



The Pakistan Credit Rating Agency Limited

Rating Report

Shaheen Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Apr-2018	A	-	Stable	Maintain	-
29-Sep-2017	A	-	Stable	Maintain	-
10-Mar-2017	A	-	Stable	Upgrade	-
17-Nov-2016	A-	-	Stable	Maintain	-
18-Nov-2015	A-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects Shaheen's Insurance strong parentage - Shaheen Foundation - ensuring financial soundness of the company while augmenting its business operations and control environment through active vigilance. The significant improvement in the liquidity profile emanates from fresh equity issuance. Shaheen Insurance has sustained market share keeping pace with the industry's growth. Dominating portfolio → motor → is depicting good underwriting results, enabling the company to nourish other segments; for which the company is enhancing linkage with financial institutions. The company is expanding into other segments, leading to a diversified premium mix. The company carries support from investment income; gradually improving. The recent drive to invest in real estate sector needs to enmesh with the liquidity requirements of the company.

The rating is dependent upon sustained improvement in business profile of the company. This requires enduring emphasis on underwriting profitability and building requisite human resource. Given increasing size of investment book, investment policy statement needs elaboration and performance tracking mechanism. Some of the company's assets are not liquid, generating no return as well. Conversion into liquid and return generated assets is important.

Disclosure

Name of Rated Entity	Shaheen Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Insurer Financial Strength (IFS) Rating General(Jun-17)
Related Research	Sector Study Insurance General(Oct-17)
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SHAHEEN INSURANCE COMPANY LIMITED (SIC)

PROFILE

Incorporated	1995
Major Business	Insurance
Legal Status	Listed Public Limited Company
Head Office	Karachi

INDUSTRY SNAPSHOT

Pakistan general insurance continued growth trajectory (CAGR 4 years 12%). 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.

OWNERSHIP

GOOD

- Shaheen Insurance Company Limited, (SIC), was incorporated as a general insurance company in 1995, and is listed on the Pakistan Stock Exchange.
- With its head office in Karachi, the company has a nationwide network of 11 branches with recent addition of Gujranwala and Multan into the network.
- SIC is majority owned by Shaheen Foundation (SF) (73.4%) – Sponsors of the company.

GOVERNANCE

GOOD

- The overall control of the company vests in the seven-member Board of Directors (excluding the CEO). All directors are non-executive representing SF.
- The BoD operates through three committees namely i) Audit Committee, ii) Investment Committee and iii) Human Resource and Remuneration Committee.
- The BoD, with diversified background and professional expertise of its members, is a key source of guidance to the company's management in terms of enhancing business opportunities, targeting specific segments of the industry and improving the company's portfolio returns.
- The company's audit report is qualified on fair valuation of investment in First Capital Equity Limited.

MANAGEMENT

GOOD

- The company has a well-defined organizational structure and different operations are segregated and managed through Executive director and Departmental Heads. The company's top management consists of qualified and experienced professionals, having long standing relationship with the company
- The organizational structure of SIC is divided into departments, each department head reporting into the CEO directly. This comprises (i) operations- Underwriting and reinsurance, (ii) Claims, (iii) Sales and marketing, (iv) Finance and Accounts (including Investments), (v) I.T, and (vi) Human Resources and Administration.
- Mr. Sohail Kidwai, CEO of the company since Jan-14, had previously been associated with the company at a senior position for long; and carries with him over two decades of insurance experience.

BUSINESS RISK

ADEQUATE

- The company constitutes market share of 0.4%. SIC's GPW mix, in 9M17, has continued to be dominated by the motor segment (60%), followed by misc. (17%), fire (14%), and health and Marine segment (4%) each.
- GPW (PKR 276mln) witnessed a negative growth in 9M17 (-4%) major decline in Motor (-9%) and a little decline in fire (-0.37%) while Shaheen has shown positive growth in Marine (15%), Health (30%) and in Misc (2%).
- Net loss ratio of the company improved due to a noticeable enrichment in Marine segment (9MCY17: 20.7%, 9MCY16: 56.6%), health segment (9MCY17: 57.8%, 9MCY16: 123.4%) and in Misc segment (9MCY17: 8.5%, 9MCY16: 34.4%) thereby improving the overall loss ratio to 9MCY17: 33.8% (9MCY16: 36.6%).
- The company posted an underwriting profit of PKR ~41mln, whereas in 9MCY16 it showed profit of PKR 54mln; a slight decline of 5.5%
- Investment income increased to PKR 21mln (9M16: PKR 15mln) mainly due to higher return on Deposits i.e. 18mln (9MCY16: 7mln).
- This boosted the profitability of the company significantly, hence, PBT recorded an increase of 76%.
- Going forward, the company envisages increased GPW in CY17 with a focus on tapping into captive business which carries huge potential; opportunities in PAF and public sector projects. The company intends to acquire investment properties in different cities in the upcoming timeframe. The company has signed an agreement with Soneri Bank and First Punjab Modaraba for coverage for their Auto Financing portfolio. Shaheen Insurance plans to enter the takaful market soon and the process is in final stages. Strengthening of branch network is also on cards in order to expand its outreach. The foremost need is to increase the GPW, while keeping the claim ratio under check.

FINANCIAL RISK

ADEQUATE

- The company's investment book (PKR 713mln) represents 120.6% of its equity base at end-Sep17.
- The liquid investment portfolio is deployed in Government Securities (10.4%), Cash & Bank (81.7%), & debt securities (7.9%).
- A sizeable chunk of investment represents (PKR 188mln) investment in First Capital Equities Limited of which fair valuation is not certain.
- The company's premium receivables increased in 9MCY17 to 39Days from 9MCY16 (31.8 Days).
- The company has re-insurance arrangements with some of the best renowned international reinsurers including Trust Re ('A-' by A.M Best), Pak Re (Sovereign Govt. Guarantee), and Saudi Re ('BBB+' by S&P). Treaty arrangement are all on the basis of excess of loss (XoL).



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE
Financials [Summary]**

Shaheen Insurance Company Limited (SIC)

BALANCE SHEET	9M17	CY16	9M16	31-Dec-15
Investments				
Liquid Investments	492	309	257	266
Other Investments	221	209	211	210
	713	517	469	476
Insurance Related Assets	220	113	258	165
Other Assets	92	141	149	140
TOTAL ASSETS	1,025	771	876	781
Equity	591	406	385	366
Underwriting Provisions	178	154	196	148
Insurance Related Liabilities	181	160	225	214
Other Liabilities	74	50	70	52
TOTAL EQUITY & LIABILITIES	1,025	771	876	781
INCOME STATEMENT	9M17	CY16	9M16	31-Dec-15
Gross Premium Written (GPW)	276	340	8	309
Net Premium Revenue (NPR)	215	265	4	225
Net Claims	(73)	(74)	(6)	(100)
Net Operational Expenses	(132)	(189)	(11)	(145)
UNDERWRITING INCOME/(LOSS)-Adjusted	10	1	(13)	(20)
Investment Income	24	20	-	19
Other Income/ (expense)	6	21	-	7
PROFIT BEFORE TAX	(24)	43	-	6
Unappropriated Profit/ (Loss) Brought Forward	(64)	(104)	-	(130)
Unappropriated Profit/ (Loss) Carried Forward	(29)	(64)	-	(104)
RATIO ANALYSIS	9M17	CY16	9M16	31-Dec-15
Underwriting Results				
Loss Ratio	34%	28%	37%	45%
Combined Ratio	97%	98%	102%	110%
Performance				
Operating Ratio	83%	83%	89%	99%
Investment Yield	7%	7%	8%	7%
Liquidity & Solvency				
Liquidity Ratio – times	4.1	2.8	1.6	1.6

Shaheen Insurance Company
Limited (SIC)

Sep-17

www.pacra.com



INSURER FINANCIAL STRENGTH (IFS) RATING 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.

<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, 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.</p>	<p>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.</p>	<p>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.</p>
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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)

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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)

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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