



The Pakistan Credit Rating Agency Limited

THE UNIVERSAL INSURANCE COMPANY LIMITED (UVICL) IFS RATING REPORT

	NEW [DEC-16]	PREVIOUS [DEC-15]
Insurer Financial Strength (IFS) Rating	BBB	BBB
Outlook	Stable	Stable

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DECEMBER 2016

Profile & Ownership

- Universal Insurance Company Limited (UVICL) incorporated in 1958 and is listed on Pakistan Stock Exchange (PSX)
- Downsized beginning 2015, the company is operating through one branch (Lahore) (CY14: 19 branches), employing 22 individuals
- Majority ownership of the company is held by Bibojee Group (87%), through holding company “Bibojee Services Private Limited” (BSL)
- Bibojee group is well established in having various industrial sectors including Textile, Auto, Tyres & Rubber and Engineering

Governance and Management

- Ten members BoD constitutes six members from sponsoring family- including the CEO, three are employees of the group – including MD of UVICL, and one independent director lately inducted
- The CEO, Mr. Gohar Ayub Khan, replaced in succession to Begum Zeb Gohar Khan (Late), in Jan-16. Mr. Gohar, a Pakistani politician, businessman and retired army official; is supported by Managing Director – Mr. Amir Raza, who is an experienced insurance professional long associated with the company
- The Auditors M/s Hameed Chaudhary & Co, issued an unqualified opinion on results of CY15 and of 1H16 (Previously 1H15: qualified review report upon reversal of claims)

Business Risk

- In CY15, UVICL downsized its operations and discontinued market business; consolidation of operations with focused on resolving structural issues and revamp its operations
- In 9M16, GPW of UVICL amounted to PKR 29mln (CY15: PKR 45mln), the sole business underwritten is of Bibojee Group – through facultative acceptance and small sized coinsurance
- Downsizing benefitted in reducing underwriting loss to PKR 20mln as compared to loss of PKR 73mln in CY14. Though one time claims reversals of PKR 64mln produced underwriting profit (of PKR 50mln) in CY15.
- Bottomline takes significant support from investment, which improved (9M16: PKR 44mln, 9M15: PKR 19mln) due to profit from associate – Gandhara Industries – on the back of astounding performance and improved fundamentals of the underlying business; rest of income comprises return on deposits
- Investment Income is expected to further improve from recently invested funds in equity based mutual funds

Business Strategy

- The management, after resolving structural issues, is revisiting its business strategy to re-enter in the market
- In the meantime, UVICL’s business strategy would continue to entail underwriting insurance business only from group companies – coinsurance and facultative - and selected clients, with low loss ratio, and improve profitability

Financial Risk

- Reinsurance arrangements comprise a combination of surplus, quota share and excess of loss treaties with optimal capacity limits, while reinsurance panel needs considerations
- Investment portfolio at end Sep-16 (PKR 310mln) is majorly strategic investments (56%), and the rest comprises liquid avenues (44%)
- Strategic investment comprises ownership stake (5.5%) in Gandhara Industries (end- Sep16 B.V: PKR 173mln, M.V: PKR 789mln). The market value has seen unprecedented upsurge on the back of strong fundamentals of the entity underlying scrip in particular and the related industry of trucks and busses in general
- Financial Risk profile has been turned around with potential of liquidity (topped up with market value strategic investment) of PKR 1bln, cleansing of claims liability; thereby enabling to sustain compliance with SECP’s minimum solvency requirement

RATING RATIONALE

The rating reflects association of the company with strong sponsors – Bibojee Group. The rating takes into account sustained risk profile of the company. Downsizing, since 2015, boded well in creating space to resolve structural issues and rationalizing of financial position. The liquidity size produces adequate risk absorption capacity to current operations. The GPW is small, restricted to captive business and selected quality no-captive underwriting. Comfort is drawn from company’s strategic investments – backing by Bibojee Group, that has recently experienced significant unrealized gains due to strong fundamentals of underlying entity. The company is now in process of revisiting its business strategy whereby key consideration pertains to expansion beyond captive business. Another key decision being considered is re-allocation of funds to liquid investments.

KEY RATING DRIVERS

The rating upgrade is dependent upon enhancement of liquidity position of the company, augmenting its risk absorption capacity. Meanwhile, roll out of a comprehensive business plan is also imperative for rating elevation.

INDUSTRY

Pakistan general insurance continued growth trajectory (CAGR 4 years 10%). While fire and motor growth is driven by credit off by the banks, the miscellaneous segment has seen largest growth in health, crop, and livestock. The underwriting profitability improved, though change in tax laws shall impact net profits, going forward. Growth prospects are sanguine.



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GENERAL INSURANCE
Financials [Summary]

The Universal Insurance Company Limited (UVICL)

PKR mln

BALANCE SHEET	30-Sep-16	31-Dec-15	31-Dec-14
	9M15	Annual	Annual
Investments			
Liquid Investments	136	156	164
Other Investments	174	140	116
Insurance Related Assets	213	240	314
Other Assets	244	249	253
TOTAL ASSETS	767	784	847
Equity	590	553	360
Underwriting Provisions	13	23	25
Insurance Related Liabilities	116	161	369
Other Liabilities	47	46	93
TOTAL EQUITY & LIABILITIES	767	784	847

INCOME STATEMENT	30-Sep-16	31-Dec-15	31-Dec-14
Gross Premium Written (GPW)	29	45	68
Net Premium Revenue (NPR)	21	28	35
Net Claims	7	56	(2)
Net Operational Expenses	(48)	(34)	(106)
UNDERWRITING INCOME - Adjusted	(20)	51	(73)
Investment Income	45	41	21
Other Income/ (expense)	1	39	11
PROFIT BEFORE TAX	25	131	(41)

RATIO ANALYSIS	30-Sep-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	33%	-201%	6%
Combined Ratio	273%	89%	308%
Performance			
Operating Ratio	52%	198%	217%
Investment Yield	38%	15%	8%
Liquidity & Solvency			
Liquidity Ratio – times	1.7	1.5	0.5



RATING SYMBOLS & DEFINITIONS:

**INSURER FINANCIAL STRENGTH (IFS)
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.



Name of Issuer
Sector
Type of Relationship

The Universal Insurance Company Limited (UVICL)
Insurance - General
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term Rating	Outlook	Action
30-Dec-16	BBB	Stable	Maintain
31-Dec-15	BBB	Stable	Upgrade
6-Jan-15	BBB-	Negative	Downgrade
11-Apr-14	BBB+	Stable	Initial

Related Criteria and Research

Rating Methodology
Sector Research

Insurer Financial Strength Rating Methodology
Insurance | General - View Point | Nov 16

Rating Analysts

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

Rating Shopping

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

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[Probability of Default \(PD\)](#)

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