



The Pakistan Credit Rating Agency Limited

Rating Report

The Universal Insurance Company Limited

Report Contents
1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jul-2023	A (ifs)	-	Stable	Maintain	-
28-Jul-2022	A (ifs)	-	Stable	Maintain	-
31-Mar-2022	A (ifs)	-	Stable	Harmonize	-
10-Aug-2021	A-	-	Stable	Maintain	-
08-Feb-2021	A-	-	Stable	Maintain	-
21-Feb-2020	A-	-	Stable	Maintain	-
27-Aug-2019	A-	-	Stable	Maintain	-
27-Feb-2019	A-	-	Stable	Maintain	-
07-Dec-2018	A-	-	Stable	Maintain	-
19-Apr-2018	A-	-	Stable	Maintain	-
29-Sep-2017	A-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

In terms of Gross Premium Written (GPW), the general insurance industry has a total size of ~PKR 41bln during 3MCY23 (3MCY22: ~PKR 34bln), exhibiting a growth of ~21.4%. Similarly, the underwriting performance of the industry also improved and reported at ~PKR 1.5bln during 3MCY23 witnessing an increase of ~25% (3MCY22: ~PKR 1.2bln). Improved underwriting and investment performance contributed to the industry's earnings reported at ~PKR 4.1bln during 3MCY23 (3MCY22: ~PKR 3.4bln). However, current economic conditions remain imperative for the overall performance of insurance industry.

The ratings reflect The Universal Insurance Company Limited ('The Universal Insurance' or 'the Company') strong association with Bibojee Group, that provides multi-faceted support to the Company, that includes: capital injection, if and when required, and room for captive business. Business strategy envisions benefitting from the captive business. Currently, the Company is underwriting captive business through a co-insurance agreement with a large sized insurance company. However, profitability remains subdued as the Company incurred loss in CY22, due to substantial claim booked by the co-insurer. Regardless, the management remains confident on the co-insurance agreement as that allows gradual entry into the market business. Going forward, the Company plans to start the non-captive underwriting business operations, once approved by the Board. This would enable the core business to grow through expansion of branch network and recruitment of business development officers. However, minimal load on the balance sheet - liabilities and/or claims - remains pivotal to materialize the envisioned plan.

The rating is dependent upon sustained improvement in relative position of the Company, augmenting its sustainability as envisaged. Meanwhile, continued improvement in the business and financial profile of the Company remains imperative for the rating.

Disclosure	
Name of Rated Entity	The Universal Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Rating Modifiers(Jun-22),Methodology General Insurance Rating(Mar-23)
Related Research	Sector Study General Insurance(Jun-23)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504



Profile

Legal Structure The Universal Insurance Company Ltd. ('Universal Insurance' or 'the Company') was incorporated as a public limited company in May-58 as per Companies Act, 1913 (now Companies Act, 2017) and is listed on PSX since then.

Background The Company is part of Bibojee Group of Companies ('the Group'), established by late Lt. Gen. R. M. Habibullah Khan Khattak in 1960. The Group has interests in various industrial sectors including Textile, Auto, Tyres & Rubber and Construction.

Operations The Company is engaged in general/non-life insurance business. Earlier, the Company addressed structural issues and at present, operates through one branch, employing minimal staff. Universal Insurance is a subsidiary of Bibojee Services (Pvt.) Limited (the Holding Company'), which holds major stake (~87.4%) of the Company. The registered office is situated at Universal Insurance House 63-Shahrah-e-Quaid-e-Azam, Lahore.

Ownership

Ownership Structure Majority stakes of the Company resides with the Group (~86%), through the Holding Company (~ 85.9%) and Individuals (~1.4%). Remaining ~12.6% is held by Banks, NBFCs and others (~1.9%) and General Public (~10.6%).

Stability The ownership structure of the Company seems stable as majority stake resides with the Holding Company. Moreover, next generation is gradually being inducted into Group businesses.

Business Acumen The sponsoring family entered in the business arena in 1960's and built some flagship entities. The Group holds interests in various industrial sectors including Textile, Auto, Tyres & Rubber and Construction.

Financial Strength The Group has shown support to the Company, if and when required. On consolidated level, the Group holds an asset of ~PKR 63bn with an equity of ~PKR 27bn as of CY22. The consolidated revenue stood at ~PKR 56bn with a PAT of ~PKR 576mln during CY22.

Governance

Board Structure The Company's BoD comprises seven members and includes four Non-Executive, two Independent and one Executive Director. The BoD is dominated by the sponsoring family and has female presence on the BoD.

Members' Profile The BoD's Chairman, Lt. Gen. (Rtd.) Ali Kuli Khan has an overall experience of ~18.5 years. He is also on the Board of many Group companies. Dr. Hassan Iqbal, an Independent Director, has vast experience of work in public sector. The BoD has diverse set of expertise and skillset.

Board Effectiveness The BoD meet four times during CY22. All meetings are adequately documented. The BoD is assisted by three Committees: Audit (BAC), Investment (IC) and Ethics, Human Resource and Remuneration (E,HR&R). BAC and IC met four times, while E,HR&R Committee met once during CY22.

Transparency External Auditors of the Company, M/s Junaidy Shoaib Asad Chartered Accountants, has expressed unqualified opinion on financial statements of CY22. The firm is QCR rated and is in category 'C' of SBP auditor panel.

Management

Organizational Structure The Company's operations are segregated and managed through departmental heads, who reports the CEO. The CEO reports to the BoD. However, Head of Internal Audit, Investment and Ethic, Human Resource & Remuneration functions reports administratively to the CEO and functionally to the respective BoD Committee.

Management Team Mr. Amir Raza, the Principal Office, certified from Chartered Insurance Institute, holds an experience of above three decades. He was promoted from the position of CFO in Sep-13. He is supported by experienced senior management staff having related qualifications.

Effectiveness The management is supported by three management Committees: Underwriting, Re-insurance & Co-insurance, Claims Settlement, and Risk Management & Compliance. All the management committees meet on quarterly basis. Minutes of these meetings are adequate maintained.

MIS The Company has an integrated real-time ERP solution which uses SQL based database and Crystal report II. It generates business performance reports, analyze performance by period, agent, branch and segments. The grading system supports risk management department as well.

Claim Management System The claim processing function is centralized and is intimated to the head office after verification by a surveyor appointed for every claim. The survey report is scrutinized by claims & internal audit department. Upon clearance from internal audit function, cheques is forwarded to the claimant.

Investment Management Function The IC oversees the investment function with a structured Investment Policy Statement (IPS) that provides primary guidelines and execution structure to the investment process.

Risk Management Framework Risk assessment process starts at branch level and is supervised by the respective principal and head office. Licensed surveyors on SECP panel are engaged for onsite survey, which encompasses all risks the insured might be subject to and suggest precautions to the client, to ensure safety.

Business Risk

Industry Dynamics During 3MCY23, Gross Premium Written (GPW) of General Insurance industry held a total size of ~PKR 41bn (3MCY22: ~PKR 34bn), posting growth of ~21%. Similarly, the underwriting performance also improved by ~25% (3MCY23: ~PKR 1.5bn, 3MCY22: ~PKR 1.2bn). Improved underwriting and investment performance contributed to industry's earnings (3MCY23: ~PKR 4bn, 3MCY22: ~PKR 3bn). However, current economic conditions remain imperative for the overall performance of insurance industry.

Relative Position Universal Insurance holds a market share of less than ~1% and is classified as small general insurance company.

Revenue During CY22, GPW dipped by ~7% (CY22: PKR 107mln, CY21: PKR 115mln) and relates mainly to an increase in premium retention capacity of IGI General, the co-insurer, by ceding premium in form of co-insurance and facultative business. The Company has co-insurance arrangements for underwriting only, with IGI General. Net Premium Written (NPW) enhanced by ~4% (CY22: PKR 78mln, CY21: PKR 75mln), while the claims showed substantial increase due to major claims from fire segment. Similarly, during 1QCY23, substantial decline was observed in GPW (1QCY23: PKR 3mln, 1QCY22: PKR 14mln) due to restricted reinsurance arrangements and net insurance premium posted a slight reduction (1QCY23: PKR 13mln, 1QCY22: PKR 15mln).

Profitability During CY22, the Company incurred a loss of PKR 111mln (CY21: PKR 40mln) mainly due to increase in claim expense and provision for receivable. However, during 1QCY23, the Company booked limited profit of PKR 0.9mln (1QCY22: loss - PKR 20mln).

Investment Performance The Company holds a mix investment portfolio, representing ~56% of total assets. The Company's investment income posted an increase of 6.5% (CY22: ~PKR 17mln, CY21: ~PKR 14mln) mainly supported by increased return. During 1QCY23, slight dip was witnessed in the investment income due to revaluation loss.

Sustainability The Company is eyeing to tap non-captive business, going forward, so as to increase its share and GPW. Timely and successful materialization of the strategy remains pivotal for the Company's growth.

Financial Risk

Claim Efficiency The claim efficiency days of the Company improved (CY22: 125days, CY21: 202days). The liquid cover declined (CY22: 1.5x, CY21: 3.8x) due to increased outstanding claims and reduced liquid assets. However, improved in 1QCY23 due to reduced claims (1QCY23: 1.2x, 1QCY22: 0.9x).

Re-Insurance Reinsurance arrangements comprise a combination of surplus, quota share and XoL treaties with optimal capacity limits. While, the reinsurer PakRe (AA by VIS) and Asian Insurance (B+ by AM Best) needs considerations.

Cashflows & Coverages The Company's investment portfolio is majorly strategic; while, the rest comprises liquid assets. Total liquid assets stand at PKR 530mln in CY22 (CY21: PKR 586mln). Liquid ratio of the Company comparing liquid assets to net insurance premiums stood at 2x in CY22 (CY21: 2.5x). In 1QCY23, liquid ratio stood at 2.2x (1QCY22: 2.8x).

Capital Adequacy Total equity of the Company stands at PKR 730mln (CY21: PKR 840mln) due to increased unappropriated loss. Liquid investment ratio of the Company improved to ~67% (CY21: 66%). The Company manages its capital structure by monitoring return and making adjustments as per economic conditions.



PKR Mn

The Universal Insurance Company Limited
Listed Public Limited

Mar-23	Dec-22	Mar-22	Dec-21	Dec-20
3M	12M	3M	12M	12M

A BALANCE SHEET

1 Investments	515	530	578	586	515
2 Insurance Related Assets	110	116	221	146	170
3 Other Assets	144	144	118	106	112
4 Fixed Assets	157	158	155	155	188
5 Window Takaful Operations	-	-	-	-	-
Total Assets	926	948	1,071	993	986
1 Underwriting Provisions	21	41	38	52	67
2 Insurance Related Liabilities	164	170	206	93	82
3 Other Liabilities	9	8	6	8	7
4 Borrowings	-	-	-	-	-
5 Window Takaful Operations	-	-	-	-	-
Total Liabilities	195	218	251	153	156
Equity/Fund	731	730	821	840	830

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	3	107	14	129	141
2 Net Insurance Premium/Net Takaful Contribution	13	78	15	75	67
3 Underwriting Expenses	(24)	(232)	(63)	(136)	(130)
Underwriting Results	(11)	(153)	(48)	(60)	(62)
4 Investment Income	12	8	17	102	11
5 Other Income / (Expense)	(2)	2	(1)	4	(58)
Profit Before Tax	(2)	(143)	(33)	45	(109)
6 Taxes	1	36	13	(5)	22
Profit After Tax	(1)	(107)	(20)	40	(88)

C RATIO ANALYSIS

1 Profitability					
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful	7.9%	82.9%	274.7%	54.1%	53.2%
Combined Ratio (Loss Ratio + Expense Ratio)	190.4%	296.2%	421.2%	180.4%	192.8%
2 Investment Performance					
Investment Yield	9.3%	1.4%	11.4%	18.5%	2.1%
3 Liquidity					
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.2	1.5	0.9	3.8	5.6
4 Capital Adequacy					
Liquid Investments / Equity (Funds)	64.9%	66.9%	66.1%	65.5%	58.4%

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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(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 | Clause 11-(A)(p).

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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 principal 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

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(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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