



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
25-Aug-2022	A+ (ifs)	-	Positive	Maintain	-
31-Mar-2022	A+ (ifs)	-	Positive	Harmonize	-
26-Aug-2021	A	-	Positive	Maintain	-
26-Aug-2020	A	-	Positive	Maintain	-
29-Aug-2019	A	-	Positive	Maintain	-
27-Feb-2019	A	-	Stable	Maintain	-
12-Dec-2018	A	-	Stable	Maintain	-
27-Apr-2018	A	-	Stable	Maintain	-
29-Sep-2017	A	-	Stable	Maintain	-
10-Mar-2017	A	-	Stable	Upgrade	-
17-Nov-2016	A-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The Company has witnessed slowing down of the business generated that impacted from increased competition within the General Insurance market. The Company experienced fall in GPW in conventional business, however, enjoyed growth in Takaful Business where Gross Contribution Earned significantly surged by ~66% during CY21. The rating denotes strong capacity to meet policyholders and contract obligations. Impetus is being added lately through the efforts of Shaheen Foundation, as they provide strategic oversight while sharing business volumes with Shaheen Insurance through subsidiaries. Shaheen Insurance has majority portfolio within motor segment. The Company aims to penetrate further in the non-motor segment both through captive & non-captive channels, pursuing an aggressive growth strategy to realize its goals. Support from investment income largely remained steady and bodes well for the Company. The rating derives comfort from the sound liquidity profile of the Company, especially the coverage it provides to insurance related liabilities. Going forward, growth in revenue stream along with sustaining equity level is crucial.

During CY21, the sector experienced ~7% growth YoY basis rising to PKR~703bln (CY20: PKR 656bln). Equity of the sector grew as well by ~5%. Underwriting grew up by ~75% YoY in CY21 as compared to CY20. During CY21, upsurge in auto sales and health products remained pivotal for growth. Underwriting profitability has been maintained through reduced management expenses while innovative products are being envisaged. However, current political instability and worsening economic condition could adversely impact insurance industry.

The rating is dependent upon sustained improvement in business profile of the Company. Growth in revenue streams along with sustaining equity levels are crucial. Improvement in liquidity is core to the rating. Ratings process vouched Investment Income and better Corporate Governance as well.

Disclosure

Name of Rated Entity	Shaheen Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Mar-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study General Insurance(May-22)
Rating Analysts	Behrooz Fareed behrooz.fareed@pacra.com +92-42-35869504

Profile

Legal Structure Shaheen Insurance Company Limited is a Public Listed Company registered on PSX.

Background Shaheen Insurance has registered with the Controller of Insurance in November 1995 to conduct non-life insurance business. Management control of the Company has been taken up by Shaheen Foundation since Jul-13, while business strategy was revamped.

Operations The Company is engaged in underwriting fire, marine, motor and accident/health, while engineering, travel, personal line, bond and crop insurance are clubbed under miscellaneous segment. Shaheen Insurance operates through a total of thirteen (13) branches within Pakistan.

Ownership

Ownership Structure Shaheen Insurance is majorly owned by Shaheen Foundation (73.4%), Hollard is second major shareholder (10.6%). Rest of the shareholding belongs to financial institutions (7.5%) and individuals (8.5%)

Stability Ownership of the Company has remained stable over the years and is expected to remain stable in future.

Business Acumen Shaheen Foundation, established in 1977, promotes welfare activities for serving & retired PAF personnel and Martyrs through the creation of income and employment generating activities. The Foundation, has diversified interest in aviation, textile, trade, real estate and insurance sectors of the Country.

Financial Strength Financial strength of the Foundation is deemed to be strong, support being derived from its successful business ventures in multiple sectors.

Governance

Board Structure Overall control of the Company vests in eight-member board. The Board comprises of two independent director, one executive and five non-executive directors, including the Chairman.

Members' Profile Chairman of the Board Air Marshal M. Arif Pervaiz (Rtd) has served the PAF for 35 years and has held various Command and Staff appointments. Other Members, as well, carry diversified experience. Besides he served as Managing Director of Shaheen Foundation for five years. The Board houses retired PAF personnel and business professionals who have served at leading positions during their illustrious career.

Board Effectiveness The Board has three committees namely i) Audit Committee, ii) Investment Committee and iii) Ethics, HR & Remuneration Committee. During CY21, attendance of all committee members remained high. Minutes of the meeting are maintained adequately.

Transparency External Auditors of the Company, M/S: Yousuf Adil Chartered Accountants, issued an unqualified audit report pertaining to annual financial statements for CY21.

Management

Organizational Structure Shaheen Insurance follows a very structured and well segregated structure. The Company has a well-defined structure with defined reporting lines. Organization is divided into six departments with direct reporting to the CEO. This comprises (i) operations- Underwriting and reinsurance, (ii) Claims, (iii) Sales and marketing, (iv) Finance and Accounts (v) I.T and (vi) Human Resources and Administration.

Management Team Mr. Rizwan Akhtar, CEO of the Company has been involved in the insurance sector for ~1.7 decades. Mr. Rizwan along with a team of professionals carry out the decisions at a strategic level.

Effectiveness The Company has four management committees, namely; (i) Underwriting Committee (ii) Re-Insurance & Co-Committee (iii) Claim Settlement Committee (iv) Risk Management & Compliance Committee. These Committees meet at regular interval of time and whenever need arise.

MIS The system comprises a centralized database and web based front-end for development and reporting. The system assigns authority levels to its users and enforces strict compliance with internal procedures. IT system supports Head Office operations as well as remote users provide real-time updates.

Claim Management System To improve control and expedite claim processing, claims department is centralized. Branches are instructed to intimate all reported claims in a prescribed format of "Daily Claim Intimation Report" to the Head Office. All claims are paid through HO. Claims process is initiated with claim intimation through mail or telephone.

Investment Management Function Board's investment committee (IC) sets the guidelines and policies for the Company. Performance is evaluated by IC every quarter, while proposal for investments by management are considered regularly. The Company has a documented investment policy that provides guidelines, execution structure and sets benchmarks for each type of investment.

Risk Management Framework The Management, in line with efforts to standardize processes and improve controls, has developed detailed underwriting manual that has been implemented in all branches. All specialized risks, and risks above specified limits, defined separately for various classes of risks, are referred to the Head Office for approval.

Business Risk

Industry Dynamics During CY21, the sector experienced ~7% growth YoY basis rising to PKR~703bln (CY20: PKR 656bln). Equity of the sector grew as well by ~5%. Underwriting grew up by ~75% YoY in CY21 as compared to CY20. During CY21, upsurge in auto sales and health products remained pivotal for growth. Underwriting profitability has been maintained through reduced management expenses while innovative products are being envisaged. However, current political instability and worsening economic condition could adversely impact insurance industry

Relative Position Shaheen Insurance is classified as small entity in the General Insurance industry with less than 1% market share.

Revenue During CY21, the Company posted GPW of PKR~231mln, resulting in a YoY fall of ~5% (CY20: PKR~244mln). However, the Company enjoyed growth in Takaful Business where Gross Contribution Earned significantly surged to PKR~14mln showing growth of ~66% during CY21 (CY20: PKR~8mln). 1QCY22, showed better prospects regarding GPW with growth of ~12%.

Profitability Consolidated Profit before tax declined to PKR~23mln against PKR~42mln of last year, down by 45%. After providing for tax refunds of PKR ~5mln, the profit after tax stood at PKR~28mln compared to PKR~31mln of last year, dipped by 9.7%. During 1QCY22, the Company earned profit before tax of PKR~9mln and profit after tax of PKR~6mln

Investment Performance Consolidated Investments of the Company stood at PKR~838mln (CY20: PKR~805mln). However, investment income declined during CY21 to PKR~54mln (CY20: PKR~64mln) caused by low return rate on bank deposits. During 1QCY22, Investment income surged to PKR~15mln (1QCY21: PKR~12mln), owed to expanded investment portfolio due to increased business activity. Investment portfolio of the Company stood at PKR~852mln as at End-March22.

Sustainability Going forward, the Company envisages increased GPW in CY22 with a focus on tapping into captive business which carries huge potential; opportunities in PAF and public sector projects.

Financial Risk

Claim Efficiency Claims outstanding days surged to ~457days during CY21 (CY20: ~396days) due to relative increase in Insurance & Takaful claims outstanding despite of lower insurance claims. During 1QCY22, claim efficiency days remained stagnant at ~89days. The Company has improved liquidity ratio, providing cover of ~3.7x to the outstanding claims as at End-Dec21 as compared to ~2.7x as at End-Dec20. During 1QCY22, Liquidity ratio has further improved to 4.3:1.

Re-Insurance The Company has reinsurance arrangements with international reinsurers of sound repute including Trust Re (A- by AM Best) the leader, Pak Re (Sovereign Government Guarantee) and Saudi Re (BBB+ by S&P), the reinsurance arrangements are all on the basis of excess of loss (XOL).

Cashflows & Coverages Liquid assets parked with the Company stood at PKR~683mln as at End-Dec21 (End-Dec20: PKR~669mln). Liquidity ratio of the Company comparing liquid assets to outstanding claims improved as at End-Dec21 to 14.5:1 (CY20: 9.93:1). This trend of improvement remains continue during 1QCY22 and further improved to 17.4:1 as at End-March22.

Capital Adequacy Shaheen Insurance has an equity base of PKR~697mln as at CY21 (CY20: PKR~665mln). The Company witnessed increase in equity due to increase in retained profit. claims outstanding days increased to ~457days during CY21 (FY20: ~396days).



PKR mln

Shaheen Insurance Company Ltd.
Listed Public Limited

Mar-22	Dec-21	Dec-20	Dec-19
3M	12M	12M	12M

A BALANCE SHEET

1 Investments	852	838	805	773
2 Insurance Related Assets	174	165	210	273
3 Other Assets	57	55	63	52
4 Fixed Assets	64	63	43	82
5 Window Takaful Operations	-	-	-	-
Total Assets	1,147	1,120	1,120	1,180
1 Underwriting Provisions	116	106	100	138
2 Insurance Related Liabilities	164	159	214	202
3 Other Liabilities	137	132	124	150
4 Borrowings	24	26	17	78
5 Window Takaful Operations	-	-	-	-
Total Liabilities	440	423	455	568
Equity/Fund	707	697	665	612

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	69	245	253	357
2 Net Insurance Premium/Net Takaful Contribution	41	185	232	295
3 Underwriting Expenses	(49)	(226)	(278)	(236)
Underwriting Results	(9)	(42)	(45)	59
4 Investment Income	15	54	64	91
5 Other Income / (Expense)	2	10	23	0
Profit Before Tax	9	23	42	150
6 Taxes	(2)	5	(10)	(20)
Profit After Tax	6	28	31	130

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	5	14	8	7
2 Net Takaful Contribution	(4)	1	(0)	(2)
3 Net Takaful Claims	4	(4)	(3)	(4)
4 Direct Expenses Including Re-Takaful Rebate Earned	(0)	0	(0)	-
Surplus Before Investment & Other Income/(Expense)	(1)	(3)	(3)	(6)
5 Investment Income	1	-	1	-
6 Other Income/(Expense)	0	-	0	0
Surplus for the Period	0	(3)	(3)	(6)

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	1	4	3	2
2 Management, Commission & Other Acquisition Costs	(1)	(4)	(8)	(4)
Underwriting Income/(Loss)	0	(0)	(4)	(2)
3 Investment Income	0	3	3	6
4 Other Income/(Expense)	(0)	(3)	(1)	(0)
Profit Before tax	(0)	(1)	(2)	3
5 Taxes	-	(0)	(0)	-
Profit After tax	(0)	(1)	(3)	3

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful	24.6%	25.3%	29.8%	35.0%
Combined Ratio (Loss Ratio + Expense Ratio)	121.3%	122.5%	119.5%	80.0%
2 Investment Performance				
Investment Yield	7.2%	6.6%	8.1%	11.6%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	7.6	7.4	5.0	4.3
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	98.5%	98.0%	100.6%	105.0%

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
AAA (ifs)	Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or 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

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- (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)

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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 | Clause 11-(A)(p).
- (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)
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- (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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