



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
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	-
18-Nov-2015	A-	-	Stable	Maintain	-

**Rating Rationale and Key Rating Drivers**

The Company has witnessed slowing down of the business generated that in the past had led to Positive outlook. Impacted from increased competition within the General Insurance market and effects of the COVID-19 pandemic, the underwriting income experienced setback as Shaheen Insurance has majority portfolio within motor segment. 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. The Company aims to penetrate further in the non-motor segment both through captive and non-captive channels. The support from investment income is 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.

In terms of Gross Premium Written (GPW), Pakistan’s general insurance industry had a total size of PKR ~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR ~104,453mln). The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. Underwritten Gross Premium of non-life insurers in India reached USD ~26.5bln in FY21, from USD ~26.4bln in FY20.

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.

**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 Rating(Jun-21)
<b>Related Research</b>	Sector Study   General Insurance(May-21)
<b>Rating Analysts</b>	Muhammad Noor Ul Haq   noorulhaq@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Shaheen Insurance Company Limited (herein referred to as Shaheen Insurance) is a public Company listed on the Pakistan Stock Exchange with symbol - SHNI.

**Background** Shaheen Insurance was registered with the Controller of Insurance in November 1995 to conduct non-life insurance business. The management control of the Company has been taken up by Shaheen Foundation (SF) since 2013, 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. Shaheen Insurance operates through a total of thirteen (13) branches within Pakistan.

## Ownership

**Ownership Structure** The Company is majority owned by Shaheen Foundation Group (73.4%), Hollard is the second majority shareholder (10.6%). Rest of the shareholding belongs to financial institutions and individuals.

**Stability** There was no change observed in the shareholding of the Company.

**Business Acumen** Shaheen Foundation, established in 1977, promotes welfare activities for the benefit of active 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 one mega project i.e. Falcon Mall in Karachi, while the Wind Energy Power Project in Jhimpir is on hold.

## Governance

**Board Structure** The overall control of the Company vests in the seven (7) member Board of Directors (the Board), excluding the CEO. All directors are non-executive, while six out of the seven members represent Shaheen Foundation, with one member being an independent director.

**Members' Profile** The Chairman of Shaheen Insurance is ex-officio position of the MD of Shaheen Foundation. Accordingly, in Feb-20, Air Marshal M. Arif Pervaiz (Retd.) replaced previous chairman Air Marshal Muhammad Jamshed Khan (Retd.), due to change in the position of Managing Director of SF. Shaheen Foundation's Deputy MD, Air Vice Marshal Salman Ahsan Bokhari (Retd), is also a non-executive director of Shaheen Insurance and is active in promoting the brand of the Company.

**Board Effectiveness** The Board has three committees namely i) Audit Committee, ii) Investment Committee and iii) Ethics, Human Resource & Remuneration Committee. During CY20, attendance of all committee members remained high.

**Transparency** Yousuf Adil, Chartered Accountants are the Company's external auditors. The auditors expressed an unqualified opinion on the financial statements for end CY20.

## Management

**Organizational Structure** The organizational structure of Shaheen Insurance is divided into departments, each department head reporting into the CEO directly. This comprises (i) Operations - Underwriting and Reinsurance, (ii) Claims, (iii) Sales & Marketing, (iv) Finance & Accounts (including Investments), (v) I.T, and (vi) Human Resources & Administration. Internal Audit reports directly to the Board level Audit Committee.

**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** Retention of qualified and experienced Insurance professionals remains important for the Company to ensure smooth operations.

**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. Branches are instructed to intimate all reported claims (segment wise) in a prescribed format of "Daily Claim Intimation Report" to the Head Office. All claims are paid through HO. The claims process is initiated with claim intimation through mail or telephone.

**Investment Management Function** The Company has an investment policy in place. All investments are approved by the Investment Committee at the Board level.

**Risk Management Framework** The risk absorption capacity of the Company, characterized by sound liquidity profile, provides a cushion for future growth.

## Business Risk

**Industry Dynamics** In terms of Gross Premium Written (GPW), Pakistan's General Insurance industry had a total size of PKR ~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR ~104,453mln). The Insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remains very modest as compared to other jurisdictions while the Insurance sector remains underdeveloped relative to its potential. Underwritten Gross Premium of Non-Life Insurers in India reached USD ~26.5bln in FY21, from USD ~26.4bln in FY20.

**Relative Position** Shaheen Insurance is a small sized Insurance Company having a market share of less than 1% on basis of GPW.

**Revenue** During 3MCY21, the Company posted a GPW of PKR 55mln, resulting in a YoY fall of 18% (3MCY20: PKR 67mln). Motor segment was the forte of the company comprising (58%) of the total GPW, followed by Miscellaneous (17%), Fire (15%), Marine (6%), and Health (4%).

**Profitability** During 3MCY21, the Company posted a Conventional Profit Before Tax of PKR 4mln (3MCY20: PKR 19mln) whereas the Profit Before Tax for the Window Takaful operations was at 3MCY21 of PKR 0.2mln (3MCY20: PKR 1.1mln).

**Investment Performance** The annual yield declined slightly to 10.5% (CY19: 12.1%) on the back of falling interest rates and larger sized investment book.

**Sustainability** Going forward, the Company envisages increased GPW in CY21 with a focus on tapping into captive business which carries huge potential; opportunities in Shaheen Foundation and related projects.

## Financial Risk

**Claim Efficiency** Shaheen Insurance's commercial efficiency declined to 1.0x at end 3MCY21 (3MCY20: 1.3x). This was on the back of similar amounts for insurance-related liabilities YoY but decreasing insurance-related assets.

**Re-Insurance** Shaheen Insurance 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 at 3MCY21 increased YoY by 5% to PKR 614mln (3MCY20: PKR 585mln) on the back of growth in debt securities. The Company's liquid investment book comprises of .925x its equity.

**Capital Adequacy** At end 3MCY21, paid-up share capital stood at PKR 600mln while Total Equity was PKR 664mln.



The Pakistan Credit Rating Agency Limited

## Shaheen Insurance Company Limited (SIC)

<b>BALANCE SHEET</b>	<b>3MCY21</b>	<b>CY20</b>	<b>CY19</b>	<b>CY18</b>
<b>Investments</b>				
Liquid Investments	614	618	587	527
Other Investments	135	135	130	109
	<u>750</u>	<u>753</u>	<u>717</u>	<u>636</u>
Insurance Related Assets	193	193	265	278
Other Assets	127	148	191	128
<b>TOTAL ASSETS</b>	<u>1,069</u>	<u>1,094</u>	<u>1,174</u>	<u>1,042</u>
Equity	664	656	621	574
Underwriting Provisions	90	96	134	148
Insurance Related Liabilities	188	204	190	185
Other Liabilities	128	139	229	135
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<u>1,069</u>	<u>1,094</u>	<u>1,174</u>	<u>1,042</u>

<b>INCOME STATEMENT</b>	<b>3MCY21</b>	<b>CY20</b>	<b>CY19</b>	<b>CY18</b>
<b>Gross Premium Written (GPW)</b>	<b>55</b>	<b>244</b>	<b>350</b>	<b>417</b>
Net Premium Revenue (NPR)	48	229	295	367
Net Claims	20	66	100	85
Net Operational Expenses	24	113	128	172
<b>UNDERWRITING INCOME/(LOSS)-Adjusted</b>	<b>4</b>	<b>50</b>	<b>67</b>	<b>110</b>
Investment Income	12	65	85	45
Other Income/ (expense)	(13)	(69)	(72)	(56)
<b>PROFIT BEFORE TAX</b>	<b>4</b>	<b>46</b>	<b>80</b>	<b>99</b>

<b>RATIO ANALYSIS</b>	<b>3MCY21</b>	<b>CY20</b>	<b>CY19</b>	<b>CY18</b>
<b>Underwriting Results</b>				
Loss Ratio	41%	29%	34%	23%
Combined Ratio	91%	78%	77%	87%
<b>Performance</b>				
Operating Ratio	90%	78%	67%	76%
Investment Yield	8%	11%	12%	7%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	5.5	4.7	4.0	4.5

Shaheen Insurance Company Limited (SIC)

Aug-21

## Insurer Financial Strength (IFS) Rating

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	<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.
AA+ AA AA-	<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.
A+ A A-	<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.
BBB+ BBB BBB-	<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.
BB+ BB BB-	<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+ B 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.
CCC CC C	<b>Very high credit risk.</b> 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.
D	<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.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
---	---	--	---	---

**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.

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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