RATING REPORT

The United Insurance Company of Pakistan Limited

REPORT DATE:
June 25, 2020

RATING ANALYST:

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RATING DETAILS		
Rating Category	**Initial Rating**	**Previous Rating**
Insurer Financial Strength	AA-	AA-
Rating Date	*10, June'20*	*22, March'19*
Rating Outlook	Stable	Stable
Rating Action	**Reaffirm**	**Initial**

COMPANY INFORMATION	
Incorporated in 1959	**External auditors:** Ilia's Saeed & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Javed Sadiq
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Mohammad Rahat Sadiq
United Track System (Pvt.) Ltd : 20.7%	
Margalla News International: 14.7%	
United Software & Technologies (Pvt.) Ltd : 10.1%	
UIG Global Services Ltd : 8.4%	
United International Farms (Pvt.) Ltd : 8.4%	
Tawas Risk Management (Pvt.) Ltd : 7.2%	

APPLICABLE METHODOLOGY

VIS Insurer Financial Strength Rating Methodology – General Insurance Rating (March, 2017)
http://VIS.com.pk/docs/Meth-GenInsurance201702.pdf

The United Insurance Company of Pakistan Limited

OVERVIEW OF THE INSTITUTION

UICPL was founded in 1959 and got nationalized in 70's. UICP is operating in more than 100 branches all over Pakistan. It is involved in General business including Group Health Insurance, Travel Insurance (Health), Travel Bonds & Guarantees, Livestock and Crop Insurance. The financial statements for FY19 were audited by Ilia's Saeed & Co. Chartered Accountants.

Profile of Chairman

Mr. Javaid Sadiq is the Chairman of the Company. He has diversified experience and has served at key positions in the banking sector, financial institutions and semi-government autonomies.

Profile of CEO

Mr. Muhammad Rahat Sadiq is the Chief Executive officer. He has over 40 years of diverse experience in insurance industry both in Pakistan and abroad. Mr. Sadiq has held the position of CEO at UICPL since 2007.

Financial Snapshot

Net Worth: end-FY19: Rs. 3.4b; end-FY18: Rs. 3.04b, end-FY17: Rs. 2.64b

Net Profit: FY19: Rs. 401.6m; FY18: Rs. 389.2m, FY17: Rs. 292.3m

RATING RATIONALE

The assigned rating takes into account the sound business profile of the United Group. The group has business interests in insurance, microfinance, information technology, dairy and vehicle tracking. UICPL being the flagship company of the group is a significant player among the lead general insurers, it also has an established and growing takaful segment of the business; however, the current economic dynamics may impact the business volumes of the insurance industry going forward. Rating derives comfort from sustained business volumes and improvement in underwriting performance stemming from favorable loss ratio. The rating further incorporates reinsurance arrangements largely with counterparties having sound credit risk profiles with majority reinsurers rated in category 'A' or higher.

Given the company has made investment in a strategic holding, UICPL's liquidity position in terms of technical reserves going forward will remain critical to rating. The rating also remains sensitive to growth in business volumes while maintaining sound underwriting quality giving further strength to the capitalization position. VIS has noted that the company is undertaking actions to further improve its performance parameters; the same would be reviewed on a timeline basis by VIS going forward. The ratings are dependent upon the aforesaid achievements in performance indicators along with expected turnaround in the strategic investment in microfinance bank during the rating horizon.

Business Strategy

The company primarily offers insurance covers for fire and allied perils, marine cargo, marine hull, motor theft and damage, crop and miscellaneous risks including loss of cash in safe and cash in transit, engineering losses, health, workmen's compensation, aviation, livestock and natural calamities. The business mix of the company remained dominated by miscellaneous segment primarily entailing accidental coverage and workmen's compensation followed by crop insurance. The revenue contribution of fire has declined on a timeline basis; meanwhile, exposure in marine has remained limited, although the same has increased during FY19. During the period under review, business volumes of the company stood at Rs. 4.3b (FY18: 4.2b) during FY19. VIS noted that the gross premium earned remained at the same level as that of last year, which given the market size of the company and in comparison to peer group should have increased indicating a planned slowdown or/ underwriting marketing weakness in the company. The snapshot of business mix is presented in the table below:

	FY17	FY18	FY19
Fire	853.0	721.3	708.6
Marine	244.8	298.3	318.4
Motor	826.9	715.1	652.3
Crop	816.5	816.6	938.0
Miscellaneous	1,422.3	1,676.1	1,693.5
Gross Premium (m)	**4,163.5**	**4,227.3**	**4,311**

Reinsurance Arrangements

UICPL's risk profile is supported by strong reinsurance coverage provided by diversified panel of reinsures coupled with adequate capitalization. Risk profile of the reinsurance panel is considered sound as majority reinsurers are rated in 'A' category or higher. Swiss Re remains the lead reinsurer in major segments; meanwhile, Hannover Re leads in crop, livestock and terrorism. Moreover, Korean Re is the lead insurer in general accident, miscellaneous and bond segments. Other reinsures in the panel constitute 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) and GIC Re (Rated 'A-'by A.M. Best). The company has primarily negotiated non-proportional treaties in all segments except quota-share in terrorism cover.

Operating Performance

The highest net claims ratio emanated from the crop and livestock segment on account of higher claims recorded on company's net account. Moreover, the loss ratio in fire and marine segments improved on a timeline basis. The improvement in the loss ratio has led to an improved combined ratio of 82.9% (FY18: 87.8%) at end-FY19. The segment-wise net claims ratios are presented in the table below:

	FY17	FY18	FY19
Net Claims Ratio	**48.1%**	**50.7%**	**45.4%**
Fire	39.6%	32.8%	22.2%
Marine	51.0%	16.4%	12.8%
Motor	55.5%	56.9%	59.3%
Crop	18.7%	77.2%	64.1%
Miscellaneous	69.2%	47.8%	49.2%

In line with improved loss ratio during FY19, UCIPL's underwriting profitability exhibited positive trajectory owing to increase in overall scale of operations. All segments reported profits during FY19; ability to maintain these performance metrics will remain a key-rating factor. The snapshot of underwriting results is tabulated below:

Rs. in millions	FY17	FY18	FY19
Underwriting Profit	**212.4**	**315.2**	**346.7**
Fire	6.7	49.6	62.1
Marine	15.2	71.2	80.2
Motor	20.5	32.0	36.6
Crop	260.5	12.7	13.7
Miscellaneous	(90.5)	149.8	154.2

UICPL's outstanding claims have exhibited an increasing trend, at end-FY19 the total unpaid claims including IBNR were recorded at Rs.1.9b (FY18: Rs. 1.7b; FY17: Rs. 1.4b). There is continuous increasing trend in the outstanding claims to gross claims for UICPL indicating that new claims are being incurred at a faster rate, meanwhile the existing claim payment is delayed. Similarly, the deterioration in the outstanding claims to claims paid ratio also suggests that there is a sizable time lag between the incurring and payment of claims.

Further, the claims due to related party amounted to Rs. 434.8m (FY18: Rs. 357.9) constituting around 23% of total unpaid claims; meanwhile the premium received from the related party is only Rs. 0.5m (FY18: nil). As per the management, the expected recovery against the aforementioned claims is more than 60%. In addition, since FY17, being related party, UIC has stopped providing any insurance services to the AMBL and therefore, UICPL is not expecting any losses, going forward.

The operating cash flow to net premium revenue, pertinent in determination of IFS Rating as it provides basis of the capacity of a company to make timely payment of claims, has gone down to 16.7% (FY18: 30.8%), therefore UICPL's potential to meet claims has reduced.

Capitalization & Liquidity

The liquidity position of the company assessed by adjusted net technical reserves to liquid assets has shown a decline. Improved liquidity indicators in line with benchmarks for assessed ratings remain an important driver, going forward. .Net Technical reserve to liquid assets was reported at 127% (FY18: 139%) during FY19, and indicates the liabilities of the company after all the contra adjustments in proportion to liquid assets held by the company. UICPL's ratio is on the higher side in comparison to peers. Moreover, the trend in the insurance debt recorded at Rs. 2.3b (FY18: Rs. 2.2b; FY17: Rs. 2.1b) in relation to premium remains a key rating sensitivity.

In addition, in terms of liquidity, UICPL's investment made as strategic investment in Apna Microfinance Bank remains a concern in the short to medium term. During FY19, additional investment amounting to Rs. 350m was made by the company on account of which CAR has improved of the bank; however still remains below the regulatory requirement for which the management has plan to recoup. To relieve pressure on liquidity, UICPL's management plans for divestment of some stake from its investment book, going forward. Early developments in this regard will be important rating drivers.

In line with regulatory requirement, UICPL has a paid up capital above Rs. 500m, at end-FY19. Capitalization levels of the company have somewhat improved over time on the back of internal capital generation. Moreover, the company is considered sound from solvency point of view as the company has adequate cushion in terms of total admissible assets over its liabilities. The operating and financial leverage have improved during the period under review; however the same continue to remain higher than the rating benchmark on account of current capitalization levels. In line with positive impetus in business generation coupled with no immediate plan of equity injection by the sponsors, the operating leverage is expected to remain high.

In addition, in the wake of COVID-19 pandemic the overall economic dynamics and indicators have been significantly impacted; further the impact of the same on the insurance industry is yet to be fully ascertained. However, given the growth of insurance sector is largely proportionally linked to overall economy growth, the short-term future prospects seems weak.

In addition, as you are aware that the automobile industry has been severely hit. For the first time auto industry recoded "zero" sales in the month of April, for the first time in history of Pakistan. VIS notes that as UICPL has about 16% of its gross premium constituting motor segment, this stagnation will adversely impact the business volumes during the ongoing year.

The United Insurance Company of Pakistan Limited Appendix I

BALANCE SHEET *(Rs. in millions)*	DEC 31, 2016	DEC 31, 2017	DEC 31, 2018	DEC 31, 2019
Cash and Bank Deposits	365.5	490.1	542.6	266.1
Investments (MV)	589.7	425.3	427.0	731.3
Investment in Subsidiary and Associate	610.9	876.2	1,334.3	1,567.4
Investment Properties	2.7	2.6	2.5	5.3
Insurance Debt	1,791.4	2,093.3	2,186.7	2,295.1
Total Assets	5,499.5	6,211.3	6,895.5	8,183.1
Paid Up Capital	1,803	2,002	2,262	2,601
Net Worth	2,588.3	2,641.8	3,043.5	3,437.5
Total Liabilities	2,829.3	3,488.4	3,771.7	4,311.2
INCOME STATEMENT	**DEC 31 2016**	**DEC 31, 2017**	**DEC 31, 2018**	**DEC 31, 2019**
Net Premium Revenue	2,473.4	2,678.7	2,574.4	2,541.6
Net Claims	934.5	1,287.2	1,305.3	1,153.5
Underwriting Profit / (loss)	490.3	212.4	315.2	346.7
Net Investment Income	73.1	67.2	8.4	67.1
Profit Before Tax	358.0	487.3	562.7	609.1
Profit After Tax	278.4	292.3	389.2	401.6
RATIO ANALYSIS	**DEC 31, 2016**	**DEC 31, 2017**	**DEC 31, 2018**	**DEC 31, 2019**
Cession Ratio (%)	31.9%	33.5%	40.2%	40.7%
Gross Claims Ratio (%)	42.8%	67.4%	63.9%	53.9%
Net Claims Ratio (%)	37.8%	48.1%	50.7%	45.4%
Underwriting Expense Ratio (%)	42.4%	44.0%	37.1%	37.5%
Combined Ratio (%)	80.2%	92.1%	87.8%	82.9%
Net Operating Ratio (%)	61.6%	32.2%	54.6%	49.3%
Insurance Debt to Gross Premium (%)	48.7%	51.4%	51.2%	53.2%
Operating Leverage (%)	95.6%	101.4%	84.6%	73.9%
Financial Leverage (%)	68.4%	90.8%	89.9%	77.9%

Adjusted Liquid Assets to Net Technical Reserves (%)	54.0%	38.2%	35.4%	37.3%
Current Ratio (x)	-	-	-	-

ISSUE/ISSUER RATING SCALE & DEFINITION Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURE Appendix III

Name of Rated Entity	The United Insurance Company of Pakistan Limited
Sector	Insurance
Type of Relationship	Solicited
Purpose of Rating	Insurer Financial Strength (IFS) Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: IFS				
10/06/2020	AA-		Stable	Reaffirmed
22/03/2019	AA-		Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on financial strength only and is not a recommendation to buy or sell any securities.
Probability of Default	Not Applicable
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