



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

Rating Rationale and Key Rating Drivers

In terms of Gross Premium Written (GPW), the general insurance industry has a total size of ~PKR 84bln during 6MCY23 (6MCY22: ~PKR 66bln), exhibiting a growth of ~28%. However, the underwriting performance of the industry witnessed a dip of ~72% and reported at ~PKR 863mln during 6MCY23 (6MCY22: ~PKR 2.9bln). Investment income contributed to the industry's earnings reported at ~PKR 7.7bln during 6MCY23 (6MCY22: ~PKR 5.1bln). However, current economic conditions remain imperative for the overall performance of insurance industry.

The rating drives comfort from the stable standing of Habib Insurance Company Limited ("Habib Insurance" or "the Company") in the general insurance industry, gathering support from the House of Habib ("the Sponsors"). Well framed governance structure and prominent position of the Sponsors in various business generates captive business for the Company; however, the share remains minimal in the overall GPW. Habib Insurance manages conventional and window takaful businesses and has shown stable trajectory in GPW over years; mainly emanating from motor along with fire and property, followed by health and miscellaneous segments. The recent growth of ~20% in GPW reflects inflationary trend with minimal volumes coming in; mainly from the Motor segment. This led to stressed underwriting results with a high combined ratio. However, adequate investment income, emanating mainly from government securities, supports the Company's bottom-line. Going forward, an increased inclusion of digitization may support the overall business volumes. On the financial risk front, the Company holds adequate liquidity; however, considerably higher claims further stress the efficiency. However, strong rated reinsurer panel supports the Company. The equity base remains stable.

The rating is based on Sponsor's profile and relative position of Habib Insurance in the general insurance industry. A cautious approach to improve the business volumes that supports the underwriting results remains critical. Growth in the investment income, along with enhanced liquid profile is imperative for the rating.

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-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study General Insurance(Jun-23)
Rating Analysts	Nabia Rauf nabia.rauf@pacra.com +92-42-35869504



Profile

Legal Structure Habib Insurance Company Limited ("Habib Insurance" or "the Company") was incorporated as a public listed company in 1942.

Background The Company is owned by the House of Habib; one of the leading groups of Pakistan. In 1942, the Company commenced its commercial operations as a life and general insurance company in Bombay. In Aug-47, the Company moved its headquarters to Karachi. In 1972, after the nationalization of life insurance, the Company only operates in general insurance.

Operations The Company mainly operates in Conventional and Takaful business. Within both, the Company is mainly engaged in fire & property, marine & transport, motor, group hospitalization and miscellaneous segments. The Company operates through a network of 16 branches across Pakistan.

Ownership

Ownership Structure The major stake (~62.83%) is held by House of Habib ("Habib Family"). While, Insurance Companies hold (~5.52%), foreign general public hold (~0.01%) and Modarabas & Mutual funds hold (~0.24%) stake of the Company. The remaining stake is held by general public (~31.4%).

Stability Ownership of the Company seems to remain stable as the sponsors hold a prominent position in various sectors of the Country.

Business Acumen The sponsors have strong acumen and diversified business portfolio providing significant support to the ownership structure.

Financial Strength The Company gathers financial strength from the House of Habib, if needs be. Group entities rated by PACRA includes Bank Al-Habib (AAA/A1+) and Habib Metropolitan Bank (AA+/A1).

Governance

Board Structure Overall control of the Company lies with nine Board members; comprising two Executive, four Non-Executive, three Independent Directors. The BoD has a dominating presence of sponsoring family with one female Director.

Members' Profile Mr. Rafiq M. Habib is the Chairman of the Board since Feb-93. He holds diversified experience of more than six decades and is associated with the Company since inception. Other members on the Board carry diversified professional experience and have served at leading positions in various sectors.

Board Effectiveness During the year, the Board met four times. Three sub-committees of Board are formed namely; Audit; Investment and Ethics, Nomination, Human Resource & Remuneration committee. All committees are headed by an Independent Director and meet on regular basis or whenever the need arise.

Transparency External Auditors M/S. KPMG Taseer Hadi & Co. Chartered Accountants issued an unqualified audit report on financial statements for CY22. Lately, the Company has appointed M/S. Grant Thornton Anjum Rahman as the external auditors of the Company. Both firms are QCR rated and on SBP's panel in category "A".

Management

Organizational Structure The Company has defined reporting lines. The Company operates through six departments namely; ERM, Underwriting, Risk Management, Sales and Marketing, Finance and IT. Headed by CFO, the Finance department has sub-departments namely; Investments, Administration & HR, Credit and Retail sales. All the Heads of respective departments directly reports to the CEO, who reports to the BoD. The Company has in-house Internal Audit Function and Head of Internal Audit directly reports to its respective BoD committee.

Management Team Syed Ather Abbas, the CEO, has overall experience of more than three decades in the insurance industry. He is serving as the CEO since Sep-22 and associated with the Company since Apr-22. Mr. Murtaza Hussain is serving as the CFO since 2017. He possess an overall professional experience of more than two decades and associated with the Company since 2003.

Effectiveness The Company has three management committees namely; Underwriting, Re-insurance & Co-insurance Committee, Claim Settlement Committee and Risk Management & Compliance Committee. These committees meet on regular basis and minutes meeting are adequately maintained.

MIS A real-time General Insurance System (GIS) is deployed by Sidat Hyder. The MIS generates comprehensive reports including daily, monthly and quarterly business reports of the Company.

Claim Management System The Company has a centralized claim management system. Claims amounting less than PKR 0.1mln are approved by the Branch Managers, greater than that are forwarded to the Head Office. However, claims greater than PKR 1mln requires approval from the CEO.

Investment Management Function The Board's investment committee oversees the investment function, with support being taken from the CFO of the Company.

Risk Management Framework The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The system and policies are reviewed regularly to reflect changes in market conditions and the Company's activities.

Business Risk

Industry Dynamics In terms of Gross Premium Written (GPW), the general insurance industry has a total size of ~PKR 84bln during 6MCY23 (6MCY22: ~PKR 66bln), exhibiting a growth of ~28%. However, the underwriting performance of the industry witnessed a dip of ~72% and reported at ~PKR 863mln during 6MCY23 (6MCY22: ~PKR 2.9bln). Investment income contributed to the industry's earnings reported at ~PKR 7.7bln during 6MCY23 (6MCY22: ~PKR 5.1bln). However, current economic conditions remain imperative for the overall performance of insurance industry.

Relative Position As a medium tier player, the Company holds a market share of ~1.5% in terms of GPW.

Revenue The Company generates revenue from Conventional and Window Takaful business. The Company generated GPW from Conventional (~84%), followed by Window Takaful (~16%). Due to value driven increase in the business, total GPW grew by ~20% (9MCY23: ~PKR 2.7bln, 9MCY22: ~PKR 2.2bln) mainly emanating from takaful business. Conventional business generated (~PKR 2.3bln), while the Takaful business generated (~PKR 0.4bln) of the total GPW. Motor and Fire and Property were the top performing segments contributed ~76%, followed by marine and transport ~11% and miscellaneous and group hospitalization contributed ~13% of the total GPW.

Profitability During 9MCY23, the Company incurred underwriting loss of ~PKR 135mln owing to higher underwriting expenses. Whereas, recorded underwriting profit of ~PKR 61mln during 9MCY22. Underwriting expenses rose to ~PKR 1.5bln (9MCY22: ~PKR 0.9bln), showing an increase of ~59% mainly due to increased claims. Investment income contributed to the bottom-line and Profit after Tax stood at ~PKR 92mln (9MCY22: ~PKR 115mln), showing a dip of ~20%.

Investment Performance The Company recorded a surge and investment income stood at ~PKR 216mln (9MCY22: ~PKR 90mln) mainly due to higher returns on government securities. The Company followed a cautious approach to mitigate the risk and invested ~35% of the total investments in government securities.

Sustainability Going forward, the Company is planning to expand operations, adding value in operations through process automation.

Financial Risk

Claim Efficiency The claim efficiency improved and outstanding days stood at (9MCY23: 191days, 9MCY22: 207days) due to early settlement of claims.

Re-Insurance The Company 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 Liquidity of the Company slightly improved and stood at 1x (9MCY22: 0.9x), owing to increased liquid assets (9MCY23: ~PKR 1.7bln, 9MCY22: ~PKR 1.3bln).

Capital Adequacy The Company has an equity base of ~PKR 1.3bln (9MCY22: ~PKR 1.2bln), showing an increase of ~8% owing to increased unappropriated profit.



PKR Min

Habib Insurance Company Limited
Public Listed Company

Sep-23	Dec-22	Sep-22	Dec-21	Dec-20
9M	12M	9M	12M	12M

A BALANCE SHEET

1 Investments	2,113	2,245	1,752	1,651	1,612
2 Insurance Related Assets	2,959	2,218	2,977	2,361	2,129
3 Other Assets	745	538	515	458	312
4 Fixed Assets	102	57	60	70	187
5 Window Takaful Operations	-	-	-	-	-
Total Assets	5,920	5,057	5,304	4,540	4,240
1 Underwriting Provisions	1,786	1,559	1,593	1,309	1,033
2 Insurance Related Liabilities	2,130	1,797	1,964	1,435	1,325
3 Other Liabilities	553	400	432	428	417
4 Borrowings	156	31	33	38	138
5 Window Takaful Operations	-	-	-	-	-
Total Liabilities	4,625	3,788	4,021	3,209	2,913
Equity/Fund	1,294	1,269	1,283	1,331	1,327

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	2,702	3,022	2,255	2,295	1,805
2 Net Insurance Premium/Net Takaful Contribution	1,394	1,414	1,038	911	792
3 Underwriting Expenses	(1,529)	(1,399)	(977)	(905)	(767)
Underwriting Results	(135)	15	61	6	25
4 Investment Income	216	162	90	149	103
5 Other Income / (Expense)	45	(11)	(6)	52	(18)
Profit Before Tax	126	166	146	207	111
6 Taxes	(34)	(30)	(31)	(41)	(27)
Profit After Tax	92	135	115	166	83

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	431	385	272	255	146
2 Net Takaful Contribution	138	128	96	90	39
3 Net Takaful Claims	(157)	(122)	(89)	(52)	(30)
4 Direct Expenses Including Re-Takaful Rebate Earned	21	24	17	16	10
Surplus Before Investment & Other Income/(Expense)	1	31	24	54	20
5 Investment Income	(7)	16	10	0	2
6 Other Income/(Expense)	23	(22)	0	5	(0)
Surplus for the Period	17	25	34	59	21

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	99	58	35	16	14
2 Management, Commission & Other Acquisition Costs	(53)	(53)	(36)	(35)	(21)
Underwriting Income/(Loss)	45	5	(1)	(19)	(7)
3 Investment Income	(1)	9	4	3	5
4 Other Income/(Expense)	18	(2)	1	(1)	(1)
Profit Before tax	63	13	4	(17)	(3)
5 Taxes	(18)	(4)	-	-	-
Profit After tax	45	9	4	(17)	(3)

C RATIO ANALYSIS

1 Profitability					
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful	64.3%	53.0%	53.4%	47.4%	48.7%
Combined Ratio (Loss Ratio + Expense Ratio)	109.7%	99.0%	94.1%	99.3%	96.8%
2 Investment Performance					
Investment Yield	13.2%	8.3%	7.1%	9.1%	6.7%
3 Liquidity					
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.3	1.7	1.1	1.3	1.1
4 Capital Adequacy					
Liquid Investments / Equity (Funds)	162.0%	175.6%	135.0%	122.5%	119.8%

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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- (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)

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- (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).
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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)
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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)

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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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