



The Pakistan Credit Rating Agency Limited

Rating Report

The United Insurance Company of Pakistan Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Apr-2022	AA+ (ifs)	-	Stable	Maintain	-
31-Mar-2022	AA+ (ifs)	-	Stable	Harmonize	-
30-Apr-2021	AA	-	Stable	Maintain	-
30-Apr-2020	AA	-	Stable	Maintain	-
26-Sep-2019	AA	-	Stable	Maintain	-
27-Mar-2019	AA	-	Stable	Upgrade	-
24-Dec-2018	AA-	-	Stable	Maintain	-
28-Jun-2018	AA-	-	Stable	Maintain	-
29-Sep-2017	AA-	-	Stable	Maintain	-
09-Mar-2017	AA-	-	Stable	Upgrade	-
25-Nov-2016	A+	-	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

United Insurance Company (“UIC” or “the Company”) is among the large-sized players in the insurance industry. The sponsors of the Company are in the process of merging a group company of United International Group (UIG), SPI Insurance Company with and into UIC, targeted timeline for completion of the merger is by the end Jun-22. The governance and management framework of the Company observed key changes, which are expected to enhance oversight by the board and further align sponsor & business objectives. The management is committed to achieving higher benchmarks in transparency and control environment as the system review is underway. The financial performance of the Company has exhibited a growth rate in the top line, driven by the miscellaneous segment, which largely comprised hospitalization, travel and bond business. The underwriting performance of UIC has escalated through its underwriting strategy, which has led to an improved combined ratio; a testament to enhanced underwriting profitability.

UIC has a secured investment portfolio, which further strengthens the liquidity profile of the Company. Apart from strategic investments, all investments are very liquid. This would be a source of further liquidity generation. Furthermore, the Company has envisaged a plan of diversifying into real estate investments. The investment income remained minuscule as the Company employs funds in its associated concern, “Apna Bank”, however, the appreciable increase in profitability provided comfort. The Company has a strong reinsurance panel led by Swiss Re (rated AA- by S&P), nearly all other reinsurers are in the “A” category, which provides strong coverage against potential and unforeseen losses.

The ratings are dependent upon the envisaged plan of sustaining its relative positioning and its control environment. Continued generation of internal capital, enhancement of liquidity and SPI Insurance Company’s merger with and into UIC is considered essential.

Disclosure

Name of Rated Entity	The United Insurance Company of Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Criteria Rating Modifiers(Jun-21),Methodology General Insurance Rating(Mar-22)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Waqas Ahmad waqas.ahmad@pacra.com +92-42-35869504



Profile

Legal Structure The United Insurance Company (UIC) is a public listed Company and is listed on Pakistan Stock Exchange (PSX).

Background The Company was incorporated on October 20, 1959 and has been operating in the insurance industry since then.

Operations The registered office of the Company is situated in Karachi and its head office is located in Lahore. The Company is operating through widespread network of 150 branches. Branch network is concentrated in Punjab also having presence across all over Pakistan.

Ownership

Ownership Structure United International Group controls 89.11% shares in the Company whereas the remaining holding is shared by individuals and Institutions (10.89%). The merger of SPI into United Insurance is expected in near future. Prospective shareholding structure of The United Insurance is expected to change in the future as a result of this transaction.

Stability Overall shareholding structure of the Company remains stable. The shareholding of United group increased from 85.38% to 89.11% as of period ended-Dec-21.

Business Acumen Mr. M. A. Shahid established UIG in 1996. He is the major shareholder of the UIG companies. He has vast insurance industry experience and this experience helps the Company to establish strong foot print in the industry.

Financial Strength The United group has expanded its footings in diversified business avenues with sizable portfolio of strategic investments. Group is involved in different lines of business-like insurance, banking, technology, tracking, health care and risk advisory. These all companies are performing well in their respective sectors which is also reflected in their financial performance as well.

Governance

Board Structure The overall control of the Company vests in seven-member BoD including CEO. There are two independent directors including chairman, two members executive directors including CEO and remaining three members are non-executive directors.

Members' Profile Mr. Jamil A. Khan, has been appointed as new chairman of the board since 01 Nov, 2021, in place of Mr. Javaid Sadiq. The Chairman Mr. Jamil A. Khan, did his master in Economics from University of Punjab and is also a Law graduate from University of Karachi. He is a seasoned banker having worked for more than 38 years at senior positions at national and international assignments. He has been associated with the Company since 2018. Other members have diversified experience of financial industry.

Board Effectiveness The Board has three board committees: (i) Ethics, HR & Remuneration Committee, (ii) Investment Committee and (iii) Audit Committee. All of the Board committees have quarterly meetings to review the performance of the Company.

Transparency Ilyas Saeed & Co. are the auditors for the Company rated category A on the SBP panel. They issued an unqualified audit report for the year ended CY21.

Management

Organizational Structure The Company has well-defined reporting lines. The Company has segregated the core insurance-related activities and business development function between the management under the headship of the CEO and the Executive Directors, respectively.

Management Team During the year Mr. M.A. Shahid has been appointed as CEO of the Company since 03 May, 2021, in place of Mr. Muhammad Rahat Sadiq. The CEO has vast insurance industry experience and his experience helps the Company to establish strong foot print in the industry.

Effectiveness The Company has four management committees: (i) Underwriting Committee, (ii) Claim Settlement Committee, (iii) Reinsurance and Coinsurance Committee and (iv) Risk Management & Compliance Committee. The management team comprises high profile experienced professional and most of them have been hired from other insurance companies and financial institutions.

MIS UIC's had been using in house-built ERP solution. The real time MIS capturing critical information may help improve overall efficacy of decision-making process. Meanwhile, development of a business intelligence system is in offing.

Claim Management System UIC has centralized claims processing function. Although the claim is initially intimated at the respective branch, the authority for the appointment of surveyor and approval of the claim amount rests with the head office.

Investment Management Function The management has documented its investment policy statement. Which defines limit of investment and the venues to be parked in.

Risk Management Framework The underwriting and risk management function is centralized at head office. Every policy with a sum insured above PKR 100mln is required to be issued from the head office. Whereas, for policies approval and issuance below PKR 100mln, UIC has established three zones in Lahore (Zone 1, Head Office), Islamabad (Zone 2) and Karachi (Zone 3).

Business Risk

Industry Dynamics 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. 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). Currently, the general insurance industry has witnessed a growth of ~19% on YoY basis as of Sep-21, ensuring sustainability in the growth despite the current pandemic of COVID-19.

Relative Position UIC has approximately 5.3% market share as of period ended-Sep21 and is among the top five players of the insurance sector.

Revenue The conventional GPW UIC was PKR 5,196mln at end Dec-21 (Dec-20: PKR 4,921mln) whereas GPW from Takaful Operations was PKR 1,384mln at end Dec-20 (Dec-20: PKR 801mln). Overall growth of 15% YoY was observed. Health & Misc. segment contributed about 51% of total revenue.

Profitability The underwriting profit from the conventional business grew from PKR 452mln in CY20 to PKR 950mln in at end Dec-21, depicting an increase of 110% on a YoY basis. Window takaful operations showed surplus of PKR 118mln for CY21 compared to deficit of PKR 12mln during CY20.

Investment Performance At end Dec-21, the combined Investment income stood at PKR 92mln (Dec-20: PKR 88mln), YoY 5% increase in investment income is due to gain on sale of equity investment. As for the Takaful Operations, investment income for the PTF was PKR 9mln and from OPF is PKR 25mln during Dec-21.

Sustainability Going forward, company expects realization of synergies specifically in takaful segment after merger of SPI Insurance in The United Insurance. After merger, they can untap the dedicated Takaful segment and induce growth both in topline and underwriting profitability. Bond business is core of their miscellaneous business segment and they plan to expand it more.

Financial Risk

Claim Efficiency The claims days at end Dec-21 stand at ~ 267 days (Dec-20: 298 days) has shown a decline of 10% due to increase in provision of outstanding claims. The total outstanding claims including IBNR stands at PKR 2,347mln during Dec-21. (CY20: PKR 2,013mln).

Re-Insurance The Company's reinsurance panel constitutes Swiss Re (Rated 'AA-' by S&P), Korean Re (Rated A by S&P), Trust Re (Rated 'A-' by S&P), Labuan Re (Rated 'A-' by A.M. Best), Malaysian Re (Rated 'A-' by A.M. Best), Pakistan Reinsurance (Rated AA locally), Hannover AG (Rated 'A+' by S&P) and GIC Re (Rated 'A-' by A.M. Best).

Cashflows & Coverages The Company has a total investment book is PKR 3,036mln at end Dec-21 comprising strategic investment of PKR 648mln and non-strategic investment book of PKR 2,388mln. The Company has reduced its equity exposure and increased investments in Govt. Securities and TDRs. The non-strategic investment book is entirely liquid. The coverage of outstanding claims against liquid assets excluding borrowings is 1x at end CY21.

Capital Adequacy With maintained strong bottom-line, UIC has been able to strengthen its equity over the years. The Company has combined equity of PKR 4.8bln. at end Dec-21. Paid-up capital stood at PKR 2,950mln while meeting the SECP minimum capital requirement of PKR 500mln.



PKR mln

The United Insurance Company
Listed Public Limited

Dec-21	Dec-20	Dec-19
12M	12M	12M

A BALANCE SHEET

1 Investments	3,036.325	3,534.629	2,788.163
2 Insurance Related Assets	4,728.159	4,936.201	4,064.318
3 Other Assets	2,527.649	906.187	969.416
4 Fixed Assets	1,230.920	1,251.870	1,299.096
5 Window Takaful Operations	-	-	-
Total Assets	11,523.053	10,628.887	9,120.993
1 Underwriting Provisions	2,755.857	2,682.939	2,087.735
2 Insurance Related Liabilities	2,936.789	2,913.511	2,279.466
3 Other Liabilities	921.927	866.173	866.828
4 Borrowings	93.157	91.484	77.823
5 Window Takaful Operations	-	-	-
Total Liabilities	6,707.730	6,554.107	5,311.852
Equity/Fund	4,814.456	4,074.601	3,809.306

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	6,580.419	5,722.083	5,365.334
2 Net Insurance Premium/Net Takaful Contribution	3,729.151	2,352.337	3,158.087
3 Underwriting Expenses	(2,696.161)	(1,922.361)	(2,670.190)
Underwriting Results	1,032.990	429.976	487.897
4 Investment Income	92.278	87.551	101.605
5 Other Income / (Expense)	15.256	3.195	34.631
Profit Before Tax	1,140.523	520.722	624.133
6 Taxes	(248.151)	(119.843)	(207.523)
Profit After Tax	892.373	400.879	416.610

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	1,383.948	801.481	1,054.540
2 Net Takaful Contribution	610.391	206.722	257.822
3 Net Takaful Claims	(571.373)	(302.767)	(313.332)
4 Direct Expenses Including Re-Takaful Rebate Earned	29.777	77.059	66.169
Surplus Before Investment & Other Income/(Expense)	68.795	(18.986)	10.659
5 Investment Income	8.773	2.156	1.849
6 Other Income/(Expense)	5.572	3.056	2.509
Surplus for the Period	83.140	(13.774)	15.017

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	395.822	276.916	358.670
2 Management, Commission & Other Acquisition Costs	(381.921)	(279.740)	(233.008)
Underwriting Income/(Loss)	13.901	(2.824)	125.662
3 Investment Income	24.628	8.927	6.546
4 Other Income/(Expense)	(3.373)	(4.394)	(6.730)
Profit Before tax	35.156	1.709	125.478
5 Taxes	-	-	-
Profit After tax	35.156	1.709	125.478

C RATIO ANALYSIS

1 Profitability			
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takafu	29.8%	30.3%	46.3%
Combined Ratio (Loss Ratio + Expense Ratio)	72.3%	82.1%	84.3%
2 Investment Performance			
Investment Yield	2.8%	2.8%	3.6%
3 Liquidity			
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	0.96	0.73	0.55
4 Capital Adequacy			
Liquid Investments / Equity (Funds)	62.0%	86.0%	73.1%

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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(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)

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(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)

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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)

(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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