



The Pakistan Credit Rating Agency Limited

Rating Report

Habib Insurance Company Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-May-2018	A+	-	Negative	Maintain	-
30-Dec-2017	A+	-	Positive	Maintain	-
29-Jun-2017	A+	-	Positive	Maintain	-
29-Jun-2017	A+	-	Positive	Maintain	-
30-Dec-2016	A+	-	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The rating incorporates the Company's association with astute sponsors Habib Family. This, while providing stability to revenue stream in the form of captive business, establishes a sound governance framework. The rating takes note of HIC's business strategy that encompasses enhancing its market presence with innovative products while diversifying revenue stream. Product innovation and extended market outreach, capitalizing on Habib group banks, boded well for HIC's business profile. The company's conservatism, in the form of low risk retention, has continued yielding profitability. Profitable growth is a challenge, which is essential to the relative positioning of the company in future. HIC maintains a reasonable, fundamentally strong and diverse investment portfolio, which not only provides risk absorption capacity, but also supports profitability.

The rating is dependent on strengthening of company's relative position in the market. In addition, improvement in the underwriting profitability is important. The liquid profile is adequate for current level of operations, the strengthening is necessitated as the company grows. Improvement in claims monitoring system focusing on claims turnaround time (TAT) would also be key consideration for rating elevation.

Disclosure	
Name of Rated Entity	Habib Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Insurer Financial Strength (IFS) Rating General(Jun-17)
Related Research	Sector Study Insurance General(Oct-17)
Rating Analysts	Iqra Bashir iqra.bashir@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

HABIB INSURANCE COMPANY LIMITED PROFILE	
Incorporated	1942
Major Business	Insurance
Legal Status	Listed Public Limited Company
Head Office	Karachi

INDUSTRY SNAPSHOT
Pakistan general insurance continued growth trajectory (CAGR 4 years 12%). While fire and motor growth is driven by credit off by the banks, the miscellaneous segment has seen largest growth in health, crop, and livestock. The underwriting profitability improved, though change in tax laws shall impact net profits, going forward. Growth prospects are sanguine.

OWNERSHIP:

- HIC is 68% owned by Habib Group, which is one of the renowned and well-established groups, having exposure in industrial and financial sectors.

GOVERNANCE:

- Seven members board with equal representation of two families; Dawood Habib Family and Rafiq Habib Family, comprises six non-executive and one independent member. There is a significant change in board. Mr. Ali Raza D. Habib and his son Mr. Aun Mohammad A. Habib has resigned. Mr. Qumail R.Habib, Mr. Munawwar Ali Habib and Mr. Shahid Ghaffar have replaced Mr. Ali Raza D. Habib, Mr. Aun Mohammad A. Habib and Mr. Ali Fadoo.

MANAGEMENT:

- Mr. Shabbir Ghulam Ali, having over three decades of insurance related experience and of that 18 years with HIC is CEO of the Company.

BUSINESS RISK

- The company constitutes market share of 1% declined from 2% in CY16 and CY15.
- The company achieved highest GPW in CY16 (PKR 1,401mln) which is further 17% declined in CY17 (PKR 1,163mln), majorly in miscellaneous (-52%) health (-47%), fire (-25%) and Marine (-11%) while Motor has shown positive growth of 31% at end Dec 17.
- GPW portfolio mix at end-Dec17 is dominated by fire (35%), followed by motor (31%) and marine (20%). Whereas at 9MCY17 this GPW mix was fire (38%), motor (25%) and marine (20%).
- Net loss ratio of the company increased due to a noticeable increase in misc. segment (CY17: 79%, CY16: 34%) and Health (CY17: 131%, CY16: 122%) thereby increasing the overall loss ratio to CY17: 67% (CY16: 52%).
- The company posted an underwriting loss of PKR ~60mln, whereas in CY16 it showed profit of PKR 5mln and again posted loss of PKR 43mln in 9MCY17.

FINANCIAL RISK

- The company's investment book (PKR 1,509mln) represents 105% of its equity base at end-Dec17.
- The liquid investment portfolio is deployed in government securities (10%), cash & bank (25%) equities (51%) and debt securities (15%).
- The company's premium receivables surged in CY17 (141Days) from CY16 (111 Days) whereas, claim days improved (CY17:277 Days, CY16:327 Days).
- Proposed cash dividend @ 15% i-e Rs. 0.75/share amounting Rs. 92.906mln (2016: Rs. 216.781mln) subject to approval in AGM to be held on April 26, 2018.
- Reinsurance arrangements are a combination of surplus, quota share and excess of loss treaties for various segments with leading reinsurers.



The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE Financials [Summary]

Habib Insurance Company Limited (HIC)

		Restated	
BALANCE SHEET	31-Dec-17	31-Dec-16	30-Sep-16
Investments			
Liquid Investments	691	909	641
Investment in Associates	752	964	396
Other Investments	65	62	58
	1,509	1,935	1,095
Insurance Related Assets	1361	1237	1,377
Other Assets	406	493	600
TOTAL ASSETS	3,276	3,665	3,071
Equity	1436	1737	1,044
Underwriting Provisions	554	708	725
Insurance Related Liabilities	838	702	1,048
Other Liabilities	448	519	254
TOTAL EQUITY & LIABILITIES	3,276	3,665	3,071
INCOME STATEMENT	31-Dec-17	31-Dec-16	30-Sep-16
Gross Premium Written (GPW)	1163	1401	1,098
Net Premium Revenue (NPR)	556	545	399
Net Claims	374	282	196
Net Operational Expenses	-263	-244	54
UNDERWRITING RESULTS	-81	20	648
Investment Income	220	244	142
Other Income/ (expense)	3	36	6
PROFIT BEFORE TAX	163	285	185
RATIO ANALYSIS	31-Dec-17	31-Dec-16	30-Sep-16
Underwriting Results			
Loss Ratio	67%	52%	49%
Combined Ratio	115%	96%	91%
Performance			
Operating Ratio	115%	96%	91%
Investment Yield	7%	6%	9%
Liquidity & Solvency			
Liquidity Ratio – times	1.0	1.5	0.9

Habib Insurance Company Limited (HIC)

April 2018



INSURER FINANCIAL STRENGTH (IFS) RATING 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.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>
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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.

Rating Team Statements

(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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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.
- (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)

Independence & Conflict of interest

- (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 | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)

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