



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
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	-
31-Dec-2015	BBB	-	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

The rating of Universal reflects strong parentage of the Company – Bibojee group. The group 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. The business strategy envisages tapping captive business through co-insurance with an established group, with gradual entry into the market business in the pipeline. Currently, the Company is underwriting captive business through a co-insurance agreement with a large sized Company. Universal Insurance expects to start direct underwriting business operations in the near future, depending upon the 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. All head of departments are in place; moving forward the Company is ready to build a team of professionals once the direct underwriting commences. It has minimal amount of liabilities and claims on its balance sheet which will provide the company impetus moving forward. Enlistments with some of the leading banks have been completed as the management envisages improved business volumes moving forward.

In terms of Gross Premium Written (GPW), Pakistan’s general insurance industry had a total size of PKR~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR~104,453mln). The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential.

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

Name of Rated Entity	The Universal Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Jun-21)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Harris Ghaffar harris.ghaffar@pacra.com +92-42-35869504



Profile

Legal Structure Universal Insurance Company Limited (UVICL) was incorporated as public limited company in May 1958 and commenced operations in 1960.
Background The company, downsized in CY15 to address structural issues and rehabilitate its operations, operates through two branches.
Operations The company provides traditional insurance products: fire, marine, motor and miscellaneous. It has a workforce of 25 employees.

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 Seven members BoD is constituted by five members from sponsoring family and two independent directors. One casual vacancy of chairman BOD was previously vacant due to resignation of director/ chairman Lt. Gen (R) Ali Kuli Khan Khattak. Now, Mr. Raza Kuli Khan Khattak is appointed as chairman BOD with effect from 08 April, 2021.
Members’ Profile Board is dominated majorly by sponsor family and is supported by 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.
Transparency The Company change its external Auditors from M/s Shiewing Hameed Chaudhary & Co to Junaidy Shoab Asad Chartered accountants. They have issued an unqualified opinion on results of CY20.

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 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 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.
MIS UVICL has an integrated real-time ERP solution developed in-house. The system uses SQL based database, dot Net front end and Crystal report II. The system is capable of generating various business performance reports – analyzing performance by period, agent, branch and segment wise.
Claim Management System The company 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 There is 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 In terms of Gross Premium Written (GPW), Pakistan’s general insurance industry had a total size of PKR~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR~104,453mln). The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remains very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. Gross premiums written of non-life insurers in India reached USD~26.5bln in FY21, from USD~26.4bln in FY20.
Relative Position Universal Insurance is classified as small entity in the General Insurance company with less than 1% market share.
Revenue In CY20 GPW of Universal Insurance amounted to PKR 141mln (CY19: PKR 139mln), growth in GPW is motivated by the business underwritten is of Bibojee Group – through facultative acceptance and coinsurance with IGI. They are only done underwriting through IGI.
Profitability Underwriting reported loss of PKR 62mln (CY19 underwriting profit of PKR 7mln) increased majorly due to increase in net operational expenses. The company reporting a loss before tax of PKR 109mln (CY19: profit before tax of PKR 4mln) due to loss in associate. The loss of associate of PKR 65mln is a major concern.
Investment Performance The company recorded a investment loss of PKR 54mln due to loss from its associate and corresponding period recorded a loss of (CY19: PKR 9mln).
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 5.6x cover to the outstanding claims as at CY20.
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 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. Value of investments in BWM and GIL as at CY20 were PKR 2.6mln and PKR 282mln respectively.
Capital Adequacy Company is compliant with SECP’s minimum capital requirement of PKR 500mln since 2016. The current equity of the company stands at PKR 830mln.



The Universal Insurance Company Ltd
Listed Public Limited

Dec-20 **Dec-19** **Dec-18**
12M **12M** **12M**

A BALANCE SHEET

1 Investments	515	513	491
2 Insurance Related Assets	171	167	166
3 Other Assets	112	82	78
4 Fixed Assets	188	192	192
Total Assets	986	954	927
5 Underwriting Provisions	67	44	16
6 Insurance Related Liabilities	82	80	74
7 Other Liabilities	7	8	28
8 Borrowings	-	-	-
Total Liabilities	156	132	119
Equity	830	822	808

B INCOME STATEMENT

1 Gross Premium Written	141	139	63
2 Net Insurance Premium	67	68	33
3 Underwriting Expenses	(130)	(61)	(72)
Underwriting Results	(62)	7	(39)
4 Investment Income	(54)	(9)	35
5 Other Income / (Expense)	7	6	23
Profit Before Tax	(109)	4	19
6 Taxes	22	(2)	(4)
Profit After Tax	(88)	2	16

C RATIO ANALYSIS

1 Profitability			
Loss Ratio (Net Insurance Claims / Net Insurance Premium)	53.2%	-28.8%	7.1%
Combined Ratio (Loss Ratio + Expense Ratio)	192.8%	89.2%	217.3%
2 Investment Performance			
Investment Yield	-10.6%	-1.8%	7.3%
3 Liquidity			
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	5.63	6.55	4.87
4 Capital Adequacy			
Liquid Investments / Equity	58.4%	59.2%	58.1%

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

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-	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.
B+ B B-	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.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
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 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.
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- (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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