



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
09-Dec-2020	A+	-	Stable	Maintain	-
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 remains steady, reflecting market penetration despite Covid-19. Product innovation and elongated market outreach, capitalizing on the Habib group, bodes well for HIC's business profile. HIC maintains a multi-faceted investment portfolio that supports risk absorption.

Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. Upsurge in auto sales and health products has been pivotal. Underwriting profitability i.e. core business has been maintained through reduced management expenses while innovative products are being envisaged. Investment income is being routed through equities, amid upsurge in PSX and diminished interest rates.

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, underwriting profitability and investment income. 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	Methodology GI(Jun-20)
Related Research	Sector Study General Insurance(May-20)
Rating Analysts	Maryam Ijaz maryam.ijaz@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 founded.

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 of nine members chaired by Mr. Rafiq M. Habib. It comprises of five non-executive directors, one executive director and three independent directors.

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, was 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.

Transparency KPMG Taseer Haid & Co, the auditors of the company expressed unqualified opinion and review for HIC's interim financial statements for 6MCY20.

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. 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 Gulamali Ali has been reappointed as the CEO of Habib Insurance w.e.f. 01.04.2020. Mr. Shabbir Gulamali Ali 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.

MIS HIC operates in a centralized control environment. A real-time General Insurance System (GIS) developed by Sidat Hyder, is deployed at all branches; online since Jan-13, which is supporting centralized operations. MIS reports generated for the top management comprises comprehensive information about company's performance.

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 Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. Upsurge in auto sales and health products has been pivotal. Underwriting profitability i.e. core business has been maintained through reduced management expenses while innovative products are being envisaged. Investment income is being routed through equities, amid upsurge in PSX and diminished interest rates.

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 Gross Premium Written (GPW) remained steady for period 9MCY20 ~ PKR 1,166mln (9MCY19: PKR 1,182mln). Fire (42%) and Motor (32%) contributed to the highest premiums, followed by a marine (15%).

Profitability The underwriting results significantly increased by 47% i.e. PKR 91mln (9MCY19: 62mln). This increase is mainly due to decrease in claims in 9MCY20 i.e. PKR 292mln (9MCY19: PKR 319mln). The combined ratio improved between 9MCY19 and 9MCY20 i.e. from 103% to 98%. The investment income declined (9MCY20 PKR 38mln; 9MCY19 PKR 69mln). This ultimately impacted the bottom-line as profit before tax was recorded at of PKR 40mln (9MCY19: 66mln).

Investment Performance Reduced dividend income and the loss in equity securities resulted in the shrinkage of investment income ~ PKR 38mln (9MCY19: PKR 69mln).

Sustainability The company has adopted a bottom-line centric approach. It has shed its health portfolio while fixating on the motor and other segments. With substantial investment in IT infrastructure, the company aims to capitalize on its brand to enhance its relative performance.

Financial Risk

Claim Efficiency HIC's liquidity coverage to outstanding claims remained steady at 1.0x 9MCY20. Claim days recorded at 261 days (9MCY19: 222days).

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 Pak Ri (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 1,069mln (9MCY19: PKR 761mln). The majority of the funds are invested in equity securities (59%) and government securities (37%). Liquid assets provide 1.4x cover to Net Premium Revenue and 2.7x to Net Claims Expense. The insurance related assets increased from PKR 1.3bln in 9MCY19 to PKR 1.7bln in 9MCY20. Similarly, the insurance related liabilities also increased from PKR 0.93bln in 9MCY19 to PKR 1.3bln in 9MCY20.

Capital Adequacy The company is compliant as per SECP's Minimum Capital requirement. HIC has a strong equity base of PKR 1.2bln.



The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE Financials [Summary]

HABIB INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION	Sep-20	Dec-19	Dec-18	Dec-17
Investments				
Liquid Investments	1069	800	739	691
Investment in Associates	286	586	564	752
Other Investments	54	54	53	65
	1,409	1,440	1,356	1,509
Insurance Related Assets	1706	1402	1338	1361
Other Assets	825	732	534	406
Total Assets from Window Takaful Operations	78	67	54	
TOTAL ASSETS	4,018	3,641	3,282	3,276
Equity				
Equity	1234	1249	1339	1436
Underwriting Provisions	891	887	709	554
Insurance Related Liabilities	1288	900	799	838
Other Liabilities	373	382	361	448
Borrowings	206	209	69	
Total Liabilities from Window Takaful Operation	27	14	6	
TOTAL EQUITY & LIABILITIES	4,018	3,641	3,282	3,276

STATEMENT OF COMPREHENSIVE INCOME	Sep-20	Dec-19	Dec-18	Dec-17
Gross Premium Written (GPW)	1166	1620	1327	1163
Net Premium Revenue (NPR)	560	756	532	556
Net Claims	292	418	312	374
Net Operational Expenses	-258	-344	-260	-263
UNDERWRITING RESULTS - Adjusted	10	-9	-41	-60
Investment Income	38	103	202	220
Other Income/ (expense)	-11	-1	0	3
Profit/(Loss) from Window Takaful Operations	2	4	-3	
PROFIT BEFORE TAX	40	97	158	163

RATIO ANALYSIS	Sep-20	Dec-19	Dec-18	Dec-17
Underwriting Results				
Loss Ratio	52%	55%	59%	67%
Combined Ratio	98%	101%	108%	115%
Performance				
Operating Ratio	93%	87%	70%	74%
Investment Yield	4%	8%	15%	13%
Liquidity & Solvency				
Liquidity Ratio – times	1.0	1.0	1.2	1.0

HABIB INSURANCE COMPANY LIMITED

Dec-20

Insurer Financial Strength (IFS) Rating

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+ 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-	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.
B+ B 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.
CCC CC C	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.
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 some material identifiable event with indeterminable rating implications. 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 rating 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. 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, 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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(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

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- (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.
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- (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)

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- (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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