# RATING REPORT

# The United Insurance Company of Pakistan Limited

**REPORT DATE:**
May 03, 2019

**RATING ANALYST:**

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| RATING DETAILS | |
|---|---|
| **Rating Category** | **Initial Rating** |
| **Insurer Financial Strength** | AA- |
| ***Rating Date*** | *22, March'19* |
| **Rating Outlook** | Stable |
| ***Outlook Date*** | *22, March'19* |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 1959** | **External auditors:** Ilyas 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% | |
| Tawasul 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

## 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. The United Insurance Company of Pakistan Limited (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. Rating derives strength from growth in business volumes and improvement in underwriting performance. Credit risk emanating from reinsurance panel selection remains sound with majority reinsurers rated in category 'A' or higher. The rating takes into consideration the planned growth in topline and profitablity to harness the relatively high leverage indicators and increasing trend in outstanding claims on a timeline basis. There is need to focus on supporting the sound underwriting results with commensurate investment income which is thin on account of stragetic investment in a microfinance bank wherein turnaround is expected in 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. During the period under review, business volumes of the company stood at Rs. 4.2b (FY17: 4.2b; FY16: Rs. 3.8b) during FY18. The snapshot of business mix is presented in the table below:

| | FY16 | FY17 | FY18 |
|---|---|---|---|
| **Fire** | 805.3 | 853.0 | 721.3 |
| **Marine** | 227.4 | 244.8 | 298.3 |
| **Motor** | 885.8 | 826.9 | 715.1 |
| **Crop** | 547.0 | 816.5 | 816.6 |
| **Miscellaneous** | 1,316.3 | 1,422.3 | 1,676.1 |
| **Gross Premium (m)** | **3,781.7** | **4,163.5** | **4,227.3** |

### 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.

During FY18, there were changes in the reinsurance panel with SAVA Re and MS Amlin Singapore exiting the market in all segments; meanwhile, Emirates International Dubai and XL

## 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 FY18 were audited by Ilyas 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 Chjief 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-FY18: Rs. 3.04b, end-FY17: Rs. 2.64b

Net Profit: FY18: Rs. 389.2m, FY17: Rs. 292.3m

Caitlin Singapore were removed from all business segments except Fire and Engineering. On the other hand, Labuan Re, Kuwait Re, Canopius and PRCL were added to the reinsurance panel to compensate for the gap created after departure of aforementioned players. Further, Hannover Re re-entered catastrophic, marine, motor and workmen compensation segments; therefore, share of existing lead re-insurers was streamlined during FY18. In addition, Trust Re's share in was also reduced and allocated to PRCL in line with anticipation of rating downgrade of the former. A.M Best downgraded the Insurer Financial Strength Rating of Trust Re from 'A-' to 'BBB+' in Oct'18.

The company has primarily negotiated non-proportional treaties in all segments except quota-share in terrorism cover. In line with anticipation of enhanced business in fire segment, the company increased its total treaty capacity to 3.5b for FY18 as compared to Rs. 3.0b in preceding year. Other than the aforementioned, there was no other change in the treaty capacities and company's retention. As per the management, no major change in the re-insurance panel was made during FY19.

## Claims Experiences

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 segment-wise net claims ratios are presented in the table below:

| | FY16 | FY17 | FY18 |
|---|---|---|---|
| **Net Claims Ratio** | **37.8%** | **48.1%** | **50.7%** |
| **Fire** | 50.3% | 39.6% | 32.8% |
| **Marine** | 27.5% | 51.0% | 16.4% |
| **Motor** | 42.0% | 55.5% | 56.9% |
| **Crop** | 9.7% | 18.7% | 77.2% |
| **Miscellaneous** | 45.3% | 69.2% | 47.8% |

## Underwriting Performance

Despite increased loss ratios in crop and motor segment during FY18, UCIPL's underwriting profitability exhibited positive trajectory owing to increase in overall scale of operations and rationalization of management expenses. In addition, the net commission income was also recoded higher as a result of sustained commission rates in major segments along with increased session. With lower expense ratio, the combined ratio improved on a timeline basis. All segments reported profits during FY18; ability to maintain these performance metrics will remain a key rating factor. The snapshot of underwriting results is tabulated below:

| *Rs. in millions* | FY16 | FY17 | FY18 |
|---|---|---|---|
| **Underwriting Profit** | **490.3** | **212.4** | **315.2** |
| Fire | (71.1) | 6.7 | 49.6 |
| Marine | 49.4 | 15.2 | 71.2 |
| Motor | 118.5 | 20.5 | 32.0 |

| | | | |
|---|---|---|---|
| Crop | 195.1 | 260.5 | 12.7 |
| Miscellaneous | 198.1 | (90.5) | 149.8 |

In addition, Window Takaful Operations of the company continue to support the conventional insurance segment with after-tax profit recorded at Rs. 188.5m (FY17: Rs.199.1 m) during FY18.

## Capitalization & Liquidity

Liquidity profile is considered moderate reflected by sizeable liquid assets maintained in relation to net technical reserves. In addition, insurance debt in relation to gross premium largely remained stable on a timeline basis. The aging profile of insurance debt is considered satisfactory. However, the same is slightly higher than the rating benchmark. The cash flow from operations exhibited positive momentum on a timeline basis in line with higher business volumes and was recorded at Rs. 788.5m (FY17: Rs. 617.6m; FY16: Rs. 780.7m) during FY18.

In line with regulatory requirement, UICPL has a paid up capital above Rs. 500m, at end-FY18. 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 leverage ratio was higher during the review period, thereby signifying increase in risk profile of the company. Moreover, the financial leverage ratio of the company was also recorded higher on account of increase in technical reserves in respect to adjusted shareholder equity of the company. Nevertheless, leverage indicators of the company 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.

## The United Insurance Company of Pakistan Limited Appendix I

| BALANCE SHEET *(Rs. in millions)* | DEC 31, 2016 | DEC 30, 2017 | SEP 30, 2018 | DEC 30, 2018 |
|---|---|---|---|---|
| **Cash and Bank Deposits** | 365.5 | 490.1 | 509.7 | 542.6 |
| **Investments (MV)** | 589.7 | 425.3 | 616.9 | 427.0 |
| **Investment in Subsidiary and Associate** | 610.9 | 876.2 | 1,230.3 | 1,334.3 |
| **Investment Properties** | 2.7 | 2.6 | 2.5 | 2.5 |
| **Insurance Debt** | 1,791.4 | 2,093.3 | 2,171.0 | 2,186.7 |
| **Total Assets** | 5,499.5 | 6,211.3 | 6,883.2 | 6,895.5 |
| **Net Worth** | 2,588.3 | 2,641.8 | 3,069.7 | 3,043.5 |
| **Total Liabilities** | 2,829.3 | 3,488.4 | 3,732.8 | 3,771.7 |
| **INCOME STATEMENT** | **DEC 31 2016** | **DEC 30, 2017** | **SEP 30, 2018** | **DEC 30, 2018** |
| **Net Premium Revenue** | 2,473.4 | 2,678.7 | 1,799.0 | 2,574.4 |
| **Net Claims** | 934.5 | 1,287.2 | 803.0 | 1,305.3 |
| **Underwriting Profit / (loss)** | 490.3 | 212.4 | 285.1 | 315.2 |
| **Net Investment Income** | 73.1 | 67.2 | 45.4 | 8.4 |
| **Profit Before Tax** | 358.0 | 487.3 | 557.4 | 562.7 |
| **Profit After Tax** | 278.4 | 292.3 | 418.1 | 389.2 |
| **RATIO ANALYSIS** | **DEC 31, 2016** | **DEC 30, 2017** | **SEP 30, 2018** | **DEC 30, 2018** |
| **Cession Ratio (%)** | 31.9% | 33.5% | 41.8% | 40.2% |
| **Gross Claims Ratio (%)** | 42.8% | 67.4% | 56.4% | 63.9% |
| **Net Claims Ratio (%)** | 37.8% | 48.1% | 44.6% | 50.7% |
| **Underwriting Expense Ratio (%)** | 42.4% | 44.0% | 36.1% | 37.1% |
| **Combined Ratio (%)** | 80.2% | 92.1% | 80.8% | 87.8% |
| **Net Operating Ratio (%)** | 61.6% | 32.2% | 48.8% | 54.6% |
| **Insurance Debt to Gross Premium (%)** | 48.7% | 51.4% | 52.9% | 51.2% |
| **Operating Leverage (%)** | 95.6% | 101.4% | 78.1% | 84.6% |
| **Financial Leverage (%)** | 68.4% | 90.8% | 62.5% | 89.9% |
| **Adjusted Liquid Assets to Net Technical** | 54.0% | 38.2% | 58.7% | 35.4% |

**Reserves (%)**

# 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** | see below |
| **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 |
| **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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings.  |

**Rating History**

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