



The Pakistan Credit Rating Agency Limited

Rating Report

Habib Insurance Company Limited

Report Contents
1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Dec-2019	A+	-	Stable	Maintain	-
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	-
30-Dec-2016	A+	-	Positive	Maintain	-
06-Jan-2016	A+	-	Positive	Maintain	-
06-Jan-2015	A+	-	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The rating incorporates the Company's association with astute sponsors Habib Family. This provides a sound basis for governance while providing stability through group business. The rating acknowledges HIC's corporate strategy to increase its position on the market by prudent underwriting practices while focusing on bottom-line growth. The company's GPW has been jacked up, reflecting market penetration. Product innovation and elongated market outreach, capitalizing on the Habib group, bodes well for HIC's business profile. The stability of the business has tended to generate productivity, in the form of low threat retention. HIC maintains a reasonable, fundamentally strong, multi-faceted investment portfolio that supports not only risk absorption but also profitability.

The rating relies upon improving the relative position of the product on the sector. In addition, the future perspectives of the company will require further improvements in business size and underwriting profitability. As the company grows, the liquid profile must be enhanced.

Disclosure	
Name of Rated Entity	Habib Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI_FY19(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Rohail Amjad rohail.amjad@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 nationwide 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 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 founde

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 of five non-executive directors and one executive and independent director, respectively.

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 the representation of two families; Dawood Habib Family and Muhammad Habib Family (Descendents from Muhammad Ali Habib). The independent member, Mr. Shahid Ghaffar, has been associated with National Investment Trust Limited (NIT) for the last three decades.

Board Effectiveness Board members possess diversified backgrounds and abundant 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 auditors of the company were replaced by Mr. KPMG Taseer Hadi & Co. as the tenure of preceding auditors expired. They performed a review for 1H19. The audit committee comprises of five members and is chaired by the independent director.

Management

Organizational Structure The company has a 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 the motor, non-motor, and health.

Management Team Mr. Shabbir Ghulam Ali, the 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. Qumail R. 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.

MIS The company operates in a centralized control environment with underwriting and claim approvals handled at the Head Office level. A real-time General Insurance System (GIS) developed by Sidat Hyder, is deployed at all branches.

Claim Management System HIC has a centralized claim processing system. Every claim greater than PKR 1mln requires CEO approval. Whereas claims amounting less than the branch managers can approve PKR 100,000, while any claim higher than PKR 100,000 is forwarded to the head office by the concerned branches, for approval from the head of the 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 an impressive 23% in the Gross Premium Written (GPW) for period 9MCY19 ~ PKR 1.182bln (9MCY18: PKR 958mln, CY18: PKR 1.3bln). Fire (42%) and Motor (32%) contributed to the highest premiums, followed by a marine(10%). The increase in GPW was mainly attributed to growth in Fire and Motor segments.

Profitability The underwriting results witnessed improvement by 69 % clocking in at a deficit of PKR 17mln (9MCY18: deficit 44mln). However, a declined investment income (PKR 202mln) impacted the bottom-line as the company recorded a profit before tax of PKR 66mln (9MCY18: 124mln). The combined ratio has also been steadily declining to reflect improved underwriting.

Investment Performance Reduced dividend income and the loss in equity securities resulted in the shrinkage of investment income ~ PKR 69mln (9MCY18: PKR 161mln).

Sustainability The company has adopted a bottom-line centric approach. It has shed its health portfolio while fixating on the motor and other segments. The company envisages heightened growth while underwriting prudent risk.

Financial Risk

Claim Efficiency HIC's liquidity coverage to outstanding claims at 9MCY19 improved to 1x; up from 0.8x as at 9MCY18. Claim days recorded at 222 days (9MCY18: 387days)

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 761mln (9MCY18: PKR 443mln). The majority of the funds are invested in equity securities (60%) and Government securities (36%). Liquid assets provide 1x cover to Net Premium Revenue and 1.8x to Net Claims Expense.

Capital Adequacy The company is compliant as per SECP's Minimum Capital requirement as at the end 9MCY19. HIC has an equity base of PKR 1.08bln.



The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE Financials [Summary]

HABIB INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION	Sep-19	Dec-18	Sep-18	Dec-17
Investments				
Liquid Investments	761	739	443	691
Investment in Associates	345	564	884	752
Other Investments	52	53	57	65
	1,159	1,356	1,383	1,509
Insurance Related Assets	1320	1338	1474	1361
Other Assets	751	534	640	406
Total Assets from Window Takaful Operations	66	54		
TOTAL ASSETS	3,296	3,282	3,497	3,276
Equity	1080	1339	1435	1436
Underwriting Provisions	838	709	665	554
Insurance Related Liabilities	937	799	825	838
Other Liabilities	268	361	487	448
Borrowings	161	69	85	
Total Liabilities from Window Takaful Operation	12	6		
TOTAL EQUITY & LIABILITIES	3,296	3,282	3,497	3,276
STATEMENT OF COMPREHENSIVE INCOME	Sep-19	Dec-18	Sep-18	Dec-17
Gross Premium Written (GPW)	1182	1327	958	1163
Net Premium Revenue (NPR)	562	532	383	556
Net Claims	319	312	226	374
Net Operational Expenses	-261	-260	-200	-263
UNDERWRITING RESULTS - Adjusted	-17	-41	-44	-60
Investment Income	69	202	161	220
Other Income/ (expense)	8	0	6	3
Profit/(Loss) from Window Takaful Operations	7	-3		
PROFIT BEFORE TAX	66	158	124	163
RATIO ANALYSIS	Sep-19	Dec-18	Sep-18	Dec-17
Underwriting Results				
Loss Ratio	57%	59%	59%	67%
Combined Ratio	103%	108%	111%	115%
Performance				
Operating Ratio	89%	70%	111%	74%
Investment Yield	12%	15%	19%	13%
Liquidity & Solvency				
Liquidity Ratio – times	1.0	1.2	0.8	1.0

HABIB INSURANCE COMPANY LIMITED

December 2019

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.

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+	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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
BB+	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.
BB	
BB-	
B+	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.
B	
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
CC	
C	
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. 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, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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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