



The Pakistan Credit Rating Agency Limited

## Rating Report

### Shaheen Insurance Company Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-

#### 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 equity injection. 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

<b>Name of Rated Entity</b>	Shaheen Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   General Insurance(Jun-18)
<b>Related Research</b>	Sector Study   General Insurance(Nov-18)
<b>Rating Analysts</b>	Rohail Amjad   rohail.amjad@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Shaheen Insurance was incorporated as a public limited company in 1996 under Companies Ordinance 1979  
**Background** Shaheen Insurance is a project of Shaheen Foundation set up by Pakistan Air Force and is involved in general insurance business  
**Operations** With its head office in Karachi, the company has a nationwide network of 11 branches. 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

## Ownership

**Ownership Structure** SIC is majority owned by Shaheen Foundation Group (73.4%), Hollard is second majority shareholder (10.6%). Rest of the shareholding belongs to financial institutions and individuals.  
**Stability** There is no change in the shareholding structure of the company  
**Business Acumen** Shaheen Foundation, established in 1977, promotes welfare activities for the benefit of serving and retired Pakistan Air force personnel.  
**Financial Strength** SF has diversified interest in aviation, textile, trade, real estate, insurance, health and education sectors of the country. The foundation is currently engaged in two mega projects i.e. Wind Energy Power Project in Jhimpir and Falcon Mall in Karachi

## Governance

**Board Structure** The overall control of the company vests in the seven-member Board of Directors (excluding the CEO). All directors are non-executive, and represent SF, resulting in SF having complete control on the board. The chairman of SIC is ex-officio position of the MD of Shaheen Foundation  
**Members' Profile** Air Marshal Muhammad Jamshed Khan (Retd.) replaced previous chairman Air Marshal M. Arif Pervaiz (Retd.), due to change in the position of Managing Director of SF. Shaheen Foundation's DMD, Air Vice Marshal Syed Razi Nawab (Retd.), is also an executive director of Shaheen Insurance and is quite active in promoting the brand of the company  
**Board Effectiveness** The BoD has three committees namely i) Audit Committee, ii) Investment Committee and iii) Human Resource and Remuneration Committee. During CY17, attendance of all members of the committees remained high  
**Financial Transparency** Riaz Ahmad & company, Chartered Accountants are the company's external auditors. The auditors expressed an unqualified opinion on the financial statements of CY17. However, the report contains an emphasis of matter paragraph which pertains to advance against property. The half year review was conducted by Deloitte Yusuf Aadil & Co. Chartered Accountants, giving a qualified opinion on the basis of non compliance with IAS 39

## Management

**Organizational Structure** 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. Internal Audit reports directly to Audit committee of BOD.  
**Management Team** Mr. Sohail Kidwai, CEO of the company since Jan-14, carries with him rich insurance experience, especially on the business front.  
**Effectiveness** A comprehensive monthly MIS report includes: (i) Net position of the company – movement summary of receipts and payments, (ii) Executive Summary of Investments, (iii) Business Generation report – branch wise, (iv) summary of collection and payment made – separately for each branch, (v) Claims payable segment wise – Aging, (vi) Summary of outstanding premium – month wise movement summary - separately for each branch.  
**Claim Management System** With a focus to improve control and expedite claim processing, claims department is centralized. The branches are instructed to intimate all reported claims (segment wise) in a prescribed format of "Daily Claim Intimation Report" to the HO. All claims are paid through Head Office.  
**Investment Management Function** The company doesn't have any such investment policy. The Investment matters are looked after by the board  
**Risk Management Framework** The company has a very strong financial base as against their net claims at Sep'18 (8.8x) rising from 7.7x in Sep'17

## Business Risk

**Industry Dynamics** Pakistan's general insurance witnessed continuous growth (CAGR 4 years 11%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.  
**Relative Position** SIC is a small sized insurance company having a market share of less than 1%  
**Revenue** The company posted a GPW of PKR 386mln at Sep-18, registering a 40% increase as compared to the same period last year. GPW Mix almost showed the same trend, though a marginal increase in the health business was noted. Motor business remained the forte of the company comprising 52% of the GPW, followed by Misc. (27%), Fire (13%), Marine (4%) and health (4%).  
**Profitability** During 9MCY18, the company posted a profit after tax of PKR 50mln (9MCY17: PKR 37mln), on account of improved underwriting profit at end Sep'18  
**Investment Performance** Income from Investment was PKR 24mln staying unchanged against its corresponding period. The return on investment remained consistent at end -Sep'18(9MCY18:7%, 9MCY17: 7.3%). The investment income prospects are sanguine on account of rising interest rate.  
**Sustainability** SIC obtained Window Takaful Operations License in March 2018. This is expected to add more to the top line.

## Financial Risk

**Claim Efficiency** The claims efficiency rose to 187days (9MCY17: 176days) on accounts of rising business volume.  
**Re-Insurance** SIC has secured 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).  
**Liquidity** The liquidity declined marginally to 3.8x at end Sep-18 as compared to 4.1x at end Sep'17 on account of reduced liquid investments this year. The company's liquid investment book comprises of .7x of its equity. Liquid investment book comprises of bank deposits (96%) and government securities (4%).  
**Capital Adequacy** SIC has a capital above PKR600mln well beyond the MCR requirement



## GENERAL INSURANCE Financials [Summary]

The Pakistan Credit Rating Agency Limited

### Shaheen Insurance Company Limited (SIC)

	-----PKR (mln)-----		
BALANCE SHEET	Sep-18	Dec-17	Dec-16
<b>Investments</b>			
Liquid Investments	420	353	196
Other Investments	337	320	302
	757	673	498
Insurance Related Assets	316	185	110
Other Assets	120	194	163
<b>TOTAL ASSETS</b>	<b>1,193</b>	<b>1,052</b>	<b>771</b>
Equity	667	631	406
Underwriting Provisions	206	144	149
Insurance Related Liabilities	159	162	148
Other Liabilities	162	115	68
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>1,194</b>	<b>1,052</b>	<b>771</b>
INCOME STATEMENT	Sep-18	Dec-17	Dec-16
<b>Gross Premium Written (GPW)</b>	<b>386</b>	<b>343</b>	<b>340</b>
Net Premium Revenue (NPR)	290	300	265
Net Claims	70	80	74
Net Operational Expenses	196	188	189
<b>Underwriting Profit / (Loss) -Adjusted</b>	<b>556</b>	<b>568</b>	<b>528</b>
Investment Income	24	32	20
Other Income/ (expense)	2	8	21
<b>Profit Before Tax</b>	<b>50</b>	<b>74</b>	<b>43</b>
RATIO ANALYSIS	Sep-18	Dec-17	Dec-16
<b>Underwriting Results</b>			
Loss Ratio	24%	27%	28%
Combined Ratio	92%	90%	98%
<b>Performance</b>			
Operating Ratio	83%	76%	83%
Investment Yield	7%	7%	7%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times	3.8	4.6	2.8

Shaheen Insurance Company Limited (SIC)

Feb-19



## 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
<b>AAA</b>	<b>Exceptionally Strong.</b> 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.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> 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
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> 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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> 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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> 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> <b>B</b> <b>B-</b>	<b>Weak.</b> 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.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> 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.
<b>D</b>	<b>Distressed</b> 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.

### **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)

### **Independence & Conflict of interest**

- (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)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent