



The Pakistan Credit Rating Agency Limited

**Rating Report**

**The Universal Insurance Company Limited**

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**Rating History**

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
19-Apr-2018	A-	-	Stable	Maintain	-
29-Sep-2017	A-	-	Stable	Maintain	-
09-Jun-2017	A-	-	Stable	Upgrade	-
30-Dec-2016	BBB	-	Stable	Maintain	-

**Rating Rationale and Key Rating Drivers**

Rating of The Universal Insurance Company Limited reflects strong parentage of the Company through Bibojee Group. The group has provided multi-faceted support to the Company: (a) Injection of capital in different times of crisis (b) Captive business. Business strategy envisages tapping captive business through co-insurance with an established group, with gradual entry into market business. Currently, the Company is underwriting captive business through a co-insurance agreement with a large sized insurance company. Universal Insurance expects to start direct underwriting business operations in the near future, depending upon strategic direction as decided by the BOD. Company plans to achieve business growth through expansion of branch network and recruitment of business development officers. This is expected to uplift the profitability, which is subdued currently. To realize its strategy, the Company is mulling to hire a team of professionals. Universal Insurance has minimal amount of liabilities and claims on its balance sheet which will provide the Company impetus moving forward.

During CY21, the sector experienced ~7% growth YoY basis rising to PKR~703bln (CY20: PKR~656bln). Equity of the sector grew as well by ~5%. Underwriting grew up by ~75% YoY in CY21 as compared to CY20. During CY21, upsurge in auto sales and health products remained pivotal for growth. Underwriting profitability has been maintained through reduced management expenses while innovative products are being envisaged. However, current political instability and worsening economic condition could adversely impact insurance industry.

The rating is dependent upon sustained improvement in relative position of the company, augmenting its sustainability, as envisaged by the board and the management. Meanwhile, continued improvement in the business and financial profile of the company is also imperative for the rating.

**Disclosure**

<b>Name of Rated Entity</b>	The Universal Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   General Insurance Rating(Mar-22),Mehtodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   General Insurance(May-22)
<b>Rating Analysts</b>	Behrooz Fareed   behrooz.fareed@pacra.com   +92-42-35869504



## Profile

**Legal Structure** The Universal Insurance Company Limited (Universal Insurance) was incorporated as public limited company on Pakistan Stock Exchange (PSX).  
**Background** The Company is part of Bibojee Group of Companies, established by late Lt. Gen. R. M. Habibullah Khan in 1960. The group has interests in various industrial sectors including Textile, Auto, Tyres & Rubber and Construction.  
**Operations** The Company was downsized in CY15 to address structural issues and rehabilitate its operations, operates through two branches (Lahore) employing minimal staff. Head office of the Company is registered in Lahore.

## Ownership

**Ownership Structure** Majority stakes of the Company is held by sponsors through Bibojee Group of Companies (~86%). Rest of the shares are held by general public (~9.8%), directors (2.6%) and other corporates (1.6%).  
**Stability** The Group operates through holding Company "Bibojee Services Private Limited". Young generation is gradually being inducted into group businesses.  
**Business Acumen** Business acumen of the sponsors is deemed good. The family is successfully doing business since 1960 and have built some flagship entities. The group has interests in various industrial sectors including Textile, Auto, Tyres & Rubber and Construction.  
**Financial Strength** Bibojee is a big conglomerate housing flagship companies under its banners having stakes in auto, tires, rubbers and construction industries. The owners have shown a strong propensity in the past to protect the Company. Sponsors have all the intentions and financial muscles to support the entity.

## Governance

**Board Structure** The Company has Six members Board, constituted of three non-executive, two independent and one executive director. There are three board committees in place: (i) Audit Committee (ii) Investment Committee (iii) Ethics, Human Resource and Remuneration Committee.  
**Members' Profile** Chairman of the Company Mr. Khalid Kuli Khan studied at Saint Mary's Academy Rawalpindi and Aitchison College Lahore. He graduated from Pakistan Military Academy in 1993 and have an MBA degree. He joined Bannu Woollen Mills as Director Finance. He is also Chief Operating Officer in Gammon Pakistan Limited.  
**Board Effectiveness** The board meets regularly at set intervals of time. Board meeting minutes are maintained properly. Every director's attendance is insured during board meetings unless something struck out of blue.  
**Transparency** External Auditors of the Company are M/S Junaidy Shoaib Asad Chartered Accountants who have expressed qualified opinion on financials of CY21. Auditors were unable to obtain sufficient audit evidence about the carrying amount of Accounts Receivables from other insurers/re-insurers amounting PKR~76.25mln.

## Management

**Organizational Structure** The Company has a well-defined organizational structure. Operations are segregated and managed through Executive Director and Departmental Heads. The Company sails through three management committees, being: i) Underwriting, Re-insurance & Co-insurance Committee ii) Claims Settlement Committee iii) Risk Management and Compliance Committee.  
**Management Team** Mr. Amir Raza, the managing director, was promoted from the position of CFO in Sep'13. An ACII Chartered Insurer, he has extensive insurance related experience spanning over three decades. He is supported by experienced senior management staff having insurance-related qualifications.  
**Effectiveness** Management Committees exist at the Company which meets regularly. Adequate minutes of the meeting are maintained.  
**MIS** The Company has an integrated real-time ERP solution which uses SQL based database and Crystal report II. The system is capable of generating business performance reports, analyzing performance by period, agent, branch and segment wise. The grading system supports risk management department as well.  
**Claim Management System** Universal Insurance has a centralized claims processing function. Claims are intimated to HO, after due verification, a surveyor is appointed by the HO for every claim. The survey report is scrutinized by claims & internal audit department. Upon clearance from IA, cheque is forwarded to the claimant.  
**Investment Management Function** Investment Committee provides oversight on the investment function. The Company has a structured investment policy statement (IPS) providing primary guidelines and execution structure to the investment process.  
**Risk Management Framework** Risk assessment process starts at branch level and supervised by the respective principal office and the head office. Licensed surveyors on SECP panel are engaged for onsite survey, in which they assess all the risks the insured might be subject to and suggest precautions to the client, to ensure safety.

## Business Risk

**Industry Dynamics** During CY21, the sector experienced ~7% growth YoY basis rising to PKR~703bln (CY20: PKR~656bln). Equity of the sector grew as well by ~5%. Underwriting grew up by ~75% YoY in CY21 as compared to previous year. During CY21, upsurge in auto sales and health products remained pivotal for growth. Underwriting profitability has been maintained through reduced management expenses while innovative products are being envisaged. However, current political instability and worsening economic condition could adversely impact insurance industry.  
**Relative Position** Universal Insurance is classified as small entity in the General Insurance industry with less than ~1% market share.  
**Revenue** GPW dipped by ~18% during CY21 (CY21: PKR~115mln, CY20: PKR~141mln). Reason behind this decline is increase in premium retention capacity of the leading company who ceded premium to Universal Insurance in the form of co-insurance and facultative business. The Company has co-insurance arrangements with IGI General and only do underwriting through IGI. However, slight growth is observed in GPW during 1QCY22 to PKR~13.5mln as compared to PKR~12.3mln during 1QCY21.  
**Profitability** During CY21, the Company earned profit after tax of PKR~40.5mln as compared to loss after tax of PKR~87.9mln during CY20 owing to profit share from associated company of PKR~86.7mln as compared to loss of PKR~65mln during CY20. As at End-1QCY22, loss after taxation has increased as a result of major claim by M/S. Bulleh Shah Packaging (Pvt) Ltd under the lead of M/S. IGI Insurance Company in February 022.  
**Investment Performance** The Company has a mix investment portfolio which represent ~54% of the total assets. The Company recorded an investment income of PKR~13.9mln, an increase of ~9% as compared to last corresponding period (CY20: PKR~9.8mln). During 1QCY22 investment income improved slightly to ~1.5% as compared to corresponding period. (1QCY22: PKR~3.5mln, 1QCY21: PKR~3.4mln).  
**Sustainability** In view of improved financial indicators of the Company the board is contemplating over commencement of underwriting market business and in this regard marketing head will be hired during year 2022 for the formation of a marketing team. And accordingly branch network will be established with the passage of time.

## Financial Risk

**Claim Efficiency** Claim efficiency days of the Company improved to ~240days during CY21. However, reverted back to ~251 days during 1QCY22. as compared to last corresponding period (CY20: ~256days). The Company has demonstrated a decrease in its risk absorption capacity through dipped liquidity ratio, providing ~2.5x cover to the outstanding claims as at End-Dec21 as compared to ~3.2x as at End-Dec20.  
**Re-Insurance** Reinsurance arrangements comprise a combination of surplus, quota share and excess of loss treaties with optimal capacity limits, while the reinsurance Pak Re (AA by VIS) needs considerations.  
**Cashflows & Coverages** Universal Insurance's investment portfolio is majorly strategic investments while the rest comprises liquid avenues. Total liquid assets parked with the Company stand at PKR~551mln as at End-Dec21 (CY20: PKR~448mln). Liquid investment as at End-1QCY22 was PKR~543mln. Liquid ratio of the Company comparing liquid assets to Net insurance premiums stood at ~2.5:1 as at End-Dec21 (CY20: ~3:1)  
**Capital Adequacy** Total equity of the Company stands at PKR~821mln. Liquid investment ratio of the Company improved to ~65.5% (CY20: ~58%). The Company adopted similar strategy during 1QCY22 and liquid investment ratio surged to ~66%. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions.



PKR mln

The Universal Insurance Company  
Public Listed

Mar-22	Dec-21	Dec-20	Dec-19	Dec-18
3M	12M	12M	12M	12M

#### A BALANCE SHEET

1 Investments	578	586	515	513	491
2 Insurance Related Assets	221	146	170	167	166
3 Other Assets	118	106	112	82	78
4 Fixed Assets	155	155	188	192	192
5 Window Takaful Operations	-	-	-	-	-
<b>Total Assets</b>	<b>1,072</b>	<b>993</b>	<b>986</b>	<b>954</b>	<b>927</b>
1 Underwriting Provisions	38	52	67	44	16
2 Insurance Related Liabilities	206	93	82	80	79
3 Other Liabilities	6	8	7	8	24
4 Borrowings	-	-	-	-	-
5 Window Takaful Operations	-	-	-	-	-
<b>Total Liabilities</b>	<b>251</b>	<b>153</b>	<b>156</b>	<b>132</b>	<b>119</b>
<b>Equity</b>	<b>821</b>	<b>840</b>	<b>830</b>	<b>822</b>	<b>808</b>

#### B INCOME STATEMENT

1 Gross Premium Written	14	129	141	139	64
2 Net Insurance Premium	15	75	67	68	33
3 Underwriting Expenses	(63)	(136)	(130)	(61)	(72)
<b>Underwriting Results</b>	<b>(48)</b>	<b>(60)</b>	<b>(62)</b>	<b>7</b>	<b>(39)</b>
4 Investment Income	17	102	11	15	(11)
5 Other Income / (Expense)	(1)	4	(58)	(17)	70
<b>Profit Before Tax</b>	<b>(33)</b>	<b>45</b>	<b>(109)</b>	<b>4</b>	<b>19</b>
6 Taxes	13	(5)	22	(2)	(4)
<b>Profit After Tax</b>	<b>(20)</b>	<b>40</b>	<b>(88)</b>	<b>2</b>	<b>16</b>

#### C RATIO ANALYSIS

<b>1 Profitability</b>					
Loss Ratio (Net Insurance Claims / Net Insurance Premium )	274.7%	54.1%	53.2%	-28.7%	7.1%
Combined Ratio (Loss Ratio + Expense Ratio)	421.2%	180.4%	192.8%	89.3%	217.3%
<b>2 Investment Performance</b>					
Investment Yield	11.4%	18.5%	2.1%	2.9%	-2.3%
<b>3 Liquidity</b>					
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	0.94	3.84	5.63	6.56	4.88
<b>4 Capital Adequacy</b>					
Liquid Investments / Equity	66.1%	65.5%	58.4%	59.2%	58.1%

**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)	<b>Exceptionally Strong.</b> 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)	<b>Very Strong.</b> 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)	<b>Strong.</b> 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)	<b>Good.</b> 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)	<b>Modest.</b> 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)	<b>Weak.</b> 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)	<b>Very Weak.</b> 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)	<b>Distressed.</b> 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><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> 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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(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)

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(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)

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(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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