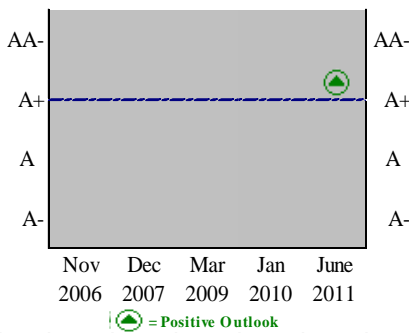


**RATING (JUNE 2011)**

**HABIB INSURANCE COMPANY LIMITED (HIC)**

	New	Previous
<b>Insurer Financial Strength</b>	A+	A+
<b>Outlook</b>	Positive	-

**IFS RATING HISTORY**



**FINANCIAL DATA**

PKR (mln)	1Q11*	2010	2009
GPW	194.3	777.5	702.9
Total Equity	880.4	851.9	823.5
Underwriting Results	16.3	87.5	73.5
Pre-tax Income/ (loss)	33.4	192.2	211.3
Loss Ratio (%)	53.0	46.6	48.9
Combined ratio (%)	94.9	90.5	94.2
Operating ratio (%)	66.9	51.3	41.2
Solvency Ratio			
Net Claims/ Financial Base (%)	^18.2	15.4	17.9
Liquidity Ratio			
Adjusted liquid assets/ net claims expense (times)	^4.8	5.2	4.5

\* unaudited, ^annualized

**Analysts**

Amara Gondal  
+92 42 35869504  
amara.gondal@pacra.com

Jhangeer Hanif  
+92 42 35869504  
jhangeer@pacra.com

**RATING RATIONALE AND KEY DRIVERS**

- The rating reflects HIC's strong risk absorption capacity, emanating from a robust financial profile and sound liquidity position. The rating recognizes persistently improving profitability, despite challenging macroeconomic environment, due to management's conservative stance towards underwriting risk, as reflected in lower loss ratio. The rating draws comfort from improved information technology framework augmenting overall control environment. Meanwhile, the rating incorporates HIC's association with very strong sponsors – Habib Family. This, while adding stability to revenue stream in the form of low-risk captive business, boosts sound governance framework.
- The rating has been assigned a positive outlook, wherein full scale benefits of enhanced technology platform and further improvement in HIC's market positioning would be key essentials. However, any material deterioration, though remote, in underwriting profitability and/or investment portfolio, significantly impacting the risk absorption capacity, would have negative implications for the rating.

**ASSESSMENT**

- Pakistan's insurance sector experienced accelerated growth and robust profitability until the economic environment in Pakistan was upbeat. Although insurance penetration in the country remains low, the sector now faces major challenges arising from economic slowdown, security concerns, widening fiscal and trade imbalances, and stressed global reinsurance market. These factors, coupled with subdued performance of various industrial sectors and slow pace of economic recovery, are likely to continue impacting growth prospects of the insurance sector.
- HIC has a diversified GPW mix with major contribution coming from fire (40%), and marine (26%) segments. The portion of motor segment has decreased over the years reflecting positively on the loss trend of the company. Meanwhile, top ten client concentration, majority group business, remains moderate. Captive business contribution in HIC's business has increased YoY (2010: 41%; 2009: 37%).
- HIC's GPW, after witnessing a dip (5%) in 2009, observed moderate growth (11%) during 2010. The company, while offloading risk to reinsurers at the same level, has been posting improved loss ratio over last three years, demonstrating management's prudent risk appetite. HIC's loss ratio continued to remain better than most peers. The expense ratio has slightly declined YoY, reflecting management's efforts of rationalizing its operating cost structure, while maintaining net commission expense at the same level. This supplemented the underwriting profitability, reflected by combined ratio improving to 90% (2009: 94%). However, owing to cautious stance of management towards capital market, investment income declined, though yet having a major contribution. During 1Q11, though loss ratio has slightly increased, the company sustained the combined ratio through higher operational efficiency.
- During 2010, HIC has procured real time insurance system (GIS) coupled with advanced IT infrastructure, highlighting potential improvement in the control environment.
- Going forward, the company intends to continue its current strategy of moderate growth while ensuring strict adherence to prudent underwriting practices. Meanwhile, captive business would continue to be the primary growth driver. The management envisages achieving a balanced portfolio mix through its continued focus on reducing the proportion of motor segment. Moreover, HIC plans to tap various potential avenues, with terrorism insurance on the cards.
- HIC's investments portfolio constitutes 60% of total asset base at end-Mar11. HIC's entire equity is deployed in the investments (1.3 times of equity), with the rest being financed by short term insurance obligations. A major proportion of investment book remains dominated by equity securities (70%) followed by mutual funds (23%), Government securities (4%), and debt securities (2%). Equity portfolio represents very well diversified book; comprising more than eighty scrips, spread over 21 industrial sectors. Moreover, 36% of equity portfolio is invested in associated companies. Nevertheless, HIC is significantly exposed to market risk. Going forward, the management envisages to gradually penetrating into fixed income mutual funds, which would improve HIC's risk profile.
- HIC has secured reinsurance arrangements with international reinsurers of sound repute including Hannover Re (rated 'AA-' by S&P), Mitsui Sumitomo (rated 'AA-' by S&P), Korean Re (rated 'A-' by AM BEST), Scor Re (rated 'A-' by S&P), and Best Re (rated 'A-' by AM BEST). The company has followed a largely persistent cession pattern, with overall retention levels of around 50%.
- HIC's solvency position has improved YoY, as depicted by HIC's solvency ratio with 15% claims as percentage of financial base (2009: 18%), advocating very strong risk absorption capacity. This remains exceptionally better than the industry's average. Moreover, sound liquidity profile emanates from sizeable investment portfolio, translating into handsome liquidity ratio, augmenting the risk absorption capacity.

**PROFILE**

- Habib Insurance Company, in operation since 1942, is listed on the Karachi and Lahore Stock Exchanges. With a nationwide network of 17 branches, HIC underwrites risk in four segments: 1) Fire; 2) Marine; 3) Motor; and 4) Others. Habib Group – one of the oldest and most well known groups with significant investments in the industrial and service sectors – is the majority shareholder (69%) of HIC. The overall control of the company vests in the Board of Directors, comprising seven members, with six belonging to the Habib family.
- Mr. Ali Raza Habib, a financial industry veteran, is the CEO of the company since 1993, and is supported by an experienced team. Mr. Zubair has recently joined HIC as the chief operating officer (COO), carrying with him significant insurance industry experience. While Mr. Gulamali, Senior General Manager (SGM), enjoys long term association with the company.