



The Pakistan Credit Rating Agency Limited

Rating Report

Habib Insurance Company Limited

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Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
15-Nov-2024	A++ (ifs)	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The rating derives comfort from the stable standing of Habib Insurance Company Limited ("Habib Insurance" or "the Company") in the general insurance industry, which holds a total size of PKR 48bln during 3MCY24 (3MCY23: PKR 41bln), posting growth of ~17%. Improved underwriting results along with better investment performance supported the industry's earnings (3MCY24: PKR 6.3bln, 3MCY23: PKR 4bln). However, current economic conditions remain imperative for the overall performance of the insurance industry. Habib Insurance gathers support from the House of Habib ("the Sponsors"). Well-framed governance structure and prominent position of the Sponsors in various businesses generate 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 a stable trajectory in GPW over the years; mainly emanating from motor along with fire and property, followed by marine & transport, health, and miscellaneous segments. The recent growth of ~21% in GPW reflects a value driven impact with minimal volumes following in. However, higher claims have led to stressed underwriting results with a high combined ratio. Adequate investment income, emanating mainly from equity investments, 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. This along with the strong-rated reinsurer panel supports the Company. However, considerable standing of claims impacts efficiency. The Company's equity base remains stable.

The rating is based on the Sponsor's profile and the relative position of Habib Insurance in the general insurance industry. A cautious approach to improve the business volumes that support the underwriting results remains critical. Growth in the investment income, along with an 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	Assessment Framework General Insurance(Mar-24),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study General Insurance(Jun-24)
Rating Analysts	Faiqa Qamar faiqa.qamar@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 manages general insurance operations.

Operations The Company mainly operates in Conventional and Takaful business. Within both, the Company is 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 of the Company is held by the House of Habib ("Habib Family") through Individuals and Trusts (~70.8%). While State Life Insurance holds ~5.02% of the shareholding. The remaining (~24.18%) is held by the general public.

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. The Group entities rated by PACRA include 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 the presence of 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 BoD members 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 namely; Audit; Investment and Ethics, Nomination, Human Resource & Remuneration committee, assist the Board. All committees are headed by an Independent Director and meet on regular basis or whenever the need arise.

Transparency External Auditors M/S. Grant Thornton Anjum Rahman has given unqualified audit opinion on the financial statements of the Company for CY23. The auditor is 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 the Head of Internal Audit reports to its respective BoD committee functionally; while administrative reporting is to the CEO.

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

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 During 3MCY24, GPW of General Insurance industry held a total size of PKR 48bln (3MCY23: PKR 41bln), posting growth of ~17%. Underwriting performance also improved by ~103% (3MCY24: PKR 3bln, 3MCY23: PKR 1.5bln). Improved underwriting and investment performance contributed to industry's earnings (3MCY24: PKR 6.3bln, 3MCY23: PKR 4bln). 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 ~1.4% in terms of GPW.

Revenue The Company generated GPW from Conventional (~84%), followed by Window Takaful (~16%) business during 6MCY24. During CY23, the Company generated GPW of ~PKR 3,657mln (CY22: ~PKR 3,022mln) with an uptick of ~21% backed by value. Conventional business contributed ~PKR 3,075mln (CY22: ~PKR 2,637mln) whereas window takaful business contributed ~PKR 582mln (CY22: ~PKR 385mln). During 6MCY24, motor remained the top segment, contributing ~36.1% followed by fire & property (~30.1%). During 6MCY24, the Company recorded a GPW of ~PKR 1,440mln (6MCY23: ~PKR 1,342mln) with an uptick of ~7.3% due to value driven increase.

Profitability During CY23, the Company incurred an underwriting loss of ~PKR 218mln (CY22: profit of ~PKR 15mln) owing to an increase in insurance claims by ~55%, mainly from motor and marine segments. Investment income supported the bottom line and the profit after tax stood at ~PKR 115mln (CY22: ~PKR 135mln), a dip of ~15%. During 6MCY24, the Company reported an underwriting loss of ~PKR 58mln (6MCY23: ~PKR 87mln). The loss has decreased due to a decrease in net insurance claims. At the net level, the profit was reported at ~PKR 133mln (6MCY23: ~56mln) due to an uptick of ~21% in the investment income.

Investment Performance During CY23, the Company recorded a surge in investment income recorded at ~PKR 360mln (CY22: ~PKR 143mln) mainly due to higher returns on government securities. During 6MCY24, the Company reported investment income of ~PKR 164mln (6MCY23: ~PKR 136mln) mainly from dividend income.

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

Financial Risk

Claim Efficiency During CY23, claims efficiency improved as claims outstanding days stood at ~192 days (CY22: ~208) due to early settlement of claims. However, during 6MCY24, claims efficiency deteriorated as claims outstanding days increased and stood at ~231 days (6MCY23: ~181 days) due to an increase in claims outstanding by ~6%.

Re-Insurance The Company has reinsurance arrangements with leading reinsurers including Hannover Re (rated AA- by S&P), Malaysian Re (rated A- by A. M. Best), Labuan Re (rated A- by A. M. Best), Saudi Re (rated A- by S&P), PRC (rated AA+ by JCR), and Tunis Re (rated B by A. M. Best). The Company has a combination of surplus, quota share, and excess loss treaties for various segments.

Cashflows & Coverages During CY23, the liquidity position of the Company remained stable as the liquidity cover stood at ~1.1x (CY22: ~1.1x) due to stable liquid assets and insurance premium. During 6MCY24, the liquidity cover improved slightly standing at ~1.1x (6MCY23: ~1.0x) due to an increase in liquid assets.

Capital Adequacy During CY23, the shareholders equity increased by ~26.5%, reported at ~PKR 1,606mln (CY22: ~1,269mln) due to an increase in reserves as unrealized gain on available-for-sale investments has increased. As of 6MCY24, the equity was reported at ~PKR 1,830 (6MCY23: ~PKR 1,199) due to increase in unappropriated profits and reserves.



PKR Mln

Habib Insurance Company Limited
Public Listed Company

Jun-24	Dec-23	Jun-23	Dec-22	Dec-21
6M	12M	6M	12M	12M

A BALANCE SHEET

1 Investments	2,960	2,513	1,959	2,245	1,651
2 Insurance Related Assets	2,264	2,892	2,086	2,218	2,361
3 Other Assets	601	659	541	538	458
4 Fixed Assets	105	114	67	57	70
5 Window Takaful Operations	-	-	-	-	-
Total Assets	5,930	6,179	4,653	5,057	4,540
1 Underwriting Provisions	1,224	1,814	1,182	1,559	1,309
2 Insurance Related Liabilities	2,210	2,099	1,725	1,797	1,435
3 Other Liabilities	632	618	401	400	428
4 Borrowings	35	41	146	31	38
5 Window Takaful Operations	-	-	-	-	-
Total Liabilities	4,101	4,572	3,454	3,788	3,209
Equity/Fund	1,830	1,606	1,199	1,269	1,331

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	1,440	3,657	1,342	3,022	2,295
2 Net Insurance Premium/Net Takaful Contribution	904	1,806	915	1,414	911
3 Underwriting Expenses	(962)	(2,025)	(1,003)	(1,399)	(905)
Underwriting Results	(58)	(218)	(87)	15	6
4 Investment Income	164	360	136	143	148
5 Other Income / (Expense)	81	20	34	8	52
Profit Before Tax	187	162	82	166	207
6 Taxes	(55)	(47)	(26)	(30)	(41)
Profit After Tax	133	115	56	136	166

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	231	582	222	385	255
2 Net Takaful Contribution	62	157	89	128	90
3 Net Takaful Claims	(90)	(213)	(116)	(122)	(52)
4 Direct Expenses Including Re-Takaful Rebate Earned	25	36	14	24	16
Surplus Before Investment & Other Income/(Expense)	(2)	(20)	(13)	31	54
5 Investment Income	(8)	26	(4)	9	-
6 Other Income/(Expense)	24	(3)	14	(15)	5
Surplus for the Period	14	2	(3)	25	59

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	91	141	62	58	16
2 Management, Commission & Other Acquisition Costs	(71)	(99)	(33)	(53)	(35)
Underwriting Income/(Loss)	20	43	28	5	(19)
3 Investment Income	25	29	-	9	3
4 Other Income/(Expense)	(0)	(2)	10	(2)	(1)
Profit Before tax	45	70	39	13	(17)
5 Taxes	(13)	(20)	(11)	(4)	-
Profit After tax	32	50	27	9	(17)

C RATIO ANALYSIS

1 Profitability					
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	57.9%	64.5%	65.7%	53.0%	47.4%
Combined Ratio (Loss Ratio + Expense Ratio)	106.4%	112.1%	109.6%	98.9%	99.3%
2 Investment Performance					
Investment Yield	12.0%	15.2%	12.9%	7.3%	9.1%
3 Liquidity					
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.7	1.6	1.2	1.7	1.3
4 Capital Adequacy					
Liquid Investments / Equity (Funds)	160.8%	155.5%	162.0%	175.6%	122.5%

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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- (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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- (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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