



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

Rating Rationale and Key Rating Drivers

United Insurance Company is among the large sized players in the insurance industry. The company was able to depict improved topline (approx. 7%) amidst the pandemic. The company has a balanced portfolio representing all segment of the insurance industry. Miscellaneous segment dominates the top-line. This is largely comprised of bond business, travel and livestock segment. There was noticeable rise in the re-insurance, led by cessation in miscellaneous and motor segments. This may be of crucial impetus in future, as this will determine the risk appetite and profitability. The investment income remains minuscule as the company employs funds in its associated concern, Apna Bank. The bank, after sailing through turbulent times, has been profitable for the last couple of years, subsequently improving the CAR. The liquidity of the company without considering the investment in the bank is lower however the uptick in profitability provides 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. The reinsurance coverage provides strength to risk absorption. The management is committed to achieving higher benchmarks in transparency and control environment as the system review is underway. The sponsors intend to merge one of UIG's group company, SPI Insurance with and into UIC. Approval from BOD has been received; targeted timeline for completion is end of year.

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

Name of Rated Entity	The United Insurance Company of Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology GI(Jun-20)
Related Research	Sector Study General Insurance(May-20)
Rating Analysts	Harris Ghaffar harris.ghaffar@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).

Ownership

Ownership Structure United Insurance Group controls 85.79% shares in the company whereas the remaining holding is shared by individuals and Institutions (14.19%). 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 increase from 72.5% to 85.79% during period of Dec-20.

Business Acumen Mr. M. A. Shahid established UIG in 1999. He is the major shareholder of the UIG companies. He has vast insurance industry experience and this experience helps the company to establish strong footprint 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 also reflected in their financial performance as well.

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 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.

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 CY19. The company is also undergoing a system review, being conducted by well reputed firm.

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 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. 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 Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. The volumes need to sustain, indeed, improve in tandem with the longer historical trend. The new interest rate regime has added momentum to auto-financing, which is a good sign for the insurance industry.

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

Revenue The conventional GPW UIC was PKR 4,921mln at end Dec'20 (Dec-19: PKR 4,311mln) whereas GPW from Takaful Operations was PKR 801mln at end Dec-20 (Dec-19: PKR 1,055mln). The growth of UIC's GPW over the last year has been limited due to pandemic COVID-19.

Profitability The underwriting profit from the conventional business grew from PKR 352mln in CY19 to PKR 452mln in at end Dec-20, this was an increase of 28% on a YoY basis. The combined profitability of the company declined due to loss in PTF of PKR 14mln during Dec-20. The loss(deficit) in takaful segment is mainly due to decline in health and motor portfolio.

Investment Performance At end Dec-20, the combined Investment income stood at PKR 88mln. Investment income from conventional business clocked in at PKR 77mln giving a yield of 3.6% (Dec-19: 4.6%) mainly due to decline in return on government securities as interest rates decline. As for the Takaful Operations, investment income for the PTF was PKR 3mln and from OPF is PKR 8mln. During Dec-20, the company has booked a share of profit from associate (PKR 16mln).

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. Going forward, Apna Bank is expected to experience growth momentum in profitability which will contribute towards UIC's income stream.

Financial Risk

Claim Efficiency The claims days at end Dec-20 stand at ~ 290 days (Dec-19: 243 days) has shown a decline due to increase in provision of outstanding claims as some underwriting of new business in health and crop segment. The total outstanding including IBNR stands at PKR 2,013mln during Dec-20.

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 3.5bln at end Dec-20 comprising strategic investment of PKR 1.9bln and non strategic investment book of PKR 1.6bln. Their is increase in strategic investment of the company by approximately PKR 350mln in Apna bank under head of share deposit money. It is injected in Apna Micro Finance Bank Limited to meet its capital adequacy ratio (CAR). The coverage against outstanding claims from the investment book is 3.3x at end CY20.

Capital Adequacy The company has an paid-up capital of PKR 2.95bln at end Dec-20 which has shown a growth over the last year due to issuance of bonus shares of PKR 350mln at a value of PKR 10 per share.



Financial Summary

The Pakistan Credit Rating Agency Limited

United Insurance Company Limited

BALANCE SHEET	PKR mln	PKR mln	PKR mln
	CY20	CY19	CY18
Investments			
Liquid Investments	1,570	1,215	1,161
Other Investments	1,965	1,573	1,337
	3,535	2,788	2,497
Insurance Related Assets	3,138	2,811	2,832
Other Assets	2,704	2,222	1,772
Fixed Assets	1,252	1,299	837
TOTAL ASSETS	10,629	9,121	7,938
Equity	4,075	3,815	3,149
Underwriting Provisions	2,725	2,088	2,064
Insurance Related Liabilities	2,914	2,279	1,950
Other Liabilities	916	939	776
TOTAL EQUITY & LIABILITIES	10,629	9,121	7,938
INCOME STATEMENT - Combined			
	CY20	CY19	CY18
Gross Premium Written (GPW)	5,722	5,365	5,239
Net Premium Revenue (NPR)	2,352	3,158	2,847
Net Claims	(749)	(1,460)	(1,661)
UNDERWRITING (LOSS) / INCOME	532	607	256
Investment Income	88	79	18
(LOSS) / PROFIT BEFORE TAX	523	602	562
RATIO ANALYSIS - Conventional			
	CY20	CY19	CY18
Underwriting Results			
Loss Ratio	23%	45%	51%
Expense Ratio	52%	41%	36%
Combined Ratio	76%	86%	87%
Performance			
Operation Ratio	71%	81%	78%
Investment Yield	4%	3%	0.4%
Liquidity & Solvency			
Liquidity Ratio - times	3.3	3.0	3.3

United Insurance Company Limited

Apr-21

Insurer Financial Strength (IFS) Rating

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

Scale	Definition
AAA	Exceptionally Strong. 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.
AA+	
AA	Very Strong. 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.
AA-	
A+	
A	Strong. 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.
A-	
BBB+	
BBB	Good. 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.
BBB-	
BB+	
BB	Weak. 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.
BB-	
B+	Very Weak. 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-	
CCC	Very high credit risk. 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.
CC	
C	"C" Ratings signal imminent default.
D	Distressed. 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.
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'.
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.
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.
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.
Harmonization	A change in rating due to revision in applicable methodology or underlying scale.

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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Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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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

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- 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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- (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.
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- (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)
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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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