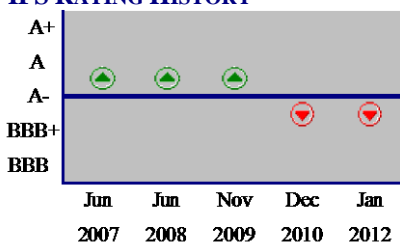


RATING (DECEMBER 2011)
SHAHEEN INSURANCE COMPANY
LIMITED (SIC)

	New	Previous
Insurer Financial Strength	A-	A-
Outlook	Negative	Negative

IFS RATING HISTORY



FINANCIAL DATA

PKR (mln)	Sep-11*	Dec -10	Dec -09
Total Assets	870.3	717.7	729.7
Equity	267.2	196.2	225.3
GPW	514.7	553.1	596.3
Underwriting			
Income - adjusted	7.7	(47.8)	(15.6)
Net Income / (Loss)	24.5	(23.5)	21.0
ROE%	12.0	(13.8)	8.1
Loss Ratio (%)	51.8	63.0	55.6
Combined Ratio (%)	97.8	111.5	103.2
Operating Ratio (%)	93.0	105.6	95.6
Liquidity Ratio ** (%)	1.2	1.2	1.1
Solvency Ratio *** (%)	1.7	1.4	1.3

* Based on unaudited accounts

** Liquidity Ratio: adjusted liquid assets/ net claims

*** Solvency Ratio: financial base/ net claims expense

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RATING RATIONALE AND KEY DRIVERS

The rating recognizes increasing role of Shaheen Foundation in the governance of the company under a framework of enhanced oversight and financial support. The company has experienced squeeze in its risk absorption capacity, as a result of sizeable cash flows being diverted to illiquid, non-earning avenues. However, this would be addressed through multiple steps envisaged by the board including injection of fresh capital (PKR 50mln), also ensuring compliance with the regulatory requirement. The underwriting performance of the company, with the management's focus on invigorating underwriting practices and controlling acquisition cost, has depicted some improvement. Moreover, there is continued focus on strengthening the operating platform for enhancing the quality of business performance and customer service.

The outlook on the rating is "Negative", which takes cognizance of the fact that sustainability in the underwriting performance is yet to be established. Moreover, the change in the ownership structure, though at an advanced stage, is still to be completed. Meanwhile, any abrupt change in the management, destabilizing the company's operations, would be critical for the rating.

ASSESSMENT

Ever since the economic downturn in 2008, the insurance industry has been facing major challenges arising from muted GDP growth, precarious security situation, widening fiscal imbalance, and rising inflation. The economic slowdown has further intensified the competitive landscape of the insurance industry putting pressure on premium pricing. Consequently, the industry growth as well as overall profitability continues to remain uncertain. The industry, cognizant of growth impediments, is taking steps to improve its operating platform to offer an improved level of services.

GPW mix of the company, at end Sep-11, is dominated by motor (39%), followed by recently added health (22%), fire (19%), miscellaneous (15%), and marine (5%).

SIC, after witnessing continuous decline in GPW for the last three years, registered expansion (14%) during 9MCY11, fueled mainly by growth in health and fire segments. The company shed off loss making motor business, which helped in improving the loss ratio of this segment. This, coupled with lower loss ratio in the fire segment due to better risk management, resulted in the overall loss ratio improving to 52% (CY10: 63%). Moreover, rationalization in the commission structure (9MCY11: 12%, CY10: 16%) of the company benefitted in favor of expense ratio. This provided a little margin and combined ratio improved to 98% (CY10: 112%). This was further supported by improving investment income, emanating from bank deposits and unrealized investment gain (though less than last year), reporting net profits for the company. Going forward, it is indeed critical for the company to maintain this trend.

The new management team, while reorganizing different functions, focuses on consolidation of operations with moderate growth in business volume. The company has taken a shift towards centralization of all major functions to ensure strict adherence to risk management policies and procedures. Meanwhile, web-based real time insurance solution (GIS) shall be fully operational beginning CY12, which is expected to augment SIC's overall control environment. Going forward, the company targets personal line insurance as major growth driver, including health insurance, travel insurance, homeowner insurance, and cash in transit.

SIC investment book represents 74% of its equity base at end Sep-11. The liquid proportion (85%) of the investment portfolio is dominated majorly by bank deposits (46%), followed by money market mutual funds (43%), and equity scrips. Despite inflow of fresh equity (PKR 50mln), the size of liquid investments witnessed significant decline (9MCY11: PKR 168mln, CY10: PKR 293mln), as the company diverted funds to real estate investments in owned and/or being developed by FCG companies. This has increased non-earning assets of the company, with dual impact on profitability and liquidity. SIC is also facing difficulty in timely receipt of premium from one of the FCG Company currently under pressure.

SIC has secured reinsurance arrangements with international reinsurers of sound repute including Mitsui Sumitomo Re (AA) and Best Re (A-). The reinsurance arrangements constitute a blend of surplus, quota share and excess of loss treaties. Though cession level in fire (43%) and marine (52%) remains at moderate level, inclusion of health and motor segments with negligible reinsurance cover (2% each), lowers the overall cession level of the company (20%).

The liquidity is relatively stretched, given the envisioned growth trajectory of the company. During 9MCY11, the adjusted liquid assets declined to 0.6times (CY10: 0.8) of net premium revenue. The financial base in relation to net claims (1.7times) falls within comfortable range. However, the fact that a sizeable amount (PKR 205mln) is tied up in non-liquid avenue, gives a dire picture of the risk absorption capacity of the company. The solution to the problem lies in first: cessation of such transactions in future; and second: efforts to convert these investments into earning liquid streams.

PROFILE

SIC commenced commercial operations as a general insurance company in 1995, and is currently listed on all three bourses of the country. With its head office in Karachi, the company has a nationwide network of 13 branches and liaison offices. SIC, historically, was a largely equal joint venture of Hollard Insurance, South Africa, FCG and SF. However, this ownership structure is likely to undergo major changes. Hollard has decided to take exit and is completing legal formalities in this regard. First Capital Group (FCG) and Shaheen Foundation (SF) have agreed to equally take up Hollard's stake. However, FCG is in financial distress and may not be able to fulfill this commitment. Moreover, another planned right issue of PKR 50mln may further constrain its ability. These developments have led to emergence of SF as the key sponsor. SF has got requisite approvals to enhance its stake, making it majority owner in SIC. SF remains committed to support and nourish SIC, if need arises.

Currently, the overall control of the company vests in seven-member BoD, four of them is representatives of SF and three of FCG. Lately, SF has appointed an Executive Director in SIC, aimed at enhancing oversight in the wake of weakening financial profile of the company. Mr. Asif Suleman, a Chartered Accountant, has been elevated to the position of CEO in 2010, previously working as CFO since 2004. Mr. Asif is assisted by a team of adequately experienced professionals. SF's board has lately appointed an executive director from Shaheen Foundation to exercise close oversight of the company's affairs.