



The Pakistan Credit Rating Agency Limited

Rating Report

The Universal Insurance Company Limited

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Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
26-Jul-2024	A (ifs)	Stable	Maintain	Yes
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	-

Rating Rationale and Key Rating Drivers

The ratings for The Universal Insurance Company Limited ('Universal Insurance' or 'the Company') reflect its association with the Bibojee Group, which provides multifaceted support, including capital injections when needed and access to captive business. The Company relies primarily on group business and underwriting through a co-insurance agreement with a large insurance company, with ~72% of GPW driven by the motor segment. This strategy has limited the Company's ability to capture market business, resulting in a weak topline and market share. The Company's underwriting performance has been under stress, showing consistent losses. The investment book, reported at PKR 516mln as of CY23, provides some support to the liquid profile with an investment income of PKR 7mln. The investment book's size is relatively small to effectively support core business operations. The Company meets the minimum capital adequacy requirement, with total equity reported at PKR 668mln as of CY23. The equity base has declined due to ongoing losses and the Sponsors' commitment of capital injection provides comfort to the rating. Going forward, the Company plans to start the non-captive underwriting business operations, once approved by the Board, remains susceptible. The Company requires a strategy revamp to manage the business and financial risk, along with sustaining its position in the industry. PACRA assigns a Rating Watch registered by significant dilution of equity along with substantially weak performance. The Company must build itself around a sizeable business, going forward.

The rating is dependent upon sustained improvement in the 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	Assessment Framework General Insurance(Mar-24),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study General Insurance(Jun-24)
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 Bibojee Group of Companies ('the Group'), founded by Lt. Gen. R. M. Habibullah Khan Khattak, established the Company in 1960 to venture into the insurance market.

Operations The Company is engaged in conventional non-life insurance and operates through a single branch. Its registered office is in Lahore.

Ownership

Ownership Structure The Bibojee Group holds the majority stake in the Company (~86%), with the remaining shares held by Directors, Executives, and Corporations (~3%), and the General Public (~11%).

Stability The ownership of the Company reflects stability, funneled through the group. The gradual induction of the next generation into the group business further enhances this stability.

Business Acumen The sponsoring family entered the business arena in the 1960s and built notable businesses. The Group holds interests in various industrial sectors, including textile, auto, tyres & rubber, and construction.

Financial Strength The Group has shown support for the Company whenever needed. With investments in the automobile, textile, tire and rubber, insurance, and construction sectors, the Group's financial strength enhances the Company's stability.

Governance

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

Members' Profile Lt. Gen. (Rtd.) Ali Kuli Khan Khattak serves as the Chairman of the Board with two decades of experience. He also holds positions on the boards of other group companies. The Board possesses a diverse set of expertise and skillsets.

Board Effectiveness The Board comprises three Board-level committees to enhance effectiveness: Audit, Investment and Ethics, and Human Resource and Remuneration. All meetings are thoroughly documented.

Transparency External Auditors of the Company, M/s Junaidy Shoaib Asad Chartered Accountants, have expressed unqualified opinion on financial statements of CY23. The firm is QCR-rated and is in category 'C' of SBP auditor panel.

Management

Organizational Structure The Company's operations are managed through department heads reporting to the CEO, who reports to the Board. The heads of Internal Audit, Investment and Ethics, and Human Resource & Remuneration functions report administratively to the CEO and functionally to their respective Board Committees.

Management Team Dr. Shahin Kuli Khan Khattak has been appointed as the CEO of the Company effective from Nov'23. She has a diverse background encompassing education, educational institution setup, board memberships, extensive lecturing, editorial work, and authorship in Islamic studies and literature. She is supported by an experienced and professional team.

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 a quarterly basis. The minutes of these meetings are adequately maintained.

MIS The Company utilizes an integrated ERP solution with a SQL-based database and Crystal Reports II for real-time business performance reporting and analysis by period, agent, branch, and segments, supporting the risk management department's grading system.

Claim Management System Claim processing is centralized, with each claim verified by a surveyor before being reported to the head office. The survey report undergoes scrutiny by the Claims and Internal Audit Department. Once cleared by internal audit, payment is issued to the claimant.

Investment Management Function The Investment Committee 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 begins at the branch level under the supervision of the respective principal and head office. Licensed surveyors from the SECP panel conduct onsite surveys, assessing all potential risks to the insured and advising clients on necessary precautions for safety.

Business Risk

Industry Dynamics Pakistan's General Insurance industry has a total size of PKR 182bln during CY23 (CY22: PKR 143bln), exhibiting a growth of ~27%, in terms of Gross Written Premium (GWP). The industry reported a growth of ~46% in underwriting results (CY23: PKR 4.7bln, CY22: PKR 3.2bln). The net income of the industry also experienced an increase of ~60% to PKR 18bln during CY23 (CY22: PKR 11bln). Overall, the industry's outlook remains stable with substantial liquidity available with players.

Relative Position Universal Insurance holds a market share of less than ~1% as at CY23 and is classified as small general insurance company.

Revenue During CY23, the Company reported a decline of ~69%, reporting at PKR 33mln (CY22: PKR 107mln), attributed to divesting from loss-making ventures and restructuring the portfolio to enhance risk management. The Motor portfolio remained the primary contributor (~72%), followed by Marine (~21%). During 3MCY24, the GPW portfolio remained stable, reporting at PKR 3mln.

Profitability During CY23, the Company reported a ~51% decline in underwriting results, reflecting a loss of PKR 76mln, attributed to overall portfolio decline, although underwriting losses decreased. During 3MCY24, underwriting losses increased due to lower premiums earned (3MCY24: PKR 17mln loss, 3MCY23: PKR 11mln loss). Insufficient investment income along with weak underwriting performance, resulting in net losses.

Investment Performance During CY23, the Company's investment portfolio decreased by ~3%, reporting at PKR 516mln following the exit from equity instruments (CY22: PKR 530mln). During 3MCY24, the investment portfolio stood at PKR 512mln. The portfolio primarily consists of investments in subsidiaries/associates (~42%), Cash and Bank Balances (~37%), with the remainder in government securities and investment properties. During CY23, the investment portfolio generated an income of PKR 7mln (CY22: PKR 8mln), and during 3MCY24, the Company generated an investment income of PKR 11mln (3MCY23: PKR 12mln).

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 During CY23, the Company's outstanding claims increased to PKR 101mln (CY22: PKR 84mln). The net insurance claim expense decreased by ~65%, reporting at PKR 24mln (CY22: PKR 69mln). As of CY23, outstanding claims days saw a significant increase, rising to 1,133 days (CY22: 112 days). During 3MCY24, outstanding claims were reported at PKR 104mln, while the net insurance claims expense was PKR 1mln.

Re-Insurance The Company maintains reinsurance arrangements with PakRe ('AA' by VIS), comprising a combination of surplus, quota share and XoL treaties with optimal capacity limits.

Cashflows & Coverages The liquid investment book comprises ~91% of the total investment book reflecting the Company's commitment towards liquidity. As at 3MCY24 liquidity ratio (Liquid Assets/ Outstanding Claims IBNR) reported at 2.4x reflecting strong coverage against the outstanding claims (CY23: 2.0x).

Capital Adequacy The equity of the Company has been on a declining trend owing to the consistent bottom-line losses. The Company remains well-equipped in capital adequacy requirements of SECP. As at 3MCY24, the equity base of the Company reported at PKR 657mln (CY23: PKR 668mln, CY22: PKR 730mln). Going forward, the Company forecasts halting the deterioration of its equity base and aims to achieve profitability through strategic revamping.



PKR Mln

The Universal Insurance Company Limited
Public Listed Company

Mar-24	Dec-23	Dec-22	Dec-21
3M	12M	12M	12M

A BALANCE SHEET

1 Investments	512	516	530	586
2 Insurance Related Assets	101	101	116	146
3 Other Assets	95	95	144	106
4 Fixed Assets	146	147	158	155
5 Window Takaful Operations	-	-	-	-
Total Assets	854	859	948	993
1 Underwriting Provisions	9	10	41	52
2 Insurance Related Liabilities	166	167	170	93
3 Other Liabilities	22	14	8	8
4 Borrowings	-	-	-	-
5 Window Takaful Operations	-	-	-	-
Total Liabilities	197	191	218	153
Equity/Fund	657	668	730	840

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	3	33	107	129
2 Net Insurance Premium/Net Takaful Contribution	4	45	78	75
3 Underwriting Expenses	(21)	(121)	(235)	(136)
Underwriting Results	(17)	(76)	(157)	(60)
4 Investment Income	11	7	8	102
5 Other Income / (Expense)	(1)	20	2	4
Profit Before Tax	(7)	(49)	(147)	45
6 Taxes	(7)	(106)	36	(5)
Profit After Tax	(14)	(155)	(111)	40

C RATIO ANALYSIS

1 Profitability

Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaf	12.8%	53.5%	87.8%	54.1%
Combined Ratio (Loss Ratio + Expense Ratio)	475.1%	267.6%	301.2%	180.4%

2 Investment Performance

Investment Yield	8.4%	1.3%	1.4%	18.5%
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3 Liquidity

(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	2.4	2.0	1.5	3.8
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4 Capital Adequacy

Liquid Investments / Equity (Funds)	70.8%	70.4%	66.9%	65.5%
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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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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 | Clause 11-(A)(p).
- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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