



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-2021	A+	-	Stable	Maintain	-
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	-

#### Rating Rationale and Key Rating Drivers

Habib Insurance Company Limited (HIC or the Company), an associated Company of the Habib Group, provides general insurance (Conventional & Takaful) service provider, operating through five core segments, namely; i) Fire & Property ii) Marine & transport iii) Motor iv) Group Hospitalization v) Miscellaneous. Further, the Company benefits from synergy created through group entities, ultimately, channeled through its sponsor group (Habib Group of Companies). The economy revival post COVID-19 picked up the industrial activity, with large scale manufacturing benefitting from the upsurge through bolstered demand for the corporate sector, positively scaling the overall insurance demand. Further, emerging auto policies are expected to provide a boost to the motor insurance business in the industry prospectively. In line with the economy trend, the positive developments instigated relative GPW growth for HIC, particularly within the fire segment and motor segment, boosting the topline of the Company to PKR 1,422mln for the period ended 9MCY21 (CY20: PKR 1,658mln; CY19: PKR 1,620mln). Enhanced topline, combined with moderate claims and expense management resulted in underwriting results of PKR 94mln for the period ended 9MCY21 (CY20: PKR 121mln; CY19: PKR 101mln). Product innovation and elongated market outreach, capitalizing on the Habib group, bodes well for HIC's business profile. A stable investment performance sourced through prime equity investments provided a reliable dividend income stream, contributing PKR 89mln, composing 68.5% of the total investment income, with additional support derived from investment capital gains. 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 financial risk matrix remains adequate, with skewed profile of investment book towards liquid equity investments and secured government securities, along-with a sufficient equity base, providing comfort to the liquidity of HIC.

The rating is based upon sponsor profile and relative position of Habib Insurance Company in the general insurance industry. The future prospects 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

<b>Name of Rated Entity</b>	Habib Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   General Insurance Rating(Jun-21)
<b>Related Research</b>	Sector Study   General Insurance(May-21)
<b>Rating Analysts</b>	Wajahat Arjumand Ansari   wajahat.ansari@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Habib Insurance Company is one of oldest insurance companies of Pakistan. It is listed on the Pakistan Stock Exchange (PSX) with a trading symbol of "HICL".

**Background** Habib Insurance Company commenced commercial operations as a life and general insurance company in Bombay in 1942. After partition, the company moved its headquarters to Karachi.

**Operations** HIC's operations are 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 in HIC. 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.

**Stability** HIC's affiliation with Habib Group augments its standing in the industry. HIC is the only group company in which all family streams holds an ownership stake. This is in contrast with other business concerns of the group, where ownership is clearly distributed in different family branches. HG expanded its operations by incorporating other banking entities as well as diversifying its business interest into other industries. The group 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 of HG.

**Business Acumen** The Habib family's businesses go back 4 generations, having started in the late 1800 in Bombay, India. Late Mr. Habib Esmail, the predecessor of the Habib Group. Subsequently, his four sons namely Ahmed Habib, Dawood Habib, Mohammed Ali Habib and Ghulam Ali Habib also joined the business and formed one of the largest private sector banks in the country, Habib Bank Limited.

**Financial Strength** The Company has maintained a sound financial profile through the years with no immediate use for group support being arisen, however, should the need arise, a strong group support is present.

## Governance

**Board Structure** The board is structured with nine members, having five non-executive members, three independent members and one executive member with core members of the Habib family present on the BoD.

**Members' Profile** The board has equal representation of two families; Dawood Habib Family and Rafiq Habib Family (decedents from Muhammad Ali Habib), one from Ghulam Ali Habib, while one is the independent member. Board members possess diversified backgrounds and rich business acumen.

**Board Effectiveness** There are three committees in place at the board level, namely: 1) Audit; 2) Investment and 3) Human Resource & Remuneration committee each headed by a BoD member.

**Transparency** The auditors of Habib Insurance Company, M.S KPMG Taseer Hadi & Co. have given an unqualified opinion on the financial statements of CY20.

## Management

**Organizational Structure** Habib Insurance has a well-defined organizational structure, with reporting lines converging towards the CEO, except for internal audit which reports to the Audit Committee.

**Management Team** Mr. Shabbir Gulamali has been at the helm of Habib Insurance since the last four years as the CEO of the Company. He graces over three decades of experience in the insurance industry. Further, Mr. Aun Abbas is the executive director of Habib insurance overseeing the operations of the Company.

**Effectiveness** Three management level committees have been established by the BoD, namely 1) Underwriting Committee ; 2) Claims Committee; 3) Re-insurance Committee. Each Committee is overseen by a respective board member.

**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; online since Jan-13, which is supporting centralized operations.

**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.

**Investment Management Function** An investment committee is formed by the board which oversees the investment function of the Company, with support being taken from the CFO of the Company.

**Risk Management Framework** HIC follows clearly laid down criteria to evaluate risk in different segments and maintains a decline list. Head office approval is required for every new customer and also in case of any change in policy terms at renewal.

## Business Risk

**Industry Dynamics** As at end-CY20, the industry has been able to ensure sustainability in the growth despite the current pandemic. Increase in bank financing along with growth in auto sector has improved sector dynamics. Investment income has been augmented as volumes in PSX have picked up. Companies have reduced management expenses; new innovative products are being launched, in order to engage new customer base.

**Relative Position** Habib Insurance Company owns a market share of 1.8% as at 6MCY21, deeming it one of the medium sized company of the insurance industry.

**Revenue** A stable progression in the GPW of the Company has been observed with 2.4% GPW growth observed on an annual basis (CY20: PKR 1,658.4mln; CY19: PKR 1,620.1mln). Further, the Company has achieved 85.7% of its preceding annual revenue, amounting to PKR 1,421.8mln as at 9MCY21.

**Profitability** The financial performance of HIC has remained stable over the period, as GPW progression remained in line with industry expectations. Habib Insurance secured a Net Premium Revenue of PKR 1,350.8mln through sustaining its customer base.

**Investment Performance** A stable progression in the investment performance of HIC has been observed as the Company placed reliability on stable returns generated in the form of dividend income from its strategic equity securities, with further support being derived from secure investments in government securities.

**Sustainability** Going forward, the company while maintaining conservative underwriting will be more focused to facilitate commercial business, adding value in operations through process automation.

## Financial Risk

**Claim Efficiency** A sturdy claims management of the Company is observed through the years. In addition to strong group support, Habib Insurance possesses a commercial efficiency of 1.7 times. Further, insurance claims for the period construe 91.4% of its liquid investments, placing confidence in the Company's ability to pay off its claims through utilization of only its liquid investments.

**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.

**Cashflows & Coverages** A good liquidity position is held by Habib Insurance Limited. The liquid assets of the Company amounting to PKR 963.0mln, leading to a 2.6x claims cover, reassuring HIC's strength to cover its net claims for the period ended 9MCY21. An equity investment focused portfolio has been maintained by HIC, however, the equity portfolio pertains to related party investments and well renowned companies. Additionally, the Company maintains a secure portfolio of government securities, placing confidence in the Company's liquidity position.

**Capital Adequacy** The Company posses and equity base of PKR 1.2bln, remaining well compliant with the SECP's minimum capital requirements



### A BALANCE SHEET

1 Investments	1,473	1,495	1,387	1,303
2 Insurance Related Assets	2,231	2,014	1,768	1,620
3 Other Assets	370	322	318	246
4 Fixed Assets	172	187	168	114
<b>Total Assets</b>	<b>4,245</b>	<b>4,018</b>	<b>3,641</b>	<b>3,282</b>
5 Underwriting Provisions	1,051	952	887	709
6 Insurance Related Liabilities	1,310	1,204	921	799
7 Other Liabilities	403	424	375	367
8 Borrowings	251	138	209	69
<b>Total Liabilities</b>	<b>3,014</b>	<b>2,718</b>	<b>2,392</b>	<b>1,944</b>
<b>Equity</b>	<b>1,230</b>	<b>1,300</b>	<b>1,249</b>	<b>1,339</b>

### B INCOME STATEMENT

1 Gross Premium Written	1,422	1,658	1,620	2,184
2 Net Insurance Premium	585	739	756	532
3 Underwriting Expenses	(491)	(617)	(654)	(485)
<b>Underwriting Results</b>	<b>93</b>	<b>121</b>	<b>101</b>	<b>47</b>
4 Investment Income	130	96	103	202
5 Other Income / (Expense)	(115)	(129)	(107)	(90)
<b>Profit Before Tax</b>	<b>108</b>	<b>89</b>	<b>97</b>	<b>158</b>
6 Taxes	(34)	(27)	(27)	(53)
<b>Profit After Tax</b>	<b>74</b>	<b>62</b>	<b>70</b>	<b>105</b>

### C RATIO ANALYSIS

<b>1 Profitability</b>				
Loss Ratio (Net Insurance Claims / Net Insurance Premium )	48%	48%	55%	59%
Combined Ratio (Loss Ratio + Expense Ratio)	84%	84%	87%	91%
<b>2 Investment Performance</b>				
Investment Yield	12%	7%	8%	15%
<b>3 Liquidity</b>				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	0.9	1.1	1.9	2.2
<b>4 Capital Adequacy</b>				
Liquid Investments / Equity	78%	77%	109%	96%

## 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	<b>Exceptionally Strong.</b> 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-	<b>Very Strong.</b> 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-	<b>Strong.</b> 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-	<b>Good.</b> 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-	<b>Weak.</b> 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-	<b>Very Weak.</b> 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	<b>Very high credit risk.</b> 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	<b>Distressed.</b> 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><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> 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

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- (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)
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- (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)
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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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