



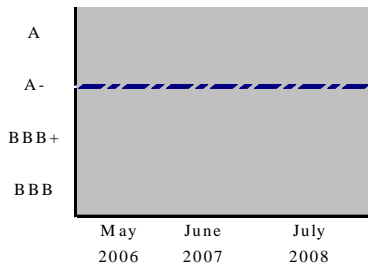
**THE UNITED INSURANCE COMPANY OF PAKISTAN LIMITED (UIC)**

**RATINGS (JULY 2008)**

**THE UNITED INSURANCE COMPANY OF PAKISTAN LIMITED**

	New	Previous
<b>INSURER FINANCIAL STRENGTH</b>	A-	A-
<b>OUTLOOK</b>	Positive	Positive

**ENTITY RATING HISTORY**



**FINANCIAL DATA**

PKR (mln)

	31-Dec-06	31-Dec-05
Total Assets	782.2	584.1
Equity	429.4	329.1
Net Income	100.3	95.0
Underwriting Income	178.5	156.8
ROE %	22.8	33.8
Loss Ratio (%)	26.6	19.6
Premium	141.7	148.1
Solvency Ratio (%)		

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**RATING RATIONALE & KEY DRIVERS**

- The rating reflects the strong risk absorption capacity of the company emanating from a sound solvency position. The management is following a well-conceived business strategy leading to a robust underwriting performance. However, the rating recognizes the company’s relatively weak risk management and IT framework that, given the company’s relatively aggressive growth stance, could impact the risk profile of the company.
- The rating is dependent on the management’s ability to sustain the growth trend, while preserving the underwriting parameters. Moreover, improving the corporate governance standards while strengthening the control environment would remain critical.

**ASSESSMENT**

- During CY07 the company followed its aggressive growth strategy and doubled the gross premium. The company achieved significant expansion in motor and miscellaneous segments, though the fire segment continued to dominate the overall premium mix. In addition to traditional insurance products, the company offers an increasing range of new products – crop, livestock, travel, mobile and debit card coverages – which offer significant growth potential with relatively limited competition. While reinsurance ceded as a percentage of GPW increased, net premium revenue increased notably on the back of overall high volume growth. However, underwriting results to premium earned declined due to increase in loss trend, mainly in the marine segment. Nevertheless, the combined ratio though high on YoY basis remained low relative to peers. The effect of increased net premium revenue was translated into the underwriting income. At the same time, a slightly higher contribution of investment income, though still nominal compared to peers, further supported the operating income. Consequently, the bottom line depicted improvement, despite significant increase in general and administration expenses. As against the peers, the company also has lower incidence of tax. The performance trend continued during 1Q08. A lower level of reinsurance ceded as a percentage of GPW resulted in healthy NPR. Profitability of UIC in terms of underwriting income registered a sizeable increase, an outcome of reduction in loss and expense ratio.

- Going forward, the company plans to continue its aggressive growth strategy and increase its geographical presence. The focus would be on increasing volumes in the motor and miscellaneous segments. While continuing its focus on the SMEs it plans to acquire business from the corporates as well. In this regard, the company has recently underwritten business from a few large corporates, which is expected to pave the way for its further penetration in this segment. To achieve this objective, the management plans to continue its major reliance on relationship-based marketing, for which the company has engaged certain resourceful individuals as well. UIC plans to continuously strengthen its human resource base and mainly focuses on engaging staff from established insurance companies and financial institutions.

- In order to achieve targeted growth, the company over the years, had relaxed its credit terms. However, with the recent increasing trend in premium due but unpaid, (end-07: 27%) it plans to tighten its credit policy. The company’s risk management framework and IT infrastructure requires further strengthening in view of the company’s aggressive expansion. At the same time, UIC requires to improve the quality its of MIS to effectively manage associated risks. UIC is using in-house developed software and is continuously making improvements, in line with the intended growth targets. Moreover, UIC has yet to formally document detailed underwriting and operational policies in different areas of risks and consolidate the same into an operating manual.

- UIC, unlike most insurance companies, has a very small investment portfolio, mainly comprising investment in property. Nevertheless, it maintains strong liquidity in the form of low-earning deposits and current account with banks, used as inducement to gain insurance business from respective bank branches. However, going forward, the management intends to gradually build the investment portfolio with an adequate mix of debt and equity securities. However, recognizing its limited expertise in this area, it is planning to outsource the investment management.

- UIC has strong solvency and financial base, an outcome of retention of profitability. Going forward, the company intends to maintain the same while continuing with its aggressive growth targets.

**PROFILE**

- UIC, established in 1959, and listed on the Karachi Stock Exchange is operating through a network of 91 branches covering all major cities of the country. UIC underwrites all types of general insurance business.
- The family and associates of Mian M.A. Shahid, the Chief Executive, owns majority shares in the company. Although the company’s board includes a few members having experience of different industries, it has relatively constrained capacity in terms of offering strategic guidance to the management and ensuring effective monitoring of performance. Moreover, the CEO Mr. Shahid, also with his dynamic efforts, has enabled the company to achieve remarkable growth. However, his appointment as the Chairman of the BoD as well, undermines the strength of the board, to some extent. The management team comprises seasoned and experienced professionals, most of which have been hired from other insurance companies and financial institutions.

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