Written (GPW)	7,889	10,069	7,658	8,337
Net Premium Revenue (NPR)	3,963	5,397	3,733	4,931
Net Claims	(2,088)	(3,082)	(2,194)	(2,740)
Net Commission	(284)	(494)	(318)	(449)
Net Operational Expenses	(1,310)	(1,762)	(1,201)	(1,476)
UNDERWRITING RESULTS	281	59	20	266
Investment Income	522	1,408	1,075	1,265
PROFIT BEFORE TAX	1,009	1,491	1,111	1,536
RATIO ANALYSIS - Conventional				
Underwriting Results				
Loss Ratio	53%	55%	59%	53%
Combined Ratio	93%	97%	99%	93%
Performance				
Operating Ratio	77%	69%	70%	65%
Investment Yield	4%	10%	9%	10%
Liquidity & Solvency				
Liquidity Ratio – times	2.7	2.7	2.7	3.5

Jubilee General Insurance Company Limited

Nov 2019

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	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+	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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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.
B	
B-	
CCC	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.
CC	
C	
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.

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)

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