



The Pakistan Credit Rating Agency Limited

Rating Report

The United Insurance Company of Pakistan 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
24-Dec-2018	AA-	-	Stable	Maintain	-
28-Jun-2018	AA-	-	Stable	Maintain	-
29-Sep-2017	AA-	-	Stable	Maintain	-
09-Mar-2017	AA-	-	Stable	Upgrade	-
25-Nov-2016	A+	-	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The rating of United Insurance takes into account continued performance of the company reflected by the growing business; the company is regarded as the fourth largest player in terms of volume in the industry. The profitability is healthy though there is slight downward adjustment in the underwriting income on comparative period basis; requiring management's attention in this regard. The business is emanating from all segments of insurance, representing a strength; the main contributor is the miscellaneous segment. The company has continued to generate liquidity; yet a major portion has been placed into a strategic investment. On a standalone basis, the liquidity is adequate yet the relative positioning requires significant improvement. Apna Bank has traveled a long distance; getting closer to sustainable profitability, which is essential to the sustained risk profile of the group. Materialization of inflows from divestment may be of help. The management has plans to beef up its liquidity position, nevertheless. The UIG group has spread its wings in other sectors and abroad and boasts off a number of investment including any other emerging insurance company "SPI".

The ratings are dependent on sustained improvement in the liquidity position of the company. The profitability indicators need to hold in future in wake of rise in business volume. Improving the customer interface including claims settlement process is important. Harnessing the control environment 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(Jun-18)
Related Research	Sector Study General Insurance(Nov-18)
Rating Analysts	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504



Profile

Legal Structure United Insurance Company (UIC) is a public listed company.

Background UIC was established in 1959 and has been on Pakistan Stock Exchange since 2009.

Operations The company mainly sources its business through branches of different banks located in developing and semi-urban cities. To facilitate acquisition of business, UIC maintains relatively low-yield bank deposits with bank branches. The company is operating through widespread branches, concentrated in Punjab (87), and also having presence in Sindh (16), KP (8), Baluchistan (1) and Gilgit Baltistan (1).

Ownership

Ownership Structure United International Group (UIG) controls 91.8% holding in the company, whereas the remaining 8.2% is shared among the individuals (5%) and Rehman Group (3.2%).

Stability There has been no change in the holding structure of the company.

Business Acumen Mr. M. A. Shahid is the key man behind the business. He is a veteran insurance professional with over three decades of experience in various industries inside as well as outside Pakistan.

Financial Strength United Group – was established by Mr. M. A. Shahid in 1999. He is the major shareholder of the UIG companies. The group has expanded its footings in diversified business avenues with sizable portfolio of strategic investments.

Governance

Board Structure The overall control of the company vests in seven-member BoD. Three members represent UIG, three members are non-executive including chairman and one is independent director.

Members' Profile Mr. Javaid Sadiq is the Chairman of the Board and possess over three decades of experience. Mr. Sadiq been associated with the board for more than a decade and have gained insurance experience along with the company's growth. Other members include three vice chairpersons, CEO, Non - Executive Director and an Executive Director Finance.

Board Effectiveness The board has three committees. i) Audit Committee ii) Investment Committee & iii) Ethics, Human Resource & Remuneration Committee. All of the board committees have quarterly meetings to review the performance of the company.

Financial Transparency Ilyas Saeed & Co. are the auditors for the company. They issued an unqualified audit report for the year CY17 and gave an unqualified opinion for the half year review ended 6MCY18.

Management

Organizational Structure The company has well defined reporting lines. The company has segregated the core insurance related activities and business development function between the management under the headship of the CEO and the Executive Directors, respectively.

Management Team The CEO, Mr. Rahat Sadiq, a qualified chartered insurer from UK, has been associated with the company for nearly a decade and is a well-known figure in the insurance industry.

Effectiveness The management team comprises high profile experienced professional and most of them have been hired from other insurance companies and financial institutions. In order to augment its aggressive growth ambitions, the company has developed a sound marketing team as well.

Claim Management System UIC has 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. The policy defines the limit of investment and their venues to be parked in.

Risk Management Framework The underwriting and risk management function is centralized at head office. Every policy with sum insured above PKR 100mln is required to be issued from the head office. Whereas, for policies approval and issuance below PKR 100mln, UIC has established three zones in Lahore (Zone 1, Head Office), Islamabad (Zone 2) and Karachi (Zone 3).

Business Risk

Industry Dynamics Pakistan's general insurance witnessed continuous growth (CAGR 4 years 11%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

Relative Position UIC has a 4% market share and is among the top four players of the insurance sector. However, IGI General Insurance (an industry peer and ranked 5th in General Insurance sector in CY17) is aggressively catching up with UIC in CY18.

Revenue UIC posted a combined GPW of PKR 3.9bln at end Sep-18. The conventional GPW of PKR 3bln at end Sep'18 declined by 12% YoY whereas GPW from Takaful Operations was PKR 852mln at end Sep-18 with the marginal increase against GPW of PKR 830mln for the same period last year.

Profitability The combined underwriting profit (9MCY18: PKR357mln) suffered a massive blow at end Sep- 18 as compared to its corresponding year (9MCY17: PKR 997mln). This dip of 62% was on account of increased management expenses along with reduced GPW this year.

Investment Performance At end Sep-18, the Investment income stood at PKR 71mln. Investment income from conventional business clocked in at PKR 68mln giving a yield of 4% (9MCY17: -4%) amidst rising interest rates. As for the Takaful Operations, investment income for the PTF was PKR 2.9mln whereas the OPF posted an investment loss of PKR 0.3mln.

Sustainability Going forward, the company envisage the GPW to reach the PKR 4bln mark, which through the current financial position seems quite obvious. The management also expects growth in all segments, bond, livestock, healthcare, and travel insurance would remain the main areas of focus.

Financial Risk

Claim Efficiency The claims days have increased at end Sep-18 (240days). The increase in days is on account of inflated claims expense. The company previously had a steady net claims days (CY17: 184days, 9MCY17: 181days) as against the end Sep-18.

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).

Liquidity The liquidity deteriorated to .7x at end Sep-18 (9MCY17: .8x). Previously existing borrowing on company's balance sheet coupled with recent spike in interest rates deteriorated the interest cover. The company plans to jackup its liquidity in a phased manner, which is essential to the ratings.

Capital Adequacy The company has an equity of PKR 3bln at end Sep-18 which is well above the MCR set by SECP.



Financials [Summary]

The United Insurance Company of Pakistan Limited (UIC)

	-----PKR (mln)-----		
BALANCE SHEET	Sep-18	Dec-17	Dec-16
Investments			
Liquid Investments	1,127	915	990
Investment in Associates	1,230	876	611
Other Investments	2	3	3
	2,359	1,794	1,604
Insurance Related Assets	2,171	2,093	1,792
Other Assets	1,719	1,856	1,812
Assets - Window Takkaful	630	467	259
TOTAL ASSETS	6,880	6,210	5,467
Equity	3,150	2,723	2,637
Underwriting Provisions	1,679	1,702	1,575
Insurance Related Liabilities	1,774	1,492	937
Other Liabilities	236	220	257
Liabilities - Window Takkaful	40	73	60
TOTAL EQUITY & LIABILITIES	6,880	6,210	5,467
INCOME STATEMENT (Extracts)*	Sep-18	Dec-17	Dec-16
Gross Premium Written (GPW)	3,913	5,126	4,311
Net Premium Revenue	2,382	3,366	2,879
Net Claims	1,038	1,606	1,200
Net Operational Expenses	711	1,153	1,042
Underwriting Income/Loss- Adjusted	357	168	837
Investment Income	71	42	(195)
Other Income / (Expense)	217	802	22
PROFIT BEFORE TAX	750	1,004	329
RATIO ANALYSIS (Conventional)	Sep-18	Dec-17	Dec-16
Underwriting Results			
Loss Ratio	45%	48%	38%
Combined Ratio	78%	91%	80%
Performance			
Operating Ratio	63%	81%	87%
Liquidity & Solvency			
Liquidity Ratio – times	0.7	0.6	1.1

*Including Takkaful Operations

The United Insurance Company of Pakistan Limited (UIC)

Dec-18



INSURER FINANCIAL STRENGTH (IFS) RATING 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.

<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, 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.</p>	<p>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.</p>	<p>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.</p>
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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.

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

Restrictions

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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.
- (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)
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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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