



The Pakistan Credit Rating Agency Limited

SHAHEEN INSURANCE COMPANY LIMITED (SIC)

IFS RATING REPORT

	NEW [Nov-16]	PREVIOUS [Nov-15]
Insurer Financial Strength (IFS) Rating	A-	A-
Outlook	Stable	Stable

REPORT CONTENTS
1. SUMMARY ANALYSES
2. FINANCIAL SUMMARY
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

NOVEMBER 2016

Profile & Ownership

- Shaheen Insurance Company Limited, (SIC), was incorporated as a general insurance company in 1995, and is listed on the Pakistan Stock Exchange
- With its head office in Karachi, the company has a nationwide network of 10 branches with recent addition of Gujranwala and Multan into the network
- SIC is majority owned by Shaheen Foundation (SF) (64.6%) – Sponsors of the company

Governance & Management

- The overall control of the company vests in the seven-member Board of Directors (excluding the CEO). All directors are non-executive representing SF.
- Chairman, changed recently; Air Marshal Muhammad Jamshed Khan (Retd.), is also the Managing Director of MD SF. Chairman is ex-officio position.
- SF's new DMD, Air Vice Marshal Syed Razi Nawab (Retd.), is also an executive director of Shaheen Insurance
- The company is in the process of hiring an independent director on the board
- The BoD operates through three committees namely i) Audit Committee, ii) Investment Committee and iii) Human Resource and Remuneration Committee
- Mr. Sohail Kidwai, CEO of the company since Jan-14, had previously been associated with the company at a senior position for long; and carries with him over two decades of insurance experience.

Business Risk

- SIC's GPW mix, in 9M16, has continued to be dominated by the motor segment (64%), followed by misc. (16%), fire (14%), and health and Marine segment (3%) each
- The top ten client concentration has declined to 51%, (CY15: 59%), wherein, increase in proportion of captive business (Shaheen Foundation) provides stability to the topline.
- GPW has been reported at PKR 287mln, resulting in an YoY increase of ~7%, wherein, captive business growth (28%) outpaced muted non-captive growth
- The loss ratio improved to 37% (9M15: 43%), mainly in fire segment
- The expenses in absolute amount have risen by 16% to PKR 93mln, thereby increasing expense ratio to 65% (9M15: 61%)
- Improvement in investment income elevated the bottom-line as the company recorded a PAT of PKR 19mln (9M15: PKR 5mln)

Business Strategy

- SIC envisages increasing focus to tap captive business which carries huge potential in PAF and Public sector projects
- A comprehensive marketing strategy chalked out, including strengthening branch network, to actively pursue opportunities in motor and marine segments, and tapping opportunities in conventional insurance, high risks sector - Energy
- SIC is also planning to enter into takaful market, however, the plan is still in initial stages

Financial Risk

- The liquid investment book (end-Sep16: PKR 257mln) constitutes 67% of SIC's equity base
- The book is mainly deployed in bank deposits (63%), followed by government securities (23%), income based mutual funds (12%) and equities (1%). The yield on this book is low at 8%.
- The size of liquid investments provides 1.6times coverage to the claims liability at end-Sep16, however, the size of the book needs to grow alongside growth of insurance float
- SIC's proportion of insurance related assets-to-liability is at net surplus by PKR 33mln, however, premium outstanding days have increased on a YoY basis 9M16: 195days (9M15: 124days), requiring management's attention.
- Reinsurance arrangements with international reinsurers of sound repute including Trust Re (A- by AM Best) the leader, Pak Re (Sovereign Government Guarantee) and Saudi Re (BBB+ by S&P).

RATING RATIONALE

The rating reflects SIC's strong parentage - Shaheen Foundation - ensuring financial soundness of the company while augmenting it's business operations and control environment through active vigilance. Shaheen Insurance has sustained market share keeping pace with the industry's growth. Dominating portfolio - motor - is depicting good underwriting results, enabling the company to nourish other segments. Accumulated losses have reduced significantly, strengthening equity base. The company envisages to continue expanding in motor segment, while exploring opportunities in the energy sector. Major focus is being directed towards tapping potential of captive business - PAF and related. The liquidity profile needs to be strengthened at a higher rate alongside quality business expansion. This provides comfort against the outstanding liabilities net of reinsurance. The bottom-line support from investment income needs to improve gradually. Nevertheless, the company is carrying a sizeable quantum of illiquid non-earning assets, though efforts are being made to minimize the ensuing impact.

KEY RATING DRIVERS

The rating is dependent upon sustained improvement in business profile of the company with enduring emphasis on profitability. Uptick in the liquidity position would be essential.

INDUSTRY SNAPSHOT

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 10%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE
Financials [Summary]**

Shaheen Insurance Company Limited (SIC)

BALANCE SHEET	30-Sep-16	31-Dec-15	31-Dec-14
Investments			
Liquid Investments	257	265	267
Other Investments	211	212	211
	<u>469</u>	<u>477</u>	<u>478</u>
Insurance Related Assets	258	165	173
Other Assets	149	139	137
TOTAL ASSETS	<u>876</u>	<u>781</u>	<u>788</u>
Equity	385	366	341
Underwriting Provisions	196	148	130
Insurance Related Liabilities	225	214	254
Other Liabilities	70	52	63
TOTAL EQUITY & LIABILITIES	<u>876</u>	<u>781</u>	<u>788</u>

INCOME STATEMENT	30-Sep-16	31-Dec-15	30-Dec-14
Gross Premium Written (GPW)	287	309	284
Net Premium Revenue (NPR)	198	225	230
Net Claims	(72)	(100)	(73)
Net Operational Expenses	(129)	(145)	(200)
UNDERWRITING INCOME/(LOSS)-Adjusted	<u>(4)</u>	<u>(20)</u>	<u>(44)</u>
Investment Income	15	19	14
Other Income/ (expense)	10	7	38
PROFIT BEFORE TAX	<u>21</u>	<u>6</u>	<u>6</u>
Unappropriated Profit/ (Loss) Brought Forward	(104)	(130)	(143)
Unappropriated Profit/ (Loss) Carried Forward	(85)	(104)	(141)

RATIO ANALYSIS	30-Sep-16	31-Dec-15	30-Dec-14
Underwriting Results			
Loss Ratio	37%	45%	32%
Combined Ratio	102%	110%	119%
Performance			
Operating Ratio	89%	99%	96%
Investment Yield	8%	7%	5%
Liquidity & Solvency			
Liquidity Ratio – times	1.6	1.6	1.2

Shaheen Insurance Company Limited (SIC)

Nov-16

www.pacra.com



RATING SYMBOLS & DEFINITIONS:

**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.

RATING 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-	Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ B B-	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.
CCC CC C	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.
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, but may stay in abeyance for long. 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, or c) the rating remains suspended for six months.

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.



Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity
Sector
Type of Relationship

Shaheen Insurance Company Limited (SIC)
Insurance - General
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Ratings	Outlook	Action
17-Nov-16	A-	Stable	Maintain
18-Nov-15	A-	Stable	Maintain
5-Jan-15	A-	Stable	Upgrade
30-Apr-14	BBB+	Stable	Upgrade
1-Aug-13	BBB-	Negative	Downgrade

Related Criteria and Research

Methodology:
Sector Research:

Insurer Financial Strength Rating Methodology
Insurance | General - Viewpoint | Nov-16

Rating Analysts

Muneeb Rashid muneeb.rashid@pacra.com (92-42-35869504)	Amara S. Gondal amara.gondal@pacra.com (92-42-35869504)
---	---

Rating Team Statement

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

PACRA maintains principle of integrity in seeking rating business. PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them.

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest.

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Office PACRA.

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities.

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 ii) fee mandate - signed with the payer, which can be different from the entity.

PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance

Confidentiality

PACRA has framed a confidentiality policy to prevent; abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical

Prohibition

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not

Probability of Default (PD)

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 each rating notch. These studies are available at our website (www.pacra.com). However, actual transition of a particular rating may not follow the pattern observed in the past.