



## The Pakistan Credit Rating Agency Limited

### Rating Report

## TPL Life Insurance Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
26-Jun-2024	A (ifs)	Stable	Maintain	Yes
26-Jun-2023	A (ifs)	Stable	Maintain	-
29-Jun-2022	A (ifs)	Stable	Maintain	-
31-Mar-2022	A (ifs)	Stable	Harmonize	-
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	-

#### Rating Rationale and Key Rating Drivers

Pakistan's Life Insurance market is dominated by the public sector (~66.6% share as of Dec-23), while the private sector holds only ~33.4%. The sector players have shifted their focus from first-year persistency to second-year, prioritizing Gross Premium Written (GPW) growth. During CY23, overall GPW showed a YoY growth of ~7.7%. Out of this total, ~46.6% of the GPW pertains to renewals, followed by group life without cash value (~37.2%). Net Premium also showed a YoY increase of ~7.4%. As policy maturities and surrenders have largely trickled in, net claims grew by ~31%. To adapt, the industry holds a substantial investment book (CY23: PKR 2,021bln, CY22: PKR 1,747bln) stabilizing the overall outlook.

The rating reflects TPL Life Insurance Ltd. ('TPL Life' or 'the Company') efforts to manage its position in the life insurance sector. The rating drives comfort from the support of the parent company, TPL Corp Ltd. (TPL Corp), as witnessed in past through an equity injection. TPL Life has been pursuing in life and health insurance businesses; however, recently the Company is striving to accentuate its life insurance business. TPL Life has prioritized the introduction of short-term innovative products. Despite a YoY growth of ~29.4% in the GPW, the Company's topline remains low and consequently unable to absorb fixed expenses. The increased acquisition expenses have impacted the underwriting expenses, and in turn the underwriting performance of the Company. TPL Life's combined ratio remains significantly elevated with minimal support from the investment income. Resultantly, the Company booked a loss on net level. On the financial risk front, depleting liquidity and eroding risk appetite remains a concern. PACRA assigns a Rating Watch registered by significant dilution of equity along with substantially weak performance. The Company must build itself around sizeable business, going forward.

The rating is dependent on the Company's ability to improve gross premiums and in turn underwriting profits. Maintaining adequate liquidity is pivotal for the rating. Solvency profile as indicated through reserves, must be strengthened.

#### Disclosure

<b>Name of Rated Entity</b>	TPL Life Insurance Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Assessment Framework   Life Insurance(Mar-24),Methodology   Rating Modifiers(Apr-24)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-23)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504



## Profile

**Legal Structure** TPL Life Insurance Limited ("TPL Life" or "the Company") was incorporated as a public unlisted company on 19-Mar-08.

**Background** TPL Life is a subsidiary of TPL Corp Ltd. (TPL Corp) with expertise in various sectors. The Company received its license to carry on life and related lines of insurance business from SECP on 02-Mar-09. In Aug-18, the Company was granted authorization by SECP to operate window takaful in respect to family takaful products. However, the Company started takaful operations from Jan-19.

**Operations** The Company is mainly engaged in life insurance business including ordinary life business and accidental and health business.

## Ownership

**Ownership Structure** The major stake (~97.61%) of the Company is held by TPL Corp, while the remaining (~2.39%) is held by others.

**Stability** Ownership of the Company seems to remain stable as TPL Corp holds major stake in the Company.

**Business Acumen** The Sponsors have strong acumen and understanding of the business with two insurance entities operating under the umbrella Group. Moreover, they have diversified business portfolio providing significant support to the Company.

**Financial Strength** The Company gathers its financial strength from TPL Corp, if needs be.

## Governance

**Board Structure** The overall control of Company lies among seven-member Board. Four members are Non-Executive Directors, while there are two Independent Directors and one Executive Director. Two of the Board members represent the Jameel family.

**Members' Profile** The Board's Chairman, Mr. Jameel Yusuf, simultaneously also chairs TPL Corp. He is a veteran businessman with a vast experience in diverse sectors. All other Board members possess diversified professional background and rich business acumen

**Board Effectiveness** The Board is assisted by three committees, namely i) Audit ii) HR, Ethics, Remuneration & Nomination iii) Board Investment. the Audit Committee meets quarterly while HR, Ethics, Remuneration & Nomination Committee meets annually, the minutes of which are adequately maintained.

**Financial Transparency** The Company's External Auditor, M/s BDO Ebrahim & Co. issued an unqualified opinion on the financial statements for the year ended Dec-23. The Company has an in house internal audit function which meets quarterly and reports to the BoD.

## Management

**Organizational Structure** The Company operates through Strategy and Retail, Actuarial Sciences, Information System, Internal Audit, HR, Window Takaful Operations, Corporate Sales and Finance. All the Heads reports to the CEO, who then reports to the BoD.

**Management Team** Mr. Saad Nisar is serving as the CEO since Aug-21. He has served in various capacities in various companies working under TPL Corp. Mr. Syed Kazim Hasan serves as the CFO since Jul-22.

**Effectiveness** The Company has three management committees namely; i) Underwriting, Re-insurance & Co-insurance Committee, ii) Claims Committee iii) Risk Management & Compliance Committee. All of these committees met on quarterly basis and meeting minutes are adequately maintained.

**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 implemented a formal, coherent investment policy approved by the Board and reviewed annually. The investment committee is chaired by the CEO and he has the authority to propose changes in the 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 Company has to strive to fully incorporate various aspects of the manual in its systems and controls. The risk policies of the Company are reviewed by Risk Management Committee and proper minutes of these meetings are maintained.

## Business Risk

**Industry Dynamics** Life Insurance market is dominated by public sector (~66.6% share as of Dec-23). While, the private sector holds only ~33.4% of the market share. Gross Premium (GPW) of the industry stood at ~PKR 406bln during CY23 (CY22: ~PKR 377bln), showing a YoY growth of ~7.69%. GPW is bifurcation i.e., between regular premium products (first year premium, second year premium and subsequent year premium), single premium products and group life policies. ~46.58% of the total premium pertains to renewal premium products, and is followed by premium booked under the category of group life without cash values at ~37.2%, during Dec-23. Net Premium stood at PKR~ 399bln, during CY23 (CY22: PKR~372bln), showing a YoY increase of ~7.39%. On the claims end, Net Claims stood at ~PKR 367bln, during CY23 (CY22: ~PKR 281bln). The total investment book of the insurance industry stood at ~PKR 2,021bln, during CY23 (CY22: ~PKR 1,747bln). Going forward, the overall outlook of the industry remains stable.

**Relative Position** The Company operates as a small player and holds a market share of ~0.1% during Dec-23.

**Persistency** During CY23 the first year persistency remained nil due to reduced retention of policyholders because TPL Life had been pursuing both life and health insurance businesses in the past. Renewal persistency considered moderate, has increased to ~76% (CY22: ~70%). However, during 1QCY24, the first year persistency remained at nil, whereas the renewal persistency clocked at ~51% (1QCY23: ~59%).

**Revenue** The Company recorded GPW of ~PKR 436mln during CY23 (CY22: ~PKR 337mln) mainly from first year premiums. However, during 1QCY24, the Company recorded a GPW of ~PKR 145mln. The increase in GPW is mainly because of new business lines under unit linked policies and micro health policies.

**Profitability** During CY23, the Company reported the underwriting profit of ~PKR 161mln (CY22: ~PKR 49mln). The Company recorded net loss of ~PKR 245mln in CY 23 (CY22: ~PKR 214mln), mainly because of significantly high management expenses. However, during the 1QCY24, the Company reported the underwriting profit of ~PKR 48mln (1QCY23: ~44mln) and net loss of ~PKR 43mln (1QCY23: ~53mln) resulting from comparatively low claims but higher non operating expenses during 1QCY24.

**Investment Performance** During CY23, the investment income of the Company increased ~1950% and stood at ~PKR 41mln (CY22: ~PKR 2mln). During 1QCY24, the investment income of the Company stood at ~PKR 10mln (1QCY23: ~PKR 9mln), witnessing an increase of ~11%. This increase is mainly because of gains on disposal of investments.

**Sustainability** The Company envisages capturing the market from avenues, such as Banca and Takaful. Further, TPL Life also envisions to improve their investments.

## Financial Risk

**Claim Efficiency** As of CY23, the Company reported outstanding claims of ~PKR 83mln (CY22: ~PKR 69mln) . As of 1QCY24, outstanding claims reported at ~PKR 114mln (1QCY23: ~PKR 61mln). The increase in outstanding claims is due to delayed payments from the management.

**Re-Insurance** TPL Life maintains reinsurance arrangements for both individual life and group life – on quota share basis – with Munich Re (rated "A+" by A.M. Best) and Gen Re (rated "A++" by A.M. Best).

**Cashflows & Coverages** As of CY23, the liquidity of the Company stood at ~2.4x (CY22: ~3.7x). Liquid assets of the Company increased by ~14.62% and reported at ~PKR 784mln (CY22: ~PKR 684mln). Liquid investments to outstanding claims stood at ~9.3x (CY22: ~9.9x). As of 1QCY24, the liquidity of the Company stood at ~1.8x (1QCY23: ~2.1x) and the liquid assets recorded at ~PKR 805mln (1QCY23: ~689mln), showing an increase of ~16.84%. Liquid investment to outstanding claims stood at ~7x (1QCY23: ~11.1x). The liquidity of the Company has deteriorated because of relatively more increase in net insurance premium as compared to increase in liquid assets. The overall outstanding claims of the Company has increased leading to decrease in liquid investments to outstanding claims.

**Capital Adequacy** As of CY23, the equity decreased by ~13.74% and recorded at ~PKR 251mln (CY22: ~PKR 291mln). However, as of 1QCY24, the equity base stood at ~PKR 238mln (1QCY23: ~PKR 273mln). This decrease is due to increase in accumulated loss of other than participating business.



PKR mln

TPL Life Insurance Company Limited  
Public Unlisted Company

Mar-24	Dec-23	Dec-22	Dec-21
3M	12M	12M	12M

#### A BALANCE SHEET

1 Investments	805	784	684	725
2 Insurance Related Assets	245	208	118	136
3 Other Assets	83	83	87	114
4 Fixed Assets	44	47	43	25
<b>Total Assets</b>	<b>1,177</b>	<b>1,122</b>	<b>932</b>	<b>1,001</b>
5 Underwriting Provisions	-	-	-	-
6 Insurance Related Liabilities	645	586	447	504
7 Other Liabilities	288	279	187	81
8 Borrowings	6	6	7	1
<b>Total Liabilities</b>	<b>939</b>	<b>871</b>	<b>641</b>	<b>586</b>
<b>Equity</b>	<b>238</b>	<b>251</b>	<b>291</b>	<b>415</b>

#### B INCOME STATEMENT

1 Gross Premium Written	145	436	337	640
2 Net Insurance Premium	110	309	191	540
3 Underwriting Expenses	(62)	(148)	(142)	(766)
<b>Underwriting Results</b>	<b>48</b>	<b>161</b>	<b>49</b>	<b>(226)</b>
4 Management Expenses	(86)	(377)	(307)	(317)
5 Investment Income	10	41	2	27
6 Other Income / (Expense)	1	12	13	32
7 Net Change in Reserve for Policyholders' Liabilities	(15)	(79)	29	297
<b>Profit Before Tax</b>	<b>(42)</b>	<b>(242)</b>	<b>(214)</b>	<b>(186)</b>
8 Taxes	(1)	(3)	(0)	(5)
<b>Profit After Tax</b>	<b>(43)</b>	<b>(245)</b>	<b>(214)</b>	<b>(192)</b>

#### C RATIO ANALYSIS

<b>1 Profitability</b>				
Loss Ratio (Net Insurance Claims / Net Insurance Premium )	27.4%	22.7%	49.1%	121.6%
Combined Ratio (Loss Ratio + Expense Ratio)	134.6%	169.6%	234.6%	200.4%
<b>2 Investment Performance</b>				
Investment Income / Operating Profit	281.3%	-23.7%	-0.8%	-5.3%
<b>3 Liquidity</b>				
(Liquid Assets - Borrowings) / Outstanding Claims	7.03	9.33	9.86	4.46
<b>4 Capital Adequacy</b>				
Liquid Investments / Equity	3.38	3.12	2.35	1.75

### 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)	<b>Exceptionally Strong.</b> 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)	<b>Very Strong.</b> 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)	<b>Strong.</b> 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)	<b>Good.</b> 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)	<b>Modest.</b> 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)	<b>Weak.</b> 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)	<b>Very Weak.</b> 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)	<b>Distressed.</b> 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.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> 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

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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 | Clause 11-(A)(p).
- (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)

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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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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