



The Pakistan Credit Rating Agency Limited

THE UNITED INSURANCE COMPANY LIMITED (UIC)

RATING REPORT

	NEW [MAR-17]	PREVIOUS [NOV-16]
Insurer Financial Strength (IFS) Rating	AA-	A+
Outlook	Stable	Positive

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MARCH 2017

Profile & Ownership

- The United Insurance Company of Pakistan Limited (UIC), a member of the United International Group (UIG), was established in 1959 and the company is listed on Pakistan Stock Exchange
- UIG controls 92% holding in the company. Mr. M. A. Shahid established UIG in 1999, and effectively controls ~46% holding in UIC through group companies
- UIG group mainly has business interests in Insurance, Tracking, Microfinance Banking and Technology

Governance and Management

- The overall control of the company vests in seven-member BoD. Two members represent UIG, four are non-executive including chairman and one is independent director
- Group Chairman, and main brain behind the company, Mr. Mian. M. A. Shahid is the advisor to the board
- The CEO, Mr. Rahat Sadiq, a qualified chartered insurer from UK has been associated with the company for nearly a decade

Business Risk

- In terms of GPW, UIC has seen exceptional growth every year since CY08. In 9M16, GPW grew by 20% clocking in at PKR 3,372mln, and the company's market share stood at 5.9% (CY08: 0.52%)
- UIC has a well-diversified GPW portfolio mix; motor (28%), miscellaneous (32%), Fire (19%), Crop (15%) and Marine (6%) The Miscellaneous segment, in turn consists of livestock (21%), health (14%), bond (12%), and other varied small sub segments
- The concentration level, in terms of top ten clients is small
- Window Takaful contributes 11%, to the topline, and occupies 24% takaful market share in 9M16
- The company's loss ratio has improved (9M16: 38%, 9M15: 43%), while Expense ratio remained steady as expenses increased in line with business volumes
- Company reported second highest underwriting profitability in industry at PKR 552mln in 9M16.

Business Strategy

- Going forward, the company would continue its aggressive growth strategy by banking on its high profile marketing staff. Although the management envisages growth invariably in all segments, bond, livestock, healthcare, and travel insurance would remain the main areas of focus

Financial Risk

- At end-Sep16, UIC's investment book (PKR 1,731mln) constituting 0.62 times of equity base, comprises liquid investments (68%), and strategic investments (32%) – APNA Microfinance bank (shareholding – 37.5%)
- The liquid investment book predominantly comprises government securities (53%) followed by bank deposits (42%) and listed equity (5%)
- The market value of strategic investments in Apna Microfinance Bank is significantly higher as at end Sep16 (PKR 1,076mln) than its book value (PKR 558mln)
- The liquidity position of the company, vis-à-vis growing business size, needs strengthening; liquid investments (PKR 1,170mln) cushions to net claims stands at one-to-one
- 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)
- These non-proportional treaties, having large capacity, allowed the company to enter large business, although this also entails high risk retention on company's books. As the company has grown significantly, this has become a requisite step, though this must be handled carefully

RATING RATIONALE

The rating reflects United Insurance's strong business fundamentals emanating from a sustained growth in GPW. This has enabled United to emerge as fourth largest player in the general insurance industry. Notably, the management has been successful in translating volumetric growth into profitable underwriting results. The company's insurance book is characterised by diversity across product slate and granularity in terms of wide spread of policies. This also benefits in relatively better claims experience. The company has lately strengthened its MIS that should enable efficiency in claims settlement and add transparency. This is important to support the company's relative position. Going forward the company will continue to focus on solidifying its market position through expansion in branch network and backing on its experienced sale team. The management envisages growth invariably in all segments; wherein, bond, livestock, healthcare, and travel insurance would remain the main areas of focus. Of late, United Insurance deployed incremental cash float in strategic investment (APNA Microfinance Bank). This is yet not yielding dividend, but the sizeable market value of the same provides comfort. However, given targeted growth in the business, current liquidity position of the company needs strengthening. United Insurance continues to have a sound panel of reinsurers with a combination of both proportional and non-proportional treaties, allowing the company to tap large business.

KEY RATING DRIVERS

The rating is dependent upon holding underwriting profits, while sustaining market position. The expansion strategy may absorb cash, but this should be balanced with needed built up of liquid investments. Income from investment book should continue to benefit the bottom-line. Implementation of "Claims Tracking system", along with planned intelligence tools, should improve MIS system; hence, claims turnaround time. The company is expected to improve its governance framework, with enduring emphasis on compliance.

INDUSTRY

Pakistan general insurance continued growth trajectory (CAGR 4 years 10%). While fire and motor growth is driven by credit off by the banks, the miscellaneous segment has seen largest growth in health, crop, and livestock. The underwriting profitability improved, though change in tax laws shall impact net profits, going forward. Growth prospects are sanguine.



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GENERAL INSURANCE

Financials [Summary]

The United Insurance Company of Pakistan Limited (UIC)

	30-Sep-16 9M16	31-Dec-15 Annual	31-Dec-14 Annual	PKR mln 31-Dec-13 Annual
BALANCE SHEET				
Investments				
Liquid Investments	1,170	1,142	1,093	662
Investment in Associates	558	426	194	-
Other Investments	3	16	14	3
	1,731	1,584	1,301	665
Insurance Related Assets	1,911	2,033	2,159	1,147
Other Assets	2,307	1,804	1,457	1,196
	5,950	5,421	4,917	3,008
TOTAL ASSETS				
Equity	2,805	2,287	1,687	1,221
Underwriting Provisions	1,762	1,669	1,496	898
Insurance Related Liabilities	837	1,005	1,466	711
Other Liabilities	553	461	269	178
	5,950	5,421	4,917	3,008
TOTAL EQUITY & LIABILITIES				
INCOME STATEMENT				
Gross Premium Written (GPW)	3,372	3,566	2,549	1,724
Net Premium	2,291	2,469	1,540	1,109
Net Claims	(869)	(871)	(422)	(323)
Net Operational Expenses	(870)	(970)	(727)	(548)
	552	627	391	237
UNDERWRITING INCOME - Adjusted				
Investment Income	82	51	65	42
Other Income / (Expense)	25	81	24	11
	659	759	480	291
PROFIT BEFORE TAX				
RATIO ANALYSIS				
Underwriting Results				
Loss Ratio	38%	35%	27%	29%
Combined Ratio	76%	75%	75%	79%
Performance				
Operating Ratio	71%	69%	69%	74%
Investment Yield	23%	4%	7%	10%
Liquidity & Solvency				
Liquidity Ratio – times	1.4	1.2	1.0	1.0



RATING SYMBOLS & DEFINITIONS:

**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.

RATING 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 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
A+ 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.
BBB+ 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.
BB+ BB BB-	Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ B B-	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.
CCC CC C	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.
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, 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.

Suspension

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. 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, or c) the rating remains suspended for six months.

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.



Rated Entity

Name of Rated Entity The United Insurance Company of Pakistan Limited (UIC)
Sector Insurance - General
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Rating	Outlook	Action
9-Mar-17	AA-	Stable	Upgrade
25-Nov-16	A+	Positive	Maintain
1-Dec-15	A+	Stable	Maintain
2-Dec-14	A+	Stable	Maintain
20-Jan-14	A+	Stable	Upgrade

Related Criteria and Research

Methodology: Insurer Financial Strength Rating
Research: Insurance Sector Study | Nov-16

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Rating Team Statement Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the

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PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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