



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
13-Jun-2019	A+	-	Stable	Maintain	-
13-Dec-2018	A+	-	Negative	Maintain	-
24-May-2018	A+	-	Negative	Maintain	-
30-Dec-2017	A+	-	Positive	Maintain	-
29-Jun-2017	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. The company has jacked up its GPW. Although the company booked an underwriting loss, the quantum has reduced. Product innovation and extended market outreach, capitalising on Habib group, bodes 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, further improvement in business size and the underwriting profitability will be essential in deriving the future outlook of the company. The liquid profile needs to be strengthened as the company grows.

Disclosure

Name of Rated Entity	Habib Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance(Jun-18)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Faraan Taimoor faraan.taimoor@pacra.com +92-42-35869504

Profile

Legal Structure Habib Insurance Company Limited is a publicly listed company on the Pakistan Stock Exchange (PSX). The company is one of oldest, providing general insurance in the country.

Background Habib Insurance Company Limited (HIC) commenced commercial operations as a life and general insurance company in Bombay in 1942. After partition, the company moved its headquarters to Karachi. The company is now engaged in general insurance business after the nationalization of life insurance in 1972.

Operations HIC's operations are carried out from a network of 17 branches, mainly concentrated in Punjab – Lahore, Multan, Rawalpindi and Faisalabad etc. HIC underwrites various types of general insurance business, including fire, marine, motor, engineering and others.

Ownership

Ownership Structure Habib family, through individuals, associates and group companies owns majority stake (68%) in HIC.

Stability The current generation of the Habib family represents four distinct branches with interests in diverse industrial and financial sector ventures. While there are no significant cross-holdings amongst the different group companies, their association remains strong and well knit.

Business Acumen The Habib family's businesses go back 4 generations, having started in the late 1800 in Bombay, India. In 1941, the group established a commercial bank – Habib Bank Limited (HBL), Bombay – as a public limited company. The bank grew to become the largest private sector bank in the country, till it was nationalized in 1974. The Habib Group has expanded its operations by incorporating other banking entities as well as diversifying its business interest into other industries and has maintained its dominant presence in the industrial and service sectors with a large number of companies owned and managed by different family members of the original founder.

Financial Strength The group has maintained a sound financial profile over the years, no need has arisen for group support. Nevertheless, in case of distressed situation, the relative propensity of group support is a given and comfort can be drawn from conservative risk appetite of the company, averting a stressful scenario to arise.

Governance

Board Structure The Board of Directors comprises seven members chaired by Mr. Rafiq M. Habib. It comprises five non-executive directors and one executive and independent director respectively. During CY18, Mr. Munawar Ali Habib resigned and was replaced by Mr. Aun Muhammad A.Habib.

Members' Profile Mr. Rafiq M. Habib holds directorship on several House of Habib Companies. Mr. Aun Habib, a well-known figure of Habib family, adds his value in business decisions as Director. The board has representation of two families; Dawood Habib Family and Muhammad Habib Family (descendants from Muhammad Ali Habib). The independent member, Mr. Shahid Ghaffar, has been associated with National Investment Trust Limited (NIT) since the last three decades.

Board Effectiveness Board members possess diversified backgrounds and rich business acumen. They provide their input to the management as well as participate in the decision-making process.

Financial Transparency The auditors for Habib Insurance, Ernst & Young Ford Rhodes Sidat Hyder & Co expressed unqualified opinion and review for HIC's financial statements for CY18. The audit committee comprises of five members and is chaired by the independent director.

Management

Organizational Structure The company has well defined organizational structure and reporting lines. The underwriting business is divided into three departments namely fire, marine, and accident, whereas the claims are sub-divided into motor, non-motor and health. The branch heads are primarily responsible for administration, marketing and managing relationships with non-group clients. The CFO is responsible for the corporate affairs, audit, credit and accounts department. The investment portfolio is managed directly by Investment Committee, taking assistance from the CFO.

Management Team Mr. Shabbir Ghulam Ali, CEO, has over three decades of insurance related experience including 18 years with HIC. The management has been boosted by the induction Mr. Ammar Habib, son of Mr. Kumail D. Habib as Head of Strategy. He is involved actively in the management of day to day affairs of the company.

Effectiveness The board has three management committees namely: Underwriting, Reinsurance & Co-Insurance Committee, Claim Settlement Committee ; and Risk Management & Compliance Committee.

Claim Management System HIC has a centralized claim processing system. Every claim greater than PKR 1mln requires CEO approval. Whereas claims amounting less than PKR 100,000 can be approved by the branch managers, while any claim greater than PKR 100,000 is forwarded to the head office by the concerned branches, for approval from the head of claims department.

Investment Management Function The company has a well-documented and defined investment policy statement; Investment Policy is subject to an annual review process conducted by the Investment Committee to incorporate the changes arising from market situations and amendments / revisions in applicable laws and regulations.

Risk Management Framework The management has developed an operating manual, outlining policies and procedures to be followed by each department.

Business Risk

Industry Dynamics Pakistan's general insurance witnessed continuous growth (CAGR 4 years 11%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

Relative Position With a market share of 1.5% in the general insurance industry, the company is classified amongst the small players in the market.

Revenue The company recorded an increase of 14% in the Gross Premium Written (GPW) for (CY18: PKR 1.32mln, CY17: PKR 1.16mln). Motor (37%) and Fire (35%) contributed the highest premiums followed by Miscellaneous (10%). The increase in GPW was mainly attributed to growth in Miscellaneous and Motor segments. After witnessing a dip in its GPW in CY17, CY18 witnessed a rising trend in business accumulation, though it needs to pick further pace to regain its market position.

Profitability The underwriting results witnessed a loss of PKR 41mln (CY17: 60mln). The loss was mainly attributed to high management expenses (PKR 87mln). However, a rather impressive investment income (PKR 202mln) supplemented the bottom-line as the company recorded a profit before tax of PKR 158mln (CY17: 163mln).

Investment Performance High dividend income and realised gain on equity securities led to notable investment income of PKR 202mln (CY17: PKR 220mln).

Sustainability The company is focusing profitable growth. It has shed its health portfolio while focusing on the motor and other segments. With substantial investment in IT infrastructure, the company aims to capitalise on its brand in order to improve its relative performance.

Financial Risk

Claim Efficiency HIC's liquidity coverage to outstanding claims at CY18 improved to 1.2 times; up from 1.0x as at CY17. Claim days recorded at 331 days (CY17: 277 days)

Re-Insurance HIC has reinsurance arrangements with one of the leading reinsurers including Hannover Re (rated 'AA-' by S&P), Scor Re (rated 'A+' by S&P), Korean Re (rated 'A-' by AM BEST), Trust Re (rated 'A-' by AM BEST), and P.R.C (rated 'A-' by AM BEST and 'AA' locally). The company has a combination of surplus, quota share and excess of loss treaties for various segments.

Liquidity Liquid Investments amounted to PKR 739mln (CY17: PKR 691mln). Majority of the funds are invested in equity securities and Cash and Cash Equivalents. Liquid assets provide 1.4x cover to Net Premium Revenue and 2.4x to Net Claims Expense.

Capital Adequacy The company is compliant as per SECP's Minimum Capital requirement as at CY18. HIC has a strong equity base of PKR 1.33bln.



The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE Financials [Summary]

HABIB INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION	Dec-18	Dec-17	Dec-16
Investments			
Liquid Investments	739	691	909
Investment in Associates	564	752	964
Other Investments	53	65	62
	1,356	1,509	1,935
Insurance Related Assets	1338	1361	1237
Other Assets	534	406	493
Total Assets from Window Takaful Operations	54		
TOTAL ASSETS	3,282	3,276	3,665

Equity	1339	1436	1737
Underwriting Provisions	709	554	708
Insurance Related Liabilities	799	838	702
Other Liabilities	361	448	519
Borrowings	69		
Total Liabilities from Window Takaful Operation	6		
TOTAL EQUITY & LIABILITIES	3,282	3,276	3,665

STATEMENT OF COMPREHENSIVE INCOME	Dec-18	Dec-17	Dec-16
Gross Premium Written (GPW)	1327	1163	1401
Net Premium Revenue (NPR)	532	556	545
Net Claims	312	374	282
Net Operational Expenses	-260	-263	-244
UNDERWRITING RESULTS - Adjusted	-41	-60	20
Investment Income	202	220	244
Other Income/ (expense)	0	3	36
Profit/(Loss) from Window Takaful Operations	-3		
PROFIT BEFORE TAX	158	163	285

RATIO ANALYSIS	Dec-18	Dec-17	Dec-16
Underwriting Results			
Loss Ratio	59%	67%	52%
Combined Ratio	108%	115%	96%
Performance			
Operating Ratio	70%	74%	45%
Investment Yield	15%	13%	16%
Liquidity & Solvency			
Liquidity Ratio – times	1.2	1.0	1.5

HABIB INSURANCE COMPANY LIMITED

May 2019



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)

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- (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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