



The Pakistan Credit Rating Agency Limited

HABIB INSURANCE COMPANY LIMITED (HICL)

IFS RATING REPORT

	NEW [DEC-17]	PREVIOUS [JUNE-17]
Insurer Financial Strength (IFS) Rating	A+	A+
Outlook	Positive	Positive

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

Governance and Management

- Seven members board with equal representation of two families; Dawood Habib Family and Rafiq Habib Family, one is Ghulam Ali Habib, while one is the independent member.
- Mr. Aun Habib, a well-known figure of Habib family has taken up to the role of Executive Director and will be adding his value in business decisions.
- Mr. Shabbir Ghulam Ali-CEO, having over three decades of insurance related experience and of that 17 years with HIC.

Business Risk

- The company has sustained market share of 2% while showing negative growth of 18% at end Sep 17.
- GPW portfolio mix is dominated by fire segment (38%), followed by motor (25%), and marine (20%) health (11%) and miscellaneous (6%) at 9M17.
- GPW growth dropped by 18% in 9M17, mainly in misc. segment (-49%), fire (-25%) and Marine (-4%). Motor segment observed 30% growth at 9M17.
- Net loss ratio increased to 65% (9M16: 49%); mainly because of surge in Health 132% (9M16: 100%), Misc. 57% (9M16: 42%) and Fire 28% (9M16: 17%).
- Operational expenses kept in check (expense ratio: 45%)
- Investment income (PKR 165mln) provides a handsome cushion to the bottom-line, coming from dividends and capital gains.
- **Business 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
- Continuing conservative 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-Sep17: PKR 839mln) constitutes 1 time of the equity base; majorly invested in liquid avenues (42%) rest in strategic investments (PKR 431mln)
- Liquid portfolio is half deployed in risk free investments including, money market funds & bank deposits and rest is majorly deployed in equity (74%) and Government Securities (~20%).
- Liquidity coverage to outstanding claims improved to 2 times.
- The insurance-related-receivables amount to PKR 1,394mln (144% of its equity base) at end-Sep'17 and after adjusting insurance-related-liabilities, creates a net receivable position of PKR 557mln
- Claim days are slightly improved though remain higher (9M17:302, CY16: 327, 9M16: 446)
- 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 HIC's business strategy that 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 conservatism, 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. There is a slowdown in growth trend as depicted in 9M17 and may take time to recoup. 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 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 grows. Improvement in claims monitoring system focusing on claims turnaround time (TAT) would also be key consideration for rating elevation.

INDUSTRY

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



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**GENERAL INSURANCE
Financials [Summary]**

Habib Insurance Company Limited (HIC)

	<i>PKR mln</i>			
BALANCE SHEET	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
Investments				
Liquid Investments	358	584	650	705
Investment in Associates	431	365	381	479
Other Investments	49	62	45	27
	839	1,011	1,077	1,212
Insurance Related Assets	1,394	1,235	1,258	1,362
Other Assets	462	514	409	343
TOTAL ASSETS	2,695	2,760	2,743	2,917
Equity	968	1,100	1,134	1,158
Underwriting Provisions	602	708	525	482
Insurance Related Liabilities	837	702	856	1,000
Other Liabilities	288	250	227	209
TOTAL EQUITY & LIABILITIES	2,695	2,760	2,743	2,848
INCOME STATEMENT	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
Gross Premium Written (GPW)	900	1,401	1,123	1,009
Net Premium Revenue (NPR)	438	545	500	459
Net Claims	283	282	222	222
Net Operational Expenses	(198)	(244)	(221)	(211)
UNDERWRITING RESULTS	(43)	20	57	26
Investment Income	165	244	205	263
Other Income/ (expense)	1	36	2	2
PROFIT BEFORE TAX	123	285	259	293
RATIO ANALYSIS	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results				
Loss Ratio	65%	52%	44%	48%
Combined Ratio	110%	96%	89%	94%
Performance				
Operating Ratio	110%	96%	89%	94%
Investment Yield	3%	5%	4%	5%
Liquidity & Solvency				
Liquidity Ratio – times	1.3	1.0	0.9	0.8



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.

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.

