



The Pakistan Credit Rating Agency Limited

SHAHEEN INSURANCE COMPANY LIMITED (SIC)

IFS RATING REPORT

	NEW [SEP-17]	PREVIOUS [MAR-17]
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

SEPTEMBER 2017

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 11 branches.
- SIC is majority owned by Shaheen Foundation (SF) (73.4%) – Sponsors of the company.
- Right Issue in March-17 of PKR 150mln had led SF to emerge as the key sponsor with demonstrated support for 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.
- 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 been associated with the company at a senior position for long; and carries with him over two decades of insurance experience.

Business Risk

- During 1H17, GPW has been reported at PKR 175mln, resulting in an YoY increase of 3%.
- Health segment witnessed major increase with 34% followed by marine (22%) and fire (15%). Motor business declined 1% YoY as the company did not witness growth in non captive business.
- The loss ratio improved to 35% (1H16: 38%), with the company witnessing an improvement in marine and health loss ratios.
- The expenses decreased by 3% to PKR 62mln (1H16: PKR 60mln, thereby reducing the expense ratio to 63% (1H16: 67%).
- With a high expense ratio, it translates into underwriting income of PKR 2mln in contrast with an underwriting loss of PKR 6mln in 1H16.
- The investment income is low as major chunk of investments are placed with banks at low profits to attract business, however, improvement in investment income in 1H17 elevated the bottomline as the company recorded a PAT of PKR 23mln (1H16: PKR 13mln).

Business Strategy

- Going forward, the company envisages increased GPW in CY17 with a focus on tapping into captive business which carries huge potential; opportunities in PAF and public sector projects
- The company has signed an agreement with Soneri Bank and First Punjab Modaraba for coverage for their Auto Financing portfolio
- Shaheen Insurance plans to enter the takaful market soon and the process is in final stages.

Financial Risk

- The liquid investment book increased significantly to PKR 481mln (1H16: PKR 261mln) on the back of significant growth in bank deposits.
- The liquid deposits constitute 68% of SIC's total investments. The book is mainly deployed in bank deposits (55%), followed by government securities (8%), debt securities (5%) and equities (27%).
- The yield on this book has increased to 17.4% (1H16: 7.4%).
- The liquidity position of the company improved drastically to 4.1times (1H16: 1.6times) on the back of increased liquid investments due to sustained right issues.
- Company should focus on recovering premiums due from related parties which have ballooned to PKR 24mln (1H16: PKR 13mln).
- Reinsurance arrangements with international reinsurers of sound repute including Trust Re (A- by AM Best) the leader, Sava Re (A- by AM Best) and Saudi Re (BBB+ by S&P).

RATING RATIONALE

The rating reflects Shaheen's Insurance strong parentage - Shaheen Foundation - ensuring financial soundness of the company while augmenting its business operations and control environment through active vigilance. The significant improvement in the liquidity profile emanates from fresh equity issuance. 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; for which the company is enhancing linkage with financial institutions. The company is expanding into other segments, leading to a diversified premium mix. The company carries support from investment income; gradually improving. The recent drive to invest in real estate sector needs to enmesh with the liquidity requirements of the company.

KEY RATING DRIVERS

The rating is dependent upon sustained improvement in business profile of the company. This requires enduring emphasis on underwriting profitability and building requisite human resource. Given increasing size of investment book, investment policy statement needs elaboration and performance tracking mechanism. The company has adequate balance between insurance assets and liabilities that should be kept intact.

INDUSTRY SNAPSHOT

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). 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; bond insurance, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.

Shaheen Insurance Company Limited (SIC)

BALANCE SHEET	1H17	CY16	1H16	31-Dec-15
Investments				
Liquid Investments	481	309	261	266
Other Investments	221	209	209	210
	<u>702</u>	<u>517</u>	<u>470</u>	<u>476</u>
Insurance Related Assets	179	113	204	165
Other Assets	102	141	142	140
TOTAL ASSETS	<u>983</u>	<u>771</u>	<u>816</u>	<u>781</u>
Equity	579	406	379	366
Underwriting Provisions	161	154	160	148
Insurance Related Liabilities	178	160	221	214
Other Liabilities	65	50	56	52
TOTAL EQUITY & LIABILITIES	<u>983</u>	<u>771</u>	<u>816</u>	<u>781</u>
INCOME STATEMENT	1H17	CY16	1H16	31-Dec-15
Gross Premium Written (GPW)	175	340	170	309
Net Premium Revenue (NPR)	143	265	131	225
Net Claims	(50)	(74)	(49)	(100)
Net Operational Expenses	2	(32)	(51)	(145)
UNDERWRITING INCOME/(LOSS)-Adjusted	<u>94</u>	<u>158</u>	<u>31</u>	<u>(20)</u>
Investment Income	16	20	11	19
Other Income/ (expense)	6	20	10	7
PROFIT BEFORE TAX	<u>25</u>	<u>43</u>	<u>14</u>	<u>6</u>
Unappropriated Profit/ (Loss) Brought Forward	(64)	(104)	(104)	(130)
Unappropriated Profit/ (Loss) Carried Forward	(40)	(64)	(91)	(104)
RATIO ANALYSIS	1H17	CY16	1H16	31-Dec-15
Underwriting Results				
Loss Ratio	35%	28%	38%	45%
Combined Ratio	98%	98%	104%	110%
Performance				
Operating Ratio	83%	83%	89%	99%
Investment Yield	17%	7%	-44%	7%
Liquidity & Solvency				
Liquidity Ratio – times	4.1	2.8	1.6	1.6



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.

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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
27-Sep-17	A	Stable	Maintain
10-Mar-17	A	Stable	Upgrade
17-Nov-16	A-	Stable	Maintain
18-Nov-15	A-	Stable	Maintain
05-Jan-15	A-	Stable	Upgrade

Related Criteria and Research

Methodology:
Sector Research:

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

Rating Analysts

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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.

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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.

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