RATING REPORT

The United Insurance Company of Pakistan Limited

REPORT DATE:
October 14, 2021

RATING ANALYSTS:

Syed Fahim Haider Shah
fahim.haider@vis.com.pk

RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
IFS	AA	AA-
Rating Date	*14 Oct'21*	*10 June'20*
Rating Outlook	Stable	Stable
Rating Action	Upgrade	Reaffirmed

COMPANY INFORMATION	
Incorporated in 1959	**External Auditors:** Ilyas Saeed & Co. Chartered Accountants.
Public Limited Company	**Chairman:** Mr. Javaid Sadiq **Chief Executive Officer:** Mr. Muhammad Akram Shahid
Key Shareholder(s):	
United Track System (Private) Ltd – 26.7%	
United Software and Technologies International (Pvt.) Ltd – 20.2%	
Margalla News International – 14.6%	
Tawasul Risk Management Services (Pvt.) Ltd – 9.8%	
United International Farms (Private) Ltd – 9.5%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: General Insurance (November 2019) *https://www.vis.com.pk/kc-meth.aspx*

The United Insurance Company of Pakistan Limited

OVERVIEW OF THE INSTITUTION

UICPL was founded in 1959 and got nationalized in 70s. UICPL operates though more than 110 branches all over the Pakistan. It is involved in General businesses including Group Health Insurance, Travel Insurance (Health), Travel Bonds & Guarantees, Livestock and Crop Insurance.

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 Akram Shahid assumed the role of CEO in April 2021. He has extensive experience in the insurance industry. He is a Law graduated from S.M. Law College and certified Director from Pakistan Institute of Corporate Governance (PICG).

Financial Snapshot
Net Worth: 1H21: Rs. 4.2b; FY20: Rs. 3.8b; FY19: Rs. 3.4b.
Net Profit: 1H21: Rs. 384m; FY20: Rs. 415m; FY19: Rs. 402m.

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. Business risk profile of the company is also supported by an established and growing takaful segment. 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 reinsurers rated in category "A" or higher.

Given the company has increased 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 rating is 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 concentrated in the miscellaneous segment which primarily entails accidental coverage and workmen's compensation. Crop is the second largest segment though its share in overall premium mix decreased slightly during FY20. The premium contribution from fire and motor segments has decreased on a timeline basis, while exposure in marine has remained limited and decreased further during FY20. Gross premium written of the company increased to Rs. 4.9b (FY19: Rs. 4.3b), driven largely by addition of two major clients Serene Air (Pvt.) Limited and Air Sial Limited in the miscellaneous segment during the outgoing year, offsetting the impact of weakness in travel insurance business due to the outbreak of COVID-19. Motor segment has remained stagnant over the past two and a half years due to strong price competition; the management plans to improve its pricing strategy to better compete.

Gross premium increased by 8% to Rs. 2.1b (1H20: Rs. 2.0b) during 1H21, mainly on account of increase in fire, motor and miscellaneous segments. Miscellaneous segment continued to dominate with gross premiums of Rs. 693m (1H20: Rs. 604m) while crop and marine premiums declined to Rs. 608m (1H20: Rs. 697m) and Rs. 142m (1H20: Rs. 151m). In line with the company's business plan, motor segment premiums increased to Rs. 336m (1H20: Rs. 242m) while marine segment remained largely stagnant at Rs. 142m (1H20: Rs. 151m) during the period. Going forward, the management is projecting gross premium written of Rs. 6b to Rs. 7b during FY21, including additional Rs. 500m to Rs. 800 from the merger of SPI Insurance Company Limited (SPI) within UICPL. Growth in UICPL's existing business is expected to emanate from crop, livestock and health takaful while fire and marine segments are expected to remain steady during FY21. The snapshot of business mix is presented in the table below:

	FY19	FY20	1H21
Fire	709	760	332
Marine	318	290	142
Motor	652	662	336
Crop	938	917	608
Miscellaneous	1,694	2,292	693
Gross Premium (Rs. m)	4,311	4,921	2,112

Reinsurance Arrangement

Risk profile of UICPL is underpinned by strong reinsurance coverage emanating from diversified panel of reinsures as well as adequate capitalization. Given Risk profile of the reinsurance panel is considered sound as majority of the reinsurers are rated in "A" category or higher. Swiss Re continues to be the lead reinsurer in major segments, while Hannover Re leads in crop and livestock, and Korean Re leads in general accident, miscellaneous and bonds. Other reinsures in the panel constitute Trust Re (Rated "A-" by S&P), Kuwait Re (Rated "A-" by A.M. Best), Qianhai Re (Rated "A-" by S&P), Ocean Re (Rated "A-" by A.M. Best), Echo Re (Rated "A-" by S&P), Chaucer MENA (Rated "A-" by S&P), and Canopius Asia (Rated "A" by A.M. Best), and Pakistan Reinsurance (Rated AA locally).

Claims Experiences

Overall claims performance of UICPL has improved with net claims ratio declining to 23.5% during FY20, mainly on account of lower net claims in the miscellaneous and crop segments. Decline in miscellaneous segment net claims ratio to 27.8% (FY19: 49.2%) was led by lower claims in health and travel segments due to decline in hospital visits and travel restriction due to COVID-19 pandemic. The highest net claims ratio was recorded in motor and fire segments. Increase in motor segment claims ratio was due to three major claims paid, while increase fire segment claims ratio was on account of due to bigger claims paid during FY20. Net loss ratio in the crop segment declined to 12.0% (FY19: 64.1%) mainly owing to reduction in claims from ZTBL. Marine segment claims ratio also declined to 0.3% (FY19: 12.8%) mainly due to COVID-19 related economic lockdown. The decline in the loss ratio led to an improved combined ratio of 73.4% (FY19: 81.9 %) during FY20. The segment-wise net claims ratios are presented in the table below:

	FY19	FY20	1H21
Net Claims Ratio	**45.4%**	**23.5%**	**18.2%**
Fire	22.2%	37.1%	15.2%
Marine	12.8%	0.3%	13.6%
Motor	59.3%	64.8%	23.4%
Crop	64.1%	12.0%	52.2%
Miscellaneous	49.2%	27.8%	2.5%

Despite lower net premium and higher expense ratio, underwriting profit increased to Rs. 452m (FY19: Rs. 352m) on account of significant improvement in loss ratio during FY20. All segments reported profits during FY20; ability to maintain these performance metrics will remain a key-rating factor. The snapshot of underwriting results is tabulated below:

Rs. in millions	FY19	FY20	1H21
Underwriting Profit	**352**	**452**	**449**
Fire	63	6	28
Marine	81	74	25
Motor	37	21	73
Crop	14	193	11
Miscellaneous	156	158	313

Increase in insurance debt to Rs. 2.9b (FY19: Rs. 2.3b) by end-FY20 was mainly due to Air Sial and Serene Air sum insured in December-2020 for a period of 1-year with quarterly payment mechanisms. The same reason also contributed towards increase in unearned premium reserve to Rs. 2.3b (FY19: Rs. 1.6b) by end-FY20. Total unpaid claims including IBNR were recorded at Rs. 1.8b (FY19: Rs. 1.9b). Despite some improvement, higher outstanding claims to claims paid ratio indicates a sizeable time lag between incurring and payment of claims. Claims due to related party amounted to 442.4m (FY19: Rs. 434.8m) constituting around one-fourth of total unpaid claims, while no premium was received from the related party during the year as UICPL stopped providing any insurance services to the Apna Microfinance Bank Limited.

Net operating cash flows 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 increased to 33.8% (FY19: 16.7%), therefore UICPL's capacity to meet claims has improved over the review period.

Capitalization and Liquidity

Liquidity position of the company assessed by adjusted net technical reserves to liquid assets has depicted some improvement during FY20. Further improvement in liquidity indicators in line with benchmarks for assessed ratings remain an important driver, going forward. While net technical reserves to liquid assets ratio has improved on a timeline basis 120% (FY19: 127%), the ratio continues to remain on the higher side in comparison to the peers. Moreover, the increasing trend in insurance debt to gross premium ratio amounting to 58.1% (FY19: 53.2%) remains a key rating sensitivity.

UICPL's strategic investment in Apna Microfinance Bank remains a liquidity concern in the short-to-medium term. Additional investment of Rs. 350m was made by the company during FY20 and Rs. 150m during 1H21 in order to improve Capital Adequacy Ratio of the bank; however it still remains below the regulatory requirement and sponsors plan to fill the shortfall soon. As per the management, the company intends to maintain its stake in the bank. Investment portfolio of the company stood at Rs. 597.6m (FY19: Rs. 731.3m) comprising government securities of Rs. 379.4m (FY19: Rs. 296.0m), term deposit of Rs. 170.1m (FY19: Rs. 377.9m), and equity securities of Rs. 48.2m (FY19: Rs. 57.4m). Liquidity profile draws some support from cash and bank balances of Rs. 457.3m at end-FY20.

In line with regulatory requirements, UICPL has a paid up capital of above Rs. 500m. Capitalization indicators of the company have steadily improved over the review period mainly on account of internal capital generation, thus higher adjusted equity. Solvency is considered sound as the company has adequate cushion in terms of total admissible assets over its liabilities. The operating and financial leverage have improved to 49.8% (FY19: 73.9%) and 69.3% (FY19: 77.7%) by end-FY20. While the annualized operating leverage was recorded at 62.6%, financial leverage improved further to 64.9% by end-1H21; however the same continues to remain higher than the rating benchmark. While there is no immediate plan of equity injection from the sponsors, the capitalization indicators are expected to draw support from profits retention, going forward.

Merger of SPI Insurance Into UICPL

The Board of UICPL has approved the merger of SPI Insurance Company Limited (SPI) into the company. Regulatory approval for the same is awaited. Based on swap ratio of 0.90 shares of the company for every 1 share of SPI, UICPL will be required to issue 51.75m shares. For 2020, SPI recorded gross premium of Rs. 718.7m (FY19: Rs. 739.5m), equity base of Rs. 724.3m (FY19: Rs. 689.8m, and investment portfolio of Rs. 375.7m (FY19: Rs. 393.9m).

The United Insurance Company of Pakistan Limited Annexure I

Financial Summary *(amounts in PKR millions)*			
BALANCE SHEET	**Dec 31, 2019**	**Dec 31, 2020**	**June 30,2021**
Cash and Bank Accounts	266.1	457.3	658.4
Investments	731.3	597.6	543.6
Investment in Subsidiaries and Associates	1,567.4	1,933.9	2,087.4
Investment Property	5.3	31.2	31.0
Insurance Debt	2,295.1	2,859.3	2,824.8
Total Assets	8,183.1	9,860.7	9,680.9
Net Worth	3,437.5	3,754.1	4,165.6
Total Liabilities	4,311.2	5,681.7	4,951.9
Paid Up Capital	2,601.0	2,950.0	2,950.0
INCOME STATEMENT	**Dec 31, 2019**	**Dec 31, 2020**	**June 30,2021**
Net Premium Revenue	2,541.6	1,868.7	1,303.1
Net Claims	1,153.5	438.7	237.7
Underwriting Profit/(Loss)	351.6	451.7	449.9
Investment Income	67.1	57.8	17.5
Profit Before Tax	609.1	534.4	498.3
Profit After Tax	401.6	414.6	383.7
RATIO ANALYSIS	**Dec 31, 2019**	**Dec 31, 2020**	**June 30,2021**
Cession Ratio (%)	40.7	46.3	64.0
Gross Claims Ratio (%)	53.9	48.2	26.1
Net Claims Ratio (%)	45.4	23.5	18.2
Underwriting Expense Ratio (%)	36.5	49.9	41.7
Combined Ratio (%)	81.9	73.4	60.0
Insurance Debt to Gross Premium (%)	53.2	58.1	66.9*
Operating Leverage (%)	73.9	49.8	62.2*
Financial Leverage (%)	77.7	69.3	64.9
Adjusted Liquid Assets to Technical Reserves (%)	37.3	40.4	44.8

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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 DISCLOSURES	Annexure 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	see table below

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: IFS			
14/10/2021	AA	Stable	Upgrade
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 credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Maqbool Ahmed	CFO	September 16, 2021