



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
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

The rating of Universal reflects strong parentage of the company – Bibojee group. The parentage has provided multi-faceted support to the company: a) injection of capital from different times of the crisis, b) sustenance in the cleansing period spanning over a couple of years, c) captive business. Underwriting resulted in loss while the bottomline was cushioned from profits of associates. The business strategy envisages tapping captive business with gradual entry into the market business. The road ahead is long, as the company is envisaging new market strategy while enlisting with the banks.

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 financial profile of the company, is also imperative for the rating

Disclosure

Name of Rated Entity	The Universal Insurance Company 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	Faraan Taimoor faraan.taimoor@pacra.com +92-42-35869504 Zeeshan Munir zeeshan.munir@pacra.com +92-42-35869504

The Pakistan Credit Rating Agency Limited

Profile

Legal Structure Universal Insurance Company Limited (UVICL) was incorporated as public limited company in May 1958 and commenced operations in 1960.

Background Downsized in 2015, the company is operating through two branches.

Operations The company provides traditional insurance products: fire, marine, motor and miscellaneous. The company downsized its operations beginning CY15 to address structural issues and rehabilitate its operations.

Ownership

Ownership Structure Majority ownership of the company is held by Bibojee Group of Companies, representing a family with history of entrepreneurship spanning over four decades.

Stability Bibojee Group is a vast conglomerate with diversified interests in different sectors of the country.

Business Acumen The group operates through holding company "Bibojee Services Private Limited" (BSL) and has interests in various industrial sectors including Textile, Auto, Tyres & Rubber and Construction.

Financial Strength The owners have shown a strong propensity in the past to protect the company.

Governance

Board Structure Nine members BoD is constituted by seven members from sponsoring family. One member is an employee of the group alongwith an independent director.

Members' Profile Board is dominated majorly by sponsor family and is supported by Managing Director/ Principal Officer – Mr. Amir Raza, who is an experienced insurance professional long associated with the company.

Board Effectiveness There are seven board sub-committees in place: (i) Directors Executive Committee, (ii) Audit, (iii) Investment, (iv) Underwriting, (v) Claims Settlement, (vi) Reinsurance & Coinsurance, and (vii) Human Resource and Remuneration.

Financial Transparency The Auditors M/s Hameed Chaudhary & Co, issued an unqualified opinion on results of CY17 and 1H18.

Management

Organizational Structure The company has a well-defined organizational structure and different operations are segregated and managed through Executive director and Departmental Heads.

Management Team Mr. Amir Raza is the Managing Director/Principal Officer. 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 The MD/PO oversees operations of the company via major departments – (i) Underwriting (including risk management), (ii) Claims and Reinsurance, (iii) Finance, and (iv) Admin, Legal & HR.

Claim Management System Universal Insurance has a centralized claims processing function. The claims are intimated through phone call, fax or letter at HO, and after due verification claim number is assigned. A surveyor is appointed by the HO from approved list of surveyor for each and every claim, regardless of the size and the segment.

Investment Management Function The company has an Investment Committee to provide oversight on the investment functions.

Risk Management Framework The Risk Management & Compliance Committee oversees the Risk Management function of the company.

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 Universal Insurance is classified as small entity in the General Insurance company with less than 1% market share.

Revenue In Sep 18, GPW of Universal Insurance amounted to PKR 31mln (9M17: PKR 20mln), the sole business underwritten is of Bibojee Group – through facultative acceptance and small sized coinsurance.

Profitability Underwriting reported loss of PKR 43mln (9M17: 34mln) with the company reporting a loss of PKR 17mln (9M17: PKR 0.5mln profit) before tax after reduced investment income.

Investment Performance The company made a loss on Investment Income PKR 0.8mln (9M17: 26mln). The company booked a profit of PKR 25mln from its associate.

Sustainability The management, after resolving structural issues, is revisiting its business strategy to re-enter in the market. In order to recover the losses the company has planned to underwrite the coinsurance business apart from depending on captive business only.

Financial Risk

Claim Efficiency The company has adequate risk absorption capacity as demonstrated by its liquidity ratio, providing 3.3x cover to the outstanding claims as at end-Sep'18.

Re-Insurance Reinsurance arrangements comprise a combination of surplus, quota share and excess of loss treaties with optimal capacity limits, while the reinsurance panel; Asian Re (rated B+ by A.M. Best) and Pak Re (AA+ by JCR-VIS) needs considerations.

Liquidity UVICL's investment portfolio is majorly strategic investments while the rest comprises liquid avenues. Strategic investment includes stakes in Bibojee Group companies - Ghandhara Industries and Bannu Woollen Mills. Market values of investments in BWM and GIL as at end-Sep18 were PKR 0.42mln and PKR 802.864mln respectively.

Capital Adequacy Company is compliant with SECP's minimum capital requirement of PKR 500mln since 2016.

The Universal Insurance Company Limited (UVICL)

BALANCE SHEET	Sep-18	Dec-17	Dec-16
	PKR mln	PKR mln	PKR mln
Investments			
Liquid Investments	190	222	140
Other Investments	264	259	186
Insurance Related Assets	172	179	203
Other Assets	284	259	274
TOTAL ASSETS	910	920	804
Equity	761	779	643
Underwriting Provisions	13	7	10
Insurance Related Liabilities	104	109	117
Other Liabilities	32	25	34
TOTAL EQUITY & LIABILITIES	910	920	804
INCOME STATEMENT - Extracts	Sep-18	Dec-17	Dec-16
Gross Premium Written (GPW)	31	28	36
Net Premium Revenue (NPR)	11	12	26
Net Claims	4	11	9
UNDERWRITING INCOME - Adjusted	(43)	(39)	(26)
Investment Income	(1)	(5)	79
Other Income/ (expense)	26	90	19
PROFIT BEFORE TAX	(17)	45	71
RATIO ANALYSIS	Sep-18	Dec-17	Dec-16
Underwriting Results			
Loss Ratio	36%	90%	34%
Combined Ratio	533%	513%	284%
Performance			
Operating Ratio	209%	242%	-98%
Investment Yield	0%	-2%	25%
Liquidity & Solvency			
Liquidity Ratio – times	3.3	3.4	1.8



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.

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.

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

- (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)

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)
- (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)

Independence & Conflict of interest

- (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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