



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
19-Apr-2023	AA+ (ifs)	-	Stable	Maintain	-
19-Apr-2022	AA+ (ifs)	-	Stable	Maintain	-
31-Mar-2022	AA+ (ifs)	-	Stable	Harmonize	-
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	-

Rating Rationale and Key Rating Drivers

United Insurance Company (“United Insurance” or “the Company”) is among the prominent players in the insurance industry. It has a strong presence throughout the Company. The Honorable Sindh High Court has approved the “scheme of merger” of M/S SPI Insurance Company Limited (SPI) with and into the United Insurance which would further augment the Takaful business. The management is committed to achieving higher benchmarks in transparency and control environment as the system review is underway. During CY22, the topline of the Company grew by 29.7% (including window takaful operations) as compared to the corresponding period last year. This is majorly supported by takaful business. The revenue from conventional business is highly concentrated to the miscellaneous category (47.3%), which primarily included hospitalization, travel, and bond business, followed by Fire & property damages (17.5%), crop (15.1%), motor(14.1%) and marine(6.0%). However, Company's Takaful business is majorly concentrated to the health segment (57.8%) followed by motor (26.0%), fire & property damages (9.0%) and marine & aviation (7.3%). The Company's underwriting performance exhibited a decline, attributed to a rise in claims incurred during CY22. Hence, an increase in claims amount also impacted the combined ratio, stood at 68.4%, representing an increase from SPLY at 63.8%. This increase in the combined ratio demonstrates a decrease in the Company's underwriting profitability. The Company's investment portfolio is majorly concentrated with Government Securities (44.8%). Whereas, United Insurance withdraws all of the investment from Apna Micro Finance Bank. Furthermore, the Company has envisaged a plan of diversifying into real estate and in life insurance business. Moreover, the Company continues to enjoy a sound re-insurance panel that provides extensive risk absorption coverage.

The ratings are dependent upon the envisaged plan of sustaining its relative positioning and its control environment. Continued generation of internal capital, enhancement of liquidity and opening of new venture (The United Life Assurance) in near future is considered essential.

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 General Insurance Rating(Mar-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study General Insurance(May-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504



Profile

Legal Structure The United Insurance Company of Pakistan Limited (UIC) is a public listed Company and is listed on Pakistan Stock Exchange (PSX)

Background The Company was incorporated on October 20, 1959, with 20% equity from Pakistan Insurance Corporation (now Pakistan Reinsurance Company) and has been operating in the insurance industry since then.

Operations The Company is operating through a widespread network of 150 branches. Branch network is concentrated in Punjab and also has a presence across Pakistan. The principal activity of the Company is General Insurance Business and it qualifies as a domestic insurance company under the Insurance Ordinance, 2000 and undertakes Fire & Property Damage, Marine Aviation & Transport, Motor, Crop & Miscellaneous General Insurance. The Company has been allowed to carry on Window Takaful Operations on August 18, 2014. The registered office of the Company is situated in Karachi and its head office is located in Lahore.

Ownership

Ownership Structure United Group controls 89.68% of shares in the Company whereas the remaining holding is vested among individuals and Institutions (10.32%).

Stability The overall shareholding structure of the Company remains stable since the last rating review.

Business Acumen Mr. Muhammad Akram Shahid established UIG in 1996. He is the major shareholder of the UIG companies. He has vast industry-specific experience and this experience helped the Company to develop a strong footprint in the industry.

Financial Strength The United group has expanded its footing in diversified business avenues with a sizable portfolio of strategic investments. The group is involved in different lines of business-like insurance, banking, technology, tracking, health care, and risk advisory. All these companies are performing well in their respective sectors which is also reflected in their financial performance.

Governance

Board Structure The overall control of the Company vests in a seven-member BoD including the CEO. There are two independent directors including the chairman, two members executive directors including the CEO, and the remaining three members are non-executive directors. The Board has three board committees: (i) Ethics, HR & Remuneration Committee, (ii) Investment Committee and (iii) Audit Committee.

Members' Profile Mr. Jamil A. Khan has been appointed as the new chairman of the board on Nov'21. He did his master's in Economics from the University of Punjab and is also a Law graduate from the University of Karachi. He is a seasoned banker having worked for more than 38 years in senior positions at national and international assignments. He has been associated with the Company since 2018.

Board Effectiveness Board committees have quarterly meetings to review the performance of the Company, meeting of the committees are formally documented.

Transparency The Company's Auditors M/s Ilyas Saeed & Co. issued an unqualified audit report for the year ended CY21. However, BoD decided to appoint M/s. Avais Hyder Liaquat Nauman, Chartered Accountants, as auditors of the Company, for the year ending December 31, 2022.

Management

Organizational Structure The Company has well-defined reporting lines. The Company has segregated the core insurance-related activities and business development functions between the management under the headship of the CEO and the Executive Directors, respectively. The Company has four management committees: (i) Underwriting Committee, (ii) Claim Settlement Committee, (iii) Reinsurance and Coinsurance Committee, and (iv) Risk Management & Compliance Committee.

Management Team During the year Mr. M.A. Shahid is performing his duties as CEO of the Company since 03 May, 2021, in place of Mr. Muhammad Rahat Sadiq. The CEO has vast insurance industry experience and his experience helps the Company to establish strong foot print in the industry.

Effectiveness The management team comprises high-profile experienced professionals, most of them have been hired from other insurance companies. All of the committees have quarterly meetings to review the performance of the Company and set future strategies, and meeting minutes are formally documented.

MIS United Insurance had been using in-house-built ERP solutions. The real-time MIS capturing critical information may help improve the overall efficacy of the decision-making process. Meanwhile, the development of a business intelligence system is in the offing.

Claim Management System United Insurance has a 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. Which defines 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, United Insurance has established three zones in Lahore (Zone 1, Head Office), Islamabad (Zone 2) and Karachi (Zone 3).

Business Risk

Industry Dynamics In terms of Gross Written Premium (GWP), the general insurance industry has a total size of PKR ~114bln in 9MCY22 compared to PKR ~89bln in 9MCY21, exhibiting a growth of 28.0%. The industry reported a significant decrease of 38.8% in underwriting results to PKR 2.7bln in 9MCY22 (9MCY21: PKR 4.4bln). The net income of the industry experienced a drop of 26% to PKR 7.4bln in 9MCY22 (9MCY21: PKR 10bln). The recent floods have also caused losses to the economy. This will affect the insurance industry's performance during the ongoing quarters.

Relative Position United Insurance is among the large players in the industry. The Company has a market share of 5.8% as of Sep'22 in the General Insurance Industry.

Revenue The Company underwrote gross premiums (incl. Takaful) of PKR ~6,580mln in CY21 against PKR ~5,722mln last year; showing an increase of PKR ~858mln reflecting a growth of 14.9% YoY. During 9MCY22, Company's GPW stood at PKR ~mln with 35% derived from Fire and 24% from the Motor segment.

Profitability The Company reported an aggregated reinsurance expense of PKR 2.859mln in CY21(CY20: PKR 2,715mln). Claims incurred during CY21 were PKR ~1,111mln against PKR ~712mln in CY20, showing an increase of PKR ~399mln. Whereas, PAT stood at PKR ~892mln against PKR ~401mln last year, witnessed growth by 122.4% (CY19: PKR 417mln). An increasing trend is observed due to overtaking takaful business from SPI Insurance. During 9MCY22, the Company reported a topline of PKR 4,825mln and a reinsurance expense of PKR 2,322mln.

Investment Performance At the end of Dec-21, the combined Investment income stood at PKR~92mln (CY20: PKR~88mln), YoY 5% increase in investment income is due to a gain on the sale of equity investment. As for the Takaful Operations, investment income for the PTF was PKR~9mln and from OPF PKR~25mln during CY21.

Sustainability In the future, the Company plans to enter the life insurance industry and anticipates a positive reception. Additionally, the merger between SPI and United Insurance has occurred, with the Company's management actively promoting growth in both revenue and underwriting profitability.

Financial Risk

Claim Efficiency As at end Sep-22, Company's claims days stand at~214 days (CY21 ~279, CY20 ~267 days), showing a decline of 30.3% due to an increase in the provision of outstanding claims. The total outstanding claims including IBNR stand at PKR~4,870mln (end Dec-21: PKR 2,347, end Dec-20: PKR 2,013mln).

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).

Cashflows & Coverages The Company recorded an investment book of PKR 2,739mln in CY21 comprising a strategic investment of PKR 350mln and a non-strategic investment book of PKR 2,389mln. The Company has reduced its equity exposure and increased investments in Govt. Securities and TDRs. Furthermore, in 9MCY22 the Company's investment book stood as PKR~ 2,898mln. However, investment in government securities increased by 44.7%, stood at PKR~1,119mln.

Capital Adequacy With maintained a strong bottom line, United Insurance has been able to strengthen its equity over the years. The Company has a combined equity of PKR~4.5bln. at CY21. Paid-up capital stood at PKR~2,950mln while meeting the SECP minimum capital requirement of PKR 500mln. During the year 9MCY22, the combined equity of the Company stood at PKR~4,466mln.



PKR mln

The United Insurance
Listed Public Limited

Sep-22	Dec-21	Dec-20	Dec-19
9M	12M	12M	12M

A BALANCE SHEET

1 Investments	2,898	2,739	3,535	2,788
2 Insurance Related Assets	7,006	4,728	4,936	4,064
3 Other Assets	2,569	2,528	906	969
4 Fixed Assets	1,340	1,231	1,252	1,299
5 Window Takaful Operations	-	-	-	-
Total Assets	13,812	11,226	10,629	9,121
1 Underwriting Provisions	3,117	2,756	2,683	2,088
2 Insurance Related Liabilities	4,965	2,829	2,914	2,279
3 Other Liabilities	1,175	1,030	866	867
4 Borrowings	92	93	91	78
5 Window Takaful Operations	-	-	-	-
Total Liabilities	9,348	6,708	6,554	5,312
Equity/Fund	4,466	4,517	4,075	3,810

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	6,544	6,580	5,722	5,365
2 Net Insurance Premium/Net Takaful Contribution	3,796	3,729	2,352	3,158
3 Underwriting Expenses	(3,025)	(2,696)	(1,922)	(2,670)
Underwriting Results	771	1,033	430	488
4 Investment Income	101	92	88	102
5 Other Income / (Expense)	51	15	3	35
Profit Before Tax	923	1,141	521	624
6 Taxes	(239)	(248)	(120)	(208)
Profit After Tax	684	892	401	417

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	1,719	1,384	801	1,055
2 Net Takaful Contribution	663	610	207	258
3 Net Takaful Claims	(742)	(571)	(303)	(313)
4 Direct Expenses Including Re-Takaful Rebate Earned	(2)	30	77	66
Surplus Before Investment & Other Income/(Expense)	(81)	69	(19)	11
5 Investment Income	9	9	2	2
6 Other Income/(Expense)	19	6	3	3
Surplus for the Period	(52)	83	(14)	15

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	422	396	277	359
2 Management, Commission & Other Acquisition Costs	(411)	(382)	(280)	(233)
Underwriting Income/(Loss)	11	14	(3)	126
3 Investment Income	17	25	9	7
4 Other Income/(Expense)	(3)	(3)	(4)	(7)
Profit Before tax	25	35	2	125
5 Taxes	-	-	-	-
Profit After tax	25	35	2	125

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	37.8%	29.8%	30.3%	46.3%
Combined Ratio (Loss Ratio + Expense Ratio)	79.7%	72.3%	82.1%	84.3%
2 Investment Performance				
Investment Yield	4.8%	2.9%	2.8%	3.6%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	0.6	1.0	0.7	0.5
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	63.7%	59.5%	86.0%	73.0%

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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- (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).
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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)
- (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 | 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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