



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-2023	A+ (ifs)	-	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The ratings reflect Shaheen Insurance Company Limited's ("Shaheen Insurance" or "the Company") association with Shaheen Foundation PAF, providing room for captive business. The Company holds a limited market share. The Company has experienced growth in GPW; however, booked losses at the underwriting level. This led to high combined ratio for the Company. Overall, the general insurance industry has a total size of ~PKR 41bln during 3MCY23 (3MCY22: ~PKR 34bln), exhibiting a growth of ~21%, in terms of Gross Premium Written (GPW). Similarly, the underwriting performance of the industry improved and reported at ~PKR 1.5bln during 3MCY23 witnessing an increase of ~25% (3MCY22: ~PKR 1.2bln). Improved underwriting and investment performance contributed to the industry's earnings reported at ~PKR 4bln during 3MCY23 (3MCY22: ~PKR 3.4bln). Shaheen Insurance's profitability also gathers support from its investment income, generated mainly from investments in government securities and equity instruments, nonetheless remains adequate. Going forward, the management aims to expand their captive and non-captive business stream, while managing their risk profile so as to keep the reinsurance agreements intact. However, current economic conditions remain imperative for the overall performance. Financial risk of the Company remains stressed due to stretched claims, despite stability in claim efficiency and liquidity aspect. Equity base remain stable.

The rating is dependent upon sustained improvement in business profile of the Company. Growth in revenue streams are crucial. Sustaining equity levels and improvement in liquidity is core to the rating. This along with better investment income and corporate governance framework remains imperative for sustaining the rating.

Disclosure

Name of Rated Entity	Shaheen Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Rating Modifiers(Jun-22),Methodology General Insurance Rating(Mar-23)
Related Research	Sector Study General Insurance(Jun-23)
Rating Analysts	Nabia Rauf nabia.rauf@pacra.com +92-42-35869504



Profile

Legal Structure Shaheen Insurance Company Limited ('Shaheen Insurance' or 'the Company') is incorporated as a public listed company, listed on PSX, since Jul-95.

Background The Company obtained the certificate for commencement of business in Jul-95. It was registered with the Controller of Insurance in Nov-95. Shaheen Insurance, historically, was a largely equal joint venture of Hollard Insurance (South African based company), First Capital Group (FCG) and Shaheen Foundation PAF.

Operations The Company operates as in conventional insurance along with providing window takaful insurance services. Within both, Shaheen Insurance is mainly engaged in underwriting of fire, marine and aviation, motor and accident/health segments; While engineering, travel, personal line, bond and crop insurance are clubbed under miscellaneous segment. The Company operates through a network of thirteen (13) branches across Pakistan.

Ownership

Ownership Structure The Company is majorly owned by Shaheen Foundation (~69.3%), followed by Hollard (~10.6%). Foreign and Joint Stock Companies hold (~10.6%) and (~7.4%), respectively. Remaining stake (~ 8.6%) is held by the general public.

Stability Ownership of the Company seems to remain stable.

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

Financial Strength The Company's strength is attributed to its sponsorship by Pakistan Airforce, providing strong backing from the Government of Pakistan.

Governance

Board Structure Overall control of the Company vests in eight-member Board, seven male and one female members. The BoD comprises of two Independent Directors, one Executive and five Non-Executive Directors.

Members' Profile Chairman of the Board, Air Marshal M. Arif Pervaiz (Rtd) has served the PAF for more than 35 years and has held various Command and Staff appointments. Mr. Arif is associated with the Company for five years. Other Members on the Board carry diversified experience. The Board houses retired PAF personnel and business professionals who have served at leading positions.

Board Effectiveness During CY22, the Board met four times. The Board is assisted by three committees namely: i) Audit Committee, ii) Investment Committee and iii) Ethics, Human Resource & Remuneration Committee. Attendance during BoD and Committee meetings remain substantial with minutes being adequately maintained.

Transparency The Company has recently appointed BDO Ebrahim & Co., Chartered Accountants as the external auditors. The firm is QCR rated and on SBP's panel in category "A". Previously, Yousuf Adil Chartered Accountants was the external auditor and has issued an unqualified audit report on the financial statements of CY22. The firm was also QCR and on SBP's panel in category "A", and has been the Company's auditor since 2018.

Management

Organizational Structure The Company operates through six departments: Operations- Underwriting and Reinsurance, Claims, Sales and marketing, Finance and Accounts, I.T, and Human Resource (HR&R) and Administration. Each department's Head reports to the CEO, who then reports to the BoD. However, the Head of Internal Audit and HR&R reports functionally to the respective BoD committees and administratively to the CEO.

Management Team The Company has a qualified and experienced management team. Mr. Syed Rizwan Akhtar serves as the Chief Executive Officer (CEO) of the Company since Oct-21. Mr. Rizwan Akhtar has been involved in the insurance sector for more than a decade. Mr. Nisar Ahmad Almani serves as the Chief Financial Officer (CFO). Mr. Nisar holds an experience of more than 22 years and he is associated with the Company since 2014. Mr. Rizwan (CEO) along with Mr. Nisar (CFO), makes pertinent decisions at a strategic level.

Effectiveness The management is facilitated by four management committees, namely: Underwriting, Re-Insurance & Co- insurance, Claim Settlement, and Risk Management & Compliance Committees. These committees meet on quarterly basis or 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 Claims processing is centralized for better control and efficiency, with branches sending daily claim intimation reports to the Head Office, where all claims are paid. Intimation can be done via mail or telephone.

Investment Management Function The Company has a documented Investment Policy Statement (IPS) approved by BoD that provides guidelines, execution structure and sets benchmarks for each type of investment. Investment performance is evaluated by the Investment Committee every quarter.

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 are defined separately for various classes of risks, are referred to the Head Office for approval.

Business Risk

Industry Dynamics In terms of GWP, the general insurance industry has a total size of PKR 41.4bln in 3MCY23 compared to PKR 34.1bln in 3MCY22, exhibiting a growth of 21.4%. Similarly, the underwriting performance of the industry also improved and reported at PKR 1.5bln in 3MCY23 witnessing an increase of 25.0% compared to the previous corresponding year (3MCY22: PKR~ 1.2bln).

Relative Position Shaheen Insurance falls among small sized players in the general insurance industry with less than ~1% market share.

Revenue During CY22, the Company posted a surge in GPW of ~PKR 518mln (inclusive of Takaful Contribution of ~PKR34mln) as compared to ~PKR 245mln (inclusive of Takaful Contribution for ~PKR 24mln) showing an overall increase of ~111% and Motor was the top performing segment. As at 3MCY23, consolidated GPW stood at ~PKR 76mln (3MCY22: ~PKR 70mln) increase of ~9%, fire and property was the top performing segment of the Company.

Profitability During CY22, profit before tax increased to ~PKR 77mln (CY21: ~PKR 22mln) showing an increase of ~250% due to increased revenue and controlled expenses. Similarly, net profit after tax also grew to ~PKR52mln (CY22:~PKR 27mln), depicting an increase of ~93%. During 3MCY23, the Company followed a similar trend and PBT stood at ~PKR 34mln (3MCY22: ~PKR 6mln) and profit after tax stood at ~PKR 26mln (3MCY22: ~PKR 6mln).

Investment Performance During CY22, investment income of the Company rose to ~PKR 86mln (CY21: ~PKR 54mln) showing an increase of ~59%. Investment Portfolio of the Company stood at ~ PKR 943mln (CY21: ~PKR 838mln). The major portion (~73%) of the Company's total investment portfolio is invested in government securities. Similarly, during 3MCY23, the Company's investment income stood at ~PKR 24mln (3MCY22: ~PKR 15mln). Due to high interest rates, the Company witnessed increase in investment income.

Sustainability During CY23, the Company projects growth in GPW with a focus on tapping into captive business which carries huge potential; opportunities in PAF and public sector projects.

Financial Risk

Claim Efficiency As of CY22, the receivables position improved. The Company's high premium outstanding days decreased to 307days, (CY21: 506 days), reflecting good liquidity management. As at 3MCY23, the Company upheld the same tendency and high premium outstanding days stood at 65 days (3MCY22: 384 days).

Re-Insurance On the basis of excess of loss (XOL),the Company has secured reinsurance arrangements with reputed re-insurers including Trust Re, Labuan Re, Pak Re, Saudi Re, Societe Centrale De Re, Kenya Re, Ocean Re, Tunis Re and Arab Re.

Cashflows & Coverages In CY22, the Company's liquidity ratio witnessed a dip and reported at ~2.3x (CY21: ~3.7x), mainly due to higher net premium amounts. This rise in net insurance premium/net takaful contribution was driven by increased reinsurance/retakaful expenses. The trend remained same and liquidity ratio further deteriorated at ~1.9x in 3MCY23 (3MCY22: 4.2x).

Capital Adequacy As at 3MCY23, the Company has an equity base of ~PKR 761mln (3MCY22: ~PKR 707mln) showing an increase of 0.07% owing to increased unappropriate profit. Shaheen Insurance Company Limited meets the statutory capital adequacy requirement of PKR 500mln.



PKR mln

Shaheen Insurance Company Ltd.
Public Listed Company

Mar-23	Dec-22	Mar-22	Dec-21	Dec-20
3M	12M	3M	12M	12M

A BALANCE SHEET

1 Investments	951	943	852	838	805
2 Insurance Related Assets	260	198	174	165	210
3 Other Assets	100	86	80	78	84
4 Fixed Assets	64	56	41	40	22
5 Window Takaful Operations	-	-	-	-	-
Total Assets	1,375	1,283	1,147	1,120	1,120
1 Underwriting Provisions	196	175	116	106	100
2 Insurance Related Liabilities	239	211	164	187	214
3 Other Liabilities	163	141	137	104	124
4 Borrowings	16	19	24	26	17
5 Window Takaful Operations	-	-	-	-	-
Total Liabilities	614	546	440	423	455
Equity/Fund	761	738	707	697	665

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	172	518	69	245	253
2 Net Insurance Premium/Net Takaful Contribution	101	320	41	185	232
3 Underwriting Expenses	(94)	(357)	(49)	(228)	(278)
Underwriting Results	7	(38)	(9)	(43)	(45)
4 Investment Income	24	86	15	54	64
5 Other Income / (Expense)	3	29	2	12	23
Profit Before Tax	34	77	9	22	42
6 Taxes	(8)	(24)	(2)	5	(10)
Profit After Tax	26	52	6	27	31

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	11	34	5	14	8
2 Net Takaful Contribution	8	9	(4)	1	(0)
3 Net Takaful Claims	(4)	(12)	4	(6)	(3)
4 Direct Expenses Including Re-Takaful Rebate Earned	(0)	0	(0)	0	(0)
Surplus Before Investment & Other Income/(Expense)	4	(3)	(1)	(4)	(3)
5 Investment Income	1	2	1	1	1
6 Other Income/(Expense)	0	0	0	0	0
Surplus for the Period	5	(1)	0	(3)	(3)

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	4	9	1	4	3
2 Management, Commission & Other Acquisition Costs	(3)	(9)	(1)	(4)	(8)
Underwriting Income/(Loss)	1	1	0	(0)	(4)
3 Investment Income	1	3	0	1	3
4 Other Income/(Expense)	0	(0)	(0)	(2)	(1)
Profit Before tax	2	4	(0)	(1)	(2)
5 Taxes	(1)	(1)	-	(0)	(0)
Profit After tax	1	3	(0)	(1)	(3)

C RATIO ANALYSIS

1 Profitability					
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Taka	30.6%	28.9%	24.6%	26.2%	29.8%
Combined Ratio (Loss Ratio + Expense Ratio)	93.0%	111.8%	121.3%	123.4%	119.5%
2 Investment Performance					
Investment Yield	10.3%	9.6%	7.2%	6.6%	8.1%
3 Liquidity					
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	4.8	5.4	7.6	7.4	5.0
4 Capital Adequacy					
Liquid Investments / Equity (Funds)	103.1%	105.2%	98.5%	98.0%	100.6%

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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- (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 | 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)
- (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)
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- (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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