



The Pakistan Credit Rating Agency Limited

HABIB INSURANCE COMPANY LIMITED (HIC)

IFS RATING REPORT

	NEW [DEC-16]	PREVIOUS [JAN-16]
Insurer Financial Strength (IFS) Rating	A+	A+
Outlook	Positive	Positive

REPORT CONTENTS
1. RATING ANALYSES
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DECEMBER 2016

Profile & Ownership

- Habib Insurance Company (HIC), incorporated in 194, and is listed on Pakistan Stock Exchange; operates with a nationwide network of 18 branches
- HIC is 68% owned by Habib Group, which is one of the renowned and well-established groups, having exposure in industrial and financial sectors
- Among “Top 25 companies list 2014” issued by Pakistan Stock Exchange

Governance and Management

- Seven members board with equal representation of two families; Dawood Habib Family and Rafiq Habib Family, one from Ghulam Ali Habib, while one is the independent member.
- Mr. Ali Raza D. Habib, a financial industry veteran and well-known figure of Habib family has taken up to the role of Executive Vice Chairman, after holding position of CEO from 1993 till July’2016
- Mr. Zeeshan Raza, having over two decades of insurance related experience and of 17 years with HIC, has succeeded Mr. Habib as CEO

Business Risk

- The company has sustained market share of 2% (9M16)
- GPW portfolio mix is dominated by fire segment (42%), followed by marine (17%), motor (16%), health (16%) and miscellaneous (9%) at end-Sept’16; health made separate segment beginning CY16
- Captive business continues to provide stable stream (30%)
- GPW growth picked up in 9M16 (27%), mainly in motor segment (59%) and fire (16%). Herein, the management has increased reach out through two Habib Group Banks – Bank Al Habib and Habib Metro
- Net loss ratio increased to 49% (9M15: 44%); however, loss ratio in motor and miscellaneous segments declined by 9% and 22% respectively
- Operational expenses kept in check (expense ratio: 42%)
- Investment income (PKR 142mln) provides a handsome cushion to the bottom-line, coming from dividends and capital gains; income declined (24%) owing to lesser capital gains for the period

Business Strategy

- The CEO, Mr. Zeeshan Raza, re-invigorated the company’s performance; reflected by dynamic strategy
- The strategy encompasses product innovation with focus on health, motor, travel and Afghan Transit
- Management envisages to fuel growth by fully capitalizing its association with Habib Group, particularly Bank Al-Habib and Habib Metro; benefitting most in the segments of motor, health, crop and livestock
- Selective underwriting, while maintaining prudent reinsurance strategy, would be the key to sustain profitability
- Window takaful operations would be explored in coming years

Financial Risk

- The investment book (end-Sep16: PKR 1,095mln) constitutes 1.05 times of the equity base; majorly invested in liquid avenues (59%) rest in strategic investments (PKR 396mln)
- Liquid portfolio is half deployed in risk free investments including government securities, money market funds and bank deposits and rest is majority deployed in equity (46%) and debt instruments (2%)
- Liquidity coverage to outstanding claims improved to 1.3 times; the size of liquid investments is lower than peers
- The insurance-related-receivables amount to PKR 1,377mln (132% of its equity base) at end-Sep’16 and after adjusting insurance-related-liabilities, creates a net receivable position of PKR 328mln
- Going forward, management expects to recover major proportion of receivables, thereby improving the position
- Surged claim days (9M16: 466, 9M15: 403); due to large one-off; when adjusted for these claims, claim days come down to (~199 days)
- The monitoring system of claims Turnaround Time needs to be improved
- Reinsurance arrangements are a combination of surplus, quota share and excess of loss treaties for various segments, with leading reinsurers

RATING RATIONALE

The rating takes note of dynamic growth taken by the company, while ensuring diversification in segment mix. This growth is led by the realigned organizational structure and dynamism of the new leadership. The business strategy 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 conservative business strategy, in the form of low risk retention, has continued yielding profitability. There is more delegation coupled with close monitoring of management functions of the company. Fully capitalizing on its strength of association with Habib Group, particularly Bank Al Habib and Habib Metro, would be linchpin of growth strategy. HIC maintains a reasonable, fundamentally strong and diverse investment portfolio, which not only provides risk absorption capacity, but also supports profitability. 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.

KEY RATING DRIVERS

The rating upgrade is dependent on strengthening of company’s relative position in the market. In addition, improvement in the underwriting profitability is important. The liquidity profile is adequate for current level of operations, the strengthening is necessitated as the company is growing. Increased risk absorption capacity supported by higher liquidity would benefit the ratings. Improvement in claims monitoring system focusing on claims turnaround time (TAT) would also be key consideration for rating elevation.

INDUSTRY

Pakistan’s general insurance continued growth trajectory (CAGR 4 years 10%). 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.



GENERAL INSURANCE Financials [Summary]

The Pakistan Credit Rating Agency Limited

Habib Insurance Company Limited (HIC)

	<i>PKR mln</i>		
	30-Sep-16	31-Dec-15	31-Dec-14
BALANCE SHEET			
Investments			
Liquid Investments	641	650	705
Investment in Associates	396	381	479
Other Investments	58	45	27
	1,095	1,077	1,212
Insurance Related Assets	1,377	1,258	1,362
Other Assets	600	409	343
TOTAL ASSETS	3,071	2,743	2,917
Equity	1,044	1,134	1,158
Underwriting Provisions	725	525	482
Insurance Related Liabilities	1,048	856	1,000
Other Liabilities	254	227	209
TOTAL EQUITY & LIABILITIES	3,071	2,743	2,848
INCOME STATEMENT			
	30-Sep-16	31-Dec-15	31-Dec-14
Gross Premium Written (GPW)	1,098	1,123	1,009
Net Premium Revenue (NPR)	399	500	459
Net Claims	196	222	222
Net Operational Expenses	54	89	92
UNDERWRITING RESULTS	648	811	773
Investment Income	142	205	263
Other Income/ (expense)	6	2	2
PROFIT BEFORE TAX	185	259	293
RATIO ANALYSIS			
	30-Sep-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	49%	44%	48%
Combined Ratio	91%	89%	94%
Performance			
Operating Ratio	91%	89%	94%
Investment Yield	7%	8%	5%
Liquidity & Solvency			
Liquidity Ratio – times	0.9	0.9	0.8

Habib Insurance Company Limited (HIC)

Dec 2016

www.pacra.com



RATING SYMBOLS & DEFINITIONS:

**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.

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.

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, but may stay in abeyance for long. 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, or c) the rating remains suspended for six months.

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Name of Issuer
Sector
Type of Relationship

Habib Insurance Company Limited
Insurance - General
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term Rating	Outlook	Action
31-Dec-16	A+	Positive	Maintain
6-Jan-16	A+	Positive	Maintain
6-Jan-15	A+	Positive	Maintain
8-Nov-13	A+	Positive	Maintain
14-Jun-12	A+	Positive	Maintain

Related Criteria and Research

Rating Methodology
Sector Research

Insurer Financial Strength Rating Methodology
Insurance | General - View Point | Nov 16

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

Rating Shopping

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PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP.

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter.

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[Probability of Default \(PD\)](#)

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