



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
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	-
01-Dec-2015	A+	-	Stable	Maintain	-
02-Dec-2014	A+	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

United Insurance Company is a large size player in the insurance industry. The company has held its position from the past couple of years - showing sustainability, however, the current economic meltdown may impact the business volumes of the industry, which are yet to be ascertained. The company has a balanced portfolio representing all segment of the insurance industry. The diversity reflects in the fact that all segments contribute to business and misc segment constitute of different business line. This has added to the equity base of the company over the year. The company has a strong reinsurance panel led by Swiss Re (rated AA- by S&P), all other reinsurers are in the A category. The reinsurance coverage provides strength to risk absorption. The company has significant investment in Apna Bank, one of its group associates. The bank booked profits in CY18 after booking losses in the previous years and the momentum was carried through 9MCY19, however, it may have to face a challenging environment in the prevailing conditions. The CAR of the bank has improved, though it is less than the regulatory benchmark for which management has to plan to recoup. The liquidity of the company without considering APNA BANK investment is lower but taking into account the performance of APNA Bank we can drive comfort from the total investment book. The management also plans to generate liquidity through divestment of some stake from its investment book. The management is committed to achieving higher benchmarks in transparency and control environment as the system review is underway.

The ratings are dependent upon the envisaged plan of sustaining its relative positioning and its control environment. Continued generation of internal capital and enhancement of liquidity is considered essential. Meanwhile, all governance standards must be upheld.

#### Disclosure

<b>Name of Rated Entity</b>	The United Insurance Company of Pakistan Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	PACRA_Methodology_GI(Jun-19)
<b>Related Research</b>	Sector Study   General Insurance(May-19)
<b>Rating Analysts</b>	Rohail Amjad   rohail.amjad@pacra.com   +92-42-35869504



## Profile

**Legal Structure** United Insurance Company (UIC) is a public listed company

**Background** UIC was established in 1959 and has been operating in the insurance industry since then

**Operations** The company, listed on the Pakistan Stock Exchange, is operating through widespread branches, concentrated in Punjab (87), and also having presence in Sindh (16), KP (8), Baluchistan (1) and Gilgit Baltistan (1). Therefore the company generates majority of premium from Punjab (74%), followed by Sindh (22%), and others (4%).

## Ownership

**Ownership Structure** United Insurance Group controls 72.61% shares in the company whereas the remaining holding is shared by individuals and Institutions (27.39%)

**Stability** There has been no change in the holding structure of the company.

**Business Acumen** There has been no change in the holding structure of the company.

**Financial Strength** United Group – was established by Mr. M. A. Shahid in 1999. He is the major shareholder of the UIG companies. The group has expanded its footings in diversified business avenues with sizable portfolio of strategic investments. As per the management's estimates the net worth of the group is PKR 28 bln

## Governance

**Board Structure** The overall control of the company vests in seven-member BoD. Three members represent UIG, three members are non-executive including chairman and two are independent directors.

**Members' Profile** Mr. Javaid Sadiq is the Chairman of the Board and possess over three decades of experience. Mr. Sadiq been associated with the board for more than a decade and have gained insurance experience along with the company's growth. Other members include three vice chairpersons, CEO, Non - Executive Director and an Executive Director Finance

**Board Effectiveness** The board has three committees. i) Audit Committee ii) Investment Committee & iii) Ethics, Human Resource & Remuneration Committee. All of the board committees have quarterly meetings to review the performance of the company

**Financial 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 CY18 and half year review for 6MCY19. The company is also undergoing a detailed system review, being conducted by AF Fergusons.

## 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** The CEO, Mr. Rahat Sadiq, a qualified chartered insurer from UK, has been associated with the company for nearly a decade and is a well-known figure in the insurance industry

**Effectiveness** The management team comprises high profile experienced professional and most of them have been hired from other insurance companies and financial institutions

### MIS

**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. The policy defines the 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** Pakistan's general insurance achieved a CAGR of 9% during the last four years. Majority of the growth emanates from Fire and motor segments. The miscellaneous segment has experienced growth via non-conventional avenues such as crop, livestock, travel etc. Takaful segment has been growing positively mainly in motor while exploring new avenues in health and fire segment. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

**Relative Position** UIC has a 5% market share and is among the top players of the insurance sector.

**Revenue** The conventional GPW UIC was PKR 3.2bln at end Sep'19 whereas GPW from Takaful Operations was PKR 882mln at end Sep'19. The company has held its position as the fifth largest company though some of the competitors are growing at a very rapid pace. The growth of UIC's GPW over the last year has been limited yet the profitability has witnessed healthy expansion

**Profitability** The underwriting profit from the conventional business grew from PKR 346mln in 9MCY18 to PKR 505mln in at end Sep'19, this was an impressive increase of 46% on a YoY basis. The overall profitability of the company was supported by the profit from Window Takaful, posting a profit of PKR 142mln. The Profit from Window Takaful YoY declined by 26% at end 9MCY19, on account of increased commission and acquisition cost.

**Investment Performance** At end Sep'19, the Investment income stood at PKR 46mln. Investment income from conventional business clocked in at PKR 42mln giving a yield of 1.4% (9MCY18: 1%). As for the Takaful Operations, investment income for the PTF was PKR .7mln whereas the OPF posted an investment income of PKR 3mln. Most of the investment book is deployed in low yield investments avenues. During 9MCY19, the company has booked a share of profit from associate (PKR 25mln). Going forward, Apna Bank is expected to experience growth momentum in profitability which will contribute towards UIC's income stream

**Sustainability** Going forward, the company envisages GPW to reach the PKR 6bln mark, which through the current financial position seems quite obvious as the major chunk of the insurance business is underwritten in the 3rd and 4th quarter. The management also expects growth in all segments, bond, livestock, healthcare, and travel insurance would remain the main areas of focus. The company is in negotiation with the prospective buyers for the divestment in APNA Bank, which is expected to yield substantial cashflow to the company.

## Financial Risk

**Claim Efficiency** The claims days at end Sep-19 stand at ~ 623 days. Adjusting a claim of PKR 500mln of Sinotech, which is still disputed yet fully provided for, the claim days come to 288 days.

**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)

**Liquidity** The total investment book is PKR 2.9bln at end 9MCY19 comprising strategic investment of PKR 1.3bln and non-strategic investment book of PKR 1.6bln. The management has plans to raise liquidity through the sale of a portion of strategic investment book. The non-strategic investment book is entirely liquid. There is a dip in the liquid investment book on account of loss on listed scrips. Total outstanding claims stand at PKR 2.2bln and net of reinsurance the outstanding claims stand at PKR 0.59bln. The coverage against net claims from the investment book is 3.3x at end 9MCY19 and in term of liquid investment book, the coverage stands at 1.1x

**Capital Adequacy** The company has an equity of PKR 3.4bln at end 9MCY19 which has seen a constant growth in the past few years.

**The Pakistan Credit Rating Agency Limited**

## **United Insurance Company Limited**

<b>BALANCE SHEET</b>	<b>PKR mln</b>	<b>PKR mln</b>	<b>PKR mln</b>
	<b>9MCY19</b>	<b>CY18</b>	<b>CY17</b>

### **Investments**

Liquid Investments	1,622	1,161	993
Other Investments	1,354	1,337	876
	<b>2,976</b>	<b>2,497</b>	<b>1,869</b>
Insurance Related Assets	3,036	2,832	2,488
Other Assets	2,099	1,772	1,785
Fixed Assets	848	837	882
<b>TOTAL ASSETS</b>	<b>8,960</b>	<b>7,938</b>	<b>7,024</b>

Equity	3,482	3,149	2,779
Underwriting Provisions	2,164	2,064	1,999
Insurance Related Liabilities	2,324	1,950	1,609
Other Liabilities	989	776	637
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>8,960</b>	<b>7,938</b>	<b>7,024</b>

<b>INCOME STATEMENT - Combined</b>	<b>9MCY19</b>	<b>CY18</b>	<b>CY17</b>
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Gross Premium Written (GPW)	3,593	5,239	4,591
Net Premium Revenue (NPR)	2,131	3,178	3,222
Net Claims	(883)	(1,661)	(1,434)
UNDERWRITING (LOSS) / INCOME	618	589	544
Investment Income	45	8	67
<b>(LOSS) / PROFIT BEFORE TAX</b>	<b>618</b>	<b>818</b>	<b>611</b>

<b>RATIO ANALYSIS - Conventional</b>	<b>9MCY19</b>	<b>CY18</b>	<b>CY17</b>
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### **Underwriting Results**

Loss Ratio	51%	51%	48%
Expense Ratio	30%	36%	44%
Combined Ratio	81%	87%	92%

### **Performance**

Operation Ratio	81%	78%	89%
Investment Yield	1%	0.4%	3%

### **Liquidity & Solvency**

Liquidity Ratio - times	3.3	3.3	3.8
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**United Insurance Company Limited**

**Apr-20**

## Insurer Financial Strength (IFS) Rating Scale & Definitions

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

Scale	Definition
<b>AAA</b>	<b>Exceptionally Strong.</b> Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
<b>AA+</b>	
<b>AA</b>	<b>Very Strong.</b> Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.
<b>AA-</b>	
<b>A+</b>	
<b>A</b>	<b>Strong.</b> Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
<b>A-</b>	
<b>BBB+</b>	
<b>BBB</b>	<b>Good.</b> Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
<b>BBB-</b>	
<b>BB+</b>	
<b>BB</b>	<b>Weak.</b> Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
<b>BB-</b>	
<b>B+</b>	<b>Very Weak.</b> Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
<b>B</b>	
<b>B-</b>	
<b>CCC</b>	<b>Very high credit risk.</b> Substantial credit risk 'CCC' Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable.
<b>CC</b>	
<b>C</b>	"C" Ratings signal imminent default.
<b>D</b>	<b>Distressed.</b> Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

<b>Outlook (Stable, Positive, Negative, Developing)</b> 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'.	<b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. 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 Outlook of the respective opinion.	<b>Suspension</b> 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.	<b>Withdrawn</b> 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.	<b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.
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**Disclaimer:** PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

## **Regulatory and Supplementary Disclosure**

(Credit Rating Companies Regulations,2016)

### **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

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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)

### **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.
- (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 principle 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](http://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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