



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
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	-
18-Nov-2015	A-	-	Stable	Maintain	-
05-Jan-2015	A-	-	Stable	Upgrade	-
30-Apr-2014	BBB+	-	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

The rating reflects Shaheen's Insurance strong parentage - Shaheen Foundation - ensuring the 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. Equity was getting reduced due to losses but Shaheen Insurance has been able to convert losses into profit. The growth prospects of the company seem sanguine given the fact the financials of the company are sustained. The rating of the company may be reconsidered provided the company sustains its growth momentum

Disclosure	
Name of Rated Entity	Shaheen Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI_FY19(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504

Profile

Legal Structure Shaheen Insurance Company Limited, (SIC), was incorporated as a general insurance company in 1995, and is listed on the Pakistan Stock Exchange
Background The management control of the company has been taken up by Shaheen Foundation (SF) since Jul-13, while business strategy 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

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 of the company
Business Acumen Shaheen Foundation(SF), establish in 1977, promotes welfare activities for the benefit of serving and retired Pakistan Air force personnel. SF has diversified interest in aviation, textile, trade, real estate, insurance, health and education sectors of the country.
Financial Strength The foundation is currently engaged in two mega projects i.e. Wind Energy Power Project in Jhampir 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.
Members' Profile The chairman of SIC is ex-officio position of the MD of Shaheen Foundation. Accordingly, in Jan-16, 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 CY18, 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 CY18.

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, had previously been associated with the company at a senior position for long; and carries with him over two decades of insurance experience. He is assisted by a balanced team of both experienced and young professionals.
Effectiveness
MIS 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. The claims process is initiated with claim intimation through mail or telephone
Investment Management Function The company has no such investment policy
Risk Management Framework The company has a very strong financial base as against their net claims at end 3MCY19 ~ 7.2x

Business Risk

Industry Dynamics Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 11%). 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
Relative Position SIC is a small sized insurance company having a market share of less than 1%
Revenue During 3MCY19, the company posted a GPW of PKR 79mln, resulting in a YoY fall of 29%. Misc. segment witnessed major increase with 129% followed by fire (24%), motor (21%), health (20%) and marine (6.43%).
Profitability During 3MCY19, the company posted a Conventional Profit of PKR 25mln whereas the loss for the PTF was recorded at PKR 1.26mln. OPF made generated a profit PKR 1.2 thousand.
Investment Performance The yield dropped to 2.3% (3MCY18: 6.6%).
Sustainability Going forward, the company envisages increased GPW in CY19 with a focus on tapping into captive business which carries huge potential; opportunities in PAF and public sector projects.

Financial Risk

Claim Efficiency SIC's commercial efficiency rose to 101x at end 3MCY19 from 1x in 3MCY18. This was on the back of similar amounts for insurance-related assets and insurance-related liabilities at PKR 251mln and PKR 225mln respectively.
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 liquid investment book increased significantly to PKR 570mln (CY18: PKR 527 mln, CY17: PKR 528mln) on the back of significant growth in bank deposits. The company's liquid investment book comprises of .8x of its equity. Liquid investment book comprises of bank deposits (88%) and government securities (3%).
Capital Adequacy At -end 3MCY19, paid-up share capital stood at PKR 600mln.



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE
Financials [Summary]**

Shaheen Insurance Company Limited (SIC)

BALANCE SHEET	3MCY19	CY18	CY17	CY16
Investments				
Liquid Investments	570	527	528	309
Other Investments	219	219	221	209
	<u>789</u>	<u>746</u>	<u>749</u>	<u>517</u>
Insurance Related Assets	252	278	185	113
Other Assets	110	128	108	141
TOTAL ASSETS	<u>1,151</u>	<u>1,152</u>	<u>1,042</u>	<u>771</u>
Equity	701	684	620	406
Underwriting Provisions	129	148	146	154
Insurance Related Liabilities	225	227	194	160
Other Liabilities	96	94	81	50
TOTAL EQUITY & LIABILITIES	<u>1,151</u>	<u>1,152</u>	<u>1,042</u>	<u>771</u>

INCOME STATEMENT	3MCY19	CY18	CY17	CY16
Gross Premium Written (GPW)	79	417	343	340
Net Premium Revenue (NPR)	85	367	300	265
Net Claims	23	85	80	-
Net Operational Expenses	37	233	188	189
UNDERWRITING INCOME/(LOSS)-Adjusted	10	110	31	76
Investment Income	13	36	32	20
Other Income/ (expense)	3	2	8	21
PROFIT BEFORE TAX	26	88	74	43

RATIO ANALYSIS	3MCY19	CY18	CY17	CY16
Underwriting Results				
Loss Ratio	27%	23%	27%	28%
Combined Ratio	88%	93%	90%	98%
Performance				
Operating Ratio	69%	82%	76%	83%
Investment Yield	2%	6%	7%	7%
Liquidity & Solvency				
Liquidity Ratio – times	5.0	4.5	4.6	2.8

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.

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+	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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
BB+	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.
BB	
BB-	
B+	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.
B	
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
CC	
C	
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. 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, 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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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)

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