



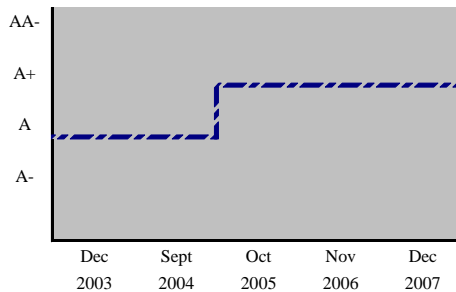
**HABIB INSURANCE COMPANY LIMITED (HIC)**

**RATING (JANUARY 2008)**

**HABIB INSURANCE COMPANY LIMITED**

	NEW	PREVIOUS
<b>Insurer Financial Strength</b>	<b>A+</b>	<b>A+</b>

**RATING HISTORY**



**FINANCIAL DATA**

PKR (mln)

	30-Sep-07	31-Dec-06
Total Assets	1,682.6	1,523.5
Total Equity	1015.8	960.1
Underwriting Results	29.9	52.9
Pre-tax Profit	205.3	605.8
Loss Ratio (%)	50.4	45.6
ROE (%)	27.3	91.1
Premium Solvency Ratio (%)	271.6	311.2

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**ASSESSMENT**

- The rating reflects HIC’s sound financial base originating from healthy solvency margins and a robust equity base. At the same time, the rating recognizes association with Habib Group, with group business providing a sizeable low-risk contribution.
- HIC, over the years, has managed largely to maintain its overall market share, currently at around 2% of the total general insurance market. The company follows a steady and sustainable growth model with a cautious expansion stance towards new segments. However, intensifying competition in the industry, an outcome of aggressive growth strategy pursued by a number of other companies in the industry alongwith product differentiation and increasing outreach would keep its share under constant pressure.
- During 2006, the company largely maintained growth trend in its GPW (06:24%). However, in terms of underwriting results, HIC experienced deterioration mainly due to increase in combined ratio. This ratio was affected by dual impact of higher losses (06: 46%, 05: 41%) and expenses (06: 35%, 05:30%). As a consequence, the core underwriting income was subdued compared to the last year. However, the bottom line showed substantial improvement due to sizeable capital gains. During 9M07, GPW has shown improvement over the corresponding period, which was also translated in improved underwriting income. Going forward, the management is following a two-pronged strategy – a) improve risk management to control increasing loss trend, and b) improve efficiency to manage the impact of increasing costs- to improve its underwriting performance, while targeting a steady growth.
- The premium mix of HIC has remained largely the same (9M07, 06: Fire: 35%, 36%; Marine: 20%, 27%; Motor: 25%, 22%; Other: 19%, 15%). The captive business still represents the bulk of total business (9M07: 34%, 06: 41%). All the business from group companies is negotiated on competitive terms and the management, due to good quality of risk and limited moral hazards, intends to continue pursuing this opportunity. Unlike other insurance companies, HIC intends to maintain a cautious stance towards motor insurance. Meanwhile, the company plans to diversify its business to non-textile sectors in order to manage risk
- HIC continues to maintain reinsurance treaties with credible international reinsurers mostly having ratings in ‘AA’ category. The company is following a consistent cession pattern with retention being around 55% of the total premium. The company is also strengthening the risk management function by improving overall procedures and controls. Recently, it has developed a comprehensive operating manual covering all areas of operations, which is currently under review.
- HIC’s well-managed and diversified investment portfolio continues to dominate the total assets of the company. HIC actively manages its investment portfolio, which continued to be a major source of revenue for the company. Substantial unrecognized revaluation surplus of PKR 348mln as at end-Sep 07 not only provides a cushion against stock market volatility, but is also perceived as a potential source of capital gains. HIC’s share of investment income in the total operating income continues to remain higher than most of its peers.
- The company follows a prudent dividend distribution policy, which has helped in maintaining a healthy financial base despite steady business expansion. HIC has strong solvency position, higher than most of the peers, and maintains adequate liquidity mainly in the shape of a sizeable listed equities portfolio.

**KEY RATING DRIVERS**

- The rating is dependant on the management’s ability to improve its underwriting performance while sustaining its market share amidst intensifying competition in the industry. Meanwhile, any significant increase in loss pattern impacting the risk absorption capacity could have negative rating implications.

**PROFILE**

- Habib Insurance Company, in operation since 1942, is listed on Karachi and Lahore Stock Exchanges. Habib Group – one of the oldest and most well known groups with significant investments in the industrial and service sectors – is the majority shareholder in HIC. Overall control of the company vests in the Board of Directors, comprising seven members, with the majority of directors belonging to the Habib family.
- Mr. Ali Raza D. Habib, a financial industry veteran, is the CEO of the company since 1993. Recently, Mr. Shariq Abdullah, a chartered accountant and an MBA with significant international experience, has joined the company as COO.
- With a nationwide network of 15 branches, HIC underwrites various types of general insurance business. The company enjoys a higher degree of staff loyalty, reflected by a low turnover.

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