



The Pakistan Credit Rating Agency Limited

Rating Report

Habib Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Dec-2022	A++ (ifs)	-	Stable	Maintain	-
31-Mar-2022	A++ (ifs)	-	Stable	Harmonize	-
09-Dec-2021	A+	-	Stable	Maintain	-
09-Dec-2020	A+	-	Stable	Maintain	-
13-Dec-2019	A+	-	Stable	Maintain	-
13-Jun-2019	A+	-	Stable	Maintain	-
13-Dec-2018	A+	-	Negative	Maintain	-
24-May-2018	A+	-	Negative	Maintain	-
30-Dec-2017	A+	-	Positive	Maintain	-
29-Jun-2017	A+	-	Positive	Maintain	-
30-Dec-2016	A+	-	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects strengthened financial position of Habib Insurance Company Limited, which is an associated Company of the Habib Group. Habib Insurance provides general insurance (Conventional & Takaful) services, operating majorly through four core segments, namely; i) Fire & Property ii) Marine & transport iii) Motor and iv) Miscellaneous. Furthermore, the Company benefits from synergy created through group entities, ultimately, channeled through its sponsor group (Habib Group of Companies). Syed Ather Abbas has been appointed as Chief Executive Officer (CEO) of the Company. New management of Habib Insurance is expected to steer the Company towards progressive performance. Positive developments instigated relative GPW growth for Habib Insurance, particularly within the motor segment and fire segment, boosting the topline of the Company to PKR 2,255mln for the period ended 9MCY22 (CY21: PKR 2,295mln). Enhanced topline, combined with moderate claims and management expense resulted in underwriting results of PKR 61mln for the period ended 9MCY22 (CY21: PKR 6mln). Elongated market outreach, capitalizing on the Habib group, bodes well for Habib Insurance's business profile. The financial risk matrix remains adequate, with skewed profile of investment book towards liquid equity investments and secured government securities, along-with a sufficient equity base, providing comfort to the liquidity of Habib Insurance. Although, Habib Insurance incurred some losses on equity investments, owing to lousy performance of capital market, but the Company's prime equity investments provided a reliable dividend income stream, contributing PKR 121mln in total investment income, with additional support derived from debt securities. The rating acknowledges Habib Insurance's corporate strategy to increase its position on the market by prudent underwriting practices while focusing on bottom-line growth.

The rating is based upon sponsor profile and relative position of Habib Insurance Company in the general insurance industry. The future prospects of the Company will require further improvements in business size, underwriting profitability and investment income. As the company grows, the liquid profile must be enhanced.

Disclosure

Name of Rated Entity	Habib 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	Waqas Ahmad waqas.ahmad@pacra.com +92-42-35869504



Profile

Legal Structure Habib Insurance Company Limited (Habib Insurance) was incorporated as a Public Limited Company in 1942. It is listed on the Pakistan Stock Exchange (PSX) with trading symbol "HICL".

Background Habib Insurance commenced its commercial operations as a life and general insurance company in Bombay in 1942. After partition, the Company moved its headquarters to Karachi. Furthermore, the Company is now restricted to the non-life insurance business after nationalization of life insurance in 1972.

Operations Habib Insurance's operations are mainly concentrated in Punjab. The Company provides general insurance (Conventional & Takaful) services, operating through five core segments, namely; i) Fire & Property ii) Marine & transport iii) Motor iv) Group Hospitalization and v) Miscellaneous.

Ownership

Ownership Structure Habib family owns majority stake in Habib Insurance, through individuals, associates and group companies. Current generation of the Habib family represents four distinct branches with interests in diverse industrial and financial sector ventures. While there are no significant cross-holdings amongst the different group companies, their association remains strong and well knit.

Stability Habib Insurance Company's affiliation with Habib Group augments its standing in the industry. Habib Insurance is the only group company in which all family streams holds an ownership stake. This is in contrast with other business concerns of the group, where ownership is clearly distributed in different family branches.

Business Acumen The Habib family's businesses go back 4 generations, having started in the late 1800 in Bombay, India by late Mr. Habib Esmail, the predecessor of the Habib Group. Subsequently, his four sons namely Ahmed Habib, Dawood Habib, Mohammed Ali Habib and Ghulam Ali Habib also joined the business and formed one of the largest private sector banks in the country, Habib Bank Limited.

Financial Strength The Company has maintained a sound financial profile through the years with no immediate use for group support being arisen, however, should the need arise, a strong group support is present.

Governance

Board Structure The board is structured with nine members, core members of the Habib family present on the BoD. The board comprises five non-executive members, three independent members and one executive member. There are three committees in place at the board level, namely: i) Audit; ii) Investment and iii) Human Resource & Remuneration committee, each headed by a BoD member.

Members' Profile BoD is chaired by Mr. Rafiq M. Habib. The board has equal representation of two families; Dawood Habib Family and Rafiq Habib Family, one from Ghulam Ali Habib, while one is the independent member. Board members possess diversified backgrounds and rich business acumen.

Board Effectiveness The board members meet on quarterly basis to discuss the Company's growth strategies and other financial and operational matters. The minutes of the meeting are adequately documented.

Transparency External Auditors M/S KPMG Taseer Hadi & Co. Chartered Accountants gave an unqualified opinion on financial statements for year ended Dec'21.

Management

Organizational Structure Habib Insurance has well-defined organizational structure, with reporting lines converging towards CEO, except internal audit. Three management level committees have been established i) Underwriting, Reinsurance & Co-insurance ii) Claims Settlement & iii) Risk Management & Compliance.

Management Team Syed Ather Abbas has been appointed as CEO in Sep'22, in place of Mr. Shabbir Gulamali. He graces over three decades of experience in the insurance industry. Further, Mr. Aun Mohammad A. Habib is the executive director of Habib insurance overseeing the operations of the Company.

Effectiveness Mr. Aun Mohammad A. Habib is the executive director of Habib insurance overseeing the operations of the Company. Furthermore, management committees meet on regular basis to review performance and resolve operational issues in timely manner.

MIS The company operates in a centralized control environment with underwriting and claim approvals handled at the Head Office level. A real-time General Insurance System (GIS) developed by Sidat Hyder, is deployed at all branches; online since Jan'13, which is supporting centralized operations.

Claim Management System Habib Insurance has a centralized claim processing system, every claim greater than PKR 1mln requires CEO approval. Claims amounting less than PKR 0.1mln can be approved by the branch managers, greater than that are forwarded to the head office by the concerned branches.

Investment Management Function An investment committee is formed by the board which oversees the investment function of the Company, with support being taken from the CFO of the Company.

Risk Management Framework Habib Insurance follows clearly laid down criteria to evaluate risk in different segments and maintains a decline list. Head office approval is required for every new customer and also in case of any change in policy terms at renewal.

Business Risk

Industry Dynamics In terms of Gross Premium Written (GPW), Pakistan's general insurance industry have a total size of PKR ~66.18bln for 6MCY22 (6MCY21: PKR~52.66bln), registering a growth of ~26% YoY basis. The insurance penetration and density remained very modest as compared to other jurisdictions while the insurance sector still remains underdeveloped relative to its potential. Investment income has deteriorated to PKR ~5.21bln for 6MCY22 (6MCY21: PKR 6.97bln), despite hike in policy rate, insurance companies incurred losses in capital market. Overall industry has earned profit after tax of PKR 5.03bln for 6MCY22 (6MCY21: PKR 7.18bln), owing to higher claims, lower investment income and imposition of super tax.

Relative Position Habib Insurance Company captured a market share of 1.8% as of Jun'22, deeming it one of the medium sized company of the insurance industry.

Revenue GPW of the Company has shown 27% growth on annual basis (CY21: PKR 2,295mln; CY20: PKR 1,805mln). Whereas, for 9MCY22, the Company has achieved YoY growth of 59%, amounting to PKR 2,255mln (9MCY21: PKR 1,422mln). In terms of segmental mix, motor segment remained forte of the Company with 41% contribution. Whereas, fire segment contributed 36%, Marine 15%, Misc. 8% and Group Hospitalization 0.2% towards GPW of the Company.

Profitability Habib Insurance secured an underwriting profit of PKR 61mln for the period ended 9MCY22 (9MCY21: PKR -0.4mln; CY21: PKR 6mln). With non-core income of PKR 90mln acquired through investment income, the Company managed to generate a net profit of PKR 115mln for 9MCY22 (9MCY21 : PKR 74mln ; CY21 : PKR 166mln), achieving YoY growth of 55%, through sustaining its customer base.

Investment Performance Habib Insurance earned investment income of PKR 90mln for 9MCY22 (9MCY21: PKR 130mln). Although, Habib Insurance incurred losses on equity investments, due to poor performance of capital market, but the Company earned dividend income of PKR 121mln from prime equity investments.

Sustainability Going forward, the Company is planning to expand operations, adding value in operations through process automation. Management envisages to fuel growth by continuing its association with Habib Group.

Financial Risk

Claim Efficiency A sturdy claims management of the Company is observed through the years. In addition to strong group support, Habib Insurance possesses a commercial efficiency of 1.1 times, placing confidence in the Company's ability to pay off its related short-term liabilities. Further, the Company has paid claims amounting to PKR 1,119mln for 9MCY22 (9MCY21: PKR 673mln).

Re-Insurance Habib Insurance has reinsurance arrangements with leading reinsurers including Hannover Re(rated 'AA-'by S&P), Scor Re(rated 'A+' by S&P), Korean Re(rated 'A' by AM BEST), Echo Re(rated 'A-'by S&P), Malaysian Re(rated 'A-' by AM BEST), Peak Re(rated 'A-'by S&P) & P.R.C(rated 'A-' by AM BEST and 'AA' locally). The Company has a combination of surplus, quota share and excess of loss treaties for various segments.

Cashflows & Coverages Liquid assets of the Company amounting to PKR 1,732mln, leads to a 1.1x claims cover, reassuring the Company's strength to cover its net claims for the period ended 9MCY22. Equity investment focused portfolio has been maintained by the Company. However, the equity portfolio pertains to related parties, which are well renowned companies. Furthermore, the Company has reduced investments in government securities.

Capital Adequacy The Company possesses an equity base of PKR 1,173mln. The Company has paid a dividend of PKR 0.625 per share for the period ended Dec'21.



PKR Mln

Habib Insurance Company Limited
Listed Public Limited

Sep-22	Dec-21	Dec-20	Dec-19
9M	12M	12M	12M

A BALANCE SHEET

1 Investments	1,752	1,651	1,612	1,465
2 Insurance Related Assets	2,977	2,361	2,129	1,821
3 Other Assets	515	458	312	312
4 Fixed Assets	60	70	187	168
5 Window Takaful Operations	-	-	-	-
Total Assets	5,304	4,540	4,240	3,767
1 Underwriting Provisions	1,593	1,309	1,033	932
2 Insurance Related Liabilities	1,964	1,435	1,325	981
3 Other Liabilities	432	428	417	396
4 Borrowings	33	38	138	209
5 Window Takaful Operations	-	-	-	-
Total Liabilities	4,021	3,209	2,913	2,518
Equity/Fund	1,283	1,331	1,327	1,249

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	2,255	2,295	1,805	1,706
2 Net Insurance Premium/Net Takaful Contribution	1,038	911	792	775
3 Underwriting Expenses	(977)	(905)	(767)	(674)
Underwriting Results	61	6	25	101
4 Investment Income	90	149	103	105
5 Other Income / (Expense)	(6)	52	(18)	(111)
Profit Before Tax	146	207	111	94
6 Taxes	(31)	(41)	(27)	(27)
Profit After Tax	115	166	83	67

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	272	255	146	86
2 Net Takaful Contribution	96	90	39	4
3 Net Takaful Claims	(89)	(52)	(30)	(15)
4 Direct Expenses Including Re-Takaful Rebate Earned	17	16	10	6
Surplus Before Investment & Other Income/(Expense)	24	54	20	(5)
5 Investment Income	10	0	2	-
6 Other Income/(Expense)	0	5	(0)	2
Surplus for the Period	34	59	21	(3)

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	35	16	14	15
2 Management, Commission & Other Acquisition Costs	(36)	(35)	(21)	(11)
Underwriting Income/(Loss)	(1)	(19)	(7)	4
3 Investment Income	4	3	5	2
4 Other Income/(Expense)	1	(1)	(1)	(2)
Profit Before tax	4	(17)	(3)	4
5 Taxes	-	-	-	(1)
Profit After tax	4	(17)	(3)	3

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Combined Ratio (Loss Ratio + Expense Ratio)	53.4%	47.4%	48.7%	55.9%
	94.1%	99.3%	96.8%	87.0%
2 Investment Performance				
Investment Yield	7.1%	9.1%	6.7%	7.6%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.1	1.3	1.1	1.3
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	135.0%	122.5%	119.8%	115.6%

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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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 | 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)

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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